MATERIAL FLOWS OF OIL AND PETROLEUM PRODUCTS

1 — Sales by the joint ventures Northgas, Arcticgas, and SeverEnergy,
2 — Conversion ratio m3 to mn TOE equal to 0.803,
3 — Includes the purchase of stable gas condensate from Novatek amounting to 25% of the production of Arcticgas.
4 — Taking into account internal consumption / changes in balances.
5 — Polymer-bitumen binders and bitumen emulsions.
GAZPROM NEFT’S OPERATIONAL MODEL IS BASED ON THE NOTION OF VERTICAL INTEGRATION. ENGAGING IN ACTIVITIES THAT ARE PART OF THE ENTIRE PRODUCTION CHAIN SUCH AS GEOLOGICAL EXPLORATION, THE DEVELOPMENT OF OIL FIELDS, PRODUCTION, REFINING, AND THE SALE OF OIL AND PETROLEUM PRODUCTS ENSURES THE COMPANY’S SUSTAINABILITY AND HELPS TO IMPROVE EFFICIENCY IN THE FUTURE.
## RAW MATERIALS BASE AND PRODUCTION

### RAW MATERIALS BASE

<table>
<thead>
<tr>
<th>PRMS HYDROCARBON RESERVES OF THE GAZPROM NEFT GROUP (MN TOE)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3,212</td>
<td>3,639</td>
<td>3,875</td>
<td>3,908</td>
<td>4,022</td>
</tr>
<tr>
<td>Developed</td>
<td>517</td>
<td>639</td>
<td>680</td>
<td>726</td>
<td>719</td>
</tr>
<tr>
<td>Undeveloped</td>
<td>827</td>
<td>804</td>
<td>838</td>
<td>788</td>
<td>803</td>
</tr>
<tr>
<td>Proven</td>
<td>1,343</td>
<td>1,443</td>
<td>1,518</td>
<td>1,514</td>
<td>1,522</td>
</tr>
<tr>
<td>Probable</td>
<td>948</td>
<td>1,112</td>
<td>1,181</td>
<td>1,205</td>
<td>1,259</td>
</tr>
<tr>
<td>Proven + probable</td>
<td>2,291</td>
<td>2,555</td>
<td>2,699</td>
<td>2,719</td>
<td>2,781</td>
</tr>
<tr>
<td>Possible</td>
<td>922</td>
<td>1,084</td>
<td>1,176</td>
<td>1,189</td>
<td>1,240</td>
</tr>
</tbody>
</table>

The resource base of the Company’s current assets has deteriorated in terms of the remaining commercial reserves as most fields are in a late stage development. An increase in high-tech drilling and the use of tertiary methods for boosting oil recovery has enhanced the efficient development of these reserves. The Company’s reserves are audited according to PRMS-SPE standards and the more conservative SEC standards. Based on the report of DeGolyer and MacNaughton’s independent engineers, total proven and probable hydrocarbon reserves (including the Company’s

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### Discovery of the Neptune field

**Commissioning in 2025–2027**

- **255 MN TOE** | GEOLOGICAL RESERVES
- **80 MN TOE** | RECOVERABLE RESERVES
- **6 MN TOE** | PER YEAR AT PEAK PRODUCTION

In October 2017, Gazprom Neft Shelf LLC discovered a new hydrocarbon field after drilling and testing a prospecting and appraisal well at the Ayashsky license area on the shelf of the Sea of Okhotsk, 55 km from the coast of Sakhalin Island. The field was given the name ‘Neptune’.

The field was one of the top discoveries of the year. For the Company, it provided an opportunity to enter a new region and marked the next step in offshore development.

The geological reserves of Neptune are estimated at 255 million TOE, recoverable reserves could reach as much as 70–80 million TOE, and production could peak at around 5–6 million TOE per year. Existing road maps indicate the Neptune field could be commissioned in 2025–2027.

The quality of the oil that was obtained and the results of the well tests suggest that the field can be successfully developed.
stake in the reserves of affiliates accounted for using the equity method amounted to 2,781 billion TOE (1.875 billion tonnes of oil, 1.128 trillion m³ of gas), excluding NIS, as of 31 December 2017.

In 2017, the Group obtained the right to develop the Tazovskoye field [recoverable reserves of 72 million tonnes of oil, 4.6 million tonnes of condensate, and 183.3 billion m³ of gas] and the North Samburgskoye field [recoverable reserves of 90.5 million tonnes of oil] in the Yamalo-Nenets Autonomous District.

The Company continues to prioritize improvements to the quality of new reserves, active work to study low permeable reservoirs, and the implementation of a programme to enhance production efficiency in the traditional regions”.

Vadim Yakovlev
First Deputy CEO of Gazprom Neft PJSC

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Electronic Asset Development (EAD)

Technology A.1

100–200

+15%

-12%

SAMPLES
TO BE INCLUDED IN THE FULL BASE OF THE DIGITAL CORE

INCREASE IN THE SERVICE LIFE OF WELL EQUIPMENT AS A RESULT OF EAD

REDUCTION IN ENERGY COSTS DUE TO THE INTRODUCTION OF EAD

Electronic Asset Development (EAD) is a development strategy for Gazprom Neft’s IT projects in exploration and production.

Nine IT projects were implemented in 2017 and more than 30 are in the development stage. The projects that were implemented include ERA: ISKRA [an integrated design system that helps to make decisions on field development], ERA: GRAD [a digital workstation for field development engineers], ERA: VEGA [a platform for the probabilistic geological and economic evaluation of stocks and assets], and ERA: REPAIRS [automated well repair control].

The Company also utilizes GeoMate, a platform used to analyse and process all geological and geophysical information on fields. The 'Digital Core' project will be implemented on its core. It will make it possible to use machine learning to build 3D models of a core on which mathematical experiments can be conducted, thus reducing the need for lengthy laboratory research.

1 — The core is a sample of rock, usually in the form of a cylindrical column, which is extracted from a well using a special type of drilling. It allows for studying the rocks cut by a borehole and determine the mineral reserves. For this purpose, the core is subjected to chemical, spectral, petrographic, and other analyses in a laboratory.
Cognitive technologies involve the use of artificial intelligence and the analysis of big data to solve production problems. Gazprom Neft not only seeks out such technologies on the market, but also develops its own unique products.

For example, at present a geologist spends more than 70% of the time required to assess a field on processing data. The 'Cognitive Geologist' project involves creating a self-learning model for a geological object. This will reduce the analysis time from two years to several months, create thousands of options for developing the field, and choose the best one. In addition, it takes into account all possible risks and uncertainties in the input data.

Machine learning in drilling offers enormous potential. One of the main tasks that Gazprom Neft specialists are working on is to create a digital assistant that will collect all the information from sensors located both on the drilling rig and on underground drilling equipment in real time, analyse this information, and draw conclusions about drilling conditions along the entire wellbore. This will help take the efficiency of drilling management to a new level.

The Group also acquired a 25.02% stake in the company Evrotek-Yugra, which owns seven exploration and production licenses in the Khanty-Mansi Autonomous District-Yugra, from the Spanish company Repsol and has the right to increase this stake to 50%.

Exploratory drilling at the Group’s subsidiaries resulted in the discovery of 31 new hydrocarbon deposits and 4 new fields, namely: the Alexander Zhagrin field [Khanty-Mansi Autonomous District-Yugra], Novozarinskoye [Orenburg Region] as well as Kumane and Begeytsy-X in Serbia. Tomskneft discovered the Melimovskoye field [Tomsk Region].

Licenses were also obtained for the Novosamarskoye field in the Orenburg Region, the Parabelsky exploration site in the Tomsk Region, the Ayashsky section on the shelf of the Sea of Okhotsk (where the new Neptune field was discovered with estimated geological reserves of roughly 255 million TOE), and the West Chistinny section in the Khanty-Mansi Autonomous District-Yugra.

The average size of the discoveries in 2016-2017 expanded to 26 million tonnes of production potential, which is several times higher compared with 2010-2015. These achievements are largely due to the introduction of new geological exploration approaches and technologies.

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OIL AND GAS PRODUCTION

HYDROCARBON PRODUCTION
[MN TOE]
Source: Company data

<table>
<thead>
<tr>
<th>Including stakes in affiliated companies, total</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft(^1)</td>
<td>52.4</td>
<td>53.8</td>
<td>55.4</td>
<td>59.9</td>
<td>63.3</td>
</tr>
<tr>
<td>Slavneft(^2)</td>
<td>8.7</td>
<td>8.4</td>
<td>8.1</td>
<td>7.9</td>
<td>7.5</td>
</tr>
<tr>
<td>Arcticgas(^2)</td>
<td>1.2</td>
<td>3.5</td>
<td>12.1</td>
<td>13.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Northgas(^2)</td>
<td>-</td>
<td>0.5</td>
<td>4.1</td>
<td>4.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Messoyakhaneftegaz(^2)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Average daily hydrocarbon production by the Gazprom Neft Group [1,000 TOE per day]</td>
<td>170.6</td>
<td>181.5</td>
<td>218.3</td>
<td>235.5</td>
<td>245.9</td>
</tr>
</tbody>
</table>

1 — Consolidated companies.
2 — Share in production.

Hydrocarbon production, including stakes in joint ventures, increased by 4.1% to 89.75 million TOE in 2017. The biggest contribution to the increased production came from the development of new major projects in the Arctic zone of the Russian Federation – the Novoportovskoye, East Messoyakha, and Prirazlomnoye fields as well as in Iraq. As a whole, the Group increased daily hydrocarbon production (in thousands of tonnes of oil equivalent) by 4.4% YoY.

The Upstream Control Centre (UCC) opened in November 2017 at the subsidiary Gazpromneft-Khatons, combining all previously developed solutions to improve production efficiency.

One of the key systems at the UCC is the 'Digital Twin' process for mechanical fluid lifting. It automatically selects the optimum operational modes and forecasts breakdowns and failures. All the information can be displayed both at the work stations of specialists and on a video wall. As a result, the team can quickly make decisions and monitor how they are performed.

“Information technologies are significantly changing modern production, and digital transformation is already providing Gazprom Neft with an objective competitive advantage”.

Alexander Dyukov
CEO of Gazprom Neft PJSC

Testing is now close to being completed on the 'Digital Twin' systems for maintaining reservoir pressure, energy supply, and the treatment and utilization of associated gas. According to preliminary estimates, the system cut losses by half and operating costs by 15%.

In the future, Gazprom Neft plans to open upstream control centres at other subsidiaries.
The Group boosted oil and condensate production by 4.3% YoY to 62.43 million tonnes due to increased production at the Novoportovskoye, Messoyakha, and Prirazlomnoye fields as well as in Iraq. Based on the results of 2017, the Company ranked third in Russia in terms of oil production behind Rosneft and LUKOIL.

Last year, Gazprom Neft launched commercial operations at two major fields – Novoportovskoye and East Messoyakha, which continue to develop at present. In addition, the Company will begin to develop the North Samburgskoye and Tazovsky fields in the near future. The infrastructure created in the region will allow for the development of neighbouring fields that have both allocated and unallocated subsoil resources.
GAS PRODUCTION

The Group increased gas production by 3.7% compared with 2016, primarily as a result of an increase in the utilization of APG with the launch of a complex gas treatment unit at the Novoportovskoye field and the commissioning of a compressor station at the Ety Purovskoye field in the fourth quarter of 2016. In addition, the production of natural gas increased in the Noyabrsk region.

The Company is actively developing its gas business with a focus on commercializing the reserves of associated and natural gas produced at fields and increasing its value. The development of small gas deposits that make up larger fields at which Gazprom Neft operates will further enhance the cost-effectiveness of the utilization of the Company’s reserves and help increase hydrocarbon production to 100 million TOE per year, as envisioned by the Company’s Development Strategy until 2025.

Soda-surfactant polymer flooding (ASP)

This is a chemical-based method for enhancing oil recovery from fields in the late stage of development due to the injection of a mixture of surfactants, soda, and polymer into the formation.

Pilot projects were launched at the Western Salymskoye and Kholmogorskoye fields in 2016 and at the East Messoyakha field in 2017. For the first time in Russia, 11 new surfactants have been synthesized that are capable of replacing foreign analogues. The successful completion of testing will enable the Company to transition to the commercial introduction of the technology in Western Siberia. According to preliminary calculations, additional oil production will amount to 172 million tonnes with its introduction at the Company’s largest 10 facilities.

