

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended June 30 and March 31, 2017 and the six months  
ended June 30, 2017 and 31, 2016**

## Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of June 30, 2017 and results of operations for the three months ended June 30 and March 31, 2017 and the six months ended June 30, 2017 and 2016 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

This report represents Group's financial condition and results of operations on a consolidated basis. In this report the terms "Gazprom Neft", "Company", "Group" represent PJSC Gazprom Neft, its consolidated subsidiaries and joint operations (as defined in IFRS 11) ("Tomskneft", "Salym petroleum development" (SPD) and Yuzhno-Priobskiy GPZ (UGPZ)). The term "Joint ventures" represents entities accounted for by the equity method.

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of our oil fields. Crude oil purchased as well as other operational indicators expressed in barrels are translated from tonnes using a conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet are made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil and liquid hydrocarbon into barrels of oil equivalent ("boe") are made at the rate of 1 barrel per boe and of cubic feet into boe at the rate of 6,000 cubic feet per boe.

## Forward-looking statements

This discussion contains forward-looking statements concerning the financial condition, results of operations and businesses of Gazprom Neft and its consolidated subsidiaries. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning the potential exposure of Gazprom Neft to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. There are a number of factors that could affect the future operations of Gazprom Neft and could cause those results to differ materially from those expressed in the forward-looking statements contained in this Report, inclusively (without limitation): (a) price fluctuations in crude oil and gas; (b) changes in demand for the Company's products; (c) currency fluctuations; (d) drilling and production results; (e) reserve estimates; (f) loss of market and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) economic and financial market conditions in various countries and regions; (j) political risks, project delay or advancement, approvals, and cost estimates; and (k) changes in trading conditions.

## Key financial and operating data

2Q 2017	1Q 2017	Δ, %		6m		Δ, %
				2017	2016	
<b>Financial results (RUB million)</b>						
475,668	468,606	1.5	Sales*	944,274	771,077	22.5
128,013	117,794	8.7	Adjusted EBITDA**	245,807	203,531	20.8
5,800	5,366	8.1	RUB per toe of production	5,584	4,867	14.7
13.69	12.30	11.3	USD*** per boe of production	12.99	9.32	39.4
49,316	61,953	(20.4)	Profit attributable to Gazprom Neft shareholders	111,269	90,395	23.1
<b>Operational results</b>						
163.61	162.76	0.5	Hydrocarbon production including our share in joint ventures (MMboe)	326.37	310.76	5.0
22.07	21.95	0.5	Hydrocarbon production including our share in joint ventures (MMtoe)	44.02	41.82	5.3
1.80	1.81	(0.6)	Daily hydrocarbon production (MMboepd)	1.80	1.71	5.3
115.82	114.18	1.4	Crude oil and condensate production including our share in joint ventures (MMbbl)	230.00	214.70	7.1
286.90	291.37	(1.5)	Gas production including our share in joint ventures (bcf)	578.27	576.43	0.3
9.95	8.78	13.3	Refining throughput at own refineries and joint ventures (MMtonnes)	18.73	20.65	(9.3)

\* Sales includes export duties and sales related excise tax

\*\* EBITDA is a non-IFRS measure. A reconciliation of adjusted EBITDA to profit before income taxes is provided in the appendix

\*\*\* Translated to USD at the average exchange rate for the period

## 6 months 2017 highlights

- Received exploration and production licenses for:
  - Tazovskoye and Severo-Samburskoye fields in Yamalo-Nenets Autonomous Okrug
  - Novosamarskoye field in Orenburg region
  - Parabelsky prospecting block in Tomsk region
  - Ayashskiy block at Ohotskoye Sea shelf
  - Zapadno-Chistinniy block in Khanty-Mansiysk Autonomous Okrug
- In June 2017 Group acquired a 25.02% stake (with the right to increase its share to 50%) in Evrotek-Yugra from Repsol (Spain company). Evtotek-Yugra holds exploration and production rights to seven license blocks in Khanty-Mansiysk Autonomous Okrug
- In April 2017 received export duties tax benefit for Kuyumba field in amount of 28.984 mln tonnes
- In April 2017 Group placed ruble bonds with total par value of RUB 15 billion
- In March 2017 rating agency Standard&Poor's revised its outlook for Group from stable to positive
- The Analytical Credit Rating Agency (ACRA) assigned Group a long-term credit rating of "AAA"(RU) with a stable outlook
- Company's shareholders approved record dividend payments for 2016 at RUB 10.68 per ordinary share.

## Results for 6 months 2017 compared with 6 months 2016

- Total hydrocarbon production, including the Group's share in joint ventures, increased by 5.3% to 44.02 MMtoe due to production growth at Novoport, Prirazlomnoye and Messoyakha fields and increased production in Iraq
- Total refining throughput declined by 9.3% due to planned reconstruction and planned capital repair at Group refineries
- Sales increased by 22.5% due to higher crude oil production and higher prices for crude oil and petroleum products on the domestic and international markets
- Production growth at major projects (Novoport, Prirazlomnoye and Messoyakha) and increase in crude oil prices have resulted in a 20.8% increase in an adjusted EBITDA. The increase was trimmed by MET and excise rates growth

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- Net profit attributable to Gazprom Neft shareholders increased mainly due to increased EBITDA.

#### **Results for 2Q 2017 compared with 1Q 2017**

- Total hydrocarbon production, including the Group's share in joint ventures, increased Q-o-Q by 0.5%. Production increase at Novoport offset the decreased production in fields at Noyabrsk region
- Refining throughput increased by 13.3% Q-o-Q due to completion of planned capital repair of "large ring" units at Moscow refinery and maintenance at Yaroslavl refinery
- Sales increased by 1.5% mainly due to increased petroleum product volumes sales. The increase was trimmed by a decrease of crude oil and petroleum product prices on international market
- Production increase at Novoport, Prirazlomnoye and Messoyakha and completion of main stages of repairs at the Group's refineries in 1Q 2017 resulted in an adjusted EBITDA increase (8.7%)
- Net profit attributable to Gazprom Neft shareholders declined, mainly due to foreign exchange losses in 2Q 2017 vs. foreign exchange gain in 1Q 2017 resulting from the revaluation of the Group's debt portfolio.

## Operational data and analysis

### Production drilling

2Q 2017	1Q 2017	Δ, %		6m		Δ, %
				2017	2016	
<b>Consolidated subsidiaries</b>						
705	494	42.7	Production drilling ('000 meters)	1,199	1,364	(12.1)
164	132	24.2	New production wells	296	339	(12.7)
77.26	52.65	46.7	Average new well flow (tonnes per day)	59.15	42.25	40.0
<b>Joint operations</b>						
241	158	52.5	Production drilling ('000 meters)	399	339	17.7
38	47	(19.1)	New production wells	85	101	(15.8)
<b>Joint ventures</b>						
394	310	27.1	Production drilling ('000 meters)	705	608	16.0
85	64	32.8	New production wells	149	108	38.0

- The decrease in production drilling and number of new production wells by consolidated subsidiaries Y-o-Y was due to the increased number of high-tech wells
- The increase in production drilling and number of new production wells by consolidated subsidiaries Q-o-Q was due to the drilling intensification resulted from mobilisation and installation of drilling units at new groups of wells in line with drilling plan
- The increase in average new well flow by consolidated subsidiaries by 40.0% Y-o-Y was due to the increased number of high-tech wells and the completion of high-debit well at Prirazlomnoye field
- The increase in production drilling by joint operations Q-o-Q and Y-o-Y was due to drilling intensification at Tomskneft
- The increase in production drilling and new wells by joint ventures Y-o-Y was due to placing Vostochno-Messoyakhskoye field on production.

