

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended September 30 and June 30, 2016 and the nine  
months ended September 30, 2016 and 2015**

## Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of September 30, 2016 and results of operations for the three months ended September 30 and June 30, 2016 and the nine months ended September 30, 2016 and 2015 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. 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 2016	2Q 2016	Δ, %		9m		Δ, %
				2016	2015	
<b>Financial results (RUB million)</b>						
450,249	405,075	11.2	Sales*	1,221,326	1,238,248	(1.4)
121,338	107,166	13.2	Adjusted EBITDA**	324,869	312,223	4.1
5,594	5,132	9.0	RUB per toe of production	5,114	5,314	(3.7)
11.65	10.48	11.2	USD*** per boe of production	10.07	12.07	(16.6)
57,085	48,854	16.8	Profit attributable to Gazprom Neft	147,480	130,881	12.7
<b>Operational results</b>						
161.13	155.16	3.8	Hydrocarbon production including our share in joint ventures (MMboe)	471.89	436.42	8.1
21.69	20.88	3.9	Hydrocarbon production including our share in joint ventures (MMtoe)	63.52	58.76	8.1
1.75	1.71	2.3	Daily hydrocarbon production (MMboepd)	1.72	1.60	7.5
113.67	107.32	5.9	Crude oil and condensate production including our share in joint ventures (MMbbl)	328.37	310.09	5.9
284.67	287.05	(0.8)	Gas production including our share in joint ventures (bcf)	861.10	758.01	13.6
10.56	10.42	1.3	Refining throughput at own refineries and joint ventures (MMtonnes)	31.21	32.87	(5.1)

\*Sales includes export duties and sales related excise tax

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

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

## 9 months 2016 highlights

- Commissioned the “Vorota Arktiki” terminal at Novoport field on May 25, 2016
- Started commercial production at Vostochno-Messoyakhskoye field in September 2016. Tax benefit for export duty was obtained at the end of October
- Launched five of six Arc7 tankers to provide year-round crude exports from Novoport field in the nine months of 2016. First tanker was transferred to the Group in September 2016
- Placed ruble bonds with total par value of RUB 25 billion in March 2016, RUB 10 billion in June 2016 and RUB 15 billion in August 2016
- As part of a project to enhance oil recovery, SPD completed construction of a three-component ASP mixture unit at Saly oil fields and started mixture injection into reservoir
- Received operatorship at Garmian Block in Kurdistan starting March 2016 (former operator Western Zagros)
- Innovative drilling support center opened at Gazprom Neft Scientific Research Center in early 2016
- In August 2016 launched Shinginskoye gas turbine power station
- In March 2016 acquired 75% of LLC NOVA-Brit, which owns an innovative bitumen production plant
- Acquired high-tech lubricants production group Rospolichem in Nizhny Novgorod in July 2016
- Acquired aircraft and helicopter refueling company Chukotaerosbyt operating at the largest airports of Chukotka in Anadir, Pevek and Keperveyem in August 2016
- Discovered new field in Yamalo-Nenets Autonomous Okrug at Zapadno-Chatilkinskoye license block with total geological reserves of over 40 million tonnes
- Received exploration and production licenses for Ostrovo field in Serbia

## Results for 9 months 2016 compared with 9 months 2015

- Total hydrocarbon production, including our share in joint ventures, increased by 8.1% to 63.52 MMtoe due to production growth at SeverEnergiya (Arcticgas), Novoport and Prirazlomnoye fields, consolidation of 50% of Northgas production, an increase in gas utilization in Khanty-Mansiysk and Orenburg regions and increased production in Iraq
- Total refining throughput declined by 5.1%, with most of the decline attributable to fuel oil and bunker fuel. Crude processing volumes were optimized relative to crude oil and petroleum product prices and market conditions
- Lower refining volumes and lower prices for crude oil and petroleum products on international markets were partially offset by higher production volumes, resulting in sales decline of 1.4%

- Substantial production growth at major project fields (mainly at Novoport and Prirazlomnoye) and management actions to optimize refining throughput, product and sales mix have offset the decrease in sales and resulted in a 4.1% increase in adjusted EBITDA
- Net profit attributable to Gazprom Neft increased, mainly due to increased EBITDA and foreign exchange gains resulting from the revaluation of the Group's debt portfolio.

### Results for 3Q 2016 compared with 2Q 2016

- Daily hydrocarbon production, including our share in joint ventures, increased to 1.75 MMboepd
- Total hydrocarbon production, including our share in joint ventures, increased by 3.9% Q-o-Q, mainly due to an increase in production at Novoport field
- Refining throughput increased by 1.3% Q-o-Q due to higher seasonal demand for petroleum products. The increase was trimmed by a decline of refining throughput at Panchevo as a result of overhaul in September 2016
- Sales increased by 11.2% due to increased oil and petroleum products sales volumes, higher prices for crude oil on the international market and higher prices for petroleum products on the domestic market
- Increased production at major project fields (Novoport and Prirazlomnoye) and management actions resulted in adjusted EBITDA increase (13.2%) outstripping sales growth
- Growth of net profit attributable to Gazprom Neft in 3Q 2016 resulted mainly from higher adjusted EBITDA

### Operational data and analysis

#### Production drilling

3Q 2016	2Q 2016	Δ, %		9m		Δ, %
				2016	2015	
<b>Consolidated subsidiaries</b>						
735	723	1.7	Production drilling ('000 meters)	2,099	2,318	(9.4)
194	176	10.2	New production wells	532	569	(6.5)
118.54	54.02	119.4	Average new well flow (tonnes per day)	48.60	33.10	46.8
<b>Joint operations</b>						
229	209	9.6	Production drilling ('000 meters)	568	607	(6.4)
60	42	42.9	New production wells	161	149	8.1
<b>Joint ventures</b>						
354	305	16.1	Production drilling ('000 meters)	963	881	9.3
92	55	67.3	New production wells	200	158	26.6

- The Q-o-Q increase in production drilling was in line with the drilling plan
- The decrease in production drilling by consolidated subsidiaries and joint operations Y-o-Y was due to the increased number of high-tech wells and the partial substitution of new well drilling by workover operations at producing well stock
- The increase in average new well flow by consolidated subsidiaries of 46.8% Y-o-Y and 119.4% Q-o-Q was due to the increased number of high-tech wells and the completion of high-debit wells at Novoport field
- The increase in production drilling and new wells by joint ventures Y-o-Y and Q-o-Q was due to placing Vostochno-Messoyakhskeye field on production.

