

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended December 31 and September 30, 2016 and years  
ended December 31, 2016 and 2015**

## Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of December 31, 2016 and results of operations for the three months ended December 31 and September 30, 2016 and years ended December 31, 2016 and 2015 and should be read in conjunction with the 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

4Q 2016	3Q 2016	Δ, %		12m		Δ, %
				2016	2015	
<b>Financial results (RUB million)</b>						
474,438	450,249	5.4	Sales*	1,695,764	1,655,775	2.4
131,329	121,338	8.2	Adjusted EBITDA**	456,198	404,811	12.7
5,791	5,594	3.5	RUB per toe of production	5,292	5,079	4.2
12.37	11.65	6.2	USD*** per boe of production	10.63	11.21	(5.2)
52,699	57,085	(7.7)	Profit attributable to Gazprom Neft	200,179	109,661	82.5
<b>Operational results</b>						
168.28	161.13	4.4	Hydrocarbon production including our share in joint ventures (MMboe)	640.17	592.21	8.1
22.68	21.69	4.6	Hydrocarbon production including our share in joint ventures (MMtoe)	86.20	79.70	8.2
1.83	1.75	4.6	Daily hydrocarbon production (MMboepd)	1.75	1.62	8.0
118.66	113.67	4.4	Crude oil and condensate production including our share in joint ventures (MMbbl)	447.03	416.12	7.4
297.76	284.67	4.6	Gas production including our share in joint ventures (bcf)	1,158.86	1,056.55	9.7
10.68	10.56	1.1	Refining throughput at own refineries and joint ventures (MMtonnes)	41.89	43.07	(2.7)

\*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

## 12 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 six Arc7 tankers and supporting icebreaker to provide year-round crude exports from Novoport field in 12 months of 2016. First 2 tankers were transferred to the Group in September and October 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 Salym 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 Rospolychem 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 fields in Yamalo-Nenets Autonomous Okrug at Zapadno-Chatylkinskoye license block with total geological reserves over 40 million tonnes, new field Novosamarskoye at Orenburg region and new field Idzhosh North in Serbia with total recoverable reserves of 0.4 million tonnes
- Received exploration and production licenses for Ostrovo field in Serbia, Yuzhno-Yamskoye, Kamennomyskoye and Yuzhno-Noyabrskoye fields
- Finished construction and started precommissioning at gas transportation infrastructure of East area at Orenburg field in December 2016. Pipeline with max capacity of 5.7 billion cubic meters will support gas delivery at Orenburg refinery
- Engineering center for catalysts testing for secondary crude oil processing opened at Omsk in December 2016. Group started production of new catalysts for cracking at Omsk refinery.

## Results for 12 months 2016 compared with 12 months 2015

- Total hydrocarbon production, including our share in joint ventures, increased by 8.2% to 86.20 MMtoe due to production growth at Novoport and Prirazlomnoye fields, SeverEnergia (Arcticgas), 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 2.7%. Crude processing volumes were optimized relative to crude oil and petroleum product prices and market conditions. The output of light oil products increased, whereas the most of the decline related to fuel oil and bunker fuel production
- Sales increased by 2.4% due to higher crude oil production and purchases volumes, and higher prices for petroleum products on the domestic market. The increase was trimmed by lower prices for crude oil and petroleum products on international markets
- Substantial production growth at major project fields (Novoport, Prirazlomnoye and Messoyakha) and management actions to optimize refining throughput, product and sales mix have resulted in a 12.7% increase in adjusted EBITDA outstripping sales growth
- 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 4Q 2016 compared with 3Q 2016

- Daily hydrocarbon production, including our share in joint ventures, increased to 1.83 MMboepd
- Total hydrocarbon production, including our share in joint ventures, increased by 4.6% Q-o-Q, mainly due to an increase in production at Novoport and Messoyakha fields
- Refining throughput increased by 1.1% Q-o-Q due to an increase of refining throughput at Panchevo as a result of overhaul in September 2016
- Sales increased by 5.4% due to increased crude oil production, higher prices for crude oil and petroleum products on international and domestic markets
- Increased production at major project fields (Novoport, Prirazlomnoye and Messoyakha) and management actions resulted in adjusted EBITDA increase (8.2%) outstripping sales growth
- Decline of net profit attributable to Gazprom Neft in 4Q 2016 resulted mainly from recognition of impairment provision for non-current assets.

## Operational data and analysis

### Exploration Drilling and Discoveries

	2016	2015	Δ, %
<b>Consolidated subsidiaries</b>			
Exploration drilling ('000 meters)	40	40	-
Exploration wells drilled	16	14	14.3
New fields discovered	3	-	-
New reservoirs discovered	21	14	50.0
<b>Proportionally consolidated companies</b>			
Exploration drilling ('000 meters)	12	3	300.0
Exploration wells drilled	2	1	100.0
New reservoirs discovered	-	6	-
<b>Joint ventures</b>			
Exploration drilling ('000 meters)	15	22	(31.8)
Exploration wells drilled	4	7	(42.9)
New reservoirs discovered	5	15	(66.7)

- Exploration drilling by consolidated subsidiaries in 2016 resulted in the discovery of 21 new reservoirs. Discoveries were made in Western Siberia (13 reservoirs) and Orenburg region (8 reservoirs). Discovered 3 new fields – Zapadno-Chatylkinskoye (Yamal-Nenets Autonomous Area), Novosamarskoye (Orenburg region), Idzhosh North (Serbia).

## Oil and Gas Reserves

(MMboe)	Gazprom Neft*	Share in proportionally consolidated companies and joint ventures						Total
		Slavneft	Tomskneft	SPD	Sever Energia	Northgas	Messo yakha	
<i>Proved Reserves (December 31, 2014)</i>	6,324	1,016	626	202	2,346	136	44	10,694
Production	(330)	(59)	(42)	(23)	(95)	(31)	-	(580)
Purchases of minerals in place***					80	605		685
Revision of previous estimates	330	33	10	1	97	(3)	1	469
<i>Proved Reserves (December 31, 2015)</i>	6,324	990	594	180	2,428	707	45	11,268
Production	(366)	(57)	(41)	(23)	(105)	(34)	(3)	(629)
Purchases of minerals in place								-
Revision of previous estimates	317	42	39	20	132	(3)	32	579
<i>Proved Reserves (December 31, 2016)**</i>	6,275	975	592	177	2,455	670	74	11,218
Total group probable reserves	4,757	1,706	416	118	1,349	154	418	8,918
Total group possible reserves	5,324	1,419	348	94	1,019	179	384	8,767

\* Reserves above include reserves of Badra and Kurdistan fields on a working interest basis, which differs from net entitlement basis used in Group consolidated financial statements

\*\* The Company's proved reserves as of December 31, 2016 includes proved gas reserves partly recalculated into liquid hydrocarbons (includes NGL)

\*\*\* The Group's ownership as of December 31, 2016 and 31, December 2015 is as follows: 50.0% of Northgas (9.1% as of December 31, 2014) and 46.7% of SeverEnergia (45.1% as of December 31, 2014)

- The Company's proved reserves as of December 31, 2016 totaled 6,275 MMboe, including 4,943 MMbbl of crude oil and liquid hydrocarbons and 7,995 bcf of gas
- Group proved reserves, including shares in equity associates, were 11,218 MMboe as of December 31, 2016, including 7,262 MMbbl of crude oil and liquid hydrocarbons and 23,732 bcf of gas
- Proved reserves figures exclude reserve volumes related to the Serbian subsidiary, NIS due to limitations on disclosure of this information in Serbia
- Reserve estimates are made by independent reservoir engineers DeGolyer and MacNaughton on the basis of standards of the Society of Petroleum Engineers Petroleum Reserves Management System (PRMS)
- PRMS reserves figures provided in the table differ from those reported in the supplementary information on oil and gas activities included with our consolidated financial statements. Oil and gas reserves included in that supplementary information are prepared using definitions provided by the US Securities and Exchange Commission (SEC), which require the use of a 12-month average of the first day of the month price for each month within the reporting period. The PRMS reserves in the above table use management's best estimate of future crude oil and natural gas prices.