1 — Consists of commodity gas and gas used for internal needs.
2 — Consolidated companies.
3 — Share in production.
RUSSIAN PROJECTS

NOVY PORT
Yamal Peninsula

**PRMS' hydrocarbon reserves (proven + probable), (mn TOE)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Reserves</th>
<th>As at 2016</th>
<th>As at 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2016</td>
<td>2020</td>
</tr>
<tr>
<td></td>
<td>203.30</td>
<td>(112.4 + 90.9)</td>
<td></td>
</tr>
</tbody>
</table>

**Projected capacity (mn t per year)**

- 8.6

**Hydrocarbon production in 2017 (mn TOE)**

- Oil (mn t) + gas (mn m³)
- 2018 (forecast)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Oil</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6.97</td>
<td>5.951</td>
<td>1,244</td>
</tr>
<tr>
<td>2017</td>
<td>9.89</td>
<td>6.850</td>
<td>3,798</td>
</tr>
</tbody>
</table>

**2016 → 2020**

- Construction was completed on 6 Company-owned ice-class tankers to export oil to European consumers
- Commissioning work started in the third quarter of 2017 on the first start-up facility of a complex gas treatment unit (CGTU) with capacity of 3.6 billion m³ per year and gas utilization was initiated through flooding
- A gas turbine power plant was put into operation and started generating electricity internally

**Plans for 2018:**

- Finish building 2 icebreaking vessels for year-round operations offshore of Ob Bay
- Finish building infrastructure to support oil exports of up to 8.5 mn t per year
- Perform key design and survey work on a gas pipeline project
- Start commissioning the second start-up facility of the CGTU

MESSOYAKHA (EMLS)
Tazovsky District of the YNAD

**In 2017:**

- Commissioning of a modular group pumping station
- Major decisions were taken to utilize APG through flooding
- Drilling technologies were successfully tested and introduced for Fishbone wells with cased and uncased holes
- Hydraulic fracturing was successfully carried out on underlying development sites with abnormally high reservoir pressure

**Plans for 2018:**

- Commission the second phase of the Central Gathering Facility
- Launch construction on APG utilization infrastructure
- Select technologies to maximize the oil recovery rate of Eastern Messoyakha
- Implement the West Messoyakha well testing programme

PRIRAZLOMNOYE
Shell of the Pechora Sea

**In 2017:**

- Construction was completed on 4 wells
- Scheduled work was completed as part of the modernization of Offshore Ice-Resistant Fixed Platform (OIRFP) No. 1.
- The ‘Arctic 2017’ comprehensive oil spill response exercises were conducted in ice conditions

**Plans for 2018:**

- Prepare and implement modernization project No. 2
- Construction of a heliport
- Launch construction of an integrated support base
- Implement the projects of the Poseidon programme

---

1 Including the Company’s participatory stake in the project.
In 2017:
- Export duty exemption was obtained
- Oil started being delivered to the Kuyumba-Taishet oil pipeline
- Design work and construction was completed on the first phase of infrastructure facilities

Plans for 2018:
- Launch the full-scale development of the field

---

In 2017:
- Drilling was completed on wells with 2 pilot holes, a workover programme was completed on 4 wells, and hydraulic fracturing was completed at 3 wells

Plans for 2018:
- Perform the first multi-stage hydraulic fracturing at the project
- Develop design documentation to build a road for the year-round implementation of the project
- Develop the main technical solutions for facilities to equip the Ignyalinskoye field for the period of pilot commercial development
- Implement the first stage of the seismic-geological model for the Ignyalinsky license area and commence work on the seismological model of the Tympuchikansky and Vakuninsky license areas
- Attract a partner for the project

---

In 2017:
- The preliminary basic integrated concept for the project’s development was approved and the procedure for a functional expert examination of the concept was successfully completed
- An exploration well was drilled conforming the project’s high potential
- The project was reframed and an external independent expert examination was completed
- A feasibility study was conducted for APG flooding

Plans for 2018:
- Complete the seismic survey programme
- Drill 1 prospecting and appraisal well
- Select a general designer for the project
- Develop a supply and logistics strategy that is integrated for 2019-2020

---

OTDALENNAYA GROUP OF FIELDS (OGF)

No PRMS estimate of reserves was conducted

<table>
<thead>
<tr>
<th>Year</th>
<th>Output (mn TOE)</th>
<th>Projected capacity (mn t per year)</th>
<th>Hydrocarbon production in 2017 (mn TOE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 → 2032</td>
<td></td>
<td>123.60 (12.0 + 111.60)</td>
<td>0.13 (0.127 + 4.342)</td>
</tr>
<tr>
<td>2024 → 2031</td>
<td></td>
<td>78.00 (10.30 + 67.70)</td>
<td>0.007 (0.243 + 13.1)</td>
</tr>
<tr>
<td>2019 → 2023</td>
<td></td>
<td>5.5</td>
<td>0.79 (0.471 + 144)</td>
</tr>
<tr>
<td></td>
<td>Launch → Output</td>
<td></td>
<td>0.80 (0.697 + 133)</td>
</tr>
</tbody>
</table>
RUSSIAN PROJECTS

SEVERO-SAMBURG
YNAD

PRMS’ hydrocarbon reserves (proven + probable), (mn TOE)
No PRMS estimate of reserves was conducted

Projected capacity (mn t per year)
1.3

Hydrocarbon production in 2017 (mn TOE) Oil (mn t) + gas (mn m³)
0.00 (0.00 + 0.00)
0.005 (0.005 + 0.00)

2021 → 2023
In 2017:
- The license for the license area was re-registered from Gazprom Dobycha Urengoy LLC to Gazprom Neft
- Seismic operations with increased production ratios were conducted on an area of 310 km² and an interpretation was made with the subsequent selection of drilling targets
- Work was completed on the re-opening, hydraulic fracturing, and treatment of an exploratory well. Inflow of up to 200 m³/day obtained

Plans for 2018:
- Update the geological and hydrodynamic model based on the results of exploration well flowback operations
- Drill 2 wells with horizontal shafts
- Perform design and survey work to build a year-round motorway, oil pipeline, gas pipeline, and CGTU at the field

SEVERENERGY
Purovsky District of the YNAD

517.90 (329.10 + 188.80)

14.84
13.51 (3.471 + 12.247)
14.07 (3.758 + 12.840)

2012 → 2017
In 2017:
- Construction was launched on oil infrastructure facilities of the Yaro-Yakhinskoye field
- The Samburgskaya booster compressor station was put into commercial operation at the Samburgskoye oil and gas condensate field (OGCF)
- A commercial inflow of gas condensate mixture was obtained from the Ach5-1 formation of the Samburgsky license area

Plans for 2018:
- Ensure the technological readiness of oil infrastructure facilities and begin the commercial delivery of oil from the Yaro-Yakhinskoye field
- Start of construction and installation work to expand the condensate de-ethanization unit and the inlet facilities of the CGTU for the Ach5-1 Samburgskaya CGTU
- Start of construction and installation work on the Yaro-Yakhinskaya and Urengoyskaya booster compressor stations

NORTHGAS
Nadymsky District of the YNAD

96.70 (77.60 + 19.10)

4.95
3.83 (0.380 + 4.292)
3.23 (0.257 + 3.701)

2001 → 2015
Launch → Output
In 2017:
- Launch of the commercial operation of the Vostochnovo Kupola booster compressor station

Total hydrocarbon production by Gazprom Neft in 2017
89.75 MN TOE

1 — Including the Company’s participatory stake in the project.
**SAKHALIN-A (NEPTUNE)**  
Offshore area of the Sea of Okhotsk

<table>
<thead>
<tr>
<th>PRMS' hydrocarbon reserves (proven + probable), (mn TOE)</th>
<th>Appraisal results will be available by 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>No data available</td>
<td>No data available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Projected capacity (mn t per year)</th>
<th>No data available</th>
</tr>
</thead>
<tbody>
<tr>
<td>No data available</td>
<td>No data available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hydrocarbon production in 2017 (mn TOE)</th>
<th>Oil (mn t) + gas (mn m³)</th>
<th>2018 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No data available</td>
<td>No data available</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2027 → 2030</th>
<th>2028 → 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2017:</td>
<td>In 2017:</td>
</tr>
<tr>
<td>Construction was completed on prospecting and appraisal well No. 1-A</td>
<td>Engineering and geodesy surveys were conducted for the construction of well No. 1-B</td>
</tr>
<tr>
<td>Engineering and geodesy surveys were conducted for the construction of well No. 2-A</td>
<td>Preparations were initiated for the construction of well No. 1-B in 2018</td>
</tr>
</tbody>
</table>

**SAKHALIN-B**  
Offshore area of the Sea of Okhotsk

| No data available                                      | No data available                                      |

<table>
<thead>
<tr>
<th>2027 → 2030</th>
<th>2028 → 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2017:</td>
<td>In 2017:</td>
</tr>
<tr>
<td>An on-going estimate of the reserves of the Neptune field was performed and approved by the State Mineral Reserves Commission</td>
<td>2D seismic exploration conducted on 265 linear km</td>
</tr>
<tr>
<td>Office processing of engineering and geodesy survey data for the construction of well No. 2-A</td>
<td>3D seismic exploration conducted on 1,070 square km</td>
</tr>
</tbody>
</table>

**DOLGINSKOYE**  
Offshore area of the Pechora Sea

| No data available                                      | No data available                                      |

<table>
<thead>
<tr>
<th>2027 → 2034</th>
<th>2027 → 2034</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch → Output</td>
<td>Launch → Output</td>
</tr>
</tbody>
</table>

**Plans for 2018:**
- Complete the processing and interpretation of 3D seismic exploration data

“We are creating a solid foundation for the future by investing resources in offshore fields. Our unique experience is successfully being utilized in new areas, and the use of the best drilling practices ensures efficient and safe operation”.

**Andrey Patrushev**  
Deputy CEO for the Development of Offshore Projects of Gazprom Neft PJSC
### RUSSIAN PROJECTS

#### SILUR-DEVON
Offshore area of the Pechora Sea

**PRMS' hydrocarbon reserves (proven + probable), [mn TOE]**

<table>
<thead>
<tr>
<th>2024 –&gt; 2026</th>
<th>2031 –&gt; 2035</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>8.80</strong></td>
<td><strong>230.00</strong></td>
</tr>
</tbody>
</table>

**Projected capacity [mn t per year]**

- No data available

**Hydrocarbon production in 2017 [mn TOE]**

- No data available

**In 2017:**
- Documentation was prepared to contract a contractor to perform 3D seismic exploration in 2018

**Plans for 2018:**
- Complete 3D seismic exploration on an area of 425 km²
- Start drafting a concept for development

---

#### PECHORA
Offshore area of the southern part of the Barents Sea and the Pechora Sea

**PRMS' hydrocarbon reserves (proven + probable), [mn TOE]**

<table>
<thead>
<tr>
<th>2024 –&gt; 2026</th>
<th>2031 –&gt; 2035</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>230.00</strong></td>
<td><strong>1,580.00</strong></td>
</tr>
</tbody>
</table>

**Projected capacity [mn t per year]**

- No data available

**Hydrocarbon production in 2017 [mn TOE]**

- No data available

**In 2017:**
- A contractor completed work on a feasibility study for the development of potential fields in the North-West
- 3D seismic exploration was conducted

**Plans for 2018:**
- Complete 3D seismic exploration
- Complete the processing and interpretation of 3D seismic exploration data

---

#### CHUKOTKA
Offshore area of the East Siberian Sea and the Chukchi Sea

**Projected capacity [mn t per year]**

- No data available

**Hydrocarbon production in 2017 [mn TOE]**

- No data available

**In 2017:**
- A concept for the development of potential fields within the North-East license area was completed
- The forecast parameters for the development and characteristics of potential fields were calculated
- The documentation to contract a contractor to perform 2D seismic exploration in 2018 was prepared

**Plans for 2018:**
- Perform the first phase of 2D seismic exploration

---

### Yamburg Project

**In 2017, Gazprom PJSC decided to take part in the development of the oil reserves of the Achimov deposits.**

Subsidiaries of Gazprom PJSC and Gazprom Neft PJSC signed short-term contracts for the implementation of the production programme in 2018. The plans for 2018 include implementing a production programme for the re-testing of exploration wells in order to eliminate priority uncertainties as well as the coordination and conclusion of a long-term risk operating agreement between the subsidiaries of Gazprom PJSC and Gazprom Neft PJSC for the development of the Achimov deposits of the Yamburgskoye oil and gas condensate field.

---

1 — Including the Company’s participatory stake in the project.
FOREIGN PROJECTS

**BARENTS**
Offshore area of the Barents Sea

<table>
<thead>
<tr>
<th>PRMS’ hydrocarbon reserves (proven + probable), [mn TOE]</th>
<th>2,200.00</th>
</tr>
</thead>
</table>

Projected capacity [mn t per year]

No data available

Hydrocarbon production in 2017 [mn TOE]

- No data available

In 2017:
- A seismic and facies model of the North-East part of the Barents Sea was prepared
- A basin model of the North-East part of the Barents Sea was prepared

Plans for 2018:
- Perform an assessment of new technologies
- Development of a project for greenfield work at the site

**BADRA**

<table>
<thead>
<tr>
<th></th>
<th>2014 → 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.27</td>
<td>(9.36 + 11.91)</td>
</tr>
<tr>
<td>1.71</td>
<td>Oil [mn t] + gas [mn m³]</td>
</tr>
<tr>
<td>1.186</td>
<td>(1.136 + 62.55)</td>
</tr>
<tr>
<td>1.58</td>
<td>(1.335 + 304.88)</td>
</tr>
</tbody>
</table>

In 2017:
- A gas plant and export gas pipeline were commissioned and gas supplies started to Az-Zubaidiyah power plant
- 7 production wells were commissioned

Plans for 2018:
- Complete the construction and commissioning of a second gas treatment line.
- Complete construction on production wells

**GARMIAN ✗ ✗ ✗ SHAKAL**

<table>
<thead>
<tr>
<th></th>
<th>2015 → 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.70</td>
<td>(0.0 + 0.70)</td>
</tr>
<tr>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>0.167</td>
<td>(0.167 + 0.00)</td>
</tr>
<tr>
<td>0.42</td>
<td>(0.42 + 0.00)</td>
</tr>
</tbody>
</table>

In 2017:
- Work was launched to study a well at the Shakal block
- Hydrochloric acid treatment was successfully conducted at the Sarqala active well stock and high-pressure separators were connected to the well site S-1. Work began to expand the oil treatment unit

Plans for 2018:
- Complete the expansion of the oil treatment unit at the Sarqala block and complete drilling of the S-2 well
- Complete the well workover and launch the pilot operation of the first well at the Shakal block and endorse the field development plan with the Ministry of Natural Resources of the Kurdistan Autonomous Region
- Drill subsequent wells at the Sarqala and Shakal blocks
GAZPROM NEFT REDUCED OIL REFINING BY 4.2% IN 2017 AS A RESULT OF MODERNIZATION AND PLANNED OVERHAULS AT ITS RUSSIAN REFINERIES. THE OPTIMAL UTILIZATION OF OIL REFINERIES HELPED TO ENSURE THE MAXIMUM POSSIBLE PROFITABILITY OF OIL REFINING IN THE CURRENT MARKET CONDITIONS.

