

Description

Risk management measures

2.4. Risks associated with a possible change in the economic environment

The Russian economy is sensitive to price fluctuations for crude oil, natural gas, and other raw commodities on the global market. Negative oil and petroleum product price dynamics on the global market and a slowdown in the world and Russian economy may have an adverse effect on the Company's business, limiting revenue and the volume of product markets and increase the cost of financial and other resources

In order to mitigate the negative effect of this risk on its performance results, the Company works to ensure a balance between domestic sales and exports as well as oil production and refining and also maintains a focus on expanding the markets of premium sales channels and increasing product sales in foreign countries.

Gazprom Neft subsidiaries also provide support to the country's economy as major taxpayers and take part in large-scale infrastructure and socially significant projects.

The Company is constantly improving production and working on enhancing performance efficiency, including by implementing investment projects as well as updating and modernizing fixed assets

3. FINANCIAL RISKS

Financial risks at Gazprom Neft are managed by the Company's employees in accordance with their professional activities.

The Financial Risk Management Committee determines the unified approach to financial risk management at Gazprom Neft and its subsidiaries. This approach is based on mitigating the degree of risk impact and the probability of such risks occurring by implementing the relevant measures and control procedures.

The activities of the employees of the Company and the Financial Risk Management Committee help to reduce potential financial damage and achieve stated goals

3.1. Credit risk of counterparties

Credit risk is the risk of the Group incurring financial losses caused by the failure of a customer or counterparty to perform its contractual obligations. This risk is primarily associated with the Group's existing accounts receivable of customers with investment securities

Trade and other accounts receivable are made up by the large number of counterparties working in different industries and geographic segments. Gazprom Neft is implementing a number of measures that allow for managing credit risk, including the following: assessing the creditworthiness of counterparties, establishing individual limits and payment conditions depending on the financial condition of counterparties, controlling advance payments, and measures to work with accounts receivable by business, among other things

3.2. Risk associated with borrowing

The imposition of sanctions on Gazprom Neft by the U.S., EU, and a number of other countries has significantly narrowed the range of financing instruments available to the Company

Gazprom Neft effectively manages risk associated with the borrowing of funds. Despite the levying of sanctions against the Company by the U.S., EU, and a number of other countries in 2014, the Company fully implemented a programme to attract funding in 2017 and also signed credit agreements for financing that may be used in 2018–2020, including revolving facilities, which will provide the Company's financial policy with additional flexibility and improve liquidity management efficiency

The Company is also searching for alternative sources of funding

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3.3. Foreign exchange risk	
<p>The Group is exposed to foreign exchange risk primarily due to the availability of borrowed funds that are denominated in a currency other than the functional currencies of the Group's corresponding entities, which are mainly the local currencies of the Group's companies. For example, the functional currency for companies operating in the Russian Federation is the Russian rouble. A significant portion of the aforementioned borrowings are denominated in the U.S. dollar and the euro</p>	<p>The Group's foreign exchange risk is significantly mitigated due to the availability of assets and liabilities that are denominated in foreign currency: the current structure of revenue and liabilities acts as a hedging mechanism in which multidirectional cash flows compensate for one another. The Group employs accounting using the hedging method for cash flows denominated in foreign currencies to prevent the volatility of profit and losses</p>
3.4. Interest risk	
<p>Part of the Group's loans and borrowings were raised under contracts with a variable interest rate (tied to LIBOR, Euribor, or the Bank of Russia's key rate). To minimize the risk of adverse changes in LIBOR and Euribor rates, the Group's Treasury conducts a periodic analysis of current interest rates on the capital market and, depending on the results of this analysis, decides whether to hedge the interest rate or borrow money at fixed or variable rates</p>	<p>Changes in the interest rate primarily affect the principal of debt, altering either its fair value (at a fixed interest rate) or the amount of future cash outflows using the instrument (at a variable rate). When attracting new loans or borrowings, the Group's management decides on the basis of its own professional judgments and information on current and expected interest rates on long-term lending markets whether to raise borrowed funds at fixed or variable rates depending on which rate (in conjunction with other parameters of the loan or borrowing) will be more profitable for the Group</p>
4. RISKS ASSOCIATED WITH GOVERNMENT REGULATION AND POLITICS	
<p>Gazprom Neft carries out its activities in strict compliance with the standards of Russian legislation as well as the legislation of the jurisdictions in which the Company performs its operations.</p>	
<p>Gazprom Neft cannot guarantee the absence of adverse changes in Russian legislation in the long term since most risk factors are out of its control. The negative impact of this risk category is mitigated by monitoring and timely reaction to changes made to various sections of legislation as well as active interaction with the legislative and executive authorities and public organizations on matters involving the interpretation, proper application, and improvement of legislative norms</p>	
4.1. Risks associated with more sanctions from the EU and the U.S.	
<p>In 2014, the U.S. (taking into account the changes in U.S. sanctions in 2017), EU countries, and certain other nations imposed sanctions on the Russian energy sector and a number of Russian companies from different industries. Further sanctions could negatively impact the overall situation in the industry and also have a specific effect on the Company's long-term projects and the ability of its counterparties to meet their obligations</p>	<p>The sanctions have had a negligible effect on the Company's business and financial condition. In response, the Company is implementing a targeted programme to phase out imported services and equipment. The Company has no grounds to believe that it will be specifically targeted by any new sanctions, but the sanctions may have a specific effect on the Company's long-term projects. At present, based on an assessment of the impact of the sanctions, the Company does not believe that they will have a significant effect on the consolidated financial statement</p>
4.2. Political risks	
<p>The political situation in Russia is currently stable, as evidenced by the stability of the federal and regional branches. Gazprom Neft PJSC is registered as a taxpayer in St Petersburg, which is the second largest city in the Russian Federation and the administrative centre of the Northwest Federal District with significant natural resource potential, highly developed industry, and an extensive transportation network. Gazprom Neft PJSC has subsidiaries in the Central, Northwest, Urals, Volga, Siberian, and Far Eastern Federal Districts</p>	<p>Overall, the Company regards the political situation within the country as stable and believes that there are currently no risks of negative changes</p>