Annual Report 2019
Gazprom Neft at a glance

Performance review

Strategic report

Gazprom Neft at a glance

Performance review

Governance system

Gazprom Neft at a glance

Geographical footprint

Gazprom Neft investment case

2019 highlights

Letter from the Chairman of the Board of Directors

Performance

Resource base and production

Refining and manufacturing

Sales of oil, gas and petroleum products

Financial results

The implementation of Strategy 2030

Letter from the Chairman of the Management Board

Market overview

Global trends and their impact on the Gazprom Neft strategy

Strategy 2030

Business model

2019 results

Digital transformation

Operational transformation

Cultural transformation

Corporate governance

Internal control and risk management

Investor and shareholder relations

Consolidated financial statements as of and for the year ended 31 December 2019 with independent auditor’s report

Company history

Structure of the Gazprom Neft Group

Information on energy consumption by Gazprom Neft

Taxation in oil industry

Report on compliance with the principles and recommendations set out in the corporate governance code

List of major transactions and related-party transactions

Excerpts from management’s discussion and analysis of financial condition and results of operations

Glossary

Disclaimer

Addresses and contacts
Gazprom Neft PJSC
is a vertically integrated oil company

Its core activities include exploration, production and sales of oil and gas, oil refining, and production and distribution of petroleum products.

The company operates in Russia’s major oil and gas regions as well as abroad. Gazprom Neft and its upstream subsidiaries are engaged in oil and gas exploration, development and production in the Yamalo-Nenets and Khanty-Mansi Autonomous Okruks, the Tyumen Oblast, the Republic of Sakha, the Irkutsk, Omsk, Dundur and Tomsk Oblasts, the Krasnoyarsk Krai, the Nenets Autonomous Okrug, on the Russian Arctic Shelf and offshore in the Sea of Okhotsk, as well as in Iraq and Serbia. The company’s main refining facilities are located in Russia (Omsk, Moscow and Yaroslavl) and Serbia.

The company’s filling station network throughout Russia, the CIS and the Balkans has a total of 2,077 outlets.

Gazprom Neft is one of the world’s top 10 public companies by proved hydrocarbon reserves, and a leader in terms of reserves replacement under the PRMS classification.

For more details, see pp. 52–111

A company setting its sights on the future

By 2030, thanks to new technology, Gazprom Neft intends to halve the time it takes to see the first commercial inflows from an oilfield, to speed up the implementation of major oil and gas projects by 40%, and to reduce production management costs by 10%.

Smart logistics
– A pioneering Arctic-specific logistics management system
– Automated systems for loading and dispatching oil products
– Digitised vehicle fleet to transport petroleum products

Enhanced hydrocarbon recovery technologies
– The Integrated Field Development Centre
– Technologies for the production of hard-to-recover oil
– Unique expertise in working on the Russian Arctic Shelf

High-technology oil refining
– The Gazprom Neft Downstream Efficiency Control Centre,
– Digital twins of process units and facilities
– The Neftkontrol (oil control) system

A company committed to sustainable development values

For more details, see pp. 196–212

Health and safety
– ‘Target Zero’ as a strategic priority
– A developed safety culture
– Digital platform for operational risk management

Environmental protection
– Environmental management system
– Biodiversity conservation programme
– Greenhouse gas emissions accounting and monitoring

Wellbeing of local communities
– The ‘Home Towns’ social investment programme
– Supporting the ethnic minorities of the Russian Far North
– Import substitution and local preference programmes
Gazprom Neft on the world map

The geographic range of the company’s presence includes 110 countries worldwide.

Gazprom Neft in Russia

Head office: St Petersburg

ANNUAL REPORT 2019
Ongoing digitalisation across the entire production chain to improve business efficiency

Extensive resource base

Highly efficient refining thanks to the modernisation of refineries

Managing every link in the value chain together, as a single integrated asset

An operational efficiency and HSE system covering all areas of the company’s business

An adaptive system supporting investment decision-making

Growth in both operating cash flow and dividend payments

Following the best available environmental practices

Organisational, operational, cultural and digital transformation across the company

‘Target Zero’ - zero harm to people, the environment, or property in our operations

The goal of the Gazprom Neft Strategy to 2030 is to build a new-generation company, and to become a benchmark for global industry peers in terms of safety, efficiency and technological advancement.

Market capitalisation as at 31 December 2019

+21.2%

share price growth in 2019

Credit ratings

ACRA

AAA(RU)

INVESTMENT GRADE

Moody’s

Baa2

INVESTMENT GRADE

Fitch

BBB

INVESTMENT GRADE

S&P

BBB-

INVESTMENT GRADE

The company’s standing in the industry

No. 1

28.6% EBITDA margin

20.1% ROE (return on equity)

16.8% ROACE (return on average capital employed)

No. 2

$1,507.2 EBITDA per barrel of oil produced

$453.0 billion CAPEX

0.70x Net debt/EBITDA

No. 3

$795.1 billion adjusted EBITDA

14.1 mtoe hydrocarbon production

63.3 mt oil and oil-condensate production

Market valuation as at 31 December 2019

EV/EBITDA at year-end 2019

Value growth potential

A consensus forecast provided by financial analysts confirms that the company has strong upside potential.

Distribution of analysts’ recommendations on Gazprom Neft shares

Market capitalisation and shareholder return

Share of IFRS net profit, %

Total dividends per share, ¥

Steady dividend growth

of IFRS net profit – dividend payout ratio in 1H 2019

|$1.99 trillion

Market capitalisation as at 31 December 2019

+$21.2% share price growth in 2019
The company increased hydrocarbon production in 2019 primarily through its projects in the Arctic, allowing it to maintain revenue and EBITDA year on year and to increase dividend payments. This is in spite of a significant fall in oil prices on the domestic and international markets.

Gazprom Neft ended the 2019 financial year with a good financial and operational performance, price adjustments on the global oil market notwithstanding. Various projects throughout the company’s refining facilities involving the construction of major new complexes moved into their final stages. With the protection of the environment being an overriding and non-negotiable priority for the company, it is vital that our plants comply with the highest environmental standards.

Alexander Dyukov
Chairman of the Management Board, CEO, Gazprom Neft PJSC

### 2019 HIGHLIGHTS

Reserves and production growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Proved reserves, mtoe</th>
<th>Hydrocarbon production, mtoe</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,318</td>
<td>717</td>
</tr>
<tr>
<td>2016</td>
<td>1,359</td>
<td>812</td>
</tr>
<tr>
<td>2017</td>
<td>1,385</td>
<td>921</td>
</tr>
<tr>
<td>2018</td>
<td>1,356</td>
<td>961</td>
</tr>
<tr>
<td>2019</td>
<td>1,380</td>
<td>1,018</td>
</tr>
</tbody>
</table>

Gazprom Neft actively expanded its resource base throughout 2019, adding 32 new licence blocks in the year. The company also increased its project portfolio significantly, having started developing oil-rim deposits, Achimovsky deposits, and Neocomian-Jurassic gas and gas-condensate deposits at Gazprom PJSC fields, using long-term risk-operation agreements.

Hydrocarbon production (including joint-venture interests) was up 3.5% year on year in 2019: this growth was driven by higher production at the Novoportovskoye and Vostochno-Messoyakhskoye fields, in the Orenburg Oblast and at new oil-rim projects, as well as the company increasing its interest in Arcticgas.

Advanced oil-refining technologies

<table>
<thead>
<tr>
<th>Year</th>
<th>Refineries throughput, mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>431</td>
</tr>
<tr>
<td>2016</td>
<td>419</td>
</tr>
<tr>
<td>2017</td>
<td>407</td>
</tr>
<tr>
<td>2018</td>
<td>407</td>
</tr>
<tr>
<td>2019</td>
<td>415</td>
</tr>
</tbody>
</table>

Refining throughput decreased in 2019 as a result of planned refurbishment at the Group’s refineries. The company has continued its refineries development programme directed at increasing both the conversion rate and the output of in-demand petroleum products, as well as improving the environmental performance of its refineries.

Stable financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted EBITDA, P billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>42.6</td>
</tr>
<tr>
<td>2016</td>
<td>53.2</td>
</tr>
<tr>
<td>2017</td>
<td>55.6</td>
</tr>
<tr>
<td>2018</td>
<td>79.5</td>
</tr>
<tr>
<td>2019</td>
<td>78.8</td>
</tr>
</tbody>
</table>

Gazprom Neft remained almost flat year on year in spite of a decline in oil prices on the domestic and international markets.

Strong safety performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Accidents</th>
<th>Associated petroleum gas (APG) flaring</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>12</td>
<td>18.9%</td>
</tr>
<tr>
<td>2016</td>
<td>14</td>
<td>18.7%</td>
</tr>
<tr>
<td>2017</td>
<td>16</td>
<td>18.0%</td>
</tr>
<tr>
<td>2018</td>
<td>19</td>
<td>17.0%</td>
</tr>
<tr>
<td>2019</td>
<td>19</td>
<td>16.1%</td>
</tr>
</tbody>
</table>

Gazprom Neft is committed to increasing APG utilisation levels as it brings new fields into commercial development and increases hydrocarbon production. The company’s objective in this regard is to achieve an APG utilisation level of at least 95% by 2022, even in the face of increasing production.

The company reached a record-high net profit in 2019 thanks to the appreciation of the rouble and the positive impact of net financial income and expenses.
Dear shareholders and investors,

In 2019, Gazprom Neft continued developing its business in line with its new long-term Strategy adopted by the Board of Directors.

In the reporting year, Gazprom Neft increased hydrocarbon production by 3.5%, to almost 100 million tonnes of oil equivalent. This growth was driven both by more efficient development of mature fields and by new major projects such as the Novoportovskoye, Vostochno-Messoyakhskoye and Prirazlomnoye fields. Arctic assets were responsible for a significant contribution to the company’s total production, with about 30% of all of today’s oil production occurring within the Arctic Circle. A stable supply of Arctic oil to the global market is made possible by the world’s first digital Arctic logistics management system developed by Gazprom Neft specialists.

Today, a major priority for the industry is to produce technological solutions for the economically viable development of non-traditional and hard-to-recover reserves. In 2019, Gazprom Neft continued to make progress towards this goal. By developing and introducing new technologies, the company’s year-end results showed a 2.5-fold year-on-year increase in oil production at the Bazhenov Formation, whereas production costs almost halved.

The company expanded its resource base in 2019. Thirty two new licence areas were added to the Gazprom Neft portfolio, including in new prospecting areas on the Gydan and Taymyr Peninsulas. One of the key areas for developing Gazprom Neft’s resource base is the development of oil-rim deposits, Achimovsky deposits, and Nenetsian-Jurassic gas and gas-condensate deposits at Gazprom’s flagship assets. Western and Eastern Siberia; these include the Chayandinskoye, Bovanenkovskoye, Yamburgskoye, Vostochno-Messoyakhskoye and Prirazlomnoye fields. Arctic assets were responsible for a significant contribution to the company’s total production, with about 30% of all of today’s oil production occurring within the Arctic Circle. A stable supply of Arctic oil to the global market is made possible by the world’s first digital Arctic logistics management system developed by Gazprom Neft specialists.

In the reporting year, Gazprom Neft made significant progress in developing its petrochemical segment, as the company and its partner, Sibur, consolidated a 100% shareholding in the Poliomial plant in Omsk. Integrating Poliomial and the Gazprom Neft Omsk Refinery’s technological capabilities and resources will allow the company to improve efficiency by using refinery feedstocks to produce high-value-added products.

Gazprom Neft is becoming increasingly prominent in the global petroleum-products market. The company offers its consumers products that meet the highest international standards. New restrictions on sulphur content in bunker fuels are a global challenge for the oil and shipping industries. Gazprom Neft responded to this challenge in 2019 by launching the production of a new fuel containing less than 0.5% sulphur. High-technology marine oils produced by the company are also consistent with the International Convention for the Prevention of Pollution from Ships, and are in demand on the global market. Gazprom Neft currently supplies bitumen products to 57 countries worldwide. The company is working systematically to develop bitumen technology, and has a proven track record in developing and using innovative bitumen materials.

Strong operational performance was reflected in Gazprom Neft financial results: in 2019, Gazprom Neft net profit exceeded ₽400 billion for the first time in the company’s history. The company continues to increase dividend payments to shareholders: dividends for 1H 2019 totalled as much as 40% of Gazprom Neft’s net profit for the period.

Gazprom Neft celebrates its 25th anniversary in 2020. During that time, the company has increased the sheer scale of its business; it has evolved from a regional player with a number of local operating assets into a world-class company and an industry leader in technology. In the face of constantly changing market conditions, Gazprom Neft continues to give priority to safety, environmental responsibility and business efficiency. It does this by applying new technologies across the entire value chain. I believe that this will enable Gazprom Neft to remain resilient and to continue its steady progress towards achieving its strategic goals, despite momentous new challenges that the entire world is facing.

Alexey Miller
Chairman of the Board of Directors
Gazprom Neft PJSC

[Signature]
Strategic report

Letter from the chairman of the management board
Market overview
Global trends and their impact on the gazprom neft strategy
Strategy 2030
Business model
Digital transformation
Operational transformation
Organisational transformation
Cultural transformation
The implementation of Strategy 2030 will make the company a global benchmark

Gazprom Neft’s development strategy to 2030 sets an ambition to grow ahead of market trends, while maintaining a high level of return on capital employed. The company is determined to consolidate its position in the top league of global public oil companies, and become a benchmark for industry peers in terms of safety, efficiency and technological advancement. 2019 was the first year in which Strategy 2030 was successfully implemented.
Dear shareholders and investors,

Despite the deteriorating global oil market, Gazprom Neft delivered a good financial and operational performance in 2019, successfully increasing hydrocarbon production – up 3.5%, at 96.1 million tonnes of oil equivalent (mtoe) – predominantly through major assets including the Novy Port and Eastern Messoyakhskaya projects, as well as the Drentum production cluster.

Entering into long-term risk-operator agreements with Gazprom will play an important role in the company’s continuing growth in the future. By collaborating with our parent company in this way we have been able to get involved in developing a whole range of assets, including Neocomian-Jurassic gas-condensate deposits at the Bovanenkovo and Kharasavey fields. These projects significantly increase our resource base, as well as facilitating a significant proportional increase in gas and gas condensate in terms of total production volumes. The company also acquired 32 new licences last year, with our reserves-replacement ratio reaching 120%.

Total refining volumes throughout the company’s own refineries reached 41.5 million tonnes in 2019. We are continuing our full-scale modernisation of refining facilities in Moscow, Omsk and Pančevo (Serbia). A Euro+ facility will be commissioned at the Moscow Refinery in 2020, directly replacing five outdated units and significantly increasing efficiency and environmental friendliness. Construction starting on our catalyst plant in Omsk – the launch of which will resolve the problem of Russian refining’s dependence on foreign catalyst supplies – marked a major milestone in 2019.

Gazprom Neft’s sales of oil products through premium channels reached 26.5 million tonnes in 2019. Bitumen products saw significant growth, up 20%. The company began selling environmentally-friendly ultra-low-sulphur marine fuel in 2019, fully compliant with MARPOL Convention standards. We are also continuing preparations for entering the LNG-bunkering market.

Despite the downward trend in the global oil price, Gazprom Neft succeeded in maintaining EBITDA (earnings before interest, tax, depreciation and amortisation) and turnover at 2018 levels. The company showed growth in free cash flow and net profit (tax, depreciation and amortisation), and turnover at 2018 levels. For the first time in our history, the latter exceeded RUB1 billion in 2019. A stable and sustainable financial position, together with a low debt burden, means we can be flexible in implementing our investment programme, as well as ensuring a high dividend distribution.

Technological development remains Gazprom Neft’s key focus, with the company proactively researching, developing and deploying cutting-edge physical and digital technologies, throughout the entire value chain. Deploying innovations means we can be more effective in addressing – inter alia – the challenge of the viable development of hard-reserves: something that remains a priority not just for our company, but for the entire oil industry. One of our key objectives in the next few years will be further improving safety throughout our business and production processes. The company has committed to a risk-based approach, which will be developed as part of an integrated “Safety Framework” project, identifying key risks and putting barriers in place to protect against those. We are also engaging proactively with our contractors to take their approach to safety to a whole new level.

Protecting the environment, and an effective corporate social responsibility (CSR) policy in all locations in which the company operates, are overriding priorities for Gazprom Neft. The company’s refinery modernisation programme includes a large number of projects directed at further reducing manmade environmental impacts. Our “Green Seismic” programme has already saved more than 3.5 million trees from being felled.

The company is investing in renewables, having launched a solar electricity plant at the Omsk Refinery in 2019. Serbian oil company Naftna Industrija Srbije (NIS), in which we are a shareholder, is managing a wind farming project. Gazprom Neft’s CSR policy is managed through its “Home Towns” programme, the main focus of which is an integrated and cohesive approach to improving living standards in those locations in which the company operates.

The company will celebrate its 25th anniversary in 2020. We have reached this anniversary having successfully implemented our long-term strategy to 2020, and having set ourselves new and ambitious goals. Gazprom Neft has more than doubled the size and scale of its oil production and refining businesses over the last 10 years, increasing premium sales and entering new markets. Our goal now is to consolidate our position among the world’s top-league oil companies, and to become a flagship in the “smart-energy” of the future. We want to be a benchmark in terms of efficiency, technological advancement and safety, maintaining a high level of business growth and return on capital employed (ROACE).

Events such as the current coronavirus pandemic and the sharp drop in oil prices inevitably bring considerable uncertainty to expectations for 2020. But – given our experience of working effectively through previous periods of market crisis – we can look to the future with confidence, and remain confident in our strategic goals Gazprom Neft is a team of likeminded, pro-active, passionate and engaged people. Developing a new-generation company is our common goal: a goal that I have no doubt we will achieve.

Alexander Dyukov
CEO and Chairman of the Management Board, Gazprom Neft PJSC
Global oil prices in 2019 were lower, albeit more stable, compared to 2018. The average annual Brent price stood at around $64/bbl against $71/bbl in 2018.

The relative stability of the market was the result of several divergent factors. On the one hand, oil prices were supported by political volatility across production regions and by the actions of the OPEC+ countries to curb supply. On the other hand, prices came under pressure from a global economic slowdown, trade wars, and growth in oil production in the US and elsewhere. Instability was heightened in 2020 by the coronavirus pandemic and the de facto termination of the OPEC+ agreement, which caused prices for oil and other resources to plunge. High uncertainty and volatility on hydrocarbon markets may remain beyond 2020.

The declining global economic growth in 2019 was the most noticeable factor affecting demand, prices and expectations in the oil and other commodity markets. According to the IMF, the global economy grew by only 2.9% last year (as against 3.6% in 2018), the lowest figure since 2009. This slowdown affected both developed and emerging economies. China’s GDP growth decreased to 6.1% in 2019, which is just above the lower limit of the target set by the country’s government. India’s economic growth also remains fragile: in 2019, it was well below projections, with a number of indicators pointing to persistent obstacles for sustainable growth.

The main reasons for the slowdown of the world economy include trade wars, primarily the US and China’s conflicts, which resulted in several rounds of mutual trade restrictions and a drop in trade turnover between the world’s two largest economies. In late 2019 to early 2020, the countries came to agreements to resolve trade disputes which, if successfully implemented, could reduce trade tensions between them.

Trade wars may be part of a broader trend: the spread of protectionism and the regionalisation of the world economy both pose a risk to economic growth and energy demand. The growth of international trade has for some years lagged behind the growth of the world economy, which was not the case over the preceding period and in the paradigm of economic globalisation. The future of some integration associations remains in question, as was demonstrated by the withdrawal of the UK from the European Union in 2020, preparations for which had been under way since the 2016 referendum.

The global economic slowdown in 2019 was at odds with financial markets, whose stability is supported by regulatory incentives. Central banks chose to maintain their key rates or cut them as the US Federal Reserve did following the attempted increase in 2018. In this context, market valuation of assets against indicators such as profit reached their highest point for many years.

The world economy entered 2020 with persistent problems of high debt, the stark divide between the financial and real sectors, heterogeneous performance of national economies, and economic instability in some countries. The situation in global production, logistics and consumption was exacerbated by coronavirus outbreak in early 2020 which caused significant deterioration in the global economy and affected financial markets. Slowing growth and the risk of recession in key economies forced regulators to strengthen their stimulation efforts.

International situation
While there have been no major conflicts, the high level of international and regional tensions in 2019 had a considerable impact on the oil market. The effect of the US sanctions on Iran and Venezuela has led to a cumulative decline of 1.8 million bpd in production in these countries. Although production there saw stabilisation in the second half of the year, the situation in foreign policy and economics remains difficult.
Drone strikes on Saudi Arabia’s oil infrastructure in September 2019 were unprecedented in terms of their implications, demonstrating the sector’s vulnerability to geopolitical factors. As a result of the attacks, global oil production dropped, albeit for a short time, by 5%.

Regions that have traditionally been somewhat volatile were able to maintain relatively stable oil production throughout the year. The situation in Libya, however, remains uncertain. Overall, especially in view of OPEC’s voluntary production cuts, the volume of lost production in 2019 turned out to be high by historical standards.

As at early 2020 there remained considerable potential for changes in oil supplies, in either direction. As demand fell amid the coronavirus pandemic, OPEC+ was unable to agree on further tactics, with the curtailment of OPEC+ countries’ production having been stopped from April 2020.

Regulation and climate agenda

International organisations, governments and society continue to pay close attention to climate change and pollution. Climate risks are at the top of the agendas of major international conferences, although commitment at a national level is variable. Russia joined the Paris Agreement in September 2019, whereas the US may formally withdraw, but not before November 2020.

While actual carbon dioxide emissions are already a long way off the original targets set in the Paris Agreement, many countries are publicly confirming their intention to reduce their carbon footprint in the long term. Some have stated their vision to become carbon-neutral by 2050. Nonetheless, it is the ambitions of corporations to become carbon-neutral by buying electricity from renewable sources on the market or by financing other actions to offset their carbon footprint that appear to be more realistic.

Environmental and social aspects of operations occupy an increasingly higher position on the agendas of industrial companies. Often acting in their investors’ interests, such companies lead initiatives to develop low-carbon technologies and reduce the environmental impact of their sector. More specifically, some major funds have limited their investments in conventional energy or are planning to consider the carbon footprint in asset portfolio management.

Renewable energy and automotive markets

The situation around renewable energy remains stable. Annual investment in renewable energy, including hydropower, has remained at the $300 billion level over the past decade, with renewable energy remaining ahead of other sectors of the global electric power industry. China continues to be a key market player, accounting for almost half of all renewable energy investment. Stable investments help to expand the installed capacity and increase the share of renewables. Germany is a case in point, where electricity from renewable sources accounted for 44% of the total electricity output in 2019.

Sales of electric vehicles (EVs) grew only marginally in 2019, as a result of a reduction in subsidies by China causing EV sales to slump at midyear amid low overall demand for cars. Passenger car sales were markedly down on the world’s two largest markets, China and the US. The EU saw sales spike at year-end as manufacturers sought to maximise sales by offering cars on special terms ahead of the forthcoming new limits on emissions.

New energy and transport segments retain their high dependence on government support and regulation. While reducing subsidies for renewable energy and electric transport, regulators are at the same time increasing the load on traditional power generation and internal combustion engines. The EU has adopted a new plan to limit motor vehicle emissions, and China is increasing mandatory quotas on EV production. Car manufacturers’ plans and agencies’ outlooks on the development of electric transport are ambitious. It is expected that many new models of electric vehicles will appear on the market in 2020-2022 which, together with the efforts of regulators, will revive the market.

Oil demand

Growth in global consumption of liquid hydrocarbons slowed down in response to low levels of economic growth and competition from electricity and gas. According to the International Energy Agency (IEA), liquid hydrocarbon consumption rose by only 0.9 mbbl/d in 2019, the lowest growth rate since 2013. Analystical agencies expected to see some acceleration in demand growth in 2020, but downgraded their forecasts because of the coronavirus pandemic. As a result, global oil consumption is expected to decline for the first time since 2009.

The long-term outlook of market watchers, however, remained largely unchanged. Under the IEA’s base-case scenario, oil demand growth will not stop until 2040 at the earliest. The decrease in the consumption of oil products by passenger transport after 2020s notwithstanding, the growth in demand from freight transport, aviation and petrochemicals will ensure a moderate, but nonetheless positive, trend in market volumes.

More radical scenarios, which envisage a peak in oil demand around 2030, suggest significant changes in the regulatory environment and realisation of investment towards low-carbon energy. There are currently no viable mechanisms to ensure concrete implementation of the low-carbon agenda, and the issue of energy transition and its adoption by consumers remains open.

Oil supply

As in previous years, the US was the main contributor to global oil supply growth in 2019: its oil production averaged 12.23 mbbl/d, up 1.24 mbbl/year on year. Total liquid hydrocarbons supply was up 1.18 mbbl/d (19.51 mbbl/d as against 17.33 mbbl/d), once again outpacing global demand growth.

This growth, according to Baker Hughes, was driven mainly by shale production, while...
the number of operating drilling rigs in the US decreased from 885 to 677 over the year. The drop in oil prices in early 2020 led companies to reduce drilling activity further, and agencies to revise their estimates significantly. Under the impact of decreasing demand and prices, oil production in the US may slump in 2020 for the first time in several years. The slowdown in shale production may be offset by the supply from new production projects in non-OPEC+ countries. Major projects launched in 2019 have already had a significant impact on oil supply across various regions. Given the slowdown in demand, this has limited the capacity of OPEC+ countries to increase production, and 2019 saw lower oil production quotas.

in the following months due to lower seasonal demand over winter months. In March 2020, OPEC+ members failed to reach a common position on further production cuts and so moved to independent production planning. As a result, oil prices hit their lowest since the early 2000s and the global market saw a significant surplus of oil in the first quarter of 2020.

the global oil market. In December 2019, OPEC+ members agreed not to include gas condensate numbers in the overall oil output for the Russian Federation and to lower oil production quotas.

Given the slowdown in shale production, the supply was supplemented further by the commissioning of major new refining facilities in China, the Middle East and Africa. The most notable – and expected – market highlight was the drop in prices for high-sulphur fuel oil at the end of the year, as the shipping industry was actively preparing for new International Maritime Organization (IMO) regulations to take effect. The new rules restricted the use of marine fuels with sulphur content exceeding 0.5% in international waters without additional exhaust gas cleaning. As suppliers had to build up reserves of low-sulphur fuel, demand for high-sulphur fuel plunged. Fuel-oil prices nonetheless began to recover in early 2020. The subsequent slump in global petroleum-products consumption amid the coronavirus outbreak offset the impact of new regulations on prices.

The global petroleum-products market remained well balanced for most of 2019. There were no supply disruptions amid the slowing demand, and even a higher level of refinery maintenance did not noticeably affect the crude and product differentials. The supply was supplemented further by the commissioning of major new refining facilities in China, the Middle East and Africa. The most notable – and expected – market highlight was the drop in prices for high-sulphur fuel oil at the end of the year, as the shipping industry was actively preparing for new International Maritime Organization (IMO) regulations to take effect. The new rules restricted the use of marine fuels with sulphur content exceeding 0.5% in international waters without additional exhaust gas cleaning. As suppliers had to build up reserves of low-sulphur fuel, demand for high-sulphur fuel plunged. Fuel-oil prices nonetheless began to recover in early 2020. The subsequent slump in global petroleum-products consumption amid the coronavirus outbreak offset the impact of new regulations on prices.

For the majority of oil companies, financial discipline remains as relevant as before. Nevertheless, oil price stabilisation and paybacks obtained in 2019 enabled producers to relaunch projects that had been initiated earlier and to actively approve new ones. The sector’s ability to launch sophisticated projects quickly has eased experts’ fears over potential oil shortages resulting from underinvestment in 2015–2017. Total global investments in hydrocarbon production increased in 2019. According to IEA estimates, they totalled $505 billion in 2019, up 6% on the previous year. A global recovery in the number of prospecting surveys led to an increase in discovered reserves. Some estimates suggest that oil and gas discoveries in 2019 exceeded 28 billion tonnes of oil equivalent (btoe), of which two-thirds are attributable to gas. The Guyana Shelf has the potential to become the new global production hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell. International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell. International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell. International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell. International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell. International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.

About a quarter of investment in global exploration and production related to shale oil assets which, for the first time since 2016, saw a significant fall in drilling operations. Independent producers facing strict financial discipline requirements had to cut their drilling programmes. This, in turn, affected the performance of oilfield service companies. Oil majors that had previously announced ambitious shale-oil production plans had to adjust them in early 2020 as oil prices fell. International oil and gas companies have not lost sight of the diversification of their business. This mainly involves putting in place a value chain hub, where major discoveries in recent years allowed companies working in that area to declare several billion barrels of recoverable oil reserves and, by 2025, initiate projects with total production volumes standing at about 750,000 bbl. Given the ongoing exploration activities in Central America, it is possible that production expectations will grow.
Market balance, inventories and key drivers for 2020

Despite production cutbacks in Iran and Venezuela, and the repercussions of the attacks in Saudi Arabia, the global oil market did experience any shortages throughout 2019. In fact, the OECD countries’ total inventories of crude oil and petroleum products grew year on year. Given the situation around the coronavirus outbreak, and the termination of OPEC + agreement, we may see a considerable surplus on the global oil market in 2020.

The set of factors affecting global oil markets and companies’ operations remains complex. On the supply side, in addition to the ability of various countries to maintain production levels amid price volatility, the market will be affected by the political situation in the Middle East and North Africa. Demand, in turn, is likely to be driven not only by economic growth and the impact of the coronavirus pandemic, but also by weather factors, progress in EV adoption and government restrictions on the use of internal combustion engines. Instability of financial markets and fragile investor sentiment add to price uncertainty. In this context, it is likely that the global oil market will continue to experience price volatility, fluctuations in supply and demand, as well as a wide range of forecasts.

Russian oil industry

The macroeconomic situation in the Russian economy in 2019 - early 2020 remained stable. The economic growth continued, albeit on a modest scale. In 2019, Russia’s GDP grew by 1.3% against 2.5% a year earlier.

Economic stability was supported by a strong export balance, despite falling global hydrocarbon prices, and a budget surplus. Expectations of a significant acceleration of inflation against the backdrop of VAT growth proved misplaced. In fact, the year-end growth in consumer prices slowed to 3%, which was another record. Low inflation allowed the Central Bank to continue reducing its key rate (6.25% at year-end).

Taxation changes in 2019 were not substantive; they continued the thinking behind previous decisions. The procedure for calculating the damper component for motor fuel was further clarified; the list of excisable middle distillates was expanded; and the roadmap for introducing tax concessions in oil production was approved. The reduction of netback indices for motor fuels in the context of moderate global prices and stable rouble rates made it possible not to extend domestic price constraints. Overall, domestic petroleum-products prices remained stable.

The limitations of the OPEC+ deal notwithstanding, crude oil and condensate production in Russia hit an all-time high of 560.2 mbt in 2019 (+0.8% on 2018). Oil exports grew considerably (248.4 mbt as against 258.2 mt in 2018), despite the Druzhba oil pipeline contamination. The ongoing modernisation of domestic refineries meant a boost in output of gasoline, diesel-fuel and aviation fuel, reducing overall volumes of primary distillation which, in turn, led to growth in production of fuel oil and heavy marine fuels.

The economic climate was mirrored in the petroleum-products market and in the key drivers of demand. Sales of new cars in Russia were down 2.3% to 1.759 million units and, according to industry forecasts, this trend may continue in 2020. Real disposable income declined in 1H 2019, triggering a slight reduction in the annual gasoline demand. By contrast, diesel-fuel consumption continued to grow (by approximately 1.3%), which was supported by growth in the key sectors of consumption (mining, agriculture, construction, railway transport). As ever, changes in consumption levels by the air transportation sector were more pronounced: passenger traffic spiked 12.9%, while cargo traffic plunged 6%. Demand for jet fuel edged up 3% over the year, although early 2020 saw a substantial reduction.

The decline in global oil prices in spring 2020 put pressure on the rouble exchange rate and other indicators, exacerbating the macroeconomic situation in Russia as a result.
<table>
<thead>
<tr>
<th>Global trend</th>
<th>Description</th>
<th>Challenge for the industry</th>
<th>How the company is responding</th>
</tr>
</thead>
</table>
| Increasing pace of external change| Major changes in market, technological, social and regulatory factors that have a continuous and hard-to-predict impact on the operating environment of the company. | – Fast and efficient decision-making  
– Strategy flexibility and business resilience under any scenario  
– A deep understanding and continuous analysis of the external environment | New technologies, digitalisation and operational transformation enable the company to make the best decisions, and improve performance and viability across the entire value chain, both in the upstream and downstream segments.  
For details, see the Strategy 2030 section |
| Growing competition in traditional markets | Competition among companies in various sectors for consumers, resources and economic value drives the number, quality and diversity of energy resources and related products and services. | – Managing the asset portfolio to maximise its value  
– Ensuring asset efficiency across the entire value chain  
– Developing products and services to complement the existing business | Gazprom Neft is a technology flagship in the Russian oil industry. It has experience in implementing projects that are unique in Russia and globally, including the only Arctic oil platform in the world and construction of complex infrastructure in permafrost conditions.  
For details, see the Technological Development section |
| Growing technological complexity of the business | Growing complexity of energy production, processing and transportation technologies. This is in the context of the gradual depletion of reserves, technological progress and increasingly tight requirements for processes and products in the energy sector. | – Efficiently developing in-house technological competencies  
– Engaging in developing advanced industry-wide technologies  
– Reducing reliance on imported technologies and equipment | Gazprom Neft is continuously increasing the proportion of high-technology projects in its portfolio, using best practices and technologies in geological exploration. 3D-modelling systems, cloud technologies, big data, and artificial intelligence deliver vast improvements in efficiency. The company is also developing its own proprietary technologies, such as those for the Bashnom Formation.  
For details, see the Technological Development section |
| A growing role for digital technology across multiple sectors | Rapid development of data acquisition and processing technologies, which helps to substantially improve and transform production and management processes. | – Digitalising production and management processes  
– An efficient system for implementing new digital solutions in the company  
– Developing digital competencies and proprietary digital solutions | The company’s digital transformation covers the entire value chain. It is intended to improve the flexibility and efficiency of business management. Gazprom Neft is developing its own solutions in artificial intelligence, the Industrial Internet of Things, robotics, unmanned aerial vehicles, and other Industry 4.0 technologies  
For details, see the Digital Transformation section |
| Growing relevance of environmental and social factors | Greater requirements, standards and community demand for the safety of people and processes, environmental and other social aspects of the business. | – Production reliability and safety  
– Minimising environmental impacts  
– Involvement in the social development of those regions in which the company operates | As a socially responsible company, Gazprom Neft is putting in place an HSE strategy based on international best practice. The company is committed to sustainable development values and is engaging effectively with its stakeholders.  
For details, see the Sustainable Development section |
Gazprom Neft is one of the world’s top-10 public companies in terms of liquid-hydrocarbon production. This goal reflects the scale of the business. The company is committed to continuing its growth in line with the market, or above.

Maximising the added value of every barrel of oil produced. The company needs to manage the entire value chain efficiently in order to maximise financial performance.

Leadership in terms of return on average capital employed. This objective requires effective project and asset management, focused on maximising profit.

Safety. A responsible attitude to employees, partners and the environment. As Gazprom Neft is working to become a leader in industrial safety, it is guided by the key principle: ‘Target Zero’, which means zero harm to people, the environment, or property in our operations.

Efficiency. Creating value under any external scenario. This is a key driver of competitiveness in a challenging external environment.

Technological advancement. Seizing opportunities for growth and improved operational efficiency by developing and implementing advanced technological solutions, and by continuously developing key competencies.

Digital transformation will ensure that additional value is created from data across the entire value chain from geological exploration to fuel sales to end-users.

Cultural and organisational transformation involves transforming Human Resources management from a support function into a driver for continuous development. A key factor in recruiting the best employees and high-potential talent is to offer opportunities for continuous development, both individually and collectively.

Our aim is not only to gain a foothold in the top league of oil companies, but also to become a benchmark for industry peers, both locally and globally, in terms of safety, technological advancement and efficiency. We strive to maximise the value of every barrel of oil that we produce. Our aim is to achieve growth by maximising efficiency through investing in new projects, rather than merely expanding scale at any cost.

Gazprom Neft strives to become a benchmark for industry peers in such crucial areas as safety, efficiency and technological advancement.

Implementing Strategy 2030 means being flexible in adopting new approaches in operational planning and adapting to external challenges.

The company has identified key areas of the business that it plans to transform in order to achieve its objectives. These strategic transformations are both interconnected and mutually supportive.

Gazprom Neft has made remarkable progress in the last 10+ years, and is now a major player in the global oil and gas sector. The key objective of the company’s new development Strategy to 2030 adopted in 2018 is to build a new-generation company and to become a benchmark for both Russian and international industry peers.

Our aim is to achieve growth by maximising efficiency through investing in new projects, rather than merely expanding scale at any cost.

Alexander Dyukov, CEO and Chairman of the Management Board, Gazprom Neft PJSC

Our mission

Evolving, to change the world. Creating, to be proud of our creations. We produce resources for the future, enriching the world with the energy, knowledge, and technology to advance.

Our goal

To become one of the world’s leading industrial companies, driving industry transformation, making the impossible a reality, and inspiring our peers in Russia and beyond.
ANNUAL REPORT 2019

Gazprom Neft’s business development efforts in 2019 and its short-term plans are consistent with the long-term development areas and goals set out in the Strategy 2030.

**BUSINESS GOALS**

**LEADERSHIP AREAS**

**COMPANY TRANSFORMATION**

**Safety** 'Target Zero: zero harm to people, the environment, or property in our operations.'

**Efficiency** Maximising the added value of every barrel in any oil market development scenario.

**Strategic initiatives:**
- in exploration and production, improving efficiency in:
  - reserves growth;
  - production growth;
  - ongoing production;
- in logistics, processing and sales:
  - optimising the product portfolio and improving operational efficiency in refining;
  - improving efficiency in sales and distribution.

**Creating technologies for future development:**
- Improving the oil recovery factor at mature fields;
- Developing multi-phase deposits and low-permeability reservoirs;
- Operating in the challenging environment of the Arctic;
- safe and efficient offshore operations;
- Catalyst production;
- Deployment of proprietary processes throughout the company’s refineries;
- Using import substitution as a tool to help Gazprom Neft become a technological leader and achieve sustainability.

**Operational** Implementing the “Etalon (Touchstone)" Operational Management System (OMS) to ensure systemic safety and efficiency in all day-to-day activities.

**Organisational** Becoming a flexible organisation with a streamlined and agile operating environment.

**Cultural** Moving from "management and control" to "leadership by engagement" as a new collaborative ideology.

**Digital** Improving speed and quality of decision making by deploying digital technologies.

**Yamal development** Developing the resource base of the Yamal Peninsula and building a gas pipeline connecting the Novoportovskoye field to the Unified Gas-Supply System.

**Sakhalin** Developing a hydrocarbon production cluster on Sakhalin Island’s continental shelf.

**Nadym-Pur-Tazovsky region** Developing and monetising uniquely high volumes of liquid hydrocarbon reserves in a region of strategic importance to the company.

**APO utilisation** Commissioning gas infrastructure facilities, and increasing APO utilisation volumes.

**Non-traditional resources** Developing non-traditional reserves of the Bazhenov Formation (Domanic and Palaeozoic deposits).

**Technological development** Bringing currently unprofitable remaining recoverable reserves into production by developing and implementing new technologies.

**New prospecting areas** Preparing the resource base for production beyond 2025.

In the downstream sector, the company continues to modernise its refineries and improve its operating efficiency, as well as expanding its retail network and making it more efficient.

**Areas for long-term strategic development:**

- Increasing the conversion rate and light-product yield
  - Adding value throughout the company’s oil product portfolio to ensure refineries’ economic viability and technological flexibility under any market conditions.
  - p. 68

- Improving efficiency and technological advancement
  - Optimising resources, cutting costs and transforming processes throughout the value chain to secure market leadership in new and existing markets.
  - p. 71

- Developing the petrochemical business
  - Increasing the sustainability of the company’s traditional business by developing petrochemicals.
  - p. 36

- Developing the marketing and sales business
  - Maintaining market leadership and increasing market share in existing and new product sectors.
  - p. 78

**In the upstream segment, the company continues to develop mature fields. A wide range of opportunities for further development is grouped into several strategic areas.**

+3.5 %

Year on year growth in hydrocarbon production
The high efficiency of Gazprom Neft refineries is thanks to their strategically located, upgraded facilities and ongoing technological projects. A wide range of high-quality petroleum products offered by the company, and an advantageous geographical location in close proximity to end markets, enable Gazprom Neft to meet demand and cater to the high standards of its customers.

Gazprom Neft's business model is based on the principle of vertical integration. Operating at all stages of the production chain (in both the upstream and downstream segments as well as sales and marketing) it allows the company to remain resilient and enhance its operating efficiency in the future.

A well-balanced portfolio of upstream assets

The Gazprom Neft portfolio covers an extensive resource base to ensure the sustainable development of the company. The portfolio includes traditional and offshore oil and gas fields in various stages of development (from geological prospecting to mature fields) in Russia and abroad, allowing the company to expand production in order to maximize profit in line with market conditions.

Modern and efficient refineries

The high efficiency of Gazprom Neft refineries is thanks to their strategically located, upgraded facilities and ongoing technological projects. A wide range of high-quality petroleum products offered by the company, and an advantageous geographical location in close proximity to end markets, enable Gazprom Neft to meet demand and cater to the high standards of its customers.

Directly-owned retail network in Russia and abroad

With an extensive distribution network in Russia and abroad, Gazprom Neft is able to maximize margins from sales of crude oil and oil products to a wide range of customers, from retail consumers to major traders. The company offers high-quality products and services on the motor-fuel, bunkering, jet-fuel, petrochemicals, lubricants and bitumen markets.
Creating stakeholder value

**Shareholders and investors**
- Long-term value growth
- High level of dividend yield

**Customers and consumers**
- Readily available and stable energy supplies
- Good consumer value and environmental performance of products

**Employees**
- A stable employer offering professional development opportunities
- A competitive compensation package

**Local communities**
- Corporate responsibility and regional development

**Government**
- Energy security
- Tax payments
- Technological development of the Russian oil and gas industry

**WHAT WE DO**
- Ongoing communications with investors, shareholders and analysts to maintain a fair price for Gazprom Neft securities
- Developing a well-balanced corporate governance system to ensure compliance with Russian and international best practices, taking into account the specifics of the industry
- Transparent reporting of development strategy implementation
- Fair dividend policy
- Respecting minority shareholders’ rights
- Continuously developing a risk-management system with highly detailed levels of responsibility
- Expanding direct sales to corporate clients through the directly-owned distribution network
- Expanding the Gazpromneft filling station network and developing its loyalty programme
- Partnerships with leading petroleum-product customers
- Developing and manufacturing products with enhanced consumer and environmental properties
- Increasing the efficiency of distribution channels by business process digitalisation and developing communication channels for customers and contractors
- Systematic recruitment and employee rotation programmes
- Talent management, competency development and training
- Developing motivation programmes and building a culture of engagement
- Increasing employees’ productivity and organisational efficiency
- Increasing efficiency of human resources management
- Making significant tax contributions to local budgets
- Contributing to the development of social infrastructure
- Minimising negative environmental impact
- Supporting local initiatives
- Stable production growth and efficient oil refining with an extensive distribution network for petroleum products
- Implementation of the first major offshore project (Prirazlomnoye) and integrated development of the Russian Arctic shelf
- Developing a centre of technological excellence and ensuring technological independence

**2019 RESULTS**
- Gazprom Neft share price as at 31 December 2019: ₽420.2 per ordinary share (+21.2% year on year)
- Dividend payout for H1 2019: 40% of consolidated IFRS result
- Dividend yield: 8% for 2019
- Leading positions in premium petroleum-products markets
- 11.9 million participants in the Gazpromneft filling station network’s loyalty programme
- All motor fuels are compliant with the Euro 5 environmental standard
- Jet fuel supplied to 283 airports in 67 countries worldwide
- Bunkering in 35 ports in Russia, Romania, Latvia and Estonia
- Lubricants supplied to 80 countries
- Gazprom Neft is the first Russian oil company to have its own bitumen terminal network
- The company has topped the Randstad Award ranking of the most attractive employers in Russia
- The average monthly salary in the company is ₽134,000 (up 9.3%).
- Gazprom Neft is a major taxpayer in the key regions of its operation
- ₽37 million allocated in 2019 for grants under the ‘Home Towns’ Programme
- 143 projects implemented
- Social investments by Gazprom Neft under social and economic agreements with regional governments totalled ₽2.9 billion
- Hydrocarbon production: 96.1 mtoe
- Over ₽700 billion paid in tax and other statutory payments in 2019
- Extending productive life of mature fields through the use of cutting-edge technologies
- Creating tools to remove regulatory industry barriers through the Digital Oil and Gas industry-wide working group
In September 2019, the Gazprom Neft Board of Directors confirmed the company’s digital transformation strategy. This new document was developed in line with the company’s wider business development strategy to 2030, and supports its implementation.

The company’s digital transformation covers its entire value chain. It is intended to improve flexibility and efficiency in business management, based on data and digital twins of assets. The company is developing its own solutions in artificial intelligence (AI), the Industrial Internet of Things (IIoT), robotics, unmanned aerial vehicles (UAV or drones), and other industry 4.0 technologies. The digital transformation management system uses a highly-organised, programme-based approach. It consists of a set of major change programmes in technical and operational processes at Gazprom Neft. Each of these programmes is intended to deliver key economic and business impacts in the medium and long term.

Digital transformation covers every stage of the company’s operations, from geological prospecting and drilling of multilateral wells to refining and delivery of finished products. Thanks to new technologies, by 2020 Gazprom Neft will halve the lead times in obtaining first oil, improve lead times for implementing major oil and gas production projects by 40% and reduce production management costs by 10%.

Digital transformation covers every stage of the company’s operations, from geological prospecting and drilling of multilateral wells to refining and delivery of finished products. Thanks to new technologies, by 2020 Gazprom Neft will halve the lead times in obtaining first oil, improve lead times for implementing major oil and gas production projects by 40% and reduce production management costs by 10%.

AI in geological exploration
Gazprom Neft has been successfully using machine learning in its search for additional oil reserves, with neural networks using geological data to identify blocks with potential oil reserves that are undetectable using conventional methods. In 2019, A pilot project using a cognitive system at an existing stilled on the Yamal Peninsula helped to achieve additional inline.

Using probabilistic calculations, the cognitive algorithms make it possible to build detailed digital models of fields that exceed the scale of many European countries. They can also help to achieve a significant reduction in the duration of the geological analysis cycle.

Electronic Asset Development (EAD)
The EAD Programme is a strategic programme comprising projects being implemented by Gazprom Neft in the upstream segment. Projects implemented by the company include EAD: ISKRA (an integrated field development system that assists with decision-making for field infrastructure development), EAD: CRAB (a corporate cloud-based sandbox; developing digital projects to carry out a proof of concept (POC) and deliver value promptly; a quick-start of IT and digital transformation projects).

To ensure uninterrupted year-round shipments of all oil produced in the Arctic SARCO and Naryn Port blended, the company has developed a unique digital Arctic logistics management system. The system tracks vessels in real-time, develops an optimal schedule for the fleet and for oil shipments from terminals, and monitors movement of each vessel at every stage of its voyage. It analyses over 15 million potential options per hour, processes about 300 parameters, and allows the fleet’s operational efficiency to be assessed in real time.

Using this system, the company has reduced the unit cost of oil transportation from northern fields by 15%.

Digital logistic-management system for use in the Arctic ‘Captain’
To ensure uninterrupted year-round shipments of all oil produced in the Arctic SARCO and Naryn Port blended, the company has developed a unique digital Arctic logistics management system. The system tracks vessels in real-time, develops an optimal schedule for the fleet and for oil shipments from terminals, and monitors movement of each vessel at every stage of its voyage. It analyses over 15 million potential options per hour, processes about 300 parameters, and allows the fleet’s operational efficiency to be assessed in real time.

Using this system, the company has reduced the unit cost of oil transportation from northern fields by 15%.

100% digital customer
Using a mobile app to place orders and pay for fuel at Gazpromneft filling stations can cut motorists’ time spent filling up by as much as half. The ability to issue the ‘On Our Way’ loyalty programme virtual card right in the app means the entire chain of interaction with the customer can be executed digitally, while the ‘Refill’ button allows clients to refuel their car without leaving it. This button first appeared in the A25:30 app and is currently being replicated in the filling station network’s app, as well as in partners’ apps.

Corporate clients now have the opportunity to sign an agreement with the company online, issue virtual service cards via the app and exchange documents without having to meet the company’s managers. All these transactions can be made through the personal account in the OPTI24 app. There are now legal entities who are fully digital clients.

Analytical platform for managing data
This solution is Russia’s first integrated platform for data processing, storage and analysis with fully integrated Data Governance components. It is designed for big data processing and storage, data management and data governance, and for improving data management efficiency. Most importantly, it ensures the quality of various data at a Gazprom Neft unit level.

Traffic flows and identifies the best locations for the development of the filling station network.

Geo-analytical platform
The company has leveraged data to create a unique integrated AI-powered solution that models and provides a high-quality digital resource for use in the Arctic.

Corporate knowledge-sharing system: a methodology to determine requirements, and designed to remove critical barriers to project implementation.

To establish in-house expert communities specialising in technology, and to communicate more efficiently with business units, the company has created centres of excellence focusing on: machine learning and AI; virtual and augmented reality; blockchain; robotics and additive manufacturing; unmanned technology; IoT, and wearable technology.

The centres of excellence are tasked with:
• Expert evaluation of solutions; • Identifying technological solutions and assessing their maturity; • Providing expert support for core business projects; • Developing implementation scenarios for Gazprom Neft; • Developing digital projects and services that meet the needs of the business; • Solution integration and support; • Developing new solutions; • Testing technological solutions; • Prototyping.

The portfolio of digital transformation tools and processes:
Meeting the objectives we have set ourselves requires:
• A transparent and simple business- and service-oriented approach to the company’s digital transformation strategy. This new document was developed in line with the company’s wider business development strategy to 2030, and supports its implementation.

GAZPROM NEFT
ANNUAL REPORT 2019
DIGITAL TRANSFORMATION
2019 achievements

By the end of 2019, 30 digital transformation programmes had been approved. Once they reach their full design capacity, the programmes will have delivered a target economic effect of 3–5% of EBITDA per annum starting from 2022. Investments in IT and digital transformation in 2019 accounted for up to 5% of Gazprom Neft’s cumulative investment programme.

An important milestone in the digital transformation process at Gazprom Neft was the Digital Technology Vision (DTV), which is a long-term planning tool for developing and applying digital technologies. It is based on intelligence, information on innovative digital projects, academic research, and products offered by leading technology companies.

The DTV addresses the following questions:
- How mature is a digital technological solution in terms of its practical applicability?
- Which digital technological solutions does the company need today and in the future?
- Which technological solutions is the company ready for today and which does it need to make sure it is ready for in the future?”

As part of its digital transformation vision, Gazprom Neft has developed over 700 forward-looking scenarios for the use of digital technologies across Gazprom Neft’s entire value chain.

Gazprom Neft aims to become a leader in the digital transformation of the oil and energy sector and leading technology brand. It will do this by attracting and supporting qualified programmes, developing and expanding the development of talent in the company. We have a growing number of initiatives: we are developing both digital- and IT-project portfolios and we are creating tools to manage these efficiently in terms of increasing economic benefits for the company.

The transformation process has got off to a great start, it is attracting great interest, and more and more people are getting involved.

Andrey Belovtsev, CDO (Chief Digital Officer)

2019 transformation results

1,000+

digital and IT projects and initiatives

700+

scenarios analysed to assess potential technological application

30

programmes in the digital transformation portfolio

192

proof-of-concept projects completed, the results of 46 of which are currently being implemented

Plans for 2020

The company has identified several key development areas for 2020.

1. Operational transformation in IT. The key challenge for the company is to achieve an efficient and flexible alignment of roles in order to create a well-defined and transparent system to support the development of digital transformation programmes and assist the business to implement them. The system should also help to create digital and IT products, and to provide easy access to information infrastructure and services.

2. Development of a corporate digital platform comprising the following components:
- A corporate platform for applications and data (Platform-as-a-Service, PaaS) as the basis of a new technological landscape;
- Operational platforms enabling business-process integration throughout the entire value chain;
- Application platforms allowing the delivery of centralised solutions for highly specific tasks such as data analytics, wearable technology, augmented and virtual reality, and blockchain.

3. A corporate platform for data analytics and management, and digital service development. This will help to significantly speed up project implementation and increase the scale of the launch of AI-based solutions.

4. Building previously launched projects into commercial operation, and rolling out the results of digital transformation in subsidiaries.

5. Expansion of a partnership ecosystem for digital developments.

6. Transition to a product-based approach throughout the company.

Utilisation of artificial intelligence (AI) in the company

In order to develop and implement AI-based solutions across the entire value chain, the company has established its Data Monetisation and Development Centre (DMDC) as well as several data-science teams within Gazprom Neft’s divisions and in the Gazprom Neft Science and Technology Centre.

The Data Monetisation Centre is designed to improve the efficiency of internal processes in the company by leveraging data, analytics, and mathematical modelling and optimisation techniques. The DMDC develops solutions for all areas of Gazprom Neft’s business. The company is building a corporate data analysis platform based on machine learning and optimisation methods, in-depth training and image analysis, and natural language processing, aimed at accelerating the development and implementation of solutions based on data analysis and mathematical modelling.

The most significant DMDC projects in 2019 involved developing and implementing seismic data analysis and processing magnetograms, and conducting core analysis.

Gazprom Neft is involved in the development of AI in Russia

As part of ongoing projects in artificial intelligence (AI), the company has become one of the founding members of the Science and Education Centre for Artificial Intelligence in Industry, cooperating to this end with Russia’s leading higher educational institutions (ITMO University, the St Petersburg State University of Information Technologies, Mechanics and Optics, St Petersburg State Electrotechnical University, the St Petersburg campus of the Higher School of Economics, the St Petersburg State University of Aerospace Instrumentalism, St Petersburg State University, and the Peter the Great St Petersburg Polytechnic University).

In September 2019, Gazprom Neft, Yandex, Mail.ru Group, Sberbank, MTS and the Russian Direct Investment Fund worked together to establish the AI-Russia Alliance, Russia’s first cross-industry alliance for developing AI, with Gazprom Neft becoming the first industrial company to join the Alliance.

The Alliance seeks to facilitate the implementation of AI technologies in Russia, and is helping to develop a regulatory framework governing AI development in Russia, as well as legislating governing industrial and personal data.

The AI-Russia Alliance will also work towards developing a professional community of experts and organisations specialising in AI and data analytics. This will include an initiative to develop an advanced tracking programme in AI for university teachers, postgraduate students and undergraduates.
The operations management system (OMS) transformation is a key programme to improve efficiency and achieve the goals of Strategy 2030. 2019 saw the start of the programme’s expansion across the company’s main operating assets.

The Etalon OMS is a structured set of interconnected practices, procedures and processes used by managers and employees at each operational level in the course of operations. The Etalon OMS is designed to maximise organisational level in the course by managers and employees at each procedures and processes used set of interconnected practices, The Etalon OMS is a structured for implementing OMS practices and tools at its assets that comprises the following four stages:

1. OMS maturity assessment or rolling it out to other processes; this involves training in the use of forward-looking tools, and providing resources to support project teams at the asset implementing those tools.

Once Stage 4 is completed, the focus of OMS development will shift away from projects, and the objective of developing and improving the system will be integrated into day-to-day operations as part of a continuous improvement cycle.

THE ETALON OMS STRUCTURE

Element 1 Leadership and culture
Ensuring that managers play a leading role in creating an engaging environment to enable the company to achieve strategic goals

Element 2 Reliability management
Achieving the target level of production asset safety and cost-effective maintenance throughout its entire life cycle through targeted risk-oriented maintenance, reasonable extension of service life and the durability of technical equipment

Element 3 Process flow management
Ensuring that production processes are safe, efficient and sustainable

Element 4 Organisational development and competency management
Ensuring that organisational resources are effectively secured and allocated; assigning responsibility and developing staff competencies

Element 5 Operational risk management
Ensuring that a uniform, risk-based approach to operations management has been adopted, in order to improve operational efficiency by minimizing unplanned losses from operational risk through actions to reduce their likelihood and mitigate the consequences

Element 6 Contractor and supplier management
Ensuring the efficiency and safety of work performed/services provided by contractors, and the efficiency of materials and equipment supplied

Element 7 Project management
Ensuring that project goals are achieved efficiently

Element 8 Data, information and document management
Making the best management decisions based on data, information and documentation

Element 9 Environmental and social impact management
Preventing unacceptable impacts on people and the environment

Element 10 Change management
Ensuring that changes within the company are efficient, and maintaining operations continuously

Element 11 Stakeholder management
Identifying stakeholders in operations, communicating with them and building constructive stakeholder relationships as part of operations

Element 12 Performance management and continuous improvement
Improving operational efficiency by using continuous improvement tools

The Etalon (Touchstone) OMS development programme brings together the objectives of achieving full compliance with all elements of the management system, changing the approach to setting objectives in production planning, and encouraging the engagement of all employees to improve business processes. 2019 saw the Etalon OMS development programme moving to the ‘Implementation’ stage, with the company adopting a model for implementing OMS practices and tools at its assets that comprises the following four stages:

1. OMS maturity assessment
2. Comprehensive assessment of potential
3. Pilot implementation
4. Scale-up

The OMS Development Programme

1. OMS maturity assessment and preparing for implementation at an asset
2. Comprehensive potential assessment, and planning the implementation of OMS tools and practices in a pilot process flow, area or process
3. Pilot implementation and developing prioritised OMS elements
4. Scaling up and developing the system across the asset and/
2019 achievements?

In 2019, the company continued to introduce forward-looking OMS development tools such as the Operational-Reliability Management Model (OMM). Regular Management Practices (RMPs), Value Creation Flow Mapping, and Standard Operating Procedures. By year-end, over 4,300 employees had been trained in the use of RMPs, lean production tools and the operational-reliability management model.

During the year, the company carried out a diagnostic assessment of compliance of eight production assets with the OMS Code, including the current maturity level of the management system. It then prepared an action plan for prioritised development areas. Following a comprehensive assessment (which serves as a tool to identify opportunities for operational efficiency improvement), it was confirmed that nine assets had an incremental improvement), it was confirmed achievable economic potential of over $21 billion. The relevant measures to achieve this level were included in medium-term business plans.

Etalon Programme implementation format

- Tools forming part of OMS element 1 (Leadership and Culture) are being implemented
- Tools forming part of prioritised OMS elements (elements 2 and 6) are being implemented
- Tools forming part of OMS element 12 (Operational Efficiency) are being implemented
- Diagnostic Assessment (maturity assessment) completed
- Asset Potential Assessment (completed / underway)

STATUS OF OMS TOOLS ROLLOUT ACROSS KEY OPERATING ASSETS AND ENGAGEMENT OF SUBSIDIARIES IN OPERATIONAL TRANSFORMATION

SUBSIDIARIES IN THE UPSTREAM DIVISION

- Gazpromneft-Perm
- Gazpromneft-Megneftegaz
- Gazpromneft-Mezhdurechensk
- Gazpromneft-Khantos
- Gazpromneft-NeftegazAvtomatika
- Gazpromneft-Neftezas
- Gazpromneft-Moskovskoe
- Gazpromneft-Khevron
- Gazpromneft-Arenskoe
- Gazpromneft-Buguruslan
- Gazpromneft-Moskovskoe
- Gazpromneft-Shelf

SUBSIDIARIES IN THE DOWNSTREAM DIVISION

- Gazpromneft-Poluna
- Gazpromneft-Omsk
- Gazpromneft-Novosibirsk
- Gazpromneft-Lubricants
- Gazpromneft-Moscow Oil Refining
- Gazpromneft-Luk
- Gazpromneft-Vostochnoe
- Gazpromneft-Kyzylosk
- Gazpromneft-Buguruslan
- Gazpromneft-Khantos

12.6 MA CPA

SUCCESSFUL PRACTICES ROADSHOW

- 29 subsidiaries took part
- 62 practices presented

Successful Practices Roadshow

In September 2019, the second Successful Practices Roadshow took place at Gazpromneft-Megneftegaz. This event serves as an official platform that enables divisions to exchange expertise and successful practices in continuous improvement. A total of 164 notional ‘acquisitions’ in continuous improvement. A total of 164 notional ‘acquisitions’ in continuous improvement. A total of 164 notional ‘acquisitions’ in continuous improvement. A total of 164 notional ‘acquisitions’ in continuous improvement. A total of 164 notional ‘acquisitions’ in continuous improvement. A total of 164 notional ‘acquisitions’. The company developed a Contractor Engagement Code. The code is designed to create a new system for market engagement and establishes a special type of relationship for implementing joint projects and creating added value.

In 2019, Gazprom Neft launched the Open Book project, to create a partnership model for contracts that stipulates a procedure for cost reimbursement, remuneration and risk sharing with capital construction contractors. This will enable the company to improve project efficiency and engage financially sustainable contractors. Compared to traditional arrangements, the new model is more transparent, gives a clearer picture of pricing and efficiency drivers, and introduces a flexible approach to construction budgeting. The company also implemented the Partnerships project, which covers drilling and well-intervention services. As part of this project, operational engagement with major partners was arranged with assistance from account managers.

Competency, efficiency and safety remain the key requirements for contractors. The company’s contractor engagement policy is focused on engaging contractors in continuous improvement processes and integrating them into the Safety Framework System.

Contractor engagement

- Safe and efficient contractor engagement is a key focus area of operational transformation.
- In 2019, the company developed a Contractor Engagement Code. The code is designed to create a new system for market engagement and establishes a special type of relationship for implementing joint projects and creating added value.

OMS Code

A description of 98 requirements for 12 Operations Management System Elements which must be met in order to achieve OMS goals.

Comprehensive potential assessment

An assessment of all of an asset’s strategic resources, including operational, financial, and human resources. A key OMS tool enabling the company to match its objectives.

Regular management practices

Tools used by managers to improve operational performance and safety. They contribute to the adoption of the company’s values and the creation of a cultural environment that enables the company to achieve its strategic goals.
To achieve its strategic goals, the company needs to significantly accelerate its decision-making and execution. This requires a fundamentally new perspective on business processes and management models.

The company is implementing and mastering modern, cutting-edge development and management approaches that are based on a network structure. These include flexible teams that are quickly formed to bring together specialists in various disciplines to address a specific task and that are able to look for solutions independently and coordinate with other teams. An important feature of the new model is that the corporate centre now focuses on tasks in the Change category, whereas tasks in the Run category (day-to-day operations) are more often delegated to subsidiaries.

Operating model

In its Strategy 2030, the company mapped out a journey towards being a global benchmark in efficiency and technological advancement that requires a flexible and adaptive product-based operating model focused on the object of management: the product. The product in this context is a comprehensive business solution created by a cross-functional product team. To be able to assemble such teams, the company needs to revise its existing business processes, and create an environment where experts can be mobilised from different divisions.

The company has selected a number of pilot projects to test the product-based model, including:
- The Asset of the Future project (Upstream Division);
- Organisational transformation (Downstream Division);
- Establishing its Science and Education Centre (SEC);
- Transformation of the company’s IT function.

For the latter two projects, concepts and key approaches to transformation are currently under development and will be presented for internal discussion in 2020.

Asset of the Future

The target operating model for subsidiaries in the Upstream Division is based on a value-chain principle: from identifying new development options, developing business cases and value-creation levers, to launching respective projects and implementing these safely and efficiently. At the same time, this model is focused on the principal object of management: the asset.

As part of the Asset of the Future project, the company has identified key end-to-end business processes ensuring the integrity of managing the asset potential and increasing its efficiency. The development of methods to assess the technological potential of assets, as well as concepts of upstream control centres and standard approaches to the organisational design of the Asset of the Future is ongoing. Furthermore, work is underway to establish a new business management ecosystem, and to help employees acquire those skills required for implementing the company’s ambitious strategy.

Transformation of the Downstream Division

The organisational scale of the Downstream Division has already changed significantly, thanks to the extensive business development that has been underway since 2010. In 2018, the company began to manage the Division as a single asset. This involved changes in processes, a shift in the balance of powers and responsibilities and changes to resource allocation, KPIs, and the way that managers of individual businesses viewed the consolidated result.

To support this transformation, the company conducted an assessment of its organisational health; this is a tool for improving efficiency and productivity within the Division. It also identified those elements and key characteristics of the operating model directed at improving organisational efficiency. Further, the company has developed a model of the product-based approach to be adopted by the division which involved identifying key structural elements and preparing a conceptual design of the organisational structure.

2019 achievements

To date, the company has formed more than 300 flexible teams. These teams have developed and tested new practices and mechanisms that help to remove barriers and streamline activities. Candidates are selected through the Professionals 4.0 platform and by the company’s HR function. The company has developed staff relocation mechanisms and algorithms for training cross-functional project managers. It also introduced non-financial incentives for flexible-team members (such as additional training and priority career planning).

Furthermore, in 2019, the company completed the transformation of its operating model for offshore project management. The divisional transformation was designed to improve flexibility of management and introduce new formats of work (e.g. operator agreements, partnerships, investments) with mitigation of business risks in offshore operations. A management company was established within Gazprom Neft Shelf which now acts as the centre of expertise, responsibility and decision-making for Gazprom Neft’s offshore projects.

The management company has consolidated the management of the following assets:
- Gazpromneft-Prirazlomnoye (operator of the Prirazlomnaya platform);
- Gazpromneft-Sakhalin (offshore exploration);
- Morneftegazproekt (an engineering company responsible for the full range of FEED and design work as part of offshore projects).
CULTURAL TRANSFORMATION

Gazprom Neft is implementing a large-scale project to transform its corporate culture. Its new engagement philosophy involves a shift from top-down management to facilitative leadership.

Corporate culture transformation involves shaping behaviour in a way that helps the company to achieve its goals. This behaviour needs to be supported by appropriate processes, organisational structure and operational settings. Gazprom Neft has developed a leadership behaviour model where:

- A leader is a role model for all employees;
- A leader creates an engaging environment for the team;
- A leader is committed to continuous development.

To implement a new corporate culture, the company is using international best practices, tailoring them to its specific needs. The supporting elements are:

- Providing a rationale for the cultural transformation and target vision;
- Developing new behaviour models for employees;
- Making changes to processes to encourage such behaviour;
- Ongoing communication.

2019 achievements

In 2019, the company continued to develop its corporate culture workshops for managers. By March 2019, more than 6,000 managers throughout all Gazprom Neft subsidiaries had attended the workshop. Given the need for managers to take specific actions to create an engaging environment, Gazprom Neft developed Workshop 2.0 ‘Facilitative Leadership Practices’. This is a format that will be used to train all top managers and will then be cascaded through the management hierarchy.

The company is developing a community of change ambassadors to drive its corporate culture. 2019 saw the launch of a project to train a second wave of change ambassadors across Gazprom Neft subsidiaries. To do so, Gazprom Neft employees formed a community of 142 in-house coaches who ran corporate culture workshops throughout the year. In addition, the company developed a special training and recognition programme for change ambassadors, which includes training courses and an annual forum.

Gazprom Neft’s values

The company’s values are shaped by its vision, mission, and strategy. The target corporate culture at Gazprom Neft is a synthesis of multiple cultures:

- a culture of rules, of success, and of consensus. Gazprom Neft’s values support this process; the culture of rules is underpinned by responsibility and safety;
- the culture of success is centred around efficiency and determination;
- and the culture of consensus is based on collaboration and innovation.

Efficiency is our strategy

Determination is in our nature

Collaboration

communication means collaboration

Responsibility is our work ethic

Safety is our priority

Innovation is our way of thinking

Gazprom Neft’s values

GAZPROM NEFT

ANNUAL REPORT 2019

02

STRATEGIC REPORT 49

Company profile

Strategic report

Performance

Technological development

Governance system

Sustainable development

Appendices
HOW NEW DIGITAL STANDARDS ARE TRANSFORMING JET REFUELLING

Alexey Shnyakin, airfield tanker driver

Performance review

Resource base and production
Refining and production of petroleum products
Sales of oil, gas and petroleum products
Financial results

ANNUAL REPORT 2019
Reliance on innovation

ensures our leadership in the industry

The innovation development programme currently underway in the company includes, specifically, technology projects to enhance oil recovery at brownfields, bring hard-to-recover hydrocarbon reserves into production, bring continuous improvement to the productivity of wells, as well as the initiative to develop and produce hydro-processing and cat-cracking catalysts.

Yadim Yakovlev
Deputy CEO for exploration and Production, Gazprom Neft PJSC

Consistently strong financial performance

Gazprom Neft showed resilience across all financial metrics, with the company achieving a record net profit of ₽422.1 billion in 2019, an increase of 5.3%.

Market-leading AI-based solutions

In September 2019, Gazprom Neft, Fargil, Mail.ru Group, Sberbank, STS and the Russian Direct Investment Fund established the AI-Russia Alliance, Russia’s first cross-industry alliance for developing artificial intelligence (AI). Gazprom Neft was the first industrial company to join the Alliance.

Consolidation of a 100% shareholding in Poliom

Petrochemical production is a strategically important growth area for the company. In order to strengthen the position of Gazprom Neft on the petrochemical market, the company, together with Sibur Holding, secured a 100% shareholding in Poliom LLC in 2019.

Construction of a new catalyst production facility is underway

Gazprom Neft’s project is designed to meet Russian refineries’ demand for efficient cat-cracking and hydrotreatment catalysts necessary for the production of Euro-5 standard gasoline and diesel fuels, as well as hydrotreating catalysts used in deep oil refining processes. This new facility in Omsk will have capacity to produce 15,000 tonnes of cat-cracking catalysts and 6,000 tonnes of hydrosprocessing catalysts per year, in addition to which the plant will regenerate about 2,000 tonnes of spent diesel-fuel hydrotreatment catalysts per year.

A new hybrid marine fuel for environmentally-friendly bunkering

New restrictions on sulphur content in marine fuels introduced by the International Maritime Organisation (IMO) took effect in early 2020, meaning sulphur content in any marine fuel used for international transportation must not exceed 0.5%. To prepare for a significant increase in demand, the Gazprom Neft bunkering operator extended its product range with a new hybrid fuel not exceeding the 0.5% sulphur cap. The company has already piloted bunkering operations using the new fuel in the ports of St Petersburg, Primorsk and Ust-Luga. Commercial production of this environmentally-friendly product began at the Gazprom Neft Omsk Refinery in January 2020. It has already been certified as meeting the Eurasian Economic Union standards.

The development strategy covers every stage of the company’s operations

Digital transformation covers every stage of the company’s operations, from geological prospecting and drilling of multilateral wells to refining and delivery of finished products. Thanks to new technologies, by 2020 Gazprom Neft will halve the lead times in obtaining ‘first oil’, improve lead times for implementing major oil and gas production projects by 40% and reduce production management costs by 10%.

Net profit, P billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>₽ billion</td>
<td>0.10</td>
<td>0.15</td>
<td>0.20</td>
<td>0.30</td>
<td>0.35</td>
</tr>
</tbody>
</table>

Changes in operational indicators, million tonnes

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil production</td>
<td>48</td>
<td>49</td>
<td>50</td>
<td>52</td>
<td>53</td>
</tr>
<tr>
<td>Refining</td>
<td>1,518</td>
<td>1,514</td>
<td>1,512</td>
<td>1,526</td>
<td>1,529</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>680</td>
<td>4,287</td>
<td>7,19</td>
<td>7,26</td>
<td>7,34</td>
</tr>
<tr>
<td>Petroleum products sales</td>
<td>7,19</td>
<td>7,26</td>
<td>7,34</td>
<td>7,40</td>
<td>7,47</td>
</tr>
</tbody>
</table>

The core objective of the new system named ‘Captain of the Arctic’ is to manage logistics in the Arctic, safety, and to ensure that all oil produced is dispatched at the lowest possible cost. It takes the system under five minutes to draw up a vessel schedule for a month, while in a long-term three-year plan, broken down into one-hour intervals, takes about two hours. Every day, the system analyses around 7,000 input parameters, choosing an optimum solution from more than 64.5 million options every hour. The Captain of the Arctic system is able not only to manage the current situation, but can also forecast the future. The core objective of the new system named ‘Captain of the Arctic’ is to manage logistics in the Arctic, safety, and to ensure that all oil produced is dispatched at the lowest possible cost. It takes the system under five minutes to draw up a vessel schedule for a month, while in a long-term three-year plan, broken down into one-hour intervals, takes about two hours. Every day, the system analyses around 7,000 input parameters, choosing an optimum solution from more than 64.5 million options every hour. The Captain of the Arctic system is able not only to manage the current situation, but can also forecast the future.
We are successfully developing complex multi-component oil and gas reserves, applying cutting-edge technologies, and using digital models of assets to perform calculations and find the most efficient solutions. Recognition from the industry globally demonstrates that the company remains at the cutting edge of technological development and is ready to tackle the most complex projects.