## Production

2Q 2017	1Q 2017	Δ, %		6m 2017	2016	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil and condensate</b>	<b>(MMtonnes)</b>		
2.87	3.09	(7.1)	Noyabrskneftegaz	5.96	6.96	(14.4)
3.53	3.56	(0.8)	Khantos**	7.09	7.23	(1.9)
1.15	1.17	(1.7)	Tomskneft	2.32	2.36	(1.7)
0.75	0.77	(2.6)	SPD	1.52	1.53	(0.7)
0.70	0.70	-	Orenburg***	1.40	1.36	2.9
0.24	0.24	-	NIS	0.48	0.52	(7.7)
0.41	0.41	-	Vostok****	0.82	0.84	(2.4)
1.54	1.13	36.3	Novy Port	2.67	0.64	>200
0.84	0.78	7.7	Prirazlomnoye	1.62	0.90	80.0
0.30	0.30	-	Badra & Kurdistan	0.60	0.37	62.2
0.03	0.02	50.0	Others	0.05	0.05	-
<b>12.36</b>	<b>12.17</b>	<b>1.6</b>	<b>Total production by subsidiaries and joint operations</b>	<b>24.53</b>	<b>22.76</b>	<b>7.8</b>
1.81	1.81	-	Share in Slavneft	3.62	3.76	(3.7)
0.91	0.92	(1.1)	Share in SeverEnergiya (Arcticgas)	1.83	1.91	(4.2)
0.09	0.10	(10.0)	Share in Northgas	0.19	0.28	(32.1)
0.37	0.33	12.1	Share in Messoyakha	0.70	-	-
<b>3.18</b>	<b>3.16</b>	<b>0.6</b>	<b>Share in production of joint ventures</b>	<b>6.34</b>	<b>5.95</b>	<b>6.6</b>
<b>15.54</b>	<b>15.33</b>	<b>1.4</b>	<b>Total crude oil and condensate production</b>	<b>30.87</b>	<b>28.71</b>	<b>7.5</b>
<b>(bcm)</b>			<b>Gas*</b>	<b>(bcm)</b>		
2.60	2.62	(0.8)	Noyabrskneftegaz	5.22	4.86	7.4
0.28	0.28	-	Khantos**	0.56	0.53	5.7
0.20	0.25	(20.0)	Tomskneft	0.45	0.42	7.1
0.03	0.03	-	SPD	0.06	0.06	-
0.64	0.63	1.6	Orenburg***	1.27	1.19	6.7
0.13	0.13	-	NIS	0.26	0.28	(7.1)
0.04	0.03	33.3	Vostok****	0.07	0.05	40.0
0.05	0.04	25.0	Others	0.09	0.05	80.0
<b>3.97</b>	<b>4.01</b>	<b>(1.0)</b>	<b>Total production by subsidiaries and joint operations</b>	<b>7.98</b>	<b>7.44</b>	<b>7.3</b>
0.11	0.12	(8.3)	Share in Slavneft	0.23	0.24	(4.2)
3.02	3.02	-	Share in SeverEnergiya (Arcticgas)	6.04	6.03	0.2
1.02	1.09	(6.4)	Share in Northgas	2.11	2.61	(19.2)
0.01	0.01	-	Share in Messoyakha	0.02	-	-
<b>4.16</b>	<b>4.24</b>	<b>(1.9)</b>	<b>Share in production of joint ventures</b>	<b>8.40</b>	<b>8.88</b>	<b>(5.4)</b>
<b>8.13</b>	<b>8.25</b>	<b>(1.5)</b>	<b>Total gas production</b>	<b>16.38</b>	<b>16.32</b>	<b>0.4</b>
<b>(MMtoe)</b>			<b>Hydrocarbons</b>	<b>(MMtoe)</b>		
15.55	15.39	1.0	Total production by subsidiaries and joint operations	30.94	28.74	7.7
6.52	6.56	(0.6)	Share in production of joint ventures	13.08	13.08	-
<b>22.07</b>	<b>21.95</b>	<b>0.5</b>	<b>Total hydrocarbon production</b>	<b>44.02</b>	<b>41.82</b>	<b>5.3</b>
<b>163.61</b>	<b>162.76</b>	<b>0.5</b>	<b>MMtoe</b>	<b>326.37</b>	<b>310.76</b>	<b>5.0</b>
<b>1.80</b>	<b>1.81</b>	<b>(0.6)</b>	<b>MMboe</b>	<b>1.80</b>	<b>1.71</b>	<b>5.3</b>
			<b>Daily hydrocarbon production (MMboepd)</b>			

\* Production volume includes marketable gas and gas utilized in the Company's power plants

\*\* Khantos oil production in 2016-2017 includes NGL in the share of Gazprom Neft (50%). Associated gas utilization excludes gas used for NGL production at UGPZ (50%)

\*\*\* Orenburg oil production since 3Q 2016 includes LPG. Associated gas utilization excludes gas used for LPG

\*\*\*\* Vostok oil production since 2017 includes DGS. Associated gas utilization excludes gas used for DGS

- Group daily hydrocarbon production increased by 5.3% Y-o-Y
- Group oil and condensate production increased by 7.5% Y-o-Y to 30.87 MMtonnes, driven by increased production at Novoport, Prirazlomnoye, Messoyakha fields and Iraq
- Group oil and condensate production Q-o-Q increased by 1.4% to 15.54 Mmtonnes. Increased production at Novoport resulted from higher number of producing wells and favorable logistic conditions offset a production decline at Noyabrsk region
- Group natural gas production increased by 0.4% Y-o-Y, primarily due to higher natural gas production in Noyabrsk region resulted from new sales contracts, the startup of a compressor station at Eti-Purovskoye field in 4Q 2016 and put into operation of new pipeline at Orenburg refinery. The increase in gas production was trimmed by a decline in Northgas production
- Group natural gas production decreased by 1.5% Q-o-Q due to a natural depletion of Severo-Urengoyevskoye field and regular preventive maintenance at Vingapurovskoye field.

## Crude oil purchases

2Q 2017	1Q 2017	Δ, %	(MMtonnes)	6m		Δ, %
				2017	2016	
1.88	1.77	6.2	Crude oil purchases in Russia *	3.65	4.32	(15.5)
0.37	0.31	19.4	Crude oil purchases internationally	0.68	0.69	(1.4)
<b>2.25</b>	<b>2.08</b>	<b>8.2</b>	<b>Total crude purchased</b>	<b>4.33</b>	<b>5.01</b>	<b>(13.6)</b>

\* Crude oil purchases in Russia:

- exclude purchases from the Group's joint ventures Slavneft and SeverEnergiya (Arcticgas)
- include purchase of stable gas condensate from Novatek (25% of Arcticgas production)

- Crude oil purchases in Russia decreased by 15.5% Y-o-Y due to a decline in effectiveness of domestic trading operations and lower production at own refineries.

## Refining

2Q 2017	1Q 2017	Δ, %	(MMtonnes)	6m		Δ, %
				2017	2016	
4.80	4.99	(3.8)	Omsk	9.79	10.15	(3.5)
2.39	1.32	81.1	Moscow	3.71	5.18	(28.4)
0.82	0.71	15.5	Pancevo	1.53	1.65	(7.3)
<b>8.01</b>	<b>7.02</b>	<b>14.1</b>	<b>Total throughput at refineries owned by subsidiaries</b>	<b>15.03</b>	<b>16.98</b>	<b>(11.5)</b>
1.94	1.76	10.2	Share in Yaroslavl	3.70	3.54	4.5
-	-	-	Share in Mozyr	-	0.13	-
<b>9.95</b>	<b>8.78</b>	<b>13.3</b>	<b>Total refining throughput</b>	<b>18.73</b>	<b>20.65</b>	<b>(9.3)</b>
<b>Production of petroleum products</b>						
2.18	1.76	23.9	Gasoline	3.94	4.56	(13.6)
2.18	1.76	23.9	Class 5	3.94	4.56	(13.6)
0.29	0.35	(17.1)	Naphtha	0.64	0.84	(23.8)
2.75	2.59	6.2	Diesel	5.34	5.97	(10.6)
0.04	0.02	100.0	Class 2 and below	0.06	0.07	(14.3)
2.71	2.57	5.4	Class 5	5.28	5.90	(10.5)
1.31	1.29	1.6	Fuel oil	2.60	3.09	(15.9)
0.81	0.61	32.8	Jet fuel	1.42	1.48	(4.1)
0.61	0.75	(18.7)	Bunker fuel	1.36	1.25	8.8
0.75	0.27	177.8	Bitumen	1.02	0.92	10.9
0.13	0.09	44.4	Lubricants	0.22	0.20	10.0
0.78	0.67	16.4	Other	1.45	1.29	12.4
<b>9.61</b>	<b>8.38</b>	<b>14.7</b>	<b>Total production</b>	<b>17.99</b>	<b>19.60</b>	<b>(8.2)</b>

- Total throughput declined by 9.3% Y-o-Y due to planned reconstruction and capital repair at Group refineries

- Refining throughput increased by 13.3% Q-o-Q due to completion of planned capital repair of “large ring” units at Moscow refinery and maintenance at Yaroslavl refinery
- High-octane gasoline production increased by 23.9% Q-o-Q due to completion of planned reconstruction and repair at Moscow and Yaroslavl refineries
- Bunker fuel production increased Y-o-Y due to increased effectiveness of bunker fuel trading
- Fuel oil production decreased Y-o-Y due to a decline in oil refining resulted from repairs at Group refineries
- Bitumen production increased by 177.8% Q-o-Q primarily due to seasonal factors and completion of reconstruction of bitumen plant at Omsk refinery (January-April 2017).

#### Petroleum product purchases on international markets

	2Q 2017		1Q 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	2,695	0.11	1,746	0.06	54.4	83.3
Jet fuel	1,280	0.04	1,900	0.05	(32.6)	(20.0)
Bunker fuel	1,033	0.05	998	0.04	3.5	25.0
Lubricants	185	0.00	220	0.00	(15.9)	-
<b>Total</b>	<b>5,193</b>	<b>0.20</b>	<b>4,864</b>	<b>0.15</b>	<b>6.8</b>	<b>33.3</b>

	6m 2017		6m 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	4,441	0.17	6,316	0.24	(29.7)	(29.2)
Jet fuel	3,180	0.09	1,310	0.04	142.7	125.0
Bunker fuel	2,031	0.09	1,541	0.06	31.8	50.0
Lubricants	405	0.00	581	0.00	(30.3)	-
<b>Total</b>	<b>10,057</b>	<b>0.35</b>	<b>9,748</b>	<b>0.34</b>	<b>3.2</b>	<b>2.9</b>

- Diesel purchases decreased Y-o-Y due to accumulated diesel stock utilization
- Jet fuel purchases on international markets increased Y-o-Y due to geographic expansion and higher demand for international flights
- Bunker fuel purchases on international markets increased Y-o-Y due to higher sales in ports of Romania.

