

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended March 31, 2019 and 2018
and December 31, 2018**

Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of March 31, 2019 and results of operations for the three months ended March 31, 2019 and 2018 and December 31, 2018 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

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month | | Δ, % |
|--|------------|--------|---|---------|---------|-------|
| | | | | 2019 | 2018 | |
| Financial results (RUB million) | | | | | | |
| 586,359 | 661,999 | (11.4) | Revenue | 586,359 | 520,633 | 12.6 |
| 197,688 | 185,044 | 6.8 | Adjusted EBITDA* | 197,688 | 155,797 | 26.9 |
| 8,506 | 7,726 | 10.1 | RUB per toe of production | 8,506 | 7,018 | 21.2 |
| 17.42 | 15.68 | 11.1 | USD** per boe of production | 17.42 | 16.65 | 4.6 |
| 107,894 | 77,998 | 38.3 | Profit attributable to Gazprom Neft shareholders | 107,894 | 69,665 | 54.9 |
| Operational results | | | | | | |
| 171.67 | 177.46 | (3.3) | Hydrocarbon production including our share in joint ventures (MMboe) | 171.67 | 164.55 | 4.3 |
| 23.24 | 23.95 | (3.0) | Hydrocarbon production including our share in joint ventures (MMtoe) | 23.24 | 22.20 | 4.7 |
| 1.91 | 1.93 | (1.0) | Daily hydrocarbon production (MMboepd) | 1.91 | 1.83 | 4.4 |
| 113.54 | 118.42 | (4.1) | Crude oil and condensate production including our share in joint ventures (MMbbl) | 113.54 | 112.39 | 1.0 |
| 348.80 | 354.26 | (1.5) | Gas production including our share in joint ventures (bcf) | 348.80 | 312.94 | 11.5 |
| 9.96 | 11.10 | (10.3) | Refining throughput at own refineries and joint ventures (MMtonnes) | 9.96 | 10.13 | (1.7) |

* 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

1 Q 2019 highlights

- Received exploration licenses for 4 new license in Yamalo-Nenets Autonomous Okrug, 3 new license at Orenburg region and 3 new license blocks in Khanty-Mansiysk Autonomous Okrug
- In April 2019 the Board of Directors recommended to approve dividends on the ordinary shares for 2018 FY in the amount of RUB 30 per share (including interim dividends for the nine months ended 30 September 2018 in the amount of RUB 22.05 per share)
- Industry record-breaking multilateral “fishbone” well (comprising eight side-tracks) constructed at the East-Messoyakhskoye field
- Long-term risk operating agreements concluded between Gazprom Neft and Gazprom which allow to involve in production undeveloped reserves of Gazprom oil fringe.

Results for 3 months 2019 compared with 3 months 2018

- Total hydrocarbon production, including Group’s share in joint ventures, increased by 4.7% to 23.24 MMtoe due to production growth at Novoportovskoye field, in Orenburg region and East-Messoyakhskoye field and an increase of Group’s share in Arcticgas
- Total refining throughput decreased by 1.7% due to repairs at Group’s refineries in 1Q 2019
- Revenue increased by 12.6% mainly due to higher oil and petroleum product export sales volumes and Russian ruble weakening
- Production growth at major fields (Novoportovskoye, East-Messoyakhskoye) and Russian ruble weakness regarding US dollar have resulted in a 26.9% increase in an adjusted EBITDA
- Growth of profit attributable to Gazprom Neft shareholders supported mainly by growth of EBITDA and forex exchange gains in 3 months 2019.

Results for 1Q 2019 compared with 4Q 2019

- Total hydrocarbon production, including Group's share in joint ventures, decreased by 3.0% mainly due to lower number of days in 1Q and due to OPEC+ production cut agreement limits
- Refining throughput decreased by 10.3% Q-o-Q due to seasonal demand decline for petroleum products and planned repairs at Group's refineries
- Revenue decreased by 11.4% due to production and throughput volume decline
- Positive export duty lag and changes in market conditions have resulted in a 6.8% increase in adjusted EBITDA
- Profit attributable to Gazprom Neft shareholders increased due to growth of EBITDA and forex exchange gains in 1Q 2019.

Operational data and analysis

Production drilling

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month | | |
|----------------------------------|------------|--------|--|---------|-------|-------|
| | | | | 2019 | 2018 | Δ, % |
| Consolidated subsidiaries | | | | | | |
| 448 | 505 | (11.3) | Production drilling ('000 meters) | 448 | 457 | (2.0) |
| 120 | 149 | (19.5) | New production wells | 120 | 117 | 2.6 |
| 85.94 | 64.45 | 33.3 | Average new well flow (tonnes per day) | 85.94 | 92.18 | (6.8) |
| Joint operations | | | | | | |
| 165 | 203 | (18.7) | Production drilling ('000 meters) | 165 | 169 | (2.4) |
| 30 | 54 | (44.4) | New production wells | 30 | 28 | 7.1 |
| Joint ventures | | | | | | |
| 444 | 467 | (4.9) | Production drilling ('000 meters) | 444 | 351 | 26.5 |
| 77 | 125 | (38.4) | New production wells | 77 | 70 | 10.0 |

- Decrease in number of new production wells drilled and production drilling by consolidated subsidiaries Q-o-Q was due to increased number of high-tech wells and a decline of workover operations at brownfields based on limits in line with OPEC+ production cut agreement
- Increase in average new well flow rate by consolidated subsidiaries Q-o-Q was due to commissioning of high flow rate wells at Novoportovskoye, Prirazlomnoye and Zapadno-Chatylkinskoye fields
- Decrease in new wells drilled by joint operations and joint ventures Q-o-Q was in line with new wells launch schedule
- Increase in production drilling by joint ventures Y-o-Y was mainly due to change of production drilling schedule at Slavneft fields.

Production

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month 2019 | 2018 | Δ, % | | |
|-------------------|---------------|--------------|--|-----------------|---------------|-------------------|--|--|
| (MMtonnes) | | | Crude oil, condensate and NGLs | | | (MMtonnes) | | |
| 2.47 | 2.56 | (3.5) | Noyabrskneftegaz | 2.47 | 2.57 | (3.9) | | |
| 3.08 | 3.31 | (6.9) | Khantos** | 3.08 | 3.45 | (10.7) | | |
| 1.03 | 1.09 | (5.5) | Tomskneft | 1.03 | 1.05 | (1.9) | | |
| 0.76 | 0.78 | (2.6) | SPD | 0.76 | 0.74 | 2.7 | | |
| 0.72 | 0.73 | (1.4) | Orenburg | 0.72 | 0.63 | 14.3 | | |
| 0.23 | 0.24 | (4.2) | NIS | 0.23 | 0.23 | - | | |
| 0.40 | 0.42 | (4.8) | Vostok*** | 0.40 | 0.40 | - | | |
| 1.93 | 1.99 | (3.0) | Yamal | 1.93 | 1.72 | 12.2 | | |
| 0.80 | 0.83 | (3.6) | Prirazlomnoye | 0.80 | 0.78 | 2.6 | | |
| 0.39 | 0.43 | (9.3) | Badra & Kurdistan | 0.39 | 0.33 | 18.2 | | |
| 0.06 | 0.02 | 200.0 | Others | 0.06 | 0.04 | 50.0 | | |
| 11.87 | 12.40 | (4.3) | Total production by subsidiaries and joint operations | 11.87 | 11.94 | (0.6) | | |
| 1.75 | 1.79 | (2.2) | Share in Slavneft | 1.75 | 1.64 | 6.7 | | |
| 1.00 | 1.01 | (1.0) | Share in Arcticgas | 1.00 | 0.92 | 8.7 | | |
| 0.07 | 0.08 | (12.5) | Share in Northgas | 0.07 | 0.08 | (12.5) | | |
| 0.62 | 0.61 | 1.6 | Share in Messoyakha | 0.62 | 0.50 | 24.0 | | |
| 3.44 | 3.49 | (1.4) | Share in production of joint ventures | 3.44 | 3.14 | 9.6 | | |
| 15.31 | 15.89 | (3.7) | Total crude oil, condensate and NGLs | 15.31 | 15.08 | 1.5 | | |
| (bcm) | | | Gas* | | | (bcm) | | |
| 2.17 | 2.27 | (4.4) | Noyabrskneftegaz | 2.17 | 2.31 | (6.1) | | |
| 0.27 | 0.27 | - | Khantos** | 0.27 | 0.27 | - | | |
| 0.25 | 0.25 | - | Tomskneft | 0.25 | 0.25 | - | | |
| 0.03 | 0.04 | (25.0) | SPD | 0.03 | 0.03 | - | | |
| 0.74 | 0.75 | (1.3) | Orenburg | 0.74 | 0.66 | 12.1 | | |
| 0.11 | 0.12 | (8.3) | NIS | 0.11 | 0.12 | (8.3) | | |
| 0.04 | 0.03 | 33.3 | Vostok | 0.04 | 0.04 | - | | |
| 1.73 | 1.62 | 6.8 | Yamal | 1.73 | 0.88 | 96.6 | | |
| 0.06 | 0.07 | (14.3) | Badra | 0.06 | 0.04 | 50.0 | | |
| 0.02 | 0.02 | - | Others | 0.02 | 0.02 | - | | |
| 5.42 | 5.44 | (0.4) | Total production by subsidiaries and joint operations | 5.42 | 4.62 | 17.3 | | |
| 0.12 | 0.12 | - | Share in Slavneft | 0.12 | 0.11 | 9.1 | | |
| 3.43 | 3.46 | (0.9) | Share in Arcticgas | 3.43 | 3.17 | 8.2 | | |
| 0.88 | 0.98 | (10.2) | Share in Northgas | 0.88 | 0.94 | (6.4) | | |
| 0.03 | 0.03 | - | Share in Messoyakha | 0.03 | 0.02 | 50.0 | | |
| 4.46 | 4.59 | (2.8) | Share in production of joint ventures | 4.46 | 4.24 | 5.2 | | |
| 9.88 | 10.03 | (1.5) | Total gas production | 9.88 | 8.86 | 11.5 | | |
| (MMtoe) | | | Hydrocarbons | | | (MMtoe) | | |
| 16.22 | 16.78 | (3.3) | Total production by subsidiaries and joint operations | 16.22 | 15.65 | 3.6 | | |
| 7.02 | 7.17 | (2.1) | Share in production of joint ventures | 7.02 | 6.55 | 7.2 | | |
| 23.24 | 23.95 | (3.0) | Total hydrocarbon production | 23.24 | 22.20 | 4.7 | | |
| 171.67 | 177.46 | (3.3) | MMtoe | 171.67 | 164.55 | 4.3 | | |
| 1.91 | 1.93 | (1.0) | MMboepd | 1.91 | 1.83 | 4.4 | | |

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

** Khantos oil production in 2018-2019 includes NGL in the share of Gazprom Neft (50%). Associated gas utilization excludes gas used for NGL production at UGPZ (50%)

*** Vostok oil production in 2018-2019 includes DGS. Associated gas utilization excludes gas used for DGS

- Group daily hydrocarbon production increased by 4.4% Y-o-Y
- Group oil and condensate production increased by 1.5% Y-o-Y to 15.31 MMtonnes due to production growth at Novoportovskoye, East-Messoyakhskoye and at Orenburg region fields and increase of Group's share in Arcticgas since end of March 2018
- The decrease in Group oil and condensate production by 3.7% Q-o-Q was due to lower number of days in 1Q, in line with OPEC+ agreement regarding oil cut and planned stoppage of oil processing facility in Iraq
- Group gas production increased by 11.5% Y-o-Y due to increase in associated gas utilization resulted from 2nd line gas processing facility commissioning at Novoportovskoye field in 3Q2018, higher natural gas production in Arcticgas and increased Group's share in Arcticgas
- Group's gas production decreased by 1.5% Q-o-Q due to lower number of days in 1Q.

