

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended September 30 and June 30, 2018 and the nine  
months September 30, 2018 and 2017**

## Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of September 30, 2018 and results of operations for the three months ended September 30 and June 30, 2018 and the nine months ended, September 30, 2018 and 2017 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

3Q 2018	2Q 2018	Δ, %		9 month		
				2018	2017	Δ, %
<b>Financial results (RUB million)</b>						
689,557	617,103	11.7	Revenue	1,827,293	1,407,856	29.8
246,262	212,403	15.9	Adjusted EBITDA*	614,462	399,246	53.9
10,257	9,349	9.7	RUB per toe of production	8,914	5,954	49.7
21.12	20.40	3.5	USD** per boe of production	19.57	13.77	42.1
132,194	96,810	36.5	Profit attributable to Gazprom Neft	298,669	189,000	58.0
<b>Operational results</b>						
177.90	168.51	5.6	Hydrocarbon production including our share in joint ventures (MMboe)	510.96	497.10	2.8
24.01	22.72	5.7	Hydrocarbon production including our share in joint ventures (MMtoe)	68.93	67.05	2.8
1.93	1.85	4.4	Daily hydrocarbon production (MMboepd)	1.87	1.82	2.8
122.14	116.43	4.9	Crude oil and condensate production including our share in joint ventures (MMbbl)	350.96	350.33	0.2
334.54	312.50	7.1	Gas production including our share in joint ventures (bcf)	959.98	880.68	9.0
11.24	10.44	7.7	Refining throughput at own refineries and joint ventures (MMtonnes)	31.81	29.85	6.6

\* 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

## 2018 highlights

- In March 2018 the Group increased its share in Arcticgas from 46,67% to 50%
- In September 2018 the Group, Mubadala Petroleum (United Arab Emirates) and Russian Direct Investment Fund completed the deal for joint exploration of fields in West Siberia. As a result of the deal non-controlling interest equals to 49% of share capital of Gazpromneft-Vostok LLC was transferred to investors syndicate
- Obtained exploration and production license for Novozarinskoye field in Orenburg region (upon field discovery)
- Received exploration licenses for 7 new licence blocks in Khanty-Mansiysk Autonomous Okrug (Yuzhno-Yuganskiy, Karabashskiy 17, Karabashskiy 18, Karabashskiy 19, Karabashskiy 25, Karabashskiy 26, Karabashskiy 27), 3 new licence blocks in Yamalo-Nenets Autonomous Okrug (Osenniy, Yuzhno-Portovskiy and Suroviy) and 2 new licence blocks in Orenburg region (Savitskiy and Pokhvistnevskiy)
- In May 2018 started production drilling at Severo-Samburg project
- In May 2018 completed drilling of all production wells scheduled under Badra service contract
- In March 2018 the Group placed ruble bonds with total par value of RUB 25 billion
- In June 2018 launched icebreaker Alexander Sannikov.

## Results for 9 months 2018 compared with 9 months 2017

- Total hydrocarbon production, including Group's share in joint ventures, increased by 2.8% to 68.93 MMtoe due to production growth at Novoportovskoye, Prirazlomnoye and East-Messoyakhskoye fields and increase of Group's share in Arcticgas
- Total refining throughput increased by 6.6% due to completion of program of planned capital repairs at Group's refineries in 2017
- Revenue increased by 29.8% mainly due to higher prices for crude oil on the international, domestic markets and higher petroleum product volume sales
- Higher crude oil prices, production growth at major fields (Novoportovskoye, Prirazlomnoye and East-Messoyakhskoye) have resulted in a 53.9% increase in an adjusted EBITDA
- Growth of profit attributable to Gazprom Neft shareholders, supported mainly by growth of EBITDA. The increase was partially trimmed by foreign exchange losses in 9 months 2018.

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## Results for Q3 2018 compared with Q3 2017

- Total hydrocarbon production, including Group's share in joint ventures, increased by 5.7% due to the easing of restrictions under OPEC+ production cut agreement and higher production at Novoportovskoye field
- Refining throughput increased by 7.7% Q-o-Q due to seasonal demand growth for petroleum products
- Revenue increased by 11.7% mainly due to higher prices for crude oil on the domestic and international markets and higher petroleum product volume sales
- Higher prices for crude oil, increased production and higher sales through premium channels have resulted in a 15.9% increase in an adjusted EBITDA
- Profit attributable to Gazprom Neft shareholders increased due to growth of EBITDA and decline in foreign exchange losses in 3Q 2018.

## Operational data and analysis

### Production drilling

3Q 2018	2Q 2018	Δ, %		9 month		Δ, %
				2018	2017	
<b>Consolidated subsidiaries</b>						
593	568	4.4	Production drilling ('000 meters)	1,619	1,935	(16.3)
153	126	21.4	New production wells	396	472	(16.1)
80.08	62.98	27.2	Average new well flow (tonnes per day)	64.60	53.90	19.9
<b>Joint operations</b>						
201	186	8.1	Production drilling ('000 meters)	556	619	(10.2)
34	43	(20.9)	New production wells	105	137	(23.4)
<b>Joint ventures</b>						
519	436	19.0	Production drilling ('000 meters)	1,305	1,191	9.6
96	87	10.3	New production wells	253	253	-

- Decrease in number of new production wells drilled and production drilling and by consolidated subsidiaries Y-o-Y 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 Y-o-Y was due to commissioning of high flow rate wells at Novoportovskoye field
- Increase in share of high-tech well drilling resulted in the Y-o-Y decrease of total new wells drilled by joint operations
- Increase in production drilling by joint ventures Y-o-Y was due to continued development of East-Messoyakhskoye field
- Increase in production drilling and new wells Q-o-Q was due to seasonal factors.