In 2017, the Company continued the modernization of its oil refineries in an effort to enhance the efficient refining of raw materials, increase the depth of refining, improve production safety, and protect the environment. In particular, the unique Biosphera complex of treatment facilities was put into operation at the Moscow Oil Refinery.

For more, see the ‘Biosphera environmental complex’ section, p. 34

Gazprom Neft owns a 56.15% stake in NIS (Serbia), which owns two refineries in Pancevo and Novi Sad as well as production projects in the Balkans, Angola, and Turkmenistan and a chain of petrol stations. For more, see p. 66

Gazprom Neft established the unique Efficiency Control Centre (ECC) for oil refining and sales in St. Petersburg in 2017. The ECC controls the entire process from receiving oil at the refinery to the retail sale of petroleum products.

Some 250,000 automated monitoring sensors and dozens of production process systems transmit information about the consumption of petroleum products, the state of equipment, and the quality of raw materials to the ECC in real time. The Centre has deployed a ‘Data Lake’ in which management decisions are made based on an analysis of this data. All assets are consolidated with 60-day rolling scheduling. The Company expects to achieve a significant economic effect by reducing the response time to technological deviations as well as raw materials and energy expenses while also optimizing all core processes. The reliability of production will improve due to the predictive management of potential deviations and incidents. The introduction of a reliability management system will lead to increased time between repairs and optimize logistics costs. A unified platform will be created in the future for the management of logistics, refining, and sales based on an analysis of big data, predictive analytics, the use of digital twins, machine learning, neural networks, and artificial intelligence.
“Our main focus in refining right now is to modernize oil refineries in Russia. We want to make our refineries more efficient so that they produce as much light petroleum products and petroleum products with high added value as possible”.

Alexander Dyukov
CEO of Gazprom Neft PJSC

Gazprom Neft intends to invest over RUB 400 billion in the development of the Omsk and Moscow Oil Refineries over the next five years. As a result, the refining at the enterprises will grow to 95% by 2025 (this figure currently stands at 91.7% for the Omsk Oil Refinery and 80.3% for the Moscow Oil Refinery).

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

Digital twins

The digital twin of an oil refinery installation consists of a complex mathematical model that uses artificial intelligence class algorithms containing complete information about each component of the installation, data on production processes, energy consumption as well as the parameters of raw materials and finished product. It helps to choose a refinery’s optimal parameters, predict its failures, and make decisions about the timing of repairs in a predictive mode.

Gazprom Neft has created a digital twin for the catalytic cracking petrol hydrotreatment unit at the Moscow Oil Refinery and the AT-9 primary oil refining units at the Omsk Oil Refinery. A fully digitized plant is being set up in Shymkent (Kazakhstan) with remote control capabilities. The Ryazan Bitumen Materials Plant is testing the modular architecture principles for the establishment of a continuous production management platform as part of the BitumLab project. All the successful solutions found at the bitumen plants can later be scaled to the level of major oil refineries.
# OIL REFINING AT GAZPROM NEFT REFINERIES

<table>
<thead>
<tr>
<th>OMSK OIL REFINERY</th>
<th>MOSCOW OIL REFINERY</th>
<th>NIS (SERBIA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROJECTED CAPACITY (MN T)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ ] Installed capacity</td>
<td></td>
<td>[ ] Refining</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[ ] Refining</td>
</tr>
<tr>
<td>22.23</td>
<td>12.76</td>
<td>4.6</td>
</tr>
<tr>
<td>19.58</td>
<td>9.37</td>
<td>3.34</td>
</tr>
<tr>
<td><strong>REFINING DEPTH</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>91.7%</td>
<td>80.3%</td>
<td>86.5%</td>
</tr>
<tr>
<td><strong>OUTPUT OF LIGHT PETROLEUM PRODUCTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>71.8%</td>
<td>55.1%</td>
<td>75.5%</td>
</tr>
</tbody>
</table>

### Milestones of 2017:
- construction was completed on the AOLI-1 automated on-spot loading installation for the sealed loading of petroleum products;
- the bitumen installation was rebuilt to increase production and expand the range of high-tech bitumen materials;
- construction was completed on a hydrogen production unit to provide hydrogen to newly constructed and reconstructed facilities;
- a loading rack was rebuilt for the automated and sealed loading of petroleum products;
- new products were launched: TCU-80 improved marine fuel and 0-100 high-octane petrol;
- several of the refinery’s products won awards at the ‘100 Best Products of Russia’ national competition.

### Plans for 2018:
- the continued implementation of projects to increase the depth of refining and enhance the eco-friendliness of production, including the construction of the crude vacuum unit (crude oil refining complex), the advanced oil refining complex (AORC), delayed coking unit (DCU), hydrotreatment/dewaxing of diesel fuel, and the Biosphera treatment facilities;
- the reconstruction of a number of process units (catalytic reforming unit, regeneration gas treatment unit of the catalytic cracking unit, and process condensate treatment unit).

### Milestones of 2017:
- commissioning of the Biosphera treatment plants to improve the efficiency and quality of wastewater treatment;
- reconstruction of the catalytic cracking unit to increase capacity by 20% and enhance the depth of refining and energy efficiency;
- reconstruction of the gas dispensing station to bring it into compliance with the norms and rules for ensuring the receipt and shipment of an expanded range of liquefied petroleum gas (LPG).

### Plans for 2018:
- the completion of construction on the Euro+ unit;
- the implementation of projects that aim to increase the efficiency and depth of refining – the construction of a deep oil refining complex and a kerosene cut hydrotreatment unit;
- development of logistics infrastructure, including the construction of a loading rack for light petroleum products for motor vehicles and an automated rack for on-spot loading for railway transport.

### Milestones of 2017:
- construction began on a delayed coking unit at the Pancevo Oil Refinery;
- the Pancevo Oil Refinery was the first among the Company’s energy enterprises in Serbia to receive the international IPPC certificate, which confirms the production process conforms to European environmental protection standards. After receiving the certificate, the Pancevo Oil Refinery was named one of the best manufacturing enterprises in Europe.

### Plans for 2018:
- continued construction of the delayed coking unit. Thanks to this project, the Pancevo Oil Refinery will become one of the best enterprises in the world in terms of refining depth. As a result, the refinery is expected to reach its maximum capacity (4.6 mn t per year), refining depth is to increase to 99.2%, and the yield of light petroleum products is to increase to 87% in 2019.

---

1 — Installed capacity of the Pancevo Oil Refinery. The Novi Sad Oil Refinery (2.495 mn t) is under reconstruction and no oil refining is planned in 2016–2018.
In addition to its own oil refineries, Gazprom Neft has access to the refining facilities of Slavneft-YANOS and Mozyr Oil Refinery in the Republic of Belarus.

### Improved efficiency at the Moscow Oil Refinery in 2017 generated

RUB 1.3 BN

Moscow Oil Refinery specialists implemented 45 measures to increase production efficiency in 2017.

- The total economic effect for the year amounted to RUB 1.3 billion, with work carried out at 25 production facilities.
- The enterprise experienced the greatest effect from the modernization of Crude Vacuum Unit-6, which resulted in a 16 p.p. increase in furnace efficiency to 83%. Production of high-octane petrol components at the catalytic reformer unit also increased and the load on the process equipment of the visbreaking unit was diminished.

---

**Milestones of 2017:**
- commissioning of a new plant for the production of Group III base oils and oil-based muds;
- the launch of new products, including low-viscosity hydrocarbon oil-based muds, Group III oils, and the bitumen grades EN 100/150, EN 70/100, and EN 50/70;
- the refinery’s products won awards at the ‘100 Best Products of Russia’ national competition.

**Plans for 2018:**
- the continued construction of the hydrocracking complex for heavy oil residues.

---

### OIL REFINING AT JOINT VENTURE OIL REFINERIES

<table>
<thead>
<tr>
<th></th>
<th>SLAVNEFT-YANOS</th>
<th>MOZYR OIL REFINERY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed capacity</td>
<td>15.0</td>
<td>14.03</td>
</tr>
<tr>
<td>Refining</td>
<td>7.74²</td>
<td>0.08³</td>
</tr>
<tr>
<td>Milestones of 2017:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>increase in the refinery’s design capacity from 12 mn to 14 mn t per year due to the reconstruction of the LK-6U No. 1 crude refining unit;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the reconstruction of the diesel fuel production unit (DFPU) led the refinery to launch diesel fuel dewaxing processes as a result of which a product with improved low-temperature properties was generated.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the refinery’s products won awards at the ‘100 Best Products of Russia’ national competition.</td>
<td></td>
</tr>
<tr>
<td>Plans for 2018:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>the continued construction of the hydrocracking complex for heavy oil residues.</td>
<td></td>
</tr>
</tbody>
</table>

---

2 — Share of Gazprom Neft PJSC.
3 — Share of Gazprom Neft PJSC. The volume of oil refining at the Mozyr Oil Refinery is determined by the schedule approved by the Ministry of Energy of Russia. The Company can refine up to 50% of the oil supplied to the refinery. The actual volume of refining at the refinery is determined by its economic efficiency.
SALES OF OIL AND PETROLEUM PRODUCTS

GAZPROM NEFT PJSC SELLS OIL AND PETROLEUM PRODUCTS IN BULK IN RUSSIA AND ABROAD. SMALL-SCALE WHOLESALE AND RETAIL SALES OF PETROLEUM PRODUCTS, INCLUDING VIA THE COMPANY’S FILLING STATIONS, ARE HANDLED BY SPECIALIZED SALES SUBSIDIARIES.

FLOW CHART OF OIL AND PETROLEUM PRODUCT SALES

- Bulk sales of petroleum products
- Oil sales
- Sales subsidiaries that sell aviation and marine fuel, lubricants, and bitumen materials
- Small-scale wholesale and retail sale of petroleum products
- Gazpromneft filling station network
- Retail sale of petroleum products
- Customers in Russia and the CIS, including in exchange trading
- Non-CIS customers
- CIS customers
- Oil flows
- Petroleum product flows
Oil sales increased by 16.8% in 2017 compared with the previous year to 26.5 million tonnes due to an increase in exports and international oil sales.\(^1\) An increase in production at the Novoportovskoye, Messoyakha, and Prirazlomnoye fields as well as a decrease in the supply of oil to the Group’s refineries contributed to a 41.1% increase in oil exports to non-CIS countries versus the 2016 level. A 45.2% increase in sales on the international market is due to expanded production in Iraq. The 25% YoY decrease in oil sales in the domestic market is primarily the result of the diminished economic efficiency of trading operations.

The Company is actively expanding its tanker fleet in order to support the transportation of growing volumes of oil from the Novoportovskoye field. Four Arc7 ice class tankers began exporting oil from the Novoportovskoye field in 2017, as the total number of tankers of this type expanded to six. Thus, the Company’s tanker fleet for oil exports in 2018 will consist of six Arc7 ice class tankers and two Arc5 ice class tankers. Taking into account the further increase in oil production, the Company decided to commission a seventh Shturman Albanov-type tanker, which will be built in 2019.

GAS SALES

Total gas sales (natural gas and associated gas, excluding the gas in Gazprom Neft’s share in the Northgas and Arcticgas joint ventures) on the domestic market increased by 4.6% YoY due to an increase in natural gas production by subsidiaries.
The Company sold 43.48 million tonnes of petroleum products in 2017, a 0.3% decrease from the previous year. This is primarily due to the decreased production of dark petroleum products at the Group’s Russian oil refineries, as evidenced by the 21.0% reduction in fuel oil sales in 2017 compared with 2016 from 6.6 million tonnes to 5.2 million tonnes. At the same time, growth was seen in sales of light petroleum products during the reporting period, specifically motor fuels [+0.5%], aviation fuel [+4.5%], marine fuel [+14.6%], and bituminous materials [+22.1%].

The decrease in overall sales in 2017 was the result of a decline in the volume of petroleum product exports to non-CIS countries. Sales of petroleum products on the domestic market increased by 3.1%. Growth was seen in the entire range of the Company’s petroleum products except petrochemical products [-16.7% YoY] and marine fuel [-12.9%]. Meanwhile, the Company recorded a significant increase in sales of bitumen [+24.8%] and diesel fuel [+7.9%].

