

| Description | Risk management measures |
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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> |

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| 4.3. Risks associated with foreign assets | |
| <p>The Company is implementing a number of foreign projects that aim to expand the geography of production operations. Entering new regions is associated both with the ability to obtain additional competitive advantages as well as the risks of underestimating the economic and political situation in countries where the Company's assets are located, which subsequently may lead to the failure to achieve planned performance indicators</p> | <p>At present, Gazprom Neft assesses the level of risks associated with foreign assets as acceptable, however it cannot guarantee the absence of negative changes since the risks described are beyond the Company's control</p> |
| 4.4. Corruption risks | |
| <p>As the Company actively enters new international markets, the risk increases of U.S. or UK anti-corruption laws extending to it</p> | <p>Gazprom Neft pursues a strategy of corruption risk management on an ongoing basis. The Company has approved an anti-fraud and anti-corruption policy, and all Gazprom Neft subsidiaries have been given recommendations to approve similar policies. All Gazprom Neft employees are required to review and comply with the policy requirements. In order to monitor corruption risks when working with third-party contractors, standard forms of anti-corruption reservations have been prepared and approved by an order of the Gazprom Neft CEO for inclusion in contracts with third parties (both Russian and foreign). The Company also has a permanent anti-fraud and anti-corruption hotline. An internal inspection is conducted in response to hotline complaints</p> |
| 4.5. Risks associated with changes to judicial practice on matters related to the Company's operations | |
| <p>In the existing system used to administer the law in the Russian Federation, the legal positions of the highest judicial instances (the Constitutional Court of the Russian Federation and the Supreme Court of the Russian Federation) that are capable of influencing the conditions for the Company to conduct business activities are of great importance</p> | <p>Gazprom Neft regularly monitors decisions adopted by higher courts and also assesses trends in law administration practices that take place at the level of federal district arbitration courts while actively employing and utilizing such practices not only in defending its rights and legitimate interests in court, but also when settling legal issues that arise in the Company's operations. In this regard, risks associated with a change in judicial practice are deemed to be insignificant.</p> <p>In 2014, the Supreme Arbitration Court and the Supreme Court of the Russian Federation were merged. The legal practice that has amassed since the merger on issues related to the activities of oil and gas companies is not yet sufficiently extensive, so it is difficult to forecast its further development with any certainty. Changes that may adversely affect the Company's current and future litigation are possible, including in the practice of the Supreme Court</p> |
| 4.6. Risks associated with changes to the tax legislation of the Russian Federation | |
| <p>The Gazprom Neft Group's key companies are among the biggest taxpayers in the Russian Federation and pay federal, regional, and local taxes, in particular VAT, the corporate profit tax, mineral extraction tax, corporate property tax, and land tax.</p> <p>The taxation system of the Russian Federation is continuously evolving and improving. Potential growth in tax rates paid by the Company as part of its business operations may lead to increased costs and a reduction in the amount of cash at the Company's disposal to finance its day-to-day operations and capital expenditures and meet its obligations, including on outstanding bonds. Virtually any company in Russia may potentially incur losses as a result of claims by the tax authorities that may arise for previous periods and day-to-day operations. However, the Company estimates such risks as average.</p> <p>The Company believes that the impact of the obligations arising as a result of such potential events on its operations would not be any more significant than the impact of similar obligations on other Russian oil sector companies with government participation</p> | <p>In order to mitigate risks related to changes in the tax legislation of the Russian Federation, Gazprom Neft carries out thorough work to analyse bills and legislative acts that have been adopted in tax legislation.</p> <p>The most significant recent changes to the tax legislation of the Russian Federation affecting the issuer's activities include:</p> <ul style="list-style-type: none"> ■ changes to the base rates of the Mineral Extraction Tax (MET), export duties, and excise taxes as a result of so-called 'tax manoeuvring'; ■ changes to tax legislation concerning the taxation of the profit of controlled foreign companies and the revenue of foreign organizations as part of the "de-offshorization" of the Russian economy that has been carried out since 2015; ■ the introduction of a formulaic procedure for calculating the MET for gas and gas condensate on 1 July 2014. <p>The Company evaluates and predicts the extent of a possible negative impact from changes to the tax legislation of the Russian Federation and makes every effort to minimize risks related to such changes</p> |