## Production

3Q 2018	2Q 2018	Δ, %		9 month 2018	2017	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil, condensate and NGLs</b>			
3.28	2.70	21.5	Noyabrskneftegaz	8.55	9.70	(11.9)
3.46	3.47	(0.3)	Khantos**	10.38	10.85	(4.3)
1.11	1.06	4.7	Tomskneft	3.22	3.49	(7.7)
0.79	0.76	3.9	SPD	2.29	2.30	(0.4)
0.68	0.68	-	Orenburg***	1.99	2.11	(5.7)
0.24	0.24	-	NIS	0.71	0.73	(2.7)
0.42	0.41	2.4	Vostok****	1.23	1.24	(0.8)
1.94	1.61	20.5	Novy Port	5.27	4.27	23.4
0.68	0.90	(24.4)	Prirazlomnoye	2.36	1.76	34.1
0.42	0.43	(2.3)	Badra & Kurdistan	1.18	0.94	25.5
0.01	0.02	(50.0)	Others	0.07	0.05	40.0
<b>13.03</b>	<b>12.28</b>	<b>6.1</b>	<b>Total production by subsidiaries and joint operations</b>	<b>37.25</b>	<b>37.44</b>	<b>(0.5)</b>
1.77	1.71	3.5	Share in Slavneft	5.12	5.45	(6.1)
0.95	1.01	(5.9)	Share in SeverEnergiya (Arcticgas)	2.88	2.74	5.1
0.07	0.08	(12.5)	Share in Northgas	0.23	0.28	(17.9)
0.58	0.54	7.4	Share in Messoyakha	1.62	1.12	44.6
<b>3.37</b>	<b>3.34</b>	<b>0.9</b>	<b>Share in production of joint ventures</b>	<b>9.85</b>	<b>9.59</b>	<b>2.7</b>
<b>16.40</b>	<b>15.62</b>	<b>5.0</b>	<b>Total crude oil, condensate and NGLs</b>	<b>47.10</b>	<b>47.03</b>	<b>0.1</b>
<b>(bcm)</b>			<b>Gas*</b>			
2.31	2.24	3.1	Noyabrskneftegaz	6.86	7.69	(10.8)
0.27	0.27	-	Khantos**	0.81	0.83	(2.4)
0.24	0.21	14.3	Tomskneft	0.70	0.69	1.4
0.03	0.03	-	SPD	0.09	0.10	(10.0)
0.67	0.63	6.3	Orenburg***	1.96	1.89	3.7
0.12	0.12	-	NIS	0.36	0.39	(7.7)
0.04	0.04	-	Vostok****	0.12	0.11	9.1
1.35	0.78	73.1	Novy Port	3.01	0.50	>200
0.07	0.08	(12.5)	Others	0.21	0.06	>200
<b>5.10</b>	<b>4.40</b>	<b>15.9</b>	<b>Total production by subsidiaries and joint operations</b>	<b>14.12</b>	<b>12.26</b>	<b>15.2</b>
0.13	0.11	18.2	Share in Slavneft	0.35	0.34	2.9
3.26	3.42	(4.7)	Share in SeverEnergiya (Arcticgas)	9.85	9.10	8.2
0.97	0.90	7.8	Share in Northgas	2.81	3.20	(12.2)
0.02	0.02	-	Share in Messoyakha	0.06	0.04	50.0
<b>4.38</b>	<b>4.45</b>	<b>(1.6)</b>	<b>Share in production of joint ventures</b>	<b>13.07</b>	<b>12.68</b>	<b>3.1</b>
<b>9.48</b>	<b>8.85</b>	<b>7.1</b>	<b>Total gas production</b>	<b>27.19</b>	<b>24.94</b>	<b>9.0</b>
<b>(MMtoe)</b>			<b>Hydrocarbons</b>			
17.12	15.81	8.3	Total production by subsidiaries and joint operations	48.58	47.28	2.7
6.89	6.91	(0.3)	Share in production of joint ventures	20.35	19.77	2.9
<b>24.01</b>	<b>22.72</b>	<b>5.7</b>	<b>MMtoe</b>	<b>68.93</b>	<b>67.05</b>	<b>2.8</b>
<b>177.90</b>	<b>168.51</b>	<b>5.6</b>	<b>MMboe</b>	<b>510.96</b>	<b>497.10</b>	<b>2.8</b>
<b>1.93</b>	<b>1.85</b>	<b>4.3</b>	<b>Daily hydrocarbon production (MMboepd)</b>	<b>1.87</b>	<b>1.82</b>	<b>2.7</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 2.7% Y-o-Y

- Group oil and condensate production increased non-significantly by 0.1% Y-o-Y to 47.10 MMtonnes in line with OPEC+ agreement regarding oil cut
- The increase of Group oil and condensate production by 5.0% Q-o-Q was due to the easing of restrictions under OPEC+ production cut agreement. Planned stoppage for technical modernization at Prirazlomnaya resulted in production growth at West-Siberian fields in line with production limits. Changes in quotas resulted in production growth at Novoportovskoye field
- Group gas production increased by 9.0% Y-o-Y, primarily due to an increase in associated gas utilization resulted from gas processing facility commissioning at Novoportovskoye field, higher natural gas production in Arcticgas and increased Group's share in Arcticgas
- Group's gas production increased by 7.1% Q-o-Q, primarily due to an increase in associated gas utilization resulted from 2<sup>nd</sup> line gas processing facility commissioning at Novoportovskoye field. The increase was trimmed by production decrease at Arcticgas fields resulted from planned repairs of gas processing facilities in 3Q 2018.

## Crude oil purchases

3Q 2018	2Q 2018	Δ, %	(MMtonnes)	9 month		
				2018	2017	Δ, %
1.91	1.85	3.2	Crude oil purchases in Russia *	5.70	5.49	3.8
0.53	0.38	39.5	Crude oil purchases internationally	1.08	1.35	(20.0)
<b>2.44</b>	<b>2.23</b>	<b>9.4</b>	<b>Total crude purchased</b>	<b>6.78</b>	<b>6.84</b>	<b>(0.9)</b>

\* 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 in Russia increased Y-o-Y due to higher production at Group's refineries
- Crude oil purchases at international markets increased Q-o-Q due to increased production at Pancevo.

## Refining

3Q 2018	2Q 2018	Δ, %	(MMtonnes)	9 month		
				2018	2017	Δ, %
<b>Refining throughput:</b>						
5.44	5.19	4.8	Omsk	15.57	15.10	3.1
2.76	2.43	13.6	Moscow	7.83	6.58	19.0
1.01	0.84	20.2	Pancevo	2.56	2.42	5.8
<b>9.21</b>	<b>8.46</b>	<b>8.9</b>	<b>Total throughput at refineries owned by subsidiaries</b>	<b>25.96</b>	<b>24.10</b>	<b>7.7</b>
2.03	1.98	2.5	Share in Yaroslavl	5.85	5.72	2.3
-	-	-	Share in Mozyr	-	0.03	-
<b>11.24</b>	<b>10.44</b>	<b>7.7</b>	<b>Total refining throughput</b>	<b>31.81</b>	<b>29.85</b>	<b>6.6</b>

### Production of petroleum products

2.34	2.24	4.5	Gasoline	6.71	6.47	3.7
2.34	2.24	4.5	Class 5	6.71	6.47	3.7
0.46	0.46	-	Naphtha	1.45	0.97	49.5
3.19	3.02	5.6	Diesel	9.14	8.52	7.3
0.02	0.03	(33.3)	Class 2 and below	0.07	0.09	(22.2)
3.17	2.99	6.0	Class 5	9.07	8.43	7.6
1.41	1.26	11.9	Fuel oil	4.22	3.87	9.0
0.97	0.89	9.0	Jet fuel	2.63	2.31	13.9
0.72	0.69	4.3	Bunker fuel	1.96	2.02	(3.0)
0.98	0.84	16.7	Bitumen	2.34	2.04	14.7
0.13	0.11	18.2	Lubricants	0.36	0.35	2.9
0.64	0.66	(3.0)	Other	1.90	2.15	(11.6)
<b>10.84</b>	<b>10.17</b>	<b>6.6</b>	<b>Total production</b>	<b>30.71</b>	<b>28.70</b>	<b>7.0</b>

- Total throughput increased by 7.7% Q-o-Q due to seasonal demand growth for petroleum products. Share mix of main products remained at the level of prior quarter
- Total throughput increased by 6.6% Y-o-Y due to completion of program for planned capital repairs at Group's refineries in 2017
- High-octane gasoline and diesel production increased by 3.7% and 7.3% Y-o-Y respectively due to higher throughput at Moscow refinery as there were no modernization or capital repairs and higher throughput at Omsk and Yaroslavl refineries
- Naphtha production increased Y-o-Y due to throughput growth and economic effectiveness of its production relative to crude oil and petroleum product prices and demand
- The jet fuel production increased by 13.9% Y-o-Y due to higher crude oil throughput and increased output at refinery in Yaroslavl resulted from optimization of technical processes
- Bitumen production increased by 14.7% Y-o-Y due to higher demand on domestic market and geographic expansion of export sales.

## Petroleum product purchases on international markets

	3Q 2018		2Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	3,524	0.08	5,428	0.13	(35.1)	(38.5)
Jet fuel	2,416	0.05	2,235	0.05	8.1	-
Bunker fuel	939	0.03	1,745	0.05	(46.2)	(40.0)
Lubricants	298	0.01	318	-	(6.3)	-
<b>Total</b>	<b>7,177</b>	<b>0.17</b>	<b>9,726</b>	<b>0.23</b>	<b>(26.2)</b>	<b>(26.1)</b>

	9 month 2018		9 month 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	11,322	0.28	7,313	0.26	54.8	7.7
Jet fuel	7,442	0.17	4,820	0.14	54.4	21.4
Bunker fuel	5,473	0.17	5,059	0.21	8.2	(19.0)
Lubricants	856	0.01	668	-	28.1	-
<b>Total</b>	<b>25,093</b>	<b>0.63</b>	<b>17,860</b>	<b>0.61</b>	<b>40.5</b>	<b>3.3</b>

- Petroleum product purchases on international markets decreased Q-o-Q and Y-o-Y due to higher production at own refineries
- Jet fuel purchases on international markets increased Y-o-Y due to geographic expansion and higher demand for international flights
- Bunker fuel purchases decreased Q-o-Q and Y-o-Y due to a decline at bunker market in Romania.