Exports to non-CIS countries fell by 11.6% to 9.5 million tonnes. The biggest decline was seen in fuel oil [-28.9%] and diesel fuel [-23.3%]. At the same time, exports of marine fuel to non-CIS countries increased by twofold, while exports of aviation fuel rose by 62.5% due to increased demand for international transportation and the expanded geography of the Company’s operations.
The Company’s sales of aviation fuel via premium channels in 2017 increased by 8%.

Premium sales increased by 3.9% in the reporting period to 26.1 million tonnes. The Company’s success in developing premium sales channels and expanding the geography of supplies and the range of its premium products made it possible to increase its share at the end of the year on the retail markets of most petroleum products, including the markets for motor fuels, aviation kerosene, lubricants, and premium bitumen materials.

The aviation fuel supply market as well as in the bitumen market accounted for the highest growth rates in the Company’s premium sales in 2017.

One of the key areas of the Company’s activities is the development of the small-scale wholesale and retail segment of petroleum product sales.

The growth in sales via premium channels in Russia primarily resulted from more sales to corporate customers due to increased sales to existing customers as well as the recruiting of new customers.
In Russia, the Company has one of the largest and most geographically diversified sales networks on the retail petrol market. As of the end of 2017, the Gazpromneft filling station network included 1,255 filling stations, including 1,193 Company-owned stations and 62 stations managed by franchise partners. The filling station network increased by 11 stations in 2017 and expanded its presence to 40 regions of the Russian Federation taking into account franchise operations. Developing the network and improving its efficiency has enabled the Company to increase its market share in the regions where it operates.

As of the end of the year, the Company had a 23.2% share of the retail motor fuel market in the regions where it has a presence.

On foreign markets, the Company’s filling station network consists of 611 stations, including 188 filling stations in CIS countries (Belarus, Kazakhstan, Tajikistan, and Kyrgyzstan) and 423 stations in Southeast Europe (Serbia, Bosnia, Bulgaria, and Romania). The decrease in the number of filling stations abroad was due to the optimization of the retail network in CIS countries in 2017 in order to increase its economic efficiency.

The growth in the Company’s retail motor fuel sales in Russia significantly outpaced the market growth rate. In particular, the Company increased retail sales of motor petrol in Russia by 3.6%, while the market grew by 1.1%. Retail sales of diesel fuel expanded by 14% versus market growth of 2.3%. The Company had a 14.9% share of the retail motor petrol market in Russia, an increase of 0.4 p.p. from 2016, while its market share in the diesel fuel segment grew to 19.1% (+2 p.p. versus 2016).

In Russia, the Company is systematically switching its gas stations to an automated format of operations. Autonomous operations reduce direct costs by almost 45% per station. All automatic filling stations are controlled centrally from a single dispatch centre that monitors all equipment and petroleum product quality parameters in real time. Even coffee machines at Gazpromneft filling stations are managed from a single automated centre that monitors compliance with the recipe and the number of cups sold.

The experience gained from introducing this system can be used in the future to create a single sales platform that unites all segments of the fuel sales chain. Any market participant could immediately get the needed solution using this digital platform. For the Company, this would translate into a multi-fold increase in the number and speed of transactions at minimum costs.
At the end of the year, total retail sales of motor fuels were up by 6.2% compared with 2016 and totalled 11.0 million tonnes, including 8.8 million tonnes in Russia.

Average daily sales at one station in Russia increased by 4.1% in 2017 and amounted to 20.1 tonnes/day. Meanwhile, measures to optimize and improve the economic efficiency of the Gazpromneft petrol station retail network in CIS countries ensured an increase in daily petrol pumping in this region by 24.8% compared with 2016 to 18.6 tonnes. Average daily sales in European countries increased to 6.1 tonnes/day in 2017 (+3.4% versus 2016).

The Company is paying more and more attention to the development of cross-selling, which is one of the most promising segments of retail business in Russia and CIS countries. Total revenue via the ‘Cross-selling Business’ channel increased by 2% compared with the previous year and amounted to RUB 18.59 billion. The increase in cross-selling ensured growth in this business’s key performance indicators (KPI).

The growth drivers included new café products, the use of point pricing, the development of the Company’s own private label product range, the launch of new coffee machines with an expanded menu, and the development of the ‘TV-Media’ project.
LOYALTY PROGRAMME

The ‘Going the Same Way’ loyalty programme for clients of the Gazpromneft filling station network remains the undisputed leader among vertically integrated oil companies in terms of the number of members. The loyalty programme had 12.4 million cardholders in Russia and the CIS at the end of 2017, a 16.2% increase from 2016.

Loyalty programme members account for 83% of total sales to individuals at the Company’s filling station network in the Russian Federation, a 3 p.p. increase compared with the previous year.

The loyalty programme had 12.4 million cardholders in Russia and the CIS at the end of 2017, a 16.2% increase from 2016.

Loyalty programme members account for 83% of total sales to individuals at the Company’s filling station network in the Russian Federation, a 3 p.p. increase compared with the previous year.

Given the high level of competition on the retail petroleum products market, advertising and marketing activities remain the primary tool for maintaining loyalty among existing customers and attracting new ones. A total of 13 federal and regional advertising campaigns were conducted in 2017 and the overall effect from these campaigns amounted to 67,200 tonnes of additional fuel sales. Marketing activities helped attract 440,400 new customers.

The Company launched the first targeted marketing campaigns (TMC) in 2017. A total of 11 CMCs were held from March to December 2017 and encompassed 3.2 million customers of Gazpromneft filling stations, or 74% of the network’s active clientele. Additional fuel sales from targeted campaigns amounted to 114,000 tonnes.

BRANDED FUEL

SALES OF PREMIUM FUEL IN RUSSIA AND CIS COUNTRIES

Source: Company data

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>G-DRIVE 95 (1,000 T)</strong></td>
<td>565</td>
<td>594</td>
<td>622</td>
</tr>
<tr>
<td>share of sales in the 95 petrol basket via filling stations (%)</td>
<td>27</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td><strong>G-DRIVE 98 (1,000 T)</strong></td>
<td>63</td>
<td>62</td>
<td>64</td>
</tr>
<tr>
<td>share of sales in the 98 petrol basket via filling stations (%)</td>
<td>96</td>
<td>95</td>
<td>91</td>
</tr>
<tr>
<td><strong>G-DRIVE 92 (1,000 T)</strong></td>
<td>21</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>share of sales in the 92 petrol basket via filling stations (%)</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>G-DRIVE 100 (1,000 T)</strong></td>
<td>–</td>
<td>–</td>
<td>2</td>
</tr>
<tr>
<td>share of sales in the 100 petrol basket via filling stations (%)</td>
<td>–</td>
<td>–</td>
<td>100</td>
</tr>
</tbody>
</table>

Branded G-Drive fuel was introduced to the Russian market in 2010 and from the very start of sales have become increasingly popular, in part thanks to the brand’s promotion using the platform of the G-Drive Racing motor racing team, which has become a leader at global and European endurance racing championships.

The Company increased sales of premium branded fuel at its own filling stations by 4% in 2017. The total volume of branded fuel sales in Russia and CIS countries amounted to 711,000 tonnes last year, or 7.4% of total motor fuel retail sales. For the year, G-Drive accounted for every third litre of AI-95 and higher petrol sold at filling stations.

In 2017, Gazprom Neft PJSC continued to actively develop its product line of branded motor fuel. The Company introduced new branded gasoline to the market – G-Drive 100, Opti 92, and Opti 95 – and also began promoting the Diesel Opti brand in several regions.

The number of filling stations offering branded fuel increased by 5% to 1,182 stations in 2017.
### Premium petrol

**Technology D.2**

711,000 TONNES
SALES OF BRANDED FUEL IN RUSSIA AND THE CIS IN 2017

29%
PERCENTAGE OF BRANDED FUEL IN SALES OF AI-95 AND HIGHER PETROL

Gazprom Neft began selling G-Drive petrol with an octane rating of 100 in 2017. This premium product is designed for modern engines that have mostly been adapted to run on gasoline with an octane rating of 95 and above.

G-Drive 100 petrol improves car engine performance and increases its power and acceleration dynamics. In addition, this fuel cleans engines and provides protection against wear.

G-Drive fuel contains an active set of additives that increase engine efficiency. Its latest generation friction modifier helps to significantly improve efficient engine operation. The attributes of G-Drive 100 petrol have been confirmed by the National Scientific Research Institute for Oil Refining, a leading institute in the industry, while its compliance with European quality standards has been confirmed by the prominent international laboratory SGS.

### GAS ENGINE FUELS

**SALES OF GAS ENGINE FUEL AND NUMBER OF VEHICLE STATIONS**

Source: Company data

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPG (1,000 t)</td>
<td>93</td>
<td>97</td>
<td>105</td>
<td>115</td>
<td>97</td>
</tr>
<tr>
<td>CNG (1,000 m³)</td>
<td>12,749</td>
<td>15,106</td>
<td>17,080</td>
<td>17,500</td>
<td>19,314</td>
</tr>
<tr>
<td>Number of VFS¹</td>
<td>123</td>
<td>136</td>
<td>153</td>
<td>156</td>
<td>151</td>
</tr>
<tr>
<td>Number of NGVFS²</td>
<td>4</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Sales of LPG decreased by 16% to 97,000 tonnes in 2017. The key reason for this was the optimization of the vehicle filling station network in CIS countries, which are a major market for LPG retail sales. Sales of CNG increased by 10% to 19.314 million m³ in the reporting year compared with 2016.

The number of vehicle filling stations under the Gazpromneft brand within multi-fuel filling complexes decreased by five to 151 stations in 2017.

Environmental friendliness and cost-effectiveness play a key role in municipal and commercial transportation in large cities, making these segments major consumers of gas engine fuels. Gazprom Neft pays close attention to developing sales of gas engine fuels, in particular liquefied petroleum gas (LPG) and compressed natural gas (CNG).

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¹ — Number of vehicle filling stations under the Gazpromneft brand within multi-fuel fuelling complexes.
² — Number of natural gas vehicle filling stations (NGVFS).
The retail aviation fuel market in Russia grew by 7.4% in 2017. Gazprom Neft remains the leader on this market with a share of 25.6%.

Total aviation fuel sales by the Company increased by 4.5% to 3.5 million tonnes in 2017. Premium sales amounted to 2.8 million tonnes, an increase of 8.0% from the previous year, which is the result of higher sales at third-party [mainly Vnukovo Airport] refuelling complexes and the Company’s own refuelling complexes [Tolmachevo, Pulkovo, and Koltsovo Airports] as well as growing demand outside Russia [resale operations].

The Gazpromneft-Aero sales network [refuelling complexes] increased by 14 units in 2017 compared with 2016. At the end of 2017, Gazpromneft-Aero’s own sales network consisted of 50 refuelling complexes in Russia and one refuelling complex in Kyrgyzstan. In addition, Gazpromneft-Aero provides its customers with aviation kerosene at nine third-party airports in Russia and 189 airports in 64 other countries. The company began providing wet wing aircraft refuelling at the airports of Kadala (Chita) and Khrabrovo (Kaliningrad) in 2017.

In May 2017, Gazprom Neft served as a general partner at the Aviation Fuel Forum of the International Air Transport Association (IATA) in St. Petersburg, marking the first time Russia had hosted the forum. The event had a record number of participants and brought together over 650 delegates from 61 countries. Fifty-seven major global airlines and more than 100 suppliers of fuel and equipment for aircraft refuelling were represented at the forum.
The Company provides bunkering for ships at all key sea and river ports in the Russian Federation (20 sea and 14 river ports). At present, Gazpromneft Marine Bunker has the most extensive geographical operations in Russia among all domestic bunkering companies. The Company’s clients include major Russian and foreign shipping companies. Besides Russia, the Company provides bunkering at the ports of Constanta (Romania), Riga (Latvia), and Tallinn (Estonia). The Company’s fleet consists of eleven bunkering tankers.

Key focuses for developing the Company’s bunkering business in 2017:

- the release of the new eco-friendly product TSU-80 produced by the Omsk Oil Refinery to the market to comply with legislative requirements on the sulphur content of marine fuels;
- provision of bunkering for vessels as part of projects being implemented by Gazprom PJSC, including vessels involved in the construction of Turkish Stream as well as offshore projects in the Arctic, the Sea of Okhotsk, and the Black Sea.

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Eco-friendly marine fuel

The Omsk Oil Refinery launched production of TCU-80 marine fuel with sulphur content of less than 0.1% in 2017.

The product is suitable for use in emission control zones as defined by MARPOL\(^1\) due to its minimum sulphur content. Such zones include the Baltic and North Seas, the English Channel, and the coastal waters of North America and the Caribbean.

Omsk Oil Refinery specialists developed the technology for the production of low-sulphur marine fuel from hydrotreated catalytic cracking vacuum gas oil in 2016. The new brand’s formula includes an additive that reduces the flow temperature and prevents paraffin waxes from settling in marine fuel.

The new product has quickly gained recognition: the entire 48,000 tonnes of the new brand that was produced was sold in just six months after sales began. Plans for 2018 include increasing sales to 102,000 tonnes.