Vadim Yakovlev
Deputy CEO for Exploration and Production, Gazprom Neft PJSC

Gazprom Neft Group hydrocarbon reserves1 under the SPE-PRMS classification2, mtoe

<table>
<thead>
<tr>
<th>Type of reserves</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed</td>
<td>680</td>
<td>726</td>
<td>719</td>
<td>734</td>
<td>783</td>
</tr>
<tr>
<td>Undeveloped</td>
<td>838</td>
<td>788</td>
<td>803</td>
<td>830</td>
<td>820</td>
</tr>
<tr>
<td>Proved</td>
<td>1,518</td>
<td>1,614</td>
<td>1,522</td>
<td>1,566</td>
<td>1,583</td>
</tr>
<tr>
<td>Probable</td>
<td>1,181</td>
<td>1,205</td>
<td>1,259</td>
<td>1,277</td>
<td>1,278</td>
</tr>
<tr>
<td>Proved + probable</td>
<td>2,699</td>
<td>2,719</td>
<td>2,781</td>
<td>2,841</td>
<td>2,861</td>
</tr>
<tr>
<td>Possible</td>
<td>1,176</td>
<td>1,189</td>
<td>1,240</td>
<td>1,204</td>
<td>1,426</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,875</td>
<td>3,908</td>
<td>4,022</td>
<td>4,045</td>
<td>4,287</td>
</tr>
</tbody>
</table>

Source: company data.

The key areas in Gazprom Neft’s resource base development strategy include organic growth of existing assets, development of oil assets owned by Gazprom PJSC, investigating and bringing non-traditional reserves into commercial development, and proactive geological exploration at new prospecting zones and offshore.

2019 highlights
- Sustained positive growth rate of 2P1 reserves under PRMS standards.
- Successful licensing programme including access to 32 licence blocks, including joint ventures.
- A 2020 flexible field portfolio management roadmap developed.
- Agreements to expand cooperation in production and field development, development of digital technologies and experience-sharing with major market participants.
- Completed development of logistical arrangements for year-round oil shipments and transportation from the Novopetrovskoye field.
- Long-term risk-operator agreements with Gazprom PJSC, allowing Gazprom Neft to bring into development reserves at oil-rim and Neocomian-Jurassic deposits.
- Start of construction of a full-scale complex of oil and gas infrastructure at the Odolannaya (Remote) group of fields (OSGF).
- An asset swap transaction (NOVATEK-Yarsalneneftegaz).
- Approval from the Main State Expert Review Board (Gaspromokusprav) to construct a gas pipeline crossing the Gulf of Ob.
- Laser altimetry and aerial photography became an obligatory stage in the detailed design of seismic field surveys.
- Full-scale deployment of Green Seismics3 technology in the KKM AO- Yugra. 100% of field seismic operations in the winter seismic season in the Okrug used this technology.
- Opening of Integrated Field Development Centre (Typem), which provides support for major oil-production projects at all stages, from infrastructure design to well drilling and the production process.

The condition of the company’s resource base is characterised by the deteriorating structure of its remaining commercial reserves, as the majority of fields are entering their late stage of development. The efficiency of developing these fields is improved through the use of advanced drilling and tertiary techniques. In addition to this, Gazprom Neft expands its resource base each year through geological exploration and the acquisition of new assets.

The company’s reserves are audited in accordance with the SPE-PRMS international standards and the more conservative SEC standards. According to a reserves evaluation by independent consultants DeGolyer and MacNaughton4, Gazprom Neft’s proved and probable hydrocarbon reserves (including allocations proportional to the company’s interests in affiliated companies) under the SPE-PRMS international standards as at 31 December 2019 are estimated at 2,861 mtoe (1,865 mt) of oil and 1,241 billion cubic metres (bcm) of gas, excluding NIS reserves: a year-on-year increase of 0.7%.

Gazprom Neft’s reserves-to-production ratio in terms of proved hydrocarbon reserves (SPE-PRMS standards), including the company’s interest in joint operations and joint ventures, currently stands at 17 years. Total hydrocarbon production in 2019 was offset by new reserves (including acquisitions) in the order of 120%.
In 2019, Gazprom Neft also secured access to field development at a number of further licence blocks belonging to the Gazprom Group. Gas production at the Bovanenkovskoye field began several years ago and with full-scale development of the Kharaaayevskoye field started in 2019. To date, however, transport infrastructure for liquid hydrocarbons remains missing at both these fields. Furthermore, in 2019, Gazprom Neft went into two new prospecting areas: the Taymyr Peninsula (in the Dolgano-Nenetsky District in the Krasnoyarsk Krai) and the north of the Taymyrzy Peninsula. These two regions are marked by very limited levels of geological investigation and are relatively remote from transport and oil and gas infrastructure. The company obtained subsalt rights on a declarative basis for geological prospecting at 12 licence blocks in the west of the Taymyr Peninsula, and also won bidding rounds for the Severo-Yamburgsky licence block, which allowed the company to create a new potential opportunity for growth in the north of the Tayozovsky Peninsula (YaNAO).

Overall, in 2019, the company secured exploration and production rights to 32 new licence blocks in the Yamalo-Nenets and Khanty-Mansi Autonomous Okruks, and other regions. The total number of licences held by the company in Russia reached 215 (including seven offshore licences). Three new fields were discovered across Gazprom Neft’s concessions (in the Orenburg and Tomsk Oblasts) and were recorded in the Russian State Mineral Reserves Register. The company also confirmed the oil- and gas-bearing potential of 48 new hydrocarbon deposits. This expansion of the company’s resource base was facilitated by successful geological prospecting activities at the Alexander Zhagrin field in the Khanty-Mansi Autonomous Okrug, and at assets in the Yamalo-Nenets Autonomous Okrug, Orenburg Oblast, and the Krasnoyarsky Krai.

Developing exploration cluster in the Gydan Peninsula

In June 2019, Gazprom Neft and Royal Dutch Shell signed an agreement confirming their intention to create a joint venture to develop the Leuskinsky and Pukhutsyakhsky licence blocks. The transaction is expected to be concluded in 3Q 2020 once all necessary corporate and regulatory approvals have been obtained, and all legal preconditions met. As a result, Gazprom Neft and Shell will each have a 50% interest in the joint venture. Establishing this joint venture is intended to bring both parties’ resources and skills together in developing an under-researched exploration cluster in the north-east of the Gydan Peninsula. The company is currently working on these and a number of other deals, on which significant progress was made in 2019. In addition to focusing on current projects, in 2020 the company will continue to develop its portfolio of joint projects with existing and potential partners.

Partnerships

In 2019, the company not only actively developed cooperation with existing partners, but also entered into dialogues on a broad agenda with other companies. By building partnerships, the company seeks to gain a wide range of benefits, including risk and investment sharing, obtaining or jointly developing new technologies, accelerating return on capital, and more. In addition to this, cooperation with other companies enables Gazprom Neft to replicate successes it has had in its other projects.

Licences obtained in 2019

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft</td>
<td>872.96 (58.25)</td>
<td>57.30</td>
<td>50.33</td>
<td>922.36</td>
<td></td>
</tr>
<tr>
<td>Tomskneft</td>
<td>72.71 (4.80)</td>
<td>0.26</td>
<td>–</td>
<td>67.69</td>
<td></td>
</tr>
<tr>
<td>Slansneft</td>
<td>129.94 (7.37)</td>
<td>1.07</td>
<td>–</td>
<td>130.55</td>
<td></td>
</tr>
<tr>
<td>Salym Petroleum Development</td>
<td>22.95 (3.25)</td>
<td>3.56</td>
<td>–</td>
<td>23.24</td>
<td></td>
</tr>
<tr>
<td>Missyiskgazilol [joint venture]</td>
<td>16.32 (2.81)</td>
<td>2.66</td>
<td>–</td>
<td>16.17</td>
<td></td>
</tr>
<tr>
<td>Arctigas</td>
<td>386.29 (15.22)</td>
<td>29.26 (40.78)</td>
<td>359.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northgas</td>
<td>62.95 (3.12)</td>
<td>3.60</td>
<td>–</td>
<td>63.23</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,364.02 (94.82)</td>
<td>103.97</td>
<td>9.55</td>
<td>1,582.73</td>
<td></td>
</tr>
</tbody>
</table>

Source: company data.

Replacement of hydrocarbon reserves: key achievements’ mtoe

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of licences</th>
<th>Licence blocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krasnoyarsk Krai</td>
<td>13</td>
<td>Zapadno-Taymyrsky blocks 1–12, Omsirinsky</td>
</tr>
<tr>
<td>Khanty-Mansi Autonomous Okrug—Yugra, Sverdlovsk Oblast</td>
<td>8</td>
<td>Severo-Vyazkii, Sredneosyelnii, Polovoy, Severo-Ingalskiy, Vostochno-Khaymenskiy, Vostochno-Shchipinky, 1, Sverdlovskii 6, Uzhno-Ostrovnoy</td>
</tr>
<tr>
<td>Yamalo-Nenets Autonomous Okrug</td>
<td>6</td>
<td>Severo-Stakhanskiy, Novosanomanskiy, Pukhutsyakhsky, Blizhnenovoportovskoye field, Yuzhno-Obsky, Malo-Taymyrskii</td>
</tr>
<tr>
<td>Orenburg Oblast</td>
<td>4</td>
<td>Nadchelnisky, Zapadno-Rubeshinsky, Kornavintsky, Peremoskoyzkiy</td>
</tr>
<tr>
<td>Tyumen Oblast</td>
<td>1</td>
<td>Uzhno-Zimny</td>
</tr>
<tr>
<td>TOTAL</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

| Source: company data. |

/ 1 / Excluding NIS reserves.
The company is developing projects grouped into large clusters on the Yamal Peninsula, in Eastern and Western Siberia, in the Orenburg Oblast, as well as through joint ventures with foreign partners.

In 2019, Gazprom Neft expanded its resource base primarily through organic growth at its existing assets. This involved drilling 59 exploration wells, including joint ventures, the total drilling in 2019 (including joint ventures and projects) reached 167.7 kilometres. According to Russian assessment standards, the success rate for exploration drilling in 2019 was 76%.

Two-dimensional (2D) seismic surveys covered 15,797 linear kilometres in 2019 – a 2.9-fold increase on 2018 – including 14,377 kilometres offshore, with a record volume of seismic surveys undertaken in the Arctic (the Chukchi Sea) using only one vessel without icebreaking support and covering 8,377 kilometres. Three-dimensional (3D) seismic surveys covered 3,886 square kilometres, including 515 square kilometres offshore.

The “Yuzhny Yamal (Southern Yamal)” Group’s projects of this kind have enabled the company to continuously replenish its resource base with viable reserves, account for the presence of the gas cap and exceptionally low formation pressure and temperatures.

Gazpromneft-GEO has put in place a matrix-based organisational model that best matches the specifics and challenges of geological exploration. This structure enables Gazpromneft-GEO to manage employees’ workloads efficiently, form project teams quickly when initiating new exploration projects, and apply accumulated knowledge and best practices in all exploration projects in the company portfolio.

Improving the efficiency of geological exploration depends largely on the development of employees’ skills. 2019 saw the launch of the GEO Academy, a training project for exploration specialists. This is a multi-level integrated environment for competency development, it includes a system that enables specialists, experts, methodologists and supervisors to share experience in this professional area.
A technology centre for developing Achimovsky deposits

The Achimovsky stratum is an oil- and gas-bearing formation covering the entire territory of Western Siberia. In 2019, Gazprom Neft and the Government of the Yamalo-Nenets Autonomous Okrug embarked on the establishment of a technology centre for developing Achimovsky deposits. This centre will enable cooperation between subsisbidi licence holders, equipment and software producers, academic institutions, research organisations and innovation centres. A test-site will be established on the basis of Achimovsky deposits of the Yamburgskoye field. The company also plans to create an integrated information platform and a data centre in order to facilitate experience sharing.

Gazprom Neft has already built the industry’s first digital model of the Achimovsky strata covering the entire territory of Western Siberia. In 2019, the company launched Achimovka NNG, a major new project involving comprehensive geological exploration of hard-to-recover reserves in the Achimovsky strata under current licences held by Gazpromneft-Nefabrneftegaz. The project is implemented together with Gazpromneft-SEG and the Gazprom Neft Science and Technology Centre. A range of geological exploration works are to be undertaken at the four most promising licence blocks: Novomoravansky, Sutorminsky and Severo-Yangtinsky. Processing and interpretation of 3D seismic data, core surveys, testing of existing wells and drilling of several new ones, and the building of a local geological and petrophysical model to confirm resource potential, are all due to be completed by 2023.

The “Bolshaya Achimovka” project

~1 km²

millon

20–40

mtoe

>60 billion

reserves in place

total area

hydrocarbons production potential

Use of UAVs for hydrocarbon prospecting

Gazprom Neft is the first company in Russia to use unmanned aerial vehicles (UAVs) successfully in multiwell magnetometrical surveys, allowing the company to obtain initial information on rock structure by measuring the geomagnetic field at the surface. Magnetic prospecting is traditionally performed both on the ground, and from the air using aeroplanes and helicopters. UAVs that enable the company to conduct prospecting surveys in hard-to-reach areas throughout the year have been tested at the Novoportovskoye field. The UAVs can operate at temperatures ranging from −30 to +60°C; they have made flights of up to 10 minutes, covering 35 to 55 kilometres. It is expected that this technology will be used further in exploring northern territories of Western Siberia: in the Yamal, Taymyr and Dyyn Peninsula.

10 × speed improvement compared to on-ground methods

2 × cost reduction compared to piloted aerial surveys

100 km² covered by testing

New enhanced oil recovery techniques for the Bazhenov Formation

Gazprom Neft acting as a production partner

In 2019, specialists from the Bazhenov Technology Centre (a Gazprom Neft subsidiary) successfully tested a unique new enhanced oil recovery technique at the Bazhenov Formation, using a sand-filled saw-tooth cutting fluid. This is a water-soluble polysaccharide produced through bacterial fermentation of any high-sugar material, such as corn, wheat, dairy waste, etc. Using this new technology, Gazprom Neft has facilitated a 66% increase in hydrocarbon production at those wells on which it was tested.

Xanthan gum is an alternative to traditional guar gum gel. It dissolves completely in water after hydraulic fracturing is completed.

For more information on the Bazhenov Technology Centre. p. 104
Russia develops a new oil blend from West Siberia’s “tight” reserves.

Non-traditional reserves
- Bazhenov
- Domanic
- Palaeozoic

550 mtoe

Oil rim reserves
- Pestsovoye
- En-Yakhinskoye
- Zapadno-Tarkosalinskoye
- Orenburgskoye
- Chayandinskoye

145 mtoe

Neocomian-Jurassic deposits
- Kharasaveyskoye
- Bovanenkovskoye

766 mtoe

Achimovsky strata
- Urengoyskoye
- Yamburgskoye

787 mtoe

Current projects (2019–2023)
- Southern Yamal 101 mtoe
- Meretyakha 332 mtoe
- Yenisei 306 mtoe

Medium-term projects (2024–2026)

Long-term projects (2027+)
- Southern Orenburg 36 mtoe
- Ouryinoskoe field 47 mtoe
- Zima 60 mtoe
- Otdalennaya group of fields (OGF) 20 mtoe
- Chona 60 mtoe
- Sakhalin 115 mtoe

* Under long-term risk operatorship agreements with Gazprom.
Hydrocarbon production

The company consolidated its market leadership as one of Russia’s top-three hydrocarbon producers in 2019, having increased total production (including shares in joint ventures) by 3.5% to 17.1 mtoe. Growth in production was driven primarily by the company’s projects in the Orenburg Region and in the Arctic (including the Novoportovskoye and Vostchno-Messoyakhskoye fields), as well as oil-rim development projects.

The current project portfolio enables strong year-on-year growth of liquid hydrocarbon production and ensures a reserves-to-production ratio (RPR) of 17 years. Growth in production up to 2030 is expected to come mainly from existing and soon-to-be-commissioned assets in the Khanty-Mansi Autonomous Okrug (YaNAO) is a key production region for Gazprom Neft. The Yamalo-Nenets Autonomous Okrug (YaNAO) is a key production region for Gazprom Neft. The company has extensive experience in successfully developing the unique fields of the Yamalo-Nenets Autonomous Okrug – the Novoportovskoye and Vostchno-Messoyakhskoye fields -- which were produced in 2019.

Some production will come from a new resource base with diverse geographical, geological and technological characteristics. It includes new prospecting areas, new reserve classes (including the Bashkherev Formation, the Domor strata and Palaeozoic oil deposits), liquid hydrocarbons at Gazprom Group fields, offshore projects on Sakhalin, etc.

Oil production

Oil and condensate production across the group increased by 0.5% year on year to 63.30 mtoe. At year-end 2019, the company was the third-largest oil producer in Russia after Rosneft and Lukoil.

Gazprom Neft is one of the first Russian oil companies to implement major Arctic projects, both onshore and offshore. In the future, new assets beyond the Arctic Circle are expected to occupy an increasingly important place in the company’s project portfolio, as traditional reserves are being depleted and technologies are being developed for oil production in the Arctic.

The Yamalo-Nenets Autonomous Okrug (YaNAO) is a key production region for Gazprom Neft. The company has extensive experience in successfully developing the unique fields of the Yamalo-Nenets Autonomous Okrug – the Novoportovskoye and Vostchno-Messoyakhskoye fields - which are extremely challenging in many ways, from geology to climate.

Development of logistics strategy to ensure the year-round dispatch and transportation of Arctic oil was completed in 2019 at the Novoportovskoye oilfield. At the final stage of the four-year project, the company’s second icebreaker, the Andrey Vilkitsky, was deployed in the waters of the Gulf of Ob, and the world’s first-ever digital logistics-management system designed for use in the Arctic was launched. The core objective of the new system is to manage logistics in the Arctic safely, and to ensure that all oil produced is dispatched at the lowest possible cost.

High-technology production management at Gazprom Neft

Gazprom Neft opened its Integrated Field Development Centre (IFDC) in Tyumen in 2019. The centre’s activities focus on using digital tools for working with large datasets, integrated modelling and integrated information analytics. A business model for managing production projects that is new to the industry has been implemented at the centre, and cross-functional expert teams are being formed.

This single integrated organisational and digital space will enable the company to halve the lead time for the commissioning of major upstream projects and the time to “first oil”. The Integrated Field Development Centre will also deliver significant reductions in infrastructure development costs at new assets, while improving planning accuracy, and enabling faster and better investment decision-making.

The IFDC objectives are as follows:
• To ensure effective field development and operation at all stages, from preparing for the production of “first oil” to decommissioning the asset;
• To provide integrated and comprehensive oversight of all major projects being implemented in Gazprom Neft’s main production hubs;
• To provide round-the-clock geological and engineering support for advanced well drilling.

IFDC subdivisions

The Project Management Centre (PMO, St Petersburg) supports projects from the beginning of the ‘Selection’ stage following basic exploration to the completion of the ‘Implementation’ stage and the launch of a field.

The Drilling Control Centre (DCC, St Petersburg) works to maximise drilling efficiency at every development well by proactively managing geological and engineering operations at drilling sites remotely around the clock.

The upstream Control Centre (UCC, Khanty-Mansiysk) manages upstream projects centrally. It is tasked with unlocking the full potential of the company assets by using digital tools (integrated modelling, integrated planning, and capacity management).
Oil production1, mt

<table>
<thead>
<tr>
<th>Field</th>
<th>2019 production, mt</th>
<th>Change on 2018, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prinazlomnoye</td>
<td>7.33</td>
<td>+8.0</td>
</tr>
<tr>
<td>Messoyakhanskoye</td>
<td>2.73</td>
<td>+22.6</td>
</tr>
<tr>
<td>Novoportovskoye</td>
<td>10.88</td>
<td>(8.1)</td>
</tr>
<tr>
<td>Prirazlomnoye</td>
<td>3.14</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Enterprise</td>
<td>55.67</td>
<td>59.85</td>
</tr>
<tr>
<td>TOTAL, INCLUDING SHARES IN SUBSIDIARIES</td>
<td>62.43</td>
<td>62.99</td>
</tr>
</tbody>
</table>

Source: company data

Gas production

Gazprom Neft is actively developing its gas business, with a special focus on commercialising associated and natural gas reserves produced at oilfields, and increasing their value. In 2019, gas production across the group increased by 9.8% to 40.85 bcm. This was achieved primarily as a result of commissioning the second stage of integrated gas treatment units at the Novoportovskoye field, commissioning a gas-compressor station in the Orunobrg Oblast, and increasing natural gas production at Arcticgas fields.

The company is currently developing its capacity to increase gas utilisation at the Novoportovskoye field and develop the resource base for connecting the Urmanskoye and Shinginskoye fields, an 18-kilometre gas pipeline connecting the Archangelsk and Urmenanskoye fields, and a gas metering and pressure-reduction unit at the Shinginskoye field. The target annual throughput capacity is 400 million cubic metres. Commissioning of gas infrastructure has made it possible to achieve an APG utilisation rate of 79%. In 2022, the company’s efforts will focus on commercialising associated and natural gas production at the Yamalo-Nenets Autonomous Okrug, increasing natural gas production at Arcticgas fields, and increasing their value.

2019 results

Gazprom Neft is actively developing its gas business through the commercialisation of associated and natural gas reserves produced at oilfields, and increasing their value. In 2019, gas production across the group increased by 9.8% to 40.85 bcm. This growth was driven primarily by good utilisation of gas equipment and a high APG utilisation rate (up to 79-99%) at assets with well-developed gas infrastructure.

In order to sell gas, Gazpromneft-Vostok has commissioned several gas infrastructure facilities: a booster compression station at the Urmanskoye field, a 97-kilometre high-pressure gas pipeline connecting the Urmanskoye and Shinginskoye fields, an 18-kilometre gas pipeline connecting the Archangelsk and Urmenanskoye fields, and a gas metering and pressure-reduction unit at the Shinginskoye field. The target annual throughput capacity is 400 million cubic metres. Commissioning of gas infrastructure has made it possible to achieve an APG utilisation rate of 79%. In 2022, the company’s efforts will focus on commercialising associated and natural gas production at the Yamalo-Nenets Autonomous Okrug, increasing natural gas production at Arcticgas fields, and increasing their value.

Plans for 2020

As the company develops its oil and gas production in new areas of the Yamalo-Nenets Autonomous Okrug, it continues to increase the APG utilisation rate. The active stages of construction of infrastructure facilities and a gas pipeline are both underway at the Vostokno-Messoyakhskoye field as part of a comprehensive approach to APG utilisation. This project will enable Messoyakhshelneftegaz to prepare and transport up to 15 bcm of APG per year and pump it into an underground storage facility at the Zapadno-Messoyakhskoye licence block.

Once gas infrastructure facilities are commissioned at the Vostokno-Messoyakhskoye field, the company will be able to reach its target APG utilisation rate, conserve valuable energy resources, and reduce its environmental footprint in the Arctic.

/1/ Including condensate.
/2/ Consolidated companies.
/3/ Share in production.
/4/ Including condensate and natural gas liquids (NGL) production.
Refining and Manufacturing

Gazprom Neft continues the wide-ranging technological and environmental modernisation of its refining facilities directed at achieving the company’s strategic goals in the refining segment, which include – among other things – increasing the conversion rate to 99% by 2025.

2019 highlights
• The first solar power plant in the region went into operation at the Omsk Refinery, and the first- phase construction of its innovative “Biosphere” treatment facility was also completed there.
• An automated system for loading and dispatching fuel brought into operation and preparations for pre-commissioning of a new Euro+
combined oil refining unit began at the Moscow Refinery.
• The NIS Pančevo Refinery is underway of a crude oil distillation conversion complex involving delayed coking technology.
• Construction of Russia’s first modern oil-refining catalyst production facility began in Omsk.
• Together with Sibur the company consolidated 100% of the charter capital in the Poliom LLC polypropylene plant in Omsk.

In 2019, Gazprom Neft continued to develop its downstream business in line with the company’s strategic goals approved by the Board of Directors. In accordance with Strategy 2020, the company intends to become an industry benchmark in terms of safety, efficiency and technological advancement. In the face of constantly changing market conditions, the Gazprom Neft business demonstrates resilience by maintaining its market-leading position in the refining and sales of oil products.

The ongoing large-scale modernisation of Gazprom Neft’s refining assets will enable the company to reduce production of heavy petroleum products, increase the output of diesel and aviation fuels, as well as to process residual volumes of heavy petroleum products into high-margin quality products. Total investment in the development of the company’s Omsk and Moscow refineries to 2025 exceeds $50 billion, with $9 billion invested in 2019.

In 2019, Gazprom Neft has a 56.15% shareholding in NIS (Serbia), which operates two refineries (in Pančevo and Novi Sad), as well as upstream projects in the Balkans.

REFINING VOLUMES

In 2019, Gazprom Neft’s refineries operated at 82.7%, and light product yield 64.4%. At the Omsk Refinery, construction is underway of a crude oil distillation unit, a delayed conversion complex involving delayed coking technology. The Biosphere complex will deliver almost complete closed-loop water consumption, reducing the burden on municipal wastewater facilities and increasing efficiency in wastewater treatment to 99.9%. Construction of the Biosphere is expected to be complete by 2021.

Production of low-sulphur bunker fuel with sulphur content of less than 0.5% was also started at the Omsk Refinery. This fuel meets the requirements of the International Convention for the Prevention of Pollution from Ships (MARPOL 2020). See the case study ‘Producing and selling bunker fuel compliant with the MARPOL 2020 requirements’.

The unique Biosphere water treatment complex comprehensively addresses the issues of reducing the environmental impact of production. In introducing new-generation, environmentally friendly technologies we are conserving resources as well as achieving significant economic benefits. The Biosphere sets new standards in environmental safety and contributes to technological advancement, enabling the company to match industry leaders.

Oleg Belyavsky
General Director
of the Gazprom Neft Omsk Refinery

Breakdown of petroleum-products production, million tonnes

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>9.08</td>
<td>9.18</td>
<td>8.60</td>
<td>8.86</td>
<td>9.52</td>
</tr>
<tr>
<td>Naphtha</td>
<td>1.45</td>
<td>1.56</td>
<td>1.38</td>
<td>1.95</td>
<td>2.01</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>11.87</td>
<td>12.02</td>
<td>11.45</td>
<td>12.32</td>
<td>11.87</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>3.00</td>
<td>3.04</td>
<td>3.04</td>
<td>3.47</td>
<td>3.34</td>
</tr>
<tr>
<td>Marine fuel</td>
<td>3.67</td>
<td>2.41</td>
<td>2.67</td>
<td>2.58</td>
<td>2.49</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>7.20</td>
<td>6.72</td>
<td>5.70</td>
<td>6.20</td>
<td>4.45</td>
</tr>
<tr>
<td>Bitumen and coke</td>
<td>2.02</td>
<td>2.19</td>
<td>2.73</td>
<td>3.07</td>
<td>2.95</td>
</tr>
<tr>
<td>Oils</td>
<td>0.40</td>
<td>0.62</td>
<td>0.48</td>
<td>0.49</td>
<td>0.54</td>
</tr>
<tr>
<td>Other</td>
<td>2.41</td>
<td>2.41</td>
<td>2.58</td>
<td>2.46</td>
<td>2.54</td>
</tr>
</tbody>
</table>

TOTAL PETROLEUM-PRODUCTS PRODUCTION

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Motor gasoline</td>
<td>9.08</td>
<td>9.18</td>
<td>8.60</td>
<td>8.86</td>
<td>9.52</td>
</tr>
<tr>
<td>Naphtha</td>
<td>1.45</td>
<td>1.56</td>
<td>1.38</td>
<td>1.95</td>
<td>2.01</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>11.87</td>
<td>12.02</td>
<td>11.45</td>
<td>12.32</td>
<td>11.87</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>3.00</td>
<td>3.04</td>
<td>3.04</td>
<td>3.47</td>
<td>3.34</td>
</tr>
<tr>
<td>Marine fuel</td>
<td>3.67</td>
<td>2.41</td>
<td>2.67</td>
<td>2.58</td>
<td>2.49</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>7.20</td>
<td>6.72</td>
<td>5.70</td>
<td>6.20</td>
<td>4.45</td>
</tr>
<tr>
<td>Bitumen and coke</td>
<td>2.02</td>
<td>2.19</td>
<td>2.73</td>
<td>3.07</td>
<td>2.95</td>
</tr>
<tr>
<td>Oils</td>
<td>0.40</td>
<td>0.62</td>
<td>0.48</td>
<td>0.49</td>
<td>0.54</td>
</tr>
<tr>
<td>Other</td>
<td>2.41</td>
<td>2.41</td>
<td>2.58</td>
<td>2.46</td>
<td>2.54</td>
</tr>
</tbody>
</table>

TOTAL PETROLEUM-PRODUCTS PRODUCTION

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion</td>
<td>41.10</td>
<td>39.95</td>
<td>38.63</td>
<td>41.40</td>
<td>40.23</td>
</tr>
</tbody>
</table>

Conversion Rate

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Proportion</td>
<td>41.10</td>
<td>39.95</td>
<td>38.63</td>
<td>41.40</td>
<td>40.23</td>
</tr>
</tbody>
</table>

Light-product yield

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Proportion</td>
<td>82.7%</td>
<td>81.5%</td>
<td>80.8%</td>
<td>81.6%</td>
<td>82.7%</td>
</tr>
</tbody>
</table>

Gazprom Neft’s refining assets address the issues of reducing the environmental impact of production. In introducing new-generation, environmentally friendly technologies we are conserving resources as well as achieving significant economic benefits. The Biosphere sets new standards in environmental safety and contributes to technological advancement, enabling the company to match industry leaders.

Oleg Belyavsky
General Director
of the Gazprom Neft Omsk Refinery

In 2019, Gazprom Neft has a 56.15% shareholding in NIS (Serbia), which operates two refineries (in Pančevo and Novi Sad), as well as upstream projects in the Balkans.

2019 events. A pilot project in renewable energy launched.

2019 events. A pilot project in renewable energy launched. A solar power plant is built and commissioned at the Omsk Refinery in record time. By introducing renewable energy technologies, the refinery will improve its energy efficiency and environmental performance.
The Moscow Refinery is now completing the construction of the Euro+ oil refining complex comprising primary distillation and reforming units, a hydrotreatment facility for diesel fuels and a number of ancillary facilities. This new complex will allow the company to decommission five units built in the 1950–1960s, and to increase the yield of light oil products to 60%. The facility is expected to be brought into operation in the first half of 2020. Commissioning the Euro+ complex will increase production of motor and aviation fuels, as well as stepping up the output of diesel-fuel.

Other assets

A sulphuric acid production unit was commissioned at the Slavneft-YANOS refinery; it will enable the company to improve the environmental safety of its production process. The refinery continues to implement a number of technical development and performance improvement projects, including the construction of a deep conversion facility.

At the NIS Pančevo Refinery, construction of a new deep conversion complex is nearing completion. This facility will process tar using delayed coking technology; this will enable the refinery to stop producing fuel oil. The refinery also launched a project to revamp its cat-cracking unit. Cutting-edge technologies that are planned to be used during the renovation will help to maximise propylene output using existing feedstock. Investment in the project will total over €72 million, and the work is scheduled to be completed in 2024.

The «Biosphere» project improves efficiency in wastewater treatment

Value chain as a single asset

The digital transformation of the Gazprom Neft Downstream Division aims to manage the entire value chain as a single asset. The transformation is focused on the key tasks of optimising resources, minimising losses and increasing efficiency at each stage, as well as improving the safety, reliability and environmental performance of assets. The practical application of this concept is based on developing end-to-end digital solutions covering the entire value chain and creating digital ecosystems to increase efficiency in each segment of the chain.

As part of this approach, a single and cohesive database is being created for the downstream segment, which will ensure the high quality and availability of all performance indicators and analytical and business information to meet the needs of the entire value chain.

The Gazprom Neft Neftekontrol (‘Oil Control’) System is an end-to-end operational efficiency tool for the downstream segment. It was developed in-house to continuously monitor and control the volume and quality of oil products at various stages, from the refinery to the customer.

Smart sensors and systems monitor key qualitative and quantitative metrics of all petroleum product flows in real time, sending information to the Neftekontrol System. System tools build a digital model of the movement of petroleum products, identifying potential risks, and improving performance along the chain by forecasting and reducing the risks of petroleum-products losses. The Ministry of Energy of the Russian Federation and the Federal Agency for Technical Regulation and Metrology (Rosstandart) have recognised Neftekontrol as the industry standard for the fuel traceability system for all state market participants.

Today, 90% of Downstream assets are connected to this unique system. This oversight and control system is expected to be deployed across all assets in the company’s value chain by 2020, including all of Gazprom Neft’s refining, logistics and retail facilities.

Neftekontrol is linked to another end-to-end solution that affects the efficiency of the value chain: an integrated scheduling system, covering the entire value chain, the system generates an optimum plan for production and distribution of oil products on a daily or monthly basis. By 2021, the integrated scheduling system will cover all Gazprom Neft’s downstream assets and, as a result, planning accuracy will increase to match the global benchmark of 97–98%.

The overall integration of these two systems takes place at the Gazprom Neft’s Downstream Efficiency Control Centre (EECC). By leveraging modern data analysis technologies, predictive analytics methods and working with big data, the ECC enables the company to maximise the operational efficiency of all processes in the value chain. A single and cohesive environment for managing refining assets makes it possible to implement solutions that increase the efficiency and reliability of the entire production process hierarchy, from basic processes to groups of production facilities and entire enterprises.

The Arctic is a strategically important region for the whole of Russia and, in the oil supply segment, Gazprom Neft is the first among Russian companies to create a Digital Arctic ecosystem to manage logistics there effectively.
From the very start, the new fuel-loading terminal was designed to meet key requirements: the highest possible safety standard, zero impact on air quality, high-speed processes, and continuous quality control. Thanks to new technology, we are improving production efficiency while reducing the environmental footprint.

Vitaly Zuber
General Director of the Gazprom Neft Moscow Refinery

The company’s refining assets have reached a level of digital maturity, such that a transition to a new production-management model is assured. Gazprom Neft continues to develop new approaches, based on the smart management of process units, to utilise the most innovative digital tools and manage its production assets. The establishment of production control centres at refineries is another major step in transforming the company’s downstream business. We are building a new system that will enable us to manage the business as a single asset. The system uses real data, algorithms, mathematical models and state-of-the-art digital systems.

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

First Russian industrial control system

In 2019, a methyl tert-butyl ether (MTBE) production unit was commissioned at the Gazprom Neft Moscow Refinery, where a sophisticated domestically-designed process control system was used for the first time. The design of the automated system piloted at the Moscow Refinery takes into account the requirements of local production processes, and complies with industrial safety requirements. The new automated process control system allows the company to achieve its strategic objective of increasing its share of domestically-designed solutions relating to production automation.

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

Automated fuel-loading system at the Moscow Refinery

An automated light-products loading terminal for road tankers with a daily capacity of 6,500 tonnes was commissioned at the Moscow Refinery in 2019. The complex includes 12 stations with the ability to dispense, simultaneously, gasoline, diesel and aviation fuel into road tankers. Technological solutions used at the terminal significantly increase its throughput, which in turn reduces loading times.

Modern environmental technologies and control systems at the terminal help to maintain the highest level of environmental safety. The new loading terminal is equipped with a vapour-recovery system that collects escaping vapours and turns them into liquid condensate that is then reused in the production cycle. A completely leak-proof bottom-loading system provides additional protection, as it prevents any emissions of petroleum products into the atmosphere, and prevents dust or precipitation from entering tanker compartments. All loading stations are equipped with the latest accident prevention and fire-fighting systems.

Vitaly Zuber
General Director of the Gazprom Neft Moscow Refinery

The company’s refining assets have reached a level of digital maturity, such that a transition to a new production-management model is assured. Gazprom Neft continues to develop new approaches, based on the smart management of process units, to utilise the most innovative digital tools and manage its production assets. The creation of the Production Control Centre (PCC) is a prime example of the new management model. An initial pilot project at the Omsk Refinery will take over operational production management, including control over daily plan fulfilment, product quality, energy consumption, equipment status assessments, and the monitoring of industrial and environmental safety.

The new centre will be built around the work of cross-functional teams, united in a cohesive environment of IT tools and big data analytics systems. Thanks to the implementation of “digital twins” – precise mathematical models of all of the refinery’s technological facilities and complexes – the PCC will be able to predict and to eliminate, proactively, any deviations from optimum operation and integrated planning. The pilot project will be implemented at the Omsk Refinery in 2020 at the Moscow Refinery by 2021. The Production Control Centre will become a part of the “digital refinery of the future”, which will be managed from a single control centre, using digital tools running on a single platform.

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

First Russian industrial control system

In 2019, a methyl tert-butyl ether (MTBE) production unit was commissioned at the Gazprom Neft Moscow Refinery, where a sophisticated domestically-designed process control system was used for the first time. The design of the automated system piloted at the Moscow Refinery takes into account the requirements of local production processes, and complies with industrial safety requirements. The new automated process control system allows the company to achieve its strategic objective of increasing its share of domestically-designed solutions relating to production automation.

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

Automated fuel-loading system at the Moscow Refinery

An automated light-products loading terminal for road tankers with a daily capacity of 6,500 tonnes was commissioned at the Moscow Refinery in 2019. The complex includes 12 stations with the ability to dispense, simultaneously, gasoline, diesel and aviation fuel into road tankers. Technological solutions used at the terminal significantly increase its throughput, which in turn reduces loading times.

Modern environmental technologies and control systems at the terminal help to maintain the highest level of environmental safety. The new loading terminal is equipped with a vapour-recovery system that collects escaping vapours and turns them into liquid condensate that is then reused in the production cycle. A completely leak-proof bottom-loading system provides additional protection, as it prevents any emissions of petroleum products into the atmosphere, and prevents dust or precipitation from entering tanker compartments. All loading stations are equipped with the latest accident prevention and fire-fighting systems.

Vitaly Zuber
General Director of the Gazprom Neft Moscow Refinery

The company’s refining assets have reached a level of digital maturity, such that a transition to a new production-management model is assured. Gazprom Neft continues to develop new approaches, based on the smart management of process units, to utilise the most innovative digital tools and manage its production assets. The creation of the Production Control Centre (PCC) is a prime example of the new management model. An initial pilot project at the Omsk Refinery will take over operational production management, including control over daily plan fulfilment, product quality, energy consumption, equipment status assessments, and the monitoring of industrial and environmental safety.

The new centre will be built around the work of cross-functional teams, united in a cohesive environment of IT tools and big data analytics systems. Thanks to the implementation of “digital twins” – precise mathematical models of all of the refinery’s technological facilities and complexes – the PCC will be able to predict and to eliminate, proactively, any deviations from optimum operation and integrated planning. The pilot project will be implemented at the Omsk Refinery in 2020 at the Moscow Refinery by 2021. The Production Control Centre will become a part of the “digital refinery of the future”, which will be managed from a single control centre, using digital tools running on a single platform.

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

First Russian industrial control system

In 2019, a methyl tert-butyl ether (MTBE) production unit was commissioned at the Gazprom Neft Moscow Refinery, where a sophisticated domestically-designed process control system was used for the first time. The design of the automated system piloted at the Moscow Refinery takes into account the requirements of local production processes, and complies with industrial safety requirements. The new automated process control system allows the company to achieve its strategic objective of increasing its share of domestically-designed solutions relating to production automation.

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

Automated fuel-loading system at the Moscow Refinery

An automated light-products loading terminal for road tankers with a daily capacity of 6,500 tonnes was commissioned at the Moscow Refinery in 2019. The complex includes 12 stations with the ability to dispense, simultaneously, gasoline, diesel and aviation fuel into road tankers. Technological solutions used at the terminal significantly increase its throughput, which in turn reduces loading times.

Modern environmental technologies and control systems at the terminal help to maintain the highest level of environmental safety. The new loading terminal is equipped with a vapour-recovery system that collects escaping vapours and turns them into liquid condensate that is then reused in the production cycle. A completely leak-proof bottom-loading system provides additional protection, as it prevents any emissions of petroleum products into the atmosphere, and prevents dust or precipitation from entering tanker compartments. All loading stations are equipped with the latest accident prevention and fire-fighting systems.

Vitaly Zuber
General Director of the Gazprom Neft Moscow Refinery

The company’s refining assets have reached a level of digital maturity, such that a transition to a new production-management model is assured. Gazprom Neft continues to develop new approaches, based on the smart management of process units, to utilise the most innovative digital tools and manage its production assets. The creation of the Production Control Centre (PCC) is a prime example of the new management model. An initial pilot project at the Omsk Refinery will take over operational production management, including control over daily plan fulfilment, product quality, energy consumption, equipment status assessments, and the monitoring of industrial and environmental safety.

The new centre will be built around the work of cross-functional teams, united in a cohesive environment of IT tools and big data analytics systems. Thanks to the implementation of “digital twins” – precise mathematical models of all of the refinery’s technological facilities and complexes – the PCC will be able to predict and to eliminate, proactively, any deviations from optimum operation and integrated planning. The pilot project will be implemented at the Omsk Refinery in 2020 at the Moscow Refinery by 2021. The Production Control Centre will become a part of the “digital refinery of the future”, which will be managed from a single control centre, using digital tools running on a single platform.
Development of NIS: a decade with Gazprom Neft

2019 marked the tenth anniversary of Gazprom Neft’s acquisition of a controlling interest (54.19%) in a Serbian oil and gas company, Naftna Industrija Srbije (NIS). At that time, NIS was a national oil and gas company with debt exceeding $1 billion and whose enterprises required immediate and large-scale upgrades. Gazprom Neft’s principal investment project in Serbia concerned the construction of a mild hydrocracking and hydrotreatment complex at the NIS refinery in Pančevo. In addition, the company’s retail network has been extensively overhauled. All the company’s filling stations were rebranded as NIS Petrol and, in 2012, the premium Gazprom brand was introduced. More than €3 billion in the premium Gazprom brand was introduced. More than €3 billion has been invested in developing NIS over the past 10 years.

Today, NIS is one of the most important energy companies in south-east Europe, owning one of the best state-of-the-art refineries in the region, and managing a filling station network across Serbia, Romania, Bulgaria, and Bosnia and Herzegovina. Apart from developing oil production and its own power generation, the company is the leading supplier on the domestic fuel market and exports oil products to markets throughout the Balkans. It provides a workplace to over 11,000 people and contributes over €1 billion per year to the Serbian budget. Power generators with a total installed capacity of 14 MW operate across the company’s eight oil and gas fields. By 2025, a further €1.4 billion will be invested in the development of NIS, including over €800 million to be allocated to oil and gas exploration and production, €400 million to refinery upgrades and development, and €150 million to developing the sales network. The second stage of the refinery modernisation will see the construction of a deep conversion complex, which will put the Pančevo refinery on a par with the world’s leading refineries in terms of technology and efficiency. Once the complex goes into operation, the refinery will cease production of high-sulphur fuel oil, with the conversion rate reaching 99.2%. In addition, NIS will begin producing coke, which is not currently produced anywhere in Serbia. NIS is implementing a joint power-generation project together with Gazprom Energoholding. It involves building a cogeneration power station of combined steam-and-gas cycle in Pančevo, with a capacity of up to 200 MW. The new plant is scheduled to be operational in 2020.

Gazprom Neft has successfully implemented a pilot alternative energy project at the Omka Refinery; the company has built and commissioned a one-megawatt solar power plant in record time. The new power station, occupying a two-and-a-half-hectare plot and comprising 2,500 solar panels, meets the Omka Refinery’s full energy requirements for all of its administrative buildings, including a standalone amenities building for 2,600 employees. Given the amount of sunshine in Omka, the annual electricity output from the photovoltaic power plant is likely to be 1.2 gigawatt hours (GWh).

By introducing renewable energy technologies, the refinery will improve its energy efficiency and environmental performance. This will be achieved by providing the Omka Refinery with additional generation while reducing its dependence on external energy suppliers, as well as by utilising land not otherwise involved in the technological process.

Implementing alternative energy technologies at the Omka Refinery

Gazprom Neft has successfully implemented a pilot alternative energy project at the Omka Refinery; the company has built and commissioned a one-megawatt solar power plant in record time. The new power station, occupying a two-and-a-half-hectare plot and comprising 2,500 solar panels, meets the Omka Refinery’s full energy requirements for all of its administrative buildings, including a standalone amenities building for 2,600 employees. Given the amount of sunshine in Omka, the annual electricity output from the photovoltaic power plant is likely to be 1.2 gigawatt hours (GWh).

By introducing renewable energy technologies, the refinery will improve its energy efficiency and environmental performance. This will be achieved by providing the Omka Refinery with additional generation while reducing its dependence on external energy suppliers, as well as by utilising land not otherwise involved in the technological process.

Our ambition is to develop a fully-fledged company-wide energy business, utilizing the latest energy technologies and creating synergies with its traditional business. The development of the energy business will focus on captive power generation using renewable and innovative energy sources, establishment of a power engineering centre, and intelligent energy management solutions based on digital technologies. Gazprom Neft’s refineries will become well-balanced energy hubs serving as benchmarks in terms of reliability and energy efficiency.

Vladimir Andreev
Head of Department for Power Engineering, Gazprom Neft PJSC
### Modernisation and technological developments

<table>
<thead>
<tr>
<th>Refinery</th>
<th>Installed capacity, mt</th>
<th>Volume refined in 2019, mt</th>
<th>Conversion rate, %</th>
<th>Light-product yield, %</th>
<th>Key projects implemented in 2019</th>
<th>Key projects scheduled for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Omsk Refinery</strong></td>
<td>22.23</td>
<td>20.72</td>
<td>89.5</td>
<td>70.6</td>
<td>- Commissioning a catalytic regeneration gas treatment unit;</td>
<td>- Continuing the implementation of the second stage of the modernisation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Completing the reconstruction of the diesel-fuel hydrotreatment unit;</td>
<td>- Completing the reconstruction and commissioning a number of process units, including the catalytic reforming unit;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Commissioning the first (1 MW) solar-power electricity station in the region;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Implementing the second stage of refinery modernisation, including the construction of a crude oil distillation unit (CDU/VDU), a deep conversion complex (DCC), a delayed coking unit (DCU), a diesel-fuel hydrotreatment/dewaxing unit, and the Biosphere treatment facility.</td>
<td></td>
</tr>
<tr>
<td><strong>Moscow Refinery</strong></td>
<td>12.76</td>
<td>10.08</td>
<td>81.6</td>
<td>59.3</td>
<td>- Commissioning an air-tight and leak-proof road-transport loading rack for light oil products;</td>
<td>- Commissioning of the Euro+ combined oil refining unit;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Completing the main construction and installation works at the Euro+ unit, starting pre-commissioning works.</td>
<td>- Active phase of construction of the automated railcar oil-products loading facility.</td>
</tr>
<tr>
<td><strong>NIS Pančevo Refinery (Serbia)</strong></td>
<td>4.60</td>
<td>3.14</td>
<td>81.5</td>
<td>77.4</td>
<td>- Completing the construction of a deep conversion complex based on delayed tar coking technology.</td>
<td>- Commissioning the deep conversion complex;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Commissioning the deep conversion complex;</td>
<td>- Reconstruction of the catalytic cracking unit, and construction of an ethyl-tert-butyl ether (ETBE) unit.</td>
</tr>
<tr>
<td><strong>Slavneft-YANOS</strong></td>
<td>15.00</td>
<td>7.53</td>
<td>65.3</td>
<td>54.5</td>
<td>- Commissioning of the &quot;Wet Catalysis – 2&quot; hydrogen sulphide removal unit;</td>
<td>- Continuing the construction of the deep conversion complex;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Converting the hydrogen production unit (UPV 2) to natural gas;</td>
<td>- Continuing the upgrade of the VT 4 vacuum distillation unit;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Continuing the construction of the deep conversion complex.</td>
<td>- Completing the reconstruction of the gas-loading rack.</td>
</tr>
<tr>
<td><strong>Mozyr Refinery</strong></td>
<td>14.03</td>
<td>0.00</td>
<td>79.8</td>
<td>60.5</td>
<td>- Construction of the hydrocracking unit for heavy oil residues.</td>
<td>- Completing the construction and installation of the hydrocracking unit for heavy oil residues and initiating start-up works.</td>
</tr>
</tbody>
</table>

---

Gazprom Neft's share in the Mozyr Refinery’s refining volumes is subject to the oil supply schedule as approved by the Ministry of Energy of the Russian Federation. The company may process up to 50% of oil supplied to the refinery. Actual refining volumes will depend on its economic efficiency. The company did not process any of its oil at the Mozyr Refinery under tolling arrangements in 2019.
SALES OF OIL, GAS AND PETROLEUM PRODUCTS

Gazprom Neft is engaged in the wholesale distribution of crude oil and petroleum products both in Russia and abroad. Small wholesale and retail sales, including through its filling station network, are managed by dedicated subsidiaries.

Oil sales

Oil sales increased by 8.8% year on year to 26.4 mt in 2019, as a result of increased oil production at the Novoportovskoye and Vostochno-Messoyakhskoye fields, and a slight decrease in refining throughput across the company’s refineries.

Gazprom Neft had previously completed the establishment of its own fleet, designed to support and service the company’s Arctic fields. Two new-generation icebreakers of the Icebreaker 8 class — the Alexander Sannikov and the Andrey Vilkitsky — built to order for the company are transporting Arctic oil. In addition to this, the fleet includes seven “Shturman”-series Arc7-class tankers, each of which has a cargo-bearing capacity of 42,000 tonnes, and one Arc5 ice-class tanker with a capacity of 19,800 tonnes.

A unique logistical arrangement created by Gazprom Neft has enabled year-round, maximum-efficiency transportation of oil from the Arctic fields to the global market, and has reduced the risk of logistical disruptions caused by negative external factors. The core objective of the new digital Arctic-logistics management system is to manage logistics in the Arctic safely, and to ensure that all oil produced is dispatched at the lowest possible cost.

DISTRIBUTION OF OIL AND PETROLEUM PRODUCTS

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic sales</td>
<td>6.14</td>
<td>7.43</td>
<td>5.57</td>
<td>4.31</td>
<td>4.37</td>
</tr>
<tr>
<td>Non-CIS exports</td>
<td>8.11</td>
<td>12.89</td>
<td>18.19</td>
<td>17.05</td>
<td>19.16</td>
</tr>
<tr>
<td>CIS exports</td>
<td>1.88</td>
<td>1.66</td>
<td>1.71</td>
<td>1.65</td>
<td>1.71</td>
</tr>
<tr>
<td>International sales</td>
<td>0.48</td>
<td>0.73</td>
<td>1.06</td>
<td>1.25</td>
<td>1.15</td>
</tr>
<tr>
<td>TOTAL OIL SALES</td>
<td>16.61</td>
<td>22.71</td>
<td>26.53</td>
<td>24.26</td>
<td>26.39</td>
</tr>
</tbody>
</table>

Source: company data
Gas sales

Gas sales on the domestic and international markets grew by 2.5% year on year as a result of an increase in associated petroleum gas and natural gas production by Gazprom Neft subsidiaries.

Petroleum-products sales

Petroleum-products sales remained almost flat year on year in 2019 and totalled 45.4 mt. The company focused on improving the efficiency of petroleum-products sales, improving margins on retail and small-scale wholesales distribution of motor fuels, and increasing premium sales of jet and bunker fuels and bitumen materials. Favourable market conditions enabled the company to increase fuel-oil and petrochemical sales.

In 2019, product sales on the Russian and international markets totalled 28.6 mt and 16.8 mt respectively. Sales on foreign markets grew by 3.5% year on year, driven by an increase in jet-fuel, diesel-fuel, bitumen and petrochemicals exports.

The “Captain” digital Arctic-logistics management system

Gazprom Neft has launched the world’s first digital Arctic-logistics management system. This innovative project has been developed to ensure uninterrupted year-round shipments of all ARCO and Nevy Port crude produced.

Every hour, the system collects all the necessary information in real time, and develops an optimal schedule for the fleet and for oil shipments from terminals. The system analyses over 45 million potential options per hour, factors in about 300 parameters and prepares the optimal schedule. The system’s accumulated historical data and predictive capabilities make it possible to predict potential constraints that vessels may face along the route, and to offer optimal routes that are safe.

By optimising vessel speed, reducing fuel consumption and sub-leasing surplus capacities in the summer, over the past two years (2018 and 2019) the company made additional savings exceeding₽3.5 billion.

Vadim Simdyakin
Head of Crude Oil Supply Department, Gazprom Neft PJSC

Sales breakdown by product, mt

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>10.83</td>
<td>11.08</td>
<td>11.09</td>
<td>11.32</td>
<td>10.22</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>12.81</td>
<td>13.27</td>
<td>13.37</td>
<td>14.01</td>
<td>13.91</td>
</tr>
<tr>
<td>Aviation fuel</td>
<td>3.62</td>
<td>3.36</td>
<td>3.51</td>
<td>3.84</td>
<td>3.90</td>
</tr>
<tr>
<td>Bunker fuel</td>
<td>3.98</td>
<td>2.87</td>
<td>3.29</td>
<td>2.89</td>
<td>2.65</td>
</tr>
<tr>
<td>Oils and lubricants</td>
<td>0.43</td>
<td>0.65</td>
<td>0.41</td>
<td>0.49</td>
<td>0.47</td>
</tr>
<tr>
<td>Bitumen products</td>
<td>2.05</td>
<td>2.17</td>
<td>2.66</td>
<td>2.97</td>
<td>2.92</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>1.65</td>
<td>1.35</td>
<td>1.25</td>
<td>1.35</td>
<td>1.55</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>7.42</td>
<td>6.62</td>
<td>5.23</td>
<td>6.09</td>
<td>6.40</td>
</tr>
<tr>
<td>Other petroleum products</td>
<td>2.25</td>
<td>2.42</td>
<td>2.68</td>
<td>2.95</td>
<td>3.41</td>
</tr>
<tr>
<td>TOTAL SALES</td>
<td>44.84</td>
<td>43.59</td>
<td>43.48</td>
<td>45.91</td>
<td>45.44</td>
</tr>
</tbody>
</table>

Metric:
- Domestic sales
- Global sales

Total gas sales

Gas sales, bcm

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic sales</td>
<td>13.56</td>
<td>13.28</td>
<td>13.89</td>
<td>13.13</td>
<td>13.48</td>
</tr>
<tr>
<td>Global sales</td>
<td>0.22</td>
<td>0.18</td>
<td>0.11</td>
<td>0.07</td>
<td>0.05</td>
</tr>
<tr>
<td>TOTAL GAS SALES</td>
<td>13.78</td>
<td>13.46</td>
<td>14.00</td>
<td>13.20</td>
<td>13.53</td>
</tr>
</tbody>
</table>
Sales breakdown by channel

Premium sales in 2019 reached 26.5 Mt. While premium sales of motor-fuels decreased slightly in the reporting period, the company increased premium sales of aviation and marine fuels, bitumen materials and lubricants. Sales of aviation fuel through premium channels were up 2.0% as a result of growth in volume on both the domestic and international markets. Improved business efficiency in the North-West and Black Sea regions saw a 2.4% year-on-year increase in premium sales of marine fuel. Expanding the geographic range of company’s export routes led to a 20% increase in sales of premium bitumen products.

In implementing the programme of transferring reciprocal settlements with counterparties using Russian rubles, the company has now switched payments for petroleum product exports under export contracts with companies in the EAEU and CIS member states to the currency of the Russian Federation. In April 2019 Gazprom Neft received its first such payment in rubles, totalling almost $55 million, for the delivery of 6,000 tonnes of diesel fuel by tanker to Armenia.

Sales of motor gasolines and diesel fuels in Russia in 2019 were optimal in view of market conditions, and ensured an increase in the efficiency of retail and small wholesale of motor fuels.

Retail and small wholesale distribution of motor fuels

Key areas in developing the company’s retail and small wholesale distribution of petroleum products in 2019 included expanding the company’s retail network, developing new forms of cooperation with independent market players, improving efficiency in fuel sales, digitalising customer services, and developing the company’s product storage facilities.

Filling station network

In 2019, the company accelerated the development of its retail network, having expanded filling stations under Gazpromneft and OPT1 brands throughout Russia. With new filling stations made on a franchise basis, the company has expanded the geographic coverage of its retail business to 46 regions throughout Russia. Gazpromneft filling stations began operating in seven new regions: the Kursk, Lipetsk, and Voronezh Oblasts, the Republics of Bashkortostan, Mordovia, Tatarstan, the Chuvash Republic and the Perm Krai.

In addition to conventional filling-station formats developed in recent years (full-service filling stations, stations with a cafe and a shop, automated filling stations), in 2019, the company launched several new filling-station formats that are innovative for the Russian market, including mixed-format filling stations, automated modular filling stations and digitally-enabled interactive filling stations.

New filling-station formats

Gazprom Neft is the first fuel retailer in Russia to launch mixed-format filling stations. These operate as service stations with a cafe and a shop during the day, and as automated stations at night. The mixed format is used widely around the world, and helps to improve the efficiency of filling stations by optimising their operation. After switching to the mixed format, fuel throughputs at filling stations increased by 2%.

In 2019, Gazprom Neft started developing a network of fully automated modular filling stations, which have been designed by Russian manufacturers specifically for the Gazprom Neft retail network. Investment required to launch a modular filling station is three and a half to four times less than for a conventional station. It takes only a week to install the module, which occupies a 150–300 square-metre plot. A filling station of this kind can refuel up to 350 vehicles per day with gasoline and diesel fuel.

The advantage of such filling stations is that, given their small size, they can be installed on parking lots next to shopping malls and housing estates. The company plans to scale up the project in 2020.

In 2019, the Gazpromneft network launched a filling-station redesign project in Moscow and St Petersburg, which involves transforming filling stations into digitally-enabled interactive facilities. Filling stations are being converted to the interactive format as part of the Gazprom Neft digital network branch’s new strategy aimed at making filling-station services more customer-friendly. Media screens which serve as a modern tool for interaction with customers are one of the highlights of this new format. By the end of 2020, media screens will be installed at more than 50 flagship stations in key regions across Russia in which the network operates.

In 2019, the company expanded its filling station network in Europe, including 205 filling stations in the CIS countries (Belarus, Kazakhstan, Tajikistan and Kyrgyzstan) and 414 in South-East Europe (Serbia, Bosnia and Herzegovina) and 414 in South-East Europe (Serbia, Bosnia and Herzegovina) and 414 in South-East Europe (Serbia, Bosnia and Herzegovina). Outside Russia, the Gazprom Neft retail network comprises 419 filling stations, including 205 filling stations in the CIS countries (Belarus, Kazakhstan, Tajikistan and Kyrgyzstan) and 414 in South-East Europe (Serbia, Bosnia and Herzegovina) and 414 in South-East Europe (Serbia, Bosnia and Herzegovina). The number of filling stations in Europe decreased as a result of a retail network optimisation programme that made the network more cost-effective.
The company continued to expand its autogas sales network by increasing the number of filling stations selling liquefied petroleum gas (LPG). The number of autogas filling stations integrated into multi-fuel filling facilities under Gazprom Neft brand grew by 11 to 156 stations.

The reporting year saw the completion of the transaction with Gazpromgazpromotornoye Topbov LLC for the sale of the main portion of the company’s compressed natural gas (CNG) production and distribution assets. Under this deal Gazprom Neft sold its gas-filling compressor stations.

In 2019 marked an important milestone in the development of the infrastructure of the company’s fuel-supply terminals. The new and the existing terminal’s infrastructure of the company’s fuel-gas filling compressor stations. The new and the existing terminal’s infrastructure of the company’s fuel-gas filling compressor stations.

The OPTI filling station network in 2019

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia²</td>
<td>1,189</td>
<td>1,244</td>
<td>1,255</td>
<td>1,264</td>
<td>1,458</td>
</tr>
<tr>
<td>CIS</td>
<td>243</td>
<td>200</td>
<td>198</td>
<td>201</td>
<td>205</td>
</tr>
<tr>
<td>Europe³</td>
<td>420</td>
<td>422</td>
<td>423</td>
<td>417</td>
<td>415</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,852</td>
<td>1,866</td>
<td>1,866</td>
<td>1,878</td>
<td>2,077</td>
</tr>
</tbody>
</table>

Russia’s “Gladkoye” fuel terminal in the Leningrad Oblast was commissioned, allowing the transshipment of up to one million tonnes of petroleum products every year.

Developing the OPTI filling station network

In 2019, the number of filling stations in the OPTI network reached 120, and now covers 27 regions across Russia. The OPTI filling station network offers a unique approach to the retail fuel market. The partnership between Gazprom Neft and PartnerOpti involves managing stations through a bespoke IT platform, operating under a highly popular brand, and ensuring high standards of service and fuel quality. The key principle behind the OPTI business model is mutually beneficial cooperation: partnership agreements, fair profit distribution, and technological solutions to optimise filling station management. The terms of the partnership include a one-time membership fee and a monthly fee calculated as a percentage of revenue. Within two or three months of the start of their operation under a new brand name, some filling stations show a 60% increase in daily fuel sales and an average two- or three-fold increase in non-fuel revenue; in some cases this growth may be ten-fold.

Jeremy Krylov
Head of Regional Sales Directorate,
Gazprom Neft PSC

Despite the challenging market environment, we invest in the development of this project and support our partners, because we believe that OPTI is a promising model for modern fuel retailing. It is based on a platform solution and the principles of fair profit distribution and business transparency.

Performance review

Motor-fuel and natural-gas motor-fuel sales

Total small-scale wholesale and retail sales of motor fuels decreased by 4.4% year on year to 19.5 mt. This change in motor-fuel sales volumes was shaped by current conditions in the Russian market, as well as those measures taken to improve sales efficiency and maximise profit margin. Despite the decrease in sales volumes, operating profit from this business grew by more than 20% thanks to the improved cost-effectiveness of retail sales and small-scale wholesale of motor fuels.

In 2019, retail sales of motor fuels through filling stations declined by 7.5% year on year to 10.5 mt, including 8.3 mt in Russia. A deteriorating market environment and the company’s focus on improving retail sales margins resulted in average per-station sales in Russia decreasing to 18.5 tonnes per day (tpd). The Gazprom Neft filling station network nevertheless maintained its market-leading position in Russia in terms of this metric. In Europe, average daily sales increased by 6.5% to 6.6 tpd in 2019.

Despite this trend in motor-fuels sales, sales of G-Drive premium branded fuel were maintained at 2018 levels. In 2019, branded-fuel sales throughout Russia and the CIS totalled 722,000 tonnes (1% -1 on 2018), with the share of G-Drive fuel in total sales growing from 7.3 to 7.9%. Year-to-year results show the G-Drive-brand family accounting for every third litre of AI-95 or higher grades of gasoline sold at filling stations, with the number of filling stations offering this fuel reaching 1,235 outlets.

The market environment caused LPG sales to decline by 11,300 tonnes, to 108,000 tonnes – a drop of 10%.

A high-technology fuel terminal

The new “Gladkoye” fuel terminal has been commissioned in the Tosnensky District of the Leningrad Oblast. This facility, which is unique in terms of the technological capabilities supporting its management processes, has become Gazprom Neft’s first asset built as part of the company’s comprehensive terminal infrastructure development strategy. Gladkoye is the only fuel terminal in Russia equipped with metering facilities allowing oil products volumes and other metrics to be controlled automatically. A digital twin of this fuel terminal contains all project information since the start of construction. The terminal’s infrastructure allows the transshipment of up to one million tonnes of petroleum products every year, and has storage facilities capable of holding up to 40,000 cubic metres of manufactured goods at any one time.

All of the company’s target terminals will be upgraded on the basis of the Gladkoye model by 2025. It is expected that once the comprehensive terminal reconstruction programme is complete, transshipment through the company’s own network will see an increase of more than 20%, with average per-terminal transshipment volumes rising by 38%.

Today, Gazprom Neft operates a wide network of terminals comprising 172 own and partner facilities throughout Russia and the CIS.
Customer relations
The more sensitive customers are to fuel prices at filling stations, the more relevant are marketing programmes and campaigns aimed at retaining various customer segments and increasing customer loyalty towards the Gazpromneft filling station network. In 2019, the penetration of the "On Our Way" loyalty programme grew by about 800,000 new members joining the programme. At year-end 2019, the number of loyalty card holders throughout Russia and the CIS increased by 7% year on year, to 11.9 million. Participants in the loyalty programme accounted for 79% of total sales to individuals for 79% of total sales to individuals through the filling station network. According to Ipsos data, "On Our Way" is Russian motorists' favourite loyalty programme, with popularity levels reaching 30% over the past year (up 5% on 2018).

Marketing campaigns and sales promotions conducted by the company in the reporting year to stimulate sales of petroleum-products reached a total of 14.3 million customers and generated additional sales exceeding 200,000 tonnes.

An important focus of the company’s customer-relations initiatives is the development of digital sales channels and digitalisation of customer services. In 2019, the share of digital channels (the virtual loyalty card, the virtual co-branded card and the AGS GO app) in total retail sales through the Gazpromneft filling station network was about 6%. The number of active users of the Gazpromneft filling station network’s mobile app reached 1.6 million.

As the company expanded its range of additional goods and services offered at shops across the Gazpromneft filling station network, non-oil sales increased by 6.1% year on year. In 2019, revenue from non-oil sales totalled ₽20.6 billion (including value-added tax).

In addition, the Gazpromneft filling station network has for several years been offering opportunities for the management of its own filling stations to third-party retailers. In 2019, 117 stations were transferred to partnership-based management models. By changing filling-station management models, the company has been able to improve operational efficiency and increase revenue across the Gazpromneft network by reducing the fill-up costs. As a result of putting filling stations under various management models, the company’s 2019 year-end results will see EBITDA increase by ₽222 million.

The company uses the following partnership-based filling-station management models:
- COPO (company-owned, partner-operated): a filling station is managed by a network employee acting as an individual entrepreneur;
- CODO (company-owned, dealer-operated): a station is managed by a professional dealer selling fuel supplied by Gazprom Neft and benefiting from the company’s brand, and growth is driven by a high volume of petroleum-products sales;
- CORO (company-owned, retailer-operated): filling stations are managed by a non-fuel retailer under its brand name, and the retailer earns revenue from non-oil sales.

Digital products and services for motorists
In 2019, Gazprom Neft introduced an innovative product: NFC-enabled virtual co-branded Gazpromneft-Gazprombank cards, which are available through the Gazpromneft filling station network mobile app. This card can now be issued through the Gazpromneft filling station network mobile app, added to the virtual wallet, and used as a method of payment for fuel ordered through the app and any other purchased items. For example, the card functions as the "On Our Way" loyalty card. In the first five months after this function was made available, customers issued 290,000 virtual co-branded cards, which is almost 160,000 more than the number of plastic co-branded cards.

As part of customer-service development, the functionality of the Gazprom Neft mobile app was also expanded. For example, users of the mobile app became the first customers in Russia to be able to operate coffee machines via their smartphones in Drive Cafes at Gazpromneft filling stations. Another addition to the app is the Space.GO game, in which motorists can answer questions on various subjects to earn additional bonus points under the "On Our Way" loyalty programme.

The digitalisation initiative covered not only customer services, but also filling stations themselves: equipment at filling stations was integrated into a single smart system: the Infrastructure Monitoring Centre (IMC). The automated monitoring and predictive analytics capacities of the IMC make it possible to monitor the status of equipment and the operation of filling stations online, which helps to improve the reliability and longevity of equipment.
Petroleum products sales to corporate customers

Aviation fuel supplies

Growth in premium sales is the result of both higher sales on the internal market, and higher “wing-tip” sales abroad.

At year-end 2019, the Gazpromneft-Aero distribution network comprised 61 refuelling terminals in Russia and another in Kyrgyzstan. In addition, Gazpromneft-Aero supplies aviation fuel to its customers at 10 Russian airports through third-party refuelling terminals and at 211 airports abroad.

Under its long-term business development strategy to 2030, Gazpromneft-Aero is committed to becoming one of the top-10 companies on the international aviation refuelling market, expanding its international sales network to cover 350 airports, and increasing direct sales of aviation fuels to 5.3 million tonnes per year.

Aviation refuelling volumes abroad in 2019.

Development of the aviation refuelling business abroad

Total international sales volumes were up 30% by the end of the year, reaching more than 315,000 tonnes. The company has developed a strategic partnership with China’s national fuel supplier, China Aviation Oil Hong Kong Co. Ltd (CAOHM), which is designed to supply aviation fuel to CAOHM-partner airlines at those airports at which Gazpromnneft-Aero operates. This partnership with CAOHM will allow Gazpromnneft-Aero to increase the amount of refuelling it offers its clients at Chinese airports every year. In 2019, the company had already seen a three-and-a-half-fold increase in sales of aviation fuels in China compared to 2018, reaching 78,000 tonnes. In China, Gazpromnneft-Aero has established its largest in-country sales network outside Russia, covering 32 airports throughout the country’s major cities.

Gazpromnneft-Aero also saw a significant increase in refuelling volumes for Russian and international airlines in India, Malaysia, Montenegro, Serbia, South Korea, Spain, Thailand and Vietnam. The company has begun supplying TS-1 jet fuel to Uzbekistan’s national airline, Uzbekistan Airways. Overall, Gazpromnneft-Aero will supply 100,000 tonnes of this product to Uzbekistan throughout 2019–2020.

Gazpromnneft-Aero’s clients include more than 190 airlines, including Russian market leaders Aeroflot, S7 Airlines, Ural Airlines, and Volga-Dnepr; as well as leading international carriers including Lufthansa, Emirates, Air France and KLM.

Aviation refuelling volumes abroad in 2019.

+30 %

315,000

Vladimir Egorov,
CEO, Gazpromneft-Aero

Gazpromneft-Aero is a technological leader in Russia’s aviation refuelling industry. We are implementing the concept of full automation in technological process management at Gazprom Neft’s state-of-the-art aviation refuelling complexes. In addition, the company is implementing another two projects that are important for the industry. The first involves implementing — together with IATA — XML standards to enable paper-free document management. The second is a transition to a new form of contracts, and a new form of settlements based on blockchain technology. It will accelerate settlements, reduce operating expenses and make cash transactions transparent. Airlines will be able to pay for fuel instantly when refuelling, without any prepayment, bank guarantees or financial risks for the parties to the transaction.
**Bunkering**

Gazpromneft Marine Bunker, the operator of the Gazprom Neft bunkering business, provides bunkering services at all key ports in Russia (including 20 sea and 12 river ports), as well as in the ports of Constanta (Romania), Riga (Latvia) and Tallinn (Estonia). The company’s clients include major Russian and international shipping companies. The company’s own fleet comprises:

- 12 bunkering vessels, including one Arctic-class vessel for refuelling ships in the White and Barents Seas;
- Four Arctic-class shuttle tankers and two icebreakers to ensure uninterrupted oil shipments from the Novoportovskoye field.

Improved business efficiency across the key markets in the North-West and Black Sea regions enabled the company to increase bunkering volumes by 2.4% year on year to 2.19 mt in 2019. An important area of focus in the development of the company’s bunkering business concerned bunkering of vessels transporting oil from the company’s fields in the Arctic.

2019 saw the keel of Russia’s first LNG-bunkering vessel, the Dmitry Mendeleev, laid down as part of the implementation of the company’s development strategy in LNG bunkering. This pilot LNG-bunkering vessel with a cargo-bearing capacity of 5,800 cubic metres is expected to be commissioned in 2021. In addition to its flagship vessel, Gazpromneft Marine Bunker plans to commission two additional LNG bunkers by 2030.

At the end of 2019, the company started selling a new marine fuel with sulphur content not exceeding 0.5%. It is in demand with shipowners, especially in light of a new version of the International Convention for the Prevention of Pollution from Ships (MARPOL 2020) taking effect from 1 January 2020, setting a limit on sulphur content in emissions from vessels in international waters.

#### Marine fuels compliant with the MARPOL 2020 requirements

With effect from 1 January 2020, the requirements of the MARPOL Convention forbidding the use of fuels with sulphur content above 0.5% are introduced throughout international navigation. In December 2019, in order to supply marine fuel compliant with these requirements, the company started selling marine fuel with sulphur content not exceeding 0.5% produced at the Omsk Refinery. Gazpromneft Marine Bunker – the operator of the Gazprom Neft bunkering business – bunkered the first vessel with this new environmentally-friendly fuel in the port of Murmansk.