Crude oil purchases

| 1Q 2019 | 4Q 2018 | Δ, % | (MMtonnes) | 3 month | | |
|-------------|-------------|--------------|-------------------------------------|-------------|-------------|------------|
| | | | | 2019 | 2018 | Δ, % |
| 1.98 | 2.11 | (6.2) | Crude oil purchases in Russia * | 1.98 | 1.94 | 2.1 |
| 0.18 | 0.28 | (35.7) | Crude oil purchases internationally | 0.18 | 0.17 | 5.9 |
| 2.16 | 2.39 | (9.6) | Total crude purchased | 2.16 | 2.11 | 2.4 |

* Crude oil purchases in Russia:

- exclude purchases from the Group's joint ventures Slavneft, SeverEnergiya (Arcticgas) and Messoyakha

- include purchase of stable gas condensate from Novatek (25% of Arcticgas production)

- Crude oil purchases at international markets decreased Q-o-Q due to production decline at Pancevo refinery as a result of planned capital repair in 1Q 2019.

Refining

| 1Q 2019 | 4Q 2018 | Δ, % | (MMtonnes) | 3 month | | |
|---|--------------|---------------|---|-------------|--------------|--------------|
| | | | | 2019 | 2018 | Δ, % |
| Refining throughput: | | | | | | |
| 5.13 | 5.43 | (5.5) | Omsk | 5.13 | 4.94 | 3.8 |
| 2.32 | 2.67 | (13.1) | Moscow | 2.32 | 2.64 | (12.1) |
| 0.56 | 0.99 | (43.4) | Pancevo | 0.56 | 0.71 | (21.1) |
| 8.01 | 9.09 | (11.9) | Total throughput at refineries owned by subsidiaries | 8.01 | 8.29 | (3.4) |
| 1.95 | 2.01 | (3.0) | Share in Yaroslavl | 1.95 | 1.84 | 6.0 |
| 9.96 | 11.10 | (10.3) | Total refining throughput | 9.96 | 10.13 | (1.7) |
| Production of petroleum products | | | | | | |
| 1.79 | 2.15 | (16.7) | Gasoline | 1.79 | 2.13 | (16.0) |
| 1.79 | 2.15 | (16.7) | Class 5 | 1.79 | 2.13 | (16.0) |
| 0.56 | 0.50 | 12.0 | Naphtha | 0.56 | 0.53 | 5.7 |
| 2.92 | 3.18 | (8.2) | Diesel | 2.92 | 2.93 | (0.3) |
| 0.02 | 0.03 | (33.3) | Class 2 and below | 0.02 | 0.02 | - |
| 2.90 | 3.15 | (7.9) | Class 5 | 2.90 | 2.91 | (0.3) |
| 1.78 | 1.98 | (10.1) | Fuel oil | 1.78 | 1.55 | 14.8 |
| 0.76 | 0.84 | (9.5) | Jet fuel | 0.76 | 0.77 | (1.3) |
| 0.63 | 0.62 | 1.6 | Bunker fuel | 0.63 | 0.55 | 14.5 |
| 0.31 | 0.59 | (47.5) | Bitumen | 0.31 | 0.52 | (40.4) |
| 0.13 | 0.13 | - | Lubricants | 0.13 | 0.12 | 8.3 |
| 0.71 | 0.70 | 1.4 | Other | 0.71 | 0.60 | 18.3 |
| 9.59 | 10.69 | (10.3) | Total production | 9.59 | 9.70 | (1.1) |

- Total throughput decreased by 10.3% Q-o-Q due to seasonal demand decline for petroleum products and due to repairs at Group's refineries in 1Q 2019
- High-octane gasoline production decreased by 16.7% Q-o-Q and 16.0% Y-o-Y respectively due to high-octane gasoline demand conditions and lower throughput
- Naphtha production increased by 12.0% Q-o-Q and by 5.7% Y-o-Y due to repairs at Group's refineries

- Volume decrease in diesel production by 8.2%, jet fuel by 9.5% and fuel oil by 10.1% Q-o-Q was due to lower throughput and seasonal decline of demand for petroleum products
- Fuel oil production increased by 14.8% Y-o-Y due to a decline of bitumen production and prices on domestic and international markets
- Bitumen production decreased by 47.5% Q-o-Q due to seasonal factors and planned repair at Panchevo refinery.

Petroleum product purchases on international markets

| | 1Q 2019 | | 4Q 2018 | | Δ, % | |
|--------------|--------------|-------------|--------------|-------------|---------------|--------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| Diesel | 1,687 | 0.04 | 2,924 | 0.07 | (42.3) | (42.9) |
| Jet fuel | 3,837 | 0.09 | 3,931 | 0.07 | (2.4) | 28.6 |
| Bunker fuel | 1,107 | 0.03 | 998 | 0.03 | 10.9 | - |
| Lubricants | 258 | 0.00 | 199 | 0.00 | 29.6 | - |
| Total | 6,889 | 0.16 | 8,052 | 0.17 | (14.4) | (5.9) |

| | 3 month 2019 | | 3 month 2018 | | Δ, % | |
|--------------|--------------|-------------|--------------|-------------|---------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| Diesel | 1,687 | 0.04 | 2,370 | 0.07 | (28.8) | (42.9) |
| Jet fuel | 3,837 | 0.09 | 2,791 | 0.07 | 37.5 | 28.6 |
| Bunker fuel | 1,107 | 0.03 | 2,789 | 0.09 | (60.3) | (66.7) |
| Lubricants | 258 | 0.00 | 240 | 0.00 | 7.5 | - |
| Total | 6,889 | 0.16 | 8,190 | 0.23 | (15.9) | (30.4) |

- Jet fuel purchases on international markets increased Q-o-Q and Y-o-Y due to geographic expansion, higher demand for international flights and throughput decline at Group's refineries
- Bunker fuel purchases decreased Y-o-Y due to throughput increase at Group's refineries.

Petroleum product purchases in the CIS

| | 1Q 2019 | | 4Q 2018 | | Δ, % | |
|----------------------|--------------|-------------|---------------|-------------|---------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 3,386 | 0.11 | 4,811 | 0.14 | (29.6) | (21.4) |
| Diesel | 4,926 | 0.12 | 5,644 | 0.14 | (12.7) | (14.3) |
| Petrochemicals | 208 | 0.01 | 359 | 0.01 | (42.1) | - |
| Other | 39 | 0.00 | 83 | 0.00 | (53.0) | - |
| Total | 8,559 | 0.24 | 10,897 | 0.29 | (21.5) | (17.2) |

| | 3 month 2019 | | 3 month 2018 | | Δ, % | |
|----------------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 3,386 | 0.11 | 1,796 | 0.06 | 88.5 | 83.3 |
| Diesel | 4,926 | 0.12 | 2,105 | 0.07 | 134.0 | 71.4 |
| Petrochemicals | 208 | 0.01 | 227 | 0.01 | (8.4) | - |
| Other | 39 | 0.00 | 106 | 0.00 | (63.2) | - |
| Total | 8,559 | 0.24 | 4,234 | 0.14 | 102.1 | 67.0 |

- Petroleum product purchases in the CIS decreased Q-o-Q due to seasonal factors
- Petroleum product purchases in the CIS increased Y-o-Y due to higher deliveries from local refineries resulted from market conditions and prices level due to prices regulation in CIS and gasoline import prohibition from Russian Federation to Kazakhstan since March 2019.

Domestic petroleum product purchases

| | 1Q 2019 | | 4Q 2018 | | Δ, % | |
|----------------------|---------------|-------------|---------------|-------------|---------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 12,187 | 0.34 | 19,969 | 0.45 | (39.0) | (24.4) |
| Diesel | 6,842 | 0.15 | 9,979 | 0.22 | (31.4) | (31.8) |
| Jet fuel | 699 | 0.02 | 1,275 | 0.03 | (45.2) | (33.3) |
| Bunker fuel | 790 | 0.02 | 1,267 | 0.03 | (37.6) | (33.3) |
| Bitumen | - | - | 166 | 0.01 | - | - |
| Petrochemicals | 721 | 0.01 | 874 | 0.01 | (17.5) | - |
| Other | 769 | 0.02 | 1,105 | 0.03 | (30.4) | (33.3) |
| Total | 22,008 | 0.56 | 34,635 | 0.78 | (36.5) | (28.2) |

| | 3 month 2019 | | 3 month 2018 | | Δ, % | |
|----------------------|---------------|-------------|---------------|-------------|---------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 12,187 | 0.34 | 13,064 | 0.36 | (6.7) | (5.6) |
| Diesel | 6,842 | 0.15 | 11,326 | 0.28 | (39.6) | (46.4) |
| Jet fuel | 699 | 0.02 | 1,095 | 0.03 | (36.2) | (33.3) |
| Bunker fuel | 790 | 0.02 | 705 | 0.03 | 12.1 | (33.3) |
| Petrochemicals | 721 | 0.01 | 267 | 0.00 | 170.0 | - |
| Other | 769 | 0.02 | 840 | 0.05 | (8.5) | (60.0) |
| Total | 22,008 | 0.56 | 27,297 | 0.75 | (19.4) | (25.3) |

- Petroleum product purchases decreased Q-o-Q and Y-o-Y due to lower sales volume through premium channels.