## Petroleum product purchases in the CIS

	3Q 2018		2Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	4,451	0.16	2,805	0.08	58.7	100.0
Low octane gasoline	16	-	16	-	-	-
Diesel	5,505	0.14	4,163	0.11	32.2	27.3
Petrochemicals	412	0.01	220	0.01	87.3	-
Other	84	-	69	0.01	21.7	-
<b>Total</b>	<b>10,468</b>	<b>0.31</b>	<b>7,273</b>	<b>0.21</b>	<b>43.9</b>	<b>47.6</b>

	9 month 2018		9 month 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	9,052	0.30	4,504	0.15	101.0	100.0
Low octane gasoline	76	-	167	0.01	(54.5)	-
Diesel	11,773	0.32	3,118	0.12	>200	166.7
Petrochemicals	859	0.03	563	0.02	52.6	50.0
Other	215	0.01	259	0.04	(17.0)	(75.0)
<b>Total</b>	<b>21,975</b>	<b>0.66</b>	<b>8,611</b>	<b>0.34</b>	<b>155.2</b>	<b>94.1</b>

- The increase of petroleum product purchases in CIS was due to higher deliveries from local refineries resulted from higher prices for petroleum products from Group's refineries and prices regulation in CIS.

## Domestic petroleum product purchases

	3Q 2018		2Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	14,044	0.34	17,651	0.41	(20.4)	(17.1)
Diesel	10,089	0.24	9,013	0.22	11.9	9.1
Jet fuel	2,191	0.06	2,040	0.05	7.4	20.0
Bunker fuel	1,878	0.05	1,459	0.04	28.7	25.0
Bitumen	653	0.03	446	0.04	46.4	(25.0)
Petrochemicals	1,197	0.03	1,040	0.02	15.1	50.0
Other	1,292	0.03	1,061	0.01	21.8	200.0
<b>Total</b>	<b>31,344</b>	<b>0.78</b>	<b>32,710</b>	<b>0.79</b>	<b>(4.2)</b>	<b>(1.3)</b>

	9 month 2018		9 month 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	44,759	1.11	48,911	1.36	(8.5)	(18.4)
Diesel	30,428	0.74	30,075	0.89	1.2	(16.9)
Jet fuel	5,326	0.14	7,222	0.24	(26.3)	(41.7)
Bunker fuel	4,042	0.12	2,577	0.12	56.8	-
Bitumen	1,144	0.07	627	0.05	82.5	40.0
Lubricants	-	-	176	0.01	-	-
Petrochemicals	2,504	0.05	55	-	>200	-
Other	3,148	0.09	5,212	0.13	(39.6)	(30.8)
<b>Total</b>	<b>91,351</b>	<b>2.32</b>	<b>94,855</b>	<b>2.80</b>	<b>(3.7)</b>	<b>(17.1)</b>

- Petroleum product purchases decreased Q-o-Q and Y-o-Y due to higher production at Group's refineries.

## Petroleum product marketing through premium channels

3Q 2018	2Q 2018	Δ, %		9 month 2018	9 month 2017	Δ, %
	<b>(units)</b>		<b>Active retail stations</b>	<b>(units)</b>		
1,176	1,185	(0.8)	In Russia	1,176	1,175	0.1
193	192	0.5	In CIS	193	187	3.2
415	416	(0.2)	In Eastern Europe	415	413	0.5
<b>1,784</b>	<b>1,793</b>	<b>(0.5)</b>	<b>Total retail stations (as at the end of the period)</b>	<b>1,784</b>	<b>1,775</b>	<b>0.5</b>
			<b>Average daily sales per retail site in Russia</b>			
<b>21.28</b>	<b>20.50</b>	<b>3.8</b>	<b>(tonnes per day)</b>	<b>20.51</b>	<b>19.68</b>	<b>4.2</b>
	<b>(MMtonnes)</b>		<b>Sales volume through premium channels</b>	<b>(MMtonnes)</b>		
5.49	5.05	8.7	Gasoline and Diesel	15.28	14.79	3.3
0.90	0.80	12.5	Jet	2.36	2.11	11.8
0.82	0.70	17.1	Bunkering	2.13	2.04	4.4
0.08	0.08	-	Lubricants	0.23	0.22	4.5
0.14	0.11	27.3	Bitumen	0.27	0.21	28.6
<b>7.43</b>	<b>6.74</b>	<b>10.2</b>	<b>Total sales volume through premium channels</b>	<b>20.27</b>	<b>19.37</b>	<b>4.6</b>

- The total number of active retail stations decreased by 0.5% Q-o-Q due to reconstruction and repairs of retail stations
- Average daily sales per retail station in Russia increased by 4.2% Y-o-Y due to Group's marketing activities
- Sales volume through premium channels increased Q-o-Q mainly due to seasonal factors
- Gasoline sales through premium channels increased Y-o-Y due to growth of sales to corporate clients
- Jet fuel sales increased Y-o-Y due to higher demand for air carriage in Moscow airports
- Bunker fuel sales increased Y-o-Y due higher demand.

## Results of operations

3Q 2018	2Q 2018	Δ, %		9 month		Δ, %
				2018	2017	
672,137	600,224	12.0	Crude oil, gas and petroleum products sales	1,776,716	1,360,521	30.6
17,420	16,879	3.2	Other revenue	50,577	47,335	6.8
<b>689,557</b>	<b>617,103</b>	<b>11.7</b>	<b>Total revenue*</b>	<b>1,827,293</b>	<b>1,407,856</b>	<b>29.8</b>
<b>Costs and other deductions</b>						
(166,581)	(143,479)	16.1	Purchases of oil, gas and petroleum products	(432,678)	(334,536)	29.3
(56,819)	(56,672)	0.3	Production and manufacturing expenses	(164,991)	(157,597)	4.7
(30,481)	(28,412)	7.3	Selling, general and administrative expenses	(83,104)	(72,788)	14.2
(35,492)	(34,106)	4.1	Transportation expenses	(106,278)	(106,252)	-
(46,693)	(42,340)	10.3	Depreciation, depletion and amortization	(126,542)	(102,075)	24.0
(182,721)	(166,033)	10.1	Taxes other than income tax	(489,829)	(356,522)	37.4
(20,531)	(20,674)	(0.7)	Export duties	(62,804)	(55,997)	12.2
(343)	(186)	84.4	Exploration expenses	(798)	(269)	196.7
<b>(539,661)</b>	<b>(491,902)</b>	<b>9.7</b>	<b>Total operating expenses</b>	<b>(1,467,024)</b>	<b>(1,186,036)</b>	<b>23.7</b>
<b>149,896</b>	<b>125,201</b>	<b>19.7</b>	<b>Operating profit</b>	<b>360,269</b>	<b>221,820</b>	<b>62.4</b>
29,305	25,589	14.5	Share of profit of associates and joint ventures	69,662	31,236	123.0
(6,798)	(19,939)	(65.9)	Net foreign exchange (loss) / gain	(31,115)	7,942	-
1,665	1,082	53.9	Finance income	4,595	8,266	(44.4)
(4,870)	(5,465)	(10.9)	Finance expense	(16,280)	(19,288)	(15.6)
(3,279)	(2,964)	10.6	Other loss, net	(8,908)	(2,964)	>200
<b>16,023</b>	<b>(1,697)</b>	<b>-</b>	<b>Total other income / (expense)</b>	<b>17,954</b>	<b>25,192</b>	<b>(28.7)</b>
<b>165,919</b>	<b>123,504</b>	<b>34.3</b>	<b>(Loss) / Profit before income tax</b>	<b>378,223</b>	<b>247,012</b>	<b>53.1</b>
(19,339)	(16,835)	14.9	Current income tax (expense)	(47,280)	(33,733)	40.2
(6,318)	(3,675)	71.9	Deferred income tax expense	(13,542)	(12,780)	6.0
<b>(25,657)</b>	<b>(20,510)</b>	<b>25.1</b>	<b>Total income tax benefit / (expense)</b>	<b>(60,822)</b>	<b>(46,513)</b>	<b>30.8</b>
<b>140,262</b>	<b>102,994</b>	<b>36.2</b>	<b>(Loss) / Profit for the period</b>	<b>317,401</b>	<b>200,499</b>	<b>58.3</b>
(8,068)	(6,184)	30.5	Less: Profit attributable to non-controlling interest	(18,732)	(11,499)	62.9
<b>132,194</b>	<b>96,810</b>	<b>36.5</b>	<b>Profit attributable to Gazprom Neft</b>	<b>298,669</b>	<b>189,000</b>	<b>58.0</b>