**Production**

3Q	2Q			9m		
2016	2016	Δ, %		2016	2015	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil and condensate</b>	<b>(MMtonnes)</b>		
3.47	3.47	-	Noyabrskneftegaz	10.43	10.82	(3.6)
3.66	3.61	1.4	Khantos***	10.89	10.72	1.6
1.22	1.18	3.4	Tomskneft	3.58	3.73	(4.0)
0.77	0.77	-	SPD	2.30	2.31	(0.4)
0.71	0.67	6.0	Orenburg	2.07	1.97	5.1
0.25	0.26	(3.8)	NIS	0.77	0.85	(9.4)
0.43	0.42	2.4	Vostok**	1.27	1.17	8.5
0.96	0.33	190.9	Novy Port	1.60	0.33	384.8
0.54	0.47	14.9	Prirazlomnoye	1.44	0.54	166.7
0.25	0.21	19.0	Badra & Kurdistan	0.62	0.33	87.9
0.02	0.02	-	Others	0.07	0.15	(53.3)
<b>12.28</b>	<b>11.41</b>	<b>7.6</b>	<b>Total production by subsidiaries and joint operations</b>	<b>35.04</b>	<b>32.92</b>	<b>6.4</b>
1.88	1.87	0.5	Share in Slavneft	5.64	5.81	(2.9)
0.91	0.94	(3.2)	Share in SeverEnergiya (Arcticgas)	2.82	2.44	15.6
0.12	0.13	(7.7)	Share in Northgas	0.40	0.35	14.3
0.04	-	-	Share in Messoyakha	0.04	-	-
<b>2.95</b>	<b>2.94</b>	<b>0.3</b>	<b>Share in production of joint ventures</b>	<b>8.90</b>	<b>8.60</b>	<b>3.5</b>
<b>15.23</b>	<b>14.35</b>	<b>6.1</b>	<b>Total crude oil and condensate production</b>	<b>43.94</b>	<b>41.52</b>	<b>5.8</b>
<b>(bcm)</b>			<b>Gas*</b>	<b>(bcm)</b>		
2.42	2.49	(2.8)	Noyabrskneftegaz	7.28	6.85	6.3
0.26	0.26	-	Khantos***	0.79	0.53	49.1
0.22	0.21	4.8	Tomskneft	0.64	0.67	(4.5)
0.04	0.03	33.3	SPD	0.10	0.10	-
0.59	0.58	1.7	Orenburg	1.78	1.68	6.0
0.14	0.14	-	NIS	0.42	0.42	-
0.04	0.03	33.3	Vostok	0.09	0.07	28.6
0.02	0.02	-	Others	0.07	0.03	133.3
<b>3.73</b>	<b>3.76</b>	<b>(0.8)</b>	<b>Total production by subsidiaries and proportionally consolidated companies</b>	<b>11.17</b>	<b>10.35</b>	<b>7.9</b>
0.12	0.12	-	Share in Slavneft	0.36	0.33	9.1
2.98	2.96	0.7	Share in SeverEnergiya (Arcticgas)	9.01	7.70	17.0
1.23	1.28	(3.9)	Share in Northgas	3.84	3.09	24.3
0.01	-	-	Share in Messoyakha	0.01	-	-
<b>4.34</b>	<b>4.36</b>	<b>(0.5)</b>	<b>Share in production of joint ventures</b>	<b>13.22</b>	<b>11.12</b>	<b>18.9</b>
<b>8.07</b>	<b>8.12</b>	<b>(0.6)</b>	<b>Total gas production</b>	<b>24.39</b>	<b>21.47</b>	<b>13.6</b>
<b>(MMtoe)</b>			<b>Hydrocarbons</b>	<b>(MMtoe)</b>		
15.27	14.43	5.8	Total production by subsidiaries and proportionally consolidated companies	44.01	41.22	6.8
6.42	6.45	(0.5)	Share in production of joint ventures	19.51	17.54	11.2
<b>21.69</b>	<b>20.88</b>	<b>3.9</b>	<b>Total hydrocarbon production</b>	<b>63.52</b>	<b>58.76</b>	<b>8.1</b>
<b>161.13</b>	<b>155.16</b>	<b>3.8</b>	<b>MMtoe</b>	<b>471.89</b>	<b>436.42</b>	<b>8.1</b>
<b>1.75</b>	<b>1.71</b>	<b>2.3</b>	<b>MMboe</b>	<b>1.72</b>	<b>1.60</b>	<b>7.5</b>
			<b>Daily hydrocarbon production (MMboepd)</b>			

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

\*\* Production for Archinskoye and Urmanskoye fields is presented in Gazpromneft – Vostok effective June 2015 due to the merger of LLC Archinskoye into Gazpromneft-Vostok in June 2015 (previously included in other subsidiaries)

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

- Group daily hydrocarbon production increased by 7.5% Y-o-Y and 2.3% Q-o-Q
- Group oil and condensate production increased by 5.8% Y-o-Y to 43.94 MMtoe, driven by increased production at Novoport and Prirazlomnoye fields, at SeverEnergiya (Arcticgas) fields, increased production in Iraq, consolidation of 50% of Northgas production, and the start of production at Messoyakhskoye field
- Group oil and condensate production Q-o-Q increased by 6.1% to 15.23 MMtonnes primarily due to increased production at Novoport and Prirazlomnoye fields
- Group natural gas production increased by 13.6% Y-o-Y, primarily due to higher production at Urengoykoye and Yaro-Yakhinskoye (SeverEnergiya (Arcticgas)) fields, consolidation of 50% of Northgas production; the startup of Yuzhno-Priobskiy gas processing plant (UGPZ), which increased gas utilization in Khanty-Mansiysk region, and the startup of a compressor station at Novogodnee field in 4Q 2015
- Gas production in 3Q remained unchanged from Q2.

### Crude oil purchases

3Q 2016	2Q 2016	Δ, %	(MMtonnes)	9m		
				2016	2015	Δ, %
2.09	2.11	(0.9)	Crude oil purchases in Russia *	6.41	5.82	10.1
0.10	0.50	(80.0)	Crude oil purchases on international markets	0.79	0.08	887.5
<b>2.19</b>	<b>2.61</b>	<b>(16.1)</b>	<b>Total crude purchased</b>	<b>7.20</b>	<b>5.90</b>	<b>22.0</b>

\* Crude oil purchases in Russia:

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

- Crude oil purchases in Russia increased by 10.1% Y-o-Y due to more effective domestic trading operations.

### Refining

3Q 2016	2Q 2016	Δ, %	(MMtonnes)	9m		
				2016	2015	Δ, %
5.17	5.07	2.0	Omsk	15.32	16.02	(4.4)
2.87	2.77	3.6	Moscow	8.05	8.62	(6.6)
0.58	0.93	(37.6)	Pancevo	2.23	2.14	4.2
<b>8.62</b>	<b>8.77</b>	<b>(1.7)</b>	<b>Total throughput at refineries owned by subsidiaries</b>	<b>25.60</b>	<b>26.78</b>	<b>(4.4)</b>
1.94	1.63	19.0	Share in Yaroslavl	5.48	5.64	(2.8)
-	0.02	-	Share in Mozyr	0.13	0.45	(71.1)
<b>10.56</b>	<b>10.42</b>	<b>1.3</b>	<b>Total refining throughput</b>	<b>31.21</b>	<b>32.87</b>	<b>(5.1)</b>
<b>Production of petroleum products</b>						
2.32	2.33	(0.4)	Gasoline	6.88	7.04	(2.3)
-	-	-	Class 4 and below	-	0.33	-
2.32	2.33	(0.4)	Class 5	6.88	6.71	2.5
0.33	0.39	(15.4)	Naphtha	1.17	1.05	11.4
2.92	3.01	(3.0)	Diesel	8.89	8.96	(0.8)
0.02	0.04	(50.0)	Class 2 and below	0.09	0.08	12.5
2.90	2.97	(2.4)	Class 5	8.80	8.88	(0.9)
1.45	1.38	5.1	Fuel oil	4.54	5.14	(11.7)
0.84	0.81	3.7	Jet fuel	2.32	2.36	(1.7)
0.74	0.58	27.6	Bunker fuel	1.99	2.90	(31.4)
0.75	0.65	15.4	Bitumen	1.67	1.53	9.2
0.11	0.10	10.0	Lubricants	0.31	0.30	3.3
0.63	0.67	(6.0)	Other	1.92	2.06	(6.8)
<b>10.09</b>	<b>9.92</b>	<b>1.7</b>	<b>Total production</b>	<b>29.69</b>	<b>31.34</b>	<b>(5.3)</b>

- Total throughput declined by 5.1% Y-o-Y. The Group optimized refining throughput relative to crude oil and petroleum product prices and demand

- Refining throughput increased by 1.3% Q-o-Q due to higher seasonal demand for petroleum products. The increase was trimmed by a decline of refining throughput at Panchevo as a result of overhaul in September 2016
- Bunker fuel production decreased by 31.4% Y-o-Y due to an overall decline in demand for transit bunker transportation from ship-owners
- Fuel oil production decreased by 11.7% Y-o-Y due to decreased oil refining, an increase in fuel oil consumption instead of natural gas for the Company's own purposes at Omsk refinery (due to economic efficiency) and increased bitumen production
- In 2016 only Class 5 gasoline was produced in accordance with technical regulatory requirements
- Bitumen production increased by 9.2% Y-o-Y due to increased market share
- Bitumen production and bunker fuel production increased by 27.6% and 15.4 % Q-o-Q, respectively, primarily due to seasonal factors.