Petroleum product marketing through premium channels

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month 2019 | 2018 | Δ, % |
|--------------|-------------------|---------------|--|-----------------|-------------------|--------------|
| | (units) | | Active retail stations | | (units) | |
| 1,191 | 1,190 | 0.1 | In Russia | 1,191 | 1,199 | (0.7) |
| 200 | 201 | (0.5) | In CIS | 200 | 191 | 4.7 |
| 409 | 410 | (0.2) | In Eastern Europe | 409 | 416 | (1.7) |
| 1,800 | 1,801 | (0.1) | Total retail stations (as at the end of the period) | 1,800 | 1,806 | (0.3) |
| | | | Average daily sales per retail site in Russia | | | |
| 17.96 | 21.41 | (16.1) | (tonnes per day) | 17.96 | 19.73 | (8.9) |
| | (MMtonnes) | | Sales volume through premium channels | | (MMtonnes) | |
| 4.41 | 5.12 | (13.9) | Gasoline and Diesel | 4.41 | 4.74 | (7.0) |
| 0.69 | 0.76 | (9.2) | Jet | 0.69 | 0.66 | 4.5 |
| 0.76 | 0.79 | (3.8) | Bunkering | 0.76 | 0.61 | 24.6 |
| 0.07 | 0.08 | (12.5) | Lubricants | 0.07 | 0.07 | - |
| 0.03 | 0.08 | (62.5) | Bitumen | 0.03 | 0.02 | 50.0 |
| 5.96 | 6.83 | (12.7) | Total sales volume through premium channels | 5.96 | 6.10 | (2.3) |

- The total number of active retail stations decreased by 0.1% Q-o-Q and 0.3% Y-o-Y due to reconstruction and repairs of retail stations
- Average daily sales per retail station in Russia decreased by 8.9% Y-o-Y due to market conditions
- Sales volume through premium channels decreased Q-o-Q mainly due to seasonal factors
- Gasoline sales through premium channels decreased Y-o-Y due to market conditions
- Jet fuel sales volumes increased Y-o-Y due to higher demand for jet fuel in Moscow and Novosibirsk airports as a result of higher level of air carriage
- Bunker fuel sales volumes increased Y-o-Y due to higher demand in small wholesales segment in the North-West and the Black Sea.

Results of operations

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month | | |
|-----------------------------------|------------------|----------------|---|------------------|------------------|----------------|
| | | | | 2019 | 2018 | Δ, % |
| 570,840 | 642,001 | (11.1) | Crude oil, gas and petroleum products sales | 570,840 | 504,355 | 13.2 |
| 15,519 | 19,998 | (22.4) | Other revenue | 15,519 | 16,278 | (4.7) |
| 586,359 | 661,999 | (11.4) | Total revenue* | 586,359 | 520,633 | 12.6 |
| Costs and other deductions | | | | | | |
| (145,099) | (184,628) | (21.4) | Purchases of oil, gas and petroleum products | (145,099) | (122,618) | 18.3 |
| (56,055) | (63,627) | (11.9) | Production and manufacturing expenses | (56,055) | (51,500) | 8.8 |
| (25,538) | (31,778) | (19.6) | Selling, general and administrative expenses | (25,538) | (24,211) | 5.5 |
| (38,906) | (40,904) | (4.9) | Transportation expenses | (38,906) | (36,680) | 6.1 |
| (41,696) | (48,909) | (14.7) | Depreciation, depletion and amortization | (41,696) | (37,509) | 11.2 |
| (146,291) | (162,955) | (10.2) | Taxes other than income tax | (146,291) | (141,075) | 3.7 |
| (18,026) | (32,112) | (43.9) | Export duties | (18,026) | (21,599) | (16.5) |
| (82) | (613) | (86.6) | Exploration expenses | (82) | (269) | (69.5) |
| (471,693) | (565,526) | (16.6) | Total operating expenses | (471,693) | (435,461) | 8.3 |
| 114,666 | 96,473 | 18.9 | Operating profit | 114,666 | 85,172 | 34.6 |
| 22,690 | 21,042 | 7.8 | Share of profit of associates and joint ventures | 22,690 | 14,768 | 53.6 |
| 5,461 | (2,443) | - | Net foreign exchange gain / (loss) | 5,461 | (4,378) | - |
| 5,096 | 2,911 | 75.1 | Finance income | 5,096 | 1,848 | 175.8 |
| (9,209) | (5,196) | 77.2 | Finance expense | (9,209) | (5,945) | 54.9 |
| (6,079) | (10,888) | (44.2) | Other loss, net | (6,079) | (2,665) | 128.1 |
| 17,959 | 5,426 | >200 | Total other income | 17,959 | 3,628 | >200 |
| 132,625 | 101,899 | 30.2 | (Loss) / Profit before income tax | 132,625 | 88,800 | 49.4 |
| (10,610) | (12,305) | (13.8) | Current income tax (expense) | (10,610) | (11,106) | (4.5) |
| (9,343) | (6,002) | 55.7 | Deferred income tax expense | (9,343) | (3,549) | 163.3 |
| (19,953) | (18,307) | 9.0 | Total income tax benefit / (expense) | (19,953) | (14,655) | 36.2 |
| 112,672 | 83,592 | 34.8 | (Loss) / Profit for the period | 112,672 | 74,145 | 52.0 |
| (4,778) | (5,594) | (14.6) | Less: Profit attributable to non-controlling interest | (4,778) | (4,480) | 6.7 |
| 107,894 | 77,998 | 38.3 | Profit attributable to Gazprom Neft shareholders | 107,894 | 69,665 | 54.9 |

* Sales include sales related excise tax

Revenues

| 1Q | 4Q | | | 3 month | | |
|---------------------------|----------------|---------------|---|----------------|----------------|--------------|
| 2019 | 2018 | Δ, % | | 2019 | 2018 | Δ, % |
| Crude oil | | | | | | |
| 145,050 | 143,632 | 1.0 | Export | 145,050 | 117,901 | 23.0 |
| 7,202 | 10,022 | (28.1) | International markets | 7,202 | 6,523 | 10.4 |
| 9,744 | 9,313 | 4.6 | Export to CIS | 9,744 | 9,505 | 2.5 |
| 22,463 | 21,180 | 6.1 | Domestic | 22,463 | 15,262 | 47.2 |
| 184,459 | 184,147 | 0.2 | Total crude oil revenue | 184,459 | 149,191 | 23.6 |
| Gas | | | | | | |
| 513 | 129 | >200 | International markets | 513 | 252 | 103.6 |
| 7,608 | 9,108 | (16.5) | Domestic | 7,608 | 8,636 | (11.9) |
| 8,121 | 9,237 | (12.1) | Total gas revenue | 8,121 | 8,888 | (8.6) |
| Petroleum products | | | | | | |
| 98,791 | 91,810 | 7.6 | Export | 98,791 | 80,013 | 23.5 |
| 31,535 | 47,259 | (33.3) | International markets | 31,535 | 28,279 | 11.5 |
| 51,297 | 71,637 | (28.4) | Sales on international markets | 51,297 | 48,650 | 5.4 |
| (19,762) | (24,378) | (18.9) | Less sales related excise | (19,762) | (20,371) | (3.0) |
| 20,308 | 23,561 | (13.8) | CIS | 20,308 | 19,597 | 3.6 |
| 20,551 | 23,854 | (13.8) | Export sales and sales in CIS | 20,551 | 19,795 | 3.8 |
| (243) | (293) | (17.1) | Less sales related excise | (243) | (198) | 22.7 |
| 227,626 | 285,987 | (20.4) | Domestic | 227,626 | 218,387 | 4.2 |
| 378,260 | 448,617 | (15.7) | Total petroleum products revenue | 378,260 | 346,276 | 9.2 |
| 15,519 | 19,998 | (22.4) | Other revenue | 15,519 | 16,278 | (4.7) |
| 586,359 | 661,999 | (11.4) | Total revenue | 586,359 | 520,633 | 12.6 |

Sales volumes

| 1Q | 4Q | | | 3 month | | | | |
|-------------------|--------------|--------------|---------------------------------------|--------------|--------------|-------------------|--|--|
| 2019 | 2018 | Δ, % | | 2019 | 2018 | Δ, % | | |
| (MMtonnes) | | | Crude oil | | | (MMtonnes) | | |
| 4.69 | 4.31 | 8.8 | Export | 4.69 | 4.29 | 9.3 | | |
| 0.28 | 0.34 | (17.6) | Sales on international markets* | 0.28 | 0.26 | 7.7 | | |
| 0.40 | 0.41 | (2.4) | Export to CIS | 0.40 | 0.45 | (11.1) | | |
| 1.07 | 1.09 | (1.8) | Domestic sales | 1.07 | 0.89 | 20.2 | | |
| 6.44 | 6.15 | 4.7 | Total crude oil sales | 6.44 | 5.89 | 9.3 | | |
| (bcm) | | | Gas | | | (bcm) | | |
| 0.03 | 0.01 | 200.0 | International markets | 0.03 | 0.02 | 50.0 | | |
| 3.17 | 3.31 | (4.2) | Domestic sales | 3.17 | 3.18 | (0.3) | | |
| 3.20 | 3.32 | (3.6) | Total gas sales | 3.20 | 3.20 | - | | |
| (MMtonnes) | | | Petroleum products | | | (MMtonnes) | | |
| 3.06 | 2.78 | 10.1 | Export | 3.06 | 2.82 | 8.5 | | |
| 0.73 | 1.01 | (27.7) | Sales on international markets | 0.73 | 0.76 | (3.9) | | |
| 0.52 | 0.60 | (13.3) | Export to CIS | 0.52 | 0.58 | (10.3) | | |
| 6.33 | 7.40 | (14.5) | Domestic sales | 6.33 | 6.66 | (5.0) | | |
| 10.64 | 11.79 | (9.8) | Total petroleum products sales | 10.64 | 10.82 | (1.7) | | |