\* Sales include sales related excise tax

## Revenues

3Q 2018	2Q 2018	Δ, %		9 month		
				2018	2017	Δ, %
<b>Crude oil</b>						
151,541	139,618	8.5	Export	409,060	296,144	38.1
11,226	10,167	10.4	International markets	27,916	14,993	86.2
10,349	9,826	5.3	Export to CIS	29,680	20,694	43.4
24,919	27,487	(9.3)	Domestic	67,668	63,040	7.3
<b>198,035</b>	<b>187,098</b>	<b>5.8</b>	<b>Total crude oil revenue</b>	<b>534,324</b>	<b>394,871</b>	<b>35.3</b>
<b>Gas</b>						
277	352	(21.3)	International markets	881	1,005	(12.3)
9,388	8,673	8.2	Domestic	26,697	27,432	(2.7)
<b>9,665</b>	<b>9,025</b>	<b>7.1</b>	<b>Total gas revenue</b>	<b>27,578</b>	<b>28,437</b>	<b>(3.0)</b>
<b>Petroleum products</b>						
79,034	79,432	(0.5)	Export	238,479	163,923	45.5
51,190	39,152	30.7	International markets	118,621	78,871	50.4
76,085	61,431	23.9	Sales on international markets	186,166	127,708	45.8
(24,895)	(22,279)	11.7	Less sales related excise	(67,545)	(48,837)	38.3
25,292	22,884	10.5	CIS	67,773	55,476	22.2
25,502	23,094	10.4	Export sales and sales in CIS	68,391	56,308	21.5
(210)	(210)	-	Less sales related excise	(618)	(832)	(25.7)
308,921	262,633	17.6	Domestic	789,941	638,943	23.6
<b>464,437</b>	<b>404,101</b>	<b>14.9</b>	<b>Total petroleum products revenue</b>	<b>1,214,814</b>	<b>937,213</b>	<b>29.6</b>
<b>17,420</b>	<b>16,879</b>	<b>3.2</b>	<b>Other revenue</b>	<b>50,577</b>	<b>47,335</b>	<b>6.8</b>
<b>689,557</b>	<b>617,103</b>	<b>11.7</b>	<b>Total revenue</b>	<b>1,827,293</b>	<b>1,407,856</b>	<b>29.8</b>

## Sales volumes

3Q 2018	2Q 2018	Δ, %		9 month		
				2018	2017	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil</b>	<b>(MMtonnes)</b>		
4.22	4.23	(0.2)	Export	12.74	13.67	(6.8)
0.33	0.32	3.1	Sales on international markets*	0.91	0.75	21.3
0.39	0.40	(2.5)	Export to CIS	1.24	1.26	(1.6)
1.07	1.26	(15.1)	Domestic sales	3.22	4.44	(27.5)
<b>6.01</b>	<b>6.21</b>	<b>(3.2)</b>	<b>Total crude oil sales</b>	<b>18.11</b>	<b>20.12</b>	<b>(10.0)</b>
<b>(bcm)</b>			<b>Gas</b>	<b>(bcm)</b>		
0.02	0.02	-	International markets	0.06	0.10	(40.0)
3.42	3.22	6.2	Domestic sales	9.82	10.47	(6.2)
<b>3.44</b>	<b>3.24</b>	<b>6.2</b>	<b>Total gas sales</b>	<b>9.88</b>	<b>10.57</b>	<b>(6.5)</b>
<b>(MMtonnes)</b>			<b>Petroleum products</b>	<b>(MMtonnes)</b>		
2.10	2.30	(8.7)	Export	7.22	7.10	1.7
1.08	0.90	20.0	Sales on international markets	2.74	2.49	10.0
0.68	0.63	7.9	Export to CIS	1.89	1.83	3.3
8.22	7.39	11.2	Domestic sales	22.27	21.07	5.7
<b>12.08</b>	<b>11.22</b>	<b>7.7</b>	<b>Total petroleum products sales</b>	<b>34.12</b>	<b>32.49</b>	<b>5.0</b>

\* Sales on international markets include Production-Sharing Agreements

## Average realized sales prices

3Q	2Q			9 month		
2018	2018	Δ, %		2018	2017	Δ, %
<b>(RUB per tonne)</b>			<b>Crude oil</b>	<b>(RUB per tonne)</b>		
35,910	33,007	8.8	Export	32,108	21,664	48.2
26,536	24,565	8.0	Export and sales in CIS	23,935	16,424	45.7
23,288	21,815	6.8	Domestic sales	21,015	14,198	48.0
<b>(RUB per tonne)</b>			<b>Petroleum products</b>	<b>(RUB per tonne)</b>		
37,635	34,536	9.0	Export	33,030	23,088	43.1
37,503	36,657	2.3	Export and sales in CIS	36,186	30,769	17.6
37,582	35,539	5.7	Domestic sales	35,471	30,325	17.0

## Crude oil sales

- Crude oil export volumes decreased Y-o-Y due to an increase in crude oil throughput at own refineries
- Crude oil export sales on international market increased Y-o-Y due to a production growth in Iraq
- Domestic crude oil volumes decreased Y-o-Y due to an increase in crude oil throughput at Group's refineries.

## Gas sales

- Domestic gas sales decreased by 6.2% Y-o-Y due to decreased natural gas production at Noyabrsk region in line with OPEC agreement regarding production oil cut.

## Petroleum product exports

	3Q 2018		2Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	11,897	0.28	13,104	0.33	(9.2)	(15.2)
Diesel	28,168	0.64	29,094	0.71	(3.2)	(9.9)
Fuel oil	19,699	0.73	18,527	0.78	6.3	(6.4)
Jet fuel	6,463	0.13	5,160	0.11	25.3	18.2
Bunker fuel	7,544	0.20	9,509	0.27	(20.7)	(25.9)
Bitumen	469	0.02	381	0.02	23.1	-
Lubricants	1,577	0.03	1,322	0.02	19.3	50.0
Petrochemicals	1,499	0.03	1,907	0.04	(21.4)	(25.0)
Other	1,718	0.04	428	0.02	>200	100.0
<b>Total</b>	<b>79,034</b>	<b>2.10</b>	<b>79,432</b>	<b>2.30</b>	<b>(0.5)</b>	<b>(8.7)</b>

	9 month 2018		9 month 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	830	0.03	-	-	-	-
Naphtha	37,023	0.98	18,275	0.69	102.6	42.0
Diesel	85,113	2.17	57,856	2.04	47.1	6.4
Fuel oil	59,362	2.57	36,753	2.25	61.5	14.2
Jet fuel	16,239	0.35	8,547	0.26	90.0	34.6
Bunker fuel	26,041	0.78	23,233	1.04	12.1	(25.0)
Bitumen	970	0.05	745	0.05	30.2	-
Lubricants	4,587	0.08	3,450	0.06	33.0	33.3
Petrochemicals	5,545	0.13	2,808	0.12	97.5	8.3
Other	2,769	0.08	12,256	0.59	(77.4)	(86.4)
<b>Total</b>	<b>238,479</b>	<b>7.22</b>	<b>163,923</b>	<b>7.10</b>	<b>45.5</b>	<b>1.7</b>

- Petroleum product volume sales decreased by 8.7% Q-o-Q due to market conditions and sales efficiency at domestic market

- Naphtha and fuel oil sales Y-o-Y and Q-o-Q were optimized relative to petroleum product prices and demand
- Diesel sales increased Y-o-Y due to planned reconstruction and capital repairs of “large ring” units at Moscow refinery in 2017
- Bunker fuel sales decreased Y-o-Y due to a decline in bunker market in Romania
- Jet fuel export sales increased Y-o-Y and Q-o-Q due to geographical expansion.