### Petroleum product purchases on international markets

	3Q 2016		2Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	3,581	0.13	3,592	0.13	(0.3)	-
Jet fuel	962	0.03	842	0.03	14.3	-
Bunker fuel	577	0.02	784	0.03	(26.4)	(33.3)
Lubricants	248	0.01	250	0.00	(0.8)	-
<b>Total</b>	<b>5,368</b>	<b>0.19</b>	<b>5,468</b>	<b>0.19</b>	<b>(1.8)</b>	<b>-</b>

	9m 2016		9m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	9,897	0.37	5,572	0.18	77.6	105.6
Fuel oil	-	-	61	0.00	-	-
Jet fuel	2,272	0.07	7,772	0.21	(70.8)	(66.7)
Bunker fuel	2,118	0.08	3,883	0.14	(45.5)	(42.9)
Lubricants	829	0.01	864	0.01	(4.1)	-
<b>Total</b>	<b>15,116</b>	<b>0.53</b>	<b>18,152</b>	<b>0.54</b>	<b>(16.7)</b>	<b>(1.9)</b>

- Jet fuel purchases on international markets decreased Y-o-Y due to lower demand (as a result of reduced tourism), the stoppage of charter flights to Turkey and Egypt, and the bankruptcy of Transaero Airlines
- Bunker fuel purchases on international markets declined Y-o-Y due to a decrease in the capacity of bunker markets in Estonia and Romania
- Diesel purchases increased Y-o-Y due to expanded petroleum product trading in Europe.

### Petroleum product purchases in the CIS

	3Q 2016		2Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	666	0.03	453	0.01	47.0	200.0
Low octane gasoline	50	0.00	114	0.00	(56.1)	-
Diesel	820	0.03	1,217	0.06	(32.6)	(50.0)
Other	-	-	121	0.00	-	-
<b>Total</b>	<b>1,536</b>	<b>0.06</b>	<b>1,905</b>	<b>0.07</b>	<b>(19.4)</b>	<b>(14.3)</b>

	9m 2016		9m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,354	0.05	4,286	0.11	(68.4)	(54.5)
Low octane gasoline	360	0.01	379	0.01	(5.0)	-
Diesel	2,439	0.11	1,723	0.06	41.6	83.3
Other	269	0.01	398	0.02	(32.4)	(50.0)
<b>Total</b>	<b>4,422</b>	<b>0.18</b>	<b>6,786</b>	<b>0.20</b>	<b>(34.8)</b>	<b>(10.0)</b>

## Domestic petroleum product purchases

	3Q 2016		2Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	12,920	0.37	9,856	0.29	31.1	27.6
Low octane gasoline	185	0.01	-	-	-	-
Diesel	6,654	0.21	4,874	0.16	36.5	31.3
Jet fuel	1,845	0.13	1,026	0.03	79.8	333.3
Bunker fuel	484	0.03	467	0.02	3.6	50.0
Lubricants	200	0.00	222	0.01	(9.9)	-
Petrochemicals	209	0.00	-	-	-	-
Other	149	0.02	281	0.01	(47.0)	100.0
<b>Total</b>	<b>22,646</b>	<b>0.77</b>	<b>16,726</b>	<b>0.52</b>	<b>35.4</b>	<b>48.1</b>

	9m 2016		9m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	31,858	0.96	28,422	0.90	12.1	6.7
Low octane gasoline	185	0.01	-	-	-	-
Diesel	17,610	0.57	13,120	0.42	34.2	35.7
Fuel oil	10	0.00	803	0.08	(98.8)	-
Jet fuel	4,199	0.23	7,166	0.26	(41.4)	(11.5)
Bunker fuel	1,535	0.09	1,615	0.08	(5.0)	12.5
Lubricants	505	0.01	387	0.00	30.5	-
Petrochemicals	209	0.00	-	-	-	-
Other	705	0.04	992	0.03	(28.9)	33.3
<b>Total</b>	<b>56,816</b>	<b>1.91</b>	<b>52,505</b>	<b>1.77</b>	<b>8.2</b>	<b>7.9</b>

- Petroleum product purchases on the domestic market increased Q-o-Q mainly due to seasonal factors
- Diesel and gasoline purchases increased Y-o-Y due to increased trading operations on the domestic market
- Jet fuel purchases decreased Y-o-Y due to lower demand for international flights
- Domestic bunker fuel purchases remained unchanged at last year's level due to sustained demand for ultra-low sulfur fuel oil (ULSFO) as a result of the adoption of MARPOL standards in Northwest Europe.



## Petroleum product marketing through premium channels

3Q 2016	2Q 2016	Δ, %		9m 2016	2015	Δ, %
<b>(units)</b>			<b>Active retail stations</b>	<b>(units)</b>		
1,169	1,166	0.3	In Russia	1,169	1,159	0.9
259	255	1.6	In CIS	259	247	4.9
417	424	(1.7)	In Eastern Europe	417	422	(1.2)
<b>1,845</b>	<b>1,845</b>	<b>-</b>	<b>Total retail stations (as at the end of the period)</b>	<b>1,845</b>	<b>1,828</b>	<b>0.9</b>
<b>19.96</b>	<b>19.01</b>	<b>5.0</b>	<b>Average daily sales per retail site in Russia (tonnes per day)</b>	<b>18.83</b>	<b>18.76</b>	<b>0.4</b>
<b>(MMtonnes)</b>			<b>Sales volume through premium channels</b>	<b>(MMtonnes)</b>		
5.24	4.78	9.6	Gasoline and Diesel	14.36	13.89	3.4
0.73	0.66	10.6	Jet	1.94	2.25	(13.8)
0.76	0.64	18.8	Bunkering	2.11	3.00	(29.7)
0.07	0.08	(12.5)	Lubricants	0.20	0.17	17.6
<b>6.80</b>	<b>6.16</b>	<b>10.4</b>	<b>Total sales volume through premium channels</b>	<b>18.61</b>	<b>19.31</b>	<b>(3.6)</b>

- The total number of active retail stations increased by 0.9% Y-o-Y
- Average daily sales per retail station in Russia remained unchanged Y-o-Y due to the Group's marketing activities despite falling demand for gasoline
- Sales volume through premium channels decreased by 3.4% Y-o-Y primarily due to a decline in bunker fuel sales caused by an overall decline in demand for transit bunker transportation from ship-owners
- Sales volumes through premium channels increased by 10.4% Q-o-Q primarily due to seasonal factors.