* Sales on international markets include Production-Sharing Agreements

Average realized sales prices

| 1Q | 4Q | | | 3 month | | |
|------------------------|--------|-------|---------------------------|------------------------|--------|------|
| 2019 | 2018 | Δ, % | | 2019 | 2018 | Δ, % |
| (RUB per tonne) | | | Crude oil | (RUB per tonne) | | |
| 30,928 | 33,325 | (7.2) | Export | 30,928 | 27,483 | 12.5 |
| 24,360 | 22,715 | 7.2 | Export and sales in CIS | 24,360 | 21,122 | 15.3 |
| 20,993 | 19,431 | 8.0 | Domestic sales | 20,993 | 17,148 | 22.4 |
| (RUB per tonne) | | | Petroleum products | (RUB per tonne) | | |
| 32,285 | 33,025 | (2.2) | Export | 32,285 | 28,373 | 13.8 |
| 39,521 | 39,757 | (0.6) | Export and sales in CIS | 39,521 | 34,129 | 15.8 |
| 35,960 | 38,647 | (7.0) | Domestic sales | 35,960 | 32,791 | 9.7 |

Crude oil sales

- Crude oil export sales volumes increased Q-o-Q due to crude oil and petroleum product demand and prices conditions, and also due to planned repairs at Group's refineries
- Crude oil sales volumes on international market decreased Q-o-Q due to a production decline in Iraq as a result of planned stoppage of oil processing facility
- Crude oil export sales volumes increased Y-o-Y due to growth of crude oil production at Prirazlomnoye and Novoportovskoye fields
- Domestic crude oil volumes increased Y-o-Y due to lower crude oil throughput at Group's refineries.

Gas sales

- Domestic gas revenue decreased Q-o-Q due to change in gas delivery contract terms with customers and lower gas sales volume on the domestic market.

Petroleum product exports

| | 1Q 2019 | | 4Q 2018 | | Δ, % | |
|----------------|---------------|-------------|---------------|-------------|-------------|-------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| Naphtha | 11,904 | 0.37 | 12,888 | 0.36 | (7.6) | 2.8 |
| Diesel | 36,974 | 0.95 | 28,503 | 0.73 | 29.7 | 30.1 |
| Fuel oil | 27,191 | 1.13 | 30,631 | 1.18 | (11.2) | (4.2) |
| Jet fuel | 5,856 | 0.13 | 6,885 | 0.13 | (14.9) | - |
| Bunker fuel | 5,311 | 0.16 | 5,993 | 0.17 | (11.4) | (5.9) |
| Bitumen | 427 | 0.02 | 290 | 0.01 | 47.2 | 100.0 |
| Lubricants | 1,685 | 0.03 | 2,023 | 0.03 | (16.7) | - |
| Petrochemicals | 3,549 | 0.08 | 1,144 | 0.03 | >200 | 166.7 |
| Other | 5,894 | 0.19 | 3,453 | 0.14 | 70.7 | 35.7 |
| Total | 98,791 | 3.06 | 91,810 | 2.78 | 7.6 | 10.1 |

| | 3 month 2019 | | 3 month 2018 | | Δ, % | |
|----------------------|---------------|-------------|---------------|-------------|-------------|------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | - | - | 830 | 0.03 | - | - |
| Naphtha | 11,904 | 0.37 | 12,022 | 0.37 | (1.0) | - |
| Diesel | 36,974 | 0.95 | 27,851 | 0.82 | 32.8 | 15.9 |
| Fuel oil | 27,191 | 1.13 | 21,136 | 1.06 | 28.6 | 6.6 |
| Jet fuel | 5,856 | 0.13 | 4,616 | 0.11 | 26.9 | 18.2 |
| Bunker fuel | 5,311 | 0.16 | 8,988 | 0.31 | (40.9) | (48.4) |
| Bitumen | 427 | 0.02 | 120 | 0.01 | >200 | 100.0 |
| Lubricants | 1,685 | 0.03 | 1,688 | 0.03 | (0.2) | - |
| Petrochemicals | 3,549 | 0.08 | 2,139 | 0.06 | 65.9 | 33.3 |
| Other | 5,894 | 0.19 | 623 | 0.02 | >200 | >200 |
| Total | 98,791 | 3.06 | 80,013 | 2.82 | 23.5 | 8.5 |

- Diesel sales volumes Q-o-Q and Y-o-Y were determined by economic efficiency and were optimum for current demand and petroleum products prices conditions
- Bunker fuel sales volumes decreased Y-o-Y mainly due to a decline in bunker market in Romania
- Jet fuel export sales volumes increased Y-o-Y due to geographical expansion
- Petrochemicals sales volumes and assortment increased Q-o-Q and Y-o-Y due to demand growth on European markets
- Other petroleum products volume increased Y-o-Y due to higher throughput at Omsk refinery and higher vacuum gas oil production at Moscow refinery in 1Q 2019.

Petroleum product sales in the CIS

| | 1Q 2019 | | 4Q 2018 | | Δ, % | |
|--------------------------|---------------|-------------|---------------|-------------|---------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 8,032 | 0.22 | 8,853 | 0.22 | (9.3) | - |
| Diesel | 8,999 | 0.20 | 10,521 | 0.23 | (14.5) | (13.0) |
| Jet fuel | 999 | 0.02 | 826 | 0.02 | 20.9 | - |
| Bunker fuel | 178 | 0.01 | 732 | 0.03 | (75.7) | (66.7) |
| Bitumen | 432 | 0.02 | 1,196 | 0.06 | (63.9) | (66.7) |
| Lubricants | 856 | 0.02 | 748 | 0.01 | 14.4 | 100.0 |
| Petrochemicals and Other | 1,055 | 0.03 | 978 | 0.03 | 7.9 | - |
| Total | 20,551 | 0.52 | 23,854 | 0.60 | (13.8) | (13.3) |

| | 3 month 2019 | | 3 month 2018 | | Δ, % | |
|--------------------------|---------------|-------------|---------------|-------------|-------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 8,032 | 0.22 | 8,055 | 0.23 | (0.3) | (4.3) |
| Diesel | 8,999 | 0.20 | 7,748 | 0.22 | 16.1 | (9.1) |
| Jet fuel | 999 | 0.02 | 2,289 | 0.06 | (56.4) | (66.7) |
| Bunker fuel | 178 | 0.01 | - | - | - | - |
| Bitumen | 432 | 0.02 | 358 | 0.02 | 20.7 | - |
| Lubricants | 856 | 0.02 | 697 | 0.01 | 22.8 | 100.0 |
| Petrochemicals and Other | 1,055 | 0.03 | 648 | 0.04 | 62.8 | (25.0) |
| Total | 20,551 | 0.52 | 19,795 | 0.58 | 3.8 | (10.3) |

Domestic sales of petroleum products

| | 1Q 2019 | | 4Q 2018 | | Δ, % | |
|----------------------|----------------|-------------|----------------|-------------|---------------|---------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 82,940 | 1.98 | 107,636 | 2.42 | (22.9) | (18.2) |
| Naphtha | 2,078 | 0.08 | 1,595 | 0.06 | 30.3 | 33.3 |
| Diesel | 79,010 | 1.79 | 95,770 | 2.06 | (17.5) | (13.1) |
| Fuel oil | 8,414 | 0.58 | 11,201 | 0.67 | (24.9) | (13.4) |
| Jet fuel | 26,787 | 0.68 | 31,476 | 0.73 | (14.9) | (6.8) |
| Bunker fuel | 10,876 | 0.45 | 14,467 | 0.49 | (24.8) | (8.2) |
| Bitumen | 3,326 | 0.26 | 6,316 | 0.42 | (47.3) | (38.1) |
| Lubricants | 3,791 | 0.07 | 4,491 | 0.08 | (15.6) | (12.5) |
| Petrochemicals | 6,097 | 0.23 | 7,978 | 0.28 | (23.6) | (17.9) |
| Other | 4,307 | 0.21 | 5,057 | 0.19 | (14.8) | 10.5 |
| Total | 227,626 | 6.33 | 285,987 | 7.40 | (20.4) | (14.5) |

| | 3 month 2019 | | 3 month 2018 | | Δ, % | |
|----------------------|----------------|-------------|----------------|-------------|-------------|--------------|
| | RUB million | MMtonnes | RUB million | MMtonnes | RUB million | MMtonnes |
| High octane gasoline | 82,940 | 1.98 | 86,861 | 2.20 | (4.5) | (10.0) |
| Naphtha | 2,078 | 0.08 | 1,096 | 0.04 | 89.6 | 100.0 |
| Diesel | 79,010 | 1.79 | 75,826 | 1.96 | 4.2 | (8.7) |
| Fuel oil | 8,414 | 0.58 | 4,888 | 0.46 | 72.1 | 26.1 |
| Jet fuel | 26,787 | 0.68 | 23,461 | 0.65 | 14.2 | 4.6 |
| Bunker fuel | 10,876 | 0.45 | 8,598 | 0.39 | 26.5 | 15.4 |
| Bitumen | 3,326 | 0.26 | 4,048 | 0.41 | (17.8) | (36.6) |
| Lubricants | 3,791 | 0.07 | 3,168 | 0.06 | 19.7 | 16.7 |
| Petrochemicals | 6,097 | 0.23 | 6,863 | 0.27 | (11.2) | (14.8) |
| Other | 4,307 | 0.21 | 3,489 | 0.22 | 23.4 | (4.5) |
| Total | 227,626 | 6.33 | 218,387 | 6.66 | 4.2 | (5.0) |

- Petroleum product sales volumes on the domestic market decreased Q-o-Q and Y-o-Y due to economic effectiveness of operations on international market and lower throughput at Group's refineries
- High octane gasoline sales volumes on the domestic market decreased Q-o-Q and Y-o-Y due to market conditions
- Jet fuel sales volumes increased Y-o-Y due to cooperation with airline companies: new agreements and geographic expansion in Russia
- Bunker fuel sales volumes increased Y-o-Y due to higher demand in small wholesales segment in the North-West and the Black Sea
- Sales volumes decrease in jet fuel by 6.8%, bitumen by 38.1% and bunker fuel by 8.2% Q-o-Q was due to seasonal factors.

Purchases of oil, gas and petroleum products

- Purchases of oil, gas, and petroleum products increased by 18.3% Y-o-Y mainly due to higher crude oil prices and crude oil volume purchases on the domestic market.