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\(^1\) — MARPOL = International Convention for the Prevention of Pollution from Ships.
Gazprom Neft sells oils and lubricants via its own filling station network and also supplies products to retail chains, online stores, service stations, and the assembly lines of automotive manufacturers. The Company manufactures oils and lubricants at five production facilities in Russia and Italy.

The Company provided bunkering for ships at all key ports of Russia (20 sea and 14 river ports). Gazpromneft Marine Bunker has the most extensive geographical operations in Russia among all domestic bunkering companies.

Gazprom Neft increased its share of the oils and lubricants market in Russia by 1.3 percentage points to 21.3%.

The bunkering market in Russia expanded by 2.5% compared with 2016. The Company’s share of the Russian market was 16.6% in 2017.

The 14.6% increase in the total volume of ship fuel sales compared to 2016 resulted from a twofold increase in exports and sales in non-CIS countries. Premium sales of marine fuel amounted to 2.7 million tonnes in 2017, a decrease of 2.2%, or 60,000 tonnes, versus 2016. The decline in premium sales primarily resulted from reduced business in the Far East since negative market factors made this region unprofitable for supplies. The remaining fuel was distributed to more high-margin regions such as northwest Russia and the Black Sea. Furthermore, the decrease in sales was partially offset by a revival in sales on inland waterways.
Gazprom Neft has significantly expanded its product line. In particular, the Company began producing marine oils under its own brand Gazpromneft Ocean, which are designed for engines that run on various fuels and are installed on all types of vessels. Gazprom Neft was the first company to start producing low viscosity oil-based muds using its own technology. The Company markets import-substituting products under the Gazpromneft Drilline brand. In addition, Gazprom Neft has launched sales of 66 other new premium products, which include synthetic compressor and turbine oils for industrial use as well as hydraulic, transmission, and motor oils (including synthetic oils) for cars and commercial vehicles.

The Company continued working with the Russian regions on the import substitution programme in 2017. The Sakhalin, Bryansk, Ulyanovsk, and Sverdlovsk Regions and the Krasnodar Territory joined the programme, bringing the total number of participating regions to 15. The programme involves concluding agreements with regional and municipal authorities on the supply of Gazprom Neft-produced lubricants instead of imports, which helps to save budget funds on housing and utility services and agriculture. Over the past year, Gazprom Neft has expanded the international geography of its sales to 72 countries. Iran, Peru, Senegal, and Thailand were among the new countries to which supplies began.

The G-Energy Service international network of premium branded service stations expanded by 44 new stations in 2017 and now includes 120 stations in 14 countries.

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**Share of the Russian market in 2017**

21.3%

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**Low viscosity oil-based muds**

*Technology C.7*

- **5,000** T PER YEAR OF INTERNALLY PRODUCED OIL-BASED MUDS
- **-50%** DECREASE IN DRILLING MUD LOSSES USING THE NEW BASE OILS
- **-30%** SAVINGS ON OIL-BASED MUDS

Hydrocarbon-based drilling muds are one of the methods used to enhance the productivity of difficult wells. The main component of such mud is specialized low viscosity oils, which make up 70-90% of the solution.

The oil base for such had previously been imported. In 2017, however, Gazprom Neft started producing its own low viscosity oil-based muds under the brand name Gazpromneft Drilline. The first field tests, which were carried out at one of the wells of the Tsarichanskoje + Filatovskoje oil field, showed excellent performance capabilities. Hydraulic pressure losses decreased by 10%, while drilling fluid losses in the well declined by 50%.

The product was developed by Gazpromneft-Lubricants together with specialists from the Gazprom Neft Research and Engineering Centre as well as with the support of Gubkin Russian State University of Oil and Gas (National Research University). The Company has set up production of the oils at the Slavneft-YANOS Oil Refinery. Now the Gazpromneft Drilline product range includes four brands. The project enabled Gazprom Neft to almost completely eliminate the use of imported base oils in its process chain for the production of drilling mud and to cut expenses on this raw material by 30%.
Gazprom Neft PJSC is one of the biggest producers and suppliers of bitumen products in Russia. The Company’s share of the Russian bitumen materials market increased by 3.1 p.p. to 34.4% in 2017. Gazprom Neft sold 2.7 million tonnes of bitumen materials last year, an increase of 22.0% from 2016. The higher bitumen sales is due to growth in demand on the Russian market, entry to new foreign markets, and the expanded geography of processing at third-party sites.

Gazprom Neft’s bitumen material production facilities are located in Russia (Moscow, Omsk, Yaroslavl, Ryazan, and Vyazma) as well as Serbia and Kazakhstan. The Company launched bitumen production at processing facilities in the Volga, Siberian, Ural, and North-West Federal Districts as well as at two sites in Kazakhstan in 2017, bringing the number of processing sites to seven.

In addition, Gazprom Neft has increased the productivity of its assets: the facility in Kazakhstan almost doubled output (from 550 to 1,000 tonnes/day), while the facility in Ryazan boosted output by one third (from 288 to 384 tonnes/day). In 2016, Gazprom Neft bought a controlling stake in NOVA-Brit LLC ( Vyazma), a major producer of innovative bitumen materials. The Company launched the production of innovative products such as protective, regenerative, dipping compounds and primers in 2017. Brit brand products were used to repair runways at the Almaty airport. This product was also approved for use in construction and repair work in the St. Petersburg metro system. In 2017, the Company introduced the premium products to new markets: both developed countries such as Finland as well as developing countries such as Bolivia, Chile, Peru.

### Innovative bitumen materials

**Technology C.8**

**10**

YEARS

SERVICE LIFE OF PAVEMENT WITH INNOVATIVE BITUMEN

**+35%**

WATER RESISTANCE COEFFICIENT OF ROAD SURFACES WITH BRIT ZVS SEALANT

**-60%**

DECREASE IN ROAD MAINTENANCE COSTS

**Polymer-bitumen binders (PBB) are made based on bitumen with the addition of polymer and plasticizer.**

PBB are used for road construction because they are much stronger and more durable than ordinary asphalt concrete. Such materials reduce road maintenance costs by 60% while simultaneously extending the service life from 3–4 years to 7–10 years.

Gazpromneft-Bitumen Materials opened its own research and development centre to develop innovative bitumen materials in 2016. Theoretical calculations are tested on a pilot basis on equipment that simulates natural road use conditions.

In addition to the road brands of bitumen, the Company produces the airfield bitumen polymeric sealants BRIT-Nord and BRIT-Arctic. They are required for watertight seams on the surface of runways and highways. Other segments where they can be applied include creating elastic inserts between tram rails and covering city streets.
Multi-agent technologies involve the use of artificial intelligence for the operation of complex systems in an ever-changing environment.

They are particularly effective in logistics. In a multi-agent system, each programme participant in the logistics chain, including suppliers, warehouses, transport, customers, etc., is assigned a software agent – a digital twin that is assigned a specific operational logic. Software agents seek to solve problems by obtaining and utilizing resources as efficiently as possible and they do it much faster than people without experiencing fatigue and nervous tension.

The organization of supplies to the Novoportovskoye field during the summer navigation period of 2017 served as a pilot project for their use at Gazprom Neft. The multi-agent system made it possible to reduce losses from the underloading of transport, reduce employee labour costs, ensure the transparency of purchases, and monitor supplies. The next stage will consist of disseminating the technology to the whole process of logistics support for Gazprom Neft-Yamal as part of the Smart Logistics project.
Gazprom Neft takes a pragmatic approach to the development and introduction of new technologies. The Company acquires the effective solutions that are available on the market and adapts them to the conditions of its specific assets. At the same time, the Company is developing a technology market by encouraging partners to create new solutions and acting as the first buyer. Unique solutions that are not available on the market are developed by the Company together with domestic and foreign partners.

In 2017, the Company continued to expand its intellectual property portfolio.

Gazprom Neft’s approach to innovative development ‘From Strategic Goals to Technological Projects’ was introduced in 2014. It focuses on the technologies required to overcome the challenges that are encountered as the Company seeks to achieve its strategic goals.

Summary of results:
- Search for new technologies
- Update of technological challenges and targeted solutions
- Collection of offers from technology suppliers
- Identification of RIA
- Applying for protection documents

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1 — IDP – Innovative development programme.
2 — RIA – results of intellectual activity.
The Upstream Division drafted a Technology Strategy in 2014. It serves as a driver for the Company’s organic growth and is a key to solving the problem of the cost-effective incorporation of hard-to-recover reserves into development. Today, the Technology Strategy encompasses all the division’s priority areas, including technologies for geological exploration and the development of the resource base:

- well drilling and completion technologies;
- enhanced oil recovery and intensification of the inflow;
- development of unconventional reserves;
- development of sub-gas deposits;
- Electronic Asset Development (EAD);
- development of carbonate and fractured reservoirs;
- new generation infrastructure;
- capital construction.

The Technology Strategy is managed by the Management Committee chaired by the First Deputy CEO of Gazprom Neft PJSC.

The Upstream Division has introduced the Technology Management System (TMS), which consists of a structured set of methods, standards, and supporting tools that constitute a single system for managing processes involving the search for, selection, testing, introduction, and replication of technologies.
One of the key components of the TMS is the technological asset development plan (ADP), which consists of a portfolio of technological solutions that are proposed for each specific asset.

The projects implemented within the framework of the Technology Strategy have had a noticeable effect. For example, the technology strategy budget of 2016 was recouped by the results of four major projects in 2017.

The main principles of the Company’s updated Technology Strategy in 2018 should be the effectiveness of incorporating reserves and supporting new production projects.

R&D STRATEGY OF THE DOWNSTREAM DIVISION

The oil refining segment has its own long-term R&D Strategy. Introducing R&D results at oil refineries enables the Company to increase the yield of high-margin products while taking into account the technological conditions of a specific refinery and to also reduce operating costs.

The R&D portfolio is managed at the corporate level by the Oil Refining Directorate. The R&D units of oil refineries are responsible for implementing specific projects. External developers of technologies, including leading domestic scientific organizations and universities, are involved in performing R&D.

In 2017, the oil refining R&D portfolio was comprised of roughly 30 projects in key areas, including the construction of catalysts for catalytic cracking and hydrogenation processes. The economic effect alone from the introduction of the Company’s own catalysts in 2017 exceeded the total R&D costs over the past seven years by more than two-fold.

INNOVATIVE DEVELOPMENT PROGRAMME

In 2016, the Company updated its Innovative Development Programme, which is based on measures that aim to introduce a set of technologies to enhance well productivity as well as the following key projects:
- soda-surfactant-polymer flooding technologies;
- technologies to incorporate unconventional oil reserves into development;
- the development and production of catalysts for catalytic cracking and hydrogenation processes.

In addition, production digitalization projects in the oil production and refining segments are also an important part of the Innovative Development Programme.

Projects that are part of the Technology Strategy and R&D Strategy have been included in the Innovative

Planned funding for the Technology Strategy and R&D Strategy in 2018 amounts to roughly

RUB 2.3 BN
Portfolio analysis

In accordance with best practices, Gazprom Neft does not evaluate its investments in isolation, but as part of its portfolio.

Multiple alternative development options are generated for each asset in production, refining, and sales and any of them may be included in the final portfolio. The Company uses its own analytical tools to regularly evaluate hundreds of possible options and generate optimal combinations of project portfolios from them.

The Company’s goal is to select the optimal portfolio taking into account strategic goals, investment restrictions, the permissible debt burden, the significance of the project for the state, the level of risk, and synergy with future projects. A portfolio analysis allows for making the best investment decisions in all areas of the Company’s operations, whether it’s developing a new field, building an oil refinery, developing a sales network, or buying or selling an asset.

DIGITAL TRANSFORMATION

Total volume off data accumulated in the Gazprom Neft system

6,000 TB

Digital transformation is one of the most important aspects of the business development strategy for Gazprom Neft. New generation production management systems are being created in all segments of the Company’s operations. They involve the integrated management of all services to maximize asset value, the use of digital counterparts to optimize operating modes and maintenance plans, and the use of cognitive systems to support decision-making by operators. Projects are implemented at all stages of the value chain, from extracting enterprises to the sale of petroleum products.

At present, the Company’s data processing centres have accumulated huge amounts of information – approximately 6,000 TB. Gazprom Neft is effectively exploring opportunities for the monetization of such information. In particular, individual components of big data technologies have been tested or applied in production to solve business challenges as regards projecting the effectiveness of complex geological and technical measures, clustering wells, and automating the interpretation of seismic research results. For its part, the Efficiency Control Centre was established within the Downstream Division and is responsible for managing the division’s entire value chain.

Knowledge Dissemination System

The Knowledge Dissemination System (KDS) is a tool that helps coordinate the management and exchange of knowledge in matters concerning oil exploration and production within the Gazprom Neft Group in order to solve technological and production objectives. It is designed based on an analysis of the world’s best knowledge management systems.

The KDS systematizes information about the best practices employed by the Company in matters concerning exploration and production. Employees have access to documents that contain experience with resolving production-related challenges, lessons that have been learned, and useful practices that have been identified as well as descriptions of technologies, scientific articles, and publications by the Company’s employees.

The KDS enables the user to conduct a comparative analysis and select optimal technical solutions in accordance with the necessary criteria. It also stores data on all tests of new equipment conducted within the Company.

