

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD



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 Orenburg 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

120%

reserve-replacement
ratio

3.5%

hydrocarbon production
growth in 2019

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 A Euro+ facility will be commissioned at the Moscow Refinery in 2020, directly replacing five outdated units and significantly increasing efficiency and environmental friendliness.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 and, for the first time in our history, the latter exceeded ₺400 billion¹ 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-to-recover and non-traditional

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 these. 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 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

/ 1 / Profit attributable to shareholders in Gazprom Neft PJSC.