



AIMING HIGHER



ANNUAL REPORT 2020



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Online Annual Report
2020

About the Report

This Report by Public Joint Stock Company Gazprom Neft ("Gazprom Neft PJSC", the "company") for 2020 includes the results of operational activities of Gazprom Neft PJSC and its subsidiaries, collectively referred to as the Gazprom Neft Group (the "Group"). Gazprom Neft PJSC is the parent company of the Group and provides consolidated information on the operational and financial performance of the Group's key assets for this Annual Report. The list of subsidiaries covered in this Report and Gazprom Neft PJSC's interest in their capital are disclosed in notes to the consolidated IFRS financial statements for 2020.

This Report is prepared based on the analysis of operational data, consolidated IFRS financial indicators, and international GRI Guidelines. Information provided in the Report has been approved by the company's Board of Directors and the Annual General Meeting of Shareholders. In calculations of shareholdings, percentages and total amounts, the Annual Report may contain discrepancies as a result of rounding. Data contained in the Annual Report may differ insignificantly from previous disclosures, also as a result of rounding.

The Gazprom Neft PJSC 2020 Annual Report has been provisionally approved by the Board of Directors (Minutes No. PT-0102/24 of 10.05.2021).

The Gazprom Neft PJSC 2020 Annual Report has been approved by the General Meeting of Shareholders held on 11 June 2021 (Minutes 0101/01 of 15 June 2021).

GAZPROM NEFT AT A GLANCE

GEOGRAPHICAL FOOTPRINT

Gazprom Neft and its upstream subsidiaries are engaged in oil and gas exploration, development and production in Russia, Iraq and Serbia. The company's main refining facilities are located in Russia and Serbia. The company's retail network throughout Russia, the CIS and the Balkans has a total of 2,131 filling stations.

THE GEOGRAPHIC RANGE OF THE COMPANY'S PRESENCE

110 COUNTRIES

PRODUCTS SOLD

> 100 COUNTRIES¹

UPSTREAM ASSETS

IN 6 COUNTRIES

PRODUCTION FACILITIES

IN 6 COUNTRIES

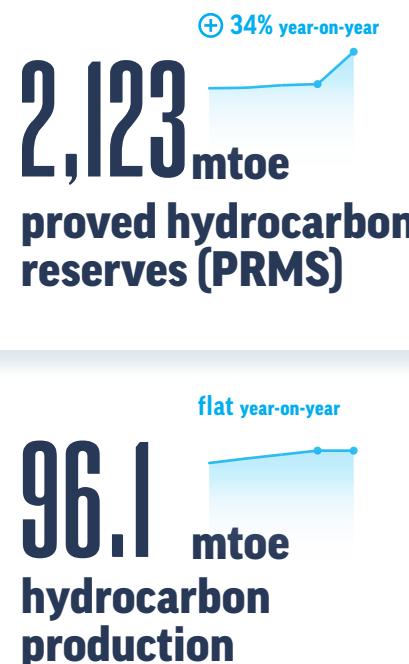


Gazprom Neft at a glance

Gazprom Neft PJSC¹ is a vertically integrated oil company.

Its core activities include exploration, production and sale of oil and gas, refining, and production and distribution of petroleum products.

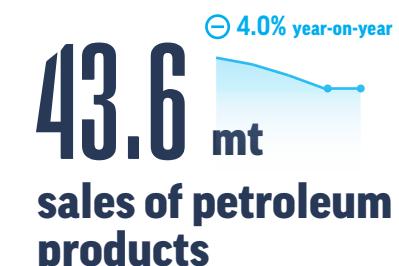
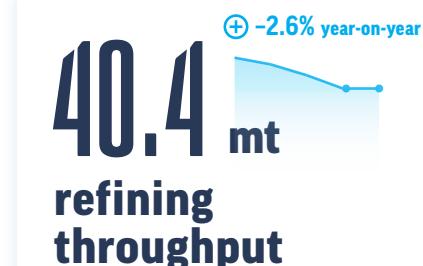
Gazprom Neft proved liquid hydrocarbon reserves under PRMS² classification are comparable to those of global oil majors.



Our response to the challenges of 2020

By targeting fast responses and leveraging teamwork and new technologies, the company protected the health of its employees and ensured operational continuity while securing the financial stability of its business. The measures taken have enabled us to end 2020 without loss of efficiency.

For more details, see pages 62-117



AN INDUSTRY LEADER IN TECHNOLOGY

For more details, see pages 122-135

By 2030, thanks to leading-edge technology, Gazprom Neft intends to halve the time to first oil, to speed up the implementation of major oil and gas projects by 40%, and to reduce production management costs by 10%.

Digital technologies in exploration and production

- Artificial intelligence to analyse geological data and search for new oil deposits
- Digital twins of oilfields and a digital platform to enhance the effectiveness of seismic surveys
- Unmanned aerial vehicles to carry out remote data analysis

Unique achievements in delivering major projects

- Priazlomnoye: the first – and so far the only – oil production project on the Russian Arctic shelf
- Novy Port: a unique logistics strategy to ensure year-round transportation of Arctic oil
- Messoyakha: associated petroleum gas reinjection project, now implemented

High-tech oil refining

- Euro+ combined oil refining unit (CORU)

Enhanced hydrocarbon recovery technologies

- The Asset of the Future programme
- Technologies for the production of hard-to-recover oil (Bazhenov Formation, Achimov Formation and oil rims at gas condensate fields)
- Expertise in operations on the Arctic shelf

Comprehensive innovation management

- A science and technology cluster comprising 14 innovation centres (St Petersburg)
- Dedicated research centres and technology parks
- Active development of import substitution

Smart logistics

- A pioneering Arctic-specific logistics management system
- Automated systems for loading and dispatching petroleum products
- Digital management of the company's own fleet of fuel trucks, refuellers and bitumen trucks
- Digital logistics spaces: automated warehouses and unmanned vehicles for freight transport

Digitisation of the distribution system

- Petroleum-product quality control system deployed throughout the value chain
- Development of digital services and petroleum product sales services

A COMPANY COMMITTED TO SUSTAINABLE DEVELOPMENT

For more details, see pages 230-263

Gazprom Neft is consistently integrating principles of sustainability into its strategy and operations. Our priorities include care for natural ecosystems, safe production, the protection of employee health, and improving the quality of life in the regions where we operate.

HSE

- Strategic priority: Target Zero¹
- Development of a safety culture
- Automation of HSE management processes

Environmental protection

- Environmental management system
- Biodiversity conservation programme
- Greenhouse gas emissions accounting and monitoring
- Implementation of the Programme on utilisation and more effective use of associated petroleum gas (APG)

Personnel development

- A single incentive model for employees
- Partnership with trade unions
- Training, leadership and career development programmes

Well-being of local communities

- Home Towns social investment programme
- Support for the indigenous minorities of the Russian Far North
- Import substitution and local sourcing programmes

A FORWARD-LOOKING BUSINESS

For more details, see pages 16-59

The company's strategy is to become a leader in priority technologies: increasing the oil recovery factor at mature fields, developing multi-phase deposits and low-permeability reservoirs, undertaking cost-effective and safe shelf operations in ice conditions, upgrading oil refining facilities, and developing cutting-edge catalysts.

Gazprom Neft will be able to produce tens of millions of tonnes of incremental volumes and boost refining efficiency by implementing a number of major initiatives, in particular: cutting lifting costs at new production projects in the Yamalo-Nenets Autonomous Okrug, developing a range of technologies to unlock unconventional reserves, facilitating the viable deployment of surfactant-polymer (SP) flooding and miscible gas displacement technologies, and building a high-tech catalyst plant.

¹ – Hereinafter referred to as the “company” or “Gazprom Neft”.

² – Petroleum Resources Management System.

1 – Zero harm to people, the environment, or property in our operations.

The goal of the Gazprom Neft Strategy to 2030

To strengthen our market position and become a benchmark for global industry peers in terms of efficiency, safety and technological advancement.

- Managing the value chain as a single asset
- An agile investment decision-making framework
- Highly efficient refining achieved through a refinery modernisation programme
- Extensive resource base
- An operational efficiency and HSE system covering all areas of the company's business
- Growth in dividend payments
- Digitising the entire production chain to improve performance
- Organisational, operational, cultural and digital transformations across the company
- Target Zero – zero harm to people, the environment, or property in our operations
- Following the best available environmental practices

₽1,503 billion
market capitalisation as at 31 December 2020

≥ 50%
of net profit¹ – target dividend payout

Investment grade credit ratings

ACRA
AAA(RU)
Stable outlook

MOODY'S
Baa2
Stable outlook

FITCH
BBB
Stable outlook

S&P
BBB-
Stable outlook

¹ – In accordance with the Gazprom Neft PJSC Dividend Policy Regulation (new version dated 29 December 2020). Net profit is calculated taking into account adjustments for foreign exchange gain (loss), foreign exchange rate differences on operating items, impairment loss on fixed assets and assets under construction, revaluation of financial investments and a number of other indicators.

The company's standing in the industry

No. 1

24.3% adjusted EBITDA margin
6.2% ROACE¹
16.97 tonnes per day – average daily retail sales

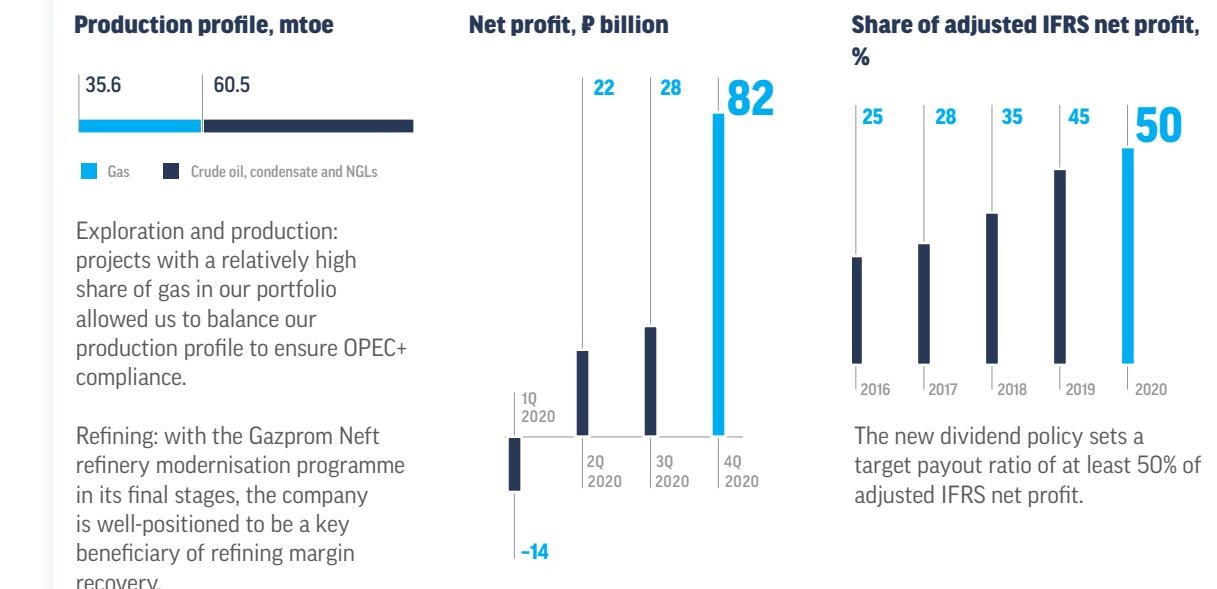
No. 2

₽323.2 EBIT per barrel of oil produced
₽4,128.3 lifting cost per barrel of oil produced

No. 3

96.1 mtoe hydrocarbon production
60.5 mt of oil and oil condensate production

Thanks to our balanced approach to asset management, we have delivered three consecutive quarters of net profit growth, giving us a stable financial position to justify the payment of an interim dividend.



Operational strengths



- The investment programme responds flexibly to changes in the market
- Lifting costs per barrel were optimised despite the macroeconomic headwinds
- The company retains the potential to increase current production

Creating sustainable value for shareholders

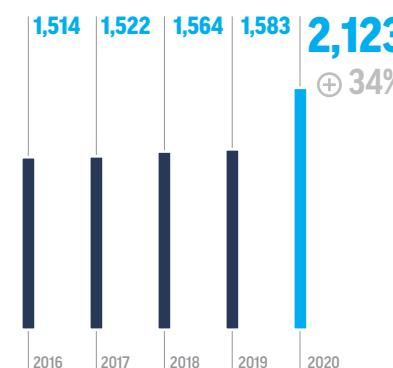
- Driven by our commitment to increased openness and transparency, we joined the UN Global Compact and obtained the highest climate score from the CDP (Carbon Disclosure Project) initiative
- The company has achieved a 9.7% reduction in Scope 1 and Scope 2 GH_G emissions
- Gazprom Neft is seeking to minimise its environmental footprint, considering alternative energy sources to support own assets, and is performing environmental emergency-response drills in the Arctic
- Zero fatal accident rate (FAR) has been achieved

¹ – Return on average capital employed.

CONTINUOUS RESERVES GROWTH

Gazprom Neft continued to actively develop its resource base in 2020. This significant increase in the Group's proved reserves (+34%) was driven by farm-in reserve additions at oil rims and Neocomian-Jurassic gas and gas condensate deposits at Gazprom PJSC fields developed under long-term risk operatorship agreements.

Proved hydrocarbon reserves, mtoe

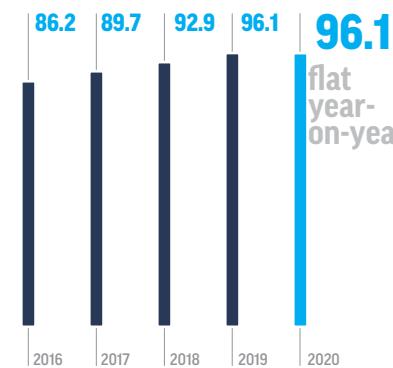


STABLE HYDROCARBON PRODUCTION

Under the OPEC+ agreement, the company cut oil production but secured an increase in gas and condensate production. The increase was achieved by commissioning new wells at the Arcticgas fields and at the Novoportovskoye field, launching additional production capacity that increased APG utilisation at fields in the Tomsk and Orenburg Oblasts, and starting up the new gas treatment unit at the Vostochno-Messoyakhskoye field in the Yamalo-Nenets Autonomous Okrug.

⊕ For more details, see "Resource base and production" on page 62

Hydrocarbon production, mtoe

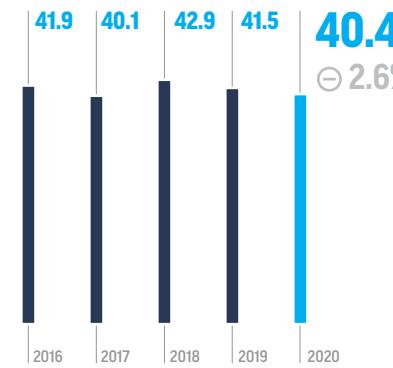


SUCCESSFUL REFINERY MODERNISATION PROGRAMME

In 2020, Gazprom Neft continued implementing its programme to develop its refining facilities, aimed at increasing refining depth and efficiency, as well as further reducing the company's environmental impact. In July, the Moscow Refinery celebrated the launch of Russia's first Euro+ combined oil refining unit. Refinery modernisation projects have enabled the company to boost production of high-octane gasolines by 5.1% and diesel fuels by 5.7%.

⊕ For more details, see "Refining and manufacturing" on page 81

Refining throughput, mt



2020 highlights

In 2020, Gazprom Neft ensured a high level of COVID-19 protection for its employees, partners and customers; maintained the continuity of all operating processes and retained financial stability; significantly increased its hydrocarbon reserves and sustained stable production levels.



The year 2020 confirmed that we can rely on our flexible, distributed governance model, which enabled important decisions to be made in a timely fashion, with Gazprom Neft adapting fast to a rapidly-evolving environment. Many employees are willing to take ownership of issues, proactively proposing a course of action to managers, rather than waiting for orders from above.

FIGHTING COVID-19 TOGETHER



GAZPROM NEFT
vs. COVID-19

Amid the COVID-19 pandemic, we ensured the continuity of all operational processes. Production assets did not halt operations for a minute. In addition to protecting the health of our employees and partners, Gazprom Neft helped hospitals and volunteers, as well as local communities across our footprint. Our flexibility, human focus, new organisational approaches and active process digitisation helped us accomplish the most challenging of tasks with maximum efficiency.

⊕ For more details, see "2020 Challenges" on page 28

RESPONSIBLE ATTITUDE TO THE ENVIRONMENT

As part of the consistent implementation of its sustainability policy, in 2020, Gazprom Neft joined the UN Global Compact, the largest voluntary international initiative for sustainable development and corporate social responsibility. Gazprom Neft has also achieved the highest score among Russian oil companies in the Carbon Disclosure Project (CDP), the world's leading environmental disclosure and performance rating system.

⊕ For more details, see "Sustainable development" on page 230

2.7+ million items of PPE donated to doctors

10 principles of the UN Global Compact are embedded in the company's business strategy and operations

LETTER FROM THE CHAIRMAN
OF THE BOARD OF DIRECTORS

Dear shareholders and investors,

2020 was a challenging year for the entire global economy. Despite the constraints imposed under the COVID-19 pandemic and the subsequent sharp deterioration in the global oil and gas market, Gazprom Neft's development continued in line with the objectives outlined under the company's long-term strategy.

Gazprom Neft was the first Russian oil company to start communicating clearly and openly what the strategy was for operating under the pandemic. A series of initiatives was quickly put in place to protect employees' health and wellbeing, and to ensure the consistent uninterrupted operation of Gazprom Neft's fields and facilities.

This year saw a major new hydrocarbon cluster – covering the Khanty-Mansi Autonomous Okrug-Yugra and the Tomsk Oblast – go into full-scale development. Preparations for developing liquid hydrocarbons at the Gazprom Bovanenkowskoye and Kharasaveyskoye fields on the Yamal peninsula are going at full speed. Gazprom Neft saw major successes in working with hard-to-recover oil, developing a prototype for working with hydrocarbons in Bazhenov strata – deployment of which will allow the company to commence profitable oil production at the Bazhenov Formation (an asset with colossal resource potential).

The company is continuing its implementation of a major programme to modernise and upgrade its refining assets. In 2020, the unique Euro+ oil refining complex was launched at the Moscow Refinery. In Pancevo, at the NIS refinery (the Gazprom Neft Serbian asset), a delayed coking complex was put into operation. This allowed us to increase the oil refining depth to 99% – one of the highest rates in the world oil refining.

Gazprom Neft's retail operations saw some proactive development, with the company significantly expanding its geographic coverage for deliveries of high-tech bitumen materials – supplying products for use in the construction of strategic transport corridors in South America, as well as projects in Scandinavia and the Baltic.

Construction of Russia's first ever LNG-bunkering vessel is reaching completion, with the Dmitry Mendeleev – designed for refuelling freight and passenger vessels with environmentally-friendly LNG – having been successfully floated in December 2020. The vessel is expected to go into operation in 2021.

The company remains committed to ensuring maximum environmental friendliness in pursuing its strategic operational objectives. For which reason, every one of the company's projects includes an environmental element. The effectiveness of the company's work in sustainable development was confirmed by Gazprom Neft PJSC receiving the highest ranking of all Russia's oil companies in the prestigious Climate Disclosure Project (CDP) 2020 survey.

In the face of a very challenging year Gazprom Neft recorded a strong financial performance, ensuring the business's ongoing sustainability and increasing the dividend payout to 50% of net profit.

The company has, once again, confirmed its ability to adapt to any economic situation quickly, maintaining financial and operational stability in the face of considerable uncertainty. I have every confidence that Gazprom Neft will continue its consistent progress in achieving the company's long-term strategic goals, and will maintain its impetus in delivering projects of strategic importance to the entire oil industry.

96.1 mtoe
flat year-on-year
hydrocarbon production

+36.6%
increase in proved
and probable hydrocarbon
reserves

ALEXEY
MILLER

Chairman of the Board
of Directors
Gazprom Neft PJSC



STRATEGIC REPORT



The illustration is an artistic visualization of work processes. The photographs used in the illustration were taken during the pre-pandemic period.

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders and investors,

Gazprom Neft has proved more than capable in responding to the unprecedented challenges of 2020 – specifically the COVID-19 pandemic, and the sharp drop in both the oil price and global oil demand. We succeeded in making sure that our employees, partners and clients were well protected against coronavirus, while ensuring the continuity of all operational and production processes, and maintaining the company's financial stability. This challenging year has confirmed the value of placing our bets on a flexible management model: major decisions have been taken promptly, and Gazprom Neft has adapted quickly in the face of the ever-changing external environment.

Despite the collapse in global demand for oil together with the impact of the OPEC+ agreement, the company succeeded in keeping hydrocarbon production volumes at 2019 levels that is largely the result of effective asset management and higher gas production. The nature of our investment portfolio means gas is likely to account for an increasing proportion of Gazprom Neft's total production over the next few years – diversification that will allow us to become still more resilient in the face of changing market dynamics.

The company's hydrocarbon reserves (PRMS) stood at 2.1 billion tonnes of oil equivalent (btoe) in 2020, up 34% year-on-year. In 2020, Gazprom Neft discovered 3 fields in the KhMAO-Yugra and the Orenburg Oblast, and obtained subsoil usage rights to 18 new license blocks. The main contribution to such significant growth in the company's resource base came from those fields designated for development under long-term risk-operatorship agreements with Gazprom PJSC.

₽ 117.7 billion
**net profit attributable
to Gazprom Neft shareholders**

In the face of highly volatile market conditions, an integrated planning and monitoring system has allowed Gazprom Neft to maintain technological flexibility throughout its refineries – including increasing the light product yield (specifically gasoline and diesel fuels) during 2020. The company is continuing its scalable refineries modernisation programme, including the commissioning of the Euro+ complex at the Moscow Refinery in 2020, and the commissioning of a deep refining complex at Serbia's NIS (in which Gazprom Neft is a shareholder).

Developing bespoke digital services has been a feature of the Gazprom Neft filling station network for several years now: something that proved in considerable demand throughout 2020, with many clients grabbing the opportunity to pay for fuel at our service stations online, filling up as conveniently and as safely as possible.

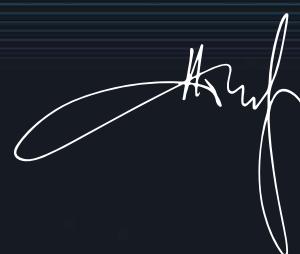
The company continued developing its "partnership ecosystem" throughout 2020, establishing a joint venture with a longstanding strategic partner, Shell, to undertake geological prospecting at promising locations around the Yenisei river estuary. Gazprom Neft is establishing and developing partnerships not only throughout traditional oil businesses, but also in logistics, digital technologies and many other areas of business activity. Universities and higher educational institutions are front of mind here – not just in supplying us with candidates and employees, but also in helping find solutions to complex technological challenges.

Gazprom Neft recorded a net profit in 2020. More than that, the company remained profitable even during the most challenging first six months of 2020. We maintained our practice of paying interim dividends, increasing the total dividend payout to 50% of net profit (IFRS).

Our 2020 results testify not only to the company's timely response to the crisis, but also to its having become still more efficient. This achievement is down to our employees: a team of like-minded people, bound together by common values and goals. We will be continuing the company's long-term strategy throughout 2021, with a particular focus on sustainable development, and concentrating resources on building shareholder value by implementing new and effective projects, throughout the entire value chain.

ALEXANDER
DYUKOV

Chairman of the Management Board,
CEO,
Gazprom Neft PJSC





COVID-19 and global energy

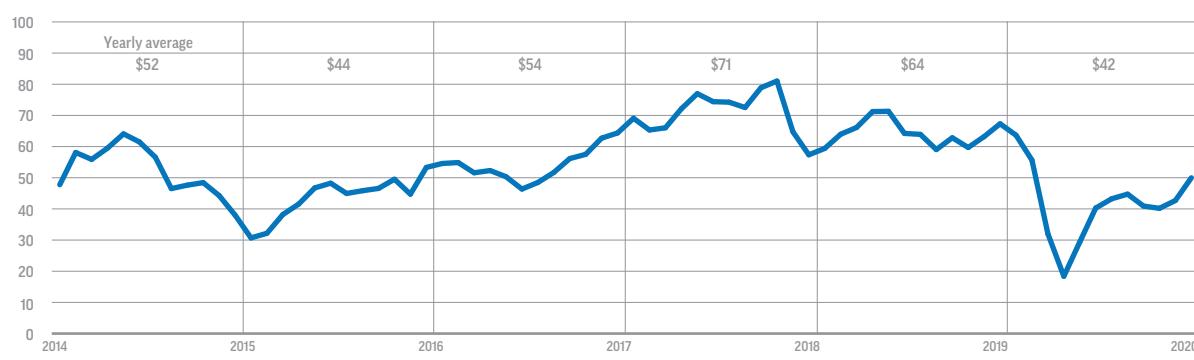
In 2020, the COVID-19 pandemic and related restrictions had a crucial impact on the global oil market. Producers had to adapt to falling demand and prices in a very short time, which stabilised the market by year-end 2020.

In 2020, the rapid spread of the novel coronavirus and the stringent measures to curb it introduced by most countries across the world were the dominant factor in the global energy market. As restrictions mostly applied to transport, which remains one of largest consumers of petroleum products, global demand for crude oil declined more than other types of energy resources. According to various estimates, global petroleum product consumption fell 20%–25% in April–May, which coincided with a build-up of surplus inventories and a disruptive collapse of prices to multi-year lows. Over the year, liquid hydrocarbon consumption decline averaged 8%–9%. This change in demand necessitated action on the part of oil producers, first and foremost OPEC+ players, to balance the market.

The economic slowdown caused by COVID-19 also impacted on other energy resources. According to International Energy Agency (IEA) estimates, total energy consumption decreased by more than 5%, natural gas consumption by 3%, and coal by almost 4%.¹ One of the reasons behind this is the growth of renewables in 2020, which enjoy strong support around the world, as lower mobility and the overall economic downturn are greatly contributing to GHG reduction, while government spending on renewables and decarbonisation are considered a solid post-COVID mechanism to stimulate economic recovery.

Early in 2021, demand for hydrocarbons continued to recover, and prices returned to their pre-COVID levels. However, it is still highly uncertain when the world will shake off the pandemic and its related restrictions, what the medium-term consequences for the global economy will be, and how evolving consumer behaviour, technologies and decarbonisation trends will influence energy consumption in the longer term.

Brent price, 2015–2020, \$/bbl



¹ – <https://www.iea.org/commentaries/global-coal-demand-surpassed-pre-covid-levels-in-late-2020-underlining-the-world-s-emissions-challenge>

8%–9%
liquid hydrocarbon
consumption decline
in 2020

Early in 2021, demand for hydrocarbons continued to recover, and prices returned to their pre-COVID levels.

Global crude and petroleum products market

Global economy

The pandemic exacerbated the major pre-existing problems in the global economy of recent years: a slowdown in economic growth, high sovereign debt levels, the uneven development between nations, the gap between the real economy and financial markets, protectionism and a slowdown in international trade. These factors may have a negative impact on global economic development and thus on energy consumption in the coming years.

Early in 2020, the spread of coronavirus already resulted in restrictions on the movement of people and cargo, closure of borders, abrupt drop in international and regional flights, disruptions to logistics and manufacturing chains, and lower consumer and industrial activity. The economic consequences varied depending on the stringency and efficiency of each particular country's COVID response. For example, China brought its epidemic under control early on, and was one of the few countries that showed GDP growth (+2.3%) at the end of the year, while India's GDP slipped about 8%. According to International Monetary Fund estimates, the global economy shrank by 3.3%¹ in 2020 after growing by 2.8% in 2019, with the GDP of advanced economies falling by 4.7%, and emerging market and developing economies by 2.2%.

With central banks' monetary policy already mild, many governments responded to the pandemic with massive financial injections to support their economies and stimulate consumer activity. The broad range of response measures included directly handing out money to the public. In 2020, the largest central banks' balance sheets grew by a few trillion US dollars, a lot more than during the 2008 crisis, raising questions about the impact of debt burden on further economic growth and stability of the key global economies.

Unprecedented monetary stimulus and lower central bank interest rates helped financial markets to recover quickly from the shock of the first months of the pandemic, and to show stronger growth than the real economy during the year. Major stock markets showed significant growth in the crisis year, with company valuations hitting multi-year highs. These conditions resulted in a few speculative tech-company bubbles.

Unlike advanced economies, most emerging market and developing countries cannot simply print money to support their economies. This makes economic growth even more uneven and aggravates social problems in countries ravaged by COVID-19. The pandemic has already resulted in a significant increase in the number of people who are hungry or in need of humanitarian aid and protection – 1 in 33 people worldwide according to the UN estimates.³

¹ – <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>

² – International Monetary Fund estimate.

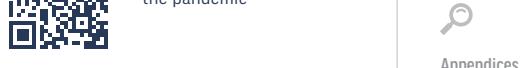
³ – <https://gho.unocha.org/>

\$42
per barrel,
average
Brent price

-3.3%
slump in global
economy²

Major stock markets showed significant growth in the crisis year, with company valuations hitting multi-year highs.

UN data
on the consequences of the pandemic



Appendices

International trade, which had already lagged behind economic growth, was held down further in 2020 amid the economic downturn and logistics challenges. Over the year, global trade contracted by about 6%.¹ Trade began recovering towards year-end 2020, in part driven by pent-up demand. However, the vulnerability of international manufacturing and trade chains, which the pandemic laid bare, could lead to economic localisation and regionalisation in the medium term.

Decarbonisation as a possible scenario of post-COVID economic growth has been the subject of much debate. A proposal to make incentives for low-carbon technologies and markets a key part of an anti-crisis package was tabled at IEA, an organisation representing OECD countries. The European Union declared a push for global energy transition and investments into low-carbon energy to be part of its foreign strategy. The carbon border adjustment mechanism was announced, with the stated purpose to make sure that products imported into the EU do not have an unfair advantage over locally-made products. The role of decarbonisation in the global economy is expected to grow.

The recovery of the global economy has been uneven: in late 2020–early 2021, a second wave of lockdowns ushered in renewed economic slowdown in Europe. GDP growth projections for 2021 may be revised depending on the success of response to the pandemic. The start of mass vaccinations gives rise to hope that global economic growth will be more stable in the second half of 2021.

However, the success or otherwise of anti-COVID efforts, the severity of restrictions, the recovery of international passenger and cargo traffic, a high debt burden (both public and private), economic inequality and protectionism hindering trade and international integration remain the key challenges facing the global economy. These factors will influence the situation not only in 2021, but also in the medium term.

International environment

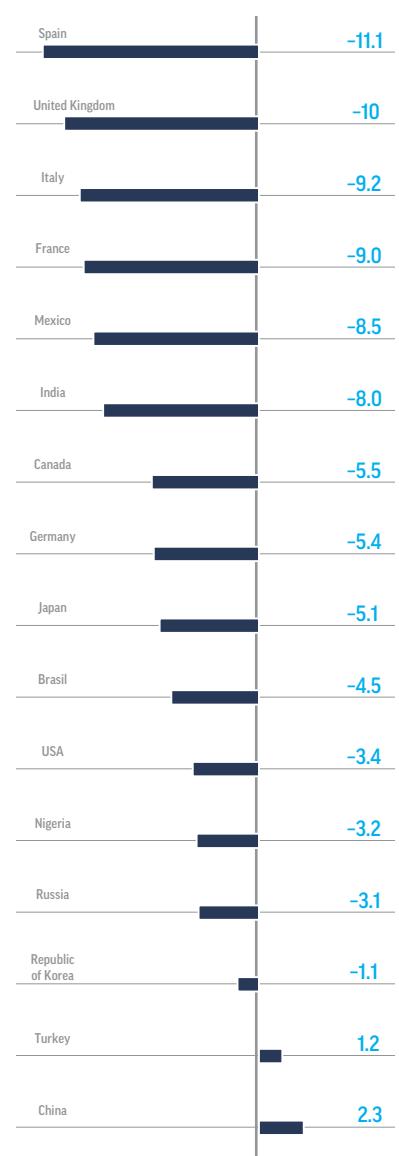
The influence of politics on the global hydrocarbon market remained strong in 2020. Crude oil production in Libya was low for the better part of the year, as opposition blockaded main ports in the country. The impact of this force majeure amounted to about 1 mbd.² but it has not gone unnoticed by global markets amid the major slump in demand. Oil production in the country recovered by year-end.

Oil production in Venezuela and Iran, still under US sanctions, remained low. The expected change of administration in the USA and the reduced sanctions pressure prompted Iran to start ramping up production in the second half of 2020.³ Thus, non-OPEC+ production started to grow in early 2021. The recovery potential is high enough to influence the global market balance and capabilities of the OPEC+ countries.

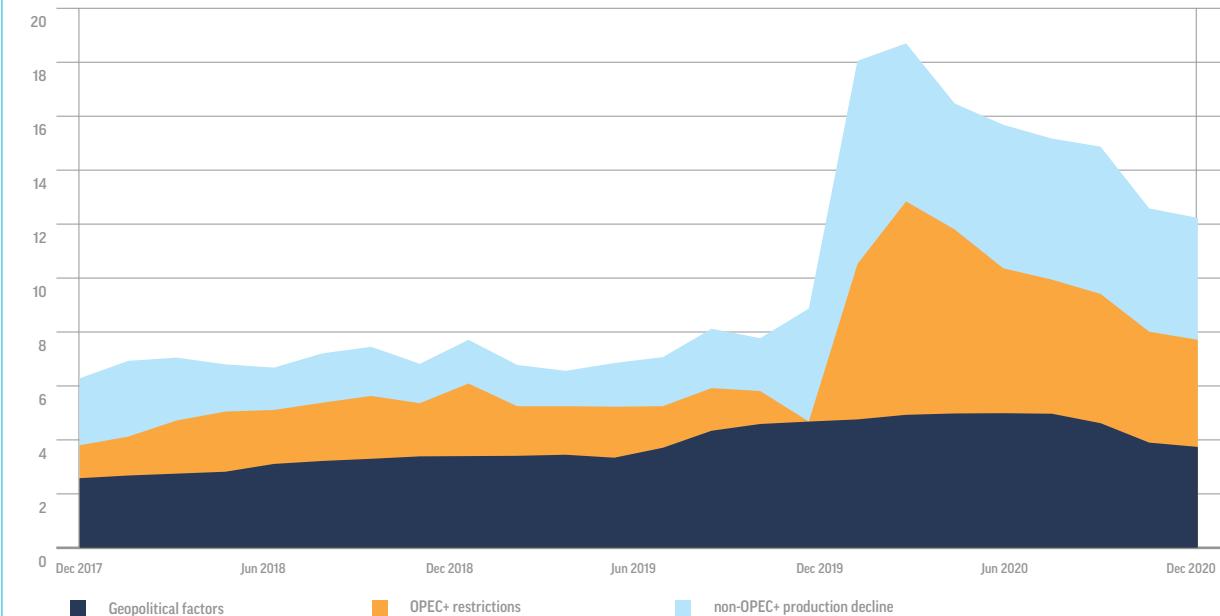
According to experts, the new US administration is expected to favour more constructive foreign and trade policy. A new trade deal with China is one of its 2021 priorities. The commitments of the Phase One trade deal signed in early 2020 were not met, in part for objective reasons as trade

-6% decline in global trade

GDP of key economies in 2020, % year-on-year



Global shortfall in oil production, mbd



suffered from the pandemic and falling prices. The overall recovery in global trade, as well as global energy demand dynamics, might be contingent on whether the USA and a strengthened China reach a trade compromise.

Regulation and climate agenda

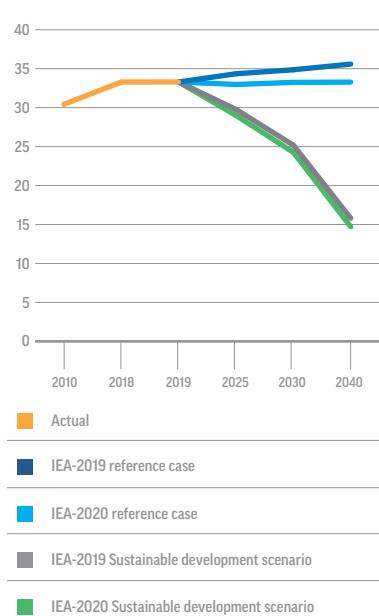
The events of 2020 gave a strong impetus to the green agenda, which is gaining traction in international politics and the global economy. The lower global energy consumption in 2020 is estimated to have reduced anthropogenic greenhouse gas emissions by 5%-7%.¹ This offers an opportunity to get closer to the emission curve envisioned by the Paris Agreement, provided that other countries also make sustained efforts. Moreover, investments in low-carbon energy and decarbonisation can be a driver of post-pandemic economic recovery in Europe and the USA, which, in any case, would require government support.

As the European Union is ahead of the curve on decarbonisation and the development of the low-carbon economy, it is objectively interested in tighter global climate regulations, which would, among other reasons, ensure its own manufacturing industry remains competitive. For other economies, this scenario could cause problems for both competing in international markets and for forcing businesses and people to bear the costs of decarbonisation.

In 2020, the European Union announced that its carbon adjustment mechanism would come into force in the near future, to make sure that importers pay greenhouse gas (GHG) emission taxes comparable to those of European manufacturers. The mechanism is still being finalised, but, when adopted, this carbon border tax may not only restrict access of energy-intensive and high-carbon products to the EU market, but also set a precedent for the future development of the broader international trade system.

-5%-7%
The lower global energy consumption in 2020 has reduced anthropogenic greenhouse gas emissions.

Global CO₂ emissions by the energy industry, billion tonnes per annum



1 – https://unctad.org/system/files/official-document/ditcinf2021d1_en.pdf

2 – <https://tradingeconomics.com/libya/crude-oil-production>

3 – <https://tradingeconomics.com/iran/crude-oil-production>

It was not only nations that embraced the decarbonisation trends in 2020. Some large corporations, including oil and gas companies, pledged to reduce GHG emissions and become carbon neutral in the long run. Banks and investment funds are curtailing investments in hydrocarbon energy and expanding the scope of ESG¹ criteria to cover environmental and social aspects of business activities, as well as the quality of corporate governance. Towns and cities are also implementing comprehensive solutions to cut their carbon footprint and environmental impact.

Despite the irregular and inconsistent development of the low-carbon economy, it is gradually becoming an integrated long-term trend. For the oil and gas sector, this trend spells tighter environmental requirements for product standards and production chains, more intense competition in export markets, as well as a need for economically viable technologies and regulatory mechanisms to offset and reduce emissions.

Renewable energy and transport development

Despite the challenging environment in 2020, global investments in renewable energy remained flat at \$300 billion,² as in the past few years. In 2020, more solar and wind capacity was added in absolute terms, with gradually decreasing per-unit costs. According to IRENA, a total of 260 GW of renewable capacity was commissioned globally in 2020, up 40% year-on-year, with China remaining the undisputed leader in renewable energy growth, both by volume and growth rate.³

The total size of the global low-carbon energy market, by some estimates, reached an all-time high of \$500 billion, spearheaded by the growth in electric vehicles. In 2020, global EV sales increased while those of internal combustion engine vehicles declined, although EV sales trends varied widely between global regions. EV sales (including plug-in hybrids) remained almost flat in the USA, grew by about 9% in China,⁴ and increased 2.6 times in the European Union.⁵ The record growth in Europe, where EV sales outstripped those in China in 2020, came on the back of regulations setting new binding targets for average CO₂ emissions from vehicles for automakers. By year-end 2020, EVs accounted for 20% of total vehicle sales in the European Union. Amid falling sales, China extended EV subsidies until 2022, which bolstered sales.⁶

In total, various incentives helped global EV sales grow by about 40% in 2020, while the overall vehicle market lost about 15% over the year. The share of EVs and hybrids on the new vehicle market grew from 2.5% to 4%, reaching approximately 1% of the global vehicle fleet. The further electrification of the automotive sector will depend on government support and the actions of carmakers, many of which announced plans to ramp up EV production or even stop producing internal combustion engine vehicles altogether.

1 – Environmental, Social, Governance.

2 – <https://www.esi-africa.com/industry-sectors/finance-and-policy/brief-renewable-energy-investment-in-2020-beats-previous-year-by-9/>

3 – <https://www.irena.org/publications/2021/March/Renewable-Capacity-Statistics-2021>

4 – <https://www.spglobal.com/platts/en/market-insights/latest-news/metals/121720-chinas-ev-sales-to-reach-more-than-13-mil-units-in-2020-caam>

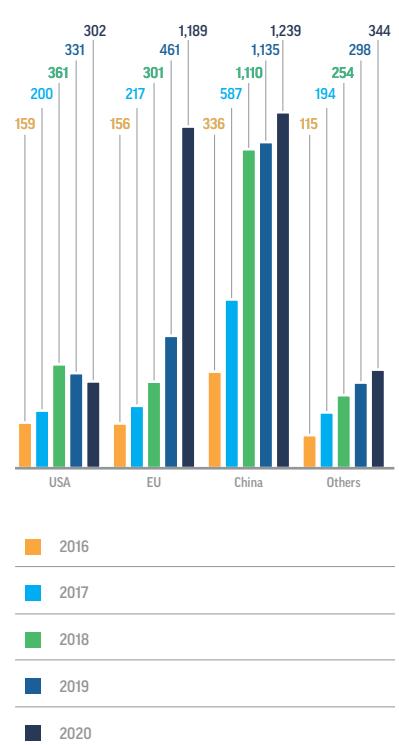
5 – <https://www.ev-volumes.com/>; Global Plug-in Vehicle Sales Reached over 3.2 Million in 2020.

6 – <https://fortune.com/2021/01/05/china-electric-vehicle-subsidies-sales-tesla>

Despite the irregular and inconsistent development of the low-carbon economy, it is gradually becoming an integrated long-term trend.

**\$500 bn
size of the low-
carbon energy
market**

**EV sales in major markets,
thousands of units**



Demand for crude oil and petroleum products

Tight restrictions imposed by various countries during the first wave of COVID-19 led to a global slump in petroleum product consumption at an unprecedented scale and rate. By various estimates, demand for liquid hydrocarbons in April–May 2020 dropped about 20% year-on-year. Petroleum product consumption increased as restrictions eased, averaging out the annual reduction in demand for liquid hydrocarbons in 2020 to about 8%–9%.

Air transport accounts for more than half of that loss, as this industry was hit harder than other petroleum product consuming industries. The International Air Transport Association (IATA) said 2020 was the worst year in history for global air travel. Global demand for international air travel fell by three quarters in 2020, and by about half for domestic travel.¹ Demand for air cargo decreased by about 10%.² Early in 2021, restrictions on international air travel are mostly still in place, with the prospects of a recovery further darkened by differences in the course of the pandemic in different countries, unresolved issues surrounding mutual recognition of vaccine certificates, and the risk of a slower pace of economic activity recovery (including demand for travel). IATA expects global passenger numbers to return to 2019 levels in 2023 or 2024.³

With demand dynamics varying widely between petroleum products and world regions, the global refining industry was faced with a challenge. Price differentials for key petroleum products to crude dropped to multi-year lows amid falling demand for fuel and a rapid build-up of surplus inventories. Market conditions were relatively good for naphtha as a petrochemical feedstock, as demand for petrochemicals was hit less hard and was even supported by medical supplies and packaging amid the pandemic. Fuel oil was in demand both as a feedstock for further processing and as marine fuel. New regulations from the International Maritime Organisation (IMO) on sulphur content in marine fuel took effect, but it did not provide much support for the marine gasoil market, as the industry opted for low-sulphur fuel oil and overall demand for marine fuel was low due to COVID-19.

Refining capacity in China and the Middle East continued to grow at pace despite a lack of demand for petroleum products, while low utilisation rates and margins in oil refining have accelerated shutdowns in mature markets. 2020 saw a string of announcements revealing the shutdown or conversion of large refineries in Europe and the USA. Refining capacities remain in surplus amid lower demand and new refinery startups, which may put pressure on petroleum product prices and refinery economics throughout 2021.

The unprecedented volatility of the crude market in 2020 led to varied predictions of future trends. The most extreme forecasts claim that crude consumption will never reach its 2019 levels, but the expert community in general leans towards scenarios with a short-term growth in demand. According to IEA's reference case, demand for crude oil will not decrease until at least 2040, although it will follow a lower and flatter curve than in pre-COVID forecasts. According to the IEA, the 2019 demand level could be reached in 2023, i.e. the overall impact of COVID-19 on the oil industry may be felt for three to four years.

1 – <https://www.iata.org/en/pressroom/pr/2021-01-07-02/>

2 – <https://www.dcvvelocity.com/articles/49451-iata-sees-2021-as-another-tough-year-for-air-cargo-sector>

3 – <https://www.iata.org/en/iata-repository/pressroom/presentations/outlook/>

**40%
growth in global
EV sales**

**Vehicles sales in major markets,
millions of units**



Market conditions were relatively good for naphtha as a petrochemical feedstock, as demand for petrochemicals was hit less hard and was even supported by medical supplies and packaging amid the pandemic.

Demand for crude and petroleum products and the OPEC+ agreement

In early 2020, oil producers had to adapt to an abrupt fall in demand and price. Production cuts – both voluntary and involuntary, depending on the producer, – stabilised the market. As of the beginning of 2021, OPEC+ production remained well below potential, but was gradually growing amid recovering demand.

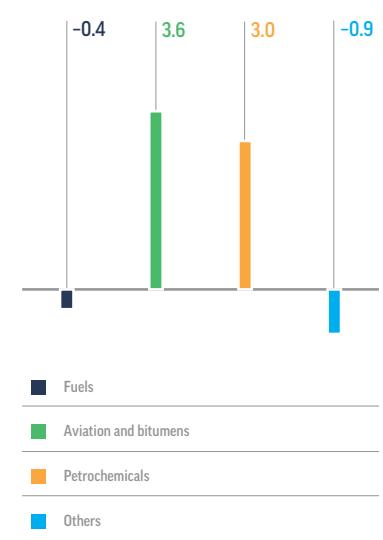
On 12 April 2020, the OPEC+ producers agreed on massive production cuts, which proved to be a decisive factor in restoring the global oil market balance and price recovery. The parties agreed to cut crude oil production by 9.7 mbd from the October 2018 baseline (Russia and Saudi Arabia cut production from an 11 mbd baseline) and gradually restore it by April 2022. As at the beginning of 2021, production recovery was somewhat behind the original schedule as the parties started discussing the market situation and setting production levels on a monthly basis and Saudi Arabia opted for larger cuts.

Other producers also voiced the need to cut production amid falling demand, however their cuts were not voluntary. US crude production responded to falling prices rather quickly, declining from 12.7 mbd to 10 mbd between March and May 2020. Oil drilling activity in the USA hit a multi-year low in 2020. Crude production was supported by bringing online previously drilled wells in shale plays and projects in the Gulf of Mexico. Crude oil production in 2020 averaged 11.3 million bbl/d, down 0.9 million bbl/d from the record level of 2019.¹ The Energy Information Administration of the US Department of Energy forecasts that moderate oil prices may allow US production to start growing at the end of 2021 and hit record levels by 2023.²

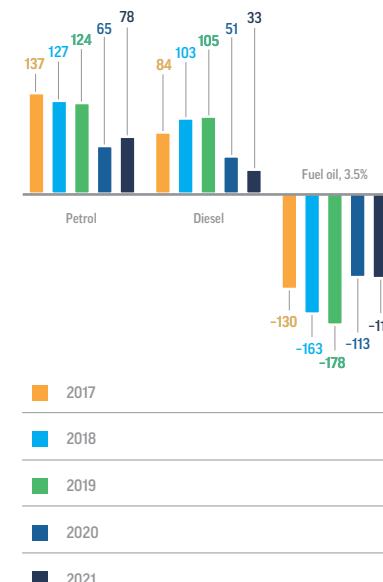
Changes in oil production by other non-OPEC+ countries were less dramatic. Average annual production in Brazil and Norway grew as new fields came online. However, major investment cuts will seriously curtail opportunities for ramping up production outside OPEC+ in 2021. In the near term, growth potential will be concentrated within OPEC and the Russian Federation.

Refining capacity in China and the Middle East continued to grow at pace despite a lack of demand for petroleum products, while low utilisation rates and margins in oil refining have accelerated shutdowns in mature markets.

Changes in oil consumption by sector to 2040 (forecast), mbd



Price differentials for petroleum products to crude oil in Northern Europe, \$/t



Strategy and response of oil companies

Amid plummeting prices and demand, oil and gas companies mostly focused on maintaining financial stability. According to IEA estimates, investments in oil and gas development and production were reduced by almost a third in 2020. Many companies in the industry went beyond reviews of their investment programmes, with massive layoffs and OPEX optimisation. A similar situation was seen in the global oilfield services industry, which faced a slump in demand.

The industry continued its gradual diversification as new and non-core businesses, such as renewables, were hit less hard by investment cuts than their conventional counterparts. However, despite big ambitions for decarbonisation and investments in various new businesses, from hydrogen production to small, modular nuclear reactors, the oil and gas sector is yet to become a major player in the low-carbon energy market.

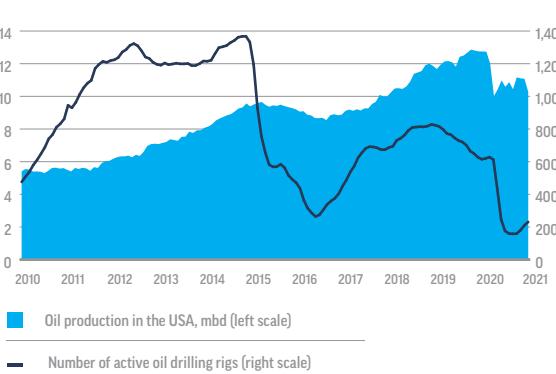
The tough financial situation facing international integrated oil and gas companies, a partial reorientation towards their non-petroleum business, and investor pressure may limit their ability to produce liquid hydrocarbons in the future. In this case, the crude oil and petroleum product market structure may swing in favour of national oil companies, not only Middle Eastern NOCs, but also, for example, Asian and South American companies.

Demand for oil is gradually recovering. It may not return to pre-COVID levels in all segments, but overall growth can be expected. Prices within a range from \$45 to \$60 per barrel are completely comfortable for both producers and consumers.

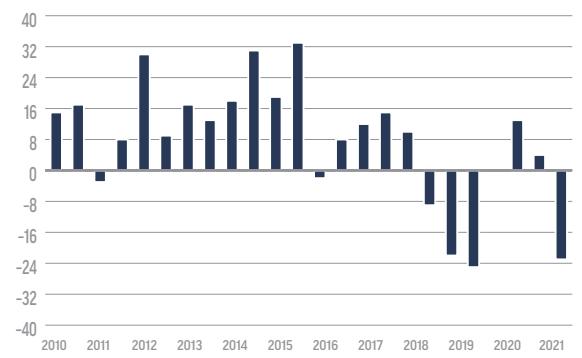
ALEXANDER DYUKOV
Chairman of the Management Board, CEO, Gazprom Neft PJSC

The oil and gas industry's total low-carbon investments are estimated at \$10–15 billion per annum, only 2–3% of the total. On the other hand, green energy accounts for about 5% of the industry's total capital expenditures.

Oil drilling and production in the USA, mbd



Investments by global oil majors, % year-on-year



1 – <https://www.eia.gov/outlooks/steo/#:~:text=EIA%20estimates%20that%20U.S.%20crude,million%20b%2Fd%20in%202022>

2 – <https://oilprice.com/Latest-Energy-News/World-News/US-Oil-Production-On-Course-To-Hit-Record-Levels-In-2023.html>



Russian oil industry and petroleum product market

In the Russian Federation, active government support for the national economy and relatively mild restrictions have mitigated the pandemic's negative economic consequences.

Russian GDP fell 3% in 2020. Although this was the largest drop since 2009, it was still much less than the declines seen in other major economies. The budgetary rule mechanism limited exchange rate fluctuations during a period of hydrocarbon price volatility. Brent price in roubles averaged ₽3,000/bbl, which is comparable to prices between 2015–2017. Consumer inflation stood at 4.9%, which is slightly above target.

Russia's domestic petroleum product market proved to be more stable than the European market. In 2020, demand for motor gasolines and diesel fuel decreased 5%–6%. The decline in demand for jet fuel was much steeper, primarily due to restricted international air travel. International air passenger traffic tumbled by 74%; domestic passenger traffic fell 22%.¹ In December 2020, international and domestic air passenger traffic dropped by 86% and 13% year-on-year, respectively. Therefore, the further recovery of the jet fuel market will mainly depend on the resumption of international air travel.

Crude oil and gas condensate production in Russia slipped 8.6% to 512.7 million tonnes in 2020 following the OPEC+ agreement. Oil exports stood at 232.5 million tonnes, down 12.7% year-on-year.² Refinery distillation totalled 270 million tonnes (-5.2%). In line with market conditions, jet fuel production fell steeper than other products (-16.8%). Gasoline production shrank 4.5%, while diesel fuel output remained almost flat.

The industry taxation changes in 2020 mostly tweaked existing mechanisms, with one goal being to boost budget revenues. In oil production, changes mostly applied to the parameters of the additional income tax, effective from 2021:

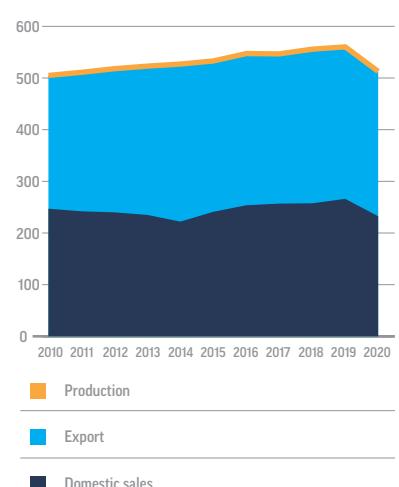
- a limit on tax-base reduction by loss carryforward;
- an increase in the geological complexity coefficient applied to the period from commercial production startup;
- reductions in historical loss indexation coefficients for Group 2 fields in some regions (excluding blocks in the Arctic Zone); and
- a cancellation of MET incentives for mature fields and preferential export duties for blocks that have not transitioned to the additional income tax.

Oil refining and petrochemicals support packages, including an investment premium to reverse excise tax on feedstock for refineries implementing major upgrade projects and reverse excise on ethane and LPG processing.

-74%
slump in
international
passenger traffic

-22%
slump in domestic
passenger traffic¹

Russia's oil production and exports, million tonnes



¹ – <https://favt.gov.ru/dejatelnost-vozdushnye-perevozki-osnovnye-proizvodstvennye-pokazateli-ga/>

² – <https://www.rbc.ru/economics/02/01/2021/5ff01e859a79477a8796392>

Key drivers in 2021

Early in 2021, global demand for liquid hydrocarbons was about 5% lower than at year-end 2019.¹ Anti-COVID measures were less stringent than in spring 2020 and were not introduced simultaneously. Mass vaccination campaigns began in many countries. The timeline for the world to return to normal depends on the effectiveness of vaccines, the rate that herd immunity develops and whether the virus mutates into weaker strains.

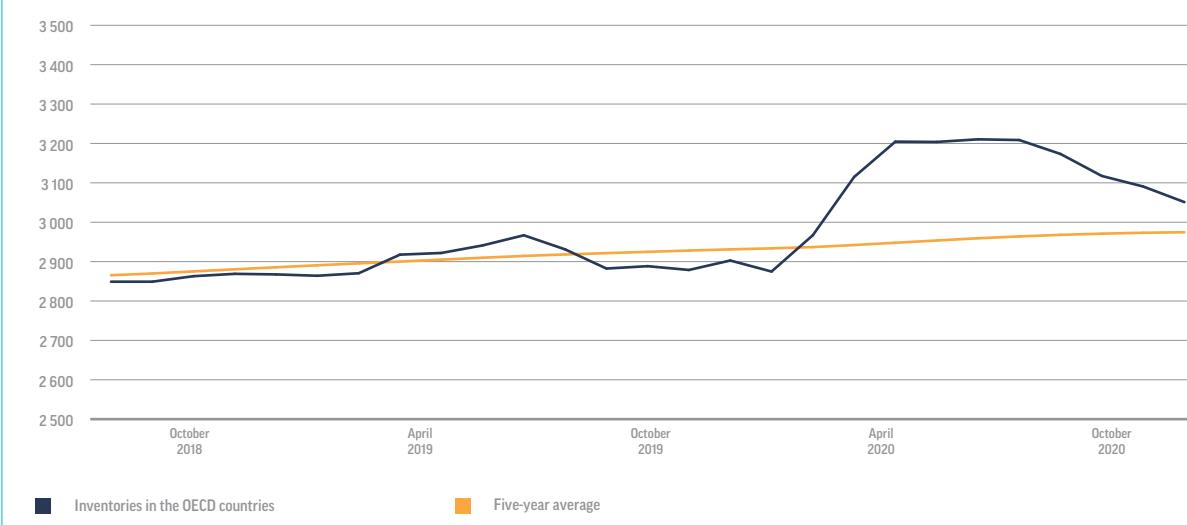
The global surplus inventories of crude oil and petroleum products began declining as early as the second half of 2020. Early in 2021, inventories came close to their long-term average, as the crude market remained in steady balance amid growing demand and persistent production constraints. COVID-19 restrictions in various countries and China's build-up of strategic oil inventories are the key demand uncertainties this year. Production trends in Iran and Libya as well as OPEC+ production restrictions are the main supply-side issues.

In the medium term, demand for oil will depend primarily on the economic growth rates and financial stability of the major economies. On the supply side, it is not clear yet when shale production in the USA and production activity elsewhere will recover, and what production levels will be reached. In the long term, the global oil market will be influenced by consumer behaviour characterised by reduced mobility and contact, along with decarbonisation policies and progress towards the development and implementation of decarbonisation technologies.

In the medium term, demand for oil will depend primarily on the economic growth rates and financial stability of the major economies.

-8.6%
2020 oil production curtailment in Russia

Inventories of oil and petroleum products in the OECD countries, million bbl



¹ – Source: Company data.

Key challenges in 2020

Gazprom Neft and the broader oil industry are facing global challenges arising from market volatility and spread of COVID-19. National lockdowns, international border closures, the air travel market collapse and restricted population mobility across the world are new challenges that are calling for the company to transform at a faster pace than ever before. The pandemic, lower demand for petroleum products and the new OPEC+ agreement combined to make a stress test that Gazprom Neft successfully passed, validating its strategic course.

Gazprom Neft is in good shape, and ready for any market developments. We went into this period of crisis financially secure, with a low debt burden. Major new projects are yet to go into active development – which gives us some flexibility in decision-making.

Flexible production management and the advanced technologies deployed at Gazprom Neft assets ensured the continuous, effective operation of its refineries and oilfields. In 2020, the

company achieved all of its targets and commissioned new production facilities on schedule, with the largest being the Euro+ complex at the Moscow Refinery.

ALEXANDER DYUKOV
Chairman of the Management Board,
CEO, Gazprom Neft PJSC

ANTIVIRUS, Gazprom Neft programme to fight COVID-19



OUR CONTRIBUTION TO THE FIGHT AGAINST THE VIRUS

Gazprom Neft was the first oil company in Russia to take an open and transparent stance on working under the COVID-19 pandemic. In March 2020, the company launched ANTIVIRUS, with a package of measures to protect employee health and ensure the operational continuity and financial stability of its business. An important feature of the programme was the comprehensive support it provided to health workers and volunteers across Russian regions: Chelyabinsk Oblast, Irkutsk Oblast, Ivanovo Oblast, Kaliningrad Oblast, Kaluga Oblast, Kemerovo Oblast, Kurgan Oblast, Kursk Oblast, Leningrad Oblast, Lipetsk Oblast, Moscow Oblast, Nizhny Novgorod Oblast, Novgorod Oblast, Novosibirsk Oblast, Omsk Oblast, Penza Oblast, Pskov Oblast, Samara Oblast, Sverdlovsk Oblast, Tomsk Oblast, Tula Oblast, Tver Oblast, Tyumen Oblast, Vologda Oblast, Voronezh Oblast, Yaroslavl Oblast, Chuvash Republic, Republic of Khakassia, Republic of Mordovia, Altai Krai, Perm Krai, Moscow, and St Petersburg.

The company set up new coordination bodies: the ANTIVIRUS Response Centre headed by Alexander Dyukov, Chairman of the Management Board, took the lead on Health, Production and Finance; while two functional corporate programmes covered Regions and Communications.

RESPONSE CENTRE STRUCTURE

A | N | T | I | V | I | R | U | S
GAZPROM NEFT COVID-19 RESPONSE CENTRE

A | N | T | I | V | I | R | U | S
GAZPROM NEFT COVID-19 RESPONSE CENTRE
PRODUCTION

A | N | T | I | V | I | R | U | S
GAZPROM NEFT COVID-19 RESPONSE CENTRE
HEALTH

A | N | T | I | V | I | R | U | S
GAZPROM NEFT COVID-19 RESPONSE CENTRE
FINANCE

A | N | T | I | V | I | R | U | S
GAZPROM NEFT'S ANTI-COVID-19 PROGRAMME
COMMUNICATIONS

A | N | T | I | V | I | R | U | S
GAZPROM NEFT'S ANTI-COVID-19 PROGRAMME
REGIONS

Production continuity management

A system of barriers and screens was put in place at our refineries to prevent the spread of the virus. Only employees with a negative COVID-19 test result or antibodies for the virus are admitted to work.

Over 140 "buffer zones" were set up in oil production regions, offering temporary accommodation and medical monitoring for employees before work at oilfields.

Robotic process automation and digital technologies enabled contactless shift handover at the company's refineries. Backup shifts were also introduced in 2020 at refineries for quick handover, should any employee be taken ill in the current shift.

140 "buffer zones" for FIFO personnel in oil production

Financial stability of the business

The implementation of digital document management and the use of digital signatures in transactions with other parties ensured the continuity of Gazprom Neft's payment function during lockdown.

Also, corporate projects were launched to support oilfield service companies, and online factoring was arranged to expedite financial transactions with vendors of goods and services for filling stations. Gazprom Neft's corporate

customers were granted a 45-day grace period for their fuel payments in 2020.

Health menegement system

Gazprom Neft set up regular mass testing of its employees for COVID-19. As part of Barrier, our corporate testing programme, over one million tests were administered in 2020, covering employees across all oilfields, refineries and offices of Gazprom Neft and its

contractors. Mass testing prevented outbreaks of the disease. In 2020, the company launched its own health monitoring system – HealthCheck – as well as the mobile app Gradusnik (Thermometer),

which work together to enable swift communication between employees and the company's medical team. These services are also used to automatically issue passes to access company premises, dependent on COVID-19 test results.



Company profile



Strategic report



Performance review



Technological development



Governance system



Sustainable development



Appendices

AID for the company's operating regions

Under its ANTIVIRUS programme in 2020, Gazprom Neft launched a massive campaign to support health workers and volunteer groups in its operating regions.

The Gazprom Neft for Medics initiative provided almost three million personal protective equipment (PPE) items and 200 tonnes of company-produced sanitiser to health workers in the Omsk, Orenburg and Tomsk Oblasts, Khanty-Mansi Autonomous Okrug, Yamalo-Nenets Autonomous Okrug, Yaroslavl and St Petersburg. At the request of some regions, Gazprom Neft provided local hospitals with ventilators, CT scanners, PCR laboratories and

express virus detection systems. The company provided free oil changes for ambulances, and in three Siberian cities, free fuel was made available to healthcare facilities.

The Gazprom Neft for Volunteers initiative provided over 200,000 litres of fuel to volunteer groups that delivered food and medicines to people who needed help in 2020.

The personal donations of 40 company managers bought over 600,000 items of PPE for health workers and patients of children's cancer hospitals, who were particularly vulnerable during the pandemic.

2.7+ million items of PPE supplied to health workers

1,600+ free fuel cards for volunteer cars in 47 regions

600+ items of PPE provided to children's cancer hospitals by Gazprom Neft managers

Early in April 2020, we launched a new initiative: Gazprom Neft for Medics, under which we provided free fuel for all medical vehicles in three Siberian cities.

At the same time, we started to procure personal protective equipment for doctors, as both Russia and the whole world were hit by medical PPE shortages.

ALEXANDER DYBAL
Member of the Management Board, Deputy CEO for Corporate Communications, Gazprom Neft



Programme financing

The company finances all ANTIVIRUS initiatives by optimising costs not directly related to company operations. Expenses are offset by the savings made by not participating (due to COVID restrictions) in offline

business events, reducing office and administrative costs by shifting some employees to work from home, as well as saving on business trips and other overheads.

Transparency

The Gazprom Neft for Medics campaign topped the media visibility rating compiled by SCAN-Interfax for April–June 2020.

Since March 2020, a special section has been live on the company's website with ANTIVIRUS information, to provide Gazprom Neft employees, business partners and customers with up-to-date information on our fight against COVID-19. This section features news updates; regular interviews with, and comments by, Gazprom Neft managers; as well as infographics on our major projects.

The company set up a mobile push notification service to provide employees with up-to-date information on its COVID-19 response. Also, a 24/7 hotline was launched to provide consultations with doctors, psychologists, HR specialists and lawyers.

During lockdown, the Gazprom Neft communication function updated the Mobile Newsfeed service and the online version of Sibirskaya Neft magazine, and published special issues of the Neftegazeta periodical, distributed at production facilities. Employees regularly answer online surveys on safe work, medical services, and extending the use of remote working.

The massive #NAVAKHTE – rus. #ONSHIFT show of support was organised in summer 2020 to recognise the dedicated work of employees at continuous-production facilities during lockdown. Apart from Gazprom Neft employees, famous actors, actresses, and athletes also joined in to support people working at oilfields, refineries and filling stations.

500+ million responses – reach of the communication campaign

#NAVAKHTE

2,000+ media reports made on the ANTIVIRUS programme

How are we turning challenges into opportunities?

The company's handling of the COVID-19 pandemic was a practical testament to Gazprom Neft strategy. Our flexibility, commitment to change and culture of continuous development helped us to derive actionable takeaways from this unprecedented situation.

During the COVID-19 pandemic, Gazprom Neft fully unlocked the potential of its management system, which allowed the company to remain efficient under any circumstances.



ANTIVIRUS, Gazprom Neft programme to fight COVID-19

Key features of the governance framework

HUMAN FOCUS

Gazprom Neft's sustainability depends on its commitment to Collaboration and willingness to create value for all. In line with these principles, Gazprom Neft management reduced neither its headcount nor work week, and paid the

same salaries during the pandemic as before.

The comprehensive Healthy Environment programme was actually launched across Gazprom Neft prior to

the pandemic. We built on this to launch the online Caring About You project, combining the best practices in self-development for our remote workers.

CONTINUOUS DEVELOPMENT AND IMPROVEMENT

The Corporate University leveraged its existing expertise to facilitate the shift to remote working by producing a range of online courses within a highly compressed timeframe, supported by

a single set of online training tools for the whole company and a uniform methodology. A single educational platform procurement centre was set up, with due control over the organisation

and delivery of training. This meant that even lockdown was a period of personal and professional growth for Gazprom Neft employees.

PROJECT MANAGEMENT FLEXIBILITY

The pandemic proved the company's ability to flexibly adapt to any market changes. Gazprom Neft created a functional system to manage

oil production quotas under the OPEC+ agreement, improved flexible management of project launch and implementation, and discussed

operational continuity management with key contractors.

WORK PROCESS OPTIMISATION

During the pandemic, the company developed new approaches to remote working arrangements; improved its electronic document management,

including across its subsidiaries; and streamlined operating procedures. A fully-fledged ecosystem was built to enable individual and collaborative

work between employees using various devices.

A HIGH LEVEL OF DIGITALISATION

The pandemic drove home the importance of digital technologies. Artificial intelligence to diagnose and model the disease, unmanned aircraft technologies and robotic process automation, and augmented reality technologies proved to be the most promising areas of technology in the fight against COVID-19. The development of digital capabilities in these areas will unlock remote operations at continuous-production assets and allow industrial facilities to flexibly adapt to external challenges.

Our comprehensive, rapidly-scalable, Tessa-based document management architecture enabled subsidiaries to quickly interface with a single platform: 23,000 users from 52 subsidiaries were united in a single information space without changing document support processes, and employees can now be promptly notified when new directive documents are issued.

NEW COMMUNICATION TOOLKIT

New communication tools (a requirements management service, including a corporate task management module and a Wiki) meant a major shift towards maximum efficiency in our production culture. Today, these tools are used by over 4,000 employees, who are rolling out IT and digital-transformation projects across the company. Operations

making use of these tools involve all subsidiaries of Gazprom Neft Group as well as third-party contractors. Managers and external contractors now work in a shared communication environment using a toolkit for collaborative work, which includes the necessary support for rollout and use.

REMOTE PRODUCTION CONTROL

Thanks to our process flexibility, efficiency and high level of automation and digitalisation, Gazprom Neft assets continued to operate normally even under COVID restrictions. Gazprom Neft employees are already controlling

production processes remotely from control rooms. Production planning – a key process – is concentrated in the Efficiency Control Centre (ECC) in St Petersburg, where a cross-functional team uses predictive tools to manage

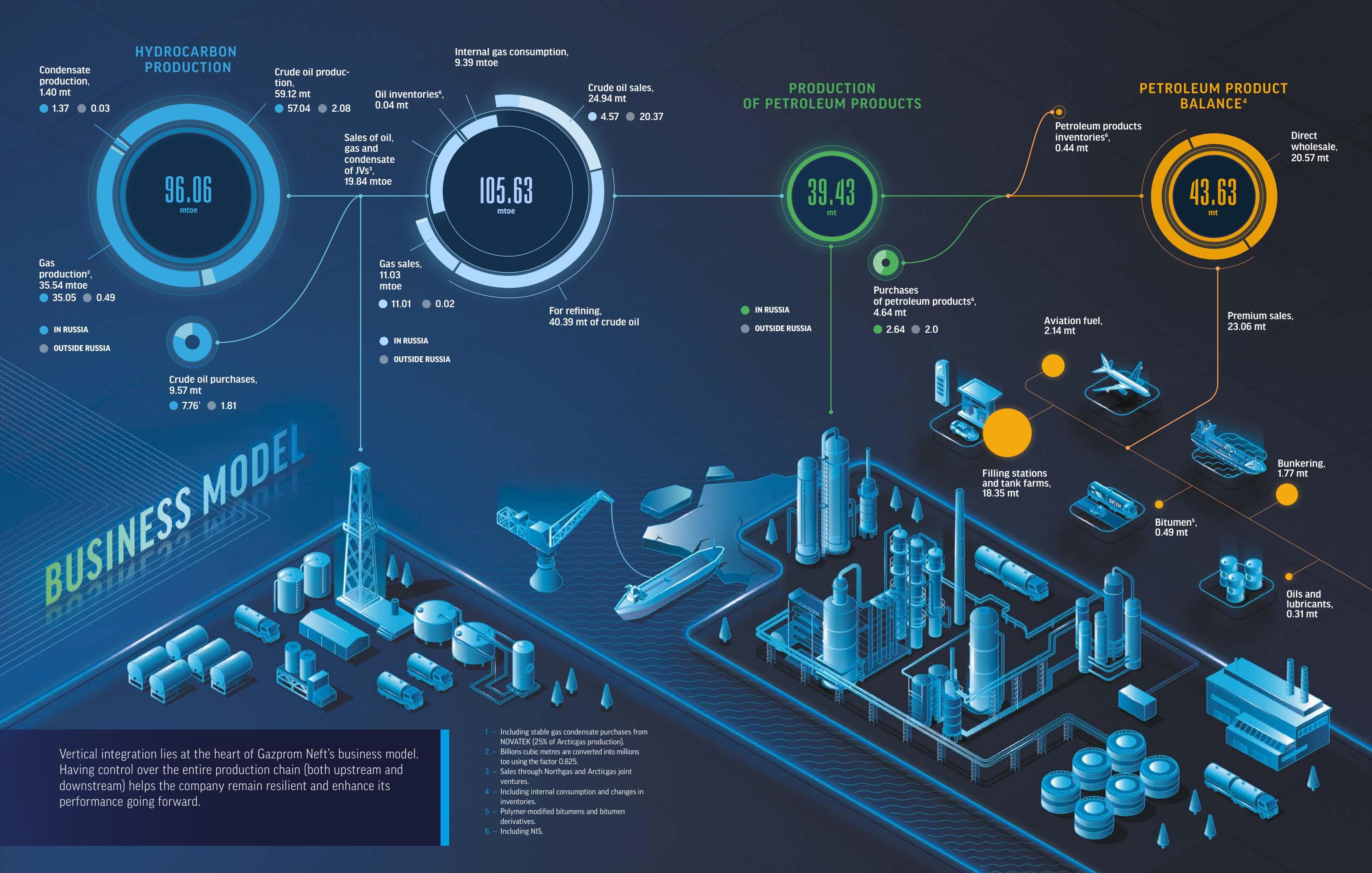
Our flexibility, human focus, new organisational approaches and active digitalisation helped us accomplish the most challenging of tasks with maximum efficiency.

KIRILL KRAVCHECHKO
Deputy CEO for Administration,
Gazprom Neft



the entire chain – from refineries to sales units – in a shared digital environment. The company's Upstream Division remotely controls high-tech well drilling around-the-clock at its oilfields – from the Arctic to Middle East.

prompt decisions in emergencies. The composition of each response centre was not based on a hierarchical model, but rather on members' competencies.



Creating value for the stakeholders

SHAREHOLDERS AND INVESTORS

VALUES

- Long-term value growth
- High level of dividend yield

2020 HIGHLIGHTS

- Gazprom Neft share price as at 31 December 2020: ₽317 per ordinary share, with a 26% growth outlook
- Dividend payout for 9M 2020: 50% of consolidated IFRS result.
- Dividend yield: 6% in 2020

WHAT WE DO

- Fostering communications with investors, shareholders and analysts to maintain a fair price for Gazprom Neft securities
- Developing a well-balanced corporate governance system to ensure compliance with Russian and international best practices, taking into account the specifics of the industry
- Transparent reporting of Development Strategy implementation
- Implementing a dividend policy that aligns shareholder interests and the strategic priorities of the company
- Respecting minority shareholders' rights
- Continuously developing a risk-management system with highly detailed levels of responsibility

CUSTOMERS AND CONSUMERS

VALUES

- Readily available and stable energy supplies
- Good consumer value and environmentally-friendly products

2020 HIGHLIGHTS

- Leadership in premium petroleum product markets
- 1.9 million virtual "On Our Way!" cards, the loyalty programme of the Gazprom Neft filling station network
- Offering modern high-octane fuel
- Jet fuel supplied to 294 airports in 69 countries worldwide
- Bunkering at 35 ports in Russia, Romania, Latvia and Estonia
- Lubricants supplied to 96 countries

WHAT WE DO

- Expanding direct sales to corporate customers through the company's own distribution network
- Expanding the Gazprom Neft filling station network and developing its loyalty programme
- Forging partnerships with leading petroleum-product consumers
- Developing and manufacturing products with enhanced consumer value and improved environmental performance
- Increasing the efficiency of distribution channels by digitising business processes and developing communication channels for customers and contractors

EMPLOYEES

VALUES

- A reliable employer providing professional development opportunities to its employees
- A competitive compensation package

2020 HIGHLIGHTS

- The company has topped HeadHunter's ranking of the most attractive employers
- The average monthly salary at Gazprom Neft is ₽141,000 (up 5.2%)
- Infrastructure for remote work was expanded, and a corporate system for monitoring employees' health was created
- COVID-19 testing has been set up, and vaccinations have been offered
- More robust health and safety measures have been implemented across the company's facilities

WHAT WE DO

- Ongoing recruitment and employee rotation programmes
- Talent pool management, competency development and training
- Developing motivation programmes and building a culture of engagement
- Increasing employees' productivity and organisational efficiency
- Enhancing the efficiency of HR management
- Adopting health protection and social support measures
- Developing remote workstations and digital tools
- Providing effective occupational health protection, and fostering a safety culture

LOCAL COMMUNITIES

VALUES

- Corporate responsibility for sustainable regional development
- Strategic partnerships and a meaningful social impact
- Unlocking the potential of local residents and communities, protecting and developing the living environment

2020 HIGHLIGHTS

- More than 4,000 regional change leaders in the company's projects
- Social investments in the regions: ₽6.4 billion.
- Gazprom Neft is a major taxpayer in the key regions of its operation

WHAT WE DO

- Supporting local initiatives by sharing our expertise and offering other practical support (over 1,000 grant projects)
- Cooperating to develop the living environment in the regions of operation: infrastructure, environmental and community development projects
- Volunteer movement (more than 3,000 social activists)
- Ensuring the regions' competitiveness through targeted support of talent, ethnic groups and young people
- Embedding environmental protection across all partnerships with the regions
- Providing stable tax revenues to local budgets to drive systemic social change

GOVERNMENT

VALUES

- Energy security
- Tax payments
- Technological development of the Russian oil and gas industry

2020 HIGHLIGHTS

- Hydrocarbon production: 96.06 mtoe
- Productive life of mature fields extended through the use of cutting-edge technologies
- Innovative methods leveraged to involve hard-to-recover reserves into production

WHAT WE DO

- Driving stable production growth and efficient oil refining with an extensive distribution network for petroleum products
- Implementing major high-tech projects and driving the integrated development of the Russian Arctic shelf
- Developing technological capabilities and import substitution



Strategy 2030: priorities

Gazprom Neft has made remarkable progress in the last 25 years, and is now a major player in the global oil and gas sector. Adopted in 2018, the key objective of the company's new Development Strategy to 2030 is to build a next-generation company and to become a benchmark for both Russian and international industry peers.

BUSINESS GOALS

AREAS OF LEADERSHIP

COMPANY TRANSFORMATION

Our ambition is not only to gain a foothold in the top league of oil companies, but also to become a benchmark for industry peers, both domestically and globally, in terms of safety, technological advancement and efficiency.

ALEXANDER DYUKOV

Chairman of the Management Board, CEO, Gazprom Neft PJSC

Our goal

To become one of the world's leading industrial companies, driving industry progressive transformation, making the impossible a reality, and inspiring our peers in Russia and beyond.

Our mission

Evolving, to change the world. Creating, to be proud of our creations. We produce resources for the future, enriching the world with the energy, knowledge, and technology to advance.

1
Gazprom Neft is one of the world's top 10 public companies for liquid hydrocarbon production.
The company is committed to continuing its growth in line with the market, or above it. This is a fitting goal considering the scale of the business.

2
Maximising the added value of every barrel of oil produced.
The company needs to manage the entire value chain efficiently in order to maximise financial performance.

3
Leadership in terms of return on average capital employed.¹
This goal requires effective project and asset management, focused on maximising profit.

¹ – ROACE.

1
Technological advancement: seizing opportunities for growth and stronger operational efficiency by developing and implementing advanced technological solutions, and by continuously developing key competencies.

2
Efficiency: Creating value under any external scenario. This is a key driver of competitiveness in a challenging external environment.

3
Safety: a responsible attitude to employees, partners and the environment. As Gazprom Neft is working to become a leader in industrial safety, it is guided by the key principle of Target Zero, which means zero harm to people, the environment and property in our operations.

1
Digital transformation will enable data-driven decision-making across the entire value chain: from geological exploration to fuel sales to end-users, and ensure that these data generate additional value.

2
Operational transformation involves developing the governance system to maximise the company's operational efficiency.

3
Cultural and organisational transformation involves transforming Human Resources management from a simple support function into a driver for continuous development. A key factor in recruiting the best people and high-potential talent is to offer opportunities for continuous development, both individually and collectively.



Strategy in detail: 2020 highlights

Gazprom Neft's business development efforts in 2020 and its near-term plans are aligned with the long-term development areas and goals set out in the Strategy.

BUSINESS GOALS

Areas for long-term strategic development

In the downstream sector, the company continues to upgrade its refineries and improve its operational efficiency, while expanding its retail network and making it more efficient.

Increasing the conversion rate and light product yield

Adding value throughout the company's product slate to ensure the economic viability of refineries and technological flexibility under any market conditions.

Improving efficiency and technological advancement

Optimising resources, cutting costs and transforming processes throughout the value chain to secure market leadership in existing and new markets.

Developing the petrochemical business

Increasing the sustainability of the company's traditional business by developing petrochemicals.

Developing the marketing and sales business

Maintaining leadership and growing market shares in existing and new markets for Gazprom Neft products.

In the upstream segment, the company continues to develop mature fields. It has grouped a wide range of opportunities for further development into several strategic areas.

Yamal development
Developing the resource base of the Yamal Peninsula and building a gas pipeline connecting the Novoportovskoye field to the Unified Gas Supply System.

Nadym-Pur-Taz region
Developing and monetising uniquely high volumes of liquid hydrocarbon reserves in a region of strategic importance to the company.

Sakhalin
Creating a hydrocarbon production cluster on Sakhalin shelf.

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AREAS OF LEADERSHIP

Safety

"Target Zero: zero harm to people, the environment and property in our operations."

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Efficiency

Maximising the added value of every barrel in any oil market development scenario.

Strategic initiatives

Upstream:

- improving efficiency in reserves growth;
- improving efficiency in production growth; and
- improving efficiency in current production.

Downstream:

- optimising the product portfolio and improving refinery operational efficiency; and
- improving efficiency in sales and distribution.

Developing technologies to drive future growth

- improving the oil recovery factor at mature fields;
- developing multi-phase deposits and low-permeability reservoirs;
- operating in the challenging Arctic environment;
- safe and efficient shelf operations;
- catalyst production;

- deployment of processes across the company's refineries; and
- import substitution as a tool to drive technology leadership and sustainability.

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COMPANY TRANSFORMATION

Digital

Improving the speed and quality of decision-making by deploying digital technologies.

Operational

Deploying the Etalon operational management system (OMS) to ensure systemic safety and efficiency in day-to-day activities.

Organisational

Becoming a flexible organisation with a streamlined and agile operating environment.

Developing an ecosystem beyond the company.

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⊕ pages 50

⊕ pages 56

⊕ pages 58



"Changes are already underway"
(interview with Alexander Dyukov,
Chairman of the Management Board
of Gazprom Neft)

Company transformation

To implement its 2030 Strategy, Gazprom Neft needs to align its management system with new approaches to operational planning and make it more agile to meet future external challenges. The company is carrying out interrelated transformations in key areas in order to achieve its goals.

DIGITAL TRANSFORMATION

It strives to improve managerial decision quality by extracting additional value from data across the entire chain: from exploration to point of sale.

OPERATIONAL TRANSFORMATION

This transformation is focused on reliable and safe operation and engages all employees on a culture of continuous improvement to maximise operational efficiency.

CULTURAL AND ORGANISATIONAL TRANSFORMATION

This is accomplished by transforming the HR management system from a support function into a continuous development engine. A key factor in attracting the best people and high-potential talent is to offer opportunities for continuous development, both individually and collectively.

Interrelation between transformations and products: version 2021

ADAPTABILITY OF PROCESSES AND STRUCTURES

An agile organisational structure that adapts to business needs, reflecting changes in processes and structures

ORGANISATIONAL TRANSFORMATION

- Removing obstacles to driving desired culture shifts and building a target operating model (collaboration and cross-functional interaction)
- Simplifying business processes

Simplifying the standardisation system

Differentiated management practices: structures, processes, and standards

Tools to identify improvement potential in organisational efficiency

A comprehensive assessment of potential

INCREMENTAL EFFICIENCY

Use of enabling technologies to unlock the potential of the company's business units and eliminate waste

OPERATIONAL TRANSFORMATION

Identifying areas and potential to leverage digital approaches

NEW BEHAVIOURS

- Driving desired behaviours among employees and managers, fostering engagement and an engaging environment
- Improving quality of life
- Supporting managers and employees in distributed teams

CULTURAL TRANSFORMATION

NEW WAYS OF WORKING

Developing facilitative leadership styles for different types of cultures

Behaviours supporting open-mindedness, speed, flexibility, and innovation

Distributed leadership and decision-making

Digital technologies to support transformations

Providing tools and solutions to support the desired behaviours (speed, flexibility and a product-based approach)

NEW VALUE FROM DATA

Tools for faster and better decisions

DIGITAL TRANSFORMATION



Digital transformation

Gazprom Neft's digital transformation covers its entire value chain. It is intended to improve flexibility and efficiency in business management, based on data and digital twins of assets. The company is developing in-house solutions in artificial intelligence (AI), the Industrial Internet of Things (IIoT), robotics, unmanned aerial vehicles (UAV or drones), and other Industry 4.0 technologies.

Digital transformation's impact on our business

2020 was a difficult year and will be remembered for market instability and the impact of COVID-19 on production processes. Nonetheless, our digital transformation efforts delivered a significant business impact in 2020. The cumulative economic benefit of new technologies and redesigned business processes totalled about ₽15 billion since 2019. Lower oil prices led to a more thoughtful use of funds and fewer high-risk investments.

For more details on programme implementation at company divisions, see page 123 ("Upstream") and page 89 ("Downstream")

Gazprom Neft digital transformation strategy, as approved by its Board of Directors in 2019, consists of a set of major programmes to change the company's technological and operational processes. Each of these programmes is intended to deliver key economic and business impacts in the medium and long term.

Implementing a product-based approach

In 2020, the company piloted a product-based approach within its Asset of the Future, Talent Management and Production Control Centre (in oil refining) programmes. The company is planning to roll out these new methods to its other assets in 2021. Another focus area was developing and implementing a product-capability matrix, with the following already in place:

- a role model for product and programme teams;
- a skill matrix for key roles within the teams; and
- a skill development programme for these roles.

The teams have embedded a requirements management service, including a corporate task tracker and a Wiki, in their day-to-day activities. Over 4,000 employees implementing digital transformation programmes and IT projects across the company already use this tool in their everyday work.

The product-based approach affords flexibility so that the business can be self-regulating and remain cost-efficient in unstable market. This approach also focuses and localises the resources necessary to achieve the company's goals within a short timeframe.

The 2020 results demonstrated that the company is not only able to deal with unexpected events but is also capable of rising above difficulties to accomplish all operational and strategic tasks.

ANDREY BELEVSEV
Director for Digital Transformation, Gazprom Neft PJSC

For more details, see page 84

2020 milestones

- The company's chosen approach to digital transformation proved to be effective and valuable in 2020.
- The cumulative economic benefit from our digital transformation programme and projects (for examples, see respective division data) totalled about ₽15 billion.
- Completed the transfer of digital technologies (unmanned aircraft technologies, robotic process automation, artificial intelligence, etc.) from hypotheses to integration into business processes.
- The principles of a product-based approach have been embedded into the management framework of the Asset of the Future digital transformation programme. This product-based approach has been tested in several other business division-specific digital transformation programmes, including Talent Management and Production Control Centre.
- The organisational transformation and modernisation of the IT cluster will maximise the efficiency of resource utilisation at Gazprom Neft, enabling the consolidated development of digital solutions and service support for them. For more details, see "Technological Development".
- Gazprom Neft was the first Russian business to join The Open Group international consortium, which develops technology standards.¹
- Technological Competency Centres started delivering services to business customers within the company (3D printing equipment, providing aerial surveillance and remotely monitoring the quality of installation supervision using augmented reality technology).
- The company submitted its proposals for the draft Russian Oil and Gas Industry Robotic Process Automation Framework, currently under development by the Ministry of Energy and the autonomous non-profit organisation Digital Economy, with input from Russian oil and gas companies.
- Two joint ventures were formed with major market players – X-Holding (NEDRA, New Digital Resources for Assets) and Zyfra (Digital Industrial Platform) – to develop digital solutions and platforms.
- Digital barriers were created to protect personnel against COVID-19. For more details, see "2020 challenges".
- The centre contributed to the establishment of associations supporting the activities of AI Alliance Russia as well as the Artificial Intelligence in Industry science and education centre. AI Alliance Russia was listed as an organisation for professional and public accreditation of higher-education and continuing-education programmes.
- Centre for digital transformation Zifergauz – a shared space for process and cross-functional teams – was opened.

¹ – An association of over 700 innovative IT and smart energy companies (Amazon Web Services, Google, IBM, Microsoft, NVIDIA, ExxonMobil, Chevron, Equinor, BP, Shell and Total) under the Open Subsurface Data Universe Forum.



Portfolio of digital transformation tools and processes

Digital platform: services and partnerships to develop digital solutions

The PaaS digital platform is our technological base providing services to build out the digital landscape. The programme includes three service packages: data services, services for the continuous delivery of new functionality, and integration services. Over 30 tools enable data collection from an array of sources, improve data quality and confidence in the data.

The platform reduces new digital product lead time to two weeks, while continually delivering working-product increments. This adds another 23% to the base impact of digital transformation programmes (thanks to regular, iterative delivery of business impacts), while cutting the costs of solving various organisational issues and finding necessary resources. Having a uniform, standardised set of technologies and approaches is also important for working with external development teams, otherwise each contractor will use their usual solutions, which can cause additional friction.

A total of 16 services were launched on the platform over the year. The platform developers use open-source software extensively, tailoring international best practices and proven solutions to company needs. Over 200 digital project teams are already using the platform's services.

A task of such magnitude cannot be accomplished single-handedly, instead, a 125-member cross-functional team is working on it: platform development is supported by all business units of the company to maximise impact for the business in the shortest possible timeframe. The platform will only produce real results if all stakeholders are engaged. Both the IT and business units, as well as Gazprom Neft subsidiaries, are involved in rolling out and running the platform.

One of the digital platform's services is the Consta system, an open-source solution that standardises user access and creates digital product interfaces. Consta is available to front-end developers, designers, testers, analysts and other specialists involved in interface development, free of charge.

9 months – the average time to product segment

30+
tools for data acquisition

+23%
boost to the impact delivered by digital transformation programmes



Consta: a design system for rapid interface development

Digital technology services

AERIAL SURVEILLANCE

The company's expertise in aerial surveillance with unmanned aircraft has enabled the rapid rollout of a construction site aerial surveillance service at all Novy Port project sites, as well as at the Chayandinskoye and Pestsovoye fields. In total, 15 major construction sites used aerial surveillance last year. Plans for 2021 include support for seismic surveys, aerial laser scanning of licence blocks and geophysical surveys.

Digital Technology Vision

Digital Technology Vision is a tool to plan the implementation of promising digital technologies and launch new digital initiatives across the company value chain.

The Digital Technology Vision includes continuous benchmarking against best practices used by global technology leaders to implement digital technologies. Benchmarking results determine Gazprom Neft's position and feed into decision-making on whether to pilot prioritised technology use cases at the company. As at the end of 2020, the Digital Technology Vision had helped to identify over 1,100 promising use cases for digital technology across the company value chain, synchronise use cases with Gartner to receive their third-party expert reviews, analyse over 900 benchmarking cases, and launch an external Digital Technology Vision portal to communicate the company vision and current status of digitalisation to external markets.

Digital R&D projects

This is a key part of the corporate digital innovation management system, developed to improve the efficiency of digital solution implementation and reduce risks and uncertainty. These projects give the company an edge over the market when identifying and implementing innovative solutions.

3D PRINTING

The 3D printing service is a further effective procurement tool enabling smarter inventory management. The service model involves companies ordering materials and equipment, Gazprom Neft Procurement taking care of procurement activities, and Gazprom Neft Digital Solutions in charge of reverse engineering, engineering and design documentation, and quality control. A whole ecosystem is being created at the company to enable the full-scale development of additive manufacturing.

REMOTE MONITORING

The service allows for the remote monitoring of various activities (installation supervision, remote control of operations, audits) on construction sites using augmented reality technologies.

600+
digital projects

40+
digital transformation programmes

In 2020, project teams from the Digital R&D Centre completed 139 R&D projects, despite COVID-19-induced changes to their investment and organisational processes. Hypothesis conversion was as high as 52%.



Company profile



Strategic report



Performance review



Technological development



Governance system



Sustainable development



Appendices

Partnerships

In April 2020, Gazprom Neft closed a deal to establish NEDRA, a joint venture. The JV implements projects in the interests of Gazprom Neft, develops marketable digital products for the industry using state-of-the-art AI systems and advanced data processing algorithms to support managerial decisions, and integrates its products on an open E&P platform. New digital products will focus on centralising the management of operations and using AI to create digital twins.

In November 2020, Gazprom Neft and Zyfra established Digital Industrial Platform, a joint venture to develop a digital industrial platform for continuous-production facilities in the oil and gas industry. The platform, which combines all systems, sensors, data processing algorithms and applications into a single solution, uses the Industrial Internet of Things and big data (the storage and processing of large volumes of structured and unstructured data) to collate, analyse and verify data and pass validated data to process control systems. The ZIIoT Industrial Internet of Things platform, Zyfra's digital services for oil refining and Gazprom Neft's process control solutions for the oil and gas industry formed the technological base for the joint venture.

Artificial intelligence

Gazprom Neft and St Petersburg City Administration established the Artificial Intelligence in Industry science and education centre. The Artificial Intelligence in Industry association was founded in 2020 to support the centre in achieving its full operations potential. Its main purpose is to find solutions to the more complex problems facing the oil and gas industry, as well as those of other industries. The association will bring together Russia's leading technical educational institutions: Higher School of Economics, ITMO University, MEPhI, Skoltech, St Petersburg Electrotechnical University, St Petersburg Polytechnic University, St Petersburg State University and State University of Aerospace Automation.

In 2020, Gazprom Neft, Mail.ru Group, MTS, Sberbank, Yandex and the Russian Direct Investment Fund established the AI-Russia Alliance to promote artificial intelligence and accelerate the development of education, research and the application of this technology in Russia. Gazprom Neft is the only industrial company in the alliance. The alliance was listed as an organisation for professional and public accreditation of higher-education and continuing-education programmes.

The alliance has already carried out professional and public accreditations of the AI programmes at over 30 higher-education institutions, with 10 institutions set to receive the alliance's public acknowledgement that the quality of their educational programme is up to standard.

The AI Works library on the AI Russia website has become one of the most visited resources dedicated to AI implementation and use. The library also runs the AI Awards for the most effective AI implementations and the best business solutions.

Further development of the ecosystem in 2020 led to the creation of a seamless procurement process for teams implementing digital initiatives, which proved to be easy to use and clear for the company's business units. Now, the whole process takes just seven working days.

30
training programmes developed by the Digital Transformation Department

The AI Works library on the AI Russia website has become one of the most visited resources on AI implementation and use.

3D association

Gazprom Neft was one of the founders of the Association for the Development of Additive Technologies (3D printing), along with Additive Technologies Centre, Almaz – Antey Air and Space Defence Corporation, Rusatom – Additive Technology, Tekhnomash (Roscosmos) and VIAM state research centre. Gazprom Neft actively participates in the work of Technical Committee for Standardisation 184 (TC 184) on 3D technologies.

