

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.

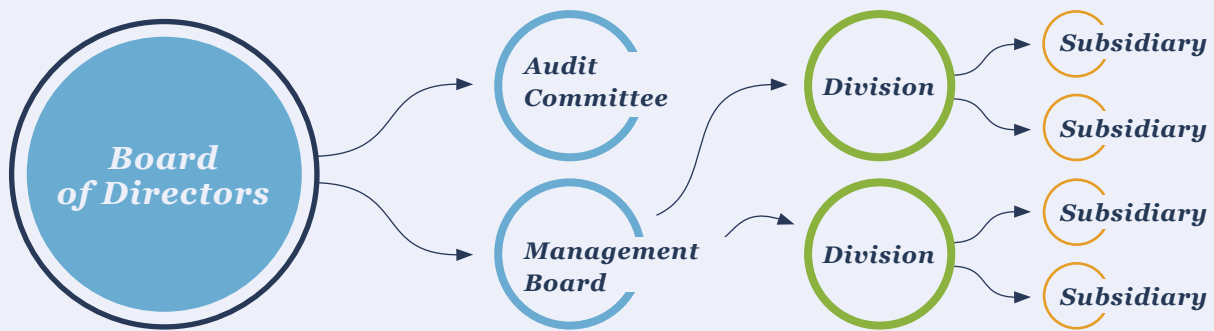
Such an approach allows creating areas of responsibility for risk management, and monitoring risks at all management levels of the Company. It also helps develop target plans to ensure response to significant risks, both in each subsidiary and in Gazprom Neft as a whole.

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 those 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).

FINANCIAL IMPACT LEVELS OF RISKS AND DISTRIBUTION OF AUTHORITY WITHIN IRMF



Key risks

Making key decisions and assessing management results at the Management Board meetings. Divisions carry out direct management of this category of risks.

Risks of divisions

Management and monitoring at the division level

Risks of subsidiaries

Management and monitoring at the level of subsidiaries

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

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.

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.

PRINCIPAL IRMF PROCESS SCHEME IN THE GAZPROM NEFT GROUP



Description of key risks

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 to 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 to reduce the likelihood of such risks. The Company has engaged DeGolyer and MacNaughton 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 boundaries of the area, timeframe and terms and conditions of resource use. Under the Russian law, using subsoil resources without a licence is subject to 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.

The Company has deployed an automated Subsoil Use Monitoring System, a key risk management tool featuring a risk matrix to track compliance with the main (material) terms and conditions of subsoil use. The System makes it possible to assess the current risk status 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.

1.3. PROJECT RISKS

The Company works continuously to initiate and implement investment projects aimed at achieving its strategic goals, including increased hydrocarbon production and improved product quality. While implementing these projects the Company faces various risks that can potentially result in missed deadlines and higher costs. The project risks are mainly related to inadequate planning, failure to comply with the project terms and safety requirements by contractors, as well as new circumstances, including higher cost of materials and supplies, infrastructure assessment errors, and new equipment suppliers.

To address these risks, the Company makes every effort to ensure thorough planning and coordination of its investment projects. In 2014, a risk management framework to handle potential risks associated with the preparation 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. HR RISKS

Highly qualified personnel is key to effective operation of the Company's business. A lack of qualified employees, especially engineering and technology experts, can result in risks associated with personnel shortages. The Company's success largely depends on the efforts and expertise of key employees, including qualified engineering staff, and on its ability to attract and retain such personnel. Competition for the best talent in Russia and worldwide may intensify due to the shortage of qualified specialists in the labour market. Failure to attract qualified employees and/ or retain the existing talent pool could have an adverse effect on the Company's reputation as an employer. Demand for qualified personnel and the associated costs are expected to grow further given the significant need for such employees in other industries.

The Company offers a safe work environment, opportunity to take part in major projects and exciting challenges, competitive salaries, and professional training programmes to its personnel.

Gazprom Neft is working continuously to improve the recruitment procedures, limit staff turnover, and provide self-development opportunities for its employees.

1.5. HSE RISKS

Risks associated with environmental, health and safety (including fire safety) legislation that may entail a temporary shutdown of facilities and licence revocation, along with the risks of accidents (fatalities and workplace injuries, fires/explosions/accidents, accidents with environmental consequences of nationwide scale).

In the field of industrial safety, the Company strives to achieve the strategic 'Target 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 ideology. As part of the implementation of a risk-based approach, the Company focuses on the following parameters:

- fundamental barrier setting obstacles for priority risks across the Company's assets and ensuring their reliability;
- competency barrier ensuring that only competent employees have access to work;
- digital barrier management 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 runs environmental protection programmes. The Company's policy seeks to ensure compliance with Russia's environmental regulations by investing in environmental protection, including technologies to minimise environmental footprint. The outcome of these efforts is a considerably lower probability of environmental risks.



1.6. IT, AUTOMATION, AND 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 predictive mode 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 fixed volumes and prices 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 fulfil their contractual obligations. This risk is primarily related to the Group's receivables from buyers and the investment securities.

Trade and other receivables include a large number of counterparties operating across different industries and geographical areas. To manage the credit risk, Gazprom Neft implements a number of activities, including:

- assessment of counterparty credit capacity;
- setting individual credit limits and payment terms depending on the counterparty's financial position;
- advance payment monitoring;
- measures to control receivables focused on specific business areas, and other initiatives.

3.2. 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 2019. Also, loan agreements with long-term availability, including revolving credit facilities were signed, which will improve flexibility of the Company's financial policy and effectiveness of liquidity management. On top of that, the Company keeps looking for alternative funding sources.

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, rouble is the functional currency of the companies operating in Russia. The aforementioned borrowed funds are largely denominated in US dollar and euro.

