



# **SUSTAINABLE DEVELOPMENT REPORT**

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**2016**

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The online version of the company's  
Sustainable Development Report  
for 2016 is available at:  
[csr2016.gazprom-neft.com](http://csr2016.gazprom-neft.com)

GAZPROM NEFT IS PLEASED TO PRESENT ITS REPORT ON SUSTAINABLE DEVELOPMENT ACTIVITIES (HEREINAFTER – THE SUSTAINABLE DEVELOPMENT REPORT OR REPORT) FOR 2016. THE REPORT HIGHLIGHTS THE COMPANY’S APPROACH TO SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY AS WELL AS THE FOCUSES AND RESULTS OF ITS WORK TO MEET PRODUCTION, ECONOMIC, SOCIAL AND ENVIRONMENTAL OBJECTIVES.

This is the Company’s ninth Sustainable Development Report. Gazprom Neft publishes its non-financial reports at the same time as its annual reports so it can present comprehensive coverage of its activities to solve economic, environmental and social problems in a strategic context.

For Gazprom Neft, preparing sustainable development reports is a tool of corporate governance and a significant component for stakeholder engagement. The Company believes it is essential to regularly provide stakeholders with comprehensive information about aspects of its activities that are significant for them and obtain feedback about the Report.

The 2016 Report is prepared in accordance with the basic version of Sustainability Reporting Guidelines – GRI-G4 – and taking into account the provisions of ISO 26000:2010 (Guidance on Social Responsibility)<sup>1</sup>. The GRI index of standard disclosures and ISO 26000:2010 indicators are presented in Appendix 2.

The Report presents information about Gazprom Neft PJSC and its subsidiaries and affiliates (hereinafter referred to as Gazprom Neft or the Company) for the 2016 calendar year. The Company’s financial position and operating results are presented using consolidated data from Gazprom Neft PJSC. The Report draws on the management and audited financial accounts of Gazprom Neft PJSC drafted in accordance with International Financial Reporting Standards (IFRS). Unless otherwise indicated in the text, data on the Company’s social and labour relations and its environmental performance include figures for Gazprom Neft PJSC and its subsidiaries and affiliates based in the Russian Federation and the Commonwealth of Independent States (CIS).

The Report details the Company’s medium- and long-term plans. This information is forward-looking in nature. The feasibility of the declared intentions depends on factors (economic, social, and legal) that are beyond the Company’s control or influence. The actual results may therefore differ from those indicated in the plans.

The Company employs the external assurance procedure for its Report to enhance the credibility of the presented information and to verify whether the approaches selected to highlight sustainable development matters are consistent with the principles of responsible business practices. In 2016, the Report underwent independent public assurance by the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (RUIE). The assurance certificate is published in Appendix 1.

The Report is published in Russian and in English.

> The previous Sustainable Development Reports and other documents also available on the Company’s website: [www.gazprom-neft.com/social/reports/](http://www.gazprom-neft.com/social/reports/)

<sup>1</sup> Adopted in the Russian Federation as GOST R ISO 26000-2012.  
<sup>2</sup> A list of issues that are significant for internal and external stakeholders is presented in the ‘Significant Themes and Aspects of the Report’ table.

## KEY THEMES AND ASPECTS OF INFORMATION DISCLOSURE

When managing sustainable development activities and reporting in this area, Gazprom Neft focuses on aspects that are the most significant for the Company and its stakeholders. The list of these significant aspects and themes defines the content of the Report.

When determining significant themes and the corresponding indicators, the Company took into consideration the provisions of the UN Global Compact, the Social Charter of Russian Business as well as the following standards and studies:

- > international and Russian standards in corporate social responsibility (CSR) and sustainable development and non-financial report standards (ISO 26000, GRI–G4, G4 Sector Supplement);
- > studies on the industry-wide practice for the management of sustainable development and reporting in this area;
- > an analysis of the scope of the Company’s stakeholder engagement.

**Principles used to determine the content of the Sustainable Development Report:**

- > materiality;
- > coverage of stakeholders;
- > context;
- > completeness;
- > balance;
- > comparability;
- > accuracy;
- > timeliness;
- > clarity;
- > reliability.

An analysis of the Company’s engagement with stakeholders was used to determine the themes and aspects that are significant for them as well as their materiality. The following was analysed in the process of identifying significant themes:

- > materials from a survey of employees (managers and specialists) as part of the preparation of this Report;
- > the results of employee feedback;
- > the results of an annual study of the Company’s social and psychological climate, minutes of meetings between employees and management, and team meetings;
- > materials from Gazprom Neft’s regular interaction with investors, the federal and regional authorities, business partners, non-profit and public organisations, experts and local communities;
- > materials from roundtables and public hearings in the regions;
- > recommendations and comments received by the Company as part of the public assurance of its 2016 Sustainability Report by the Non-Financial Reporting Board of the RUIE.

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- > Dialogues with stakeholders in the regions where the Company operates are an important feedback channel for highlighting significant aspects and themes of the Report. The Company held such dialogues in Orenburg and Khanty-Mansiysk in 2016.
  - > The roundtable ‘Sustainable Development of Gazprom Neft and Contribution to the Development of the Orenburg Region’ was attended by representatives of the subsidiary Gazpromneft-Orenburg, the Company’s corporate headquarters, the legislative and executive authorities, big and medium-sized business, the Russian Union of Industrialists and Entrepreneurs, the Chamber of Commerce and Industry, universities, public organisations and the media. The event focused on the following themes: the Company’s approach to doing business in the Orenburg Region, the main problems and results of activities in industrial and occupational safety and the implementation of the ‘Native Towns’ social investment programme in the region.
  - > The roundtable held in Khanty-Mansiysk, titled ‘Activities of Gazprom Neft and Sustainable Development in the Company’s Regions of Operations’, was attended by representatives of the subsidiary Gazpromneft-Khantos, the Company’s corporate headquarters, the legislative and executive authorities of the Khanty-Mansi Autonomous District-Yugra, the Russian Union of Industrialists and Entrepreneurs, public and municipal organisations, Yugra State University and the media. The participants discussed the Company’s approach to doing business, the establishment of lean production and the implementation of the social investment programme in the Khanty-Mansi Autonomous District-Yugra.
  - > The roundtables also included a discussion of the Company’s Sustainable Development Report for 2015 and the significant themes and aspects of the 2016 Report. The discussion revealed that the current structure of the Report takes into account the interests of various stakeholders in a sufficiently balanced manner<sup>2</sup>. At the same time, a number of the participants expressed wishes that were taken into account when preparing the Report for 2016. In particular, this Report provides wide-ranging information about the Company’s large-scale investment projects, its social policy in the regions as part of socioeconomic cooperation agreements and the development of the ‘Native Towns’ social investments program.

SIGNIFICANT THEMES AND ASPECTS OF THE REPORT<sup>1</sup>

Themes and aspects	Priorities of internal stakeholders	Priorities of external stakeholders	Justification
<b>ECONOMIC PERFORMANCE</b>			
Company's strategy	✓	✓	Developing and implementing a flexible and competitive strategy taking into account internal and external stakeholders is key to the Company's business stability and sustainability.
Investment programme	✓	✓	Large-scale investment projects in oil production and refining are among the Company's key priorities and an important factor in achieving its strategic goals.
Financial stability	✓		The Company's financial stability enables it to meet its obligations to key stakeholders.
Production efficiency	✓		Boosting production efficiency is a major factor in the Company's competitiveness.
Product quality	✓	✓	Improving product quality helps to meet the growing demand among customers for enhanced attributes and strengthen the Company's market positions.
Innovative activities	✓		Developing and introducing innovations is an important factor for preserving the Company's technological leadership and improving its competitiveness.
<b>INDUSTRIAL AND OCCUPATIONAL SAFETY</b>			
Safety of production processes and emergency preparedness	✓	✓	The Company's production activities are fraught with potential safety risks. Safe production and absolutely no harm to people, facilities and machinery is a key priority for Gazprom Neft.
Occupational health and care for employee health	✓	✓	
<b>ENVIRONMENTAL SAFETY</b>			
Industrial environmental monitoring	✓		Industrial environmental monitoring and compliance with environmental legislation requirements are on the list of the Company's environmental safety priorities.
Compliance with environmental legislation requirements	✓	✓	
Environmental impact of the Company's activities at the Prirazlomnoye field	✓	✓	The Company's production activities in the Arctic region and, in particular, on the Prirazlomnaya offshore platform could potentially impact the Arctic environment, flora and fauna.
Utilising energy and energy efficiency	✓		The production growth rates are due to the Company's increased consumption of energy resources. To minimise the effect of this process, Gazprom Neft is working on improving energy efficiency and optimising the use of energy resources.
Sustainable use of natural resources	✓	✓	The Company's activities impact the environment and natural resources: water, air and soil. The Company is committed to their sustainable use, restoration and protection.
Greenhouse gas emissions	✓	✓	Hydrocarbon production is fraught with the emission of harmful substances, in particular greenhouse gases.

Themes and aspects	Priorities of internal stakeholders	Priorities of external stakeholders	Justification
<b>HUMAN CAPITAL</b>			
Equitable remuneration and social support for personnel	✓	✓	A competitive system of remuneration and social support is a highly important factor in attracting and retaining employees.
Employee training and development	✓		Staff training and development provides the Company with skilled personnel in the present and future.
Labour relations and employment	✓	✓	Meeting obligations to employees and attracting and retaining the best specialists ensure stability in the Company's work and is a key factor in achieving its strategic goals.
<b>COMPANY'S IMPACT ON THE REGIONS WHERE IT OPERATES</b>			
Local community development programme	✓	✓	Gazprom Neft contributes to the socioeconomic development of the regions in which it operates as a participant in economic activities, employer, taxpayer and social investor.
Import substitution programme	✓	✓	The Company is actively working on import substitution and supporting domestic manufacturers, thus contributing to the development of the Russian and regional economies.
Local supplier development programme	✓	✓	Cooperation with local suppliers contributes significantly to developing the competitiveness of the economy and labour market in the regions where the Company operates.
Rights of indigenous peoples		✓	The Company engages in activities in the territory of indigenous peoples of northern Russia.

The Company hopes to further develop a dialogue with stakeholders on matters concerning corporate social responsibility and sustainable development. We would appreciate feedback on these issues. You can contact us in any way you prefer using the information in the Contact Information and Feedback section.

<sup>1</sup> The list includes themes that are significant for all subsidiaries.





# MESSAGE

## FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Gazprom Neft PJSC continued its progressive development in 2016. The 8.2% increase in hydrocarbon production was the best in the Russian oil industry. The Company launched the full-scale development of major fields in Yamal and on the Gydan Peninsula – Novoportovskoye and East Messoyakha – and increased the number of its refueling complexes at Russian airports. The Gazpromneft filling station chain is firmly in first place in terms of the average daily sales of petroleum products and continues to expand.

While successfully meeting its production objectives, Gazprom Neft respects the principles of sustainable growth. The Company pays close attention to the introduction of personnel development programmes, the implementation of social projects in the regions where it operates, the sustainable use of natural resources and improving the level of environmental and industrial safety.

Specifically, advanced technical solutions were used to develop fields in the Arctic in order to minimize the burden on the fragile northern ecosystem. The useful utilisation of association petroleum gas is growing consistently and reached 95% at the Company's fields in the Noyabrsk region in 2016.

As part of the 'Native Towns' comprehensive social investment programme, Gazprom Neft PJSC is creating conditions to improve the population's quality of life by investing in the construction and maintenance of social infrastructure, improving urban areas and promoting the development of education, culture and sports in the Company's regions of operation. Gazprom Neft PJSC implemented 165 projects under the auspices of the 'Native Towns' programme and carried out 287 charitable and volunteer events involving Company employees in 2016.

The 'Multiplying Talent' intellectual oil and gas-themed tournament for high school students generated a high level of interest last year. Some 1,800 students from different Russian cities took part in the tournament, a 50% increase from 2015. With Gazprom Neft's support, Serbia hosted the Russian musical festival 'Bolshoi' – a landmark cultural event for both countries that is traditionally attended by students from Russian and Serbian music schools – for the fourth time. The KHL Gazprom Neft Cup international hockey tournament among youth teams – the biggest children's hockey competition in Europe – entered its second decade.

Gazprom Neft's achievements were primarily made possible by the efforts of its effective team of employees. I am confident that the Company will continue to successfully meet the objectives set by shareholders and progress towards achieving its strategic goals.

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



# MESSAGE

## FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

The year 2016 was a rather difficult one for the Russian oil and gas industry in terms of macroeconomic conditions. Nevertheless, Gazprom Neft succeeded in meeting all its challenges, once again demonstrating its ability to carry out highly complex projects regardless of the impact of external factors and confirming its status as the industry leader based on key performance indicators.

Gazprom Neft strictly adheres to the principles of corporate social responsibility and sustainable development by investing in the development of human resource potential and environmental protection and implementing programmes to support the regions where it operates.

The Company devotes considerable attention to improving the production safety management system. As part of this focus, Gazprom Neft is consistently progressing towards its 'Goal – Zero: No Harm to People, Property or the Environment'. In 2016, we managed to significantly reduce the number of workplace incidents while ensuring a decrease in the injury level. The Company also focuses on environmental protection issues. Gazprom Neft spent more than RUB 14 billion on environmental safety projects in 2016. Among the most important projects were the construction of technological and transport infrastructure in an effort to increase the utilisation level of associated petroleum gas and the implementation of the 'Clean Territory' project to improve the reliability of pipelines. The active development of the Company's Arctic projects is being accompanied by the implementation of an ambitious programme to preserve biodiversity in Russia's Arctic zone. The Moscow and Omsk Oil Refineries are carrying out major projects to build treatment facilities that aim to drastically reduce the environmental impact of their production activities.

Gazprom Neft plays a significant role in the socioeconomic development of the territories where it operates by acting as an investor, taxpayer and employer. The Company creates tens of thousands of jobs by implementing major new projects and supporting the development of existing assets. Gazprom Neft is consistently among the country's most attractive employers with top positions in the ratings of leading Russian and international recruiting agencies. As part of our human resource development programme, we continuously seek to improve the employee motivation and professional growth system and develop training projects that use the most progressive and effective methods. In 2016, the Company launched the Gazprom Neft Corporate University, which aims to form a highly flexible and effective educational environment that meets the requirements of today and tomorrow. Total investment in the training and development of our Company's personnel exceeded RUB 700 million in 2016.

Tax payments by Gazprom Neft enterprises make up a substantial portion of regional and local budgets. While solving the most pressing and relevant problems of the regions where the Company operates as part of agreements on socioeconomic cooperation, Gazprom Neft also actively involves local residents in the process of positive transformations by initiating the development and implementation of social projects that aim to improve the quality of life. The 'Native Towns' social investment programme encompassed 35 regions in 2016 as the Company's total social investments surpassed RUB 4 billion.

We view these funds as investments in the future – the future of our regions of operation and the future of the Company itself whose successful development is inextricably linked with the regions where Gazprom Neft extracts and refines oil and where it has filling stations and petroleum storage depots, refueling complexes and bunkering terminals. The future of the Company lies in its employees being motivated, driven and confident in their own safety and tomorrow. I am confident that the impact of sustainable development factors on the successful implementation of Gazprom Neft's long-term strategy will invariably continue to grow.

A stylized, handwritten signature in blue ink, consisting of a large loop followed by a series of connected strokes.

**ALEXANDER DYUKOV**

Chairman of the Management Board,  
CEO of Gazprom Neft PJSC



## ABOUT THE COMPANY

Gazprom Neft is a vertically integrated oil company whose principal activities include the exploration, development, production and sale of crude oil and gas as well as the production and sale of petroleum products.

# GAZPROM NEFT TODAY

IN TERMS OF PROVEN HYDROCARBON RESERVES ACCORDING TO SPE (PRMS) CLASSIFICATION, GAZPROM NEFT IS COMPARABLE WITH THE WORLD’S LARGEST OIL COMPANIES.

### GAZPROM NEFT TODAY MEANS:

- > The development of the Arctic shelf and hard-to-recover resources
- > Cost-effective refining with minimal environmental impact
- > High-quality raw materials and end products for consumers in Russia and around the world
- > The creation of high-tech and innovative products
- > The introduction of the most advanced industrial safety systems
- > A factor of stability in the regions of operation

In Russia, the Company ranks second in terms of petroleum product sales and is among the top four leaders in terms of oil production and refining. Gazprom Neft’s capitalisation stood at more than one trillion roubles as of 31 December 2016. The Company operates in Russia’s largest oil and gas regions and also has production projects outside of Russia in such countries as Iraq and Venezuela, among others. The Company’s primary refining facilities are located in Russia’s Omsk, Moscow and Yaroslavl Regions in addition to Serbia. Gazprom Neft is currently a major player on the energy market. The Company produces and supplies a broad range of petroleum products for a number of industries both in Russia and abroad.

### MISSION

To provide consumers with high-quality energy resources, conduct business honestly and responsibly, care for employees and be a leader in efficiency, ensuring the Company’s long-term and balanced growth.

### STRATEGIC GOAL

To become a large, Russian-based international player that owns a regionally diversified portfolio of assets across the entire value chain and actively participates in regional development with a high degree of social and environmental responsibility.

## CORE BUSINESSES AND STRUCTURE OF COMPANY



### EXPLORATION AND PRODUCTION OF OIL AND GAS

Most of the Company’s crude oil production in Russia is carried out by its subsidiary operators: Gazpromneft-Noyabrskneftegaz, Gazpromneft-Khantos, Gazpromneft-Vostok and Gazpromneft Orenburg. The subsidiary Naftna Industrija Srbije A.D., Novi Sad (NIS) develops fields in Serbia, Angola, Bosnia and Herzegovina, Hungary and Romania. The Company’s international assets also include hydrocarbon exploration and production projects in Iraq, Venezuela and other countries. The Company has a share in the production of the following enterprises: Slavneft OGC (50%), Tomskeft VNK (50%), Salym Petroleum Development N.V. (50%), SeverEnergia (46.67% since 1 July 2015) and Northgas (50%).



### OIL REFINING

Gazprom Neft is one of the leaders in the Russian industry in terms of oil refining and continuously improves the efficiency of production processes. Oil refining takes place at two oil refineries – the Omsk Oil Refinery, Moscow Oil Refinery and the NIS refiniring complex in Serbia. In addition, Gazprom Neft owns 50% stakes in Slavneft-YANOS and also has access to the processing facilities of Mozyr Oil Refinery.

The full structure of Gazprom Neft PJSC is presented in the Company’s Annual Report for 2016, [ar2016.gazprom-neft.com/profile/structure](http://ar2016.gazprom-neft.com/profile/structure)



### REGIONS OF OPERATION



The online version of the Annual Report contains additional information about the distribution by region of:

- > new projects;
- > geological prospecting;
- > production projects;
- > refining and sales assets;
- > average number of employees.



### SALE OF OIL AND PETROLEUM PRODUCTS

Gazprom Neft offers wholesale and retail sales of oil and petroleum products on the Russian and international markets. The Company operates its own network of filling stations in 37 regions of Russia as well as countries of the CIS and Eastern Europe.

The Company has spun off its businesses into individual units to improve the effectiveness of petroleum product sales: the wholesale of light petroleum products in the Russian Federation, retail and corporate sales at Russian filling stations, bunkering, the supply of fuel, aviation kerosene and lubricants for aircraft, the sale of lubricant materials and the production and sale of bitumen products. The Company’s specialised subsidiaries handle these types of operations.

Gazprom Neft is a major Russian manufacturer of a number of basic petrochemical products – aromatic hydrocarbons (benzene, paraxylene, orthoxylene and toluene) and propane-propylene fraction products (propylene liquefied petroleum gas). Basic petrochemical products are manufactured at all Gazprom Neft oil refineries (Omsk, Moscow and Yaroslavl). The production of petrochemical products for further stages of added value (polypropylene) takes place at integrated enterprises.

- > Russia
- > Republic of Belarus
- > Bosnia and Herzegovina
- > Venezuela
- > Iraq
- > Italy
- > Kazakhstan
- > Kyrgyzstan
- > Latvia
- > Romania
- > Serbia
- > Tajikistan
- > Estonia

The Company operates its own network of filling stations in 37 regions of Russia as well as countries of the CIS and Eastern Europe.



# BUSINESS MODEL

GAZPROM NEFT’S VERTICALLY INTEGRATED BUSINESS MODEL, WHICH INCLUDES TWO ENLARGED SEGMENTS – UPSTREAM (EXPLORATION AND PRODUCTION) AND DOWNSTREAM (REFINING AND SALES), IS COUNTER-CYCLICAL: ANY CHANGES IN OIL PRICES INCREASE PROFITABILITY IN ONE SEGMENT OR THE OTHER. BY CONSISTENTLY DEVELOPING ADVANTAGES IN EACH SEGMENT, GAZPROM NEFT ACHIEVES THE BEST OPERATING EFFICIENCY AMONG RUSSIAN VIOCS. THE COMPANY’S SUSTAINABLE POSITION ENABLES IT TO CONTINUE IMPLEMENTING AND DEVELOPING CORE PROJECTS, WHICH IN TURN CREATES CONDITIONS FOR LONG-TERM GROWTH AND IMPLEMENTATION OF THE COMPANY’S STRATEGY.

## KEY SUCCESS FACTORS

### UPSTREAM

- > Production growth through the launch of three new ambitious projects
- > Maintaining production levels at mature fields by introducing technological solutions
- > Improving drilling efficiency through the use of new technologies
- > A portfolio of long-term projects to further increase production

> View the Gazprom Neft business model in the Annual Report for 2016:  
[ar2016.gazprom-neft.com/strategic-report/business-model](http://ar2016.gazprom-neft.com/strategic-report/business-model)

### DOWNSTREAM

- > Among the best oil refining efficiency indicators in Russia
- > Favourable location of oil refineries ensuring the sale of petroleum products with reasonable logistics costs, including a significant share in production areas
- > Internal network of high-margin sales and product distribution

# KEY FINANCIAL AND PRODUCTION RESULTS

## PERFORMANCE GOALS AND RESULTS IN 2016

Goal	Result
Implementation of major projects nearing completion	The ‘Gates of the Arctic’ terminal was launched at the Novoportovskoye field along with year-round oil shipments.  Thanks to advanced production drilling, the full-scale development of the East Messoyakha field began ahead of schedule and the first batch of oil was fed into the pipeline system in September 2016.
A two-fold increase in production at the Prirazlomnoye field in the Pechora Sea and the commissioning of new production and absorption wells	Production at the Prirazlomnoye field increased by 150% compared with 2015. A total of 2,154,000 tonnes of the ARCO oil blend (Arctic Oil) was obtained at the Prirazlomnoye field in 2016.
The establishment of a new logistics route for exporting oil from Arctic fields via the Northern Sea Route. Construction of a trans-shipment hub at the Murmansk port	The new oil transportation logistics arrangement was launched in February 2016. A transhipment hub was set up in Kola Bay.
Keeping all options open for the development of the resource base to support new areas of production	The main factor that made it possible to increase the resource base was the use of new technologies in production drilling as well as the more efficient planning of geological exploration work. Three new fields and 26 hydrocarbon deposits were opened at the group’s license areas in 2016.
The establishment of strategic and technological partnerships for the joint development of fields in Russia and abroad and to improve the efficiency of hydrocarbon production	A meeting was held with China National Offshore Oil Corporation about the development of the North Wrangel and Heiss license areas. A cooperation agreement was concluded with DeGolyer and MacNaughton. A memorandum on mutual understanding was signed with Japan’s JOGMEC on cooperation as part of geological exploration and hydrocarbon production projects in Russia.
Investment in current production projects with a short payback period to maximise cash flows in coming years	Goal achieved. For more, see the ‘Key financial and production results’ subsection of this chapter.
Construction of a primary oil refining complex at the Omsk Oil Refineriy and Complex installation of oil processing ‘EURO +’ at the Moscow Oil Refinery	The Moscow Oil Refinery continues to build a Euro+ facility. New equipment was installed at the Omsk Oil Refinery in October 2016.
Continued implementation of a project to set up the production of modern cracking and hydroprocessing catalysts in Omsk	Gazpromneft – Catalytic Systems LLC was established within the Company to implement the project to set up the production of catalytic cracking catalysts and hydroprocessing catalysts.
Pilot testing of oligomerisation catalysts	A new oligomerisation catalyst was introduced as part of a methyl tert-butyl ether facility (Moscow Oil Refinery). The output of high-octane oligomerizate was increased by 3%, while the cycle length of the catalyst’s operation was increased by 150%.
Launch of a solid acid alkylation test bench	Construction was completed on a solid acid alkylation pilot production unit at Elektrogorsk Institute of Petroleum Refining PJSC.

> Continued on next page

Goal	Result
Industrial testing of the hydrotreating catalyst reactivation process	<p>The Omsk Oil Refinery successfully performed industrial testing on a diesel fuel reactivation hydrotreating catalyst.</p> <p>The catalyst demonstrated 100% reactivation from the initial catalyst with the stable production of class 5 diesel fuel with a sulphur content of up to 10 ppm.</p>
The implementation of the most profitable projects for the development of the sales business	Goal achieved. For more, see the 'Key financial and production results' subsection of this chapter.
Balanced investment activities in foreign development projects with the ability to intensify operations in the medium term taking into account international risks	Goal achieved. For more, see the 'Key financial and production results' subsection of this chapter.
The development of targeted automated processes for the quality control and accounting of petroleum products in order to eliminate the human factor	The Company has begun replicating the Khimsoft laboratory control system (LCS) to automate the testing of petroleum products and improve the effectiveness of the quality management system.
The construction and commissioning of a zeolite stabilisation unit and liquefied gas storage at the Omsk Oil Refinery	A zeolite stabilisation unit and liquefied gas storage facility were built.
The development and introduction of high-efficiency cracking, hydrotreatment and hydrocracking catalysts that meet modern oil refining requirements	Gazprom Neft began producing new Avangard catalytic cracking catalysts at the Omsk Oil Refinery in August 2016. Upon completion of industrial testing, the new generation catalysts are scheduled to be used at the Moscow Oil Refinery.
The organisation of work by a research centre based at Gazpromneft-Ryazan Bitumen Materials	In September 2016, Gazpromneft-Ryazan Bitumen Materials established Russia's largest and most advanced specialised bitumen materials scientific research centre.
The introduction of the research method for developing transmission oils at the oils and petrochemical laboratory of the Omsk Lubricants Plant	The method was developed and put into operation.
The assimilation of a pilot plant to develop greasing technology and implementation of a research programme to develop new and improve existing lubricant manufacturing technologies	Pilot unit developed.

GAZPROM NEFT IS CONFIDENTLY ATTAINING ITS LONG-TERM GOALS WHILE DEMONSTRATING SUSTAINED GROWTH IN PRODUCTION AND OPERATING PERFORMANCE DESPITE ADVERSE ECONOMIC CONDITIONS.

Each year the Company is one of the leaders in the hydrocarbon production industry, maintains a high level of refining volumes, shows strong financial results and demonstrates steady growth in sales and the effectiveness of its premium sales channels. Given the financial instability and economic slowdown, the Company’s efficiency has become key to the sustainability of its business.

Over the past two years, the Company has become the leader in operating efficiency in Russia. Our next goal is to become one of the global leaders in terms of efficiency. As part of developing this area, the Company is introducing the operating activities management system (OAMS), which contributes to the overall development of the organisation and covers such important areas as improving safety in the workplace, reliability of assets and efficiency, and optimizing the Company's operations as a whole. The OAMS is designed to integrate these activities into a single system and strengthen the links between various systems, standards and regulations.

Thanks to a highly efficient business model and timely response to external changes, the Company has maintained stability and investment appeal.

PROACTIVE RESPONSE TO EXTERNAL CHALLENGES:

- > **Exploration and production:**
- > monitoring of expenses, optimisation of the development of mature fields and the implementation of import substitution programmes;

> development and replication of new technologies in order to increase the oil recovery factor and integrate hard-to-recover reserves into development;

> development of major projects on land (Novy Port and Messoyakha, among others) and projects on the shelf of the Russian Federation;

> expanding competencies to work with unconventional reserves.
- > **Refining and sales:**
- > implementation of oil refinery modernisation projects;

> development of premium sales channels and maximising added value as part of the existing petroleum products resources.
- > **General areas of work:**
- > cooperation with the government authorities on the reform of the fiscal system and matters concerning the development of the industry;

> improvements to the operational activity management system and maximising operating efficiency by enhancing the reliability and safety of production and also involving employees in the culture of continuous improvements. The ‘Goal – Zero’ is highlighted separately as part of systematic improvements to ensure a continuous increase in safety levels and consistently reduce accident rates, occupational injuries and occupational diseases.

## KEY OPERATING INDICATORS

Indicator	2012	2013	2014	2015	2016
Proven hydrocarbon reserves (PRMS-SPE), mn TOE <sup>1</sup>	1,200	1,343	1,443	1,518	1,514
Production of commercial hydrocarbons by the Gazprom Neft Group, mn TOE	59.71	62.26	66.25	79.70	86.2
Oil refining, mn t	43.34	42.63	43.48	43.07	41.89
Oil sales, mn t	17.95	14.24	13.72	16.61	22.71
Petroleum product sales, mn t	44.03	45.74	48.3	44.84	43.59
Sales via premium channels, mn t	22.56	23.98	25.79	25.7	25.16

## KEY FINANCIAL INDICATORS (RUB mn)

	2012	2013	2014	2015	2016
Sales	1,519,450	1,504,037	1,690,557	1,655,775	1,695,764
Sales revenue	1,232,649	1,267,603	1,408,238	1,467,943	1,545,608
Adjusted EBITDA	323,106	336,752	342,614	404,811	456,198
Net profit	184,152	186,720	126,656	116,198	209,725
Capital investments	169,213	208,611	271,330	349,036	384,817

## EXPLORATION AND PRODUCTION

The Company is increasing its reserves as well as the volume and efficiency of production at its own and shared assets, and explores, develops and produces oil and gas in Russia as well as in countries outside the former Soviet bloc. In 2016, Gazprom Neft maintained its position among Russian oil companies as an industry leader in terms of oil and gas production. Commercial hydrocarbon production increased 8.2% to 86.2 million TOE compared with 2015.

The Company has achieved its results due to:

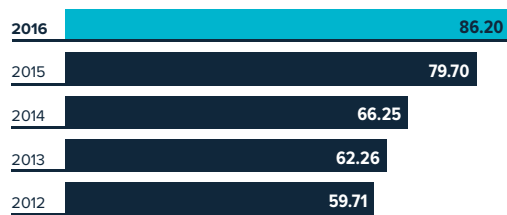
- > for current assets – further drilling of the Priobskoye field and Orenburg assets;
- > for major projects – increased production at the Prirazlomnoye and Novoportovskoye fields and at assets belonging to SeverEnergiya LLC (Arcticgas), Northgas CJSC and Badra.

Gazprom Neft assumed the leading position in the industry in terms of oil production growth rates among Russian oil companies in 2016. Oil production increased by 7.2% over the reporting year.

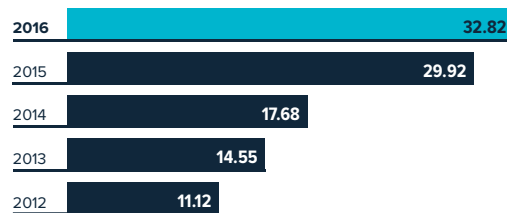
The Company is actively developing its gas business with a focus on commercialising the reserves of associated and natural gas produced at fields. The Gazprom Neft Group's gas programme envisages accelerated growth in gas production in Russia. Total gas production by the Company amounted to 32.82 billion m<sup>3</sup> in 2016.

COMMERCIAL HYDROCARBON PRODUCTION  
(mn TOE)

Source: Company data

GAS PRODUCTION (bn m<sup>3</sup>)

Source: Company data

<sup>1</sup> Data does not include reserves and production of NIS.

## OIL REFINING

GAZPROM NEFT REFINED 41.89 MILLION TONNES OF OIL IN 2016, MAINTAINING ITS POSITION AS ONE OF THE LEADERS AMONG RUSSIAN OIL COMPANIES IN TERMS OF REFINING VOLUME.

The Company continued to implement a modernisation programme for its oil refineries that aims to improve their crude refining efficiency, increase the depth of oil refining and enhance production and environmental safety. Gazprom Neft carried out projects at the Omsk and Moscow Oil Refineries to build advanced oil refining facilities as well as a number of environmental projects.

The Company established Gazpromneft – Catalytic Systems LLC to develop its new business for the production of oil refining catalysts. In 2020, the Company plans to launch the largest complex for the production and maintenance of catalysts for catalytic cracking, hydrotreatment and hydrocracking in the CIS.

## STRUCTURE OF GAZPROM NEFT PETROLEUM PRODUCT PRODUCTION (mn t)

Source: Company data

	2012	2013	2014	2015	2016
Motor petrol	8.96	8.92	8.84	9.08	9.18
Technological petrol	1.30	1.47	1.36	1.45	1.56
Diesel fuel	11.51	12.09	12.15	11.87	12.02
Jet fuel	2.67	2.69	2.99	3.00	3.04
Marine fuel	3.38	3.31	4.08	3.67	2.41
Fuel oil	8.78	7.48	7.39	7.20	6.72
Bitumen and coke	1.72	2.09	2.03	2.02	2.19
Other	2.69	2.50	2.80	2.81	2.83
<b>Total</b>	<b>41.01</b>	<b>40.55</b>	<b>41.64</b>	<b>41.10</b>	<b>39.95</b>

The increase in the output of marginal products versus 2015 with comparable volumes of oil refining is evidence of the improved operating efficiency of the Moscow Oil Refinery. The growth in the depth of refining makes it possible to reduce energy and resource consumption to produce an increasing amount of modern ecological products and to ease the Company's impact on the environment.

**Arkady Yelizaryan**

CEO of Gazpromneft – Moscow Oil Refinery

## ALSO IN THE REPORTING YEAR

## &gt; At the Omsk Oil Refinery:

- > Projects are continuing to increase oil refining depth that include the construction of an advanced oil refining complex and a delayed coking unit.
- > A number of environmental projects were continued, including the construction of a complex of treatment facilities, a process condensate purification unit and a catalytic cracking regeneration gas treatment unit.
- > Reconstruction of catalyst production and a sulfuric acid alkylation unit, and an LPG park was built.

## &gt; At the Moscow Oil Refinery:

- > Continued construction of a sulphurous alkaline waste and process condensate treatment unit and biological treatment facilities (the Biosphera project).
- > Continued construction of a Euro+ advanced oil refining unit and the reconstruction of a catalytic cracking unit.

## OIL AND PETROLEUM PRODUCT SALES

In 2016, the Company supplied 7.43 million tonnes of oil to the domestic market, or 1.29 million tonnes more than in 2015. Total oil sales increased by 36.7% versus 2015 to 22.71 million tonnes.

The higher sales in the Russian Federation are due to the improved efficiency of trading operations on the domestic market and increased production in the Orenburg region. Increased oil production at the Novoportovskoye and Prirazlomnoye fields and the start of production at the Messoyakha field led to increased oil exports.

The Company sold 43.6 million tonnes of petroleum products in 2016, a 2.8% decrease from 2015. On the domestic market, the Company’s sales units sold 27.11 million tonnes of petroleum products (-1.4% versus 2015). At the same time, motor fuel sales increased by 2.7% on the domestic market to 16.82 million tonnes.

### OIL SALES (mn t)

Source: Company data

	2012	2013	2014	2015	2016
Sales in Russia	1.26	1.85	3.96	6.14	7.43
Exports to non-CIS countries	14.12	8.29	8.47	8.11	12.89
Exports to the CIS	2.50	4.05	1.16	1.88	1.66
International sales	0.07	0.05	0.13	0.48	0.73
Total	17.95	14.24	13.72	16.61	22.71

> For more details on the sale of oil and petroleum products see in the Annual Report for 2016: [ar2016.gazprom-neft.com/results/distribution](http://ar2016.gazprom-neft.com/results/distribution)

## PETROLEUM PRODUCT SALES FOR RETAIL AND BY PRODUCT BUSINESS UNITS

### RETAIL SALES

The development of the petroleum product retail sales segment is one of the key focuses of the Company’s activities. One of the Company’s strategic goals is to be a leader in Russia and the CIS in terms retail sales volume and the efficiency of the filling station network by 2025.

Having its own national brand as well as a high level of awareness and trust in the quality of its product is a key factor for success in achieving this goal. According to research by the companies TNS and Nielsen for 2015, the Gazpromneft filling station network is among the top two in terms of key marketing indicators in the regions where it is present. The ‘Going the Same Way’ loyalty programme is currently the most popular and widespread among Russian fuel retailers and is used by more than 6.4 million drivers.

As the size of the motor fuel market in Russia declines overall, Gazprom Neft’s highly efficient filling station network is demonstrating stable growth in terms of the volume of petrol and diesel fuel sales. Total sales increased by 2% to 10.4 million tonnes, including 8.2 million tonnes in Russia, in 2016.

### AWARDS FOR THE GAZPROMNEFT FILLING STATION

In 2016, the Gazpromneft filling station chain won the annual award ‘Consumer Rights and Quality of Service’ for the third time. The company received awards in the nominations ‘Retail Services’ (in the ‘Gas Stations’ category) and ‘Customer Choice’.

### ‘100 BEST GOODS OF RUSSIA’

In 2016, three of Gazprom Neft’s diesel fuel brands produced at Omsk Oil Refinery were awarded gold diplomas at the national competition ‘100 Best Goods of Russia’ in the ‘Industrial Goods’ nomination. All diesel fuel produced at Omsk Oil Refinery meets the Euro-5 emissions standard.

### AVERAGE DAILY SALES VIA FILLING STATIONS (t/day)

Source: Company data

	2012	2013	2014	2015	2016
Russia	17.60	18.98	19.98	19.15	19.26
CIS	12.40	14.24	13.84	13.63	14.90
NIS	4.50	5.20	5.03	5.51	5.89

Gazprom Neft continued to develop sales of its premium branded fuel at its filling station network during the reporting year. The Company sold 594,000 tonnes of G-Drive 95 premium fuel in 2016, which accounted for 27% of total Ai-95 sales. Sales of G-Drive 98 premium class motor fuel totalled 62,000 tonnes.

The Company increased sales of premium branded fuel at its filling stations by 5% in 2016. The number of filling stations offering G-Drive 95 increased by 84 stations to 1,149 filling stations in 2016 compared with 2015. Approximately 30% of high-octane petrol customers purchased G-Drive during the reporting period.

Environmental friendliness and cost-effectiveness play a key role in municipal and commercial transportation in large cities, making these segments major consumers of gas engine fuels. Gazprom Neft pays close attention to developing sales of gas engine fuels, in particular liquefied petroleum gas (LPG) and compressed natural gas (CNG). The Company increased sales of LPG by 9.5% to 115,000 tonnes in 2016, while sales of CNG expanded by 2.5% to 17.5 million m³.

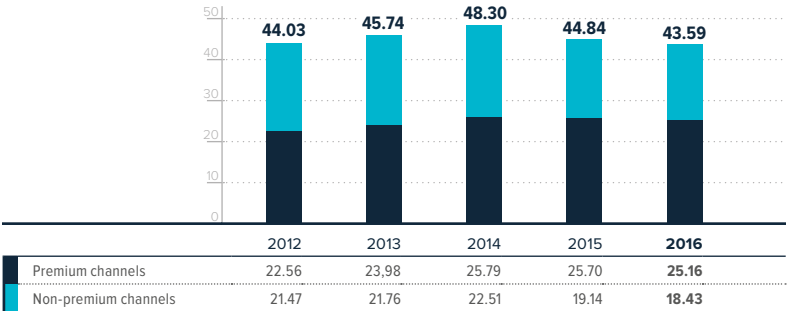
## SALES OF PREMIUM PRODUCTS

Premium sales decreased by 2.1% to 25.16 million tonnes during the reporting period due to the ongoing negative trends on the jet fuel supply and bunkering markets in Russia. The capacity of the retail markets for jet fuel and bunkering shrank by 7.7% and 25.3%, respectively.

Nevertheless, the Company’s successful development of premium sales channels and expansion in the geography of supplies and the range of premium products it manufactures made it possible to increase its share on the retail markets for most petroleum products, including the markets for aviation kerosene, lubricants and premium bitumen materials.

### TOTAL PREMIUM SALES BY PRODUCT BUSINESS UNIT IN RUSSIA AND ABROAD (mn t)

Source: Company data



Total small-scale wholesale and retail sales increased by 4.8% in 2016 compared to the previous year and amounted to 19.26 million tonnes. The Company managed to increase premium sales both on the domestic market as well as the foreign markets where the Company has a sales network.

## PETROCHEMICALS

Gazprom Neft is a major Russian manufacturer of a number of basic petrochemical products – aromatic hydrocarbons (benzene, paraxylene, orthoxylene and toluene) and propane-propylene fraction products (propylene liquefied petroleum gas). Basic petrochemical products are manufactured at all Gazprom Neft oil refineries (Omsk, Moscow and Yaroslavl). The production of petrochemical products for further stages of added value (polypropylene) takes place at integrated enterprises – Neftekhimiya NPP (Moscow) and Poliom LLC (Omsk). In 2016, both integrated enterprises achieved record levels of equipment productivity and polypropylene production: 130,000 tonnes at Neftekhimiya NPP and 203,000 tonnes at Poliom LLC. Taking into account the Company’s stakes in these assets, Gazprom Neft’s polypropylene production increased by 7% in 2016 versus the previous year and totalled 116,000 tonnes.



# INNOVATIVE ACTIVITIES

ONE OF THE PRIORITIES FOR GAZPROM NEFT’S INNOVATIVE DEVELOPMENT IS TECHNOLOGY THAT ENSURES THE COMPANY ACHIEVES ITS STRATEGIC PRIORITIES: GROWTH IN PRODUCTION TO 100 MILLION TONNES OF OIL EQUIVALENT PER YEAR (BY 2025) AND THE IMPROVED TECHNOLOGICAL EFFICIENCY OF OIL REFINING.

The Company has introduced a long-term technological planning system that identifies long-term technological challenges and the solutions needed to deal with them.