Robotics

A draft Oil and Gas Industry Robotic Process Automation Framework was prepared by the Digital Transformation of the Oil and Gas Industry working group, with contribution from the Ministry of Energy of Russia, Gazprom Neft and other Russian oil and gas companies. The framework is expected to improve operational safety and efficiency, enable the implementation of projects that were not feasible before, and create new, high-tech jobs.

Unmanned aircraft technologies

Drones were the technology of the year for Gazprom Neft, with 70 different use cases identified across the company. Drones can be used for a wide range of applications, from cargo delivery to oil and gas fields to construction and infrastructure monitoring, and from exploration to identifying locations for filling stations.

The company opened Tsifergauz, our centre for digital transformation, in St Petersburg (officially launched in Q1 2021). The centre is a shared space for cross-functional teams working on industrial digital transformation projects and strategic digital transformation offices at company divisions. It is focused on seeking out solutions to improve traditional business processes and boost performance with cutting-edge technologies. The centre features technology laboratories dedicated to AI, video analytics, robot and drone control, 3D printing, VR/AR, testing new services, and developing industrial gadgets and telemetry sensors. Tsifergauz is also home to the headquarters of the Artificial Intelligence in Industry science and education centre.

Digital Transformation Department

The Digital Transformation Department was established at the Corporate University to train and develop Gazprom Neft managers and employees and includes seven departments:

- Digital Literacy;
- Programme, Product and Project Management;
- Software Development;
- Data and Business Analytics Management;
- Digital Technologies;
- Artificial Intelligence; and
- Architecture Management.

In 2020, the Digital Transformation Department prepared 30 training programmes delivering the expertise needed to boost process performance. Over 2,000 employees have been trained so far.

In addition to this, Gazprom Neft, the Higher School of Economics, and Yandex developed the modular programme Business Thinking in Digital Reality.

PLANS FOR 2021

The first three-year phase of the Digital Transformation Strategy will be completed in 2021. Plans for the period

- create detailed plans for the Strategy's second implementation phase (2022–2024);
- develop a digital strategy for support functions (Administration Division) and update the portfolio as necessary to achieve the goals outlined in the strategy;
- develop a process to manage digital transformation risks;
- roll out the product-based approach; and
- implement green measures with a core focus on cutting greenhouse gas emissions.


Digital transformation (a special section of Gazprom Neft's website)


"Business engagement is the key to successful digital transformation" (interview)


Gazprom Neft's digital transformation has already yielded billions of rubles for the business.

 For information on unmanned aircraft technologies, see page 74 and pages 120–121

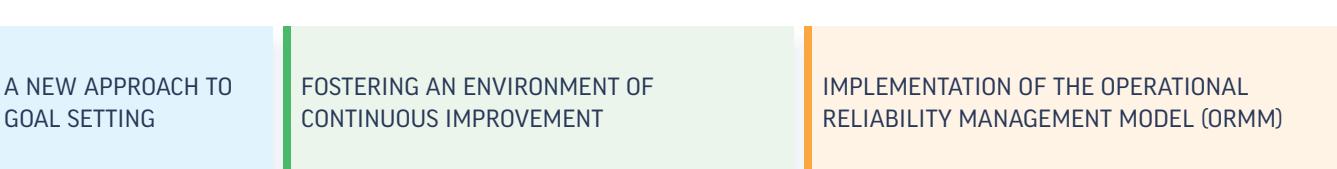

Technology of the year: unmanned aircraft



Operational transformation

The transformation of the operations management system (OMS) is a key programme to improve efficiency and achieve the goals set out in our 2030 Strategy. Its purpose is to maximise the company's operational efficiency by enabling reliable and safe operation and engaging all employees in a culture of continuous improvement.

Key focus areas of operational transformation



The company was able to bring about changes resulting in one-way operational transformation in each of these areas.

A new approach to goal setting

The shift in goal setting boils down to the fact that, rather than basing plans on previous achievements, the company will base its planning on potential, i.e. the limit of available resources. This will enable the company to:

- define realistic expectations;
- determine how ambitious its plans can be; and
- prioritise the efforts of the whole organisation.

The main tool used for this purpose is comprehensive potential assessment (CPA). This is an example of a cross-functional effort. Any potential assessment should consider the specific aspects of each process and accurately estimate its potential for optimisation, thereby identifying an achievable target supported by adequate resources over the foreseeable future. As at year-end 2020, comprehensive potential assessment had been carried out at key assets accounting for over 75% of Gazprom Neft Group EBITDA.

Operational efficiency potential improvement has been made possible by deep and comprehensive examination of internal optimisation capabilities and international best practices for the entire range of production processes. The definition of achievable level also includes the expected impacts of the implementation and systematic use of performance improvement tools (OMS tools).

Consistent and systematic OMS tool development has been rolled out to 25 Group subsidiaries. The total impact of initiatives identified using the OMS tools in 2020 exceeded R12.7 billion.

900+
performance
improvement
hypotheses¹

PLANS FOR 2021

- Make the goal-setting process an integral part of the business planning cycle.
- Continue rollout to service subsidiaries and assets outside the scope of company divisions.
- Achieve coverage of assets accounting for up to 90% of Group EBITDA.

Fostering an environment of continuous improvement

To foster the target production culture in 2020, the operational transformation programme's efforts were focused on:

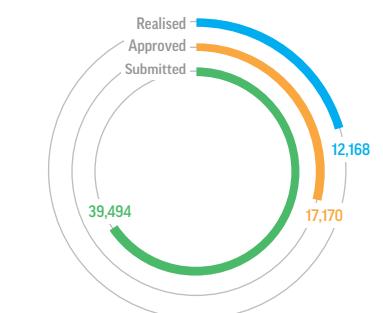
- increasing engagement through corporate leadership model tools;
- using routine management practices aimed at changing the existing leadership culture by developing effective leadership skills; and
- improving the infrastructure handling ideas and problems across all levels of the company.

Gazprom Neft intends to have all its managers implement modern routine management practices. Established algorithms and principles of behaviour, which describe routine actions, such as meetings, feedback, performance dialogues, visual management and inspection rounds, build trust between employees and improve their willingness to solve any operational problems.

Best practice codification and rollout were also ongoing. Although the format of the traditional Successful Practices Roadshow was changed due to the pandemic, the number of successful practices selected and refined to comply with universal requirements grew to 156 in 2020. Based on previously selected successful practices, 34 practices were also rolled out to other subsidiaries, with 15 practices implemented outside their original implementation division.

The consistent implementation of OMS Element 1 (Leadership and Culture) and Element 12 (Performance Management and Continuous Improvement) should foster a culture of continuous improvement and engage all company employees on the culture.

Process improvement ideas proposed by employees



Improving productivity together

Gazprom Neft is a participating partner in the national project Labour Productivity and Employment Support, aimed at improving efficiency and labour productivity at Russian companies. This is the first-ever industrial government consultancy initiative in Russia. At its core is the idea is that practicing consultants will develop pilot solutions in industrial settings and transfer their skills to employees, who will then keep on optimising independently.

Under this national project, Gazprom Neft focused on cost cutting and operational risk mitigation in capital construction projects by implementing a continuous-improvement system. Company specialists and experts from the Federal Competency Centre train personnel in lean manufacturing. Improvements made to business processes help optimise construction and installation processes at Gazprom Neft and at participating contractors, with savings of between 10% and 30%.

A total of ten contractors of Gazprom Neft subsidiaries participate in the project, but the programme expansion planned for 2021 will bring it to new participants. A capital construction process factory will be established to train specialists.

¹ – According to the company employee engagement survey

10%–30%
savings

10
contractors
engaged

Implementation of the operational reliability management model

Despite 2020's COVID restrictions, the company not only rapidly reorganised the implementation of its operational reliability management model by putting expert support online, but it also made significant progress on each of the four components (processes, structure, tools and key performance indicators).

Process optimisation:

- Approval was granted for the Production Asset Reliability Management – Downstream processes.
- Process Descriptions have been prepared and approved.
- Standardisation of downstream reliability management processes is ongoing.
- Development of a maintenance and repair management system based on SAP PM and 1C:TEAM is ongoing.
- Development of a system that can provide predictive analysis of dynamic equipment condition and comprehensive diagnostics of heat exchangers is underway.
- A single end-to-end maintenance management business process has been developed, approved and is being implemented in the Upstream Division.

Developing the target organisational structure:

- Production control centres (PCC) were further developed at refineries.
- Role and responsibility matrices for production asset reliability management have been developed and implemented.
- The organisational and functional structure of the Production Support Centre, a single cross-functional unit for subsidiaries, has been developed in the Upstream Division.
- A pilot in-house team of coaches to build operational reliability capabilities has been selected and trained in practical skills.
- The Production Efficiency Department of the Corporate University has developed and delivers courses on RCM Analysis Practice and RCFA Analysis Practice.

Operational and engineering staff have been equipped with the following reliability management tools:

- Walkaround inspection maps have been developed and are in use.
- Standard operating procedures have been developed.
- The shift handover procedure has been updated.
- Equipment criticality analysis and ranking, maintenance and condition management strategy development are ongoing

Key performance indicator management:

- The analytics (KPI) reporting system has been upgraded.
- Reliability KPI (including availability) calculation has been automated.
- The functionality of production performance management information systems has been improved.

PLANS FOR 2021

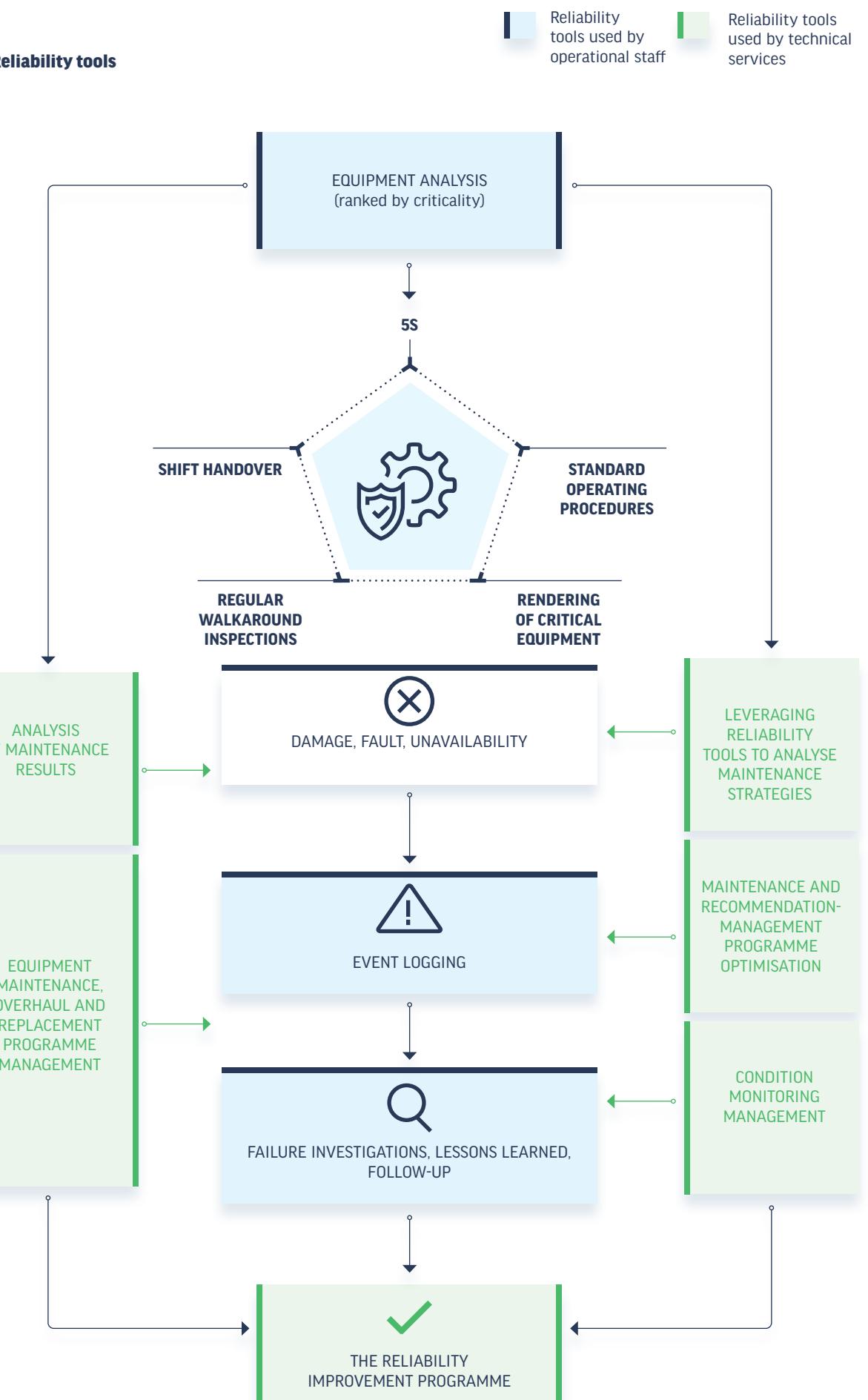
Upon completion of the upstream reliability strategy review, high-level KPIs are expected to be synchronised through index comparisons across divisions, in accordance with the benchmarking methodology developed by HSB Solomon Associates LLC.

800+
employees trained
to use reliability
management tools

430 walkaround
inspection maps
developed

~1,000
technical
systems covered
by the condition
monitoring process

Reliability tools



The Etalon OMS structure

| | | |
|------------|--|--|
| Element 1 | Leadership and culture | Ensuring that managers play a leading role in creating an engaging environment to enable the company to achieve its strategic goals |
| Element 2 | Reliability management | Achieving the target level of production asset safety and cost-effectiveness throughout the entire life cycle through targeted risk-based maintenance, and reasonable extension of service life and technical equipment durability |
| Element 3 | Process flow management | Ensuring that production processes are safe, efficient and sustainable |
| Element 4 | Organisational development and competency management | Ensuring that organisational resources are effectively secured and allocated; assigning responsibility and developing staff competencies |
| Element 5 | Operational risk management | Ensuring that a uniform, risk-based approach to operations management has been adopted, in order to improve operational efficiency by minimising unplanned losses from operational risk through actions to reduce their likelihood and mitigate their consequences |
| Element 6 | Contractor and supplier management | Ensuring the efficiency and safety of work performed/services provided by contractors, and the efficiency of materials and equipment supplied |
| Element 7 | Project management | Ensuring that project goals are achieved efficiently |
| Element 8 | Data, information and document management | Making the best management decisions based on data, information, and documentation |
| Element 9 | Environmental and social impact management | Preventing unacceptable impacts on people and the environment |
| Element 10 | Change management | Ensuring that changes within the company are efficient and maintain operational continuity |
| Element 11 | Stakeholder management | Identifying stakeholders in operations, communicating with them and building constructive stakeholder relationships as part of operations |
| Element 12 | Performance management and continuous improvement | Improving operational efficiency by using continuous-improvement tools |

Glossary

The Etalon OMS is a structured set of interconnected practices, procedures and processes used by managers and employees at each organisational level in the course of operations.

Potential – annual total difference between the actual and maximum possible/benchmark indicators of an asset life cycle expressed in monetary terms.

Achievable level – target for EBITDA growth and CAPEX optimisation for a given business planning horizon based on the expected impact of approved and potential initiatives that can realise this potential.

Comprehensive potential assessment – an assessment of all strategic resources of subsidiaries/company assets, including operational, financial, and human resources.

Routine management practices – a set of actions taken by a manager to build a new relationship model with his/her subordinates, leading to higher productivity and process safety at the company.

Value-stream mapping to grow shipments

Value-stream mapping – an OMS tool – has helped Gazprom Neft increase daily shipments of light products from the Moscow Refinery. Value-stream maps can be used to create diagrams showing each step in material and data flow, identify waste and find the best solutions to improve efficiency in the production of goods and delivery of services.

Efficient cross-functional operation increased daily light product shipments through an automated fuel loading terminal at the Moscow Refinery by about a quarter. Keeping a focus on market demand, the whole process chain (from production to sale of light products) was analysed. Specialists used insights from this analysis to define a target, more complex operating model with minimised downtime and movements. This led to an increase in terminal throughput from 6,400 tpd to 8,000 tpd.

**+27%
to daily light
product
shipments**

The successful practice contest at the Capital Construction function

Successful practice contest – a platform to share experience and best practices for continuous improvement at Gazprom Neft. In 2020, the Capital Construction function and the OMS Development Centre held a contest among 10 subsidiaries and contractors, and identified the most effective approaches to scheduling capital construction projects and optimising related costs.

Out of the 40 practices presented at the contest, a panel of expert judges recommended nine for rollout to other subsidiaries. One example is the EPC contracting model, whereby a single contract is made with one contractor responsible for all work, rather than contracting individual suppliers, builders and engineers. This approach enables cross-functional and integrated process optimisation.

**40 practices
presented at the
contest**

**9 practices
recommended for
rollout across the
company**



Organisational transformation

To achieve its strategic goals, Gazprom Neft must significantly accelerate its decision-making and execution. This requires a fundamentally new perspective on business processes and management models. The company is adopting and implementing cutting-edge development and management approaches based on a network structure. These include agile teams, which are quickly formed to bring together specialists from various disciplines to address a specific task, and which are able to look for solutions independently, while coordinating with other teams. An important feature of the new model is that the corporate centre now focuses on Change, whereas Run (day-to-day operations) is more often delegated to subsidiaries.

Operating model

In Gazprom Neft's 2030 Strategy, the company mapped out a journey towards being a global benchmark in efficiency and technological advancement. This requires a flexible and adaptive product-based operating model, focused on what it is managing: the product. In this context, the product is a comprehensive business solution, created by a cross-functional product team. To be able to assemble such teams, the company needs to revise its existing business processes and create an environment where experts can be mobilised from different units.

In 2020, a project was launched to update the company's operating model.

In 2020, an Expert Panel was established within the HR function, and an applicable regulation was approved. The panel held its first meeting on 28 January 2020, with a total of 13 meetings held over the year.

A working group involving all members of the Expert Panel assessed the existing operating model for organisational development and HR management (OM¹ ODHRM²), and defined OM¹ ODHRM² framework and development vectors to deliver more value and improve flexibility. The target operating model concept was defined (the development of a three-component model: business partners – expertise centres – transactions). An update cadence was also finalised.

Gazprom Neft is actively creating opportunities for cross-functional team collaboration in various formats (traditional, remote and hybrid), with options to use agile³ practices if and when applicable and feasible. The company's broad scope for using highly flexible work formats led it to select the product-based approach, as this was one of the most promising for the company and the main focus of its organisational transformation journey. This approach affords flexibility, so that the business can be self-regulating and remain cost-efficient in volatile and unstable markets, with measurable results.

Changes in teamwork should result in business opportunities being promptly identified and saturated with resources, driving results in the shortest possible time. Of course, it is also important for expended resources to be measurable. The first practical results can already be seen today; for example, the agile, distributed team work at Gazprom Neft's IT cluster.

A total of six streams have been developed for the product team focus areas, each using agile methods: virtual organization, resource planning, colocation (the Formula project), culture and training, motivation and performance, and cadence. The intention is for each stream to develop tools to be used by teams. Currently, the streams and product teams are developing practices for subsequent rollout across the company.

600+
members across
product teams

17
vacancies
filled through the
Professionals 4.0
platform

Gazprom Neft is actively creating opportunities for cross-functional team collaboration in various formats (traditional, remote and hybrid), with options to use agile³ practices if and when applicable and feasible.

Updating the operating model

A project was launched in 2020 to update the company's operating model. The operating model describes the operating forms and formats of a function (who sets goals, who does what, how we interact, etc.). Project progress is measured in accordance with Gazprom Neft's organisational project management methodology.

Focus areas have been identified for the operating model update, which is now underway. Through group sessions involving stakeholders, we have identified focus areas, each matching a growth area in the current operating model:

- Defining segments (employee segments across the value chain determine the final value of the HR function for the company and are set goals).

- Common goal setting and KPI system.
- Describing HR's role as a Business Partner.
- Formalising/structuring new HR functionalities (data and analytics, well-being and health, and change management).
- Updating roles and responsibilities (development, implementation and execution) across functional verticals and providing resources for functions.
- Creating products, product teams and shared resource pools.
- Developing the HR Solutions Centre: standardising its perimeter, expanding its service range, handing over all transactional processes and developing a service-based approach (customer focus, service level agreement – SLA, and digitisation).
- Incorporating experience management into the function-specific process and expertise system.

- Piloting stream results in the IT segment: product teams have over 600 members between them. The process has been integrated with Professionals 4.0 platform to find talent, with the platform already having filled 17 team vacancies.

The resource planning and booking process for the IT cluster has been developed.

IT solution architecture to fully automate resource planning has been developed.

1 – OM – operating model.
2 – ODHRM – organisational development and HR management.
3 – Agile – a set of methods and practices for flexible project management in various areas of application (from software development to marketing strategy implementation) to improve final product development lead time and minimise risks by using an iterative approach, encouraging team member interactions, and enabling rapid responses to changes.



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Cultural transformation

Gazprom Neft is implementing a large-scale project to transform its corporate culture. Its new collaboration philosophy involves a shift from “management and control” to “leadership by engagement”.

Gazprom Neft has developed a leadership behaviour model where the leader:

- role models values for all employees;
- creates an engaging environment for the team; and
- is committed to continuous development.

To implement the new culture, the company is incorporating international best practices, tailoring them to its specific needs. The new culture is based on:

- communicating the rationale behind the cultural transformation and target vision;
- developing new behaviours for employees;
- changing processes to encourage these behaviours; and
- ongoing communication.

Gazprom Neft values

The company's values are shaped by its vision, mission and strategy. The target corporate culture at Gazprom Neft is a synthesis of multiple cultures: a culture of rules, of success and of consensus. Gazprom Neft values support this process: the culture of rules is underpinned by responsibility and safety; the culture of success is centred around efficiency and determination; and the culture of consensus is based on collaboration and innovation.

In 2019 and 2020, the company held culture workshops, which were attended by over 9,000 employees. These events created a shared information space dedicated to corporate culture, our updated values and leadership model.

In addition, the first ever values-linked reward campaign was run in 2020, where employees were nominated and rewarded for successful projects and personal contribution to the company's development in line with corporate values. As part of promoting values, an online platform was created where employees could praise colleagues for living our values. In total, more than 6,000 employees left messages on the site. A values quiz was also held to test employees' knowledge of values and behavioural indicators. Finally, the Thank You campaign and a series of online meetings dedicated to corporate culture were organised.

9,000+
managers attended
culture workshops

6,000+
employees
participated
in the values-linked
reward campaign

Cultural transformation involves instilling behaviours that contribute towards the company's goals. These behaviours should be reinforced through the appropriate processes, organisational structure and operational adjustments.

INNOVATION
is our way of thinking

COLLABORATION
is our communication
style

SAFETY
is our priority

**GAZPROM NEFT
VALUES**

EFFICIENCY
is our strategy

RESPONSIBILITY
is our work ethic

DETERMINATION
is our nature



PERFORMANCE REVIEW



The illustration is an artistic visualization of work processes.
The photographs used in the illustration were taken during
the pre-pandemic period.

Resource base

The key contributors to the Gazprom Neft resource base include organic growth through additions from existing assets, proactive exploration in frontier areas, and production from the assets under long-term risk-operatorship agreements with Gazprom.

Commercially-recoverable reserves at mature fields make up a meaningful part of the company's resource base. Gazprom Neft is using advanced-drilling and tertiary-recovery techniques¹ to increase production from these fields. Also, some additions to the resource base annually come from geological exploration and new-asset acquisition.

The company's reserves are audited in accordance with the SPE-PRMS standards and the more conservative SEC² standards. According to a reserve report by DeGolyer & MacNaughton,³ an independent petroleum consulting firm, Gazprom Neft's total proved and probable hydrocarbon reserves (including allocations proportional to the company's interests in affiliated companies) under the SPE-PRMS international standards were estimated at 3,908 mtoe as at 31 December 2020 (2,001 mt of oil and 2,311 bcm of gas), excluding the reserves associated with NIS, Serbia.

The driving force behind this record-breaking year-on-year increase of 36.6% were farm-in⁴ reserve additions at oil rims and Neocomian-Jurassic gas and gas condensate deposits at Gazprom PJSC fields (primarily the Bovanenkanskoye and Kharasaveyskoye fields). By booking these reserves for the first time in the 2020 audit, more than 1 btoe was added to the resource base.

Gazprom Neft's 1P reserves-to-production ratio (SPE-PRMS standards), including interest in joint operations and ventures, has increased from 17 to 22 years. The company's 1P reserve-replacement ratio (RRR) is 670%, while 1P+2P RRR is 1,190%.

The greatest contribution to our resource base in 2020 came from assets under development through long-term risk-operatorship agreements, including deposits at major fields, such as the Bovanenkanskoye and Kharasaveyskoye fields in Yamal.

VADIM YAKOVLEV
Deputy CEO for Exploration and Production,
Gazprom Neft PJSC

+36.6%
increase in proved and probable hydrocarbon reserves

¹ – Oil production and recovery efficiency are boosted by tertiary recovery techniques, including inert-gas injection, chemical flooding, steam injection, etc.

² – SEC stands for the U.S. Securities and Exchange Commission, which developed an oil reserve classification system that requires the use of a 12-month average of monthly opening prices in the reporting period.

³ – A petroleum consulting firm.

⁴ – Bearing exploration and field infrastructure development costs in farm-in agreements gives Gazprom Neft an opportunity to add farm-in reserves, production, and financial returns to its balance sheet.

Gazprom Neft Group hydrocarbon reserves¹ under the SPE-PRMS classification², mtoe

| Reserves status | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Developed | 726 | 719 | 734 | 763 | 757 |
| Undeveloped | 788 | 803 | 830 | 820 | 1,366 |
| Proved | 1,514 | 1,522 | 1,564 | 1,583 | 2,123 |
| Probable | 1,205 | 1,259 | 1,277 | 1,278 | 1,785 |
| Proved + probable | 2,719 | 2,781 | 2,841 | 2,861 | 3,908 |
| Possible | 1,189 | 1,241 | 1,204 | 1,426 | 2,158 |
| TOTAL | 3,908 | 4,022 | 4,045 | 4,287 | 6,066 |

Source: company data

Reserve-replacement highlights, mtoe

| Enterprise | Proved reserves (2019) | Hydrocarbon production | Exploration, development and revision of prior estimates | Reserve additions | Proved reserves (2020) |
|---------------------------------------|------------------------|------------------------|--|-------------------|------------------------|
| Gazprom Neft | 922 | (61) | 56 | 564 | 1,481 |
| Tomskneft VNC (JV) | 68 | (3) | (1) | | 64 |
| Oil and Gas Company Slavneft (JV) | 131 | (5) | 6 | | 132 |
| Salym Petroleum Development N.V. (JV) | 23 | (3) | 3 | | 23 |
| Messoyakhaneftegaz (JV) | 16 | (3) | 7 | | 20 |
| Arcticgas (JV) | 360 | (17) | 8 | | 351 |
| Northgas (JV) | 63 | (3) | (8) | | 52 |
| TOTAL | 1,583 | (95) | 71 | 564 | 2,123 |

Source: company data

¹ – Excluding reserves associated with NIS, Serbia.

² – Petroleum Resources Management System. The Petroleum Resources Management System was jointly developed by the World Petroleum Council, the Society of Petroleum Engineers, and the American Association of Petroleum Geologists.



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In 2020, the company acquired licences for 18 new blocks in the Yamalo-Nenets Autonomous Okrug, Khanty-Mansi Autonomous Okrug-Yugra, and other regions, including 14 new exploration licences for deeper-pool and extension testing at producing fields in the Yamalo-Nenets Autonomous Okrug and the Khanty-Mansi Autonomous Okrug-Yugra. The total number of company licences in Russia is up to 233 (including seven licences for shelf blocks).

In 2020, Gazprom Neft discovered three fields in the Khanty-Mansi Autonomous Okrug-Yugra and the Orenburg Oblast, and made 26 new deposit discoveries across its footprint. As to operations at licence blocks on the shelf, the company is reviewing its geological model and seismic data for the Ayashsky block in the Sea of Okhotsk, and continues negotiations with prospective Russian and international partners. Gazprom Neft is also assessing the resource potential of the Kara Sea and the Sea of Okhotsk.

Licence acquired in 2020

| Region | Number of licences | Licence blocks |
|-------------------------------------|--------------------|--|
| Yamalo-Nenets Autonomous Okrug | 12 | Khambateysky, Severo-Yamburgsky, Sredne-Itursky, Sugmutsky, Severo-Yangtinsky, Vyngapurovsky, Zhigulevsky, Privilny, Zapadno-Etypurovsky, Zapadno-Yarainersky, Novogodny-2, Yaro-Yakhinsky 2 |
| Khanty-Mansi Autonomous Okrug-Yugra | 5 | Karabashsky 84, Ledovy, Kholodny, Snezhny, southern part of the Priobskoye field |
| Orenburg Oblast | 1 | Roshchinsky |

Source: company data

Partnerships

Opening a new chapter in our partnership with Royal Dutch Shell

In March 2020, Gazprom Neft and Royal Dutch Shell closed a deal targeting the reserves at the Salym group of fields. Salym Petroleum Development N.V. joint venture's asset portfolio includes a new licence for the exploration and production of conventional reserves at the Salymsky-2 block in the Khanty-Mansi Autonomous Okrug-Yugra. This block borders on the Zapadno-Salymskoye, Vadelypskoye, and Verkhnesalymskoye fields, which are being developed by the joint venture.

Furthermore, Gazprom Neft and Royal Dutch Shell closed a deal in November 2020 establishing a joint venture to explore and develop the Leskinsky and Pukhutsyayakhsky licence blocks on the Gydan Peninsula. Under the terms of the deal, each partner holds 50% equity and management control in the joint venture. Gazpromneft-GEO is acting as the exploration operator for the initial exploration of the Leskinsky and Pukhutsyayakhsky licences.

26 new deposit discoveries across the company's footprint

Developing hard-to-recover reserves

In June 2020, Gazprom Neft, LUKOIL and TATNEFT closed a deal establishing a joint venture to explore and produce hard-to-recover hydrocarbon reserves in the Orenburg Oblast. The joint venture's asset portfolio includes the Savitsky and Zhuravlevsky licence blocks. Each party has been allocated an equal, one-third interest.

The partners will be pooling their operational and technological capabilities to maximise value from conventional oil reservoirs, as well as to develop viable technologies to bring hard-to-recover reserves on stream.

In addition to this, in August 2020, Gazprom Neft and Zarubezhneft signed off on the establishment of Gazpromneft-Salyym, a joint venture to develop Salyym projects in the Khanty-Mansi Autonomous Okrug-Yugra. This joint venture will be a proving ground where technologies targeting hard-to-recover oil can be developed and tested. Its portfolio includes the Salymsky-3 and Salymsky-5 licence blocks in the Khanty-Mansiysky District of the Khanty-Mansi Autonomous Okrug-Yugra. Gazprom Neft and Zarubezhneft hold 51% and 49% interest, respectively. In 2020, Gazpromneft-Salyym discovered a new field, Solkham, in the Khanty-Mansi Autonomous Okrug-Yugra. Oil-in-place is estimated at 7.5 mt, with initial recoverable reserves of more than 350,000 tonnes.

Development of digital solutions for the oil and gas industry

In April 2020, Gazprom Neft and X-Holding closed a deal establishing a joint venture to develop digital solutions for the oil and gas industry, and roll them out across the domestic and global markets. This joint venture is striving to drive the Industry 4.0 digital transformation of the oil and gas industry. Some of its promising projects include an investment decision support system for oil and gas fields, computer vision solutions to enhance workplace safety, and a tool to automate integrated asset modelling in production forecasting.

The company has significantly expanded its portfolio of joint projects with existing and potential partners over 2020, including a number of new joint ventures to develop various reserve categories, and to develop technologies for the oil and gas industry. Partnerships unlock multiple benefits and advantages for the company, such as the opportunity to share risks and costs, exchange best practices, achieve faster returns, and many more.



"The resource base strategy will remain the same" (interview)

18 newly acquired licence blocks



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233 valid licences across Russia

3 new-field discoveries

Exploration and production

Gazprom Neft is developing large-cluster projects on the Yamal Peninsula, in Eastern and Western Siberia, and in the Orenburg Oblast, both directly and through joint ventures.

The key driver of our resource base expansion in 2020 was organic growth from existing assets, with 45 exploration and appraisal wells drilled. The total depth of exploration drilling totalled 152,600 m.

In 2020, Gazprom Neft acquired 3,160 line km of 2D and 5,330 sq km of 3D seismic data.

In late 2020, Gazprom Neft and the LANIT group developed a digital twin to boost the performance of seismic operations at oilfields. The digital twin uses historical seismic data from all of the company's oilfields across different regions to benchmark the data available on drilling prospects against the most successful solutions used in comparable geological settings. These insights enable asset teams to design optimal prospect-exploration strategies.

This integrated real-time environment is expected to improve seismic acquisition monitoring and yield high-quality geophysical data. Gazprom Neft will evaluate the performance of the digital twin in the field, using data gathered in the 2020–2021 winter acquisition season.

Gazpromneft-GEO

The competency centre run by Gazpromneft-GEO manages turnkey projects on behalf of the Group. This centre ensures continuous additions of commercially recoverable reserves to the company's resource base to maximise the efficiency of capital employment.

Our approach to exploration is based on:

- managing a portfolio of major exploration projects;
- concentrating our financial and managerial exploration capabilities in a single centre;
- optimising the transfer of business-ready cases for further development;
- assessing each project in terms of its geology and investment case, as well as logistics, infrastructure, and technological complexity.

Our portfolio management system, established over the past few years, performed well during the turbulence of 2020, with operations promptly refocused on less risky projects that give a quick return on investment.

VADIM YAKOVLEV
Deputy CEO for Exploration and Production,
Gazprom Neft PJSC

152,600 m
of exploration
drilling footage

5,330 sq km
of 3D seismic data

Achimov Formation development

The Achimov Formation, in the heart of the West Siberian Basin, is made up of petroleum reservoirs overlying the Bazhenov Formation. Its complex structure, great depth and abnormally high pressure call for innovative exploration and production methods. The Yamalo-Nenets Autonomous Okrug contains more than half of the Achimov reserves.

Gazprom Neft has built the industry's first digital model for the Achimov Formation, covering the whole of Western Siberia. In 2019, the company launched Achimovka NNG, a major new project to perform integrated exploration of the hard-to-recover Achimov reserves under the current licences held by Gazpromneft-Noyabrskneftegaz. This project is implemented in partnership with Gazpromneft-GEO and the Gazprom Neft Science and Technology Centre.

In 2020, Gazprom Neft launched a major exploration project within the Severo-Yamburgsky licence block, estimated to hold over 500 mtoe, and developed a prototype of an expert system to aid in selecting generic technologies for this type of reserve. Hybrid hydraulic fracturing piloted in the Vygayakhinskoye field proved a viable method, boosting the well's productivity index by 60%. Furthermore, a TAML¹ Level 3 multilateral and multistage-fractured well in the Vygayakhinskoye field flowed at initial rates twice as high as those from conventional-completion wells, saving 10% in CAPEX. As part of its 2021 agenda, the company plans to calibrate the regional model for the Achimov Formation against the latest local geological data, establish a generalised geological conceptualisation for the Nerutinskaya zone, complete a detailed survey of the Olikuminskaya zone for its commercial petroleum quantities, and continue with pilot production at the Vygayakhinskoye field.

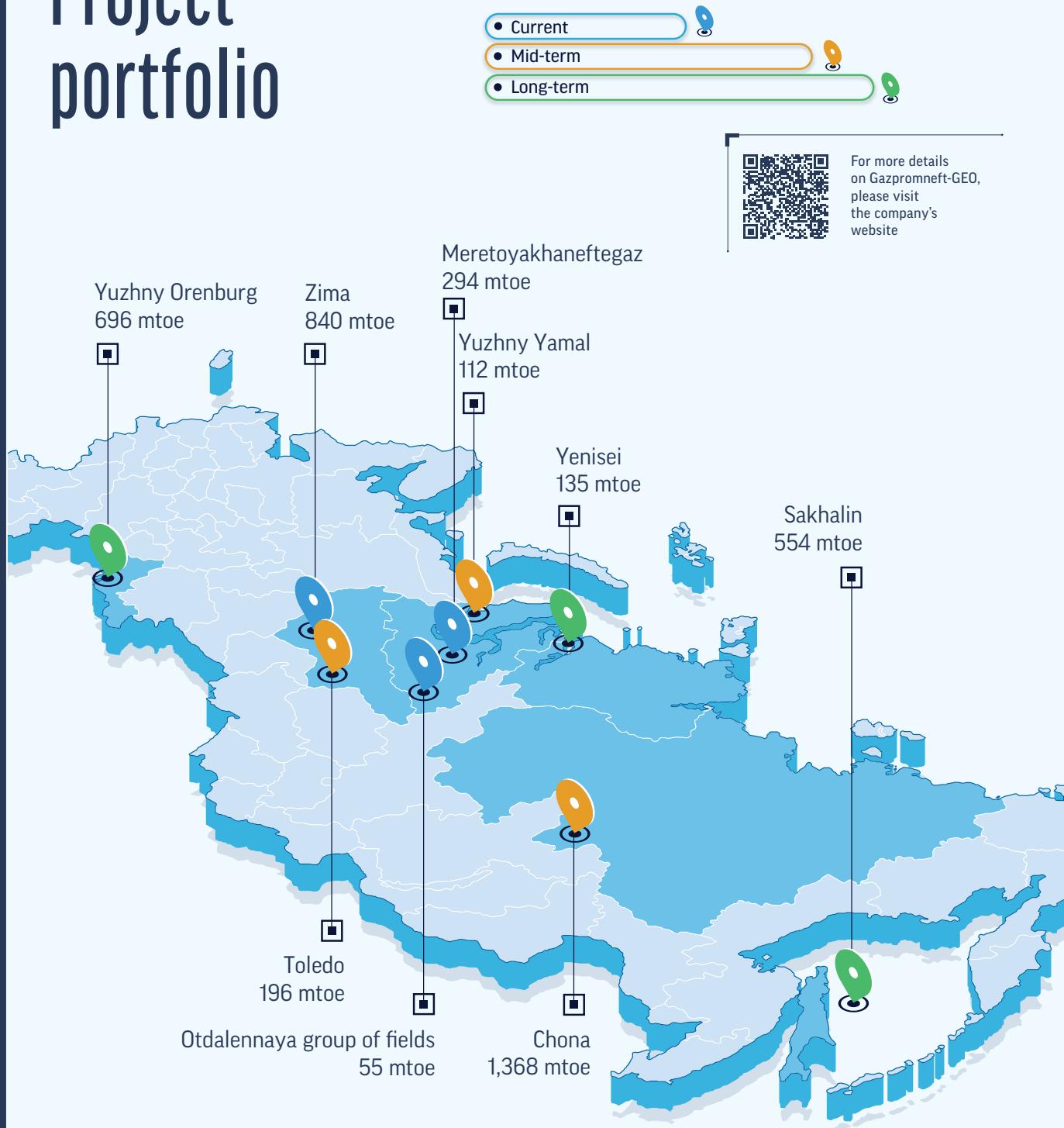
10+ btoe
Bolshaya Achimovka
resource potential

60%
increase in the well's
productivity



¹ – Technology Advancement for Multi-Laterals – international classification of multilateral wells.

Project portfolio



Major exploration projects in 2020

Zima (Khanty-Mansi Autonomous Okrug-Yugra)

- 95 mt added to the resource base following 3D seismic interpretation.
- 3D seismic survey completed across the Zapadno-Zimny licence block.
- 3D seismic survey launched across the Srednevaysky and Severo-Vaysky licence blocks.
- Seven exploration and appraisal wells drilled (including two wells at the Vaysky licence blocks).

Exploration on the Gydan Peninsula (Krasnoyarsk Krai and Yamalo-Nenets Autonomous Okrug)

- Joint venture established with Shell, targeting the Leskinsky and Pukhutsyayakhsky licence blocks.
- 1,300 line km of 2D seismic data acquired.
- First exploration well spudded in November 2020.

Karabashsky-zone exploration (Khanty-Mansi Autonomous Okrug-Yugra) through a joint venture with Repsol

- A unique, multilateral well was drilled, with 7,675 m of reservoir exposed to the wellbore, and provisional test rates supporting our optimistic production projections.

Yuzhny Orenburg (Kornavarinsky, Nadezhdinsky, Solnechny and Zapadno-Rubezhinsky licence blocks, Orenburg Oblast)

- 3D seismic survey completed for the licences within the project area, with 1,109 sq km of 3D data captured in 2020.

Yamburg, Achimov Formation (Yamalo-Nenets Autonomous Okrug, Gazprom Dobycha Yamburg being the licence holder)

- Four horizontal wells drilled, including one well with a 1.8 km horizontal section. This is the well where MPD (managed-pressure drilling) was successfully piloted to minimise wellbore issues and improve drilling efficiency.

95 mt
added to the Zima resource base

1,300 line km
of 2D seismic data acquired

7,675 m
of reservoir exposed to the wellbore at the Karabashsky zone

1,109 sq km
of 3D seismic data captured at the Southern Orenburg project area

1.8 km
horizontal section at one of the Yamburg project area's wells



Hydrocarbon production

The company retained its market leadership as one of Russia's top-three hydrocarbon producers in 2020, with total production flat on prior year at 96.06 mtOE (96.1 mtOE in 2019). To comply with the OPEC+ production cut in force since April 2020, our oil and condensate production was 60.52 mt, 7.5% below the 2020 target.

Hydrocarbon production, mtOE¹

| Enterprise | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--------------|--------------|--------------|--------------|---------------|
| Subsidiaries and Gazprom Neft's interest in joint operations ² | 59.90 | 63.28 | 65.36 | 67.58 | 68.02 |
| Oil and Gas Company Slavneft (JV) ³ | 7.88 | 7.52 | 7.28 | 7.37 | 5.08 |
| Arcticgas ³ | 13.47 | 13.50 | 14.58 | 15.22 | 17.18 |
| Northgas (JV) ³ | 4.59 | 3.83 | 3.36 | 3.12 | 2.66 |
| Messoyakhaneftegaz (JV) ³ | 0.36 | 1.62 | 2.30 | 2.81 | 3.11 |
| Eurotek-Yugra (JV) ³ | - | - | - | - | 0.01 |
| INCLUDING GAZPROM NEFT'S INTEREST IN JOINT VENTURES, TOTAL | 86.20 | 89.75 | 92.88 | 96.10 | 96.06 |
| Average daily production by the Gazprom Neft Group, ktoepd | 235.52 | 245.89 | 254.47 | 263.29 | 262.46 |

Source: company data

2020 milestones

- Gazprom Neft started to develop the Bovanenkovoyskoye, Kharasaveyskoye and Urengoyskoye fields under long-term risk-operatorship agreements.
- The company proceeded to the full-scale development of the Zima project in the Khanty-Mansi Autonomous Okrug-Yugra.
- Gas production across the Group was up 5.5% to 43.08 bcm.

The new fields operated by Gazpromneft-Zapolyarye (Zapadno-Tarkosalinskoye and Pestsovoye fields), Meretoyakhaneftegaz (Tazovskoye field) posted the highest production increases in 2020 and Gazpromneft-Khantos (Alexander Zhagrin field).

1 – Including gas condensate.

2 – Consolidated companies.

3 – The company's share in production.

Asset of the Future

The Asset of the Future Programme seeks to deliver an integrated transformation of the business model for the Gazprom Neft Upstream Division by optimising business processes, enabling digital transformation, as well as developing cross-functional capabilities and new ways of working for our employees.

To ensure cross-functional and integrated changes, the Programme uses our product-based approach, adapted for the oil business. As a combination of new processes, capabilities and technologies, the product not only forms a cross-functional business-management tool that focuses the attention of management, but it also enables the company to bring about a multi-faced change-and-run transformation.

Programme highlights in 2020

In 2020, the company integrated all processes into six dedicated business products across the entire value chain: from finding new development opportunities to exporting products at custody transfer points. Rolling out a cross-functional business model for each business product prompted operations teams at subsidiaries to progressively develop new capabilities and refine "one team one business goal" teamwork.

Product teams launched more than 25 pilots to address the key business challenges facing the company's upstream enterprises. A rapidly-built management system kept a normal operating rhythm even in a remote-working environment, and covered over 700 employees from dozens of the company's divisions. Product-based interaction and decision-making have become routine processes at both the Gazprom Neft Corporate Centre and subsidiaries.

As early as 2019, the pilot asset delivered R1.2 billion in business impact; but in 2020, the programme-associated benefits topped R3.6 billion, driving positive cash flow and proving the potential to deliver a R100 billion impact up to 2030.

A new single operating model, deploying end-to-end processes across all management levels, and rapidly rolling out solutions and best practices throughout product teams, – from new ways of working to innovative Industry 4.0 technologies – makes sure this transformation is sweeping and effective.

The Production Directorate is completely switching to the new product-based model in 2021. The programme will pursue the following key objectives:

- implement a product-based approach across the entire value chain, and deploy the operating model 2.0 at the asset level in 10 subsidiaries;
- interface products with the Integrated Operations Centre and scale these interfaces according to potential;
- implement a single digital landscape across all business products and management levels: from asset to the Gazprom Neft Corporate Centre;
- introduce uniform company-wide principles and interaction requirements for all Ecosystem participants.

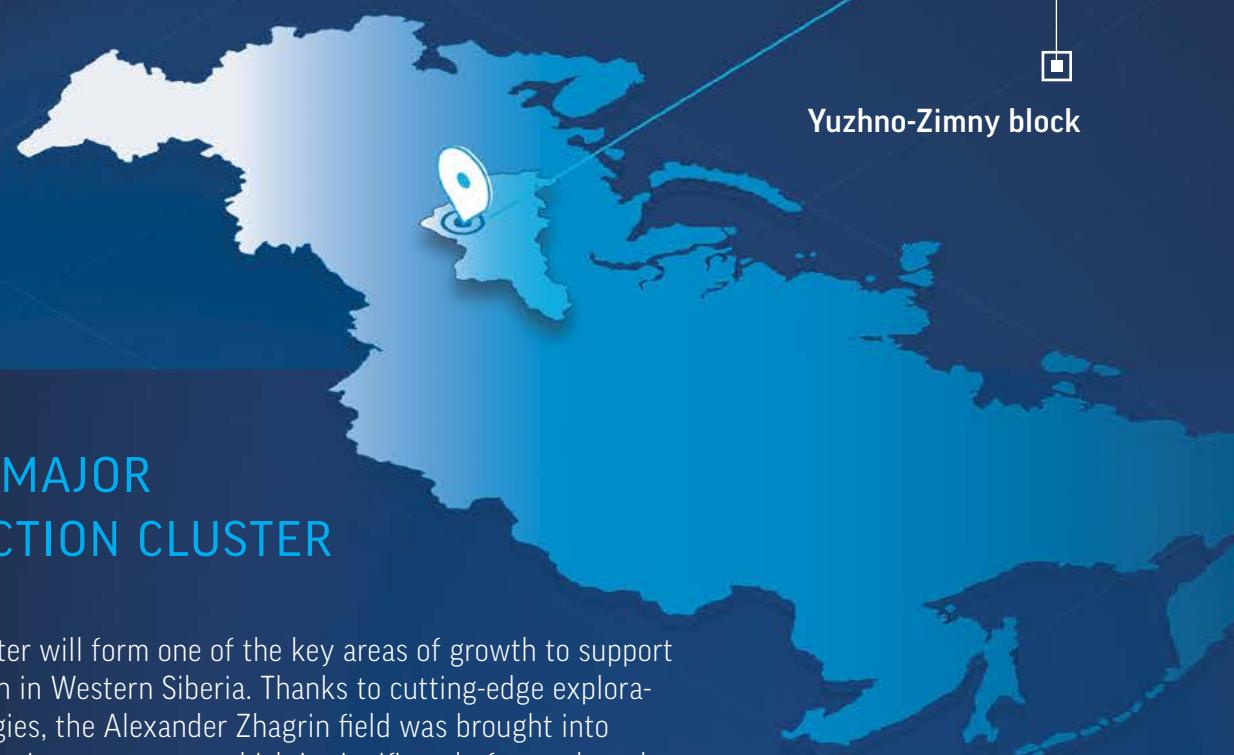
10
subsidiaries

27
assets

200+
business
processes

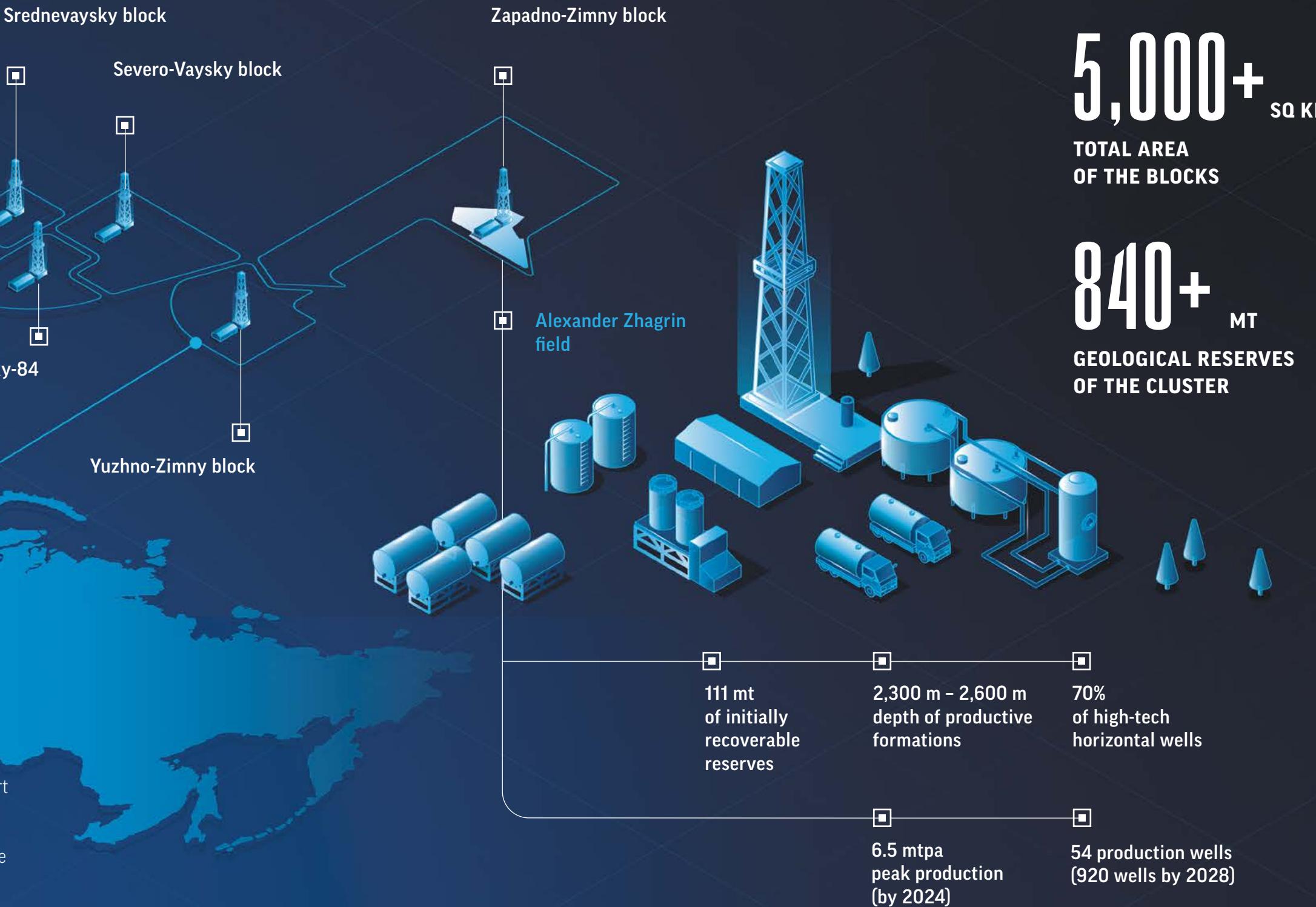
130
technologies
and digital solutions

ZIMA PROJECT



A NEW MAJOR PRODUCTION CLUSTER

This new cluster will form one of the key areas of growth to support our production in Western Siberia. Thanks to cutting-edge exploration technologies, the Alexander Zhagrin field was brought into development in just two years, which is significantly faster than the industry average.



Project timeline

| • 2017 | • 2018 | • 2019 | • 2020 | • 2024 | • 2029 |
|--|--|--|---|--|---|
| Discovery of the Alexander Zhagrin field | Acquisition of the Severo-Vaysky and Srednevaysky blocks | Commercial production startup at the Alexander Zhagrin field | Acquisition of the Karabashsky-84 block | Peak production at the Alexander Zhagrin field | Completion of exploration campaigns across all blocks |

Fields with the highest production increase during 2020, thousand tonnes

| Field | Liquids production | | | |
|-------------------------|--------------------|---------|-------|-------|
| | 2019 | 2020 | +/- | % |
| Alexander Zhagrin | 465.1 | 1,221.7 | 756.6 | 163 |
| Pestsovoye | 109.7 | 629.4 | 519.7 | 474 |
| Zapadno-Tarkosalinskoye | 32.6 | 434.2 | 401.6 | 1,232 |
| Tazovskoye ¹ | 163.4 | 221.7 | 58.3 | 36 |

Oil production

Oil and condensate production across the Group was down 4.4% to 60.52 mt, with the company ranked the third-largest oil producer in Russia. Daily oil production (including condensate and liquids) stood at 165,360 tonnes.

In the production segment, the company remains focused on expanding its existing infrastructure, delivering reserves in the most economical way and improving oil recovery by leveraging cutting-edge technologies, unconventional reserve additions and new-project ramp-ups.

In 2020, the company proceeded to the full-scale development of the Zima project in the Khanty-Mansi Autonomous Okrug-Yugra. Zima's estimated in-place reserves exceed 840 mt. This new cluster will form one of the key areas of growth to support our production in Western Siberia. This is one of the company's most rapidly-evolving projects. Its production reached 1 mt of liquids at the end of 2020. The field is expected to hit a peak of 6.5 mt of oil per year in 2024.

One of the key pillars of the Gazprom Neft Development Strategy to 2030 is oil-rim development.² The company has a complete skillset and a wealth of experience in developing such complex reserves, as showcased by the Novy Port and Messoyakha projects.

In Eastern Siberia, Gazprom Neft is developing a new production cluster, with an oil deposit at the Chayandinskoye oil and gas-condensate field in the Republic of Sakha (Yakutia) set to become one of its key contributors. This field is estimated to hold unique in-place reserves of 263 mt of oil; however, it has some subsurface nuances, such as a gas cap and abnormally-low reservoir pressure and temperature.

Gazprom Neft is developing the Chayandinskoye oil rim under an operating agreement with Gazprom Dobycha Noyabrsk (a subsidiary of Gazprom), which is developing the gas portion of the field. In addition, the company started commercial oil production at the oil rims of the Pestsovoye, Yen-Yakhinskoye and Orenburgskoye fields under a farm-in agreement.

Gazprom Neft has been developing the Tazovskoye field since 2017. This is a special project, with a challenging geology requiring sophisticated technology. There are few examples of similar oil rims, even globally. The field's in-place reserves exceed 1 btoe. The construction of core infrastructure at the Tazovskoye field is slated for completion in 2021, with the field expected to come online in the same year. The company is planning to pass the 1 mt milestone before year-end.

The Pirazlomnaya offshore ice-resistant stationary platform is one of the company's key projects and the only hydrocarbon-production project on the Russian Arctic shelf currently on stream. By late 2020, cumulative production from the Pirazlomnaya field had topped 15 mt of oil. The company is introducing a mix of solutions for extended-reach drilling and upgrading the pressure-maintenance system to ensure continuous drilling and production operations.

Gazprom Neft tasks the Single Centre for Technical Assurance and Integrated Evaluation of Offshore Development Options with overseeing its shelf operations. Exploring new solutions for the shelf is part of Gazprom Neft's unified technological development programme.

Gazprom Neft extensively uses new technology, such as unmanned aerial systems (UAS or drones) for field development. Drones are used for a wide range of applications: from delivering cargo and assisting in petroleum exploration to performing inspection runs over assets and selecting locations for filling stations. The core benefit of using drones – faster acquisition of higher-quality data – translates into faster and better decision-making. At Gazprom Neft, unmanned vehicles perform a variety of functions:

- in the air:
 - delivering cargo to remote fields;
 - performing aeromagnetic surveys;
 - remotely acquiring seismic data;
 - monitoring the progress of construction sites;
 - delivering oil samples from wells;
 - delivering heavy and oversized cargo;
 - monitoring city traffic to find the best locations for filling stations;
 - scanning topography as part of exploration planning;
 - estimating forest inventories;
- on the land:
 - KAMAZ trucks carry cargo through field roads;
 - GAZelle NEXT vehicles carry cargo from storage sites.

2020 also saw a string of firsts for this technology in Russia.

Artificial intelligence systems used for the analysis of field data

- The Automated Core Identification System leverages machine learning and digital vision to analyse formation samples from Western Siberian fields. The system proved it can accelerate whole-core analysis by a factor of seven to enable a decision on further core survey. The heart of the system – a lithological layer analyser – was trained on more than 17,000 core photographs taken under daylight and UV light. Combined with other technological advances made by Gazprom Neft, this new system will drive savings of about ₽85 million a year on laboratory testing.
- The OptimA project: consists of a 3D model that rapidly analyses thousands of field-development options, and aids in selecting the optimal well spacing for new wells and choke settings for existing wells. Introducing this system in pilot projects has already delivered about ₽500 million in economic benefits, a figure expected to grow several-fold once it transitions to full-scale deployment.
- The outputs from the seismic data processing and interpretation system are used to build

Oil samples were delivered to the laboratory at the Yuzhno-Priobskoye field in the Khanty-Mansi Autonomous Okrug-Yugra by a Russian-made drone, resistant to the Far North climate. The drone travelled more than 40 km non-stop, completing the journey twice as fast as land transport. Furthermore, at the Vostochno-Messoyakhskoye field, which is accessible only by air for seven months a year, an unmanned helicopter was tested for the first time in Russia in September 2020 to deliver heavy and oversized cargo in the Arctic environment.

In addition, drone-borne shallow-electrical surveying and hyperspectral imaging were tested and performed for the first time in Russia in 2020. The company is preparing to conduct a 3,700 line km drone-borne magnetic survey over the Pokhvistnevsky licence block.



The digital technology used in the Asset of the Future programme (interview)

-38%
reduction in costs through the use of unmanned vehicles

+24%
faster data acquisition through the use of unmanned vehicles

For more details on the use of drones at Gazprom Neft, see page 120

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Strategic report

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Technological development

Governance system

Sustainable development

Appendices

¹ – Company data.

² – A special type of reserves, which is a thin layer of oil under a much larger gas cap.

₽500 million
**boost from deploying
the OptimA System**

₽85 million
**saved annually through
the Core Identification
System**

Progress on the Zima project

Gazprom Neft transitioned to the full-scale development of the Zima project in the Khanty-Mansi Autonomous Okrug-Yugra in 2020. Until recently, this oil production cluster included five licence blocks in the Kondinsky District of the Khanty-Mansi Autonomous Okrug-Yugra and the Uvatsky District of the Tyumen Oblast, namely the Karabashsky-84, Severo-Vaysky, Srednevaysky, Yuzhno-Zimny and Zapadno-Zimny blocks. In late 2020, the company extended the cluster area with three new blocks: Kholodny, Ledovy and Snezhny. Zima's estimated in-place reserves exceed 840 mt.

The core of this project is the Alexander Zhagrin field, with initial recoverable reserves estimated at 111 mt of oil. The Severo-Vayskoye and Srednevayskoye fields were also discovered in this new cluster, in the Severo-Vayskoye and Srednevayskoye blocks. The total resource potential of these two fields stands at about 81 mt of liquid hydrocarbons.

This new cluster will form one of the key areas of growth to support our production in Western Siberia. Higher-category reserves adjacent to the existing infrastructure of Transneft-operated fields. This proximity to existing facilities condensed the time required to bring the Zima's reserves into production to between one-and-a-half and two years.

Zima is one of the company's rapidly-evolving projects. Discovered only in 2017, the Alexander Zhagrin field moved to full-field development as early as 2019, with cumulative production at 2020-end reaching 1 mt of liquids. The field is expected to hit a peak of 6.5 mt of oil per year in 2024.



"When setting our production and efficiency targets, we look at the potential that a project has to offer" (interview)

Bazhenov Formation development

The Bazhenov Formation is a 30 to 80-metre-thick geological sequence with depths of 2,000 to 3,000 m in Western Siberia, spanning an area of more than 1 million sq km. Best-case estimates suggest that the Bazhenov reserves may hold as much as 60 billion tonnes of oil. Gazprom Neft set up Gazpromneft – Technological Partnerships (formerly the Bazhen Technological Centre), an Industrial Integration Centre to explore the Bazhenov Formation.

Compared to 2019, the company cut the cost of production¹ of Bazhenov oil by 20% to ₽13,000 per tonne in 2020, a 2.3-fold cost reduction since 2017. Gazprom Neft is planning to further cut the production cost to ₽8,500 per tonne before 2022, in time for commercial production from Bazhenov fields with the infrastructure already in place.

In 2020, Bazhenov oil production was up 78% against 2019 to 100,000 tonnes. Further to this, developing a commercial technology for tapping unconventional oil will enable the company to produce up to 1 mt of Bazhenov oil annually by as early as 2025.

In 2020, the company also drilled and fractured a high-tech well with a 2,000 m horizontal section at the Palyanovskoye field in the Khanty-Mansi Autonomous Okrug-Yugra. The fracturing involved 30 stages injected at up to 16 cu m/min. This was the first time that Russian-made equipment was used for all operations in such a complex well. This experimental well drove import substitution of up to 95%.

In 2021, Gazprom Neft plans to finish testing its range of solutions aimed at making Bazhenov oil economically viable. Eight wells will be drilled at the Palyanovskoye field to conclusively prove that oil can be extracted commercially from this unconventional reservoir using this technology. A successful trial and a lower unconventional oil cost will profitably open up the Bazhenov reserves in West-Siberian fields that have established infrastructure.

⊕ For more details on Gazpromneft – Technological Partnerships, see page 125

+78%
increase in Bazhenov oil production

-20%
reduction in the production cost of unconventional oil

Strategic resource.
Gazprom Neft is developing hard-to-recover reserves

Oil production,¹ mt

| Enterprise | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--------------|--------------|--------------|--------------|---------------|
| Subsidiaries and Gazprom Neft's interest in joint operations ² | 47.71 | 49.65 | 49.65 | 49.18 | 48.17 |
| Oil and Gas Company Slavneft (JV) ³ | 7.50 | 7.15 | 6.91 | 6.98 | 4.85 |
| Arcticgas ³ | 3.77 | 3.67 | 3.89 | 4.13 | 4.48 |
| Northgas (JV) ³ | 0.52 | 0.38 | 0.31 | 0.28 | 0.24 |
| Messoyakhaneftgaz (JV) ³ | 0.35 | 1.58 | 2.23 | 2.73 | 2.78 |
| TOTAL, INCLUDING GAZPROM NEFT'S INTEREST IN AFFILIATES | 59.85 | 62.43 | 62.99 | 63.30 | 60.52 |
| Average daily oil production by Gazprom Neft Group, thousand tonnes/day | 163.52 | 171.04 | 172.58 | 173.43 | 165.36 |

Source: company data

Gas production

Gazprom Neft is actively developing its gas business by commercialising the reserves of associated petroleum gas and natural gas produced at oilfields and increasing their value. In 2020, gas production across the Group was up 5.5% to 43.08 bcm. The key drivers behind this increase included new well additions at Arcticgas-operated fields and the Novoportovskoye field, a ramp-up of gas processing and utilisation facilities at oilfields operated by Gazpromneft-Vostok and in the Orenburg Oblast, as well as the commissioning of an integrated gas treatment facility at the Vostochno-Messoyakhskoye oil field in July 2020.

Further to this, in 2020, the company started developing major assets, such as the Bovanenkovskoye, Kharasaveyskoye and Urengoyskoye fields under a long-term operatorship agreement. The Kharasavey-Bovanenkovo project also made good progress, having already formulated a development concept for its fields and approved investments for the Definition stage. An exploratory-drilling campaign is ongoing. The Urengoy project has had its field-development concept approved, with its exploratory-drilling campaign also ongoing. When these projects come on stream in 2024–2026, gas will account for 45% of Gazprom Neft's total production. The share of gas projects in the company's total investments will average 30% within the next three years.

43.08 bcm
of gas produced
across the Group

45%
gas share
in production
over 2024–2026

¹ – Including gas condensate.² – Consolidated companies.³ – The company's share in production.

Gazprom Neft is steadily increasing utilisation of associated petroleum gas (APG). In 2020, APG utilisation across Russian subsidiaries, excluding long-term operatorship agreements and blocks where flaring is not restricted by the authorities (i.e. new assets), stood at 95.06%, or 93.67% if new assets are accounted for. This achievement is the result of a sweeping campaign initiated back in 2011, which covers APG exports to gas processing plants and the Unified Gas Supply System of Russia, APG processing, captive power and heat generation and APG injection into gas caps to maintain reservoir pressure.

The key drivers behind the utilisation growth in 2020 included:

- high on-stream efficiency of gas equipment across the company's facilities (96.5%);
- a ramp-up of production from the Urmano-Archinskaya group of fields and the Vostochny block of the Orenburgskoye oil and gas condensate field (commissioned in late 2019) to the design capacity of gas-processing infrastructure; and
- an increase in compressor unit capacity at the integrated gas treatment facility for the Novoportovskoye field.

2020 saw a unique APG-utilisation project implemented across the Messoyakha group of fields, far removed from any existing gas infrastructure. The company decided to inject gas into an underground storage facility at the Zapadno-Messoyakhskoye field, which currently remains untapped. This involved laying a 47-km pipeline between this field and the Vostochno-Messoyakhskoye field (on stream), and deploying a compressor station rated at 1.5 bcm per year. With this new underground storage facility, APG utilisation at Messoyakhaneftgaz (JV) has increased to 95%.

Marketable gas and Gas utilised,² bcm

| Enterprise | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--------------|--------------|--------------|--------------|--------------|
| Subsidiaries and Gazprom Neft's interest in joint operations ³ | 15.18 | 16.98 | 19.56 | 22.92 | 24.07 |
| Oil and Gas Company Slavneft (JV) ⁴ | 0.47 | 0.45 | 0.47 | 0.48 | 0.28 |
| Arcticgas ⁴ | 12.09 | 12.25 | 13.31 | 13.81 | 15.40 |
| Northgas (JV) ⁴ | 5.07 | 4.29 | 3.79 | 3.53 | 2.93 |
| Messoyakhaneftgaz (JV) ⁴ | 0.01 | 0.05 | 0.09 | 0.11 | 0.40 |
| INCLUDING GAZPROM NEFT'S INTEREST IN JOINT VENTURES, TOTAL | 32.82 | 34.02 | 37.22 | 40.85 | 43.08 |

Source: company data

95%+
APG utilisation
across
the Messoyakha

70,000 sq m
underground
gas storage facility¹



Major oil and gas production projects in 2020

- For the Yamal Gas project, the company finished laying an offshore pipeline and received the approvals package required for the minimum start-up complex of the integrated gas treatment facility.
- The company approved the simultaneous-implementation concepts to be used in the Malo-Yamalskoye and Blizhnenovoportovskoye projects.
- For the Tazovsky project, the company finished laying oil and gas pipelines, signed a contract with Gazprom Dobycha Yamburg for gas compression and moved to the second phase of the power centre project.
- At the Vostochno-Messoyakhsky licence block, the company commissioned facilities for gas injection to boost oil recovery.
- Final investment decision was taken on the Oil Rims project covering the Pestsovoye and Yen-Yakhinskoye fields. As the project moved to the Implementation stage, a high-pressure pipeline, an oil-treatment system and a power plant were commissioned.
- The company signed a long-term operatorship agreement for the Chayandinskoye oil and gas condensate field and took final investment decision.

20 bcm
design capacity
of the Yamal
Gas pipeline

REFINING AND MANUFACTURING

Refining and manufacturing

In refining, Gazprom Neft remains focused on upgrading refining facilities and increasing operational efficiency. The company is running the second stage of a major modernisation programme across refineries to step up conversion rate to 98% and raise the yield of light products to 80%.

The conversion rate at company refineries and the yield of both light products and high value-added products such as motor fuels, bitumen products and petrochemicals both increased in 2020. The company also completed the largest construction projects seen in the last five years at two of its refineries: the Euro+ combined oil refining unit (CORU) at the Moscow Refinery and the delayed coking unit at the Pančevo refinery.

A range of measures taken to minimise both the risk of COVID-19 spreading and the impact of the pandemic on operating processes ensured the sustainability and continuity of operations and investment activities across the company's refineries. Gazprom Neft's investment programme was implemented as planned.

A weaker demand for petroleum products from the Russian and global economies following the COVID-19 pandemic hit the output of the company's refineries as well. In 2020, output was 40.4 mt, down 2.6% on 2019.

up to 98%
conversion rate
post refinery
modernisation

The Arctic's first digital electric power substation

In 2020, the company commissioned Sever, our first 110/10-kW digital double-transformer substation, at the Novoportovskoye field. It will supply power to multi-well pads and social/welfare facilities in the northern part of the field, which is 26 km away from the core infrastructure of the asset. The substation was designed and fitted out for operation in an extreme climate, with innovative, Russian-made SF6 gas insulation technology used for sealing.

With cutting-edge smart-control and diagnostic systems on board, the substation needs minimum human input for maintenance. The substation's measurement, control and protection processes are automated as far as possible. The performance of all systems will be remotely monitored from the control room at the gas-turbine power plant at the Novoportovskoye field.

2020 milestones

- Euro+ CORU, with a capacity of 6 mt, installed at the Gazprom Neft Moscow Refinery
- Deep conversion complex commissioned at the Pančevo Refinery (NIS, Serbia)
- Production of eco-friendly marine fuel launched at the Gazprom Neft Omsk Refinery
- Gazpromneft-Industrial Innovations, a new R&D centre, established



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Sustainable development



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Refining volume, mt

| Enterprise | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|--------------|--------------|--------------|--------------|--------------|
| Gazprom Neft Omsk Refinery | 20.48 | 19.58 | 21.00 | 20.72 | 19.77 |
| Gazprom Neft Moscow Refinery | 10.71 | 9.37 | 10.50 | 10.08 | 10.02 |
| NIS ¹ | 3.10 | 3.34 | 3.55 | 3.14 | 3.32 |
| Slavneft-YANOS (JV) ² | 7.47 | 7.74 | 7.86 | 7.53 | 7.28 |
| Mozyr Refinery ² | 0.13 | 0.08 | — | — | — |
| TOTAL REFINING THROUGHPUT ACROSS GAZPROM NEFT GROUP | 41.89 | 40.11 | 42.91 | 41.47 | 40.39 |

Source: company data

Petroleum product mix, mt

| Product | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--------------|--------------|--------------|--------------|--------------|
| Motor gasoline | 9.18 | 8.60 | 8.86 | 8.02 | 8.43 |
| Naphtha | 1.56 | 1.38 | 1.95 | 2.14 | 2.19 |
| Diesel fuel | 12.02 | 11.45 | 12.32 | 11.87 | 12.55 |
| Aviation fuel | 3.04 | 3.04 | 3.47 | 3.34 | 2.67 |
| Marine fuel | 2.41 | 2.67 | 2.58 | 2.49 | 2.40 |
| Fuel oil | 6.72 | 5.70 | 6.20 | 6.45 | 5.12 |
| Bitumen and coke | 2.19 | 2.73 | 3.07 | 2.95 | 3.27 |
| Lubricants | 0.42 | 0.48 | 0.49 | 0.54 | 0.43 |
| Petrochemicals | 1.66 | 1.39 | 1.49 | 1.55 | 1.46 |
| Other | 0.75 | 1.19 | 0.97 | 3.41 | 0.91 |
| TOTAL OUTPUT OF PETROLEUM PRODUCTS | 39.95 | 38.63 | 41.40 | 40.23 | 39.43 |

Source: company data

The company significantly increased its output of motor fuels, bitumen materials and petrochemicals. The output of motor gasolines and diesel fuels increased to 21 mt, up 5.5% against 2019. This increase was driven by the launch of the Euro+ combined oil refining unit despite macroeconomic headwinds.

The output of bitumen materials grew by 310,000 tonnes, or 11.2%, driven by flat road-building volumes in Russia and a favourable price environment on global markets. The output of petrochemicals was up 5.0%.

The COVID-19-related decline in air and maritime transportation across the globe in 2020 decreased the output of jet and marine fuel, compared with 2019.

Throughout 2020, the company continued implementing major investment projects as part of its second phase of technological and environmental upgrades across refineries. Our comprehensive modernisation programme pursues strategic goals in refining, such as increasing the conversion rate to 98% by 2025 and improving environmental performance of operations.

In particular, the Omsk Refinery is finalising the installation of its primary-refining unit, deep conversion complex, delayed coking unit and diesel fuel hydrotreating/dewaxing unit. December 2020 saw the deep conversion complex (a hydrocracking unit, hydrogen production unit and sulfur unit) made ready for start-up, as well as initial steps taken to bring the complex to normal operation.

In July 2020, the Moscow Refinery officially launched Russia's first Euro+ CORU. This unit will increase the output of motor gasoline by 15%, diesel fuel by 40% and jet fuel by 100%. The company's investments totalled ₽98 billion.

In 2020, the company increased the conversion rate at refineries by 3.5 percentage points to 86.4% and the light-product yield by 1.3 percentage points to 66.8%.

+11.2%
increase in the production of bitumen materials



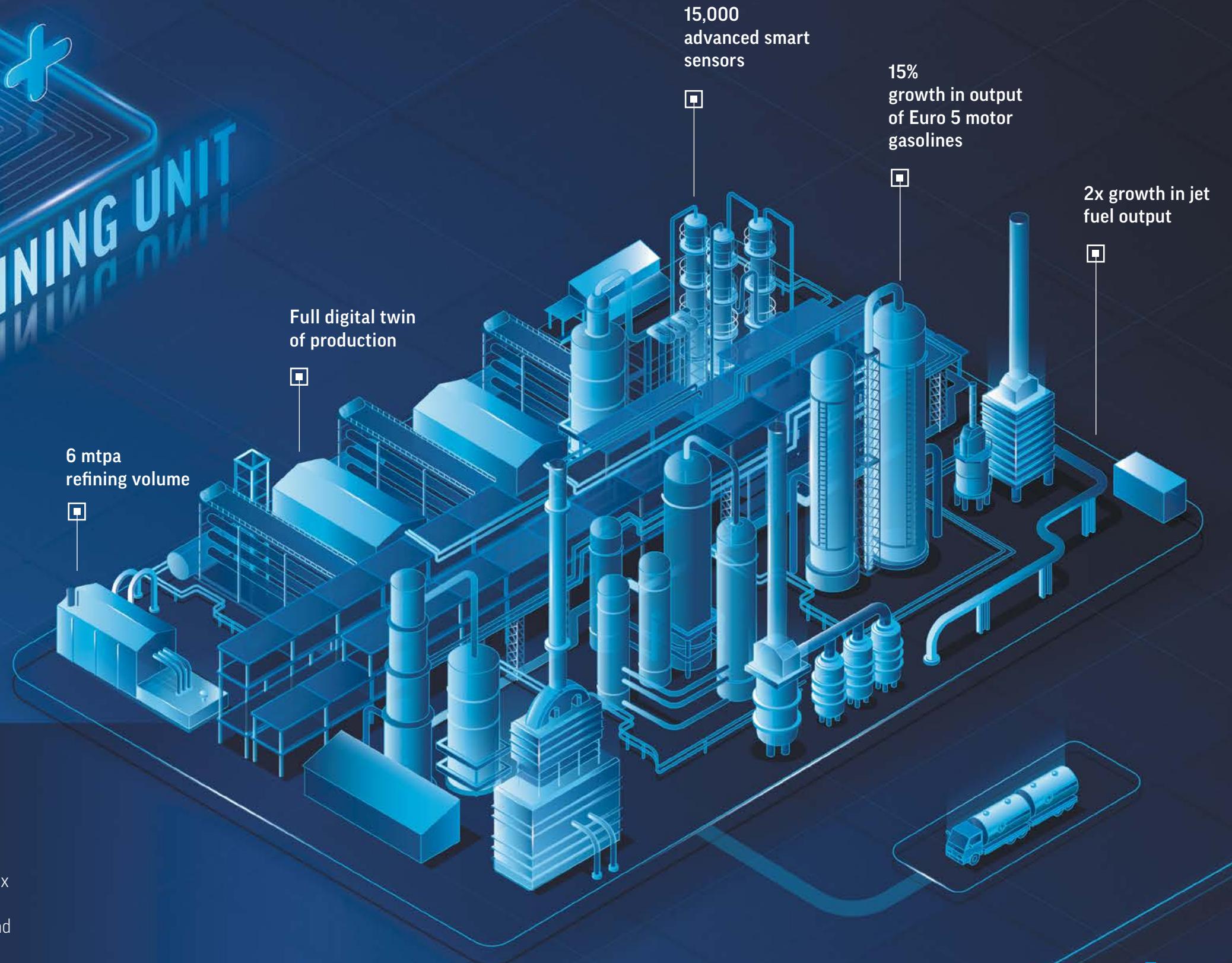
¹ — Gazprom Neft holds a 56.15% stake in NIS, a company that owns two refineries (in Pančevo and Novi Sad), production projects in the Balkans and Angola, and a filling station network.

² — Share of Gazprom Neft PJSC.

euro+ COMBINED OIL REFINING UNIT

ADVANCED FULL-CYCLE PRODUCTION COMPLEX

For the first time in Russia, a single complex covers a full cycle from crude oil treatment to the production of gasoline, diesel fuel and jet fuel.



The launch of EURO+ significantly increased the refinery's operational performance, cost effectiveness, reliability and safety, while considerably reducing its environmental footprint.

40%
GROWTH IN DIESEL
FUEL OUTPUT

11%
REDUCTION
IN ENVIRONMENTAL
IMPACT



VIDEO:
Euro+ CORU
at the Moscow Refinery

Euro+ combined oil refining unit

The unique Euro+ combined oil refining unit (CORU) is designed as a “refinery within a refinery”, encompassing the complete cycle from crude oil distillation to production of motor gasoline, diesel and jet fuel blendstocks.

The Euro+ CORU combines six main sections (modules):

- an electric desalter;
- a crude/vacuum distillation unit (CDU/VDU) (6 mtpa);
- a continuous catalyst regeneration (CCR) reformer with an upstream naphtha hydrotreater and hydrogen purifier (1 mtpa);
- a diesel hydrotreater with a dewaxing unit to produce higher-margin winter diesels (2 mtpa);
- offsites and utilities.

The Euro+ CORU will replace five older-generation units (built in the mid-20th century) and, due to its higher output, will reduce the Moscow Refinery's energy intensity by 7%. Thanks to a range of unique technologies, the complex was built in just 37 months with the main process units still running, an unprecedented project in the Russian refining industry.

The Euro+ CORU has a very small footprint, allowing for maximum efficiency and ease of operation. Its construction required the installation of 715 oversized items of equipment, 2,000 km of cable (the distance between Moscow and Yekaterinburg in the Ural mountains), 45,000 cubic m of reinforced concrete structures (same volume as the main building of the Lomonosov Moscow State University), and 25,000 tonnes of steel structures (three Eiffel Towers). Equipment was supplied by major Russian manufacturers.

Completion of the Euro+ CORU is an important step towards a digital plant of the future, based on an across-the-board use of digital modelling and digital twins (3D engineering models). This approach maximises asset management efficiency and safety during both construction and operation through higher reliability, shorter turnaround times and lower maintenance costs.

6
mtpa
refining capacity

This launch marks the completion of a crucial major project. Bearing in mind that this is the industry's largest plant of this kind in the region, we can safely say that the country's leading equipment manufacturers, research institutes and construction companies have all been involved in implementing a major project – and one that is very much needed in the Moscow region.

I'd like to thank everyone for their professionalism and, of course, for the team spirit that has developed over the course of this work.

Russian technologies and equipment have led to the creation of a highly automated, genuinely cutting-edge facility, packed with digital technologies and solutions.

VLADIMIR PUTIN
President
of the Russian Federation

The Moscow Refinery continues building an automated on-spot loading unit for light products and has moved to the preparation of a deep conversion complex construction project. The future complex using hydrocracking and delayed coking technologies will increase the conversion rate to almost 100%.

The Pančevo Refinery completed and commissioned a new deep conversion complex that leverages delayed coking of vacuum residue to eliminate fuel oil production.

The use of state-of-the-art technology and green solutions improve the performance of our refineries while reducing our environmental footprint.

A deep conversion complex comes onstream at the NIS Pančevo Refinery

In 2020, the Pančevo Refinery successfully launched its deep conversion complex using the delayed coking technology and brought it to normal operation. The complex includes the following units:

- a delayed coker (700 ktpa);
- a coke transport and offloading system (212 ktpa);
- an amine regeneration system (170 ktpa);
- an acid water treatment system (120 ktpa) to improve environmental performance and compliance with EU environmental standards.

The deep conversion complex in Pančevo meets stringent energy-efficiency and equipment-reliability criteria.

With the new complex, the refinery will become a European leader by crude conversion depth, will have much higher operating flexibility, and will be able to respond promptly to changes in market demand. The complex increased the 2020 diesel fuel yield by 5 percentage points year-on-year to 38% of crude feedstock. By coming online, the complex unlocked the first domestic production of petroleum coke in Serbia, which previously needed to be imported into the country.

99%
conversion rate

€300+
million
in investments¹

38%
growth in diesel fuel output

¹ – The largest investment project in Serbia in five years.

At Slavneft-YANOS sulphuric acid production unit reached guaranteed performance, which will improve the refinery's environmental safety and enable flexible production flows. The refinery continues to implement a number of technical development and performance improvement projects, including the construction of a deep conversion complex.

Striving to achieve its strategic goal of becoming a technology leader and a global safety and performance benchmark by 2030, the company established Gazpromneft-Industrial Innovations, an industrial innovations technology centre.

**3.5 billion
in investments¹**

Gazpromneft-Industrial Innovations R&D centre

In 2020, the company created the Industrial Innovations Technology Centre, a new R&D centre focused on developing and implementing technology innovations in petroleum refining as well as related and new businesses. The centre objectives include:

- implementation of the company's downstream technology strategy;
- Research and Development (R&D) project management at all stages;
- engineering;
- technology licensing and commercialisation.

The centre's focus areas include both the traditional business (catalysts and petroleum refining) and related businesses (petrochemicals, organic synthesis and specialty polymers), as well as fundamentally new areas (CO_2 conversion, blue hydrogen², bioplastics, biofuels and new materials). The functionality of the new structure will cover the whole technological innovation management chain – from determining business requirements to deploying technologies in production processes. The new R&D centre will be based in the Special Economic Zone "St Petersburg". The construction of a laboratory-testing complex to develop and roll out new technologies is underway. The complex will enable rapid development at the laboratory stage, as well as technology piloting, engineering and implementation.

Single asset

The Gazprom Neft Downstream Division continues its digital transformation under the Single Asset management framework, based on digital solutions covering the entire value chain and aiming to improve production process flexibility and the performance of key business processes, optimise resources and minimise deviations.

In 2020, the hydrocarbon feedstock supply segment started to roll out a digital oil supply management system. The solution optimises the distribution and sale of all produced crude, as well as feedstock delivery to own and customers' refineries according to the market situation, as well as internal and external demand.

All data on crude supplies and changes in demand for petroleum products are collated by the Gazprom Neft Efficiency Control Centre, where a cross-functional team uses advanced big data analysis, predictive analytics and state-of-the-art digital tools in a shared digital environment to manage the whole chain from refinery to sales. The centre creates an optimum production plan with due regard for production and logistic constraints, while monitoring inventories and managing the quality and quantities of petroleum products.

These plans are being executed by the Gazprom Neft Refinery Production Control Centre, which has, at its core, IT tools built into a digital continuous production platform. The platform, developed jointly by Gazprom Neft and Zyfra Group, will integrate these refinery facilities and key production control systems. With accurate mathematical models of process facilities (digital twins), the production control centre will ensure a safe and optimum production flow that factors in the energy mix and the economic impacts of production chains at company refineries.

Stemming from a high level of digitisation, this degree of process flexibility along with the company's value chain results in maximum efficiency; for example, being able to offer the right product slate and quantities for the market demand, anticipate changes in market demand, and achieve maximum operational efficiency in all segments of the chain.

All data on crude supplies and production and logistic constraints are collated by the Efficiency Control Centre.

¹ – While establishing and developing the Gazpromneft-Industrial Innovations R&D centre.
² – Unlike the conventional process, which produces hydrogen by reforming natural gas with CO_2 emissions, the term "blue hydrogen" is reserved for hydrogen production that involves CO_2 capture and storage.



The Neftekontrol (oil control) system is deployed in all Downstream Division assets

Gazprom Neft has now fully rolled out the Neftekontrol digital system. The system monitors all terminals and refuelling complexes, as well as the company's own refineries and filling stations. A higher availability and quality of data led to a fivefold decrease in the time needed to resolve critical deviations impacting on the performance of the entire value chain.

The Neftekontrol system processes over 15 million data points every day to create a single digital model of crude and product flows. The system more than halved the number of critical and system-wide deviations in the value chain year-on-year.

The next step in the system's development would be to implement intelligent ML-based decision support. Taking the human factor out of the equation through an AI module will significantly improve accuracy and speed in managing the value chain.

In 2020, this monitoring and control system has been deployed at every single key asset in the value chain.

15+ million
data points
recorded

Lean Six Sigma projects at company refineries

Operational efficiency management is a key element of the Etalon operations management system. One method to eliminate waste in this element is the Lean¹ Six Sigma² methodology. Pilot team training in this methodology was launched back in 2018.

In 2020, the company started to operationalise the programme at a pilot unit, the Oil and Gas Refining Directorate. Plans are in place to establish a Lean Six Sigma competency centre at the Omsk and Moscow Refineries. In December 2020, despite the pandemic, the first IALSS³ certificates were officially awarded: Green Belts (successful completion of one project) and Black Belts (successful completion of two projects). Driving a higher raffinate yield at the oil solvent extraction unit, a higher drilling rate and an optimised well construction time are just a handful of examples of projects.

We plan to certify at least 1% of employees at the company's production assets and subsidiaries in Lean Six Sigma by 2030, with potential benefits from projects hitting more than ₽2 billion.

For more details on operational transformation in the company, see page 50

37
employees
trained

10
projects
completed

₽190
million
in total impact

¹ – Lean is a management concept based on continuous improvement and commitment to eliminating all types of waste.
² – Six Sigma is a manufacturing management concept introduced by Motorola in 1986. The concept uses quality management tools and requires measurable goals and results, with special teams launched at enterprises to eliminate problems and improve processes (Black Belts and Green Belts).
³ – IALSS – International Association for Lean Six Sigma, an acknowledged international certification body.

Company refineries: 2020 highlights

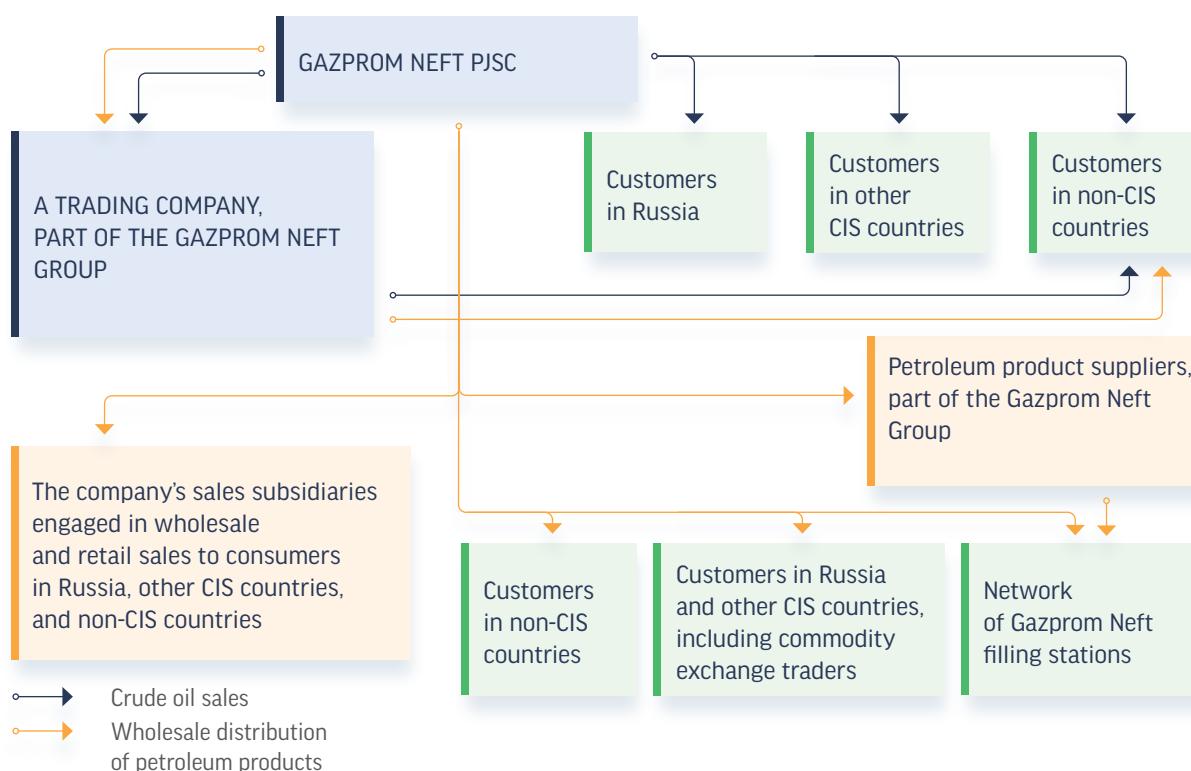
| Refinery | Installed capacity, mt | Refining throughput, mt | Conversion rate, % | Light product yield, % | Upgrade and technological development | |
|------------------------------|------------------------|-------------------------|--------------------|------------------------|--|---|
| | | | | | Key projects implemented in 2020 | Plans for 2021 |
| Gazprom Neft Omsk Refinery | 22.23 | 19.77 | 93.9 | 71.2 | <ul style="list-style-type: none"> Second phase of the refinery modernisation programme Second phase of the aromatics complex revamp completed, with advanced processing of benzene concentrate from Unit L-35-11-600 now commissioned Crude storage tanks converted for winter diesel fuel as part of the second phase of the modernisation programme Oily waste processing, recycling and treatment site commissioned TSU-0.5 (hybrid) bunker fuel production line onstream Deep conversion complex now ready for start-up, with commissioning activities and ramp-up underway | <ul style="list-style-type: none"> Deep conversion complex commissioning and ramp up to full production Complete the revamp and commissioning of a number of process units, including the catalytic reformer, diesel hydrotreater, delayed coker, refinery flare system, etc. |
| Gazprom Neft Moscow Refinery | 12.76 | 10.02 | 84.1 | 62.3 | <ul style="list-style-type: none"> Construction of Euro+ combined oil refining unit completed First phase of a multifunctional office and production complex construction project completed | <ul style="list-style-type: none"> Commission the revamped visbreaker (AT-VB) Active implementation of the second phase of the refinery modernisation programme, including sulphur unit, hydrocracker and delayed coker construction |
| NIS | 4.6 | 3.32 | 91.4 | 78.5 | <ul style="list-style-type: none"> Deep conversion complex, based on delayed vacuum residue coking technology, commissioned | <ul style="list-style-type: none"> Engineering and design under the Fluid Catalytic Cracking Units (FCCU) Revamp and ethyl tertiary butyl ether (ETBE) Unit Construction project |
| Slavneft-YANOS | 15.0 | 7.28 | 66.7 | 55.6 | <ul style="list-style-type: none"> Wet Catalysis-2 hydrogen sulphide removal unit achieved guaranteed performance First phase of the sulphur unit revamp completed | <ul style="list-style-type: none"> Continue construction of the deep conversion complex Continue the upgrade of the VT-6 unit Complete the upgrade of the gas-loading rack Complete the upgrade of the sealed bitumen loading rack |
| Mozyr Refinery | 14.03 | 0.00 ¹ | 84.4 | 65.2 | <ul style="list-style-type: none"> Construction of the heavy residue hydrocracker | <ul style="list-style-type: none"> Complete the construction and installation of the heavy residue hydrocracker and start commissioning |

¹ – Gazprom Neft's share in the Mozyr Refinery's refining volumes is subject to the oil supply schedule to the refinery, as approved by the Ministry of Energy of the Russian Federation. The company may process up to 50% of oil supplied to the refinery. Actual refining volumes will depend on the refinery's economic efficiency. The company did not process any of its oil at the Mozyr Refinery under tolling arrangements in 2020.

Sales of oil and petroleum products

Gazprom Neft is engaged in the wholesale distribution of crude oil and petroleum products both in Russia and abroad. Small-scale wholesale and retail sales of petroleum products, including via the company's retail network, are conducted through specialised sales subsidiaries.

Sales of oil and petroleum products



2020 milestones

- Launch of Novy Port premium oil supplies to Asia-Pacific countries
- Further expansion of the company's retail network in Russia and Europe and active development of the OPTI partner network
- Strengthening the company's position in premium sales channels for petroleum products

Oil sales

Despite macroeconomic headwinds and weak demand amid the pandemic, the company was able to maintain a stable level of exports year-on-year.

A total of 20.4 mt of oil were supplied to international markets, while 4.6 mt were supplied domestically.

Despite the challenging situation in international markets, the company successfully ramped up oil supplies from its Arctic fields in 2020. Exports of ARCO blends (Prirazlomnoye field) and Novy Port (Novoportovskoye field) grew 5.3% to 10.5 mt. In addition, the company widened the geography of its Arctic oil supplies by making its first delivery of Novy Port oil to China. This event is of strategic importance given the company's plans to foster stronger ties with Asia-Pacific countries.

The company has supplied over 40 mt of ARCO and Novy Port oil to international markets since it started exporting oil produced in the Russian Arctic in 2013.