At the end of 2017, the KDS contained and actively used more than 8,000 documents. The monthly number of requests in the KDS exceeded 52,000.
RESEARCH CENTRES AND TECHNOPARKS

SCIENCE AND TECHNOLOGY CENTRE (STC)

The Company’s key competencies are concentrated in the Science and Technology Centre (Gazpromneft STC). The main goal of the Science and Technology Centre is to increase oil production and its efficiency through the introduction of new technologies and design solutions at the fields of Gazprom Neft.

In 2017, the staff of the Gazpromneft STC exceeded 900 people. The staff members included 4 professors, 7 doctors of science, and more than 50 candidates of science. The offices of the Gazpromneft STC are located in St. Petersburg and Tyumen.

The STC prepares the scientific and technical foundation based on which specialists from the Gazprom Neft headquarters adopt the most important investment and management decisions: it creates field development models, adjusts them based on field tests, and determines what technologies can be applied to achieve the best result. The Science and Technology Centre’s responsibilities include creating and maintaining a corporate database of geological and commercial information, managing the extraction of oil from subsoil resources through the use of permanent geological and technological models as well as planning and organizing pilot projects for the introduction of new technologies in oil production. The Gazpromneft STC also drafts, examines, and protects project documentation for the fulfilment of licensing obligations and trains specialists from Gazprom Neft subsidiaries.

In addition, as part of training on intellectual property management, the STC utilized the format of the ‘Intellect-Monetization’ business game for the first time for stakeholders during a visiting session in 2017.

"Continuously enhancing efficiency and the level of technological development is the future of the industry. We intend to take full advantage of the new opportunities and tools of Industry 4.0 while solidifying our status as a technological leader in the industry”.

Anatoly Cherner
Deputy CEO of the Downstream Division of Gazprom Neft PJSC
**INDUSTRIAL AUTOMATION TECHNOPARK**

**CORE ACTIVITIES OF THE TECHNOPARK:**
- instrumentation and automation (IA) – pressure and temperature sensors, analysers, etc.;
- automated process control systems (APCS) – distributed control systems, emergency protection systems, and software and logic systems;
- manufacturing execution systems (MES) for dispatching and scheduling as well as laboratory information management systems;
- high-tech solutions (BTP) – modelling and optimization of processes, monitoring and diagnostic systems, and computer training systems.

The Gazprom Neft Industrial Automation Technopark (Omsk), which was established as part of the import substitution strategy, is a unique platform for research and development, pilot testing, and the development of high-tech solutions for the automation of oil refineries. The technopark includes several functional clusters: training, testing, developments, data processing centre (DPC), co-working and a communications centre, where working meetings as well as scientific and practical conferences are held.

**DIGITAL INNOVATIONS CENTRE**

In 2017, the Company worked on creating a Digital Innovation Centre that would unite the efforts of Gazprom Neft, start-ups, developers, and the scientific community.1 Its objective is to develop breakthrough digital products for the development of Gazprom Neft’s unified technological platform in logistics, refining, and sales. The centre is working on applying big data and blockchain technologies, predictive management, digital twin enterprises, the industrial Internet of things, and AI-based self-learning systems in the Company’s business.

The products will have the opportunity for testing in conditions close to real production at the Industrial Automation Technopark in Omsk or at the Centre. In the future, the Centre also plans to conduct hackathons and expert technological sessions.

**CORPORATE INFORMATION TECHNOLOGIES TECHNOPARK**

Gazprom Neft founded the Corporate Information Technologies (CIT) Technopark in St. Petersburg, which aims to establish direct interaction between developers and manufacturers of IT solutions in the oil and gas industry. Gazprom Neft provides the participants of CIT Technopark with a platform to evaluate and test promising solutions and innovative technologies. It regularly holds information sessions that are designed to present potential customers with new IT solutions that have proved their effectiveness.

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1 — The Centre opened after the reporting year in April 2018.
SAFE DEVELOPMENT

THE LIVES AND HEALTH OF EMPLOYEES ARE A KEY PRIORITY FOR GAZPROM NEFT. THE COMPANY’S STRATEGIC GOAL IN TERMS OF OCCUPATIONAL SAFETY (OS) IS DEFINED AS ‘GOAL – ZERO: NO HARM TO PEOPLE, THE ENVIRONMENT, OR PROPERTY WHEN PERFORMING WORK’. GAZPROM NEFT IS COMMITTED TO BECOMING ONE OF THE WORLD’S LEADING OIL AND GAS COMPANIES IN THIS REGARD.

GOALS OF THE OCCUPATIONAL SAFETY POLICY:

- reducing industrial injuries, occupational diseases, accidents, and any negative environment impact;
- organizing safe production based on a constant analysis and the minimization of production risks;
- introducing the best global practices in this field.

To achieve the ‘Goal – Zero’, the Company is improving the risk management system in occupational safety, investing in advanced technologies that strengthen the reliability of its assets, and enhancing its safety culture.

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

The fundamental corporate document that defines the principles of the Company’s activities and obligations is the corporate Occupational Safety Policy (OS Policy).

All enterprises of the group of companies have an occupational safety management system.

PRIORITIES OF THE OCCUPATIONAL SAFETY STRATEGY

<table>
<thead>
<tr>
<th>LEADERSHIP AND CULTURE</th>
<th>Main aspects of safe conduct and a leading role by all levels of executives in achieving this goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONTRACTOR MANAGEMENT</td>
<td>Improving the effective management of the execution of contracts with contractors in occupational safety matters</td>
</tr>
<tr>
<td>ASSET RELIABILITY</td>
<td>Ensuring the safe operation of existing assets and their reconstruction as well as the safe design and construction of new facilities</td>
</tr>
<tr>
<td>RISK MANAGEMENT</td>
<td>Further integration of OS risks and environmental aspects in the Company’s overall risk management system and developing risk management and assessment skills among personnel</td>
</tr>
<tr>
<td>TRANSPORT SAFETY</td>
<td>Ensuring traffic safety and a reduction in accident rates among the Company’s vehicles</td>
</tr>
<tr>
<td>ORGANIZATIONAL MODEL</td>
<td>Supporting all work by developing OS functions as well as the relevant skills of employees</td>
</tr>
</tbody>
</table>
The Corporate University of Gazprom Neft has had an Occupational Safety Department since 2016. Its training programmes are developed by external and corporate experts.

The Management Board has a joint Committee on the Operational Management System (OMS) and OS. It consists of members of the Board, directors of production units, and department heads.

Gazprom Neft is committed to ensuring a constant increase in the level of industrial safety, conducts comprehensive work to minimize the accident rate of equipment and occupational injuries, and is also introducing the best world practices and advanced technologies in this area.

When developing occupational safety and labour protection programmes, Gazprom Neft relies on an occupational safety risk map. The list of such risks is regularly updated. The Company uses advanced international methods to assess manmade risks. The goal of such methods is to convey an important rule: don’t start work if you’re not confident that it can be safely performed. To minimize security risks, Gazprom Neft is introducing effective methods of production control and is developing a safety culture. The Company considers the occupational safety training system to be the basis for the formation of such a culture.

The Corporate University of Gazprom Neft has had an Occupational Safety Department since 2016. Its training programmes are developed by external and corporate experts. Internal coaching plays a key role in achieving the ‘Goal – Zero’. In particular, internal coaches trained more than 7,000 of the Company’s employees internally in 2017, while roughly 20,000 employees took part in communication sessions.

Contractors are linked to the implementation of the Company’s strategy in occupational safety. The ‘Steps’ strategy specifies the uniform requirements of occupational safety for the performance of work/services, describes the sequence for the execution of the steps of the process from the start of initiating a contract to its completion, and determines the roles and responsibilities of the participants required to implement the process.

Contractors are also part of the corporate safety training system. In 2017, representatives of contractors underwent roughly 12,000 courses in occupational safety and 61,000 courses as part of cascading communications on basic safety rules.
## OCCUPATIONAL SAFETY

### LTIFR INJURY RATE
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>0.44</td>
<td>0.52</td>
<td>0.472</td>
<td>0.402</td>
<td>0.326</td>
</tr>
</tbody>
</table>

### NUMBER OF INCIDENTS AT HAZARDOUS PRODUCTION FACILITIES [INCIDENTS]
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>3,299</td>
<td>2,876</td>
<td>2,512</td>
<td>2,385</td>
<td>2,183</td>
</tr>
</tbody>
</table>

### NUMBER OF INJURIES IN WORKPLACE ACCIDENTS [PEOPLE]
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>33</td>
<td>43</td>
<td>41</td>
<td>38</td>
<td>36</td>
</tr>
</tbody>
</table>

The Company’s main programmes for enhancing the level of occupational safety:
- an expert assessment of equipment safety and harmonising production facilities with the requirements of occupational safety standards and rules;
- the modernization of emergency shutdown systems;
- the prevention and management of emergency situations;
- monitoring compliance with occupational safety requirements;
- ensuring safe work conditions;
- measures to protect workers’ health;
- training of the Company’s employees in occupational safety.

Investment in enhancing occupational safety in 2017 amounted\(^1\) to RUB 54 billion.

In 2017, the Company did not have any accidents or manmade emergencies at its production facilities. The number of accidents involving equipment (incidents) decreased by 8.5%. To the Company’s deepest regret, fatal accidents were not eliminated entirely, but their number decreased from three in the previous year to one last year.

The Company is doing everything possible to prevent such a tragedy from repeating. The special commission that was formed to investigate the incident conducted a detailed analysis, identified its causes, and took action to minimize the risk of such an incident reoccurring.

Gazprom Neft continues to develop a system to prevent emergencies. The Company held 370 exercises and training sessions on civil defence and emergency situations, an increase of 14% compared with 2016. The themes of the events were determined in accordance with the specific production activities in a particular region.

The corporate employee health safety system includes:
- disease prevention (accreditation of clinics, thorough medical examinations, and the formation and monitoring of risk groups for cardiovascular diseases);
- emergency response (first aid/medical assistance, transportation to clinics, first aid training);
- promotion of a healthy lifestyle (organizing vaccinations, promoting a healthy lifestyle, preventing alcohol and drug use, and an insurance system).

As it develops responsibility throughout the entire supply chain, Gazprom Neft is introducing a new health safety focus – ‘Contractor management’ – in which the Company controls medical examinations by employees of contractors and organizes effective emergency medical responses for them, among other things.

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\(^1\) — Data given without joint and foreign assets.
The careful and sustainable use of natural resources and minimizing environmental risks are key priorities in Gazprom Neft’s activities. As it seeks to achieve its goal of zero environmental damage, the Company consistently reduces its environmental footprint, introduces best practices, inventions, and technologies for nature protection, and improves the environmental training system for its employees.

Gazprom Neft is bolstering risk management in matters of environmental safety and maintains constant environmental monitoring and industrial environmental control. An analysis of the environmental impact of production activities is carried out during all stages of the production life cycle, starting with front-end engineering design. An assessment of the potential environmental impact, environmental monitoring, and an independent expert examination are all mandatory when taking management and investment decisions.

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

### Investment in environmental protection during the reporting year totalled

RUB 27.1 BN

### MAIN ENVIRONMENTAL PROGRAMMES OF GAZPROM NEFT

<table>
<thead>
<tr>
<th>Environmental aspect</th>
<th>Key programmes</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATMOSPHERE</td>
<td>■ Target gas programme&lt;br&gt;■ Oil refinery modernization programmes using BAT&lt;br&gt;■ Recovery and purification systems for emissions from petroleum product facilities</td>
<td>■ Reduction in specific pollutant emissions into the atmosphere&lt;br&gt;■ Reduction in specific greenhouse gas emissions&lt;br&gt;■ Increase in the level of APG utilization</td>
</tr>
<tr>
<td>WATER RESOURCES</td>
<td>■ Construction of new treatment facilities as part of modernization of oil refineries&lt;br&gt;■ Wastewater quality control</td>
<td>■ Reduction in wastewater discharge&lt;br&gt;■ Eliminating the discharge of contaminated and insufficiently treated sewage</td>
</tr>
<tr>
<td>LAND RESOURCES</td>
<td>■ The ‘Clean Territory’ project (corrosion diagnostics and monitoring and the reconstruction and replacement of pipelines)&lt;br&gt;■ Programmes for the reclamation of oil contaminated lands&lt;br&gt;■ Reclamation of disturbed lands by sludge pits and sludge collectors&lt;br&gt;■ Pilot testing of treatment technologies for saline land</td>
<td>■ Reduction in pipeline failure indicators&lt;br&gt;■ Restoration of soil fertility in the ecosystems of production areas&lt;br&gt;■ Introduction of new technologies for the reclamation of saline lands</td>
</tr>
<tr>
<td>PRODUCTION WASTE</td>
<td>■ Programme for the disposal/neutralization of oily waste&lt;br&gt;■ Programme for the disposal of drilling waste</td>
<td>■ Increase in the proportion of waste shipped off for disposal and utilization</td>
</tr>
<tr>
<td>PRESERVING BIODIVERSITY</td>
<td>■ Programme for the preservation of the biodiversity of marine ecosystems in the Arctic zone of the Russian Federation&lt;br&gt;■ Programmes for the preservation of biodiversity in the regions where the Company operates</td>
<td>■ Reduction in the impact on the biodiversity of regions of operations&lt;br&gt;■ Preservation of the natural abundance and dynamics of biological species</td>
</tr>
</tbody>
</table>
YEAR OF ECOLOGY

As part of the Year of Ecology in Russia, Gazprom Neft drafted and implemented a special plan of environmental protection measures in 2017 to solve key ecological challenges.