## Production drilling

4Q	3Q	Δ, %		12m		Δ, %
2016	2016			2016	2015	
<b>Consolidated subsidiaries</b>						
553	735	(24.8)	Production drilling ('000 meters)	2,652	3,119	(15.0)
159	194	(18.0)	New production wells	692	770	(10.1)
58.81	118.54	(50.4)	Average new well flow (tonnes per day)	50.60	31.60	60.1
<b>Joint operations</b>						
217	229	(5.2)	Production drilling ('000 meters)	785	789	(0.5)
52	60	(13.3)	New production wells	213	206	3.4
<b>Joint ventures</b>						
294	354	(16.9)	Production drilling ('000 meters)	1,256	1,147	9.5
86	93	(7.5)	New production wells	287	226	27.0

- Production drilling decreased Q-o-Q due to seasonal factors

- 
- 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 decrease in average new well flow by consolidated subsidiaries of Q-o-Q was due to the decline in a number of high-debit wells at Novoport field (26 wells in 3Q vs 10 wells in 4Q)
  - The increase in average new well flow by consolidated subsidiaries of 60.1% Y-o-Y 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 was due to placing Vostochno-Messoyakhskoye field on production.

## Production

4Q 2016	3Q 2016	Δ, %		12m 2016	2015	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil and condensate</b>	<b>(MMtonnes)</b>		
3.38	3.47	(2.6)	Noyabrskneftegaz	13.81	14.39	(4.0)
3.65	3.66	(0.3)	Khantos***	14.54	14.36	1.3
1.20	1.22	(1.6)	Tomskneft	4.78	4.95	(3.4)
0.78	0.77	1.3	SPD	3.08	3.05	1.0
0.69	0.71	(2.8)	Orenburg****	2.76	2.65	4.2
0.25	0.25	-	NIS	1.02	1.12	(8.9)
0.42	0.43	(2.3)	Vostok**	1.69	1.59	6.3
1.32	0.96	37.5	Novy Port	2.92	0.34	758.8
0.71	0.54	31.5	Prirazlomnoye	2.15	0.87	147.1
0.24	0.25	(4.0)	Badra & Kurdistan	0.86	0.51	68.6
0.03	0.02	50.0	Others	0.10	0.17	(41.2)
<b>12.67</b>	<b>12.28</b>	<b>3.2</b>	<b>Total production by subsidiaries and joint operations</b>	<b>47.71</b>	<b>44.00</b>	<b>8.4</b>
1.86	1.88	(1.1)	Share in Slavneft	7.50	7.74	(3.1)
0.95	0.91	4.4	Share in SeverEnergiya (Arcticgas)	3.77	3.42	10.2
0.12	0.12	-	Share in Northgas	0.52	0.51	2.0
0.31	0.04	675.0	Share in Messoyakha	0.35	-	-
<b>3.24</b>	<b>2.95</b>	<b>9.8</b>	<b>Share in production of joint ventures</b>	<b>12.14</b>	<b>11.67</b>	<b>4.0</b>
<b>15.91</b>	<b>15.23</b>	<b>4.5</b>	<b>Total crude oil and condensate production</b>	<b>59.85</b>	<b>55.67</b>	<b>7.5</b>
<b>(bcm)</b>			<b>Gas*</b>	<b>(bcm)</b>		
2.67	2.42	10.3	Noyabrskneftegaz	9.95	9.38	6.1
0.28	0.26	7.7	Khantos***	1.07	0.79	35.4
0.26	0.22	18.2	Tomskneft	0.90	0.92	(2.2)
0.03	0.04	(25.0)	SPD	0.13	0.13	-
0.58	0.59	(1.7)	Orenburg****	2.36	2.25	4.9
0.13	0.14	(7.1)	NIS	0.55	0.57	(3.5)
0.03	0.04	(25.0)	Vostok	0.12	0.08	50.0
0.03	0.02	50.0	Others	0.10	0.03	233.3
<b>4.01</b>	<b>3.73</b>	<b>7.5</b>	<b>Total production by subsidiaries and joint operations</b>	<b>15.18</b>	<b>14.15</b>	<b>7.3</b>
0.11	0.12	(8.3)	Share in Slavneft	0.47	0.46	2.2
3.08	2.98	3.4	Share in SeverEnergiya (Arcticgas)	12.09	10.85	11.4
1.23	1.23	-	Share in Northgas	5.07	4.46	13.7
-	0.01	-	Share in Messoyakha	0.01	-	-
<b>4.42</b>	<b>4.34</b>	<b>1.8</b>	<b>Share in production of joint ventures</b>	<b>17.64</b>	<b>15.77</b>	<b>11.9</b>
<b>8.43</b>	<b>8.07</b>	<b>4.5</b>	<b>Total gas production</b>	<b>32.82</b>	<b>29.92</b>	<b>9.7</b>
<b>(MMtoe)</b>			<b>Hydrocarbons</b>	<b>(MMtoe)</b>		
15.89	15.27	4.1	Total production by subsidiaries and joint operations	59.90	55.37	8.2
6.79	6.42	5.8	Share in production of joint ventures	26.30	24.33	8.1
<b>22.68</b>	<b>21.69</b>	<b>4.6</b>	<b>Total hydrocarbon production</b>	<b>86.20</b>	<b>79.70</b>	<b>8.2</b>
<b>168.28</b>	<b>161.13</b>	<b>4.4</b>	<b>MMtoe</b>	<b>640.17</b>	<b>592.21</b>	<b>8.1</b>
<b>1.83</b>	<b>1.75</b>	<b>4.6</b>	<b>MMboe</b>	<b>1.75</b>	<b>1.62</b>	<b>8.0</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%)

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

- Group daily hydrocarbon production increased by 8.0% Y-o-Y and 4.6% Q-o-Q
- Group oil and condensate production increased by 7.5% Y-o-Y to 59.85 MMtoe, driven by increased production at Novoport and Prirazlomnoye fields, at SeverEnergiya (Arcticgas) fields, increased production in Iraq, and the start of production at Messoyakha field
- Group oil and condensate production Q-o-Q increased by 4.5% to 15.91 MMtonnes primarily due to increased production at Novoport, Messoyakha and Prirazlomnoye fields
- Group natural gas production increased by 9.7% 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 increased by 4.5% Q-o-Q due to increased natural gas production at Western Siberia fields and SeverEnergiya (Arcticgas).

### Crude oil purchases

4Q	3Q			12m		
2016	2016	Δ, %	(MMtonnes)	2016	2015	Δ, %
2.14	2.09	2.4	Crude oil purchases in Russia *	8.55	7.74	10.5
0.50	0.10	400.0	Crude oil purchases internationally	1.29	0.32	303.1
<b>2.64</b>	<b>2.19</b>	<b>20.5</b>	<b>Total crude purchased</b>	<b>9.84</b>	<b>8.06</b>	<b>22.1</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 10.5% Y-o-Y due to more effective domestic trading operations.