## Results of operations

3Q	2Q			9m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
450,249	405,075	11.2	Sales*	1,221,326	1,238,248	(1.4)
(40,804)	(33,352)	22.3	Less export duties and sales related excise tax	(110,206)	(138,428)	(20.4)
<b>409,445</b>	<b>371,723</b>	<b>10.1</b>	<b>Total revenue</b>	<b>1,111,120</b>	<b>1,099,820</b>	<b>1.0</b>
<b>Costs and other deductions</b>						
(94,534)	(84,758)	11.5	Purchases of oil, gas and petroleum products	(252,862)	(251,236)	0.6
(51,464)	(45,156)	14.0	Production and manufacturing expenses	(145,270)	(149,723)	(3.0)
(26,976)	(25,999)	3.8	Selling, general and administrative expenses	(77,397)	(74,497)	3.9
(31,493)	(31,820)	(1.0)	Transportation expenses	(98,228)	(99,694)	(1.5)
(29,026)	(27,315)	6.3	Depreciation, depletion and amortization	(84,330)	(70,490)	19.6
(104,530)	(98,522)	6.1	Taxes other than income tax	(273,662)	(276,145)	(0.9)
(9)	(191)	(95.3)	Exploration expenses	(308)	(531)	(42.0)
<b>(338,032)</b>	<b>(313,761)</b>	<b>7.7</b>	<b>Total operating expenses</b>	<b>(932,057)</b>	<b>(922,316)</b>	<b>1.1</b>
(2,626)	(16,421)	(84.0)	Other (loss) / gain, net	(19,704)	7,243	-
<b>68,787</b>	<b>41,541</b>	<b>65.6</b>	<b>Operating profit</b>	<b>159,359</b>	<b>184,747</b>	<b>(13.7)</b>
8,437	10,307	(18.1)	Share of profit of associates and joint ventures	24,468	24,249	0.9
3,933	13,815	(71.5)	Net foreign exchange gain / (loss)	20,043	(40,981)	-
3,038	2,717	11.8	Finance income	8,302	10,493	(20.9)
(7,845)	(8,714)	(10.0)	Finance expense	(26,283)	(21,401)	22.8
<b>7,563</b>	<b>18,125</b>	<b>(58.3)</b>	<b>Total other income / (expense)</b>	<b>26,530</b>	<b>(27,640)</b>	<b>-</b>
<b>76,350</b>	<b>59,666</b>	<b>28.0</b>	<b>(Loss) / Profit before income tax</b>	<b>185,889</b>	<b>157,107</b>	<b>18.3</b>
(5,554)	(6,499)	(14.5)	Current income tax (expense)	(13,690)	(26,763)	(48.8)
(10,269)	(3,012)	240.9	Deferred income tax (expense) / benefit	(19,925)	2,950	-
<b>(15,823)</b>	<b>(9,511)</b>	<b>66.4</b>	<b>Total income tax benefit / (expense)</b>	<b>(33,615)</b>	<b>(23,813)</b>	<b>41.2</b>
<b>60,527</b>	<b>50,155</b>	<b>20.7</b>	<b>(Loss) / Profit for the period</b>	<b>152,274</b>	<b>133,294</b>	<b>14.2</b>
(3,442)	(1,301)	164.6	Less: Profit attributable to non-controlling interest	(4,794)	(2,413)	98.7
<b>57,085</b>	<b>48,854</b>	<b>16.8</b>	<b>Profit attributable to Gazprom Neft</b>	<b>147,480</b>	<b>130,881</b>	<b>12.7</b>

\* Sales include export duties and sales related excise tax

## Revenues

3Q	2Q			9m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>Crude oil</b>						
57,286	47,402	20.9	Export	141,138	78,307	80.2
69,280	57,447	20.6	Export sales	172,150	125,984	36.6
(11,994)	(10,045)	19.4	Less related export duties	(31,012)	(47,677)	(35.0)
4,075	3,077	32.4	International markets	8,704	5,405	61.0
5,094	9,031	(43.6)	Export to the CIS	19,225	21,530	(10.7)
5,094	9,031	(43.6)	Export sales and sales in the CIS	19,354	22,219	(12.9)
-	-	-	Less related export duties	(129)	(689)	(81.3)
23,094	23,328	(1.0)	Domestic	67,146	61,230	9.7
<b>89,549</b>	<b>82,838</b>	<b>8.1</b>	<b>Total crude oil revenue</b>	<b>236,213</b>	<b>166,472</b>	<b>41.9</b>
<b>Gas</b>						
480	339	41.6	International markets	1,441	3,115	(53.7)
7,585	7,432	2.1	Domestic	21,893	20,972	4.4
<b>8,065</b>	<b>7,771</b>	<b>3.8</b>	<b>Total gas revenue</b>	<b>23,334</b>	<b>24,087</b>	<b>(3.1)</b>
<b>Petroleum products</b>						
41,939	43,477	(3.5)	Export	132,029	158,824	(16.9)
50,313	47,165	6.7	Export sales	153,652	204,321	(24.8)
(8,374)	(3,688)	127.1	Less related export duties	(21,623)	(45,497)	(52.5)
26,076	24,549	6.2	International markets	71,488	79,216	(9.8)
46,073	44,021	4.7	Sales on international markets	128,137	123,726	3.6
(19,997)	(19,472)	2.7	Less sales related excise tax	(56,649)	(44,510)	27.3
18,612	17,581	5.9	CIS	52,131	57,780	(9.8)
19,051	17,728	7.5	Export sales and sales in the CIS	52,924	57,835	(8.5)
(439)	(147)	198.6	Less related export duties	(793)	(55)	1,341.8
211,033	181,668	16.2	Domestic	552,932	561,821	(1.6)
<b>297,660</b>	<b>267,275</b>	<b>11.4</b>	<b>Total petroleum product revenue</b>	<b>808,580</b>	<b>857,641</b>	<b>(5.7)</b>
<b>14,171</b>	<b>13,839</b>	<b>2.4</b>	<b>Other revenue</b>	<b>42,993</b>	<b>51,620</b>	<b>(16.7)</b>
<b>409,445</b>	<b>371,723</b>	<b>10.1</b>	<b>Total revenue</b>	<b>1,111,120</b>	<b>1,099,820</b>	<b>1.0</b>

## Sales volumes

3Q	2Q			9m		
2016	2016	Δ, %		2016	2015	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil</b>	<b>(MMtonnes)</b>		
3.27	2.77	18.1	Export	8.67	5.38	61.2
0.21	0.17	23.5	Sales on international markets*	0.52	0.28	85.7
0.34	0.54	(37.0)	Export to the CIS	1.37	1.45	(5.5)
1.79	1.63	9.8	Domestic sales	5.35	4.49	19.2
<b>5.61</b>	<b>5.11</b>	<b>9.8</b>	<b>Total crude oil sales</b>	<b>15.91</b>	<b>11.60</b>	<b>37.2</b>
<b>(bcm)</b>			<b>Gas</b>	<b>(bcm)</b>		
0.06	0.03	100.0	International markets	0.14	0.20	(30.0)
3.32	3.31	0.3	Domestic sales	9.92	10.24	(3.1)
<b>3.38</b>	<b>3.34</b>	<b>1.2</b>	<b>Total gas sales</b>	<b>10.06</b>	<b>10.44</b>	<b>(3.6)</b>
<b>(MMtonnes)</b>			<b>Petroleum products</b>	<b>(MMtonnes)</b>		
2.43	2.25	8.0	Export	7.95	8.80	(9.7)
0.86	0.83	3.6	Sales on international markets	2.39	2.33	2.6
0.63	0.59	6.8	Export and sales in the CIS	1.76	1.65	6.7
7.58	6.75	12.3	Domestic sales	20.60	21.02	(2.0)
<b>11.50</b>	<b>10.42</b>	<b>10.4</b>	<b>Total petroleum products sales</b>	<b>32.70</b>	<b>33.80</b>	<b>(3.3)</b>

\* Including production sharing agreements (PSA)

### Average realized sales prices

3Q 2016	2Q 2016	Δ, %		9m 2016	2015	Δ, %
<b>(RUB per tonne)</b>			<b>Crude oil</b>	<b>(RUB per tonne)</b>		
21,187	20,739	2.2	Export	19,856	23,417	(15.2)
14,982	16,724	(10.4)	Export and sales in CIS	14,127	15,323	(7.8)
12,902	14,312	(9.9)	Domestic sales	12,551	13,637	(8.0)
<b>(RUB per tonne)</b>			<b>Petroleum products</b>	<b>(RUB per tonne)</b>		
20,705	20,962	(1.2)	Export	19,327	23,218	(16.8)
30,240	30,047	0.6	Export and sales in CIS	30,070	35,052	(14.2)
27,841	26,914	3.4	Domestic sales	26,841	26,728	0.4

### Crude oil sales

- Crude export volumes increased by 18.1% Q-o-Q and 61.2% Y-o-Y due to an increase in crude oil production at Novoport and Prirazlomnoye fields
- Oil sales on international markets increased by 23.5% Q-o-Q and 85.7% Y-o-Y due to production growth in Iraq
- Crude export volumes to the CIS decreased by 37% Q-o-Q due to reduction of the export schedule to Belarus
- Crude export volumes to the CIS decreased by 5.5% Y-o-Y due to discontinued export to Uzbekistan from February 2016
- Domestic crude volumes increased by 9.8% Q-o-Q and 19.2% Y-o-Y due to more effective domestic trading operations and an increase in crude oil production in Orenburg region