The composition of the RMG-180 (type M) hybrid fuel has been developed by Gazprom Neft specialists. Ultra-low-sulphur and heavy petroleum products are used as components; these are mixed to produce a low-sulphur product meeting international environmental standards. Following testing, this fuel has been certified as conforming with the Eurasian Economic Union requirements.

In December 2019, the company sold 100,000 tonnes of this new marine fuel with sulphur content of less than 0.5%. It is expected that supplies of this fuel to the Russian market in 2020 may exceed 1.5 mt.

In 2019, the company also introduced a new marine oil for engines operating on ultra-low-sulphur fuel oil with sulphur content not exceeding 0.1%. The Gazpromneft Ocean CCL17 high-technology product fully meets the new MARPOL requirements. This oil has been approved by the world’s leading manufacturers of marine equipment and is currently available in more than 200 ports worldwide.

### Performance review

- **Premium sales, mt**
  - 2015: 3.92
  - 2016: 2.77
  - 2017: 2.71
  - 2018: 2.92
  - 2019: 2.99

- **Ports at which the company has a presence**
  - 2015: 36
  - 2016: 36
  - 2017: 37
  - 2018: 34
  - 2019: 35

- **Russian market share, %**
  - 2015: 21.0
  - 2016: 19.1
  - 2017: 16.6
  - 2018: 15.8
  - 2019: 15.7

**Marine fuels compliant with the MARPOL 2020 requirements**

With effect from 1 January 2020, the requirements of the MARPOL Convention forbidding the use of fuels with sulphur content above 0.5% are introduced throughout international navigation. In December 2019, in order to supply marine fuel compliant with these requirements, the company started selling marine fuel with sulphur content not exceeding 0.5% produced at the Omsk Refinery. Gazpromneft Marine Bunker – the operator of the Gazprom Neft bunkering business – bunkered the first vessel with this new environmentally-friendly fuel in the port of Murmansk.

The composition of the RMG-180 (type M) hybrid fuel has been developed by Gazprom Neft specialists. Ultra-low-sulphur and heavy petroleum products are used as components; these are mixed to produce a low-sulphur product meeting international environmental standards. Following testing, this fuel has been certified as conforming with the Eurasian Economic Union requirements.

In December 2019, the company sold 100,000 tonnes of this new marine fuel with sulphur content of less than 0.5%. It is expected that supplies of this fuel to the Russian market in 2020 may exceed 1.5 mt.

In 2019, the company also introduced a new marine oil for engines operating on ultra-low-sulphur fuel oil with sulphur content not exceeding 0.1%. The Gazpromneft Ocean CCL17 high-technology product fully meets the new MARPOL requirements. This oil has been approved by the world’s leading manufacturers of marine equipment and is currently available in more than 200 ports worldwide.

**Thanks to the advanced infrastructure of terminals at its refineries, Gazprom Neft will meet the growing demand for environmentally friendly marine fuels on the Russian market. Following completion of the construction of the deep processing complexes at the Moscow and Omsk refineries, we expect to abandon fuel-oil production completely.**

Alxey Medvedev
CEO, Gazpromneft Marine Bunker
Oils and lubricants production and sales

The company has an extensive modern production base for the manufacturing of oils and lubricants, and a widespread sales network in the B2C and B2B segments. Oils and lubricants are sold through the Gazpromneft filling station network, retail outlets and online shops, and service stations, as well as supplied directly to enterprises, including car assembly lines. Gazpromneft Lubricants aims to become a top-10 global lubricants manufacturer by 2030.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total oils and lubricants sales, mt</th>
<th>Premium sales, mt</th>
<th>G-Energy Service garage network, outlets</th>
<th>Share of the Russian packaged-oils and lubricants market, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.43</td>
<td>0.23</td>
<td>26</td>
<td>17.1</td>
</tr>
<tr>
<td>2016</td>
<td>0.65</td>
<td>0.33</td>
<td>46</td>
<td>20.0</td>
</tr>
<tr>
<td>2017</td>
<td>0.61</td>
<td>0.41</td>
<td>70</td>
<td>21.3</td>
</tr>
<tr>
<td>2018</td>
<td>0.49</td>
<td>0.32</td>
<td>120</td>
<td>22.0</td>
</tr>
<tr>
<td>2019</td>
<td>0.47</td>
<td>0.32</td>
<td>210</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Its continuously growing product line currently includes over 950 oils, grease lubricants and service fluids. Over the past year, 70 new premium products were launched on the market. Furthermore, in 2019, the company increased by 26,000 tonnes per year the capacity of its facilities producing oils packaged in large and small plastic containers at the Moscow Lubricants Plant.

In 2019, oils and lubricants sales totalled 0.47 mt, with premium sales totalling 0.32 mt. The Gazprom Neft share of the packaged-oils and lubricants market in Russia increased by 1.4 percentage point year on year to 23.4%. The company exported oils to 80 countries.

In 2019, the Gazprom Neft Omsk Lubricants Plant started producing new Gazpromneft Drill Flow drilling fluids, with 4,000 tonnes of these products supplied to drilling services companies. The company was awarded a prize by Gazprom PJSC as part of its annual competition for projects in science and technology for designing a production method and base formulation used in Gazpromneft DrillLine drilling fluids.

Developing the international oils and lubricants distribution network

In 2019 Gazprom Neft registered Gazpromneft Marine Lubricants, an operating company with an office in Singapore. This new enterprise will enable Gazprom Neft to develop its international marine-oils production and logistics network effectively, including in Southeast Asia and Europe. The company’s products, which are approved by key marine equipment manufacturers, are already available in more than 250 ports worldwide.

The range of marine oils and lubricants under Gazpromneft and Gazpromneft Ocean brands includes 43 high-technology products for all types of marine equipment, including 15 types of Gazpromneft Ocean motor oils for two- and four-stroke engines. The composition of these oils has been developed taking into account the needs of the international shipping industry and the MARPOL 2020 requirements.

Over the past year, Gazprom Neft expanded its international Gazpromneft Ocean marine-oils business, as it launched production and subsequent sales in Singapore, the Netherlands, Turkey and South Korea. The company established a subsidiary in Singapore in 2019 to enable further-efficient development of its international marine-oils production and logistics network. Thanks to the development of its international marine-oils business, Gazprom Neft is already present at more than 250 ports worldwide.

Further expansion of the production and logistics network will allow Gazprom Neft to build up production volumes significantly, expand its distribution coverage and, by 2030, secure a 4% share in the global marine-oils market.

The company also continues to develop a network of its own premium-brand G-Energy Service service stations. In 2019, 40 new service stations were added to the network, with the total number of branded service stations reaching 210 at year-end.
Bitumen materials

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

In 2019, sales of bitumen materials reached 0.42 mt, up 20% year on year. The growth was driven by the development of the distribution network (ensuring availability of bitumen-derived products throughout all Federal Okrugs of Russia), growth in exports, as well as by cooperation with regions to introduce modern bitumen materials into construction.

2019 marked the start of premium product sales in Latvia, Lithuania and Armenia. Supplies to Latin America, under strategic transnational projects, saw a 2.5-fold growth. In 2019, Gazprom Neft expanded the geography of bitumen-products sales to cover all 85 Russian regions, and 57 countries worldwide.

In 2019, the range of products manufactured at the Moscow Refinery’s large bitumen unit was expanded to three types of bitumen binders, and the maximum daily capacity was maintained at 5,500 tonnes per day. A high-technology production and logistics terminal in Salsk also demonstrated strong performance, with more than 172,000 tonnes of bitumen shipped during the first year of the asset’s operation under Gazprom Neft’s management. Expanding geography and entering new global markets enabled the company to increase the productivity of its Ryazan Bitumen Binders Plant significantly by as much as 33% to 119,000 tonnes, with binder shipments in Clovertainer containers and other types of packaging from the Ryazan Plant rising by 60% year on year to 64,000 tonnes. Key markets for packaged products include remote regions of Russia, Europe, and countries of Latin America.

The company continues to make steady progress towards the introduction of products for a new volumetric asphalt-mix design system currently being implemented in Russia. In addition to facilities in Ryazan and Vyazma, the bitumen terminal in Salsk and a processing site in Omsk have also started manufacturing products graded in accordance with the PG (Performance Grade) classification (based on performance at different temperatures).

In expanding the product range and areas of application, the specialists at the Gazprom Neft bitumen-business operator have developed an innovative bitumen sealant, Brit BPG-50 Plus, intended for use in the Arctic, at temperatures ranging from -50 to +30°C. The properties of this sealant will ensure the stability of piles supporting storage tanks in the construction of facilities in the Arctic.

**Sales of bitumen materials, mt**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales of bitumen materials, mt</td>
<td>2.05</td>
<td>2.17</td>
<td>2.65</td>
<td>2.97</td>
<td>2.92</td>
</tr>
<tr>
<td>Premium sales, mt</td>
<td>0.18</td>
<td>0.23</td>
<td>0.29</td>
<td>0.35</td>
<td>0.42</td>
</tr>
</tbody>
</table>

**Premium sales, mt**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Total sales of bitumen materials, mt**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Supplying bitumen materials to Latin America**

Gazprom Neft has supplied polymer-bitumen binders (PBB) for the construction of the largest infrastructure facility in Latin America: the Bi-Oceanic Corridor. This highway will connect the east and west coasts of the South American continent and make them into a single transport network.

Innovative bitumens produced by the Gazprom Neft Ryazan Bitumen Materials Plant are being used in asphalt road coverings throughout the 277-kilometre border section of the highway, in Brazil and Paraguay. The specialist formulation of the PBBs used on the Bi-Oceanic Corridor highway was developed at Gazprom Neft’s Science and Technology Centre in Ryazan, under the international Superpave mix design method. The composition of this innovative bitumen has been adapted to the region’s climatic conditions: high air temperature coupled with tropical humidity. The region’s mountainous terrain, as well as future car and HGV traffic, were also taken into account in developing the PBBs. The binders’ special formulation is expected to ensure the highway a reliable operation for a period of more than 10 years.

PBB deliveries to Latin America from Russia were undertaken by sea and road transport, in special patented medium-tonnage cuboid containers – Clovertainers, which guarantees that the high-performance features of bitumen are preserved.

**Many of the products in our bitumen-producers line have no equivalents in Russia or anywhere else. This competitive advantage – alongside technologies, modern production capacity, an extensive logistics network, and scientific and technical expertise – mean we can expand geographic coverage of our business and be involved in implementing major international infrastructure projects.**

Dmitry Orlov
CEO, Gazpromneft
Bitumen Materials
Petrochemicals

Sales of basic petrochemical products, mt

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>1.45</td>
<td>1.35</td>
<td>1.25</td>
<td>1.35</td>
<td>1.25</td>
</tr>
<tr>
<td>Total petrochemicals sales (mt)</td>
<td>1.45</td>
<td>1.35</td>
<td>1.25</td>
<td>1.35</td>
<td>1.25</td>
</tr>
</tbody>
</table>

Gazprom Neft is Russia’s largest producer of a number of basic petrochemicals: aromatic hydrocarbons (benzene, paraxylene, orthoxylene, toluene) and the propane-propylene fraction (PPF, propylene-containing LPG). Basic petrochemicals are produced at all Gazprom Neft refineries (in Omsk, Moscow and Yaroslavl). Downstream petrochemical products (polypropylene) are produced at integrated enterprises: NPP Neftekhimiya (Moscow) and Poliom (Omsk).

The development of petrochemical production is a growth area that is strategically important to the company. In order to strengthen Gazprom Neft’s position on the petrochemicals market, the company, together with SIBUR Holding, consolidated a 100% shareholding in Poliom LLC in 2019.

In 2019, polypropylene production totalled 139,000 tonnes at Neftekhimiya (+4% year on year) and 213,000 tonnes at Poliom (flat year on year). In addition, Neftekhimiya achieved a maximum hourly production rate of 17.4 tonnes per hour in 2019.

Developing the petrochemicals business is part of the Gazprom Neft’s long-term strategy to 2030. By that time, the share of petrochemicals in the product mix is expected to increase to 15%.

Construction of a cutting-edge catalyst production facility in Omsk

Gazprom Neft has begun active construction of its modern high-tech oil-refining catalyst production facility in Omsk. The new 21,000-tonne per-year catalyst plant will be producing modern catalysts for key processes in deep oil refining and the production of Euro 5 fuels.

Gazprom Neft’s project is designed to meet Russian refiners’ demand for modern and efficient cat-cracking and hydrotreatment catalysts necessary in producing Euro 5 standard gasoline and diesel fuels, as well as hydrocracking catalysts used in deep oil refining processes.

The project’s configuration envisages production of 6,000 tonnes of hydrotreatment catalysts, 2,000 tonnes of hydrocracking catalysts, and 15,000 tonnes of cat-cracking catalysts every year. The catalyst production technologies developed by Gazprom Neft in conjunction with leading Russian scientific and technology institutions are protected by international patents; products will be manufactured using raw materials from Russian suppliers.

The Ministry of Energy of the Russian Federation has awarded the initiative the status of a National Project. Construction is expected to be completed in 2020. The project includes modern treatment, hermetic containment and control and monitoring systems, as a result of which environmental emissions will be almost cut in half, despite a seven-fold increase in output.

The new production facility will allow us to reduce our heavy dependence on the supply of imported catalysts. Gazprom Neft catalysts will outstrip foreign alternatives on a number of criteria. Eventually, the company’s share of the cat-cracking and hydroprocessing catalysts market may exceed 70%. Theoretically, the company is in a position to fully meet domestic demand. Any surplus will be exported.

Alexander Chembulaev
CEO, Gazpromneft Catalytic Systems

Catalyst production

Consolidation of a 100% shareholding in Poliom

Launched in 2013, Poliom is one of Russia’s most important polypropylene producers. With annual capacity of 218,400 tonnes, the plant produces and supplies up to 80 different grades of polypropylene. The main feedstock in polypropylene production is the propane-propylene fraction which is supplied to the plant by the Gazprom Neft Omsk Refinery. Having been certified to international standards, Poliom makes use of the best available solutions and zero-waste production technologies. In 2019, Gazprom Neft together with Sibur Holding purchased a 50% shareholding in Poliom from a partner on a parity basis. As a result, Gazprom Neft and Sibur Holding became 100% owners of the plant.

Levan Kadagidze
Head of Commercial Affairs Directorate, Downstream Division, Gazprom Neft
Key financial indicators (IFRS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crude oil, gas and petroleum products sales</strong></td>
<td>1,581,777</td>
<td>1,637,553</td>
<td>1,870,790</td>
<td>2,418,717</td>
<td>2,393,444</td>
<td>(1.0)</td>
</tr>
<tr>
<td><strong>Less: export duties and sales related excise</strong></td>
<td>(187,832)</td>
<td>(150,156)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other revenue</strong></td>
<td>73,998</td>
<td>58,211</td>
<td>63,799</td>
<td>70,575</td>
<td>91,864</td>
<td>30.2</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE FROM SALES</strong></td>
<td>1,467,943</td>
<td>1,545,608</td>
<td>1,934,589</td>
<td>2,489,292</td>
<td>2,485,308</td>
<td>(0.2)</td>
</tr>
<tr>
<td><strong>Purchases of oil, gas and petroleum products</strong></td>
<td>(345,909)</td>
<td>(351,294)</td>
<td>(456,037)</td>
<td>(617,306)</td>
<td>(663,068)</td>
<td>7.4</td>
</tr>
<tr>
<td><strong>Production and manufacturing expenses</strong></td>
<td>(214,267)</td>
<td>(201,862)</td>
<td>(216,530)</td>
<td>(228,618)</td>
<td>(260,688)</td>
<td>14.0</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>(100,176)</td>
<td>(108,981)</td>
<td>(106,629)</td>
<td>(114,872)</td>
<td>(125,592)</td>
<td>9.3</td>
</tr>
<tr>
<td><strong>Transportation expenses</strong></td>
<td>(133,320)</td>
<td>(132,984)</td>
<td>(141,982)</td>
<td>(147,182)</td>
<td>(143,474)</td>
<td>(2.5)</td>
</tr>
<tr>
<td><strong>Depreciation, depletion and amortisation</strong></td>
<td>(114,083)</td>
<td>(129,845)</td>
<td>(140,998)</td>
<td>(175,651)</td>
<td>(181,372)</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Taxes other than income tax</strong></td>
<td>(353,145)</td>
<td>(381,131)</td>
<td>(492,269)</td>
<td>(652,784)</td>
<td>(591,193)</td>
<td>(9.4)</td>
</tr>
<tr>
<td><strong>Export duties</strong></td>
<td>-</td>
<td>-</td>
<td>(76,658)</td>
<td>(94,416)</td>
<td>(71,601)</td>
<td>(24.6)</td>
</tr>
<tr>
<td><strong>Exploration expenses</strong></td>
<td>(922)</td>
<td>(1,195)</td>
<td>(963)</td>
<td>(1,411)</td>
<td>(1,750)</td>
<td>24.2</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>(1,261,822)</td>
<td>(1,307,292)</td>
<td>(1,632,066)</td>
<td>(2,032,550)</td>
<td>(2,038,740)</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td>206,121</td>
<td>238,316</td>
<td>302,523</td>
<td>456,742</td>
<td>446,568</td>
<td>(2.2)</td>
</tr>
<tr>
<td><strong>Share of profit of associates and joint ventures</strong></td>
<td>24,956</td>
<td>34,116</td>
<td>45,504</td>
<td>90,704</td>
<td>83,906</td>
<td>(7.5)</td>
</tr>
<tr>
<td><strong>Net foreign exchange gain/(loss)</strong></td>
<td>(67,910)</td>
<td>28,300</td>
<td>(241)</td>
<td>(33,558)</td>
<td>10,518</td>
<td>-</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>14,732</td>
<td>11,071</td>
<td>10,098</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Finance expense</strong></td>
<td>(33,943)</td>
<td>(34,282)</td>
<td>(25,127)</td>
<td>(21,476)</td>
<td>(32,772)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other loss, net</strong></td>
<td>1,494</td>
<td>(17,982)</td>
<td>(7,557)</td>
<td>(19,796)</td>
<td>(23,292)</td>
<td>17.7</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td>(60,671)</td>
<td>21,223</td>
<td>22,677</td>
<td>23,380</td>
<td>61,266</td>
<td>162.0</td>
</tr>
<tr>
<td><strong>PROFIT BEFORE INCOME TAX</strong></td>
<td>145,450</td>
<td>259,539</td>
<td>325,832</td>
<td>484,762</td>
<td>445,306</td>
<td>(12.1)</td>
</tr>
<tr>
<td><strong>Current income tax expense</strong></td>
<td>(38,026)</td>
<td>(21,290)</td>
<td>(43,459)</td>
<td>(97,986)</td>
<td>(52,502)</td>
<td>(11.1)</td>
</tr>
<tr>
<td><strong>Deferred income tax benefit/(expense)</strong></td>
<td>8,776</td>
<td>(17,982)</td>
<td>(7,557)</td>
<td>(19,796)</td>
<td>(33,244)</td>
<td>70.1</td>
</tr>
<tr>
<td><strong>PROFIT FOR THE PERIOD</strong></td>
<td>116,198</td>
<td>209,725</td>
<td>269,470</td>
<td>484,932</td>
<td>422,088</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Net profit attributable to non-controlling interest</strong></td>
<td>6,537</td>
<td>9,566</td>
<td>(14,404)</td>
<td>(24,326)</td>
<td>(21,887)</td>
<td>(10.0)</td>
</tr>
<tr>
<td><strong>PROFIT ATTRIBUTABLE TO GAZPROM NEFT</strong></td>
<td>109,661</td>
<td>200,179</td>
<td>255,066</td>
<td>360,606</td>
<td>400,201</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Note: Starting from 1 January 2018, the Group has been applying IFRS 15 Revenue from Contracts with Customers.

In 2019, Gazprom Neft’s financial performance was stable. The company’s revenue totalled ₽2.49 trillion, a slight decrease of 0.2% year on year. The negative price trend on the oil market was offset by growth in sales volumes.

At the same time, the company’s net profit went up by 5.3% to a record amount of ₽422.1 billion thanks to the strengthening of the rouble and a positive impact of net financial income (expense).
FACTOR ANALYSIS OF THE ADJUSTED EBITDA 2019 vs 2018, ₽ billion

800
-32
28
5
-6
795

REPAIRS AT REFINERIES

2019

Downstream
Upstream

Prices

Internal
factors:

100
200
300
400
500
600
700
800
633
167
628
167

GROUP SHARE IN THE EBITDA OF JVS

Investments 1, ₽ billion

2019
2018

1

Brownfields
Advances paid
Greenfields
Refining
Marketing
and distribution
Other

Net debt, ₽ billion, and Net debt/EBITDA

2019
2018
2017
2016
2015

654.7
641.9
584.0
527.9
497.7

22.4 %

YEAR ON YEAR IN CAPITAL INVESTMENT GROWTH

Capital expenditure at brownfields increased by 18.9% due to:
- an increase in drilling and workover at new fields in traditional production regions.

Capital expenditure at greenfields increased by 17.5% due to:
- an increase in drilling and construction of infrastructure facilities;
- seismic surveys at new licence blocks;
- commencing oil rim projects.

The growth of capital expenditure in the downstream segment amounted to 21.3% year on year, and is related to an active phase of deep conversion projects at the Omsk Refinery, and construction of a catalyst plant.

DEBT PORTFOLIO

- In November 2019, the company successfully placed five-year bonds worth ₽25 billion, with a coupon of 6.85% per annum.
- In December 2019, the company successfully placed 10-year bonds worth ₽20 billion, with a coupon of 7.15% per annum.

The coupon rates were the lowest in the history of the Russian market.²

CREDIT RATINGS

- In February 2019, Moody’s upgraded the company rating to Baa2, and revised the outlook to “stable”.
- In August 2019, Fitch Ratings upgraded the company rating to BBB, with the “stable” outlook.

In late December 2019, all Gazprom Neft ratings were investment-grade.

THE FIGURES MAY NOT CONSTITUTE FINAL AMOUNTS DUE TO ROUNDING.

/1/ Including the Gazprom Neft share in the EBITDA of associates and joint ventures.
/2/ Capital investment includes changes in reserves and advance payments.
/3/ Acquisition of oil and gas licences, and other cash flows from investment activities.
/1/ The figures may not constitute final amounts due to rounding.
/2/ Placement for comparable periods.
Artificial intelligence isn’t a magic box.

Gazprom Neft specialist Anna Dubovik on the importance of digital product samples.

Technological development

Innovation management
Import substitution
The company opened an Integrated Upstream Engineering Centre (a division of the Bazhenov Technology Centre) at the Skolkovo Institute of Science and Technology. It provides R&D support for non-traditional hydrocarbon reserves development.

A joint venture fund, New Industry Ventures, was established by the company together with Gazprombank, RVC and VEB Innovations. The fund will invest in companies developing new materials, technologies, products and services for the oil and gas industry.

Seismic surveys at the Ayashsky licence block in the Sea of Okhotsk is an example of import substitution in practice. During these surveys, Gazprom Neft has become the first oil company in Russia to use the domestically produced standalone “CRAB” seabed station for seismic surveys. Previously, these surveys were largely conducted using foreign equipment.

We have started considering technological solutions development not only as our core operations supplement, but also as a separate process with intrinsic value. Today, technology is not just a way of responding to challenges, but also a separate investment portfolio. In order to ensure the product developed enjoys wide-ranging demand from business once it goes into reproduction, you need a good understanding – right from the very beginning – as to exactly what value it is going to bring to the end-customer or end-user. For instance, hydraulic fracturing software designed by the company has become one of the most successful and promising projects in the oil industry.

Alexey Vashkevich
Director for Technological Development,
Gazprom Neft PJSC
Gazprom Neft’s approach aligns technology development projects with strategic goals. The company develops and deploys technological solutions that address strategic challenges.

Focus areas

Technological development is a part of the Gazprom Neft Strategy 2030. New technology will enable the company to manage large-scale oil production projects effectively and achieve a leading position in strategic areas.

Priority areas of technological development are the following:
- Oil recovery factor increase at mature fields;
- Multiphase fields development;
- Low-permeability reservoirs development;
- Efficient and safe offshore development in the ice-bound sea;
- Efficient refining catalysts and processes.

Each priority area is undergoing development or realization projects, which aimed to design, test or implement necessary technologies.

Basic documents

Upstream Technology Strategy

The Upstream Technology Strategy covers all focus areas of the Upstream Division, including:
- Exploration and resource expansion technologies;
- Well drilling and completion technologies;
- Enhanced oil recovery and well stimulation;
- Development of non-traditional reserves;
- Development of oil rims;
- Electronic Asset Development (EAD);
- Development of carbonate and fractured reservoirs;
- New-generation infrastructure;
- Capital construction.

In 2019, Gazprom Neft updated its Technology Strategy and prioritised flagship technological programmes that will help to achieve the Strategy 2030 goals.

Offshore Technology Strategy

In 2018, the company approved an Offshore Technology Strategy with the following priority areas:
- Exploration;
- Monitoring, prevention and response to accidents in ice conditions;
- Logistics in the Arctic;
- APG utilisation on the Arctic shelf;
- Offshore field development;
- Safety of offshore projects;
- Digitalisation.

Downstream R&D Strategy

Downstream Research and development is aligned with a long-term R&D strategy. Technological solutions are developed in partnership with Russia’s leading research and educational institutions. Technology implementation enables the company to increase the output of high-margin products, depending on technological capabilities of individual refineries, while reducing operating expenses.

The company has about 30 projects in its R&D portfolio:
- Advanced refining processes (high-octane gasoline and needle coke production; tar hydrotreating; petrochemical production processes);
- Catalyst production technologies, including for catalytic cracking and hydrogenation.

Innovative Development Programme

The company is undergoing an Innovative Development Programme with core focus on enhanced oil recovery at brownfields, hard-to-recover hydrocarbon reserves development, continuous improvement of well productivity, and development and production of catalysts for catalytic cracking and hydrogenation processes. In 2019, investments under the Programme totalled about ₽25 billion, of which R&D costs constituted almost ₽3 billion.

Gazprom Neft intellectual property (IP) portfolio

<table>
<thead>
<tr>
<th>Year</th>
<th>Patents</th>
<th>Computer software</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>27</td>
<td>8</td>
</tr>
<tr>
<td>2016</td>
<td>36</td>
<td>16</td>
</tr>
<tr>
<td>2017</td>
<td>49</td>
<td>26</td>
</tr>
<tr>
<td>2018</td>
<td>61</td>
<td>30</td>
</tr>
<tr>
<td>2019</td>
<td>92</td>
<td>30</td>
</tr>
</tbody>
</table>

27 billion

projects completed

110 mtoe

billion total portfolio

mtoe incremental hydrocarbon production by 2025

600 mtoe

incremental hydrocarbon reserves by 2025
Innovation infrastructure

Gazprom Neft Science and Technology Centre

The Gazprom Neft Science and Technology Centre (STC) provides analytical, methodological and R&D support for the company’s upstream investment and management decisions. Its key competencies include:

- Analytical and engineering consulting;
- specializing in multi-disciplinary and management decisions;
- High-tech services.

Gazprom Neft also includes the Gazprom Neft Science and Technology Centre, an integrated approach to the development and management of multistage hydraulic fracturing technology: longer laterals, more complex drilling and completion techniques, software systems, and equipment.

In horizontal wells, field tests are conducted to validate increasingly complex drilling and completion technology. The Bazhenov Technology Centre is a commercially viable technology development project for the Bazhenov Formation by 2025. The Centre has started first exploration well drilling and coring at the Saikovsky section block in the Obninsk Oblast. The survey is expected to confirm the presence of moveable hydrocarbons within the intervals of Domanic formations. Commercially viable technologies for Domanic oil production could open the access to a new major source of non-traditional hydrocarbons with the estimated resource base of 3 billion to 6 billion tonnes of oil.

In 2019 the Bazhenov Technology Centre discovered a new Palaeozoic oil deposit at the Urmansky field in the Tomsk Oblast. The discovery has confirmed the presence of oil in deeper Palaeozoic horizons and has provided access to pre-Jurassic reserves.

Other oil and gas companies are involved in projects run by the Bazhenov Technology Centre. For instance, in 2019, Gazprom Neft and Zarubezhneft signed an agreement on establishing a joint venture for the exploration, development and production of hard-to-recover oil reserves, including non-traditional hydrocarbons. The joint venture portfolio will include the Salymsk-3 and Salymsk-5 licence blocks located in the Khanty-Mansi Autonomous Okrug, which is currently owned by the Bazhenov Technology Centre.

An Integrated Upstream Engineering Centre (a division of the Bazhenov Technology Centre) was opened at the Skolkovo Institute of Science and Technology in 2019. The Centre provides R&D support for the development of non-traditional hydrocarbon reserves, including the Bazhenov Formation, Domanic and pre-Jurassic deposits.

The Integrated Engineering Centre specialists have access to the research and engineering infrastructure of the Skolkovo Institute of Science and Technology. Skolkovo’s resident organisations, independent business and scientific experts, and venture investors can also be engaged to assist in addressing technological challenges.

Bitumens Research and Development Centre

In 2016, Gazprom Neft established the Bitumens Research and Development Centre, an in-house R&D facility designed to provide R&D support for its bitumen business. The key task of the Centre is to develop bitumen products technology extending the service life of road coverings. The R&D Centre has unique laboratory facilities enabling full-cycle research not only on bitumen and its derivatives but also on asphalt concrete mixtures. Given its high level of expertise, the Centre serves as an independent laboratory under the Safe and High-Quality Roads Federal Project in some Russian regions.

Industrial Automation Technopark

The Industrial Automation Technopark was established in Omsk as part of the company’s import substitution strategy. It is a platform for research and development, pilot testing and design of high-technology solutions for refinery automation. It comprises training, testing and R&D centres, a data centre, a co-working space (a shared office space), and a communication centre where working meetings and R&D conferences are held.

The Technopark focuses on the development of:

- Instrumentation and controls, such as pressure and temperature sensors, analysers, etc.;
- Automated process control systems, including distributed control systems, accident prevention systems, and software systems;
- Manufacturing execution systems (MES) for dispatching and scheduling; information management systems for laboratories;
- High-technology solutions, including process modelling and optimization, monitoring and diagnostic systems; and computer-based simulators.

Corporate Information Technology Technopark

The Corporate Information Technology Technopark in St Petersburg is designed to facilitate direct cooperation between technology developers and IT equipment manufacturers for the oil and gas industry. Gazprom Neft provides the participants of the Technopark with a platform for testing and assessing promising solutions and innovative technologies. Regular information sessions are held at the Technopark in order to present potential customers with new IT solutions that proved its effectiveness.

House of Innovations

The Gazprom Neft House of Innovations is a unique cross-functional space for projects involving the use of new end-to-end technologies and data. This project brings together leading specialists in machine learning,
Key projects and 2019 highlights

**Upstream**

As part of a national project to develop technology for the Bazhenov formation Gazprom Neft confirmed the viability of multistage fracking in horizontal wells (see above). The company continued to explore Domanic deposits in the Orenburg Oblast (the Domanic project), develop a technological solution for hydrocarbon exploration, production, processing, transportation, distribution and utilisation, as well as energy transmission and storage, and on implementing innovative solutions for industrial infrastructure construction and management of large-scale projects. Its investment focus will also include resource- and energy-saving technologies, and digital products, including Industry 4.0 technologies.

Digital platforms, the Industrial Internet of Things (IIoT), blockchain technologies, augmented and virtual reality, and other Industry 4.0 technologies.

**New Industry Ventures Fund**

In 2019, the company together with Gazprombank, RVC and VEIB Innovations established a joint venture fund, New Industry Ventures. The fund will invest in companies specialising in the development of new materials, technologies, products and services for the oil and gas industry. The fund's activities will be focused on developing technologies for hydrocarbon exploration, production, processing, transportation, distribution and utilisation, as well as energy transmission and storage, and on implementing innovative solutions for industrial infrastructure construction and management of large-scale projects. Its investment focus will also include resource- and energy-saving technologies, and digital products, including Industry 4.0 technologies.

**Refining**

Gazprom Neft has implemented Captain, a digital logistics management system for projects in the Arctic. This system enables uninterrupted oil shipments from Priazlomnoye and Novyportovskoye fields. Gazprom Neft produces aluminium oxide catalysts for deep conversion, and develops efficient catalytic cracking, hydrocracking and hydrotreatment catalysts as part of a national project. A state-of-the-art catalyst plant is under construction in Omsk.

Refining is Gazprom Neft’s strategic priority is to develop refining processes that deliver unmatched efficiency. These include the Ariforming technology that allows low-grade feedstock (straight-run gasoline) processing into high-octane motor gasoline component. The testing was successfully completed in 2019, and the company is developing plans for this technology commercialising.

Another priority for the downstream segment is new products manufacturing technologies development, such as needle coke and unleaded aviation gasoline. The first pilot batch of premium-grade needle coke was produced at the Omsk Refinery in 2019. The technology used in its production is an R&D result patented by the company. This product is used to manufacture ultra-reliable graphitised petroleum coke cathodes, which are used in the metals industry. The company also develops processes to convert heavy feedstock, such as tar, asphalt or pyrolysis resin, into high-quality bunker fuel that complies MARPOL 2020 standards, or into raw materials for hydrocracking and catalytic cracking facilities.

**Import Substitution**

One of Gazprom Neft priorities is to increase the share of Russian products in procurement structure. The company implements solutions available on the market and supports the development of new products to achieve this goal. Substantial part of import substitution projects are implemented by partnering companies.

Seismic surveys at the Ayashsky formation in the Sea of Okhotsk is an example of import substitution in practice. During these surveys, Gazprom Neft has become the first oil company in Russia to use the domestically produced standalone “CRAB” seabed station for seismic surveys. Previously, these surveys were largely conducted using the foreign equipment.

The seabed stations development is an example of successful partnership between Gazprom Neft, the government, domestic technology developer and equipment manufacturer, and a Russian service company. Its outcomes prove that Russian companies are able to take on complex technological challenges and produce solutions promptly. The company also implements a number of other joint projects to create domestic technologies for offshore exploration and production.
Governance system

Corporate governance
Internal control and risk management
Investor and shareholder relations
Corporate governance — best practice equals higher income

Chairman’s letter

Dear shareholders and investors,

Effective corporate governance is vital to the stable and sustainable development of any company. And the Board of Directors is a key element in that system. Strategic business management, ensuring the protection of shareholders’ rights and interests, and maintaining an open dialogue with the investment community, together with full transparency of information — the Gazprom Neft’s Board of Directors was successful in addressing all of these in 2019.

The Gazprom Neft’s Board of Directors saw considerable changes for this reporting year, with five new representatives – each having the appropriate qualifications and experience – being elected. Board meetings examined more than 100 issues of strategic importance to the company, with the resulting decisions having a major impact on the effective development of Gazprom Neft’s business. The Board of Directors was responsible for overseeing the fulfilment of the company’s investment programme, management of the company’s debt portfolio, plans for international business development and the development of the aviation and bitumens sectors, the outcomes of the first year of the company’s new development strategy, and other issues. The Board of Directors’ assessment of Gazprom Neft’s activities in 2019, and the company’s business-development plans, confirm their full compliance with the objectives outlined in Gazprom Neft’s long-term business strategy to 2030.

The Board of Directors approved various pieces of internal regulation developed in 2019, including the company’s external audit policy, regulations on insider information, and regulations governing the procurement of goods, works and services — all of which are directed at further improving the company’s management and business processes, and all of which outline Gazprom Neft’s approach to upholding independence and avoiding conflicts of interest.

This reporting year saw the Board of Directors adopt Gazprom Neft’s Digital Transformation Strategy: this document having been developed in line with the company’s Development Strategy to 2030, and being designed to ensure full support for (and implementation of) that strategy. Changes being made within Gazprom Neft as a result of new technologies (mainly based around “Big Data” and “digital twins” of company assets) are improving flexibility and effectiveness in business management.

Key priorities for Gazprom Neft include safety, care for the environment, and the meticulous management of natural resources – as well as working to improve living standards in every location in which the company operates. It is of no small importance that Gazprom Neft’s Sustainability Report was subjected to its first ever independent audit in 2019 — with experts verifying the document as being fully compliant with the Global Reporting Initiative’s best practice and international standards in sustainable development.

Senior management at Gazprom Neft has been proactive in engaging with shareholders and the investment community throughout 2019, discussing the company’s free cash flow (FCF) utilisation, sustainable development policy, and increasing dividend payments to shareholders during meetings with representatives from global investment funds. Gazprom Neft made dividend payments to shareholders on two occasions in 2019, increasing the amounts paid on both occasions, with dividends for 2018 representing 38% of consolidated net profit, and dividends for the first half of 2019 being 40% of consolidated net profit for that period.

This reporting year has made clear the considerable efficiency of the company’s governing bodies, and their positive impact on the outcomes of Gazprom Neft’s activities.

The Board of Directors will continue its strategic management of the company in improving the sustainability and increasing the scale and scope of Gazprom Neft’s business throughout 2020.

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

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

Gazprom Neft’s corporate governance is underpinned by sustainability and the mission to enhance the Company’s shareholder value in the long term. To achieve that, the Company works to build responsible, trust-based relations with its employees, suppliers, customers, and local communities.

Gazprom Neft’s PSC’s majority shareholder is PJSC “Gazprom”, which owns 95.68% of its capital. The remaining ordinary shares are held by minority shareholders represented by both individuals and legal entities.

### Shareholders protection

The Gazprom Neft PSC’s corporate governance ensures full protection of shareholders’ rights. The following factors contribute to this:

- the company has no restrictions on an issue and sale of shares, and no restrictions on the number of shares owned by a single shareholder;
- the company’s Charter provides shareholders with an extended period (compared to the established by law) to submit proposals on agenda of the Annual General Meeting of Shareholders;
- the company’s by-laws provide for a regular review of shareholder data, the data is updated jointly with the registrar;
- the company uses a tender procedure for contracts exceeding specific thresholds in line with the company’s internal regulations;
- the Board of Directors reviews matters related to the procurement policy on a regular basis;
- the Board of Directors has an extended authority to make decisions on material transactions;
- the list of insider information was defined and the procedure of using it was determined;
- the company has adopted the Regulation on the General Meeting of Shareholders, formalizing the process of planning and execution of the meetings;
- shareholders are notified of General Meetings at least 30 days in advance;
- the company has a dedicated telephone line (a hotline) and email address for shareholder communications during the General Meeting of Shareholders’ preparation; the results of the General Meeting of Shareholders are announced during the meeting; materials for the General Meetings of Shareholders’ are posted on the company website; internal regulation ensures the shareholders right to question the members of governance and control bodies during the General Meeting of Shareholders; and establish the procedure to answer that; Gazprom Neft PSC holds regular meetings with investors and shareholders, including the annual Investor Day, and participates in investment and broker conferences. Regular site visits to the company’s upstream and downstream facilities are organized to acquaint investors and shareholders with the company’s production assets;
- the company has adopted the Dividend Policy, that outlined the main principles, criteria for dividend calculation, as well as the procedure, periods, and forms of payment;
- Online Shareholder Account is available on the registrar’s website to provide those listed in the register with access to the Company’s news, information about dividends and taxes, payment document numbers, reasons for refunds, etc.;
- shareholders are entitled to vote using two electronic systems – the Online Shareholder Account, and the e-voting service of the National Settlement Depository (NSD).

### Governance and control bodies

Gazprom Neft’s corporate governance framework is designed to ensure the highest level of internal and external control. To achieve that:

- the Regulation on the Board of Directors was approved;
- members of the Board of Directors have all the key skills required for their role;
- an induction programme for newly assigned directors is in place;
- majority of the questions that requires in-person meetings, under the Corporate Governance Code are actually debated in in-person meetings;
- the competency of the Gazprom Neft Board of Directors includes control over material transactions of major legal entities, controlled by the company;
- liability insurance of the Board of Directors members is in place;
- the Board has a practice of settlement of conflicts of interest between directors and executive bodies;
- the Board of Directors has the Audit Committee and the Human Resources and Compensation Committee governed by respective Regulations;
- the Gazprom Neft Board of Directors has a self-assessment/evaluation practice in place;
- the Company has the Management Board, a collegial executive body governed by a relevant Regulation;
- the Board of Directors approved by-laws on remuneration and incentivisation of members of the Company’s executive bodies;
- a talent pool was established to provide continuity in the roles of the CEO, their deputies, heads of directorates, departments, divisions, and units; the Board of Directors approved by-laws setting forth the key principles, components and procedures of internal control and risk management systems;
- the Company has dedicated structural unit responsible for the risk management roles; the Board of Directors annually reviews the efficiency of internal control and risk management systems;
- responsibilities of the Internal Audit Department are aligned with best practices in corporate governance;
- the Secretary of the Board of Directors responsibilities are aligned with those recommended by the Corporate Governance Code for the corporate secretaries.

### Information Disclosure

The Company strives to ensure full transparency for all stakeholders. The Board of Directors approves the Information Policy Regulation based on recommendations of the Corporate Governance Code. The Company’s financial and non-financial disclosures cover the following matters:

- share capital structure;
- detailed information on the members of the Board of Directors and the Management Board;
- remuneration of the Board of Directors and the Management Board;
- key forms of financial statements under IFRS and RAS and the Management Discussion and Analysis;
- related party transactions.

Gazprom Neft’s corporate website contains up-to-date information about the Company and its performance, and is updated regularly.

This Annual Report is fully compiled with all the Corporate Governance Code recommendations. The Company’s previous reports were multiple award winners both in Russia and globally.

The company has business units responsible for shareholder and investor relations, with their managers contacts are available on the website.
Role of the Corporate Centre in improving the management of subsidiaries

Gazprom Neft PJSC is the group corporate centre that ensures effective control over all processes. As of 31 December 2019, Gazprom Neft structure comprised 141 Russian and foreign legal entities. Gazprom Neft PJSC is the parent company with regards to the Gazprom Neft Group entities, regardless of its share in subsidiary’s capital. This is duly documented in their respective charters.

In 2019, the Management Board of Gazprom Neft PJSC has agreed the transition to two-link corporate governance system through the abolishment of the Boards of Directors in most subsidiaries. This aimed to improve the performance of subsidiaries’ governance bodies including:
- reducing bureaucracy;
- reduced decision-making time;
- empowering the role and responsibility of Gazprom Neft Deputy CEOs throughout the entire chain of subsidiaries under their control;
- empowering the role and responsibility of the subsidiaries’ CEO.

Under the two-link governance system Gazprom Neft controls subsidiaries performance through the participation of the parent company representative in the General Meetings of Participants (Shareholders) of subsidiaries, introduction of voting system and preliminary materials approval at the level of the Gazprom Neft core business units, in line with a decision-making matrix, and through the regular audit of corporate governance of subsidiaries.

Transition to the two-link corporate governance system will distribute the issues previously considered by the Board of Directors in subsidiaries, between the General Meeting of Participants (shareholders) and the CEO, strengthening the performance of the subsidiaries’

Subsidiaries decision-making matrix

The Gazprom Neft Board of Directors makes decisions on the following issues related to the subsidiaries activities:
- increase or reduction of the authorised capital;
- property contributions;
- acquisition, disposal, encumbrance of shares/interest in other entities;
- property contributions to other entities;
- stock issuance and distribution;
- reorganisation or liquidation.

The Gazprom Neft Management Board addresses strategic development of subsidiaries, and provides preliminary approval on acquisition/disposal of shares/interest transactions in other entities.

General Meeting of Shareholders (Participants) of subsidiaries

The legally prescribed sole responsibility of the General Meeting of Shareholders (Participants) of a subsidiary includes key business decisions, transactions on loans and borrowings, provisions/receipt, property sale/other alienation or encumbrance, acquisition/disposal of shares in capital, stocks, bonds, promissory notes, shares/stocks encumbrance, free-of-charge property alienation valued above ₽1 million, conclusion of corporate agreements or other joint operating agreements, acquisition/disposal of interest in other entities, preliminary decisions on questions within the competency of the General Meetings of legal entities under control.

The responsibility of a Chief Executive Officer of a subsidiary includes taking decisions on the following operating activities:
- immovable property lease;
- conclusion of settlement agreements (regardless of the amount);
- other transactions outside the sole responsibility of the General Meeting of Shareholders (Participants).
governance bodies, while retaining the management and control functions at Gazprom Neft PJSC, as well as collegial nature of decision-making. The Board of Directors was retained in those subsidiaries and joint ventures of Gazprom Neft PJSC (hereinafter - JV), where its existence and functioning are required by national legislation or existing agreements between partners on JV governance bodies design and functions.

One of the means used to ensure effective corporate governance and monitoring of subsidiary operations is the review of subsidiaries’ key operational matters by the Gazprom Neft PJSC governance bodies.

The Company has developed and approved procedures that allow for coordinating and monitoring the subsidiaries’ operations under the guidance of the Corporate Centre as part of the Company’s Development Strategy.

Participation of any entity of the Gazprom Neft Group in another entity, whether commercial or non-commercial, is only approved via collective decision-making by a group of duly authorised persons. Matters pertaining to subsidiarie’s strategic development are submitted for preliminary approval to Gazprom Neft’s Management Board.

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

Executive bodies of the Gazprom Neft Group’s entities (including the CEO) are appointed to their position subject to approval by the Corporate Centre, regardless of the level of corporate ownership and authorised capital structure of a subsidiary.

Key changes to the Gazprom Neft corporate structure

July 2019

Gazprom Neft PJSC and Sibur Holding PJSC have consolidated 100% of the charter capital in Poliom LLC, a polypropylene plant in Omsk. Launched in 2012, Poliom is one of Russia’s largest polypropylene producers. In 2014, Poliom became the basis for a joint venture between Gazprom Neft (25%), Sibur (25%) and the Titan Group (50%). The plant has capacity to produce 218,000 tonnes of high-technology product every year, with a range covering 100 brands of polypropylene. The key feedstock for production — propylene — is sourced from the Gazprom Neft Omsk Refinery, with Sibur managing the distribution of end-products throughout Russia and the CIS. Poliom LLC deploys best-practice R&D solutions and technologies to ensure waste-free production. Increasing the interest in Poliom marks an important milestone in Gazprom Neft’s long-term strategy implementation, a key element of which involves developing petrochemical production. Integrating the assets in the refining and petrochemical sectors enables the company to improve efficiency in using refinery feedstock to produce high value-added products. Strengthening the Gazprom Neft and Sibur technological partnership will provide competitive advantages on the Russian and international markets.

October 2019

Gazprom Neft has registered a new operating company, Gazpromneft Marine Lubricants, with an office in Singapore. The new business will manage the effective development of an international sales and logistics network for Gazprom Neft marine lubricants, including, specifically, in the Southeast Asian and European markets. The company’s products, endorsed by leading marine equipment producers, are already available in more than 250 ports worldwide.

The marine lubricants and oils range, available under the Gazpromneft and Gazpromneft Ocean brands, includes 43 branded high-tech products for all kinds of marine equipment, with the range including, specifically, 15 kinds of Gazpromneft Ocean engine lubricants for two- and four-stroke engines, the formulations of which have been developed in line with international shipping requirements and the provisions of the MARPOL-2020 convention.

November 2019

Within a framework of the Gazprom Neft Group internal restructuring and in order to optimise the corporate governance of its assets, the Group has transferred the ownership of Salym Petroleum Development N.V. (SPD, registered in the Netherlands) to the newly created Russia-based subsidiary, GPN-Salymskiye Proekty LLC. SPD is developing the Salym group of fields in the Khanty-Mansi Autonomous Okrug (Khanty-Mansi Autonomous Okrug-Yugra). The Salym project is the largest onshore investment project with foreign capital in the Russian oil industry. The company’s cumulative production since the start of the Salym group development has exceeded 83 mt of oil.

December 2019

Gazprom Neft PJSC and Nexeo JSC have established a joint venture GPN Tech LLC, with the Gazprom Neft Group interest totalled 50%. The main activity of this JV is develop and implement domestic software for oil and gas industry. As part of the sales assets optimization project, Universal-Neft JSC was merged into GazpromNeft-Terminal JSC in December 2019, completing its reorganisation.

Commitment to better corporate governance

The Company closely monitors corporate laws and best practices both in Russia and globally in attempt to improve its corporate governance framework. In 2019, the steps taken to enhance corporate governance were as follows:

transfer of the two-link subsidiaries governance system was completed, which aims to improve the governance efficiency;

– the revised version of the Insider Information Regulation was approved, determining the restrictive periods on transactions with the company shares for insiders;

– the Board of Directors approved the Regulation on Procurement of Goods, Works and Services to regulate the procurement activities of Gazprom Neft PJSC and its subsidiaries. The Regulation establishes the single centre of responsibility for the procurement control, approved the annual procurement plan for the Gazprom Neft Group, applies the procedure for determination and justification of the initial (maximum) contract price, and enables the procurement in line with a closed list of procurement methods used by Gazprom PJSC;

– the External Audit Policy of Gazprom Neft PJSC and its subsidiaries was approved. The Policy sets out the main principles of organisation and conducting the external audit of Gazprom Neft PJSC and its subsidiaries, the procedure and criteria for selecting auditors, and approaches to ensure that the auditors comply with the principles of independence and absence of conflicts of interest.

Focus on the protection of shareholder rights includes efforts to:
- improve disclosure transparency;
- update the shareholder register and upgrade the Online Shareholder Account including provision of additional opportunities on sale of shares for registered shareholders.

Focus on greater efficiency of the Company’s governance bodies includes efforts to:
- improve operating procedures;
- automate of the processes control.

Focus on information disclosures includes efforts to:
- automate information transfer and approval from the source of the event to its final disclosure on the securities market.

Focus on corporate governance improvements and adoption of best practices includes efforts to:
- improve the governance system of subsidiaries;
- update by-laws and procedures, regulating corporate-governance issues within the group;
- organise internal control to prevent, detect, and suppress misuse of insider information.

Corporate governance system

The key targets, goals and principles underpinning Gazprom Neft’s corporate governance framework include preserving and growing the Company’s asset base, increasing its market value, maintaining financial stability and profitability of the Company, and respecting the rights and interests of its shareholders, investors and other stakeholders.

A highly professional management team and an effective system of corporate governance and control are a prerequisite for the successful management of a complex multi-tiered vertically integrated oil company with domestic and foreign upstream and downstream assets. The Company currently has a well-defined organisational structure encouraging seamless interaction between its governance bodies and clear distribution of governance and control roles to guarantee progressive growth of the Company’s asset base, increasing its market value, maintaining financial stability and profitability of the Company, and respecting the rights and interests of its shareholders, investors and other stakeholders.

**Strategic report**

Focus on corporate governance practices development

Following the general update of Strategy 2030, corporate governance is also undergoing transformation. In 2018 the company started automating corporate procedures including organisation of the governance bodies routine, information disclosure, transactions approval, and control of subsidiaries and joint ventures. In 2019, definition and selection stages were completed.

The solutions are expected to enable automotive processes control of Gazprom Neft PJSC and its subsidiaries, by establishing the control over the group of companies and embedding the corporate procedures. This will be attained through the automation of the documents preparation and verification, acceleration of the required information receipt, and by reduction of the risk of corporate control loss.

**Performance**

**Technological development**

Initiatives on corporate governance practices development

To ensure equitable access to the latest news, financial and operating results, reports and other useful information, while also making available the documents on Gazprom Neft’s governance and control bodies, including the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, Regulation on the Chief Executive Officer, and Regulation on the Audit Committee.

The Company’s website offers a pivotal role in Gazprom Neft’s transparency (with adjustments made for the Company’s concerns about the protection of trade secrets and other confidential data) play a pivotal role in Gazprom Neft’s corporate governance system. The Company’s website offers access to the latest news, financial and operating results, reports and other useful information, while also making available the documents on Gazprom Neft’s governance and control bodies, including the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, Regulation on the Chief Executive Officer, and Regulation on the Audit Committee.

The solutions are expected to enable automotive processes control of Gazprom Neft PJSC and its subsidiaries, by establishing the control over the group of companies and embedding the corporate procedures. This will be attained through the automation of the documents preparation and verification, acceleration of the required information receipt, and by reduction of the risk of corporate control loss.

**Governance system**

**Key information channels available to a wide range of stakeholders**

The company’s official website

**Gazprom Neft PJSC governance and control bodies**

**The internal Audit Department**

As part of the Internal Audit and Risk Management System, the Internal Audit Department is responsible for offering the Board of Directors (through the Audit Committee) and the Company’s management (the CEO and the Management Board) independent, unbiased, reasonable and substantiated guarantees and consultations aiming to improve the Company’s performance and achieve the Company’s goals by advocating a systematic and consistent approach to assessing and enhancing the efficiency of corporate governance, risk management and internal control processes.

**The Human Resources and Compensation Committee**

Evaluates the effectiveness of HR management policy and remuneration system, determines the criteria for selecting nominees to the Board of Directors, and assesses the Board of Directors performance.

**Audit Committee**

An elected body, overseeing the company’s financial and economic activities.

**The Board of Directors**

Responsible for the general management of the Company and determining its strategy, policies and core operating principles. It is accountable to the General Meeting of Shareholders and must act in the best interests of the Company and its shareholders.

**Executive bodies**

Manages the company’s ongoing operations, accountable to the General Meeting of Shareholders and the Board of Directors.

**Secretary of the Board of Directors**

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

**The General Annual Meeting of Shareholders**

Responsible for the most significant aspects of the Company’s operation.

**Exterior auditor**

A professional audit organisation approved by the General Meeting of Shareholders upon the recommendation of the Board of Directors issued following the assessment by the Audit Committee. Exterior auditor conducts an independent review of the Company’s financial and business operations.
General Meeting of Shareholders

The General Meeting of Shareholders of Gazprom Neft PJSC held in 2019:

**Extraordinary General Meeting of Shareholders**
- 19 April 2019: The number of members of the Gazprom Neft PJSC Board of Directors was determined (11 members).

**Annual General Meeting of Shareholders**
- 14 June 2019: The company’s Annual Report and accounting statements for 2018 were approved. Gazprom Neft shareholders supported the recommendation of the Board of Directors to pay dividends in the total amount of 51.42 billion (50 rubles per ordinary share, 38% of the company’s IFRS consolidated net profit for 2018). Gazprom Neft PJSC holds 100% of Gazprom Neft shares. Financial and Accounting Consultant (PKB) LLC was appointed as Gazprom Neft’s auditor for 2019.
- June 2019: New members of the Board of Directors and the Audit Committee were elected. Remuneration of the Board of Directors and the Audit Committee was approved.

**Extraordinary General Meeting of Shareholders**
- 1 August 2019: The powers of the members of the Gazprom Neft PJSC Board of Directors were terminated prematurely. The Board of Directors was elected based on the membership of 13 persons.

**Extraordinary General Meeting of Shareholders**
- 2 September 2019: The resolution to pay interim dividends for the six months of 2019, in the total amount of 8.61 billion (₽30 per ordinary share, 38% of the company’s IFRS consolidated net profit for the six months of 2019). The Board of Directors and the Audit Committee were elected.

**Extraordinary General Meeting of Shareholders**
- 30 September 2019: The resolution to pay interim dividends for the six months of 2019, in the total amount of 8.61 billion (₽30 per ordinary share, 38% of the company’s IFRS consolidated net profit for the six months of 2019).

Board of Directors

The Board of Directors is responsible for the Company’s strategic management, determining key principles and approaches of risk management and internal control, exercising control over the Company’s executive bodies, and performing other functions. The scope of authority of the Board of Directors is set out in Gazprom Neft’s Charter and is clearly differentiated from the remit of the Company’s executive bodies responsible for managing its ongoing operations.

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

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

The Board of Directors is also responsible for improving the Company’s corporate governance system and practices, assessing the corporate governance framework, and reviewing reports on progress against the corporate governance improvement programme on a regular basis.

Given the strategic importance of its objectives, it is crucial for the Board of Directors to have trust of the Company’s shareholders and make sure that all of its tasks are fulfilled in the most efficient way possible.

The main functions of the Chairman of the Board of Directors are set forth in the Charter, the Regulation on the Board of Directors, and the Corporate Governance Code. Those include:
- providing organizational support to the Board of Directors activities, including setting up the work plans;
- promoting an open discussion of the agenda items and ensuring thoughtful consideration of all opinions expressed by the directors;
- identifying key matters to be reviewed by the Board of Directors and choosing the right meeting format for the discussion;
- representing the Board of Directors in relations with shareholders, management and other stakeholders;
- preparing proposals for the distribution of responsibilities in the Board of Directors and its committees.

All directors have a balanced set of skills and experience required for their roles. The directors possess skills in strategic management, corporate governance, corporate finance, risk management, accounting, and other areas specific to the Company’s operations.

The current composition of the Board of Directors ensures sufficient independence from the Company’s management and enables effective control over the performance of the Management Board.

Composition of the Board of Directors

Based on the decision of the Extraordinary General Meeting of Shareholders held on 1 August 2019, the Board of Directors comprises 13 members. With 95.68% of the Company’s ordinary shares held by Gazprom PJSC, the overwhelming majority of Gazprom Neft’s directors are elected upon the recommendation of Gazprom PJSC, the Company’s controlling shareholder. As at the end of the reporting year, the Gazprom Neft Board of Directors did not include independent directors.¹

¹ The independence criteria used by Gazprom Neft are based on recommendations of the Corporate Governance Code of the Central Bank of the Russian Federation (Bank of Russia).
The number of directors is aligned with the company’s current goals and objectives, and industry practices. It also ensures the required balance of competencies in the Board of Directors.

Simultaneous participation of the members of the Board of Directors in other companies’ boards of directors did not affect their performance in respect of Gazprom Neft’s Board of Directors.

Directors are elected in a manner providing shareholders with sufficient information on candidates to get a clear idea of their personal and professional skills. Immediately after drafting the minutes of the relevant meeting, information on nominees to the Board of Directors is communicated to stakeholders by issuing a corporate action notice. Afterwards, full information is published on the corporate website in Russian and English 30 days prior to the General Meeting of Shareholders which will vote on the nominees.

Key competencies of the Gazprom Neft Board of Directors

<table>
<thead>
<tr>
<th>MEMBER OF THE BOARD OF DIRECTORS</th>
<th>PERIOD OF SERVING ON THE BOARD OF DIRECTORS</th>
<th>KEY COMPETENCIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Finance and audit, oil and gas, legal issues, and corporate governance, risk management, PR</td>
</tr>
<tr>
<td>Alexey Miller</td>
<td>14 years (starting from October 2005)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Sergey Kuznetsov</td>
<td>four months (starting from September 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Fami Sadygov</td>
<td>four months (starting from September 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Vitaly Markalev</td>
<td>four months (starting from September 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Serguey Menshikow</td>
<td>four months (starting from September 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Alexander Medvedev</td>
<td>six months (starting from June 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>seven years (starting from June 2012)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Alexander Dyubov</td>
<td>12 years (starting from November 2007)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Vladimir Alisev</td>
<td>10 years (starting from June 2009)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>six years (starting from December 2013)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Valery Serdyukov</td>
<td>seven years (starting from December 2012)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Andrey Dmitriyev</td>
<td>one year (starting from June 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Valery Golubev</td>
<td>12 years (from June 2007 through June 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Andrey Kruglov</td>
<td>14 years (from October 2005 through September 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Sergey Fursenko</td>
<td>six years (from February 2015 through June 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Igor Fedorov</td>
<td>15 months (from June 2018 through September 2019)</td>
<td>+ + + + + + + +</td>
</tr>
<tr>
<td>Vsevolod Cherepanov</td>
<td>eight years (from June 2011 through June 2019)</td>
<td>+ + + + + + + +</td>
</tr>
</tbody>
</table>

Composition of the Board of Directors by age

The number of directors is aligned with the company’s current goals and objectives, and industry practices. It also ensures the required balance of competencies in the Board of Directors.

Simultaneous participation of the members of the Board of Directors in other companies’ boards of directors did not affect their performance in respect of Gazprom Neft’s Board of Directors.

Directors are elected in a manner providing shareholders with sufficient information on candidates to get a clear idea of their personal and professional skills. Immediately after drafting the minutes of the relevant meeting, information on nominees to the Board of Directors is communicated to stakeholders by issuing a corporate action notice. Afterwards, full information is published on the corporate website in Russian and English 30 days prior to the General Meeting of Shareholders which will vote on the nominees.

Composition of the Board of Directors in 2019

Male: 11 Female: 2

<table>
<thead>
<tr>
<th>Full name</th>
<th>Age</th>
<th>Period of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>57</td>
<td>14/06/2005 through 31/12/2019</td>
</tr>
<tr>
<td>Sergey Kuznetsov</td>
<td>49</td>
<td>13/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Fami Sadygov</td>
<td>51</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Vitaly Markalev</td>
<td>57</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Sergey Menshikov</td>
<td>51</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Alexander Medvedev</td>
<td>44</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Kirill Seleznov</td>
<td>45</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>42</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Alexander Dyubov</td>
<td>52</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Vladimir Alisev</td>
<td>58</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>49</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Valery Serdyukov</td>
<td>74</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Andrey Dmitriyev</td>
<td>45</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
</tbody>
</table>

Male: 11 Female: 2

<table>
<thead>
<tr>
<th>Full name</th>
<th>Age</th>
<th>Period of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>57</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Sergey Kuznetsov</td>
<td>49</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Fami Sadygov</td>
<td>51</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Vitaly Markalev</td>
<td>57</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Sergey Menshikov</td>
<td>51</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Alexander Medvedev</td>
<td>44</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Kirill Seleznov</td>
<td>45</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>42</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Alexander Dyubov</td>
<td>52</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Vladimir Alisev</td>
<td>58</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>49</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Valery Serdyukov</td>
<td>74</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
<tr>
<td>Andrey Dmitriyev</td>
<td>45</td>
<td>14/06/2015 through 31/12/2019</td>
</tr>
</tbody>
</table>

Male: 11 Female: 2

Sex of Directors

<table>
<thead>
<tr>
<th>Sex</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>11</td>
</tr>
<tr>
<td>Female</td>
<td>2</td>
</tr>
</tbody>
</table>

Age of the Board of Directors members, %

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Younger than 45</td>
<td>4</td>
</tr>
<tr>
<td>Aged between 45 and 55</td>
<td>3</td>
</tr>
<tr>
<td>Aged between 56 and 65</td>
<td>3</td>
</tr>
<tr>
<td>Aged 66 and older</td>
<td>3</td>
</tr>
</tbody>
</table>

Executive Director

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrey Dmitriyev</td>
<td>–</td>
</tr>
</tbody>
</table>

Andrey Dmitriyev

1. Lost the status of independent director starting from December 2019, based on seven years membership.
Members of the Board of Directors as at 31 December 2019

ALEXEY MILLER
President of the Board of Directors

BIOGRAPHICAL DETAILS

POSITIONS HELD IN OTHER ORGANISATIONS
- Chairman of the Board of Directors of Sibur JSC, from 2003.
- Chairman of the Board of Directors of Gazprom Media Holding JSC, from 2007.
- Chairman of the Supervisory Board of Gazprom Neft International S.A., from 2012.
- Chairman of the Board of Directors of Risogaz JSC, from 2012.
- Member of the Board of Trustees of the Graduate School of Management, St Petersburg University, from 2012.
- Board of Directors of the All-Russian Non-Governmental Organization «Russian Geographical Society», from 2012.
- Member of Board of Trustees of the Charitable Fund for the Restoration of the New Jerusalem Resurrection Stavropegial Monastery at the Russian Orthodox Church, from 2012.
- Member of the Board of Trustees of the All-Russian Non-Governmental Organization «Association of Lawyers of Russia», from 2012.
- Member of the Management Board of the All-Russian Association of Employers «Russian Union of Industrialists and Entrepreneurs», from 2012.
- Deputy Chairman of the Board of Directors, Gazprom PJSC, from 2002.
- Graduated from the N.A. Voznesensky Leningrad Financial and Economic Institute.

VLADIMIR ALISOV
Member of the Human Resources and Compensation Committee

BIOGRAPHICAL DETAILS
Born in 1968. Graduated from the Law Faculty of the Leningrad State University named after A. Zhdanov.

POSITIONS HELD IN OTHER ORGANISATIONS
- Chairman of the Board of Directors of Daltransgaz JSC, from 2016.
- Chairman of the Board of Directors of Himsorbent CJSC, from 2017.
- Chairman of the Board of Directors of OGK-2 JSC, from 2018.
- Member of the Board of Directors of DRAPA JSC, from 2016.
- Member of the Supervisory Board of the Russian Federation.

ANDREY DMITRIEV
Member of the Audit Committee

BIOGRAPHICAL DETAILS
Graduated from the Volga State Academy of Water Transport and Stockholm School of Economics (EMBA).

POSITIONS HELD IN OTHER ORGANISATIONS
- Chairman of the Board of Directors of VSSC-2 LLC, from 2016.
- Chairman of the Board of Directors of FSC TSC-1, from 2016.
- Chairman of the Board of Directors of RCC Metal, from 2016.
- Chairman of the Board of Directors of MOE, from 2017.
- Chairman of the Board of Directors of MPC JSC, from 2017.
- Born in 1964. Graduated from the Law Faculty of the Leningrad State University named after A. Zhdanov.

None

None

None
Members of the Board of Directors as at 31 December 2019 (continued)

ALEXANDER DYUKOV

Interest in the authorised capital (as at 31 December 2019)
0.005357244% (254,003 shares)

BIOGRAPHICAL DETAILS
Born in 1967.
Graduated from the Order of Lenin Leningrad Shipbuilding Institute.
From 1987 – Head of Department, Gazprom PJSC.
From 2005 – Chief Executive Officer, Gazprom Neft PJSC.
– Chairman of the Management Board, Gazprom PJSC.
– member of the Board of Directors, Gazprom PJSC.
– Chairman of the Management Board of Sibur PJSC.
– Chairman of the Management Board, Gazprom PJSC.
– member of the Board of Directors of Gazprom Neftegaz PJSC.

SERGEY KUZNETS

of the Human Resources and Compensation Committee

BIOGRAPHICAL DETAILS
Born in 1970.
Graduated from Lomonosov Moscow State University.
From 2003 – President, Gazprom Neft PJSC.
From 2006–2019 – Deputy Head of Department, Gazprom PJSC.
From 2010 – member of the Board of Directors, Gazprom PJSC.
– member of the Management Board, Gazprom PJSC.

ALEXANDER MEDVEDEV

Interest in the authorised capital (as at 31 December 2019)
0.01105646% (50,003 shares)

BIOGRAPHICAL DETAILS
Born in 1955.
Graduated from the Moscow Institute of Physics and Technology.
From 2010 – Deputy Chairman of the Management Board, member of the Management Board of Gazprom PJSC.
From 2019 – member of the Board of Directors, Chairman of the Board of Directors of FC Zenit JSC.
– A.P. in Economics.

ELENA MIKHAILOVA

BIOGRAPHICAL DETAILS
Born in 1977.
Graduated from the Moscow State Industrial University, majoring in jurisprudence, received an MBA from the Academy of National Economy under the Government of the Russian Federation.
From 2011 – Head of Department, Gazprom PJSC.
From 2012 – Member of the Management Board, Gazprom PJSC.
2005–2017 – Deputy CEO for Corporate and Property Relations, Gazprom Neft Technologies LLC.

None

None

None
Members of the Board of Directors as at 31 December 2019 (continued)

**VITALY MARKELOV**

- Interest in the authorised capital (as at 31 December 2019): None

**SERGEY MENSESHIKOV**

- Interest in the authorised capital (as at 31 December 2019): None

**FAMIL SADYGOV**

- Interest in the authorised capital (as at 31 December 2019): None

**KIRILL SELEZNEV**

- Interest in the authorised capital (as at 31 December 2019): None

**BIODRAPHICAL DETAILS**

**VITALY MARKELOV**

- Born in 1968.
- Graduated from the Grinovsky Institute, the National University of Oil and Gas (St. Petersburg University).
- 2008–2017 – Chief Executive Officer of Gazprom Dobycha Nadym LLC.
- From 2017 – member of the Management Board, Head of Department, Gazprom PJSC.

**SERGEY MENSESHIKOV**

- Born in 1968.
- Graduated from the Grinovsky Institute, the National University of Oil and Gas (St. Petersburg University).
- 2009–2019 – member of the Management Board, Deputy Chairman of the Management Board, Gazprom PJSC.
- 2019 – member of the Management Board, Deputy Chairman of the Management Board, Gazprom PJSC.
- A PhD in Economics.

**FAMIL SADYGOV**

- Born in 1968.
- Graduated from the Sverdlovsk Institute of the Academy of Management (Moscow).
- 2009–2019 – member of the Management Board, Deputy Chairman of the Management Board, Gazprom PJSC.
- From April 2019 – member of the Management Board, Deputy Chairman of the Management Board, Gazprom PJSC.
- A PhD in Economics.

**KIRILL SELEZNEV**

- Born in 1974.
- Graduated from the Baltic State Technical University named after D.F. Ustinov, the St Petersburg State University.
- 2003–2019 – Head of Department, Gazprom PJSC.
- 2009–2019 – member of the Management Board, Gazprom PJSC.
- 2019 – Chief Executive Officer, Gazprom Medgazigazprom LLC.
- From 2019 – Chief Executive Officer, member of the Board of Directors of Rosnedmash LLC.
- A PhD in Economics.

**POSITIONS HELD IN OTHER ORGANISATIONS**

- From 2012 – member of the Board of Directors, Chairman of the Board of Directors of JSC Gazprom Space Systems.
- From 2012 – member of the Board of Directors of JSC JSC.
- From 2012 – President, Pipe Producers Association.
- From 2016 – member of the Supervisory Board of Wintershall AG.
- From 2016 – Chairman of the Board of Directors of Gazprom-Kyrgyzstan LLC.
- From 2016 – Chairman of the Board of Trustees of the V.I. Vernadsky Non-Governmental Ecological Foundation.
- From 2016 – member of the Supervisory Board of Gazprom EP International B.V., V.
- From 2017 – member of the Board of Directors, Chairman of the Board of Directors, Association of Equipment Manufacturers (Central Asia).
- From 2017 – member of the Board of Directors, Chairman of the Board of Directors, Gazprom-Amur GAS.
- From 2018 – member of the Board of Directors, Deputy Chairman of the Board of Directors, Rosnedmash LLC.
- From 2015 – member of the Supervisory Board of the Federal State Budgetary Educational Institution of Higher Education «Sukhoi Russian State University of Aircraft and Gas».
- From 2017 – Non-executive director of Sakhkhan Energy Investment Company Ltd.
- From 2017 – member of the Board of Directors, Chairman of the Board of Directors of Gazprom Neft Moscow JSC.
- From 2017 – member of the Supervisory Board of Gazprom Transgaz Belorus OJSC.
Members of the Board of Directors as at 31 December 2019 (continued)

**VALERY SERDYUKOV**
Independent Director

**MIKHAIL SEREDA**
Chairman of the Audit Committee

**VALERY GOLUBEV**
Interest in the authorized capital (as at 31 December 2019)
None

**ANDREY KRUGLOV**
Interest in the authorized capital (as at 31 December 2019)
None

---

**BIOGRAPHICAL DETAILS**

**Born in 1945.**
Graduated from the G.V. Plekhanov Leningrad Mining Institute.

1999–2012 – Governor of the Leningrad Oblast.

A PhD in Economics.

He has government and industry awards.

---

**BIOGRAPHICAL DETAILS**

**Born in 1970.**
Graduated from the St Petersburg State University of Economics and Finance.

From 2002 – member of the Board of Directors of Gazprom PJSC.
From 2002 – Deputy Chairman of the Management Board – Head of the Management Board Administration, Gazprom PJSC.
From 2002 – Fund Deputy CEO, Gazprom Export LLC, CEO, Gazprom Trading LLC.

---

**BIOGRAPHICAL DETAILS**

**Born in 1952.**
Graduated from the V. I. Ulyanov (Lenin) Leningrad Electrotechnical Institute, and the Academy of National Economy under the Government of the Russian Federation.

2006–2019 – Deputy Chairman of the Management Board, Gazprom PJSC.

A PhD in Economics.

---

**BIOGRAPHICAL DETAILS**

**Born in 1969.**
Graduated from the St. Petersburg Technological Institute of Refrigeration Industry.

2015–2019 – Deputy Chairman of the Management Board, Gazprom PJSC.

From 2019 – Deputy Minister of Finance of the Russian Federation.

A Grand PhD in Economics.

---

/ 1 / From 1 January 2019 through December 2019, member of the Human Resources and Compensation Committee.

/ 2 / From 1 January 2019 through December 2019, member of the Audit Committee.

/ 3 / From 1 January 2019 through December 2019, member of the Human Resources and Compensation Committee.

/ 4 / He was a member of the Board of Directors, and the member of the Audit Committee until 13 June 2019.

