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**ABOUT THE REPORT**

Reporting period from 1 January 2016 to 31 December 2016.

The report of Gazprom Neft Public Joint-Stock Company (Gazprom Neft PJSC) or the Company for 2016 includes the performance results of Gazprom Neft PJSC and its subsidiaries, which are referred to as the Gazprom Neft Group (the Group). Gazprom Neft PJSC is the parent company of the Group and provides consolidated information for the annual report about the operating and financial activities of the Group’s key assets. The list of subsidiary companies (subsidiary enterprises) included within the report and the equity interests of Gazprom Neft PJSC are disclosed in the notes to the consolidated financial statement for 2016 (IFRS).

This report is prepared based on an analysis of operational data, consolidated IFRS financial indicators and recommendations of the GRI G4 international standard.

The information presented in the report has been confirmed by the Audit Committee as representing the Company’s Board of Directors and General Meeting of Shareholders.

The text of the Report may contain inaccuracies in the calculation of proportions, percentages and earnings when rounding estimated values. The data cited in the Annual Report may differ slightly from previously published data due to the difference in rounding.

The Annual Report approved by the Board of Directors, Minutes No. ПТ-0102/23 dated 24 April 2017 and approved by the Annual General Meeting of Shareholders of the Company, Minutes No. 0101/01 dated 14 June 2017.

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The online version of the Annual Report:

ar2016.gazprom-neft.com
**THE COMPANY TODAY**

GAZPROM NEFT IS A VERTICALLY INTEGRATED OIL COMPANY WHOSE PRINCIPAL ACTIVITIES INCLUDE THE EXPLORATION, DEVELOPMENT, PRODUCTION AND SALE OF CRUDE OIL AND GAS AS WELL AS THE PRODUCTION AND SALE OF PETROLEUM PRODUCTS.

The Company operates in Russia’s largest oil and gas regions and also has production projects outside of Russia in such countries as Iraq and Venezuela, among others. The Company’s primary refining facilities are located in Russia’s Omsk, Moscow and Parsa oil Regions in addition to Serbia. Gazprom Neft is currently a major player on the energy market. The Company produces and supplies a broad range of petroleum products for a number of industries both in Russia and abroad.

**REGIONS OF OPERATION**

In terms of proven hydrocarbon reserves according to SPE (PRMS) classification, Gazprom Neft is comparable with the largest oil companies in the world.

- **10 major production projects**
- **5 oil refineries**
- **>2,000 petroleum product wholesale and retail network outlets**

1. Russia
2. Belarus
3. Bosnia and Herzegovina
4. Venezuela
5. Iraq
6. Italy
7. Kazakhstan
8. Kyrgyzstan
9. Latvia
10. Romania
11. Serbia
12. Tajikistan
13. Estonia

The online version of the Annual Report contains additional information about the distribution by region of:
- new projects
- geological prospecting
- production projects
- refining and sales assets
- average number of employees.

The common shares of Gazprom Neft circulate in Russia on the main trading platforms of the unified exchange Moscow Exchange PJSC. Globally the Company’s shares trade in the form of ADRs, primarily in OTC trading in the U.S via the LSE OTCX system, in the U.S via the OTCQx system as well as in other countries.

**CAPITALISATION AND INCOME FOR SHAREHOLDERS**

The Company’s capitalisation as of 31 December 2016 exceeded RUB 1 tn.

The Company paid out dividends for 2015 RUB 6.47 per share.

According to the dividend policy of Gazprom Neft PJSC, at least 15% of the consolidated IFRS result, or 25% of RAS net profit, is distributed for dividends.

**INVESTMENT APPEAL**

1. **EFFICIENCY IN A WIDE RANGE OF OIL PRICES**
   Gazprom Neft’s highly efficient and balanced business model, which combines the advantages of the upstream and downstream segments, enables the Company to generate profit with oil prices at any level.

2. **STRATEGY IMPLEMENTATION AND FUTURE GROWTH**
   The stability of the Company’s position enables Gazprom Neft to continue implementing its main development projects, which in turn creates conditions for the Company’s long-term growth and the implementation of its strategy.

1. Oil refining takes place at three of the Company’s oil refineries – the Omsk Oil Refinery, Moscow Oil Refinery and Nizhny Novgorod Oil Refinery and allows part of their refining facilities (poly) on the conditions of customer supplied raw materials. The volume of oil refined at the Moscow Oil Refinery is determined based on a schedule approved to Gazprom Neft PJSC, the actual volume of oil refined is determined based on its cost-effectiveness.

For more, see the ‘Oil industry of the Russian Federation’ section, p. 118.
For more, see the ‘Oil refining’ section,

The launch of the Gates of the Arctic export terminal on the Naposo Rollsky field, the start of production at the East Mesopoovsky field, increased output at the Prirazlomnoye field, Denezhny Bogd field and Severo-Dobryanka field, the consolidation of $5 of the production of Novo-Tanga, growth in the use of high-tech drilling and expanded production in Iraq, all contribute to provide the Company with high growth rates in hydrocarbon production volumes from year to year.

The volume of oil refined in 2016 was optimal given the existing demand and price situation for oil and petroleum products. The Company also increased the production volume of light petroleum products, while fuel oil and marine fuel accounted for the biggest decrease in output.

For more, see the ‘Oil refining’ section, p. 40

SALES VIA PREMIUM CHANNELS

Sales volume via premium channels decreased by 2.7% year-on-year primarily due to a reduction in sales of marine fuel and lower demand for marine bunkering from ship owners and the introduction of new excise tax on medium distillates. An effective marketing strategy led to a 21.7% increase in marine fuel sales to ship owners.

For more, see the ‘Sale of oil and petroleum products’ section, p. 43

OIL REFINING

The 38.7% year-on-year growth in oil sales is due to increased oil production at the Novo-Tanga and Prirazlomnoye fields and increased output at the Denezhny Bogd field.

For more, see the ‘Oil refining’ section, p. 40

OIL AND PETROLEUM PRODUCT SALES

The growth in net profit was mainly due to an increase in EBITDA and positive exchange rate differences from the revaluation of the loan portfolio.

For more, see the ‘Financial results’ section, p. 53

SALES REVENUE (RUB mn)

Sales revenue increased by 3.2% year-on-year as a result of production growth and a rise in the market price of oil and gasoline. Growth in revenue was also constrained by the reduced prices of petroleum products on global markets.

For more, see the ‘Financial results’ section, p. 52

STRONG GROWTH IN OIL AND PETROLEUM PRODUCT SALES

The growth in sales revenue was mainly due to an increase in EBITDA and positive exchange rate differences from the revaluation of the loan portfolio.

For more, see the ‘Financial results’ section, p. 52

SALES VOLUME (1,000 t of standard fuel)

SAFETY AND PROTECTION

The decrease in a decrease in refining volumes

For more, see the ‘Oil refining’ section, p. 40

ADJUSTED EBITDA (RUB mn)

Increasing hydrocarbon production, maintaining the Company’s positions on petroleum product sales markets and management’s efforts to improve cost-effectiveness has resulted in a significant increase in EBITDA by 41.8% in operating profit (EBITDA) in 2016 compared with 2015.

For more, see the ‘Financial results’ section, p. 52

NET PROFIT (RUB mn)

The launch of the Gates of the Arctic export terminal on the Naposo Rollsky field, the start of production at the East Mesopoovsky field, increased output at the Prirazlomnoye field, Denezhny Bogd field and Severo-Dobryanka field, the consolidation of $5 of the production of Novo-Tanga, growth in the use of high-tech drilling and expanded production in Iraq, all contribute to provide the Company with high growth rates in hydrocarbon production volumes from year to year.

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For more, see the ‘Oil refining’ section, p. 40

PROVEN HYDROCARBON RESERVES (PRMS-SPE) (mn TOE)

The resource base of the Company’s current assets has increased in terms of the remaining commercial reserves at most fields due to a stable growth in the high-quality liquid hydrocarbon reserves. The oil recovery has enhanced the efficient development of heavy reservoirs.

For more, see the ‘Reserves and production’ section, p. 36

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For more, see the ‘Financial results’ section, p. 52

LEADING POSITIONS IN HYDROCARBON PRODUCTION GROWTH

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For more, see the ‘Financial results’ section, p. 52

SALES VOLUME (1,000 t of standard fuel)

Production and environmental safety is a priority in the Company’s activities. Gazprom Neft’s strategy is to develop environmental and occupational safety aims to achieve the Goal – Zero: No Harm to People, Objects or the Environment.

For more, see the ‘Performance parameters’ section, p. 43

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For more, see the ‘Financial results’ section, p. 52

ENERGY EFFICIENCY IN PRODUCTION AND REFINING (1,000 t of standard fuel)

The decrease in refining volumes

For more, see the ‘Financial results’ section, p. 52

KEY INDICATORS

SALES VOLUME (1,000 t of standard fuel)

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For more, see the ‘Reserves and production’ section, p. 36

Hydrocarbon production

Hydrocarbon production

OIL REFINING

For more, see the ‘Oil refining’ section, p. 40

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For more, see the ‘Performance parameters’ section, p. 43
MESSAGE
FROM THE CHAIRMAN
OF THE BOARD OF DIRECTORS

Dear Shareholders and Investors,

For Gazprom Neft, 2016 was a year of new successes combined with steady and dynamic development.

The Company launched the full-scale development of the continental Arctic fields Novoportovskoye and East Messoyakha. It continued developing the Prirazlomnoye field on the Arctic shelf, more than doubling hydrocarbon production during the reporting year. This was all a significant step towards achieving the Company’s strategic goal of increasing production to 100 million tonnes of oil equivalent per year.

Effective activities in the oil refining and petroleum product sales segment enabled the Company to strengthen its positions on the domestic market. While motor fuel consumption in Russia declined, Gazprom Neft’s oil refining assets operated at an optimal level of profitability, and the Gazpromneft filling station chain managed to increase sales.

Gazprom Neft paid particular attention to the development of import-substitution products in 2016. The Company continued implementing a national project to establish the advanced and high-tech domestic production of catalysts for secondary oil refining processes. Gazprom Neft ensures continuous growth in the level of technological effectiveness in close partnership with Russian scientific research centres. This provides a powerful stimulus for their development.

A smart strategy and thorough analysis of market conditions helped Gazprom Neft’s business reach a new level of efficiency and ensure unprecedented growth in the Company’s net profit of 82.5%. The Company’s share quotes reached a record high. I am confident that Gazprom Neft will once again reaffirm its status as one of the most attractive Russian companies for investment in 2017.

ALEXEY MILLER
Chairman of the Board of Directors
Gazprom Neft PJSC
Dear Shareholders and Investors,

Efficiency, technological effectiveness and safety are the key principles of Gazprom Neft, which serve as the foundation of the Company’s business. As 2016 showed, adhering to this corporate philosophy enables Gazprom Neft to meet its most complex operational challenges while simultaneously adapting to the changing market conditions.

In 2016, Gazprom Neft was the leader in the Russian oil industry in terms of hydrocarbon production growth with a more than 8% increase in output to 86.2 million tonnes of oil equivalent. The development of the Prirazlomnoye field – the sole oil production project on Russia’s Arctic shelf, the opening of the Gates of the Arctic terminal – a key link in the integrated logistics chain to transport oil from the Novoportovskoye field, which commenced full-scale production, and the launch of the East Messoyakha field – the country’s northernmost mainland field which could not be effectively developed without utilising high-tech drilling methods – these were the projects that drove growth in the Company’s production.

The continued optimal utilisation of the Company’s oil refineries ensured the maximum possible profitability of oil refining in the current conditions. Gazprom Neft continued implementing the second stage of a programme to modernise its oil refining assets and projects for new technological facilities such as Euro+ in Moscow and the crude and vacuum distillation unit in Omsk shifted from design organisations straight to construction sites.

The petroleum products market is experiencing difficult times, however the Gazprom Neft retail sales network once again managed to strengthen its positions in 2016. While expanding the sales of motor fuel, the Company’s filling station network is also improving efficiency through the active development of the cross-selling segment. The Russian regions continue to successfully implement a programme to replace imported lubricants with Gazpromneft and G-Energy brand products. We have maintained our leading positions on the jet fuel market. The Company is expanding the range of its high-tech bitumen materials for which demand is increasing with each passing year from the national road construction industry.

One of the most convincing results of our effective work in 2016 was the unprecedented growth in the Company’s net profit. After becoming the industry leader in the growth of key financial indicators at the end of the year and achieving the best specific net profit and return on capital indicators in the industry, Gazprom Neft also had the lowest rate of growth in costs for the year.

The increase in the Company’s share value serves as unconditional evidence of Gazprom Neft’s effectiveness in which rouble-denominated bonds reached their highest levels in the history of Gazprom Neft in 2016. I am confident that the Company will keep up this pace in 2017 and continue to confidently march towards achieving its strategic goals.

ALEXANDER DYUKOV
Chairman of the Management Board,
CEO of Gazprom Neft PJSC

MESSAGE
FROM THE CHAIRMAN
OF THE MANAGEMENT BOARD
MARKET OVERVIEW

GLOBAL OIL MARKET

GLOBAL ENERGY IN SEARCH OF A BALANCE

Hydrocarbons continue to play a key role in the global economy, making up approximately 90% of primary energy consumption. A steady increase in global demand for oil in 2016 helped to reduce the supply glut on the market even with rapid production growth in the Middle East. Measures to restrict production and further increase consumption could create conditions for a balanced market in 2017.

The supply glut on the global market decreased noticeably in 2016, in the third quarter the market achieved a balance thanks to the seasonal peak in consumption. Due to the weak market conditions at the start of the year, the average prices proved to be the lowest in recent years in 2016, however prices increased by roughly 50% from January to December.

In early 2016, a substantial oil surplus caused prices to fall to their lowest levels since 2003. Over the course of the year, however, despite the growth in OPEC production, a combination of factors led to a significant price recovery.

STABLE GROWTH IN OIL CONSUMPTION

The global economy continued to see moderate growth rates in 2016. According to preliminary estimates from the International Monetary Fund, global GDP expanded by 3.1% (following growth of 3.2% in 2015). The dynamics of developing economies also remained stable, while economic growth slowed in the most developed nations. The risk of changes in the growth rates of the Chinese economy receded into the background. The continuation of active quantitative easing measures both in developed as well as developing economies makes it possible to count on continued economic growth. The expansion of the global economy and low hydrocarbon prices helped to keep demand for oil at a high level. Global oil consumption continued to rapidly grow in 2016. According to the International Energy Agency (IEA), consumption increased by 1.6 million barrels/day to 96.6 million barrels per day last year. Thus, the growth in demand significantly exceeded the IEA’s earlier forecasts. The estimate for growth in demand in 2015 was also increased to 2 million barrels/day. Developing nations played the key role in the higher demand as did increased consumption in Europe. The IEA expects that oil demand will grow by another 1.4 million barrels/day in 2017 and then continue to increase by an average of 1.2 million barrels/day annually before reaching the level of 100 million barrels/day in 2019-2020.

GDP DYNAMICS OF KEY ECONOMIES

Source: World Bank

GROWTH IN GLOBAL OIL DEMAND BY SECTOR FROM 2015 TO 2040

Source: IEA

THE MAIN FACTORS AFFECTING THE OIL MARKET IN 2016

- Steady growth in consumption
- Oil production growth in Iran
- Reduced production in the U.S.
- An agreement among oil producers to limit production

BRENT OIL PRICES (USD/barrel)

Source: U.S. Energy Information Administration

BALANCE AND DYNAMICS OF GLOBAL LIQUID HYDROCARBON PRODUCTION AND CONSUMPTION (mn barrels/day)

Source: IEA


Production 87.4 88.7 90.8 91.3 92.7 96.9 97.0
Extraction 86.7 88.9 90.1 90.7 91.2 95.2 94.4
Balance during last 10
3.9 10.8 0.2 0.6 0.7 1.8 0.4

OIL MARKET BALANCE OF SUPPLY AND DEMAND IN 2015-2016

Source: IEA

2015 2016

Growth in OPEC production 1.18 1.62
Decrease in U.S. production 0.20 0.32
Growth in demand 0.78 1.45
Surplus 0.38 0.04
Deficit 0.04 0.41

CHANGE IN OIL CONSUMPTION BY COUNTRY (mn barrels/day)

Source: IEA

2000 2016

Central and South America, Africa 3.11 9.91
Asia including China 4.44 7.68
China 4.44 7.68
Middle East 1.12 1.12
North America, Europe 26.93 26.93

GROWTH IN OIL MARKET


Electricity –2.45
Watt per capita –0.68
Passenger transport 1.18
Air transport 3.42
Maritime transport 3.53
Freight transport 3.46
Petrochemicals 4.55

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Gazprom Neft - Annual report - 2016

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CONTINUED GROWTH IN CAR OWNERSHIP

Demand for petroleum products in the primary consumer segment – the automotive sector – continued to increase. Despite the high level of car ownership, sales of passenger cars in the U.S. and Europe broke the previous record in 2016, while sales in China increased by 13.7% with government support from tax breaks for the purchase of small cars. The extension of tax breaks for 2017 means further dynamic growth in the Chinese car market can be expected.

CAR SALES (bn cars)

Source: OICO

GROWTH IN PRODUCTION BY OPEC COUNTRIES

OPEC countries increased production by 0.9 million barrel/day in 2016. The bulk of growth came from Iran, which quickly returned to its pre-sanctions production levels following the lifting of the international embargo. In the future, Iran’s oil production dynamics will be constrained by the development rates of new fields, which frequently require the involvement of foreign investors.

In late 2016, OPEC countries reached an agreement to restrict oil production, which was joined by a number of producers outside of the alliance, including the Russian Federation. The agreement calls for its participants to reduce oil production by 1.8 million barrel/day versus the October 2016 level by mid-2017. The successful implementation of the agreement should not only result in a more balanced market, but also a decrease in the supply glut of oil and petroleum products.

GLOBAL OIL PRODUCTION

DECREASED PRODUCTION IN THE U.S.
The U.S. had the most pronounced decline in production in 2016 compared to other major countries. Decreased activity in the unconventional oil production segment led to a reduction in the average liquid hydrocarbon production level by 0.5 million barrel/day. At the end of the year, however, growth in oil prices led to increased drilling activity and U.S. production volumes stabilised. The further dynamics of U.S. oil production could have a serious impact on the global balance of supply and demand.

ACTIVE DRILLING RIGS AND SHALE OIL PRODUCTION DYNAMICS IN THE U.S.

Source: U.S. Energy Information Administration

DECREASED INVESTMENT IN OIL PRODUCTION
An additional factor that will restrict the supply of oil in the medium-term is a decrease in the oil industry’s global investment in production, which continued in 2016. After oil prices fell in the second half of 2014, international oil and gas companies cut investment by roughly half.

The production reduction agreement did not include Libya and Nigeria since their oil production was already restricted at the time the agreement was signed due to political instability. The rates at which these countries potentially resume oil production create major uncertainty on the oil market. 1.6 mn barrel/day – growth in production by OPEC countries prior to 2020 according to IEA forecasts, which will primarily result from Iran resuming production following the lifting of sanctions.

OPEC OIL PRODUCTION FORECAST

[chart]

Source: IEA

PETROCHEMICAL SECTOR – A KEY FACTOR FOR INCREASED DEMAND

Consumption in the petrochemical sector accounted for roughly half of the growth in global demand for petroleum products in 2016. The primary source of demand included Asian countries, which increased petrochemical production capacity, and the consumption of liquefied hydrocarbon gases.

The petrochemical industry along with the transport sector is expected to become the key source of growth in demand for refined products in the medium-term.

The car markets of China and India continued to see high growth rates and have great potential.

CAR OWNERSHIP

[chart]

Source: OICO, World Bank, World Bank Development Indicators, Ministry of Public Security China, ICCT

Growth in global oil consumption

According to IEA forecasts, demand for OPEC oil will continue to increase in the medium-term due to growth in global consumption.

Market expectations and key factors in 2017

In general, supply and demand dynamics, a decrease in the oil shortage on the market and changes in the tactics of manufacturers will mitigate the risks of price volatility in the near future.

MAIN FACTORS AFFECTING THE OIL MARKET IN 2017

> Growth in global oil consumption
> The effect of the agreement among oil producers to limit production
> U.S. oil production dynamics
> Geopolitical restrictions on oil production in OPEC countries (Libya, Nigeria)

Change in investment by major global oil and gas companies

[chart]

Source: analysis by Gazprom Neft based on data from company statements

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[chart]

Source: World Bank, World Bank Development Indicators, Ministry of Public Security China, ICCT

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[chart]

Source: analysis by Gazprom Neft based on data from company statements

MENAD EL-SHERHAN

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[chart]

Source: analysis by Gazprom Neft based on data from company statements

MENAD EL-SHERHAN
OIL INDUSTRY
OF THE RUSSIAN FEDERATION

OIL PRODUCTION AND REFINING IN RUSSIA

Low global oil prices did not prevent production from further expansion in the Russian Federation, where oil and condensate output increased by 2.6% to 547.5 million tonnes in 2016. Oil exports to non-CIS countries grew by 5.1% compared with 2015. Russia’s participation in the agreement among oil producers to limit oil production will have an effect on oil production and exports in 2017.

547.5
mnt
oil and condensate produced in 2016

Primary oil refining in the Russian Federation declined by 1% in 2016 as the depth of oil refining increased. Petrol and diesel fuel production increased over the course of the year, while fuel oil production decreased slightly. In addition to global market prices, changes to tax, customs and tariff legislation will impact the dynamics of Russian oil refining in 2017. The final configuration of a major tax manoeuvre that was initiated in 2014 took effect starting from 1 January 2017. The export duty rate for crude oil was reduced based on a maximum cut-off rate of 30%, which was compensated by growth in the mineral extraction tax (MET). The export duty rates for light petroleum products were reduced by 100% of the crude oil duty. The new tax system parameters will contribute to a further decline in fuel oil production and an increase in the depth of refining.

POSSIBLE RECOVERY IN DEMAND

The situation in the Russian economy showed signs of stabilisation in 2016. GDP dynamics reached near-zero levels in the second half of 2016 and for the year GDP declined by 0.2%. Industrial production grew by 1.1% largely due to the extractive sectors. Improvements were also seen in car sales, which had stabilised by the end of the year. However, poor dynamics in consumer spending and retail continued to limit the domestic consumption of motor fuel.

CONSUMPTION AND EXPORT OF KEY PETROLEUM PRODUCTS IN 2016 [mnt]

PETROLEUM PRODUCT CONSUMPTION AND EXPORT DYNAMICS [mnt]

PETROLEUM PRODUCT EXPORTS [mnt]

OIL PRODUCTION, EXPORT AND REFINING DYNAMICS [mnt]

Source: Russian Ministry of Energy

Source: Russian Ministry of Energy

Source: Russian Ministry of Energy

Source: Rosstat

Source: The Association of European Businesses in the Russian Federation

Source: Rosstat

Source: Russian Ministry of Energy

Source: The Association of European Businesses in the Russian Federation

Source: Rosstat

Source: www.gazprom-neft.com

1 Refining = production – export.
OVERVIEW OF KEY CHANGES TO TAX, CUSTOMS AND TARIFF LEGISLATION OF THE RUSSIAN FEDERATION

In 2016, the Russian government continued to gradually adjust the oil industry’s taxation system as part of the so-called major tax manoeuvre approved by Federal Law No. 366-FZ of the Russian Federation dated 24 November 2014. The goal of the major tax manoeuvre is to reduce the fiscal rate of export duties and simultaneously alter the rates of other key taxes in order to balance the interests of the budget, oil industry and domestic market consumers.

MINERAL EXTRACTION TAX

The MET rate for oil and gas condensate was increased in 2016 compared with the 2015 levels as part of planned changes to the tax burden on the oil production sector by increasing:

> the base MET rate for oil (from RUB 766 to RUB 857 per tonne);
> the correction factor (cf) when calculating the MET rate for condensate (from 4.4 to 5).

In an effort to reduce the federal budget deficit of the Russian Federation, Federal Law No. 401-FZ dated 30 November 2016 amended the procedure for calculating the MET for oil by supplementing the tax rate calculation formula with an additional coefficient Kk that is equal to 306 in 2017, 337 in 2018 and 428 in 2019.

EXPORT DUTY

The Russian government decided to freeze the export duty rate for oil at the 2015 level for one year (based on the maximum cut-off rate of 42%) and to abandon the planned decrease to 36% in 2016. These amendments were made to customs and tariff legislation with Federal Law of the Russian Federation No. 324-FZ dated 28 November 2015.

The decrease in export duty rates for light petroleum products (from 48% to 40%) and petrol (from 78% to 61%) was continued in 2016. Meanwhile, the export duty rate for dark petroleum products was increased to 82% of the export duty rate for oil.

EXCISE TAXES

The list of excisable goods was expanded in 2016 through the taxation of transactions involving the production and sale of medium distillates. The primary goal of the innovation was to combat surrogates of diesel fuel. The identification of a new excisable product through quality specifications (density and temperature of the hydrocarbon blend distillation) is expected to have a positive effect on the reduction of sales of fuel not subject to excise taxes at filling stations. At the same time, in an effort to mitigate the growth in domestic purchase prices, core consumers of medium distillates are granted the right to apply a tax deduction for the excise tax with a multiplier of 2.

In addition, in order to increase the income of the consolidated budget of the Russian Federation, the excise tax rate for motor fuel underwent an unscheduled indexation in April 2016: growth in the rates totalled RUB 2,600 per tonne for petrol and RUB 1,143 per tonne for diesel fuel.

In an effort to provide funding for the road industry and develop transport infrastructure, Federal Law of the Russian Federation No. 401-FZ dated 30 November 2016 retained the excise rates for petrol that had been in effect from April-December 2016 (RUB 13,100 per tonne for petrol below fifth-class emission standard and RUB 10,130 per tonne for fifth-class emission standard) and increased the excise tax rate for diesel fuel (by RUB 1,507 per tonne).

TAX BURDEN PER TONNE OF EXPORTED OIL (350)

Source: Russian Ministry of Energy

In 2016, Gazprom Neft was one of the leaders in the Russian market in terms of key performance indicators.
CREATION OF LONG-TERM ADVANTAGES

KEY CHALLENGES

CHANGES IN THE GLOBAL HYDROCARBONS MARKET AS WELL AS THE STATE OF THE RUSSIAN ECONOMY POSE SPECIFIC CHALLENGES FOR THE COMPANY.

1. LOW PRICES IN THE OIL AND PETROLEUM PRODUCTS MARKET
2. GROWING TAX BURDEN IN THE OIL AND GAS SECTOR
3. STAGNATION IN DOMESTIC PETROLEUM PRODUCT CONSUMPTION IN THE RUSSIAN FEDERATION

RAPID ADAPTATION TO EXTERNAL CHALLENGES

Given the financial instability and economic slowdown, the Company’s efficiency has become the key to its sustainability and business longevity. Over the past two years, the Company has made significant progress in matters concerning production safety, has also become the leader in operating efficiency in Russia and is now committed to becoming one of the global leaders in terms of efficiency. As part of developing this area, the Company is introducing the ETALON operating activities management system, which contributes to the overall development of the organisation and cures such important areas as improving safety at work, reliability of assets and efficiency, and optimising the Company’s operations as a whole. ETALON is designed to integrate these activities into a single system and strengthen the links between various systems, standards and regulations.

ADVANTAGES OF THE BUSINESS MODEL IN STRATEGY IMPLEMENTATION

EFFICIENCY IN A WIDE RANGE OF OIL PRICES

Despite the unfavourable market situation, the Company has demonstrated stable positive dynamics in its production and operating performance and is steadily moving towards its strategic goals. Thanks to a highly efficient business model and timely response to external changes, the Company has maintained stability and investment appeal. The outlook for achieving its strategic goals remains positive.

EXPLOSION AND PRODUCTION

- Monitoring of expenses, optimisation of the development of mature fields and the implementation of import substitution programmes
- Development and replication of new technologies in order to increase the oil recovery factor and integrate hard-to-recover reserves into development
- Development of major projects on land (Novy Port and Messoyakha, among others) and projects on the shelf of the Russian Federation
- Expanding competencies to work with unconventional reserves

REFINING AND SALES

- Implementation of oil refinery modernisation projects
- Development of premium sales channels and maximising added value as part of the existing petroleum products resources

GENERAL AREAS OF WORK

- Cooperation with government authorities on the reform of the fiscal system and matters concerning the development of the industry
- Improvements to the operational activity management system and maximising operating efficiency by enhancing the reliability and safety of production and also involving employees in the culture of continuous improvements. The ‘Goal – Zero’ is highlighted separately as part of systematic improvements to ensure a continuous improvement in safety levels and consistently reduce accident rates, occupational injuries and occupational diseases

Gazprom Neft’s vertically integrated business model comprised of two enlarged segments – Upstream and Downstream – is well-balanced. Any change in oil prices increases profitability in one of the segments.

By consistently developing advantages in each segment, Gazprom Neft achieves the best operating efficiency among Russian VIOCs.

KEY SUCCESS FACTORS

EXPLOSION AND PRODUCTION

- Growth in production by launching new projects
- Maintaining production levels at mature fields through technological solutions
- Enhancing drilling efficiency by using new technologies
- Portfolio of promising projects to further increase production

REFINING AND SALES

- Among the highest oil refining efficiency indicators in Russia
- Favourable positioning of oil refineries making it possible to sell 100% of petroleum products
- Prominence-owned networks of high margin sales and product distribution centres

1 In accordance with the average weighted RUB/USD exchange rate based on Bank of Russia data.
BUSINESS MODEL

ADVANTAGES OF BUSINESS MODEL

UNIQUE FEATURES OF ASSETS

BALANCED PORTFOLIO OF PRODUCTION ASSETS
Gazprom Neft has a unique production portfolio including conventional and offshore oil as well as oil and gas fields in different stages of development ranging from exploration to mature fields in Russia and abroad, which enables the Company to increase production in an effort to increase profit based on market conditions.

ENSURING EFFICIENCY IN VOLATILE MARKET CONDITIONS

PRODUCTION

Recent growth of 5.3% among Russian companies due to the commissioning of the Novosnezhskoye and Mesyatskoye fields, growth in output at the Primorsko field as well as the increased yield of mature fields thanks to the use of production intensification technology and the integration of IPDM (field to recover reserves).

RESERVES

1.514 Mln TDC
Maintained the level of high-grade reserves due to reserves and acquired geological exploration

1.500 Mln TDC
PROVEN RESERVES
10 years - proven reserve life 180% - annual replacement rate of proven and probable reserves excluding acquisitions

100 Mln TDC PER YEAR
Implementation risk: Implementation risks: Implementation risks: Implementation risks: Implementation risks:

MODERN, EFFECTIVE OIL REFINERIES IN RUSSIA AND ABROAD
An infrastructure, location, modernized facilities and ongoing projects to improve operating efficiency ensure a high level of oil refinery efficiency

REFINING

38.66 Mln T
81% - refining depth 64.4% - yield of light petroleum products
Implementation of the second stage of an ambitious project to modernize Gazprom Neft's refineries to enhance oil refining depth and increase the yield of light petroleum products.

SALES

22.7 Mln T of oil
43.0 Mln T of petroleum products
Despite the negative market dynamics, Gazprom Neft maintained and increased its share in the oil product market and the oil product sales. An increase in oil sales volumes from its own purchased resources ensured profit growth in the segment.

ADJUSTED EBITDA

RUS 456,198 Mln (P: 274)
Real growth in volume and its contribution to the profit of the business segment enabled the Company to generate record adjusted EBITDA for the last 5 years.

Implementation plan outlined in the Strategy until 2025 is designed to create the greatest added value for the Company's shareholders in the oil and gas industry of the Russian Federation.

IMPLEMENTATION OF STRATEGY

MAJOR PROGRESS TOWARDS ACHIEVING OUR GOALS

STRAategic GOALS FOR 2025

7.7 million participants
Social investments totalled RUB 4.1 bn

2.4 refinery efficiency
Oil refineries in Russia.

2.3 operating efficiency
ensure

SAVINGS

31/12/2016
Implementation risk: Implementation risks: Implementation risks: Implementation risks:

SAFETY

LTIFR - 0.402
Growth

Equitable dividend policy.
Support all shareholders
Availability of the dividend policy.

CREATING VALUE FOR STAKEHOLDERS

VALUES

SHAREHOLDERS AND INVESTORS

Long-term growth in the Company's value and a high level of dividend yield

HOW DO WE DO IT

- Constant communication with investors, shareholders and analysts to support a fair price for the Company's securities.
- Development of a corporate governance system that balances the interests of Russian and international shareholders at a high level of industry specificity.
- Information transparency in covering the results of the development strategy.
- Equitable dividend policy.
- Observation of minority shareholder rights.
- Continuous development of a risk management system with a detailed elaboration of responsibility.

RESULTS

- Fair share valuation: quotes of RUB 275 per share as of 12/31/2016 with a consensus forecast of RUB 235 per share.
- Dividends of about 50% of consolidated IFRS result or 25% of ROS profit.
- Total shareholder return of 40% for 2016.

CONSUMERS AND CUSTOMERS

Good availability and a stable supply of petroleum products with excellent consumer and environmental properties

- Direct links to corporate clients through the Company's distribution network.
- Network of Gazpromneft petrol stations and loyalty programme.
- Partnership with leading automakers.
- Enhanced environmental classes of products.

PERSONAL

Stable employer that allows for effective development. Reasonable compensation package.

- Systematic recruitment and rotation of personnel.
- Talent management, competency development and training.
- Development of motivation systems and establishment of a culture of engagement.
- Growth in product quality and organizational effectiveness.
- Enhanced effectiveness of HR relations function.

In 2016, the Company ranked second in the rating of the most attractive employers on the Russian market.

- 7% decrease in personnel turnover rate.
- Average monthly salary of RUB 93,500.
- Corporate University established along with a Faculty of Management and General Corporate Competencies.

SOCiETY AND REGIONS OF OPERATiON

Responsible business with a high level of contribution to the regions of operation.

- Browsing a significant volume of tax revenue to local budgets.
- Contribution to the development of social infrastructure.
- Creation of highly efficient jobs.
- Minimizing any negative environmental impact.
- Ensuring a high level of production safety.
- Growth in the energy efficiency of the Company's enterprises.
- Support for the population and key stakeholders.

Gazprom Neft is one of the largest taxpayers in the regions where it operates.

- The National payment social investment programme covers 35 Russian regions with comprehensive support for the development of social infrastructure.
- Social investments totalled RUB 4.1 bn in 2016.
- LTIFR – 4.2% with a downward trend.

14% decrease in specific energy consumption at the Company's enterprises in 2016.

GOVERNMENT

Energy security. Tax payments.

- Stable growth in production and effective oil refining with a broad petroleum product sales network in Russia.
- Among the top taxpayers in Russia (tax payments in subordinated regions of Russia).
- Implementation of the first major offshore project – the Primorsko platform and the comprehensive development of Russia's Arctic shelf.
- Development of a centre of technological competencies and technological impact laboratories.
- Hydrocarbon production – 88.4 mln TDC.
- Export – 47.1 mln tonnes.
- Availability of new technological products for the population and business in 51 Russian regions.
- RUB 261 in tax payments in 2016.
- Thanks to the use of modern technologies, Gazprom Neft has extended the service life of mature fields.

For more information on key risks and the Company’s risk management activities, see the ‘Risk Factors’ and ‘Risk Management’ sections, p. 04.

Gazprom Neft • Annual report • 2016 www.gazprom-neft.com
**STRATEGY IN ACTION**

**STRATEGIC BENCHMARKS AND PRIORITIES**

**THE COMPANY'S ACTIVITIES ARE BASED ON THE GAZPROM NEFT PJSC DEVELOPMENT STRATEGY UNTIL 2025, WHICH WAS APPROVED BY THE BOARD OF DIRECTORS IN 2013 AND UPDATED IN 2015 AND 2016. DESPITE THE CONTINUED INSTABILITY IN THE EXTERNAL ENVIRONMENT, THE COMPANY'S KEY STRATEGIC PRIORITIES UNTIL 2025 REMAIN RELEVANT.**

**KEY STRATEGIC PRIORITIES FOR 2017**

1. **EXPLORATION AND PRODUCTION**
   - Maximising the return on investment from new projects
   - Effective development of a depleted resource base
   - Preserving all resource base development options to ensure new production areas

2. **SALES AND REFINING**
   - Implementing projects to modernise the Omsk and Moscow oil refineries in order to increase oil refining depth and the yield of light petroleum products and also to enhance operating efficiency
   - Maximising sales of petroleum products via the Company’s premium sales channels

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**GEOLOGICAL EXPLORATION WORK AND PRODUCTION**

**STRAIGHT OBJECTIVES**

<table>
<thead>
<tr>
<th>KPI for 2025</th>
<th>100 mn TOE hydrocarbon production volume</th>
<th>15 years annual replacement ratio of proven reserves and probable reserves (2P category) excluding acquisitions</th>
<th>100% availability of proven resources (TP 生产/production)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,149</td>
<td>78.70</td>
<td>59.71</td>
</tr>
<tr>
<td>2015</td>
<td>1,416</td>
<td>85.25</td>
<td>62.26</td>
</tr>
<tr>
<td>2016</td>
<td>1,418</td>
<td>98.24</td>
<td>78.70</td>
</tr>
<tr>
<td>2017</td>
<td>1,346</td>
<td>100.00</td>
<td>59.71</td>
</tr>
</tbody>
</table>

Gazprom Neft intends to increase hydrocarbon production to 100 million TOE per year by 2020 and maintain this level until 2025. The Company plans to maintain a 15-year ratio of proven reserves to production. In order to achieve these goals, Gazprom Neft will strive to employ the most cost-effective methods to recover the remaining reserves from the current resource base by utilising the best practises for optimising field development, reducing the cost of proven technologies as well as acquiring and introducing new technologies. Gazprom Neft is considering unconventional reserves as a growth opportunity and will develop this class of assets as a key component of its portfolio.

**MILESTONES OF 2016**

- Year-round shipments of oil from the Novoportovskoye field began via the Gates of the Arctic sea terminal
- Commercial operations were launched at the East Messoyakha field, the northernmost Russian oil field under development
- Six Arc7 tankers and an icebreaker for their support were launched to support year-round oil shipments from the Novoportovskoye field. The first two tankers were transferred to the Company in September and October 2016

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**2P RESERVE REPLACEMENT RATIO EXCLUDING ACQUISITIONS (%)**

| 2014 | 103 |
| 2015 | 122 |
| 2016 | 173 |
| 2017 | 196 |
| 2018 | 103 |

1 TP – total proven reserves.
SALES

Gazprom Neft has two main sales segments: the sale of motor fuels via the Gazpromneft filling station network and Small-scale wholesale channels as well as the sale of petroleum products to industrial consumers. Specialised goals have been set for each segment. The target scale of Gazprom Neft’s sales business should ensure the ability to sell 100% of the petroleum products it manufactures on the market via its own sales channels for maximum coverage of the entire value chain in the oil business.

DYNAMICS OF KEY INDICATORS

OIL REFINING VOLUME AT RUSSIAN OIL REFINERIES (mn t)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>40.00</td>
<td>38.66</td>
<td>39.53</td>
<td>39.60</td>
<td>39.30</td>
</tr>
<tr>
<td>Refining depth in Russia (MN t)</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
</tr>
</tbody>
</table>

REFINING DEPTH AT RUSSIAN OIL REFINERIES (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>91.60</td>
<td>91.29</td>
<td>91.53</td>
<td>91.45</td>
<td>78.59</td>
</tr>
</tbody>
</table>

YIELD OF LIGHT PETROLEUM PRODUCTS AT RUSSIAN OIL REFINERIES (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>67.14</td>
<td>61.90</td>
<td>61.91</td>
<td>61.80</td>
<td>61.93</td>
</tr>
</tbody>
</table>

SALE OF MOTOR FUELS

1,650 stations

number of retail network stations in Russia and the CIS, including franchises

Gazprom Neft plans to increase the total volume of motor fuel sales in Russia and the CIS by 2025 primarily due to growth in the retail sales channel.

MILESTONES OF 2016

Continuation of the oil refinery modernisation programme:

- Active construction of the Euro-8 complex and the Biosphera biological treatment complex at the Moscow Oil Refinery
- Design documentation drafted for the deep oil refining complex and construction launched on a primary oil refining complex at the Omsk Oil Refinery

DYNAMICS OF KEY PERFORMANCE INDICATORS

NUMBER OF FILLING STATIONS IN RUSSIA AND THE CIS (stations)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>1,460</td>
<td>1,393</td>
</tr>
<tr>
<td>2012</td>
<td>1,422</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1,450</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>1,400</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1,390</td>
<td></td>
</tr>
</tbody>
</table>

* Number of filling stations at the end of the year including franchises.

PREMIUM SALES VOLUME:

RUSSIA AND THE CIS (mn t)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>19.3</td>
<td>18.7</td>
</tr>
<tr>
<td>2012</td>
<td>19.4</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>16.6</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>16.0</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>16.7</td>
<td></td>
</tr>
</tbody>
</table>

* Broad market sales.

For more, see the ‘Motor fuel and filling stations’ section, p. 46
A transaction was concluded to acquire three refuelling complexes at airports in the Chukotka Autonomous District: Anadyr, Pevek and Kerpeyev.

The Company organised wet wing aircraft fueling at airports in Yakutsk and Saransk.

In an effort to improve the efficiency of petroleum product sales, Gazprom Neft has spun off separate business units to sell jet and marine fuel, lubricants and bitumen materials, and petrochemical products and LPG.

In 2016, the sales network in the Russian Federation was increased to 56 refuelling complexes and:

- A transaction was concluded to acquire three refuelling complexes at airports in the Chukotka Autonomous District: Anadyr, Pevek and Kerpeyev.
- The Company organised wet wing aircraft fueling at airports in Yakutsk and Saransk.

To promote the RT brand in the sales network.
ACCOUNTING FOR SUSTAINABLE DEVELOPMENT FACTORS IN STRATEGY IMPLEMENTATION

AN INTEGRATED BUSINESS MODEL ENABLES THE COMPANY TO MAXIMISE THE EFFECTIVE USE OF ITS RESOURCES AND CREATE VALUE FOR STAKEHOLDERS AT EACH STAGE OF ACTIVITY.

While investing resources in the development of the Company’s assets, improving production activities and developing human resources, Gazprom Neft simultaneously invests in effective programmes for regional development and environmental protection and views these investments as a contribution to achieving the global goals in sustainable development.

The Company’s sustainable development strategy is drafted and implemented in active cooperation with stakeholders – employees, local communities, the government authorities and public organisations. Interaction and an open dialogue with them are substantial factors in meeting the economic, environmental and social objectives facing Gazprom Neft.

This report presents basic information about Gazprom Neft’s sustainable development approach and activities as well as the main results of these activities. Detailed information is presented in the Gazprom Neft PJSC Sustainable Development Report for 2016.
OVERVIEW OF RESULTS

MATERIAL FLOWS OF OIL AND PETROLEUM PRODUCTS 34
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MATERIAL FLOWS OF OIL AND PETROLEUM PRODUCTS

Gazprom Neft’s operational model is based on the notion of vertical integration. Engaging in activities that are part of the entire production chain such as geological exploration, the development of oil fields, production, refining and the sale of oil and petroleum products ensures the company’s sustainability and helps to improve efficiency in the future.

1 Conversion ratio 3.0 m T to 1 mn TOE equals 0.813.
2 Include the purchase of stable gas condensate from Novatek amounting to 25% of the production of Arctic gas.
3 Poly-blend bitumen binders and bitumen emulsions.

10.45 8.81 2.62 2.77 0.27 0.23

PREMIUM SALES
DIRECT WHOLESALE

PETROLEUM PRODUCT BALANCE

PETROLEUM PRODUCT OUTPUT

HYDROCARBON PRODUCTION

86.20

39.95

18.07

10.98

7.43

4.20

0.03

25.91

25.16

18.30

26.35

8.55

2.56

2.07

55.62

53.77

1.29

15.28

0.14

0.95

4.23

25.16

18.30

26.35

8.55

2.56

2.07

55.62

53.77

1.29

15.28

0.14

0.95

Gazprom Neft - Annual report - 2016
### RAW MATERIALS BASE AND PRODUCTION

#### OIL AND GAS PRODUCTION

The Company is increasing its reserves in addition to the volume and efficiency of production of its own and shared assets. Gazprom Neft is active in the exploration, development and production of oil and gas in Russia and abroad.

**HYDROCARBON PRODUCTION (mn TOE)**

<table>
<thead>
<tr>
<th>Source: Company data</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft*</td>
<td>65.90</td>
<td>67.35</td>
</tr>
<tr>
<td>SeverEnergia (actg)**</td>
<td>0.42</td>
<td>1.08</td>
</tr>
<tr>
<td>Novy Port</td>
<td>-</td>
<td>2.46</td>
</tr>
<tr>
<td>Total</td>
<td>66.78</td>
<td>70.90</td>
</tr>
</tbody>
</table>

Growth in hydrocarbon production in 2016 was due to:
- current assets – further drilling of the Priobskoye and Orenburg assets;
- major projects – increased production at the Prirazlomnoye and Novoportovskoye fields, at assets belonging to SeverEnergia LLC (Arcticgas), Nordgas CJSC and Badra, and the launch of the East Messoyakha field.

Key objectives in 2017:
- to ensure at least 3% growth in hydrocarbon production at the Company;
- to integrate 34.28 million tonnes of hard-to-recover reserves (HTR) into development.

Factors contributing to growth in production:
- Novy Port:
  - the start of year-round oil shipments via the Gates of the Arctic marine terminal;
  - launch of technological infrastructure facilities for 5.5 million tonnes;
  - start of operations by two Arc7 tankers to ensure year-round oil shipments;
- Messoyakha:
  - launch of commercial production;
  - start of oil delivery to the Transept pipeline system;
  - exemption obtained for export duty;
  - commissioning of a gas turbine power plant with total capacity of more than 50 MW.