### Petroleum product sales in the CIS

	3Q 2018		2Q 2018		Δ, %	
	RUB million	Mmtonnes	RUB million	Mmtonnes	RUB million	Mmtonnes
High octane gasoline	8,699	0.21	8,338	0.21	4.3	-
Low octane gasoline	154	0.01	113	-	36.3	-
Diesel	11,038	0.26	9,235	0.23	19.5	13.0
Jet fuel	1,000	0.02	1,895	0.05	(47.2)	(60.0)
Bunker fuel	268	0.01	-	-	-	-
Bitumen	2,200	0.12	1,396	0.08	57.6	50.0
Lubricants	1,024	0.02	1,060	0.03	(3.4)	(33.3)
Petrochemicals and Other	1,119	0.03	1,057	0.03	5.9	-
<b>Total</b>	<b>25,502</b>	<b>0.68</b>	<b>23,094</b>	<b>0.63</b>	<b>10.4</b>	<b>7.9</b>

	9 month 2018		9 month 2017		Δ, %	
	RUB million	Mmtonnes	RUB million	Mmtonnes	RUB million	Mmtonnes
High octane gasoline	25,092	0.65	22,509	0.67	11.5	(3.0)
Low octane gasoline	346	0.01	500	0.01	(30.8)	-
Naphtha	-	-	230	0.01	-	-
Diesel	28,021	0.71	21,020	0.64	33.3	10.9
Fuel oil	-	-	109	0.01	-	-
Jet fuel	5,184	0.13	4,419	0.15	17.3	(13.3)
Bunker fuel	268	0.01	-	-	-	-
Bitumen	3,954	0.22	2,874	0.21	37.6	4.8
Lubricants	2,781	0.06	2,082	0.05	33.6	20.0
Petrochemicals and Other	2,745	0.10	2,565	0.08	7.0	25.0
<b>Total</b>	<b>68,391</b>	<b>1.89</b>	<b>56,308</b>	<b>1.83</b>	<b>21.5</b>	<b>3.3</b>

### Domestic sales of petroleum products

	3Q 2018		2Q 2018		Δ, %	
	RUB million	Mmtonnes	RUB million	Mmtonnes	RUB million	Mmtonnes
High octane gasoline	111,629	2.48	102,424	2.33	9.0	6.4
Low octane gasoline	115	-	100	0.01	15.0	-
Naphtha	1,874	0.05	1,945	0.06	(3.7)	(16.7)
Diesel	103,124	2.41	86,198	2.10	19.6	14.8
Fuel oil	9,247	0.56	5,879	0.42	57.3	33.3
Jet fuel	35,706	0.87	30,274	0.78	17.9	11.5
Bunker fuel	16,390	0.55	13,021	0.47	25.9	17.0
Bitumen	12,029	0.71	8,872	0.67	35.6	6.0
Lubricants	4,537	0.08	3,535	0.07	28.3	14.3
Petrochemicals	8,198	0.24	6,587	0.25	24.5	(4.0)
Other	6,072	0.27	3,798	0.23	59.9	17.4
<b>Total</b>	<b>308,921</b>	<b>8.22</b>	<b>262,633</b>	<b>7.39</b>	<b>17.6</b>	<b>11.2</b>

	9 month 2018		9 month 2017		Δ, %	
	RUB million	Mmtonnes	RUB million	Mmtonnes	RUB million	Mmtonnes
High octane gasoline	300,914	7.01	269,442	6.92	11.7	1.3
Low octane gasoline	304	0.01	643	0.02	(52.7)	(50.0)
Naphtha	4,915	0.15	-	-	-	-
Diesel	265,148	6.47	214,861	6.34	23.4	2.1
Fuel oil	20,014	1.44	11,140	1.19	79.7	21.0
Jet fuel	89,441	2.30	62,549	2.13	43.0	8.0
Bunker fuel	38,009	1.41	26,460	1.42	43.6	(0.7)
Bitumen	24,949	1.79	18,549	1.60	34.5	11.9
Lubricants	11,240	0.21	10,126	0.19	11.0	10.5
Petrochemicals	21,648	0.76	16,714	0.68	29.5	11.8
Other	13,359	0.72	8,459	0.58	57.9	24.1
<b>Total</b>	<b>789,941</b>	<b>22.27</b>	<b>638,943</b>	<b>21.07</b>	<b>23.6</b>	<b>5.7</b>

- Petroleum product sales increased Q-o-Q due to higher production at Group's refineries and effectiveness of operations on domestic market
- Petroleum product sales on the domestic market increased Y-o-Y mainly due to the growth of production at own refineries resulted from planned capital repairs during 2017
- Jet fuel sales increased Y-o-Y due to demand growth (resulted from higher carriage due to FIFA World Cup) and cooperation with airline companies (new agreements and geographic expansion)
- Bitumen sales increased Y-o-Y due to expansion of complex delivery and logistics services, formation of long-term direct agreements with major federal clients.

#### Purchases of oil, gas and petroleum products

- Purchases of oil, gas, and petroleum products increased by 29.3% Y-o-Y due to higher crude oil and petroleum product prices. The growth was partially offset by a reduction of petroleum product volumes purchases resulted from higher throughput.