/ 5 / He was a member of the Board of Directors, and the member of the Human Resources and Compensation Committee until 13 June 2019.
The members of the Board of Directors made no transactions related to the acquisition or disposal of the company shares, in the reporting year. In 2019, no claims were made against the members of the Board of Directors.

VICTORIYA NENADYSHINA
Secretary of the Board of Directors since 05 September 2019.

Interest in the authorised capital (as at 31 December 2019): None

BIOGRAPHICAL DETAILS

She does not own any shares of Gazprom Neft PJSC and has no shares and interest in its subsidiaries. Ms Nenadyshina has no family connections with other persons, who are members of the governance bodies and/or bodies which control financial and business operations of the company.

In 2019, Victoriya Nenadyshina was included into the Top 50 Corporate Governance Directors Ranking of the Kommersant1 Publishing House, and became an award winner of the 12th prize of the Russian Corporate Counsel Association (RCCA, non-commercial partnership) nominated in the ‘Achievement of the Years’2.

The Secretary of the Board of Directors ensures effective ongoing communication with shareholders, coordination of the company’s efforts to protect their rights and interests, and supports the effective work of the Board of Directors.

The Secretary of the Board of Directors’ main tasks are to make sure that the Company and its officers comply with the rules and procedures of corporate governance established by Russian laws, the Company’s Charter and internal documents; to prepare and hold the General Meeting of Shareholders and meetings of the Board of Directors and its committees; to disclose information about the Company; and improve its corporate governance practices.

The Secretary of the Board of Directors is responsible for:

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

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

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

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

The Secretary of the Board of Directors

SERGEY FURSENKO
Interest in the authorised capital (as at 31 December 2019): None

BIOGRAPHICAL DETAILS

IGOR FEDOROV
Interest in the authorised capital (as at 31 December 2019): None

BIOGRAPHICAL DETAILS

A member of the Board of Directors of the following companies: Tamsirossi YMK JSC, Topaz CJSC, Information Technology Service Company (ITSC) LLC, Gazpromneft Lubricants Italy, TennetGazpromneft LLC, a member of the Board of Directors of AS Baltic Marine Bunker, a member of the Supervisory Board of Gazpromneft Marine Bunker Bekan S. A. In Gazprom Neft International S.A., she is a member of the Supervisory Board, and its Secretary.

She does not own any shares of Gazprom Neft PJSC, and has no shares and interest in its subsidiaries. Ms Nenadyshina has no family connections with other persons, who are members of the governance bodies and/or bodies which control financial and business operations of the company.

In 2019, Viktoriya Nenadyshina was included into the Top 50 Corporate Governance Directors Ranking of the Kommersant Publishing House, and became an award winner of the 12th prize of the Russian Corporate Counsel Association (RCCA, non-commercial partnership) nominated in the ‘Achievement of the Years’.

The Secretary of the Board of Directors

VSEVOLOD CHEREPANOV
Interest in the authorised capital (as at 31 December 2019): None

BIOGRAPHICAL DETAILS
Born in 1966. Graduated from Lomonosov-Moscow State University. 2010–2017 – member of the Management Board, Head of Department, Gazprom Neft PJSC; A PhD in Geology and Mineralogy. 2017–2019 – Head of the Corporate and Project Support Department, Gazprom Neft PJSC.

1 / 1 / He was a member of the Board of Directors, and the member of the Human Resources and Compensation Committee until 13 June 2019.


2 / 2 / For more information on the award, see https://www.rcca.ru/about/award-2019.shtml.
Report on progress made by Gazprom Neft’s Board of Directors on priority areas in 2019

As part of its work during the year, the Board of Directors remained committed to addressing the key tasks in Gazprom Neft’s priority areas, including strategic operations, investment case, oversight over asset management, investing and financing activities, improved performance and transparency of governance tools, enhancement of internal controls, and accountability of the Company’s governance bodies.

Gazprom Neft’s Board of Directors operated under the approved semi-annual work plans. The Board held 52 meetings in 2019.

Attendance at the meetings of the Board of Directors in 2019

<table>
<thead>
<tr>
<th>Member of the Board of Directors</th>
<th>Number of meetings attended by the member of the Board of Directors</th>
<th>Total number of meetings, which could be attended by the member of the Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller, Chairman of the Board of Directors</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Vitaly Markelov, Non-Executive Director</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Sergey Menshikov, Non-Executive Director</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Sergey Kuznetsov, Non-Executive Director</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Famil Sadygov, Non-Executive Director</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Alexander Medvedev, Non-Executive Director</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Kirill Slesarev, Non-Executive Director</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>Alexander Dyukov, Executive Director</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>Vladimir Alisov, Non-Executive Director</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Mikhail Sereda, Non-Executive Director</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Elsma Mihailsa, Non-Executive Director</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>Vitaly Sergyukov, Until December 2019 – Independent Director, since December 2019 – Non-Executive Director</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Andrey Dmabin, Non-Executive Director</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Igor Fedorov, Non-Executive Director</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Vyasved Cherpanov, Non-Executive Director</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Valery Golubev, Non-Executive Director</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Sergey Fursenko, Independent Director</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Andrey Kruglov, Non-Executive Director</td>
<td>14</td>
<td>24</td>
</tr>
</tbody>
</table>

/* He also presented a written opinion. */
The Gazprom Neft Board of Directors considered and took note on the information on implementation of the Strategy 2020. Current long-term Strategy was approved by the Board of Directors in November 2018. It defines key strategic goals in Gazprom Neft development until 2030, and the ways to achieve them, taking into account the changes in the global economy and new challenges for the industry.

The company activities in 2019 and its short-term business development plans are fully aligned with its long-term objectives, set out in the Strategy. In the Upstream segment the company retained its focus on maximising the recovery profitability by introducing new technologies and developing projects. For instance, it is continuing drilling at the Nadym-Pur-Tazovsky district, building new onshore infrastructure and facilities at the Tazovsky, and Severo-Samborskoye fields, and at the En-Yakhinsky and Pestovooye fields. The company conducted seismic survey at the Kheisovsky and Severo- Wrangelevsky license blocks on the Arctic Shelf. The company also increased its resource base, winning licensing rounds for geological prospecting, exploration and production at several blocks in the Yamalo-Nenets Autonomous Okrug, the Khanty- Mansi Autonomous Okrug-Yugra, and the Orenburg Oblast. Gazprom Neft also obtained the licences for the Blizhnenovoportovskoye field, and for geological prospecting at blocks in the western part of the Taimyr Peninsula.

Gazprom Neft successfully used machine learning to search for additional oil reserves. Based on the geological data, the neural network predicted the blocks, where oil deposits may occur. In the future, the company plans to use the new digital tool at the fields in the Novyabrk Region – the potential oil production of the fields is estimated at three million barrels of oil.

In 2019, Gazprom Neft continued to improve the efficiency in value-chain management, increasing the conversion rate and light product yield, developing its petrochemicals sector, and maintaining its market-leading position on the existing and expanding its share on the new product markets.

As part of the large-scale technical and environmental upgrade of Gazprom Neft refineries, construction of a crude oil distillation unit, hydroskocking and at the Omnol Refinery, the modernisation of the filtration system for a small catalytic cracking unit was completed. Construction of the Euro+ combined oil refining unit ICRU at the Moscow Refinery is being completed, and a new light products road-transport loading facility was built. Construction of a delayed coking unit at the NIS Panoven refinery is in its final stage. Construction of the first modern oil-refining catalyst production facility in Russia started, as part of the development of the Gazprom Neft catalyst business in Omok. Gazprom Neft and Sibur consolidated 100% of the authorised capital of the Polim polypropylene plant in Omok. Integration of assets in the oil refining and petrochemicals segments will improve the efficiency of using feedstock from the company refineries to produce high value-added products.

Gazprom Neft continued to develop its own sales network, and the expansion of its product network is continued. The new “Stadion” fuel terminal in the Lenegrad Oblast was commissioned as part of integrated development of fuel-supply infrastructure. Gazprom Neft continued the implementation of a strategic project to develop LNG bunkering in the Baltic basin, which is aimed at developing a new bunkering market segment in Russia. The total number of airports, of Gazpromneft-Aero (the operator of the Gazprom Neft aviation refuelling businesses), exceeded 280. The Gazpromneft bitumen-materials range, and the geography of production and supply were expanded. A company subsidiary was established in Singapore to develop the international marine-lubricants business.

In 2019, the Board of Directors considered and took into account the information on the plans for international business development, and noted the company role as the prominent and a leading participant of the global oil and gas community, which is actively involved in forming the development agenda, and is cooperating at global forums and conferences at the highest level. Currently, the Gazprom Neft PJSC comprises over 20 projects on upstream and downstream operations outside the Russian Federation. The opportunities for participating in new projects in foreign regions, which are interesting for the company, depend on external environment. In current conditions Gazprom Neft is also considering partnership with foreign companies as an effective tool for developing Russian assets. Gazprom Neft PJSC is partnering with foreign companies in the following areas: capital-intensive assets, mature fields requiring new competencies, and high-risk projects at the prospecting surveys stage.

In 2018, the Board of Directors approved an approach to portfolio analysis of the company upstream enterprises, and ranking geological exploration in terms of priorities and efficiency. That methodology allowed improving the quality of the portfolio analysis, by ensuring additional impact due to integrating projects at early stages of geological exploration and technological analysis, with the current production projects. In 2019, the methodology continued to develop to implement prioritisation and analysis of uncertainty in a single portfolio-management system, rather than in separate groups of assets, projects and opportunities, taking into account both the project logic and ranking on the basis of individual indicators.

Further development of the tools for portfolio analysis is a priority for making management decisions. The methodology improvement is mainly focused on automating the portfolio analysis. Automated calculation allows improving the quality and speed of portfolio analysis, avoiding repeated work during data collection between the blocks, forming a single information space for all subdivisions, and eliminating discrepancies in the initial data.

Integrating the regular portfolio analysis of production enterprises, and ranking geological survey and production in terms of priority and efficiency of projects allow formulating a balance plan for developing the company Upstream Division, taking into account strategic goals, and ensuring an immediate and effective response to changes in macroeconomic conditions.

In the reporting year, the Board of Directors approved the Gazprom Neft Digital Transformation Strategy, which fully complies with the Strategy 2030 and is aimed at achieving its goals and objectives. The Digital Transformation Strategy covers the entire value chain, the management of ecosystems of the company partners and customers. The Gazprom Neft PJSC flexibility and performance are to increase due to transforming the company business processes and business models, through systematic use of digital technologies and data-based management. Target vision of the digital transformation: creating an effectiveorganisational structure, which allows swift adaptation and end-to-end optimisation throughout the value chain; achieving the 100% asset potential and “Target Zero” in safety management based on digital twins, and by reducing the impact of human error; opening up new business-development opportunities, due to the partnerships ecosystem and platform solutions; achieving a new level in data management and platform solutions; achieving a new level in network communication; and development of digital products and solutions.

In 2019, the Board of Directors considered and took note of the plans and prospects of the Gazprom Neft PJSC bitumen business. By 2019, Gazpromneft Bitumen Materials (Gazpromneft BM LLC)
In 2019, Gazprom Neft Aero LLC developed digital services for consumers. The company is an acknowledged fuel company on the Russian market. Besides, in 2019 the Board of Directors took into account the performance and prospects of Directors. The company is creating and developing technologies in partnership with the leading Russian R&D institutions, which include the Borskov Institute of Catalysis (part of the Siberian Branch of the Russian Academy of Sciences), the Center of New Chemical Technologies BIC of the Borskov Institute of Catalysis, the St Petersburg State Institute of Technology, the Samara Polytech, etc.

As a result of the implementation of the Gazprom Neft R&D programme on catalytic production technologies, a range of unique oil-refining catalysts for high-quality motor fuels was put into production. The Gazprom Neft highly effective cat-cracking catalysts outperform imported analogues.

### Innovations

#### Key issues:
- on the main outcomes and key priority areas of the company R&D activities in oil refining.
- on updating the Gazprom Neft PJSC key risks for 2019.
- on executing the Investment Programme, the Budget (financial plan), and the financial borrowing programme of the Gazprom Neft Group for 2018, on the basis of the group performance in 2018; on the progress and efficiency of implementing the Budget and the Investment Programme of the Gazprom Neft Group for 2019, on the basis of performance in the first six months of 2019; on the preliminary results of performing the Investment Programme and the Budget of the Gazprom Neft Group for 2019; on the draft Investment Programme and the draft Budget (financial plan), including the Gazprom Neft Group financial borrowings programme, and the Cash Optimisation (Reduction) Programme of the Gazprom Neft Group for 2020, and the forecast to 2022; on loans from Russian banks.
The Board of Directors considered information on the Gazprom Neft P JSC risk-management system, the assessment results, and updates on the main risks for 2019 at its in-person meetings throughout 2019. In general, the company risk-management and internal-control system was recognised to be effective.

The main company risks were assessed, and information on them was updated due to work in all areas of the integrated risk-management framework, including development and introduction of tools, methods for analysis and risk management, and increasing the level of risk-management competencies of the staff.

The company is updating the information on its risks in accordance with regulatory and methodological documents, which govern the functioning of the Integrated Risk-Management Framework (IRMF). It is based on a bottom-up approach, starting from the company subsidiaries, and involving all the key managers and experts at subsidiaries, divisions, and the Gazprom Neft Management Board.

The company subsidiaries are reassessing risks, developing measures to manage them, and approving risk registers with respective functions and supervising subdivisions at the Gazprom Neft Corporate Centre. The most significant risks of the company subsidiaries are being consolidated to form the risk registers of divisions, used as a basis for drafting the company key-risk register, to be approved by the Management Board.

To improve the quality of information on the Gazprom Neft P JSC risks, in the reporting period the company implemented initiatives to develop and introduce tools, methods for analysis and risk management (including quantitative risk-assessment, simulation modelling, and the bow-tie and decision-tree methodologies). To improve staff competencies in risk management, the Monitoring Division of the Risk-Management Framework (MORMF) developed new training modules, organised and held training events for the company employees.

The report on the areas of developing internal control at Gazprom Neft P JSC in 2018, and the internal-control development plan for 2019, also underwent preliminary consideration by the Audit Committee of the Board of Directors. The main projects to develop internal control, implemented in the reporting period, were related to assisting the business further development of control procedures in the company business processes (selling petrochemicals and liquefied hydrocarbon gas, selling bitumen materials wholesale, conducting geological exploration, and developing the resource base).

In 2019, the Board of Directors approved the External Audit Policy of Gazprom Neft P JSC, its subsidiaries and organisations. The Policy sets out the main principles of organising and conducting the external audit of Gazprom Neft P JSC and its subsidiaries, the procedure and criteria for selecting auditors, and approaches to ensuring that the auditors comply with the principles of independence and absence of conflicts of interest.

To meet statutory requirements related to insider information, the Board of Directors approved a revised version of the Regulation on Insider Information of Gazprom Neft P JSC, which determines the periods when insiders are prohibited from making transactions with the company shares. The powers of the Chief Executive Officer were expanded in terms of approving the list of the company insider information, and appointing a dedicated subdivision, which is to exercise internal control to prevent and identify unauthorised use of the insider information.
The company has two committees of the Board of Directors: the Audit Committee, and the Human Resources and Compensation Committee.

Audit Committee

The Audit Committee supervises the company financial and business operations. Its members are elected by the Board of Directors, and the Committee acts on the basis of the Charter and internal regulations. The Committee competency and duties cover the following key areas: accounting (financial) statements, consolidated financial statements, risk management, internal control and corporate governance, internal and external audit, and combating illegal actions.

The Audit Committee membership
From 22 June 2018 through 13 June 2019:
• Mikhail Sereda (Chairman)
• Valery Golubev
• Elena Mikhailova
From 19 July 2019 through 31 December 2019:
• Mikhail Sereda (Chairman)
• Andrey Dmitriev
• Elena Mikhailova

In accordance with the approved Work Plan for 2019, the Audit Committee held 14 meetings and considered the following key issues:
• on the performance of the Gazprom Neft PJSC Internal Audit and Risk Management Directorate for 2018;
• on updating the Gazprom Neft PJSC key risks for 2019;
• on assessing candidates for becoming the Gazprom Neft PJSC auditors, and providing recommendations for the Gazprom Neft PJSC Board of Directors;
• on the Gazprom Neft PJSC consolidated financial statements (IFRS) for 2018;
• on the results of the external audit for 2018;
• on the interim condensed financial statements (IFRS) of the Gazprom Neft Group (IFRS) for the three, six, and nine months of 2019;
• on the areas of developing the internal control in Gazprom Neft PJSC for 2018, and on the plan for developing the internal control for 2019;
• on the results of measures for ensuring internal-control procedures in the Gazprom Neft PJSC information systems for 2018;
• on the Gazprom PJSC 2018 draft Annual Report;
• on the programme of guarantees and improving the internal-audit quality of Gazprom Neft PJSC in 2018;
• on the results of assessing the Gazprom Neft PJSC internal auditor’s work in 2018;
• on the External Audit Policy of Gazprom Neft PJSC, its subsidiaries and organisations;
• on information disclosed to third parties, including analytical and rating agencies, and on disclosing indicators not included in the IFRS statements;
• on determining the amount of payment for the auditor services for 2019;
• on the performance of the Gazprom Neft PJSC Internal Audit and Risk Management Directorate for the first six months of 2019;
• on preparing proposals for a competition commission to select an audit organisation to carry out the mandatory annual audit of Gazprom Neft PJSC;
• on the Risk Management Policy and the Internal Control Policy of Gazprom PJSC for 2019;
• on the results of internal control, aimed at countering unauthorized use of insider information for the first six months of 2019;
• on preparing the Gazprom Neft PJSC plan of audits for 2020-2022.

Number of meetings of the Board of Directors’ Audit Committee

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>8</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Number of issues considered</td>
<td>22</td>
<td>30</td>
<td>34</td>
<td>35</td>
<td>29</td>
</tr>
</tbody>
</table>

Human Resources and Compensation Committee

The Human Resources and Compensation Committee is an advisory body of the Board of Directors. The Committee membership, status, work procedures, competency and functions, the procedure for convening and holding meetings, formalising resolutions, and the responsibility of the Committee members are set out in the Regulation on the Human Resources and Compensation Committee.

In accordance with the Regulation, the Committee main tasks are the following: preliminary comprehensive examination of the issues within the Board of Directors competency, and preparing recommendations for decision-making by the Board of Directors in relation to improving the work procedures of the Board of Directors and its committees, the company work in terms of HR policy and the management succession system, compensation for members of governance bodies and the company Audit Committee.

The Human Resources and Compensation Committee duties are the following:
• analysing and assessing the Board of Directors membership in terms of specialisation, expertise, independence, and of its members involvement in the Board work;
• determining the priority areas for strengthening the Board membership;
According to the Human Resources and Compensation Committee, the following conclusions were made due to analysing the candidates:

- The expertise and education, knowledge and great professionalism of the candidates for the Board of Directors will enable them to perform the duties of the Board of Directors members, and to directly assist the effective work of the entire Board of Directors in the interests of the company and its shareholders.

- All candidates have excellent professional and personal reputation, which means, among other things, absence of criminal liability at present or in the past.

- The Board of Directors is to include one executive director, which complies with the recommendations of the Corporate Governance Code. At the end of the reporting year, no independent directors are to be included in the Board of Directors.

- The Board of Directors will be sufficiently balanced in terms of gender and age.

The Committee prepared relevant recommendations on the issues, which require recommendations from the Board of Directors.

In the reporting period, the Committee fully carried out its tasks.

During the reporting period, the Committee fully carried its tasks.

Number of meetings of the Board of Directors’ Human Resources and Compensation Committee

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Number of issues considered</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

Membership of the Human Resources and Compensation Committee

From 22 June 2018 through 13 June 2019:

- Igor Fedorov (Chairman);
- Andrey Kruglov;
- Yuriy Cherepanov;
- Sergey Purtunko (Independent Director);
- Andrey Shveikin.

From 19 July 2019 through 1 September 2019:

- Vladimir Alisov (Chairman);
- Valery Sergeyev (Independent Director);
- Igor Fedorov;
- From 25 September 2019 through 31 December 2019:
  - Sergey Kuznetz (Chairman);
  - Valery Sergeyev (Independent Director until December 2019);
  - Vladimir Alisov.

In 2019, the Audit Committee held six meetings and considered the following key issues:

- on the proposals from shareholders regarding candidates for the Board of Directors and the Audit Committee of Gazprom Neft PJSC;
- on assessing the candidates for the Gazprom Neft PJSC Board of Directors;
- on the compensation for the members of the Gazprom Neft PJSC Board of Directors;
- on the compensation for the members of the Gazprom Neft PJSC Audit Committee;
- on participation of the members of the Gazprom Neft PJSC Management Board in governance bodies of other organisations;
- on appointing the First Deputy CEO of Gazprom Neft PJSC;
- on assessing the performance of the Gazprom Neft PJSC Board of Directors.

Assessing the Board of Directors work

In accordance with recommendations of the best corporate governance practices, the Board of Directors conducts annual analysis and self-assessment of its performance. The Human Resources and Compensation Committee approved new assessment criteria and deemed it advisable to engage an independent service provider for the Board’s review at least once in three years.

The performance of the Gazprom Neft PJSC Board of Directors is assessed in the form of a survey (questionnaire). The questionnaire includes about 30 questions regarding the main areas of activity: membership, the nature of activity, the Board of Directors’ procedures, performance assessment of the Chairman of the Board of Directors, its Committees and Secretary, and the level of relations within the Board of Directors, etc.

Analysis of the questionnaires of the Board of Directors members allows quickly understanding the current condition of the key Board of Directors processes, including strategy, the principles of business, the company’s performance management, assessing contribution of the Board of Directors members, including its Chairman and Secretary.

The Board of Directors achieved a high level in many issues related to meeting efficiency. The level of communication between the Non-Executive Director and the Chairman of the Board of Directors is also high. All Committees of the Board of Directors and its Secretary are functioning effectively.

Onboarding of newly elected members of the Board of Directors

To ensure effective work of the Board of Directors, the company has the Onboarding Programme for newly elected members of the Board of Directors. The Programme goals include making the newly elected members of the Board of Directors familiar with the company production, financial and business activities, and with its corporate-governance practice, as quickly and effectively as possible.

The Programme provides for the following measures: meeting with the Chairman of the Board of Directors, discussing the work plan of the Board of Directors, and the company’s operational and financial activities; determining the future role of a director in the Board of Directors; on the basis of his or her expertise; meeting with senior managers, receiving the main information on the company business, discussing the company operational and financial structure, and introduction to the Management Board, consultations with the Secretary of the Board of Directors. The Secretary of the Board of Directors describes procedural and legal aspects of the work of the Board of Directors and its committees, clarifies the rights and duties of a Board member, issues related to paying remuneration and compensation, and liability and liability insurance; becoming familiar with the company main documents, and the written Guidelines for the Board of Directors member, with description of the key business issues, internal procedures, and the organisation of the work of the Board of Directors and its Committees; the Programme may also include visits to the company main...
facilities, participation in public events, and meetings with the key managers.

The Human Resources and Compensation Committee is monitoring the Programme implementation. Throughout 2019, the Board of Directors members were re-elected twice, and five new directors were included in it: V. Markelov, S. Kuznets, S. Menshikov, F. Sadygov, and A. Medvedev.

The Management Board and the CEO

The Management Board and the CEO are the Gazprom Neft PJSC executive bodies. The company Management Board is a collective executive body, which manages its ongoing business. In accordance with the Gazprom Neft PJSC Charter, the Management Board is formed by the Board of Directors upon the recommendation of the company Chief Executive Officer. The term of the Management Board members office is also determined by the Board of Directors. Requirements for professional qualification of the Gazprom Neft PJSC Management Board members are set out in the Gazprom Neft PJSC by-laws.

The company CEO A. Dyukov (in December 2016, he headed the company for the first time, and in December 2016 he was re-elected for the next five years) is also the Chairman of the Management Board, whose functions include organising the Management Board work. In the absence of the Chairman of the Management Board, one of his deputies performs his functions: V. Yakovlev or A. Chernen. The deputy is elected upon the recommendation of the Chairman of the Management Board by a majority of votes of elected Management Board members. In the absence of the Chairman of the Management Board and his deputies, any Management Board member may perform the functions of the Chairman, in accordance with the Management Board decision.

The Management Board competency is determined by the company Charter. The Management Board competency is determined by the company Charter. The key functions of the Management Board:

- to develop for submission to the company Board of Directors, long-term plans and the most important programmes of the company business, including annual budget and investment programmes, preparation of reports on performing them, and develop and approve current plans for the company business;
- to monitor the implementation of long-term and short-term plans and programmes of the company along with investment, financial, and other projects of the company;
- to prepare and submit to the Board of Directors proposals regarding Gazprom Neft PJSC participation and termination in other organisations (including foreign entities), opening and closing branch offices and representative offices of the company.

The key issues within the CEO competency:

- to enter into transactions on behalf of the company and manage the company’s assets subject to by-laws governing the transaction handling procedure and interaction with investee entities;
- to approve the stuffing profile of the company, its branch offices and representative offices, determining the form, systems and amount of remuneration;
- to approve the company by-laws, which regulate its ongoing business;
- to ensure the implementation of resolutions of the General Meeting of Shareholders, the Board of Directors, and the Management Board of the company, and performance of obligations to the budget and contractors;
- to make resolutions on participation and termination of the company participation in other entities, if such resolution involves a transaction in the amount not exceeding 0.2% of the company assets book value, determined on the basis of its accounting statements as at the last reporting date, or is connected with the reorganisation or liquidation of an entity with the book value of assets not exceeding 1 billion;
- to make resolution in accordance with the procedure for transactions, on transactions in the amount not exceeding 0.2% of the company assets book value, determined on the basis of its accounting statements as at the last reporting date.
Members of the Management Board as at 31 December 2019

**ALEXANDER DYUKOV**
Chairman of the Management Board, Chief Executive Officer
Interests in the authorized capital (as at 31 December 2019)
0.005357244% (254,003 shares)

**IGOR ANTONOV**
Member of the Management Board, Deputy CEO for Security
Interests in the authorized capital (as at 31 December 2019)
None

**ALEXANDER DYBAL**
Member of the Management Board, Deputy CEO for Corporate Communications
Interests in the authorized capital (as at 31 December 2019)
None

**ELENA ILYUKHINA**
Member of the Management Board, Deputy CEO for Legal and Corporate Matters
Interests in the authorized capital (as at 31 December 2019)
None

**BIOGRAPHICAL DETAILS**

**ALEXANDER DYUKOV**
Born in 1951. Graduated from the Leningrad Institute of Aviation Instrumentation. In 1978, Mr. Dyukov received the RFSPH MBA degree. From 2012 – President. From December 2007 – Chairman of the Management Board, Chief Executive Officer, Gazprom Neft PJSC.

**IGOR ANTONOV**
Born in 1966. Graduated from the Ulyanov (Lenin) St Petersburg State Electrotechnical University, the St Petersburg State University. In 2001, Ms. Ilyukhina got a PhD in Economics. From 2007 – member of the Management Board of Gazprom Neft PJSC. From 2005 – member of the Board of Directors, Chairman of the Board of Gazpromneft-Sakhalin; From 2012 – member of the Board of Directors of FC Zenit JSC; From 2015 – member of the Board of Directors, Chairman of the Board of Directors of Gazprom-Media Entertainment TV LLC; From 2018 – Chairman of the Board of the ‘Home Towns’ Social Initiatives Support Foundation.

**ALEXANDER DYBAL**

**ELENA ILYUKHINA**
Born in 1969. Graduated from the Leningrad Shipbuilding Institute. In 2001, Mr. Dyukov received the RFSPH MBA degree. From 2015 – member of the Board of Directors, Chairman of the Board of Directors of «GUBERNIY NABOGO» PJSC; From 2007 – member of the Supervisory Board of the Federal State Budgetary Educational Institution of Higher Education «S1 Petersburg Mining University»; From 2015 – member of the Board of Directors of SKA (Ice Hockey Club) CJSC; From 2010 – member of the Board of Directors of STM – Gazpromneft; From 2014 – member of the Management Board of Gazprom Neft PJSC.

**ROLE IN OTHER ORGANISATIONS**

**ALEXANDER DYUKOV**
In 2004–2007 – member of the Board of Directors, Chairman of the Board of Directors of «GUBERNIY NABOGO» PJSC; From December 2007 – Chairman of the Management Board, Chief Executive Officer, Gazprom Neft PJSC.

**IGOR ANTONOV**
Member of the Management Board, Deputy CEO for Security, Gazprom Neft PJSC. From December 2007 the Deputy CEO for Security, Gazprom Neft PJSC.

**ALEXANDER DYBAL**
Member of the Management Board of Gazprom Neft PJSC. From 2005 – member of the Board of Directors, Chairman of the Board of Directors of Gazprom-Media Entertainment TV LLC; From 2015 – member of the Board of Directors, Chairman of the Board of Directors, Chairman of the Board of Directors of FC Zenit JSC; From 2015 – member of the Board of Directors, Chairman of the Board of Directors, Chairman of the Board of Directors, Chairman of the Board of Directors of Gazpromneft-Sakhalin.

**ELENA ILYUKHINA**
Member of the Management Board, Deputy CEO for Legal and Corporate Matters, Gazprom Neft PJSC. From 2006 – President. In 2001, Ms. Ilyukhina got a PhD in Economics. From 2007 – member of the Management Board of Gazprom Neft PJSC. From 2015 – member of the Board of Directors, Chairman of the Board of Directors, Chairman of the Board of Directors, Chairman of the Board of Directors of FC Zenit JSC; From 2015 – member of the Supervisory Board of the St Petersburg Electrotechnical University «LETI».

**POSITIONS HELD IN OTHER ORGANISATIONS**

**ALEXANDER DYUKOV**
– member of the Management Board of Gazprom-Media; From December 2007 the Deputy CEO for Security, Gazprom Neft PJSC.

**IGOR ANTONOV**
– member of the Management Board of Gazprom-Media; From December 2007 the Deputy CEO for Security, Gazprom Neft PJSC.

**ALEXANDER DYBAL**
– member of the Management Board of Gazprom-Media; From 2007 – member of the Management Board of Gazprom Neft PJSC. From 2005 – member of the Board of Directors, Chairman of the Board of Directors of Gazpromneft-Sakhalin; From 2007 – member of the Management Board of Gazprom Neft PJSC.

**ELENA ILYUKHINA**
– member of the Management Board, Deputy CEO for Legal and Corporate Matters, Gazprom Neft PJSC.
Members of the Management Board as at 31 December 2019 (continued)

KIRILL KRAVCHENKO  
Member of the Management Board, Deputy CEO for Administration

ANATOLY CHERNER  
Deputy Chairman of the Management Board, Deputy CEO for Logistics, Processing and Sales (Downstream)

VADIM YAKOVLEV  
Deputy Chairman of the Management Board, Deputy CEO for Upstream

ALEXEY YANKEVICH  
Member of the Management Board, Deputy CEO for Economics and Finance

**BIODGRAPHICAL DETAILS**

**KIRILL KRAVCHENKO**

Born in 1976.  
Graduated from Lomonosov Moscow State University, the Open University (UK), and IMD Business School. Holds a Grand PhD in Economics, Professor.

From 2019 – member of the Management Board, Deputy CEO for Administration, Gazprom Neft PJSC.  
From 2017 – member of the Management Board, Deputy CEO for Foreign Asset Management, Gazprom Neft PJSC.  
From 2009 – member of the Management Board, Deputy CEO for Administration, Gazprom Neft PJSC.

**POSITIONS HELD IN OTHER ORGANISATIONS**

- From 2016 – member of the Board of Directors of Gazpromneft Lubricants Italia.
- From 2014 – member of the Board of Directors of Slavneft-YANOS.
- From 2013 – member of the Supervisory Board of Naftna Industrija Srbije A.D., Novi Sad.
- From 2012 – member of the Board of Directors, Naftna Industrija Srbije A.D., Novi Sad.
- From 2011 – member of the Supervisory Board, Salym Petroleum Development N. V.; member of the Board of Directors, Chairman of the Board of Directors, Gazpromneft-Sakhalin.
- From 2010 – member of the Board of Directors, Chairman of the Board of Directors of SLAVNEFT.
- From 2009 – member of the Board of Directors of Gazpromneft-Sakhalin; member of the Board of Directors, Naftna Industrija Srbije A.D., Novi Sad; member of the Supervisory Board of SLAVNEFT; member of the Board of Directors, Chairman of the Board of Directors of Gazpromneft PJSC.
- From 2007 – member of the Supervisory Board, Salym Petroleum Development N. V.; member of the Board of Directors, Gazpromneft-Sakhalin.
- From 2006 – member of the Board of Directors at SLANEFIT.
- From 2005 – member of the Board of Directors, Chairman of the Board of Directors of Slavneft-YANOS.

**ANATOLY CHERNER**

Born in 1954.  
Graduated from the Grozny Oil Institute.  
In 1991, Mr. Chernier received the qualification of the Chartered Association of Certified Accountants (ACCA), and in 2009, Mr. Chernier received a diploma from the British Institute of Directors (IoD).

From 2019 – Deputy Chairman of the Management Board, Deputy CEO for Economics and Finance, Gazprom Neft PJSC.  
From 2011 – First Deputy CEO, Deputy Chairman of the Management Board, Gazprom Neft PJSC.  
From 2007 – Deputy Chairman of the Management Board, Deputy CEO for Upstream, Gazprom Neft PJSC.

**POSITIONS HELD IN OTHER ORGANISATIONS**

- From 2013 – member of the Board of Directors, Naftna Industrija Srbije A.D., Novi Sad.
- From 2011 – member of the Board of Directors, Chairman of the Board of Directors, Gazpromneft Lubricants Italia.
- From 2006 – member of the Board of Directors of Gazprom Neft PJSC, Deputy CFO for Logistics, Processing, and Sales (Downstream).
- Mr. Chernier is in charge of all refining, logistics, and sales of oil and petroleum products in the Company.  
- From 2007 – member of the Management Board of Gazprom Neft PJSC, Deputy CEO for Logistics, Processing and Sales (Downstream).

**VADIM YAKOVLEV**

Born in 1970.  
Graduated from the Moscow Engineering Physics Institute, and the Higher School of Finance of the International University in Moscow.  
In 2004, Mr. Yankevich received the Certified Management Accountant (CMA) qualification.

From 2019 – Deputy Chairman of the Management Board, Deputy CEO for Logistics, Processing and Sales (Downstream).  
From 2018 – member of the Management Board, Gazprom Neft PJSC; deputy chairman, Gazprom Neft PJSC.

**POSITIONS HELD IN OTHER ORGANISATIONS**

- From 2018 – member of the Management Board, Gazprom Neft PJSC; deputy chairman, Gazprom Neft PJSC.
- From 2011 – member of the Board of Directors, Gazpromneft Lubricants Italia.
- From 2010 – member of the Board of Directors, Chairman of the Board of Directors, Naftna Industrija Srbije A.D., Novi Sad.
- From 2006 – member of the Board of Directors, Gazprom Neft PJSC.
- From 2002 – member of the Management Board, Gazprom Neft PJSC.
- Mr. Yankevich supervises the upstream matters, strategic planning, and M&A transactions.

**ALEXEY YANKEVICH**

Graduated from the St Petersburg Electrotechnical University «LETI», the LETI-Lovanium International School of Management.

From 2006, Mr, Yankevich received the Certified Management Accountant (CMA) qualification.

From 2007 – member of the Board of Directors, Naftna Industrija Srbije A.D., Novi Sad.

**POSITIONS HELD IN OTHER ORGANISATIONS**

- From 2015 – member of the Board of Directors, Chairman of the Board of Directors, Gazpromneft Lubricants Italia.
- From 2013 – member of the Board of Directors, Naftna Industrija Srbije A.D., Novi Sad.
- From 2012 – member of the Board of Directors, Chairman of the Board of Directors, Gazpromneft Lubricants Italia.
- From 2011 – member of the Board of Directors, Chairman of the Board of Directors, Gazpromneft Lubricants Italia; member of the Board of Directors, Gazpromneft Oil Company, Gazprom Neft PJSC.
- From 2007 – member of the Board of Directors, Gazpromneft Lubricants Italia; member of the Board of Directors, Chairman of the Board of Directors, Gazpromneft Lubricants Italia.
Member of the Management Board after the reporting date

**PAVEL KOLOKBOV**
Member of the Management Board, Deputy CEO for Federal Government Relations (from 2 March 2018)

Interest in the authorised capital: None

**BIOGRAPHICAL DETAILS**

- Born in 1969.
- Graduated from the State Central Order of Lenin Institute of Physical Education, and Kazan Moscow State Law University (MSAL).
- An Honoured Master of Sport.
- From 2017 – Deputy CEO, Dynamo Sports Club.
- From 2017 – Deputy Minister of Sport, Tourism and Youth Policy (following the restructuring of the ministry in 2012 – Deputy Minister of Sport), simultaneously being a member of the Civic Chamber of the Russian Federation.
- 2016–2018 – Ministry of Sport, Tourism and Youth Policy.
- 2016–2018 – Member of the Management Board, Deputy CEO for International Business Development, Gazprom Neft PJSC.
- From 2018 – Member of the Management Board, Deputy CEO for Oilfield Development, Gazprom Neft PJSC.
- From March 2020 – Chair of the Board, Deputy CEO for Federal Government Relations.

There were no transactions related to the acquisition or disposal of the company shares by the Chairman and members of the Management Board in the reporting year.

In 2019, no claims were filed against the Chief Executive Officer and members of the Management Board.

---

Members of the Management Board, whose authority was terminated in the reporting year

**ANDREY PATRUSHEV**
Member of the Management Board, Deputy CEO for Offshore Development until 25 October 2019

Interest in the authorised capital: None

**BIOGRAPHICAL DETAILS**

- Born in 1961.
- In 2004, Mr. Patrushev graduated from the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation, majoring in global economics.
- In 2008 – from the National University of Oil and Gas «Gubkin University», majoring in oil and gas engineering.
- From 2016 through October 2017, Mr. Patrushev held the position of the member of the Management Board, Deputy CEO for Offshore Development, Gazprom Neft PJSC.

---

**VLADISLAV BARYSHNIKOV**
Member of the Management Board, Deputy CEO for International Business Development from 26 November 2009 through 18 November 2019

Interest in the authorised capital: None

**BIOGRAPHICAL DETAILS**

- Born in 1981.
- In 2007, Mr. Baryshnikov graduated from the Academy of the Federal Security Service of the Russian Federation, majoring in international relations.
- In 2008, Mr. Baryshnikov graduated from the Academy of the Federal Security Service of the Russian Federation, majoring in international relations.
- In 2012, Mr. Baryshnikov graduated from the Academy of the Federal Security Service of the Russian Federation, majoring in international relations.
- From 2012 – Deputy Minister of Sport, Tourism and Youth Policy.
- From 2012 – Member of the Management Board, Deputy CEO for International Business Development, Gazprom Neft PJSC.
- From 2019 – Member of the Management Board, Deputy CEO for International Business Development, Gazprom Neft PJSC.

---

Report on performance of the Management Board in 2019

The Gazprom Neft Management Board meets on a regular basis, taking into account the resolutions of the General Meeting of Shareholders, the Board of Directors, and the issues raised by the CEO and members of the Management Board. The Management Board work plan is developed based on the suggestions coming from heads of the Gazprom Neft subdivisions.

### Issues considered by the Management Board in 2019, a breakdown by area

<table>
<thead>
<tr>
<th>Issue</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>5</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>5</td>
</tr>
<tr>
<td>Budget planning and financing</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>27</td>
</tr>
</tbody>
</table>

### Number of meetings held by the Management Board in 2015–2019

<table>
<thead>
<tr>
<th>Meeting format</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-person</td>
<td>8</td>
<td>15</td>
<td>12</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>In absentia</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>14</td>
<td>22</td>
<td>18</td>
<td>21</td>
<td>20</td>
</tr>
</tbody>
</table>

### Attendance of the Management Board members at meetings in 2019

<table>
<thead>
<tr>
<th>Full name</th>
<th>Number of meetings attended by the Management Board member</th>
<th>Number of meetings attended by the Management Board member, including written votes</th>
<th>Total number of meetings, which could be attended by the Management Board member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Okshev</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Igor Antontsev</td>
<td>18</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Alexander Obyal</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Elena Ilyukhina</td>
<td>18</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Kirill Kruschev</td>
<td>19</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Anatoly Chernov</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Vadim Yakelev</td>
<td>18</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Alexey Yankovich</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Vladislav Baryshnikov, Management Board member until 18 November 2019</td>
<td>12</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Andrey Patrushev, Management Board member until 25 October 2019</td>
<td>11</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

In 2019, 20 meetings of the Gazprom Neft Management Board were held, and seven of them were in-person meetings. At the meetings, various issues related to the current activity of the company Management Board were considered, including:

- Approving the updated Key-Risk Register of Gazprom Neft PJSC;
- The results of the Partnership Management programme, and proposals for development of the partnership management system in Gazprom Neft PJSC;
- Executing the Investment Programme, the Budget (financial plan), and the financial borrowing programme of the Gazprom Neft Group for 2018, based on the group performance in 2018;
- Establishing subsidiaries, and disposal of assets;
- Information disclosed by Gazprom Neft PJSC;
- Improving corporate governance efficiency in the Gazprom Neft Group;
- The strategy of the Upstream Division development in the MENA region;
- The Gazprom Neft PJSC talent management programme;
- The business plan of the Downstream Division for 2020–2022;
- Transforming the business model for the Regional Sales Directorate of the Downstream Division, Gazprom Neft PJSC;
- The business plan of the Upstream Division for 2020–2022;
Remuneration payable to governance bodies

Remuneration of the Board of Directors

Remuneration payable to the Board of Directors is linked to the financial performance of the company, and is approved annually by shareholders. The discretionary control by shareholders is necessary to prevent potential abuse of the remuneration process.

In accordance with the resolution of the General Meeting of Shareholders, the remuneration accrued and paid to the members of the Board of Directors, who do not hold any positions in the company executive bodies (do not serve as executive directors), in 2019 amounted to 0.005% of EBITDA, based on the Gazprom Neft consolidated financial statements (IFRS) for 2018.

Apart from the base remuneration, the members of the Board of Directors received the additional compensation for serving as the Chairman of the Board of Directors (50% of the remuneration paid to members of the Board of Directors), a member of the Board of Directors committee (11% of the remuneration paid to the members of the Board of Directors), and the Chairman of the Board of Directors committee (50% of the remuneration paid to committee members).

The total amount of remuneration paid to the members of the Board of Directors in 2019 was 531,7 million (the amount includes personal income tax). Members of the Board of Directors were not reimbursed for their expenses related to membership in the Board of Directors in 2019.

Remuneration paid to the members of the Gazprom Neft PJSC Board of Directors for participation in the governance body in 2019

<table>
<thead>
<tr>
<th>Full name</th>
<th>Position</th>
<th>Amount,₽</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexey Miller</td>
<td>Chairman of the Board of Directors</td>
<td>59,162,950</td>
</tr>
<tr>
<td>Vladimir Abzaliev</td>
<td>Member of the Board of Directors</td>
<td>39,157,300</td>
</tr>
<tr>
<td>Andrey Dmitriev</td>
<td>Member of the Board of Directors</td>
<td>39,157,300</td>
</tr>
<tr>
<td>Valery Golubev</td>
<td>Member of the Board of Directors, member of the Audit Committee</td>
<td>43,972,830</td>
</tr>
<tr>
<td>Igor Fedorov</td>
<td>Member of the Board of Directors, chairman of the Human Resources and Compensation Committee</td>
<td>45,971,595</td>
</tr>
<tr>
<td>Andrey Kruglov</td>
<td>Member of the Board of Directors, member of the Human Resources and Compensation Committee</td>
<td>43,972,830</td>
</tr>
<tr>
<td>Elena Mikhailova</td>
<td>Member of the Board of Directors, member of the Audit Committee</td>
<td>43,972,830</td>
</tr>
<tr>
<td>Kirill Salnev</td>
<td>Member of the Board of Directors</td>
<td>39,157,300</td>
</tr>
<tr>
<td>Mikhail Sereda</td>
<td>Member of the Board of Directors, chairman of the Audit Committee</td>
<td>45,971,595</td>
</tr>
<tr>
<td>Valery Senchuk</td>
<td>Member of the Board of Directors</td>
<td>39,157,300</td>
</tr>
<tr>
<td>Sergey Fursenko</td>
<td>Member of the Board of Directors, member of the Human Resources and Compensation Committee</td>
<td>43,972,830</td>
</tr>
<tr>
<td>Vvedenov Cherepanov</td>
<td>Member of the Board of Directors, member of the Human Resources and Compensation Committee</td>
<td>43,972,830</td>
</tr>
<tr>
<td>Alexander Dyukov</td>
<td>Executive member of the Board of Directors</td>
<td>Compensation is not paid</td>
</tr>
</tbody>
</table>

TOTAL: 531,671,490

Remuneration of the Management Board

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

- base remuneration;
- an annual bonus;
- the Long-Term Incentive Programme (LTIP).

The amount of the base remuneration is specified individually, and formalised in employment contracts.

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

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

The main goals of the annual bonus system:

- providing motivation for achieving the annual targets and, consequently, the company’s strategic goals; implementing the principle of performance-based payment, and improvement of employee efficiency;
- formalising general rules, and determining uniform corporate standards in the field of annual bonuses paid to the Gazprom Neft Group employees.

Annual Bonus Policy principles:

- focusing on achievement of key strategic / priority goals;
- taking into account employee impact on performance;
- ensuring transparency and clarity.

The main parameters of the annual bonus system:

- a list of the annual bonus system participants (for the Policy purposes, they include all full-time employees of the company, excluding the Gazprom Neft PJSC CED, employees of project offices working under fixed-term employment contracts, and workers at production facilities);
- target percentage of the annual bonus (specified depending on an employee position);
- factors having an impact on the annual bonus amount: achieving KPIs, and executing business initiatives.

These principles are being implemented through correlation between the bonus amount and the achievement of annual goals, that may be set at various levels, depending on the position;
Under the IFRS. Based on adjusted EBIT and income tax rate including share in JVs.

In the budget of 2017 and onwards, hydrocarbon reserves in accordance with the Russian classification are categorised into АВ1 + С1 based on the new classification (Order of the Russian Ministry of Natural Resources and Environment No. 477 of 2013).

Including production of condensate and natural gas liquids.

Profit attributable to shareholders in Gazprom Neft PJSC.

The Long-Term Incentive Programme based on share price growth, is an integral part of the long-term Growth Strategy of the Gazprom Neft Group, and provides for paying compensation to management for increasing the group value for shareholders for a particular period.

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

The Programme rewards are conditional on positive changes to the Company’s market cap in each of the programme’s three-year periods. Eligible for participation are the Company’s senior managers provided they meet certain criteria. The remuneration is based on fair value at the end of each reporting period and is payable at the end of a three-year spell. The compensation depends on certain market conditions and duties, which are taken into account, when the amount to be paid to particular employees is determined. Expenses are recognised throughout the entire period of implementing the plan. In 2019, provisions amounting to ₽1,526.8 million were accrued under the Long-Term Incentive Programme (LTIP) for 2018-2020. Remuneration accrued to the Management Board in 2019 amounted to ₽1,438.4 million. The payments included salaries for the reporting period, applicable taxes, and other statutory payments to budgets and non-budget funds, bonuses, paid annual leave for the reporting period, and medical treatment and assistance.

In 2019, the Management Board received no additional remuneration for membership in the Company’s or its subsidiaries’ governance bodies. The company did not give loans to members of the Board of Directors and the Management Board.
The Internal Control Policy of Gazprom Neft PJSC, approved by the Board of Directors in 2017, is the principal document specifying goals, objectives, components, and principles of organisation and functioning of the company internal-control system. Efficient operation of the internal control system is based on the involvement of top managers, heads of structural units, and all employees of the company.

The internal control system aims to:
- identify and assess risks that may prevent the company from achieving its goals;
- develop, adopt, properly execute, monitor and improve procedures at all levels of business operation and the company management;
- inform the relevant governance bodies of material control weaknesses and suggest remedial actions;
- ensure business continuity and maximum efficiency, along with sustainability and evolution, including timely adaptation to changes in the internal and external environment; provide high-quality informational, methodological and analytical support for the management decision-making;
- ensure proper allocation of responsibility, authority, and functions among internal control units, with no overlapping of functions;
- continuously improve the control framework with respect to information technology;
- timely settle conflicts of interest emerging in the course of business.

Internal control units composition, and allocation of functions

The composition of internal control units in the company, and allocation of functions related to organising and maintaining the efficient work of the internal control system among them, are described below.

The Board of Directors of Gazprom Neft PJSC implements the following functions, as part of the general governance of the company business:
- establishing a proper control environment, adopting the internal control culture, maintaining high ethical standards at all levels of the company activity;
- specifying principles and approaches to organisation and operation of the company internal control system;
- analysing and assessing the efficiency of organisation and operation of the company internal control system, including annual consideration of respective issues, and preparing recommendations to improve it (if needed). Information on efficiency of the internal control system is disclosed to shareholders as part of the company Annual Report, and as part of the report of the Gazprom Neft PJSC Internal Audit Department on the company performance;
- monitoring of implementation of orders and resolutions of the Gazprom Neft PJSC Board of Directors and shareholders by the company executive bodies;
- controlling the company compliance with laws of the Russian Federation, corporate governance, and disclosure of complete and correct information on the company to stakeholders;
- approving the Internal Control Policy.

The Audit Committee implements functions aimed at:
- preparing recommendations for the Board of Directors of Gazprom Neft PJSC regarding organisation, operation, performance assessment and improvement of the company internal control system, and other issues within the competency of the Audit Committee (including preparation of recommendations after considering the Internal Control Policy);
- ensuring preliminary consideration of internal control issues;
- ensuring preliminary consideration of the Internal Control Policy (before approval by the Gazprom Neft PJSC Board of Directors);
- analysing and assessing the efficiency of the internal control system operation;
- analysing compliance of the company statements and external audit results with the Russian laws, international financial reporting standards, Russian accounting standards, and other regulations;
- considering detected or assumed facts of fraud on the part of the company employees.

Executive bodies and senior management of the company are implementing functions aimed at:
- organising development and efficient operation of the internal control system, through approval of local regulations regarding the content and rules for implementing internal control procedures by the company structural subdivisions within their lines of business;
- establishing the proper control environment, adopting the internal control culture, maintaining high ethical standards at all levels of the company activity, which ensures efficient organisation and operation of the internal control system;
- allocating authority, duties and responsibility among heads of structural subdivisions, related to establishing, adopting, maintaining, monitoring and improving the efficient organisation and operation of the company internal control system;
- conducting regular assessment of the company employees’ performance and personnel training, in the field of internal control due to changes in internal and external conditions of the company operation.
The Internal Audit Department, part of the Internal Audit and Risk Management Directorate, is performing the following functions:

- developing and monitoring internal control systems and procedures, and/or when organization of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation.

Audit Committee

The Audit Committee is a permanent body controlling the Gazprom Neft financial and business operations. It acts for the benefit of shareholders, and is accountable to the General Meeting of Shareholders.

In accordance with the Charter of the Internal Audit Department, the Committee is responsible for the company's financial and business operations. It conducts an independent assessment of the company financial and business performance, and makes improvements recommendations.

The key objective of the Internal Audit Department within the Internal Audit and Risk Management Directorate is to provide the Board of Directors, through the Audit Committee, with the head being appointed subject to approval by the Board of Directors, with its head's being appointed subject to approval by the Board of Directors.

The internal audit function is held by the Internal Audit Department, which is part of the Internal Audit and Risk Management Directorate, and is performed annually and in accordance with the Company's financial and business operations.

Remuneration

To deliver on its objectives, the Internal Audit Department has been given the remit to:

- draw up an Internal Audit Department plan, including annual and projected audit schedules, and submit them to the Audit Committee for approval;
- organise and perform due internal audits and consultations across the company and its entities based on Russian and international internal audit practice standards;
- independently and objectively assess the reliability and efficiency of the company risk management, internal control and corporate governance frameworks based on the risk-oriented approach;
- inform the company Audit Committee and executive bodies of internal control, risk management and corporate governance frameworks assessment results and improvement suggestions;
- come up with suggestions to eliminate gaps and violations, identify their causes, produce recommendations to improve the company performance, and provide this information to the company management;
- provide advisory support to stakeholders within the company with respect to the establishment and maintenance of internal control, risk management and corporate governance frameworks;
- where necessary, duly engage independent external advisors and experts (within the Internal Audit Department's approved budget) to provide internal audit related services;
- ensure completeness and timeliness of improvement measures with respect to internal control, corporate governance and risk management processes suggested based on audit results; gather, consolidate and analyse information required for the Internal Audit Department to deliver on its functions and certain improvement suggestions of the company management; establish and improve the Internal Audit Department's operations based on standards; contribute to the development, launch and operation of automated internal audit management systems in the Company and coordinate relevant development efforts in the Company entities; and draw up and implement the Programme to Warrant the Performance and Boost the Quality of Internal Audit approved by the Audit Committee; follow audits, ad hoc inspections, investigations and consultations, produce recommendations to improve the Company performance and eliminate gaps, bringing them to the attention of relevant decision makers; assess the effectiveness of the company anti-fraud and anti-corruption efforts; ensure gathering and processing of information on cases and signs of fraud and corruption via the Hotline to Report Fraud, Corruption and Other Violations of Gazprom Neft’s Corporate Code of Conduct; and ensure completeness and timeliness of measures taken.

The company Audit Commission is controlling preparation of accurate financial statements, and other information on the company financial and business operations, and its financial position.

From 9 June 2018 through 13 June 2019:

- Vadim Bliukov;
- Mikhail Voept;
- Galina Delvig;
- Margarita Mironova;
- Sergei Ruhanov.

From 14 June 2019 through 31 December 2019:

- Vadim Bliukov;
- Mikhail Voept;
- Galina Delvig;
- Margarita Mironova;
- Sergei Ruhanov.

The company Audit Commission is accountable to the General Meeting of Shareholders.

Membership of the Audit Committee

From 9 June 2018 through 13 June 2019:

- Sergey Rubanov.

From 14 June 2019 through 31 December 2019:

- Sergey Rubanov.

Heads of structural units and the company employees are implementing functions aimed at:

- developing, documenting, adopting, executing, monitoring (conducting self-assessment) and improving control procedures, as part of respective competencies within their responsibility;
- reporting to immediate supervisors in a timely manner about the cases when it was necessary to carry out control procedures, and/or when organization of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation.

The Internal Audit Department, part of the Internal Audit and Risk Management Directorate, is performing the following functions:

- developing and monitoring internal control systems and procedures, and/or when organization of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation;
- reporting about the results of the internal control system assessment, and of proposals for its improvement to the Audit Committee, the company's executive bodies, and (if needed) the Gazprom Neft PJSU structural subdivision responsible for internal audit.

The key objective of the Internal Audit Department is controlling preparation of accurate financial statements, and other information on the company financial and business operations, and its financial position.

Audit Committee

The Audit Committee is a permanent body controlling the Gazprom Neft financial and business operations. It acts for the benefit of shareholders, and is accountable to the General Meeting of Shareholders.

In accordance with the Charter of the Internal Audit Department, the Committee is responsible for the company's financial and business operations. It conducts an independent assessment of the company financial and business performance, and makes improvements recommendations.

The key objective of the Internal Audit Department within the Internal Audit and Risk Management Directorate is to provide the Board of Directors, through the Audit Committee, with the head being appointed subject to approval by the Board of Directors, with its head's being appointed subject to approval by the Board of Directors.

The internal audit function is held by the Internal Audit Department, which is part of the Internal Audit and Risk Management Directorate, and is performed annually and in accordance with the Company's financial and business operations.

Remuneration

To deliver on its objectives, the Internal Audit Department has been given the remit to:

- draw up an Internal Audit Department plan, including annual and projected audit schedules, and submit them to the Audit Committee for approval;
- organise and perform due internal audits and consultations across the company and its entities based on Russian and international internal audit practice standards;
- independently and objectively assess the reliability and efficiency of the company risk management, internal control and corporate governance frameworks based on the risk-oriented approach;
- inform the company Audit Committee and executive bodies of internal control, risk management and corporate governance frameworks assessment results and improvement suggestions;
- come up with suggestions to eliminate gaps and violations, identify their causes, produce recommendations to improve the company performance, and provide this information to the company management;
- provide advisory support to stakeholders within the company with respect to the establishment and maintenance of internal control, risk management and corporate governance frameworks;
- where necessary, duly engage independent external advisors and experts (within the Internal Audit Department’s approved budget) to provide internal audit related services;
- ensure completeness and timeliness of improvement measures with respect to internal control, corporate governance and risk management processes suggested based on audit results; gather, consolidate and analyse information required for the Internal Audit Department to deliver on its functions and certain improvement suggestions of the company management; establish and improve the Internal Audit Department’s operations based on standards; contribute to the development, launch and operation of automated internal audit management systems in the Company and coordinate relevant development efforts in the Company entities; and draw up and implement the Programme to Warrant the Performance and Boost the Quality of Internal Audit approved by the Audit Committee; follow audits, ad hoc inspections, investigations and consultations, produce recommendations to improve the Company performance and eliminate gaps, bringing them to the attention of relevant decision makers; assess the effectiveness of the company anti-fraud and anti-corruption efforts; ensure gathering and processing of information on cases and signs of fraud and corruption via the Hotline to Report Fraud, Corruption and Other Violations of Gazprom Neft’s Corporate Code of Conduct; and ensure completeness and timeliness of measures taken.

The company Audit Commission is accountable to the General Meeting of Shareholders.

Membership of the Audit Committee

From 9 June 2018 through 13 June 2019:

- Sergey Rubanov.

From 14 June 2019 through 31 December 2019:

- Sergey Rubanov.

Heads of structural units and the company employees are implementing functions aimed at:

- developing, documenting, adopting, executing, monitoring (conducting self-assessment) and improving control procedures, as part of respective competencies within their responsibility;
- reporting to immediate supervisors in a timely manner about the cases when it was necessary to carry out control procedures, and/or when organization of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation.

The Internal Audit Department, part of the Internal Audit and Risk Management Directorate, is performing the following functions:

- developing and monitoring internal control systems and procedures, and/or when organization of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation;
- reporting about the results of the internal control system assessment, and of proposals for its improvement to the Audit Committee, the company's executive bodies, and (if needed) the Gazprom Neft PJSU structural subdivision responsible for internal audit.

The key objective of the Internal Audit Department is controlling preparation of accurate financial statements, and other information on the company financial and business operations, and its financial position.

Audit Committee

The Audit Committee is a permanent body controlling the Gazprom Neft financial and business operations. It acts for the benefit of shareholders, and is accountable to the General Meeting of Shareholders.

In accordance with the Charter of the Internal Audit Department, the Committee is responsible for the company's financial and business operations. It conducts an independent assessment of the company financial and business performance, and makes improvements recommendations.

The key objective of the Internal Audit Department within the Internal Audit and Risk Management Directorate is to provide the Board of Directors, through the Audit Committee, with the head being appointed subject to approval by the Board of Directors.

The internal audit function is held by the Internal Audit Department, which is part of the Internal Audit and Risk Management Directorate, and is performed annually and in accordance with the Company's financial and business operations.

Remuneration

To deliver on its objectives, the Internal Audit Department has been given the remit to:

- draw up an Internal Audit Department plan, including annual and projected audit schedules, and submit them to the Audit Committee for approval;
- organise and perform due internal audits and consultations across the company and its entities based on Russian and international internal audit practice standards;
- independently and objectively assess the reliability and efficiency of the company risk management, internal control and corporate governance frameworks based on the risk-oriented approach;
- inform the company Audit Committee and executive bodies of internal control, risk management and corporate governance frameworks assessment results and improvement suggestions;
- come up with suggestions to eliminate gaps and violations, identify their causes, produce recommendations to improve the company performance, and provide this information to the company management;
- provide advisory support to stakeholders within the company with respect to the establishment and maintenance of internal control, risk management and corporate governance frameworks;
- where necessary, duly engage independent external advisors and experts (within the Internal Audit Department’s approved budget) to provide internal audit related services;
- ensure completeness and timeliness of improvement measures with respect to internal control, corporate governance and risk management processes suggested based on audit results; gather, consolidate and analyse information required for the Internal Audit Department to deliver on its functions and certain improvement suggestions of the company management; establish and improve the Internal Audit Department’s operations based on standards; contribute to the development, launch and operation of automated internal audit management systems in the Company and coordinate relevant development efforts in the Company entities; and draw up and implement the Programme to Warrant the Performance and Boost the Quality of Internal Audit approved by the Audit Committee; follow audits, ad hoc inspections, investigations and consultations, produce recommendations to improve the Company performance and eliminate gaps, bringing them to the attention of relevant decision makers; assess the effectiveness of the company anti-fraud and anti-corruption efforts; ensure gathering and processing of information on cases and signs of fraud and corruption via the Hotline to Report Fraud, Corruption and Other Violations of Gazprom Neft’s Corporate Code of Conduct; and ensure completeness and timeliness of measures taken.

The company Audit Commission is accountable to the General Meeting of Shareholders.

Membership of the Audit Committee

From 9 June 2018 through 13 June 2019:

- Sergey Rubanov.

From 14 June 2019 through 31 December 2019:

- Sergey Rubanov.

Heads of structural units and the company employees are implementing functions aimed at:

- developing, documenting, adopting, executing, monitoring (conducting self-assessment) and improving control procedures, as part of respective competencies within their responsibility;
- reporting to immediate supervisors in a timely manner about the cases when it was necessary to carry out control procedures, and/or when organization of the control procedures needs to be changed, due to changes in internal or external conditions of the company operation.
as per instructions of the company management following audits.

The head of the Internal Audit and Risk Management Directorate is headed by G. Delvig.

**GALINA DELVIG**

Interest in the authorised capital (as at 31 December 2019)

None

**BIOPGRAPHICAL DETAILS**

Born in 1960.

In 2019, the Internal Audit Department completed all audit projects scheduled for the reporting period, in the fields of corporate governance, IT and investing activities, and in the main production lines of the company business. As part of those projects, the Internal Audit Department paid special attention to analysing, detecting and assessing systemic high-level areas for various lines of the company business.

For instance, the internal audit was focused on production processes, including geological exploration and resource base development, well intervention, oil and APG and resource base development, and in the main production lines of the company business. As part of those processes, the Internal Audit Department paid special attention to analysing, detecting and assessing systemic high-level areas for various lines of the company business.

In 2019, the Internal Audit Department conducted the audit of the Gazprom Neft PJSC financial statements and management representation statements for 2019, as well as the audit of the Gazprom Neft PJSC corporate governance system, IT and investing activities.

In addition, the Internal Audit Department conducted the audit of financial (accounting) statements as part of activity of audit commissions.

In 2019, the Internal Audit Department also completed the audits of cross-functional lines of the company business, including those related to assessing performance of the internal control system used for processes, as well as the development and implementation of internal audit and investment activities of Gazprom Neft PJSC.

In 2019, the Internal Audit Department also conducted the audit of financial (accounting) statements as part of activity of audit commissions.

The Internal Audit and Risk Management Directorate is headed by G. Delvig.

**External auditor**

To validate and confirm its annual financial statements, the company annually engages a professional audit firm, selected from the largest international audit companies, which has no property interest in the company or its shareholders. The main principles of organising and conducting external audit, the procedure and criteria for selecting auditors, and approaches to ensuring that the auditors comply with the principles of independence and absence of conflicts of interest, are formalised in the External Audit Policy of Gazprom Neft PJSC.

Auditors are selected on the basis of a tender, based on assessment in accordance with the following criteria:

- participant qualification and expertise in the selection area, including the experience of auditing oil and gas companies;
- ensuring protection and compliance with requirements of audit agreements (including rating agencies);
- financial parameters (cost of services, payment conditions);
- independence (in accordance with the requirement of the Ministry of Finance of the Russian Federation – Clause 2.112 of the Rules for Independence of Auditors and Audit Organisations, and with the international requirements – Clause 290.219 of the IESBA Code of Ethics, the independence of an auditor is not violated, if the revenue per customer does not exceed 15% of the auditor’s total revenue).

Based on the Internal Audit Department’s recommendations, the management has developed a set of measures to enhance internal controls effectiveness as regards business processes and has been working on their implementation along with the amendment of internal regulations and procedures.

In 2019, the Internal Audit Department’s recommendations, the management has developed a set of measures to enhance internal controls effectiveness as regards business processes and has been working on their implementation along with the amendment of internal regulations and procedures.

On top of audits, the Internal Audit Department conducted the audit of financial (accounting) statements as part of activity of audit commissions.

The company auditor is approved by the General Meeting of Shareholders based on the proposal from the Board of Directors. Candidates for becoming an audit organisation for the company undergo preliminary assessment by the Audit Committee.

In June 2019, the annual General Meeting of Shareholders selected Financial and Accounting Consultants Limited Liability Company (FBK LLC) as an auditor for 2019, and in August 2019, the Board of Directors appointed Financial and Accounting Consultants Limited Liability Company (FBK LLC) as an auditor for 2020.

In 2019, the company auditors were the following:

- PricewaterhouseCoopers Audit JSC;
- Tornikayi and Partners JSC;
- FBK LLC.

In 2019, the company engaged FBK LLC for the mandatory annual audit of the Gazprom Neft PJSC financial statements at a cost of 37,300,000 (excluding VAT).

The Board of Directors determined the amount of payment for the audit of financial (accounting) statements of Gazprom Neft PJSC for 2019 at the level of 37,300,000 (excluding VAT) with the auditor representatives (if needed). Throughout 2019, the Audit Committee considered the following issues related to external audit:

- on assessing candidates for becoming the Gazprom Neft PJSC auditors, and providing recommendations for the Gazprom Neft PJSC Board of Directors;
- on the results of the external audit for 2018;
- on a candidate for the Gazprom Neft PJSC auditor for 2019.

In 2019, the Board of Directors determined the amount of payment for the audit of financial (accounting) statements of Gazprom Neft PJSC for 2019 at the level of 37,300,000 (excluding VAT).
Management of potential conflict of interest

The company is committed to balancing the interests of its shareholders and management interacting with a high level of trust, business culture and ethics. The company majority shareholder has enough votes to resolve many matters falling within the remit of the General Meeting of Shareholders and to appoint the Board of Directors. Nonetheless, the company makes efforts to decrease risks related to governance, where most of the share capital is held by a single shareholder.

The ownership structure is transparent. Rights and obligations of shareholders along with the procedure to exercise ownership rights are clearly specified in the company Charter and by-laws, and provides relevant protection of equality of shareholder voting rights accessible. The company ensures in the company Charter and by-laws, ownership rights are clearly specified along with the procedure to exercise and obligations of shareholders is transparent. Rights.

The ownership structure

– ensuring maximum transparency – engaging independent and well-recognised appraisers to determine the value of non-cash property under related-party transactions; – ensuring maximum transparency and information disclosure when arranging and holding General Meetings of Shareholders, and timely disclosing the Board of Directors’ resolutions; – disclosing information on related-party transactions. As per the Company’s financial statements for 2019, related-party transactions were entered into in the ordinary course of business and had clear economic rationales. Most frequent transactions included sale and purchase of crude oil, gas and petroleum products; – organising mechanisms to prevent dilution of the company value. Thus, contractors for purchasing products, works and services are selected in accordance with the Regulation on Procurement approved by the Board of Directors, which is mandatory for all Gazprom Neft subsidiaries.

Gazprom Neft approved by-laws (the Corporate Code and the Corporate Governance Code) formalising values and principles, which are the basis for forming and developing corporate culture in the company. The Corporate Code regulates situations when conflicts of interests may arise: accepting gifts, using the company assets and resources, interaction with stakeholders, and handling of confidential and insider information. To implement individual Code principles, the company approved the required by-laws, for instance, in relation to access to confidential information, trade secrets, HR policy and succession pool development.

The Gazprom Neft Corporate Governance Code requires that members of the Board of Directors must refrain from actions that cause, or may cause, conflicts of interests, from voting on issues related to their personal interest, and must not disclose the confidential and (or) insider information on the company and use it in their personal interests or the interests of third parties.

Executives and managers of structural units, who are engaged in external relations and contacts on behalf of the company, are most likely to get involved in conflict of interest.

The Code states that the company employees are to inform their immediate supervisors and the Corporate Protection Directorate about all cases of corruption, fraud, theft, and conflict of interest (including suspected ones). The company has a hotline, an email address and special letter boxes for employees to report on violations anonymously. Messages to the company hotline may also be sent by third parties who are not the company employees, for instance, its contractors. The Board of Directors considers the hotline performance twice a year, including statistics on received (processed) messages and detected violations. In 2019, the company hotline received 243 messages. In December 2018, the extraordinary General Meeting of Shareholders approved the new version of the Regulation Governing the Board of Directors of Gazprom Neft PJSC. The Regulation was supplemented with the section «Detection and Prevention of Conflicts of Interests for Members of the Board of Directors”, specifying the procedures for preventing conflicts of interest in the Board of Directors:

– in case of a potential conflict of interest for a member of the Board of Directors, including the interest in a transaction made by the company, that member of the Board of Directors must send a notification to the Chairman or Secretary of the Board of Directors;– information on the conflict of interest, including the interest in a particular transaction, are to be included in materials submitted to the members of Board of Directors at a meeting;– The Chairman of the Board of Directors may offer the member of the Board of Directors, who has the respective conflict of interest, not to attend the discussion of the relevant issue at the meeting, when the nature of the issue discussed or specifics of the conflict of interest require that;
members of the Board of Directors and their related parties must not accept gifts from parties interested in decision-making, and use any other direct or indirect benefits provided by such parties (except for symbolic sings of appreciation, which are common courtesy, or souvenirs presented during official events).

Moreover, the company inspects members of the Management Board and their relatives to identify conflicts of interest, when they are employed by the company. In accordance with the Regulation on the Management Board, members of the Management Board may participate in governance bodies of other organisations, or combine jobs only with the consent of the Board of Directors.

The company checks the information on participation of members of the Management Board and the Board of Directors in other companies on a quarterly basis.

The company collects and processes information on beneficial owners of contractors under all contracts concluded by Gazprom Neft PJSC and its subsidiaries.

In 2019, no conflicts of interest were detected among the members of the Gazprom Neft Board of Directors and the Management Board.

Anti-fraud and anti-corruption policies and procedures

The basic anti-corruption by-law of the company and its subsidiaries is the Anti-Fraud and Anti-Corruption Policy adopted in 2014.

The Policy defines fraud and other terms related to fraud prevention. Based on this Policy, the Company’s senior management sets a single ethical standard of unacceptability of corruption of any type and form. The Policy outlines methods and procedures employed by the Company to combat fraud and corruption. These include a hotline, official investigations and prosecution with respect to identified cases of fraud.

Special attention is paid to corruption risks inherent to the oil industry. The Policy has a section on the Company’s business processes most exposed to fraud: interacting with officials, accepting and making gifts, entertainment expenses, charity and sponsorship, and financial arrangements with third parties. The Policy also provides for training of the company employees in zero tolerance to fraud and the basics of applicable legislation.

The Deputy CEO for Security and the head of the Internal Audit and Risk Management Directorate report regularly to the company executives on anti-fraud and anti-corruption issues.

D&O insurance

Since 2011, Gazprom Neft has provided the Directors And Officers Liability Insurance (D&O). It protects the company directors and executives from possible claims of third parties, that may be made as a result of unintended and/or erroneous actions of the company officers.

The D&O policy covers expenses related to legal defence of directors, and the expenses incurred in connection with any claims brought against them, in relation to performance of their duties.

The total limit for all insurance covers and extensions: €47.6 million. Additional liability limit for independent directors: €1.9 million. The insurance cover is valid in all countries of the world.

The company selects an insurer on the basis of accepted tendering procedures. In 2019, the insurer was Sogaz JSC, based on the corporate insurance policy.

Information policy and information disclosure

The company seeks to report on its activities to all stakeholders in a timely manner and regularly, within the scope required to make informed decisions regarding participation in the company or other actions that may have an impact on the company financial and business operations.

The Company’s information policy is implemented by the executive bodies. Compliance with the information policy is monitored by the Board of Directors. The Gazprom Neft executive bodies are responsible for implementing the information policy. In 2019, the Audit Committee of the Board of Directors considered implementation of the company information policy, for instance, the information disclosed by Gazprom Neft PJSC to third parties, including analytical and rating agencies.

The company official website provides the following:

- the Charter and by-laws;
- information on the shareholders;
- information on the governance bodies;
- information on the independent auditor and registrar;
- other information to be disclosed pursuant to the applicable laws and the Company’s by-laws, including Gazprom Neft’s annual reports.

The company has a special page on its website with answers to common questions from shareholders and investors, a regularly updated investor calendar, the dividend history, a regularly updated investor calendar, the dividend history for the last five years, key performance indicators, contact details, and other useful information.