#### Petroleum product purchases in the CIS

	2Q 2017		1Q 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,389	0.05	747	0.02	85.9	150.0
Low octane gasoline	34	0.00	95	0.00	(64.2)	-
Diesel	998	0.04	1,420	0.05	(29.7)	(20.0)
Other	76	0.01	110	0.02	(30.9)	(50.0)
<b>Total</b>	<b>2,497</b>	<b>0.10</b>	<b>2,372</b>	<b>0.09</b>	<b>5.3</b>	<b>11.1</b>

	6m 2017		6m 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,136	0.07	688	0.02	>200	>200
Low octane gasoline	129	0.00	310	0.01	(58.4)	-
Diesel	2,418	0.09	1,619	0.08	49.4	12.5
Other	186	0.03	269	0.01	(30.9)	200.0
<b>Total</b>	<b>4,869</b>	<b>0.19</b>	<b>2,886</b>	<b>0.12</b>	<b>68.7</b>	<b>58.3</b>



## Domestic petroleum product purchases

	2Q 2017		1Q 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	13,285	0.37	19,246	0.55	(31.0)	(32.7)
Diesel	6,719	0.21	12,900	0.37	(47.9)	(43.2)
Jet fuel	2,277	0.08	1,629	0.06	39.8	33.3
Bunker fuel	871	0.04	813	0.04	7.1	-
Bitumen	156	0.02	-	-	-	-
Lubricants	-	-	176	0.01	-	-
Petrochemicals	-	-	55	0.00	-	-
Other	2,201	0.06	1,601	0.04	37.5	50.0
<b>Total</b>	<b>25,509</b>	<b>0.78</b>	<b>36,420</b>	<b>1.07</b>	<b>(30.0)</b>	<b>(27.1)</b>

	6m 2017		6m 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	32,531	0.92	18,938	0.59	71.8	55.9
Diesel	19,619	0.58	10,956	0.36	79.1	61.1
Fuel oil	-	-	10	0.00	-	-
Jet fuel	3,906	0.14	2,354	0.06	65.9	133.3
Bunker fuel	1,684	0.08	1,051	0.06	60.2	33.3
Bitumen	156	0.02	-	-	-	-
Lubricants	176	0.01	305	0.01	(42.3)	-
Petrochemicals	55	0.00	-	-	-	-
Other	3,802	0.10	556	0.02	>200	>200
<b>Total</b>	<b>61,929</b>	<b>1.85</b>	<b>34,170</b>	<b>1.10</b>	<b>81.2</b>	<b>68.2</b>

- Petroleum product purchases declined Q-o-Q due to higher production at own refineries
- Diesel, gasoline and jet fuel purchases increased Y-o-Y due to lower production at own refineries.

## Petroleum product marketing through premium channels

2Q 2017	1Q 2017	Δ, %		6m 2017	6m 2016	Δ, %
	<b>(units)</b>		<b>Active retail stations</b>		<b>(units)</b>	
1,201	1,199	0.2	In Russia	1,201	1,166	3.0
189	187	1.1	In CIS	189	255	(25.9)
413	417	(1.0)	In Eastern Europe	413	424	(2.6)
<b>1,803</b>	<b>1,803</b>	-	<b>Total retail stations (as at the end of the period)</b>	<b>1,803</b>	<b>1,845</b>	<b>(2.3)</b>
<b>19.57</b>	<b>18.56</b>	<b>5.4</b>	<b>Average daily sales per retail site in Russia (tonnes per day)</b>	<b>19.07</b>	<b>18.27</b>	<b>4.4</b>

(MMtonnes)			Sales volume through premium channels	(MMtonnes)		
4.90	4.35	12.6	Gasoline and Diesel	9.25	9.07	2.0
0.73	0.56	30.4	Jet	1.29	1.20	7.5
0.72	0.56	28.6	Bunkering	1.28	1.35	(5.2)
0.09	0.06	50.0	Lubricants	0.15	0.13	15.4
0.07	0.03	133.3	Bitumen	0.10	0.10	-
<b>6.51</b>	<b>5.56</b>	<b>17.1</b>	<b>Total sales volume through premium channels</b>	<b>12.07</b>	<b>11.85</b>	<b>1.9</b>

- The total number of active retail stations decreased by 2.3% Y-o-Y due to the Group retail operations reorganisation in CIS
- Average daily sales per retail station in Russia increased by 4.4% Y-o-Y due to active retail business development and the Group's marketing activities
- Bunker oil sales decreased Y-o-Y due to lower demand at Far East and stormy weather at Black Sea
- Sales volumes through premium channels increased by 17.1% Q-o-Q primarily due to seasonal factors.

## Results of operations

2Q	1Q			6m		
2017	2017	Δ, %	(RUB million)	2017	2016	Δ, %
475,668	468,606	1.5	Sales*	944,274	771,077	22.5
(34,476)	(37,441)	(7.9)	Less export duties and sales related excise tax	(71,917)	(69,402)	3.6
<b>441,192</b>	<b>431,165</b>	<b>2.3</b>	<b>Total revenue</b>	<b>872,357</b>	<b>701,675</b>	<b>24.3</b>
<b>Costs and other deductions</b>						
(109,997)	(116,963)	(6.0)	Purchases of oil, gas and petroleum products	(226,960)	(158,328)	43.3
(54,059)	(46,313)	16.7	Production and manufacturing expenses	(100,372)	(93,806)	7.0
(24,237)	(23,711)	2.2	Selling, general and administrative expenses	(47,948)	(50,421)	(4.9)
(34,744)	(36,650)	(5.2)	Transportation expenses	(71,394)	(66,735)	7.0
(33,984)	(32,310)	5.2	Depreciation, depletion and amortization	(66,294)	(60,229)	10.1
(111,644)	(114,387)	(2.4)	Taxes other than income tax	(226,031)	(169,132)	33.6
(42)	(104)	(59.6)	Exploration expenses	(146)	(299)	(51.2)
<b>(368,707)</b>	<b>(370,438)</b>	<b>(0.5)</b>	<b>Total operating expenses</b>	<b>(739,145)</b>	<b>(598,950)</b>	<b>23.4</b>
<b>72,485</b>	<b>60,727</b>	<b>19.4</b>	<b>Operating profit</b>	<b>133,212</b>	<b>102,725</b>	<b>29.7</b>
7,892	10,818	(27.0)	Share of profit of associates and joint ventures	18,710	16,031	16.7
(7,477)	13,182	-	Net foreign exchange (loss) / gain	5,705	16,110	(64.6)
2,714	2,512	8.0	Finance income	5,226	5,264	(0.7)
(6,542)	(6,719)	(2.6)	Finance expense	(13,261)	(18,438)	(28.1)
(2,515)	(864)	191.1	Other loss, net	(3,379)	(12,153)	(72.2)
<b>(5,928)</b>	<b>18,929</b>	<b>-</b>	<b>Total other (expense) / income</b>	<b>13,001</b>	<b>6,814</b>	<b>90.8</b>
<b>66,557</b>	<b>79,656</b>	<b>(16.4)</b>	<b>(Loss) / Profit before income tax</b>	<b>146,213</b>	<b>109,539</b>	<b>33.5</b>
(10,450)	(10,164)	2.8	Current income tax (expense)	(20,614)	(8,136)	153.4
(2,790)	(4,758)	(41.4)	Deferred income tax expense	(7,548)	(9,656)	(21.8)
<b>(13,240)</b>	<b>(14,922)</b>	<b>(11.3)</b>	<b>Total income tax benefit / (expense)</b>	<b>(28,162)</b>	<b>(17,792)</b>	<b>58.3</b>
<b>53,317</b>	<b>64,734</b>	<b>(17.6)</b>	<b>(Loss) / Profit for the period</b>	<b>118,051</b>	<b>91,747</b>	<b>28.7</b>
(4,001)	(2,781)	43.9	Less: Profit attributable to non-controlling interest	(6,782)	(1,352)	>200
<b>49,316</b>	<b>61,953</b>	<b>(20.4)</b>	<b>Profit attributable to Gazprom Neft shareholders</b>	<b>111,269</b>	<b>90,395</b>	<b>23.1</b>

\* Sales include export duties and sales related excise tax

## Revenues

2Q	1Q			6m		
2017	2017	Δ, %	(RUB million)	2017	2016	Δ, %
<b>Crude oil</b>						
93,792	87,906	6.7	Export	181,698	83,852	116.7
105,623	103,798	1.8	Export sales	209,421	102,870	103.6
(11,831)	(15,892)	(25.6)	Less related export duties	(27,723)	(19,018)	45.8
4,944	4,895	1.0	International markets	9,839	4,629	112.6
7,099	7,156	(0.8)	Export to CIS	14,255	14,131	0.9
7,099	7,156	(0.8)	Export sales and sales in CIS	14,255	14,260	-
-	-	-	Less related export duties	-	(129)	-
18,116	28,055	(35.4)	Domestic	46,171	44,201	4.5
<b>123,951</b>	<b>128,012</b>	<b>(3.2)</b>	<b>Total crude oil revenue</b>	<b>251,963</b>	<b>146,813</b>	<b>71.6</b>
<b>Gas</b>						
398	309	28.8	International markets	707	961	(26.4)
9,066	8,993	0.8	Domestic	18,059	14,159	27.5
<b>9,464</b>	<b>9,302</b>	<b>1.7</b>	<b>Total gas revenue</b>	<b>18,766</b>	<b>15,120</b>	<b>24.1</b>
<b>Petroleum products</b>						
35,526	60,646	(41.4)	Export	96,172	90,091	6.7
42,097	68,278	(38.3)	Export sales	110,375	103,339	6.8
(6,571)	(7,632)	(13.9)	Less related export duties	(14,203)	(13,248)	7.2
25,295	22,854	10.7	International markets	48,149	45,412	6.0
41,158	36,409	13.0	Sales on international markets	77,567	82,064	(5.5)
(15,863)	(13,555)	17.0	Less sales related excise	(29,418)	(36,652)	(19.7)
18,210	15,990	13.9	CIS	34,200	33,518	2.0
18,421	16,352	12.7	Export sales and sales in CIS	34,773	33,873	2.7
(211)	(362)	(41.7)	Less related export duties	(573)	(355)	61.4
212,953	180,043	18.3	Domestic	392,996	341,899	14.9
<b>291,984</b>	<b>279,533</b>	<b>4.5</b>	<b>Total petroleum products revenue</b>	<b>571,517</b>	<b>510,920</b>	<b>11.9</b>
<b>15,793</b>	<b>14,318</b>	<b>10.3</b>	<b>Other revenue</b>	<b>30,111</b>	<b>28,822</b>	<b>4.5</b>
<b>441,192</b>	<b>431,165</b>	<b>2.3</b>	<b>Total revenue</b>	<b>872,357</b>	<b>701,675</b>	<b>24.3</b>