### Refining

4Q	3Q			12m		
2016	2016	Δ, %	(MMtonnes)	2016	2015	Δ, %
5.16	5.17	(0.2)	Omsk	20.48	20.89	(2.0)
2.66	2.87	(7.3)	Moscow	10.71	11.00	(2.6)
0.87	0.58	50.0	Pancevo	3.10	2.94	5.4
<b>8.69</b>	<b>8.62</b>	<b>0.8</b>	<b>Total throughput at refineries owned by subsidiaries</b>	<b>34.29</b>	<b>34.83</b>	<b>(1.6)</b>
1.99	1.94	2.6	Share in Yaroslavl	7.47	7.63	(2.1)
-	-	-	Share in Mozyr	0.13	0.61	(78.7)
<b>10.68</b>	<b>10.56</b>	<b>1.1</b>	<b>Total refining throughput</b>	<b>41.89</b>	<b>43.07</b>	<b>(2.7)</b>

#### Production of petroleum products

2.30	2.32	(0.9)	Gasoline	9.18	9.08	1.1
-	-	-	Class 4 and below	-	0.38	-
2.30	2.32	(0.9)	Class 5	9.18	8.70	5.5
0.39	0.33	18.2	Naphtha	1.56	1.45	7.6
3.13	2.92	7.2	Diesel	12.02	11.87	1.3
0.04	0.02	100.0	Class 2 and below	0.13	0.11	18.2
3.09	2.90	6.6	Class 5	11.89	11.76	1.1
2.18	1.45	50.3	Fuel oil	6.72	7.20	(6.7)
0.72	0.84	(14.3)	Jet fuel	3.04	3.00	1.3
0.42	0.74	(43.2)	Bunker fuel	2.41	3.67	(34.3)
0.35	0.75	(53.3)	Bitumen	2.02	1.86	8.6
0.11	0.11	-	Lubricants	0.42	0.40	5.0
0.66	0.63	4.8	Other	2.58	2.57	0.4
<b>10.26</b>	<b>10.09</b>	<b>1.7</b>	<b>Total production</b>	<b>39.95</b>	<b>41.10</b>	<b>(2.8)</b>

- Total throughput declined by 2.7% Y-o-Y. The Group optimized refining throughput relative to crude oil and petroleum product prices and demand. The output of light oil products increased, whereas the most of the decline related to fuel oil and bunker fuel production



- Refining throughput increased by 1.1% Q-o-Q due to increase of refining throughput at Panchevo as a result of overhaul in September 2016
- Bunker fuel production decreased by 34.3% Y-o-Y due to an overall decline in demand for transit bunker transportation from ship-owners
- Fuel oil production decreased by 6.7% 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 8.6% Y-o-Y due to increased market share
- Bunker fuel and bitumen production decreased by 43.2% and 53.3% Q-o-Q, respectively, primarily due to seasonal factors.

#### Petroleum product purchases on international markets

	4Q 2016		3Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	2,707	0.09	3,581	0.13	(24.4)	(30.8)
Jet fuel	1,395	0.04	962	0.03	45.0	33.3
Bunker fuel	997	0.05	577	0.02	72.8	150.0
Lubricants	247	0.00	248	0.01	(0.4)	-
<b>Total</b>	<b>5,346</b>	<b>0.18</b>	<b>5,368</b>	<b>0.19</b>	<b>(0.4)</b>	<b>(5.3)</b>

	12m 2016		12m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	12,604	0.46	7,869	0.27	60.2	70.4
Fuel oil	-	-	61	0.00	-	-
Jet fuel	3,667	0.11	9,385	0.26	(60.9)	(57.7)
Bunker fuel	3,115	0.13	5,054	0.19	(38.4)	(31.6)
Lubricants	1,076	0.01	1,124	0.01	(4.3)	-
<b>Total</b>	<b>20,462</b>	<b>0.71</b>	<b>23,493</b>	<b>0.73</b>	<b>(12.9)</b>	<b>(2.7)</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

	4Q 2016		3Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	386	0.01	666	0.03	(42.0)	(66.7)
Low octane gasoline	142	0.01	50	0.00	184.0	-
Diesel	358	0.02	820	0.03	(56.3)	(33.3)
Jet fuel	452	0.02	-	-	-	-
<b>Total</b>	<b>1,338</b>	<b>0.06</b>	<b>1,536</b>	<b>0.06</b>	<b>(12.9)</b>	<b>-</b>

	12m 2016		12m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,740	0.06	5,820	0.16	(70.1)	(62.5)
Low octane gasoline	502	0.02	533	0.02	(5.8)	-
Diesel	2,797	0.13	2,269	0.09	23.3	44.4
Jet fuel	452	0.02	-	-	-	-
Other	269	0.01	653	0.03	(58.8)	(66.7)
<b>Total</b>	<b>5,760</b>	<b>0.24</b>	<b>9,275</b>	<b>0.30</b>	<b>(37.9)</b>	<b>(20.0)</b>

## Domestic petroleum product purchases

	4Q 2016		3Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	13,154	0.41	12,920	0.37	1.8	10.8
Low octane gasoline	224	0.00	185	0.01	21.1	-
Naphtha	79	0.00	-	-	-	-
Diesel	5,661	0.18	6,654	0.21	(14.9)	(14.3)
Fuel oil	50	0.01	-	-	-	-
Jet fuel	1,375	0.04	1,845	0.11	(25.5)	(63.6)
Bunker fuel	805	0.04	484	0.03	66.3	33.3
Lubricants	177	0.00	200	0.00	(11.5)	-
Petrochemicals	39	0.00	209	0.00	(81.3)	-
Other	751	0.03	149	0.02	404.0	50.0
<b>Total</b>	<b>22,315</b>	<b>0.71</b>	<b>22,646</b>	<b>0.75</b>	<b>(1.5)</b>	<b>(5.3)</b>

	12m 2016		12m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	45,012	1.37	43,080	1.36	4.5	0.7
Low octane gasoline	409	0.01	-	-	-	-
Naphtha	79	0.00	-	-	-	-
Diesel	23,271	0.75	20,456	0.65	13.8	15.4
Fuel oil	60	0.01	919	0.10	(93.5)	(90.0)
Jet fuel	5,574	0.21	9,055	0.33	(38.4)	(36.4)
Bunker fuel	2,340	0.13	2,225	0.12	5.2	8.3
Lubricants	682	0.01	528	0.01	29.2	-
Petrochemicals	248	0.00	-	-	-	-
Other	1,456	0.07	2,099	0.07	(30.6)	-
<b>Total</b>	<b>79,131</b>	<b>2.56</b>	<b>78,362</b>	<b>2.64</b>	<b>1.0</b>	<b>(3.0)</b>

- Petroleum product purchases on the domestic market decreased 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

4Q 2016	3Q 2016	Δ, %		12m		
				2016	2015	Δ, %
<b>(units)</b>			<b>Active retail stations</b>	<b>(units)</b>		
1,173	1,169	0.3	In Russia	1,173	1,189	(1.3)
200	259	(22.8)	In CIS	200	243	(17.7)
420	417	0.7	In Eastern Europe	420	420	-
<b>1,793</b>	<b>1,845</b>	<b>(2.8)</b>	<b>Total retail stations (as at the end of the period)</b>	<b>1,793</b>	<b>1,852</b>	<b>(3.2)</b>
<b>20.54</b>	<b>19.96</b>	<b>2.9</b>	<b>Average daily sales per retail site in Russia (tonnes per day)</b>	<b>19.26</b>	<b>19.15</b>	<b>0.6</b>
<b>(MMtonnes)</b>			<b>Sales volume through premium channels</b>	<b>(MMtonnes)</b>		
4.96	5.17	(4.1)	Gasoline and Diesel	19.26	18.57	3.7
0.67	0.75	(10.7)	Jet	2.62	2.80	(6.4)
0.66	0.76	(13.2)	Bunkering	2.77	3.92	(29.3)
0.07	0.07	-	Lubricants	0.27	0.23	17.4
<b>6.36</b>	<b>6.75</b>	<b>(5.8)</b>	<b>Total sales volume through premium channels</b>	<b>24.92</b>	<b>25.52</b>	<b>(2.4)</b>

- The total number of active retail stations decreased by 3.2% Y-o-Y
- Average daily sales per retail station in Russia increased 0.6% Y-o-Y due to the Group's marketing activities despite falling demand for gasoline
- Sales volume through premium channels decreased by 2.4% 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 and imposition of excise duty for middle distillates
- Sales volumes through premium channels decreased by 5.8% Q-o-Q primarily due to seasonal factors.