In 2016, the Company updated its Innovative Development Programme, which now extends to the period until 2025. The Programme’s key projects focus on introducing a set of technologies to enhance well productivity, developing the Bazhenov formation, improving tertiary methods for increasing oil recovery at depleted fields as well as developing and manufacturing catalysts for refining. Production automation projects in the oil production and refining segments are also an important part of the Innovative Development Programme.

## INNOVATIONS IN EXPLORATION AND PRODUCTION

### DRILLING SUPPORT CENTRE

High-tech wells accounted for more than 50% of the Company’s total drilling volume in 2016. The effectiveness of the new methods was enhanced by the renovated Drilling Support Centre (DSC), which began working at the Scientific and Technical Centre in 2016. The DSC can support the construction of 600 wells of any complexity per year, including objects with heavy loads, extended horizontal sections and superdeep wells. In addition, the Centre monitors the drilling of all wells that focus on the birthplace of hard-to-recover hydrocarbon reserves, including wells from the Bazhenov formation. The Centre has combined geological and technological support functions for well construction for the first time in the domestic oil and gas industry.

The Company has had a Technological Strategy for exploration and development since 2014 which specifies the main technological challenges and key areas of innovative development in exploration and production. The key technological challenges include integrating hard-to-recover and unconventional hydrocarbon reserves into development, increasing oil recovery at mature fields, developing carbonate and fractured reservoirs and improving drilling efficiency. More than 50 technological projects have been launched as part of the Technological Strategy.

## RESULTS OF 2016

- > **Improvement of well drilling and injection technologies**
  - > The length of the horizontal wellbore at the Novoportovskoye Port field has reached 2,000 metres, the Company’s highest such indicator to date.
  - > At the Verkhnesalymskoye field a well was drilled with depth of 3,300 metres in less than eight days. The construction speed of this well was a new technical record for such depth.
  - > In March 2016, the Company conducted 18-stage hydraulic fracturing at the South Priobskoye field. In July 2017, 30-stage hydraulic fracturing was performed at this field, the first such operation for the Russian oil and gas industry.
- > **Integration of unconventional reserves into development**
  - > A consortium involving the Company and Russian research organisations has developed the world’s first hydraulic fracturing simulator for the Bazhenov formation<sup>1</sup>, which makes it possible to determine optimal fracturing parameters and assess the productivity of wells in the Bazhenov formation.
  - > The company has continued building high-tech wells to optimise technology and reduce the cost of wells.
- > **Chemical methods to increase oil recovery**

In March 2016, Salym Petroleum Development began injecting a soda-surfactant polymer substance into the formation at the West Salymskoye field. The technology makes it possible to increase oil recovery at a mature field. Given the high proportion of assets in a late stage of development, increasing oil recovery at mature fields is among the Company’s top technological priorities. The pilot project allowed for assessing the technological and economic effectiveness of soda-surfactant polymer flooding. The successful completion of testing will enable the Company to transition to the large-scale industrial introduction of the technology in Western Siberia.

### INNOVATIONS IN PRODUCTION

Hydraulic fracturing is a method used to intensify oil production. A mixture of liquid and a special proppant is pumped into the formation under high pressure. As the mixture is supplied, high-conductivity channels (fractures) are formed that connect the wellbore and the formation. These cracks provide an inflow of oil, which otherwise would not have entered the well. In multi-stage fracturing, several fracturing operations are carried out in a single horizontal wellbore, which significantly increases the coverage area of the formation by a single well.

“The introduction of ASP technology at the Salym group of fields is a unique experiment for Russia that turns a new page in the history of oil production. This method makes it possible to extract up to 30% of oil from the subsoil. I am certain that this technology will allow for the more sustainable development of dozens of deposits in Western Siberia. Moreover, it will help to make a significant contribution to the social and economic development of the region, generating additional payments to the budget, creating new jobs and boosting local business development.”

**Alexey Govzich**  
CEO of Salym Petroleum Development

<sup>1</sup> The Bazhenov formation is a group of oil-source rock (strata) that has been identified over a territory of roughly a million square km in Western Siberia.



RESULTS OF 2016

> Development of oil refining catalyst technologies and production

- > A project to build an industrial platform at the Omsk Oil Refinery for a modern high-tech complex for the production of oil refining catalysts, including catalysts for hydrogenation processes and catalysts for catalytic cracking, entered the stage of practical implementation. Gazprom Neft began producing high-efficiency Avangard catalytic cracking catalysts in 2016.
- > Catalysts for a number of technological processes were developed jointly with leading Russian research centres that work with catalytic processes. The catalysts outperform the existing import analogues.

> Establishment of solid acid alkylation technology

Construction was completed on a pilot plant for solid acid alkylation at Elektrogorsk Institute of Petroleum Refining. Introducing this technology will make it possible to eliminate hazardous and corrosion components from the technological process, integrate low-grade raw materials into refining and also increase the production volume of Euro-5 high-octane petrol.

> Introduction of a highly effective catalyst for the butane-butylene fraction oligomerization process

A pilot batch of the catalyst was successfully tested in the conditions of an industrial unit at the Moscow Oil Refinery and produced a qualitative oligomerizate (petrol component) corresponding to GOST standards. The cycle length of the catalyst was increased by 150% times and the yield of the oligomerizate by 3% (compared with analogues). Based on the pilot test results, the decision was made to introduce the new catalyst in the MTBE and oligomerizate production unit at the Moscow Oil Refinery.

> Reactivation of spent hydrotreating catalysts

An industrial batch of the diesel fuel deep hydrotreating catalyst, which was reactivated according to the technology developed at the Omsk Oil Refinery, demonstrated a high level of efficiency (at the level of a fresh catalyst) in the hydrotreating of class 5 diesel fuel (less than 10 ppm sulphur). The introduction of reactivation technology makes it possible to reduce costs for the purchase of fresh expensive hydrotreating catalysts for diesel fuel by 55%.

> Deep hydroprocessing of vacuum gas oil

As part of the comprehensive project ‘Establishment of technology to produce import-substituting catalysts for the deep hydroprocessing of vacuum gas oil’, the Company developed technology jointly with the the Boreskov Catalysis Institute of Hydrocarbon Processing of the Siberian Branch of the Russian Academy of Sciences and the Institute of Petrochemical Synthesis of the Russian Academy of Sciences to produce catalysts for deep hydrotreating and hydrocracking of vacuum gas oil with maximum yield of high-quality light oil products and improved chemotological and low-temperature properties.

> Increase in intellectual property

In 2016, 18 patents were obtained and 26 applications were registered with the Russian Federal Service for Intellectual Property (including two international applications) for key technical solutions in oil refining that help the Company to achieve its strategic goals. This includes applications for technologies for oligomerisation, solid acid alkylation, the hydrotreating of diesel fuel and vacuum gas oil, the reactivation of hydrotreating catalysts and the production of catalyst supports.

RESULTS OF 2016

> Completion of Russia’s first pilot project to establish the ‘Neftekontrol-GPN’ automated information system for the collection, processing and transmission of data to track the movement of oil and petroleum products through the entire production and supply chain – from production to refueling complexes. The project was implemented within the framework of the State Information System of the Russian Fuel and Energy Complex in coordination with the Ministry of Energy and the Ministry of Industry and Trade. The system is designed to obtain reliable data on the quantity, quality and losses of oil and petroleum products during the extraction, production, transportation, processing and storage stages. The solutions developed by Gazprom Neft are expected to be used in the formation of state information resources used to ensure energy security.

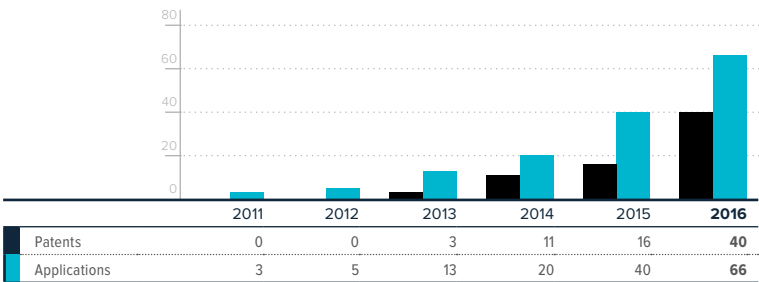
> Gazprom Neft and the Skolkovo Foundation signed an agreement on the establishment of a Gazprom Neft R&D centre at the Skolkovo Innovation Centre. Investments in the project will exceed RUB 180 million prior to 2019. The Gazprom Neft R&D Centre will develop and introduce software to automate business processes in the oil and gas industry. Its research work will focus on creating innovative energy-saving and strategic computer technologies to improve the efficiency of key areas in oil company operations.

NATIONAL PROJECT

The Russian Ministry of Energy has assigned national project status to Gazprom Neft’s ‘Aluminium Oxide-Based Crude Deep Conversion Catalysts’ project. By 2020, the Company expects to launch the newest production of hydrogenation catalysts with capacity of 6,000 tonnes per year and catalytic cracking catalysts with annual capacity of 15,000 tonnes at the industrial site of the Omsk Oil Refinery. The combined production capacity will make it possible to fully meet the needs of the Russian oil refining industry for catalysts for catalytic cracking and hydrogenation processes.

GROWTH IN THE NUMBER OF INTELLECTUAL PROPERTY ITEMS

Source: Company data



Priorities in the oil refining segment include increasing refining debt, releasing new products and enhancing the eco-friendliness of the production process.

# PRODUCT QUALITY

## CONTROL AND IMPROVEMENT

### GAZPROM NEFT INVESTS HEAVILY IN THE MODERNISATION OF ITS OIL REFINERIES IN AN EFFORT TO IMPROVE THE QUALITY OF ITS PETROLEUM PRODUCTS.

The Company works continuously to enhance the effectiveness of customer support processes and improve the quality of its products and the reliability of its surveillance modes. The key areas of work to improve product quality and comply with regulatory requirements include:

- > modernising and rebuilding process equipment;
- > commissioning new technological facilities and technologies;
- > increasing the safety of petroleum products through stricter control;
- > identifying and eliminating systemic problems with the quality of petroleum products;
- > introducing innovations in exploration and production, and conducting R&D and organisational and technical measures that aim to stabilise product manufacturing technologies and product quality at oil refineries;
- > manufacturing new types (brands) of products that meet the modern quality requirements of the market (customers);
- > introducing in-line quality inspection at technological facilities;
- > improving the skills level of personnel and optimising operational processes;
- > developing cooperation with and informing customers about matters concerning product quality.

Quality control management at Gazprom Neft is integrated into the general management systems. The management systems of a number of the Company’s subsidiaries and enterprises (Gazpromneft-Lubricants, Omsk Oil Refinery, Moscow Oil Refinery and Gazpromneft-Ryazan Bitumen Materials Plant) are certified for compliance with the requirements of the international quality standard ISO 9001. In 2016, Gazpromneft-Lubricants underwent a recertification audit of its management system for compliance with the requirements of ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 and a compliance audit according to the standard ISO TS 16949:2009. Gazpromneft-Ryazan Bitumen Materials Plant underwent a verification audit for compliance with the international certificate of conformity of the factory production control (EN 14023:2010 (16 brands) and EN 12591:2009 (four brands)). The Moscow Oil Refinery received an EN 12591:2009 certificate for two brands.

The oil refineries have testing laboratories that provide product quality control at all stages of production, from analysing raw commodities and materials to shipments to consumers. In addition to intra-plant inspections, outside surveyor<sup>1</sup> organisations may be additionally hired at the request of customers to perform random product quality control during its shipment to customers.

The products manufactured by the Company’s subsidiaries comply with the requirements of Russian and international standards and regulations. In particular, Gazpromneft-Lubricants products undergo an impact assessment on human health and environmental safety and comply with the requirements of the Customs Union’s technical regulation ‘On the requirements for lubricants, oils, special liquids’ (TR TC 030/2012), the standards of the international organisations API, ISO, ACEA, ILSAC, DIN and others.

#### CASES IN WHICH THE COMPANY’S PRODUCTS FAILED TO COMPLY WITH REGULATORY REQUIREMENTS

	2014	2015	2016
Total number of cases when products failed to comply with regulatory requirements as identified by a laboratory	1101	558	563
Cases when products failed to comply with regulatory requirements resulting in a fine or penalty	Not found	Not found	Not found

<sup>1</sup> Surveyor activities involve an assessment of the quality of freight based on its physical, chemical and biological condition.

Safety data sheets are developed for exported products in accordance with REACH regulations (Registration, Evaluation and Authorisation of Chemicals)<sup>2</sup>; safety data sheets have been developed for products put into circulation on Russian territory in accordance with applicable legislation. Products for the domestic market comply with Russian GOST requirements.

The products of Gazpromneft-Lubricants also have roughly 300 confirmed approvals by original equipment manufacturers that impose additional requirements on product quality.

The Company is implementing the Gazprom Neft Target Fuel Quality Safety Programme for fuel sales. An independent comprehensive service has been developed for the Company’s subsidiaries to preserve and monitor the quality of petroleum products. Investigations are conducted for each discrepancy to determine their cause, and developments are made to eliminate them. The Company is working to improve the effectiveness of monitoring facilities and counterparties and thoroughly verifies carriers. In 2016, contracts were terminated with several unscrupulous companies, which were entered on a ‘list of unscrupulous drivers’ and not allowed to transport Gazprom Neft petroleum products.

<sup>2</sup> REACH is a European Union regulation (Regulation (EC) No. 1907/2006) that has regulated the production and turnover of all chemical substances, including their mandatory registration, since 1 June 2007.

<sup>3</sup> High-quality motor and transmission oils for cars are produced under the Gazpromneft brand.

## KEY MEASURES TO IMPROVE PRODUCT QUALITY IN 2016

### PRODUCTION AUTHENTICATION SYSTEMS

Gazpromneft-Lubricants introduced a unique system to verify the authenticity of products manufactured under the Gazpromneft brand. The factory places a unique code on the label of each canister of the most popular packaging in 4 and 5 litres under a special protective layer. Any customer can verify the authenticity of the product in real time by texting this code to a short number or by entering it on a special website. The system will confirm whether this code exists in the database and notify the customer about the purchase of the original product.

- > **Quality control improvement:**
- > more precise methods for controlling the quality of oils were introduced to comply with the level of foreign requirements;
  - > a system was introduced to verify the authenticity of products manufactured under the Gazpromneft brand<sup>3</sup>.
- > **Production of new types of products with higher quality attributes:**
- > a programme was prepared to develop product lines in the oils segment, use in the Arctic and the pipe industry;
  - > a programme was implemented for the qualification assessment of a pilot sample of the Company’s own group 3 base oils;
  - > the development of new kinds of innovative bitumen products manufactured by NOVA-Brit LLC in which Gazpromneft – Bitumen Materials purchased a stake in 2016;
  - > four brands of polymer-bitumen binders were developed and put into production;
  - > the modernisation of Unit 36/1 No. 1 at the Omsk Oil Refinery was completed in an effort to create eco-friendly TDAE-type softening oils;
  - > 33 new products were created and the quality attributes of 20 products of Gazpromneft-Lubricants were improved;
  - > more than 100 training events were conducted on products of Gazpromneft-Lubricants for consumers and partners;
  - > the oils and petrochemistry laboratory of the Omsk Lubricants Plant finished developing a research method for the production of transmission oils;
  - > a pilot plant was commissioned for the development of IKA Master Plant 10 lubricant technologies, which makes it possible to develop production technologies and greases for various purposes in laboratory conditions with subsequent scaling to industrial equipment and also to improve the existing compounds in an effort to reduce the cost of finished products.

‘BEST 100 PRODUCTS OF RUSSIA’

Gazpromneft-Ryazan Bitumen Materials won the ‘Best 100 Products of Russia’ programme for the second time in 2016. The technological packaging of bituminous materials in ‘Clovertainer’ medium-tonnage containers and in ‘big bag’ soft packaging won the ‘Production and Technical Services’ category.

Gazprom Neft develops partnerships with research centres, institutions of higher education, research laboratories and industry associations in an effort to improve product quality and develop new types of products. In particular, the Company cooperates with the All-Russian Research Institute for Oil Refining, Gubkin Russian State University of Oil and Gas, among others. During the reporting year, Gazprom Neft joined one of the largest international industry-based associations – the Technical Association of the European Lubricants Industry (ATIEL).

Gazprom Neft works together with the Russian Fuel Union and other oil companies to develop measures to combat counterfeit fuel on the Russian market.

STRENGTHENING TECHNOLOGICAL LEADERSHIP

Gazprom Neft is committed to maintaining and strengthening its technological leadership in the production of bitumen materials for the Russian road industry. In 2016, the Company made significant progress in meeting this objective by acquiring a stake in NOVA-Brit LLC, having access to the production infrastructure, which provides an opportunity to increase the range of produced innovative bitumen materials the Company entered a new market for high-tech bitumen products used in road and airfield construction. In an effort to develop this business, the Company concluded cooperation agreements with the Kamchatka Territory Government, the Administration of Civil Airfields (Airports) and the Main Road and Airfield Construction Department under the Russian Federal Agency for Special Construction. During the reporting year, the Company opened the Gazpromneft – Bitumen Materials Research Centre to study bitumen binders and asphalt-concrete mixes and launched production on a number of new grades and compounds of bitumen materials that meet the current needs of consumers.

ENGAGEMENT WITH CUSTOMERS

GAZPROM NEFT IS COMMITTED TO BUILDING DIRECT AND LONG-TERM RELATIONSHIPS WITH ITS CUSTOMERS. THE COMPANY ENGAGES IN DIALOGUES WITH CUSTOMERS BY PROVIDING THEM WITH TIMELY AND RESPONSIBLE INFORMATION ABOUT ITS PRODUCTS, IMPROVING THE CUSTOMER COMPLAINT SYSTEMS AND STUDYING THE LEVEL OF CUSTOMER SATISFACTION WITH THE QUALITY OF PRODUCTS AND SERVICE.

Each batch of products that is sent to customers is accompanied by a quality certificate for the particular product. The quality certificate for each batch products must specify:

- > the name and brand of the product;
- > all quality indicators according to the regulatory requirements for the product;
- > the standards and actual values of the quality indicators.

The following information is printed on the labels of packaged products:

- > the scope of the product;
- > specifications and approvals from equipment manufacturers that describe the product’s performance parameters;
- > information on compliance with safety rules when using the product;
- > a reference to the document that regulates the transportation and storage of the product;
- > the name of the most dangerous substance for human health and the environment contained in the product;
- > information about the disposal of used products and packaging.

The maximum possible and most effective communication channels are used to create awareness among each group of consumers.

Extensive media campaigns are held among motorists to position the Gazprom Neft fuel quality control system. Media tours are conducted of the Company's industrial facilities for high-profile journalists and bloggers who write about automotive issues. The capabilities of the Gazpromneft filling station network’s mobile laboratories for the operational control of fuel quality are regularly demonstrated at major automobile events.

Corporate and small-scale wholesale customer are made aware about the quality of Gazprom Neft's fuel at industry and expert events such as exhibitions, conferences and roundtables and also via newsletters and brochures, information in the business media, direct dialogue between the Company's management and customers at events and at technical training sessions and seminars for partners and customer.

The response system to customer complaints and questions is comprised of different mechanisms and channels. The Company is constantly developing tools for feedback, which is the foundation for competitive supply. Contact mechanisms for customers include written inquiries, calls, feedback forms on the website, comment and suggestion registers at filling stations, online consultations with Company specialists on its websites and meetings with clients at exhibitions and forums, among other methods. All messages are reviewed in accordance with the Company’s established standards. The channel used is determined by the specifics of the activities of the enterprise or subsidiary. Subsidiaries regularly analyse the effectiveness of the corrective actions taken to prevent situations from recurring.

In order to provide effective communication with clients and comprehensive interaction with customers, Gazprom Neft has established the Unified Customer Support Centre, which is comprised of an information service that unites different communications channels.

Main issues concerning product quality raised by customers and other stakeholders in 2016:

- > the stabilisation of bitumen product quality based on the most critical attributes for customers;
- > the need for a quality margin based on the most critical attributes for customers;
- > the manufacturing of products based on new regulatory documents;
- > product certification based on TR TS 014/2011 ‘Road Safety’.

Active cooperation with customers helps the Company to consistently improve the quality of work as well as promptly identify and solve any problems that may arise.

The Company’s subsidiaries regularly conduct studies of customer satisfaction levels. The results of the studies conducted in 2016 found:

- > Customers view the Gazpromneft filling station network as a reliable and trustworthy brand. The loyalty and satisfaction index (NPS) among users of Gazpromneft petrol stations is one of the highest on the market with 95% of users believing that the stations sell high quality fuel. Among the respondents who chose Gazpromneft as their favourite filling station, 85% said they would be willing to recommend it and believe that these stations sell high quality petrol (TNS, 2016).
- > The satisfaction index among counterparties of Gazpromneft-Lubricants increased from 3.26 in 2015 to 3.31 in 2016. Among the counterparties surveyed, 40% said they were fully satisfied, while 54% said they were more or less satisfied with their cooperation with the company. The share of fully satisfied counterparties increased from 36% to 40%. The counterparty loyalty index increased from 3.53 in 2015 to 3.60 in 2016. 64% of respondents said they would definitely recommend Gazpromneft-Lubricants, while 34% said they would most likely recommend the company as a lubricant manufacturer if asked for a recommendation. The aggregate consumer satisfaction indicator was 80% for the year (77% in 2015).
- > The NPS (Net Promoters Score) loyalty index among Gazpromneft – Bitumen Materials customers was 73 out of 100 points. 82.1% of respondents commended the professionalism of employees, while 78.9% of respondents noted the high quality of products.
- > 78% of corporate customers, 64% of small-scale wholesale customers and 57% of retail customers said they were satisfied with their cooperation with Gazprom Neft. In terms of strengths, small-scale wholesale customers noted the quality of petroleum products, the level of service and the guarantee of supply in the long term, while corporate customers mentioned the notoriety of the company and the brand as well as the timely receipt of accounting documents.

SATISFACTION LEVEL AMONG THE COMPANY’S CUSTOMERS

Indicator	H1 2016	H2 2016
Retail customers - Net Promoters Score	56 <sup>1</sup>	57 <sup>1</sup>
Corporate clients – satisfaction index	76 <sup>2</sup>	
Small-scale wholesale customers – satisfaction index	73 <sup>2</sup>	

<sup>1</sup> According to TNS data, 2016  
<sup>2</sup> According to Vector market research date, 2016

GAZPROM NEFT DEVELOPS COOPERATION WITH CONTRACTORS WITH A FOCUS ON MARKET TRANSPARENCY, MARKET PRICING AS WELL AS LONG-TERM AND STRUCTURED RELATIONSHIPS. THE COMPANY IS COMMITTED TO UTILISING LONG-TERM CONTRACTING, VARIOUS INCENTIVE TOOLS FOR CONTRACTORS AND FLEXIBLE PRICING MECHANISMS.

The Company’s counterparties for the supply of goods, work and services are selected in a unified manner based on a competitive procedure.

The approaches to engagement with counterparties make it possible to:

- > maximise the efficiency and effectiveness of procurements;
- > achieve an optimal level of competition among potential procedure participants;
- > ensure an objective, substantiated and impartial process for selecting winners of the procedures;
- > ensure reasonable transparency in the procedures conducted;
- > promote the development of the competitiveness and technological capabilities of contractors.

‘GUARANTEED TRANSPARENCY’

The Company received the ‘Guaranteed Transparency’ award in 2016 based on the results of the National Procurement Transparency Rating. Ratings take into account the extent of information transparency of the competitive procedures, the intensity of competition, the degree of effectiveness of the competitive procedures and the screening of applications to take part in competitions as well as their cost-effectiveness.

The Company is committed to utilising long-term contracting, various incentive tools for contractors and flexible pricing mechanisms.

Today we have built a system that allows us to work in a comprehensive manner with the contractor market: the accreditation of companies and a rating of the organizations that work with us. In this regard, multi-year framework contracts are a logical step towards building effective relationships with partners in major construction projects.

Marat Sayfutdinov  
Leader of the Major Construction Function in the Gazprom Neft Upstream Division

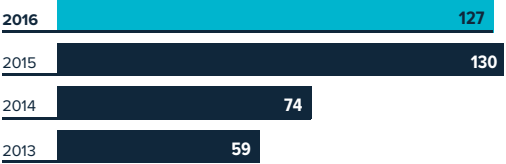
UNIQUE CONTRIBUTION

The interdepartmental working group in charge of reducing the Russian fuel and energy industry’s dependence on imports of equipment, components and spare parts as well as the services of foreign companies was held at the Gas Forum in St. Petersburg in October 2016. During the meeting, Russian Minister of Industry and Trade Denis Manturov expressed gratitude to Gazprom Neft for its unique contribution to the practical solution of import substitution objectives.

The basic criteria used when selecting counterparties for the supply of products, work and services include cost, quality, the timeframe for manufacturing and supply/performing work/rendering services, the reliability of the counterparty, its relevant technical and personal resources as regards the purchase of work/services and the necessary experience in performing such work/rendering such services for the corresponding area. One of the key criteria for selecting a counterparty for work/services is the counterparty’s compliance with the rules for industrial, environmental and occupational

AMOUNT OF PAYMENTS MADE TO SUPPLIERS (RUB bn)

Source: Company data



safety and civil defence (HSE, OS and CD) rules adopted by the Company. The Company concludes agreements with the selected counterparties on HSE, OS and CD containing requirements on compliance with the Company’s standards in industrial and environmental safety. The Company maintains a database and rating of counterparties that allows for identifying the most and least reliable suppliers and contractors.

In 2016, Gazprom Neft had a total of 1,827 counterparty organisations for the supply of goods. The share of the Company’s counterparties from the domestic market was more than 90%.

The Company is actively engaged in import substitution and supporting domestic manufacturers. Gazprom Neft has a Technological Partnership and Import Substitution Department that monitors the Russian goods market in an effort to find opportunities to phase out imported equipment and materials in favour of competitive Russian analogues.

<sup>1</sup> Homologation is an improvement to oil compounds to bring their quality into compliance with the requirements of the standards of the Russian Federation and customer demands.



GOALS FOR 2017

EXPLORATION AND PRODUCTION

- > effective development of mature fields;
- > maximising the return on investment from new projects;
- > preserving all resource base development options to ensure new production areas.

REFINING AND SALES

- > continued implementation of projects to increase oil refining depth and environmental projects, including the continued construction of primary oil refining complexes at the Omsk and Moscow Oil Refineries;
- > implementation of programmes to boost oil refining efficiency and cost costs;
- > maximising sales of petroleum products via the Company’s premium sales channels.

IMPROVED PRODUCT QUALITY

- > conducting the next round of recertification for Gazprom Neft-Lubricants in accordance with the requirements of international standards;
- > expanding the range of synthetic oils by developing compounds for key products based on market demand;
- > launch of a homologation<sup>1</sup> programme for synthetic oil compounds based on the Company’s own group 3 base oils;
- > conducting a programme of operational testing in various industries where the Company’s products are consumed to confirm the quality attributes of premium products;
- > implementing a programme for technical training sessions and industry conferences;
- > introducing the new standards GOST 33133-2014 and GOST R 55420;
- > holding the sixth inter-industry conference ‘Bitumen and PBB. Relevant Issues of 2017’ with the invitation of leading market players;
- > performing the following work at the Gazpromneft – Bitumen Materials Research Centre:
  - development of binders and asphalt concrete for specific regions taking into account the climatic operating features;
  - assessment of the changes in the properties of binders as a function of storage temperature and evaluation of the properties of asphalt concretes on these binders.
- > launchin g the production of new types (brands) of products that meet modern regulatory requirements for quality as requested by the market;
- > conducting industrial pilot testing to assess the feasibility of obtaining new types of bitumen products.



## SUSTAINABLE DEVELOPMENT STRATEGY

The strategy employed by Gazprom Neft reflects the Company's commitment to sustainable growth and the establishment of economic and social benefits for a wide range of stakeholders. In developing and implementing the strategy, Gazprom Neft seeks to balance the interests of business and society through the harmonious management of the economic, environmental and social aspects of its activities.



# ABOUT SUSTAINABLE DEVELOPMENT STRATEGY

THE COMPANY CONSISTENTLY INTEGRATES THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY<sup>1</sup> INTO ITS BUSINESS STRATEGY. THE COMPANY BELIEVES ADHERING TO THESE PRINCIPLES IS ONE OF THE KEY FACTORS FOR ITS LONG-TERM SUSTAINABILITY.

While investing resources in the Company’s development and its assets as well as improving production activities, Gazprom Neft simultaneously invests in effective programmes for regional development and environmental protection and views these investments as a contribution to its long-term competitiveness. The Company seeks to ensure dynamic growth and increase the efficiency of its core business while consistently enhancing the effectiveness of its social investments in personnel and local communities and also mitigating the specific impact on the environment.

Gazprom Neft takes a comprehensive approach to managing its impact on socioeconomic and environmental systems and implements modern environmental and social management systems that meet international standards.

The Company’s goals in sustainable development and corporate responsibility are specified by its mission, strategic principles and priorities.

The Company regularly analyses the effect its operations have on the environment and society and carefully evaluates the potential social and environmental impact of new projects. Gazprom Neft supports an active dialogue with all stakeholders and seeks to take their expectations into consideration when adopting management decisions.

The Company’s goals in sustainable development and corporate responsibility are specified by its mission, strategic principles and priorities and consist of a system of interrelated activities as part of Gazprom Neft’s unified strategy. When determining its sustainable development strategy, the Company takes into account global trends and experience in this area. The Company’s range of principles reflects a number of UN Sustainable Development Goals (SDP) that aim to solve important economic, social and environmental problems for the global community.

> About UN Sustainable Development Goals (SDP) see: [www.un.org/sustainabledevelopment/sustainable-development-goals/](http://www.un.org/sustainabledevelopment/sustainable-development-goals/)

<sup>1</sup> The company shares the understanding of sustainable development that is accepted in the international business community and enshrined in ISO 26000: 2010 ‘Guide to Social Responsibility’ (Russian version - GOST R ISO 2600: 2012) as development that ensures the opportunity to meet the needs of both current and future generations.

## STRATEGIC PRINCIPLES OF GAZPROM NEFT



### TECHNOLOGICAL EFFECTIVENESS

The Company is an integrator of new technological solutions that aim to increase production (oil recovery rate, refining depth) and financial indicators. It is the industry leader in terms of the introduction and utilisation of advanced technologies. The Company has a positive impact on the development of related production facilities and determines the sectoral technological agenda and demands of the industry that require modern scientific and technical solutions and developments. The Company is an expert on the development of Arctic region fields and work at mature fields and is a leader in the development of the Bazhenov formation.



### EMPLOYER ATTRACTIVENESS

- > Gazprom Neft consistently ranks among the country’s best employers in terms of key ratings. The Company’s management is built around the principle of involving all employees in solving common problems.
- > Working at Gazprom Neft means being a professional in high demand. The Company provides employees with the opportunity to take part in ambitious projects, improve their skills and become top-notch specialists who receive a respectable salary for their work as well as a social package.



### EFFICIENCY

The Company seeks to continuously improve its production and financial indicators and efficiently manage its assets. The Company maintains an efficient balance between production and refining and constantly improves its sales channels and product line. The Company is committed to leadership in production culture since improving the efficiency of business processes is one of the most important focuses of the Company’s development, and ensures the optimal use of all resources (human, financial and production) while boosting productivity.



### SAFETY AND ENVIRONMENTAL RESPONSIBILITY

Corporate safety standards are a priority in the Company’s operations. Gazprom Neft places the life and health of its employees above all else (any work that threatens someone’s life or health must be stopped immediately). The hydrocarbon production technologies used by Gazprom Neft take into account the special aspects of the environment in the regions where the Company operates. The Company invests in the modernisation of its oil refining assets and enhances eco-friendliness and safety.



## THE COMPANY'S SUSTAINABLE DEVELOPMENT GOALS AND THEIR COMPLIANCE WITH UN SUSTAINABLE DEVELOPMENT GOALS (SDG)

ECONOMY, MANUFACTURING	ENVIRONMENT	SOCIAL DEVELOPMENT
<ul style="list-style-type: none"><li>&gt; Achieve strategic goals</li><li>&gt; Enhance the effectiveness of core operations</li><li>&gt; Innovative activities</li></ul>	<ul style="list-style-type: none"><li>&gt; Minimisation of the environmental impact of production activities</li><li>&gt; Sustainable use of resources</li><li>&gt; Preserving biodiversity</li><li>&gt; Energy conservation and energy efficiency</li></ul>	<ul style="list-style-type: none"><li>&gt; Development of the Company's HR potential</li><li>&gt; Increasing the level of industrial and occupational safety, reducing the rate of injuries, accidents and occupational diseases</li><li>&gt; Support for local communities in the regions of operation, assistance with regional socioeconomic development</li></ul>
<b>SDG</b>		
<b>8</b> Decent work and economic growth	<b>6</b> Clean water and sanitation	<b>3</b> Good health and well-being
<b>9</b> Industry, innovation and infrastructure	<b>7</b> Affordable and clean energy	<b>4</b> Quality education
	<b>13</b> Climate action	<b>5</b> Gender equality
	<b>14</b> Life below water	<b>11</b> Sustainable cities and communities
	<b>15</b> Life on land	

The Company's range of priorities reflects a number of UN Sustainable Development Goals (SDP) that aim to solve important economic, social and environmental problems for the global community.

### UN SUSTAINABLE DEVELOPMENT GOALS



### VALUE CHAIN

An integrated business model allows Gazprom Neft to maximise the effective use of the Company's resources, increase the value of business and create value for stakeholders during each stage of activities. This enables the Company to maintain its leading positions and competitiveness in the long term.

The foundation of the Company's activities is the Gazprom Neft Development Strategy until 2025, which was approved by the Board of Directors in 2013 and updated during the reporting year. Despite the ongoing instability in the external environment, the Company is still on pace to achieve its key strategic priorities prior to 2025.

#### BUSINESS



#### EXPLORATION AND PRODUCTION

The volume of hydrocarbons extracted by the Company increases each year, thereby making it possible to meet the market's demand for oil and gas. The growth in production can be attributed to the large-scale development and introduction of innovations. The Company has increased production at mature fields in Western Siberia and introduced two new brands of Arctic crude oil to the international market – ARCO from the Prirazlamnoye field and Novy Port from the Novoportovskoye field. Gazprom Neft continues to study opportunities to extract hard-to-recover and unconventional reserves. A balanced project portfolio helps to effectively manage production in rapidly changing market conditions.



#### REFINING

The Company remains one of the industry leaders in oil refining efficiency while reliably meeting the demands of the domestic market. The high proportion of refining is a significant factor in ensuring the Company's economic efficiency. The Company achieves such results by continuously improving its operating efficiency, modernising oil refineries and implementing projects to increase the depth of refining and produce light petroleum products. Production facility modernisation programmes enable the Company to not only enhance the quality of its products, but also improve the environmental performance of motor fuels as well as minimise the environmental impact of its refineries.



#### SALES

The Company has an effective sales network to sell petroleum products to industrial consumers and motor fuel to end consumers via retail and small wholesale channels. Gazprom Neft develops a filling station chain in Russia and CIS countries. To improve the effectiveness of petroleum product sales to industrial consumers, the Company has separated the following businesses: aircraft refueling, bunkering and sales of lubricants and bitumen materials and petrochemical products.

#### CREATION OF VALUE

Meeting the needs of customers for oil, gas and high-quality petroleum products

Dividends for shareholders

Tax revenue for all budget levels

Orders placed with local suppliers

Manufacturing of innovative products with reduced environmental impact during consumption

Jobs, stable salaries and social support for personnel. Employee development and career growth programmes

Innovative activities that contribute to the industry's development

Contribution to the socioeconomic stability of the regions and their development, improving the lives of local communities and promoting growth in the population's social activity and social entrepreneurship

Nature conservation and contribution to the preservation of biodiversity

#### STRATEGIC OUTLOOK FOR 2025

100 million TOE – Hydrocarbon production volume  
15 years – Availability of proven reserves (Total Proved / Production)  
100% – annual replacement ratio of proven and probable reserves (2P) excluding acquisitions  
In order to achieve these goals, Gazprom Neft strives to employ the most cost-effective methods to recover the remaining reserves from the current resource base by utilising the best practices for optimising field development, reducing the cost of proven technologies as well as acquiring and introducing new technologies. The Company plans to set up a new production centre in the northern Yamalo-Nenets Autonomous District and is considering unconventional reserves as significant potential for growth.

40 mn t – oil refining in Russia  
95% – oil refining depth in Russia  
80% – yield of light petroleum products in Russia  
Continuing the modernisation of refining facilities and further enhancing operational efficiency remain a strategic priority for developing Gazprom Neft's oil refining business in Russia. The Company will continue to implement key projects to increase the depth of refining and the yield of light petroleum products. Gazprom Neft continues work on projects to improve operational efficiency and projects that aim to mitigate its environmental impact.

In the long term, the Company's own sales channels should sell 100% of the petroleum products manufactured at its oil refineries in Russia.  
In the motor fuel segment, Gazprom Neft intends to increase overall sales in Russia and the CIS to 19 million tonnes by 2025. The Company plans to expand its filling station network in Russia and the CIS to 1,650 stations by 2025, including franchising filling stations to achieve this goal.  
In the segment for the sale of petroleum products to industrial consumers, the Company intends to increase sales to 13.3 million tonnes per year by 2025



## SUSTAINABILITY MANAGEMENT AND STAKEHOLDER ENGAGEMENT

The standards and mechanisms of Gazprom Neft's corporate governance system enable the Company to observe sustainable development principles at all levels of operations – from planning the corporate strategy to solving daily business tasks. The Company's corporate governance system is one of the key factors in the continued growth of Gazprom Neft.

# CORPORATE GOVERNANCE

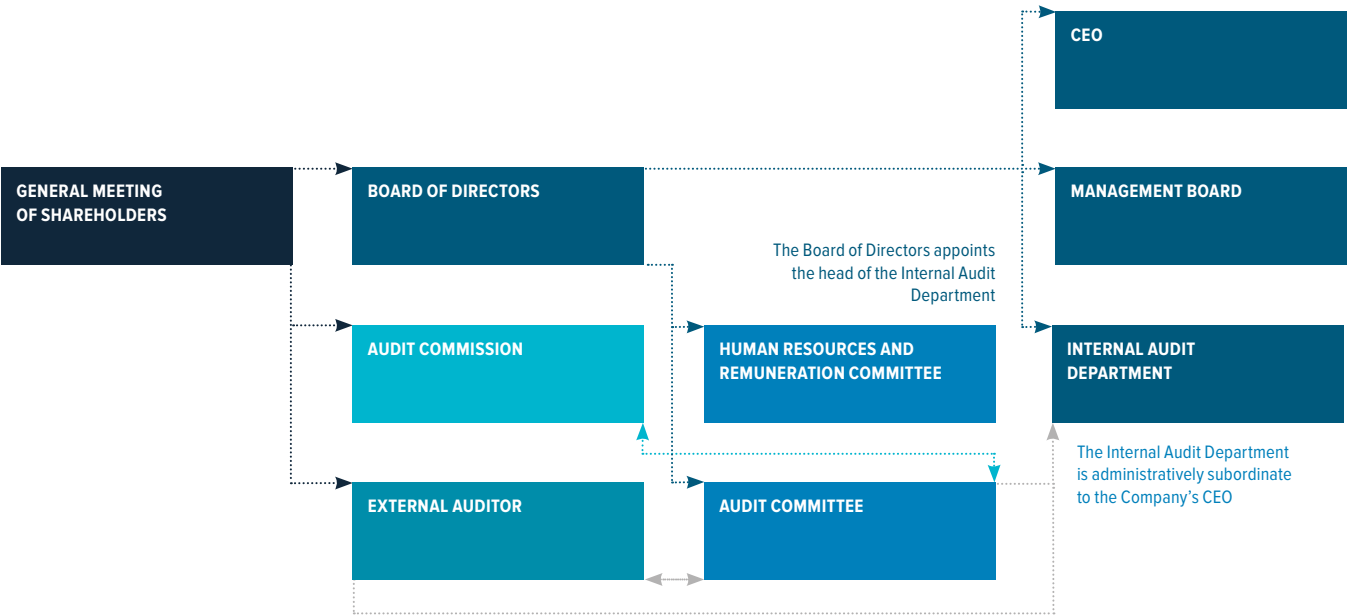
THE PRIMARY GOALS OF THE GAZPROM NEFT CORPORATE GOVERNANCE SYSTEM ARE TO SUPPORT THE EFFECTIVE IMPLEMENTATION OF THE SUSTAINABLE DEVELOPMENT STRATEGY, THE COMPANY'S CONTINUOUS GROWTH AND ITS LONG-TERM COMPETITIVENESS.

Gazprom Neft continuously makes improvements to its corporate governance system with the results of this work reviewed annually at meetings of the Board of Directors.

The corporate governance system meets the standards and requirements of Russian legislation, the Gazprom Neft Charter and the Company's internal standards. Gazprom Neft is also guided by the best international experience and most successful practices in corporate governance.

The principles and rules of the corporate governance system are enshrined in the Code of Corporate Governance (hereinafter the Code). The Code aims to ensure the thorough protection by the Company of the rights and interests of its shareholders, the transparency of decision-making by its governance bodies, the professional and ethical responsibility of members of internal governance and control bodies to the Company, its employees and counterparties, greater information transparency and the development of a system of business ethics standards.

STRUCTURE OF GOVERNING AND SUPERVISORY BODIES OF GAZPROM NEFT PJSC



The **General Meeting of Shareholders** is the supreme governing body whose purview includes the most significant issues concerning the Company's activities: approval of the annual reports, annual accounting (financial) statement, distribution of profit and amendments to the Charter, among other things. The General Meeting of Shareholders elects the Board of Directors.

Gazprom Neft held its annual General Meeting of Shareholders in June 2016.

The **Board of Directors** handles the strategic day-to-day management of the Company. The Board determines the priority areas for the Company's development, monitors the executive bodies to ensure they perform their duties effectively and is responsible for managing the key risks that influence the achievement of the Company's strategic goals.

The Board of Directors is comprised of thirteen people, including members of the Gazprom PJSC Management Board who represent the interests of the controlling shareholder, and two independent directors. Twelve of the thirteen Board members are non-executives. The Board of Directors is chaired by Gazprom PJSC Management Board Chairman Alexey Miller.