## Sales volumes

2Q	1Q			6m		
2017	2017	Δ, %		2017	2016	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil</b>			
5.11	4.67	9.4	Export	9.78	5.40	81.1
0.20	0.29	(31.0)	Sales on international markets*	0.49	0.31	58.1
0.48	0.38	26.3	Export to CIS	0.86	1.03	(16.5)
1.39	1.86	(25.3)	Domestic sales	3.25	3.62	(10.2)
<b>7.18</b>	<b>7.20</b>	<b>(0.3)</b>	<b>Total crude oil sales</b>	<b>14.38</b>	<b>10.36</b>	<b>38.8</b>
<b>(bcm)</b>			<b>Gas</b>			
0.04	0.03	33.3	International markets	0.07	0.08	(12.5)
3.44	3.53	(2.5)	Domestic sales	6.97	6.54	6.6
<b>3.48</b>	<b>3.56</b>	<b>(2.2)</b>	<b>Total gas sales</b>	<b>7.04</b>	<b>6.62</b>	<b>6.3</b>
<b>(MMtonnes)</b>			<b>Petroleum products</b>			
2.01	2.82	(28.7)	Export	4.83	5.52	(12.5)
0.83	0.71	16.9	Sales on international markets	1.54	1.53	0.7
0.60	0.52	15.4	Export and sales in CIS	1.12	1.13	(0.9)
7.14	5.90	21.0	Domestic sales	13.04	13.02	0.2
<b>10.58</b>	<b>9.95</b>	<b>6.3</b>	<b>Total petroleum products sales</b>	<b>20.53</b>	<b>21.20</b>	<b>(3.2)</b>

\* Including production sharing agreements (PSA)

### Average realized sales prices

2Q 2017	1Q 2017	Δ, %		6m 2017	2016	Δ, %
<b>(RUB per tonne)</b>			<b>Crude oil</b>	<b>(RUB per tonne)</b>		
20 670	22 227	(7,0)	Export	21 413	19 050	12,4
14 790	18 832	(21,5)	Export and sales in CIS	16 576	13 845	19,7
13 033	15 083	(13,6)	Domestic sales	14 206	12 210	16,3
<b>(RUB per tonne)</b>			<b>Petroleum products</b>	<b>(RUB per tonne)</b>		
20 944	24 212	(13,5)	Export	22 852	18 721	22,1
30 702	31 446	(2,4)	Export and sales in CIS	31 047	29 976	3,6
29 825	30 516	(2,3)	Domestic sales	30 138	26 260	14,8

### Crude oil sales

- Crude export volumes increased by 9.4% Q-o-Q and 81.1% Y-o-Y due to an increase in crude oil production at Novoport, Prirazlomnoye and Messoyakha fields and reduction of crude oil delivery to refineries
- Oil sales on international markets increased Y-o-Y due to production growth in Iraq
- Crude export volumes to the CIS decreased by 16.5% Y-o-Y due to a reduction of the oil export to Belarus in 1Q 2017
- Domestic crude volumes decreased by 25.3% Q-o-Q due to higher crude oil delivery to Group refineries
- Domestic crude volumes decreased by 10.2% Y-o-Y mainly due to a decline in effectiveness of domestic trading.

### Gas sales

- Domestic gas sales increased by 6.6% Y-o-Y due to increased natural gas production at consolidated subsidiaries.

### Petroleum product exports

	2Q 2017		1Q 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	4,914	0.20	7,840	0.28	(37.3)	(28.6)
Diesel	9,704	0.37	29,570	1.04	(67.2)	(64.4)
Fuel oil	11,837	0.78	11,751	0.69	0.7	13.0
Jet fuel	2,453	0.08	2,886	0.08	(15.0)	-
Bunker fuel	5,381	0.25	9,247	0.45	(41.8)	(44.4)
Bitumen	153	0.01	230	0.02	(33.5)	(50.0)
Lubricants	1,119	0.02	1,238	0.03	(9.6)	(33.3)
Petrochemicals	736	0.03	1,532	0.05	(52.0)	(40.0)
Other	5,800	0.27	3,984	0.18	45.6	50.0
<b>Total</b>	<b>42,097</b>	<b>2.01</b>	<b>68,278</b>	<b>2.82</b>	<b>(38.3)</b>	<b>(28.7)</b>

	6m 2017		6m 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	-	-	2,266	0.09	-	-
Naphtha	12,754	0.48	15,514	0.66	(17.8)	(27.3)
Diesel	39,274	1.41	46,504	1.91	(15.5)	(26.2)
Fuel oil	23,588	1.47	21,100	2.14	11.8	(31.3)
Jet fuel	5,339	0.16	2,911	0.10	83.4	60.0
Bunker fuel	14,628	0.70	7,161	0.35	104.3	100.0
Bitumen	383	0.03	247	0.02	55.1	50.0
Lubricants	2,357	0.05	3,063	0.07	(23.0)	(28.6)
Petrochemicals	2,268	0.08	3,211	0.12	(29.4)	(33.3)
Other	9,784	0.45	1,362	0.06	>200	>200
<b>Total</b>	<b>110,375</b>	<b>4.83</b>	<b>103,339</b>	<b>5.52</b>	<b>6.8</b>	<b>(12.5)</b>

- Petroleum product export volumes declined Q-o-Q due to a partial redirect of petroleum product volumes to domestic market
- Bunker fuel export volumes increased Y-o-Y due to increased effectiveness of bunker fuel trading
- Jet fuel sales on international markets increased by 60% Y-o-Y due to higher demand for international flights and geographic expansion
- Petroleum product sales volumes decreased Y-o-Y due to a decline in production volumes.

### **Petroleum product sales in the CIS**

	2Q 2017		1Q 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	7,413	0.21	7,123	0.22	4.1	(4.5)
Low octane gasoline	165	0.00	181	0.01	(8.8)	-
Diesel	7,033	0.22	5,683	0.17	23.8	29.4
Jet fuel	1,665	0.06	1,960	0.07	(15.1)	(14.3)
Bitumen	877	0.06	243	0.02	>200	200.0
Lubricants	751	0.02	511	0.01	47.0	100.0
Petrochemicals and Other	517	0.03	651	0.02	(20.6)	50.0
<b>Total</b>	<b>18,421</b>	<b>0.60</b>	<b>16,352</b>	<b>0.52</b>	<b>12.7</b>	<b>15.4</b>

	6m 2017		6m 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	14,536	0.43	16,634	0.48	(12.6)	(10.4)
Low octane gasoline	346	0.01	1,674	0.06	(79.3)	(83.3)
Diesel	12,716	0.39	10,044	0.30	26.6	30.0
Fuel oil	-	-	476	0.07	-	-
Jet fuel	3,625	0.13	2,017	0.08	79.7	62.5
Bitumen	1,120	0.08	617	0.08	81.5	-
Lubricants	1,262	0.03	1,278	0.03	(1.3)	-
Petrochemicals and Other	1,168	0.05	1,133	0.03	3.1	66.7
<b>Total</b>	<b>34,773</b>	<b>1.12</b>	<b>33,873</b>	<b>1.13</b>	<b>2.7</b>	<b>(0.9)</b>

### Domestic sales of petroleum products

	2Q 2017		1Q 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	88,807	2.27	76,440	2.03	16.2	11.8
Low octane gasoline	217	0.01	147	0.00	47.6	-
Diesel	72,064	2.14	61,512	1.79	17.2	19.6
Fuel oil	3,112	0.36	4,118	0.43	(24.4)	(16.3)
Jet fuel	21,738	0.76	16,834	0.56	29.1	35.7
Bunker fuel	9,330	0.52	7,691	0.43	21.3	20.9
Bitumen	5,961	0.58	1,809	0.21	>200	176.2
Lubricants	3,663	0.07	2,624	0.05	39.6	40.0
Petrochemicals	5,192	0.22	5,906	0.21	(12.1)	4.8
Other	2,869	0.21	2,962	0.19	(3.1)	10.5
<b>Total</b>	<b>212,953</b>	<b>7.14</b>	<b>180,043</b>	<b>5.90</b>	<b>18.3</b>	<b>21.0</b>

	6m 2017		6m 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	165,247	4.30	152,900	4.32	8.1	(0.5)
Low octane gasoline	364	0.01	548	0.02	(33.6)	(50.0)
Diesel	133,576	3.93	111,525	3.70	19.8	6.2
Fuel oil	7,230	0.79	2,945	0.70	145.5	12.9
Jet fuel	38,572	1.32	35,184	1.38	9.6	(4.3)
Bunker fuel	17,021	0.95	14,297	1.13	19.1	(15.9)
Bitumen	7,770	0.79	4,521	0.72	71.9	9.7
Lubricants	6,287	0.12	5,651	0.12	11.3	-
Petrochemicals	11,098	0.43	9,568	0.58	16.0	(25.9)
Other	5,831	0.40	4,760	0.35	22.5	14.3
<b>Total</b>	<b>392,996</b>	<b>13.04</b>	<b>341,899</b>	<b>13.02</b>	<b>14.9</b>	<b>0.2</b>

- Petroleum product sales on the domestic market increased by 21.0% Q-o-Q mainly due to seasonal factors and production growth
- Bunker fuel sales decreased Y-o-Y due to lower demand at Far East and stormy weather at Black Sea
- Petrochemicals volumes decreased Y-o-Y due to repairs at the Group's refineries.

