The Report highlights the Company’s approaches to meeting challenges related to sustainable development and corporate social responsibility as well as the main focuses and results of this work.

The key sections of the Report are devoted to the effectiveness of economic activities, ensuring industrial safety, supporting and developing staff, and promoting socioeconomic development in the regions where Gazprom Neft operates. The Company believes it is essential to regularly provide stakeholders with comprehensive information about aspects of its activities that are significant for them and obtain feedback about the Report.

The Report is prepared using the basic version of GRI Reporting Standards taking into account the provisions of ISO 26000:2010 (Guidance on Social Responsibility). The Report underwent independent public assurance with the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (RUIE).

The Report presents information about Gazprom Neft PJSC and its subsidiaries and affiliates (hereinafter referred to as Gazprom Neft or the Company) for the 2017 calendar year. The Company’s financial position and operating results are presented using consolidated data from Gazprom Neft PJSC. Unless otherwise indicated in the text, data on the Company’s social and labour relations and its environmental performance include figures for Gazprom Neft PJSC and its subsidiaries and affiliates based in the Russian Federation and the Commonwealth of Independent States (CIS).

The Report details the Company’s medium- and long-term plans. This information is forward-looking in nature. The feasibility of the declared intentions depends on factors (economic, social, and legal) that are beyond the Company’s control or influence. The actual results may therefore differ from those indicated in the plans.

The Report is published in Russian and in English in hard copy and electronic form.

SIGNIFICANT THEMES OF THE REPORT

When determining the significant themes to be covered in the Report, Gazprom Neft analyses their relevance for both the Company’s development as well as its stakeholders. We constantly monitor the scale and nature of the impact of the Company’s activities on the economy, social and natural environment as well as information requests from stakeholders. We also consider the importance of the themes of the Report in terms of the public context and the obligations of business, including those enshrined in Russian and international documents. When determining significant themes and related indicators, the Company took into account:

- the provisions of the UN Global Compact and the Social Charter of Russian Business
- international and Russian standards in corporate social responsibility and sustainable development as well as the non-financial Report standards (ISO 26000 and GRI)
- studies on the industry-wide practice for the management of sustainable development and Reporting in this regard
- an analysis of the scope of the Company’s stakeholder engagement

The analysis of the Company’s engagement with stakeholders and the identification of significant themes focused on the following:
- materials from a survey of managers and specialists as part of the preparation of this Report
- the results of employee feedback
- the results of an annual study of the Company’s social and psychological climate, minutes of meetings between employees and management, and team meetings
- materials from Gazprom Neft’s regular interaction with investors, the federal and regional authorities, business partners, non-profit and public organizations, experts, and local communities
- materials from roundtables and public hearings in the regions (the participants and content of dialogues are presented in Appendix 2 to this Report)
- recommendations and comments received by the Company as part of the public assurance of its 2017 Sustainability Report by the Non-Financial Reporting Board of the RUIE

The topics identified are relevant for all of the Company’s subsidiaries.
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<td>Exploration and production</td>
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<td>18 Environmental performance of products</td>
<td></td>
<td></td>
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<td>Safe development</td>
</tr>
</tbody>
</table>

**About the Company**
MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

DEAR FRIENDS,

Gazprom Neft achieved excellent production and financial results in 2017. The Company had the largest increase in hydrocarbon production in the Russian oil industry at 4.1%, while also significantly expanding its resource base. Premium sales also grew by 3.8%. Major efforts were put into enhancing the efficiency of business processes and optimizing costs. As a result, Gazprom Neft generated the highest net profit in the Company’s history in 2017.

We view our employees as our most valuable asset. Today, Gazprom Neft employs more than 67,000 people. According to the international Randstad Award rating, the Company is one of the country’s most attractive employers. Gazprom Neft implements programmes involving financial and non-financial incentives, social support, and development for its employees and also puts together a talent pool. The Corporate University expanded the scope and quality of training and opened several new departments in 2017. Its innovative service platform model not only makes it possible to bring in external providers for training, but to also establish communication between employees who need to study and their colleagues who can teach them.

One of the Company’s top priorities is industrial safety. We are committed to our strategic ‘Goal – Zero’ of causing absolutely no harm to people, the environment, or property when performing work. The Company’s injury rate decreased by 19% in 2017 compared with the previous year, the number of major traffic accidents declined by 75%, and qualitative changes were made to the requirements and tools for the monitoring of major construction projects. The Company pays special attention to creating an industrial safety culture at all its assets.

While aiming for more, Gazprom Neft unswervingly adheres to the principles of corporate social responsibility and sustainable development. The launch of the Biosphera treatment facilities at the Moscow Oil Refinery, in which the Company invested RUB 9 billion, was a major milestone for Gazprom Neft in 2017. The Biosphera facilities purify 99.9% of the refinery’s wastewater, which is consistent with best global practices and significantly exceeds the regulatory requirements. A similar project is currently being implemented at the Omsk Oil Refinery. During the Year of Ecology, which was held in Russia last year, the Company implemented more than 1,000 events, ranging from the completion of infrastructure for associated petroleum gas utilization at the Novoportovskoye field to the implementation of projects to preserve the biodiversity of the Arctic.

In 2017, Gazprom Neft moved forward with its ‘Native Towns’ social investments programme, whose main goal is to systematically improve the quality of life in the regions where the Company operates. The programme has resulted in positive changes in dozens of regions of the Russian Federation, where active residents have been given the opportunity to implement important social initiatives. Over 2,000 projects have been implemented in 35 regions as part of the ‘Native Towns’ programme over five years with total investment of more than RUB 20 billion.

Today, the Company’s success at the international level is measured not only by its production and financial performance, but also by the way it treats its employees, the territories where it operates, and the environment. For Gazprom Neft, investment in human capital, concern for the safety of all production processes, protecting nature, and developing social programmes are just as important tasks as the effective implementation of business projects.
Gazprom Neft is a vertically integrated oil company whose principal activities include the exploration, development, production, and sale of crude oil and gas as well as the production and sale of petroleum products.
GAZPROM NEFT TODAY

GAZPROM NEFT IS ONE OF THE LEADING PLAYERS ON THE GLOBAL ENERGY MARKET AND IN RUSSIA. IN TERMS OF PROVEN HYDROCARBON RESERVES ACCORDING TO PRMS-SPE CLASSIFICATION, GAZPROM NEFT IS COMPARABLE WITH THE WORLD’S LARGEST OIL COMPANIES. IN RUSSIA, THE COMPANY RANKS AMONG THE TOP THREE RUSSIAN OIL COMPANIES IN TERMS OF OIL PRODUCTION AND REFINING.

The Company operates in Russia’s largest oil and gas regions and also has production projects outside of Russia in such countries as Iraq and Venezuela, among others. The Company’s primary refining facilities are located in Russia’s Omsk, Moscow, and Parsaft Regions in addition to Serbia.

Gazprom Neft produces and supplies a broad range of petroleum products for a number of industries both in Russia and abroad.

The Company’s common shares are traded in Russia on the main trading floors of the unified Moscow Stock Exchange PJSC. Dividends amounted to RUB 18.68 per share for 2016.

REGIONS OF OPERATION

- Russia
- Angola
- Belarus
- Bulgaria
- Bosnia and Herzegovina
- Estonia
- Iraq
- Italy
- Kazakhstan
- Kyrgyzstan
- Latvia
- Romania
- Serbia
- Tajikistan
- Venezuela

The Company’s full structure is presented in its Annual Report for 2017 (Appendix 1).

No. 1 IN FINANCIALS GROWTH RATES IN THE RUSSIAN OIL INDUSTRY

89.75 MN TOE HYDROCARBON PRODUCTION IN 2017 – 3RD IN RUSSIA

RUB 1.16T THE COMPANY’S CAPITALIZATION AS OF 31 DECEMBER 2017

GAZPROM NEFT’S MISSION

To provide consumers with high-quality energy resources, conduct business honestly and responsibly, care for employees, and be a leader in efficiency, ensuring the Company’s long-term and balanced growth.

EXPLORATION AND PRODUCTION OF OIL AND GAS

Most of the Company’s crude oil production in Russia is carried out by its subsidiary operators: Gazpromneft-Noyabrskneftegaz, Gazpromneft-Khanos, Gazpromneft-Vostok, Gazpromneft-Orenburg, Gazpromneft Yamal, Gazpromneft-Shelf and Messoyakhanneftegaz la joint venture between Gazprom Neft and Rosneft, among others. The subsidiary NIS develops fields in Serbia, Angola, Bosnia and Herzegovina, Hungary, and Romania. The Company’s international assets also include hydrocarbon exploration and production projects in Iraq, Venezuela, and other countries. The Company has a share in the production of the following enterprises: Slavneft (50%), Tomsknefte VNKh (50%), Salym Petroleum Development N.V. (50%), SeverEnergia (46.4% since 1 July 2019), and Northgas (50%).

OIL REFINING

Gazprom Neft is one of the leaders in the Russian industry in terms of oil refining and continuously improves the efficiency of production processes. The Company refines oil at its three core oil refineries – the Omsk Oil Refinery, Moscow Oil Refinery, and NIS in Serbia. In addition, Gazprom Neft owns a stake in Slavneft-YANOS and utilizes part of its refining facilities and also has access to the facilities of the Mozoy Oil Refinery in the Republic of Belarus (on the conditions of customer-supplied raw materials).

CORE BUSINESSES AND STRUCTURE OF THE COMPANY

Gazprom Neft’s vertically integrated business model includes two enlarged segments – upstream and downstream. By consistently developing advantages in each segment, Gazprom Neft achieves the best operating efficiency among Russian NOCs. The Company’s sustainable position enables it to continue implementing and developing core projects, which in turn creates conditions for long-term growth and implementation of the Company’s strategy.

SALE OF OIL AND PETROLEUM PRODUCTS

Gazprom Neft sells oil and petroleum products throughout Russia and in more than 70 countries. The Company operates its own network of filling stations in 48 regions of Russia as well as countries of the CIS (Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan) and Eastern Europe (Serbia, Bosnia and Herzegovina, Romania, and Bulgaria).

The Company has spun off its businesses into individual units to improve the effectiveness of petroleum product sales: the small wholesale and retail sale of motor fuels and the sale of petroleum products to industrial consumers, including the sale of aviation fuel and marine fuel, and the production and sale of lubricant materials and bitumen products. The Company’s specialized subsidiaries handle these types of operations.

Gazprom Neft is one of the leading suppliers of motor fuels to the domestic market of the Russian Federation and holds leading positions on the domestic retail aviation fuel market. The Company is developing its sales network and expanding its product range in order to steadily increase its share on the lubricants and bitumen materials markets in the Russian Federation.
STRATEGY IN ACTION

THE FOUNDATION OF THE COMPANY’S ACTIVITIES IS THE GAZPROM NEFT DEVELOPMENT STRATEGY UNTIL 2023, WHICH WAS APPROVED BY THE BOARD OF DIRECTORS IN 2013 AND UPDATED IN 2017. BY IMPLEMENTING THE PLANS OUTLINED IN THE STRATEGY, THE COMPANY AIMS TO CREATE THE HIGHEST ADDED VALUE IN THE OIL AND GAS INDUSTRY IN RUSSIA ON THE CAPITAL INVESTED BY ITS SHAREHOLDERS.

A focused strategy based on technological leadership and continuous improvements to operational efficiency and safety are the decisive factors in the Company’s success given the variability in the external environment and the challenges it poses.

In recent years, the Company has made significant progress in industrial safety and has become a leader in operating efficiency in Russia. Now the Company is committed to becoming one of the global leaders in terms of efficiency.

To this end, the Company has introduced an operational management system (OMS) that facilitates the overall development of the organization and encompasses such important areas as enhancing occupational safety, improving asset reliability, boosting efficiency, and optimizing the Company’s operations as a whole. The OMS is designed to integrate these activities into a unified system and strengthen the links between different systems, standards, and regulations.

KEY DEVELOPMENT PROJECTS

PRIRAZLOMNAYA

THE WORLD’S FIRST ARCTIC ICE-RESISTANT PLATFORM

79
MN T OF OIL
RECOVERABLE RESERVES

2.64
MN T OF OIL
PRODUCTION IN 2017

The world’s first offshore ice-resistant fixed platform (ORFP) for oil production on the Arctic shelf launched in 2013. A range of advanced technologies ensures industrial safety and the implementation of the ‘zero discharge’ principle with no industrial or consumer pollution entering the environment. The Company is implementing a biodiversity conservation programme and conducts environmental monitoring around the platform.

PRIRAZLOMNOYE FIELD

EAST MESSOYAKHA

RUSSIA’S NORTHERNMOST CONTINENTAL FIELD

353.3
MN T OF OIL
RECOVERABLE RESERVES (100%)

2.9
MN T OF CONDENSATE

119
BN M³ OF GAS
PRODUCED IN 2017

Complex technical and logistical solutions were used to develop the field located beyond the Arctic Circle in order to minimize the impact on the Arctic ecosystem. The Company built special deer crossings when routing pipelines in areas of dear migration as well as underground crossings under the large Muduyahu and Indikyahu rivers. Modern equipment reduces water consumption by 25%.

The first stage of the East Messoyakha field was put into operation in 2016. Fishbone technology was used in the field’s development to build wells with multiple horizontal branches that lead to separate oil fields without without penetrating the layers containing gas or water.

NYPORPORTSOYKYE FIELD

EAST MESSOYAKHA FIELD

2.9
MN T OF CONDENSATE

GATES OF THE ARCTIC

THE WORLD’S ONLY ARCTIC OIL LOADING TERMINAL

490
MN TOE
RECOVERABLE RESERVES

5.95
MN T OF OIL PRODUCED IN 2017

The Nypportovskoye field is the northernmost and one of the largest oil and gas condensate fields on the Yamal Peninsula. Nevny Port light crude oil is produced at the field with a low sulphur content (about 0.1%). The Gates of the Arctic, a unique marine terminal that is designed to operate at low temperatures, handles year-round shipments of crude oil. ‘Zero discharge’ technology prevents pollutants from entering the waters of Ob Bay. The Company is building its own fleet, including modern icebreakers and Arctic tankers, in order to transport oil along the Northern Sea Route.
The Bazhen formation consists of a bed of rocks that is 30-80 m thick in Western Siberia at depths of 2,000-3,000 metres over an area of more than 1 million square km. Its oil resources are classified as non-conventional oil located in small, disjointed pores with rock permeability that is 99.9% less than that of traditional deposits. A scientific consortium consisting of Moscow State University, Moscow Institute of Physics and Technology, Gubkin Russian State University of Oil and Gas, the Skolkovo Technical Centre, and Gazprom Neft as a production partner was established to study the Bazhenov formation. Gazprom Neft and its partners are setting up the Bazhen Technological Centre at the key test site – the Palyanovskaya area of the Krasnovolenskoye field in Yugra – as an open platform for the development of technologies. The project was granted national status in 2017.

Development of mature fields

The resource base of the Company’s current assets has been marked by a deterioration in the structure of the remaining industrial reserves as most fields enter into the late stage of development. Fields in the third and fourth stages of development accounted for more than 30% of the oil produced at Gazprom Neft’s current assets (100%) in 2017. However, due to the increased use of high-tech drilling and tertiary methods for boosting oil recovery, the Company is consistently enhancing the efficiency of the development of these reserves. In addition, gas production increased by 1.2 billion cubic m in 2017 versus the previous year due to an additional programme involving geological and technical measures at mature fields.

The successful implementation of the projects making up the first stage of the Omsk Oil Refinery’s modernization enabled the refinery to fully switch to the production of Euro-5 motor fuels and significantly increase energy efficiency and eco-friendliness. The second stage, which will run from 2015 to 2025, aims to increase the depth of oil refining to 99% and involves the construction of new facilities, the renovation of production facilities, and the improved eco-friendliness, reliability, and safety of production processes.

Projects to increase refining depth at the Omsk Oil Refinery shifted to the stage of practical implementation in 2016. A deep oil refining complex is being built at the refinery within hydrocracking units that have capacity of 2 million tonnes of vacuum gas oil per year. A delayed coking plant with capacity of 2 million tonnes per year is also under construction. These projects will increase the production of high-margin products and provide the market with raw materials for group 2 and 3 base oils as well as petroleum coke, a valuable raw material for the aluminium industry.

The most important project resulting from the ecological modernization of the Omok and Moscov Oil Refineries was the construction of the Biosphera modern treatment facilities, which will ensure 99% efficiency for wastewater treatment. In 2017, Gazprom Neft completed the construction of treatment facilities at the Moscow Oil Refinery and began implementing a similar project at the Omsk Oil Refinery.

Gazprom Neft intends to invest over RUB 400 billion in the development of the Omok and Moscov Oil Refineries over the next five years.
GAZPROM NEFT | SUSTAINABLE DEVELOPMENT REPORT | 2017

16 // 17

Goal fully achieved  Goal partially achieved  Goal not achieved

**IMPORT SUBSTITUTION OF OIL REFINING CATALYSTS**

Gazprom Neft’s project to establish the high-tech production of modern and efficient domestic catalysts for secondary refining processes in Omsk transitioned to the practical implementation phase in 2017. The Russian Ministry of Energy granted national status to the Gazprom Neft project.

The project’s implementation will enable the Company to create a new high-intensity business line for the production and maintenance of catalytic cracking, hydrotreatment, and hydrocracking catalysts. In addition, a reactivation unit for regenerated hydrotreating catalysts is also to be built within the complex. The new complex is scheduled to be commissioned in 2020.

The Company is developing innovative catalysts and technologies for their production in cooperation with leading Russian catalytic process research centres. The Company successfully introduced the new catalysts and technological solutions for a number of industrial processes at its refineries in 2017.

**CONSTRUCTION OF A CATALYST PRODUCTION FACILITY**

**IMPORT SUBSTITUTION OF OIL REFINING CATALYSTS**

**FULFILMENT OF 2017 GOALS AND OBJECTIVES**

**LEVEL OF FULFILMENT**

**Task and result**

- **Exploration and Production:**
  - effective development of the depleted resource base
  - maximizing the return on investment from new projects
  - preserving all resource base development options to ensure new production areas

The main factors that made it possible to increase the resource base were an improvement in geological exploration and production drilling technologies as well as the acquisition of new licensed sites. The goals have been achieved in full. For more, see below in this chapter of the Report.

- **Refining and Sales:**
  - the continued implementation of projects to increase oil refining depth and environmental projects, including the continued construction of primary oil refining complexes at the Omsk and Moscow Oil Refineries
  - implementation of programmes to boost oil refining efficiency and cost savings
  - maximizing sales of petroleum products via the Company’s premium sales channels

The goals are medium-term and the objectives for their implementation were fully implemented in 2017 in accordance with the plans. For more, see below in this chapter of the Report.

- **Improved Product Quality:**
  - conducting the next round of rerecatalitization for Gazprom Neft-Lubricants in accordance with the requirements of international standards
  - expanding the range of synthetic oils by developing compounds for key products based on market demand
  - launch of a homologation programme for synthetic oil compounds based on the Company’s own group 3 base oils
  - implementing a programme for technical training sessions and industry conferences
  - introducing the new standards GOST 33133-2014 and GOST R 55420
  - holding the sixth inter-industry conference ‘Bitumen and PBB. Relevant Issues of 2017’ with the invitation of leading market players
  - performing the following work at the Gazpromneft-Bitumen Materials Research Centre:
    - development of binders and asphalt concrete for specific regions taking into account the climatic operating features
    - assessment of the changes in the properties of binders as a function of storage temperature and evaluation of the properties of asphalt concretes in these binders
  - launching the production of new types (brands) of products that meet modern regulatory requirements for quality as requested by the market
  - conducting industrial pilot testing to assess the feasibility of obtaining new types of bitumen products

The goals were achieved in full. For details, see below in this chapter of the Report.
EXPLORATION AND PRODUCTION

STRATEGIC GOALS

Key performance indicators (KPIs) for 2025

| Key performance indicators (KPIs) | 2025
<table>
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<tbody>
<tr>
<td>MN TOE (Hydrocarbon production in volume)</td>
<td>100%</td>
</tr>
<tr>
<td>Availability of proven reserves (TP/production)</td>
<td>AT LEAST 15 YEARS</td>
</tr>
<tr>
<td>Annual replacement ratio of proven and probable reserves (OP/CP)</td>
<td>100%</td>
</tr>
<tr>
<td>Excluding acquisitions</td>
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</table>

Gazprom Neft PJSC intends to increase hydrocarbon production to 100 million TOE per year by 2020 and continue to increase production until 2025. The Company plans to maintain a 15-year ratio of proven reserves to production. In order to achieve these goals, Gazprom Neft will strive to employ the most cost-effective methods, to recover the remaining reserves from the current resource base by utilizing the best practices for optimizing field development, reducing the cost of proven technologies as well as acquiring and introducing new technologies.

The strategy involves the establishment of a new production centre in the north of the Yamal-Nenets Autonomous District (YNAD). Gazprom Neft is considering unconventional reserves as a growth opportunity and will develop this class of assets as a key component of its portfolio.

RESULTS OF 2017

The Gazprom Group increased hydrocarbon production by 4.1% YoY to 89.75 million TOE in 2017. Increased production at the Novoportovskoye, Messoyakha, and Priarazomne fields as well as in Iraq enabled the Company to increase hydrocarbon production year-on-year.

The Group boosted oil and condensate production by 4.3% YoY to 62.43 million tonnes. The Company ranked third in Russia in terms of oil production behind Rosneft and Lukoil in 2017.

Gas production grew by 3.7% versus 2016 to 34 billion m3 due to an increase in APG utilization and expanded natural gas production in the Novyabrysk region.

RESULTS OF 2017

Gazprom Neft reduced oil refining by 6% in 2017 as a result of planned overhauls and the reconstruction of production facilities at the Company’s Russian refineries.

OIL REFINING AT RUSSIAN OIL REFINERIES [MN T]

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depth of oil refining at Oil Refineries [%]</td>
<td>38.83</td>
<td>39.49</td>
<td>39.53</td>
<td>39.94</td>
<td>38.18</td>
</tr>
</tbody>
</table>

The decrease in the production volume of high-octan gasoline and diesel fuel by 6.3% and 4.7% YoY, respectively, is due to a general decrease in the volume of oil refining at the Omsk and Moscow Oil Refineries. The 27.2% YoY increase in bitumen production resulted from growing demand on the domestic market and the expanded geography of exports. Fuel oil production declined compared with 2016 because of a decrease in oil refining as well as increase bitumen production.

OIL REFINING VOLUME IN RUSSIA

<table>
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<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil refining volume in Russia [MN T]</td>
<td>40</td>
<td>41</td>
<td>42</td>
<td>43</td>
<td>44</td>
</tr>
</tbody>
</table>

MILESTONES OF 2017

The Moscow Oil Refinery completed the construction of the Biseproha biological treatment facilities and the reconstruction of a catalytic cracking unit.

The Omsk Oil Refinery upgraded a bitumen unit and completed construction and installation work on a modular hydrogen generating unit.

Sлавят-Норильскされていた launch a plant for the production of third quality group base oils.

The Omsk Oil Refinery and Pancevo Refinery in Serbia launched construction on deep refining complexes.

The Downstream Efficiency Control Centre was opened.

The Moscow Oil Refinery performed the expansion of the Achimov deposits at the Severo-Samborskoye field.

The Alexandrov Zhagrin (KMAD-Yugra), Novozarinskoye (Orenburg Region) and the Oldentmoye field in YNAD was put into commercial operation.

Pilot oil production was launched from the Achimov deposits of the Severo-Samborskoye field.

A project to build a multilateral field well with five cased boreholes at the TAML-3 complexity level was successfully implemented for the first time in Russia at the East Messoyakha. Oil and gas industry experts describe the operation carried out by Gazprom Neft specialists unique.

Oil field was discovered on the shelf of the Sea of Otkhost.

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RESULTS OF 2017

SALE OF OIL AND PETROLEUM PRODUCTS

Oil sales increased by 16.8% in 2017 due to an increase in exports and international oil sales. Exports to non-CIS countries increased by 41.1% compared with 2016. Gas sales grew by 7.8% to 14.4 billion m³.

The decrease in oil sales on the domestic market in 2017 is primarily the result of the diminished economic efficiency of trading operations.

The Company sold 43.48 million tonnes of petroleum products in 2017, a 0.3% decrease from the previous year. This is above all attributable to a decrease in fuel oil exports to non-CIS countries due to a reduction in its production volume. Petroleum product sales on the Russian market in 2017 exceeded the 2016 level by 3.1%. Sales increased for the entire range of petroleum products, except for marine fuel and petrochemical products.

Premium sales increased by 3.9% in the reporting period to 26.7 million tonnes. The Company’s success in developing premium sales channels and expanding the geography of supplies and the range of its premium products made it possible to increase its share at the end of the year on the retail markets of most petroleum products, including the markets for motor fuels, aviation kerosene, lubriants, and premium bitumen materials.

SALES OF MOTOR FUELS

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Premium sales, including those of premium lubricants, grew by 22.9% in the reporting period to 1.26 million tonnes. The Company expanded its sales network, increasing the share of sales of premium products in the total volume of sales via premium distribution channels for retail and small-scale wholesale.

Fuel oil sales increased by 16.8% in 2017 due to a reduction in fuel oil exports to non-CIS countries.

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The Company plans to further increase sales, expand its market share, release new products on the market, and develop its sales capacity.

**PETROLEUM PRODUCT SALES TO INDUSTRIAL CONSUMERS**

<table>
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<tr>
<td>2.3 MNT</td>
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<td>2.4</td>
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</tr>
</tbody>
</table>

**MILESTONES OF 2017**

- The total number of airports in the aviation fuel sales network grew to 249.
- The international Aviation Fuel Forum was held in Russia for the first time in partnership with the IATA.
- Gazprom Neft was the first Russian vertically integrated oil companies to launch production of the eco-friendly marine fuel TAC-88 with sulphur content of <0.1%.
- A line of marine oils under the Gazpromneft Oceane brand was introduced on the Russian and international markets.
- The number of G-Energy Service branded service stations grew to 120.
- Total bitumen sales increased by 12%.

The retail aviation fuel market in Russia grew by 7.4% in 2017. Gazprom Neft remains the leader on this market with a share of 25.4%. The company’s share on the Russian bunkering market totalled 16.6% in 2017. Gazprom Neft’s share of the oils and lubricants market in Russia increased by 1.3 percentage points in 2017 to 21.3%.

The Company is one of the largest producers and suppliers of bitumen products in Russia. Gazprom Neft is a major Russian manufacturer of a number of basic petrochemical products: aromatic hydrocarbons (benzene, paraxylene, ethylbenzene, and toluene) and propane–propylene fraction products (propylene liquefied petroleum gas).

**INNOVATIVE ACTIVITIES**

One of the priorities for Gazprom Neft’s innovative development is technology that ensures the strategic goals of a profitable increase in production and enhances the technological efficiency of oil refining.

The Company studies and creates effective solutions jointly with market leaders while adapting them to the conditions of its specific assets. At the same time, the Company is developing a technology market by encouraging partners to create new breakthrough solutions for the market that are not available on the market or are developed by the Company together with domestic and foreign partners.

The Company has an Innovative Development Programme whose foundation includes introducing technologies that enhance well productivity, developing the Bathevoor formation, improving the methods for increasing oil recovery at depleted fields as well as developing and manufacturing catalysts for refining. Projects to digitize manufacturing in the oil production, refining, and sales segments are also an important part of the Innovative Development Programme.

**MAIN COMPONENTS OF THE COMPANY’S INNOVATIVE INFRASTRUCTURE**

- Gazpromneft Science and Technology Centre LLC – provides analytical, methodological, scientific, and technical support for all key production and technical functions of the Upstream Division.
- Upstream Control Centre – manages hydrocarbon production using ‘digital twins’ of fields – virtual models that change based on regularly updated information from sensors at the sites. ‘Digital twins’ enable Gazprom Neft to foresee possible technical and technological complications that may occur, help to make optimal decisions concerning equipment repairs, and thus reduce the operating costs of facilities.
- GeoNavigator Drilling Control Centre – handles round-the-clock monitoring, control, and remote engineering support during the process of building high-tech wells at the Company’s fields.
- The Cognitive Geologist project involves the creation of a self-learning model for a geological site. This makes it possible to reduce the analysis time from two to several months, create thousands of options for developing a field, and choose the best one.
- Cognitive Engineering project – using artificial intelligence to analyse big data allows for calculating optimal solutions in conditions of high geological, technical, and economic uncertainties.
- The Electronic Asset Development (EDA) system aims to develop IT projects in exploration and production. It is part of the technology strategy of Gazprom Neft and is one of its key focuses. The EDA currently includes more than 30 projects.
Digital Innovation Centre – was established to search for and introduce technological solutions for work with big data, predictive management, and the creation of digital twins for infrastructure. The Centre’s job is to develop innovative digital products in order to further enhance Gazprom Neft’s unified technological platform in logistics, refining, and sales.

Gazprom Neft Industrial Automation Technopark (Omsk) – a platform for the development and testing of high-tech solutions in oil refinery automation.

Downstream Efficiency Control Centre – encompasses the management of the value chain, production, equipment reliability, and the oil control system and also supports the transition to a completely predictive model of production management.

Digital Refinery project – part of a Gazprom Neft project to create Russia’s first unified digital platform for the logistics, production, and sales of petroleum products. The digital platform will integrate, store, and process data online by providing a visualization of changes in key production parameters.

Oil Control system – provides analysts with up-to-date and reliable information about the production and movement of oil and petroleum products during all stages: from the refinery to the filling station, refuelling complex at the airport, or a berth.

Digital Filling Station project – ensures the centralized management of the Company’s automated filling stations from a single dispatch centre in Yaroslavl, where all the parameters of equipment operation and quality of oil products are monitored in real time.

Digital Refuelling Complex project – a pilot project to introduce automation during the aircraft fuelling stage was implemented at one of Europe’s largest airports – Moscow’s Sheremetyevo, which is currently testing the first tanker equipped with an automated commercial metering module. The refuelling process is also almost completely automated now. The operator of the refuelling truck signs in with a smart card and enters data about the required amount of fuel. All the necessary information about the fuel supply parameters and mode is displayed electronically online during the refuelling process. Once the required volume is reached, the system automatically stops fuelling, the printer prints out a receipt, and a refuelling report is sent to the Gazpromneft-Aero server using a GSM module.

The automated commercial metering of aviation fuel will make it possible to send airlines an invoice and monitor receivables online. The installation of new modules will become an important component in the strategic project to establish full commercial metering, which will not only change the company’s IT landscape, but the very principles of how it does business in many respects.

Digital Sales project – this helps to fine-tune the product and service offering for each customer in any of the sales channels, quickly create and bring new products and services to the market, and provide consumers with instant access to the necessary solution.

Digital transformation

One of the most important aspects of Gazprom Neft’s development strategy is the digital transformation of its business.

New generation production management systems are being created in all segments of the Company’s activities. They ensure the integrated management of all services to maximize the value of assets, the use of digital twins to optimize operating modes and maintenance plans, and the development of a corporate knowledge distribution system. Projects are being implemented at all stages of the value chain, from extracting enterprises to the sale of petroleum products.

“We have already established a digital ecosystem that encompasses all aspects of our work: from geology and extraction to the knowledge dissemination process within the company. Our priority is to create electronic advisers and cognitive assistants that will process information and perform calculations in order to offer engineers ready solutions to take further action”.

Mars Khasanov
Head of the Technology Directorate and CEO of the Gazprom Neft Science and Technology Centre

Gazprom Neft’s key partners in the development and introduction of technologies: Institute for Hydrocarbon Processing Problems and the Institute of Catalysis of the Siberian Branch of the Russian Academy of Sciences, Tschepov Petrochemical Synthesis Institute of the Russian Academy of Sciences, Skolkovo Institute of Science and Technology, the Engineering Centre of Moscow Institute of Physics and Technology, Gubkin Russian State University of Oil and Gas, Tyumen State University, National Intellectual Development Foundation, Yandex.Terra, and Shell.

INTELLECTUAL PROPERTY

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APPLICATIONS

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EXPLORATION AND PRODUCTION

The Company has employed a Technology Strategy in exploration and production since 2014 that consolidates its technological challenges in priority areas. Key technological challenges include incorporating hard-to-recover and unconventional hydrocarbon reserves into development, increasing oil recovery at mature fields, boosting drilling efficiency, and developing carbonate and fractured reservoirs. A long-term technology programme has been developed for each focus of the Technology Strategy and projects are being implemented to solve the technological challenges.

The Management Committee chaired by the Company’s First Deputy CEO is in charge of managing the implementation of the Technology Strategy.
THE FIRST IT PLATFORM FOR SEISMIC EXPLORATION

In 2017, Gazprom Neft, in collaboration with Yandex, Terra, Pangea, and the Moscow Institute of Physics and Technology, began building Russia’s first integrated platform for the processing and interpretation of seismic data that can accompany the whole cycle of seismic studies - from setting goals to completing projects. The software will be able to solve problems ranging from selecting promising sites and interpreting data to suggesting ideas for creating seismic geological models. In the future, the prototype will be supplemented with algorithms to process big data and make decisions. The new software products are being developed as part of the Electronic Asset Development (EAD) programme. The program encompasses all major areas of the Company’s operations in the upstream segment: exploration, drilling, development, production, and the development of fields.

“Today’s oil and gas industry, decision-making is based on data that is growing exponentially in volume. The Big Data paradigm allows for adapting business strategies for such explosive growth rates, while modern methods of data analysis, such as machine learning and convolutional neural networks, make it possible to take a fundamentally new approach to solving pressing problems”.  
Timur Tavberidze  
CEO of the Engineering Centre of Moscow Institute of Physics and Technology

MILESTONES OF THE YEAR

Gazpromneft-Khantos launched the Upstream Control Centre (UCC), which was established as part of the Digital Field programme. The Centre consolidated previously developed solutions to increase the efficiency of individual extraction processes into a unified integrated environment. The Centre will reduce operating costs by 15%.