### Gas sales

- Domestic gas sales decreased by 3.1% Y-o-Y due to changes in the sales scheme for natural gas from Yaro-Yakhinskoye field

## Petroleum product exports

	3Q 2016		2Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	-	-	606	0.02	-	-
Naphtha	6,558	0.27	6,736	0.27	(2.6)	-
Diesel	18,634	0.70	19,830	0.72	(6.0)	(2.8)
Fuel oil	15,215	1.07	10,619	0.88	43.3	21.6
Jet fuel	2,017	0.06	1,757	0.06	14.8	-
Bunker fuel	4,148	0.17	3,713	0.16	11.7	6.3
Bitumen	194	0.02	223	0.02	(13.0)	-
Lubricants	1,151	0.02	1,355	0.03	(15.1)	(33.3)
Petrochemicals	1,101	0.04	1,545	0.06	(28.7)	(33.3)
Other	1,295	0.08	781	0.03	65.8	166.7
<b>Total</b>	<b>50,313</b>	<b>2.43</b>	<b>47,165</b>	<b>2.25</b>	<b>6.7</b>	<b>8.0</b>

	9m 2016		9m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,266	0.09	1,515	0.05	49.6	80.0
Low octane gasoline	-	-	642	0.02	-	-
Naphtha	22,072	0.93	20,865	0.78	5.8	19.2
Diesel	65,138	2.61	77,353	2.51	(15.8)	4.0
Fuel oil	36,315	3.21	61,780	3.89	(41.2)	(17.5)
Jet fuel	4,928	0.16	15,138	0.45	(67.4)	(64.4)
Bunker fuel	11,309	0.52	14,835	0.58	(23.8)	(10.3)
Bitumen	441	0.04	345	0.02	27.8	100.0
Lubricants	4,214	0.09	2,323	0.07	81.4	28.6
Petrochemicals	4,312	0.16	7,010	0.33	(38.5)	(51.5)
Other	2,657	0.14	2,515	0.10	5.6	40.0
<b>Total</b>	<b>153,652</b>	<b>7.95</b>	<b>204,321</b>	<b>8.80</b>	<b>(24.8)</b>	<b>(9.7)</b>

- Petroleum product exports increased by 8.0% Q-o-Q due to higher prices on international markets
- Fuel oil and bunker fuel sales decreased Y-o-Y due to increased output of light oil products and reduced production of heavy petroleum products
- Jet fuel sales decreased by 64.4% Y-o-Y due to lower demand for international flights (as a result of reduced tourism), the stoppage of charter flights to Turkey and Egypt, and the bankruptcy of Transaero Airlines
- Petrochemical sales decreased by 51.5% Y-o-Y due to reduced production and a decline in prices on international markets

## Petroleum product sales in the CIS

	3Q 2016		2Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	8,385	0.25	8,998	0.26	(6.8)	(3.8)
Low octane gasoline	568	0.02	743	0.03	(23.6)	(33.3)
Diesel	6,781	0.21	5,317	0.17	27.5	23.5
Fuel oil	-	-	32	0.01	-	-
Jet fuel	682	0.02	819	0.04	(16.7)	(50.0)
Bitumen	866	0.09	479	0.06	80.8	50.0
Lubricants	819	0.02	751	0.02	9.1	-
Petrochemicals and Other	950	0.02	589	0.00	61.3	-
<b>Total</b>	<b>19,051</b>	<b>0.63</b>	<b>17,728</b>	<b>0.59</b>	<b>7.5</b>	<b>6.8</b>

	9m 2016		9m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	25,019	0.73	25,148	0.61	(0.5)	19.7
Low octane gasoline	2,242	0.08	3,672	0.10	(38.9)	(20.0)
Diesel	16,825	0.51	18,813	0.49	(10.6)	4.1
Fuel oil	476	0.07	218	0.03	118.3	133.3
Jet fuel	2,699	0.10	3,729	0.11	(27.6)	(9.1)
Bitumen	1,483	0.17	2,173	0.16	(31.8)	6.3
Lubricants	2,097	0.05	1,840	0.05	14.0	-
Petrochemicals and Other	2,083	0.05	2,242	0.10	(7.1)	(50.0)
<b>Total</b>	<b>52,924</b>	<b>1.76</b>	<b>57,835</b>	<b>1.65</b>	<b>(8.5)</b>	<b>6.7</b>

### Domestic sales of petroleum products

	3Q 2016		2Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	91,766	2.41	81,175	2.21	13.0	9.0
Low octane gasoline	283	0.01	278	0.01	1.8	-
Diesel	68,942	2.22	58,708	1.95	17.4	13.8
Fuel oil	2,665	0.38	1,731	0.33	54.0	15.2
Jet fuel	20,869	0.79	18,921	0.72	10.3	9.7
Bunker fuel	8,868	0.58	7,355	0.48	20.6	20.8
Bitumen	5,913	0.63	3,448	0.51	71.5	23.5
Lubricants	3,345	0.06	3,113	0.07	7.5	(14.3)
Petrochemicals	5,043	0.25	4,484	0.28	12.5	(10.7)
Other	3,339	0.25	2,455	0.19	36.0	31.6
<b>Total</b>	<b>211,033</b>	<b>7.58</b>	<b>181,668</b>	<b>6.75</b>	<b>16.2</b>	<b>12.3</b>

	9m 2016		9m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	244,666	6.73	237,995	6.81	2.8	(1.2)
Low octane gasoline	831	0.03	1,626	0.06	(48.9)	(50.0)
Diesel	180,467	5.92	168,834	5.58	6.9	6.1
Fuel oil	5,610	1.08	8,887	1.11	(36.9)	(2.7)
Jet fuel	56,053	2.17	58,981	2.20	(5.0)	(1.4)
Bunker fuel	23,165	1.71	42,876	2.53	(46.0)	(32.4)
Bitumen	10,434	1.35	12,331	1.27	(15.4)	6.3
Lubricants	8,996	0.18	7,746	0.17	16.1	5.9
Petrochemicals	14,611	0.83	14,429	0.78	1.3	6.4
Other	8,099	0.60	8,116	0.51	(0.2)	17.6
<b>Total</b>	<b>552,932</b>	<b>20.60</b>	<b>561,821</b>	<b>21.02</b>	<b>(1.6)</b>	<b>(2.0)</b>

- Petroleum product sales on the domestic market increased by 12.3% Q-o-Q mainly due to seasonal factors.
- Bunker fuel sales decreased by 32.4% Y-o-Y due to an overall decline in demand for transit bunker transportation from ship-owners
- Diesel sales increased by 6.1% Y-o-Y due to a higher volume of trading operations on the domestic market

### Other revenue

Other revenue primarily includes revenue from transport, construction, utilities and other services.

- Other revenue decreased by 16.7% Y-o-Y mainly due to a decrease in revenue received from Messoyakha due to transfer of the operator function to joint venture.