### Purchases of oil, gas and petroleum products

- Purchases of oil, gas, and petroleum products declined by 6.0% Q-o-Q due to decreased volume of petroleum products purchases (connected with a refining increase) and decreased crude oil and petroleum product prices
- Purchases of oil, gas, and petroleum products increased by 43.3% Y-o-Y due to increased volume of petroleum product purchases (connected with a refining decline) and increase of purchased crude oil cost (connected with prices growth on domestic and international markets).

## Production and manufacturing expenses

2Q	1Q			6m		
2017	2017	Δ, %	(RUB million)	2017	2016	Δ, %
<b>27,750</b>	<b>25,890</b>	<b>7.2</b>	<b>Upstream expenses</b>	<b>53,640</b>	<b>49,842</b>	<b>7.6</b>
<b>1,785</b>	<b>1,682</b>	<b>6.1</b>	<b>RUB per toe</b>	<b>1,734</b>	<b>1,734</b>	<b>-</b>
<b>4.26</b>	<b>3.90</b>	<b>9.2</b>	<b>USD* per boe</b>	<b>4.08</b>	<b>3.37</b>	<b>21.1</b>
21,193	20,071	5.6	Consolidated subsidiaries inside Russia including	41,264	37,378	10.4
1,658	1,597	3.9	RUB per toe	1,628	1,603	1.6
3.96	3.70	7.0	USD* per boe	3.83	3.11	23.2
17,000	16,280	4.4	Brownfields	33,280	31,157	6.8
1,860	1,728	7.6	RUB per toe	1,793	1,605	11.7
4.44	4.01	10.7	USD* per boe	4.22	3.12	35.3
4,193	3,791	10.6	Greenfields	7,984	6,221	28.3
1,152	1,203	(4.3)	RUB per toe	1,176	1,591	(26.1)
2.75	2.79	(1.4)	USD* per boe	2.77	3.09	(10.4)
2,104	1,767	19.1	Consolidated subsidiaries outside Russia (including PSA)**	3,871	4,671	(17.1)
3,188	2,761	15.5	RUB per toe	2,978	4,208	(29.2)
7.61	6.40	18.9	USD* per boe	7.01	8.17	(14.2)
4,453	4,052	9.9	Joint operations	8,505	7,793	9.1
2,120	1,876	13.0	RUB per toe	1,996	1,821	9.6
5.06	4.35	16.3	USD* per boe	4.70	3.54	32.8
<b>13,521</b>	<b>12,371</b>	<b>9.3</b>	<b>Downstream expenses</b>	<b>25,892</b>	<b>24,566</b>	<b>5.4</b>
7,100	7,218	(1.6)	Refining expenses at own refineries	14,318	13,782	3.9
886	1,028	(13.8)	RUB per tonne	953	812	17.4
2.12	2.38	(10.9)	USD* per bbl	2.24	1.58	41.8
2,957	2,760	7.1	Refining expenses at refineries of joint ventures***	5,717	6,109	(6.4)
1,524	1,568	(2.8)	RUB per tonne	1,545	1,665	(7.2)
3.64	3.64	-	USD* per bbl	3.64	3.23	12.7
<b>3,464</b>	<b>2,393</b>	<b>44.8</b>	<b>Lubricants manufacturing expenses</b>	<b>5,857</b>	<b>4,675</b>	<b>25.3</b>
<b>7,494</b>	<b>5,483</b>	<b>36.7</b>	<b>Transportation expenses to refineries</b>	<b>12,977</b>	<b>13,982</b>	<b>(7.2)</b>
<b>5,294</b>	<b>2,569</b>	<b>106.1</b>	<b>Other operating expenses including</b>	<b>7,863</b>	<b>5,416</b>	<b>45.2</b>
546	(574)	-	Change in work in progress	(28)	248	-
4,748	3,143	51.1	Other operating expenses	7,891	5,168	52.7
<b>54,059</b>	<b>46,313</b>	<b>16.7</b>	<b>Total</b>	<b>100,372</b>	<b>93,806</b>	<b>7.0</b>

\* Translated to USD at the average exchange rate for the period

\*\* PSA refers to production sharing agreement

\*\*\* Refining expenses of joint ventures is based on processing agreement

- Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor costs, fuel and electricity costs, enhanced oil recovery activities and other similar costs at our upstream subsidiaries
- Upstream expenses per toe at consolidated subsidiaries in Russia increased by 1.6% Y-o-Y due to increased brownfields expenses which was partially offset by increased crude production at greenfields
- Upstream expenses per toe at consolidated subsidiaries at brownfields increased by 11.7% Y-o-Y due to:
  - o Higher natural monopoly tariffs
  - o Increase of water cut at fields of Noyabrsk region
  - o Increased share of equipment used under the electric submersible pump (ESP) rental program
  - o Increased wells repair expenses.
- Upstream expenses at consolidated subsidiaries outside Russia decreased by 29.2% Y-o-Y due to ruble strengthening
- Upstream expenses at consolidated subsidiaries outside Russia increased by 15.5% Q-o-Q due to the commission of gas plant

- Upstream expenses at joint operations increased by 9.6% Y-o-Y mainly due to:
  - Higher natural monopoly tariffs
  - Increased share of equipment used under the electric submersible pump (ESP) rental program and growth of its maintenance costs
- Refining expenses at the refineries of consolidated subsidiaries include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor and electricity costs, and other similar costs at the Group's refineries
- Refining expenses per tonne at own refineries decreased by 13.8% Q-o-Q due to:
  - Production growth
  - Decreased additives consumption resulted from changes in product mix
- Refining expenses per tonne at own refineries increased by 17.4% Y-o-Y primarily due to:
  - Increased expenses for natural gas consumption for own use purposes
  - Higher tariffs of natural monopolies
  - Planned repairs
  - Production decline
- Refining expenses per tonne at refineries of joint ventures declined by 7.2% Y-o-Y due to:
  - Optimized energy expenses
  - Decreased use of additives and components in diesel production
- Transportation expenses to refineries increased by 36.7% Q-o-Q mainly due to increased crude oil volumes delivered to refineries
- Other operating expenses increased by 52.7% Y-o-Y due to increased services rendered to joint ventures.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses include general business expenses, wages, salaries (except wages and salaries at production subsidiaries and own refineries), insurance, legal fees, consulting and audit services, and other expenses.

- Selling, general and administrative expenses decreased by 4.9% Y-o-Y, driven mainly by decreased expenses at foreign subsidiaries due to ruble strengthening

### **Transportation expenses**

Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, rail, shipping, handling, and other transportation costs.

- Transportation expenses increased by 7.0% Y-o-Y mainly due to higher export crude sales volumes.

### **Depreciation, depletion and amortization**

Depreciation, depletion and amortization expenses include depreciation of oil and gas properties, refining and other assets and impairment provision.

- Depreciation, depletion and amortization expenses increase by 10.1% Y-o-Y and 5.2% Q-o-Q in line with an increase in depreciable assets driven by implementation of the investment program and increased production

### **Taxes other than income tax**

2Q	1Q			6m		
2017	2017	Δ, %	(RUB million)	2017	2016	Δ, %
70,605	80,783	(12.6)	Mineral extraction tax	151,388	102,728	47.4
32,954	25,437	29.6	Excise tax	58,391	50,410	15.8
4,761	5,099	(6.6)	Social security contributions	9,860	9,090	8.5
3,324	3,068	8.3	Other taxes	6,392	6,904	(7.4)
<b>111,644</b>	<b>114,387</b>	<b>(2.4)</b>	<b>Total taxes other than income tax</b>	<b>226,031</b>	<b>169,132</b>	<b>33.6</b>

- MET decreased by 12.6% Q-o-Q due to lower oil prices



- Excise taxes increased by 29.6% Q-o-Q due to increased production at refineries of consolidated subsidiaries in Russia 2Q 2017
- MET increased by 47.4% Y-o-Y due to higher rates according to the Tax Code, imposition of additional multiplying ratio, production growth and higher oil prices
- Excise taxes increased by 15.8% Y-o-Y due to higher rates according to the Tax Code.

#### **Share of profit of equity accounted investments**

2Q	1Q			6m		
2017	2017	Δ, %	(RUB million)	2017	2016	Δ, %
1,247	2,930	(57.4)	Slavneft	4,177	8,229	(49.2)
3,387	4,375	(22.6)	SeverEnergiya (Arcticgas)	7,762	6,383	21.6
1,962	2,210	(11.2)	Messoyakha	4,172	(1,300)	-
685	945	(27.5)	Nortgaz	1,630	791	106.1
611	358	70.7	Other companies	969	1,928	(49.7)
<b>7,892</b>	<b>10,818</b>	<b>(27.0)</b>	<b>Share of profit of associates and joint ventures</b>	<b>18,710</b>	<b>16,031</b>	<b>16.7</b>

- The Group's share in Slavneft's profit decreased Y-o-Y and Q-o-Q mainly due to foreign exchange effect from revaluation of debt portfolio denominated in foreign currencies
- The Group's share in profit of SeverEnergiya (Arcticgas) increased by 21.6% Y-o-Y as a result of increased EBITDA and reduction of financial expenses
- The Group's share in profit of Messoyakha increased Y-o-Y as a result of started commercial production in 4Q 2016
- The Group's share in profit of Northgas decreased Q-o-Q as a result of production reduction.