Crude oil sales, mt

| Product | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Domestic sales | 7.43 | 5.57 | 4.31 | 4.37 | 4.57 |
| Exports to non-CIS countries | 12.89 | 18.19 | 17.05 | 19.16 | 18.48 |
| Exports to CIS | 1.66 | 1.71 | 1.65 | 1.71 | 1.10 |
| Sales to international markets | 0.73 | 1.06 | 1.25 | 0.99 | 0.79 |
| TOTAL CRUDE OIL SALES | 22.71 | 26.53 | 24.26 | 26.23 | 24.94 |

Source: company data

20.4 mt
of oil supplied
to international
markets

The company uses a unique transport and logistics strategy to manage oil supplies from its Arctic fields, ensuring year-round consignments at minimum cost. It encompasses the Prirazlomnaya offshore ice-resistant oil-producing stationary platform, the Arctic Gate oil terminal in the Gulf of Ob, a heavy ice-class tanker fleet, icebreaker support vessels, an offshore transhipment facility in Murmansk, as well as tankers transporting oil from the transhipment facility to consumers in Europe. Operational safety and efficiency are ensured by the world's first digital Arctic logistics management system, Kapitan. The system's accumulated historical data and predictive capabilities help it to foresee potential constraints that vessels may face along the journey and offer optimal and safe routes.

In 2020, the company's Arctic logistics system achieved a historic milestone as the 1,000th oil tanker from the Novoportovskoye field was shipped through the Arctic Gate terminal, an event that reflects its performance and safety. Also in 2020, Kapitan was integrated with the Uumba storage tanker to automatically receive its data, which accelerated the transmission and recording of the tanker's storage data by 60 times and improved oil shipment performance. Automated recording of data from the Uumba storage tanker in the Kapitan system will improve the speed and quality of logistics planning as well as enable crude transshipments to be managed online.

With its proven track record in selling Arctic blends to Europe, coupled with its deep understanding of the Asia-Pacific market, Gazprom Neft is well positioned to offer Novy Port oil to its partners in Asia through this unique, year-round logistics strategy.

ANATOLY CHERNER
Deputy CEO for Logistics,
Refining and Sales
at Gazprom Neft PJSC

Thus, as at 2020-end, the company was using all available logistics models for oil export and domestic sales. The company's onshore logistics, which includes supplies via Transneft's pipeline system, enables us to flexibly allocate oil flows to the Eastern Siberia–Pacific Ocean pipeline via the port of Kozmino and to the west, depending on market conditions. The company's sea logistics ensure year-round oil exports from the Arctic fields to Northwestern Europe and Asia-Pacific countries.

The company's centrally-managed specialised fleet, supplemented by icebreaker support and digital technologies, ensures uninterrupted and safe operations in the challenging Arctic ice conditions.

VADIM SIMDYAKIN
Head of the Logistics and Oil Operations Directorate



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Opening up a route to China for Arctic oil

During the year, the company made its first supplies of Arctic blends to Asia-Pacific countries. The first batch of Novy Port oil was delivered to China's Yantai, its destination port.

Until 2020, the company's Arctic blends were exported exclusively to Europe, but by ramping up our business with key Asian refineries, Gazprom Neft was able to expand its supplies of Arctic blends into the burgeoning post-pandemic China. The tanker sailed from Murmansk to Yantai through the Arctic seas and along the southern route cutting across the Atlantic, Indian and Pacific oceans.

144,000 tonnes
the first batch of Arctic oil delivered

47 days
delivery time

The 1,000th tanker shipped through the Arctic Gate

In December 2020, the 1,000th tanker was shipped from the Novoportovskoye field of Gazpromneft-Yamal through the Arctic Gate terminal. This milestone shipment of Novy Port oil was carried by the Shturman Albanov.

Gazprom Neft's tanker fleet makes over 200 voyages a year from the oil terminal to Murmansk, mostly in challenging ice conditions. In winter, vessels break through two-metre thick Arctic ice. Uninterrupted operations at the terminal are supported by the icebreakers Alexander Sannikov and Andrey Vilkitsky.

Over 30 mt of liquid hydrocarbons had already been shipped through the Arctic Gate by the end of 2020. Average daily production at the field reached 20,800 tonnes of oil and condensate.

200+
voyages supported

7+ mt
of liquid hydrocarbons shipped per year

Petroleum products sales

In 2020, total petroleum products sales decreased by 4.0% year-on-year to 43.6 mt due to lower demand for petroleum products in the domestic and international markets amid the COVID-19 pandemic.

Meanwhile, the company took advantage of the market conditions to ramp up its supplies of diesel fuel, bitumen materials and petrochemicals.

The company's petroleum products sales mainly declined in the domestic market, with a 9.8% year-on-year fall to 25.8 mt. Due to the MARPOL cap on sulphur in marine fuel, sales of fuel oil were hit the hardest (down 53% year-on-year), followed by aviation fuel (down 17%), which was reeling from global curbs on air travel amid the pandemic; yet, the production and export of diesel fuel actually increased.

However, the completion of the Euro+ combined oil refining unit (CORU) at the Gazprom Neft Moscow Refinery boosted the company's diesel fuel output and exports. Thanks to a more than 1 mt increase in diesel fuel to non-CIS countries, the company's total supplies of petroleum products to international markets increased by 5.9% to 17.8 mt.

+5.9%
supplies
of diesel fuel
to non-CIS countries

Sales breakdown by product, mt

| Product | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Motor gasoline | 11.08 | 11.09 | 11.32 | 10.22 | 10.21 |
| Diesel fuel | 13.27 | 13.37 | 14.01 | 13.91 | 14.38 |
| Aviation fuel | 3.36 | 3.51 | 3.84 | 3.90 | 3.01 |
| Marine fuel | 2.87 | 3.29 | 2.89 | 2.65 | 2.53 |
| Oils and lubricants | 0.45 | 0.41 | 0.49 | 0.47 | 0.44 |
| Bitumens | 2.17 | 2.65 | 2.97 | 2.92 | 3.20 |
| Petrochemicals | 1.35 | 1.25 | 1.35 | 1.55 | 1.47 |
| Fuel oil | 6.62 | 5.23 | 6.09 | 6.40 | 5.24 |
| Other | 2.42 | 2.68 | 2.95 | 3.41 | 3.15 |
| TOTAL SALES | 43.59 | 43.48 | 45.91 | 45.44 | 43.63 |

Source: company data

Petroleum products sales, mt

| Product | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Domestic sales | 27.11 | 27.96 | 29.67 | 28.63 | 25.83 |
| Exports to non-CIS countries | 10.77 | 9.54 | 10.00 | 10.76 | 11.92 |
| Exports to CIS | 2.41 | 2.50 | 2.49 | 2.35 | 2.34 |
| Sales to international markets | 3.30 | 3.48 | 3.75 | 3.70 | 3.54 |
| TOTAL PETROLEUM PRODUCTS SALES | 43.59 | 43.48 | 45.91 | 45.44 | 43.63 |

Source: company data

The list of key target CIS markets remained unchanged in 2020, encompassing Kazakhstan (923,000 tonnes of petroleum products), Kyrgyzstan (373,000 tonnes), Belarus (364,000 tonnes) and Tajikistan (292,000 tonnes).

In 2020, premium sales¹ were down 12.8% year-on-year to 23.06 mt. Premium sales mainly declined due to drops in aviation fuel and fuel oil sales.

Sales breakdown by channel, mt

| Channel | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Premium channels | 25.16 | 26.13 | 27.10 | 26.46 | 23.06 |
| Other | 18.43 | 17.35 | 18.81 | 18.98 | 20.57 |
| TOTAL SALES | 43.59 | 43.48 | 45.91 | 45.44 | 43.63 |

Source: company data

Retail sales and small-scale wholesale of motor fuels

In 2020, the COVID-19 pandemic was one of the key factors impacting both retail sales and small-scale wholesale sales of petroleum products. Along with an uninterrupted supply of high-quality motor fuels, related products and services, it was important to ensure the physical safety of customers and employees, combat the spread of COVID-19 and support healthcare professionals, disadvantaged groups and business partners, who were greatly affected by the plummeting demand during several months of lockdown.

23.06 mt
of petroleum
products sold
through premium
channels

¹ – Sales through premium channels include retail sales (including into-plane refuelling and bunkering), small-scale wholesale sales, sales of premium bitumen materials (primarily polymer-bitumen binders) and packaged oils and lubricants.

COVID-19 response across Gazprom Neft filling stations

A range of pandemic management measures have been deployed across Gazprom Neft filling stations since March 2020 to ensure the safety of both visitors and staff. Filling stations are fitted with ultraviolet antibacterial lighting, with plexiglass sneeze guards installed at checkouts. Employees wear masks and gloves and regularly disinfect and clean the premises.

The development of sales infrastructure, digital customer services and improved customer journey formats set the stage for post-pandemic growth.

In the motor fuel sales segment, the company was able to ensure the resilience of its own business and maintain its performance.

Volunteer support programme

As part of the Gazprom Neft for Volunteers campaign, the company supported the regional centres of the national #WeTogether movement and other non-governmental and social organisations. To help them cope with the increased workload, Gazprom Neft issued over 1,600 free fuel cards with a nominal value of more than 200,000 litres to volunteers who delivered food and essential goods to the most at-risk people and who drove district doctors and other healthcare professionals to patients.

In addition, during the harshest period of lockdown in the spring of 2020, the company supported ordinary motorists as part of its "On Our Way!" loyalty programme. The Gazprom Neft filling station network maintained the statuses of loyalty programme members, despite the decrease in traffic in Russia. Members who did not purchase the required amounts of fuel to keep their bonus percentage when tanking up and purchasing goods at filling stations had their statuses automatically extended for three months.



1,600+ fill-up cards
for free refuelling
at Gazprom Neft filling stations
given to members in 47 regions

200+ litres of fuel
dispensed to participants of
the #WeTogether volunteering
campaign

Sales network

In 2020, Gazprom Neft consolidated its network in 45 Russian regions. New filling stations were opened in Moscow and the Moscow, Voronezh, Irkutsk, Kaluga, Kostroma, Leningrad, Lipetsk, Nizhny Novgorod, Ryazan, Samara, Sverdlovsk, Smolensk, Tomsk and Tyumen Oblasts, as well as in the Altaysky, Krasnodar and Krasnoyarsk Krais, and the Republics of Adygea, Altai and Mordovia.

Outside Russia, the Gazprom Neft retail network comprises 622 filling stations, including 202 filling stations in CIS countries (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) and 420 in South-East Europe (Bosnia and Herzegovina, Bulgaria, Romania and Serbia).

During the year, the company continued to develop its network of OPTI partner filling stations. The OPTI network currently covers 33 regions, including eight new regions, where filling stations were opened in 2020. OPTI's business model comprises an IT platform, support for business processes from Gazprom Neft and marketing support, all of which enhance the performance of filling stations. The cutting-edge IT platform enables partners to monitor sales of fuel and related products, and track key metrics online. Upon signup, independent market players receive a package of services: their stations are rebranded and they receive access to an automated filling station management system and an online account, as well as fuel quality monitoring and support for daily business processes. Digital tools to manage customer traffic are also available to partners.

Retail network, number of filling stations¹

| Product | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Russia ² | 1,244 | 1,255 | 1,260 | 1,458 | 1,509 |
| CIS | 200 | 188 | 201 | 205 | 202 |
| Europe ² | 422 | 423 | 417 | 414 | 420 |
| TOTAL FILLING STATIONS | 1,866 | 1,866 | 1,878 | 2,077 | 2,131 |

Source: company data

¹ – Operating stations only.

² – Including franchised filling stations.

2,131
filling stations
in the Company's
retail network

Focus on improving motor fuel sales

In 2020, a digital system was introduced to manage the company's own fuel truck fleet that delivers fuel to Gazprom Neft filling stations in Moscow, St Petersburg and a string of other Russian cities. The system automatically plans routes based on the availability of petroleum products at filling stations and tank farms, ensuring an uninterrupted supply of fuel.

Each fuel truck carries over 30 sensors, which transmit up to 2 million readings through the internet on the vehicle's location, the trip progress and the condition of the equipment. The sensors detect the level of petroleum products in the different sections of the fuel truck. All sensors are integrated with a digital platform, which operates as a response centre.

In 2020, the company started a comprehensive programme to embed advanced energy-efficient technology across the network of Gazprom Neft filling stations. Over 600 filling stations were upgraded. Infrastructure upgrades included:

- replacing lighting with energy-efficient LEDs;
- using ambient light sensors to automatically switch lighting at stations on and off depending on the time of day; and
- introducing heat-recovery ventilation across filling stations.

Heat-recovery ventilation alone recovers and returns 60%–95% of heat to the system. This solution now comes as part-and-parcel of the standard design of new Gazprom Neft filling stations.

As part of its lean operations and environmental stewardship policy, the company launched its first ever solar-powered filling station, located in the Yaroslavl Oblast. A 5 kW solar power plant serves as the main source of electricity under sunlight and is able to supply up to 5% of the filling station's annual power consumption.

15%
average growth
in transport fleet efficiency

up to 50%
increase in energy savings
at filling stations

Sales of motor fuel and NGV fuel

Due to the COVID-19 pandemic and lockdowns, the motor fuel markets shrank across the regions and countries in which Gazprom Neft filling stations operate. In this context, total retail and small-scale wholesale sales of motor fuels at the company fell by 5.9% year-on-year to 18.4 mt.

Despite the decline, the Gazprom Neft strengthened its position on the Russian retail petroleum-products market. The company was able to grow its regional retail market share by 0.4 percentage points year-on-year to 22.6% by actively developing digital customer services, opening up new consumer engagement formats, promoting customer health and safety, running effective marketing campaigns and taking measures to boost business performance and maintain resilience.

In 2020, the share of premium fuels, branded G-Drive and G-Diesel, continued to grow in total retail sales of motor fuels. Sales of branded gasoline and diesel fuel in Russia and other CIS countries in 2020 totalled 716,000 tonnes, enabling the company to ramp up the share of G-Drive branded gasoline sales from 7.9% to 8.3% in total sales. Sales of premium branded fuels were also supported by the fact that the number of filling stations selling this fuel grew to 1,249.

The increase in LPG consumption as a vehicle fuel in Russia, as well as the company's competitive edge in this market translated to a 17.6% year-on-year growth in LPG sales to 127,000 tonnes.

Retail sales and small-scale wholesale of motor fuels and LPG

| Metric | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------|-------|-------|-------|--------------|
| Retail sales and small-scale wholesale of motor fuels, mt | 19.26 | 20.01 | 20.40 | 19.51 | 18.35 |
| including in Russia | 15.17 | 15.92 | 16.16 | 15.39 | 14.62 |
| Retail sales of motor fuels, mt | 10.45 | 11.04 | 11.34 | 10.49 | 9.77 |
| including in Russia | 8.25 | 8.84 | 9.12 | 8.30 | 7.85 |
| Sales of liquefied petroleum gas, thousand tonnes | 115 | 97 | 120 | 108 | 127 |
| including in Russia | 69 | 56 | 75 | 64 | 83 |

Source: company data

In 2020, retail sales of motor fuels through company filling stations amounted to 9.8 mt, including 7.9 mt in Russia. The Gazprom Neft filling station network remains the leader in Russia by average daily per-station sales (16.97 tonnes per day in 2020).



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Engagement with customers

Amid the COVID-19 pandemic, digitising company products and services has become pivotal to our engagements with customers. In 2020, digital multifunctional services allowing customers to interact with the company online exploded in popularity. The company currently offers a wider range of targeted digital solutions to owners of private cars, trucks and light commercial vehicles, as well as taxi companies, independent filling stations and distributors of OPTI 24 service cards.

The company's digital services platform encompasses:

- a line-up of virtual bank, service and loyalty cards;
- the Gazprom Neft retail network and AZS.GO mobile apps;
- online accounts and online services for corporate customers;
- the Webneft online trading platform.

Digital products and services

In 2020, our full line-up of cards became available to customers virtually, from the AutoDrive Start co-branded bank card, through the Android and iOS "On Our Way!" loyalty cards for Gazprom Neft's filling station network, to the OPTI 24 virtual service card for professional motorists. In total, about 1.9 million virtual cards have been issued to customers. By late 2020, 42% of new customers were issued an "On Our Way!" loyalty card through the mobile app.

The company's mobile apps – the Gazprom Neft retail network mobile app and AZS.GO app – offer users a range of new payment options to make their fuel purchases: bank card, "On Our Way!" points, Apple Pay and Google Pay, while the AZS.GO app also offers a group payment option. The company has added new features to AZS.GO, and launched a unique service for professional motorists – an online fuel payment option for OPTI 24 service card holders. This service is offered automatically, with ID verified by the user's phone number. Mobile fuel payment is available at 95% of Gazprom Neft filling stations in Russia.

All stages of the customer journey are now available online to corporate OPTI 24 card holders: from signing agreements to topping up fuel accounts, something that takes just a few seconds with a number of payment options available. The OPTI 24 online account contains a suite of basic tools for business: analytics, a balance checker, the ability to set limits, bulk driver provisioning and electronic document management. 94% of the company's corporate customers have an online account.

**2 million monthly active users
of the Gazprom Neft
retail network's mobile app**

~27%
**of online sales of motor fuel
made via the app**

Petroleum products sales to corporate customers

The company's product business units maintain their focus on growing sales volumes, but with a new priority on quality metrics, including the depth of business development and the product range.

Supplies of aviation fuel

The suspension of international air travel from April 2020 and lower number of domestic flights due to the COVID-19 restrictions led to a 33.5% year-on-year decline in premium aviation fuel sales in 2020. However, despite these unprecedented headwinds, Gazpromneft-Aero, the company's aviation fuel operator, maintained uninterrupted supplies to all government and corporate customers, including our core consumer base at the key airports of the Moscow air hub and at Trans-Siberian destinations.

The company leveraged the strong partnership between Gazpromneft-Aero and airlines to retain its leadership in the highly competitive Russian market amid a substantial drop in demand and fuel glut, with the company's market share in 2020 estimated at 25.7%.

At 2020-end, Gazpromneft-Aero's network totalled 294 airports across 69 countries, including Russia. In 2020, the network grew by 11 airports, including one airport in Russia (Baikal airport in Ulan-Ude) and 10 airports abroad (two in both China and India, and one in France, Italy, Mongolia, the Netherlands, Spain and Tanzania). At 2020-end, Gazpromneft-Aero's sales network comprised 62 refuelling complexes in Russia (including 48 owned and the rest leased) and one refuelling complex in Kyrgyzstan. In addition, Gazpromneft-Aero supplies jet fuel to its customers through third-party refuelling complexes at 10 Russian airports and at 221 airports abroad.

Gazpromneft-Aero seeks to expand its footprint, including by digitising its operations and building a digital ecosystem. Prime examples include refueling planes using blockchain technology.

All business units at the Downstream Division are improving their products, developing new sales channels and enhancing service quality.

**294 airports
in Gazpromneft-Aero's
refuelling network**

25.7%
**share of the Russian
aviation fuel market**



Gazprom Neft is the first Russian operator to deploy a blockchain-based payment solution for aircraft refuelling

Gazpromneft-Aero, the operator of Gazprom Neft's aviation fuel business, successfully tested its own digital aircraft refuelling system, the blockchain-based Smart Fuel. With this new solution, aircraft crews are now able to remotely monitor all parameters of aviation fuel supply, instantly pay for fuel directly when refuelling their aircraft (sidestepping the need for advance payment) and promptly receive accounting documents in a digital form.

As part of real environment testing, over 100 scheduled flights were successfully refuelled and instantly paid for with Smart Fuel. Refuelling requests are filed, payments are made and accounting documents are exchanged online through apps installed on pilots' and refueller operators' tablets. The new technology increases financial transaction speeds by an order of magnitude and reduces labour costs for airlines and fuel suppliers.

Aircraft refuelling, mt

| Metric | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------|------|------|------|------|-------------|
| Premium sales | 2.62 | 2.83 | 3.12 | 3.22 | 2.14 |
| Airports serviced | 239 | 254 | 266 | 283 | 294 |
| Owned refuelling complexes | 45 | 46 | 46 | 47 | 48 |
| Russian market share, % | 26.8 | 25.9 | 26.7 | 26.3 | 25.7 |

Source: company data

The product mix of aviation fuels and sales footprint also continued to grow. During the year, the Gazprom Neft Omsk Refinery started to produce DEF STAN 91-091 compliant Jet A-1 aviation fuel, which is widely used internationally in aviation. Technical audits of Jet A-1 production and logistics to the international requirements of the Joint Inspection Group (JIG) are conducted by Gazpromneft-Aero in partnership with Italy's oil and gas company Eni.

The launch of wholesale supplies of TS-1 aviation fuel to Global Air Fuel Systems CY Ltd in Uzbekistan, with subsequent reselling to Gazpromneft-Aero's Russian and international partner airlines, has expanded the sales of company aviation fuel to the Central Asian market.

Increased refuelling for cargo airlines

By promptly responding to changes in the structure of domestic and international demand for cargo transportation, Gazpromneft-Aero was able to ramp up its refuelling operations for international cargo flights by 2.85 times year-on-year in 2020 (to over 93,000 tonnes) and boost its additional aviation fuel sales to international cargo airlines at the Siberian cluster (Koltsovo, Krasnoyarsk and Tolmachevo) to over 88,000 tonnes.

Over 10 new cargo airlines started to order from the company in 2020, including four new foreign airlines: ASL Airlines, CargoLogic Germany, Eznis Airways LLC and Silk Way West Airlines LLC.

2.85x increase in international cargo flight refuels

Bunkering

The company provides bunkering services across all key Russian ports (including 19 sea and 12 river ports), as well as at the ports of Constanța (Romania), Riga (Latvia), Sillamäe and Tallinn (Estonia). The company's customers include major Russian and international shipping companies. The company's own fleet comprises:

- 12 bunkering vessels, including one Arctic-class vessel for refuelling ships in the White and Barents seas;
- four Arctic-class shuttle tankers and two icebreakers to ensure uninterrupted oil shipments from the Novoportovskoye field.

In 2020, 0.5% sulphur TSU-180 M grade marine fuel was the best-selling product in the sales basket of Gazprom Neft Marine Bunker, the company's bunkering business operator. Sales of this fuel totalled 1 mt, or 56.5% of marine fuel supplies to shipping companies. The total share of environmentally-friendly 0.5% sulphur marine fuels increased from 35% of total sales in 2019 to 94% in 2020, due to MARPOL 2020, an international convention capping the maximum sulphur content in emissions from ships operating in global waters, effective since 1 January 2020.

The COVID-19 pandemic had a negative impact on shipping globally, leading to lower demand for marine fuel in 2020, with the company's fuel sales to shipping companies down to 1.8 mt. At the same time, the company adapted its product mix to the new market requirements, implementing a strategic programme to leverage third-party resources in 2020 and strengthen its position in the Russian bunkering market. As a result, the company's market share increased by 3.4 percentage points to 19.1%.

As part of the company's strategy for the LNG bunkering market¹, the Dmitry Mendeleev LNG-bunkering vessel was launched in December 2020, the first vessel of its class in Russia. The vessel is scheduled to commence commercial operations in Q3 2021, making Gazpromneft Marine Bunker the first Russian company to enter the LNG bunkering market.

Our strategic goal is to continue building a fleet of LNG-bunkering vessels until 2030.

Bunkering, mt

| Metric | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|------|------|------|------|-------------|
| Premium sales (bunkering) | 2.77 | 2.71 | 2.92 | 2.99 | 1.77 |
| Airports serviced in Russia and abroad | 36 | 37 | 34 | 35 | 35 |
| Russian market share, % | 19.1 | 16.6 | 15.8 | 15.7 | 19.1 |

Source: company data

¹ – LPG bunkering.

1.77 mt
**premium sales of
marine fuels**

35
**ports
in Russia
and abroad**

19.1%
**share of the Russian
marine fuel market**

Production and sales of oils and lubricants

The company boasts advanced production facilities to manufacture oils and lubricants, and an extensive sales network in the B2C and B2B segments. Oils and lubricants are sold through the Gazprom Neft filling station network, other retail networks, online stores and service stations, and are supplied directly to enterprises, including to car assembly lines as first fill oil.

Due to lower industrial production, restrictions imposed on retail in March–May 2020 and closures of a number of international markets amid the COVID-19 pandemic, total lubricant sales fell by 6.4% year-on-year from 0.47 mt in 2019 to 0.44 mt in 2020. In 2020, premium sales totalled 0.31 mt, almost flat year-on-year. Maintaining the volumes of premium sales has enabled the company to increase its share of the Russian packaged lubricants market by 0.1 percentage point to 23.5%.

Gazprom Neft has also expanded its product sales footprint. In 2020, the company shipped its oils to 96 countries (80 countries in 2019).

Oils and lubricants sales, mt

| Sales | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------|------|------|------|-------------|
| Total oils and lubricants sales | 0.45 | 0.41 | 0.49 | 0.47 | 0.44 |
| Premium sales | 0.27 | 0.29 | 0.31 | 0.32 | 0.31 |
| Number of G-Energy Service stations | 70 | 120 | 170 | 210 | 205 |
| Share of the Russian packaged oils and lubricants market, % | 20.0 | 21.3 | 22.0 | 23.4 | 23.5 |

Source: company data

310,000
**tonnes
of premium oils
and lubricants sold**



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Production and sales of lubricants in the Balkans and Eastern Europe

In 2020, the company set up Gazpromneft Lubricants Balkans doo, a subsidiary in the Republic of Serbia that uses NIS oil business assets to ensure regular supplies of oils and lubricants to the Balkan and Eastern European markets.

Since August 2020, a new facility in Novi Sad has been offering a broad portfolio of oils and lubricants, counting 140 products marketed under the Gazprom Neft brand, including 28 products tailored exclusively to the Balkans. The sales footprint of Gazpromneft Lubricants Balkans doo extends beyond Serbia, covering also Albania, Bulgaria, Croatia, Greece, Hungary and Macedonia. Also in the near future, lubricants produced by Gazpromneft Lubricants Balkans doo will be launched in the markets of Bosnia, Kosovo, Montenegro, Slovakia and Slovenia.

Last year, the company actively expanded its international sales of Gazpromneft Ocean marine oils by launching supplies to Argentina, Brazil, Bulgaria, China (including Hong Kong), Croatia, Greece, Malta, Panama, Romania and the UAE. Furthermore, Gazpromneft Ocean oils have been officially approved by Wärtsilä. The products have been tested and included in the list of lubricating oils approved for use in Wärtsilä and Sulzer engines. Finally, the company's exports of aviation oils increased by 25%.

Our continuously growing product line currently includes over 1,000 oils, grease lubricants and service fluids. A total of 17 new products were put into production in 2020, including G-Energy Synthetic Far East 5W-20 low-viscosity oil using G-Base base oils for modern vehicles, KAMAZ G-Profi Service Line NEO 10W-40 next-generation diesel engine oil, Terrion Gear UTTO universal tractor oil, fully synthetic Gazpromneft Turbine Oil F Synth EP-68 and zinc-free all-season Gazpromneft Hydraulic HVZF-22 oil. The company also launched the production of a new line of lubricants and coolants. A new brand, Syntolux, is offered to consumers in the affordable price segment.

140 types of oils and lubricants under the Gazprom Neft brand are produced in Serbia

Performance highlights of deploying the Etalon operations management system (OMS) at the Omsk Lubricants Plant

The Omsk Lubricants Plant took the top spot among 30 Russian and CIS enterprises in the Production Environment Development category at a competition held by the industry movement "Lean Forum. Lean Production Professionals". This is the Russian equivalent of the international Shingo Prize for operational excellence, which is considered by the professional community to be the "Nobel Prize" for manufacturing.

In 2020, the competition took the form of an offsite certification by leading experts from the Russian Ministry of Economic Development and the Agency for Strategic Initiatives. At the Omsk Lubricants Plant, the experts noted the successful implementation of the Time for Innovation improvement programme and the consistent operation of all programme tools within the Etalon operations management system, including 5C, routine management practices and inspection rounds.

The Omsk Lubricants Plant scored a total of 78 out of 100 points. The award ceremony was held and the top prize, the Gastev Cup, was presented in early 2021.

Production and sales of bitumen materials

Gazprom Neft is one of the largest manufacturers and suppliers of bitumen products and derivatives in Russia. Back in Russia, apart from its own production facilities in Moscow, Omsk, Ryazan, Salsk, Vyazma and Yaroslavl, the company has strong binder production partnerships in the Krasnodar Krai, Mordovia, Moscow Oblast, Perm and St Petersburg. Abroad, bituminous materials are produced in Serbia and Kazakhstan. In total, bitumen and bitumen materials under the company's brands are manufactured at 20 production sites.

Even during lockdown, national projects continued to drive the development of the country's road infrastructure and an increase in the consumption of binders in the base and premium bitumen segment. Supported by positive market performance, the company's total sales and premium sales of bituminous materials grew 9.6% and 16.7%, respectively.

16.7% growth in premium bitumen sales

A digital solution to sell bitumen materials

In 2020, Gazpromneft BM continued developing its ecosystem of digital products. A key module of the CRM system under development at the company has been put into trial operation and continues to be updated with new features.

Over 1 mt of base and premium bitumen were sold to end customers via Gazpromneft BM's digital platform in 2020 – a year-on-year doubling in sales. Counterparties can use the digital platform to purchase bitumen at the company's 14 sites across Russia, including the Gazprom Neft Moscow Refinery and Gazprom Neft Omsk Refinery.

Orders for liquid products with delivery within Russia can currently be placed via the CRM (Customer Relationship Management) system; but in 2021, its functionality will be expanded to ordering packaged products within Russia and for export, and later for rail delivery.

Gazprom Neft has become the first Russian vertically-integrated oil company to transport petroleum products by road using a digital delivery note, as part of an experiment run by the Russian Ministry of Transport. The results of this experiment have been used to amend the federal transport regulations, with digital delivery notes to be scaled up from 2022.

Gazpromneft BM, the operator of the company's bitumen business, was the first among vertically-integrated oil companies to launch its own network of terminals, so as to develop its sales platform out in the Russian regions. In 2020, Gazprom Neft partnered with bitumen terminals in Voronezh and Yekaterinburg. The market is also showing strong demand for Gazpromneft BM to provide logistics services to deliver its bituminous binders. In 2020, sales of road-delivered bulk bitumen increased by 34% year-on-year, with sales of packaged bitumen and polymer-modified bitumen up 54%.

Gazpromneft BM's production assets plan to produce high-potential waterproofing materials (latex-modified bitumen emulsions for bridges and tunnels, as well as polyurethane sealants for inter-panel joints in buildings and structures) for the Russian construction industry.

In 2020, company products were launched on the retail market for construction materials. Waterproofing materials were offered at Leroy Merlin hypermarkets, one of the largest DIY retailers. Brit-branded mastics and primers used in low-rise suburban construction were the most popular products in the company's retail product mix.

2x
growth in online bitumen sales

The company expanded its line-up of high-tech bituminous materials with new polymer-modified bitumen mastics and sealants for the construction and maintenance of transport and industrial infrastructure.

Sales of bitumen materials, mt

| Sales | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------------|------|------|------|------|-------------|
| Total sales of bitumen materials | 2.17 | 2.65 | 2.97 | 2.92 | 3.20 |
| Premium sales | 0.23 | 0.29 | 0.35 | 0.42 | 0.49 |

Source: company data

Production and sales of petrochemicals

The development of petrochemical production is a strategically important growth area for the company. Basic petrochemicals are produced at all Gazprom Neft refineries (Moscow, Omsk and Yaroslavl). Downstream petrochemical products (polypropylene) are produced at joint ventures with SIBUR Holding (50% interest): NPP Neftekhimiya (Moscow) and Poliom (Omsk).

In 2020, NPP Neftekhimiya increased its output of polypropylene, reaching an all-time high of 151.9 ktpa. Poliom increased its hourly production rate to 26.5 tonnes per hour, ramping up its capacity to 224.5 ktpa. Along with higher production rates, both joint projects achieved strong environmental performance: Poliom has cut its environmental footprint by 25%, while NPP Neftekhimiya slashed its by-products by 30% year-on-year.

Gazprom Neft is Russia's largest producer of a number of basic petrochemicals: aromatic hydrocarbons (benzene, paraxylene, orthoxylene and toluene) and the propane-propylene fraction.

Sales of basic petrochemical products, mt

| Sales | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------|------|------|------|------|-------------|
| Total petrochemicals sales | 1.35 | 1.25 | 1.35 | 1.55 | 1.47 |

Source: company data



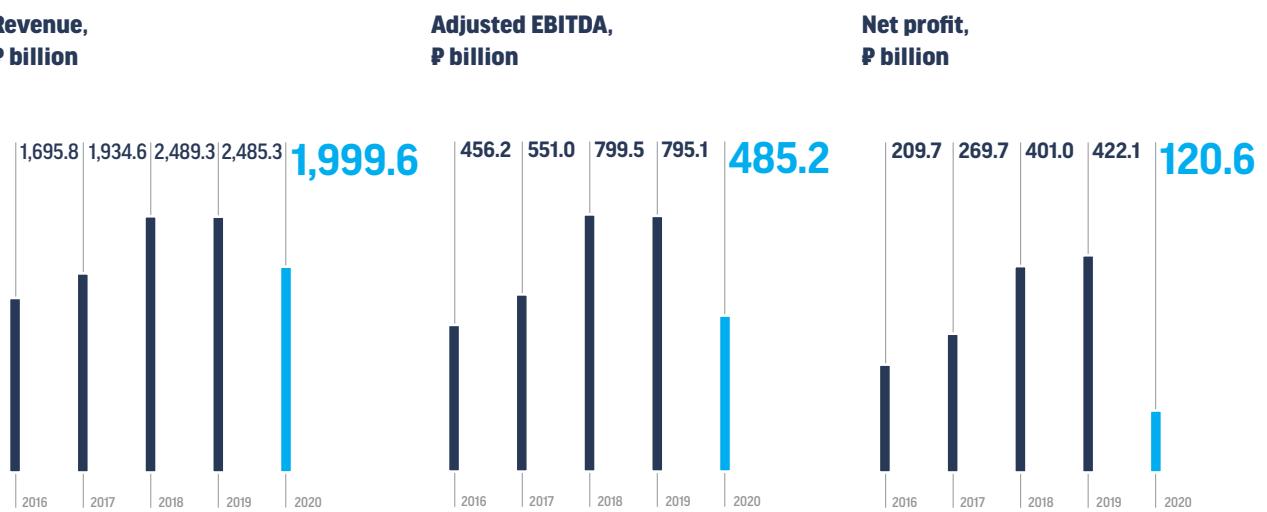
Highlights (IFRS)**Highlights, ₽ million**

| Indicator | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % | Indicator | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|----------------|---|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|
| REVENUE¹ | | | | | | | OPERATING PROFIT | 238,316 | 302,523 | 456,742 | 446,568 | 145,177 | (67.5) |
| Crude oil, gas and petroleum products sales | 1,637,553 | 1,870,790 | 2,418,717 | 2,393,444 | 1,919,593 | (19.8) | Share of profit of associates and joint ventures | 34,116 | 45,504 | 90,704 | 83,906 | 48,047 | (42.7) |
| Less export duties and sales-related excise taxes | (150,156) | — | — | — | — | — | Net foreign exchange gain/(loss) | 28,300 | (241) | (33,558) | 10,518 | (23,654) | — |
| Other revenue | 58,211 | 63,799 | 70,575 | 91,864 | 80,027 | (12.9) | Finance income | 11,071 | 10,098 | 7,506 | 22,906 | 11,378 | (50.3) |
| TOTAL REVENUE | 1,545,608 | 1,934,589 | 2,489,292 | 2,485,308 | 1,999,620 | (19.5) | Finance expense | (34,282) | (25,127) | (21,476) | (32,772) | (28,746) | (12.3) |
| COSTS AND OTHER DEDUCTIONS | | | | | | | Other gain/(loss), net | (17,982) | (7,557) | (19,796) | (23,292) | (8,732) | (62.5) |
| Purchases of oil, gas and petroleum products | (351,294) | (456,037) | (617,306) | (663,068) | (498,315) | (24.8) | TOTAL OTHER INCOME/(EXPENSE) | 21,223 | 22,677 | 23,380 | 61,266 | (1,707) | — |
| Production and manufacturing expenses | (201,862) | (216,530) | (228,618) | (260,688) | (257,391) | (1.3) | PROFIT BEFORE INCOME TAX | 259,539 | 325,200 | 480,122 | 507,834 | 143,470 | (71.7) |
| Selling, general and administrative expenses | (108,981) | (106,629) | (114,882) | (125,592) | (115,926) | (7.7) | Current income tax expense | (21,290) | (43,695) | (59,585) | (52,502) | (22,835) | (56.5) |
| Transportation expenses | (132,984) | (141,982) | (147,182) | (143,474) | (141,671) | (1.3) | Deferred income tax gain/(expense) | (28,524) | (11,827) | (19,544) | (33,244) | (2) | (100.0) |
| Depreciation, depletion and amortisation | (129,845) | (140,998) | (175,451) | (181,372) | (222,151) | 22.5 | TOTAL INCOME TAX EXPENSE | (49,814) | (55,522) | (79,129) | (85,746) | (22,837) | (73.4) |
| Taxes other than income tax | (381,131) | (492,269) | (652,784) | (591,193) | (577,390) | (2.3) | PROFIT FOR THE PERIOD | 209,725 | 269,678 | 400,993 | 422,088 | 120,633 | (71.4) |
| Export duties | — | (76,658) | (94,916) | (71,601) | (40,605) | (43.3) | Less profit attributable to non-controlling interest | (9,546) | (16,404) | (24,326) | (21,887) | (2,934) | (86.6) |
| Exploration expenses | (1,195) | (963) | (1,411) | (1,752) | (994) | (43.3) | PROFIT ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS | 200,179 | 253,274 | 376,667 | 400,201 | 117,699 | (70.6) |
| TOTAL OPERATING EXPENSES | (1,307,292) | (1,632,066) | (2,032,550) | (2,038,740) | (1,854,443) | (9.0) | | | | | | | |

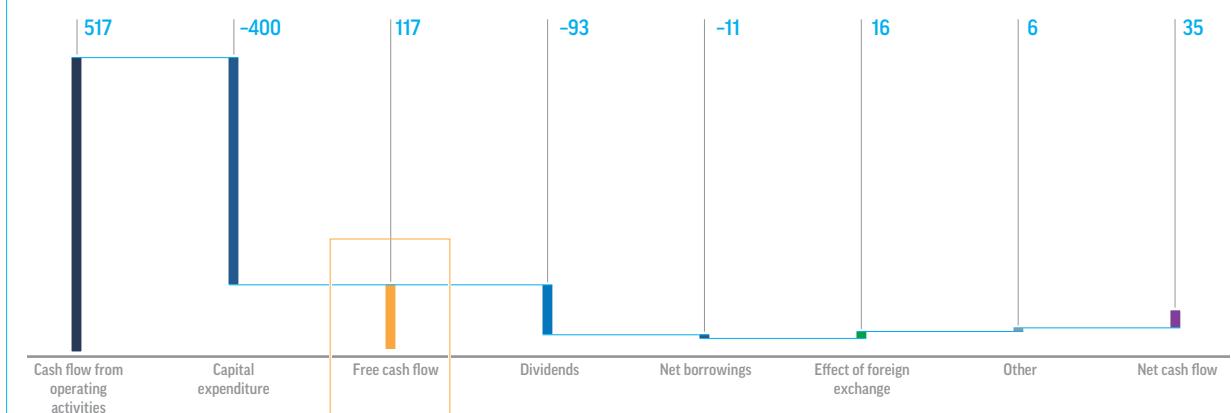
In 2020, Gazprom Neft sales revenue decreased by 19.5% to ₽2 trillion, due to lower prices and demand for oil and petroleum products in the global and domestic markets, as well as to the COVID-19 restrictions. However, despite the challenging market environment, the company managed to yield positive results, reporting a net profit of ₽120.6 billion. From Q2 2020 to Q4 2020, net profit grew steadily, even despite strong market volatility.



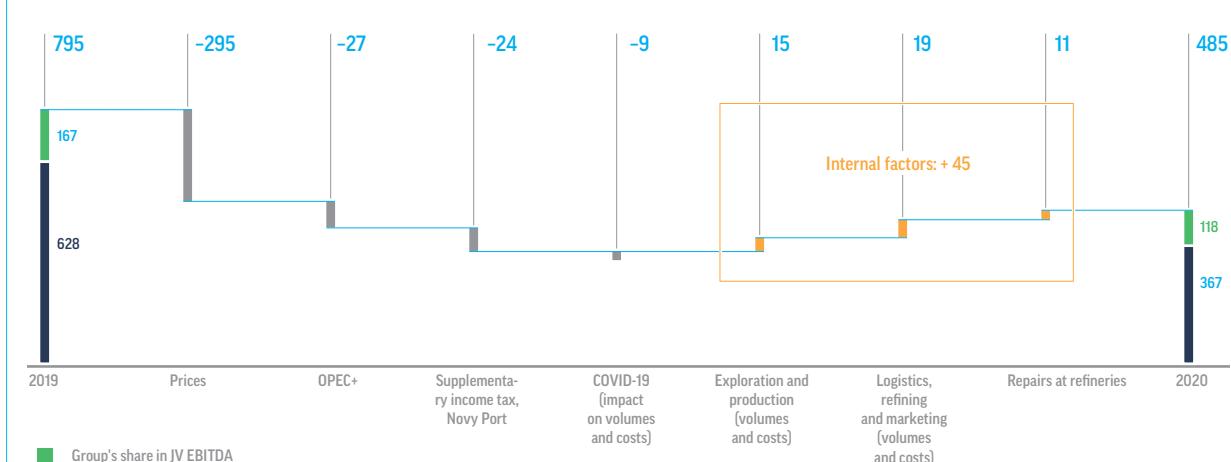
**Revenue,
₽ billion**



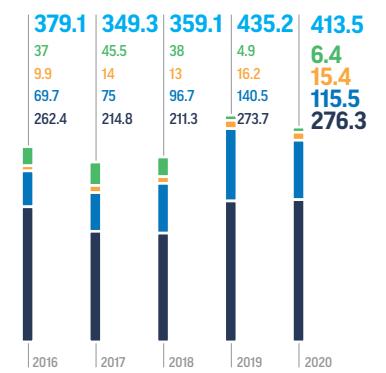
Cash flow in 2020, ₽ billion



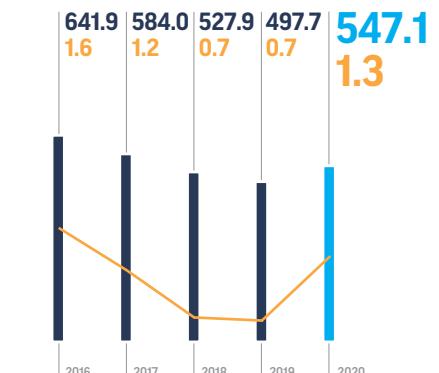
Adjusted EBITDA reconciliation for 2020 vs 2019, ₽ billion



**Capital expenditures,
₽ billion**



**Net debt, ₽ billion and
Net debt/EBITDA**



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TECHNOLOGICAL DEVELOPMENT



The illustration is an artistic visualization of work processes.
The photographs used in the illustration were taken during
the pre-pandemic period.

DRONES FOR EFFICIENT OPERATION

6,000 m maximum flight altitude 1,000 km flight range
160 km/h maximum speed 14 h maximum flight time

DRONES FOR GEOLOGICAL EXPLORATION

Test areas:

- 1 KhMAO-Yugra
- 2 Yamalo-Nenets Autonomous Okrug
- 3 Orenburg Oblast
- 4 Irkutsk Oblast

VOSTOCHNO-MESZOYAKHSKOYE FIELD



UNMANNED VEHICLES IN THE ARCTIC FIELDS

In September 2020, for the first time in Russia, the KAGU-150 Tiber unmanned helicopter delivered a heavy cargo in the Arctic, covering 130 km over the swampy tundra.

500-1,000 m flight altitude 900 km flightrange
209 km/h maximum speed 150 kg maximum cargo capacity

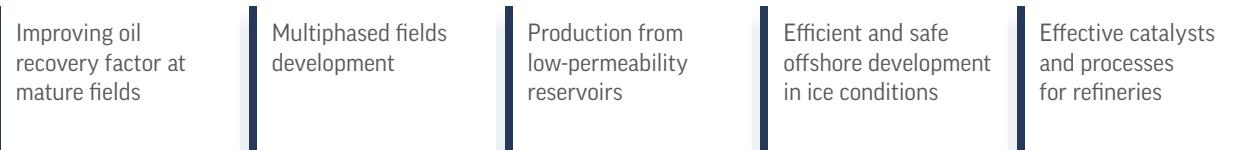


VIDEO:
Launch of an
unmanned Tiber
helicopter

Focus areas

"From strategic goals to technological projects" is Gazprom Neft's approach to innovation. The company develops and implements the technologies necessary to address challenges as it works towards its strategic goals.

Priority areas of technological development:



For each focus area, the company is implementing projects to develop, test and deploy the necessary technologies.

Technological development is a core pillar of Gazprom Neft's 2030 Strategy. Technological advancements will enable the company to efficiently deliver its large-scale upstream projects and consolidate leadership in strategic areas.

96 patents
held by the company

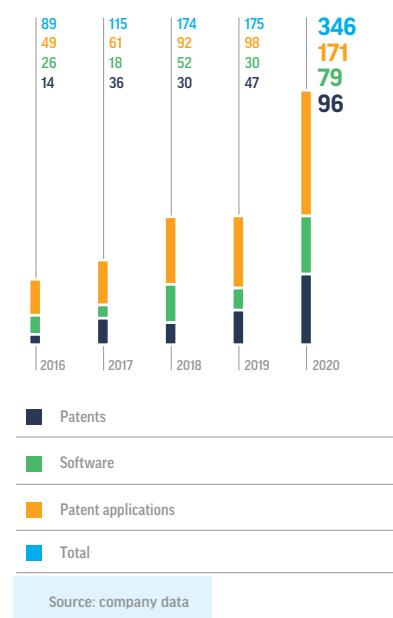
Main documents

Innovative Development Programme

The Board of Directors approved the updated Innovative Development Programme in 2020. The focus area list has been significantly expanded by adding digital transformation projects, including cognitive geology, production project management centres, the Asset of the Future programme, integrated planning and operations and reliability management at refining, logistics and sales enterprises.

These projects include both the implementation of digital tools for data-driven decision making, as well as digital twins and business process optimisation. The projects will improve decision quality and accelerate key business processes at the company, including exploration, major greenfield production project management and operations management.

Gazprom Neft's intellectual property portfolio



The company expects that its digital transformation projects will significantly accelerate the exploration cycle, shorten the time to first oil, achieve incremental production and reduce equipment downtime as well as unit operating costs (UOC).

The company has also not lost sight of the original focus areas of the Innovative Development Programme: unconventional reserve development technologies, enhanced oil recovery, improving drilling and multistage fracturing technologies and developing and producing refining catalysts.

Investments under the Gazprom Neft Innovative Development Programme totalled more than ₽24 billion in 2020. The main cost items were cat-cracking, hydrotreatment and hydrocracking catalyst development and production launch, development of a suite of technologies to produce Bazhenov oil, and the implementation of digital-transformation activities.

Upstream Technology Strategy

The Upstream Technology Strategy covers all focus areas of the Upstream Division, including:

- exploration and resource expansion technologies;
- well drilling and completion technologies;
- enhanced oil recovery and well stimulation;
- development of unconventional reserves;
- development of oil rims;
- electronic asset development (EAD);
- development of carbonate and fractured reservoirs;
- long-term infrastructure development programme; and
- civil engineering technologies.

In 2020, the company completed 13 projects from the Technology Strategy portfolio, including implementing new methods to find overlooked intervals, conceptual engineering tools, developing technology to calculate the optimum fracture system for multistage fracturing in the Bazhenov Formation, developing reservoir management tools and optimising well design for the Priobskoye field. A rollout perimeter was defined for each completed project.

Expected incremental production from the technology projects completed in 2020 totals 200,000 tonnes of oil before 2025. Expected monetary value (EMV) of these projects exceeds ₽7 billion.

Downstream R&D strategy

R&D in oil refining follows a long-term R&D strategy. Currently, over 30 projects are being implemented across the following focus areas: increasing oil conversion rate (refining depth), improving operational efficiency, and new product development, including cat-cracking, hydrotreatment and hydrocracking catalysts.

14 innovation centres

9,000+
researchers and
developers

100+ petabytes
of stored data

+ trillion
digital transactions
per day

For more details on digital transformation of the company, see page 44

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Innovative infrastructure

Gazprom Neft has been developing an R&D cluster in St Petersburg since 2014 to make the company a technology leader and promote the innovative development of Russia's "Northern Capital".

R&D centres for the key focus areas – from exploration and drilling to petroleum refining, logistics and digital operations and sales management – have been launched within the cluster.

Structure of Gazprom Neft's St Petersburg R&D cluster

DIGITAL TECHNOLOGIES IN THE OIL AND GAS INDUSTRY

| | | |
|---|--------------------------------------|---------------------------|
| Gazpromneft Science & Technology Centre | GeoNavigator Drilling Control Centre | Project Management Centre |
|---|--------------------------------------|---------------------------|

HIGHER EFFICIENCY AND STRONGER ENVIRONMENTAL PERFORMANCE

| | | |
|--------------------------------------|--------------------------------------|----------------------------------|
| Downstream Efficiency Control Centre | Downstream Production Control Centre | Digital Arctic competency centre |
|--------------------------------------|--------------------------------------|----------------------------------|

CREATING INFRASTRUCTURE FOR THE DIGITAL ECONOMY

| | | |
|---|---------------------------|-------------------|
| Zifergauz digital transformation centre | Gazprom Neft's IT cluster | Corporate IT park |
|---|---------------------------|-------------------|

DEVELOPING AN INDUSTRIAL INNOVATION SYSTEM

| | | |
|--|--|--------------------------------|
| Gazpromneft – Technology Partnerships industrial innovation centre | Artificial Intelligence in Industry science and education centre | St Petersburg Energy TechnoHub |
| Industrial innovations technology centre | P. L. Chebyshev Mathematical Laboratory | |

Gazpromneft Science and Technology Centre

Gazpromneft Science and Technology Centre provides analytical, methodological and R&D support to the Upstream Division's key production and technical functions. The centre provides scientific substantiation for investment and managerial decision making upstream. The scope of the R&D centre includes:

- geological modelling;
- advanced well drilling support;
- expert review of projects;
- comprehensive solutions for field development and infrastructure;
- development and implementation of digital solutions;
- implementation of projects within our Technology Strategy;
- dissemination of knowledge and best practices in technological development.

The Gazpromneft Science and Technology Centre's new technology division took a new approach to technology project management in 2020. A project acceleration system and prioritising business challenges by technological potential were the key innovations of the year. This new approach allows technology projects and assets to be ranked by the potential economic value that would be created were the technology to be rolled out at company fields.

The total potential of the Technology Strategy portfolio is estimated at more than ₽500 billion. A condensed project implementation timeline and broader rollout perimeter translated to a more than 20% increase in the value of the upstream technology portfolio.

2 offices

 **St Petersburg**
 **Tyumen**

1,000+ employees

Gazpromneft – Technology Partnerships

Gazpromneft – Technology Partnerships is a Gazprom Neft subsidiary and an operator of the Russian Ministry of Energy's industry project to develop the requisite technologies and high-tech equipment for the viable development of Bazhenov Formation reserves.

Gazpromneft – Technology Partnerships is Gazprom Neft's knowledge hub and management centre for the company's big bets on Unconventional Reserves, Paleozoic, chemical methods of enhanced oil recovery, and the Achimovsky Formation. The business

is also responsible for managing the commercialisation of Gazprom Neft's upstream technology products.

The Integrated Upstream Engineering Centre (a Gazpromneft – Technology Partnerships branch at the Skolkovo Institute of Science and Technology) provides R&D support for projects to develop unconventional hydrocarbon reserves, including the Bazhenov Formation, as well as Domanic and pre-Jurassic deposits.

Gazprom Neft is drawing on its technology partnership with the Khanty-Mansi Autonomous

In 2020, Gazpromneft – Technology Partnerships agreed to become an anchor tenant of the High Technology Park in the Khanty-Mansi Autonomous Okrug–Yugra. Teams tasked with identifying and creating technologies to develop the Bazhenov Formation will be based in this technology park.



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IT cluster

Gazprom Neft's own IT cluster is based at the subsidiaries Gazpromneft Digital Solutions (previously Information Technology Service Company (ITSC LLC)) and Gazpromneft Information-Technology Operator (previously Noyabrskneftegazsvyaz LLC). The cluster is tasked with developing data centre infrastructure, telecommunications systems, user services, software and mobile applications for company employees, customers and partners.

Today, Gazprom Neft's IT cluster brings together 10,000 high-calibre IT and digital professionals and offers a broad selection of digital services and products with a proven track record in actual business processes.

Impacts of the IT function's transformation:

- Impacts of the IT function's transformation:
- accelerated business product development;
- streamlined internal procedures;
- faster product development and shorter development-to-production cycle;
- greater business impact from IT ownership;
- higher quality infrastructural services;
- integration of all infrastructural services under one specialised operator: as at year-end 2020, Gazpromneft IT Operator supports all workplaces;
- better utilisation of infrastructure and service personnel; and
- lower unit costs of infrastructural services.

Zifergauz

In 2020, the company opened Zifergauz, the centre for digital transformation, in St Petersburg. The new centre is a shared space for cross-functional teams working on industrial digital transformation projects and the strategic digital transformation office teams at company divisions. It is focused on seeking out solutions to improve traditional business processes and

The IT cluster facilitates the development of a broad selection of digital products and services with a proven track record in actual business processes. This will be followed by a rollout or upgrade to meet the needs of a specific business or a general business area. The centre uses a product-based model, which unlocks rapid IT product development and launch in cross-functional developer teams and business units.

3 technology parks

-  **St Petersburg**
-  **Omsk**
-  **Noyabrsk**

4 data centres

Gazpromneft-Industrial Innovations

In 2020, the company decided to establish the Gazpromneft-Industrial Innovations technology centre, tasked to identify, evaluate, develop, implement and scale technologies improving the performance of petroleum refining and petrochemical production processes, as well as future technologies.

Technology-wise, the centre's priorities include the following:

- petroleum refining and petrochemical processes;
- catalysts;
- specialty polymers;
- organic synthesis products; and
- biotechnology, new materials.

The functionality of the new structure covers the entire technological

innovation management chain – from identifying business needs to deploying technologies in production processes. The centre will use in-house capabilities and a laboratory-testing complex in St Petersburg to develop and pilot technologies, engaging external partners for technology project implementation.

 **For more details, see page 88**

GeoNavigator Drilling Control Centre

Share of hard-to-recover reserves in Gazprom Neft's portfolio is gradually increasing. These reserves can only be developed with advanced horizontal and multilateral wells, which

GeoNavigator drills using remote control technologies. Every day, the centre supports the construction of about 900 advanced wells in Russia and abroad.

~900 supported wells

Project Management Centre

The Project Management Centre is a single digital and organisational space for preparing and implementing major oil and gas production projects pursued by Gazprom Neft in the Arctic, Siberia and Iraq.

The centre hones in on optimising project implementation plans using digital models. New technologies and management methods cut major project implementation time by 40%.

40% shorter implementation time¹

Downstream Efficiency Control Centre

This centre controls all stages of petroleum refining, logistics and product sales at Gazprom Neft, from the receipt of crude oil at refineries to final product sales to customers. Predictive analytics, internet of things and AI take business processes to completely new level of efficiency and safety.

The centre uses the digital Neftekontrol (oil control) system to continuously monitor petroleum product quantity and quality across the entire value chain, from refineries to refuelling complexes at airports and filling stations.

Downstream Production Control Centre

This is a project to create a digital control system for the Moscow Refinery and Omsk Refinery, to drive a transition from controlling

individual refinery units to overseeing production chains. The next step is to create digital systems for automatic hourly planning, real-time process

parameter tracking and predictive control of production deviations.

Digital Arctic

This centre manages Gazprom Neft's tankers delivering crude from northern fields, including Prirazlomnaya, the only platform on the Russian Arctic shelf.

The Digital Arctic centre has created Kapitan, a unique digital system that optimises icebreaker and tanker movements, monitors crude shipments and inventories, tracks production parameters and changes in ice conditions to identify the optimum logistics solutions.

Corporate IT park

This park brings together leading providers of IT solutions for the oil and gas industry and other manufacturing industries. Gazprom Neft provides developers with its own equipment and computing

capacity and invests in software products that show promise. The technology park model helped to launch and quickly develop over 50 projects.

50+ projects launched from the technology park

Artificial Intelligence in Industry

The Artificial Intelligence in Industry centre was established by Gazprom Neft and the St Petersburg City Administration with participation of leading technical HEIs: St Petersburg State University, St Petersburg Polytechnic University, ITMO University, Saint Petersburg Electrotechnical University and Saint Petersburg State University of Aerospace Instrumentation. The centre is a venue for collaborative work between industrial customers and leading HEIs researching AI, as

well as its applied and theoretical problems in manufacturing industry. It will close the gap between science and business and boost the number of technology solutions taken through to implementation.

This format of collaboration gives a solid base for solving highly complex problems, forming new research teams working on methods and approaches, opening up communication between parties and developing existing teams in HEIs. The

unique research expertise that the AI centre can tap into will help industrial customers to solve complex problems. The Artificial Intelligence in Industry association was founded in 2020 to support the centre in achieving its full operations potential.

The AI centre's tasks also include helping HEIs to adapt their AI programmes to business needs and developing employee competencies of industrial customers.

St Petersburg Energy TechnoHub

The project's mission is to attract the engineering and R&D branches of major industrial and energy players to the city and support local technology companies.

St Petersburg Energy TechnoHub is a project established by the Government of St Petersburg and Gazprom Neft and launched at the end of 2019.

A total of 130 tenants from 20 Russian regions as well as Belgium and Austria had taken up residence at the St Petersburg Energy TechnoHubas at year-end 2020. Up to 603 technology companies are expected to sign up to the project by 2030. This will help St Petersburg-based companies and research centres to secure a large

share of research and engineering orders in the power industry, whose total annual value in Russia is currently estimated at ₽100 billion. The New Industry Investment Fund is a project partner (see below).

In St Petersburg, five HEIs set up Energy Clubs, which bring fresh graduates, as well as current undergraduate and postgraduate students, together into developer teams and start-ups in conventional and renewable energy.

P. L. Chebyshev Mathematical Laboratory

A joint project between St Petersburg State University and Gazprom Neft to promote research in pure mathematics. The lab creates mathematical algorithms for digital models of oilfields and cognitive software.

The company and the lab jointly run Mathematical Progression, an All-Russian project to support gifted young people that has awarded over 500 undergraduate and postgraduate student scholarships and grants so far.

130 tenants in residence

5 student energy clubs



Learn more: Gazprom Neft's technical centres

Bitumens Research and Development Centre (St Petersburg)

This centre develops technologies to produce bitumen materials, significantly extending road surface life. The centre boasts a unique laboratory, which enables the full

cycle of research not just on bitumen and its derivatives, but also on asphalt mixes. With its high level of expertise, the Bitumens Research and Development Centre acts as

an independent laboratory in some regions under the Safe and High-Quality Roads national project.

Catalyst Technology Development Centre (Omsk)

In 2020, Gazprom Neft completed the construction of the Catalyst Technology Development Centre – the industry's most advanced centre of its kind in Russia – as part of Gazprom

Neft's new catalyst production facility in Omsk. The centre does comparative testing of catalysts for industrial applications and boasts pilot units for catalyst synthesis and testing that

are unparalleled in the world. Fully functional, smaller-scale models of commercial units reproduce the whole catalyst process, from production to use.

Partnerships

New Industry Investment Fund

Along with Gazprombank, RVC and VEB Ventures, the company is a founder of the New Industry Investment Fund (New Industry Ventures). The fund invests in companies developing new materials, technologies, products and services for the oil and gas industry. The fund's priorities include developing technologies for the exploration, production, refining, processing, transportation, distribution and use of hydrocarbons; energy transmission and storage; and implementing innovative solutions.

New Oil Production Technologies

New Oil Production Technologies, a joint venture between Gazprom Neft, LUKOIL and Tatneft, will develop the hard-to-recover reserves of the

in the construction of industrial infrastructure and managing major projects. Its investment focus also includes resource and energy saving technologies and digital products, including Industry 4.0 technologies. For example, early in 2021, the fund supported a project to develop an innovative construction visualisation and monitoring system, as well as a local company in the Khanty-Mansi Autonomous Okrug-Yugra developing an AI and big data-driven industrial safety and operational control video analytics system.

Also in 2020, the company founded a number of joint ventures to develop, pilot, scale and commercialise new technologies. For instance, the company closed a deal with Zarubezhneft to establish a joint venture in the Khanty-Mansi Autonomous Okrug-Yugra to develop and pilot hard-to-recover oil production technologies. Its asset portfolio includes the Salymsky-3 and Salymsky-5 licence blocks.

Digital Industrial Platform

The products created within the framework of the joint venture solve the problem of integrating big data of technological objects with key value chain management systems. An additional focus of the joint venture is

the creation of solutions in the field of MES (manufacturing execution system), production process management systems, digital doubles, production activity planning systems based on a single object model of the chain.

The technological basis for the joint venture was the industrial platform of the Internet of Things pIZIIoTnd digital refining services from the Zyfra, as well as Gazprom Neft's own digital systems.

RA

Gazprom Neft and X-Holding established NEDRA (New Digital Resources for Assets), a joint venture based on the existing company Nexign. The JV implements projects in the interests of Gazprom Neft, develops marketable digital products

for the industry that use state-of-the-art AI systems and advanced data processing algorithms to support managerial decision making, and integrates its products into an open E&P platform. Some of its promising projects include an investment

decision support system for oil and gas fields, computer vision solutions to enhance industrial safety and a tool to integrate production asset processes.

2020 HIGHLIGHTS AND KEY PROJECTS

Production technology

BAZHENOV FORMATION DEVELOPMENT

Under the national project to study the Bazhenov Formation, the company's subsidiary Gazpromneft - Technology Partnerships (formerly the Bazhenov Technology Centre) has confirmed the previously stated improvements to multistage hydraulic fracturing performance in

horizontal wells at this formation. A key breakthrough of 2020 was a 20% reduction in the per-unit cost of advanced well drilling at the Bazhenov Formation. This achievement came on the back of the continuing development of the Russian oilfield services market

and higher well complexity. The company's short-term plans include shaving well costs down to a level where commercial development of the Bazhenov Formation would be viable.

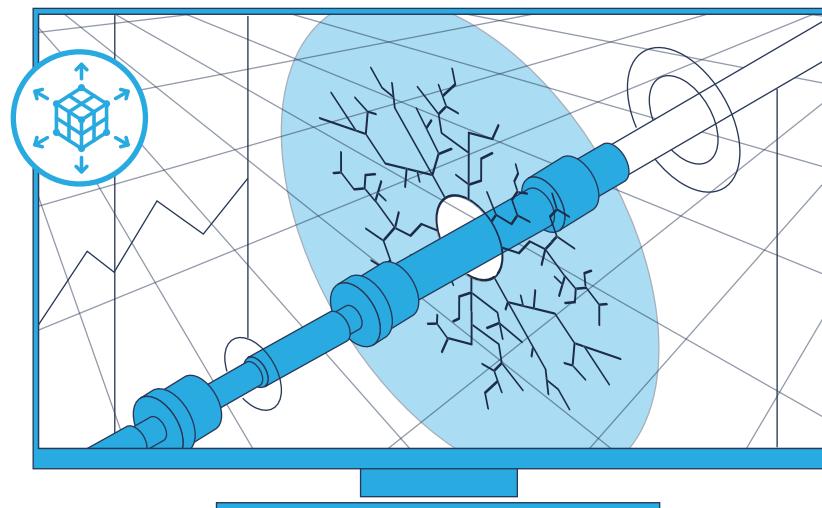
BAZHENOV FORMATION



CYBER-FRACKING 2.0 SIMULATOR

In 2020, the Cyber-Fracking 2.0 simulator, developed by a consortium of the Gazprom Neft Science and Technology Centre, Russian research institutions and HEIs, proved its efficiency at a company field.

The Russian simulator works faster and gives a better representation of fractures than its foreign counterparts. When paired with Gazprom Neft's other digital tools, the Cyber-Fracking 2.0 simulator will significantly increase the efficiency of oil production from low-permeability reservoirs.

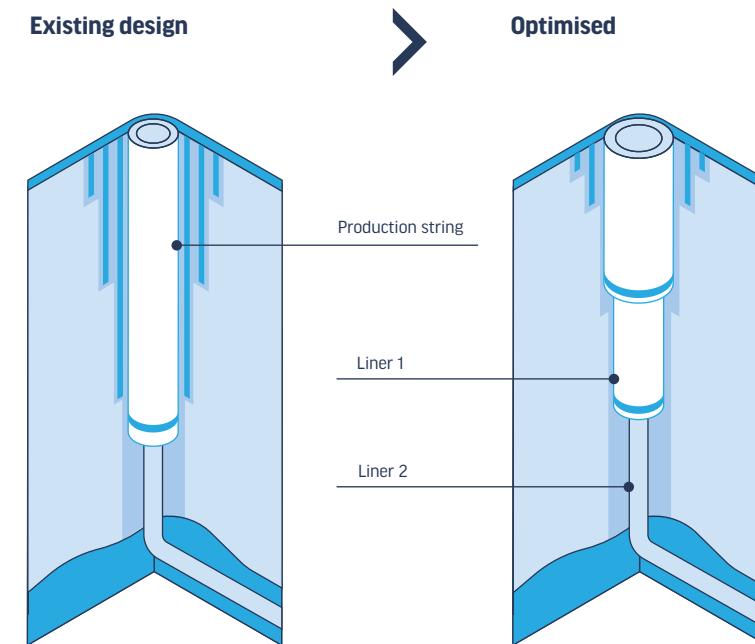


OPTIMISED WELL DESIGN AT THE PRIOSKHOYE FIELD

The company decided to roll out the results of the Optimised Well Design at the Priobskoye Field project.

The purpose of the project, run by Gazpromneft-Khantos and Gazprom Neft Science and Technology Centre, was to boost the economic efficiency of horizontal well drilling and reduce drilling times.

The technology is scheduled for commercial rollout at the Priobskoye field and the Alexander Zhagrin field in 2021.



TECHNOLOGIES AND EQUIPMENT FOR OPERATIONS ON THE CONTINENTAL SHELF

Partnerships with Russian developers create powerful technologies and equipment for operations on the continental shelf.

Just one example of these developments is a dispersant to clean up oil spills in ice-covered areas, an unmatched solution in Russia.

The new dispersant is much cheaper than its foreign counterparts and is more efficient in arctic conditions.

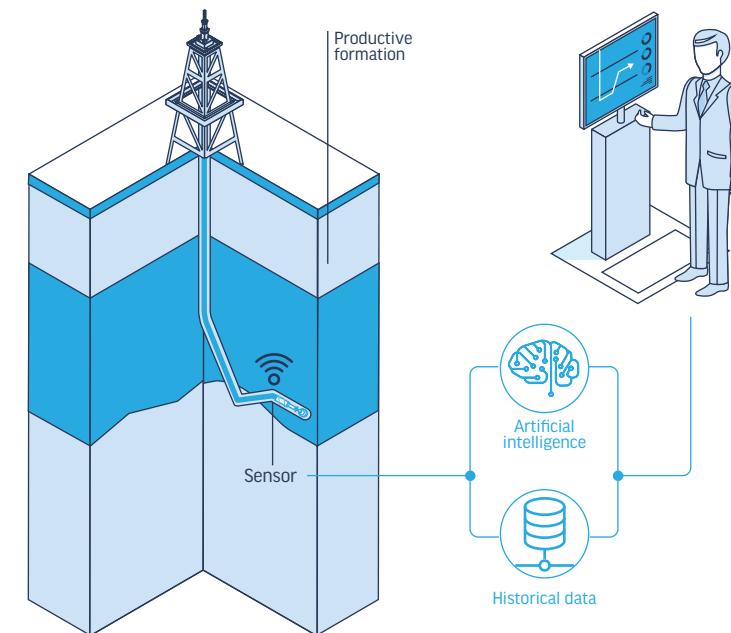


DIGITAL DRILLING RIG TESTING

Gazpromneft-Noyabrskneftegaz successfully tested a digital drilling rig, performing some operations without human intervention.

The test showed a 17.5% reduction in advanced well construction time against standard time, with the cost of daily-rate services down by 8%.

Automation has improved drilling safety.



R&D in oil refining

The company conducts research in collaboration with leading universities, academic institutions and technology companies from various Russian regions.

Focus areas

Increasing oil conversion rate

Improving the environmental performance and efficiency of operations

Developing new processes and products, including catalysts for use at company refineries and for sale to external consumers

Higher local content in procurement is on the list of Gazprom Neft's priorities, with the company both implementing solutions available in the market and supporting the development of new products. A substantial number of import-substitution projects are run by partner companies.

The testing of BURINTEKH's RUS-GM-195 rig was a good example of import substitution in 2020. This import-substituting product drilled a directional interval with a length of more than 1,900 m at the Yuzhno-Priobskoye field. The technology called for unique scientific solutions, from the selection of ultra-reliable materials to prototyping and testing in real conditions.

Institute for Initiatives in Oil and Gas Technologies

Gazprom Neft, SIBUR Holding and TATNEFT founded the Institute for Initiatives in Oil and Gas Technologies autonomous non-profit organisation (ANO) in 2020, in order to provide systematic support for import substitution and realise the export

potential of Russian solutions. The organisation was created to harmonise the efforts of Russian and foreign oil and gas companies to develop and approve uniform industry standards for use in engineering, design, procurement and the

evaluation of potential contractors. The Russian companies Transneft and LUKOIL, as well as the foreign partners Uzbekneftegaz and ADNOC, have already joined the organisation as observers.

Student associations

In 2020, in order to move from import substitution to import outstripping, Gazprom Neft supported the establishment of energy clubs – student associations to provide career guidance and support for new, high-tech projects – in five leading St Petersburg-based universities (Peter the Great St Petersburg Polytechnic University, ITMO University,

Saint Petersburg State University of Aerospace Instrumentation, Saint Petersburg Electrotechnical University, State Marine Technical University). An inter-university accelerator was launched for these energy clubs, with 15 student projects joining the programme in an attempt to address the technology challenges faced by the company.

15 student projects joined the programme

Developing innovative technologies

The company developed and patented an efficient needle coke production technology, which received Gazprom's Science and Technology Prize in 2020. Rospatent (Federal Service for Intellectual Property) named Gazprom Neft's needle coke technology one of the top 10 Russian inventions of 2020. Cracking catalysts have been developed to process heavy feedstocks and increase olefin yield. The company launched commercial supplies of a new grade of cracking catalysts to Slavneft-YANOS refinery. The Omsk Refinery was able to produce Euro-5 diesel fuel with a hydrotreatment catalyst patented by the company, with catalytic activity on par with the best international counterparts. A reforming catalyst was rolled out at the Moscow Refinery, with Gazprom Neft planning to license its production technology to external consumers.

A Rospatent

TOP 10 Russian invention in 2020



The illustration is an artistic visualization of work processes.
The photographs used in the illustration were taken during
the pre-pandemic period.



Letter from the Chairman of the Board of Directors, Gazprom Neft PJSC

Dear shareholders and investors,

Gazprom Neft encountered unprecedented challenges in 2020, all relating to the COVID-19 pandemic. These new realities required the Board of Directors to take decisions fast, with a multitude of internal and external factors being taken into account. All of which served, ultimately, to confirm the effectiveness and reliability of the company's corporate governance system.

Strategic development, risk management, production and operational continuity planning, and identifying new opportunities for effective business development were all front of mind for the Board of Directors. Areas of critical importance in implementing the company's long-term business strategy were analysed and assessed. These included developing joint projects with partners; programmes for implementing Arctic and offshore projects – including under long-term risk-operatorship agreements; the refinery modernisation programme; developing the company's own retail network and product lines; and further reducing environmental impacts.

The ongoing digital transformation of the business, and the deployment of cutting-edge digital tools, has allowed cooperation between various Gazprom Neft's corporate governance bodies, shareholders and investors to be managed entirely remotely. On that basis, the 2020 General Meeting of Shareholders was held successfully under absentee voting, with shareholders being given access to digital services allowing them to view all materials, and to vote.

The company adopted a new dividend policy in this financial year, setting a target dividend distribution of at least 50% of net profit (IFRS). Changes were made to the company's financial and operational oversight bodies: the company's well developed risk management and internal control systems, internal audit service and Board of Directors' Audit Committee meant we were able to dispense with the company's Audit Commission. Updated versions of key internal regulations were adopted by the Extraordinary General Meeting of Shareholders, including the company Charter, as well as regulations governing General Meetings of Shareholders, the Board of Directors, the Management Board, and the Chief Executive Officer (CEO). The company's Corporate Governance Code was also updated.

High standards in disclosing corporate information, the attention paid to environmental, social and corporate governance (ESG) goals, and the quality of the company's corporate governance were all highly praised by experts, with Gazprom Neft named Russia's most transparent company in the 2020 Interfax/AK&M ratings agencies' corporate disclosure awards.

2020's unprecedented challenges notwithstanding, Gazprom Neft's oversight bodies continued to prove their high effectiveness – one of the key factors driving the company's success in further sustainable development.

≥ 50%
**of net profit (IFRS) –
target dividend
payout**

No. 1
**for information
transparency
according to ratings
agencies Interfax
and AK&M**

ALEXEY MILLER
Chairman of the Board
of Directors,
Gazprom Neft PJSC

A handwritten signature in blue ink, appearing to read "Алексей Миллер". It is positioned next to a small blue square containing two white double quotes ("").

Company profile

Strategic report

Performance review

Technological development

Governance system

Sustainable development

Appendices

Overview of corporate governance practices

Gazprom Neft's corporate governance framework encompasses all the key elements typical of public companies with established governance structures and is fully aligned with the applicable statutory requirements and Listing Rules of the Moscow Exchange. This helps the company to give its shareholders and investors sufficient confidence in the consistency of its strategy, business continuity and its sustainability.

We ensure business continuity throughout Gazprom Neft Group through planning, risk analysis, development of recommendations, fast response and control across all management levels.

The components of Gazprom Neft's corporate governance system

| | | | |
|--------------------|------------------------|---------------------------|---|
| Shareholder rights | Governance and control | Disclosure of information | Sustainable development and social responsibility |
|--------------------|------------------------|---------------------------|---|

Each of the components contains a set of criteria reflecting the corporate governance policies, procedures and bodies as defined by the requirements of the legislation of the Russian Federation, Listing Rules of Moscow Exchange, recommendations of the Russian Corporate Governance Code, as well as international best practices in corporate governance.

Corporate governance in Gazprom Neft is characterised by the fact that the company has a single majority shareholder, Gazprom PJSC, which owns 95.68% of company shares. The remaining shares are held by minority shareholders, which include both individuals and legal entities, which altogether represents the balance of power between various stakeholders involved in corporate relations.

95.68%
of shares owned
by Gazprom PJSC

Email address for shareholder communications:
shareholders@gazprom-neft.ru


The Shareholder's Account service

Compliance with principles of the Corporate Governance Code¹ in 2020

| Section | Principles recommended by the Corporate Governance Code | Principles fully complied with | Principles partially complied with | Principles not complied with |
|---|---|--------------------------------|------------------------------------|------------------------------|
| Rights of shareholders and equal conditions for shareholders in exercising their rights | 13 | 13 | 0 | 0 |
| Board of Directors – competency; committees – independence | 36 | 22 | 10 | 4 |
| Corporate Secretary | 2 | 2 | 0 | 0 |
| Remuneration of directors, members of executive bodies and other key officers | 10 | 8 | 0 | 2 |
| Risk management and internal control | 6 | 6 | 0 | 0 |
| Disclosures and information policy | 7 | 6 | 1 | 0 |
| Material corporate actions | 5 | 3 | 1 | 1 |
| TOTAL | 79 | 60 | 12 | 7 |

Report on compliance with the Corporate Governance Code is presented in Appendix 7, p. 392.

¹ – Based on Report on the compliance with the principles and recommendations of the Corporate Governance Code as recommended by the Bank of Russia in its Information Letter No. IN-06-52/8 dated 17 February 2016.

COVID-19: response initiatives

Gazprom Neft's tens of thousands of employees continued working, without interruption, throughout 2020 – making sure the country's economy, as well as day-to-day life in the country's cities, didn't grind to a halt. New coordinating bodies were established throughout the company, including operational HQs covering Health, Production and Finance, and two corporate programmes – on Regions and Communications – put in place.

Even before the full risks of COVID-19 had become clear, Gazprom Neft had established a medical unit to protect employees' health throughout its offices and plants, and to look after shift workers at remote oilfields in Russia and abroad. This was staffed by experienced medical professionals, together with medical and emergency response teams at all company production facilities.

Thanks to the swift implementation of these initiatives shift handovers are being handled safely at Gazprom Neft fields, production remains ongoing at all plants, every day, and cars are being refuelled at service stations, round the clock.

Anti-viral infrastructure has been put in place at all company offices, including remote temperature testing at office entrances, anti-bacterial air-recirculation systems, and antiseptics in all workspaces. Offices have been equipped with the latest anti-virus protection systems, including integrated ventilation purification systems and air-disinfection equipment (including disinfection robots). Social distancing – of at least 1.5 metres – is in place throughout all work spaces, and employees are being issued with fresh protective masks and gloves daily. Staff temperature checks, and ongoing disinfection of all premises and surfaces, remain ongoing throughout the working day.

 Read more about Gazprom Neft's response to COVID-19 on page 28

A | N | T | I | V | I | R | U | S
GAZPROM NEFT'S ANTI-COVID-19 PROGRAMME

Role of the Corporate Centre in improving subsidiary management

The Corporate Centre of the Gazprom Neft Group is Gazprom Neft PJSC, which ensures effective control over all processes. As at 31 December 2020, the corporate structure of Gazprom Neft comprised 152 legal entities in Russia and abroad.

Gazprom Neft PJSC is the parent company with respect to the Gazprom Neft Group's subsidiaries regardless of the structure of their charter capital, as duly recorded in the charters of Gazprom Neft Group's respective subsidiaries.

Efficient corporate governance and control over subsidiaries' activities are achieved by, among other things, submitting key issues in subsidiaries' activities for consideration by Gazprom Neft PJSC's governing bodies.

The company has developed and approved procedures that allow it – under the Corporate Centre's guidance – to efficiently coordinate and control subsidiary operations as part of the company's Development Strategy.

Commitment to Better Corporate Governance

Updated versions of internal regulations were approved by the Extraordinary General Meeting of Shareholders on 18 December 2020, including:

- the Company Charter;
- regulation governing the General Meetings of Shareholders;
- regulation governing the Board of Directors;
- regulation governing the Management Board;
- regulation governing the Chief Executive Officer; and
- the Corporate Governance Code.

The main changes are related to the abolition of the company's Audit Commission and strengthening the role of the Board of Directors in executing internal control and risk management. The updated versions of the said internal regulations were brought into compliance with the current legislation and the company's corporate governance practices.

In the reporting year, the Board of Directors approved the Internal Control and Risk Management

152 legal entities form part of Gazprom Neft PJSC

 The structure of the Gazprom Neft Group is shown in Appendix 3, p. 367

the list of participants and main components of a risk-management and internal-control system.

At the end of 2020, the Board of Directors approved a new version of the company's Regulation on Dividend Policy, according to which the target level of dividend payments is set at no less than 50% of IFRS net profit.

In the reporting year, a new Policy on Remuneration and Compensation of Expenses of Members of the Board of Directors was approved. The new edition replaced the 2010 edition, which no longer complied with the current legislation and the Corporate Governance Code. The Policy on Remuneration and Compensation of Expenses of Members

of the Board of Directors stipulates that remuneration for a member of the Board of Directors depends on the company's financial performance indicators, years in office, participation in meetings, and performance of additional duties.

In constantly improving its corporate governance framework, the company closely monitors the development of corporate laws and practices, both in Russia and globally.

Areas for developing corporate governance practices

Shareholder rights: key development areas

- providing the opportunity for participation of shareholders in general meetings of shareholders remotely, using IT technologies;
- continuation of initiatives for improving interaction with shareholders on the issues of updating the shareholder register, expanding functionality of the Shareholder's Account service, creating additional opportunities for registered shareholders to sell the company shares.

Governance and control bodies: key development areas

- management of ESG risks by the Board of Directors;
- review of sustainability reports by the Board of Directors on an annual basis;
- further improvement of individual procedures for organising work of management bodies;
- automation of control of corporate processes.

Disclosure of information: key development areas

- automation of information transfer and approval processes: from an event's initial occurrence through to its final disclosure in the securities market;
- updating the Gazprom Neft PJSC Information Policy as regards voluntary and mandatory disclosure of information;
- organisation of the company's disclosure process in accordance with new legislation requirements;
- updating internal regulation on disclosure of insider information.

Corporate social responsibility and sustainable development: key development areas

- increasing the level of integration of the ESG agenda into the company's activities and the quality of compliance with respective practices;
- integration of ESG factors into the long-term strategy.

Corporate governance framework

Gazprom Neft's corporate governance framework is based on the principles of retaining and multiplying assets, increasing market value, maintaining the company's financial stability and profitability, and respecting the rights and interests of shareholders and other stakeholders.

A highly professional management team and an effective system of corporate governance and control are prerequisites for the successful management of a complex multi-tiered vertically integrated oil company with domestic and foreign upstream and downstream assets. The company has a clear and well-defined organisational structure that ensures seamless interaction between its governance bodies and distribution of governance and control roles,

which guarantees progressive growth of shareholder value in the long run.

Information openness and transparency of financial information in conjunction with safeguarding the company's interests in protecting its trade secrets and other confidential information play a significant role in Gazprom Neft's corporate governance system.

The most important channels for disseminating information available to the largest number of the company stakeholders is Gazprom Neft's official website (<http://www.gazprom-neft.com/>), the company's annual and sustainability reports, as well as a dedicated IR section of the company website (<http://ir.gazprom-neft.com/>). These resources contain the latest company news,

its financial and operating data, financial statements and other useful information about the company's operations, as well as documents regulating the activities of Gazprom Neft governance and control bodies, such as the Charter, Regulation on the General Meeting of Shareholders, Regulation Governing the Board of Directors, Regulation on the Management Board, Regulation on the Chief Executive Officer, and Regulation on the Audit Commission (see the Documents section of the company website).

Adhering to the principle of equal accessibility of information to all stakeholders, Gazprom Neft publishes information on its official website both in Russian and in English.

Information openness and transparency of financial information in conjunction with safeguarding the company's interests in protecting its trade secrets and other confidential information play a significant role in Gazprom Neft's corporate governance system.



Gazprom Neft website



Internal regulations and policies

Gazprom Neft's governance and control bodies

THE GENERAL MEETING OF SHAREHOLDERS

The supreme governing body, responsible for addressing the most significant matters of the company's operations

AUDIT COMMISSION (disbanded 18 December 2020)

Elected body exercising control over financial and business operations of the company

Autolykhezhka i Etatnoye upravleniye 18 dekabrya 2020 goda

BOARD OF DIRECTORS

Responsible for the overall conduct of the company's business; defines the company's strategy, policy and key operating principles. Accountable to the General Meeting of Shareholders and acts in the best interests of all shareholders

EXTERNAL AUDITOR

The external auditor is a professional audit organisation approved by the General Meeting of Shareholders based on recommendations from the Board of Directors issued following an assessment by the Audit Committee. The external auditor performs an independent review of the company's financial and business operations

REMUNERATION COMMITTEE

Evaluates the effectiveness of the company's human resources policy and remuneration system; sets criteria for selecting candidates to the Board of Directors; and assesses the performance of the Board of Directors

AUDIT COMMITTEE

Ensures control over the company's financial and economic activities; elected by the Board of Directors and acts on the basis of the Charter and internal regulations

INTERNAL AUDIT AND RISK MANAGEMENT DIRECTORATE

Provides independent, unbiased, reasonable and substantiated guarantees and consultations to the Board of Directors (through the Audit Committee) and the company management (the CEO and the Management Board) designed to improve the company's performance. The Internal Audit and Risk Management Directorate contributes to achieving the company's goals by advocating a systematic and consistent approach to assessing and enhancing the efficiency of corporate governance, risk management and internal control processes

EXECUTIVE BODIES

Executive bodies manage the Company's ongoing operations and are held accountable to the General Meeting of Shareholders and the Board of Directors

MANAGEMENT BOARD

CHIEF EXECUTIVE OFFICER

SECRETARY TO THE BOARD OF DIRECTORS

→ Election, setup

→ Accountability

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The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body responsible for addressing the most significant aspects of the company's activities.

The procedure for convening and holding the General Meeting of Shareholders is governed by Regulations on the General Meeting of Shareholders of Gazprom Neft PJSC.

General Meetings of Shareholders of Gazprom Neft in 2020

ANNUAL GENERAL MEETING OF SHAREHOLDERS

11 June 2020

The total number of persons included in the list of those entitled to attend the Annual General Meeting of Shareholders was 101,154 (including 628 legal entities and 100,524 individuals). Quorum of the Annual General Meeting of Shareholders: 99.9996%



Materials presented at the Annual General Meeting of Shareholders

The company's 2020 annual report and accounting statements were approved.

Gazprom Neft's shareholders supported the recommendation of the Board of Directors for dividend payment in total amount of ₽179.98 billion (₽37.96 per ordinary share), amounting to 45% of the company's FY2019 consolidated net profit (IFRS). Limited Liability Company Financial and Accounting Consultants (FBK LLC) was approved as auditors of Gazprom Neft for 2020. The shareholders also reviewed several other items on the agenda of the Annual General Meeting of Shareholders:

- new members of the Board of Directors and the Audit Commission were elected;
- remuneration of the Board of Directors and the Audit Commission was approved.

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

18 December 2020

The total number of persons included in the list of those entitled to attend the Extraordinary General Meeting of Shareholders was 137,104 (including 434 legal entities and 136,669 individuals). Quorum of the Annual General Meeting of Shareholders: 99.9986%



Materials presented at the Extraordinary General Meeting of Shareholders

It was resolved to pay interim dividends for the first nine months of 2020 in the amount of ₽86.01 billion (₽5 per ordinary share), which amounts to 50% of the company's consolidated net profit (IFRS) in that period.

Shareholders approved new versions of the following internal company regulations: the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Chief Executive Officer, Regulation on the Management Board, and the Corporate Governance Code. The Regulation on the Audit Commission of Gazprom-Neft PJSC was declared obsolete. Changes in these documents were made due to the abolition of the Audit Commission, as well as concurrent revision of internal regulation being brought in line with the current legislation.

The Board of Directors

The Board of Directors is responsible for the company's strategic management, determining key principles and approaches to risk management and internal controls, oversight of the company's executive bodies, as well as other key functions.



Regulation on the General Meeting of Shareholders of Gazprom Neft PJSC

The remit of the Board of Directors is set out in the Gazprom Neft Charter and is clearly segregated from the remit of executive bodies responsible for managing the company's ongoing operations.



Regulation on the Board of Directors of Gazprom Neft PJSC

Role of the Board

- Consideration and establishment of development strategy directed at increasing the company's market capitalisation and attractiveness as an investment, maximising profit and expanding the company's asset portfolio.
 - Putting in place efficient executive bodies and ensuring oversight of their performance. The Board of Directors monitors performance of executive bodies and reviews reports on the implementation of the Strategy and business plans on a regular basis. The remit of the Board of Directors also includes election, termination of powers, and incentivisation (motivation) of executive bodies.
 - Implementation and protection of the rights and lawful interests of shareholders, as well as assistance in resolving corporate conflicts.
 - Establishment of efficient internal-control mechanisms. The Board of Directors ensures the functioning of the risk management and internal control framework and is responsible for managing key risks that affect the achievement of the company's strategic objectives.
 - Exercising oversight of the company's corporate governance practices, determining responsibilities of governance bodies and assessing performance of their functions and responsibilities. The Board of Directors monitors the development of the company's corporate governance framework and practices, and initiates evaluations of the latter.
 - Ensuring transparency, timely and complete disclosure of information by the company, and free access to the company's documents by shareholders and other interested parties.
 - In view of the strategic importance of tasks vested with the Board of Directors, it is essential that the make-up of the Board of Directors enjoys the confidence of shareholders and ensures the most effective performance of its role.
- Key responsibilities of the Chairman of the Board of Directors are established in the Charter, Regulation on the Board of Directors and the Corporate Governance Code, and include:
- managing the work of the Board of Directors;
 - promoting an open discussion of agenda items and ensuring thoughtful consideration of all opinions expressed by members of the Board of Directors;
- The Board of Directors' scope of authority, its operating principles and existing corporate procedures make it possible to adopt resolutions on a substantial number of issues by a simple majority of votes of members of the Board of Directors. The Chairman of the Board of Directors, nonetheless, takes into account opinions of each Board member and ensures that consensus on key items is reached.
- Alexey Miller, a non-executive director, was the Chairman of the Board of Directors throughout 2020. He was not on any of the Board's committees during that period. In the company's view, the concurrent participation of the Chairman of the Board of Directors Alexey Miller in the work of boards of directors of other companies, and his role of Chairman

of the Management Board of Gazprom PJSC, did not affect the efficiency of his performance

in managing the Board of Directors of Gazprom Neft PJSC.

Composition of the Board of Directors

The composition of the company's Board of Directors is set to comprise 13 people following the decision of the Extraordinary General Meeting of Shareholders of 1 August 2019. The structure of shareholders' equity (95.68% of the total number of company's ordinary shares held by Gazprom PJSC) means that the overwhelming majority of members of Gazprom Neft's Board of Directors are elected upon the recommendation of the company's majority shareholder, Gazprom PJSC.

The make-up of the Board of Directors is balanced in terms of its members having the key skills required for the effective work of the Board of Directors.

The current composition of the Board of Directors ensures sufficient independence from the company's management and enables effective control over its performance. Gazprom Neft has put in place a transparent procedure for electing directors, including the following:

- The company offers its shareholders a two-month period in which to propose nominees to the Board of Directors (one month is suggested under Russian law);
- The Remuneration Committee reviews shareholders' proposals for election to the Board of Directors, evaluates candidates and presents recommendations to the Board of Directors on the inclusion of proposed candidates on the list for election

to the company's Board of Directors;

- information on candidates for appointment to the Board of Directors shall be communicated to interested parties immediately after drawing up minutes of the meeting of the Board of Directors at which the matter was considered. This is done by publishing a material event statement. Full information on the candidates shall be subsequently posted on the company's website in Russian and English 30 days ahead of a General Meeting of Shareholders, the agenda of which includes the subject of electing the Board of Directors;

- in electing members of the Board of Directors, the company uses the principle of cumulative voting and provides clarifications on its procedure;
- The company announces vote results, indicating the quorum and votes cast for each voting option;
- The company publishes resolutions adopted by the General Meeting of Shareholders on Gazprom Neft's corporate website.

All members of the Board of Directors are highly skilled professionals with significant work experience, and perform their duties in close collaboration with the company's management team, business units, registrar and auditors.

The Board of Directors' scope of authority, its operating principles and existing corporate procedures make it possible to adopt resolutions on a substantial number of issues by a simple majority of votes of members of the Board of Directors.

The company's Board of Directors is composed of

13 people

Members of the Board of Directors have skills in strategic management, corporate governance, corporate finance, risk management, accounting, and other areas specific to the company's business.

Key competencies of Gazprom Neft's Board of Directors

| Board member | Tenure on the board | Key competencies | | | | |
|------------------|-----------------------------|------------------|-------------------|-------------|------------------------------|-----------------|
| | | Strategy | Finance and audit | Oil and gas | Law and corporate governance | Risk management |
| Alexey Miller | since October 2005 | + | + | + | | + |
| Sergei Kuznets | since September 2019 | | | + | + | |
| Famil Sadygov | since September 2019 | | + | | + | |
| Vitaly Markelov | since September 2019 | + | + | + | | + |
| Sergei Menshikov | since September 2019 | | + | + | + | + |
| Alexey Medvedev | since June 2019 | + | + | + | | + |
| Kirill Seleznev | since October 2005 | + | + | + | | + |
| Elena Mikhailova | since June 2012 | + | | + | | |
| Alexander Dyukov | since November 2007 | + | + | + | | + |
| Vladimir Alisov | since June 2009 | | | | + | |
| Mikhail Sereda | since December 2013 | | + | | + | |
| Valery Serdyukov | since December 2012 | | | | | + |
| Gennady Sukhov | since June 2020 | + | + | | + | |
| Andrey Dmitriev | from June 2018 to June 2020 | + | + | + | | |

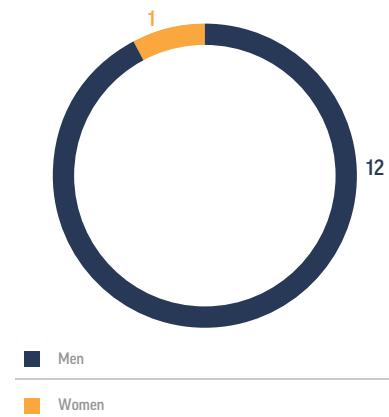
Board age diversity

| Name | Age (as at end of the reporting period) | Board composition from 1 January 2020 to 10 June 2020 | Board composition from 11 June 2020 to 31 December 2020 |
|------------------|---|---|---|
| Alexey Miller | 58 | NON-EXECUTIVE DIRECTORS | |
| Sergei Kuznets | 50 | Alexey Miller | Alexey Miller |
| Famil Sadygov | 52 | Vitaly Markelov | Vitaly Markelov |
| Vitaly Markelov | 57 | Famil Sadygov | Famil Sadygov |
| Sergei Menshikov | 52 | Sergei Kuznets | Sergei Kuznets |
| Alexey Medvedev | 65 | Kirill Seleznev | Kirill Seleznev |
| Kirill Seleznev | 46 | Vladimir Alisov | Vladimir Alisov |
| Elena Mikhailova | 43 | Sergei Menshikov | Sergei Menshikov |
| Alexander Dyukov | 53 | Mikhail Sereda | Mikhail Sereda |
| Vladimir Alisov | 60 | Elena Mikhailova | Elena Mikhailova |
| Mikhail Sereda | 50 | Alexey Medvedev | Alexey Medvedev |
| Valery Serdyukov | 75 | Andrey Dmitriev | Gennady Sukhov |
| Gennady Sukhov | 59 | Valery Serdyukov | Valery Serdyukov |

The composition of the Board of Directors is well-balanced in terms of age, with 85% of its members being between 40 and 60 years old.

The number of members of the board meets the company's current goals, objectives, and industry practices in an optimum way, and ensures the necessary balance of competencies in the boardroom.

Simultaneous participation of directors on other companies' boards did not affect the efficiency of their performance on Gazprom Neft's board.