## Purchases of oil, gas and petroleum products

- Purchases of oil, gas, and petroleum products increased by 11.5% Q-o-Q due to an increased volume of petroleum product purchases and higher petroleum product prices on the domestic market

## Production and manufacturing expenses

3Q	2Q			9m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>27,528</b>	<b>25,508</b>	<b>7.9</b>	<b>Upstream expenses</b>	<b>77,370</b>	<b>69,148</b>	<b>11.9</b>
20,585	18,906	8.9	Consolidated subsidiaries inside Russia including	57,963	52,264	10.9
16,798	15,661	7.3	Brownfields	47,955	43,634	9.9
1,725	1,608	7.3	<i>RUB per toe</i>	1,645	1,515	8.6
3.64	3.33	9.4	<i>USD* per boe</i>	3.28	3.49	(5.8)
3,787	3,245	16.7	Greenfields	10,008	8,630	16.0
			Consolidated subsidiaries outside Russia (including PSA)**	7,382	5,844	26.3
2,711	2,554	6.1	Joint operations	12,025	11,040	8.9
1,932	1,900	1.7	<i>RUB per toe</i>	1,859	1,660	12.0
4.08	3.94	3.7	<i>USD* per boe</i>	3.71	3.82	(2.9)
<b>13,107</b>	<b>11,630</b>	<b>12.7</b>	<b>Downstream expenses</b>	<b>37,381</b>	<b>38,700</b>	<b>(3.4)</b>
7,259	6,407	13.3	Refining expenses at own refineries	20,748	21,889	(5.2)
842	731	15.3	<i>RUB per tonne</i>	810	817	(0.8)
1.78	1.51	17.5	<i>USD* per bbl</i>	1.62	1.88	(14.0)
3,162	2,711	16.6	Refining expenses at refineries of joint ventures	9,272	10,860	(14.6)
1,630	1,643	(0.8)	<i>RUB per tonne</i>	1,653	1,783	(7.3)
3.44	3.40	1.1	<i>USD* per bbl</i>	3.30	4.10	(19.6)
2,686	2,512	7.0	Lubricants manufacturing expenses	7,361	5,951	23.7
<b>7,661</b>	<b>7,302</b>	<b>4.9</b>	<b>Transportation expenses to refineries</b>	<b>21,644</b>	<b>20,968</b>	<b>3.2</b>
<b>289</b>	<b>(1,568)</b>	<b>-</b>	<b>Change in WIP/FG</b>	<b>537</b>	<b>(1,213)</b>	<b>-</b>
<b>2,878</b>	<b>2,284</b>	<b>26.0</b>	<b>Other operating expenses</b>	<b>8,339</b>	<b>22,120</b>	<b>(62.3)</b>
<b>51,464</b>	<b>45,156</b>	<b>14.0</b>	<b>Total</b>	<b>145,270</b>	<b>149,723</b>	<b>(3.0)</b>

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

\*\* PSA refers to production sharing 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 at consolidated subsidiaries in Russia increased by 10.9% Y-o-Y due to increased expenses at brownfields connected with increased workover operations to support basic production
- Upstream expenses per toe at consolidated subsidiaries at brownfields increased by 8.6% Y-o-Y due to:
  - o Enhanced oil recovery activities (fracking at existing wells)
  - o Accelerated transition to the electric submersible pump (ESP) rental program
  - o Expanded activities under the HSE program
  - o Higher natural monopoly tariffs and inflationary pressures
  - o Management actions to offset expenses increase
- Upstream expenses at consolidated subsidiaries outside Russia increased by 26.3% Y-o-Y due to increased production in Iraq (Badra project) and due to ruble depreciation
- Upstream expenses at joint operations increased by 8.9% Y-o-Y mainly due to:
  - o an increase in SPD expenses as a result of ASP project development\*, an increase in average well stock, the transition to the electric submersible pump (ESP) rental program, increased expenses for maintaining reservoir pressure and as a result of water cut increase
  - o an increase in Tomskneft expenses as a result of contractor tariff indexation, increased HSE program activities, increased well workover activities to maintain production levels

\*Construction of a three-component alkaline-surfactant-polymer mixture unit at Salym oil fields completed

- Refining expenses at the refineries of consolidated subsidiaries include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor and electricity costs, and other similar costs at the Group's refineries
- Refining expenses per tonne at own refineries increased by 15.3% Q-o-Q due to:
  - Repair of FCC unit at Omsk refinery in September 2016
  - Increased expenditure on HSE program at Moscow refinery
- Refining expenses per tonne at own refineries decreased by 0.8% Y-o-Y primarily due to:
  - Optimized consumption of fuel (fuel oil consumption instead of natural gas at Omsk refinery)
  - Optimized use of additives and components in diesel treatment
  - A decrease of refining expenses per tonne was offset by higher tariffs of natural monopolies
- Refining expenses per tonne at refineries of joint ventures declined by 7.3% Y-o-Y due to a decline in processing costs at YANOS refinery in accordance with legislation on transfer pricing and market conditions
- Transportation expenses to refineries increased by 3.2% Y-o-Y due to a 5.8% increase in oil transportation tariffs, partially offset by lower throughput at Moscow and Omsk refineries
- Other operating expenses decreased by 62.3% Y-o-Y mainly due to transfer of operator function to Messoyakha.

### 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 3.9% Y-o-Y, driven by:
  - Higher expenses at foreign subsidiaries due to ruble depreciation
  - Business growth, expansion of retail station network and marketing campaigns.

### 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 decreased by 1.5% Y-o-Y due to decreased petroleum product export volumes, which reduced transportation expenses. These were partially offset by an increase in crude oil transportation expenses as a result of an increase in crude export sales volumes.

### Depreciation, depletion and amortization

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

- Depreciation, depletion and amortization expenses increased by 19.6% Y-o-Y in line with an increase in depreciable assets driven by implementation of the investment program and increased production.

### Taxes other than income tax

3Q	2Q			9m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
63,745	62,129	2.6	Mineral extraction taxes	166,473	204,236	(18.5)
33,054	29,665	11.4	Excise	83,464	53,432	56.2
4,400	4,338	1.4	Social security contributions	13,490	11,252	19.9
3,331	2,390	39.4	Other taxes	10,235	7,225	41.7
<b>104,530</b>	<b>98,522</b>	<b>6.1</b>	<b>Total taxes other than income tax</b>	<b>273,662</b>	<b>276,145</b>	<b>(0.9)</b>

- Taxes other than income tax declined by 0.9% Y-o-Y. Excise taxes increased by 56.2% due to higher rates and imposition of an excise tax on middle distillates, partly offset by an 18.5% Y-o-Y MET decrease due to a decline in oil prices



- Taxes other than income tax increased by 6.1% Q-o-Q due to growth of production and refining at refineries of consolidated subsidiaries in Russia in 3Q 2016

### Share of profit of equity accounted investments

3Q 2016	2Q 2016	Δ, %	(RUB million)	9m		
				2016	2015	Δ, %
2,885	4,871	(40.8)	Slavneft	11,114	8,634	28.7
4,008	4,063	(1.4)	SeverEnergiya (Arcticgas)	10,391	12,039	(13.7)
637	909	(29.9)	Nortgaz	1,428	2,144	(33.4)
907	464	95.5	Other companies	1,535	1,432	7.2
<b>8,437</b>	<b>10,307</b>	<b>(18.1)</b>	<b>Share of profit of associates and joint ventures</b>	<b>24,468</b>	<b>24,249</b>	<b>0.9</b>

- The Group's share in Slavneft's profit decreased Q-o-Q mainly due to a decline in oil prices and foreign exchange gains in 2Q 2016
- The Group's share in Slavneft's profit increased Y-o-Y mainly due to foreign exchange gains
- The Group's share in profit of SeverEnergiya (Arcticgas) decreased by 13.7% Y-o-Y. A decline in profit due to declined oil prices, increased depreciation and financial expenses as a result of startup of fixed assets resulted in a decrease in capitalized interest.