Pursuant to the Regulation on Information Disclosure, the Company’s disclosures on the Internet include releases on the website of a security market information provider (Interfax-CIDC).
Risk management

Risk management system

Gazprom Neft PJSC has the Risk Management Policy that determines risk-management goals and principles to improve the guaranteed reliability of the Company’s operations in the short and long term. The Gazprom Neft risk-management targets are to improve the efficiency of management decisions by analysing the related risks, and to maximise the efficiency of risk-management measures, when implementing the decisions made.

The Company’s risk management system is based on the integration of the risk analysis and management tools into all key corporate processes. Responsibility for risk management and reporting on risks is determined in accordance with the Company’s linear and functional management system, with individual managers assigned to oversee specific risk areas at the level of each function and key business process. Coordinators for risks were determined among executives who disseminate and support corporate risk-management principles. The timing and objectives for risk analysis depend on the particular circumstances and requirements of each business process, with respect to which risk management is implemented.

Such an approach allows creating areas of responsibility for risk management, and monitoring risks at all management levels of the Company. It also helps develop target plans to ensure response to significant risks, both in each subsidiary and in Gazprom Neft as a whole.

The risk-management objectives are as follows:

- developing risk-management culture to achieve a common understanding of the main principles and approaches to risk management among executives and employees;
- developing and implementing an integrated approach to identifying and assessing company-wide and specific-area risks;
- promoting exchange of information on risks between the Company’s structural units and joint development of measures for managing those risks;
- regularly presenting information on risks to the Company’s governance bodies.

To achieve these goals, the Company developed and is using a single approach to the risk-management process. Together with standardised risk-analysis tools and methods, that approach forms the Integrated Risk Management Framework (IRMF).

The IRMF regulatory and methodological framework includes the following documents:

- Risk Management Policy;
- Integrated Risk Management Framework Company’s standard;
- Guidelines for Risk Management Process;
- additional guidelines for certain types of risks and application of individual risk-analysis tools.

Risk management forms an integral part of the Gazprom Neft internal environment, and includes the following:

- introducing a risk-focused approach in all aspects of production and management operations;
- performing systematic analysis of identified risks;
- building a system to control risks and monitor the efficiency of risk management;
- ensuring that all employees understand the basic principles and approaches to risk management adopted by the Company;
- providing proper regulatory and methodological support; distribution of powers and responsibilities for risk management among the Company’s structural units.

In 2020, Gazprom Neft plans to continue developing regulatory and methodological documents regarding analysis of particular material risks, and integrating risk analysis into the decision-making processes. The Company also plans to expand the training programme for executives and employees regarding application of risk-management tools and methods.

Developing the Integrated Risk Management Framework

The Company is continuously expanding the IRMF methodological framework that includes general recommendations for quantitative risk assessment and detailed techniques for assessing the most significant risks. As at the end of 2019, IRMF covered all significant assets of Gazprom Neft with all new projects or acquisitions included in the framework.

FINANCIAL IMPACT LEVELS OF RISKS AND DISTRIBUTION OF AUTHORITY WITHIN IRMF

GOVERNANCE SYSTEM 179
1. Operational risks

1.1. RISKS ASSOCIATED WITH GEOLOGICAL EXPLORATION

The Company’s key strategic objective is to increase its hydrocarbon resource base both in quantitative and qualitative terms to ensure a sufficient production level, which is a large extent depends on successful geological exploration. The main risks associated with geological exploration have to do with failure to confirm the anticipated hydrocarbon reserves and the objective decline in resource base quality. A major priority for the Company is geological exploration in a variety of geographic regions, including areas with adverse climatic conditions and environmental restrictions, which often involves the risk of extra costs. The assessment is based on a number of variables and assumptions, including the following:
- comparison of the region’s historical production rates with the productivity of similar regions;
- geological data interpretation;
- government regulations and legal framework.

Gazprom Neft has significant experience in geological exploration using cutting-edge geological and geophysical methods of hydrocarbons exploration and employing advanced drilling and field development technology, including in harsh weather conditions, which reduces the likelihood of such risks. The Company has engaged Schlumberger and Baker Hughes for an independent audit of its reserves based on the estimates by Gazprom Neft subsidiaries. Gazprom Neft closely cooperates with the federal and regional authorities on sustainable use of natural resources.

1.2. LICENCE RISKS

As a company engaged in the exploration and mining of mineral resources, Gazprom Neft operates based on government subsoil licences. These licences specify the purpose of the work (type of subsoil use), geographic boundary of the area, timeframe and terms and conditions of resource use. Under the Russian law, using subsoil resources without a licence is subject to civil and in some cases criminal liability.

In case of early withdrawal of the subsoil licence, the Company may face reputational risks and material losses related to the costs incurred to acquire the licence and develop the subsoil area, as well as lower capitalisation due to reduced resource base.

1.3. PROJECT RISKS

The Company works continuously to initiate and implement investment projects aimed at achieving its strategic goals, including increased hydrocarbon production and improved product quality. While implementing these projects the Company faces various risks that can potentially result in missed project requirements, lower capitalisation due to reduced project life, as well as implementation of the regular risk mitigation activities are reviewed on a quarterly basis at the meetings of the permanent regional commissions for subsidiary licensing. Subsidiary CEOs are responsible for maintaining subsoil licences.

To address these risks, the Company makes every effort to ensure thorough planning and coordination of its investment projects. In 2014, a risk management framework and implementation of major projects was rolled out. This framework is based on the stage-gate approach to project management that is widely used globally and provides for risk assessment at each stage of the project. Contractor requirements are determined based on risk assessment and the regulatory environment of the country, where the project is run. In addition, the Company has deployed a project monitoring system.

1.4. HSE RISKS

The Company has deployed an automated Subsidiary Use Monitoring System, a key risk management tool featuring a risk matrix to track compliance with the main (material) terms and conditions of subsoil use. The System makes it possible to assess the current risk status based on the matrix indicators and plan for an acceptable risk level in the future. The status of the current and potential licence risks as well as implementation of the regular risk mitigation activities are reviewed on a quarterly basis at the meetings of the permanent regional commissions for subsidiary licensing. Subsidiary CEOs are responsible for maintaining subsoil licences.

In the field of industrial safety, the Company strives to achieve the strategic Targel Zero – zero harm to people, the environment, or property in our operations. The main focus areas reflected in the corporate HSE Policy Statement include:
- safe production based on risk analysis, mitigation and management;
- reduction of workplace injury and occupational disease rates, accident hazards and environmental impact;
- consistent implementation of best global HSE practices.

The risk-based approach and the principle of integrating HSE risks into all key business processes of the Company underlie the occupational risk management deontology. As part of the implementation of a risk-based approach, the Company focuses on the following parameters:
- fundamental barrier setting obstacles for priority risks across the Company’s assets and ensuring their reliability;
- competency barrier ensuring that only competent employees have access to work;
- digital barrier eliminating human impact where applicable.

The company is fully aware of its responsibility to preserve the environment. Gazprom Neft keeps monitoring its activities for compliance with relevant environmental requirements and strives to reduce environmental footprints. The Company’s policy seeks to ensure compliance with Russia’s environmental regulations by investing in environmental protection, including technologies to minimize environmental footprint.

The outcome of these efforts is a considerably lower probability of environmental risks.

1.5. HR RISKS

Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market.

Failure to attract qualified employees and retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.

Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market.

Failure to attract qualified employees and retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.

Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market.

Failure to attract qualified employees and retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.

Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market.

Failure to attract qualified employees and retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.

Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market.

Failure to attract qualified employees and retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.

Highly qualified personnel is key to effective operation of the Company’s business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company’s success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market.

Failure to attract qualified employees and retain the existing talent pool could have an adverse effect on the Company’s reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.
1.6. IT, AUTOMATION, AND TELECOMMUNICATION RISKS

The Company is increasingly faced with the growing dependence of its main business processes on the quality of IT, automation, and telecommunications (ITAT).

Along with positive effects, the growing reliance on ITAT entails elements of uncertainty and related risks (ITAT risk).

As a high-tech company, Gazprom Neft places special emphasis on managing ITAT related risks. ITAT risks have to do with ITAT management, operation of IT systems (primarily in the areas of production and quantitative analysis), ITAT development projects, and the risk arising from the ban on purchasing and using foreign software and ITAT equipment due to sanctions and other restrictions.

As a high-tech company, Gazprom Neft recognises the existence of ITAT risks and seeks to manage them on a consistent basis. In managing ITAT risks, the Company is striving to increase business efficiency by anticipating the impact of ITAT risk factors and to boost the effectiveness of its ITAT risk management activities.

The Company constantly monitors and carefully analyses the existing and potential ITAT threats. The IT, Automation and Telecommunications Department at Gazprom Neft is responsible for developing regulations and procedures for ITAT risk management activities and implements a number of measures to mitigate the impact of these risks, including:

- identifying events and developments that may adversely affect the Company’s objectives;
- analysing, assessing, and setting priorities for addressing (ITAT) risks;
- designing optimal response strategy for ITAT risk management;
- providing ongoing monitoring of ITAT risks and oversees implementation of ITAT risk management activities.

1.7. RISKS OF DECLINE IN DEMAND FOR OIL AND PETROLEUM PRODUCTS

A strategy to managing this risk involves reducing its impact on financial stability of the Company and comprises the following measures:

Optimisation of production programs and material flows

A high level of modernisation and technological flexibility of the company’s refineries and the use of modern digital integrated planning systems across the entire value chain allow the company to respond in a timely manner to the turbulence of the external environment and changes in market demand, ensuring at the same time maximum efficiency of the product range, timely allocation of crude oil and petroleum products supply and storage volumes, as well as optimum redistribution of commodity flows.

Cost optimisation

As part of the response to the decline in business activity in Russia and the world, due to the impact of epidemiological factors, the company is implementing cost optimisation programme, including cancellation of financing mass cultural and sports events, reducing advertising and sponsorship, as well as administrative, managerial and educational costs.

A balanced approach to cost optimisation allows to increase the concentration of human and material resources for the implementation of priority tasks to improve the company’s financial resilience.

Long-term fixed volume and price contracting

Based on the company’s historically achieved “Trusted Partner” status, agreements on fixed volumes and price are negotiated with key contractors, which allows to share risks of macroeconomic volatility, and at the same time to guarantee the counterparty a long-term cooperation and stable financing of works/services.

2. Market risks

2.1. RISKS ASSOCIATED WITH POTENTIAL CHANGES IN PRICES FOR FEEDSTOCK AND SERVICES

In the course of business, Gazprom Neft uses the infrastructure of natural monopolies and other dominant market players in oil and petroleum products transportation and electricity supply. The Company also purchases feedstock and services from a wide range of companies.

Gazprom Neft has no control over the infrastructure of these natural monopolies and other dominant market players, their tariffs, as well as prices charged by feedstock and service suppliers.

To reduce the impact of such risks, the Company implements a number of activities, including:

- long-term commodity flow planning and timely reservation of throughput for oil and petroleum products and the rolling stock required;
- optimal redistribution of commodity flows by transport mode;
- use of alternative and own power generation sources;
- long-term contracts with feedstock and services for the term of the contract;
- use of transparent cost review formulas in long-term service contracts directly linked to market fluctuations.

These measures help reduce to an acceptable level the risks associated with procuring products and services from monopoly suppliers, and ensure the Company’s seamless operation.

2.2. RISKS ASSOCIATED WITH POTENTIAL PRICE CHANGES FOR OIL AND PETROLEUM PRODUCTS, GAS, AND GAS PROCESSING PRODUCTS

Gazprom Neft’s financial results are directly linked to prices for oil and petroleum products. The Company does not have a full control over its product prices as they are subject to supply and demand fluctuations in the global and domestic oil markets and steps taken by regulators.

The Group has implemented a business planning system in line with the scenario approach based on which the Company’s key performance indicators are linked to global oil prices. It helps cut costs, including by reducing or rolling forward investment programmes and using other mechanisms. These measures reduce the risk to an acceptable level.

2.3. INDUSTRY COMPETITION RISKS

Russia’s leading oil and gas companies compete in all main areas of business activity, including:

- government auctions for subsoil use licences for hydrocarbon production;
- acquisition of companies holding hydrocarbon production licences or owning hydrocarbon assets;
- engagement of independent service companies;
- procurement of high-tech equipment;
- recruitment of the most experienced and highly qualified professionals;
- access to transportation infrastructure;
- acquisition of existing and construction of new assets to increase sales to end consumers.

Industry competition also includes suppliers of energy sources other than oil and gas such as coal, nuclear power, and renewable energy.

By implementing its strategic project portfolio aimed at boosting performance in key business areas, Gazprom Neft is consistently strengthening its positions in Russia’s oil and gas industry and mitigating the risks related to industry competition.
2.4. RISKS ASSOCIATED WITH POTENTIAL CHANGES IN ECONOMIC ENVIRONMENT

The Russian economy remains sensitive to global price fluctuations for crude oil, natural gas, and other commodities. The negative trend in global prices for oil and petroleum products, as well as the slowdown of the world and Russian economies could adversely affect the Company's business by reducing its revenue and sales and increasing the cost of financial and other resources.

The Company takes every effort to mitigate the impact of this risk on its performance by maintaining proper balance between domestic sales and exports, oil production and refining, as well as a continued focus on expanding markets for premium distribution channels and increasing sales in foreign markets. Gazprom Neft subsidiaries support the national economy as major tax payers and by contributing to large-scale infrastructure and social projects. The Company is constantly upgrading its production facilities and improving performance efficiency by implementing major investment projects and renewing and modernising its fixed assets.

3. Financial risks

3.1. COUNTERPARTY CREDIT RISK

Credit risk is the risk of the Group incurring financial losses due to failure of buyers or counterparties to fulfill their contractual obligations. This risk is primarily related to the Group’s receivables from buyers and the investment securities. Credit risk is managed through the use of several strategies, including:
- analysis of counterparty credit capacity;
- setting individual credit limits and payment terms depending on the counterparty’s financial position;
- advance payment monitoring;
- measures to control receivables focused on specific business areas, and other initiatives.

3.2. BORROWING RISK

Sanctions against Gazprom Neft imposed by the US, EU and other countries have substantially limited the range of available financing instruments for the Company. The Company effectively manages the risk associated with borrowings. Despite the sanctions from the US, EU and other countries imposed against Gazprom Neft in 2014, the Company has successfully completed its borrowing programme in 2017 and 2018. Sanctions have not considerably affected the Group’s ability to obtain large-scale loans from Western financial institutions. Subsidiaries of Gazprom Neft operate in the Central, North-Western, Ural, Volga, Siberian and Far Eastern federal districts.

3.3. FX RISK

The foreign exchange risk primarily arises from the availability of borrowed funds denominated in currencies other than the functional currencies of the respective Group companies, which mainly include their local currencies. For example, in the US dollar and euro. The aforementioned borrowed funds are largely denominated in US dollar and euro.

3.4. INTEREST RISK

The Group’s borrowings were partly raised at a floating interest rate (linked to LIBOR, EURIBOR or the Bank of Russia’s key rate), and partly at a fixed interest rate. In an environment of lower borrowing rates, fixed interest rates may become more expensive than floating interest rates, and vice versa. The Group maintains a balanced portfolio structure, which minimises the risk of negative consequences arising from adverse changes in interest rates.

4. Risks associated with government regulation

4.1. RISKS OF INCREASED EU AND US SANCTIONS

Sanctions against the Russian energy sector have been imposed by the US and EU sanctions regime introduced in 2014. Tougher sanctions may adversely affect the overall situation in the industry have impact on the Company’s specific prospective projects and the ability of its counterparties to meet their obligations.

4.2. POLITICAL RISKS

Today, the political situation in Russia is stable, which is characterised by the stability of the federal and regional governments. Gazprom Neft is registered as a taxpayer in St Petersburg, the second largest city in Russia and the administrative centre of the North-Western Federal District, with a significant potential of natural resources, mature industry and extensive transport network. Subsidiaries of Gazprom Neft operate in the Central, North-Western, Ural, Volga, Siberian and Far Eastern federal districts.

4.3. CORRUPTION RISKS

As the Company actively enters into new international markets, the risks of the US and UK anti-corruption laws being applicable to it increase.

Gazprom Neft implements the Corruption Risk Management Strategy on a permanent basis. The Company has approved the Anti-Fraud and Anti-Corruption Policy. In addition, recommendations were made to all subsidiaries of the Gazprom Neft Group for approving local policies. Knowing the key principles of and compliance with the requirements of this policy are mandatory for all Gazprom Neft employees. To control corruption risks when cooperating with external counterparties, Gazprom Neft CEO has developed and approved standard anti-corruption clauses to be included in agreements with third parties (both Russian and foreign ones). The Company also has an anti-fraud and anti-corruption hotline. When hotline operators receive messages, it triggers a mandatory internal investigation.

4.4. RISKS ASSOCIATED WITH CHANGES IN JUDICIAL PRACTICE CONCERNING MATTERS OF THE COMPANY OPERATIONS

In general, the Company assesses the political situation in the country as stable and believes that there are no risks of negative developments at the moment.
Governance System

4.5. RISKS ASSOCIATED WITH CHANGES IN RUSSIAN TAX LAWS

The Group’s major companies are among Russia’s largest taxpayers, paying federal, regional and local taxes, including the mineral extraction tax (MET), excise tax, value added tax (VAT), corporate income tax, compulsory social security contributions, property tax, and land tax. Russia’s tax system is constantly evolving and improving. A potential rise in taxes paid by the Company could increase costs and reduce the funds available to finance current activities, capital expenditures and obligations, including those relating to bonds issued. Virtually any company in Russia could potentially suffer losses resulting from claims by tax authorities relating to bonds issued. Virtually any company in Russia could potentially suffer losses resulting from claims by tax authorities relating to bonds issued.

To reduce the risks associated with changes in Russia’s tax laws, Gazprom Neft thoroughly examines draft laws and approved taxation-related regulations. The most significant recent changes in Russia’s tax laws affecting the Company include:
- changes in MET rates, export duties and excise taxes resulting from the so-called tax maneuver;
- introduction of a formula-based calculation of MET for gas and gas condensate from 2014;
- introduction of a tax on additional income from the extraction of hydrocarbons, effective from 2019;
- increase in the VAT rate from 18% to 20%, effective from 2019;
- introduction of a negative excise tax on crude oil, accounting for the dumping coefficient, which reflects the difference between domestic motor fuel prices and export netbacks from 2019.

The Company assesses and forecasts the level of potential adverse effect of changes in Russia’s tax laws, taking every effort to mitigate the risks arising from these changes. In 2019, Gazprom Neft expanded the list of companies included in the new tax control mechanism, known as tax monitoring. In 2019, three of the Group’s subsidiaries – major tax payers – joined it:
- Gazpromneft-Noyabrskneftegaz;
- Gazpromneft-Yamal;
- Gazprom Neft Shetland.

This tax control mechanism allows the Company to obtain a reasoned opinion of the tax authority helping. It is particularly helpful for the above companies, as they are covered by the new tax regimes in the oil industry, including the additional income tax, and the tax regime for new offshore fields.

4.6. RISKS ASSOCIATED WITH CHANGES IN CUSTOMS DUTIES AND REGULATIONS

Gazprom Neft is a company engaged in foreign trade, hence it is exposed to risks associated with changes in the nation’s legislation in the field of foreign trade regulation, as well as the customs legislation of the Eurasian Economic Union, which regulates the establishment of procedures for moving commodities and goods across the customs border of the Eurasian Economic Union, the establishment and application of customs regimes, the establishment, introduction and charging of customs duties.

As a risk, the Russian Government may change customs duty rates (both for imports and exports) on certain commodities and goods in respect of which the Company makes foreign trade transactions, and change in law enforcement practice in the area of customs regulation. The key negative consequences, if these risks materialise, are growing costs and lower efficiency of exports.

5. Strategic risks

5.1. RISK OF FAILURE TO ACHIEVE STRATEGIC GOALS

The market of oil and petroleum products has been undergoing significant changes along with the geopolitical environment. The Company believes that the high likelihood of volatility in the market persists. In the long run, the state of the global energy sector will depend on a wide range of factors that are hard to predict, including economic growth rates, international cooperation, innovation rate, and decarbonisation efforts. These factors determine the following key characteristics of the environment in which the Company, and the oil and gas industry as a whole, operate:

- Low level of transparency and predictability of the business environment.
- Increasing competition and significant drops in prices for oil and gas products and goods in respect of which the Company makes foreign trade transactions.
- Significant changes along with the geopolitical environment.
- Lower levels of economic growth in major countries and regions.
- Changes in the world oil market, including the prices of oil and other petroleum products.
- Increased competition in the oil industry.
- Higher requirements for efficiency and environmental responsibility.
- Higher requirements for transparency and accountability.
- Changes in the global energy governance system.
- Changes in the global energy governance system.

The Company is also planning to take advantage of potential new deposits in the mature petroleum product markets, and remain a leader in Russia in terms of distribution network efficiency.
6. Risks of partner engagement
6.1. Risks of partner engagement

In an unstable macroeconomic environment, engaging partners in joint projects is becoming an increasingly important and difficult task. As they drastically cut their investment budgets, potential business partners scale back their activities and put off any potential joint projects. The sanctions against the Russian energy sector that have been imposed since 2014 by the United States (with amendments to sanctions regime introduced in 2017 and 2018), the European Union, and a number of other countries create additional hurdles for any potential partnership.

7. Country risks
7.1. Risks associated with foreign assets

The vast majority of Gazprom Neft upstream and downstream assets is located in the Russian Federation, therefore, the impact of that risk is limited. However, the Company seeks to diversify its international operations. When implementing projects in high-risk countries, the Company applies stricter requirements for the rate of return of such projects. In addition, in case of deterioration in the political or social and economic situation in the Company’s regions of operation, Gazprom Neft PJSC may implement a number of anti-crisis measures, such as cost reduction, optimising the investment programme, reducing interest in the project, and engaging partners.

At present, Gazprom Neft assesses the risks related to foreign assets as acceptable, but it cannot guarantee that there will be no adverse changes, since the specified risks are beyond the Company’s control.

8. Pandemic

The company has put in place a Response Centre headed by the Gazprom Neft CEO, which serves as the company’s central coordination body in managing the “Pandemic” risk. The Response Centre, together with divisional and subsidiary-level response centres carries out general coordination in the following areas: “Antivirus”, “Operational reliability” and “Financial stability”.

Risk management is carried out at the enterprise-wide level, by selecting, implementing and monitoring barriers aimed at preventing and minimizing the consequences of possible unfavorable events associated with the spread of the pandemic among the company employees and contractors.

Insurance

The group insures risks to:
- protect the assets of the company shareholders;
- comply with legal requirements;
- secure financing to cover and manage losses;
- obtain supplementary consulting services to assess insurable risks, and recommendations on risk reduction;
- provide incentive and social support programmes for personnel as part of the benefits package.

To maximise efficiency in terms of the number of risks insured, the Group takes a centralised approach to risk insurance to develop and deliver a unified risk insurance strategy across the Group. To this end, mandatory insurance practices are implemented in all subsidiaries, with the latter having the opportunity to propose improvements to the Group existing insurance framework. The Company develops, adopts, and maintains up-to-date rules and procedures with respect to different types of insurance that reflect specific nature of the insured risks.

The group risks are only insured and reinsured with those insurance companies that meet the requirements in terms of reliability and quality of risk distribution. When terms and conditions of insurance contracts are determined, the group actively applies self-retention, which means independent (without involving the insurance market) compensation for losses. The self-retention level means the amount of potential losses during one year in all the group subsidiaries, which will worsen ROACE by 5%, as calculated on the basis of the group consolidated business plan. The risks are subject to compulsory or voluntary insurance, if their realisation may result in a loss exceeding the self-retention level. The Group main risks to be insured, and examples of insurance coverage conditions for these risks in 2020 are given below:

Various types of liability related to damage to property, life and health of third parties, including (but not limited to) the following types:  
- comprehensive liability for third parties, manufacturers, for pollution, to terminal owners, etc., with an extension to compensation for losses related to legal requirements for environmental damage, and the limit of €500 million per insured event;  
- liability of directors and officers, with the indemnity limits of up to $250 million per insured event;  
- liability of a contractor;  
- liability of a shipowner (P&I), with the limit of at most $3 billion;  
- liability for damage resulting from an accident at the hazardous facility;  
- mandatory vehicle insurance (basic and additional insurance);  
- liability for damage resulting from a terrorist act at a facility of the fuel and energy complex;  
- liability of business partners, with the indemnity limits of up to $250 million per insured event;  
- liability of a chiropractor;  
- liability of a driver;  
- liability of a hacker;

Insurance companies are selected in accordance with regulated contractor selection procedures adopted by the group.

The insurer of the majority of the group risks is SOGAZ JSC, which is number one on the Russian insurance market. Some group risks are insured by Rosgosstrakh PJSC.
The Gazprom Neft PJSC authorised capital consists of 4,741,299,639 ordinary shares traded in Russia on the main market of the Moscow Exchange PJSC. Outside Russia, company’s shares are mainly OTC-traded in the form of American depositary receipts (ADRs), via the LSE IDB service in the UK and the OTCQX system in the USA.

On all trading platforms of the Moscow Exchange, trading volumes in the Gazprom Neft PJSC shares in 2019 amounted to ₽57.3 billion ($888 million), which was two and a half times higher than trading volumes in 2018.

On the last trading day of 2019, 30 December, the Gazprom Neft share price on the Moscow Exchange reached ₽420.2 per ordinary share. That was a growth of 21%, compared to the start of the year, which was one of the most significant figures in the industry on the Russian market. At the end of 2019, Gazprom Neft PJSC capitalisation reached ₽1,992 billion, which was equivalent to $32 billion.

In 2019, the maximum share price increased to ₽436, which was the highest figure in the history of Gazprom Neft PJSC. The company’s value increased as a result of the growth in hydrocarbon production, improvement in refining efficiency thanks to innovative technology, the launch of key projects, and expanding sales in premium segments.

Key information on Gazprom Neft PJSC shares and ADRs as at 31 December 2019

<table>
<thead>
<tr>
<th>SHARE PRICE ON THE MOSCOW EXCHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing price (₽)</td>
</tr>
<tr>
<td>Closing price ($)</td>
</tr>
<tr>
<td>52-week high price (₽)</td>
</tr>
<tr>
<td>52-week low price (₽)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRICE PER ADR ON THE LONDON STOCK EXCHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing price ($)</td>
</tr>
<tr>
<td>52-week high price ($)</td>
</tr>
<tr>
<td>52-week low price ($)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trading volumes per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow Exchange (₽ billion)</td>
</tr>
<tr>
<td>London Stock Exchange (IOB) ($ million)</td>
</tr>
</tbody>
</table>

Changes in Gazprom Neft PJSC share prices, the Moscow Exchange Index, and Urals oil prices (against the start of 2019), %

<table>
<thead>
<tr>
<th>Gazprom Neft</th>
<th>MICEX</th>
<th>Urals</th>
</tr>
</thead>
<tbody>
<tr>
<td>120</td>
<td>120</td>
<td>70</td>
</tr>
<tr>
<td>110</td>
<td>110</td>
<td>120</td>
</tr>
<tr>
<td>100</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>90</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>80</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td>70</td>
<td>70</td>
<td>80</td>
</tr>
</tbody>
</table>

January February March April May June July August September October November December
Participation depositary receipts programme

In addition to trading on the Moscow Exchange, American and global depositary receipts for the company shares are traded on the OTC markets in the USA, the UK, Germany, and other countries. The Bank of New York Mellon is a depositary bank for the depositary receipt programmes of Gazprom Neft PJSC.

One ADR is equivalent to five Gazprom Neft PJSC ordinary shares. At the end of 2019, ADRs issued for the ordinary shares were equivalent to 73 million shares (1.5% of the company authorised capital). The total number of outstanding ADRs went down as ADRs were being redeemed throughout the year amidst restrictions on new ADR issuances.

In 2019, trading volumes in Gazprom Neft PJSC ADRs totalled $195.5 million on the London Stock Exchange IDB, and $6.5 million on OTCQx. Average monthly trading volumes were $16.3 million on LSE IDB, and $0.04 million on OTCQx.

Dividend policy

The dividend policy is a critical component of corporate governance and the key indicator of how the company observes the rights of its shareholders. The Dividend Policy Regulation of Gazprom Neft PJSC is designed to ensure maximum transparency of dividend calculation and payment procedure for all stakeholders, including shareholders. It also determines how the company’s Board of Directors develops its recommendations to the General Meeting of Shareholders with regard to calculating the dividends on the company’s shares, to the date of identifying the persons entitled to the dividends, and to the payment procedure.

The core principles of the Gazprom Neft PJSC dividend policy are as follows:

- Maximum transparency of the dividend calculation and payment procedure.
- The Dividend Policy Regulation sets out the minimum annual dividends on the company’s shares, which must not be less than the greater of:
  - 15% of the Gazprom Neft Group consolidated results (IFRS), or
  - 25% of the company net profit (RAS).
- Compliance with the applicable laws of the Russian Federation, the company Charter and by-laws. Each shareholder included in the shareholder register as at the date established by the General Meeting of Shareholders, at which the resolution to pay dividends was adopted, is entitled to dividends.
- That date must be set no earlier than 10 days and no later than 20 days from the date when the resolution to pay dividends was adopted;
- Commitment to the highest corporate governance standards. The company introduced the principle of ensuring positive dynamics of dividend payments in line with the growth of the net profit of the company; the approved Gazprom Neft PJSC Dividend Policy Regulation and the company dividend history are available on the official company website.
Dividend history

Company dividend history

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>4 months 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends accrued per share (₽)</td>
<td>6.67</td>
<td>10.68</td>
<td>15.0</td>
<td>36.0</td>
<td>18.14</td>
</tr>
<tr>
<td>Total dividends accrued on shares of this class (₽)</td>
<td>30,474,208,664</td>
<td>50,637,080,144.52</td>
<td>71,119,496,585</td>
<td>142,238,998,170</td>
<td>86,007,175,451.46</td>
</tr>
<tr>
<td>Total dividends paid on shares of this class (₽)</td>
<td>30,473,891,577</td>
<td>50,636,890,886</td>
<td>71,118,331,325</td>
<td>142,236,614,611</td>
<td>86,005,202,910</td>
</tr>
<tr>
<td>Share of net profit (IFRS), %</td>
<td>28</td>
<td>25</td>
<td>28</td>
<td>38</td>
<td>40</td>
</tr>
<tr>
<td>Date of the list of persons entitled to dividends</td>
<td>27/06/2016</td>
<td>26/06/2017</td>
<td>26/06/2018</td>
<td>01/07/2019</td>
<td>18/10/2019</td>
</tr>
<tr>
<td>Date of the meeting of the issuer’s governing body, at which the resolution to pay dividends was adopted, date and number of the minutes</td>
<td>10/06/2016, no 0101/01 on 14/06/2016</td>
<td>09/06/2017, no 0101/01 on 14/06/2017</td>
<td>09/06/2018, no 0101/01 on 13/06/2018</td>
<td>14/06/2019, Minutes of the annual General Meeting of Shareholders № 0101/02 on 14/06/2019</td>
<td>30/09/2019, Minutes of the extraordinary General Meeting of Shareholders № 0101/05 on 02/10/2019</td>
</tr>
</tbody>
</table>

Dividend yield in 2019, %

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Gazprom Neft PJSC</th>
<th>Company 2</th>
<th>Company 3</th>
<th>Company 4</th>
<th>Company 5</th>
<th>Company 6</th>
<th>Company 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>11</td>
<td>16</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

1/1 Calculated on the basis of dividends declared in 2019, and the price of shares as at 3 January 2019. In order to ensure equivalence, the dividends paid by Gazprom Neft were calculated on the basis of dividends for the fourth quarter of 2018 and for the first six months of 2019 and also taking into account the dividends for the third quarter of 2019 (the estimated figure, the dividend payout ratio is 18.14%). Companies for comparison: Rosneft PJSC, Company, Lukoil PJSC, Tatneft PJSC, NOVATEK, JAK Bashneft PJSC, and Surgutneftegaz PJSC.

Debt management and credit ratings

Debt portfolio

Gazprom Neft uses both internal sources (generated from operations) and borrowings to finance its operations. When determining debt and equity share within the capital structure, the company seeks to maintain the optimal balance between the total cost of capital, on the one hand, and long-term financial sustainability, on the other hand.

Core debt portfolio management principles

The company adheres to a fairly conservative debt financing policy. The key debt-policy principles include a high level of financial sustainability, with such critical indicators as the net debt/EBITDA ratio and the consolidated financial debt/EBITDA ratio, calculated for the Gazprom Neft Group. In accordance with the terms and conditions of the company loan agreements, the consolidated financial debt/EBITDA ratio must not exceed three. At the end of the reporting period (and during the five-year period preceding the reporting date), that ratio was below the threshold. The net debt/EBITDA ratio decreased by 4.1% in 2019.

The company had a comfortable headroom under all applicable covenants on loan agreements and Eurobonds.

Information transparency of the debt policy is ensured by disclosing the performance of the Gazprom Neft Group debt-portfolio management on the official company website. In the reporting year, the company regularly updated the relevant section of the website.

Key debt instruments

At the end of 2019, the Gazprom Neft Group debt portfolio consisted of such debt instruments as bilateral credit facilities (including revolving facilities), syndicated credit facilities, local bonds, Eurobonds, and a credit facility guaranteed by the Export Credit Agency (ECA). In addition, the company made a number of project-financing transactions.

When raising debt financing, the company takes into account the features of operations being funded, and the situation on debt-capital markets. The diversified structure of the Gazprom Neft Group debt portfolio makes it possible to maintain a flexible debt policy amid volatility on debt-capital markets.

In 2019, the Gazprom Neft Group raised loans and borrowings totaling ¹ implies a billion (taking into account short-term borrowings), including:— bond offering for the total amount of ¹P1.2 billion;— placement of local bonds worth ¹65.0 billion;— drawdown of ¹P13.1 billion (including short-term borrowings) under loan agreements.

In 2019, the Gazprom Neft Group repaid the loans and borrowings totaling ¹P92.4 billion.

The Gazprom Neft Group regularly implements measures designed to optimise its debt portfolio structure and profile. As part of those measures in 2019, the company agreed on better conditions for existing credit facilities, and carried out unscheduled long-term refinancing of borrowings for ¹P148.5 billion in advance.

Debt-to-EBITDA ratio

As at 31/12/2019

0.7
As a result of borrowings and repayments during the year, changes in the debt of other Gazprom Neft Group companies (Naftna Industrija Srbije A.D., the Gazprom Neft Moscow Refinery, Gazpromneft Shipping), and ruble revaluation of FX-denominated borrowings, the debt portfolio of the Gazprom Neft Group for the reporting period declined from ₽775 billion as at 31 December 2018 to ₽715 billion as at 31 December 2019.

Thanks to a significant growth in operating profit, the Gazprom Neft Group reduced its debt leverage as defined by the net debt/EBITDA ratio.

Key features of the debt portfolio

Long-term borrowings dominate the structure of the Gazprom Neft Group debt portfolio in terms of maturity; however, in 2019 the share of long-term debt increased by nine percentage points, which minimised the refinancing risks in 2020.

Assets and liabilities denominated in foreign currency significantly reduces the FX risk: current structure of revenues and liabilities acts as a natural hedge with cash flows denominated in foreign currency, to prevent profit and loss volatility. The FX risks of the group debt portfolio were substantially mitigated, as the proportion of ruble borrowings grew to 61%.

Debt maturity schedule
According to the 2020-2021 debt repayment schedule, Gazprom Neft Group expects to reduce its debt refinancing burden.

Potential debt sources in 2020
The Gazprom Neft Group not only successfully implemented a financial debt programme using the most efficient instruments in 2019, but also took a number of major steps to raise funds in 2020 with several bank loan agreements signed.

In 2020, the company intends to continue to improve the efficiency of its debt-portfolio management by selecting the best debt instruments, subject to the current market conditions but not limited to, bonds, bank loans, and project financing.

Within the multi-currency Exchange-Traded Bond Programme registered in 2018, the company may at short notice, arrange the issue of exchange-traded bonds with maturity of up to 15 years, and with a total volume of up to ₽115 billion in equivalent, inclusive. The Programme remains in effect for 15 years. In February 2020, exchange-traded bonds were placed for the amount of ₽10 billion. In addition, the available limit under the programme registered in 2015 amounts to ₽9 billion (with bond maturity of up to 30 years inclusive).

The company also actively cooperates with the Moscow Exchange Bond Issuers Committee to improve Russian laws on the securities market in terms of placement and circulation of bonds.

Credit ratings
As at the end of February 2019, all of the company credit ratings were in investment grade category:

- In February 2019, Moody's upgraded the company rating to Baa2, and revised the outlook to Stable;
- In August 2019, Fitch upgraded the rating of Gazprom Neft to BBB, and revised the outlook to Stable.

Gazprom Neft PJSC credit ratings

Debt portfolio structure, ₽ million

<table>
<thead>
<tr>
<th>Year</th>
<th>Long-term loans and borrowings</th>
<th>Short-term loans and borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>818,098</td>
<td>147,319</td>
</tr>
<tr>
<td>2018</td>
<td>676,408</td>
<td>80,187</td>
</tr>
<tr>
<td>2017</td>
<td>680,414</td>
<td>131,760</td>
</tr>
<tr>
<td>2016</td>
<td>775,453</td>
<td>90,923</td>
</tr>
<tr>
<td>2015</td>
<td>715,228</td>
<td>30,198</td>
</tr>
</tbody>
</table>

Debt portfolio structure by currency, %

<table>
<thead>
<tr>
<th>Year</th>
<th>€</th>
<th>$</th>
<th>₽</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>15.96</td>
<td>31.03</td>
<td>39.62</td>
<td>54.47</td>
</tr>
<tr>
<td>2018</td>
<td>31.03</td>
<td>39.62</td>
<td>54.47</td>
<td>60.61</td>
</tr>
<tr>
<td>2017</td>
<td>39.62</td>
<td>54.47</td>
<td>60.61</td>
<td>60.61</td>
</tr>
<tr>
<td>2016</td>
<td>54.47</td>
<td>60.61</td>
<td>60.61</td>
<td>60.61</td>
</tr>
<tr>
<td>2015</td>
<td>60.61</td>
<td>60.61</td>
<td>60.61</td>
<td>60.61</td>
</tr>
</tbody>
</table>

Debt maturity schedule, ₽ million

<table>
<thead>
<tr>
<th>Maturity</th>
<th>1 year</th>
<th>2-3 years</th>
<th>5-7 years</th>
<th>&gt;5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>1,240</td>
<td>77,604</td>
<td>1,607</td>
<td>16,932</td>
</tr>
<tr>
<td>Local bonds</td>
<td>3,294</td>
<td>7,323</td>
<td>9,563</td>
<td>2,840</td>
</tr>
<tr>
<td>Loan participation notes</td>
<td>2,612</td>
<td>7,445</td>
<td>14,000</td>
<td>4,770</td>
</tr>
<tr>
<td>Other loans</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Source: company data

Credit ratings

- AAA (RU)
- BBB
- BBB-
- BB+
- S&P
- Moody's
- Fitch
- АКРА

Gazprom Neft P JSC credit ratings

The company also actively cooperates with the Moscow Exchange Bond Issuers Committee to improve Russian laws on the securities market in terms of placement and circulation of bonds.
Investor and shareholder relations

The company holds regular conference calls for investors, involving its executives. In addition, Gazprom Neft publishes the Management’s Discussion and Analysis of Financial Condition and Results of Operations on a quarterly basis, as an appendix to the Gazprom Neft PJSC financial statements (IFRS). The company also publishes the Databook and Datafeed statistical reference guides to study in detailed analysis of its operations.

To ensure comprehensive communication, the company holds regular meetings with investors and shareholders, and takes part in all major investment and broker conferences. Every year, Gazprom Neft PJSC holds an Investor Day attended by its top management and company representatives, who directly answer questions from analysts and investors from investment companies. Gazprom Neft organises regular site visits to its production and upstream facilities to keep investors and analysts informed about its production assets.

Information about the company is included in all industry reports. About 10 reports are published each quarter, following the publication of the company results. In general, analysts assess the information disclosed during conference calls as positive or neutral for the market. Any irregular or unpredictable events affecting the company performance are discussed with analysts.

Consensus forecast for the Gazprom Neft PJSC target share price

<table>
<thead>
<tr>
<th>Broker/Investor Service</th>
<th>Date</th>
<th>Recommendation TP, ₽</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kirill Tachennikov</td>
<td>21/02/2020</td>
<td>Buy 663.4</td>
</tr>
<tr>
<td>Dmitry Lukashov</td>
<td>26/02/2020</td>
<td>Hold 473.9</td>
</tr>
<tr>
<td>Evgeniya Obyshlyuk</td>
<td>27/02/2020</td>
<td>Buy 517.6</td>
</tr>
<tr>
<td>Andrey Gromadin</td>
<td>26/02/2020</td>
<td>Hold 480.6</td>
</tr>
<tr>
<td>Karen Kostyanov</td>
<td>28/02/2020</td>
<td>Buy 549.3</td>
</tr>
<tr>
<td>Mitch Jennings</td>
<td>26/02/2020</td>
<td>Buy 490.0</td>
</tr>
<tr>
<td>Anna Bulko</td>
<td>26/02/2020</td>
<td>Buy 506.4</td>
</tr>
<tr>
<td>Andrey Palshuk</td>
<td>25/02/2020</td>
<td>Buy 495.0</td>
</tr>
<tr>
<td>Alexander Burgansky</td>
<td>25/02/2020</td>
<td>Hold 470.0</td>
</tr>
<tr>
<td>Heydar Mamedov</td>
<td>28/02/2020</td>
<td>Buy 469.9</td>
</tr>
<tr>
<td><strong>MEAN</strong></td>
<td><strong>531.6</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Investors’ FAQ**

**What is your capital investment plans for 2020?** Gazprom Neft’s comprehensive and complex portfolio includes projects at early stages of development that require the adjustment of capital investment plans, so it is difficult to state a definite figure. Prior to the COVID-19 pandemic, we were planning on capital expenditure of up to $7.3 billion. However, if the situation deteriorates, the company may consider a 20% reduction of the programme. It is difficult to predict what will happen next; but, importantly, the Gazprom Neft position is strong, and the company is ready for any scenario. By the time of this crisis, the company had already achieved strong financial performance, with low leverage. There has not yet been any substantial investment in new major projects; however, the company has mostly finished spending on key current upstream and refinery projects, which allows more flexibility in decision-making. The company will have to be more conservative now, and it will have to review all its plans, and extend the deadlines for some projects. However, Gazprom Neft focuses on long-term plans, rather than on the current situation on the market.

**What is the main driver of capital expenditure for you in the short term, in order of priority?**

The company prioritises key major projects in terms of investment. Those key projects include the Novotorzhetskoye field, where drilling-out is continuing, and the gas infrastructure is being built. They also include oil rims, which the company has begun to develop on the Yamal Peninsula (the Tazovskoye and Severo-Samburgskoye fields). There are also projects to develop the Necoman and Jurassic deposits of large Gazprom gas fields, the Bovanenkoye and Kharasavey fields, which will be developed under long-term risk operator agreements. These projects are priorities for Gazprom Neft that require large amounts of capital investment. They are, however, expected to contribute significantly to future production.

**What measures is the company taking in relation to COVID-19?**

Given the spread of COVID-19, the company’s strategy of focusing on digital technologies proved to be wise, as it allows many processes to be managed remotely, and increases their safety. To ensure business continuity, the company has a multi-level crisis management action plan. It has created a corporate system of barriers to prevent the spread of infection. The company has modelled basic scenarios in relation to the risk of COVID-19 spreading among employees and contractors. It has conducted drills to ensure its smooth operation, if COVID-19 is found among employees at fields and refineries, including increasing rotation periods at remote fields to 45-50 days, and paying advances to those employees who are on rotational leave. Gazprom Neft refineries are ensuring manufacture of petroleum products in accordance with this plan. Automation at refineries in Omsk and Moscow allows remote control over the production process, and includes measures for preventing infection. About 60% of employees at the company headquarters in St Petersburg have started working remotely, primarily pregnant women, employees aged 60 and older, disabled people, and all those who have chronic cardiovascular and lung diseases. Overall, the Gazprom Neft Group has organised remote working for about 15% of its staff, and this figure is increasing. The company has introduced additional digital services for remote work that were not available before. In addition, the company has made it easier for its employees to use its devices and software at home.

**Is it likely that dividend payments will amount to 50% of the net profit?**

The resolution regarding the dividend payout ratio of 50% of the net profit was made at one of the last meetings of the Board of Directors in 2019. This means that all resolutions on dividend payment in 2020 will correspond to a 50% benchmark.

**What growth or reduction in production can be expected from the company?**

The balanced project portfolio provides significant opportunities to increase production; however, the production growth depends on how the situation on the market develops. In its previous conservative scenario, as part of continuing the OPEC+ deal without changes, the company expected hydrocarbon production to increase by 1%. Given the pandemic, it is extremely difficult to predict changes on the market. I would like to emphasise that the company is strong and it is working on several scenarios for further development, and is able to respond to the changes both flexibly and quickly.

**On which fields was the excess-profits tax (EPT) imposed in 2019?**

In 2019, EPT was imposed on blocks at the following mature fields: Vyngapakhsinskoye, Bostyche-Vyngapakhsinskoye, Kraopye, Romanovskoye, and Novogodnevskoye. EPT was also levied on some blocks at greenfield sites, such as Tazovskoye, Ignalginskoye, Zapadno-Yubileinos, Severo-Samburgskoye, Novotorzhetskoye, Kuyumbinsky, Tersko-Kamovskoye, and Zapadno-Zimnyy.
INTERNATIONAL EXPERTS NAME GAZPROM NEFT’S NOVY PORT PROJECT AS THE BEST IN THE OIL AND GAS INDUSTRY

Marina Keyvabu, Chemistry Lab Technician

Sustainable development

Health, safety and environment
Environmental safety
Human Resources development
Social policy
At Gazprom Neft we are guided by the principles of sustainable development in everything we do. We don’t measure the company’s success simply in terms of productivity and financial performance. The key priorities for us are care for the environment and meticulously careful usage of natural resources; safety; appropriate use of technology; and consistently improving quality of life in those regions in which we operate.

Key priorities to Gazprom Neft are to:
- protect the environment,
- ensure safety,
- enable technological advancement, and
- consistently improve the standard of living in the company regions of operation.

Key stakeholder groups
- Shareholders and investors
- Employees
- Consumers
- Government of the Russian Federation and governments of Gazprom Neft regions of operation
- Suppliers and partners
- Local communities in Gazprom Neft regions of operation
- Industry peers in Russia and worldwide
- Non-profit and non-governmental organisations

Gazprom Neft is consistently integrating the principles of sustainable development into its strategy and operations. The key priorities for the company are safe production, occupational safety, and protecting the health of its employees.

Gazprom Neft seeks to minimise negative environmental impacts from oil production and refining, make its products more environmentally friendly, and use natural resources carefully.

The company contributes to addressing climate change by implementing projects to increase associated petroleum gas (APG) utilisation, developing energy-saving technologies and renewable energy projects.

Gazprom Neft social responsibility initiatives also include incentive and social support programmes for employees, as well as projects aimed at developing the potential of those regions in which the company operates.

A solar power plant has been built and commissioned at the Omsk Refinery within a record-breaking time frame. This will enable the Omsk Refinery to reduce CO2 emissions by more than 6,300 tonnes per year. By introducing renewable energy technologies, the refinery will improve its energy efficiency and environmental performance.

In the summer of 2019, Gazprom Neft successfully completed the first exploratory expedition as part of the ‘Narwhal: Legend of the Arctic’ project. This project will make it possible to assess the status of the narwhal population in the western sector of the Russian Arctic.

In 2019, Gazprom Neft topped the Randstad employer rankings for the third year in a row. The company was ranked first in the fuel and energy sector. Gazprom Neft is creating an engaging environment aligned with company values.

Gazprom Neft has implemented incentive and social support programmes for employees, as well as projects aimed at developing the potential of those regions in which the company operates.
As part of comprehensive business transformation, the company has set itself a strategic goal of becoming one of the safest oil and gas companies by 2030.

To achieve its stated HSE safety goals, Gazprom Neft is implementing a risk-oriented approach. Today, the company focuses on the making sure that it puts in place defences against key risks in all assets. Digital technology is essential to the effective management of this process. Another strategic objective is to ensure that only those people who are qualified to do so will be able to work at our facilities.

Anton Gladchenko, Head of HSE Directorate, Gazprom Neft PJSC

In 2018, the company initiated a transformation of its HSE system, underpinned by a risk-focused approach. In 2019, the company completed the first round of practical implementation of this approach. To manage key HSE risks, at the corporate level, Gazprom Neft identified 31 scenarios of events that may lead to catastrophic consequences. In order to develop and implement effective preventative measures to mitigate these risks, Gazprom Neft launched the Safety Framework Project. An independent inspection team assesses the efficiency of measures taken by Gazprom Neft enterprises to determine whether these protective barriers are robust.

The company is aware that employees play a key role in maintaining a safe working environment. Accordingly, it places a special emphasis on communications with personnel. Every year, the company holds Safety Days, which are attended by Gazprom Neft top managers. During these events, Gazprom Neft employees and contractors express their opinions on workplace hazards. This enables the company to receive high-quality feedback, and promptly address any issues arising in the workplace.

To assess technology-related risks in the course of design, construction, operation and decommissioning of facilities, the company uses advanced international methodologies, such as HAZID/ENVID (hazard identification), HAZOP (hazard and operability study) and PHSER (analysis of HSE risks).

Reliability management is underpinned by risk assessment at all stages of the life cycle of a production facility, from design to dismantling and reclamation. At the operation stage, the company seeks to ensure the uninterrupted operation of equipment and reduce the number of repairs.

In addition, Gazprom Neft is implementing a number of transport safety programmes, which include introducing a vehicle tracking system, training in defensive driving, on-site training and briefings on transport safety, etc.

OCCUPATIONAL HEALTH

Gazprom Neft is implementing a corporate programme to develop an occupational health system.

As a preventative measure, employees, including those in contractor organisations, are only authorised to work on Gazprom Neft sites if no contraindications or restrictions on health grounds have been identified during the initial or regular health examination carried out by a healthcare provider accredited by the company.

A major focus of the corporate occupational-risk management strategy is on providing modern and affordable medical aid at production sites: providing first-aid posts with diagnostic and emergency medical equipment, ambulances, and robust telecommunication services, including telemedicine.
The company is committed to using natural resources sustainably, consistently reducing its environmental footprint, preventing environmental damage from its operations, introducing best global practices and technologies for environmental protection and sustainable use of resources, and developing an environmental safety culture.

The Gazprom Neft approach to environmental safety management is based on the understanding of its potential environmental impact. The company analyses the environmental impact of its operations at all stages; this is a necessary requirement for management and investment decision-making. The company has in place an environmental management system compliant with the international ISO 14001:2015 standard.

Gazprom Neft is implementing a range of key environmental measures, as well as individual programmes or projects aimed at achieving the relevant environmental objectives, and continues to support national and international environmental initiatives.

Climate impact management

Gazprom Neft supports the implementation of the Paris Agreement, which is aimed at combating climate change.

Assessment of greenhouse gas (GHG) emissions is a key tool forming part of the climate risk management system used by the company. For this purpose, Gazprom Neft has adopted a corporate standard on GHG emission monitoring and accounting, which is aligned with the applicable Russian legislation and international recommendations.

An increase in direct and indirect GHG emissions in 2019 was due to the fact that the company is continuously expanding its geographical footprint, prospecting for and assessing hydrocarbon reserves, and developing upstream and transport infrastructure. As a result, the number of facilities that are a source of additional greenhouse gas emissions is increasing.

However, the company is implementing projects to increase associated petroleum gas (APG) utilisation, develop energy-saving technologies and renewable energy projects. These activities help it to avoid a much bigger increase in GHG emissions.

In 2019, the APG utilisation rate across the company assets in Russia reached 89% (up 11 percentage points year on year). Moreover, at mature fields with well-developed gas infrastructure, the gas utilisation rate has ranged between 92% and 99% since 2016.

Air protection

Measures taken by Gazprom Neft while actively exploring and developing new fields enabled it to avoid a year-on-year increase in air pollutant emissions.

Emissions are caused mainly by APG flaring. Therefore, an increase in the APG utilisation rate is a key driver of emission reduction.

In order to reduce pollutant emissions, Gazprom Neft is also implementing a large-scale programme to upgrade and overhaul its refining assets, and other environmental initiatives covering all of its operations. Gazprom Neft is participating in the federal ‘Clean Air’ project, which is aimed at reducing emissions in large industrial cities, including Omsk, where company assets are located.

Water resources management

Key priorities for Gazprom Neft in the field of water resources management include sustainable use of water resources, effective wastewater treatment and preventing contamination of natural water bodies with oil or petroleum products.

Key water resources management projects being implemented by the company include building Biosphere wastewater treatment facilities at the Moscow and Omsk refineries. These facilities feature a multi-stage wastewater treatment system, which includes mechanical, physical and chemical, biological, filtration and ultrafiltration stages, as well as a reverse osmosis unit.

After the reverse osmosis unit forming part of the Biosphere facilities was put into operation and reached full capacity, the Moscow Refinery reduced water withdrawal threefold, with 75% of treated wastewater now being reused in the production cycle. The Omsk Refinery is expected to demonstrate a similar performance after the Biosphere Treatment facilities are commissioned at the site, where the first stage of construction was completed in 2019.
**Waste management and land use**

To minimise the risk of oil and petroleum products contaminating the soil, Gazprom Neft continuously monitors equipment reliability and introduces new technologies. The company continues to develop infrastructure for using waste in the production process, and to search for technological solutions that will help to reduce waste generation.

**Green Seismic Project**

Green Seismic is a seismic survey technology that helps to prevent deforestation. It enables the company to reduce the number of trees to be cut down, the use of heavy tracked all-terrain vehicles, fuel consumption, and atmospheric emissions, and to improve safety. Between 2016 and 2019, this technology was introduced at Gazpromneft-Noyabrskneftegaz, Gazpromneft-Khatutsk, Slavneft-Megionneftegaz, and Gazpromneft-Vostochniye. It has helped to preserve more than 3.5 million trees.

**Clean Territory Project**

Gazprom Neft continues to implement a targeted programme aimed at improving pipeline reliability, including the Clean Territory Project. This programme involves assessing, monitoring, forecasting and extending the life of pipeline systems, as well as replacing pipeline sections in advance, based on the findings of diagnostic assessments. The Clean Territory Project also involves remediating disturbed lands. This programme is centred around preventative measures enabling timely detection of pipeline defects and potential vulnerabilities likely to result in pipeline failure, and thus helping to prevent emergencies. As a result, potential risks of pipeline incidents were reduced.

**Biodiversity preservation**

Gazprom Neft is implementing biodiversity preservation programmes and conducting environmental monitoring to assess its impact on ecosystems in the regions in which it operates.

The company is implementing a corporate programme to preserve biodiversity based on a list of plant and animal species that serve as indicators of the stable condition of marine ecosystems in the Russian Arctic. This programme includes measures implemented by the company around the Prirazlomnaya offshore ice-resistant oil-producing stationary platform and Gazpromneft-Yamal assets; it also involves wildlife monitoring along oil transportation routes.

Gazprom Neft is implementing the Aquatic Biodiversity Reproduction Programme as part of its field development projects. Gazprom Neft subsidiaries operating in the Arctic breed rare fish species in northern rivers and seas. Millions of juvenile whitefish are released into the Ob, Konda and Severnaya Sysva Rivers. In 2019, company enterprises released a total of over 71 million juvenile fish of commercially valuable species into water bodies. In 2019, the company and the government of the Khanty-Mansi Autonomous Okrug—Yugra signed an agreement, under which Gazprom Neft will consider potential compensatory (remedial) measures, namely releasing juvenile Siberian sturgeon, sterlet, whitefish and broad whitefish bred at enterprises in the Okrug, as a priority.

Gazprom Neft is implementing the 'Narwhal: Legend of the Arctic' expedition. Being a leader in the development of the Russian Arctic, Gazprom Neft enters a high degree of responsibility for preserving the region’s unique ecosystem and biodiversity.

In the summer of 2019, Gazprom Neft successfully completed the first exploratory expedition as part of the ‘Narwhal: Legend of the Arctic’ project. The narwhal is a rare species of cetaceans (whales), which lives in the waters of the Russian Arctic and is included in the IUCN Red List of Threatened Species. During a four-week research expedition to the Franz Joseph Land archipelago, researchers succeeded in obtaining unique data on narwhal habitats in the Russian Arctic, which will be used as a basis for a comprehensive programme of research into this species until 2022. This project will make it possible to assess the status of the narwhal population in the western sector of the Russian Arctic, and determine the size of the population and its distribution. The ‘Narwhal—Legend of the Arctic’ project is an environmental project forming part of a large-scale ‘Time of the Arctic’ programme launched by Gazprom Neft.
Energy efficiency

Efficient utilisation of energy resources makes it possible to improve performance, optimise production processes, and reduce the environmental footprint.

The company has incorporated an energy-efficiency strategy set out in the Gazprom Neft Energy Policy into its business model. This Policy provides a foundation for an energy management system (EnMS) compliant with the international ISO 50001 standard.

Gazprom Neft annually develops and approves an energy management system development plan. This year, the plan involves expanding the scope of the energy management system, adopting new and updating outdated regulatory documents, providing personnel training, and adopting a new version of the ISO 5001:2018 standard.

In 2019, the energy efficiency and energy conservation initiatives undertaken by the company were focused on improving the performance of power-generation and process equipment, and optimising the utilisation of energy resources and process conditions.

First Gazprom Neft solar power plant

The company has successfully implemented a project to build a solar power plant. The pilot solar power plant has been built at the Omsk Refinery, as there are, on average, 308 sunny days per year in this region. To implement this project, Gazprom Neft has partnered with Hevel Group, a Russian solar energy company that has built Russia’s first integrated plant producing solar (photovoltaic) modules. Gazprom Neft signed a cooperation agreement with Hevel Group in June 2019, at the St Petersburg International Economic Forum.

The capacity of the first Gazprom Neft solar power plant totals 1 MW, which can provide up to 1% of total energy consumption at the Omsk Refinery.

In order to maximise performance, Gazprom Neft is introducing innovations in all areas of operations as part of the Omsk Refinery development programme. These include production automation, reliable treatment systems, and renewable energy. There can be no doubt that modern industrial enterprises need to be not only efficient, but also environmentally friendly. The Omsk Refinery solar power project is a perfect example of this approach.

Oleg Belyavsky, CEO, Gazprom Neft Omsk Refinery

Sustainable development

GAZPROM NEFT

Company profile
Strategic report
Performance
Technological development
Governance system
Sustainable development
Appendices

EMPLOYEE DEVELOPMENT

Energy consumption, million GJ

<table>
<thead>
<tr>
<th>Year</th>
<th>Gazprom Neft Group, million GJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>199.1</td>
</tr>
<tr>
<td>2016</td>
<td>199.3</td>
</tr>
<tr>
<td>2017</td>
<td>251.8</td>
</tr>
<tr>
<td>2018</td>
<td>262.8</td>
</tr>
<tr>
<td>2019</td>
<td>229.2</td>
</tr>
</tbody>
</table>

/1/ Detailed energy consumption indicators will be presented in the Sustainability Report for 2019.

Gazprom Neft employees are its strategic partners helping the company to achieve sustainable development goals. In order to meet company needs for skilled specialists, Gazprom Neft is developing incentive and social support programmes for personnel, providing training and development for employees, and creating a talent pool.

The company is focusing its efforts on recruiting, engaging and retaining the best employees. Gazprom Neft has formed an employer value proposition aligned with demands and expectations of target audiences, company strategic plans and its competitive position in the industry. This value proposition is integrated into recruitment, executive onboarding and training processes.

In the reporting year, Gazprom Neft employed 78,800 people.1 A total of 21,367 employees joined Gazprom Neft in 2019, while 17,817 left the company. The increase in headcount was due to the company implementing its strategy, which involved production growth, business development, and optimising the utilisation of energy resources and process conditions.

In 2019, Gazprom Neft has successfully implemented a project to build a solar power plant. The pilot solar power plant has been built at the Omsk Refinery, as there are, on average, 308 sunny days per year in this region. To implement this project, Gazprom Neft has partnered with Hevel Group, a Russian solar energy company that has built Russia’s first integrated plant producing solar (photovoltaic) modules. Gazprom Neft signed a cooperation agreement with Hevel Group in June 2019, at the St Petersburg International Economic Forum.

The capacity of the first Gazprom Neft solar power plant totals 1 MW, which can provide up to 1% of total energy consumption at the Omsk Refinery.

In order to maximise performance, Gazprom Neft is introducing innovations in all areas of operations as part of the Omsk Refinery development programme. These include production automation, reliable treatment systems, and renewable energy. There can be no doubt that modern industrial enterprises need to be not only efficient, but also environmentally friendly. The Omsk Refinery solar power project is a perfect example of this approach.

Oleg Belyavsky, CEO, Gazprom Neft Omsk Refinery

Average headcount by age group in 2019, %

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>46.2</td>
<td>46.2</td>
<td>46.2</td>
<td>46.2</td>
<td>46.2</td>
</tr>
<tr>
<td>30–50</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Over 50</td>
<td>23.6</td>
<td>23.6</td>
<td>23.6</td>
<td>23.6</td>
<td>23.6</td>
</tr>
</tbody>
</table>

/1/ Average headcount as at 31 December 2019.

/2/ Detailed data on HR management, including personnel costs, the number of employees trained by category, etc., will be provided in the Sustainability Report for 2019.
Incentive system and social support for employees

Gazprom Neft has in place an integrated incentive system which is aimed at recruiting, retaining and developing talented specialists, and supporting career advancement and professional development of employees. The objectives and principles of financial and non-financial incentives for employees are set out in a consistent corporate remuneration policy.

Remuneration and social support programmes in the company are based on a cumulative compensation model, which includes a compensation package, benefits, and opportunities for career advancement and professional development of employees. This model enables the company to align its goals and individual skills and needs of employees, and determines infrastructure for flexible implementation of HR and business strategies.

In 2019, Gazprom Neft introduced a bonus system based on integrated performance assessment of divisions and employees at three pilot assets. Starting from 2020, this new bonus system will be rolled out across the company.

Personnel costs, P '000

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>76,600</td>
<td>79,316</td>
<td>86,600</td>
<td>97,860</td>
<td>117,776</td>
</tr>
<tr>
<td>Employment benefits</td>
<td>2,632</td>
<td>3,260</td>
<td>3,177</td>
<td>3,596</td>
<td>3,763</td>
</tr>
</tbody>
</table>

Average monthly salary in the company, P '000

Employee training and development

The Gazprom Neft training and development system covers all categories of employees in the company and in contractor organisations. In addition, the company attaches special importance to the training of prospective employees from target groups: school and university students.

Gazprom Neft has created an integrated corporate-wide educational environment—the Corporate University—which combines all corporate training and development practices. At the Corporate University, Gazprom Neft employees gain up-to-date innovative knowledge, and each employee can be both a student, and a coach or expert. One of the key objectives of the Corporate University is to engage experts and executives in personnel training, create a strong community of in-house coaches, and generate state-of-the-art knowledge within the company.

The Corporate University consists of faculties and departments. A department is a professional expertise centre, which helps to make Gazprom Neft an industry leader by developing professional communities and engaging the best experts in order to accumulate and share knowledge and successful practices. In 2019, the Corporate University updated its concept and the methodology of working with departments, compiled a list of key performance indicators, analysed performance, and outlined performance improvement plans.

The Gazprom Neft Corporate University has won the Effective Education Award

The Gazprom Neft Partnership Management Programme won an award at the 3rd Annual Effective Education Conference. This project won in the ‘Best Educational Programme of a Corporate University’ category.

This award is presented annually for the most effective and creative educational initiatives in business development and professional education in Russia. Leading Russian specialists in practical implementation of educational and corporate projects participate in the competition.

According to the panel, Gazprom Neft has created a sophisticated technological educational project, which is unique in Russia. It enables students to study the best Russian and international partnership management practices, form a shared conceptual framework for all employees involved in this process, and share the relevant experience.

Average training hours per employee

The company has in place an integrated incentive system which is aimed at recruiting, retaining and developing talented specialists, and supporting career advancement and professional development of employees. The objectives and principles of financial and non-financial incentives for employees are set out in a consistent corporate remuneration policy.

Remuneration and social support programmes in the company are based on a cumulative compensation model, which includes a compensation package, benefits, and opportunities for career advancement and professional development of employees. This model enables the company to align its goals and individual skills and needs of employees, and determines infrastructure for flexible implementation of HR and business strategies.

In 2019, Gazprom Neft introduced a bonus system based on integrated performance assessment of divisions and employees at three pilot assets. Starting from 2020, this new bonus system will be rolled out across the company.
Gazprom Neft makes an important contribution to the development of those regions where it operates, as an investor, a supplier of high-quality petroleum products, a customer for Russian-made high-technology products that replace imported analogues, and an initiator and participant of environmental activities.

Social investments by Gazprom Neft under social and economic agreements in 2019

The principles governing interactions between Gazprom Neft and local communities are set out in the following documents:
- The Regional Policy Concept;
- The Policy on Interactions with Indigenous Northern, Siberian and Far Eastern Minorities;
- The Charity Policy.

For Gazprom Neft, social policy, which is aimed at supporting the development of those regions in which the company operates, is an integral tool for achieving sustainable development goals. When interacting with local communities, the company seeks to make a step change in the way social and economic issues are addressed. The Gazprom Neft efforts in this area are focused on:
- Ensuring environmental safety, and minimising environmental impacts;
- Cooperating with the governments of the federal subjects of Russia and municipal administrations to promote the sustainable development of the regions and improve the standard of living;
- Creating a competitive environment on regional labour markets;
- Creating a favourable financial, economic and legal environment for the company operations;
- Expanding cooperation with stakeholders and ensuring information transparency.

In 2019, Gazprom Neft continued to expand its cooperation with the governments of the federal subjects of Russia and municipal administrations. The company conducted an annual audit of relations with regional governments, and reached a mutual understanding on outstanding issues, with the regional governments agreeing to assist Gazprom Neft in addressing these issues. The company concluded 18 social and economic cooperation agreements with the federal subjects of Russia and municipalities.

Gazprom Neft operates in areas where indigenous minorities live, in the Khanty-Mansi and Yamalo-Nenets Autonomous Okrugs. The company respects the rights of indigenous minorities, supports local communities, promotes their integration into the modern social and economic landscape, and at the same time takes steps to preserve their traditional culture and way of life.

The ‘Home Towns’ Programme is one of the most successful and best-known regional development initiatives launched by Russian businesses. It covers all Gazprom Neft social projects, from small-scale volunteer campaigns and town celebrations to major international festivals, and construction of apartment blocks and sports centres.

This programme is centred around a partnership-based model of cooperation with regional governments, non-profit organisations, local residents, and company employees. Gazprom Neft forms its social projects portfolio taking into account stakeholder expectations, allocates resources for addressing outstanding issues facing the regions, and seeks to provide long-term social benefits.

Modern sports centres are an integral part of development on Yamal. Sports facilities such as Polyarny Ice Centre are becoming the centre of attraction for local people and opening up new opportunities for talented children. Together with the Avangard Ice Centre, the opening of Polyarny Ice Centre is helping to change the social and economic cooperation of the development of sports infrastructure in this Arctic town. The new sports facilities offer every opportunity to Labytnangi residents to be able to play sports and take part in competitions all year round.

Key outcomes of the ‘Home Towns’ Programme in 2019

The ‘Home Towns’ Social Investment Programme

Gazprom Neft has built two sports centres in the Yamalo-Nenets Autonomous Okrug

The Polyarny Sports Facility and the Avangard Ice Centre, built by Gazprom Neft as part of the ‘Home Towns’ Social Investment Programme, have been opened in the town of Labytnangi in the Yamalo-Nenets Autonomous Okrug. The area of the Ice Centre totals 5,400 square metres. The Centre will host ice hockey, figure-skating and other winter-sports training sessions and competitions, while at the Polyarny Sports Facility, local residents will now be able to play, de dancing and aerobics, and play football, basketball, volleyball and tennis all year round. The 7,000 square-metre facility includes a multifunctional gym and a swimming pool.

‘Home Towns’ Social Investment Programme

Key outcomes of the ‘Home Towns’ Programme in 2019

The ‘Home Towns’ Programme launched by Russian businesses is one of the most successful and best-known regional development initiatives. Over the years, it has covered almost all Gazprom Neft social projects, from small-scale volunteer campaigns and town celebrations to major international festivals, and construction of apartment blocks and sports centres.

This programme is centred around a partnership-based model of cooperation with regional governments, non-profit organisations, local residents, and company employees. Gazprom Neft forms its social projects portfolio taking into account stakeholder expectations, allocates resources for addressing outstanding issues facing the regions, and seeks to provide long-term social benefits.

The ‘Home Towns’ Programme is one of the most successful and best-known regional development initiatives launched by Russian businesses. It covers all Gazprom Neft social projects, from small-scale volunteer campaigns and town celebrations to major international festivals, and construction of apartment blocks and sports centres.

This programme is centred around a partnership-based model of cooperation with regional governments, non-profit organisations, local residents, and company employees. Gazprom Neft forms its social projects portfolio taking into account stakeholder expectations, allocates resources for addressing outstanding issues facing the regions, and seeks to provide long-term social benefits.

Key outcomes of the ‘Home Towns’ Programme in 2019

The ‘Home Towns’ Programme launched by Russian businesses is one of the most successful and best-known regional development initiatives. Over the years, it has covered almost all Gazprom Neft social projects, from small-scale volunteer campaigns and town celebrations to major international festivals, and construction of apartment blocks and sports centres.

This programme is centred around a partnership-based model of cooperation with regional governments, non-profit organisations, local residents, and company employees. Gazprom Neft forms its social projects portfolio taking into account stakeholder expectations, allocates resources for addressing outstanding issues facing the regions, and seeks to provide long-term social benefits.

Key outcomes of the ‘Home Towns’ Programme in 2019

The ‘Home Towns’ Programme launched by Russian businesses is one of the most successful and best-known regional development initiatives. Over the years, it has covered almost all Gazprom Neft social projects, from small-scale volunteer campaigns and town celebrations to major international festivals, and construction of apartment blocks and sports centres.

This programme is centred around a partnership-based model of cooperation with regional governments, non-profit organisations, local residents, and company employees. Gazprom Neft forms its social projects portfolio taking into account stakeholder expectations, allocates resources for addressing outstanding issues facing the regions, and seeks to provide long-term social benefits.
Volunteering

Gazprom Neft employees participate in volunteering initiatives. A total of 5,756 company employees have put forward their ideas, joined the large Gazprom Neft team, or implemented their own volunteer projects, including as part of a special corporate contest.

Grant contest

The grant competition is the key tool for supporting initiatives by local activists, non-governmental and non-profit organisations, and state-funded institutions in those regions in which Gazprom Neft operates. The company not only assists in implementing a project, but also seeks to make sure that most initiatives could continue to develop and produce results after the grants have been used.

For Gazprom Neft, it is important to preserve the local identity of those regions in which it operates. Every city, every town and every village has its own unique history, traditions, and culture. But in order to strengthen local identity, it is important to promote social development in the regions, and improve the standard of living. This is precisely what the ‘Home Towns’ Social Investment Programme being implemented by Gazprom Neft is aimed at: supporting educational, sports, scientific and cultural initiatives, which make people’s lives in the regions more comfortable, eventful and interesting. As a result, people have more reasons to be proud of and identify themselves with those places where they live.

Alexander Dyukov,
Chairman of the Management Board, CEO, Gazprom Neft PJSC

Bashmet became a guest of honour at the festival, and 25 young Russian musicians took part in the contest.

‘Home Towns’ Social Investment Forum

In 2019, Gazprom Neft held the sixth international ‘Home Towns’ Social Investment Forum. This is the key annual event held by Gazprom Neft in the field of regional development and social projects. Over 300 Russian and foreign experts, volunteers and winners of the Gazprom Neft grant competition participated in the Forum and discussed the preservation of local identity in the regions.

53
volunteer projects implemented in 2019 with support from the company

P37 million
grant fund in 2019

143
projects of local residents implemented

‘Kustendorf’ Classic

The Kustendorf Classic Festival of Russian Music, founded and managed by a world-famous film director Emir Kusturica, is held annually in Serbia. This festival was launched in 2013 and has been supported by Gazprom Neft since its inception. The key idea behind the festival is to support talented young musicians and strengthen cultural ties between Serbia and Russia. The festival includes a young musicians’ contest, as well as masterclasses and performances by world-renowned classical music stars, such as conductor Valery Gergiev and pianist Denis Matsuev. In 2019, a world-famous violinist Yuri Bashmet became a guest of honour at the festival, and 25 young Russian musicians took part in the contest.