## Results of operations

4Q	3Q			12m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
474,438	450,249	5.4	Sales*	1,695,764	1,655,775	2.4
(39,950)	(40,804)	(2.1)	Less export duties and sales related excise tax	(150,156)	(187,832)	(20.1)
<b>434,488</b>	<b>409,445</b>	<b>6.1</b>	<b>Total revenue</b>	<b>1,545,608</b>	<b>1,467,943</b>	<b>5.3</b>
<b>Costs and other deductions</b>						
(98,432)	(94,534)	4.1	Purchases of oil, gas and petroleum products	(351,294)	(345,909)	1.6
(56,592)	(51,464)	10.0	Production and manufacturing expenses	(201,862)	(214,267)	(5.8)
(31,584)	(26,976)	17.1	Selling, general and administrative expenses	(108,981)	(100,176)	8.8
(34,756)	(31,493)	10.4	Transportation expenses	(132,984)	(133,320)	(0.3)
(40,487)	(29,026)	39.5	Depreciation, depletion and amortization	(129,845)	(114,083)	13.8
(107,469)	(104,530)	2.8	Taxes other than income tax	(381,131)	(353,145)	7.9
(887)	(9)	9,755.6	Exploration expenses	(1,195)	(922)	29.6
<b>(370,207)</b>	<b>(338,032)</b>	<b>9.5</b>	<b>Total operating expenses</b>	<b>(1,307,292)</b>	<b>(1,261,822)</b>	<b>3.6</b>
<b>64,281</b>	<b>71,413</b>	<b>(10.0)</b>	<b>Operating profit</b>	<b>238,316</b>	<b>206,121</b>	<b>15.6</b>
9,648	8,437	14.4	Share of profit of associates and joint ventures	34,116	24,956	36.7
8,257	3,933	109.9	Net foreign exchange gain / (loss)	28,300	(67,910)	-
2,769	3,038	(8.9)	Finance income	11,071	14,732	(24.9)
(7,999)	(7,845)	2.0	Finance expense	(34,282)	(33,943)	1.0
(3,306)	(2,626)	25.9	Other (loss) / gain, net	(17,982)	1,494	-
<b>9,369</b>	<b>4,937</b>	<b>89.8</b>	<b>Total other income / (expense)</b>	<b>21,223</b>	<b>(60,671)</b>	<b>-</b>
<b>73,650</b>	<b>76,350</b>	<b>(3.5)</b>	<b>(Loss) / Profit before income tax</b>	<b>259,539</b>	<b>145,450</b>	<b>78.4</b>
(7,600)	(5,554)	36.8	Current income tax (expense)	(21,290)	(38,026)	(44.0)
(8,599)	(10,269)	(16.3)	Deferred income tax (expense) / benefit	(28,524)	8,774	-
<b>(16,199)</b>	<b>(15,823)</b>	<b>2.4</b>	<b>Total income tax benefit / (expense)</b>	<b>(49,814)</b>	<b>(29,252)</b>	<b>70.3</b>
<b>57,451</b>	<b>60,527</b>	<b>(5.1)</b>	<b>(Loss) / Profit for the period</b>	<b>209,725</b>	<b>116,198</b>	<b>80.5</b>
(4,752)	(3,442)	38.1	Less: Profit attributable to non-controlling interest	(9,546)	(6,537)	46.0
<b>52,699</b>	<b>57,085</b>	<b>(7.7)</b>	<b>Profit attributable to Gazprom Neft</b>	<b>200,179</b>	<b>109,661</b>	<b>82.5</b>

\* Sales include export duties and sales related excise tax

## Revenues

4Q	3Q			12m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>Crude oil</b>						
83,999	57,286	46.6	Export	225,137	115,905	94.2
94,511	69,280	36.4	Export sales	266,661	180,240	47.9
(10,512)	(11,994)	(12.4)	Less related export duties	(41,524)	(64,335)	(35.5)
3,979	4,075	(2.4)	International markets	12,683	9,146	38.7
4,303	5,094	(15.5)	Export to CIS	23,528	27,581	(14.7)
4,303	5,094	(15.5)	Export sales and sales in CIS	23,657	28,416	(16.7)
-	-	-	Less related export duties	(129)	(835)	(84.6)
27,446	23,162	18.5	Domestic	94,809	81,187	16.8
<b>119,727</b>	<b>89,617</b>	<b>33.6</b>	<b>Total crude oil revenue</b>	<b>356,157</b>	<b>233,819</b>	<b>52.3</b>
<b>Gas</b>						
412	480	(14.2)	International markets	1,853	3,411	(45.7)
8,440	7,517	12.3	Domestic	30,116	28,243	6.6
<b>8,852</b>	<b>7,997</b>	<b>10.7</b>	<b>Total gas revenue</b>	<b>31,969</b>	<b>31,654</b>	<b>1.0</b>
<b>Petroleum products</b>						
52,243	41,939	24.6	Export	184,272	202,477	(9.0)
62,185	50,313	23.6	Export sales	215,837	260,731	(17.2)
(9,942)	(8,374)	18.7	Less related export duties	(31,565)	(58,254)	(45.8)
27,952	26,076	7.2	International markets	99,440	107,405	(7.4)
47,110	46,073	2.3	Sales on international markets	175,247	171,749	2.0
(19,158)	(19,997)	(4.2)	Less sales related excise	(75,807)	(64,344)	17.8
19,707	18,612	5.9	CIS	71,838	78,070	(8.0)
20,045	19,051	5.2	Export sales and sales in CIS	72,969	78,134	(6.6)
(338)	(439)	(23.0)	Less related export duties	(1,131)	(64)	1,667.2
190,789	211,033	(9.6)	Domestic	743,721	740,520	0.4
<b>290,691</b>	<b>297,660</b>	<b>(2.3)</b>	<b>Total petroleum products revenue</b>	<b>1,099,271</b>	<b>1,128,472</b>	<b>(2.6)</b>
<b>15,218</b>	<b>14,171</b>	<b>7.4</b>	<b>Other revenue</b>	<b>58,211</b>	<b>73,998</b>	<b>(21.3)</b>
<b>434,488</b>	<b>409,445</b>	<b>6.1</b>	<b>Total revenue</b>	<b>1,545,608</b>	<b>1,467,943</b>	<b>5.3</b>

## Sales volumes

4Q	3Q			12m		
2016	2016	Δ, %		2016	2015	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil</b>			
4.22	3.27	29.1	Export	12.89	8.11	58.9
0.21	0.21	-	Sales on international markets*	0.73	0.48	52.1
0.29	0.34	(14.7)	Export to CIS	1.66	1.88	(11.7)
1.99	1.82	9.3	Domestic sales	7.43	6.14	21.0
<b>6.71</b>	<b>5.64</b>	<b>19.0</b>	<b>Total crude oil sales</b>	<b>22.71</b>	<b>16.61</b>	<b>36.7</b>
<b>(bcm)</b>			<b>Gas</b>			
0.04	0.06	(33.3)	International markets	0.18	0.22	(18.2)
3.45	3.29	4.9	Domestic sales	13.28	13.56	(2.1)
<b>3.49</b>	<b>3.35</b>	<b>4.2</b>	<b>Total gas sales</b>	<b>13.46</b>	<b>13.78</b>	<b>(2.3)</b>
<b>(MMtonnes)</b>			<b>Petroleum products</b>			
2.82	2.43	16.0	Export	10.77	11.81	(8.8)
0.91	0.86	5.8	Sales on international markets	3.30	3.25	1.5
0.65	0.63	3.2	Export and sales in CIS	2.41	2.28	5.7
6.51	7.58	(14.1)	Domestic sales	27.11	27.50	(1.4)
<b>10.89</b>	<b>11.50</b>	<b>(5.3)</b>	<b>Total petroleum products sales</b>	<b>43.59</b>	<b>44.84</b>	<b>(2.8)</b>

