

Description	Risk management measures
2. MARKET RISKS	
Gazprom Neft's core businesses are oil and gas production, oil refining, and the sale of oil and petroleum products, thus the Company is exposed to risks that are traditionally inherent to the oil and gas industry, namely:	
<ul style="list-style-type: none"> ■ risks associated with a possible change in prices for purchased raw materials and services; ■ risks associated with a possible change in oil and petroleum product prices; ■ risks associated with industry-wide competition; ■ risks caused by economic instability in the industry 	
2.1. Risks associated with a possible change in prices for purchased raw materials and services	
<p>In the process of its business operations, Gazprom Neft uses the infrastructure of monopoly service providers for the transportation of oil and petroleum products and the supply of electricity and also uses raw materials and services that are purchased from a wide range of suppliers. The Company has no control over the infrastructure of these monopoly service providers, the amount of tariffs charged, or the pricing of raw materials and services by suppliers</p>	<p>The Company is implementing a number of measures that aim to mitigate the impact of such risks:</p> <ul style="list-style-type: none"> ■ long-term planning of commodity flows and the timely provisioning of the cumulative flow of oil and petroleum products as well as the necessary rolling stock; ■ the optimal redistribution of commodity flows by transportation type; ■ the use of alternative and internal sources of power generation; ■ long-term contracting with fixed volumes and prices for the entire duration of the contracts; ■ the use of transparent cost revision formulas as part of long-term service contracts that are strictly dependent on market fluctuations. <p>These measures make it possible to reduce risks associated with the use of services and the acquisition of goods from monopoly providers to an acceptable level and ensure the Company's uninterrupted operations</p>
2.2. Risks associated with possible changes in the price of oil, petroleum products, gas, and gas products	
<p>The Company's financial indicators are directly related to the price level of crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on fluctuations related to the balance of supply and demand on the global and domestic markets for crude oil and petroleum products as well as the actions of the regulatory authorities</p>	<p>The Group has a business planning system which at its core has a scenario-based approach for determining the Company's key performance indicators depending on oil prices on the global market. This approach makes it possible to cut costs, including by reducing them or carrying them over to future periods of investment programmes as well as other mechanisms.</p> <p>These measures enable the Company to reduce risks to an acceptable level.</p>
2.3. Risks associated with industry-wide competition	
<p>There is intense competition in the Russian oil and gas industry between the leading Russian oil and gas companies in the main areas of production and economic activities, including:</p> <ul style="list-style-type: none"> ■ the acquisition of licenses for the right to use subsoil resources to produce hydrocarbons at auctions organized by the government authorities; ■ the acquisition of other companies that own licenses for the right to use subsoil resources to produce hydrocarbons or that own existing assets associated with production raw hydrocarbons; ■ the hiring of leading independent service companies; ■ the acquisition of high-tech equipment; ■ the hiring of experienced and the most qualified specialists; ■ access to critical transportation infrastructure; ■ the acquisition of existing assets and the construction of new assets that increase the product sales volume to end users. 	<p>The implementation of the portfolio of strategic projects that aim to develop key areas of Gazprom Neft's business ensures the gradual strengthening of the Company's positions in the oil and gas industry through a reduction in risks associated with industry-wide competition</p>
<p>In addition, there is competition from the suppliers of alternative energy sources, including coal and nuclear energy as well as renewable energy sources</p>	

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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