> Prirazlomnoye:
  - 32 tankers of oil shipped;
  - 4 wells drilled (2 production wells and 1 injection well);
  - a shift camp and waterworks were put into operation;
  - launch of construction and installation work and site preparation for an in-house heliport.

The target oil production profile for 2017 includes:
- 5.5 mn t for the Novy Port field;
- 2.6 mn t for the Prirazlomnoye field;
- 1.5 mn t for the East Messoyakha field (based on Gazprom Neft’s stake).

**GAS PRODUCTION**

The Company is actively developing its gas business with a focus on commercialising the reserves of associated and natural gas produced at fields. Gazprom Neft Group’s gas programme envisages accelerated growth in gas production in Russia.

The development of small gas deposits that make up larger fields at which Gazprom Neft operates will further enhance the cost-effectiveness of the utilisation of the Company’s reserves and help increase hydrocarbon production to 100 million TOE per year, as envisioned by the Company’s Development Strategy until 2025.

**OIL PRODUCTION**

Gazprom Neft assumed the leading position in the industry in terms of oil production growth rates among Russian oil companies in 2016. Oil production increased by 1.2% over the reporting year.

**GAS PRODUCTION (bn m³)**

<table>
<thead>
<tr>
<th>Source: Company data</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft*</td>
<td>15.12</td>
<td>14.53</td>
<td>17.68</td>
<td>20.82</td>
<td>23.82</td>
</tr>
<tr>
<td>SeverEnergia (actg)**</td>
<td>1.05</td>
<td>1.41</td>
<td>1.95</td>
<td>2.50</td>
<td>2.60</td>
</tr>
<tr>
<td>Nat Gas</td>
<td>0.04</td>
<td>0.09</td>
<td>0.10</td>
<td>0.13</td>
<td>0.15</td>
</tr>
<tr>
<td>Total</td>
<td>16.21</td>
<td>16.03</td>
<td>19.73</td>
<td>23.45</td>
<td>26.57</td>
</tr>
</tbody>
</table>

1 Including gas condensate
2 Consolidated companies
3 Average daily production x 365 (bn m³ per year)

**FACTORS CONTRIBUTING TO GROWTH IN PRODUCTION IN 2017**

- current assets – further drilling of the Priobskoye field;
- major projects – increased production at the Prirazlomnoye and Novoportovskoye fields and the development of the East Messoyakha field and Badra assets.

**OIL PRODUCTION (mn t)**

<table>
<thead>
<tr>
<th>Source: Company data</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft*</td>
<td>11.02</td>
<td>11.36</td>
<td>13.48</td>
</tr>
<tr>
<td>SeverEnergia (actg)**</td>
<td>0.52</td>
<td>0.43</td>
<td>0.36</td>
</tr>
<tr>
<td>Total</td>
<td>11.54</td>
<td>11.79</td>
<td>13.84</td>
</tr>
</tbody>
</table>

1 Production consists of commercial gas and gas used for internal needs.
Milestones of 2016:
1. complete construction of a compressor station with a complex gas treatment unit, inject gas into the reservoir and make a decision on the monetisation of the gas.
2. complete construction of a central gathering station, a complex gas treatment plant with a gas treatment unit; a pilot hydraulic fracturing; an increase in the production of gas.
3. completion of the development and implementation of the Terrigenous Water to Gas plant I
4. geophysical survey of the Halabja-1 block.

Plans for 2017:
1. start of the design and construction of a gas treatment complex with a gas treatment unit, inject gas into the reservoir and make a decision on the monetisation of the gas.
2. development of the Terrigenous Water to Gas Plant II
3. geological and geophysical survey of the Halabja-1 block.

Milestones of 2016:
1. work was completed on the development and implementation of the OIRFP.
2. the first oil was produced from the Halabja Oil Field.
3. the first oil was produced from the Halabja Gas Field.
4. the first oil was produced from the Halabja-1 gas field.
5. the first oil was produced from the Halabja-2 gas field.

Plans for 2017:
1. start of the construction and implementation of the OIRFP.
2. start of the implementation of the OIRFP.
3. start of the construction and implementation of the OIRFP.
4. start of the construction and implementation of the OIRFP.
5. start of the construction and implementation of the OIRFP.

Milestones of 2016:
1. completion of the design and construction of a compressor station with a complex gas treatment plant.
2. completion of the design and construction of a complex gas treatment plant.
3. completion of the design and construction of a complex gas treatment plant.
4. completion of the design and construction of a complex gas treatment plant.
5. completion of the design and construction of a complex gas treatment plant.

Plans for 2017:
1. completion of the design and construction of a complex gas treatment plant.
2. completion of the design and construction of a complex gas treatment plant.
3. completion of the design and construction of a complex gas treatment plant.
4. completion of the design and construction of a complex gas treatment plant.
5. completion of the design and construction of a complex gas treatment plant.

Milestones of 2016:
1. start of the commercial operation of the UPM 50 oilfield (production from the UPM 50 oilfield).
2. start of the commercial operation of the UPM 50 oilfield (production from the UPM 50 oilfield).
Gazprom Neft carried out projects at the Omsk and Moscow Oil Refineries to build advanced oil refining facilities as well as a number of environmental projects.

The key projects of the Moscow Oil Refinery – the construction of the Euro+ combined oil refining unit and the Biosphera biological treatment facilities – entered their active phase in 2016. The Company commenced the project to build a new primary oil refining unit at the Omsk Oil Refinery, which will become one of the biggest in Russia. A major oil refining project for Gazprom Neft in 2016 was the development of catalyst production in Omsk. The importance of the project for the entire industry was confirmed by the Russian Ministry of Energy, which assigned it the status of a national project. By 2020, the Company will build a high-tech complex that will make it possible to supply the Russian oil refining industry with high-quality Russian-made catalysts.

The Company established Gazpromneft-Catalytic Systems LLC to develop the new business for the production of oil refining catalysts. In 2019, the Company plans to launch the largest complex for the production and maintenance of catalysts for catalytic cracking, hydrotreatment and hydrocracking in the CIS.

**Gazprom Neft paid great attention to innovative development in 2016.** In accordance with the Company’s strategy, priority areas of R&D in the oil refining segment include increasing the depth of refining, the release of new products and the enhanced eco-friendliness of the production process.

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**Oil Refining**

Oil refining volumes were optimal in the current economic conditions. The decrease in refining at the Company’s Russian oil refineries in 2016 was due to economic factors, in particular the marginal refining efficiency in the first half of 2016 was lower than the efficiency of oil exports.

The total output of petroleum products decreased due to marine fuel and fuel oil. At the same time, the production of motor fuels and jet fuel increased by 1.2%.

**Innovative Development**

**Oil Refining at Company Assets**

<table>
<thead>
<tr>
<th>Asset</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omsk Oil Refinery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installed capacity</td>
<td>22.0 mm t</td>
<td>20.5 mm t</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reﬁning depth</td>
<td>90.6%</td>
<td>70.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MOSCOW OIL REFINERY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installed capacity</td>
<td>12.2 mm t</td>
<td>10.7 mm t</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refining depth</td>
<td>75.8%</td>
<td>58.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Projects:**

> continuation of increasing oil refining depth, including the construction of an advanced oil reﬁning complex (AORC), a delayed coking unit (DCU) and the primary oil reﬁning unit of the crude and vacuum distillation unit complex;

> a set of environmental projects was implemented that includes the construction of a complex of treatment facilities, a technological condensate treatment unit and a catalytic cracking gas regeneration treatment unit;

> reconstruction of catalyst production and a sulfuric acid alkylation unit, and an LPG park was built;

> five of the refinery’s products won the national contest ‘100 Best Goods of Russia’ programme and four products won awards.

---

**Milestones of 2016:**

> continuation implementing projects to increase oil refining depth;

> continue implementing environmental projects, including finishing construction on an automated unit for on-spot petroleum product loading into rail tank cars and a hydrogen production unit as well as the reconstruction of a bitumen production unit.

---

**Plans for 2017:**

> continue implementing projects to increase oil refining depth;

> continue implementing infrastructure construction projects, including an automated rack for on-spot loading into railway vehicles and a rack for on-spot loading of light petroleum products in motor vehicles;

> completion of the Biosphera project as well as projects to rebuild a catalytic cracking unit and the primary oil reﬁning unit of Crude and Vacuum Distillation Unit Complex-6.

---

**By the Russian Ministry of Energy, which assigned it the status of a national project. By 2020, the Company will build a high-tech complex that will make it possible to supply the Russian oil refining industry with high-quality Russian-made catalysts.**
NIS (SERBIA)

7.3 mn t
installed capacity

3.1 mn t
refining

84.9%
refining depth

73.4%
pool of light petroleum products

Milestones of 2016:
> the primary oil refining unit was reactivated and put into operation in an effort to increase refining volume and production efficiency;
> the front end engineering design (FEED) was completed and an Engineering, Procurement, Construction Management (EPCM) contractor was selected for the project to build a DCU.

Plans for 2017:
> continue implementing the project to build a DCU.

MOZYR OIL REFINERY

12.0 mn t
installed capacity

0.13 mn t
refining

74.04%
refining depth

58.95%
pool of light petroleum products

Milestones of 2016:
> the following facilities were built and commissioned as part of the Company’s Production Development Programme: a complex high-octane petrol component production unit (tert-amyl methyl ether + methyl tertiary butyl ether + Dimethyl-G); C4 fraction adsorption purification unit and a sulphur production unit;
> completion of the second stage of the reconstruction of a distillate hydrotreatment unit (construction of a vacuum gas oil stabilisation unit);

Plans for 2017:
> continue implementing a project to build a heavy oil residue hydrocracking complex.

In addition to its own oil refineries, Gazprom Neft has access to the refining facilities of Slavneft-YANOS OJSC and Mozyr Oil Refinery OJSC in the Republic of Belarus.

SALE OF OIL AND PETROLEUM PRODUCTS

Gazprom Neft sells oil and petroleum products in bulk in Russia and abroad. Small-scale wholesale and retail sales, including via the Company’s filling stations, are handled by specialised sales subsidiaries.

FLOW CHART OF OIL AND PETROLEUM PRODUCT SALES

1 The Parnawa Oil Refinery has projected capacity of 4.018 mn t, while the Novi Sad Oil Refinery has projected capacity of 2.485 mn t and is currently under reconstruction with no plans for oil refining by 2020-2025.
2 Share of refining of Gazprom Neft PJSC.
3 Share of refining of Gazprom Neft PJSC. The volume of oil refined at the Mozyr Oil Refinery is determined based on a schedule approved by the Russian Ministry of Energy. Gazprom Neft can refine up to 50% of the oil supplied to the refinery. The actual refining volume at the refinery is determined based on its cost-effectiveness.

To select an oil residue refining technology and complete a feasibility study.
Oil sales increased by 36.7% in 2016 compared with 2015 to 27.1 million tonnes, in particular:
> the growth in exports to non-CIS countries is attributable to increased oil production at the Novoportovskoye and Frinzamozheye fields and the start of production at the Mosyakin field;
> the growth in international sales is the result of increased production in Iraq;
> the higher sales in the Russian Federation is due to the improved efficiency of trading operations on the domestic market and increased production in the Orenburg region;
> the reduction in exports to the CIS is attributable to a reduction in the schedule for oil supplies to the Republic of Belarus.

**GAS SALES**

International sales refer to gas sales by Gazprom Neft’s foreign subsidiaries.

**PETROLEUM PRODUCT SALES**

The Company sold 43.6 million tonnes of petroleum products in 2016, a 2.8% decrease from 2015. On the domestic market, the Company’s sales units sold 17.1 million tonnes of petroleum products (1.4% versus 2015). At the same time, motor fuel sales increased by 2% on the domestic market to 16.82 million tonnes. The decline in petroleum product sales on the domestic market was primarily caused by a reduction in marine fuel sales due to decreased demand. Despite the decrease in petroleum product consumption domestically in 2016, Gazprom Neft increased sales of bitumen products and lubricants as well as motor fuel via small-scale wholesale and retail distribution channels. Petroleum product exports to non-CIS countries declined by 1 million tonnes to 10.8 million tonnes in 2016. The main reasons for the lower exports are:
> a decrease in fuel oil sales due to the reduced production of dark petroleum products;
> a reduction in jet fuel sales as a result of lower demand for international travel (a decrease in tourism traffic).

**SALES STRUCTURE BY CHANNEL**

Premium sales decreased by 2.1 to 25.16 million tonnes during the reporting period due to the ongoing negative trends on the jet fuel supply and bunkering markets in Russia. The capacity of the retail markets for jet fuel and bunkering shrank by 7.7% and 25.3%, respectively.

Nevertheless, the Company’s successful development of premium sales channels and expansion in the geography of supplies and the range of premium products it manufactures made it possible to increase its share on the retail markets for most petroleum products, including the markets for aviation kerosene, lubricants and premium bitumen materials.

Premium sales:
> sales of petroleum products via premium distribution channels (retail and small-scale wholesale): This group includes all petroleum product sales via filling stations and petroleum storage depots as well as aviation aircraft fueling, ship fueling and small-scale wholesale from refueling complexes at airports and port terminals;
> sales of packaged petroleum products. This group covers all sales of oils in barrels and cans as well as bitumen sales in clovertainers, among other sales;

> sales of premium petroleum products, i.e. petroleum products that generate added value due to the presence of certain qualitative features compared with other products of their kind. This group includes the sale of premium bulk lubricants (Gazpromneft, G-Family, Texaco), premium bituminous materials (polymer-bitumen binders, PMB, bituminous emulsions, etc.) and the possible wholesale of premium motor fuels – G-Drive, etc.

**SALES STRUCTURE BY PRODUCT**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel</td>
<td>16.5</td>
<td>15.6</td>
<td>16.4</td>
<td>16.8</td>
<td>17.2</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>2.10</td>
<td>2.20</td>
<td>2.22</td>
<td>2.30</td>
<td>2.38</td>
</tr>
<tr>
<td>Marine fuel</td>
<td>1.32</td>
<td>1.30</td>
<td>1.25</td>
<td>1.24</td>
<td>1.26</td>
</tr>
<tr>
<td>Bitumen</td>
<td>1.58</td>
<td>1.58</td>
<td>1.57</td>
<td>1.58</td>
<td>1.60</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>3.08</td>
<td>3.09</td>
<td>3.05</td>
<td>3.06</td>
<td>3.07</td>
</tr>
<tr>
<td>Other (petroleum products)</td>
<td>1.26</td>
<td>1.28</td>
<td>1.29</td>
<td>1.30</td>
<td>1.30</td>
</tr>
</tbody>
</table>

* International sales refer to sales by Gazprom Neft’s foreign subsidiaries.
MOTOR FUEL SALES

One of the key areas of the Company’s activities is the development of the small-scale wholesale and retail segment of petroleum product sales. Having its own national brand as well as a high level of awareness and trust in the quality of its product helps Gazprom Neft achieve one of its strategic goals of joining the leaders in Russia and the CIS in terms of the volume of retail sales and efficiency of the filling station network by 2025.

Total small-scale wholesale and retail sales increased by 4.8% in 2016 compared to the previous year and amounted to 19.76 million tonnes. The Company managed to increase premium sales both domestic market and foreign markets where the Company has a sales network.

FILLING STATION NETWORK

In the Russian Federation, the Company has one of the largest and most geographically diversified sales networks on the retail petrol market. As of the end of the year, the Gazpromneft filling station network included 1,244 filling stations, including 1,157 Company-owned stations and 47 stations managed by franchise partners. The filling station network increased by 55 stations in 2016 and expanded its presence to 37 regions of the Russian Federation.

Developing the network, maintaining control over partner filling stations and continuously working to improve the efficiency of business processes has enabled the Company to increase its market share in the regions where it operates. As of the end of the year, the Company had increased its share of the retail motor fuel market by 1.4 percentage points to 26.1% excluding franchisees.

In foreign markets, the Company’s filling station network consists of 624 stations, including 201 filling stations in CIS countries (Belarus, Kazakhstan, Tajikistan and Kyrgyzstan) and 424 stations in southeast Europe (Serbia, Bosnia and Herzegovina, Bulgaria and Romania) under the NIS Petrol and GAZPROM brands.

As the volume of the motor fuel market in the Russian Federation decreases overall, the Company’s highly efficient filling station network has shown stable growth in the volume of retail petrol and diesel fuel sales. Total sales increased by 2% for the year to 10.4 million tonnes, including 8.2 million tonnes in Russia.

AVERAGE DAILY SALES VIA FILLING STATIONS (lit/day)

Despite the negative trends on the Russian retail fuel market, average daily sales for the Gazpromneft filling station network grew by 0.6% per station. The stable growth in sales resulted from marketing campaigns and measures as part of the ‘Both Better and Cheaper’ strategy.

CROSS-SELLING

Cross-selling is one of the most promising and rapidly growing segments of the retail business. Total revenue via the ‘Cross-selling business’ channel has steadily demonstrated significant growth in Russia and the CIS. This figure expanded by 15% last year to more than RUB 18 billion.

The target efficiency indicator of “Coversing payroll with gross income from cross-selling at filling stations and stores’ also increased by 6% to an average of 70%, including 72% in Russia and 52% in the CIS.

The most significant changes were seen in the development of the Drive Café brand of non-fuel products at Gazpromneft filling stations. In 2016, the network’s Russian filling stations sold 21 million cups of coffee, an 18% increase versus the previous year, while total revenue from hot beverages amounted to RUB 2 billion.

The large number of items offered under the Drive Café and Gazpromneft Filling Station Network trademarks (281 items) accounted for a significant overall share of annual revenue at 28%.
LOYALTY PROGRAMME

The ‘Going the Same Way’ loyalty programme for clients of the Gazpromneft filling station network is the undisputed leader among vertically integrated oil companies in terms of the number of members. The programme considerably strengthened its positions over the year thanks to marketing and IT measures and included some 7 million cardholders at the end of 2016, a 13% increase from 2015.

Loyalty programme members account for 83% of total sales to individuals at the Company’s filling station network in the Russian Federation, a 14% increase compared with the previous year. All loyalty programme members have the opportunity to purchase fuel and merchandise at the Gazpromneft filling station network at a discount ranging from 3% to 5% by accumulating bonus points and using them to make purchases at filling stations. In addition, nationwide sales promotions are regularly held for ‘Going the Same Way’ cardholders, enabling them to receive unique prizes and privileges on top of all additional benefits in the form of bonus points. Loyalty programme members can also accumulate bonus points outside of the filling station network with the co-branded Gazprombank-Gazpromneft bank card.

The loyalty programme’s technological platform was updated in early 2016. The checkout time for customers was reduced by 88% thanks to the introduction of Pure contactless technology. Now the bonus accumulation time does not exceed 5 seconds, and the number of bonus points can be viewed online in a personal user account.

The Company continued work throughout the year to expand the geography of the loyalty programme, which is now available to motorists in Serbia, Kazakhstan, Kyrgyzstan and Tajikistan.

BRANDED FUEL

Branded G-Drive fuel was introduced to the Russian market in 2010 and since that time has become increasingly popular with support coming from the world motor sport platform. An important feature of the G-Drive formula is the presence in the petrol of an integrated technological mixture as a result of which the energy generated by the engine is not wasted on friction and virtually becomes fully mechanical. As a result, G-Drive can provide increased capacity of up to 12% with improved acceleration dynamics. In addition, the premium fuel formula includes powerful components that decrease the amount of deposits on internal engine components by more than 90% and slow the formation of new deposits.

The fuel also has improved environmental properties: exhaust contains 32% less carbon monoxide, 8% less hydrocarbons and 15% less nitrogen oxide compared with standard fifth-class emission standard fuel. Another effect from the use of G-Drive in terms of environmental benefits is a reduction in fuel consumption.

The Company increased sales of premium branded fuel at its filling stations by 5% in 2016.

The number of filling stations offering G-Drive 95 increased by 84 stations to 1,149 filling stations in 2016 compared with 2015. Approximately 30% of high-octane petrol customers purchased G-Drive during the reporting period.

PREMIUM FUEL SALES (ton) [1]

<table>
<thead>
<tr>
<th>Source Company data</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>G-DRIVE 95</td>
<td>0.21</td>
<td>0.26</td>
</tr>
<tr>
<td>number of filling stations selling fuel</td>
<td>900</td>
<td>1,000</td>
</tr>
<tr>
<td>G-DRIVE 98</td>
<td>–</td>
<td>0.01</td>
</tr>
<tr>
<td>number of filling stations selling fuel</td>
<td>900</td>
<td>1,000</td>
</tr>
<tr>
<td>G-DRIVE 92</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>number of filling stations selling fuel</td>
<td>900</td>
<td>1,000</td>
</tr>
</tbody>
</table>

GAS ENGINE FUELS

Environmental friendliness and cost-effectiveness play a key role in municipal and commercial transportation in large cities, making these segments major consumers of gas engine fuels. Gazprom Neft pays close attention to developing sales of gas engine fuels, in particular liquefied petroleum gas (LPG) and compressed natural gas (CNG).

The Company increased sales of LPG by 9.5% to 115,000 tonnes in 2016, while sales of CNG expanded by 2.5% to 17.5 million m³.

In 2016, there were a total of 163 vehicle filling stations under the Gazpromneft brand within multi-fuel filling complexes.

SALES OF GAS ENGINE FUEL AND NUMBER OF VEHICLE STATIONS [1]

<table>
<thead>
<tr>
<th>Source Company data</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPG, 1,000 l</td>
<td>92</td>
<td>93</td>
</tr>
<tr>
<td>CNG, 1,000 l</td>
<td>11.61</td>
<td>12.74</td>
</tr>
<tr>
<td>Number of VFS</td>
<td>125</td>
<td>127</td>
</tr>
<tr>
<td>Number of NGVFS [2]</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

* The number of vehicle filling stations (VFS) under the Gazpromneft brand within multi-fuel filling complexes
* The number of natural gas vehicle filling stations (NGVFS)

The retail jet fuel market in the Russian Federation continued to contract in 2016, declining by 7.7% compared with 2015 to 7.9 million tonnes. Gazprom Neft is the leader in retail sales of jet fuel in Russia and, despite the overall decline on the market, managed to increase its market share by 0.38 percentage points to 26.24% in 2016.

The network of the Company’s refueling complexes includes 47 facilities – 46 in Russia and one abroad (Kyrgyzstan). The refueling complex network in the Russian Federation expanded in 2016 with the acquisition of three refueling complexes in the Chukotka Autonomous District in Anadyr, Pevek and Kirsypeym.

As of the end of 2016, the Company provided jet fuel supply services at 235 airports in 63 countries located in Southeast Asia, Europe, Africa, Australia as well as North and Latin America.

AIRCRAFT FUELING

Source: Company data

<table>
<thead>
<tr>
<th>Source Company data</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPG, 1,000 l</td>
<td>92</td>
<td>93</td>
</tr>
<tr>
<td>CNG, 1,000 l</td>
<td>11.61</td>
<td>12.74</td>
</tr>
<tr>
<td>Number of VFS</td>
<td>125</td>
<td>127</td>
</tr>
<tr>
<td>Number of NGVFS</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

* The number of vehicle filling stations (VFS) under the Gazpromneft brand within multi-fuel filling complexes
* The number of natural gas vehicle filling stations (NGVFS)
The domestic bunkering market continued from the last year. Gazprom Neft’s share in the market was due to an expansion in sales channels and geography as well as the continued process of import substitution. Despite an overall decline in the market’s capacity by 11% in 2016, the Company managed to increase its market share by 2.9 percentage points to 20%. Premium sales grew by 16% over 2015, while sales of the G-Family brand increased by 31%.

In 2016, the Company significantly expanded the range of lubricants it supplies to the market through the acquisition of the Rospolikhim group of companies, a developer and manufacturer of specialised lubricants. The acquisition of Rospolikhim made it possible to start supplying lubricants for pipe-rolling production (including the pipeline projects of Gazprom PJSC) special machinery working in the Far North and plastic manufacturing. As a result of this acquisition, Gazprom Neft became the only Russian manufacturer of extreme pressure oils that are used in the manufacture of large-diameter pipe and also acquired a significant share of the domestic market in the plasticiser segment for the chemical industry.

The geographical presence of Gazprom Neft oils increased to 65 countries over the last year. Gazprom Neft began supplying oils to such countries as Colombia, Vietnam, South Korea, Poland, South Africa and the United Arab Emirates.

In 2016, the Company continued actively developing the international chain of G-Energy Service premium-branded service stations. The number of service stations in the Company’s network increased from 26 to 70 stations as of the end of the year. Today, the service stations of G-Energy Service operate in nine countries, including Russia, CIS countries (Kazakhstan, Belarus and Armenia), Georgia and European nations (Italy, Hungary, Greece and Bouira and Herzegovina).
## Financial Results

### Key Indicators (RUB mn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>A. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,655,776</td>
<td>1,685,764</td>
<td>2.4</td>
</tr>
<tr>
<td>Less: export duties and sales related excise tax</td>
<td>(187,832)</td>
<td>(150,156)</td>
<td>(20.5)</td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>1,467,943</td>
<td>1,545,608</td>
<td>5.3</td>
</tr>
</tbody>
</table>

### Costs and Other Deductions

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>A. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of oil, gas and petroleum products</td>
<td>(345,903)</td>
<td>(351,254)</td>
<td>1.6</td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>(214,263)</td>
<td>(201,652)</td>
<td>(5.8)</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(100,176)</td>
<td>(94,318)</td>
<td>6.0</td>
</tr>
<tr>
<td>Transportation expenses</td>
<td>(133,320)</td>
<td>(132,984)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>(144,083)</td>
<td>(120,845)</td>
<td>13.8</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>(153,144)</td>
<td>(138,117)</td>
<td>7.2</td>
</tr>
<tr>
<td>Exploration expenses</td>
<td>(92)</td>
<td>(195)</td>
<td>-29.6</td>
</tr>
<tr>
<td>TOTAL OPERATING EXPENSES</td>
<td>(1,261,822)</td>
<td>(1,322,392)</td>
<td>4.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>A. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING PROFIT</td>
<td>208,121</td>
<td>238,316</td>
<td>15.6</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures</td>
<td>24,956</td>
<td>34,116</td>
<td>36.7</td>
</tr>
<tr>
<td>Net foreign exchange gain/(loss)</td>
<td>(87,995)</td>
<td>30,230</td>
<td>-</td>
</tr>
<tr>
<td>Finance income</td>
<td>14,752</td>
<td>11,071</td>
<td>(24.9)</td>
</tr>
<tr>
<td>Finance expense</td>
<td>(33,944)</td>
<td>(34,362)</td>
<td>1.2</td>
</tr>
<tr>
<td>Other (loss)/gain, net</td>
<td>1,494</td>
<td>(13,662)</td>
<td>-90.6</td>
</tr>
<tr>
<td>TOTAL OTHER INCOME/(EXPENSE)</td>
<td>(60,671)</td>
<td>21,223</td>
<td>-</td>
</tr>
<tr>
<td>(LOSS)/PROFIT BEFORE INCOME TAX</td>
<td>145,450</td>
<td>259,539</td>
<td>78.4</td>
</tr>
<tr>
<td>Current income tax (expense)</td>
<td>(38,029)</td>
<td>(21,293)</td>
<td>(44.6)</td>
</tr>
<tr>
<td>Deferred income tax (expense)/benefit</td>
<td>8,774</td>
<td>(28,524)</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL INCOME TAX BENEFIT/(EXPENSE)</td>
<td>(29,252)</td>
<td>(49,846)</td>
<td>-70.9</td>
</tr>
<tr>
<td>(LOSS)/PROFIT FOR THE PERIOD</td>
<td>116,198</td>
<td>209,693</td>
<td>80.5</td>
</tr>
<tr>
<td>Less: profit attributable to non-controlling interest</td>
<td>9,461</td>
<td>46</td>
<td>-99.5</td>
</tr>
<tr>
<td>PROFIT ATTRIBUTABLE TO GAZPROM NEFT</td>
<td>102,601</td>
<td>200,779</td>
<td>82.5</td>
</tr>
</tbody>
</table>

### Other Revenue

Other revenue primarily includes revenue from transport, construction, utilities and other services. Other revenue decreased by 21.3% YOY mainly due to a decrease in revenue received from Messoyakha due to transfer of the operator function to joint venture.

### Other Revenue

For more see: 1) IFRS financial statement (Appendix 2) 2) The full version of the financial results analysis is provided in the appendices in the online version of the report.
**UPSTREAM EXPENSES**

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>Δ %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RUB m</strong></td>
<td><strong>RUB m</strong></td>
<td><strong>RUB m</strong></td>
</tr>
<tr>
<td>Consolidated subsidiaries inside Russia</td>
<td>98,295</td>
<td>106,490</td>
</tr>
<tr>
<td>including Brownfields</td>
<td>72,854</td>
<td>80,392</td>
</tr>
<tr>
<td>Brownfields</td>
<td>61,225</td>
<td>65,960</td>
</tr>
<tr>
<td>RUB per toe</td>
<td>1,582</td>
<td>1,692</td>
</tr>
<tr>
<td>USD per toe</td>
<td>5.54</td>
<td>3.44</td>
</tr>
<tr>
<td>Greenfields</td>
<td>11,629</td>
<td>14,432</td>
</tr>
<tr>
<td>Consolidated subsidiaries outside Russia (including PSA*)</td>
<td>9,426</td>
<td>9,055</td>
</tr>
<tr>
<td>Joint operations</td>
<td>15,815</td>
<td>16,443</td>
</tr>
<tr>
<td>USD per toe</td>
<td>1,767</td>
<td>1,892</td>
</tr>
<tr>
<td>USD* per toe</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL UPSTREAM EXPENSES</strong></td>
<td>53,549</td>
<td>52,132</td>
</tr>
</tbody>
</table>

Refining expenses at own refineries:

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>Δ %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RUB m</strong></td>
<td><strong>RUB m</strong></td>
<td><strong>RUB m</strong></td>
</tr>
<tr>
<td>RUB per tonne</td>
<td>30,724</td>
<td>30,018</td>
</tr>
<tr>
<td>USD* per bbl</td>
<td>882</td>
<td>903</td>
</tr>
<tr>
<td><strong>TOTAL DOWNSTREAM EXPENSES</strong></td>
<td>52,132</td>
<td>53,132</td>
</tr>
</tbody>
</table>

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% YOY 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 8.9% YOY 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 monopolies tariffs and inflationary pressures;
- Management actions to offset expenses increase.

Upstream expenses at consolidated subsidiaries outside Russia increased by 2.4% YOY due to increased production in Iraq (Badra project).

Upstream expenses at joint operations increased by 4.0% YOY mainly due to:
- An increase in UOP 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 at our refineries increased by 1.2% YOY primarily due to higher crude sales volumes. Petroleum product transportation expenses increased due to a reduction in petroleum product sales volumes and logistics chain optimization.

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

Transportation expenses increased due to higher crude sales volumes. Petroleum product transportation expenses increased due to a reduction in 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 increased by 13.8% YOY in line with an increase in depreciable assets driven by implementation of the investment program and increased production.
TAXES OTHER THAN INCOME TAX (RUB mn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral extraction taxes</td>
<td>256,477</td>
<td>237,300</td>
<td>(7.5)</td>
</tr>
<tr>
<td>Excise</td>
<td>68,358</td>
<td>112,102</td>
<td>64</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>15,599</td>
<td>18,530</td>
<td>18.8</td>
</tr>
<tr>
<td>Other taxes</td>
<td>12,711</td>
<td>13,199</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>TOTAL TAXES OTHER THAN INCOME TAX</strong></td>
<td>353,145</td>
<td>381,131</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Taxes other than income tax increased by 7.9% YOY. 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% YOY MET decrease due to a decline in oil prices.

SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS

<table>
<thead>
<tr>
<th>Company</th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slavneft</td>
<td>9,265</td>
<td>13,916</td>
<td>50.2</td>
</tr>
<tr>
<td>SeverEnergia (Arcticgas)</td>
<td>11,913</td>
<td>14,472</td>
<td>21.5</td>
</tr>
<tr>
<td>Nortgas</td>
<td>3,466</td>
<td>3,009</td>
<td>(13.2)</td>
</tr>
<tr>
<td>Other companies</td>
<td>312</td>
<td>2,709</td>
<td>77.5</td>
</tr>
<tr>
<td><strong>SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES</strong></td>
<td>24,956</td>
<td>34,116</td>
<td>36.7</td>
</tr>
</tbody>
</table>

The Group’s share in Slavneft’s profit increased YOY mainly due to foreign exchange gains.

SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS (RUB mn)

<table>
<thead>
<tr>
<th>Company</th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
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<td>21.5</td>
</tr>
<tr>
<td>Nortgas</td>
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<td>3,009</td>
<td>(13.2)</td>
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<tr>
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<td>312</td>
<td>2,709</td>
<td>77.5</td>
</tr>
<tr>
<td><strong>SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES</strong></td>
<td>24,956</td>
<td>34,116</td>
<td>36.7</td>
</tr>
</tbody>
</table>

The Group’s share in SeverEnergia (Arcticgas) increased by 21.5% YOY 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 mn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>285,175</td>
<td>321,297</td>
<td>12.7</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(314,511)</td>
<td>(323,854)</td>
<td>3</td>
</tr>
<tr>
<td>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</td>
<td>52,857</td>
<td>(70,987)</td>
<td>–</td>
</tr>
</tbody>
</table>

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

NET CASH PROVIDED BY OPERATING ACTIVITIES (RUB mn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities before changes in working capital, income tax, interest and dividends</td>
<td>312,169</td>
<td>361,567</td>
<td>15.8</td>
</tr>
<tr>
<td>Net changes in working capital</td>
<td>(16,142)</td>
<td>(15,216)</td>
<td>(7)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(19,522)</td>
<td>(22,158)</td>
<td>13.5</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(28,229)</td>
<td>(36,476)</td>
<td>29.2</td>
</tr>
<tr>
<td>Dividends received</td>
<td>2,415</td>
<td>3,148</td>
<td>30.4</td>
</tr>
<tr>
<td><strong>NET CASH PROVIDED BY OPERATING ACTIVITIES</strong></td>
<td>285,175</td>
<td>321,297</td>
<td>12.7</td>
</tr>
</tbody>
</table>

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

NET CASH USED IN INVESTING ACTIVITIES (RUB mn)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>(349,036)</td>
<td>(384,817)</td>
<td>10.3</td>
</tr>
<tr>
<td>Acquisition of subsidiaries, shares in joint operations and equity affiliates</td>
<td>197</td>
<td>(2,028)</td>
<td>–</td>
</tr>
<tr>
<td>Net changes in deposits</td>
<td>45,745</td>
<td>48,517</td>
<td>6.1</td>
</tr>
<tr>
<td>Net changes in loans issued and other investments</td>
<td>(22,603)</td>
<td>(2,104)</td>
<td>(90.7)</td>
</tr>
<tr>
<td>Other transactions</td>
<td>(11,186)</td>
<td>16,578</td>
<td>48.2</td>
</tr>
<tr>
<td><strong>NET CASH USED IN INVESTING ACTIVITIES</strong></td>
<td>(314,818)</td>
<td>(323,954)</td>
<td>3</td>
</tr>
</tbody>
</table>

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

Overiew of Results

Gazprom Neft > Annual report > 2016

The Group’s share in Slavneft’s profit increased YOY mainly due to foreign exchange gains.
NET CASH USED IN FINANCING ACTIVITIES (RUB mn)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>∆</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net changes in debt</td>
<td>121,565</td>
<td>(63,929)</td>
<td>–</td>
</tr>
<tr>
<td>Payment of dividends to shareholders</td>
<td>(16,346)</td>
<td>(2,598)</td>
<td>(22.9)</td>
</tr>
<tr>
<td>Other transactions</td>
<td>(3,026)</td>
<td>(1,003)</td>
<td>(33.5)</td>
</tr>
<tr>
<td>NET CASH USED IN / PROVIDED BY FINANCING ACTIVITIES</td>
<td>82,193</td>
<td>(68,430)</td>
<td>–</td>
</tr>
</tbody>
</table>

CAPITAL EXPENDITURES (RUB mn)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploration and production</td>
<td>255,235</td>
<td>245,256</td>
</tr>
<tr>
<td>Consolidated subsidiaries</td>
<td>219,556</td>
<td>220,084</td>
</tr>
<tr>
<td>Joint operations</td>
<td>16,016</td>
<td>17,072</td>
</tr>
<tr>
<td>Refining</td>
<td>31,552</td>
<td>50,095</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>13,547</td>
<td>9,728</td>
</tr>
<tr>
<td>Others</td>
<td>13,137</td>
<td>14,724</td>
</tr>
<tr>
<td>SUBTOTAL CAPITAL EXPENDITURES</td>
<td>313,651</td>
<td>319,803</td>
</tr>
</tbody>
</table>

Change in advances issued and material used in capital expenditures, including | 35,385 | 65,014 | 83.7 |

TOTAL CAPITAL EXPENDITURES | 349,036 | 384,817 | 10.3 |

Capital expenditures for refining increased by 58.8% YOY due to the second stage of modernisation program at Omsk and Moscow refinery.

DEBT AND LIQUIDITY (RUB mn)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2015</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term loans and borrowings</td>
<td>147,290</td>
<td>80,187</td>
</tr>
<tr>
<td>Long-term loans and borrowings</td>
<td>670,779</td>
<td>596,221</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(104,198)</td>
<td>(33,621)</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>(49,206)</td>
<td>(8,886)</td>
</tr>
<tr>
<td>NET DEBT</td>
<td>654,604</td>
<td>641,901</td>
</tr>
</tbody>
</table>

Short-term debt/total debt, % | 16 | 16.5 |
Net debt and financial lease liabilities/EBITDA for 12 months preceding | 1.9 | 1.6 |

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 5.22% as at December 31, 2016 mainly due to the increased share of loans denominated in ruble in debt portfolio.

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

Capital expenditures for exploration and production decreased by 3.9% YOY due to a decline in activities in Iraq and rescheduling of commercial development at Chona project.

The Group’s diversified debt structure includes syndicated and bilateral loans, bonds and other instruments.

For more details on debt, see “Debt portfolio and credit ratings” section, p. 140

EBITDA RECONCILIATION (RUB mn)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROFIT FOR THE PERIOD</td>
<td>116,198</td>
<td>209,725</td>
</tr>
<tr>
<td>Total income tax benefit / (expense)</td>
<td>29,252</td>
<td>49,814</td>
</tr>
<tr>
<td>Finance expense</td>
<td>33,843</td>
<td>34,382</td>
</tr>
<tr>
<td>Finance income</td>
<td>(14,732)</td>
<td>(7,078)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>114,083</td>
<td>129,845</td>
</tr>
<tr>
<td>Net foreign exchange gain / (loss)</td>
<td>67,910</td>
<td>(28,300)</td>
</tr>
<tr>
<td>Other (loss)/gain, net</td>
<td>(1,494)</td>
<td>17,982</td>
</tr>
<tr>
<td>EBITDA</td>
<td>345,160</td>
<td>402,277</td>
</tr>
</tbody>
</table>

For 12 months preceding December 31, 2015

Adjusted EBIT for exploration and production decreased by 3.9% YOY due to a decline in activities in Iraq and rescheduling of commercial development at Chona project.

The Group’s diversified debt structure includes syndicated and bilateral loans, bonds and other instruments.

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### Liquidity

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2015</th>
<th>December 31, 2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.46</td>
<td>1.37</td>
<td>(6.2)</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.79</td>
<td>0.66</td>
<td>(19.5)</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.31</td>
<td>0.26</td>
<td>(19)</td>
</tr>
</tbody>
</table>

### Leverage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt/ Total Assets, %</td>
<td>26.34</td>
<td>25.18</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Net debt/ Equity, %</td>
<td>52.44</td>
<td>44.45</td>
<td>(8)</td>
</tr>
<tr>
<td>Gearing, %</td>
<td>36.05</td>
<td>30.6</td>
<td>(5.3)</td>
</tr>
</tbody>
</table>

### Oil and Petroleum Product Price Dynamics

#### International Market (USD/ Barrel)

- **Brent**
  - 2015: 52.46
  - 2016: 43.73
  - ∆: (16.6)

- **Urals Spot (average Med + NWE)**
  - 2015: 51.49
  - 2016: 42.02
  - ∆: (18.4)

#### Premium Gasoline (average NWE)

- 2015: 569.96
- 2016: 467.05
- ∆: (18.1)

#### Naphtha (average Med. + NWE)

- 2015: 450.05
- 2016: 377.85
- ∆: (16)

#### Diesel Fuel (average NWE)

- 2015: 500.7
- 2016: 398.58
- ∆: (20.4)

#### Gasoil 0.1% (average Med.)

- 2015: 486.26
- 2016: 391.21
- ∆: (19.5)

#### Fuel Oil 3.5% (average NWE)

- 2015: 247.49
- 2016: 199.93
- ∆: (19.2)

### Domestic Market (RUB/T)

- **High-octane gasoline**
  - 2015: 32,488
  - 2016: 34,574
  - ∆: 6.4

- **Low-octane gasoline**
  - 2015: 28,458
  - 2016: 29,839
  - ∆: 5

- **Diesel fuel**
  - 2015: 28,944
  - 2016: 27,965
  - ∆: (3.4)

- **Fuel oil**
  - 2015: 7,202
  - 2016: 6,051
  - ∆: (16)

### Russian Rouble vs. US Dollar Exchange Rate and Inflation

- **Change in Consumer Price Index, %**
  - 2015: 12.9
  - 2016: 5.4

- **Average RUB/USD exchange rate for the period**
  - 2015: 60.96
  - 2016: 67.03

- **USD/RUB exchange rate as of the beginning of the period**
  - 2015: 56.26
  - 2016: 72.88

- **USD/RUB exchange rate as of the end of the period**
  - 2015: 72.88
  - 2016: 60.66

- **Depreciation (appreciation) of Russian rouble to USD, %**
  - 2015: 30
  - 2016: 17

### Hydrocarbon Taxes

#### Average Tax Rates Effective in Reporting Periods for the Taxation of Oil and Gas Companies in Russia

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>∆, %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export Duty (USD/T)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>120.25</td>
<td>75.61</td>
<td>(37)</td>
</tr>
<tr>
<td>Light petroleum products</td>
<td>57.67</td>
<td>30.21</td>
<td>(47.5)</td>
</tr>
<tr>
<td>Diesel</td>
<td>57.67</td>
<td>30.21</td>
<td>(47.5)</td>
</tr>
<tr>
<td>Gasoline</td>
<td>93.75</td>
<td>46.07</td>
<td>(50.9)</td>
</tr>
<tr>
<td>Naphtha</td>
<td>102.17</td>
<td>53.63</td>
<td>(47.5)</td>
</tr>
<tr>
<td>Heavy petroleum products</td>
<td>91.34</td>
<td>61.96</td>
<td>(29.2)</td>
</tr>
</tbody>
</table>

#### Mineral Extraction Tax

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil (RUB/T)</td>
<td>6,326</td>
<td>5,770</td>
</tr>
</tbody>
</table>
INTEGRATION OF UNCONVENTIONAL RESERVES INTO PRODUCTION

The profitable integration of Bazhenov formation reserves into production is a strategic priority for the Company. To this end, technology is being developed in two areas:

- Enhancing the forecasting accuracy of the oil and gas potential of Bazhenov deposits.
- Improving the efficiency of well drilling and completion technologies.

On the first issue, a consortium involving the company and Russian research organisations has developed the world’s first hydraulic fracturing simulator for the Bazhenov formation.

On the second, the company has built high-tech wells to optimise technology and reduce the cost of wells.

CHEMICAL-BASED ENHANCED OIL RECOVERY METHODS

Increasing the oil recovery of mature fields is a technological priority for the Company considering the high percentage of assets in the late stage of development. To solve this problem, Salym Petroleum Development is developing soda-surfactant polymer flooding technology – a chemical method used to increase recovery, which involves injecting a soda-surfactant polymer substance into the formation. The injection process began in March 2016 as part of a pilot project at the West Salymskoye field. The goal of the project is to assess the technological and economic effectiveness of soda-surfactant polymer flooding technology. The successful completion of testing will enable the Company to switch to the large-scale industrial introduction of the technology in Western Siberia.

INNOVATIONS IN REFINING AND SALES

In 2016, 18 patents were obtained and 26 applications were registered with the Russian Federal Service for Intellectual Property (including two international applications) for key technological solutions in oil refining, including technologies for olefinisation, solid acid alkylation and the hydrotreating of diesel fuel and vacuum gas oil, the reactivation of hydrotreating catalysts and the production of catalyst supports, which ensure the achievement of the Company’s strategic goals.

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GROWTH IN INTELLECTUAL PROPERTY ITEMS

In 2016, the Company updated its Innovative Development Programme, which now extends to the period until 2025. The Programme is based on measures that aim to introduce a set of technologies to enhance well productivity, develop the Bazhenov formation, improve tertiary methods for increasing oil recovery at depleted fields and manufacture catalysts for refining.

In addition to the aforementioned key projects, production automation projects in the oil production and refining segments are also an important part of the Innovative Development Programme.

The Company has had a Technological Strategy for exploration and development since 2014 which groups technological challenges into priority areas. Key technological challenges include integrating hard-to-recover and unconventional hydrocarbon reserves into development, increasing oil recovery at mature fields, developing carbonate and fractured reservoirs and improving drilling efficiency.

One of the priorities for Gazprom Neft’s innovative development is technology that ensures the strategic goals of a profitable increase in production and enhances the technological efficiency of oil refining. The Company has introduced a long-term technological planning system that identifies long-term technological challenges and the solutions needed to deal with them.