The Board of Directors is balanced insofar as its members possess the key skills that are essential for effective work. The members of the Board of Directors have skills in accounting, strategic management, corporate governance, corporate finance and risk management as well as knowledge specific to certain areas of the Company's business<sup>1</sup>. When performing their functions, Board members actively interact with the Company's management, structural units, the registrar and the auditor.

The Board of Directors monitors improvements in the corporate governance system and practices at the Company and reviews reports on the implementation of an action programme to improve corporate governance on an annual basis.

The Board of Directors conducts a self-assessment of its work each year. This analysis concerns both the nature of the Board's activities as well as the procedures it employs.

The analysis of the Board's performance over the reporting period revealed improvements in the following areas: identification of strategic priorities, interaction with executive management, balanced membership and functioning of the Board of Directors. In addition, issues falling within zones for development based on the assessment results included the increased awareness of members of the Board of Directors, including the timely provision of information and improvements to communication channels with management and other individuals.

In 2016, the Board of Directors considered the following matters concerning sustainable development:

- > the approval of the Report on the Implementation of the Gazprom Neft PJSC Innovative Development Programme for 2015;
- > the procurement activities of the Gazprom Neft Group in the changing market conditions and measures to minimise the proportion of imported procurements;
- > the status of energy conservation and improved energy efficiency work at the Company;

<sup>1</sup> A list of the members of the Board of Directors, their specific skills as well as the number of meetings at which each member was present is presented in the Company's Annual Report for 2016 on the Company's website.

<sup>2</sup> A list of the members of the Management Board and their specific skills as well as the number of meetings at which each member was present is presented in the Company's Annual Report for 2016.

<sup>3</sup> Read more about compliance with the Code of Corporate Governance in the Company's Annual Report for 2016.

- > the implementation of the programme to utilise and increase the effective utilisation of associated petroleum gas (APG);
- > industrial safety measures;
- > the approval of sponsorships for sports clubs in the regions where the Company operates during the sports seasons – Hockey Club SKA and NP Avangard SC.

The Secretary of the Board of Directors handles regular interaction with shareholders and the coordination of the Company's actions to protect the rights and interests of shareholders and also supports the effective work of the Board of the Directors.

The Audit Committee and Human Resources and Remuneration Committee operate under the Board of Directors.

The **Audit Committee** evaluates the effectiveness of the internal control systems for the Company's financial and business operations and also monitors the risk management system.

The **Human Resources and Remuneration Committee** contributes to the creation of the Company's human resources policy and handles matters involving remuneration for members of governing bodies and the Audit Commission.

The executive bodies are the **Management Board** (collective executive body) and **CEO** (sole executive body who performs the functions of the Chairman of the Management Board). The CEO and the Management Board are accountable to the Board of Directors and the General Shareholders Meeting. As of 31 December 2016, the Management Board was comprised of eleven members<sup>2</sup>. The Company's CEO is Alexander Dyukov.

The Company has mechanisms that aim to eliminate the possibility of a conflict of interests in the supreme governing bodies<sup>3</sup>.

# REMUNERATION

## FOR MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

THE REMUNERATION PROGRAMME FOR MEMBERS OF THE COMPANY'S MANAGEMENT BOARD INCLUDES BASE REMUNERATION THAT IS DETERMINED INDIVIDUALLY AND FIXED IN THE EMPLOYMENT CONTRACT, AN ANNUAL BONUS AND A LONG-TERM INCENTIVE PROGRAMME<sup>1</sup>.

The annual bonus for key senior executives is tied to the degree to which they fulfilled a fixed set of KPIs and business initiatives. This set of KPIs includes performance indicators with respect to the Company's strategic goals as well as corporate, financial and performance targets. Starting from 2016, it also comprises indicators demonstrating compliance with industrial safety and occupational safety standards.

In addition to the annual bonus, Gazprom Neft employs a long-term incentive system based on the dynamics of the Company's market capitalisation over a three-year period. The amount of remuneration for members of the Board of Directors depends on the Company's financial results and is annually approved by shareholders, which eliminates the risk of potential abuses of the remuneration programme.

# INFORMATION

## POLICY

Gazprom Neft maintains a high level of information openness and transparency. The Company promptly and regularly discloses information about its activities to an extent that is capable of influencing its financial and business operations.

Gazprom Neft has drafted and adopted an Information Policy that ensures effective information interaction between the Company, shareholders, investors and all stakeholders. The Board of Directors monitors the observance of the Information Policy.

The core principles of the Gazprom Neft Information Policy are:

- > the regular, consistent and prompt provision of information;
- > ensuring all stakeholders have the opportunity for equal, free and easy access to information disclosed by the Company;

- > the objectivity, accuracy, completeness and comparability of all disclosed data;
- > neutrality of information, i.e. eliminating the possibility of the preferential satisfaction of the interests of one group over those of another;
- > maintaining a reasonable balance between the Company's transparency and its commercial interests.

The Company discloses balanced and objective information, which is above all evidenced by the fact that Gazprom Neft does not avoid disclosing negative information about itself since it understands the importance of such information for stakeholders

Gazprom Neft publishes all the main forms of its financial statements prepared in accordance with IFRS and RAS as well as its sustainable development reporting in the 'Investors' section of its official website [www.gazprom-neft.com](http://www.gazprom-neft.com). The reporting is confirmed by audit reports. The Company also publishes documents governing the activities of Gazprom Neft's management and supervisory bodies, financial and production indicators and information about the impact of the Company's activities on the economy, environment and society. Information is published in Russian and English.

# OBSERVANCE

## OF HUMAN RIGHTS

GAZPROM NEFT STRICTLY OBSERVES HUMAN RIGHTS IN ITS ACTIVITIES.

The Company subscribes to the following general principles:

- > The UN Global Compact on Human Rights, Labour Relations, Anti-Corruption and Environmental Protection;
- > The Universal Declaration of Human Rights;
- > The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- > The Social Charter of Russian Business of the Russian Union of Industrialists and Entrepreneurs.

Gazprom Neft does not permit any discrimination based on nationality, gender, origin, age or other grounds, recognises the right of workers to form public associations and organisations to protect their rights and interests, and guarantees respect for the rights of indigenous peoples when organising production operations in areas where they reside. The Company ensures the observance of these and other human rights through its risk management system, environmental, production and social management systems, and communications system with internal and external audiences.

The company officially recognises its employees' rights to safe working conditions, freedom from discrimination and freedom of association and takes into account the special aspects of the culture and customs of local communities in the regions where it operates.

**The company officially recognises its employees' rights to safe working conditions, freedom from discrimination and freedom of association and takes into account the special aspects of the culture and customs of local communities in the regions where it operates.**

The Company's principles in the observance of human rights are reflected in its fundamental corporate documents and include:

- > Code of Corporate Governance;
- > Corporate Conduct Code;
- > Anti-Fraud and Anti-Corruption Policy;
- > Industrial, Environmental and Occupational Safety and Civil Defence Policy;
- > HR Management Policy;
- > Regional Policy Concept;
- > Information Policy.

The Company ensures the practical observance of human rights by:

- > undertaking obligations to observe human rights and incorporating them into the Company's regulatory documents;
- > assessing risks concerning the observance of human rights and developing preventive measures if they materialise;
- > interacting with stakeholders on matters concerning the observance of human rights;
- > developing feedback channels that enable stakeholders to express their opinion or a complaint in this regard;
- > monitoring the observance of human rights by the Company and its contractors.

<sup>1</sup> Read more about the remuneration paid to members of the Company's Board of Directors and Management Board in the Company's Annual Report for 2016.



# ETHICS AND ANTI-CORRUPTION ACTIVITIES

Since February 2014, the Gazprom Neft Group has employed an Anti-Corruption and Anti-Fraud Policy with which all current employees of the Company and its subsidiaries are familiar. It is based on Russian legislation, the Code of Corporate Governance and other internal regulatory acts. The Policy describes the main requirements for implementing business processes in order to mitigate corruption risks and also prescribes anti-corruption rules and standards for all the Company’s employees.

- Gazprom Neft has a risk management system for corruption that includes the following anti-corruption measures at all levels of internal corporate regulation:
- > contracts concluded with contractors include anti-fraud and anti-corruption obligations;
  - > the Company regularly conducts an assessment of corruption-related risks. Measures to identify and prevent corruption and fraud risks have been included in the Company’s risk management system;
  - > Gazprom Neft has a hotline that it uses as a system to collect and process information about fraudulent actions, administrative violations and violations of industrial safety requirements. The goal of the hotline is to provide any individual with an opportunity to report violations at Gazprom as well as its subsidiaries. All the reports received are processed with the highest level of confidentiality. The information is verified in compliance with the requirements for objectivity and independence by individuals who are not parties to the proceedings in question;
  - > official investigations are conducted based on any violations that are identified and the guilty parties are held accountable.

The Company has zero tolerance for possible risks of corruption and fraud. Working to prevent such risks remains one of the top priorities in the activities of Gazprom Neft management and employees.

## COMBATING FRAUD AND CORRUPTION

As part of its programme to minimise corruption risks in 2016, the Company developed the online course ‘Combating Fraud and Corruption at Gazprom Neft PJSC’, which addresses aspects of anti-corruption behaviour among employees when performing their official duties. This course was recommended for all current Company employees and mandatory for all newly hired employees.

# INTERNAL CONTROL AND RISK MANAGEMENT

The Gazprom Neft risk management system aims to ensure the Company’s financial stability, achieve a balance between growth in the Company’s value, profitability and risk, effectively manage business activities, ensure the safekeeping of assets, identify, correct and prevent violations, prepare reliable accounting in a timely manner and improve the Company’s investment appeal as a result.

**The creation and maintenance of the risk management and internal control system falls within the responsibilities of the Management Board and CEO.**

The principles and approaches to organising the Gazprom Neft risk management and internal control system are determined by the Company’s Board of Directors. The Audit Committee under the Board of Directors assesses whether the system functions effectively and submits a report on the audit results to shareholders as part of materials for the annual General Meeting of Shareholders. The creation and maintenance of the risk management and internal control system falls within the responsibilities of the Management Board and CEO.

In an effort to improve the effectiveness of the internal control system and improve corporate governance, the Company drafted a new version of the Gazprom Neft PJSC Internal Control Policy. The Policy is published along with other Company documents at the address: [ir.gazprom-neft.com](http://ir.gazprom-neft.com).

# COMPANY SUPERVISORY BODIES

- The **Internal Audit Department** evaluates and makes improvements to the Company’s corporate governance, risk management and internal control processes. Its functions include conducting internal audits, organising the integrated risk management system and engaging in fraud prevention activities.
- As part of its activities, the Internal Audit Department assesses the effectiveness of the internal control system for the Company’s business processes, including operational efficiency, the safeguarding and legitimate use of assets, the accuracy of external and internal reporting as well as compliance with the requirements of applicable existing legislation and regulatory organisations.
- The Internal Audit Department interacts with the Company’s audit commissions and coordinates its work with external auditors in all stages of the audit cycle.
- The audits cover key aspects of the Company’s activities and also take into account its goals and priorities. The audit plan is formulated based on a risk-oriented approach, is regularly updated and includes audits of such areas as exploration and production, refining and sales, capital construction, financial activities, information technologies and industrial safety, among others.
- The **Audit Commission** monitors the Company’s financial and business activities, audits and analyses the Company’s financial position and the operation of the internal control and risk management systems and also verifies the validity of business transactions. It is elected by the General Meeting of Shareholders.
- The **External Auditor** conducts an annual audit of the financial statement in accordance with Russian Accounting Standards and International Financial Reporting Standards (IFRS). It is approved by the General Meeting of Shareholders based on a recommendation by the Company’s Board of Directors.
- Gazprom Neft devotes special attention to improving the internal control system (ICS) for reporting accuracy. In 2016, such work included:
- > identifying and evaluating risks that influence reporting accuracy;
  - > drafting and introducing control procedures to minimise such risks;
  - > work involving the self-diagnosis of the effectiveness of control procedures;
  - > drafting and implementing procedures to manage changes to ICS data in an effort to ensure such data remains updated and effective.

**Risk management** is one of the key components of the sustainable development management system. The Company has a Risk Management Policy that defines the general goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

## SAP GRC PROCESS CONTROL SYSTEM

The Financial Control Department implemented a project in 2016 to introduce a solution to automate internal control functions based on the SAP GRC Process Control system. This solution made it possible to create a unified information space of the ICS for all of the Group’s companies, reduce labour costs and improve the quality of internal control management procedures and the degree of control procedure automation. More than 60 manual control procedures were automated as part of the project.

Gazprom Neft’s key goal in risk management is to increase the effectiveness of management decisions through a detailed analysis of related risks and also to maximise the effectiveness of risk management measures when implementing the decisions that the Company has adopted.

- Objectives of risk management:**
- > to establish a risk management culture at the Company that aims to achieve a common understanding among all employees of the main principles and approaches to risk management;
  - > to establish and introduce a systematic approach to identifying and assessing risks;
  - > to stimulate the exchange of information on risks between the Company’s structural divisions and the joint development of risk management actions;
  - > to provide systematic information about risks to the Company’s governing bodies.

RISK MANAGEMENT SYSTEM

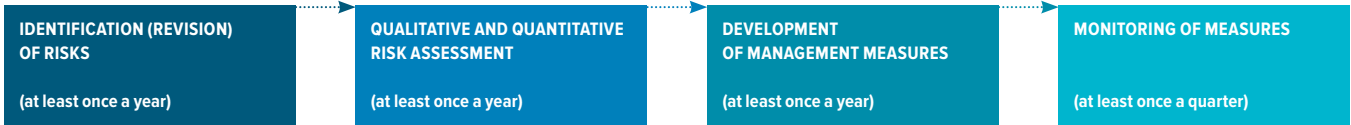
The Company’s risk management processes are described by the corporate Risk Management Policy and the Integrated Risk Management System (IRMS) unified corporate standard, which covers all of Gazprom Neft’s major assets. The IRMS provides a continuous process to identify, assess and manage risks. Risk analysis and management tools are integrated into key corporate processes.

Responsibility for risk management and preparing reporting on risk management is determined in accordance with the system of linear and functional management. An owner is appointed for each risk and is responsible for managing it. Risk coordinators who promote and support the use of corporate risk management principles are selected from among managers at the level of each function and business directions. The risk analysis deadlines and objectives take

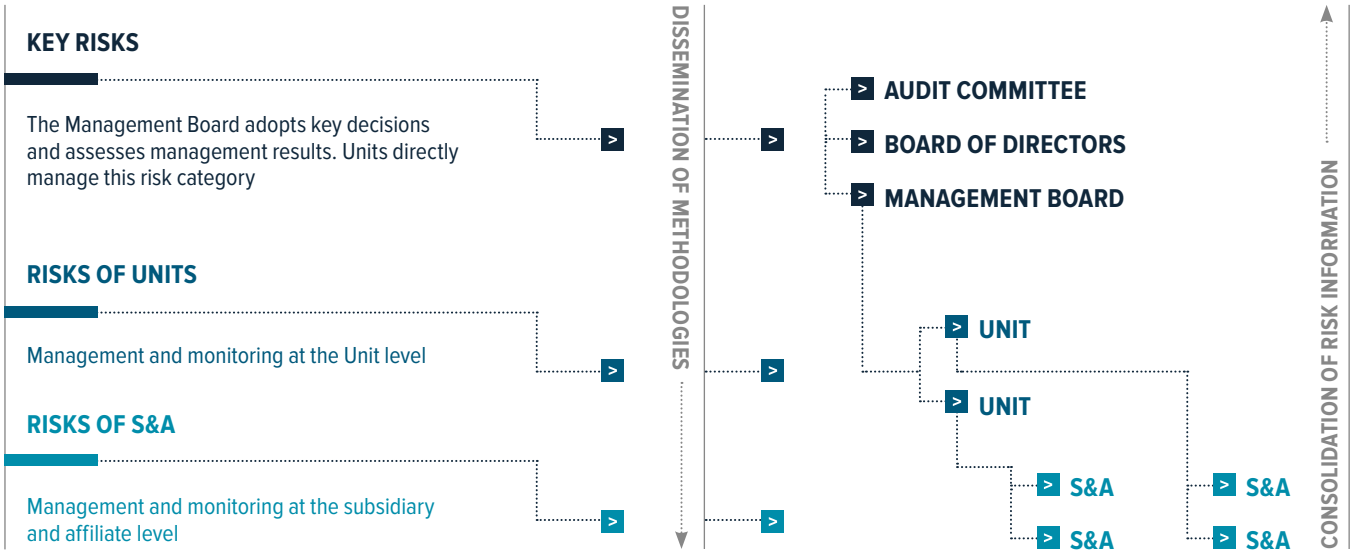
into account the specific features and demands of each business process for which risk management is performed.

Improving the quality of business planning, project management and strategic planning remains a key component of risk management tools. In addition to financial and operational risks, the risk management system covers risks of a social and environmental nature. The Board of Directors assesses the effectiveness of the risk management system.

SCHEMATIC DIAGRAM OF IRMS PROCESS AT THE GAZPROM NEFT GROUP



LEVELS OF FINANCIAL IMPACT OF RISK AND DISTRIBUTION OF POWERS WITHIN THE IRMS



MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS

Risk description	Risk management measures
<b>RISKS ASSOCIATED WITH HUMAN RESOURCES</b>	
Successfully achieving the Company's strategic goals largely depends on the efforts and abilities of key employees, including skilled technical personnel. The inability to recruit personnel and/or retain existing personnel with the necessary skills and experience could have a negative effect on the Company's appeal as an employer. Factors that increase HR risks include a growing shortage of skilled specialists and, as a consequence, increased competition on the labour market in Russia and abroad.	Gazprom Neft offers competitive remuneration, including a salary, performance-based bonuses and a social benefits package. The Company develops and implements programmes to establish a talent pool as well as train and develop personnel which aim to meet its demand for qualified staff both now and in the future.  Gazprom Neft is improving its recruitment procedures and undertaking measures to reduce staff turnover and encourage staff to realize their potential.  The Company implements social investment programmes in its regions of operation that aim to improve the quality of life of employees and their families, among other things.
<b>RISKS ASSOCIATED WITH INDUSTRIAL AND OCCUPATIONAL SAFETY</b>	
The Group is exposed to risks associated with the safety of its employees and their operations. Such risks may arise as a result of equipment damage and failure, natural disasters, terrorist attacks or the actions or inaction of personnel. Any of these risks could have a materially adverse effect on the business, financial situation, operating results or reputation of Gazprom Neft.	Gazprom Neft strives to provide a safe working environment for its employees and seeks to avoid injury or death, actions brought against the Group or damage to its business reputation. The Company constantly monitors safety threats, and pays particular attention to complying with compliance with industrial safety.
<b>ENVIRONMENTAL RISKS</b>	
Gazprom Neft's operations carry an inherent risk of environmental damage or pollution, which may lead to civil liability and require action to mitigate such damage. Environmental risks and expenses related to compliance with environmental requirements or commitments may increase in the future as the Company's production activities and assets expand.	The Company is fully aware of its responsibility to the public for creating safe working conditions and protecting the natural environment. Gazprom Neft ensures compliance with environmental protection standards and also monitors changes in environmental legislation in the various countries in which it operates. The Company also implements programmes to minimise its negative impact on the environment as well as nature conservation and biodiversity preservation programmes.

The Company continuously develops the methodological framework for the IRMS, including general recommendations on the quantitative risk assessment of project and business planning as well as detailed methods for assessing the most substantial inherent risks such as ‘unscheduled equipment downtime’, ‘pipeline failures’ and other risks. In 2016, the Company continued developing its regulatory and methodological framework to assess risks related to industrial, environmental and occupational safety as well as civil defence.

EXPANSION OF THE IRMS

Gazprom Neft Shelf obtained a certificate on the compliance of its risk management system with the requirements of ISO 31000:2009 and the PMBOK Guide standard in February 2016. Independent auditors noted the thorough integration of the risk management system in all the Company’s fundamental processes, management’s leadership and interest in this issue as well as the high degree of involvement by personnel and contractors in the risk management process. The Company plans to further expand the IRMS as it launches new products or acquires existing assets.

> Read more in the ‘Safe Development: Industrial and Environmental Safety, Occupational Health and Safety, Energy Efficiency and Energy Conservation’ section [p. 76](#)

# STAKEHOLDER ENGAGEMENT

GAZPROM NEFT’S STAKEHOLDER ENGAGEMENT SYSTEM AIMS TO ACHIEVE SUSTAINABLE DEVELOPMENT GOALS AND HARMONISE THE INTERESTS OF ALL STAKEHOLDERS. ENGAGEMENT WITH ALL STAKEHOLDERS IS BASED ON THE PRINCIPLES OF MUTUAL RESPECT AND COOPERATION, THE INFORMATION TRANSPARENCY OF THE COMPANY’S ACTIVITIES, REGULAR INTERACTION AND COMPLIANCE WITH OBLIGATIONS.

Gazprom Neft has a number of key groups of stakeholders whose interests are most inextricably linked to its activities and can have the greatest effect on the Company’s ability to implement its strategic goals.

The main priorities of stakeholder engagement are reflected in corporate documents: the Corporate Conduct Code, Corporate Code and documents governing certain areas of business.

Gazprom Neft maintains a continuous dialogue with key stakeholders on all important matters. The dialogue agenda is based on the Company’s continuous analysis of the internal and external social environment taking into its strategic targets and the priorities of stakeholders.

### KEY GROUPS OF THE COMPANY’S STAKEHOLDERS



- Primary mechanisms for stakeholder engagement:
- > business contracts and cooperation agreements;
  - > business meetings and presentations;
  - > corporate communications system;
  - > public hearings;
  - > joint working groups;
  - > hotlines for employees and customers;
  - > surveys and studies on the opinions of employees, consumers and local communities;
  - > membership in public or expert associations;
  - > conferences and roundtables;
  - > corporate reporting.

The most effective mechanisms and tools are selected based on the goals and objectives of engagement and depend on the specific group of stakeholders.

## SHAREHOLDERS AND INVESTORS

- Engagement mechanisms:
- > General Meeting of Shareholders;
  - > corporate reporting;
  - > meetings with Company management;
  - > conference calls for investors;
  - > quarterly publication of an analyst’s handbook and the monthly publication of a statistical compilation;
  - > the Company’s participation in the conferences of investment and broker organisations;
  - > the annual Investor Day involving Gazprom Neft senior executives;
  - > off-site meetings for investors at production and extraction sites;
  - > updating of information in the ‘Investors’ section on the Company’s website [www.gazprom-neft.com](http://www.gazprom-neft.com)
- Key issues:
- > strategy implementation;
  - > corporate governance and risk management;
  - > respect for shareholder rights;
  - > improving the efficiency of production and industrial safety levels

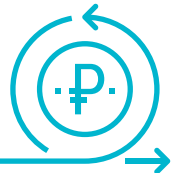
Read more about the General Meetings of Shareholders in the [Company’s Annual Report for 2016](#)



The Company’s largest shareholder is Gazprom PJSC, which owns a 95.68% stake in the Company’s common shares. The remaining 4.32% of common shares are distributed among minority shareholders that include individuals and legal entities. The Company supports securities trading on the Moscow Stock Exchange through the regular disclosure of information and the release of documents in accordance with the requirements of the Exchange.

The procedures used to prepare for and hold General Meetings of Shareholders enable shareholders to review the necessary information, easily register as a participant in a General Meeting of Shareholders and take part in voting. The Regulation on the General Meeting of Shareholders guarantees shareholders’ equal opportunity to express their opinion and ask any questions they might have (including to members of the Company’s Management Board).

The Annual General Meeting of Shareholders held on 10 June 2016 considered the payment of dividends based on the results of the Company’s activities in 2015 and decided to pay dividends in the amount of RUB 6.47 per share (taking into account dividends paid for the first half of the 2015 financial year).



**RUB 6.47**  
dividend payments per share based on 2015 results

## EMPLOYEES

### > Engagement mechanisms:

- > internal corporate communications system;
- > meetings between work teams and managers at Gazprom Neft enterprises devoted to the current agenda of business and cooperation issues;
- > studies of the social and psychological climate at the Company's enterprises;
- > corporate events;
- > cultural and sporting events.

### > Key issues:

- > remuneration and social support system;
- > safe working conditions;
- > employee training and development.

The Company's interaction with employees is governed by internal regulations, collective agreements and the Corporate Code. In following the principles of social partnership, the Company actively interacts with trade union organisations representing the interests of workers.

Gazprom Neft works continuously to improve its internal corporate communications system with special attention paid to feedback tools. The Company regularly conducts studies of the social and psychological climate based on which it identifies existing problems in the workforce and develops measures to eliminate them.

> Read more about employee engagement and the results of these activities in the 'Human Resource Development' p. 56

## GOVERNMENT AUTHORITIES

### > Engagement mechanisms:

- > agreement on socioeconomic partnership;
- > joint working groups, roundtables and meetings;
- > corporate reporting;
- > participation in commissions and conferences.

### > Key issues:

- > improvements to the regulation and stimulation of the development of the oil and gas sector;
- > the Company's strategic development;
- > the development of the raw materials base;
- > the Company's role in developing its regions of operations;
- > the environmental impact of the Company's production activities;
- > compliance of the Company's activities with the legislative norms of the Russian Federation.

> Read more about interaction with the government authorities and the results of these activities in the 'Regional Policy and Development of Local Communities' p. 112

Gazprom Neft works with government authorities at the federal and regional levels. The Company is committed to contributing to the sustainable development of the regions where it operates and the country as a whole as well as modernising and developing the oil industry taking into account the actual socioeconomic situation and the goals for the development of the regions and the industry. Gazprom Neft specialists actively take part in drafting and improving regional legislation and the regulatory framework in the industry.

### COOPERATION AGREEMENT

Gazpromneft – Bitumen Materials and FSUE Main Road and Airfield Construction Department under the Russian Federal Agency for Special Construction signed a cooperation agreement. The parties will join forces for R&D and laboratory testing to study binder compounds – from conventional and modified binders to bitumen derivative products – and monitor their quality taking into account the climatic and operating conditions of different regions. This cooperation will result in the development of high-quality bitumen materials for the future projects of the Federal Agency for Special Construction which will make it possible to increase the service life of road and airfield pavement.

## SUPPLIERS AND CONTRACTORS

### > Engagement mechanisms:

- > competitive measures;
- > contracts and agreements;
- > business meetings and Company forums;
- > external conferences and exhibitions;
- > corporate website.

### > Key issues:

- > observance of mutual obligations;
- > support for domestic manufacturers;
- > transparency, openness and competitiveness in the selection of contractors;
- > observance of business ethics and anti-corruption.

> Read more about interaction with suppliers and the results of these activities in the 'About the Company' p. 10

Gazprom Neft develops mechanisms for cooperation with contractors with a focus on being transparent for the market, market pricing as well as long-term and structured relationships. The Company pursues long-term contracting, adapts pricing mechanisms to current influential factors and introduces additional components of motivation for counterparties.

Gazprom Neft is committed to providing comprehensive support to domestic producers in helping them to develop new types of products and technologies and promotes the development of a national production base and network of suppliers. When choosing services and equipment to implement its projects, the Company gives preference to goods, work and services of Russian origin. More than 90% of the funds that Gazprom Neft spends on procurements go to Russian contractors. The Company is also actively involved in the work of intersectoral groups to support initiatives associated with the establishment of joint ventures and the localisation of production capacity as well as the R&D of leading foreign producers working in Russia.

## CUSTOMERS

### > Engagement mechanisms:

- > contracts;
- > mass media;
- > business meetings, including off-site meetings;
- > conferences and forums;
- > complaint handling system;
- > reporting.

### > Key issues:

- > product quality;
- > improved customer service level;
- > transparent pricing;
- > ethical business practice.

Engagement with the Company's customers aims to build long-term mutually beneficial relationships. In order to achieve this goal, the Company carries out programmes to improve the quality and environmental friendliness of its products, strives to provide customers with prompt and reliable information about its products and fosters a dialogue with customers. Some of the key tools of this dialogue include Gazprom Neft conferences for customers and distributors, off-site meetings and fact-finding missions during which future customers and clients that already cooperate with the Company can see the production process

### LONG-TERM PROGRAMME FOR COOPERATION WITH MAINTENANCE STATIONS

In April 2016, Gazpromneft-Lubricants presented an updated concept for partner relations in 2016 at the fourth 'Association of Automobile Dealers' (AAD) convention. The package proposal offered to automobile dealers by Gazpromneft-Lubricants includes the development of a long-term cooperation programme that aims to retain existing and attract new customers to the dealer maintenance stations, form an individual supply plan for G-Energy oil, maintain attractive prices for products, provide technical training for service station personnel and conduct joint marketing events.

“We strive to meet the emerging needs on the Russian market to the maximum extent and actively cooperate with large industrial giants as well as with small maintenance stations. This is possible due to the large volume and wide range of products as well as flexible service programmes and skilled technical support.”

**Alexander Klimashin**  
Gazpromneft Lubricants Deputy General Director for Sales

in person, study products in detail and discuss important issues. The Company regularly analyses the demand and level of satisfaction among its customers and develops a system to address their complaints.

> Read more about interaction with customers and the results of these activities in the 'About the Company' p. 10



LOCAL COMMUNITIES

- > **Engagement mechanisms:**
- > social projects as part of the ‘Native Towns’ social investment programme;

> public hearings, roundtables and dialogues;

> corporate and external media relations;

> the Company’s reporting.
- > **Key issues:**
- > the Company’s contribution to the socioeconomic development of the regions where it operates and improvements to the quality of life of the local population;

> the development of human capital in the regions, stimulation of the population’s activity and competency in solving the socioeconomic development problems and objectives of their region;

> transparency of the Company’s activities and decisions;

> the Company’s financial stability;

> the industrial and environmental safety of the Company’s activities and nature conservation measures.

The Company develops constructive engagement with local communities to support the socioeconomic development of the regions, create a favourable environment for the activities of Gazprom Neft and preserve cultural traditions as well as the environment of such regions.

The results of dialogues with local communities and studies of the social climate in these areas serve as the foundation for the development of the Company’s social projects. The Company strives to involve the local population in their implementation since it views the social activity of local communities as an essential factor for regional development.

In order to generate awareness about its activities and collect comments and suggestions, the Company has developed the practice of holding dialogues and roundtables with local communities in the regions. Public hearings are also a key mechanism of engagement when developing and implementing production projects.

>

Read more about interaction with local communities and the results of these activities in the ‘Regional Policy and Development of Local Communities’ [p. 112](#)

PUBLIC ORGANISATIONS

- > **Engagement mechanisms:**
- > conferences and exhibitions;

> roundtables;

> joint implementation of social projects;

> reporting.
- > **Key issues:**
- > environmental and industrial safety of the Company’s activities and nature conservation measures;

> the Company’s involvement in regional development;

> information openness and transparency of activities.

The Company is involved in different public and expert organisations, in particular the activities of the Russian Union of Industrialists and Entrepreneurs and the Chamber of Commerce and Industry of the Russian Federation, among others. These activities aim to promote the sustainable development of the country and the industry. Gazprom Neft enlists experts from public organisations to develop and implement social and environmental projects as well as to discuss the Company’s activities at roundtables and conferences in the regions.

EXPERTS AT THE MOSCOW OIL REFINERY

Executives and experts from the country’s leading environmental organisations – the World Wildlife Fund (WWF Russia), the Development and Environment Foundation, the Green Patrol non-profit organisation and the Russian Bird Conservation Union visited the Moscow Oil Refinery in 2016. The environmentalists inspected the existing system of mechanical treatment facilities, studied the operation of the integrated environmental monitoring system and visited the construction sites of key projects undergoing the second stage of modernisation – the Biosphera innovative biological treatment facilities and the latest Euro+ combined oil refining unit.

CORPORATE CULTURE

GAZPROM NEFT’S CORPORATE CULTURE IS FORMED BASED ON THE COMPANY’S VALUES OF INTEGRITY, LEADERSHIP, MUTUAL RESPECT, TRUST, A WINNING ATTITUDE AND A RESPONSIBLE OWNER. THE FOCUSES AND OBJECTIVES OF THE CORPORATE CULTURE ARE DETERMINED BY THE COMPANY’S STRATEGY AND THE CHALLENGES FACED BY THE OIL INDUSTRY.

In 2016, the Company’s strategic goals were supplemented with the ‘Goal – Zero’, which implies no harm to people, the environment or property from Gazprom Neft’s operations. A new value – ‘Safety and a Green Focus’ – was added to enshrine this priority in the Corporate Code.

One of the key feedback tools that the Company can use to assess how satisfied employees are with different aspects of their work and identify the Company’s strengths as an employer and areas for improvement is the annual social and psychological climate (SPC) study. In 2016, 24,056 employees from 50 subsidiaries took part in the study with 300 interviews and 223 focus groups conducted.

- Among other things, the study results demonstrated growth in the level of satisfaction in such areas as:
- > the suggestion submission system (the level of satisfaction with the ‘Initiative’ indicator increased by 21 percentage points compared with 2015);

> the communications system (the level of satisfaction increased by 11 percentage points);

> a high level of trust in immediate supervisors and senior executives (the level of satisfaction increased by 4 percentage points to 83%).

Blocks of questions were included in the 2016 study on whether employees identify ‘Safety and a Green Focus’ as a corporate value. The study results revealed that the majority of those polled are aware of and share the new value.

In 2016, Gazprom Neft commenced the transition to the next stage of corporate culture development – the culture of harmony in which the key values are dialogue and exploration. The study results helped to assess the number of employees who currently share the culture of harmony.

Based on the results of the SPC study, Gazprom Neft drafted and implemented a plan of corrective measures to improve the social and psychological climate at the Company.

VALUES OF GAZPROM NEFT

- > **Safety and a Green Focus.** Our priority is the safety of people, the environment and the Company’s property.
- > **Integrity.** We are open and honest with respect for one another, the Company, our partners, competitors and the public. We practice what we preach.
- > **Leadership.** We take initiative and strive to be the best in everything we do; we set ambitious goals and bear personal responsibility for the result.
- > **Winning mentality.** We are positive, believe in our success, are not afraid of difficulties and develop skills to effectively meet major challenges.
- > **Responsible owner’s mentality.** We are careful with the Company’s assets and resources, and care about safety and augmentation.
- > **Mutual respect and trust.** We respect ourselves and others, solve complex problems together, trust each other’s professionalism and help our colleagues to achieve success.



# INTERNAL CORPORATE COMMUNICATIONS

THE INTERNAL CORPORATE COMMUNICATIONS SYSTEM SUPPORTS THE CORPORATE CULTURE AND DIALOGUE WITH EMPLOYEES. IN ORDER FOR THE COMMUNICATIONS SYSTEM TO REACH 100% OF EMPLOYEES, THE COMPANY EMPLOYS A BROAD RANGE OF FORMATS AND TOOLS THAT ALLOW FOR PROMPTLY PROVIDING INFORMATION, MANAGING THIS PROCESS AND TRUST FROM EMPLOYEES.

Internal corporate communication tools:

- > the unified system of intranet portals of Gazprom Neft enterprises;
- > corporate media (Siberian Oil corporate magazine, the Neftegazeta periodical and its versions issued by subsidiaries and the corporate radio stations of Gazpromneft-Aero and the Omsk Oil Refinery);
- > meetings between management and the workforce;
- > a corporate forum;
- > a system of television screens;
- > discussion platforms (conferences, roundtables);
- > a feedback system.

In accordance with the Company’s strategic priorities, the main focuses of corporate communications in 2016 were safety and concern for the environment, technological effectiveness, efficiency and positioning the Company as the best employer.

In terms of ‘Technological efficiency’, the Siberian Oil corporate magazine launched a new regular column called ‘Innovations’ devoted to the advanced technologies employed by the Company. The Neftegazeta periodical prepared specialised spreads about the promising technologies of the Downstream Division and Upstream Division as well as a series of publications about the introduction of the Upstream Division’s Technological Strategy. A ‘Technological Strategy’ was set up on the corporate portal.

**The main focuses of corporate communications in 2016 were safety and concern for the environment, technological effectiveness, efficiency and positioning the Company as the best employer.**

## THE BEST PRINT PUBLICATION

The Company’s Neftegazeta periodical was recognised as the best print publication of the Gazprom Group at the seventh PREMIYA public relations corporate contest. Neftegazeta also won the ‘Best Design’ category at the eleventh Silver Threads corporate media national contest.

As part of the project to propagate safety culture, a unified visual platform was established to promote the ‘Safety and a Green Focus’ corporate value.

In 2016, the Company continued work to improve the corporate portal, in particular:

- > providing support for the initiatives of production units on the portal;
- > using television panels to promote the corporate portal;
- > establishing a convenient tool to involve employees in internal corporate activities;
- > increasing the functionality of the portal and creating additional sections.

Employees traditionally have high praise for the internal communications system. According to the results of the SPC study, 85% of employees noted that they receive sufficient information about the Company’s activities, while 82% said they were well informed about the current issues in the work of their enterprises.

# EXTERNAL COMMUNICATIONS

The Company develops a communications system that aims to build a dialogue with outside audiences, inform stakeholders about significant events in the Company’s activities, foster the reputation of Gazprom Neft and promote its brand.

The Company’s engagement with the media is regulated by the corporate standard and policy of information transparency to which Gazprom Neft strictly adheres. Gazprom Neft websites, which are consolidated into a single integrated system, are an essential tool for communications with outside audiences. A total of 212 official reports about the Company’s activities were published on the [www.gazprom-neft.com](http://www.gazprom-neft.com) website in 2016.

News about the full-scale launch of two major hydrocarbon fields in the Yamalo-Nenets Autonomous District – Novoportovskoye on 25 May 2016 and East Messoyakha on 21 September 2016 – generated the biggest response among outside audiences. Russian President Vladimir Putin gave the command via a video link to start oil shipments from the Novoportovskoye field via the Gates of the Arctic terminal as well as the commissioning of the East Messoyakha field.

The oil refinery modernisation programme and Gazprom Neft’s national project to develop catalyst production were also significant themes of the Company’s external communications in the reporting year.

The corporate website serves as a tool for feedback from outside audiences. All inquiries received via the portal are analysed and sent to the appropriate departments of Gazprom Neft for further processing. The total number of visitors to the Company’s corporate website reached two million people in 2016.

The social media pages of Gazprom Neft and the Gazpromneft filling station network are updated daily to ensure more effective engagement with different groups of the Company’s target audience. The Company promptly responds to questions and suggestions received from stakeholders, including from potential partners and consumers of Gazprom Neft products as well as the customers

## COOPERATION WITH THE MEDIA

Gazprom Neft develops and implements special projects with the media reflecting the Company’s key priorities: production technological efficiency and effectiveness, eco-friendliness and safety. In 2016, the feature films ‘The First Arctic’ about the development history of the Novoportovskoye field and ‘Prirazlomnaya. No Margin for Error’ were produced with support from the Rossiya 24 and Russia Today television channels. A special project ‘Accepted for Refining’ devoted to Gazpromneft – Omsk Oil Refinery, the largest in Russia, was implemented jointly with Kommersant Publishing House.



**2 mn people**  
total number of visitors  
to the Company’s corporate  
website in 2016

of the Gazpromneft filling station network. Publications about the Company’s significant social projects are also disseminated in the communities of the ‘Native Towns’ social investments programme. The total number of subscribers to the Company’s popular social media pages is closing in on 150,000 people.

Communication channels with outside audiences include regular press conferences and briefings by the Company’s senior executives that are attended by leading national and industry-related media outlets. Gazprom Neft also arranges media tours of its production facilities. The Company organised a national media tour in St. Petersburg in 2016 as part of the Annual General Meeting of Shareholders. Journalists visited the Gazprom Neft Scientific and Technical Centre at which the Company’s Technological Strategy was presented to media members and Gazprom Neft senior executives held a briefing.

The Company’s effective work in external communications was recognised by the professional community in 2016. Gazprom Neft received an award for the management of its information policy at the industry-wide KonTEKst-2016 contest among the journalists and press services of oil and gas sector companies. A panel comprised of media members and independent experts assessed the Company’s work based on the following criteria: the press service’s influence on the Company’s performance results, information activity, promptness and the completeness of information provided to the media and professionalism in interaction with journalists.



## HUMAN RESOURCE DEVELOPMENT

Gazprom Neft's employees are the Company's key asset and strategic partners in achieving its sustainable development goals. The Gazprom Neft's team includes professionals with a high level of involvement who share the Company's values. Taking care of their well-being and attracting and retaining the best employees is a top priority for Gazprom Neft.

# GOALS AND RESULTS

## IN 2016

GOALS	RESULTS
To manage the employer brand and promote the Company's value proposition	> Goal achieved. Detailed results presented in the 'Employer brand' section of this chapter.
To create a unified external and internal talent management model	> Research conducted in the Company's divisions and concept selected for internal and external talent management.
To develop the model of an interregional recruiting centre within the Company	> Interregional Recruiting Centre (IRC) established. Two Regional Recruiting Centres (RRC) opened in St. Petersburg (to service product business units) and Tyumen (to serve subsidiaries of the Upstream Division). Ten subsidiaries switched to services at the IRC and RRC.
To develop the concept of a shared service centre at the Company for HR management processes	> Analysis conducted of the current state of the HR Management function. Transaction processes identified. Description of target business processes prepared.
To establish the Gazprom Neft Corporate University	> Corporate University launched operations with the opening of five faculties and ten departments.
To develop a business process management and description model for the Corporate University	> Role-based structures developed as part of the approved Corporate University concept for five faculties and the departments therein as well as flow charts for 14 new business processes ('Book of Processes' with ARIS models), which formalise the work procedure, roles and functions of the Corporate University and related units.

# PROFILE

## OF PERSONNEL

GAZPROM NEFT EMPLOYED MORE THAN 66,000 PEOPLE IN 2016 WITH BLUE-COLLAR WORKERS MAKING UP 51% OF PERSONNEL, AND EXECUTIVES, SPECIALISTS AND OFFICE EMPLOYEES MAKING UP THE REMAINING 49%.