Main focuses of the plan:
- the environmental education of personnel;
- industrial measures such as the modernization of production facilities, the development and implementation of eco-friendly technologies, mitigating negative environmental impact indicators, the commissioning of environmental facilities, and the implementation of energy conservation programmes;
- non-industrial measures such as environmental monitoring, preserving biodiversity, and providing support for federal and international environmental campaigns;
- environmental communication – creating platforms for communication and interaction with stakeholders such as NGOs, the state authorities, schoolchildren, and students;
- the special project ‘Green Territory’, which involves creating infrastructure for the separate collection of waste at the Company’s filling stations and offices as well as landscaping and other improvements.

‘Green seismics’

Technology E.2

RUB 25 MN

EXPECTED ECONOMIC EFFECT FOR EACH PROJECT FROM USING THE NEW TECHNIQUE

1,300 TREES PER 1 KM²

TO BE SAVED FROM FELLING

‘Green seismics’ are a technology that makes it possible to avoid cutting down trees in seismic survey area.

Seismic exploration is one of the primary methods used to study the structure of the earth’s interior and is essential to all mining companies. However, 4-metre wide clearings have to be cut in wooded areas to carry out such surveys so that heavy ATVs carrying sensors and pulling cable can pass through them.

‘Green seismics’ allow for using cable-less recording systems with compact equipment. Narrow paths with a width of 1-1.5 metres cleared of bushes and undergrowth are sufficient for light machinery to pass. As a result, the felling of trees can be reduced by 40%.

For example, roughly 1.2 million trees are cut down for a seismic exploration project in the Khanty-Mansi District with an area of 330 km² using the conventional method. Using ‘green seismics’ makes it possible to save 450,000 trees.

Gazprom Neft first tested such equipment at its foreign assets in 2014 (the Middle East project in the Kurdish Autonomous Region of the Republic of Iraq), and then at deposits of Gazpromneft-Noyabrsksneftegaz, Gazpromneft-Khantos, Gazpromneft-East, and Slavneft-Megionneftegaz. The geological information obtained using this method proved to have the same quality as the results of traditional seismic exploration.

Geologists can monitor the signal from sensors in real time and process the results quickly in the field. The new technology is easy to use in areas with mountainous terrain or infrastructure facilities where it is much easier to set up wireless sensors than traditional sensors. It creates opportunities for working in complex areas where seismic surveys of the required quality had previously been considered virtually impossible.

In addition, the technology has reduced the cost of seismic exploration work. The new methodology is expected to produce an economic effect of roughly RUB 25 million per project.

In 2017, the Company decided to fully replicate the ‘green seismics’ approach at all its projects. In 2018, two major projects are being implemented in the KMAD with total area of 600 km² using components of this technology. Such work is to be used for several projects in the KMAD and Orenburg Region with a total survey area of about 1,000 km² in 2019.
Overall, the Company spent over RUB 17.5 billion on implementing more than 1,100 measures as part of the Year of Ecology.

Key results:
- the commissioning of a gas treatment unit [1st stage] at the Novoportovskoye field of Gazprom Neft-Yamal LLC for the injection of associated petroleum gas in order to maintain reservoir pressure;
- the completion of construction work on the Biosphera biological treatment facilities at the Moscow Oil Refinery and the start of construction work on treatment facilities at the Omsk Refinery (the largest project among those implemented by the Company as part of the Year of Ecology);
- the opening of a landfill at the Taylakovskoye field for the disposal and processing of industrial and household waste at Slavneft-Megionneftegaz OJSC;
- the release of 36 million fish into water bodies;
- 100 Saturday volunteer work days held in the regions with the participation of over 6,000 people (resulting in the clean-up of more than 1.5 hectares of land and the removal of more than 670,000 tonnes of garbage);
- the planting of more than 298,000 shrubs and trees as part of public campaigns.
PROTECTING THE ATMOSPHERE

In 2017, the Company reduced gross air emissions by 26% compared with 2016. This result was achieved through the further modernization of oil refineries, the implementation of APG utilization programmes, and an increase in APG consumption for oil treatment through the increased extraction of production fluid.

One way to reduce air emissions is to improve the environmental performance of products. In the reporting year, the Moscow Oil Refinery continued to build a Euro+ oil refining unit that is designed for the primary refining of oil and the production of Euro-5 high emission standard fuel components. The construction of the new facility will enable the Moscow Oil Refinery to decommission several plants of the previous generation, boost energy efficiency and industrial safety levels, and reduce the environmental impact.

The Omsk Oil Refinery produced the first batch of new marine fuel with improved environmental attributes. Due to the minimum sulphur content – no more than 0.1% - the product is suitable for use in emission control zones identified by the International Convention for the Prevention of Pollution from Ships (MARPOL). The new fuel is certified in accordance with the requirements of the technical regulations of the Eurasian Economic Community.

REDUCTION IN GREENHOUSE GAS EMISSIONS

As one of the leaders in the Russian oil industry, Gazprom Neft is aware of its responsibility to preserve the environment for present and future generations. The Company pays special attention to the control of greenhouse gas emissions – one of the key environmental problems faced by mankind today. Gazprom Neft supports the implementation of the Paris Climate Agreement and the Concept to Form a System of Monitoring, Reporting, and Verifying Greenhouse Gas Emission Volumes in the Russian Federation and also adheres to national legislation on the control of greenhouse gas emissions. The Company continued to develop a programme to increase the level of APG utilization at all of its production assets. This programme allows for reducing emissions while increasing production efficiency.

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

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

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

In 2017, the subsidiaries of the Upstream Division introduced a concept for the utilization of drilling waste in order to mitigate environmental risks and unify waste management requirements. The concept takes into account the infrastructure of the fields under development, the existing technologies for neutralizing drilling waste, key performance indicators, and well construction methods.

PROTECTING WATER RESOURCES

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

In 2017, the Moscow Oil Refinery completed construction on the Biosphera innovative biological treatment facilities, which will purify water at a level consistent with global standards. Construction has begun on similar structures at the Omsk Oil Refinery.

The increase in waste generation during the reporting year is due to higher drilling volumes as well as the active development of Arctic projects.

In 2017, the Moscow Oil Refinery completed construction on the Biosphera innovative biological treatment facilities, which will purify water at a level consistent with global standards.

The withdrawal of water from surface sources has increased due to heightened requirements for reservoir pressure maintenance systems.

### STRUCTURE OF WATER CONSUMPTION [MN M³]

<table>
<thead>
<tr>
<th>Source: Company data</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Total water consumption</td>
</tr>
<tr>
<td>From underground sources</td>
</tr>
<tr>
<td>From surface sources</td>
</tr>
<tr>
<td>Received from other organizations</td>
</tr>
</tbody>
</table>

### WATER USAGE [MN M³]

<table>
<thead>
<tr>
<th>Source: Company data</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Use in water recycling systems</td>
</tr>
<tr>
<td>Transfer to other consumers without use</td>
</tr>
<tr>
<td>Use in water reuse systems</td>
</tr>
</tbody>
</table>
Gazprom Neft reclaims disturbed and contaminated land and sludge pits by introducing advanced technologies for pipeline monitoring and diagnostics and restoring soil [taking into account the soil and climatic conditions of the regions].

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

Gazprom Neft is implementing a perpetual corporate programme to preserve biodiversity based on a list of flora and fauna that serve as indicators of the stable condition of the marine ecosystems in Russia’s Arctic zone.

In particular, the Company carries out environmental monitoring of its impact on the Arctic ecosystems [in the area of its operations], and since 2010 has been implementing a programme to study and preserve the Atlantic walrus. Studies conducted in 2017, including toxicological and genetic analyses of biological samples, did not reveal any significant changes.

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

The steady growth rates in the Company’s production have resulted in increased consumption of energy resources in recent years. Aware of the human impact of these processes, Gazprom Neft has increased the energy efficiency of its production assets and is working to reduce the consumption of energy resources.

The Company adheres to the Gazprom Neft Energy Policy, which serves as the foundation for the Energy Management System (EMS). The EMS meets the requirements of ISO 50001:2011. The EMS has been gradually introduced at the Company’s facilities starting from 2012. The Energy Conservation and Energy Efficiency Programme serves as the main tool for achieving the Company’s planned energy efficiency indicators.

UPSTREAM DIVISION

The EMS was introduced at Gazpromneft-Yamal LLC and Messoyakhaneftegaz JSC in 2017.


The key energy efficiency indicator for the Upstream Division is the specific electricity consumption for liquid extraction, which totalled 28.98 kWh/t in 2017, or 1.4% below the planned level for the year.

During the reporting year, the Upstream Division drafted and implemented the Programme for the Improved Reliability and Modernization of Electrical Equipment and Networks, which included 102 measures. Implementing these measures made it possible to significantly reduce oil shortages during emergency power outages compared with 2016.

TOTAL ENERGY CONSUMPTION BY THE UPSTREAM DIVISION

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity consumption {purchased + generated} [MWh]</td>
<td>6,032,738</td>
<td>6,177,164</td>
<td>6,419,919</td>
<td>6,298,276</td>
<td>6,064,268</td>
</tr>
<tr>
<td>Change vs. previous period (%)</td>
<td>6.0</td>
<td>2.4</td>
<td>3.9</td>
<td>[1.9]</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Thermal energy consumption {internally produced and purchased from third-party suppliers} [GJ]</td>
<td>1,218,555</td>
<td>1,064,758</td>
<td>982,015</td>
<td>996,644</td>
<td>1,124,180</td>
</tr>
<tr>
<td>Change vs. previous period (%)</td>
<td>1</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>12.8³</td>
</tr>
</tbody>
</table>

¹ — The growth in thermal energy consumption is due to the introduction of new boiler houses at Gazpromneft-Vostok and boiler houses at the major projects of the Messoyakha and Novoportovskiyi fields.
The Company adheres to the Gazprom Neft Energy Policy, which serves as the foundation for the Energy Management System (EMS). The EMS meets the requirements of ISO 50001: 2011.

DOWNSTREAM DIVISION

In 2017, the enterprises of the Downstream Division continued implementing the measures of the integrated Energy Conservation Programme. As a result, the Downstream Division exceeded the target for the savings of fuel and energy resources, which amounted to:

- thermal energy – 279,400 Gcal;
- fuel – 137,500 TOE;
- electricity – 18.9 mn kWh.

Overall, energy-saving activities made it possible to save 7.8 TJ of heat, electricity, and fuel. The economic effect exceeded the targets and amounted to RUB 929.7 million.

In 2017, Gazpromneft-Aero and Gazpromneft-BM joined the Energy Conservation Programme, which now includes the energy conservation measures of the Downstream Division’s 49 production assets.

During the reporting year, Slavneft-YANOS OJSC and the Omsk Lubricants Plant were included in the unified EMS of the Downstream Division.

In addition, due to the implementation of the measures of the integrated Programme for the Increased Reliability of Power Supplies for Oil Refining Enterprises, the number of power supply violations at oil refineries decreased by 15% compared with 2016.

CONSUMPTION OF PURCHASED ENERGY IN THE DOWNSTREAM DIVISION

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased electricity [minus electricity transferred to third parties] (MWh)</td>
<td>3,322,147</td>
<td>3,262,669</td>
<td>3,340,550</td>
<td>3,400,210</td>
<td>3,236,805</td>
</tr>
<tr>
<td>Change vs. previous period (%)</td>
<td>6.4</td>
<td>[1.8]</td>
<td>2.4</td>
<td>1.8</td>
<td>(4.81)</td>
</tr>
<tr>
<td>Purchased thermal energy [minus electricity transferred to third parties] (GJ)</td>
<td>17,373,245</td>
<td>16,581,709</td>
<td>16,081,895</td>
<td>15,186,997</td>
<td>15,531,129</td>
</tr>
<tr>
<td>Change vs. previous period (%)</td>
<td>3.1</td>
<td>(4.6)</td>
<td>(3.0)</td>
<td>(5.6)</td>
<td>2.27</td>
</tr>
</tbody>
</table>
HUMAN RESOURCE DEVELOPMENT

GAZPROM NEFT’S EMPLOYEES ARE THE COMPANY’S KEY ASSET AND STRATEGIC PARTNERS IN ACHIEVING ITS SUSTAINABLE DEVELOPMENT GOALS. THE GAZPROM NEFT TEAM INCLUDES PROFESSIONALS WITH A HIGH LEVEL OF INVOLVEMENT WHO SHARE THE COMPANY’S VALUES. TAKING CARE OF THEIR WELL-BEING AND ATTRACTING AND RETAINING THE BEST EMPLOYEES IS A TOP PRIORITY FOR GAZPROM NEFT.

The human resources strategy is directly linked to the overall strategy of Gazprom Neft and aims to achieve the Company’s key goals by providing it with the required number of qualified and engaged employees in the present and the future.

KEY FOCUSES OF THE HR STRATEGY:  

- systematic recruitment and rotation of personnel;
- talent management, competency development, and training;
- development of an incentive system and culture of engagement;
- growth in productivity and organizational efficiency;
- improved efficiency of HR functions.