‘Mathematical Progression’

Gazprom Neft is a partner of the Chibishev Laboratory at St Petersburg State University, headed by a Fields Medal winner Stanislav Smirnov. The joint project titled ‘Mathematical Progression’ is aimed at supporting talented mathematicians at all stages of training.

In 2019, the company awarded personal scholarships and prizes to 73 students and four young researchers. This project has become international, as a Department...
of Mathematics and Computer Science has been established in the Chebyshev Laboratory. In addition, the Modern Mathematics MSc programme has been launched for students from Russia, Eastern Europe and Asia, with support from Gazprom Neft.

'Multiplying Talent'

Since 2015, Gazprom Neft has been holding the ‘Multiplying Talent’ Case Tournament for gifted school students every year. High school students from the company regions of operation compete in solving business cases related to the oil and gas sector. In 2019, the Sirius Educational Centre, Russia’s leading campus for gifted children, partnered the tournament. The tournament was held in a new format—participants solved not only problems from the oil and gas sector, but also digital business cases prepared by Gazprom Neft. 2,800 applications were submitted for the competition, with 71 high school students reaching the final.

In The City

Since 2015, Gazprom Neft has been cooperating with the Strelka Institute for Media, Architecture and Design on educational programmes for representatives involved in regional development initiatives in Omsk and St Petersburg. In 2019, over 1,000 people attended In the City, a conference on technologies shaping the future of cities, as well as lectures and workshops by entrepreneurs, researchers and specialists in urban studies from the USA, the Netherlands, Indonesia and Russia, with 25,000 viewers watching online broadcasts.

Social initiatives abroad

Social initiatives undertaken by Gazprom Neft abroad contribute to building constructive relationships with local communities and implementing company projects successfully.

In Serbia, Gazprom Neft is implementing large-scale social projects aimed at supporting culture and preserving the country’s historical heritage. NIS, a Gazprom Neft subsidiary, has been one of the leading social investors in education, healthcare, social support, culture and sports in Serbia for years, acting under the motto ‘Future in Action’.

Social projects in the Kurdistan Region of Iraq and Wasit Governorate in Iraq are being implemented in close cooperation with the local governments. The Gazprom Neft social policy in this region is focused on developing the education and healthcare systems, and power supply.
Independent Auditor’s Report

To the Shareholders and the Board of Directors of Public Joint Stock Company Gazprom Neft

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom Neft ("PJSC Gazprom Neft") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organizations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Revenue recognition

During the audit we specially focused on revenue recognition as the amount of revenue is material and revenue streams are formed in different geographical and operating segments. In addition, revenue streams differ in such terms of recognition as the identification of performance obligations, determination of transaction prices and the pattern of transfer of risks and rewards.

Despite the high level of automation, a large number of contracts and a significant number of transactions pose a risk of misstatement of this item.

Our audit procedures in respect of the risk of material misstatement of revenue included:
- assessing the consistency of the application of the revenue recognition accounting policy in relation to a variety of performance obligations;
- testing controls and assessing the risk of fraud or errors;
- verifying the timeliness of revenue recognition and the rights to recognised revenue based on the terms of contracts and other documents;
- receiving confirmation letters from counterparties as of the end of the reporting period.

Based on the results of our audit procedures, we considered the position of the Group's management on the revenue recognition to be acceptable.

Information about the approaches to revenue recognition is provided in Note 2 “Summary of significant accounting policies” to the consolidated financial statements, information about revenue figures, including information by geographic segments, is disclosed in Note 40 “Segment information” to the consolidated financial statements.

Assessment of the recoverable amount of non-current assets

Due to the material carrying amount of the Group’s non-current assets, continuing volatility of macroeconomics parameters supplemented by political instability in some regions where the Group operates, sensitivity of impairment models to the assumptions applied by the Group’s management as well as the high level of subjectivity of the applied judgements and estimates of the Group’s management we consider this matter to be one of most significance in the audit.

The risk of the non-recoverability of the carrying amount of non-current assets primarily relates to production and oil refining assets located in the Russian Federation, oil and gas production and exploration assets located in Iraq, and assets located mostly in Serbia. As at the reporting date, the Group’s management measured the recoverable amount of non-current assets for cash-generating units by means of value in use.

Our audit procedures in respect of this area included:
- testing the principles applied to prepare future cash flow forecasts;
- involvement of our valuation experts who:
  - analysed the methodology used by the Group when performing impairment testing of non-current assets and the consistency of its application by the Group;
  - compared the data used by the Group with the information available from independent sources (infrastructure investment and income tax rates) as well as with our own assessments in relation to key inputs used in impairment testing (future oil prices and exchange rates, depreciation rates, estimation of oil and gas reserves and its future production and sales volumes);
  - analysed the sensitivity of the models applied for testing purposes to changes in key assumptions.

Based on the results of the audit procedures, we believe that the information and key assumptions applied by the Group’s management to calculate the recoverable amount of non-current assets are acceptable and are well in line with current economic environment.

Classification and recognition of financial instruments as cash equivalents

Due to the economic importance of cash and cash equivalents, the significance of the cash equivalent balances, and the professional judgement and assumptions applied by the Group’s management in classifying and recognising financial instruments as cash equivalents, we consider this matter to be one of the key audit matters.

The classification and recognition of financial instruments as cash equivalents applied by the Group are based on the significant professional judgement applied by the Group’s management, which is supported by the information in the assumptions of the Group’s management to use such financial instruments to settle the Group’s short-term cash liabilities.

In addition, the Group analyses various factors, including the assessment of liquidity and credit risks, records on cash returns at any point of time without significant loss of interest and penalties.

During our audit procedures regarding the classification and recognition of financial instruments as cash equivalents, we performed the following procedures:
- assessing the appropriateness and consistency of the professional judgements applied by the Group’s management regarding the classification and recognition of financial instruments as cash equivalents;
- reviewing intentions of the Group’s management regarding the use of financial instruments classified as cash equivalents for the purposes of managing the Group’s liquidity;
- assessing liquidity and credit risks related to the solvency of counterparties, including transactions under repurchase agreements and cash pooling agreement with the Group’s parent company;
- analysing agreements and other documents confirming the availability of cash at any point of time without significant loss of interest and penalties because of early redemption.

Based on the results of our procedures, we believe that the key assumptions and professional judgements of the Group’s management regarding the classification and recognition of financial instruments as cash equivalents are reasonable and do not contradict the available audit evidence.

Information about the main accounting policies applied to account for cash and cash equivalents is provided in Note 2 “Summary of significant accounting policies” to the consolidated financial statements, and information about the amount of cash and cash equivalents is disclosed in Note 6 “Cash and cash equivalents” to the consolidated financial statements.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 presented in accordance with IFRSs were audited by another auditor (AO PricewaterhouseCoopers Audit) who expressed an unmodified opinion on those statements on 20 February 2019.
Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

a. identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
b. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
c. evaluate the appropriateness of accounting policies used, the reasonableness of accounting estimates and related disclosures made by management;
d. conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;
e. evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
f. obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management’s Discussion and Analysis of Financial Condition and Results of Operations for the three months ended December 31 and September 30, 2019 and years ended December 31, 2019 and 2018 (but does not include the consolidated financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, the Annual Report of PJSC Gazprom Neft for 2019 and the Quarterly Issuer’s report of PJSC Gazprom Neft for the first quarter of 2020, which are expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual report of PJSC Gazprom Neft for 2019 and the Quarterly issuer’s report of PJSC Gazprom Neft for the first quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Company profile
Strategic report
Performance
Technological development
Governance system
Sustainable development
Appendices
AUDITED ENTITY: Public Joint Stock Company Gazprom Neft (Gazprom Neft P JSC)  
Address of the legal entity within its location: 3-5 Pochtamtskaya St, St. Petersburg, 190000, Russian Federation.  
State registration: Registered on 6 October 1995 by the Omsk Registration Chamber. Statutory registration certificate No. 38606450. Primary state registration number 1025501701686.

AUDITOR: S.M. Shapiguzov  
(Name: by virtue of the Charter, audit qualification certificate 01-001230)  
(K.S. Shirikova, FССA  
(audit qualification certificate 01-000712)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

President of FBK, LLC
S.M. Shapiguzov  
(by virtue of the Charter, audit qualification certificate 01-001230)

Engagement partner on the audit resulting in this independent auditor’s report
K.S. Shirikova, FССA  
(audit qualification certificate 01-000712)

Date of the independent auditor’s report: 21 February 2020

Consolidated Statement of Financial Position

Currency – RUB millions

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>202,404</td>
<td>247,585</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>19,906</td>
<td>847</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>205,272</td>
<td>129,150</td>
</tr>
<tr>
<td>Inventories</td>
<td>173,674</td>
<td>149,956</td>
</tr>
<tr>
<td>Current income tax prepayments</td>
<td>6,622</td>
<td>3,179</td>
</tr>
<tr>
<td>Other taxes receivable</td>
<td>104,918</td>
<td>91,929</td>
</tr>
<tr>
<td>Other current assets</td>
<td>55,052</td>
<td>40,483</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>767,848</td>
<td>663,129</td>
</tr>
<tr>
<td><strong>NON-CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,469,338</td>
<td>2,366,069</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>79,073</td>
<td>-</td>
</tr>
<tr>
<td>Goodwill and other intangible assets</td>
<td>88,620</td>
<td>80,139</td>
</tr>
<tr>
<td>Investments in associates and joint ventures</td>
<td>341,115</td>
<td>328,937</td>
</tr>
<tr>
<td>Long-term trade and other receivables</td>
<td>829</td>
<td>980</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>11,037</td>
<td>10,345</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>18,492</td>
<td>19,127</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>49,131</td>
<td>52,200</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>3,057,635</td>
<td>2,857,797</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>3,825,483</td>
<td>3,520,926</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND EQUITY</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt and current portion of long-term debt</td>
<td>30,198</td>
<td>90,923</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>9,927</td>
<td>-</td>
</tr>
<tr>
<td><strong>Current finance lease liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9,927</td>
<td>-</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>30,198</td>
<td>90,923</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>30,198</td>
<td>90,923</td>
</tr>
<tr>
<td><strong>NON-CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>485,030</td>
<td>486,530</td>
</tr>
<tr>
<td>Non-current lease liabilities</td>
<td>77,868</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL NON-CURRENT LIABILITIES</strong></td>
<td>485,030</td>
<td>486,530</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td>3,825,483</td>
<td>3,520,926</td>
</tr>
</tbody>
</table>
Consolidated Statement of Profit or Loss and Other Comprehensive Income

Currency – RUB millions (except per share data)

**REVENUE**
Crude oil, gas and petroleum products sales 2,393,444 2,418,717
Other revenue 91,864 70,575
**TOTAL REVENUE FROM SALES** 2,485,308 2,489,292

**COSTS AND OTHER DEDUCTIONS**
Purchases of oil, gas and petroleum products (663,068) (617,306)
Production and manufacturing expenses (260,688) (228,618)
Selling, general and administrative expenses (125,592) (114,882)
Transportation expenses (143,474) (147,182)
Depreciation, depletion and amortisation 111,132 (181,372)
Taxes other than income tax 22 (591,193) (652,784)
Export duties (71,601) (94,916)
Exploration expenses (1,752) (1,411)
**TOTAL OPERATING EXPENSES** (2,038,740) (2,032,550)

**OPERATING PROFIT** 446,568 456,742

**Share of profit of associates and joint ventures** 83,906 90,704
Net foreign exchange gain / (loss) 10,518 (33,558)
Finance income 22,906 7,506
Finance expense (32,772) (21,476)
Other, net 22,293 (19,796)
**TOTAL OTHER INCOME** 61,266 23,384

**PROFIT BEFORE INCOME TAX** 508,834 480,126

Current income tax expense (52,502) (59,585)
Deferred income tax expense (33,244) (19,544)
**TOTAL INCOME TAX EXPENSE** (85,746) (79,129)

**PROFIT FOR THE PERIOD** 422,088 400,993

Other comprehensive (loss) / income - may be reclassified to profit or loss
Currency translation differences (29,474) 36,937
Cash flow hedge, net of tax (319) 14,631
Other comprehensive (loss) / income (319) (14,631)
**TOTAL OTHER COMPREHENSIVE (LOSS) / INCOME - MAY BE RECLASSIFIED TO PROFIT OR LOSS** (29,474) 51,662
Year ended 31 December 2019  Year ended 31 December 2018

major groups

OTHER COMPREHENSIVE LOSS - WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS

Remeasurement of provision for post-employment benefits (2,411)
TOTAL OTHER COMPREHENSIVE LOSS - WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (2,411)

OTHER COMPREHENSIVE (LOSS) / INCOME

Remeasurement of provision for post-employment benefits (2,411)
TOTAL OTHER COMPREHENSIVE LOSS - WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (2,411)
OTHER COMPREHENSIVE (LOSS) / INCOME (32,085) 51,662
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD 390,003 452,655

PROFIT ATTRIBUTABLE TO:

Gazprom Neft shareholders 400,201 376,667
Non-controlling interest 21,887 24,326
Profit for the period 422,088 400,993

TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:

Gazprom Neft shareholders 379,038 416,399
Non-controlling interest 10,965 36,256
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD 390,003 452,655

Earnings per share attributable to Gazprom Neft shareholders
Basic earnings (RUB per share) 84.82 79.84
Diluted earnings (RUB per share) 84.82 79.84
Weighted-average number of common shares outstanding (millions) 4,718 4,718

Consolidated Statement of Changes in Shareholders' Equity

Currency – RUB millions

<table>
<thead>
<tr>
<th></th>
<th>Gazprom Neft shareholders</th>
<th>Non-controlling interest</th>
<th>Total</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share capital</td>
<td>Treasury shares</td>
<td>Additional paid-in capital</td>
<td>Retained earnings</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Shares as of 31 December 2018</td>
<td>98 (1,170)</td>
<td>60,397</td>
<td>1,680,978</td>
<td>99,874</td>
</tr>
<tr>
<td>Effect of changes in accounting policies (Note 6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(14,545)</td>
</tr>
<tr>
<td>Shares as of 1 January 2019</td>
<td>98 (1,170)</td>
<td>60,397</td>
<td>1,666,613</td>
<td>99,874</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>400,201</td>
</tr>
<tr>
<td>Shares as of 31 December 2018</td>
<td>98 (1,170)</td>
<td>60,397</td>
<td>1,644,613</td>
<td>99,874</td>
</tr>
</tbody>
</table>

OTHER COMPREHENSIVE (LOSS) / INCOME

Currency translation differences - - - - 25,007 - 25,007 |
Cash flow hedge, net of tax - - - - 14,630 - 14,630 |
Other comprehensive income - - - - 95 - 95 |
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - - 39,732 416,399 36,256 452,655 |

Transactions with shareholders, recorded in equity
Dividends to equity holders - - - - (127,620) - (127,620) |
Transaction under common control - - - - (2,819) - (2,819) |
Change of non-controlling interest in subsidiaries (Note 38) - - 960 - - 960 |
TOTAL TRANSACTIONS WITH SHAREHOLDERS - - 960 - - 960 |
Balance as of 31 December 2018 | 98 (1,170) | 60,397 | 1,680,978 | 99,874 | 1,840,177 | 151,642 | 1,991,819 |

Rows are labeled in Russian rubles (RUB), with the period ranging from January 1 to December 31 for the years 2018 and 2019. The statements include comprehensive income attributable to Gazprom Neft shareholders and non-controlling interest, as well as the total comprehensive income for the period. The changes in shareholders' equity are presented, including transactions with shareholders and dividends. The earnings per share are calculated with a weighted-average number of common shares outstanding. The table also breaks down the comprehensive income components into various subcategories, such as currency translation differences, cash flow hedge, and other comprehensive income. The final rows show the balances as of the respective years.
## Consolidated Statement of Cash Flows

### Currency - RUB millions

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before income tax</td>
<td>507,834</td>
<td>480,122</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures</td>
<td>(14)</td>
<td>(83,906)</td>
</tr>
<tr>
<td>Net foreign exchange (gain) / loss</td>
<td>31</td>
<td>33,558</td>
</tr>
<tr>
<td>Finance income</td>
<td>32</td>
<td>(22,906)</td>
</tr>
<tr>
<td>Finance expense</td>
<td>33</td>
<td>21,476</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>11,12,13</td>
<td>175,451</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>10,804</td>
<td>12,386</td>
</tr>
<tr>
<td>Operating cash flow before changes in working capital</td>
<td>415,452</td>
<td>424,783</td>
</tr>
</tbody>
</table>

### Changes in working capital:

| Accounts receivable                                      | (41,927)                    | (10,661)                    |
| Inventories                                              | (23,453)                    | (27,688)                    |
| Taxes receivable                                         | (12,331)                    | (33,858)                    |
| Other assets                                             | (10,804)                    | 12,386                      |
| Accounts payable                                         | 83,185                      | 51,826                      |
| Taxes payable                                            | (1,974)                     | (13,175)                    |
| Other liabilities                                        | 45,370                      | 11,868                      |
| Total effect of working capital changes                  | 39,505                      | 326                         |

### Income tax paid                                       | (50,087)                    | (61,157)                    |

### Notes

#### Year ended 31 December 2019

- Dividends received
- Other cash flows from operating activities

#### Year ended 31 December 2018

- Net cash provided by operating activities

### Cash flows from investing activities

| Increase in cash due to subsidiary acquisition            | -                           | 9,120                       |
| Acquisition of investments in joint ventures              | (210)                       | (460)                       |
| Bank deposits placement                                   | (79,090)                    | (640)                       |
| Repayment of bank deposits                                | 82,000                      | 7,350                       |
| Acquisition of other investments                         | (474)                       | (70)                        |
| Proceeds from sales of other investments                  | 1,425                       | -                           |
| Short-term loans issued                                   | (532)                       | (1,632)                     |
| Repayment of short-term loans issued                      | 6,61                      | 218                         |
| Long-term loans issued                                    | (7,148)                     | (984)                       |
| Repayment of long-term loans issued                       | 1,313                       | 12,490                      |
| Purchases of property, plant and equipment and intangible assets | (463,011)                   | (370,047)                   |
| Purchases of oil and gas licences                         | (9,623)                     | (1,135)                     |
| Proceeds from sale of property, plant and equipment, net of tax | 115,710                     | 4,413                       |
| Interest received                                         | 17,155                      | 18,885                      |
| Other cash flows from investing activities                | (13,765)                    | -                           |
| Net cash used in investing activities                     | (363,589)                   | (335,038)                   |

### Cash flows from financing activities

| Proceeds from short-term borrowings                       | 15,592                      | 642                         |
| Repayment of short-term borrowings                        | (343)                       | (220)                       |
| Proceeds from long-term borrowings                        | 263,371                     | 366,102                     |
| Repayment of long-term borrowings                         | (292,036)                   | (360,840)                   |
| Transaction costs directly attributable to the borrowings received | (375)                       | (158)                       |
| Dividends paid to Gazprom Neft shareholders               | (227,120)                   | (70,774)                    |
| Dividends paid to non-controlling shareholders            | (6,609)                     | (11,864)                    |
| Proceeds from sale of non-controlling interest in subsidiaries | 38                         | 22,348                      |
| Repayment of principal portion of lease liabilities       | (9,200)                     | -                           |
| Repayment of principal portion of finance lease liabilities | -                           | (1,579)                     |
| Net cash used in financing activities                     | (276,720)                   | (56,563)                    |

### Effect of foreign exchange on cash and cash equivalents

| Cash and cash equivalents as of the beginning of the period | 247,585                     | 90,608                      |
| Cash and cash equivalents as of the end of the period      | 202,404                     | 247,585                     |
Notes to the Consolidated Financial Statements

1. General

Description of business

PJSC Gazprom Neft (the "Company") and its subsidiaries (together referred to as the "Group") is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations: PJSC Gazprom ("Gazprom", a state controlled entity), the Group’s ultimate parent company, owns 95.7% of the shares in the Company.

2. Summary of significant accounting policies

Basis of preparation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

Subsequent events occurring after 31 December 2019 were evaluated through 21 February 2020, the date these Consolidated Financial Statements were authorised for issue.

The principal accounting policies are set out below. Apart from the accounting policies changes and additions resulting from adoption of IFRS 16 and Tax Code changes effective from 1 January 2019, these policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, equity investments at fair value through other comprehensive income (OCI) and obligations under the Stock Appreciation Rights plan (SAR) are stated at fair value.

Foreign currency translation

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of the reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in Other Reserves line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of consolidation

The Consolidated Financial Statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee’s returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor’s return from its involvement has the potential to vary as a result of the investee’s performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group’s interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified as financial assets measured at fair value through other comprehensive income or through profit or loss.

Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises identifiable assets acquired and liabilities and contingent liabilities
assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management’s judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets (if shares of acquired company do not have public market price).

Goodwill

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“bargain purchase”) is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling interest

Ownership interests in the Group’s subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposals of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Acquisitions from entities under common control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the Consolidated Financial Statements of the highest entity that has common control for which Consolidated Financial Statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity. When those transactions represent transactions with owners in their capacity as owners, the effect on such transactions is included in Additional paid-in capital in Equity.

Investments in associates

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Joint operations and joint ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:
- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice.
Cash equivalents include all highly liquid short-term investments with initial maturity within three months that can be converted to a certain cash amount and are subject to an insignificant risk of changes in value. They are initially recognised based on the cost of acquisition which approximates fair value and carried at amortised cost as are readily convertible to known amounts of cash.

The Group uses the additional highly liquid instruments for cash management that are recognised as cash equivalents:
- deposits with initial maturity more than three months if the Group has the right to early withdraw it without significant interest loss and penalties;
- cash transferred under the repurchase agreements with the maturity within one month if the risks and rewards do not transferred to the Group, cash returns at the fixed interest rate and do not linked to the securities market value;
- short-term loans issued to the parent company ("cash pooling") if the Group has the right for early redemption of loans without significant interest loss and penalties.

### Non-derivative financial assets

The Group classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

At initial recognition, the Group recognises a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset (in the case of the financial asset not at fair value through profit or loss (FVPL)). Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Group initially recognises financial assets on trade-date (the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

For assets measured at fair value gains and losses will either be recorded in profit or loss or OCI. The classification of financial assets depends on:
- the entity’s business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

In particular, debt financial assets in the Group are usually held to obtain contractual cash flows that are solely payments of principal and interest. In rare cases, debt financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed.

Equity securities at initial recognition are usually accounted at fair value through other comprehensive income (FVOCI). These are strategic investments and the Group considers this classification to be more relevant.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ("SPPI").

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

### Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into three measurement categories:
- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in financial income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss if material. Financial assets at amortised cost, cash and trade receivables, other financial assets, cash and cash equivalents. FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses. Interest income from these financial assets is included in financial income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses) and impairment expenses are presented as separate line item in the statement of profit or loss if material. The changes in fair value will no longer be reclassified to profit or loss when they are impaired or disposed. These assets are non-material for the Group.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises. These assets are non-material for the Group.

### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group’s right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Other equity instruments are recognised at FVPL. Changes in the fair value of financial assets at FVPL are recognised in other gains / (losses) in the statement of profit or loss as applicable. The assets are not significant for the Group.

### Non-derivative financial liabilities

The Group initially recognises debt securities issued, loans and borrowings on the date that they are originated (in particular, date of bond issue or receiving of cash). Financial liabilities also include bank overdrafts, trade and other payables. These financial liabilities recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The financial liabilities are recognised initially at fair value minus (in the case of a financial liability that is not at fair value through profit or loss (FVTPL)) transaction costs that are directly attributable to issuing the financial liability. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.
Derivative financial instruments

Derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit or loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit or loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Intangible assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets (IA). Subsequently goodwill is measured at cost less accumulated impairment losses. Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

<table>
<thead>
<tr>
<th>Intangible asset group</th>
<th>Average useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licences and software</td>
<td>1-5 years</td>
</tr>
<tr>
<td>Land rights</td>
<td>25 years</td>
</tr>
</tbody>
</table>

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround is expected to result in replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit or loss.

Oil and gas properties

Exploration and evaluation assets

Acquisition costs include amounts paid for the acquisition of exploration and development licences.

Exploration and evaluation assets include:
- Costs of topographical, geological and geophysical studies and rights of access to properties to conduct those studies that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution;
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field’ basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.
An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licences are classified as property, plant and equipment after transfer from exploration and evaluation assets.

**Development costs**

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

**Depreciation, depletion and amortisation**

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depletion and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

<table>
<thead>
<tr>
<th>Asset group</th>
<th>Average useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and constructions</td>
<td>8-35 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>6-20 years</td>
</tr>
<tr>
<td>Vehicles and other equipment</td>
<td>3-10 years</td>
</tr>
</tbody>
</table>

Catalysts and reagents mainly used in the refining operations are treated as other fixed assets.

**Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign-currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

**Impairment of non-current assets**

The carrying amounts of the Group’s non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the Group makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generating units - CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit or loss. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

**Impairment of non-derivative financial assets**

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk till the initial recognition.

For all trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, in respect of credit risk see note 36 for further details.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates.

The Group has the following types of financial assets that are subject to the expected credit loss model: trade receivables, debt investments carried at amortised cost and cash and cash equivalents.

The Group recognises any impairment loss including impairment loss reversal in the selling, general and administrative expenses in the costs and other deductions line.

** Decommissioning obligations**

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

**Exploration and production**

The Group’s activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licences and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of those assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.
Refining, marketing and distribution

The Group’s oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to renewal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group’s operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income taxes

Currently some Group companies including PJSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 Income Taxes. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which these temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Mineral extraction tax and excise duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Government grants and excise duties on crude oil materials, with appropriate increased deductions

From 1 January 2019 due to changes in the Tax Code the new excise duties on crude oil materials with appropriate double deductions and dempfer part are introduced. The Group applies separate accounting policy for excise deductions and dempfer part that bring economic benefit to the Group by analogy to the government grants and other assistance, i.e. by deducting them from related expenses.

Additional income tax for hydrocarbon producers

From 1 January 2019 the new tax treatment is implemented in the oil business – additional income tax for hydrocarbon producers (AIT). AIT is classified as operating expense in line with the mineral extraction tax and included in the Taxes other than income tax line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Export duties

Export duties, which are charged by the government on the volumes of crude oil and petroleum products transferred abroad by the Group, are included in operating expenses.

Share capital

Share capital represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders’ meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the Consolidated Financial Statements are authorised for issue are disclosed in the subsequent events note.
**Earnings per share**

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

**Stock-based compensation**

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights (“SAR”) granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit or loss is adjusted accordingly. Expenses are recognised over the vesting period.

**Retirement and other benefit obligations**

In the normal course of business the Group contributes to the Russian Federation State pension scheme on behalf of its employees, and contributions by the employer are calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred.

The Group has also recognised defined benefit plans, which cover the majority of employees of the Group. The cost of providing post-employment benefits is accrued and charged to other employee costs and compensation included in the Consolidated Statement of Profit or Loss and other comprehensive income reflecting the benefit costs as they are earned over the service lives of employees. Actuarial gains and losses on liabilities arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise and are included in Other reserves line of equity in the Consolidated Statement of Financial Position.

**Leases**

Accounting policies for leases applied starting 1 January 2019

For any new contracts entered into on or after 1 January 2019 the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition, the Group assessed whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that are expected to be replaced by the Group at less than the fair value of the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Variable payments are not included in the calculation of lease liability:

- payments under lease agreements, the calculation of which depends on the cadastral value of the land plot and other coefficients established by government decrees;
- payments for utilities (including well drill) and other services, determined upon the fact of consumption;
- payments that depend on the use of the asset (per unit of volume or revenue received using the asset).

The Group applies a practical expedient and takes into account additional payments not related to the lease, but provided for by the lease agreement along with payments for right to use an asset, for all contracts except for time-charter contracts. Under time-charter contracts, the Group identifies service component not related to the right to use the asset as part of the expenses of the period if the share of such payments can be reliably determined.

The term used to measure a liability and an asset in the form of a right of use is defined as the number of days during which the Group has sufficient confidence that it will lease the asset. Any option for renewal or termination is taken into account when estimating the term. The Group considers monetary and non-monetary aspects to determine the lease term of the contract, such as business plans, past practices and economic incentives to extend or terminate the contract (the presence of inseparable improvements, etc.) and other factors that may affect management’s judgment on the lease term.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets.
In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- not revising the approach to the classification of the contract to which IFRIC 4 was previously applied and continuing to take into account such contracts as service contracts.

The Group presents right-of-use assets and lease liabilities in the separate lines in the Consolidated Statement of Financial Position.

Accounting policies for leases applied until 31 December 2018

Leases under the terms of which the Group assumed substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to that asset.

Other leases were operating leases and the leased assets were not recognised in the Group’s Consolidated Statement of Financial Position. The total lease payments were charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of revenues

Revenue is an income arising in the course of the Group’s ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

The Group recognizes Revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of sale and consideration is unconditional. For domestic contracts control generally passes when products are dispatched or delivered to customer. When control passes on dispatch the Group is not responsible for transportation, and transportation is a distinct service provided to customer within a separate contract. In case of sales of petroleum products and transportation by railway performance obligation for transportation is considered to be distinct and excluded from contract price.

The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax. The Group doesn’t consider export duties within Other revenue line.

The Group applies a practical expedient which allows entity not to disclose the information of its remaining performance obligations at the end of the reporting period as the performance obligation is part of a contract that has an original expected duration of less than one year.

Buy / sell transactions

Purchases and sales under the same contract with a specific counterparty (buy / sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

Transportation costs

Transportation expenses recognised in profit or loss represent expenses incurred to transport crude oil and oil products through the PJSC “AK “Transneft” pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Other comprehensive income / loss

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related income tax.

3. Critical accounting estimates, assumptions and judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the Management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.
Impairment of non-current assets

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group’s business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money.

Estimation of oil and gas reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on an annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrates recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the unit-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Useful lives of property, plant and equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group’s Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

Accounting for liabilities of the defined benefit pension plan

The assessment of the obligations of the defined benefit plan is based on the use of actuarial techniques and assumptions. Actual results may differ from estimates, and the Group’s estimates may be adjusted in the future based on changes in the economic and financial situation. Management uses judgments on selected models, cash flows and their distribution over time, as well as other indicators, including the discount rate. The cost of future benefits is determined on the basis of actuarial techniques and assumptions.

Joint arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

Acquisition of Gazprom Resource Northgas LLC

Gazprom Resource Northgas LLC is a subsidiary of the Group in which the Group holds an 18.2% share. Starting 2015 the Group has obtained control over Gazprom Resource Northgas LLC based on signed management agreement and charter documents which provided the Group with a majority of voting rights which differ from the Group’s share in equity.
4. Application of new IFRS

The following standards or amended standards became effective for the Group from 1 January 2019:

- IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual improvements 2015-2017 Cycle (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 9 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Impact of adoption

The Group has adopted IFRS 16 – Leases from 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of lease obligations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, the associated financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17, and, instead, introduces a single lessee accounting model. Lessees are required to recognise all assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (ii) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the reporting period, as permitted under the specific transitional provisions in the standard. The Group elected to measure right-to-use assets at an amount equal to the lease liability adjusted for any lease payments made at or before the commencement date, except for time‐charter contracts, for which the associated right-of-use asset is retrospectively adjusted. The difference between asset and liability is recognised as retained earnings.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 January 2019. The lease’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 4.2% to 9.3%.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease and effect of retrospective adjustment recognized in the balance sheet as of 1 January 2019. Balance value of assets leased under finance lease contracts was reclassified from property, plant and equipment to right-of-use assets.

5. New accounting standards

The following other new standards and amendments to the existing standards do not have any material impact on the Group when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IAS 1 (issued in August 2018 and effective for annual periods beginning on or after 1 January 2020);
- Intrest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued in September 2019 and effective for annual periods on or after January 2020).

Appendices

Table: Impact of adoption

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance as of 1 January 2019</th>
<th>Effect of changes in accounting policies</th>
<th>Balance as of 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment (under finance lease)</td>
<td>25,483</td>
<td>-</td>
<td>125,483</td>
</tr>
<tr>
<td>Right-of-use asset</td>
<td>-</td>
<td>69,023</td>
<td>69,023</td>
</tr>
<tr>
<td>Short-term / long-term lease liabilities</td>
<td>(87,322)</td>
<td>(87,322)</td>
<td>-</td>
</tr>
<tr>
<td>Finance lease liabilities</td>
<td>(25,483)</td>
<td>25,483</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax asset recognised</td>
<td>3,734</td>
<td>-</td>
<td>3,734</td>
</tr>
<tr>
<td>Effect on retained earnings</td>
<td>-</td>
<td>14,565</td>
<td>14,565</td>
</tr>
</tbody>
</table>

Table: Financial instruments

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance as of 1 January 2019</th>
<th>Effect of changes in accounting policies</th>
<th>Balance as of 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current lease liability</td>
<td>78,463</td>
<td>-</td>
<td>245,463</td>
</tr>
<tr>
<td>Current lease liability</td>
<td>8,859</td>
<td>-</td>
<td>8,859</td>
</tr>
<tr>
<td>Balance of lease liability</td>
<td>87,322</td>
<td>-</td>
<td>254,322</td>
</tr>
</tbody>
</table>

Table: Operating lease commitments

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating lease commitments as of 31 December 2018</td>
<td>123,600</td>
</tr>
<tr>
<td>Less service component</td>
<td>(32,786)</td>
</tr>
<tr>
<td>Less effect of discounting</td>
<td>(26,662)</td>
</tr>
<tr>
<td>Less other adjustments</td>
<td>(2,513)</td>
</tr>
<tr>
<td>Add: finance lease liabilities recognised as of 31 December 2018</td>
<td>25,483</td>
</tr>
<tr>
<td>Balance of lease liability as of 1 January 2019</td>
<td>87,322</td>
</tr>
<tr>
<td>Current lease liability as of 1 January 2019</td>
<td>8,859</td>
</tr>
<tr>
<td>Non-current lease liability as of 1 January 2019</td>
<td>78,463</td>
</tr>
</tbody>
</table>
6. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>587</td>
<td>753</td>
</tr>
<tr>
<td>Cash in bank</td>
<td>79,669</td>
<td>50,897</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>51,485</td>
<td>185,589</td>
</tr>
<tr>
<td>Cash pooling to the parent entity</td>
<td>43,912</td>
<td>-</td>
</tr>
<tr>
<td>Cash transferred under repurchase agreements</td>
<td>24,709</td>
<td>6,238</td>
</tr>
<tr>
<td>Other cash equivalents</td>
<td>2,042</td>
<td>6,108</td>
</tr>
<tr>
<td><strong>TOTAL CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>202,404</strong></td>
<td><strong>247,585</strong></td>
</tr>
</tbody>
</table>

7. Trade and other receivables

Trade and other receivables as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>153,738</td>
<td>129,520</td>
</tr>
<tr>
<td>Other receivables</td>
<td>53,637</td>
<td>2,060</td>
</tr>
<tr>
<td>Less credit loss allowance</td>
<td>(2,103)</td>
<td>(2,430)</td>
</tr>
<tr>
<td><strong>TOTAL TRADE AND OTHER RECEIVABLES</strong></td>
<td><strong>205,272</strong></td>
<td><strong>129,150</strong></td>
</tr>
</tbody>
</table>

8. Inventories

Inventories as of 31 December 2019 and 31 December 2018 consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum products and petrochemicals</td>
<td>62,891</td>
<td>70,385</td>
</tr>
<tr>
<td>Crude oil and gas</td>
<td>36,361</td>
<td>36,601</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>34,274</td>
<td>27,416</td>
</tr>
<tr>
<td>Other</td>
<td>40,168</td>
<td>17,554</td>
</tr>
<tr>
<td><strong>TOTAL INVENTORY</strong></td>
<td><strong>173,474</strong></td>
<td><strong>149,956</strong></td>
</tr>
</tbody>
</table>

9. Other taxes receivable

Other taxes receivable as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax receivable</td>
<td>73,387</td>
<td>79,921</td>
</tr>
<tr>
<td>Prepaid customs duties</td>
<td>21,045</td>
<td>7,232</td>
</tr>
<tr>
<td>Other taxes prepaid</td>
<td>10,686</td>
<td>4,776</td>
</tr>
<tr>
<td><strong>TOTAL OTHER TAXES RECEIVABLE</strong></td>
<td><strong>104,118</strong></td>
<td><strong>91,929</strong></td>
</tr>
</tbody>
</table>

10. Other current assets

Other current assets as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances paid</td>
<td>40,413</td>
<td>25,191</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,681</td>
<td>1,662</td>
</tr>
<tr>
<td>Other current assets</td>
<td>12,158</td>
<td>13,630</td>
</tr>
<tr>
<td><strong>TOTAL OTHER CURRENT ASSETS, NET</strong></td>
<td><strong>55,052</strong></td>
<td><strong>40,483</strong></td>
</tr>
</tbody>
</table>

11. Property, plant and equipment

Movements in property, plant and equipment for the year ended 31 December 2019 and 2018 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Oil and Gas properties</th>
<th>Refining assets and distribution</th>
<th>Oil and Gas properties</th>
<th>Marketing and distribution</th>
<th>Other assets and marketing and distribution</th>
<th>Assets under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 31 December 2018</td>
<td>2,086,208</td>
<td>387,099</td>
<td>237,386</td>
<td>27,658</td>
<td>655,772</td>
<td>3,392,123</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of changes in accounting policies (Note 4)</td>
<td>(124)</td>
<td>(27,145)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(27,269)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As of 1 January 2019</td>
<td>2,084,084</td>
<td>387,099</td>
<td>210,241</td>
<td>27,658</td>
<td>655,772</td>
<td>3,364,854</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>9,014</td>
<td>5,225</td>
<td>-</td>
<td>-</td>
<td>633,655</td>
<td>633,655</td>
<td>30,230</td>
<td>663,886</td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>221</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>Changes in decommissioning obligations</td>
<td>37,259</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37,259</td>
<td></td>
</tr>
<tr>
<td>Capitalised borrowing costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>246,346</td>
<td>24,166</td>
<td>18,575</td>
<td>5,144</td>
<td>(314,229)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Internal movement</td>
<td>(5,891)</td>
<td>(323)</td>
<td>249</td>
<td>(2,533)</td>
<td>8,498</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>(15,049)</td>
<td>(4,481)</td>
<td>(2,904)</td>
<td>(960)</td>
<td>(161,266)</td>
<td>(184,660)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Capitalised borrowing costs for the year ended 31 December 2019 include interest expense in the amount of RUB 29.0 billion and exchange losses arising from currency borrowing in the amount of RUB 1.2 billion (RUB 31.6 billion and RUB 6.1 billion for the year ended 31 December 2018 accordingly).

In the first quarter of 2019 the object of capital construction MF K "Lahta" was transferred to the shareholder, the transaction was recorded in the Consolidated Financial Statements as the transaction with shareholders in accordance with IAS 1 (p.106 d (iii)).

### The information regarding Group’s exploration and evaluation assets (part of oil and gas properties) is presented below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net book value as of 1 January</th>
<th>Net book value as of 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>114,286</td>
<td>145,466</td>
</tr>
<tr>
<td>2018</td>
<td>94,027</td>
<td>114,286</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost</th>
<th>Oil and Gas properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th>Total.</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2018</td>
<td>1,772,103</td>
<td>347,738</td>
<td>189,603</td>
<td>26,638</td>
<td>538,965</td>
<td>2,875,047</td>
</tr>
<tr>
<td>Additions</td>
<td>9,029</td>
<td>1,699</td>
<td></td>
<td>-</td>
<td>395,112</td>
<td>405,840</td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>-</td>
<td>-</td>
<td>1,108</td>
<td>-</td>
<td>-</td>
<td>1,108</td>
</tr>
<tr>
<td>Changes in decommissioning obligations</td>
<td>(8,885)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(8,885)</td>
<td></td>
</tr>
<tr>
<td>Capitalised borrowing costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37,670</td>
<td>37,670</td>
</tr>
<tr>
<td>Transfers</td>
<td>251,966</td>
<td>25,650</td>
<td>35,969</td>
<td>3,447</td>
<td>(316,832)</td>
<td>-</td>
</tr>
<tr>
<td>Internal movement</td>
<td>137</td>
<td>(1,028)</td>
<td>1,167</td>
<td>98</td>
<td>(374)</td>
<td>-</td>
</tr>
<tr>
<td>Reclassification from other non-current assets</td>
<td>1,003</td>
<td>5,160</td>
<td>602</td>
<td>13</td>
<td>(2,040)</td>
<td>4,738</td>
</tr>
<tr>
<td>Disposals</td>
<td>(13,861)</td>
<td>(1,987)</td>
<td>(1,865)</td>
<td>(2,879)</td>
<td>(9,623)</td>
<td>(30,193)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>72,696</td>
<td>10,067</td>
<td>10,802</td>
<td>341</td>
<td>12,816</td>
<td>106,800</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>2,084,208</td>
<td>387,099</td>
<td>277,386</td>
<td>27,658</td>
<td>655,772</td>
<td>3,392,123</td>
</tr>
<tr>
<td>Depreciation, depletion and impairment</td>
<td>(131,293)</td>
<td>(16,930)</td>
<td>(12,801)</td>
<td>(2,600)</td>
<td>-</td>
<td>(143,624)</td>
</tr>
<tr>
<td>Impairment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition through business combinations</td>
<td>-</td>
<td>-</td>
<td>(110)</td>
<td>-</td>
<td>-</td>
<td>(110)</td>
</tr>
<tr>
<td>Internal movement</td>
<td>229</td>
<td>102</td>
<td>546</td>
<td>215</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reclassification from other non-current assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,772)</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(38,250)</td>
<td>(3,240)</td>
<td>(3,573)</td>
<td>(190)</td>
<td>-</td>
<td>(65,253)</td>
</tr>
<tr>
<td>AS OF 31 DECEMBER 2018</td>
<td>(815,875)</td>
<td>(125,189)</td>
<td>(75,809)</td>
<td>(9,181)</td>
<td>-</td>
<td>(1,026,054)</td>
</tr>
<tr>
<td>Net book value</td>
<td>AS OF 1 JANUARY 2018</td>
<td>1,268,333</td>
<td>261,910</td>
<td>161,577</td>
<td>18,477</td>
<td>2,366,069</td>
</tr>
<tr>
<td>AS OF 31 DECEMBER 2018</td>
<td>1,407,967</td>
<td>245,242</td>
<td>132,626</td>
<td>18,539</td>
<td>644,964</td>
<td>2,469,338</td>
</tr>
</tbody>
</table>

### Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 7% for the year ended 31 December 2019 (6% for the year ended 31 December 2018).

During 2019 the Group performed impairment testing. For impairment testing the cash flow forecasts are in line with the usual period for budgeting and covered the period of expected useful life for analysed assets.

During 2019 there were no indicators of impairment in relation to upstream oil and gas assets (for the year ended 31 December 2018 the Group recognised impairment in relation to upstream oil and gas assets in the amount of RUB 4.3 billion). The impairment loss was included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.
12. Right-of-use assets comprise the following:

As of 31 December 2019 right-of-use assets comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Vessels</th>
<th>Land, buildings and premises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2019</td>
<td>62,455</td>
<td>6,568</td>
<td>69,023</td>
</tr>
<tr>
<td>Additions</td>
<td>16,189</td>
<td>2,047</td>
<td>18,236</td>
</tr>
<tr>
<td>Modification and remeasurement</td>
<td>(127)</td>
<td>346</td>
<td>307</td>
</tr>
<tr>
<td>Depreciation of right-of-use assets</td>
<td>(6,371)</td>
<td>(2,030)</td>
<td>(8,401)</td>
</tr>
<tr>
<td>Currency translation effect</td>
<td>-</td>
<td>(92)</td>
<td>(92)</td>
</tr>
<tr>
<td>As of 31 December 2019</td>
<td>72,146</td>
<td>6,927</td>
<td>79,073</td>
</tr>
</tbody>
</table>

13. Goodwill and other intangible assets

The information regarding movements in Group’s intangible assets is presented below:

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Software</th>
<th>Land rights</th>
<th>Other IA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 1 January 2018</td>
<td>37,027</td>
<td>40,679</td>
<td>16,794</td>
<td>21,583</td>
<td>116,083</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>1,729</td>
<td>-</td>
<td>-</td>
<td>1,729</td>
</tr>
<tr>
<td>Internal movement</td>
<td>-</td>
<td>(570)</td>
<td>(23)</td>
<td>593</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(792)</td>
<td>(19)</td>
<td>(3,401)</td>
<td>(4,294)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(2,639)</td>
<td>(982)</td>
<td>(62)</td>
<td>(206)</td>
<td>(3,889)</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>34,388</td>
<td>40,064</td>
<td>16,617</td>
<td>36,052</td>
<td>127,121</td>
</tr>
<tr>
<td>Amortisation and impairment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>As of 1 January 2018</td>
<td>(234)</td>
<td>(22,098)</td>
<td>(16,256)</td>
<td>(7,356)</td>
<td>(35,944)</td>
</tr>
<tr>
<td>Amortisation charge</td>
<td>-</td>
<td>(5,230)</td>
<td>(633)</td>
<td>(1,951)</td>
<td>(7,404)</td>
</tr>
<tr>
<td>Internal movement</td>
<td>-</td>
<td>(18)</td>
<td>21</td>
<td>(3)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>742</td>
<td>2</td>
<td>2,662</td>
<td>3,006</td>
</tr>
<tr>
<td>Translation differences</td>
<td>37</td>
<td>827</td>
<td>2</td>
<td>122</td>
<td>988</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>(197)</td>
<td>(25,702)</td>
<td>(6,896)</td>
<td>(5,626)</td>
<td>(36,010)</td>
</tr>
<tr>
<td>Net book value</td>
<td>As of 1 January 2018</td>
<td>34,191</td>
<td>14,282</td>
<td>9,721</td>
<td>30,626</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td>34,191</td>
<td>14,282</td>
<td>9,721</td>
<td>30,626</td>
<td>88,620</td>
</tr>
</tbody>
</table>

Goodwill acquired through business combinations has been allocated to Upstream and Downstream in the amounts of RUB 27.3 billion and RUB 6.9 billion as of 31 December 2019 (RUB 29.7 billion and RUB 7.1 billion as of 31 December 2018).

The Group has performed impairment test for CGUs to which goodwill related. In assessing whether goodwill has been impaired, the carrying amount is compared with the estimated value in use.

The value in use is determined as the discounted net cash flows based on the forecasts of oil prices and production quantities based on reserve report and confirmed long-term strategic plans. The forecasting period for determining the value in use is in line with the management assumptions for long-term planning and does not exceed the useful life of assets different from goodwill and included in the CGUs.

Key assumptions applied to the calculation of value in use:

- The discount rate calculation is based on the Company’s weighted average cost of capital adjusted to reflect after-tax discount rate ranged from 7.88%-8.68% per annum in 2019 (for the 2018: 8.54%-9.86% per annum in real terms);
- Oil prices are based on the available forecasts from globally recognized research institutions such as Wood Mackenzie, Platts/PIRA, Energy Group and others;
- The estimated annual RSD / USD exchange rate was forecasted as RSD 104.35 and the estimated average annual RUB / USD exchange rate was forecasted as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>RUB / USD</th>
<th>Average for 2020-2039</th>
<th>2040 onwards</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>61.50</td>
<td>61.50</td>
<td>61.50</td>
</tr>
<tr>
<td>2021</td>
<td>61.50</td>
<td>61.50</td>
<td>61.50</td>
</tr>
<tr>
<td>2022</td>
<td>61.00</td>
<td>60.00</td>
<td>58.97</td>
</tr>
<tr>
<td>2023</td>
<td>60.00</td>
<td>60.00</td>
<td></td>
</tr>
</tbody>
</table>
- Estimated production volumes were based on detailed data for the fields and refineries and the field development plans and refineries utilization rates approved by management through the long-term planning process were taken into account.

Goodwill was tested for impairment and no impairment was identified.
14. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as of 31 December 2019 and 31 December 2018 are summarised below:

<table>
<thead>
<tr>
<th>Ownership percentage</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slavneft Joint venture</td>
<td>49.9</td>
<td>136,792</td>
</tr>
<tr>
<td>Arcticgas Joint venture</td>
<td>50.0</td>
<td>136,262</td>
</tr>
<tr>
<td>Messoyakha Joint venture</td>
<td>50.0</td>
<td>45,350</td>
</tr>
<tr>
<td>Northgas Joint venture</td>
<td>50.0</td>
<td>10,207</td>
</tr>
<tr>
<td>Others</td>
<td>12,404</td>
<td>11,252</td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENTS</strong></td>
<td><strong>341,115</strong></td>
<td><strong>328,937</strong></td>
</tr>
</tbody>
</table>

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation.

Slavneft
PJSC NGK Slavneft and its subsidiaries (Slavneft) are engaged in exploration, production and development of crude oil and gas and production of refined petroleum products in the Russian Federation. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.

Arcticgas
JSC Arctic Gas Company (Arcticgas) is developing oil and gas condensate fields located in the Yamalo-Nenetsky autonomous region of the Russian Federation. The control over Arcticgas is divided equally between the Group and PJSC NOVATEK.

In 2019 Arcticgas declared and paid dividends in the amount of RUB 92.0 billion, of which RUB 46.0 billion is attributable to the Group.

Northgas
CJSC Northgas (Northgas) is engaged in development of Severo-Urangel natural gas field. The Group’s investment in Northgas is held through Gazprom Resource Northgas LLC which is controlled by the Group and owns a 50% share in Northgas. The control over Northgas is divided equally between the Group and PJSC NOVATEK.

In 2019 Northgas declared and paid dividends in the total amount of RUB 1.1 billion, of which RUB 0.6 billion is attributable to the Group.

Messoyakha
JSC Messoyakhaneftegas (Messoyakha) is developing the Vostochno-Messoyakhskoe and Zapadno-Messoyakhskoe oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft.

In 2019 Messoyakha declared and paid dividends in the total amount of RUB 34.6 billion, of which RUB 17.3 billion is attributable to the Group.

The summarised financial information for the significant associates and joint ventures as of 31 December 2019 and 31 December 2018 and for the year ended 31 December 2019 and 2018 is presented in the tables below.

<table>
<thead>
<tr>
<th></th>
<th>Slavneft</th>
<th>Arcticgas</th>
<th>Messoyakha</th>
<th>Northgas</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2019</strong></td>
<td><strong>31 December 2018</strong></td>
<td><strong>31 December 2019</strong></td>
<td><strong>31 December 2018</strong></td>
<td><strong>31 December 2019</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2,771</td>
<td>2,978</td>
<td>2,771</td>
<td>2,978</td>
</tr>
<tr>
<td>Other current assets</td>
<td>97,774</td>
<td>34,148</td>
<td>26,122</td>
<td>3,358</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>429,919</td>
<td>382,236</td>
<td>195,568</td>
<td>41,368</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(40,050)</td>
<td>(12,080)</td>
<td>(9,558)</td>
<td>(1,892)</td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>(122,010)</td>
<td>(66,197)</td>
<td>(9,701)</td>
<td>(7,901)</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(53,648)</td>
<td>(50,394)</td>
<td>(16,716)</td>
<td>(6,170)</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td><strong>265,413</strong></td>
<td><strong>248,192</strong></td>
<td><strong>90,275</strong></td>
<td><strong>21,987</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Year ended 31 December 2019</strong></th>
<th><strong>Slavneft</strong></th>
<th><strong>Arcticgas</strong></th>
<th><strong>Messoyakha</strong></th>
<th><strong>Northgas</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>316,084</td>
<td>196,395</td>
<td>141,449</td>
<td>21,136</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(39,084)</td>
<td>(22,628)</td>
<td>(27,920)</td>
<td>(2,202)</td>
</tr>
<tr>
<td>Finance income</td>
<td>545</td>
<td>1,214</td>
<td>5</td>
<td>161</td>
</tr>
<tr>
<td>Finance expense</td>
<td>(12,562)</td>
<td>(8,520)</td>
<td>(12,278)</td>
<td>(1,600)</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td><strong>(8,644)</strong></td>
<td><strong>(15,866)</strong></td>
<td><strong>(10,878)</strong></td>
<td><strong>(1,559)</strong></td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td><strong>24,732</strong></td>
<td><strong>79,696</strong></td>
<td><strong>51,632</strong></td>
<td><strong>6,179</strong></td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</strong></td>
<td><strong>24,732</strong></td>
<td><strong>79,696</strong></td>
<td><strong>51,632</strong></td>
<td><strong>6,179</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Year ended 31 December 2018</strong></th>
<th><strong>Slavneft</strong></th>
<th><strong>Arcticgas</strong></th>
<th><strong>Messoyakha</strong></th>
<th><strong>Northgas</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>314,332</td>
<td>195,581</td>
<td>125,521</td>
<td>23,337</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(38,713)</td>
<td>(21,100)</td>
<td>(19,692)</td>
<td>(2,554)</td>
</tr>
<tr>
<td>Finance income</td>
<td>371</td>
<td>1,243</td>
<td>-</td>
<td>679</td>
</tr>
<tr>
<td>Finance expense</td>
<td>(9,246)</td>
<td>(10,215)</td>
<td>(7,531)</td>
<td>(2,113)</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td><strong>(7,682)</strong></td>
<td><strong>(16,926)</strong></td>
<td><strong>(11,656)</strong></td>
<td><strong>(1,951)</strong></td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td><strong>31,235</strong></td>
<td><strong>81,823</strong></td>
<td><strong>56,344</strong></td>
<td><strong>7,399</strong></td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</strong></td>
<td><strong>31,235</strong></td>
<td><strong>81,823</strong></td>
<td><strong>56,344</strong></td>
<td><strong>7,399</strong></td>
</tr>
</tbody>
</table>
Others

The aggregate carrying amount of all individually immaterial associates and joint ventures as well as the Group’s share of those associates’ and joint ventures’ profit or loss and other comprehensive income are not significant for both reporting dates and periods.

15. Joint operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in JSC “Tomskneft” VNC (Tomskneft) and Salym Petroleum Development N.V. (SPD) as joint operations. Tomskneft and SPD are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

16. Long-term financial assets

Long-term financial assets as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans issued</td>
<td>9,919</td>
<td>7,846</td>
</tr>
<tr>
<td>Equity investments measured at fair value through OCI</td>
<td>1,562</td>
<td>3,083</td>
</tr>
<tr>
<td>Deposits with original maturity more than 1 year</td>
<td>93</td>
<td>-</td>
</tr>
<tr>
<td>Less expected credit loss allowance</td>
<td>(537)</td>
<td>(584)</td>
</tr>
<tr>
<td><strong>TOTAL LONG-TERM FINANCIAL ASSETS</strong></td>
<td><strong>11,037</strong></td>
<td><strong>10,345</strong></td>
</tr>
</tbody>
</table>

17. Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

<table>
<thead>
<tr>
<th></th>
<th>As of 31 December 2019</th>
<th>Recognised in profit or loss</th>
<th>Recognised in other comprehensive income</th>
<th>Other</th>
<th>As of 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(145,580)</td>
<td>(33,770)</td>
<td>8,409</td>
<td>4,849</td>
<td>(146,072)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(3,875)</td>
<td>93</td>
<td>-</td>
<td>-</td>
<td>(3,782)</td>
</tr>
<tr>
<td>Investments</td>
<td>515</td>
<td>(9)</td>
<td>506</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>1,047</td>
<td>(1,902)</td>
<td>(850)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,595</td>
<td>(15)</td>
<td>2,580</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term and short-term debt</td>
<td>-</td>
<td>(286)</td>
<td>(286)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>6,063</td>
<td>(251)</td>
<td>5,812</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax loss carry-forwards</td>
<td>24,387</td>
<td>-</td>
<td>24,387</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance lease</td>
<td>5,264</td>
<td>-</td>
<td>5,264</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>5,002</td>
<td>(1,274)</td>
<td>3,726</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net-off</td>
<td>(29,415)</td>
<td>29,415</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL DEFERRED INCOME TAX ASSETS / (LIABILITIES)</strong></td>
<td><strong>18,492</strong></td>
<td><strong>148,253</strong></td>
<td><strong>(129,761)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Movement in temporary differences during the period:**

<table>
<thead>
<tr>
<th></th>
<th>As of 1 January 2019</th>
<th>Recognised in profit or loss</th>
<th>Recognised in other comprehensive income</th>
<th>Other</th>
<th>As of 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(145,580)</td>
<td>(33,770)</td>
<td>8,409</td>
<td>4,849</td>
<td>(146,072)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(3,875)</td>
<td>93</td>
<td>-</td>
<td>-</td>
<td>(3,782)</td>
</tr>
<tr>
<td>Investments</td>
<td>506</td>
<td>1,047</td>
<td>(80)</td>
<td></td>
<td>1,489</td>
</tr>
<tr>
<td>Inventories</td>
<td>(815)</td>
<td>(1,427)</td>
<td>(580)</td>
<td></td>
<td>(2,823)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,580</td>
<td>(744)</td>
<td>(177)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>(286)</td>
<td>116</td>
<td>-</td>
<td>-</td>
<td>(170)</td>
</tr>
<tr>
<td>Provisions</td>
<td>5,812</td>
<td>10,401</td>
<td>(86)</td>
<td></td>
<td>14,133</td>
</tr>
<tr>
<td>Tax loss carry-forwards</td>
<td>26,187</td>
<td>(5,499)</td>
<td>(91)</td>
<td></td>
<td>18,870</td>
</tr>
<tr>
<td>Lease</td>
<td>(2,042)</td>
<td>4,149</td>
<td>2,107</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance lease</td>
<td>5,264</td>
<td>(5,264)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>3,726</td>
<td>(1,438)</td>
<td>(112)</td>
<td></td>
<td>2,181</td>
</tr>
<tr>
<td><strong>TOTAL DEFERRED INCOME TAX ASSETS / (LIABILITIES)</strong></td>
<td><strong>(108,321)</strong></td>
<td><strong>33,244</strong></td>
<td><strong>3,734</strong></td>
<td><strong>(129,761)</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Gazprom Neft**

Company profile
Strategic report
Performance
Technological development
Governance system
Sustainable development
Appendices
20. Trade and other payables

Accounts payable as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable</td>
<td>279,985</td>
<td>185,269</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>2,362</td>
<td>766,713</td>
</tr>
<tr>
<td>Other accounts payable</td>
<td>25,925</td>
<td>15,422</td>
</tr>
<tr>
<td><strong>TOTAL TRADE AND OTHER PAYABLES</strong></td>
<td><strong>307,439</strong></td>
<td><strong>307,404</strong></td>
</tr>
</tbody>
</table>

Other accounts payable are partly represented by short-term part of liability to PJSC Gazprom for assets related to Prirazlomnoye project.

21. Other current liabilities

Other current liabilities as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances received</td>
<td>26,219</td>
<td>25,599</td>
</tr>
<tr>
<td>Payables to employees</td>
<td>3,876</td>
<td>3,876</td>
</tr>
<tr>
<td>Other non-financial payables</td>
<td>10,626</td>
<td>10,033</td>
</tr>
<tr>
<td><strong>TOTAL OTHER CURRENT LIABILITIES</strong></td>
<td><strong>40,741</strong></td>
<td><strong>39,510</strong></td>
</tr>
</tbody>
</table>

22. Other taxes payable

Other taxes payable as of 31 December 2019 and 31 December 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>32,098</td>
<td>42,580</td>
</tr>
<tr>
<td>Mineral extraction tax</td>
<td>32,849</td>
<td>33,782</td>
</tr>
<tr>
<td>Excise tax</td>
<td>14,558</td>
<td>11,001</td>
</tr>
<tr>
<td>Social security contributions (social taxes)</td>
<td>7,868</td>
<td>6,051</td>
</tr>
<tr>
<td>Property tax</td>
<td>2,591</td>
<td>3,180</td>
</tr>
<tr>
<td>Additional income tax for hydrocarbon producers</td>
<td>3,956</td>
<td>-</td>
</tr>
<tr>
<td>Other taxes</td>
<td>2,463</td>
<td>2,691</td>
</tr>
<tr>
<td><strong>TOTAL OTHER TAXES PAYABLE</strong></td>
<td><strong>96,401</strong></td>
<td><strong>99,085</strong></td>
</tr>
</tbody>
</table>
Taxes expense other than income tax expense for the year ended 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral extraction tax</td>
<td>464,773</td>
<td>487,492</td>
</tr>
<tr>
<td>Excise tax</td>
<td>70,125</td>
<td>126,779</td>
</tr>
<tr>
<td>Social security contributions (social taxes)</td>
<td>25,707</td>
<td>22,113</td>
</tr>
<tr>
<td>Property tax</td>
<td>12,580</td>
<td>13,098</td>
</tr>
<tr>
<td>Additional income tax for hydrocarbon producers</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other taxes</td>
<td>3,660</td>
<td>3,302</td>
</tr>
<tr>
<td><strong>TOTAL TAXES OTHER THAN INCOME TAX</strong></td>
<td><strong>591,193</strong></td>
<td><strong>652,784</strong></td>
</tr>
</tbody>
</table>

23. Provisions and other accrued liabilities

Movement in provisions and other accrued liabilities for the years ended 31 December 2019 and 2018 is below:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decommissioning provision</td>
<td>58,601</td>
<td>33,846</td>
</tr>
<tr>
<td>Short-term part</td>
<td>151</td>
<td>29,722</td>
</tr>
<tr>
<td>Long-term part</td>
<td>58,450</td>
<td>4,124</td>
</tr>
<tr>
<td>New obligation incurred</td>
<td>9,323</td>
<td>9,917</td>
</tr>
<tr>
<td>Utilisation of provision / accrual</td>
<td>(2,422)</td>
<td>(16,972)</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>(11,857)</td>
<td>(11,934)</td>
</tr>
<tr>
<td>Unwind of discount</td>
<td>3,809</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>2,176</td>
<td>816</td>
</tr>
<tr>
<td><strong>Carrying amount as of 1 January 2018</strong></td>
<td><strong>59,630</strong></td>
<td><strong>27,605</strong></td>
</tr>
<tr>
<td>Decommissioning provision</td>
<td>59,630</td>
<td>27,605</td>
</tr>
<tr>
<td>Short-term part</td>
<td>1,771</td>
<td>18,272</td>
</tr>
<tr>
<td>Long-term part</td>
<td>57,859</td>
<td>9,333</td>
</tr>
<tr>
<td>New obligation incurred</td>
<td>10,074</td>
<td>19,123</td>
</tr>
<tr>
<td>Utilisation of provision / accrual</td>
<td>(2,444)</td>
<td>(4,280)</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>28,856</td>
<td>-</td>
</tr>
<tr>
<td>Unwind of discount</td>
<td>6,083</td>
<td>-</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(1,146)</td>
<td>(953)</td>
</tr>
<tr>
<td><strong>Carrying amount as of 31 December 2018</strong></td>
<td><strong>99,053</strong></td>
<td><strong>43,492</strong></td>
</tr>
<tr>
<td>Decommissioning provision</td>
<td>95,503</td>
<td>22,501</td>
</tr>
<tr>
<td>Short-term part</td>
<td>2,550</td>
<td>21,191</td>
</tr>
<tr>
<td>Long-term part</td>
<td>93,550</td>
<td>22,301</td>
</tr>
<tr>
<td><strong>TOTAL ACCRUED PROVISIONS</strong></td>
<td><strong>142,745</strong></td>
<td><strong>119,004</strong></td>
</tr>
</tbody>
</table>

Bank loans

In February 2019 the Group performed pre-scheduled final principal repayment in the total amount of USD 249.1 million (RUB 16.4 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Mizuho).

In July 2012 the Group signed an ECA-covered term loan facility with the group of international banks (facility agent HSBC) with a final maturity date in December 2022. In June 2019 and December 2019 the Group performed a partial principal repayment in the total amount of EUR 25.8 million (RUB 1.8 billion) according to the payment schedule.

In the first half 2015 the Group signed several long-term facility agreements with one of the Russian banks with maturity date in August 2019. In February and April 2019 the Group performed pre-scheduled principal repayment in the total amount of USD 202.4 million (RUB 13.3 billion) and USD 496.0 million (RUB 31.9 billion) respectively. The loan is fully repaid as of 31 December 2019.

In December 2018 the Group borrowed RUB 30.0 billion and in January 2019 RUB 20.0 billion under a long-term facility agreement with one of the Russian banks. In December 2019 the Group performed a pre-scheduled final repayment in the total amount.

In February 2019 the Group borrowed EUR 400.0 million (RUB 29.9 billion) under a long-term facility agreement due payable in February 2024. In July 2019 the Group performed pre-scheduled final repayment in total amount.

In July 2019 the Group borrowed EUR 200.0 million (RUB 14.4 billion) under a long-term facility agreement due payable in July 2022.

In September 2019 the Group borrowed RUB 5.0 billion under a long-term facility agreement due payable in September 2024.

In December 2019 the Group borrowed RUB 10.0 billion under a long-term facility agreement due payable in December 2022.

In December 2019 the Group borrowed RUB 15.0 billion under a long-term facility agreement due payable in December 2024.

In December 2019 the Group borrowed RUB 30.0 billion under a long-term facility agreement with one of the Russian banks due payable in December 2022.

24. Long-term debt

As of 31 December 2019 and 31 December 2018 the Group has long-term outstanding debt as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>339,690</td>
<td>426,647</td>
</tr>
<tr>
<td>Loan participation notes</td>
<td>186,775</td>
<td>209,426</td>
</tr>
<tr>
<td>Bonds</td>
<td>168,918</td>
<td>132,719</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>7,964</td>
<td>8,201</td>
</tr>
<tr>
<td><strong>TOTAL LONG-TERM DEBT</strong></td>
<td><strong>685,320</strong></td>
<td><strong>684,530</strong></td>
</tr>
</tbody>
</table>
In June-July 2018 the Group signed several long-term facility agreements with final maturity date in July 2022 – December 2023. In September, November and December 2019 the Group performed pre-scheduled partial principal repayment in the total amount of RUB 70.0 billion.

The loan agreements contain financial covenant that limits the Group’s ratio of “Consolidated financial indebtedness to Consolidated EBITDA”. The Group is in compliance with all covenants as of 31 December 2019 and 31 December 2018 and during the year ended 31 December 2019.

26. Other non-current financial liabilities

Other non-current financial liabilities as of 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred consideration</td>
<td>20,269</td>
<td>43,407</td>
</tr>
<tr>
<td>Forward contracts - cash flow hedge</td>
<td>1,230</td>
<td>1,623</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(173)</td>
<td>(173)</td>
</tr>
<tr>
<td><strong>TOTAL OTHER NON-CURRENT FINANCIAL LIABILITIES</strong></td>
<td><strong>21,504</strong></td>
<td><strong>44,857</strong></td>
</tr>
</tbody>
</table>

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. Payments of the principal amount of the liability are presented as financing activities at line “Repayment of long-term borrowings” in Consolidated Statement of Cash Flows.

27. Other non-current liabilities

Other non-current liabilities are primarily comprised of advances received (RUB 48.0 billion and RUB 17.2 billion as of 31 December 2019 and 31 December 2018, respectively).
28. Share capital and treasury shares

Share capital as of 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Ordinary shares</th>
<th>Treasury shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2019</td>
<td>31 December 2019</td>
</tr>
<tr>
<td>Number of shares (million)</td>
<td>4,741</td>
<td>4,741</td>
</tr>
<tr>
<td>Authorised shares (million)</td>
<td>4,741</td>
<td>4,741</td>
</tr>
<tr>
<td>Par value (RUB per share)</td>
<td>0.0016</td>
<td>0.0016</td>
</tr>
</tbody>
</table>

ON ISSUE AS OF 31 DECEMBER, FULLY PAID (RUB MILLION) 8 8 (1,170) (1,170)

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 2 October 2019 the general shareholders’ meeting of PJSC Gazprom Neft approved an interim dividend on the ordinary shares for the six months ended 30 June 2019 in the amount of RUB 18.14 per share.

On 14 June 2019 the general shareholders’ meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2018 in the amount of RUB 30.00 per share including an interim dividend on the ordinary shares in the amount of RUB 22.05 per share.

On 9 June 2018 the annual general shareholders’ meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2017 in the amount of RUB 15.00 per share including an interim dividend on the ordinary shares in the amount of RUB 10.00 per share.

29. Employee costs

Employee costs for the years ended 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>92,475</td>
<td>84,902</td>
</tr>
<tr>
<td>Other costs and compensations</td>
<td>18,130</td>
<td>12,269</td>
</tr>
<tr>
<td><strong>TOTAL EMPLOYEE COSTS</strong></td>
<td><strong>110,605</strong></td>
<td><strong>97,171</strong></td>
</tr>
<tr>
<td>Social security contributions (social taxes)</td>
<td>25,707</td>
<td>22,113</td>
</tr>
<tr>
<td><strong>TOTAL EMPLOYEE COSTS (WITH SOCIAL TAXES)</strong></td>
<td><strong>136,312</strong></td>
<td><strong>119,284</strong></td>
</tr>
</tbody>
</table>

30. Other loss, net

Other loss, net for the years ended 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposal of intangible assets, property, plant and equipment</td>
<td>(1,170)</td>
<td>(1,170)</td>
</tr>
<tr>
<td>Other losses, net</td>
<td>(6,644)</td>
<td>(6,644)</td>
</tr>
<tr>
<td><strong>TOTAL OTHER LOSS, NET</strong></td>
<td><strong>(23,292)</strong></td>
<td><strong>(19,796)</strong></td>
</tr>
</tbody>
</table>

31. Net foreign exchange gain / (loss)

Net foreign exchange gain / (loss) for the year ended 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net foreign exchange gain / (loss) on financing activities, including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>foreign exchange gain</td>
<td>43,699</td>
<td>5,506</td>
</tr>
<tr>
<td>foreign exchange loss</td>
<td>(10,653)</td>
<td>(78,241)</td>
</tr>
<tr>
<td>Net foreign exchange (loss) / gain on operating activities</td>
<td>(22,328)</td>
<td>39,177</td>
</tr>
<tr>
<td>Net foreign exchange gain / (loss)</td>
<td>10,518</td>
<td>(33,558)</td>
</tr>
</tbody>
</table>

32. Finance income

Finance income for the year ended 31 December 2019 and 2018 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on loans issued</td>
<td>728</td>
<td>1,137</td>
</tr>
<tr>
<td>Interest on bank deposits</td>
<td>2,286</td>
<td>806</td>
</tr>
<tr>
<td>Interest income on cash and cash equivalents</td>
<td>14,798</td>
<td>5,118</td>
</tr>
<tr>
<td>Other financial income</td>
<td>9,076</td>
<td>445</td>
</tr>
<tr>
<td><strong>TOTAL FINANCE INCOME</strong></td>
<td><strong>22,906</strong></td>
<td><strong>7,506</strong></td>
</tr>
</tbody>
</table>
33. Finance expense

Finance expense for the year ended 31 December 2019 and 2018 comprises the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>57,689</td>
<td>49,250</td>
</tr>
<tr>
<td>Decommissioning provision: unwinding of discount</td>
<td>6,063</td>
<td>3,809</td>
</tr>
<tr>
<td>Less: capitalised interest</td>
<td>(29,000)</td>
<td>(31,583)</td>
</tr>
<tr>
<td><strong>TOTAL FINANCE EXPENSE</strong></td>
<td><strong>32,772</strong></td>
<td><strong>21,476</strong></td>
</tr>
</tbody>
</table>

Interest expense includes expenses on the lease liabilities in the amount RUB 5,761 million for the year ended 31 December 2019.

34. Income tax expense

The Group’s applicable income tax rate for the companies located in the Russian Federation is 20%.