Description**Risk management measures****4.7. Risks associated with changes to the rules for customs control and duties**

Gazprom Neft PJSC is involved in foreign economic relations and therefore exposed to risks associated with changes to the legislation of the Russian Federation concerning the government regulation of foreign trade activities as well as customs legislation governing relations to establish the procedure for the movement of goods across the customs border of the Russian Federation, establishing and applying customs regimes as well as establishing, introducing, and collecting customs payments.

Another risk may be the ability of the Russian Government to change customs duty rates (both import and export) on certain goods for which the Company concludes foreign trade transactions as well as changes to the administration of law in matters concerning customs regulation. The primary adverse effect from this risk is an increase in expenses and lower export efficiency

The Company meets the requirements of the customs legislation of the Russian Federation, completes all documentation required for both export and import transactions in a timely manner, and has sufficient financial and human resources to comply with the standards and rules in matters of customs regulation and timely respond to changes in customs legislation and the law administration practice

5. STRATEGIC RISKS**5.1. Risk of the failure to achieve strategic goals**

The Company's existing Strategy was drafted and approved by the Board of Directors in 2013 when the market environment was favourable. However, since 2014 there have been significant changes in the situation on the oil and petroleum products market as well as foreign policy conditions.

In the long term, the state of the global fuel and energy industry depends on many factors that are hard to predict, such as the rate of economic growth, the level of international cooperation, the speed of technology development, and the intensity of the decarbonization policy. These factors determine the following key parameters of the environment in which the Company operates in addition to the oil and gas sector as a whole: the price of oil, the volume of petroleum product consumption, tax regulations, access to technology, and opportunities for international development.

Significant changes in the external environment may affect the Company's ability to achieve its strategic goals

The Company regularly monitors market trends and takes into account the threats and opportunities created by the instability of the external environment in its approaches to managing the project portfolio. The Company soundly distributes resources among major strategic projects, such as offshore development and the development of unconventional reserves as well as projects that ensure a rapid return on investment and hence the current sustainability of the Company.

An important tool for enhancing sustainability for the Company is also to increase efficiency in all processes through modernization, the use of new technologies, digitization, the development of competencies, and the increased safety of operations.

Focusing on flexibility in decision-making, technology development, greater operational efficiency, and safety enables the Company to annually demonstrate impressive results in its production activities and stable positive dynamics in financial and economic indicators. Despite significant changes in the external environment, the strategic goals set for 2025 remain achievable.

Nevertheless, the signing of the agreement by oil exporting OPEC+ countries on a reduction in production starting in 2017 and its prolongation in 2018 may lead to an adjustment in the pace at which the Company reaches its strategic level of hydrocarbon production (100 million TOE per year). The Company planned to reach this level as early as 2020 and maintain a production volume of at least 100 million TOE per year until 2025. At present, the likely scenario is to achieve the target production level by 2021-2022. At the same time, the strategic goal of maintaining the production level at a rate no lower than 100 million TOE until 2025 remains relevant and achievable

6. PARTNER RISKS**6.1. Risks associated with attracting partners**

Given the unstable macroeconomic situation, attracting partners to implement joint projects is both a critical and difficult task. With the large-scale reduction in investment budgets, potential partners are curtailing their activities, and decisions to join new projects are being postponed indefinitely.

The sanctions that have been imposed since 2014 by the United States (taking into account the changes that were adopted in the U.S. sanctions in 2017), EU countries, and certain other states on the Russian energy sector create an additional constraint on the development of partnerships

The Company conducts continuous work with potential partners and mulls the possibility of attracting partners from the Russian Federation and Asia-Pacific region countries that did not impose sanctions on offshore, Arctic, deep-water, and shale projects. Regular negotiations and meetings are held as part of this process, including with the involvement of representatives of the following government authorities: the Government of the Russian Federation, Russian Ministry of Energy, Ministry of Foreign Affairs and Ministry of Economic Development