In addition, the Company conducts systematic work to attract, engage, and retain qualified personnel. The employee incentive and training system, the development of a corporate culture, and the establishment of a talent pool all aim to meet these challenges.

Gazprom Neft respects human rights, provides equal opportunities, and does not discriminate based on nationality, sex, origin, age or any other grounds.

This section is presented in the interactive version of the Sustainable Development Report of Gazprom Neft PJSC for 2017:  
https://csr2017.gazprom-neft.com/hr-development/

BEST EMPLOYER OF RUSSIA

Gazprom Neft confirmed its status as one of the country’s best employers in 2017 by winning a number of awards.

- The Company ranked first among employers in the energy sector based on the results of the International Randstad Award 2017 and finished second in the Employers of Russia rating compiled by the recruiting company HeadHunter.
- Gazprom Neft was among the top three employers in Russia for engineering students according to the Universum Top 100 Russia rating.
Gazprom Neft respects human rights, provides equal opportunities, and does not discriminate based on nationality, sex, origin, age or any other grounds.

PROFILE OF PERSONNEL

In 2017, Gazprom Neft employed over 67,800 people. Blue-collar workers make up half of all personnel, while executives, specialists, and office employees account for the other half.

A total of 17,184 employees joined Gazprom Neft in the reporting year, while 16,093 people left the Company. The turnover rate was 15.1% in 2017, which is consistent with the 2016 level.
REMUNERATION AND SOCIAL SUPPORT FOR PERSONNEL

REMUNERATION SYSTEM OF GAZPROM NEFT

| FINANCIAL COMPONENT | ■ Basic remuneration  
|                     | ■ Bonuses  
|                     | ■ Benefits [voluntary medical insurance, vacation payments, housing programme, private pension provision, etc.] |
| PROFESSIONAL COMPONENT | ■ Training and development system  
|                        | ■ Professional and career development system  
|                        | ■ Non-financial incentive programmes |
| SOCIAL COMPONENT | ■ Social support programmes for employees and their families |

The personnel remuneration system is linked to the Company’s overall strategy and aims to ensure competitive remuneration, retain and develop talented personnel, and support the career and professional growth of employees.

A number of large-scale projects were launched in 2017 in order to enhance the effectiveness of variable compensation. Specifically, the Upstream Division implemented an incentive programme that aims to create a culture of efficiency and careful production. Unifying bonus systems in the sales division reduced the number of compensation formulas and increased their transparency for employees.

The number of Company employees who are union members and are covered by collective bargaining agreements in 2017 totalled roughly 13,000 PEOPLE.

The Company actively cooperates with trade union organizations when drafting and implementing HR and social policy programmes. In particular, changes to the system of Gazprom Neft’s social benefits are discussed jointly with representatives of trade union organizations, the heads of HR services hold meetings with each other, and measures are taken to create safe working conditions. The Company established commissions to work with young people, which protect the interests of young employees and are involved in programmes for the adaptation of new specialists.

AVERAGE MONTHLY SALARY OF GAZPROM NEFT EMPLOYEES [RUB]

Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>67,054</td>
<td>84,775</td>
<td>100,222</td>
<td>104,719</td>
<td>112,942</td>
</tr>
</tbody>
</table>

PERSONNEL EXPENSES [RUB MN]

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>45,040</td>
<td>58,510</td>
<td>74,400</td>
<td>79,316</td>
<td>86,600</td>
</tr>
<tr>
<td>Social payments</td>
<td>3,186</td>
<td>2,097</td>
<td>2,432</td>
<td>3,260</td>
<td>3,176</td>
</tr>
<tr>
<td>TOTAL</td>
<td>48,226</td>
<td>60,607</td>
<td>76,832</td>
<td>82,576</td>
<td>89,776</td>
</tr>
</tbody>
</table>
TRAINING AND DEVELOPMENT
OF PERSONNEL

The training and development system encompasses all categories of the Company’s personnel as well as target groups of potential employees, including schoolchildren and students.

The Corporate University of Gazprom Neft serves as the centre for knowledge management. It was established in 2016 and brought all training practices under one roof. The corporate university has a services platform model that is unique for the corporate training market – a marketplace, which makes it possible to not only attract external providers for training, but to also establish communication between employees who need to learn and employees who can teach. This model allows for implementing strategic goals in HR management given the rapidly growing pace of changes in the external environment and create a stimulating educational environment at such a large, geographically distributed company as Gazprom Neft.

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

IN 2017

- Training encompassed over 80% of personnel throughout the Group of Companies.
- Over 16,000 managers and specialists received training in targeted programmes at the Corporate University.
- The professional departments of the Corporate University employed 1,033 internal trainers and experts of the Company.
- Employees took more than 85,000 online courses via the Corporate University portal.
- Over 40 internal online professional communities were established.

NUMBER OF EMPLOYEES WHO UNDERWENT TRAINING (PEOPLE)
Source: Company data

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>42,094</td>
<td>50,939</td>
<td>50,395</td>
<td>52,582</td>
<td>55,891</td>
</tr>
</tbody>
</table>

OVERVIEW OF RESULTS

DEVELOPMENT OF A TALENT POOL

The Company is developing the ‘School – Secondary Specialized College/University – Enterprise’ human resources system to provide the Company with highly skilled personnel in the present and future. It includes career guidance work with high school students, targeted education at higher and secondary educational institutions, and a system to recruit employees with high potential and plan their careers.

Meetings of the Talent Committee – collective meetings of management teams – are a key tool in selecting candidates for the talent pool. Specialist candidates are considered based on the results of an annual evaluation of their activities and potential. In 2017, the regular performance assessment encompassed more than 19,000 employees, a 50% increase from the previous year.
REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES

ONE OF GAZPROM NEFT’S KEY PRIORITIES IN SUSTAINABLE DEVELOPMENT IS TO EXPAND THE COMPETITIVENESS OF THE TERRITORIES WHERE IT OPERATES AND IMPROVE THE QUALITY OF LIFE OF THE PEOPLE LIVING THERE. THE COMPANY IS A RELIABLE PARTNER FOR THE GOVERNMENT AND SOCIETY IN TERMS OF RESOLVING REGIONAL DEVELOPMENT PROBLEMS AND IS DEVELOPING A SOCIAL INVESTMENT PROGRAMME IN CLOSE PARTNERSHIP WITH ALL STAKEHOLDERS.

PRIORITY OF GAZPROM NEFT IN ITS INTERACTION WITH THE REGIONS:

- ensuring environmental safety and minimizing the Company’s environmental impact;
- cooperation with the regional and municipal authorities to ensure the sustainable development of the regions;
- creating a competitive environment on regional labour markets;
- expanding cooperation with stakeholders;
- ensuring information transparency for all stakeholders.

The Company is developing various tools to support regional development. In particular, road maps that Gazprom Neft signed with the Tomsk and Tyumen Regions in 2017 call for the use of high-tech products, including import-substituting products, from local suppliers in the Company’s production activities.

The Company is also involved in the development of industrial clusters in the regions. During the reporting year, Gazprom Neft began setting up the Bazhen Technological Centre in the Khanty-Mansi Autonomous District-Yugra, which will develop cost-efficient methods for the extraction of hard-to-recover oil reserves from the Bazhenov formation using the Company’s advanced technologies and competencies.

For more on the Bazhen Technological Centre project, see page 32

“Gazprom Neft has become a reliable partner and a recognized expert in the development of the regions. We engage the best specialists to implement effective humanitarian and infrastructure projects, hold grant competitions, and are developing corporate volunteering. Developing human capital remains the key goal of our social investments”.

Alexander Dybal
Deputy CEO for Corporate Communications of Gazprom Neft PJS

INTERACTION WITH INDIGENOUS PEOPLES OF THE NORTH, SIBERIA, AND THE FAR EAST (IPNR)

The Company engages in production activities in areas where indigenous peoples of northern Russia (IPNR) reside in the Khanty-Mansi and Yamalo-Nenets Autonomous Districts.

In exploring and developing fields, Gazprom Neft strictly observes the rights of indigenous peoples and engages in a dialogue with them.

The Company provides financial support to indigenous communities, cares about preserving their national identity, and promotes the development of cultural ties between communities. A key focus of Gazprom Neft’s activities is to attract public attention to traditional occupations and crafts. In 2017, the Company approved the Corporate Policy ‘Interaction with Indigenous Minorities of the North, Siberia, and the Far East’ as well as a guideline that clearly specifies the mechanisms and focuses of work in this area.
The Company has been implementing the ambitious Native Towns social investments programme since 2013. The programme takes an integrated approach to creating an environment that is conducive to the development of the regions in which the Company operates through supporting projects that encompass all aspects of public life.

**KEY FOCUSES OF THE NATIVE TOWNS SOCIAL INVESTMENTS PROGRAMME**

'Towns for people'
Creation of a high-quality urban environment that is competitive with the opportunities offered by major towns and cities, and expanded prospects for the personal fulfilment of residents

'Fields of victory'
Fostering a healthy generation and the establishment of prominent regional sports schools

'New horizons'
Establishment of equal education opportunities for children from large and small cities

'Cultural code'
Development of the cultural potential of the regions

'Preserving traditions'
Support for the traditional ways of life of indigenous peoples of the Russian north and facilitating their integration into the modern economic and social landscape

Gazprom Neft’s social investments programme aims to support systemic positive changes in the regions by engaging local residents and enhancing their social activities. The Company views stakeholders as partners in implementing social programmes, and this cooperation is a key condition for systemic long-term changes.

**Tools for the implementation of the Native Towns programme:**
- agreements on socioeconomic cooperation with the regional and local authorities;
- the Company’s own social projects;
- grant competitions for social initiatives;
- corporate volunteering;
- targeted corporate charity.

In 2017, the Company implemented socioeconomic agreements with the governments of 21 regions of the Russian Federation and the administrations of 20 municipalities. Under the agreements, the Company invested funds in the construction and modernization of social infrastructure in the regions. The biggest social facilities included the Native Towns in Khanty-Mansiysk with 120 apartments and an ice stadium in Muravlenko.
The Gazprom Neft volunteer movement includes 4,567 people.

- The Stenograffia street art festival was held in 10 cities, including Tomsk for the first time. As part of the festival, street artists create artworks that brighten up the monochrome urban environment of the northern regions.
- The ‘Multiplying Talent’ oil- and gas-themed competition was attended by 2,366 students, including schoolchildren from the Orenburg Region and Omsk for the first time. The finalists of the senior section of the tournament, which aims to promote scientific and technical professions, received certificates from Gazprom Neft’s partner Peter the Great St. Petersburg Polytechnic University, which provided the students additional points upon admission to this university.
- Fifty-two talented young mathematicians were awarded scholarships and prizes as part of the ‘Mathematical Progression’ project to develop fundamental science. The project offers schoolchildren the opportunity to enter a prestigious university in the country, grants scholarships to talented students, and provides financial support to young researchers in applied and theoretical mathematics.
- Intensive educational courses on the development of the urban environment were held in Tyumen, St. Petersburg, Tomsk, Orenburg, and Noyabrsk. The joint project Creative Practices of the Company and the Faculty of Liberal Arts and Sciences of St. Petersburg State University seeks to find a solution to urban problems using creative industries. The intensive programmes are conducted by prominent Russian and international experts: urban specialists, economists, and cultural experts, among others.
- The Calvert Forum Siberia, an international conference on creative industries in Russia, was held in Tyumen with the Company’s support. It was attended by Chairman of the Board of the Centre for Strategic Research Alexey Kudrin, Chairman of the Gazprom Neft Management Board Alexander Dyukov, Governor of the Tyumen Region Vladimir Yakushev, Calvert Foundation Director Nonna Materkova, and over 250 Russian and foreign experts.
- St. Petersburg hosted Strelka Week – a series of free educational events conducted by experts from the Strelka Institute for Media, Architecture, and Design. More than 5,000 people attended lectures, workshops, and discussions on new approaches to studying and developing the urban environment.
- The ‘DIY City’ social projects laboratory, which was launched in 2016, held its first training session for participants. Ten local residents whose ideas for transforming the urban environment were selected from among 60 applications received expert support and training in social design.
- The ‘People Need You’ contest of student social projects was held with Gazprom Neft’s support. The final of the competition featured 47 of 143 student teams from different regions. The authors of the projects received training and consultations from experts.
- Noyabrsk and Muravlenko hosted the traditional Native Town urban festival, which has become a significant cultural event for cities. The programme of the festivals, which feature the active involvement of local residents, includes entertainment, interactive, and intellectual events.
- The fourth contest of Gazprom Neft volunteer projects was held in 2017. The competition resulted in the implementation of 58 initiatives. The Gazprom Neft volunteer movement includes 4,567 people and is developing in 38 Russian cities. The key focuses are donation, support for young people who reside at and have left orphanages and boarding schools, environmental campaigns, landscaping and urban beautification. During the reporting year, Gazprom Neft’s volunteer projects won three awards in the ‘Good Deed Champions’ competition organized by the Association of Managers of Russia.

**AWARDS**

The Company’s social programmes received awards at the ‘Corporate Charity Leaders’ contest founded by the Donors Forum in 2017.

- Prizes were awarded to the ‘DIY City’, ‘Mathematical Progression’, and ‘Stenograffia’ projects.
- The Company won awards in the categories ‘Information Transparency of Organizations’ and ‘Evaluation of social projects’.