Board gender diversity**Composition of the Board of Directors in 2020**

| Category | Director | Board composition from 1 January 2020 to 10 June 2020 | Board composition from 11 June 2020 to 31 December 2020 |
|--|------------------|---|---|
| NON-EXECUTIVE DIRECTORS | | | |
| Alexey Miller | Alexey Miller | Alexey Miller | Alexey Miller |
| Vitaly Markelov | Vitaly Markelov | Vitaly Markelov | Vitaly Markelov |
| Famil Sadygov | Famil Sadygov | Famil Sadygov | Famil Sadygov |
| Sergei Menshikov | Sergei Menshikov | Sergei Menshikov | Sergei Menshikov |
| Alexey Medvedev | Kirill Seleznev | Kirill Seleznev | Kirill Seleznev |
| Kirill Seleznev | Vladimir Alisov | Vladimir Alisov | Vladimir Alisov |
| Elena Mikhailova | Sergei Menshikov | Sergei Menshikov | Sergei Menshikov |
| Alexander Dyukov | Mikhail Sereda | Mikhail Sereda | Mikhail Sereda |
| Vladimir Alisov | Elena Mikhailova | Elena Mikhailova | Elena Mikhailova |
| Mikhail Sereda | Alexey Medvedev | Alexey Medvedev | Alexey Medvedev |
| Valery Serdyukov | Andrey Dmitriev | Andrey Dmitriev | Gennady Sukhov |
| Gennady Sukhov | Valery Serdyukov | Valery Serdyukov | Valery Serdyukov |
| EXECUTIVE DIRECTOR | Alexander Dyukov | Alexander Dyukov | Alexander Dyukov |
| INDEPENDENT DIRECTORS¹ | — | — | — |

¹ — The independence criteria used by Gazprom Neft are based on recommendations of the Corporate Governance Code of the Central Bank of the Russian Federation (Bank of Russia).

Board composition as at 31 December 2020

Born in 1962.

Graduated from the N.A. Voznesensky Leningrad Financial-Economic Institute; since 2001: Chairman of the Management Committee, Gazprom PJSC; since 2002: Deputy Chairman of the Board of Directors, Gazprom PJSC; PhD in Economics

Roles in other organisations:

- since 2003: Chairman and member of the Board of Directors, Gazprombank;
- since 2003: Chairman and member of the Board of Directors, SOGAZ;
- since 2007: member and Chairman of the Board of Directors, Gazprom-Media Holding;
- since 2012: member and Chairman of the Board of Directors, Joint Stock Company Russian Racecourses;
- since 2012: member of the Board of Trustees, Graduate School of Management of St Petersburg State University;
- since 2012: member of the Board of Trustees, Russian Geographical Society;
- since 2012: member of the Board of Trustees, Charity Fund for restoration of New Jerusalem Monastery of Resurrection;
- since 2012: member of the Board of Trustees, Association of Lawyers of Russia;
- since 2012: member of the Management Bureau, Russian Union of Industrialists and Entrepreneurs (an all-Russian union of employers);
- since 2012: member of the Management Bureau, Russian Union of Industrialists and Entrepreneurs (an all-Russian public organisation);
- since 2012: First Deputy Chairman of the Board of Trustees, Russian Cycling Federation;
- since 2013: member of the Supervisory Board, Global Energy Association (international research and energy projects);
- since 2013: President and Chairman of the Management Board, Association of Equipment Manufacturers "The New Gas Industry Technology";
- since 2013: member of the Board of Trustees, Lomonosov Moscow State University;
- since 2013: member of the Board of Trustees, the Moscow City Church Construction Support Foundation;
- since 2013: member of the Supervisory Board, Russian Volleyball Federation;
- since 2014: Chairman of the Board of Trustees, St Petersburg State University of Economics;
- since 2016: President and Chairman of Presidium, International Business Congress (IBC) e.V.;
- since 2017: member of the Board of Trustees, HSE University;
- since 2017: member of the Board of Trustees, Foundation for support and development in the field of paediatric haematology, oncology and immunology "Science for Children" (formerly Doctors, Innovations and Science for Children Foundation (paediatric haematology, oncology and immunology research));
- since 2018: member of the Board of Trustees, Fund for the Conservation and Development of the Solovetsky Archipelago;
- since 2018: member of the Presidential Council for the Development of Physical Culture and Sport;
- since 2018: member and Chairman of the Board of Directors, Private Pension Fund GAZFOND;
- since 2019: member of the Board of Trustees, National Intellectual Development Foundation;
- since 2019: Chairman of the Board of Trustees, Alexandrinsky Theatre; and
- since 2020: member of the Board of Trustees, Tsarskoe Selo state museum and heritage site.



MILLER

ALEXEY BORISOVICH

Chairman of the Board of Directors

Shareholding (as at 31 December 2020)

none

Born in 1974.

Graduated from D.F. Ustinov Baltic State Technical University and St Petersburg State University. PhD in Economics

Roles in other organisations:

- since 2006: member and Chairman of the Council, Latvijas Gāze;
- since 2006: member of the Board of Directors, FC Zenit;
- since 2006: member of the Supervisory Board, KazRosGas;
- since 2011: member of the Board of Directors, Rossiya Bank;
- since 2013: member of the Supervisory Board, Russian Regional Development Bank;
- since 2017: member of the Board of Directors, RusGazAlliance;
- since 2018: member of the Board of Directors, RusKhimAlyans; and
- since 2019: director general, RusKhimAlyans.



**SELEZNEV,
KIRILL GENNADIEVICH**

Shareholding (as at 31 December 2020)

none

Born in 1968.

Graduated from S. Ordzhonikidze State Academy of Management (Moscow). since 2019: member and Deputy Chairman of the Management Committee, Gazprom PJSC; PhD in Economics

Roles in other organisations:

- since 2019: member of the Board of Directors, Gazprombank;
- since 2019: member of the Board of Directors, Private Pension Fund GAZFOND;
- since 2019: member of Presidium, Chairman of the Law, Banking and Finance Working Committee, International Business Congress (IBC) e. V.;
- since 2019: Chairman of the Board of Directors, Belgazprombank;
- since 2019: member of the Board of Directors, SOGAZ;
- since 2019: member of Advisory Board, GAZPROM Germania GmbH;
- since 2019: member and Chairman of the Supervisory Board, Gazprom EP International BV;
- since 2019: member and Deputy Chairman of the Board of Directors, Gazprom Gas-Engine Fuel LLC.



**SADGOV
FAMIL KAMIL OGLY**
Member of the Audit Committee

Shareholding (as at 31 December 2020)

none

Company profile

Strategic report

Performance review

Technological development

Governance system

Sustainable development

Appendices

Born in 1967.

Graduated from the Leningrad Shipbuilding Institute.
Holds an MBA degree from IMISP (2001).
2003-2006: President, SIBUR.
2006: CEO, SIBUR.
from 2006: President of Gazprom Neft PJSC. Since December 2007: Chairman of the Management Board and CEO, Gazprom Neft PJSC.

Roles in other organisations:

- since 2005: Deputy Chairman of the Board of Directors, SIBUR Holding;
- since 2007: member of the Supervisory Board, Union of Oil and Gas Producers of Russia, Russian Gas Society;
- since 2008: member of the Supervisory Board, St Petersburg Mining University (a federal state budget-funded higher educational institution);
- since 2010: member of the Board of Directors, SKA Ice Hockey Club;
- since 2010: member of the Board of Trustees, Russian Geographical Society;
- since 2012: member of the Board of Directors, Hockey City LLC;
- since 2013: member of the Board of Directors, Russian Union of Industrialists and Entrepreneurs (RSPP, an all-Russian public organisation), and member of the Bureau of the RSPP Board, Chairman of the Committee on Industrial Security, and Co-Chair of the Commission on the Oil and Gas Industry;
- since 2014: member of the Board of Trustees, Russian Chess Federation;
- since 2015: member of the Board of Trustees, National Intellectual Development Foundation;
- since 2015: member of the Board of Trustees, the I.M. Gubkin National University of Oil and Gas;
- since 2018: member of the Board of Trustees, Lomonosov Moscow State University Gymnasium (boarding school);
- since 2019: member of the Presidential Council for the Development of Physical Culture and Sport;
- since 2019: President, Football Union of Russia;
- since 2020: member of the Government Commission on Digital Development, the Use of Information Technologies for Improving Quality of Life and Conditions for Doing Business;
- since 2020: member of the Council of the International Fund 'Public Interest Foundation'; and
- since 2020: member of the State Committee for Natural Resources Management and Environmental Protection.



DYUKOV
ALEXANDER VALERIEVICH

Shareholding (as at 31 December 2020)

0.005357244% (254,003 shares)

Born in 1977.

Graduated in law from Moscow State Industrial University; obtained an MBA at the Russian Presidential Academy of National Economy and Public Administration.
since 2011: head of department, Gazprom PJSC, oversees property management and corporate relations.
since 2012: member of the Management Committee, Gazprom PJSC.

Roles in other organisations:

- since 2012: member and Chairman of the Board of Directors, Mosenergo;
- since 2012: member of the Board of Directors, Severneftegazprom;
- since 2012: member of the Board of Directors, Lider CJSC;
- since 2012: member of the Board of Directors, Gazprom Gas-Engine Fuel LLC;
- since 2013: member of the Council, Latvijas Gāze;
- since 2017: member of the Supervisory Board, Autonomous Non-Profit Organisation Volleyball Club Zenit, St Petersburg;
- since 2018: member of the Board of Directors, FC Zenit;
- since 2018: member of the Board of Directors, Private Pension Fund GAZFOND;
- since 2019: Chairman of the Board of Directors, Lazurnaya LLC;
- since 2019: member of the Board of Directors, Vostokgazprom;
- since 2019: member of the Board of Directors, Gazprom dobycha Tomsk.



MIKHAILOVA
ELENA VLADIMIROVNA
Member of the Audit Committee

Shareholding (as at 31 December 2020)

none

Born in 1970.

Graduated from St Petersburg State University of Economics and Finance.
since 2002: member of the Board of Directors, Gazprom PJSC.

Roles in other organisations:

- since 2002: Chairman of the Board of Directors, Gazprom (UK) Limited;
- since 2002: Deputy Chairman of the Board of Directors, Gazprombank;
- since 2002: Chairman of the Board of Directors, Vostokgazprom;
- since 2004: Chairman of the Board of Directors, Gazprom dobycha Tomsk;
- since 2005: Chairman of the Board of Directors, Gazpromtrubinvest;
- since 2007: member of the Board of Directors, Gazprom Space Systems;
- since 2015: President of the Administrative Council, Gazprom Schweiz AG;
- since 2016: member of the Supervisory Board, Gazprom Austria GmbH;
- since 2016: member of Presidium, International Business Congress (IBC) e. V.;
- since 2018: member of the Board of Directors, Panrusgaz;
- since 2019: Chairman of the Advisory Board, Gazprom Germania GmbH;
- since 2020: First Deputy Director General, Gazprom Export; and
- since 2020: Director General, Gazprom Trading.



SEREDA,
MIKHAIL LEONIDOVICH
Chairman of the Audit Committee

Shareholding (as at 31 December 2020)

none

Born in 1960.

Graduated from Law Department at A.A. Zhdanov Leningrad State University. since 2008: First Deputy Head of Department, Gazprom PJSC, oversees legal matters. In 2010, by Presidential decree, Mr Alisov was awarded the title of Honoured Lawyer of the Russian Federation.

Roles in other organisations:

- since 2007: member of the Board of Directors, Daltransgaz;
- since 2016: member of the Board of Directors, DRAGA JSC;
- since 2018: member of the Supervisory Board, Russia-Belarus joint venture Brestgazapparat OJSC.



ALISOV
VLADIMIR IVANOVICH
Member of the Remuneration Committee

Shareholding (as at 31 December 2020)

none

Born in 1963.

Graduated from the Kuybyshev Aviation Institute. since November 2012: member of the Board of Directors, member and Deputy Chairman of the Management Committee, Gazprom PJSC.

Roles in other organisations:

- since 2014: member of the Board of Directors, Gazprom Space Systems;
- since 2014: member of the Board of Directors, United Shipbuilding Corporation (USC);
- since 2014: President, Pipe Producers Association;
- since 2014: Deputy President and Chairman of the Management Board, Association of equipment manufacturers The New Gas Industry Technology;
- since 2014: member of the Supervisory Board, Wintershall AG;
- since 2014: member of the Board of Directors, Gazprom Kyrgyzstan;
- since 2016: member of the Supervisory Board, Gazprom EP International BV;
- since 2016: member of Presidium, International Business Congress (IBC) e. V.;
- since 2017: Chairman of the Board of Directors, Gazprom Armenia;
- since 2018: Deputy Chairman of the Board of Directors, RusKhimAlyans;
- since 2019: member of the Supervisory Board of I.M. Gubkin Russian State Oil and Gas University;
- since 2019: non-executive director, Sakhalin Energy Investment Company Ltd.;
- since 2019: Chairman of the Board of Directors, Mosenergo;
- since 2019: Chairman of the Board of Directors, TGK-1;
- since 2019: Chairman of the Board of Directors, Gazprom Teploenergo;
- since 2019: Chairman of the Board of Directors, RusGazAlliance;
- since 2019: member of the Supervisory Board, First Vice President, Union of Oil & Gas Producers of Russia, Russian Gas Society;
- since 2019: member of the Supervisory Board, Gazprom Transgaz Belarus; and
- since 2020: member of the Board of Directors, REP Holding.



MARKELOV
VITALY ANATOLIEVICH

Shareholding (as at 31 December 2020)

none

Born in 1945.

Graduated from G.V. Plekhanov Leningrad Mining Institute. 1999–2012: Governor of the Leningrad Oblast. PhD in Economics. Government and industry awards recipient.



SERDYUKOV
VALERY PAVLOVICH
Member of the Remuneration Committee

Shareholding (as at 31 December 2020)

none

Born in 1970.

Graduated from Lomonosov Moscow State University. since April 2019: member of the Management Committee, head of department, Gazprom PJSC.

Roles in other organisations:

- since 2018: member of the Board of Directors, Shtokman Development AG;
- since 2019: member of the Supervisory Board, EuRoPol GAZ s.a.;
- since 2019: member of the Board of Directors, Private Pension Fund GAZFOND;
- since 2019: member of the Supervisory Board, Moldovagaz;
- since 2019: member of the Board of Directors, Gazprom-Media Holding;
- since 2019: member of the Supervisory Board, Gazprom Holding Coöperatie UA;
- since 2019: member of the Board of Directors, South Stream Transport BV;
- since 2019: member of the Board of Directors, Lazurnaya LLC;
- since 2013: member of the Council, Latvijas Gāze;
- since 2019: member of the Board of Directors, REP Holding;
- since 2019: member of the Supervisory Board, Gazprom Transgaz Belarus; and
- since 2020: member of Supervisory, GAZPROM Austria GmbH.



KUZNETS
SERGEI IVANOVICH
Chairman of the Remuneration Committee

Shareholding (as at 31 December 2020)

none

Born in 1968.

Graduated from Grozny Oil Institute and I.M. Gubkin Russian State University of Oil and Gas. since 2019: member of the Management Committee, Head of Department, Gazprom PJSC. PhD in Economics

Roles in other organisations:

- since 2015: member of the Executive Committee, Vernadsky Non-Governmental Environmental Foundation;
- since 2019: member of the Management Board, Association of Equipment Manufacturers "The New Gas Industry Technology";
- since 2019: member of the Board of Directors (non-executive director), Sakhalin Energy Investment company Ltd.;
- since 2019: member of the Board of Directors, Vostokgazprom;
- since 2019: member of the Board of Directors, Gazprom dobycha Tomsk;
- since 2019: member of the Supervisory Board, Wintershall AG;
- since 2019: Chairman of the Board of Directors, Achimgaz;
- since 2019: member of the Board of Directors, Gazprom Kyrgyzstan;
- since 2019: member of the Board of Directors, Gazpromviet;
- since 2019: member of the Supervisory Board, Gazprom EP International B.V.;
- since 2020: member of the Board of Directors, Severneftegazprom.



MENSHIKOV
SERGEI NIKOLAEVICH

Shareholding (as at 31 December 2020)

none

Born in 1961.

Graduated from Saratov Polytechnic Institute and the Russian Presidential Academy of National Economy and Public Administration subsequently receiving an MBA degree. since April 2019: member of the Management Committee, head of department, Gazprom PJSC.

Roles in other organisations:

- since 2019: member of the Board of Directors, Mosenergo;
- since 2019: member of the Board of Directors, TGK-1.



SUKHOV
GENNADY NIKOLAEVICH

Shareholding (as at 31 December 2020)

none

Born in 1955.

Graduated from Moscow Institute of Physics and Technology. PhD in Economics

Roles in other organisations:

- since 2013: Chairman of the Board of Directors, Ovgaz Inc. AD;
- since 2013: Chairman of the Board of Directors; Severneftegazprom;
- since 2013: Chairman of the Supervisory Board, KazRosGas;
- since 2013: member of the Board of Directors, SKA Ice Hockey Club;
- since 2013: member of the Supervisory Board, Gazprom EP International BV;
- since 2013: Chairman of the General Meeting, Association Junior hockey league (JHL);
- since 2013: Chairman of the Board of Directors, Hockey City LLC;
- since 2015: director, Autonomous Non-Commercial Organisation Gazpromexport Socio-Cultural Club;
- since 2016: member of the Board of Directors, Nord Stream 2 AG;
- since 2017: member of the Board of Directors, the Kontinental Hockey League (KHL);
- since 2019: Director General, FC Zenit;
- since 2019: Chairman of the Board of Directors, Zenit Basketball Club;
- 2019: Chairman of the Presiding Committee, International Business Congress e. V.



MEDVEDEV
ALEXANDER IVANOVICH

Shareholding (as at 31 December 2020)

0.00105456% (50,000 shares)

Born in 1974.

Graduated from Volga State Academy of Water Transport and received an EMBA from Stockholm School of Economics.



DMITRIEV ANDREY IGOREVICH
Board member from 09 June 2018 to 10 June 2020

Shareholding (as at 31 December 2020)

none

Secretary to the Board of Directors

The Board Secretary ensures effective ongoing communication with shareholders, coordinates the company's activities in protecting their rights and interests, and supports effective management of the Board of Directors.

The main tasks of the Board Secretary are to make sure that the company and its officers comply with the rules and procedures of corporate governance established by Russian laws, the company's Charter and internal regulations; to prepare and convene the General Meeting of Shareholders and meetings of the Board of Directors and its committees, to disclose information about the company, and improve its corporate governance practices.

Key functions of the Secretary to the Board of Directors include:

- providing organisational and information support to the Board of Directors and its committees;
- preparing and convening General Meetings of Shareholders;
- assisting the Chairman of the Board of Directors in organising and planning activities of the Board of Directors;
- arranging safekeeping of the Board of Directors' documents;
- exercising control over implementation of the Board of Directors' resolutions;
- liaison with members of the Board of Directors, advising members of the Board of Directors on corporate governance matters, providing necessary documents and information to members of the Board of Directors;
- ensuring disclosure of company information;
- managing interaction between the company and its shareholders;
- other functions pursuant to the Regulation on the Board of Directors, the company's internal regulations and assignments by the Chairman of the Board of Directors.

Born in 1984.

Graduated from the Russian Law Academy of the Russian Ministry of Justice with a degree in Jurisprudence, and in European and International Business Law from the University of Social Sciences (Toulouse, France).

since June 2019: head of Corporate and Project Support Department, Gazprom Neft PJSC;

since 2020: Executive Director for Legal Support and Corporate Governance, Gazprom Neft PJSC.

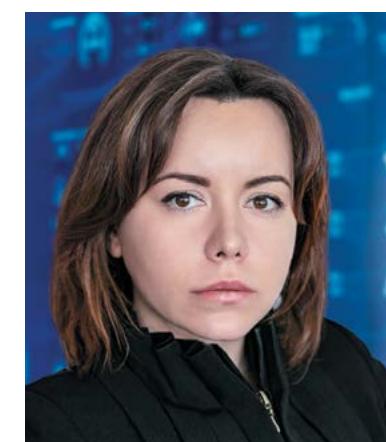
Roles in other organisations:

- Member of boards of directors in the following companies: Tomskneft VNK (JV), Northgas CJSC, AS Baltic Marine Bunker, Gazpromneft Lubricants Italia S.p.A., TsentrCaspneftegaz LLC.
- Owns no shares in Gazprom Neft and its subsidiaries. Has no family relations with other members of the company's governance bodies and/or bodies exercising control over financial and business operations.

The Board Secretary ensures effective ongoing communication with shareholders, coordinates the company's activities in protecting their rights and interests, and supports effective management of the Board of Directors.



Regulation on the Secretary to the Board of Directors of Gazprom Neft



**NENADYSHINA
VICTORIA VYACHESLAVOVNA**
Secretary to the Board of Directors

Shareholding (as at 31 December 2020)

none

The Board Secretary has knowledge, experience and qualifications sufficient for the performance of her duties. She has an impeccable professional reputation, undergoes continued professional development, and is an active member of the professional community.

In 2020, Ms Nenadyshina was included in the Top-50 Corporate Governance Directors ranking by the Kommersant Publishing House¹.

In order to ensure the Secretary's independence, the Secretary is appointed by the Board of Directors on the recommendation of the Chairman.

The Secretary to the Board of Directors is not the Secretary to the Management Board.

The role of the Secretary to the Board of Directors is governed by Regulation on the Secretary to the Board of Directors.

Report on the activities of Gazprom Neft's Board of Directors in priority areas in 2020

The Board of Directors of PJSC Gazprom Neft conducted its activities on the basis of approved semi-annual work plans. The Board held 58 meetings throughout 2020.

Matters reviewed by the Board of Directors in 2016–2020, by area

| Categories and areas of matters reviewed | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|------------|------------|------------|------------|------------|
| Strategy | 4 | 5 | 4 | 8 | 6 |
| Corporate Governance | 25 | 30 | 32 | 53 | 52 |
| Budget planning and financing | 27 | 18 | 15 | 13 | 7 |
| Risk management | 2 | 4 | 4 | 3 | 5 |
| Sustainable development | 5 | 6 | 3 | 3 | 4 |
| Other | 80 | 49 | 69 | 34 | 30 |
| TOTAL | 143 | 112 | 127 | 114 | 104 |

Number of Board of Directors' meetings convened in 2016–2020

| Form of meeting | 2016 | 2017 | 2018 | 2019 | 2020 ² |
|-----------------|-----------|-----------|-----------|-----------|-------------------|
| Face-to-face | 8 | 9 | 9 | 6 | 2 |
| In absentia | 51 | 48 | 57 | 46 | 56 |
| TOTAL | 59 | 57 | 66 | 52 | 58 |

¹ — Read more about the rating on the Kommersant Publishing House website: <http://www.kommersant.ru/>

² — The number of face-to-face meetings was reduced as part of measures to prevent the spread of coronavirus.

58
meetings of the Board of Directors held

Attendance at the meetings of the Board of Directors in 2020

| Board member | Board of Directors | | | | | Remuneration Committee Five meetings | Member of the Board of Directors | Board of Directors | | | | | Remuneration Committee Five meetings |
|---|--------------------|---------------------------|-------------------------|-----------------------------|---|--|----------------------------------|--------------------|---------------------------|-------------------------|--|---|---|
| | Total 58 meetings | Face-to-face Two meetings | In absentia 56 meetings | Audit Committee 20 meetings | | | | Total 58 meetings | Face-to-face Two meetings | In absentia 56 meetings | Audit Committee 20 meetings | | |
| Alexey Miller Chairman of the Board of Directors Non-executive director | 58 | 2 | 56 | - | - | Elena Mikhailova Non-executive director | 58 | 2 | 56 | 20 | - | - | |
| Vitaly Markelov Non-executive director | 58 | 2 | 56 | - | - | Gennady Sukhov Non-executive director | 31 (of 31 possible) | 1 | 30 | - | - | | |
| Sergei Menshikov Non-executive director | 58 | 2 | 56 | - | - | Valery Serdyukov Non-executive director | 58 | 2 | 56 | - | 5 | | |
| Sergei Kuznets Non-executive director | 58 | 2 | 56 | - | 5 | Andrey Dmitriev Non-executive director | 27 (of 27 possible) | 1 | 26 | 5 | - | | |
| Famil Sadygov Non-executive director | 58 | 2 | 56 | 15 | - | | | | | | As part of its work during the year, the Board of Directors consistently addressed key tasks in Gazprom Neft's priority areas of activity, including strategic development, improving investment attractiveness, ensuring effective asset management, investment, financial and operational performance, improving the efficiency and transparency | | |
| Alexey Medvedev Non-executive director | 58 | 2 | 56 | - | - | | | | | | of internal governance mechanisms, and further improving the system of control over and accountability of the company's management bodies. | | |
| Kirill Seleznev Non-executive director | 58 | 2 | 56 | - | - | | | | | | | | |
| Alexander Dyukov Executive director | 58 | 2 | 56 | - | - | | | | | | | | |
| Vladimir Alisov Non-executive director | 58 | 2 | 56 | - | 5 | | | | | | | | |
| Mikhail Sereda Non-executive director | 57 | 1 | 56 | 20 | - | | | | | | | | |

Key matters reviewed the Board of Directors in 2020

Strategic development

The Board of Directors reviewed information on the status of the current resource base of oil fields and prospects for its increase to ensure further production growth during 2021-2030, including outlining sources of the resource base to ensure production growth throughout 2021-2030 and tools for increasing efficiency.

In July 2020, the Board of Directors reviewed the status of the implementation of Gazprom Neft's Digital Transformation Strategy

which was approved in September 2019.

Gazprom Neft's Programme of development of the Russian continental shelf was reviewed during a face-to-face meeting of the Board of Directors, including an overview of the main global trends in the development of offshore projects and the company's position, as well as key outcomes and plans for the development of the company's offshore projects.

The Board of Directors reviewed information on the status of the current resource base of oil fields and prospects for its increase to ensure further production growth during 2021-2030.



Innovation

The Board of Directors reviewed the status of Gazprom Neft's activities in import substitution and emerging projects, and the impact of industrial production projects that have already been implemented. The company is currently putting measures in place to stimulate the creation of new, previously unreleased products through developing, approving and implementing alternative substitution strategies in key business areas: onshore and offshore production, oil refining, as well as underlying automation, IT and digitalisation issues.

The Board of Directors approved the 2019 Report on implementing the Gazprom Neft's Innovative Development Programme, which includes information on the main

outcomes of key innovation projects, achieving planned performance targets, financing the Programme activities, and cooperation with others in the innovation community.

The Board of Directors approved a new version of Gazprom Neft's Innovative Development Programme to 2025. The updated programme takes into account activities and target indicators of national projects (programmes) in Science, Education, the Digital Economy of the Russian Federation, the Strategy of Scientific and Technological Development of the Russian Federation, as well as roadmaps of the National Technological Initiative.

In accordance with its work plan, the Board of Directors reviews on a regular basis (at least semi-annually) projects relating to Gazprom Neft's Investment Programme, its Business Plan and the Gazprom Neft Group Budget, as well as information regarding the implementation of these plans and programmes.

Budget planning and control of financial and economic activities

In accordance with its work plan, the Board of Directors reviews on a regular basis (at least semi-annually) projects relating to Gazprom Neft's Investment Programme, its Business Plan and the Gazprom Neft Group Budget, as well as information regarding the implementation of these plans and programmes.

In April 2020 the Board of Directors reviewed information on the implementation of the Gazprom Neft Group's 2019 Investment Programme, Budget (Financial Plan) and Financial

Borrowing Programme based on the results of the Group's performance in 2019.

In November 2020 the Board of Directors reviewed the results of implementation of the Gazprom Neft Group's Investment Programme and Budget (financial plan) for the first half of 2020,

The Board of Directors also took note of Gazprom Neft's debt structure and repayment profile to 2025, and identified areas for debt portfolio optimisation in 2021.

(KPIs) and strategic targets to 2023. Concurrently, the Board of Directors reviewed and approved the Group's Investment Programme for 2021 and the Cost Optimisation (Reduction) Programme for 2021.

and implemented across Gazprom Neft's various management levels. Reports on the management of the company's key risks are presented to the Board of Directors. In 2020, the Board of Directors reviewed information on updating Gazprom Neft's key risks

for 2020 and information on Gazprom Neft and the Gazprom Neft Group's key risks during the first half of 2020 and measures to address these. Based on the results of the update procedure for the first half of 2020, the total number of key risk groups and their composition remained unchanged.

The Register of the company's key risks now includes reassessment of the level of individual risk groups.

The 2020 Register of the company's key risks has been provisionally approved by its Management Board.

Risk management and internal control

The Board of Directors approved Gazprom Neft's Risk Management and Internal Control Policy (the «Policy») in early 2020. That policy is designed to further developing and improve the Gazprom Neft Group's risk management and internal control system with a view to increasing the reliability and efficiency of its operations, and ensuring

the achievement of Gazprom Neft Group's goals and objectives.

The Board of Directors' Audit Committee has made a preliminary review of the policy.

To ensure sufficient confidence in the achievement of the company's objectives, risk management measures are regularly developed

To ensure sufficient confidence in the achievement of the company's objectives, risk management measures are regularly developed and implemented across Gazprom Neft's various management levels.

Sustainable development and corporate governance

In December 2020 the Board of Directors approved the revised version of Gazprom Neft PJSC's Dividend Policy, setting a new dividend target of at least 50% of the company's IFRS net profit.

In January 2020, Gazprom Neft's Board of Directors reviewed the company's compliance with legal requirements to counter the misuse of insider information and market manipulation.

The Board of Directors agreed the appointment of a Deputy CEO for International Business and a Deputy CEO for Government Relations in 2020. The Board also reviewed issues relating to the election of a member of Gazprom Neft's Management Board and the participation of Management Board members in governance bodies of other organisations.

In addition, the Board of Directors considered matters relating to preparations for convening two general shareholder meetings, reports on the performance of the Internal Audit and Risk Management Directorate, approval of transactions, as well as other corporate governance issues.

Other key sustainable-development issues reviewed by the Board of Directors on the basis of 2019 results included the implementation of the Company's APG Utilisation

Efficiency Improvement Programme, and plans for 2020-22. Gazprom Neft has been implementing major initiatives in increasing APG utilisation at current assets over the past nine years, as well as at new assets that are characterised by considerable geological uncertainty.

In 2020, the rate of APG utilisation across all assets, except the new ones, was 95.06% (including new assets: 93.67%).

The company remains committed to the consolidated target of 95% APG utilisation across its current assets in 2020.

The Board of Directors reviewed the implementation of Gazpromneft-Catalytic Systems' plans for the construction of a catalyst-production plant in Omsk.

The implementation of the project involves systemic work that will ensure the successful completion of the construction, high environmental performance of the new production facility and consistent quality of the catalysts produced. Compared to the existing production of catalysts at Gazprom Neft Omsk Refinery's Unit G-43-6, the new Gazpromneft-Catalytic Systems plant will produce seven times more catalysts, while the mass of polluting emissions will be reduced by 28%.

**>50%
of net profit
for dividend payment**





Board of Directors' committees

Two committees operate under the Board of Directors: the Audit Committee and the Remuneration Committee.

Audit Committee

The Audit Committee is an advisory body that operates under the delegated authority of the Board of Directors. The composition, status, operating procedures, competence and functions of the Audit Committee, the procedure for convening and holding meetings, formalisation of decisions and the responsibilities of members of the Audit Committee are set out in the Regulation on the Board of Directors' Audit Committee.

The Audit Committee facilitates the Board's involvement in overseeing the company's financial and business operations by assessing the effectiveness of internal controls, including controls over the preparation and presentation of financial and non-financial reports, their completeness and fairness, and by monitoring the risk management system. The Audit Committee facilitates constructive

Audit Committee meetings

| Index | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------|------|------|------|------|-----------|
| Number of meetings | 11 | 12 | 13 | 14 | 20 |
| Number of matters reviewed | 30 | 34 | 35 | 29 | 29 |

All Audit Committee meetings were held in absentia throughout 2020. All members of the Audit Committee took part in all meetings.

On matters requiring submission of recommendations to the Board of Directors, the Audit Committee prepared recommendations on the approval of the 2019 Annual Report, on the nomination

Committee and the Remuneration Committee.



Regulation
on the Board of Directors'
Audit Committee

Members of the Audit Committee

From 1 January 2020 to 13 July 2020:

- Mikhail Sereda (Chairman)
- Andrey Dmitriev
- Elena Mikhailova

From 14 July 2020 to 31 December 2020:

- Mikhail Sereda (Chairman)
- FAMIL SADYGOV
- Elena Mikhailova

The Audit Committee reviewed the following key matters

External audit

- Approval of tender documentation for a closed tender to select an audit organisation for 2020 and 2021 for the conduct of the compulsory audit of accounting, financial and interim (abridged) financial statements for 2020 and 2021.
- The outcomes of the work of Gazprom Neft PJSC's external auditor based on the results of 2019.
- The potential auditors for 2020.
- The assessment of the Auditor's Report on Gazprom Neft's 2019 accounting (financial) statements prepared by FBK LLC.
- Approaches to the conduct of the external audit, the plan and procedures for the external audit of Gazprom Neft PJSC in 2020.
- Determining the amount of remuneration for Gazprom Neft's auditor in 2020.
- Report on the results of implementation of Gazprom Neft External Auditor's recommendations for 2019.
- The progress of the external audit of Gazprom Neft Group's 2020 accounting (financial) statements (based on external auditor's report).

Internal audit

- Report on the outcomes of work of Gazprom Neft's Internal Audit and Risk Management Directorate in 2019 and H1 2020.
- The creation of Gazprom Neft's internal audit work plan for 2021-2023.
- On the adjustment of Gazprom Neft's audit plan for 2020-2022.

Risk management and internal control

- Updating Gazprom Neft PJSC's key risks in 2020.
- H1 2020 Report on the outcomes of analysis and assessment of the effectiveness of Gazprom Neft PJSC and Gazprom Neft Group's risk management and internal control system.
- H1 2020 Report on Gazprom Neft PJSC and Gazprom Neft Group's key risks and measures for their management.
- 2020 Report on Gazprom Neft PJSC and Gazprom Neft Group's risk management in industrial and environmental safety.
- 9M 2020 Report on Gazprom Neft PJSC and Gazprom Neft Group's credit risk management.
- 9M 2020 Report on Gazprom Neft PJSC and Gazprom Neft Group's currency risk.
- 9M 2020 Report on Gazprom Neft PJSC and Gazprom Neft Group's market risk management (including volume risk).

Corporate governance

- Reviewing Gazprom Neft PJSC's draft 2019 Annual Report.
- Approaches to disclosure of material information in Gazprom Neft PJSC's consolidated financial statements (IFRS).
- Report on Gazprom Neft PJSC and Gazprom Neft Group's compliance with legal requirements for information disclosure in 2020.
- 2020 Report on the outcomes of measures to ensure the continuity of Gazprom Neft PJSC's operations in the context of the spread of COVID-19.

Remuneration Committee

The Remuneration Committee is an advisory body to the Board of Directors.

The composition, status, operating procedures, competence and functions of the Remuneration Committee, the procedure for convening and holding meetings, formalisation of decisions and the responsibilities of members of the Remuneration Committee are set out in the Regulation on the Remuneration Committee.

Key objectives of the Remuneration Committee as set out in Regulation on the Remuneration Committee include carrying out a preliminary comprehensive study of issues that are within the remit of the Board of Directors and developing recommendations for decision-making by the Board of Directors regarding the improvement of procedures of the Board of Directors and its committees' work, the company's activities in the field of human resources policy and management succession system, and the remuneration of members of management bodies.

The Remuneration Committee undertakes analysis and evaluation of the Board of Directors' make-up in terms of professional expertise, experience, independence and involvement of its members in the work of the Board of Directors. It also identifies priority areas for strengthening the Board of Directors, initiates and oversees the procedure of self-evaluation or external evaluation of the Board of Directors and its committees with regard to their overall performance and the individual contribution of its members to the Board and its committees; and it prepares a report on the results of self-evaluation or external evaluation for incorporation into the company's annual report.

The Remuneration Committee approves the onboarding programme for new members of the Board. The programme aims to effectively familiarise new directors with business practices, organisational structure, key assets and the strategy, key employees of the company, as well as with the Board's work procedures, and oversees practical implementation of such onboarding.

As regards matters that require the submission of recommendations to the Board of Directors, the Remuneration Committee prepared recommendations on the matters concerning the appointment of Deputy CEOs, candidates to the Board of Directors and the Audit Commission¹.



Regulation on the Remuneration Committee

Members of the Remuneration Committee

From 1 January 2020 to 31 December 2020:

- Sergei Kuznets (Chairman)
- Valery Serdyukov
- Vladimir Alisov

In accordance with recommendations of the Corporate Governance Code, the Board of Directors conducts an annual review and evaluation of its performance by assessing all areas of the Board of Directors' activities.

All Remuneration Committee meetings were held in absentia throughout 2020. All members of the Remuneration Committee took part in all meetings.

During the reporting period, the Remuneration Committee gave its opinion on the independence of each candidate for the Board of Directors.

The Remuneration Committee reviewed the following key items in 2020, including:

- reviewing shareholders' proposals for nominating candidates to Gazprom Neft's Board of Directors and Audit Commission;
- assessing candidates to Gazprom Neft's Board of Directors;
- remuneration of members of Gazprom Neft's Board

of Directors and Audit Commission;

- appointment of Gazprom Neft's Deputy CEOs;

Analysis of the candidate pool led to the conclusion that:

- the experience and education, as well as the knowledge and high degree of professional training of the candidates nominated to the Board of Directors will enable them to perform the duties of a member of the Board of Directors and directly contribute to the effective work of the entire Board of Directors in the interests of the company and its shareholders;
- all of the candidates have impeccable professional and personal reputations, which means, among other things, that

they have no criminal record, either present or past;

- the Board of Directors will include one executive director, which corresponds with recommendations of the Corporate Governance Code;
- the Board of Directors will not include any independent directors;
- the Board of Directors will be sufficiently balanced in terms of gender and age composition.

In 2020, the Remuneration Committee fully achieved its goals and objectives set by the Corporate Governance Code, the Regulations on the Remuneration Committee, the Charter and internal documents of Gazprom Neft PJSC, as well as the Work Plan of the Remuneration Committee for 2020.

The Board of Directors' Remuneration Committee meetings

| Index | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------|------|------|------|------|------|
| Number of meetings | 7 | 6 | 4 | 6 | 5 |
| Number of matters reviewed | 10 | 10 | 5 | 7 | 5 |

¹ – Members of the Audit Commission were elected at the General Meeting of Shareholders on 11 June 2020. Their duties were abolished by the resolution of the extraordinary General Meeting of Shareholders on 18 December 2020.

Assessment of the performance of the Board of Directors

In accordance with recommendations of the Corporate Governance Code, the Board of Directors conducts an annual review and evaluation of its performance by assessing all areas of the Board of Directors' activities.

The Remuneration Committee found it beneficial to assess the effectiveness of the Gazprom Neft Board of Directors' performance by engaging an independent external

organisation at least once every three years.

Performance of the company's Board of Directors in 2020 was assessed in the form of a survey (questionnaire). The questionnaire included about 30 questions on the main areas of interest: composition, nature of activity, Board procedures, evaluation of the work of the Chairman

of the Board of Directors, committees and the Secretary to the Board of Directors, the level of relations within the Board of Directors, and also included open-ended questions regarding the need to form additional committees, elect independent directors and other issues.

1. Evaluation outcomes

1.1. Board of Directors, Chairman and Secretary to the Board of Directors

All members of the Board of Directors participate in its work, interact effectively as a team, have constructive business relations based on mutual trust and respect, contribute to improving the work of the Board of Directors, have the necessary professional experience, and are familiar with the specifics of the industry.

The size of the Board of Directors meets the needs of Gazprom Neft PJSC.

The Board of Directors actively participates in laying out the company's Development Strategy and oversees its implementation, clearly setting the company's priorities. Implementation of the company's Development Strategy is overseen at a high level, in a timely and adequate manner; the Board of Directors constantly monitors the situation on issues that cause concern for the company's stable and consistent development.



Company profile



Strategic report



Performance review



Technological development



Governance system



Sustainable development



Appendices

There is a high level of involvement of the Board of Directors in the analysis of critical risks, as well as in the analysis of performance indicators of the company's management.

The Board of Directors promotes and supports the development of competencies and knowledge of its members.

The Board of Directors has reached a high level in matters relating to the efficiency of its meetings, which are held in accordance with the corporate governance standards and recommendations of the Bank of Russia on corporate governance issues, while respecting the established timelines for the consideration of issues. The quality of planning of the Board of Directors' work received a high evaluation. An excellent standard of preparation of materials for meetings of the Board of Directors, proficient handling of additional issues, completeness, clarity and reliability of information materials are noted.

Technical and procedural issues of interaction between the Board of Directors and its committees are efficiently ensured.

The work of the Chairman of the Board of Directors is recognised as effective.

The Secretary to the Board of Directors ensures a high standard of activity of the Board of Directors.

Analysis of the work of the Board of Directors revealed an improvement in the following indicators: balanced distribution of powers, identification of strategic priorities, quality of meetings of the Board of Directors.

Based on the results of self-assessment, directions for further improvement in the effectiveness of the Board of Directors were determined as follows:

- maintaining the focus of the Board of Directors on the implementation of the company's long-term development strategy;
- developing the succession system for the members of the Board of Directors in accordance with the company's strategic goals;
- efficiency management, in particular, analysis of the achievement of key performance indicators of the company on an ongoing basis.

Three members of the Board of Directors out of ten surveyed spoke in favour of having independent directors on the Board of Directors.

There were no proposals to form new committees to consider the most important issues of the company's activity.

1.2. Audit Committee

Work of the Audit Committee is recognised as effective. The Audit Committee received the highest score across all indicators. The Audit Committee performs its tasks to a high standard. Particularly noteworthy is the effective interaction between the Audit Committee and the company's management with regard to the activities of the Internal Audit and Risk Management Directorate.

The Audit Committee actively monitors the company's financial reporting process, examines interim and annual financial reports in order to provide sound advice to the Board of Directors for their approval.

The composition of the Audit Committee is balanced and consistent with its goals and objectives.

1.3. Remuneration Committee

Work of the Remuneration Committee is recognised as effective. The Remuneration Committee received the highest score across all indicators. The Remuneration Committee performs its tasks to a high standard. Of particular note is the close interaction between the Remuneration Committee and the Board of Directors in preparing recommendations on candidates for those positions that fall in the remit of the Board of Directors.

The composition of the Remuneration Committee is balanced and consistent with its goals and objectives.

2. Evaluation recommendations to improve performance

2.1. The Board of Directors

Members of the Board of Directors noted key areas of activity to which the Board of Directors should pay special attention:

- new technologies in hydrocarbon exploration and production;
- import substitution;
- development of the company's operations in the Russian Arctic, including offshore projects;
- development of technologies for the opening up of unconventional reserves.

2.2. Audit Committee

It is proposed:

- to inform members of the Board of Directors on decisions of the Audit Committee in which they do not participate; and
- to Report annually to the Board of Directors by submitting a Report on the Audit Committee's activities.

2.3. Remuneration Committee

It is proposed

- to inform members of the Board of Directors on decisions of the Remuneration Committee in which they do not participate; and
- to report annually to the Board of Directors by submitting a Report on the Remuneration Committee's activities.

Induction for newly-elected members of the Board of Directors

To boost efficiency of the Board of Directors, the company has in place an induction programme for newly-elected members of the Board of Directors.

The objective of this programme is to familiarise newly-elected members of the Board of Directors with the company's operations, financial and economic activities,

and corporate governance practices as quickly and effectively as possible.

The programme includes the following:

- meeting with the Chairman of the Board of Directors, discussing the work plan of the Board of Directors, the company's priorities, determining the new director's

future role on the Board in accordance with his/her professional knowledge and experience;

- meeting with the company's senior management, getting basic information about the company's activities, discussing the operational and financial structure of the company, getting

- acquainted with members of the Management Board;
- consultation with the Secretary to the Board of Directors: The Secretary to the Board of Directors describes procedural and legal aspects of work of the Board of Directors and its committees, explains the rights and duties of a Board member, remuneration and compensation, liability and liability insurance;
- familiarisation with the company's principal documents, as well as the Board Member Handbook,

describing major business issues, internal procedures and organisation of work of the company's Board of Directors and its committees; the programme may also include site visits to the company's key facilities, taking part in the company's public events and meeting with key management staff.

The programme is overseen by the Remuneration Committee.

In 2020, the Board of Directors was joined by one new director, Gennady Sukhov, who is the head of Department at Gazprom PJSC and who was already in possession of key information about the company's operations, hence the entire induction programme was not required. The new director was familiarised with work procedures of the Board of Directors, his rights and responsibilities, remuneration, compensation, and liability insurance issues.

In 2020, the Board of Directors was joined by one new director, Gennady Sukhov, who is the head of Department at Gazprom PJSC and who was already in possession of the key information about the company's operations, hence the entire induction programme was not required.

Management Board and Chief Executive Officer

The structure of Gazprom Neft's executive bodies is set out in the Charter and includes the Management Board and Chief Executive Officer (CEO). The company's Management Board is a collegial executive body responsible for managing the company's ongoing activities.

Pursuant to Gazprom Neft's Charter, the Management Board is formed by the Board of Directors on the recommendation of the company CEO. The term of office of the Management Board is also determined by the Board of Directors' resolution. Qualification requirements of the members of the Management Board are set out in Gazprom Neft's internal regulations. The Management Board's activities are governed by Regulation on Gazprom Neft PJSC's Management Board.

Alexander Dyukov, the company's CEO, who has headed the company since December 2006, and was re-elected for the subsequent five-year tenure in December 2016, is also



Regulation on the Management Board of Gazprom Neft PJSC



Regulation on the Chief Executive Officer of Gazprom Neft PJSC

Remit of the Management Board and the CEO

Gazprom Neft's Management Board has control over implementation of the company's short- and longer-term plans and programmes, as well as investment, financial and other projects.

Key matters in the remit of the Management Board

The remit of the Management Board is set out in the company's Charter.

The remit of the Management Board includes control of the implementation of resolutions of the company's General Meeting of Shareholders and the Board of Directors; development of prospective plans and key activity programmes of Gazprom Neft, including the annual budget and the company's

investment programmes; preparation of reports on implementing these; and developing and approving the company's current activity plans.

Gazprom Neft's Management Board controls the implementation of the company's short and longer-term plans and programmes, as well as investment, financial and other projects.

The company's Management Board prepares and submits to the Board of Directors proposals regarding Gazprom Neft's participation or termination of participation in other organisations (including foreign ones), and the establishment or dissolution of the company's branches or representative offices.

Key matters in the remit of the CEO

The CEO is accountable to Gazprom Neft's Board of Directors and General Meeting of Shareholders.

The CEO manages the company's ongoing activities and acts within the remit set out by Gazprom Neft's Charter.

Key matters within the CEO's remit:

- entering into transactions on the company's behalf and managing the company's assets subject to internal regulations governing procedures of such transactions and interaction with business entities and organisations in which the company has shares or interest;
- approving staffing profiles of the company, its branches and representative offices, establishing forms, systems, and amounts of remuneration;
- approving the company's internal regulations governing its ongoing activities;
- appointing and dismissing Deputy CEOs, the Chief Accountant, head of legal, head of internal audit, head of security, head of competitive procurement, and heads of the company's branches and representative offices, subject to approval by the Board of Directors;
- ensuring the implementation of resolutions of the company's General Meeting of Shareholders, the Board of Directors, and the Management Board, and meeting obligations to the state budget and contractors;
- takes decisions on the company's participation or termination of its participation in other organisations, subject to such resolution resulting in a transaction not exceeding 0.2% of book value of the company's assets according to the company's accounting statements as at the last day of the reporting period, or in relation to a re-organisation or winding-up of an organisation whose book value of assets does not exceed ₽1 billion;
- taking decisions, in accordance with the established procedure, on carrying out transactions in amount not exceeding 0.2% of book value of the company's assets according to the company's accounting statements as at the last day of the reporting period.

Management Board composition as at 31 December 2020

Born in 1967.

Graduated from the Leningrad Shipbuilding Institute.
Holds an MBA degree from IMISP (2001).
2003–2006: President, SIBUR Holding;
2006: CEO, SIBUR.
2006: President of Gazprom Neft PJSC. Since December 2007: Chairman of the Management Board and CEO, Gazprom Neft PJSC.

Roles in other organisations:

- since 2005: Deputy Chairman of the Board of Directors, SIBUR Holding;
- since 2007: member of the Supervisory Board, Union of Oil and Gas Producers of Russia, Russian Gas Society;
- since 2008: member of the Supervisory Board, St Petersburg Mining University (a federal state budget-funded higher educational institution);
- since 2010: member of the Board of Directors, SKA Ice Hockey Club;
- since 2010: member of the Board of Trustees, Russian Geographical Society;
- since 2012: member of the Board of Directors, Hockey City LLC;
- since 2013: member of the Board of Directors, Russian Union of Industrialists and Entrepreneurs (RSPP), and member of the Bureau of the RSPP Board, Chairman of the Committee on Industrial Security, and Co-Chair of the Commission on the Oil and Gas Industry;
- since 2014: member of the Board of Trustees, Russian Chess Federation;
- since 2015: member of the Board of Trustees, National Intellectual Development Foundation;
- since 2015: member of the Board of Trustees, the I.M. Gubkin National Oil and Gas University;
- since 2018: member of the Board of Trustees, Lomonosov Moscow State University Gymnasium (boarding school);
- since 2019: member of the Presidential Council for the Development of Physical Culture and Sport;
- since 2019: President, Football Union of Russia;
- since 2020: member of the Government Commission on Digital Development, the Use of Information Technologies for Improving Quality of Life and Conditions for Doing Business;
- since 2020: member of the Council, International Fund 'Public Interest Foundation';
- since 2020: member of the State Committee for Natural Resources Management and Environmental Protection.



ALEXANDER DYUKOV
Chairman of the Management Board and CEO

Shareholding (as at 31 December 2020)
0.005357244% (254,003 shares)

Born in 1970.

Graduated from the Moscow Physics and Engineering Institute with a degree in applied nuclear physics, and the Higher Finance School of the International University in Moscow. In 1999, received certification from the Chartered Association of Certified Accountants (ACCA); in 2009, received a diploma from the Institute of Directors (IoD, UK).
2005–2006: Deputy Director General for Economics and Finance, SIBUR Russian Tyres;
2006–2007: Head of Planning and Budgeting Department, Sibneft;
September–December 2007: Vice President for Finance, Gazprom Neft;
since October 2007: member of the Management Board, Gazprom Neft;
since December 2007: Deputy CEO for Economics and Finance, Gazprom Neft PJSC;
May 2010–August 2011: First Deputy CEO, CFO, Gazprom Neft;
2011–2019: First Deputy CEO and Deputy Chairman of the Management Board, Gazprom Neft; and since 2019: deputy Chairman of the Management Board, Deputy CEO for Exploration and Production, Gazprom Neft.
Oversees exploration and production, strategic planning, and M&A transactions.

Roles in other organisations:

- since 2007: Chairman of the Board of Directors, Slavneft;
- since 2009: member and Chairman of the Board of Directors, NIS a.d. Novi Sad;
- since 2011: Chairman and member of the Supervisory Board, Salym Petroleum Development N.V.;
- since 2016: member of the Supervisory Board, Tyumen State University;
- since 2019: member of the Steering Committee, The New Industry Ventures fund.



VADIM YAKOVLEV
Deputy Chairman of the Management Board,
Deputy CEO for Exploration and Production

Shareholding (as at 31 December 2020)
0.001051526% (49,856 shares)

Born in 1973.

Graduated from the St Petersburg State Electrical Engineering University (LETI), and the LETI-Lovanium International School of Management, St Petersburg.
In 2004, received the Certified Management Accountant (CMA) certification.
2005–2007: Deputy CFO, LLK-International;
2007–2011: Head of Budgeting and Planning Department, Head of Economics and Corporate Planning Directorate, Gazprom Neft;
2011–2012: interim Deputy CEO for Economics and Finance, Gazprom Neft;
since March 2012: member of the Management Board, Deputy CEO for Economics and Finance, Gazprom Neft.

Roles in other organisations:

- since 2011: Chairman of the Board of Directors, Gazpromneft Lubricants Italia SpA;
- since 2013: member of the Board of Directors, Slavneft;
- since 2013: member of the Board of Directors, NIS a.d. Novi Sad.



ALEXEI YANKEVICH
Member of the Management Board,
Deputy CEO for Economics and Finance

Shareholding (as at 31 December 2020)
none



Company profile



Strategic report



Performance review



Technological development



Governance system



Sustainable development



Appendices

Born in 1954.

Graduated from Grozny Oil Institute.
2006–2007: Vice President for Refining and Sales, Sibneft;
since December 2007: member of the Management Board, Deputy CEO for Logistics, Processing and Sales, Gazprom Neft.
Oversees the company's oil refining, logistics and sales of petroleum products.

Roles in other organisations:

- since 2006: member of the Board of Directors, Slavneft;
- since 2007: member of the Board of Directors, Slavneft-YANOS;
- since 2009: member of the Board of Directors, SPIMEX JSC;
- since 2009: member and Chairman of the Board of Directors, NIS a.d. Novi Sad;
- since 2016: member of the Board of Directors, Gazpromneft Lubricants Italia SpA.



ANATOLY CHERNER

Deputy Chairman of the Management Board,
Deputy CEO for Logistics, Processing and Sales

Born in 1969.

Graduated from V.I. Ulyanov (Lenin) St Petersburg State Electrotechnical University (LETI), and the St Petersburg State University. In 2001, obtained a PhD in Economics.
2001–2007: Deputy CEO, Rublevo-Uspensky Health and Rehabilitation Centre of the Russian Presidential Executive Office.
Prior to joining Gazprom Neft, served as executive director at North-Western Investment Company.
since December 2007: member of the Management Board, Deputy CEO for Legal and Corporate Affairs, Gazprom Neft.
Oversees legal and corporate governance support in the company's operations.

Roles in other organisations:

- since 2009: Director General, Gazpromneft East-European Projects Ltd (until 25 January 2021: Gazpromneft East-European Projects JSC, formerly MPC Lakhta Centre JSC);
- since 2018: Chairwoman of the Board of Directors, FC Zenit;
- since 2018: member of the Supervisory Board, V.I. Ulyanov (Lenin) St Petersburg Electrotechnical University (LETI);
- since 2020: President, St Petersburg Regional Sports Federation of Football;
- since 2020: President, Inter-regional association of federations of football "Northwest".



ELENA ILYUKHINA

Member of the Management Board,
Deputy CEO for Legal and Corporate Affairs

Shareholding (as at 31 December 2020)

none

Born in 1966.

Graduated from V. I. Ulyanov (Lenin) Leningrad Electrotechnical Institute.
2005–2007: Chairman of the Board of Directors, Gazprom-Media;
since December 2007: member of the Management Board, Deputy CEO for Corporate Communications, Gazprom Neft.
Oversees regional and information policy, and internal and marketing communications.

Roles in other organisations:

- since 2015: member of the Board of Directors, Gazprom-Media;
- since 2015: member of the Board of Directors, TNT-Teleset;
- since 2017: member of the Board of Directors, Gazprom-Media Entertainment Television;
- since 2018: Chairman of the Board, Home Towns Foundation for Social Initiatives.



ALEXANDER DYBAL

Member of the Management Board,
Deputy CEO for Corporate Communications

Born in 1976.

Graduated from the M.V. Lomonosov Moscow State University, the Open University (UK), and IMD Business School.
Professor and Doctor of Economics.
2004–2007: Administrative Director, EuroChem. Over the years, elected to boards of directors of a number of major companies.
2009–2017: CEO, NIS a.d. Novi Sad;
2009–2017: member of the Management Board, Deputy CEO for International Asset Management, Gazprom Neft;
since 2017: member of the Management Board, Deputy CEO for Administrative Affairs, Gazprom Neft.

Roles in other organisations:

- since 2020: member of the Board of Directors, Slavneft.



KIRILL KRAVCHENKO

Member of the Management Board,
Deputy CEO for Administrative Affairs

Shareholding (as at 31 December 2020)

0.000068462% (3,246 shares)

Born in 1951.

Graduated from Leningrad Institute of Aeronautic Engineering.
2000–2005: Director General of St Petersburg State Unitary Enterprise Informatika;
2005–2007: Vice President for Security, Sibneft;
since December 2007: member of the Management Board, Deputy CEO for Security, Gazprom Neft.



IGOR ANTONOV

Member of the Management Board,
Deputy CEO for Security

Shareholding (as at 31 December 2020)

none

Born in 1979.

Mr Oderov is a graduate of Gubkin Russian State Oil and Gas University, majoring in Economics and Management.
In 2002 received a Master of Science degree in economics and management in the oil industry from the French Institute of Petroleum (École Nationale Supérieure du Pétrole et des Moteurs).
2008–2009: Head of the European Business Development Directorate, Gazprom Export LLC;
2009–2011: Deputy Head, International Business Department: Head, International Infrastructure Projects Directorate, Gazprom PJSC;
2011–2014: Head of the International Business Department, Gazprom PJSC;
2015–2019: Head of Department 512, Gazprom PJSC; and
since January 2020: member of the Management Board, Deputy CEO for International Business, Gazprom Neft.

Roles in other organisations:

- since 2014: member of the Board of Directors, Overgaz Inc. AD;
- since 2017: member of the Board of Directors, FC Zenit;
- since 2017: member of the Board of Directors, Basketball Club Zenit;
- since 2018: member and President of the Board of Directors, Shtokman Development AG;
- since 2020: member of the Board of Directors, NIS a.d. Novi Sad



PAVEL ODEROV

Member of the Management Board,
Deputy CEO for International Business

Shareholding (as at 31 December 2020)

0.000264% (12,517 shares)

Born in 1969.

Graduated from Russian State University of Physical Education, Sport, Youth and Tourism (SCOLIPE), and Kutafin Moscow State Law University (MSAL).
From 1987 to 2008 Mr Kolobkov served as a member of the USSR and Russian Federation fencing teams, becoming a six-time world champion (in 1991, 1993, 1994, 2002, 2003 and 2005), individual Olympic champion (2000), and a two-time Olympic silver and three-time bronze medalist. He is an Honoured Master of Sport.
since 2007: Deputy Chairman, Dynamo Sports Club.
since 2010: Deputy Minister for Sport, Tourism and Youth Policy (following the restructuring of the ministry in 2012: Deputy Minister for Sport), while concurrently serving as a member of the Civic Chamber of the Russian Federation.
2016–2020: Minister for Sport of the Russian Federation.
since 2016: Full State Counsellor (2nd class) of the Russian Federation.
Awarded the Order of Honour medal, Order of Friendship medal, Order of Alexander Nevsky medal, and the Order for Service to the Fatherland medal (1st and 2nd class).
since March 2020: member of the Management Board, Deputy CEO for Government Relations, Gazprom Neft.



PAVEL KOLOBKOV

Member of the Management Board,
Deputy CEO for Government Relations

Shareholding (as at 31 December 2020)

none

In the reporting year, neither the Chairman nor members of the Management Board entered into any transactions involving acquisition or disposal of the company's shares.

No legal claims were filed against the CEO or members of the Management Board throughout 2020.

Management Board performance review in 2020

Consideration of issues at Gazprom Neft's Management Board meetings is carried out on a scheduled basis, taking into account decisions of the General Meeting of Shareholders, the Board of Directors, and issues submitted by the CEO and members of the Management Board. The Management Board's work plan also takes into account suggestions coming from the heads of Gazprom Neft's business units.

In 2020, the Management Board held 28 meetings, eight of which were held in person. The meetings addressed various matters in relation to current activities of the company's Management

Board, including the following key ones:

- approving the updated Register of key risks of Gazprom Neft PJSC;
- improving the efficiency of corporate governance across the Gazprom Neft Group;
- the outcomes of Downstream Division's performance in 2019;
- the outcomes of Upstream Division's performance in 2019;
- the fulfilment of the Gazprom Neft Group's Investment programme, budget (financial plan), and financial borrowing programme for 2019, based on the Group's performance in 2019;
- the progress and efficiency of Gazprom Neft Group's 2020 Investment programme based on the Group's performance in H1 2020;
- amendments to the Gazprom Neft Group's investment programme and the budget (financial plan) for 2020;
- the Upstream Division's business plan for 2021–2023;
- the Downstream Division's business plan for 2021–2023;
- the Gazprom Neft Group's business plan for 2021–2023; and
- issues relating to the acquisition and creation of assets, and the corporate governance of the corporate centre and subsidiaries.

Agenda items reviewed by the Management Board in 2020, by area

| Topic | 2020 |
|-------------------------------|-----------|
| Strategy | 2 |
| Corporate Governance | 17 |
| Budget planning and financing | 7 |
| Other | 2 |
| TOTAL | 28 |

Number of meetings held by the Management Board throughout 2016–2020

| Form of meeting | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Face-to-face | 15 | 12 | 8 | 7 | 8 |
| In absentia | 7 | 4 | 13 | 13 | 20 |
| TOTAL | 22 | 16 | 21 | 20 | 28 |

Attendance at meetings of the Management Board in 2020

| Name | Number of meetings attended by the Management Board member Total meetings: 28 |
|--|--|
| Alexander Dyukov Chairman of the Management Board | 28 |
| Igor Antonov | 27 |
| Alexander Dybal | 26 |
| Elena Ilyukhina | 26 |
| Kirill Kravchenko | 27 |
| Anatoly Cherner | 28 |
| Vadim Yakovlev | 28 |
| Alexei Yankevich | 28 |
| Pavel Oderov | 17 (of 18 possible) |
| Pavel Kolobkov | 21 (of 21 possible) |

Mechanisms to provide succession of the company's management

Building a succession model for the company's executive bodies and other key executive roles is an important task for the Board of Directors.

The company's approach to succession planning is based on the development of candidates for executive roles at the corporate centre and the group's subsidiaries, and their comparison with external professionals.

That allows us to:

- develop candidates with unique sets of skills and competencies;
- build a comprehensive system for developing high-potential employees;
- monitor the competitiveness of the company's leadership capital;
- reduce the cost of recruiting managers from the external market;
- ensure an effective succession of key management roles;
- increase the predictability of the succession process for the Board of Directors and shareholders.

Gazprom Neft plans to increase managerial versatility in order to reduce boundaries between 'functional silos', which is a significant factor in supporting Gazprom Neft's transformation, since cross-divisional and cross-functional transfers facilitate the translation of best practices and create positive conditions for implementing changes.

The Committee decided to create a career track for each candidate in the talent pool who has been earmarked for development. The career track includes both short-term goals relating to expanding the area of responsibility or moving to a next possible role, as well as long-term plans for further growth up to the position of Gazprom Neft's CEO. Career-track planning also takes into account opportunities for cross-divisional and cross-functional transfers.

priority right of appointment to a target position. In the reporting year, the Centre for Talent Management held more than 70 talent committees in subsidiaries, functions and units, allowing us to build a talent pool of more than 2,000 employees for the company's key top-100 and top-1,000 management roles.

We are interested in ensuring that employees use a systematic approach to career planning and discuss their goals with management. This will allow us to build effective succession chains.

ALEXANDER DYUKOV
Chairman of the Management Board, CEO, Gazprom Neft

In the reporting year, the Centre for Talent Management held more than 70 talent committees in subsidiaries, functions and units, allowing us to build a talent pool of more than 2,000 employees for the company's key top-100 and top-1,000 management roles.



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Remuneration of members of governance bodies

Members of the Board of Directors are not subject to any form of additional financial incentives, including long-term incentives and forms of share incentives (share options).

Remuneration of members of the Board of Directors

Remuneration of members of the Board of Directors is governed by the Regulation on Remuneration and Compensation of Expenses of Members of the Board of Directors of Gazprom Neft PJSC, which provides transparent mechanisms for determining the amount of remuneration to be paid to members

of the Board of Directors and regulates the term and procedure for such payment, as well as compensation for expenses incurred by members of the Board of Directors.

Members of the Board of Directors are not subject to any form of additional financial incentives, including long-term

incentives and forms of share incentives (share options).

That Regulation does not apply to members of the Board of Directors who are members of the company's Management Board.

Procedure for determining the amount of remuneration of members of the Board of Directors

The base part of the remuneration is payment for performing the duties of a member of the company's Board of Directors.

The amount of the base part of remuneration of a member of the Board of Directors is determined in accordance with the formula $V = E \times t / 365$, where:

V : amount of the base part of remuneration to be paid to a member of the Board of Directors;

E : amount equal to 0.005% of Gazprom Neft PJSC's EBITDA under IFRS

according to the consolidated accounting (financial) statements for the reporting year;

t – time of performance by the Board of Directors members of their duties in the period for which remuneration is paid, in days.

The size of the base part of remuneration of a Director who participates in fewer than half of the meetings of the Board of Directors shall be reduced by 50%.

In addition to the base portion of remuneration, members of the Board

of Directors are paid additional remuneration for performing the functions of Chairman of the Board of Directors, member of a board committee and Chairman of a board committee.

The total amount of remuneration paid to members of the Board of Directors in 2020 was ₽520.9 million (the amount of remuneration includes personal income tax). No expense reimbursement relating to participation in the Board of Directors was made to any member of the Board of Directors during 2020.

Provisions of the Annual Bonus Policy apply to members of the company's Management Board, with the exception of the CEO.

The annual bonus comprises three parts:

- annual bonus for business results;
- annual bonus for employee's personal contribution;
- bonus for outstanding contribution based on year-end results.

The bonus for business results is approved based on the outcomes of fulfilment of 'the performance

contract': a list of financial and operational indicators and business initiatives at Gazprom Neft, in general, and its subsidiaries and business units individually. The list of financial and operational indicators is formed out of strategic targets approved by the Board of Directors.

The bonus for personal contribution to a unit's or the company's performance is determined in accordance with assessment approved at a meeting of a recently established collegial body, the Contribution Assessment Committee. In evaluating an employee's contribution, the committee takes into account the fulfilment of business initiatives, absence of malpractice and participation in the development of transformational initiatives in the area of industrial safety, the Operations Management System (OMS) and the Corporate University. The committee may also take decision to recognise merit of an employee who has made a significant contribution to a unit's or the company's performance by paying a merit bonus equal to one, two or three months' salary.

In order to improve the efficiency of the financial incentive system in achieving annual targets and, consequently, the company's strategic goals, the Board of Directors has approved the Annual Bonus Policy, which is the main document in the area of interrelating the established KPIs and the level of annual incentive remuneration for employees of the company and its subsidiaries.

Remuneration of members of the Management Board

The company has in place a well-defined and fair remuneration scheme for senior and top management which provides a link between short-term goals and the size of bonus payments. In addition to bonuses linked to short-term outcomes, the company has an incentive system based on the dynamics of the company's market capitalisation over a three-year period.

The remuneration of members of the Management Board consists of several parts:

- base remuneration;
- annual bonus;
- long-term incentive programme (LTIP).

In order to improve the efficiency of the financial incentive system in achieving annual targets and, consequently, the company's strategic goals, the Board of Directors has approved the Annual Bonus Policy, which is the main document in the area of interrelating the established KPIs and the level of annual incentive remuneration for employees of the company and its subsidiaries.

The long-term incentive programme, based on shareholder value growth, is an integral part of the Gazprom Neft Group's long-term Growth Strategy and is a factor in management's remuneration for increasing the Group's shareholder value over a certain period.

The Programme's key objectives:

- ensuring growth of the company's efficiency in the long term;
- aligning interests of the company's shareholders and senior management;
- ensuring a balance between short-term results and the company's long-term sustainable development;
- efficient recruitment and retention of top managers

in the company, based on the best international and Russian industry practices;

The Programme is implemented subject to the positive dynamics in the company's market capitalisation over the Programme's three-year cycle. The Programme is available to Gazprom Neft Group's key management personnel subject to their fulfilment of certain responsibilities. The amount of remuneration is measured at fair value as at the end of each reporting period, and is payable at the end of a three-year term of the Programme. Remuneration is subject to certain market conditions and obligations, which are taken into account in determining the amount that may

be paid to eligible employees. Expenses are recognised throughout the entire life of the plan.

Income accrued to members of the Management Board in 2020 was ₽1,321 million. Payments include remuneration for the reporting period, bonuses, supplements and allowances, as well as annual paid leave during the reporting period.

No additional remuneration was paid to members of the Management Board for their work in Gazprom Neft's management bodies or its subsidiaries, in 2020.

The company did not extend loans (credits) to any member of the Board of Directors or Management Board.



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Meeting the 2020 strategic targets approved by Gazprom Neft Gazprom Neft's Board of Directors

Remuneration paid to Gazprom Neft PJSC's management bodies¹ (₽ thousand)

| Index | 2020 (adjusted plan) | 2020 (actual value) | Management body | 2020 |
|---|----------------------|---------------------|--|------------------|
| Normalised consolidated earnings before interest, taxes, depreciation, and amortisation (EBITDA, ₽ billion) | 463.2 | 485.2 | The Board of Directors | 520,951 |
| Economic value added (EVA, ₽ billion) | (182.7) | (164.0) | Management Board, including CEO's remuneration | 1,321,264 |
| Return on average capital employed ¹ (ROACE, %) | 5.7% | 6.2% | | |
| Debt/EBITDA | 1.8 | 1.3 | | |
| Total proved and probable reserves, including shares in affiliates ² (mtoe) | 3,724 | 3,908 | | |
| Reserve-replacement ratio (RRR, %) | 102% | 151% | | |
| Production volume (mtoe) | 95.9 | 96.1 | | |
| Oil ³ and gas-condensate production (million tonnes) | 60.3 | 60.5 | | |
| Gas production (bcm) | 43.1 | 43.1 | | |
| Refining throughput (million tonnes) | 40.2 | 40.4 | | |
| Sales of premium oil products (million tonnes) | 23.1 | 23.1 | | |
| Conversion rate (%) | 86.2% | 85.9% | | |
| Labour productivity (₽ million per employee) | 28.55 | 29.92 | | |
| Net investment, including divestment (₽ billion) | (381.3) | (399.6) | | |
| Normalised free cash flow (FCF) under IFRS (₽ billion) | (22.2) | 156.4 | | |

Directors' and officers' liability insurance (D&O)

Gazprom Neft has maintained D&O (directors and officers liability insurance) indemnity for directors and officers throughout the Gazprom Neft Group since 2011. This insurance provides indemnity for the company's directors and executives against potential claims from third parties

that may arise from unintentional and/or erroneous actions by officers. The D&O policy covers litigation costs for directors and financial expenses from any claims filed against directors in connection with performance of their duties.

The total aggregate limit for all insurance coverage and extensions is €47.6 million. The coverage is worldwide.

The company selects the insurer on the basis of the company's competitive procedures. The insurer under the corporate insurance policy in 2020 was SOGAZ.



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¹ – Calculated under IFRS using adjusted EBIT and income tax rate, and including joint ventures.

² – Under PRMS classification.

³ – Including condensate and natural gas liquids (NGL) production.

¹ – To ensure comparability of indicators, data for calculating payments to members of management bodies is given for those years in which remuneration was paid.

Risk management and internal control

The Gazprom Neft's Board of Directors approved the Risk Management and Internal Control Policy (PT-0102/14 of 26 March 2020), which defines the goals, objectives and principles of the organisation and operation of the risk management and internal control system, and identifies this system's participants and components.

That policy designed to develop and further improve Gazprom Neft's risk management and internal control system, increasing its reliability and efficiency, and ensuring sufficient guarantees of achieving the company's goals.

Internal control operates on the principle of its integration into all key business processes of the company. Control procedures are designed to ensure that the necessary measures are taken to mitigate risks affecting the achievement of the company's goals. Control procedures are implemented across all management levels in accordance with requirements set out in the company's internal regulations. The scope of control procedures depends on the level of management and functional area, and is developed by business units in accordance with the company's tasks and objectives.

Internal control tasks:

- developing, implementing, properly executing, monitoring and improving control procedures across all levels of the company's business and management;
- informing management bodies at the relevant level about any significant lack of control, with proposals for corrective measures;
- ensuring the continuity of the company's business and its maximum efficiency, as well as its sustainability and development prospects, including timely adaptation of the company to changes in the internal and external environment;
- ensuring high-quality information, methodological and analytical support in the company's managerial decision-making;
- proper distribution of responsibilities, powers and functions among internal control participants and avoiding duplication of functions;
- continuous improvement of the internal control system in the area of information technologies; and
- timely resolution of conflicts of interest arising in the course of the company's operations.

Participants in the company's risk management and internal control system and distribution of roles among them

The composition of participants in the company's risk management and internal control system, and distribution of roles relating to the organisation and maintenance of an effective internal control system among them are described below.

The Gazprom Neft Board of Directors, as part of its overall management of the company, carries out the following functions:

- creating an appropriate control environment, introducing a culture of internal control, maintaining high ethical standards across all company levels;
- defining principles and approaches to setting up and running the company's risk management and internal control system;
- undertaking analysis and evaluation of efficiency in setting up and running the company's internal control system, including annual review of relevant issues and making recommendations for its improvement (if necessary). Information on the efficiency of the risk management and internal control system is provided to shareholders as part of the company's Annual Report, and also as part of Gazprom Neft Internal Audit and Risk Management Directorate's performance report;
- control over the implementation of instructions and resolutions of the Board of Directors and shareholders by the company's executive bodies;
- control over the company's compliance with laws of the Russian Federation, principles and recommendations of the company's Code of Corporate Governance, and

disclosure of complete and correct information about the company to its stakeholders;

- approval of the Policy in Risk Management and Internal Control.

The Audit Committee performs functions designed to:

- prepare recommendations for Gazprom Neft's Board of Directors on the setting up, running, assessing performance and further improving the company's risk management and internal control system, as well as on other matters within the remit of the Audit Committee (including preparing recommendations based on the board's review of the Internal Control Policy);
- undertake preliminary review of internal control issues;
- carry out preliminary review of the Internal Control Policy (prior to its approval by the Board of Directors);
- conduct analysis and assessment of the company's internal control system effectiveness;
- carry out analysis of the company's financial statements and outcomes of external audit in terms of its compliance with Russian laws, international financial reporting standards (IFRS), Russian accounting standards (RAS), and other applicable legislation and regulations;
- review identified or suspected facts of dishonest actions on the part of the company's employees.

The company's executive bodies and senior management perform functions designed to:

- manage the establishment and efficient running of the risk management and internal control system by way of approving internal regulations on the scope and procedures for carrying out internal control procedures by the company's business units in their areas of activity;
- create the proper control environment, implement an internal control culture and maintain high ethical standards across all company levels, which ensures effective organisation and running of the internal control system;
- distribute authority, duties and allocation of responsibility between heads of business units for the creation, implementation, maintaining, monitoring and further improvement of an efficient organisation and running of the company's internal control system;
- carry out regular assessment and training of the company's employees in the field of internal control in connection with changes in internal and external conditions of the company's operations.





Heads of business units and employees of the company perform functions designed to:

- develop, document, implement, execute, monitor (self-assess) and further improve control procedures within their respective competencies and within their area of responsibility;
- inform in a timely way their immediate supervisors about cases when the execution of control procedures became impossible for any reasons, and (or) a change in the organisation of control procedures is required

due to changes in internal or external conditions of the company's operations.

The Internal Audit Department as a part of the company's Internal Audit and Risk Management Directorate performs the following functions:

- independent and objective evaluation of the effectiveness of the organisation and running of the company's internal control system based on a risk-oriented approach;
- developing and monitoring the implementation of recommendations to eliminate

shortcomings identified in the course of audits;

- providing consultations and support of any interested party within the company regarding the organisation and running of the company's internal control system; and
- communicating results of assessments of the internal control system and suggestions for its improvement to the Audit Committee, the company's executive bodies and, if necessary, to the business unit of Gazprom PJSC performing the internal audit function.

The Audit Commission

The Extraordinary General Meeting of Shareholders of 18 December 2020 approved a new version of the company's Charter which no longer supports the continuation of the Audit Commission. To this end, Gazprom Neft PJSC's Audit Commission was abolished with effect from 18 December 2020.

The Audit Commission was made up of the following members and operated from 11 June 2020 until 18 December 2020.

In 2020, the Audit Commission audited activities of Gazprom Neft in

2019. Based on this audit, an opinion was prepared and presented to shareholders as part of the materials for the annual General Meeting of Shareholders.

Remuneration to members of the Audit Commission was paid on the basis of a decision of the General Meeting of Shareholders. The annual remuneration paid to members of the Audit Commission in 2020 amounted to ₽4.52 million.

Composition of the Audit Commission

From 14 June 2019 to 10 June 2020:

- Vadim Bikulov
- Mikhail Veigel
- Galina Delvig
- Margarita Mironova
- Sergey Rubanov

| Name | Role as at 18 December 2020 |
|--|---|
| Margarita Mironova Chairman of the Audit Commission | First deputy Head of the Management Committee Administration, Head of Department of the Management Committee Administration, Gazprom PJSC |
| Galina Delvig | Head of Internal Audit and Risk Management Directorate, Gazprom Neft PJSC |
| Inna Tolstikova | Chief Economist of the Department of the Management Committee Administration, Gazprom PJSC |
| Mikhail Veigel | Head of Unit, Gazprom PJSC |
| Vadim Bikulov | Deputy Head of Department, Head of Section of the Management Committee Administration Department, Gazprom PJSC |

The Internal Audit Department as part of the Internal Audit and Risk Management Directorate

The company conducts internal audits to systematically and independently evaluate the reliability and effectiveness of corporate governance, as well as the risk management and internal control system.

Gazprom Neft's Internal Audit and Risk Management Directorate reports functionally to the Board of Directors' Audit Committee and reports directly to the company's CEO.

The function of internal audit is carried out by the company's Internal Audit Department forming part of the Internal Audit and Risk Management Directorate, and whose head is appointed by approval of the Board of Directors of Gazprom Neft PJSC.

The key objective of the Internal Audit Department within the Internal Audit and Risk Management Directorate is to provide the Board of Directors (through the Audit Committee) and company management (the CEO and the Management Board) with independent, objective, reasonable and substantiated guarantees and consultation aimed at improving the company's operations. The Internal Audit Department contributes to the achievement of the company's goals by using a systematic and consistent approach in evaluating and improving the effectiveness of corporate governance, risk management and internal control processes.

In order to perform its assigned tasks, the Internal Audit Department performs, among other things, the following key functions:

- developing and submitting for approval to the Audit Committee the Internal Audit Department's work plan, including the annual and forward audit plans;

- organising and conducting in accordance with the established procedure internal audits and consultations in the company and across its entities, based on Russian and international best practices of internal audit;
- independent and objective evaluation of the reliability and effectiveness of the organisation and running of the risk management, internal control and corporate governance systems in the company based on a risk-oriented approach;
- communicating results of the assessment of internal control, risk management and corporate governance systems and proposals for their improvement to the Audit Committee and executive bodies of the company;
- developing and submitting proposals on eliminating shortcomings and malpractices, their causes, as well as recommendations to the company management on improving the company's operations;
- providing consulting support to stakeholders within the company regarding organisation and running of the company's internal control, risk management and corporate governance systems;
- bringing in, within the limits of the approved budget of the Internal Audit Department (if necessary), independent external consultants and experts in accordance with the established procedure for providing internal audit services;
- control over the completeness and timeliness of the implementation of measures designed to further improve the internal control system, corporate governance processes and risk management,
- control over the completeness and timeliness of the execution of instructions from the company management based on the results of audits;
- collation, summary and analysis of information required to perform functions that are the responsibility of the Internal Audit Department, as well as following separate instructions from the company management;
- organising and further improving the work of the Internal Audit Department on the basis of professional standards;
- participating in the development, implementation and operation of automated management systems in the area of internal audit within the company, as well as coordination of their development across subsidiaries;
- developing and implementing the Internal Audit Quality Assurance and Improvement Programme agreed upon by the Audit Committee;
- developing recommendations to improve the company's activities and eliminate shortcomings on the basis of audits, special inspections, investigations, and consultations, and communicating these to those people who can ensure that they are duly considered;
- evaluating the effectiveness of anti-fraud and anti-corruption measures in the company;
- organising the system for collecting and processing information on the signs and evidence of fraud and corruption: the hotline for countering fraud, corruption, and other violations of Gazprom Neft's Corporate Code;
- control over the completeness and timeliness of the execution of instructions from the company management based on the results of audits.

The Head of Internal Audit and Risk Management reports, on at least a semi-annual basis, to the Audit Committee and the Board of Directors on the results of the Internal Audit and Risk Management Directorate's activities during the reporting period, and provides on a regular basis information as part of ongoing in-person and absentee meetings on other matters falling in the remit of the Audit Committee.

Throughout 2020, the Internal Audit Department completed all audit projects planned for the reporting period, both in the areas of corporate governance, information technology and investment activities, as well as across the company's core production lines of business. As part of these projects, the Internal Audit Department focused on

the analysis, identification and assessment of critical strategic areas in various areas of the company's business.

In particular, internal audits focused on such production processes as planning, implementation and monitoring of well interventions; seismic surveys; oil transhipment and sea transportation; production and sales of petroleum products; and energy efficiency and reliability of process equipment at refineries.

In 2020, the Internal Audit Department also completed audits of cross-functional areas of the company's operations, including those related to assessing the effectiveness of internal controls over processes in finance, information technology, industrial safety and Gazprom Neft's investment activities.

In addition, the Internal Audit Department audited the company's financial (accounting) statements as part of the activities of the company's audit teams.

Taking into account recommendations of the Internal Audit Department, the company's management has developed and is implementing a set of measures to improve the effectiveness of the business-processes internal control system and is updating the internal regulatory and methodological framework. In addition to performing audits, the focus of the Internal Audit Department's attention was on developing consulting services aimed at further improving the company's business.

Gazprom Neft's Internal Audit and Risk Management Directorate is headed by Galina Delvig.

Born in 1960.

Graduated from Plekhanov Moscow Institute of National Economy. Has headed the internal audit function in Gazprom Neft PJSC since 2008. She is a member of audit commissions in Gazpromneft-NNG, Gazpromneft-Aero, Slavneft, Gazpromneft Moscow Refinery, Tomskneft, Gazpromneft Omsk Refinery, FC Zenit.



GALINA DELVIG

Shareholding (as at 31 December 2020)

none

External auditor

To verify and confirm the accuracy of its annual financial statements, the company engages on an annual basis a professional auditing organisation from among major international auditing companies that has no property ties with the company or its shareholders.

The basic principles for organising and conducting external audits, procedures and criteria for selecting auditors, and approaches to ensuring auditors' compliance with principles of independence and absence of conflict of interest are set out in the Policy on the organisation and conduct of external audit in Gazprom Neft PJSC, its subsidiaries and affiliates.

The auditor is selected on the results of a competitive tender based on the evaluation of the following criteria:

- qualifications and experience of the bidder in the subject matter, including experience in auditing companies of the oil and gas sector;
- ensuring data protection and complying with requirements of credit agreements (including rating agencies);
- financial parameters: cost of services, terms of payment;
- independence: the auditor's independence is not in breach if revenue per one client does not exceed 15% of the auditor's total revenue (in accordance with the requirement of the Ministry of Finance of the Russian Federation, item 2.112 of «Rules of Independence of Auditors and Audit Organisations», and international requirements: clause 290.219 of IESBA Code of Ethics).

The company's auditor is approved by the General Meeting of Shareholders on proposal of the Board of Directors. Preliminary assessment of candidates among auditing organisations is carried out by the Audit Committee.

In June 2020, the Annual General Meeting of Shareholders elected Financial and Accounting Consultants

Limited Liability company (FBK LLC) as auditor for 2020.

During 2020, the Audit Committee made the following decisions relating to external audit:

- to recommend to the Gazprom Neft Board of Directors that LLC FBK be nominated as a candidate for auditor of Gazprom Neft PJSC for 2020 to conduct an audit in accordance with Russian Accounting Standards (RAS) and in accordance with International Financial Reporting Standards (IFRS);
- to recommend to the Gazprom Neft Board of Directors that the assessment of the auditor's opinion on Gazprom Neft PJSC's 2019 accounting (financial) statements prepared by FBK LLC be included in the materials to be presented to shareholders in preparation for Gazprom Neft's Annual General Meeting of Shareholders;
- to take note of information on the outcomes of the Gazprom Neft external auditor's performance evaluation based on 2019 results;
- to take note of information on approaches to conducting external audits and the plan and procedures for conducting the external audit of Gazprom Neft in 2020;
- to recommend to the Gazprom Neft Board of Directors that the amount of remuneration to Gazprom Neft PJSC's auditor, FBK LLC, in 2020 be ₽18,129,500 (excluding VAT), including:
 - ₽8,003,000 (excluding VAT): services for audit of annual accounting (financial) statements prepared in accordance with the Russian Accounting Standards (RAS);
 - ₽10,126,500 (excluding VAT): services in relation to the audit of Gazprom Neft Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).
- to take note of information on the progress of the external audit of Gazprom Neft's 2020 accounting (financial) statements (based on external auditor's report).

The Board of Directors' Audit Committee approves tender documentation for the conduct of a closed tender by Gazprom Neft for the selection of an audit organisation to conduct a compulsory audit of Gazprom Neft's accounting, financial and interim abridged financial statements.


Policy on the organisation and conduct of external audit in Gazprom Neft PJSC, its subsidiaries and affiliates



In order to assess the quality of the external auditor's work, the Audit Committee reviews the external auditor's reports, management statements and, if necessary, conducts face-to-face meetings with the auditor's representatives.

Based on recommendations of the Audit Committee, the Board of Directors determined the fee for the audit of Gazprom Neft PJSC's 2020 financial (accounting) statements in the amount of ₽18,129,500 (excluding VAT), including:

- ₽8,003,000 (excluding VAT): services for audit of annual accounting (financial) statements prepared in accordance with the Russian Accounting Standards (RAS);
- ₽10,126,500 (excluding VAT): services in relation to the audit of Gazprom Neft Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

FBK LLC does not provide bookkeeping or financial statement preparation advisory services to the company.

Risk management

The Gazprom Neft's Board of Directors approved the Risk Management and Internal Control Policy (PT-0102/14 of 26 March 2020) on 26 March 2020, which defines the goals, objectives and principles of the organisation and operation of the risk management and internal control system, and identifies this system's participants and components.

The Policy is designed to develop and further improve Gazprom Neft's risk management and internal control system, increase its reliability and efficiency, and ensure sufficient guarantees of achieving the company's goals.

Risk management is built around the principle of integrating risk analysis and management tools into all key corporate processes. Responsibility for risk management and risk reporting is determined in accordance with the system of line and functional management. Each risk is assigned an owner responsible for its management. Risk coordinators among managers are identified at the level of each function and its key business process. Their role is to disseminate and support application of corporate risk management

principles. Timelines and tasks for risk analysis take into account the specifics and requirements of each business process at the level of which risk management is carried out.

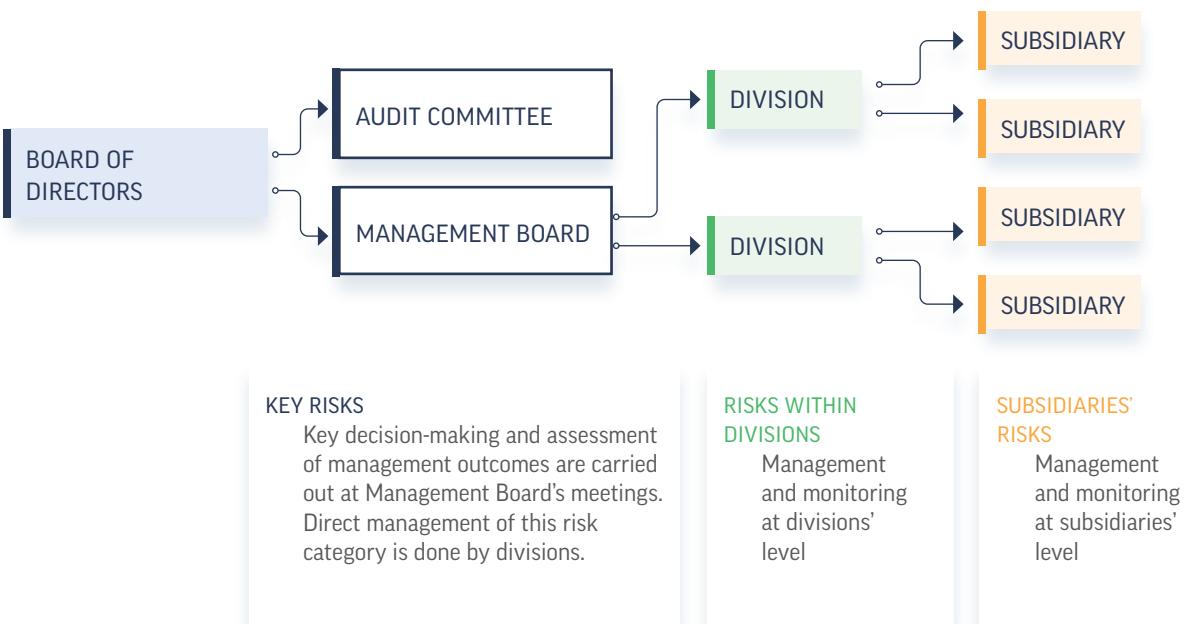
This approach makes it possible to form areas of responsibility for risk management and to monitor risks at all levels of the company management. It also makes possible to develop target plans to respond to significant risks both in every company's subsidiary and across Gazprom Neft as a whole.

Objectives in risk management:

- developing risk management culture in order to achieve a common understanding of basic principles and approaches to risk management among management and employees;

- developing and deploying a systematic approach to identifying and assessing risks inherent both in the company's operations as a whole, and in its individual areas of activity;
- stimulating the exchange of information on risks between business units of the company and joint development of actions to manage these;
- presenting systematic information on risks to the company's management bodies.

Levels of financial impact of risk and distribution of authority



To achieve these goals, the company has developed and operates a unified approach to the risk management process.

Risk management is an integral part of Gazprom Neft's internal environment and includes:

- implementation of a risk-oriented approach to all aspects of production and management activities;
- conducting a systematic analysis of identified risks;
- building a system for risk control and monitoring the effectiveness of risk management activities;
- ensuring that all employees understand the basic principles

and approaches to risk management adopted in the company;

- ensuring the necessary regulatory and methodological support; and
- allocation of authority and responsibility for risk management among the company's business units.

The company continuously expands and updates its methodological framework for risk management, including general recommendations on the quantitative assessment of risks and detailed methodologies to assess the most significant risks.

As at the end of 2020, the risk management system covered all of Gazprom Neft's significant assets. The newly launched projects or acquired in-operation assets are included in the coverage of the risk management system.

In 2021, the company plans to continue developing regulations and methodology on the analysis of individual significant risks and integrating risk analysis into decision-making processes. There are also plans to expand the company's training programme for managers and employees on the use of risk management tools and approaches.

Risk Management within the Gazprom Neft Group



Risk profile

1. Strategy-related risks

1.1. The risk of not achieving strategic goals

The situation in the crude-oil and petroleum-product markets, as well as the external political and regulatory environment, are constantly changing. At the moment, in the company's opinion, there remains a high probability of unstable dynamics in the crude-oil and petroleum-products market.

The state of the global fuel and energy market depends in the long term on such complex factors as the rate of economic growth, the level of international cooperation, the speed of technology development and the intensity of decarbonisation policy. These factors drive changes in the key parameters of the environment in which the company operates, such as oil prices and oil product consumption volumes, the tax regime, technology accessibility and international development opportunities.

Significant changes in the external environment may affect the relevance of the company's strategic goals and the ways to achieve these.

The company continuously analyses the external environment and takes into account relevant threats and opportunities in its approach to managing its project portfolio. The company allocates resources among major strategic projects and those projects that provide a quick return on investment, and thus the ongoing sustainability of the company.

To achieve the goals set out in its strategy, the company is transforming its management system. That includes digital, cultural and organisational transformation, which will ensure the necessary flexibility in management and speed of decision-making.

The company sees one of its most important tasks to be the development of an ecosystem of partnerships, which will ensure improvement of key competencies by attracting partners for joint development of scientific, human and intellectual potential across all levels of interaction with business, the state and society.

A focus on flexibility in decision-making, technology development, and improvement of operational efficiency and safety allows the company to demonstrate strong operational results and consistent positive dynamics of its financial and economic indicators, every year.

It is expected that the main contribution to production growth throughout the 2020s will come from new assets already in operation, along with those to be commissioned in the near future. The remaining part of the company's production portfolio will be formed by entering into new prospecting zones, bringing in unconventional and hard-to-recover reserves, including the Bazhenov formation, the Domanic, Paleozoic and Achimov deposits, monetising liquid hydrocarbon reserves in the Nadym-Pur-Taz region, as well as by developing offshore projects.

The company also intends to realise the potential of emerging market niches by creating innovative products, to continue organic growth in developed petroleum-product markets, and to maintain leadership in terms of its sales-network efficiency in Russia.

2. Financial risks

2.1. Contractor credit risk

Credit risk is a risk of the group incurring financial loss as a result of a customer or contractor failing to perform their contractual obligations. This risk is mainly associated with the group's existing receivables from customers and with investment securities.

Trade and other receivables are attributable to a large number of counterparties operating in various industries and geographic locations. Gazprom Neft implements a number of measures to manage credit risk, including the following:

- assessing counterparty creditworthiness;
- setting individual financial limits and payment terms depending on the counterparty's financial standing;
- control over upfront payments;
- measures for handling problems with accounts receivable by business segment, etc.

2.2. Risks of debt capital financing

Sanctions imposed against Gazprom Neft by the US, EU and a number of other countries have significantly reduced the range of financing instruments available to the company.

The company effectively manages the risk associated with debt capital financing. Despite the sanctions imposed by the United States, the European Union and a number of other countries against Gazprom Neft in 2014, the company fully implemented its 2020 debt financing programme. The company also entered into loan facility agreements with extended drawdown periods, including revolving loans, giving the company's finance policy additional flexibility and improving efficiency in liquidity management. The company is also looking into alternative sources of financing.

2.3. Foreign exchange risk

The group is exposed to the foreign exchange risk mainly due to borrowings denominated in currencies different from the functional currencies of respective group enterprises, which are primarily the local currencies of the group enterprises. For example, the functional currency for enterprises operating in the Russian Federation is the Russian rouble. The US dollar and euro are the currencies in which the major portion of the above borrowings is denominated.

Assets and liabilities denominated in foreign currencies significantly reduce the foreign exchange risk: the current structure of revenues and liabilities acts as hedge mechanism in which cash flows in different currencies offset each other. The Group applies hedge accounting for its cash flows denominated in foreign currencies to prevent profit-and-loss volatility.

2.4. Interest rate risk

Some borrowings across the group were obtained at floating rates (tied to EURIBOR or the Bank of Russia's key rate), while others were obtained at fixed rates.

In the event of a decline in interest rates, fixed-rate borrowings may become less effective compared to floating-rate borrowings, and vice-versa. The group maintains a balanced debt portfolio allowing it to minimise risks of negative impacts arising from adverse changes in interest rates. In addition, the group's treasury conducts periodic analysis of current interest rates in the capital market, on which basis hedging instruments may be employed, if necessary.