## Production and manufacturing expenses

3Q	2Q			9 month		
2018	2018	Δ, %	(RUB million)	2018	2017	Δ, %
<b>28,102</b>	<b>27,041</b>	<b>3.9</b>	<b>Upstream expenses</b>	<b>80,440</b>	<b>82,569</b>	<b>(2.6)</b>
<b>1,641</b>	<b>1,710</b>	<b>(4.0)</b>	<b>RUB per toe</b>	<b>1,656</b>	<b>1,746</b>	<b>(5.2)</b>
<b>3.42</b>	<b>3.77</b>	<b>(9.3)</b>	<b>USD per boe</b>	<b>3.68</b>	<b>4.08</b>	<b>(9.8)</b>
20,938	20,273	3.3	Consolidated subsidiaries inside Russia	60,168	63,557	(5.3)
1,477	1,563	(5.5)	<i>RUB per toe</i>	1,502	1,638	(8.3)
3.07	3.45	(11.0)	<i>USD per boe</i>	3.34	3.83	(12.8)
			including			
15,028	14,585	3.0	Brownfields	43,310	50,737	(14.6)
1,623	1,690	(4.0)	<i>RUB per toe</i>	1,640	1,767	(7.2)
3.38	3.73	(9.4)	<i>USD per boe</i>	3.64	4.13	(11.9)
5,910	5,688	3.9	Greenfields	16,858	12,820	31.5
1,201	1,311	(8.4)	<i>RUB per toe</i>	1,234	1,271	(2.9)
2.50	2.89	(13.5)	<i>USD per boe</i>	2.74	2.97	(7.7)
			Consolidated subsidiaries outside Russia (including			
2,546	2,331	9.2	PSA)**	6,925	5,998	15.5
3,182	2,878	10.6	<i>RUB per toe</i>	3,011	2,999	0.4
6.62	6.35	4.3	<i>USD per boe</i>	6.69	7.01	(4.6)
4,618	4,437	4.1	Joint operations	13,347	13,014	2.6
2,178	2,207	(1.3)	<i>RUB per toe</i>	2,170	2,027	7.1
4.53	4.87	(7.0)	<i>USD per boe</i>	4.82	4.74	1.7
<b>14,729</b>	<b>14,587</b>	<b>1.0</b>	<b>Downstream expenses</b>	<b>42,867</b>	<b>40,113</b>	<b>6.9</b>
7,659	7,885	(2.9)	Refining expenses at own refineries	22,996	22,439	2.5
832	932	(10.7)	<i>RUB per tonne</i>	886	931	(4.8)
1.73	2.06	(16.0)	<i>USD per bbl</i>	1.97	2.18	(9.6)
3,170	3,173	(0.1)	Refining expenses at refineries of joint ventures***	9,321	8,889	4.9
1,562	1,603	(2.6)	<i>RUB per tonne</i>	1,593	1,546	3.0
3.25	3.54	(8.2)	<i>USD per bbl</i>	3.54	3.62	(2.2)
<b>3,900</b>	<b>3,529</b>	<b>10.5</b>	<b>Lubricants manufacturing expenses</b>	<b>10,550</b>	<b>8,785</b>	<b>20.1</b>
<b>8,716</b>	<b>8,129</b>	<b>7.2</b>	<b>Transportation expenses to refineries</b>	<b>24,687</b>	<b>21,455</b>	<b>15.1</b>
<b>5,272</b>	<b>6,915</b>	<b>(23.8)</b>	<b>Other operating expenses including</b>	<b>16,997</b>	<b>13,460</b>	<b>26.3</b>
<b>56,819</b>	<b>56,672</b>	<b>0.3</b>	<b>Total</b>	<b>164,991</b>	<b>157,597</b>	<b>4.7</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 decreased by 5.5% Q-o-Q due to decreased brownfield expenses resulted from production growth in Noyabrsk region and reduction of greenfield expenses resulted from production growth at Novoportovskoye field
- Upstream expenses per toe at consolidated subsidiaries in Russia decreased by 8.3% Y-o-Y due to decreased brownfields expenses
- Upstream expenses per toe at consolidated subsidiaries at brownfields decreased by 7.2% Y-o-Y due to optimisation of expenses:
  - Shutdown of low-margin wells (low well flows and high watercut)
  - Decreased workover activities.
- Upstream expenses USD per boe at consolidated subsidiaries outside Russia decreased by 4.6% Y-o-Y mainly due to an increase of production in Iraq
- Upstream expenses per toe at joint operations increased by 7.1% Y-o-Y mainly due to production decline in line with OPEC limits
- 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 Group's refineries
- Refining expenses per tonne at own refineries decreased by 10.7% Q-o-Q due to:

- o Throughput growth
- o Decrease in maintenance expenses.
- Refining expenses per tonne at own refineries decreased by 4.8% Y-o-Y primarily due to:
  - o Throughput growth
  - o Decreased purchases of MTBE\* due to finalization of “large ring” units maintenance at Moscow refinery (reconstruction was held in 1Q and 2Q 2017).
- Refining unit expenses at joint ventures increased by 2.5% Y-o-Y due to increased processing expenses (increased natural gas costs and new refining units launch)
- Transportation expenses to refineries increased by 15.1% Y-o-Y mainly due to increased crude oil volumes delivered to refineries
- Other operating expenses increased Y-o-Y in line with other sales growth.

### 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 14.2% Y-o-Y, driven mainly by:
  - o Increased estimated liabilities resulted from share price growth
  - o Increased commercial expenses resulted from premium sales growth
  - 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 remained at the prior year level. Petroleum product transportation expenses growth was offset by a decline in crude oil transportation expenses resulted from decreased crude oil export sales.

### 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 24.0% Y-o-Y in line with an increase in depreciable assets driven by implementation of the investment program and increased production at Novoportovskoye field and Iraq.

### Taxes other than income tax

3Q	2Q			9 month		
2018	2018	Δ, %	(RUB million)	2018	2017	Δ, %
142,200	122,310	16.3	Mineral extraction taxes	361,687	236,071	53.2
30,883	34,121	(9.5)	Excise	99,394	95,958	3.6
5,319	5,449	(2.4)	Social security contributions	16,518	14,583	13.3
4,319	4,153	4.0	Other taxes	12,230	9,910	23.4
<b>182,721</b>	<b>166,033</b>	<b>10.1</b>	<b>Total taxes other than income tax</b>	<b>489,829</b>	<b>356,522</b>	<b>37.4</b>

- MET increased by 16.3% Q-o-Q due to higher oil prices and higher production

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

- MET increased by 53.2% Y-o-Y due to higher oil prices and higher additional multiplying ratio ( Kk in the MET rate formula)
- Excise taxes decreased by 9.5% Q-o-Q due to a decrease of excise rates in June 2018
- Excise taxes increased by 3.6% Y-o-Y due to higher rates in 1H 2018 and higher production at refineries of consolidated subsidiaries in Russia in 2018.

### Export duties

3Q 2018	2Q 2018	Δ, %		9 month		
				2018	2017	Δ, %
9,852	10,226	(3.7)	Crude oil export duties	31,184	35,242	(11.5)
10,679	10,448	2.2	Petroleum export duties	31,620	20,755	52.3
<b>20,531</b>	<b>20,674</b>	<b>(0.7)</b>	<b>Total export duties</b>	<b>62,804</b>	<b>55,997</b>	<b>12.2</b>

- Crude oil export duties decreased by 11,5% Y-o-Y due to export sales reduction and decline in share of sales imposed by export duties
- Petroleum export duties increased by 52,3% Y-o-Y due to rates growth resulted from higher crude oil prices and export sales growth.

### Share of profit of equity accounted investments

3Q 2018	2Q 2018	Δ, %	(RUB million)	9 month		
				2018	2017	Δ, %
5,871	5,285	11.1	Slavneft	13,798	7,549	82.8
9,213	7,090	29.9	Messoyakha	20,584	7,040	192.4
12,256	11,144	10	SeverEnergiya (Arcticgas)	29,909	12,672	136
980	972	0.8	Nortgaz	2,689	2,514	7
985	1,098	(10.3)	Other companies	2,682	1,461	83.6
<b>29,305</b>	<b>25,589</b>	<b>14.5</b>	<b>Share of profit of associates and joint ventures</b>	<b>69,662</b>	<b>31,236</b>	<b>123.0</b>

- The Group's share of Slavneft profit increased Y-o-Y and Q-o-Q mainly due to higher crude oil prices
- The Group's share of Arcticgas (SeverEnergiya) profit increased Y-o-Y as a result of production growth, higher crude oil prices, reduction of financial expenses in line with debt portfolio optimisation and increase of Group's share in Arcticgas (SeverEnergiya) from 46.67% up to 50% since 21 March 2018
- The Group's share of Messoyakha profit increased Y-o-Y as a result of production growth and higher crude oil prices.

### 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)	9 month		
	2018	2017	Δ %
Net cash provided by operating activities	391,636	325,781	20.2
Net cash used in investing activities	(220,946)	(235,661)	(6.2)
Net cash used in financing activities	(137,437)	(54,141)	153.9
<b>Increase in cash and cash equivalents</b>	<b>33,253</b>	<b>35,979</b>	<b>(7.6)</b>

### Net cash provided by operating activities

(RUB million)	9 month		
	2018	2017	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	481,862	323,377	49.0
Net changes in working capital	(20,761)	54,352	-
Income tax paid	(43,808)	(25,494)	71.8
Interest paid	(35,244)	(29,760)	18.4
Dividends received	9,587	3,306	190.0
<b>Net cash provided by operating activities</b>	<b>391,636</b>	<b>325,781</b>	<b>20.2</b>

- Net cash provided by operating activities increased by 20.2% Y-o-Y primarily due to higher operating profit and dividends received from joint ventures. The growth was trimmed by negative changes in working capital resulted from higher crude oil and petroleum product prices.