The Hydraulic Fracturing Scientific and Technical Support Centre was established in partnership with the Engineering Centre of Moscow Institute of Physics and Technology.

The well design was optimized at the Taurchanskoje field. A project was successfully implemented to utilize a dual-shaft design for the first time in Russia as well as a set of technological solutions (geomechanics, foam cementing) that made it possible to carry out drilling and cementing in conditions of disastrous drilling mud losses. Seventeen wells were drilled using this approach. Total savings exceeded the project’s costs by almost 4-fold. Total drilling costs were reduced by more than RUB 840 million.

The Company worked on creating a set of IT solutions for the ‘Geologist Assistant’, which will boost the efficiency of preparing geological solutions by several times, more than double the speed of data processing, and reduce the cost of extracting information by a third.

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OIL REFINING

The oil refining segment employs a long-term R&D strategy as part of which a portfolio of innovative projects has been established in the priority areas of technological development. Introducing their results at the Company’s refineries will increase the yield of high-margin products given the technological conditions of a particular refinery and also reduce operating costs.

MILESTONES OF THE YEAR

The Downstream Efficiency Control Centre (ECC) was established within the Downstream Division. The Centre’s objective is to build a unified digital platform to manage the efficiency of the value chain from oil supplies to the refinery to the sale of petroleum products to the end user. A total of 250,000 automated monitoring sensors and dozens of production processes management system transmit information in real time about the demand for petroleum products, the state of equipment, and the quality of raw materials to the ECC. The Centre has created a ‘data lake’ where management decisions are made based on an analysis of the data. The Centre will have a significant economic impact by optimizing all stages of the production process and increasing the reliability of production.

Gazprom Neft successfully introduced its own catalysts and technological solutions as part of a project to develop the production of catalysts for oil refining:

- catalytic cracking: the new brand of Avangard catalysts in which the catalytic cracking unit increases the yield of petrol by 3.7%
- oligomerization: the new KORB-1 catalyst increased service cycle duration by two-fold and the yield of the high-octane component of petrol by 31%
- isode waxing: the new catalyst without precious metals ensured the production of winter and Arctic grade diesel fuel in accordance with the production programme;
- new process for the reactivation of the diesel fuel hydrotreating catalyst: the Omsk Oil Refinery efficiently operated the reactivated catalyst for a year instead of the planned six months, thus reducing expenses on the purchase of a fresh catalyst by 55%.

The Company concluded general agreements until 2025 on matters concerning the development catalysts for oil refining with its strategic scientific partners – the Boreskov Institute of Catalysis (Novosibirsk) and the Institute for Hydrocarbon Processing Problems of the Siberian Branch of the Russian Academy of Sciences (Omsk).

In 2017, the project committee under the Ministry of Energy of the Russian Federation approved Gazprom Neft’s project to create an environmentally safe solid acid alkylation technology - an innovative waste-free technology for the production of the high-octane component of Euro 5 petrol. The commercial introduction of the technology at the Moscow Oil Refinery will ensure the production of more than 100,000 tonnes of alkylbenzene per year. The Company completed construction on Russia’s first pilot plant for solid acid alkylation with capacity of 300 tonnes of products per year as part of a project in Elektrogorsk.

Solid acid alkylation

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"The process proposed by Gazprom Neft specialists provides unique advantages in terms of working in a non-corrosive environment, obtaining a higher octane number, and lower capital costs than in plants with mineral acids”.  
Yury Zlotnikov  
Director of the Oil and Gas Refining Department, Russian Ministry of Energy
PRODUCT QUALITY CONTROL AND IMPROVEMENT

THE COMPANY WORKS CONTINUOUSLY TO ENHANCE THE EFFECTIVENESS OF CUSTOMER SUPPORT PROCESSES AND IMPROVE THE QUALITY OF ITS PRODUCTS AND THE RELIABILITY OF ITS SURVEILLANCE MODES. GAZPROM NEFT HAS A QUALITY POLICY THAT AIMS TO ENSURE THE EFFICIENT PRODUCTION AND SALE OF HIGH-QUALITY PRODUCTS THAT MEET CUSTOMERS’ REQUIREMENTS AND ARE COMPETITIVE ON BOTH THE DOMESTIC AND FOREIGN MARKETS.

In an effort to achieve this goal, the Downstream Division’s enterprises employ an integrated quality management system that meets the requirements of the international standard ISO 9001. The system encompasses the Company’s refineries, Gazpromneft Marine Bunker, Gazpromneft-Lubricants, Gazpromneft Lubricants Italia SPA, Gazpromneft Shipping, Neftekhimia NPP, and Polisom LLC as well as Gazpromneft-Ryazan Bitumen Materials Plant for bitumen production. All the Company’s Russian refineries – the Omsk Oil Refinery, the Moscow Oil Refinery, and the Slavneft-YANOS – were re-certified for compliance with the requirements of this standard in 2017. The quality management system at the Company functions at all levels of the Company’s management.

The effectiveness of the quality management system is evaluated based on an independent internal and external audit, a satisfaction assessment for all customer groups, and an analysis of feedback from consumers.

QUALITY CONTROL

Gazprom Neft’s oil refineries have testing laboratories that provide product quality control at all stages of production, from analysing raw commodities and materials to shipments to consumers. The physical and chemical fuel parameters at filling stations are checked additionally at least once a month using mobile or stationary laboratories. Aviation fuel passes through several levels of quality control at Gazpromneft-Aero warehouses: when it is received, stored, prepared, and provided to aircraft for refuelling. The Gazpromneft-Bitumen Materials research centre also carries out additional quality control of bitumen products.

The physical and chemical fuel parameters at filling stations are checked additionally at least once a month using mobile or stationary laboratories.

IMPROVING PRODUCT QUALITY

MAINT FOCUS OF THE COMPANY’S ACTIVITIES TO IMPROVE PRODUCT QUALITY IN 2017:

- the development, launch, and manufacturing of new products with improved quality and environmental attributes
- the standardization and certification of commercial products in accordance with Russian and international regulatory requirements
- the implementation of technical, technological, and management measures to improve the quality of products
- active cooperation with government agencies as well as Russian and international organizations that establish quality policies and standards
- the modernization and development of the laboratory base and supporting the reliability of testing equipment and measuring instruments

During the reporting year, the Company launched bitumen production in accordance with the requirements of the new interstate standard GOST 33133-2017 on the technical regulations of the Customs Union. All assets at which the Company issues standard bitumen products received declarations of conformity.

The Company conducted pilot trials of its premium bitumen products using the transport, housing, and utility infrastructure of the regions as part of agreements signed with the governments of constituent entities of the Russian Federation (the Tyumen Region, Yamalo-Nenets Autonomous District, Khanty-Mansi Autonomous District, and Karmchatka Territorial). Gazprom Neft also performed work to develop formulas for and test bitumen products for supply to foreign markets.

In 2017, Gazprom Neft launched test sales of G-Drive petrol with an octane rating of 100 in Novosibirsk. This premium product is designed for modern engines, which in most cases are adapted to run on petrol with an octane rating of 95 or higher. G-Drive 100 petrol improves the performance of car engines, increases their power and acceleration dynamics, and ensures the cleaning and protection of engines against wear.

The Company has developed 113 formulas for current product range and launched the production of 10 new synthetic oils.

Neftekhimia NPP was the first in Russia to switch the production of polypropylene to phthalate-free catalysts in 2017, making it possible to manufacture products that are recommended for use in the production of medical goods.

QUALITY OF OILS

The Company took part in the work of the quality management system committee of the ATIEL Association of European Motor Oil Manufacturers and Suppliers.

The committee’s work resulted in the development and introduction of the ATIEL Compliance Policy for European oil producers. An analysis of the Company’s oils revealed the products fully comply with ACEA requirements.

113 FORMULATIONS DEVELOPED BY THE COMPANY FOR PRODUCTS OF THE CURRENT PRODUCT RANGE

10 NEW SYNTHETIC OILS PUT INTO PRODUCTION
**STAKEHOLDER ENGAGEMENT**

- Gazprom Neft is a permanent member of the Interdepartmental Working Group on Countering the Illegal Turnover of Petroleum Products under the State Commission for Countering the Illegal Turnover of Industrial Products. In 2017, Gazprom Neft experts were involved in drafting Methodological Recommendations for organizing and carrying out public control as well as developing partnerships and mutual cooperation on the fuel market as part of the working group under the auspices of the Federal Agency for Technical Regulation and Metrology.

- During the reporting year, Gazprom Neft representatives were involved in preparations for a public discussion on motor fuel quality in Russia, which was held on 27 November and chaired by Russian Minister for Open Government Mikhail Abyzov.

- Gazpromneft-Aero is a strategic partner of the International Air Transport Association (IATA). In 2017, the Company became the main partner of the IATA Aviation Fuel Forum, which was held in St. Petersburg, marking the first time it was held in Russia. The event was attended by more than 650 delegates from 61 countries.

- The Company is actively involved in work to improve roads in the country and is a member of a working group under the Federal Road Agency (Rosavtodor) that is in charge of improving the regulatory framework for the use of road bitumen and asphalt concrete. It is also a member of the Science and Technology Council of the Avtodor Group of Companies and an associate member of the R.O.S. Asphalt Association.

**PROPORTION OF PRODUCTS WITH HIGH ADDED VALUE: PROPORTION OF BRANDED FUEL IN TOTAL RETAIL SALES (%)**

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- Euro-5 motor fuel
- Euro-5 motor fuel and higher

**PROPORTION OF PRODUCTS WITH IMPROVED ENVIRONMENTAL ATTRIBUTES IN TOTAL PRODUCTION (%)**

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<tr>
<th>Year</th>
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</tbody>
</table>

- Euro-5 motor fuel
- Euro-5 motor fuel and higher

**ENGAGEMENT WITH CUSTOMERS**

**CUSTOMER AWARENESS**

The Company employs communication channels developed for each specific audience to generate awareness among different groups of consumers (retail, corporate, wholesale).

In 2017, the Company launched the “Quality Leader” communications project in an effort to raise awareness among retail customers about the quality of Gazprom Neft petrol and diesel fuel and strengthen Gazprom Neft’s image as an industry expert on quality control issues. The following large-scale media campaigns were held among motorists to promote Gazprom Neft’s fuel quality control system: an interregional campaign on open fuel quality testing in nine regions of the Russian Federation (World Quality Day) as well as the creation and demonstration of an immersive virtual reality film called ‘Fuel Path’ that customers can watch using virtual reality glasses at filling stations. The Company shows off the reliability of its petroleum products as part of a fuel partnership with major automobile and motor events (St. Petersburg Rally, Top-5 Auto Award, Harley-Davidson Festivals, etc.) and also during international competitions as part of the G-Drive Racing project. Press tours are conducted at the Company’s industrial facilities for specialized journalists and bloggers who write about automotive themes.

**RESPONSE TO CONSUMER DEMAND**

The Company has a Unified Customer Support Centre (UCSC) to interact with retail customers – a 24/7 multi-channel service that promptly responds to customer requests. The service includes a number of traditional and digital tools for communication with customers: a call centre, IVR (Intelligent voice menu), email, feedback forms, online consultants on the websites www.gpnbonus.ru, instant messenger chats, and a mobile app for the filling station chain.

All inquiries are recorded in the OTRS unified system for the registration and processing of inquiries (tickets) based on their type and subject. The current system promptly processes unconventional inquiries and complaints by sending them to the appropriate service of the Company in order to prepare a response and also stores the history of all inquiries. The quality of customer consultation via all communication channels is regularly monitored over the course of a month. If any violations are detected, corrective measures are taken to resolve the issue.
In 2017, comments from customers of the Gazprom Neft retail chain mainly focused on such issues as the functioning of filling stations and automated filling stations (prices, the scope and quality of service, and the operation of customer systems at filling stations, among other things), further developing service at filling stations, and improving the loyalty programme.

The Company engages with the commercial customers of its petroleum products through:
- responding to customer requests
- the procedure for collecting regular feedback from customers and suppliers
- interacting with retail and commercial customers on the basis of DSS services (operational evaluation of situations) in which qualified technical opinions and consultations on equipment operation modes are given in response to incoming requests
- the process of recording transactions, petroleum product supplies, and claim work
- quality assessments to ensure parameters comply with the latest requirements of ISO 8217 and the expectations of counterparties
- conducting focus groups and creating working groups involving representatives of various consumer segments

ASSESSMENT OF CUSTOMER SATISFACTION

The Company assesses the satisfaction of retail consumers with the quality of motor fuel and service in regular sociological polls, studying feedback given at CRM system touch screens in the checkout area of filling stations, and analysing comments and inquiries sent via the Company’s Hotline and social media.

The NPS (Net Promoters Score) loyalty index of Gazpromneft-Bitumen customers scored 73 out of 100 points. Just over 82% of respondents noted the professionalism of employees, while almost 79% mentioned the high quality of products.

STUDY OF SATISFACTION AMONG CUSTOMERS OF THE GAZPROM NEFT RETAIL CHAIN IN THE RUSSIAN FEDERATION

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<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPS†</td>
<td>32</td>
<td>40</td>
<td>32</td>
<td>37</td>
<td>59</td>
</tr>
<tr>
<td>Satisfaction with service, %</td>
<td>41</td>
<td>49</td>
<td>44</td>
<td>64</td>
<td>68</td>
</tr>
</tbody>
</table>

CUSTOMER SATISFACTION INDEX (AGGREGATED SATISFACTION INDICATOR)†

<table>
<thead>
<tr>
<th>Companies</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazpromneft-Lubricants</td>
<td>3.08</td>
<td>3.20</td>
<td>3.08</td>
</tr>
<tr>
<td>Gazpromneft Marine Bunker</td>
<td>3.6</td>
<td>3.4</td>
<td>3.7</td>
</tr>
</tbody>
</table>

† 1. Pumping per petrol station: Pumping — sale of fuel at a petrol station on a period of time, in less than one day.
2. NPS reflects the loyalty of consumers, NPS data and survey compliance with the period 2013-2015 and 2016-2017. The jump in NPS in 2017 is due to a reduction of the percentage of neutral respondents to the question 'would you recommend this product to a friend?'
3. Percentage of customers who gave a maximum score of 7 and 10 to the question 'Do you wish to continue cooperation with the Company?'
4. The decrease in the indicator in 2017 is a result of business development processes. Gazpromneft-Lubricants activity expanded into foreign countries as well as expanded via the domestic market.

SUPPLY CHAIN

GAZPROM NEFT DEVELOPS COOPERATION WITH CONTRACTORS WITH A FOCUS ON MARKET TRANSPARENCY, MARKET PRICING AS WELL AS LONG-TERM AND STRUCTURED RELATIONSHIPS. THE COMPANY IS COMMITTED TO UTILIZING LONG-TERM CONTRACTING, VARIOUS INCENTIVE TOOLS FOR CONTRACTORS, AND FLEXIBLE PRICING MECHANISMS.

COMPANY’S MATERIAL AND TECHNICAL SUPPLY CHAIN

An integrated management system is used to manage the choice of counterparties and work with them. The Materials and Equipment Procurement Unit of Gazpromneft-Supply undergoes an annual audit using this system during the reporting year. The Company’s counterparties for the supply of goods, works, and services are selected in a unified manner based on the results of a competitive procedure for selecting counterparties.

In 2017, the Company launched the Supplier Management System, which provides a prequalification assessment of materials and equipment suppliers for compliance with corporate requirements prior to their involvement in competitive procedures.

The basic criteria for the selection of contractors are the cost and quality of material and equipment, the timeframe for manufacturing and delivery, performance of work / rendering of services, the counterparty’s availability of the relevant technical and human resources, and the experience required to perform the work / render the services in the relevant area. One of the key selection criteria is the counterparty’s compliance with the Company’s industrial safety rules. The Company concludes an industrial safety agreement with the selected counterparties.

In 2017, the Company involved 4,553 suppliers of materials and equipment in competitive procedures and concluded contracts with 2,076 suppliers. Payments to suppliers amounted to RUB 124 billion.

The Company continued to have a consistently high level of small and medium-sized businesses involved in procurements. Small and medium-sized businesses made up more than 30% of centralized purchases of materials and equipment in 2017.

PRINCIPLES OF THE COMPANY’S WORK WITH SUPPLIERS:
- principle of transparency and openness
- principle of competitiveness
- principle of equality
- principle of confidentiality
- principle of awareness

24/7

THE COMPANY IS AVAILABLE TO COMMUNICATE WITH CUSTOMERS

20,100

T/DAY

PUMPING PER PETROL STATION

61.7%

PERCENTAGE OF POSITIVE REFERENCES TO THE COMPANY IN 2017

TNS STUDY

The research company TNS Russia has conducted a consumer survey since 2016 with the question 'Choose a gas station which you believe can be rated as 'excellent' in terms of the quality and availability of fuel'. In the survey conducted in the second half of 2017, the retail customers’ assessment of the quality and availability of fuel at the filling stations of the Gazpromneft network increased by 2 pp., compared with 2016. A total of 11% of Gazpromneft customers gave an 'excellent' rating for the quality and availability of fuel.
IMPORT SUBSTITUTION

THE COMPANY IS ACTIVELY ENGAGED IN IMPORT SUBSTITUTION AND SUPPORTING DOMESTIC MANUFACTURERS. GAZPROM NEFT HAS A TECHNOLOGICAL PARTNERSHIP AND IMPORT SUBSTITUTION DEPARTMENT THAT MONITORS THE RUSSIAN GOODS MARKET IN AN EFFORT TO FIND OPPORTUNITIES TO PHASE OUT IMPORTED EQUIPMENT AND MATERIALS IN FAVOUR OF COMPETITIVE RUSSIAN ANALOGUES.

Starting from 2015, the Company has identified 30 critical areas for import substitution for which it developed and is implementing Alternative Substitution Strategies to stimulate the Russian production of the required goods and services. The Company is also developing cooperation with stakeholders in order to more effectively meet the import substitution challenges.

 Gazprom Neft is the moderator of five expert groups within an interdepartmental working group that was formed to address the import substitution objectives set by the Ministry of Industry and Trade of the Russian Federation jointly with the Ministry of Energy of the Russian Federation in such areas as equipment for the development of hard-to-recover reserves, catalysts and additives, software, and technologies for the manufacturing of spare parts, tools, and accessories. In 2017, Gazprom Neft initiated the establishment of a working group to introduce a methodology for organizing and conducting the qualified selection and accreditation of equipment from foreign licensors and EPIC contractors. The group works to stimulate the process of accrediting domestic equipment manufacturers in an effort to increase the proportion of Russian equipment used in the process of modernizing oil refineries, oil and gas chemistry, and LNG from the current 30% to 80%. The group is to be set up in 2018.

 Gazprom Neft concluded strategic partnership agreements on import substitution in 2017 with Rosatom State Corporation, St. Petersburg State Maritime Technical University, United Shipbuilding Corporation, and Siemens AG and continued its activities in the joint working groups of GPB Bank and the GMS Group with Russian enterprises that manufacture import-substituting products. Significant results of the Company’s cooperation with other organizations in 2017 included the testing of the first Russian complex for offshore seismic operations at the Dolginsky local area as well as an alpha version of the hydraulic fracturing simulation software package created by a consortium led by the Moscow Institute of Physics and Technology as part of the development of the Bazhenov formation. Information is also presented in the ‘Regional policy and development of local communities’ chapter of this Report about import substitution in the regions where Gazprom Neft operates.

GOALS AND OBJECTIVES FOR 2018

EXPLORATION AND PRODUCTION

- Development of the resource base
- Maintaining the capability of achieving the strategic target for the production of 100 million TOE
- Managing the basic fund as well as geological and technical measures to comply with short-term restrictions with minimal negative long-term impact
- Maximizing financial performance indicators by increasing the share of high-margin hydrocarbon production
- Increasing production through the launch of new large-scale projects
- Maintaining production levels at mature fields as a result of technological solutions
- Improving drilling efficiency through the use of new technologies
- Hydrocarbon production in 2018 of 92.9 million tonnes of oil and oil and condensate of 63.3 million tonnes
- Ensuring that oil production in the Russian Federation grows at a pace no lower than that of 2017 (56 million tonnes)

OIL REFINING AND SALES

- Continue implementing projects to increase the depth of oil refining and environmental projects, including the continued construction of deep oil refining complexes at the Omsk and Moscow Oil Refineries and the Panance Oil Refinery in Serbia
- Implementing programmes to improve the efficiency of oil refining and reduce costs
- Maximizing sales of oil products manufactured through the Company’s own channels

IMPROVING PRODUCT QUALITY

Objectives of oil refineries:
- preparing and coordinating documentation for the production of fuel for RT brand jet engines in accordance with GOST 10227-86
- launching the production of diesel fuel per Technical Specifications 38.301-19-155-2009
- launching the production of unleaded petrol per GOST 32513-2013
- launching the production of TS-1 fuel planned for production after the launch of the Euro+ installation (combined oil refining unit)

Objectives of the product business units:
- the development, introduction, and replication of targeted automated processes
- an increase in the sales of ULSFO 0.1 ultra-low sulphur fuels
- an increase in the share of the sale of branded products compliance with the new planned MARPOL restrictions on the sulphur content in marine fuels (no more than 0.5% in international waters and 0.1% in emission control zones)
- the development of premium high-margin greases by Gazpromneft Grease
- an expansion in the range of synthetic oils through the development of formulas for key products with a focus on the use of internal base oil resources
- maintaining and strengthening the Company’s technological leadership in the introduction of innovative technologies in the production of bituminous materials
- preserving the Company’s market share in the volume of bitumen materials and premium bitumen production given the enhanced requirements for the quality of bitumen produced on CIS markets
SUSTAINABLE DEVELOPMENT STRATEGY

Sustainable development and corporate social responsibility principles are integrated into Gazprom Neft’s strategy, decision-making processes, and operational activities.
MANAGEMENT APPROACH

VALUE CHAIN

CREATING VALUE FOR STAKEHOLDERS

2017 MILESTONES

SOCIETY

- Providing high-quality fuel
- Responsible production: preserving the environment and biodiversity

SHAREHOLDERS AND INVESTORS

- Long-term growth in the Company’s value
- A high level of dividend yield

CONSUMERS AND CUSTOMERS

Regular availability and the stable provision of petroleum products with excellent consumer and environmental attributes

STAFF

- Stable jobs
- A dignified compensation package
- Social support
- Ample opportunities for professional growth

GOVERNMENT

- Ensuring energy security
- Development to economic development
- Tax payments
- Local development of the Russian oil and gas industry

REGIONS OF OPERATION AND LOCAL COMMUNITIES

- Contribution to the socioeconomic stability of the region
- Development of local production and suppliers
- Tax payments
- Creation of jobs and environmental conservation programmes
- Improving the quality of life of local communities
- Promoting growth in social activity and social entrepreneurship

THE COMPANY BELIEVES THAT SUSTAINABLE GROWTH IN BUSINESS AND THE PROSPERITY OF THE SOCIETY IN WHICH IT OPERATES ARE INEXTRICABLY LINKED. IN ACHIEVING ITS STRATEGIC GOALS, GAZPROM NEFT STRIVES TO CREATE VALUE FOR STAKEHOLDERS AT EACH STAGE OF ITS ACTIVITIES AND TO CONTRIBUTE TO THE COUNTRY’S SOCIOECONOMIC DEVELOPMENT.

ADVANTAGES OF THE BUSINESS MODEL

A BALANCED PORTFOLIO OF PRODUCTION ASSETS

The Company is able to meet the needs of the oil and gas market by increasing hydrocarbon production each year. Large-scale development and the introduction of innovations facilitate the growth in output.

A balanced project portfolio helps to effectively manage production in rapidly changing market conditions.

MODERN AND EFFICIENT OIL REFINERIES IN RUSSIA AND ABROAD

An advantageous location, modernized production facilities, and ongoing projects to improve operational efficiency enable the Company to maintain its position as an industry leader in refining efficiency and meet the needs of the domestic market.

Modernization programs not only improve the quality of products, but also improve the environmental performance of motor fuels and minimize the impact of refineries on the environment.

DIRECT SALES NETWORK IN MOST RUSSIAN REGIONS AND TEN COUNTRIES

Having an extensive sales network in Russia and around the world helps the Company to maximize the margin from the sale of oil and petroleum products and provide products to a wide range of customers - from retail customers to major traders.

MANAGEMENT APPROACH

SUSTAINABLE DEVELOPMENT STRATEGY

AND TEN COUNTRIES

IN MOST RUSSIAN REGIONS

DIRECT SALES NETWORK

INVESTMENT IN ENVIRONMENTAL PROTECTION

IN THE COMPANY’S VALUE

COMBINED INCOME OF SHAREHOLDERS IN 2017

ALL THE COMPANY’S OIL REFINERIES FULLY SWITCHED TO EURO-5 AHEAD OF SCHEDULE

INCREASED SERVICE LIFE OF MATURE FIELDS THROUGH THE USE OF MODERN TECHNOLOGIES

SOCIAL INVESTMENTS

INVESTMENT IN ENVIRONMENTAL PROTECTION

IN THE COMPANY’S VALUE

COMBINED INCOME OF SHAREHOLDERS IN 2017

ALL THE COMPANY’S OIL REFINERIES FULLY SWITCHED TO EURO-5 AHEAD OF SCHEDULE

INCREASED SERVICE LIFE OF MATURE FIELDS THROUGH THE USE OF MODERN TECHNOLOGIES

MANAGEMENT APPROACH

SUSTAINABLE DEVELOPMENT STRATEGY

AND TEN COUNTRIES

DIRECT SALES NETWORK IN MOST RUSSIAN REGIONS AND TEN COUNTRIES

Having an extensive sales network in Russia and around the world helps the Company to maximize the margin from the sale of oil and petroleum products and provide products to a wide range of customers - from retail customers to major traders.
SUSTAINABLE DEVELOPMENT PRIORITIES

THE COMPANY’S KEY SUSTAINABLE DEVELOPMENT PRIORITIES ARE TO MAXIMIZE PRODUCTION SAFETY, MITIGATE ANY ENVIRONMENTAL IMPACTS, DEVELOP STAFF, PROMOTE THE DEVELOPMENT OF REGIONS, AND TAKE STAKEHOLDERS’ INTERESTS INTO CONSIDERATION. THESE PRIORITIES AND THEIR RESPECTIVE GOALS ARE CONSISTENT WITH GLOBAL TRENDS AND SUSTAINABLE DEVELOPMENT GOALS, IN PARTICULAR THE SUSTAINABLE DEVELOPMENT GOALS (SDGS) ADOPTED BY THE UN IN 2015.

UN SUSTAINABLE DEVELOPMENT GOALS

SUSTAINABLE DEVELOPMENT GOALS OF GAZPROM NEFT AND THE UN SDG

Economy and manufacturing

COMPANY’S GOALS:

- attaining business targets: 100 mn TOE – production volume by 2025, 40 mn t of oil – oil refining volume in Russia, 95% – oil refining depth, 100% – products made by the Company’s oil refineries and sold through its own distribution channels by 2025
- enhancing the efficiency of core activities
- developing and introducing innovations

COMPANY’S ACTIVITIES:

- development of fields in Russia and abroad
- modernization of oil refining facilities and enhancing the efficiency of their operations
- introducing innovative technologies that increase the service life of mature fields and develop hard-to-recover oil reserves while increasing the depth of oil refining
- boosting labour productivity
- developing the sales network for business and end consumers
- improving the quality of products
**Industrial safety**

**COMPANY’S GOALS:**
- increasing the level of industrial and occupational safety and reducing the rate of injuries, accidents, and occupational diseases
- mitigating the man-made burden and maintaining a favourable natural environment and human habitat
- preventing environmental damage from business activities
- the sustainable use, restoration, and protection of natural resources and the preservation of biodiversity
- introducing best practices in environmental safety
- energy conservation and energy efficiency

**COMPANY’S ACTIVITIES:**
- continuous improvements to industrial safety methods
- establishment and development of a safety culture at the Company
- protection of the atmosphere and the sustainable use and protection of water resources
- waste management and the protection of land resources
- energy conservation and energy efficiency
- implementation of biodiversity conservation programmes
- enhanced industrial safety levels and the prevention of emergency situations
- modernization of emergency protection systems
- ensuring safe working conditions
- implementation of medical preventive programs and support for a healthy lifestyle

**Social development**

**COMPANY’S GOALS:**
- development of the Company’s human resources
- support for local communities in the regions where the Company operates and assistance with the socioeconomic development of regions

**COMPANY’S ACTIVITIES:**
- ensuring competitive remuneration and a social package for employees
- assessment, development, and training of staff
- establishment of a talent pool
- development of internal communications and a corporate culture
- support for the development of social infrastructure in the regions where the Company operates
- development of human capital in the regions and promoting increased social activism
- introduction of leading social practices
- development of cooperation with stakeholders

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**Gazprom Neft actively cooperates with key stakeholders when designing and implementing its sustainable development strategy, which enables the Company to improve the efficiency of its social and environmental activities and to achieve comprehensive and long-term positive changes.**

The Company’s management systems cover all areas of these activities and are structured in accordance with international standards. The sustainable development efficiency indicators are included in the system of key performance indicators (KPIs) of Gazprom Neft managers and employees.
The standards and mechanisms of Gazprom Neft’s corporate governance system enable the Company to observe sustainable development principles at all levels of operations – from planning the corporate strategy to solving daily business tasks. The Company’s corporate governance system is one of the key factors in the continued growth of Gazprom Neft.
**CORPORATE GOVERNANCE**

GAZPROM NEFT’S CORPORATE GOVERNANCE SYSTEM ENABLES THE COMPANY TO ADHERE TO THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT AT ALL STAGES – FROM DEVELOPING A CORPORATE STRATEGY TO OPERATING ACTIVITIES.

The Company’s corporate governance system complies with the standards and requirements of Russian legislation, the Gazprom Neft Charter, and its own internal standards. To this end, Gazprom Neft also focuses on the best global experience and most successful practices.

The principles and rules of the corporate governance system are enshrined in the Corporate Code and the Code of Corporate Governance Code.

**Management efficiency**

The Company constantly makes improvements to its corporate governance system and is committed to enhancing its efficiency. The Board of Directors reviews information about results on an annual basis.

**Main initiatives of 2017:**

- The ‘Shareholder User Account’ online service was established.
- The practice of reviewing the Company’s key risks by the Board of Directors was introduced.
- An external expert conducted an external independent assessment of the quality of internal audit activities and submitted the results to the Audit Committee.
- The fundamental standard ‘Regulation on Corporate Procedures for Major Transactions and Related Party Transactions’ was approved.
- The Board of Directors approved the External Audit Policy as well as updated versions of the Internal Control Policy, the Regulation on the Internal Audit Department, the Internal Audit Policy, the Regulation on Insider Information, and the Regulation on Information Policy.
- The work of the committees of the Board of Directors was scaled up.

**SUSTAINABILITY MANAGEMENT AND STAKEHOLDER ENGAGEMENT**

**STAGES – FROM THE COMPANY’S FUNDAMENTAL STANDARDS TO THE COMPANY’S CORPORATE GOVERNANCE SYSTEM ENABLES THE COMPANY TO ADHERE TO THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT AT ALL STAGES – FROM DEVELOPING A CORPORATE STRATEGY TO OPERATING ACTIVITIES.**

**STRUCTURE OF GOVERNING AND SUPERVISORY BODIES OF GAZPROM NEFT PJSC**

- **General Meeting of Shareholders**
  - The supreme governing body whose purpose includes the most significant issues concerning the Company’s activities.

- **Board of Directors**
  - Performs the general management of the Company’s operation, determines the Company’s strategy, policy and core operating principles.
  - Subordinates to the General Meeting of Shareholders and acts in the interests of all shareholders.

- **Executive bodies**
  - Manage the Company’s day-to-day operations and are subordinate to the General Meeting of Shareholders and the Board of Directors.

- **Management Board**

- **Secretary of the Board of Directors**
  - Handles effective regular interaction with shareholders and the coordination of the Company’s actions to protect the rights and interests of shareholders, and also supports the effective work of the Board of Directors.

- **Audit Committee**
  - An elective body that exercises control over the Company’s financial and economic activities.
  - Evaluates the effectiveness of the human resources policy and remuneration system, and makes recommendations for selecting candidates for the Board of Directors, and conducts an evaluation of the effectiveness of the Board of Directors’ activities.

- **Internal Audit Department**
  - Provides the Board of Directors with independent audit of financial and economic activities, risk management, and internal control processes.
ACTIVITIES OF THE BOARD OF DIRECTORS

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MEETINGS
OF THE BOARD OF DIRECTORS
IN 2017

The Board of Directors handles the day-to-day management of the Company’s activities. As part of its purview, the Board of Directors determines the strategy, policies, and main principles of the Company’s operations, including its investments and borrowings, risk management, and the management of property and other activities, and also monitors their implementation.

The Board of Directors includes 13 people: 10 non-executive directors who represent the interests of the controlling shareholder – Gazprom PJSC, two independent directors, and the Company’s CEO. Gazprom Neft is guided by the independence criteria that are enshrined in the Code of Corporate Governance of the Central Bank of the Russian Federation. Gazprom Neft ensures the members of the Board of Directors are elected via a transparent procedure. The Board of Directors is balanced insofar as its members possess the key skills that are essential for effective work. The members of the Board of Directors have skills in accounting, strategic management, corporate governance, corporate finance, and risk management as well as industry-based experience and knowledge. When performing their functions, Board members actively interact with the Company’s management, structural units, the registrar, and the auditor.

The existing structure of the Board of Directors provides an appropriate level of independence from the Company’s management, which helps to ensure the proper monitoring of its work.

The Management Board and the CEO – the Company’s executive bodies – are accountable to the Board of Directors and the General Shareholders Meeting. The CEO of Gazprom Neft is Alexander Dyukov.