Production and manufacturing expenses

| 1Q 2019 | 4Q 2018 | Δ, % | (RUB million) | 3 month | | |
|---------------|---------------|---------------|--|---------------|---------------|--------------|
| | | | | 2019 | 2018 | Δ, % |
| 27,995 | 32,400 | (13.6) | Upstream expenses | 27,995 | 25,297 | 10.7 |
| 1,726 | 1,931 | (10.6) | RUB per toe | 1,726 | 1,616 | 6.8 |
| 3.56 | 3.96 | (10.1) | USD per boe | 3.56 | 3.88 | (8.2) |
| 21,620 | 24,967 | (13.4) | Consolidated subsidiaries inside Russia | 21,620 | 18,957 | 14.0 |
| 1,610 | 1,804 | (10.8) | RUB per toe | 1,610 | 1,467 | 9.7 |
| 3.32 | 3.70 | (10.3) | USD per boe | 3.32 | 3.52 | (5.7) |
| | | | including | | | |
| 16,531 | 19,366 | (14.6) | Brownfields **** | 16,531 | 14,549 | 13.6 |
| 1,787 | 1,999 | (10.6) | RUB per toe | 1,787 | 1,503 | 18.9 |
| 3.69 | 4.10 | (10.0) | USD per boe | 3.69 | 3.60 | 2.5 |
| 5,089 | 5,601 | (9.1) | Greenfields **** | 5,089 | 4,408 | 15.4 |
| 1,217 | 1,350 | (9.9) | RUB per toe | 1,217 | 1,360 | (10.5) |
| 2.51 | 2.77 | (9.4) | USD per boe | 2.51 | 3.26 | (23.0) |
| | | | Consolidated subsidiaries outside Russia (including | | | |
| 1,936 | 2,386 | (18.9) | PSA)** | 1,936 | 2,048 | (5.5) |
| 2,547 | 2,875 | (11.4) | RUB per toe | 2,547 | 2,968 | (14.2) |
| 5.26 | 5.90 | (10.8) | USD per boe | 5.26 | 7.12 | (26.1) |
| 4,439 | 5,047 | (12.0) | Joint operations | 4,439 | 4,292 | 3.4 |
| 2,208 | 2,415 | (8.6) | RUB per toe | 2,208 | 2,125 | 3.9 |
| 4.56 | 4.96 | (8.1) | USD per boe | 4.56 | 5.10 | (10.6) |
| 15,677 | 16,052 | (2.3) | Downstream expenses | 15,677 | 13,551 | 15.7 |
| 8,680 | 9,255 | (6.2) | Refining expenses at own refineries | 8,680 | 7,452 | 16.5 |
| 1,084 | 1,018 | 6.5 | RUB per tonne | 1,084 | 899 | 20.6 |
| 2.24 | 2.09 | 7.2 | USD per bbl | 2.24 | 2.16 | 3.7 |
| 3,525 | 3,175 | 11.0 | Refining expenses at refineries of joint ventures*** | 3,525 | 2,978 | 18.4 |
| 1,808 | 1,580 | 14.4 | RUB per tonne | 1,808 | 1,618 | 11.7 |
| 3.73 | 3.24 | 15.1 | USD per bbl | 3.73 | 3.88 | (3.9) |
| 3,472 | 3,622 | (4.1) | Lubricants manufacturing expenses | 3,472 | 3,121 | 11.2 |
| 7,981 | 8,263 | (3.4) | Transportation expenses to refineries | 7,981 | 7,842 | 1.8 |
| 4,402 | 6,913 | (36.3) | Other operating expenses | 4,402 | 4,810 | (8.5) |
| 56,055 | 63,627 | (11.9) | Total | 56,055 | 51,500 | 8.8 |

*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

**** GPN-Orenburg for 2018-2019 is included in brownfields (in report for 2018 FY GPN-Orenburg was included in greenfields)

- 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 Group's upstream subsidiaries
- Upstream expenses per toe of consolidated subsidiaries in Russia decreased by 10.8% Q-o-Q due to following:
 - o decreased brownfield expenses resulted from lower workover activities in line with OPEC+ limits
 - o decreased greenfield expenses mainly resulted from production growth at Novoportovskoye field
- Upstream expenses per toe of consolidated subsidiaries at brownfields increased by 18.9% Y-o-Y due to:
 - o Comparison with low base 1Q2018 due to shutdown of high watercut wells in 1Q2018 in line with OPEC+ limits
 - o Inflationary pressure
- Upstream expenses USD per boe at consolidated subsidiaries outside Russia decreased by 26.1 % Y-o-Y mainly due to production increase in Iraq
- Upstream expenses per boe of joint operations increased by 3.9% Y-o-Y mainly due to electricity expenses increase, higher liquid production volume and higher water injection

- Refining expenses at the refineries of consolidated subsidiaries include expenditures on raw materials and supplies, maintenance and repairs of production equipment, labor and electricity costs, and other similar Group's refineries costs
- Refining expenses per tonne at own refineries increased by 6.5% Q-o-Q due to:
 - o Throughput decline
 - o Energy tariffs growth.
- Refining expenses per tonne at own refineries increased by 20.6% Y-o-Y primarily due to:
 - o MTBE¹ purchases increase in 1Q2019
 - o Throughput decline
 - o Expenses increase for ecological programs
 - o Increase in maintenance expenses
 - o Serbian dinar average rate strengthening by 7%.
- Refining unit expenses at joint ventures increased by 14.4% Q-o-Q due to higher processing expenses (increased natural gas costs and new refining units launch)
- Transportation expenses to refineries increased by 1.8% Y-o-Y mainly due to higher crude oil transportation tariffs
- Other operating expenses decreased Q-o-Q mainly due to decrease in operator services and application of IFRS 16 since January 2019.

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 increased by 5.5% Y-o-Y, driven mainly by:
 - o Increased advertising and marketing expenses as part of selling expenses
 - o Increased expenses at foreign subsidiaries due to Russian ruble weakness.

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 6.1% Y-o-Y due to higher oil and petroleum products transportation expenses as a result of crude oil sales volume growth and higher crude oil and petroleum products transportation tariffs. The increase was partly compensated by lower gas transportation expenses due to change of gas delivery contract terms to customers and application of IFRS 16 since January 2019.

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 increased by 11.2% Y-o-Y due to an increase in depreciable assets driven by implementation of the investment program and increased production at Novoportovskoye field and application of IFRS 16 since January 2019.

¹ MTBE – methyl-tret-butyl-ether. Applied as an motor vehicles additive intended for increasing of gasoline octane number

Taxes other than income tax

| 1Q 2019 | 4Q 2018 | Δ, % | (RUB million) | 3 month | | |
|----------------|----------------|---------------|---|----------------|----------------|------------|
| | | | | 2019 | 2018 | Δ, % |
| 112,052 | 125,805 | (10.9) | Mineral extraction taxes | 112,052 | 97,177 | 15.3 |
| 2,675 | - | - | Additional income tax for hydrocarbon producers | 2,675 | - | - |
| 21,379 | 27,385 | (21.9) | Excise | 21,379 | 34,390 | (37.8) |
| 6,183 | 5,595 | 10.5 | Social security contributions | 6,183 | 5,750 | 7.5 |
| 4,002 | 4,170 | (4.0) | Other taxes | 4,002 | 3,758 | 6.5 |
| 146,291 | 162,955 | (10.2) | Total taxes other than income tax | 146,291 | 141,075 | 3.7 |

- MET decreased by 10.9% Q-o-Q due to lower production at the Russian Federation and implementation of additional income tax for hydrocarbon producers that lead to lower MET rates for determined fields
- MET increased by 15.3% Y-o-Y due to MET average rate growth as a result of tax maneuver completion
- Additional income tax for hydrocarbon producers (AIT) is stated since January 1, 2019. The Group implemented AIT for several fields in West and East Siberia
- Excise taxes decreased by 21.9% Q-o-Q due to implementation of crude oil materials excise duty deduction including dempfer part since January 1, 2019. The excise taxes decrease was trimmed by excise rates increase for several petroleum products since January 2019.

Export duties

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month | | |
|---------------|---------------|---------------|----------------------------|---------------|---------------|---------------|
| | | | | 2019 | 2018 | Δ, % |
| 8,209 | 14,925 | (45.0) | Crude oil export duties | 8,209 | 11,106 | (26.1) |
| 9,817 | 17,187 | (42.9) | Petroleum export duties | 9,817 | 10,493 | (6.4) |
| 18,026 | 32,112 | (43.9) | Total export duties | 18,026 | 21,599 | (16.5) |

- Crude oil export duties decreased by 16.5% Y-o-Y due to lower crude oil and petroleum products rates as a result of tax maneuver completion and higher non-taxable sales volumes
- Crude oil export duties decreased by 43.9% Q-o-Q due to lower crude oil and petroleum products rates as a result of tax maneuver completion and positive export duty lag. The decrease was trimmed by higher crude oil and petroleum products sales volumes.

Share of profit of equity accounted investments

| 1Q 2019 | 4Q 2018 | Δ, % | (RUB million) | 3 month | | |
|---------------|---------------|------------|---|---------------|---------------|-------------|
| | | | | 2019 | 2018 | Δ, % |
| 5,386 | 1,227 | >200 | Slavneft | 5,386 | 2,642 | 103.9 |
| 6,604 | 7,588 | (13.0) | Messoyakha | 6,604 | 4,281 | 54.3 |
| 9,409 | 10,542 | (10.7) | Arcticgas | 9,409 | 6,509 | 44.6 |
| 798 | 1,010 | (21.0) | Nortgaz | 798 | 737 | 8.3 |
| 493 | 675 | (27.0) | Other companies | 493 | 599 | (17.7) |
| 22,690 | 21,042 | 7.8 | Share of profit of associates and joint ventures | 22,690 | 14,768 | 53.6 |

- The Group's share of Slavneft profit increased Q-o-Q due to seasonal production expenses decrease and changes in crude oil prices on the domestic market (due to export parity)
- The Group's share of Messoyakha, Arcticgas and Nortgaz profit decreased Q-o-Q mainly due to lower crude oil prices
- The Group's share of Slavneft and Messoyakha profit increased Y-o-Y as a result of production growth and Russian ruble weakening
- The Group's share of Arcticgas profit increased Y-o-Y as a result of production growth, decrease in financial expenses due to lower debt burden and an increase in Group's share in Arcticgas from 46.67% up to 50.0% since March 21, 2018.