#### **Other income and expenses**

- Other expenses decreased by 72.2% Y-o-Y. Other expenses in 6 months 2016 mainly include impairment provision of advances paid.

#### **Other financial items**

- Foreign exchange gains/losses were mainly due to revaluation of the portion of the Group's debt portfolio that is denominated in foreign currencies.

## Liquidity and capital resources

### Cash flows

(RUB million)	6m		Δ %
	2017	2016	
Net cash provided by operating activities	181,128	145,795	24.2
Net cash used in investing activities	(148,018)	(115,298)	28.4
Net cash provided by / (used in) financing activities	3,173	(59,182)	-
<b>Increase / (Decrease) in cash and cash equivalents</b>	<b>36,283</b>	<b>(28,685)</b>	<b>-</b>

### Net cash provided by operating activities

(RUB million)	6m		Δ %
	2017	2016	
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	198,771	162,302	22.5
Net changes in working capital	16,703	12,933	29.2
Income tax paid	(14,835)	(12,166)	21.9
Interest paid	(20,283)	(19,248)	5.4
Dividends received	772	1,974	(60.9)
<b>Net cash provided by operating activities</b>	<b>181,128</b>	<b>145,795</b>	<b>24.2</b>

- Net cash provided by operating activities increased by 24.2% Y-o-Y primarily due to higher operating profit.

### Net cash used in investing activities

(RUB million)	6m		Δ %
	2017	2016	
Capital expenditures	(154,235)	(166,398)	(7.3)
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(457)	(738)	(38.1)
Net changes in deposits	654	48,439	(98.6)
Net changes in loans issued and other investments	2,276	86	>200
Other transactions	3,744	3,313	13.0
<b>Net cash used in investing activities</b>	<b>(148,018)</b>	<b>(115,298)</b>	<b>28.4</b>

- Net cash used in investing activities increased by 28.4% Y-o-Y due to lower repayments of bank deposits.

### Net cash used in financing activities

(RUB million)	6m		Δ %
	2017	2016	
Net changes in debt	4,135	(59,104)	-
Payment of dividends to shareholders	(2)	(3)	(33.3)
Other transactions	(960)	(75)	>200
<b>Net cash provided by / (used in) financing activities</b>	<b>3,173</b>	<b>(59,182)</b>	<b>-</b>

- New funds raised exceeded scheduled repayment of previously held borrowings in 6 months 2017.

## Capital expenditures

(RUB million)	6m		Δ, %
	2017	2016	
Exploration and production	98,446	115,727	(14.9)
Consolidated subsidiaries	91,038	107,799	(15.5)
Joint operations	7,408	7,928	(6.6)
Refining	26,680	11,482	132.4
Marketing and distribution	2,658	2,244	18.4
Others	4,891	4,326	13.1
<b>Subtotal capital expenditures</b>	<b>132,675</b>	<b>133,779</b>	<b>(0.8)</b>
Change in advances issued and material used in capital expenditures, including	21,560	32,619	(33.9)
<b>Total capital expenditures</b>	<b>154,235</b>	<b>166,398</b>	<b>(7.3)</b>

- Capital expenditures for exploration and production decreased by 14.9% Y-o-Y due to:
  - Completion of first stage of infrastructure construction at Novoport field
  - Decreased drilling volumes at brownfields
- Capital expenditures for refining increased by 132.4% Y-o-Y due to the second stage of modernisation program at Omsk and Moscow refineries (catalytic cracking reconstruction and construction of plant “EURO+” at Moscow refinery).

## Debt and liquidity

(RUB million)	June 30, 2017	December 31, 2016
Short-term loans and borrowings	142,914	80,187
Long-term loans and borrowings	532,380	596,221
Cash and cash equivalents	(69,756)	(33,621)
Short-term deposits	(226)	(886)
<b>Net debt</b>	<b>605,312</b>	<b>641,901</b>
Short-term debt / total debt, %	21.2	11.9
Net debt / EBITDA for 12 months preceding	1.37	1.60

- The Group’s diversified debt structure includes syndicated and bilateral loans, bonds and other instruments
- As at June 30, 2017 average debt maturity decreased to 3.54 years from 3.60 years as at December 31, 2016
- The average interest rate increased from 5.52% as at December 31, 2016 to 5.63% as at June 30, 2017 mainly due to the increased share of loans denominated in ruble in debt portfolio.

## Financial appendix

### EBITDA reconciliation

2Q 2017	1Q 2017	Δ, %	(RUB million)	6m		Δ, %
				2017	2016	
<b>53,317</b>	<b>64,734</b>	<b>(17.6)</b>	<b>Profit for the period</b>	<b>118,051</b>	<b>91,747</b>	<b>28.7</b>
13,240	14,922	(11.3)	Total income tax benefit / (expense)	28,162	17,792	58.3
6,542	6,719	(2.6)	Finance expense	13,261	18,438	(28.1)
(2,714)	(2,512)	8.0	Finance income	(5,226)	(5,264)	(0.7)
33,984	32,310	5.2	Depreciation, depletion and amortization	66,294	60,229	10.1
7,477	(13,182)	-	Net foreign exchange (loss) / gain	(5,705)	(16,110)	(64.6)
2,515	864	191.1	Other loss, net	3,379	12,153	(72.2)
<b>114,361</b>	<b>103,855</b>	<b>10.1</b>	<b>EBITDA</b>	<b>218,216</b>	<b>178,985</b>	<b>21.9</b>
(7,892)	(10,818)	(27.0)	less Share of profit of associates and joint ventures	(18,710)	(16,031)	16.7
21,544	24,757	(13.0)	add Share of EBITDA of equity accounted investments	46,301	40,577	14.1
<b>128,013</b>	<b>117,794</b>	<b>8.7</b>	<b>Adjusted EBITDA</b>	<b>245,807</b>	<b>203,531</b>	<b>20.8</b>

### Financial ratios

#### Profitability

	June 30, 2017	June 30, 2016	Δ, p.p.
Adjusted EBITDA margin, %	28.18	29.01	(0.8)
Net profit margin, %	13.53	13.08	0.5
Return on assets (ROA), %	9.09	4.05	5.0
Return on equity (ROE), %	16.44	7.37	9.1
Adjusted Return on average capital employed (ROACE), %	12.54	11.19	1.4

#### Adjusted ROACE calculation

	June 30, 2017	June 30, 2016
<b>For 12 months preceding</b>		
Adjusted EBITDA	498,474	408,576
Depreciation, depletion and amortization	(167,871)	(157,166)
Effective income tax charge on EBIT	(73,101)	(47,316)
<b>Adjusted EBIT*</b>	<b>257,502</b>	<b>204,094</b>
<b>Average capital employed</b>	<b>2,052,777</b>	<b>1,824,318</b>
<b>Adjusted ROACE</b>	<b>12.54</b>	<b>11.19</b>

\*Adjusted EBIT represents the Group's EBIT and its share in associates and joint ventures' EBIT

#### Liquidity

	June 30, 2017	June 30, 2016	Δ, %
Current ratio	0.96	1.32	(27.3)
Quick ratio	0.50	0.65	(23.1)
Cash ratio	0.26	0.31	(16.1)

## Leverage

	June 30, 2017	June 30, 2016	Δ, p.p.
Net debt/ Total Assets, %	22.27	25.41	(3.1)
Net debt/ Equity, %	39.44	47.08	(7.6)
Gearing, %	27.99	32.05	(4.1)
			Δ, %
Net debt/ Market Capitalization	0.71	0.83	(14.5)
Net debt/ EBITDA	1.37	1.81	(24.3)
Total debt/ EBITDA	1.53	2.04	(25.0)

## Main macroeconomic factors affecting operational results

The main factors affecting the Group's operational results include:

- Changes in market prices for crude oil and petroleum products
- Changes in the exchange rate between the Russian Ruble and the US dollar; inflation
- Taxation
- Changes in transportation tariffs for crude oil and petroleum products.

## Changes in market prices for crude oil and petroleum products

Prices for crude oil and petroleum products on international and Russian markets are the primary factor affecting the Group's operational results.

Petroleum product prices on international markets are primarily determined by world prices for crude oil, petroleum product supply and demand, and competition on different markets. Petroleum product price trends on international markets in turn determine domestic prices. Price trends are different for different types of petroleum products.

The increase in crude oil and petroleum product prices on international markets in 6 months 2017 had a positive impact on the Group's results.

2Q 2017	1Q 2017	Δ, %		6m 2017	2016	Δ, %
<b>(US\$/ barrel)</b>			<b>International market</b>	<b>(US\$/ barrel)</b>		
49.83	53.78	(7.3)	Brent	51.85	39.81	30.2
48.84	52.30	(6.6)	Urals Spot (average Med + NWE)	50.61	38.06	33.0
<b>(US\$/ tonne)</b>				<b>(US\$/ tonne)</b>		
527.45	544.90	(3.2)	Premium gasoline (average NWE)	536.38	445.11	20.5
425.25	477.52	(10.9)	Naphtha (average Med. + NWE)	452.01	352.16	28.4
450.47	480.98	(6.3)	Diesel fuel (average NWE)	466.09	363.48	28.2
442.00	477.20	(7.4)	Gasoil 0.1% (average Med.)	460.02	356.87	28.9
268.77	279.97	(4.0)	Fuel oil 3.5% (average NWE)	274.50	160.07	71.5
<b>(RUB/ tonne)</b>			<b>Domestic market</b>	<b>(RUB/ tonne)</b>		
36,734	35,913	2.3	High-octane gasoline	36,326	33,486	8.5
30,820	30,293	1.7	Low-octane gasoline	30,558	28,684	6.5
31,353	31,343	-	Diesel fuel	31,348	26,326	19.1
8,331	9,434	(11.7)	Fuel oil	8,880	4,487	97.9

Sources: Platts (international), Kortes (domestic)

### Ruble vs. US dollar exchange rate and inflation

The Group's presentation currency is the Russian ruble. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. For most entities, this is the Russian ruble.