IN 2017, THE BOARD OF DIRECTORS CONSIDERED THE FOLLOWING MATTERS CONCERNING SUSTAINABLE DEVELOPMENT:

- the implementation of the Gazprom Neft PJSC Development Strategy until 2025
- the Gazprom Neft PJSC Offshore Development Programme
- the Gazprom Neft PJSC Innovative Development Programme until 2025
- the risk management system at Gazprom Neft PJSC and the results of an assessment and updating of key risks based on the results of 2016 and the first half of 2017
- plans for the development of catalytic production and meeting the needs of the Gazprom Group
- target environmental indicators of Gazprom Neft PJSC for 2017-2019
- the implementation of the Programme for the Utilization and Improved Efficiency of the Use of Associated Petroleum Gas based on the results of the first half of 2017 and the long-term plans for 2018-2020
- the approval of the Policy on Annual Bonuses for Gazprom Neft Group employees

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ITEMS
CONSIDERED AT MEETINGS

13 PERSONS
BALANCE OF THE BOARD OF DIRECTORS
BY AGE

The analysis of the Board’s performance over the reporting period revealed improvements in the following areas: identification and prioritization of risks, interaction with executive management, balanced membership, and the functioning of the Board of Directors. In addition, one of the issues that was deemed to need further improvement based on the assessment results was the increased awareness of members of the Board of Directors, including the timely provision of information and improvements to communication channels with management and other individuals.

The Company has a clearly structured and objective Remuneration Programme for top and senior executives that ensures a connection between short-term goals and the amount of bonus payments. In addition to bonuses tied to short-term results, the Company has a motivation system based on the dynamics of the Company’s market capitalization over a three-year period.

The remuneration system for members of the Company’s Management Board includes the base portion of remuneration, which is determined on an individual basis and fixed in the employment contract, an annual bonus and a long-term incentive programme.

The amount of the annual bonus for key senior executives is dependent on the degree to which they fulfilled a fixed set of KPIs and business initiatives. The Company’s programme includes performance indicators with respect to the Company’s strategic goals, corporate, financial, and performance targets as well as indicators demonstrating compliance with industrial safety standards.

In addition to the annual bonus, Gazprom Neft employs a long-term incentive programme based on the dynamics of the Company’s market capitalization over a three-year period. Members of the Management Board are not paid any additional remuneration for work in the management bodies of Gazprom Neft or its subsidiaries. Management Board members received total income of RUB 1.285 billion in 2017. Payments include work remuneration for the reporting period, taxes and other mandatory payments to relevant budgets and extra-budgetary funds in the amount of RUB 303.37 million in remuneration was paid to members of the Board of Directors in 2017 (remuneration includes personal income tax). Members of the Board of Directors did not receive compensation for expenses related to their participation on the Board of Directors in 2017.
INFORMATION DISCLOSURE

THE CORE PRINCIPLES OF THE GAZPROM NEFT INFORMATION POLICY ARE:

- the regular, consistent, and prompt provision of information
- ensuring all stakeholders have the opportunity for equal, free, and easy access to information disclosed by the Company
- the objectivity, accuracy, completeness, and comparability of all disclosed data
- the neutrality of information, i.e. eliminating the possibility of the preferential satisfaction of the interests of one group over those of another
- maintaining a reasonable balance between the Company’s transparency and its commercial interests

Gazprom Neft strives to ensure a high level of information openness and transparency. The Company promptly and regularly discloses up-to-date information about its activities, including information about:

- the structure of equity capital
- members of the Board of Directors and members of the Management Board
- the remuneration structure for members of the Board of Directors and the Management Board
- all the main forms of financial statements prepared in accordance with IFRS and RAS
- related party transactions
- controlled organizations
- information to be disclosed in the forms envisaged by existing legislation and the Company’s internal documents, including the annual reports of Gazprom Neft and others. The Company also publishes annual reports on sustainable development in accordance with the best global practices.

The Company discloses balanced and objective information and does not avoid disclosing negative information about itself.

INFORMATION POLICY

The Regulation on the Information Policy of Gazprom Neft PJSC is the main document governing the disclosure of information and information interaction between the Company and its stakeholders. In 2017, the Board of Directors approved a new version of the Regulation on the Information Policy of Gazprom Neft PJSC. The Company’s Information Policy has been harmonized with the standards of the Federal Law “On Joint-Stock Companies” and the Code of Corporate Governance.

The full text of the document is available on the Company’s website.

OBSERVANCE OF HUMAN RIGHTS

THE COMPANY SUBSCRIBES TO THE FOLLOWING GENERAL PRINCIPLES:

- The UN Global Compact on Human Rights, Labour Relations, Anti-Corruption, and Environmental Protection
- The Universal Declaration of Human Rights
- The International Labour Organisation’s Declaration on Fundamental Principles and Rights at Work
- The Social Charter of Russian Business of the Russian Union of Industrialists and Entrepreneurs

Gazprom Neft strictly observes human rights and does not permit any discrimination based on nationality, gender, origin, age, or other grounds, recognizes the right of workers to form public associations and organizations to protect their rights and interests, and guarantees respect for the rights of indigenous peoples when organizing production operations in areas where they reside.

The Company’s principles in the observance of human rights are reflected in its fundamental corporate documents and include:

- Code of Corporate Governance
- Corporate Conduct Code
- Anti-Fraud and Anti-Corruption Policy
- Industrial, Environmental, and Occupational Safety and Civil Defence Policy
- HR Management Policy
- Regional Policy Concept
- Information Policy
**ETHICS AND ANTI-CORRUPTION ACTIVITIES**

**REGULATORY FRAMEWORK FOR THE COMPANY’S ANTI-CORRUPTION ACTIVITIES:**

- Legislation of the Russian Federation
- Code of Corporate Governance of Gazprom Neft
- Anti-Fraud and Anti-Corruption Policy

The Company has zero tolerance for any acts of corruption and fraud. The Company’s primary regulatory document in this regard is the Anti-Corruption and Anti-Fraud Policy — it includes the main requirements for implementing business processes in order to mitigate corruption risks and also prescribes anti-corruption rules and standards for all the Company’s employees.

The Company’s Deputy CEO for Security is responsible for anti-fraud and anti-corruption matters.

Gazprom Neft has developed an anti-corruption compliance system that includes a number of anti-corruption measures at all levels of internal corporate regulation:

- checking of existing and hired employees for their affiliation to third-party commercial structures and whether there might be a conflict of interest
- a hotline to counter fraud, corruption, and other violations of the Corporate Code, which allows for the anonymous reporting of violations within the Corporate Centre and at subsidiaries
- conducting official investigations into any violations that are identified and holding the guilty parties responsible

The Company has developed the ‘Combating Fraud and Corruption’ online course, which each current and newly hired Gazprom Neft employee must take.

The Company’s Deputy CEO for Security is responsible for anti-fraud and anti-corruption matters.

**INTERNAL CONTROL AND RISK MANAGEMENT**

**THE INTERNAL CONTROL POLICY OF GAZPROM NEFT PJSC, WHICH WAS APPROVED BY THE BOARD OF DIRECTORS IN FEBRUARY 2017, TOOK EFFECT AT THE COMPANY DURING THE REPORTING PERIOD. THE POLICY IS NOW THE MAIN DOCUMENT USED TO DEFINE THE GOALS, OBJECTIVES, COMPONENTS, AND PRINCIPLES FOR THE ORGANIZATION AND FUNCTIONING OF THE COMPANY’S INTERNAL CONTROL SYSTEM:**

The Company employs an internal control system that ensures:

- the minimization of risks
- the development, introduction, proper implementation, monitoring, and improvement of control procedures at all levels of the Company’s operations and management
- the possibility of the Company’s operations as well as the most effective performance of the Company’s activities, its sustainability, and development prospects, including the Company’s timely adaptation to changes in the internal or external environment
- a uniform and systematic methodological approach as well as high-quality information and analytical support for the management decision-making process at the Company
- the timely resolution of conflicts of interest that arise in the process of the Company’s activities

**SUBJECTS OF INTERNAL CONTROL AT GAZPROM NEFT**

The Board of Directors determines the principles and approaches used for the organization and operation of the Company’s internal control system (ICS) and conducts a high-level analysis and assessment of its effectiveness, including an annual review of the effectiveness of the ICS.

The Audit Committee prepares recommendations for the Board of Directors on matters concerning the organization, operation, effectiveness assessment, and improvement of the ICS, analyses the Company’s reporting and internal audit results for compliance with the legislation of the Russian Federation, IFRS, RAS, and other regulatory legal acts, and considers any established or alleged unethical practices by the Company’s employees.

The Company’s executive bodies and senior management are responsible for the effective operation of the ICS, introduce a culture of internal control, and support high ethical standards at all levels of the Company’s activities, and conduct a regular performance assessment of the Company’s employees and train staff on internal control.

The heads of structural units and the Company as a whole perform functions that aim to develop, document, introduce, fulfill, monitor (self-assessment), and improve control procedures within the framework of their relevant competencies and in the zone of their responsibility and also timely inform supervisors about incidents when it is impossible to perform control procedures for any reason and/or changes must be made to control procedures due to changes to the internal and external conditions of the Company’s operation.

The Audit Committee monitors the compilation of reliable financial statements and other information about the Company’s financial and business activities and property status.

The Internal Audit Department conducts an independent and objective assessment of the effective organization and functioning of the ICS and risk management, drafts and monitors the implementation of recommendations to eliminate shortcomings identified during audits, reports on the results of the ICS assessment, and offers suggestions for its improvement to the Company’s Audit Committee and executive bodies.

Information concerning the effectiveness of the internal control system is provided to shareholders within the Company’s annual report and also to the Company’s Board of Directors and executive bodies as part of the Gazprom Neft Internal Audit Department’s report on its performance results.
The Company employs a Risk Management Policy that describes the goals and principles of risk management. Gazprom Neft’s goal in risk management is to improve the effectiveness of management decisions by analysing the risks that accompany them and to maximize the effectiveness of risk management measures when implementing decisions that are adopted.

Risk management is managed using the appropriate tools that are integrated into key corporate processes. Responsibility for risk management and preparing reporting on risk management is determined in accordance with the system of linear and functional management.

An owner is appointed for each risk and is responsible for managing it. Risk coordinators who promote and support the use of corporate risk management principles are selected from among managers at the level of each function and key business process.

This approach makes it possible to identify areas of responsibility for risk management and to monitor risks at all levels of the Company’s management as well as to ensure the development of targeted plans for responding to significant risks at each subsidiary as well as Gazprom Neft as a whole.

In order to achieve this goal, the Company has developed and employs a unified approach to the risk management process, which forms the Integrated Risk Management System (IRMS) in conjunction with standardized risk analysis tools and methods.

The Company continuously expands the methodological framework of the IRMS, including general recommendations on the quantitative risk assessment of project and business planning as well as detailed methods for assessing the most substantial risks.

As of the end of 2017, the IRMS extended to all Gazprom Neft’s core assets. When starting new projects or acquiring existing assets, they are always incorporated into the IRMS.

FLOWCHART OF RISK MANAGEMENT PROCESS AT THE GAZPROM NEFT GROUP

- Identification (revision) of risks (at least once a year)
- Qualitative and quantitative risk assessment (at least once a year)
- Development of management measures (at least once a year)
- Monitoring of measures (at least once a quarter)

LEVELS OF FINANCIAL IMPACT OF RISK AND DISTRIBUTION OF POWERS WITHIN THE IRMS

- Key Risks: The Management Board adopts key decisions and assesses management results. Units directly manage this risk category.
- Risks of Units: Management and monitoring at the Unit level.
- Risks of Subsidiaries: Management and monitoring at the subsidiary level.

The risk management system covers risks of a social and environmental nature, among other areas.

MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS

Risk description

- Risks associated with human resources
- Risks associated with industrial safety
- Environmental risks

Risk management measures

- The company offers a safe working environment and competitive salaries, and also provides training for employees on specially created programmes. In addition, the Company is improving its recruitment procedures and implementing measures that aim to reduce staff turnover and facilitate the personal development of its employees.
- In an effort to mitigate these risks, the Company is implementing a large-scale integrated programme that aims to ensure safe working conditions for employees and the safety of production processes. This programme is consistent with best practices around the world and is based on enhancing the role of production managers at all levels as regards ensuring work safety.
- The Company effectively applies the experience of international oil companies while adapting it to the conditions of its own production sites. In particular, the Company is introducing behavioural safety audits and conducts internal investigations of incidents in order to determine their causes and prevent them from recurring. Gazprom Neft is implementing its Transport Safety Programme, has introduced risk assessments for high-risk work, and is organizing large-scale educational and training sessions and seminars for all levels of the organization.
- The safety management system at production facilities is certified for compliance with the international standard OHSAS 18001, continuous improvements are being made, and priorities are being selected in this system for the coming years.
- Gazprom Neft’s production activities are fraught with the potential risk of an excessive environmental impact, which could lead to civil liability and the need for work to eliminate any damage caused. The Company is fully aware of its responsibility to society for creating safe working conditions and preserving a favourable environment, constantly monitors its activities in order to comply with the appropriate environmental standards, and is implementing environmental protection programmes. Costs associated with the observation of environmental requirements or obligations may increase in the future.
**GAZPROM NEFT’S KEY STAKEHOLDERS:**
- shareholders and investors
- employees
- consumers
- the authorities
- suppliers
- local communities
- public organizations

**SHARhEEDERS and INVESTORS**

Gazprom PJSC is the largest shareholder in the Company with a 95.68% stake of its common shares. The rest of the common shares (4.32%) are distributed among minority shareholders, including both individuals and legal entities.

The procedures used to prepare for and hold General Meetings of Shareholders enable shareholders to review the necessary information, easily register as a participant in a General Meeting of Shareholders, and take part in voting. The Regulation on the General Meeting of Shareholders guarantees shareholders’ equal opportunity to express their opinion and ask any questions they might have (including to members of the Company’s Management Board).

The Company held its annual general meeting as well as an extraordinary general meeting of shareholders in 2017. At the annual meeting, shareholders decided to pay out dividends in the amount of RUB 50.64 billion at a rate of RUB 10.68 per common share – the highest dividends ever paid in the Company’s history. At the extraordinary meeting in December 2017, shareholders decided to pay interim dividends for the first 9 months of 2017 in the amount of RUB 47.61 billion (RUB 10.0 per common share).

**FEDEral, REGIONAL, AND LOCAL GOVERNMENT AUTHORITIES**

Interaction with the state and local government authorities is based on the principles of an open dialogue and a partnership in creating sustainable development challenges in the regions where the Company operates as a whole. Gazprom Neft experts are actively involved in the development and improvement of federal and regional legislation as well as the regulatory framework in the industry.

Meetings on a wide range of topical issues affecting bilateral cooperation in key regions where Gazprom Neft has a presence were introduced into the Company’s practices in 2017 as a new focus for cooperation. The Company actively involves representatives of the state and local government authorities in the implementation of its social projects and corporate events. The Company implemented a number of joint educational projects aimed at promoting environmental topics as part of the Year of Ecology programme in 2017.

**EMPLOyees**

The Company’s interaction with employees is governed by internal regulations, collective agreements, and the Corporate Code. In following the principles of social partnership, the Company actively interacts with trade union organizations representing the interests of workers.

Gazprom Neft works continuously to improve its internal corporate communications system with special attention paid to feedback tools and studies of the social and psychological climate while also developing new promising tools for a dialogue.

To attract potential employees – skilled and motivated professionals – Gazprom Neft develops its employer value proposition as well as cooperation with higher and secondary educational institutions.

**SUSTAINABILITY MANAGEMENT AND STAKEHOLDER ENGAGEMENT**

Gazprom Neft’s stakeholder engagement system aims to achieve sustainable development goals and harmonize the interests of all stakeholders. Engagement with all stakeholders is based on the principles of mutual respect, constructive cooperation, the information transparency of the Company’s activities, regular interaction, and compliance with the Company’s obligations.

The Company’s Corporate Conduct Code, Code of Corporate Governance, and Information Policy form the regulatory framework that governs the principles of the Company’s interaction with stakeholders.

The Company develops engagement with key stakeholders on a wide range of important issues. The agenda of the dialogue is formed based on the Company’s continuous analysis of the internal and external social environment while taking into account the strategic guidelines and priorities of stakeholders.

**Key issues:**
- remuneration and social support for employees
- labour relations
- safe working conditions
- employee training and development
- the Company’s involvement in the development of local communities
SUSTAINABILITY MANAGEMENT AND STAKEHOLDER ENGAGEMENT

ENGAGEMENT MECHANISMS:
- competitive measures
- contracts and agreements
- the Company’s counterparty assessment system
- business meetings and Company forums
- external conferences and exhibitions
- corporate website, in particular the special section http://sustainability.gazpromneft.ru

KEY ISSUES:
- observance of mutual obligations
- import substitution and support for domestic manufacturers
- transparency, openness, and competitiveness in the selection of contractors
- observance of business ethics and anti-corruption

For more on the Company’s interaction with suppliers and the results of such activities, see the “Sustainable Development” chapter in the Official Corporate Report of the Company’s Operations for 2017, p. 59

For more on the Company’s interaction with customers and the results of such activities, see the “Customer” chapter, p. 4

Suppliers and Contractors

Gazprom Neft’s interaction with its counterparties is based on the principles of ethical business practices, building long-term relationships, and market pricing.

Gazprom Neft is committed to providing comprehensive support to domestic producers in helping them to develop new types of products and technologies and promotes the development of a national production base and network of suppliers. When choosing services and equipment to implement its projects with all other conditions being equal, the Company gives preference to goods, work, and services of Russian origin.

The Company is actively involved in the work of inter-industry groups to support initiatives associated with the establishment of joint ventures and the localization of production capacity as well as the R&D of leading foreign producers working in Russia.

Gazprom Neft cooperates with contractors on issues concerning improvements to industrial safety. Contractors are included in the system of corporate safety training and take part in specialized corporate events.

CUSTOMERS

Gazprom Neft builds direct and long-term relations with its customers. The Company offers its clients individual customer service thanks to a deep understanding of their key needs. Gazprom Neft continues to develop a dialogue with consumers based on the principles of mutual respect, provides timely and responsible information about its products and services, make improvements to the system for the handling of complaints and claims, and examine the level of satisfaction among its private and commercial customers with the quality of its products and services.

Digital Communications with Clients

The Company actively developed a multi-channel service for customers of the Gazpromneft filling station network in 2017. Gazprom Neft became the first player on the Russian retail fuel market that develops digital channels of communication with customers and the only one that is available to clients 24/7 in various communication channels, including digital ones. Gazprom Neft launched a mobile customer app that serves as a source of feedback thanks to its new functionality. In 2017, more than 2 million customers provided feedback following visits to the filling station and 90% of them gave the highest possible score — 5 points.

Online chat rooms were launched in the Gazpromneft filling station app as well as in the Telegram and Viber messenger services. The basic questions asked by the services are tailored using a bot computer program, while complex customer cases are forwarded to the operator of the Unified Customer Support Centre.

Local Communities in the Regions of the Company’s Operations

The Company develops constructive engagement with local communities to support the socioeconomic development of the regions, create a favourable environment for the activities of Gazprom Neft, and preserve cultural traditions as well as the environment of such regions.

In an effort to enhance the effectiveness of regional social programmes, the Company maintains an active dialogue with representatives of stakeholders by involving them in the implementation of projects. In particular, it holds consultations with representatives of the government authorities, opinion leaders, non-profit organizations, and urban activists, among others, as part of the development of regional social investment programmes.

When social facilities are built using Gazprom Neft’s funds in the regions, the projects are continuously monitored by local and regional authorities and reports are given at joint meetings. The Company sends reports on the implementation of social projects at the request of municipal administrations. In addition, regional governments are informed per socioeconomic agreements that the Company has signed.

During the implementation of social projects, the Company actively cooperates with local and regional media and provides any information that is needed. Journalists usually attend working meetings devoted to the implementation of social projects.

Summary annual reports that reflect information about the actual implementation of programmes are prepared as part of regional social investment programme.

Substantive and financial reporting is provided to the Company as part of social initiative grant competitions based on the results of the implementation of the winning projects.
The Company is involved in different public and expert organizations, in particular the activities of the Russian Union of Industrialists and Entrepreneurs and the Chamber of Commerce and Industry of the Russian Federation, among others. These activities aim to promote the sustainable development of the country and the industry.

Gazprom Neft also lists experts from public organizations to develop and implement social and environmental projects as well as to discuss the Company’s activities at roundtables and conferences in the regions.

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**PUBLIC ORGANIZATIONS**

**Engagement mechanisms:**
- conferences and exhibitions
- roundtables
- joint implementation of social projects
- reporting

**Key issues:**
- industrial safety of the Company’s activities and nature conservation measures
- the Company’s involvement in regional development
- information openness and transparency of activities

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**‘Green Patrol’ at the Moscow Oil Refinery**

The construction of the Biosphera treatment facilities was completed at the Moscow Oil Refinery in 2017. Numerous stakeholders visited the refinery to assess its current level of environmental safety: leaders from the Moscow government and the country’s environmental authorities as well as journalists from leading media outlets. Experts from the national environmental organization ‘Green Patrol’ paid two visits to the refinery. The specialists took samples of treated wastewater from the Moscow Oil Refinery both before and after the launch of the Biosphera facilities.

“We were pleasantly surprised by the Moscow Oil Refinery. Such purification technologies with such high efficiency have never existed before in Russian oil refining practices. We analyse the samples we took and can tentatively confirm all the attributes declared by the refinery”.

Andrey Nagibin
Chairman of the Management Board of ‘Green Patrol’ and a member of the public council of the Federal Supervisory Natural Resources Management Service

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**CORPORATE CULTURE**

**VALUES OF GAZPROM NEFT**

- Safety and a Green Focus. Our priority is the safety of people, the environment, and the Company’s property.
- Integrity. We are open and honest with respect for one another, the Company, our partners, competitors, and the public. We practice what we preach.
- Leadership. We take initiative and strive to be the best in everything we do; we set ambitious goals and bear personal responsibility for the result.
- Winning mentality. We are positive, believe in our success, are not afraid of difficulties, and develop skills to effectively meet major challenges.
- Responsible owner’s mentality. We are careful with the Company’s assets and resources, and care about safety and augmentation.
- Mutual respect and trust. We respect ourselves and others, solve complex problems together, trust each other’s professionalism, and help our colleagues to achieve success.

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**Employee engagement rate in 2017**

74% (2 percentage points higher than in 2016)

In 2017, took part in the study

27,316 EMPLOYEES

Based on the results of a social and psychological climate study, Gazprom Neft developed and implemented a corrective action plan to improve the social and psychological climate and boost the involvement of employees at the Company.

One of the key feedback tools that the Company can use to assess how satisfied employees are with different aspects of their work and identify the Company’s strengths as an employer and areas for improvement is the social and psychological climate study.

In 2017, 27,316 employees from 54 subsidiaries took part in the study. In addition, some 2,500 employees took part in focus groups and 249 managers were interviewed.

A new format of the report was prepared as part of the study to provide an opportunity to analyse data on various indicators of target audiences throughout the Company, a subsidiary, or unit. An additional analysis of data was conducted on professional burnout, groups of employees were identified, and recommendations on ways to prevent this phenomenon were generated.

The level of involvement of employees increased by 2 percentage points compared to 2016 and amounted to 74%.

**Key drivers of involvement:**
- trust in top management
- commitment to the Company
- a high level of awareness

The staff training system is among the important factors that contributed to the greater involvement of employees in the reporting year – estimates for this parameter increased significantly over the past year.
CORPORATE COMMUNICATIONS SYSTEM

INTERNAL CORPORATE COMMUNICATIONS

| VIEWS OF THE CORPORATE PORTAL EACH WEEK | 400,000 |
| EMPLOYEES CITE A GOOD LEVEL OF AWARENESS ABOUT THE COMPANY’S AFFAIRS | 82% |

The internal corporate communications system supports the corporate culture and dialogue with employees. In order for the communications system to reach 100% of employees, the Company employs a broad range of communications formats and tools that allow for promptly providing information, managing this process, and trust from employees.

The main focus of Gazprom Neft’s corporate communications in 2017 were identified based on the strategic priorities of corporate communications: safety and concern for the environment, technical effectiveness and innovativeness, efficiency and the employer brand.

Goals of internal communications in 2017:
- reaching all the Company’s employees with corporate media and other internal communications tools
- integrating new assets and projects into Gazprom Neft’s communications system
- implementing a special internal communications programme with a focus on ‘Technological Leadership’, ‘Environmental Responsibility and Safe Working Conditions’, ‘Employer brand’, and ‘Efficiency’
- communication support for measures to correct the social and psychological climate and enhance the involvement of employees
- synchronizing the messages of internal and external communications
- development of corporate media formats

Results of this work:
- 21 issues of Neftegazeta were issued
- 10 issues of the Siberian Oil magazine and the final enclosure in the 'Oil. Just the Complex' series were released
- the Siberian Oil magazine is an effective platform for conveying the Company’s key priorities
- the Company’s employees have high praise for the internal communications system

According to the results of a social and psychological climate study, 85% of employees note that they receive sufficient information about the Company’s activities, while 82% are well informed about the current issues of their enterprises.

INTERNAL CORPORATE COMMUNICATION TOOLS:
- the unified system of intranet portals of Gazprom Neft enterprises
- corporate media (Siberian Oil corporate magazine, the Neftegazeta periodical, and corporate radio stations)
- meetings between management and the workforce
- a system of television screens
- discussion platforms (conferences, roundtables)
- a feedback system

CORPORATE PORTAL

The Company continued work to improve the corporate portal in 2017.

Based on the results of a social and psychological climate study at the Company in 2017, the corporate portal ranks first in a list of sources of information about the Company at the Corporate Centre.

THE KEY RESULTS
- 15% growth in the number of visitors to the portal
- >150,000 visits to special projects
- >600,000 views of the corporate centre portal each week

EXTERNAL COMMUNICATIONS

PUBLICATIONS

NUMBER OF TIMES THE COMPANY WAS MENTIONED BY THE MEDIA IN 2017

| 35,658 |
| 365,000 |

The corporate publication Neftegazeta was recognized as the ‘Publication of the Year’ at the international competition PR Proba Awards 2017.

The Company develops an external communications system that aims to build a dialogue with outside audiences, inform stakeholders about significant events in the Company’s activities, foster the reputation of Gazprom Neft, and promote its brand.

In 2017, the Company developed a long-term communications strategy and identified the key aspects of Gazprom Neft’s positioning in the information realm. The focus of the Company’s communications was determined based on an analysis of the annual reputation audit conducted in key regions where the Company operates.

The official website http://www.gazprom-neft.com is the Company’s key tool for disclosing information and feedback with external audiences. All requests received through the portal are analyzed and forwarded to the relevant departments of Gazprom Neft for further processing. The Gazprom Neft Press Service promptly provides comprehensive and detailed information about corporate projects and comments on significant events concerning the industry-wide media agenda at the request of media representatives.

Other important tools for external communications include the Gazprom Neft websites, which are united into a single integrated system, Gazprom Neft communities, Gazpromneft filling station networks, and the ‘Native Towns’ social investment programmes in the social networks Facebook, VKontakte, YouTube, and Instagram.

Gazprom Neft regularly holds press conferences and briefings attended by the Company’s senior management and leading national and industry-specific media outlets and organizes press tours of its production facilities for journalists.

During 2017, meetings were arranged for leading Russian and international media with Gazprom Neft Management Board Chairman Alexander Dyukov, Gazprom Neft First Deputy CEO Vadim Yakovlev, Director of the Company’s Research and Engineering Centre Mars Khasanov, Head of the Geological Exploration and Resource Base Development Directorate Alexey Vashkevich, and other senior managers.

SUBSCRIBERS TO GAZPROM NEFT SOCIAL MEDIA PAGES

365,000

Themes that generated the greatest interest among external audiences in 2017:
- the implementation of the Technology Strategy
- the recognition of the Bazhen project as a national project and its progressive development
- the completion of the modernization programme for Gazprom Neft refineries
- the discovery of the Neptune deposit in the Ayashsky licensed area on the shelf of the Sea of Okhotsk
- the commissioning of a gas plant at the Badra field in Iraq
- the start of construction on the deep conversion complex at the oil refinery of the Serbian asset NIS in Pančevo
- the completion of construction on the Biopharma modern treatment facilities at the Moscow Oil Refinery and the start of construction on a similar complex at the Omsk Oil Refinery

PRESS TOURS OF PRODUCTION FACILITIES

In 2017, the Company showed off the unique Downstream Efficiency Control Centre to media representatives and arranged a visit for members of the international media to the Prirazlomnaya platform.

Journalists also visited the northernmost continental oil field in Russia — the East Messoyakh field, viewed the infrastructure of the Novy Port asset, the Gates of the Arctic oil loading terminal, Gazprom Neft’s assets in Moscow and Omsk – the Moscow and Omsk Oil Refineries as well as the lubricants plant and industrial automation technopark in Omsk.
Employees are Gazprom Neft’s key asset and strategic partners in achieving its sustainable development goals. The Gazprom Neft team includes professionals with a high level of involvement who share the Company’s values. Taking care of their well-being, providing them with the maximum opportunities for development, and attracting and retaining the best employees is a top priority for Gazprom Neft.
HUMAN RESOURCE DEVELOPMENT

APPROACHES TO MANAGEMENT

THE GAZPROM NEFT HR MANAGEMENT POLICY SEeks TO MEET THE BUSINESS AND SUSTAINABLE DEVELOPMENT GOALS TAKING INTO ACCOUNT THE EXPECTATIONS OF STAKEHOLDERS (EMPLOYEES, SHAREHOLDERS, AND TRADE UNIONS).

REGULATORY FRAMEWORK FOR COMPANY-EMPLOYEE RELATIONS:

- Constitution of the Russian Federation
- Gazprom Neft Corporate Conduct Code
- Agreement between Russian associations of unions, Russian associations of employers, and the Russian Government
- Collective bargaining agreements

The Company has adopted an HR Management Strategy for the period until 2020. It supports the overall strategy of Gazprom Neft and aims to achieve the Company’s key goals by providing it with the required number of skilled and motivated employees in the present and the future. In order to meet the Company’s needs for skilled specialists in the regions where it operates, Gazprom Neft develops incentive and social support programmes for its staff, provides training and development for employees, and creates a talent pool.

Since 2016, Gazprom Neft has been implementing the ‘Rotation of production staff and process improvement’ initiative as part of which employees have the opportunity to develop in new areas at the Company. Gazprom Neft works with higher and specialized secondary educational institutions to create training programmes and specialized departments based on the Company’s needs, including to train specialists in rare professions (as part of the programmes ‘Development of offshore oil and gas fields’, ‘Geological fundamentals for modelling fields with hard-to-recover hydrocarbon reserves and the assessment of geological reservoirs’, and ‘Chemical reagents and hydraulic fracturing technologies’, among others).

Key areas of the HR Management Strategy:

- systematic recruitment and rotation of staff
- talent management, competency development, and training
- development of an incentive system and culture of engagement
- growth in productivity and organizational efficiency
- improved efficiency of the HR function

Gazprom Neft guarantees equal opportunities and does not discriminate based on nationality, sex, origin, age, or any other grounds. The qualifications and professional qualities of employees as well as the requirements of business serve as the basis for solutions to HR issues. The Company recognizes the lawful right of employees to voluntarily create associations to protect their rights and interests, including the right to form and join trade unions. The Company does not use child or forced labour.

The Company did not receive any appeals or complaints related to discrimination or a violation of human rights during the reporting period.

HR Enhances efficiency

In 2017, Gazprom Neft established the General Service Centre (GSC) for HR functions at the Company.

The GSC will handle administrative processes for the following functions: staff records management, reporting, staffing, and the administration of training contracts, among other things. The GSC will have a single call centre for employees on HR issues.

The GSC will help to enhance the efficiency of the Company’s HR specialists, who will be able to concentrate on processes with high added value while handing off operational functions to the GSC for execution. The Centre will set up offices in Nizhny Novgorod, Omsk, and St. Petersburg since these cities encompass the Company’s main time zones. In 2018, the GSC will start working with the Corporate Centre and five subsidiaries of Gazprom Neft. All enterprises will transition to a new model of HR work by 2020.

“The establishment of such centres is a world practice. Gazprom Neft could be described as a pioneer: we will be the first among vertically integrated companies in the Russian oil industry to introduce a system of HR service centres.”

Ksenia Poliayeva
Deputy CEO and Executive Director for Human Resources Management Services at Gazpromneft Business Service
GAZPROM NEFT EMPLOYED MORE THAN 67,800 PEOPLE IN 2017, WITH BLUE-COLLAR WORKERS MAKING UP 50% OF ITS STAFF, AND EXECUTIVES, SPECIALISTS, AND OFFICE EMPLOYEES MAKING UP THE OTHER 50%.

A total of 17,184 employees joined Gazprom Neft in the reporting year, while 16,073 people left the Company.

Staff numbers increased by almost 2% in 2017 compared with 2016, while the average staff numbers grew by 1.4%. The growth in staff numbers is due to an increase in the demand for staff as a result of changes in the production programmes of extractive assets, an increase in production volumes, and the expanded service areas of maintenance subsidiaries.

