

- to promote the exchange of information on risks between the Company's structural divisions and the joint development of risk management actions;
- to provide systematic information about risks to the Company's governing bodies.

In order to meet this objective, the Company has developed and implemented a unified approach to the risk management process, which combined with unified risk analysis tools and methods forms the Integrated Risk Management System (IRMS).

The regulatory and methodological framework of the IRMS includes the following documents:

- the Risk Management Policy;
- the Integrated Risk Management System (IRMS) Company Standard;
- methodological guidelines for the risk management process;
- additional methodological guidelines for certain types of risks and on the use of certain risk analysis tools.

Risk management constitutes an integral part of the internal environment of Gazprom Neft and includes:

- introducing a risk-oriented approach to all aspects of production and management activities;
- conducting a systematic analysis of identified risks;
- building a system to control risks and monitor the effectiveness of risk management activities;
- an understanding by all Company employees of the basic principles and approaches to risk management in place at the Company;
- providing the required regulatory and methodological support;
- allocating powers and responsibilities for risk management among the Company's structural divisions.

FLOWCHART OF RISK MANAGEMENT PROCESS AT THE GAZPROM NEFT GROUP



DEVELOPMENT OF THE INTEGRATED RISK MANAGEMENT SYSTEM

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

As of the end of 2017, the IRMS covered all major Gazprom Neft assets. Once new projects are launched or existing assets are acquired, they are included within the IRMS.

In 2018, the Company plans to continue developing regulatory and methodological documents to analyse certain substantial risks and integrate risk analysis into the decision-making process and also to expand the training programme for the Company's executives and employees on matters concerning risk management tools and methods.

DESCRIPTION OF THE MAIN RISKS

Operating

- Risks associated with geological exploration operations
- Licensing risks
- Project risks
- Risks associated with human resources
- Risks associated with occupational and industrial safety
- Environmental risks
- Risks associated with information security

Government regulation

- Risks associated with more sanctions from the EU and the U.S.
- Political risks
- Risks associated with foreign assets
- Corruption risks
- Risks associated with changes to judicial practice on matters related to the Company’s operations
- Risks associated with changes to the tax legislation of the Russian Federation
- Risks associated with changes to the rules for customs control and duties

Market

- Risks associated with a possible change in prices for purchased raw materials and services
- Risks associated with a possible change in the price of oil, petroleum products, gas, and gas products
- Risks associated with industry-wide competition
- Risks associated with a possible change in the economic environment

Financial

- Credit risk of counterparties
- Risk associated with borrowing
- Foreign exchange risk
- Interest risk

Strategic

- Risk of failing to achieve strategic goals

Partner

- Risks associated with attracting partners

Description

Risk management measures

1. OPERATING RISKS

1.1. Risks associated with geological exploration operations

One of the Company’s key strategic objectives is growth in the raw hydrocarbon resource base in quantitative and qualitative terms in order to ensure the required level of production, which in turn largely depends on the success of geological exploration. The main risks associated with geological exploration operations are the failure to confirm the planned level of hydrocarbon reserves and objective deterioration in the quality of the resource base. Another important factor is geological exploration work in different geographic regions, including regions with adverse climatic conditions and environmental restrictions, which often lead to the risk of increased costs. Estimates depend on a number of variable factors and assumptions, including the following:

- the correlation of the historical level of productivity in the region of production with the productivity of other regions that are comparable in terms of characteristics;
- the interpretation of geological exploration data;
- the effect of the requirements of government structures and legislative acts.

Gazprom Neft manages licensing risks associated with geological exploration work by making timely changes to the design documents for geological exploration

Gazprom Neft has considerable experience conducting geological exploration work and employing the latest geophysical methods to search for and explore hydrocarbons as well as advanced technologies in the drilling and development of fields, including in harsh natural and climatic conditions, which results in the decreased probability of such risks. The Company has hired the auditor DeGolyer & MacNaughton to perform an independent audit of reserves based on the estimates of the Gazprom Neft’s subsidiaries. Gazprom Neft actively cooperates with government structures at the federal and regional levels on matters concerning the sustainable use of subsoil resources