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.

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1 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

MANAGEMENT BOARD
Development of a strategy and overall management of the implementation of the regional policy and an assessment of the results and activities of functional management.

CORPORATE COMMUNICATIONS UNIT
> Preparation of performance standards to implement the approved regional policy
> Organising and coordinating events as part of the regional policy in the regions where the Company operates
> Providing support to the Company’s investment projects at the level of the regional authorities
> Collecting and processing regional information that affects the regional policy and preparing the relevant reports, reviews and background information
> Administrative support for socioeconomic agreements
> Conducting an annual audit of the relations of the Company and its subsidiaries with the regional authorities
> Coordinating the Company’s regional policy activities
> Overall coordination of the Company’s social investment programme
> Compilation of the budget for the social investment programme
> Development of social projects as part of the ‘Native Towns’ programme
> Expert evaluation of the social investment programmes of subsidiaries
> Evaluation of the effectiveness of the Company’s social investments
> Communication support for social programmes

CORE DEPARTMENTS OF CORPORATE HEADQUARTERS
> Preparing proposals to implement the regional policy
> Preparing proposals on the development of the Company’s business in the regions and the content of social projects
> Implementing the decisions of the Regional Policy Commission
> Assessment and endorsement of the social investment projects of subsidiaries as part of the activities of the Regional Policy Commission

REGIONAL POLICY COMMISSION
> Collecting and considering proposals on the implementation of the regional policy and social investment programmes from the Company’s structural divisions and its subsidiaries
> Drafting recommendations on the implementation of the proposed initiatives
> Approval of social investment projects

SUBSIDIARIES
> Preparing proposals to implement the regional policy and develop business in the regions
> Implementing the decisions of the Regional Policy Commission
> Interaction with representatives of the regional and municipal authorities
> Planning social activities in the region:
  – preparation of a list of potential social projects based on engagement with stakeholders
  – development, implementation and monitoring of the progress of projects and an assessment of their effectiveness

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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.

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

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.