**STRUCTURE OF COMPANY STAFF BY CORE ACTIVITY AS OF 31 DECEMBER 2017 (PEOPLE)**

<table>
<thead>
<tr>
<th>Activity</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum product sales</td>
<td>14,247</td>
<td>15,985</td>
<td>17,280</td>
<td>18,902</td>
<td>20,547</td>
</tr>
<tr>
<td>Production</td>
<td>11,859</td>
<td>13,072</td>
<td>15,047</td>
<td>16,764</td>
<td>18,421</td>
</tr>
<tr>
<td>Multi-profile enterprises</td>
<td>5,353</td>
<td>5,969</td>
<td>6,270</td>
<td>6,864</td>
<td>7,619</td>
</tr>
<tr>
<td>Oil refining</td>
<td>4,067</td>
<td>4,612</td>
<td>5,029</td>
<td>6,083</td>
<td>6,652</td>
</tr>
<tr>
<td>Geological exploration services</td>
<td>879</td>
<td>879</td>
<td>879</td>
<td>879</td>
<td>879</td>
</tr>
<tr>
<td>Product subsidiaries</td>
<td>5,151</td>
<td>5,430</td>
<td>5,955</td>
<td>6,560</td>
<td>7,190</td>
</tr>
<tr>
<td>Research</td>
<td>347</td>
<td>359</td>
<td>373</td>
<td>400</td>
<td>420</td>
</tr>
</tbody>
</table>

**AVG STAFF NUMBERS BY GENDER (%)**

<table>
<thead>
<tr>
<th>Gender</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>45</td>
<td>41</td>
<td>40</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Men</td>
<td>55</td>
<td>59</td>
<td>60</td>
<td>59</td>
<td>58</td>
</tr>
</tbody>
</table>

**AVG STAFF NUMBERS BY AGE (%)**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>23</td>
<td>26</td>
<td>24</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>30–50</td>
<td>58</td>
<td>57</td>
<td>57</td>
<td>61</td>
<td>63</td>
</tr>
<tr>
<td>Over 50</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>18</td>
<td>16</td>
</tr>
</tbody>
</table>

**Turnover rate (%)**

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.9</td>
<td>16.6</td>
<td>16.2</td>
<td>15.2</td>
<td>15.1</td>
</tr>
</tbody>
</table>

**FULfilment of 2017 Goals and Objectives**

- **Enhance the Company’s appeal as the country’s best employer.**
  - **Goal fully achieved**
  - **Goal partially achieved**
  - **Goal not achieved**

- **Introduce the value proposition into the practice of working with employees and outside audiences.**
  - **Training of lower- and mid-level managers on non-financial incentive tools:**
    - A number of projects that aim to enhance the effectiveness of the remuneration system and, as a result, increase the loyalty, involvement, and productivity of employees.
  - **Integration of the value proposition into HR management processes and regular management practices:**
    - The value proposition is built into the processes of recruiting and hiring staff as well as the adaptation and training of managers.
    - The introductory block ‘Involving managers’ has been added to training on regular management practices for managers.
  - **Launch of a new career portal:**
    - In April 2017, a career portal was launched on www.gazpromneft.com/career.

- **Improve the quality and effectiveness of staff recruiting. Further develop the operating model for attracting external candidates and increase the number of subsidiaries that utilize the services of interregional and regional recruitment centres to 18.**
  - In 2017, a new recruitment model was introduced at the Corporate Centre and 27 subsidiaries.
  - Regional recruitment centres were opened in Noyabrsk and Omsk.

- **Enhance the professional level of the Company’s employees. Develop the corporate university.**
  - **Opening of new departments at the Corporate University:**
    - Experts and trainers at these departments include more than 1,000 managers and specialists of Gazprom Neft.
  - **Improve the quality of targeted programmes for managerial and professional development:**
    - Sessions on digital business transformation were held, modular targeted the ‘Partnership Management’ and ‘Leadership 3D’ programmes were launched, and a pilot project was held to provide personalized training on individual tracks for the development of employees and managers.
    - A total of 29 targeted educational programmes were held and attended by more than 14,000 employees of the Company and its partner organizations.
  - **Introduce a regular assessment of training effectiveness:**
    - An automated training questionnaire system was introduced on the knowledge portal via which more than 5,800 employees provided feedback. The average score was 90%. The Company developed a methodology and introduced an assessment of the quality of distance courses using NPS (loyalty indicator to the Corporate University’s educational programmes) and the average value of NPS in the distance courses was +54%.
  - **Support for the introduction of corporate programmes:**
    - In order to support the operations management system, the Corporate University opened the Production Efficiency Department. Training programmes, courses, and mobile apps were developed to the introduction of a unified standard in the work of managers. More than 800 executives attended the programmes.

- **Enhance the effectiveness of HR management functions.**
  - **Establish the General Service Centre at the Company for HR function transactional processes:**
    - A General Service Centre was established for HR function transactional processes – the HR Solutions Centre (HRSC). As part of the project, a model of the Centre’s organizational structure was developed, its IT infrastructure was deployed, a team of employees was put together, an investment budget was approved, and a schedule was created for subsidiaries to obtain their services at the Centre.
HUMAN RESOURCE DEVELOPMENT

RECRUITING AND RETAINING STAFF

GAZPROM NEFT IS AMONG THE COUNTRY’S BEST EMPLOYERS. THE COMPANY HAS DEVELOPED AN EMPLOYER’S VALUE PROPOSITION THAT IS BASED ON THE DEMANDS AND EXPECTATIONS OF TARGET AUDIENCES TAKING INTO ACCOUNT THE COMPANY’S STRATEGIC PLANS AND ITS COMPETITIVE POSITION IN THE INDUSTRY.

The value proposition is built into the processes of recruiting and hiring staff as well as the adaptation and training of managers. The Company has been developing employee incentive tools based on the value proposition since 2016. More than 4,500 managers took the electronic course ‘Value proposition as a tool for non-financial incentive’ in 2017.

In an effort to enhance the effectiveness of work to attract highly qualified candidates, Gazprom Neft opened a Recruiting Centre, which includes the Interregional Recruiting Centre and regional recruiting centres. The Centre employs a new operating model to attract candidates based on the SAP platform that is integrated with the career portal of Gazprom Neft: http://www.gazprom-neft.com/career/. The portal, which was updated in 2017, is the sole interface for the Company’s interaction with applicants. By creating a personalized account, candidates can respond to vacancies, track the status of their involvement in competitions for positions, and update their resumes. The SAP SuccessFactors model makes it possible to quickly obtain information about the labour market and communicate with candidates through standardization and automation in order to make the selection processes more transparent and effective.

“The SAP SuccessFactors enables you to quickly and efficiently work with big data about applicants. Without such a system, it would be impossible to effectively hire over 10,000 people a year and process millions of responses and hundreds of thousands of resumes”.

Yelena Surmeyko
Head of the HR Management and Corporate Culture Relations Office at Gazprom Neft

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REMUNERATION AND SOCIAL SUPPORT FOR STAFF

THE STAFF REMUNERATION SYSTEM IS LINKED TO THE COMPANY’S OVERALL STRATEGY AND AIMS TO ENSURE COMPETITIVE REMUNERATION, RETAIN AND DEVELOP TALENTED STAFF, AND SUPPORT THE CAREER AND PROFESSIONAL GROWTH OF EMPLOYEES.

GAZPROM NEFT REMUNERATION SYSTEM

Financial component
- Basic remuneration
- Bonuses
- Benefits (voluntary medical insurance, vacation payments, housing programme, private pensions, etc.)

Professional component
- Training and development system
- Professional and career development system

Social component
- Non-financial incentive programmes
- Social support programmes for employees and their families

FINANCIAL INCENTIVE

Gazprom Neft conducts regular monitoring of the labour market in the regions where it operates, including special overviews of the HR market for certain highly skilled professions in key areas of the Company’s business. Gazprom Neft strives to make sure that all the components of its remuneration system remain competitive. The Company regularly revises salaries in accordance with labour market dynamics in the oil and gas sector.

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In 2017, updates were made to the standard that is used to determine basic remuneration for salaried employees. In an effort to enhance the effectiveness of the variable compensation system, a number of large-scale projects were launched: the annual bonus model within the management system was partially updated based on target results; initiatives were launched to unify quarterly and monthly bonuses for Gazprom Neft employees; the Upstream Division introduced an incentive program that aims to create a culture of efficiency and loan production; the Downstream Division established a unified structure of base remuneration and developed a uniform wage scale that takes into account the complexity of work and the individual qualification levels of workers. The unified bonus system for production staff linked variable payments with the achievement of the targets of the units. The new incentive model reduced the number of compensation formulas and made them more transparent for employees.

SOCIAL SUPPORT FOR STAFF

All the Company’s subsidiaries employ a unified system of social benefits. Gazprom Neft maintains a balanced and competitive social package regardless of external economic conditions.

**STAFF EXPENSES** (RUB MN)

<table>
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<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>64,224</td>
<td>60,407</td>
<td>76,032</td>
<td>82,076</td>
<td>94,377</td>
</tr>
<tr>
<td>Social payments</td>
<td>3,186</td>
<td>2,097</td>
<td>2,632</td>
<td>3,240</td>
<td>3,177</td>
</tr>
</tbody>
</table>

**MODE OF SOCIAL BENEFITS AT GAZPROM NEFT**

- **Basic Benefits**
  - voluntary health insurance (including consultations and treatment at leading Russian clinics, if necessary)
  - accident insurance
  - supplemental payments exceeding the maximum disability benefits prescribed by the legislation of the Russian Federation, including based on hospitalization records for pregnancy and childbirth
  - compensatory payments to employees on childcare leave
  - compensation of travel expenses to vacation destinations for employees working in the regions of the Far North
  - provision of social leave related to family circumstances and other benefits

- **Additional Benefits**
  - payment of health resort treatment for workers, subscriptions to health groups, and corporate discounts for subscriptions to sports clubs
  - various types of financial assistance for family events
  - housing programmes
  - a private pension, among other benefits

**MAIN EXPENSE ITEMS FOR THE SOCIAL PACKAGE AND BENEFITS** (RUB MN)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments</td>
<td>1,728</td>
<td>1,720</td>
<td>1,876</td>
<td>2,139</td>
<td>2,319</td>
</tr>
</tbody>
</table>

The Company maintains a balanced and competitive social package regardless of external economic conditions.

**Innovations for health**

An innovative gym opened for employees at the Gazprom Neft Scientific and Technical Centre.

There are several analogues around the world for a gym of this sort, but none of them have ever been built for corporate use. The gym is managed by Pavpyrg PRAMA smart interactive fitness system, which offers serious functional training in a game-based format. A single 45-minute session at the PRAMA gym lets employees develop their cardiovascular and respiratory systems, exercise all their body muscles, and develop mobility, coordination, strength, and balance. A built-in system allows for testing and evaluating the individual progress of each visitor. The programme is designed for different levels of complexity.

**Non-financial incentive**

The non-financial incentive programme aims to increase the loyalty of staff and recognize the merits of the best employees.

The key programmes of the Gazprom Neft non-financial incentive programme are:

- Individual and team-based professional skills competitions: ‘Best in the Profession’ for production staff, ‘League of Professionals’, and ‘Battle of Merchants’ for managers, specialists, and employees, etc.
- Targeted programmes that celebrate the strong production results of Gazprom Neft units: ‘Achievement of the Year’ competitions among oil refinery teams in such areas as modernization, improved energy efficiency, and industrial safety. The ‘Acknowledgement of the Best’ award, which is granted for achievements by enterprises, employees, and teams, including contractors, the Upstream Division, the Offshore Projects Development Division, and others:
  - mass sporting events: Summer and Winter Games
  - leisure activities: intra-corporate humour clubs, etc.

**Best Result**

The Downstream Division’s fourth ‘Best Result’ awards ceremony was televised and broadcast on radio for the first time on the “лучшийрезультат.рф” website, and an open studio was set up live on Nettoradio and on Azer FM through which Company employees could phone in and congratulate the winners. Awards were presented to 79 winners from the Division in seven categories in 2017.
COOPERATION WITH TRADE UNIONS

Gazprom Neft takes part in the activities of the Industry Commission for the Regulation of Social and Labour Relations and discussions on the terms of the sectoral agreement on oil and gas industry organizations and the construction of oil and gas facilities in the Russian Federation. Union representatives are actively involved in work to develop a culture of occupational safety at the Company, discussions concerning changes to the Company’s social benefits system, meetings with HR service executives, and activities to create safe working conditions. The Company has a Youth Commission that protects the interests of young workers and new young specialists taking part in adaptation programmes.

Gazprom Neft’s social obligations are enshrined in local regulatory acts (LRA) and collective bargaining agreements that govern social and labour relations between the employer and employees. These LRA and agreements reflect both health and safety issues as well as the obligations that the Company undertakes in this regard with respect to its employees. In accordance with the terms of the LRA, collective bargaining agreements, and labour legislation, Gazprom Neft provides a high level of social guarantees in cases when production is shut down/optimized and works to support the employment of staff at its subsidiaries.

No significant changes were made to collective bargaining agreements in 2017. A meeting of the Corporate Coordinating Council for Work with Unions provided a positive assessment of social and labour relations on the part of unions.

The Council participants will develop a direct dialogue on labour relations that require the settlement and harmonization of approaches. Creating the Council was Gazprom Neft’s next step in involving union leaders in the Company’s activities, enabling them to protect the long-term interests of employees while taking into account the balance of interests of all stakeholders.

STAFF TRAINING AND DEVELOPMENT

The Gazprom Neft training and development system encompasses all categories of employees as well as targeted groups of potential workers, including schoolchildren and university students. The scope of training programmes is determined by the Company’s strategic objectives and the results of an evaluation of the managerial and professional competencies of employees.

Training programmes encompassed 88% of Gazprom Neft employees in 2017. Investment in training and development totalled RUB 1.05 billion.

Underwent training in 2017

55,891

EMPLOYEES

For the training of one employee in 2017

45.9

HOURS

Investment in development and training in 2017

1.05 BN
The Corporate University of Gazprom Neft serves as the centre for knowledge management. It was established in 2016 and brought all training practices under one roof. The Corporate University went through a period of intensive development in 2017, increased the scope and quality of training, and gained recognition from the external expert community.

The university has a model that is unique for the corporate training market – the so-called marketplace – a services platform in a format that is similar to the services of Uber, Airbnb, and Amazon and operates based on modern IT solutions. Such an educational system format not only makes it possible to attract external providers for training, but also allows communication between employees who need to learn and employees who can teach. This model allows Gazprom Neft to implement strategic goals in HR management taking into account the challenges seen in the era of rapid changes and big data by creating a stimulating educational environment at a major geographically distributed company.

The University’s model envisages the training and active involvement of internal trainers in educational activities – highly qualified and motivated specialists from the Company who are ready to act as experts, speakers, internal trainers, and leaders of departments. The internal trainer movement underwent active development in 2017 and Gazprom Neft employed 743 certified internal trainers. Gazprom Neft holds special forums and a competition for the best trainer and also carries out an incentive programme for their development and training.

The Corporate University creates an educational environment within the Company that allows managers and employees to develop managerial and vocational skills and also supports the implementation of the Company’s biggest organizational projects in digital transformation, changing the corporate culture, and improving operational activities.

The departments and faculties are structured according to functional attributes and cover virtually all of the Company’s activities. Each department consists of a community of internal trainers and experts working in one or more related functions and serves as a tool for identifying, preserving, and disseminating the knowledge required to solve production problems. The faculties work according to a competency-based approach and each faculty training programme is tied to a specific professional or managerial competency. The competency-based approach enables the faculty to plan training in accordance with actual functional needs, which are determined during the evaluation of employees. The evaluation is carried out annually and serves as a reference point when compiling the targeted programme for staff development.

The University’s portal launched in 2017 serves as its technological platform. Using the portal, employees can search for and obtain knowledge, pass e-courses, and communicate with colleagues and experts. A total of 85,000 courses were taken on the portal over the course of the year, pilot courses were conducted using augmented reality technologies, mobile apps and websites were put into operation.

IN 2017:

26 DEPARTMENTS

1,033 INTERNAL TRAINERS AND EXPERTS

16,000 EMPLOYEES TRAINED IN TARGET PROGRAMMES

A leader in digital transformation

At the Crystal Pyramid awards ceremony held during the 18th Summit of HR Directors of Russia and the CIS in October 2017, the Corporate University of Gazprom Neft received two awards – first place in the ‘Digital Transformation’ category and third place in the ‘Best Corporate University’ category.

The SKOLKOVO Trend Award ceremony for the best corporate and state development projects was held as part of the Winning The Hearts Forum in November. Russian Deputy Prime Minister Arkady Dvorkovich presented Gazprom Neft with an award for its partnership in creating an educational platform that supports the digital transformation of business.

The faculty develops the professional and technical competencies of its employees based on the projected business requirements in the short and medium term. Training takes place within the targeted modular programmes ‘PRO Movement’, ‘Master School’, and ‘Best Practices in Offshore Field Development’, among others. A key partner of the Faculty is the Professional Growth Centre, a part of the Research and Technology Centre of the Upstream Division.

The faculty provides cross-functional training of employees. In 2017, the Company launched ShellProject, a similar development programme for the management of offshore projects and offshore field development technologies, which includes distance courses, full-time working sessions, sessions to exchange experience with foreign experts, case studies, and business simulations. Fifty specialists from different functions and focal points completed the pilot course.


The Upstream Faculty seeks to perfect the professional and managerial skills of our employees and train unique world-class specialists for the Company’. Natalya Kazayev

Head of the Staff and Organizational Development Office within the Gazprom Neft Upstream Division

Corporate University

“To maintain leadership in the era of rapid changes, you need to run marathons at the speed of a sprinter. The Corporate University is like ‘sports nutrition’ for our Company”. Kirill Kravchenko

Deputy CEO of Gazprom Neft for Organizational Affairs
**HUMAN RESOURCE DEVELOPMENT**

**DOWNTOWN FACULTY**

"The Corporate University creates a platform on which our employees can go beyond the usual understanding of expertise and create an environment of constant development".

Lyudmila Voronina
Head of the Downstream Division’s HR Relations Office

In 2017, the Downstream Faculty carried out a large-scale assessment of the professional skills of employees in competencies they had previously studied. The assessment was conducted on more than 1,200 employees of different levels of management. Based on the results of the assessment, the faculty implemented training programmes that aim to develop competencies that are important for the Company’s business in the future.

The Strategic Competencies Department opened within the Downstream Faculty during the reporting year. The Department aims to model knowledge and practical skills that will be relevant to operational activities in the future. This work is carried out jointly with the Efficiency Control Centre and the Operations Management System Development Centre.

The faculty has a career planning system that includes professional clusters and career levels. Any employee from the division can get on the portal, select a cluster, the competence that he/she wants to develop, and the system will offer a list of training courses for which an application can be submitted.

**CORPORATE FUNCTIONS FACULTY**

The Corporate Functions Faculty implements programmes for employees of the corresponding unit as well as employees from all throughout Gazprom Neft in a number of areas: risk management, procurements, business process standardization, finance, and new technologies, among other areas.

A number of departments opened within the faculty in 2017. The Department of Information Technologies, Automation, and Telecommunications (ITAT) promotes new technologies and provides employees with training on the skills required to introduce such technologies into their operational activities.

The Risk Management Department develops a culture of risk management and decision-making mentality that takes into account their analysis. In the reporting year, the department conducted 38 training programmes as well as a conference on risks.

The Procurements Department has created a complex system of employee development called the ‘Procurement Institute’ in partnership with Russia’s leading oil and gas industry universities.

**INDUSTRIAL SAFETY AND EFFICIENCY FACULTY**

The faculty’s activities encompass all the Company’s employees and contractors. The content of the department’s training programmes is developed in accordance with the specific characteristics of Gazprom Neft’s business and practices. Exports from different units are involved in creating the programmes. In 2017, the faculty employed more than 400 internal trainers and experts.

The faculty also provides mandatory training on legislative requirements in occupational safety and focuses on standardizing this type of training throughout the Company.

In 2017, the Production Efficiency Department launched new areas of work: training on lean manufacturing and the ‘Regular Management Practice’ programme for managers, which helps managers to involve staff in work to improve industrial safety and efficiency. More than 800 managers took part in the department’s programme.

**MANAGERIAL AND CORPORATE COMPETENCIES FACULTY**

The faculty’s key tasks are to develop managerial competencies among managers, create targeted programmes for business tasks at the request of the leaders of functions and unit managers, develop internal training, and provide educational activities on topics that are important to the Company.

One of the most important areas of work for the Managerial and Corporate Competencies Faculty and for the Corporate University as a whole is the digital transformation of business. Above all, this is due to the strategic needs of the business and the fact that the Corporate University’s business model relies heavily on digital technologies.

In 2017, the Company continued work to develop management and corporate competencies on the basis of the Lominger model, which is based on the world’s best management practices. Gazprom Neft continued cascading competencies in accordance with this model and integrating it into the processes of selecting, evaluating and developing staff as well as creating a talent pool.

"Our department was established in the spring of 2017. We decided that we will not have long training programmes, but will have so-called training before practice in which practical application follows immediately after theoretical knowledge is obtained until the proper result is produced".

Alexander Proskurin
Director of Production Optimization Programmes and Head of the Production Efficiency Department

The session speakers included teachers from the Spanish business school IESE, Skolkovo Moscow School of Management, and Coursera. The sessions culminated in the release of educational films for employees that provide an introduction to the future large-scale business changes related to the intensive development of IT. The educational work carried out in 2017 enabled the Company to position digital transformation as a strategic focus for business development and introduce a unified language and terminology in this field at the Company.

**MANAGERIAL AND CORPORATE COMPETENCIES FACULTY**

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**EDUCATIONAL SESSIONS**

"The trend towards digital business transformation has been picked up by almost all the leading companies, and this is a hot topic. The projects ‘Cognitive Geologist’, ‘Project Management Centre’, ‘Cognitive Engineering’, ‘Digital Drilling’, and ‘Production Management Centre’ are examples of initiatives in Gazprom Neft’s portfolio, each of which will lead to a fundamental change in business efficiency".

Maxim Shadura
Head of the Department of Information Technologies, Automation, and Telecommunications within the Upstream Division

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The Company launched a targeted modular training programme titled ‘Managing Partnerships’, which was developed based on orders from an internal client and focuses on executives who are responsible for working with strategic partners/joint ventures. The importance of this task is associated with a powerful trend – joint work by major market players on complex projects. This form of business organization and interaction with other companies requires the creation of new key competencies and the systematization of processes. The ‘Managing Partnerships’ programme is a solution to this problem. Each of the programme’s modules corresponds to the stages of the partnership’s life cycle and the theory is linked to team-based project work on real challenges, which makes it possible to identify the problematic issues in corporate processes related to partnerships and to develop practical approaches to eliminating them.

The Managerial and Corporate Competencies Faculty launched a project during the reporting year for individual development tracks. As part of the project, an employee can independently develop a competency by selecting courses by solving production tasks and studying developmental materials. Some 400 employees from the Company took part in the pilot project.

**Regional Sales Directorate**
The Regional Sales Directorate manages a chain motor fuel sales outlets in Russia, the CIS, and Eastern Europe. The petrol stations employ roughly 20,000 employees. They are trained at a licensed training centre that includes classroom training and mobile training as part of which a specially equipped training vehicle travels to remote gas stations and conducts practical training and an assessment of the professional skills of employees. All training centres have been equipped with mobile devices for online training since 2016. Filling station employees annually undergo an assessment of their professional skills after which the employees who demonstrate the best results take part in a professional skills competition. Some 5,000 specialists took part in the competition in 2017.

The Directorate also organizes the ‘Battle of Merchants’ professional skills competition, which was held in a hackathon format in 2017 and enabled participants to fine tune their skills in the establishment of start-ups. The competition resulted in the creation of 8 digital products that solved real business problems.

**Corporate Lecture Hall**
In 2017, the Regional Sales Directorate and the Corporate University launched the Corporate Lecture Hall educational project, which consists of a platform that addresses topics that are important for business and are determined by the employees themselves. Lecture Hall speakers include specially invited external and internal experts. The seven lectures held last year were attended by 1,600 Company employees, while another more than 7,000 employees watched video lectures on the in-house portal.

“...The Lecture Hall Project is essentially an actual start-up, which over five months has transformed from an idea with minimal efforts and funds to the most popular new training format. Employees from all Gazprom Neft units took part in it.”

Olya Muzaleva
Head of the Staff Training and Development Department in the Regional Sales Directorate

**Support for the Baltic Science and Engineering Competition**

In 2017, Gazprom Neft served as the general sponsor for the Baltic Science and Engineering Competition. The largest scientific competition among schoolchildren, which has been held in St. Petersburg since 2005. The final round of the competition included 348 students from Russia, Belarus, Ukraine, and Kazakhstan. The winners of the competition joined the Russian team that took part in the International Science and Engineering Fair (Intel ISEF). Twelve participants of the project were winners at the world finals and were awarded certificates by the Intel ISEF scientific jury.

Each year more than 290 scientists-doctors and candidates of sciences, university teachers, and post-graduate students - take part in the competition’s jury.

**‘Gazprom Classes’**

The first specialized Gazpromneft-Class took place at Lyceum No. 82 in St. Petersburg during the reporting year. In addition to the core programme with an in-depth study of natural sciences, students studied specialized subjects, such as the fundamentals of geology and materials science, mathematical modelling in the oil industry, applied physics, time management, and the theory of inventive problem-solving. Students worked with case studies that develop creative and research potential.

Gazpromneft-Class joined the Gazprom Class’ programme in 2017, which enabled students to take part in projects managed by the Gazprom Group. One such project was a powwow of ‘Gazprom Classes’ held in Sochi. The powwow programme included scientific, educational, sports, cultural, excursion, and team-building blocks.

**Development of the Talent Pool**

Gazprom Neft’s Talent Pool Formation System Aims to Meet the Company’s Demand for Skilled Employees in the Present and Future.

19,000
EMPLOYEES
Covered by the Annual Performance Assessment

157
YOUNG PROFESSIONALS
Took Part in a Research and Technology Conference

**Gazprom Neft’s Talent Pool Formation System**

- High school students
  - Vocational guidance work with schoolchildren
  - Partnership-oriented classes held by Gazprom Neft
  - Multiplying Talents’ tournament and support for other scientific and technical Olympiads and championships

- College and university students
  - Creation of master’s programmes jointly with universities
  - Support for the targeted education of promising students: grants and scholarships

- Young professionals
  - ‘3 milestones’ adaptation programmes
  - Young professionals development programmes
  - Research and technology conference for young specialists

- Company employees
  - System for selecting employees with high potential and their inclusion in the talent pool
  - Individual career planning and development programmes for professional and managerial skills

**Educational Environment Forum**

In December, the Company hosted the Education Environment Forum, which brought together more than 200 managers and employees from the Corporate Centre and its subsidiaries. The forum focused on digitalization and was divided into five areas of key competencies of the future – ‘Digital’, ‘Relationships’, ‘Creativity’, ‘Collaboration’, and ‘Personal Efficiency’, with lectures and master classes held on each theme. The Forum was attended by more than 20 heads of corporate universities of major Russian companies.

**Regional Sales Directorate**
“Gazprom Neft has become one of the leaders in the Russian oil and gas industry today in terms of the level of technological effectiveness.

The conditions for field development get more complex with each passing year and the industry constantly needs new solutions and approaches, so we try to find talented kids who are still in school and encourage their interest in obtaining an engineering education and studying exact sciences”.

Mars Khasanov
Gazprom Neft Technology Director and General Director of the Research and Technology Centre

CORE DEPARTMENTS AND MASTER’S PROGRAMMES AT UNIVERSITIES

The Company’s experts are involved in forming and developing standard and special programmes and courses that are created in accordance with corporate objectives at core departments and master’s programmes at universities. This helps students to develop the necessary skills and to attract young professionals with relevant knowledge for the Company. The Company organizes extended (up to six months) internship programmes at its enterprises, which facilitate the further deepening of specialized knowledge among young professionals.

The Company cooperates on an ongoing basis with industry-focused universities in St Petersburg (St Petersburg Mining University, St Petersburg Polytechnic University and St Petersburg State University) and Moscow (Moscow Institute of Physics and Technology) and also with regional universities (Tyumen and Omsk State Technical Universities, Tomsk Polytechnic University).

TALENT COMMITTEE

One of the key tools used to select candidates for the talent pools is the meetings of the Talent Committee at which key functional managers consider and take decisions about promoting employees based on the results of an annual assessment of their activities and potential. In 2017, the regular performance assessment encompassed 19,000 employees, a 50% increase from the previous year. The assessment results serve as a basis for planning the development goals of employees, impact the size of annual bonuses and salary reviews, and serve as a starting point for the formation of the talent pool.

TALENT POOL DEVELOPMENT PROGRAMMES

Updates were made in 2017 to the manager development programmes: ‘First Step’ and ‘Growth Manager’ for line managers at subsidiaries, ‘Professional Management’ for line managers at the Corporate Centre, ‘Bachelor of Management’ for the Company’s mid-level management, and ‘Master of Management’ with strict criteria for selecting experienced executives who hold high positions and have significant influence on the Company’s business. The new programmes aim to solve business problems, including the analysis of internal cases, and cover modern economic and technological trends such as digitalization, robotics, the fourth industrial revolution, the economy of joint consumption, and corporate education, among others. The Company’s senior executives are the supervisors of the programmes.

GOALS AND OBJECTIVES FOR 2018

STAFF MOTIVATION

- Develop a unified model of comprehensive incentives that aims to balance out the compensation package for different groups of staff and synchronize it with other HR management tools.
- Launch a project to upgrade the bonus system based on the integrated performance evaluation process for departments and employees.
- Update the bonus programme for long-term and major projects involving the construction and reconstruction of facilities in accordance with the current operating models.
- Update of the system of compensation and benefits for the Downstream Division and switch the Division’s subsidiaries to a unified wage scale.

STAFF TRAINING AND DEVELOPMENT

- Improve the quality and expand the coverage of targeted development programmes and executive development programmes at the Corporate University.
- Further develop professional communities and internal knowledge sharing mechanisms.
- Develop personal educational trajectories.
- Provide comprehensive support to transform the corporate culture of Gazprom Neft, develop skills to manage changes at the Company, and offer methodical support to the teams that are implementing the transformation projects.
- Evaluate the activities of the Corporate University’s departments, select the most effective approaches, and introduce them as best practices at the Company.
- Further develop the Corporate University’s portal and introduce artificial intelligence technologies in distance learning programmes.

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HUMAN RESOURCE DEVELOPMENT

GASEPROM NEFT RESEARCH AND TECHNOLOGY CONFERENCE OF YOUNG PROFESSIONALS

The conferences for young professionals who are working their way through the Company’s production units aim to develop innovative thinking and involve young professionals in rationalization activities. The 7th Research and Technology Conference of the Upstream Division was held in a new format in 2017 with participants defending reports in seven sections, including the ‘Capital Construction’ and ‘Gas and Energy’ sections for the first time. A total of 86 young professionals took part in the conference and presented 77 reports to the jury commissions. The Research and Technology Conference of the Upstream Division was held in an open format for the first time and included representatives of Lukoil, Rosneft as well as leading oil and gas industry universities. The best works by the students were awarded with a RUB 2-million grant named after Honoured Scientist and Engineer of the Russian Federation and General Director of Rosneft Mars Khasanov. The ‘HSE’ and ‘Digital Technologies and Business Support’ sections made their debut in the conference programme.

At the WorldSkills Hi-Tech Championship in 2017, the Company’s employees finished among the top five in the ‘Chemical Analysis Laboratory’ skill, while another Gazprom Neft employee took third place in the ‘Network and System Administration’ category.

TALENT POOL DEVELOPMENT PROGRAMMES

“Over the six months of the programme, the participants had to solve unconventional problems. In addition to their professional skills, they were required to demonstrate the ability to respond quickly to changing external factors. So they not only obtained the knowledge they will need in their everyday work, but also got an understanding of the principles of personal growth”.

Nikolay Dolgov
Head of the Gazprom Neft Staff Development and Training Department

The ‘Growth’ career planning portal became accessible to all the Company’s employees in 2017, providing each of them with the opportunity to take part in the management of their professional and career development. The portal allows employees to envision themselves as professionals, select a career path using this resource, assess their skills, and get recommendations for further development.

STAFF TRAINING AND DEVELOPMENT

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SAFE DEVELOPMENT: INDUSTRIAL AND ENVIRONMENTAL SAFETY, OCCUPATIONAL HEALTH AND SAFETY, ENERGY EFFICIENCY, AND ENERGY CONSERVATION

The lives and health of employees are a key priority for Gazprom Neft. The Company’s strategy in industrial, environmental, and occupational safety is guided by the ‘Goal – Zero: No Harm to People, the Environment, or Property When Performing Work’. Gazprom Neft is committed to becoming one of the world’s leading oil and gas companies in this regard.
APPROACHES TO MANAGEMENT

TO ACHIEVE ‘GOAL – ZERO’, GAZPROM NEFT IS IMPROVING THE RISK MANAGEMENT SYSTEM IN OCCUPATIONAL SAFETY, INVESTING IN ADVANCED TECHNOLOGIES THAT STRENGTHEN THE RELIABILITY OF ITS ASSETS, AND ENHANCING ITS SAFETY CULTURE.

The Company has identified five key areas in its activities to achieve the ‘Goal – Zero’. Within these areas, each manager of Gazprom Neft has committed to enhancing the level of safety at the Company. These commitments are reflected in the performance targets of managers.

The fundamental corporate document that describes the principles of the Company’s activities and obligations is the General Corporate Policy on Industrial, Fire, Transport, Environmental, and Occupational Safety and Civil Protection.

Goals of the Industrial Safety Policy:
- reduce work-related injuries, occupational diseases, accidents, and the negative environmental impact
- establish safe production based on the analysis, management, and minimization of production risks
- introduce the best global practices in this field

The safety management system is integrated with the Company’s operational management system (OISMS). In 2017, Gazprom Neft launched the joint OISMS Committee, which includes members of the Management Board, directors of production units, and department heads. Industrial safety, occupational safety, and civil defence committees were also established in each division and at subsidiaries.

When developing industrial and occupational safety programmes, Gazprom Neft relies on an occupational safety risk map. The list of such risks is regularly updated. The Company uses advanced international methods to assess man-made risks. The goal of such methods is to ensure employees do not start work if they are not confident that it can be safely performed. To minimize safety risks, Gazprom Neft is introducing effective methods of production control and is developing a safety culture.