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income tax expense</td>
<td>104,652</td>
<td>98,701</td>
</tr>
<tr>
<td>Profit before income tax</td>
<td>423,928</td>
<td>389,418</td>
</tr>
<tr>
<td>Profit before income tax of associates and joint ventures</td>
<td>102,808</td>
<td>109,676</td>
</tr>
<tr>
<td>Profit before income tax</td>
<td>526,736</td>
<td>499,094</td>
</tr>
<tr>
<td>Tax at applicable domestic tax rate (20%)</td>
<td>105,347</td>
<td>99,819</td>
</tr>
<tr>
<td>Effect of tax rates in foreign jurisdictions</td>
<td>538</td>
<td>1,133</td>
</tr>
<tr>
<td>Difference in statutory tax rate in domestic entities</td>
<td>(9,335)</td>
<td>(9,423)</td>
</tr>
<tr>
<td>Non-deductible and deductible items [including Intragroup]</td>
<td>7,837</td>
<td>7,882</td>
</tr>
<tr>
<td>Adjustment for prior years</td>
<td>(1,137)</td>
<td>1,360</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>1,341</td>
<td>(1,167)</td>
</tr>
<tr>
<td>Foreign exchange loss of foreign non-operating units</td>
<td>61</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total income tax expense including share of tax of associates and joint ventures</strong></td>
<td><strong>104,652</strong></td>
<td><strong>98,701</strong></td>
</tr>
</tbody>
</table>

Reconciliation of effective tax rate:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax expense</td>
<td>54,020</td>
<td>60,177</td>
</tr>
<tr>
<td>Adjustment for prior years</td>
<td>(1,518)</td>
<td>(592)</td>
</tr>
<tr>
<td><strong>Deferred income tax expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Origination and reversal of temporary differences</td>
<td>31,903</td>
<td>20,711</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>1,341</td>
<td>(1,167)</td>
</tr>
<tr>
<td><strong>Total income tax expense</strong></td>
<td>85,746</td>
<td>79,129</td>
</tr>
<tr>
<td>Share of tax of associates and joint ventures</td>
<td>18,706</td>
<td>19,572</td>
</tr>
<tr>
<td><strong>Total income tax expense including share of tax of associates and joint ventures</strong></td>
<td><strong>104,652</strong></td>
<td><strong>98,701</strong></td>
</tr>
</tbody>
</table>

35. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

<table>
<thead>
<tr>
<th></th>
<th>Fair value</th>
<th>Less than 6 month</th>
<th>From 6 months to 12 months</th>
<th>From 1 to 3 years</th>
<th>Over 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 31 December 2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts and interest rate swaps</td>
<td>(1,094)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,094)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(1,094)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,094)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>(1,094)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,094)</td>
</tr>
<tr>
<td>As of 31 December 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts and interest rate swaps</td>
<td>(1,493)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,493)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(1,493)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,493)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>(1,493)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,493)</td>
</tr>
</tbody>
</table>

As of 31 December 2019 and 2018 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of USD 105 million and USD 140 million respectively. During the year ended 31 December 2019 loss in the amount of RUB 576 million was reclassified from equity to net foreign exchange (loss) / gain in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (RUB 14,708 million for the year ended 31 December 2018).
The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total recognised in other comprehensive income / (loss)</td>
<td>(1,493)</td>
<td>298</td>
<td>(1,195)</td>
<td>(17,928)</td>
<td>2,103</td>
<td>(15,825)</td>
</tr>
<tr>
<td>Foreign exchange effects recognised during the period</td>
<td>(177)</td>
<td>35</td>
<td>(142)</td>
<td>(323)</td>
<td>65</td>
<td>(258)</td>
</tr>
<tr>
<td>Recycled to Net foreign exchange gain / (loss) on operating activities</td>
<td>576</td>
<td>(115)</td>
<td>461</td>
<td>16,758</td>
<td>(1,870)</td>
<td>14,888</td>
</tr>
<tr>
<td>Total recognised in other comprehensive income / (loss) for the period</td>
<td>399</td>
<td>(80)</td>
<td>319</td>
<td>16,435</td>
<td>(1,805)</td>
<td>14,630</td>
</tr>
<tr>
<td>Total recognised in other comprehensive income / (loss) as of the closing of the period</td>
<td>(1,094)</td>
<td>218</td>
<td>(876)</td>
<td>(1,195)</td>
<td>298</td>
<td>(1,195)</td>
</tr>
</tbody>
</table>

The accumulated foreign exchange loss will be reclassified from other comprehensive income / (loss) to profit and loss in 2022.

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

36. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

The Group’s goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group’s Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management


In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk;
- liquidity risk

Market risk

Currency Risk

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currencies in which these borrowings are denominated in are mainly USD and EUR.

The Group’s currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other.

The Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

The carrying amounts of the Group’s financial instruments by currencies they are denominated in are as follows:

<table>
<thead>
<tr>
<th>As of 31 December 2019</th>
<th>Russian Ruble</th>
<th>USD</th>
<th>EUR</th>
<th>Serbian dinar</th>
<th>Other currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Cash and cash equivalents</td>
<td>135,688</td>
<td>51,483</td>
<td>6,393</td>
<td>6,153</td>
<td>6,687</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>15,076</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Loans issued</td>
<td>4,829</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Trade and other financial receivables</td>
<td>114,570</td>
<td>74,023</td>
<td>1,276</td>
<td>13,486</td>
<td>1,917</td>
</tr>
<tr>
<td>Non-current Trade and other financial receivables</td>
<td>696</td>
<td>-</td>
<td>133</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Bank deposits</td>
<td>13</td>
<td>-</td>
<td>78</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Loans issued</td>
<td>9,919</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Equity investments at fair value through OCI</td>
<td>976</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>47</td>
</tr>
</tbody>
</table>

FINANCIAL LIABILITIES

| Current Short-term debt | (26,031) | (1,673) | (2,647) | - | (227) |
| Trade and other financial payables | (266,299) | (19,830) | (6,506) | 116,765 | (2,039) |
| Forward exchange contracts | - | - | - | - |
| Current lease liabilities | (1,795) | (7,919) | (112) | - | (101) |
| Non-current | - | - | - | - | - |
As of 31 December 2019

<table>
<thead>
<tr>
<th>Russian Rouble</th>
<th>USD</th>
<th>EURO</th>
<th>Serbian dinar</th>
<th>Other currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>(406,858)</td>
<td>(185,819)</td>
<td>(92,223)</td>
<td>-</td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>(136)</td>
<td>(1,094)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-current lease liabilities</td>
<td>(3,555)</td>
<td>(73,645)</td>
<td>(444)</td>
<td>-</td>
</tr>
<tr>
<td>Other non-current financial liabilities</td>
<td>(20,271)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET EXPOSURE</strong></td>
<td><strong>(441,176)</strong></td>
<td><strong>(164,294)</strong></td>
<td><strong>(91,894)</strong></td>
<td><strong>924</strong></td>
</tr>
</tbody>
</table>

As of 31 December 2018

<table>
<thead>
<tr>
<th>Russian Rouble</th>
<th>USD</th>
<th>EURO</th>
<th>Serbian dinar</th>
<th>Other currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>144,352</td>
<td>88,487</td>
<td>6,304</td>
<td>4,896</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans issued</td>
<td>838</td>
<td>-</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>Trade and other financial receivables</td>
<td>33,389</td>
<td>76,676</td>
<td>1,503</td>
<td>15,624</td>
</tr>
<tr>
<td><strong>NET EXPOSURE</strong></td>
<td><strong>(441,176)</strong></td>
<td><strong>(164,294)</strong></td>
<td><strong>(91,894)</strong></td>
<td><strong>924</strong></td>
</tr>
</tbody>
</table>

**Sensitivity analysis**

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical changes in the Group's profit or loss and equity that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

<table>
<thead>
<tr>
<th>31 DECEMBER 2019</th>
<th>31 DECEMBER 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/RUB (20% increase)</td>
<td>(40,655)</td>
</tr>
<tr>
<td>EUR/RUB (20% increase)</td>
<td>(18,581)</td>
</tr>
<tr>
<td>RSD/RUB (20% increase)</td>
<td>-</td>
</tr>
</tbody>
</table>

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit or loss of the Group.

**Interest Rate Risk**

Part of the Group’s borrowings is at variable interest rates (linked to the Libor, Euribor or key rate of the Bank of Russia). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group’s treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate (in aggregate with other conditions) would be more favourable.

The interest rate profiles of the Group are presented below:

**Carrying amount**

<table>
<thead>
<tr>
<th>31 DECEMBER 2019</th>
<th>31 DECEMBER 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate Instruments</td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td>232,322</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>(679,476)</td>
</tr>
<tr>
<td>Variable Rate Instruments</td>
<td></td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>(126,547)</td>
</tr>
</tbody>
</table>
Cash flow sensitivity analysis for variable rate instruments

The Group’s financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group’s profit before taxation will change by the amounts shown below:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th></th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase by 100 bp</td>
<td>(1,268)</td>
<td>Decrease by 100 bp</td>
<td>(1,199)</td>
</tr>
</tbody>
</table>

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit or loss of the Group.

Commodity Price Risk

The Group’s financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group’s business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms. Such activities help to decrease risks to an acceptable level.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and in connection with investment securities.

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group is exposed to credit risk due to sales with deferred payment terms which are usual and customary in the market. There is risk of non-timely receipt of payments for crude oil and petroleum products (risk of tying up of working capital) and risk of default of counterparty.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The Group’s trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. The Group has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty’s profile of receivables and duration of relationships with the Group, including ageing profile.

The Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group. To assess whether there is a significant increase in credit risk the Group compares the solvency data occurring as at the reporting date with the same data as at the date of initial recognition. The Group considers available reasonable and supportable forwarding-looking information.

The Management believes that not impaired trade and other receivables are fully recoverable.

The Group recognises an allowance for impairment that represents its best estimate of incurred losses in respect of trade and other receivables.

Trade receivables representing due from customers in the ordinary course of business are short-term by nature and do not contain the significant financial component. Lifetime expected credit loss estimation is equal 12-months measure.

The Group makes forward looking information adjustment, if changes between prior year macroparameters’ level and its forecast for next 12 months are significant.

Estimated provision matrixes have been prepared for separate portfolios of receivables, homogeneous in terms of credit risk. Types of products sold, geographical specificity of distributional channels, ageing profile of receivables and other factors were taken into account to separate individual portfolios. As of and 2018, the ageing analysis of financial receivables is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Gross Impairment</th>
<th>Gross Impairment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2019</td>
<td>31 December 2018</td>
</tr>
<tr>
<td>Net past due</td>
<td>174,075 (1,007)</td>
<td>122,476 (485)</td>
</tr>
<tr>
<td>Past due 0 - 30 days</td>
<td>2,280 (1)</td>
<td>2,282 (3)</td>
</tr>
<tr>
<td>Past due 31 - 90 days</td>
<td>3,021 (5)</td>
<td>3,775 (31)</td>
</tr>
<tr>
<td>Past due 91 - 180 days</td>
<td>1,667 (10)</td>
<td>866 (70)</td>
</tr>
<tr>
<td>Past due 181 - 365 days</td>
<td>127 (23)</td>
<td>533 (124)</td>
</tr>
<tr>
<td>Past due more than 365 days</td>
<td>3,049 (1,343)</td>
<td>3,352 (2,377)</td>
</tr>
</tbody>
</table>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and other receivables.
The movement in the credit loss allowance for impairment in respect of trade and other receivables during the period was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BALANCE AT THE BEGINNING OF THE PERIOD</strong></td>
<td>2,430</td>
<td>7,567</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>201</td>
<td>461</td>
</tr>
<tr>
<td>Amounts written off against receivables</td>
<td>(40)</td>
<td>(5,766)</td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(182)</td>
<td>(236)</td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>(79)</td>
<td>191</td>
</tr>
<tr>
<td>Other movements</td>
<td>(30)</td>
<td>9</td>
</tr>
<tr>
<td><strong>BALANCE AT THE END OF THE PERIOD</strong></td>
<td>2,103</td>
<td>2,430</td>
</tr>
</tbody>
</table>

Other current assets

The movement in the allowance for impairment in respect of other current assets during the period was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at the beginning of the period</strong></td>
<td>11,727</td>
<td>12,288</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>827</td>
<td>172</td>
</tr>
<tr>
<td>Amounts written off against receivables</td>
<td>(10,499)</td>
<td>(532)</td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(227)</td>
<td>(92)</td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>83</td>
<td>199</td>
</tr>
<tr>
<td>Other movements</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Translation differences</strong></td>
<td>(54)</td>
<td>97</td>
</tr>
<tr>
<td><strong>Balance at the end of the period</strong></td>
<td>1,850</td>
<td>11,727</td>
</tr>
</tbody>
</table>

Investments

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any loans issued measured at amortized cost that were past due but not impaired as of.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of 31 December 2019</strong></td>
<td>1,130,736</td>
<td>1,327,816</td>
</tr>
<tr>
<td>Bank loans</td>
<td>350,671</td>
<td>416,818</td>
</tr>
<tr>
<td>Bonds</td>
<td>168,718</td>
<td>222,472</td>
</tr>
<tr>
<td>Loan Participation Notes</td>
<td>186,775</td>
<td>220,194</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>8,644</td>
<td>9,328</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>87,795</td>
<td>118,661</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>307,439</td>
<td>307,439</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,130,736</td>
<td>1,327,816</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>416,818</td>
<td>25,975</td>
</tr>
<tr>
<td>Contractual cash flows</td>
<td>220,194</td>
<td>6,414</td>
</tr>
<tr>
<td>Less than 6 months</td>
<td>222,472</td>
<td>6,414</td>
</tr>
<tr>
<td>6 – 12 months</td>
<td>416,818</td>
<td>6,414</td>
</tr>
<tr>
<td>1 – 2 years</td>
<td>8,644</td>
<td>4,625</td>
</tr>
<tr>
<td>2 – 5 years</td>
<td>9,328</td>
<td>9,625</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>9,328</td>
<td>9,625</td>
</tr>
</tbody>
</table>

As of 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at the beginning of the period</strong></td>
<td>11,671</td>
<td>190,856</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>827</td>
<td>172</td>
</tr>
<tr>
<td>Amounts written off against receivables</td>
<td>(10,499)</td>
<td>(532)</td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(227)</td>
<td>(92)</td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>83</td>
<td>199</td>
</tr>
<tr>
<td>Other movements</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Translation differences</strong></td>
<td>(54)</td>
<td>97</td>
</tr>
<tr>
<td><strong>Balance at the end of the period</strong></td>
<td>1,850</td>
<td>11,727</td>
</tr>
</tbody>
</table>

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2019 and 2018 no significant credit loss allowance for impairment in respect of these assets was recognized.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group’s approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group’s reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of 31 December 2019</strong></td>
<td>1,130,736</td>
<td>1,327,816</td>
</tr>
<tr>
<td>Bank loans</td>
<td>350,671</td>
<td>416,818</td>
</tr>
<tr>
<td>Bonds</td>
<td>168,718</td>
<td>222,472</td>
</tr>
<tr>
<td>Loan Participation Notes</td>
<td>186,775</td>
<td>220,194</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>8,644</td>
<td>9,328</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>87,795</td>
<td>118,661</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>307,439</td>
<td>307,439</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,130,736</td>
<td>1,327,816</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>416,818</td>
<td>25,975</td>
</tr>
<tr>
<td>Contractual cash flows</td>
<td>220,194</td>
<td>6,414</td>
</tr>
<tr>
<td>Less than 6 months</td>
<td>222,472</td>
<td>6,414</td>
</tr>
<tr>
<td>6 – 12 months</td>
<td>416,818</td>
<td>6,414</td>
</tr>
<tr>
<td>1 – 2 years</td>
<td>8,644</td>
<td>4,625</td>
</tr>
<tr>
<td>2 – 5 years</td>
<td>9,328</td>
<td>9,625</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>9,328</td>
<td>9,625</td>
</tr>
</tbody>
</table>

As of 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at the beginning of the period</strong></td>
<td>11,671</td>
<td>190,856</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>827</td>
<td>172</td>
</tr>
<tr>
<td>Amounts written off against receivables</td>
<td>(10,499)</td>
<td>(532)</td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(227)</td>
<td>(92)</td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>83</td>
<td>199</td>
</tr>
<tr>
<td>Other movements</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Translation differences</strong></td>
<td>(54)</td>
<td>97</td>
</tr>
<tr>
<td><strong>Balance at the end of the period</strong></td>
<td>1,850</td>
<td>11,727</td>
</tr>
</tbody>
</table>
Carrying amount
Contractual cash flows
Less than 6 months
A - 12 months
1 - 2 years
2 - 5 years
Over 5 years
Other borrowings
8,861
13,249
9,487
981
333
710
1,738
Other non-current financial liabilities
43,236
62,643
5
-11,057
34,779
14,802
Finance lease liabilities
25,683
34,809
1,694
1,697
3,414
10,080
17,924
Trade and other payables
307,604
307,604
10,552
28
163
22
1,151,774
1,376,220
361,289
86,732
63,004
765,882
1,738
Other borrowings
8,861
13,249
9,487
981
333
710
1,738
Other non-current financial liabilities
43,236
62,643
5
-11,057
34,779
14,802
Finance lease liabilities
25,683
34,809
1,694
1,697
3,414
10,080
17,924
Trade and other payables
307,604
307,604
10,552
28
163
22
1,151,774
1,376,220
361,289
86,732
63,004
765,882
1,738
Reconciliation of liabilities arising from financing activities

The table below sets out the movements in the Group's liabilities from financing activities for each of the years presented. The items of these liabilities are those that are reported as financing in the Consolidated Statement of Cash Flows:

<table>
<thead>
<tr>
<th>Short-term and long-term debt</th>
<th>Financial lease / Lease</th>
<th>Other liabilities from financing activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AS OF 1 JANUARY 2019</strong></td>
<td>775,453</td>
<td>25,683</td>
<td>163,571</td>
</tr>
<tr>
<td>Cash flows, including:</td>
<td>(67,643)</td>
<td>(14,961)</td>
<td>(253,173)</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>258,963</td>
<td>-</td>
<td>258,963</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(280,878)</td>
<td>-</td>
<td>(292,379)</td>
</tr>
<tr>
<td>Repayment of lease liabilities</td>
<td>- (9,200)</td>
<td>-</td>
<td>- (9,200)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(45,353)</td>
<td>(5,761)</td>
<td>(7,943)</td>
</tr>
<tr>
<td>Transaction costs directly attributable to the borrowings received</td>
<td>(375)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>(223,729)</td>
<td>(223,729)</td>
</tr>
<tr>
<td>Finance expense</td>
<td>45,827</td>
<td>5,761</td>
<td>4,679</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>-</td>
<td>-</td>
<td>129,707</td>
</tr>
<tr>
<td>Changes in fair values, cash flow hedge</td>
<td>-</td>
<td>-</td>
<td>(177)</td>
</tr>
<tr>
<td>Gain on foreign exchange differences</td>
<td>(33,279)</td>
<td>(8,945)</td>
<td>-</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>(5,919)</td>
<td>(112)</td>
<td>(329)</td>
</tr>
<tr>
<td>Implementation of IFRS 16</td>
<td>-</td>
<td>62,223</td>
<td>62,223</td>
</tr>
<tr>
<td>Additions under IFRS 16</td>
<td>-</td>
<td>18,369</td>
<td>18,369</td>
</tr>
<tr>
<td>Other non-cash movements</td>
<td>661</td>
<td>(13)</td>
<td>1,747</td>
</tr>
<tr>
<td><strong>AS OF 31 DECEMBER 2019</strong></td>
<td>715,228</td>
<td>87,795</td>
<td>46,025</td>
</tr>
<tr>
<td>Cash flows, including:</td>
<td>(16,432)</td>
<td>(13,129)</td>
<td>(105,822)</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>365,564</td>
<td>-</td>
<td>365,564</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(340,659)</td>
<td>-</td>
<td>(340,659)</td>
</tr>
<tr>
<td>Repayment of finance lease liabilities</td>
<td>-</td>
<td>(1,579)</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(62,359)</td>
<td>(1,930)</td>
<td>(2,583)</td>
</tr>
<tr>
<td>Transaction costs directly attributable to the borrowings received</td>
<td>(158)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, deprecation and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group’s share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital Employed is defined as total equity plus net debt.

The Group’s net debt to EBITDA ratios at of and return on average capital employed for years ended and were as follows:

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Long-term debt</th>
<th>Short-term debt and current portion of long-term debt</th>
<th>Less: cash, cash equivalents and deposits</th>
<th>EBITDA</th>
<th>NET DEBT</th>
<th>Total EBITDA</th>
<th>NET DEBT to EBITDA RATIO AT THE END OF THE REPORTING PERIOD</th>
<th>ROACE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019</strong></td>
<td>689,030</td>
<td>30,198</td>
<td>981</td>
<td>711,846</td>
<td>647,768</td>
<td>711,866</td>
<td>0.7</td>
<td>16.8</td>
</tr>
<tr>
<td><strong>2018</strong></td>
<td>684,330</td>
<td>30,913</td>
<td>129,361</td>
<td>722,897</td>
<td>574,595</td>
<td>722,897</td>
<td>0.7</td>
<td>19.1</td>
</tr>
</tbody>
</table>

There were no changes in the Group’s approach to capital management during the period.
Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value in the Group’s Consolidated Financial Statements:
- derivative financial instruments, equity investments and Stock Appreciation Rights plan (SARs).
- Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).
- Equity investments represented by unlisted equity securities and refer to Level 3 of the fair value measurement hierarchy. The Group determines fair value for unlisted equity securities considering different scenarios of future capital distributions for such investments. There were no significant changes in fair values for the reporting period. There were no transfers between the levels of the fair value hierarchy during the years ended and there are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy.
- The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.
- As of 31 December 2019 the fair value of bonds and loan participation notes is RUB 371,410 million (RUB 338,324 million as of).
- The fair value is derived from quotations in active market from external source of financial information and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities measured at amortised cost approximates their fair value. The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.
- The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy:

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forwards and options</td>
<td>(1,094)</td>
<td>(1,094)</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>(1,094)</td>
<td>(1,094)</td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>(1,094)</td>
<td>(1,094)</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>(1,094)</td>
<td>(1,094)</td>
</tr>
</tbody>
</table>

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long-term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group’s market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date. The awards are subject to certain market and service conditions that determine the amount that may ultimately be accrued to eligible employees. The expense recognised is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group’s share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period. During the reporting period there were no changes in conditions for SAR compensation plan.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volatility</td>
<td>3.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>5.6%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>11.9%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

In the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2019 and 2018 the Group accrued expenses related to SAR provision due to the growth in the value of Company’s shares in the amount of RUB 8,111 million and RUB 4,452 million, respectively. This expense is presented within selling, general and administrative expenses. In the Consolidated Statement of Financial Position as of 31 December 2019 and 31 December 2018 the Group recognised accrued liability in amount of RUB 12,764 million and RUB 4,452 million, respectively.

37. Commitments and contingencies

Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management’s treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. For the individual entities of the Group the field tax audit with regard to the years 2015-2017 is performing now, the years 2018-2019 are currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This
As of 31 December 2019 the Group has entered into contracts to purchase property, plant and equipment concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

The Group is committed to implementing and developing environmental management standards in its activities. The Group adheres to the principles of sustainable use of natural resources and considers environmental protection a priority.

Environmental factors have an impact on the prices that the Group pays for its raw materials and the prices at which it sells its products. However, the impact of these factors on the Group’s results of operations and financial position is difficult to predict and management’s current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2014. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions don’t have significant impact to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2014. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions don’t have significant impact to the Group.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017-2019, after overcoming the economic recession of 2014 and 2016. The economy is negatively impacted by volatility of oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group’s operations and financial position.

Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2014. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions don’t have significant impact on its activity.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group regularly negotiates approaches to defining prices used for tax purposes with major controllable transactions with tax authorities in advance. Twenty-two pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2019.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While Management currently estimates the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Environmental matters

The Group periodically evaluates its potential obligations concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

Capital commitments

As of 31 December 2019 the Group has entered into contracts to purchase property, plant and equipment for RUB 523,364 million (RUB 363,690 million as of 31 December 2018).

The following table summarises the information relating to the non-controlling interest of Nafna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries is not significant individually.

<table>
<thead>
<tr>
<th>Subsidiary Country of incorporation</th>
<th>Ownership interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSC Gazpromneft-Omsk Refinery</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>JSC Gazpromneft Moscow Refinery</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft-Centre LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft Regional Sales LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>JSC Gazpromneft-Aero</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft Marin Bunker LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft Corporate Sales LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft-Lubricants LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft-Blizumen Materials LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft NTC LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>O PN-Finance LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>OPN-Invest LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Gazpromneft Shipping LLC</td>
<td>Russian Federation 100%</td>
</tr>
<tr>
<td>Nafna industrija Srbije A.D. (NIS)</td>
<td>Serbia 56.2%</td>
</tr>
</tbody>
</table>

In September 2018 the Group completed deal on disposal of non-controlling interest equal to 49% of share capital of Gazpromneft-Vostok LLC to third parties. The Group maintained control over the Company. In result non-controlling interest in the amount of RUB 21.3 billion was recognized. Excess of the payment over non-controlling interest was recognized at additional paid-in capital attributable to Gazprom Neft shareholders.
The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC as of 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naftna industrija Srbije A.D. and its subsidiaries</td>
<td>79,636</td>
<td>87,815</td>
<td>4,164</td>
<td>6,641</td>
</tr>
<tr>
<td>Gazpromneft-Vostok LLC</td>
<td>24,938</td>
<td>24,176</td>
<td>2,232</td>
<td>109</td>
</tr>
<tr>
<td>Gazpromneft-Yamal LLC</td>
<td>28,500</td>
<td>19,506</td>
<td>11,820</td>
<td>12,450</td>
</tr>
<tr>
<td>Gazprom Resource Northgas LLC</td>
<td>21,485</td>
<td>18,276</td>
<td>3,110</td>
<td>3,806</td>
</tr>
</tbody>
</table>

The table below summarises cash flows information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC for the years ended 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>258,908</td>
<td>34,851</td>
<td>240,878</td>
<td>-</td>
</tr>
<tr>
<td>Profit</td>
<td>9,460</td>
<td>4,556</td>
<td>118,198</td>
<td>3,813</td>
</tr>
<tr>
<td>Total comprehensive (loss) / income</td>
<td>(1,771)</td>
<td>(416)</td>
<td>6,791</td>
<td>1,265</td>
</tr>
</tbody>
</table>

The table below summarises cash flows information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC for the years ended 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>270,427</td>
<td>34,268</td>
<td>236,008</td>
<td>-</td>
</tr>
<tr>
<td>Profit</td>
<td>15,146</td>
<td>5,922</td>
<td>124,501</td>
<td>6,452</td>
</tr>
<tr>
<td>Total comprehensive (loss) / income</td>
<td>(1,051)</td>
<td>5,922</td>
<td>124,501</td>
<td>6,452</td>
</tr>
</tbody>
</table>

The table below summarises net cash flows information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC for the years ended 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>Year ended 31 December 2019</th>
<th>Year ended 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Flows</td>
<td>(7,771)</td>
<td>(416)</td>
<td>6,791</td>
<td>1,265</td>
</tr>
<tr>
<td></td>
<td>(3,893)</td>
<td>6,143</td>
<td>(29,226)</td>
<td>847</td>
</tr>
</tbody>
</table>

Dividends paid in 2019 by Gazpromneft-Yamal LLC to the non-controlling share comprised RUB 3.0 billion (RUB 1.5 billion in 2018).

Dividends paid in 2019 by Gazpromneft-Vostok LLC to the non-controlling share comprised RUB 1.5 billion.

Dividends paid in 2018 by Gazprom Resource Northgas LLC to the non-controlling share comprised RUB 8.1 billion.

Dividends paid in 2019 by Naftna industrija Srbije A.D. to the non-controlling share comprised RUB 1.8 billion (RUB 1.9 billion in 2018).

39. Related party transactions

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market-related terms and conditions.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market-related terms and conditions.

Transactions between related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The tables below summarise transactions in the ordinary course of business with either the parent company or parent’s subsidiaries and associates or associates and joint ventures of the Group.

As of 31 December 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

|                      | 31 December 2019 | Parent company Parent’s subsidiaries and associates Associates and joint ventures |
|----------------------|------------------|-----------------------------------------------|-----------------------------------------------|
| Year ended 31 December 2019 | 2019 | 43,912 | 67,811 | - |
| Short-term financial assets | - | - | 4,455 |
| Trade and other receivables | 67,564 | 12,381 | 11,456 |
| Other current assets | 120 | 4,456 | 1,737 |
| Long-term financial assets | - | 643 | 9,897 |
| Other non-current assets | - | 595 | - |
| Short-term debt and other current financial liability | - | - | 278 |
| Other current liabilities | 2 | 360 | 245 |
| Long-term debt and other non-current financial liability | 20,269 | 20,000 | - |
| Other non-current liabilities | 35,007 | - | - |
Transactions with Key Management Personnel

For the year ended 31 December 2019 and 2018 remuneration of key management personnel (members of the Board of Directors and Management Committee) such as salary and other contributions amounted RUB 3,599 million and RUB 2,681 million, respectively. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

40. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in two operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development, production and sale of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude oil and refined petroleum products.

The information about the Group’s operating segments for the and is presented below:

### Year ended 31 December 2019

<table>
<thead>
<tr>
<th>Segment</th>
<th>Upstream</th>
<th>Downstream</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External customers</td>
<td>148,883</td>
<td>2,336,425</td>
<td>-</td>
<td>2,485,308</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>1,027,079</td>
<td>31,796</td>
<td>(1,058,875)</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE FROM SALES</strong></td>
<td>1,175,962</td>
<td>2,368,221</td>
<td>(1,058,875)</td>
<td>2,485,308</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>640,931</td>
<td>154,198</td>
<td>-</td>
<td>795,129</td>
</tr>
<tr>
<td><strong>Depreciation, depletion and amortisation</strong></td>
<td>136,033</td>
<td>47,339</td>
<td>-</td>
<td>183,372</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>283,476</td>
<td>192,703</td>
<td>-</td>
<td>476,199</td>
</tr>
<tr>
<td><strong>Intersegment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intersegment</td>
<td>1,135,245</td>
<td>31,796</td>
<td>(1,155,875)</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE FROM SALES</strong></td>
<td>1,192,820</td>
<td>2,452,347</td>
<td>(1,155,875)</td>
<td>2,489,292</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>660,931</td>
<td>154,198</td>
<td>-</td>
<td>815,129</td>
</tr>
<tr>
<td><strong>Depreciation, depletion and amortisation</strong></td>
<td>134,033</td>
<td>47,339</td>
<td>-</td>
<td>181,372</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>283,476</td>
<td>192,703</td>
<td>-</td>
<td>476,199</td>
</tr>
</tbody>
</table>

### Year ended 31 December 2018

<table>
<thead>
<tr>
<th>Segment</th>
<th>Upstream</th>
<th>Downstream</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External customers</td>
<td>57,575</td>
<td>2,431,717</td>
<td>-</td>
<td>2,489,292</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>1,027,079</td>
<td>31,796</td>
<td>(1,058,875)</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE FROM SALES</strong></td>
<td>1,184,652</td>
<td>2,463,513</td>
<td>(1,058,875)</td>
<td>2,489,292</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>660,931</td>
<td>154,198</td>
<td>-</td>
<td>815,129</td>
</tr>
<tr>
<td><strong>Depreciation, depletion and amortisation</strong></td>
<td>134,033</td>
<td>47,339</td>
<td>-</td>
<td>181,372</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>283,476</td>
<td>192,703</td>
<td>-</td>
<td>476,199</td>
</tr>
</tbody>
</table>

**Intersegment** revenues are based upon prices effective for local markets and linked to market prices.
Eliminations and other adjustments section encompasses elimination of inter-segment sales and realised unrealised profits, mainly from the sale of crude oil and petroleum products, and other adjustments.

Adjusted EBITDA represents the Group’s EBITDA and its share in associates’ and joint ventures’ EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group’s ongoing operating activities, as it reflects the Group’s earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, net foreign exchange gain (loss), other non-operating expenses and includes the Group’s share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

The geographical segmentation of the Group’s revenue and capital expenditures for the and is presented below:

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>Russian Federation</th>
<th>CIS</th>
<th>Export and international operations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of crude oil</td>
<td>88,797</td>
<td>41,067</td>
<td>614,496</td>
<td>746,660</td>
</tr>
<tr>
<td>Sales of petroleum products</td>
<td>1,046,521</td>
<td>86,752</td>
<td>486,857</td>
<td>1,619,130</td>
</tr>
<tr>
<td>Sales of gas</td>
<td>29,891</td>
<td>-</td>
<td>863</td>
<td>30,754</td>
</tr>
<tr>
<td>Other sales</td>
<td>79,076</td>
<td>2,749</td>
<td>10,039</td>
<td>91,864</td>
</tr>
<tr>
<td>REVENUES FROM EXTERNAL CUSTOMERS, NET</td>
<td>1,244,285</td>
<td>130,568</td>
<td>1,110,455</td>
<td>2,485,308</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended 31 December 2018</th>
<th>Russian Federation</th>
<th>CIS</th>
<th>Export and international operations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of crude oil</td>
<td>88,848</td>
<td>38,993</td>
<td>590,630</td>
<td>718,471</td>
</tr>
<tr>
<td>Sales of petroleum products</td>
<td>1,075,927</td>
<td>91,334</td>
<td>496,170</td>
<td>1,663,431</td>
</tr>
<tr>
<td>Sales of gas</td>
<td>36,805</td>
<td>-</td>
<td>1,010</td>
<td>37,815</td>
</tr>
<tr>
<td>Other sales</td>
<td>54,801</td>
<td>2,498</td>
<td>13,276</td>
<td>70,575</td>
</tr>
<tr>
<td>REVENUES FROM EXTERNAL CUSTOMERS, NET</td>
<td>1,255,381</td>
<td>132,825</td>
<td>1,101,086</td>
<td>2,489,292</td>
</tr>
</tbody>
</table>

For the year ended 31 December 2019 and 2018 export sales of crude oil include sales from upstream segment in the amount of RUB 128,840 million and RUB 36,981 million, respectively. The remaining amount of RUB 485,856 million for year ended 31 December 2019 (RUB 553,649 million for the year ended 31 December 2018) represents sales from downstream segment.

The geographical segmentation of the Group’s non-current assets as of 31 December 2018 was adjusted for the amount of RUB 24.6 billion that was reclassified from Export and international operations to Russian Federation segment.

The geographical segmentation of the Group’s non-current assets as of 31 December 2019 was adjusted for the amount of RUB 24.6 billion that was reclassified from Export and international operations to Russian Federation segment.

Adjusted EBITDA for the year ended 31 December 2019 and 2018 is reconciled below:

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>Russian Federation</th>
<th>CIS</th>
<th>Export and international operations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>448,512</td>
<td>866</td>
<td>27,041</td>
<td>476,399</td>
</tr>
<tr>
<td>Non-current assets as of 31 December 2019</td>
<td>2,164,360</td>
<td>12,228</td>
<td>321,820</td>
<td>2,498,408</td>
</tr>
<tr>
<td>Investments in associates and joint ventures as of 31 December 2018</td>
<td>327,562</td>
<td>-</td>
<td>1,375</td>
<td>328,937</td>
</tr>
<tr>
<td>Other long-term financial assets as of 31 December 2018</td>
<td>11,230</td>
<td>-</td>
<td>95</td>
<td>11,325</td>
</tr>
<tr>
<td>Capital expenditures for the year ended 31 December 2019</td>
<td>340,919</td>
<td>1,448</td>
<td>32,830</td>
<td>375,197</td>
</tr>
</tbody>
</table>

Adjusted EBITDA for the year ended 31 December 2019 and 2018 is reconciled below:

<table>
<thead>
<tr>
<th>Year ended 31 December 2018</th>
<th>Russian Federation</th>
<th>CIS</th>
<th>Export and international operations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>422,088</td>
<td>633</td>
<td>22,096</td>
<td>444,817</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>85,744</td>
<td>-</td>
<td>3,935</td>
<td>89,679</td>
</tr>
<tr>
<td>Finance expense</td>
<td>32,772</td>
<td>-</td>
<td>21,476</td>
<td>54,248</td>
</tr>
<tr>
<td>Finance income</td>
<td>(22,708)</td>
<td>-</td>
<td>(7,516)</td>
<td>(29,224)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>181,372</td>
<td>175,451</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net foreign exchange gain / loss</td>
<td>(110,518)</td>
<td>33,558</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other loss, net</td>
<td>23,292</td>
<td>-</td>
<td>19,796</td>
<td>42,088</td>
</tr>
<tr>
<td>EBITDA</td>
<td>711,864</td>
<td>722,897</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>795,129</td>
<td>799,506</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Supplementary information on oil and gas activities (unaudited)

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group’s consolidated subsidiaries, share in joint operations, associates and joint ventures.
The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group’s Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

### Presenting below are capitalised costs relating to oil and gas producing activities:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unproved oil and gas properties</td>
<td>136,620</td>
<td>103,983</td>
</tr>
<tr>
<td>Proved oil and gas properties</td>
<td>2,062,056</td>
<td>1,852,270</td>
</tr>
<tr>
<td>Less: Accumulated depreciation, depletion and amortisation</td>
<td>(878,357)</td>
<td>(783,362)</td>
</tr>
<tr>
<td><strong>NET CAPITALISED COSTS OF OIL AND GAS PROPERTIES</strong></td>
<td>1,202,319</td>
<td>1,172,910</td>
</tr>
<tr>
<td><strong>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proved oil and gas properties</td>
<td>706,622</td>
<td>623,845</td>
</tr>
<tr>
<td>Less: Accumulated depreciation, depletion and amortisation</td>
<td>(237,726)</td>
<td>(203,268)</td>
</tr>
<tr>
<td><strong>Net capitalised costs of oil and gas properties</strong></td>
<td>448,896</td>
<td>420,577</td>
</tr>
<tr>
<td><strong>TOTAL CAPITALISED COSTS CONSOLIDATED AND EQUITY INTERESTS</strong></td>
<td>1,751,215</td>
<td>1,593,487</td>
</tr>
</tbody>
</table>

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration costs</td>
<td>46,862</td>
<td>22,301</td>
</tr>
<tr>
<td>Development costs</td>
<td>203,584</td>
<td>191,420</td>
</tr>
<tr>
<td><strong>COSTS INCURRED</strong></td>
<td>250,446</td>
<td>213,721</td>
</tr>
<tr>
<td><strong>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration costs</td>
<td>-</td>
<td>497</td>
</tr>
<tr>
<td>Development costs</td>
<td>82,777</td>
<td>69,833</td>
</tr>
<tr>
<td><strong>TOTAL COSTS INCURRED CONSOLIDATED AND EQUITY INTERESTS</strong></td>
<td>333,223</td>
<td>284,013</td>
</tr>
</tbody>
</table>

Results of operations from oil and gas producing activities for the years ended 31 December:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>354,624</td>
<td>339,426</td>
</tr>
<tr>
<td>Transfers</td>
<td>587,996</td>
<td>629,183</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>942,620</td>
<td>968,609</td>
</tr>
<tr>
<td>Production costs</td>
<td>(112,268)</td>
<td>(104,072)</td>
</tr>
<tr>
<td>Exploration expenses</td>
<td>(1,752)</td>
<td>(1,411)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(130,316)</td>
<td>(131,293)</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>(500,630)</td>
<td>(507,190)</td>
</tr>
<tr>
<td><strong>PRETAX INCOME FROM PRODUCING ACTIVITIES</strong></td>
<td>196,656</td>
<td>226,641</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>(59,501)</td>
<td>(65,941)</td>
</tr>
</tbody>
</table>

Results of oil and gas producing activities for the years ended 31 December:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenues</td>
<td>6,840</td>
<td>4,840</td>
</tr>
<tr>
<td>Production</td>
<td>(359)</td>
<td>(356)</td>
</tr>
<tr>
<td>Change of assets</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td><strong>RESULTS OF OIL AND GAS PRODUCING ACTIVITIES</strong></td>
<td>6,480</td>
<td>4,480</td>
</tr>
<tr>
<td>Minority’s share included in the above proved reserves</td>
<td>(92)</td>
<td>(42)</td>
</tr>
<tr>
<td>Proved reserves, adjusted for minority interest</td>
<td>4,717</td>
<td>4,798</td>
</tr>
<tr>
<td><strong>RESULTS OF OIL AND GAS PRODUCING ACTIVITIES</strong></td>
<td>5,288</td>
<td>4,230</td>
</tr>
</tbody>
</table>

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group’s independent reservoir engineers, DuGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):
The information provided in tables set out below does not represent Management’s estimate of the Group’s expected future cash flows or of the value Group’s proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group’s future cash flows or of the value of its oil and gas reserves.

<table>
<thead>
<tr>
<th>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future cash inflows</td>
<td>17,144,989</td>
<td>18,695,537</td>
</tr>
<tr>
<td>Future production costs</td>
<td>(11,199,812)</td>
<td>(11,427,272)</td>
</tr>
<tr>
<td>Future development costs</td>
<td>(1,056,587)</td>
<td>(892,476)</td>
</tr>
<tr>
<td>Future income tax expenses</td>
<td>(1,209,796)</td>
<td>(2,057,005)</td>
</tr>
<tr>
<td>Future net cash flow</td>
<td>3,708,794</td>
<td>4,018,784</td>
</tr>
<tr>
<td>10% annual discount for estimated timing of cash flow</td>
<td>(1,939,797)</td>
<td>(2,188,299)</td>
</tr>
<tr>
<td>Standardised measure of discounted future net cash flow</td>
<td>1,738,997</td>
<td>2,130,485</td>
</tr>
</tbody>
</table>

| Group’s share of associates and joint ventures          | 4,279,241        | 4,660,776        |
| Future cash inflows                                     |                |                  |
| Future production costs                                 | (2,795,981)     | (2,867,502)      |
| Future development costs                                | (249,513)       | (251,088)        |
| Future income tax expenses                              | (210,212)       | (265,892)        |
| Future net cash flow                                    | 1,023,535       | 1,276,294        |
| 10% annual discount for estimated timing of cash flow   | (328,248)       | (501,792)        |
| Standardised measure of discounted future net cash flow | 695,287          | 774,502          |

| TOTAL CONSOLIDATED AND EQUITY INTERESTS IN THE STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW | 2,434,284 | 2,904,987 |

Standardised measure of discounted future net cash flows relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.
APPENDIX 2. COMPANY HISTORY

1995
Siberian Oil Company (‘Sibneft’)
Siberian Oil Company (‘Sibneft’) was formed by the decree of the President of the Russian Federation. The company was established by the government, which transferred its interest in the country’s oil majors, including Noyabrkneftegaz, Noyabrkneftegazgeophysica, the Omsk Refinery and Omsknefteprodukt, to the holding company’s authorised capital.

1996–1997
Sibneft was privatised
To develop market economy, the Government of the Russian Federation implemented the Sibneft privatisation plan. In 1996, private investors acquired 49% of the company shares capital through auctions. In 1997, Financial Oil Company won the auction to sell the government interest in Sibneft as part of the Shares for Loans government programme.

1998–2004
Asset build-up
By implementing an aggressive growth strategy, Sibneft significantly expanded the geography of its production (the Tomsk Oblast and the Omsk Oblast) and sales network (the Sverdlovsk Oblast and the Tyumen Oblast, the Krasnoyarsk Krai, St Petersburg and Moscow). The company’s major acquisitions during that period include the purchase of a 49.9% holding in Slavneft, which produces oil and gas in Western Siberia and the Krasnoyarsk Krai.

Strong growth
A strong resource base, efficient refining assets and highly professional executives are the core drivers of the company strong growth. Sibneft executives significantly upgraded production facilities, introduced cutting-edge technologies and streamlined business processes.

2005
Gazprom acquires controlling interest in Sibneft
The controlling interest (75.68%) in Sibneft was acquired by the Gazprom Group. On 13 May 2006, the company was renamed Gazprom Neft. The company priorities in development included strategic goals to become a global player with a regionally diversified portfolio of assets across the entire value chain.

2006
Coming onto the market in Central Asia
Gazprom Neft came onto the market in Central Asia and established a subsidiary, Gazprom Neft Asia, selling the company’s petroleum products in Kyrgyzstan, Tajikistan and Kazakhstan.

2007
Acquisition of Tomskneft JSC
In December 2007, the company acquired 50% of shares in Tomskneft VNK, which produces oil and gas in the Tomsk Oblast and the Khanty-Mansi Autonomous Okrug-Yugra, to continue expanding its resource base.

Splitting business lines
Separate business units were set up by line of business, including Gazpromneft Marine Bunker, Gazpromneft-Lubricants, and Gazpromneft-Aero.

2008
Projects in Venezuela
In 2008, Gazprom Neft, Rosneft, Lukoil, TNK-BP and Surgutneftegaz signed a memorandum of understanding on cooperation and joint participation in projects in Venezuela as part of the National Oil Consortium.
Expanding the resource base

Gazprom Neft expands its resource base and refining capacities by acquiring Naftna Industrija Srbije A.D., Novi Sad (NIS), and controlling interest in Sibir Energy, while also increasing its share in the Moscow Refinery and getting access to the Salym oil fields. In April 2009, Gazprom Neft completed a transaction with Chevron Global Energy to purchase Chevron Italia s.p.a., an oils and lubricants production plant located in Bari (Italy). Launch of a major rebranding programme for the Gazprom Neft retail network was a milestone for the company.

Global oil and gas market

Gazprom Neft continued rapid expansion on the global oil and gas market, signing a contract to develop the Badra field in Iraq, and being appointed to lead the Junin-6 project in Venezuela. The company continued to come onto new fuel markets outside Russia.

For instance, it acquired a retail network of 20 filling stations and nine land plots in Kazakhstan.

It also expanded its presence on the Russian market by joining a project to develop promising fields in the north of the Yamalo-Nenets Autonomous Okrug covered by SeverEnergia development licences. In February, Gazprom Neft completed a transaction to buy STS-Service, a subdivision of the Swedish company Malka Oil, which develops fields in the Tomsk Oblast.

Production growth

Gazprom Neft gave a major boost to its production by ensuring more efficient development of the existing fields and acquiring new assets. The company bought 5.15% of shares in the Serbian company NIS, having increased its total interest to 56.15%, became the sole shareholder of Sibir Energy and acquired its first assets in the Orenburg Oblast – the Tsarichanskoye and Kapitonovskoye fields, as well as the Eastern block of the Orenburgskoye field. Drilling started at the Badra field in Iraq.

Premium-class fuels

The company started producing Euro 4 fuels at its refineries, and launched sales of the new G-Drive premium-class motor fuel via its own retail network. The company expanded the geography of its filling stations operation by coming onto the market in the Southern Federal District of the Russian Federation.

High-quality bitumen materials

The company implemented a project on preparing feedstock for bitumen production at the Omsk Refinery, ensuring stable quality of feedstock for bitumen production, and the high quality of products manufactured by a processing facility. In 2011, a manufacturing unit for polymer-bitumen binders and bitumen emulsions supplied by the Italian company MASSENZA was launched.

Leadership in efficiency

Gazprom Neft is the Russian leader in terms of hydrocarbon-production and refining growth rates, along with a range of efficiency indicators. The company started pilot oil production at two new major fields in the north of the Yamalo-Nenets Autonomous Okrug (the Vostochno-Messoyakhskoye and Novoportovskoye fields). The first stage of commercial production started at the Samburgskoye oil and gas condensate field owned by the Russian-Italian company SeverEnergia, in which Gazprom Neft has a 25% holding.

The formation and development of a new production cluster continued in the Orenburg Oblast. The company entered into new upstream projects in Iraq. The Moscow Refinery started producing Euro 4 gasolines, while the Omsk Refinery launched production of Euro 4 and Euro 5 gasolines, and the Euro 5 diesel fuel. Gazprom Neft started developing a sales network in Europe (in Serbia and Romania) under the GAZPROM brand.

Opening the GeoNavigator Drilling Control Centre

To enhance the efficiency of advanced well construction, Gazprom Neft set up the GeoNavigator Drilling Control Centre. Its work is mainly based on the geo-steering technology, which involves quickly obtaining information on the geological model of a field, with adjustments made to the well trajectory in accordance with that. The use of cutting-edge technologies allows transferring data to the Drilling Support Centre during drilling without delay. New information is shown as part of the existing geological model of the field.
2013

Strategy
The Gazprom Neft Board of Directors approved the company Development Strategy extended through 2025. The document provided for developing the Strategy to 2020, determining the ways of achieving the previously set targets in the key business segments – hydrocarbon production, refining, and petroleum product sales – taking into account changes in conditions in the industry and global economic environment. Until 2025, the company will continue to increase shareholder value. The strategies for the developing the company’s bunkering, aviation-fuel and lubricants businesses were also updated until 2025.

Start of production on the Arctic Shelf
In December 2013, Gazprom Neft produced the first oil on the Arctic Shelf at the Prirazlomnoye field in the Pechora Sea. The company was an operator at that field.

Euro 5 fuels
The catalytic-cracking gasoline hydroisomerization units and light naphtha isomerization facilities were commissioned at the Gazprom Neft Moscow Refinery. That allowed the plant to fully switch to the production of Euro 5 gasolines. Thus, all Gazprom Neft refineries switched to Euro 5 fuels, ahead of the deadlines set by the Technical Regulations of the Russian Federation.

Bitumen business development
The company acquired assets in Russia (Ryazan) and Kazakhstan to develop its bitumen business. In 2013, Gazprom Neft and the French oil company Total established a joint venture to produce and sell polymer-modified bitumen for road construction under the G-Way Styrelf brand, and bitumen emulsions at the Moscow Refinery.

2014

Developing production projects
Gazprom Neft got the first oil at the Badra field in Iraq, and started commercial supply of oil into the Iraqi pipeline system. The company also shipped oil from the Novoportovskoye field in summer, which was the first time when feedstock was transported from the field to European consumers by sea.

Arctic Shelf production
The company produced the millionth barrel of the new Arctic crude blend (ARCO) at the Prirazlomnoye field. Drilling of a new exploration well started at the Dolginoye oil field on the Pechora Sea shelf.

New licences acquired
Gazprom Neft obtained licences for the Kuvaysky and Yagodny licence blocks in the Orenburg Oblast. The resources of those blocks can help maintain and increase the company oil production.

2015

New capacities commissioned
Gazprom Neft and Sibur launches Yuzhno-Priobsky Gas Processing Plant (GPP)

Russia’s best employer
Gazprom Neft became Russia’s Best Employer in the 2015 Russia’s Best Employers ranking released by HeadHunter, up two places from last year.

New licences acquired
Gazprom Neft acquired the licence to develop the Zapadno-Yubileynoye field in the Yamalo-Nenets Autonomous Okrug, and several new licences – for the Yulskoye-3, Lyaminsky-6, Severo-Ityakhskoye-1, Maloyugansky and Zapadno-Zimny licence blocks – in the Khanty-Mansi Autonomous Okrug-Yugra.

Oil production
Gazprom Neft produced the millionth tonne of ARCO oil at the Prirazlomnoye field, with the one-million tonne/barrel milestones also reached at the Badra field in Iraq and the Sarqala field in the Kurdistan Region of Iraq.

2016

Arctic assets
Gazprom Neft completed commissioning of all its Arctic assets, including the Prirazlomnoye and Novoportovskoye fields, the Messoyakska group of fields, and the Arctic Gates terminal in the Gulf of Ob.
Catalyst production

Gazpromneft Catalytic Systems was set up as part of the Gazprom Neft Group to implement a project on building cat-cracking catalyst and hydrosprocessing-catalyst production facilities. That project was given a status of the national project by decision of the working group of the Ministry of Energy of the Russian Federation.

Rospolychem acquisition

In June 2016, Gazpromneft—Lubricants Ltd. acquired 100% of Rospolychem Group shares, and got an asset with a full production cycle for complex esters.

NOVA-BRIT acquisition

Gazpromneft Bitumen Materials acquired a 75% holding in the charter capital of NOVA-BRIT, a company specialising in the production of bituminous sealants under the BRIT® brand for construction, repair and maintenance of motorways, airfields, etc.

Opening an R&D centre

Gazprom Neft opened the largest and the most high-technology specialist bitumens research and development facility (R&D Centre) in Russia.

2017

New fields discovered

The new promising Neptune field with 415 mt of oil reserves in place was discovered on the shelf of the Sea of Okhotsk near Sakhalin Island. Another new field was discovered in the Khanty-Mansi Autonomous Okrug. Its proved and probable reserves amounted to 2.74 mtoe. The field was named after the company former head of production Alexander Zhagrin.

The Bazhenov Technology Centre national project

The Ministry of Energy of the Russian Federation gave the 'Developing Domestic Technologies and High-technology Equipment to Develop Reserves at the Bazhenov Formation’ project the status of a national project. Creation of the Bazhen Technology Centre in the Khanty-Mansi Autonomous Okrug-Yugra started.

Digital Upstream Control Centre

Gazpromneft-Khantos launched the Upstream Control Centre as part of the Digital Field programme. The centre combined solutions for improving production efficiency and created the single integrated environment.

2018

New strategy to set a global industry benchmark

The Gazprom Neft Board of Directors approved the new Strategy-2030 for the company to become a global industry benchmark in terms of performance, technology and safety.

To implement the Strategy, the company needs to adapt to new approaches and external challenges. To achieve that, the company launched a major operational, organisational, cultural and digital transformation covering all aspects of its operations.

Advanced icebreakers

Gazprom Neft completed its Arctic fleet of support vessels, including the Alexander Sannikov and Andrey Vilkitsky icebreaker vessels, both being the most high-technology and powerful vessels in their class, and featuring zero emissions just like all other Gazprom Neft’s facilities. The icebreakers support the company tankers en route along the Gulf of Ob from the Arctic Gate terminal to the floating storage tanker in the Kola Bay.

New fields discovered

The Triton field with 137 mtoe of hydrocarbons in place was discovered in the Sea of Okhotsk near Sakhalin Island. It became the second field found in that area, which shows that the company new strategic production cluster was formed in the Russian Far East.

A total four new fields, and 27 hydrocarbon deposits, were discovered at Gazprom Neft licence blocks and recorded in the Russian State Register of Mineral Reserves in 2018.

New approach to geological exploration

Gazprom Neft established Gazpromneft GEO, a competency centre for managing large-scale geological-exploration projects. It is aimed at integrating the company financial and management resources in relation to geological exploration, ensuring turn-key project management and stable replenishment of the company reserve base with new cost-effective reserves.
Efficiency Control Centre

The Gazprom Neft Downstream Efficiency Control Centre (DECC) became fully operational. It was designed to manage performance throughout the value chain, from oil delivery to refineries to petroleum-product sales to consumers, as part of a single digital platform. That involves using predictive analytic tools, neural networks, artificial intelligence, and digital twins of production facilities. The automated integrated-planning system, a unique one in the Russian oil and gas industry, streamlines refining volumes, feedstock delivery and the petroleum product mix 60 days ahead.

Digital transformation

The Gazprom Neft Digital Transformation Directorate was set up. The new subdivision is to develop and implement the company long-term digital strategy. Currently, the company has created the Digital Technology Vision Strategy and road maps for developing digital technologies.

Besides, two innovation platforms were set up. The Gazprom Neft Digital Innovation Centre integrated the efforts of the company, start-ups, developers and the academic community. It is to design disruptive digital solutions for the Gazprom Neft integrated downstream platform.

The House of Innovations based in St Petersburg drew together the company experts in neural networks, digital platforms, the industrial Internet of Things, blockchain technology, augmented and virtual reality, machine learning, and other Industry 4.0 technologies. The platform is used by the company subdivisions for joint work on relevant business challenges.

New HSE system

The company set a goal of becoming a global industry leader in HSE by 2030 in accordance with its updated Development Strategy. A risk-based approach became the basis for HSE transformation. The company experts prepared several projects to be implemented, including the Goals, Safety Measures, and Certification, Examination, and Investigation projects focused on priority risks identification, risk mitigants development and implementation, and control over the mitigants roll-out across the company, respectively.

Setting up JVs

Gazprom Neft, Mubadala Petroleum and the Russian Direct Investment Fund (RDIF) set up a joint venture to develop fields in the Tomsk Oblast and the Omsk Oblast in Russia’s Western Siberia, using Gazpromneft-Vostok capacities. The JV key opportunities are related to developing technologies for prospecting and production from hard-to-recover pre-Jurassic (Palaeozoic) hydrocarbon deposits.

A joint venture was also established by Gazprom Neft and the Spanish company Repsol to carry out geological exploration at the Karabashsky 10 licence block in the Khanty-Mansi Autonomous Okrug-Yugra. The block adjoins the Karabashsky licence blocks owned by Eurotek Yugra, another joint venture of Gazprom Neft and Repsol.

Acquiring new assets

In 2018, Gazprom Neft acquired 100% of shares of Enercom LLC, which holds a licence for the Solnechny licence block in the Orenburg Oblast. The new asset will form part of the Orenburg production cluster.

In 2018, reorganisation of Arcticgas was also completed, which provided for equal participation (50/50) of Gazprom Neft PJSC and NOWATEK. That will allow implementing the synergy of shared use of competencies in hydrocarbon production, regional experience and infrastructure.

Gazprom Neft acquired a production and logistics terminal in Salsk in the Rostov Oblast. That asset is to form an important part of the logistics system, which will ensure the supply of modern bitumen products to southern regions of Russia.

2019

Operational transformation

Gazprom Neft started the roll-out of the Etalon Operations Management System (OMS) at all its assets. Pilot projects to implement the OMS have shown that the system is highly efficient. The Etalon OMS Development Code (OMS Code) was approved. It sets out standard OMS implementation principles to maximise operational efficiency.

Digital transformation

In September 2019 the Board of Directors approved the Gazprom Neft Digital Transformation Strategy. By the end of 2019, Gazprom Neft approved 30 digital transformation programmes. To form communities of technology experts in the company, and to interact with business units, Gazprom Neft created competency centres on machine learning and artificial intelligence, virtual and augmented reality, video content analysis, blockchain technology, robotics and additive technologies, unmanned technologies, industrial Internet of Things, and wearable technology.

New prospecting areas

Gazprom Neft entered two new prospecting areas: the Taymyr Peninsula (in the Dolgano-Nenetsky District in the Krasnoyarsk Krai) and the north of the Tazovsky Peninsula. The company was granted a subsoil licence on the Gydan Peninsula.
The Achimov Formation development
Gazprom Neft and the Government of the Yamalo-Nenets Autonomous Okrug started to create a technology centre for developing the Achimov Formation. A pilot testing site will be created based on Achimovsky strata at the Yamburgskoye field. The company also plans to create an integrated information platform and a data centre to facilitate experience sharing. Gazprom Neft had previously built the Digital Model for the Achimov Formation covering the entire Western Siberia. That is the first model of that kind in the industry.

The Chayandinskoye field development
Gazprom Neft is creating a new production cluster: An oil deposit at the Chayandinskoye oil and gas-condensate field in the Sakha Republic (Yakutia) will be one of its important parts. This field is unique due to its oil reserves in place (263 mt). The company is developing its oil rim under the operating agreement with Gazprom Neft Dobycha Noyabrsk LLC, which is developing gas deposits at the asset. In late 2019, Gazprom Neft initiated pilot development of the field, and shipped the first batch of marketable oil. Full-scale development of the oil rim will start in 2020.

Alternative energy at the Omsk Refinery
Gazprom Neft commissioned a 1MW solar power plant with 2,500 solar panels at the Omsk Refinery. It is supplying electricity to all administrative buildings at the Omsk Refinery. The estimated annual electricity output at the power plant will amount to 1.2 million kWh, which will allow avoiding over 6,300 tonnes of CO2 emissions every year.

High-technology fuel terminal
Gazprom Neft commissioned the Gladkoye fuel terminal in the Leningrad Oblast. Gladkoye is the only terminal in Russia equipped with maturing units that enable automated monitoring of the volume and characteristics of petroleum products. A digital twin of the fuel terminal contains all project information since the start of construction. The terminal infrastructure enables transshipment of up to 1 million tonnes of petroleum products every year, and the tank farm allows simultaneously storing 40,000 cubic metres of products.

Environmentally-friendly bunker fuel
The company started producing and selling bunker fuel with sulphur content of less than 0.1%. It meets the requirements of the International Convention for the Prevention of Pollution from Ships (MARPOL), which is aimed at reducing emissions by 20% in industrial cities with low air quality by the end of 2024. The programme is an environmental project forming part of the large-scale ‘Time of the Arctic’ programme launched by Gazprom Neft.

Construction of a catalyst plant in Omsk
Gazprom Neft started an active phase of building a high-tech oil-refining catalyst production facility in Omsk. The new plant with a capacity of 21,000 tonnes per year will produce catalysts for the key Euro 5 fuel-production processes, and deep conversion. The Ministry of Energy of the Russian Federation has granted this initiative the status of a national project. The project is expected to be completed in 2021.

The federal ‘Clean Air’ project
Gazprom Neft is implementing the federal ‘Clean Air’ project, part of the Russian Government’s ‘Ecology’ project, which is aimed at reducing emissions by 20% in industrial cities with low air quality by the end of 2024. The programme includes nine projects to upgrade the Omsk Refinery. Gazprom Neft plans to invest over ₽100 billion in those projects.

Supplying bitumen materials to Latin America
Gazprom Neft supplied polymer-bitumen binders (PBB) for construction of the largest infrastructure facility in Latin America: the Bi-Oceanic Road Corridor, which is to connect the eastern and western coast of the continent to form a single transportation network. Innovative bitumens produced by the Gazprom Neft Ryazan Bitumen Binders Plant is being used to pave a 277-kilometre-long section of the highway on the border between Brazil and Paraguay. A special PBB formula for the Bi-Oceanic Road Corridor has been developed at the Gazprom Neft research centre.

Consolidation of a 100% holding in Poliom
Launched in 2013, Poliom is one of the largest polypropylene producers in Russia, with the capacity of 218,400 tonnes per year. In 2019, Gazprom Neft and SIBUR purchased a 50% holding in Poliom from a partner on a parity basis. Due to that Gazprom Neft and SIBUR got 100% of the plant shares.

Expedition under the ‘Narwhal: Legend of the Arctic’ project
Gazprom Neft successfully completed the first exploratory expedition as part of the ‘Narwhal: Legend of the Arctic’ project. Explorers got unique data on the life of narwhals in the Russian part of the Arctic, which will form the basis for the comprehensive programme to study this species through 2022. The ‘Narwhal: Legend of the Arctic’ project is an environmental project forming part of the large-scale ‘Time of the Arctic’ programme launched by Gazprom Neft.
Appendix 3. Structure of the Gazprom Neft Group

Production
Gazpromneft-Salymsk LLC
Savitsky LLC
Gazpromneft-Polyan LLC
Salymsk Z LLC
New Oil Production Technologies LLC (JV)
NOWATEK-Yarsalneftegaz LLC
Slavneft-Megionneftegaz PJSC (JV)
Slavneft-Krasnoyarskneftegaz LLC
Gazpromneft-Omskneftegaz LLC
Gazpromneft-Yamal LLC
Gazpromneft-Zapolyarye LLC
Gazprom Neft Orenburg LLC
Gazpromneft-GEO LLC
Yuzhuralneftegaz JSC
Morneftegazproekt JSC
Mosneftegazprodukt LLC
Gazpromneft-Yamal LLC
Gazprom Neft Shuit LLC
Gazpromneft-Zapsyryane LLC
Gazprom Neft Development LLC
Khanty-Manysk Petroleum Alliance JSC (JV)
Tomskneft VNK JSC (JV)
Messoyakhaneftegaz JSC (JV)

Service companies
Gazpromneft-Noyabrskneftegazgeofizika LLC
Gazpromneft-Nefteservis LLC
Gazpromneft-Automation LLC
Noyabrskneftgeofizika LLC
Noyabrskneftegazgeofizika LLC
Neftekhimremont LLC
Machinery and Repair Plant Gazpromneft – Omsk Refinery LLC
Avtomatika-Servis LLC
Garant Service LLC (JV)

Refining
Gazprom Neft Moscow Refinery JSC
Gazprom Neft Omsk Refinery JSC
Slavneft-YANOS PJSC (JV)
Yuzhno-Priobsky GPP LLC (JV)

Oil and petroleum-products sales
Gazprom Neft Trading GmbH
Gazpromneft-Centre LLC
Munai-Myrza CJSC
Gazprom Neft Asia LLC
Gazprom Neft Krasnoyarsk LLC
Gazprom Neft-Ural JSC
Gazprom Neft – North-West JSC
Gazprom Neft-Yaroslavl JSC
Gazprom Neft-Transport JSC
Gazprom Neft-Novosibirsk JSC
Gazprom Neft-Bolshikhinogrodu LLC
Gazprom Neft – Tadjikistan LLC
Gazprom Neft – Kazakhstan LLC
Alliance-Oil-Asia LLC
Gazprom Neft Corporate Sales LLC
Gazprom Neft-Mobilnaya Karta JSC
Gazprom Neft-Alternative Fuel LLC
Gazpromneft-Terminal JSC
Gazpromneft Laboratory LLC
Gazpromneft-Trade Orenburg LLC
Gazprom Neft Regional Sales LLC

Research and IT
Gazprom Neft STC LLC
OX Tech LLC (JV)
ITSC LLC

Lubricants, bitumen and petrochemicals
Gazpromneft-Lubricants LLC
Gazprom Neft Moscow Lubricants Plant JSC
Gazprom Neft Lubricants Italia S.p.A.
Gazpromneft LUBRICANTS UKRAINE LLC
Gazprom Neft Bitumen Materials LLC
Gazpromneft Catalytic Systems LLC
Gazprom Neft Rayzhan Bitumen Binders Plant LLC
NOVA-BRT LLC
Polyethyl LLC
BSV-CHEM LLC
Svikhintshalk JSC
Gazprom Neft-Bolshoe Kazakhstan LLP
Bitumen Terminals LLC
GPN-IT South LLC
Polisol LLC (JV)
NPP Neftekhimiya LLC (JV)
Gazpromneft-Total FMB LLC (JV)
GAZPROMNEFT MARINE LUBRICANTS PTE. LTD.

Aircraft refuelling
Gazpromneft-Aero JSC
Gazpromneft-Aero Murman LLC
Gazpromneft-Aero Keremerovo LLC
Gazpromneft-Aero Sheremetyevo LLC
T2K Savero-Zapad LLC (JV)
Sovec JSC (JV)
Gazpromneft-Aero Tomsk LLC (JV)
Gazpromneft-Aero Kyrgyzstan LLC (JV)
T2K Yenisei LLC (JV)
Aero 10 LLC
Gazpromneft-Aero Novosibirsk JSC (JV)
T2K Stavlev-Tunoshna JSC (JV)
T2K Omsk (Tsentrinalny) LLC (JV)
Chukotkaerosbyt LLC

Bunkering
Gazpromneft Marine Bunker LLC
Gazpromneft Shipping LLC
Gazpromneft Terminal SPB LLC
AS Baltic Marine Bunker
Novosneftegazproekt U说什么sever LLC
Novosneftegazservis LLC

Multibusiness companies
Naftna Industrija Srbije A.D., Novi Sad
Oil and Gas Company Slavneft PJSC (JV)

Other operations
Altaiiskoye Podvorye LLC
Gazpromneft Eastern European Projects LLC
GPN-Finance LLC
GPN-Energo LLC
GPN-ZS LLC
GPN Middle Eastern Projects LLC
GPN Salyom Projects LLC
GPN-Invest LLC
Gazprom Neft Business Service LLC
Gazprom Neft Logistics LLC
Paradneya Complex LLC
Gazprom Neft Procurement LLC
Arctica Media JSC
Gazprom Neft International S.A.
Gazprom Neft Finance B.V.
Gazprom Neft Downstream B.V.
Gazprom Neft Business Service B.V.
PC-BB LLC (JV)
NNL LLC (JV)
GPN-project LLC
Zarichy Club LLC
Unifel LLC
Sibgazpolimer JSC (JV)
APPENDIX 4. INFORMATION ON ENERGY CONSUMPTION BY GAZPROM NEFT

In 2019, Gazprom Neft electricity costs were accounted for as part of lease costs under lease agreements and totalled ₽16,478,326.29, including VAT totalling ₽2,731,117.42.

Gazprom Neft does not keep records of the amount of energy consumed.

APPENDIX 5. TAXATION IN OIL INDUSTRY

Average tax rates effective in the reporting periods for the taxation of oil and gas companies in Russia

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2019</th>
<th>2018</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPORT DUTY</td>
<td>$/Tonne</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>93.70</td>
<td>128.48</td>
<td>(27.1)</td>
</tr>
<tr>
<td>Light petroleum products</td>
<td>28.07</td>
<td>38.52</td>
<td>(27.1)</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>28.07</td>
<td>38.52</td>
<td>(27.1)</td>
</tr>
<tr>
<td>Gasoline</td>
<td>28.07</td>
<td>38.52</td>
<td>(27.1)</td>
</tr>
<tr>
<td>Naphtha</td>
<td>51.48</td>
<td>70.62</td>
<td>(27.1)</td>
</tr>
<tr>
<td>Heavy petroleum products</td>
<td>93.70</td>
<td>128.48</td>
<td>(27.1)</td>
</tr>
<tr>
<td>MINERAL EXTRACTION TAX</td>
<td>₽/tonne</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>13,039</td>
<td>12,455</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Export duties on oil and petroleum products

Export duty rates for crude oil and petroleum products are calculated by the Ministry of Economic Development of the Russian Federation in accordance with the Methodology for Calculating Export Duties on Crude Oil and Certain Categories of Petroleum Products approved by Resolution of the Government of the Russian Federation No. 276 of 29 March 2013.

Export duty on crude oil

The export duty rate for crude oil is determined under one of the following procedures:

a) in accordance with Clause 4 of Article 3.1 of Federal Law of the Russian Federation No. 5003-1 of 21 May 1993 ‘On the Customs Tariff’, export duty rates for crude oil must not exceed the marginal duty rate calculated as follows:

\[
\text{Urals price quote (P), $/tonne} \times (29.20 + 30\% \times (P - 182.50))
\]

Oil exported to Kazakhstan is exempt from export duty on oil. Crude oil exports to Kyrgyzstan and Belarus within indicative limits are exempt from export duties;1

b) in accordance with Clause 6.2 of Article 3.1 of Federal Law of the Russian Federation No. 5003-1 of 21 May 1993 ‘On the Customs Tariff’, the Government of the Russian Federation may set a protective export duty rate for crude oil calculated as follows:

\[
C_{\text{m}} = (29.20 + 30\% \times (P - 182.50)) \times 0.5 \times (1 - 0.25)\]

Oil exported to Kazakhstan is exempt from export duty on oil. Crude oil exports to Kyrgyzstan and Belarus within indicative limits are exempt from export duties;1

1/ 1 C\text{m} = 0.833 in 2019, 0.667 in 2020, 0.5 in 2021, 0.333 in 2022, 0.167 in 2023, and 0 as from 2024.
The following coefficients have been established for calculating export duty rates for petroleum products:

- **Light and middle distillates**: 0.3
- **Diesel fuel**: 0.5
- **Naphtha**: 0.55
- **Gasoline**: 0.3

In accordance with Clause 6.2 of Article 3.1 of Federal Law of the Russian Federation No. 5003-1 of 21 May 1993 ‘On the Customs Tariff’, the Government of the Russian Federation may set a protective export duty rate on certain categories of petroleum products equal to 60% of the export duty on crude oil. This procedure shall be applied for six months starting from the month following changes in crude oil prices by more than 15% over three consecutive months.

**Excise tax on petroleum products**

The excise tax on petroleum products in the Russian Federation is paid by petroleum-product producers. In addition, the tax is paid by legal entities importing excisable goods into the Russian Federation.