\* Including production sharing agreements (PSA)

### Average realized sales prices

4Q 2016	3Q 2016	Δ, %		12m		Δ, %
(RUB per tonne)			Crude oil	(RUB per tonne)		
22,396	21,187	5.7	Export	20,687	22,224	(6.9)
14,838	14,982	(1.0)	Export and sales in CIS	14,251	15,115	(5.7)
13,792	12,726	8.4	Domestic sales	12,760	13,223	(3.5)
(RUB per tonne)			Petroleum products	(RUB per tonne)		
22,051	20,705	6.5	Export	20,041	22,077	(9.2)
30,838	30,240	2.0	Export and sales in CIS	30,278	34,269	(11.6)
29,307	27,841	5.3	Domestic sales	27,433	26,928	1.9

### Crude oil sales

- Crude export volumes increased by 29.1% Q-o-Q and 58.9% Y-o-Y due to an increase in crude oil production at Novoport, Prirazlomnoye and Messoyakha fields
- Oil sales on international markets increased by 52.1% Y-o-Y due to production growth in Iraq
- Crude export volumes to the CIS decreased by 14.7% Q-o-Q and 11.7% Y-o-Y due to reduction of the oil export to Belarus and Uzbekistan
- Domestic crude volumes increased by 9.3% Q-o-Q and 21.0% 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 increased by 4.9% Q-o-Q due to increased natural gas production.

## Petroleum product exports

	4Q 2016		3Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	7,505	0.28	6,558	0.27	14.4	3.7
Diesel	20,049	0.69	18,634	0.70	7.6	(1.4)
Fuel oil	23,673	1.42	15,215	1.07	55.6	32.7
Jet fuel	2,449	0.08	2,017	0.06	21.4	33.3
Bunker fuel	4,146	0.18	4,148	0.17	-	5.9
Bitumen	98	0.00	194	0.02	(49.5)	-
Lubricants	1,289	0.03	1,151	0.02	12.0	50.0
Petrochemicals	1,095	0.04	1,101	0.04	(0.5)	-
Other	1,881	0.10	1,295	0.08	45.3	25.0
<b>Total</b>	<b>62,185</b>	<b>2.82</b>	<b>50,313</b>	<b>2.43</b>	<b>23.6</b>	<b>16.0</b>

	12m 2016		12m 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	29,577	1.21	28,904	1.08	2.3	12.0
Diesel	85,187	3.30	98,405	3.34	(13.4)	(1.2)
Fuel oil	59,988	4.63	78,146	5.45	(23.2)	(15.0)
Jet fuel	7,377	0.24	17,947	0.54	(58.9)	(55.6)
Bunker fuel	15,455	0.70	17,304	0.68	(10.7)	2.9
Bitumen	539	0.04	406	0.03	32.8	33.3
Lubricants	5,503	0.12	5,570	0.12	(1.2)	-
Petrochemicals	5,407	0.20	8,415	0.38	(35.7)	(47.4)
Other	4,538	0.24	3,477	0.12	30.5	100.0
<b>Total</b>	<b>215,837</b>	<b>10.77</b>	<b>260,731</b>	<b>11.81</b>	<b>(17.2)</b>	<b>(8.8)</b>

- Petroleum product exports increased by 16.0% 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 55.6% 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 47.4% Y-o-Y due to reduced production and a decline in prices on international markets.

## Petroleum product sales in the CIS

	4Q 2016		3Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	8,149	0.24	8,385	0.25	(2.8)	(4.0)
Low octane gasoline	309	0.00	568	0.02	(45.6)	-
Diesel	8,343	0.26	6,781	0.21	23.0	23.8
Jet fuel	1,247	0.04	682	0.02	82.8	100.0
Bitumen	604	0.05	866	0.09	(30.3)	(44.4)
Lubricants	669	0.02	819	0.02	(18.3)	-
Petrochemicals and Other	724	0.04	950	0.02	(23.8)	100.0
<b>Total</b>	<b>20,045</b>	<b>0.65</b>	<b>19,051</b>	<b>0.63</b>	<b>5.2</b>	<b>3.2</b>

	12m 2016		12m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	33,168	0.97	32,971	0.81	0.6	19.8
Low octane gasoline	2,551	0.08	5,019	0.14	(49.2)	(42.9)
Diesel	25,168	0.77	26,479	0.71	(5.0)	8.5
Fuel oil	476	0.07	471	0.08	1.1	(12.5)
Jet fuel	3,946	0.14	5,505	0.17	(28.3)	(17.6)
Bitumen	2,087	0.22	2,395	0.19	(12.9)	15.8
Lubricants	2,766	0.07	2,435	0.07	13.6	-
Petrochemicals and Other	2,807	0.09	2,859	0.11	(1.8)	(18.2)
<b>Total</b>	<b>72,969</b>	<b>2.41</b>	<b>78,134</b>	<b>2.28</b>	<b>(6.6)</b>	<b>5.7</b>

## Domestic sales of petroleum products

	4Q 2016		3Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	83,243	2.27	91,766	2.41	(9.3)	(5.8)
Low octane gasoline	220	0.00	283	0.01	(22.3)	-
Diesel	60,509	1.90	68,942	2.22	(12.2)	(14.4)
Fuel oil	4,573	0.54	2,665	0.38	71.6	42.1
Jet fuel	20,111	0.68	20,869	0.79	(3.6)	(13.9)
Bunker fuel	8,379	0.46	8,868	0.58	(5.5)	(20.7)
Bitumen	2,010	0.22	5,913	0.63	(66.0)	(65.1)
Lubricants	3,175	0.06	3,345	0.06	(5.1)	-
Petrochemicals	5,289	0.25	5,043	0.25	4.9	-
Other	3,280	0.13	3,339	0.25	(1.8)	(48.0)
<b>Total</b>	<b>190,789</b>	<b>6.51</b>	<b>211,033</b>	<b>7.58</b>	<b>(9.6)</b>	<b>(14.1)</b>

	12m 2016		12m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	327,909	9.00	311,214	8.94	5.4	0.7
Low octane gasoline	1,051	0.03	2,028	0.07	(48.2)	(57.1)
Diesel	240,976	7.82	231,189	7.44	4.2	5.1
Fuel oil	10,183	1.62	11,629	1.55	(12.4)	4.5
Jet fuel	76,164	2.85	76,269	2.81	(0.1)	1.4
Bunker fuel	31,544	2.17	53,451	3.30	(41.0)	(34.2)
Bitumen	12,444	1.57	14,604	1.50	(14.8)	4.7
Lubricants	12,171	0.24	10,249	0.23	18.8	4.3
Petrochemicals	19,900	1.08	19,607	1.01	1.5	6.9
Other	11,379	0.73	10,280	0.65	10.7	12.3
<b>Total</b>	<b>743,721</b>	<b>27.11</b>	<b>740,520</b>	<b>27.50</b>	<b>0.4</b>	<b>(1.4)</b>

- Petroleum product sales on the domestic market decreased by 14.1% Q-o-Q mainly due to seasonal factors



- Bunker fuel sales decreased by 34.2% Y-o-Y due to an overall decline in demand for transit bunker transportation from ship-owners
- Diesel sales increased by 5.1% Y-o-Y due to a higher volume of trading operations on the domestic market
- Bitumen sales increased by 4.7% Y-o-Y due to increased market capacity and Group share.