INDUSTRIAL SAFETY MANAGEMENT STRUCTURE

<table>
<thead>
<tr>
<th>Company’s Management Board, Operational and Industrial Safety Management System (OISMS) Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Review of the implementation results of the Industrial Safety strategy</td>
</tr>
<tr>
<td>- Review of incident and accident analyses</td>
</tr>
<tr>
<td>- Analysis of best safety practices</td>
</tr>
</tbody>
</table>

Responsible: Company CEO Alexander Dyukov

Industrial safety department of the Corporate centre
- Identifying the policy, strategy, and goals of industrial safety activities
- General management and monitoring of the industrial safety system at the Company
- Interaction with third parties in matters concerning industrial safety

Industrial safety departments of the Upstream Division, Downstream Division, and offshore project development division
- Identifying priority areas of development
- Monitoring industrial safety activities at subsidiaries
- Performing operational tasks

Industrial safety services of subsidiaries
- Operating activities in industrial safety
SAFETY CULTURE

IN AN EFFORT TO DEVELOP A SAFETY CULTURE, THE COMPANY EMPLOYS THE FOLLOWING SET OF MEASURES: PHASED MANDATORY AND ADDITIONAL TRAINING AND ASSESSMENTS, ESTABLISHING AWARENESS AND ACTIVISM AMONG GAZPROM NEFT AND CONTRACTORS AS WELL AS STRENGTHENING LEADERSHIP AND THE COMMITMENT OF LEADERS TO SAFETY VALUES.

As part of the ‘Goal – Zero’ programme, a number of the Company’s managers have become leaders in initiatives that aim to minimize the number of accidents. Such initiatives include ‘Risk assessment training for staff’, ‘Water transport’, ‘Railway transport safety’, and ‘Operation of existing facilities’, among others. Each of these initiatives encompasses one of the specific areas in which the leader and the team that the leader has assembled are developing and implementing various projects to improve safety.

These projects include safety audits in a specific area, identifying areas for improvement, and developing action plans using best practices.

An industrial safety training system based on the requirements of the legislation of the Russian Federation, corporate standards, and best practices ensure the establishment of a safety culture at the Company. The Corporate University of Gazprom Neft has an Industrial Safety Department whose curriculum is developed by both external experts and internal trainers. Internal coaching plays a key role in achieving the ‘Goal – Zero’. Internal coaches trained more than 7,000 of the Company’s employees internally in 2017, while roughly 20,000 employees took part in communication sessions.

Another project that was launched in 2017 was the ‘Agents of Change Team’ in which the production staff is involved in improving industrial safety as experts and ‘overseers’ of the state of safety at their site.

The Company is developing distance learning and has introduced and offers the courses ‘Occupational safety in the office’, ‘Procedure for ensuring and managing fire safety’, ‘Electrical safety’, ‘Anti-alcohol policy’, and ‘Safe driving’, among others.

The Company has introduced a training programme for contractors: ‘Occupational safety’. This course was attended by 1,126 learners in 2016, and the implementation of educational material was aimed at improving the level of safety culture at contractor organizations.

Gazprom Neft works closely with contractors on matters concerning industrial safety during all stages of cooperation.

Interaction with contractors is dictated by the corporate standard: ‘Procedure for managing and organizing interaction with contractors on industrial safety issues’, which was updated in 2017. The standard establishes Gazprom Neft’s requirements for contractors during the stages of selecting the contractor as well as managing and analysing the effectiveness of its work. The compliance of contractors with legislative and corporate requirements concerning industrial safety is recorded in contracts.

The ‘Steps’ corporate programme for work with contractors allows for monitoring the fulfillment by contractors of industrial safety requirements and consistently improving the level of safety culture at contractor organizations.

Gazprom Neft develops programmes to provide financial and non-financial incentives to contractors for proactive measures to enhance the industrial safety culture. Starting in 2016, Gazprom Neft has introduced a rating system as part of the ‘Steps’ programme for contractors in matters concerning industrial safety. The system aims to increase the level of motivation and involvement among contractors and effective interaction between the parties. In 2017, the rating’s key performance indicator for industrial safety grew to 40%.

SAFETY SUPERVISORS

Gazpromneft-Khatons held a pilot training course in 2017 for industrial safety supervisors. The main objective of the course was to transition from a model of strict control over the fulfillment of safety rules by oversight specialists to their proactive work to establish a culture of safe behaviour. The first course was attended by 314 people of which 85% were representatives of contractors.

The ‘Steps’ programme was awarded the ‘Good Deed’ prize in 2017 in the ‘Responsible interaction with suppliers’ category. The prize has been a joint initiative of the Russian Union of Industrialists and Entrepreneurs and the Business Russia and Opora Rossiya organizations since 2017.

SUPPLY CHAIN RESPONSIBILITY

THE COMPANY’S INDUSTRIAL SAFETY STRATEGY INCLUDES CONTRACTORS’ COMPLIANCE WITH CORPORATE SECURITY REQUIREMENTS AS A KEY CRITERION FOR THE SELECTION OF GAZPROM NEFT’S COUNTERPARTIES.

STAGES OF THE ‘STEPS’ PROGRAMME

Assessment and selection of candidates, training, and conclusion of a contract

Performance of work, Management of the effective activities of the contractor

Conclusion of the contract and the final rating of the contractor
STAKEHOLDER ENGAGEMENT

The company develops and implements its industrial safety and environmental protection strategy in cooperation with key stakeholders.

Formats of engagement

- Involvement in work to develop existing industrial safety and environmental legislation standards and draft new bills
- Involvement in work of the Industrial Safety Committee of the Russian Union of Industrialists and Entrepreneurs

Examples of engagement in 2017

- In 2017, the company was involved in the drafting and revision of a number of standards, including the Federal Law “On the Industrial Safety of Hazardous Production Facilities”, the Federal Standards “Rules for the Safe Operation of Field Pipelines” and “Safety Rules for the Hazardous Production Facilities of Underground Gas Storage Facilities”, and “Safety Rules for Offshore Oil and Gas Facilities”, among others
- The Gazprom Neft conferences during National Occupational Safety Week were attended by 150 specialists from the company in 2017. A set of solutions was drawn up based on their work to prevent incidents, accidents, and injuries and improve interaction with contractors. More than 6,000 people took part in 100 Saturday volunteer clean-up days with the support of Gazprom Neft as part of the Year of Ecology
- The Company implemented a biodiversity conservation programme during the reporting year in conjunction with the Severtsov Institute for Ecology and Evolution, which led to the formulation of a number of recommendations on the possibility of introducing changes to existing industrial safety requirements
- In 2017, public discussions were held and public appeal was secured for 16 Gazprom Neft projects, including the major overhaul of the Prirazlomnaya platform, seismic exploration within the Dolinskoye oil field, and the construction of the Biosphera biological treatment plants at the Omsk Refinery, among others
- A visit to the infrastructure facilities of Gazprom Neft Logistics in Omsk was arranged for representatives of the Austrian company OMV Aktiengesellschaft. The working meetings were held as part of an exchange of experience in matters concerning industrial safety in the operation of railway transport facilities and railway infrastructure. Gazprom Neft specialists had also previously visited OMV refineries in Romania and Austria

EXPERT COMMUNITY, NON-PROFITS

- Joint development of environmental programmes and the creation and introduction of new safety technologies
- Involvement of experts in the research and evaluation of the effectiveness of the Company’s environmental programmes

LOCAL COMMUNITIES

- Organization of public hearings for Environmental Impact Assessments (EIA) when developing new projects
- Education and involvement of local communities in environmental activities

PARTNERS AND COMPANY OF THE INDUSTRY

- Exchange of experience at industry events and visits to partner production sites

INDUSTRIAL SAFETY

FULFILMENT OF 2017 GOALS AND OBJECTIVES

<table>
<thead>
<tr>
<th>Goal</th>
<th>Level of fulfillment</th>
<th>Goal and result</th>
</tr>
</thead>
<tbody>
<tr>
<td>PREVENT ACCIDENTS AT HAZARDOUS PRODUCTION FACILITIES</td>
<td>Goal fully achieved</td>
<td>No accidents occurred at hazardous production facilities.</td>
</tr>
<tr>
<td>REDUCE EQUIPMENT ACCIDENTS (INCIDENTS) BY 10%</td>
<td>Goal partially achieved</td>
<td>The number of equipment accidents (incidents) decreased by 8.5%.</td>
</tr>
<tr>
<td>REDUCE THE FATAL ACCIDENT RATE (FAR) BY 30%</td>
<td>Goal fully achieved</td>
<td>The goal was achieved in part because of the number of fatal injuries at contractors in the same period of 2016. The number of accidents with a fatal outcome among the company’s employees decreased from 3 to 1.</td>
</tr>
<tr>
<td>PREVENT MAN-MADE EMERGENCIES AT PRODUCTION FACILITIES</td>
<td>Goal not achieved</td>
<td>No man-made emergencies occurred at production facilities.</td>
</tr>
<tr>
<td>TRAIN DRIVERS ACCORDING TO THE REQUIREMENTS OF THE ‘TRAFFIC SAFETY CONTROL SYSTEM’ STANDARDS FOR DEFENSIVE/WINTER DRIVING</td>
<td>Goal not achieved</td>
<td>Drivers were trained according to the requirements of the standard and on defensive/winter driving.</td>
</tr>
<tr>
<td>IMPLEMENT A CORRECTIVE ACTION PLAN TO REDUCE THE RISK OF FIRES AT POWER-GENERATING PLANTS</td>
<td>Goal not achieved</td>
<td>The corrective action plan was implemented.</td>
</tr>
<tr>
<td>FURTHER IMPLEMENT THE UPDATED ‘BASIC SAFETY RULES’</td>
<td>Goal partially achieved</td>
<td>The communications campaign was conducted to remind the ‘Basic Safety Rules’.</td>
</tr>
<tr>
<td>FURTHER INTRODUCE THE ‘FIVE STEPS’ RISK ASSESSMENT TOOL</td>
<td>Goal partially achieved</td>
<td>The company’s subsidiaries implemented a training programme for employees using the methodology.</td>
</tr>
<tr>
<td>DEVELOP A METHODOLOGY TO RECORD ACCIDENTS AS WELL AS HAZARDOUS ACTIONS AND WORKING CONDITIONS</td>
<td>Goal partially achieved</td>
<td>The methodology for recording accidents as well as hazardous actions and working conditions was developed.</td>
</tr>
<tr>
<td>IMPLEMENT AN INCENTIVE PROGRAMME TO PROVIDE TIMELY INFORMATION ABOUT VIOLATIONS OF INDUSTRIAL SAFETY REQUIREMENTS</td>
<td>Goal partially achieved</td>
<td>The incentive programme to provide timely information about violations of industrial safety requirements was implemented.</td>
</tr>
<tr>
<td>CREATE A MOBILE APP FOR INDUSTRIAL SAFETY SERVICE EMPLOYEES</td>
<td>Goal partially achieved</td>
<td>The mobile app is being introduced on a pilot basis at a number of the company’s subsidiaries. The app allows employees to record dangerous actions and conditions. A message is sent to the responsible specialist who begins working on eliminating the violation.</td>
</tr>
</tbody>
</table>
In 2017, the number of accidents involving equipment (incidents) decreased by 8.5%.

The number of accidents involving equipment (incidents) decreased by 8.5% in 2017. To the Company’s deepest regret, fatal accidents were not eliminated entirely, but their number decreased from three to one. The Company is doing everything possible to prevent tragedies from repeating. A special commission was created to investigate the fatal incident and it conducted a detailed analysis, identified its causes, and took action to minimize the risk of such an incident recurring. The results of the investigation were considered at a meeting of the OSiMS Committee.

**OCCUPATIONAL SAFETY AND HEALTH**

The corporate health protection and disease prevention system includes:
- Disease prevention (accreditation of clinics, thorough medical examinations, the formation and monitoring of risk groups for cardiovascular diseases, and Health Awareness Days for employees)
- Emergency response (first aid, medical assistance, transportation to clinics, and first aid training)
- Promotion of a healthy lifestyle – organizing vaccinations; promoting a healthy lifestyle, preventing alcohol and drug use, and an insurance system

The Company is implementing a long-term strategy to prevent occupational diseases. One of its priorities is to assess the risk of cardiovascular disease and provide a thorough examination of high-risk group employees.

As it develops responsibility throughout the entire supply chain, the Company is introducing a new health safety focus – Contractor management, in which the Company monitors medical examinations by employees of contractors and organizes effective emergency medical responses for them, among other things. This project received a gold medal at the Health and Safety 2017 national competition.

**A FOUNDATION OF SAFETY**

A new tool for monitoring compliance with safety rules has been introduced into the capital construction function of the Upstream Division – a checklist for the safe performance of work that is drawn up based on a factor analysis of occupational injuries.

The checklist includes an extensive list of basic workplace safety principles. It is a simple and understandable tool through which an employee or a contractor’s representative can conduct a risk assessment before starting and when performing work. The checklist does not require any special training and is available to all employees.

The contents of the checklist will be updated in accordance with the evolving requirements for the high-tech construction of the Company’s facilities.
READINESS TO RESPOND TO EMERGENCIES

In an effort to ensure civil defence, the Company is improving the sustainability of its production facilities when emergencies arise and training employees in actions to take in the event of emergencies, including work in challenging climatic conditions.

The Company conducted 370 civil defence and emergency situation exercises in 2017 (a 14% increase from 2016) while devoting special attention to:
- assessing the reality of current action plans to prevent and respond to emergencies and eliminate oil and petroleum product spills
- organizing interaction in emergency response
- implementing priority measures to support and evacuate staff

The themes of the exercises and training were determined in accordance with the specific nature of production activities in the region.

Virtual reality

Gazpromneft-Logistics introduced virtual simulators are introduced on which employees simulate actions in the event of emergency situations at petroleum product loading and unloading platforms.

During the training, employees respond to a simulated emergency situation by choosing a particular sequence of actions. The simulator is totally immersive. In the event of a mistake or sequence error, trainees will see a simulation of the accident that occurred. If they take the correct actions, they successfully pass the training and get a better idea of the actions to take in a stressful situation.

FIRE AND TRANSPORT SAFETY

The Gazprom Neft transport safety programmes include production control, safe driving training, on-the-job training, and instructions on safety issues, and monthly ‘Stopwatches’, or meetings on industrial safety issues.

The Company employs project teams whose job is to improve safety in priority focuses for Gazprom Neft such as air, water, and motor transport. A development roadmap through the end of 2019 has been created for each focus.

The Company began introducing the updated ‘Traffic Safety Control System’ standard during the reporting year. Drivers working for Gazprom Neft and contractors underwent training on the requirements of the standard as well as defensive/winter driving.

In 2017, the number of major traffic accidents decreased by 54%, significant accidents declined by 20%, the accident rate plummeted by 88%, and the number of fires edged down by 8%.

IT technologies for extinguishing fires

An automated fire extinguishing system was introduced at the drilling sites of the Kuyumba field in the Krasnoyarsky Territory.

Drilling operations at Kuyumba have an extremely fire hazard due to the use of oil-based drilling mud that exits the well at temperatures of up to 40 degrees. An automated system was introduced to eliminate the human role of assessing the risk of fire and its suppression. Residential and industrial premises were equipped with sound and light alarms from which signals are transmitted wirelessly, the drilling equipment is equipped with automatic fire extinguishing modules (powder and foam generators), and SMS notifications are sent out when the system is triggered. Uninterruptible power supplies ensure the system can function for 24 hours after a power outage.

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The careful and sustainable use of natural resources and minimizing environmental risks are key priorities in Gazprom Neft’s activities. As it seeks to achieve its ‘Goal – Zero’ environmental impact, the Company consistently reduces its environmental footprint, introduces best practices, inventions, and technologies for nature protection, and improves the environmental training system for its employees.

The Company’s environmental activities are based on risk management and the introduction of risk prevention measures. Gazprom Neft ensures constant environmental monitoring and industrial environmental control. An analysis of the environmental impact of production activities is carried out at all stages of the production life cycle, starting with front-end engineering. An assessment of the potential environmental impact, an analysis of the results of environmental monitoring, and an independent expert examination are mandatory when making the appropriate managerial and investment decisions.

When planning new projects, Gazprom Neft enterprises assess the environmental impact of the planned activities. Based on the results of the analysis, the best available technologies (BAT) that aim to mitigate any negative impact are introduced during all stages of the project.

The Company’s environmental management system complies with the requirements of the international standard ISO 14001. Gazprom Neft has regularly conducted audits for compliance with the standard since 2013. An independent audit confirmed the compliance of the Gazprom Neft PJSC environmental management system with the requirements of ISO 14001:2015 in 2017. Certificates of compliance of the environmental management systems with ISO 14001 have been issued to Gazprom Neft Shetl; Gazpromneft-Sakhalin; Gazpromneft-Moscow Oil Refinery; Gazpromneft-Omsk Oil Refinery; Gazpromneft-Ryazan Bitumen Materials Plant; Gazpromneft-Lubricants, Omsk Lubricants Plant branch; Gazpromneft-Moscow Lubricants Plant; and Gazpromneft Shipping.

The Company spent RUB 6.9 billion on environmental services and operating costs to ensure environmental safety and protection in 2017.

Total investment in environmental protection amounted to RUB 27.1 billion in 2017, or almost double the amount invested in 2016 (RUB 14.3 billion).

**Mitigating Negative Environmental Impacts and the Effective Use of Resources**

**The Company’s Strategic Goals in Environmental Safety:**

- To reduce its environmental footprint and support a favourable natural and living environment
- To prevent environmental damage from business activities
- To introduce best practices in environmental safety
- The sustainable use, restoration, and protection of natural resources and the preservation of biodiversity

**Investment in Environmental Protection in 2017**

<table>
<thead>
<tr>
<th>Investment in environmental protection in 2017</th>
<th>RUB 27.1 BN</th>
</tr>
</thead>
</table>

**In 2017 the Year of Ecology featured 1,100 Measures**

**Expenses on Environmental Services and Ensuring Environmental Protection (RUB MN)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>6,562.3</td>
<td>6,157.3</td>
<td>6,377.4</td>
<td>6,875.6</td>
<td>7,406.7</td>
</tr>
</tbody>
</table>

**Payment for Negative Environmental Impact (RUB MN)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,372.5</td>
<td>945.6</td>
<td>637.1</td>
</tr>
</tbody>
</table>

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FULFILMENT OF 2017 GOALS AND OBJECTIVES

In 2017, the Company continued progressing towards its medium-term goals as part of work to implement industrial programmes for the modernization and construction of infrastructure by 2020 taking into account the requirements to reduce the man-made environmental impact. The environmental target set for 2017 were met in full.

<table>
<thead>
<tr>
<th>Level of fulfillment</th>
<th>Goals and result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ACHIEVE TARGETED SPECIFIC AIR EMISSIONS</strong></td>
<td>Specific air emissions in 2017 totalled:</td>
</tr>
<tr>
<td></td>
<td>• 3.17 kg/t for extracted hydrocarbons</td>
</tr>
<tr>
<td></td>
<td>• 1.09 kg/t for refined hydrocarbons</td>
</tr>
<tr>
<td><strong>ACHIEVE TARGETED SPECIFIC GREENHOUSE GAS EMISSIONS</strong></td>
<td>Specific greenhouse gas emissions amounted to:</td>
</tr>
<tr>
<td></td>
<td>• 219,540 tonnes/million tonnes of extracted hydrocarbons</td>
</tr>
<tr>
<td></td>
<td>• 233,990 tonnes/million tonnes of refined hydrocarbons</td>
</tr>
<tr>
<td><strong>REDUCE THE DISCHARGE OF CONTAMINATED AND INSUFFICIENTLY TREATED WASTEWATER INTO THE GROUND, SURFACE WATER BODIES, AND CENTRALIZED WATER DISPOSAL SYSTEMS</strong></td>
<td>The discharge volume decreased by 15% compared with 2016</td>
</tr>
<tr>
<td><strong>INCREASE THE PROPORTION OF DISPOSED AND RECYCLED WASTE</strong></td>
<td>The proportion of waste shipped off for disposal and recycling increased by 4.9% compared with 2016 and amounted to 83.5%</td>
</tr>
<tr>
<td><strong>ACHIEVE THE TARGET FOR ABOVE-LIMIT PAYMENTS FOR NEGATIVE ENVIRONMENTAL IMPACT</strong></td>
<td>The proportion of above-limit payments in the overall payment for negative environmental impact was 0.23%</td>
</tr>
<tr>
<td><strong>MEDIUM-TERM GOAL. ACHIEVE THE TARGET LEVEL FOR THE UTILIZATION OF ASSOCIATED PETROLEUM GAS (APG) (95%)</strong></td>
<td>This is a medium-term goal. The level of APG utilization was 76.16% in 2017. The action programme to achieve the medium-term indicator was fully implemented during the reporting year</td>
</tr>
<tr>
<td><strong>CONDUCT TECHNICAL AND COMMUNICATION MEASURES THAT AIM TO MITIGATE THE NEGATIVE ENVIRONMENTAL IMPACT AND DEVELOP ENVIRONMENTAL CONSCIOUSNESS AS PART OF THE YEAR OF ECOSYSTEM</strong></td>
<td>A comprehensive programme including more than 1,100 events was implemented as part of the Year of Ecology. Investment in the programme amounted to more than RUB 17.5 billion</td>
</tr>
</tbody>
</table>

The environmental target set for 2017 were met in full.

YEAR OF ECOLoGY

Russia declared 2017 the Year of Ecology. As part of the implementation of a decree of the Russian President "On the Year of Ecology in the Russian Federation" and instructions from Chairman of the Gazprom PJSC Management Board Alexey Miller, the Company developed and implemented a special environmental action plan that aims to address key environmental issues.

**MAIN FOCUSES OF THE YEAR OF ECOSYSTEM PROGRAMME AT THE COMPANY**

| ENVIRONMENTAL EDUCATION OF EMPLOYEES | Introduction and relaying of environmental rules |
| | Corporate seminars and training sessions on ecology |
| INDUSTRIAL MEASURES | Modernization of production facilities |
| | Development and implementation of eco-friendly technologies |
| | Mitigating negative environmental impact indicators |
| | Commissioning of environmental facilities |
| | Implementation of energy conservation programmes |
| NON-INDUSTRIAL MEASURES | Environmental monitoring |
| | Preserving biodiversity |
| | Providing support for federal and international environmental campaigns |
| ENVIRONMENTAL COMMUNICATIONS | Creating platforms for communication and interaction with stakeholders such as NGOs, the state authorities, schoolchildren, and students |
| GREEN TERRITORY SPECIAL PROJECT | Creating infrastructure for the separate collection of waste at the Company’s filling stations and offices |
| | Landscaping and other improvements |

**KEY RESULTS:**

- Construction was completed on a gas treatment unit (1st stage) and a cluster of inverted wells at the Novoportovskoye field of Gazpromneft-Yamal for the injection of associated petroleum gas in order to maintain reservoir pressure.
- Construction work was completed on the Biosfera II biological treatment facilities at the Moscow Oil Refinery and construction work started on treatment facilities at the Omsk Oil Refinery. The project was among the federal projects implemented as part of the Year of Ecology.
- A landfill was opened at the Taylakovskoye field for the disposal and processing of industrial and household waste at Slavneft-Megionneftegaz.
- 36 million fish were released into water bodies.
- 100 Saturday volunteer work days were held in the regions with the participation of over 6,000 people, resulting in the clean-up of more than 1.5 hectares of land and the removal of more than 670,000 tonnes of garbage.
- More than 298,000 shrubs and trees were planted as part of public campaigns.

More than 1,100 events were held as part of the Year of Ecology in which Gazprom Neft invested over RUB 17.5 billion.

After implementing the Year of Ecology state programme, the Company received an award from the Ministry of Natural Resources and Environment of the Russian Federation ‘For an Active Environmental Policy during the Year of Ecology’.
**PROTECTING THE ATMOSPHERE**

The Company made progress in 2017 in addressing one of its main environmental objectives – reducing air pollutant emissions.

Key projects that made it possible to reduce gross emissions by 26% compared with 2016 included:
- APG utilization programmes
- an increase in APG consumption for oil treatment through the increased extraction of production fluid
- the commissioning of external gas transmission systems at gas processing plants
- repairs to the first process flow at the Omsk Oil Refinery
- the continuation of the modernization programme for the Moscov Oil Refinery: major repairs to the Big Ring installations, the reconstruction of the catalytic cracking unit (G-43-107), and the completion of the modernization of primary oil refining unit furnaces (crude vacuum unit-4) with conversion to eco-friendly gas fuel.

Specific air pollutant emission indicators in 2017 amounted to 3.17 kg/tonne for extracted hydrocarbons (TOE) and 1.09 kg/tonne for refined hydrocarbons (TOE).

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**GREENHOUSE GAS EMISSIONS**

Gasprom Neft supports the implementation of the Paris Climate Agreement, which aims to combat climate change, and the Concept to Form a System of Monitoring, Reporting, and Verifying Greenhouse Gas Emission Volumes in the Russian Federation and also adheres to national legislation on a reduction in greenhouse gas emissions and manages the quantitative determination of the volume of greenhouse gas emissions. The Company is developing risk management system associated with hydrocarbon regulation and also assesses and monitors greenhouse gas emissions generated by its operations. Emissions are assessed based on the following aspects:
- direct greenhouse gas emissions related to the flaring of hydrocarbon fuel and substances, the operation of production facilities, and process losses
- indirect energy emissions related to the consumption of third-party electricity, heat, steam, or cooling

Gazprom Neft is developing a programme to increase the use of associated petroleum gas use at all its production assets. The Company’s key goal is to increase the level of APG utilization to 72.7% in 2019, 92.2% in 2019, and 95% by 2020. The Company used 76.16% of its APG in 2017.

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**MODERNIZATION OF THE MOSCOW OIL REFINERY**

The Moscow Oil Refinery completed the key stage of the reconstruction of the catalytic cracking unit (G-43-107), which is designed for the production of high emission standard Euro-5 fuel components.

The refinery has only been producing Euro-5 fuel since 2013, accounting for 40% of the market in the Moscow region. Modern fuel with improved environmental attributes has made it possible to reduce total air emissions in the capital from the use of vehicles.

**APG UTILIZATION**

APG utilization programmes 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Bm³</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>8,708</td>
<td>4,089</td>
<td>4,098</td>
<td>3,924</td>
<td>4,077</td>
</tr>
</tbody>
</table>

**PRODUCTS WITH IMPROVED ENVIRONMENTAL ATTRIBUTES**

The Omsk Oil Refinery produced the first batch of new marine fuel with improved environmental attributes.

Thanks to minimum sulphur content – no more than 0.1% – the product is suitable for use in emission control zones identified by the International Convention for the Prevention of Pollution from Ships [MARPOL]. The new fuel is certified in accordance with the requirements of the technical regulations of the Eurasian Economic Community.

**PROJECTS FOR APG UTILIZATION IN 2017**

- the commissioning of fuel gas units to meet the fuel needs of a gas turbine power plant at the East Messoyakha deposit
- an increase in APG consumption for oil treatment due to an increase in the extraction of production fluids at Messoyakhaneftegaz JSC and the transition of the gas turbine power plant’s fuel supply from natural gas to APG
- the commissioning of a 96 MW gas turbine power plant and an APG compression unit at the facilities of the Novoportovskoye field to support the injection of APG into the formation
- the commissioning of compressor stations at the Shinginskoye and West Lugnetskoye fields

The higher amount of flared APG is due to an increase in oil production at the East Messoyakha, Novoportovskoye, and Urmano-Arkinskoye fields. The construction of infrastructure for APG utilization at these assets is in the final stage.
USE OF WATER RESOURCES

When using water resources, Gazprom Neft seeks to reduce water consumption and discharges in wastewater as well as improve the environmental attributes of water bodies and their coastal areas.

The company regularly monitors water protection zones as well as surface water, groundwater, and wastewater and assesses the bottom sediment conditions of surface water bodies in the areas where it operates. Scientists from the Polar Research Institute of Marine Fisheries and Oceanography are carrying out comprehensive studies of the water environment as well as key hydrological and hydro-chemical indicators of the water condition near the Prirazlommaya offshore platform.

Key water resource conservation projects in 2017 included two major projects implemented by the Company as part of the Year of Ecology federal action plan in Russia: the completion of construction on the ‘Biosphera’ treatment plants at the Moscow Oil Refinery and the start of construction on similar facilities at the Omsk Oil Refinery. Investment in the treatment facilities at the Moscow Oil Refinery amounted to 0.8 billion. The complex consists of a multi-stage wastewater treatment system that includes mechanical, physicochemical, biological, filtration and ultrafiltration stages as well as a reverse osmosis unit. The closed wastewater treatment cycle will make it possible to recycle up to 75% of treated water in production. The technological solutions drastically reduce the total area of the treatment facilities, make them more compact, and ensure the technological stages of water treatment are hermetically sealed. The Omsk Oil Refinery has begun reorganizing the recycling water supply system in order to meet the production needs of some of the units. Local water units will ensure the uninterrupted operation of base oil production and will also increase the reliability of technological processes, as the water recycling systems will be split up and decentralized.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Specific water consumption for the Company’s internal needs</th>
<th>Specific disposal of contaminated water to surface water bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Extracted hydrocarbons (TOE)</td>
<td>1.972</td>
<td>1.972</td>
</tr>
<tr>
<td>Refined hydrocarbons (TOE)</td>
<td>0.224</td>
<td>0.247</td>
</tr>
</tbody>
</table>

**Biosphera at the Moscow Oil Refinery**

The efficiency index of the multistage water treatment system at the refinery exceeds 99.9%. During the first stage, water passes through a pressure flotation unit, where an air flow knocks out mechanical impurities and petroleum products. Then the water passes into the membrane bioreactor where the wastewater is mixed with silt, which contains microorganisms that are specially grown for Biosphera and are capable of absorbing and processing residual petroleum products. After it does its job, the silt is filtered by membranes whose pore diameter is smaller than that of human hair. In the final stage, the purified water passes under pressure through 280 tonnes of activated carbon and 1,440 reverse osmosis membranes, in which the size of the cells does not exceed that of a water molecule. The purified water then is put back into production and the filtered petroleum products are used for refining. Some of the purified water is transmitted directly by pipes to the municipal sewage treatment facilities. The refinery has no open sewage to the Moskva River.

In 2017, experts from the Green Patrol national public organization presented the Moscow Oil Refinery with a certificate recognizing the quality of the sewage treatment system’s modernization – ‘Green Certificate – Modernization Carried Out’. The decision was made based on an analysis of samples that environmentalists selected before and after the launch of the innovative Biosphera treatment facilities.

The Biosphera project was among the winners of the annual Ecoworld 2017 International Ecological Award in the category ‘Environmental Developments, Resource Conservation, and Non-Waste Technologies’.

“Purification using a membrane bioreactor is more expensive than other options, but this is the only technology that is promising for domestic and industrial wastewater, especially in urban conditions. There are only a few examples of this technology being used in Russia. In oil refining it is quite unique.”

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

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1. The withdrawal of water from surface sources has increased due to heightened requirements for reverse pressure maintenance systems.
2. The decrease in the use of recycled water is due to a disalage in the final process flow at the Omsk Oil Refinery for repairs and the reconstruction of process units-transmitters of recycled water.

---

**WATER USAGE** (MN M³)

- **Use in water recycling systems**
- **Transfer to other consumers without use**
- **Use in water reuse systems**

<table>
<thead>
<tr>
<th>Year</th>
<th>Use in water recycling systems</th>
<th>Transfer to other consumers without use</th>
<th>Use in water reuse systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>398.7</td>
<td>179.3</td>
<td>17.8</td>
</tr>
<tr>
<td>2014</td>
<td>406.4</td>
<td>180.3</td>
<td>18.0</td>
</tr>
<tr>
<td>2015</td>
<td>408.2</td>
<td>180.7</td>
<td>18.1</td>
</tr>
<tr>
<td>2016</td>
<td>433.1</td>
<td>181.7</td>
<td>18.6</td>
</tr>
<tr>
<td>2017</td>
<td>343.6</td>
<td>182.6</td>
<td>16.5</td>
</tr>
</tbody>
</table>

---

**DEGREE OF WATER CONSUMPTION** (MN M³)

<table>
<thead>
<tr>
<th>Year</th>
<th>From underground sources</th>
<th>From surface sources</th>
<th>Received from other organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>132.6</td>
<td>10.2</td>
<td>0.6</td>
</tr>
<tr>
<td>2014</td>
<td>135.9</td>
<td>14.0</td>
<td>0.7</td>
</tr>
<tr>
<td>2015</td>
<td>142.0</td>
<td>14.2</td>
<td>0.7</td>
</tr>
<tr>
<td>2016</td>
<td>133.0</td>
<td>14.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

---

**SPECIFIC WATER CONSUMPTION AND DISPOSAL INDICATORS** (M³/T)

- **Extracted hydrocarbons (TOE)**
- **Reﬁned hydrocarbons (TOE)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extracted hydrocarbons (TOE)</td>
<td>1.972</td>
<td>1.972</td>
</tr>
<tr>
<td>Refined hydrocarbons (TOE)</td>
<td>0.224</td>
<td>0.247</td>
</tr>
</tbody>
</table>
WASTE MANAGEMENT

Gazprom Neft is developing an industrial waste management system that aims to optimize waste flows, mitigate the environmental impact, reduce the economic cost of waste generation, and maximize the possible use of waste.

In 2017, the subsidiaries of the Upstream Division introduced a concept for the utilization of drilling waste in order to mitigate environmental risks.

In 2017, Gazprom Neft and Tuymen State University launched cooperation in conducting chemical and analytical quality control of the environmental restoration work being carried out by Gazprom Neft. Independent laboratories at Tuymen State University will analyze soil samples in reclaimed areas of oil contaminated lands, drilling waste, oily waste, and products generated from their utilization. Independent control is a proactive measure that allows for promptly identifying and correcting deviations when performing environmental restoration work.