2Q	1Q		6m	
2017	2017		2017	2016
1.3	1.0	Change in Consumer Price Index (CPI), %	2.3	3.3
57.15	58.84	Average RUB/US\$ exchange rate for the period	57.99	70.26
56.38	60.66	US\$/ RUB exchange rate as of the beginning of the period	60.66	72.88
59.09	56.38	US\$/ RUB exchange rate as of the end of the period	59.09	64.26
0.05	(0.07)	Depreciation (appreciation) of Russian rouble to US\$, %	(0.03)	(0.12)

### Taxation

#### **Average tax rates effective in the reporting periods for the taxation of oil and gas companies in Russia**

2Q	1Q		6m			
2017	2017	Δ, %	2017	2016	Δ, %	
			<b>(US\$/ tonne)</b>			
			<b>Export duty</b>			
84.30	86.53	(2.6)	Crude oil	85.42	61.05	39.9
25.27	25.93	(2.5)	Light petroleum products	25.60	24.40	4.9
25.27	25.93	(2.5)	Diesel	25.60	24.40	4.9
25.27	25.93	(2.5)	Gasoline	25.60	37.18	(31.1)
46.33	47.57	(2.6)	Naphtha	46.95	43.30	8.4
84.30	86.53	(2.6)	Heavy petroleum products	85.42	50.02	70.8
			<b>Mineral extraction tax</b>			
7,027	7,968	(11.8)	Crude oil (RUB/ tonne)	7,498	5,106	46.8

### **Crude oil and petroleum products export duty rates**

Resolution of the Russian Government No. 276 (March 29, 2013) establishes a methodology for the Ministry of Economic Development of the Russian Federation to calculate export duty rates for crude oil and certain petroleum products.

#### **Crude oil export duty rate**

a) According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1. subclause 4, export duty rates for oil shall not exceed the marginal export duty rates calculated according to the following formulas:

Quoted Urals Price (P), USD/ tonne	Maximum Export Customs Duty Rate
≤109.50	0%
109.50 < P ≤ 146.00	35% x(P - 109.50)
146.00 < P ≤ 182.50	12.78 + 45% x (P - 146.00)
>182.50	29.20 + 42% x (P - 182.50) for 2016 29.20 + 30% x (P - 182.50) for 2017

Crude oil exports to Kazakhstan and Belarus are not subject to oil export duties.

b) According to Federal Law No. 239-FZ (December 3, 2012), the Government of the Russian Federation establishes formulas for lower export duty rates for crude oil with special chemical and physical properties, identified by the specific customs codes (TN VED TS 2709 00 900 1 and 2709 00 900 3). According to Russian Government Resolution No. 276 (March 29, 2013), these lower export duty rates are calculated based on the average Urals price in the monitoring period using the following formula:

$$C_t = (P - 182.5) \times K - 56.57 - 0.14 \times P$$

where P is the Urals price (USD/tonne) and K is an incremental coefficient equal to 36% for 2016 and 30% for 2017 and following periods.

Resolution of the Russian Government No. 846 (September 26, 2013) sets out the rules for applying specific export duty rates and monitoring their use for crude oil produced, inter alia, at fields located in Sakha Republic (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai, and to north of latitude 65° in Yamalo-Nenets Autonomous Okrug.

Order No. 868 (December 3, 2013) of the Ministry of Energy establishes the application form and methodology to analyze the applicability of these special rates for crude oil.

c) According to Federal Law No. 5003-1 (May 12, 1993) clause 35 subclause 1.1, crude oil produced at offshore fields is exempt from export duties until:

- March 31, 2032 – for fields located entirely in the Sea of Azov, or located 50% or more in the Baltic Sea, Black Sea (at water depths of less than 100 meters), Pechora Sea, White Sea, Sea of Okhotsk (to south of 55° N), or the Caspian Sea
- March 31, 2042 – for fields located 50% or more in the Black Sea (at depths exceeding 100 meters), Sea of Okhotsk (to north of 55°), or Barents Sea (to south of 72°N)
- Indefinitely – for fields located 50% or more in the Kara Sea, Barents Sea (to north of 72° N), or the Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea)

According to clause 11.1, subclause 5 of the Russian Federation Tax Code, a new offshore field is a field where commercial hydrocarbon production has commenced no earlier than January 1, 2016.

### Export duty rate on petroleum products

In accordance with clause 3.1 of Russian Federal Law No. 5003-1 (May 21, 1993), the export duty rate on petroleum products is determined by the Government. Petroleum products exported to Kazakhstan, Belarus and Kyrgyzstan are not subject to export duties. Exports of petroleum products to Tajikistan and Armenia within the indicative limits are not subject to export duties from November 13, 2013 and January 19, 2015, respectively.

According to Resolution of the Russian Government No. 276 (March 29, 2013), the export duty rate on petroleum products is calculated using the following formula:

$R = K * R_{\text{crude}}$ , where  $R_{\text{crude}}$  is the export duty rate per tonne of crude oil and K is a coefficient depending on the type of petroleum product.

The coefficients, K, for different petroleum products are as follows:

	2016	from 2017
Light and middle distillates		
Diesel	0.4	0.3
Lubricants oil		
Naphtha	0.71	0.55
Gasoline	0.61	0.3

### Excise duties on petroleum products

In Russia, excise duties are paid by producers of refined products. Excise duties are also applied to petroleum products imported into Russia.

Clause 193 of the Russian Tax Code established the following excise duty rates for petroleum products (in rubles/tonne):

	2016 January 1-March 31	2016 April 1-December 31	2017	From 2018
<b>Gasoline</b>				
Below Class 5	10,500	13,100	13,100	13,100
Class 5	7,530	10,130	10,130	10,535
Naphtha	10,500	13,100	13,100	13,100
Diesel fuel	4,150	5,293	6,800	7,072
Motor oil	6,000	6,000	5,400	5,400
Middle distillate	4,150	5,293	7,800	8,112

#### Mineral extraction tax (MET) on crude oil

a) According to clause 342 of the Russian Tax Code the MET rate on crude oil (R, in rubles/tonne) is calculated using the following general formula:

	2016	from 2017
MET crude oil	857 x Kc - Dm	919 x Kc - Dm

**Dm** =  $K_{met} \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan})$  for 2016.

**Dm** =  $K_{met} \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) - K_k$  from 2017.

**Kmet** – 559 starting from 2016.

**Kc** reflects the volatility of crude oil prices at the global market.  $K_c = (P - 15) \times D / 261$ , where P is the average monthly Urals oil price at the Rotterdam and Mediterranean markets (in USD/bbl.) and D is the average monthly ruble/ US dollar exchange rate.

**Kv** characterizes the degree of depletion of the specific field, providing lower tax rates for highly depleted fields. Depletion is measured by  $N/V$ , where N is the cumulative production volume of the field and V is the total volume of initial extractable reserves as at January 1, 2006. For fields with depletion between 0.8 and 1,  $K_v = 3.8 - 3.5 \times N / V$ . Where depletion is greater than 1,  $K_v$  is 0.3. In all other cases  $K_v = 1$ . Where fields include deposits with  $K_d < 1$ ,  $K_v$  is equal to 1.

**Kz** characterizes the size of the field (by reserves) and provides lower tax rates for small fields. For fields with initial reserves (designated by  $V_3$ , defined as total extractable reserves for all categories as at January 1 of the year preceding the tax period) below 5 MMtonnes and depletion ( $N/V_3$ , where N is the cumulative production volume of the field) less than 0.05,  $K_z = 0.125 \times V_3 + 0.375$

**Kd** is designed for specific deposits with hard-to-recover oil. It varies between 0.2 and 1 depending on the deposit as follows:

- 0.2 – for oil produced from deposits with permeability no greater than  $2 \times 10^{-3} \mu^2$  and effective formation thickness no greater than 10 meters
- 0.4 – for oil produced from deposits with permeability no greater than  $2 \times 10^{-3} \mu^2$  and effective formation thickness greater than 10 meters
- 0.8 – for oil produced from deposits classified in the state mineral reserves balance as related to the Tyumen formation
- 1 – for oil produced from other deposits



**Kdv** characterizes the degree of depletion of the deposit, providing lower tax rates for highly depleted deposits. is Kdv is applied when the oilfield contains any deposit with Kd less than 1. For deposits with Kd less than 1, depletion is measured by Ndv/Vdv, where Ndv is the cumulative production volume from the deposit and Vdv is total initial extractable reserves (total reserves for all categories as at January 1 of the year preceding the tax period). For deposits with depletion between 0.8 and 1,  $Kdv = 3.8 - 3.5 * Ndv / Vdv$ . Where depletion is greater than 1, Kdv is 0.3. In all other cases, Kdv = 1. Kdv for all other deposits (with Kd = 1) of the respective field is the value of Kv as calculated for the entire area.

**Kkan** characterizes the oil production region and oil quality. This coefficient provides lower tax rates for fields located partly or completely in regions with challenging climate and geological conditions (specifically, Yamal Peninsula in Yamalo-Nenets Autonomous Okrug, Irkutsk Oblast, and Sakha Republic (Yakutia)). The Kkan coefficient is set at 0 until the first day of the month following a month in which one of the following conditions is met: (1) Achieving a particular cumulative production level of the field; (2) Expiration of the stipulated term. When the tax exemption period expires Kkan is equal to 1.