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KEY INNOVATIVE DEVELOPMENT PROJECTS IN 2016

DEVELOPMENT OF OIL REFINING CATALYST PRODUCTION
The Ministry of Energy of the Russian Federation has assigned national status to Gazprom Neft’s project to develop catalyst production. As part of the project, Gazprom Neft opened Russia’s first engineering centre to test catalysts for secondary oil refining processes in 2016. The centre commissioned the country’s first pilot catalytic cracking unit, which can be used to test catalysts using different types of raw materials and also determine the conditions and modes for their most effective use at the catalytic cracking production facilities of Russian oil refineries. A regeneration and reactivation unit for spent hydrotreating catalysts will also be built at the facility, which is to be fully launched in 2019.

DEVELOPMENT OF CATALYST PRODUCTION TECHNOLOGIES
The Company is developing innovative catalyst production technologies in cooperation with leading Russian scientific research centres that work with catalytic processes – the Boreskov Catalysis Institute of the Siberian Branch of the Russian Academy of Sciences (Novosibirsk) and the Institute for Hydrocarbon Processing Problems of the Siberian Branch of the Russian Academy of Sciences (Omsk). The joint work resulted in the development of Russian-made catalysts for a number of technological processes in 2016. The catalysts outperform the existing import analogues, which will improve the quality of products and increase production margins.

ESTABLISHMENT OF SOLID ACID ALKYLATION TECHNOLOGY
The establishment of solid acid alkylation technology is a key R&D project that aims to make production processes more eco-friendly. The project is being implemented jointly with the Topchiyev Institute of Petrochemical Synthesis of the Russian Academy of Sciences. In 2016, construction was completed on a pilot plant for solid acid alkylation at Elektrogorsk Institute of Oil Refining PJSC (Elektrogorsk). Introducing this technology will make it possible to eliminate hazardous and corrosion components from the technological process, integrate low-grade raw materials into refining and also increase the production volume of EURO 5 high-octane petrol.

DEVELOPMENT OF INNOVATIVE PRODUCTS
Research and development work performed jointly with Perm State National Research Polytechnical University in 2016 resulted in the development of the road bitumen compound BND 70/100 (per GOST 33133), which includes oxidised high- viscosity tar and extracts from the solvent treatment of residual oils. Along with scientists from the All-Russian Scientific Research Institute of the Petroleum Industry (VNIMP JSC), the Company completed the development of unleaded aviation fuel with an octane rating of 91 and improved operational features for the needs of small aircraft. Gazpromneft Lubricants and Gazpromneft Bitumen Materials developed and launched a number of new products that meet GOST requirements and the demands of consumers. A unique interdisciplinary Scientific and Research Centre (SRC) was opened at the site of the Ryazan Bitumen Materials Plant.

‘INDUSTRY 4.0’ SOLUTIONS IN INDUSTRIAL AUTOMATION
In 2016, the concept of the production management process was developed taking into account ‘industry 4.0’ innovative solutions. The Company started creating ‘digital duplicates’ of production facilities. Pilot projects were implemented for predictive equipment management (reliability management) along with projects using engineering data in a 3D environment. These projects are among the first in the Russian refining industry to be implemented using the ‘Industry 4.0’ solutions.

A unique interdisciplinary Scientific and Research Centre (SRC) was opened at the site of the Ryazan Bitumen Materials Plant.
SUSTAINABLE DEVELOPMENT

BY SETTING STRATEGIC GOALS AND ACHIEVING THEM, GAZPROM NEFT IS COMMITTED TO SUSTAINABLE GROWTH AND CREATING ECONOMIC AND SOCIAL BENEFITS FOR.Stakeholders.

AN INTEGRATED BUSINESS MODEL ALLOWS GAZPROM NEFT TO MAXIMISE THE EFFECTIVE USE OF ITS RESOURCES AND CREATE VALUE FOR STAKEHOLDERS DURING EACH STAGE OF OPERATIONS.

When drafting and implementing its sustainable development strategy, Gazprom Neft seeks to ensure an optimal balance in the economic, environmental and social aspects of its activities. By investing resources in the development of its assets as well as improving production activities, Gazprom Neft simultaneously invests in effective programmes for regional development and environmental protection and views these investments as a contribution to its long term competitiveness.

The Company is aware of its responsibility to employees, local communities and the environment in the regions where it operates.

The health and safety of its personnel is a priority for Gazprom Neft when planning and engaging in any activities. The Company seeks to minimise the environmental risks of oil production and refining, uses natural resources sparingly and implements nature and biodiversity conservation projects.

As one of the country’s best employers, Gazprom Neft continuously expands its investment in human resources development and improves the professional development system for employees as well as programmes for their social support.

The social activities of Gazprom Neft in the regions focus on improving the quality of life of the population and supporting the sustainable development of the territories where the Company operates. The ‘Native Towns’ social investment programme aims to achieve these goals.

In developing and carrying out its sustainable development strategy, the Company actively cooperates with stakeholders: employees, local communities, the government authorities and public organisations. Interaction and an open dialogue with them is a major factor in successfully meeting the Company’s economic, environmental and social objectives.

This section presents the Company’s approach to sustainable development and the main results of its activities in this regard. Detailed information is presented in the Gazprom Neft PJSC Sustainable Development Report for 2016.

SAFETY DEVELOPMENT

Gazprom Neft places the life and health of its employees above all else. Any work that threatens people’s lives or health must be stopped immediately. The hydrocarbon production technologies employed by Gazprom Neft take into account the natural specifics of the environment where it operates in order to minimise the environmental impact of its activities. The Company invests in modernising its oil refining assets and enhancing the environmental and industrial safety levels of its enterprises.

Gazprom Neft’s strategy in HSE and OS aims to achieve the ‘Goal – Zero: No Harm to People, the Environment or Property from Operations’. The Company is committed to becoming one of the world’s leading oil and gas companies in this area.

The Company’s activities in occupational safety are governed by the legal requirements of the Russian Federation as well as international and corporate standards. The Company employs a HSE, OS and CD management system at all its production enterprises in compliance with the requirements of OHSAS 18001: 2007 and ISO 14001: 2015.

Gazprom Neft regularly carries out industrial environmental control and monitoring, conducts audits of its occupational safety management systems at its subsidiaries and affiliates and evaluates key areas of the activities of its enterprises in this regard.

The Company constantly develops its employee training system in occupational safety and regards it as the foundation for the establishment of a safety culture at Gazprom Neft. Personnel training is systematic and standardised and utilises the best global experience and innovative tools.

The Company’s occupational safety requirements also apply to contractors.

The compliance of contractor activities with corporate standards in this regard is one of the basic criteria for selecting counterparts. Gazprom Neft seeks to work proactively with contractors and introduce tools that enhance the safety levels of operations: corporate training and a rating system, among other things.

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Interactive version of the Company’s social report: csr2016.gazprom-neft.com

EMPLOYEE TRAINING IN HSE AND OS (employees)

<table>
<thead>
<tr>
<th>Year</th>
<th>HSE Training</th>
<th>OS Training</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6,077</td>
<td>3,591</td>
<td>9,668</td>
</tr>
<tr>
<td>2015</td>
<td>4,635</td>
<td>3,891</td>
<td>8,526</td>
</tr>
<tr>
<td>2014</td>
<td>3,901</td>
<td>5,791</td>
<td>9,692</td>
</tr>
<tr>
<td>2013</td>
<td>4,266</td>
<td>6,202</td>
<td>10,468</td>
</tr>
<tr>
<td>2012</td>
<td>3,987</td>
<td>5,892</td>
<td>9,880</td>
</tr>
<tr>
<td>2011</td>
<td>3,767</td>
<td>5,391</td>
<td>9,158</td>
</tr>
</tbody>
</table>

Source: Company data

IMPROVE INDUSTRIAL SAFETY CULTURE

In 2016, the Company continued implementing a project that it launched in 2015 to improve the industrial safety culture. The Occupational Safety Committee under the Gazprom Neft Management Board updated corporate strategy provisions in this regard as well as plans for initiatives in six priority areas of the strategy (leadership and culture, contractor management, asset reliability, risk management, transport safety and organisational model).

Safety and a green focus were included in the range of corporate values reflected in the Gazprom Neft Corporate Conduct Code in 2016.
Improving the industrial safety management system is one of Gazprom Neft’s most important priorities. The Company strives to continuously improve industrial safety levels, performs comprehensive work to minimise the rate of equipment failure and industrial injury, and also introduces best practices and advanced technologies in this area.

The Company’s main programmes to improve industrial and occupational safety levels include:
> the prevention and management of emergency situations;
> an expert assessment of equipment safety and harmonising production facilities with the requirements of industrial safety standards;
> the modernisation of emergency shutdown systems;
> monitoring compliance with industrial safety requirements;
> ensuring safe work conditions;
> measures to protect workers’ health;
> comprehensive training of employees in occupational safety.

The plans for these programmes are developed taking into account an analysis and assessment of occupational safety risks.

The work carried out in 2016 resulted in a reduction in the number of incidents at the Company’s production facilities. The Company was unable to fully eliminate fatal accidents in the workplace during the reporting year. The Company is doing everything it can to prevent such tragedies from recurring. Special commissions formed to investigate each incident conducted a detailed analysis of each accident, identified their causes and took action to minimise the risk of such incidents reoccurring. The results of the investigations were reviewed at meetings of the HSE, OS and CD Committee.

The Company spent more than RUB 41.7 billion on occupational safety measures in 2016 (excluding joint and foreign assets).

The work carried out in 2016 resulted in a reduction in the number of incidents at the Company’s production facilities and a further decline in the LTIFR.

In an effort to ensure civil defence, the Company is improving the sustainability of its production facilities when emergencies arise and training employees in actions to take in the event of emergencies, including work in challenging climate.

The Company is implementing a long-term disease prevention strategy as part of which personnel regularly undergo medical check-ups, clinical examinations and vaccinations, training on first aid methods and other measures. Gazprom Neft holds ‘Health Days’ each year during which employees can receive an express analysis and diagnosis of their condition along with consultations on how to provide paramedical first aid.

Gazprom Neft received a number of prestigious awards during the Russian Occupational Safety Week in Sochi from 19-22 April. The ‘Occupational Safety in the Office’ online training course in 2016 took first place and earned a gold medal in the ‘Health and Safety-2015’ contest.

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A responsible attitude towards the environment is a strategic priority for Gazprom Neft. The Company is aware of its responsibility to society in this regard and objectively assesses and seeks to minimise environmental risks while increasing investment in environmental programmes. The Company’s strategic goals in ensuring environmental safety and the sustainable use of natural resources are:

- to reduce its environmental footprint and support a favourable natural and living environment;
- to prevent environmental damage from business activities;
- to preserve biodiversity amidst conditions of a growing man-made burden;
- the sustainable use, restoration and protection of natural resources.

Based on these plans, the Company prioritises the following activities:

- risk management in environmental safety;
- environmental monitoring and industrial control;
- management of the emergency prevention and containment system and mitigating the consequences of emergencies;
- commissioning environmental facilities;
- implementing a programme for the value-added use of APG;
- developing energy conservation and improved energy efficiency programmes;
- developing production waste recycling/disposal programmes;
- implementing programmes to modernise oil refining assets;
- developing and implementing biodiversity conservation programmes;
- developing and introducing eco-technologies;
- training and developing environmental safety personnel.

Investment in environmental safety and protection totalled RUB 14.3 billion in 2016.

Gazprom Neft’s integrated control system in industrial safety, in particular in environmental safety, enables the Company to achieve its strategic goals and meet its environmental safety obligations. In an effort to enhance its environmental safety performance, the Company continuously improves its business processes as part of the management system and engages with stakeholders. Gazprom Neft is consistently shifting away from carrying out measures to mitigate damage to assessing environmental risks and introducing preventive measures to warn about the impact of its production activities on the environment.

Expenditure on environmental services and operating costs to ensure environmental safety and protection amounted to RUB 6.876 billion in 2016.

**PROTECTING THE ATMOSPHERE**

One of the Company’s primary environmental objectives is to reduce air pollutant emissions. In an effort to meet this objective, Gazprom Neft is carrying out an ambitious programme to modernise and rebuild its oil-refining assets with a focus on boosting its industrial safety, minimising its environmental impact, enhancing the quality of products they manufacture and improving the environmental performance of different types of motor fuel.

**GREENHOUSE GAS EMISSIONS**

As one of the leaders in the Russian oil industry, Gazprom Neft is aware of its responsibility to preserve the environment for present and future generations. The problem of climate change reinforces the importance of this issue and activities to reduce emissions at the company and national level.

The Company is developing a programme to increase the utilisation of associated petroleum gas at all its production assets. Building the required infrastructure and facilities significantly reduces greenhouse gas emissions during the full-scale development of assets while increasing the efficiency of hydrocarbon production.

The growth in greenhouse gas emissions in 2016 is due to the commissioning of new major fields and also due to an increase in heat and electricity consumption as a result of the unusually cold winter. Gazprom Neft also continued implementing projects to increase the level of effective APG utilisation in 2016. The Nytty-Purukovsky Compressor Station with a processing capacity of 1.2 billion m³/year was commissioned in the Yamalo-Nenets Autonomous District along with a gas turbine power plant at the Shenglishsky field, and construction continued on Russia’s largest complex gas treatment plant (GTP) at the Novopurukovsky field. The Company’s strategic goal is to increase value-added APG utilisation to 95%.

**GREENHOUSE GAS EMISSIONS**

As a unit used to measure the potential global warming of greenhouse gases. Carbon dioxide is the standard used to estimate other greenhouse gases.

The increase in gross air pollutant emissions in 2016 compared with 2015 is due to an increase in oil production volume, including at subsidiaries with mature fields.

**OVERVIEW OF RESULTS**

**STRUCTURE OF GROSS AIR POLLUTANT EMISSIONS**
AGP USAGE (10^3 t)  
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6,481</td>
<td>5,983</td>
<td>5,336</td>
<td>4,798</td>
</tr>
</tbody>
</table>

AGP UTILISATION LEVEL (%)  
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>62%</td>
<td>59%</td>
<td>60%</td>
<td>61%</td>
</tr>
</tbody>
</table>

WASTE MANAGEMENT

The Company’s industrial waste management system optimises waste flows, mitigates the environmental impact and reduces the economic cost of waste generation. Gazprom Neft strives to maximise the possible use of waste in order to mitigate its environmental impact.

During the reporting period, the Company began introducing sludge pit reclamation technology using environmentally friendly soil obtained from drill cuttings. In 2015, the technology underwent testing at a number of the Company’s fields and was given a favourable conclusion as part of a state export environmental review. Gazpromneft Noyabrskneftegaz successfully used the method to reclaim sludge pits.

VOLUME OF WATER CONSUMPTION (m^3)  
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>617.80</td>
<td>674.40</td>
<td>697.30</td>
<td>674.40</td>
<td>177.50</td>
</tr>
</tbody>
</table>

VOLUME OF WATER WITHDRAWN AND RECEIVED FROM VARIOUS SOURCES (m^3)  
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>From underground sources</td>
<td>126.70</td>
<td>113.50</td>
<td>108.70</td>
<td>104.30</td>
<td>108.50</td>
</tr>
<tr>
<td>From surface sources</td>
<td>34.80</td>
<td>32.90</td>
<td>32.80</td>
<td>32.70</td>
<td>26.40</td>
</tr>
<tr>
<td>From other operators</td>
<td>7.90</td>
<td>7.50</td>
<td>7.60</td>
<td>6.70</td>
<td>6.10</td>
</tr>
</tbody>
</table>

PROTECTION OF LAND RESOURCES AND VEGETATION

Gazprom Neft reclaims disturbed and contaminated land and sludge pits. The reclamation programmes involve an inventory of the land, an assessment of the soil contamination level, the selection of the most effective rehabilitation technologies and an assessment of the quality of environmental restoration work.

Since 2014, the Company has been implementing the ‘Clean Territory’ project, which aims to reduce pipeline failure rates and the area of contaminated land. The project includes diagnostics and monitoring of corrosion and the reconstruction and replacement of roughly 400 km of pipelines per year.

The Company introduced the approach of recycling drilling waste at temporary storage sites without building sludge pits in 2015 and continued to successfully utilise this approach throughout 2016. Drilling waste is recycled with the construction material obtained subsequently being used to eliminate temporary drilling waste storage sites and also at other facilities in accordance with its designated purpose.

RECLAMATION OF OIL CONTAMINATED LAND (ha)  
Source: Company data

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>59.4</td>
<td>61.9</td>
<td>181.6</td>
<td>308.2</td>
<td>55.9</td>
</tr>
</tbody>
</table>

In accordance with the programme, the Company conducted a study in 2016 on a wide range of flora and fauna that serve as indicators of the stable condition of the marine ecosystems in Russia’s Arctic zone. In order to comply with the Russian President’s orders on the safe development of the Arctic, Gazprom Neft is implementing a perpetual corporate programme to preserve biodiversity based on a list of flora and fauna that serve as indicators of the stable condition of the marine ecosystems in Russia’s Arctic zone.

The Company’s field development projects include programmes to rehabilitate aquatic biological resources.

The Company’s field development projects include programmes to rehabilitate aquatic biological resources.

ARCTIC LAND RECLAMATION PROGRAMME

Mossyakhaneftegaz is implementing an Arctic land reclamation programme at its production activity areas. The project to clean up Arctic territories within the boundaries of the East-Messoyakh license area began back in 2015. Its main goal is to restore land following the geological exploration work conducted during the last decades of the twentieth century. Metals and other waste were collected as part of the project after which the area was reclaimed using biological technology. In 2016, the Company’s enterprise returned 86 hectares of reclaimed land.

The Company’s field development projects include a programme to rehabilitate aquatic biological resources.
ENERGY CONSUMPTION AND ENERGY EFFICIENCY

Higher production growth rates have led to increased energy consumption at the Company. In an effort to minimise the impact of this process, Gazprom Neft is working on improving energy efficiency and optimising the use of energy resources by introducing a systematic approach to meeting these challenges.

One of the priorities for improving the Company’s operational efficiency is to enhance the energy efficiency of its production assets. Gazprom Neft’s energy policy aims to enhance the energy efficiency of the Company’s production enterprises, mitigate adverse impacts on the environment and reduce the consumption of non-renewable energy resources.

The Company has established an integrated energy management system based on ISO 50001. Introducing modern tools to manage production gives Gazprom Neft the opportunity to effectively utilise the best global and national practices for managing the consumption of fuel and energy resources.

UPSTREAM DIVISION

The main energy efficiency indicator at Upstream Division enterprises is the specific electricity consumption for liquid extraction, which totalled 28.91 kWh/t in 2016, or 1.7% below the planned level.

The Energy Efficiency Programme exceeded its targets in 2016. The Upstream Division had energy savings of 433 million kWh (RUB 1.251 billion), which is a record level for the implementation of energy efficiency programmes at Gazprom Neft.

The decrease in electricity consumption is the result of a reduction in the volume of fluid produced. The increase in thermal energy consumed for oil production processes was due to changes in the ambient air temperature.

The Upstream Division continued introducing the Energy Management System in 2016.

DOWNSERVICE DIVISION

The Downstream Division continued implementing the measures of the comprehensive Energy Conservation Programme in 2016. As a result, the Division’s fuel and energy savings totalled:

- heat energy — 258.7 Gcal
- fuel — 25,000 TOE
- electricity — 16.2 m kWh

Energy conservation activities resulted in savings of 2,369.9 TJ of heat, electricity and fuel. This made it possible to reduce growth in energy intensity associated with the commissioning of new process units by 1.6%, or 7% higher than the 2015 indicators. Spending on energy resources decreased by RUB 529.9 million.

In 2016, the Downstream Division Unified Energy Management System, which links the Unit’s upper (corporate centre) and lower (key subsidiaries) levels of energy conservation and energy efficiency management, was completed and certified with ISO 50001.

Sixty-three measures with a total investment of RUB 667 million were planned and implemented as part of the Programme for Improved Power Supply Reliability to Oil Refining Enterprises in 2016.

The main focuses were: eliminating power equipment failures, increasing the sustainability of power supply systems, improving the level of technological infrastructure, as well as training and upgrading personnel skills.

The Programme resulted in the following positive dynamics in target performance values versus the 2015 levels:

- the overall number of failures decreased by 15%;
- the total number of unscheduled downtime hours due to power supply disruptions decreased by 49%;
- the overall indicator for resistance to external disturbances increased by 30%.

The ‘Power’ Centre of Excellence achieved an economic effect of RUB 330 million during the reporting year by implementing best practices proposed by the Centre’s experts.

TOTAL ENERGY CONSUMPTION BY THE UPSTREAM DIVISION

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity consumption (purchased + generated), MWh</td>
<td>6,032,738</td>
<td>6,177,694</td>
<td>6,492,719</td>
</tr>
<tr>
<td>Change vs. previous period, %</td>
<td>6.3</td>
<td>6.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Thermal energy consumption (internally produced and purchased from third-party suppliers), GJ</td>
<td>1,211,237</td>
<td>1,218,555</td>
<td>1,084,758</td>
</tr>
<tr>
<td>Change vs. previous period, %</td>
<td>(2.1)</td>
<td>(4.7)</td>
<td>(10.0)</td>
</tr>
</tbody>
</table>

CONSUMPTION OF PURCHASED ENERGY BY THE DOWNSTREAM DIVISION

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased electricity (minus electricity transferred to third parties), MWh</td>
<td>3,322,967</td>
<td>3,262,669</td>
<td>3,340,550</td>
</tr>
<tr>
<td>Change vs. previous period, %</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Purchased thermal energy (minus electricity transferred to third parties), GJ</td>
<td>16,854,581</td>
<td>17,373,245</td>
<td>16,582,710</td>
</tr>
<tr>
<td>Change vs. previous period, %</td>
<td>–</td>
<td>3.1</td>
<td>(4.0)</td>
</tr>
</tbody>
</table>

www.gazprom-neft.com
HUMAN RESOURCE DEVELOPMENT

GAZPROM NEFT IS COMMITTED TO RECRUITING AND RETAINING THE BEST EMPLOYEES – PEOPLE WHO AIM TO ACHIEVE RESULTS AND GROW TOGETHER WITH THE COMPANY – AND FORMING A TEAM UNITED BY COMMON ASPIRATIONS AND VALUES. GAZPROM NEFT VIEWS ITS EMPLOYEES AS ITS STRATEGIC PARTNERS AND INVESTMENT IN HUMAN RESOURCE DEVELOPMENT AS AN INVESTMENT IN THE COMPANY’S FUTURE.

The HR management strategy employed by Gazprom Neft aims to provide the Company with a sufficient number of skilled employees in the present and the future in order to efficiently achieve the Company’s key goals.

Key areas of HR work:
> systematic recruitment and rotation of personnel;
> talent management, competency development and training;
> development of an incentive system and culture of engagement;
> growth in productivity and organisational efficiency;
> improved efficiency of the HR system.

The Company is consistently ranked among the best employers in Russia and makes conscious efforts to attract, engage and retain the best employees. Gazprom Neft provides employees with opportunities to meet interesting objectives, create and apply new approaches and expand their opportunities for personal fulfilment.

THE BEST EMPLOYERS IN RUSSIA

Gazprom Neft took second place in the ‘Employers of Russia’ rating compiled by the Headhunter recruiting company.

Gazprom Neft took the top place in the 2016 rating of Russia’s most attractive employers according to the Randstad Award international rating.

In the Universum Top 100 Russia rating, Gazprom Neft was among the top three best Russian employers for students, finishing second in the ‘Engineering’ category and third in the ‘Business’ category.

This section presents the Company’s approach to the development of HR potential and a brief description of the Company’s activities in this area. Detailed information is presented in the Gazprom Neft PJSC Sustainable Development Report for 2016.

PROFILE OF PERSONNEL

In 2016, Gazprom Neft employed over 66,000 people with blue-collar workers making up 51% of personnel, and executives, specialists and office employees making up the remaining 49%.

A total of 14,841 employees joined Gazprom Neft in the reporting year, while 14,335 people left the Company. The turnover rate was 15.2% in 2016, a 1% decrease from 2015.

STRUCTURE OF COMPANY PERSONNEL BY CORE ACTIVITY AS OF 31 DECEMBER 2016 (persons)

This section is presented in the interactive version of the Company’s social report: csr2016.gazprom-neft.com/hr-development

REMUNERATION AND SOCIAL SUPPORT FOR PERSONNEL

The Company’s comprehensive remuneration system is connected with strategic goals and aims to ensure that remuneration is competitive with other companies, retain talent at the Company and provide opportunities for career growth and rotation within the Company. Gazprom Neft offers employees a package of financial, professional and social benefits. The financial component includes basic compensation, bonuses and benefits.

Gazprom Neft conducts regular monitoring of the external market and provides employees with a competitive remuneration package. The average monthly salary of the Company’s employees was RUB 104,919 in 2016.

The Company pays particular attention to improving the variable remuneration system, which ensures each employee’s remuneration is linked to performance results and maintaining a focus on the Company’s key goals.

Gazprom Neft employs a unified social benefits system that includes basic and additional benefits. Such benefits include voluntary health insurance and accident insurance, supplemental payment exceeding the maximum disability benefits, monthly assistance for employees on childcare leave, the payment of health resort treatment for workers, housing programmes, a private pension and more.

A key component of the remuneration policy is a non-financial incentive programme that features professional skills contests, mass fitness activities and sports competitions, recreational events, and corporate communication sessions and forums.

When drafting and implementing its personnel and social policy programmes, the Company develops partnerships with trade union organisations.

Union representatives take part in discussions on changes to the Gazprom Neft social benefits system, meetings of the heads of HR services, and measures to create safe working conditions. The Company has youth commissions that protect the interests of young employees and are involved in programmes for the adaptation of new young professionals.

PERSONNEL EXPENSES (RUB mln)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>39,364</td>
<td>45,046</td>
<td>58,510</td>
<td>74,430</td>
<td>79,376</td>
</tr>
<tr>
<td>Social payments</td>
<td>2,896</td>
<td>3,386</td>
<td>2,097</td>
<td>2,452</td>
<td>3,260</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42,260</td>
<td>48,232</td>
<td>60,607</td>
<td>76,882</td>
<td>82,576</td>
</tr>
</tbody>
</table>
PERSONNEL TRAINING AND DEVELOPMENT

Gazprom Neft continues to increase investment in personnel training and development as it relies on best practices in this regard.

Investment in personnel training and development totaled RUB 707.2 million. A total of 52,582 Company employees underwent training.

In 2016, Gazprom Neft began establishing a Corporate University, which systematically unites all personnel training and development practices employed by the Company. One of the University’s key objectives will be to create an educational environment that allows for fulfilling the training objectives while taking into account the Company’s strategic goals and external trends. The model for building the training process envisages the maximum involvement of Gazprom Neft specialists as internal experts, coaches and faculty heads and leaders. A department of management and general corporate competencies began working within the Corporate University in 2016. The department will develop management and leadership skills that Gazprom Neft identifies as a key tool for establishing a corporate culture.

DEVELOPMENT OF A TALENT POOL

“SCHOOL – SECONDARY SPECIALISED COLLEGE/ UNIVERSITY – ENTERPRISE”

As part of the programme, the Company is launching ‘Gazpromneft Classes’ at secondary schools in the regions where it operates. The ‘Gazpromneft Classes’ programme includes subjects that will help students understand what the oil and gas industry is all about and which main professions are in demand in the industry. As part of their studies, students solve tasks from the practical daily work of oil workers. The training helps students to make a well-informed professional choice when it comes time to enter university.

In an effort to meet demand for skilled personnel in the present and the future, Gazprom Neft develops a workforce capacity system that includes vocational guidance at high school students, targeted education at higher and secondary educational institutions and a system to recruit and provide career planning for high-potential employees (including young professionals). The Company cooperates with the leading universities in the regions where it operates as part of these activities.

Talent Committees – collective meetings of management teams – select candidates for the talent pool. Specialist candidates are considered based on the results of an annual evaluation of their activities and potential. In 2016, the regular performance assessment encompassed 14,200 employees, a 50% increase from the previous year. A total of 2,020 succession candidates were selected to the talent pool for 990 positions. Individual development plans were prepared for the succession candidates.

REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES

WHEN PLANNING AND CARRYING OUT ITS ACTIVITIES, GAZPROM NEFT SEEKS TO ENHANCE THE COMPETITIVENESS OF THE REGIONS AND IMPROVE THE QUALITY OF LIFE OF LOCAL COMMUNITIES.

In order to meet these objectives, Gazprom Neft implements a social investment programme and develops cooperation with all stakeholders. The Company contributes to regional development as an employer, taxpayer, participant in economic activities, social investor and partner of the government and society in solving priority regional tasks.

The primary document that describes the goals, objectives and procedure for interaction with the regions is the Gazprom Neft Regional Policy Concept. Its main priorities are:

> ensuring environmental safety and minimising the environmental impact;
> cooperation with the governments of the Russian regions and municipality administrations to promote the sustainable development of regions and improve the population’s quality of life;
> establishing a competitive environment for regional labour markets;
> creating favourable financial, economic and legal conditions for the activities of Gazprom Neft;
> developing cooperation with stakeholders;
> ensuring information transparency for all stakeholders.

Gazprom Neft’s activities in the regions where it operates focus on creating favourable socioeconomic conditions, improving environmental safety, minimising the mankind impact on the environment, creating a comfortable social environment for the region’s residents, including the Company’s employees and their families, and developing cooperation with stakeholders as well as information openness and transparency.

The main tools used by Gazprom Neft for its social investments are:

> agreements on cooperation with the authorities of the constituent entities of the Russian Federation and municipalities;
> its own social projects;
> targeted corporate charity;
> corporate volunteering;
> grant competitions for social initiatives among local communities and corporate volunteers;
> the discussion of topical issues concerning cooperation between the Company and the regions using international and Russian platforms.

IMPORT SUBSTITUTION PROGRAMME

One of the priority areas of Gazprom Neft’s regional policy is the development of import substitution. The Company has been implementing a programme for the import substitution of lubricants and process fluids for various industrial sectors and the utility system since 2014. The programme allows for providing regional economies with Russian-made products with high consumer appeal.

The number of Gazprom Neft’s existing socioeconomic cooperation agreements with the regional authorities and local administrations stood at 34 in the reporting year. Projects implemented as part of such agreements included initiatives to build and repair social infrastructure and support public associations and sports clubs, among other things.

All of Gazprom Neft’s social activities are carried out within the framework of the “Native Towns” social investment programme. When scaling interregional projects in a region where the Company operates, their content is determined in accordance with the needs of the local target audiences and the relevant tasks for the region’s socioeconomic development.
The ‘Native Towns’ programme encompassed 35 regions and consisted of 165 projects, 7 Grant charitable volunteer events and 7 grant competitions in 2016. The Company’s social investments totalled RUB 4.1 billion.

Stakeholders – local communities, employees, NGOs and the government authorities – are active partners for Gazprom Neft as the Company builds its project and programme portfolios and implements them. Such an approach promotes increased social activity and competence among local communities in solving regional development problems. The key tools in this approach are grant competitions for social initiatives, competitions for volunteer projects and launching platforms for the creation of socioeconomic projects by local communities.

In 2016, grant competitions for social projects took place in six regions where the Company operates. A total of 460 applications were submitted for the competitions. The grant fund totalled RUB 24.15 million, and a total of 84 projects were implemented as a result of the competitions.

KEY PROJECTS OF THE ‘NATIVE TOWNS’ PROGRAMME IN 2016

1. The development of the oil and gas-themed ‘Multiplying Talent!’ school tournament, which aims to enhance the appeal of engineering and technical professions among school students and develop their research skills. In 2016, tournament participants included more than 1,800 people (up 50% from 2015) as the tournament received extensive media coverage and high praise from stakeholders in the regions.

2. The scaling of the ‘Stenografixa’ in which street art is used for the artistic design of a monochrome urban environment. A total of 65 pieces of art were created in nine cities and villages, while master classes and subcultural events were held for local residents.

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2. The scaling of the ‘Stenografixa’ in which street art is used for the artistic design of a monochrome urban environment. A total of 65 pieces of art were created in nine cities and villages, while master classes and subcultural events were held for local residents.

The scaling of the ‘Do It Yourself!’ project laboratory. The project involves establishing a site where local residents along with experts and representatives of the government and business develop and launch their own social initiatives for the improvement of the urban environment. The project, which was launched in Omsk in 2015, was initiated in Khanty-Mansiysk in 2016. Informal creative sites were launched as part of the laboratory in Khanty-Mansi Autonomous District Yugra for young people to realise their personal potential in accordance with the project’s goals, which are adapted to a region’s particular socioeconomic objectives.

The development of the ‘Mathematical Progression’ project, which is implemented jointly with Saint Petersburg State University. The project aims to support fundamental science, generate interest in it and attract talented students and students to this field. ‘Mathematical progression’ consists of four stages – from granting students from 23 Russians regions the opportunity to come and listen to lectures by prominent scientists to personalised awards for young scientists and support for fundamental research by Chebyshev Laboratory at Saint Petersburg State University. A system of travel grants was launched for gifted youth in 2016, allowing them to attend classes at leading mathematical schools.

The development of the ‘Creative Practices’ programme jointly with the Faculty of Liberal Arts and Sciences of Saint Petersburg State University. In accordance with the best international practices for territorial development, the programme aims to solve the socioeconomic problems of the regions with the help of creative industries. Studies were conducted as part of ‘Creative Practices’ on the main problems and promising areas for the development of the creative environment in a number of regions where the Company operates in 2016, and intensive educational courses were held for local specialists and activists based on the results of the studies. The programme speakers included Russian and international experts in economics, urban studies, the media and culture.

The scaling of the ‘Stenografixa’ in which street art is used for the artistic design of a monochrome urban environment. A total of 65 pieces of art were created in nine cities and villages, while master classes and subcultural events were held for local residents.

> Gazprom Neft organised a competition of volunteer projects in an effort to encourage volunteering and develop employees’ skills in social and charitable activities. The project brings together the volunteer initiatives of all the Company’s subsidiaries into a single platform and encourages employees to independently choose specific ideas and areas for volunteering. The competition was held for the second time in 2016 and 30 projects were implemented based on its results.

One of the key principles of the ‘Native Towns’ social investment programme is the active involvement of employees in implementing the programme. This principle is realised through the development of the ‘Personal Contribution’ corporate volunteer programme. The Gazprom Neft volunteer movement is expanding in 38 Russian cities and includes 2,856 people. In 2016, the Company’s volunteers took part in 286 events, including donor initiatives, help with socialising foster children from orphanages and boarding school graduates, the planting and landscaping of different territories, the organisation of sporting, training and entertainment events for kids from children’s institutions, aid to disabled and special needs children and more.

MESSAGE FROM THE BOARD OF DIRECTORS

Dear Shareholders and Investors,

In the face of macroeconomic changes, Gazprom Neft has maintained its stability and is actively developing. In 2016, the Company achieved substantial growth in operating and financial indicators. The positive dynamics are largely attributable to the high quality of corporate governance – an essential tool for ensuring the Company’s strong competitive positions.

Gazprom Neft Board of Directors, one of the key components of the corporate governance system, worked to meet strategic development challenges in 2016. Expanding the resource base, including offshore, implementing international projects, improving environmental and industrial safety, efficiently utilising associated petroleum gas and energy conservation were all areas of constant focus for the Board of Directors along with other issues.

Gazprom Neft continues to improve corporate governance practices. In particular, the Company conducted an external assessment of its Internal Audit Department’s activities and organised measures to update data in the Gazprom Neft shareholder register.

In accordance with the requirements of the Corporate Governance Code of the Bank of Russia, the Gazprom Neft Board of Directors approved new versions of the Regulations on the Audit Committee and the Human Resources and Remuneration Committee and reviewed reports on their work in 2016. An analysis of the reports confirmed that the Board’s Committees fully met their objectives and achieved the goals specified by the Code of Corporate Governance. The number of high-profile issues considered by the Audit Committee increased significantly – by 36% compared with 2015.

Gazprom Neft does not plan to rest on its laurels. Guided by the best Russian and international practices, the Company continues to improve the corporate governance system with the goal of enhancing business efficiency and further successful development.

The Gazprom Neft Board of Directors worked to meet strategic development challenges in 2016.

BOARD OF DIRECTORS

Gazprom Neft PJSC

Corporate governance at the Company is based on the principle of sustainable development and increasing the shareholder value of Gazprom Neft in the long term. The Company implements this principle through a system of responsible interaction that involves building trust with employees, suppliers, customers as well as residents in the regions where it operates.

The corporate governance of Gazprom Neft PJSC features a single main shareholder – Gazprom PJSC with a stake of 95.68%. The remaining common shares are distributed among minority shareholders, including individuals and legal entities, which generally dictates the distribution of the balance of power among those involved in corporate relations.

The Board of Directors reviews information on improvements to the corporate governance practice of Gazprom Neft PJSC on an annual basis. In general, the Company adheres to legislative requirements and certain standards of best corporate governance practices.

The corporate governance practice of Gazprom Neft PJSC features the following positive aspects in terms of the protection of shareholder rights:

> Expanded powers of the Company’s Board of Directors as regards to decision-making on significant transactions.

> The Company conducts a competitive selection of suppliers of goods and services whose cost exceeds a certain level as required by the relevant internal document. The Board of Directors regularly reviews procurement policy issues.

> The Company’s positive dividend history.

> The hiring of a generally recognised audit company to audit the Company’s financial statement per International Financial Reporting Standards (IFRS) and Russian Accounting Standards (RAS), and its consulting services provided by an external auditor.

> The Company has established a practice for working with minority shareholders. Gazprom Neft PJSC regularly meets with investors and shareholders, holds the ‘Investor’s Day’ event and takes part in all major conferences by investment and brokerage companies. The Company regularly informs investors and shareholders about its production plans by arranging on-site meetings at manufacturing and production sites.

> The Company’s internal documents envisage a procedure to update outdated information about shareholders, which is periodically implemented jointly with the registrar.

> A shareholder user account has been set up on the registrar’s website, which enables registered individual to obtain information about the Company’s corporate events, accrued dividends and withheld taxes, payment document numbers and reasons for refunds, among other things.

The corporate governance practice of Gazprom Neft PJSC features the following positive aspects in terms of the activities of governance and control bodies:

> Independent directors have been elected to the Board of Directors since 2012.

> The Board of Directors is balanced in terms of the work experience of Board members and their key skills that are required for the Board to work effectively.

> Meetings of the Board of Directors are held regularly, with a sufficient number of members and in accordance with a previously approved plan.

> The Company utilises the practice of inducting newly elected members of the Board of Directors.

> The preparation procedure for meetings of the Board of Directors provides Board members with the opportunity to properly prepare for the meeting.

> The Audit Committee and Human Resources and Remuneration Committee have been set up under the Board of Directors. The activities of the Committees are governed by the relevant regulations.

> The Gazprom Neft PJSC Board of Directors evaluates its own work and the individual work of its members.

> The purview of the Gazprom Neft PJSC Board of Directors includes monitoring major transactions concluded by significant legal entities under the Company’s control.

> Gazprom Neft PJSC provides liability insurance for members of the Board of Directors.

> The Audit Committee and Human Resources and Remuneration Committee report on their work to the Board of Directors annually.

> Gazprom Neft PJSC has established an internal unit that is responsible for performing key risk management functions and drafted a regulatory and methodological risk management framework.

> The Company provides comprehensive regulation of conflicts of interests among executive body members.

> The Internal Audit Department is subordinate to the Board of Directors and its functions are consistent with the recommendations of best corporate governance practices.

85
The Company implements corporate social projects for Gazprom Neft PJSC employees, clients, counterparties and people living where the Company operates in addition to charitable and sponsorship projects.

Corporate social responsibility and sustainable development activities performed by Gazprom Neft PJSC feature the following positive aspects:

> The Company has approved and introduced internal documents governing corporate social responsibility matters.
> Gazprom Neft PJSC has adopted a Corporate Conduct Code that states its mission, values, core ethical principles and business ethics standards.
> The Company implements corporate social projects for Gazprom Neft PJSC employees, clients, counterparties and people living where the Company operates in addition to charitable and sponsorship projects.
> The Company prepares a social report that meets GRI standards.
> The Company’s activities are certified for compliance with the ISO 9001 standard as regards environmental protection.
> The activities of the Gazprom Neft Group’s enterprises are certified for compliance with the ISO 14001 standard as regards quality management.
> The Company has an Anti-Fraud and Corruption Policy.

ROLE OF THE CORPORATE CENTRE IN IMPROVING THE MANAGEMENT OF SUBSIDIARIES

The Company has drafted and approved procedures that allow for coordinating and monitoring the activities of subsidiaries under the guidance of the Corporate Centre as part of the implementation of the Company’s development strategy.

Collective decision-making was enshrined about the participation of any organisation that is part of the Gazprom Neft Group in another organisation, whether commercial or non-commercial, along with an indication of the circle of decision-makers. Matters that fall within the purview of the Gazprom Neft PJSC Board of Directors are submitted to the Gazprom Neft PJSC Management Board for a preliminary decision.

The decision-making procedure was specified for the Board of Directors, General Meeting of Shareholders and General Meeting of Participants of Gazprom Neft subsidiaries. The involvement of representatives in the governing bodies of the Gazprom Neft Group is based on the principles of balance and professionalism. Decisions are adopted collectively and administered from the top down, thus making it possible to maximise the effectiveness of the decisions.

The management structure of joint ventures in which the Gazprom Neft Group has an interest has been formalised and approved. In order to effectively manage them, the Company has established the concept of an asset curator whose functional responsibility is to coordinate the management of the joint venture.

The Boards of Directors of subsidiaries are formed in accordance with the established principles of functional subordination and the participation of corporate function employees. The candidates for the Boards of Directors and Audit Commissions of subsidiaries are approved annually by an order of the Gazprom Neft CEO.

Regardless of the level of corporate ownership or the charter capital structure of subsidiaries, the executive bodies of the Gazprom Neft Group’s organisations (including the CEOs) are appointed and dismissed after the approval of the candidates by the Corporate Centre.

<table>
<thead>
<tr>
<th>Section</th>
<th>Principles recommended by the Code</th>
<th>Principles observed in full</th>
<th>Principles observed in part</th>
<th>Principles not observed by the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights of shareholders and equitable treatment of shareholders in the exercising of their rights</td>
<td>13</td>
<td>9</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Board of Directors of the Company, purse, committees, independence</td>
<td>35</td>
<td>21</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Corporate secretary of the Company</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Remuneration system for members of the Board of Directors, executive bodies and other key employees of the Company</td>
<td>10</td>
<td>8</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Risk management and internal control system</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Information disclosure about the Company, information policy</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Significant corporate actions</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>70</strong></td>
<td><strong>51</strong></td>
<td><strong>22</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

In April 2016, the activities of Gazpromneft-Aero Ulyanovsk were terminated by a merger with Gazpromneft-Aero JSC in an effort to optimise the latter’s corporate structure. The moveable property of Gazpromneft-Aero Ulyanovsk LLC was transferred to the Ulyanovsk branch of Gazpromneft-Aero JSC to continue activities involving aircraft fuelling in the Ulyanovsk Region.

A stake was sold in the non-core asset Murmansk Airport OJSC (24.12% of shares), which had been owned by Gazpromnef Avia JSC.

In an effort to improve the management of production assets in the Orenburg Region, the reorganisation of Gazprom Neft Orenburg CJSC was completed in 2016 through the achievement of Centre for Science-Intensive Technologies CJSC (we own licenses for the right to use the subsoil resources of the Tarasanskoye field, Platoyoaskoye field and Tsiarnoyskoye field) and Zivelvo Istok CJSC (thus, the latter licensed combined catalytic production of 21,000 tonnes, which will make it possible to fully meet the Russian oil refining industry’s demand for catalytic cracking catalysts and hydrogenation catalysts.

In June 2016, Gazpromneft-Lubricants acquired 100% shares/interest in the assets of the Rospolkim Group of Companies: Sovkhimtrakt CJSC, Polotek LLC and BSF-Khim LLC.

As a result of the transaction, the Gazprom Neft Group acquired an asset with a full ester production cycle. The assets have maximum production capacity of 4,500 tonnes per year. Apart from real estate, the main assets that were acquired include the companies’ licenses, patents, technical documentation, exclusive permits and clearances to supply oils and special liquids. The goal of the acquisition was for the Gazprom Neft Group to enter new promising segments for premium products based on Group 5 base oils.

Gazpromneft-Bitumen Materials LLC acquired a 75% stake in the charter capital of NOVA-Bit LLC, a company that specialises in the production of bitumen-derived encapsulating materials under the BRIT® brand, which are used for the construction, repair and maintenance of roads, airfields and artificial structures and also in civil engineering. The company’s products meet international quality standards.

The Gazprom Neft Group’s participation in NOVA-Bit LLC diversifies its sales channels, provides the group with access to a new high-margin market for innovative bitumen products for airfield, road and civil construction as well as the opportunity to join forces with a leader in the manufacturing of bitumen-derived products in order to develop and promote modern high-tech materials for oil and gas industry pipelines.

On 19 August 2016, Gazpromneft Aero JSC closed a transaction to acquire a 100% stake in the charter capital of CHUKOTKAEROSBYT LLC from the Chukotka State Unitary Enterprise of the Chukotka Autonomous District. CHUKOTKAEROSBYT LLC handles aviation fuel supplies at three airports of the Chukotka Autonomous District: Anadyr, Pevek and Kapengyev. The transaction was concluded as part of Gazprom Neft Group’s project to acquire the aviation fuel business at airports of the Chukotka Autonomous District.

In 2014, the activities of Gazpromneft-Raudi-Agro CJSC were terminated by a merger with Gazpromneft-Agro JSC in an effort to optimise the latter’s corporate structure. The moveable property of Gazpromneft-Agro Ulyanovsk LLC was transferred to the Ulyanovsk branch of Gazpromneft-Agro JSC to continue activities involving aircraft fuelling in the Ulyanovsk Region.