In 2017, the Company continued to replicate the ‘Green Seisms’ technology at its enterprises, which saves trees from being cut during seismic operations. The conventional approach requires creating wide clearings that are needed for heavy all-terrain vehicles to pass through. Thanks to cable-free recording equipment, which can be installed using light technology, ‘Green Seisms’ allows for significantly narrowing the clearings or not making them at all. The technology is already being utilized at Gazpromneft-Noyabrskneftegaz, Gazpromneft-Khantos, Slavneft-Megionneftegaz, and Gazpromneft-Vostok.

The Omsk Lubricants Plant has opened a site to store oil sludge. It will help to minimize the risks of soil contamination at the production site and ensure compliance with legal requirements for the accumulation of oily waste.

**PROTECTION OF LAND RESOURCES AND VEGETATION**

Gazprom Neft reclaims disturbed and contaminated land and sludge pits by introducing advanced technologies for pipeline monitoring and diagnostics and restoring soil taking into account the soil and climatic conditions of the regions.

As part of the ‘Clean Territory’ project, the Company conducts diagnostics and monitors corrosion in an effort to reduce pipeline failure rates and the area of contaminated land. One of the focuses of the project is the reclamation of polluted ‘historical heritage’ land.

**PRESERVING BIODIVERSITY**

Gazprom Neft is implementing a perpetual corporate programme to preserve biodiversity based on a list of flora and fauna that serve as indicators of the stable condition of the marine ecosystems in Russia’s Arctic zone. The programme was developed by the Company jointly with leading scientific research institutes, Russian Arctic National Park, and the Marine Mammal Council taking into recommendations from the UN Development Programme, the Global Environment Facility, the Ministry of Natural Resources and Environment, and the World Wildlife Fund in Russia.

The Company carries out environmental monitoring of its impact on the Arctic ecosystems in the area of its operations. Studies conducted in 2017, including toxicological and genetic analyses of biological samples, did not reveal any significant changes.

Starting in 2017, the Company introduced action programmes to preserve biodiversity for all its assets located in Russia. The implementation of these programmes will be continued in full in 2018.

A programme to reproduce aquatic biological resources is a key component of the Company’s field development projects.

The Company’s enterprises released 36 million valuable young fry into reservoirs during the reporting year as part of the programme to reproduce aquatic biological resources. Gazpromneft-Khantos, Gazpromneft-Yamal, Messoyakhneftegaz, Gazpromneft-Muravlenko, and Gazpromneft-Omsk Oil Refinery took part in the programme.

**NEW RECLAMATION METHODS**

In 2017, Gazpromneft-Noyabrskneftegaz conducted the pilot testing of reclamation technologies for saline lands. Washing the soil layer with water and using agronomic and biological methods of reclamation revealed it was possible to accelerate the adaptation and purification of soils. Based on the testing results, the technology will be introduced at the Company’s facilities.

**SPECIFIC LAND PROTECTION INDICATORS**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of area of contaminated land at the end of the year vs. at the start of the year, ha/ha</td>
<td>0.0046</td>
<td>0.014</td>
</tr>
<tr>
<td>Specific amount of spilled oil, condensate, and petroleum products as a result of accidents and leaks, kg/t of extracted hydrocarbons (TOE)</td>
<td>0.0033</td>
<td>0.005</td>
</tr>
</tbody>
</table>

*The increase in waste generation during the reporting year is due to higher drilling volumes.*
ENERGY CONSUMPTION AND ENERGY EFFICIENCY

THE STEADY GROWTH RATES IN THE COMPANY’S PRODUCTION HAVE RESULTED IN INCREASED CONSUMPTION OF ENERGY RESOURCES IN RECENT YEARS. AWARE OF THE HUMAN IMPACT OF THESE PROCESSES, GAZPROM NEFT HAS INCREASED THE ENERGY EFFICIENCY OF ITS PRODUCTION ASSETS AND IS WORKING TO REDUCE THE CONSUMPTION OF ENERGY RESOURCES.

THE MAIN GOALS OF GAZPROM NEFT IN ENERGY CONSERVATION AND EFFICIENCY ARE:

- to enhance the energy efficiency of the Company’s enterprises while maintaining or improving reliability, safety, and performance
- to mitigate adverse impacts on the environment
- to reduce the consumption of non-renewable energy resources

The Company adheres to the Gazprom Neft Energy Policy, which serves as the foundation for the Energy Management System (EMS). The EMS meets the requirements of ISO 50001: 2011. The EMS has been gradually introduced at the Company’s facilities.

The Energy Conservation and Energy Efficiency Programme serves as the main tool for achieving the Company’s planned energy efficiency indicators. Gazpromneft-Yamal, the Mesyossyakhanezhogaz JV, Slavneft-Megionneftegaz (Upstream Division), Slavneft-YANOS, and the Omsk Lubricants Plant (Downstream Division) joined the EMS in 2017. The Corporate Centres of the Upstream and Downstream Divisions, Gazpromneft-Noyabrskneftegaz, Gazpromneft-Muravlenko, Gazpromneft-Khatos, Gazpromneft-Vostok, Gazpromneft-Drenburg, and the Omsk and Moscow Oil Refineries confirmed that the EMS complies with the requirements of the standard.

Experts from the Upstream Division joined a Russian Energy Agency working group that is drafting a national methodology for benchmarking energy efficiency in oil and gas production processes. Representatives of the Downstream Division served as experts on specialized working groups, committees, and commissions of the State Duma and the Ministry of Energy of the Russian Federation for the drafting and discussion of targeted programs and strategies of the Russian Federation as well as the creation of legislative, regulatory, and technical bases for energy conservation and energy efficiency.

The Company continued its cooperation with the authorities during the reporting year in an effort to improve energy efficiency.

COOPERATION WITH STAKEHOLDERS

The Company continued its cooperation with the authorities during the reporting year in an effort to improve energy efficiency.

Experts from the Upstream Division joined a Russian Energy Agency working group that is drafting a national methodology for benchmarking energy efficiency in oil and gas production processes. Representatives of the Downstream Division served as experts on specialized working groups, committees, and commissions of the State Duma and the Ministry of Energy of the Russian Federation for the drafting and discussion of targeted programs and strategies of the Russian Federation as well as the creation of legislative, regulatory, and technical bases for energy conservation and energy efficiency.

FULFILMENT OF 2017 GOALS AND OBJECTIVES

<table>
<thead>
<tr>
<th>Level of fulfilment</th>
<th>Goals and result</th>
</tr>
</thead>
<tbody>
<tr>
<td>TARGETS OF THE UPSTREAM DIVISION</td>
<td></td>
</tr>
<tr>
<td>Implement the energy conservation and improved energy efficiency programmes (466 mn kWh). Achieve the planned specific electricity consumption indicators for the Upstream Division (29.98 kWh/TJ). The goal was achieved, the programme exceeded the targets, and specific electricity consumption was 1.6% lower than the plan for the year taking into account normalization.</td>
<td></td>
</tr>
<tr>
<td>TARGETS OF THE DOWNSTREAM DIVISION</td>
<td></td>
</tr>
<tr>
<td>Implement the Downstream Division’s energy conservation programme and conserve the following main fuel and energy resources:</td>
<td></td>
</tr>
<tr>
<td>- heat energy – 171,500 Gcal</td>
<td></td>
</tr>
<tr>
<td>- fuel – 57,300 TDE</td>
<td></td>
</tr>
<tr>
<td>- electricity – 19.2 mn kWh</td>
<td></td>
</tr>
<tr>
<td>The goal was achieved and the programme exceeded the targets.</td>
<td></td>
</tr>
<tr>
<td>UPSTREAM DIVISION</td>
<td></td>
</tr>
<tr>
<td>Focuses on energy efficiency in terms of machinery and technology:</td>
<td></td>
</tr>
<tr>
<td>- use of high efficiency electric submersible pump units</td>
<td></td>
</tr>
<tr>
<td>- introducing electric submersible pump units with an expanded work area</td>
<td></td>
</tr>
<tr>
<td>- conducting geological and technical measures to reduce water produced and pump it into the formation</td>
<td></td>
</tr>
<tr>
<td>- installation of variable frequency drives on pumping equipment</td>
<td></td>
</tr>
<tr>
<td>- replacement of submersible cables with cables that have an enlarged cross-section</td>
<td></td>
</tr>
<tr>
<td>- pilot testing of pump equipment with improved performance and efficiency indicators</td>
<td></td>
</tr>
<tr>
<td>- reconstruction/modernization of pump units</td>
<td></td>
</tr>
<tr>
<td>- installation of LED lighting fixtures and the introduction of infrared electric heaters</td>
<td></td>
</tr>
<tr>
<td>The goal was achieved and these measures were implemented in full.</td>
<td></td>
</tr>
<tr>
<td>DOWNSTREAM DIVISION</td>
<td></td>
</tr>
<tr>
<td>Key focuses on improving energy efficiency and energy conservation management:</td>
<td></td>
</tr>
<tr>
<td>- improve work efficiency and optimize the processing behaviour of energy and technological equipment</td>
<td></td>
</tr>
<tr>
<td>- reduce the fuel and energy intensity of technological processes</td>
<td></td>
</tr>
<tr>
<td>- reduce losses of fuel and energy resources</td>
<td></td>
</tr>
<tr>
<td>- increase the proportion of steam condensate returned by process units</td>
<td></td>
</tr>
<tr>
<td>- increase the efficiency of heat exchange processes and the generation and use of thermal energy in core and auxiliary processes</td>
<td></td>
</tr>
<tr>
<td>- improve the infrastructure level of core and auxiliary production processes at enterprises with metering devices</td>
<td></td>
</tr>
<tr>
<td>- introduce the energy management system</td>
<td></td>
</tr>
<tr>
<td>- introduce and expand the perimeter of the Energy Management System in accordance with the requirements of the international standard ISO 50005</td>
<td></td>
</tr>
<tr>
<td>The goal was achieved and these measures were implemented in full.</td>
<td></td>
</tr>
<tr>
<td>DOWNSTREAM DIVISION</td>
<td></td>
</tr>
<tr>
<td>Improve the reliability of power supplies (medium-term objectives):</td>
<td></td>
</tr>
<tr>
<td>- search for, adapt, and replicate new technologies, methods, and best practices, establish a new functionality, and increase the use and effectiveness of the system’s existing resources (material resources and staff)</td>
<td></td>
</tr>
<tr>
<td>- strengthen and centralize the functional vertical of energy management</td>
<td></td>
</tr>
<tr>
<td>- expand the functions of the Main Control Room as regards the real-time assessment and monitoring of energy equipment reliability indicators</td>
<td></td>
</tr>
<tr>
<td>- systematic work to improve the skill and motivation level of staff</td>
<td></td>
</tr>
<tr>
<td>- perform additional targeted research work in matters concerning reliability</td>
<td></td>
</tr>
<tr>
<td>The goal was achieved and these measures were implemented in full.</td>
<td></td>
</tr>
</tbody>
</table>
The Upstream Division’s energy efficiency programme exceeded the targets in 2017. Energy savings amounted to 466 mn kWh (RUB 1.5 billion).

The Division drafted and implemented a programme to improve the reliability and modernize electrical equipment and networks, which included 102 measures, during the reporting year. The measures made it possible to significantly reduce oil shortages during emergency power outages compared with 2016.

The Division’s key energy efficiency indicator – specific electricity consumption for fluid produced – totalled 28.98 kWh/t.

### Technical

- Mechanical boost
- Maintaining reservoir pressure
- Treatment and transportation of oil and gas
- Electricity and heat supply
- Geotechnical and engineering activities

### Organizational

- Introduction and certification of the EMS in accordance with the requirements of ISO 50001 and internal audits of the system
- Construction of a system to monitor the energy efficiency of oil production facilities and a mandatory energy audit
- Optimization of the cost of electricity from external networks
- Replacement of diesel engine power stations with gas turbine stations (cost optimization)

The establishment of the Cross-Functional Commission on Energy Efficiency within the Upstream Division was approved in 2017 and the commission held four meetings.

Energy management structures were designated at all current assets. The Division drafted the corporate standards ‘Energy Analysis’ and ‘Energy Planning’.

### Specific Electricity Consumption for Fluid Produced (KWH/T)

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>29.00</td>
<td>28.74</td>
<td>28.61</td>
<td>28.91</td>
<td>28.85</td>
</tr>
</tbody>
</table>

1. The increase in specific electricity consumption in 2017 by 0.71 kWh/t is due to an increase in the proportion of production assets with a greater depth of oil-containing strata.

### New Technologies in the Arctic

In 2017, Gazpromneft-Yamal launched the pilot testing of the YURTA combined wind–solar power plant with capacity of 47.5 kW, which is designed to supply power to a group of line-to-line consumers.

The hybrid technology will significantly reduce the cost of power supplies to long-distance and remote sites from network infrastructure facilities due to the lack of a need to build power lines.

The Russian-produced equipment for the power plant is designed to operate at temperatures as low as -60°C. The vertical shape of the wind generators makes it possible to generate electricity regardless of which way the wind is blowing.

“In the future, the company will be able to provide power to facilities that are located dozens of kilometres from main networks. Moreover, the introduction of a wind-solar power plant is entirely safe for the Arctic environment”.

Sergey Devyatayev
Chief Engineer and First Deputy CEO
of Gazpromneft-Yamal
DOWNSTREAM DIVISION

7.8 TJ

ELECTRICITY, THERMAL ENERGY, AND FUEL SAVINGS

RUB 929.7 MN

ECONOMIC EFFECT

In 2017, the enterprises of the Downstream Division continued implementing the activities of the integrated Energy Conservation and Improved Energy Efficiency Programme. Gazpromneft-Aero and Gazpromneft-BM have joined the programme, which as a result now includes the energy conservation activities of 49 production assets in the Downstream Division.

Main activities of the programme:
- replacing and modernizing process furnaces to increase their efficiency
- optimizing the recuperation system and using secondary energy resources in technological processes
- increasing the efficiency of fuel use in process furnaces by utilizing modern technologies
- optimizing condensate collection and return systems
- optimizing the operation of compressor equipment
- increasing the efficiency of heat and steam supply systems
- modernizing lighting systems
- replacing turbo drives and steam pumps with electric drives

As a result, the savings of fuel and energy resources within the Division exceeded the targets and amounted to:
- thermal energy – by 279,400 Gcal
- fuel – by 137,500 tonnes of natural fuel
- electricity – by 18.9 mn kWh

The implementation of measures contained in the integrated programme to improve the reliability of power supply to refineries has reduced the number of power failures at refineries by 15% compared with 2016.

In general, energy conservation activities made it possible to save 7.8 TJ of thermal energy, electricity, and fuel. The economic effect exceeded the targets and amounted to RUB 929.7 million.

The increase in specific energy consumption in 2017 is due to a decrease in refining volumes and the utilization rate of secondary processes in accordance with the production program as well as the reconstruction and commissioning of new units at the Moscow and Ymks Oil Refineries and the start of the production of Group III oils at Stavrost VANOSS OJSC.

The Energy Conservation and Energy Efficiency Programme combines energy-saving measures at 49 production assets of the Downstream Division.

As the results of the energy conservation programme are a kind of indicator of the success and coordination of the work performed by a large team of specialists. Our further work in this area is consistent with the main trends in the industry’s development and is based on the digitization of business processes with the active use of components of predictive analytics and progressive IT solutions and technologies”.

Vladimir Andreyev
Head of the Energy Department of the Downstream Division

MOSCOW OIL REFINERY IMPROVES ENERGY EFFICIENCY

The modernization and repair of key units at the Moscow Oil Refinery in 2017 reduced the refinery’s fuel consumption by 2.1% and thermal energy consumption by 0.9%.

The biggest contribution to this reduction in fuel consumption came from the modernization of the technological furnaces of crude vacuum unit-6, which accounts for 19% of the refinery’s total energy consumption, and the completion of a project to switch the furnaces from liquid to eco-friendly gas fuel. The installation of modern energy-efficient equipment and the transfer of the entire refinery’s lighting system to energy-saving technologies also helped to conserve energy.

The Energy Intensity Index of the Company’s Oil Refineries

“Calculation is based on the methodology of the company Balance. The Energy Intensity Index (EI) allows for a quantitative comparison of the energy efficiency of a specific refinery with another refinery that is similar in terms of productive units and work conditions. The index shows the ratio of actual energy consumption versus the enterprise’s standard energy consumption. The smaller an enterprise’s EI value is, the better its energy efficiency proves to be.”

Table: Energy Intensity Index of the Company’s Oil Refineries

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omks Oil Refinery</td>
<td>123</td>
<td>117</td>
<td>114</td>
<td>110</td>
<td>107</td>
</tr>
<tr>
<td>Moscow Oil Refinery</td>
<td>123</td>
<td>122</td>
<td>114</td>
<td>113</td>
<td>111</td>
</tr>
<tr>
<td>VANOSS</td>
<td>110</td>
<td>108</td>
<td>108</td>
<td>107</td>
<td>105</td>
</tr>
<tr>
<td>NIS</td>
<td>–</td>
<td>126</td>
<td>122</td>
<td>118</td>
<td>113</td>
</tr>
</tbody>
</table>

† = Calculated according to the methodology of the company Balance.
GOALS AND OBJECTIVES FOR 2018

INDUSTRIAL SAFETY

- reduce the specific injury frequency rate with a fatal outcome by 20% from the average level of 2015-2017
- reduce the specific accident rate by 5% from the average level of 2015-2017
- reduce the specific number of traffic accidents by 10% from the average level of 2015-2017

ENERGY EFFICIENCY AND ENERGY CONSERVATION

UPSTREAM DIVISION

Targets:
- implementation of the Upstream Division’s energy conservation and improved energy efficiency programmes for 2018-2020 (502 million kWh)
- achieving the targets for specific electricity consumption at the Upstream Division in 2018 (29.57 kWh/TJ)

Focuses of energy conservation in machinery and technology:
- use of high-performance electric centrifugal pumps
- conducting geological and technical measures to reduce produced water and inject it into the formation
- reconstruction/modernization of pump units
- modernization of lighting systems and optimization of electric heating systems

Main objectives for energy conservation management:
- introduction and certification of energy management systems at Gazpromneft-Yamal and Mesoyakhneftegaz
- staff training as part of the introduction of the EMS
- improving the Company’s regulatory framework in matters concerning energy conservation and energy efficiency
- organizing the exchange of experience with companies in the industry

DOWNSTREAM DIVISION

Targets:
- implementation of the Downstream Division’s Energy Conservation Programme with the following savings of the main fuel and energy resources:
  - thermal energy – by 109,400 Gcal
  - fuel – by 38,300 tonnes of natural fuel
  - electricity – by 3.9 mn kWh
- Total economic effect – RUB 460.7 mn

Main focuses of energy conservation in machinery and technology:
- replacing and modernizing process furnaces to increase their efficiency
- optimizing the recuperation system and using secondary energy resources in technological processes (using heat from product flows to heat raw materials as well as water and heat flows)
- increasing the efficiency of fuel use in process furnaces by utilizing modern technologies (ceramic coating of heating surfaces, ultra-thin thermal insulation coating, and improved burner designs)
- optimizing condensate collection and return systems
- optimizing the operation of compressor equipment
- increasing the efficiency of heat and steam supply systems
- modernizing lighting systems
- replacing turbo drives and steam pumps with electric drives

MITIGATING NEGATIVE ENVIRONMENTAL IMPACTS AND EFFECTIVELY UTILIZING RESOURCES

- achieving the targets for specific harmful (pollutant) air emissions
- achieving the targets for specific greenhouse gas emissions
- increasing the share of disposed and recycled waste
- reducing the share of above-limit payments for negative environmental impacts
- continuing to achieve the medium-term goal of increasing the APG utilization level to 95%
- further implementing environmental safety programmes

Main objectives for energy conservation management:
- expanding the perimeter of the Downstream Division’s Unified Energy Management System with the bitumen and lubricants enterprises Gazpromneft-Ryazan Bitumen Materials Plant and Gazpromneft-Moscow Lubricants Plant
- expanding the perimeter of the Downstream Division’s Energy Conservation Programme with the new production enterprises: NOVA-Brit LLC, Polyom LLC, Sovkhimtekh PJSC, POLYEFIR LLC, and BSV-CHEM LLC
- conducting internal energy audits (checks) of energy intensive technological installations at enterprises as part of the fulfilment of energy conservation targets and objectives at enterprises in 2018
- the development and replication of best practices for energy conservation and improved energy efficiency as part of the Energy Efficiency Network Group at the Energy Competence Centre
- conducting internal and supervisory audits of the EMS at subsidiaries and the Corporate Centre of the Downstream Division with the involvement of auditors from an international certification body
- organizing the training and advanced training of employees of the Corporate Centre and Downstream Division enterprises on the Energy Management System
- developing corporate standards and methodologies in matters concerning energy conservation energy efficiency
- continuing energy efficiency meetings between Gazprom Neft enterprises and Russian oil companies
Gazprom Neft’s geographic footprint encompasses more than 30 regions of Russia, six former Soviet republics as well as six other countries. The Company’s production, economic, social, and environmental activities make a comprehensive contribution to the sustainable development of these territories.
**MANAGEMENT APPROACHES**

**GAZPROM NEFT’S ROLE IN REGIONAL DEVELOPMENT**

**INVESTOR AND TAXPAYER**
- Creation and modernization of assets
- Exploration of new deposits
- Development of road infrastructure and roadside service facilities
- Tax payments to local budgets
- Social investments

**EMPLOYER**
- Creates and maintains jobs at its enterprises, contractor organizations, and companies that are local suppliers of goods and services
- Healthcare and the professional development of Gazprom Neft staff

**SUPPLIER AND CUSTOMER**
- Supplies high-quality petroleum productions (petrol, diesel fuel, marine and aviation fuel, lubricants, bituminous materials and materials for road construction and repair, and liquefied hydrocarbons)
- Supplies petroleum products to remote areas of northern Russia
- Subsidized petroleum product supplies for agricultural producers
- Orders Russian-made import-substituting products for oil production and refining
- Participates in regional import substitution programmes in the Tyumen and Tomsk Regions.

**PARTICIPANT IN REGIONAL SUSTAINABLE DEVELOPMENT PROGRAMMES**
- Socioeconomic cooperation with regional and local authorities
- Implementation of the Native Towns social investment programme
- Implementation of environmental programmes
- Participation in biodiversity conservation projects
- Programmes to modernize refining assets and minimize the manmade impact on the environment
- Participation in assessments of the regulatory impact of regional regulations and improvements to the legal environment for the oil and gas industry
- Participation in the drafting of regulatory legal acts that aim to enhance the investment appeal of the regions and improve administrative processes in the oil and gas industry

**The Regional Policy Concept is the key document that specifies the objectives and principles of Gazprom Neft’s interaction with the regions.**

**DISTRIBUTION OF GAZPROM NEFT STAFF BY REGION (PEOPLE) (STAFF NUMBERS AS OF THE END OF 2017)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Staff Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Petersburg and Leningrad Region</td>
<td>13,272</td>
</tr>
<tr>
<td>Nizhny Novgorod Region</td>
<td>10,624</td>
</tr>
<tr>
<td>Omsk Region</td>
<td>9,447</td>
</tr>
<tr>
<td>Moscow and Moscow Region</td>
<td>9,077</td>
</tr>
<tr>
<td>Nenets Autonomous Okrug Region</td>
<td>4,427</td>
</tr>
<tr>
<td>Saratov Region</td>
<td>3,231</td>
</tr>
<tr>
<td>Krasnoyarsk Krai</td>
<td>1,683</td>
</tr>
<tr>
<td>Tyumen Region</td>
<td>1,465</td>
</tr>
<tr>
<td>Khabarovsk Region</td>
<td>1,148</td>
</tr>
<tr>
<td>Ivanovo Region</td>
<td>1,148</td>
</tr>
<tr>
<td>Tver Region</td>
<td>963</td>
</tr>
<tr>
<td>Other Russian regions</td>
<td>3,845</td>
</tr>
<tr>
<td>Former Soviet republics</td>
<td>1,165</td>
</tr>
<tr>
<td>Former Zaamin Republics</td>
<td>661</td>
</tr>
<tr>
<td>Iraq</td>
<td>123</td>
</tr>
<tr>
<td>Other countries</td>
<td></td>
</tr>
</tbody>
</table>

**REGIONAL POLICY MANAGEMENT STRUCTURE**

**Management Board**
- Development of a strategy and overall management of the implementation of the regional policy and an assessment of the results and activities of functional management

**Corporate Communications Unit**
- Preparation of performance standards to implement the approved regional policy
- Organizing and coordinating events as part of the regional policy in the regions where the Company operates
- Providing support for the Company’s investment projects at all the level of the regional authorities
- Collecting and processing regional information that affects the regional policy and preparing the relevant reports, reviews, and background information
- Administrative support for socioeconomic agreements
- Conducting an annual audit of the relations of the Company and its subsidiaries with the regional authorities
- Coordinating the Company’s regional policy activities
- Overall coordination of the Company’s social investment programme
- Development of social projects as part of the Native Towns programme
- Expert evaluation of the social investment programme of subsidiaries
- Evaluation of the effectiveness of the Company’s social investments
- Communication support for social programmes

**Core departments of Corporate Headquarters**
- Preparing proposals to implement the regional policy
- Preparing proposals on the development of the Company’s business in the regions and the content of social projects
- Implementing the decisions of the Regional Policy Commission

**Subsidiaries**
- Preparing proposals to implement the regional policy and develop business in the regions
- Implementing the decisions of the Regional Policy Commission
- Interaction with representatives of the regional and municipal authorities
- Planning social activities in the regions: preparation of a list of potential social projects based on engagement with stakeholders and compilation of the budgets of regional social investment programmes; development, implementation, and monitoring of the progress of projects and an assessment of their effectiveness

**Regional Policy Commission**
- Collecting and considering proposals on the implementation of the regional policy and social investment programmes from the Company’s structural units and its subsidiaries
- Drafting recommendations on the implementation of the proposed initiatives

**PRIORITIES OF GAZPROM NEFT IN INTERACTION WITH THE REGIONS:**
- Ensuring environmental safety and minimizing the Company’s environmental impact
- Cooperation with the governments of the regions of the Russian Federation and municipal administrations to ensure the sustainable development of the territories and improve people’s quality of life
- Creating a competitive environment on regional labour markets
- Creating stable and favourable financial, economic, and legal conditions for the activities of Gazprom Neft
- Expanding cooperation with stakeholders
- Ensuring information transparency for all stakeholders
Together with Gazprom Neft, we are ready to turn a new page in the development of Russian technologies. It is essential that the new structure becomes a place for uniting the research and production potential of all the project’s participants. This will give a boost to fundamental scientific work in the development of hard-to-recover reserves and help us avoid duplicate studies, excessive spending, and the long chain of testing innovations.

Natalya Komarova
Governor of KMAD-Yugra

THE FOLLOWING MAJOR PROJECTS WERE IMPLEMENTED IN 2017 TO SUPPORT REGIONAL DEVELOPMENT:

- Launch of the Bazhen project in KMAD-Yugra. In 2017, Gazprom Neft and the region’s government launched a project that was granted national status to build a facility that will use domestic technologies and high-tech equipment to develop the Bazhenov formation. The Bazhen Technological Centre will develop cost-efficient methods for the extraction of hard-to-recover oil reserves using the Company’s advanced technologies and competencies. The new technologies and equipment will be tested at the Palyanovskaya area of the Krasnoleninskoye field.

- Signing of road maps with the governments of the Tomsk and Tyumen Regions to expand the use of high-technology products, including import-substituting products, at organizations in the regions. The programmes aim to support Russian producers and facilitate the manufacturing of high-tech products. At the end of the year, the Company held meetings with regional suppliers and sent them updated strategies and road maps of Gazprom Neft PUSC for the import substitution of technologies and equipment. A total of 226 enterprises from the Tyumen Region and 93 enterprises from the Tomsk Region joined the pool of the Company’s suppliers. Six projects from residents of the Tyumen Technopark were selected and will undergo an assessment for their potential introduction at the Company’s enterprises.

- Expanded cooperation with the Omsk Region government as part of a strategy to develop the region and its petrochemical cluster. In 2017, the Company continued to implement a national project in the region to develop the production of catalysts for secondary refining processes. A new enterprise – Gazpromneft-Catalytic Systems – was established for this purpose. As part of this new focus in the Omsk Region, design work began on a new catalyst production plant whose products and solutions will be in high demand among players in the Russian oil refining industry. The plant is scheduled to open in 2020. The Company also continued a modernization programme at the Omsk Refinery that aims to increase the depth of oil refining.

- Signing of agreements to expand the import substitution of lubricants and technical fluids at utility service and industrial enterprises with the governments of seven regions: the Bryansk, Sverdlovsk, Sakhalin, Tomsk, Tyumen, and Ulyanovsk Regions and Krasnodar Territory.

THE EFFECTIVENESS OF THE REGIONAL POLICY’S IMPLEMENTATION IS ASSESSED THROUGH:

- an internal audit: an assessment of the quality of service during interaction with the regional authorities, an assessment of the existence and emergence of problematic situations during interaction with the regional authorities
- an external audit: feedback from representatives of stakeholders (letters and addresses to Company management, etc.) satisfaction surveys by conducting sociological surveys about the Company’s social investment programme organizing a dialogue with stakeholders, including roundtables on corporate social responsibility and sustainable development in key regions of the Company’s operations (such events took place in Tomsk and Omsk in 2017)

Interaction with indigenous peoples of northern Russia

The Company engages in production activities in areas where indigenous peoples of northern Russian (IPNR) reside in the KMAD-Yugra and YNAD. Gazprom Neft takes special care to maintain a balance between the implementation of its strategic plans and the interests of indigenous people as well as to preserve their cultural heritage and the environment.

When exploring and developing fields, the Company strictly observes the rights of IPNR and engages in a dialogue with them. Gazprom Neft provides financial support to families and agricultural communities of indigenous peoples and works to preserve the national identity of these northern people, establish cultural ties between different communities and families, and draw public attention to the preservation of traditional arts and crafts.

In order to establish a unified approach to interaction with indigenous peoples, Gazprom Neft in 2017 approved the Corporate Policy for Interaction with Indigenous Peoples of the North, Siberia, and the Far East* and a methodological document that describes the mechanisms and focuses for interaction with them.

*The full text of the document is available on the website.
The Company has been implementing its Native Towns social investments programme to support regional development since 2013. The programme was drafted in accordance with the Company’s development strategy and takes into account the social problems that people currently face in the regions where it operates. The Native Towns programme was initiated as a response to requests from local communities that were made during a large-scale audit that the Company conducted in 2012 to examine the effectiveness of its social activities and analyse the expectations of local residents.

The main areas requiring further development that were identified as a result of the audit included:

- closer interaction between the Company and local communities
- the integration of a system for selecting and supporting projects with the business development strategy to achieve the Company’s sustainable development goals
- the introduction of innovative tools to resolve urgent social problems and improve the quality of the urban environment and social services
- a transition from emerging socioeconomic problems to a system that aims to prevent them in order to improve the effectiveness of projects.

Based on these guidelines, Gazprom Neft has shifted from a “donor-based” model of social investment to a “partnership-based” model in which the key principle is to actively involve local communities in social activities and engage all stakeholders who are ready to take part in joint efforts to address the challenges of developing these territories. Thus, instead of being a sponsor, Gazprom Neft has become a driver of positive changes at the local level by providing active residents with tools, opportunities, and guidelines for development. To maximize its social impact, the Company actively involves external experts and NGOs in such cooperation.

Thinking systematically
For us, social investment is a professional activity for which we demand effectiveness. What sets us apart is a systematic approach and the desire to achieve measurable results. The key to the programme’s success is long-term strategic planning, a well-established reporting system, and constant monitoring of the progress of our initiatives. Our investments are productive.

Examining context
We use only verified data in our work. Regular surveys of local communities, sociological expeditions, and statistical analysis enable us to carry out the initiatives needed for a city or region. Our research results in specific recommendations for the development of territories that are not only used in our activities, but can also be useful in decision-making by regional and city administration officials.

Forming communities
Projects must have public support to be a success. We are guided by the position of communities, the authorities, business, experts, and the media, and also engage activists and opinion leaders. Successful events are the areas that are organized together with citizens. We are not only working on implementing urban development ideas, but also joining existing projects and supporting the initiatives of local residents.
ANNUAL CYCLE OF THE IMPLEMENTATION OF SOCIAL PROJECTS

1 EXAMINING CONTEXT

Stages:
- monitoring the development of territories
- engaging in dialogue with stakeholders
- identification of urgent social problems
- assessment of the feasibility of initiatives in these areas
- assessment of the level of efficiency and degree of demand for the Company’s existing social initiatives
- identification of opportunities for stakeholder involvement in projects

2 SELECTION OF SOCIAL PROJECTS FOR IMPLEMENTATION IN THE REPORTING YEAR

Selection criteria:
- connection of projects with the Company’s strategic priorities
- compliance of a territory’s current social problems with the interests/needs of stakeholders
- impact on the solution of a social problem and the potential for systemic reforms
- extent of involvement of stakeholder representatives in the project’s development and implementation
- long-term effect from the project’s implementation
- uniqueness of the project

3 DETERMINATION OF THE PROJECTED SOCIAL EFFECT AND EFFICIENCY INDICATORS

Key social effectiveness criteria:
- coverage of target audiences
- sustainability of the effect over time
- creating the basis for systemic reforms

4 ESTABLISHMENT OF A SET OF PROJECTS FOR A SPECIFIC TERRITORY

Development and approval of social investment programmes for each specific region

5 MONITORING OF A PROGRAMME’S IMPLEMENTATION AND ADJUSTMENTS AS NEEDED

Tools to monitor and assess the effectiveness of a social project:
- monitoring the achievement of the stated objectives and performance indicators
- opinion polls
- focus groups of city residents
- expert surveys
- sociological and marketing research
- online voting
- feedback form on the website of the Native Towns programme
- open competitions for the public

6 PERFORMANCE ASSESSMENT

As a result of the assessment, projects with the best indicators are stored in the library of successful social practices with the ability to be adopted and scaled to other regions.