3. Market risks

3.1. Risks of decline in demand for oil and oil products

The risk management strategy sets out mitigation of this risk's consequences on the company's financial stability and involves implementing the following measures:

- optimisation of production programmes and material flows. The company's high level of modernisation and process flexibility of its refineries, as well as the use of cutting-edge digital systems for integrated planning across the entire value chain, allow it to respond to turbulence in external environment and changes in market demand in a predictive manner, while ensuring at the same time the maximum efficiency in petroleum product mix, timely booking of pipeline throughput capacity and storage volumes of crude oil and finished products, as well as optimum redistribution of commodity flows;
- optimisation of the company's costs. As part of its response to decline in business activity both in Russia and globally due to the impact of epidemiological factors, the company is implementing the cost optimisation programme, which involves suspending the financing of mass cultural and sporting events, cutting down advertising and sponsorship costs, as well as general, administrative and educational expenses. A well-balanced approach to cost optimisation allows the company to increase the concentration of human and material resources deployed on fulfilling the top-priority tasks to improve the company's financial stability;
- long-term fixed-volume-and-price contracting. Based on its historical status as a reliable partner, the company enters into fixed-volume and price agreements with key contractors allowing the sharing of risks of macroeconomic volatility, and at the same time guaranteeing contractors long-term cooperation and stable financing of works and services.

3.2. Risks associated with potential changes in the prices of purchased raw materials and services

Gazprom Neft uses the infrastructure of natural monopolies and other market-dominating entities in the course of its business activity, in particular for crude oil and petroleum product transportation and power supply, and it also uses raw materials and services purchased from a wide range of suppliers. The company has no control over the infrastructure of such natural monopolies and other entities dominant in their markets, their tariffs, under which payments to such entities are effected, and the pricing policies of suppliers of raw materials and services.

The company implements a number of measures to reduce the impact of such risks:

- long-term planning of commodity flows, timely booking of crude oil and petroleum product pipeline capacities and the necessary railway rolling stock;
- optimal redistribution of commodity flows by type of transport;
- use of alternative and own power-generating capacities;
- long-term contracting on fixed-volume and price terms for the entire duration of contracts;
- application of transparent formulas for price revision under long-term contracts for services that are highly sensitive to market fluctuations.

These measures make it possible to reduce to an acceptable level risks associated with the use of services and the purchasing of goods from monopoly suppliers and ensure uninterrupted operations of the company.

3.3. Risks associated with possible changes in prices for oil and petroleum products, gas and products of gas refining

The company's financial results are directly linked to prices for crude oil and petroleum products. The group is unable to fully control prices for its products, which depend on fluctuations in the global and domestic supply-and-demand balance in oil and petroleum products, as well on the actions of regulators.

The company has a strategic and business planning system involving the scenario-based approach, which assesses key performance indicators under a wide range of external conditions, including crude oil and petroleum product prices. This approach makes it possible to respond to changes in market conditions, including by way of reducing or postponing investment programmes and other mechanisms.

These measures make it possible to reduce the risk to an acceptable level.

3.4. Risks relating to industry competition

In the Russian oil and gas industry there is competition between the leading oil and gas companies in the main areas of production and economic activities, including:

- acquisitions of subsoil licenses for hydrocarbon production through auctions/bidding rounds organised by state agencies;
- acquisitions of other companies holding subsoil licenses for hydrocarbon production or owning existing assets related to hydrocarbon production;
- engaging leading independent service companies;
- procurement of high-tech equipment;
- recruiting the best experienced and qualified specialists;
- accessing transport infrastructure;
- acquisitions of existing and construction of new assets/facilities, which lead to the increase in sales to end-customers.

In addition, there is competition from suppliers of energy sources that are alternatives to oil and gas, including coal, nuclear, and renewable energy.

Implementing a portfolio of strategic projects aimed at the ongoing development of Gazprom Neft's key business areas, ensures the company's gradual strengthening of its position in the oil and gas industry, while maintaining the risks associated with industry competition at an acceptable level.

3.5. Risks relating to possible changes in the economic environment

The Russian economy remains responsive to global market prices for crude oil, natural gas and other commodities. Negative price trends for oil and petroleum products on the global market and the slowdown of the global and Russian economies may have an adverse effect on the company's business, curbing revenues and commodity market volumes, as well as increasing the cost of financial and other resources.

In order to reduce the negative impact of this risk on the company's performance, work is undertaken to preserve the balance between domestic and export sales, crude oil production and refining, as well as to maintain the focus on expanding premium sales channels and increasing sales volumes outside Russia.

Gazprom Neft's subsidiaries also contribute to the national economy as major taxpayers and take part in major infrastructure projects and projects of high social impact. The company continuously enhances its production facilities and works towards improving operational efficiency, including through implementing investment projects, upgrading and modernising its plants and equipment.

4. Operational risks

4.1. Risks associated with conducting geological exploration

A key strategic objective for the company is to increase its hydrocarbon resource base in terms of quantity and quality in order to ensure the necessary level of production which, in turn, largely depends on the success of exploration activities.

The main risks associated with exploration activities include the failure to confirm planned levels of hydrocarbon reserves and evident deterioration in quality of the resource base. An important task for the company is to carry out exploration works in various geographical regions, including areas with challenging climatic conditions and environmental constraints, which often leads to the risk of increased underlying cost levels. Risk estimates are dependent on a number of variables and assumptions, including:

- the relationship of the historical productivity level of the producing region and productivity in other regions with comparable characteristics;
- interpretation of geological exploration data; and
- the impact of requirements of state agencies and legislation.

Gazprom Neft has significant experience in conducting geological exploration and applying state-of-the-art geological and geophysical methods of hydrocarbon prospecting and exploration, as well as introducing advanced technologies in drilling and field development, including under challenging climatic conditions, which results in a lower probability of such risks occurring. The company has engaged an auditor, DeGolyer and MacNaughton, to conduct an independent audit of reserves estimated by Gazprom Neft's subsidiaries.

The company actively interacts with government agencies at federal and local levels on issues of sustainable subsoil use.

4.2. Licensing risks

The company carries out its activities in the field of subsoil use on the basis of special permits such as licenses for the right to use subsoil plots, which determine the designated purpose (type of subsoil use), spatial boundaries, term and mandatory conditions of subsoil use. The current legislation of the Russian Federation provides for administrative liability for unlicensed use of a subsoil area and, in some cases, there may be risk of criminal liability.

In case of early termination of subsoil use right, the company may incur both reputational risks and material losses related to the costs of the acquisition of the subsoil use right, investments made in the development of the subsoil area and decrease in capitalisation due to the loss of a resource base.

One of the main tools for managing this risk is the automated software suite «The Subsoil Use Monitoring System» implemented in the company. This includes a risk matrix on the material conditions of subsoil use, which allows us to assess the current status of risks based on matrix indicators and plan for an acceptable level of risks in the future.

The status of current and potential licensing risks, as well as the implementation of planned mitigation measures, are reviewed every quarter at meetings of standing regional licensing commissions in subsidiaries.

Responsibility for maintaining subsoil licenses is placed on general directors of the company's subsidiaries.

4.3. Project risks

The company continually develops and implements investment projects designed to achieve its strategic goals, in particular, to increase hydrocarbon extraction volumes and improve the quality of its products. In the course of project implementation, the company faces various risks, the realisation of which may lead to failure in meeting deadlines and/or increased project costs. The main reasons for such risks are incorrect planning, violation of project terms and conditions, and safety requirements by contractors, as well as the emergence of new circumstances (increase in materials' prices, errors in assessing the state of infrastructure and changes of equipment suppliers).

The company manages these risks by paying considerable attention to the stage of design and approval of investment projects. In 2014, a risk management system was introduced into the process of preparing and implementing major projects.

This system is based on the approach generally accepted in the global industry of identifying the value of a project by applying the Stage-Gate process with assessment of project risks at each project stage. Contractor requirements are formed on the basis of risk assessment, as well as taking into account applicable legislation of a country in which the project is implemented. Furthermore, the company has implemented a project monitoring system.

4.4. Human resources risks

The company's business is predicated on highly-qualified key personnel, to which end the insufficient number of qualified workers, particularly in the engineering and technology areas, may give rise to understaffing risks. The company's success depends to a large extent on the efforts and abilities of key employees, including qualified technical personnel, as well as the company's ability to recruit and retain such personnel. Recruitment competition in Russia and abroad may worsen due to the limited number of qualified specialists in the labour market. The inability to attract new qualified personnel and (or) retain existing qualified personnel may adversely affect the company's attractiveness as employer. The demand and associated costs for qualified employees is expected to continue to grow, reflecting significant interest in them from other industries and public projects.

The company offers safe workplaces and competitive salaries, participation in large-scale projects and interesting professional tasks, and provides employee training based on specially created programmes.

In addition, the company also improves recruitment procedures and implements initiatives aimed at reducing employee turnover and stimulating self-development of personnel.

4.5. Health, safety and environment (HSE) risks

Risks associated with infringement of industrial, workplace safety and environmental legislation, as well as risks of accidents (fatalities and health-related workplace incidents, fires/explosions/accidents, incidents with federal-level environmental impact) are associated with the possible suspension of operations at facilities and revocation of licenses.

In the area of HSE, the company strives to achieve its strategic "Target Zero" meaning zero harm to people, the environment, or property in the company's operations. In addition, pursuant to Gazprom Neft's development strategy to 2030, the company aims to become a global industry benchmark in terms of technology and safety.

Key focus areas here include:

- organisation of safe production based on the analysis, management and minimisation of production risks;
- reduction of work-related injuries, occupational diseases, accidents and negative impact on the environment;
- consistent implementation of the world's best practices in the field of industrial safety.

The company is fully aware of its responsibility to society for preserving the environment. It monitors its activities to ensure compliance with applicable requirements and standards, and implements initiatives in the area of industrial and workplace safety.

The philosophy behind industrial safety risk management is predicated on a risk-oriented approach and the principle of integrating the mitigation of industrial safety risks throughout the company's key business processes.

The company implements the Safety Framework project to manage key occupational safety risks, under which 31 scenarios of possible negative consequences and guaranteed implementation of risk mitigation measures ('barrier setting') have been identified.

As part of implementing the risk-oriented approach, the company focuses on the following solutions:

- basic barrier – to place barriers in the way of priority risks throughout the company's assets and guarantee their reliability;
- competence barrier – to ensure that only competent personnel have been cleared to work;
- digital barrier management – eliminating the human factor where reasonable.

The company implements environmental protection measures, including the use of technologies to minimise adverse environmental impact. This work has resulted in a significant reduction in the likelihood of environmental emissions risks.

4.6. Risks relating to information technology, automation and telecommunications

Development of the company's business is inextricably linked with the increasing dependence of business processes on the quality of information technology, and means of automation and telecommunications (ITAT) employed.

Development of ITAT is currently one of key factors in increasing the company's competitiveness and efficiency. That positive effect notwithstanding, it is also associated with a number of uncertainties and related risks (ITAT risks).

The factors giving rise to ITAT risks are various in nature and relate to the management of ITAT activities, the functioning of IT systems (primarily production and payment ones) and to the projects to further develop these. There is a further risk of being unable to purchase and use foreign software and equipment due to sanctions and other restrictions.

Gazprom Neft PJSC being a major high-tech company pays special attention to managing ITAT risks, acknowledges their existence and strives to manage them on a systemic basis.

The company's goal in ITAT risk management is to increase the ability to effectively achieve business objectives by predicting the impact of ITAT risk factors and ensuring maximum effectiveness of measures to manage ITAT risk.

This goal is achieved through introducing a single and cohesive approach to the identification and assessment of ITAT risks, creating the culture of ITAT risk management, encouraging information exchange between company's business units and joint implementation of measures in ITAT risk management.

The company constantly monitors and scrutinises both known and emerging ITAT risks. The Department for Information Technology, Automation and Telecommunications is responsible for developing regulations governing the ITAT risk management processes, and implements a number of measures designed to minimise the impact of such risks, including:

- ensuring the identification, analysis, assessment and acknowledgement of ITAT risks;
- ensuring an optimum strategy for responding to and implementing measures to manage ITAT risks; and
- ensuring ongoing monitoring of ITAT risks, as well as control over the implementation of measures in ITAT risk management.

5. Pandemic

5.1. Risks associated with the possible spread of COVID-19 to company employees or contractors

The company has established a response office, chaired by Gazprom Neft's CEO, which is the company's central coordinating body for managing the "Pandemic" risk. That office, together with offices across divisions and subsidiaries, performs overall coordination of activities in three areas: "Antivirus" "Operational Reliability", and "Financial Stability"

The management of this risk is carried out by selecting, implementing and monitoring, at the company-wide level, safety barriers designed to prevent and minimise the consequences of possible undesirable events relating to the spread of the pandemic among company employees and contractors.

6. Regulatory risks

6.1. Risks associated with the EU and US further strengthening sanctions

Since 2014, the US (taking into account the adopted changes in the US sanctions regime in 2017 and 2018), countries of the European Union and a number of other countries have imposed sanctions on the Russian energy sector and a number of Russian companies in other industries.

The strengthening of the sanctions regime may have a negative impact on the overall situation in the industry and may also have a specific impact on the company's emerging projects and the ability of its counterparties to fulfil their obligations.

These sanctions have had a minor impact on Gazprom Neft's business and financial standing. As a response measure, the company is implementing a dedicated import substitution programme for services and equipment. The company has no reason to believe that any new sanctions will specifically target it, even though these may have a selective impact on the company's emerging projects.

Based on the assessment of the impact of sanctions, the company management believes they have no impact on the consolidated financial statements.

6.2. Political risks

The current political situation in Russia is stable, which is characterised by the stability of the federal and regional branches of government. Gazprom Neft PJSC is registered as a taxpayer in St Petersburg, which is the second largest city of the Russian Federation and the administrative centre of the North-West Federal District, with significant natural resource potential, highly developed industry, and an extensive transport network.

Gazprom Neft has subsidiaries in the Central, North-West, Urals, Volga, Siberian, and Far-Eastern federal districts.

Overall, the company assesses the political situation in the country as stable and believes that no risks of negative changes can be currently anticipated.

6.3. Corruption risks

As the company actively enters new international markets, risks of exposure to US and UK anti-corruption laws are increasing.

Gazprom Neft implements a Corruption Risk Management Strategy on an ongoing basis. The company has approved its Anti-Fraud and Anti-Corruption Policy. In addition to which, all subsidiaries across the Gazprom Neft Group have been given

recommendations for adoption of similar regulations. Familiarisation and compliance with provisions of that Policy is mandatory for all Gazprom Neft employees. In order to train employees on key provisions of the Anti-Corruption Policy and the Corporate Code, Gazprom Neft has developed interactive training courses, which all current and newly hired employees are required to complete. To control corruption risks when dealing with external counterparties, standard anti-corruption clauses were developed and approved by order of Gazprom Neft's CEO, and are now included in contracts with third parties (both Russian and foreign).

The company runs a 24/7 anti-fraud and anti-corruption hotline. Internal investigations are always carried out upon receipt of messages on that hotline.

6.4. Risks relating to changes in court practice on issues relevant to the company's operations

In the current system of law enforcement in the Russian Federation, the legal positions of higher courts (the Constitutional Court of the Russian Federation, the Supreme Court of the Russian Federation) are of great importance, as they can affect the company's conduct of its business activity.

Gazprom Neft regularly monitors rulings of the highest courts and assesses trends in law enforcement practice at the level of arbitration courts across Russia's federal districts, actively applying and using these not only to protect its rights and legal interests in court, but also in resolving legal issues arising in the company's operations. To that end, risks relating to changes in court practice are deemed insignificant.

At the same time, it should be noted that court practice on issues relating to activities of oil and gas companies is not always developed systematically, so it is difficult to predict its further development with sufficient certainty. In particular, the practice of the Supreme Court may undergo changes that may have a negative impact on the company's current and future legal actions.

6.5. Risks relating to changes in Russian tax legislation

Key companies in the Gazprom Neft Group are among the largest taxpayers in the Russian Federation and pay federal, regional and local taxes, in particular mineral extraction tax (MET), excess profits tax from hydrocarbon production (EPT), excise tax, value added tax (VAT), corporate profit tax, mandatory insurance contributions, corporate property tax, and land tax.

The Russian Federation's tax system is constantly evolving and improving. Any possible increase in tax rates paid by the company in the course of its business activities, as well as any possible reduction in applicable tax concessions may result in increased expenses and decrease in the amount of funds available to the company for financing its current operations, capital expenses and performance of obligations, including those under bonds that have been issued.

- Virtually any company in Russia could potentially suffer losses as a result of claims from tax authorities that may arise in relation to past periods, as well as current operations. The company, nonetheless, assesses these risks as medium. Gazprom Neft believes that the impact of liabilities arising from such potential events on its operations will not be more material than the impact of similar liabilities on any other Russian oil company that has state participation. In order to reduce risks associated with changes in Russian tax legislation, Gazprom Neft thoroughly analyses draft laws and adopted legislation in the field of taxation.

The most significant recent changes in the Russian tax legislation affecting the company's operations are:

- changes in MET rates, export duties and excise taxes as a result of the implementation of the tax manoeuvre, and the increase of the tax burden in 2020.
- changes in taxation relating to depleted fields by granting the right to use the EPT regime instead of reduced MET rates;
- introducing, from 2019, the negative excise tax on raw petroleum feedstock, taking into account the damping component, which characterises the deviation of motor fuel prices on the domestic market relative to the exported alternative;
- introduction from 2021 of investment deduction on raw petroleum feedstock excise tax, designed to stimulate the modernisation of refining facilities.

The company assesses and forecasts the level of a possible negative impact of changes in the Russian tax legislation, directing every possible effort to minimise risks associated with such changes. A number of companies in the Gazprom Neft Group take part in tax monitoring as an innovative form of tax control. Such monitoring makes it possible to obtain a reasoned opinion of the tax authority in order to clarify disputable situations relating to tax calculation, increase the speed of tax control measures and significantly reduce the time needed for control measures, which ultimately enables companies to promptly respond to the position of tax authorities in disputable situations and effectively manage tax risks. This approach is particularly important as Gazprom Neft Group companies apply new oil industry tax regimes (excess profits tax, tax concessions for new offshore fields).

6.6. Risks associated with changes in customs regulations and duties

Gazprom Neft is engaged in foreign trade, which exposes the company to risks associated with changes in Russian law concerning state regulation of foreign trade, as well as customs legislation of the Eurasian Economic Union, governing relations in establishing the procedure for moving goods across the customs border of the Eurasian Economic Union, the establishment and application of customs regimes, and the introduction and collection of customs duties.

As a risk, we can highlight the possibility of the Government of the Russian Federation changing customs duty rates (both import and export) for certain goods, in respect of which the company concludes foreign-trade transactions, as well as changes in law enforcement practices in the field of customs regulation. The main negative consequences of these risks are higher costs and lower export efficiency.

The company complies with the customs legislation of the Russian Federation and the Eurasian Economic Union, executes in a timely manner all documentation required for both export and import operations, and has sufficient financial and human resources to comply with customs regulations and to respond promptly to changes in customs laws and law enforcement practices.

The most significant recent change in the Russian customs legislation affecting the company's operations is the cancellation of special formulas for calculating export duty rates for crude oil, previously established under the law "On Customs Tariff".

6.7. Risks relating to the revision of mandatory requirements, adherence to which is assessed in the course of state control (supervision)

The audit of control and oversight powers of state agencies has been conducted on the basis of a new mechanism called the regulatory or legal guillotine. Review and updating of internal regulations containing mandatory requirements, adherence to which is subject to control on the part of state agencies, has been carried out. A significant part of the legal arrangements has undergone changes. More than 11,000 regulations have been revoked (the vast majority of which were obsolete). As a result, the number of administrative barriers and unjustified costs for businesses is being reduced. Despite the expected positive effect, there are risks of inconsistent law enforcement practices.

Management of these risks and mitigation of their impact is carried out through participation in the policy-making process: conducting expert reviews at specialised platforms, consolidation of opinion with industry and business-community leaders, as well as continuous monitoring of legislative changes and analysis of enforcement practices.



7. Country risks

7.1. Risks associated with foreign assets

Gazprom Neft is implementing a number of foreign projects designed to expand the geographic footprint of its production activities. Entering markets in new regions creates both the possibility of gaining additional competitive advantages, as well as the risks of underestimating the economic and political situation in countries where the company has assets, which may lead to failure to achieve target efficiency indicators. Gazprom Neft operates in a number of countries (Iraq, Angola) with a high level of risk, the realisation of which can significantly complicate such activities or even lead to their termination.

The main factors that could have a negative impact on Gazprom Neft's operations in such countries include:

- destabilisation of the political situation;
- the spread and intensification of military conflicts;
- macroeconomic instability;
- forced alienation of the company's assets; and
- ineffective legislative framework and legal system.

The vast majority of Gazprom Neft's upstream and downstream assets are concentrated in the Russian Federation, so the impact of this risk is limited. At the same time, the company seeks to diversify its international operations.

In implementing projects in high-risk countries, the company places higher demands on such projects' level of return. In addition, in the event of deterioration of the political or socio-economic situation in a region where the company operates, Gazprom Neft can implement a number of anti-crisis measures, including cost reduction, optimisation of the investment programme, reduction of participation share in the project, and engagement of partners.

Gazprom Neft currently assesses the level of risks associated with foreign assets as acceptable, but cannot guarantee that there will be no negative changes, as the described risks are beyond the company's control.

8. Risks of engaging partners

8.1. Risks of engaging partners

The unstable macroeconomic environment means attracting partners for joint projects has become both critical and difficult. With large-scale cuts in investment budgets, potential partners reduce their activity and decisions to enter new projects are postponed indefinitely.

The sanctions regime imposed by the US since 2014 (taking into account the adopted changes in the US sanctions regime in 2017 and 2018), countries of the European Union and a number of other countries is an additional constraint to developing partnerships.

The company is continuously working with potential partners and considers the possibility of engaging partners from the Russian Federation and Asia-Pacific regions that have not imposed sanctions on offshore, Arctic, deep-water and shale projects.

As part of this process, regular negotiations and meetings are held, including with representatives of state agencies, including: the Government, the Ministry of Energy, the Ministry of Foreign Affairs and the Ministry of Economic Development of the Russian Federation.

Compliance system

Gazprom Neft's compliance system includes processes designed to prevent unlawful actions by the company's employees, regardless of their position. The aims of the processes include:

- combating fraud and corruption;
- preventing the misuse of insider information;
- preventing manipulation of the securities market;
- complying with requirements of antitrust laws and protecting competition;
- complying with ethical standards and norms;
- complying with the company's values; and
- risk management in the area of company officers' personal responsibility.

Identification of conflict of interest

The shareholders and management interact on the basis of trust, strong business culture and ethical standards and the company seeks to maintain the balance between their respective interests. The company's majority

shareholder has sufficient votes to make decisions on a significant number of issues that fall within the remit of the General Meeting of Shareholders, as well as to decide on the composition of the Board of

Directors. The company, nonetheless, strives to apply measures to mitigate the risks associated with a management structure characterised by a significant concentration of shareholding.

The ownership structure is transparent, and the rights and obligations of shareholders and the disposal of property rights are clearly defined in the company Charter and internal regulations, which are publicly available.

The company adheres to the principle of equal voting rights of shareholders and has put in place mechanisms to protect voting rights. These mechanisms are described in the company's internal regulations.

The key elements for preventing conflicts at shareholder level are:

- complying with the rules and procedures for decision-making on the most significant issues;
- complying with procedures for concluding related-party transactions;
- engaging independent appraisers who are recognised as having authority in determining property value in related-party transactions;
- ensuring maximum transparency both in the preparation for the

shareholders' meetings and in how the meetings are conducted as well as prompt disclosure of information on the decisions made by the Board of Directors;

- disclosure of information on related-party transactions.

In this context, according to the company's 2020 financial statements, transactions with related parties were carried out in the ordinary course of business and had a clear economic rationale. The most frequent type of transactions are sales and purchases of oil, oil products and gas;

- putting in place anti-dilution mechanisms to offset dilution of the company's value. To this end, the procedure for organising and conducting the selection of counterparties for the procurement of goods,

works and services is carried out in accordance with the Procurement Regulation approved by the Board of Directors, which is mandatory throughout all Gazprom Neft's subsidiaries.

Gazprom Neft has approved internal regulations (the Corporate Code and the Corporate Governance Code) that set out the values and principles underpinning the establishment and development of the company's corporate culture.

That Code regulates situations in which conflicts of interest may arise, including acceptance of gifts, use of Company assets and resources, interaction with stakeholders, and handling of confidential and insider information.

There is a telephone hotline, as well as an e-mail address and special mailboxes that allow employees to report violations anonymously.

Gazprom Neft has established an Ethics Committee, which is the company's key collegial body, the main purpose of which is to monitor compliance with the Corporate Code, including the enforcement of measures to control incentivisation and liability. The Committee also acts as an appeals body, reviewing claims against decisions of ethics committees at subsidiaries.

The Committee plays a crucial role in shaping the new corporate culture, setting a benchmark for employee behaviour in line with the company's values and acting as an authority in ethically debatable situations.

The composition of Gazprom Neft's Ethics Committee was changed in 2020 as part of an annual rotation. Due to the importance and significance of the issues that the Committee addressed, it was decided to change the composition of the Committee in order to increase the seniority

of its members to the level of the company's Management Board. The updated Committee includes Elena Ilyukhina, Deputy CEO for Legal and Corporate Affairs, Kirill Kravchenko, Deputy CEO for Administration, and Vadim Yakovlev, Deputy CEO for Exploration and Production.

We created a section in the company's Intranet portal dedicated to the Ethics Committee, where every employee can ask a question, see answers to frequently asked questions in the Q&A library, and get acquainted with

results of the Committee's work. Tutorials on how to act in the most frequently encountered ethical disputes have been created for employees. In addition, we share examples of such cases with all employees through our internal communications channels.

To implement individual principles of the Code, the company has adopted the necessary internal regulations, relating to such areas as access to confidential information, trade secrets, and HR policy and talent development.

- The Chairman of the Board of Directors, where the nature of the matter under discussion or the specifics of the conflict of interest require so, may advise the member of the Board of Directors having the relevant conflict of interest not to attend the meeting at which the matter is discussed;
- Members of the Board of Directors and individuals related to them are prohibited from accepting gifts from parties interested in decision-making, as well as from enjoying any other direct or indirect benefits provided by such persons (except for symbolic tokens of attention in accordance with generally accepted rules of courtesy or souvenirs during official events).

In addition to that, the company carries out investigations of members

of the company's Management Board and their relatives to identify any conflicts of interest upon their employment in the company. Pursuant to Regulations on the Management Board its members may combine their participation in management bodies of other organisations, as well as their partial employment, only by consent of the company's Board of Directors.

The company reconfirms on a quarterly basis information on participation of members of its Management Board and Board of Directors in other organisation.

The company collects and processes information on beneficial owners of contractor companies that have entered into contracts with Gazprom Neft or its subsidiaries.



Corporate Code

Gazprom Neft is focusing strongly on the transformation of its corporate culture and the development of shared values, as the basis for effective work and constructive dialogue.

Gazprom Neft's Corporate Governance Code establishes the Board members' obligation to refrain from actions that will or may lead to a conflict of interest, to refrain from voting on issues in which they have personal interest, and not to disclose or use for their own benefit or the benefit of third parties any confidential and/or insider information about the company.

The Corporate Code defines exactly what constitutes a conflict of interest, it sets out the control points in managing conflicts of interest, and specifies those roles in which employees are most likely to be exposed to conflicts of interest. It also contains examples of situations in which a conflict of interest may arise.

The main points of control in managing conflicts of interest include:

- contractor selection and liaison;
- the system of settlements and payments, particularly in connection with involvement of agents/intermediaries;

- hiring company personnel;
- involving employees in political and state activities;
- charitable and sponsorship activities;
- gifts and entertainment expenses.

Employees who are in top management roles and the management of business units whose functions include conducting external relations and contacts on behalf of the company are the employees who are most exposed to conflicts of interest.

The Code contains the requirement for company employees to inform their line managers and the Corporate Security Directorate of all cases of corruption, fraud, embezzlement, conflict of interest or suspicion of such cases. There is a telephone hotline, as well as an e-mail address and special mailboxes that allow employees to report violations anonymously. Reports to the company hotline may also be sent by third parties who are not employees of the company, in particular, by contractors. The results

of the hotline operation, including statistics on received (processed) reports and identified violations, are reviewed by the Board of Directors on a biannual basis. 230 reports were received on the hotline in 2020.

Regulation on the Board of Directors contain a section «Identification and Prevention of Conflict of Interest among members of the Board of Directors», which sets out procedures designed to avoid conflict of interest in the Board of Directors as follows:

- a member of the Board of Directors facing a potential conflict of interest, including his/her personal interest in a transaction by the company, such member shall notify the Board of Directors of such situation by sending a notice to its Chairman or the Secretary to the Board of Directors;
- information on a conflict of interest, including any interest in a transaction, shall be included in materials distributed to Board members at the meeting;

Combatting fraud and corruption

The company has adopted an Anti-Fraud and Anti-Corruption Policy, which is a fundamental internal regulation applicable to the whole company and its subsidiaries in the area of anti-corruption.

This Policy defines the concept of fraud and other terminology in the area of anti-corruption. It also shapes the approach of the company's senior management, who have put in place a single and cohesive ethical standard for zero-tolerance of any type or form of corruption. The Policy specifies methods and procedures used in the company for combating fraud and corruption, in particular, the company hotline, internal investigations, and prosecutions of identified fraud cases.

The company's Deputy CEO for Security and Head of Internal Audit and the Risk Management Directorate report on a periodic basis to the company's management on anti-fraud and anti-corruption matters.



Anti-Fraud and Anti-Corruption Policy

The Anti-Fraud and Anti-Corruption Policy includes training for company employees in the zero-tolerance approach to fraud and covers the underlying applicable legislation.

Countering misuse of insider information

Management and organisation of the company's efforts in preventing, identifying, and combating the misuse of insider information is governed by Regulation on Gazprom Neft PJSC's Insider Information, which was approved by the Board of Directors in December 2019.

The company's Corporate Governance and Project Support Department monitors regulatory requirements and ensures they are complied with.

In 2020, the Board of Directors reviewed the report of the Head of the Corporate Governance and Project Support Department on Gazprom Neft PJSC's compliance with legal requirements on combating unlawful use of insider information and market manipulation.

Guidelines for internal control to prevent, identify and combat unlawful use of insider information and/or market manipulation at PJSC Gazprom Neft were approved in 2020.

As at 31 December 2020, Gazprom Neft PJSC's insiders included 531 individuals and 43 corporate legal entities. The company maintains a list of insider roles which is updated upon hiring or dismissing employees to these positions. All contracts entered into with any individuals and legal entities are examined for their exposure to the company insider information. The Board of Directors approved a prohibition period of 30 calendar days before the date of publication of the company's annual and interim financial (accounting) statements and/or its Annual Report.

During the period of 30 calendar days from the date of transaction with Gazprom Neft's financial instrument, the insider's position (portfolio) shall remain unchanged.

Access to insider information is granted only to those persons included in the List of Insiders. Confidentiality of information is ensured by persons on such list being notified of their liability for any dissemination of such insider information, and such notifications being acknowledged and signed by such "Insiders". The risk of insider information being made available without appropriate notification has been minimised with the commissioning of the «Automatic Notification of Company Insiders» module, since inclusion in the List of Insiders and forwarding of appropriate notifications occurs automatically once an Employment Contract has been entered into and the relevant individual included in the Company's Employee Register (an integral part of the SAP HR records system). The company monitors insider dealing by distributing questionnaires on transactions involving company securities.

There were no cases of insider information use in transactions carried out by insiders throughout 2020. Members of the Board of Directors and the Management Board did not perform any transactions with shares in the reporting year.


Regulation on Inside Information of Gazprom Neft PJSC

531 insiders –
individuals

43 insiders –
legal entities

Transparency

The company aims to communicate information on its activities on a timely and regular basis to all interested parties and to the extent necessary to make an informed decision about participating in the company or taking other actions that may affect the company's financial and economic activities.

The Board of Directors has approved the Regulation on Information Policy. The implementation of the company's information policy is carried out by Gazprom Neft's executive bodies. Compliance with the Information Policy is overseen by the company's Board of Directors.

The Board of Directors' Audit Committee reviewed the implementation of the company's Information Policy in 2020, including information on Gazprom Neft's full compliance with legal requirements in information disclosure.

The company Charter and internal regulations, information on equity structure, governing bodies, independent auditor and registrar, as well as information subject to disclosure in forms as established by applicable legislation and the company's internal regulations, including Gazprom Neft's Annual Reports, are made available through the company's official website in Internal Regulations section.

The company maintains part of its website as a dedicated Investor Relations portal, providing answers to frequently asked questions from shareholders and investors, a regularly updated investor calendar, dividend history for the last five years, key performance indicators, contact details, and other information useful to shareholders and investors.

Gazprom Neft regularly hosts presentations and meetings of members of the company's executive bodies and other key management representatives with investors and analysts, including those relating

to the disclosure (publication) of accounting (financial) statements or to major investment projects and plans for the company's strategic development.

The company discloses information on its controlled entities on its website, in particular, a list of such entities, their main type of activity, and links to their websites, which complies with recommendations of the Russian Corporate Governance Code.

Pursuant to requirements of Regulations on Information Disclosure, when publishing information on the Internet, the company also uses an Internet page provided by one of the distributors of information on the securities market (Interfax Centre for Corporate Information Disclosure).

One of the most important principles of Gazprom Neft's corporate governance is its information transparency. The company has consistently ranked among leaders in information disclosure in Russian and international awards.

Based on its 2020 results, Gazprom Neft won the annual award For Active Corporate Policy in Information Disclosure instituted by Interfax and AK&M news agencies. The jury for this award includes representatives of the Moscow Exchange, the Association of Independent Directors, and the Russian Financial Communications and Investor Relations Alliance (ARFI). The award criteria include completeness and timeliness of reporting, corporate events, information on corporate governance, the concurrence of disclosures for Russian and international investors, and proactivity and cohesiveness of information policy. In addition to that, the use of interactive formats, the informative value of news content, attention to environmental, social responsibility and corporate governance (ESG) issues was also taken into account. The jury noted

We strive to be a transparent company that discloses both financial and operating results, and provides details on its corporate, social and environmental policies.

ALEXANDER DYUKOV
Chairman of the Management Board, CEO
Gazprom Neft PJSC


Regulation on Information Policy

Internal Regulations section

Investor Relations portal

Interfax Centre for Corporate Information Disclosure

the layout and navigation of Gazprom Neft's Investor Relations portal, citing its greater depth of archives compared to its peers, and it praised the company's active involvement in "The single disclosure window" project.



2020 disclosures, by type

| Type of disclosure | Number |
|---|------------|
| On bond issue | 6 |
| On agenda and resolutions of the issuer's management bodies | 108 |
| On an issuer's disclosure of various types of reporting (quarterly reports, list of affiliated entities, the annual report, consolidated financial report, annual accounts) | 12 |
| On transactions concluded by the issuer and its controlled entities | 24 |
| On changes in participation in other organisations | 6 |
| On accrued and paid income | 35 |
| Other disclosures | 43 |
| TOTAL | 234 |

INSURANCE

Insurance

The Group strictly complies with Russian legislation and legislation of other countries in which the Group enterprises operate, in terms of indemnity coverage, and it purchases all relevant insurance under Russian or any other applicable legislation.

Insurance companies are selected in accordance with contractor selection procedures adopted by the Group.

The Gazprom Neft Group undertakes insurance:

- to ensure effective protection of shareholders' property interests;
- to comply with the law of the Russian Federation;
- to provide efficient loss financing and loss management;
- to receive accompanying consulting services in assessing risks subject to insurance and recommendations on mitigating these risks;
- to implement employee motivation and social benefit programmes as part of the social benefits package.

The Group applies a centralised approach to organising insurance coverage in order to achieve maximum economic efficiency relating to the amount of risk placed on the insurance market. This centralised approach involves the development and implementation of unified approaches to risk insurance across all Group entities. To that end, it is mandatory for all subsidiaries to adopt this approach to insurance. Subsidiaries may submit proposals for further improvements to the Group's existing approach to risk insurance. The Group develops, approves and keeps up-to-date regulations and methodologies concerning certain types of insurance, which take into account specifics of insurable risks.

Insurance coverage of the Gazprom Neft Group includes:

- for oil-producing subsidiaries: insurance of fixed production assets on an "all-risk" basis with indemnity limit of up to ₽4.5 billion for each covered loss for onshore assets, and up to €2.4 billion for offshore assets, including projects on the continental shelf;
- for oil-producing subsidiaries: business-risk insurance (loss of profits and fixed costs during downtime) with indemnity limit of up to ₽800 million for each covered loss;
- for refining subsidiaries: insurance of fixed production assets on an "all-risk" basis, and insurance of business risks (loss of profits and fixed costs during downtime) with a combined indemnity limit (on property and business risks) of up to €0.9 billion for each covered loss;
- export cargo insurance (crude oil, refined petroleum products and petrochemicals) with indemnity of up to \$50 million for each shipment;
- unlimited insurance of construction and installation risks in major construction projects (of total cost over ₽600 million (for oil-production companies), and €50 million (for refining companies), reconstruction and modernisation of main production facilities;
- refueller's liability insurance with indemnity limit of up to \$750 million for each covered loss;
- compulsory (required by law) liability insurance, in particular, compulsory liability insurance of enterprises operating hazardous production facilities and compulsory insurance against civil liability in respect of motor vehicles;

1 – Return on average capital employed.



Company profile



Strategic report



Performance review



Technological development



Governance system



Sustainable development



Appendices

- voluntary medical insurance for employees, accident insurance;
- liability insurance of members of Gazprom Neft's Board of Directors and management with indemnity limit of \$50 million for each covered event (with certain restrictions on insurance coverage for independent directors);
- shipowners' liability insurance with a limit from \$1.0 to \$3.0 billion;
- hull insurance for marine, land and air transport;
- voluntary third-party liability insurance, with extended indemnity pursuant to the Russian Federation's environmental liability with a limit of €500 million for each covered loss;
- control-of-well insurance against a blowout (additional costs relating to a blowout) for wells worth more than ₽600 million, or wells located in oilfields with abnormally high formation pressure and/or temperature, with indemnity limit of up to ₽5.5 billion for each covered loss for offshore wells (offshore projects), and up to ₽6 billion for onshore wells (exploration wells in newly-developed fields);
- accounts receivable insurance for overdue payments for oil products supplied by Gazprom Neft's enterprises, with indemnity limits of up to ₽1.5 billion per customer.

The insurer for most of the Group's risks is SOGAZ JSC, which holds first place in Russia's insurance market. Certain Group's risks are insured with Rosgosstrakh PJSC.

750
up to \$**750** million
refueller's liability
insurance for every
covered loss

SHAREHOLDER AND INVESTOR RELATIONS

Share capital

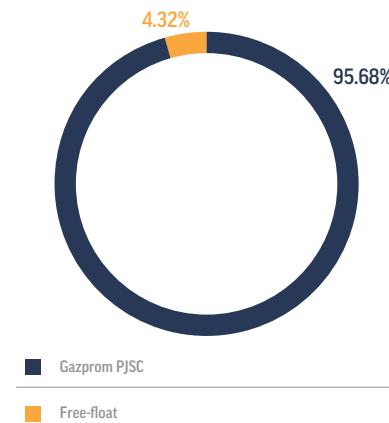
Gazprom Neft's share capital comprises 4,741,299,639 common shares with a par value of ₽0.0016 each. In Russia, the company shares are traded on the Moscow Exchange; abroad, they are mostly traded on the OTC markets in the form of depository receipts (DRs, in the UK, through the LSE IOB system).

As at the end of 2020, the largest shareholder in Gazprom Neft was Gazprom PJSC holding 95.68% of the total number of the company's ordinary shares. The remaining common stock (4.32%) is spread among minority shareholders: individuals and legal entities.

A study into identification of stock owners did not reveal any significant change in the structure of free-float ownership

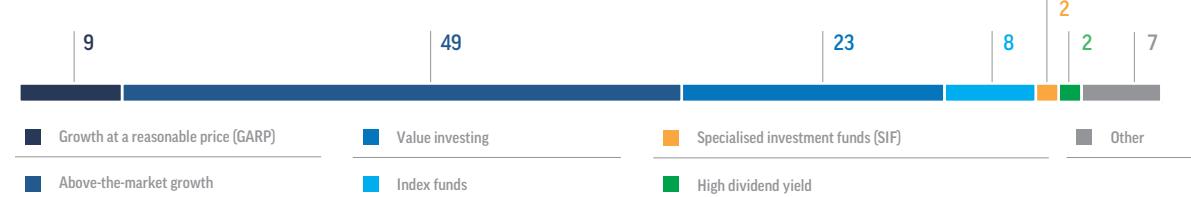
in 2020. Investment funds are for the most part oriented either on stocks with high growth potential (Growth) or stocks currently traded below their fair value (Value). The top 10 institutional investors are focused on long-term investments of two years and up.

Shareholder structure

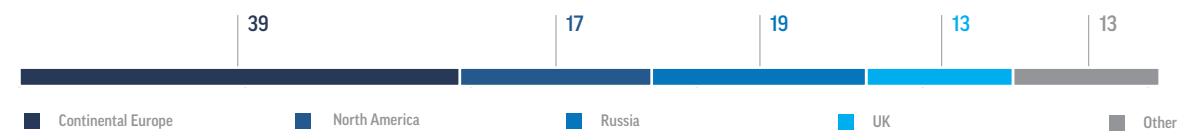


Institutional ownership structure of PJSC Gazprom Neft free-float shares, as at 31 December 2020, %

By investment style



By geography



Key information on Gazprom Neft PJSC shares and DRs as at 30 December 2020

SHARE PRICE ON THE MOSCOW EXCHANGE

| | |
|---------------------------|-----------------------|
| MOEX MIC code / ISIN code | SIBN / RU000,906 2467 |
| Closing price (₽) | 317.0 |
| Closing price (\$) | 4.3 |
| 52-week high (₽) | 470.0 |
| 52-week low (₽) | 240.0 |

PRICE PER ONE DR ON THE LONDON STOCK EXCHANGE¹

| | |
|--------------------|------|
| Closing price (\$) | 21.5 |
| 52-week high (\$) | 37.8 |
| 52-week low (\$) | 15.5 |

ANNUAL TRADING VOLUMES

| | |
|---|-------|
| The Moscow Exchange (₽ billion) | 142.8 |
| The London Stock Exchange (IOB, \$ million) | 250.4 |

MARKET CAPITALISATION ON THE MOSCOW EXCHANGE

| | |
|---|---------------|
| Capitalisation (₽ billion) | 1,502.8 |
| Capitalisation ² (\$ billion) | 20.4 |
| Ordinary shares | 4,741,299,639 |
| Par value of one ordinary share (₽) | 0.0016 |
| Share capital (₽) | 7,586,079 |
| Free-float shares (%) | 4.32 |
| DRs issued | 11,585,199 |
| Proportion of DR in free float (%) | 28 |
| Average monthly trading volume (IOB, \$ million) | 20.9 |
| Average monthly trading volumes (MOEX, ₽ million) | 11,896.0 |

Trading volume in Gazprom Neft PJSC's shares on the Moscow Exchange in 2020 stood at ₽142.8 billion (\$1.99 billion) – a 2.5-fold increase on 2019.

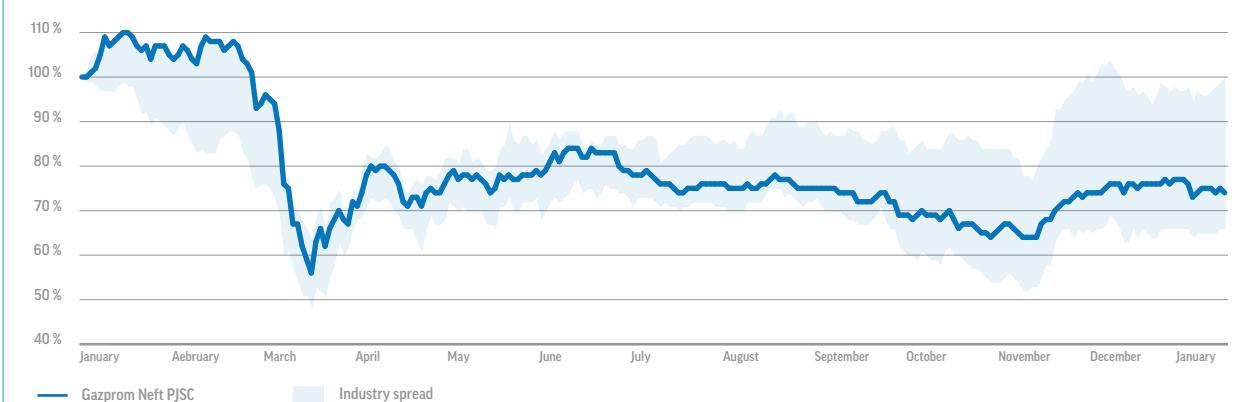
On the last trading day of the year, 30 December 2020, the company's share price on the Moscow Exchange settled at ₽317 per one ordinary share (-24.6% on 31 December 2019). Gazprom Neft's market capitalisation as at the end of 2020 was ₽1,502.8 billion, equivalent to \$20 billion. The year-on-year decline in the company's share price and capitalisation is related to the unique situation in the global stock markets responding to news on the spread of COVID-19.

The share price peaked at an all-time high of ₽470 in early 2020. The launch of key projects, improvement of refining efficiency and financial resilience are the main factors of the company's investment attractiveness and, according to analyst estimates, will contribute to the price recovery of 26% against the closing price, in 2021. At the end 2020, 70% of analysts recommended to hold Gazprom Neft's shares, while 30% recommended to buy. Following the announcement of company's FY2020 results, company shares were recommended for purchase by 45% of analysts.

Gazprom Neft PJSC share price, the MOEX oil and gas index, and the Urals price throughout 2020



Gazprom Neft PJSC share price and the industry trend throughout 2020



¹ – One DR is equivalent to five Gazprom Neft PJSC ordinary shares.

² – At the Bank of Russia's exchange rate as at 30 December 2020.

**142.8 billion
share trading volume²**

Participation in a depository receipts programme

In addition to trading on the Moscow Exchange, American and global depository receipts for the company shares are traded on the OTC markets in the USA, the UK, Germany, and other countries. Depository receipts of Gazprom Neft PJSC are deposited with The Bank of New York Mellon.

One depository receipt represents five Gazprom Neft PJSC's ordinary shares. As at the end of 2020, total company DRs issued equates to 58 million ordinary shares (1.2% of the company's share capital). The decline in the total number of DRs issued for ordinary shares was the result of ongoing redemption throughout the year amidst restrictions on new issues.

Trading volumes in Gazprom Neft PJSC's depository receipts through the London Stock Exchange IOB was \$250.4 million, with average monthly volume standing at \$20.9 million, in 2020.

2020 Gazprom Neft stock trading volumes at MOEX and LSE IOB, \$ million



Sources: MOEX, LSE.

¹ – At the IOB London Stock Exchange.

**\$250.4 million
depository receipt
trading volume¹**

**\$20.9 million
average monthly
trading volume**

Dividends

Dividend policy

The dividend policy is a critical component of corporate governance and the key indicator of how the company observes the rights of its shareholders. Gazprom Neft PJSC's Dividend Policy (revised version dated 29 December 2020) is designed to ensure maximum transparency in the dividend calculation and payment procedure to all stakeholders, including shareholders. It determines the company Board of Directors' approach to developing recommendations for the General Meeting of Shareholders with respect to calculating the amount of dividend to be paid on the company shares, setting the record date, and establishing the dividend payment procedure.

Pursuant to the revised version of the Policy, the dividend payment target amounts to at least 50% of the company's net profit determined on the basis of Gazprom Neft Group's consolidated financial statement (IFRS). Net profit could be offset by:

- foreign exchange gain (loss) recognised in financial income and expenses;
- exchange rate differences on operations-related items;

The approved Gazprom Neft PJSC Dividend Policy is available on the

company's official website, which also provides the company's dividend payment history.

Despite the challenging economic environment due to the fall in oil prices, as well as the decline in demand for energy resources under the COVID-19 pandemic, the company's efficient and timely response turned its net income to the positive side in Q2 2020. The company's financial result was on the rise over three consecutive quarters of 2020. That trend in net profit growth allowed the Board of Directors to recommend the payment of an interim dividend to Gazprom Neft shareholders, which underpins the company's commitment to maintain the balance between implementing its strategic goals and the interests of its owners.

**50%
target dividend
payout ratio**

Despite the challenging economic environment due to the fall in oil prices, as well as the decline in demand for energy resources under the COVID-19 pandemic, the company's efficient and timely response turned its net income to the positive side in Q2 2020.



Dividend history

The company's dividend history

| Index | 2016 | 2017 | 2018 | 2019 | 9 months 2020 | |
|---|--|--|--|--|---|-----------|
| Dividends per share (₽) | 10.68 | 15.0 | 30.0 | 37.96 | 5.0 | |
| Total dividends (₽) | 50,637,080,144.0 | 71,119,494,585.0 | 142,238,989,170.0 | 179,979,734,296.0 | 23,706,498,195.0 | |
| Total dividends paid out (₽, %) | 50,636,890,886.0 (99.99%) | 71,118,331,325.0 (99.99%) | 142,236,616,411.0 (99.99%) | 179,976,587,812.0 (99.99%) | 23,705,787,385.0 (99.99%) | |
| Share of net profit (IFRS, %) | 25.0 | 28.0 | 38.0 | 50.0 ¹ | 50.0 | |
| Record date | 26 June 2017 | 26 June 2018 | 01 July 2018 | 26 June 2020 | 29 December 2020 | |
| Date of the meeting of the issuer's governing body, at which a resolution to pay dividends was adopted (date and minutes reference) | 09 June 2017 Minutes no. 0101/01 of 14 June 2017 | 09 June 2018 Minutes no. 0101/01 of 13 June 2018 | 14 June 2019 Minutes no. 0101/02 of 18 June 2019 | 11 June 2020 Minutes no. 0101/01 of 15 June 2020 | 18 December 2020 Minutes no. 0101/02 of 21 December 2020 | |
| Dividend yield (2020),² % | | | | | | |
| Index | Gazprom Neft | Company 1 | Company 2 | Company 3 | Company 4 | Company 5 |
| Dividend yield | 6 | 6 | 4 | 2 | 1 | 1 |

¹ – H1 2019 – 40%; H2 2019 – 50%.

² – Calculated on the basis of dividends announced throughout 2020, and the share price as at 3 January 2020. Benchmarked against: Rosneft, LUKOIL, Tatneft, NOVATEK, and Surgutneftegas.

Debt management and credit ratings

Debt portfolio

Gazprom Neft relies both on internal sources of financing from operating revenues and borrowed funds to finance its activities. In establishing

the proportion of debt and equity in its capital structure, the company seeks to maintain an optimum balance between overall cost of capital, on the one hand,

and its long-term financial resilience, on the other.

Key principles in debt portfolio management

The company adheres to a fairly conservative debt financing policy. One of the key principles of the debt policy is to ensure high financial resilience, the important metrics of which are the Net Debt / EBITDA and Consolidated Indebtedness / EBITDA ratios calculated for the Gazprom Neft Group. In accordance with terms and conditions of company's facility agreements, the Consolidated

indebtedness / EBITDA ratio shall not exceed three. As at end of the reporting period (as well as throughout the five-year period preceding the reporting date), that ratio was below the above threshold.

Net debt / EBITDA ratio was 1.3 as at 31 December 2020. All other covenants of facility agreements, and bond and Eurobond offering documents were

also fully complied with during the reporting period.

Information transparency of the company's debt policy is facilitated through the disclosure of the Gazprom Neft Group debt portfolio management performance results through the company's official website. The relevant section of the website was updated regularly throughout the reporting year.

Key debt instruments

As at end 2020, the Gazprom Neft Group debt portfolio comprised bilateral credit facilities (including revolving facilities), syndicated credit facilities, local bonds, Eurobonds, and a credit facility guaranteed by the Export Credit Agency (ECA). In addition, the company made a number of project-financing transactions.

When raising debt financing, the company takes into account the features of operations being funded, and the situation on debt-capital markets. The diversified structure of the Gazprom Neft Group debt portfolio makes it possible to maintain a flexible debt policy under volatile financing conditions in debt markets.

In 2020, the Gazprom Neft Group raised loans and borrowings totalling ₽118.3 billion (taking into account short-term borrowings), including:

- local bond offerings in amount of ₽30.0 billion, including bond issue with a record-low coupon rate of 6.2% in the amount of ₽10.0 billion;
- drawdown of ₽88.3 billion (including short-term borrowings) under facility agreements.

Gazprom Neft relies both on internal sources of financing from operating activities and external sources from borrowed funds to support its operations.

The Gazprom Neft Group repaid loans and borrowings totalling ₽129.4 billion in 2020.

The Group frequently implements initiatives to optimise its debt portfolio structure and profile. To this end, during 2020, the company agreed on better conditions for existing loan facilities, and also carried out long-term refinancing of borrowings in amount of ₽100.0 billion ahead of the schedule.

In the context of favourable market conditions in debt capital markets, Gazprom Neft Group managed to

Key characteristics of the debt portfolio

In terms of maturity, long-term borrowings dominate the structure of Gazprom Neft Group's debt portfolio, with the proportion of long-term loans decreasing by 1.6% in 2020 (from 95.8% as at 31 December 2019 to 94.2% as at 31 December 2020), which minimises the risk of not being able to refinance the debt in 2021.

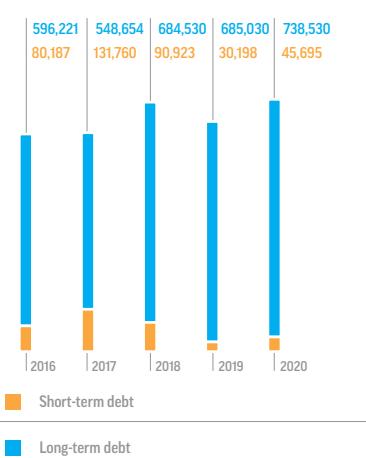
Assets and liabilities denominated in foreign currencies significantly reduce the foreign exchange risk: the current structure of revenues and liabilities acts as hedge mechanism in which

achieve a reduction in the average interest rate on its debt from 6.18% (as at end 2019) to 5.13% (as at 31 December 2020), while increasing the average maturity of its debt from 3.18 (as at end 2019) to 3.23 years (as at 31 December 2020).

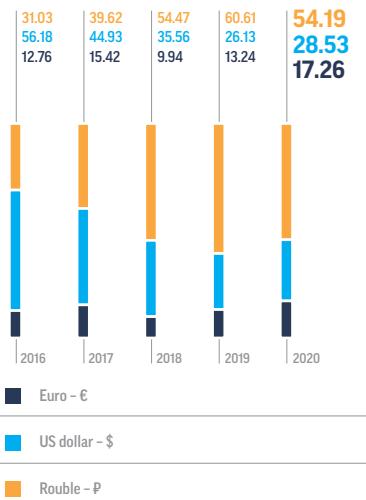
As a result of borrowings and repayments realised during the year and changes in the debt of other Gazprom Neft Group companies, the Group's debt portfolio for the period under review totalled ₽784.2 billion (as at 31 December 2020).

1.3 Net debt / EBITDA ratio

Debt portfolio structure, ₽ million



Debt portfolio structure by currency, %



Debt maturity schedule

According to the 2021–2022 debt repayment schedule, Gazprom Neft

Group expects to reduce its debt refinancing burden.

Potential debt capital sources in 2021

Not only did the Gazprom Neft Group successfully completed its 2020 financial debt programme using the most efficient instruments, and it also took a number of major steps for raising funds during 2021, having signed several facility agreements with banks.

The company intends to further improve the efficiency of its debt-portfolio management in 2021 by selecting the best debt instruments available in line with current market conditions, including, but not limited to, bonds, bank loans, and project financing.

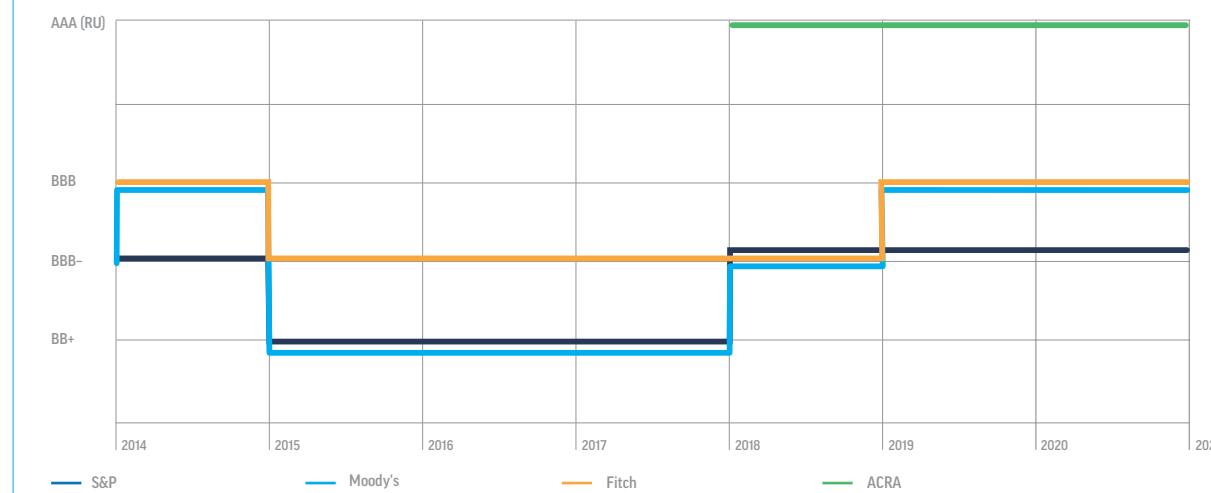
Under the multi-currency exchange-traded bond programme registered in 2018, the company is able to promptly arrange exchange-traded bond offerings with maturity of up to 15 years in a total equivalent of up to ₽95 billion. Under a bond issuance programme registered in 2015, the outstanding drawdown amount is ₽5 billion (with notes' maturity of up to and including 30 years). In addition to that, under the multi-currency short-term bond programme with maturity of up to 364 days, the company may arrange the issuance of exchange-traded bonds in equivalent of up to and including ₽50 billion.

Credit ratings

Throughout 2020, S&P, Moody's, Fitch and ACRA rating agencies affirmed all the company's credit ratings at investment grade with a stable

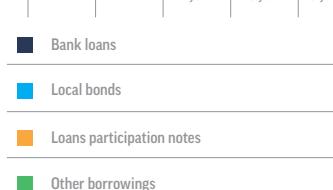
outlook. This attests to the company's financial resilience in an unprecedented environment of falling oil prices and demand.

Gazprom Neft PJSC's credit ratings



Gazprom Neft Group's maturity schedule, ₽ million

| | | | | |
|--------|--------|---------|---------|---------|
| 6,848 | 252 | 200 | 763 | 1,191 |
| 1,970 | 0 | 110,576 | 110,537 | 0 |
| 12,970 | 15,000 | 40,000 | 111,120 | 19,971 |
| 2,297 | 6,358 | 71,038 | 135,094 | 138,040 |



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Shareholder and investor relations

The Company's mission in its work with the investment community is to facilitate a fair assessment of the company's value through timely communication and provision of complete and accurate information about its activities.

Gazprom Neft's activities in this area comply with international best practices and include:

- holding quarterly conference calls for investors and analysts, at which company management presents Gazprom Neft PJSC's operating and financial results and conducts a Q&A session;
- publishing the Management's Discussion and Analysis of Financial Condition and Results of Operations on a quarterly basis, as an appendix to Gazprom Neft's financial statements (IFRS);
- preparing ESG and investor presentations;
- publishing the Databook and Datafeed statistical reference guides to enable comprehensive analysis of the company's operations.

The company launched its new IR website for investors and shareholders. The website significantly enhances the disclosure of information on company's activities, including in the area of sustainable development. The

new IR website was highly rated by investors and analysts, and was among the winners of the Corporate & Financial Awards in the Best corporate website: International nomination. The company's Investor Relations portal is available at <https://ir.gazprom-neft.com>.

The company's IR team and management also meet regularly with investors and shareholders, participate in all major conferences of the investment brokerage community and hold an annual Investor Day, where analysts and investors receive answers to their questions from the company's top management. The company also holds briefings on issues requiring any further clarification and discussion.

Gazprom Neft organises visits to its upstream sites and downstream facilities to keep investors and analysts informed about the company's production assets. In-person meetings and roadshows were, however, limited in 2020 to prevent the spread

of COVID-19. Nevertheless, company representatives held remote meetings with more than 130 investors and analysts and participated in ten online conferences, including for individuals, which had a beneficial effect on the investment community's perception of the company.

The new IR website was highly rated by investors and analysts, and was among the winners of the Corporate & Financial Awards in the Best corporate website: International nomination. The company's Investor Relations portal is available at <https://ir.gazprom-neft.com>.

Institutional investors' views on Gazprom Neft according to the April 2021 Company Perception Survey



Gazprom Neft is one of top companies in Russia's oil and gas industry thanks to its management model, communication with investors on dividend policy and operational performance.



The wide range of upstream projects in the company's portfolio and its secured position in refining favourably distinguish Gazprom Neft among Russia's oil companies.

Analyst assessment of the company events in 2020

| Positive factors | Negative or neutral factors |
|--|--|
| FINANCE | |
| Approval of a dividend policy establishing the dividend payout ratio at 50% Ongoing payment of interim dividends Net debt / EBITDA downgrade | Capital expenditure is driven by market volatility and the need to develop strategic projects Neutral assessment of the effect of tax changes as the company will become one of the main beneficiaries of those changes |
| HYDROCARBON PRODUCTION | |
| Flexible approach to project management, allowing for quick response to market changes Reduction in per-unit operating costs | Restriction of liquid hydrocarbon production under the OPEC+ agreement |
| REFINING AND SALES | |
| The ongoing refinery modernisation programme and implementation of various environmental initiatives | Decline in refining volumes due to lower demand for petroleum products in the face of the COVID-19 pandemic |

Consensus forecast for the Gazprom Neft PJSC target share price

| Broker | Analyst | Date | Recommendation | Price (₽) |
|---------------------|---------------------|------------|----------------|-----------|
| Renaissance Capital | Alexander Burgansky | 09.03.2021 | Hold | 370.0 |
| Sberbank CIB | Andrey Gromadin | 19.02.2021 | Buy | 405.8 |
| Sova Capital | Mitch Jennings | 19.03.2021 | Buy | 434.0 |
| VTB Capital | Dmitry Lukashov | 06.03.2021 | Buy | 453.4 |
| Aton | Anna Butko | 21.02.2021 | Neutral | 351.0 |
| Goldman Sachs | Heydar Mamedov | 15.03.2021 | Neutral | 446.6 |
| Gazprombank | Evgeniya Dyshlyuk | 27.02.2021 | Neutral | 364.0 |
| Bank of America ML | Karen Kostanyan | 18.02.2021 | Neutral | 361.5 |
| BCS | Ronald Paul Smith | 11.03.2021 | Buy | 427.6 |

Investor FAQ



What level of capital expenditure can be expected in 2021? What is the main driver of capital expenditure for you in the near future, in order of priority?

Next year, the company is targeting a capital expenditure level equivalent to that of 2020. We are, however, doing our best to be flexible in adapting the capital expenditure programme to address market demands, including the understanding that underinvestment at this point may lead to increased volatility going forward. That had been made possible for us thanks to our extensive project portfolio, which provides us with options.

The company's priorities in terms of investment are its key major projects such as the Novoportovskoye field, where drilling is underway and the gas infrastructure is being put in place. Moreover, planned growth points for us are projects such as Zima, the Otdalennaya Group of Fields (OGF), the Tazovskoye oil and gas-condensate field and oil rims, which are being implemented under long-term risk-based operatorship agreements. All these projects have the potential to make a significant contribution to production and are planned within the existing infrastructure, which adds to their attractiveness.



Are there any plans to revise the company's dividend policy in light of the economic instability caused by the pandemic?

Gazprom Neft's Board of Directors approved the Regulation on Dividend Policy at the end of 2020, according to which the target dividend payout ratio represents at least 50% of IFRS net profit, subject to adjustments envisaged under that Regulation. The company adheres to ensuring a balance between its strategic goals and interests of its owners.

Despite market volatility, the company paid interim dividends for the first nine months of 2020. The company intends to maintain the practice of interim dividend payments going forward.



What are the company's plans in the area of ESG?

Gazprom Neft is active in the area of ESG and works hard to be at the cutting edge of that initiative. The company joined the UN Global Compact, the largest international initiative in the area of sustainable development and corporate social responsibility, in 2020. In addition to that, Gazprom Neft participated in this year's Carbon Disclosure Project (CDP) ratings for the first time, and was awarded the highest rating of all Russia's oil companies. Gazprom Neft is currently transforming its ESG strategy. The main driver of environmental impact reduction will be the increase in the share of gas production, as well as the development of technologies designed to reduce emissions.



The company had previously planned to reach production of 100 million tonnes of oil equivalent in 2020: how do you estimate production volumes for the year under review?

Despite the difficult market environment and the terms of the OPEC+ deal, we were able to achieve the same hydrocarbon production level at the end of 2020 as in 2019, namely 96 million tonnes of oil equivalent. Under the company's long-term strategy, we expected to reach production level of 100 mtoe in 2020. If you look at the daily production equivalent figure, that level was reached in early spring, before the OPEC+ deal was agreed and signed. We therefore consider that this strategic goal for 2020 was achieved.

We support the decision to limit production: by increasing the cost of oil, we were able to efficiently produce smaller volumes. At the same time, we have diversified our production potential and investments with a focus on condensate and gas, which are not subject to OPEC+ restrictions.



How did the company act in the face of the COVID-19 pandemic?

Gazprom Neft was impressive in the way it met the unprecedented challenges of 2020. Thanks to the agile management model, important decisions were made on time, and Gazprom Neft quickly adapted to the rapidly changing external environment. The Antivirus programme was developed promptly and its implementation prevented disease outbreaks across company facilities. Over 70 different types of safety barrier were developed and put in place to prevent infection, some of which are still in use. Further, we supported the regions in which we operate by providing assistance to hospitals, refuelling ambulances and social-service vehicles at no cost, and supplying medical equipment.

We ensured a high level of protection against COVID-19 for employees, partners and customers, maintained continuity in all operational and production processes and the company's financial resilience.

SUSTAINABLE DEVELOPMENT



The illustration is an artistic visualization of work processes.

The photographs used in the illustration were taken during the pre-pandemic period.

4.5 MILLION
TREES
PRESERVED

0
MAJOR
INCIDENTS

IN SEISMIC SURVEY
OPERATIONS IN 5 YEARS

For more details, see page 54

REDUCED TREE FELLING IN SEISMIC SURVEYS

The project's key objectives:

- Reduce clearcutting
- Mitigate environmental impact
- Reduce injuries

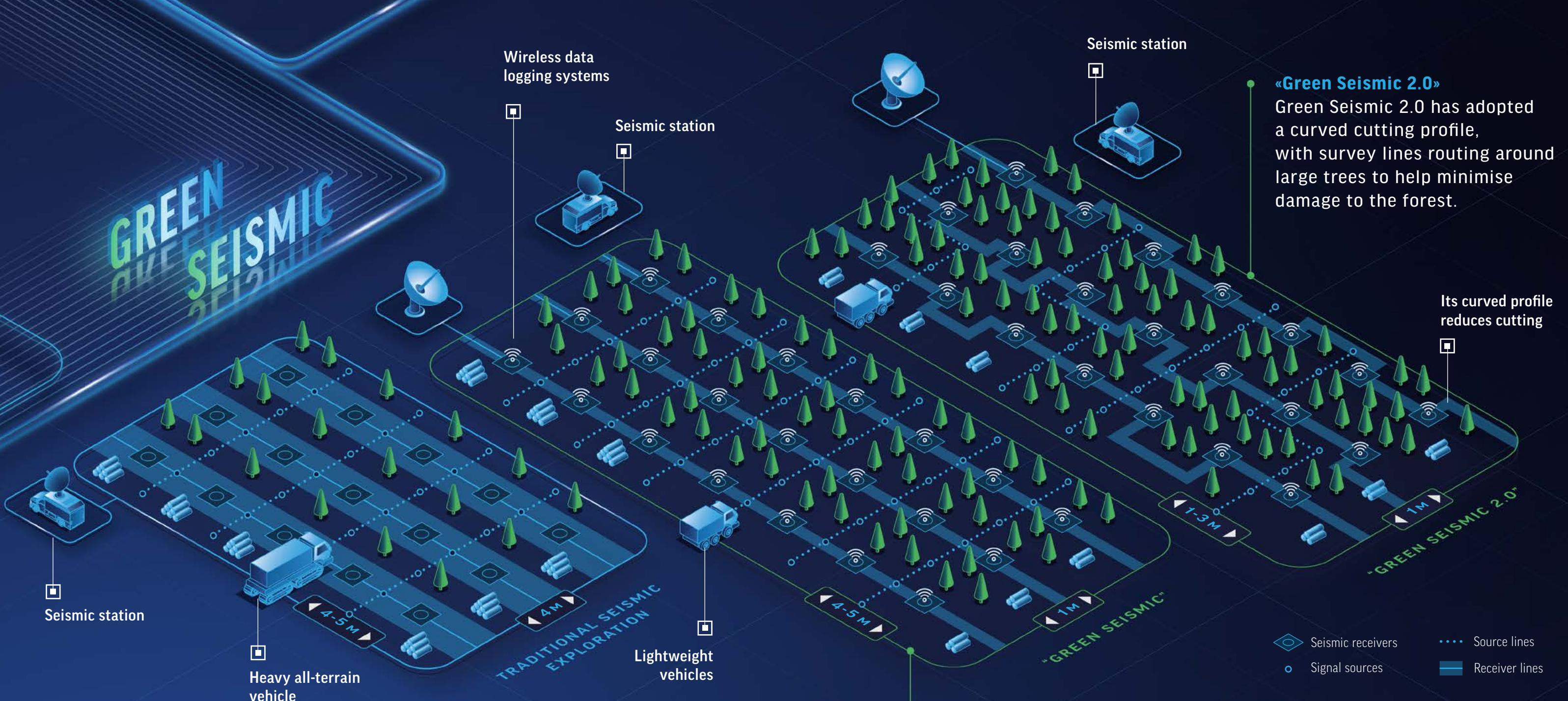
"Green Seismic"
An innovative method of seismic exploration using wireless equipment that only requires lightweight all-terrain vehicles. This eliminates the need to cut wide clearings for heavy machinery.



The project won the Vernadsky National Environmental Award in the Science for the Environment category



**GREEN SEISMIC
IN ACTION (VIDEO)**



Sustainable development management

Gazprom Neft recognises the special role of business in sustainable development. The company contributes to a sustainable future by joining efforts with the public, government, partners and other stakeholders.

Sustainable development goals and principles are integrated into Gazprom Neft's business strategy, decision-making processes and operations. The company's approaches to sustainable development and associated commitments are aligned with the UN Sustainable Development Goals, adopted in 2015.

Gazprom Neft is implementing advanced HSE standards, providing its employees with opportunities to realise their potential and making social investments in its operating regions. The company is updating its key internal documents, improving the disclosure of its environmental, social, and corporate governance information, and assessing sustainability risks and opportunities, in particular those related to climate change.



Openness, for us, is one of the most important elements of our responsibility to investors, partners, clients, local residents of our areas of operation and to society as a whole. We are committed to being a fully transparent company, and one that discloses both its financial and operational results while also detailing its corporate, social and environmental policy.

ALEXANDER DYUKOV
Chairman of the Management Board, CEO, Gazprom Neft PJSC

Joining the UN Global Compact



Joining the UN Global Compact

In October 2020, Gazprom Neft joined the United Nations' Global Compact – the largest international corporate social responsibility (CSR) and sustainable development initiative.

By signing up to the compact, the company formalised its commitment to the UN Sustainable Development Goals and agreed to comply with the Global Compact's principles.

HSE

- 0 fatalities among company employees
- 0 industrial accidents
- A 35% decrease in the number of incidents with equipment year-on-year

HR MANAGEMENT

- Total headcount over 82,000 people
- Staff turnover down by 3.1 percentage points to 8.0%
- Employees took over 173,000 training courses

2020 HIGHLIGHTS IN SUSTAINABLE DEVELOPMENT

ENVIRONMENTAL SAFETY

- 9.7% reduction in greenhouse gas emissions (Scope 1 + Scope 2)
- 4.5 million GJ saved through energy-saving and energy-efficiency programmes
- Gross emissions down 14.5%
- 28% reduction in internal water consumption

SOCIAL POLICY

- Comprehensive company investments into the systemic development of operating regions and social infrastructure within them stood at ₽6.4 billion
- The Antivirus programme combatting COVID-19 covered 47 regions
- The company's educational, grant and volunteer projects involved over 37,000 social activists and creative professionals
- The company supported over 2,500 talented schoolchildren, students and academics to realise their potential, carry out research and draw up plans



Business ethics principles

The company's personnel are united by a common set of values and mission, which are an inherent part of Gazprom Neft's business and are reflected in its Corporate Code of Conduct. The values serve as guidelines for decision making, shape the company's reputation and determine the principles governing its operations.

Responsible business principles:

- Safety of people, the environment and company property; responsible attitude to assets
- An inclusive working environment where staff respect and value each other
- Clear and equal requirements for all business partners, compliance with business ethics standards
- Zero tolerance towards corruption, conflicts of interest and the use of insider information
- Compliance with antimonopoly legislation
- Government and community relations based on long-term and wide-reaching partnerships
- Gazprom Neft conducts its business ethically and responsibly. The company expects all of its employees to follow the business norms and principles set out in the Corporate Code of Conduct. Our ethics policy applies to both interactions between colleagues and to relations with the company's business partners
- Gazprom Neft engages not only its own people but also contractor employees in working towards its sustainable development goals



Gazprom Neft Corporate
Code of Conduct

47 reports
received by the
Ethics Committee

Gazprom Neft has set up an Ethics Committee as a standing collegial body tasked with monitoring compliance with the provisions of the company's Corporate Code of Conduct. The committee reports to the CEO. The committee reviews employee reports involving the interpretation of the Corporate Code of Conduct. If necessary, this is followed by investigations, rewards or disciplinary measures.

Gazprom Neft's priorities in procurement include transparency, preventing discrimination and the unfair restriction of competition among bidders, ensuring supplier compliance with HSE requirements and building long-term relationships with contractors.

Gazprom Neft prefers to select suppliers of work, services, materials and equipment on a competitive basis. In 2020, 6,734 potential suppliers participated in our competitive bidding procedures. Contracts were awarded to 2,308 companies from 65 Russian regions and 10 foreign countries. Small and medium-sized enterprises (SMEs) accounted for 36.6% of the total volume of materials and equipment purchased by the company.

36.6%
SME share in
procurement

The Contractor Engagement Code establishes principles for the sustainable development of contractor relations, including safe work, standards of integrity and other principles.

Sustainability management structure

BOARD OF DIRECTORS

- Oversees the implementation of the sustainable development strategy
- Approves sustainable development policies and initiatives

MANAGEMENT BOARD

- Formulates the sustainable development strategy
- Manages the sustainable development strategy and the implementation of initiatives
- Evaluates results

RELEVANT OFFICES AT SUBSIDIARIES

- Implement sustainable development programmes in relevant areas

**HUMAN RESOURCES
AND COMPENSATION
COMMITTEE**

AUDIT COMMITTEE

CEO

ETHICS COMMITTEE

Key performance indicators (KPI) in sustainable development are included in the KPI system for Gazprom Neft managers and employees.

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HSE¹

Safe operations have always been a top priority for Gazprom Neft. The company always places the safety of its people, local communities and the environment above financial, technical or any other considerations.

The company's commitments in this regard are detailed in its corporate Policy on Industrial, Fire, Transport, Environmental and Occupational Safety, and Civil Defence.

The company is developing an integrated occupational safety management system driven by a risk-based approach, advanced technology, upskilling and engaging employees and

contractors, as well as automation of management processes through cutting-edge IT solutions.



Policy on Industrial, Fire, Transport, Environmental and Occupational Safety, and Civil Defence

Gazprom Neft's strategic ambition is to become one of the safest oil and gas companies globally by 2030². The company strategy is focused on achieving Target Zero: zero harm to people, the environment and property in our operations.

Governance system

Company management considers its HSE management system an essential element of effective operational management and is responsible for managing operational risks of potential impact on employee life and health, as well as equipment, property and the environment.

The use of accident and injury metrics, such as FAR³ and AAR³ to manage risks to employee life and health, and Ka³ for equipment, property and the environment, enables effective managerial decisions on the part of the company management. These metrics have

been integrated into the senior management KPI system.

The company's comprehensive HSE decision system includes an HSE Professional Board and HSE Supervisory Board.



¹ – HSE requirements include (but are not limited to) requirements for industrial, fire, transport, and environmental safety, occupational health and safety, electric safety and emergency preparedness.

² – To achieve Fatal Accident Rate (FAR) and TIER 1 Process Safety Event (PSE) levels at or below those of the world's top 10 safest liquid-hydrocarbon producers by 2030.

³ – Ka: the accident rate, the number of major equipment-related incidents per million person-hours worked.
FAR (Fatal Accident Rate): the number of fatal accidents per 100 million person-hours worked.
AAR (Auto Accident Rate): the number of traffic accidents per million of km travelled.

The company's HSE activities follow a risk-based approach, hinged on the Plan-Do-Check-Act (PDCA) cycle.

Our corporate HSE programme, Safety Framework, is aimed at mitigating our key risks. The core principle of the programme is to prioritise and introduce, step by step, barriers to prevent events with catastrophic consequences for the company of which there are 31 scenarios. The company earmarks financial and human resources to effectively implement the Safety Framework barriers.

The actual quality of barrier implementation at company assets is verified by independent inspectors. In 2020, the objective outcomes of implementing barriers in various parts of the company were added to a management dashboard.¹ This lets managers objectively assess the HSE situation at specific operations and the company's progress on mitigating key risks.

A total of about 10,000 initiatives were completed across subsidiaries under the Safety Framework barrier implementation programme in 2020 at a cost of ₽2.8 billion. An evaluation of barrier performance showed that breaches in focus areas more than halved year-on-year.

The company also works to identify a set of best available practices to manage HSE risks specific to each asset. To do this, each asset compiles a register of the most significant HSE risks and prepares and implements plans to minimise them.

Our safety culture pivots on the personal responsibility of each employee and the engagement of all employees and contractor personnel in improving safety. Gazprom Neft employees and contractor personnel are entitled to refuse to carry out unsafe work. The company also holds Safety Day events, attended by senior managers.

The company pays special attention to improving the knowledge, skills and competencies of its employees and contractor personnel. The existing training system was flexibly adapted to COVID-19 restrictions, with most HSE training that had previously been held in person delivered remotely or online in 2020.

In 2020, the External Knowledge Evaluation system was piloted on a large scale (17,000 testing sessions), and the decision was made to roll it out across the Upstream Division. The system enables both company and contractor employees to take training and sit controlled knowledge tests on their own at home.

Pre-fly-in training in buffer zones was conducted the same way during the lockdown, in line with corporate requirements. Despite the pandemic, the Upstream Division successfully launched a modern training centre to practice safe working skills at the Novy Urengoy Multidisciplinary College and expanded the infrastructure of training facilities in other regions in 2020. The Downstream Division, Gubkin University and Omsk State Technical University opened the Industrial

Safety Academy for operational and service staff.

HSE management digitisation with advanced modelling, analytics and monitoring technologies is ongoing. Solutions used include automated data acquisition, as well as the development of video analytics and accident probability prediction systems, operational control systems, work permit and personnel training systems. The company's portfolio includes over 20 corporate digital projects in HSE.

For more details, see "Technological Development" on page 122.

Gazprom Neft places a particular emphasis on preventing risks related to transport accidents. Monitoring systems are being developed, with defensive driving training, practical training and transport safety briefings in place. A Marine Operations Safety Management System has been developed and introduced. In 2020, Gazprom Neft set up a single competency centre for air transport and flight safety, tasked with defining a strategy and methodology and conducting audits to ensure flight safety at all of the company's assets.

For more details on HSE management, see the Gazprom Neft Sustainability Report 2020



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Occupational health

The company leveraged a risk-based approach in its corporate HSE processes to continue on a downward trend in fatal injuries, both for its own employees and for contractor personnel working at company facilities.

Workplace injuries¹

FAR² (Group employees) LTIF³ (Group employees)



There were no fatal accidents involving company employees in 2020. To a large extent, this achievement was driven by the company's efforts to improve safety and a deliberate focus on a risk-based approach. The company's key objective now is to maintain this positive trend for at least several years and make sure that contractors successfully adopt the company's approaches to safety.

ANTON GLADCHENKO
Head of the HSE Directorate,
Gazprom Neft

Number of people injured

Gazprom Neft Group employees (people)
Contractor employees (people)



0 fatalities among company employees

Responsible contractor and supplier management

The company takes a consistent approach to fostering a safety culture at its contractors, which is based on personal responsibility, motivation and engagement in HSE improvement.

Gazprom Neft works to develop certain mindsets among contractor employees through a system of rewards and training in accordance with the applicable laws of the Russian Federation, as well as corporate and international HSE standards.

Standard form contracts with suppliers have HSE clauses, including requirements for hazardous cargo transportation, cargo delivery by road, etc. The company's corporate standards require that suppliers comply with all applicable HSE laws and regulations.

The company continues its Safe Production Project, a major initiative in HSE and operational efficiency aimed at improving the working conditions and rest breaks of contractor employees. The project will improve employee satisfaction, incident transparency, and will significantly reduce turnover.

The company regrets to report that, despite all the measures taken by Gazprom Neft, three fatalities involving contractor employees took place in 2020. Fatalities are unacceptable, and Gazprom Neft makes every effort to prevent them. The company seeks to minimise the risk of similar accidents by investigating their causes and implementing corrective action plans. The company takes preventive measures across all of its assets in line with these plans.

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Contractor Engagement Code



Gazprom Neft has adopted and enforces its Contractor Engagement Code, whose provisions apply to existing and new contractors. The code sets forth sustainability principles for contractor relations, including the top priority of workplace safety rules, care for people and the environment.

In 2020, efforts to implement the Contractor Engagement Code included several communication meetings with existing contractors to discuss safety requirements for mobilisation and subsequent work, as well as better interaction between management and experts.

1 – In addition to Gazprom Neft assets in Russia, injury rates are also calculated for joint ventures whose operations are managed by Gazprom Neft, including Gazprom Neft assets overseas (in Iraq, Italy, Serbia, Eastern Europe and Central Asia).

2 – FAR (Fatal Accident Rate): the number of employee fatalities divided by the number of person-hours worked in the reporting period, multiplied by 100 million.

3 – LTIF (Lost Time Injury Frequency): the number of lost-time incidents (including fatalities and temporary or permanent disability) per million person-hours worked.

Industrial safety

The Gazprom Neft industrial safety management system operates in accordance with applicable governmental regulations and international best practices. In order to prevent major equipment failures, the company leverages advanced technical solutions that ensure the safe operation of production facilities.

Gazprom Neft has set up an Emergency Prevention and Response System. An annual drill and training plan is in place so that employees and managers can practice emergency response actions. Drills in 2020 demonstrated that governing bodies and corporate resources are prepared to carry out their respective tasks.

Incident/accident rates¹

| Metric | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------------|-------|-------|-------|------|------|
| Number of incidents with equipment | 2,385 | 2,183 | 1,068 | 920 | 600 |
| Number of industrial accidents | 2 | 0 | 1 | 0 | 0 |

0
industrial
accidents

-35%
reduction in
incidents

Occupational health

Gazprom Neft operates a corporate health protection and disease prevention system, including measures to manage occupational and work-related risks.

The company provides its industrial sites with modern and accessible medical facilities. Vaccination drives prevent seasonal diseases.

In response to the global COVID-19 pandemic, Gazprom Neft deployed a system of anti-COVID measures, medical support and employee health protection under the comprehensive corporate programme Antivirus, starting in March 2020.

 For more details on curbing the spread of COVID-19, see "Strategic Report" on page 28.

A | N | T | I
V | I | R | U | S
GAZPROM NEFT
vs. COVID-19



The ANTIVIRUS
programme

Unique involvement in the Norilsk oil-spill emergency response

On 29 May 2020, a CHPP-3 fuel-storage facility near Norilsk failed, spilling over 20,000 tonnes of diesel fuel onto the ground and into local rivers. The President of Russia requested that companies with a proven track record in oil spill response, including Gazprom Neft, participate in the cleanup.

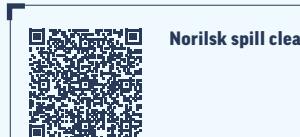
The company mobilised its emergency-response and rescue team in less than 24 hours. A total of 85 tonnes of cargo, including special machinery and equipment, were delivered to the spill area. The Gazprom Neft team included 72 highly qualified and experienced specialists.

In just two weeks, the Gazprom Neft specialists involved in the cleanup effort collected more than 8,000 cubic meters of oil-contaminated fluid, following the installation of more than 4 km of boom defences. The Gazprom Neft team was also successful in cleaning all fuel slicks from the Ambarnaya riverbed. The response teams worked around the clock.

Evgeniy Zinichev, Minister of the Russian Federation for Civil Defence, Emergencies and Disaster Management, presented the Gazprom Neft emergency response team with a Letter of Acknowledgement for their successful cleanup of the Norilsk spill.

Participation in this cleanup operation enabled to gain unique practical experience:

- The important practical skills of organising multiple groups and team communication were built up
- The equipment and technologies employed were proved to be effective, with technical limits identified
- The company's high HSE expertise was confirmed



Norilsk spill cleanup

Environmental safety

The company assesses and adopts measures to minimise environmental risks, while also investing significant resources into various environmental safety programmes.

The company's environmental management system is certified to ISO 14001:2015 and covers the management of Gazprom Neft's core production assets.

Environmental safety priorities:

- consistent reduction of environmental impact (including climate) and safe production;
- environmental monitoring and control;
- adoption of global best practices in environmental safety;
- launching environmental protection facilities and programmes;
- developing and deploying green technology;
- training employees and fostering a culture of environmental safety.

8.1 billion of environmental investments

 Internal documents outlining Gazprom Neft's approaches to environmental safety:

- Policy on Industrial, Fire, Transport, Environmental and Occupational Safety, and Civil Defence
- Corporate Standard on GHG Emission Monitoring and Accounting
- Energy Policy of Gazprom Neft and its business divisions
- Biodiversity Preservation Programme

Highest CDP score among Russian oil companies

In 2020, Gazprom Neft took part in the CDP climate ranking for the first time and joined the group of leaders by scoring "B" (on a scale from "A" to "D-"). This is the highest score among Russian oil and gas companies.



Gazprom Neft receives the highest CDP Climate Change score among Russian oil & gas companies

Climate change

Gazprom Neft supports the Paris Agreement on Climate Change and complies with national legislation on measuring GHG emissions. The company acknowledges that if no decisive action is taken today, then dealing with the consequences of climate change will require significantly more effort and costs.

Gazprom Neft continues to implement the Development Strategy to 2030 approved by the Board of Directors, which envisages building APG infrastructure at production assets and upgrading refineries with energy-efficient technology. This approach will improve resource efficiency and cut down on greenhouse gas (GHG) emissions.

The company's priorities in climate management:

-  Reduction of GHG emissions and increased APG utilisation
-  Increasing the share of low-carbon projects
-  Launching new renewable energy sources (RES)

Managing climate risks and opportunities

The company participates in the Carbon Disclosure Project (CDP) by disclosing its greenhouse gas emissions data and climate change risks. Registered users can access a questionnaire disclosing Gazprom Neft's climate risks on the CDP website.¹

Gazprom Neft identifies several key climate-related risks and opportunities.

The company accounts for both physical risks associated with extreme weather conditions or irreversible changes to the environment, and for transition risks (market, reputational, technology, political and legal).

To minimise systemic physical risks to the company, Gazprom Neft particularly focuses on solutions for construction projects for the permafrost (preventing permafrost degradation, thermal stabilisation of permafrost soils, etc.).

For the company, climate change opportunities include growing gas' share in total production, monetising APG, improving resource efficiency and using clean energy.

The company's Board of Directors has set the ambition² of achieving an APG utilisation rate (including new assets) of

≥95% by 2022 despite growing production

¹ – <https://www.cdp.net>

² – In Russia, excluding assets of Gazpromneft-Zapolyarye.

Leadership's role in managing climate-related risks and opportunities

The Board of Directors determines the basic principles and approaches around climate change.

The CEO and the Management Board are responsible for developing and implementing the company's corporate climate strategy in line with international and global best practices and standards, while also overseeing projects to reduce GHG emissions.

In 2020, the Board of Directors continued its efforts towards building the company's approach to climate change by reviewing the assessment and management of climate-related risks and opportunities, and drafting an action plan to build an environment and climate management system at the company.

Targets for specific GHG emissions were set for the company subsidiaries, reflecting the profile of their respective operating regions. We monitor progress against the targets set for assets and the Corporate Centre, with an annual progress review directly contributing to management performance appraisals.

Strategy sensitivity to various climate scenarios

The company uses a scenario approach in its Development Strategy to 2030. The key factors that may impact future scenarios include changes in the climate policy and the decarbonisation of global energy. Since the future of energy is extremely uncertain, the company uses a proprietary methodology to monitor and assess the situation for various signs of different scenarios playing out.

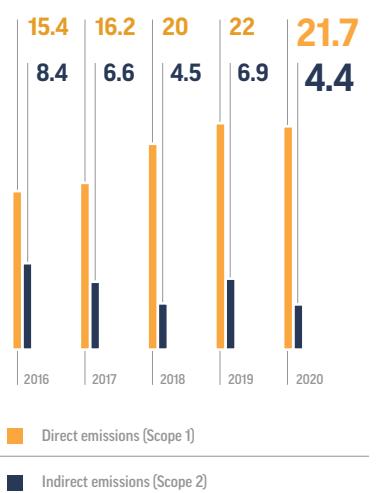
The company's project portfolio is stress tested against all possible scenarios of how the external environment may develop, including changes in prices, volumes and regulation.

Accounting for greenhouse gas emissions

Gazprom Neft has adopted a corporate standard on GHG emission monitoring and accounting aligned with applicable Russian laws and international guidelines.

Greenhouse gas emissions fell, mainly as a result of lower energy consumption driven by the OPEC-mandated production cuts and changes in the electricity emission factor.

Greenhouse gas emissions (mt of CO₂ equivalent)



■ Direct emissions (Scope 1)
■ Indirect emissions (Scope 2)

-9.7%
**reduction in
greenhouse gas
emissions
(Scope 1 + Scope 2)**

Increase in APG utilisation rate

In 2020, the APG utilisation rate of the company subsidiaries in Russia stood at 91.1% (up 2.1% year-on-year). If greenfields (some of which showed 5.4% growth year-on-year) are excluded, the APG utilisation rate reached 95.1% through gas infrastructure construction projects and gas infrastructure reliability improvement programmes.

Gazprom Neft aims to ramp up its APG utilisation, despite the planned increase in hydrocarbon production.

Gazprom Neft endorses the key provisions and goals of the Zero Routine Flaring by 2030 Initiative.

The company is constantly searching for technically feasible and economically viable tools to reduce GHG emissions, principally by implementing projects to increase APG utilisation.

Greenhouse gas emissions, mt of CO₂ equivalent

| Type of emission | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------|------|------|------|------|------|
| Greenhouse gas emissions | 23.8 | 22.8 | 24.5 | 28.9 | 26.1 |
| Direct emissions (Scope 1) | 15.4 | 16.2 | 20.0 | 22.0 | 21.7 |
| Including | | | | | |
| CO ₂ | 14.5 | 14.9 | 18.8 | 20.9 | 20.7 |
| CH ₄ (methane) | 0.9 | 0.8 | 0.9 | 0.6 | 0.7 |
| Indirect emissions (Scope 2) | 8.4 | 6.6 | 4.5 | 6.9 | 4.4 |

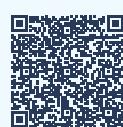
Unique APG utilisation model

In July 2020, Messoyakhaneftegaz, a joint venture between Gazprom Neft and Rosneft, commissioned an underground gas storage facility at its Zapadno-Messoyakhsky licence block.

A unique APG utilisation model was implemented at Gazprom Neft. A 1.5 bcm compressor station is used to treat and compress gas produced as part of oil production at the Vostochno-Messoyakhsky block. After treatment, the gas is fed into a roughly 50 km pipeline and transported to the neighbouring Zapadno-Messoyakhsky block, where it is injected into undeveloped gas reservoirs.

This project will protect the sensitive ecosystem of the Polar region and increase the APG utilisation rate at Messoyakhaneftegaz to 95%.

**up to 2.3 mt of CO₂ per year
reduction of greenhouse gas emissions**



A unique
APG utilisation model
at Messoyakhaneftegaz

Driving energy efficiency

Energy efficiency is one of the key tools to reduce greenhouse gas emissions and climate impact.

Gazprom Neft's Energy Policy is in place to improve energy efficiency: certified to ISO 50001, it underpins the company's energy management system (EMS). The EMS is successfully operated at the Gazprom Neft Corporate Centre and 15¹ major subsidiaries, as well as upstream and downstream joint ventures.

Production units prepare and implement comprehensive energy-saving and energy-efficiency programmes, which include both technical and organisational initiatives.

The company builds up renewable generation capacity at assets where it brings economic and environmental benefits.

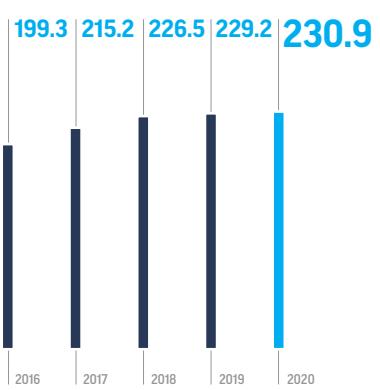
A 1 MW solar power plant is in operation at the Omsk Refinery (Phase 1 of the project). The facility covers 2.5 ha and comprises 2,500 solar panels. The solar power plant at the Omsk Refinery is expected to be upgraded to 20 MW in 2021.

In 2020, the Yaroslavl Oblast became the home of Gazprom Neft's first solar-powered filling station. In sunlight, the solar power plant is used as the main source of electricity.

Gazprom Neft's strategy for developing its filling station network encompasses a wider rollout of green and energy-efficient technologies.