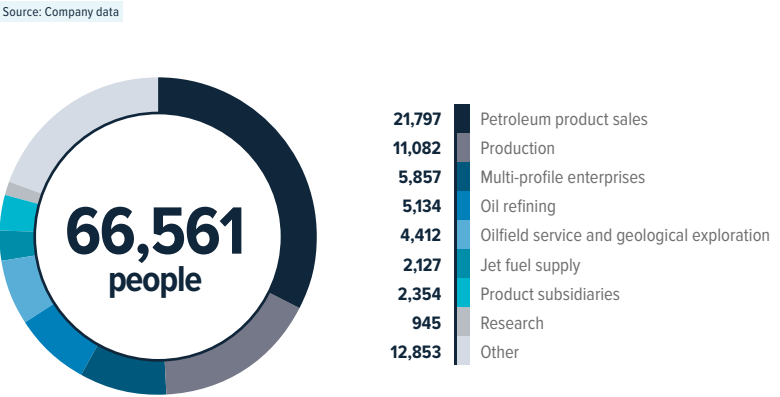
The Company features the following major personnel clusters:

- > Yamalo-Nenets and Khanty-Mansi Autonomous Districts (primary oil production assets) – approximately 19%;
- > St. Petersburg and Leningrad Region (management company and a number of subsidiaries in charge of petroleum product sales) – approximately 21%;
- > Omsk Region (Omsk Oil Refinery, Omsk Lubricants Plant and a number of supply, logistics and sales enterprises) – approximately 14%;
- > Serbia (the multifunctional company NIS) – approximately 9%;
- > CIS countries (sales companies and trade representative offices) – approximately 6%.

The average number of personnel increased by 1.8% to 62,998 employees in 2016. The increase is due to the effect of a full year passing since the merger of ITSC LLC with Gazprom Neft in 2015, changes in the production programme for extractive assets, an expansion in the coverage area of service enterprises as well as restructuring of the Company's sales assets.

A total of 14,841 employees joined Gazprom Neft in the reporting year, while 14,335 people left the Company. The turnover rate was 15.2% in 2016, a 1% decrease from 2015.

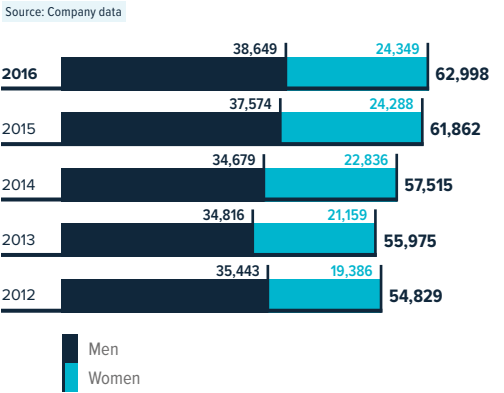
### STRUCTURE OF COMPANY PERSONNEL BY CORE ACTIVITY AS OF 31 DECEMBER 2016 (people)



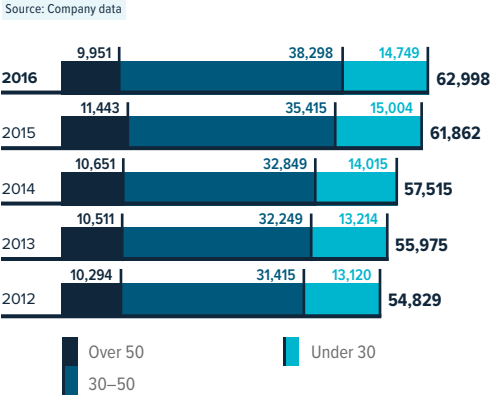
### AVERAGE NUMBER OF PERSONNEL (people)



### AVERAGE NUMBER OF PERSONNEL BY GENDER (people)



### AVERAGE NUMBER OF PERSONNEL BY AGE (people)



# HR MANAGEMENT SYSTEM

THE COMPANY HAS AN HR MANAGEMENT SYSTEM FOR THE PERIOD UNTIL 2020 WHICH ENSURES WORK IN THIS AREA IS LINKED WITH THE GENERAL CORPORATE STRATEGY.

Gazprom Neft’s strategic HR goal is to provide the Company with a sufficient number of skilled and motivated employees in the present and the future to effectively achieve the Company’s key goals.

- Key areas of the HR Management Strategy:
- > systematic recruitment and rotation of personnel;
  - > talent management, competency development and training;
  - > development of an incentive system and culture of engagement;
  - > growth in productivity and organisational efficiency;
  - > improved efficiency of the HR system.

## COMPANY-EMPLOYEE RELATIONS

Regulatory framework for Company-employee relations:

- > Constitution of the Russian Federation;
- > Labour Code of the Russian Federation;
- > Gazprom Neft Corporate Conduct Code;
- > Collective bargaining agreements.

**Gazprom Neft respects human rights, provides equal opportunities and does not discriminate based on nationality, sex, origin, age or any other grounds.**

The Gazprom Neft HR management policy seeks to meet the business strategy and sustainable development goals taking into account the expectations of stakeholders (employees, shareholders and trade unions).

Regulatory documents and programmes concerning the existing social and labour relations at Gazprom Neft are drafted in strict compliance with the Constitution of the Russian Federation and Russian legislation, including the Labour Code of the Russian Federation. The Company monitors and controls compliance with labour legislation by officials.

Gazprom Neft respects human rights, provides equal opportunities and does not discriminate based on nationality, sex, origin, age or any other grounds. The company does not use child or forced labour. HR issues are resolved based on the skills and professional qualities of employees as well as business requirements.

**“** The tasks handled by the HR Department aim to achieve the Company’s business goals. In order to successfully meet these goals, the HR strategy is integrated with the Company’s general strategy and development concept, while the business tasks are converted into objectives to develop the Company’s HR potential.

**Olga Zuykova**  
Director of the Gazprom Neft HR Department

**”** A functional leader is someone who has skills and functional expertise, sees the whole picture and can find an optimal solution both for employees as well as for business in terms of allocating resources and utilising unified approaches and best practices.

**Paylak Khachatryan**  
Head of the Organisational Development Office at Gazprom Neft

In 2016, the Company finished introducing a functional management model in which the heads of key corporate and production functions are actively involved in HR development. Business goals can be better integrated into HR policy objectives and more effectively achieved as a result of the project. The initiative promotes skill development among employees and the dissemination of best practices and technologies within the Company.

Gazprom Neft continuously works to improve labour efficiency. The Company has a key performance indicator system that includes parameters for various levels of management and individual targets.

**The Company has a key performance indicator system that includes parameters for various levels of management and individual targets.**

## ORGANISATIONAL STRUCTURE OF HR MANAGEMENT AT GAZPROM NEFT

### HR DEPARTMENT OF THE CORPORATE CENTRE (ORGANISATIONAL AFFAIRS UNIT)

- > Development of HR management strategy
- > Development of key HR management programmes and projects (incentive and training programmes, creating a talent pool) and monitoring their implementation
- > Strategic management of labour relations

### PRODUCTION UNIT HR MANAGEMENT OFFICE

- > Implementing strategic programmes and all projects involving HR management at subsidiaries within the unit
- > Supporting day-to-day operations as part of the HR and social policy

### SUBSIDIARY HR MANAGEMENT OFFICE

- > Operating activities involving HR management at subsidiaries (personnel records, administration of labor remuneration, compensation and social benefits, planning of personnel numbers and costs) in accordance with the Company’s strategy

# EMPLOYER BRAND

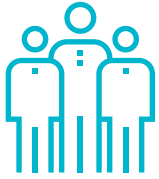
THE COMPANY IS CONSISTENTLY AMONG THE COUNTRY’S BEST EMPLOYERS AND PERFORMS TARGETED WORK TO ATTRACT, ENGAGE AND RETAIN THE BEST EMPLOYEES.

Gazprom Neft developed an employer value proposition in 2015 following a number of extensive surveys encompassing employees and Company candidates. It was formulated based on the requests and expectations of target audiences taking into account the Company’s strategic objectives and its competitive position in the global oil and gas industry. The value proposition is supported by the Company’s policies and practices and conveyed via the most effective communications channels. The value proposition is intended to create a strong brand for the Company as an employer that attracts and retains the best employees.

A diagnosis of employees’ perception of the value proposition is included in a socio-psychological climate study which the Company conducts each year. Based on the results of the diagnosis performed in 2016, employees’ perception of the value proposition was analysed and areas of development were identified for 2017.

The Company’s HR and Remuneration Committee approved an approach for introducing the employer value proposition as a tool to motivate employees at a meeting during the reporting year. Under this approach, Gazprom Neft’s functions included sessions at which it created comprehensive appeals to its employees and candidates. The Company also held sessions with managers that aimed to put the most effective motivation methods into practice, including on the basis of the value proposition.

In 2016, Gazprom Neft once again confirmed its status as one of the country’s best employers. The Company finished second in the ‘Russian Employers’ rating compiled by Headhunter recruiting company. Gazprom Neft established its own nomination ‘New Approaches’ as part of the ‘HR Brand’ prize for projects involving HR management.

  
**25,000**  
**Russian students**  
took part in a survey for the Universum Top 100 Russia rating based on which Gazprom Neft was rated as one of Russia’s top three employers

## EMPLOYER VALUE PROPOSITION

Gazprom Neft proposes to:

- > Create and take pride in what it has created
- > Create a history for future generations
- > Meet interesting challenges
- > Create and apply new approaches
- > Take advantage of opportunities for personal fulfilment

Gazprom Neft finished second in the Randstad Award-2016 international rating in the energy sector behind its parent company Gazprom, joining the leading employers in the Russian oil and gas industry. The Company also received a special prize as the most appealing employer for young people.

Gazprom Neft was also among the top three best Russian employers for engineering and natural science students in the Universum Top 100 Russia rating, which is compiled based on a survey of 25,000 Russian students from 93 universities.



Securing top spots in the rating of the best employers for students is further confirmation that Gazprom Neft has selected the right HR strategy. Competition among employers has taken on global proportions and we are glad that our Company has a firm grip on the top positions, including in international ratings.

**Olga Zuykova**  
Director of the Gazprom Neft HR Department

# REMUNERATION AND SOCIAL SUPPORT FOR PERSONNEL

GAZPROM NEFT’S COMPREHENSIVE REMUNERATION SYSTEM IS LINKED TO ITS STRATEGIC GOALS AND AIMS TO ENSURE THAT REMUNERATION IS COMPETITIVE COMPARED WITH OTHER COMPANIES, RETAIN TALENT AT GAZPROM NEFT, PROVIDE OPPORTUNITIES FOR CAREER GROWTH AND ROTATION WITHIN THE COMPANY AND CREATE INCENTIVE FOR EMPLOYEES TO MEET THE OBJECTIVES THAT HAVE BEEN SET FOR THEM.

The Company employs a remuneration policy that identifies the goals, main objectives, principles and components of the remuneration system, benefits and elements of non-financial incentive for employees.

Gazprom Neft’s remuneration and incentive system is comprised of:

- > base remuneration;
- > short-term and long-term bonuses;
- > benefits and compensation;
- > elements of non-financial incentive: corporate and government awards, corporate events and professional skills competitions, among other things.

Gazprom Neft conducts regular monitoring of the external market and makes sure that all the components of its remuneration system remain competitive. The Company regularly revises salaries in accordance with labour market dynamics in the oil and gas sector.

The average monthly salary of the Company’s employees was RUB 104,919 in 2016 (RUB 100,222 in 2015 and RUB 84,775 in 2014).

The Company continued work in 2016 to introduce unified approaches to remuneration. The Downstream Division developed a targeted structure of base remuneration for its subsidiaries which specifies the principles for incorporating elements of base remuneration into the variable part of remuneration and unifies all supplemental payments and allowances. A list of the Downstream Division’s working professions was systematised based on levels of complexity along with the formation of a unified catalogue of workers’ professions. The catalogue will serve as the basis for the development of the Division’s unified salary scale.

Gazprom Neft devotes significant attention to improving the variable remuneration system since the bonus system is precisely what provides a link to results and ensures a focus on the Company’s key goals.

The Company updated its bonus system for long-term and major projects in 2016.

Gazpromneft – Bitumen Materials and the Moscow Oil Refinery implemented pilot projects to improve the effectiveness of variable remuneration. The companies introduced a unified bonus system for production personnel that links each employee’s remuneration to the performance results achieved by the production units of the Division’s subsidiaries using key performance indicators.

The subsidiaries of the Regional Sales Directorate underwent an assessment to determine whether their incentive system conforms with the Directorate’s new business models and approved strategies. Current bonus levels for the Directorate’s operating and business unit personnel were also updated.

The Downstream Division will continue implementing projects in 2017 to systematise remuneration: the development of a unified salary scale, the replication of the bonus system for production personnel used at the Division’s other subsidiaries, a transition to a targeted structure of base remuneration and the development of a unified approach to bonuses for innovation, rationalisation proposals and operational improvements.

The Company has a unified social benefits system comprised of basic and additional payments that it employs at all its subsidiaries. The unified principles for providing social benefits to all employees and compiling a list of benefits for all the Company’s subsidiaries are governed by the corresponding Gazprom Neft policy.



# COOPERATION WITH TRADE UNIONS

Basic benefits offered by Gazprom Neft:

- > voluntary health insurance (including consultations and treatment at leading Russian clinics, if necessary);
- > accident insurance;
- > supplemental payments exceeding the maximum disability benefits prescribed by the legislation of the Russian Federation, including for leave for maternity and birth;
- > compensatory payments to employees on childcare leave;
- > the provision of social leave related to family circumstances and other benefits.

Additional benefits:

- > payment of health resort treatment for workers, subscriptions to health groups and corporate discounts for subscriptions to sports clubs;
- > various types of financial assistance for family events;
- > housing programmes;
- > a private pension, among other benefits.

The Company focuses on offering a balanced social package and a competitive level of social benefits for its employees regardless of external economic conditions.

A key component of the remuneration system is the non-financial incentive programme, which aims to increase the loyalty of personnel and recognise the merits of the best employees. The programme is implemented at the level of subsidiaries as well as functions and divisions in accordance with the objectives of the enterprise or division based on general corporate values. Gazprom Neft’s non-financial incentive programmes include individual and team-based professional skills competitions, mass recreation and leisure activities, corporate communications sessions and forums. The Company devotes special attention to corporate sport competitions and traditionally holds Summer and Winter Games.

A key component of the programme is to recognise merits and achievements as an element of the performance assessment. The Company annually presents corporate awards, including ‘Honoured Worker of Gazprom Neft’ and ‘Veteran of Gazprom Neft’.

The Downstream Division employs a recognition programme called ‘Best Result’, which recognises the Division’s employees for excellent performance indicators, creative activity and the successful implementation of projects and major strategic initiatives. The Downstream Division also holds competitions among teams from its oil refineries in nominations that reflect their strategic priorities.



↑ 4.7%  
**RUB 104,919**  
average monthly salary  
at the Company in 2016

The Upstream Division and Shelf Project Development Division hand out a ‘Recognition of the Best’ prize each year. Awards are presented for impressive achievements to enterprises, projects, employees, production teams, contractors and the best in the profession. The prize includes nominations for occupational safety, lean manufacturing and innovations.

### ‘GOAL – ZERO’

In an effort to promote a culture of occupational safety, the Downstream Division added a special nomination ‘Goal – Zero’ to the ‘Best Result’ recognition programme in 2016. The first winner was the Omsk Refinery’s Mechanical Repair Plant.

THE COMPANY ACTIVELY DEVELOPS ITS PARTNERSHIP WITH TRADE UNION ORGANISATIONS. GAZPROM NEFT IS COMMITTED TO ENSURING GREATER INVOLVEMENT BY TRADE UNIONS IN THE COMPANY’S ACTIVITIES AND EXPANDING THE SCOPE OF DUTIES OF TRADE UNION LEADERS, WHICH ENABLES THEM TO PROTECT THE LONG-TERM INTERESTS OF EMPLOYEES TAKING INTO ACCOUNT THE BALANCED INTERESTS OF ALL STAKEHOLDERS.

Gazprom Neft’s social obligations are enshrined in local regulatory acts (LRA) and collective bargaining agreements that govern social and labour relations between the employer and employees. These LRA and agreements reflect both health and safety issues and the obligations that the Company undertakes in this regard with respect to its employees.

Trade union representatives are actively involved in work to develop a culture of occupational safety in the Company’s production activities, discussions concerning changes to the Company’s social benefits system, meetings of HR service executives and activities to create safe work conditions. The Company has a Youth Commission that protects the interests of young workers and new young specialists taking part in adaptation programmes.

Gazprom Neft takes part in forming industry-based agreements for each area of the Company’s business jointly with industry-based trade unions and the Russian Union of Industrialists and Entrepreneurs.

### PERSONNEL EXPENSES (RUB mn)

	2012	2013	2014	2015	2016
Payroll	39,364	45,040	58,510	74,400	79,316
Social payments	2,896	3,186	2,097	2,432	3,260
Total	42,260	48,226	60,607	76,832	82,576

### EXPENDITURES ON SOCIAL PACKAGE AND BENEFITS (RUB 1,000)

	2012	2013	2014	2015	2016
Free and subsidised meals	493,052	522,774	526,988	711,380	764,480
Voluntary health insurance	529,623	650,709	719,561	698,542	847,477
Payment of travel vouchers	109,761	115,705	166,522	121,041	183,817
Housing programme	124,132	121,329	181,038	215,405	142,069
Sport and cultural events for employees	290,222	317,599	125,537	129,136	197,154

The corporate slogan ‘Strive for more’ reflects the essence of the ‘Recognition of the Best’ ceremony. A well-deserved award is given to people who are involved, interested in a particular issue and have desire to ‘go the extra mile’ as well as create and apply something new in any project. We will choose the best based on this criteria.

**Vadim Yakovlev**  
Gazprom Neft First Deputy CEO and Head of the Upstream Division

# PERSONNEL TRAINING AND DEVELOPMENT

GAZPROM NEFT CONTINUES TO INCREASE INVESTMENT IN PERSONNEL TRAINING AND DEVELOPMENT WHILE RELYING ON THE BEST DOMESTIC AND INTERNATIONAL EXPERIENCE IN THIS FIELD. THE COMPANY’S TRAINING AND DEVELOPMENT SYSTEM ENCOMPASSES ALL CATEGORIES OF PERSONNEL AS WELL AS TARGETED GROUPS OF POTENTIAL EMPLOYEES, INCLUDING SCHOOLCHILDREN AND UNIVERSITY STUDENTS.

The scope of training programmes is determined by the Company’s strategic objectives and the results of an evaluation of the management and professional competencies of employees.

In 2016, Gazprom Neft began establishing a Corporate University, which systematically unites all personnel training and development practices employed by the Company and builds a strong foundation for further development taking into account external trends and the Company’s strategic goals.

The concept of the Corporate University was approved by the Gazprom Neft HR and Remuneration Committee. In order to resolve strategic issues and identify areas for the development of the Corporate University, the university established a Board of Trustees that includes Gazprom Neft senior executives.

- Key areas of the Corporate University’s activities:
- > forming an educational environment that meets the Company’s strategic goals in working with personnel;
  - > the extensive introduction of workplace development methods into practice;
  - > the involvement of managers and employees in knowledge management;
  - > the targeted development of critical competencies;
  - > cross-functional development and training in new professions.

- The Corporate University’s structure includes faculties and departments established on the basis of professional communities of experts and internal coaches at the Company. The University already has:
- > an Exploration and Production Faculty (including production departments of the Upstream and Shelf Project Development Divisions);
  - > a Downstream Division Faculty;
  - > a Corporate Functions Faculty (which includes the corporate functions departments of all divisions);
  - > an Occupational Safety and Efficiency Faculty;
  - > a Management and General Corporate Competencies Faculty.



**RUB 707.2 mn**  
spending on personnel training and development in 2016



**52,582**  
**employees**  
underwent training in 2016



Back in the last century, a person who chose a profession could use the knowledge he obtained for his entire life. But the world is changing at an increasingly rapid pace. We are shifting to a need for continuous training when the development of new skills is a significant part of each employee's professional duties. Gazprom Neft can only achieve its ambitious goals if its staff has a highly developed level of management and professional competencies and if educational programmes can rapidly respond to the changes occurring in the business world. The creation of a Corporate University is an evolutionary step for the employee development system that allows for integrating the best training practices and introducing new educational technologies.

**Vitaly Baranov**  
Gazprom Neft Deputy CEO  
for Organisational Matters

Ten departments have opened within the faculties with more than 30 scheduled to open in the future.

A unique feature of the Gazprom Neft Corporate University is its focus on the large-scale involvement of Company employees in training activities. The model chosen by the Company to build the University assumes that a high percentage of development activities are drafted, organised and carried out with the involvement of Gazprom Neft specialists who are ready to serve as experts, speakers, internal coaches as well as the leaders and heads of departments.



Virtually every company has a personnel training and development programme. However, we aren't simply training people – we are building an educational environment that blurs the line between trainers and trainees. It gets all managers and employees involved in the training and development process while enabling them to dynamically adapt to global changes. The educational environment is accessible to each employee and serves as a support and catalyst for transformational processes at the Company while promoting the spread of best practices.

**Nikolay Dolgov**  
Head of the Gazprom Neft Personnel  
Development and Training Office

## PERSONNEL TRAINING

	2012	2013 (10 main Company subsidiaries)	2013' (all Company subsidiaries)	2014	2015	2016
<b>Total persons trained</b>	<b>16,990</b>	<b>24,212</b>	<b>42,094</b>	<b>50,939</b>	<b>50,395</b>	<b>52,582</b>
<b>INCLUDING:</b>						
managers and specialists	11,090	14,383	25,177	27,381	32,904	33,491
workers	5,900	9,829	16,917	23,558	17,491	19,091
men	10,364	14,769	25,677	31,073	30,741	32,075
women	6,626	9,443	16,417	19,866	19,654	20,507
<b>BY TYPE OF TRAINING:</b>						
advanced training	6,625	6,867	11,035	16,940	20,861	22,269
training per occupational and industrial safety requirements	10,365	17,345	31,059	33,999	29,534	30,313
<b>BY LOCATION OF TRAINING:</b>						
training centres (sites, plants)	5,183	8,673	15,530	17,000	14,767	15,329
at third-party organisations	11,808	15,540	25,565	33,940	35,628	37,253
<b>Total duration of training – hours</b>	<b>685,280</b>	<b>1,010,680</b>	<b>1,651,514</b>	<b>2,054,092</b>	<b>1,927,478</b>	<b>2,289,437</b>
<b>INCLUDING:</b>						
managers and specialists	354,880	460,256	805,664	876,192	1,052,928	1,145,836
workers	330,400	550,424	845,850	1,177,900	874,550	1,143,601
men	418,021	616,515	1,007,424	1,252,996	1,175,762	1,396,557
women	267,259	394,165	644,090	801,096	751,716	892,881

<sup>1</sup> In previous Sustainable Development Reports data on training was given for 10 main subsidiaries. Starting from 2013, statistics are given for all the Company's subsidiaries.

# PROFESSIONAL SKILLS DEVELOPMENT

TECHNOLOGICAL LEADERSHIP IN THE INDUSTRY REQUIRES CONSTANT GROWTH IN THE COMPETENCY OF PERSONNEL. THE PROFESSIONAL DEVELOPMENT OF THE COMPANY’S EMPLOYEES IS BASED ON THE CONTINUOUS IMPROVEMENT OF THEIR PROFESSIONAL SKILLS. GAZPROM NEFT REGULARLY CONDUCTS DIAGNOSTICS AND SUBSEQUENTLY PLANS DEVELOPMENT PROGRAMMES IN AN EFFORT TO IDENTIFY THE NEED FOR TRAINING.

## DEVELOPMENT OF A PROFESSIONAL GROWTH CENTRE

Gazprom Neft has operated a Professional Growth Centre (PGC) within the Upstream Division since 2015, a platform for the replication of knowledge and technological development of production functions. The Centre’s courses are based on case studies from production practice and focus on achieving the Company’s strategic goals. More than 75% of the Centre’s internal training programme portfolio is approved as intangible assets belonging to the Company.

Teaching at the PGC is handled by 130 internal coaches, including 18 PhD candidates and four PhDs. The PGC trained 2,547 people in 2016, an increase of 14% compared with 2015.

A modern, large, effective company cannot exist without a model for continuously developing the skills of its employees. This is an extremely important part of the corporate culture and the key to the Company’s successful operations in the future and achieving the strategic goals of business. With the opening of a new site, the Professional Growth Centre has gained a new impetus for development and Gazprom Neft has ensured the transfer of knowledge within the Company and continuous growth in the professionalism of its employees.

**Vadim Yakovlev**  
Gazprom Neft First Deputy CEO



At present, a draft process and document forms have been developed to create training courses resulting from the Division’s intellectual activities. Most of the Professional Growth Centre’s internal training courses have been registered as the Company’s intangible assets. The generation of future economic benefits from using the internal courses as intangible assets aims to ensure a net cash inflow, including increasing income or cost savings.

**Natalya Kayzer**  
Head of the Personnel and Organisational Development Office within the Gazprom Neft Upstream Division



**130**  
internal coaches  
conducted teaching activities at the PGC platform in 2016

## DEVELOPMENT AND IMPROVEMENT OF PROFESSIONAL SKILLS MODELS

The Company continued to establish and improve professional skills models in 2016. New skills models were developed and introduced in ‘Economics and Investment’, ‘Industrial and Occupational Safety’ and ‘Information Technologies, Automation and Telecommunications’, and the professional skills model in ‘HR Management’ was updated. Position profiles, menus of developmental actions and career maps were established based on a number of models.

The Downstream Division developed models of professional clusters, i.e. groups of positions that are united by their involvement in similar processes and require similar skills. A structure, passport, professional skills model, position profile, career maps, evaluation tests and a menu of development actions were prepared for the six cluster models (technology, mechanics, energy, marketing, commerce and logistics).



We devote considerable attention to the professional development of our employees. Modernising production and introducing innovative and digital technologies create new requirements for the qualification of personnel. The Company’s rapid development demands greater dynamics in personnel development and this can be achieved largely through an effective and constantly improving training system.

**Anatoly Cherner**  
Gazprom Neft Deputy CEO

## TRAINING OF INTERNAL COACHES

In an effort to unify the training of internal coaches, a unified standard was developed to establish selection criteria and training standards, identify approaches to motivation and regulate certification for training programmes. In order to meet the growing need for training, the company trained 118 new internal coaches over the last year.

## DEVELOPMENT OF PROJECT SKILLS – THE ‘PROMOVEMENT’ PROGRAMME

The Company continues to develop the ‘PROmovement’ three-stage system for the development of project skills in exploration and production, which was established in 2015. Eighty-one people were trained as part of the ‘PROmovement’ during the reporting year, bringing the total number of people trained under the programme to more than 1,300.

The ‘PROmovement’ programme received the SKOLKOVO Trend Award 2016. Russian Deputy Prime Minister Arkady Dvorkovich presented the award to Gazprom Neft First Deputy CEO Vadim Yakovlev.

## TARGETED DEVELOPMENT OF PERSONNEL FOR OFFSHORE FIELD EXPLORATION

The Company began implementing the ‘Shelf Project’ targeted development programme for personnel who work in the exploration of offshore fields in 2016. The programme includes theoretical online courses, case studies based on the experience of international and Russian companies, working sessions, sessions to exchange experience with experts and a final business simulation. Fifty people underwent training over the last year.

The Company continues to utilise two modular programmes to increase the skills level of production personnel for the development of offshore fields: ‘Development of the hydrocarbon resources of the continental shelf’ and ‘Best practices in the development of offshore fields’, as well as on-site training at the offshore production facilities of foreign companies.

PROFESSIONAL SKILLS  
COMPETITIONS

Gazprom Neft devotes special attention to developing professional skills competitions and believes such events are a significant tool for enhancing the professional competencies of employees. The Company took the professional skill competition to a new level in 2016 in terms of content and the number of participants. As a result of automating the process of preparing for the competition, the Company conducted a mass remote evaluation of employees’ professional knowledge involving roughly 5,000 people. A business simulation was one of the stages of the competition. Tasks involving the provision of first aid to victims were added to the practical part of the competition in homage to the Year of Occupational Safety. More than 1,500 specialists and workers from Gazprom Neft enterprises took part in the competitions.

WORLDSKILLS HI-TECH 2016

A Gazprom Neft team took part in the Russian professional skills competition WorldSkills Hi-Tech 2016. Company representatives finished in the top five in the nomination ‘Laboratory chemical analysis’, while a specialist from the information technologies department took second place in the competition.

“A landmark event took place for us in 2016: an employee from Information Technology Service Company took second place at the Russian professional skills competition WorldSkills Hi-Tech. We have always been confident in the top-notch skills of our IT specialists. Now we have received confirmation of this from an outside competition involving experts from all over the country. It should be noted that we sent a young specialist who had previously won a corporate contest at ITSC to the competition as a delegate. Such competitions help to create an atmosphere for the development of high-potential employees and motivate them to achieve even greater results.

Sergey Lade  
Head of the Gazprom Neft HR Relations and Corporate Functions  
Organisational Development Office

DEVELOPMENT  
OF EDUCATIONAL  
INFRASTRUCTURE

The active development and expansion of the professional training system has also led to the development of the appropriate training infrastructure. The Gazprom Neft Corporate Resource Training Centre opened on the core of Muravlenkovsky Multidisciplinary College in 2016. The training centre includes a lecture and training hall as well as a training classroom equipped with the unique TRANSAS Shore-Based 6000 Production Simulator. Some 600 people will undergo annual training at the training centre.

A modern training centre also opened at the Moscow Oil Refinery. The centre’s training classrooms feature interactive whiteboards and modern equipment to arrange video conferences and webinars. Much attention was devoted to creating a comfortable training environment in the format of business games, brainstorming and other elements of active training.

Gazprom Neft Badra opened its own training centre based at its oilfield camp. More than 40 local employees are already undergoing training at the facility.



>600 people  
can be trained by  
the Gazprom Neft Corporate  
Resource Training Centre per year

DEVELOPMENT  
OF MANAGEMENT AND LEADERSHIP SKILLS

MANAGEMENT AND LEADERSHIP SKILLS ARE A KEY TOOL FOR FORMING A CORPORATE CULTURE AND THE COMPANY’S TRANSFORMATION. THE CORPORATE UNIVERSITY LAUNCHED A MANAGEMENT AND GENERAL CORPORATE COMPETENCIES FACULTY IN AN EFFORT TO DEVELOP THESE SKILLS AND CONTINUOUSLY EXCHANGE EXPERIENCE IN THIS AREA.

INTRODUCTION OF THE LOMINGER  
COMPETENCY MODEL

In 2016, Gazprom Neft began introducing a new management competencies model based on one of the best global practices – the Lominger Leadership Architect® competency library. The model, which helps to create a common understanding of the contents of management competencies, will be integrated into personnel recruitment, evaluation and development processes and the creation of a talent pool. More than 20 sessions were held over the last year to profile management levels and positions using the new competency model.

REVISION AND EXPANSION OF THE  
CATALOGUE OF MANAGEMENT AND GENERAL  
CORPORATE COMPETENCY PROGRAMMES

The Company expanded the number of management and leadership competency development programmes from 11 to 33 during the reporting year. Programmes on the following popular themes were added to the portfolio of programmes: ‘Emotional Intelligence’, ‘Networking’, ‘Management Engagement’, ‘Cross-Cultural Communication’ and ‘Change Management’.

‘EDUCATIONAL ENVIRONMENT’ CORPORATE FORUM

Gazprom Neft held its first corporate educational forum ‘Educational Environment’ in 2016. The forum was attended by more than 150 specialists who are involved in personnel training and development and create the educational environment at the Company. Best corporate practices and the advanced experience of Russian and foreign companies were presented at the forum. A ‘bank of ideas’ was created for the educational environment model as part of the forum with more than 180 ideas collected. The best suggestions were selected from among these ideas and will be introduced to training programmes.

EXPANSION OF THE ‘BOOST’  
PERSONNEL INTEGRATION  
PROGRAMME

The ‘Boost’ personnel integration programme, which the Downstream Division has employed since 2015, was further developed during the reporting year. ‘Boost’ ensures the comprehensive integration of employees into the cultural and professional environment in the event of any changes to their professional status or role. The programme encompasses staff changes and supports employees over their entire career path: from hiring and promotion to moving to another region and undertaking a new role or functionality as well as lateral movement. The programme currently includes more than 100 tools.

‘TOP DRIVE 2.0’ MANAGER  
TRAINING PROGRAMME

In 2015-2016, the Company implemented the ‘Top Drive 2.0’ training programme, which aims to improve employees’ skills during the reorganisation of the Regional Sales Directorate and business units. As part of the reorganisation stage, its focus has shifted from general organisational issues that are relevant during the launch period to the specifics and interests of businesses.



# KNOWLEDGE MANAGEMENT

A KEY TASK IN KNOWLEDGE MANAGEMENT FOR THE COMPANY IS TO INVOLVE A BROAD RANGE OF EMPLOYEES IN THIS PROCESS, WHICH MAKES IT POSSIBLE TO INCREASE THE QUANTITY AND QUALITY OF THE COMPANY'S INTELLECTUAL RESOURCES AND ENHANCE THE EFFECTIVENESS, SCOPE OF DISSEMINATION AND APPLICATION OF VALUABLE KNOWLEDGE FOR GAZPROM NEFT.

## 'TERRITORY OF KNOWLEDGE' CORPORATE CONFERENCE

In 2016, Gazprom Neft conducted its first 'Territory of Knowledge' conference at which speakers included experts in knowledge management from a number of leading companies: Rosatom, Lukoil and Alfa-Bank. Different game formats were used at the conference such as quests, business simulations and workshops, among other things, which enabled participants to immerse themselves in the theme of knowledge management and see all the tools used in action. The conference was attended by more than 100 people.

The 'Territory of Knowledge' conference was interesting. I really liked the information about professional communities. I plan to create a community, and the workshops helped me to hone what I'm going to create in actuality. I fulfilled the practical goal I had set when participating in this event.

**Oleg Gorbunov**  
Head of Gazprom Neft Corporate University's  
Licensing and Subsoil Use Faculty

## DEVELOPMENT OF THE KNOWLEDGE PORTAL

The Company continues to develop the corporate Knowledge and Innovation Management System (KIMS). Its key resource is the Knowledge Portal, which integrates different tools and formats to store and exchange knowledge. The resource is used to inform employees about training and development opportunities, help them to plan training and promote an exchange of experience.

The Portal became accessible to subsidiaries and was integrated with HR systems over the course of 2016. As of the end of the year, the Portal had approximately 60,000 users, i.e. almost 100% of Gazprom Neft employees. Roughly 2,500 employees added information about their expertise to their profiles on the Portal, designating themselves as specialists and giving others the opportunity to contact them for professional help. Thus, one of the Portal's key functions – forming a community of experts and social training – gained momentum over the reporting year.

## DEVELOPMENT OF DISTANCE LEARNING

The Company significantly expanded the scale of distance learning in the reporting year: the number of courses increased from 70 to 110 and the coverage expanded from 15,000 to 34,000 people. Approximately 15,000 employees systematically utilised distance training. To meet the growing demand for distance training, a programme was launched in 2016 to train internal developers of online courses with 40 experts undergoing training by the end of the year. Eight distance learning courses were created and launched through their efforts, and several more courses are under development.

### ASK AN EXPERT

The 'Expert Wars. Episode I' competition was held as part of the Knowledge Portal that was launched 2015 in the Upstream Division. The competition involved teams of experts providing answers to professional questions from users. The difficulty and number of replies and the quality of the questions were evaluated. The competition aims to support the 'Ask an Expert' service, expand the Division's knowledge library and ensure the more effective use of expert support within the Upstream Division.

# DEVELOPMENT OF THE TALENT POOL

GAZPROM NEFT IS DEVELOPING THE 'SCHOOL – SECONDARY SPECIALISED COLLEGE/ UNIVERSITY – ENTERPRISE' HUMAN RESOURCES SYSTEM TO PROVIDE THE COMPANY WITH HIGHLY SKILLED PERSONNEL IN THE PRESENT AND FUTURE. IT INCLUDES CAREER GUIDANCE WORK WITH HIGH SCHOOL STUDENTS, TARGETED EDUCATION IN HIGHER AND SECONDARY EDUCATIONAL INSTITUTIONS AND A SYSTEM TO RECRUIT EMPLOYEES WITH HIGH POTENTIAL AND PLAN THEIR CAREERS.

## REORGANISATION OF THE REGULAR PERFORMANCE AND POTENTIAL EVALUATION PROCESS

Meetings of the Talent Committee – collective meetings of management teams – are a key tool in selecting candidates for the talent pool. Specialist candidates are considered based on the results of an annual evaluation of their activities and potential. In 2016, the regular performance assessment encompassed 14,200 employees, a 50% increase from the previous year.

### SUCCESSION CANDIDATES

The Company approved 2,020 succession candidates for 990 management and functional unit positions in 2016. A total of 607 succession candidates underwent an assessment of their management skills. The percentage of vacancies filled by internal candidates increased significantly last year. In particular, 85 succession candidates were appointed to target positions in the corporate centre, while another 60 candidates were promoted.

## DEVELOPMENT OF THE 'GROWTH' CAREER PLANNING SYSTEM

Gazprom Neft continued to develop the 'Growth' career planning system and portal with the same name, which enabled each employee to be involved in managing their professional and career development. One of the portal's core functions is to collect relevant information about employees' readiness for new professional roles and their mobility. Company employees can use the resource to select a career path, undergo an assessment of their skills and obtain recommendations for their further development. Gazprom Neft held a communications campaign during the reporting year to inform managers and their employees about the opportunities and objectives of the planning system. More than 700 employees have received an invitation to start working in the 'Growth' system and 35% of them have chosen a designated role via the portal.

A career means progression. Enhancing professional expertise, participating in projects and transitioning to another area of activities are all options for successful development. All Gazprom Neft divisions are working towards a common business result, that's why it's so important to enhance the professional level and completeness of each specialist's personal fulfilment. Employees and managers have a mutual responsibility to build a system of career planning in which each of them can identify his/her targeted professional role and determine the path to this role in accordance with the Company's values.

**Lyudmila Voronina**  
Head of the Downstream Division's  
HR Relations Office



WORK WITH STUDENTS, GRADUATES AND YOUNG PROFESSIONALS

Career guidance and training programmes for future professionals in the early stages of their education are an important part of the talent pool formation system. To meet this objective, the Company develops cooperation with leading industry-based universities in the regions where it operates. The joint work aims to provide targeted training for prospective students and create master’s programmes as part of a partnership.

‘GAZPROMNEFT CLASSES’ PROGRAMME

‘Gazpromneft Classes’ at secondary schools in the regions where the Company operates are an essential component of work with young people. The ‘Gazpromneft Classes’ programme includes subjects that will help students understand what the oil and gas industry is all about and which main professions are in demand in the industry. As part of their studies, students solve tasks from the practical daily work of oil workers. The training helps students to make a well-informed professional choice when it comes time to enter university.

HOW THE COMPANY WORKS WITH GRADUATES AND YOUNG PROFESSIONALS



ORGANISATION OF THE EDUCATIONAL PROCESS AT EDUCATIONAL INSTITUTIONS

Gazprom Neft’s interaction with educational institutions is based on a concept that focuses on supporting the Company’s innovative development and providing it with a talent pool of specialists who possess key professional skills. Under this concept, targeted educational programmes are formed based on the Company’s objectives, and Gazprom Neft experts are actively involved in organising the educational process. The inclusion of special courses in the core curriculum and joint master’s programmes promotes the development of the required skills among students and ensures the targeted training of young professionals.

The Company currently has a specialised Gazprom Neft department at Gubkin Russian State University of Oil and Gas and Omsk State Technical University. Students receive targeted training on the basis of corporate master’s programmes and advanced training programmes jointly with St. Petersburg Mining University, the Moscow Institute of Physics and Technology, Peter the Great St. Petersburg Polytechnic University, St. Petersburg State University, Tyumen State University of Architecture and Civil Engineering and Ufa State Petroleum Technological University.

Gazprom Neft and Tyumen State University launched the ‘Oil and Gas Field Conceptual Engineering’ master’s programme in 2016. The programme is comprised of modules on how to form communicative competencies and teamwork skills, use a wide range of information technologies, think critically and systematically as well as negotiate. Teachers and experts include scientists and specialists from Russian and foreign technology companies as well as leading scientific, design, technological and engineering centres of Russia.

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One feature of the new master’s programme being implemented jointly with Gazprom Neft is its key technology: teams of graduate students carrying out actual engineering projects commissioned by the Company. The performance evaluation approach has changed too: the main focus is not so much on evaluating knowledge as it is the ability to apply it in actual professional activities.

Valery Falkov  
Rector of Tyumen State University

‘FUTURE INTELLECTUAL LEADERS OF RUSSIA’ NATIONAL FORUM

Gazprom Neft served as a partner for the ‘Future Intellectual Leaders of Russia’ National Forum in 2016. Students from specialised ‘Gazprom Neft Classes’ in St. Petersburg and Omsk took part in the forum for the first time. Young Gazprom Neft specialists served as experts in one of the sessions – ‘Energy Technology’. They designed case studies based on actual production tasks for the participants.

‘THREE FRONTIERS’ YOUNG SPECIALISTS ADAPTATION AND DEVELOPMENT PROGRAMME

Young specialists who join Gazprom Neft within a year after graduating university pass through the three-year ‘Three Frontiers’ adaptation and development programme. The programme includes adaptation measures, training sessions and work with mentors who undergo special training.

WORK OF YOUNG SPECIALIST COUNCILS AT ENTERPRISES

Young specialist councils carry out active work at enterprises. Their key tasks include supporting young specialist adaptation and development programmes, developing volunteer activities and helping to solve pressing problems faced by young specialists during their first years working at the Company.

GAZPROM NEFT SCIENTIFIC AND TECHNOLOGICAL CONFERENCE

Preparation for and participation in a scientific and technological conference that aims to develop rationalisation and innovative thinking among young specialists and involve them in the Company’s rationalisation activities plays an important role in their development. The conference is held in two stages: the winners of the selection round conducted within subsidiaries go on to participate in the general corporate round. More than 500 works were submitted for the conference in 2016, while 105 young specialists presented their work during the second stage.