In accordance with Article 193 of the Tax Code of the Russian Federation, the following excise tax rates have been established for petroleum products (P tonne):

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 2018 2019 2020 2021</td>
<td>1 January – 31 May</td>
<td>1 June – 31 December</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GASOLINE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>below Euro 5</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
</tr>
<tr>
<td>Euro 5</td>
<td>11,213</td>
<td>8,213</td>
<td>12,314</td>
<td>12,752</td>
</tr>
<tr>
<td><strong>DIESEL FUEL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>straight-run</td>
<td>13,100</td>
<td>13,100</td>
<td>13,912</td>
<td>14,720</td>
</tr>
<tr>
<td><strong>ENGINE OILS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,640</td>
<td>5,645</td>
<td>5,645</td>
<td>5,645</td>
<td>5,645</td>
</tr>
<tr>
<td><strong>MIDDLE DISTILLATES</strong></td>
<td>8,662</td>
<td>6,665</td>
<td>9,241</td>
<td>9,535</td>
</tr>
<tr>
<td>below Euro 5</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
</tr>
<tr>
<td>Euro 5</td>
<td>11,213</td>
<td>8,213</td>
<td>12,314</td>
<td>12,752</td>
</tr>
<tr>
<td><strong>ENGINE OILS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,640</td>
<td>5,645</td>
<td>5,645</td>
<td>5,645</td>
<td>5,645</td>
</tr>
</tbody>
</table>

In accordance with Clause 13.1 of Article 181 of the Tax Code of the Russian Federation, starting from 1 January 2019, a new excisable product is introduced: crude oil feedstock. The excise tax shall be paid by crude oil feedstock owners having a registration certificate for oil feedstock processing operations at their own production facilities or at production facilities owned by third-party processors of providing services. The excise tax rate for crude oil feedstock is calculated as follows:

\[ E_{\text{ex}} = [(P_{\text{ur}} \times 7.3 – 182.5) \times 0.3 + 29.2] \times R \times F_{\text{ex}} \times C_{\text{corr}} \times C_{\text{reg}} \]

\[ P_{\text{ur}} = \text{the average Urals oil price on global markets, $/tonne.} \]

\[ R = \text{the average US dollar/Russian rouble exchange rate.} \]

\[ F_{\text{ex}} = \text{a specific coefficient that reflects the petrochemical-products mix.} \]

1 For the period from 1 January through 31 March; starting from 1 April, the excise tax rate for middle distillates shall be calculated using the following formula: \[ E_{\text{md}} = (E_{\text{ed}} \times 7.3 – 182.5) \times 0.3 + 29.2] \times R \times F_{\text{ex}} \times C_{\text{corr}} \times C_{\text{reg}} \]

For the period from 1 January through 31 March; starting from 1 April, the excise tax rate for middle distillates shall be calculated using the following formula: \[ E_{\text{md}} = (E_{\text{ed}} \times 7.3 – 182.5) \times 0.3 + 29.2] \times R \times F_{\text{ex}} \times C_{\text{corr}} \times C_{\text{reg}} \]

\[ P_{\text{ur}} = \text{the average Urals oil price on global markets, $/tonne.} \]

\[ R = \text{the average US dollar/Russian rouble exchange rate.} \]

\[ F_{\text{ex}} = \text{a specific coefficient that reflects the petrochemical-products mix.} \]
CDAMP = ((DMG + FMG) × VMG + (DDF + FDF) × VDF) × CCOMP

When calculating the tax on crude oil feedstock, tax deductions may be applied. Tax deductions shall be applied to excise amounts multiplied by 2 and increased by CDAMP.

In accordance with Federal Law No. 326-FZ of 29 September 2019, starting from 1 April 2019, the tax rate for middle crude oil feedstock is set at 0.7 for the period from July through December 2019 and 0.68 starting from 1 January 2020.

If DDF is greater than 0, it shall be assumed to be equal to 0 for the purposes of the excise tax rate calculation for middle crude oil feedstock.

Cr is a coefficient that reflects the size of reserves of a specific subsurface site. This coefficient reduces the MET rate for smaller subsurface sites. If initial extractable oil reserves (V – initial extractable oil reserves of all categories) at a specific subsurface site is at 1 January of the year preceding the tax year are less than 5 m³, and depletion is less than or equal to 0.05 as at 1 January 2012 (or as at 1 January of the year when the relevant licence was issued, if the licence was issued after 1 January 2012), Cr shall be calculated using the following formula: Cr = 0.125 x V^0.375.

Ce is a coefficient that reflects the level of complexity of oil extraction. It ranges from 0.2 to 1, depending on the level of complexity of oil extraction from a specific deposit:
- 0.2, when oil is extracted from other hydrocarbon deposits.
- 0.4, when oil is extracted from a specific deposit with confirmed permeability of no more than 2 × 10⁻³ μm² and the net pay thickness of no more than 10 m;
- 0.8, when oil is extracted from a specific deposit classified in the State Mineral Reserves register as forming part of the Tyumen Formation pay zone;
- 1, when oil is extracted from other hydrocarbon deposits.

Cdp is a coefficient that reflects the degree of depletion of a specific hydrocarbon deposit. Cdp applies to subsurface sites that contain deposits where Ce < 1.

Cr is a coefficient that characterises the region of production and the properties of oil. This coefficient reduces the MET rate for oil for subsurface sites located entirely or partially in regions with challenging climatic and geological conditions (including the Yamal Peninsula in the Yamalo-Nenets Autonomous Okrug, the Irkutsk Oblast, and the Republic of Sakha (Yakutia)). Ccan shall be assumed to be equal to 0 until the first day of the month following the month when at least one of the following conditions is met: (1) the limit on cumulative oil production from the subsurface site is reached, or (2) the stipulated period expires. After the tax incentive period expires, Ccan shall be assumed to be equal to 1.

Ccan is set at 0.125 x Cr x V^0.375 as from 2019.
$\text{MET on crude oil} = (50\% \times (\text{P} – 15) \times 7.3 \times \text{Cy} – \text{ED}) \times \text{R}$

R is the average US dollar/Russian rouble exchange rate.

$\text{ED} = \text{a coefficient calculated as follows:}$

<table>
<thead>
<tr>
<th>Urals price quote (P), $/tonne</th>
<th>ED, $/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\leq 109.50$</td>
<td>0%</td>
</tr>
<tr>
<td>$109.50 &lt; \text{P} \leq 146.00$</td>
<td>35% $\times (\text{P} – 109.50)$</td>
</tr>
<tr>
<td>$146.00 &lt; \text{P} \leq 182.50$</td>
<td>$12.78 + 45% \times (\text{P} – 146.00)$</td>
</tr>
<tr>
<td>$\geq 182.50$</td>
<td>$29.20 + 30% \times (\text{P} – 182.50)$</td>
</tr>
</tbody>
</table>

Cy is a coefficient that reflects the time period from the date when commercial oil production commenced at the subsurface site. This coefficient reduces the MET rate for oil from new subsurface sites located entirely or partially in Western (including the Khanty-Mansi Autonomous Okrug-Yugra and the Yamalo-Nenets Autonomous Okrug) and Eastern Siberia (including the Irkutsk Oblast and the Republic of Sakha (Yakutia)). The Cy coefficient is applied until the end of the stipulated time period starting from the year following the year when the degree of depletion for a subsurface site exceeded 1%. The Cy coefficient for active sites is set at 1.

Effective MET rate for crude oil across the group

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2019</th>
<th>2018</th>
<th>Δ, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard MET rate for crude oil</td>
<td>13,039</td>
<td>12,455</td>
<td>4.7</td>
</tr>
<tr>
<td>Effective MET rate for oil (after Cd, Cr, Ce, Cdp and Ccan are applied)</td>
<td>9,873</td>
<td>10,301</td>
<td>(4.2)</td>
</tr>
</tbody>
</table>

For the 12 months of 2019, the effective MET rate for crude oil was $9,873 per tonne, which is $9,164 per tonne lower than the average standard rate set in accordance with the tax legislation. This deviation was due to reductions in the MET rate for crude oil in accordance with the tax legislation, including the application of the Cd, Cr, Ce, Cdp and Cy coefficients.

MET on natural gas and gas condensate

In accordance with Article 342 of the Tax Code of the Russian Federation, MET on natural gas and gas condensate is the following:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2019</th>
<th>As from 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas, P/1,000 m³</td>
<td>$35 \times \text{Ufe} \times \text{Ccom} + \text{Tg}$</td>
<td>$10 + \text{Ufe} \times \text{Ccom} \times \text{Tg}$</td>
</tr>
<tr>
<td>Gas condensate, P/tonne</td>
<td>$42 \times \text{Ufe} \times \text{Ccom} \times \text{Cdj}$</td>
<td>$0.75 \times \text{Cman}$</td>
</tr>
</tbody>
</table>

Ufe – is the base value of a unit of fuel equivalent calculated by the taxpayer based on natural gas and gas condensate prices, as well as the ratio of their respective production volumes.

Ccom – is a coefficient that reflects the complexity of mineral extraction from a deposit. This coefficient reduces the MET rate and is assumed to be equal to the lowest of the following five reduction coefficients: Crag (reduction based on location), Cdp (reduction for depleted sites), Cd (reduction for deposits located at a depth of more than 1.7 km), Cn (reduction for subsurface sites that are part of a regional gas supply system) and Cuf (reduction for deposits classified as forming part of the Samotlor pay zone).

Tg is an indicator reflecting the cost of natural gas transportation (assumed to be equal to 0 in 2017–2019, according to the Federal Anti-Monopoly Service of the Russian Federation).

Cdj is an adjustment coefficient equal to 6.5/Cg, where Cg is a coefficient reflecting the export margin per unit of fuel equivalent.

For the 12 months of 2019, the effective MET rate for natural gas was $820/1,000 m³, which is $38 lower than the average standard rate set in accordance with the tax legislation. This deviation was due to reductions in the MET rate for natural gas in accordance with the tax legislation, including the application of the Cc coefficient.
Excess-profits tax (EPT)
Federal Law No. 199-FZ of 19 July 2018 introduced a tax on excess profits from hydrocarbon production, effective as from 1 January 2019. The EPT shall be levied on income from hydrocarbon production at a rate of 50% minus an estimated export duty and transportation costs, as well as actual capital and operating expenses associated with developing a subsurface site.

The new tax regime involves reducing the total amount of fiscal payments that depend on gross values (MET and export duty for crude oil) by changing the MET calculation formula and implementing a system of tax concessions on MET and the export duty for certain categories of pilot projects.

An exhaustive list of pilot sites in Western and Eastern Siberia potentially subject to EPT was drawn up for the trial period of the new fiscal regime. The Gazprom Neft portfolio includes pilot sites of all categories.

Tax benefits
The applicable tax legislation stipulates the following types of tax benefits, which are applied by the group subsidiaries (including reduced tax rates, and reduction coefficients applied to the MET rate for crude oil and natural gas):

<table>
<thead>
<tr>
<th>Tax benefits applied in 2019</th>
<th>Eligible entities in the Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROPERTY TAX</strong></td>
<td></td>
</tr>
<tr>
<td>Exemption from property tax for fields where development commenced after 1 January 2011 (in accordance with the local legislation of the Khanty-Mansi Autonomous Okrug-Yugra)</td>
<td>Gazpromneft-Khantos LLC, Gazpromneft-Noyabrskneftegaz JSC</td>
</tr>
<tr>
<td>Exemption from property tax for a national project to create domestically-developed technology and high-technology equipment for developing the Bashneft Formation (in accordance with the local legislation of the Khanty-Mansi Autonomous Okrug-Yugra)</td>
<td>Bashneft Technology Centre LLC</td>
</tr>
<tr>
<td>Reduced rate of 16% for oil produced from the Bashneft Formation pay zone</td>
<td>Bashneft Technology Centre LLC</td>
</tr>
<tr>
<td>Reduced rate of 17% for oil produced from the Bashneft Formation pay zone (in accordance with the local legislation of the Khanty-Mansi Autonomous Okrug-Yugra)</td>
<td>Gazpromneft-Khantos LLC, Gazpromneft-Yamal LLC</td>
</tr>
</tbody>
</table>

| **MET ON NATURAL GAS**     |                                 |
| C<sub>cm</sub> coefficient applied to the MET rate | Gazpromneft-Noyabrskneftegaz JSC, Gazpromneft-Yamal LLC, Gazprom Neft Orenburg LLC |

| **MET ON CRUDE OIL**       |                                 |
| C<sub>c</sub> coefficient applied to the MET rate | Gazpromneft-Noyabrskneftegaz JSC, Gazpromneft-Vostok LLC, Yuzhuralneftegaz JSC, Gazpromneft-Khantos LLC |
| C<sub>c</sub> coefficient applied to the MET rate | Gazpromneft-Noyabrskneftegaz JSC, Gazpromneft-Vostok LLC, Gazpromneft-Khantos LLC, Gazprom Neft Orenburg LLC |
| C<sub>c</sub> coefficient applied to the MET rate | Gazpromneft-Noyabrskneftegaz JSC, Gazpromneft-Vostok LLC, Gazpromneft-Khantos LLC, Gazprom Neft Orenburg LLC |
| Cy coefficient applied to the MET rate | Gazprom Neft FSIC, Gazpromneft-Angara LLC, Gazpromneft-Yamal LLC, Gazpromneft-Khantos LLC, Mereykahaneftegaz LLC |
| Reduced rate for oil produced from the Bashneft Formation pay zone | Gazpromneft-Vostok LLC |
| Reduced MET rate for production at a new offshore field in the Pechora Sea | Gazpromneft Shelf LLC |

| **PROFIT TAX**             |                                 |
| Reduced rate of 16% (a 4% tax rate reduction in accordance with the local legislation of the Khanty-Mansi Autonomous Okrug-Yugra) | Gazpromneft-Noyabrskneftegaz JSC |
| Reduced rate of 17% (a 3% tax rate reduction in accordance with the local legislation of the Khanty-Mansi Autonomous Okrug-Yugra) | Gazpromneft-Khantos LLC |
| Reduced rate of 16.5% (a 3.5% tax rate reduction in accordance with the local legislation of the Yamalo-Nenets Autonomous Okrug) | Gazpromneft-Noyabrskneftegaz JSC, Gazpromneft-Yamal LLC |
## Appendices

### 1.1.1 Governance Code in 2019 and Recommendations Set Out in the Corporate Appendix 6. Report on Compliance with the Corporate Governance Code in 2019

<table>
<thead>
<tr>
<th>№</th>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1</td>
<td>An internal company document approved by the General Meeting of Shareholders and establishing the procedures for holding a general meeting is publicly available.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.2</td>
<td>The company provides easily available means of communication with the company, such as a hotline, email or an internet forum, enabling shareholders to express their opinions and send questions concerning the agenda in the course of preparation for a general meeting. These actions were taken by the company before each general meeting held during the reporting period.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.3</td>
<td>The notice of a general meeting is published (posted) on the company website not later than 30 days before the general meeting.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.4</td>
<td>The notice of a general meeting specifies the meeting venue and documents required for admission to the premises.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.5</td>
<td>Shareholders have been granted access to information about persons who had proposed agenda items and nominated candidates to the Board of Directors and the Audit Committee.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.6</td>
<td>During the reporting period, shareholders had an opportunity to address questions to members of executive bodies and members of the Board of Directors before and during the annual general meeting.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.7</td>
<td>The Board of Directors position (including dissenting opinions reflected in the minutes) on each agenda item of general meetings held during the reporting period was included in the materials for the general meeting of shareholders.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.8</td>
<td>Eligible shareholders were granted access to the list of persons eligible to participate in the general meeting, starting from the date when this list was received by the company, whenever general meetings were held during the reporting period.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.9</td>
<td>The company has developed and disclosed a dividend policy approved by the Board of Directors.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>1.1.10</td>
<td>If the company dividend policy stipulates the use of figures from the company financial statements for determining the amount of dividends, the relevant provisions of the dividend policy also apply consolidated results recorded in financial statements.</td>
<td>Compliance</td>
<td></td>
</tr>
</tbody>
</table>

### Status of compliance

- **Compliance**: The company met the criterion.
- **Partly Compliance**: The company met the criterion partially.
- **Non-compliance**: The company did not meet the criterion.

### Criteria for assessing compliance with the corporate governance principle

- **During the reporting period, shareholders had an opportunity to propose agenda items for the annual general meeting for at least 60 days after the end of the relevant calendar year.**
- **During the reporting period, the company did not refuse to accept proposals for the agenda or candidates nominated to its bodies due to misprints or other minor defects in shareholders’ proposals.**
- **An internal company document (internal protocol) contains provisions stipulating that each participant of a general meeting may request a copy of the voting ballot filled in by them and certified by the tellers committee before the end of the relevant meeting.**
- **When holding general meetings of shareholders during the reporting period in the form of an in-person meeting [joint attendance of shareholders], enough time was provided to make reports on agenda items and discuss these items.**
- **Candidates nominated to the company governance and control bodies were available to answer shareholders’ questions at the meeting where their nominations were put to the vote.**
- **When making decisions related to preparing for and holding general meetings of shareholders, the Board of Directors considered using telecommunications to provide shareholders with remote access enabling them to participate in general meetings during the reporting period.**
- **The company has developed and disclosed a dividend policy approved by the Board of Directors.**
- **If the company dividend policy stipulates the use of figures from the company financial statements for determining the amount of dividends, the relevant provisions of the dividend policy also apply consolidated results recorded in financial statements.**

### Explanations concerning failure to meet the criteria

- **With regard to item 2, not all candidates nominated to governance and control bodies were present at the meeting where their nominations were put to the vote. At the same time, in order to enable shareholders to communicate with candidates nominated to governance and control bodies, the company offers easily available means of communication, such as a hotline and email, enabling shareholders to express their opinions and send their questions to the candidates.**
- **The Board of Directors considers matters related to preparing for and holding general meetings of shareholders and attendance of candidates nominated to governance bodies at the same meetings. If, for example, the chairman of the Board of Directors cannot attend, the Board of Directors appoints one of its members to chair the meeting.**
1.2.2 The company dividend policy clearly stipulates financial/economic circumstances when the company must not pay dividends.  

<table>
<thead>
<tr>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company dividend policy clearly stipulates financial/economic circumstances when the company must not pay dividends.</td>
<td>Partial compliance</td>
<td>The Gazprom Neft Dividend Policy Regulation does not clearly stipulate financial/economic circumstances when the company must not pay dividends. The Regulation sets forth the following principles: improving the investment potential and enabling dividend payout growth, provided that the company net profit is growing. In practice, the Gazprom Neft operations are profitable, and the company adheres to the policy of regular dividend payouts. Throughout its history, the company has been paying dividends, and in recent years it has been taking steps to increase dividends per share. The company does not rule out the possibility of revising the dividend policy principles and criteria in the future, including stipulating financial/economic circumstances when the Company must not pay dividends.</td>
</tr>
</tbody>
</table>

1.2.3 The Board of Directors has considered matters related to implementing and updating the strategy, approving the company business plan (budget), and reviewing criteria and indicators (including interim ones) related to the implementation of the company strategy and business plans.  

1.2.4 The company has created a system to identify potential conflicts of interest of substantial shareholders.  

<table>
<thead>
<tr>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the reporting period, the company did not take any actions infringing on the dividend rights of existing shareholders</td>
<td>Compliance</td>
<td>To make sure that shareholders do not use any other means of earning profit (income) from the company, except for dividends and disposal value, the company internal documents stipulate controls ensuring timely detection and establishing the procedure for approving transactions with persons affiliated (connected) with substantial shareholders (persons entitled to vote with voting shares).</td>
</tr>
</tbody>
</table>

1.2.5 The Board of Directors has considered matters related to implementing the information policy.  

1.2.6 The Board of Directors has considered matters related to implementing the information policy.  

1.2.7 The Board of Directors has considered matters related to implementing the information policy.  

1.2.8 The Board of Directors has considered items related to the Board of Directors and its committees.  

<table>
<thead>
<tr>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the reporting period, the Board of Directors has considered matters related to implementing and updating the strategy, approving the company business plan (budget), and reviewing criteria and indicators (including interim ones) related to the implementation of the company strategy and business plans.</td>
<td>Compliance</td>
<td>The board of directors has determined the principles of and approaches to creating a risk-management and internal-control system in the company. The Board of Directors assessed the company risk-management and internal-control system during the reporting period. The company has developed and adopted a policy (policies) approved by the Board of Directors on remuneration and reimbursement for expenses of members of the Board of Directors, executive bodies and other key executives of the company. During the reporting period, the Board of Directors considered matters related to the said policy (policies).</td>
</tr>
</tbody>
</table>

1.2.9 The Board of Directors has considered matters related to the company’s remuneration policy.  

1.2.10 The Board of Directors has considered matters related to the company’s remuneration policy.  

1.2.11 The Board of Directors has considered items related to the Board of Directors and its committees.  

1.2.12 The Board of Directors has considered items related to the Board of Directors and its committees.  

<table>
<thead>
<tr>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the reporting period, the Board of Directors has considered matters related to implementing and updating the strategy, approving the company business plan (budget), and reviewing criteria and indicators (including interim ones) related to the implementation of the company strategy and business plans.</td>
<td>Compliance</td>
<td>The Board of Directors considered matters related to implementing the information policy. The Board of Directors has approved the information Policy Regulation. The company has appointed persons responsible for implementing the information policy.</td>
</tr>
</tbody>
</table>

1.2.13 The Board of Directors has considered matters related to implementing the information policy.  

1.2.14 The Board of Directors has considered matters related to implementing the information policy.  

1.2.15 The Board of Directors has considered matters related to implementing the information policy.  

1.2.16 The Board of Directors has considered matters related to implementing the information policy.  

1.2.17 The Board of Directors has considered matters related to implementing the information policy.  

1.2.18 The Board of Directors has considered matters related to implementing the information policy.  

1.2.19 The Board of Directors has considered matters related to implementing the information policy.  

1.2.20 The Board of Directors has considered matters related to implementing the information policy.  

1.2.21 The Board of Directors has considered matters related to implementing the information policy.  

<table>
<thead>
<tr>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the reporting period, the Board of Directors has considered matters related to implementing and updating the strategy, approving the company business plan (budget), and reviewing criteria and indicators (including interim ones) related to the implementation of the company strategy and business plans.</td>
<td>Compliance</td>
<td>During the reporting period, the Board of Directors did not consider the corporate governance practice in the company. A report on the Gazprom Neft corporate governance practice is submitted for review to the Board of Directors based on the approved work plan. It is planned to review the report in the second half of the year. The annual report of the company for the reporting period includes information about directors’ attendance at meetings of the Board of Directors and its committees. The annual report contains information about the key findings of performance assessment of the Board of Directors carried out in the reporting period.</td>
</tr>
</tbody>
</table>
## Sustainable development

### Governance system

#### Status of compliance with corporate governance principle

2.2.2 The company has in place a transparent procedure enabling shareholders to send their questions and the relevant opinions to the chairman of the Board of Directors.

- **Compliance**

2.3.1 During the reporting period, the Board of Directors (or its Nominations Committee) assessed candidates nominated to the Board of Directors in terms of required experience, knowledge, business reputation, absence of conflict of interest, etc.

- **Compliance**

2.3.2 Wherever the agenda of a general meeting of shareholders held during the reporting period included matters related to electing the Board of Directors, the company provided shareholders with biographical details of all candidates nominated to the Board of Directors, findings of assessment of such candidates by the Board of Directors (or its Nominations Committee), as well as information on whether the candidate met independence criteria in accordance with Recommendations 102–107 of the Code, and the written consent of the candidates for election to the Board of Directors.

- **Compliance**

2.3.3 As part of performance assessment of the Board of Directors carried out in the reporting period, the Board of Directors analysed its needs for professional qualifications, experience and business skills.

- **Compliance**

2.3.4 As part of performance assessment of the Board of Directors carried out in the reporting period, the Board of Directors considered whether the number of its members was consistent with the company needs and shareholder interests.

- **Compliance**

2.4.1 During the reporting period, all independent members of the Board of Directors met the independence criteria established in Recommendations 102–107 of the Code, or were recognised as independent under the resolution of the Board of Directors.

- **Non-compliance**

2.4.2 During the reporting period, the Board of Directors (or its Nominations Committee) at least once assessed the independence of the current members of the Board of Directors listed in the company annual report as independent directors.

- **Partially compliant**

### Partial compliance

If the status of compliance is less than 100%, the company provides explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle.

The company has developed procedures stipulating the actions that the Board members must take if they cease to be independent, including the obligation to promptly notify the Board members of that fact.

#### Status of compliance with corporate governance principle

2.4.3 Independent directors comprise at least one third of the membership of the Board of Directors.

- **Non-compliance**

As at the end of the reporting year, the Board of Directors did not include independent directors: On 14 June 2019, under the resolution of the General Meeting of Shareholders, Sergey Fursenko was removed from the Board of Directors; On 25 December 2019, Valery Serdyukov lost his status as an independent director pursuant to Clause 104 of the Corporate Governance Code; he was recognized as a person connected with the company, as he had been a member of the Board of Directors for more than seven years in total.

All other members of the Board of Directors are persons connected with a substantial shareholder of the company. Due to the fact that the company has no other shareholders except for Gazprom having an interest of more than 2%, which would enable them to nominate candidates to the Board of Directors, full compliance with this recommendation largely depends on the willingness of the majority shareholder (Gazprom) to nominate and elect independent directors to the company Board of Directors.

The company conducts an annual performance assessment of the Board of Directors; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Board of Directors is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Board of Directors to perform its functions.
Independent directors (who have no conflict of interest) carry out a preliminary assessment of significant corporate actions involving a potential conflict of interest, and the findings of these assessments are presented to the Board of Directors.

The chairman of the Board of Directors is an independent director, or a senior independent director who has no conflict of interest. The Chairman of the Board of Directors (and, if applicable, the senior independent director) are properly appointed from among independent directors.

The performance of the Board chairman was assessed as part of performance assessment of the Board of Directors in the reporting period.

The company internal documents stipulate that members of the Board of Directors must notify the Board of Directors if they have a conflict of interest in relation to any agenda item at a meeting of the Board of Directors or a Board committee, before they start discussing the relevant agenda item.

The company has adopted and published an internal document clearly specifying the rights and duties of the Board members.

The Board has a formalised induction process that is described in the Corporate Governance Code. Based on the performance assessment of the Board of Directors, the activities of its Chairman have been deemed to meet the company needs.

The provisions of item 2 are compiled with only partially: the company internal documents do not stipulate the Board members’ duty to notify the Board of Directors of their intentions to join governance bodies of any other organisations (except Gazprom Neft controlled entities and affiliates). In accordance with the Gazprom Neft Regulation Governing the Board of Directors, members of the Board of Directors must notify the company of their election to governance bodies of other organisations.

In accordance with the company internal documents, the Board of Directors may initiate a formalised induction programme for newly elected members of the Board of Directors.
### 2.8.1. Criteria for assessing compliance with the corporate governance principle

<table>
<thead>
<tr>
<th>№</th>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance with the corporate governance principle</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.8.1.1</td>
<td>The company has approved an internal document establishing the procedure for preparing and holding the Board meetings, and stipulating that notification of the meetings must be given at least 5 days before the meeting date.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>2.8.1.2</td>
<td>The company charter or an internal document stipulates that the most important matters (according to the list provided in Recommendation 168 of the Code) must be considered at in-person meetings of the Board.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>2.8.1.3</td>
<td>The Board of Directors has formed the Audit Committee consisting only of independent directors.</td>
<td>Partial compliance</td>
<td>With regard to items 1 and 3: the Audit Committee does not include independent directors. The Audit Committee has been formed of representatives of the principal shareholder (Gazprom) who have special professional expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts).</td>
</tr>
<tr>
<td>2.8.1.4</td>
<td>At least one member of the Audit Committee who is an independent director has expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts).</td>
<td>Partial compliance</td>
<td>The company conducts an annual performance assessment of the Audit Committee; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Audit Committee is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Committee to perform its functions effectively.</td>
</tr>
<tr>
<td>2.8.1.5</td>
<td>The company internal documents stipulate the responsibilities of the Remuneration Committee, including those specified in Recommendation 172 of the Code.</td>
<td>Partial compliance</td>
<td>With regard to items 1 and 3: the Remuneration Committee does not include independent directors. The Committee has been formed of representatives of the principal shareholder (Gazprom) who have special professional expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts).</td>
</tr>
<tr>
<td>2.8.1.6</td>
<td>The company has approved an internal document establishing the procedure for preparing and holding the meetings of the Remuneration Committee, including those specified in Recommendation 180 of the Code.</td>
<td>Partial compliance</td>
<td>The company has no independent directors. The Committee has been formed of representatives of the principal shareholder (Gazprom) who have special professional expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts).</td>
</tr>
<tr>
<td>2.8.1.7</td>
<td>Meetings of the Audit Committee were held at least once a quarter during the reporting period.</td>
<td>Compliance</td>
<td>During the reporting period, the Board of Directors considered whether the composition of its committees was consistent with the Board objectives and the company goals. Additional committees were either formed or considered unnecessary.</td>
</tr>
</tbody>
</table>
The Board committees are headed by independent directors.

2.8.5 The company internal documents (policies) stipulate that persons who are not members of the Audit Committee, the Nominations Committee or the Remuneration Committee may attend Committee meetings only if they are invited by the Chairman of the relevant Committee.

2.8.6 During the reporting period, Committee Chairman regularly reported to the Board of Directors on the performance of their Committees.

2.9.1 Self-assessment or external assessment of the Board performance carried out in the reporting period included the assessment of performance of the Board Committees, individual members of the Board of Directors and the Board of Directors as a whole.

The findings of self-assessment or external assessment of the Board of Directors carried out during the reporting period were reviewed at an in-person meeting of the Board of Directors.

2.9.2 The company engaged an external organisation (consultant) to carry out an independent performance assessment of the Board of Directors at least once during the last three reporting periods.

3.1.1 Biographical information of the corporate secretary is published on the company website and in the annual report with the same level of detail as for the members of the Board of Directors and the company executives.

3.1.2 The Board of Directors approves the appointment, dismissal and additional remuneration of the corporate secretary.

4.1.1 The company has adopted an internal document (documents): a policy (policies) on remuneration of the members of the Board of Directors, executive bodies and other key executives, which clearly stipulates approaches to remuneration of these persons.

4.1.2 During the reporting period, the Remuneration Committee considered the remuneration policy (policies) and the practice of its (their) implementation and, if required, submitted the relevant recommendations to the Board of Directors.

4.1.3 The company remuneration policy (policies) contains (contains) transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, executive bodies and other key executives of the company, and regulates (regulate) all types of payments, benefits and privileges granted to them.

4.1.4 The remuneration policy (policies) or other internal documents of the company establish rules for reimbursing expenses incurred by the members of the Board of Directors, executive bodies and other key executives of the company.

Fixed annual remuneration was the only form of financial remuneration paid to the members of the Board of Directors for serving on the Board of Directors during the reporting period.

The amount and the procedure for paying remuneration and compensation to the members of the Board of Directors are governed by the relevant Regulation.

In accordance with the Regulation, the members of the Board of Directors receive the following forms of remuneration: basic remuneration, and remuneration for additional duties (serving on Committees). The annual remuneration paid by the company to the members of the Board of Directors is calculated based on profit. The rules set forth in the Regulation are designed to ensure that the forms of remuneration used by the company are consistent with its goals. The company does not rule out the possibility of revising the structure of remuneration paid to the members of the Board of Directors in the future to ensure that it is consistent with the best practices.

If an internal document (documents), namely the remuneration policy (policies), provides (provides) for share-based compensation for the members of the Board of Directors, clear rules must be introduced and disclosed regarding share ownership by the members of the Board of Directors in order to encourage long-term ownership of such shares.

Not applicable.
<table>
<thead>
<tr>
<th>№</th>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance with the corporate governance principle</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2.3</td>
<td>The company does not provide for any additional payments or compensation in case of early resignation of the Board members due to a change of control or any other circumstances.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>4.3.1</td>
<td>During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration paid to the members of executive bodies and other key executives of the company.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>4.3.2</td>
<td>The company has adopted a long-term incentive programme for the members of executive bodies and other key executives of the company, which involves using the company shares (financial instruments based on the company shares).</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>4.3.3</td>
<td>In the reporting period, the amount of compensation (the golden parachute) paid by the company to the members of executive bodies or key executives in case of early resignation on the company initiative, provided that they had committed no wrongdoings, did not exceed twice the amount of the fixed component of annual remuneration.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>5.1.1</td>
<td>The functions of various governance bodies and divisions of the company within the risk management and internal control system are clearly specified in internal documents / in the relevant company policy approved by the Board of Directors.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1.2</td>
<td>The company executive bodies have ensured that risk management and internal control functions and powers have been distributed among the heads of divisions and departments accountable to them.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>5.1.3</td>
<td>The company has approved an anti-corruption policy.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>5.1.4</td>
<td>During the reporting period, the Board of Directors or the Audit Committee assessed the performance of the company risk management and internal control system. The key findings of this assessment have been included in the company annual report.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>5.2.1</td>
<td>In order to conduct internal audit, the company has created a separate internal audit unit accountable to the Board of Directors or the Audit Committee, or has engaged an independent external organisation following the same accountability principle.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>5.2.2</td>
<td>During the reporting period, the performance of the risk management and internal control system was assessed as part of internal audit.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>5.2.3</td>
<td>The company uses generally accepted approaches to internal control and risk management.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>6.1.1</td>
<td>The Board of Directors (or one of its Committees) considered matters related to the company compliance with the information policy at least once during the reporting period.</td>
<td>Compliance</td>
<td></td>
</tr>
</tbody>
</table>
### Status of compliance with the corporate governance principle

#### Compliance

- **Criteria for assessing compliance with the corporate governance principle:**
  - The company discloses information about its corporate governance system and general corporate governance principles applied in the company, including disclosure on the company website.
  - The company discloses information about the composition of its executive bodies and the Board of Directors, independence of the Board members and their membership in the Board Committees (as defined in the Code).
  - If there is a person controlling the company, the company shall publish a memorandum from the controlling person outlining its plans regarding corporate governance in the company.
  - The company information policy stipulates approaches to and criteria for identifying information that may have a significant impact on the company valuation and the value of its securities, as well as procedures ensuring timely disclosure of such information.
  - If the company securities are traded on foreign organised markets, the disclosure of material information in Russia and on such markets during the reporting year shall be synchronised and equivalent.
  - If foreign shareholders hold a considerable number of the company shares, information was disclosed during the reporting year not only in Russian, but also in one of the most widely used foreign languages.
  - During the reporting period, the company disclosed its annual and semi-annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The company annual report for the reporting period included annual financial statements prepared in accordance with IFRS, together with an auditor’s report.
  - The company discloses full information on the structure of its capital in accordance with Recommendation 290 of the Code in its annual report and on its website.
  - The company annual report contains information on the key aspects of its operations and its financial results.
  - The company annual report contains information on environmental and social aspects of the company operations.
  - The company information policy stipulates that shareholders must be granted easy access to information, including information about legal entities controlled by the company, at the shareholders’ request.
  - If there is a person controlling the company, the company shall publish a memorandum from the controlling person outlining its plans regarding corporate governance in the company.
  - The company information policy stipulates that such significant corporate actions shall be synchronised with the relevant recommendations.

#### Partial compliance

- **Criteria for assessing compliance with the corporate governance principle:**
  - With regard to Item 3, the Company did not receive a memorandum from the controlling person about this person’s plans regarding corporate governance in the company.
  - Full compliance with this recommendation largely depends on the willingness of the controlling shareholder to submit the memorandum.

### Criteria for assessing failure to meet the criteria for assessing compliance with the corporate governance principle

#### Non-compliance

- **Criteria for assessing compliance with the corporate governance principle:**
  - The company has established a procedure whereby independent directors express their opinions with regard to significant corporate actions before their approval.
  - As at the end of the reporting year, the Board of Directors did not include independent directors. On 14 June 2019, under the resolution of the General Meeting of Shareholders, Sergey Fursenko was removed from the Board of Directors; on 25 December 2019, Valery Serdyukov lost his status as an independent director pursuant to Clause 104 of the Corporate Governance Code, he was recognised as a person connected with the company, as he had been a member of the Board of Directors for more than seven years in total. All other members of the Board of Directors are persons connected with a substantial shareholder of the company. The company has no other shareholders (except for Gazprom) having an interest of more than 2%, which would enable them to nominate candidates to the Board of Directors. Full compliance with this recommendation largely depends on the willingness of the majority shareholder (Gazprom) to nominate and elect independent directors to the company Board of Directors.

#### Partial compliance

- **Criteria for assessing compliance with the corporate governance principle:**
  - The company has no other shareholders (except for Gazprom) to nominate and elect independent directors to the company Board of Directors.
### APPENDIX 7. LIST OF MAJOR TRANSACTIONS AND RELATED-PARTY TRANSACTIONS

<table>
<thead>
<tr>
<th>Criteria for assessing compliance with the corporate governance principle</th>
<th>Status of compliance with the corporate governance principle</th>
<th>Explanations concerning failure to meet the criteria for assessing compliance with the corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1.3 Given the nature of the company operations, the minimum criteria established in its Charter for classifying the company transactions as significant corporate actions are lower than those established by law.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>During the reporting period, all significant corporate actions underwent the approval procedure before they were performed.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>7.2.1 During the reporting period, the company disclosed detailed information about its significant corporate actions, including the rationale for and the timing of such actions, in a timely manner.</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>The company internal documents establish a procedure for engaging an independent appraiser to carry out a valuation of the property to be disposed of or purchased in a major transaction or related-party transaction.</td>
<td>Partial compliance</td>
<td>With regard to item 3: the company internal documents do not contain an expanded list of grounds for recognising the members of the Board of Directors and other persons stipulated by law as having interest in the company transactions. The company internal documents provide for a list of grounds for recognising the members of the Board of Directors and other persons stipulated by law as having interest in the company transactions only under Russian legislation. After the adoption of the Corporate Governance Code, significant amendments have been made to the Law 'On Joint-Stock Companies' (Chapter XI 'Interest in the Execution of a Transaction by the Company') with regard to compiling a list of interested parties and establishing a procedure for approving transactions. Accordingly, the company has made the relevant amendments to its internal documents: the Charter, the Regulation Governing the Board of Directors, and the Regulation on the Management Board.</td>
</tr>
</tbody>
</table>

List of major transactions and related-party transactions

For more details on related-party transactions made by Gazprom Neft in 2019, see ir.gazprom-neft.com/?id=9

Interfax – Corporate Disclosure Center
### Revenue

#### Revenue from sales, R million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CRUDE OIL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net export (excluding CIS)</td>
<td>115,905</td>
<td>225,137</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Export</td>
<td>180,240</td>
<td>266,661</td>
<td>413,662</td>
<td>552,692</td>
<td>586,357</td>
<td>6.1</td>
</tr>
<tr>
<td>Less: export duties</td>
<td>(64,335)</td>
<td>(41,524)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>International markets</td>
<td>9,146</td>
<td>12,683</td>
<td>22,480</td>
<td>37,938</td>
<td>28,339</td>
<td>(25.3)</td>
</tr>
<tr>
<td>Export sales and sales in CIS</td>
<td>27,581</td>
<td>23,528</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less: export duties</td>
<td>(835)</td>
<td>(129)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Domestic market</td>
<td>81,187</td>
<td>94,809</td>
<td>83,393</td>
<td>88,848</td>
<td>88,797</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>GAS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International markets</td>
<td>3,411</td>
<td>1,853</td>
<td>1,237</td>
<td>1,010</td>
<td>863</td>
<td>(14.6)</td>
</tr>
<tr>
<td>Domestic market</td>
<td>28,243</td>
<td>30,116</td>
<td>36,351</td>
<td>35,805</td>
<td>29,891</td>
<td>(16.5)</td>
</tr>
<tr>
<td><strong>PETROLEUM PRODUCTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net export (excluding CIS)</td>
<td>202,477</td>
<td>184,272</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Export</td>
<td>260,731</td>
<td>215,837</td>
<td>228,346</td>
<td>330,290</td>
<td>328,434</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Less: export duties</td>
<td>(58,254)</td>
<td>(31,565)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>International markets</td>
<td>107,405</td>
<td>99,440</td>
<td>112,912</td>
<td>165,880</td>
<td>156,423</td>
<td>(5.7)</td>
</tr>
<tr>
<td>Sales on international markets</td>
<td>171,749</td>
<td>175,247</td>
<td>180,803</td>
<td>257,803</td>
<td>249,131</td>
<td>(3.4)</td>
</tr>
<tr>
<td>Less: sales-related excise tax</td>
<td>(64,344)</td>
<td>(75,807)</td>
<td>(67,981)</td>
<td>(91,923)</td>
<td>(92,708)</td>
<td>(9.9)</td>
</tr>
<tr>
<td>CIS</td>
<td>78,134</td>
<td>72,649</td>
<td>77,154</td>
<td>92,245</td>
<td>87,623</td>
<td>(5.0)</td>
</tr>
<tr>
<td>Export sales and sales in CIS</td>
<td>78,134</td>
<td>72,649</td>
<td>77,154</td>
<td>92,245</td>
<td>87,623</td>
<td>(5.0)</td>
</tr>
<tr>
<td>Less: export duties</td>
<td>(64)</td>
<td>(1,311)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less: sales-related excise tax</td>
<td>–</td>
<td>–</td>
<td>(1,086)</td>
<td>(911)</td>
<td>(878)</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Domestic market</td>
<td>740,520</td>
<td>743,721</td>
<td>866,236</td>
<td>1,075,927</td>
<td>1,044,521</td>
<td>(2.7)</td>
</tr>
<tr>
<td>Total petroleum products revenue</td>
<td>1,128,472</td>
<td>1,099,271</td>
<td>1,283,550</td>
<td>1,663,431</td>
<td>1,618,130</td>
<td>(2.7)</td>
</tr>
<tr>
<td><strong>Other revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>73,998</td>
<td>58,211</td>
<td>63,799</td>
<td>70,575</td>
<td>91,846</td>
<td>30.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1,467,943</td>
<td>1,545,608</td>
<td>1,934,589</td>
<td>2,489,292</td>
<td>2,485,308</td>
<td>(0.2)</td>
</tr>
</tbody>
</table>

Note: 
1. Mainly comprises revenue from the sale of transportation, construction and utility services.

---

### Production and manufacturing expenses

#### Production and manufacturing expenses, R million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upstream expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>198,095</td>
<td>106,765</td>
<td>101,787</td>
<td>109,090</td>
<td>121,167</td>
<td>11.1</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>1,782</td>
<td>1,767</td>
<td>1,699</td>
<td>1,793</td>
<td>7.4</td>
</tr>
<tr>
<td>Consolidated subsidiaries in Russia</td>
<td>72,854</td>
<td>80,392</td>
<td>85,898</td>
<td>81,385</td>
<td>91,984</td>
<td>13.0</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>1,647</td>
<td>1,653</td>
<td>1,510</td>
<td>1,634</td>
<td>8.2</td>
</tr>
<tr>
<td>$ per boe</td>
<td>n/a</td>
<td>3.63</td>
<td>3.63</td>
<td>3.63</td>
<td>3.78</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Consolidated subsidiaries in Russia (including PSC)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>72,854</td>
<td>80,392</td>
<td>85,898</td>
<td>81,385</td>
<td>91,984</td>
<td>13.0</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>3.63</td>
<td>3.63</td>
<td>3.63</td>
<td>3.78</td>
<td>4.1</td>
</tr>
<tr>
<td>$ per boe</td>
<td>n/a</td>
<td>3.63</td>
<td>3.63</td>
<td>3.63</td>
<td>3.78</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Greenfields</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>11,629</td>
<td>14,632</td>
<td>17,975</td>
<td>15,515</td>
<td>19,570</td>
<td>26.1</td>
</tr>
<tr>
<td>$ per toe</td>
<td>n/a</td>
<td>3.35</td>
<td>3.86</td>
<td>3.29</td>
<td>3.44</td>
<td>4.6</td>
</tr>
<tr>
<td>$ per boe</td>
<td>n/a</td>
<td>3.35</td>
<td>3.86</td>
<td>3.29</td>
<td>3.44</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Other production and manufacturing expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>30,724</td>
<td>30,619</td>
<td>31,191</td>
<td>32,251</td>
<td>35,637</td>
<td>10.5</td>
</tr>
<tr>
<td>$ per tonne</td>
<td>882</td>
<td>893</td>
<td>966</td>
<td>920</td>
<td>1,050</td>
<td>14.1</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>1.97</td>
<td>1.82</td>
<td>2.26</td>
<td>2.00</td>
<td>2.21</td>
<td>10.5</td>
</tr>
<tr>
<td>Refining expenses at refineries of joint ventures</td>
<td>14,648</td>
<td>12,653</td>
<td>12,299</td>
<td>12,459</td>
<td>12,650</td>
<td>7.6</td>
</tr>
<tr>
<td>$ per tonne</td>
<td>882</td>
<td>893</td>
<td>966</td>
<td>920</td>
<td>1,050</td>
<td>14.1</td>
</tr>
<tr>
<td>$ per barrel</td>
<td>1.97</td>
<td>1.82</td>
<td>2.26</td>
<td>2.00</td>
<td>2.21</td>
<td>10.5</td>
</tr>
<tr>
<td><strong>Lubricants and packaged-products manufacturing expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>8,177</td>
<td>10,060</td>
<td>11,868</td>
<td>14,172</td>
<td>17,017</td>
<td>20.1</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>35,082</td>
<td>12,404</td>
<td>20,110</td>
<td>27,659</td>
<td>40,507</td>
<td>46.5</td>
</tr>
<tr>
<td>Total</td>
<td>214,267</td>
<td>201,862</td>
<td>216,530</td>
<td>228,618</td>
<td>260,688</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Notes:
1. Expenditure on raw materials and supplies, equipment maintenance and repairs, labour costs, fuel and electricity costs, enhanced oil recovery activities and other similar costs at the group upstream subsidiaries.
2. Translated into US dollars at the average exchange rate for the period.
3. PSC stands for a production sharing contract.
4. Expenditure on raw materials and supplies, equipment maintenance and repairs, labour costs, fuel and electricity costs at the group refineries.
5. Refining expenses of joint ventures are based on processing agreement.
Upstream expenses per toe at consolidated subsidiaries in Russia increased by 8.2% year on year, mainly due to production decline at brownfields.

Upstream expenses per toe at consolidated subsidiaries at brownfields increased by 13% year on year due to:
- Comparison with a low base in 2018 due to shut-downs of high water-cut wells in 1H 2018 under the OPEC+ agreement;
- Inflationary pressure.

Upstream expenses per toe at joint operations increased by 7.3% year on year, mainly due to growth of electricity tariffs, higher liquid production volume and water injection.

Refining expenses per tonne at own refineries increased by 14.1% year on year due to:
- Increase in maintenance expenses;
- Increase in MTBE purchases\(^1\);
- Throughput decline;
- Increase in expenses related to environmental programmes.

Refining expenses per toe at joint ventures increased by 12.3% year on year due to higher processing expenses (launch of new refining units, electricity and repairs).

Lubricants and bitumen production expenses increased by 20.1% year on year, mainly due to a rise in high-technology additives and packaging prices.

Other operating expenses increased mainly due to an increase in other revenue, which was related to growth of services rendered and development of oil rims.

\[^{1}\] MTBE stands for methyl tert-butyl ether. It is utilized as a motor-fuel additive to increase the gasoline octane number.

\[^{2}\] Distribution costs, retail business expenses, remunerations, wages and salaries (excluding remunerations, wages and salaries at upstream subsidiaries and own refineries), social benefits, insurance, legal, consulting and audit services, and other expenses.

\[^{3}\] Costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, rail, shipping, handling, and other transportation costs.

Selling, general and administrative expenses

Selling, general and administrative expenses\(^2\) increased by 9.3% year on year, driven mainly by:
- Increased estimated liabilities due to share price growth;
- Increased advertising and marketing expenses as part of selling expenses.

\[^{2}\] Distribution costs, retail business expenses, remunerations, wages and salaries (excluding remunerations, wages and salaries at upstream subsidiaries and own refineries), social benefits, insurance, legal, consulting and audit services, and other expenses.

Transportation expenses

Transportation expenses\(^3\) decreased by 2.5% year on year, mainly due to a change in terms of gas supply contracts with consumers and the application of IFRS 16 since January 2019. The decrease was offset by higher crude oil and petroleum-products transportation expenses due to crude oil sales volume growth and higher transportation tariffs.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses increased by 3.4% year on year due to an increase in the cost of depreciable assets driven by the implementation of the investment programme, and the application of IFRS 16 since 1 January 2019.

Taxes

Taxes other than income tax, ₽ million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral extraction tax (MET)</td>
<td>256,477</td>
<td>237,300</td>
<td>329,579</td>
<td>487,492</td>
<td>464,773</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Excess-profits tax</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>14,348</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Excise tax</td>
<td>68,358</td>
<td>112,102</td>
<td>128,229</td>
<td>126,779</td>
<td>70,125</td>
<td>(44.7)</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>15,599</td>
<td>18,530</td>
<td>20,433</td>
<td>22,113</td>
<td>25,707</td>
<td>16.3</td>
</tr>
<tr>
<td>Other taxes</td>
<td>12,711</td>
<td>13,199</td>
<td>14,028</td>
<td>16,400</td>
<td>16,240</td>
<td>(1.0)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>353,145</td>
<td>381,131</td>
<td>492,269</td>
<td>652,784</td>
<td>591,193</td>
<td>(9.4)</td>
</tr>
</tbody>
</table>

MET expenses decreased by 4.7% year on year, mainly due to a lower effective MET rate as a result of lower crude oil prices. In addition, excess-profits tax (EPT) was imposed on 1 January 2019. The group introduced EPT for several fields in Western and Eastern Siberia.

Excise tax decreased by 44.7% year on year, mainly due to the introduction of crude oil materials excise tax deduction and the damper component since 1 January 2019, which was partially offset by an increase in motor fuel excise tax rates (by 28%).

Share of profit of associates and joint ventures

Share of profit/(loss) of associates and joint ventures, ₽ million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Slavneft</td>
<td>9,265</td>
<td>13,916</td>
<td>10,347</td>
<td>15,025</td>
<td>11,944</td>
<td>(20.5)</td>
</tr>
<tr>
<td>Messoyakhneftegaz</td>
<td>– (947)</td>
<td>9,976</td>
<td>28,172</td>
<td>25,814</td>
<td>– (8.4)</td>
<td></td>
</tr>
<tr>
<td>SeverEnergia (Arcticgas)</td>
<td>11,913</td>
<td>14,672</td>
<td>19,861</td>
<td>40,651</td>
<td>39,849</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Northgas</td>
<td>3,466</td>
<td>3,009</td>
<td>3,433</td>
<td>3,699</td>
<td>3,090</td>
<td>(16.5)</td>
</tr>
<tr>
<td>Other companies</td>
<td>312</td>
<td>3,664</td>
<td>1,887</td>
<td>3,957</td>
<td>4,209</td>
<td>(6.4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,956</td>
<td>34,116</td>
<td>45,504</td>
<td>90,704</td>
<td>83,906</td>
<td>(7.5)</td>
</tr>
</tbody>
</table>

\[^{1}\] Depreciation, depletion and amortisation expenses include depletion of oil and gas properties, depreciation of other property, plant and equipment, and impairment of oil and gas properties.
The group share of Slavneft profit decreased year on year, mainly due to higher MET expenses caused by the standard tax rate increase, and higher finance expense as a result of debt portfolio growth. The decrease in the share of profit was partially offset by revenue growth due to production increase.

The group share of Messoyakhaneftegaz and Arcticgas profit decreased mainly due to higher finance expense. The group share of Northgas profit decreased mainly due to lower production.

Other income and expenses

Other expenses, which included mainly disposal of non-current assets in 2019, increased by 17.7% year on year.

Other financial items

Foreign exchange gains (losses) are mainly influenced by revaluation of the foreign currency-denominated part of the Group’s loan portfolio.

Liquidity and sources of capital

Cash, P million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>285,175</td>
<td>321,297</td>
<td>421,700</td>
<td>537,523</td>
<td>609,076</td>
<td>13.3</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>731,511</td>
<td>523,854</td>
<td>312,889</td>
<td>320,538</td>
<td>363,589</td>
<td>8.5</td>
</tr>
<tr>
<td>Net increase / (decrease) in financing activities</td>
<td>82,193</td>
<td>68,630</td>
<td>50,521</td>
<td>56,543</td>
<td>76,720</td>
<td>+200</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities, P million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>312,169</td>
<td>361,567</td>
<td>439,319</td>
<td>524,783</td>
<td>616,311</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>18,342</td>
<td>19,214</td>
<td>52,809</td>
<td>326</td>
<td>39,506</td>
<td>+200</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(19,522)</td>
<td>(22,158)</td>
<td>(36,530)</td>
<td>(61,157)</td>
<td>(53,087)</td>
<td>(13.2)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(28,229)</td>
<td>(36,476)</td>
<td>(46,499)</td>
<td>(66,492)</td>
<td>(59,057)</td>
<td>27.0</td>
</tr>
<tr>
<td>Dividends received</td>
<td>2,615</td>
<td>3,148</td>
<td>5,551</td>
<td>20,063</td>
<td>65,404</td>
<td>+200</td>
</tr>
<tr>
<td>Total</td>
<td>285,175</td>
<td>321,297</td>
<td>421,700</td>
<td>537,523</td>
<td>609,076</td>
<td>13.3</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities increased by 13.3% year on year, primarily due to higher dividends received from joint ventures, and the positive effect of changes in working capital.

Net cash used in investing activities, P million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>(349,036)</td>
<td>(386,817)</td>
<td>(397,090)</td>
<td>(370,067)</td>
<td>(363,019)</td>
<td>+22.6</td>
</tr>
<tr>
<td>[Acquisition]/disposal of subsidiaries, shares in joint operations and equity-accounted investments</td>
<td>197</td>
<td>(2,028)</td>
<td>(6,345)</td>
<td>(1,360)</td>
<td>(218)</td>
<td>(84.5)</td>
</tr>
<tr>
<td>Purchase of oil and gas licences</td>
<td>–</td>
<td>–</td>
<td>(5,130)</td>
<td>(7,900)</td>
<td>(4,623)</td>
<td>87.6</td>
</tr>
<tr>
<td>Net changes in deposits</td>
<td>45,745</td>
<td>48,517</td>
<td>(5,253)</td>
<td>4,710</td>
<td>(15,078)</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment, net of tax</td>
<td>982</td>
<td>1,008</td>
<td>2,210</td>
<td>4,413</td>
<td>115,710</td>
<td>+200</td>
</tr>
<tr>
<td>Net changes in loans issued and other investments</td>
<td>(22,603)</td>
<td>(2,104)</td>
<td>44,938</td>
<td>11,511</td>
<td>14,750</td>
<td>–</td>
</tr>
<tr>
<td>Interest received</td>
<td>7,996</td>
<td>6,384</td>
<td>9,149</td>
<td>18,615</td>
<td>17,155</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Other cash flows from investing activities</td>
<td>2,220</td>
<td>11,186</td>
<td>2,182</td>
<td>–</td>
<td>(13,765)</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>(314,511)</td>
<td>(323,854)</td>
<td>(312,889)</td>
<td>(335,038)</td>
<td>(363,589)</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Net cash used in investing activities increased by 8.5% year on year. Cash outflow in investing activities resulting from capital expenditure, changes in deposits, loans issued and other investments was partially offset by an inflow from the transfer of a capital facility to the parent company in 1Q 2019.

/ 1 / Before changes in working capital, income tax, interest and dividends.
Net cash used in financing activities increased year on year, mainly due to higher dividends paid to shareholders and a decrease in debt load.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net changes in debt</td>
<td>121,565</td>
<td>(63,929)</td>
<td>3,556</td>
<td>5,484</td>
<td>(33,616)</td>
<td></td>
</tr>
<tr>
<td>Payment of dividends to shareholders</td>
<td>(36,364)</td>
<td>(2,998)</td>
<td>(50,382)</td>
<td>(70,774)</td>
<td>(227,120)</td>
<td>&gt;200</td>
</tr>
<tr>
<td>Other transactions</td>
<td>(3,026)</td>
<td>(1,103)</td>
<td>(2,695)</td>
<td>8,707</td>
<td>(14,184)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>82,193</td>
<td>(64,438)</td>
<td>(50,351)</td>
<td>(56,541)</td>
<td>(275,720)</td>
<td>&gt;200</td>
</tr>
</tbody>
</table>

Net cash used in financing activities increased year on year, mainly due to higher dividends paid to shareholders and a decrease in debt load.

Capital expenditures, ₽ million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploration and production</td>
<td>255,235</td>
<td>245,256</td>
<td>223,916</td>
<td>224,852</td>
<td>266,386</td>
<td>18.5</td>
</tr>
<tr>
<td>consolidated subsidiaries</td>
<td>239,199</td>
<td>228,084</td>
<td>207,900</td>
<td>208,138</td>
<td>247,754</td>
<td>19.0</td>
</tr>
<tr>
<td>joint operations</td>
<td>16,036</td>
<td>17,172</td>
<td>16,016</td>
<td>16,714</td>
<td>18,633</td>
<td>11.5</td>
</tr>
<tr>
<td>Refining</td>
<td>31,552</td>
<td>50,095</td>
<td>81,370</td>
<td>95,202</td>
<td>118,210</td>
<td>24.2</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>13,547</td>
<td>9,728</td>
<td>12,466</td>
<td>15,585</td>
<td>16,204</td>
<td>4.0</td>
</tr>
<tr>
<td>Other</td>
<td>13,317</td>
<td>14,724</td>
<td>16,227</td>
<td>18,296</td>
<td>21,469</td>
<td>17.3</td>
</tr>
<tr>
<td>Capital expenditures (subtotal)</td>
<td>313,651</td>
<td>319,803</td>
<td>333,979</td>
<td>353,935</td>
<td>422,269</td>
<td>19.3</td>
</tr>
<tr>
<td>Change in advances issued and materials used in capital expenditures</td>
<td>35,385</td>
<td>65,014</td>
<td>23,111</td>
<td>16,132</td>
<td>30,742</td>
<td>90.6</td>
</tr>
<tr>
<td>Total</td>
<td>349,036</td>
<td>384,817</td>
<td>357,090</td>
<td>370,067</td>
<td>453,011</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Upstream capital expenditure increased by 18.5% year on year (mainly for consolidated subsidiaries) due to:

- Increase in production drilling and workover operations at new fields in traditional production regions;
- Increase in production drilling, construction of multi-well pads and infrastructure facilities at greenfields and offshore projects;
- Seismic surveys at newly acquired licence blocks.

Downstream capital expenditure increased by 24.2%, mainly due to increased costs at the Omsk Refinery resulting from deep conversion projects and construction of a catalyst production plant.

Debt and liquidity, ₽ million

<table>
<thead>
<tr>
<th>Item</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2017</th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2019</th>
<th>∆ 2019/2018, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term loans and borrowings</td>
<td>147,319</td>
<td>80,187</td>
<td>131,760</td>
<td>90,523</td>
<td>30,518</td>
<td></td>
</tr>
<tr>
<td>Long-term loans and borrowings</td>
<td>670,779</td>
<td>596,221</td>
<td>548,655</td>
<td>486,530</td>
<td>485,030</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(114,198)</td>
<td>(33,621)</td>
<td>(90,686)</td>
<td>(247,585)</td>
<td>(202,464)</td>
<td></td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>(49,204)</td>
<td>(886)</td>
<td>(5,779)</td>
<td>(15,076)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>654,696</td>
<td>661,901</td>
<td>584,027</td>
<td>527,868</td>
<td>497,748</td>
<td></td>
</tr>
<tr>
<td>Short-term debt / total debt, %</td>
<td>18.0</td>
<td>11.9</td>
<td>19.4</td>
<td>11.7</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Net debt / EBITDA (LTM)</td>
<td>1.90</td>
<td>1.60</td>
<td>1.19</td>
<td>0.73</td>
<td>0.70</td>
<td></td>
</tr>
</tbody>
</table>

The group’s diversified debt portfolio includes syndicated and bilateral loans, bonds and other instruments. The average debt maturity decreased from 3.84 years as at 31 December 2018 to 3.18 years as at 31 December 2019. The average interest rate decreased from 6.29% as at 31 December 2018 to 6.18% as at 31 December 2019.

For reference

EBITDA reconciliation, ₽ million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>116,198</td>
<td>209,725</td>
<td>269,678</td>
<td>400,993</td>
<td>422,088</td>
<td>5.3</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>29,252</td>
<td>49,814</td>
<td>55,522</td>
<td>79,129</td>
<td>85,746</td>
<td>8.4</td>
</tr>
<tr>
<td>Finance expense</td>
<td>33,943</td>
<td>25,127</td>
<td>21,476</td>
<td>32,772</td>
<td>52,672</td>
<td>52.6</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>114,083</td>
<td>129,845</td>
<td>140,998</td>
<td>175,451</td>
<td>181,372</td>
<td>4.3</td>
</tr>
<tr>
<td>Net foreign exchange gain/(loss)</td>
<td>67,910</td>
<td>(28,300)</td>
<td>16,227</td>
<td>21,469</td>
<td>21,469</td>
<td>17.3</td>
</tr>
<tr>
<td>Other income/(expenses), net</td>
<td>(1,494)</td>
<td>17,982</td>
<td>7,557</td>
<td>19,796</td>
<td>23,292</td>
<td>17.7</td>
</tr>
<tr>
<td>EBITDA</td>
<td>345,160</td>
<td>402,277</td>
<td>489,925</td>
<td>722,897</td>
<td>711,866</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Total adjusted EBITDA</td>
<td>404,811</td>
<td>456,198</td>
<td>550,967</td>
<td>799,566</td>
<td>795,129</td>
<td>(0.5)</td>
</tr>
</tbody>
</table>
## Profitability, %

<table>
<thead>
<tr>
<th>Item</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2017</th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2019</th>
<th>∆ 2019/2018, percentage points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA margin</td>
<td>27.58</td>
<td>29.52</td>
<td>32.12</td>
<td>31.97</td>
<td>(0.17)</td>
<td></td>
</tr>
<tr>
<td>Net profit margin</td>
<td>7.92</td>
<td>13.57</td>
<td>14.11</td>
<td>16.98</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>5.07</td>
<td>8.33</td>
<td>9.84</td>
<td>12.43</td>
<td>11.49</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>9.77</td>
<td>15.58</td>
<td>17.38</td>
<td>21.97</td>
<td>20.08</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Adjusted return on average capital employed (ROACE)</td>
<td>12.15</td>
<td>11.77</td>
<td>13.90</td>
<td>19.66</td>
<td>17.42</td>
<td>(2.2)</td>
</tr>
</tbody>
</table>

## Adjusted ROACE calculation¹, %

<table>
<thead>
<tr>
<th>Item</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2017</th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2019</th>
<th>∆ 2019/2018, percentage points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA</td>
<td>404,611</td>
<td>456,198</td>
<td>550,947</td>
<td>799,506</td>
<td>795,129</td>
<td></td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation (140,659)</td>
<td>(140,659)</td>
<td>(158,919)</td>
<td>(178,449)</td>
<td>(216,480)</td>
<td>(227,150)</td>
<td></td>
</tr>
<tr>
<td>Adjusted EBIT²</td>
<td>210,651</td>
<td>234,850</td>
<td>300,913</td>
<td>468,301</td>
<td>455,515</td>
<td></td>
</tr>
<tr>
<td>Average capital employed</td>
<td>1,733,285</td>
<td>1,996,626</td>
<td>2,164,616</td>
<td>2,383,426</td>
<td>2,615,316</td>
<td></td>
</tr>
<tr>
<td>Adjusted ROACE</td>
<td>12.15</td>
<td>11.77</td>
<td>13.90</td>
<td>18.46</td>
<td>17.42</td>
<td></td>
</tr>
</tbody>
</table>

## Liquidity

<table>
<thead>
<tr>
<th>Item</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2017</th>
<th>As at 31 December 2018</th>
<th>∆ 2019/2018, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.46</td>
<td>1.37</td>
<td>0.88</td>
<td>1.18</td>
<td>1.51</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.79</td>
<td>0.66</td>
<td>0.42</td>
<td>0.67</td>
<td>0.84</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.51</td>
<td>0.26</td>
<td>0.21</td>
<td>0.64</td>
<td>0.44</td>
</tr>
</tbody>
</table>

¹/ Return on average capital employed.
²/ Adjusted EBIT represents the group EBIT and its share in EBIT of associates and joint ventures.

### Changes in adjusted ROACE, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted ROACE 2015</th>
<th>Adjusted ROACE 2016</th>
<th>Adjusted ROACE 2017</th>
<th>Adjusted ROACE 2018</th>
<th>Adjusted ROACE 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>12.15</td>
<td>11.77</td>
<td>13.90</td>
<td>18.46</td>
<td>17.42</td>
</tr>
</tbody>
</table>

### Changes in adjusted ROACE, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted ROACE 2015</th>
<th>Adjusted ROACE 2016</th>
<th>Adjusted ROACE 2017</th>
<th>Adjusted ROACE 2018</th>
<th>Adjusted ROACE 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>12.15</td>
<td>11.77</td>
<td>13.90</td>
<td>18.46</td>
<td>17.42</td>
</tr>
</tbody>
</table>

### Changes in the group net debt, ₽ billion, and the net debt/EBITDA ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.9</td>
<td>1.6</td>
<td>1.3</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

### Changes in adjusted ROACE, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted ROACE 2015</th>
<th>Adjusted ROACE 2016</th>
<th>Adjusted ROACE 2017</th>
<th>Adjusted ROACE 2018</th>
<th>Adjusted ROACE 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>12.15</td>
<td>11.77</td>
<td>13.90</td>
<td>18.46</td>
<td>17.42</td>
</tr>
</tbody>
</table>

For more details on the company debt, see the Debt Portfolio and Credit Ratings subsection.
Key macroeconomic factors

Key factors affecting the group performance include the following:
- Changes in market prices for crude oil and petroleum products;
- Changes in the US dollar/Russian rouble exchange rate and inflation;
- Taxation;
- Changes in crude oil and petroleum-products transportation tariffs.

Changes in market prices for crude oil and petroleum products

Prices for crude oil and petroleum products on the international and Russian markets are the primary factor affecting the group performance. They are primarily determined by global prices for crude oil, petroleum-product supply and demand, and competition on different markets. In turn, price trends on the international market determine domestic prices. Price trends differ for different types of petroleum products.

The decrease in crude oil and petroleum-product prices on the international market in 2019 had a negative impact on the group results.

Changes in the US dollar/Russian rouble exchange rate and inflation

The group management has determined that the group presentation currency is the Russian rouble. The functional currency of each of the group’s consolidated subsidiaries is the currency of the primary economic environment in which the entity operates. For most entities, this is the Russian rouble.

Taxation

Average tax rates effective in the reporting periods for the taxation of oil and gas companies in Russia

For more details on taxation and its application to Gazprom Neft, see Appendix 5, Oil Industry Taxation, p. 366
Basis point

and services are the end-users of these products directly to consumers, who of selling products and services B2C businesses and consumers, rather than between businesses, which are shared by all company employees. Corporate culture is based on corporate values and principles underlying teamwork and workplace dispute settlement, and a sense of personal responsibility for their share of work and their contribution to the company achievements. EnMS Energy management system Etalon An operational transformation programme based on an exemplary business model. The commitment to delivering exemplary performance is typical of a mature company that has successfully navigated through development challenges EURIBOR Euro Interbank Offered Rate FAR Fatal accident rate Fracking Hydraulic fracturing GDP Gross domestic product GRI An internationally recognised sustainability reporting framework developed by the Global Reporting Initiative Hierarchical management A classical organisational model integrating top-down management guidance with bottom-up flow of information from personnel on the ground. It is based on strict supervision, clear delineation of responsibilities, red tape and a vertical hierarchy, and is regarded as inefficient in today’s world. HRH Hard-to-recover reserves HSE Health, safety and environment IEA International Energy Agency IFRS International Financial Reporting Standards Indigenous minorities Indigenous minorities of the Russian Far North Industrial Internet of Things (IIoT) A system of interconnected computer networks and connected physical assets (equipment) with embedded sensors to enable data collection and exchange. This enables remote equipment control and industrial automation, with no human intervention. IRMF Integrated risk-management framework KMAO Khanty-Mansi Autonomous Okrug KPI Key performance indicator LB Licence block Lean production A management concept based on continuous improvement and commitment to eliminating all types of losses, with all employees being involved in the improvement process LIBOR London Interbank Offered Rate LPG Liquefied petroleum gas LTIFR Lost time injury frequency rate Management by objectives A collective approach to formulating goals, setting the direction, and decision-making in the company. It ensures that company executives and employees share the same goals, understand their importance, and are able to assess their performance and make improvements. MET Mineral extraction tax MFWKO Mobile free-water knockout unit MSF Multi-stage hydraulic fracturing Mud pit A facility designed for centralised collection, treatment and disposal of drilling waste Network-based management A modern management model based on flexible cross-functional teams capable of setting their own goals and making independent decisions. It relies on horizontal hierarchy, lifelong learning and personal responsibility for the outcomes. It is best suited for addressing complex challenges in a rapidly changing environment. NGL Natural gas liquids NIS Naftna Industrija Srbije A.D., Novi Sad NPP Non-profit partnership NPS Net Promoter Score OC Oil company Oe Oil equivalent OECD Organisation for Economic Cooperation and Development
not only the degree of uncertainty hydrocarbon resources, defining System. This is the world’s most
to accurately predict wear and tear. of digital data gathered from sensors and repairs based on the analysis
in order to optimise decision-making behaviour of objects and entities
focused on predicting the future
A class of data analysis techniques
Percentage point
Pp
for road construction
PMB
Polymer-modified bitumen used for road construction
Predictive analytics
A class of data analysis techniques focused on predicting the future behaviour of objects and entities in order to optimise decision-making
Predictive incident management
A fundamentally new approach to equipment maintenance and repairs based on the analysis of digital data gathered from sensors to accurately predict wear and tear. This helps to maximise maintenance efficiency and prevent accidents
Underbalanced drilling
A drilling technique where formation pressure is higher than the pressure in the wellbore. The pressure difference minimises formation contamination and helps to increase the drilling rate and the oil recovery factor
US GAAP
Generally Accepted Accounting Principles approved in the US
USA
United States of America
VAT
Value-added tax
VIOC
Vertically integrated oil company
YNAO
Yamalo-Nenets Autonomous Okrug

The Annual Report contains forward-looking statements that represent the expectations of the company management. These forward-looking statements are not based on actual circumstances and include all statements pertaining to the company intentions, opinions or current expectations with regard to company performance, financial position, liquidity, growth prospects, strategy and the industry in which Gazprom Neft operates. By their nature, such forward-looking statements are subject to inherent risks and uncertainties, as they refer to events and depend on circumstances that may or may not occur in the future.

Such words as ‘assume,’ ‘believe’, ‘expect,’ ‘forecast,’ ‘intend,’ ‘plan,’ ‘project,’ ‘consider,’ ‘might’ and other similar or equivalent words and phrases, as well as negations thereof generally indicate a forward-looking statement. These assumptions are subject to risks and uncertainties both expected and unforeseeable by the company. Therefore, future performance may differ from current expectations, and the recipients of the information contained herein should not use it as a sole basis for their assumptions.

In addition to official information on Gazprom Neft operations, this Annual Report contains information obtained from third parties and sources which Gazprom Neft deems to be reliable. Nevertheless, the company does not guarantee the accuracy of this information as it may be condensed or incomplete. Gazprom Neft does not provide any guarantees that the actual results, the scope of the company operations and its performance indicators or those of the industry in which the company operates will be consistent with the results, scope and performance indicators expressly stated or implied in any forward-looking statements contained herein or elsewhere. Gazprom Neft shall bear no responsibility for any losses that may be incurred by any person due to the fact that the person in question relied on forward-looking statements. Except as expressly required by applicable law, the company assumes no obligation to distribute or publish any updates or revisions to the forward-looking statements to reflect any changes in expectations or new information, as well as subsequent events, conditions or circumstances.
# ADDRESSES AND CONTACTS

<table>
<thead>
<tr>
<th><strong>Full company name</strong></th>
<th>Public Joint Stock Company Gazprom Neft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short company name</strong></td>
<td>Gazprom Neft PJSC</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>St Petersburg, Russian Federation</td>
</tr>
<tr>
<td><strong>Registration date</strong></td>
<td>The company was registered on 6 October 1995 by the Omsk Registration Chamber. Statutory Registration Certificate No. 38606450. Primary State Registration Number (OGRN) 1025501701686.</td>
</tr>
<tr>
<td><strong>Postal address</strong></td>
<td>3–5 Pochtamtskaya St., St Petersburg, Russia, 190000</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td>gazprom-neft.com</td>
</tr>
</tbody>
</table>
| **Information service** | Phone: +7 (812) 363-31-52  
                      Phone: +7 (800) 700-31-52 (toll-free in Russia)  
                      Fax: +7 (812) 363-31-51  
                      Email: info@gazprom-neft.ru |
| **PRESS SERVICE**     | Phone: +7 (495) 777-31-43 (Moscow)  
                      Phone: +7 (812) 648-31-43 (St Petersburg)  
                      Email: pr@gazprom-neft.ru |
| **SHAREHOLDER RELATIONS** | Phone: +7 (812) 363-31-52  
                      Fax: +7 (812) 363-31-51  
                      Email: shareholders@gazprom-neft.ru |
| **INVESTOR RELATIONS** | Phone: +7 (812) 358-95-48  
                      Email: ir@gazprom-neft.ru |
| **Auditor**           | Limited Liability Company Financial and Accounting Consultants (FBK)  
                      Address: 44/1 Myasnitskaya St., building 2AB, Moscow, Russia, 101990  
                      Phone: +7 (495) 737-53-53  
                      Website: fbk.ru  
                      Email: fbk@fbk.ru |
| **Registrar**         | Joint Stock Company Specialised Registrar – Holder of the Gas Industry Shareholders Register (DRAGA JSC)  
                      Address: 71/32 Novocheremushkinskaya St., Moscow, Russia, 117420  
                      Phone: +7 (495) 719-40-44  
                      Fax: +7 (495) 719-45-85  
                      Website: draga.ru  
                      Email: info@draga.ru |