A stake was sold in the non-core asset Murmansk Airport OJSC (24.12% of shares), which had been owned by Gazpromnef Avia JSC.

In an effort to improve the management of production assets in the Orenburg Region, the reorganisation of Gazprom Neft Orenburg CJSC was completed in 2016 through the achievement of Centre for Science-Intensive Technologies CJSC (we own licenses for the right to use the subsoil resources of the Tarasanskoye field, Platoyoaskoye field and Tsiarnoyskoye field) and Zivelvo Istok CJSC (thus, the latter licensed combined catalytic production of 21,000 tonnes, which will make it possible to fully meet the Russian oil refining industry’s demand for catalytic cracking catalysts and hydrogenation catalysts.

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The corporate governance system of Gazprom Neft PJSC is based on principles that aim to preserve and multiply assets, increase market value, maintain the Company’s financial stability and profitability as well as respect the rights and interests of shareholders and other interested parties.

The management of a complex multi-level vertically integrated oil company (WOO) structure that includes geological exploration, production, refining and sales both within the country and abroad and requires a professional team of managers and a highly efficient system of corporate governance and control. The Company currently has a well-defined and clear organisational structure with a high level of interaction between governing bodies and clear delineation of management and control duties to guarantee sustained growth in the Company’s value for shareholders in the long term.

The disclosure and transparency of financial information along with the presentation of the Company’s interests regarding the protection of trade secrets and other confidential information play a significant role in the Gazprom Neft corporate governance system.

For Gazprom Neft, the most important information distribution channel available to the greatest number of stakeholders is the Company’s official website (www.gazprom-neft.com), the annual report and sustainable development report, as well as the website’s dedicated IR section (en.gazprom-neft.ru). These resources can be used to view the latest Company news, financial and production indicators, reporting and other useful information about the Company’s operations, as well as documents governing the activities of Gazprom Neft management and supervisory bodies, including the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, Regulation on the CEO, and Regulation on the Audit Commission.

Adhering to the principle of equal access to information for all stakeholders, Gazprom Neft publishes information on its official website in both Russian and English.

The General Meeting of Shareholders is the supreme governing body whose purview includes the most significant issues concerning the Company’s activities.

The annual General Meeting of Shareholders held on 10 June 2016 approved the following:

- the Company’s Annual Report and annual accounting statement for 2015
- the distribution of profit based on 2015 results
- to pay dividends based on 2015 results in the amount of RUB 6.47 per share (payable dividends amounted to RUB 5.92 per share taking into account previously paid dividends for the first half of 2015)
- elected new versions of the Board of Directors and Audit Commission
- the Company’s external auditor for 2016
- remuneration for members of the Board of Directors and Audit Commission

One of the most crucial functions of the Board of Directors is to form effective executive bodies and supervise their activities.

The Board of Directors performs the general management of the Company’s operations. In accordance with its purview, the Board of Directors determines the Company’s strategy, policy and core operating principles, including with respect to investment and borrowing, risk management, property disposal and other areas of operations, and monitors their implementation.

The purview of the Board of Directors is determined in the Charter and clearly separated from that of the Company’s executive governing bodies that manage its day-to-day operations.

One of the most crucial functions of the Board of Directors is to form effective executive bodies and supervise their activities. The Board of Directors monitors the activities of the executive bodies and regularly reviews reports on the implementation of the Company’s strategy and business plans. The purview of the Board of Directors includes the election and motivation of the executive bodies as well as the termination of their powers.

The Board of Directors approves the internal control and risk management policy and supports the operation of the risk management and internal control systems. The Board of Directors is responsible for managing the Company’s key risks that impact the achievement of its strategic goals.

The Board of Directors monitors improvements in the corporate governance system and practices at the Company and reviews reports on the implementation of an action programme to improve corporate governance on an annual basis.
MEMBERS OF THE BOARD OF DIRECTORS

The structure of the Company’s Board of Directors ensures the duties entrusted to it are performed in the most efficient manner possible. The Board of Directors is elected with 13 members. In accordance with the share capital structure (95.68% of the total common shares belong to Gazprom PJSC), the vast majority of members of the Gazprom Neft PJSC Board of Directors are elected upon recommendation by the controlling shareholder – Gazprom PJSC. Of the 12 members of the Board of Directors, ten are non-executive directors who are representatives of the main shareholder, two are independent directors, and one is the Company’s executive director. Gazprom Neft focuses on the criteria for independence enshrined in the Code of Corporate Governance of the Central Bank of the Russian Federation.

The Board of Directors is balanced in terms of its members possessing the key skills that are essential for effective work and their continued work on the Board. The members of the Board of Directors have skills in strategic management, corporate governance, corporate finance, risk management and accounting as well as knowledge specific to certain areas of the Company’s business.

The existing structure of the Board of Directors ensures it has an appropriate level of independence from Company management to provide proper control over the latter’s work. Gazprom Neft has a transparent procedure for electing members of the Board of Directors, specifically:

- The Company provides shareholders with two months to nominate candidates for the Board of Directors (legislation stipulates one month);
- The Company discloses information about the current members of the Board of Directors and candidates for the Board of Directors in advance;
- The Company regularly interacts with the depository banks that issues depository receipts;
- The Company employs the principle of cumulative voting for the election of members of the Board of Directors and explains its procedures;
- The Company announces the voting results on matters with an indication of the quorum and the persons who voted for each option;
- The Company publishes minutes of the General Meetings of Shareholders on its official website.

All members of the Company’s Board of Directors have a solid professional reputation, substantial experience working at the Company and regularly interact with Company management, its structural units as well as the registrar and auditor in the performance of their functions.

BALANCE OF THE BOARD OF DIRECTORS BY AGE [persons]

- 5 under age 45
- 3 Age 46-55
- 2 Age 56-65
- 1 Age 66 and older

The number of members of the Board of Directors is optimal for the Company’s current goals, objectives and industry practices and allows for ensuring the necessary balance of competence among members of the Board of Directors.

The concurrent participation by members of the Board of Directors in the work of the boards of directors of other companies has not in any way affected their effectiveness in performing their functions and duties on the Gazprom Neft PJSC Board of Directors.

Members of the Board of Directors are elected via a transparent procedure that enables shareholders to obtain sufficient information about candidates so that they can form an opinion on their personal and professional qualities. Information about candidates for the Board of Directors is conveyed to stakeholders via the publishing of a material event immediately after the minutes are compiled for the meeting of the Board of Directors at which this issue was considered. Comprehensive information about the candidates is subsequently published on the Company’s website in Russian and English 28 days prior to the General Meeting of Shareholders at which the election of the Board of Directors is on the agenda.
ALEXEY BORISOVICH MILLER
Chairman of the Board of Directors

Born in 1962.
Graduated from Vaneevsky Leningrad Institute of Finance and Economics.
2001 – Chairman of the Management Board of Gazprom PJSC.
2002 – Deputy Chairman of the Board of Directors of Gazprom PJSC.
Candidate of economic sciences.
Positions held at other organisations:
> 2003 – Chairman of the Board of Directors of Gazprombank JSC;
> 2005 – Chairman of the Board of Directors of SGAZ JSC;
> 2007 – Chairman of the Board of the Gazprom Private Pension Fund;
> 2009 – Chairman of the Board of Directors of Gazprom Media Holding JSC;
> 2010 – Chairman of the Board of Directors of Stolzman Development AB;
> 2010 – Chairman of the Supervisory Board of Gazprom Neft International S.A.;
> 2012 – Chairman of the Board of Directors of Russian Hydrocarbons OJSC;
> 2013 – Member of the Supervisory Board of the Global Energy Non-profit Partnership for the Development of International Research and Projects in Energy;
> 2013 – Chairman of the Management Board of the New Technologies of the Gas Industry Association of Equipment Manufacturers;
> 2013 – Member of the Board of Trustees of Lomonosov Moscow State University;
> 2014 – Chairman of the Board of Trustees of Saint Petersburg State University of Economics;
> 2015 – Member of the Board of Trustees of Saint Petersburg Academy of Education Federal State Budgetary Institution;
> 2016 – President, Chairman of the Management Board and Chairman of the Presidium of International Business Congress JSC.

Interest in charter capital
(as of 31 December 2016)
Does not own company shares

VALERY ALEXANDROVICH GOLUBEV
Member of the Audit Committee of the Board of Directors

Born in 1952.
Graduated from Leningrad Electrotechnical Institute and the Academy of National Economy under the Government of the Russian Federation.
2006 – First Vice-President of the Management Board of Gazprom PJSC.
Candidate of economic sciences.
Positions held at other organisations:
> 2005 – Chairman and Member of the Board of Directors of Vologradurenbahn OJSC;
> 2006 – First Vice-President and Member of the Supervisory Board of Russian Gas Company Non-profit Partnership;
> 2006 – Member of the Supervisory Board of LLP KudRoGas;
> 2007 – Chairman of the Supervisory Board of Mostshergaz JSC;
> 2007 – Member of the Board of Directors of International Gas Transportation Consortium LLC;
> 2007 – Member of the Board of Directors of Moskengaz PJSC;
> 2007 – Chairmen of the Board of Directors of Gazprom Armeta OJSC;
> 2008 – Co-Chairmen of the Supervisory Board for PSAz and Member of the Board of Directors of Sankt-Petersburg Energy Investment Company Ltd.;
> 2009 – Member of the Board of Directors of Gazprom Investproekt LLC;
> 2009 – Member of the Board of Directors of Gazprom-South-Osette OJSC;
> 2012 – Member of the Supervisory Board of Gazprom Neft Finance B.V.;
> 2016 – Member of the Moscow Energy Exchange JSC Board of Directors.

Interest in charter capital
(as of 31 December 2016)
Does not own company shares

ANDREY VYACHESLAVOVICH KRUGLOV
Member of the Human Resources and Remuneration Committee of the Board of Directors

Born in 1969.
Graduated from the Saint-Petersburg Technological Institute of the Refrigerating Industry.
2004 – Deputy Chairman of the Management Board.
2004-2015 – Head of the Gazprom Department OJSC.
Doctor of economic sciences.
Positions held at other organisations:
> 2003 – Chairman of the Board of Directors of Bezymainbank PJSC;
> 2010 – Member of the Board of Directors of Gazprombank JSC;
> 2013 – Member of the Board of Directors of Gazprombank JSC;
> 2013 – Member of the Board of Directors of Gazprombank JSC;
> 2014 – Member of the Board of Directors of Vostokgazprom OJSC;
> 2014 – President of the Management Board of Tomskgazprom OJSC;
> 2015 – Member of the Board of Directors of SGAZ JSC (as of 31 December 2016);
> 2016 – Member of the Board of Directors of Gazprom Neft PJSC.

Interest in charter capital
(as of 31 December 2016)
Does not own company shares

ALEXANDER VALERYEVICH DYUKOV

Born in 1967.
2007 – Chairman of the Management Board and CEO of Gazprom Neft PJSC.
Positions held at other organisations:
> 2005 – Chairman and Deputy Chairman of the Board of Directors of SOBR Holding PJSC;
> 2008 – Chairman of the Board of Directors and President of Football Club Zenit JSC;
> 2007 – Member and Chairman of the Board of Directors of Leningrad Stadion Multifunctional Complex JSC;
> 2010 – Member of the Board of Directors of National Oil Consortium LLC;
> 2010 – Member of the Board of Directors of Gazprom Holding PLC;
> 2010 – Member of the Board of Directors of Hockey Club Ska JSC;
> 2012 – Member of the Board of Directors of Sibneftegaz OJSC;
> 2012 – Member of the Board of Directors of Gazprom Neft PJSC.

Interest in charter capital
(as of 31 December 2016)
0.003537244% (254,013 shares)
MEMBERS OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2016

MIKHAIL LEONIDOVICH SEREDA
Chairman of the Audit Committee of the Board of Directors

BORN IN 1951.
Graduated from Saint Petersburg State University of Economics and Finance.
2002 – Member of the Board of Directors of Gazprom PJSC.
2004 – Deputy Chairman of the Management Board and Head of the Administration of the Management Board of Gazprom PJSC.

Positions held at other organisations:
> 2015 – Member of the Board of Directors of IWEH GmbH.
> 2012 – Member and Chairman of the Board of Directors of GAZPROM E.G. LIMITED.
> 2015 – Member and Deputy Chairman of the Board of Directors of Gazprombank OJSC.
> 2014 – Member of the Board of Directors of Gazprom PJSC.

Interest in charter capital (as of 31 December 2016)
(1) Does not own company shares

KIRILL GENNADYEVICH SELEZNEV

BORN IN 1974.
Graduated from Ust-Izhora State Technical University and Saint Petersburg State University.
2002 – Head of the Gazprom Department of PJSC.
2003 – Member of the Management Board of Gazprom PJSC.
2014 – CEO of Gazprom-Medvedvogolj LLC.

Candidate of economic sciences.
Positions held at other organisations:
> 2015 – Member and Chairman of the Board of Directors of Lulyatin Gáz JSC.
> 2011 – Member of the Supervisory Board of LUP KalaRosGas.
> 2013 – Member of the Board of Directors of Vostokgazprom OJSC.
> 2014 – Member of the Board of Directors of Tomskgazprom OJSC.
> 2016 – Member of the Board of Directors of Gazprominvestproekt LLC.
> 2017 – Member of the Board of Directors of Gazprom Neft Energy Network JSC.

Interest in charter capital (as of 31 December 2016)
Does not own company shares

ELENA VLADIMIROVNA MIKHAILOVA

BORN IN 1973.
Graduated from Moscow State Industrial University with a major in law and earned a Master’s Degree in Business Administration from the Academy of National Economy under the Government of the Russian Federation.
2010 – 2015 – Deputy CEO for Corporate and Property Relations of Gazprom Medvedvogolj LLC.
2015 – 2016 – Supervisory Board of Gazpromneft-Investproekt JSC.
2016 – 2018 – Head of the Management Board and Deputy Department Head at Gazprom PJSC.

Honoured Lawyer of the Russian Federation.
Positions held at other organisations:
> 2014 – Member of the Management Board of Gazprom Marketing & Trading Ltd.
> 2014 – Member of the Management Board of Gazprom E.G. LIMITED.
> 2014 – Member of the Management Board of Gazprom Germania GmbH.
> 2010 – 2015 – Member of the Board of Directors of GAZPROM Germanskaya GmbH.
> 2011 – 2013 – Member of the Board of Directors of Gazprom Germania GmbH.

Interest in charter capital (as of 31 December 2016)
Does not own company shares

NIKOLAY NIKOLAYEVICH DUBIK
Member of the Audit Committee of the Board of Directors,
Chairman of the Human Resources and Remuneration Committee of the Board of Directors

BORN IN 1971.
Graduated from Lomonosov Moscow State University and earned an EMBA at the Russian Academy of National Economy.
2013 – Member of the Management Board and Deputy Department Head at Gazprom PJSC.
2016 – Member of the Board of Directors of Gazprom Marketing & Trading Ltd.
2016 – Member of the Board of Directors of Gazprom E.G. LIMITED.

Interest in charter capital (as of 31 December 2016)
(1) Does not own company shares
MEMBERS OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2016

VLADIMIR IVANOVICH ALISOV
Born in 1960.
Graduated from the Legal Department of Zhukovsky Leningrad State University.
2003 – First Deputy Department Head at Gazprom PJSC.
Member of the Russian Association of Lawyers and member of the Corporate Governance Expert Council under the Central Bank of the Russian Federation.
2010 – Granted title of Honoured Lawyer of the Russian Federation under a decree from the President of the Russian Federation.
Positions held at other organisations:
> 2015 – Member of the Board of Directors of CenturyKaspetEnergo LLC;
> 2015 – Member of the Board of Directors of Artesgaz CJSC;
> 2015 – Member of the Supervisory Board of Wittershield AG;
> 2015 – Member of the Board of Directors of Sytiksan Development AG;
> 2015 – Member of the Board of Directors of Severneftegazprom OSJSC;
> 2015 – Member of the Supervisory Board of Gazprom EP International BV;
> 2015 – Chairman of the Board of Directors of Gazpromneft LLC;
> 2015 – Non-executive Director of the Board of Directors of Sakhalin Energy Investment Company Ltd;
> 2015 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
> 2015 – Member of the New Technologies of the Gas Industry Association of Equipment Manufacturers;
> 2016 – Member of the Board of Directors of Gazprom Krygsprodn LLC;
> 2016 – Member of the Board of Directors of Achim Development LLC.

VSEVOLOD VLADIMIROVICH CHEREPANOV
Member of the Human Resources and Remuneration Committee of the Board of Directors.
Born in 1956.
Graduated from Lomonosov Moscow State University.
2010 – Member of the Management Board and Department Head at Gazprom PJSC.
Candidate of geological and mineral sciences.
Positions held at other organisations:
> 2010 – Chairman of the Board of Directors of CompPetro gazetfgaz LLC;
> 2010 – Chairman of the Board of Directors of Artesgaz CJSC;
> 2010 – Member of the Supervisory Board of Wittershield AG;
> 2010 – Member of the Board of Directors of Sytiksan Development AG;
> 2010 – Member of the Board of Directors of Severneftegazprom OSJSC;
> 2010 – Member of the Supervisory Board of Gazprom EP International BV;
> 2010 – Chairman of the Board of Directors of Gazpromneft LLC;
> 2010 – Non-executive Director of the Board of Directors of Sakhalin Energy Investment Company Ltd;
> 2015 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
> 2015 – Member of the New Technologies of the Gas Industry Association of Equipment Manufacturers;
> 2016 – Member of the Board of Directors of Gazprom Krygsprodn LLC;
> 2016 – Member of the Board of Directors of Achim Development LLC.

VALERY PAVLOVICH SERDYUKOV
Independent Director.
Born in 1946.
Graduated from Pskovensk Leningrad Mining Institute.
1999–2012 – Governor of the Leningrad Region.
Candidate of economic sciences. Holder of government and industry-based awards.
Interest in charter capital (as of 31 December 2016): Does not own company shares.

VALERY PAVLOVICH SERDYUKOV
Independent Director.
Born in 1946.
Graduated from Pskovensk Leningrad Mining Institute.
1999–2012 – Governor of the Leningrad Region.
Candidate of economic sciences. Holder of government and industry-based awards.
Interest in charter capital (as of 31 December 2016): Does not own company shares.

MARAT MARSELEVICH GARAYEV
Graduated from Saint Petersburg State University of Economics and Finance with a degree in economics.
2013–2014 – Deputy Department Head at Gazprom PJSC.
February 2014 – First Deputy Head of the Department.
2014–2016 – First Deputy Head of the Marketing, Gas Refining and Liquefied Hydrocarbons Department at Gazprom PJSC.
2016 – General Director of Gazprom Refining LLC.
Positions held at other organisations:
> 2003 – Member and Chairman of the Board of Directors of Gazprom Gas Energy Network LLC;
> 2003 – Member of the Board of Directors of Gazprom Sera OJSC;
> 2010 – Member of the Board of Directors of Kazanorgsintez OJSC.

Sergey Aleksandrovich Fursenko
Member of the Human Resources and Remuneration Committee of the Board of Directors, Independent Director.

Sergey Aleksandrovich Fursenko
Member of the Human Resources and Remuneration Committee of the Board of Directors, Independent Director.

Born in 1954.
Graduated from Leningrad Polytechnical Institute.
2001 – Member of the Executive Committee of the Union of European Football Associations (UEFA);
2012 – Member of the Presidential Council on the Development of Physical Education and Sport.
Positions held at other organisations:
> 2012 – Chairman and Member of the Board of Directors of Gazprom Gas Engine Plant LLC.
Interest in charter capital (as of 31 December 2016): Does not own company shares.

Interest in charter capital (as of 31 December 2016): Does not own company shares.

Interest in charter capital (as of 31 December 2016): Does not own company shares.

Interest in charter capital (as of 31 December 2016): Does not own company shares.
REPORT ON PRIORITY WORK PERFORMED BY THE GAZPROM NEFT PJSC BOARD OF DIRECTORS IN 2016

In the course of its work, the Board of Directors consistently implemented the main objectives in the priority areas of activities of Gazprom Neft PJSC, including strategic development, increasing investment appeal, ensuring effective monitoring of the administration of assets, investment, financial and economic activities, enhancing the effectiveness and transparency of internal management mechanisms and improving the monitoring and accountability system of the Company’s management bodies.

The Gazprom Neft PJSC Board of Directors performed activities on the basis of approved semi-annual work plans. A total of 59 meetings were held in 2016.

STATISTICS ON THE PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS IN 2016

Members of the Board of Directors took part in all meetings of the Board of Directors except for Alexander Dyukov since he does not attend meetings where related party transactions are considered.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS IN 2016

<table>
<thead>
<tr>
<th>Board of Directors Member</th>
<th>Number of meetings attended by the Member of the Board of Directors (including providing written opinions)</th>
<th>Total number of meetings the Member of the Board of Directors could have attended</th>
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</thead>
<tbody>
<tr>
<td>A. B. Miller</td>
<td>59</td>
<td>59</td>
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<tr>
<td>V. A. Garinov</td>
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<td>59</td>
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<tr>
<td>A. V. Kogolev</td>
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<td>59</td>
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<tr>
<td>A. V. Dyukov</td>
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<tr>
<td>M. L. Sereda</td>
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<tr>
<td>K. G. Selivanov</td>
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<td>59</td>
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<tr>
<td>Y. V. Mikhailov</td>
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<td>59</td>
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<tr>
<td>N. N. Dubik</td>
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<td>59</td>
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<td>V. I. Atov</td>
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<td>59</td>
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<tr>
<td>V. V. Chepurenko</td>
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<tr>
<td>V. P. Serebryakov</td>
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<tr>
<td>M. M. Garayev</td>
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<td>59</td>
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<tr>
<td>S. A. Parenko</td>
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</table>

ALEXEY VLADIMIROVICH DVORTSOV
Secretary of the Board of Directors

Born in 1972
Graduated from the State University of Management in Moscow and obtained an MBA diploma from Stockholm School of Economics in 2012.
2003 – Head of the Corporate Regulation Department of Gazprom Neft PJSC.
2008 – Secretary of the Board of Directors.

The Secretary of the Board of Directors handles effective regular interaction with shareholders and the coordination of the Company’s actions to protect the rights and interests of shareholders, and also supports the effective work of the Board of the Directors.

The main tasks of the Secretary of the Board of Directors are: to ensure the Company’s governing bodies and officials comply with the corporate governance rules and procedures prescribed by the laws of the Russian Federation and the Company’s Charter and internal documents; to prepare for and hold the General Meeting of Shareholders and meetings of the Board of Directors and its committees; to disclose information about the Company; and to improve corporate governance practices.

The main functions of the Secretary of the Board of Directors include:
> organisational and information support for the work of the Board of Directors and its committees;
> preparing for and holding General Meetings of Shareholders;
> providing assistance to the Chairman of the Board of Directors in organising and planning the work of the Board of Directors;
> organising the storage of documents of the Board of Directors;
> monitoring the implementation of the decisions of the Board of Directors;
> interaction with members of the Board of Directors, consulting members of the Board of Directors on corporate governance matters and the provision of the necessary documents and information to members of the Board of Directors;
> ensuring the disclosure of information about the Company;
> organising interaction between the Company and its shareholders;
> performing other functions in accordance with the Regulation on the Board of Directors, the Company’s internal documents and the instructions of the Chairman of the Board of Directors.

The Secretary of the Board of Directors has knowledge, experience and qualifications that are sufficient to perform the duties entrusted to him as well as an impeccable professional reputation, systematically upgrades his skills and is also active in the professional community. For the second year in a row, Dvortsov held top places in the ratings of corporate governance directors in the fuel and energy sector according to Kommersant Publishing House and the Association of Managers (17th ‘Top 1000 Russian Managers’ rating). In addition, Dvortsov ranked among the ‘25 Best Corporate Governance Directors / Corporate Secretaries’ for 2016 according to the assessment of the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in a partnership with PwC and the Moscow Exchange.

The Secretary of the Board of Directors is appointed by the Board of Directors based on the recommendation of the Chairman of the Board of Directors in an effort to ensure independence.

The Secretary of the Board of Directors is not the secretary of the Management Board.

The work procedure of the Secretary of the Board of Directors is regulated by the Regulation on the Board of Directors of Gazprom Neft PJSC.


MANAGEMENT STRUCTURE

MANAGEMENT STRUCTURE

STATISTICS ON THE NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS IN 2012-2016

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<tr>
<td>General Annual Meeting</td>
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<td>Extraordinary General Meeting</td>
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<td>Shareholders' Meeting</td>
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In 2016, the Board of Directors considered the following issues:

- The debt structure
- The preliminary results
- The implementation status
- The Gazprom Neft PJSC development programme
- The implementation
- An analysis

The Gazprom Neft Board of Directors considered information about the implementation of the company’s investment programme on two occasions in 2016. The investment programme aims to achieve the company’s medium- and long-term goals and is implemented taking into account previously approved plans. The Gazprom Neft Board of Directors decided to maintain the company’s investment programme for 2016 at the level approved a year earlier.

The company’s development programme on the Russian shelf was also submitted to the Gazprom Neft Board of Directors for consideration. In recent years, Gazprom Neft and its subsidiaries have carried out extensive work to confirm the cost-effectiveness of offshore projects that fall within the company’s jurisdiction. The research conducted by the company confirms there are prospects for increasing commercial hydrocarbon reserves by continuing geophysical exploration work on the shelf of Russia’s Arctic and also confirms the feasibility of the effective development of offshore fields.

The Board of Directors considered information in 2016 about plans to develop the international business of Gazprom Neft. At present, the company’s international portfolio includes over 20 projects involving the exploration and production of hydrocarbons, oil refining and the sale of petroleum products outside of Russia.

In an effort to achieve the goals envisaged in the company’s long-term strategy, Gazprom Neft is considering options to further develop and improve the efficiency of existing foreign projects as well as the possibility of joining new oil production and refining projects. The feasibility of attracting foreign partners for joint work in Russia is also under consideration.

The Gazprom Neft PJSC Board of Directors took under advisement information about the Gazprom Group’s procurement activities in the changing market conditions and measures to minimise the share of import procurements.

The company submitted applications for the development of the exchange trading of Gazprom Neft PJSC oil and petroleum products on the Russian market.

An expansion of the regional network of gas and oil transport and transport technologies and their impact on the future of the oil and gas industry.

The Board of Directors took under advisement information about the implementation of the Gazprom Neft PJSC Development Strategy. The existing Gazprom Neft PJSC Development Strategy until 2025 was approved by the Board of Directors in 2013 and updated in 2016 as regards the implementation. The Gazprom Neft Board of Directors has approved the company’s main priorities for the development of the resource base for the next five years. The primary objective in this area is to provide Gazprom Neft with resources to achieve its strategic goal of reaching production of 100 million tonnes of hydrocarbons per year by 2020 and maintaining this level after 2020.

In addition, in an effort to develop the integrated risk management system, the company held training events for risk coordinators at subsidiaries and continues to implement initiatives to integrate the risk management system, business planning processes, and manage major investment projects and internal audits (systematising information about risks that are analysed or identified during audits).

SOCIAL ACTIVITIES, INDUSTRIAL SAFETY AND THE ENVIRONMENT

In 2016, the Board of Directors considered the following issues concerning the company’s sustainable development:

- The status of energy conservation and improved energy efficiency work at the Gazprom Neft Group
- The implementation of the programme to utilise and improve the effective use of associated petroleum gas based on the results of 2015 and the first half of 2016 and plans for 2016-2017
- The action plan to utilise associated petroleum gas of Gazprom Neft PJSC
- Industrial safety measures carried out by Gazprom Neft PJSC in 2016
- The approval of sponsorship for sports clubs in the regions where the company operates (Hockey Club SKA and NP Avangard SC) during sports seasons.

The Board of Directors took under advisement information about the status of energy conservation and improved energy efficiency work at the Gazprom Neft Group and also approved approaches to building and developing the Company’s Energy Management System.

The Gazprom Neft Energy Management System (EMS) is based on the international standard ISO 50001, which regulates systemic energy efficiency management processes. The company has established an integrated energy management system in accordance with the requirements of the ISO standard. A system of modern production management tools enables Gazprom Neft to effectively utilise best global and domestic practices in managing the consumption of fuel and energy resources.

The Gazprom Neft Board of Directors considered the implementation of the energy management programme and improve the effective use of associated petroleum gas (APG) in the first half of 2016 as well as long-term plans for 2016-2017. At present, the average level of APG utilisation at the company’s mature assets exceeds 93%. In particular, the APG utilisation level at Gazpromneft-Noyabrskneftegaz reached 93% in 2016 due to the commissioning of a booster gas compressor station with capacity of 200 million cubic metres per year at the Novogordnoye deposit (Purovsky District of the Yamalo-Nenets Autonomous District).

The Board of Directors also took under advisement information about industrial safety measures implemented by Gazprom Neft in 2016: improving the industrial safety management system is one of the top priorities in the company’s work. Gazprom Neft is committed to ensuring continuous improvement in industrial safety levels, performs comprehensive work to minimise the accident rate of equipment and industrial injuries and also introduces the best global practices and advanced technologies in this area.
In 2016, the Board of Directors considered the report on the Implementation of the Gazprom Neft PJSC Innovative Development Programme for 2015. The Gazprom Neft PJSC Innovative Development Programme until 2020 was approved by the Board of Directors in 2013 and contains information about the main areas of the Company’s innovative development, plans for interaction with external organisations as well as key innovative development efficiency indicators. The Board of Directors deemed the implementation of the Gazprom Neft PJSC Innovative Development Programme to be a success in 2015. The Company fulfilled the main measures envisaged by the medium-term plan and achieved the targets for the most important innovative activity efficiency indicators reflecting the level of technological development and efficiency.

CORPORATE GOVERNANCE

Per the recommendations of the Code of Corporate Governance, the Board of Directors annually considers an assessment of the state of corporate governance at the Company and conductis a self-assessment of its own activities within the control of the Board of Directors.

The Board of Directors took under advisement information about measures to improve corporate governance at Gazprom Neft PJSC in 2015.

Starting in 2016, the Board of Directors introduced the practice of considering reports on the work of its committees: the Audit Committee and the Human Resources and Remuneration Committee. The Board noted that the Committees fully met the goals, objectives and functional duties prescribed by the Code of Corporate Governance, the Regulation on Committees, the resolutions of the Company’s Board of Directors and the Committee Work Plan for 2015.

COMMITTEES OF THE COMPANY’S BOARD OF DIRECTORS

Two committees function under the Company’s Board of Directors: the Audit Committee and the Human Resources and Remuneration Committee.

AUDIT COMMITTEE

The Audit Committee monitors the Company’s financial and business operations, is elected by the Board of Directors and functions on the basis of the Charter and internal regulations.

The Audit Committee assists the Board of Directors in monitoring the Company’s financial and business operations by evaluating the effectiveness of the internal control systems, including the mechanisms used to oversee the process of preparing and submitting financial and other reporting as well as its completeness and accuracy, and monitoring the risk management system. The Audit Committee is instrumental in maintaining constructive communication with the external auditor as well as the Company’s financial and business oversight bodies and internal units. The Audit Committee’s activities are directly linked to the work plan of the Board of Directors and include the consideration of matters involving financial activities and investment planning.

The members, status, work procedure, purview and functions of the Committee, the procedure for convening and holding meetings and preparing resolutions as well as the responsibility of Committee members are specified by the Regulation on the Committee.

The Audit Committee is comprised of three non-executive directors (elected by the Board of Directors on 20 June 2016):

- M. L. Sereda (Chairman)
- V. A. Golubev
- N. N. Dubik

Given the nature of their duties, Committee members possess the sufficient and relevant financial experience and skills that are required to work with financial reports, analyse business activities and conduct financial monitoring. The Audit Committee does not include a single representative of the Company’s senior management.

STATISTICS ON THE NUMBER OF MEETINGS HELD BY THE AUDIT COMMITTEE UNDER THE BOARD OF DIRECTORS

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of meetings</th>
<th>Number of items considered</th>
<th>Number of items considered for meetings of the Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>8</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>2016</td>
<td>11</td>
<td>30</td>
<td>10</td>
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The Audit Committee held 11 meetings in 2016 and considered the following key issues in accordance with the approved work plan:

- The approval of the work plan of the Gazprom Neft PJSC Internal Audit Department for 2016-2018.
- The report on the results of the Gazprom Neft PJSC Internal Audit Department’s activities for 2015 and the first half of 2016.
- The consideration of the Company’s draft annual report for 2015.
- The consideration of the results of the Gazprom Neft PJSC External Auditor’s activities for 2015.
- Approaches to the external audit, plans and procedures for conducting the external audit of Gazprom Neft PJSC in 2016.
- The independent external assessment of the Gazprom Neft PJSC Internal Audit Department’s activities and interim results of the assessment.
- The determination of the amount of remuneration for the auditor’s services for 2016.
- The results of measures to manage the information security risks of Gazprom Neft PJSC based on the first half of 2016.
- The results of measures to manage the credit risks based on the first half of 2016, including those associated with bad debt and the write-off of uncollectable debt.
- Approaches to the strategy for hedging transactions and their impact on the expected financial result of Gazprom Neft PJSC in 2016.
- The new form of the audit report for 2016. Key audit issues that will be included in the audit report.

The Audit Committee considered the following internal documents:

- The work plan of the Internal Audit Department for 2016-2018.
- The procedure for conducting an external assessment of the Gazprom Neft PJSC Internal Audit Department’s activities.
- The internal audit policy of Gazprom Neft PJSC.
- The internal audit guarantee and improved quality programme for 2015.
- The policy for the external auditor’s provision of non-audit services to Gazprom Neft PJSC.

Audit Committee members attended all the meetings, and representatives of the external auditor, members of the Management Board, head of the Internal Audit Department and Company department heads were invited to Committee meetings based on the matters considered.

The Board of Directors noted the results of the performance effectiveness assessment of the Audit Committee under the Gazprom Neft PJSC Board of Directors; the results of the performance effectiveness assessment of the Audit Committee under the Gazprom Neft PJSC Board of Directors; the appointment of the Gazprom Neft PJSC CEO.

The Committee conducted an assessment of the activities of the Board of Directors and the Audit Committee which noted positive trends in the Board’s work (due to an increase in the number of items submitted for discussion) and the active participation of Board members.
In addition, the Committee decided to conduct a performance effectiveness assessment of the Audit Committee under the Gazprom Neft PJSC Board of Directors based on a survey of members of the Audit Committee of the Board of Directors according to the approved criteria for the effectiveness assessment. The assessment results were considered by the Committee and it was noted that the Audit Committee fully met the goals, objectives and functional duties prescribed by the Code of Corporate Governance, the Regulation on Committees, the resolutions of the Company’s Board of Directors and the Committee Work Plan for the year.

As regards preparing information (materials) for the Annual General Meeting of Shareholders, the Committee regularly conducts a preliminary assessment of candidates for election to the Board of Directors.

The Committee prepared the appropriate recommendations on matters that require the submission of recommendations to the Board of Directors. The Committee fully performed the tasks it was assigned over the reporting period.

The Board of Directors considered a report on the work of the Human Resources and Remuneration Committee in 2016.

PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS

In accordance with the recommendations of the best corporate governance practices, the Board of Directors conducts an annual analysis and assessment of the effectiveness of its performance by evaluating all the areas of the Board’s activities.

Per the decision of the Board’s Human Resources and Remuneration Committee dated 27 September 2010, the Committee conducts an annual internal assessment of the effectiveness of the activities performed by the Company’s Board of Directors in the form of a survey (questionnaire). The questionnaire includes approximately 30 questions about the main areas of activities: members, work structure, procedures of the Board of Directors and an assessment of the work performed by the Chairman of the Board, Committees and the Secretary of the Board of Directors, the level of interaction within the Board of Directors and other issues.

The analysis of the Board’s performance over the reporting period revealed improvements in the following areas: identification of strategic priorities, interaction with executive management, balanced membership and the functioning of the Committees under the Board of Directors. In addition, issues falling into zones of development based on the assessment results include increased awareness of members of the Board of Directors, including the timely provision of information and improvements to communication channels, management and other individuals.

INDUCTION OF NEW MEMBERS OF THE BOARD OF DIRECTORS

In order to support the effective work of the Board of Directors, the Human Resources and Remuneration Committee employs the Programme on the Induction of Newly Elected Members of the Board of Directors.

The objectives of the Programme are to introduce newly elected members of the Board of Directors to the Company’s production, financial and business activities and corporate governance practices as quickly and effectively as possible.

The Programme provides for the following measures:

> A meeting with the Chairman of the Board of Directors and discussion of the work plan and the priorities in the Company’s activities; determining the future role of each director on the Board in accordance with the director’s professional knowledge and experience.
> A meeting with representatives of senior management, the provision of basic information about the Company’s activities, discussion of the Company’s operational and financial structure and introduction to the members of the Management Board.
> Consultations with the Secretary of the Board of Directors: the Committee shall describe the procedural and legal aspects of the activities performed by the Board of Directors and its committees and explain the rights and duties of Board members, matters concerning the payment of remuneration and compensation as well as their responsibilities and liability insurance.
> Review of the Company’s main documents, guidelines for Board members and a description of the Board’s business matters, internal procedures and the organisational management of the Board of Directors and its committees.
> The Programme may also include such measures as visits to the Company’s fixed assets, participation in the Company’s public activities and meetings with key management personnel.

The Human Resources and Remuneration Committee monitors the implementation of the Programme.

No new members were elected to the Board of Directors in 2016.

MANAGEMENT BOARD AND CEO

The structure of the Gazprom Neft executive bodies is described by the Charter and includes the Management Board and the CEO. The Gazprom Neft Management Board is the collective executive body that oversees its day-to-day operations. In accordance with the Charter of Gazprom Neft, the Management Board is formed by the Board of Directors upon recommendation by the Gazprom Neft Management Board Chairman. The composition of the Management Board is also determined by the decision of the Board of Directors. The requirements for the professional qualifications of the Gazprom Neft Management Board members are established by the Company’s internal documents.

Company CEO Alexander Dyukov (who was the first to run the Company in December 2016 and was re-elected for a second five-year term in December 2016) serves concurrently as the Chairman of the Management Board, whose functional duties include organising the activities of the Management Board. In the absence of the Management Board Chairman, his functions are performed by one of three Deputy Management Board Chairmen. Yan Yakelev (First Deputy), Vitaly Baranov or Anatoly Chemer: a deputy is elected upon recommendation by the Management Board Chairman by a majority vote of the elected Management Board members. In the absence of the Management Board Chairman and Vice Chairmen, the functions of the Management Board Chairman may be performed by any member of the Management Board based on the decision of the Management Board.

MANAGEMENT BOARD AND CEO

The powers of the Management Board are determined by the Company’s Charter. The main functions of the Management Board include organizing the monitoring of the implementation of decisions adopted by the General Meeting of Shareholders and Board of Directors, the drafting of long-term plans and the main programmes of Gazprom Neft PJSC activities for submission to the Board of Directors, including:
- The Company’s annual budget and investment programmes, the preparation of reports on their implementation as well as the drafting and approval of current plans for the Company’s activities.

The Gazprom Neft PJSC Management Board monitors the implementation of the Company’s current and long-term plans and programmes as well as its investment, financial and other projects.

The Gazprom Neft PJSC Management Board drafts proposals for submission to the Board of Directors concerning the Company’s participation and the discontinuation of its participation in other organisations (including foreign ones) and the start and termination of the activities of the Company’s branches and representative offices.

The CEO is accountable to the Gazprom Neft PJSC Board of Directors and General Meeting of Shareholders. The CEO manages the Company’s day-to-day operations and acts within the powers prescribed by the Gazprom Neft PJSC Charter.

Main issues within the purview of the CEO:
- coordinates transactions on the Company’s behalf and administers the Company’s property guided by the Company’s internal documents governing the procedure for concluding transactions and the procedure for interaction with business companies and organisations in which the Company owns shares or interests;
- approves the staff of the Company and its branches and representative offices and determines the form, system and amount of remuneration;
- approves the Company’s internal documents governing its day-to-day operations; in coordination with the Board of Directors, appoints and dismisses CEO’s, the chief accountant, head of the legal service, head of the internal audit (control) department, head of the security service, and other management and staff positions for holding competitive procurements as well as the heads of the Company’s branches and representative offices;
- organises the implementation of the decisions adopted by the General Meeting of Shareholders, Board of Directors and Management Board and the fulfilment of obligations to the budget and counterparties;
- adopts decisions on the Company’s participation and discontinuation of its participation in other organisations if such a decision entails a transaction for an amount not exceeding RUB 450,000,000 or is related to the reorganisation or liquidation of an organisation whose assets have book value of no more than RUB 450,000,000;
- adopts decisions on the conclusion of transactions for an amount of no more than RUB 450,000,000 in accordance with the procedure for concluding transactions.
MEMBERS OF THE MANAGEMENT BOARD

MEMBERS OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2016

ALEXANDER VALERYEVICH DYUKOV
Chairman of the Management Board, CEO

Born in 1967.
2005–2006 – President of Sibur Holding OJSC.
2006 – CEO of Sibur LLC.
2006 – Chairman of the Board of Directors of Sibur Holding OJSC.
2006–2008 – President of Gazprom Neft OJSC.
December 2006 – Chairman of the Management Board and CEO of Gazprom Neft PJSC.

VADIM VLADISLAVOVICH YAKOVLEV
Deputy Chairman of the Management Board, First Deputy CEO

Born in 1970.
Graduated from the Moscow Engineering Physics Institute and the Graduate School of Finance at the International University in Moscow.
1999 – Earned his Chartered Association of Certified Accountants qualification (ACCA).
2004 – Elected a deputy of the British Institute of Directors (BD).
2006–2007 – Head of the Budget Planning Department of Sibur Holding OJSC.
September–December 2007 – Vice President of Finances of Gazprom Neft PJSC.
October 2007 – Member of the Management Board of Gazprom Neft PJSC.
December 2007 – Deputy CEO for Economics and Finance of Gazprom Neft PJSC.
May 2010–August 2011 – First Deputy CEO and CFO of Gazprom Neft PJSC.
August 2011 – First Deputy CEO of Gazprom Neft PJSC.

IGOR KONSTANTINOVICH ANTONOV
Member of the Management Board, Deputy CEO for Security

Born in 1951.
Graduated from Leningrad Aviation Instrumentation Institute.
2005–2010 – Vice President for Security at Sibur Holding OJSC.
December 2007 to present – Deputy CEO for Security of Gazprom Neft PJSC.

VITALY VITALYEVICH BARANOV
Deputy Chairman of the Management Board, Deputy CEO for Organisational Matters

Born in 1966.
Graduated from Saint Petersburg State University of Economics and Finance in 1989 with a major in economics and production management.
2008 – Completed training at the London Business School.
Senior Executive Programme in London, UK.
2013 – Successfully held the positions of Advisor, President for General Affairs and Chief of the Presidential Administration at the Sibur Group.
May 2006 – Vice President for Organisational Matters of Sibur LLC.
June 2009 – Member of the Management Board of Gazprom Neft PJSC.

Positions held at other organisations:
> 2007 – Member and Chairman of the Board of Directors of Neftegazinform; Chair of the Board of Directors of Sibur Holding OJSC.
> 2008 – Chairman of the Board of Directors and Chairman of the Board of Directors of Neftegazinform OOO.
> 2009 – Chairman of the Board of Directors of Neftegazinform JSC.
> 2010 – Chairman of the Board of Directors of Gazpromneft-Vostok LLC.
> 2012 – Chairman of the Board of Directors of Gazpromneft-Chukotka LLC.
> 2013 – Chairman of the Supervisory Board and Member of the Supervisory Board of Sibur Holding OJSC.
> 2014 – Chairman of the Supervisory Board and Member of the Supervisory Board of Sibur Holding OJSC.
> 2015 – Member of the Board of Directors of Gazprom Neft PJSC.

INTEREST IN CHARTER CAPITAL

Interest in charter capital (as of 31 December 2016) 0.0053% (254,003 shares)
Interest in charter capital (as of 31 December 2016) 0.0032% (149,880 shares)
Interest in charter capital (as of 31 December 2016) 0.0011% (49,856 shares)
Does not own company shares

www.gazprom-neft.com
MEMBERS OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2016

VLADISLAV VALERYEVICH
BABYSHNIKOV
Member of the Management Board, Deputy CEO for International Business Development

BORN IN 1965.
Graduated from the Red Banner Military Institute.
2001–2009 – Director of the Gazprom OJSC representative office in China and the regional representative office in Asia-Pacific Region countries; State Counsellor of the Russian Federation, First Class.
April 2009 – Deputy General Director for International Business Development.
November 2009 – Member of the Gazprom Neft Management Board.
Handles matters related to international business development and interaction with foreign partners at the Company.
Positions held at other organisations:
> 2011 – Member of the Board of Directors of GPN-Development LLC.
> 2013 – Member of the Management Board Gazprom Neft International S.A.

ALEXANDER MIKHAILOVICH
DYBAL
Member of the Management Board, Deputy CEO for Corporate Communications

BORN IN 1966.
Graduated from Leningrad Electrotechnical Institute.
2005–2007 – Chairman of the Board of Directors of Gazprom Media OJSC.
February 2007 – Vice President of Gazprom Neft PJSC and Advisor to the Chairman of the Gazprom PJSC Management Board.
December 2007 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO for Corporate Communications.
Responsible for regional and information policy as well as internal corporate and marketing communications at the Company.
Positions held at other organisations:
> 2011 – Member of the Board of Directors of MFC Lakhta Centre JSC.
> 2012 – Chairman of the Board of Directors of SK Avangard NP.
> 2015 – Member of the Board of Directors of Gazprom Media LLC.
> 2015 – Member of the Board of Directors of TNT-Tasirat JSC.