### Other revenue

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

- Other revenue decreased by 21.3% 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 4.1% Q-o-Q due to an increased volume of crude oil purchases and higher petroleum product and crude oil prices on international and domestic markets.

### Production and manufacturing expenses

4Q	3Q			12m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>29,120</b>	<b>27,528</b>	<b>5.8</b>	<b>Upstream expenses</b>	<b>106,490</b>	<b>98,095</b>	<b>8.6</b>
22,429	20,585	9.0	Consolidated subsidiaries inside Russia including	80,392	72,854	10.3
18,005	16,798	7.2	Brownfields	65,960	61,225	7.7
1,830	1,725	6.1	<i>RUB per toe</i>	1,692	1,582	6.9
3.96	3.64	8.7	<i>USD* per boe</i>	3.44	3.54	(2.8)
4,424	3,787	16.8	Greenfields	14,432	11,629	24.1
2,273	2,711	(16.2)	Consolidated subsidiaries outside Russia (including PSA)**	9,655	9,426	2.4
4,418	4,232	4.4	Joint operations	16,443	15,815	4.0
1,990	1,932	3.0	<i>RUB per toe</i>	1,892	1,787	5.9
4.30	4.08	5.5	<i>USD* per boe</i>	3.85	4.00	(3.7)
<b>15,304</b>	<b>13,262</b>	<b>15.4</b>	<b>Downstream expenses</b>	<b>53,132</b>	<b>53,549</b>	<b>(0.8)</b>
9,423	7,414	27.1	Refining expenses at own refineries	30,619	30,724	(0.3)
1,084	860	26.1	<i>RUB per tonne</i>	893	882	1.2
2.35	1.82	29.2	<i>USD* per bbl</i>	1.82	1.97	(7.9)
3,182	3,162	0.6	Refining expenses at refineries of joint ventures***	12,453	14,648	(15.0)
1,599	1,630	(1.9)	<i>RUB per tonne</i>	1,639	1,778	(7.8)
3.46	3.44	0.5	<i>USD* per bbl</i>	3.33	3.98	(16.2)
2,699	2,686	0.5	Lubricants manufacturing expenses	10,060	8,177	23.0
<b>7,918</b>	<b>7,661</b>	<b>3.4</b>	<b>Transportation expenses to refineries</b>	<b>29,561</b>	<b>27,541</b>	<b>7.3</b>
<b>4,250</b>	<b>3,013</b>	<b>41.1</b>	<b>Other operating expenses</b>	<b>12,679</b>	<b>35,082</b>	<b>(63.9)</b>
<b>56,592</b>	<b>51,464</b>	<b>10.0</b>	<b>Total</b>	<b>201,862</b>	<b>214,267</b>	<b>(5.8)</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 at consolidated subsidiaries in Russia increased by 10.3% Y-o-Y due to increased crude production at greenfields and increased workover operations to intensify production
- Upstream expenses per toe at consolidated subsidiaries at brownfields increased by 6.9% Y-o-Y due to:
  - Enhanced oil recovery activities, including the partial substitution of new well drilling by more effective workover operations
  - Accelerated transition to the electric submersible pump (ESP) rental program
  - Expanded activities under the HSE program
  - Higher natural monopoly tariffs and inflationary pressures
  - Management actions to offset expenses increase
- Upstream expenses at consolidated subsidiaries outside Russia increased by 2.4% Y-o-Y due to increased production in Iraq (Badra project)
- Upstream expenses at joint operations increased by 4.0% Y-o-Y mainly due to:
  - 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 repair
  - an increase in Tomskneft expenses as a result of higher tariffs, increased HSE program activities, increased well workover operations to intensify production
- 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 26.1% Q-o-Q due to:
  - Increased heat charges in winter period (seasonal factor)
  - Increased expenditure on HSE program at Omsk refinery
  - Increased current repair expenses
  - Increased expenditure for seasonal fuel additives and increased MTBE purchases to sustain gasoline production as a result of catalytic cracking repair at Moscow refinery in December 2016
- Refining expenses per tonne at own refineries increased by 1.2% Y-o-Y primarily due to higher tariffs of natural monopolies. Tariffs growth was partially offset by:
  - Optimized consumption of fuel (fuel oil consumption instead of natural gas at Omsk refinery)
  - Optimized use of additives and components in diesel production
- Refining expenses per tonne at refineries of joint ventures declined by 7.8% 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 7.3% Y-o-Y mainly due to a 5.8% increase in oil transportation tariffs
- Other operating expenses decreased by 63.9% Y-o-Y mainly due to transfer of operator function to Messoyakha.

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

### **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 8.8% Y-o-Y, driven by:
  - Higher expenses at foreign subsidiaries due to ruble depreciation
  - Business growth, Group expansion 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 remained unchanged Y-o-Y. Crude oil transportation expenses increased due to higher crude sales volumes. Petroleum product transportation expenses decreased due to a reduction of petroleum product sales volumes and logistics chain optimization.

### 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 13.8% Y-o-Y in line with an increase in depreciable assets driven by implementation of the investment program and increased production
- Depreciation, depletion and amortization expenses increase by 39.5% Q-o-Q due to
  - recognition of impairment provision related to oil and gas assets in Iraq
  - an increase in depreciable assets driven by implementation of the investment program and increased production.

### Taxes other than income tax

4Q	3Q			12m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
70,827	63,745	11.1	Mineral extraction taxes	237,300	256,477	(7.5)
28,638	33,054	(13.4)	Excise	112,102	68,358	64.0
5,040	4,400	14.5	Social security contributions	18,530	15,599	18.8
2,964	3,331	(11.0)	Other taxes	13,199	12,711	3.8
<b>107,469</b>	<b>104,530</b>	<b>2.8</b>	<b>Total taxes other than income tax</b>	<b>381,131</b>	<b>353,145</b>	<b>7.9</b>

- Taxes other than income tax increased by 7.9% Y-o-Y. Excise taxes increased by 64.0% due to higher rates and imposition of an excise tax on middle distillates. The increase was partly offset by an 7.5% Y-o-Y MET decrease due to a decline in oil prices
- Taxes other than income tax increased by 2.8% Q-o-Q. MET increased by 11.1% Q-o-Q due to growth of production and oil prices, which was partly offset by excise tax decreased by 13.4% in the result of a decline in production at refineries of consolidated subsidiaries in Russia in 4Q 2016.

### Share of profit of equity accounted investments

4Q	3Q			12m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
2,802	2,885	(2.9)	Slavneft	13,916	9,265	50.2
4,081	4,008	1.8	SeverEnergiya (Arcticgas)	14,472	11,913	21.5
1,581	637	148.2	Nortgaz	3,009	3,466	(13.2)
1,184	907	30.5	Other companies	2,719	312	771.5
<b>9,648</b>	<b>8,437</b>	<b>14.4</b>	<b>Share of profit of associates and joint ventures</b>	<b>34,116</b>	<b>24,956</b>	<b>36.7</b>

- 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) increased by 21.5% Y-o-Y as a result of increased hydrocarbons production and reduction of financial expenses.

### Other income and expenses

- Other expenses in 2016 mainly include inventories and non-current assets disposal and impairment.

