

GLOBAL TRENDS AND ESTABLISHING LONG-TERM ADVANTAGES

ONE DISTINCT FEATURE OF THE MODERN ECONOMIC LANDSCAPE IS THE ULTRAFAST RATE OF CHANGE, WHICH CREATES NEW CHALLENGES FOR ALL MARKET PLAYERS. THIS CAN MOST CLEARLY BE SEEN IN THE PRODUCTION AND REFINING OF OIL AND GAS. THE PAST FEW YEARS HAVE RESULTED IN SIGNIFICANT CHANGES TO THE STRATEGY OF LEADING PLAYERS IN THE INDUSTRY. PRICE VOLATILITY REQUIRES COMPANIES TO HAVE AN EXTREMELY HIGH LEVEL OF OPERATIONAL EFFICIENCY AND THE ABILITY TO COMPETE SUCCESSFULLY UNDER ANY MARKET CONDITIONS.

KEY GLOBAL TRENDS AND THE COMPANY'S RESPONSE

Global trend	Description of the trend
OIL AND PETROLEUM PRODUCT PRICE VOLATILITY ON THE GLOBAL MARKET	The volatility of market conditions in various segments of the oil industry confirms the importance of an integrated business model and creates high demands for operational efficiency.
GROWING COMPETITION AMONG ENERGY PRODUCERS	In recent years, rivalries among producers of various energy resources have significantly intensified. Competition is not only growing among companies and producer nations, but also among different classes of production and energy resources – oil, gas, and renewable energy sources (RES).
INCREASED TECHNOLOGICAL COMPLEXITY OF PRODUCTION PROJECTS	The volume of conventional reserves is decreasing in the structure of oil and gas companies' portfolios. The potential for future production is concentrated in unconventional and technologically complex segments such as offshore, shale, and other hard-to-recover reserves. Some of the world's largest companies have acquired assets in shale oil production, and some companies have designated this segment as the focus of growth for the next few years.
RAPID TECHNOLOGICAL TRANSFORMATION OF ALL SPHERES OF BUSINESS	In the 21st century, technology is developing at a pace that has not been seen before in the history of mankind. This leads to rapid changes that are radically altering the landscape of the energy industry.
GROWING IMPORTANCE OF ENVIRONMENTAL FACTORS	Environmental issues are having an increasing impact on the activities of the global energy industry.

AUTOMATED DIGITAL PRODUCTION

The fourth industrial revolution ('Industry 4.0') involves a transition to fully automated digital production that is controlled by artificial intelligence systems and is part of the global Internet of things and services.

In the broad sense, 'Industry 4.0' signifies a fundamentally new level of industrial management in which components of artificial intelligence, big data analysis, digital modelling as well as virtual and augmented reality are all combined into an integrated system.

Simultaneously, radical technological transformations are taking place as well. The main technological breakthroughs of the 2010s were horizontal drilling, hydraulic fracturing as well as shale mining and offshore production methods. In 2016-2017, these capabilities were supplemented with digital modelling, big data analysis, and the use of artificial intelligence, remote production management, and blockchain in supply chains.

Gazprom Neft strives to introduce the most advanced methods of oil exploration, production, and refining in its operations. As a result, the Company has become a flagship of the Fourth Industrial Revolution ('Industry 4.0') by providing an impetus for the technological development of the entire Russian oil industry.

But new technologies require new management methods. Gazprom Neft's responses to key global trends have not been haphazard, but have consisted of a systematic process of managing changes and a range of complex technical and organizational transformations. The use of high technologies, complete vertical integration that encompasses the entire value chain, and the efficiency of all business processes have enabled the Company to successfully implement its strategy and turn challenges into opportunities.

What does this mean for Gazprom Neft?	Our solution	
The financial and operational efficiency of the value chain remains a priority for the Company.	New technologies enable the Company to make optimal decisions and increase efficiency and profitability throughout the chain – from exploration and production to refining and sales.	 Read more in the 'Strategy in action' section on p. 18
The Company must maintain its leadership in terms of efficiency in the industry while successfully and rapidly implementing technological projects.	Gazprom Neft is the technological flagship of the Russian oil industry. The Company has experience implementing projects that have no analogues in Russia or the rest of the world. Such projects include the world's only Arctic oil platform and the construction of complex infrastructure in permafrost conditions, among other things.	 Read more about the Company's large-scale projects in the 'Establishing technological leadership' section on p. 26
The Company's resource base has gradually deteriorated in terms of the remaining commercial reserves as conventional fields are in a late stage development. There is a growing need to incorporate hard-to-recover hydrocarbon reserves into development.	Gazprom Neft increases its share of high-tech projects each year, employing the best practices and technologies in geological exploration. 3D-modelling systems, cloud technologies, big data, and artificial intelligence have all made it possible to substantially enhance the efficiency of work. The Company is developing its own unique technologies, for example for the Bazhenov formation.	 Read more in the 'Raw materials base and production' section on p. 52
The company must effectively manage the process of technological changes in order to maintain a high level of competitiveness.	The winning companies are the ones that introduce innovations more quickly and better than the rest and manage to build an uninterrupted process for enhancing their performance in order to remain a leader.	 Read more in the 'Innovative infrastructure' section on p. 82
As a major company operating on several continents, Gazprom Neft should contribute to preserving the environment in the regions where it operates and be an example of responsibility in environmental matters.	As a socially responsible company, Gazprom Neft is building an environmental strategy using the world's best practices.	 Read more in the 'Mitigating negative environmental impacts' section on p. 101