GOALS FOR 2017

- Enhancing the Company’s appeal as the best employer. The introduction of the value proposition into work with employees and external audiences:
  - > Training of lower- and middle-level managers in non-financial motivation tools;
  - > Incorporating the value proposition into personnel management processes and regular management practices;
  - > Launch of a new career portal.
- Improving the quality and effectiveness of staff recruitment. The further development of an operational model for attracting external candidates:
  - > Increasing the number of subsidiaries that utilise the services of interregional and regional staff recruitment centres to 18 subsidiaries while maintaining recruitment quality and efficiency.
- Enhancing the professionalism of Company employees. Development of the Corporate University:
  - > Opening new departments at the Corporate University: ‘Licensing and Subsoil Use’, ‘Commerce’ and ‘Risk Management’, among others;
  - > Improving the quality of targeted management and professional development programmes;
  - > Introducing a regular assessment of training effectiveness;
  - > Supporting the introduction of general corporate programmes (for example, the operational management system).
- Improving the effectiveness of work with personnel. Creating a General Service Centre at the Company for HR transactional processes:
  - > Developing the targeted processes and organisational structure of the Centre;
  - > Approving the investment budget;
  - > Preparing IT infrastructure to launch the Centre;
  - > Forming and training the Centre’s team;
  - > Preparing to launch pilot projects starting in 2018.



## SAFE DEVELOPMENT: INDUSTRIAL AND ENVIRONMENTAL SAFETY, OCCUPATIONAL HEALTH AND SAFETY, ENERGY EFFICIENCY AND ENERGY CONSERVATION

Industrial and environmental safety is a major priority for Gazprom Neft. The Company places the life and health of its employees above all else. Any work that threatens people's lives or health must be stopped immediately. The Company invests in modernising its oil refining assets and enhancing the environmental and industrial safety levels of its enterprises.

# GOALS

## AND RESULTS IN 2016

Goal	Result
<b>INDUSTRIAL AND OCCUPATIONAL SAFETY</b>	
Reduce LTIFR by 10%	LTIFR reduced by 14.8% (from 0.472 to 0.402).
Prevent man-made emergencies at production facilities	No emergencies occurred in the reporting year.
Reduce equipment-related incidents by 10%	Goal partially achieved. The number of incidents decreased by 5.06%.
Prevent accidents at hazardous production facilities	Goal partially achieved. Two accidents occurred. Investigations were conducted and measures were taken to minimise the risk of such incidents reoccurring.
Introduce updated regulatory and procedural documents, including standards on HSE, OS and CD	Introduced: Incident Investigation Standard, Standard for the Safe Performance of Work Requiring Enhanced Safety, and Transport Safety Standard.
Continue activities by working groups in priority areas to develop industrial safety culture	All roadmap measures implemented in six priority safety culture areas.
Participate in the work of special-purpose committees and technical regulatory councils of the Federal Environmental, Industrial and Nuclear Supervision Service, Russian Union of Industrialists and Entrepreneurs, Russian Chamber of Commerce and Industry, and Federal Agency for Technical Regulation and Metrology	Goal achieved. Detailed results presented in the 'Stakeholder Engagement' section of this chapter.
Transition to systematic work in key enhanced safety areas as part of the corporate strategy to develop HSE, OS and CD1	Transition started. Results presented in the 'Policy and management' section of this chapter.
Implement action plans to prevent occupational injury and improve working conditions as part of the Company's declared 'Year of Occupational Safety'	Goal achieved. Results presented in the 'Industrial and occupational safety' section of this chapter.
Introduce a system to rate contractors on HSE, OS and CD and a corporate database of contractors	Rating system and database introduced.
Update and start introducing the Basic Safety Rules – corporate safe conduct standards	Basic Safety Rules updated and approved. Started studying measures to introduce standards as conduct rules for all employees.
<b>ENVIRONMENTAL PROTECTION</b>	
Start of enterprise certification for compliance with ISO 14001:2015	In 2016, an independent audit was conducted and ISO 14001 compliance certificates were obtained for the environmental management system of Omsk Oil Refinery, Gazpromneft Shipping, Gazpromneft-Lubricants, the Omsk Lubricants Plant branch, and Gazpromneft-Moscow Lubricants Plant, while Gazpromneft-Supply and Gazpromneft-Sakhalin were recertified.

<sup>1</sup> Here and hereinafter HSE, OS and CD refers to Health, Safety and the Environment, Occupational Safety and Civil Defence.

GAZPROM NEFT ACHIEVED ALL THE MAIN GOALS IT SET FOR THE REPORTING YEAR PERIOD. THE COMPANY FULLY IMPLEMENTED AN ACTION PROGRAMME IN INDUSTRIAL AND ENVIRONMENTAL SAFETY AS WELL AS OCCUPATIONAL HEALTH SAFETY, INCLUDING PROGRAMMES TO MONITOR COMPLIANCE WITH SAFETY STANDARDS AND REGULATIONS.

Goal	Result
Reduce air pollution emissions by 2%	Goal for 2016 not achieved. Gross pollutants increased due to growth in production volume as well as the construction and commissioning of new infrastructure facilities for Gazpromneft-Yamal LLC and the East Messoyakha field.
Work to further increase APG utilisation to 95%	The APG utilisation level increased by 0.48%. Results presented in the 'Protecting the Atmosphere' section of this chapter.
Environmental training for more than 1,000 executives and employees	Goal achieved.
<b>ENERGY CONSERVATION AND ENERGY EFFICIENCY</b>	
Implement the 2016 energy conservation and improved energy efficiency programmes (plan 125 mn kWh in the Upstream Division)	Energy savings for the Upstream Division totalled 433 mn kWh (RUB 1.251 bn).
Achieve the planned specific electricity consumption indicators for the Upstream Division (29.42 kWh/TJ)	Indicator was 28.91 kWh/TJ, which is lower than planned.
Implement the energy conservation and improved energy efficiency programmes of the Upstream Division for 2016-2018	Goal achieved. Results presented in the 'Energy Consumption and Energy Efficiency' section of this chapter.
Optimise energy purchase costs in the Downstream Division	Savings from cost optimisation measures on energy purchases totalled RUB 476 mn.
<b>UPSTREAM DIVISION</b>	
Use high-efficiency electric centrifugal pump units; Install frequency-controlled drives for pump equipment; conduct well intervention techniques to reduce produced water and inject it into the formation; Replace submersible cables with cables that have increased cross-sections; conduct pilot testing of the pump equipment with improved performance and efficiency; Rebuild/modernise pump units; modernise lighting systems and optimise electric heating systems	Goals achieved. Results presented in the 'Energy Consumption and Energy Efficiency' section of this chapter.
Introduce BLDC motors; Reduce produced water and inject it into the formation (stop unprofitable wells and conduct well intervention techniques);	Goals achieved. Results presented in the 'Energy Consumption and Energy Efficiency' section of this chapter.
<b>DOWNSTREAM DIVISION</b>	
Improve the energy efficiency of existing power and process units for Downstream Division enterprises to execute production plans and ensure the required quality of products Reduce energy losses in utility networks and conserve energy Draft and introduce a list of energy conservation programme measures and improve energy efficiency by identifying their funding sources, technological and economic effects, and payback periods to achieve the target energy efficiency values Improve the organisation and management of energy conservation and improve energy efficiency by introducing and developing a Downstream Division Energy Management System that meets the requirements of ISO 50001:2011	Completed. Results presented in the 'Energy Consumption and Energy Efficiency' section of this chapter.

> Continued on next page

Goal	Result
<strong>MAIN GOALS OF IMPROVING ENERGY CONSERVATION MANAGEMENT</strong>	
Introduce and certify energy management for compliance with ISO 50001 at Gazpromneft-Vostok, the Gazpromneft-Muravlenko branch, Gazpromneft-Orenburg, the Gazprom Neft Downstream Division Corporate Centre and Gazpromneft – Moscow Oil Refinery	<p>In 2016, the Energy Management System was introduced and successfully certified at three subsidiaries of the Upstream Division. Surveillance audits were conducted at the Upstream Division Corporate Centre and two subsidiaries and no discrepancies were found. The existing certificates cover all Upstream Division subsidiaries.</p> <p>In 2016, the Downstream Division Unified Energy Management System, which links the Unit’s upper (corporate centre) and lower (key subsidiaries) levels of energy conservation and energy efficiency management, was completed and certified with ISO 50001. The Energy Management System was also introduced and certified at Gazpromneft – Moscow Oil Refinery. The results of the certification audits confirmed that the approaches built into the Unified EMS of the Downstream Division are correct and optimal, and that the system is highly efficient.</p> <p>Key areas for the further improvement of energy conservation and improved energy efficiency management processes at the Downstream Division were approved by the Gazprom Neft Board of Directors.</p>
Develop an Organisational Action Plan to introduce the EMS at all Upstream Division subsidiaries	<p>A comprehensive programme to promote energy conservation and improve the energy efficiency of the Upstream Division was implemented and recognised with a certificate from the Russian Ministry of Energy at an international competition.</p> <p>Results presented in the ‘Energy Consumption and Energy Efficiency’ section of this chapter.</p>
Organise employee training on the energy management system and improve the qualification level of the unit’s chief power engineers Draft corporate standards and methods in energy conservation and energy efficiency Exchange experience with oil companies and hold meetings on energy efficiency between Gazprom Neft enterprises and other oil companies	<p>Completed. Results presented in the ‘Energy Consumption and Energy Efficiency’ section of this chapter.</p>
<strong>MAIN GOALS OF IMPROVING POWER SUPPLY RELIABILITY</strong>	
Further modernise and develop energy infrastructure	<p>Completed. Results presented in the ‘Energy Consumption and Energy Efficiency’ section of this chapter.</p>
Introduce and develop automation tools for the operational management of power supply systems at subsidiaries	<p>In 2016, the Upstream Division introduced the ADCS at SS 35/6 kV, Shinginskaya GTPP and GCS Nizhneluginetskaya, West-Luginetskaya (Gazpromneft-Vostok), SS 35/6 kV Razvedochnaya and ZRU-10 kV OGTU (Gazpromneft-Orenburg).</p>
Introduce modern diagnostic tools	<p>At Gazpromneft-Khantos, the company GEOSCAN conducted aerial photography of high-voltage power transmission lines using drones, which produced: an orthophotomap, 3D model of power transmission lines and tables of dimensions. The decision was made to conduct pilot testing by drones (aircraft and helicopter types) for routine surveys in 2017.</p>
Implement the comprehensive Programme for Improved Power Supply Reliability to Downstream Division Oil Refining Enterprises for 2016-2018	<p>The programme’s organisational and technical action plan for 2016 was fully implemented. At the end of 2016, the total number of electrical equipment failures was down by 15% compared with 2015. The total number of unscheduled hours of downtime due to failures in the power supply system was 10% below the threshold planned for 2018.</p>

# POLICY AND MANAGEMENT

GAZPROM NEFT’S STRATEGY IN HSE AND OS AIMS TO ACHIEVE THE ‘GOAL – ZERO: NO HARM TO PEOPLE, OBJECTS OR THE ENVIRONMENT’. THE COMPANY IS COMMITTED TO BECOMING ONE OF THE WORLD’S LEADING OIL AND GAS COMPANIES IN THIS AREA.

The ‘Safety and a Green Focus’ value has been included in the range of corporate values reflected in the Gazprom Neft Corporate Conduct Code.

An HSE, OS and CD Committee began functioning under the Management Board during the reporting year under the leadership of Gazprom Neft Management Board Chairman Alexander Dyukov. The Committee reviews the results of the safety and health strategy, investigates incidents and accidents, and discusses best safety practices. The Committee’s work is synchronised with the Gazprom Neft operational management system (OMS). The Committee met four times in 2016.

A joint OMS and industrial safety committee comprised of Management Board members, the directors of production units and department heads will start functioning at the Company in 2017. HSE, OS and CD committees have also been established in each division and at subsidiaries.

## PRIORITY AREAS OF THE HSE, OS AND CD STRATEGY

Leadership and culture	Main aspects of safe conduct and the leading role of all levels of executives in achieving this goal
Contractor management	Improving the effective management of contractors in safety matters
Asset reliability	Ensuring the safe operation of existing assets and their reconstruction as well as the safe design and construction of new facilities
Risk management	Further integration of HSE, OS and CD risks and environmental aspects in the Company’s overall risk management system and developing risk management and assessment skills among personnel
Transport safety	Ensuring the accident-free operation of all types of transport at the Company
Organisational model	Supporting all work by developing HSE, OS and CD functions as well as the functions and relevant skills of employees

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In order to achieve the strategic goals, all of us – employees, contractors and partners – need to work responsibly and safely. This is why the Management Board decided to incorporate the ‘Safety and a Green Focus’ value into the Corporate Conduct Code. I expect that our shared vision in this area will enable Gazprom Neft to become the safest company in the industry.

”

**Alexander Dyukov**  
Chairman of the Gazprom Neft Management Board

In 2016, the Company continued implementing a project it launched in 2015 to improve industrial safety culture. The HSE, OS and CD Committee under the Gazprom Neft Management Board updated corporate strategy provisions in this area as well as plans for initiatives in six priority areas of the strategy.



HSE, OS AND CD POLICY

The Company’s activities in HSE, OS and CD are governed by the legal requirements of the Russian Federation as well as international and corporate standards in this area.

The fundamental corporate document that describes the principles of the Company’s activities and obligations is the General Corporate Policy on Industrial, Fire, Transport, Environmental and Occupational Safety and Civil Protection. It is in effect at all subsidiaries and describes the unity of their strategic goals, obligations and responsibilities in HSE, OS and CD. This document is used as the basis for the operation and improvement of the HSE, OS and CD Management System, which meets the requirements of OHSAS 18001: 2007 and ISO 14001: 2015.

Gazprom Neft continued reorganising the HSE, OS and CD Management System in 2016 in an effort to harmonise it with the best management practices in this field. A new HSE, OS and CD structure was formed within the Offshore Project Development Unit.

> The Policy on Industrial, Fire, Transport, Environmental and Occupational Safety and Civil Protection is posted on the [gazprom-neft.com](http://gazprom-neft.com) website



SAFETY CULTURE

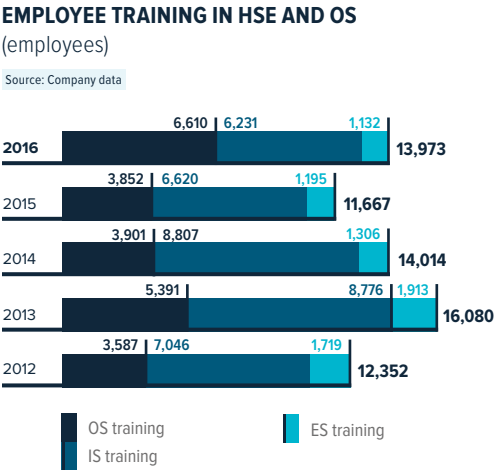
The Company constantly develops its employee training system in HSE, OS and CD and regards it as the foundation for the establishment of a safety culture at Gazprom Neft. Personnel training is systematic and standardised and is closely linked with other components of the management system.

Industrial safety was spun off into a separate part of the Gazprom Neft Corporate University in 2016. Training is conducted on different aspects of industrial safety compliance at two departments of the Industrial Safety and Efficiency Faculty. Various training formats ranging from courses to master classes and webinars are utilised in an effort to improve effectiveness. Gazprom Neft internal trainers develop the programme content for the Industrial Safety and Efficiency Faculty. The Company plans to launch a training and certification system for trainers as well as a campaign to promote their status in the near future.

SAFETY AND CARE FOR THE ENVIRONMENT

A sociological survey conducted among employees in 2016 showed that most of them recognise the importance of safe conduct in their work. Ninety percent of those polled regard the Company's new 'Safety and a Green Focus' value as a key factor at production assets

The Company’s exchange of experience in matter concerning HSE, OS and CD with third-party organisations plays a vital role in the training system and development of a safety culture.



The Company’s exchange of experience in matter concerning HSE, OS and CD with third-party organisations plays a vital role in the training system and development of a safety culture. In 2016, Gazprom Neft for the seventh time organised an environmental conference that was attended by more than one hundred Company employees and department heads from the central office of the Federal Service for Natural Resource Usage Oversight and the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing. The conference participants discussed problematic issues in legislation and amendments that are being introduced, new approaches to regulating the human impact on the environment and prospects for cleaning up existing environmental damage. The event created additional skills in environmental protection technologies and management procedures amidst changing environmental protection legislation.

# SUPPLY CHAIN RESPONSIBILITY

THE COMPANY’S HSE, OS AND CD REQUIREMENTS APPLY TO GAZPROM NEFT’S CONTRACTORS. WHEN SELECTING CONTRACTORS, THE COMPANY TAKES INTO CONSIDERATION THEIR COMPLIANCE WITH CORPORATE SAFETY STANDARDS.

The Company introduced the ‘Steps’ programme in 2015, which aims to utilise this approach during all stages of cooperation.

An essential component of the programme is to improve the level of motivation, competency and awareness among the personnel of counterparties. Contractors are part of the corporate HSE, OS and CD training system. The heads of contractor organisations must undergo cascade training without which they are not allowed to manage work at the Company’s facilities. Gazprom Neft organises specialised forums for key counterparties.

Gazprom Neft introduced a system in 2016 to rate contractors based on HSE, OS and CD along with a corporate database of contractor organisations as part of its ‘Steps’ programme. The rating system covers 100% of the Company’s contractors. When selecting candidates and extending contracts, the system helps to fully take into account compliance with HSE, OS and CD requirements and avoid contractors on the database’s ‘black list’. The rating is also a tool used to provide financial and non-financial motivation for counterparties. Such tools were introduced at a number of the Company’s subsidiaries during the reporting year. In particular, at the start of the year Messoyakhaneftgaz selected the best contractors involved in major construction work at the Messoyakha project in 2015.

## IMPLEMENTATION OF THE ‘STEPS’ PROGRAMME

Stage	Activity
Preparations for contractual relations	Evaluate candidates in accordance with pre-qualification and qualification requirements, conclude agreements to the HSE, OS and CD contract with counterparties, establish key performance indicators and assess the contractor’s resources that will be used to meet industrial safety requirements with their documentation.
Contractor performance management	Monitor the activities and performance of contractual terms and verify equipment, machinery and people’s skills.
Evaluation of work	Rating: analyse the contractor’s effectiveness in HSE and OS with the ability to search for and take into account cooperation history and conduct a comparison of counterparties. The evaluation serves as the basis for extending contracts and engaging in proactive work with contractors that show poor results.



We believe that safety is not an area where people can be divided into ‘us’ and ‘them’ or customers and contractors. I have no doubt that joint work with partners and the introduction of unified industrial safety principles will lead to the formation of a common culture in which people’s lives and health are the highest value.

**Alexander Dyukov**  
Chairman of the Gazprom Neft Management Board



I perfectly understand the customer’s focus on safety and believe that meeting these requirements is a sure-fire indicator of an enterprise’s sustainability. The secret to our success is the hourly control of employees and leadership among executives on this issue.

**Alexander Samoded**  
CEO of PremierStroyDesign, the top rated contractor in the Messoyakha project

# STAKEHOLDER ENGAGEMENT

ENGAGEMENT WITH A BROAD RANGE OF STAKEHOLDERS ENABLES THE COMPANY TO ALIGN ITS INDUSTRIAL SAFETY AND ENVIRONMENTAL PROTECTION ACTIVITIES AS EFFECTIVELY AS POSSIBLE.



## EMPLOYEES

- > The Company actively engages with personnel in establishing safe working conditions. In 2016, occupational safety ombudsmen were hired at Messoyakhaneftgaz. Their job includes interacting with the employer on major occupational safety problems faced by oilfield employees, discussing the provision of personal protective gear, the procedure and amount of benefits and allowances for harmful working conditions as well as participation in drafting collective bargaining agreements. In addition, the company employs 38 internal trainers whose job is to promote compliance with occupational safety standards among their colleagues and contractors. The trainers underwent specialised training in 2016.
- > To support the environmental culture at Gazprom Neft, specialised forums and seminars are held at which the Company’s environmental experts discuss the best practices needed to form an environmental culture at the Company: enhancing the level of involvement and initiative by employees, meeting environmental requirements and developing environmental safety skills among production unit employees, among other things.
- > Gazprom Neft holds clean-up and planting events each year in an effort to improve the environmental culture at the Company. In 2016, 120 events were held during which some 4,000 tonnes of garbage were collected and more than 7,000 trees, shrubs and flower beds were planted. The Company also conducted approximately 40 environmental education events for employees and local communities in 2016.



**120 events**

to clean and landscape areas held in 2016

> **4,000 t**

of trash collected

> **7,000**

trees, bushes and flower beds planted



Safe working conditions have always been and remain one of the key goals at the company. I strive for engagement with production field workers to maximise their benefits. I see my mission as protecting the right to safe work and improving working conditions in the workplace.

**Ayrat Kurmanayev**  
Occupational Safety Ombudsman and Oil, Gas and Condensate Production Foreman at Messoyakhaneftgaz



## GOVERNMENT

- > Gazprom Neft is involved in work to improve existing industrial safety and environmental protection legislation and to draft new bills as part of its interaction with the legislative and executive government authorities and its work in the Russian Union of Industrialists and Entrepreneurs. Gazprom Neft CEO Alexander Dyukov and Industrial Safety Department Head Oleg Nikolayenko are members of the Industrial Safety Committee of the Russian Union of Industrialists and Entrepreneurs.
- In 2016, the Company was actively involved in fine tuning more than 30 bills such as the Federal Law ‘On Environmental Protection’, the Federal Law ‘On the Protection of Atmospheric Air’, the Government Resolution ‘On the Approval of the Work Procedure for Eliminating Accumulated Environmental Damage’ and the draft departmental act ‘On the Approval of the Procedure for Submitting a Declaration on Payment for Negative Environmental Impact’, among others.
- As part of its work on the RUIE Industrial Safety Committee in 2016, the Company submitted proposals to update and prepare expert conclusions and amendments to 37 draft federal laws and bylaws as well as proposals on 43 draft regulatory legal acts concerning environmental safety.
- > The Company’s environmental protection goals are part of socioeconomic agreements that Gazprom Neft signs with a number of regions in which it operates. In 2016, such agreements were in effect with the government authorities of the Tyumen Region as well as the Khanty-Mansi and Yamalo-Nenets Autonomous Districts.
  - > Gazprom Neft is actively working to develop manuals of the best available technologies (BAT) as part of Federal Law No. 219-FZ ‘On Amendments to Federal Law ‘On Environmental Protection’ and Certain Legislative Acts of the Russian Federation’. A technical working group in charge of drafting the BAT manuals has currently drafted and approved the manuals: ‘Wastewater Treatment for the Manufacturing of Products (Goods), Performance of Work and Rendering of Services at Major Enterprises’ and ‘Thermal Waste Neutralisation (Waste Incineration)’.

### FEDERAL STANDARDS AND RULES

The ‘Rules for the Industrial Safety of Oil and Petroleum Product Warehouses’ were drafted and approved at the initiative and with the direct involvement of Gazprom Neft in 2016.

- > The annual Gazprom Neft Environmental Conference allows for a continued dialogue with the government authorities. At the seventh conference, which took place in December 2016, specialists had the opportunity to hear reports from representatives of the Ministry of Natural Resources, Ministry of Construction and the Federal Service for Natural Resource Usage Oversight. The conference participants discussed problematic aspects of existing environmental legislation and new approaches to regulating the human impact on the environment, prospects for cleaning up accumulated environmental damage as well as global changes in environmental safety legislation as a whole.



## LOCAL COMMUNITIES

The Company holds public hearings on draft Environmental Impact Assessments (EIA) when developing new projects. At the hearings, Gazprom Neft informs stakeholders about the proposed activities and their possible environmental impact and provides access to the documents that are being drafted. The Company then adjusts the project documentation based on any suggestions or comments. In 2016, public discussions were held and approval was secured for 40 Gazprom Neft projects, including the modernisation of the Pirazlomnaya offshore ice-resistant fixed platform, the construction of additional wells at the Vygapurovskoye field of Gazpromneft-Noyabrskneftegaz and the construction of well clusters at the Novoportovskoye oil and gas condensate field of Gazpromneft-Yamal, among others. The hearings were attended by representatives of the indigenous peoples of the Far North, local residents and municipal administration officials.

### ECOLOGY OF A MEGALOPOLIS

In 2016, RIA Novosti launched a special project with Gazprom Neft’s support called ‘Ecology of a Megalopolis’, which was established jointly with the Moscow Department of Nature Management and Environmental Protection. The project raises awareness about the primary factors impacting the environment in major cities, the main sources of air pollution in Moscow and measures that are being taken to improve the city’s environmental condition.



Gazprom Neft is involved in work to improve the capital’s environment in a number of ways: it is modernising the Moscow Oil Refinery, implementing volunteer projects to make the city greener and developing an automated system to monitor industry’s environmental impact jointly with the Moscow government. We can only applaud Gazprom Neft’s support of the information project on the city’s environmental issues.

**Anton Kulbachevsky**

Director of the Moscow Department of Nature Management and Environmental Protection



## EXPERT COMMUNITY AND NGOS

The Company develops environmental programmes and introduces new technologies in cooperation with scientific institutions and non-governmental organisations. In particular, Gazprom Neft is drafting and implementing biodiversity conservation programmes jointly with the Severtsov Institute of Ecology and Evolution.

Gazprom Neft cooperated with the Sysin Research Institute of Human Ecology and Environmental Health over the last year to develop unified pollutant standards to be used by industrial enterprises throughout Russia.



## PARTNERS AND OTHER ENTERPRISES IN THE INDUSTRY

Gazprom Neft actively exchanges experience with leading companies in the industry. In 2016, Gazprom Neft hosted a two-day conference called ‘Conscious Safety’ as part of the All-Russian Occupational Safety Week. The conference was attended by more than 120 employees with HSE, OS and CD functions as well as representatives of Shell, Surgutneftegas, Bashneft and NOVATEK, among others.

During the reporting year, Gazprom Neft implemented the online project ‘Muscovites Coming Clean’ – a test for Moscow region residents who are interested in environmental issues. The test at the website [moskvalogiya.ru](http://moskvalogiya.ru) enables users to assess their level of environmental responsibility and also learn about environmentally friendly initiatives at the Moscow Oil Refinery and in the region. People who take the test can then share the results on social media and also invite new participants to take the test.

# INDUSTRIAL AND OCCUPATIONAL SAFETY

THE COMPANY’S LONG-TERM STRATEGY IN INDUSTRIAL AND OCCUPATIONAL SAFETY AIMS TO ACHIEVE THE ‘GOAL – ZERO’ BY INTRODUCING ADVANCED TECHNOLOGIES AND PRODUCTION CONTROL AND DEVELOPING A SAFETY CULTURE.

Improving the industrial safety management system is one of Gazprom Neft’s most important priorities. The Company strives to continuously improve industrial safety levels, performs comprehensive work to minimise the rate of equipment failure and industrial injury, and also introduces best practices and advanced technologies in this area.

The Company’s main programmes to improve industrial and occupational safety levels include:

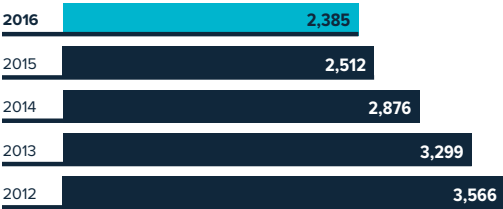
- > an expert assessment of equipment safety and harmonising production facilities with the requirements of industrial safety standards and rules;
- > the modernisation of emergency shutdown systems;
- > the prevention and management of emergency situations;
- > monitoring compliance with industrial safety requirements;
- > ensuring safe work conditions and organising work stations that meet government and corporate standards;
- > providing employees with personal protective gear;
- > measures to protect workers’ health;
- > comprehensive training of company employees in HSE, OS and CD;
- > studying and introducing advanced technologies in this area.

## MAIN RISKS IN INDUSTRIAL AND OCCUPATIONAL SAFETY AND MEASURES TO MINIMISE THEM

Risk	Preventive measures
Equipment failure	> Expert assessment of equipment, timely repairs and modernisation of production facilities
Violation of rules for organising high risk work	> Training employees in organising work and industrial safety > Monitoring compliance with work organisation requirements > Developing a culture of safe conduct
Violations of legislative requirements and safety rules by contractors	> Inclusion of requirements on compliance with Russian and corporate industrial and occupational safety in agreements with contractors > Production control > Monitoring and assessment of work efficiency by suppliers in this sphere when performing contractual obligations > Involvement of suppliers in the Company’s activities to improve safety culture

### NUMBER OF INCIDENTS AT HAZARDOUS PRODUCTION FACILITIES (cases)

Source: Company data



### NUMBER OF ACCIDENTS AT HAZARDOUS PRODUCTION FACILITIES (cases)

Source: Company data



When incidents occur, the Company conducts investigations and then develops and introduces an action plan that minimises the risk of the incident reoccurring. All the Company’s subsidiaries carry out preventive measures in accordance with the action plans.

### VIRTUAL TRAINING

Gazpromneft-Logistics introduced virtual training during the reporting year. Using virtual reality glasses, employees find themselves on a ‘real’ scaffold where they learn about the intended purpose of certain equipment whose functions are displayed on pop-up windows. As the users look around, a diagram of the equipment, a work description, sources of high risk as well as a simulation of emergency and accident situations all appear right next to the equipment.

When developing plans for industrial and occupational safety programmes, the Company relies on a map of HSE, OS and CD risks that are regularly updated.

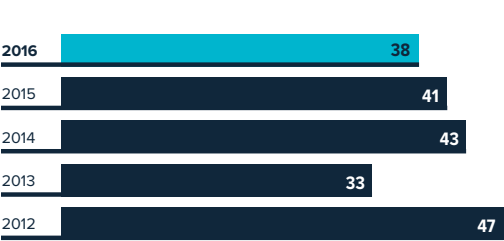
Industrial and occupational safety risk assessment is regulated by the Gazprom Neft Standard and is part of the Company’s integrated risk management system. The Company uses the advanced international methods HAZID/ENVID, HAZOP, Bow-Tie and PHSER to assess man-made risks during the facility design, construction, operation and liquidation stages. The methods used to assess professional risks aim to ensure that employees do not start work without confidence in its safe performance.

In 2016, the Company continued introducing new risk assessment techniques and new production control methods in accordance with these techniques. The Company introduced the ‘Five Steps’ professional risk assessment algorithm, which enables employees to take a responsible approach to the performance of production activities and tentatively assess their risks. The assessment is made based on the following key areas: movement, height, pressure, electricity, combustion, toxicity, temperature and personnel.

A new type of production control that was introduced in 2015 – a leadership behavioural safety audit – gained traction during the reporting year. It consists of a manager observing an employee’s work and then holding a discussion about safe or hazardous behavioural strategies. This approach helps to establish the proper behavioural model for the employee, correct dangerous behaviour and also identify why work is performed in violation of safety rules and assess the effectiveness of industrial and occupational safety activities. The audit results are analysed and based on the results a list of actions is prepared for the subsidiary which must be performed to improve safety at this enterprise.

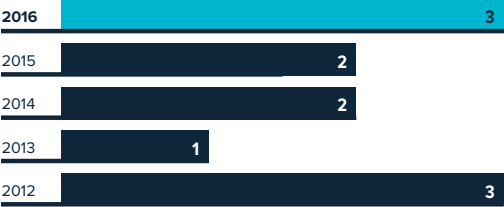
### NUMBER OF INJURIES IN WORKPLACE ACCIDENTS (people)

Source: Company data



### NUMBER OF DEATHS IN WORKPLACE ACCIDENTS (people)

Source: Company data



Efficiency and ease of perception are the main criteria for selecting safe conduct training techniques. The ‘Five Steps’ risk assessment meets this criteria. The algorithm helps a person to approach any work in the most deliberate and responsible way possible and not start it without being certain that it will be performed in a safe manner.

**Aydar Sarvarov**  
Director of the SACS (Security Activities Control System)  
Introduction Programme of the Upstream Division

### LTIFR INJURY RATE

Source: Company data





GEOTECHNICAL MONITORING

In 2016, Messoyakhaneftgaz established a geotechnical monitoring division, which is an analytical unit that aims to assess and forecast risks in the construction and operation of administrative facilities and oilfield infrastructure on frozen soil.

The Company spent more than RUB 41.704 billion on HSE, OS and CD measures in 2016 (excluding joint and foreign assets).<sup>1</sup>

The work carried out in 2016 resulted in a reduction in the number of incidents at the Company’s production facilities and a further decline in the LTIFR. However, to the Company’s deepest regret, fatal accidents in the workplace were not fully eliminated. The Company deeply mourns this fact and is doing everything it can to prevent such tragedies from reoccurring. Special commissions formed to investigate each incident conducted a detailed analysis of each accident, identified their causes and took action to minimise the risk of such incidents reoccurring. The results of the investigations were reviewed at meetings of the HSE, OS and CD Committee.

We won’t achieve ‘Goal – Zero’ unless each of us makes safety an important part of our daily work. We must be the bearers of the safety culture and encourage our subordinates to have maximum engagement, meet safety requirements and demand their execution from others.

Anatoly Cherner  
Gazprom Neft Deputy CEO  
of the Downstream Division

During work on a compressor at the Moscow Oil Refinery, there was an explosion of hydrogen-containing gas when a cylinder flange ruptured, which resulted in the death of one employee. To prevent such incidents in the future, the Company implemented preventive measures, including changes to the system for production control, equipment repair and the designation and access of personnel, updating the production, job and occupational safety descriptions based on an investigation and introducing a system to stop hazardous work.

In Kyrgyzstan, an accident occurred when a driver was repairing a vehicle. To prevent similar situations in the future, the Company conducted an audit of all repair areas, banned repairs in service pits and conducted a risk assessment for mechanical work. In the Khanty-Mansi Autonomous District-Yugra, a contractor’s driver was killed in a car accident. The investigation resulted in quarterly checks being instituted to test the traffic safety knowledge of contractors’ drivers and additional training being conducted as part of a ‘Defensive Driving’ programme.

<sup>1</sup> The significant increase in HSE, OS and CD expenses is due to the implementation of a project to improve safe conduct culture at the Company.

TRANSPORT  
AND FIRE  
SAFETY



We consulted with airlines when drafting the safe air transport strategy. Gazprom Neft will start introducing the most effective practices selected from these sessions during its 2018 contracting campaign.

Andrey Patrushev  
Deputy CEO of the Offshore Project  
Development Division

The Gazprom Neft transport safety programme includes production control, safe driving training, on-the-job training and instructions on safety issues and monthly ‘Stopwatches’, or meetings on HSE, OS and CD issues.

In 2016, the Company began employing project teams whose job is to improve safety in priority areas for Gazprom Neft such as air, water and motor transport. A development roadmap through the end of 2019 has been created for each area.

ROAD SAFETY

Gazpromneft-Transport installed special equipment designed to improve traffic safety on all its petrol tankers. An electronic speed restriction programme was connected to sensors mounted on vehicle pedals. Once the maximum allowed speed is reached, the flow of air and fuel to the engine is restricted and the petrol tanker cannot go any faster. The driver also hears a warning signal indicating that the tanker has reached its maximum speed.

The ‘Air Transport Safety’ project team started working on creating and introducing an air transport standard consistent with international practices. In 2016, the team drafted documents governing requirements for aviation contractors, aircraft, airline personnel training and the infrastructure of arrival/departure points in an effort to organise such activities.

In ‘Water Transport Safety’ the Company conducted an analysis of business processes used to support water transportation jointly with the Russian Maritime Register and came up with recommendations to optimise them. Qualification requirements were also drafted in fire and occupational safety for employees, contractors and charterers. The Company inspected vessels based on these requirements and organised training for crews.

Gazprom Neft’s work to improve motor transport safety focused on several areas and covered the entire perimeter of operations: from developing a transport strategy and unified requirements for drivers and transport vehicles to analysing the data of on-board monitoring systems and training the Company’s personnel and contractors.

Gazprom Neft is working to standardise fire safety control systems, introduce requirements for the fire protection of facilities and implement fire safety programmes.



>41,000  
employees  
trained in workplace  
emergency actions in 2016

EMERGENCY  
MANAGEMENT  
RESPONSE

In an effort to ensure civil defence, the Company is improving the sustainability of its production facilities when emergencies arise and training employees in actions to take in the event of emergencies, including work in challenging climatic conditions. The Company held over 600 exercises and training sessions involving more than 7,000 people during the reporting year. More than 41,000 employees received workplace training on actions to take in the event of emergencies.

COMPREHENSIVE EXERCISES

Gazpromneft-Yamal conducted comprehensive exercises for the first time in winter at the Arctic terminal near the Cape of Kamenny on the Yamal Peninsula. The event featured teams using emergency equipment to contain and mitigate the results of an emergency situation involving a simulated oil spill from a sea-based tanker. The exercises involved the unique Baltika icebreaker, which was designed to handle oil spills and conduct rescue operations. The vessel has an asymmetric hull and is equipped with three engines that enable it to move in any direction. This is advantageous when collecting oily surface waters and also when working in icy conditions.

The Company is implementing a long-term disease prevention strategy as part of which personnel regularly undergo medical check-ups, clinical examinations and vaccinations, training on first aid methods and other measures. Gazprom Neft holds ‘Health Days’ each year during which employees can receive an express analysis and diagnosis of their condition along with consultations on how to provide paramedical first aid.

During the reporting year, the Upstream Division modified its approach to emergency response processes and expert examinations concerning occupational fitness. Under the new approach, the provision of emergency medical response resources must be consistent with the risk assessment of the life and health of employees. The assessment takes into account the work and living conditions as well as the climatic and geographic factors of each facility. The occupational fitness exam is structured so as to reliably determine an employee’s ability to safely perform work and includes a mandatory risk assessment of cardiovascular disease based on the medical examination results.

Upstream Division subsidiaries have now established a system of pre-shift medical check-ups using Electronic Medical Examination System (EMES) equipment, transferred pre-flight medical check-ups to the shift assembly location and use mobile teams to conduct daily selective testing of people who violate anti-alcohol or anti-drug policies.

Gazprom Neft declared 2016 the ‘Year of Occupational Safety’ and conducted the following key events:

- > communication sessions for ‘Top-1000’ executives involving 2,000 people;
- > ‘Direct Dialogue’ communications sessions attended by 60,000 employees of the Company and its contractors. The dialogues involved practical group work with an analysis of accidents and a discussion of the safety culture level;
- > an Industrial Safety Department was opened at the Corporate University;
- > more than 600 executives underwent training in leadership behavioural audit methodology;
- > an information campaign was conducted to prevent falls at all subsidiaries;
- > more than 1,300 injury prevention measures were carried out at subsidiaries;
- > four Safety Culture Conferences were held;
- > an Industrial Safety Contest was launched.

The Company’s activities in occupational health and safety during the reporting year were publicly recognised. Gazprom Neft received a number of prestigious awards during the Russian Occupational Safety Week in Sochi from 19-22 April. The ‘Occupational Safety in the Office’ online training course in 2016 took first place and earned a gold medal in the ‘Health and Safety-2015’ contest (in the nomination ‘Development and introduction of innovative systems and methods for training specialists in occupational safety’).

“We strived to use innovative methods when creating the ‘Occupational Safety in the Office’ interactive course. The online court is built on real-world examples and links theory with daily activities. This marks the first time a course with such content and format has been developed and introduced in Russian practice.”

**Oleg Nikolayenko**  
Head of the Gazprom Neft Industrial Safety Department

The Gazpromneft-Shelf project ‘Development and introduction of technologies for the safe washing, cleaning and degassing of oil storage tanks for offshore oil and gas gravity-based structures’ won first place and a gold medal at the ‘Health and Safety-2015’ contest (in the nomination ‘Safe working conditions monitoring and support methodology’).

# MITIGATING NEGATIVE ENVIRONMENTAL IMPACTS AND THE EFFECTIVE USE OF RESOURCES

A RESPONSIBLE ATTITUDE TOWARDS THE ENVIRONMENT IS A STRATEGIC PRIORITY FOR GAZPROM NEFT. THE COMPANY IS AWARE OF ITS RESPONSIBILITY TO SOCIETY IN THIS REGARD AND OBJECTIVELY ASSESSES AND SEEKS TO MINIMISE ENVIRONMENTAL RISKS WHILE INCREASING INVESTMENT IN ENVIRONMENTAL PROGRAMMES.

The Company’s strategic goals in ensuring environmental safety and the sustainable use of natural resources are:

- > to reduce its environmental footprint and support a favourable natural and living environment;
- > to prevent environmental damage from business activities;
- > to preserve biodiversity amidst conditions of a growing man-made burden;
- > the sustainable use, restoration and protection of natural resources.

EXPENSES ON ENVIRONMENTAL SERVICES AND ENSURING ENVIRONMENTAL SAFETY AND PROTECTION<sup>1</sup> (RUB mn)<sup>2</sup>

Indicator	2012	2013	2014	2015	2016
Total, including:	4,431.0	6,162.2	6,159.7	6,377.6	6,875.6
protecting the atmosphere	966.1	1,017.1	1,464.3	665.5	496.3
wastewater collection and treatment	2,041.2	2,163.5	1,834.3	2,430.3	2,720.6
waste management	708.1	775.4	753.7	1,538.9	1,363.8
protection and rehabilitation of land, surface water and groundwater	687.9	2,169.1	1,312.4	1,434.5	1,461.7
environmental radiation protection and environmental protection against noise, vibration and other types of physical impacts	1.6	3.1	23.8	6.2	1.9
biodiversity conservation and protection of natural areas	0.9	0.6	16.3	89.7	51.6
research and development to reduce negative environmental impacts	10.0	16.2	42.2	9.8	7.9
other environmental protection activities	15.2	17.2	712.7	202.7	771.8

<sup>1</sup> Note: The Report presents updated statistics on environmental safety costs that take into account the total current costs for all environmental protection activities and expenses on environmental services in accordance with the state statistical reporting 4-OS 'Information on the current costs of environmental protection and environmental payments'. The new form was approved by Order No. 387 of the Federal State Statistics Service dated 4 August 2016.

<sup>2</sup> Excluding expenses on the capital construction, reconstruction and repair of fixed assets that have a positive environmental effect.

- Based on these plans, the Company prioritises the following activities:
- > risk management in environmental safety;
  - > environmental monitoring and industrial environmental control;
  - > management of the emergency prevention and containment system and mitigating the consequences of emergencies;
  - > commissioning environmental facilities;
  - > implementing a programme for the value-added use of associated petroleum gas;
  - > developing energy conservation and improved energy efficiency programmes;
  - > developing production waste recycling/disposal programmes;
  - > implementing programmes to modernise oil refining assets;
  - > developing and implementing biodiversity conservation programmes;
  - > developing and introducing eco-technologies;
  - > training and developing environmental safety personnel.