### 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)	12m		
	2016	2015	Δ %
Net cash provided by operating activities	321,297	285,175	12.7
Net cash used in investing activities	(323,854)	(314,511)	3.0
Net cash (used in) / provided by financing activities	(68,430)	82,193	-
<b>(Decrease) / Increase in cash and cash equivalents</b>	<b>(70,987)</b>	<b>52,857</b>	<b>-</b>

### Net cash provided by operating activities

(RUB million)	12m		
	2016	2015	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	361,567	312,169	15.8
Net changes in working capital	15,216	18,342	(17.0)
Income tax paid	(22,158)	(19,522)	13.5
Interest paid	(36,476)	(28,229)	29.2
Dividends received	3,148	2,415	30.4
<b>Net cash provided by operating activities</b>	<b>321,297</b>	<b>285,175</b>	<b>12.7</b>

- Net cash provided by operating activities increased by 12.7% Y-o-Y primarily due to an increase in operating profit.

### Net cash used in investing activities

(RUB million)	12m		
	2016	2015	Δ %
Capital expenditures	(384,817)	(349,036)	10.3
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(2,028)	197	-
Net changes in deposits	48,517	45,745	6.1
Net changes in loans issued and other investments	(2,104)	(22,603)	(90.7)
Other transactions	16,578	11,186	48.2
<b>Net cash used in investing activities</b>	<b>(323,854)</b>	<b>(314,511)</b>	<b>3.0</b>

- Net cash used in investing activities increased by 3.0% Y-o-Y due to higher capital expenditures.

### Net cash used in financing activities

(RUB million)	12m		
	2016	2015	Δ %
Net changes in debt	(63,929)	121,565	-
Payment of dividends to shareholders	(2,598)	(36,346)	(92.9)
Other transactions	(1,903)	(3,026)	(37.1)
<b>Net cash (used in) / provided by financing activities</b>	<b>(68,430)</b>	<b>82,193</b>	<b>-</b>

- Scheduled repayment of previously held borrowings exceeded new funds raised in 12 months 2016.

## Capital expenditures

(RUB million)	12m		
	2016	2015	Δ, %
Exploration and production	245,256	255,235	(3.9)
Consolidated subsidiaries	228,084	239,199	(4.6)
Joint operations	17,172	16,036	7.1
Refining	50,095	31,552	58.8
Marketing and distribution	9,728	13,547	(28.2)
Others	14,724	13,317	10.6
<b>Subtotal capital expenditures</b>	<b>319,803</b>	<b>313,651</b>	<b>2.0</b>
Change in advances issued and material used in capital expenditures, including	65,014	35,385	83.7
<b>Total capital expenditures</b>	<b>384,817</b>	<b>349,036</b>	<b>10.3</b>

- Capital expenditures for exploration and production decreased by 3.9% Y-o-Y due to a decline of activities in Iraq and rescheduling of commercial development at Chona project
- Capital expenditures for refining increased by 58.8% Y-o-Y due to second stage of modernisation programm at Omsk and Moscow refinery.

## Debt and liquidity

(RUB million)	December 31, 2016	December 31, 2015
Short-term loans and borrowings	80,187	147,319
Long-term loans and borrowings	596,221	670,779
Cash and cash equivalents	(33,621)	(114,198)
Short-term deposits	(886)	(49,206)
<b>Net debt</b>	<b>641,901</b>	<b>654,694</b>
Short-term debt / total debt, %	11.9	18.0
Net debt and financial lease liabilities/ EBITDA for 12 months preceding	1.60	1.90

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments
- As at December 31, 2016, average debt maturity increased to 3.60 years from 3.33 years as at December 31, 2015
- The average interest rate increased from 4.31% as at December 31, 2015 to 5.52% as at December 31, 2016 mainly due to the increased share of loans denominated in ruble in debt portfolio.

## Financial appendix

### EBITDA reconciliation

4Q 2016	3Q 2016	Δ, %	(RUB million)	12m		
				2016	2015	Δ, %
<b>57,451</b>	<b>60,527</b>	<b>(5.1)</b>	<b>Profit for the period</b>	<b>209,725</b>	<b>116,198</b>	<b>80.5</b>
16,199	15,823	2.4	Total income tax benefit / (expense)	49,814	29,252	70.3
7,999	7,845	2.0	Finance expense	34,282	33,943	1.0
(2,769)	(3,038)	(8.9)	Finance income	(11,071)	(14,732)	(24.9)
40,487	29,026	39.5	Depreciation, depletion and amortization	129,845	114,083	13.8
(8,257)	(3,933)	109.9	Net foreign exchange gain / (loss)	(28,300)	67,910	-
3,306	2,626	25.9	Other (loss) / gain, net	17,982	(1,494)	-
<b>114,416</b>	<b>108,876</b>	<b>5.1</b>	<b>EBITDA</b>	<b>402,277</b>	<b>345,160</b>	<b>16.5</b>
(9,648)	(8,437)	14.4	less Share of profit of associates and joint ventures	(34,116)	(24,956)	36.7
26,561	20,899	27.1	add Share of EBITDA of equity accounted investments	88,037	84,607	4.1
<b>131,329</b>	<b>121,338</b>	<b>8.2</b>	<b>Adjusted EBITDA</b>	<b>456,198</b>	<b>404,811</b>	<b>12.7</b>

## Financial ratios

### Profitability

	December 31, 2016	December 31, 2015	Δ, p.p.
Adjusted EBITDA margin, %	29.52	27.58	1.9
Net profit margin, %	13.57	7.92	5.7
Return on assets (ROA), %	8.33	5.07	3.3
Return on equity (ROE), %	15.58	9.77	5.8
Adjusted Return on average capital employed (ROACE), %	11.77	12.15	(0.4)

### Adjusted ROACE calculation

<b>For 12 months preceding</b>	December 31, 2016	December 31, 2015
Adjusted EBITDA	456,198	404,811
Depreciation, depletion and amortization	(158,919)	(140,659)
Effective income tax charge on EBIT	(62,429)	(53,501)
<b>Adjusted EBIT*</b>	<b>234,850</b>	<b>210,651</b>
<b>Average capital employed</b>	<b>1,994,626</b>	<b>1,733,285</b>
<b>Adjusted ROACE</b>	<b>11.77</b>	<b>12.15</b>

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

### Liquidity

	December 31, 2016	December 31, 2015	Δ, %
Current ratio	1.37	1.46	(6.2)
Quick ratio	0.66	0.79	(16.5)
Cash ratio	0.26	0.51	(49.0)

### Leverage

	December 31, 2016	December 31, 2015	Δ, p.p.
Net debt/ Total Assets, %	25.18	26.34	(1.2)
Net debt/ Equity, %	44.45	52.44	(8.0)
Gearing, %	30.80	36.05	(5.3)
			Δ, %
Net debt/ Market Capitalization	0.64	0.90	(28.9)
Net debt/ EBITDA	1.60	1.90	(15.8)
Total debt/ EBITDA	1.68	2.37	(29.1)

## Main macroeconomic factors affecting operational results

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

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

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

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

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

The decrease in crude oil and petroleum product prices on international markets in 12 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.

4Q 2016	3Q 2016	Δ, %		12m		
				2016	2015	Δ, %
<b>(US\$/ barrel)</b>			<b>International market</b>		<b>(US\$/ barrel)</b>	
49.33	45.86	7.6	Brent	43.73	52.46	(16.6)
48.12	43.73	10.0	Urals Spot (average Med + NWE)	42.02	51.49	(18.4)
<b>(US\$/ tonne)</b>					<b>(US\$/ tonne)</b>	
504.64	472.82	6.7	Premium gasoline (average NWE)	467.05	569.96	(18.1)
431.69	375.07	15.1	Naphtha (average Med. + NWE)	377.85	450.05	(16.0)
456.82	409.63	11.5	Diesel fuel (average NWE)	398.58	500.70	(20.4)
447.42	402.75	11.1	Gasoil 0.1% (average Med.)	391.21	486.26	(19.5)
256.87	221.41	16.0	Fuel oil 3.5% (average NWE)	199.93	247.49	(19.2)
<b>(RUB/ tonne)</b>			<b>Domestic market</b>		<b>(RUB/ tonne)</b>	
35,122	36,179	(2.9)	High-octane gasoline	34,574	32,488	6.4
30,777	31,260	(1.5)	Low-octane gasoline	29,858	28,435	5.0
30,226	28,947	4.4	Diesel fuel	27,965	28,944	(3.4)
8,288	6,908	20.0	Fuel oil	6,051	7,202	(16.0)

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.