The Group's FX risk is substantially mitigated by its FX-denominated assets and liabilities as the current mix of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies a hedging policy to manage volatility in profit and loss with its FX-denominated cash flows.

3.4. INTEREST RISK

The Group's borrowings were partly raised at a floating interest rate (linked to LIBOR, EURIBOR or the Bank of Russia's key rate), and partly at a fixed interest rate.

In an environment of lower borrowing rates, fixed interest rates may become more expensive than floating interest rates, and vice versa. The Group maintains a balanced portfolio structure, which minimises the risk of negative consequences arising from adverse changes in interest rates. In addition, the Group Treasury from time to time reviews current interest rates in the capital market, based on which hedging instruments are used, if necessary.

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 (with amendments to sanctions regime introduced in 2017 and 2018), EU, and a number of other countries since 2014. Tougher sanctions may adversely affect the overall situation in the industry have impact on the Company's specific prospective projects and the ability of its counterparties to meet their obligations.

The sanctions have had a negligible impact on the business and financial condition of Gazprom Neft. As a response, the Company runs a targeted import substitution programme for services and equipment. The Company has no reason to believe that the new sanctions will target it specifically, but they can have a affect certain prospective projects. Following the assessment of the impact of sanctions, the Company's management thinks that sanctions do not affect its consolidated financial statements.

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.

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.

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 aggravate.

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 Russia's law enforcement system, the legal positions of the highest judicial bodies such as the Constitutional Court and the Supreme Court are of utmost importance and can affect the environment, in which the Company operates.

The Company continuously monitors the decisions taken by the high courts and analyses the current trends in the law enforcement practice of arbitration courts in federal districts. This helps defend the Company's rights and legitimate interests in court and resolve legal issues arising from our business. In this context, it is believed that the risks associated with changes in the judicial practice are negligible. It should be noted, however, that court rulings with respect to oil and gas companies have often been inconsistent, and it would be difficult to predict what direction they will take in the future. Potentially, the Supreme Court might take decisions that would adversely affect the Company's current and future legal proceedings.

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, corporate 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 with respect to the past or current activities. However, such risks are considered to be moderate by the Company. Gazprom Neft believes that the impact of the obligations arising from such potential events on the Company will not be more significant than the impact of similar obligations on other Russian oil companies with government ownership.

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 manoeuvre;
- 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 damping 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 Shelf.

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.

The Company meets the requirements of the customs legislation of Russia and the Eurasian Economic Union, draws up all the documentation necessary for both exports and imports in a timely manner, and has sufficient financial and human resources to comply with the customs-related rules and regulations and to respond to changes in customs legislation and law enforcement practice in a timely fashion.

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: oil price and consumption volumes, tax regime, access to technology, and international development opportunities. Major changes in the external environment may affect the Company's ability to deliver on its strategic goals.

The Company conducts regular monitoring of market trends accounting for the threats and opportunities created by the unstable external environment while managing its project portfolio. It successfully allocates resources between major strategic projects and those ensuring a quick return on investment and supporting the ongoing sustainability of the Company.

To deliver on the goals outlined in the Strategy, Gazprom Neft plans to overhaul its management framework, to effect digital, cultural, and organisational transformation of the Company. The reform will make the Company's management framework more flexible and will facilitate the decision-making process.

One of the key objectives set forth by the Strategy is the development of a partnership ecosystem helping the Company to enhance key competencies by engaging partners in joint development of scientific, human, and intellectual potential at all levels of interaction with the business, government, and society.

By focusing on flexible decision-making, technology development, operating efficiency, and safety the Company is able to produce high performance results and deliver steady growth of its financial and economic indicators.

Gazprom Neft views its existing and soon-to-be launched assets as the key contributors to the Company's production growth in 2020 to 2030. The remaining upstream portfolio is expected to come from new exploration areas we tap into and putting on stream non-traditional and hard-to-recover reserves, including in the Bazhenov, Domanic and Paleozoic formations, and the Achimov deposits.

The liquid hydrocarbon reserves in the Nadym-Pur-Taz region and offshore projects will also be a major driver.

The Company is also planning to take advantage of potential new market niches by creating innovative products, to continue growing in the mature petroleum product markets, and remain a leader in Russia in terms of distribution network efficiency.



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.

The Company keeps working to engage new partners, including companies in Russia and the Asia-Pacific countries that have not imposed sanctions on offshore, Arctic, deep-water and shale projects. To this end, we hold regular meetings and talks with potential partners, including with the involvement of Russian government agencies such as the Ministry of Energy, the Ministry of Foreign Affairs, and the Ministry of Economic Development of Russia.

7. Country risks

7.1. RISKS ASSOCIATED WITH FOREIGN ASSETS

Gazprom Neft implements a number of foreign projects aimed at expanding production geography. Coming onto markets in new regions is connected both with the possibility of gaining of additional competitive advantage, and with the risks of underestimating the economic and political situation in those countries where the company's assets are located, which may subsequently cause a failure to achieve planned performance indicators. Gazprom Neft PJSC is operating in a number of countries with a high-risk level (such as Iran and Angola), and realisation of those risks may pose considerable challenges to the Company's operations and even stop them.

The key factors which may have a negative impact on Gazprom Neft PJSC operations in those countries include:

- destabilised political situation;
- escalation of military conflicts;
- macroeconomic instability;
- expropriation of the Company's assets;
- inefficiency of legal framework and judicial system.

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

8.1. RISKS ASSOCIATED WITH THE POSSIBLE SPREAD OF COVID-19 AMONG COMPANY EMPLOYEES OR CONTRACTORS, WHICH MAY LEAD TO FURTHER INFECTION OF EMPLOYEES

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.