The assessment results are discussed with internal stakeholders at meetings of Gazprom Neft senior management and with external stakeholders at public hearings in the regions where the projects are being implemented. The opinions of stakeholders are taken into account when planning the social investment programme for the next calendar year.

“Over the course of five years, the Native Towns programme has become a powerful organizing force aimed at the establishment and evolution of a progressive and harmonious urban environment in the regions where Gazprom Neft operates. It’s our aim to improve the quality of people’s lives and ultimately to create favourable conditions for the development of the Company itself.”

Alexander Dybal
Deputy CEO of Gazprom Neft for Corporate Communications

The key theme of the forum was social design tools for urban development and the role of business in the transformation process. Experts from the Calvert 22 and Creative Practices foundations and the Strelka Institute for Media, Architecture, and Design analysed the use of advanced social technologies in culture, urban planning, and economics.

The forum recapped the results of Gazprom Neft’s charity and volunteer activities in 2017. The winners of the third corporate competition of volunteer projects included 58 project teams of employees.

Energy of Positive Changes

In 2017, the Native Towns programme got a new slogan (‘Energy of Positive Changes’) and a visual design of its brand.

They reflect the main goals and vision of the Company’s model for social activities in the regions. The new visual style depicts two major social objects: branches of the Avangard hockey academy in Murmansk and Novosibirsk and 11 key projects of the programme: ‘Mathematical Progression’, ‘Spirit of Fire’, and the Native Towns festival, among others.
FULFILMENT OF 2017 GOALS AND OBJECTIVES

RESULTS OF SOCIAL ACTIVITIES IN 2017

IMPLEMENTATION OF SOCIOECONOMIC AGREEMENTS

MAJOR PROJECTS IMPLEMENTED AS PART OF THE AGREEMENTS

YNAD

- Construction of branches of the Avangard Hockey Academy (Labytnangi and Muravlenko)
- Construction of the Polyaer sports and recreational complex (Labytnangi)
- Construction of the Polyjarny sports and recreational complex (Muravlenko)
- Construction of 14 sports facilities (Muravlenko and Noyarsky)
- Construction of a school for 400 people (Tarko-Salei)
- Construction of a sports complex Yamal Arena (Salibakh)

KMAD-YUGRA

- Construction of a residential building with 120 apartments in the city of Khanty-Mansiysk
- Construction of an indoor hockey rink (Novosagansk village)
- Construction of a playing field (Samorodovo village)
- Construction of a modular rural cultural centre (Replovo settlement in the Khanty-Mansiysk district)

OMSK REGION

- Support for the Avangard children’s sports school
- Construction of a playing field and sports complex to comply with the government’s ‘Fit for Labour and Defence’ athletic requirements standards at School No. 106 in Omsk
- Construction of training grounds in Bereoprov village
- Construction of an area with weightlifting benches in Omsk (joint project with Shitemenko school)
- Reconstruction of the Smena ice hockey centre in Omsk
- Repairs at Daycare No. 9 in the city of Tara
- Repairs at Sever Cultural and Leisure Centre in Tara

ORENBURG REGION

- Improvements to the Lastochka daycare facility in Berdyansk village (Orenburg)
- Repair of cultural centres in Berdyansk village (Orenburg) and Myasrnovo village
- Construction of a sports complex in Samorodovo (Orenburg)
- Modernization of a library in Belogorskovo village

TOMSK REGION

- Reconstruction of the Teremsk daycare facility in Novy Vasyugan village
- Construction of a family recreation park in Parabel village

In 2017, the Company implemented socioeconomic agreements with the governments of 21 regions of the Russian Federation and the administrations of 20 municipalities. Under the agreements, funds were spent on the construction, repair, and reconstruction of social facilities as well as the modernization and maintenance of infrastructure in rural areas.

“Economic cooperation agreements remain the best way to implement major infrastructure projects. However, here we adhere to the principles of investment, not sponsorship. Along with the regional authorities, we study the real needs of the territories. This helps to be sure that every rouble invested is being used for real improvements in the quality of life in the regions”.

Sergey Bilkey
Head of the Gazprom Neft Regional Development Department
GRANT COMPETITIONS FOR SOCIAL INITIATIVES

Grant competitions are one of the key tools for involving stakeholders in the transformation of their regions and developing skills in social design.

Gazprom Neft utilizes such competitions to support initiatives aimed at systemic, innovative, and effective social reforms that are consistent with the key focuses of the Native Towns programmes. Public, charitable, and non-profit organizations along with state and municipal institutions can participate in such competitions, and groups of local residents have also had this opportunity since 2017. The winners of the competitions receive financial, methodological, and expert support from the Company.

Gazprom Neft regularly analyses the results of past years and takes them into account when developing new projects. Competitions held in 2013-2016 resulted in pilot grant competitions being held for initiative groups of citizens in 2017. Gazprom Neft analyses the sustainability of winning projects. Sustainable projects are recognized as ones that continue in full or expand following the end of grant support.

GRANT COMPETITIONS FOR SOCIAL INITIATIVES IN 2017:

- **APPLICATIONS**: 530 (+15.2%)
- **WINNING PROJECTS**: 112 (+32.3%)
- **OF PROJECTS ARE SUSTAINABLE**: 69.9%
- **GRANT FUND**: RUB 25.7 MN (+5.6%)

**REGIONS:**
- **YNAD** (Noyabrsk and Muravlenko)
- **KMAD-Yugra** (Khanty-Mansiysk and Khanty-Mansiysky District)

**‘KM Picnic’**

Khanty-Mansiysk held its KM Picnic – a citywide holiday with an extensive entertainment programme and free master classes – for the third time in 2017. The picnic is organized by energetic residents of the city.

Starting out in 2015 with a low-key event, in 2016 event was organized by one the winners of the Native Towns grant competition. Today, KM Picnic is a free creative space where guests are greeted by more than ten thematic zones: sports, educational, tourism, and children’s, among others. The festival programme also includes various contests, concerts, and numerous master classes. In 2017, the project’s guests included artists from the Stenografiya street art festival, who conducted a master class and created street art.

Gazprom Neft has been a general partner of the KM Picnic since 2017 as part of the social investment programme.

The Company analyses the results of past years and takes them into account when developing new projects. Competitions held in 2013-2016 resulted in pilot grant competitions being held for initiative groups of citizens in 2017.

'The oil- and gas-themed tournament aims to increase the popularity of engineering and technical professions among schoolchildren in regions where Gazprom Neft operates, help them to form research skills, and in doing so facilitate the establishment of the Company’s future talent pool for further development and the introduction of innovations.

The tournament’s format is designed taking into account current best practices around the world and features individual and team competitions among schoolchildren in grades 8-11 on ways to solve complex research problems in the oil and gas industry, present solutions in a convincing manner, and defend them in scientific discussions. The tournament is implemented in two stages, and the final is held in St. Petersburg.

‘MULTIPLYING TALENT’ TOURNAMENT

- **PARTNER**: Polytechnic University (Polytech).
- **PARTICIPANTS**: 2,366 (+31%)
- **CITIES**: 10

"Unconventional and attractive solutions and the ability to apply them in production situations are highly valued".

**Ramil Yaubatyrov**

Employee at the Gazprom Neft Scientific and Technical Centre and a contest judge

On-site training sessions and seminars to develop communication and presentation skills were held for the first time during the reporting year as part of the tournament for schoolchildren. Gazprom Neft experts prepared a special tutorial to help the tournament participants, and video training tutorials were published in the tournament’s online classroom.

In 2017, the tournament picked up an academic partner – Peter the Great St. Petersburg Polytechnic University (Polytech).

The tournament provided me with new acquaintances, invaluable experience, and a lot of positive emotions.

I realized what I really want to do”.

**Darya Paramoshina**

Participant in the two tournaments

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**KEY PROJECTS OF THE NATIVE TOWNS PROGRAMME**

**IN 2017:**

- **REGIONS**: 35
- **SUBSIDIARIES**: 13
- **PROJECTS**: 221
- **PROJECTS IN RUB**: 4.3 BN

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'MATHEMATICAL PROGRESSION' 

The goal of the project is to provide new opportunities for the development of gifted youth from the regions (winners and medalists of the All-Russian Olympiads) at St. Petersburg State University as well as support students and young scientists who conduct research in applied and theoretical mathematics.

IMPLEMENTATION STAGES:

Schoolchildren
- Projects to promote mathematics in the region
- Organization of lectures by prominent scientists

Students
- Scholarships for mathematics students at St. Petersburg State University who demonstrate impressive results over the entire course of their studies
- Travel grants to leading global mathematics schools
- Organization of lectures by foreign scientists at St. Petersburg State University

Young scientists
- Support for research work and the provision of applied mathematical knowledge
- Organization and support of high-profile conferences
- Personalized prizes

Chbyshov Laboratory at St. Petersburg State University
- Support for fundamental research and the laboratory's scientific and educational activities

The prize winners are annually determined by a competitive commission of employees from Chbyshov Laboratory at St. Petersburg State University and corresponding members of the Russian Academy of Sciences.

In 2017, personalized scholarships and grants were awarded to 48 mathematics students at St. Petersburg State University and two young scientists for their achievements in research work. One of the scholarship recipients of the project was a laureate of the Clay Mathematics Institute who received the world’s second most significant award in mathematics. Eleven mathematics students received travel grants. The Gazprom Neft Scientific and Technical Centre, along with scientists from the Chbyshov Laboratory at St. Petersburg State University, has launched a three-year project to study the properties of oil reservoirs.

"Business support is an important part of the university system throughout the world. Thanks to Gazprom Neft’s support, among other things, our laboratory has become one of the country’s key centres for the development of mathematical science and attracts young scientists and talented school graduates from all over the country. It is essential that leading business structures invest in science for Russia’s future."

Stanislav Smirnov
Head of the Chbyshov Laboratory at St. Petersburg State University

'CREATIVE PRACTICES' 

The ‘Creative Practices’ programme, which is implemented jointly with the Creative Industries Support Fund, aims to study the creative environment of the Russian regions, including the regions in which the Company operates (predominantly Siberian regions), and to utilize the potential of young people in developing new sectors of the economy related to creativity and innovative activities.

The project involves:
- researching the main problems and developmental focuses of the creative environment in a particular region
- conducting educational programmes (open lectures, seminars, etc.) to train enterprising citizens on how to develop creative industries in their regions. The programme content is generated based on the needs of the residents as determined by survey results.
- The programme speakers include Russian and international experts in economics, urban studies, the media, and culture. The project is implemented in Omsk, Tyumen, Orenburg, Tomsk, Muravlenko, Khanty-Mansiysk, and Noyabrsk.

Intensive educational courses on the development of the urban environment were held in 2017 in Tyumen, St. Petersburg, Tomsk, Orenburg, and Noyabrsk. Gazprom Neft became a partner of the International Creative Industries Forum, which was held in Tyumen on 10-11 November 2017. Calvert Forum Siberia, which was organized with the Company’s support, served as a platform for discussing the development prospects of the creative and entrepreneurial environment of Siberian cities, including cities in which Gazprom Neft operates.

Calvert Forum Siberia brought together 250 Russian and international experts: architects, urban studies specialists, entrepreneurs, government representatives, and educational and cultural institutions. The participants discussed the prospects of creative industries in cities of Siberia as a strategically significant territory with enormous human potential.

The conference kicked off the ‘Masters of Siberia’ project – an online platform that brought together the region’s best projects in various fields: from clothing design to IT projects and Siberian crafts. A highlight of the forum was the announcement of the ‘Masters of Siberia’ large-scale programme to support youth entrepreneurship in 2018. The project was presented by Chairman of the Board of the Centre for Strategic Research Alexey Kudrin and the Chairman of the Gazprom Neft Management Board Alexander Dyukov. The key goal of the project is to provide young entrepreneurs with access to the best Russian and international practices in strategic management, marketing, and the promotion of goods and services created by young entrepreneurs on the Russian and foreign markets.

"Each year, more and more young specialists are getting involved in the new economy, where creativity and innovation take centre stage. The job of representatives of government, business, and culture is to contribute to this process with all they have. I am confident that the combination of professional research and practical steps in creative industries will provide an additional impetus to Russia’s economic development."

Alexey Kudrin
Chairman of the Board of the Centre for Strategic Research
'STENOGRAFFIA' STREET ART FESTIVAL

In 2017:

"Stenograffia" is an annual street art project that brings together leading Russian and foreign street artists. The aim of the project is to make a monochrome urban environment more friendly and creative using street art. The festival has the status of a major street art festival in Russia and is the only street art festival whose work extends beyond the Arctic Circle.

9 CITIES AND VILLAGES

41 ART OBJECT

53 ARTISTS

PARTNER

STEN

GRAF

FIJ

In 2017, the festival was held in Noyabrsk, Yekaterinburg, Khanty-Mansiysk, Omsk, the towns of Noyy Port and Cape Kamenny in the YNAD, Orenburg, and Muravlenko as well as Tomsk for the first time. 'Stenograffia' has developed substantively: without being limited to certain topics, artists are asked to create works that reflect the uniqueness of a particular region.

The focus of these ideas was on fundamental research of problems that are relevant to each city. For northern regions (Noyabrsk, Cape Kamenny, Novy Port, and Khanty-Mansiysk), a proposal was made to create drawings that are designed to "warm them up" and emphasize the warmth of human relations. Ideas for eastern territories (Ekaterinburg, Omsk, Orenburg, and Tomsk) were based on the unique features of these cities. In honour of the Year of Ecology, the theme ‘Visual Ecology. Thinking about the Future While Acting in the Present’ was proposed for all regions.

'Stenograffia 2017' provided cities with new unique street art: murals, 3D-drawings, exhibits, and even the first graffiti for the blind in Russia for which Braille was used.

'STRELKA' WEEK

From 30 September to 9 October, St. Petersburg hosted 'Strelka' Week with Gazprom Neft’s support – an intensive educational course for residents on the theme of environmental reform. The overall goal of 'Strelka' Week was to build a dialogue between international experts, local specialists, and local residents and to search for opportunities that might not be overly obvious for tapping into the potential of St. Petersburg.

Lectures, workshops, and discussions on new approaches to studying and developing the urban environment were attended by more than 5,000 people. The speakers during 'Strelka' Week included global experts on urban studies and new technologies. Attendees of a series of workshops supervised by experts from the Strelka Institute came up with five projects for the development of St. Petersburg’s Primorsky District.

"We often talk about St. Petersburg’s legacy and past while saying almost nothing about its future. But we should talk about this and discuss the problem of the outflow of young specialists, who often leave after graduating from universities. How can the northern capital compete for human capital? The potential for the development of St. Petersburg is the main theme of ‘Strelka’ Week."

Olga Polishchuk
Executive Director of the Strelka Institute

"Stenograffia' gets more and more interesting each year. This year ‘mega-objects’ have been created in almost every region. A five-story postage stamp in Noyabrsk. A ‘Moskvich’ carved out of reality in Yekaterinburg. A new form is developing that gives an impetus to the development of the entire street art community. More and more people are joining 'Stenograffia', and we inspire them to fight for good. This is the main goal for us.”

Andrey Kolokolov
Art Director of the agency Streetart, a co-founder of the ‘Stenograffia Festival’

5,000 VISITORS DURING 'STRELKA' WEEK IN ST. PETERSBURG

PARTNER

STRELKA

INSTITUT

For more on the project
**NATIVE TOWN URBAN FESTIVAL IN YAMAL**

Over its three years, the festival has transformed from a leisure event into a space for the self-fulfilment of local residents. In 2017, the Native Town festival was held in Noyabrsk and Muravlenko in a new format of three thematic days: ‘City of Creativity’ (master classes and concerts with subcultural focused), ‘City of Technology’ (informative family celebration), and ‘City of Science’ (popular science lectures). Science was the focus of festivals held during the reporting year: Schoolchildren presented their research projects, scientific and educational platforms for experiments were organized at the event, and residents were able to take part in ‘What? Where? When?’ games.

‘Many of the infrastructure and event projects that are being implemented as part of the Native Town programme are making our city a truly comfortable place to live from year to year. I would like to express my gratitude to Gazpromneft-Muravlenko for organizing a festival specifically on the theme of science’.

Andrey Lukyanov
First Deputy Head of the Muravlenko Municipal Administration

In 2017, Gazpromneft provided support for the ‘Where Art Is Born’ national festival held by the Yuri Rozum International Charitable Foundation. The festival has been supported by the Russian Ministry of Culture for more than 10 years. Events took place in Noyabrsk, Muravlenko and Khanty-Mansiysk. During the festival, well-known Russian musicians hosted creative meetings and master classes. In addition, the subject of support for musically gifted children and adolescents was discussed. The festival came to a close with a concert in each host city performed by students from local music institutions, along with their teachers and invited guests.

‘At one of the meetings, I read the phrase: ‘Yamal isn’t the edge, but the beginning of the Earth’. And indeed it is. Following the meetings, master classes, and joint performances of the Noyabrsk and Muravlenko children and their teachers, I was amazed at how much is being done for the cultural development of such small cities’.

Yuri Rozum
Professor at the Gnessin Russian Academy of Music and the Schnittke Moscow State Institute of Music and a People’s Artist of Russia

**‘WHERE ART IS BORN’ FESTIVAL**

**‘PEOPLE NEED YOU’ CONTEST OF STUDENTS’ SOCIAL PROJECTS**

In 2017, Gazprom Neft provided support for the first time to the ‘People Need You’ national inter-university competition of social projects. The competition is organized by the Student Volunteer Centre of ITMO University. Participants will have the opportunity to fulfill their potential in order to solve social problems in the region, exchange experience, obtain an assessment of their project from federal experts, and undergo training at an NGO. During the competition, participants learn about project management, fundraising, developing business plans, and attracting partners, among other things.

The competition’s educational programme resulted in 67 student teams from different regions preparing projects that are ready to be presented to investors under the guidance of experts.

With Gazprom Neft’s support, start-ups have been established in the ‘Digital Technologies’ category, including:
- an innovative system to assess the quality of services at recreation and resort centres
- a system for converting text files into audio files (to expand access among the visually impaired to fiction and educational literature)
- a channel to explain homework assignments to students of VideoGDZ

**GASPROM NEFT CUP**

In 2017, teams from Russia, Belarus, Kazakhstan, Latvia, and Finland competed in the tournament at arenas in Sochi and Omsk. The competitions were attended by 32,000 spectators. The Match TV channel is the general partner of the event, which was won by CSKA.

‘The Gazprom Neft Cup is growing and has long been a major international children’s tournament in Europe. Our goal is to inspire young hockey players by giving them an opportunity to play in front of thousands of fans and the motivation to continue their hockey careers. I’m certain that this sort large-scale tournament is a very important event in the lives of everyone coming here from different countries to play in the Cup’.

Alexander Dybal
Chairman of the tournament’s organizing committee, member of the Management Board of Gazprom Neft PJSC

The Gazprom Neft Cup international tournament of children’s hockey teams is the official tournament of the Kontinental Hockey League, one of the biggest children’s hockey tournaments in Europe, and Gazprom Neft’s key project in the development of children’s sports.

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- an innovative system to assess the quality of services at recreation and resort centres
- a system for converting text files into audio files (to expand access among the visually impaired to fiction and educational literature)
- a channel to explain homework assignments to students of VideoGDZ
The corporate volunteering programme aims to involve employees in the Company’s social activities.

STRUCTURE OF THE CORPORATE VOLUNTEERING PROGRAMME:

- implementation of corporate and regional volunteer projects, which are developed by the Company together with NGO partners and local communities
- a contest of volunteer projects via which the Company encourages and supports the social initiatives of employees that aim to solve urgent social problems. The contest is held annually and may involve employees of all the Company’s enterprises
- the intra-corporate mutual aid fund, which was created to provide material and organizational assistance to workforce members and their relatives who are in difficult straits. The fund operates based on the principles of co-financing from employees and the Company

In 2017, the volunteer project contest was held for the third time and received 118 applications. Projects from some of the winners were implemented with the support of Gazprom Neft, and 928 volunteers took part in them.

PUBLIC RECOGNITION

- The Company’s social programmes received five awards at the tenth annual Corporate Philanthropy Leaders contest, which was founded by the Donors Forum association
- ‘DIY City’ took second place in the category ‘Best project contributing to the development of non-profit organizations, charities, and volunteering in a region of operation’
- Gazprom Neft’s ‘Mathematical Progression’ project was recognized in the category ‘Best programme promoting the development of education in Russia’
- ‘Stenograφia’ won second place in the category ‘Best programme supporting contemporary art and culture in Russia’. Gazprom Neft was also a laureate in the categories ‘Information transparency of organizations’ and ‘Evaluation of social projects’

CORPORATE VOLUNTEERING

IN 2017:

- 4,567 Gazprom Neft employees
- 282 events
- 58 winners of volunteer project contest

In conjunction with the ‘Anton’s Right Here’ Centre for Social Habilitation, ‘Learning, and Creativity for Adults with Autism. Over the course of the year, the Company’s volunteers and students from the centre created souvenirs, which are exhibited at a charity Christmas auction at Gazprom Neft.

- In conjunction with the Raul charitable foundation. Volunteers advise young people leaving orphanages and boarding schools in St. Petersburg and the Leningrad Region about employment and life issues by helping them with their social adaptation. In 2017, Gazprom Neft volunteers helped 120 children from orphanages in St. Petersburg and the Leningrad Region, many of whom have disabilities. From the Company’s traditional promotional event included 1,061 people from eight cities where the Company operates during the reporting year.

- The mutual aid fund. The assistance programme for Gazprom Neft employees in difficult straits has been implemented since 2010. In 2017, the fund raised RUB 11.3 million with 100% of the funds coming from request for aid.

- Over the course of 2017 – the Year of Ecology in Russia – Gazprom Neft volunteers took part in a large number of federal, regional, and local ecological promotional events and implemented their own environmental projects in the regions where the Company operates. Such projects included garbage collection at the Novorlovsksky Nature Reserve in St. Petersburg, the planting of three green alleys in Omsk and larch trees in 850th Anniversary of Moscow City Park, repairs to aviaries at the Young Naturalists Station in Khanty- Mansyisk, and environmental classes with children from the Harmony Centre for Social Assistance to Families and Children in Moscow, among others.

During the reporting year, Gazprom Neft’s volunteer programmes received a number of awards in the ‘Good Deed Champions’ contest, which was held as part of the 6th Moscow International Forum ‘Corporate Volunteering: Business and Society’. The ‘Discovering the World Together’ project won first place in the ‘Skills Volunteering’ project. The Art of Boing! project won a silver medal in the ‘Local Communities’ category. Complex environmental projects implemented by Gazpromneft-Muravlenko in the YNAO won first place in the ‘Best Environmental Project’ category.

Gazprom Neft actively involves its business partners and consumers of the Company’s products in the implementation of social initiatives. Along with the Kaliningrad Sea Fishing Port, the Company holds ‘Fisherman’s Day’ for port workers, sailors, and local residents each year. Gazprom Neft regularly organizes charity and volunteer events with the participation of employees of airports and airports at which the Company manages aircraft. Such events include Saturday volunteer work days, visits to orphans, Victory Day events, and donor initiatives.
**SOCIAL ACTIVITIES ABROAD**

**SERBIA**

Gazprom Neft is a major investor in Serbia’s economy and implements large-scale social projects in the country. In 2016–2017, as part of a programme to support humanitarian projects in the field of culture and to preserve Serbia’s historical heritage, unique work was carried out to make a mosaic for the dome of the Church of St. Sava in Belgrade. Making the ornamentation for the dome was one of the most ambitious projects in the world in terms of decorating a curvilinear space: the total area of the mosaic covers 1,248 square metres. The church is an architectural monument of Serbia and one of the largest Orthodox churches in the world.

In addition, Gazprom Neft has been a partner of Serbia’s largest classical music festival, the Belshoi, since 2013. The festival is aimed at supporting young musicians from Serbia and Russia and developing social and cultural cooperation between the two countries.

**KURDISH AUTONOMOUS REGION OF THE REPUBLIC OF IRAQ**

Gazprom Neft is implementing an extensive social programme in the region with total investment of more than USD 3 million. Social projects are being implemented in close cooperation with the local authorities at different levels and are approved by the Ministry of Natural Resources of the Kurdish Autonomous Region.

In 2017, Gazprom Neft conducted a socioeconomic study of the Garmian region, which is adjacent to the Company’s operating area. A five-year programme for social projects in the region was developed based on the results of this study with a focus on sports, the environment, education, medicine, cultural heritage, and support for children and youth.

The Company also continued to implement social projects based on the current needs of the local population, which included the supply of fuel to residents of surrounding villages and emergency assistance to victims of natural disasters in 2017.

**GOALS AND OBJECTIVES FOR 2018**

**INTERACTION WITH THE REGIONS**

- Continue the implementation of the Avangard Hockey Academy project, including launching a branch of the Academy in Labynkyr in the YNAD
- Continue the implementation of key projects as part of the Native Towns social investment programme
- Conduct grant competitions for social initiatives in six regions where the Company operates (Omsk, Tomsk, Orenburg, and Tyumen Regions, YNAD, KMAD-Yugra).
- Support at least 100 initiatives, including at least 20 projects from initiative groups of citizens. Introduce the practice of holding contests for citizens’ initiative groups in all regions
- Continue the development of the Company’s volunteer movement, including the organization of distance education for volunteers and the fourth contest of volunteer projects in which at least 50 initiatives of employees should be supported

**SOCIAL ACTIVITIES**

- Carry out the measures stipulated in the socioeconomic cooperation agreements with the regions. Hold at least one meeting with the regional authorities to review the implementation of agreements and to adjust the action plan
- Conduct an expert examination of 100% of the existing local regulatory legal acts or legislative initiatives that have been published and may have an impact on the Company’s operations published in order to assess their regulatory impact
- Increase the number of regions of the Russian Federation that cooperate with the Company in the import substitution of lubricants and process fluids to 17 territories
- Conclude agreements on the supply of innovative bitumen materials produced by Gazprom Neft to the governments of at least five regions of the Russian Federation
- Introduce the Policy on Interaction with Indigenous Peoples of the North, Siberia, and the Far East in KMAD-Yugra and YNAD and implement a plan for interaction with indigenous peoples
- Continue the practice of holding meetings chaired by the heads of regions on a range of issues of bilateral cooperation in key regions where the Company operates; expand the geography of meetings
## APPENDIX 1. INDICATORS OF THE COMPANY’S SUSTAINABLE DEVELOPMENT ACTIVITIES

### INDICATORS OF THE COMPANY’S ENVIRONMENTAL ACTIVITIES

**EXPENSES ON ENVIRONMENTAL SERVICES AND ENSURING ENVIRONMENTAL SAFETY AND PROTECTION** (RUB MN)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protecting the atmosphere</td>
<td>1,017.1</td>
<td>1,464.3</td>
<td>665.5</td>
<td>496.3</td>
<td>614.1</td>
</tr>
<tr>
<td>Wastewater collection and treatment</td>
<td>2,163.5</td>
<td>1,834.3</td>
<td>2,430.3</td>
<td>2,720.4</td>
<td>2,768.9</td>
</tr>
<tr>
<td>Waste management</td>
<td>775.6</td>
<td>753.7</td>
<td>1,538.9</td>
<td>1,363.8</td>
<td>2,069.1</td>
</tr>
<tr>
<td>Protection and rehabilitation of land, surface water, and groundwater</td>
<td>2,169.1</td>
<td>1,312.4</td>
<td>1,434.5</td>
<td>1,461.7</td>
<td>650.3</td>
</tr>
<tr>
<td>Environmental radiation protection and environmental protection against noise, vibration and other types of physical impacts</td>
<td>3.1</td>
<td>23.8</td>
<td>6.2</td>
<td>19.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Biodiversity conservation and protection of natural areas</td>
<td>14.2</td>
<td>42.2</td>
<td>9.8</td>
<td>13.4</td>
<td></td>
</tr>
<tr>
<td>Other environmental protection activities</td>
<td>775.4</td>
<td>753.7</td>
<td>1,538.9</td>
<td>1,363.8</td>
<td>2,069.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>6,162.2</td>
<td>6,159.7</td>
<td>6,377.6</td>
<td>6,875.6</td>
<td>6,908.1</td>
</tr>
</tbody>
</table>

**STRUCTURE OF PAYMENT FOR NEGATIVE ENVIRONMENTAL IMPACT** (RUB MN)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions to the atmosphere</td>
<td>1,828.7</td>
<td>406.3</td>
<td>783.2</td>
<td>196.1</td>
<td>150.5</td>
</tr>
<tr>
<td>Discharges to the environment</td>
<td>0.8</td>
<td>1.6</td>
<td>0.7</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Production waste disposal</td>
<td>98.0</td>
<td>137.5</td>
<td>53.2</td>
<td>74.5</td>
<td>60.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>6,162.2</td>
<td>6,159.7</td>
<td>6,377.6</td>
<td>6,875.6</td>
<td>6,908.1</td>
</tr>
</tbody>
</table>

**STRUCTURE OF WATER CONSUMPTION** (MN MP)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Including from underground sources</td>
<td>133.65</td>
<td>135.90</td>
<td>141.00</td>
<td>133.00</td>
<td>122.8</td>
</tr>
<tr>
<td>From surface sources</td>
<td>32.90</td>
<td>33.65</td>
<td>32.70</td>
<td>36.40</td>
<td>40.2</td>
</tr>
<tr>
<td>From other organizations</td>
<td>7.55</td>
<td>7.65</td>
<td>0.7</td>
<td>8.10</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>WATER CONSUMPTION – TOTAL</strong></td>
<td>174.10</td>
<td>177.20</td>
<td>176.48</td>
<td>173.50</td>
<td>169.5</td>
</tr>
</tbody>
</table>

1 — Excluding expenses on the capital construction, reconstruction, and repair of fixed assets that have a positive environmental effect.
2 — Water intake from surface sources increased due to the needs of reservoir pressure maintenance systems.