Other income and expenses

- Other expenses mainly include disposal of non-current assets.

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) | 3 month | | |
|--|--------------|--------------|-------------|
| | 2019 | 2018 | Δ % |
| Net cash provided by operating activities | 168,596 | 83,109 | 102.9 |
| Net cash used in investing activities | (75,347) | (52,218) | 44.3 |
| Net cash used in financing activities | (86,212) | (24,927) | >200 |
| Increase in cash and cash equivalents | 7,037 | 5,964 | 18.0 |

Net cash provided by operating activities

| (RUB million) | 3 month | | |
|---|----------------|---------------|--------------|
| | 2019 | 2018 | Δ % |
| Net cash provided by operating activities before changes in working capital, income tax, interest and dividends | 152,764 | 120,613 | 26.7 |
| Net changes in working capital | 39,076 | (17,866) | - |
| Income tax paid | (10,519) | (10,095) | 4.2 |
| Interest paid | (12,725) | (9,543) | 33.3 |
| Net cash provided by operating activities | 168,596 | 83,109 | 102.9 |

- Net cash provided by operating activities increased by 102.9% Y-o-Y primarily due to higher operating profit and positive changes in working capital.

Net cash used in investing activities

| (RUB million) | 3 month | | |
|---|-----------------|-----------------|-------------|
| | 2019 | 2018 | Δ % |
| Capital expenditures | (81,945) | (71,524) | 14.6 |
| Purchases of oil and gas licences | (7,651) | - | - |
| Net changes in deposits | (77,001) | 6,905 | - |
| Proceeds from sale of property, plant and equipment, intangible assets / net of tax | 86,949 | 171 | >200 |
| Net changes in loans issued and other investments | 1,151 | 2,313 | (50.2) |
| Interest received | 3,150 | 9,917 | (68.2) |
| Net cash used in investing activities | (75,347) | (52,218) | 44.3 |

- Net cash used in investing activities increased by 44.3% Y-o-Y mainly due to purchases of several oil and gas licences and interest received decrease as a result of loan repayment by Messoyakha in 1Q2018.

Net cash used in financing activities

| (RUB million) | 3 month | | |
|--|-----------------|-----------------|----------------|
| | 2019 | 2018 | Δ % |
| Net changes in debt | 20,077 | 22,671 | (11.4) |
| Payment of dividends to shareholders | (104,027) | (47,183) | 120.5 |
| Other transactions | (2,262) | (415) | >200 |
| Net cash used in financing activities | (86,212) | (24,927) | >200 |

- Net cash used in financing activities increased Y-o-Y due to higher dividends paid. Dividends paid for 9 months 2018 (22.05 RUR per share) exceeded dividends for 9 months 2017 (10 RUR per share).

Capital expenditures

| (RUB million) | 3 month | | |
|---|---------------|---------------|-------------|
| | 2019 | 2018 | Δ, % |
| Exploration and production | 50,369 | 41,811 | 20.5 |
| Consolidated subsidiaries | 46,356 | 37,811 | 22.6 |
| Joint operations | 4,013 | 4,000 | 0.3 |
| Refining | 18,156 | 12,469 | 45.6 |
| Marketing and distribution | 1,560 | 1,022 | 52.6 |
| Others | 2,698 | 2,815 | (4.2) |
| Capital expenditures | 72,783 | 58,117 | 25.2 |
| Change in advances issued and material used in capital expenditures | 4,813 | 13,407 | (64.1) |
| Total capital expenditures | 77,596 | 71,524 | 8.5 |
| Investments into assets to be transferred | 4,349 | - | - |
| Total capital expenditures including investments into assets to be transferred | 81,945 | 71,524 | 14.6 |

- Capital expenditures for exploration and production increased by 20.5% Y-o-Y mainly for consolidated subsidiaries and due to:
 - o Increase in production drilling at Novoportovskoye and the East part of Orenburg fields
 - o infrastructure objects construction (Tazovskoye and Novoportovskoye fields)
- Capital expenditures for refining increased by 45.6% Y-o-Y mainly due to expenditure growth at Omsk refinery.

Debt and liquidity

| (RUB million) | March 31 | December 31 |
|--|----------------|----------------|
| | 2019 | 2018 |
| Short-term loans and borrowings | 57,649 | 90,923 |
| Long-term loans and borrowings | 712,854 | 684,530 |
| Cash and cash equivalents | (244,806) | (247,585) |
| Short-term deposits | (77,937) | - |
| Net debt | 447,760 | 527,868 |
| Short-term debt / total debt, % | 7.5 | 11.7 |
| Net debt and financial lease liabilities/ EBITDA for 12 months preceding | 0.59 | 0.73 |

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments
- The average debt maturity decreased from 3.84 years as of December 31, 2018 to 3.76 years as of March 31, 2019
- The average interest rate increased from 6.29% as of December 31, 2018 to 6.32% as of March 31, 2019.

Financial appendix

EBITDA reconciliation

| 1Q | 4Q | | | 3 month | | |
|----------------|----------------|-------------|---|----------------|----------------|-------------|
| 2019 | 2018 | Δ, % | (RUB million) | 2019 | 2018 | Δ, % |
| 112,672 | 83,592 | 34.8 | Profit for the period | 112,672 | 74,145 | 52.0 |
| 19,953 | 18,307 | 9.0 | Total income tax benefit / (expense) | 19,953 | 14,655 | 36.2 |
| 9,209 | 5,196 | 77.2 | Finance expense | 9,209 | 5,945 | 54.9 |
| (5,096) | (2,911) | 75.1 | Finance income | (5,096) | (1,848) | 175.8 |
| 41,696 | 48,909 | (14.7) | Depreciation, depletion and amortization | 41,696 | 37,509 | 11.2 |
| (5,461) | 2,443 | - | Net foreign exchange loss / (gain) | (5,461) | 4,378 | - |
| 6,079 | 10,888 | (44.2) | Other loss, net | 6,079 | 2,665 | 128.1 |
| 179,052 | 166,424 | 7.6 | EBITDA | 179,052 | 137,449 | 30.3 |
| (22,690) | (21,042) | 7.8 | less Share of profit of associates and joint ventures | (22,690) | (14,768) | 53.6 |
| | | | add Share of EBITDA of associates and joint ventures | | | |
| 41,326 | 39,662 | 4.2 | | 41,326 | 33,116 | 24.8 |
| 197,688 | 185,044 | 6.8 | Adjusted EBITDA | 197,688 | 155,797 | 26.9 |

Financial ratios

Profitability

| | March 31 | March 31 | Δ, p.p. |
|--|----------|----------|---------|
| | 2019 | 2018 | |
| Adjusted EBITDA margin, % | 33.71 | 29.92 | 3.8 |
| Net profit margin, % | 19.22 | 14.24 | 5.0 |
| Return on assets (ROA), % | 13.45 | 10.01 | 3.4 |
| Return on equity (ROE), % | 23.19 | 17.16 | 6.0 |
| Adjusted Return on average capital employed (ROACE), % | 20.68 | 14.61 | 6.1 |

Adjusted ROACE calculation

| | March 31 | March 31 |
|--|------------------|------------------|
| For 12 months preceding | 2019 | 2018 |
| Adjusted EBITDA | 841,397 | 588,971 |
| Depreciation, depletion and amortization | (220,872) | (185,411) |
| Effective income tax charge on EBIT | (118,962) | (76,604) |
| Adjusted EBIT* | 501,563 | 326,956 |
| Average capital employed | 2,425,917 | 2,238,368 |
| Adjusted ROACE | 20.68 | 14.61 |

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

Liquidity

| | March 31 2019 | March 31 2018 | Δ, % |
|---------------|------------------|------------------|-------|
| Current ratio | 1.51 | 1.08 | 39.8 |
| Quick ratio | 0.92 | 0.54 | 70.4 |
| Cash ratio | 0.63 | 0.25 | 152.0 |

Leverage

| | March 31 2019 | March 31 2018 | Δ, p.p. |
|---------------------------------|------------------|------------------|---------|
| Net debt/ Total Assets, % | 12.41 | 20.45 | (8.0) |
| Net debt/ Equity, % | 21.87 | 35.16 | (13.3) |
| Gearing, % | 19.81 | 25.78 | (6.0) |
| | | | Δ, % |
| Net debt/ Market Capitalization | 0.29 | 0.44 | (34.1) |
| Net debt/ EBITDA | 0.59 | 1.17 | (49.6) |
| Total debt/ EBITDA | 1.01 | 1.36 | (25.7) |

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 decrease in crude oil and petroleum product prices on international markets in 3 months 2019 had a negative impact on the Group's results.

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month | | |
|----------------|------------|--------|--------------------------------|----------------|--------|--------|
| (US\$/ barrel) | | | International market | (US\$/ barrel) | | |
| 63.20 | 67.76 | (6.7) | Brent | 63.20 | 66.76 | (5.3) |
| 63.23 | 67.30 | (6.0) | Urals Spot (average Med + NWE) | 63.23 | 65.17 | (3.0) |
| (US\$/ tonne) | | | Domestic market | (US\$/ tonne) | | |
| 547.73 | 607.77 | (9.9) | Premium gasoline (average NWE) | 547.73 | 644.40 | (15.0) |
| 487.01 | 543.06 | (10.3) | Naphtha (average Med. + NWE) | 487.01 | 565.18 | (13.8) |
| 588.60 | 647.52 | (9.1) | Diesel fuel (average NWE) | 588.60 | 591.34 | (0.5) |
| 577.52 | 631.53 | (8.6) | Gasoil 0.1% (average Med.) | 577.52 | 584.66 | (1.2) |
| 367.08 | 394.45 | (6.9) | Fuel oil 3.5% (average NWE) | 367.08 | 345.05 | 6.4 |
| (RUB/ tonne) | | | Domestic market | (RUB/ tonne) | | |
| 36,401 | 43,352 | (16.0) | High-octane gasoline | 36,401 | 37,005 | (1.6) |
| 34,531 | 41,761 | (17.3) | Low-octane gasoline | 34,531 | 34,459 | 0.2 |
| 39,862 | 45,734 | (12.8) | Diesel fuel | 39,862 | 36,405 | 9.5 |
| 14,211 | 17,070 | (16.7) | Fuel oil | 14,211 | 10,647 | 33.5 |

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.