**4.5 million GJ
of energy savings
under the energy
efficiency
programme**

Energy consumption, million GJ



The first solar-powered filling station



Rolling out energy-efficient technologies at filling stations

Air protection

The bulk of Gazprom Neft's pollutant emissions comes from APG flaring; therefore, APG utilisation projects cut the company's environmental footprint.

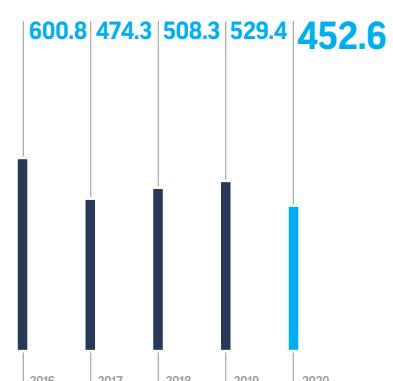
The 14.5% reduction in gross emissions was driven by an increase in APG utilisation at the company's production assets, as well as the decommissioning of some outdated units at the Moscow Refinery following the launch of the Euro+ combined oil refining unit (CORU).

Coupled with other strategies, decreased flaring of hydrogen-sulfide-containing gas at Gazprom Neft Orenburg's fields reduced SO₂ emissions by 52.7% in 2020, as large volumes of gas were transferred to the gas processing plant.

Gazprom Neft is involved in the implementation of the Ecology national project, with the Clean Air federal project being part of it. This project aims for a 20% reduction in emissions (against a 2017 baseline) by the end of 2024 across 12 major industrial cities with poor air quality, including Omsk, where one of the company's refineries is located.

In order to carry out the Clean Air federal project, the Russian Government has approved integrated action plans designed to reduce pollutant emissions. These plans include nine upgrade projects launched at the Omsk Refinery, which involve introducing environmental technologies and state-of-the-art treatment facilities, building new units and decommissioning outdated facilities. Gazprom Neft plans to invest over ₽100 billion in these projects.

Gross emissions, thousand tonnes



-14.5%
**reduction in gross
emissions**

| Type of emission | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------|-------|-------|-------|-------|
| Gross emissions, thousand tonnes, including: | 600.8 | 474.3 | 508.3 | 529.4 | 452.6 |
| NO _x | 19.2 | 22.1 | 25.6 | 26.7 | 28.6 |
| SO ₂ | 128.4 | 69.0 | 74.8 | 38.9 | 18.4 |
| Volatile organic compounds (VOCs) | 128.3 | 120.3 | 96.7 | 102.1 | 90.7 |

¹ – Gazpromneft-Khantos, Gazprom Neft Orenburg, Gazpromneft-Noyabrskneftegaz, Gazpromneft-Vostok, Gazpromneft-Yamal, Messoyakhaneftegaz (JV), Naftna Industrija Srbije A.D., Novi Sad (JV), Noyabrskenergoneft (from 2020), Slavneft-Megionneftegaz, Slavneft-YANOS, the Gazprom Neft Moscow Lubricants Plant, the Gazprom Neft Moscow Refinery, the Gazprom Neft Omsk Refinery, the Gazprom Neft Ryazan Bitumen Binders Plant and the Omsk Lubricants Plant.

The Euro+ CORU is integrated into Moscow's environmental control system. The automated emission monitoring system operates around the clock and passes data to the city's environmental monitoring service.

A large-scale programme to modernise and revamp Gazprom Neft's refineries also aims at reducing emissions.

A new Euro+ CORU was commissioned at the Moscow Refinery in 2020 to increase the oil conversion rate to 85% and reduce emissions by decommissioning outdated units.

Russian President officially launched Euro+ CORU

Russian President Vladimir Putin launched the new Euro+ CORU at the Gazprom Neft Moscow Refinery. The launch ceremony was attended by Alexander Novak, Minister of Energy; Sergei Sobyanin, Moscow Mayor; and Alexander Dyukov, CEO and Chairman of the Management Board at Gazprom Neft.

Preserving biodiversity

Maintaining environmental balance and preserving biodiversity are always given special consideration in Gazprom Neft's projects.

The company conducts environmental monitoring and assesses its impact on ecosystems while engaging with research institutions and governmental agencies and meeting legal requirements as well as internal corporate standards.

Gazprom Neft has in place a corporate programme to preserve biodiversity, based on a list of plant and animal indicator species for a healthy Arctic marine ecosystem in Russia. The programme includes measures implemented by the company around the Prirazlomnaya offshore ice-resistant stationary platform and Gazpromneft-Yamal assets and providing for wildlife monitoring along oil transportation routes.

Gazprom Neft continues to drive a large-scale research project to study and protect a rare Arctic animal listed in Russia's Red Data Book of protected species – the narwhal (lat. *Monodon monoceros*, or "unicorn of the sea"). Through its ambitious high-tech industrial projects in the Arctic, the company studies, protects and puts a spotlight on this marine mammal that is sensitive to environmental changes.

 For more details on the Euro+ CORU, see "Refining and manufacturing" on page 84.

46+ million
valuable juvenile
fish released into
rivers



Video: the "Narwhal: Legend of the Arctic" expedition

Winner of the prestigious international PR World Awards

In 2020, the "Narwhal: Legend of the Arctic" project won gold in the "Achievement of the Year. Corporate Social Responsibility" category at the prestigious international PR World Awards. The expert panel praised the outcomes of the project's first expedition to the Russian Arctic and related communication campaign.

Partner



Water resource management

The company views water stewardship, effective wastewater treatment and preventing the contamination of natural water bodies with oil or petroleum products as its priorities.

Internal water consumption decreased, mainly due to the fact that less water was produced from the Cenomanian strata and other groundwaters following a higher water cut in oil produced, coupled with an optimisation of the system for maintaining formation pressure at company fields.

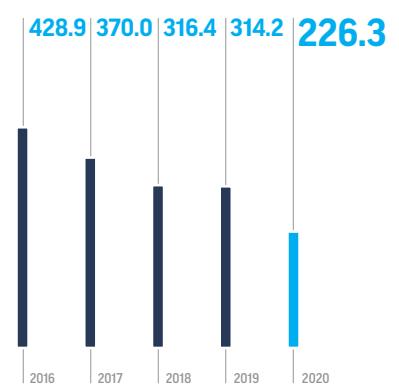
Building Biosphere biological treatment facilities at the Moscow and Omsk Refineries rank among the company's key water management projects. These facilities feature a multi-stage wastewater treatment system, which includes mechanical, physical and chemical, biological, filtration and ultrafiltration stages, as well as a reverse osmosis unit. Biosphere provides close to 100% wastewater treatment, with over 75% of water reused.



Innovative
water treatment
technologies at the
Omsk Refinery

NARWHAL

Reduction in internal water consumption, mcm



-28%
reduction in internal
water consumption

I Awards and recognition

In 2020, the Moscow Refinery's Biosphere project won the Moscow Government award for the Best Project Completed Using Environmentally Friendly and Energy Saving Technologies.



Environmental award
from the Moscow
Government for the
Biosphere project

The Biosphere complex, commissioned at the Moscow Refinery towards the end of 2017, reduced river water withdrawal by the refinery more than threefold. A similar complex at the Omsk Refinery is scheduled for completion in 2022.

Pipeline reliability and integrity programme

The company runs a pipeline reliability and integrity programme, including pipeline diagnostics, inhibitor protection, corrosion monitoring, repair and upgrade. Programme highlights in 2020:

5,639 km of pipeline covered by diagnostics

4,316 km of pipeline covered by corrosion monitoring

3,540 km of pipeline protected with corrosion inhibitors

170 km of pipeline repaired/upgraded

Waste management and land use

The two key pillars of industrial waste management and land use at the company are equipment reliability monitoring and the implementation of new technology. These efforts minimise the risk of soil contamination by crude oil and petroleum products. The company also successfully recycles its production waste.

In 2020, Gazprom Neft continued developing its infrastructure for the safe management of waste. Waste management projects have been completed at two production sites (the Aganskoye and Vostochno-Messoyakhskoye fields). Subsidiary producers have commissioned state-of-the-art waste incinerators and use public consultations to share information about new technologies for waste utilisation, ready to produce marketable products.

The company uses advanced unmanned aerial photography and space surveying methods to conduct comprehensive inspections (monitoring, evaluation and condition forecasting) of production areas on its licence blocks. The area of licence blocks covered by these inspection methods in 2020 totalled about 20,000 sq km.

Gazprom Neft is developing Green Seismic technology, which, thanks to its more compact size, significantly reduces the number of trees felled for seismic lines and cuts fuel consumption for seismic surveys, all while improving safety. This technology saved over 4.5 million trees between 2016 and 2020.

Green Seismic ranked among the top Russian environmental projects in 2020

In 2020, the Green Seismic project won the Vernadsky National Environmental Award in the Science for the Environment category.



Aerial scanning of
forested areas



**4.5+ million
trees saved thanks
to Green Seismic
technology**

HR management

Third-party assessments regularly list Gazprom Neft among Russia's top employers, which emphasises the need to foster a unique corporate culture and environment, where employees can fully realise their potential by working toward common goals.

Gazprom Neft respects human rights and provides equal opportunities for everyone. The company seeks to create a working environment free from bullying and harassment, and prohibits discrimination on the grounds of ethnicity, gender, age, background and so forth.

The company fosters an atmosphere of open communication based on trust and mutual respect between employees.

In order to attract and retain best talent, Gazprom Neft runs motivation and social support programmes, trains its employees and builds up a talent pool.

Gazprom Neft topped the 2020 HeadHunter ranking of Russia's best employers, becoming the country's most popular company among jobseekers.

The international company Universum also listed Gazprom Neft among the best Russian employers in 2020.

In yet another achievement in 2020, five Gazprom Neft managers were named in Kommersant's annual top 1000 ranking of the best Russian managers.

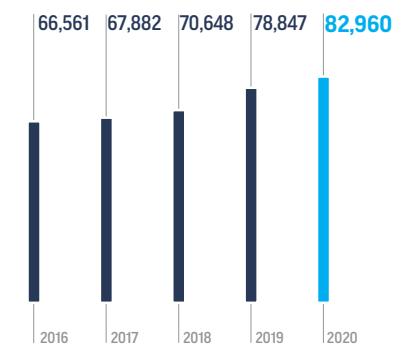
Human resources profile

As at 2020-end, the company employed 82,960 people.

The average headcount in 2020 stood at 80,420.

Collective bargaining agreements cover 47% of employees.

Total headcount,¹ people



¹ – The headcount increased as some employees in Serbia needed to be transitioned time to full-time employment in accordance with Serbian laws.

Care for our people during the pandemic

As soon as the COVID-19 pandemic broke out, Gazprom Neft started looking for solutions to protect the company offices and operations from the spreading virus.

Apart from regular employee testing, safe fly-in/fly-out arrangements, and remote work for some employees, the company also developed a digital barrier system: a set of IT products tracking the health of over 150,000 company and partner employees, controlling their access to Gazprom Neft facilities, and arranging medical aid to those who fell ill or had come into contact with the virus.

Care for employees also encompassed a support hotline, the Caring About You channel, consultations with psychologists and pulse surveys to identify the current needs of employees during lockdown.

One of the digital barriers was the Gradusnik (Thermometer) mobile app. The app is integrated with the company's medical support system and helps support employees who have fallen ill, all while preventing them from accessing offices and production facilities without first being tested for coronavirus.

Faced with the unprecedented challenges of the pandemic, we managed to mobilise and do everything that was necessary to protect the health of our colleagues and their families in a very short time.

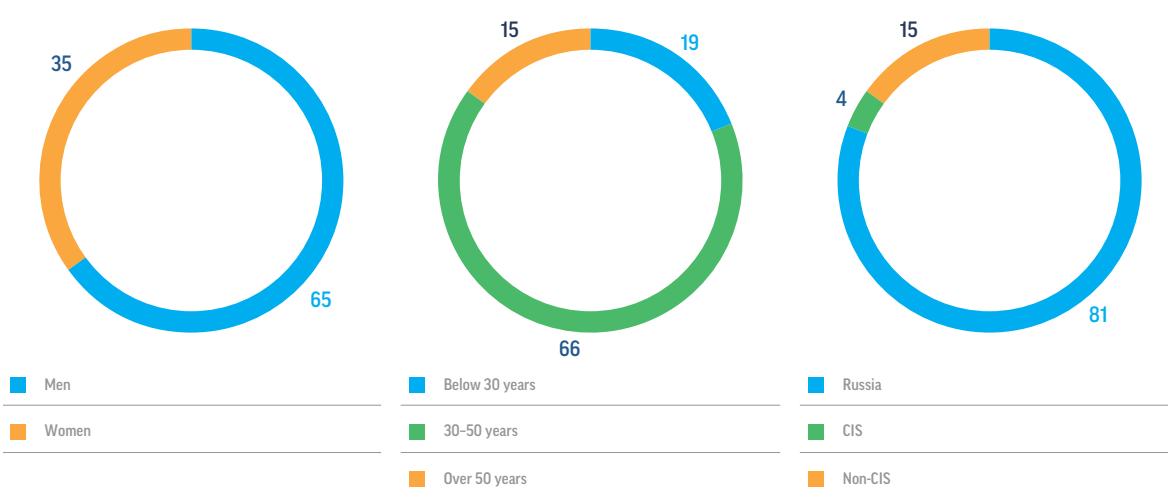
ELENA ILYUKHINA
Deputy CEO for Legal and Corporate Affairs

+ For more details on employee health protection during the pandemic, see "2020 challenges" on page 28.



Mobile app for employee health monitoring

Personnel structure,¹ %



¹ – As at 31 December 2020, including JV.

Employee incentive and social support system

A uniform incentive system across Gazprom Neft supports an ongoing achievement drive among employees. The objectives and principles of financial and non-financial incentives for employees are set out in the Unified Corporate Remuneration Policy.

In 2020, Gazprom Neft continued developing and implementing its remuneration and social support approach, which is based on a cumulative compensation model. The cumulative compensation model includes a remuneration package and social benefits, along with career and professional growth opportunities.

The company analyses labour markets in its operating regions and regularly reviews wage levels to make sure its remuneration system is competitive. In 2020, the average monthly salary at Gazprom Neft stood at ₽141,000 (up 5% despite a difficult market situation).

The company is developing non-financial incentive programmes, and updating their content and formats to align them with its strategic goals.

Employee training and development

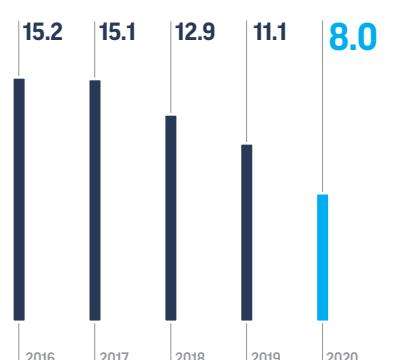
Gazprom Neft continues to develop its competence-based continuous training programme. The Gazprom Neft employee training and development system is open to all company and contractor employees, as well as prospective employees – school and university students.

The training function is led by the Corporate University, which develops training programmes on demand, monitors the implementation of the Business Development and Transformation Strategy and creates mechanisms to monitor training results and efficiency.

In 2020, the university's structural pillars – its professional departments – developed across a range of areas. They strengthened their relationships with the business; created an interaction, training and development system; codified internal and external expertise; boosted their sway over industry; better defined their roles and organisational structure; and codified a system to evaluate the contribution of individual departments to the company's business.

The corporate talent pool programme, which covers the School-Vocational School/University-Workplace journey, offers career guidance for high-school students, sponsorships for university and vocational school study, and selection of young talent with further career planning. Gazprom Neft hired 212 graduates of universities and vocational schools in 2020.

Turnover rate, %



3.1
percentage
points turnover rate
decrease

173,000+
training courses
delivered to
employees

People of Progress corporate recognition programme

Our highest corporate recognition programme, People of Progress, was launched in the autumn of 2020. The award is presented for successful projects and personal contributions to company development that display Gazprom Neft's corporate values: responsibility, innovation, collaboration, efficiency, commitment and safety.

In 2020, winners included teams working on developing Russia's most advanced oil refining facility – the Moscow Refinery's Euro+ combined oil refining unit (CORU) – and those involved in local Antivirus programmes supporting health workers and volunteers throughout the COVID-19 pandemic. The Gazprom Neft emergency response team – the first to respond to the Norilsk oil spill – was also recognised.



People of Progress
corporate
recognition
programme

“
People of Progress, Gazprom Neft's company-wide recognition programme, was launched in 2020 to acknowledge the outstanding achievements of our employees across all of our assets.

KIRILL KRAVCHENKO
Deputy CEO for Administration,
Gazprom Neft



GAZPROM NEFT'S HIGHEST AWARD

A talent pool for existing employees is driven by succession management, with objective selection and targeted training. In 2020, 1,849 employees completed retraining and upskilling programmes at Gazprom Neft partner HEIs.

Average training hours per employee decreased in 2020, as some practical training could not be done remotely.

Still, company projects won the Crystal Pyramid 2020 award in two categories: Corporate Training of the Year and Talent Management System of the Year, and won the second place in the Corporate University of the Year category.

Training hours per employee



Social policy

Gazprom Neft drives positive social change across its footprint by supporting local communities and activists, contributing to holistic social and economic development in its regions and providing the necessary resources and expertise.



Internal documents outlining approaches to the social policy:

- The communications strategy for the Home Towns social investment programme
- Regional Policy Concept
- Policy for Interaction with Indigenous Minority Peoples of the North, Siberia and the Far East
- Policy for Charity Work

Gazprom Neft is a responsible corporate citizen. We bolster the competitiveness of our operating regions by sharing our competencies, experience and expertise to drive real change and guarantee a sustainable future through diversified regional development.

Gazprom Neft's social policy is centred around partnerships and strategic support for regional initiatives, which receive the

necessary impetus and prominence from the company.

The co-evolution of the social, ecological and intellectual environments out in the Russian regions is underpinned by continued natural, ethnic and cultural diversity, positive-change-driving partnerships with communities, targeted engagements with young talent and promoting best corporate social responsibility (CSR) practices.

40,000
local residents took part in the company's social projects

A company for the regions

- **A partner** in implementing solutions and practices for a sustainable future, fostering regional competitiveness in the 21st century
- **A go-between** for authorities and local communities, serving to align their interests and needs by sharing expertise in selecting local development priorities
- **A driver** of innovative practices in the regional manufacturing and post-industrial sectors
- **An enabler** of strategic long-term regional change initiated by local communities

Home Towns social investment programme



The programme provides consistent improvements to the quality of life across Gazprom Neft's operating regions by supporting local community initiatives and developing corporate projects. Positive changes are driven by the company's multi-level involvement in regional development, from participation in building development strategies to actioning joint tactical solutions. Home Towns' social activities involve Gazprom Neft's major subsidiaries.

The company conducts comprehensive territorial and

sociological surveys and monitors global and national best practices in sustainability to align the targets of its social policy.

Our well-established dialogue with local communities helps identify and foster initiatives that can quickly gain traction out in the regions and can become their growth drivers. Regional sociocultural, environmental and infrastructure projects target existing and potential stakeholders, and have a common logic and a compounding effect on each other.

Home Towns is the first comprehensive social-investment programme in Russia's recent history.

6.4 billion of total social investments in 2020



The Home Towns social investment programme

Social investment priorities

- Integrated habitat development and protection of the environment
- Creating an enabling environment for cultural institutions, humanitarian initiatives and creative industries¹
- Supporting talent, promoting science and sports among young people
- Integrating the indigenous peoples of the North into the modern economic landscape while preserving their cultural identity

¹ – Creative industries are those based on individual creativity and capable of generating added value by monetising intellectual property.



Company profile



Strategic report



Performance review



Technological development



Governance system



Sustainable development



Appendices

Social investment tools

- Internally-developed social projects
- Social and economic partnership agreements with regional and local authorities
- Grant competitions and support for local initiatives
- Corporate volunteering



The programme was refocused on meeting regional needs in fighting COVID-19. The company implemented a range of measures to combat the pandemic by providing assistance to its employees and partners, healthcare professionals and volunteers.

Social agenda amid the COVID-19 pandemic

A | N | T | I | V | I | R | U | S GAZPROM NEFT'S ANTI-COVID-19 PROGRAMME

PROJECTS



Throughout the pandemic, Gazprom Neft has kept its people safe and operations running smoothly, all while successfully transforming its philanthropy and social action framework across its footprint. Antivirus, Gazprom Neft's comprehensive response to the pandemic, donated resources and funds to healthcare and social institutions, as well as volunteer organisations. Antivirus was active in the Omsk, Orenburg, Tomsk, Tyumen and Yaroslavl Oblasts, the Khanty-Mansi and Yamalo-Nenets Autonomous Okrugs, St Petersburg and other regions. The programme was launched in March 2020 and reached a peak of activity in April-June.

Gazprom Neft for Medics

- Over three million items of PPE were distributed to doctors in the Omsk, Orenburg, Tomsk and Yaroslavl Oblasts, the Khanty-Mansi Autonomous Okrug-Yugra, Yamalo-Nenets Autonomous Okrug, Moscow and St Petersburg.
- Hospitals were supplied with ventilators and more than 200 tonnes of company-made sanitiser.
- G-Energy Service filling stations across 29 Russian regions and in Kazakhstan refuelled and serviced over 1,000 ambulances free of charge.
- Over 370,000 cups of free coffee were poured at Gazprom Neft filling stations to support health workers and first responders.

15 types of medicines and ventilators were sent to hospitals:
📍 St Petersburg
📍 Omsk
📍 Novy Urengoy



A comprehensive programme for assistance to healthcare professionals

Gazprom Neft for Volunteers

- Over 1,600 fuel cards were distributed to volunteer organisations, valid for free fuel at filling stations across 47 regions.
- Over 200,000 litres of fuel were distributed to volunteers of the #AllInThisTogether mutual aid campaign across 34 regions.

Gazprom Neft's Antivirus programme has covered over half of Russia's regions. During the most challenging period of the pandemic – when it first broke out – we promptly set up free supplies of PPE, medicines, medical devices and sanitiser to regional hospitals. As a result, we curbed the risk of infection for more than 75,000 company employees and partners, while also supporting frontline medical staff – the real heroes of the fight against the pandemic – during the most trying point of the pandemic. Thanks to their professionalism and dedication, the COVID-19 situation is gradually being brought under control and we are, bit-by-bit, getting back to our normal way of life.

ALEXANDER DYBAL
Member of the Management Board, Deputy CEO for Corporate Communications, Gazprom Neft

#WeTogether is a nationwide mutual aid campaign, whose participants delivered food and medicines to retirees, worked in hospitals and helped people living alone and disadvantaged people during the pandemic.



Leadership's personal involvement: the From Gazprom Neft Employees campaign in the fight against COVID-19

Gazprom Neft's senior managers donated their own money to help doctors and patients of children's cancer hospitals – a group that found itself particularly vulnerable to COVID-19. Hospitals in Nizhnevartovsk, Omsk, St Petersburg, Tomsk and Tyumen received over 600,000 masks, respirators, protective suits, face shields, goggles and sanitiser dispensers.

40 senior managers donated their own money



Support for children's
cancer hospitals from
Gazprom Neft executives

The #ONDUTY motivational campaign

During the first wave of the pandemic, Gazprom Neft launched a campaign to support employees engaged in continuous production. To thank them for their hard work, more than 400 company employees from different regions and countries said, "Thank you for being #ONDUTY!" Dozens of famous celebrities – from sports personalities and film stars to musicians and leading scientists – addressed those who selflessly kept on working at our upstream and downstream enterprises. Videos giving thanks to ambassadors and volunteers of the Home Towns programme were particularly touching. The campaign was the largest virtual event in Gazprom Neft's history.

According to the SCAN-Interfax media index, Antivirus was the most visible campaign among humanitarian initiatives by Russian companies in 2020.

**1.5+ million
video views**

**100%
coverage
of company
employees**



A word of encouragement
to those who are
#ONDUTY

Gazprom Neft's social projects in 2020

The programme's core focus shifted to combatting COVID-19, so most of the company's long-term social

projects in 2020 were promptly reformatted and moved

online – without compromising on content quality.

Mathematical Progression

This company programme, which provides comprehensive support for mathematically gifted young people, is run in partnership with the Chebyshev Laboratory at Saint Petersburg State University. Talented high-school students from all over the country have

the opportunity to study at the university; the top achievers are awarded individual scholarships, young researchers receive grants and internships, and research teams are allocated funding. The company contributes to fostering scientific continuity, which is vital for the

Partner:



The awards ceremony
for the winners of
the Mathematical
Progression programme



~60,000 people viewed the online popular science lecture series by Stanislav Smirnov, a Fields Medal winner and Academic Supervisor at the Department of Mathematics and Computer Science of Saint Petersburg State University.

Mastera (Makers)

This project supports and spreads awareness of creative industries through a series of studies, forums, crash courses and the Mastera online training platform.

2020 saw four remote Mastera camps and the launch of a special #SupportLocal project to promote

local business. In 2020, the "What Makes Creative Entrepreneurs Tick?" study of creative environments in Siberian cities was carried out. It was the first systematic analysis of the status and potential of creative industries across the company's footprint.

Partner:

**МАСТЕРА-
СИБИРИ**

The Mastera platform



MultiplyingTalents

A tournament for high-school students to pit their wits against each other based on real-world cases. A total of 71 high-school students from across Gazprom Neft's

footprint competed in solving oil and gas digitalisation challenges at the tournament's finals, held in Sochi in 2020.

Partner:



The finals of the
Developing Talent case
tournament



**33,000+
people trained
via the platform**

**2,500
participants**

Alexander Shlemenko's Storm Mixed Martial Arts (MMA) School



Founded with the company's support by Alexander Shlemenko, one of the most successful Russian MMA fighters, this Omsk-based martial arts school celebrated its fifth anniversary in 2020. The school has already set up publicly-available outdoor practice facilities.

"Narwhal: Legend of the Arctic"



This Gazprom Neft research project aims to study and build a programme to protect narwhals, which are an endangered species according to both the Red List of the International Union for Conservation of Nature and Natural Resources (IUCN) and the Russian Red Data Book.

In 2020, due to the pandemic, the project's focus shifted towards spreading awareness and education,

Spirit of Fire

Supported by Gazprom Neft, this international festival of cinematographic debuts has been held in Khanty-Mansiysk for over 15 years and has become part of the regional cultural landscape. Festival participants come from all over Russia and from abroad. Film director Sergei Solovyov, the President and initiator of the festival, once again invited a line-up of famous Russian actors and actresses to the capital of the Khanty-Mansi Autonomous Okrug-Yugra in 2020.



The 18th Spirit of Fire international festival of cinematographic debuts

400+
young athletes aged
between 6 and 17 train
at the Storm school



The Storm school
celebrates its fifth
anniversary

120 million
people audience
coverage in the media
and on social networks

The school decided to form a professional Storm team in 2020. This is just one example of how the company is able to develop sports centres that promote amateur sports out in the Russian regions while unlocking professional opportunities.

while the results of the first research expedition were sifted through. The presentation of the first professional photographs of the narwhal in the Russian Arctic has attracted much attention to the project in the media, at the Pristine Russia festival and the "Arctic: Today and the Future" forum. The project's second research expedition will take place in summer 2021.

The annual reading recital for children is a highlight of the festival's programme. Natalya Komarova, Governor of the Khanty-Mansi Autonomous Okrug-Yugra, supported readers from two operating regions of the company in 2020. She recorded a welcome video, personally demonstrating her superior reading skills.

Partners:



MINISTRY OF CULTURE
RUSSIAN FEDERATION

THE KHANTY-MANSI
AUTONOMOUS OKRUG

Volunteering

Volunteering has been an integral part of Gazprom Neft's corporate culture and a significant element of its social investments for more than 10 years. Almost 6,000 employees have taken part in over 2,000 volunteer initiatives.

Due to the COVID-19 pandemic, most volunteer projects had to be temporarily put on hold. Nonetheless,

Museum's Right Here: an inclusive online tour project

300 sq m of the Maritime Victory Park covered by street art painted by the centre's students

Partner:



Good with your hands:
information about
Gazprom Neft volunteer
projects

Grant competition

With close to 620 projects implemented over the past seven years, the grant competition is a key tool to support initiatives of local residents, communities, government-funded institutions and non-profit organisations out in the Russian regions. Its key mission is to give local leaders the tools they need to implement their ideas for positive social change. In

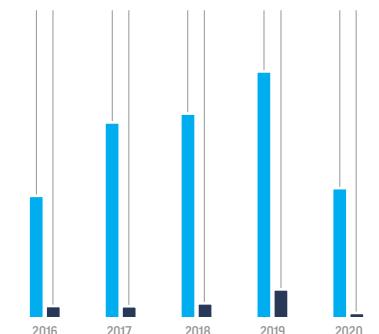
total, 1,054 initiatives were submitted for the competition in 2020; however, due to the pandemic, the winners will be chosen in 2021. A series of seven training videos on social engineering were filmed during the pandemic. Nine training workshops and 24 kick-off meetings were held at youth centres and universities.



Details on the grant
competition for funding
social initiatives

Number of volunteers and volunteering campaigns

2,856 287 4,567 282 4,773 350 5,756 675 3,036 126



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6 operating
regions participate
in the grant
competition:
**Khanty-Mansi
Autonomous Okrug**
Omsk Oblast
Orenburg Oblast
Tomsk Oblast
Tyumen Oblast
**Yamalo-Nenets
Autonomous Okrug**

International projects

In 2020, large-scale international social projects were postponed due to restrictions on movement between countries.

The Gazprom Neft Cup International Kids' Hockey Tournament is the company's key project to promote children's sports and the world's only not-for-profit initiative of this kind. U-11 teams from the League clubs participate in the annual tournament. In 2020, applications were submitted by 35 teams from 12 countries. The tournament will resume once the COVID-19 restrictions are lifted.



The Kustendorf Classic festival of Russian classical music is held annually by the world-famous director Emir Kusturica with the support of Gazprom Neft. In 2020, the organisers made the most of the forced hiatus, preparing a new concert programme to present to the public when lockdown is lifted.



The company makes a significant contribution to regional development as a social investor, initiator and participant in environmental initiatives. Gazprom Neft is developing life-changing infrastructure out in these regions through social and economic agreements with local administrations. The resulting positive changes range from the construction of new cultural

and sports centres to the design of educational and outreach programmes to unlock the potential of every participant.

Gazprom Neft is developing effective solutions for transport infrastructure to enable the construction of high-quality, long-lasting roads. Under agreements with local governments, the company is

supplying innovative bitumen materials, tailored to the individual climate of each territory.

In 2020, 10 new regions spanning from the Volga (Astrakhan Oblast) to the Lena River (Republic of Yakutia (Sakha)) signed up to the programme.

17 social and economic partnership agreements signed

52 regions where Gazprom Neft is building roads

Professional recognition

Home Towns won an award at the Top Socially Responsible Oil and Gas Business competition, held by the Russian Ministry of Energy, in the Addressing Local Social Problems category.

The programme won bronze at the prestigious PR World Awards in the "Achievement of the Year. Corporate Social Responsibility" category.

At the Corporate Philanthropy Leaders contest, Gazprom Neft made it into Category A (Best Practice) of the ranking of socially responsible businesses.

¹ – Gazprom Neft subsidiaries Gazpromneft-Noyabrskneftegaz, Gazpromneft-Yamal, Gazpromneft-Khantos, Gazprom Neft Development, Gazpromneft-Zapolyarye, Messoyakhaneftegaz, the Bazhenov Technology Centre and Gazpromneft-Palyan.

Supporting local communities

Engaging with the indigenous peoples of the North is an important element of the company's social policy.¹ In its indigenous territory operations, Gazprom Neft complies with UN recommendations and provides indigenous minorities with equal access to the opportunities of today, while encouraging them to preserve their

ethnic traditions. The company factors the historical way of life of indigenous peoples into its operations and accounts for ongoing environmental protection objectives.

In 2020, the company provided comprehensive support for indigenous minorities in the fight against COVID-19.

- 250 residents of remote Yamal villages took part in the Breath of the Arctic festival of arts and creativity
- Over 1,100 board games and sweets were sent as presents from Santa Claus to children at boarding schools for nomadic peoples
- 15 ha of tundra near the Gulf of Ob were cleaned over three environmental clean-up days

Social policies in regions of operation outside Russia

Gazprom Neft tailors its social policy to countries where it is a major foreign investor. The company's involvement facilitates

the development of infrastructure, education, healthcare, culture, arts and sports, all of which reinforces its strong reputation as a responsible

Medical care was provided at dedicated medical aid posts across the company's fields, with air transport deployed in medical emergencies. When requested, food, fuel and building materials were promptly delivered, with all-terrain vehicles provided when necessary.



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SERBIA

NIS, part of Gazprom Neft, is the major source of revenue for the Serbian government and a reliable social investor. In 2020, it topped the TalentX list of the best employers in Serbia.

At the height of the pandemic, Gazprom Neft donated almost 300,000 tonnes of fuel to Serbia's public services, as well as for air freight of medical equipment to Serbia and repatriation flights for Serbian citizens.

Along with crisis-response measures, the company continued its regional development initiatives in the country. The Together for the Community competition named 72 winning projects from local municipalities. Two memoranda of cooperation were signed with the University of Belgrade and the University of Novi Sad, reflecting our ongoing effort to support talent.

2,000 hours of personal time volunteered to help disadvantaged people by 1,650 NIS employees

IRAQ

Gazprom Neft's social and environmental projects in Iraq are implemented jointly with local authorities via public-private partnerships. The company's social policy has historically been focused on training local professionals, fostering education and developing healthcare and a power supply in the region.

In 2020, Gazprom Neft helped to outfit two municipal hospitals in Kifri and Kellar in the Kurdistan Region of Iraq with all medical equipment necessary. The Green Teams environmental initiative included a range of outreach and hands-on measures to protect the environment, including plastic litter picks at fields and along roads.

Participants of the Gazprom Neft Middle East scholarship programme eventually returned home and successfully secured employment in their home countries. In total, 19 talented Kurdish school leavers earned diplomas from leading Russian universities.



Consolidated Financial Statements

as of and for the year ended 31 December 2020

with Independent Auditor's Report

Independent auditor's report

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom Neft ("PJSC Gazprom Neft") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2020, and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organizations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

During the audit we specially focused on revenue recognition as the amount of revenue is material and revenue streams are formed in different geographical and operating segments. In addition, revenue streams differ in such terms of recognition as the identification of performance obligations, determination of transaction prices and the pattern of transfer of risks and rewards.

Despite the high level of automation, a large number of contracts and a significant number of transactions pose a risk of misstatement of this item.

Our audit procedures in respect of the risk of material misstatement of revenue included:

- assessing the consistency of the application of the revenue recognition accounting policy in relation to a variety of performance obligations;
- assessing the risk of fraud or error;
- verifying the timeliness of revenue recognition and the right to recognised revenue based on the terms of contracts and other documents;
- receiving confirmation letters from counterparties as of the end of the reporting period.

Based on the results of our audit procedures, we considered the position of the Group's management on revenue recognition to be acceptable.

Information about the approaches to revenue recognition is provided in Note 2 "Summary of significant accounting policies" to the consolidated financial statements, information about revenue figures, including information by geographic segments, is disclosed in Note 39 "Segment information" to the consolidated financial statements.

Assessment of the recoverable amount of non-current assets

Due to the material carrying amount of the Group's non-current assets, continuing volatility of macroeconomic parameters supplemented by political instability in some regions where the Group operates, the impact of the spread of coronavirus, the 2020 oil price drop, sensitivity of impairment models to the assumptions applied by the Group's management as well as the high level of subjectivity of the applied judgements and estimates of the Group's management we consider this matter to be one of most significance in the audit.

The risk of the non-recoverability of the carrying amount of non-current assets primarily relates to production and oil refining assets located in the Russian Federation, oil and gas production and exploration assets located in Iraq, and assets located in Serbia. As at the reporting date, the Group's management measured the recoverable amount of non-current assets for cash-generating units by means of value in use.

Our audit procedures in respect of this area included:

- testing the principles applied to prepare future cash flow forecasts;
- involvement of our valuation experts who:
 - analysed the methodology used by the Group when performing impairment testing of noncurrent assets and the consistency of its application by the Group;
 - compared the data used by the Group with the information available from independent sources (inflation and income tax rates) as well as with our own assessments in relation to key inputs used in impairment testing (future oil prices and exchange rates, determined discount rates, estimation of oil and gas reserves and its future production and sales volumes);
 - analysed the sensitivity of the models applied for testing purposes to changes in key assumptions analysis and assessment;
- analysis and assessment of the disclosures about the conducted impairment testing for compliance with IFRSs.

Based on the results of the audit procedures, we believe that the information and key assumptions applied by the Group's management to calculate the recoverable amount of non-current assets are acceptable and are well in line with current economic environment.

Information about the approaches applied to measure and recognise impairment of non-current assets is provided in Note 2 "Summary of significant accounting policies" and Note 3 "Critical accounting estimates, assumptions and judgements" to the consolidated financial statements, information about the conducted impairment testing is disclosed in Note 11 "Property, plant and equipment" and Note 13 "Goodwill and other intangible assets" to the consolidated financial statements.

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Estimation of oil and gas reserves and resources

The estimation of oil and gas reserves and resources is a key audit matter as the Group changed classification and estimation standards applied to oil and gas reserves and resources (provisions of the Petroleum Resources Management System (PRMS) have been used since 1 October 2020 instead of rules promulgated by the US Security and Exchange Commission (SEC)), and as the estimation of oil and gas reserves and resources may have a material impact on the consolidated financial statements, in particular, on the amount of depreciation, depletion and amortisation, provisions for decommissioning of property, plant and equipment, and results obtained from impairment testing of a number of non-current assets.

The main risk is associated with the sensitivity of the estimation of oil and gas reserves and resources to the assumptions and estimates made by the Group's management.

Our audit procedures in respect of this area included:

- evaluating qualification, expertise and independence of an external expert engaged to estimate oil and gas reserves and resources;
- evaluating assumptions applied by the external expert;
- evaluating inputs used by the external expert;
- analysing changes in the amount of reserves as compared to the previous year;
- analysing an impact of changes in applied reserves classification and estimation standards on items of the consolidated financial statements.

Based on the results of the audit procedures performed we believe that the external expert has all the necessary skills, experience and expertise to estimate oil and gas reserves and resources, and that the information and key assumptions applied to estimate oil and gas reserves and resources are reasonable. We are satisfied that reasonable estimates of reserves and resources were duly recognised in the consolidated financial statements.

Information about the methods used to estimate oil and gas reserves and resources is provided in Note 3 "Critical accounting estimates, assumptions and judgements" to the consolidated financial statements.

Classification and recognition of financial instruments as cash equivalents

Due to the economic importance of cash and cash equivalents, the significance of the cash equivalent balances, and the professional judgement and assumptions applied by the Group's management in classifying and recognising financial instruments as cash equivalents, we consider this matter to be one of the key audit matters.

The classification and recognition of financial instruments as cash equivalents applied by the Group are based on the significant professional judgement applied by the Group's management, which is supported by the intention of the Group's management to use such financial instruments to settle the Group's shortterm cash liabilities. In addition, the Group analyses various factors, including the assessment of liquidity and credit risks, records on cash returns at any point of time without significant loss of interest and penalties.

During our audit procedures regarding the classification and recognition of financial instruments as cash equivalents, we performed the following procedures:

- assessing the appropriateness and consistency of the professional judgements applied by the Group's management regarding the classification and recognition of financial instruments as cash equivalents;
- reviewing intentions of the Group's management regarding the use of financial instruments classified as cash equivalents for the purposes of managing the Group's liquidity;
- assessing liquidity and credit risks related to the solvency of counterparties, in particular, under a cash pooling agreement with the Group's parent company;
- analysing agreements and other documents confirming the availability of cash at any point of time without significant loss of interest and penalties because of early redemption.

Based on the results of our procedures, we believe that the key assumptions and professional judgements of the Group's management regarding the classification and recognition of financial instruments as cash equivalents are reasonable and do not contradict the available audit evidence.

Information about the main accounting policies applied to account for cash and cash equivalents is provided in Note 2 "Summary of significant accounting policies" to the consolidated financial statements, and information about the amount of cash and cash equivalents is disclosed in Note 6 "Cash and cash equivalents" to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months ended 31 December and 30 September 2020 and the years ended 31 December 2020 and 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, the Annual Report of PJSC Gazprom Neft for 2020 and the Quarterly issuer's report of PJSC Gazprom Neft for the first quarter of 2021, which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report of PJSC Gazprom Neft for 2020 and the Quarterly issuer's report of PJSC Gazprom Neft for the first quarter of 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a. identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- d. conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e. evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f. obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

President of FBK, LLC

S. M. SHAPIGUZOV

(by virtue of the Charter, audit qualification certificate 01-001230)



Engagement partner on the audit resulting in this independent auditor's report

K. S. SHIRIKOVA, FCCA

(audit qualification certificate 01-000712)

Date of the independent auditor's report 17 February 2021

Audited entity

Name:

Public Joint Stock Company Gazprom Neft (Gazprom Neft PJSC).

Address of the legal entity within its location:

3-5 Pochtamtksaya St, St Petersburg, 190000, Russian Federation.

State registration:

Registered by the Omsk Registration Chamber on 6 October 1995, statutory registration certificate No. 38606450.

The registration entry was made in the United State Register of Legal Entities on 21 August 2002 under primary state registration number 1025501701686.

Auditor

Name:

FBK, LLC.

Address of the legal entity within its location:

44/1 Myasnitskaya St, Bldg 2AB, Moscow, 101990, Russian Federation.

State registration:

Registered by the Moscow Registration Chamber on 15 November 1993, registration number 484.583.

The registration entry was made in the United State Register of Legal Entities on 24 July 2002 under primary state registration number 1027700058286.

Membership of the Self-regulatory organization of auditors:

Member of the Self-regulatory organization of auditors Association "Sodruzhestvo"

Primary number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.

Gazprom Neft at a glance

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Consolidated Statement of Financial Position

in millions of Russian Rubles

| | Notes | 31 December 2020 | 31 December 2019 |
|--|-------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 237,011 | 202,404 |
| Short-term financial assets | | 1,003 | 19,906 |
| Trade and other receivables | 7 | 159,270 | 205,272 |
| Inventories | 8 | 217,414 | 173,674 |
| Current income tax prepayments | | 3,658 | 6,622 |
| Other taxes receivable | 9 | 89,784 | 104,918 |
| Other current assets | 10 | 53,954 | 55,052 |
| TOTAL CURRENT ASSETS | | 762,094 | 767,848 |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 2,847,377 | 2,469,338 |
| Right-of-use assets | 12 | 72,794 | 79,073 |
| Goodwill and other intangible assets | 13 | 112,765 | 88,620 |
| Investments in associates and joint ventures | 14 | 377,548 | 341,115 |
| Long-term trade and other receivables | | 435 | 829 |
| Long-term financial assets | 16 | 5,885 | 11,037 |
| Deferred income tax assets | 17 | 33,427 | 18,492 |
| Other non-current assets | 18 | 46,849 | 49,131 |
| TOTAL NON-CURRENT ASSETS | | 3,497,080 | 3,057,635 |
| TOTAL ASSETS | | 4,259,174 | 3,825,483 |

| | Notes | 31 December 2020 | 31 December 2019 |
|---|-------|------------------|------------------|
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term debt and current portion of long-term debt | 19 | 45,695 | 30,198 |
| Current lease liabilities | | 11,633 | 9,927 |
| Trade and other payables | 20 | 354,915 | 307,439 |
| Other current liabilities | 21 | 234,390 | 40,741 |
| Current income tax payable | | 3,145 | 2,247 |
| Other taxes payable | 22 | 105,648 | 96,401 |
| Provisions and other accrued liabilities | 23 | 30,797 | 23,741 |
| TOTAL CURRENT LIABILITIES | | 786,223 | 510,694 |
| Non-current liabilities | | | |
| Long-term debt | 24 | 738,530 | 685,030 |
| Non-current lease liabilities | | 83,696 | 77,868 |
| Other non-current financial liabilities | 25 | 18,124 | 21,504 |
| Deferred income tax liabilities | 17 | 165,336 | 148,253 |
| Provisions and other accrued liabilities | 23 | 127,860 | 119,004 |
| Other non-current liabilities | 26 | 76,958 | 49,933 |
| TOTAL NON-CURRENT LIABILITIES | | 1,210,504 | 1,101,592 |
| Equity | | | |
| Share capital | 27 | 98 | 98 |
| Treasury shares | | (1,170) | (1,170) |
| Additional paid-in capital | | 29,494 | 36,044 |

| Notes | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Retained earnings | 1,944,123 | 1,943,523 |
| Other reserves | 112,093 | 78,711 |
| EQUITY ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS | 2,084,638 | 2,057,206 |
| Non-controlling interest | 177,809 | 155,991 |
| TOTAL EQUITY | 2,262,447 | 2,213,197 |
| TOTAL LIABILITIES AND EQUITY | 4,259,174 | 3,825,483 |

A. V. DYUKOV
Chief Executive Officer PJSC Gazprom Neft
17 February 2021

A. V. YANKEVICH
Chief Financial Officer PJSC Gazprom Neft
17 February 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in millions of Russian Rubles (unless otherwise specified)

| Notes | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|-----------------------------|-----------------------------|
| REVENUE | | |
| Crude oil, gas and petroleum products sales | | |
| | 1,919,593 | 2,393,444 |
| Other revenue | 80,027 | 91,864 |
| TOTAL REVENUE FROM SALES | 39 | 1,999,620 |
| COSTS AND OTHER DEDUCTIONS | | |
| Purchases of oil, gas and petroleum products | (498,315) | (663,068) |
| Production and manufacturing expenses | (257,391) | (260,688) |
| Selling, general and administrative expenses | (115,926) | (125,592) |
| Transportation expenses | (141,671) | (143,474) |
| Depreciation, depletion and amortisation | 11, 12, 13 | (222,151) |
| Taxes other than income tax | 22 | (577,390) |
| Export duties | (40,605) | (71,601) |
| Exploration expenses | (994) | (1,752) |
| TOTAL OPERATING EXPENSES | (1,854,443) | (2,038,740) |
| OPERATING PROFIT | | |
| Share of profit of associates and joint ventures | 14 | 48,047 |
| Net foreign exchange (loss) / gain | 30 | (23,654) |
| Finance income | 31 | 11,378 |
| Finance expense | 32 | (28,746) |
| Other loss, net | 29 | (8,732) |
| TOTAL OTHER (EXPENSES) / INCOME | (1,707) | 61,266 |

| | Notes | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|-----------|-----------------------------|-----------------------------|
| PROFIT BEFORE INCOME TAX | | 143,470 | 507,834 |
| Current income tax expense | | (22,835) | (52,502) |
| Deferred income tax expense | | (2) | (33,244) |
| TOTAL INCOME TAX EXPENSE | 33 | (22,837) | (85,746) |
| PROFIT FOR THE PERIOD | | 120,633 | 422,088 |
| OTHER COMPREHENSIVE INCOME / (LOSS) – MAY BE RECLASSIFIED TO PROFIT OR LOSS | | | |
| Currency translation differences | | 59,948 | (29,674) |
| Cash flow hedge, net of tax | 34 | 324 | 319 |
| Other comprehensive income / (loss) | | 86 | (319) |
| TOTAL OTHER COMPREHENSIVE INCOME / (LOSS) – MAY BE RECLASSIFIED TO PROFIT OR LOSS | | 60,358 | (29,674) |
| OTHER COMPREHENSIVE LOSS – WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS | | | |
| Remeasurement of provision for post-employment benefits | | (489) | (2,411) |
| TOTAL OTHER COMPREHENSIVE LOSS – WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS | | (489) | (2,411) |

| | Notes | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|-------|-----------------------------|-----------------------------|
| OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD | | 59,869 | (32,085) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 180,502 | 390,003 |
| PROFIT ATTRIBUTABLE TO: | | | |
| – Gazprom Neft shareholders | | 117,699 | 400,201 |
| – Non-controlling interest | | 2,934 | 21,887 |
| PROFIT FOR THE PERIOD | | 120,633 | 422,088 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| – Gazprom Neft shareholders | | 151,081 | 379,038 |
| – Non-controlling interest | | 29,421 | 10,965 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 180,502 | 390,003 |
| Earnings per share attributable to Gazprom Neft shareholders | | | |
| Basic earnings (RUB per share) | | 24.95 | 84.82 |
| Diluted earnings (RUB per share) | | 24.95 | 84.82 |
| Weighted-average number of common shares outstanding (millions) | | 4,718 | 4,718 |

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Consolidated Statement of Changes in Equity

in millions of Russian Rubles

| | Equity, attributable to Gazprom Neft shareholders | | | Equity, attributable to Gazprom Neft shareholders | | | | |
|---|---|-----------------|----------------------------|---|----------------|------------------|--------------------------|------------------|
| | Share capital | Treasury shares | Additional paid-in capital | Retained earnings | Other reserves | Total | Non-controlling interest | Total equity |
| Balance as of 1 January 2020 | 98 | (1,170) | 36,044 | 1,943,523 | 78,711 | 2,057,206 | 155,991 | 2,213,197 |
| Profit for the period | – | – | – | 117,699 | – | 117,699 | 2,934 | 120,633 |
| OTHER COMPREHENSIVE INCOME | | | | | | | | |
| Currency translation differences | – | – | – | – | 33,464 | 33,464 | 26,484 | 59,948 |
| Cash flow hedge, net of tax | – | – | – | – | 324 | 324 | – | 324 |
| Remeasurement of provision for post-employment benefits | – | – | – | – | (489) | (489) | – | (489) |
| Other comprehensive income | – | – | – | – | 83 | 83 | 3 | 86 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | – | – | – | 117,699 | 33,382 | 151,081 | 29,421 | 180,502 |
| TRANSACTIONS WITH SHAREHOLDERS, RECORDED IN EQUITY | | | | | | | | |
| Dividends to equity holders | – | – | – | (117,099) | – | (117,099) | (8,139) | (125,238) |
| Transactions with shareholder | – | – | (6,479) | – | – | (6,479) | – | (6,479) |
| Change of non-controlling interest in subsidiaries | – | – | (71) | – | – | (71) | 536 | 465 |
| TOTAL TRANSACTIONS WITH SHAREHOLDERS | – | – | (6,550) | (117,099) | – | (123,649) | (7,603) | (131,252) |
| BALANCE AS OF 31 DECEMBER 2020 | 98 | (1,170) | 29,494 | 1,944,123 | 112,093 | 2,084,638 | 177,809 | 2,262,447 |
| Balance as of 31 December 2018 | 98 | (1,170) | 60,397 | 1,680,978 | 99,874 | 1,840,177 | 151,642 | 1,991,819 |
| Effect of changes in accounting policies | – | – | – | (14,565) | – | (14,565) | – | (14,565) |
| Balance as of 1 January 2019 | 98 | (1,170) | 60,397 | 1,666,413 | 99,874 | 1,825,612 | 151,642 | 1,977,254 |

| | Equity, attributable to Gazprom Neft shareholders | | | Equity, attributable to Gazprom Neft shareholders | | | | |
|---|---|-----------------|----------------------------|---|-----------------|------------------|--------------------------|------------------|
| | Share capital | Treasury shares | Additional paid-in capital | Retained earnings | Other reserves | Total | Non-controlling interest | Total equity |
| Profit for the period | - | - | - | 400,201 | - | 400,201 | 21,887 | 422,088 |
| OTHER COMPREHENSIVE INCOME | | | | | | | | |
| Currency translation differences | - | - | - | - | (18,752) | (18,752) | (10,922) | (29,674) |
| Cash flow hedge, net of tax | - | - | - | - | 319 | 319 | - | 319 |
| Remeasurement of provision for post-employment benefits | - | - | - | - | (2,411) | (2,411) | - | (2,411) |
| Other comprehensive loss | - | - | - | - | (319) | (319) | - | (319) |
| TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD | - | - | - | 400,201 | (21,163) | 379,038 | 10,965 | 390,003 |
| TRANSACTIONS WITH SHAREHOLDERS, RECORDED IN EQUITY | | | | | | | | |
| Dividends to equity holders | - | - | - | (123,091) | - | (123,091) | (6,616) | (129,707) |
| Transactions with shareholder | - | - | (24,353) | - | - | (24,353) | - | (24,353) |
| TOTAL TRANSACTIONS WITH SHAREHOLDERS | - | - | (24,353) | (123,091) | - | (147,444) | (6,616) | (154,060) |
| BALANCE AS OF 31 DECEMBER 2019 | 98 | (1,170) | 36,044 | 1,943,523 | 78,711 | 2,057,206 | 155,991 | 2,213,197 |



Gazprom Neft
at a glance



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Appendices

Consolidated Statement of Cash Flows

in millions of Russian Rubles

| | Notes | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|------------|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before income tax | | 143,470 | 507,834 |
| Adjustments for: | | | |
| Share of profit of associates and joint ventures | 14 | (48,047) | (83,906) |
| Net foreign exchange loss / (gain) | 30 | 23,654 | (10,518) |
| Finance income | 31 | (11,378) | (22,906) |
| Finance expense | 32 | 28,746 | 32,772 |
| Depreciation, depletion and amortisation | 11, 12, 13 | 222,151 | 181,372 |
| Other non-cash items | | 308 | 10,804 |
| OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL | | 358,904 | 615,452 |
| Changes in working capital: | | | |
| Accounts receivable | | 23,373 | (41,927) |
| Inventories | | (32,488) | (23,453) |
| Other taxes receivable | | 15,622 | (13,531) |
| Other assets | | 10,453 | (8,165) |
| Accounts payable | | (17,632) | 83,185 |
| Other taxes payable | | 7,025 | (1,974) |
| Other liabilities | | 199,720 | 45,370 |
| TOTAL EFFECT OF WORKING CAPITAL CHANGES | | 206,073 | 39,505 |
| Income tax paid | | (18,785) | (53,087) |

| | Notes | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|-------|--------------------------------|--------------------------------|
| Interest paid | | | |
| Dividends received | | 25,318 | 65,404 |
| Other cash flows from operating activities | | 965 | 859 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | 517,057 | 609,076 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sales of subsidiaries | | 6,323 | - |
| Acquisition of investments in associates and joint ventures | | (4,372) | (210) |
| Bank deposits placement | | - | (97,090) |
| Repayment of bank deposits | | 15,000 | 82,000 |
| Acquisition of other investments | | (78) | (474) |
| Proceeds from sales of other investments | | - | 1,425 |
| Short-term loans issued | | (894) | (532) |
| Repayment of short-term loans issued | | 2 | 661 |
| Long-term loans issued | | (1,301) | (7,148) |
| Repayment of long-term loans issued | | 5,313 | 1,313 |
| Purchases of property, plant and equipment | | (413,526) | (435,242) |
| Purchases of oil and gas licences, intangible assets | | (30,091) | (27,392) |
| Proceeds from sale of property, plant and equipment, net of tax | | 42,357 | 115,710 |
| Interest received | | 12,697 | 17,155 |
| Other cash flows from investing activities | | (5,595) | (13,765) |

| Notes | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| NET CASH USED IN INVESTING ACTIVITIES | (374,165) | (363,589) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 25,451 | 15,592 |
| Repayment of short-term borrowings | (39,954) | (343) |
| Proceeds from long-term borrowings | 92,854 | 243,371 |
| Repayment of long-term borrowings | (89,447) | (292,036) |
| Transaction costs directly attributable to the borrowings received | (589) | (375) |
| Dividends paid to Gazprom Neft shareholders | (93,494) | (227,120) |
| Dividends paid to non-controlling shareholders | (8,357) | (6,609) |
| Proceeds from sale of non-controlling interest in subsidiaries | 905 | - |
| Repayment of principal portion of lease liabilities | (11,326) | (9,200) |
| NET CASH USED IN FINANCING ACTIVITIES | (123,957) | (276,720) |
| Increase / (decrease) in cash and cash equivalents | 18,935 | (31,233) |
| Effect of foreign exchange on cash and cash equivalents | 15,672 | (13,948) |
| CASH AND CASH EQUIVALENTS AS OF THE BEGINNING OF THE PERIOD | 6 | 202,404 |
| CASH AND CASH EQUIVALENTS AS OF THE END OF THE PERIOD | 6 | 237,011 |
| | | 202,404 |

Notes to the Consolidated Financial Statements with Independent Auditor's Report¹

in millions of Russian Rubles (unless otherwise stated)

1. General

Description of business

PJSC Gazprom Neft (the "Company") is a vertically integrated oil company operating in the Russian Federation, the CIS and internationally. The Company and its subsidiaries (together referred to as the "Group") principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint-stock company and was set up in accordance with Russian regulations. PJSC Gazprom, the Group's parent, (the "Parent") owns 95.7% of the shares in the Company. The Russian Federation is the ultimate controlling party.

¹ – The accompanying notes are an integral part of these Consolidated Financial Statements.

2. Summary of significant accounting policies

Basis of preparation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

Subsequent events occurring after 31 December 2020 were evaluated through 17 February 2021, the date these Consolidated Financial Statements were authorised for issue.

Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, equity investments at fair value through other comprehensive income (OCI) and obligations under the Stock Appreciation Rights plan (SAR) are stated at fair value.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of the reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in Other Reserves line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of consolidation

The Consolidated Financial Statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies or exercises joint control with another investor, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified as financial assets measured at fair value through other comprehensive income or through profit or loss.

Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises identifiable assets acquired and liabilities and contingent liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company do not have public market price).

Goodwill

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling interest

Ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

Disposals of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Acquisitions from entities under common control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the Consolidated Financial Statements of the highest entity that has common control for which Consolidated Financial Statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity. When these transactions represent transactions with owners in their capacity as owners, the effect on such transactions is included in Additional paid-in capital in Equity.

Investments in associates

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Joint operations and joint ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.



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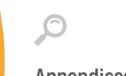
Technological
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Governance
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Appendices

Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice.

Cash equivalents include all highly liquid short-term investments with initial maturity within three months that can be converted to a certain cash amount and are subject to an insignificant risk of changes in value. They are initially recognised based on the cost of acquisition which approximates fair value and carried at amortised cost as are readily convertible to known amounts of cash.

The Group uses the additional highly liquid instruments for cash management that are recognised as cash equivalents:

- deposits with initial maturity more than three months if the Group has the right to early withdraw them without significant interest loss and penalties;
- cash transferred under the repurchase agreements with the maturity within one months if the risks and rewards are not transferred to the Group, cash returns at the fixed interest rate and do not linked to the securities market value;
- short-term loans issued to the parent company ("cash pooling") if the Group has the right for early redemption of loans without significant interest loss and penalties.

Non-derivative financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset (in the case of the financial asset not at fair value through profit or loss (FVPL)). Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Group initially recognises financial assets on trade-date (the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

For assets measured at fair value gains and losses will either be recorded in profit or loss or OCI. The classification of financial assets depends on:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

In particular, debt financial assets in the Group are usually held to obtain contractual cash flows that are solely payments of principal and interest. In rare cases, debt financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed.

Equity securities at initial recognition are usually classified as measured at fair value through other comprehensive income (FVOCI). These are strategic investments and the Group considers this classification to be more relevant.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ("SPPI").

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the Consolidated Statement of Profit or Loss and Other Comprehensive Income if material. Financial assets at amortised cost comprise trade receivables, other financial assets, cash and cash equivalents.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses) and impairment expenses are presented as separate line item in the Consolidated Statement of Profit or Loss and Other Comprehensive Income if material. The changes in fair value will no longer be reclassified to profit or loss when they are impaired or disposed. These assets are non-material for the Group.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises. These assets are non-material for the Group.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Other equity instruments are recognised at FVPL. Changes in the fair value of financial assets at FVPL are recognised in other gains / (losses) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as applicable. The assets are not significant for the Group.

Non-derivative financial liabilities

The Group initially recognises debt securities issued, loans and borrowings on the date that they are originated (in particular, date of bond issue or receiving of cash). Financial liabilities also include bank overdrafts, trade and other payables. These financial liabilities recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The financial liabilities are recognised initially at fair value minus (in the case of a financial liability that is not at fair value through profit or loss (FVTPL)) transaction costs that are directly attributable to issuing the financial liability. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Derivative financial instruments

Derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit or loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (commodity and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit or loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Intangible assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets (IA). Subsequently goodwill is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss. Amortisation is included within depreciation, depletion and amortisation line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

| Intangible asset group | Average useful life |
|------------------------|---------------------|
| Licenses and software | 1-5 years |
| Land rights | 25 years |

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit or loss.

Oil and gas properties

Exploration and evaluation assets

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological and geophysical studies and rights of access to properties to conduct those studies that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution;
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

Development costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

Depreciation, depletion and amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

| Asset group | Average useful life |
|------------------------------|---------------------|
| Buildings and constructions | 8–35 years |
| Machinery and equipment | 8–20 years |
| Vehicles and other equipment | 3–10 years |

Catalysts and reagents mainly used in the refining operations are treated as other fixed assets.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Impairment of non-current assets

The carrying amounts of the Group's non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generating units – CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit or loss. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Impairment of non-derivative financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk till the initial recognition.

For all trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, in respect of credit risk see note 35 for further details.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates.

The Group has the following types of financial assets that are subject to the expected credit loss model: trade receivables, debt investments carried at amortised cost and cash and cash equivalents.

The Group recognises any impairment loss and impairment loss reversal in respect of trade and other receivables in the Selling, general and administrative expenses line, and any impairment loss and impairment loss reversal in respect of loans issued and other financial assets, carried at amortised cost in the Other loss line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Decommissioning obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and production

The Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

Refining, marketing and distribution

The Group's oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income taxes

Currently some Group companies including PJSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 Income Taxes. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Mineral extraction tax and excise duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Government grants and excise duties on crude oil materials, dark bunker fuel, middle distillates with appropriate increased deductions

The Group applies accounting policy for excise deductions and demper part that bring economic benefit to the Group by analogy to the government grants and other assistance, i.e. by deducting them from related expenses.

Additional income tax for hydrocarbon producers

Additional income tax for hydrocarbon producers (AIT) is classified as operating expense in line with the mineral extraction tax and included in the Taxes other than income tax line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Export duties

Export duties, which are charged by the government on the volumes of crude oil and petroleum products transferred abroad by the Group, are included in operating expenses.

Share capital

Share capital represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders' meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the Consolidated Financial Statements are authorised for issue are disclosed in the subsequent events note.

Earnings per share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-based compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SAR") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit or loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and other benefit obligations

In the normal course of business the Group contributes to the Russian Federation State pension scheme on behalf of its employees, and contributions by the employer are calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred.

The Group has also recognised defined benefit plans, which cover the majority of employees of the Group. The cost of providing post-employment benefits is accrued and charged to other employee costs and compensation included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees. Actuarial gains and losses on liabilities arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise and are included in Other reserves line of equity in the Consolidated Statement of Financial Position.

Leases

For any new contracts the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition, the Group assessed whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purposes the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

- The Group has the right to operate the asset; or
- The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Variable payments are not included in the calculation of lease liability:

- payments under land lease agreements, the calculation of which depends on the cadastral value of the land plot and other coefficients established by government decrees;
- payments for utilities (including well drills) and other services, determined upon the fact of consumption;
- payments that depend on the use of the asset (per unit of volume or revenue received using the asset).

The Group applies a practical expedient and takes into account additional payments not related to the lease, but provided for by the lease agreement along with payments for right to use an asset, for all contracts except for time-charter contracts. Under time-charter contracts, the Group identifies service component not related to the right to use the asset as part of the expenses of the period if the share of such payments can be reliably determined.

The term used to measure a liability and an asset in the form of a right of use is defined as the number of days during which the Group has sufficient confidence that it will lease the asset. Any option for renewal or termination is taken into account when estimating the term. The Group considers monetary and non-monetary aspects to determine the lease term of the contract, such as business plans, past practices and economic incentives to extend or terminate the contract (the presence of inseparable improvements, etc.) and other factors that may affect management's judgment on the lease term.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets.

The Group presents right-of-use assets and lease liabilities in the separate lines in the Consolidated Statement of Financial Position.

Recognition of revenues

Revenue is an income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

The Group recognizes Revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due. Specifically:

- For export contracts control generally passes to buyer on the border of the Russian Federation, the Group is not responsible for transportation,
- For domestic contracts control generally passes when products are dispatched or delivered to customer. When control passes on delivery to customer transportation is not considered as a distinct performance obligation. In most contracts when control passes on dispatch the Group is not responsible for transportation or transportation is a distinct service provided to customer within a separate contract. In case of sales of petroleum products and transportation by railway performance obligation for transportation is considered to be distinct and excluded from contract price. The Group recognizes this type of revenue within Other revenue line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax. The Group doesn't consider export duties as a part of transaction price and includes expenses with regard to export duties within operating expenses.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold and other similar compulsory payments.

The contract liability balance presented as advances received at the beginning of the reporting period was short-term by nature and was recognized as revenue during the period except for the balances of advances received related to the contracts with a long production cycle.

The Group applies a practical expedient which allows entity not to disclose the information of its remaining performance obligations at the end of the reporting period under contracts with a term of less than one year.

Buy / sell transactions

Purchases and sales under the same contract with a specific counterparty (buy / sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

Transportation costs

Transportation expenses recognised in profit or loss represent expenses incurred to transport crude oil and oil products through the PJSC "AK Transneft" pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

3. Critical accounting estimates, assumptions and judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the Management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Impairment of non-current assets

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money.

The spread of the coronavirus pandemic (COVID-19) and the preventive measures which led to decrease in the economic activity of market participants in 2020, as well as significant volatility in the currency, stock and commodity markets since March 2020 (including weakening of the ruble (RUB) against the US dollar (USD) and EURO (EUR)), the decrease in oil prices and its subsequent partial recovery, and the obligations to reduce oil production in accordance with OPEC+ agreement since May 2020, were considered by the Group as indications of possible impairment.

As of 31 December 2020 the Group conducted impairment testing for assets, including oil and gas assets located outside the Russian Federation, the valuation of which is most affected by changes in macroeconomic parameters that are not offset by a decrease in the ruble exchange rate (note 11). The macroeconomic factors mentioned above were taken into account when preparing business plans (models), which were used for measuring the value in use of non-current assets, including when preparing forecasts of oil production volumes, oil price dynamics, as well as when determining the discount rate.

Estimation of oil and gas reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on annual basis. Effective 1 October 2020, the Group estimates its oil and gas reserves in accordance with the Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. Previously the Group estimated its oil and gas reserves in accordance with the rules promulgated by the US Securities and Exchange Commission (SEC). The change did not have a significant impact on the Group's financial position and results of operations for the fourth quarter of 2020. The Group also does not expect the significant impact of this change on the Group's financial position and results of operations in the future.

Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

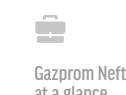
In 2020, the macroeconomic factors mentioned above did not have significant impact on estimation of oil and gas reserves.

Useful lives of property, plant and equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.



If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guaranteee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

Accounting for liabilities of the defined benefit pension plan

The assessment of the obligations of the defined benefit plan is based on the use of actuarial techniques and assumptions. Actual results may differ from estimates, and the Group's estimates may be adjusted in the future based on changes in the economic and financial situation. Management uses judgments on selected models, cash flows and their distribution over time, as well as other indicators, including the discount rate. The cost of future benefits is determined on the basis of actuarial techniques and assumptions.

Joint arrangements

Upon adopting IFRS 11 the Group applies judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determines the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

Acquisition of Gazprom Resource Northgas LLC

Gazprom Resource Northgas LLC is a subsidiary of the Group in which the Group holds an 18.2% share. Starting 2015 the Group has obtained control over Gazprom Resource Northgas LLC based on signed management agreement and charter documents which provided the Group with a majority of voting rights which differ from the Group's share in equity.

4. Application of amendments to the existing standards

The following amendments to the existing standards which became effective did not have any material impact on the Consolidated Financial Statements:

- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of Material – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued in September 2019 and effective for annual periods beginning on or after 1 January 2020);
- COVID-19-Related Rent Concessions – Amendments to IFRS 16 (issued in May 2020 and effective for annual periods beginning on or after 1 June 2020);
- Lease Incentives – Amendments to Illustrative Example 13 accompanying IFRS 16 (issued in May 2020).

5. New standards and amendments to the existing standards that are not yet effective

The following new standards and amendments to the existing standards are not expected to have any material impact on the Consolidated Financial Statements when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and amended in June 2020, effective for annual periods beginning on or after 1 January 2023);
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 (issued in January 2020 and amended in July 2020, effective for annual periods beginning on or after January 2023);

- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Updating References to the Conceptual Framework – Amendments to IFRS 3 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Annual Improvements to IFRS Standards 2018–2020 Cycle (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022):
 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities – Amendments to IFRS 9;
 - Subsidiary as a First-time Adopter – Amendment to IFRS 1;
 - Taxation in Fair Value Measurements – Amendment to IAS 41;
- Interest Rate Benchmark Reform (Phase 2) – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued in August 2020 and effective for annual periods beginning on or after 1 January 2021);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after a date to be determined by IASB).

6. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Cash on hand | 509 | 587 |
| Cash in bank | 131,155 | 79,669 |
| Bank deposits | 50,356 | 51,485 |
| Cash pooling to the Parent | 53,813 | 43,912 |
| Cash transferred under repurchase agreements | – | 24,709 |
| Other cash equivalents | 1,178 | 2,042 |
| TOTAL CASH AND CASH EQUIVALENTS | 237,011 | 202,404 |

7. Trade and other receivables

Trade and other receivables as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Trade receivables | 155,844 | 153,738 |
| Other receivables | 6,003 | 53,637 |
| Less credit loss allowance | (2,577) | (2,103) |
| TOTAL TRADE AND OTHER RECEIVABLES | 159,270 | 205,272 |

8. Inventories

Inventories as of 31 December 2020 and 31 December 2019 comprise of the following:

| | 31 December 2020 | 31 December 2019 |
|---------------------------------------|------------------|------------------|
| Petroleum products and petrochemicals | 52,980 | 62,891 |
| Materials and supplies | 39,004 | 34,274 |
| Crude oil and gas | 26,612 | 36,341 |
| Other inventories | 100,456 | 41,861 |
| Less write-down | (1,638) | (1,693) |
| TOTAL INVENTORIES | 217,414 | 173,674 |

Other inventories are primarily comprised of work in progress, some of which relates to a single production cycle with a period of more than 12 months.

9. Other taxes receivable

Other taxes receivable as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|-------------------------------------|------------------|------------------|
| Value added tax receivable | 76,652 | 73,387 |
| Prepaid custom duties | 3,156 | 21,045 |
| Other taxes prepaid | 9,976 | 10,486 |
| TOTAL OTHER TAXES RECEIVABLE | 89,784 | 104,918 |

10. Other current assets

Other current assets as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Advances paid less allowance | 29,827 | 40,413 |
| Other current assets less allowance | 24,127 | 14,639 |
| TOTAL OTHER CURRENT ASSETS, NET | 53,954 | 55,052 |

11. Property, plant and equipment

Movements in property, plant and equipment for the years ended 31 December 2020 and 2019 are as follows:

| | Oil and Gas properties | Refining assets | Marketing and distribution | Others | Assets under construction | Total |
|---|------------------------|------------------|----------------------------|-----------------|---------------------------|--------------------|
| COST | | | | | | |
| As of 1 January 2020 | 2,321,953 | 402,565 | 216,610 | 28,984 | 644,964 | 3,615,076 |
| Additions | 4,542 | 8,720 | - | - | 455,109 | 468,371 |
| Changes in decommissioning obligations | 17,321 | - | - | - | - | 17,321 |
| Capitalised borrowing costs | - | - | - | - | 31,189 | 31,189 |
| Transfers | 218,073 | 160,716 | 18,554 | 5,434 | (402,777) | - |
| Internal movement | (16,713) | (4,496) | 6,030 | (654) | 15,833 | - |
| Disposal in result of subsidiary sale | (526) | - | - | - | (4,983) | (5,509) |
| Disposals | (17,293) | (4,962) | (2,515) | (1,755) | (4,894) | (31,419) |
| Foreign currency translation | 100,124 | 22,937 | 19,406 | 749 | 19,069 | 162,285 |
| AS OF 31 DECEMBER 2020 | 2,627,481 | 585,480 | 258,085 | 32,758 | 753,510 | 4,257,314 |
| DEPRECIATION, DEPLETION AND IMPAIRMENT | | | | | | |
| As of 1 January 2020 | (913,986) | (137,323) | (83,984) | (10,445) | - | (1,145,738) |
| Depreciation and depletion charge | (153,951) | (21,563) | (15,482) | (3,939) | - | (194,935) |
| Impairment | (8,859) | - | - | - | - | (8,859) |
| Internal movement | (189) | 1,738 | (1,593) | 44 | - | - |
| Disposals | 4,351 | 3,004 | 1,805 | 1,755 | - | 10,915 |
| Foreign currency translation | (54,856) | (8,865) | (7,130) | (469) | - | (71,320) |
| AS OF 31 DECEMBER 2020 | (1,127,490) | (163,009) | (106,384) | (13,054) | - | (1,409,937) |
| NET BOOK VALUE | | | | | | |
| AS OF 1 JANUARY 2020 | 1,407,967 | 265,242 | 132,626 | 18,539 | 644,964 | 2,469,338 |
| AS OF 31 DECEMBER 2020 | 1,499,991 | 422,471 | 151,701 | 19,704 | 753,510 | 2,847,377 |

Capitalised borrowing costs for the year ended 31 December 2020 include interest expense in the amount of RUB 28.8 billion and exchange losses arising from currency borrowing in the amount of RUB 2.4 billion (RUB 29.0 billion and 1.2 RUB billion for the year ended 31 December 2019, respectively).

During the year ended 2020, the Group identified indicators of impairment in relation to upstream oil and gas assets in foreign regions and performed the impairment test for such assets (no impairment were recognised as of 31 December 2019). The impairment loss is included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. In assessing the possible impairment, the carrying amount is compared with the estimated value in use.

| | Oil and Gas properties | Refining assets | Marketing and distribution | Others | Assets under construction | Total |
|---|------------------------|-----------------|----------------------------|---------------|---------------------------|------------------|
| COST | | | | | | |
| As of 31 December 2018 | 2,084,208 | 387,099 | 237,386 | 27,658 | 655,772 | 3,392,123 |
| Effect of changes in accounting policies | (124) | - | (27,145) | - | - | (27,269) |
| As of 1 January 2019 | 2,084,084 | 387,099 | 210,241 | 27,658 | 655,772 | 3,364,854 |
| Additions | 9,014 | 5,225 | - | - | 433,655 | 447,894 |
| Acquisitions through business combinations | 221 | - | - | - | - | 221 |
| Changes in decommissioning obligations | 37,259 | - | - | - | - | 37,259 |
| Capitalised borrowing costs | - | - | - | - | 30,230 | 30,230 |
| Transfers | 266,344 | 24,166 | 18,575 | 5,144 | (314,229) | - |
| Internal movement | (5,891) | (323) | 249 | (2,533) | 8,498 | - |
| Disposals | (15,049) | (4,481) | (2,904) | (960) | (161,266) | (184,660) |
| Foreign currency translation | (54,029) | (9,121) | (9,551) | (325) | (7,696) | (80,722) |
| AS OF 31 DECEMBER 2019 | 2,321,953 | 402,565 | 216,610 | 28,984 | 644,964 | 3,615,076 |
| DEPRECIATION, DEPLETION AND IMPAIRMENT | | | | | | |
| As of 31 December 2018 | (815,875) | (125,189) | (75,809) | (9,181) | - | (1,026,054) |
| Effect of changes in accounting policies | 14 | - | 1,772 | - | - | 1,786 |
| As of 1 January 2019 | (815,861) | (125,189) | (74,037) | (9,181) | - | (1,024,268) |
| Depreciation and depletion charge | (130,316) | (18,309) | (14,811) | (3,026) | - | (166,462) |
| Internal movement | 90 | 13 | (717) | 614 | - | - |
| Disposals | 3,132 | 2,943 | 1,925 | 960 | - | 8,960 |
| Foreign currency translation | 28,969 | 3,219 | 3,656 | 188 | - | 36,032 |

| | Oil and Gas properties | Refining assets | Marketing and distribution | Others | Assets under construction | Total |
|-------------------------------|------------------------|------------------|----------------------------|-----------------|---------------------------|--------------------|
| AS OF 31 DECEMBER 2019 | (913,986) | (137,323) | (83,984) | (10,445) | - | (1,145,738) |
| NET BOOK VALUE | | | | | | |
| AS OF 1 JANUARY 2019 | 1,268,223 | 261,910 | 136,204 | 18,477 | 655,772 | 2,340,586 |
| AS OF 31 DECEMBER 2019 | 1,407,967 | 265,242 | 132,626 | 18,539 | 644,964 | 2,469,338 |

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 6% for the year ended 31 December 2020 (7% for the year ended 31 December 2019).

The information regarding Group's exploration and evaluation assets (part of oil and gas properties) is presented below:

| | 2020 | 2019 |
|--|----------------|----------------|
| Net book value as of 1 January | 145,466 | 114,286 |
| Additions | 41,283 | 49,969 |
| Unsuccessful exploration expenditures derecognised | (3,002) | (4,969) |
| Transfer to proved property | (2,015) | (4,240) |
| Disposal in result of subsidiary sale | (2,581) | - |
| Disposals | (6,194) | (4,857) |
| Foreign currency translation | 5,198 | (4,723) |
| NET BOOK VALUE AS OF 31 DECEMBER | 178,155 | 145,466 |

12. Right-of-use assets

Movements in right-of-use assets for the years ended 31 December 2020 and 2019 are as follows:

| | Vessels and other vehicles | Land, buildings and premises | Total |
|--|----------------------------|------------------------------|---------------|
| Net book value as of 1 January 2020 | 72,146 | 6,927 | 79,073 |
| Additions | 581 | 2,781 | 3,362 |
| Modification and remeasurement | (50) | 21 | (29) |
| Depreciation charge | (7,811) | (2,318) | (10,129) |
| Foreign currency translation | 116 | 401 | 517 |
| NET BOOK VALUE AS OF 31 DECEMBER 2020 | 64,982 | 7,812 | 72,794 |
| | | | |
| | Vessels and other vehicles | Land, buildings and premises | Total |
| Net book value as of 1 January 2019 | 62,455 | 6,568 | 69,023 |
| Additions | 16,189 | 2,047 | 18,236 |
| Modification and remeasurement | (127) | 434 | 307 |
| Depreciation charge | (6,371) | (2,030) | (8,401) |
| Foreign currency translation | – | (92) | (92) |
| NET BOOK VALUE AS OF 31 DECEMBER 2019 | 72,146 | 6,927 | 79,073 |

From lease liabilities the Group has excluded expenses related to variable lease payments and payments under short-term lease contracts in the amount of RUB 18.5 billion for the year ended 31 December 2020 (RUB 15.3 billion for the year ended 31 December 2019). The cash outflow from such contracts does not differ significantly from the amount of expenses.

Total cash outflow for leases equals RUB 17.7 billion for the year ended 31 December 2020 and does not include variable lease payments, payments under short-term contracts and payments for non-lease component (RUB 14.8 billion for the year ended 31 December 2019).

13. Goodwill and other intangible assets

The information regarding movements in Group's intangible assets is presented below:

| | Goodwill | Software | Land rights | Other IA | Total |
|------------------------------------|---------------|-----------------|----------------|----------------|-----------------|
| COST | | | | | |
| As of 1 January 2020 | 34,388 | 40,064 | 16,617 | 36,052 | 127,121 |
| Additions | – | 1,747 | 19 | 24,045 | 25,811 |
| Internal movement | – | 2,753 | 1 | (2,754) | – |
| Disposals | – | (771) | – | (397) | (1,168) |
| Foreign currency translation | 6,207 | 2,391 | 120 | 389 | 9,107 |
| AS OF 31 DECEMBER 2020 | 40,595 | 46,184 | 16,757 | 57,335 | 160,871 |
| AMORTISATION AND IMPAIRMENT | | | | | |
| As of 1 January 2020 | (197) | (25,782) | (6,896) | (5,626) | (38,501) |
| Amortisation charge | – | (6,395) | (647) | (1,103) | (8,145) |
| Internal movement | – | 2,614 | – | (2,614) | – |
| Disposals | – | 666 | – | 201 | 867 |
| Foreign currency translation | (81) | (1,994) | – | (252) | (2,327) |
| AS OF 31 DECEMBER 2020 | (278) | (30,891) | (7,543) | (9,394) | (48,106) |
| NET BOOK VALUE | | | | | |
| AS OF 1 JANUARY 2020 | 34,191 | 14,282 | 9,721 | 30,426 | 88,620 |
| AS OF 31 DECEMBER 2020 | 40,317 | 15,293 | 9,214 | 47,941 | 112,765 |

| | Goodwill | Software | Land rights | Other IA | Total |
|------------------------------------|----------|----------|-------------|----------|----------|
| COST | | | | | |
| As of 1 January 2019 | 37,027 | 40,679 | 16,794 | 21,583 | 116,083 |
| Additions | – | 1,729 | – | 17,483 | 19,212 |
| Internal movement | – | (570) | (23) | 593 | – |
| Disposals | – | (792) | (92) | (3,401) | (4,285) |
| Foreign currency translation | (2,639) | (982) | (62) | (206) | (3,889) |
| As of 31 December 2019 | 34,388 | 40,064 | 16,617 | 36,052 | 127,121 |
| AMORTISATION AND IMPAIRMENT | | | | | |
| As of 1 January 2019 | (234) | (22,098) | (6,256) | (7,356) | (35,944) |
| Amortisation charge | – | (5,235) | (663) | (1,051) | (6,949) |
| Internal movement | – | (18) | 21 | (3) | – |
| Disposals | – | 742 | – | 2,662 | 3,404 |
| Foreign currency translation | 37 | 827 | 2 | 122 | 988 |
| As of 31 December 2019 | (197) | (25,782) | (6,896) | (5,626) | (38,501) |
| NET BOOK VALUE | | | | | |
| As of 1 January 2019 | 36,793 | 18,581 | 10,538 | 14,227 | 80,139 |
| As of 31 December 2019 | 34,191 | 14,282 | 9,721 | 30,426 | 88,620 |

Goodwill acquired through business combinations has been allocated to Upstream and Downstream in the amounts of RUB 33.1 billion and RUB 7.2 billion as of 31 December 2020 (RUB 27.3 billion and RUB 6.9 billion as of 31 December 2019).

The Group has performed impairment test for CGUs to which goodwill related. In assessing whether goodwill has been impaired, the carrying amount is compared with the estimated value in use.

The value in use is determined as the discounted net cash flows based on the forecasts of oil prices and production quantities based on reserve report and confirmed long-term strategic plans. The forecasting period for determining the value in use is in line with the management assumptions for long-term planning and does not exceed the useful life of assets different from goodwill and included in the CGUs.

Key assumptions applied to the calculation of value in use:

- **The discount rate** calculation is based on the Company's weighted average cost of capital adjusted to reflect after-tax discount rate ranged from 7.08–7.97% per annum in 2020 (for the 2019: 7.88%–8.68% per annum in real terms);
- **Oil prices** are based on the available forecasts from globally recognized research institutions such as Wood Mackenzie, Platts/PIRA, Energy Group and others;
- **The estimated annual RSD / USD exchange rate** was forecasted as RSD 109.09 and the **estimated average annual RUB / USD exchange rate** was forecasted as follows:

| 2021 | 2022 | 2023 | Average for 2024–2025 | Average for 2026–2039 | 2040 onwards |
|-------|-------|-------|-----------------------|-----------------------|--------------|
| 68.50 | 59.50 | 58.40 | 59.00 | 57.68 | 59.20 |

- **Estimated production volumes** were based on detailed data for the fields and refineries and the field development plans and refineries utilization rates approved by management through the long-term planning process were taken into account.

Goodwill was tested for impairment and no impairment was identified.

14. Investments in associates and joint ventures

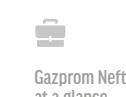
The carrying values of the investments in associates and joint ventures as of 31 December 2020 and 31 December 2019 are summarised below:

| | Ownership percentage | 31 December 2020 | 31 December 2019 |
|---|----------------------|------------------|------------------|
| Arcticgas | Joint venture | 50.0 | 160,312 |
| Slavneft | Joint venture | 49.9 | 136,935 |
| Messoyakha | Joint venture | 50.0 | 44,387 |
| Northgas | Joint venture | 50.0 | 12,008 |
| Others | | 23,906 | 12,404 |
| TOTAL INVESTMENTS IN ASSOCIATES AND JOINT VENTURES | | 377,548 | 341,115 |

The principal place of business of associates and the most significant joint ventures disclosed above is the Russian Federation.

Arcticgas

JSC Arctic Gas Company (Arcticgas) is developing oil and gas condensate fields located in the Yamalo-Nenets Autonomous Area of the Russian Federation. The control over Arcticgas is divided equally between the Group and PJSC NOVATEK.



During the year ended 31 December 2020, Arcticgas declared and paid dividends in the total amount of RUB 20.5 billion, of which RUB 10.25 billion is attributable to the Group (RUB 92.0 billion and RUB 46.0 billion for the year ended 31 December 2019 accordingly).

Slavneft

PJSC NGK Slavneft and its subsidiaries (Slavneft) are engaged in exploration, production and development of crude oil and gas and production of refined petroleum products in the Russian Federation. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.

Northgas

CJSC Northgas (Northgas) is engaged in development of the Severo-Urengoyskoye natural gas field. The Group's investment in Northgas is held through LLC Gazprom Resource Northgas which is controlled by the Group and owns a 50% share in Northgas. The control over Northgas is divided equally between the Group and PJSC NOVATEK.

During the year ended 31 December 2019, Northgas declared and paid dividends in the total amount of RUB 1.1 billion, of which RUB 0.6 billion is attributable to the Group.

Messoyakha

JSC Messoyakhaneftegas (Messoyakha) is developing the Vostochno-Messoyakhskoye and Zapadno-Messoyakhskoye oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft.

During the year ended 31 December 2020, Messoyakha declared and paid dividends in the total amount of RUB 20.0 billion, of which RUB 10.0 billion is attributable to the Group (RUB 34.6 billion and RUB 17.3 billion for the year ended 31 December 2019 accordingly).

The summarised financial information for the significant joint ventures as of 31 December 2020 and 31 December 2019 and for the years ended 31 December 2020 and 2019 is presented in the tables below:

| 31 December 2020 | Arcticgas | Slavneft | Messoyakha | Northgas |
|-----------------------------------|------------------|-----------------|-------------------|-----------------|
| Cash and cash equivalents | 6,123 | 2,281 | 3 | 81 |
| Other current assets | 38,757 | 47,779 | 31,522 | 2,526 |
| Non-current assets | 391,809 | 482,409 | 197,014 | 41,730 |
| Current financial liabilities | (44,445) | (52,151) | (29,381) | (6,629) |
| Other current liabilities | (20,376) | (27,605) | (8,711) | (1,297) |
| Non-current financial liabilities | (30,000) | (118,591) | (85,323) | (3,880) |
| Other non-current liabilities | (45,570) | (68,327) | (16,772) | (7,139) |
| NET ASSETS | 296,298 | 265,795 | 88,352 | 25,392 |

| 31 December 2019 | Arcticgas | Slavneft | Messoyakha | Northgas |
|-----------------------------------|------------------|-----------------|-------------------|-----------------|
| Cash and cash equivalents | 2,978 | 2,771 | 2 | 1,267 |
| Other current assets | 34,148 | 97,774 | 26,122 | 3,358 |
| Non-current assets | 382,236 | 428,919 | 195,568 | 41,368 |
| Current financial liabilities | (42,499) | (48,343) | (103,883) | (6,243) |
| Other current liabilities | (12,080) | (40,050) | (10,958) | (1,892) |
| Non-current financial liabilities | (66,197) | (122,010) | - | (9,701) |
| Other non-current liabilities | (50,394) | (53,648) | (16,576) | (6,170) |
| NET ASSETS | 248,192 | 265,413 | 90,275 | 21,987 |

| Year ended 31 December 2020 | Arcticgas | Slavneft | Messoyakha | Northgas |
|--|------------------|-----------------|-------------------|-----------------|
| Revenue | 171,095 | 175,013 | 97,554 | 15,293 |
| Depreciation, depletion and amortisation | (23,844) | (37,327) | (30,971) | (1,851) |
| Finance income | 352 | 113 | - | 72 |
| Finance expense | (5,192) | (12,618) | (8,045) | (819) |
| Total income tax (expense) / gain | (7,137) | 451 | (9,642) | (866) |
| Profit for the period | 68,601 | 449 | 18,077 | 3,399 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 68,601 | 420 | 18,076 | 3,399 |

| Year ended 31 December 2019 | Arcticgas | Slavneft | Messoyakha | Northgas |
|--|------------------|-----------------|-------------------|-----------------|
| Revenue | 196,395 | 316,084 | 141,449 | 21,136 |
| Depreciation, depletion and amortisation | (22,428) | (39,084) | (27,920) | (2,202) |
| Finance income | 1,214 | 545 | 5 | 161 |
| Finance expense | (8,520) | (12,562) | (12,278) | (1,600) |
| Total income tax expense | (15,866) | (8,644) | (10,878) | (1,559) |
| Profit for the period | 79,696 | 24,732 | 51,632 | 6,179 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 79,696 | 24,212 | 51,632 | 6,179 |

Others

In November 2020 the Group completed deal on disposal of subsidiary interest equal to 50% of share capital of Gazpromneft-Aero Bryansk LLC to third parties. In result of the deal the Group maintained the joint control with the third party over the entity. The remaining share was recognized as investment in joint venture at fair value.

The aggregate carrying amount of all individually immaterial associates and joint ventures as well as the Group's share of those associates' and joint ventures' profit or loss and other comprehensive income are not significant for both reporting dates and periods.

15. Joint operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in JSC Tomskneft VNC (Tomskneft) and Salym Petroleum Development N.V. (SPD) as Joint operations. Tomskneft and SPD are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

16. Long-term financial assets

Long-term financial assets as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Long-term loans issued | 6,009 | 9,919 |
| Equity investments measured at fair value through OCI | 1,504 | 1,562 |
| Deposits with original maturity more than 1 year | - | 93 |
| Less expected credit loss allowance | (1,628) | (537) |
| TOTAL LONG-TERM FINANCIAL ASSETS | 5,885 | 11,037 |

17. Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities in the Consolidated Financial Statements are attributable to the following:

| | Assets | Liabilities | Net |
|-------------------------------|--------|-------------|-----------|
| AS OF 31 DECEMBER 2020 | | | |
| Property, plant and equipment | 2,889 | (196,739) | (193,850) |
| Intangible assets | 107 | (4,380) | (4,273) |
| Investments | 3,160 | 58 | 3,218 |
| Inventories | 1,689 | (1,333) | 356 |

| | Assets | Liabilities | Net |
|---|---------------|------------------|------------------|
| Trade and other receivables | 3,142 | (23) | 3,119 |
| Long-term and short-term debt | - | (216) | (216) |
| Provisions | 23,773 | (47) | 23,726 |
| Tax loss carry-forwards | 28,782 | - | 28,782 |
| Lease | 18,758 | (14,071) | 4,687 |
| Other | 5,344 | (2,802) | 2,542 |
| Net-off | (54,217) | 54,217 | - |
| TOTAL DEFERRED INCOME TAX ASSETS / (LIABILITIES) | 33,427 | (165,336) | (131,909) |
| AS OF 31 DECEMBER 2019 | | | |
| Property, plant and equipment | 3,097 | (169,189) | (166,092) |
| Intangible assets | 1 | (3,783) | (3,782) |
| Investments | 1,512 | (23) | 1,489 |
| Inventories | 595 | (2,877) | (2,282) |
| Trade and other receivables | 1,777 | (1) | 1,776 |
| Long-term and short-term debt | 19 | (189) | (170) |
| Provisions | 16,180 | (47) | 16,133 |
| Tax loss carry-forwards | 18,880 | (1) | 18,879 |
| Finance lease | 2,107 | - | 2,107 |
| Other | 8,127 | (5,946) | 2,181 |
| Net-off | (33,803) | 33,803 | - |
| TOTAL DEFERRED INCOME TAX ASSETS / (LIABILITIES) | 18,492 | (148,253) | (129,761) |

Movements in temporary differences during the period:

| | As of 1 January 2020 | Recognised in profit or loss | Recognised in other comprehensive income | Other | As of 31 December 2020 |
|---|----------------------|------------------------------|--|-------------|------------------------|
| Property, plant and equipment | (166,092) | (25,070) | (2,603) | (85) | (193,850) |
| Intangible assets | (3,782) | (491) | - | - | (4,273) |
| Investments | 1,489 | 1,858 | (129) | - | 3,218 |
| Inventories | (2,282) | 2,638 | - | - | 356 |
| Trade and other receivables | 1,776 | 1,161 | 182 | - | 3,119 |
| Loans and borrowings | (170) | (47) | 1 | - | (216) |
| Provisions | 16,133 | 7,424 | 166 | 3 | 23,726 |
| Tax loss carry-forwards | 18,879 | 9,812 | 91 | - | 28,782 |
| Lease | 2,107 | 2,580 | - | - | 4,687 |
| Other | 2,181 | 133 | 219 | 9 | 2,542 |
| TOTAL DEFERRED INCOME TAX ASSETS / (LIABILITIES) | (129,761) | (2) | (2,073) | (73) | (131,909) |

| | As of 1 January 2019 | Recognised in profit or loss | Recognised in other comprehensive income | Other | As of 31 December 2019 |
|---|----------------------|------------------------------|--|--------------|------------------------|
| Property, plant and equipment | (145,580) | (33,770) | 8,409 | 4,849 | (166,092) |
| Intangible assets | (3,875) | 93 | - | - | (3,782) |
| Investments | 506 | 1,063 | (80) | - | 1,489 |
| Inventories | (855) | (1,427) | - | - | (2,282) |
| Trade and other receivables | 2,580 | (746) | (58) | - | 1,776 |
| Loans and borrowings | (286) | 116 | - | - | (170) |
| Provisions | 5,812 | 10,401 | (80) | - | 16,133 |
| Tax loss carry-forwards | 24,387 | (5,499) | (9) | - | 18,879 |
| Lease | - | (2,042) | - | 4,149 | 2,107 |
| Finance lease | 5,264 | - | - | (5,264) | - |
| Other | 3,726 | (1,433) | (112) | - | 2,181 |
| TOTAL DEFERRED INCOME TAX ASSETS / (LIABILITIES) | (108,321) | (33,244) | 8,070 | 3,734 | (129,761) |

18. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 41.7 billion and RUB 44.9 billion as of 31 December 2020 and 31 December 2019, respectively).