### Net cash used in investing activities

(RUB million)	9 month		
	2018	2017	Δ %
Capital expenditures	(256,790)	(242,768)	5.8
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(1,176)	(8,093)	(85.5)
Net changes in deposits	7,185	(3,943)	-
Net changes in loans issued and other investments	12,116	10,119	19.7
Interest received	16,278	6,542	148.8
Other transactions	1,441	2,482	(41.9)
<b>Net cash used in investing activities</b>	<b>(220,946)</b>	<b>(235,661)</b>	<b>(6.2)</b>

- Net cash used in investing activities decreased by 6.2% Y-o-Y. Higher capital expenditures were offset by loan repayment and interest received from Messoyakha.

### Net cash used in financing activities

(RUB million)	9 month		
	2018	2017	Δ %
Net changes in debt	(74,535)	(726)	>200
Payment of dividends to shareholders	(70,773)	(50,383)	40.5
Proceeds from sale of non-controlling interest in subsidiaries	20,728	-	-
Other transactions	(12,857)	(3,032)	>200
<b>Net cash used in financing activities</b>	<b>(137,437)</b>	<b>(54,141)</b>	<b>153.9</b>

- Net cash used in financing activities increased by 153.9% Y-o-Y. Repayments of loans and borrowing exceed the amount of new funds raised (repayment of RUR and Euro bonds) in 9 month 2018. Dividends paid for 2017 (15 RUR per share) exceed dividends for 2016 FY (10,68 RUR per share).

## Capital expenditures

(RUB million)	9 month		
	2018	2017	Δ, %
Exploration and production	155,279	152,409	1.9
Consolidated subsidiaries	143,534	140,759	2.0
Joint operations	11,745	11,650	0.8
Refining	58,493	45,353	29.0
Marketing and distribution	6,626	4,509	47.0
Others	7,924	7,478	6.0
<b>Subtotal capital expenditures</b>	<b>228,322</b>	<b>209,749</b>	<b>8.9</b>
Change in advances issued and material used in capital expenditures	28,468	33,019	(13.8)
<b>Total capital expenditures</b>	<b>256,790</b>	<b>242,768</b>	<b>5.8</b>

- Capital expenditures for exploration and production increased by 1.9% Y-o-Y due to:
  - Launched hi-tech icebreaker
  - Participation in tender procedures for licence blocks (Savitskiy, Pokhivistnevskiy, Karabashskiy).
- Capital expenditures for refining increased by 29.0% Y-o-Y mainly due to the modernisation of plant in Serbia (construction of delayed coking unit).

## Debt and liquidity

(RUB million)	September 30 2018	December 31 2017
Short-term loans and borrowings	110,789	131,760
Long-term loans and borrowings	566,419	548,654
Cash and cash equivalents	(131,211)	(90,608)
Short-term deposits	(89)	(5,779)
<b>Net debt</b>	<b>545,908</b>	<b>584,027</b>
Short-term debt / total debt, %	16.4	19.4
Net debt and financial lease liabilities/ EBITDA for 12 months preceding	0.79	1.19

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments
- The average debt maturity increased from 3.60 years as at December 31, 2017 to 3.91 years as at September 30, 2018
- The average interest rate increased from 5.54% as at December 31, 2017 to 6.01% as at September 30, 2018.

## Financial appendix

### EBITDA reconciliation

3Q	2Q			9 month		
2018	2018	Δ, %	(RUB million)	2018	2017	Δ, %
<b>140,262</b>	<b>102,994</b>	<b>36.2</b>	<b>Profit for the period</b>	<b>317,401</b>	<b>200,499</b>	<b>58.3</b>
25,657	20,510	25.1	Total income tax benefit / (expense)	60,822	46,513	30.8
4,870	5,465	(10.9)	Finance expense	16,280	19,288	(15.6)
(1,665)	(1,082)	53.9	Finance income	(4,595)	(8,266)	(44.4)
46,693	42,340	10.3	Depreciation, depletion and amortization	126,542	102,075	24.0
6,798	19,939	(65.9)	Net foreign exchange (gain) / loss	31,115	(7,942)	-
3,279	2,964	10.6	Other loss, net	8,908	2,964	>200
<b>225,894</b>	<b>193,130</b>	<b>17.0</b>	<b>EBITDA</b>	<b>556,473</b>	<b>355,131</b>	<b>56.7</b>
(29,305)	(25,589)	14.5	less Share of profit of associates and joint ventures	(69,662)	(31,236)	123.0
49,673	44,862	10.7	add Share of EBITDA of equity accounted investments	127,651	75,351	69.4
<b>246,262</b>	<b>212,403</b>	<b>15.9</b>	<b>Adjusted EBITDA</b>	<b>614,462</b>	<b>399,246</b>	<b>53.9</b>

### Financial ratios

#### Profitability

	September 30 2018	September 30 2017	Δ, p.p.
Adjusted EBITDA margin, %	33.63	28.36	5.3
Net profit margin, %	17.37	14.24	3.1
Return on assets (ROA), %	12.62	9.75	2.9
Return on equity (ROE), %	21.34	17.08	4.3
Adjusted Return on average capital employed (ROACE), %	19.15	13.04	6.1

#### Adjusted ROACE calculation

	September 30 2018	September 30 2017
<b>For 12 months preceding</b>		
Adjusted EBITDA	766,183	530,575
Depreciation, depletion and amortization	(207,327)	(177,029)
Effective income tax charge on EBIT	(102,507)	(75,857)
<b>Adjusted EBIT*</b>	<b>456,349</b>	<b>277,689</b>
<b>Average capital employed</b>	<b>2,382,454</b>	<b>2,128,821</b>
<b>Adjusted ROACE</b>	<b>19.15</b>	<b>13.04</b>

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

## Liquidity

	September 30 2018	September 30 2017	Δ, %
Current ratio	1.20	0.98	22.4
Quick ratio	0.61	0.51	19.6
Cash ratio	0.28	0.25	12.0

## Leverage

	September 30 2018	September 30 2017	Δ, p.p.
Net debt/ Total Assets, %	16.39	21.32	(4.9)
Net debt/ Equity, %	27.28	36.71	(9.4)
Gearing, %	21.23	26.66	(5.4)
			Δ, %
Net debt/ Market Capitalization	0.31	0.56	(44.6)
Net debt/ EBITDA	0.79	1.27	(37.8)
Total debt/ EBITDA	0.98	1.42	(31.0)

## 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 9 months 2018 had a positive impact on the Group's results.

3Q 2018	2Q 2018	Δ, %		9 month		Δ, %
<b>(US\$/ barrel)</b>			<b>International market</b>	<b>(US\$/ barrel)</b>		
75.27	74.80	0.6	Brent	72.28	51.93	39.2
74.27	72.62	2.3	Urals Spot (average Med + NWE)	70.69	50.70	39.4
<b>(US\$/ tonne)</b>				<b>(US\$/ tonne)</b>		
732.73	712.39	2.9	Premium gasoline (average NWE)	696.61	545.25	27.8
645.89	628.74	2.7	Naphtha (average Med. + NWE)	613.36	453.64	35.2
667.20	658.82	1.3	Diesel fuel (average NWE)	639.16	473.58	35.0
662.43	649.43	2.0	Gasoil 0.1% (average Med.)	632.24	464.18	36.2
415.73	392.80	5.8	Fuel oil 3.5% (average NWE)	384.65	279.07	37.8
<b>(RUB/ tonne)</b>			<b>Domestic market</b>	<b>(RUB/ tonne)</b>		
42,704	43,753	(2.4)	High-octane gasoline	41,175	36,624	12.4
37,128	35,570	4.4	Low-octane gasoline	35,729	31,622	13.0
42,455	39,569	7.3	Diesel fuel	39,499	31,936	23.7
15,785	13,686	15.3	Fuel oil	13,391	9,156	46.3

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.