| 1Q 2019 | 4Q 2018 | | 3 month | |
|------------|------------|---|---------|--------|
| | | | 2019 | 2018 |
| 1.78 | 1.80 | Change in Consumer Price Index (CPI), % | 1.78 | 0.80 |
| 66.10 | 66.48 | Average RUB/US\$ exchange rate for the period | 66.10 | 56.88 |
| 69.47 | 65.59 | US\$/ RUB exchange rate as of the beginning of the period | 69.47 | 57.60 |
| 64.73 | 69.47 | US\$/ RUB exchange rate as of the end of the period | 64.73 | 57.26 |
| (6.82) | 5.92 | Depreciation (appreciation) of Russian rouble to US\$, % | (6.82) | (0.58) |

Hydrocarbon taxes

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

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month 2019 | 2018 | Δ, % |
|----------------------|------------|--------|-------------------------------|----------------------|--------|--------|
| (US\$/ tonne) | | | Export duty | (US\$/ tonne) | | |
| 86.97 | 141.53 | (38.6) | Crude oil | 86.97 | 117.00 | (25.7) |
| 26.07 | 42.43 | (38.6) | Light petroleum products | 26.07 | 35.07 | (25.7) |
| 26.07 | 42.43 | (38.6) | Diesel | 26.07 | 35.07 | (25.7) |
| 26.07 | 42.43 | (38.6) | Gasoline | 26.07 | 35.07 | (25.7) |
| 47.77 | 77.83 | (38.6) | Naphtha | 47.77 | 64.30 | (25.7) |
| 86.97 | 141.53 | (38.6) | Heavy petroleum products | 86.97 | 117.00 | (25.7) |
| | | | Mineral extraction tax | | | |
| 12,952 | 12,541 | 3.3 | Crude oil (RUB/ tonne) | 12,952 | 10,391 | 24.6 |

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

Export duty rate for crude oil is to be determined via one of the following orders:

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 + 30% x (P – 182.50) for 2018 years K _{oil} * x (29.2 + 30% x (P – 182.5)) from 2019 |

* K_{oil} = 0.833 for 2019, 0.667 for 2020, 0.5 for 2021, 0.333 for 2022, 0.167 for 2023, 0 from 2024

Crude oil exports to Kazakhstan are not subject to oil export duties. Crude oil export to Kyrgyzstan and Belarus under indicative limits is not subject to oil export duties.

b) According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1 subclause 6.2 the Government of the Russian Federation has the right to establish protective export duty rate for crude oil which is calculated according to the following formulas:

| Quoted Urals Price (P), USD/ tonne | Maximum Export Customs Duty Rate |
|------------------------------------|----------------------------------|
| ≤ 182.50 | 0% |
| P > 182.50 | 29.20 + 45% x (P – 182.50) |

The order can be for 6 months starting from the month following the 3-month period during which the crude oil prices change more than 15% in each month.

c) According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1 subclause 4, 5, the Government of the Russian Federation establishes formulas since 1 January 2019 for lower export duty rates for crude oil with special chemical and physical properties produced within borders of determined geographical objects. The export duty benefit is applied till the determined volumes of crude oil exported with lower export duty rates is achieved for each geographical object:

Ct = (P – 182.5) x K – 56.57 – 0.14 x P, where P - the Urals price (USD/tonne).

d) According to Russian Federal Law No. 5003-1 (May 12, 1993) clause 35 subclause 1.1 crude oil produced at new 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°N), 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.

e) According to Russian Federal Law No. 5003-1 (May 12, 1993) clause 35 subclause 7 since 1 January 2019 an exemption for crude oil export duty rate is applied for crude oil produced at oil fields which paid excess profit tax during period when coefficient K_r less than 1 to MET rate is applied.

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. Exports of petroleum products to Tajikistan, Belarus, Armenia and Kyrgyzstan within the indicative limits are not subject to export duties.

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:

$R = K * R_{crude}$, where R_{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:

| | |
|------------------------------|------|
| Light and middle distillates | |
| Diesel | 0.3 |
| Lubricants oil | |
| Naphtha | 0.55 |
| Gasoline | 0.3 |

According to Russian Federal Law No. 5003-1 (May 12, 1993) clause 3.1 subclause 6.3 the Government of the Russian Federation has the right to establish protective export duty rate for certain petroleum products, which is equal to 60% of crude oil export custom duty. The order can be applied for 6 months starting from the month following the 3-month period during which the oil prices change more than 15% in each month.

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 Federation Tax Code established the following excise duty rates for petroleum products (in rubles/tonne):

| | 2018 | | 2019 | 2020 | 2021 |
|-------------------|--------------|--------------|--------|--------|--------|
| | 01.01.-31.05 | 01.06.-31.12 | | | |
| Gasoline | | | | | |
| Below Class 5 | 13,100 | 13,100 | 13,100 | 13,100 | 13,100 |
| Class 5 | 11,213 | 8,213 | 12,314 | 12,752 | 13,262 |
| Naphtha | 13,100 | 13,100 | 13,912 | 14,720 | 15,533 |
| Diesel fuel | 7,665 | 5,665 | 8,541 | 8,835 | 9,188 |
| Motor oil | 5,400 | 5,400 | 5,400 | 5,616 | 5,841 |
| Middle distillate | 8,662 | 6,665 | 9,241 | 9,535 | 9,916 |

Clause 181 subclause 13.1 of the Russian Federation Tax Code introduces a new product subject to excise duty effective from January 1, 2019 – crude oil materials. The new excise duty is payable by companies – owners of crude oil materials, which has obtained special registration certificate of a company refining crude oil materials at own refining facilities or at refining facilities of other companies under processing agreements. Crude oil materials excise rate calculated according to the following formulas:

$$A_{COM} = ((P_{crude\ oil} \times 7.3 - 182.5) \times 0.3 + 29.2) \times R \times S_{PU} \times K_{ADJ} \times K_{REG}$$

$P_{crude\ oil}$ – average Urals price at international markets (USD/tonne)

R – average USD/RUB ex-rate

S_{PU} – specific coefficient defining the set of petroleum products produced from the crude oil materials

K_{ADJ} - equal to 0.167 for 2019, 0.333 for 2020, 0.5 for 2021, 0.667 for 2022, 0.833 for 2023, 1 from 2024

K_{REG} – coefficient reflecting regional specifics for petroleum products market. K_{REF} is equal to 1.05 for refining facilities located in Omsk region

An excise duty on crude oil materials is subject to deduction. The amount of deduction is defined as the amount of crude oil materials excise duty multiplied by coefficient 2 and increased by K_{DEMP} .

$$K_{DEMP} = ((D_G + F_G) \times V_G + (D_{DF} + F_{DF}) \times V_{DF}) \times K_{COMP}$$

V_G / V_{DF} – gasoline with octane value 92 and above class 5 / diesel fuel class 5 volumes sold in the Russian Federation.

K_{COMP} – equal to 0.6 for 2019 r., 0.5 from 2020.

D_G / D_{DF} – difference between the average export alternative price and nominal average wholesale price of gasoline with octane value 92 class 5 / diesel fuel class 5 in the Russian Federation

F_G, F_{DF} – compensating allowance for gasoline / diesel fuel equal to:

0, if value of D_G, D_{DF} is less or equal to 0 or

$F_G = 5,600$ и $F_{DF} = 5,000$, if value of D_G, D_{DF} is more than 0 respectively.

Mineral extraction tax (MET) on crude oil

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

| | |
|---------|------------------------|
| MET oil | $919 \times K_c - D_m$ |
|---------|------------------------|

$$D_m = K_{met} \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) - K_k \text{ for 2018}$$

$D_m = K_{met} \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) - K_k - K_{MAN} \times S_{OV} - K_{GDF}$ from 2019 г.,

where **Kmet** – 559.

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 as at January 1, 2012 (or as at January 1 of the year of issuance of a licence if the licence is issued after January 1, 2012) 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 not greater than $2 \times 10^{-3} \mu^2$ and effective formation thickness not greater than 10 meters
- 0.4 – for oil produced from deposits with permeability not 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. K_{dv} is applied when the oilfield contains any deposit with K_d less than 1. For deposits with K_d less than 1, depletion is measured by N_{dv}/V_{dv} , where N_{dv} is the cumulative production volume from the deposit and V_{dv} 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, $K_{dv} = 3.8 - 3.5 \times N_{dv} / V_{dv}$. Where depletion is greater than 1, K_{dv} is 0.3. In all other cases, $K_{dv} = 1$. K_{dv} for all other deposits of the field (for which the coefficient $K_d=1$) is the value of K_v 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 K_{kan} 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 incentive period expires K_{kan} is equal to 1.

Kk – 357 for 2018 and 428 for 2019-2021.

$K_{MAN} = K_E \times R \times K_{ADJ} - K_{FM}$

KE – coefficient calculated as follows:

| Quoted Urals Price (P), USD/ tonne | Ke, USD/ tonne |
|------------------------------------|------------------------------------|
| ≤ 109.50 | 0% |
| $109.50 < P \leq 146.00$ | $35\% \times (P - 109.50)$ |
| $146.00 < P \leq 182.50$ | $12.78 + 45\% \times (P - 146.00)$ |
| > 182.50 | $29.20 + 30\% \times (P - 182.50)$ |

R – average USD/RUB ex-rate

K_{ADJ} - equal to 0.167 for 2019, 0.333 for 2020, 0.5 for 2021, 0.667 for 2022, 0.833 for 2023, 1 from 2024

K_{FM} – coefficient of special circumstances and applied in case the decision of Government of the Russian Federation regarding the application of protective export duty rate for crude oil is adopted (for more details please refer to «Export duty rate for crude oil» section, clause b).

S_{OV} – equal to 0.1 for crude oil production with oil viscosity not less than 10,000 mPa (in formation conditions). In other cases S_{OV} is equal to 1.

$$K_{GDF} = N_G \times I_G + N_{DF} \times I_{DF}$$

N_G , N_{DF} – markup coefficient for gasoline (equal to 125 for 2019 and 105 from 2020) and for diesel fuel (equal to 110 for 2019 and 92 from 2020).