### Other income and expenses

- Other expenses in 2016 resulted from impairment of advances and non-current assets. Other income in 2015 resulted from writing off the Company's share in liability at Tomskneft

### 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)	9m		
	2016	2015	Δ %
Net cash provided by operating activities	235,614	219,627	7.3
Net cash used in investing activities	(220,573)	(241,816)	(8.8)
Net cash (used in) / provided by financing activities	(83,257)	21,073	-
<b>Decrease in cash and cash equivalents</b>	<b>(68,216)</b>	<b>(1,116)</b>	<b>-</b>

#### Net cash provided by operating activities

(RUB million)	9m		
	2016	2015	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	260,980	244,296	6.8
Net changes in working capital	17,397	9,725	78.9
Income tax paid	(17,336)	(16,285)	6.5
Interest paid	(27,701)	(20,524)	35.0
Dividends received	2,274	2,415	(5.8)
<b>Net cash provided by operating activities</b>	<b>235,614</b>	<b>219,627</b>	<b>7.3</b>

- Net cash provided by operating activities increased by 7.3% Y-o-Y primarily due to an increase in operating profit and working capital changes

### Net cash used in investing activities

(RUB million)	9m		
	2016	2015	Δ %
Capital expenditures	(266,004)	(234,238)	13.6
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(1,545)	303	-
Net changes in deposits	48,307	3,257	1,383.2
Net changes in loans issued and other investments	(6,000)	(21,819)	(72.5)
Other transactions	4,669	10,681	(56.3)
<b>Net cash used in investing activities</b>	<b>(220,573)</b>	<b>(241,816)</b>	<b>(8.8)</b>

- Net cash used in investing activities decreased by 8.8% Y-o-Y. Growth of capital expenditures by 13.6% was partly offset by increased cash inflow from returned deposits

### Net cash used in financing activities

(RUB million)	9m		
	2016	2015	Δ %
Net changes in debt	(79,553)	31,975	-
Payment of dividends to shareholders	(2,598)	(8,735)	(70.3)
Other transactions	(1,106)	(2,167)	(49.0)
<b>Net cash (used in) / provided by financing activities</b>	<b>(83,257)</b>	<b>21,073</b>	<b>-</b>

- Scheduled repayment of previously held borrowings exceeded new funds raised in nine months 2016.

### Capital expenditures

(RUB million)	9m		
	2016	2015	Δ, %
Exploration and production	175,592	169,676	3.5
Consolidated subsidiaries	163,372	157,414	3.8
Joint operations	12,220	12,262	(0.3)
Refining	23,339	16,956	37.6
Marketing and distribution	4,358	7,071	(38.4)
Others	9,324	9,389	(0.7)
<b>Subtotal capital expenditures</b>	<b>212,613</b>	<b>203,092</b>	<b>4.7</b>
Change in advances issued and material used in capital expenditures, including	53,391	31,146	71.4
<b>Total capital expenditures</b>	<b>266,004</b>	<b>234,238</b>	<b>13.6</b>

- Capital expenditures for exploration and production increased 3.5% Y-o-Y primarily due to:
  - o Construction of major infrastructure for Novoport
  - o Construction of gas utilization facilities at major fields and in Orenburg region
- Capital expenditures for refining increased 37.6% Y-o-Y primarily due to construction of the "EURO PLUS" complex oil processing plant at Moscow refinery

### Debt and liquidity

(RUB million)	September 30, 2016	December 31, 2015
Short-term loans and borrowings	96,070	147,319
Long-term loans and borrowings	586,313	670,779
Cash and cash equivalents	(38,913)	(114,198)
Short-term deposits	(1,177)	(49,206)
<b>Net debt</b>	<b>642,293</b>	<b>654,694</b>
Short-term debt / total debt, %	14.1	18.0
Net debt and financial lease liabilities/ EBITDA for 12 months preceding	1.78	1.90

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments

- As at September 30, 2016, average debt maturity increased to 3.41 years from 3.33 years as at December 31, 2015
- The average interest rate increased from 4.31% as at December 31, 2015 to 5.09% as at September 30, 2016

## **Financial appendix**

### **EBITDA reconciliation**

3Q	2Q			9m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>60,527</b>	<b>50,155</b>	<b>20.7</b>	<b>Profit for the period</b>	<b>152,274</b>	<b>133,294</b>	<b>14.2</b>
15,823	9,511	66.4	Total income tax benefit / (expense)	33,615	23,813	41.2
7,845	8,714	(10.0)	Finance expense	26,283	21,401	22.8
(3,038)	(2,717)	11.8	Finance income	(8,302)	(10,493)	(20.9)
29,026	27,315	6.3	Depreciation, depletion and amortization	84,330	70,490	19.6
(3,933)	(13,815)	(71.5)	Net foreign exchange gain / (loss)	(20,043)	40,981	-
2,626	16,421	(84.0)	Other (loss) / gain, net	19,704	(7,243)	-
<b>108,876</b>	<b>95,584</b>	<b>13.9</b>	<b>EBITDA</b>	<b>287,861</b>	<b>272,243</b>	<b>5.7</b>
(8,437)	(10,307)	(18.1)	less Share of profit of associates and joint ventures	(24,468)	(24,249)	0.9
20,899	21,889	(4.5)	add Share of EBITDA of equity accounted investments	61,476	64,229	(4.3)
<b>121,338</b>	<b>107,166</b>	<b>13.2</b>	<b>Adjusted EBITDA</b>	<b>324,869</b>	<b>312,223</b>	<b>4.1</b>

### **Financial ratios**

#### **Profitability**

	September 30, 2016	September 30, 2015	Δ, p.p.
Adjusted EBITDA margin, %	29.24	28.39	0.8
Net profit margin, %	13.70	12.12	1.6
Return on assets (ROA), %	5.53	5.55	(0.0)
Return on equity (ROE), %	10.20	9.97	0.2
Adjusted Return on average capital employed (ROACE), %	11.23	13.62	(2.4)

#### **Adjusted ROACE calculation**

<b>For 12 months preceding</b>	September 30, 2016	September 30, 2015
Adjusted EBITDA	417,457	369,301
Depreciation, depletion and amortization	(141,472)	(115,503)
Effective income tax charge on EBIT	(61,489)	(38,688)
<b>Adjusted EBIT*</b>	<b>214,496</b>	<b>215,110</b>
<b>Average capital employed</b>	<b>1,910,677</b>	<b>1,579,853</b>
<b>Adjusted ROACE</b>	<b>11.23</b>	<b>13.62</b>

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

## Liquidity

	September 30, 2016	September 30, 2015
Current ratio	1.27	1.34
Quick ratio	0.63	0.68
Cash ratio	0.20	0.38

## Leverage

	September 30, 2016	September 30, 2015
Net debt/ Total Assets, %	25.72	22.09
Net debt/ Equity, %	45.97	42.08
Gearing, %	31.53	32.96
Net debt/ Market Capitalization	0.77	0.77
Net debt/ EBITDA	1.78	1.69
Total debt/ EBITDA	1.89	2.15

## 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 sharp drop in crude oil and petroleum product prices on international markets in 9 months 2016 had a negative impact on the Group's results, but the drop in oil prices was largely offset by changes in the exchange rate for the US dollar relative to the Russian ruble.

3Q 2016	2Q 2016	Δ, %		9m 2016	2015	Δ, %
<b>(US\$/ barrel)</b>			<b>International market</b>			
45.86	45.59	0.6	Brent	41.88	55.31	(24.3)
43.73	43.83	(0.2)	Urals Spot (average Med + NWE)	40.00	54.61	(26.8)
<b>(US\$/ tonne)</b>			<b>(US\$/ tonne)</b>			
472.82	503.24	(6.0)	Premium gasoline (average NWE)	454.59	605.51	(24.9)
375.07	391.65	(4.2)	Naphtha (average Med. + NWE)	360.00	465.67	(22.7)
409.63	412.96	(0.8)	Diesel fuel (average NWE)	379.27	530.33	(28.5)
402.75	405.70	(0.7)	Gasoil 0.2% (average Med.)	372.57	515.87	(27.8)
221.41	192.07	15.3	Fuel oil 3.5% (average NWE)	181.05	271.29	(33.3)
<b>(RUB/ tonne)</b>			<b>Domestic market</b>			
36,179	35,303	2.5	High-octane gasoline	34,390	32,476	5.9
31,260	31,243	0.1	Low-octane gasoline	29,549	28,267	4.5
28,947	26,682	8.5	Diesel fuel	27,206	28,756	(5.4)
6,908	5,523	25.1	Fuel oil	5,300	7,758	(31.7)

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 2016	2Q 2016		9m 2016	2015
0.8	1.2	Change in Consumer Price Index (CPI), %	4.1	10.4
64.62	65.89	Average RUB/US\$ exchange rate for the period	68.37	59.28
64.26	67.61	US\$/ RUB exchange rate as of the beginning of the period	72.88	56.26
63.16	64.26	US\$/ RUB exchange rate as of the end of the period	63.16	66.24
(0.02)	(0.05)	Depreciation (appreciation) of Russian rouble to US\$, %	(0.13)	0.18