An integrated control system in industrial safety, in particular in environmental safety, utilised by Gazprom Neft enables the Company to achieve its strategic goals and meet its environmental safety obligations.

Such activities are controlled using an environmental management system, which meets the requirements of ISO 14001. In 2016, Gazprom Neft underwent an independent audit and confirmed the environmental management system meets the requirements of ISO 14001:2015. In an effort to improve its environmental safety performance, the Company continuously improves its business processes as part of the management system and engages with stakeholders. Thanks to this work, Gazprom Neft is gradually shifting away from carrying out measures to mitigate damage to assessing environmental risks and introducing preventive measures to warn about the impact of its production activities on the environment.



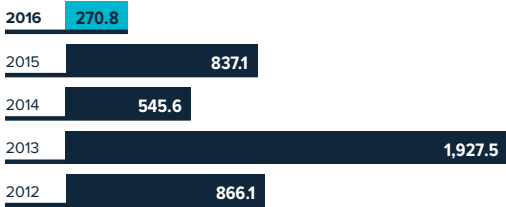
**RUB 14.3 bn**  
investment in environmental  
safety and protection in 2016

The Company insures risks associated with environmental damage to all Gazprom Neft enterprises. The insurance coverage reimburses any expenses by the enterprises that may arise as a result of the unforeseen, unintentional or sudden pollution of environmental facilities in accordance with environmental legislation.

Investment in environmental safety and protection totalled RUB 14.3 billion in 2016. Expenses on environmental services and operating costs to ensure environmental safety and protection amounted to RUB 6.876 billion in 2016.

**PAYMENT FOR NEGATIVE ENVIRONMENTAL IMPACT (RUB mn)**

Source: Company data



**STRUCTURE OF PAYMENT FOR NEGATIVE ENVIRONMENTAL IMPACT (RUB mn)**

Indicator	2012	2013	2014	2015	2016
Emissions to the atmosphere	778.4	1 828.7	406.3	783.2	196.1
Discharges to the environment	0.5	0.8	1.8	0.7	0.2
Production waste disposal	87.2	98.0	137.5	53.2	74.5

## PROTECTING THE ATMOSPHERE

One of the Company's primary environmental objectives is to reduce air pollutant emissions. In an effort to meet this objective, Gazprom Neft is carrying out an ambitious programme to modernise and rebuild its oil refining assets by making them safer and more environmentally friendly.

**KEY ATMOSPHERE PROTECTION PROJECTS IN 2016 INCLUDED**

- > **The Moscow Oil Refinery:**
  - > rebuilding the sulphur production unit and supplementing it with a tail gas clean-up unit. The project has minimised sulphur dioxide emissions and completely eliminated hydrogen sulphide emissions;
  - > introducing an automated system for hermetically sealing bitumen into tanks, which reduced pollutant emissions from the operation of the bitumen plant;
  - > launching construction on a Euro+ oil refining unit. High-tech equipment and a large degree of automation will improve oil refining efficiency by 19% and reduce emissions per tonne of raw materials by 11%;
  - > continuing to build the 'Biosphera' treatment plants, which will cut emissions by 95%.
- > **Omsk Oil Refinery:**
  - > drafting and approving design documentation for the construction of new treatment plants;
  - > modernising certain process units that significantly affect the level of emissions. Overall, the Omsk Oil Refinery has reduced the total volume of pollutants by 36% while simultaneously increasing oil refining volumes by 30% over the five years that it has been rebuilding equipment.

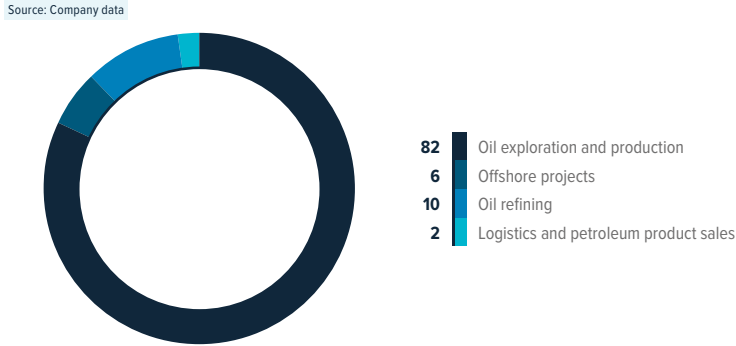
The growth in gross air pollutant emissions in 2016 compared with 2015 is related to an increase in oil production volume, including at subsidiaries with mature assets.

The current projects being implemented at the Moscow Oil Refinery are essentially projects of the future. This is a huge plus both for the region and for the refinery itself in terms of competitiveness

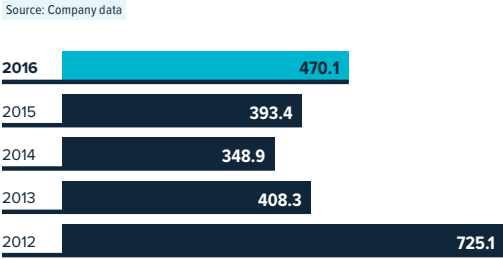
**Sergey Donskoy**  
Russian Minister of Natural Resources  
and the Environment

The oil refining assets modernisation programme has enabled Gazprom Neft to proceed with the production of a full range of high-octane petrol and diesel fuel that meet Euro-5 emission standards. The transition by consumers to fuel of this higher emission standard significantly reduces emissions when used in motor vehicle engines.

SHARE OF COMPANY'S BUSINESSES IN TOTAL POLLUTANT EMISSIONS IN 2016 (%)



GROSS AIR POLLUTANT EMISSIONS (1,000 t)



STRUCTURE OF GROSS AIR POLLUTANT EMISSIONS (1,000 t)

Indicator	2012	2013	2014	2015	2016
Solids	55.2	20.9	13.5	13.8	18.4
Hydrocarbons (without VOCs)	120.7	79.1	57.6	55.8	46.2
Carbon monoxide (CO)	411.6	177.1	125.9	143.7	173.6
Nitrogen oxides (NO <sub>x</sub> )	11.0	9.5	13.2	10.5	18.0
Sulphur dioxide (SO <sub>2</sub> )	21.9	30.2	46.8	96.0	124.8
Volatile organic compounds (VOCs)	104.2	91.1	91.5	72.6	88.4
Other gaseous and liquid substances	0.5	0.4	0.4	1.0	0.7

STRUCTURE OF GROSS AIR POLLUTANT EMISSIONS BY THE COMPANY'S BUSINESSES IN 2016 (1,000 t)

Indicator	Oil exploration and production	Offshore projects	Oil refining	Logistics and sales
Solids	13.9	2.8	1.6	0.1
Hydrocarbons (without VOCs)	39.8	2.6	0.1	3.7
Carbon monoxide (CO)	148.7	22.3	2.2	0.4
Nitrogen oxides (NO <sub>x</sub> )	11.0	2.2	4.3	0.5
Sulphur dioxide (SO <sub>2</sub> )	112.5	0.2	11.6	0.5
Volatile organic compounds (VOCs)	57.9	0.3	20.7	9.5
Other gaseous and liquid substances	0.1	0.1	0.1	0.4

SPECIFIC INDICATORS OF AIR POLLUTANT EMISSION IN 2016

Indicator	Measurement unit	2015	2016
Specific gross air pollutant emissions	kg/t of extracted hydrocarbons (TOE)	0.0046	0.0048
	kg/t of processed hydrocarbons (TOE)	0.0001	0.0007

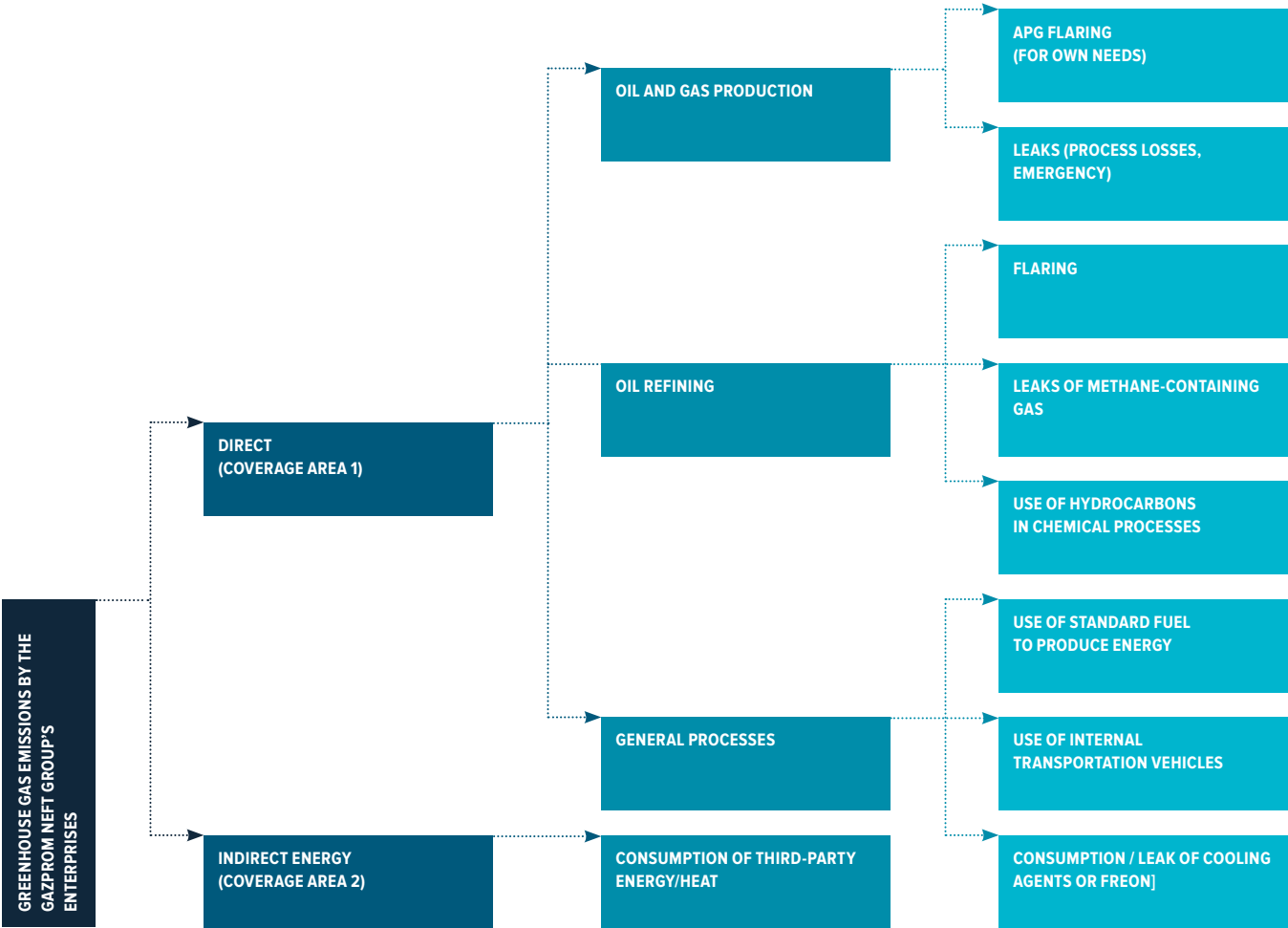
GREENHOUSE GAS EMISSIONS

As one of the leaders in the Russian oil industry, Gazprom Neft is aware of its responsibility to preserve the environment for present and future generations. The problem of climate change reinforces the importance of this issue and activities to reduce emissions at the company and national level. The Company is developing a programme to increase the utilisation of associated petroleum gas at all its production assets.

The Company monitors greenhouse gas emissions generated by its operations. Emissions are assessed based on the following aspects:

- > direct greenhouse gas emissions related to the flaring of hydrocarbon fuel and substances, the operation of production facilities and process losses;
- > indirect energy emissions related to the consumption of third-party electricity, heat, steam or cooling.

FLOWCHART OF GREENHOUSE GAS EMISSION ACTIVITIES AND SOURCES





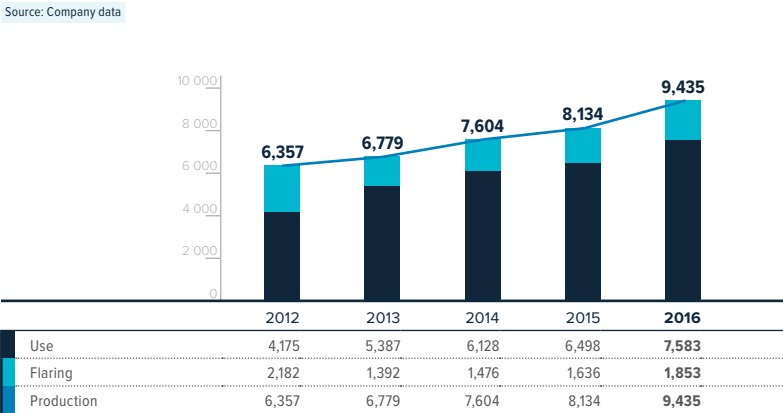
GREENHOUSE GAS EMISSIONS (mn t of CO<sub>2</sub>-equivalent)<sup>1</sup>

Indicator	2013	2014	2015	2016
Greenhouse gas emissions, including:	13.3	12.4	12.7	16.2
direct greenhouse gas emissions	11.8	11.1	10.7	13.8
indirect greenhouse gas emissions	1.5	1.3	2.0	2.4

KEY PROJECTS TO INCREASE THE LEVEL OF EFFECTIVE APG UTILISATION IN 2016

- > **Yamalo-Nenets Autonomous District:** the ongoing construction of Russia’s largest complex gas treatment plant (CGTP) at the Novoportovskoye field. The plant compresses, purifies and dries APG by reinjecting it into the pay zone.  
> APG utilisation level: at least 95%.  
> Design capacity: over 7 billion m3 of gas per year.
- > **Yamalo-Nenets Autonomous District:** commissioning of the Yety-Purovskaya Compressor Station.  
> Processing capacity: 1.2 billion m³/year.  
> Up to 99% APG utilisation level at the Yety-Purovskoye, Vyngayakhinskoye and Volyntoyskoye fields.
- > **Orenburg Region:** construction of a compressor station at the Eastern section of the Orenburg oil and gas condensate field to transport APG to the Orenburg Gas Processing Plant.  
> Design capacity: up to 6 billion m³ of gas per year.  
> APG utilisation level: at least 95%.
- > **Tomsk Region:** commissioning of a gas turbine power plant at the Shinginskoye field, which uses its own electricity to supply all the power required by oil and gas production, processing and transport facilities at the Shinginskoye group of fields.  
> Capacity: 24 MW.  
> APG utilisation level: at least 75%.

APG PRODUCTION AND USAGE (mn m³)



Total greenhouse gas emissions amounted to 16.2 million tonnes of CO<sub>2</sub>-equivalent in 2016, a 27.5% increase from the previous year. The growth in greenhouse gas emissions in 2016 is due to the commissioning of new major fields at which APG utilisation infrastructure will be built in subsequent reporting periods and also due to an increase in heat and electricity consumption as a result of the unusually cold winter. Gazprom Neft also continued implementing projects to increase the level of effective APG utilisation in 2016.

Implementing programmes to increase the effective utilisation of associated petroleum gas at production assets is one of the Company’s strategic goals. Building the required infrastructure and facilities significantly reduces greenhouse gas emissions during the full-scale development of assets while increasing the efficiency of hydrocarbon production.

APG UTILISATION LEVEL (%)<sup>2</sup>



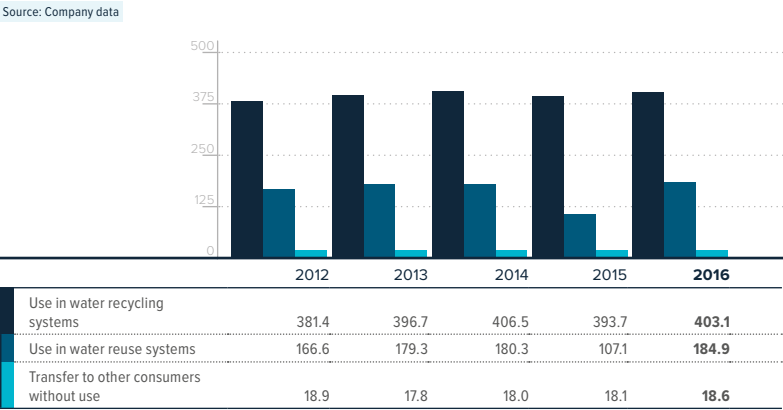
<sup>1</sup> CO<sub>2</sub>-equivalent (CO<sub>2</sub>-equ., CO<sub>2</sub>e) is a unit used to measure the potential global warming of greenhouse gases. Carbon dioxide is the standard used to estimate all other greenhouse gases.  
<sup>2</sup> Data for 2014-2016 includes performance of Gazpromneft-Yamal.

WATER MANAGEMENT

KEY WATER RESOURCE CONSERVATION PROJECTS IN 2016

- > **Moscow Region:** the installation of the ‘Biosphera’ treatment plants at the Moscow Oil Refinery. The complex consists of a multi-stage wastewater treatment system that includes mechanical, physicochemical, biological, filtration and ultrafiltration stages as well as a reverse osmosis unit. The launch of the ‘Biosphera’ plant in 2017 will enable the Moscow Oil Refinery to increase wastewater treatment efficiency to 99%, which will exceed the performance of Europe’s best refineries. The use of a multi-stage biological treatment system will enable the refinery to reduce water consumption by 60%, while 75% of the water will be recycled into the enterprise’s production cycle.
- > **Omsk Region:** preparations for the construction of enclosed treatment plants at the Omsk Oil Refinery. The advanced technological solutions for the multi-stage treatment of industrial effluents contained in the Omsk Refinery project drastically reduce the size of the treatment facilities and reduce emissions of harmful substances by several times. All industrial effluents at the Omsk Refinery will undergo mechanical, physicochemical, biological, filtration and decontamination purification stages. The final stage will remove possible harmful microbes, viruses and bacteria as well as mould and spores from the effluents. The plant will cut its consumption of fresh water in half by returning the treated effluents to the enterprise’s technological process. The project is included in a federal action plan as part of the Year of Ecology in Russia.

VOLUME OF WATER CONSUMPTION (mn m³)



SPECIFIC WATER CONSUMPTION AND DISPOSAL INDICATORS IN 2016

Measurement units	Specific water consumption for the Company’s internal needs	Specific disposal of contaminated water to surface water bodies
m³/t of extracted hydrocarbons (TOE)	1.672	0
m³/t of processed hydrocarbons (TOE)	0.224	0.0017

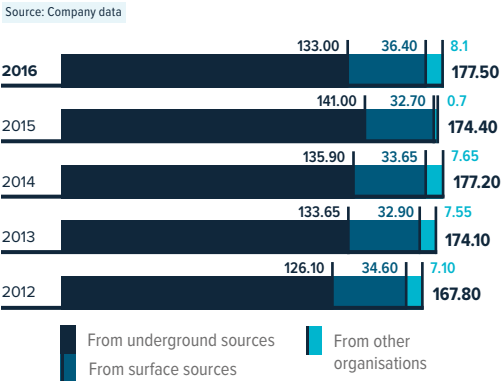
The ‘Biosphera’ system of the Moscow Oil Refinery can be considered an example of the best available technologies being introduced into the practice of Russian oil refining. The traditional setup was supplemented with highly effective methods of sorption and membrane purification, which will significantly increase the efficiency of purification using soluble substances.

**Marianna Kharlamova**  
Director of the Ecological Monitoring and Forecasting Department at the Peoples’ Friendship University of Russia

Gazprom Neft implements action programmes that aim to minimise its volume of water consumption, mitigate environmental risks in water resource conservation and improve the environmental condition of water bodies and their coastal areas.

The Company regularly monitors water protection zones as well as surface water, groundwater and wastewater and assesses the bottom sediment conditions of surface water bodies in the areas where it operates. Scientists from the Polar Research Institute of Marine Fisheries and Oceanography are carrying out comprehensive studies of the water environment as well as key hydrological and hydro-chemical indicators of the water condition near the Prirazlomnaya offshore platform. Spending on industrial environmental control and monitoring of water bodies totalled RUB 25.9 million in 2016, a 10.6% increase from the previous year.

VOLUME OF WATER WITHDRAWN AND RECEIVED FROM VARIOUS SOURCES (mn m³)<sup>3</sup>



<sup>3</sup> The increase in the volume of water withdrawn and received is related to increased drilling volumes at the enterprises of the Company’s Upstream Division.

WASTE MANAGEMENT

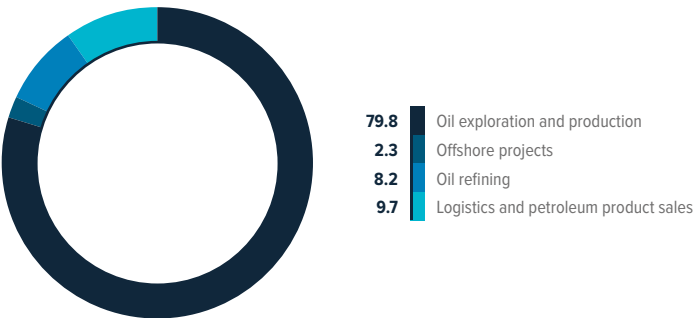
Gazprom Neft’s industrial waste management system aims to ensure environmentally sound waste management, optimise waste flows, mitigate the environmental impact and reduce the economic cost of waste generation. The Company strives to maximise the possible use of waste in order to mitigate its environmental impact.

In 2016, Gazprom Neft developed a concept for the utilisation of drilling waste in order to mitigate environmental risks and reduce well construction costs. The concept takes into account the infrastructure of the fields under development, the existing technologies for and disposal drilling waste, key performance indicators, well construction methods (sump and sump-less drilling), waste injection into the reservoir and remote fields. The concept is to be introduced at the subsidiaries of the Upstream Division in 2017.

During the reporting year, the Company began introducing sludge pit reclamation technology using environmentally friendly soil obtained from drill cuttings. In 2015, the technology underwent testing at a number of the Company’s fields and was given a favourable conclusion as part of a state expert environmental review. Gazpromneft-Noyabrskneftegaz successfully used the method to reclaim sludge pits.

SHARE OF THE COMPANY'S BUSINESSES IN TOTAL WASTE GENERATION IN 2016 (%)

Source: Company data



MOSCOW OIL REFINERY MODERNISATION PROGRAMME

The Moscow Oil Refinery has obtained a waste management license. Starting in 2016, all enterprises that collect, transport, process and recycle waste are required to have a license in accordance with federal legislation. The refinery has been implementing a large-scale modernisation programme since 2011 as part of which all waste that accumulated prior to 1991 has been eliminated. Over the five years of the programme, the enterprise recycled more than 180,000 tonnes of oily waste, freed up roughly 15 hectares of the refinery’s territory and reclaimed polluted soil.

DYNAMICS OF KEY WASTE MANAGEMENT INDICATORS (1,000 t)

Indicator	2012	2013	2014	2015	2016
Waste generation, including:	424.20	530.90	657.20	1104.51	906.70
Class I hazard	0.032	0.030	0.025	0.024	0.028
Class II hazard	0.050	0.010	0.010	0.636	0.011
Class III hazard	154.10	80.91	93.00	168.19	72.50
Class IV hazard	221.40	398.70	486.20	818.94	757.5
Class V hazard	48.60	50.50	78.00	116.72	76.7
Waste received from other organisations	6.13	5.66	5.88	5.12	0.375
Class I hazard	0.00	0.00	0.00	0.00	0.000
Class II hazard	0.00	0.00	0.00	0.00	0.000
Class III hazard	0.12	0.09	0.92	0.10	0.280
Class IV hazard	6.01	5.57	4.92	5.01	0.015
Class V hazard	0.01	0.00	0.03	0.00	0.080
Waste utilisation (including transfer to other organisations for use), including:	98.84	193.61	324.84	689.62	415.4
Class I hazard	0.001	0.000	0.000	0.000	0.00
Class II hazard	0.004	0.010	0.010	0.005	0.004
Class III hazard	18.33	19.89	17.15	15.71	8.4
Class IV hazard	53.51	153.24	273.22	613.37	365.5
Class V hazard	26.99	20.48	34.46	60.53	41.5
Waste neutralisation and disposal (including transfer to other organisations for neutralisation and disposal), including:	404.99	408.58	486.13	405.22	489.64
Class I hazard	0.03	0.03	0.03	0.02	0.03
Class II hazard	0.05	0.00	0.00	0.63	0.01
Class III hazard	149.61	61.11	59.57	153.69	71.1
Class IV hazard	233.68	322.53	389.28	199.99	378.4
Class V hazard	21.62	24.92	37.26	50.89	40.1
Accumulated waste as of the end of the year, including:	291.27	224.88	77.02	88.79	63.6
Class I hazard	0.00	0.00	0.00	0.00	0
Class II hazard	0.00	0.00	0.00	0.00	0
Class III hazard	0.00	0.00	17.21	12.01	7.4
Class IV hazard	290.22	218.72	47.34	62.74	55.6
Class V hazard	1.05	6.16	12.47	14.04	0.6

PROTECTION OF LAND RESOURCES  
AND VEGETATION

KEY GAZPROM NEFT PROJECTS TO IMPROVE  
THE RELIABILITY OF PIPELINES IN 2016

The use of advanced technologies when building a 96-km pipeline with capacity of 7 million tonnes of oil per year that will connect the Messoyakha group of fields with the northernmost point of the Zapolyarye-Purpe oil transportation system. Semi-automatic and automatic welding guarantees the high quality of pipe joints and ensures the reliability of the oil pipeline. A fibre-optic cable that records any risks of depressurisation in the system will be routed along the entire route.

The use of a mobile laboratory for the non-destructive testing of pipelines at Gazpromneft-Noyabrskneftegaz. The equipment allows for the remote monitoring of the technical condition of main pipelines using X-ray equipment as well as ultrasonic flaw detection and thickness measurement devices.

New pipeline diagnostic methods. The magnetometric method is based on recording magnetic fields and makes it possible to identify zones of localised corrosion. Gazpromneft-Noyabrskneftegaz conducted successful tests of the device in late 2015. The development of internal pipeline indicators will make it possible to conduct diagnostics on small-diameter infield pipelines (up to 219 mm), which are the most prone to corrosion.

Since 2014, the Company has been implementing the ‘Clean Territory’ project, which aims to reduce pipeline failure rates and the area of contaminated land.

Gazprom Neft reclaims disturbed and contaminated land and sludge pits taking into account the climatic, hydrological, soil and vegetative conditions of the regions. The reclamation programmes involve an inventory of the land, an assessment of the soil contamination level, the selection of the most effective rehabilitation technology and an assessment of the quality of environmental restoration work, including chemical and analytical monitoring.

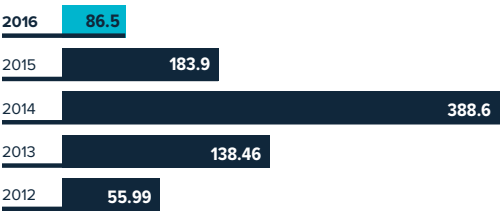
Since 2014, the Company has been implementing the ‘Clean Territory’ project, which aims to reduce pipeline failure rates and the area of contaminated land. The project includes diagnostics and monitoring of corrosion, the reconstruction and replacement of roughly 400 km of pipelines per year.

UNMANNED MONITORING

Gazprom Neft developed the use of drones to monitor the technical condition of oil pipelines during the reporting year. The drones provide continuous remote control of pipeline integrity, including at remote sections of fields, and reduce emergency response time. The drones, which are equipped with photo cameras, video cameras and thermal imagers, are controlled from a ground station using a GPS navigator. The use of drones allows for tripling the number of flights that can be made and also improves the observation quality compared with what can be seen from helicopters. Gazpromneft-Muravlenko and Gazpromneft-Noyabrskneftegaz used drones for monitoring during the reporting year.

RECLAMATION OF OIL CONTAMINATED LAND (ha)<sup>1</sup>

Source: Company data



The Company introduced the approach of recycling drilling waste at temporary storage sites without building sludge pits in 2015 and continued to successfully utilise this approach throughout 2016. Drilling waste is recycled with the construction material obtained subsequently being used to eliminate temporary drilling waste storage sites and also at other facilities in accordance with its designated purpose.



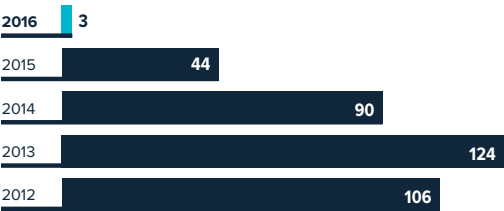
24.6%

area occupied by green spaces at the Moscow Oil Refinery

RECLAMATION OF SLUDGE PITS

(pits)

Source: Company data



LANDSCAPING OF THE MOSCOW OIL REFINERY

The trees and shrubs located on the territory of the Moscow Oil Refinery have been entered into the ‘Register of Green Spaces’ municipal information system. Specialists from the Department of Nature Management and Environmental Protection conducted an inventory of 1,700 trees and more than 5,000 shrubs at the Moscow Oil Refinery. The requirement for green spaces at the production sites of Moscow enterprises is 10%, while the area occupied by green spaces at the Moscow Oil Refinery makes up 24.6% of the company’s territory.

SPECIFIC LAND PROTECTION INDICATORS IN 2016

Ratio of area of contaminated land at the end of the year vs. at the start of the year	ha/ha	0.0046
Specific amount of spilled oil, condensate and petroleum products as a result of accidents and leaks	kg / t of extracted hydrocarbons (TOE)	0.0021

<sup>1</sup> Oil contaminated lands were reclaimed in 2016 in full compliance. The decrease in reclamation compared with 2015 is due to the use of resource-saving technologies as part of the ‘Clean Territory’ corporate project, which led to a decrease in the area of contaminated land.

PRESERVING BIODIVERSITY

The Company's field development projects include a programme to rehabilitate aquatic biological resources.

In order to comply with the Russian President’s orders on the safe development of the Arctic, Gazprom Neft is implementing a perpetual corporate programme to preserve biodiversity based on a list of flora and fauna that serve as indicators of the stable condition of the marine ecosystems in Russia’s Arctic zone. The programme was developed by the Company jointly with leading scientific research institutes, Russian Arctic National Park and the Marine Mammal Council taking into recommendations from the UN Development Programme, the Global Environment Facility, the Ministry of Natural Resources and Environment and the World Wildlife Fund in Russia.

The programme to preserve biodiversity in Russia’s Arctic zone was recognised by specialists from the Ministry of Natural Resources and Environment and the scientific community as one of the best programmes organised under the Russian President’s orders and other similar programmes developed by companies in Russia.

The programme took into consideration international and national requirements as well as agreements and conventions related to the preservation of biodiversity and the diversity of life forms, including genetic diversity, the diversity of species and ecosystems as well as their ability to change, adapt and evolve.

The Company plans to develop and introduce a Biodiversity Preservation Programme for all its facilities located in Russia in 2017 as part of the Year of Ecology.

The Company plans to develop and introduce a Biodiversity Preservation Programme for all its facilities located in Russia in 2017 as part of the Year of Ecology.

FAUNA STUDIES NEAR THE PRIRAZLOMNAYA PLATFORM

Gazprom Neft Shelf conducted a study during the reporting year on how a wide range of fauna species could be potentially impacted by the Prirazlomnaya platform in the Pechora Sea as well as escort vessels and tankers that deliver oil to Murmansk from the Novoportovskoye and Prirazlomnoye fields based on a programme and list of indicator species. The research was conducted offshore, on the coast and in coastal waters.

The reproduction dynamics of plankton, which have an extremely short life cycle, are one of the indicators of the ecosystem’s health. The study results did not reveal any significant stressful impact on plankton in 2016.

Ornithological studies on the islands of the Nenets Refinery demonstrated the successful breeding of anseriformes birds and the appearance of 75 new species of birds, including a range of eight rare species: the white-tailed eagle, pallid harrier, peregrine falcon, gyrfalcon and Bewick’s Swan, among others.

A study of marine mammals near the Prirazlomnaya platform found large spring groupings of harp seals (several thousand) as well as a few Atlantic walruses. The study showed the platform and escort vessels had no significant impact on the animals. In 2016, satellite transmitters started being used to study walrus migration. The first data indicates that walruses actively occupy the water area between the islands of Dolgy and Vaigach.

ENERGY CONSUMPTION AND ENERGY EFFICIENCY

HIGHER PRODUCTION GROWTH RATES HAVE LED TO INCREASED ENERGY CONSUMPTION AT THE COMPANY. IN AN EFFORT TO MINIMISE THE IMPACT OF THIS PROCESS, GAZPROM NEFT IS WORKING ON IMPROVING ENERGY EFFICIENCY AND OPTIMISING THE USE OF ENERGY RESOURCES BY INTRODUCING A SYSTEMATIC APPROACH TO MEETING THESE CHALLENGES.

One of the priorities for improving the Company’s operational efficiency is to enhance the energy efficiency of its production assets.

- The main goals of Gazprom Neft in energy conservation and efficiency are:
- > to enhance the energy efficiency of the Company's enterprises while maintaining or improving reliability, safety and performance;
  - > to mitigate adverse impacts on the environment;
  - > to reduce the consumption of non-renewable energy resources.

The Gazprom Neft Energy Policy is the regulatory framework for such activities. The Energy Policy serves as the foundation for the Energy Management System (EMS), which meets the requirements of ISO 50001:2011. Introducing modern tools to manage production gives Gazprom Neft the opportunity to effectively utilise the best global and national practices for managing the consumption of fuel and energy resources.

The Company has been gradually introducing the EMS at its enterprises since 2012. In 2016, the EMS was introduced and certified at three subsidiaries of the Upstream Division: Gazpromneft-Orenburg, Gazpromneft-Vostok and Gazpromneft-Muravlenko. Inspection audits conducted at the Upstream Division’s corporate centre and two subsidiaries did not reveal any discrepancies. In 2016, the Downstream Division completed the key formation stage of the EMS, which unites the upper (corporate centre) and lower (key subsidiaries) levels for managing energy conservation and energy efficiency at key subsidiaries and the Division as a whole. The Downstream Division’s EMS underwent an independent audit and was certified for compliance with the requirements of ISO 50001.

UPSTREAM DIVISION

The main energy efficiency indicator at Upstream Division enterprises is the specific electricity consumption for liquid extraction, which totalled 28.91 kWh/t in 2016, or 1.7% below the planned level.

The Energy Efficiency Programme exceeded its targets in 2016. The Upstream Division had energy savings of 433 million kWh (RUB 1.251 billion), which is a record level for the implementation of energy efficiency programmes at Gazprom Neft.

More than one hundred recommendations were prepared to replicate energy conservation best practices at the Company based on the results of Annual Energy Efficiency Surveys of the energy management system.

The growth in the Company’s energy consumption is consistent with the growth in the technologies and equipment that are being introduced. Implementing energy conservation measures not only allows us to contain growth, but also reduce specific consumption indicators by taking a systematic approach, expanding the number of participants in the Upstream Division’s energy efficiency programme and developing energy management.

Anton Gladchenko  
Director of the Gazprom Neft Gas and Energy Directorate



## DOWNSTREAM DIVISION

The key energy efficiency indicator for oil refining enterprises is the energy intensity index (EII) calculated using the methodology of Solomon<sup>1</sup>.

### ENERGY INTENSITY INDEX OF THE COMPANY'S OIL REFINERIES

Enterprise	2012	2013	2014	2015	2016
Omsk Oil Refinery	126	123	117	114	110
Moscow Oil Refinery	124	123	122	114	113
YANOS	110	110	108	109	107
NIS	–	–	126	122	118

The specific energy consumption indicator is the most convenient for operational control.

Indicator	2012	2013	2014	2015	2016
Specific consumption, kg OE/t	134.2	131.0	134.6	131.5	136.8

Since 2011, the Downstream Division has employed an Energy Conservation and Energy Efficiency Programme, which is the main tool used to implement the Company's Energy and Technical Policy in energy efficiency – a strategic priority for the Company's development – and sets the goals and objectives of the Downstream Division's enterprises in this area for the medium-term. The programme is drafted by the Downstream Division's Energy Department for a three-year period with subsequent annual updates.

Under the Programme, the main focuses of the Division's energy conservation and energy efficiency activities are:

- > to improve work efficiency and optimise the processing behaviour of energy and technological equipment,
- > to reduce the fuel and energy intensity of technological processes;
- > to reduce losses of fuel and energy resources;
- > to increase the proportion of steam condensate returned by process units;
- > to increase the efficiency of heat exchange processes and the generation and use of thermal energy in core and auxiliary processes;
- > to improve the infrastructure level of core and auxiliary production processes at enterprises with metering devices;
- > to introduce the energy management system.

### DEVELOPMENT OF CAPACITY AT POWER GENERATION FACILITIES (MW)

Source: Company data

2016	404
2015	266
2014	225
2013	216

The Upstream Division implemented a programme to improve reliability and modernise its electrical equipment and grids during the reporting year. The programme involved the capital construction of power supply facilities, the modernisation of power grids and substations, the introduction of high-speed automatic transfer switch and automated information systems as well as enhanced storm stability and lightning protection of power grids. As a result of the programme, oil shortfalls during emergency power shutoffs declined by 1.5% compared with 2015.

Taking into account the oil production targets, the Company actively developed the capacity of power generation facilities by building new and expanding existing autonomous power plants. Five new power generation facilities were commissioned last year.

The decrease in electricity consumption is the result of a reduction in the volume of fluid produced. The increase in thermal energy consumed for oil production processes was due to changes in the ambient air temperature.

<sup>1</sup> This index allows for a quantitative comparison of the energy efficiency of a specific oil refinery with another refinery that is similar in terms of production units and work conditions. The smaller an enterprise's EII value is, the better its energy efficiency level is.

The most significant energy efficiency projects in 2016 included:

- > the use of high efficiency electric submersible pump units;
- > the introduction of permanent magnet motors;
- > the operation of downhole equipment in periodic operating modes;
- > a reduction in water produced and its pumping into the formation (shutdown of unprofitable wells and the performance of geological and technical measures);
- > the selection of the optimal size and replacement of pumping units at water-injection and booster pumping stations and initial water separation units;
- > the installation of variable frequency drives on pumping equipment;
- > the optimisation of electric heating systems (the installation of thermostats).



**433**  
mn kWh

energy savings  
by the Upstream Division  
in 2016

### #ВМЕСТЕЯРЧЕ

Employees from the Upstream Division's subsidiaries and corporate centre took active part in the Russian oil industry festival #ВМЕСТЕЯРЧЕ and the international energy forum ENES-2016 as a partner and participant in energy efficiency contests. The youth team from among employees of the Upstream Division's subsidiaries finished second in the contest of energy efficiency projects at the ENES-2016 forum. Gazprom Neft's video for employees 'Improving Energy Efficiency' also took home a prize.

but for the Russian oil industry as a whole. The module is primarily designed for engineering and technical personnel as well as specialists whose activities are directly related to energy-intensive business processes. It includes a training course as well as a block of a hundred questions to test employees' knowledge on the subject of energy conservation.

### TOTAL ENERGY CONSUMPTION BY THE UPSTREAM DIVISION

Indicator	2012	2013	2014	2015	2016
Electricity consumption (purchased + generated), MWh	5,690,232	6,032,738	6,177,164	6,419,919	6,298,276
Change vs. previous period, %	6.9	6.0	2.4	3.9	(1.9)
Thermal energy consumption (internally produced and purchased from third-party suppliers), GJ	1,231,237	1,218,555	1,064,758	982,015	996,644
Change vs. previous period, %	(3)	(1)	(13)	(8)	1

### CONSUMPTION OF PURCHASED ENERGY

Indicator	2012	2013	2014	2015	2016
Purchased electricity (minus electricity transferred to third parties), MWh	4,902,184	5,180,370	5,183,377	5,356,476	5,218,287
Purchased thermal energy (minus electricity transferred to third parties), Gcal	29,152	31,623	28,384	22,858	26,700

The Division's main energy conservation and energy efficiency measures in the reporting year included:

- > replacing and modernising process furnaces to increase their efficiency;
- > optimising the recuperation system and using secondary energy resources in technological processes (using heat from product flows to heat raw materials as well as water and heat flows);
- > increasing the efficiency of fuel use in process furnaces by utilising modern technologies (ceramic coating of heating surfaces, ultra-thin thermal insulation coating and improved burner devices);
- > optimising condensate collection and return systems;
- > optimising the operation of compressor equipment;
- > increasing the efficiency of heat and steam supply systems;
- > modernising lighting systems;
- > replacing turbo drives and steam pumps with electric drives.

The Division's energy conservation activities in 2016 resulted in savings of 2,369.9 TJ of energy and fuel, specifically: 258,700 Gcal of heat energy, 25,000 TOE of fuel and 16.2 million kWh of electricity. Spending on energy resources decreased by RUB 528.9 million. The growth in energy intensity associated with the commissioning of new process units declined by 1.6%, or 7% higher than the 2015 indicators.



**2,369.9**  
TJ  
energy and fuel  
saved by the energy  
conservation activities  
of the Downstream Division  
in 2016

In 2016, the Division drafted a Downstream Division Energy Conservation Programme for 2017-2019. It will include two new enterprises: Gazpromneft-Aero and Gazpromneft – Bitumen Materials starting in 2017. The projected economic effect from the programme's implementation is RUB 1.784 billion.

Gazprom Neft in 2016 also updated a comprehensive programme to improve the reliability of power supplies to oil refining enterprises in 2017-2019. The programme is the main tool for implementing the Downstream Division's Technical Policy in the reliability of power supplies and specifies the mechanisms for establishing, monitoring, achieving and updating the goals and objectives of the Division's oil refining enterprises in this regard.

**COMPANY'S SPECIALISTS**

Employees from the Downstream Division's Energy Department are involved in drafting and discussing the target programmes and strategies of the Russian Federation as well as creating the legislative, regulatory and technical framework in energy conservation and efficiency. The Company's specialists are members of the Council of Chief Power Engineers of Oil Refining and Petrochemical Enterprises of Russia and the CIS of the Association of Oil and Petroleum Refiners.