I_G и I_{DF} - binary coefficient for gasoline / diesel fuel equal to 0 if amount of D_G , D_{DF} not more than 0. If D_G , D_{DF} are more than 0 than I_G и I_{DF} are equal to 1.

b) According to the Russian Federation 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% from the start of commercial hydrocarbon production for a five-year period – for fields located entirely in the Sea of Azov or for fields located for 50% or more of its area in the Baltic Sea
- 15% from the start of commercial hydrocarbon production for a seven-year period – for fields located for 50% or more of its area 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% from the start of commercial hydrocarbon production for a ten-year period – for fields located for 50% or more of its area 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% from the start of commercial hydrocarbon production for a 15-year period – for fields located for 50% or more of its area 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 Federation tax law also provides for a benefit MET rate on oil produced from deposits classified in the state mineral reserves balance as related to the Bazhenov formation, provided all other Tax Code conditions are met. According to the Russian Federation Tax Code clause 343.2 subclause 3.2 since 1 January 2019 there is an opportunity for oil fields named at Russian Federal Law No. 5003-1 (May 21, 1993) article 4, clause 3.1 subclause 5, to apply tax benefit in the amount of $K_{man} \times V_{EO}$, where V_{EO} – volume of crude oil produced at the oil field and exported with special crude oil export duty rates.

c) According to the Russian Federation Tax Code clause 346.2 for crude oil produced at oil fields under excess profit tax the following rate for MET calculation is stated:

| | |
|-------------------|--|
| MET for crude oil | $(50\% \times (P - 15) \times 7,3 \times Kr - EDR) \times R$ |
|-------------------|--|

P – monthly average Urals price at Rotterdam an средиземноморской markets (USD/barrel)

R – monthly average USD/RUB ex-rate

EDR – crude oil export duty rate (USD/tonne)

Kr – coefficient which characterized period of time since crude oil production start at the oil field. The coefficient is stipulated decrease of MET rate for crude oil at new oil fields fully or partly located at West (in particular, Khanty-Mansiysk Autonomous Okrug, Yamalo-Nenets Autonomous Okrug) and East Siberia (in particular, Irkutsk region, Sakha Republic (Yakutia)). The coefficient is applied till the time limit is achieved since the year next to excess of crude oil depletion level of 1% for oil field. For active oil fields the coefficient is equal to 1.

Effective MET rate for the Group

| 1Q 2019 | 4Q 2018 | Δ, % | | 3 month | | |
|------------|------------|-------|---|---------|--------|------|
| | | | | 2019 | 2018 | Δ, % |
| 12,952 | 12,541 | 3.3 | Nominal crude oil MET rate, RUB/tonne | 12,952 | 10,391 | 24.6 |
| 9,886 | 10,779 | (8.3) | Effective crude oil MET rate, RUB/tonne | 9,886 | 8,483 | 16.5 |
| 3,066 | 1,762 | | Difference between nominal and effective rates, RUB/tonne | 3,066 | 1,908 | |
| 23.7% | 14.0% | | Difference between nominal and effective rates, % | 23.7% | 18.4% | |

For 3 months 2019, the Group's effective MET rate was 9,886 RUB/tonne, or 3,066 RUB/tonne lower than the statutory nominal MET rate. The difference results from the application of certain coefficients (Kv, Kz, Kd and Kg) 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:

| | 2018 | Since 2019 |
|-----------------------------------|-----------------------|-------------------------------------|
| MET on natural gas (RUB/mcm) | $35 * Eut * Kc + Tg$ | $35 * Eut * Kc + Tg$ |
| MET on gas condensate (RUB/tonne) | $42 * Eut * Kc * Kkm$ | $42 * Eut * Kc * Kkm + 0.75 * Kman$ |

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: Kr – depending on location, Kvg – for depleted deposits, Kgz – for deposits at depths of more than 1,700 meters, Kas – for deposits related to the regional gas supply system, and Korz – for deposits classified as Turonian formations.

Tg reflects gas transportation costs (set at zero for 2017-2018 according to the Federal Tariff Service of the Russian Federation).

Kkm is a correction coefficient equal to 6.5/Kg, where Kg is a coefficient characterising export return per fuel-equivalent unit.

For 3 months 2019, the Group's effective MET rate for natural gas was 596 RUB per thousand m³, which is 43 RUB per thousand m³ lower than the statutory nominal MET rate. The difference results from the application of tax benefits, especially coefficient Kc that reduce the MET rate.

Additional income tax for hydrocarbon producers (AIT)

According to Russian Federal Law No. 199-FZ (July 19, 2018) new tax for excess income from hydrocarbons production is stated since 1 January 2019. The income from hydrocarbons production less calculated export duty rate, transportation expenses and actual capital and operating expenses regarding production is subject to tax with 50% rate.

New tax regime stipulates decrease of total tax payments which depend on gross values (MET and crude oil export duty rate) due to change of MET calculation and implementation of tax benefit system for MET and crude oil export duty rate for determined categories of new projects.

For approbation period of new tax regime there is stated the several categories of new projects at West and East Siberia with possibility of additional income tax for hydrocarbon producers implementation. The Group takes part at all categories of new projects.

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):

| Tax benefits applied during 3m 2019 | Subsidiaries (Oil Fields) belonging to the Group |
|---|---|
| MET for gas | |
| Hard-to-recover coefficient Kc | JSC Gazpromneft-Noyabrskneftegaz Gazpromneft Yamal LLC Gazpromneft Orenburg LLC |
| MET for oil | |
| Small fields coefficient Kz | JSC Gazpromneft-Noyabrskneftegaz Gazpromneft Orenburg LLC |
| Depletion coefficient Kv | JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Vostok LLC JSC Yuzhuralneftegas Gazpromneft-Khantos LLC |
| Hard-to-recover coefficient Kd | JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Vostok LLC Gazpromneft-Khantos LLC Gazpromneft Orenburg LLC |
| Highly depleted deposits coefficient Kdv | JSC Gazpromneft-Noyabrskneftegaz |
| Oil production region and oil quality factor Kkan | PJSC Gazprom Neft Gazpromneft-Angara LLC Gazpromneft-Yamal LLC |
| Reduced MET rate for fields classified as belonging to Bazhenov formation | JSC Technological Center Bazhen |
| Lower MET rate for new offshore field in the Pechora Sea | Gazprom neft shelf LLC |
| Profits tax | |
| 16% rate (4% tax rate decrease under Khanty-Mansiysk Autonomous Okrug regional legislation) | Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz |
| 16.5% rate (3.5% tax rate decrease under Yamalo-Nenets Autonomous Okrug regional legislation) | JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Yamal LLC |
| Property tax | |
| 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 LLC JSC Gazpromneft-Noyabrskneftegaz |
| Reduced tax rate 1.1% on property purchased/constructed in the course of investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional legislation) | JSC Gazpromneft-Noyabrskneftegaz |
| Property tax exemption on property purchased/constructed in the course of investment projects in Orenburg region (under Orenburg regional legislation) | Gazpromneft-Orenburg LLC |

| Tax benefits applied during 3m 2019 | Subsidiaries (Oil Fields) belonging to the Group |
|--|--|
| Property tax decrease on properties purchased/constructed and put into operation in the course of investment projects in Tomsk region in the amount of 50% of tax to be paid to Tomsk region budget (under Tomsk regional legislation) | Gazpromneft-Vostok LLC |
| Property tax exemption on property purchased/constructed and put into operation in the course of R&D work on technologies for exploration of pre-Jurassic reserves in Tomsk region (under Tomsk regional legislation) | Gazpromneft-Vostok LLC |

**Regarding other activities connected with Consolidated taxpayers group of PJSC Gazprom*

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:

| 1Q | 4Q | | | 3 month | | |
|------------------------------|-------|-------|-----------------|---------|-------|-------|
| 2019 | 2018 | Δ, % | (RUB per tonne) | 2019 | 2018 | Δ, % |
| Crude oil | | | | | | |
| Export | | | | | | |
| 2,394 | 2,277 | 5.1 | Pipeline | 2,394 | 2,218 | 7.9 |
| CIS | | | | | | |
| 1,671 | 1,608 | 3.9 | Pipeline | 1,671 | 1,570 | 6.4 |
| Transportation to Refineries | | | | | | |
| 762 | 736 | 3.5 | Omsk | 762 | 767 | (0.7) |
| 1,643 | 1,585 | 3.7 | Moscow | 1,643 | 1,517 | 8.3 |
| 1,385 | 1,327 | 4.4 | Yaroslavl | 1,385 | 1,306 | 6.0 |
| Petroleum products | | | | | | |
| Export from ONPZ | | | | | | |
| 4,762 | 4,118 | 15.6 | Gasoline | 4,762 | 3,342 | 42.5 |
| 5,242 | 5,580 | (6.1) | Fuel oil | 5,242 | 5,338 | (1.8) |
| 4,319 | 4,735 | (8.8) | Diesel fuel | 4,319 | 4,176 | 3.4 |
| Export from MNPZ | | | | | | |
| 3,155 | 1,125 | 180.4 | Gasoline | 3,155 | 2,697 | 17.0 |
| 3,207 | 3,355 | (4.4) | Fuel oil | 3,207 | 3,099 | 3.5 |
| 2,889 | 2,937 | (1.6) | Diesel fuel | 2,889 | 2,721 | 6.2 |
| Export from YaNPZ | | | | | | |
| 3,108 | 3,031 | 2.5 | Gasoline | 3,108 | 2,857 | 8.8 |
| 3,139 | 3,187 | (1.5) | Fuel oil | 3,139 | 2,960 | 6.0 |
| 2,539 | 2,534 | 0.2 | Diesel fuel | 2,539 | 2,212 | 14.8 |

The Group's crude oil export route mix (tonnes) for 3 months 2019 and 2018 is presented below:

| | 3 month | |
|---|---------------|---------------|
| | 2019 | 2018 |
| Crude oil export | | |
| Primorsk Baltic Sea port | 12.5% | 13.3% |
| Ust-Luga Baltic Sea port | 0.0% | 0.0% |
| Druzhba pipeline | 14.5% | 13.0% |
| Port of Novorossiysk | 3.9% | 8.8% |
| ESPO pipeline and the port of Kozmino | 14.3% | 13.5% |
| Meget (pipeline and railway) China | 0.0% | 0.0% |
| Exported without using Transneft system, including: | 54.8% | 51.4% |
| Prirazlomnoye | 16.8% | 15.6% |
| Novoport | 38.0% | 35.8% |
| Total | 100.0% | 100.0% |
| Crude oil export to CIS countries | | |
| Belarus | 97.1% | 92.0% |
| Uzbekistan | 2.9% | 8.0% |
| Total | 100.0% | 100.0% |

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