

RISK MANAGEMENT SYSTEM

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 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.

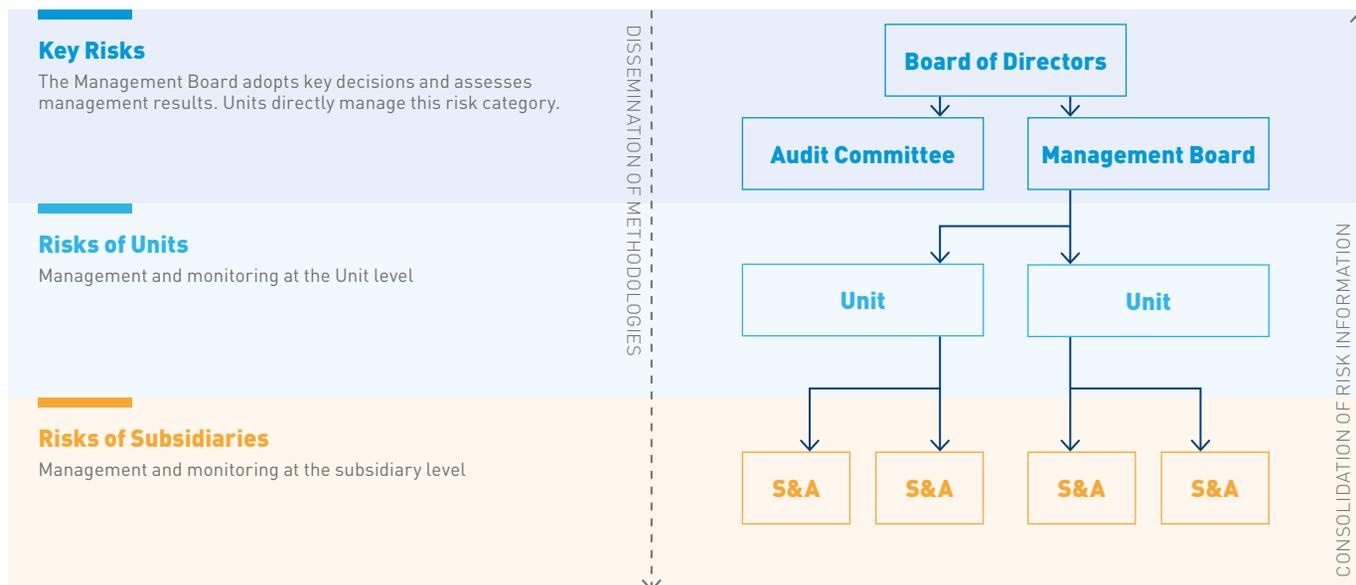
The Company continuously expands the methodological framework of the IRMS, including general recommendations on the quantitative risk assessment of project and business planning as well as detailed methods for assessing the most substantial risks.

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



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



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



Detailed information about the risk management system and a list of key risks faced by the Company are given in the Company's Annual Report for 2017

MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS

Risk description

Risk management measures

RISKS ASSOCIATED WITH HUMAN RESOURCES

The Company's business depends on key highly skilled employees, and the lack of the required amount of skilled labour, in particular in engineering and technology, could lead to risks associated with staff shortages. The Company's success largely depends on the efforts and abilities of key employees, including skilled technical staff, as well as on the Company's ability to attract and retain such staff. Competition for human resources in Russia and abroad may intensify due to the limited number of skilled specialists on the labour market. The inability to attract new skilled human resources and/or retain existing skilled staff could adversely affect the Company's appeal as an employer. Demand for and related expenses on skilled employees are expected to continue growing as a reflection of the significant interest in them from other industries and social projects.

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.

RISKS ASSOCIATED WITH INDUSTRIAL SAFETY

The Company is exposed to risks associated with the safety of its employees, equipment, buildings, and facilities. Many factors can have an adverse impact on the Company's core business, including the breakdown or failure of equipment, labour disputes, injuries to staff and third parties, natural disasters and terrorist attacks. Any of these risk factors may have a material adverse effect on the Company's business, financial standing, and its performance results.

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.

ENVIRONMENTAL RISKS

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 industrial safety policy aims to ensure compliance with the requirements of the existing environmental legislation of the Russian Federation by investing significant funds in environmental protection activities, including the use of technologies to mitigate any negative environmental impact. These activities have resulted in a significant reduction in the probability of risks associated with environmental pollution. The Company also monitors changes in environmental legislation in the countries where it operates.