A total of 63 measures with investment of RUB 667 million were implemented in 2016. The main areas of activities included: eliminating power equipment failure, increasing the stability of power supply systems, improving the technical infrastructure level as well as the training and advanced training of personnel.

As a result of the programme's implementation, positive trends were seen in target performance indicators versus the 2015 levels:

- > the total number of failures decreased by 15%;
- > the total number of technology downtime hours due to power supply disruptions decreased by 49%;
- > the overall level of resistance to external power supply disruptions increased by 30%.

Downstream Division specialists actively work to exchange experience within the Company and with other enterprises in the industry in order to improve the effectiveness of energy efficiency and energy conservation work. Gazprom Neft has created the 'Power' Centre of Excellence, which includes the 'Energy Efficiency' networking group in which Company specialists identify and exchange best practices in this area.

The work performed by the 'Power' Centre of Excellence during the reporting year resulted in an economic effect of RUB 330 million due to the implementation of best practices proposed by experts from the Centre.

In 2016, representatives of Gazprom Neft and Lukoil held a joint meeting as part of the 'Power' Centre of Excellence attended by specialists from the energy divisions of the companies' corporate centres, electrical supervisor staffs and Lukoil specialised scientific and technical centre as well as energy managers from the ten largest oil refineries in the industry.

**DEVELOPMENT OF RENEWABLE ENERGY SOURCES**

NIS, a European subsidiary of Gazprom Neft, since 2011 has been undergoing a transformation from an oil and gas company into an energy holding with a focus on the development of renewable energy resources. The energy development strategy of NIS today involves using geothermal water, wind, coal and oil shale as an energy source. The company currently uses the energy of thermal waters for heating with 8 geothermal systems built at 11 wells and another 20 wells pending. The development of wind generation also helps NIS to ensure a reduction in CO2 emissions. In 2016, the Company finished setting up a site for the construction of its own wind farm in Plandiste consisting of 40 wind turbines with capacity of 100 MW. The wind farm is set to launch operations in 2018.

**The work performed by the 'Power' Centre of Excellence during the reporting year resulted in an economic effect of RUB 330 million due to the implementation of best practices proposed by experts from the Centre.**



The energy conservation programme and the 'Energy Efficiency' networking group within the 'Power' Centre of Excellence are effective tools that enable the Division to systematically improve its performance in this area. In 2017, we plan to develop interaction with domestic and foreign oil refining companies in order to exchange and replicate advanced expertise and best practices in energy conservation, which will help us to achieve even greater success in this regard.

**Vladimir Andreyev**  
Head of the Energy Department  
of the Gazprom Neft Downstream Division

**CONSUMPTION OF PURCHASED ENERGY BY THE DOWNSTREAM DIVISION**

Indicator	2012	2013	2014	2015	2016
Purchased electricity (minus electricity transferred to third parties), MWh	3,121,124	3,322,147	3,262,669	3,340,550	3,400,210
Change vs. previous period	–	6.4	(1.8)	2.4	1.8
Purchased thermal energy (minus electricity transferred to third parties), GJ	16,854,981	17,373,245	16,581,709	16,081,895	15,186,997
Change vs. previous period	–	3.1	(4.6)	(3.0)	(5.6)



## GOALS FOR 2017

### HSE AND OS

In 2017, Gazprom Neft plans to:

- > prevent accidents at hazardous production facilities;
- > reduce equipment accidents (incidents) by 10%;
- > reduce the fatal accident rate (FAR) by 30%;
- > prevent man-made emergencies at production facilities.

The Company will implement the following key measures in HSE, OS and CD:

- > the functioning of an industrial safety department at the Corporate University;
- > the training of drivers according to the requirements of the 'Traffic Safety Control System' standards for defensive/winter driving;
- > the implementation of a corrective action plan to reduce the risk of fires at power-generating plants;
- > the further implementation of updated 'Basic Safety Rules';
- > the further introduction of the 'Five Steps' risk assessment tool;
- > the development of a method to record accidents as well as hazardous actions and working conditions;
- > the implementation of an incentive programme for providing timely information about violations of industrial safety requirements;
- > the creation of a mobile app for Industrial Safety Service employees.

### MITIGATING NEGATIVE ENVIRONMENTAL IMPACTS AND EFFECTIVELY UTILISING RESOURCES

The Company will continue carrying out programmes to improve environmental safety in 2017. As part of efforts to implement production programmes to modernise and build infrastructure by 2020 taking into account the requirements for reducing the man-made impact on the environment, the Company will continue working towards its medium-term goals, in particular:

- > reducing specific harmful (pollutant) air emissions;
- > reducing specific greenhouse gas emissions;
- > reducing the discharge of contaminated and insufficiently treated wastewater into the ground, surface water bodies and centralised water disposal systems;
- > increasing the share of disposed and recycled waste;
- > reducing the share of above-limit payments for negative environmental impact;
- > increasing the APG utilisation level to 95%.

As part of the Year of Ecology in Russia, the Company also plans to conduct technical and communications measures that aim to mitigate any negative environmental impact and develop an environmental culture.

### ENERGY CONSERVATION AND ENERGY EFFICIENCY

#### TARGETS:

- > To implement the Upstream Division's 2017 energy conservation and energy efficiency programmes (125 mn kWh).
- > To achieve the planned specific electricity consumption indicators for the Upstream Division (29.47 kWh/TJ).
- > To implement the Downstream Division's energy conservation programme and conserve the following main fuel and energy resources:
  - heat energy – 525,000 Gcal
  - fuel – 121,500 TOE
  - electricity – 30.6 mn kWh

#### ENERGY CONSERVATION IN MACHINERY AND TECHNOLOGY:

##### UPSTREAM DIVISION

- > Use of high efficiency electric submersible pump units.
- > Introducing electric submersible pump units with an expanded work area.
- > Conducting geological and technical measures to reduce water produced and pump it into the formation.
- > Installation of variable frequency drives on pumping equipment.
- > Replacement of submersible cables with cables that have an enlarged cross-section.
- > Pilot testing of pump equipment with improved performance and efficiency indicators.
- > Reconstruction/modernisation of pump units.
- > Modernisation of lighting systems and optimisation of electric heating systems.

##### DOWNSTREAM DIVISION

#### Key objectives in improving energy conservation management:

- > The expansion of the scope of the Downstream Division's Unified Energy Management System with the priority energy-related enterprises: Slavneft-YANOS (JV) and the branch of Gazpromneft-Lubricant Materials LLC – Omsk Lubricant Materials Plant;
- > The organisation of EMS training for employees and the advanced training of the energy managers of the Division's subsidiaries;
- > The development of corporate standards and methodologies in energy conservation and efficiency;
- > The exchange of experience with oil companies (continued experience of energy efficiency meetings between Gazprom Nef enterprises and other oil companies).

#### Key objectives in improving the reliability of power supplies:

The Downstream Division's power supply reliability management system will be improved and developed in several areas in the medium-term, including:

- > searching for, adapting and replicating new technologies, methods and best practices, establishing a new functionality and increasing the use and effectiveness of the system's existing resources (material resources and personnel);
- > strengthening and centralising the functional vertical of energy management;
- > expanding the functions of the Main Control Room as regards the real-time assessment and monitoring of energy equipment reliability indicators;
- > systematic work to improve the skill and motivation level of personnel;
- > performing additional targeted research work in reliability.



## REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES

The sustainable development of the Company and the regions where it operates is inextricably linked. When planning and carrying out its activities, Gazprom Neft seeks to enhance the competitiveness of the regions and improve the quality of life of local communities. In an effort to meet these objectives, Gazprom Neft implements a social investment programme and develops cooperation with all stakeholders.



# GOALS AND RESULTS IN 2016

GOAL	RESULT
Extend social investment management best practices to the Company's subsidiaries. Scale the 'Native Towns' programme to 14 of the Company's subsidiaries	> Goal achieved.
Provide further assistance for the qualitative transformation of the social environment of the regions where it operates through advanced social project planning tools and innovative solutions for the socioeconomic development of the regions and also involve the government authorities, the business community, non-profit organisations and the local population in the transformation process	> One of the innovative social project planning tools was utilised in Omsk and Khanty-Mansiysk in 2016 with the establishment of a project laboratory. The use of such social investment tools as grant competitions for social initiatives and corporate volunteering, among other things, contributed to the active involvement of all stakeholders in the regional development process.
Expand successful practices in the regions. Scale the interregional projects: the 'Multiplying Talent' tournament, 'Stenografiffa' festival, 'DIY City' project laboratory and the 'Native Town' festival	> Goal achieved. Detailed results are presented in the 'Social activities of the Company' section.
Modernise the system used to prepare for and implement social projects by introducing a corporate standard that regulates the interaction of the Company's corporate headquarters and subsidiaries in the regions where it operates	> The 'Procedure for Preparing, Protecting, Implementing and Monitoring the Social Investments of Subsidiaries' was drafted and approved.
Document the Company's policy with respect to the indigenous peoples of northern Russia taking into account the Company's existing practices and the standards of generally accepted international documents	> The Company launched a programme in 2016 to systematise engagement with indigenous peoples of northern Russia and analyse existing practices and international standards. A Company policy will be formulated with respect to such peoples based on this work. The project is scheduled to be completed in 2017.
Conduct grant competitions for social initiatives in six regions where the Company operates (the Omsk, Orenburg and Tyumen Regions, Yamalo-Nenets Autonomous District and Khanty-Mansi Autonomous District-Yugra) with a grant fund of more than RUB 23 million and at least 80 participants	> Grant competitions were held in the six targeted regions. The grant fund totalled RUB 24.15 million and 84 projects were implemented as part of the competitions in 2016.
Conduct a second competition of volunteer projects with the implementation of at least 25 initiatives	> A second competition of volunteer projects was held with 30 employee initiatives implemented.

# THE COMPANY AND THE REGIONS: COOPERATION TO MEET SUSTAINABLE DEVELOPMENT OBJECTIVES

THE GEOGRAPHY OF GAZPROM NEFT'S OPERATIONS CURRENTLY ENCOMPASSES MORE THAN 30 REGIONS OF RUSSIA, SIX FORMER SOVIET REPUBLICS AND SIX OTHER COUNTRIES. IN MOST OF THE REGIONS THE COMPANY IS HEAVILY INVOLVED IN THE SOCIOECONOMIC DEVELOPMENT OF THE SURROUNDING AREA, AND IN A NUMBER OF REGIONS IT PLAYS A STRATEGIC ROLE.

The Company focuses on creating favourable socioeconomic and legal conditions for its activities in the regions where it operates, minimising the manmade impact on the environment, creating a comfortable social environment for residents in the regions, including the Company's employees and their families, developing cooperation with stakeholders as well as ensuring information openness and transparency.

With its contribution to regional development, Gazprom Neft acts as a:

Investor and taxpayer

- > Develops the potential of regions by establishing new production facilities, exploring new fields, modernising assets and creating production infrastructure.
- > Develops transport infrastructure in the regions by building petroleum product supply enterprises and expanding its petrol station network.
- > Pays taxes to regional local budgets.

Employer

- > Creates and maintains jobs at the Company, contractor organisations and local suppliers of goods and services.
- > Expands opportunities for the professional and career growth of its employees utilising development programmes.

Supplier and customer

- > Supplies high-quality petroleum productions to the regions.
- > Supplies petroleum products to remote areas of northern Russia.
- > Provides discounts for petroleum product supplies to agricultural producers.
- > Orders materials and services from local producers, including Russian-made import-substituting products for oil production and refining.
- > Participates in regional import substitution programmes.
- > Takes part in federal initiatives to create and develop tools to support enterprises and manufacturers of import-substituting products.

DISTRIBUTION OF GAZPROM NEFT PERSONNEL  
BY REGION (people)<sup>1</sup>

Source: Company data



13,797	St. Petersburg and Leningrad Region
10,625	YNAD
9,162	Omsk Region
6,807	Moscow and Moscow Region
5,151	KMAD-Yugra
3,710	Sverdlovsk Region
1,725	Novosibirsk Region
1,175	Ivanovo Region
1,060	Tyumen Region
905	Orenburg Region
743	Tomsk Region
909	Other Russian regions
3,987	Former Soviet republics
6,805	Other countries
5,857	Serbia
681	Iraq
136	Iraqi Kurdistan
48	Austria
47	Italy
36	Romania

<sup>1</sup> Staff numbers as of the end of 2016.

Participant in law-making activities

- > Takes part in assessments of the regulatory impact of regional regulations and improves the legal environment for oil and gas industry operations.
- > Is involved in preparing regulations that aim to enhance the investment appeal of the regions and improve administrative processes in the oil and gas industry.

Environmental activities initiator and participant

- > Implements environmental programmes.
- > Takes part in biodiversity conservation projects.
- > Carries out programmes to modernise refining assets and minimise the man-made environmental impact.

Participant in regional sustainable development programmes and a social investor

- > Implements programmes for socioeconomic cooperation with regional and local authorities.
- > Carries out the ‘Native Towns’ social investment programme.

The Gazprom Neft Regional Policy Concept is the fundamental document that specifies the goals, objectives and manner of interaction with the regions. It is updated based on changes in the external environment and the Company’s ability to facilitate regional development. The next round of updates to the document is scheduled for 2017.

Tools for implementing Gazprom Neft’s regional policy:

- > cooperation agreements with regional and local authorities;
- > the ‘Native Towns’ social investment programme;
- > participation in law-making activities at the regional level;
- > involvement in expert evaluations and the assessment of the regional development programmes of the executive and municipal authorities;
- > representation in local legislative bodies, public bodies set up within federal and local government bodies as well as public, industry and business associations;
- > regular discussions of relevant issues involving the Company’s cooperation with the regions at Russian and international forums;
- > organisation of dialogues with stakeholders;
- > information disclosure.

IMPORT SUBSTITUTION PROGRAM

One of the priority areas of Gazprom Neft’s regional policy is import substitution. Since 2014, Gazprom Neft has been implementing a programme to phase out imported lubricants and process fluids used at utilities enterprises and in various industrial sectors. Supplying the regional economies with Russian-made lubricants that have excellent consumer properties and replacing imported equipment manufacturers significantly reduces budget spending. Over the course of the programme, Gazprom Neft has signed lubricant supply agreements with the governments of the Yamalo-Nenets Autonomous District, Khanty-Mansi Autonomous District, St. Petersburg as well as the Stavropol, Murmansk, Magadan and Orenburg Regions. The Kamchatka and Astrakhan Regions joined the programme in 2016.

The Yugra government’s collaboration with Gazprom Neft represents the coming together of two partners committed to sustainable development and moving forward. We greatly appreciate the company’s investment in attracting new, innovative technologies to the region. The 2016 agreement includes specific points concerning the company’s involvement in implementing the ‘LEAN Region’ concept, particularly in terms of implementing LEAN production, and in developing a network of scientific-research centres for LEAN technologies. I believe this new partnership round will serve to improve productivity and our wider economy, as a whole.

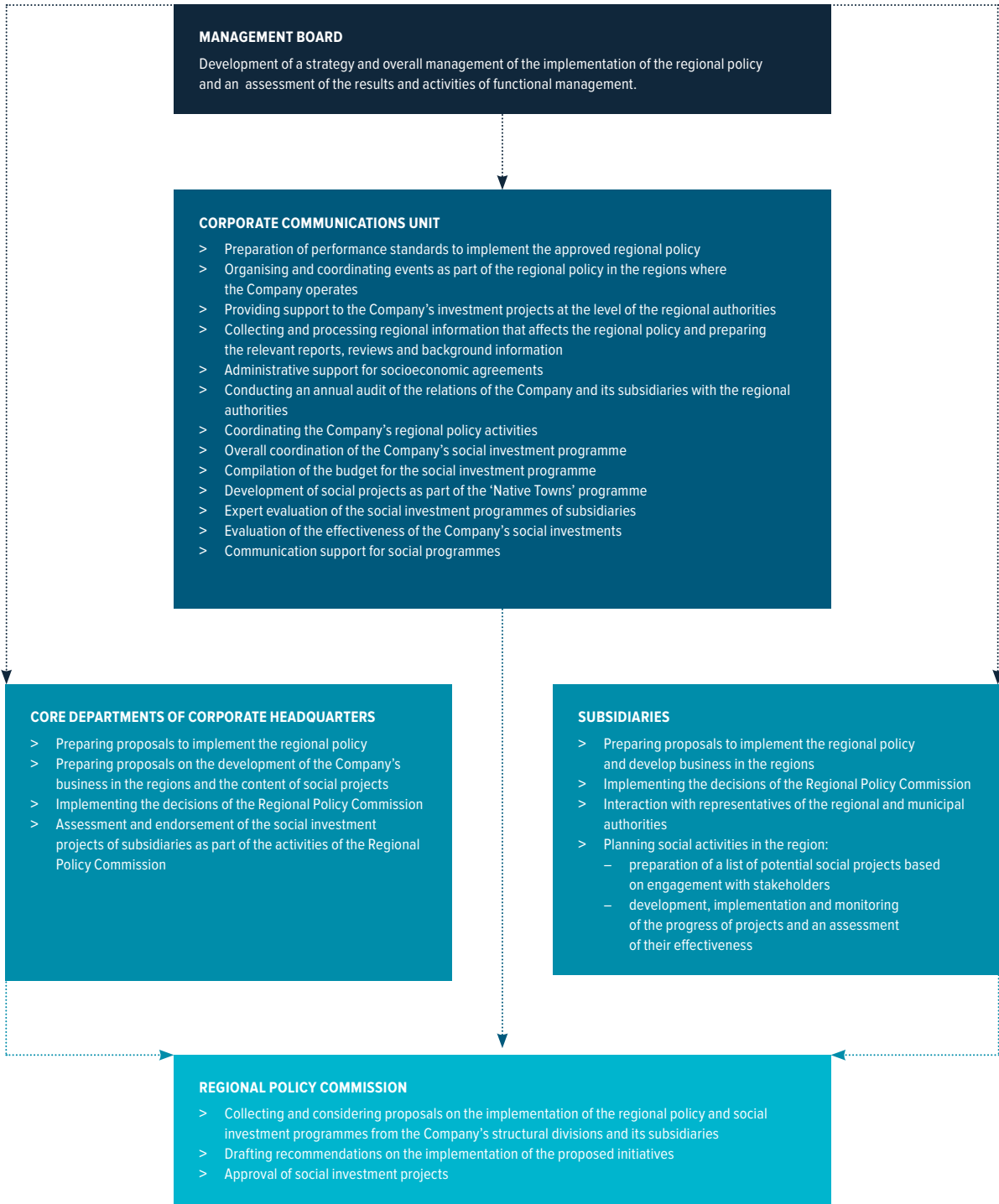
**Natalya Komarova**  
Governor of Khanty-Mansi Autonomous District-Yugra

Gazprom Neft builds relations with the regional authorities based on the principles of a long-term, systematic partnership. Their areas of cooperation are determined by the socioeconomic development strategies of the regions taking into account changes to the external environment and based on the relevance of the problems and challenges facing the regions. As part of its partnership with the government, Gazprom Neft implements projects that aim to preserve stable tax conditions in key regions where it operates and also drafts and introduces import substitution programmes.

In 2016, the Company worked in the format of socioeconomic agreements with the governments of 13 regions of the Russian Federation and the administrations of 21 municipalities. Gazprom Neft’s investment in regional development under the agreements totalled RUB 3.097 billion, as the Company performed all the obligations stipulated in the agreements.

The Company develops different tools for regional development support. Such tools include roadmaps that identify areas where the products of local suppliers can be used in the Company’s production activities. A long-term plan of this sort was already approved for 2013-2016 by the Tomsk Region government and is to be updated for 2017. Gazprom Neft plans to approve a roadmap with the Tyumen Region government in 2017. The Company is committed to expanding the base of local suppliers and manufacturers in each region where it operates.

MANAGEMENT STRUCTURE OF REGIONAL POLICY



# STAKEHOLDER ENGAGEMENT

ENGAGEMENT AND AN ACTIVE DIALOGUE WITH STAKEHOLDERS IS ONE OF THE PRIORITIES OF GAZPROM NEFT’S REGIONAL POLICY. KEY STAKEHOLDERS IN THE REGIONS INCLUDE COMPANY EMPLOYEES, THE REGIONAL AND MUNICIPAL AUTHORITIES, BUSINESS PARTNERS, NON-PROFIT ORGANISATIONS, LOCAL RESIDENTS, INFORMAL URBAN COMMUNITIES, UNIVERSITY STUDENTS, EDUCATIONAL, CULTURAL AND SPORTS INSTITUTIONS, AND THE MEDIA.

Engagement with the federal, regional and local government authorities as well as local self-government authorities involves such tools as agreements on socioeconomic cooperation, joint regional development projects and the participation of government authorities in roundtables, forums and public hearings. For their part, Company employees take active part in major international and Russian forums as well as industry-based forums at which negotiations are held and decisions are made concerning the comprehensive development of the regions. Gazprom Neft representatives and the regional and municipal authorities are involved in the activities of conciliation commissions that resolve matters concerning the construction of new technological facilities in regions where indigenous peoples of northern Russia reside. As part of existing socioeconomic agreements, the Company provides the government with regular reporting on the social projects it has implemented.

Engagement with employees aims to improve their living conditions and enhance their loyalty to the Company as an employer and social investor. Engagement takes place via the corporate media system and the implementation of social projects in the regions where the Company operates.

## A ROUNDTABLE

A roundtable titled ‘Pressing Issues Involving the Operation of the Petroleum Products Market’ was held at Omsk Oil Refinery in 2016 and turned into a platform for an open discussion. The meeting was attended by representatives of the Company, local branch and main department of the Russian Federal Antimonopoly Service, the St. Petersburg International Mercantile Exchange, the Russian Fuel Union and independent filling stations of the Siberian Federal District. The participants discussed the current state of the petroleum products market, the need to combat surrogate products and the importance of integrating the antimonopoly compliance system into its operational practice.

In developing a partnership with local communities, Gazprom Neft actively involves their representatives in the implementation of social projects, which helps to develop human capital in the regions. A key component of the dialogue is an assessment of the Company’s social activities by local communities.

- When evaluating the effectiveness of its social projects, Gazprom Neft utilises such tools for a dialogue with stakeholders as:
- > holding public hearings/meetings of residents when planning social investment programmes;
  - > online voting and open competitions among the public as part of the implementation of social projects;
  - > collecting feedback on the website of the social investment programmes [rodnyegoroda.ru](http://rodnyegoroda.ru);
  - > a sociological study of the opinions and views of the basic target audiences in the regions where it operates.

Gazprom Neft held the ‘Native Towns: New Opportunities. New Challenges. New Solutions.’ conference in Orenburg in 2016. The goal of the conference was to establish a dialogue between all stakeholders concerning social activities in the region. The conference was attended by representatives of the Company, the Orenburg Region government, municipality administrations, the Russian Union of Industrialists and Entrepreneurs, the region’s chamber of commerce and industry, non-profit organisations, charitable funds and the media. They discussed matters concerning interaction between business and the government, the role of companies in the region’s development, options for an effective partnership to develop the social capital of regions, the role of non-profit organisations and opportunities for their active involvement in business’s social projects.

Gazprom Neft is actively involved in projects to improve the quality of roads in the regions, providing innovative bitumen materials to build test road sections. Based on an analysis of the operation of the test sections, individual compounds of binding materials are developed for each region and used to significantly improve the quality and durability of the road surface. Nine such sections have been built in different regions over five years. As part of such activities, the Company signs agreements with regional governments to expand cooperation in road construction. Gazprom Neft became an integrated supplier of innovative bitumen materials to the Republic of Tatarstan in 2016. The product line is formulated based on actual road construction plans in the region taking into account climatic conditions and road traffic intensity.

The Company is involved in the development of industrial clusters as part of its contribution to the scientific and industrial development of the regions. In particular, the Tomsk Region administration held a meeting at Gazprom Neft’s initiative in March 2016 concerning the development of a cluster of hard-to-recover reserves (HTRR) as part of a project implemented by the Tomsk Innovative Regional Centre

The meeting participants discussed the experience gained by subsoil user companies and universities, outlined the main problems faced by production companies when integrating HTRR into development and put forward proposals on how to further develop this area. A list of issues was prepared based on the meeting for discussion by a federal working group chaired by Russian Deputy Prime Minister Arkady Dvorkovich.

## AN AGREEMENT ON COOPERATION

In June 2016, the Tomsk Region government and Gazprom Neft signed an agreement on cooperation concerning hard-to-recover hydrocarbon reserves. Technologies for developing deposits containing hard-to-recover hydrocarbon reserves will be created and tested as part of the agreement. Cooperation in this area requires maximising the use of the competencies and scientific potential of the National Research Tomsk Polytechnic University, National Research Tomsk State University, the Institute of Petroleum Chemistry at the Siberian Branch of the Russian Academy of Sciences and Tomsk Oil and Gas Research and Design Institute OJSC.



Today, Tatarstan is one of the leaders in the development of road infrastructure in Russia. For us, it is particularly meaningful that the modified binders of Gazprom Neft, whose quality has received high praise from our counterparties in the republic, were used in the construction of a landmark project for Kazan – the Millennium bridge.

**Dmitry Orlov**

CEO of Gazpromneft – Bitumen Materials



The Company has successful experience in applying new technologies to develop HTRR. But work in this area can only be taken to a qualitatively new level if we consolidate the efforts of oil companies, the regional and federal authorities, scientific institutions and equipment manufacturers.

**Viktor Misnik**

CEO of Gazpromneft-Vostok

# SOCIAL ACTIVITIES

GAZPROM NEFT CARRIES OUT SOCIAL ACTIVITIES WITHIN THE FRAMEWORK OF THE ‘NATIVE TOWNS’ SOCIAL INVESTMENT PROGRAMME. ALL OF THE COMPANY’S CORE SUBSIDIARIES ARE INVOLVED IN THIS WORK. WHEN SCALING INTERREGIONAL PROJECTS IN SPECIFIC REGIONS, THEIR CONTENT IS ADAPTED IN ACCORDANCE WITH THE NEEDS OF THE LOCAL TARGET AUDIENCES.

Subsidiaries annually prepare lists of projects taking into account the urgent objectives for regional development and the opinions of stakeholders – the local and regional authorities, local communities and non-profit organisations. This approach helps the Company achieve a high level of efficiency from its social investments and flexibly take into account the specific features of the regions and the urgent objectives for the development of the regions.

The main tools for implementing the ‘Native Towns’ programme are:

- > agreements on socioeconomic cooperation with the regional and local authorities;
- > the Company’s own social projects;
- > grant competitions for social initiatives;
- > corporate volunteering;
- > targeted corporate charity.

Stakeholders – local communities, employees, non-profit organisations and the government authorities – serve as active partners for the Company when establishing and implementing the portfolio of projects and programmes. This approach promotes growth in social activity and the competence of local communities in meeting regional development objectives. Key engagement tools include grant competitions for social initiatives, volunteer project competitions and the launch of platforms for local communities to create sociocultural projects.

In 2016, the ‘Native Towns’ programme encompassed 35 regions where the Company operates and featured 165 projects, 287 charitable and volunteer events and seven grant competitions. The Company’s social investments totalled RUB 4.1 billion.

Over its five years of existence, the ‘Native Towns’ programme has implemented more than 2,000 projects valued at almost RUB 19 billion.

When developing and implementing social projects, the Company conducts a comprehensive analysis of the sociopolitical and socioeconomic situation in the regions as well as the federal agenda that influences regional development.

GRANT COMPETITIONS

The Company held grant competitions for social projects in six regions where it operates in 2016. The competition was held for the first time in the Tyumen Region’s Uvatsky District. A total of 460 applications were submitted for the programme, a 21% increase compared with 2015. The competition’s grant fund totalled RUB 24.15 million and 84 projects were implemented as a result.

The assessment is based on data from independent studies that identify pressing problems in the social sector (including in the medium term). The analysis of the key indicators concerning the development of the regions and external environment enables the Company to forecast the development of the sociopolitical and socioeconomic situation and adjust its social activities in accordance with the current problems faced by a particular region. Gazprom Neft also conducts its own research to form a comprehensive picture. In October-November 2016, the Company carried out a sociological study titled ‘Opinions and views of the basic target audiences in the key regions of operations of Gazprom Neft PJSC’. The survey of more than 6,000 respondents measured the optimism level of residents in each of the regions and assessed their vision of the region’s development prospects along with their opinion of the Company’s role in this process.

The highest level of social optimism was seen in the Yamalo-Nenets Autonomous District – the region with the largest share of social investments by Gazprom Neft. Most of the district’s residents know about the ‘Native Towns’ social investments programme and associate it with the Company. Another region with a major share of Gazprom Neft’s social investments – the Khanty-Mansi Autonomous District-Yugra – also showed an increase in the social optimism indicator. In Omsk, where the ‘DIY City’ project laboratory functioned throughout 2016, the percentage of optimistic residents increased by 10%.

Engagement with public and non-profit organisations and associations aims to enhance the effectiveness of social investments and consolidate the resources of all stakeholders to meet regional development objectives. Gazprom Neft involves representatives of these organisations in the development, implementation and assessment of the effectiveness of its social projects, as well as public hearings. The Company also takes part in the activities of associations whose work fully or partially aims to resolve regional development issues. In particular, Gazprom Neft is involved in the work of the Russian Union of Industrialists and Entrepreneurs and the Association of Managers.

A key objective of the dialogue with stakeholders is to increase the Company’s information transparency as well as expand and promote social initiatives via different communications channels, including the media and social networks. Building awareness about Gazprom Neft’s social projects among all stakeholders enables the Company to increase the number of potential participants in such projects and promptly receive feedback and an assessment of its initiatives.

In 2016, the Company created a YouTube video channel for its ‘Native Towns’ social investments programme and an official community on Facebook and also launched a mobile version of the website [rodnyegoroda.ru](http://rodnyegoroda.ru). Gazprom Neft held the #ДвижайДобро contest of amateur videos on the VKontakte social network and launched a page for another one of the Company’s social projects – the ‘Drug-Free Courtyard’ mini-football tournament.

Gazprom Neft actively works on business sustainability and efficiency. Issues involving the Company's activities in terms of its influence on human rights are being considered in a new way taking into account modern approaches in accordance with UN leadership. This includes wage levels, working conditions, safety, sufficient information about the quality of products, environmental issues and the transparency of business. The meeting enabled the stakeholders to express different opinions and desires, and obtain feedback in order to establish interaction in the region on a constructive basis.

**Yelena Feoktistova**  
Managing Director of the Corporate Responsibility, Sustainable Development and Social Entrepreneurship Office of the Russian Union of Industrialists and Entrepreneurs



## ELIMINATE ‘LEGACY’ WASTE

In 2016, the Company began implementing a project in close cooperation with stakeholders to clear historical waste from the villages of Mys Kamenny and Novy Port in the Yamalo-Nenets Autonomous District. The project is being carried out at the Company’s own initiative to resolve environmental problems in the Arctic region.

Yamal was an area of intensive exploration and development during the Soviet and post-Soviet period, which resulted in the accumulation of a considerable amount of drilling waste, construction machinery and materials as well as solid household waste. This waste is concentrated at unauthorised dumps located in close proximity to the waters of Ob Bay and wooden piers near Novy Port village. Having dumping grounds so close to the water is a health hazard and could cause serious environmental damage. The waste near the piers makes it impossible to work on shoreline stabilisation structures for a unique underground network of caves built into the permafrost – the second longest of its kind in the world.

In order to eliminate this ‘legacy’ waste, the Company and the Yamal district administration has developed a waste management plan that will be implemented over several years. It includes the collection and transportation of waste and the reclamation of the cleared territory. The project will actively involve volunteers, including Gazprom Neft employees, local residents and groups of students. Three barges removed more than 2,500 tonnes of scrap metal from the polluted area in 2016 as part of the project. Some 100 volunteers took part in the campaign. The project has already received positive feedback from local communities and the regional media.





**RUB 4.1 bn**  
Company's social  
investments

**35**  
regions  
of operation

**287**  
charitable  
and volunteer events

**2,856**  
people  
participants in charitable  
and volunteer projects

**7**  
grant  
competitions

**1,800**  
posts  
in social media  
on the 'native towns'  
programme

**165**  
total projects  
implemented

**7**  
projects  
implemented  
in St. Petersburg

#### 'NATIVE TOWNS' PROGRAMME IN 2016

#### MAIN FOCUSES OF THE 'NATIVE TOWNS' PROGRAMME



**A TOWN  
FOR PEOPLE**

> Creation of a high-quality urban environment that offers the same opportunities as big cities and metropolises and expanded prospects for the personal fulfilment of residents



**FIELDS  
OF VICTORY**

> Fostering a healthy generation and the establishment of strong regional sports



**NEW  
HORIZONS**

> Creation of equal educational opportunities for children from small and big cities



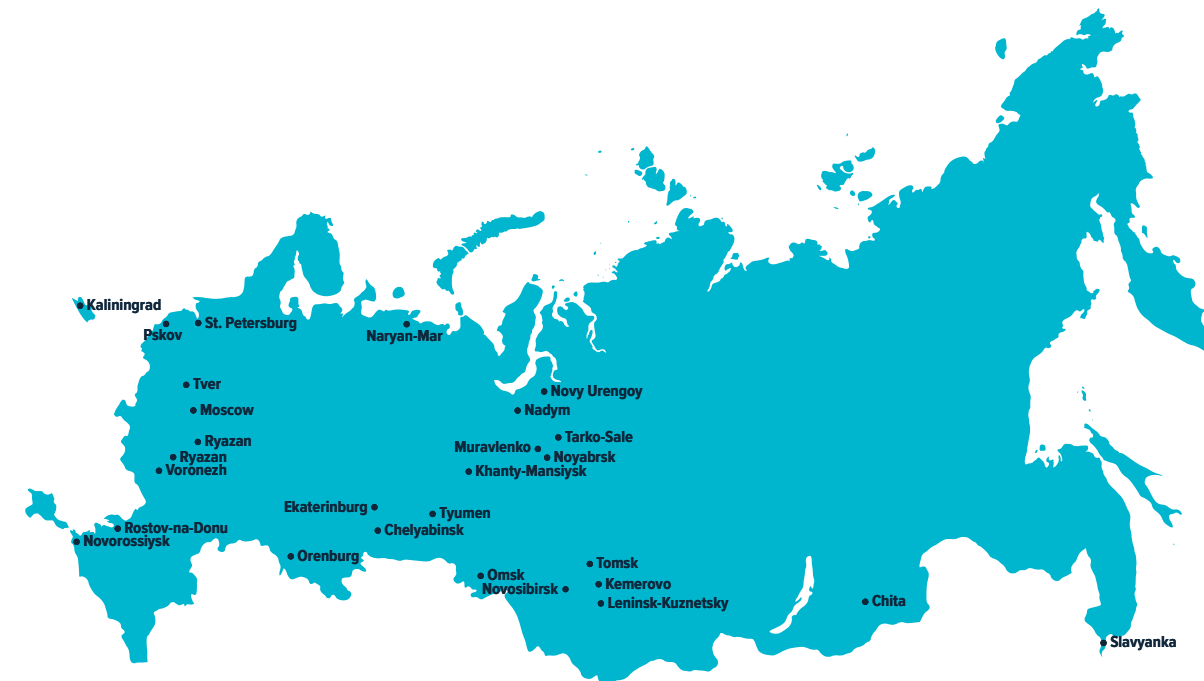
**CULTURAL  
CODE**

> Development of the cultural potential of the regions



**PRESERVING  
TRADITIONS**

> Support for the traditional ways of life of Northern indigenous peoples and facilitating their integration into the modern economic and social landscape



**31**  
projects  
implemented  
in Orenburg region

**20**  
projects  
implemented  
in KMAD

**23**  
projects  
implemented  
in YNAD

**13**  
projects  
implemented  
in Omsk region

**8**  
projects  
implemented  
in Tomsk region

The company regularly studies the sustainability of projects that have won grant competitions. Based on organisational, financial and communication criteria, projects that continue to be implemented in full or expand after grant support ends are recognised as sustainable. A 2016 study of the projects carried out by the winners of the 2013-2015 competitions found 98 projects (more than 78%) to be sustainable.

Gazprom Neft makes continuous improvements to its social investments system. In 2016, the Company drafted and approved a regulatory guidance document that describes approaches to the formation and approval of regional

#### STUDY OF TARGET AUDIENCES

When scaling social programmes in the regions where it operates, Gazprom Neft conducts its own studies (analysis of open sources, in-depth interviews) that make it possible to adapt the programme in accordance with the needs of target audiences. In particular, a study of pressing problems for Khanty-Mansiysk in 2016 revealed that when launching the 'DIY City' project laboratory in the city the Company needed to focus on a corporate social initiative for sociocultural project planning. A special emphasis should be placed on expanding interaction among urban activists and traditional cultural institutions. In Omsk, for example, the laboratory primarily worked to solve problems related to the state of the urban environment based on the results of a study of local residents' needs.

social investment programmes called the 'Procedure for Preparing, Protecting, Implementing and Monitoring the Social Investment Programmes of Subsidiaries'.

A key component of this work is the advanced training of specialists in the management of social programmes and projects. The Forum of Volunteers, which the Company has been hosting since 2014, holds a special place in a number of the training tools. In 2016, the Forum expanded its scope and took place in a new format – the 'Native Towns' Social Investment Forum. The Company's experts and partners in matters concerning regional development and the implementation of social and charitable projects gathered in St. Petersburg along with the winners of the second competition of Gazprom Neft volunteer projects. The 180 participants in the Forum exchanged experience, discussed relevant problems and trends, and assessed the effectiveness of new social activity tools.

Thanks to the 'Native Towns' programme, we are not only changing people's lives for the better here and now, but also laying a foundation for the sustainable development of the regions for many years to come and initiating the process of continuous improvements in the cities. We hope that these social investments will lead to the qualitative transformation of the Russian regions.

**Alexander Dybal**  
Gazprom Neft Deputy CEO  
for Corporate Communications

RESULTS OF SOCIAL ACTIVITIES  
IN 2016

RESULTS OF SOCIOECONOMIC  
AGREEMENTS

The projects implemented by the Company jointly with the government in 2016 as part of socioeconomic agreements included initiatives to build and repair social infrastructure (schools, day care centres, sports complexes and fields, healthcare facilities, cultural centres and libraries, among other things), support public associations and sports clubs, and develop other social and environmental projects.

Projects implemented with the Company’s support in 2016 included the following:

Yamalo-Nenets Autonomous District:

- > opening of the Vyangapurovsky sports complex (Noyabrsk), a football stadium (Nadym), an indoor ice rink (Salekhard) and a pool (Tarko-Sale);
- > start of construction on two day care centres (Noyabrsk and Muravlenko) and a school (Tarko-Sale), and continued construction on sports complexes (Labytnangi and Salekhard).

Khanty-Mansi Autonomous District-Yugra:

- > construction of a residential building with 120 apartments (Khanty-Mansiysk);
- > complete overhaul of a day care centre (Novoagansk settlement);
- > infrastructure development of an embankment (Russkinskaya village);
- > construction of a cultural centre (Repolovo);
- > organisation of the activities of summer environmental teams (Khanty-Mansiysky District).

Orenburg Region:

- > equipment for a mini children’s playground (Gorny village);
- > equipment for a mini children’s playground at a day care (Platovka village);
- > replacement of windows with plastic windows at a primary school (Verkhnyaya Platovka village);
- > purchase of furniture and a multimedia projector for Matrosov Platovka secondary school;
- > events dedicated to Victory Day;

- > construction of a medical and obstetrical station (Berdyanka village);
- > purchase of a school bus (Ivanovka village);
- > purchase of New Year’s presents for children from low-income families;
- > repair of a school’s roof (Chkalov village);
- > complete overhaul of a medical and obstetrical station building (Abramovka village).

Tomsk Region:

- > reconstruction of a building of Day Care No. 23 (Novovasyuganskoye rural settlement);
- > purchase of a bus for Novoseltsevsкая School (Parabelsky District);
- > infrastructure development of Podsolnukhi Day Care (Parabelsky District).

Tyumen Region:

- > purchase of housing accommodations (apartments, houses) with land plots for social sector workers in the Uvatsky Municipal District;
- > purchase of housing accommodations (apartments, houses) with land plots to resettle people from unsuitable (dilapidated) housing.

Omsk Region:

- > repair of schools (Yekaterininskoye village and the city of Tara);
- > repair of a day care centre (Litkovka village);
- > repair of the Sever cultural and leisure centre (Tara).

KEY PROJECTS OF THE ‘NATIVE TOWNS’ PROGRAMME

‘MULTIPLYING TALENT’ TOURNAMENT

Since 2015, Gazprom Neft has been conducting the oil and gas-themed ‘Multiplying Talent’ tournament, which aims to enhance the appeal of engineering and technical professions among school students and develop their research skills. As part of the tournament, students solve tasks related to oil and gas themes and develop presentational skills. In accordance with best practices for social project planning, the tournament format primarily focuses on developing students’ ability to apply the knowledge they obtain in research activities, which will benefit them when they start studying at university and when building their careers. The tournament takes place in two stages with the final held in St. Petersburg where kids defend their projects in front of a panel of judges and take part in a quest game. In 2016, the tournament attracted 1,800 students (a 50% increase from 2015) and 612 teams from Moscow, St. Petersburg, Tyumen, Khanty-Mansiysk, Tomsk, Muravlenko, Noyabrsk, Novy Port and Mys Kamenny. The tournament was widely covered in the media and praised by stakeholders in the regions.

‘DIY CITY’ PROJECT LABORATORY

The project, which was launched in Omsk in 2015, involves creating a platform based on which residents together with experts, representatives of the local government and business launch their own projects to develop the urban environment. The start of the projects is preceded by an educational programme as part which the laboratory participants learn about methods to study a city’s needs and sociocultural project planning.

Today, Gazprom Neft has become one of the leading companies in Russia’s oil and gas industry in terms of its technological capabilities. But with field development becoming ever more complex with every passing year, the industry is in constant need of new approaches and solutions. That’s why we actively encourage interest among talented young students in obtaining an education in engineering and studying precisely those sciences essential to the industry. Indeed, it’s precisely these people who will, before too long, be managing these technical processes.