4Q 2016	3Q 2016		12m	
			2016	2015
1.3	0.8	Change in Consumer Price Index (CPI), %	5.4	12.9
63.07	64.62	Average RUB/US\$ exchange rate for the period	67.03	60.96
63.16	64.26	US\$/ RUB exchange rate as of the beginning of the period	72.88	56.26
60.66	63.16	US\$/ RUB exchange rate as of the end of the period	60.66	72.88
(0.04)	(0.02)	Depreciation (appreciation) of Russian rouble to US\$, %	(0.17)	0.30

## Hydrocarbon taxes

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

4Q	3Q			12m		
2016	2016	Δ, %		2016	2015	Δ, %
			<b>Export duty</b>	<b>(US\$/ tonne)</b>		
91.67	88.67	3.4	Crude oil	75.61	120.25	(37.1)
36.60	35.43	3.3	Light petroleum products	30.21	57.67	(47.6)
36.60	35.43	3.3	Diesel	30.21	57.67	(47.6)
55.87	54.03	3.4	Gasoline	46.07	93.75	(50.9)
65.03	62.90	3.4	Naphtha	53.63	102.17	(47.5)
75.13	72.67	3.4	Heavy petroleum products	61.96	91.34	(32.2)
			<b>Mineral extraction tax</b>			
6,768	6,099	11.0	Crude oil (RUB/ tonne)	5,770	6,326	(8.8)

### Crude oil and petroleum products export duty rates

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

#### Crude oil export duty rate

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

Quoted Urals Price (P), USD/ tonne	Maximum Export Customs Duty Rate
≤109.50	0%
109.50 < P ≤ 146.00	35% x (P - 109.50)
146.00 < P ≤ 182.50	12.78 + 45% x (P - 146.00)
	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 (to south of 55° N), or the Caspian Sea
- March 31, 2042 – for fields located 50% or more in the Black Sea (at depths exceeding 100 meters), Sea of Okhotsk (to north of 55°), or Barents Sea (to south of 72°N)
- Indefinitely – for fields located 50% or more in the Kara Sea, Barents Sea (to north of 72° N), or the Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea)

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

### Export duty rate on petroleum products

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

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

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

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

	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 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 Laws No. 34-FZ dated February 29, 2016 and No. 401-FZ dated November 30, 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	13,100
Class 5	5,530	7,530	10,130	10,130
Naphtha	11,300	10,500	13,100	13,100
Diesel fuel	3,450	4,150	5,293	6,800
Heating oil	3,000	4,150	5,293	7,800
Motor oil	6,500	6,000	6,000	5,400
Middle distillate	-	4,150	5,293	7,800

## Mineral extraction tax (MET) on crude oil

a) According to clause 193 of the Russian Federation Tax Code (as amended by Russian Federal Law No. 401-FZ dated November 30, 2016), the MET rate on crude oil (R, in rubles/tonne) is calculated using the following general formula:

	2015	2016	from 2017
MET oil - R	$766 \times Kc - Dm$	$857 \times Kc - Dm$	$919 \times Kc - Dm$

$Dm = Kmet \times Kc \times (1 - Kv \times Kz \times Kd \times Kdv \times Kkan)$  for 2015-2016.

$Dm = Kmet \times Kc \times (1 - Kv \times Kz \times Kd \times Kdv \times Kkan) - Kk$  from 2017.

, where

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

**Kc** reflects the volatility of crude oil prices at the global market.  $Kc = (P - 15) \times D / 261$ , 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,  $Kv = 3.8 - 3.5 \times N / V$ . Where depletion is greater than 1, Kv is 0.3. In all other cases  $Kv = 1$ . Where fields include deposits with  $Kd < 1$ , Kv 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,  $Kz = 0.125 \times V_3 + 0.375$

**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,  $Kdv = 3.8 - 3.5 \times Ndv / Vdv$ . 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.

**Kk** – 306 for the period from 1 January 2017 to 31 December 2017.

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).

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

4Q	3Q			12m		
2016	2016	Δ, %		2016	2015	Δ, %
6,768	6,099	11.0	Nominal crude oil MET rate, RUB/tonne	5,770	6,326	(8.8)
5,793	5,361	8.1	Effective crude oil MET rate, RUB/tonne	5,149	5,961	(13.6)
			Difference between nominal and effective rates, RUB/tonne	621	365	
975	738		Difference between nominal and effective rates, %	10.8%	5.8%	
14.4%	12.1%					

In 12 months 2016, the Group's effective MET rate was 5,149 RUB/tonne, or 621 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 12 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>Profits 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	LLC Gazpromneft-Khantos

Khanty-Mansiysk Autonomous Okrug with the first hydrocarbon extraction after January 1, 2011 (under Khanty-Mansiysk Autonomous Okrug regional legislation)	
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:

4Q	3Q			12m		
2016	2016	Δ, %	(RUB per tonne)	2016	2015	Δ, %
<b>Crude oil</b>						
Export						
1,895	1,949	(2.8)	Pipeline	1,927	1,624	18.6
CIS						
1,504	1,532	(1.8)	Pipeline	1,508	1,221	23.6
Transportation to Refineries						
659	673	(2.1)	Omsk	670	428	56.4
1,485	1,493	(0.6)	Moscow	1,442	1,006	43.4
1,346	1,110	21.2	Yaroslavl	1,221	1,081	13.0
<b>Petroleum products</b>						
Export from ONPZ						
2,143	2,251	(4.8)	Gasoline	1,959	2,759	(29.0)
5,389	6,595	(18.3)	Fuel oil	5,604	4,275	31.1
4,571	4,967	(8.0)	Diesel fuel	4,859	4,682	3.8
Export from MNPZ						
1,444	1,441	0.2	Gasoline	1,670	1,923	(13.1)
3,143	3,139	0.2	Fuel oil	3,208	2,537	26.5
1,916	1,701	12.7	Diesel fuel	1,789	1,915	(6.6)
Export from YaNPZ						
3,419	2,025	68.8	Gasoline	2,129	1,414	50.6
2,734	2,425	12.7	Fuel oil	2,090	1,826	14.4
2,177	1,900	14.6	Diesel fuel	1,811	1,819	(0.5)

The Group's crude oil export route mix (tonnes) for 12 months 2016 and 12 months 2015 is presented below:

	12m	
	2016	2015
<b>Crude oil export</b>		
Primorsk Baltic Sea port	9.6%	6.3%
Ust-Luga Baltic Sea port	0.7%	0.0%
Druzhba pipeline	13.8%	19.0%
Port of Novorossiysk	24.7%	31.4%
ESPO pipeline and the port of Kozmino	15.8%	31.9%
Exported without using Transneft system, including:	35.4%	11.4%
Prirazlomnoye	15.6%	8.3%
Novoport	19.8%	3.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Crude oil export to CIS countries</b>		
Belarus	98.9%	95.5%
Uzbekistan	1.1%	4.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

[www.gazprom-neft.com](http://www.gazprom-neft.com)

Contacts: PJSC Gazprom Neft

Investor Relations Department email: [ir@gazprom-neft.ru](mailto:ir@gazprom-neft.ru)

Address: 3-5, Pochtamskaya Street, St. Petersburg 190000, Russia

Phone: +7 812 385 95 48