ELENA ANATOLYEVNA
ILYUKHINA
Member of the Management Board, Deputy CEO for Legal and Corporate Affairs

BORN IN 1963.
Graduated from the Ural State University.
Awarded PhD in Economics Sciences in 2001.
Prior to appointment at Gazprom Neft PJSC, she served as Executive Director of Northwest Investment Company December LLC.
December 2007 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO for Legal and Corporate Affairs. Responsible for legal and corporate support for the Company operations.
Positions held at other organisations:
> 2009 – Member of the Board of Directors of Gazprom PJSC.
> 2010 – Member of the Supervisory Board of Gazpromneft-Shelf LLC.
> 2010 – Member of the Board of Directors of Gazprom PJSC.
> 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC.
> 2015 – Member of the Board of Directors of Gazprom PJSC.

KIRILL ALBERTOVICH
KRAVCHENKO
Member of the Management Board, Deputy CEO for Foreign Asset Management

BORN IN 1976.
Graduated from Lomonosov Moscow State University, Open University and IMD Business School. Doctor of Economic Sciences and a Professor.
> 2001–2007 – Administrative Director of EuroChem MC, OJSC. Elected to the boards of directors of several major companies over the years.
Positions held at other organisations:
> 2007 – Vice-President of Gazprom Neft PJSC.
> 2017 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO for Organisational Affairs.
> 2019 – CEO and Member of the Board of Directors of NSC Neftegaz.

Interest in charter capital (as of 31 December 2016)
Does not own company shares
MEMBERS OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2016

ANDREY NIKOLAYEVICH PATRUSHEV
Member of the Management Board, Deputy CEO for Offshore Project Development

Born in 1961.
2006 – Graduated from the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation with a major in world economics.
2008 – Graduated from St. Petersburg State University of Oil and Gas with a major in the oil and gas business.
2008–2009 – Advisor to the Chairman of the Board of Directors of Rosneft OJSC.
2009–2010 – Deputy CEO for Business Development at ON Service LLC.
2011 – Work at Zarubezhneft OJSC and involvement in organizing the activities of the Russian-Vietnamese joint venture Vietpetro to develop Vietnamin’s offshore fields.
2012 – First Deputy CEO of Vinkoexport and Deputy CEO of Zarubezhneft.
Mid-2015 – Appointed Deputy CEO for Major Construction at Gazprom Dalnyeche Shelf LLC (formerly Gazprom Dalnyeche Shelf Yuzhno-Sakhalin in 2014).
April 2015 – Deputy CEO for Offshore Project Development at Gazprom Neft OJSC.

Positions held at other organizations:
> 2011 – Member of the Board of Directors of Gazpromneft-Dobinka Oil Refinery LLC.
> 2016 – Member of the Board of Directors of Skarmet OGC.
> 2017 – Chairman of the Board of Directors of Gazpromneft-Aero OGC.
> 2017 – Member of the Board of Directors and Chairman of the Board of Directors of Gazpromneft Moskov Oil Refinery OGC.
> 2006 – Member of the Board of Directors of Skarmet OGC.
> 2007 – Member of the Board of Directors of Skarmet YANOS OGC.
> 2008 – Chairman of the Board of Directors of Gazpromneft Marine Broker LLC.
> 2008 – Chairman of the Board of Directors of Gazpromneft-SPM LLC.
> 2009 – Member of the Board of Directors of SPMTSIS JSC.
> 2015 – Member of the Board of Directors of Nultex Industrial Sipka A.D. Nove Sadi.
> 2019 – Member of the Supervisory Board of Motor Oil Refinery OGC.
> 2016 – Member of the Board of Directors of Gazpromneft-Logistics LLC.
> 2016 – Member of the Board of Directors of Gazpromneft Lubricant Italy.
> 2016 – Chairman of the Board of Directors of Gazpromneft – Catalytic Systems LLC.

ANATOLY MOISEYEVICH CHERNER
Deputy Chairman of the Management Board, Deputy CEO for Logistics, Processing and Sales

Born in 1954.
Graduated from Grozny Oil Institute.
2006–2007 – Vice President of Skarmet OGC for Processing and Sales.
December 2007 – Member of the Management Board of Gazprom Neft OJSC and Deputy CEO for Logistics, Processing and Sales.

Positions held at other organizations:
> 2016 – Chairman of the Board of Directors of Gazpromneft-Dobinka Oil Refinery LLC.
> 2006 – Member of the Board of Directors of Skarmet OGC.
> 2007 – Chairman of the Board of Directors of Gazpromneft-Aero OGC.
> 2017 – Member of the Board of Directors and Chairman of the Board of Directors of Gazpromneft Moskov Oil Refinery OGC.
> 2006 – Member of the Board of Directors of Skarmet OGC.
> 2007 – Member of the Board of Directors of Skarmet YANOS OGC.
> 2008 – Chairman of the Board of Directors of Gazpromneft Marine Broker LLC.
> 2008 – Chairman of the Board of Directors of Gazpromneft-SPM LLC.
> 2009 – Member of the Board of Directors of SPMTSIS JSC.
> 2015 – Member of the Board of Directors of Nultex Industrial Sipka A.D. Nove Sadi.
> 2019 – Member of the Supervisory Board of Motor Oil Refinery OGC.
> 2016 – Member of the Board of Directors of Gazpromneft-Logistics LLC.
> 2016 – Member of the Board of Directors of Gazpromneft Lubricant Italy.
> 2016 – Chairman of the Board of Directors of Gazpromneft – Catalytic Systems LLC.

ALEKSEY VIKTOROVICH YANKEVICH
Member of the Management Board, Deputy CEO for Economics and Finance

Graduated from Saint Petersburg State Electrotechnical University and the Leti-Lovanium International School of Management.
2004 – Earned the qualification of a Certified Management Accountant (CMA).
2005–2007 – Deputy CFO of LUK International LLC.
2007–2011 – Head of the Budget Planning Department and Head of the Directorate of Economics and Corporate Planning of Gazprom Neft OJSC.
2011–2012 – Asst Deputy CEO for Economics and Finance of Gazprom Neft OJSC.
March 2015 – Member of the Management Board and Deputy CEO for Economics and Finance of Gazprom Neft PDSC.

Positions held at other organizations:
> 2011 – Member of the Board of Directors of Gazpromneft-Aero OGC.
> 2011 – Member of the Board of Directors of Gazpromneft-SPM LLC.
> 2011 – Member of the Board of Directors and Chairman of the Board of Directors of Gazpromneft Business Service LLC.
> 2011 – Member of the Board of Directors and Chairman of the Board of Directors of Gazpromneft Marine Broker LLC.
> 2013 – Member of the Board of Directors of Skarmet OGC.
> 2013 – Member of the Board of Directors of Skarmet OGC.
> 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.

REPORT ON THE MANAGEMENT BOARD’S WORK IN 2016

The Gazprom Neft Management Board considers matters on a scheduled basis taking into account the decisions of the General Meeting of Shareholders and the Board of Directors as well as matters submitted by the CEO and Management Board members. The Management Board’s work plan is also compiled based on the proposals of the heads of Gazprom Neft structural units.

As one of the tools used to additionally inform Board of Directors members about the Company’s performance results, the Charter and Resolution on the Gazprom Neft Management Board provide for MD&A management reports (management’s discussion and analysis of financial conditions and operational results) to be sent to members of the Board of Directors on a quarterly basis.

In 2016, there were 22 meetings of the Gazprom Neft Management Board, including 15 in-person meetings, during which various issues of the day-to-day operations of the Company’s Management Board were considered. The main issues included:
> Transactions were approved for the acquisition of the assets of the Rospolzheim Group of Companies and an interest in the charter capital of NOVA-Bint LLC and the establishment of Gazpromneft-Catalytic Systems LLC.
> The performance results of the Upstream Division, Shelf Projects Development Unit and Downstream Division in 2015 were considered.
> Information about the execution of the Gazprom Neft Group’s Investment Programme and Budget (financial plan) for 2016 was taken under advisement based on the Company’s performance in 2015 and instructions were given to submit this information to the Board of Directors for consideration.

Neither the Chairman nor members of the Management Board concluded any transactions involving the acquisition or alienation of the Company’s shares in the reporting year.

There were no changes to Management Board members in 2016.
No claims were filed against the CEO or members of the Management Board in 2016.

Interest in charter capital (as of 31 December 2016) Does not own company shares

Interest in charter capital (as of 31 December 2016) Does not own company shares

Interest in charter capital (as of 31 December 2016) Does not own company shares
> The decision was made as part of the item “On the establishment of a system to manage data used when resolving production and business tasks at the Gazprom Neft Group” to set up a cross-functional working group comprised of representatives of the main production units and present a drafted policy concerning the management of the data to the Gazprom Neft PJSC Management Board for consideration.

> A new version of the Gazprom Neft PJSC Corporate Conduct Code was approved. The Corporate Conduct Code included a new value – “Safety and a Green Focus”. The Company’s vision in industrial, environmental and occupational safety and civil defense is worded as: “Goal – Zero. No Harm to People, the Environment or Property when Performing Work”.

> The business plans of the production units for 2017-2019 were considered.

> Information on the preliminary results of the implementation of the Gazprom Neft Group’s Investment Programme and Business Plan for 2016 was taken under advisement.

> The Gazprom Neft Group’s Consolidated Business Plan for 2017-2019 was taken under advisement.
**INTERNAL CONTROL**

In an effort to enhance the effectiveness of the internal control system and improve corporate governance, Gazprom Neft PJSC developed the Gazprom Neft PJSC Internal Control Policy, which is the primary document in matters of internal control and identifies the goals, objectives, components and principles for the establishment and operation of the Company’s internal control system. The Policy is published along with the Company’s other internal documents at: www.gazprom-neft.com

The Policy was tentatively endorsed by the Audit Committee of the Gazprom Neft PJSC Board of Directors and approved by the Board of Directors in February 2017.

The Company succeeds in achieving its goals in the most optimal way possible due to the high level of involvement of the Company’s executive bodies and senior management as well as the heads of structural units and Company employees in organising and supporting the effective operation of the internal control system.

The internal control system ensures:

- the identification and assessment of risks affecting the achievement of the Company’s goals;
- the development, introduction, proper implementation, monitoring and improvement of control procedures at all levels of the Company’s business operations and management;
- awareness among the appropriate level of governing bodies about major shortcomings in control along with a suggestion for corrective measures to remedy deficiencies;
- the continuity of the Company’s operations, the most effective performance of the Company’s activities, its sustainability and development prospects, including the Company’s timely adaptation to changes in the internal and external environment;
- high-quality information, methodological and analytical support for the management decision-making process at the Company;
- the proper distribution of responsibility, powers and functions between the subjects of internal control and the prevention of duplicated functions;
- continuous improvement to the control system with respect to information technologies;
- the timely resolution of conflicts of interest that arise in the process of the Company’s activities.

The subjects of internal control at the Company and the distribution among them of the appropriate functions to organise and support the effective operation of the Company’s internal control system are primarily determined as follows.

As part of its day-to-day management of the Company’s operations, the Board of Directors performs the functions of creating an appropriate control environment, introducing a culture of internal control and maintaining high ethical standards at all levels of the Company’s activities. The Board of Directors determines the principles and approaches used for the organisation and operation of the Company’s internal control system; analyses and assesses its effectiveness, including an annual review how effectively the internal control system is organised and operates and, if necessary, the preparation of recommendations on how to improve it.

Information concerning the effectiveness of the internal control system is provided to shareholders within the Company’s annual report and also as part of the Gazprom Neft PJSC Internal Audit Department’s report on its performance results.

The Audit Committee performs the function of preparing recommendations for the Board of Directors on matters concerning the organisation, operation, effectiveness assessment and improvement of the Company’s internal control system, analyses the Company’s reporting and internal audit results for compliance with the legislation of the Russian Federation, International Financial Reporting Standards, Russian Accounting Standard and other regulatory legal acts and considers any established or alleged unethical practices by the Company’s employees.

The Company’s executive bodies and senior management perform functions that aim to organise the development and effective operation of the internal control system; create a proper control environment, introduce a culture of internal control and support high ethical standards at all level of the Company’s activities, distribute powers and duties and assign responsibility among the heads of structural units for establishing, introducing,
The Internal Audit Department performs the following functions:

> an independent and objective assessment of the effective organisation and operation of the Company’s internal control system based on a risk-oriented approach;
> developing recommendations to eliminate deficiencies identified in the course of audits and monitoring their introduction;
> consulting support for stakeholders within the Company with respect to the organisation and operation of the Company’s internal control system;
> reporting the assessment results of the internal control system and proposals for its improvement to the Company’s Audit Committee and executive bodies.

The Audit Commission monitors the compilation of reliable financial statements and other information about the Company’s financial and business activities and property status.

AUDIT COMMISSION

The Audit Commission is a standing body that supervises the financial and business operations of Gazprom Neft. The Audit Commission acts on behalf of shareholders and is subordinate to the General Meeting of Shareholders in its activities.

The Audit Commission conducts audits of financial and business operations on the basis of the Charter and the Regulation on the Audit Commission and forms an independent opinion on the state of affairs at the Company. The Audit Commission’s conclusions are conveyed to shareholders at the General Meeting of Shareholders in the form of a report by the Company’s Audit Commission attached to the Gazprom Neft annual report.

The Audit Commission was elected at the Annual General Meeting of Shareholders on 10 June 2016 with the following members:

> V. K. Bikulov;
> G. Y. Delvig;
> A. A. Kotlyar;
> M. I. Miroshnichenko;
> A. A. Frolov.

Remuneration is paid to members of the Audit Commission based on the decision of the General Meeting of Shareholders. Annual remuneration for members of the Audit Commission paid in 2016 totalled RUB 4,520,000.

INTERNAL AUDIT DEPARTMENT

The Company conducts internal audits for a systematic and independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices.

Internal audits are performed by the Company’s Internal Audit Department whose director is appointed in coordination with the Board of Directors.

The Internal Audit Department is functionally subordinate to the Audit Committee of the Board of Directors and directly subordinate to the Company’s CEO.

The Internal Audit Department’s mission is to provide the Board of Directors, Audit Committee, CEO and senior management with independent, objective, reasonable and substantiated guarantees and consultations that aim to improve the Company’s activities.

The internal audit function helps to achieve the Company’s goals using a systematic and sequential approach to assessing and improving the effectiveness of internal control, risk management and corporate governance processes.

The main functions of the Internal Audit Department, among other things, include:

> Assessing the effectiveness of the internal control system for the Company’s business processes;
> Assessing the effectiveness of procedures that ensure the safeguarding and legitimate use of the Company’s assets;
> Assessing the effectiveness of the internal control system for the accuracy of the Company’s external and internal reporting;
> Assessing the effectiveness of internal monitoring of compliance with the requirements of applicable existing legislation and regulatory organisations, internal organisational and administrative documents and regulations, and the decisions of the Company’s governing bodies;
> Assessing the effectiveness of information systems, IT processes and automated processes, and their compliance with the Company’s strategy;
> Assessing the effectiveness of anti-fraud and anti-corruption measures at the Company. Participation in investigations of fraud and violations of the Corporate Conduct Code based on requests from the Company’s Audit Committee and CEO.

> Organising a system to collect and process information about signs and instances of fraud and corruption – a hotline to prevent fraud, corruption and other violations of the Corporate Conduct Code;
> Assisting the Company with establishing and monitoring the Integrated Risk Management System (hereinafter – IRMS); Developing recommendations to improve the Company’s activities and eliminate shortcomings based on audits, special inspections, investigations and consultations and convey them to people who can ensure they are properly considered.
> Monitoring the implementation of measures developed based on audits and investigations to improve the internal control system as well as corporate governance and risk management processes.
> Interacting with the Company’s audit commissions and external auditors and taking part in inspections of the fulfilment of recommendations from the external auditor and audit commissions.

The Head of the Internal Audit Department reports to the Audit Committee and Board of Directors twice a year about the Department’s performance results developed by the Board of Directors, Audit Committee, CEO and senior management.

As part of operational audit projects in 2016, the Internal Audit Department conducted an assessment of the effectiveness of the internal control system based on the following areas: accounting of oil and associated petroleum gas, the purchase of oilfield services, recording the quantity and quality control of petroleum products, the shipping, storage, transhipment and sale of petroleum products, the management of logistical resources and an assessment of processes involving the Company’s financial activities and IT functions.

DEPARTMENT STRUCTURE

METHODOLOGY DIVISION

IRMS MONITORING OFFICE

CORPORATE AUDIT OFFICE

EXPLORATION AND PRODUCTION AUDIT OFFICE

PROCESSING AND SIZBLE AUDIT OFFICE

BOARD OF DIRECTORS

INTERNAL AUDIT DEPARTMENT

CEO

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

GALINA YURYEVNA DELVIG
Head of the Internal Audit Department

Born in 1960.
Graduated from Plekhanov Moscow Institute of National Economy.
2018 – Head of the Internal Audit Department of Gazprom Neft PJSC.

Interest in charter capital (as of 31 December 2016): Does not own shares.
Taking into account the Internal Audit Department’s recommendations, management developed and is implementing a range of measures to improve the effectiveness of the internal control system for business processes and is making amendments to the regulatory and methodological framework.

In addition to audit activities, the Department is developing consulting services that aim to improve the Company’s business.

One of the main focuses of the Internal Audit Department’s risk management activities in 2016 was methodological support provided to the Company, its subsidiaries and major projects using risk identification and assessment procedures in the form of risk sessions (cross-functional meetings with managers and employees) held in accordance with an approved plan.

As part of efforts to develop the integrated risk management system, Department employees conducted training measures for risk coordinators at subsidiaries and continued work to implement initiatives to integrate the risk management system and business planning processes, manage major investment projects and conduct internal audits (systematisation of information about risks that have been analysed or identified during audits).

### EXTERNAL AUDITOR

Each year the Company hires a professional auditing firm that is not associated with the Company through property interests or its shareholders from among the top international auditing companies to audit and confirm the accuracy of its annual financial statements.

The auditor is selected through a tender based on an assessment of the following criteria:

- The participant’s qualification and experience based on the subject for which it is being selected, including experience with auditing oil and gas industry companies.
- Ensuring the protection of the data and requirements of credit agreements (including ratings agencies).
- Ensuring the protection of the client’s information (existence of a Federal Security Service licence).

The Company’s auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors.

A preliminary assessment of auditor candidates is conducted by the Audit Committee.

- Written endorsement from credit agents on the current credit agreements of Gazprom Neft PJSC confirming that the audit company is an internationally recognised auditor;
- The IFRS statement auditor of the audit company was fully used in the prospectus for issuing debt instruments when obtaining a rating from international ratings agencies (Moody’s, Fitch, S&P);
- Financial parameters: cost of services, payment terms.
- Independence: the auditor’s independence is not jeopardised unless revenue per one client exceeds 15% of the auditor’s total revenue (according to the requirement of the Russian Ministry of Finance – clause 2.112 ‘Rules for the independence of auditors and audit organisations’ and international requirements – clause 210 219 from the IESBA Code of Ethics).

The Company’s auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors. A preliminary assessment of auditor candidates is conducted by the Audit Committee.

In order to assess the quality of work performed by the external auditor, the Audit Committee reviews reports by the external auditor and statements from management and also conducts in-person meetings with representatives of the auditors. The Audit Committee conducted three meetings throughout 2016 with the Company’s auditor and considered the following issues:

- An assessment of the audit report based on the Gazprom Neft PJSC accounting statement for 2015 prepared by PricewaterhouseCoopers Audit JSC.
- The consideration of the performance results of the external auditor of Gazprom Neft PJSC for 2015.
- The consideration of the IFRS consolidated statement of Gazprom Neft PJSC for 2015.
- The candidacy of the external auditor of Gazprom Neft PJSC for 2016.
- The approaches to the external audit and the plan and credit agreements for the external audit of Gazprom Neft PJSC for 2016.
- The determination of the remuneration amount for the auditor’s services for 2016.
- The new form of the audit report for 2016. Key audit issues that will be included in the audit report.
- The policy for the external auditor’s provision of non-audit services to Gazprom Neft PJSC.

PricewaterhouseCoopers Audit JSC (PwC) was re-elected as the Company’s auditor at the General Meeting of Shareholders in June 2016.

The Board of Directors set payment for the audit services of the Gazprom Neft PJSC financial (accounting) statements for 2016 at RUB 39,060,000 (excluding VAT), including:

- RUB 6.6 million – audit services for Gazprom Neft PJSC statements according to Russian Accounting Standards (RAS);
- RUB 33 million – audit services for the consolidated statements according to International Financial Reporting Standards (IFRS), including services involving the audit of interim statements.

The external audit policy of Gazprom Neft PJSC contains an assessment on the management of conflicts of interest (interests or ‘self-assessment’) regarding an external auditor’s non-audit-related services. The risk of ‘self-assessment’ is considered as a situation where the same provider conducts a service (for example, accounting), and then conducts an external audit expressing an opinion on the reliability of the financial statements.

Such risks are assessed at Gazprom Neft PJSC and precautionary measures are taken to reduce such risks to an acceptable level. If the risk of self-assessment cannot be reduced, the Company selects another candidate to provide services.

PricewaterhouseCoopers Audit JSC, the company that audits the financial statements of Gazprom Neft PJSC in accordance with international and Russian financial reporting standards, only provides the Company with audit services.

PricewaterhouseCoopers Consulting LLC provides the Gazprom Neft Group with consulting services unrelated to accounting and the preparation of the financial statement. In this case, the principles of the auditor’s independence are observed: consulting services are provided by an organisation that is not an auditor of Gazprom Neft PJSC, the employees providing audit services are not involved in providing consulting services; and revenue per one client does not exceed the permissible values.

### MANAGEMENT OF POTENTIAL CONFLICT OF INTERESTS

The Company strives to maintain a balance of interests between shareholders and management with their cooperation characterised by a high level of trust, strong culture of business relations and ethical standards. The Company’s main shareholder has a sufficient number of votes to pass decisions on a significant number of issues that fall within the purview of the General Meeting of Shareholders and also to form the Board of Directors. Despite this, the Company seeks to utilise tools that feature a high concentration of equity to mitigate risks related to the specific nature of management.

The Company has a transparent ownership structure, the rights and duties of shareholders as well as the procedure for administering property rights are clearly defined in the Company’s Charter and internal documents, and information about this is publicly available. The Company adheres to the principle of equal shareholder voting rights and has also established mechanisms to protect voting rights in its internal documents.

The main elements for preventing conflicts at the shareholder level are:

- Compliance with the order and procedure for making decisions on the most significant issues.
- Compliance with the voting procedure for related party transactions.
- Hiring reputable and independent appraisers to value the assets in related party transactions.
- Ensuring maximum transparency and information openness when preparing for and holding meetings of shareholders as well as the prompt disclosure of information about decisions adopted by the Board of Directors.
- Disclosing information about related party transactions. According to the Company’s financial statement for 2016, related party transactions were concluded as part of regular business activities and had a clear economic rationale. The most common types of transactions are those involving the sale and purchase of oil, gas and petroleum products.
- Hiring companies from the Big Four auditing firms as external auditors.
- Establishing mechanisms to protect against the dilution of the Company’s value. The procedure for organising and selecting counterparties for the procurement of goods, work and services was carried out in accordance with the approved Company standards, which stipulate that open forms of competitive selection procedures for counterparties are preferable.

Gazprom Neft has approved internal documents (the Corporate Conduct Code and Code of Corporate Governance) which enshrine the values and principles that serve as the basis for the establishment and development of the Company’s corporate culture.

The Corporate Conduct Code regulates situations that could invoke a conflict of interests, the acceptance of gifts, the use of the Company’s assets or resources, stakeholder engagement, social responsibility, the handling of confidential information, the activities of the Corporate Culture and Ethics Working Committee and the operation of the fraud and corruption prevention hotline, among other situations.
Gazprom Neft has established a Corporate Culture and Ethics Working Committee that monitors compliance with the provisions of the Code. The Corporate Culture and Ethics Working Committee includes members of the Management Board and is chaired by the Management Board Chairman.

The Company has approved the necessary internal documents to implement certain principles of the Code, for instance in matters concerning access to confidential information, nondisclosure, HR policy and the development of succession candidates.

The Gazprom Neft Code of Corporate Governance stipulates that members of the Board of Directors must refrain from any actions that would lead or could lead to a conflict of interests and from voting on matters in the outcome of which they have a personal interest, and also must not disclose or use confidential and/or insider information about the Company for their personal interests or the interests of third parties.

The Corporate Conduct Code defines the concept of a conflict of interests and ‘zones of control’ when managing a conflict of interests, the positions of personnel most susceptible to a conflict of interests and contains examples of situations in which a conflict of interests may arise.

The Company’s following personnel positions are most susceptible to a conflict of interests: leadership and management of structural units whose functions include external relations and contacts on behalf of the Company.

The Code contains a reference to the need for Company employees to inform management and the legal service about all instances of a conflict of interests. There is a hotline for employees as well as email addresses and special mailboxes to report violations anonymously. Third parties who are not Company employees, in particular counterparts, may also file reports via the hotline. The Board of Directors reviews the hotline reports twice a year, including statistics on the (processed) reports received and violations that are ultimately identified.

**ZONES OF CONTROL**

The main ‘zones of control’ when managing a conflict of interests are:

- The selection of counterparties and relations with counterparties
- The system of settlements and payments, particularly those connected with the hiring of agents/intermediaries
- The hiring of Company personnel
- The participation of employees in political and government activities
- Charitable and sponsorship activities
- Gifts and entertainment expenses

The Company’s internal documents require that the Company’s Board of Directors and Management Board and their relatives have any conflicts of interests in employment at the Company. The Company regularly checks information received from new members of the Board of Directors, in particular concerning the ownership of stakes in subsidiary organisations.

The Company verifies whether members of the Company’s Board of Directors and Management Board and their relatives have any conflicts of interests in employment at the Company. According to the Regulation on the Management Board, members of the Management Board are only permitted to serve concurrently on the governing bodies of other organisations with the consent of the Company’s Board of Directors.

The Company re-verifies information on a quarterly basis about members of the Company’s Management Board and Board of Directors serving at other companies.

The Company collects and processes information about the beneficiary owners of counterparties to a party foreign legal relations. The Company’s PJSC as well as subsidiaries and affiliates.

There were no conflicts of interests among members of the Gazprom Neft Board of Directors and Management Board in 2016.

**ANTI-FRAUD AND ANTI-CORRUPTION POLICIES AND PROCEDURES**

In 2014, the Company adopted an Anti-Fraud and Anti-Corruption Policy that serves as the fundamental internal regulatory document of the Company and its subsidiaries in combating corruption.

The Policy defines the concept of fraud and other anti-fraud terminology and stipulates that the Company’s senior management must institute unified ethical standards to reject corruption in all its forms and manifestations. The Policy specifies the methods and procedures employed by the Company to combat fraud and corruption, in particular the Company’s hotline, internal investigations and prosecution for instances when fraud is committed.

The Policy separately describes the risks of corruption that are typical for companies working in the oil production and refining industries. The Policy contains a section that sets forth the fundamental principles for implementing the Company’s business processes that are most susceptible to fraud risks, specifically interaction with officials, the receiving and giving of gifts, entertainment expenses, charitable and sponsorship activities and financial relations with third parties.

The Anti-Fraud and Anti-Corruption Policy requires the Company’s employees to be trained in the principles of rejecting fraud and the foundations of applicable law.

The Company’s Deputy CEO for Security and Head of the Internal Audit Department periodically report to Company management on anti-fraud and anti-corruption matters.

**D&O INSURANCE**

The Gazprom Neft Group started providing its directors and officers (D&O) with liability insurance in 2011. The insurance protects the Company’s directors and officers against possible claims from third parties that may arise as a result of unintentional and/or erroneous actions of officials. The D&O policy covers the legal defence costs of directors and financial expenses from any claims made against directors in connection with the performance of their duties.

The total limit for all insurance coverage and extensions is EUR 47.6 million. There is an additional liability limit of EUR 19 million for independent directors. The coverage area is worldwide.

The Company chooses an insurer based on its existing competitive selection procedures. The insurer in 2016 was Segaz ISC based on the corporate insurance policy.
RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

The Company’s goal in risk management is to enhance the effectiveness of management decisions through detailed analysis of related risks and to ensure that the risk management measures taken to implement such decisions are as effective as possible.

Risk management is built on the principle of integrating analysis and risk management tools into key corporate processes. Responsibility for risk management and preparing reporting on risk management is determined in accordance with the system of linear and functional management. An officer is appointed for each risk and is responsible for managing it. Risk coordinators who promote and support the use of corporate risk management principles are selected from among managers at the level of each function and key business process. The risk analysis deadlines and objectives take into account the specific features and demands of each business process for which risk management is performed.

This approach makes it possible to form zones of responsibility for risk management and monitor risks at all levels of the Company’s management as well as ensure the preparation of targeted response plans to substantial risks both at each subsidiary and affiliate as well as at Gazprom Neft as a whole.

Objectives of risk management:

> to establish a risk management culture at the Company to reach a common understanding among management and employees of the main principles and approaches to risk management;

> to establish and introduce a systematic approach to identifying and assessing risks that are inherent in the Company’s activities both as a whole and individual areas of activities;

> to stimulate the exchange of information on risks between the Company’s structural divisions and the joint development of risk management actions;

> to provide systematic information about risks to the Company’s governing bodies.

In order to meet this objective, the Company has developed and implemented a unified approach to the risk management process, which combined with unified risk analysis tools and methods forms the Integrated Risk Management System (IRMS).

The regulatory and methodological framework of the IRMS includes the following documents:

> the Risk Management Policy;

> the ‘Integrated Risk Management System (IRMS)’ Company Standard;

> methodological guidelines for the risk management process;

> additional methodological guidelines for certain types of risks and on the use of certain risk analysis tools.

Risk management constitutes an integral part of the internal environment of Gazprom Neft and includes:

> introducing a risk-oriented approach to all aspects of production and management activities;

> conducting a systematic analysis of identified risks;

> building a system to control risks and monitor the effectiveness of risk management activities;

> an understanding by all Company employees of the basic principles and approaches to risk management in place at the Company;

> providing the required regulatory and methodological support;

> allocating powers and responsibilities for risk management among the Company’s structural divisions.

LEVELS OF FINANCIAL IMPACT OF RISK AND DISTRIBUTION OF POWERS WITHIN THE IRMS

KEY RISKS

The Management Board adopts key decisions and assesses management results. Units directly manage this risk category.

RISKS OF UNITS

Management and monitoring at the Unit level.

RISKS OF S&A

Management and monitoring at the subsidiary and affiliate level.

SCHEMATIC DIAGRAM OF IRMS PROCESS AT THE GAZPROM NEFT GROUP

DEVELOPMENT OF THE INTEGRATED RISK MANAGEMENT SYSTEM

The Company is continuously expanding the methodological framework for the IRMS, including general recommendations on the quantitative risk assessment of project and business planning as well as detailed methods for assessing the most substantial inherent risks.

As of the end of 2016, the IRMS covered all major Gazprom Neft assets, including Slavneft Megionneftegaz OJSC. Once new projects are launched or existing assets are acquired, they are included within the perimeter of the IRMS.

In 2017, the Company plans to continue developing regulatory and methodological documents to analyze certain substantive risks and integrate risk analysis into the decision-making process and also to expand the training programme for the Company’s executives and employees on matters concerning risk management tools and methods.
KEY RISKS AND THEIR MANAGEMENT

1 OPERATING RISKS

1.1 RISKS ASSOCIATED WITH GEOLOGICAL EXPLORATION OPERATIONS

One of the Company’s key strategic objectives is growth in the raw hydrocarbon resource base in quantitative and qualitative terms in order to ensure the required level of production, which in turn largely depends on the success of geological exploration. The main risk associated with geological exploration operations is the failure to confirm the planned level of hydrocarbon reserves and objective deterioration in the quality of the resource base. Another important factor is geological exploration work in different geographic regions, including regions with adverse climatic conditions and environmental restrictions, which often leads to the risk of increased costs. Estimates depend on a number of variable factors and assumptions, including the following:

- The correlation of the historical level of productivity in the region of production with the productivity of other regions that are comparable in terms of characteristics;
- The interpretation of geological exploration data;
- The effect of the requirements of government structures and legislative acts.

Gazprom Neft manages license-related risks as regards oil and gas exploration by making timely changes to geological study designs. This Company has considerable experience conducting geological exploration work and employing the latest geophysical methods to prospect and explore hydrocarbon basins as well as advanced technologies in the drilling and development of fields, which results in the decreased probability of such risks. The Company has hired the auditors DeGolyer & MacNaughton to perform an independent audit of reserves based on the estimates of the Gazprom Neft’s subsidiaries. Gazprom Neft actively cooperates with government structures at the federal and regional levels on matters concerning the sustainable use of subsoil resources.

1.2 RISK MANAGEMENT MEASURES

Gazprom Neft actively cooperates with government structures at the federal and regional levels on matters concerning the sustainable use of subsoil resources.

1.3 LICENSING RISKS

The Company performs its subsoil resources operations on the basis of special permit documents and licenses for the right to use subsoil sites, which specify the intended use (type of subsoil use), spatial boundaries, dates and mandatory conditions for the use of the subsoil resources. Existing law envisages administrative sanctions for the unlicensed use of a subsoil site, and there is a risk of criminal liability in a number of cases.

The failure to meet the conditions for the use of subsoil resources may entail administrative liability with the imposition of fines, while the repeat (continued) violation of significant conditions for the use of subsoil resources may entail the risk of the early termination of a license in accordance with Article 23 of the Federal Law No. 2395-1 dated 21 February 1992 ‘On Subsoil Resources’. If the right to use subsoil resources is terminated prematurely, the Company bears both reputational risks as well as material losses related to the incurred costs on acquiring the right to use the subsoil resources, investments to develop the subsoil site and decreased capitalized associated with the loss of the resource base.

1.4 RISK MANAGEMENT MEASURES

The Company views the prohibition on the unlicensed use of subsoil resources as a categorical imperative. The Company provides end-to-end surveying support for all stages of prospecting, exploration and production drilling as an exhaustive measure to prevent the unlicensed use of subsoil resources.

The Company’s Subsoil Use Monitoring System (SUMS) automated complex with its well-developed matrix for the risks involved with fulfilling the main (significant) conditions for the use of subsoil resources is the main risk management tool that is used to assess the current state of risks using matrix indicators and plan for an acceptable level of risk in the future.

Standing Regional Licensing Commissions (RLC) review the status of current and potential license risks and the implementation of targeted measures to mitigate such risks on a quarterly basis.

1.5 PROJECT RISKS

The Company continuously develops and implements investment projects that aim to achieve strategic goals, in particular growth in the extraction of raw commodities and improvements in the quality of the products manufactured. When implementing projects, the Company encounters a variety of risks that could lead to a violation of the deadlines and/or the increased cost of the project. The main factors behind such risks are poor planning, violations of the project terms and safety requirements by contractors as well as new circumstances (increased cost of materials, errors in the assessment of infrastructure conditions and switching equipment suppliers).

RISK MANAGEMENT MEASURES

The Company manages these risks, while paying special attention to the development and coordination stages of investment projects. In 2014, a risk management system was introduced to the process of preparing and implementing major projects. This system is based on the generally accepted approach in the global industry to establishing a project’s value using the Stage-Gate process with a risk assessment of the project at each of its stages. Requirements for contractors are based on a risk assessment and also take into account the requirements of the laws of the country in which the project is being implemented. In addition, the Company has established a project monitoring system.

1.6 RISKS ASSOCIATED WITH HUMAN RESOURCES

The Company’s business depends on highly skilled key employees, and a lack of skilled labour, in particular in engineering and technical areas, may lead to risks associated with a shortage of personnel. The Company’s success largely depends on the efforts and abilities of key employees, including qualified technical personnel, as well as the Company’s ability to recruit and retain such personnel. Competition for personnel in Russia and abroad may intensify due to the limited number of skilled specialists on the labour market. The inability to recruit new skilled personnel and/or retain existing skilled personnel could have a negative effect on the Company’s appeal as an employer. Demand for skilled employees and the related expenses are expected to grow, thereby reflecting the considerable interest in such resources from other industries and social projects.

RISK MANAGEMENT MEASURES

The Company offers a safe workplace and competitive salaries and provides training for employees in specially designed programmes. In addition, the Company is improving personnel recruiting procedures and implementing measures that aim to reduce personnel turnover and encourage the self-development of personnel.

For more, see the ‘Human Resource Development’ section.

1.7 RISKS ASSOCIATED WITH OCCUPATIONAL AND INDUSTRIAL SAFETY

The Company is exposed to risks involving the safety of employees, equipment, buildings and structures. Numerous factors may have a negative effect on the Company’s case activities, including the breakdown of failure of equipment, labour disputes, injury to personnel and third parties, natural disasters, political disputes or acts of terrorism. Any of the risk factors may have a significantly adversely impact on the business, financial condition and results of the Company’s activities.
RISK MANAGEMENT MEASURES
In order to mitigate these risks, the Company is implementing a large-scale integrated programme that aims to ensure safe working conditions for employees and safe manufacturing processes. This programme complies with the best international practices and is based on enhancing the role of production managers at all levels in ensuring work safety. The Company has successfully applied the experience gained from international oil companies by adapting it to the conditions of its production sites. In particular, the Company has introduced behavioural safety audits and internal incident investigations in order to identify and eliminate the causes, is implementing a transport safety programme, has introduced risk assessment for hazardous work and holds numerous drills, training exercises and seminars for all levels of the organisation. The Company has certified the work safety management system for compliance with the OHSAS 18001 international standard, adheres to the principle of continuous improvement and has selected priority areas of this system for the coming years. The Company has declared 2016 the Year of Occupational Safety.

ENVIRONMENTAL RISKS
The production activities of Gazprom Neft are fraught with the potential risk of an environmental impact that exceeds the permitted standards, which may result in civil liability and the need for work to eliminate such damage. The Company is fully aware of its social responsibility to create safe working conditions and maintain a favourable environment, continuously monitors its activities to ensure compliance with the relevant environmental standards and is implementing an environmental protection programme. The Company’s efforts contribute to the decrease of costs associated with observing environmental requirements or obligations may increase.

MARKET RISKS
The main areas of Gazprom Neft’s operations are oil and gas production, oil refining and the sale of oil and petroleum products, thus the Company is exposed to risks that are traditionally inherent to the oil and gas industry, namely:
- risks associated with a possible change in prices for purchased raw materials and services;
- risks associated with a possible change in oil and petroleum product prices;
- risks associated with industry-wide competition;
- risks caused by economic instability in the industry.

RISKS ASSOCIATED WITH A POSSIBLE CHANGE IN PRICES FOR PURCHASED RAW MATERIALS AND SERVICES
In the process of its business operations, Gazprom Neft uses the infrastructure of monopoly service providers for the transportation of oil and petroleum products and the supply of electricity. The Company has no control over the infrastructure of these monopoly service providers and the amount of tariffs charged.

RISKS ASSOCIATED WITH A POSSIBLE CHANGE IN THE PRICE OF OIL, PETROLEUM PRODUCTS, GAS AND GAS PRODUCTS
The Company’s financial indicators are directly related to the price level of crude oil, petroleum products, gas and gas products. The price level depends on a number of factors which the Company cannot fully control. Such factors include:
- the volume of oil reserves explored as well as global and regional supply of and demand for crude oil and petroleum products;
- Russian and foreign government requirements and actions;
- the impact of global production levels and prices from oil exporting countries (OPEC);
- the military and political situation in resource producing regions;
- prices and the availability of alternative and competing types of fuel;
- prices and the availability of new technologies; weather and climatic conditions and natural disasters.

RISKS CAUSED BY ECONOMIC INSTABILITY IN THE INDUSTRY
The Russian economy is sensitive to price fluctuations for crude oil, natural gas and other raw commodities on the global market. Negative oil price dynamics on the global market and a slowdown in the Russian economy may have an adverse effect on the Company’s business.

RISKS ASSOCIATED WITH INDUSTRY-WIDE COMPETITION
There is intense competition in the Russian oil and gas industry between the leading Russian oil and gas companies in the main areas of production and economic activities, including:
- the acquisition of licenses for the right to use subsoil resources to produce hydrocarbons at auctions organised by the government authorities;
- the acquisition of other companies that own licenses for the right to use subsoil resources to produce hydrocarbons or that own existing assets associated with production raw hydrocarbons;
- the hiring of leading independent service companies;
- the acquisition of high-tech equipment;
- the hiring of experienced and the most qualified specialists;
- access to critical transportation infrastructure;
- the acquisition of existing assets and the construction of new assets that increase the product sales volume to end-users.

In addition, there is competition from the suppliers of alternative energy sources, including eco-friendly sources such as solar energy and wind energy.

RISK MANAGEMENT MEASURES
The implementation by management of the portfolio of strategic projects that aim to develop key areas of the activities of Gazprom Neft PJSC ensures the gradual strengthening of the Company’s positions in the oil and gas industry through a reduction in risks associated with industry-wide competition.

For more, see the ‘Creation of long-term advantages’ section.

RISKS ASSOCIATED WITH MARKET OVERVIEW
For more, see the ‘Market overview’ and ‘Change in market prices for crude oil and petroleum products’ section.

For more, see the ‘Operation and manufacturing expenses’ section.

For more, see the ‘Mitigating negative environmental impacts and the effective use of resources’ section.

For more, see the ‘Industrial and Environmental Safety,Database and Safety, Energy Efficiency and Energy Conservation’ section.

For more, see the ‘Production and manufacturing expenses’ section.

For more, see the ‘Commodity flows’ section.

For more, see the ‘Gazprom Neft PJSC ensures’ section.

For more, see the ‘Environmental protection’ section.

For more, see the ‘The annual report’ section.

For more, see the ‘RISKS ASSOCIATED A POSSIBLE CHANGE IN PRICES FOR PURCHASED RAW MATERIALS AND SERVICES’ section.

For more, see the ‘MARKET RISKS’ section.

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For more, see the ‘Gazprom Neft’ section.

For more, see the ‘Gazprom Neft, Gazprom Neft PJSC’ section.

For more, see the ‘RISKS ASSOCIATED WITH MARKET OVERVIEW’ section.

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FINANCIAL RISKS

The Financial Risk Management Committee determines the unified approach to financial risk management at Gazprom Neft and its subsidiaries. This approach is based on monitoring the degree of risk impact and the probability of such risks occurring by implementing the relevant measures and control procedures.

The activities of the employees of the Company and the Financial Risk Management Committee help to reduce potential financial damage and achieve stated goals.

CREDIT RISK OF COUNTERPARTIES

Gazprom Neft is exposed to credit risk, which is caused by the provision of payment deferrals to customers in accordance with market terms as well as prepayments to suppliers:

- if payment deferrals are granted to customers, there is a risk of default on the receivables repayment conditions;
- the failure by suppliers to fulfill their obligations when making prepayment for capital construction or equipment supplies entails the risk of the prepayments not being returned.

Company executives devote extra attention to the credit risk management process, particularly during crisis periods, since some of the Company’s counterparties may experience financial difficulties.

RISK MANAGEMENT MEASURES

In an effort to mitigate this risk, the Company is implementing a number of measures that aim to develop the credit risk management system, including an assessment of creditworthiness, the establishment of internal credit ratings depending on the financial condition of counterparties as well as limits on the receivables of customers. The hierarchy of independent credit controllers established within the credit risk management system makes it possible to monitor the performance of debt repayment measures and also prevent past-due receivables from arising.

A number of measures that regulate restrictions on prepayments without a bank guarantee for the return of the prepayment and procedures that aim to select contractors taking into account an assessment of their financial stability allow for negating the risk of suppliers failing to perform their obligations.

RISK ASSOCIATED WITH BORROWING

The imposition of sanctions on Gazprom Neft by the U.S. and EU has significantly narrowed the range of financing instruments available to the Company.

RISK MANAGEMENT MEASURES

Gazprom Neft effectively manages risk associated with the borrowing of funds. Despite the levying of sanctions against the Company by the U.S. and EU in 2014, the Company fully implemented a programme to attract funding in 2016 and also signed credit agreements for financing that may be used in 2017-2020, including revolving facilities, which will provide the Company’s financial policy with additional flexibility and improve liquidity management efficiency.

The Company is also searching for alternative sources of funding.

CURRENCY RISK

The bulk of Gazprom Neft’s gross revenue comes from export transactions for the sale of oil and petroleum products. Consequently, fluctuations in currency exchange rates versus the ruble affect the results of the Company’s financial and business activities.

RISK MANAGEMENT MEASURES

The currency structure of revenue and liabilities acts as a hedging mechanism, whereby opposing factors compensate one another. A balanced structure of assets and liabilities in foreign currency minimizes the impact of currency market factors on the results of the Company’s financial and business activities.

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RISKS ASSOCIATED WITH CHANGES TO TAX LEGISLATION

The Gazprom Neft Group’s key companies are among the biggest taxpayers in the Russian Federation and pay federal, regional and local taxes, in particular VAT, the corporate profit tax, mineral extraction tax, corporate property tax and land tax.

The taxation system of the Russian Federation is continuously evolving and improving. Potential growth in tax rates paid by the Company as part of its business operations may lead to increased costs and a reduction in the amount of cash at the Company’s disposal to finance its day-to-day operations and capital expenditures and meet its obligations, including on outstanding bonds. Virtually any company in Russia may potentially incur losses as a result of claims by the tax authorities that may arise for previous periods and day-to-day operations. However, the Company estimates such risks as average.

The Company believes that the impact of the obligations arising as a result of such potential events on its operations would not be any more significant than the impact of similar obligations on other Russian oil sector companies with government participation.

RISK MANAGEMENT MEASURES

In order to mitigate risks related to changes in tax legislation, the Company conducts continuous work to analyse bills and legislative acts that have been adopted in tax legislation.