3Q 2018	2Q 2018		9 month	
			2018	2017
0.4	1.3	Change in Consumer Price Index (CPI), %	2.5	1.7
65.53	61.80	Average RUB/US\$ exchange rate for the period	61.44	58.33
62.76	57.26	US\$/ RUB exchange rate as of the beginning of the period	57.60	60.66
65.59	62.76	US\$/ RUB exchange rate as of the end of the period	65.59	58.02
0.05	0.1	Depreciation (appreciation) of Russian rouble to US\$, %	0.14	(0.04)

## Hydrocarbon taxes

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

3Q 2018	2Q 2018	Δ, %		9 month 2018	2017	Δ, %
(US\$/ tonne)			Export duty	(US\$/ tonne)		
134.83	120.57	11.8	Crude oil	124.13	83.54	48.6
40.43	36.13	11.9	Light petroleum products	37.21	25.03	48.7
40.43	36.13	11.9	Diesel	37.21	25.03	48.7
40.43	36.13	11.9	Gasoline	37.21	25.03	48.7
74.13	66.23	11.9	Naphtha	68.22	45.91	48.6
134.83	120.57	11.8	Heavy petroleum products	124.13	83.54	48.6
			Mineral extraction tax			
14,026	12,861	9.1	Crude oil (RUB/ tonne)	12,426	7,604	63.4

### 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 + 30% x (P – 182.50) from 2017

Crude oil exports to Kazakhstan and Belarus are not subject to oil export duties. Crude oil export to Kyrgyzstan under indicative limits is 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 30% from 2017.

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 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.

### 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, Kyrgyzstan and Armenia 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:

$R = K * R_{\text{crude}}$ , 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:

	from 2017
Light and middle distillates	
Diesel	0.3
Lubricants oil	
Naphtha	0.55
Gasoline	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 Federation Tax Code established the following excise duty rates for petroleum products (in rubles/tonne):

		2017	From 2018		2019	2020
			01.01.-31.05	01.06.-31.12		
<b>Gasoline</b>						
Below	Class 5	13,100	13,100	13,100	13,100	13,100
	Class 5	10,130	11,213	8,213	12,314	12,752
	Naphtha	13,100	13,100	13,100	13,100	13,100
	Diesel fuel	6,800	7,665	5,665	8,541	8,835
	Motor oil	5,400	5,400	5,400	5,400	5,616
	Middle distillate	7,800	8,662	6,665	9,241	9,535

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

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

2017-2018

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MET oil - R                      919 x Kc - Dm

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

, 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 2019-2020.

b) According to the Russian Federation Tax Code clause 342, subclause 2.1 and clause 338, 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, ending not later than March 31, 2022 – 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, ending not later than March 31, 2032 – 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, ending not later than March 31, 2037 – 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, ending not later than March 31, 2042 – 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 zero 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.

### Effective MET rate for the Group

3Q 2018	2Q 2018	Δ, %		9 month		
				2018	2017	Δ, %
14,026	12,861	9.1	Nominal crude oil MET rate, RUB/tonne	12,426	7,604	63.4
11,484	10,486	9.5	Effective crude oil MET rate, RUB/tonne	10,190	6,448	58.0
2,542	2,375		Difference between nominal and effective rates,	2,236	1,156	
18.1%	18.5%		Difference between nominal and effective rates, %	18.0%	15.2%	

In 9 months 2018, the Group's effective MET rate was 10,190 RUB/tonne, or 2,236 RUB/tonne lower than the statutory nominal MET rate. 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)	$42 * Eut * Kc * Kkm$

**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.

In 9 months 2018, the Group's effective MET rate for natural gas was 593 RUB per thousand m<sup>3</sup>, which is 42 RUB per thousand m<sup>3</sup> lower than the statutory nominal MET rate. The difference results from the application of tax benefits, especially coefficient Kc 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):

Tax benefits applied during 9m 2018	Subsidiaries (Oil Fields) belonging to the Group
<b>MET for gas</b>	
Hard-to-recover coefficient Kc	JSC Gazpromneft-Noyabrskneftegaz Zapolyarneft LLC Gazpromneft Yamal LLC Gazpromneft Orenburg LLC
<b>MET for oil</b>	
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 Zapolyarneft LLC Gazpromneft-Khantos LLC Gazpromneft Orenburg LLC
Highly depleted deposits coefficient Kdv	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Vostok LLC
Oil production region and oil quality factor Kkan	PJSC Gazprom neft Gazpromneft-Angara LLC Gazpromneft-Yamal LLC
Zero MET rate for fields classified as belonging to Bazhenov formation	Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz
Lower MET rate for new offshore field in the Pechora Sea	Gazprom neft shelf LLC
<b>Profits tax</b>	
16% rate (4% tax rate decrease under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz
17% rate (3% tax rate decrease under Orenburg regional legislation)	JSC Yuzhuralneftegas
16.5% rate (3.5% tax rate decrease under Yamalo-Nenets Autonomous Okrug regional legislation)	JSC Gazpromneft-Noyabrskneftegaz Zapolyarneft LLC Gazpromneft-Yamal LLC
19.475% rate (0.525% tax rate decrease under Tumen regional legislation)	Gazpromneft-Khantos LLC
16.5% rate (3.5% tax rate decrease under St. Petersburg regional legislation)	PJSC Gazprom neft JSC Gazpromneft Aero LLC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft Business-service LLC Gazpromneft-Regionalnie prodazhi LLC Gazpromneft Marine Bunker LLC MFC Lakhta Center Gazpromneft Shipping LLC Gazprom neft shelf 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 Zapolyarneft LLC
Property tax exemption on property purchased/constructed in the course of investment projects in Orenburg region (under Orenburg regional legislation)	Gazpromneft-Orenburg LLC
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:

3Q 2018	2Q 2018	Δ, %	(RUB per tonne)	9 month		
				2018	2017	Δ, %
<b>Crude oil</b>						
Export						
2,333	2,327	0.3	Pipeline	2,293	2,046	12.1
CIS						
1,608	1,608	-	Pipeline	1,595	1,558	2.4
Transportation to Refineries						
737	754	(2.3)	Omsk	753	716	5.2
1,597	1,530	4.4	Moscow	1,548	1,535	0.8
1,324	1,332	(0.6)	Yaroslavl	1,321	1,280	3.2
<b>Petroleum products</b>						
Export from ONPZ						
4,149	3,769	10.1	Gasoline	3,756	2,480	51.5
5,542	5,519	0.4	Fuel oil	5,467	5,259	4.0
4,705	4,537	3.7	Diesel fuel	4,474	3,993	12.0
Export from MNPZ						
1,620	-	-	Gasoline	1,435	2,505	(42.7)
3,411	3,222	5.9	Fuel oil	3,245	3,078	5.4
2,907	2,865	1.5	Diesel fuel	2,832	2,113	34.0
Export from YaNPZ						
3,149	3,311	(4.9)	Gasoline	3,106	2,736	13.5
3,167	3,079	2.9	Fuel oil	3,069	2,896	6.0
2,540	2,493	1.9	Diesel fuel	2,416	2,011	20.1

The Group's crude oil export route mix (tonnes) for 9 months 2018 and 9 months 2017 is presented below:

	9 month	
	2018	2017
<b>Crude oil export</b>		
Primorsk Baltic Sea port	10.4%	19.1%
Ust-Luga Baltic Sea port	0.0%	1.4%
Druzhba pipeline	14.7%	11.4%
Port of Novorossiysk	5.8%	13.7%
ESPO pipeline and the port of Kozmino	13.3%	11.3%
Meget (pipeline and railway) China	0.0%	0.2%
Exported without using Transneft system, including:	55.8%	42.9%
Prirazlomnoye	17.2%	13.1%
Novoport	38.6%	29.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Crude oil export to CIS countries</b>		
Belarus	97.1%	100.0%
Uzbekistan	2.9%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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