19. Short-term debt and current portion of long-term debt

As of 31 December 2020 and 31 December 2019 the Group has short-term debt and current portion of long-term debt outstanding as follows:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Current portion of long-term debt | 44,634 | 14,317 |
| Bank loans | - | 14,981 |
| Other borrowings | 1,061 | 900 |
| TOTAL SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT | 45,695 | 30,198 |

20. Trade and other payables

Trade and other payables as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Trade accounts payable | 307,997 | 279,985 |
| Dividends payable | 26,694 | 2,362 |
| Commodity and interest-rate swaps – cash flow hedge | 265 | – |
| Other accounts payable | 19,959 | 25,092 |
| TOTAL TRADE AND OTHER PAYABLES | 354,915 | 307,439 |

Other accounts payable are partly represented by the short-term part of a liability to PJSC Gazprom for assets related to the Pirazlomnoye project.

21. Other current liabilities

Other current liabilities as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Advances received | 193,880 | 26,219 |
| Payables to employees | 24,025 | 3,896 |
| Other non-financial payables | 16,485 | 10,626 |
| TOTAL OTHER CURRENT LIABILITIES | 234,390 | 40,741 |

Other current liabilities are primarily comprised of advances received, that contain a significant financing component determined based on the discount rate that would have been applied to a separate financing transaction between the Group and customers at the contract conclusion time and relate to a single production cycle with a period of more than 12 months. Revenue will be recognised at contract completion in 2022.

The amount of unsatisfied performance obligations excluding the financing component equals RUB 192.7 billion and RUB 119.9 billion as of 31 December 2020 and as of 31 December 2019, respectively.

22. Other taxes payable

Other taxes payable as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| VAT | 47,040 | 32,098 |
| Mineral extraction tax | 26,925 | 32,849 |
| Excise tax | 15,653 | 14,558 |
| Social security contributions (social taxes) | 8,124 | 7,868 |
| Property tax | 3,085 | 2,591 |
| Additional income tax for hydrocarbon producers | 2,896 | 3,954 |
| Other taxes | 1,925 | 2,483 |
| TOTAL OTHER TAXES PAYABLE | 105,648 | 96,401 |

Tax expenses other than income tax expense for the years ended 31 December 2020 and 2019 comprise the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|-----------------------------|-----------------------------|
| Mineral extraction tax | 291,715 | 464,773 |
| Excise tax | 210,349 | 70,125 |
| Additional income tax for hydrocarbon producers | 29,296 | 14,348 |
| Social security contributions (social taxes) | 27,997 | 25,707 |
| Property tax | 13,563 | 12,580 |
| Other taxes | 4,470 | 3,660 |
| TOTAL TAXES OTHER THAN INCOME TAX | 577,390 | 591,193 |

23. Provisions and other accrued liabilities

Movements in provisions and other accrued liabilities for the years ended 31 December 2020 and 2019 is below:

| | Decommissioning provision | Other | Total |
|---|---------------------------|---------------|----------------|
| Carrying amount as of 1 January 2019 | 59,630 | 27,605 | 87,235 |
| Short-term part | 1,771 | 18,272 | 20,043 |
| Long-term part | 57,859 | 9,333 | 67,192 |
| New obligation incurred | 10,074 | 19,122 | 29,196 |
| Utilisation of provision / accrual | (2,444) | (2,082) | (4,526) |
| Change in estimates | 28,856 | - | 28,856 |
| Unwind of discount | 4,083 | - | 4,083 |
| Foreign currency translation | (1,146) | (953) | (2,099) |
| CARRYING AMOUNT AS OF 31 DECEMBER 2019 | 99,053 | 43,692 | 142,745 |
| SHORT-TERM PART | 2,550 | 21,191 | 23,741 |
| LONG-TERM PART | 96,503 | 22,501 | 119,004 |
| New obligation incurred | 9,701 | 11,674 | 21,375 |
| Utilisation of provision / accrual | (3,042) | (22,306) | (25,348) |
| Change in estimates | 9,320 | - | 9,320 |
| Unwind of discount | 5,940 | - | 5,940 |
| Foreign currency translation | 3,586 | 1,039 | 4,625 |
| CARRYING AMOUNT AS OF 31 DECEMBER 2020 | 124,558 | 34,099 | 158,657 |
| SHORT-TERM PART | 2,673 | 28,124 | 30,797 |
| LONG-TERM PART | 121,885 | 5,975 | 127,860 |

Change in estimates was mainly caused by revision of discount and inflation rates.

Other provisions and accrued liabilities are primarily comprised of accruals for the bonuses to employees, post-employment benefits provisions, legal proceedings.

24. Long-term debt

As of 31 December 2020 and 31 December 2019 the Group has long-term outstanding debt as follows:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Bank loans | 352,827 | 335,690 |
| Loan participation notes | 223,083 | 186,775 |
| Bonds | 199,061 | 168,918 |
| Other borrowings | 8,193 | 7,964 |
| Less current portion of long-term debt | (44,634) | (14,317) |
| TOTAL LONG-TERM DEBT | 738,530 | 685,030 |

Bank loans

In September 2018 the Group borrowed RUB 10.0 billion under long-term facility agreement with Alfa-Bank due payable in September 2023. In February 2020 the Group performed pre-scheduled final principal repayment in the total amount of RUB 10.0 billion.

In February 2019 the Group performed pre-scheduled final principal repayment in the total amount of USD 249.1 million (RUB 16.4 billion) under the Club term loan facility with the syndicate of international banks (facility agent - Mizuho).

In July 2012 the Group signed an ECA-covered term loan facility with the group of international banks (facility agent HSBC) with a final maturity date in December 2022. In June 2019 and December 2019 the Group performed a partial principal repayment in the total amount of EUR 25.8 million (RUB 1.8 billion) according to the payment schedule. In June 2020 and December 2020 the Group performed a partial principal repayment in the total amount of EUR 25.8 million (RUB 2.2 billion) according to the payment schedule.

In the first half 2015 the Group signed several long-term facility agreements with one of the Russian banks with maturity date in August 2019. In February and April 2019 the Group performed pre-scheduled principal repayment in the total amount of USD 202.4 million (RUB 13.3 billion) and USD 496.0 million (RUB 31.9 billion) respectively. The loan is fully repaid as of 31 December 2019.

In December 2018 the Group borrowed RUB 30.0 billion and in January 2019 RUB 20.0 billion under a long-term facility agreement with one of the Russian banks. In December 2019 the Group performed a pre-scheduled final repayment in the total amount.

In February 2019 the Group borrowed EUR 400.0 million (RUB 29.9 billion) under a long-term facility agreement due payable in February 2024. In July 2019 the Group performed pre-scheduled final repayment in to total amount.

In July 2019 the Group borrowed EUR 200.0 million (RUB 14.4 billion) under a long-term facility agreement. In February 2020 the Group borrowed EUR 150.0 million (RUB 10.3 billion) under a long-term facility agreement. The long-term facility agreement is due payable in February 2025.

In September 2019 the Group borrowed RUB 5.0 billion under a long-term facility agreement due payable in September 2024.

In December 2019 the Group borrowed RUB 10.0 billion under a long-term facility agreement due payable in December 2022. In February 2020 the Group performed pre-scheduled final principal repayment in the total amount of RUB 10.0 billion.

In December 2019 the Group borrowed RUB 15.0 billion under long-term facility agreement due payable in December 2024. In July 2020 the Group borrowed RUB 15.0 billion under long-term facility agreement due payable in February 2025.

In December 2019 the Group borrowed RUB 30.0 billion under a long-term facility agreement with one of the Russian banks due payable in December 2022. In July and August 2020 the Group performed pre-scheduled final principal repayment in the total amount of RUB 30.0 billion.

In June-July 2018 the Group signed several long-term facility agreements. In September, November and December 2019 the Group performed pre-scheduled partial principal repayment in the total amount of RUB 70.0 billion. The long-term facility agreements are due payable in August – December 2026.

In December 2020 the Group borrowed RUB 33.0 billion under a long-term facility agreement with one of the Russian banks due payable in February 2025.

The loan agreements contain financial covenant that limits the Group's ratio of "Consolidated financial indebtedness to Consolidated EBITDA". The Group is in compliance with all covenants as of 31 December 2020 and 31 December 2019 and during the year ended 31 December 2020.

Bonds

In June 2016 the Group placed Ruble bonds (B0-03 series) with the total par value of RUB 10.0 billion. In June 2019 the bond holders exercised the put option on Ruble bonds (B0-03 series) with the 100% par value in amount of RUB 8.8 billion.

In November 2019 the Group placed five-year Ruble bonds (003P-01R series) with the total par value of RUB 25.0 billion. The bonds bear interest of 6.85% per annum. The issue has a two-year call option, allowing the early redemption of the bonds at the Group's decision.

In December 2019 the Group placed ten-year Ruble bonds (003P-02R series) with the total par value of RUB 20.0 billion. The bonds bear interest of 7.15% per annum.

In February 2020 the Group placed five-year Ruble bonds (003P-03R series) with the total par value of RUB 10.0 billion. The bonds bear interest of 6.20% per annum.

In December 2020 the Group placed four-year Ruble bonds (003P-04R series) with the total par value of RUB 20.0 billion. The bonds bear interest of 4.75% per annum for the 1st coupon period and the floating rate for coupon periods since the 2nd to the 16th is the Bank of Russia key rate plus 0.50%.

Loan participation notes

On September 2012 the Group has drawn USD 1.5 billion (RUB 46.3 billion) financed by 10 years Loan Participation Notes (LPN) (Series 1 Issue) with 4.375% coupon to be paid semi-annually at par. On November 2013 the Group has drawn USD 1.5 billion (RUB 49.4 billion) financed by 10 years Loan Participation Notes (LPN) (Series 3 Issue) with 6.0% coupon to be paid semi-annually at par.

Outstanding amount under LPN 31 December 2020 is USD 3.0 billion (RUB 223.1 billion).

25. Other non-current financial liabilities

Other non-current financial liabilities as of 31 December 2020 and 31 December 2019 comprise the following:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Deferred consideration | 17,554 | 20,269 |
| Commodity and interest-rate swaps – cash flow hedge | 347 | 1,230 |
| Other liabilities | 223 | 5 |
| TOTAL OTHER NON-CURRENT FINANCIAL LIABILITIES | 18,124 | 21,504 |

Deferred consideration represents a liability to PJSC Gazprom for assets relating to the Prirazlomnoye project. Payments of the principal amount of the liability are presented as financing activities in the Repayment of long-term borrowings line in the Consolidated Statement of Cash Flows.

26. Other non-current liabilities

Other non-current liabilities are primarily comprised of advances received (RUB 76.4 billion and RUB 48.0 billion as of 31 December 2020 and 31 December 2019, respectively. The contract obligations will be carried out from 2021 to 2025 according to the schedule. All contracts are concluded on the market conditions.

27. Share capital and treasury shares

Share capital as of 31 December 2020 and 2019 comprise the following:

| | Ordinary shares | | Treasury shares | |
|---|------------------|------------------|------------------|------------------|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| Number of shares (million) | 4,741 | 4,741 | 23 | 23 |
| Authorised shares (million) | 4,741 | 4,741 | 23 | 23 |
| Par value (RUB per share) | 0.0016 | 0.0016 | 0.0016 | 0.0016 |
| ON ISSUE AS OF 31 DECEMBER, FULLY PAID (RUB MILLION) | 8 | 8 | (1,170) | (1,170) |

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 18 December 2020 the general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for the nine months ended 30 September 2020 in the amount of RUB 5.00 per share.

On 11 June 2020 the general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2019 in the amount of RUB 37.96 per share including an interim dividend on the ordinary shares in the amount of RUB 18.14 per share.

On 2 October 2019 the general shareholders' meeting of PJSC Gazprom Neft approved an interim dividend on the ordinary shares for the six months ended 30 June 2019 in the amount of RUB 18.14 per share.

On 14 June 2019 the general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2018 in the amount of RUB 30.00 per share including an interim dividend on the ordinary shares in the amount of RUB 22.05 per share.

28. Employee costs

Employee costs for the years ended 31 December 2020 and 2019 comprise the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Wages and salaries | 99,494 | 92,475 |
| Other costs and compensations | 10,629 | 18,130 |
| TOTAL EMPLOYEE COSTS | 110,123 | 110,605 |
| Social security contributions (social taxes) | 28,186 | 25,707 |
| TOTAL EMPLOYEE COSTS (WITH SOCIAL TAXES) | 138,309 | 136,312 |

29. Other loss, net

Other loss, net for the years ended 31 December 2020 and 2019 comprise the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Disposal of intangible assets, property, plant and equipment | (8,272) | (11,679) |
| Other loss, net | (460) | (11,613) |
| TOTAL OTHER LOSS, NET | (8,732) | (23,292) |

30. Net foreign exchange (loss) / gain

The net foreign exchange (loss) / gain for the years ended 31 December 2020 and 2019 comprises the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Net foreign exchange (loss) / gain on financing activities, including | (58,849) | 32,846 |
| foreign exchange gain | 10,482 | 43,499 |
| foreign exchange loss | (69,331) | (10,653) |
| Net foreign exchange gain / (loss) on operating activities | 35,195 | (22,328) |
| NET FOREIGN EXCHANGE (LOSS) / GAIN | (23,654) | 10,518 |

31. Finance income

Finance income for the years ended 31 December 2020 and 2019 comprise the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Interest income on cash and cash equivalents | 7,199 | 14,798 |
| Interest on bank deposits | 218 | 2,286 |
| Interest income on loans issued | 460 | 728 |
| Other financial income | 3,501 | 5,094 |
| TOTAL FINANCE INCOME | 11,378 | 22,906 |

32. Finance expense

Finance expense for the years ended 31 December 2020 and 2019 comprises the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Interest expense | 51,600 | 57,689 |
| Decommissioning provision: unwinding of discount | 5,940 | 4,083 |
| Less capitalised interest | (28,794) | (29,000) |
| TOTAL FINANCE EXPENSE | 28,746 | 32,772 |

Interest expense includes expenses on lease liabilities in the amount of RUB 6.4 billion for the year ended 31 December 2020, respectively (RUB 5.8 billion for the year ended 31 December 2019, respectively).

33. Income tax expense

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

| | Year ended 31 December 2020 | | Year ended 31 December 2019 | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | RUB million | % | RUB million | % |
| TOTAL INCOME TAX EXPENSE INCLUDING SHARE OF TAX OF ASSOCIATES AND JOINT VENTURES | 32,053 | 20 | 104,652 | 20 |
| Profit before income tax excluding share of profit before tax of associates and joint ventures | 95,424 | - | 423,928 | - |
| Profit before income tax of associates and joint ventures | 57,264 | - | 102,808 | - |
| PROFIT BEFORE INCOME TAX | 152,688 | - | 526,736 | - |
| Tax at applicable domestic tax rate (20%) | 30,538 | 20 | 105,347 | 20 |
| Effect of tax rates in foreign jurisdictions | 3,322 | 2 | 538 | - |
| Difference in statutory tax rate in domestic entities | (4,088) | (3) | (9,335) | (2) |
| Non-deductible and deductible items (including Intragroup) | 4,098 | 3 | 7,837 | 1 |
| Adjustment for prior years | (1,838) | - | (1,137) | 1 |
| Change in tax rate | (3) | - | 1,341 | - |
| Foreign exchange loss of foreign non-operating units | 24 | - | 61 | - |
| TOTAL INCOME TAX EXPENSE INCLUDING SHARE OF TAX OF ASSOCIATES AND JOINT VENTURES | 32,053 | 21 | 104,652 | 20 |

Reconciliation of effective tax rate:

| | Year ended 31 December 2020 | | Year ended 31 December 2019 | |
|-----------------------------------|-----------------------------|--|-----------------------------|--|
| CURRENT INCOME TAX EXPENSE | | | | |
| Current year | 24,394 | | 54,020 | |
| Adjustment for prior years | (1,559) | | (1,518) | |

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|-----------------------------|-----------------------------|
| | 22,835 | 52,502 |
| DEFERRED INCOME TAX EXPENSE | | |
| Origination and reversal of temporary differences | 5 | 31,903 |
| Change in tax rate | (3) | 1,341 |
| | 2 | 33,244 |
| TOTAL INCOME TAX EXPENSE | 22,837 | 85,746 |
| Share of tax of associates and joint ventures | 9,216 | 18,906 |
| TOTAL INCOME TAX EXPENSE INCLUDING SHARE OF TAX OF ASSOCIATES AND JOINT VENTURES | 32,053 | 104,652 |

34. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

| | Fair value | Less than 6 month | From 6 to 12 months | From 1 to 3 years | Over 3 years |
|-----------------------------------|----------------|-------------------|---------------------|-------------------|--------------|
| AS OF 31 DECEMBER 2020 | | | | | |
| Commodity and interest-rate swaps | | | | | |
| Liabilities | (696) | (123) | (123) | (450) | - |
| TOTAL | (696) | (-123) | (123) | (450) | - |
| AS OF 31 DECEMBER 2019 | | | | | |
| Commodity and interest-rate swaps | | | | | |
| Liabilities | (1,094) | - | - | (1,094) | - |
| TOTAL | (1,094) | - | - | (1,094) | - |

As of 31 December 2020 and 2019 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of RUB 5.2 billion and RUB 6.5 billion respectively. During the year ended 31 December 2020 loss in the amount of RUB 400 million was reclassified from equity to net foreign exchange (loss) / gain in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (RUB 576 million for the year ended 31 December 2019).



The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

| | 2020 | | | 2019 | | |
|--|-------------------|--------------|--------------|-------------------|-------------|--------------|
| | Before income tax | Income tax | Net of tax | Before income tax | Income tax | Net of tax |
| Total recognised in other comprehensive (loss) / income as of the beginning of the period | (1,094) | 218 | (876) | (1,493) | 298 | (1,195) |
| Foreign exchange effects recognised during the period | 53 | (49) | 4 | (177) | 35 | (142) |
| Recycled to Net foreign exchange gain / (loss) on operating activities | 400 | (80) | 320 | 576 | (115) | 461 |
| TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD | 453 | (129) | 324 | 399 | (80) | 319 |
| TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME AS OF THE CLOSING OF THE PERIOD | (641) | 89 | (552) | (1,094) | 218 | (876) |

The accumulated foreign exchange loss will be reclassified from other comprehensive income / (loss) to profit and loss in 2022.

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

35. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management and internal control policy that defines the goals and principles of risk management and internal control in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management and internal control is to provide reasonable assurance that Group's business goals can be achieved and appropriate control framework over Group's economic activity is implemented.

The Group's risk management assumes that risk analysis and mitigation methods are applied in all key corporate business processes. Responsibility for risk management and risk reporting is assigned considering linear and functional subordination as well as the level of risk impact. This approach allows to manage responsibility for risks and as a result to provide continuous risk monitoring at all level of management.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Market risk

Currency Risk

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currencies in which these borrowings are denominated in are mainly USD and EUR.

The Group's currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

The carrying amounts of the Group's financial instruments by currencies they are denominated in are as follows:

| As of 31 December 2020 | | | | | |
|--|------------------|------------------|------------------|---------------|------------------|
| | Russian Rouble | USD | EURO | Serbian dinar | Other currencies |
| FINANCIAL ASSETS | | | | | |
| Current | | | | | |
| Cash and cash equivalents | 170,698 | 51,198 | 8,505 | 3,373 | 3,237 |
| Bank deposits | 131 | - | - | - | - |
| Loans issued | 870 | - | - | 2 | - |
| Trade and other financial receivables | 83,002 | 50,522 | 9,764 | 14,352 | 1,630 |
| Non-current | | | | | |
| Trade and other financial receivables | 376 | - | 59 | - | - |
| Loans issued | 4,813 | - | - | - | - |
| Equity investments at fair value through OCI | 1,010 | - | - | 62 | - |
| FINANCIAL LIABILITIES | | | | | |
| Current | | | | | |
| Short-term debt | (36,274) | (2,000) | (7,381) | - | (40) |
| Trade and other financial payables | (319,430) | (17,255) | (7,298) | (8,927) | (1,740) |
| Forward exchange contracts | (265) | - | - | - | - |
| Current lease liabilities | (1,974) | (9,165) | (285) | (12) | (197) |
| Non-current | | | | | |
| Long-term debt | (388,676) | (221,721) | (128,007) | - | (126) |
| Forward exchange contracts | (347) | - | - | - | - |
| Non-current lease liabilities | (4,004) | (78,044) | (953) | (11) | (684) |
| Other non-current financial liabilities | (17,111) | - | (660) | - | (6) |
| NET EXPOSURE | (507,181) | (226,465) | (126,256) | 8,839 | 2,074 |

| As of 31 December 2019 | | | | | |
|--|------------------|------------------|-----------------|---------------|------------------|
| | Russian Rouble | USD | EURO | Serbian dinar | Other currencies |
| FINANCIAL ASSETS | | | | | |
| Current | | | | | |
| Cash and cash equivalents | 135,688 | 51,483 | 6,393 | 4,153 | 4,687 |
| Bank deposits | 15,076 | - | - | - | - |
| Loans issued | 4,829 | - | - | 1 | - |
| Trade and other financial receivables | 114,570 | 74,023 | 1,276 | 13,486 | 1,917 |
| Non-current | | | | | |
| Trade and other financial receivables | 696 | - | 133 | - | - |
| Bank deposits | 13 | - | 78 | 2 | - |
| Loans issued | 9,919 | - | - | - | - |
| Equity investments at fair value through OCI | 978 | - | - | 47 | - |
| FINANCIAL LIABILITIES | | | | | |
| Current | | | | | |
| Short-term debt | (26,031) | (1,673) | (2,467) | - | (27) |
| Trade and other financial payables | (264,299) | (19,830) | (4,506) | (16,765) | (2,039) |
| Current lease liability | (1,795) | (7,919) | (112) | - | (101) |
| Non-current | | | | | |
| Long-term debt | (406,858) | (185,819) | (92,223) | - | (130) |
| Forward exchange contracts | (136) | (1,094) | - | - | - |
| Non-current lease liabilities | (3,555) | (73,465) | (466) | - | (382) |
| Other non-current financial liabilities | (20,271) | - | - | - | (3) |
| NET EXPOSURE | (441,176) | (164,294) | (91,894) | 924 | 3,922 |

| | Reporting date spot rate | |
|-------|--------------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| USD 1 | 73.88 | 61.91 |
| EUR 1 | 90.68 | 69.34 |
| RSD 1 | 0.78 | 0.59 |

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical changes in the Group's profit or loss and equity that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

| | Changes in the Group's profit or loss and equity |
|------------------------|--|
| 31 DECEMBER 2020 | |
| USD/RUB (20% increase) | (50,781) |
| EUR/RUB (20% increase) | (25,421) |
| RSD/RUB (20% increase) | 5 |
| 31 DECEMBER 2019 | |
| USD/RUB (20% increase) | (40,655) |
| EUR/RUB (20% increase) | (18,581) |
| RSD/RUB (20% increase) | (454) |

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit or loss of the Group.

Interest Rate Risk

Part of the Group's borrowings is at variable interest rates (linked to the Euribor or key rate of the Bank of Russia). To mitigate the risk of unfavourable changes in the Euribor rates, the Group's treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate (in aggregate with other conditions) would be more favourable.

The interest rate profiles of the Group are presented below:

| | Carrying amount | |
|----------------------------------|------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| FIXED RATE INSTRUMENTS | | |
| Financial assets | 242,827 | 232,322 |
| Financial liabilities | (588,611) | (678,476) |
| | (345,784) | (446,154) |
| VARIABLE RATE INSTRUMENTS | | |
| Financial liabilities | (290,943) | (124,547) |
| | (290,943) | (124,547) |

Cash flow sensitivity analysis for variable rate instruments

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

| | Profit / (loss) |
|--------------------|-----------------|
| 31 DECEMBER 2020 | |
| Increase by 100 bp | (2,909) |
| 31 DECEMBER 2019 | |
| Increase by 100 bp | (1,245) |

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit or loss of the Group.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms. Such activities help to decrease risks to an acceptable level.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group is exposed to credit risk due to sales with deferred payment terms which are usual and customary in the market. There is risk of non-timely receipt of payments for crude oil and petroleum products (risk of tiding up of working capital) and risk of default of counterparty.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. The Group has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- history of relationships with the Group;
- credit profile of the customer;
- duration of relationships with the Group, including ageing profile.

The compliance with credit limits by oil products customers is automatically controlled.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge or third party guarantee.

The Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group. To assess whether there is a significant increase in credit risk the Group compares the solvency data occurring as at the reporting date with the same data as at the date of initial recognition. The Group considers available reasonable and supportable forward-looking information.

The Management believes that not impaired trade and other receivables are fully recoverable.

The Group recognises an allowance for impairment that represents its best estimate of incurred losses in respect of trade and other receivables.

Trade receivables representing due from customers in the ordinary course of business are short-term by nature and do not contain the significant financial component. Lifetime expected credit loss estimation is equal 12-months measure. The Group makes forward looking information adjustment, if changes between prior year macroparameters' level and its forecast for next 12 months are significant.

Estimated provision matrixes have been prepared for separate portfolios of receivables, homogeneous in terms of credit risk. Types of products sold, geographical specificity of distributional channels, ageing period of receivables and other factors were taken into account to separate individual portfolios.

As of 31 December 2020 and 2019, the ageing analysis of financial receivables is as follows:

| | Gross | Impairment | Gross | Impairment |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 December 2020 | 31 December 2020 | 31 December 2019 | 31 December 2019 |
| Not past due | 154,611 | (15) | 196,040 | (101) |
| Past due 0-30 days | 736 | (20) | 4,280 | (1) |
| Past due 31-90 days | 110 | (4) | 3,021 | (5) |
| Past due 91-180 days | 102 | (14) | 1,667 | (10) |
| Past due 181-365 days | 3,112 | (278) | 127 | (23) |
| Past due more than 1 year | 3,611 | (2,246) | 3,069 | (1,963) |
| | 162,282 | (2,577) | 208,204 | (2,103) |

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and other receivables.

The movements in the credit loss allowance for impairment in respect of trade and other receivables during the period was as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Balance at the beginning of the period | 2,103 | 2,430 |
| Increase during the year | 572 | 201 |
| Amounts written off against receivables | 36 | (40) |
| Decrease due to reversal | (527) | (182) |
| Reclassification to other lines | - | (79) |
| Other movements | (32) | (30) |
| Foreign currency translation | 425 | (197) |
| BALANCE AT THE END OF THE PERIOD | 2,577 | 2,103 |

Other current assets

The movements in the allowance for impairment in respect of other current assets during the period was as follows:

| | 2020 | 2019 |
|---|--------------|--------------|
| Balance at the beginning of the period | 1,850 | 11,727 |
| Increase during the year | 146 | 827 |
| Amounts written off against receivables | (17) | (10,499) |
| Decrease due to reversal | (55) | (227) |
| Reclassification to other lines | - | 83 |
| Other movements | (2) | (7) |
| Foreign currency translation | 95 | (54) |
| BALANCE AT THE END OF THE PERIOD | 2,017 | 1,850 |

Investments

In relation to investments in securities, the Group limits its exposure to credit risk mainly by investing in liquid financial instruments. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

In relation to loans issued, the Group limits its exposure to credit risk mainly by granting loans to the joint ventures the activities of which are jointly controlled by the Group and other participants. The Group assesses the credit ratings of the participants of joint ventures to measure the expected credit losses for loans issued to the joint ventures.

The movements in the allowance for impairment in respect of loans issued during the period was as follows:

| | 2020 | 2019 |
|--|--------------|------------|
| Balance at the beginning of the period | 368 | - |
| Increase during the year | 5,816 | 368 |
| Amounts written off against loans issued | (368) | - |
| BALANCE AT THE END OF THE PERIOD | 5,816 | 368 |

The Group does not have any loans issued measured at amortized cost that were past due but not impaired as of 31 December 2020.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

| | Investment-grade | Non-investment grade | Without rating | Total |
|---|------------------|----------------------|----------------|---------|
| AS OF 31 DECEMBER 2020 | | | | |
| Cash and cash equivalents | 150,525 | 60,382 | 26,104 | 237,011 |
| Short-term loans issued | - | - | 5,518 | 5,518 |
| Less loss allowance for short-term financial assets | - | - | (4,646) | (4,646) |
| Deposits with original maturity more than 3 months less than 1 year | 3 | - | 128 | 131 |
| Long-term loans issued | - | - | 5,983 | 5,983 |
| Less loss allowance for long-term financial assets | - | - | (1,170) | (1,170) |
| AS OF 31 DECEMBER 2019 | | | | |
| Cash and cash equivalents | 82,848 | 87,992 | 31,564 | 202,404 |
| Short-term loans issued | - | - | 5,198 | 5,198 |
| Less loss allowance for short-term financial assets | - | - | (368) | (368) |
| Deposits with original maturity more than 3 months less than 1 year | - | 15,039 | 37 | 15,076 |
| Deposits with original maturity more than 1 year | - | - | 93 | 93 |
| Long-term loans issued | - | - | 9,919 | 9,919 |
| Less loss allowance for long-term financial assets | - | - | - | - |

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2020 and 2019 no significant credit loss allowance for impairment in respect of these assets was recognized.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| | Carrying amount | Contractual cash flows | Less than 6 months | 6–12 months | 1–2 years | 2–5 years | Over 5 years |
|---|-----------------|------------------------|--------------------|-------------|-----------|-----------|--------------|
| AS OF 31 DECEMBER 2020 | | | | | | | |
| Bank loans | 352,827 | 414,312 | 8,667 | 13,111 | 83,303 | 166,709 | 142,522 |
| Bonds | 199,061 | 245,958 | 17,080 | 21,818 | 51,580 | 129,774 | 25,706 |
| Loan Participation Notes | 223,083 | 250,915 | 5,634 | 5,634 | 122,191 | 117,456 | – |
| Other borrowings | 9,254 | 10,778 | 7,471 | 374 | 438 | 1,013 | 1,482 |
| Other non-current financial liabilities | 17,777 | 18,754 | 13 | – | 14,557 | 4,184 | – |
| Lease liabilities | 95,329 | 126,265 | 8,714 | 8,554 | 15,438 | 40,973 | 52,587 |
| Trade and other payables | 354,915 | 354,915 | 335,257 | 16,424 | 153 | 3,069 | 12 |
| | 1,252,246 | 1,421,897 | 382,836 | 65,915 | 287,660 | 463,178 | 222,309 |
| AS OF 31 DECEMBER 2019 | | | | | | | |
| Bank loans | 350,671 | 416,818 | 25,975 | 10,945 | 27,395 | 350,166 | 2,338 |
| Bonds | 168,918 | 222,472 | 6,414 | 6,414 | 62,450 | 120,061 | 27,132 |
| Loan Participation Notes | 186,775 | 220,194 | 4,818 | 4,818 | 9,635 | 200,924 | – |
| Other borrowings | 8,864 | 9,328 | 6,538 | 485 | 265 | 650 | 1,390 |
| Other non-current financial liabilities | 20,274 | 32,724 | – | – | 3 | 30,175 | 2,547 |
| Lease liabilities | 87,795 | 118,841 | 7,724 | 7,586 | 14,017 | 36,030 | 53,483 |
| Trade and other payables | 307,439 | 307,439 | 282,108 | 14,785 | 10,513 | 10 | 22 |
| | 1,130,736 | 1,327,816 | 333,577 | 45,033 | 124,278 | 738,016 | 86,912 |

Reconciliation of liabilities arising from financing activities

The table below sets out the movements in the Group's liabilities from financing activities for each of the years presented. The items of these liabilities are those that are reported as financing in the Consolidated Statement of Cash Flows:

| | Short-term and long-term debt | Lease | Other liabilities from financing activities | Total |
|--|-------------------------------|---------------|---|----------------|
| As of 1 January 2020 | 715,228 | 87,795 | 46,025 | 849,048 |
| Cash flows, including: | (41,025) | (17,717) | (121,538) | (180,280) |
| Proceeds from borrowings | 118,305 | – | – | 118,305 |
| Repayment of borrowings | (118,327) | – | (11,074) | (129,401) |
| Repayment of lease liabilities | – | (11,326) | – | (11,326) |
| Interest paid | (40,414) | (6,391) | (8,613) | (55,418) |
| Transaction costs directly attributable to the borrowings received | (589) | – | – | (589) |
| Dividends paid | – | – | (101,851) | (101,851) |
| Finance expense | 40,703 | 6,391 | 3,085 | 50,179 |
| Dividends declared | – | – | 125,238 | 125,238 |
| Changes in fair values, cash flow hedge | – | – | (244) | (244) |
| Gain on foreign exchange differences | 55,894 | 15,402 | – | 71,296 |
| Foreign currency translation | 13,574 | 473 | 945 | 14,992 |
| Additions under IFRS 16 | – | 2,985 | – | 2,985 |
| Other non-cash movements | (149) | – | 6,078 | 5,929 |
| AS OF 31 DECEMBER 2020 | 784,225 | 95,329 | 59,589 | 939,143 |

| | Short-term and long-term debt | Financial lease / Lease | Other liabilities from financing activities | Total |
|--|--------------------------------------|--------------------------------|--|----------------|
| As of 1 January 2019 | 775,453 | 25,483 | 163,571 | 964,507 |
| Cash flows, including: | (67,643) | (14,961) | (253,173) | (335,777) |
| Proceeds from borrowings | 258,963 | - | - | 258,963 |
| Repayment of borrowings | (280,878) | - | (11,501) | (292,379) |
| Repayment of finance lease liabilities | - | (9,200) | - | (9,200) |
| Interest paid | (45,353) | (5,761) | (7,943) | (59,057) |
| Transaction costs directly attributable to the borrowings received | (375) | - | - | (375) |
| Dividends paid | - | - | (233,729) | (233,729) |
| Finance expense | 45,827 | 5,761 | 4,679 | 56,267 |
| Dividends declared | - | - | 129,707 | 129,707 |
| Changes in fair values, cash flow hedge | - | - | (177) | (177) |
| Gain on foreign exchange differences | (33,279) | (8,945) | - | (42,224) |
| Foreign currency translation | (5,591) | (122) | (329) | (6,042) |
| Implementation of IFRS 16 | - | 62,223 | - | 62,223 |
| Additions under IFRS 16 | - | 18,369 | - | 18,369 |
| Other non-cash movements | 461 | (13) | 1,747 | 2,195 |
| AS OF 31 DECEMBER 2019 | 715,228 | 87,795 | 46,025 | 849,048 |

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital Employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at of 31 December 2020 and 2019 and return on average capital employed for years ended 31 December 2020 and 2019 were as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|------------------------------------|------------------------------------|
| Long-term debt | 738,530 | 685,030 |
| Short-term debt and current portion of long-term debt | 45,695 | 30,198 |
| Less: cash, cash equivalents and deposits | (237,142) | (217,480) |
| NET DEBT | 547,083 | 497,748 |
| TOTAL EBITDA | 415,375 | 711,846 |
| NET DEBT TO EBITDA RATIO AT THE END OF THE REPORTING PERIOD | 1.3 | 0.7 |
| Operating profit | 145,177 | 446,568 |
| Operating profit adjusted for income tax expense | 110,433 | 356,243 |
| less share of profit of associates and joint ventures | 48,047 | 83,906 |
| Average capital employed | 2,759,977 | 2,615,316 |
| ROACE | 5.7% | 16.8% |

There were no changes in the Group's approach to capital management during the period.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value in the Group's Consolidated Financial Statements: derivative financial instruments, equity investments and Stock Appreciation Rights plan (SARs).

Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Equity investments represented by unlisted equity securities and refer to Level 3 of the fair value measurement hierarchy. The Group determines fair value for unlisted equity securities considering different scenarios of future capital distributions for such investments. There were no significant changes in fair values for the reporting period. There were no transfers between the levels of the fair value hierarchy during the years ended 31 December 2020 and 2019. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of 31 December 2020 the fair value of bonds and loan participation notes is RUB 443.1 billion (RUB 371.4 billion as of 31 December 2019). The fair value is derived from quotations in active market from external source of financial information and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities measured at amortised cost approximates their fair value. The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

The table below analyses derivative financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

| | Level 2 |
|-----------------------------------|----------------|
| AS OF 31 DECEMBER 2020 | |
| Commodity and interest-rate swaps | (696) |
| TOTAL LIABILITIES | (696) |
| AS OF 31 DECEMBER 2019 | |
| Commodity and interest-rate swaps | (1,094) |
| TOTAL LIABILITIES | (1,094) |

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group's market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date. The awards are subject to certain market and service conditions that determine the amount that may ultimately be accrued to eligible employees. The expense recognised is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period. During the reporting period there were no changes in conditions for SAR compensation plan.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2020 and 2019:

| | 31 December 2020 | 31 December 2019 |
|-------------------------|------------------|------------------|
| Volatility | 5.8% | 3.9% |
| Risk-free interest rate | 4.5% | 5.6% |
| Dividend yield | 15.4% | 11.9% |

In the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2020 and 2019 the Group accrued expenses related to SAR provision due to the growth in the value of Company's shares in the amount of RUB 394 million and RUB 8,111 million, respectively. This expense is presented within selling, general and administrative expenses. In the Consolidated Statement of Financial Position as of 31 December 2020 and 31 December 2019 the Group recognised accrued liability in amount of RUB 13,159 million and RUB 12,764 million, respectively.

36. Commitments and contingencies

Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. The management's treatment of such legislation as applied to the transactions and activities of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. Under certain circumstances tax audits may cover longer periods. The years 2018–2020 are currently open for tax audit. The management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis.

Compliance of the prices of the Group's controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. The management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group's tax positions and related tax returns. In addition, in order to mitigate potential risks, the Group regularly negotiates with tax authorities to enter into advance pricing agreements. Twenty-five agreements regarding major intercompany transactions were concluded in 2012–2020.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While the management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Economic environment in the Russian Federation

The Group operates primarily in the Russian Federation and is therefore exposed to risks related to the state of the economy and financial markets of the Russian Federation. The Russian economy is significantly affected by world oil and gas prices; therefore, a significant prolonged decline in oil prices has a negative impact on the Russian economy. The Russian economy was growing in 2017–2019, after overcoming the economic recession of 2015 and 2016. The development of the coronavirus pandemic (COVID-19) in 2020 and the measures taken in this regard to prevent the spread of coronavirus infection led, among other factors, to a sharp decline in oil prices and the weakening of the Russian ruble. The situation in the financial markets remains unstable. This operating environment has a significant impact on the Group's operations and financial position.

The management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and the management's current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to the sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2014. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions do not have a significant impact on its activity.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. The management is of the opinion that the Group has met the government's requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

Capital commitments

As of 31 December 2020 the Group has entered into contracts to purchase property, plant and equipment for RUB 654.6 billion (RUB 523.4 billion as of 31 December 2019).

37. Group entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

| Ownership interest | | | |
|-----------------------------------|--------------------------|------------------|------------------|
| Subsidiary | Country of incorporation | 31 December 2020 | 31 December 2019 |
| EXPLORATION AND PRODUCTION | | | |
| JSC Gazpromneft-NNG | Russian Federation | 100% | 100% |
| Gazpromneft-Orenburg LLC | Russian Federation | 100% | 100% |
| Gazprom Neft Shelf LLC | Russian Federation | 100% | 100% |
| Gazpromneft-Khantos LLC | Russian Federation | 100% | 100% |
| Gazpromneft-Yamal LLC | Russian Federation | 90% | 90% |

| Ownership interest | | | | |
|-------------------------------------|--------------------------|------------------|------------------|--|
| Subsidiary | Country of incorporation | 31 December 2020 | 31 December 2019 | |
| JSC Uzheralneftegaz | Russian Federation | 87.5% | 87.5% | |
| Gazpromneft-Vostok LLC | Russian Federation | 51% | 51% | |
| Gazpromneft-Salyym LLC | Russian Federation | 51% | 100% | |
| Gazprom Resource Northgas LLC | Russian Federation | 18.2% | 18.2% | |
| REFINING | | | | |
| JSC Gazpromneft Omsk Refinery | Russian Federation | 100% | 100% | |
| JSC Gazpromneft Moscow Refinery | Russian Federation | 100% | 100% | |
| MARKETING | | | | |
| Gazpromneft-Centre LLC | Russian Federation | 100% | 100% | |
| Gazpromneft Regional Sales LLC | Russian Federation | 100% | 100% | |
| JSC Gazpromneft-Aero | Russian Federation | 100% | 100% | |
| Gazpromneft Marin Bunker LLC | Russian Federation | 100% | 100% | |
| Gazpromneft Corporate Sales LLC | Russian Federation | 100% | 100% | |
| Gazprom Neft Trading GmbH | Austria | 100% | 100% | |
| OTHER OPERATIONS | | | | |
| Gazpromneft-Lubricants LLC | Russian Federation | 100% | 100% | |
| Gazpromneft-Bitumen Materials LLC | Russian Federation | 100% | 100% | |
| Gazpromneft NTC LLC | Russian Federation | 100% | 100% | |
| GPN-Finance LLC | Russian Federation | 100% | 100% | |
| GPN-Invest LLC | Russian Federation | 100% | 100% | |
| Gazpromneft Shipping LLC | Russian Federation | 100% | 100% | |
| MULTIBUSINESS COMPANIES | | | | |
| Naftna industrija Srbije A.D. (NIS) | Serbia | 56.2% | 56.2% | |

 Gazprom Neft at a glance

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 Appendices

The following table summarises the information relating to the non-controlling interest of Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC, Gazprom Resource Northgas LLC and Gazpromneft-Salyk LLC. The carrying amount of non-controlling interests of all other subsidiaries is not significant individually.

| | Carrying amount of non-controlling interest | | (Loss) / Profit for the period attributable to non-controlling interest | | |
|--|---|------------------|---|-----------------------------|--|
| | 31 December 2020 | 31 December 2019 | Year ended 31 December 2020 | Year ended 31 December 2019 | |
| Naftna industrija Srbije A.D. and its subsidiaries | 100,764 | 79,636 | (3,301) | 4,144 | |
| Gazpromneft-Vostok LLC | 21,946 | 24,938 | (1,522) | 2,232 | |
| Gazpromneft-Yamal LLC | 28,845 | 28,300 | 5,744 | 11,820 | |
| Gazprom Resource Northgas LLC | 20,171 | 21,493 | 1,768 | 3,119 | |
| Gazpromneft-Salyk LLC | 450 | – | (18) | – | |

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC, Gazprom Resource Northgas LLC and Gazpromneft-Salyk LLC as of 31 December 2020 and 2019 and for the years ended 31 December 2020 and 2019:

| 31 December 2020 | Naftna industrija Srbije A.D. and its subsidiaries | Gazpromneft-Vostok LLC | Gazpromneft-Yamal LLC | Gazprom Resource Northgas LLC | Gazpromneft-Salyk LLC |
|-------------------------|--|------------------------|-----------------------|-------------------------------|-----------------------|
| Current assets | 50,576 | 8,824 | 124,884 | 16,438 | 99 |
| Non-current assets | 317,934 | 60,821 | 380,294 | 8,230 | 2,045 |
| Current liabilities | (45,430) | (5,593) | (107,551) | (9) | (1,069) |
| Non-current liabilities | (68,313) | (19,263) | (109,179) | – | (156) |

| 31 December 2019 | Naftna industrija Srbije A.D. and its subsidiaries | Gazpromneft-Vostok LLC | Gazpromneft-Yamal LLC | Gazprom Resource Northgas LLC | Gazpromneft-Salyk LLC |
|-------------------------|--|------------------------|-----------------------|-------------------------------|-----------------------|
| Current assets | 57,323 | 10,718 | 111,923 | 15,981 | 47 |
| Non-current assets | 241,009 | 64,206 | 363,111 | 10,307 | 223 |
| Current liabilities | (38,463) | (5,565) | (26,991) | (13) | (266) |
| Non-current liabilities | (59,218) | (18,465) | (165,043) | – | (1) |

| Naftna industrija Srbije A.D. and its subsidiaries | Gazpromneft-Vostok LLC | Gazpromneft-Yamal LLC | Gazprom Resource Northgas LLC | Gazpromneft-Salyk LLC |
|--|------------------------|-----------------------|-------------------------------|-----------------------|
| YEAR ENDED 31 DECEMBER 2020 | | | | |
| Revenue | 230,804 | 26,108 | 169,817 | – |
| (Loss) / profit | (7,513) | (3,106) | 57,445 | 2,161 |
| Total comprehensive income / (loss) | 50,934 | (3,106) | 57,445 | (37) |
| YEAR ENDED 31 DECEMBER 2019 | | | | |
| Revenue | 258,908 | 34,851 | 240,878 | – |
| Profit | 9,460 | 4,556 | 118,198 | 3,813 |
| Total comprehensive (loss) / income | (14,617) | 4,556 | 118,198 | 3,813 |

The table below summarises net cash flows information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC, Gazprom Resource Northgas LLC and Gazpromneft-Salyk LLC for the years ended 31 December 2020 and 2019:

| | Naftna industrija Srbije A.D. and its subsidiaries | Gazpromneft-Vostok LLC | Gazpromneft-Yamal LLC | Gazprom Resource Northgas LLC | Gazpromneft-Salyk LLC |
|-----------------------------|--|------------------------|-----------------------|-------------------------------|-----------------------|
| NET CASH FLOWS | | | | | |
| Year ended 31 December 2020 | (3,314) | (1,476) | (6,435) | 457 | (22) |
| Year ended 31 December 2019 | (1,771) | (416) | 6,791 | 1,265 | – |

Dividends paid in 2020 by Gazpromneft-Yamal LLC to the non-controlling share comprised RUB 5.1 billion (RUB 3.0 billion in 2019).

Dividends paid in 2020 by Gazpromneft-Vostok LLC to the non-controlling share comprised RUB 1.5 billion (RUB 1.5 billion in 2019).

Dividends paid in 2020 by Naftna industrija Srbije A.D. to the non-controlling share comprised RUB 1.3 billion (RUB 1.8 billion in 2019).

38. Related party transactions

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

The Group has applied the exemption as allowed by IAS 24 Related Party Disclosures not to disclose all government-related transactions, as the parent of the Company is effectively being a government controlled entity. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in notes 9, 22 and 33.

The tables below summarise transactions in the ordinary course of business with either the parent company or the parent's subsidiaries and associates or associates and joint ventures of the Group.

As of 31 December 2020 and 31 December 2019 the outstanding balances with related parties were as follows:

| 31 December 2020 | The Parent | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-------------------|---|--------------------------------------|
| Cash and cash equivalents | 53,813 | 40,848 | - |
| Short-term financial assets | - | 600 | 265 |
| Trade and other receivables | 35,071 | 13,754 | 9,603 |
| Other current assets | 273 | 5,726 | 1,636 |
| Long-term trade and other receivables | - | - | - |
| Long-term financial assets | - | 443 | 4,935 |
| Other non-current assets | - | 1,190 | - |
| TOTAL ASSETS | 89,157 | 62,561 | 16,439 |
| Short-term debt and other current financial liabilities | - | - | 153 |
| Trade and other payables | 38,383 | 19,278 | 89,022 |
| Other current liabilities | 84,420 | 307 | 164 |
| Long-term debt and other non-current financial liabilities | 16,894 | - | - |
| TOTAL LIABILITIES | 139,697 | 19,585 | 89,339 |

| 31 December 2019 | The Parent | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-------------------|---|--------------------------------------|
| Cash and cash equivalents | 43,912 | 67,811 | - |
| Short-term financial assets | - | - | 4,455 |
| Trade and other receivables | 67,564 | 12,381 | 11,456 |
| Other current assets | 120 | 4,476 | 1,737 |
| Long-term financial assets | - | 443 | 9,897 |
| Other non-current assets | - | 595 | - |
| TOTAL ASSETS | 111,596 | 85,706 | 27,545 |
| Short-term debt and other current financial liabilities | - | - | 278 |
| Trade and other payables | 22,346 | 3,683 | 146,493 |
| Other current liabilities | 2 | 360 | 265 |
| Long-term debt and other non-current financial liabilities | 20,269 | 20,000 | - |
| Other non-current liabilities | 35,007 | - | - |
| TOTAL LIABILITIES | 77,624 | 24,043 | 147,036 |

As of 31 December 2020 and 2019 trade and other payables to associates and joint ventures are primarily comprised of payables to joint ventures that are due to financial agents in accordance with factoring agreements concluded between joint ventures and financial agencies.

During the years ended 31 December 2020 and 2019 the following transactions occurred with related parties:

| Year ended 31 December 2020 | The Parent | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-------------------|---|--------------------------------------|
| Crude oil, gas and petroleum products sales | 130 | 71,704 | 31,334 |
| Other revenue | 8,958 | 1,377 | 9,118 |
| Purchases of crude oil, gas and petroleum products | - | 50,560 | 131,381 |
| Production-related services | 417 | 36,634 | 21,078 |
| Transportation costs | 3,133 | 3,762 | 13,726 |
| Interest expense | 3,085 | 1,096 | 10 |
| Interest income | 4,651 | 2,390 | 488 |
| Other loss | 6 | 1,576 | 2,815 |



| Year ended 31 December 2019 | The Parent | Parent's subsidiaries and associates | Associates and joint ventures |
|--|------------|--------------------------------------|-------------------------------|
| Crude oil, gas and petroleum products sales | 90 | 92,950 | 57,741 |
| Other revenue | 19,790 | 2,702 | 6,886 |
| Purchases of crude oil, gas and petroleum products | - | 34,379 | 228,711 |
| Production-related services | 215 | 30,867 | 24,954 |
| Transportation costs | 2,146 | 2,460 | 11,614 |
| Interest expense | 4,679 | 2,069 | 35 |
| Interest income | 6,571 | 5,098 | 694 |

Transactions with Key Management Personnel

For the years ended 31 December 2020 and 2019 remuneration of key management personnel (members of the Board of Directors and the Management Committee) such as salary and other contributions amounted to RUB 2,130 million and RUB 3,599 million, respectively. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

39. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in two operating segments: Upstream and Downstream.

The Upstream segment (exploration and production) includes the following Group operations: exploration, development, production and sale of crude oil and natural gas (including the results of joint ventures), and oil field services. The Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude oil and refined petroleum products.

The information about the Group's operating segments for the years ended 31 December 2020 and 2019 is presented below:

| Year ended 31 December 2020 | Upstream | Downstream | Eliminations | Total |
|---------------------------------|----------------|------------------|------------------|------------------|
| Revenue from sales: | | | | |
| External customers | 34,012 | 1,965,608 | - | 1,999,620 |
| Inter-segment | 933,107 | 32,726 | (965,833) | - |
| TOTAL REVENUE FROM SALES | 967,119 | 1,998,334 | (965,833) | 1,999,620 |
| Adjusted EBITDA | 419,928 | 65,275 | - | 485,203 |

| Year ended 31 December 2020 | Upstream | Downstream | Eliminations | Total |
|--|----------|------------|--------------|---------|
| Depreciation, depletion and amortisation | 168,144 | 54,007 | - | 222,151 |
| Impairment of assets | 12,924 | - | - | 12,924 |
| Capital expenditure | 289,471 | 159,741 | - | 449,212 |

| Year ended 31 December 2020 | Upstream | Downstream | Eliminations | Total |
|--|------------------|------------------|--------------------|------------------|
| Revenue from sales: | | | | |
| External customers | 148,883 | 2,336,425 | - | 2,485,308 |
| Inter-segment | 1,027,079 | 31,796 | (1,058,875) | - |
| TOTAL REVENUE FROM SALES | 1,175,962 | 2,368,221 | (1,058,875) | 2,485,308 |
| Adjusted EBITDA | 640,931 | 154,198 | - | 795,129 |
| Depreciation, depletion and amortisation | 134,033 | 47,339 | - | 181,372 |
| Capital expenditure | 283,696 | 192,703 | - | 476,399 |

Inter-segment revenues are based on prices effective for local markets and linked to global market prices.

Eliminations and other adjustments include elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and petroleum products, and other adjustments.

Adjusted EBITDA represents the Group's EBITDA and its share in EBITDA of associates' and joint ventures'. The management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, net foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of associates and joint ventures. EBITDA is a supplementary non-IFRS financial measure used by the management to evaluate operations.

The geographical segmentation of the Group's revenue and capital expenditures for the years ended 31 December 2020 and 2019 is presented below:

| YEAR ENDED 31 DECEMBER 2020 | Russian Federation | CIS | Export and international operations | Total |
|-----------------------------|--------------------|--------|-------------------------------------|-----------|
| Sales of crude oil | 64,757 | 18,713 | 420,240 | 503,710 |
| Sales of petroleum products | 928,001 | 77,029 | 378,834 | 1,383,864 |
| Sales of gas | 31,770 | - | 249 | 32,019 |

| | Russian Federation | CIS | Export and international operations | Total |
|--|--------------------|----------------|-------------------------------------|------------------|
| Other sales | 66,404 | 2,356 | 11,267 | 80,027 |
| REVENUES FROM EXTERNAL CUSTOMERS, NET | 1,090,932 | 98,098 | 810,590 | 1,999,620 |
| YEAR ENDED 31 DECEMBER 2019 | | | | |
| Sales of crude oil | 88,797 | 41,067 | 614,696 | 744,560 |
| Sales of petroleum products | 1,046,521 | 86,752 | 484,857 | 1,618,130 |
| Sales of gas | 29,891 | - | 863 | 30,754 |
| Other sales | 79,076 | 2,749 | 10,039 | 91,864 |
| REVENUES FROM EXTERNAL CUSTOMERS, NET | 1,244,285 | 130,568 | 1,110,455 | 2,485,308 |

For the years ended 31 December 2020 and 2019 export sales of crude oil include sales from the Upstream segment in the amount of RUB 16.1 billion and RUB 128.8 billion, respectively. The remaining amount of RUB 404.2 billion for the year ended 31 December 2020 (RUB 485.9 billion for the year ended 31 December 2019) represents sales from the Downstream segment.

| | Russian Federation | CIS | Export and international operations | Total |
|---|--------------------|--------|-------------------------------------|-----------|
| Non-current assets as of 31 December 2020 | 2,727,383 | 10,299 | 342,103 | 3,079,785 |
| Investments in associates and joint ventures as of 31 December 2020 | 375,943 | - | 1,605 | 377,548 |
| Other long-term financial assets as of 31 December 2020 | 6,198 | - | 122 | 6,320 |
| Capital expenditures for the year ended 31 December 2020 | 430,305 | 633 | 18,274 | 449,212 |
| Impairment of assets for the year ended 31 December 2020 | - | - | 12,924 | 12,924 |
| Non-current assets as of 31 December 2019 | 2,397,649 | 10,596 | 277,917 | 2,686,162 |
| Investments in associates and joint ventures as of 31 December 2019 | 339,905 | - | 1,210 | 341,115 |
| Other long-term financial assets as of 31 December 2019 | 11,593 | - | 273 | 11,866 |
| Capital expenditures for the year ended 31 December 2019 | 448,512 | 846 | 27,041 | 476,399 |

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|-----------------------------|-----------------------------|
| Profit for the period | 120,633 | 422,088 |
| Total income tax expense | 22,837 | 85,746 |
| Finance expense | 28,746 | 32,772 |
| Finance income | (11,378) | (22,906) |
| Depreciation, depletion and amortisation | 222,151 | 181,372 |
| Net foreign exchange loss / (gain) | 23,654 | (10,518) |
| Other loss, net | 8,732 | 23,292 |
| EBITDA | 415,375 | 711,846 |
| less share of profit of associates and joint ventures | (48,047) | (83,906) |
| add share of EBITDA of associates and joint ventures | 117,875 | 167,189 |
| TOTAL ADJUSTED EBITDA | 485,203 | 795,129 |

40. Subsequent events

In January 2021 the Group performed final repayment of Rouble bond (series 10) in the total amount of RUB 10.0 billion.

In February 2021 the Group refinanced debt in the equivalent amount of RUB 18.2 billion by borrowing under a long-term facility agreement with one of the Russian banks due payable in February 2025.

Supplementary information on oil and gas activities (unaudited)

in millions of Russian Rubles (unless otherwise specified)

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

Effective 1 October 2020, the Group voluntarily uses the PRMS definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries, share in joint operations, associates and joint ventures (previously the Group voluntarily uses the SEC definition of proved reserves). For the accompanying Consolidated Financial Statements purposes the comparative information for the year ended 31 December 2019 and as 31 December 2019 has also been restated to PRMS.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS | | |
| Unproved oil and gas properties | 169,743 | 136,620 |
| Proved oil and gas properties | 2,282,052 | 2,062,056 |
| Less: Accumulated depreciation, depletion and amortisation | (1,069,808) | (878,357) |
| NET CAPITALISED COSTS OF OIL AND GAS PROPERTIES | 1,381,987 | 1,320,319 |
| GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES | | |
| Proved oil and gas properties | 775,521 | 706,622 |
| Less: Accumulated depreciation, depletion and amortisation | (285,174) | (257,726) |
| Net capitalised costs of oil and gas properties | 490,347 | 448,896 |
| TOTAL CAPITALISED COSTS CONSOLIDATED AND EQUITY INTERESTS | 1,872,334 | 1,769,215 |

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

| | 2020 | 2019 |
|--|----------------|----------------|
| CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS | | |
| Exploration costs | 18,715 | 33,231 |
| Purchases of oil and gas licences | 6,101 | 7,644 |
| Development costs | 250,598 | 209,571 |
| COSTS INCURRED | 275,414 | 250,446 |
| GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES | | |
| Development costs | 68,899 | 82,777 |
| TOTAL COSTS INCURRED CONSOLIDATED AND EQUITY INTERESTS | 344,313 | 333,223 |

Results of operations from oil and gas producing activities for the years ended 31 December:

| | 2020 | 2019 |
|---|----------------|----------------|
| CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS | | |
| Revenues: | | |
| Sales | 252,712 | 350,852 |
| Transfers | 419,433 | 581,742 |
| TOTAL REVENUES | 672,145 | 932,594 |
| Production costs | (107,196) | (111,268) |
| Exploration expenses | (994) | (1,752) |
| Depreciation, depletion and amortisation | (153,951) | (130,316) |
| Taxes other than income tax | (345,786) | (500,630) |
| Pretax (loss) / income from producing activities | 64,218 | 188,628 |
| Income tax expenses | (32,757) | (59,501) |
| RESULTS OF OIL AND GAS PRODUCING ACTIVITIES | 31,461 | 129,127 |
| GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES | | |
| TOTAL REVENUES | 249,382 | 319,371 |
| Production costs | (27,622) | (31,621) |
| Exploration expenses | (246) | (348) |
| Depreciation, depletion and amortisation | (40,899) | (54,162) |
| Taxes other than income tax | (82,298) | (131,358) |
| Pretax income from producing activities | 98,317 | 101,882 |
| Income tax expenses | (13,288) | (15,591) |
| RESULTS OF OIL AND GAS PRODUCING ACTIVITIES | 85,029 | 86,291 |
| TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESULTS OF OIL AND GAS PRODUCING ACTIVITIES | 116,490 | 215,418 |

Proved oil and gas reserve quantities

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and condensate and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Proved Oil and Condensate Reserves Quantities – in MMBbl | | |
| CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS | | |
| Beginning of year | 5,180 | 5,256 |
| Production | (348) | (359) |
| Change of assets | - | 21 |
| Additions | 465 | - |
| Revision of previous estimates | 264 | 262 |
| END OF YEAR | 5,561 | 5,180 |
| Minority's share included in the above proved reserves | (98) | (105) |
| Proved reserves, adjusted for minority interest | 5,463 | 5,074 |
| Proved developed reserves | 2,573 | 2,601 |
| Proved undeveloped reserves | 2,988 | 2,579 |
| GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES* | | |
| Beginning of year | 1,719 | 1,782 |
| Production | (94) | (107) |
| Change of assets | - | (39) |
| Revision of previous estimates | 81 | 83 |
| END OF YEAR | 1,706 | 1,719 |

¹ – Including 82% NCI share in Gazprom Resource Northgas LLC.

| | 31 December 2020 | 31 December 2019 |
|--|---------------------|---------------------|
| Proved Oil and Condensate Reserves Quantities – in MMBbl | | |
| Proved developed reserves | 811 | 781 |
| Proved undeveloped reserves | 894 | 938 |
| TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES – END OF YEAR | 7,267 | 6,899 |
| Proved Gas Reserves Quantities – in Bcf | | |
| CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS | | |
| Beginning of year | 13,783 | 11,336 |
| Production | (835) | (794) |
| Change of assets | - | 2,103 |
| Additions | 21,627 | - |
| Revision of previous estimates | 583 | 1,138 |
| END OF YEAR | 35,158 | 13,783 |
| Minority's share included in the above proved reserves | (463) | (456) |
| Proved reserves, adjusted for minority interest | 34,695 | 13,327 |
| Proved developed reserves | 4,375 | 4,353 |
| Proved undeveloped reserves | 30,783 | 9,430 |
| GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES* | | |
| Beginning of year | 15,291 | 16,079 |
| Production | (671) | (633) |
| Change of assets | - | (1,592) |
| Revision of previous estimates | (295) | 1,437 |
| END OF YEAR | 14,325 | 15,291 |
| Proved developed reserves | 8,708 | 9,312 |
| Proved undeveloped reserves | 5,617 | 5,979 |
| TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES – END OF YEAR | 49,483 | 29,074 |

 Gazprom Neft at a glance

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Standardised measure of discounted future net cash flows relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS | | |
| Future cash inflows | 22,616,086 | 19,200,688 |
| Future production costs | (15,992,167) | (12,147,566) |
| Future development costs | (1,782,864) | (1,222,975) |
| Future income tax expenses | (736,612) | (1,523,914) |
| Future net cash flow | 4,104,443 | 4,306,233 |
| 10% annual discount for estimated timing of cash flow | (2,372,275) | (2,234,233) |
| Standardised measure of discounted future net cash flow | 1,732,168 | 2,072,001 |
| GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES | | |
| Future cash inflows | 4,235,522 | 4,499,829 |
| Future production costs | (2,632,356) | (2,910,040) |
| Future development costs | (234,920) | (267,654) |
| Future income tax expenses | (449,237) | (237,418) |
| Future net cash flow | 919,009 | 1,084,717 |
| 10% annual discount for estimated timing of cash flow | (393,708) | (400,731) |
| Standardised measure of discounted future net cash flow | 525,301 | 683,986 |
| TOTAL CONSOLIDATED AND EQUITY INTERESTS IN THE STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW | 2,257,469 | 2,755,986 |

Company history

1995

Siberian Oil Company ('Sibneft')

Siberian Oil Company ('Sibneft') was formed by the decree of the President of the Russian Federation. The company was established by the government, which transferred its interest in the country's oil majors, including Noyabrskneftegaz, Noyabrskneftegazgeophysika, the Omsk Refinery and Omsknefteprodukt, to the holding company's authorised capital.

1996-1997

Sibneft was privatised

To develop a market economy, the Government of the Russian Federation implemented the Sibneft privatisation plan. In 1996, private investors acquired 49% of the company share capital through auctions. In 1997, the Financial Oil Company won the auction to sell the government interest in Sibneft as part of the Shares for Loans government programme.

1998-2004

Asset build-up

By implementing an aggressive growth strategy, Sibneft significantly expanded the geography of its production (the Tomsk Oblast and the Omsk Oblast) and sales network (the Sverdlovsk Oblast and the Tyumen Oblast, the Krasnoyarsk Krai, St Petersburg and Moscow). The company's major acquisitions during that period include the purchase of a 49.9% holding in Slavneft, which produces oil and gas in Western Siberia and the Krasnoyarsk Krai.

Strong growth

A strong resource base, efficient refining assets and highly professional executives are the core drivers of the company's strong growth. Sibneft executives significantly upgraded production facilities, introduced cutting-edge technologies and streamlined its business processes.

2005

Gazprom acquires controlling interest in Sibneft

The controlling interest (75.68%) in Sibneft was acquired by the Gazprom Group. On 13 May 2006, the company was renamed Gazprom Neft. The company's development priorities included the strategic goal to become a global player with a regionally diversified portfolio of assets across the entire value chain.

2006

Entering the market in Central Asia

Gazprom Neft entered the market in Central Asia and established a subsidiary, Gazprom Neft Asia, selling the company's petroleum products in Kyrgyzstan, Tajikistan and Kazakhstan.

2007

Acquisition of Tomskneft JSC

In December 2007, to continue expanding its resource base, the company acquired 50% of shares in Tomskneft VNK, which produces oil and gas in the Tomsk Oblast and the Khanty-Mansi Autonomous Okrug-Yugra.

Splitting business lines

Separate business units were set up by line of business, including Gazpromneft Marine Bunker, Gazpromneft-Lubricants, and Gazpromneft-Aero.

2008

Refining modernisation

A major modernisation programme at the Omsk Refinery started. With total investment of ₽300 billion, this is an unprecedented initiative for the entire industry in terms of investment volume and the level of technology involved.

2009

Expanding the resource base

Gazprom Neft expands its resource base and refining capacities by acquiring Naftna Industrija Srbije A.D., Novi Sad (NIS), and a controlling interest in Sibir Energy, while also increasing its share in the Moscow Refinery and obtaining access to the Salym oil fields. In April 2009, Gazprom Neft completed a transaction with Chevron Global Energy to purchase Chevron Italia s.p.a., an oils and lubricants production plant located in Bari (Italy).

The launch of a major rebranding programme for the Gazprom Neft retail network was a milestone for the company.

2010

Global oil and gas market

Gazprom Neft continued its rapid expansion on the global oil and gas market, signing a contract to develop the Badra field in Iraq, and being appointed to lead the Junin-6 project in Venezuela. The company continued to enter new fuel markets outside Russia. For instance, it acquired a retail network of 20 filling stations and nine plots of land in Kazakhstan.

It also expanded its presence in the Russian market by joining a project, which was covered by SeverEnergia licences, to develop promising fields in the north of the Yamalo-Nenets Autonomous Okrug. In February, Gazprom Neft completed a transaction to buy STS-Service, a subdivision of the Swedish company Malka Oil, which develops fields in the Tomsk Oblast.

The Moscow Refinery development programme

Gazprom Neft becomes a majority shareholder in the Moscow Refinery and initiates the most ambitious modernisation programme in the history of the Moscow Refinery, with the aim of increasing the level of environmental friendliness and production efficiency.

2011

Improved performance in production

Gazprom Neft saw a significant improvement in its operational performance thanks to further efficiency gains in developing existing fields, together with the acquisition of new assets. The company acquired a further 5.15% interest in Serbian company NIS, bringing its total holding in that company to 56.15%, as well as becoming the sole shareholder in Sibir Energy. The company also acquired its first assets in the Orenburg Oblast – the Tsarichanskoye and Kapitonovskoye fields, and the eastern block of the Orenburgskoye oil and gas condensate field (ONGKM). Drilling was initiated at the Badra field in the Republic of Iraq.

Premium-class fuels

The company started producing Euro 4 fuels at its refineries, and launched sales of the new G-Drive premium-class motor fuel via its own retail network. The company expanded the geography of its filling stations operation by entering the market in the Southern Federal District of the Russian Federation.

High-quality bitumen

The company implemented a project related to the process for preparing and handling feedstock for bitumen production at the Omsk Refinery to ensure stability in the quality of feedstock and bitumen produced. In 2011, a polymer modified bitumen (PMB) and bitumen emulsion facility supplied by MASSENZA (Italy) began operation.

Establishing Gazpromneft-Snabzhenie

A new subsidiary, Gazpromneft-Snabzhenie, was established as a result of spinning off the logistics function of the group's production and refining enterprises. The company currently provides a full range of logistics and procurement services not only to internal, but also to external clients – companies in fuel and energy, and other industries – and stands as one of the leading logistics operators in the Russian Arctic.

2012

Leadership in efficiency

Gazprom Neft is Russia's leading company in terms of hydrocarbon-production and refining growth, and in a number of performance metrics. The company started pilot oil production at two new major fields in the north of the Yamalo-Nenets Autonomous Okrug (the Vostochno-Messoyakhskoye and Novoportovskoye fields). The first stage of commercial production started at the Samburgskoye oil and gas condensate field owned by the Russian-Italian company SeverEnergia, in which Gazprom Neft has a 25% holding.

The formation and development of a new production cluster continued in the Orenburg Oblast. The company entered into new upstream projects in Iraq. The Moscow Refinery started producing Euro 4 gasolines, while the Omsk Refinery launched production of Euro 4 and Euro 5 gasolines, and the Euro 5 diesel fuel. Gazprom Neft started developing a sales network in Europe (in Serbia and Romania) under the GAZPROM brand.

Opening the GeoNavigator Drilling Control Centre

To improve the efficiency of advanced well construction, Gazprom Neft set up the GeoNavigator Drilling Control Centre. Its work is mainly based on the geo-steering technology, which involves quickly obtaining information on the geological model of a field, with adjustments made to the well trajectory in accordance with that. The use of cutting-edge technologies allows data to be transferred without delay to the Drilling Support Centre during drilling. New information is shown as part of the existing geological model of the field.

2013

Strategy

The Gazprom Neft Board of Directors approved the company's Development Strategy having extended the planning horizon to 2025. The document also expands on the Strategy to 2020, determining ways of achieving the previously set targets in the key business segments – hydrocarbon production, refining, and petroleum product sales – taking into account changes in the industry and global economic environment. The company will continue to work to increase shareholder value through to 2025. The strategies for the developing the company's bunkering, aviation-fuel and lubricants businesses were also updated up to 2025.

Start of production on the Arctic Shelf

In December 2013, Gazprom Neft produced the first oil from the Arctic Shelf at the Prirazlomnoye field in the Pechora Sea. The company was an operator at that field.

Euro 5 fuels

The catalytic-cracking gasoline hydrotreatment units and light naphtha isomerisation facilities were commissioned at the Gazprom Neft Moscow Refinery. This allowed the plant to fully switch to the production of Euro 5 gasolines. Thus, all Gazprom Neft refineries switched to Euro 5 fuels, ahead of the deadlines set by the Technical Regulations of the Russian Federation.

Bitumen business development

The company acquired assets in Russia (Ryazan) and Kazakhstan to develop its bitumen business. In 2013, Gazprom Neft and the French oil company Total established a joint venture to produce and sell polymer-modified bitumen for road construction under the G-Way Styrefl brand, and bitumen emulsions at the Moscow Refinery.

2014

Developing production projects

Gazprom Neft obtained first oil from the Badra field in Iraq, and started commercial supply of oil into the Iraqi pipeline system. The company also shipped oil from the Novoportovskoye field over the summer season, which was the first time crude oil was delivered from that field to European consumers by sea.

Arctic Shelf production

The company produced the millionth barrel of the new Arctic crude blend (ARCO) at the Prirazlomnoye field. Drilling of a new exploration well started at the Dolginskoye oil field on the Pechora Sea shelf.

New licences acquired

Gazprom Neft obtained licences for the Kuvaysky and Yagodny licence blocks in the Orenburg Oblast.

2015

New capacities commissioned

Gazprom Neft and SIBUR launched Yuzhno-Priobsky Gas Processing Plant (GPP).

Russia's best employer

Gazprom Neft became Russia's Best Employer in the 2015 Russia's Best Employers ranking released by HeadHunter, up two places from last year.

New licences acquired

Gazprom Neft acquired the licence to develop the Zapadno-Yubileynoye field in the Yamalo-Nenets Autonomous Okrug, and several new licences – for the Yuilsky-3, Lyaminsky-6, Severo-Ityakhsky-1, Maloyugansky and Zapadno-Zimny licence blocks – in the Khanty-Mansi Autonomous Okrug-Yugra.

Oil production

The millionth tonne of ARCO oil was produced at the Prirazlomnoye field, the millionth tonne of oil produced at the Badra field, Iraq, and commercial production at Sarqala field, Kurdistan Region of Iraq, reaches its millionth barrel.

2016

Arctic assets

Gazprom Neft completed the commissioning of all its Arctic assets, including the Prirazlomnoye and Novoportovskoye fields, and the Messoyakha group of fields. Gazprom Neft began year-round shipping of Novy Port oil through the Arctic Gates transhipment terminal. The instruction to commence operation of the terminal was given by President of the Russian Federation Vladimir Putin.

Catalyst production

Gazpromneft Catalytic Systems was set up as part of the Gazprom Neft Group to implement a project on building cat-cracking catalyst and hydroprocessing-catalyst production facilities. The working group of the Ministry of Energy of the Russian Federation awarded the project the status of a national project.

Rospolychem acquisition

In June 2016, Gazpromneft-Lubricants Ltd. acquired 100% of Rospolychem Group shares, and acquired an asset with a full production cycle for complex esters.

NOVA-BRIT acquisition

Gazpromneft Bitumen Materials acquired a 75% holding in the charter capital of NOVA-BRIT, a company specialising in the production of bituminous sealants under the BRIT® brand for construction, repair and maintenance of motorways, airfields, etc.



Opening an R&D centre

Gazprom Neft opened the largest and the most high-technology specialist bitumens research and development facility (R&D Centre) in Russia.

2017

New fields discovered

The new promising Neptune field with 415 million tonnes of oil reserves in place was discovered on the shelf of the Sea of Okhotsk near Sakhalin Island. Another new field was discovered in the Khanty-Mansi Autonomous Okrug. The field was named after the company's former head of production Alexander Zhagrin. The field's proved and probable (2P) reserves stood at 2.74 mtoe as at 31 December 2018, with initial recoverable reserves estimated at 211 million tonnes of oil following further investigations at the field in 2021.

Gazprom Neft takes the lead in the national project for investigating the Bazhenov Formation

The Ministry of Energy of the Russian Federation gave the 'Developing Domestic Technologies and High-technology Equipment to Develop Reserves at the Bazhenov Formation' project the status of a national project. The Bazhenov Technology Centre – a subsidiary of Gazprom Neft – becomes the project operator.

Digital Upstream Control Centre

Gazpromneft-Khantos launched the Upstream Control Centre as part of the Digital Field programme. The centre combined solutions for improving production efficiency and created a single integrated environment.

Deep conversion at the Pančevo Refinery

Naftna Industrija Srbije (NIS, with 56.15% of shares owned by Gazprom Neft) started the construction of a new deep-conversion facility based on delayed coking technology at the Pančevo Refinery (Serbia).

Biological treatment facilities at the Moscow Refinery

Gazprom Neft completed the construction of the cutting-edge Biosphere biological treatment facilities at its Moscow Refinery. Overall, the company invested ₽9 billion in that project. Construction of the facility began at the Omsk Refinery.

2018

New strategy to set a global industry benchmark

The Gazprom Neft Board of Directors approved the new Strategy 2030 for the company to become a global industry benchmark in terms of performance, technology and safety.

To implement the Strategy, the company needs to adapt to new approaches and external challenges. To achieve that, the company launched a major operational, organisational, cultural and digital transformation covering all aspects of its operations.

Advanced icebreakers

Gazprom Neft completed its Arctic fleet of support vessels, including the Alexander Sannikov and Andrey Vilkitsky icebreaker vessels.

These two vessels were both the most high-technology and powerful vessels in their class and, like all other Gazprom Neft's facilities, released zero emissions. The icebreakers ensure the uninterrupted operation of the tanker fleet in offloading crude oil from the Arctic Gates oil terminal. They do not escort tankers to Murmansk, but they operate in the Gulf of Ob.

New fields discovered

The Triton field with 137 mtoe of hydrocarbons in place was discovered in the Sea of Okhotsk near Sakhalin Island. The second discovery in the region indicated that the company's new strategic production cluster was beginning to form in the Russian Far East. A total of four new fields, and 27 hydrocarbon deposits, were discovered at Gazprom Neft licence blocks and recorded in the Russian State Register of Mineral Reserves in 2018.

New approach to geological exploration

Gazprom Neft established Gazpromneft-GEO, a competency centre for managing large-scale geological-exploration projects. Its purpose is to integrate the company's financial and management resources in relation to geological exploration, ensuring turn-key project management and stable replenishment of the company's resource base with new cost-effective reserves.

Efficiency Control Centre

The Gazprom Neft Downstream Efficiency Control Centre (DECC) became fully operational. It was designed to manage performance throughout the entire value chain: from oil being received at refineries, to retail sales of oil products, as part of a single digital platform. It uses predictive analytic tools, neural networks, artificial intelligence, and digital twins of production facilities. The automated integrated-planning system, which is unique in the Russian oil and gas industry, streamlines refining volumes, feedstock delivery and the petroleum product mix 60 days ahead.

Digital transformation

The Gazprom Neft Digital Transformation Directorate was established. The new subdivision was set up to develop and implement the company's long-term digital strategy. Thanks to digital transformation, by 2030, Gazprom Neft looks set to achieve a doubling in efficiency in terms of both time and cost of its exploration activities. It will also, in the same timescale, improve the quality of those activities, accelerate the implementation of major oil and gas production projects by 40%, and reduce production management costs by 10%. In addition, Gazprom Neft also expects the digital transformation to help it achieve an increase in its operating revenues.

New HSE system

As it said in its updated Development Strategy, the company set a goal of becoming a global industry leader in HSE by 2030. A risk-based approach became the basis for HSE transformation. Company experts prepared several projects to be implemented, including Goals (the identification of priority risks), the Safety Framework (development and implementation of risk mitigating measures), and Certification, Examination, and Investigation (control over the roll-out of those mitigating measures across the company).

Setting up JVs

Gazprom Neft, Mubadala Petroleum and the Russian Direct Investment Fund (RDIF) set up a joint venture to develop fields in the Tomsk Oblast and the Omsk Oblast in Russia's Western Siberia, using Gazpromneft-Vostok capacities. The key opportunities for the JV are related to developing technologies for prospecting and production from hard-to-recover pre-Jurassic (Palaeozoic) hydrocarbon deposits.

A joint venture was also established by Gazprom Neft and the Spanish company Repsol to carry out geological exploration at the Karabashsky 10 licence block in the Khanty-Mansi Autonomous Okrug-Yugra. The block adjoins the Karabashsky licence blocks owned by Eurotek Yugra, another joint venture of Gazprom Neft and Repsol.

Acquiring new assets

In 2018, Gazprom Neft acquired 100% of shares of Enercom LLC, which holds a licence for the Solnechny licence block in the Orenburg Oblast. The new asset will form part of the Orenburg production cluster.

In 2018, reorganisation of Arcticgas was also completed, which provided for equal participation (50/50) of Gazprom Neft PJSC and NOVATEK. This will allow the synergy of the shared use of competencies in hydrocarbon production, regional experience and infrastructure to be realised.

Gazprom Neft acquired a production and logistics terminal in Salsk in the Rostov Oblast. This asset is to form an important part of the logistics system, which ensures the supply of modern bitumen products to southern regions of Russia.

Cultural transformation

In the framework of the company's comprehensive transformation on its path towards implementing Strategy 2030, Gazprom Neft launched a large-scale project to transform its corporate culture. Its new engagement philosophy involves a shift from top-down management towards facilitative leadership. Gazprom Neft's updated corporate values were adopted by the company's Management Board. The transformation of corporate culture involves shaping behaviour in a way that helps the company to achieve its strategic goals.

2019

Operational transformation

Gazprom Neft started the roll-out of the Etalon Operations Management System (OMS) at all its assets. Pilot projects to implement the OMS have shown that the system is highly efficient. The Etalon OMS Development Code (OMS Code) was approved. It sets out standard OMS implementation principles to maximise operational efficiency.

Digital transformation

The Gazprom Neft Board of Directors adopted its Digital Transformation Strategy in 2018. It was developed in line with the company's general development strategy to 2030 in order to ensure its implementation. The company's digital transformation is based around more than 40 programmes for changing technological and operational processes throughout Gazprom Neft. The aim of these programmes is to transition to new management systems and to significantly increase the efficiency and operational safety across assets.

Gazprom Neft created competency centres on machine learning and artificial intelligence, virtual and augmented reality, video content analysis, blockchain technology, robotics and additive technologies, unmanned technologies, industrial Internet of Things, and wearable technology.

New prospecting areas

Gazprom Neft entered two new prospecting areas: the Taymyr Peninsula (in the Dolgano-Nenetsky District in the Krasnoyarsk Krai) and the north of the Tazovsky Peninsula. The company was granted a subsoil licence for geological exploration at 12 licence blocks in the western part of the Taymyr Peninsula based on applications, and won the auction for the Severo-Yamburgsky licence block. In June 2019, Gazprom Neft and Royal Dutch Shell signed an agreement of intent to establish a joint venture to develop the Leskinsky and Pukhutsayakhsky licence blocks on the Gydan Peninsula.

The Achimov Formation development

Gazprom Neft and the Government of the Yamalo-Nenets Autonomous Okrug started to create a technology centre for developing the Achimov Formation. A pilot testing site will be created based on Achimovsky strata at the Yamburgskoye field. The company also plans to create an integrated information platform and a data centre to facilitate experience sharing.

Gazprom Neft had previously built the Digital Model for the Achimov Formation covering the entire Western Siberia. It is the first model of its kind in the industry.

The Chayandinskoye field development

Gazprom Neft is creating a new production cluster. An oil deposit at the Chayandinskoye oil and gas-condensate field in the Sakha Republic (Yakutia) will an important part of it. This field oil reserves in place (263 mt) make it unique. The company is developing its oil rim under an operating agreement with Gazprom Neft Dobycha Noyabrsk LLC, which is developing gas deposits at the asset. In late 2019, Gazprom Neft initiated pilot development of the field, and shipped its first batch of marketable oil. Peak production from these oil rims is expected by 2023, at about three million tonnes of oil equivalent per year.

Alternative energy at the Omsk Refinery

Gazprom Neft commissioned a 1MW solar power plant with 2,500 solar panels at the Omsk Refinery. It supplies electricity to all administrative buildings at the Omsk Refinery. The estimated annual electricity output at the power plant will amount to 1.2 million kWh, which will mean avoiding over 6,300 tonnes of CO₂ emissions every year.

High-technology fuel terminal

Gazprom Neft commissioned the Gladkoye fuel terminal in the Leningrad Oblast. Gladkoye is the only terminal in Russia equipped with metering units that enable automated monitoring of the volume and characteristics of petroleum products. A digital twin of the fuel terminal contains all project information since the start of construction. The terminal infrastructure enables transshipment of up to one million tonnes of petroleum products every year, and the tank farm can simultaneously store 40,000 cubic metres of products.

Environmentally-friendly bunker fuel

The company started producing and selling bunker fuel with sulphur content of less than 0.1%. This meets the requirements of the International Convention for the Prevention of Pollution from Ships (MARPOL), in accordance with which the use of fuels with sulphur content exceeding 0.5% has been banned for all international shipping operations starting from 1 January 2020. The composition of the RMG-180 (type M) hybrid fuel has been developed by Gazprom Neft specialists. The company also introduced a new marine oil for engines which use ultra-low sulphur fuel oil with sulphur content not exceeding 0.1%.

Supplying bitumen materials to Latin America

Gazprom Neft supplied polymer-bitumen binders (PBB) for construction of the largest infrastructure facility in Latin America: the Bi-Oceanic Road Corridor, which is to connect the eastern and western coast of the continent to form a single transportation network. Innovative bitumen produced by the Gazprom Neft Ryazan Bitumen Binders Plant is being used to pave a 277-kilometre-long section of the highway on the border between Brazil and Paraguay. A special PBB formula for the Bi-Oceanic Road Corridor has been developed at the Gazprom Neft research centre.

Consolidation of a 100% holding in Poliom

Launched in 2013, Poliom is one of the largest polypropylene producers in Russia, with the capacity of 218,400 tonnes per year. In 2019, Gazprom Neft and SIBUR purchased a 50% holding in Poliom from a partner on a parity basis. As a result, Gazprom Neft and SIBUR acquired 100% of the plant shares.

Construction of a catalyst plant in Omsk

Gazprom Neft started building a high-tech oil-refining catalyst production facility in Omsk. The new plant with a capacity of 21,000 tonnes per year will produce catalysts for the key Euro 5 fuel-production processes, and deep conversion. The Ministry of Energy of the Russian Federation has granted this initiative the status of a national project. Gazprom Neft

establishes a new production cluster in Eastern Siberia, one important element of which will be the oil deposit at the Chayandinskoye oil and gas condensate field in the Republic of Sakha (Yakutia). This field is unique in that its recoverable reserves stand at 263 million tonnes of oil. The company is developing the field's oil-rim deposits under a long-term risk-based operatorship contract with Gazprom Dobycha Noyabrsk, which is developing the gas portion of that asset. Pilot development of the oil portion of the field and shipment of the first commercial oil started at the end of 2019. Peak production at the rim will be reached by 2023, and is expected to be about three million tonnes of oil equivalent per year.

The federal 'Clean Air' project

Gazprom Neft is implementing the federal 'Clean Air' project, part of the Russian Government's 'Ecology' project, which aims to reduce emissions by 20% in industrial cities with low air quality by the end of 2024. The programme includes nine projects to upgrade the Omsk Refinery. Gazprom Neft plans to invest over ₽100 billion in these projects.

Expedition under the 'Narwhal: Legend of the Arctic' project

Gazprom Neft successfully completed the first exploratory expedition as part of the 'Narwhal: Legend of the Arctic' project. Explorers discovered unique data on the life of narwhals in the Russian part of the Arctic, and this will form the basis for the comprehensive programme to study this species up to 2022. The 'Narwhal: Legend of the Arctic' project is an environmental project forming part of the large-scale 'Time of the Arctic' programme launched by Gazprom Neft.

2020

The future of oil refining

Operation has started on a unique Euro+ oil-refining complex at the Moscow Refinery, facilitating full-cycle production as well as allowing the decommissioning of five previous-generation installations. A deep refining complex has been commissioned at Serbian subsidiary NIS. It will increase refining depth to a record 99%, and will deliver an almost 40% increase in production of diesel fuels. Construction of a diesel hydrotreatment facility (complete with de-waxing unit) is coming to completion at the Omsk Refinery, as is the reconstruction of a catalytic reforming unit.

Partnerships

Gazprom Neft entered into agreement with Shell on expanding development of the Salym group of fields. A licence for the Salymskiy-2 block in Khanty-Mansi Autonomous District-Yugra was added to the asset portfolio of Salym Petroleum Development, a joint venture between these two companies. In addition, the companies established a joint venture to develop a major hydrocarbon cluster in the Gydan Peninsula. A partnership was established with Zarubezhneft to develop technologies for hard-to-recover reserves in the Khanty-Mansi Autonomous Okrug, and a similar business for hard-to-recover-reserves in the Orenburg Oblast was established in partnership with LUKOIL and Tatneft.

New fuels

Russia's first cargo and passenger ship-to-ship LNG-bunkering vessel, the Dmitry Mendeleev, has been launched.

In 2020, Gazprom Neft became the first oil company in Russia to join the Society for Gas as a Marine Fuel (SGMF), the international community which brings together over 140 companies, including bunkering-tanker providers and owners; gas-fuel producers and suppliers; shipping companies; and LNG infrastructure operators.

Promising new distribution markets

Gazprom Neft started supplying Arctic oil to buyers in Asia-Pacific Region and completed its first delivery of Novy Port crude oil to China. The company is utilising a unique transport and logistics strategy in managing oil deliveries from its Arctic fields, ensuring year-round consignments, at minimum cost. The tanker's route from Murmansk to Yantai was charted through the seas of the Arctic, as well as three oceans.

Production of oil-refining catalysts

Gazprom Neft continues the construction of Russia's first ever modern refining-catalyst manufacturing plant. Procurement of all essential equipment – 70 % of which has been produced in Russia – is now complete. Work is now finished on the infrastructure facilities, with installation of key production buildings now underway. The industry's unique Catalyst-Technology Development Centre was opened. This R&D facility is fitted out with cutting-edge equipment and will facilitate research into and fine-tuning of catalyst production technologies for the oil refining industry. Industrial testing of the company's proprietary advanced diesel hydrotreatment catalyst was successfully completed. St Petersburg's State Institute of Technology was among the project's scientific partners.

The Zima project

Gazprom Neft began full-scale development of its Zima project (with potential resources of 840 million tonnes of oil) in the Khanty-Mansi Autonomous Okrug-Yugra. The flagship asset on this project – the Alexander Zhagrin field – produced one million tonnes of hydrocarbons in its first year in development. Peak production at this field will reach 6.5 million tonnes of oil by 2024.

New projects in Yamalo-Nenets Autonomous Okrug

Preparations are now underway for developing Neocomian-Jurassic deposits at the Bovanenkovoyskoye oil and gas condensate field and the Kharasaveyskoye gas condensate field in the Yamal Peninsula. Peak production at these assets is expected to be reached in 2031, at more than 38 billion cubic metres (bcm) of gas and up to 4.1 million tonnes of condensate per year. The company is also preparing to develop Achimovsky and oil-rim deposits at the Urengoyskoye oil and gas condensate field in the Nadym-Pur-Tazovsky area of the Yamalo-Nenets Autonomous Okrug.

Associated petroleum gas (APG) utilisation

The APG utilisation project, which is unique in the industry, was implemented at the Messoyakha group of fields in Yamalo-Nenets Autonomous Okrug. Gas is injected into undeveloped gas-bearing strata at the Zapadno-Messoyakhskoye field from the neighbouring Vostochno-Messoyakhskoye field which is under development. The gas transmission system belonging to the Urmano-Archchinskaya group of fields and the Yuzhno-Pudinsky license area was launched in Tomsk Oblast, leading to an increase of up to 95% in the overall APG utilisation rate at the company's assets in that region. The second-phase complex of the compressor station at the process line No. 4 was commissioned and the existing compressor units upgraded at Vostochny (Eastern) Block of the Orenburgskoye field. That led to improvements in the environmental friendliness of production and brought the APG utilisation rate at this major asset to 98%.

Environmental policy

Gazprom Neft became a signatory to the United Nations Global Compact (the world's largest corporate sustainability initiative), and was also among the leaders in this year's Carbon Disclosure Project (CDP) ratings: the world's most authoritative corporate climate responsibility survey. The company was awarded a ranking of "B" – the highest level achieved by any Russian oil company.

Supporting higher education

Gazprom Neft presented a digital platform for participation in the "League of Universities", a project directed at developing partnerships with Russian universities and higher educational institutions. This new digital platform forms a cohesive and integrated space for communication between partnering universities, putting together cross-functional teams, providing access to universities, R&D centres and the company's resources, and creates a single database for joint projects. The project already brings together 24 higher educational institutions from 13 regions of Russia.

Gazprom Neft
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Appendices

Structure of the Gazprom Neft Group

APPENDIX 3

Production

1. Gazpromneft-Khantos LLC
2. Gazpromneft-Noyabrskneftegaz JSC
3. Gazpromneft-Yamal LLC
4. Gazprom Neft Shelf LLC
5. Gazprom Neft Orenburg LLC
6. Meretoyakhaneftegaz LLC
7. Gazpromneft-Prirazlomnoye LLC
8. Gazpromneft-Sakhalin LLC
9. Gazpromneft Orenburg Soyuz LLC
10. Yuzhuralnepftegaz JSC
11. NOVATEK-YARSALENEFTEGAZ LLC
12. Gazpromneft-Zapolyarye LLC
13. Gazprom Neft Development LLC
14. Gazprom Neft Badra B.V.
15. Gazprom Neft Middle East B.V.
16. Enercom LLC
17. Karabashsky 6 LLC
18. ALATAU-7 LLC
19. Gazpromneft-Angara LLC
20. Gazpromneft-GEO LLC
21. Morneftegazproekt JSC
22. Gazpromneft-Geoshelf LLC
23. Gazpromneft-Yamburg LLC
24. Gazpromneft - Technology Partnerships LLC
25. Gazpromneft - Salymsky LLC
26. Slvitsky 2 LLC (JV)
27. Zhavlevskouarye LLC (JV)
28. Gazneft-Palyan LLC
29. Salymsky 2 LLC
30. Saly Petroleum Development N.V. (JV)
31. New Oil Production Technologies LLK (JV)
32. Slavneft-Megionnepftegaz PJSC (JV)
33. Slavneft-Megionnepftegazgeologia PJSC (JV)
34. Slavneft-Krasnoyarskneftegaz LLC (JV)
35. Gazprom-Vostok LLC
36. Khanty-Mansiysk Petroleum Alliance JSC (JV)
37. Tomskneft VNK JSC (JV)
38. Messoyakhaomneegaz JSC (JV)
39. ARCTIC GAS JSC (JV)
40. Eurotek-Yugra JSC (JV)
41. Northgas CJSC (JV)
42. ASB Geo LLC (JV)
43. Gazpromneft-Aero Bryansk LLC

Service companies

44. Gazpromneft-Noyabrskneftegazgeofizika LLC
45. Gazpromneft-Nefteservis LLC
46. Gazpromneft-Automation LLC
47. Noyabrskteploneft LLC
48. Noyabrskenergoneft LLC
49. Gazpromneft Energoservis LLC
50. Neftekhimremont LLC
51. Machinery and Repair Plant Gazpromneft - Omsk Refinery LLC
52. Avtomatika-Servis LLC
53. Garant Service LLC (JV)

Digital logistics

Gazprom Neft and Gazprombank have developed an integrated supply-chain management platform, Isource. The platform is a supply chain "digital twin", automating procurement, logistics and financial operations. These services support clients at every stage, from the formation of requirements to inventory management, making it possible to monitor the company's most important business processes. In the autumn of 2020, Gazprom Neft took part in the Russian Ministry of Transport's federal experiment to introduce electronic consignment notes in passenger and freight transportation.

The company's "Antivirus" programme

Gazprom Neft developed and put in place a system of barriers involving technical and organisational measures to combat the spread of COVID-19. As part of the company's "Antivirus" programme, the company arranged over one million COVID-19 tests covering both company employees and contracting organisations; established over 140 buffer zones to ensure "clean" shifts throughout the company's upstream assets; the company's production facilities and offices are equipped with access systems based on health status integrated into the corporate digital anti-epidemiological monitoring system. These measures allowed Gazprom Neft to ensure the continuity of all its production processes.

Helping society fight the COVID-19 pandemic

As part of its "Antivirus" programme, the company helped medics on the frontline in the fight against COVID-19. Gazprom Neft supplied regional hospitals with ventilators, high-accuracy PCR-testing laboratories, rapid testing systems for diagnosing the virus, as well as provided almost three million pieces of personal protective equipment (PPE) to medical workers. At the beginning of the pandemic, Gazprom Neft offered free servicing for emergency services vehicles in the regions of operation, as well as providing free fuel for doctors and volunteers.

Developing driverless (unmanned) technologies

Gazprom Neft has tested the full range of unmanned technologies at its production facilities. Unmanned KAMAZ trucks have undergone successful testing at the Vostochno-Messoyakhskoye field, and the driverless Gazelle NEXT electric vehicle was tested at the Yuzhno-Priobskoye field currently under development by the company. Gazprom Neft also tested a prototype of the KAMAZ Group's Chelnok ("Shuttle") unmanned goods vehicle at the Moscow Refinery's Terminal smart logistics space.

The company also expanded the use of unmanned aerial vehicles (UAVs or "drones") at its oilfields. New tasks for drones include cargo deliveries to standalone Arctic fields, conducting geomagnetic surveying, land mapping and laser scanning for putting together digital terrain models.