The most significant recent changes to tax legislation of the Russian Federation affecting the issuer’s activities include:

> the introduction of new transfer pricing rules in 2012;
> the institution of the consolidated group of profit taxpayers in 2012;
> changes to the base rates of the Mineral Extraction Tax (MET), export duties and excise taxes as a result of so-called ‘tax manoeuvring’
> the introduction of a formulaic procedure for calculating the MET for gas and gas condensate on 1 July 2014.

The Company evaluates and predicts the extent of a possible negative impact from changes to tax legislation and makes every effort to minimise risks related to such changes.

For more, see the ‘Overview of key changes to tax, customs and tariff legislation of the Russian Federation’ section and Appendix 6, ‘Indirect taxation’. © Gazprom Neft PJSC

RISKS ASSOCIATED WITH CHANGES TO THE RULES FOR CUSTOMS CONTROL AND DUTIES

Gazprom Neft PJSC is involved in foreign economic relations and therefore exposed to risks associated with changes to legislation in the government regulation of foreign trade activities as well as customs legislation governing relations to establish the procedure for the movement of goods across the customs border of the Russian Federation, establishing and applying customs regimes as well as establishing, introducing and collecting customs payments.

Another risk may be the ability of the Russian Government to change customs duty rates (both import and export) on certain goods for which the Company concludes foreign trade transactions. The primary adverse effect from this risk is an increase in expenses and lower export efficiency.

RISK MANAGEMENT MEASURES

The Company meets the requirements of customs legislation, completes all documentation required for both export and import transactions in a timely manner and has sufficient financial and human resources to comply with the standards and rules in matters of customs regulation.

The Company promptly responds to any dynamic market or volatile changes and recognises the need to continuously make improvements and take new approaches to managing its project portfolio, where the priority is to find an optimal balance of resource allocation between large resource-intensive strategic projects, such as the development of deposits in the Arctic and on the Arctic shelf, and projects that ensure a rapid return on investment and thus the current sustainability of the Company.

An additional tool for the Company is to increase the efficiency of operations at all stages of the technological process through modernisation, utilising the latest technologies in exploration and production as well as drafting and implementing an integrated technological development programme for its existing portfolio of projects.

In addition, the Company pays special attention to implementing major strategically important projects such as Prirazlomnoye, the Novoportovskoye field and Messoyakha, and recognises that the experience and competencies gained in the course of working on these projects will form a solid foundation for the Company in the future when implementing projects in complex natural and climatic conditions and will strengthen its position as a leader in the production of liquid hydrocarbons in Russia’s Arctic zone.

For more, see the ‘Strategic report’ section.

RISKS OF ATTRACTING PARTNERS

Given the unstable macroeconomic and political situation, attracting partners to implement joint projects is both critically important and difficult task. With the large-scale slashing of investment budgets, potential partners are reducing their activity, and decisions to join new projects are being postponed indefinitely.

The sanctions introduced in 2014 by the U.S., EU nations and certain other countries with respect to the Russian energy sector are an additional restriction on the development of partnership relations.

RISK MANAGEMENT MEASURES

The company conducts continuous work with potential partners and mulls the possibility of attracting partners from the Russian Federation and the Asia-Pacific region countries that did not impose sanctions on Arctic projects. Regular negotiations and meetings are held as part of this process, including with the involvement of representatives of the following government authorities: the Government of the Russian Federation, Russian Ministry of Energy, Ministry of Foreign Affairs and Ministry of Economic Development.

For more, see the ‘Strategic report’ section.

For more, see the ‘Overview of key changes to tax, customs and tariff legislation of the Russian Federation’ section and Appendix 6, ‘Indirect taxation’. © Gazprom Neft PJSC

Analysing the events of recent years, it is safe to say that the world energy market in general and the oil industry in particular exist in a new reality. The market situation and the balance of power in the oil industry is constantly changing, increasing the level of competition and requiring players to take innovative approaches to meet business challenges. In the conditions of an unstable, rigid market and constantly changing environment, one of the serious challenges faced by the Company is to maintain a vector of dynamic development and implement its strategic goals. An alarming industry-wide trend has been a reduction in investments in the implementation of large projects, which casts doubt on the feasibility of large-scale strategic tasks and the preservation of the project portfolio.

RISK MANAGEMENT MEASURES

The company promptly responds to any dynamic market or volatile changes and recognises the need to continuously make improvements and take new approaches to managing its project portfolio, where the priority is to find an optimal balance of resource allocation between large resource-intensive strategic projects, such as the development of deposits in the Arctic and on the Arctic shelf, and projects that ensure a rapid return on investment and thus the current sustainability of the Company.

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For more, see the ‘Strategic report’ section.
EQUITY CAPITAL

According to the Charter of Gazprom Neft PJSC, the Company’s charter capital consists of 4,741,299,639 common shares with par value of RUB 0.0016. As of the end of 2016, Gazprom Neft PJSC had no preferred shares.

The largest holder of Gazprom Neft PJSC shares is Gazprom PJSC, which directly and indirectly owns 95.68% of the Company’s total common shares.

The remaining common shares (4.32%) are distributed among minority shareholders – individuals and legal entities.

As of 31 December 2016, there were 8,685 non-zero personal accounts recorded in the shareholder register, including 1% legal entities and 8,669 individuals.

LIST OF REGISTERED ENTITIES (% of charter capital)

<table>
<thead>
<tr>
<th>Legal entity</th>
<th>As of 31 December 2015</th>
<th>As of 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom PJSC</td>
<td>72.68%</td>
<td>92.68%</td>
</tr>
<tr>
<td>NICO National Settlement Depository CJSC (Nominal holder)</td>
<td>–</td>
<td>3.07%</td>
</tr>
<tr>
<td>Deutsche Bank LLC (Nominal holder)</td>
<td>20.00%</td>
<td>948.27%</td>
</tr>
<tr>
<td>Other legal entities and individuals</td>
<td>0.28%</td>
<td>12.03%</td>
</tr>
</tbody>
</table>

Based on MICEX trading on the last trading day – 31 December 2016 – the Company’s share price stood at RUB 214.00 per 1 common share (up 39.0% compared with the start of the year). The Company’s capitalisation stood at RUB 1.015 trillion as of 31 December 2016.

The rouble-denominated quotes reached their highest levels over the entire history of Gazprom Neft’s existence in 2016, which is convincing proof of the market’s recognition of the Company’s operational results. Growth in hydrocarbon production, the active development of new production projects, a high proportion of refining and expanded sales in the premium segments are all factors that resulted in the Company’s value growing to record levels.

INTERACTION WITH INVESTORS AND SHAREHOLDERS

LISTING

INFORMATION ABOUT SHARE CIRCULATION

BASIC INFORMATION ABOUT THE SHARES AND AMERICAN DEPOSITORY RECEIPTS (ADR) OF GAZPROM NEFT AS OF 31 DECEMBER 2016

<table>
<thead>
<tr>
<th>Share value on MICEX</th>
<th>RUB (closing price)</th>
<th>294.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD (closing price)</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>52-week maximum price</td>
<td>274.2</td>
<td></td>
</tr>
<tr>
<td>52-week minimum price</td>
<td>141.6</td>
<td></td>
</tr>
</tbody>
</table>

Value of 1 ADR on London Stock Exchange

USD (closing price) | 17.6 |
52-week maximum price | 17.6 |
52-week minimum price | 8.4 |

Trading volume for year:

MICEX (RUB mln) | 9.4 |
London Stock Exchange (ISIN system, USD mln) | 128.9 |

Market capitalisation on MICEX

RUB mln | 1,015.0 |
USD mln | 16,723.0 |

Code in MICEX RTS system / ISIN code | SBRN / RU2005962467 |

Number of common shares | 4,341,299,639 |
Nominal value of common shares (RUB) | 0.0016 |
Size of charter capital (RUB) | 7,580,079,422 |
Shares in free float, % | 4.32 |
Number of ADR issued | 24,012,996 |
Proportion of ADR in free float, % | 59 |
Average monthly trading volume (ISIN system, USD mln) | 10.7 |
Average monthly trading (MICEX, RUB mln) | 729.8 |

The common shares of Gazprom Neft circulate in Russia on the main trading platforms of the unified exchange Moscow Exchange PJSC. Globally the Company’s shares trade in the form of ADRs, primarily in OTC trading in the UK via the LSE IOB system, in the U.S. via the OTCQX system as well as in Germany.

Trading volume with Gazprom Neft PJSC shares on all MICEX trading platforms totaled RUB 14 billion (USD 141 million) in 2016. The ADR issued for the Company’s shares amounted to 0.10% of the cumulative trading volume in 2016 among the ADR of foreign companies traded on the London Stock Exchange in the IOB system, or USD 129 million.

TRADING VOLUME DYNAMICS OF GAZPROM NEFT PJSC SHARES ON MICEX STOCK EXCHANGE, LONDON EXCHANGES AND OTCQX IN 2016 (USD mln)

<table>
<thead>
<tr>
<th>Month</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB mln</td>
<td>9.48</td>
<td>8.32</td>
<td>9.20</td>
<td>11.70</td>
<td>9.90</td>
<td>9.88</td>
<td>8.82</td>
<td>7.80</td>
<td>7.82</td>
<td>7.80</td>
<td>7.82</td>
<td>7.80</td>
</tr>
<tr>
<td>USD mln</td>
<td>9.48</td>
<td>8.32</td>
<td>9.20</td>
<td>11.70</td>
<td>9.90</td>
<td>9.88</td>
<td>8.82</td>
<td>7.80</td>
<td>7.82</td>
<td>7.80</td>
<td>7.82</td>
<td>7.80</td>
</tr>
</tbody>
</table>

1 ADR is equivalent to 5 common shares of Gazprom Neft PJSC.
PARTICIPATION IN DEPOSITORY RECEIPTS PROGRAMME

American and Global Depository Receipt programmes continued throughout 2016 for the Company’s shares trading on the OTC market of the U.S., UK, Germany and other countries. One ADR is equal to 5 common shares of Gazprom Neft. The depository bank for the Company’s depository receipt programme is The Bank of New York Melon.

As of the end of 2016, the total number of ADR issued for common shares was equal to 120 million shares (2.5% of the Company’s charter capital).

Trading volume with the ADR of Gazprom Neft totaled USD 135 million in 2016, including USD 129 million on the IOB London Stock Exchange, USD 1 million on the OTCQx and USD 5 million on other platforms in Europe (primarily in Germany).

DYNAMICS OF ADR TRADING OF GAZPROM NEFT PJSC, RUSSIA FTSE IOB INDEX AND URALS OIL PRICES IN 2016 (%)
DIVIDEND POLICY

The dividend policy – is one of the most important components of corporate governance and a key indicator of the Company’s observance of its shareholders’ rights.

The Gazprom Neft PJSC Regulation on the Dividend Policy is designed to ensure that the mechanism used to determine the amount of dividends and the procedure for their payment is as transparent as possible for shareholders and all stakeholders and also describes the approach of the Company’s Board of Directors to preparing recommendations for the General Meeting of Shareholders on the amount of dividends to be paid on the Company’s shares, the date as of which shareholders must be registered to receive dividends and the procedure for their payment.

The main principles of the Gazprom Neft PJSC dividend policy are:

- Ensuring the maximum transparency of the mechanism used to determine the amount of dividends and the procedure for their payment.
- The Dividend Policy Regulation specifies the minimum amount of dividend payments on the Company’s shares – this amount must not be less than the largest of the following indicators:
  - 15% of the Gazprom Neft Group’s consolidated financial result as determined in accordance with IFRS;
  - 25% of the Company’s net profit as determined in accordance with RAS.

> Compliance with the standards of the existing laws of the Russian Federation as well as the Company’s Charter and internal documents.
- Each shareholder recorded in the shareholder register as of the date determined by the General Meeting of Shareholders at which the decision is made to pay dividends is entitled to receive dividends. This date may not be set earlier than 10 days from the date of the decision to pay dividends and shall be set by the General Meeting of Shareholders at least 20 days later from the date of this decision.

> Commitment to high corporate governance standards:
- The Company adheres to the principle of ensuring positive dynamics in dividend payments, subject to growth in the Company’s net profit;
- The approved Gazprom Neft PJSC Dividend Policy Regulation is posted on the Company’s official website, which also details the Company’s dividend payment history.

The Gazprom Neft PJSC Regulation on the Dividend Policy also describes the indicators:

- Minimum amount of dividend payments on the Company’s shares – the amount must not be less than the largest of the following indicators:
  - 15% of the Gazprom Neft Group’s consolidated financial result as determined in accordance with IFRS;
  - 25% of the Company’s net profit as determined in accordance with RAS.

Gazprom Neft adheres to the principle of ensuring positive dynamics in dividend payments when the Company increases net profit.

DIVIDEND HISTORY

DIVIDEND HISTORY OF THE COMPANY

<table>
<thead>
<tr>
<th>Amount of dividends accrued per share, RUR</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of dividends accrued per share, RUR</td>
<td>7.3</td>
<td>9.3</td>
<td>9.48</td>
<td>6.47</td>
<td>6.47</td>
</tr>
<tr>
<td>Total amount of dividends accrued per share, RUR</td>
<td>34,611,487,365</td>
<td>44,473,391,646</td>
<td>34,611,487,365</td>
<td>34,611,487,365</td>
<td>34,611,487,365</td>
</tr>
<tr>
<td>Percentage of US GAAP/IFRS net profit, %</td>
<td>22</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Compilation date of list of persons entitled to receive dividends</td>
<td>24/04/2012</td>
<td>23/04/2013</td>
<td>23/06/2014</td>
<td>22/06/2015</td>
<td>27/06/2016</td>
</tr>
<tr>
<td>Meeting date of issuer’s governing body at which the decision was made to pay dividends and the date and number of the minutes</td>
<td>08/06/2012 Minutes No. 0101/01 dated 14/06/2012</td>
<td>07/06/2013 Minutes No. 0101/01 dated 17/06/2013</td>
<td>06/06/2014 Minutes No. 0101/01 dated 06/06/2014</td>
<td>05/06/2015 Minutes No. 0101/01 dated 05/06/2015</td>
<td>02/06/2016 Minutes No. 0101/01 dated 14/06/2016</td>
</tr>
<tr>
<td>Form and other conditions of payment of declared dividends</td>
<td>In cash form</td>
<td>In cash form</td>
<td>In cash form</td>
<td>In cash form</td>
<td>In cash form</td>
</tr>
<tr>
<td>Ratio of unpaid dividends to accrued dividends, %</td>
<td>0.02</td>
<td>0.03</td>
<td>0.05</td>
<td>0.02</td>
<td>0.02</td>
</tr>
</tbody>
</table>

COMPARISON OF TOTAL RETURN

SHAREHOLDER’S TOTAL RETURN

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of dividends accrued per share, RUR</td>
<td>7.3</td>
<td>9.3</td>
<td>9.48</td>
<td>6.47</td>
<td>6.47</td>
<td>10.68</td>
</tr>
<tr>
<td>Share price at start of period, RUR</td>
<td>130.47</td>
<td>150.80</td>
<td>143.75</td>
<td>147.67</td>
<td>142.60</td>
<td>152.90</td>
</tr>
<tr>
<td>Share price at end of period, RUR</td>
<td>148.18</td>
<td>142.52</td>
<td>146.77</td>
<td>143.00</td>
<td>153.95</td>
<td>214.00</td>
</tr>
<tr>
<td>TSR, %</td>
<td>19.2</td>
<td>9.7</td>
<td>8.6</td>
<td>1.2</td>
<td>13.0</td>
<td>46.9</td>
</tr>
</tbody>
</table>

^ Dividends not paid to shareholders who failed to provide data for the calculation of dividends in accordance with clause 9 of Art. 44 of Federal Law No. 208-FZ dated 26 December 1995 “On Joint-Stock Companies”. Dividends accrued for shares belonging to unidentified holders are paid only once the rights of the shareholders to the securities have been established.
As far as funding for its activities, Gazprom Neft relies both on internal funding sources generated by income from operating activities as well as borrowed funds. When determining the ratio of debt and internal financing within the capital structure, the Company seeks to achieve an optimal balance between the overall value of capital, on the one hand, and ensuring long-term sustainable development, on the other hand.

Core Principles of Debt Portfolio Management

The Company adheres to a rather conservative debt financing policy. One of the key principles of the debt policy is to ensure a high level of financial sustainability for which an important indicator is the 'Net Debt/EBITDA' ratio and 'Consolidated financial debt/Consolidated EBITDA' ratio as calculated by the Gazprom Neft Group. According to the terms of the Company’s loan agreements, the value of the ‘Consolidated financial debt/Consolidated EBITDA’ ratio should not exceed 3. As of the end of the reporting period (and also over the five-year period preceding the reporting date), the ratio’s value was lower than the specified threshold.

The other conditions on loan agreements and issuing documentation on bonds and eurobonds were also observed in full during the reporting period.

Disclosing the results of activities for the management of the Gazprom Neft Group’s debt portfolio on the official corporate website ensures the information transparency of the debt policy. During the reporting year, the Company kept the relevant section of its website updated.

### Primary Debt Financing Tools

As of the end of 2016, the Company’s debt portfolio included such instruments as debt financing, bilateral credit facilities (including revolving facilities), syndicated credit facilities, local bonds, eurobonds and credit under the guarantee of the Export Credit Agency (ECA). The diversified structure of the Company’s debt portfolio makes it possible to maintain a flexible borrowing policy given the volatility of the debt capital markets.

When raising debt financing, the Company takes into account the specifics of the activities being funded as well as conditions on debt capital markets.

Based on this principle, Gazprom Neft had the following borrowings in 2016:

- three placements of local bonds for a total of RUB 50 billion. The coupon rate was one of the lowest on the market for the relevant bond issues among Russian corporate borrowers;
- the drawdown of RUB 79.6 billion under agreements signed in 2016.

The aforementioned borrowed funds were used for general corporate purposes.

As a result of the Company’s borrowings described above, changes to the debt of other companies of the Gazprom Neft Group (NEO a.o. Novy Sad, Gazpromneft-Moscow Oil Refinery JSC and others) and the rouble revaluation of previously received borrowings in 2016, the unscheduled repayment of RUB 42.5 billion in order to improve the Gazprom Neft Group’s debt portfolio.

As of 31 December 2016 compared with RUB 818.1 billion as of 31 December 2015. The Gazprom Neft Group’s debt load significantly declined versus 2015 as a result of the decrease in debt and an increase in EBITDA.

### Debt/EBITDA Ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt/EBITDA</td>
<td>0.71</td>
<td>0.51</td>
<td>0.59</td>
<td>1.44</td>
<td>1.90</td>
<td>1.62</td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>0.82</td>
<td>0.80</td>
<td>0.99</td>
<td>1.67</td>
<td>2.37</td>
<td>1.68</td>
</tr>
<tr>
<td>Debt/EBITDA (threshold)</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>

### Main Features of the Debt Portfolio

Long-term borrowings dominate the Gazprom Neft Group’s debt portfolio in terms of maturity date, thus minimising the risk of the inability to refinance debt in 2017.

### Debt Portfolio Structure (RUB mn)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>161,647</td>
<td>167,638</td>
<td>175,050</td>
<td>184,592</td>
<td>187,098</td>
<td>181,098</td>
</tr>
<tr>
<td>Bonds</td>
<td>53,430</td>
<td>53,430</td>
<td>53,430</td>
<td>53,430</td>
<td>53,430</td>
<td>53,430</td>
</tr>
<tr>
<td>Other short-term credits</td>
<td>85,984</td>
<td>86,514</td>
<td>84,314</td>
<td>84,208</td>
<td>84,154</td>
<td>84,208</td>
</tr>
<tr>
<td>Total</td>
<td>291,061</td>
<td>304,584</td>
<td>313,868</td>
<td>333,968</td>
<td>343,844</td>
<td>342,640</td>
</tr>
</tbody>
</table>

### Debt Portfolio Structure by Currency (%)

As of 31 December 2016, the Company does not anticipate any significant increase in the debt refinancing burden in 2017–2018.

### Debt Repayment Schedule

#### Debt Repayment Schedule of the Gazprom Neft Group (RUB mn)

<table>
<thead>
<tr>
<th>Date of 31 December 2016</th>
<th>January-February</th>
<th>3-6 months</th>
<th>6-12 months</th>
<th>1-2 years</th>
<th>2-5 years</th>
<th>&gt; 5 years or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond participations</td>
<td>10,105</td>
<td>10,105</td>
<td>10,105</td>
<td>10,105</td>
<td>10,105</td>
<td>10,105</td>
</tr>
<tr>
<td>Local loans</td>
<td>53,983</td>
<td>53,983</td>
<td>53,983</td>
<td>53,983</td>
<td>53,983</td>
<td>53,983</td>
</tr>
<tr>
<td>Long-term credits</td>
<td>83,522</td>
<td>83,522</td>
<td>83,522</td>
<td>83,522</td>
<td>83,522</td>
<td>83,522</td>
</tr>
<tr>
<td>Other loans</td>
<td>15,046</td>
<td>15,046</td>
<td>15,046</td>
<td>15,046</td>
<td>15,046</td>
<td>15,046</td>
</tr>
<tr>
<td>Total</td>
<td>238,654</td>
<td>238,654</td>
<td>238,654</td>
<td>238,654</td>
<td>238,654</td>
<td>238,654</td>
</tr>
</tbody>
</table>
The Company has not only fulfilled its financial borrowing programme in 2016 utilising the most effective tools, but also took a number of important steps to ensure its ability to attract financing in 2017, including the signing of several loan agreements with major Russian banks.

In order to ensure the ability to promptly raise debt financing in the form of a local bond issue, the Company registered a multi-currency Exchange Bond Programme in 2015. The undrawn limit under the programme was the equivalent of RUB 100 billion as of the end of 2016. The Programme remains in effect for 30 years, thus enabling the Company to promptly organise an issue(s) of exchange bonds for a period of up to 30 years inclusive if the need arises. The Company is also actively involved in improving legislation on the securities market as regards the placement and circulation of local bonds as part of the Bond Issuers Committee of the Moscow Exchange.

Gazprom Neft aims to promptly and regularly convey information about its operations to all those interested in receiving it to the extent necessary for them to make an informed decision about participation in the Company or other actions that are capable of affecting the Company’s financial and business operations.

Gazprom Neft has developed and introduced an Information Policy that ensures effective information interaction between the Company, shareholders, investors and other stakeholders.

The information disclosed by the Company is balanced and objective, as evidenced above all by the fact that the Company does not shy away from disclosing negative information about itself, understanding the importance of such information for shareholders and potential investors.

The Company’s official website (ir.gazprom-neft.com) contains its Charter and internal documents, data about the structure of equity, information about governing bodies, information about the independent auditor and registrar, and information that must be disclosed in the forms prescribed by current legislation and the Company’s internal documents, including Gazprom Neft’s annual reports.

Gazprom Neft maintains a special web page (ir.gazprom-neft.com) with answers to FAQs from shareholders and investors, a regularly updated calendar of corporate events, dividend history, key performance indicators and other useful information for shareholders and investors.

Gazprom Neft organises regular presentations and meetings for members of the Company’s executive bodies and other key senior officials with investors and analysts, including meetings related to the disclosure (publication) of the Company’s accounting (financial) statements or related to the Company’s core investment projects and strategic development plans.

The Company discloses information on its website about the organisations it controls, specifically citing a list of such organisations, their core activities as well as a link to the website of the organisation, as prescribed by the recommendations of the Russian Code of Corporate Governance.

Gazprom Neft executive bodies handle the implementation of the information policy for the Company. The Company’s Board of Directors monitors compliance with the information policy.

The Company attaches great importance to cooperation with current and potential shareholders. The level of information disclosure for Gazprom Neft shareholders and investors has expanded significantly in recent times, as evidenced by a number of studies by independent agencies concerning investor relations as well as awards conferred upon the Company for this area of its activities.

CREDIT RATINGS

As of the end of 2016, all the Company’s credit ratings were at the same level as the insurance rating of the Russian Federation.

Standard & Poor’s and Fitch upgraded the Company’s outlook from negative to stable in September and October 2016, respectively.

Gazprom Neft’s credit ratings as of 31 December 2016:

- Standard & Poor’s: BBB– (stable)
- Fitch: BBB– (stable)
- Moody’s: Ba1 (stable)
- Dagong: AA– (negative)

Source: ratings agency data

Events after the reporting date: In February 2017, Moody’s revised its rating and changed the outlook to ‘Stable’.

Information Policy and Disclosure

The Company discloses information on its website about the organisations it controls, specifically citing a list of such organisations, their core activities as well as a link to the website of the organisation, as prescribed by the recommendations of the Russian Code of Corporate Governance.

The Company’s official website (ir.gazprom-neft.com) contains its Charter and internal documents, data about the structure of equity, information about governing bodies, information about the independent auditor and registrar, and information that must be disclosed in the forms prescribed by current legislation and the Company’s internal documents, including Gazprom Neft’s annual reports.

Gazprom Neft maintains a special web page (ir.gazprom-neft.com) with answers to FAQs from shareholders and investors, a regularly updated calendar of corporate events, dividend history, key performance indicators and other useful information for shareholders and investors.

Gazprom Neft organises regular presentations and meetings for members of the Company’s executive bodies and other key senior officials with investors and analysts, including meetings related to the disclosure (publication) of the Company’s accounting (financial) statements or related to the Company’s core investment projects and strategic development plans.

The Company discloses information on its website about the organisations it controls, specifically citing a list of such organisations, their core activities as well as a link to the website of the organisation, as prescribed by the recommendations of the Russian Code of Corporate Governance.

Gazprom Neft executive bodies handle the implementation of the information policy for the Company. The Company’s Board of Directors monitors compliance with the information policy.

The Company attaches great importance to cooperation with current and potential shareholders. The level of information disclosure for Gazprom Neft shareholders and investors has expanded significantly in recent times, as evidenced by a number of studies by independent agencies concerning investor relations as well as awards conferred upon the Company for this area of its activities.
INTERACTION WITH INVESTORS AND SHAREHOLDERS

UPDATE OF MINORITY SHAREHOLDER INFORMATION IN REGISTER

Gazprom Neft conducted an analysis of the shareholder register and compiled a list of minority shareholders with outdated information in the register. The shareholders were mailed information about the need to update their data in the register, and a message about the need to update the information was also posted on the corporate websites of the Company and the registrar DRAGA JSC. Expenses on updating the shareholder data in the register were paid by the Company.

GOALS OF UPDATE

> To reduce corporate procedure expenses for dividend payments and the mailing of materials for General Meetings of Shareholders
> To reduce the risk of tax penalties
> To minimize financial and reputational risks due to possible fraud by third parties against shareholders with outdated information in the register and the issuer being involved as a defendant (co-defendant)
> To improve the quality of corporate governance. Compliance with the standards of the Code of Corporate Governance (CCG) ensures the Company has a high assessment of corporate governance
> To ensure the maximum exercising of rights by minority shareholders. The Company will be able to promptly inform minority shareholders about opportunities to exercise their rights and also reduce expenses on corporate actions.

INTERACTION WITH INVESTORS

The Company regularly holds conference calls for investors involving Company executives. In addition, Gazprom Neft each quarter publishes an Analysis of the Management of the Company’s Financial Condition and Performance Results – an appendix to the Gazprom Neft Group’s IFRS financial statement.

The Database and Detailed statistical reference guides are also published for a detailed analysis of the Company’s operations.

In order to provide the most complete level of awareness, Gazprom Neft regularly holds meetings with investors and shareholders and takes part in all major conferences of investment and brokerage organisations.

The Company holds the annual ‘Investor’s Day’ event each year involving senior Gazprom Neft executives at which analysts and investors from investment companies can get first-hand answers to all of their questions.

Gazprom Neft regularly shows off its own production assets to investors and analysts by organising onsite meetings at production and extraction sites.

DEVELOPMENT OF THE SHAREHOLDER USER ACCOUNT E-SERVICE

The Company and its registrar DRAGA JSC introduced the Shareholder User Account web service (draga.ru/lichnyj-kabinet-akcionera) during the reporting year. The service is free to shareholders and makes it possible to promptly obtain information about their account, number of securities, accrued and paid dividends and the reasons for their return as well as the most recent information about Gazprom Neft events, corporate actions and measures along with detailed instructions on the deadlines and procedures for their implementation.

RECOGNITION OF GAZPROM NEFT REPORTS AND WEBSITE IN 2016

The Company’s corporate reporting and corporate website regularly receive high praise from expert commissions and juries at Russian and foreign contests.

The Company plans to improve and expand the functionality of the service by developing the following key areas of the Shareholder User Account:

> Interactive modules and an e-meeting, which will include:
  > e-voting
  > registration for the meeting of shareholders
  > Corporate actions (CA), which will include:
    > information about the right to participate in CA
    > the filing (withdrawal) of applications (requests)
  > information about the exercising of rights
  > Register transactions, which will include:
    > the submission of instructions to amend shareholder information
    > the submission of documents to perform transactions
    > the receipt of e-documents
  > Additional capabilities of the Shareholder User Account, which will include:
    > the ability to pay for registrar services with a bank card
    > the submission of requests to obtain information from the register
    > monitoring of e-documents

For additional information, see the ‘Shareholder User Account’ draga.ru/lichnyj-kabinet-akcionera

1 Established in 1980, the Investor Relations Society (IR Society) is an international community of investor relations experts and includes more than 750 participants and representatives of major companies and organisations. The IR Society’s mission is to promote the development of investor relations and recognition of best practices and to promote the development of investors. The IR Society Best Practice Awards contest has in each year included representatives of top 100 international businesses in its nomination.
What projects will be the bulk of the investment programme be spent on in 2017? How much higher might it be than the 2016 programme?

The main investments in 2017 will be spent on the development of major new fields (Novoportovskoye, Messoyakha and Prirazlomnoye), the implementation of the oil refinery modernisation programme in which the Euro+ (Moscow Oil Refineries) project is the main focus in 2017 and also on drilling at current production assets. The investment programme will be financed at roughly the same level in 2017 as it was last year.

Two major projects – Novoportovskoye and Messoyakha – were successfully launched in 2016. What oil production volume can we expect from these projects in 2017?

The launch of these projects was very important in terms of their impact on the Company’s economics. Technological infrastructure facilities were launched at the Novoportovskoye field for 5.5 million tonnes in 2016 and we expect to reach production of 5.5 million tonnes of oil in 2017. Commercial production started in the East Messoyakha field in September 2016. Drilling at the field will double in 2017. Messoyakhanfogaz (a joint venture between Gazprom Neft and Rosneft) will pump roughly 3 million tonnes of oil into the Zapolyarye-Purpe oil pipeline by the end of 2017.

What are the plans for acquiring foreign assets in the near future? When adopting investment decisions abroad, we are guided by the criteria for the effectiveness of projects, including compared with alternative options in Russia. We are looking at multiple foreign exploration and production projects, above all in regions where Gazprom Neft operates – the Middle East and Eastern Europe.

Does the Company expect to return to a policy of interim dividend payments?

First of all, the total amount of dividends to be paid in 2017 will significantly exceed the level of 2016, when the Company still paid interim dividends. One of the Company’s priorities is to increase the amount of dividends per share, which we consider the most important thing for shareholders and investors. As for the actual mechanism of dividend payments with an announcement of interim dividends, this decision will be made strategically depending on market conditions and the cash flow forecast.

What was the reason for the strong increase in the Company’s share value in late 2016?

We definitely saw rapid growth in the Company’s share quotes in 2016. This is primarily attributable to the price dynamics of oil, the Company’s main product. As we know, oil prices reached their lowest level in several years in January 2016 and were quoted lower than USD 30 per barrel. However, by the end of the year prices rebounded to USD 55 per barrel, i.e. almost doubled, given the agreement to cut production by OPEC and non-OPEC countries. Of course, oil prices are not the only factor that influenced the Company’s quotes. The main achievements by management that impacted the Company’s quotes include the launch of two large new fields, Novoportovskoye and Messoyakha (Gazprom Neft and Rosneft joint venture), as well as an increase in production at the only offshore field in the Arctic – Prirazlomnoye. This was all reflected in our financial results, which were well received by the market. In particular, our net profit soared by 82.5% in 2016 to RUB 200 billion. With the dividend policy remaining unchanged, this directly affects the amount of dividends to be paid for 2016 and was one of the decisive factors in the growth in the Company’s share value.
APPENDIX 1.
REPORT ON AUDIT RESULTS OF THE CONSOLIDATED FINANCIAL STATEMENT FOR 2016

Independent Auditor’s Report

To the Shareholders and Board of Directors of Gazprom Neft

Our opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gazprom Neft OJSC (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Group’s consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our audit approach
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Auditors’ (IESBA) Conceptual Framework for Ethics in Public Accounting, together with the ethical requirements of the Auditors’ Professional Ethics Code and Auditor’s Independence Rules that are relevant to our audits of the consolidated financial statements of the Group.

We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Key audit matter | How our audit addressed the key audit matter
--- | ---
Revenue recognition (Refer to note 2 Revenue recognition) in the consolidated financial statements for the related disclosure of accounting policies. We focused on revenue recognition because the Group has various revenue streams with different terms underlying revenue recognition. | We assessed the consistency in the application of the revenue recognition accounting policy used in the various segments of the Group's revenue. We tested the design and operating effectiveness of controls. We reviewed the accounting policies and procedures used by the Group to determine the amount of additional substantive testing required. We obtained and reviewed written representations from the management of the Group. We also reviewed the Group's correspondence with its customers and suppliers.

Immaterial assessment of goodwill and fair values. | We assessed the risk of impairment of intangible and tangible assets, which involves the estimation of the value of future cash flows. We evaluated and challenged the composition of management's cash and income forecasts, and the process by which they were prepared. In particular, we focused on whether they had identified all significant cash-generating units. We observed that management had followed their format, approved process for the preparation of future cash flow forecasts, which was subject to timely oversight and challenge by senior management. We compared the current year's actual results to the figures included in the prior year's forecasts, to consider whether any forecasted changes in assumptions that might have been justified at that time can be considered to be reasonably forecasted in the year ended 31 December 2016.
Key audit matter

Performance since then has been impacted by a general decline in the macroeconomic environment both globally and in Iraq, and by the PPA and DSPC terms and conditions, resulting in the recognition of impairment in the preceding and current year. Impairment amount and carrying value of the remaining assets related to the projects as of the date of impairment test is shown in Notes 12, Property, plant and equipment.

How our audit addressed the Key audit matter

We have performed an analysis of the financial performance of the Group, including the assumptions and judgments regarding the discount rate and impairment test, and the related calculations that are appropriate and consistent for the Group.

We have also performed detailed reviews of the Group's assumptions and calculations for the impairment test, including the assumptions and judgments regarding the discount rate and impairment test, and the related calculations that are appropriate and consistent for the Group.

We have also performed detailed reviews of the Group's assumptions and calculations for the impairment test, including the assumptions and judgments regarding the discount rate and impairment test, and the related calculations that are appropriate and consistent for the Group.

We have also performed detailed reviews of the Group's assumptions and calculations for the impairment test, including the assumptions and judgments regarding the discount rate and impairment test, and the related calculations that are appropriate and consistent for the Group.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole. Taking into account the Group's financial structure, management's assessment of the Group's internal control over financial reporting and our assessment of the risks and benefits of the Group's business, we tailored our audit scope to include:

- Detailed reviews of the Group's assumptions and calculations for the impairment test, including the assumptions and judgments regarding the discount rate and impairment test, and the related calculations that are appropriate and consistent for the Group.

- Performance since then has been impacted by a general decline in the macroeconomic environment both globally and in Iraq, and by the PPA and DSPC terms and conditions, resulting in the recognition of impairment in the preceding and current year. Impairment amount and carrying value of the remaining assets related to the projects as of the date of impairment test is shown in Notes 12, Property, plant and equipment.

Other information

Management is responsible for the other information. The other information comprises:

- 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 (but does not include the consolidated financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the PBC Gazprom Neft's consolidated Annual Report and 1st quarter 2017 Quarterly Report, which were expected to be made available to us after that date.

- Our conclusion on the consolidated financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

- Our conclusion on the consolidated financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

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- Our conclusion on the consolidated financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and presentation of the consolidated financial statements in accordance with IFRS. Management is also responsible for ensuring internal controls designed to keep the preparation of the consolidated financial statements free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or if there is no alternative business model to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (United Kingdom and Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.
The certified auditor responsible for the audit resulting in this independent auditor’s report is Irina Shumina.

21 February 2017
Moscow, Russian Federation

I.V. Shumina, Independent Auditor, Coopers Audit

APPENDICES
**APPENDIX 2.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(RUB mn)

<table>
<thead>
<tr>
<th>Notes</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>6</td>
<td>33,621</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>7</td>
<td>42,933</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>8</td>
<td>180,158</td>
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<tr>
<td>Inventories</td>
<td>9</td>
<td>100,951</td>
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<tr>
<td>Current income tax prepayments</td>
<td>10</td>
<td>10,353</td>
</tr>
<tr>
<td>Other taxes receivable</td>
<td>11</td>
<td>40,503</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td></td>
<td>396,332</td>
</tr>
<tr>
<td><strong>NON-CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12</td>
<td>1,726,345</td>
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<tr>
<td>Goodwill and other intangible assets</td>
<td>13</td>
<td>70,151</td>
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<tr>
<td>Investments in associates and joint ventures</td>
<td>14</td>
<td>201,548</td>
</tr>
<tr>
<td>Long-term trade and other receivables</td>
<td>15</td>
<td>5,129</td>
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<tr>
<td>Long-term financial assets</td>
<td>16</td>
<td>40,167</td>
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<tr>
<td>Deferred income tax assets</td>
<td>17</td>
<td>8,039</td>
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<tr>
<td>Other non-current assets</td>
<td>18</td>
<td>101,100</td>
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<tr>
<td><strong>TOTAL NON-CURRENT ASSETS</strong></td>
<td></td>
<td>2,392,479</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>2,548,811</td>
</tr>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt and current portion of long-term debt</td>
<td>19</td>
<td>13,705</td>
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<tr>
<td>Trade and other payables</td>
<td>20</td>
<td>95,624</td>
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<tr>
<td>Other current liabilities</td>
<td>21</td>
<td>28,680</td>
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<tr>
<td>Current income tax payable</td>
<td>22</td>
<td>2,296</td>
</tr>
<tr>
<td>Other taxes payable</td>
<td>23</td>
<td>67,250</td>
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<tr>
<td>Provisions and other accrued liabilities</td>
<td>24</td>
<td>15,406</td>
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<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td></td>
<td>289,452</td>
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<tr>
<td><strong>NON-CURRENT LIABILITIES</strong></td>
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<td></td>
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<tr>
<td>Long-term debt</td>
<td>24</td>
<td>596,221</td>
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<tr>
<td>Other non-current financial liabilities</td>
<td>25</td>
<td>89,994</td>
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<tr>
<td>Deferred income tax liabilities</td>
<td>26</td>
<td>45,942</td>
</tr>
<tr>
<td>Provisions and other accrued liabilities</td>
<td>27</td>
<td>1,938</td>
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<tr>
<td><strong>TOTAL NON-CURRENT LIABILITIES</strong></td>
<td></td>
<td>815,192</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
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<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>28</td>
<td>98</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>29</td>
<td>(1,170)</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>30</td>
<td>50,847</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>31</td>
<td>1,276,210</td>
</tr>
<tr>
<td>Other reserves</td>
<td>32</td>
<td>33,955</td>
</tr>
<tr>
<td><strong>EQUITY ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS</strong></td>
<td></td>
<td>1,360,940</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>33</td>
<td>84,027</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td></td>
<td>1,444,967</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td></td>
<td>2,548,811</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these Consolidated Financial Statements.
# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (RUB mn, except per share data)

## SALES

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,695,764</td>
<td>1,655,775</td>
</tr>
<tr>
<td>Loss export duties and sales related excise tax</td>
<td>(150,156)</td>
<td>(187,832)</td>
</tr>
<tr>
<td>TOTAL REVENUE FROM SALES</td>
<td>39</td>
<td>1,545,608</td>
</tr>
</tbody>
</table>

## COSTS AND OTHER DEDUCTIONS

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of oil, gas and petroleum products</td>
<td>(351,294)</td>
<td>(345,909)</td>
</tr>
<tr>
<td>Production and manufacturing expenses</td>
<td>(108,981)</td>
<td>(100,176)</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(201,862)</td>
<td>(214,267)</td>
</tr>
<tr>
<td>Transportation expenses</td>
<td>(129,845)</td>
<td>(114,083)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
<td>(22)</td>
<td>(22)</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>(301,171)</td>
<td>(301,171)</td>
</tr>
<tr>
<td>Exploration expenses</td>
<td>(1,195)</td>
<td>(1,195)</td>
</tr>
<tr>
<td>TOTAL OPERATING EXPENSES</td>
<td>(1,307,292)</td>
<td>(1,261,822)</td>
</tr>
<tr>
<td>OPERATING PROFIT</td>
<td>238,316</td>
<td>206,121</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures</td>
<td>(48,319)</td>
<td>43,739</td>
</tr>
<tr>
<td>Net foreign exchange gain / (loss)</td>
<td>33</td>
<td>31,501</td>
</tr>
<tr>
<td>Finance income</td>
<td>(67,910)</td>
<td>(67,910)</td>
</tr>
<tr>
<td>Finance expense</td>
<td>(34,282)</td>
<td>(33,943)</td>
</tr>
<tr>
<td>Other (loss) / gain, net</td>
<td>(17,982)</td>
<td>1,494</td>
</tr>
<tr>
<td>TOTAL OTHER INCOME / (EXPENSES)</td>
<td>(21,223)</td>
<td>(60,878)</td>
</tr>
<tr>
<td>PROFIT BEFORE INCOME TAX</td>
<td>209,725</td>
<td>116,198</td>
</tr>
<tr>
<td>Current income tax expense</td>
<td>(21,223)</td>
<td>(21,223)</td>
</tr>
<tr>
<td>Deferred income tax (expense) / benefit</td>
<td>(29,252)</td>
<td>8,774</td>
</tr>
<tr>
<td>TOTAL INCOME TAX EXPENSE</td>
<td>32</td>
<td>(29,252)</td>
</tr>
</tbody>
</table>

## OTHER COMPREHENSIVE (LOSS) / INCOME

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency translation differences</td>
<td>(48,319)</td>
<td>43,739</td>
</tr>
<tr>
<td>Cash flow/hedge, net of tax</td>
<td>33</td>
<td>31,501</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>(966)</td>
<td>(193)</td>
</tr>
<tr>
<td>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</td>
<td>153,741</td>
<td>150,405</td>
</tr>
</tbody>
</table>

## PROFIT ATTRIBUTABLE TO:

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft shareholders</td>
<td>200,179</td>
<td>109,661</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>5,546</td>
<td>6,537</td>
</tr>
<tr>
<td>TOTAL PROFIT FOR THE PERIOD</td>
<td>209,725</td>
<td>116,198</td>
</tr>
</tbody>
</table>

## TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO:

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom Neft shareholders</td>
<td>198,945</td>
<td>133,746</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>(6,204)</td>
<td>16,659</td>
</tr>
<tr>
<td>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</td>
<td>192,741</td>
<td>150,405</td>
</tr>
<tr>
<td>Earnings per share attributable to Gazprom Neft shareholders</td>
<td>42.43</td>
<td>23.24</td>
</tr>
<tr>
<td>Diluted earnings (RUB per share)</td>
<td>42.43</td>
<td>23.24</td>
</tr>
<tr>
<td>Weighted-average number of common shares outstanding (millions)</td>
<td>4,718</td>
<td>4,718</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these Consolidated Financial Statements.
## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

### (RUB mn)

<table>
<thead>
<tr>
<th>Notes</th>
<th>Share capital</th>
<th>Additional paid-in capital</th>
<th>Treasury shares</th>
<th>Non-controlling interest</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BALANCE AS OF 1 JANUARY 2016</strong></td>
<td>98</td>
<td>-</td>
<td>(1,170)</td>
<td>44,326</td>
<td>1,078,626</td>
</tr>
</tbody>
</table>

**Profit for the period**

**Currency translation differences**

**Cash flow hedge, net of tax**

**Other comprehensive loss**

**TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD**

**TRANSACTIONS WITH OWNERS, RECORDED IN EQUITY**

**Dividends to equity holders**

**Transaction under common control**

**Acquisition through business combination**

**TOTAL TRANSACTIONS WITH OWNERS**

**BALANCE AS OF 31 DECEMBER 2016**

<table>
<thead>
<tr>
<th>Notes</th>
<th>Share capital</th>
<th>Additional paid-in capital</th>
<th>Treasury shares</th>
<th>Non-controlling interest</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BALANCE AS OF 1 JANUARY 2015</strong></td>
<td>98</td>
<td>-</td>
<td>(1,170)</td>
<td>50,074</td>
<td>1,005,642</td>
</tr>
</tbody>
</table>

**Profit for the period**

**Currency translation differences**

**Cash flow hedge, net of tax**

**Other comprehensive loss**

**TOTAL COMPREHENSIVE INCOME FOR THE PERIOD**

**TRANSACTIONS WITH OWNERS, RECORDED IN EQUITY**

**Dividends to equity holders**

**Transaction under common control**

**Acquisition through business combination**

**TOTAL TRANSACTIONS WITH OWNERS**

**BALANCE AS OF 31 DECEMBER 2015**

The accompanying notes are an integral part of these Consolidated Financial Statements.
## CONSOLIDATED STATEMENT OF CASH FLOWS (RUB mn)

### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before income tax</td>
<td>259,539</td>
<td>145,450</td>
</tr>
</tbody>
</table>

**ADJUSTMENTS FOR:**

- Share of profit of associates and joint ventures: 14 (14,796) (24,956)
- Gain / loss on foreign exchange differences: 29 (28,300) 67,910
- Finance income: 30 (10,070) (4,732)
- Finance expense: 31 34,282 33,943
- Depreciation, depletion and amortisation: 12,13 129,845 114,083
- Net impairment of receivables and other assets: 7,587 2,090
- Write-off payables: — (16,107)
- Other non-cash items: 3,801 4,488

**OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL:** 361,567 312,169

**CHANGES IN WORKING CAPITAL:**

| Accounts receivable | (30,397) | 16,019 |
| Inventories | (4,463) | 6,128 |
| Taxes receivable | 4,716 | 1,704 |
| Other assets | 8,859 | 6,234 |
| Accounts payable | 12,286 | (2,245) |
| Taxes payable | 19,729 | (2,305) |
| Other liabilities | 3,841 | (6,653) |

**TOTAL EFFECT OF WORKING CAPITAL CHANGES:** 15,216 18,342

**NET CASH PROVIDED BY OPERATING ACTIVITIES:** 321,297 285,175

### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of subsidiaries and joint operations, net of cash acquired</td>
<td>(1,040)</td>
<td>303</td>
</tr>
<tr>
<td>Increase in cash due to acquisition of a subsidiary under common control</td>
<td>—</td>
<td>2,229</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiaries, net of cash disposed</td>
<td>—</td>
<td>(9)</td>
</tr>
<tr>
<td>Acquisition of associates and joint ventures</td>
<td>(398)</td>
<td>(56)</td>
</tr>
<tr>
<td>Bank deposits placements</td>
<td>(4,435)</td>
<td>(128,298)</td>
</tr>
<tr>
<td>Repayment of bank deposits</td>
<td>49,942</td>
<td>174,043</td>
</tr>
<tr>
<td>Acquisition of other investments</td>
<td>—</td>
<td>(4,476)</td>
</tr>
<tr>
<td>Proceeds from sales of other investments</td>
<td>—</td>
<td>3,241</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>(6,945)</td>
<td>(26,195)</td>
</tr>
<tr>
<td>Repayment of short-term loans issued</td>
<td>10,875</td>
<td>27,863</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>(21,904)</td>
<td>(25,578)</td>
</tr>
<tr>
<td>Repayment of long-term loans issued</td>
<td>12,664</td>
<td>5,717</td>
</tr>
<tr>
<td>Purchases of property, plant and equipment and intangible assets</td>
<td>(384,810)</td>
<td>(249,036)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>5,008</td>
<td>982</td>
</tr>
<tr>
<td>Proceeds from sale of other non-current assets</td>
<td>18</td>
<td>11,186</td>
</tr>
<tr>
<td>Interest received</td>
<td>4,384</td>
<td>7,894</td>
</tr>
</tbody>
</table>

**NET CASH USED IN INVESTING ACTIVITIES:** (323,854) (314,511)

### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from short-term borrowings</td>
<td>81,319</td>
<td>35,171</td>
</tr>
<tr>
<td>Repayment of short-term borrowings</td>
<td>(95,656)</td>
<td>(13,691)</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>142,947</td>
<td>153,748</td>
</tr>
<tr>
<td>Repayment of long-term borrowings</td>
<td>(192,539)</td>
<td>(53,663)</td>
</tr>
<tr>
<td>Transaction costs directly attributable to the borrowings received</td>
<td>(649)</td>
<td>(550)</td>
</tr>
<tr>
<td>Dividends paid to Gazprom Neft shareholders</td>
<td>(2,598)</td>
<td>(36,349)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interest</td>
<td>(1,254)</td>
<td>(2,572)</td>
</tr>
</tbody>
</table>

**NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES:** (68,430) 82,953

**DECREASE / INCREASE IN CASH AND CASH EQUIVALENTS:** (70,987) 52,857

**EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS:** (9,590) 8,074

**CASH AND CASH EQUIVALENTS AS OF THE BEGINNING OF THE PERIOD:** 114,198 53,167

**CASH AND CASH EQUIVALENTS AS OF THE END OF THE PERIOD:** 33,621 114,198

The accompanying notes are an integral part of these Consolidated Financial Statements.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016 (RUB mn, unless otherwise stated)

1. GENERAL

DESCRIPTION OF BUSINESS

Gazprom Neft PJSC (the "Company") and its subsidiaries (together referred to as the 'Group') is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations. Gazprom PJSC ('Gazprom', a state controlled entity), the Group's ultimate parent company, owns 95.7% of the shares in the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ('IFRS').