**Kk** – 306 for 2017, 357 for 2018 and 428 from 2019.

b) According to the Russian Tax Code clause 342, subclause 2.1 and clause 338, subclause 6 the following ad valorem MET rates should be used for oil produced at new offshore fields (as a % of price):

- 30% for a five-year period counted from the start of commercial hydrocarbon production and ending not later than March 31, 2022 – for fields located entirely in the Sea of Azov or for fields located more than 50% in the Baltic Sea
- 15% for a seven-year period counted from the start of commercial hydrocarbon production and ending not later than March 31, 2032 – for fields located more than 50% in the Black Sea (at water depths of less than 100 meters), the Sea of Japan, Pechora Sea, White Sea, Sea of Okhotsk (to south of 55° N), Caspian Sea
- 10% for a ten-year period counted from the start of commercial hydrocarbon production ending not later than March 31, 2037 – for fields located more than 50% in the Sea of Okhotsk (to north of 55° N), Black Sea (at depths exceeding 100 meters), Barents Sea (to south of 72° N)
- 5% production for a 15-year period counted from the start of commercial hydrocarbon production ending not later than March 31, 2042 – for fields located more than 50% in the Kara Sea, Barents Sea (to north of 72° N), and Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea).

The Russian tax law also provides for a zero MET rate on oil produced from deposits classified in the state mineral reserves balance as related to the Bazhenov formation, provided specific conditions set out in the Tax Code are met.

### Effective MET rate for the Group

2Q	1Q			6m		
2017	2017	Δ, %		2017	2016	Δ, %
7,027	7,968	(11.8)	Nominal crude oil MET rate, RUB/tonne	7,498	5,106	46.8
5,922	6,861	(13.7)	Effective crude oil MET rate, RUB/tonne	6,388	4,676	36.6
1,105	1,107		Difference between nominal and effective rates, RUB/tonne	1,110	430	
15.7%	13.9%		Difference between nominal and effective rates, %	14.8%	8.4%	

In 6 months 2017, the Group's effective MET rate was 6,388 RUB/tonne, or 1,110 RUB/tonne lower than the nominal MET rate established in Russian legislation. The difference results from the application of certain coefficients (Kv, Kz, Kd and Kkan) that reduce the MET rate.

### Mineral extraction tax (MET) on natural gas and gas condensate

Clause 342 of the Russian Federation Tax Code establishes mineral extraction tax rates for natural gas and gas condensate as follows:

MET on natural gas (RUB/mcm)	$35 * Eut * Kc + Tg$
MET on gas condensate (RUB/tonne)	$42 * Eut * Kc * Kkm$

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**Eut** is the base value per fuel-equivalent unit calculated by the taxpayer depending on natural gas and gas condensate prices and their relative production amounts.

**Kc** characterizes the degree of difficulty of the extraction of natural gas and gas condensate. The coefficient is designed to reduce the tax rate on natural gas and gas condensate, and is equal to the lowest of the following reducing coefficients:  $K_r$  – depending on location,  $K_{vg}$  – for depleted deposits,  $K_{gz}$  – for deposits at depths of more than 1,700 meters,  $K_{as}$  – for deposits related to the regional gas supply system, and  $K_{orz}$  – for deposits classified as Turonian formations.

**Tg** reflects gas transportation costs (set at zero for 2016-2017 according to the Federal Antimonopoly Service of the Russian Federation).

**Kkm** is a correction coefficient equal to  $5.5/K_g$  for 2016 and  $6.5/K_g$  for 2017, where  $K_g$  is a coefficient characterising export return per fuel-equivalent unit.

In 6 months 2017, the Group's effective MET rate for natural gas was 589 RUB per thousand m<sup>3</sup>, which is 19 RUB per thousand m<sup>3</sup> lower than the nominal MET rate established in Russian legislation. The difference results from the application of tax benefits, especially coefficient  $K_c$  that reduce the MET rate.

## Tax benefits

According to the effective tax legislation, the Group's subsidiaries apply the following tax benefits (including lower tax rates and coefficients that reduce the MET rate):

<b>Tax benefits applied during 6 m 2017</b>	<b>Subsidiaries (Oil Fields) belonging to the Group</b>
<b>MET for gas</b>	
Hard-to-recover coefficient Kc	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft Yamal LLC Gazpromneft Orenburg
<b>MET for oil</b>	
Small fields coefficient Kz	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft Orenburg
Depletion coefficient Kv	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok JSC Yuzhuralneftegas
Hard-to-recover coefficient Kd	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos
Highly depleted deposits coefficient Kdv	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok
Oil production region and oil quality factor Kkan	LLC Gazpromneft-Angara LLC Gazpromneft-Yamal
Zero MET rate for fields classified as belonging to Bazhenov formation	LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz
Lower MET rate for new offshore fields in the Pechora Sea	LLC Gazpromneft-Shelf
<b>Profits tax</b>	
16% rate (4% concession under Khanty-Mansiysk Autonomous Okrug regional legislation)	LLC Gazpromneft-Khantos
17% rate (3% concession under Yamalo-Nenets Autonomous Okrug regional legislation)	OJSC Gazpromneft-Noyabrskneftegaz
17% rate (3% concession under under Orenburg regional legislation)	JSC Yuzhuralneftegas
16.5% rate (3.5% concession under Yamalo-Nenets Autonomous Okrug regional legislation)	OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft
19.475% rate (0.525% concession under Tumen regional legislation)	LLC Gazpromneft-Khantos
16.5% rate (3.5% concession under St. Petersburg regional legislation)	PJSC Gazpromneft JSC Gazpromneft Aero LLC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft-Business Service LLC Gazpromneft-Regionalnie prodazhi LLC Gazpromneft-Marine Bunker
<b>Property tax</b>	
Property tax exemption for hydrocarbon fields in Khanty-Mansiysk Autonomous Okrug with the first hydrocarbon extraction after January 1, 2011 (under Khanty-Mansiysk Autonomous Okrug regional legislation)	LLC Gazpromneft-Khantos
Reduced tax rate 1.1% on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional	OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft

legislation)	
Property tax exemption for investment projects in Orenburg region (under Orenburg regional legislation)	LLC Gazpromneft Orenburg
Property tax exemption for investment projects and properties put into operation in Tomsk region in amount under 50% of tax paid to Tomsk region budget (under Tomsk regional legislation)	LLC Gazpromneft Vostok

## Transportation of crude oil and petroleum products

Transportation tariff policies are established by the state authorities to ensure a balance between the interests of the state and all participants in the transportation process. Transportation tariffs for natural monopolies are set by the Federal Tariff Service of the Russian Federation (FTS). Tariffs are dependent on transport destination, delivery volume, transportation distance, and several other factors. Changes in tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, the investment needs of the owners of transportation infrastructure, other macroeconomic factors, and compensation of economically reasonable expenses incurred by natural monopolies. Tariffs are revised by the FTS at least annually, and comprise dispatch, loading, transshipment, pumping, and other tariffs.

The following table shows average transportation costs per tonne for the Group's crude oil for export and use at its refineries, as well as costs per tonne for transportation of its petroleum products from refineries for export:

2Q	1Q			6m		
2017	2017	Δ, %	(RUB per tonne)	2017	2016	Δ, %
<b>Crude oil</b>						
Export						
2,059	1,952	5.5	Pipeline	2,006	1,931	3.8
CIS						
1,562	1,573	(0.7)	Pipeline	1,567	1,499	4.6
Transportation to Refineries						
728	698	4.4	Omsk	713	673	5.9
1,503	1,585	(5.2)	Moscow	1,544	1,395	10.7
1,303	1,316	(1.0)	Yaroslavl	1,310	1,215	7.8
<b>Petroleum products</b>						
Export from ONPZ						
2,621	2,438	7.5	Gasoline	2,530	1,719	47.2
5,173	5,406	(4.3)	Fuel oil	5,289	5,212	1.5
4,004	4,173	(4.0)	Diesel fuel	4,088	4,950	(17.4)
Export from MNPZ						
2,911	2,681	8.6	Gasoline	2,797	1,901	47.1
3,077	3,020	1.9	Fuel oil	3,049	3,275	(6.9)
1,692	2,400	(29.5)	Diesel fuel	2,044	1,769	15.6
Export from YaNPZ						
2,781	2,602	6.9	Gasoline	2,692	1,529	76.0
2,899	2,865	1.2	Fuel oil	2,882	1,595	80.7
1,953	2,155	(9.4)	Diesel fuel	2,053	1,580	30.0

The Group's crude oil export route mix (tonnes) for 6 months 2017 and 6 months 2016 is presented below:

	6m	
	2017	2016
<b>Crude oil export</b>		
Primorsk Baltic Sea port	21.7%	8.5%
Ust-Luga Baltic Sea port	2.0%	0.0%
Druzhba pipeline	10.0%	14.2%
Port of Novorossiysk	14.4%	36.0%
ESPO pipeline and the port of Kozmino	10.0%	18.2%
Meget (pipeline and railway) China	0.3%	0.0%
Exported without using Transneft system, including:	41.6%	23.1%
Prirazlomnoye	15.3%	14.0%
Novoport	26.3%	9.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Crude oil export to CIS countries</b>		
Belarus	100.0%	98.3%
Uzbekistan	0.0%	1.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

[www.gazprom-neft.com](http://www.gazprom-neft.com)  
 Contacts: PJSC Gazprom Neft  
 Investor Relations Department email: [ir@gazprom-neft.ru](mailto:ir@gazprom-neft.ru)  
 Address: 3-5, Pochtamskaya Street, St. Petersburg 190000, Russia  
 Phone: +7 812 385 95 48