Mars Khasanov

Head of the Gazprom Neft Scientific and Technology Centre

A second laboratory was put into operation in 2016 in Khanty-Mansiysk. In accordance with the project goals, which are adapted to a region’s relevant sociocultural objectives, the main work consisted of creating informal creative sites for young people. Local activists developed and launched two projects as part of the laboratory: a documentary theatre at the Yugra-Classic Concert and Theatre Centre, and a cultural communications centre based at Library No. 6.

The Omsk laboratory also continued working in 2016. Over two years, it has hosted several dozen open educational events and approximately 150 activists have proposed initiatives based on which nine projects have successfully been implemented. Two projects have been recognised as potentially sustainable and are being prepared to take part in the ‘Native Towns’ grant competition. The laboratory has become a catalyst for the development of the volunteer movement in Omsk. Some 150 volunteers took part in implementing projects in 2016.



150 participants

of the ‘Diy city’ project laboratory in Omsk in 201

For the second year in a row, the laboratory is ‘discovering’ young people who on their first try are capable of implementing a serious project that can be much-needed not only in Omsk, but in Moscow, St. Petersburg and any European city.

Yekaterina Goldberg

Project Laboratory Expert and Project Curator from the Strelka Institute for Media, Architecture and Design

‘STENOGRAPHIA’ STREET ART FESTIVAL

The Company has provided support to the ‘Stenografia’ street art festival since 2015. Artists use street art (drawings on walls and building facades) to provide a decorative design for a monochrome urban environment in an effort to make it visually more friendly. Teams of artists are formed based on applications that participants post on the festival website in accordance with their wishes, logic and the logistics of the event. Sixty-five objets d’art were created in Yekaterinburg, Orenburg, Khanty-Mansiysk, Omsk, St. Petersburg, Noyabrsk, Muravlenko, Mys Kammeny and Novy Port as part of the festival’s ‘Visual Ecology’ theme in 2016. The festival featured competitions among writers, graffiti-battles, master classes, road-shows by artists and various joint promotional events. The ‘Stenografia’ festival has been attended by hundreds of artists from Russia, CIS countries, Italy, Germany, Switzerland, France and Spain. Some of the objets d’art created in Yekaterinburg have ended up in prestigious international street art catalogues, including the Google Art Project.



## 65 works of art

created at the 'Stenografiffa' street art festival in 2016

### THE 'VIEW FROM THE WINDOW' SOCIAL PROJECT

The 'View from the Window' social project of the 'Stenografiffa' festival has generated the biggest response from local communities. As part of the project, artists painted surfaces that can be seen from the windows of people whose only interaction with the outside world for long periods of time or permanently is through windows.

There is a two-storey maintenance building below the windows of our department with a dreary, gloomy appearance. So we were all very happy when the artists turned the wall of the building into an amazing picture. I'm all for it because it creates positive emotions and it's attractive. This is very important for the kids who spend a lot of time with us and are forced to suffer pain every day.

**Mikhail Stepanov**  
Head of the Traumatology Department  
at Omsk Children's Clinical Hospital No. 3

### 'MATHEMATICAL PROGRESSION'

'Mathematical Progression' is a project implemented jointly with Saint Petersburg State University that aims to support basic science, generate interest in it and attract talented schoolchildren and high school students to this field. The project is implemented in four stages. During the first stage, schoolchildren from 23 regions of Russia have the opportunity to attend lectures by prominent scientists. In the second stage, second-year students at Saint Petersburg State University who demonstrate impressive results in their studies are given scholarships. During the third stage, Gazprom Neft creates conditions for the young scholars to gain applied mathematical knowledge and perform research work. The Company also funds research-based trips and encourages their academic pursuits, granting personal awards to mathematicians for advanced achievements in research activities. Prize winners become employees of Saint Petersburg State University's Chebyshev Laboratory for a year. The fourth stage involves support for fundamental research as well as scientific and educational activities at Chebyshev Laboratory. In 2016, a system of travel grants started functioning for gifted young people, enabling them to attend classes at leading mathematical schools.

The 'Mathematical Progression' project is a means of social mobility for all talented schoolchildren. But it's very important that our cooperation functions based on the development of technologies. There needs to be a fundamental basic school. Technology in the modern world isn't just changing quickly, but overnight! Specialists working with a narrow focus sometimes can't simply readjust – they need to constantly replenish their knowledge. And in this regard, the more fundamental education is, the easier it is to always stay in shape.

**Sergey Tikhomirov**  
Research Fellow at Chebyshev Laboratory and Associate Professor

### 'CREATIVE PRACTICES'

The programme, which was developed jointly with the Faculty of Liberal Arts and Sciences at Saint Petersburg State University, aims to solve regional socioeconomic problems with the help of creative industries. In 2016, the 'Creative Practices' programme explored the main problems and promising trends involved in developing a creative environment in a number of regions where the Company operates. Intensive educational courses were conducted for local specialists and activists based on the results of these practices. The programme speakers included Russian and international experts on economics, urban studies, the media and culture. The Company also launched a programme of international internships for specialists in the creative sector in 2016. The first internship took place in the UK.

### GAZPROM NEFT CUP

The Gazprom Neft Cup international tournament of children's hockey teams is the official tournament of the Kontinental Hockey League and one of the biggest children's hockey tournaments in Europe. The Gazprom Neft Cup has an unprecedented level of organisation for children's competitions: matches are officiated by professional referees, games take place at ice arenas that are certified for KHL matches and the games are covered by leading sports media outlets. In 2016, the tenth Gazprom Neft Cup involved 25 teams from five countries and was attended by 32,000 spectators. The tournament participants received a greeting from Russian President Vladimir Putin. The final matches of the Gazprom Neft Cup were broadcasted on KHL TV and Match TV.

In 2016, Gazprom Neft continued implementing a number of social projects and programmes that aim to improve the quality of life and broaden opportunities for the local communities to reach their potential in regions where the Company operates.

Read more about the Gazprom Neft Cup international tournament of children's hockey teams:  
[www.gazprom-neft.com/hockey/cup/](http://www.gazprom-neft.com/hockey/cup/)



## THE 'CREATIVE PRACTICES' PROJECT

The 'Creative Practices' project was launched in 2013. The idea of the project is based on acknowledging the leading role that human capital plays in shaping a new economy in general and creating an attractive and comfortable urban environment in particular. The programme is built on successful foreign experience, specifically British, where creative industries are supported at the government level. A key objective of the project is to support creative programmes and social initiatives, exchange experience between active city communities with the involvement of leading experts and study the factors that have led to the development of creative industries in Russian cities.

'Creative Practices' started with the launch of an educational programme at Saint Petersburg State University at which the speakers included Russian and international experts and prominent specialists in economics, urban studies, the media

Small cities are important both for Europe and for Russia. Their problems are more expressed than in big cities. They must be human-oriented and have integrated functions. A city can only exist if it lives in the heart and mind of its inhabitants. We listen to people: what's important to them, what they like, and we think about what can be done to make this place better for them. The most important thing is to find a balance between the amount of investment, people's involvement in the transformation process and the opportunities that life in this city offers.

**Brian Evans**  
Professor of Urbanism and Landscape at The Glasgow School of Art

and culture. As the programme evolved, it started including cities where Gazprom Neft has a presence: Omsk, Tyumen, Orenburg, Tomsk, Khanty-Mansiysk, Noyabrsk and Muravlenko, where studies and surveys were also conducted that revealed the main problems and factors for the development of creative industries. Lectures and master classes with themes that were relevant to the cities were conducted in summer and autumn 2016 based on the survey results.

The 'Creative Practices' programme continues to function based on requests from the target audience of specific cities with the organisation of internships for local specialists, master classes and lectures as well as competitions for creative social projects. The winner of one such competition in 2015 was the 'V-meste' (Together) team of architects, designers and urbanists who put forward a programme for the transformation of the Sovremennik library in St. Petersburg's Krasnogvardeysky District. Over the course of a year, the library was transformed into a modern creative space and an educational and leisure centre that hosts film lectures, master classes and creative meetings. The local district administration joined in the transformation of the library with funding for the complete overall of a library room.

The winner of the contest in 2016 was the project 'Tatyana' – HRM-CRM – a web resource that helps graduates of orphanages and young people with disabilities address problems related to finding employment. The goal of the project is to link graduates who have difficulties finding work with companies that are ready to provide them with jobs. The web resource consolidates all information and interacts with candidates through the VKontakte network, and with employers through the 'Rabota-i' website.

When I was first introduced to the problem, I realised that kids with disabilities don't always have the opportunity to easily and quickly adapt in society when they find themselves one-on-one with the world of professions. It became clear that a system was needed to consolidate information about how the employment process works for a particular candidate and that the starting point shouldn't be a desire to save a specific person, but to create conditions so that this person can save himself.

**Ilya Smetanin**  
Director of the 'Rabota-i' Centre and one of the creators of the 'Tatyana' project



With support for the development of infrastructure, the Company funded the construction of homes in remote populated areas and housing for indigenous peoples of northern Russia and also built and repaired social infrastructure.

As part of efforts to develop grassroots and professional sport, Gazprom Neft provided support for the ‘Courtyard Sport’ project (children’s and adult tournaments in mini-football, hockey, volleyball and hockey in valenki boots) and the ‘Drug-Free Courtyard’ project (a mini-football tournament involving courtyard-based teams in Novosibirsk) and hosted the Alexander Shlemenko mixed MMA children’s tournament in Omsk. The Avangard hockey academy, a Gazprom Neft project that aims to create a unified hockey training system for kids and young people, continued to evolve. As part of the project, the Company provides support for the construction and provision of equipment for ice arenas and stadiums in Urals and Siberian cities and villages.

SPORTS INFRASTRUCTURE IN YNAD

Today, the Yamalo-Nenets Autonomous District is among the top three Russian regions in terms of its sports facilities. Historically, however, the situation in the region had been exactly the opposite despite the prevalence of a young population and its keen interest in sport. For this reason, building sports infrastructure became one of the top priorities in Gazprom Neft’s social activities in the region. In just a few years, the Company built 19 multifunctional sports fields, six sports complexes and stadiums in Muravlenko, Tarko-Sale, Nadym and Noyabrsk as well as a pool in Tarko-Sale as part of the ‘Courtyard Sport’ project. Branches of the Avangard academy appeared in Noyabrsk and the Purovsky District, and construction continues on the Polyarny sports complex in Labytnangi, the Yamal-Arena sports complex in Salekhard and branches of the Avangard academy in Labytnangi and Muravlenko.

In keeping with tradition, the Company provided support for the fourteenth international ‘Spirit of Fire’ film debut festival as part of its efforts to promote the development of the cultural potential of Russia’s regions. The geography of the ‘Native Town’ festival expanded to Muravlenko, Omsk and Noyabrsk in 2016. Over three years, the format of the festival has evolved from a leisure event to a place for the personal fulfilment of local residents. Educational and sports associations along with interactive sites were organised as part of the ‘Native Town’ festival.

In creating new educational opportunities and promoting the growth of the educational and scientific potential of the regions, Gazprom Neft developed a partnership with the country’s leading universities at which future oil and gas industry specialists are trained. With the Company’s support, educational programmes are formed and conditions are created for scientific research activities and manufacturing practices. Gazprom Neft devotes special attention to infrastructural support for educational institutions in small villages. Multimedia classes were launched at schools in the villages of Mys Kamenny and Novy Port in 2016.

Gazprom Neft has been implementing projects jointly with the Maritime Council under the Government of St. Petersburg since 2011 to promote maritime professions among young people. Such projects include specialised maritime classes and children’s associations with a maritime and shipbuilding focus.

”

The Gazprom Neft Cup is an integral part of the hockey season. We are thrilled that such a significant project, which enables hundreds of prospective kids to gain invaluable experience from participating in high-level competitions, takes place under the auspices of the KHL. All young hockey masters have something to strive for now. I am confident that with the right effort and commitment after a few years many of them will be able to play in the Youth Hockey League and then the KHL.

Dmitry Chernyshenko  
President of the Kontinental Hockey League

In 2016, the project ‘Promoting Maritime Professions in the Youth Environment and Educational Support’ was recognised as the best in the nomination ‘Project for Children’ as part of a competition among the PR services of Gazprom PJSC subsidiaries and organisations.

Gazprom Neft continued providing assistance to cultural, religious, scientific, non-profit, sports and educational organisations in 2016. Such organisations included the Russian Geographical Society, Hermitage Museum, St. Petersburg Yacht Club, Russian Military Historical Society, Yamal Cooperation Fund, UNESCO Moscow International Fund, the Union of Journalists of St. Petersburg and the Leningrad Region, the Yamalo-Nenets Autonomous District Figure Skating Federation and the National Intellectual Development Fund for Support to the Research and Design Activities of Students, Graduate Students and Young Scientists, among others.

HUMANITARIAN PROJECT IN SERBIA

In 2016, Gazprom Neft funded the interior design of the dome of the Church of Saint Sava in Belgrade, a major Serbian architectural monument and one of the largest Orthodox churches in the world. The Company provided this assistance as part of a programme to support humanitarian projects involving culture and the preservation of Serbia’s historical heritage. The interior surface of the church’s main dome will be decorated with mosaic compositions covering an area of 1,230 square metres. The work is being managed by Academician of the Russian Academy of Arts and People’s Artist of Russia Nikolay Mukhin.

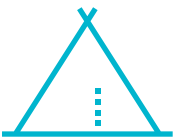
INTERACTION WITH IPNR

GAZPROM NEFT ENGAGES IN PRODUCTION ACTIVITIES IN AREAS WHERE INDIGENOUS PEOPLES OF NORTHERN RUSSIAN (IPNR) RESIDE IN THE KHANTY-MANSI AND YAMALO-NENETS AUTONOMOUS DISTRICTS. THE COMPANY STRICTLY OBSERVES THE RIGHTS OF IPNR WHEN EXPLORING AND DEVELOPING FIELDS.

When developing field development programmes, Gazprom Neft and representatives of the local authorities hold public hearings with IPNR in order to take into account the population’s interests when building technological facilities. Special crossings are built over pipelines that pass through routes used by nomadic reindeer herds with IPNR representatives determining the best areas for construction.

Gazprom Neft has developed and introduced a system to compensate IPRN for damage associated with the implementation of hydrocarbon production projects. The Company concludes agreements with the heads of IPNR families under which it provides financial assistances: funding for traditional economic activities, compensation for family expenses on essential services, one-time payments and the supply of fuel and lubricants. In addition, Gazprom Neft helps farming communities of indigenous peoples that live in areas of hydrocarbon exploration and production, and also allocates funds to purchase equipment, fishing equipment, lubricants and construction materials. In the event of emergencies, the Company provides charitable support to the families that have been affected. More than 200 agreements with the heads of IPNR families were concluded in 2016.

Gazprom Neft works to preserve the national identity of IPNR, establish cultural ties between various communities and families, and attract public attention to the preservation of traditional crafts and trades. As part of such activities in 2016, the Company provided support for the celebration of Reindeer Herder’s Day in Muravlenko and the villages of Khanymey,



>200  
agreements

with the heads of IPNR families were concluded in 2016

REINDEER HERDER’S DAY

A national celebration of Reindeer Herder’s Day was held in the Yamalo-Nenets Autonomous District village of Novy Port in 2016 for the first time in 30 years. The event took place with support from Gazprom Neft as part of the ‘Native Towns’ programme. Indigenous residents of Yamal were able to show off their skills and proficiency in such national sports as wrestling, sled hurdling, mas-wrestling and hunting. The most important contest – a reindeer race – involved 54 participants. Gazpromneft-Yamal provided assistance in organising the event and prepared gifts for the winners.

Novy Port, Khalyasavey, Tolka and Russinskoy as well as Fisherman’s Day in Novy Port and the organisation of an ethnic day care camp for IPNR children.

The Company began formulating a unified approach to interaction between its subsidiaries and indigenous peoples of northern Russia in 2016, specifically by drafting and introducing regulations at subsidiaries to establish cooperation between IPNR. As part of this work, Gazprom Neft representatives are involved in a working group of the Association of Managers that discusses ways to adjust the existing regulatory and legal framework for interaction between industrial companies and the indigenous peoples of northern Russia, Siberia and the Far East. The Company is also represented in a working group of the Russian Union of Industrialists and Entrepreneurs which develops conceptual documents for interaction with IPNR. Gazprom Neft plans to formulate a Company Policy on IPNR based on this work over the course of 2017.



# CORPORATE VOLUNTEERING

ONE OF THE KEY PRINCIPLES OF THE ‘NATIVE TOWNS’ SOCIAL INVESTMENT PROGRAMME IS THE ACTIVE INVOLVEMENT OF EMPLOYEES IN ITS PROJECTS. TO MEET THIS OBJECTIVE, THE COMPANY IMPLEMENTS THE ‘PERSONAL CONTRIBUTION’ CORPORATE VOLUNTEERING PROGRAMME AND HAS ESTABLISHED THE ‘NATIVE PEOPLE’ MUTUAL ASSISTANCE FUND.

The Company’s volunteer movement expanded to 38 Russian cities in 2016 and included 2,856 people. Gazprom Neft volunteers took part in 287 events in 2016 with the key events being donation, support for orphanages and boarding schools, environmental activities as well as landscaping and beautification. As per tradition, volunteers engaged in sports, training and entertainment activities for kids from children’s homes along with helping disabled children and people with special needs. A number of activities were organised jointly with charitable funds.

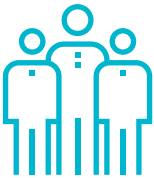
In March 2016, the ‘Good Deeds with Your Own Hands’ project was launched jointly with the ‘Anton’s Right Here’ Centre for the Social Rehabilitation of Adults with Autism (‘A Way Out in St. Petersburg’ charity fund). Over the course of the year, volunteers and students from the Centre made souvenirs that were then sold at a charity Christmas auction and charity fairs in the Company’s offices. The auction collected more than RUB 946,000. These funds were spent on developing training programmes for families with autistic children.

Gazprom Neft and the Raul Charity Foundation launched the ‘Discovering the World Together’ project for volunteer aid to graduates of orphanages and boarding schools in St. Petersburg and the Leningrad Region in April. As part of the project, volunteers contribute to the social adaptation of graduates by providing them consultations on matters concerning employment and everyday life.

The Company has been conducting a volunteer project contest since 2015. It brings together volunteer initiatives from all the Company’s subsidiaries to a single platform. In 2016, 75 applications were submitted for the contest (a 65% increase compared with 2015) with volunteers from 14 cities taking part and 30 projects recognised as winners. A total of 174 events were held involving 864 volunteers. The contest budget totalled RUB 1.5 million.

### VOLUNTEER MOVEMENT DYNAMICS

	2013	2014	2015	2016
Number of events	67	188	265	287
Number of participants	1,312	1,794	2,633	2,856



**38**  
**Russian cities**

encompassed by the Gazprom Neft  
volunteer movement in 2016



We are organising internships jointly with Gazprom Neft in which graduates from orphanages and boarding schools can work for a couple days and get an understanding of what work is like in principle. For a small amount of money, the kids help out with holding different celebrations and festivals. Volunteers observe them, give advice and write up assessments based on the results. The kids return to us with these assessments, and we help them contact employers who have vacancies.

**Mikhail Krivonos**  
President of Raul Charity Foundation

The Company’s volunteer programme receives public recognition and is greatly appreciated by stakeholders. In 2016, Gazprom Neft won first place in the nomination ‘Contribution to the Development of Corporate Volunteering’ based on the results of the national ‘Champions of Good Deeds’ contest. In addition, experts from the contest offered high praise for the ‘Snow Assault Force’ project of Gazpromneft-Muravlenko, awarding it second place in the ‘Local Communities’ nomination. This initiative involves Company employees going out each year to fight snowdrifts at children’s and social institutions of Muravlenko.

In addition, the volunteer project contest won the grand prize and first place in the ‘Charitable Project’ nomination among the public relations services of Gazprom PJSC subsidiary companies and organisations.

The Company’s ‘Native People’ mutual assistance fund was established to provide financial and organisational aid to members of the Gazprom Neft team and their loved ones who have found themselves in a difficult life situation. The fund operates based on co-financing principles from the Company and its employees. In 2016, the fund collected RUB 11 million, which made it possible to provide help to employees in need of assistance without attracting funding from the Company.

### JOINT SOCIAL INITIATIVES

Gazprom Neft actively involves its business partners and customers in social initiatives. Each year the Company conducts the ‘Day of the Fisherman’ event jointly with the Kaliningrad fishing port for employees of the port, sailors and local residents. Gazprom Neft regularly organises charity and volunteer campaigns involving employees from airfields and airports at which the Company provides refueling. Such campaigns include volunteer clean-up work, visits to orphanages, Victory Day events and donor initiatives.



### GOALS FOR 2017

- > Improve effective interaction with the authorities in Russia’s regions and hold at least one comprehensive meeting on the Company’s businesses;
- > Document the Company’s policy with respect to indigenous peoples of northern Russia;
- > Sign agreements for the import substitution of lubricants and process liquids with the governments of at least five Russian regions;
- > Sign agreements on the supply of innovative bitumen materials for Gazprom Neft manufacturing with the governments of at least five Russian regions;
- > Promote qualitative systematic transformations in the social environment, support and develop innovative solutions for the socioeconomic development of the regions and involve the government, business community, non-profit organisations and the local population in the transformation process;
- > Develop the ‘Avangard Hockey Academy’ interregional project, including the opening of two Academy branches in the Yamalo-Nenets Autonomous District (cities of Muravlenko and Labytnangi);
- > Scale the ‘Native Towns’ programme to 13 of the Company’s subsidiaries;
- > Scale the successful social projects in the regions, including the ‘Multiplying Talent’ tournament and ‘Stenografiffa’ festival;
- > Hold grant competitions for social initiatives in six regions where the Company operates (Omsk, Tomsk, Orenburg and Tyumen Regions, the Yamalo-Nenets Autonomous District and Khanty-Mansi Autonomous District-Yugra) with a grant fund of more than RUB 20 million and at least 85 implemented projects;
- > Hold a third volunteer project contest with the implementation of at least 30 initiatives.

# APPENDIX 1. CERTIFICATION OF THE REPORT BY THE NON-FINANCIAL REPORTING BOARD OF THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS



# APPENDIX 2. INDEX OF STANDARD DISCLOSURES

THE REPORT, IN ACCORDANCE WITH VERSION G4 OF THE GRI GUIDELINES, PRIMARILY FOCUSES ON THE ISSUES THAT ARE THE MOST SIGNIFICANT FOR THE COMPANY AND ITS STAKEHOLDERS AND WHICH WERE IDENTIFIED IN THE PROCESS OF A MATERIALITY ASSESSMENT<sup>1</sup>.

In preparing this Report, the Company was guided by the basic version of the Guidelines, which describes the most important components of sustainable development reporting. Certain indicators from the GRI Oil and Gas Sector Supplement (indicated in the general table by the OG code) were also used. In addition, the index includes the corresponding indicators of the Russian system for sustainable development performance results ('Basic performance indicators' prepared by the RUIE for use in corporate social reports).

## GENERAL STANDARD DISCLOSURES

GRI code and description of the standard disclosure	Report pages/ reference to Annual Report	RUIE indicator No.	Comments
<b>STRATEGY AND ANALYSIS</b>			
G4-1. Statement from the most senior decision-maker in the organization about the relevance of sustainability to the organisation	9		
G4-2. Description of key impacts, risks and opportunities	7, 9, 14, 37, 44–47, 60–61, 81–83, 88, 93, 115–118, 121–122		
<b>ORGANISATIONAL PROFILE</b>			
G4-3. Name of the organisation	12		
G4-4. Primary brands, products and services	12–13		
G4-5. Location of the organisation's headquarters	Ul. Pochtamskaya, 3-5 Saint Petersburg, 190000, Russian Federation		
G4-6. Countries where the organisation operates and countries where the organisation has significant operations	12		
G4-7. Nature of ownership and legal form	12		
G4-8. Markets served by the organisation (including geographic breakdown, sectors served and types of customers and beneficiaries)	12–13		
G4-9. Scale of the organisation	12–13, 59, 115		
G4-10. Total number of employees by employment type, gender, employment contract and region	59	3.1.1	

<sup>1</sup> For more, see the 'About the Report' section.

GRI code and description of the standard disclosure	Report pages/ reference to Annual Report	RIUE indicator No.	Comments
<b>G4-11.</b> Percentage of employees covered by collective bargaining agreements	–	3.1.4	
<b>G4-12.</b> The organisation's supply chain	30		
<b>G4-13.</b> Significant changes in the organisation's size, structure or ownership during the reporting period	12–13		
<b>G4-14.</b> Application of the precautionary principle			The precautionary principle is the fundamental principle that guides the Company when planning and implementing its activities. For a detailed explanation, see: the Company's Sustainable Development Report for 2010, p. 99.
<b>G4-15.</b> Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or which it endorses		1.1	At present, the Company has not formally joined any of these initiatives. At the same time, the Company is guided by the principles set forth in the international standard ISO 26000 (Guidance on Social Responsibility) and publishes reporting on corporate sustainability based on the Guidance of the Global Reporting Initiative (GRI).
<b>G4-16.</b> Memberships of associations (such as industry associations) and/or national and international advocacy organisations	108, 120		The company belongs to the Union of Oil Exporters of Russia (SONEK), the Association of Managers and the Technical Association of the European Lubricants Industry (ATIEL).
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
<b>G4-17.</b> All legal entities included in the organisation's consolidated financial statements or equivalent documents			See the Company's Annual Report for 2016
<b>G4-18.</b> Process for defining the report content and the aspect boundaries	3–4		
<b>G4-19.</b> List of all material aspects identified in the process for defining report content	4–5		
<b>G4-20.</b> Aspects within the organisation	4–5		
<b>G4-21.</b> Aspects outside the organisation	4–5		
<b>G4-22.</b> Restatements of information provided in previous reports			No information restated.
<b>G4-23.</b> Significant changes from previous reporting periods in the scope and aspect boundaries			No significant changes occurred.
<b>G4-24.</b> List of stakeholder groups engaged by the organisation	48		
<b>G4-25.</b> The basis for identification and selection of stakeholders with whom to engage	48		
<b>G4-26.</b> The organisation's approach to stakeholder engagement	48		The Company regards key stakeholders as parties whose interests are most discernibly related to its activities and which in turn can provide the most significant effect on the Company's ability to implement its strategic goals.
<b>G4-27.</b> Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns	3, 49–52, 85–87, 119–120, 129		

GRI code and description of the standard disclosure	Report pages/ reference to Annual Report	RIUE indicator No.	Comments
<b>REPORT PROFILE</b>			
<b>G4-28.</b> Reporting period	Calendar year		
<b>G4-29.</b> Publication date of most recent previous Sustainability Report	June 2016		
<b>G4-30.</b> Reporting cycle	The report is produced annually		
<b>G4-31.</b> Contact point for questions regarding the report or its contents			Contact points for questions: Corporate Communications Unit. Legal address: Russian Federation, 190000, St Petersburg, ul. Pochtamtskaya, d. 3-5 Tel: +7 (812) 363-31-52 Fax: +7 (812) 363-31-51 bkk@gazprom-neft.ru
<b>G4-32.</b> GRI content index	133–142		
<b>G4-33.</b> The organisation's policy and current practice with regard to seeking external assurance for the Sustainability Report	2		
<b>GOVERNANCE</b>			
<b>G4-34.</b> Governance structure of the organisation	40–41		
<b>G4-35.</b> Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	40		
<b>G4-36.</b> Executive-level position or positions with responsibility for economic, environmental and social topics	46, 61, 82, 117		
<b>G4-38.</b> Composition of the highest governance body and its committees	41	3.1.12	
<b>G4-39.</b> Whether the Chair of the highest governance body is also an executive officer	No		
<b>G4-40.</b> Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	See the Gazprom Neft Annual Report for 2016		
<b>G4-41.</b> Processes for the highest governance body to ensure conflicts of interest are avoided and managed	See the Gazprom Neft Annual Report for 2016		
<b>G4-42.</b> The highest governance body's and senior executives' roles in the development, approval and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to economic, environmental and social impacts	See the Gazprom Neft Annual Report for 2016		
<b>G4-44.</b> Evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	41		
<b>G4-45.</b> The highest governance body's role in the identification and management of economic, environmental and social impacts, risks and opportunities	See the Gazprom Neft Annual Report for 2016		
<b>G4-46.</b> The highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic environmental and social topics	45–46		

GRI code and description of the standard disclosure	Report pages/ reference to Annual Report	RUIE indicator No.	Comments
<b>G4-47.</b> The frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities	45–46		
<b>G4-48.</b> The highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered	Chairman of the Management Board and CEO Gazprom Neft PJSC Alexander Dyukov		
<b>G4-49.</b> The process for communicating critical concerns to the highest governance body	See the Gazprom Neft Annual Report for 2016		
<b>G4-50.</b> The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	See the Gazprom Neft Annual Report for 2016		
<b>G4-51.</b> Remuneration policies for the highest governance body and senior executives	42		Also see the Company's Annual Report for 2016, p. 140.
<b>G4-52.</b> The process for determining remuneration for members of the highest governance body and senior executives	42		
<b>G4-54.</b> The ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country			Not disclosed due to concerns about the protection of personal data
<b>G4-55.</b> The ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country			Not disclosed due to concerns about the protection of personal data
<b>ETHICS AND INTEGRITY</b>			
<b>G4-56.</b> The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	12, 43, 44		
<b>G4-57.</b> Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines	44, 50–52, 54		
<b>G4-58.</b> Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms, or hotlines	44, 50–52, 54		

MATERIAL ASPECTS

Information about management approaches (IMA) and indicators	Report pages/ reference to Annual Report	RUIE indicator No.	Comments
<b>ECONOMIC CATEGORY</b>			
<b>ECONOMIC PERFORMANCE</b>			
<b>G4-DMA.</b> Disclosures on management approach			
<b>G4-EC1.</b> Direct economic value generated and distributed	18, 30, 63–64, 93, 121, 124	1.2	Also see the Company's Annual Report for 2016, p. 64-68.
		1.3	
		1.4	
		1.6	
		1.7	
<b>G4-EC2.</b> Financial implications and other risks and opportunities for the organisation's activities due to climate change	97–98		
<b>G4-EC3.</b> Coverage of the organisation's defined benefit plan obligations	63–64	1.8	The Company meets its obligations through deductions to the Pension Fund in accordance with the legislation of the Russian Federation
<b>G4-EC4.</b> Financial assistance received from government			The Company did not receive any financial assistance from the government in the reporting period
<b>MARKET PRESENCE</b>			
<b>G4-DMA.</b> Disclosures on management approach	12, 14, 115–116, 121		
<b>G4-EC5.</b> Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation			The salary level at the Company is consistent with the average level of the industry's labour market.
<b>INDIRECT ECONOMIC IMPACTS</b>			
<b>G4-DMA.</b>	12, 14, 115–116, 121		
<b>G4-EC7.</b> Development and impact of infrastructure investments and services supported	115–116 ,118, 121–124		
<b>G4-EC8.</b> Significant indirect economic impacts	30, 121–124		
<b>G4-EC9.</b> Proportion of spending on local suppliers at significant locations of operation	31		
<b>G4-OG1.</b> Volume of proven reserves and production	18		
<b>ENVIRONMENTAL CATEGORY</b>			
<b>ENERGY</b>			
<b>G4-DMA.</b> Disclosures on management approach	105, 107		
<b>G4-EN3.</b> Energy consumption within the organisation	106, 107	2.2	
<b>G4-EN4.</b> Energy consumption outside the organisation			Not recorded due to lack of legislative requirements.
<b>G4-EN5.</b> Energy intensity	105–109	2.2.1	
<b>G4-EN6.</b> Reduction of energy consumption	105–109		
<b>G4-OG3.</b> Total amount of renewable energy generated by source	109		Indicator partially disclosed.
<b>G4-EN7.</b> Reductions in energy requirements of products and services	105–109		



Information about management approaches (IMA) and indicators	Report pages/ reference to Annual Report	RIUE indicator No.	Comments
WATER			
G4-EN8. Total water withdrawal by source	99	2.3	
G4-EN9. Water sources significantly affected by withdrawal of water	99		
G4-EN10. Percentage and total volume of water recycled and reused	99	2.4	
BIODIVERSITY			
G4-DMA. Disclosures on management approach	81, 93–94, 104		
G4-EN11. Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	104		
G4-EN12. Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	104		
G4-EN13. Habitats protected or restored	104		
G4-EN14. Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	–		
EMISSIONS			
G4-DMA. Disclosures on management approach	81, 93–94, 95,97		
G4-EN15. Direct greenhouse gas (GHG) emissions (Scope 1)	98		
G4-EN16. Energy indirect GHG emissions (Scope 2)	98		
G4-EN19. Reduction of GHG emissions	98		
G4-EN20 Emissions of ozone-depleting substances (ODS)	96		
G4-EN21. NOx, SOx and other significant air emissions	96		
G4-EN22. Total water discharge by quality and destination	99	2.7 2.7.2	Indicator partially disclosed.
WASTE			
G4-DMA. Disclosures on management approach	81, 93–94, 100		
G4-EN23. Total weight of waste by type and disposal method	101	2.8	
G4-EN24. Total number and volume of significant spills	–		

Information about management approaches (IMA) and indicators	Report pages/ reference to Annual Report	RIUE indicator No.	Comments
G4-EN25. Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII and percentage of transported waste shipped internationally			The Company does not ship, import, export or process waste that is regarded as hazardous according to the Basel Convention Annex I, II, III and VIII.
G4-EN26. Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation’s discharges of water and runoff	99		Indicator partially disclosed.
G4-OG7. Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	100–101		
COMPLIANCE			
G4-DMA. Disclosures on management approach	93–94		
G4-EN29. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	94	2.10	
TRANSPORT			
G4-DMA. Disclosures on management approach	81, 93–94		
G4-EN30. Significant environmental impacts of transporting products and other goods and materials for the organisation’s operations and transporting members of the workforce	102		
OVERALL			
G4-DMA. Disclosures on management approach	81, 93–94		
G4-EN31. Total environmental protection expenditures and investments by type	93		
ENVIRONMENTAL GRIEVANCE MECHANISMS			
G4-DMA. Disclosures on management approach	81, 93–94		
G4-EN34. Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms	–		
SOCIAL CATEGORY			
LABOUR PRACTICES AND DECENT WORK			
Employment			
G4-DMA. Disclosures on management approach	60–61		
G4-LA1. Total number and rate of new employee hires and employee turnover by age group, gender and region	59	3.1.2 3.1.3	Partially disclosed: no breakdown maintained in centralised accounting as recommended by GRI G4 guidelines

Information about management approaches (IMA) and indicators	Report pages/ reference to Annual Report	RIUE indicator No.	Comments
<b>G4-LA2.</b> Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	63–64		
<b>G4-LA4.</b> Minimum notice period regarding operational changes, including whether these are specified in collective agreements			In accordance with the Labour Code of the Russian Federation, the agreement lists the minimum notice periods prior to the start of the corresponding measures by employment agencies and the elected body of the primary trade union organisation: no later than two months prior to the start of the corresponding measures, and if the decision to reduce the number of personnel or staff may lead to mass lay-offs – no later than three months prior to the start of the corresponding measures.
<b>Occupational health and safety</b>			
G4-DMA. Disclosures on management approach	81–83, 88–89, 92		
<b>G4-LA6.</b> Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities, by region and by gender	89	3.1.5 3.1.6 3.1.7 3.1.8	
<b>G4-LA7.</b> Workers with high incidence or high risk of diseases related to their occupation	–		
<b>G4-LA8.</b> Health and safety topics covered in formal agreements with trade unions	65, 85		
<b>Training and education</b>			
G4-DMA. Disclosures on management approach	60–61, 66–67		
<b>G4-LA9.</b> Average hours of training per year per employee by gender and by employee category	67	3.1.10	
<b>G4-LA10.</b> Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	68–73		
<b>G4-LA11.</b> Percentage of employees receiving regular performance and career development reviews by gender and by employee category	73		
<b>Diversity and equal opportunity</b>			
G4-DMA. Disclosures on management approach	43		
<b>G4-LA12.</b> Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	41, 59		Also see the Company's Annual Report for 2016, p. 106-111.

Information about management approaches (IMA) and indicators	Report pages/ reference to Annual Report	RIUE indicator No.	Comments
<b>Equal remuneration for women and men</b>			
<b>G4-DMA.</b> Disclosures on management approach	43		
<b>G4-LA13.</b> Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation			Basic salary does not depend on the gender or age of employees.
<b>Labour practices grievance mechanisms</b>			
<b>G4-DMA.</b> Disclosures on management approach	50, 54		
<b>SOCIAL CATEGORY</b>			
<b>HUMAN RIGHTS</b>			
<b>Freedom of association and collective bargaining</b>			
<b>G4-DMA.</b> Disclosures on management approach	43, 65		
<b>G4-HR4.</b> Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights		3.2.1	None identified in the reporting period
<b>Indigenous rights</b>			
<b>G4-DMA.</b> Disclosures on management approach	43, 52, 129		
<b>G4-HR8.</b> Total number of incidents of violations involving rights of indigenous peoples and actions taken		3.2.3	No incidents of violations involving rights of indigenous peoples were recorded in the reporting period.
<b>G4-OG9.</b> Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	129		
<b>SOCIAL CATEGORY</b>			
<b>SOCIETY</b>			
<b>Local communities</b>			
<b>G4-DMA.</b> Disclosures on management approach	115–118		
<b>G4-SO1.</b> Percentage of operations with implemented local community engagement, impact assessments and development programmes		3.3.3	The risk of a negative environmental impact exists in production activities. The Company implements action programmes to mitigate this risk.
<b>G4-SO2.</b> Operations with significant actual and potential negative impacts on local communities		3.3.3	The risk of a negative environmental impact exists in production activities. The Company implements action programmes to mitigate this risk.

# APPENDIX 3.

## DEFINITION OF KEY TERMS AND ACRONYMS

Information about management approaches (IMA) and indicators	Report pages/ reference to Annual Report	RUIE indicator No.	Comments
<b>Anti-corruption</b>			
<b>G4-S03.</b> Total number and percentage of operations assessed for risks related to corruption, and the significant risks identified			The Company has a corporate risk management system that encompasses all its units and enterprises. Risk assessments are conducted regularly.
<b>G4-S04.</b> Communication and training on anti-corruption policies and procedures	44		
<b>G4-S05.</b> Confirmed incidents of corruption and actions taken			No incidents involving corruption were identified in the reporting year.
<b>G4-S06.</b> Total value of political contributions by country and recipient/ beneficiary	–		
<b>PRODUCT RESPONSIBILITY</b>			
<b>G4-PR7.</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes			No instances of non-compliance were recorded in the reporting period.

Abbreviation	Definition
Adjusted EBITDA	Earnings before interest, taxes, depreciation and amortisation minus the Company's share in the profit / (loss) of associated companies and joint ventures and taking into account its share in the EBITDA of associated companies and joint ventures
APG	Associated petroleum gas
CD	Civil defence
CGTP	Complex gas treatment plant
CIS	Commonwealth of Independent States – former Soviet republics except for Estonia, Georgia, Latvia and Lithuania
CNG	Compressed natural gas
Downstream	Logistics, Processing and Sales Unit
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EMS	Energy Management System
FAR	Fatal Accident Rate (the number of company/contractor fatalities per 100 000 000 hours worked)
GEW	Geological exploration work
GRI	Global Reporting Initiative, an international organisation whose main goal is to develop and implement an authoritative and credible reporting system in the area of sustainability that can be used by organisations regardless of their size, type of activity or location
GRI guidelines	Internationally recognised methods for sustainability reporting developed by the Global Reporting Initiative (GRI)
HSE	Health, safety and environment
HTRR	Hard-to-recover reserves
IFRS	International Financial Reporting Standards
IRMS	Integrated Risk Management System standard
JSC	Joint-stock company
KPI	Key performance indicators
LPG	Liquefied petroleum gas
LTIF	Lost Time Injury Frequency
LTIFR	Lost Time Injury Frequency Ratio (the number of cases involving the loss of work time versus the total amount of time worked and standardised per 1 million man-hours worked)
OE	Oil equivalent
OGTU	Oil and gas treatment unit
OJSC	Open joint-stock company
OS	Occupational safety
PBB	Polymer-bitumen binders

Abbreviation	Definition
PJSC	Public joint-stock company
R&D	Research and development
S&A	Subsidiaries and affiliates
SPE-PRMS	Petroleum Resources Management System. The most commonly used system to assess hydrocarbon reserves. PRMS was developed by the Society of Petroleum Engineers. The system not only takes into account the ability to detect oil and gas, but also the cost-effectiveness of hydrocarbon recovery. Reserves are assessed based on three categories: proved, probable, possible (3P)
Sustainability	Considering economic, environmental and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations (this definition is provided by the report Our Common Future, which was issued by the World Commission on Environment and Development at the United Nations. Quoted from: Sustainability Reporting Guidelines. Version 3.0., GRI, 2006).
Sustainability reporting (non-financial reporting)	A set of systems and processes for collecting, consolidating, analysing and reporting information that demonstrates a balance between the financial, operational, social and environmental aspects of the Company's operations. It also includes the principles and mechanisms for considering the interests of a wide range of stakeholders, and managing interactions with them in order to solve problems that are important to the Company and society.
Upstream	Exploration and Production Unit
VIOC	Vertically integrated oil company
YANOS	Yaroslavnefteorgsintez (Slavneft – Yaroslavnefteorgsintez, Slavneft-YANOS) – Yaroslavl Oil Refinery

# CONTACT INFORMATION AND FEEDBACK

WE LOOK FORWARD TO YOUR FEEDBACK ON THIS SUSTAINABILITY REPORT. YOUR ASSESSMENT OF THE INFORMATION DISCLOSED IN THIS REPORT WILL HELP THE COMPANY TO IMPROVE THE QUALITY OF FUTURE REPORTS AND ITS OVERALL PERFORMANCE.

## CORPORATE COMMUNICATIONS DIVISION

## POSTAL ADDRESS

## LINK TO CONTACT INFORMATION ON THE COMPANY’S WEBSITE

## COMPANY’S FEEDBACK PAGE for sending messages

If you would like to express your opinion or ask questions, you can contact us any way you prefer using the contact information below.

All the questions and options the Company receives will be taken into consideration when preparing the next Gazprom Neft Sustainability Report.

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