Subsequent events occurring after 31 December 2016 were evaluated through 21 February 2017, the date these Consolidated Financial Statements were authorised for issue.

BASIS OF MEASUREMENT

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under the Stock Appreciation Rights plan (SARs) are stated at fair value.

FOREIGN CURRENCY TRANSLATION

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee’s returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor’s return from its involvement have the potential to vary as a result of the investee’s performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group’s interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

BUSINESS COMBINATIONS

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises assets acquired and liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management’s judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets (if shares of acquired company do not have public market price).

GOODWILL

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“ bargain purchase”) is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.
NON-CONTROLLING INTEREST
Ownership interests in the Group’s subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

DISPOSAL OF SUBSIDIARIES
When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

ACQUISITIONS FROM ENTITIES UNDER COMMON CONTROL
Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

INVESTMENTS IN ASSOCIATES
An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

JOINT OPERATIONS AND JOINT VENTURES
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:
- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

TRANSACTIONS ELIMINATED ON CONSOLIDATION
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

CASH AND CASH EQUIVALENTS
Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

NON-DERIVATIVE FINANCIAL ASSETS
The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

HELD-TO-MATURITY FINANCIAL ASSETS
If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

LOANS AND RECEIVABLES
Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss is reclassified to profit and loss.

NON-DERIVATIVE FINANCIAL LIABILITIES
The Group initially recognises debt securities issued and liabilities on the date they are originated. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are recorded at fair value on the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

HEDGE ACCOUNTING

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

INVENTORIES

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

INTANGIBLE ASSETS

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

<table>
<thead>
<tr>
<th>Intangible asset group</th>
<th>Average useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licenses and software</td>
<td>5 - 15 years</td>
</tr>
<tr>
<td>Land rights</td>
<td>25 years</td>
</tr>
</tbody>
</table>

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnaround and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

OIL AND GAS PROPERTIES

EXPLORATION AND EVALUATION ASSETS

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies, that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution;
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field’ basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (excluding dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

DEVELOPMENT COSTS

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditure for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

DEPRECIATION, DEPLETION AND AMORTISATION

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.
Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below.

<table>
<thead>
<tr>
<th>Asset group</th>
<th>Average useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and constructions</td>
<td>8.35 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>8.30 years</td>
</tr>
<tr>
<td>Vehicles and other equipment</td>
<td>3.10 years</td>
</tr>
</tbody>
</table>

Catalysts and reagents mainly used in the refining operations are treated as other assets.

**CAPITALISATION OF BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

**IMPAIRMENT OF NON-CURRENT ASSETS**

The carrying amounts of the Group's non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the group makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit and loss.

**IMPAIRMENT OF NON-DERIVATIVE FINANCIAL ASSETS**

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

**DECOMMISSIONING OBLIGATIONS**

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

**EXPLORATION AND PRODUCTION.**

The Group’s activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of those assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

**REFINING, MARKETING AND DISTRIBUTION.**

The Group’s oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group’s operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

**INCOME TAXES**

Currently some Group companies including Gazprom Neft PJSC exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 Income Taxes. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.
MINERAL EXTRACTION TAX AND EXCISE DUTIES

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

COMMON STOCK

Common stock represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders’ meeting.

TREASURY STOCK

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

EARNINGS PER SHARE

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

STOCK-BASED COMPENSATION

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights (’SAR’) granted to employees at fair value on the date of grant. The estimated fair value is re-measured to fair value at each reporting date and the gain is recognised in respect of SAR in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

REirement and otheR Befit OBLIGATIONS

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no significant post-retirement benefits or other significant compensated benefits requiring accrual.

LEASES

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position. The total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

RECOGNITION OF REVENUES

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognised when deliveries are made to final customers, title passes to the customer, collection is reasonably assured, and the sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognised when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Group is responsible for transportation, duties and taxes on those sales.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

BUY / SELL TRANSACTIONS

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from/to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

TRANSPORTATION COSTS

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the AK ‘Transneft’ PJSC pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

OTHER COMPREHENSIVE INCOME / LOSS

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related deferred tax.

CHANGES IN PRESENTATION AND CLASSIFICATION

In 2016 the Group changed presentation of asset impairment loss and gain in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. These items were reclassified to financial statements line item Depreciation, depletion and amortisation from Other gain and loss line item. The Group believes that the change provides reliable and more relevant information. Impairment loss in the amount of RUB 15,582 million recognised in 2015 was reclassified to financial statements line item Depreciation, depletion and amortisation to conform to the current year’s presentation. Such reclassifications have no effect on profit for the period, net cash flow or shareholders’ equity. Since the reclassification has no effect on Consolidated Statement of Financial Position line items the Consolidated Statement of Financial Position as of 01 January 2015 was not presented.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the management if different assumptions or circumstances apply. Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.
IMPAIRMENT OF NON-CURRENT ASSETS

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group’s business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

ESTIMATION OF OIL AND GAS RESERVES

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on an annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depletion, depletion and amortisation charges that are based on the estimated proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reserves under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

CONTINGENCIES

Certain conditions may exist as of the date of these Consolidated Financial Statements that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group’s Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

JOINT ARRANGEMENTS

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

LEASES

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Risks include the possibilities of losses from idle capacities or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the the assets’s economic life and of gain from appreciation in value or realization of a residual value.

Other leases are classified as operating leases. In most cases leasing of vessels under time-charter agreements are accounted for as operating leases under IAS 17 Leases.

4. APPLICATION OF NEW IFRS

The following standards or amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

> IFRS 14 – Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016)
> Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016)
> Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016)
> Disclosure Initiative Amendments to IAS 1 – Presentation of Financial Statements (issued in December 2014 and effective for annual periods on or after 1 January 2016)
> Amendments to IFRS 7 – Financial Instruments: Disclosures (issued in September 2014 and effective for annual periods on or after 1 January 2016)
> Amendments to IAS 19 – Employee Benefits (issued in September 2014 and effective for annual periods on or after 1 January 2016)
> Amendments to IAS 34 – Interim Financial Reporting: Presentation of Financial Statements (issued in September 2014 effective for annual periods beginning on or after 1 January 2015)
5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and that the Group has not early adopted.

IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

> Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and amortised cost. The decision is to be made at initial recognition.
> An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
> All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any untold goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRS 16 – Leases (issued in January 2016 and replaces the previous IAS 17 Leases, effective for annual periods beginning on or after January 1, 2019 with early adoption permitted in case of implementation of IFRS 15 Revenue from Contracts with Customers). Key features of the standard are:

> IFRS 16 changes the leases accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:
  - (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  - (ii) depreciation of lease assets separately from interest on lease liabilities in the income statement.
> IFRS 16 substantially carries forward the lessee accounting requirements in IAS 17.
> IFRS 16 does not change the accounting for services.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after 1 January 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group will present this disclosure in its Consolidated Financial Statements for 2017.

The following other new standards are not expected to have any material impact on the Group when adopted:

> Amendments to IFRS 15 – Revenue from Contracts with Customers (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018).
> Amendments to IFRS 2 – Share-based Payment (issued in June 2016 effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s Consolidated Financial Statements.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>882</td>
<td>886</td>
</tr>
<tr>
<td>Cash in bank</td>
<td>21,284</td>
<td>39,937</td>
</tr>
<tr>
<td>Deposits with original maturity of less than three months</td>
<td>6,647</td>
<td>63,891</td>
</tr>
<tr>
<td>Other cash equivalents</td>
<td>2,808</td>
<td>3,384</td>
</tr>
<tr>
<td><strong>TOTAL CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>33,621</strong></td>
<td><strong>114,198</strong></td>
</tr>
</tbody>
</table>

7. SHORT-TERM FINANCIAL ASSETS

Short-term financial assets as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term loans issued</td>
<td>49,158</td>
<td>18,852</td>
</tr>
<tr>
<td>Deposits with original maturity of more than three months</td>
<td>886</td>
<td>49,206</td>
</tr>
<tr>
<td>Forward contracts - cash flow hedge</td>
<td>91</td>
<td>–</td>
</tr>
<tr>
<td>Financial assets held to maturity</td>
<td>–</td>
<td>149</td>
</tr>
<tr>
<td><strong>TOTAL SHORT-TERM FINANCIAL ASSETS</strong></td>
<td><strong>42,113</strong></td>
<td><strong>68,157</strong></td>
</tr>
</tbody>
</table>

The loans issued in 2016 mainly comprise loans issued to a joint venture.

8. TRADE AND OTHER RECEIVABLES

Trade and other receivables as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>121,229</td>
<td>112,572</td>
</tr>
<tr>
<td>Other financial receivables</td>
<td>6,604</td>
<td>7,254</td>
</tr>
<tr>
<td>Less impairment provision</td>
<td>34</td>
<td>(42,274)</td>
</tr>
<tr>
<td><strong>TOTAL TRADE AND OTHER RECEIVABLES</strong></td>
<td><strong>115,599</strong></td>
<td><strong>92,241</strong></td>
</tr>
</tbody>
</table>

Trade receivables represent amounts due from customers in the ordinary course of business and are short-term by nature.
9. INVENTORIES

Inventories as of 31 December 2016 and 2015 consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum products and petrochemicals</td>
<td>47,467</td>
<td>41,692</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>26,277</td>
<td>36,762</td>
</tr>
<tr>
<td>Crude oil and gas</td>
<td>20,059</td>
<td>16,947</td>
</tr>
<tr>
<td>Other</td>
<td>8,376</td>
<td>8,497</td>
</tr>
<tr>
<td>Less provision</td>
<td>(1,480)</td>
<td>(3,540)</td>
</tr>
<tr>
<td><strong>TOTAL INVENTORY</strong></td>
<td><strong>100,701</strong></td>
<td><strong>102,378</strong></td>
</tr>
</tbody>
</table>

As part of the management of inventory the Group may enter transactions to buy and sell crude oil or petroleum products from the same counterparty. Such transactions are referred to as buy / sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total values of buy / sell transactions undertaken for the years ended 31 December are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buy / sell transactions for the year ended 31 December</strong></td>
<td>92,932</td>
<td>92,949</td>
</tr>
</tbody>
</table>

10. OTHER TAXES RECEIVABLE

Other taxes receivable as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax receivable</td>
<td>44,936</td>
<td>47,616</td>
</tr>
<tr>
<td>Prepaid custom duties</td>
<td>6,419</td>
<td>6,728</td>
</tr>
<tr>
<td>Other taxes prepaid</td>
<td>2,127</td>
<td>3,356</td>
</tr>
<tr>
<td><strong>TOTAL OTHER TAXES RECEIVABLES</strong></td>
<td><strong>53,482</strong></td>
<td><strong>57,700</strong></td>
</tr>
</tbody>
</table>

11. OTHER CURRENT ASSETS

Other current assets as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances paid</td>
<td>27,671</td>
<td>40,080</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,104</td>
<td>999</td>
</tr>
<tr>
<td>Other assets</td>
<td>34</td>
<td>10,288</td>
</tr>
<tr>
<td><strong>TOTAL OTHER CURRENT ASSETS, NET</strong></td>
<td><strong>40,503</strong></td>
<td><strong>62,167</strong></td>
</tr>
</tbody>
</table>

The movement in impairment provision in respect of other current assets is presented in Note 34.

12. PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment for the years ended 31 December 2016 and 2015 is presented below:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>O&amp;G properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th><strong>Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AS OF 1 JANUARY 2016</strong></td>
<td></td>
<td>1,355,282</td>
<td>308,037</td>
<td>152,795</td>
<td>17,933</td>
<td>369,274</td>
<td>2,203,321</td>
</tr>
<tr>
<td>Additions</td>
<td>2,280</td>
<td>1,365</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>319,426</td>
<td>323,071</td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>–</td>
<td>38</td>
<td>–</td>
<td>–</td>
<td>452</td>
<td>16</td>
<td>556</td>
</tr>
<tr>
<td>Changes in decommissioning obligations</td>
<td>9,626</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9,626</td>
<td>–</td>
</tr>
<tr>
<td>Capitalised borrowing costs</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>12,840</td>
<td>12,840</td>
</tr>
<tr>
<td>Transfers</td>
<td>240,507</td>
<td>21,528</td>
<td>10,280</td>
<td>4,473</td>
<td>(284,388)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Internal movement</td>
<td>25,813</td>
<td>(6,416)</td>
<td>6,932</td>
<td>1,711</td>
<td>(27,242)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>(5,588)</td>
<td>(1,250)</td>
<td>(1,755)</td>
<td>(604)</td>
<td>(4,510)</td>
<td>(13,725)</td>
<td>–</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(65,955)</td>
<td>(15,052)</td>
<td>(94,583)</td>
<td>(4,394)</td>
<td>(17,092)</td>
<td>(112,216)</td>
<td>–</td>
</tr>
<tr>
<td><strong>AS OF 31 DECEMBER 2016</strong></td>
<td>1,589,525</td>
<td>308,192</td>
<td>152,871</td>
<td>23,531</td>
<td>369,304</td>
<td>2,423,423</td>
<td>–</td>
</tr>
</tbody>
</table>

**DEPRECIATION AND IMPAIRMENT**

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>O&amp;G properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th><strong>Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AS OF 1 JANUARY 2016</strong></td>
<td></td>
<td>(409,288)</td>
<td>(81,410)</td>
<td>(41,440)</td>
<td>(3,479)</td>
<td>–</td>
<td>(615,668)</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>(83,199)</td>
<td>(13,040)</td>
<td>(11,305)</td>
<td>(1,918)</td>
<td>–</td>
<td>–</td>
<td>(109,505)</td>
</tr>
<tr>
<td>Impairment</td>
<td>(4,762)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(4,762)</td>
</tr>
<tr>
<td>Internal movement</td>
<td>828</td>
<td>1,558</td>
<td>(1,240)</td>
<td>(1146)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>5,222</td>
<td>221</td>
<td>1,050</td>
<td>561</td>
<td>–</td>
<td>2,054</td>
<td>–</td>
</tr>
<tr>
<td><strong>AS OF 31 DECEMBER 2016</strong></td>
<td>(553,940)</td>
<td>(99,104)</td>
<td>(94,092)</td>
<td>(5,780)</td>
<td>–</td>
<td>(697,078)</td>
<td>–</td>
</tr>
</tbody>
</table>

**NET BOOK VALUE**

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>O&amp;G properties</th>
<th>Refining assets</th>
<th>Marketing and distribution</th>
<th>Other assets</th>
<th>Assets under construction</th>
<th><strong>Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AS OF 1 JANUARY 2016</strong></td>
<td></td>
<td>865,994</td>
<td>226,576</td>
<td>111,355</td>
<td>14,454</td>
<td>369,274</td>
<td>1,587,663</td>
</tr>
<tr>
<td><strong>AS OF 31 DECEMBER 2016</strong></td>
<td></td>
<td>1,016,385</td>
<td>219,086</td>
<td>102,819</td>
<td>17,751</td>
<td>369,304</td>
<td>1,726,345</td>
</tr>
<tr>
<td>Cost</td>
<td>O&amp;G properties</td>
<td>Refining assets</td>
<td>Marketing and distributions</td>
<td>Other assets</td>
<td>Assets under construction</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>----------------</td>
<td>-----------------------------</td>
<td>--------------</td>
<td>---------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td><strong>AS OF 1 JANUARY 2015</strong></td>
<td>1,120,873</td>
<td>210,219</td>
<td>134,430</td>
<td>16,659</td>
<td>245,647</td>
<td>1,780,028</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>12,641</td>
<td>1,016</td>
<td>–</td>
<td>–</td>
<td>311,871</td>
<td>325,528</td>
<td></td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>–</td>
<td>–</td>
<td>24</td>
<td>263</td>
<td>47</td>
<td>354</td>
<td></td>
</tr>
<tr>
<td>Changes in decommissioning obligations</td>
<td>(246)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(246)</td>
<td>(246)</td>
<td></td>
</tr>
<tr>
<td>Capitalised borrowing costs</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>14,518</td>
<td>14,518</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>183,339</td>
<td>38,093</td>
<td>16,543</td>
<td>1,921</td>
<td>(239,696)</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Internal movement</td>
<td>(12,354)</td>
<td>(75)</td>
<td>(483)</td>
<td>(344)</td>
<td>11,853</td>
<td>(4,453)</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>(12,249)</td>
<td>(1,041)</td>
<td>(2,747)</td>
<td>(2,800)</td>
<td>(2,873)</td>
<td>(21,726)</td>
<td></td>
</tr>
<tr>
<td>Translation differences</td>
<td>63,486</td>
<td>9,495</td>
<td>5,028</td>
<td>264</td>
<td>27,625</td>
<td>106,248</td>
<td></td>
</tr>
<tr>
<td><strong>AS OF 31 DECEMBER 2015</strong></td>
<td>1,355,282</td>
<td>308,037</td>
<td>152,795</td>
<td>17,933</td>
<td>369,274</td>
<td>2,203,321</td>
<td></td>
</tr>
</tbody>
</table>

**DEPRECIATION AND IMPAIRMENT**

| AS OF 1 JANUARY 2015 | (383,093) | (68,395) | (32,593) | (2,887) | – | (469,220) |
| Depreciation charge | (70,708) | (11,032) | (10,552) | (1,256) | – | (93,569) |
| Impairment | (15,562) | – | – | – | – | (15,562) |
| Acquisitions through business combinations | – | – | – | – | (413) | (413) |
| Internal movement | 222 | (31) | 1,114 | 148 | – | 1,453 |
| Disposals | 8,246 | 939 | 1,016 | 62 | – | 10,107 |
| Translation differences | (28,401) | (3,232) | (3,948) | (107) | – | (35,887) |
| **AS OF 31 DECEMBER 2015** | (409,288) | (41,461) | (41,440) | (3,470) | – | (615,660) |

**NET BOOK VALUE**

| AS OF 1 JANUARY 2015 | 737,520 | 191,834 | 91,837 | 76,472 | 245,847 | 1,203,500 |

As of 31 December 2016 the exploration and evaluation assets relating to Garman block in Iraq region were reclassified to proved oil and gas assets due to start of commercial development. The reclassification is presented as internal movement.

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 6.0% for the year ended 2016 and 9.0% for the year ended December 2015. Capitalised borrowing costs for the year ended 31 December 2016 include exchange losses arising from foreign currency borrowings in the amount of RUB 5.9 billion.

The information regarding Group’s exploration and evaluation assets (part of O&G properties) is presented below:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AS OF JANUARY 1</strong></td>
<td>83,005</td>
<td>75,204</td>
</tr>
<tr>
<td>Additions</td>
<td>13,670</td>
<td>26,032</td>
</tr>
<tr>
<td>Impairment</td>
<td>(9,362)</td>
<td>(4,024)</td>
</tr>
<tr>
<td>Unsuccessful exploration expenditures derecognised</td>
<td>(612)</td>
<td>(752)</td>
</tr>
<tr>
<td>Transfer to proved property</td>
<td>(2,249)</td>
<td>(14,322)</td>
</tr>
<tr>
<td>Disposals</td>
<td>(269)</td>
<td>(279)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(8,246)</td>
<td>(12,437)</td>
</tr>
<tr>
<td><strong>AS OF DECEMBER 31</strong></td>
<td>75,343</td>
<td>83,005</td>
</tr>
</tbody>
</table>

During 2016 the Group performed impairment testing and recognised an impairment loss in relation to upstream oil and gas assets and exploration and evaluation assets located in Iraq region in the amount of RUB 14.4 billion. The impairment loss is included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

The Group recognized the impairment loss for the amount by which the book value of these assets exceeded its recoverable amount of RUB 79.5 billion (translated into Rubles at the exchange rate as of date of impairment testing). The impairment loss was due to revision of expected economic performance of the assets (decrease in international oil prices, changes in exploration and development programs and investment plans).

The recoverable amount was determined as the present value of estimated future cash flows using available forecasts of oil prices from globally recognised research institutions and production quantities based on reserve reports and long-term strategic plans. The pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset and amounts to 11.1% per annum in real terms.
### 13. GOODWILL AND OTHER INTANGIBLE ASSETS

The information regarding movements in Group’s intangible assets is presented below:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Goodwill</th>
<th>Software</th>
<th>Land rights</th>
<th>Other int</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AS OF 1 JANUARY 2016</strong></td>
<td>38,537</td>
<td>24,243</td>
<td>11,582</td>
<td>15,491</td>
<td>93,933</td>
</tr>
<tr>
<td>Acquisitions through business combinations</td>
<td>3,556</td>
<td>12,218</td>
<td>9</td>
<td>5,890</td>
<td>21,813</td>
</tr>
<tr>
<td>Internal movement</td>
<td>1,250</td>
<td>31</td>
<td>(1,285)</td>
<td>872</td>
<td>72,128</td>
</tr>
<tr>
<td>Disposals</td>
<td>(526)</td>
<td>(1,007)</td>
<td>(1,527)</td>
<td>-</td>
<td>24,956</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(4,431)</td>
<td>(1,557)</td>
<td>(240)</td>
<td>(6,349)</td>
<td>92,612</td>
</tr>
<tr>
<td><strong>AS OF 31 DECEMBER 2016</strong></td>
<td>32,106</td>
<td>26,979</td>
<td>11,521</td>
<td>16,006</td>
<td>92,612</td>
</tr>
</tbody>
</table>

The carrying values of the investments in associate and joint ventures as of 31 December 2016 and 2015 are summarised below:

<table>
<thead>
<tr>
<th>Ownership percentage</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stavneft Joint venture</td>
<td>49.9</td>
<td>65.6</td>
</tr>
<tr>
<td>SeverEnergy Joint venture</td>
<td>46.7</td>
<td>33.7</td>
</tr>
<tr>
<td>Northgas Joint venture</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Others</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENTS</strong></td>
<td>201,548</td>
<td>150,727</td>
</tr>
</tbody>
</table>

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation. The reconciliation of carrying amount of investments in associates and joint ventures as of the beginning of the reporting period and as of the end of the reporting period is shown below:

**CARRYING AMOUNT AS OF 1 JANUARY**
- Share of profit of associates and joint ventures: 24,748
- Dividends declared: (1,952) (2,683)
- Share of other comprehensive (loss)/income of associates and joint ventures: (126) 141
- Other changes in cost of associates and joint ventures: 1,147 3,315
**CARRYING AMOUNT AS OF 31 DECEMBER**
- 201,548 150,727

The total amount of dividends received from joint ventures in 2016 amounts to RUB 3.444 million (RUB 2,415 million in 2015).

### SLAVNEFT

The Group’s investment in NK Stavneft OJSC and various minority stakes in Stavneft subsidiaries (Stavneft) are held through a series of legal entities: Stavneft is engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Stavneft is divided equally between the Group and NK Rosneft PJSC.

### SEVERENERGY

The Group’s investment in SeverEnergy LLC (SewaterEnergy) is held through Yamal Razvitie LLC (Yamal Razvitie), an entity jointly controlled by the Group and NOVATEK PJSC. SewaterEnergy, through its subsidiary Arctic Gas Company OJSC (Arcticgas), is developing the Samburgskoye, Urengoiy and Yano-Yaktinsky oil and gas condensate fields and some other small oil and gas condensate fields located in the Yamal–Nenetsky autonomous region of the Russian Federation. The carrying amount of the Group’s investment exceeds the Group’s share in the underlying net assets of SewaterEnergy by RUB 18.2 billion as at 31 December 2016 due to complex holding structure, current financing scheme and goodwill arising on acquisition (RUB 18.3 billion as at 31 December 2015).

### NORTGAS

The Group’s investment in Northgas CJSC (Northgas) is held through Gazprom Resource Northgas LLC which is controlled by the Group based on signed management agreement and charter documents. Gazprom Resource Northgas LLC owns a 50% share in Northgas. Northgas is engaged in development of natural gas and oil field.

Goodwill acquired through business combination has been allocated to Upstream and Downstream in the amounts of RUB 25.1 billion and RUB 6.8 billion as at 31 December 2016 (RUB 23.2 billion and RUB 7.1 billion as at 31 December 2015). Goodwill was tested for impairment and no impairment was identified.
### 15. JOINT OPERATIONS

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development as joint operations. Tomskneft and Salym Petroleum Development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

### 16. LONG-TERM FINANCIAL ASSETS

Long-term financial assets as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans issued</td>
<td>34,015</td>
<td>41,047</td>
</tr>
<tr>
<td>Available for sale financial assets held to maturity</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Less impairment provision</td>
<td>(5,370)</td>
<td>(7,704)</td>
</tr>
<tr>
<td>TOTAL LONG-TERM FINANCIAL ASSETS</td>
<td>28,647</td>
<td>33,343</td>
</tr>
</tbody>
</table>

### 17. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities are attributable to the following:

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS OF 31 DECEMBER 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,424</td>
<td>(96,586)</td>
<td>(91,162)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1</td>
<td>(3,662)</td>
<td>(3,661)</td>
</tr>
<tr>
<td>Investments</td>
<td>719</td>
<td>(998)</td>
<td>(279)</td>
</tr>
<tr>
<td>Inventories</td>
<td>894</td>
<td>(952)</td>
<td>(58)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,327</td>
<td>(29)</td>
<td>2,298</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>–</td>
<td>(2,152)</td>
<td>(2,152)</td>
</tr>
<tr>
<td>Provisions</td>
<td>7,256</td>
<td>(6)</td>
<td>7,250</td>
</tr>
<tr>
<td>Tax loss carry forwards</td>
<td>14,152</td>
<td>–</td>
<td>14,152</td>
</tr>
<tr>
<td>Other</td>
<td>2,857</td>
<td>(2,546)</td>
<td>311</td>
</tr>
<tr>
<td>Net-off</td>
<td>(25,587)</td>
<td>25,587</td>
<td>–</td>
</tr>
<tr>
<td>TAX ASSETS / (LIABILITIES)</td>
<td>8,039</td>
<td>(81,347)</td>
<td>(73,308)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS OF 31 DECEMBER 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>10,775</td>
<td>(93,593)</td>
<td>(82,818)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>6</td>
<td>(3,807)</td>
<td>(3,801)</td>
</tr>
<tr>
<td>Investments</td>
<td>732</td>
<td>(835)</td>
<td>102</td>
</tr>
<tr>
<td>Inventories</td>
<td>747</td>
<td>(957)</td>
<td>(210)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>611</td>
<td>(27)</td>
<td>584</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>–</td>
<td>(1,086)</td>
<td>(1,086)</td>
</tr>
<tr>
<td>Provisions</td>
<td>5,494</td>
<td>(30)</td>
<td>5,464</td>
</tr>
<tr>
<td>Tax loss carry forwards</td>
<td>32,896</td>
<td>–</td>
<td>32,896</td>
</tr>
<tr>
<td>Other</td>
<td>2,857</td>
<td>(1,586)</td>
<td>1,271</td>
</tr>
<tr>
<td>Net-off</td>
<td>(33,063)</td>
<td>33,063</td>
<td>–</td>
</tr>
<tr>
<td>TAX ASSETS / (LIABILITIES)</td>
<td>22,099</td>
<td>(88,752)</td>
<td>(66,653)</td>
</tr>
</tbody>
</table>
APPENDICES

18. OTHER NON-CURRENT ASSETS

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 97.2 billion and RUB 55.2 billion as of 31 December 2016 and 2015, respectively).

In 2016 the Group transferred advances for tanker vessels to a third party under agreement of novation with the intention to lease the vessels back under finance lease agreements. The cash inflow from the transaction in the amount of RUB 11.2 billion is presented as proceeds from sale of other non-current assets in the Consolidated Statement of Cash Flows.

19. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

As of 31 December 2016 and 2015 the Group has short-term loans and current portion of long-term debt outstanding as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>6,321</td>
<td>24,903</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>1,680</td>
<td>1,733</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>72,805</td>
<td>121,295</td>
</tr>
<tr>
<td><strong>TOTAL SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT</strong></td>
<td><strong>80,187</strong></td>
<td><strong>147,319</strong></td>
</tr>
</tbody>
</table>

In 2015 the Group obtained revolving loan USD 300 million under the club term and revolving facilities agreement with a number of banks (facility agent – Commerzbank) at an interest rate of Libor +1% per annum. In September 2016 the Group performed full repayment according to the payment schedule.

Short-term bank loans and other borrowings include interest payable on short-term debt. Current portion of long-term debt includes interest payable on long-term borrowings.

20. TRADE AND OTHER PAYABLES

Accounts payable as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable</td>
<td>78,161</td>
<td>76,372</td>
</tr>
<tr>
<td>Forward contracts - cash flow hedge</td>
<td>11,358</td>
<td>23,540</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>2,115</td>
<td>2,659</td>
</tr>
<tr>
<td>Other accounts payable</td>
<td>3,990</td>
<td>2,254</td>
</tr>
<tr>
<td><strong>TOTAL TRADE AND OTHER PAYABLES</strong></td>
<td><strong>95,624</strong></td>
<td><strong>104,830</strong></td>
</tr>
</tbody>
</table>

21. OTHER CURRENT LIABILITIES

Other current liabilities as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances received</td>
<td>21,293</td>
<td>23,008</td>
</tr>
<tr>
<td>Payables to employees</td>
<td>2,527</td>
<td>2,864</td>
</tr>
<tr>
<td>Other non-financial payables</td>
<td>4,760</td>
<td>6,500</td>
</tr>
<tr>
<td><strong>TOTAL OTHER CURRENT LIABILITIES</strong></td>
<td><strong>28,680</strong></td>
<td><strong>32,870</strong></td>
</tr>
</tbody>
</table>
22. OTHER TAXES PAYABLE

Other taxes payable as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral extraction tax</td>
<td>25,261</td>
<td>14,038</td>
</tr>
<tr>
<td>VAT</td>
<td>20,640</td>
<td>13,578</td>
</tr>
<tr>
<td>Excise tax</td>
<td>11,389</td>
<td>6,738</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>4,721</td>
<td>4,275</td>
</tr>
<tr>
<td>Other taxes</td>
<td>5,786</td>
<td>5,522</td>
</tr>
<tr>
<td><strong>TOTAL OTHER TAXES PAYABLE</strong></td>
<td><strong>67,259</strong></td>
<td><strong>49,011</strong></td>
</tr>
</tbody>
</table>

23. PROVISIONS AND OTHER ACCRUED LIABILITIES

Movement in provisions and other accrued liabilities for the years ended 31 December 2016 and 2015 is below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Demobilization provision</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CARRYING AMOUNT AS OF 1 JANUARY 2015</td>
<td>23,456</td>
<td>20,984</td>
<td>44,440</td>
</tr>
<tr>
<td><strong>SHORT-TERM PART</strong></td>
<td>166</td>
<td>16,306</td>
<td>16,472</td>
</tr>
<tr>
<td><strong>LONG-TERM PART</strong></td>
<td>23,288</td>
<td>2,588</td>
<td>25,876</td>
</tr>
<tr>
<td>New obligations incurred</td>
<td>2,085</td>
<td>8,634</td>
<td>10,719</td>
</tr>
<tr>
<td>Utilization of provision / accrual</td>
<td>(123)</td>
<td>(15,557)</td>
<td>(15,680)</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>(2,939)</td>
<td></td>
<td>(2,939)</td>
</tr>
<tr>
<td>Unrealised of discount</td>
<td>2,572</td>
<td></td>
<td>2,572</td>
</tr>
<tr>
<td>Translation differences</td>
<td>1,446</td>
<td>845</td>
<td>2,291</td>
</tr>
<tr>
<td><strong>CARRYING AMOUNT AS OF 31 DECEMBER 2015</strong></td>
<td><strong>26,097</strong></td>
<td><strong>16,306</strong></td>
<td><strong>42,403</strong></td>
</tr>
<tr>
<td><strong>SHORT-TERM PART</strong></td>
<td>121</td>
<td>13,817</td>
<td>13,938</td>
</tr>
<tr>
<td><strong>LONG-TERM PART</strong></td>
<td>25,976</td>
<td>5,499</td>
<td>31,475</td>
</tr>
<tr>
<td>New obligations incurred</td>
<td>5,763</td>
<td>12,104</td>
<td>18,867</td>
</tr>
<tr>
<td>Utilization of provision / accrual</td>
<td>(182)</td>
<td>(5,665)</td>
<td>(5,847)</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>3,987</td>
<td></td>
<td>3,987</td>
</tr>
<tr>
<td>Unrealised of discount</td>
<td>2,308</td>
<td></td>
<td>2,308</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(0,622)</td>
<td>(0,386)</td>
<td>(0,036)</td>
</tr>
<tr>
<td><strong>CARRYING AMOUNT AS OF 31 DECEMBER 2016</strong></td>
<td><strong>36,391</strong></td>
<td><strong>24,927</strong></td>
<td><strong>61,318</strong></td>
</tr>
<tr>
<td><strong>SHORT-TERM PART</strong></td>
<td>151</td>
<td>15,255</td>
<td>15,406</td>
</tr>
<tr>
<td><strong>LONG-TERM PART</strong></td>
<td>36,240</td>
<td>9,672</td>
<td>45,912</td>
</tr>
</tbody>
</table>

24. LONG-TERM DEBT

As of 31 December 2016 and 2015 the Group has long-term outstanding loans as follows:

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>348,142</td>
<td>451,887</td>
</tr>
<tr>
<td>Loan participation notes</td>
<td>231,256</td>
<td>280,903</td>
</tr>
<tr>
<td>Bonds</td>
<td>68,879</td>
<td>51,748</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>7,706</td>
<td>8,346</td>
</tr>
<tr>
<td>Less current portion of long-term debt</td>
<td>(72,805)</td>
<td>(121,395)</td>
</tr>
<tr>
<td><strong>TOTAL LONG-TERM DEBT</strong></td>
<td><strong>596,221</strong></td>
<td><strong>670,779</strong></td>
</tr>
</tbody>
</table>

BANK LOANS

In May 2011 the Group signed a USD 870 million Club term loan facility with the syndicate of international banks (facility agent – SMBC) at an interest rate of Euribor+4.5% per annum and final maturity date in September 2016. In February and August 2016 the Group performed principal repayment in the total amount of USD 348.0 million (RUB 24.6 billion) according to the payment schedule. The loan is fully repaid.

In July 2012 the Group signed EUR 258 million ECA-covered term loan facility with the group of international banks (facility agent – HSBC) at an interest rate of Euribor+4.5% per annum and final maturity date in December 2022. During 2016 the Group performed principal repayment in the total amount of EUR 25.8 million (RUB 1.8 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is EUR 15.4 million (RUB 9.9 billion).

In April 2013 the Group signed USD 700 million club term loan facility with the group of international banks (facility agent – Commerzbank) at an interest rate of Euribor+7.5% per annum and final maturity date in October 2016. In March and September 2016 the Group performed partial principal repayment in the total amount of USD 300 million (RUB 3.1 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is USD 400 million (RUB 24.3 billion).

In November 2013 the Group signed USD 2,150 million club term loan facility with the group of international banks (facility agent – Mizuho) at an interest rate of Euribor+15.5% per annum and final maturity date in March 2019. In March and September 2016 the Group performed partial principal repayment in the total amount of USD 94 million (RUB 5.1 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is USD 1,556 million (RUB 93.3 billion).

In September 2014 the Group signed a RUB 30 billion term loan facility with Rossethinkbank JSC at an interest rate of 11.9% per annum and final maturity date in September 2019. In June and December 2016 the Group performed pre-scheduled repayment. As of 31 December 2016 the term loan facility is fully repaid.

In September 2014 the Group signed RUB 35 billion term loan facilities with Sberbank PJSC with final maturity date in September 2019. As of 31 December 2016, the interest rates vary from 10.88% to 11.08% per annum and the outstanding balance is RUB 35.0 billion.

In March 2015 the Group signed USD 350 million term loan facilities with one of the Russian privately owned banks due 31 March 2019. The Group performed pre-scheduled repayment. As of 31 December 2016 the Group made an amendment of the term loan facilities to revolving loan facilities. As of 31 December 2016 the outstanding balance is RUB 0.

In first half 2015 the Group signed several long-term facility agreements with final settlement in August 2019. As of 31 December 2016 the amount outstanding is RUB 60.7 billion.

In August 2015 the Group signed a long-term facility agreement in the amount of RUB 13.9 billion with Sberbank. The interest rate is determined as the interest rate offered to the Russian national bank by the Central Bank of Russia for refinancing of loan provided under this agreement in accordance with the Program of support of investment projects + margin 2.5% per annum (the margin was lowered to 1.5% from 1 January 2017), the final maturity date is August 2025. The outstanding balance as of 31 December 2016 is RUB 7.2 billion.
In February and October 2016 the Group signed several long-term facility agreements with PJSC Bank VTB with the due dates in June - December 2021. As of 31 December 2016 the Group borrowed RUB 49.6 billion under the agreements.

In November 2016 the Group signed term loan facilities with Sberbank with final maturity date in November 2021 at an interest rate of 10.28-10.3% per annum. In 2016 the Group borrowed RUB 30.0 billion under the agreements.

In November 2016 the Group signed a long-term facility agreement with Sberbank PJSC with the final maturity date in November 2022. As of 31 December 2016 the outstanding balance is RUB 7.7 billion.

The loan agreements contain one financial covenant that limits the Group’s ratio of ‘Consolidated financial indebtedness to Consolidated EBITDA’. The Group is in compliance with the covenant as of 31 December 2016.

**BONDS**

In February 2016 the Group redeemed Ruble bonds (series 8, 9 and 11) with the total par value of RUB 30 billion, including RUB 9.6 billion of series 11 repurchased by the Group in February 2015.

In March 2016 the Group placed thirty-year Ruble exchange traded bonds (series BO-02 and BO-07) with the total par value of RUB 25 billion. The bonds bear interest of 10.65% per annum. The issue has an embedded five-year put-option, providing the bondholders with the right to make the Group to repurchase them, and a two-year call-option, allowing the early redemption of the bonds at the Group’s decision.

In June 2016 the Group placed thirty-year Ruble exchange traded bonds (series BO-09) with the total par value of RUB 10 billion. The bonds bear interest of 9.8% per annum. The issue has an embedded three-year put-option, providing the bondholders with the right to make the Group to repurchase them.

In August 2016 the Group placed thirty-year Ruble exchange traded bonds (series BO-01 and BO-04) with the total par value of RUB 15 billion. The bonds bear interest of 9.4% per annum. The issue has an embedded five-year put-option, providing the bondholders with the right to make the Group to repurchase them.

As of 31 December 2016 the outstanding balance of Ruble Bonds placed in 2009, 2011, 2012 and 2016 is RUB 8.9 billion. The bonds bear interest of 8.2-10.65% per annum and are due for repayment in 2017-2021.

**LOAN PARTICIPATION NOTES**

In years 2012 and 2013 the Group raised USD 3,000 million and EUR 750 million by issuing 10 years USD and 5 years EUR Loan Participation Notes. The outstanding balance as of 31 December 2016 is RUB 232.4 billion.

**25. OTHER NON-CURRENT FINANCIAL LIABILITIES**

Other non-current financial liabilities as of 31 December 2016 and 31 December 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred consideration</td>
<td>80,384</td>
<td>60,608</td>
</tr>
<tr>
<td>Forward contracts - cash flow hedge</td>
<td>28,075</td>
<td>52,714</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,345</td>
<td>2,078</td>
</tr>
<tr>
<td><strong>TOTAL OTHER NON-CURRENT FINANCIAL LIABILITIES</strong></td>
<td><strong>89,744</strong></td>
<td><strong>115,375</strong></td>
</tr>
</tbody>
</table>

Deferred consideration represents liability to Gazprom PJSC for assets relating to Priratommoye project. In December 2016 the payment schedule was extended. The effect of the change in carrying value of liability due to the contract term revision in amount of RUB 6.8 billion was reflected in additional paid-in capital.

**26. SHARE CAPITAL AND TREASURY SHARES**

Share capital as of 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Ordinary shares</th>
<th>Treasury shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2016</td>
<td>31 December 2015</td>
</tr>
<tr>
<td>Number of shares (million)</td>
<td>4,741</td>
<td>4,741</td>
</tr>
<tr>
<td>Authorised shares (million)</td>
<td>4,741</td>
<td>4,741</td>
</tr>
<tr>
<td>Par value (RUB per share)</td>
<td>0.0016</td>
<td>0.0016</td>
</tr>
<tr>
<td><strong>ON ISSUE AS OF 31 DECEMBER, FULLY PAID (RUB MILLION)</strong></td>
<td><strong>8</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 10 June 2016 the annual general shareholders’ meeting of Gazprom Neft PJSC approved a dividend on the ordinary shares for 2015 in the amount of RUB 4.67 per share.

On 30 September 2015 the general shareholders’ meeting of Gazprom Neft PJSC approved an interim dividend on the ordinary shares for the six months ended 30 June 2016 in the amount of RUB 5.92 per share.

On 5 June 2015 the annual general shareholders’ meeting of Gazprom Neft PJSC approved a dividend on the ordinary shares for 2014 in the amount of RUB 4.67 per share.