## Hydrocarbon taxes

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

3Q 2016	2Q 2016	Δ, %		9m 2016	2015	Δ, %
<b>(US\$/ tonne)</b>			<b>Export duty</b>	<b>(US\$/ tonne)</b>		
88.67	67.17	32.0	Crude oil	70.26	129.56	(45.8)
35.43	26.83	32.1	Light petroleum products	28.08	62.12	(54.8)
35.43	26.83	32.1	Diesel	28.08	62.12	(54.8)
54.03	40.90	32.1	Gasoline	42.80	101.01	(57.6)
62.90	47.63	32.1	Naphtha	49.83	110.08	(54.7)
72.67	55.03	32.1	Heavy petroleum products	57.57	98.42	(41.5)
			<b>Mineral extraction tax</b>			
6,099	6,136	(0.6)	Crude oil (RUB/ tonne)	5,437	6,736	(19.3)

## **Crude oil and petroleum product 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)
	29.20 + 42% x (P – 182.50) for 2015
	29.20 + 42% x (P – 182.50) for 2016
>182.50	29.20 + 30% x (P – 182.50) for 2017

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

b) Under Federal Law # No. 239-FZ (December 3, 2012), the Government of the Russian Federation established 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:

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

where P is the Urals price (USD/tonne) and K is an incremental coefficient equal to 42% for 2015 and 36% for 2016.

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

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

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

### Export duty rate on petroleum products

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

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

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

	2015	2016	from 2017
Light and middle distillates			
Diesel	0.48	0.4	0.3
Lubricants oil			
Naphtha	0.85	0.71	0.55
Gasoline	0.78	0.61	0.3

## Excise duties on petroleum products

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

Clause 193 of the Russian Federation Tax Code (as amended by Russian Federal Law # No. 34-FZ dated February 29, 2016) established the following excise duty rates for petroleum products (in rubles/tonne):

	2015	2016 January 1-March 31	2016 April 1-December 31	2017
<b>Gasoline</b>				
Below Class 5	7,300	10,500	13,100	12,300
Class 5	5,530	7,530	10,130	7,430
Naphtha	11,300	10,500	13,100	12,300
Diesel fuel	3,450	4,150	5,293	5,093
Heating oil	3,000	4,150	5,293	5,093
Motor oil	6,500	6,000	6,000	5,400
Middle distillate	-	4,150	5,293	5,093

## Mineral extraction tax (MET) on crude oil

a) According to clause 193 of the Russian Federation Tax Code, the MET rate on crude oil (R, in rubles/tonne) is calculated using the following general formula:

	2015	2016	from 2017
MET oil - R	766 x Kc - Dm	857 x Kc - Dm	919 x Kc - Dm

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

**Kmet** – 530 for 2015, 559 starting from 2016.

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

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

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

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

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

- 1 – for oil produced from other deposits

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

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

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

Russian Federation tax law also provides for a zero rate of MET 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	2Q			9m		
2016	2016	Δ, %		2016	2015	Δ, %
6,099	6,136	(0.6)	Nominal crude oil MET rate, RUB/tonne	5,437	6,736	(19.3)
5,361	5,600	(4.3)	Effective crude oil MET rate, RUB/tonne	4,915	6,347	(22.6)
738	536		Difference between nominal and effective rates, RUB/tonne	522	389	
12.1%	8.7%		Difference between nominal and effective rates, %	9.6%	5.8%	

In 9 months 2016, the Group's effective MET rate was 4,915 RUB/tonne, or 522 RUB/tonne lower than the nominal MET rate established in Russian legislation. The difference results from the application of certain coefficients ( $Kv$ ,  $Kz$ ,  $Kd$  and  $Kkan$ ) that reduce the MET rate.



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

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

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

**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 2015-2016 according to the Federal Tariff Service of the Russian Federation).

**Kkm** is a correction coefficient equal to 5.5 for 2016 (4.4 for 2015).

### Tax benefits

Under 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 9 m 2016	Subsidiaries (Oil Fields) belonging to the Group
<b>MET for gas</b>	
Hard-to-recover factor Kc	LLC Gazpromneft Yamal LLC Gazpromneft Orenburg
<b>MET for oil</b>	
Small fields factor Kz	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft Orenburg
Depletion factor Kv	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok JSC Yuzhuralneftegas
Hard-to-recover factor Kd	OJSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos
Oil production region and oil quality factor Kkan	LLC Gazpromneft-Angara LLC Gazpromneft-Yamal
Zero MET rate for fields classified as belonging to Bazhenov formation	LLC Gazpromneft-Khantos
Lower MET rate for new offshore fields in the Pechora Sea	LLC Gazpromneft-Shelf

<b>Profit tax</b>	
16% rate (4% concession under Khanty-Mansiysk Autonomous Okrug regional legislation)	LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz
15.5% rate (4.5% concession under Yamalo-Nenets Autonomous Okrug regional legislation)	OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft
19.3% rate (0.7% concession under Tumen regional legislation)	LLC Gazpromneft-Khantos
15.5% rate (4.5% concession under St. Petersburg regional legislation)	PJSC Gazpromneft JSC Gazpromneft Aero LLC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft-Business Service LLC Gazpromneft-Regionalnie prodazhi LLC Gazpromneft-Marine Bunker
<b>Property tax</b>	
Property tax exemption for hydrocarbon fields in Khanty-Mansiysk Autonomous Okrug with the first hydrocarbon extraction after January 1, 2011 (under Khanty-Mansiysk Autonomous Okrug regional legislation)	LLC Gazpromneft-Khantos
1.1% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional legislation)	OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft
Property tax exemption for investment projects in Orenburg region (under Orenburg regional legislation)	LLC Gazpromneft Orenburg

## 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	2Q			9m		
2016	2016	Δ, %	(RUB per tonne)	2016	2015	Δ, %
<b>Crude oil</b>						
Export						
1,224	1,530	(20.1)	Pipeline	1,415	1,626	(13.0)
CIS						
1,532	1,532	-	Pipeline	1,510	1,142	32.3
Transportation to Refineries						
673	669	0.7	Omsk	673	424	58.9
1,493	1,503	(0.6)	Moscow	1,428	1,045	36.7
1,110	1,205	(7.9)	Yaroslavl	1,179	1,047	12.6
<b>Petroleum products</b>						
Export from ONPZ						
2,251	1,496	50.5	Gasoline	1,898	2,762	(31.3)
6,595	5,644	16.9	Fuel oil	5,677	4,360	30.2
4,967	5,368	(7.5)	Diesel fuel	4,956	4,463	11.0
Export from MNPZ						
1,441	1,786	(19.3)	Gasoline	1,746	1,915	(8.8)
3,139	3,579	(12.3)	Fuel oil	3,229	2,464	31.0
1,701	1,532	11.0	Diesel fuel	1,746	1,832	(4.7)
Export from YaNPZ						
2,025	1,552	30.5	Gasoline	1,696	1,380	22.9
2,425	1,539	57.5	Fuel oil	1,874	1,820	2.9
1,900	1,645	15.5	Diesel fuel	1,687	1,798	(6.2)

The Group's crude oil export route mix (tonnes) for 9 months 2016 and 9 months 2015 is presented below:

	9m	
	2016	2015
<b>Crude oil export</b>		
Primorsk Baltic Sea port	7.5%	3.0%
Druzhba pipeline	13.7%	18.6%
Port of Novorossiysk	31.8%	32.1%
ESPO pipeline and the port of Kozmino	17.7%	34.0%
Exported without using Transneft system, including:	29.3%	12.3%
Prirazlomnoye	14.2%	8.2%
Novoport	15.1%	4.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Crude oil export to CIS countries</b>		
Belarus	98.7%	95.3%
Uzbekistan	1.3%	4.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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