### DYNAMICS OF KEY WASTE MANAGEMENT INDICATORS (1,000 T)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I hazard</td>
<td>0.03</td>
<td>0.025</td>
<td>0.017</td>
<td>0.028</td>
<td>0.03</td>
</tr>
<tr>
<td>Class II hazard</td>
<td>0.01</td>
<td>0.01</td>
<td>0.636</td>
<td>0.011</td>
<td>0.02</td>
</tr>
<tr>
<td>Class III hazard</td>
<td>80.91</td>
<td>93.00</td>
<td>168.19</td>
<td>72.50</td>
<td>60.96</td>
</tr>
<tr>
<td>Class IV hazard</td>
<td>398.70</td>
<td>486.20</td>
<td>818.94</td>
<td>757.50</td>
<td>1,015.66</td>
</tr>
<tr>
<td>Class V hazard</td>
<td>50.50</td>
<td>78.00</td>
<td>116.72</td>
<td>76.70</td>
<td>55.47</td>
</tr>
<tr>
<td><strong>WASTE GENERATION – TOTAL</strong></td>
<td>520.90</td>
<td>657.20</td>
<td>1,104.51</td>
<td>906.70</td>
<td>1,132.26</td>
</tr>
<tr>
<td>Class I hazard</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Class II hazard</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Class III hazard</td>
<td>1.09</td>
<td>0.92</td>
<td>0.18</td>
<td>0.28</td>
<td>0.21</td>
</tr>
<tr>
<td>Class IV hazard</td>
<td>5.57</td>
<td>4.73</td>
<td>5.01</td>
<td>0.05</td>
<td>0.00</td>
</tr>
<tr>
<td>Class V hazard</td>
<td>0.00</td>
<td>0.03</td>
<td>0.00</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td><strong>WASTE RECEIVED FROM OTHER ORGANIZATIONS – TOTAL</strong></td>
<td>5.64</td>
<td>5.88</td>
<td>5.12</td>
<td>0.375</td>
<td>0.29</td>
</tr>
<tr>
<td>Class I hazard</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Class II hazard</td>
<td>0.01</td>
<td>0.01</td>
<td>0.005</td>
<td>0.004</td>
<td>0.00</td>
</tr>
<tr>
<td>Class III hazard</td>
<td>19.89</td>
<td>17.15</td>
<td>15.71</td>
<td>4.60</td>
<td>6.32</td>
</tr>
<tr>
<td>Class IV hazard</td>
<td>153.24</td>
<td>273.22</td>
<td>613.37</td>
<td>365.50</td>
<td>713.15</td>
</tr>
<tr>
<td><strong>WASTE UTILIZATION – TOTAL</strong> (including transfer to other organisations for use)</td>
<td>193.61</td>
<td>324.86</td>
<td>648.62</td>
<td>415.40</td>
<td>739.99</td>
</tr>
<tr>
<td>Class I hazard</td>
<td>0.03</td>
<td>0.03</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Class II hazard</td>
<td>0.00</td>
<td>0.00</td>
<td>0.63</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>Class III hazard</td>
<td>61.11</td>
<td>59.57</td>
<td>153.49</td>
<td>71.10</td>
<td>59.15</td>
</tr>
<tr>
<td>Class IV hazard</td>
<td>322.53</td>
<td>389.28</td>
<td>199.99</td>
<td>378.40</td>
<td>209.95</td>
</tr>
<tr>
<td><strong>WASTE NEUTRALIZATION AND DISPOSAL – TOTAL</strong> (including transfer to other organisations for neutralization and disposal)</td>
<td>408.58</td>
<td>486.13</td>
<td>405.22</td>
<td>489.64</td>
<td>302.40</td>
</tr>
<tr>
<td>Class I hazard</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Class II hazard</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Class III hazard</td>
<td>0.00</td>
<td>17.21</td>
<td>12.91</td>
<td>7.40</td>
<td>6.10</td>
</tr>
<tr>
<td>Class IV hazard</td>
<td>218.72</td>
<td>47.34</td>
<td>42.76</td>
<td>55.60</td>
<td>168.24</td>
</tr>
<tr>
<td><strong>ACCUMULATED WASTE AS OF THE END OF THE YEAR – TOTAL</strong></td>
<td>224.88</td>
<td>77.02</td>
<td>88.79</td>
<td>63.60</td>
<td>154.42</td>
</tr>
</tbody>
</table>
### HR INDICATORS

#### TOTAL STAFF AS OF 31 DECEMBER 2017 (PEOPLE)

<table>
<thead>
<tr>
<th>Staff</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>57,398</td>
<td>61,465</td>
<td>66,497</td>
<td>66,561</td>
<td>67,882</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>men</td>
<td>33,851</td>
<td>36,968</td>
<td>37,216</td>
<td>40,835</td>
<td>40,254</td>
</tr>
<tr>
<td>women</td>
<td>23,547</td>
<td>24,497</td>
<td>29,281</td>
<td>25,726</td>
<td>27,628</td>
</tr>
<tr>
<td>workers</td>
<td>34,553</td>
<td>36,181</td>
<td>36,881</td>
<td>34,232</td>
<td>33,873</td>
</tr>
<tr>
<td>managers, specialists, and employees</td>
<td>22,845</td>
<td>25,284</td>
<td>29,166</td>
<td>32,329</td>
<td>34,009</td>
</tr>
</tbody>
</table>

#### AVERAGE STAFF NUMBERS (PEOPLE)

<table>
<thead>
<tr>
<th>Staff</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>55,974</td>
<td>57,515</td>
<td>61,862</td>
<td>62,998</td>
<td>63,897</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>workers</td>
<td>33,150</td>
<td>32,471</td>
<td>33,881</td>
<td>32,400</td>
<td>31,885</td>
</tr>
<tr>
<td>managers, specialists, and employees</td>
<td>22,824</td>
<td>25,044</td>
<td>27,981</td>
<td>30,598</td>
<td>32,012</td>
</tr>
<tr>
<td>in the Russian regions</td>
<td>44,940</td>
<td>46,609</td>
<td>50,541</td>
<td>52,410</td>
<td>53,725</td>
</tr>
<tr>
<td>in CIS countries</td>
<td>4,127</td>
<td>4,784</td>
<td>4,927</td>
<td>4,201</td>
<td>4,669</td>
</tr>
<tr>
<td>in non-CIS countries</td>
<td>6,907</td>
<td>6,255</td>
<td>6,394</td>
<td>6,387</td>
<td>6,635</td>
</tr>
<tr>
<td>EMPLOYEES HIRED – TOTAL</td>
<td>25,999</td>
<td>17,657</td>
<td>17,696</td>
<td>16,841</td>
<td>17,884</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in the Russian regions</td>
<td>23,620</td>
<td>15,244</td>
<td>15,492</td>
<td>12,912</td>
<td>15,708</td>
</tr>
<tr>
<td>in CIS countries</td>
<td>1,864</td>
<td>1,705</td>
<td>1,727</td>
<td>1,014</td>
<td>881</td>
</tr>
<tr>
<td>in non-CIS countries</td>
<td>475</td>
<td>475</td>
<td>475</td>
<td>475</td>
<td>475</td>
</tr>
<tr>
<td>RETIRED EMPLOYEES – TOTAL</td>
<td>26,344</td>
<td>15,133</td>
<td>14,886</td>
<td>14,359</td>
<td>16,093</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in the Russian regions</td>
<td>22,143</td>
<td>12,864</td>
<td>13,811</td>
<td>11,940</td>
<td>14,548</td>
</tr>
<tr>
<td>in CIS countries</td>
<td>1,317</td>
<td>1,549</td>
<td>2,000</td>
<td>1,902</td>
<td>1,058</td>
</tr>
<tr>
<td>in non-CIS countries</td>
<td>2,884</td>
<td>720</td>
<td>873</td>
<td>473</td>
<td>489</td>
</tr>
<tr>
<td>Including on their own initiative</td>
<td>10,592</td>
<td>9,056</td>
<td>10,047</td>
<td>9,600</td>
<td>9,676</td>
</tr>
<tr>
<td>Turnover rate (retired on their own initiative), %</td>
<td>18.9</td>
<td>15.7</td>
<td>16.2</td>
<td>15.2</td>
<td>15.1</td>
</tr>
<tr>
<td>in the Russian regions</td>
<td>11.3</td>
<td>27.4</td>
<td>27.3</td>
<td>22.8</td>
<td>27.3</td>
</tr>
<tr>
<td>in CIS countries</td>
<td>31.9</td>
<td>33.3</td>
<td>40.6</td>
<td>45.3</td>
<td>29.9</td>
</tr>
<tr>
<td>in non-CIS countries</td>
<td>41.8</td>
<td>11.5</td>
<td>13.7</td>
<td>7.4</td>
<td>7.4</td>
</tr>
</tbody>
</table>

### SOCIAL PACKAGE AND BENEFITS EXPENSES (RUB 1,000)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free and subsidised meals</td>
<td>522,774</td>
<td>526,988</td>
<td>711,380</td>
<td>764,480</td>
<td>772,176</td>
</tr>
<tr>
<td>Voluntary medical insurance</td>
<td>450,709</td>
<td>719,563</td>
<td>498,542</td>
<td>847,677</td>
<td>1,103,948</td>
</tr>
<tr>
<td>Payment of travel vouchers</td>
<td>115,705</td>
<td>166,522</td>
<td>121,041</td>
<td>183,817</td>
<td>239,280</td>
</tr>
<tr>
<td>Housing programme</td>
<td>121,329</td>
<td>181,038</td>
<td>215,405</td>
<td>142,049</td>
<td>133,119</td>
</tr>
<tr>
<td>Sport and cultural events for employees</td>
<td>317,599</td>
<td>125,537</td>
<td>129,136</td>
<td>197,154</td>
<td>249,102</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,728,116</td>
<td>1,719,646</td>
<td>1,875,504</td>
<td>2,134,997</td>
<td>2,515,025</td>
</tr>
</tbody>
</table>

### STAFF TRAINING (PEOPLE)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEOPLE TRAINED – TOTAL</td>
<td>42,974</td>
<td>50,939</td>
<td>50,395</td>
<td>52,582</td>
<td>55,891</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>managers and specialists</td>
<td>25,177</td>
<td>27,381</td>
<td>32,400</td>
<td>33,491</td>
<td>33,840</td>
</tr>
<tr>
<td>workers</td>
<td>16,917</td>
<td>23,558</td>
<td>17,491</td>
<td>19,091</td>
<td>22,081</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>men</td>
<td>25,477</td>
<td>31,073</td>
<td>30,741</td>
<td>32,075</td>
<td>32,976</td>
</tr>
<tr>
<td>women</td>
<td>16,417</td>
<td>19,866</td>
<td>19,654</td>
<td>20,507</td>
<td>22,915</td>
</tr>
<tr>
<td>TYPE OF TRAINING:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>advanced training</td>
<td>11,035</td>
<td>14,940</td>
<td>20,841</td>
<td>22,249</td>
<td>23,639</td>
</tr>
<tr>
<td>training in accordance with the occupational safety and industrial safety requirements</td>
<td>31,059</td>
<td>33,999</td>
<td>29,534</td>
<td>30,313</td>
<td>32,252</td>
</tr>
<tr>
<td>LOCATION OF TRAINING:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>trained at training centres (stations, plants)</td>
<td>15,530</td>
<td>17,000</td>
<td>14,767</td>
<td>15,329</td>
<td>19,767</td>
</tr>
<tr>
<td>at third-party organizations</td>
<td>26,565</td>
<td>33,960</td>
<td>35,628</td>
<td>37,253</td>
<td>36,154</td>
</tr>
<tr>
<td>TOTAL DURATION OF TRAINING – TOTAL, HOURS</td>
<td>1,651,514</td>
<td>2,054,092</td>
<td>1,927,478</td>
<td>2,289,437</td>
<td>2,930,760</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>managers and specialists</td>
<td>805,646</td>
<td>878,192</td>
<td>1,052,928</td>
<td>1,145,836</td>
<td>1,404,960</td>
</tr>
<tr>
<td>workers</td>
<td>845,850</td>
<td>1,177,990</td>
<td>876,550</td>
<td>1,143,601</td>
<td>1,525,800</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>men</td>
<td>1,007,424</td>
<td>1,252,994</td>
<td>1,175,762</td>
<td>1,394,557</td>
<td>1,729,168</td>
</tr>
<tr>
<td>women</td>
<td>644,090</td>
<td>801,096</td>
<td>751,716</td>
<td>892,881</td>
<td>1,251,412</td>
</tr>
</tbody>
</table>
APPENDIX 2.
PUBLIC HEARINGS IN REGIONS WHERE THE COMPANY OPERATES

RONDABLE ‘ACTIVITIES OF GAZPROM NEFT AND THE SUSTAINABLE DEVELOPMENT OF THE REGIONS WHERE IT OPERATES’

Tomsk, 25 October 2017

Participants: representatives of the management of Gazpromneft-Vostok LLC, the Tomsk administration, the Tomsk Ombudsman, the Tomsk Region administration, the administrations of the Parabelsky and Kargasovsky Districts, municipal institutions, public organizations, universities, and commercial organizations operating in the Tomsk Region.


SUGGESTIONS MADE BY THE MEETING PARTICIPANTS:
- to develop cooperation between Gazprom Neft-Vostok LLC and local suppliers
- to expand cooperation in the training of employees at local universities to other subsidiaries of Gazprom Neft
- to develop cooperation with higher education institutions on dual education and to consider the feasibility of cooperation on elite training programmes for specialists in capital construction and road construction
- to develop cooperation in an effort to intensify career guidance work for the further training of staff, primarily management staff
- to devote more attention to developing the skills of employees of non-profit organizations (NPO) who are executing grant projects, including involving them in training as part of programmes at the Tomsk University or other educational platforms used by the Company
- to develop a volunteer programme in which Gazpromneft-Vostok employees directly interact with residents of the areas where its enterprises operate. Personal communication is essential in remote areas
- to continue cooperation in the implementation of environmental and ethnographic projects
- to continue the joint implementation of a project for the sports-oriented collection of garbage and expand its scope by involving residents of the Tomsk Region
- to continue implementing a corporate volunteering programme and convey the experience of the programme throughout the Tomsk region, including to other companies operating in the area
- to discuss partnership opportunities/prospects for cooperation concerning the employment of people with disabilities, including taking into account the draft law on quotas for jobs for people with disabilities

Upon conclusion of the roundtable, representatives of Gazprom Neft took all the proposals into consideration.

THEMES:
- the Company’s adherence to the principle of sustainable development when doing business in the Tomsk Region
- developing interaction with universities in the city of Tomsk
- effective social investment mechanisms of Gazprom Neft-Vostok LLC: implementation methods and results of supporting local initiatives

Omsk, 15 November 2017

Participants: representatives of the management of Gazpromneft-Omsk Oil Refinery JSC, the Omsk administration, the Omsk City Council, the Ministry of Labour and Social Development of the Omsk Region, the Public Chamber of the Omsk Region, public organizations, and educational institutions operating in Omsk and the Omsk Region.

Moderator: Yelena Foktistov, Managing Director for Corporate Responsibility, Sustainable Development, and Social Entrepreneurship at the RUIE. A total of 19 representatives of stakeholders took part in the roundtable.

SUGGESTIONS MADE BY THE MEETING PARTICIPANTS:
- for the winners of the grant competition to hold roundtables upon completion of the projects that were funded in order to exchange experience as well as to identify and promote the best projects as illustrative examples that could become a unifying factor for involving other enterprises in social investment and to get society to actively participate in public activities
- to expand the theme of the ‘Native Towns’ programme by incorporating a focus on supporting social entrepreneurship in cooperation with interested organizations and agencies
- to develop a volunteer program, including for the provision of pro bono services to social entrepreneurs and socially oriented NPOs. To focus on cooperation opportunities with the Regional Resource Centre of Socially Oriented NPOs, which could serve as an intermediary by connecting organizations that need pro bono services and the specialists who can provide them
- to consider the possibility of supporting talented students as well as teachers of natural and technical disciplines at universities and schools as part of a programme for cooperation with universities in order to secure the best human resources in the region
- to organize a joint project or programme for conducting professional diagnostics at schools with which the Company works in order to enhance the effectiveness of career guidance work
- to get involved in preparing the Action Plan as part of the ‘10 Years of Childhood’ presidential programme in order to improve the synergy of the ‘Native Towns’ programme and the presidential programme in an effort to make the region comfortable for families with children.

Upon conclusion of the roundtable, representatives of Gazprom Neft took all the proposals into consideration.
APPENDIX 3.
CERTIFICATION OF THE REPORT
BY THE NON-FINANCIAL REPORTING
BOARD OF THE RUSSIAN
UNION OF INDUSTRIALISTS
AND ENTREPRENEURS

APPENDIX 4.
INDEX OF STANDARD
DISCLOSURES

In accordance with the new basic version of GRI Standards, the Report primarily focuses on the issues that are most relevant to the Company and its stakeholders and that were identified in the materiality assessment process. The index includes ‘Basic performance indicators’ that are developed by the Russian Union of Industrialists and Entrepreneurs for use in corporate social reports.

<table>
<thead>
<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page / reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1–2</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>102-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-2</td>
<td>Name of the organization</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-3</td>
<td>Activities, brands, products, and services</td>
<td>10–11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-4</td>
<td>Location of headquarters</td>
<td></td>
<td></td>
<td>Ut. Pochtamtskaya, 3-5 Saint Petersburg, 191000, Russian Federation</td>
</tr>
<tr>
<td>102-5</td>
<td>Nature of ownership and legal form</td>
<td>9–11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-6</td>
<td>Markets served</td>
<td>10–11, 20–22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-7</td>
<td>Scale of the organization</td>
<td>10–11, 68, 116</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-8</td>
<td>Information on employees and other workers</td>
<td>68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-9</td>
<td>Supply chain</td>
<td>33, 89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-10</td>
<td>Significant changes to the organization and its supply chain</td>
<td>No significant changes occurred during the reporting period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102-11</td>
<td>Precautionary principle or approach</td>
<td>The precautionary principle is a fundamental principle by which the Company is guided when planning and implementing its activities. For an extensive explanation, see the Sustainable Development for 2010, p. 99</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PRINCIPLES USED TO DETERMINE THE CONTENTS OF THE SUSTAINABLE DEVELOPMENT REPORT:

- materiality
- coverage of stakeholders
- context
- completeness
- balance
- comparability
- accuracy
- timeliness
- clarity
- reliability

In accordance with the new basic version of GRI Standards, the Report primarily focuses on the issues that are most relevant to the Company and its stakeholders and that were identified in the materiality assessment process. The index includes ‘Basic performance indicators’ that are developed by the Russian Union of Industrialists and Entrepreneurs for use in corporate social reports.
GRI indicator | Comments
--- | ---
102-12 | At present, the Company has not formally joined any of these initiatives. At the same time, the Company is guided by the principles set out in the ISO 26000 international standard (Guide to Social Responsibility) and publishes sustainable development reporting guided by the Guidelines of the Global Reporting Initiative (GRI).

102-13 | The Company is a member of the Union of Oil Exporters of Russia, the Association of Managers, and the ATIEL Technical Association of the European Lubricants Industry (Association Technique de l’Industrie Européenne des Lubrifiants).

APPENDICES

102-14 | 6–7
102-16 | 66
102-17 | 49, 51
102-18 | 47
102-19 | 47, 53–54, 67, 87, 117
102-20 | 42, 67, 53–54, 67, 87, 117
102-22 | 47–48, 3.1.12
102-23 | The chairman of the highest governance body does not concurrently serve as an executive director.


102-28 | 42, 67–68, 52, 53, 54, 84, 117
102-27 | 44
102-29 | 48

GRI indicator | Comments
--- | ---
102-29 | 53–55
102-30 | 53–55
102-32 | Gazprom Neft PJSC Management Board Chairman Alexander Dyukov


102-34 | 49
102-35 | 74
102-36 | 3.1.4

102-38 | 56
102-41 | 74
102-42 | 3.1.12
102-43 | Key stakeholders of the Company include parties whose interests are most significantly related to its activities and which in turn are capable of having the most significant impact on the Company’s ability to implement its strategic goals.

102-44 | 56–59, 74, 91, 119, 142–143
102-45 | For more, see the Gazprom Neft Annual Report for 2017 on the website: http://ir.gazprom-neft.com/news-and-reports/

102-47 | 3–5

GRI indicator | Comments
--- | ---
102-48 | 56
102-49 | 42
102-50 | 48
102-51 | 48
102-52 | 44
102-53 | 48
102-54 | 48
102-55 | 3–5
GRI component | GRI indicator | Report page/reference to Annual Report | RIUE Indicator No. | Comments
---|---|---|---|---
102-41 | List of material topics | 3-5 | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-48 | Effect of any restatements of information given in previous reports, and the reasons for such restatements | 3-5 | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-49 | Significant changes from previous reporting periods in the list of material topics and topic boundaries | 3-5 | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-50 | Reporting period | 2017 | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-51 | Date of most recent report | May 2016 | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-52 | Reporting cycle | Calendar year | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-53 | Contact point for questions regarding the report | Contact information: Corporate Communications Unit, Making address: Unit 257, Post Box 5, 3-5 Saint Petersburg, 190000, Russian Federation, Tel: +7 (812) 363–31–52, Fax: +7 (812) 363–31–51, Email: sklik@gazprom-neft.ru | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-54 | Claims of reporting in accordance with the GRI Standards: core or comprehensive | Core | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-55 | GRI content index | 145-153 | 108–111 | The Report does not contain restatements of information provided in previous reports.
102-56 | Policy and current practice with regard to seeking external assurance for the report | 2 | 108–111 | The Report does not contain restatements of information provided in previous reports.
103-1 | Explanation of the material topic and its boundary | See below in the ‘Management approach’ column of each GRI | 108–111 | The Report does not contain restatements of information provided in previous reports.
103-2 | Management approach and its components | See below in the ‘Management approach’ column of each GRI | 108–111 | The Report does not contain restatements of information provided in previous reports.
103-3 | Evaluation of the management approach | See above in the ‘Management approach’ column of each GRI | 108–111 | The Report does not contain restatements of information provided in previous reports.
103-3 | ECONOMIC TOPICS | See above in the ‘Management approach’ column of each GRI | 108–111 | The Report does not contain restatements of information provided in previous reports.
103-3 | ECONOMIC PERFORMANCE | See above in the ‘Management approach’ column of each GRI | 108–111 | The Report does not contain restatements of information provided in previous reports.
201-1 | Direct economic value generated and distributed | 10–11, 18–19, 20–22, 33, 72–73 | 201-1 | For more information about the Company’s capital, see the Gazprom Neft Annual Report for 2017 on the website: http://ir.gazprom-neft.com/annual-reports/9/Consolidated financial statement appendix.
201-2 | Financial implications and other risks and opportunities due to climate change | 55, 96–97, 101 | 201-2 | The Company fulfills its obligations by making deductions to the Pension Fund in accordance with the legislation of the Russian Federation.
201-3 | Defined benefit plan obligations and other retirement plans | The Company fulfills its obligations by making deductions to the Pension Fund in accordance with the legislation of the Russian Federation.
201-4 | Financial assistance received from government | The Company did not receive financial assistance from the government during the reporting period | 201-4 | The Company did not receive financial assistance from the government during the reporting period.
<table>
<thead>
<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page/reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 303 WATER</td>
<td>Management approach</td>
<td>84–87, 96–97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>303-1 Water withdrawal by source</td>
<td>102</td>
<td>2.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>303-2 Water sources significantly affected by withdrawal of water</td>
<td></td>
<td></td>
<td>The Company’s water intake does not have a significant impact on water sources. The Company does not withdraw water from sources that are recognized as vulnerable, protected by the state, or especially valuable for local communities and in terms of biodiversity</td>
<td></td>
</tr>
<tr>
<td>303-3 Water recycled and reused</td>
<td>102</td>
<td>2.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRI 304 BIODIVERSITY</td>
<td>Management approach</td>
<td>84–87, 96–97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas</td>
<td></td>
<td></td>
<td>There are no production assets within the boundaries of specially protected natural areas of federal and regional importance. No rare or endangered species of animals, plants or fungi have been identified</td>
<td></td>
</tr>
<tr>
<td>304-2 Significant impacts of activities, products, and services on biodiversity</td>
<td></td>
<td></td>
<td>However, when planning its economic activities, the Company carefully evaluates the potential environmental risks and seeks to avoid serious or irreversible environmental damage</td>
<td></td>
</tr>
<tr>
<td>304-3 Habitats protected or restored</td>
<td>105</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>304-4 Total number of International Union for Conservation of Nature Red List species and national conservation list species with habitats in areas affected by the operations of the organization</td>
<td></td>
<td></td>
<td>No rare or endangered species of animals, plants or fungi have been identified at the sites of production assets</td>
<td></td>
</tr>
<tr>
<td>GRI 305 EMISSIONS</td>
<td>Management approach</td>
<td>84–87, 96–97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>305-1 Gross direct (Scope 1) GHG emissions</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>305-2 Reduction of GHG emissions</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>305-3 Emissions of ozone-depleting substances (ODS)</td>
<td>100–101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>305-4 Nitrogen oxides (NOx), sulphur oxides (SOx) and other significant air emissions</td>
<td>100–101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRI 306 EFFLUENTS AND WASTE</td>
<td>Management approach</td>
<td>84–87, 96–97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>306-1 Water discharge by quality and destination</td>
<td>101, 103, 138</td>
<td>2.7</td>
<td>2.7.3</td>
<td></td>
</tr>
<tr>
<td>306-2 Total weight of waste with a breakdown by type and disposal methods</td>
<td>104, 139</td>
<td>2.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>306-3 Transport of hazardous waste</td>
<td></td>
<td></td>
<td>The Company does not transport, import, export, or process waste that is hazardous according to Annexes I, II, III, or VIII of the Basel Convention</td>
<td></td>
</tr>
<tr>
<td>306-4 Water bodies affected by the organization’s water discharges and/or runoff</td>
<td>100–101</td>
<td></td>
<td>Indicator partially disclosed</td>
<td></td>
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</table>

**GRI 307 ENVIRONMENTAL COMPLIANCE**

<table>
<thead>
<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page/reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 307 ENVIROMENTAL COMPLIANCE</td>
<td>Management approach</td>
<td>84–87, 96–97</td>
<td></td>
<td></td>
</tr>
<tr>
<td>307-1 Monetary value of significant fines and total number of non-monetary sanctions imposed for non-compliance with environmental laws and the number of environmental impact complaints submitted, processed, and resolved through official mechanisms for their submission</td>
<td>138</td>
<td>2.10</td>
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**GRI 401 EMPLOYMENT**

<table>
<thead>
<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page/reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
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<tbody>
<tr>
<td>GRI 401 EMPLOYMENT</td>
<td>Management approach</td>
<td>64</td>
<td></td>
<td></td>
</tr>
<tr>
<td>401-1 New employee hires and employee turnover</td>
<td>160–161</td>
<td>3.11</td>
<td>3.12</td>
<td>3.13</td>
</tr>
<tr>
<td>401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees</td>
<td>72–73</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**GRI 402 LABOR/MANAGEMENT RELATIONS**

<table>
<thead>
<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page/reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 402 LABOR/MANAGEMENT RELATIONS</td>
<td>Management approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>402-1 Minimum notice periods regarding operational changes and whether they are defined in the collective bargaining agreement</td>
<td></td>
<td></td>
<td>The Company adheres to the Labour Code of the Russian Federation in which the minimum period for providing notice about significant changes in the organization’s activities is defined as no later than two months prior to the start of the relevant activities, and if the decision to reduce the number or staff of employees may lead to their mass dismissal – no later than three months prior to the start of the relevant events</td>
<td></td>
</tr>
</tbody>
</table>

**GRI 403 OCCUPATIONAL HEALTH AND SAFETY**

<table>
<thead>
<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page/reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRI 403 OCCUPATIONAL HEALTH AND SAFETY</td>
<td>Management approach</td>
<td>64, 98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>403-1 Workers representation in formal joint management–worker health and safety committees</td>
<td></td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>403-2 Types of injury and rate of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</td>
<td>92–93</td>
<td>3.1.5</td>
<td>3.1.6</td>
<td>3.1.7</td>
</tr>
<tr>
<td>403-3 Workers with high incidence or high risk of diseases related to their occupation</td>
<td>92–93</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>403-4 Health and safety topics covered in formal agreements with trade unions</td>
<td></td>
<td>7%</td>
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</table>

**SOCIAL TOPICS**

<table>
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<tr>
<th>GRI component</th>
<th>GRI indicator</th>
<th>Report page/reference to Annual Report</th>
<th>RUIE Indicator No.</th>
<th>Comments</th>
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<tr>
<td>GRI 404 WORKERS' RIGHTS</td>
<td>Management approach</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>404-1 Human rights, social rights, legal rights, and freedoms in general</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>404-2 Workers’ rights to freedom of association</td>
<td></td>
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<tr>
<td>404-3 Workers’ rights to form a union or joint representation</td>
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<tr>
<td>404-4 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>404-5 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<tr>
<td>404-6 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>404-7 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-8 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>404-9 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-10 Workers’ rights to join a union or joint representation</td>
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<td>404-11 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-12 Workers’ rights to join a union or joint representation</td>
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<td>404-13 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-14 Workers’ rights to join a union or joint representation</td>
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<td>404-15 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-16 Workers’ rights to join a union or joint representation</td>
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<td>404-17 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-18 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>404-19 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-20 Workers’ rights to join a union or joint representation</td>
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<td>404-21 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-22 Workers’ rights to join a union or joint representation</td>
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<td>404-23 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<td>404-24 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>404-25 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<tr>
<td>404-26 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>404-27 Workers’ rights to form, join, or maintain a union or joint representation</td>
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<tr>
<td>404-28 Workers’ rights to join a union or joint representation</td>
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<tr>
<td>GRI indicator</td>
<td>Comments</td>
<td></td>
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<td>---------------</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>404-1</td>
<td>Average hours of training per year per employee</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>404-2</td>
<td>Programmes for lifelong skill and educational development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>404-3</td>
<td>Percentage of employees receiving regular performance and career development reviews</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>404-4</td>
<td>Management approach</td>
<td></td>
<td></td>
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<tr>
<td>405-1</td>
<td>Composition of governance bodies and employees with a breakdown by gender and age</td>
<td></td>
<td></td>
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<tr>
<td>405-2</td>
<td>Ratio of basic salary and remuneration of women to men</td>
<td></td>
<td></td>
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<tr>
<td>405-3</td>
<td>The Company has the same base salary for men and women</td>
<td></td>
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<tr>
<td>405-4</td>
<td>Management approach</td>
<td></td>
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<tr>
<td>405-5</td>
<td>For men, see the Gazprom Neft Annual Report for 2017 on the website: <a href="http://ir.gazprom-neft.com/news-and-reports/">http://ir.gazprom-neft.com/news-and-reports/</a> ‘Management System’ chapter</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>406-1</td>
<td>Security staff trained in human rights policies or procedures</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>406-2</td>
<td>Percentage of operations with implemented local community engagement, impact assessments, and development programmes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>406-3</td>
<td>The Company implements action programmes for interaction with local communities at all its key enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>406-4</td>
<td>Operations with significant actual and potential negative impacts on local communities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>406-5</td>
<td>There is a risk of a negative environmental impact inherent in the Company’s production activities. The Company implements action programmes to minimize this risk. Information about the Company’s environmental impact and the results of its environmental programmes are provided in the ‘Safe Development’ chapter of this Report</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>407-1</td>
<td>Operations and suppliers in which workers’ rights to exercise freedom of association or collective bargaining may be violated or at significant risk and the actions taken to support these rights</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>407-2</td>
<td>Management approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>407-3</td>
<td>No violations identified during the reporting period</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
APPENDIX 5. DEFINITION OF KEY TERMS AND ACRONYMS

A
APG associated (petroleum) gas, a mixture of various gaseous hydrocarbons that are dissolved in oil and released during its extraction

ASSETS, ENTERPRISES subsidiaries and affiliates of Gazprom Neft PJSC in the context of the Report

ASP a method for increasing oil recovery based on the idea of injecting a three-component mixture (anionic surfactant, soda and polymer) into the reservoir

B
BAZHENOV FORMATION, BAZHENOV RESERVES a formation of rocks found in Western Siberia

C
CNG compressed natural gas

CORPORATE COMMUNICATIONS interaction, including through the exchange of information, between the Company and its stakeholders

CO2 carbon dioxide

CSR corporate social responsibility

D
DOWNSTREAM Logistics, Processing, and Sales Unit

E
EBITDA earnings before interest, taxes, depreciation, and amortization

EMS energy management system

FEI fuel and energy industry

G
GRI (Global Reporting Initiative) an international organization whose main goal is to develop and implement an authoritative and credible reporting system in the area of sustainability that can be used by organizations regardless of their size, type of activity, or location

GRI (Guidelines) internationally recognized methods for sustainability reporting developed by the Global Reporting Initiative (GRI)

GRI Standards the new version of the internationally recognized methods for sustainability reporting developed by the Global Reporting Initiative (GRI)

H
HEAD OFFICE / CORPORATE CENTRE the management company – Gazprom Neft PJSC

I
IAS internal audit system

IFRS International Financial Reporting Standards

IRMS integrated risk management system (risk management is a continuous streamlined process that involves identifying, assessing, monitoring, and responding to risks at all levels of the Company)

IS industrial safety (industrial, occupational, and environmental safety and civil defence)

ISO 26000 the international standard of social responsibility for organizations of all sectors and types adopted in 2010. ISO 26000 is the standard guideline that defines the general concepts and principles for organizing activities

ISO 24000 the international standard of social responsibility for organizations of all sectors and types developed by the Global Reporting Initiative (GRI)

K
KIMS knowledge and innovation management system

KMAND-Yugra Khanty-Mansi Autonomous District-Yugra

L
LPG liquefied petroleum gas

LTIFR (Lost Time Injury Frequency Rate) the number of cases involving the loss of work time versus the total amount of time worked and standardized per 1 million man-hours worked

M
MOTOR FUEL CLASS the environmental standard established by the Technical Regulation of the Russian Federation “On requirements for automobile and aviation petrol, diesel and marine fuel, jet fuel, and fuel oil” that is similar to European standards. For example, Class 5 of the Technical Regulation complies with the Euro-5 standard

MSHF multi-stage hydraulic fracturing

N
NATIVE TOWNS Gazprom Neft’s social investment programme that aims to solve important problems and meet socioeconomic development challenges faced by the regions where the Company operates, including by involving representatives of the local community in the implementation of projects. The key focus of the programme are the development of the urban environment (construction of housing and the improvement of urban areas), the creation and development of infrastructure for children and grassroots sports, support for sports institutions and sporting events, the support and development of education, the preservation and development of the cultural potential of the regions, and cooperation with indigenous minorities.

NON-FINANCIAL REPORTING see “Reporting on sustainable development”

NPO non-profit organization

O
O. E. oil equivalent, a conventional type of fuel measurement

OILFIELD SERVICE oil and gas field service: drilling of wells, installation of drilling rigs, construction of well pads, repair of wells, repair of drilling equipment, etc.

OIL SLUDGE multi-component physicochemical systems (mixture) consisting of water, petroleum products, and mineral additives [clay, metal oxides, sand, etc.]

ORRPP offshore ice-resistant fixed platform

OMS operations management system

P
PRMS-SPE (Petroleum Resources Management System and Society of Petroleum Engineers) – the international standard for the assessment and management of subsurface hydrocarbon reserves that takes into account the probability of the existence of hydrocarbon resources and the economic efficiency of their extraction

2P (PROVEN AND PROBABLE) proven and probable hydrocarbon reserves
APPENDICES

R

RAS
Russian Accounting Standards

R&D
research and development

RENEWABLE ENERGY SOURCES
types of energy that are continuously
renewed in the Earth’s biosphere (energy
from the sun, wind, tides, waves, etc.)

RUHE
Russian Union of Industrialists
and Entrepreneurs

S

SLUDGE PIT
storage place for drilling waste

SOCIAL INITIATIVE GRANT COMPETITION
a social investment tool used
by the Company to select on a competitive
basis and provide financial support
for projects that aim to solve key social
problems in the areas where the Company
operates. It is utilized as part of the ‘Native
Towns’ social investments programme

SUSTAINABILITY
considering economic, environmental,
and social impacts that cross a threshold
in affecting the ability to meet the needs
of the present without compromising
the needs of future generations. This
definition is provided by the report Our
Common Future, which was issued
by the World Commission on Environment
and Development at the United Nations.
Quoted from: Sustainability Reporting

SUSTAINABILITY REPORTING (NON-
FINANCIAL REPORTING)
a set of systems and processes
for collecting, consolidating, analyzing,
and reporting information that
demonstrates a balance between
the financial, operational, social,
and environmental aspects
of the Company’s operations. It also
includes the principles and mechanisms
for considering the interests of a wide range
of stakeholders, and managing interactions
with them in order to solve problems that
are important to the Company and society

T

TSF
tonne of standard fuel

TP (Total Proved)
proven hydrocarbon reserves

V

VIOC
Vertically integrated oil company

VOC
volatile organic compounds

Y

YNAD
Yamalo-Nenets Autonomous District

U

UN SDR
Sustainable Development Goals adopted
by UN member nations in 2015

UPSTREAM
Exploration and Production Unit

Contact information and feedback
We look forward to your feedback
on this Sustainability Report. Your assessment
of the information disclosed in this report will
help the Company to improve the quality of future
reports and its overall performance.

If you would like to express your opinion or ask questions, you can
contact us any way you prefer using the contact information
below.

All the questions and options the Company receives will be taken
into consideration when preparing the next Gazprom Neft
Sustainability Report.

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