Refining

- 54. Gazprom Neft Moscow Refinery JSC
- 55. Gazprom Neft Omsk Refinery JSC

Oil and petroleum products sales

- 58. Gazprom Neft Trading GmbH
- 59. Gazpromneft-Centre LLC
- 60. Munai-Myrza CJSC
- 61. Gazprom Neft Asia LLC
- 62. Gazprom Neft Krasnoyarsk LLC
- 63. Gazprom Neft-Ural JSC
- 64. Gazprom Neft – North-West JSC
- 65. Gazprom Neft-Yaroslavl JSC
- 66. Gazprom Neft-Transport JSC
- 67. Gazprom Neft-Novosibirsk JSC
- 68. Gazprom Neft-Belnefteprodukt FLLC

Research and IT

- 79. Gazprom Neft STC LLC
- 80. NEDRA LLC (JV)
- 81. Digital Industrial Platform LL(JV)C

Lubricants, bitumen and petrochemicals

- 84. Gazpromneft-Lubricants LLC
- 85. Gazprom Neft Moscow Lubricants Plant JSC
- 86. Gazprom Neft Lubricants Italia S.p.A.
- 87. GAZPROMNEFT LUBRICANTS UKRAINE LLC
- 88. Gazpromneft Bitumen Materials LLC
- 89. Gazpromneft Catalytic Systems LLC
- 90. Gazprom Neft Ryazan Bitumen Binders Plant LLC
- 91. NOVA-BRIT LLC
- 92. Polyefir LLC

- 56. Slavneft-YANOS PJSC (JV)
- 57. Yuzhno-Priobsky GPP LLC (JV)

- 69. Gazprom Neft – Tajikistan LLC
- 70. Gazprom Neft – Kazakhstan LLC
- 71. Alliance-Oil-Asia LLC
- 72. Gazprom Neft Corporate Sales LLC
- 73. Gazprom Neft-Mobilnaya Karta JSC
- 74. Gazprom Neft-Alternative Fuel LLC
- 75. Gazpromneft-Terminal JSC
- 76. Gazpromneft Laboratory LLC
- 77. Gazpromneft-Trade Orenburg LLC
- 78. Gazprom Neft Regional Sales LLC

- 82. Gazpromneft – Digital Solutions LLC
- 83. GPN-ITO LLC Gazpromneft-Industrial novations LLCy

- 93. BSV-CHEM LLC
- 94. Sovkhimtekh JSC
- 95. Gazprom Neft-Bitumen Kazakhstan LLP
- 96. Bitumen Terminals LLC
- 97. GPN-BT South LLC
- 98. Poliom LLC (JV)
- 99. NPP Neftekhimiya LLC (JV)
- 100. Gazpromneft-Total PMB LLC (JVADO)

Aircraft refueling

- 101. Gazpromneft-Aero JSC
- 102. Gazpromneft-Aero Murmansk LLC
- 103. Gazpromneft-Aero Kemerovo LLC
- 104. Gazpromneft-Aero Sheremetyevo LLAero TO LLC
- 105. C
- 106. TZK Severo-Zapad LLC (JV)
- 107. Sovex JSC (JV)

- 108. Gazpromneft-Aero Tomsk LLC (JV)
- 109. Gazpromneft-Aero Kyrgyzstan LLC (JV)
- 110. TZK Yenisey LLC (JVLC)
- 111. Gazpromneft-Aero Novosibirsk JSC (JV)
- 112. TZK Slavneft-Tunoshna JSC (JV)
- 113. TZK Omsk (Tsentralny) LLC (JV)
- 114. Chukotaerosbyt LLC

Bunkering

- 115. Gazpromneft Marine Bunker LLC
- 116. Gazpromneft Shipping LLC
- 117. Gazpromneft Terminal SPb LLC
- 118. AS Baltic Marine Bunker

- 119. Novorossiysk Oil Transhipment Complex LLC
- 120. Novorosnefteservis L
- 121. GAZPROMNEFT MARINE BUNKER BALKAN S.A.LC

Multibusiness companies

- 122. Naftna Industrija Srbije A.D., Novi Sad
- 123. Oil and Gas Company Slavneft PJSC (JV)

Other operations

- 124. Altaiskoye Podvorye LLC
- 125. Gazpromneft Eastern European Projects LLC
- 126. GPN-Finance LLC
- 127. GPN-Energo LLC
- 128. GPN-ZS LLC
- 129. GPN Middle Eastern Projects LLC
- 130. GPN Salym Projects LLC
- 131. GPN-Invest LLC
- 132. GPN-Investments LLC
- 133. Gazprom Neft Business Service LLC
- 134. Gazprom Neft Logistics LLC
- 135. Paradnaya Complex LLC
- 136. Gazprom Neft Procurement LLC

- 137. Arctica Media JSC
- 138. Gazprom Neft International S.A.
- 139. Gazprom Neft Finance B.V.
- 140. Gazprom Neft Downstream B.V.
- 141. Gazprom Neft Business Service B.V.
- 142. GPN-project LLC
- 143. Zarechye Club LLC
- 144. Unifel (LL)
- 145. GPN-Operations Management LLC
- 146. GPN-Foreign Asset Management LLC
- 147. Sibgazpolimer JSC (JV)L
- 148. NNKns LL(JV)

Information on energy consumption at Gazprom Neft PJSC

Gazprom Neft PJSC's 2020 accounts show energy costs allocated as part of property rental expenses under the company's lease agreements. Total expenditure on energy was RUB16,447,597.15, inclusive of RUB2,741,266.19 VAT. Gazprom Neft PJSC's accounting system does not provide for any quantitative accounting in respect of energy resources.

Excerpts from the Management's Discussion and Analysis of Financial Condition and Results of Operations

Revenue

Revenue from sales (₽ million)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| CRUDE OIL | | | | | | |
| Net export (excluding CIS) | 225,137 | - | - | - | - | - |
| Export | 266,661 | 413,662 | 552,692 | 586,357 | 405,104 | (30.9) |
| Less: export duties | (41,524) | - | - | - | - | - |
| International markets | 12,683 | 22,480 | 37,938 | 28,339 | 15,136 | (46.6) |
| Net export to CIS | 23,528 | - | - | - | - | - |
| Export sales and sales in CIS | 23,657 | 30,117 | 38,993 | 41,067 | 18,713 | (54.4) |
| Less: export duties | (129) | - | - | - | - | - |
| Domestic market | 94,809 | 83,393 | 88,848 | 88,797 | 64,757 | (27.1) |
| TOTAL CRUDE OIL REVENUE | 356,157 | 549,652 | 718,471 | 744,560 | 503,710 | (32.3) |
| GAS | | | | | | |
| International markets | 1,853 | 1,237 | 1,010 | 863 | 249 | (71.1) |
| Domestic market | 30,116 | 36,351 | 35,805 | 29,891 | 31,770 | 6.3 |
| TOTAL GAS REVENUE | 31,969 | 37,588 | 36,815 | 30,754 | 32,019 | 4.1 |

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|---|------------------|------------------|------------------|------------------|------------------|----------------|
| PETROLEUM PRODUCTS | | | | | | |
| Net export (excluding CIS) | 184,272 | - | - | - | - | - |
| Export | 215,837 | 228,346 | 330,290 | 328,434 | 261,703 | (20.3) |
| Less: export duties | (31,565) | - | - | - | - | - |
| International markets | 99,440 | 112,912 | 165,880 | 156,423 | 117,131 | (25.1) |
| Sales on international markets | 175,247 | 180,803 | 257,803 | 249,131 | 220,890 | (11.3) |
| Less: sales-related excise tax | (75,807) | (67,891) | (91,923) | (92,708) | (103,759) | 11.9 |
| CIS | 71,838 | 76,058 | 91,334 | 86,752 | 77,029 | (11.2) |
| Export sales and sales in CIS | 72,969 | 77,154 | 92,245 | 87,623 | 77,801 | (11.2) |
| Less: export duties | (1,131) | - | - | - | - | - |
| Less: sales-related excise tax | - | (1,096) | (911) | (871) | (772) | (11.4) |
| Domestic market | 743,721 | 866,234 | 1,075,927 | 1,046,521 | 928,001 | (11.3) |
| TOTAL PETROLEUM PRODUCTS REVENUE | 1,099,271 | 1,283,550 | 1,663,431 | 1,618,130 | 1,383,864 | (14.5) |
| OTHER REVENUE¹ | 58,211 | 63,799 | 70,575 | 91,864 | 80,027 | (12.9) |
| TOTAL | 1,545,608 | 1,934,589 | 2,489,292 | 2,485,308 | 1,999,620 | (19.5) |

Production and manufacturing expenses

Production and manufacturing expenses (₽ million)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| UPSTREAM EXPENSES² | 106,765 | 111,837 | 109,090 | 126,769 | 121,921 | (3.8) |
| ₽ per toe | 1,782 | 1,767 | 1,669 | 1,876 | 1,792 | (4.5) |
| \$ ³ per boe | 3.63 | 4.13 | 3.63 | 3.95 | 3.39 | (14.2) |

¹ – Mainly consists of revenues from transportation, construction and utilities services.

² – Expenditure on raw materials and supplies, equipment maintenance and repairs, labour costs, fuel and electricity costs, enhanced oil recovery activities and other similar costs at the group upstream subsidiaries.

³ – Translated into US dollars at the average exchange rate for the period.

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|---|---------------|---------------|---------------|---------------|---------------|----------------|
| Consolidated subsidiaries in Russia | 80,392 | 85,898 | 81,385 | 97,586 | 96,433 | (1.2) |
| ₽ per toe | 1,647 | 1,653 | 1,510 | 1,725 | 1,632 | (5.4) |
| \$ per boe | 3.35 | 3.86 | 3.29 | 3.64 | 3.09 | (15.1) |
| including: brownfields | 65,960 | 67,923 | 65,870 | 81,343 | 80,169 | (1.4) |
| ₽ per toe | 1,692 | 1,812 | 1,660 | 1,543 | 1,495 | (3.1) |
| \$ per boe | 3.44 | 4.24 | 3.61 | 3.25 | 2.83 | (12.9) |
| greenfields | 14,432 | 17,975 | 15,515 | 16,243 | 16,264 | 0.1 |
| ₽ per toe | 1,470 | 1,242 | 1,104 | 4,196 | 2,973 | (29.1) |
| \$ per boe | 2.99 | 2.90 | 2.40 | 8.85 | 5.62 | (36.5) |
| Consolidated subsidiaries outside Russia (including PSC) ¹ | 9,655 | 8,381 | 9,311 | 9,899 | 9,866 | (0.3) |
| ₽ per toe | 4,144 | 3,059 | 2,975 | 3,322 | 3,809 | 14.7 |
| \$ per boe | 8.43 | 7.15 | 6.47 | 7.00 | 7.20 | 2.9 |
| Joint operations | 16,718 | 17,558 | 18,394 | 19,284 | 15,622 | (19.0) |
| ₽ per toe | 1,924 | 2,061 | 2,232 | 2,396 | 2,480 | 3.5 |
| \$ per boe | 3.92 | 4.82 | 4.86 | 5.05 | 4.69 | (7.1) |
| DOWNSTREAM EXPENSES | 53,132 | 55,318 | 58,919 | 66,104 | 68,704 | 3.9 |
| Refining expenses at own refineries ² | 30,619 | 31,191 | 32,251 | 35,637 | 37,100 | 4.1 |
| ₽ per tonne | 893 | 966 | 920 | 1,050 | 1,121 | 6.8 |
| \$ per barrel | 1.82 | 2.26 | 2.00 | 2.21 | 2.12 | (4.1) |
| Refining expenses at refineries of joint ventures ³ | 12,453 | 12,259 | 12,496 | 13,450 | 14,562 | 8.3 |
| ₽ per tonne | 1,639 | 1,568 | 1,590 | 1,786 | 2,000 | 12.0 |
| \$ per barrel | 3.34 | 3.67 | 3.46 | 3.76 | 3.78 | 0.5 |

¹ – PSC stands for a production sharing contract.

² – Expenditure on raw materials and supplies, equipment maintenance and repairs, labour costs, electricity costs and other similar costs at the group refineries.

³ – Refining expenses of joint ventures are based on processing agreement.

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Lubricants and packaged-products manufacturing expenses | 10,060 | 11,868 | 14,172 | 17,017 | 17,042 | 0.1 |
| TRANSPORTATION TO REFINERIES | 29,561 | 29,265 | 32,950 | 32,910 | 33,069 | 0.5 |
| OTHER OPERATING EXPENSES | 12,404 | 20,110 | 27,659 | 34,905 | 33,697 | (3.5) |
| TOTAL | 201,862 | 216,530 | 228,618 | 260,688 | 257,391 | (1.3) |

The reduction in operational expenses per unit by 3.1% year-on-year in hydrocarbon production across mature fields was due to optimisation measures under the OPEC+ production cut deal, while the reduction in operational expenses per unit by 29.1% across new fields was the result of growth in hydrocarbon production. A 3.5% year-on-year increase in operating costs per unit of production from joint operations was driven by a drop in Tomskneft's production due to production cuts under the OPEC+ deal and the natural depletion of oil fields.

Refining expenses per tonne at own refineries increased by 6.8% year-on-year as a result of:

- throughput decline by 2.4%;
- higher energy costs;
- higher expenses related to environmental programmes at the Omsk Refinery.

Refining expenses per toe at joint ventures increased by 12.0% year-on-year as a result of decline in refining volumes, introduction of new production processes and growth in natural monopoly tariffs.

Other operating expenses decreased mainly due to a decrease in other revenues attributed to the reduction in volume of services rendered. This decline was offset by the increasing costs to counter the spread of COVID-19.

Selling, general and administrative expenses

Selling, general and administrative expenses¹ decreased by 7.7% year-on-year, driven mainly by:

- optimising administrative costs to ensure financial resilience in the face of falling crude oil and oil-product prices;
- reduction in estimated liabilities as a result of decline in share price.

Transportation costs

Transportation costs² remained virtually flat year-on-year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses³ increased by 22.5% year-on-year due to an increase in the cost of depreciable assets driven by the implementation of the investment programme, as well as recognised depreciation across the company's upstream assets.

¹ – Distribution costs, retail business expenses, remunerations, wages and salaries (excluding remunerations, wages and salaries at upstream subsidiaries and own refineries), social benefits, insurance, legal, consulting and audit.

² – Costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, rail, shipping, handling, and other transportation costs.

³ – Depreciation, depletion and amortization expenses include depreciation of oil and gas properties, refining and other assets and impairment provision.

Taxes

Taxes other than income tax (₽ million)

| Tax | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Mineral extraction tax (MET) | 237,300 | 329,579 | 487,492 | 464,773 | 291,715 | (37.2) |
| Excess-profits tax (EPT) | – | – | – | 14,348 | 29,296 | 104.2 |
| Excise tax | 112,102 | 128,229 | 126,779 | 70,125 | 210,349 | 200.0 |
| Social security contributions | 18,530 | 20,433 | 22,113 | 25,707 | 27,997 | 8.9 |
| Other taxes | 13,199 | 14,028 | 16,400 | 16,240 | 18,033 | 11.0 |
| TOTAL | 381,131 | 492,269 | 652,784 | 591,193 | 577,390 | (2.3) |

MET expense decreased by 37.2% year-on-year, mainly due to crude oil price fluctuation.

The increase in EPT expenditure is due to the increase in the number of fields subject to EPT w.e.f. December 2019.

The increase in excise tax expenditure year-on-year is mainly due to the impact of the damper component resulting from the reduction in export-parity prices for motor gasoline and diesel fuel on the external market in the light of lower crude oil prices and the worsening epidemiological situation.

Share of profit of associates and joint ventures

Share of profit/(loss) of associates and joint ventures (₽ million)

| Company | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Slavneft | 13,916 | 10,347 | 15,025 | 11,944 | 338 | (97.2) |
| Messoyakhaneftegaz | (947) | 9,976 | 28,172 | 25,814 | 9,037 | (65.0) |
| SeverEnergia (Arcticgas) | 14,472 | 19,861 | 40,451 | 39,849 | 34,301 | (13.9) |
| Northgas | 3,009 | 3,433 | 3,699 | 3,090 | 1,700 | (45.0) |
| Other companies | 3,666 | 1,887 | 3,357 | 3,209 | 2,671 | (16.8) |
| TOTAL | 34,116 | 45,504 | 90,704 | 83,906 | 48,047 | (42.7) |

The decline in crude oil prices had a negative impact on financial result across all joint ventures year-on-year.

Liquidity and sources of capital

Cash (₽ million)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--|-----------------|---------------|----------------|-----------------|---------------|----------------|
| Item | 321,297 | 421,700 | 537,523 | 609,076 | 517,057 | (15.1) |
| Net cash provided by operating activities | (323,854) | (312,889) | (335,038) | (363,589) | (374,165) | 2.9 |
| Net cash used in investing activities | (68,430) | (50,521) | (56,543) | (276,720) | (123,957) | (55.2) |
| NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES | (70,987) | 58,290 | 145,942 | (31,233) | 18,935 | - |

Net cash provided by operating activities (₽ million)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Net cash provided by operating activities ¹ | 361,567 | 439,319 | 624,783 | 615,452 | 358,904 | (41.7) |
| Changes in working capital | 15,216 | 52,809 | 326 | 39,505 | 206,073 | >200 |
| Income tax paid | (22,158) | (36,530) | (61,157) | (53,087) | (18,785) | (64.6) |
| Interest paid | (36,476) | (39,449) | (46,492) | (59,057) | (55,418) | (6.2) |
| Dividends received | 3,148 | 5,551 | 20,063 | 65,404 | 25,318 | (61.3) |
| Other cash provided by operating activities | - | - | - | 859 | 965 | 12.3 |
| TOTAL | 321,297 | 421,700 | 537,523 | 609,076 | 517,057 | (15.1) |

Net cash from operating activities saw a 15.1-percent decrease year-on-year mainly due to declining crude-oil and petroleum-product prices in 2020 year in the light of COVID-19 pandemic and cuts in crude-oil production under the OPEC+ deal.

¹ – Before changes in working capital, income tax, interest and dividends.

Net cash used in investing activities (₽ millions)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|------------------|------------------|------------------|------------------|------------------|
| Capital expenditures | (379,120) | (349,343) | (359,108) | (435,242) | (413,526) |
| (Acquisition)/sales of subsidiaries, associates and joint ventures | (2,028) | (8,345) | (1,360) | (210) | 1,951 |
| Purchases of oil and gas licences, intangible assets | (5,697) | (7,747) | (16,089) | (27,392) | (30,091) |
| (Placement)/repayment of bank deposits | 48,517 | (5,933) | 6,710 | (15,090) | 15,000 |
| Proceeds from sale of property, plant and equipment, net of tax | 1,008 | 2,210 | 4,413 | 115,710 | 42,357 |
| Repayment/(proceeds) from loans issued | (2,104) | 44,938 | 11,511 | (4,755) | 3,042 |
| Interest received | 4,384 | 9,149 | 18,885 | 17,155 | 12,697 |
| Other cash flow from investing activities | 11,186 | 2,182 | - | (13,765) | (5,595) |
| TOTAL | (323,854) | (312,889) | (335,038) | (363,589) | (374,165) |

Net cash used in investing activities increased by 2.9% year-on-year due to the decrease in proceeds from sale of fixed assets. Cash outflow in investing activities was partially offset by cash flows from deposits, the decrease in capital expenditures, and the increase in other cash flows from investing activities.

Net cash used in financing activities (₽ million)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|---|-----------------|-----------------|-----------------|------------------|------------------|----------------|
| Net changes in debt | (63,929) | 3,556 | 5,484 | (33,416) | (11,096) | (66.8) |
| Dividends paid to Gazprom Neft shareholders | (2,598) | (50,382) | (70,774) | (227,120) | (93,494) | (58.8) |
| Dividends paid to non-controlling shareholders | (1,254) | (2,542) | (11,864) | (6,609) | (8,357) | 26.4 |
| Repayment of principal portion of lease liabilities | - | - | - | (9,200) | (11,326) | 23.1 |
| Other transactions | (649) | (1,153) | 20,611 | (375) | 316 | - |
| TOTAL | (68,430) | (50,521) | (56,543) | (276,720) | (123,957) | (55.2) |

Net cash used in financing activities decreased year-on-year, mainly due to the absence of interim dividends paid to shareholders and the decrease in debt burden.

Capital expenditures (₽ million)

| Item | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|----------------|----------------|----------------|----------------|----------------|
| Exploration and production | 262,433 | 214,791 | 211,251 | 273,690 | 276,278 |
| Consolidated subsidiaries | 245,528 | 198,273 | 194,819 | 254,976 | 260,182 |
| Joint operations | 16,905 | 16,518 | 16,431 | 18,714 | 16,096 |
| Refining | 69,742 | 75,063 | 96,693 | 140,484 | 115,457 |
| Marketing and distribution | 9,949 | 13,970 | 13,076 | 16,199 | 15,431 |
| Other ¹ | 36,996 | 45,519 | 38,088 | 4,869 | 6,360 |
| CAPITAL EXPENDITURES (SUBTOTAL) | 379,120 | 349,343 | 359,108 | 435,242 | 413,526 |

Capital expenditures in the upstream sector remained almost flat year-on-year.

Capital expenditures in the downstream sector decreased by 17.8% year-on-year was mainly due to the phased implementation of deep refining projects.

Debt and liquidity (₽ million)

| Item | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2019 | As at 31 December 2020 |
|----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Short-term loans and borrowings | 80,187 | 131,760 | 90,923 | 30,198 | 45,695 |
| Long-term loans and borrowings | 596,221 | 548,654 | 684,530 | 685,030 | 738,530 |
| Cash and cash equivalents | (33,621) | (90,608) | (247,585) | (202,404) | (237,011) |
| Short-term deposits | (886) | (5,779) | – | (15,076) | (131) |
| NET DEBT | 641,901 | 584,027 | 527,868 | 497,748 | 547,083 |
| Short-term debt / total debt (%) | 11.9 | 19.4 | 11.7 | 4.2 | 5.8 |
| Net debt / EBITDA (LTM) | 1.60 | 1.19 | 0.73 | 0.70 | 1.32 |

The group's diversified debt portfolio includes syndicated and bilateral loans, bonds and other instruments. The average debt maturity increased from 3.18 years as at 31 December 2019 to 3.23 years as at 31 December 2020. The average interest rate decreased from 6.18% as at 31 December 2019 to 5.13% as at 31 December 2020.

For reference**EBITDA reconciliation (₽ million)**

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| PROFIT FOR THE PERIOD | 209,725 | 269,678 | 400,993 | 422,088 | 120,633 | (71.4) |
| Total income tax expense | 49,814 | 55,522 | 79,129 | 85,746 | 22,837 | (73.4) |
| Finance expense | 34,282 | 25,127 | 21,476 | 32,772 | 28,746 | (12.3) |
| Finance income | (11,071) | (10,098) | (7,506) | (22,906) | (11,378) | (50.3) |
| Depreciation, depletion and amortisation | 129,845 | 140,998 | 175,451 | 181,372 | 222,151 | 22.5 |
| Net foreign exchange gain/(loss) | (28,300) | 241 | 33,558 | (10,518) | 23,654 | – |
| Other income/(expenses), net | 17,982 | 7,557 | 19,796 | 23,292 | 8,732 | (62.5) |
| EBITDA | 402,277 | 489,025 | 722,897 | 711,846 | 415,375 | (41.6) |
| Less: share of profit of associates and joint ventures | (34,116) | (45,504) | (90,704) | (83,906) | (48,047) | (42.7) |
| Add: share of EBITDA of associates and joint ventures | 88,037 | 107,446 | 167,313 | 167,189 | 117,875 | (29.5) |
| TOTAL ADJUSTED EBITDA | 456,198 | 550,967 | 799,506 | 795,129 | 485,203 | (39.0) |

Profitability (%)

| Item | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2019 | As at 31 December 2020 | Δ 2020/2019, p. p. |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------|
| Adjusted EBITDA margin | 29.52 | 28.48 | 32.12 | 31.99 | 24.26 | (7.7) |
| Net profit margin | 13.57 | 13.94 | 16.11 | 16.98 | 6.03 | (11.0) |
| Return on assets (ROA) | 8.33 | 9.84 | 12.43 | 11.49 | 2.98 | (8.5) |
| Return on equity (ROE) | 15.58 | 17.38 | 21.97 | 20.08 | 5.39 | (14.7) |
| Adjusted return on average capital employed (ROACE) | 11.77 | 13.90 | 19.66 | 17.42 | 6.21 | (11.2) |

¹ – For comparability of data, capital expenditures for 2016-2018 are shown net of intangible assets.

Adjusted ROACE¹ calculation (%)

| Item | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2019 | As at 31 December 2020 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Adjusted EBITDA | 456,198 | 550,967 | 799,506 | 795,129 | 485,203 |
| Depreciation, depletion and amortisation | (158,919) | (178,449) | (216,480) | (227,150) | (269,110) |
| Effective income tax charge on EBIT | (62,429) | (71,605) | (114,725) | (112,464) | (44,669) |
| ADJUSTED EBIT² | 234,850 | 300,913 | 468,301 | 455,515 | 171,424 |
| AVERAGE CAPITAL EMPLOYED | 1,994,626 | 2,164,614 | 2,381,424 | 2,615,316 | 2,760,238 |
| ADJUSTED ROACE | 11.77 | 13.90 | 19.66 | 17.42 | 6.21 |

Liquidity

| Item | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2019 | As at 31 December 2020 | Δ 2020/2019, % |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|----------------|
| Коэффициент текущей ликвидности | 1.37 | 0.88 | 1.18 | 1.51 | 0.97 | (35.8) |
| Коэффициент срочной ликвидности | 0.66 | 0.42 | 0.67 | 0.84 | 0.51 | (39.3) |
| Коэффициент абсолютной ликвидности | 0.26 | 0.21 | 0.44 | 0.44 | 0.30 | (31.8) |

Leverage

| Item | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2019 | As at 31 December 2020 | Δ 2020/2019, p. p. |
|----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|
| Net debt / total assets (%) | 25.18 | 19.93 | 14.99 | 13.01 | 12.84 | (0.2) |
| Net debt / equity (%) | 44.45 | 35.20 | 26.50 | 22.49 | 24.18 | 1.7 |
| Gearing (%) | 30.80 | 25.97 | 20.74 | 18.23 | 18.84 | 0.6 |
| | | | | | | Δ 2020/2019, % |
| Net debt / market capitalisation | 0.64 | 0.51 | 0.32 | 0.25 | 0.37 | 48.0 |
| Net debt / EBITDA | 1.60 | 1.19 | 0.73 | 0.70 | 1.32 | 88.6 |
| Total debt / EBITDA | 1.68 | 1.39 | 1.07 | 1.00 | 1.89 | 89.0 |

1 – Return on average capital employed.

2 – Adjusted EBIT represents the group EBIT and its share in EBIT of associates and joint ventures.

Key macroeconomic factors

Key factors affecting the group performance include the following:

- Changes in market prices for crude oil and petroleum products;
- Changes in the US dollar/Russian rouble exchange rate and inflation;
- Taxation;
- Changes in crude oil and petroleum-products transportation tariffs.

Changes in market prices for crude oil and petroleum products

Prices for crude oil and petroleum products on the international and Russian markets are the primary factor affecting the group performance. They are primarily determined by global prices for crude oil, petroleum-product supply and demand, and competition on different markets. In turn, price trends on the international market determine domestic prices. Price trends differ for different types of petroleum products.

The decrease in crude oil and petroleum-product prices on the international market in 2020 had a negative impact on the group results.

Changes in crude oil and petroleum-product prices

| Fuels | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|--|--------|--------|--------|--------|--------|----------------|
| INTERNATIONAL MARKET (\$/BBL) | | | | | | |
| Brent | 43.73 | 54.09 | 71.16 | 64.25 | 41.80 | (34.9) |
| Urals Spot (average Med + NWE) | 42.02 | 52.94 | 69.86 | 63.39 | 41.85 | (34.0) |
| INTERNATIONAL MARKET (\$/TONNE) | | | | | | |
| Premium gasoline (average NWE) | 467.05 | 557.58 | 674.67 | 613.20 | 383.34 | (37.5) |
| Naphtha (average Med + NWE) | 377.85 | 477.10 | 595.99 | 495.23 | 346.17 | (30.1) |
| Diesel fuel (average NWE) | 398.58 | 493.65 | 641.23 | 590.95 | 367.08 | (37.9) |
| Gasoil 0.1% (average Med) | 391.21 | 483.49 | 632.07 | 580.92 | 359.35 | (38.1) |
| Fuel oil 3.5% (average NWE) | 199.93 | 290.96 | 387.07 | 320.46 | 214.44 | (33.1) |
| DOMESTIC MARKET (₽/TONNE) | | | | | | |
| High-octane gasoline | 34,574 | 36,820 | 41,724 | 39,438 | 42,113 | 6.8 |
| Diesel fuel | 27,965 | 32,619 | 41,070 | 40,530 | 38,963 | (3.9) |
| Fuel oil | 6,051 | 9,594 | 14,319 | 12,666 | 8,849 | (30.1) |

Source: Platts (international market); Thomson Reuters Kortes (domestic market).

Changes in the US dollar/Russian rouble exchange rate and inflation

The group management has determined that the group presentation currency is the Russian rouble. The functional currency of each of the group's consolidated subsidiaries is the currency of the primary economic environment in which the entity operates. For most entities, this is the Russian rouble.

| Item | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------|--------|-------|---------|-------|
| Change in the Consumer Price Index (CPI) (%) | 5.4 | 2.5 | 4.30 | 3.02 | 4.78 |
| Average US dollar/rouble exchange rate for the period (₽) | 67.03 | 58.35 | 62.71 | 64.72 | 72.14 |
| US dollar/rouble exchange rate as at the beginning of the period (₽) | 72.88 | 60.66 | 57.60 | 69.47 | 61.91 |
| US dollar/rouble exchange rate as at the end of the period (₽) | 60.66 | 57.60 | 69.47 | 61.91 | 73.88 |
| Depreciation (appreciation) of the Russian rouble against the US dollar (%) | (16.77) | (5.04) | 20.61 | (10.89) | 19.34 |

Taxation

Average tax rates effective in the reporting periods for the taxation of oil and gas companies in Russia

| Item | 2016 | 2017 | 2018 | 2019 | 2020 | Δ 2020/2019, % |
|---|-------|-------|--------|--------|-------|----------------|
| EXPORT DUTY (\$/TONNE) | | | | | | |
| Crude oil | 75.61 | 86.74 | 128.48 | 93.71 | 45.87 | (51.1) |
| Light petroleum products | 30.21 | 25.99 | 38.52 | 28.07 | 13.72 | (51.1) |
| Diesel fuel | 30.21 | 25.99 | 38.52 | 28.07 | 13.72 | (51.1) |
| Gasoline | 46.07 | 25.99 | 38.52 | 28.07 | 13.72 | (51.1) |
| Naphtha | 53.63 | 47.67 | 70.62 | 51.48 | 25.18 | (51.1) |
| Heavy petroleum products | 61.96 | 86.74 | 128.48 | 93.71 | 45.87 | (51.1) |
| MINERAL EXTRACTION TAX (₽/TONNE) | | | | | | |
| Crude oil | 5,770 | 8,134 | 12,455 | 13,039 | 8,720 | (33.1) |

 For more details on taxation and its application to Gazprom Neft, see Appendix 6, Oil Industry Taxation, p. 383

APPENDIX 6

Oil industry taxation

Average tax rates during reporting periods for oil and gas companies in Russia

| | 12 months | | |
|---|-----------|--------|--------------|
| | 2019 | 2020 | Δ, % |
| EXPORT DUTY | | | |
| Crude oil | | 93.71 | 45.87 (51.1) |
| Light petroleum products | | 28.07 | 13.72 (51.1) |
| Diesel fuel | | 28.07 | 13.72 (51.1) |
| Gasoline | | 28.07 | 13.72 (51.1) |
| Naphtha | | 51.48 | 25.18 (51.1) |
| Heavy petroleum products | | 93.71 | 45.87 (51.1) |
| MINERAL EXTRACTION TAX (₽/TONNE) | | | |
| Crude oil (₽/tonne) | | 13,039 | 8,720 (33.1) |

Export duties on oil and petroleum products

Export duty rates for crude oil and petroleum products are calculated by the Ministry of Economic Development of the Russian Federation in accordance with the Methodology for Calculating Export Duties on Crude Oil and Certain Categories of Petroleum Products approved by Resolution of the Government of the Russian Federation No. 276 of 29 March 2013.

Export duty on crude oil

The export duty rate for crude oil is determined according to one of the following principles:

- in accordance with Article 3.1, Clause 4 of Federal Law of the Russian Federation No. 5003-1 of 21 May 1993 'On the Customs Tariff' (further – the Customs tariff federal law), export duty rates for crude oil must not exceed the marginal duty rate calculated as follows:

| Urals price quote (P), (\$/tonne) | Maximum export duty rate |
|-----------------------------------|--|
| ≤109.50 | 0% |
| 109.50 < P ≤ 146.00 | 35% × (P – 109.50) |
| 146.00 < P ≤ 182.50 | 12.78 + 45% × (P – 146.00) |
| >182.50 | Coil × (29.20 + 30% × (P – 182.50)), since 2019 ¹ |

Oil exported to Kazakhstan is not subject to the export duty. Crude oil exports to Kyrgyzstan and Belarus within indicative limits is exempt of export duties.

2. pursuant to Article 3.1, Clause 6.2 of the Customs tariff federal law, the Government of the Russian Federation may set a protective export duty rate for crude oil calculated as follows:

| Urals price quote (P), (\$/tonne) | Maximum export duty rate |
|-----------------------------------|----------------------------|
| ≤182.50 | 0% |
| P > 182.50 | 29.20 + 45% × (P – 182.50) |

The protective rate shall be applied within six months starting from the month following three-month period, in which volatility of crude oil prices exceeds 15%.

3. with effect from 1 January 2019, pursuant to Article 3.1, Clause 5, sub-clause 4 a special formula is used to calculate the export duty on oil with specific physical and chemical properties produced within established geographical areas, as follows:

$$R_t = (P - 182.5) \times 30\% - 56.57 - 0.14 \times P, \text{ where } P \text{ is the Urals oil price, } \$/\text{tonne};$$

4. This concession applies until the specified volume of oil exported using special formulas for calculating export duty rates is reached for each such geographical area.
- until 31 March 2032: for fields located (i) entirely in the Sea of Azov or (ii) with at least a 50% of their area lying in the Baltic Sea, the Black Sea (at a depth up to 100 meters), the Pechora Sea, the White Sea, the Sea of Okhotsk (south of 55° N), or the Russian sector of the Caspian seabed;
 - until 31 March 2042: for fields with at least 50% of their area in the Black Sea (at a depth of more than 100 meters), the Sea of Okhotsk (north of 55° N), or the Barents Sea (south of 72° N);
 - indefinitely: for fields with at least a 50% of their area lying in the Kara Sea, the Barents Sea (north of 72° N), or the Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, and the Bering Sea).

Pursuant to Article 11.1, Clause 5 of the Tax Code of the Russian Federation, a new offshore field is defined as an offshore field at which commercial hydrocarbon production commenced on or after 1 January 2016;

5. pursuant to Article 35, Clause 7 of the Customs tariff federal law, with effect from 1 January 2019 oil produced at subsurface sites subject to excess-profits tax (EPT) shall not be subject to export duty for a period when the Cy coefficient applied to the MET rate for oil is less than 1.

Export duty on petroleum products

Pursuant to Article 3.1 of the Customs tariff federal law, the export duty rate for certain categories of petroleum products shall be set by the Government of the Russian Federation. At the same time, petroleum products exported to Tajikistan, Belarus, Armenia and Kyrgyzstan within indicative limits shall be exempt of export duties.

Resolution of the Government of the Russian Federation No. 276 of 29 March 2013 established the following principle for determining export duty rates for petroleum products:

$R_{pp} = C \times R_{co}$, where R_{co} is the export duty rate for crude oil and C is the estimated coefficient for individual categories of petroleum products.

The following coefficients are used for calculating export duty rates for petroleum products:

Light and middle distillates

| | |
|--------------|------|
| Diesel fuels | 0.30 |
| Lubricants | |
| Naphtha | 0.55 |
| Gasoline | 0.30 |

In accordance with Article 3.1, Clause 6.2 of the Customs tariff federal law, the Government of the Russian Federation may set a protective export duty rate on certain categories of petroleum products equal to 60% of the export duty on crude oil. This procedure shall be applied within six months starting from the month following three-month period, in which volatility of crude oil prices exceeds 15%.

Excise tax on petroleum products

The excise tax on petroleum products in the Russian Federation is paid by petroleum-product producers. In addition, the tax is paid by legal entities importing excisable goods into the Russian Federation.

Article 193 of the Tax Code of the Russian Federation set the following excise tax rates for petroleum products (₽/tonne):

| Indicator | 2019 | 2020 | 2021 |
|--------------------|--------|--------------------|--------|
| Gasoline | | | |
| below Euro 5 | 13,100 | 13,100 | 13,624 |
| Euro 5 | 12,314 | 12,752 | 13,262 |
| Naphtha | 13,912 | 14,720 | 15,533 |
| Diesel fuel | 8,541 | 8,835 | 9,188 |
| Engine oils | 5,400 | 5,616 | 5,841 |
| Middle distillates | 9,241 | 9,535 ¹ | |

¹ — Coil (a coefficient for oil) = 0.833 in 2019, 0.667 in 2020, 0.5 in 2021, 0.333 in 2022, 0.167 in 2023, and 0 with effect from 2024.

¹ — For the period from January 1 to March 31. From April 1, the excise rate on middle distillates is calculated using the formula (see description below).

Pursuant to Article 181, Clause 13.1 of the Tax Code of the Russian Federation, with effect from 1 January 2019, crude oil feedstock is an excisable product. The excise tax shall be paid by crude oil feedstock owners having a registration certificate for oil feedstock refinery processing at their own facilities or at facilities owned by third-party processors. The excise tax rate for crude oil feedstock is calculated as follows:

$$E_{\text{cof}} = ((P_{\text{oil}} \times 7.3 - 182.5) \times 0.3 + 29.2) \times R \times F_{\text{pc}} \times C_{\text{corr}} \times C_{\text{reg}}, \text{ where}$$

P_{oil} is the average Urals oil price on global markets, \$/tonne.

R is the average US dollar/Russian rouble exchange rate.

F_{pc} is a specific coefficient that reflects the petrochemical-products processing output.

C_{corr} is 0.167 for 2019, 0.333 for 2020, 0.5 for 2021, 0.667 for 2022, 0.833 for 2023, and 1 w.e.f. 2024.

C_{reg} is a regional coefficient of petroleum markets. For production facilities located in the Omsk Oblast, C_{reg} is 1.05.

The excise tax on crude oil feedstock is subject to tax deductions. Tax deductions amount to excise tax on crude oil multiplied by 2 and increased by C_{damp} .

$$C_{\text{damp}} = ((D_{\text{MG}} + F_{\text{MG}}) \times V_{\text{MG}} + (D_{\text{DF}} + F_{\text{DF}}) \times V_{\text{DF}}) \times C_{\text{COMP}}$$

applicable from January to June 2019.

$$C_{\text{damp}} = D_{\text{MG}} \times V_{\text{MG}} \times C_{\text{MG_COMP}} + D_{\text{DF}} \times V_{\text{DF}} \times C_{\text{DF_COMP}} + D_{\text{FE_MG}} \times V_{\text{FE_MG}} + D_{\text{FE_DF}} \times V_{\text{FE_DF}}$$

applicable from July 2019.

$V_{\text{MG}}/V_{\text{DF}}$ is the volume of Euro 5 motor gasoline with an octane number of 92 or higher / Euro 5 diesel fuel sold or used for own needs in the Russian Federation.

C_{COMP} is 0.6 applicable from January to June 2019.

$C_{\text{MG_COMP}}$ is 0.75 applicable from July to December 2019, and 0.68 applicable from 1 January 2020.

$C_{\text{DF_COMP}}$ is 0.7 applicable from July to December 2019, and 0.65 applicable from 1 January 2020.

$D_{\text{MG/DF}}$ is the difference between the average export alternative price and the nominal average wholesale price for Euro 5 gasoline with an octane number of 92 / Euro 5 diesel fuel in the Russian Federation.

$V_{\text{FE_MG}}/V_{\text{FE_DF}}$ is the volume of Euro 5 motor gasoline with an octane number of 92 or higher / Euro 5 diesel fuel sold at delivery locations in the Far Eastern Federal District of Russia.

$D_{\text{FE_MG}}, D_{\text{FE_DF}}$ are Far Eastern allowances calculated as the sum of P2,000 and D_{MG} or D_{DF} . If $D_{\text{FE_MG}}$ or $D_{\text{FE_DF}}$ is greater than 2,000 or less than 0, $D_{\text{FE_MG}}$ or $D_{\text{FE_DT}}$ shall be assumed to be 2,000 or 0 respectively.

$F_{\text{MG}}, F_{\text{DF}}$ are compensatory allowances for motor gasoline (diesel fuel) equal to:

- 0, if $D_{\text{MG}} (D_{\text{DF}})$ is less than or equal to 0 or
- $F_{\text{MG}} = 5,600$ and $F_{\text{DF}} = 5,000$, if $D_{\text{MG}} (D_{\text{DF}})$ is greater than 0.

With effect from 1 April 2020 the tax rate for middle distillates shall be calculated using the following formula:

$$E_{\text{MD}} = (E_{\text{DF}} + 750) - D_{\text{DF}} \times C_{\text{DF_COMP}}$$

where

E_{DF} is the excise tax rate for diesel fuel.

If D_{DF} is greater than 0, it shall be assumed to be 0 for calculation of the middle distillates excise tax rate.

Mineral extraction tax (MET)

MET on crude oil

1. Pursuant to Article 342 of the Tax Code of the Russian Federation, the following formulas shall be used to calculate the MET rate for crude oil:

MET on crude oil

$919 \times C_p - D_m$

$$D_m = C_{\text{MET}} \times C_p \times (1 - C_d \times C_r \times C_e \times C_{dp} \times C_{car}) - C_c - C_{\text{MAN}} \times S_{ov} - C_{\text{MGDF}}$$

w.e.f. 2019.

$$C_{\text{MET}} = 559.$$

C_p is a coefficient that reflects global oil price changes and is calculated using the following formula: $C_p = (P - 15) \times R / 261$, where P is the average monthly Urals price on the Rotterdam and Mediterranean markets (\$/bbl) and R is the average monthly US dollar/Russian rouble exchange rate.

C_d is a coefficient that reflects the depletion degree for a specific subsurface site. This coefficient reduces the MET rate for oil from highly depleted subsurface sites. The depletion degree is determined as N/V , where N is cumulative oil production from a specific subsurface site, and V is initial extractable oil reserves of all categories at a specific subsurface site as at 1 January 2006. If the degree of depletion of a specific subsurface site ranges from 0.8 to 1, C_d shall be calculated using the formula: $C_d = 3.8 - 3.5 \times N/V$. If the depletion degree for a specific subsurface site exceeds 1, C_d shall be assumed to be equal to 0.3. In other cases, C_d shall be assumed to be 1. If a subsurface site contains an oil deposit(s) with C_e less than 1, the C_d coefficient shall be assumed to be 1.

C_r is a coefficient that reflects the reserves volume of a specific subsurface site. This coefficient reduces the MET rate for small subsurface sites. In particular, if initial extractable oil reserves of all categories at a specific subsurface site as at January 1 of the year preceding the tax year (V_r) are less than 5 mt, and the depletion degree is lower than or equal to 0.05 as at 1 January 2012 (or as at 1 January of the year when the relevant license was issued, if the license was issued after 1 January 2012), C_r shall be calculated using the following formula: $C_r = 0.125 \times V_r + 0.375$.

C_e is a coefficient that reflects the complexity level of oil extraction. It ranges from 0.2 to 1, depending on the complexity level of oil extraction from a specific deposit:

- 0.2, when oil is extracted from a specific deposit with confirmed permeability of no more than $2 \times 10^{-3} \mu\text{m}^2$ and the net pay thickness of no more than 10 m;
- 0.4, when oil is extracted from a specific deposit with confirmed permeability of no more than $2 \times 10^{-3} \mu\text{m}^2$ and the net pay thickness of more than 10 m;
- 0.8, when oil is extracted from a specific deposit classified in the State Mineral Reserves register as forming part of the Tyumen Formation pay zone;
- 1, when oil is extracted from other hydrocarbon deposits.

C_{dp} is a coefficient that reflects the depletion degree for a specific hydrocarbon deposit. C_{dp} applies to subsurface sites that contain deposits with $C_e < 1$. This coefficient reduces the MET rate for oil from highly depleted deposits. The degree of depletion of a deposit with $C_e < 1$ is calculated as N_{dp}/V_{dp} , where N_{dp} is cumulative oil production from a specific deposit, and V_{dp} is initial extractable oil reserves of all the categories at a specific deposit as at January 1 of the year preceding the tax year. If the depletion degree for a specific deposit ranges from 0.8 to 1, the C_{dp} coefficient shall be calculated using the formula: $C_{dp} = 3.8 - 3.5 \times N_{dp}/V_{dp}$. If the depletion degree of a specific deposit exceeds 1, C_{dp} shall be assumed to be 1.

0.3. In other cases, C_{dp} shall be assumed to be 1. For other deposits at the respective subsurface site (with C_e is 1), the C_{dp} coefficient shall be assumed to be equal to the value of C_d coefficient ascalculated for the entire subsurface site.

C_{can} is a coefficient that characterises the region of production and the properties of oil. This coefficient reduces the MET rate for oil for subsurface sites located entirely or partially in regions with challenging climatic and geological conditions (including the Yamal Peninsula in the Yamalo-Nenets Autonomous Okrug, the Irkutsk Oblast, and the Republic of Sakha (Yakutia)). C_{can} shall be assumed to be 0 till the first day of the month following the month when at least one of the following conditions is met: (1) the limit on cumulative oil production from the subsurface site is reached, or (2) the stipulated period expires. After the tax incentive period expires, C_{can} shall be assumed to be 1.

C_c is set at ₽428 with effect from 2019.

$$C_{man} = E_D * R * C_{corr} - F_m$$

E_D is a coefficient calculated as follows:

| Urals price quote (P), (\$/tonne) | ED, (\$/tonne) |
|-----------------------------------|----------------------------|
| ≤109.50 | 0% |
| 109.50 < P ≤ 146.00 | 35% × (P - 109.50) |
| 146.00 < P ≤ 182.50 | 12.78 + 45% × (P - 146.00) |
| >182.50 | 29.20 + 30% × (P - 182.50) |

R is the average US dollar/Russian rouble exchange rate.

C_{corr} is 0.167 in 2019, 0.333 in 2020, 0.5 in 2021, 0.667 in 2022, 0.833 in 2023, and 1 w.e.f. 2024.

F_m is a coefficient that reflects the introduction of a protective export duty rate for crude oil by the Government of the Russian Federation (for details, see paragraph b) of the Export Duty on Crude Oil section).

S_{ov} is 0.1 for oil with viscosity of at least 10,000 mPa·s (in situ). In other cases, S_{ov} is 1.

$$C_{MGDF} = A_{MG} \times I_{MG} + A_{DF} \times I_{DF} \text{ during 2019}$$

$$C_{MGDF} = A_{MG} \times I_{MG} + A_{DF} \times I_{DF} + A_{BUG} \text{ w.e.f. 2020}$$

A_{MG}/A_{DF} is a coefficient that reflects an allowance for motor gasoline (125 for the period from January through September 2019, 200 for the period from October through December 2019, and 105 w.e.f. 2020) or diesel fuel (110 for the period from January through September 2019, 185 for the period from October through December 2019, and 92 w.e.f. 2020).

I_{MG} and I_{DF} are binary coefficients for motor gasoline / diesel fuel 0 if D_{MG} / D_{DF} does not exceed 0. If D_{MG} / D_{DF} exceeds 0, I_{MG} / I_{DF} is set at 1 respectively.

$$A_{BUG} = (N_{C_{DEMP}} \times S_{C_{DEMP}}) \times 37.5 / 484 + D_{FE_MG} \times 2 / 484 + D_{FE_DF} \times 3.7 / 484 - 124$$

$A_{C_{DEMP}} = DG \times K_{MG_COMP} + D_{DF} \times K_{DF_COMP}$ (characterises the damper effective from 2020).

$$S_{C_{DEMP}} = (D_{MG_S} + F_{MG} + D_{DF_S} + F_{DF}) \times 0.5$$
 (characterises the damper before 2020).

D_{MG_S}, D_{DF_S} – difference between the average export alternative price and the cut-off price of Class-5 automotive AI-92 gasoline (diesel fuel).

2. Article 342, Clause 2.1 and Article 338, Clause 6 of the Tax Code of the Russian Federation sets the following ad valorem MET rates for oil produced at new offshore fields (as percentage of its value):

- 30% for a five-year period from the start of commercial hydrocarbon production: for fields located entirely in the Sea of Azov, or with at least 50% of their area lying in the Baltic Sea;
- 15% for a seven-year period from the start of commercial hydrocarbon production: for fields with at least 50% or more of their area lying in the Black Sea (at a depth of up to 100 meters), the Sea of Japan, Russian territory of the Caspian Sea, as well as for fields commercial hydrocarbon production at which begins before 1 January 2020 with 50% or more of their area lying in the White and the Pechora Seas, and the Sea of Okhotsk (south of 55°N);
- 10% for a ten-year period from the start of commercial hydrocarbon production: for fields with 50% or more of their area lying in the Black Sea (at a depth over 100 metres), as well as for fields commercial hydrocarbon production at which begins before 1 January 2020 with 50% or more of their area lying in the Sea of Okhotsk (south of 55°N), the Barents Sea (south of 72°N); and
- 5% for a 15-year period from the start of commercial hydrocarbon production: for fields with 50% or more of their area lying in the Kara and the Barents Seas (north of 72°N), and the Eastern Arctic Seas (the Laptev, the East Siberian, the Chukchi and the Bering Seas), as well as for fields commercial hydrocarbon production at which begins before 1 January 2020 with 50% or more of their area lying in the White, the Pechora, the Barents Seas, and the Sea of Okhotsk (south of 72°N).

In addition, the tax legislation stipulates a reduced tax rate for oil extracted from deposits classified as part of the Bazhenov Formation, provided that the requirements of the Russian Tax Code are complied with. In accordance with Article 343.2, Clause 3.2 of the Tax Code of the Russian Federation, with effect from 1 January 2019, a tax deduction may be applied for subsurface sites listed in Article 3.1, Clause 5, Subclause 4 of the Customs tariff federal law, which is calculated as $C_{man} \times V_{eo}$, where V_{eo} is the amount of crude oil extracted at a subsurface site and exported from Russia under preferential crude oil export duty rate.

3. In accordance with Article 342.6 of the Tax Code of the Russian Federation, the following formula shall be used to calculate the MET rate for crude oil produced at subsurface sites subject to excess-profits tax (EPT):

$$\text{MET on crude oil} = (50\% \times (P - 15) \times 7.3 \times C_{y} - ED) \times R$$



P is the average monthly Urals price on the Rotterdam and Mediterranean markets (\$/bbl).

R is the average monthly US dollar/Russian rouble exchange rate.

ED is the export duty rate for crude oil (\$/tonne).

C_y is a coefficient that reflects the time period from the date when commercial oil production commenced at the subsurface site. This coefficient reduces the MET rate for oil from new subsurface sites located entirely or partially in Western (including the Khanty-Mansi Autonomous Okrug-Yugra and the Yamalo-Nenets Autonomous Okrug) and Eastern Siberia (including the Irkutsk Oblast and the Republic of Sakha (Yakutia)). The C_y coefficient is applied until the end of the stipulated time period starting from the year following the year when the degree of depletion for a subsurface site exceeded 1%. The C_y coefficient for subsurface sites not considered as 'new' is 1.

Gazprom Neft group effective MET rate for crude oil

| | 12 months | | |
|---|-----------|--------------|--------|
| | 2019 | 2020 | Δ, % |
| Standard MET rate for crude oil | 13,039 | 8,720 | (33.1) |
| Effective MET rate for oil (after C_d , C_r , C_e , C_{dp} and C_{can} are applied) | 9,873 | 6,316 | (36.0) |
| Difference between the standard and effective MET rates for crude oil (₽/tonne) | 3,166 | 2,404 | |
| Difference between the standard and effective MET rates for crude oil (%) | 24.3% | 27.6% | |

The average effective MET rate for crude oil during 2020 was ₽6,316 per tonne, which is ₽2,404 less than the average standard rate set in accordance with the tax legislation. This deviation was due to reductions in the MET rate for crude oil in accordance with the tax legislation, including the application of the C_d , C_r , C_e , C_{dp} and C_{can} coefficients.

MET on natural gas and gas condensate

Pursuant to Article 342 of the Tax Code of the Russian Federation, the following MET rates have been set for flammable natural gas and gas condensate:

| With effect from 2019 |
|--|
| Natural gas (₽/thousand cubic metres) $35 \times U_{fe} \times C_{com} + T_g$ |
| Gas condensate (₽/tonne) $42 \times U_{fe} \times C_{com} \times C_{adj} + 0.75 \times C_{man}$ |

U_{fe} is the base value of a unit of fuel equivalent calculated by the taxpayer based on natural gas and gas condensate prices, as well as the ratio of their respective production volumes.

C_{com} is a coefficient that reflects the complexity of mineral extraction from a deposit. This coefficient reduces the MET rate and is assumed to be equal to the lowest of the following five reduction coefficients: C_{reg} (reduction based on location), C_{dep} (reduction for depleted sites), C_d (reduction for deposits located at a depth of more than 1.7 km), C_s (reduction for subsurface sites, gas from which is used for regional gas supply system purposes) and C_{tur} (reduction for deposits classified as forming part of the Turonian pay zones).

T_g is an indicator reflecting the cost of natural gas transportation (assumed to be equal to 0 in 2017-2019, according to the Federal Anti-Monopoly Service of the Russian Federation).

C_{adj} is an adjustment coefficient equal to $6.5/C_g$, where C_g is a coefficient reflecting the export margin per unit of fuel equivalent.

The average effective MET rate for natural gas during 2020 was ₽619 per one thousand cubic metres, which is ₽47 less than the average standard rate set in accordance with the tax legislation. This deviation was due to MET benefits for natural gas established in accordance with the tax legislation, including the application of the C_{com} coefficient.

Additional income tax

Additional income tax (AIT) in producing raw hydrocarbons took effect from 2019. The AIT shall be payable on income from hydrocarbon production at a rate of 50% excluding an estimated export duty and transportation costs, as well as actual capital and operating expenses attributed to developing a subsurface site.

This new tax is set to reduce the total amount of fiscal payments that depend on gross indicators (MET and export duty for crude oil), while increasing fiscal payments that depend on the profitability of hydrocarbon production.

A closed list of groups of pilot blocks in Western and Eastern Siberia has been compiled which may be subject to AIT while the new fiscal regime is tested. Gazprom Neft's portfolio includes blocks in all of these groups.

Report on complying with principles and recommendations of the Corporate Governance Code in 2020

| No. | Compliance criteria | Compliance status | Reasons for non-compliance |
|-------|--|---|--|
| 1.1.1 | <ul style="list-style-type: none"> 1. An internal company document approved by the General Meeting of Shareholders and establishing the procedures for holding a general meeting is publicly available. 2. The company provides easily available means of communication with the company, such as a hotline, email or an Internet forum, enabling shareholders to express their opinions and send questions concerning the agenda in the course of preparation for a general meeting. These actions were taken by the company before each general meeting held during the reporting period. | Full compliance | |
| 1.1.2 | <ul style="list-style-type: none"> 1. The notice of a general meeting is published (posted) on the company website at least 30 days prior to the date of the general meeting. 2. The notice of a general meeting specifies the meeting venue and documents required for admission. 3. Shareholders provided access to information on persons who proposed the agenda items and nominees to the Board of Directors and the Audit Commission. | Complied with, subject to limitations detailed in the 50-FZ | |
| 1.1.3 | <ul style="list-style-type: none"> 1. During the reporting period, shareholders had an opportunity to address questions to members of executive bodies and members of the Board of Directors before and during the annual general meeting 2. The Board of Directors position (including dissenting opinions reflected in the minutes) on each agenda item of general meetings held during the reporting period was included in the materials for the general meeting of shareholders. 3. Eligible shareholders were granted access to the list of persons eligible to participate in the general meeting, starting from the date when this list was received by the company, whenever general meetings were held during the reporting period. | Complied with, subject to limitations detailed in the 50-FZ | General meetings of shareholders were held in the form of absentee voting throughout the reporting period pursuant to Federal Law No. 50-FZ dated 18 March 2020. To that end, provisions of item 1 could not be complied with for objective reasons. |

| No. | Compliance criteria | Compliance status | Reasons for non-compliance |
|-------|---|---|--|
| 1.1.4 | <ul style="list-style-type: none"> 1. During the reporting period, shareholders had an opportunity to propose agenda items for the annual general meeting for at least 60 days after the end of the relevant calendar year. 2. During the reporting period, the company did not refuse to accept proposals for the agenda or candidates nominated to its bodies due to misprints or other minor defects in shareholders' proposals. | Full compliance | |
| 1.1.5 | An internal company document (internal policy) contains provisions stipulating that each participant of a general meeting may request a copy of the voting ballot filled in by them and certified by the tellers committee before the end of the relevant meeting. | Full compliance | |
| 1.1.6 | <ul style="list-style-type: none"> 1. When holding general meetings of shareholders during the reporting period in the form of an in-person meeting (joint attendance of shareholders), enough time was provided to make reports on agenda items and discuss these items. 2. Candidates nominated to the company governance and control bodies were available to answer shareholders' questions at the meeting where their nominations were put to the vote. 3. When making decisions related to preparing for and holding general meetings of shareholders, the Board of Directors considered using telecommunications to provide shareholders with remote access enabling them to participate in general meetings during the reporting period. | Complied with, subject to limitations detailed in the 50-FZ | <p>General meetings of shareholders were held in the form of absentee voting throughout the reporting period pursuant to Federal Law No. 50-FZ dated 18 March 2020. To that end, provisions of items 1-3 could not be complied with for objective reasons.</p> <p>At the same time, in order to enable shareholders to communicate with nominees to governance and control bodies, the company offers easily available means of communication, such as a hotline and email, enabling shareholders to express their opinions and send their questions to these nominees.</p> <p>A CEO's video message to shareholders was released and included in materials presented at the Annual General Meeting of Shareholders.</p> |

| No. | Compliance criteria | Compliance status | Reasons for non-compliance |
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| 1.2.1 | 1. The company has developed and disclosed a dividend policy approved by the Board of Directors. 2. If the company dividend policy stipulates the use of figures from the company financial statements for determining the amount of dividends, the relevant provisions of the dividend policy also apply consolidated results recorded in financial statements. | Full compliance | |
| 1.2.2 | The company dividend policy clearly stipulates financial/economic circumstances when the company must not pay dividends. | Partial compliance | The Gazprom Neft Dividend Policy Regulation does not clearly stipulate financial/economic circumstances when the company must not pay dividends. The Regulation sets forth the following principles: improving the investment potential and enabling dividend payout growth, provided that the company net profit is growing. In practice, the Gazprom Neft operations are profitable, and the company adheres to the policy of regular dividend payouts. Throughout its history, the company has been paying dividends, and in recent years it has been taking steps to increase dividends per share. The company does not rule out the possibility of revising the dividend policy principles and criteria in the future, including stipulating financial/economic circumstances when the Company must not pay dividends. |
| 1.2.3 | During the reporting period, the company did not take any actions infringing on the dividend rights of existing shareholders. | Full compliance | |
| 1.2.4 | To make sure that shareholders do not use any other means of earning profit (income) from the company, except for dividends and disposal value, the company internal documents stipulate controls ensuring timely detection and establishing the procedure for approving transactions with persons affiliated (connected) with substantial shareholders (persons entitled to vote with voting shares). | Full compliance | |
| 1.3.1 | During the reporting period, procedures for managing potential conflicts of interest of substantial shareholders were efficient, while conflicts between shareholders, if any, were properly addressed by the Board of Directors. | Full compliance | |
| 1.3.2 | There were no quasi-treasury shares, or they were not used for voting during the reporting period. | Full compliance | |
| 1.4 | The quality and reliability of activities performed by the company registrar to maintain the share register meet the needs of the company and its shareholders. | Full compliance | |

| No. | Compliance criteria | Compliance status | Reasons for non-compliance |
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| 2.1.1 | 1. The Board of Directors has the authority to appoint and dismiss members of executive bodies, and to set the terms and conditions of contracts with them; this authority is stipulated in the company charter. 2. The Board of Directors has considered a report (reports) by the chief executive officer and members of the collegial executive body on the implementation of the company strategy. | Full compliance | |
| 2.1.2 | During the reporting period, the Board of Directors considered matters related to implementing and updating the strategy, approving the company business plan (budget), and reviewing criteria and indicators (including interim ones) related to the implementation of the company strategy and business plans. | Full compliance | |
| 2.1.3 | 1. The board of directors has determined the principles of and approaches to creating a risk-management and internal-control system in the company. 2. The Board of Directors assessed the company risk-management and internal-control system during the reporting period. | Full compliance | |
| 2.1.4 | 1. The company has developed and adopted a policy (policies) approved by the Board of Directors on remuneration and reimbursement for expenses of members of the Board of Directors, executive bodies and other key executives of the company. 2. During the reporting period, the Board of Directors considered matters related to the said policy (policies). | Partial compliance | With regard to item 2: matters relating to the Policy on Remuneration are reviewed by the Board of Directors as the need for its adjustment arises. The company's corporate governance practices do not require provisions on remuneration and bonus payments to be reviewed annually. |
| 2.1.5 | 1. The Board of Directors plays the key role in preventing, detecting and resolving internal conflicts. 2. The company has created a system to identify transactions involving a conflict of interest, and a system of measures for resolving such conflicts. | Full compliance | |
| 2.1.6 | 1. The Board of Directors has approved the Information Policy Regulation. 2. The company has appointed persons responsible for implementing the information policy. | Full compliance | |
| 2.1.7 | 1. During the reporting period, the Board of Directors considered the corporate governance practice in the company. | Non-compliance | During the reporting period, the Board of Directors did not consider the corporate governance practice in the company. A report on the Gazprom Neft corporate governance practice is submitted for review to the Board of Directors based on the approved work plan. It is planned to review the report in 2021. |

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| 2.2.1 | <ul style="list-style-type: none"> 1. The annual report of the company for the reporting period includes information about directors' attendance at meetings of the Board of Directors and its committees. 2. The annual report contains information about the key findings of performance assessment of the Board of Directors carried out in the reporting period. | Full compliance | |
| 2.2.2 | The company has in place a transparent procedure enabling shareholders to send their questions and the relevant opinions to the chairman of the Board of Directors. | Full compliance | |
| 2.3.1 | <ul style="list-style-type: none"> 1. The procedure for assessing the Board of Directors performance adopted by the company includes assessing professional qualifications of the Board members. 2. During the reporting period, the Board of Directors (or its Nominations Committee) assessed candidates nominated to the Board of Directors in terms of required experience, knowledge, business reputation, absence of conflict of interest, etc. | Full compliance | |
| 2.3.2 | Whenever the agenda of a general meeting of shareholders held during the reporting period included matters related to electing the Board of Directors, the company provided shareholders with biographical details of all candidates nominated to the Board of Directors, findings of assessment of such candidates by the Board of Directors (or its Nominations Committee), as well as information on whether the candidate met independence criteria in accordance with Recommendations 102–107 of the Code, and the written consent of the candidates for election to the Board of Directors. | Full compliance | |
| 2.3.3 | As part of performance assessment of the Board of Directors carried out in the reporting period, the Board of Directors analysed its needs for professional qualifications, experience and business skills. | Full compliance | |
| 2.3.4 | As part of performance assessment of the Board of Directors carried out in the reporting period, the Board of Directors considered whether the number of its members was consistent with the company needs and shareholder interests. | Full compliance | |

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| 2.4.1 | During the reporting period, all independent members of the Board of Directors met all the independence criteria established in Recommendations 102–107 of the Code, or were recognised as independent under the resolution of the Board of Directors. | Non-compliance | <p>As at the end of the reporting period, the Board of Directors did not include independent directors.</p> <p>Due to the fact that the company has no other shareholders (except for Gazprom) having an interest of more than 2%, which would enable them to nominate candidates to the Board of Directors, full compliance with this recommendation largely depends on the willingness of the majority shareholder (Gazprom) to nominate and elect independent directors to the company Board of Directors.</p> <p>The company conducts an annual performance assessment of the Board of Directors; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Board of Directors is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Board of Directors to perform its functions.</p> |
| 2.4.2 | <ul style="list-style-type: none"> 1. During the reporting period, the Board of Directors (or its Nominations Committee) formed an opinion as to the independence of each candidate nominated to the Board of Directors, and presented the relevant statement to shareholders. 2. During the reporting period, the Board of Directors (or its Nominations Committee) at least once assessed the independence of the current members of the Board of Directors listed in the company annual report as independent directors. 3. The company has developed procedures stipulating the actions that the Board members must take if they cease to be independent, including the obligation to promptly notify the Board members of that fact. | Partial compliance | <p>With regard to item 3: procedures stipulating the actions that the Board members must take if they cease to be independent are not set out in the company internal documents.</p> <p>At the same time, in practice, the company verifies information about the participation of the Board members in other organisations and ownership of shares (interests) in other organisations on a quarterly basis, and assesses the independence of candidates nominated to the Board of Directors. This information enables the company to form an opinion about the independence of directors in a timely manner.</p> <p>Given the absence of independent directors on the Board of Directors, the company will initiate the development of the required procedures if they are elected to the Board of Directors.</p> |

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| 2.4.3 | Independent directors comprise at least one third of the membership of the Board of Directors. | Non-compliance | <p>Due to the fact that the company has no other shareholders (except for Gazprom) having an interest of more than 2%, which would enable them to nominate candidates to the Board of Directors, full compliance with this recommendation largely depends on the willingness of the majority shareholder (Gazprom) to nominate and elect independent directors to the company Board of Directors.</p> <p>The company conducts an annual performance assessment of the Board of Directors; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Board of Directors is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Board of Directors to perform its functions.</p> |
| 2.4.4 | Independent directors (who have no conflict of interest) carry out a preliminary assessment of significant corporate actions involving a potential conflict of interest, and the findings of these assessments are presented to the Board of Directors. | Non-compliance | <p>As at the end of the reporting year, the Board of Directors did not include independent directors.</p> <p>The company has no other shareholders (except for Gazprom) having an interest of more than 2%, which would enable them to nominate candidates to the Board of Directors. Full compliance with this recommendation largely depends on the willingness of the majority shareholder (Gazprom) to nominate and elect independent directors to the company Board of Directors.</p> |
| 2.5.1 | <ol style="list-style-type: none"> 1. The chairman of the Board of Directors is an independent director, or a senior independent director has been appointed from among independent directors. 2. The roles, rights and duties of the Chairman of the Board of Directors (and, if applicable, the senior independent director) are properly specified in the company internal documents. | Partial compliance | <p>With regard to item 1: the Chairman elected by the Board of Directors does not meet the independence criteria established in the Corporate Governance Code. Based on the performance assessment of the Board of Directors, the activities of its Chairman have been deemed to meet the company needs. The absence of the senior independent director does not entail additional risks for the company or its shareholders. The Chairman of the Board of Directors has a flawless personal and business reputation, and extensive experience in executive positions. The functions of the Chairman of the Board of Directors are stipulated in the Charter and the Regulation Governing the Board of Directors.</p> |
| 2.5.2 | The performance of the Board chairman was assessed as part of performance assessment of the Board of Directors in the reporting period. | Full compliance | |

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| 2.5.3 | The Board chairman's duty to take measures to ensure the timely provision of the Board members with materials regarding agenda items of the Board meeting is stipulated in the company internal documents. | Full compliance | |
| 2.6.1 | <ol style="list-style-type: none"> 1. The company internal documents stipulate that members of the Board of Directors must notify the Board of Directors if they have a conflict of interest in relation to any agenda item at a meeting of the Board of Directors or a Board committee, before they start discussing the relevant agenda item. 2. The company internal documents stipulate that members of the Board of Directors must refrain from voting on any matters in relation to which they have a conflict of interest. 3. The company has established a procedure allowing the Board of Directors to obtain professional advice on matters within their competency, at the company expense. | Full compliance | |
| 2.6.2 | The company has adopted and published an internal document clearly specifying the rights and duties of the Board members. | Full compliance | |
| 2.6.3 | <ol style="list-style-type: none"> 1. Individual attendance at the Board and committee meetings, as well as the amount of time allocated for preparing for the meetings, were taken into account in the course of performance assessment of the Board of Directors in the reporting period. 2. In accordance with the company internal documents, members of the Board of Directors must notify the Board of Directors of their intentions to join governance bodies of any other organisations (except for the company controlled entities and affiliates), and of their appointment to such bodies. | Partial compliance | <p>The provisions of item 2 are complied with only partially: the company internal documents do not stipulate the Board members' duty to notify the Board of Directors of their intentions to join governance bodies of any other organisations (except for Gazprom Neft controlled entities and affiliates).</p> <p>In accordance with the Gazprom Neft Regulation Governing the Board of Directors, members of the Board of Directors must notify the company of their election to governance bodies of other organisations.</p> <p>At the same time, in practice, members of the Board of Directors notify the Chairman of the Board of Directors in advance of their intentions to join governance bodies of other organisations and obtain his/her consent.</p> <p>The company does not rule out the possibility of stipulating the Board members' duty to notify the company of their intentions to join governance bodies of other organisations in the Regulation Governing the Board of Directors in the future.</p> |

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| 2.6.4 | In accordance with the company internal documents, members of the Board of Directors have the right to gain access to documents and make enquiries regarding the company and its controlled entities, and the company executive bodies must provide the relevant information and documents. The company has a formalised induction programme for newly elected members of the Board of Directors. | Full compliance | |
| 2.7.1 | The Board of Directors held at least six meetings in the reporting year. | Full compliance | |
| 2.7.2 | The company has approved an internal document establishing the procedure for preparing and holding the Board meetings, and stipulating that notification of the meetings must be generally given at least 5 days before the meeting date. | Full compliance | |
| 2.7.3 | The company charter or an internal document stipulates that the most important matters (according to the list provided in Recommendation 168 of the Code) must be considered at in-person meetings of the Board. | Full compliance | |
| 2.7.4 | The company charter stipulates that resolutions on the most important matters specified in Recommendation 170 of the Code must be adopted at the Board meetings by a qualified majority comprising at least three quarters of votes, or by the majority of votes cast by all elected members of the Board of Directors. | Full compliance | |
| 2.8.1 | 1. The Board of Directors has formed the Audit Committee consisting only of independent directors. 2. The company internal documents stipulate the responsibilities of the Audit Committee, including those specified in Recommendation 172 of the Code. 3. At least one member of the Audit Committee who is an independent director has expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts). 4. Meetings of the Audit Committee were held at least once a quarter during the reporting period. | Partial compliance | With regard to items 1 and 3: the Audit Committee does not include independent directors. The Audit Committee has been formed of representatives of the principal shareholder (Gazprom) who have special professional expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts). The company conducts an annual performance assessment of the Audit Committee of the Board of Directors; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Audit Committee is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Committee to perform its functions effectively. |

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| 2.8.2 | 1. The Board of Directors has formed the Remuneration Committee consisting only of independent directors. 2. The Remuneration Committee is chaired by an independent director who is not the Chairman of the Board of Directors. 3. The company internal documents stipulate the responsibilities of the Remuneration Committee, including those specified in Recommendation 180 of the Code. | Partial compliance | With regard to items 1 and 2: the Human Resources and Compensation Committee does not include independent directors. The Committee has been formed of representatives of the principal shareholder (Gazprom) who have special professional expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts). The company conducts an annual performance assessment of the Human Resources and Compensation Committee of the Board of Directors; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Human Resources and Compensation Committee is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Committee to perform its functions effectively. |
| 2.8.3 | 1. The Board of Directors has established the Nominations Committee (or its responsibilities specified in Recommendation 186 of the Code are carried out by another committee) with most members being independent directors. 2. The company internal documents stipulate the responsibilities of the Nominations Committee (or the relevant committee performing its functions), including those specified in Recommendation 186 of the Code. | Partial compliance | With regard to item 1: the Human Resources and Compensation Committee does not include independent directors. The Committee has been formed of representatives of the principal shareholder (Gazprom) who have special professional expertise in the field of preparation, analysis, assessment and audit of financial statements (accounts). The company conducts an annual performance assessment of the Human Resources and Compensation Committee of the Board of Directors; as part of the assessment, the company considers whether it is necessary to elect independent directors. Most members of the Board of Directors see no need to elect independent directors due to the fact that the composition of the Human Resources and Compensation Committee is sufficiently well-balanced in terms of professional competencies, experience and business skills, which is considered to be sufficient for the Committee to perform its functions effectively. |
| 2.8.4 | During the reporting period, the Board of Directors considered whether the composition of its committees was consistent with the Board objectives and the company goals. Additional committees were either formed or considered unnecessary. | Full compliance | |

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| 2.8.5 | <p>1. The Board committees are headed by independent directors.</p> <p>2. The company internal documents (policies) stipulate that persons who are not members of the Audit Committee, the Nominations Committee or the Remuneration Committee may attend Committee meetings only if they are invited by the Chairman of the relevant Committee.</p> | Partial compliance | <p>With regard to item 1: Committee Chairmen elected by the Board of Directors do not meet the independence criteria established in the Corporate Governance Code.</p> <p>Based on the performance assessment of the Board of Directors, the activities of the Committee Chairmen have been deemed to meet the company needs. The Chairmen of the Board Committees have a flawless personal and business reputation, and extensive experience in executive positions. The functions of the Committee Chairmen are stipulated in the Regulation on Committees.</p> |
| 2.8.6 | During the reporting period, Committee Chairmen regularly reported to the Board of Directors on the performance of their Committees. | Full compliance | |
| 2.9.1 | <p>1. Self-assessment or external assessment of the Board performance carried out in the reporting period included the assessment of performance of the Board Committees, individual members of the Board of Directors and the Board of Directors as a whole.</p> <p>2. The findings of self-assessment or external assessment of the Board of Directors carried out during the reporting period were reviewed at an in-person meeting of the Board of Directors.</p> | Partial compliance | <p>With regard to item 2: the findings of the Board performance assessment carried out in the reporting period were reviewed at the meeting of the Human Resources and Compensation Committee held by absentee voting.</p> <p>In the future, the company plans to initiate a review of the findings of performance assessment/self-assessment of the Board of Directors at in-person meetings of the Board of Directors.</p> |
| 2.9.2 | The company engaged an external organisation (consultant) to carry out an independent performance assessment of the Board of Directors at least once during the last three reporting periods. | Full compliance | |
| 3.1.1 | <p>The company has adopted and disclosed an internal document titled the Regulation on the Corporate Secretary.</p> <p>Biographical information of the corporate secretary is published on the company website and in the annual report with the same level of detail as for the members of the Board of Directors and the company executives.</p> | Full compliance | |
| 3.1.2 | The Board of Directors approves the appointment, dismissal and additional remuneration of the corporate secretary. | Full compliance | |
| 4.1.1 | The company has adopted an internal document (documents): a policy (policies) on remuneration of the members of the Board of Directors, executive bodies and other key executives, which clearly stipulates approaches to remuneration of these persons. | Full compliance | |

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| 4.1.2 | During the reporting period, the Remuneration Committee considered the remuneration policy (policies) and the practice of its (their) implementation and, if required, submitted the relevant recommendations for the Board of Directors. | Non-compliance | The Regulation on Remuneration and compensation of expenses of members of the Board of Directors of PJSC Gazprom Neft was approved in January 2020. Due to the short implementation period, the Remuneration Committee did not need to consider the new remuneration policy for members of the Board of Directors. The assessment of the performance of the Company's executive bodies at the end of the year, as well as the assessment of the Company's achievement of its goals (KPIs), is considered by the members of the Board of Directors in the framework of issues related to the implementation of the Company's Budget and investment plan. |
| 4.1.3 | The company remuneration policy (policies) contains (contain) transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, executive bodies and other key executives of the company, and regulates (regulate) all types of payments, benefits and privileges granted to them. | Full compliance | |
| 4.1.4 | The remuneration policy (policies) or other internal documents of the company establish rules for reimbursing expenses incurred by the members of the Board of Directors, executive bodies and other key executives of the company. | Full compliance | |
| 4.2.1 | Fixed annual remuneration was the only form of financial remuneration paid to the members of the Board of Directors for serving on the Board of Directors during the reporting period. | Non-compliance | <p>Fixed annual remuneration was not the only form of financial remuneration paid to the members of the Board of Directors for serving on the Board of Directors during the reporting period. The amount and the procedure for paying remuneration and compensation to the members of the Board of Directors are governed by the relevant Regulation.</p> <p>In accordance with the Regulation, the members of the Board of Directors receive the following forms of remuneration: basic remuneration, and remuneration for additional duties (serving on Committees). The annual remuneration paid by the company to the members of the Board of Directors is calculated based on profit. The rules set forth in the Regulation are designed to ensure that the forms of remuneration used by the company are consistent with its goals.</p> <p>The company does not rule out the possibility of revising the structure of remuneration paid to the members of the Board of Directors in the future to ensure that it is consistent with the best practices.</p> |

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| 4.2.2 | If an internal document (documents), namely the remuneration policy (policies), provides (provide) for share-based compensation for the members of the Board of Directors, clear rules must be introduced and disclosed regarding share ownership by the members of the Board of Directors in order to encourage long-term ownership of such shares. | Full compliance | |
| 4.2.3 | The company does not provide for any additional payments or compensation in case of early resignation of the Board members due to a change of control or any other circumstances. | Full compliance | |
| 4.3.1 | During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration paid to the members of executive bodies and other key executives of the company. During the latest assessment of the system of remuneration for the members of executive bodies and other key executives of the company, the Board of Directors (the Remuneration Committee) made sure that the company was using an effective balance between the fixed and variable components of remuneration. The company has established a procedure ensuring that any bonus payments wrongfully received by the members of executive bodies and other key executives of the company are returned to the company. | Full compliance | |
| 4.3.2 | The company has adopted a long-term incentive programme for the members of executive bodies and other key executives of the company, which involves using the company shares (financial instruments based on the company shares). The long-term incentive programme for the members of executive bodies and other key executives of the company stipulates that the right to sell shares and other financial instruments used in this programme can be exercised not earlier than three years after the date when they were provided. At the same time, this right is conditional upon the company achieving certain performance targets. | Full compliance | |
| 4.3.3 | In the reporting period, the amount of compensation (the golden parachute) paid by the company to the members of executive bodies or key executives in case of early resignation on the company initiative, provided that they had committed no wrongdoings, did not exceed twice the amount of the fixed component of annual remuneration. | Full compliance | |

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| 6.1.2 | 1. The company discloses information about its corporate governance system and general corporate governance principles applied in the company, including disclosure on the company website. 2. The company discloses information about the composition of its executive bodies and the Board of Directors, independence of the Board members and their membership in the Board Committees (as defined in the Code). 3. If there is a person controlling the company, the company shall publish a memorandum from the controlling person outlining its plans regarding corporate governance in the company. | Partial compliance | With regard to item 3: the Company did not receive a memorandum from the controlling person about this person's plans regarding corporate governance in the company. Full compliance with this recommendation largely depends on the willingness of the controlling shareholder to submit the memorandum. |
| 6.2.1 | The company information policy stipulates approaches to and criteria for identifying information that may have a significant impact on the company valuation and the value of its securities, as well as procedures ensuring timely disclosure of such information. If the company securities are traded on foreign organised markets, the disclosure of material information in Russia and on such markets during the reporting year shall be synchronised and equivalent. If foreign shareholders hold a considerable number of the company shares, information was disclosed during the reporting year not only in Russian, but also in one of the most widely used foreign languages. | Full compliance | |
| 6.2.2 | During the reporting period, the company disclosed its annual and semi-annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The company annual report for the reporting period included annual financial statements prepared in accordance with IFRS, together with an auditor's report. The company discloses full information on the structure of its capital in accordance with Recommendation 290 of the Code in its annual report and on its website. | Full compliance | |
| 6.2.3 | The company annual report contains information on the key aspects of its operations and its financial results. The company annual report contains information on environmental and social aspects of the company operations. | Full compliance | |

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| 5.1.1 | The functions of various governance bodies and divisions of the company within the risk management and internal control system are clearly specified in internal documents / in the relevant company policy approved by the Board of Directors. | Full compliance | |
| 5.1.2 | The company executive bodies have ensured that risk management and internal control functions and powers have been distributed among the heads of divisions and departments accountable to them. | Full compliance | |
| 5.1.3 | The company has approved an anti-corruption policy. The company has provided easily available means for reporting breaches of legislation, the company internal procedures, or the corporate code of ethics to the Board of Directors or the Audit Committee. | Full compliance | |
| 5.1.4 | During the reporting period, the Board of Directors or the Audit Committee assessed the performance of the company risk management and internal control system. The key findings of this assessment have been included in the company annual report. | Full compliance | |
| 5.2.1 | In order to conduct internal audit, the company has created a separate internal audit unit accountable to the Board of Directors or the Audit Committee, or has engaged an independent external organisation following the same accountability principle. | Full compliance | |
| 5.2.2 | During the reporting period, the performance of the risk management and internal control system was assessed as part of internal audit. The company uses generally accepted approaches to internal control and risk management. | Full compliance | |
| 6.1.1 | The Board of Directors has approved the company information policy developed taking into account the recommendations provided in the Code. The Board of Directors (or one of its Committees) considered matters related to the company compliance with the information policy at least once during the reporting period. | Full compliance | |

| No. | Compliance criteria | Compliance status | Reasons for non-compliance |
|-------|---|-------------------|--|
| 6.3.1 | The company information policy stipulates that shareholders must be granted easy access to information, including information about legal entities controlled by the company, at the shareholders' request. | Full compliance | |
| 6.3.2 | During the reporting period, the company did not refuse shareholders' requests for information, or provided a rationale for such refusals. In cases specified in the company information policy, shareholders are notified that the information in question is confidential, and assume an obligation to keep it confidential. | Full compliance | |
| 7.1.1 | The company Charter contains a list of transactions or other actions that qualify as significant corporate actions, and establishes criteria for identifying them. Making decisions regarding significant corporate actions is the prerogative of the Board of Directors. In those cases when the applicable legislation specifically stipulates that such significant corporate actions fall within the competence of the General Meeting of Shareholders, the Board of Directors provides the shareholders with the relevant recommendations. | Full compliance | |
| 7.1.2 | The company has established a procedure whereby independent directors express their opinions with regard to significant corporate actions before their approval. | Full compliance | As at the end of the reporting year, the Board of Directors did not include independent directors. The company has no other shareholders (except for Gazprom) having an interest of more than 2%, which would enable them to nominate candidates to the Board of Directors. Full compliance with this recommendation largely depends on the willingness of the majority shareholder (Gazprom) to nominate and elect independent directors to the company Board of Directors. |
| 7.1.3 | Given the nature of the company operations, the minimum criteria established in its Charter for classifying the company transactions as significant corporate actions are lower than those established by law. During the reporting period, all significant corporate actions underwent the approval procedure before they were performed. | Full compliance | |
| 7.2.1 | During the reporting period, the company disclosed detailed information about its significant corporate actions, including the rationale for and the timing of such actions, in a timely manner. | Full compliance | |

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List of major transactions and related-party transactions

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| No. | Compliance criteria | Compliance status | Reasons for non-compliance |
|-------|---|--------------------|---|
| 7.2.2 | <ul style="list-style-type: none"> 1. The company internal documents establish a procedure for engaging an independent appraiser to carry out a valuation of the property to be disposed of or purchased in a major transaction or related-party transaction. 2. The company internal documents establish a procedure for engaging an independent appraiser to carry out a valuation of the company shares for the purpose of purchase or buyback. 3. The company internal documents contain an expanded list of grounds for recognising the members of the Board of Directors and other persons stipulated by law as having interest in the company transactions. | Partial compliance | <p>With regard to item 3: the company internal documents do not contain an expanded list of grounds for recognising the members of the Board of Directors and other persons stipulated by law as having interest in the company transactions.</p> <p>The company internal documents provide for a list of grounds for recognising the members of the Board of Directors and other persons stipulated by law as having interest in the company transactions only under Russian legislation.</p> <p>After the adoption of the Corporate Governance Code, significant amendments have been made to the Law 'On Joint-Stock Companies' (Chapter IX 'Interest in the Execution of a Transaction by the Company') with regard to compiling a list of interested parties and establishing a procedure for approving transactions. Accordingly, the company has made the relevant amendments to its internal documents: the Charter, the Regulation Governing the Board of Directors, and the Regulation on the Management Board.</p> |



Corporate Disclosure
Center



Details on major
transactions and related-
party transactions made
by Gazprom Neft in 2020
on the IR website



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GLOSSARY

ADR

American depositary receipt

Alkaline-surfactant-polymer (ASP) flooding

A chemical enhanced oil recovery technique for mature fields where a mixture of alkali, surfactant and polymers is injected into a formation

APG

Associated petroleum gas

Augmented reality (AR)

Superimposing digital information (images, videos, text, graphics) on content displayed by an electronic device, be it a smartphone or AR glasses. In production, it is leveraged to promptly receive information about equipment and its condition, simulate work processes, report failures, conduct employee training, etc. This significantly reduces the number of errors and helps to improve performance

B2B

Business-to-business: the exchange of products and services between businesses, rather than between businesses and consumers

B2C

Business-to-consumer: the process of selling products and services directly to consumers, who are the end-users of these products and services

Bps

Basis point

Cased borehole

A portion of the borehole lined with casing pipes, which are screwed or welded together to form a casing string

CGF

Central gathering facility

CGU

Cash-generating units

CIS

Commonwealth of Independent States (former Soviet republics, except for Latvia, Lithuania, Georgia and Estonia)

CNG

Compressed natural gas

Corporate culture

A system of values, attitudes, goals and principles underlying teamwork and workplace dispute settlement, which are shared by all company employees. Corporate culture is based on corporate values

Corporate culture workshops

Employee workshops attended by company and enterprise executives to discuss the current and target corporate culture model in the company and initiatives that may help to build an engaging environment

CPI

Consumer price index

D&O

Directors and officers liability insurance

DCU

Delayed coking unit

EAD

Electronic asset development

EBIT

Gross domestic product

EBITDA
Earnings before interest and taxes. This measure of company financial performance is in between gross and net profit

ECA

Export credit agency

Engaging environment

A set of principles and processes that help employees reach their full potential, continuously develop and improve their performance, actively collaborate to address issues, and feel a sense of personal responsibility for their share of work and their contribution to the company achievements

EnMS

Energy management system

Etalon

An operational transformation programme based on an exemplary business model. The commitment to delivering exemplary performance is typical of a mature company that has successfully navigated through development challenges

EURIBOR

Euro Interbank Offered Rate

FAR

Fatal accident rate

Fracking

Hydraulic fracturing

GDP

Gross domestic product

GRI

An internationally recognised sustainability reporting framework developed by the Global Reporting Initiative

Hierarchical management

A classical organisational model integrating top-down management guidance with bottom-up flow of information from personnel on the ground. It is based on strict supervision, clear delineation of responsibilities, red tape and a vertical hierarchy, and is regarded as inefficient in today's world

HRR

Hard-to-recover reserves

HSE

Health, safety and environment

IEA

International Energy Agency

IFRS

International Financial Reporting Standards

Indigenous minorities

Indigenous minorities of the Russian Far North

Industrial Internet of Things (IIoT)

A system of interconnected computer networks and connected physical assets (equipment) with embedded sensors to enable data collection and exchange. This enables remote equipment control and industrial automation, with no human intervention

IRMF

Integrated risk-management framework

KMAO

Khanty-Mansi Autonomous Okrug

KPI

Key performance indicator

LB

Licence block

Lean production

A management concept based on continuous improvement and commitment to eliminating all types of losses, with all employees being involved in the improvement process

LIBOR

London Interbank Offered Rate

LPG

Liquefied petroleum gas

LTIFR

Lost time injury frequency rate

Management by objectives

A collective approach to formulating goals, setting the direction, and decision-making in the company. It ensures that company executives and employees share the same goals, understand their importance, and are able to assess their performance and make improvements

MET

Mineral extraction tax

MFWKO

Mobile free-water knockout unit

MSHF

Multi-stage hydraulic fracturing

Mud pit

A facility designed for centralised collection, treatment and disposal of drilling waste

Network-based management

A modern management model based on flexible cross-functional teams

capable of setting their own goals and making independent decisions. It relies on horizontal hierarchy, lifelong learning and personal responsibility for the outcomes. It is best suited for addressing complex challenges in a rapidly changing environment

NGL

Natural gas liquids

NIS

Naftna Industrija Srbije A.D., Novi Sad

NPP

Non-profit partnership

NPS

Net Promoter Score

OC

Oil company

oe

oil equivalent

OECD

Organisation for Economic Cooperation and Development

OGCF

Oil and gas condensate field

OIRSP

Priazlomnaya offshore ice-resistant stationary platform

OMS

Operations management system

OPEC

Organisation of the Petroleum Exporting Countries

ORF

Oil recovery factor



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DISCLAIMER

APPENDIX 10

This Annual Report is based on the information available to Public Joint Stock Company Gazprom Neft and its subsidiaries (Gazprom Neft) as at the reporting date.

The Annual Report contains forward-looking statements that represent the expectations of the company management. These forward-looking statements are not based on actual circumstances and include all statements pertaining to the company intentions, opinions or current expectations with regard to company performance, financial position, liquidity, growth prospects, strategy and the industry in which Gazprom Neft operates. By their nature, such forward-looking statements are subject to inherent risks and uncertainties, as they refer to events and depend on circumstances that may or may not occur in the future.

Such words as 'assume', 'believe', 'expect', 'forecast', 'intend', 'plan', 'project', 'consider', 'might' and other similar or equivalent words and phrases, as well as negations thereof generally indicate a forward-looking statement. These assumptions are subject to risks and uncertainties both expected and unforeseeable by the company. Therefore, future performance may differ from current expectations, and the recipients of the information contained herein should not use it as a sole basis for their assumptions.

In addition to official information on Gazprom Neft operations, this Annual Report contains information obtained from third parties and sources which Gazprom Neft deems to be reliable. Nevertheless, the company does not guarantee the accuracy of this information as it may be condensed or incomplete. Gazprom Neft does not provide any guarantees that the actual results, the scope of the company operations and its performance indicators or those of the industry in which the company operates will be consistent with the results, scope and performance indicators expressly stated or implied in any forward-looking statements contained herein or elsewhere. Gazprom Neft shall bear no responsibility for any losses that may be incurred by any person due to the fact that the person in question relied on forward-looking statements. Except as expressly required by applicable law, the company assumes no obligation to distribute or publish any updates or revisions to the forward-looking statements to reflect any changes in expectations or new information, as well as subsequent events, conditions or circumstances.



| | | |
|--|--|----------------|
| PMAC | Proppant / propping agent | Seismic |
| Polymer-modified asphalt cement | Granular material designed to keep an induced hydraulic fracture open under ground pressure and thus enhance oil recovery | Seismic survey |
| PMB | Underbalanced drilling | |
| Polymer-modified bitumen used for road construction | A drilling technique where formation pressure is higher than the pressure in the wellbore. The pressure difference minimises formation contamination and helps to increase the drilling rate and the oil recovery factor | |
| p.p. | R&D | |
| Percentage point | Research and development | |
| Predictive analytics | RAS | |
| A class of data analysis techniques focused on predicting the future behaviour of objects and entities in order to optimise decision-making | Russian Accounting Standards | |
| Predictive incident management | US GAAP | |
| A fundamentally new approach to equipment maintenance and repairs based on the analysis of digital data gathered from sensors to accurately predict wear and tear. This helps to maximise maintenance efficiency and prevent accidents | Generally Accepted Accounting Principles approved in the US | |
| PRMS | USA | |
| Petroleum Resources Management System. This is the world's most widely used system for estimating hydrocarbon resources, defining not only the degree of uncertainty over oil and gas discovery, but also the economic feasibility of extracting hydrocarbons. Reserves to be measured are divided into three categories: proved, probable and possible (3P) | The United States of America | |
| ROACE | VAT | |
| Return on average capital employed, calculated as net profit (less dividend on shares) divided by the average number of ordinary shares | Value-added tax | |
| SEC | VIOC | |
| US Securities and Exchange Commission | Vertically integrated oil company | |
| YNAO | YNAO | |
| | The Yamalo-Nenets Autonomous Okrug | |

ADDRESSES AND CONTACTS

| | |
|--------------------------------------|---|
| Full company name | Public Joint Stock Company Gazprom Neft |
| Short company name | Gazprom Neft PJSC |
| Location | St Petersburg, Russian Federation |
| Registration date | The company was registered on 6 October 1995 by the Omsk Registration Chamber. Statutory Registration Certificate No. 38606450. Primary State Registration Number (OGRN) 1025501701686. |
| Postal address | 3-5 Pochtamtskaya St., St Petersburg, Russia, 190000 |
| Website | www.gazprom-neft.ru |
| Information service | Phone: +7 (812) 363-31-52 Phone: +7 (800) 700-31-52 (toll-free in Russia) Fax: +7 (812) 363-31-51 Email: info@gazprom-neft.ru |
| PRESS SERVICE | |
| Media enquiries | Phone: +7 (495) 777-31-43 (Moscow) Phone: +7 (812) 648-31-43 (St Petersburg) Email: pr@gazprom-neft.ru |
| SHAREHOLDER RELATIONS | |
| Corporate and | |
| Project Support Department | Phone: +7 (812) 363-31-52 Fax: +7 (812) 363-31-51 Email: shareholders@gazprom-neft.ru |
| INVESTOR RELATIONS | |
| Investor Relations Department | Phone: +7 (812) 385-95-48 Email: ir@gazprom-neft.ru |
| Auditor | Limited Liability Company Financial and Accounting Consultants (FBK) Address: 44/1 Myasnitskaya St., building 2AB, Moscow, Russia, 101990 Phone: +7 (495) 737-53-53 Website: www.fbk.ru/ Email: fbk@fbk.ru |
| Registrar | Joint Stock Company Specialised Registrar – Holder of the Gas Industry Shareholders Register (DRAGA JSC) Address: 71/32 Novocheremushkinskaya St., Moscow, Russia, 117420 Phone: +7 (495) 719-40-44 Fax: +7 (495) 719-45-85 Website: www.draga.ru Email: info@draga.ru |