**27. EMPLOYEE COSTS**

Employee costs for the years ended 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>66,987</td>
<td>71,288</td>
</tr>
<tr>
<td>Stock-appreciation rights (SAR)</td>
<td>3,703</td>
<td>657</td>
</tr>
<tr>
<td>Other costs</td>
<td>6,751</td>
<td>5,103</td>
</tr>
<tr>
<td><strong>TOTAL EMPLOYEE COSTS</strong></td>
<td><strong>77,448</strong></td>
<td><strong>77,048</strong></td>
</tr>
<tr>
<td>Social security contributions (social taxes)</td>
<td><strong>16,530</strong></td>
<td><strong>15,553</strong></td>
</tr>
<tr>
<td><strong>TOTAL EMPLOYEE COSTS (WITH SOCIAL TAXES)</strong></td>
<td><strong>93,978</strong></td>
<td><strong>92,601</strong></td>
</tr>
</tbody>
</table>
## 28. OTHER LOSS / GAIN, NET

Other loss / gain, net for the years ended 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment of advances and other receivables</td>
<td>(11,546)</td>
<td>1,041</td>
</tr>
<tr>
<td>Write-off of assets</td>
<td>(4,456)</td>
<td>(7,772)</td>
</tr>
<tr>
<td>Penalties</td>
<td>277</td>
<td>4</td>
</tr>
<tr>
<td>Write-off payables</td>
<td>243</td>
<td>16,107</td>
</tr>
<tr>
<td>Other losses, net</td>
<td>(2,500)</td>
<td>(7,886)</td>
</tr>
<tr>
<td><strong>TOTAL OTHER (LOSS) / GAIN, NET</strong></td>
<td><strong>(17,982)</strong></td>
<td><strong>1,494</strong></td>
</tr>
</tbody>
</table>

Loss from impairment of advances and other receivables mainly relates to allowance for impairment in respect of advances given to a brokerage company.

## 29. NET FOREIGN EXCHANGE GAIN / LOSS

Net foreign exchange gain / loss for the years ended 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET FOREIGN EXCHANGE GAIN / LOSS ON FINANCING ACTIVITIES, INCLUDING:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>105,320</td>
<td>53,989</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(32,161)</td>
<td>(165,805)</td>
</tr>
<tr>
<td><strong>NET FOREIGN EXCHANGE GAIN / LOSS ON OPERATING ACTIVITIES</strong></td>
<td><strong>63,159</strong></td>
<td><strong>189,184</strong></td>
</tr>
<tr>
<td><strong>NET FOREIGN EXCHANGE GAIN / LOSS</strong></td>
<td><strong>63,159</strong></td>
<td><strong>189,184</strong></td>
</tr>
</tbody>
</table>

## 30. FINANCE INCOME

Finance income for the years ended 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on loans issued</td>
<td>7,630</td>
<td>7,383</td>
</tr>
<tr>
<td>Interest on bank deposits</td>
<td>1,885</td>
<td>5,076</td>
</tr>
<tr>
<td>Other financial income</td>
<td>1,556</td>
<td>2,273</td>
</tr>
<tr>
<td><strong>TOTAL FINANCE INCOME</strong></td>
<td><strong>11,071</strong></td>
<td><strong>14,732</strong></td>
</tr>
</tbody>
</table>

## 31. FINANCE EXPENSE

Finance expense for the years ended 31 December 2016 and 2015 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>46,814</td>
<td>40,411</td>
</tr>
<tr>
<td>Decommissioning provision: unwinding of discount</td>
<td></td>
<td>2,308</td>
</tr>
<tr>
<td>Loss capitalised interest</td>
<td>(13,840)</td>
<td>(6,640)</td>
</tr>
<tr>
<td><strong>FINANCE EXPENSE</strong></td>
<td><strong>34,282</strong></td>
<td><strong>33,943</strong></td>
</tr>
</tbody>
</table>

## 32. INCOME TAX EXPENSE

The Group’s applicable income tax rate for the companies located in the Russian Federation is 20%.

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL INCOME TAX EXPENSE</strong></td>
<td><strong>55,751</strong></td>
<td><strong>34,943</strong></td>
</tr>
<tr>
<td>Profit before income tax excluding share of profit before tax of associates and joint ventures</td>
<td>225,423</td>
<td>120,494</td>
</tr>
<tr>
<td>Profit before income tax of associates and joint ventures</td>
<td>37,720</td>
<td>30,645</td>
</tr>
<tr>
<td><strong>PROFIT BEFORE INCOME TAX</strong></td>
<td><strong>263,143</strong></td>
<td><strong>151,139</strong></td>
</tr>
<tr>
<td>Tax at applicable domestic tax rate (20%)</td>
<td></td>
<td>32,228</td>
</tr>
<tr>
<td>Effect of tax rates in foreign jurisdictions</td>
<td>2,363</td>
<td>0.9</td>
</tr>
<tr>
<td>Difference in statutory tax rate in domestic entities</td>
<td>(4,290)</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Non-deductible income and expenses</td>
<td>3,220</td>
<td>1.2</td>
</tr>
<tr>
<td>Adjustment for prior years</td>
<td>(230)</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>714</td>
<td>0.3</td>
</tr>
<tr>
<td>Foreign exchange loss (gain) of foreign non-operating units</td>
<td>1,347</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAX EXPENSE</strong></td>
<td><strong>55,751</strong></td>
<td><strong>34,943</strong></td>
</tr>
</tbody>
</table>

### Reconciliation of effective tax rate:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT INCOME TAX EXPENSE</strong></td>
<td><strong>9,318</strong></td>
<td><strong>34,057</strong></td>
</tr>
<tr>
<td>Adjustment for prior years</td>
<td>1,972</td>
<td>3,969</td>
</tr>
<tr>
<td><strong>DEFERRED INCOME TAX EXPENSE / (BENEFIT)</strong></td>
<td><strong>21,290</strong></td>
<td><strong>38,026</strong></td>
</tr>
<tr>
<td>Origination and reversal of temporary differences</td>
<td>27,810</td>
<td>(8,774)</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>714</td>
<td>–</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAX EXPENSE</strong></td>
<td><strong>49,814</strong></td>
<td><strong>29,252</strong></td>
</tr>
<tr>
<td>Share of tax of associates and joint ventures</td>
<td>5,337</td>
<td>5,691</td>
</tr>
</tbody>
</table>
33. CASH FLOW HEDGES

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

<table>
<thead>
<tr>
<th>Fair value</th>
<th>Less than 6 months</th>
<th>From 6 to 12 months</th>
<th>From 1 to 3 years</th>
<th>Over 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS OF 31 DECEMBER 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts and interest rate swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>91</td>
<td>91</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(39,373)</td>
<td>(692)</td>
<td>(10,667)</td>
<td>(25,232)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>(39,282)</td>
<td>(691)</td>
<td>(10,667)</td>
<td>(25,232)</td>
</tr>
<tr>
<td>AS OF 31 DECEMBER 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts and interest rate swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>(76,258)</td>
<td>(22,609)</td>
<td>(935)</td>
<td>(49,280)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>(76,258)</td>
<td>(22,609)</td>
<td>(935)</td>
<td>(49,280)</td>
</tr>
</tbody>
</table>

As of 31 December 2016 and 2015 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of US Dollars 2,166 million and US Dollars 2,830 million respectively. During the year ended 31 December 2016 loss in the amount of RUB 26,281 million was reclassified from equity to net foreign exchange gain / (loss) in the Consolidated Statement of Profit and Loss and Other Comprehensive Income (RUB 13,044 million for the year ended 31 December 2015).

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEFORE INCOME TAX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before income tax</td>
<td>(76,258)</td>
<td>(22,609)</td>
</tr>
<tr>
<td>Income tax</td>
<td>10,498</td>
<td>6,670</td>
</tr>
<tr>
<td>Net of tax</td>
<td>(65,760)</td>
<td>(16,939)</td>
</tr>
<tr>
<td>2015 TOTAL</td>
<td>(58,352)</td>
<td>1,885</td>
</tr>
<tr>
<td>AS OF THE BEGINNING OF THE YEAR</td>
<td>(56,427)</td>
<td></td>
</tr>
</tbody>
</table>

Foreign exchange effects recognised during the year:

- Foreign exchange effects recognised during the year: 10,695 (2,020) 8,675 (30,390) 5,819 (25,171)
- Recycled to Net foreign exchange (loss) / gain on operating activities: 26,281 (3,450) 22,831 13,644 (1,382) 11,262
- Tax adjustments related to prior years: – – – – 4,176 4,176

TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR: 36,976 (5,476) 31,501 (17,946) 8,613 (9,333)

TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME AS OF THE CLOSING OF THE YEAR: (39,282) 5,023 (34,259) (26,281) 10,498 (65,760)

A schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss as of 31 December 2016 is presented below:

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2020</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL NET OF TAX</td>
<td>(10,023)</td>
<td>(21,644)</td>
<td>(2,592)</td>
<td>(34,259)</td>
</tr>
</tbody>
</table>

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

34. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

The Group’s goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group’s Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

FINANCIAL RISK MANAGEMENT


In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

MARKET RISK

CURRENCY RISK

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currency in which those borrowings are denominated is mainly US Dollar.

The Group’s currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency and hedges predominantly its borrowings.
The carrying amounts of the Group’s financial instruments by currencies they are denominated in are as follows:

<table>
<thead>
<tr>
<th></th>
<th>As of 31 December 2016</th>
<th>Russian Rouble</th>
<th>USD</th>
<th>EURO</th>
<th>Serbian dinar</th>
<th>Other currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>10,811</td>
<td>12,024</td>
<td>3,061</td>
<td>5,685</td>
<td>2,040</td>
<td></td>
</tr>
<tr>
<td>Bank deposits</td>
<td>56</td>
<td>341</td>
<td>275</td>
<td>–</td>
<td>274</td>
<td></td>
</tr>
<tr>
<td>Loans issued</td>
<td>41,007</td>
<td>16</td>
<td>113</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>–</td>
<td>91</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>39,243</td>
<td>55,595</td>
<td>6,341</td>
<td>12,495</td>
<td>1,885</td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>797</td>
<td>–</td>
<td>4,332</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Loans issued</td>
<td>33,895</td>
<td>–</td>
<td>120</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Available for sale assets</td>
<td>6,063</td>
<td>–</td>
<td>–</td>
<td>69</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>FINANCIAL LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>(18,353)</td>
<td>(50,399)</td>
<td>(10,826)</td>
<td>–</td>
<td>(13)</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(59,004)</td>
<td>(11,750)</td>
<td>(6,071)</td>
<td>(6,072)</td>
<td>(1,360)</td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>–</td>
<td>(81,358)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>(191,103)</td>
<td>(329,248)</td>
<td>(75,418)</td>
<td>–</td>
<td>(287)</td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>–</td>
<td>(28,015)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(87,228)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>NET EXPOSURE</strong></td>
<td>(198,296)</td>
<td>(363,285)</td>
<td>(78,154)</td>
<td>12,177</td>
<td>2,530</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As of 31 December 2015</th>
<th>Russian Rouble</th>
<th>USD</th>
<th>EURO</th>
<th>Serbian dinar</th>
<th>Other currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>23,142</td>
<td>81,112</td>
<td>2,514</td>
<td>6,271</td>
<td>2,159</td>
<td></td>
</tr>
<tr>
<td>Bank deposits</td>
<td>1,956</td>
<td>45,959</td>
<td>636</td>
<td>–</td>
<td>655</td>
<td></td>
</tr>
<tr>
<td>Loans issued</td>
<td>15,728</td>
<td>–</td>
<td>74</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>37,553</td>
<td>35,464</td>
<td>6,063</td>
<td>14,716</td>
<td>1,445</td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,184</td>
<td>–</td>
<td>7,684</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Loans issued</td>
<td>33,983</td>
<td>6,959</td>
<td>91</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Available for sale assets</td>
<td>9,348</td>
<td>–</td>
<td>–</td>
<td>99</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>FINANCIAL LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>(23,774)</td>
<td>(117,713)</td>
<td>(5,813)</td>
<td>(5,813)</td>
<td>(19)</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(57,046)</td>
<td>(9,046)</td>
<td>(4,133)</td>
<td>(6,076)</td>
<td>(2,084)</td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>–</td>
<td>(2,354)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>(107,072)</td>
<td>(479,958)</td>
<td>(83,255)</td>
<td>(1)</td>
<td>(493)</td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>–</td>
<td>(52,762)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>(62,654)</td>
<td>(9)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>NET EXPOSURE</strong></td>
<td>(129,152)</td>
<td>(513,485)</td>
<td>(76,139)</td>
<td>13,009</td>
<td>1,663</td>
<td></td>
</tr>
</tbody>
</table>

The following exchange rates applied during the period:

<table>
<thead>
<tr>
<th>Reporting date</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USD</strong></td>
<td>50.66</td>
<td>72.88</td>
</tr>
<tr>
<td><strong>EUR</strong></td>
<td>63.81</td>
<td>79.70</td>
</tr>
<tr>
<td><strong>RSD</strong></td>
<td>0.52</td>
<td>0.66</td>
</tr>
</tbody>
</table>
**SENSITIVITY ANALYSIS**

The Group has chosen to provide information about market and potential exposure to hypothetical gain (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group’s financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

<table>
<thead>
<tr>
<th>31 DECEMBER 2016</th>
<th>31 DECEMBER 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\text{USD/RUB (10% increase)})</td>
<td>(\text{98}) ((98,662))</td>
</tr>
<tr>
<td>(\text{EUR/RUB (10% increase)})</td>
<td>(\text{18}) ((23,588))</td>
</tr>
<tr>
<td>(\text{RSD/RUB (10% increase)})</td>
<td>(\text{21,573}) ((21,573))</td>
</tr>
<tr>
<td>(\text{EUR/RUB (10% decrease)})</td>
<td>(\text{75,540}) ((75,540))</td>
</tr>
<tr>
<td>(\text{RSD/RUB (10% decrease)})</td>
<td>(\text{988}) ((988))</td>
</tr>
</tbody>
</table>

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit and loss of the Group.

**INTEREST RATE RISK**

Part of the Group’s borrowings is at variable interest rates (linked to the Libor or Euribor rate). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group’s treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either their fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate would be more favourable over the expected period until maturity.

The interest rate profiles of the Group are presented below.

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIXED RATE INSTRUMENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td>109,645</td>
<td>220,239</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>(501,086)</td>
<td>(404,839)</td>
</tr>
<tr>
<td>VARIABLE RATE INSTRUMENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>(\text{175,540})</td>
<td>(\text{343,459})</td>
</tr>
</tbody>
</table>

\(\text{EUR/RUB (30\% increase)}\)

\(\text{EUR/RUB (30\% decrease)}\)

\(\text{EUR/RUB (30\% increase)}\)

\(\text{EUR/RUB (30\% decrease)}\)

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit and loss of the Group.

**COMMODITY PRICE RISK**

The Group’s financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group’s business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

**CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS**

<table>
<thead>
<tr>
<th>31 DECEMBER 2016</th>
<th>Profit or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase by 100 bp</td>
<td>(1,736)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>31 DECEMBER 2015</th>
<th>Profit or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase by 100 bp</td>
<td>(1,435)</td>
</tr>
</tbody>
</table>

**CREDIT RISK**

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and in connection with investment securities.

The Group’s trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom Neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions; depending on each counterparty’s financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

**TRADE AND OTHER RECEIVABLES**

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- history of relationships with the Group;
- planned sales volume;
- duration of relationships with the Group, including ageing profile, maturity and existence of any financial difficulties.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge, third party guarantee or advance payment.
The Management of the Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group.

Management believes that not impaired trade receivables and other current assets are fully recoverable.

As of 31 December 2016 and 2015, the ageing analysis of financial receivables is as follows:

<table>
<thead>
<tr>
<th>Gross</th>
<th>Impairment</th>
<th>Gross</th>
<th>Impairment</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2015</td>
<td>31 December 2016</td>
<td>31 December 2015</td>
<td>31 December 2016</td>
</tr>
<tr>
<td>Not past due</td>
<td>153,222</td>
<td>(8)</td>
<td>155,916</td>
</tr>
<tr>
<td>Past due 0 - 180 days</td>
<td>3,828</td>
<td>(272)</td>
<td>11,950</td>
</tr>
<tr>
<td>Past due 180 - 365 days</td>
<td>3,566</td>
<td>(89)</td>
<td>3,199</td>
</tr>
<tr>
<td>Past due 1 - 3 year</td>
<td>7,204</td>
<td>(6,883)</td>
<td>7,976</td>
</tr>
<tr>
<td>Past due more than three years</td>
<td>5,516</td>
<td>(5,650)</td>
<td>16,802</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>123,962</strong></td>
<td><strong>(12,274)</strong></td>
<td><strong>128,693</strong></td>
</tr>
</tbody>
</table>

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>BALANCE AT THE BEGINNING OF THE YEAR</td>
<td>24,585</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>520</td>
</tr>
<tr>
<td>Amounts written-off against receivables</td>
<td>(5,520)</td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(2,694)</td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>(2,725)</td>
</tr>
<tr>
<td>Other movements</td>
<td>(56)</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(3,448)</td>
</tr>
<tr>
<td><strong>BALANCE AT THE END OF THE YEAR</strong></td>
<td><strong>12,274</strong></td>
</tr>
</tbody>
</table>

The movement in the allowance for impairment in respect of other current assets during the period was as follows:

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>BALANCE AT THE BEGINNING OF THE YEAR</td>
<td>8,993</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>10,770</td>
</tr>
<tr>
<td>Amounts written-off against receivables</td>
<td>(5,897)</td>
</tr>
<tr>
<td>Decrease due to reversal</td>
<td>(6,209)</td>
</tr>
<tr>
<td>Reclassification to other lines</td>
<td>1,272</td>
</tr>
<tr>
<td>Other movements</td>
<td>2</td>
</tr>
<tr>
<td>Translation differences</td>
<td>(1,927)</td>
</tr>
<tr>
<td><strong>BALANCE AT THE END OF THE YEAR</strong></td>
<td><strong>11,970</strong></td>
</tr>
</tbody>
</table>

In 2016 the Group recognised an allowance for impairment in respect of advances given to a brokerage company.

Release in provision in respect of trade and other receivables and other current assets during 2016 in the amount of RUB 3.9 billion mainly relates to the positive outcome of negotiations with the Serbian Government for collection of receivables from Serbian state owned companies. The negotiations ended in adoption of the Law on taking over the receivables by the Government. As a result the receivables were restructured and the Group will collect them in the following two years. In December 2016 the Group received the first instalment.

**INVESTMENTS**

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any held-to-maturity investments that were past due but not impaired as of 31 December 2016 and 2015.

**CREDIT QUALITY OF FINANCIAL ASSETS**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

<table>
<thead>
<tr>
<th>AS OF 31 DECEMBER 2016</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>2,402</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>–</td>
</tr>
<tr>
<td>Deposits with original maturity more than 3 months less than 1 year</td>
<td>–</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,402</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AS OF 31 DECEMBER 2015</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>84,361</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>–</td>
</tr>
<tr>
<td>Deposits with original maturity more than 3 months less than 1 year</td>
<td>–</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,361</strong></td>
</tr>
</tbody>
</table>

**LIQUIDITY RISK**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Group’s reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and actively uses alternative sources of loan financing in addition to bank loans. The Group’s stable financial situation helps it to mobilise funds.
The following are the contractual maturities of financial liabilities, including estimated interest payments:

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Contractual cash flows</th>
<th>Less than 6 months</th>
<th>6 - 12 months</th>
<th>1 - 2 years</th>
<th>2 - 3 years</th>
<th>Over 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS OF 31 DECEMBER 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td>354,463</td>
<td>423,818</td>
<td>38,771</td>
<td>57,401</td>
<td>117,135</td>
<td>195,804</td>
<td>16,571</td>
</tr>
<tr>
<td>Bonds</td>
<td>31,876</td>
<td>107,891</td>
<td>6,069</td>
<td>14,555</td>
<td>16,431</td>
<td>70,342</td>
<td></td>
</tr>
<tr>
<td>Loan Participation Notes</td>
<td>233,250</td>
<td>298,019</td>
<td>8,252</td>
<td>4,720</td>
<td>58,029</td>
<td>26,322</td>
<td>198,696</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>8,637</td>
<td>11,882</td>
<td>398</td>
<td>988</td>
<td>5,269</td>
<td>1,942</td>
<td>2,585</td>
</tr>
<tr>
<td>Other non-current financial liabilities</td>
<td>65,729</td>
<td>65,729</td>
<td>–</td>
<td>–</td>
<td>5,953</td>
<td>55,876</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>84,266</td>
<td>84,266</td>
<td>85,716</td>
<td>2,362</td>
<td>20</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>822,224</td>
<td>907,005</td>
<td>135,166</td>
<td>79,716</td>
<td>202,737</td>
<td>349,534</td>
<td>210,852</td>
</tr>
</tbody>
</table>

AS OF 31 DECEMBER 2015

The following assets and liabilities are measured at fair value in the Group's Consolidated Financial Statements:

- Derivative financial instruments (forward exchange contracts)

The different levels of fair value hierarchy have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following assets and liabilities are measured at fair value in the Group’s Consolidated Financial Statements:

- Derivative financial instruments

- Stock Appreciation Rights plan (SAR)

- Financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses.

The Group’s net debt to EBITDA ratios at the end of the reporting periods were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>536,225</td>
<td>670,779</td>
</tr>
<tr>
<td>Short-term debt and current portion of long-term debt</td>
<td>301,187</td>
<td>147,319</td>
</tr>
<tr>
<td>Loan, cash, cash equivalents and deposits</td>
<td>(34,507)</td>
<td>(66,404)</td>
</tr>
<tr>
<td>NET DEBT</td>
<td>641,901</td>
<td>654,694</td>
</tr>
<tr>
<td>Total EBITDA</td>
<td>402,277</td>
<td>345,160</td>
</tr>
<tr>
<td>NET DEBT TO EBITDA RATIO AT THE END OF THE REPORTING PERIOD</td>
<td>1.60</td>
<td>1.90</td>
</tr>
<tr>
<td>Operating profit</td>
<td>250,314</td>
<td>287,675</td>
</tr>
<tr>
<td>Operating profit adjusted for income tax expenses</td>
<td>171,645</td>
<td>157,215</td>
</tr>
<tr>
<td>Less share of profit of associates and joint ventures</td>
<td>24,716</td>
<td>28,956</td>
</tr>
<tr>
<td>Average capital employed</td>
<td>1,994,626</td>
<td>1,731,285</td>
</tr>
<tr>
<td>ROACE</td>
<td>10.2%</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

There were no changes in the Group’s approach to capital management during the period.

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following assets and liabilities are measured at fair value in the Group’s Consolidated Financial Statements:

- Derivative financial instruments

- Stock Appreciation Rights plan (SAR)

- Financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses.

Derivative financial instruments and SAR refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). There were no transfers between the levels of the fair value hierarchy during the year ended 31 December 2016 and 2015. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of 31 December 2016 the fair value of bonds and loan participation notes is RUB 315,488 million (RUB 307,493 million as of 31 December 2015). The fair value is derived from quotations in active market and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities approximate their fair value.
The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

<table>
<thead>
<tr>
<th>Level 2</th>
<th>AS OF 31 DECEMBER 2016</th>
<th></th>
<th>AS OF 31 DECEMBER 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward exchange contracts</td>
<td>3,810</td>
<td>4,720</td>
<td></td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(3,730)</td>
<td>(3,373)</td>
<td></td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>(1,930)</td>
<td>(2,003)</td>
<td></td>
</tr>
</tbody>
</table>

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long-term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group’s market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date and are settled in cash at the conclusion of the three years vesting period. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense recognised is based on the vesting period. In 2015 the new three years period of SAR plan commenced.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group’s share price. Historic volatility is the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2016 and 2015:

- **Vollatility**: 3.6% and 4.1%
- **Risk-free interest rate**: 8.7% and 10.3%
- **Dividend yield**: 5.5% and 6.5%

In the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2016 and 2015 the Group recognised compensation expense of RUB 3,730 million and RUB 657 million, respectively. This expense is included within selling, general and administrative expenses. A provision of RUB 4,387 million has been recorded in respect of the Group’s estimated obligations for two years under the plan as of 31 December 2016. As of 31 December 2015 the amount of the one year provision was equal to RUB 657 million.

### 35. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>14,267</td>
<td>8,179</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>36,081</td>
<td>13,696</td>
</tr>
<tr>
<td>More than five years</td>
<td>93,044</td>
<td>65,454</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>146,392</td>
<td>99,726</td>
</tr>
</tbody>
</table>

The Group rents mainly land plots under pipelines, office premises and vessels under time-charter agreements.

### 36. COMMITMENTS AND CONTINGENCIES

#### TAXES

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management’s treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. The field tax audit with regard to the years 2013 and 2014 is performing now, the years 2015 and 2016 are currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

Russian tax legislation on tax control over prices applied for tax purposes in related party transactions (“transfer pricing rules”) was amended starting from 1 January 2012 to introduce significant reporting and documentation requirements regarding market environment at the date of transaction. Compared to the old rules, the new transfer pricing rules appear to be more technically elaborate and better aligned with the Transfer Pricing Guidelines developed by the Organisation for Economic Cooperation and Development (OECD). The transfer pricing rules allow the tax authorities to make transfer pricing adjustments to the respective tax bases and impose additional tax liabilities in respect of controllable transactions (transactions with related parties and some transactions with unrelated parties), in cases where the prices of such transactions do not correspond to the ranges of prices deemed to be fair market prices for tax purposes defined in compliance with the said rules.

The compliance of the prices of the Group’s controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group’s tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. Twelve pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2015.

However, given that the practice of enforcement of the new transfer pricing rules has not yet developed and some clauses of the applicable law are ambiguous and contain contradictions, the impact of the transfer pricing rules on the Group’s tax liabilities cannot be reliably estimated.
ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Tax, monopoly, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The political and economic instability, uncertainty and volatility of the financial markets and other risks may have negative effects on the Russian financial and corporate sectors. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements for 2015. There were no significant changes in sanctions during the year ended 31 December 2016.

ENVIRONMENTAL MATTERS

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government’s requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

CAPITAL COMMITMENTS

As of 31 December 2016 the Group has entered into contracts to purchase property, plant and equipment for RUB 323,053 million (RUB 342,544 million as of 31 December 2015).

37. GROUP ENTITIES

The most significant subsidiaries of the Group and the ownership interest are presented below:

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Country of Incorporation</th>
<th>Ownership interest, %</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPLORATION AND PRODUCTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Nefteudrezregaz JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Orenburg LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Zapolyarnef LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Sher LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Khanty LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Yamal LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Usharayneftegaz JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>REFINING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Omsk Refinery JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Moscow Refinery JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>MARKETING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Tumen PJSC</td>
<td>Russian Federation</td>
<td>99,5</td>
<td>99,5</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Oren JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Ural JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Novosibirsk JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Tambov OJSC</td>
<td>Russian Federation</td>
<td>92,5</td>
<td>92,5</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Centre LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft Regional Sales LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Severa-Zapad JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Kuban JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Aero JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazprom Neft Mosin-Banki JSC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>OTHER OPERATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Lubricants LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Bitumen Materials LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-NPC LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Finance LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft-Invest LLC</td>
<td>Russian Federation</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>MULTIBUSINESS COMPANIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naftna industrija Srpske A.D.</td>
<td>Serbia</td>
<td>56,2</td>
<td>56,2</td>
<td></td>
</tr>
</tbody>
</table>
The following table summarises the information relating to the non-controlling interest of Naftna industrija Srbije A.D. and its subsidiaries and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries are not significant individually.

<table>
<thead>
<tr>
<th>Carrying amount of non-controlling interest</th>
<th>Profit for the period attributable to non-controlling interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2016</td>
<td>Year ended 31 December 2016</td>
</tr>
<tr>
<td>Naftna industrija Srbije A.D. and its subsidiaries</td>
<td>58,792</td>
</tr>
<tr>
<td>Gazprom Resource Northgas LLC</td>
<td>19,561</td>
</tr>
</tbody>
</table>

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries and Gazprom Resource Northgas LLC as of 31 December 2016 and 2015 and for the years ended 31 December 2016 and 2015:

<table>
<thead>
<tr>
<th>Naftna industrija Srbije A.D. and its subsidiaries</th>
<th>Gazprom Resource Northgas LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2016</td>
<td>31 December 2015</td>
</tr>
<tr>
<td>Current assets</td>
<td>48,389</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>195,271</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(35,545)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(17,116)</td>
</tr>
</tbody>
</table>


### 38. RELATED PARTY TRANSACTIONS

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other companies controlled by the Russian Government. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 10, 22 and 32. The tables below summarise transactions in the ordinary course of business with either the parent company or parent’s subsidiaries and associates and joint ventures of the Group.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for non related entities. The tables below summarise transactions in the ordinary course of business with either the parent company or parent’s subsidiaries and associates and joint ventures of the Group.

As of 31 December 2016 and 2015 the outstanding balances with related parties were as follows:

<table>
<thead>
<tr>
<th>31 December 2016</th>
<th>Parent company</th>
<th>Parent’s subsidiaries and associates</th>
<th>Associates and joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>–</td>
<td>17,232</td>
<td>–</td>
</tr>
<tr>
<td>Short-term financial assets</td>
<td>–</td>
<td>880</td>
<td>40,385</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>3,693</td>
<td>4,560</td>
<td>10,212</td>
</tr>
<tr>
<td>Other assets</td>
<td>614</td>
<td>4,290</td>
<td>1,224</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>–</td>
<td>–</td>
<td>30,273</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>4,307</strong></td>
<td><strong>17,032</strong></td>
<td><strong>85,090</strong></td>
</tr>
<tr>
<td>Short-term debt and other current financial liability</td>
<td>–</td>
<td>–</td>
<td>1,029</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1,921</td>
<td>3,236</td>
<td>8,066</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>772</td>
<td>292</td>
<td>210</td>
</tr>
<tr>
<td>Long-term debt and other non-current financial liability</td>
<td>60,279</td>
<td>60,457</td>
<td>–</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>62,969</strong></td>
<td><strong>64,285</strong></td>
<td><strong>9,296</strong></td>
</tr>
</tbody>
</table>

**For the years ended 31 December 2016 and 2015 the following transactions occurred with related parties:**

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Parent company</th>
<th>Parent’s subsidiaries and associates</th>
<th>Associates and joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil, gas and oil products sales</td>
<td>28,680</td>
<td>35,165</td>
<td>48,407</td>
</tr>
<tr>
<td>Other revenue</td>
<td>29</td>
<td>6,349</td>
<td>5,571</td>
</tr>
<tr>
<td>Purchases of crude oil, gas and oil products</td>
<td>–</td>
<td>47,457</td>
<td>98,508</td>
</tr>
<tr>
<td>Production related services</td>
<td>29</td>
<td>20,317</td>
<td>16,749</td>
</tr>
<tr>
<td>Transportation costs</td>
<td>2,557</td>
<td>1,753</td>
<td>7,106</td>
</tr>
<tr>
<td>Interest expense</td>
<td>6,676</td>
<td>3,627</td>
<td>142</td>
</tr>
<tr>
<td>Interest income</td>
<td>–</td>
<td>167</td>
<td>6,770</td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES** | **67,960** | **76,727** | **3,480** |
TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

For the years ended 31 December 2016 and 2015 remuneration of key management personnel (members of the Board of Directors and Management Committee) such as salary and other contributions amounted RUB 1,635 million and RUB 1,432 million, respectively. Besides the Group implements a long-term stock appreciation rights (SAR) compensation plan. The plan forms part of the long-term growth strategy of the Group and is designed to reward management for increasing shareholder value over a specified period. For the abovementioned periods the provision under the long-term motivation plan for key management amounted RUB 749 million and RUB 112 million.

39. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2016 and 2015. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products. Corporate centre expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments.

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Adjusted EBITDA represents the Group's EBITDA and its share in associates and joint ventures' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group’s ongoing operating activities, as it reflects the Group’s earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group’s share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.
The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’).

In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices.

While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group’s consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group’s Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

<table>
<thead>
<tr>
<th>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unproved oil and gas properties</td>
<td>68,046</td>
<td>78,442</td>
</tr>
<tr>
<td>Proved oil and gas properties</td>
<td>1,434,023</td>
<td>1,199,223</td>
</tr>
<tr>
<td>Less: Accumulated depreciation, depletion and amortisation</td>
<td>(512,277)</td>
<td>(404,857)</td>
</tr>
<tr>
<td>NET CAPITALISED COSTS OF OIL AND GAS PROPERTIES</td>
<td>954,792</td>
<td>802,808</td>
</tr>
<tr>
<td>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proved oil and gas properties</td>
<td>538,829</td>
<td>472,913</td>
</tr>
<tr>
<td>Less: Accumulated depreciation, depletion and amortisation</td>
<td>(135,809)</td>
<td>(101,596)</td>
</tr>
<tr>
<td>Net capitalised costs of oil and gas properties</td>
<td>403,020</td>
<td>371,317</td>
</tr>
<tr>
<td>TOTAL CAPITALISED COSTS CONSOLIDATED AND EQUITY INTERESTS</td>
<td>1,357,812</td>
<td>1,174,143</td>
</tr>
</tbody>
</table>
### PROVED OIL AND GAS RESERVE QUANTITIES

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group’s independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

<table>
<thead>
<tr>
<th>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production costs</td>
<td>(4,842)</td>
<td>(5,051)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>354</td>
<td>106</td>
</tr>
<tr>
<td>END OF YEAR</td>
<td>4,853</td>
<td>4,842</td>
</tr>
<tr>
<td>Minority’s share included in the above proved reserves</td>
<td>(15)</td>
<td>(27)</td>
</tr>
<tr>
<td>Proved reserves, adjusted for minority interest</td>
<td>4,823</td>
<td>4,815</td>
</tr>
<tr>
<td>Proved developed reserves</td>
<td>2,767</td>
<td>2,573</td>
</tr>
<tr>
<td>Proved undeveloped reserves</td>
<td>2,546</td>
<td>2,270</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEGINNING OF YEAR</td>
<td>1,416</td>
<td>1,362</td>
</tr>
<tr>
<td>Production</td>
<td>(95)</td>
<td>(92)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>–</td>
<td>73</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>122</td>
<td>71</td>
</tr>
<tr>
<td>END OF YEAR</td>
<td>1,432</td>
<td>1,434</td>
</tr>
<tr>
<td>Proved developed reserves</td>
<td>797</td>
<td>681</td>
</tr>
<tr>
<td>Proved undeveloped reserves</td>
<td>744</td>
<td>734</td>
</tr>
<tr>
<td>TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES - END OF YEAR</td>
<td>6,304</td>
<td>6,256</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</th>
<th>Year ended 31 December 2016</th>
<th>Year ended 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploration costs</td>
<td>1,195</td>
<td>922</td>
</tr>
<tr>
<td>Development costs</td>
<td>234,955</td>
<td>242,460</td>
</tr>
<tr>
<td>TOTAL COSTS INCURRED</td>
<td>236,020</td>
<td>243,322</td>
</tr>
<tr>
<td>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration costs</td>
<td>533</td>
<td>311</td>
</tr>
<tr>
<td>Development costs</td>
<td>65,898</td>
<td>55,792</td>
</tr>
<tr>
<td>TOTAL COSTS INCURRED CONSOLIDATED AND EQUITY INTERESTS</td>
<td>302,551</td>
<td>299,425</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RESULTS OF OPERATIONS from oil and gas producing activities for the years ended:</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSTRUCTED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Revenues:</td>
</tr>
<tr>
<td>Sales</td>
</tr>
<tr>
<td>Transfers</td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
</tr>
<tr>
<td>Production costs has</td>
</tr>
<tr>
<td>Exploration expenses</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
</tr>
<tr>
<td>PRETAX INCOME FROM PRODUCING ACTIVITIES</td>
</tr>
<tr>
<td>Income tax expenses</td>
</tr>
<tr>
<td>RESULTS OF OIL AND GAS PRODUCING ACTIVITIES</td>
</tr>
<tr>
<td>GROUP’S SHARE OF ASSOCIATES AND JOINT VENTURES</td>
</tr>
<tr>
<td>Total revenues has</td>
</tr>
<tr>
<td>Production costs has</td>
</tr>
<tr>
<td>Exploration expenses</td>
</tr>
<tr>
<td>Depreciation, depletion and amortisation</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
</tr>
<tr>
<td>PRETAX INCOME FROM PRODUCING ACTIVITIES</td>
</tr>
<tr>
<td>Income tax expenses</td>
</tr>
<tr>
<td>RESULTS OF OIL AND GAS PRODUCING ACTIVITIES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESULTS OF OIL AND GAS PRODUCING ACTIVITIES</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>234,873</td>
<td>940,181</td>
</tr>
</tbody>
</table>

1 Including 52% NC share in Gazprom Resource Northgas.
## Proved Gas Reserves Quantities - in Bcf

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning of Year</strong></td>
<td>6,137</td>
<td>6,321</td>
</tr>
<tr>
<td>Production</td>
<td>(516)</td>
<td>(479)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>796</td>
<td>235</td>
</tr>
<tr>
<td><strong>End of Year</strong></td>
<td>6,387</td>
<td>6,137</td>
</tr>
</tbody>
</table>

Minority's share included in the above proved reserves: (41) (51)

Proved reserves, adjusted for minority interest: 6,346 6,086

### Proved Developed Reserves

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning of Year</strong></td>
<td>4,261</td>
<td>3,598</td>
</tr>
<tr>
<td>Production</td>
<td>(622)</td>
<td>(557)</td>
</tr>
<tr>
<td>Purchases of minerals in place</td>
<td>–</td>
<td>3,262</td>
</tr>
<tr>
<td>Revision of previous estimates</td>
<td>496</td>
<td>524</td>
</tr>
<tr>
<td><strong>End of Year</strong></td>
<td>13,397</td>
<td>13,357</td>
</tr>
<tr>
<td>Proved developed reserves</td>
<td>7,254</td>
<td>6,846</td>
</tr>
<tr>
<td>Proved undeveloped reserves</td>
<td>5,947</td>
<td>6,511</td>
</tr>
<tr>
<td><strong>Total Consolidated and Equity Interests in Reserves - End of Year</strong></td>
<td>19,588</td>
<td>19,494</td>
</tr>
</tbody>
</table>

1 Including 82% NCI share in Gazprom Resource Northgas.

### Standardised Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management’s estimate of the Group’s expected future cash flows or of the value of proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group’s future cash flows or of the value of its oil and gas reserves.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Future cash inflows</strong></td>
<td>5,982,668</td>
<td>10,311,648</td>
</tr>
<tr>
<td><strong>Future production costs</strong></td>
<td>(5,238,341)</td>
<td>(6,501,491)</td>
</tr>
<tr>
<td><strong>Future development costs</strong></td>
<td>(771,656)</td>
<td>(604,747)</td>
</tr>
<tr>
<td><strong>Future income tax expenses</strong></td>
<td>(545,985)</td>
<td>(422,252)</td>
</tr>
<tr>
<td><strong>Future net cash flow</strong></td>
<td>3,408,684</td>
<td>2,362,158</td>
</tr>
<tr>
<td>10% annual discount for estimated timing of cash flow</td>
<td>(1,759,813)</td>
<td>(1,237,504)</td>
</tr>
<tr>
<td><strong>Standardised Measure of Discounted Future Net Cash Flow</strong></td>
<td>1,648,871</td>
<td>1,124,654</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Future cash inflows</strong></td>
<td>3,305,053</td>
<td>3,560,915</td>
</tr>
<tr>
<td><strong>Future production costs</strong></td>
<td>(1,594,138)</td>
<td>(1,940,372)</td>
</tr>
<tr>
<td><strong>Future development costs</strong></td>
<td>(240,299)</td>
<td>(231,270)</td>
</tr>
<tr>
<td><strong>Future income tax expenses</strong></td>
<td>(245,235)</td>
<td>(243,400)</td>
</tr>
<tr>
<td><strong>Future net cash flow</strong></td>
<td>1,235,481</td>
<td>1,245,869</td>
</tr>
<tr>
<td>10% annual discount for estimated timing of cash flow</td>
<td>(714,334)</td>
<td>(752,451)</td>
</tr>
<tr>
<td><strong>Standardised Measure of Discounted Future Net Cash Flow</strong></td>
<td>499,647</td>
<td>493,418</td>
</tr>
</tbody>
</table>

**Total Consolidated and Equity Interests in the Standardised Measure of Discounted Future Net Cash Flow**

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Future cash inflows</strong></td>
<td>2,146,518</td>
<td>1,619,072</td>
</tr>
<tr>
<td><strong>Future production costs</strong></td>
<td>(1,594,138)</td>
<td>(1,940,372)</td>
</tr>
<tr>
<td><strong>Future development costs</strong></td>
<td>(240,299)</td>
<td>(231,270)</td>
</tr>
<tr>
<td><strong>Future income tax expenses</strong></td>
<td>(245,235)</td>
<td>(243,400)</td>
</tr>
<tr>
<td><strong>Future net cash flow</strong></td>
<td>1,235,481</td>
<td>1,245,869</td>
</tr>
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<td>10% annual discount for estimated timing of cash flow</td>
<td>(714,334)</td>
<td>(752,451)</td>
</tr>
<tr>
<td><strong>Standardised Measure of Discounted Future Net Cash Flow</strong></td>
<td>499,647</td>
<td>493,418</td>
</tr>
</tbody>
</table>

The calculations should not be relied upon as an indication of the Group’s future cash flows or of the value of its oil and gas reserves.
1995 
**ESTABLISHMENT OF SIBERIAN OIL COMPANY OJSC**

Siberian Oil Company OJSC was established under a decree of the President of the Russian Federation. The Russian Government founded the Company by contributing its stakes in some of Russia’s largest oil industry enterprises to the holding’s charter capital: Noyabrskneftegaz OJSC, Noyabrskneftegazgeophysika OJSC, Omol Refinery OJSC and Omsknefteprodukt OJSC.

1996–1997 
**PRIVATISATION OF SIBERIAN OIL COMPANY OJSC**

The Russian Government privatised Sibneft as part of its efforts to develop a market economy. Private investors bought 49% of Sibneft stock at auctions in 1996. In 1997, Financial Petroleum Company won an auction to purchase the government’s stake in Sibneft as part of the Government’s ‘Shares for Loans’ programme.

1998–2004 
**ASSET BUILD-UP**

A proactive acquisition policy rapidly expanded the Company’s production territory (in the Tomsk and Omsk Regions) and the Company’s sales network (Sverdlovsk, Tyumen and the Kaliningrad Region, and the cities of St. Petersburg and Moscow). One of the Company’s major purchases during the period was its acquisition of 49.9% of the shares in Stanovoi Oil JSC and Gas Company, which produced oil and gas in Western Siberia and the Khanty-Mansy Region.

2007 
**PURCHASE OF TOMSKNEFT OJSC**

In December 2007, to further expand its resource base, Gazprom Neft acquired a 50% stake in Tomskneft (VMK), a company producing oil and gas in the Tomsk Region and Khanty-Mansi Autonomous District.

2008 
**PROJECTS IN VENEZUELA**

Gazprom Neft OJSC, Rosneft OJSC, Lukoil OJSC, TMK-BP and Surgutneftegaz OJSC signed a Memorandum of Understanding on cooperation and joint participation in projects in Venezuela as part of the National Oil Consortium.

2009 
**BUILD-UP OF RESOURCE BASE**

Gazprom Neft acquired new assets for its resource portfolio and refinery capacities: the Siberian oil company, NIS, and a controlling stake in Sibur Energy. The latter acquisition increased the Company’s ownership stake in the Moscow Refinery and gave it access to the Salym oil fields. In April 2009, the Company closed a deal with Chevron Global Energy to purchase the Chevron Italia s.p.a. oils and lubricants production plant in the city of Bari (Italy). Another milestone for the Company in 2009 was the launch of a large-scale rebranding programme for the Gazpromneft filling station chain.

2010 
**GLOBAOL OIL AND GAS MARKET**

Gazprom Neft actively expanded its presence in the global oil and gas market. The Company signed a contract to develop the Badra field in Iraq. In addition, Gazprom Neft was appointed as the leading company in the Junin-6 project in Venezuela in 2010. The Company continued entering new fuel markets outside of Russia with the acquisition of a retail chain of filling stations and nine land plots in Kazakhstan. It also expanded its presence on the Russian market by taking part in a project to develop promising fields in the north of the Yamalo-Nenets Autonomous District for which SeverEnergy LLC holds the development licenses. In February, Gazprom Neft closed a deal to purchase SIS Service, a production unit of Sweden’s Maكا Oil, which operates at fields in the Tomsk Region.

2011 
**PRODUCTION GROWTH**

Gazprom Neft substantially improved its operating performance by purchasing new assets and through the more efficient development of existing fields. The Company purchased a further 5.15% stake in Serbia’s NIS, thus raising its overall holding to 56.15%, became the sole shareholder in Sibir Energy and also acquired its first assets in the Orenburg Region – the Tsiarchanskoye and Kaptontovskoye fields as well as the eastern part of the Orenburg field. Drilling began at the Badra field in Iraq.

2012 
**A LEADER IN EFFICIENCY**

Gazprom Neft holds the leading position in Russia in terms of hydrocarbon production and refining growth rates in addition to a number of efficiency metrics. The Company launched pilot oil production at two major new fields in the north of the Yamalo-Nenets Autonomous District: East Mossvyakha and Novoprotvolskoye. The first stage of commercial production began at the Samburskoje oil and gas condensate field, which belongs to the Russian-Italian company SeverEnergia, in which Gazprom Neft holds a 25.5% stake. The formation and development of a new production cluster continued in the Orenburg region. The Company entered into new projects for the exploration and development of hydrocarbon reserves in Iraq. The Moscow Oil Refinery switched to producing environmental grade 4 gases, while the Omsk Oil Refinery began producing Euro 4 and Euro 5 gasolines and Euro 5 diesel. Gazprom Neft started developing a retail network in Europe (Serbia and Romania) under the Gazprom brand.

2013 
**STRATEGY**

The Gazprom Neft Board of Directors approved the Company’s development strategy, which it has extended to 2025. This builds on the strategy to 2020, which aimed to achieve goals set for the main business segments – hydrocarbon production, refining and sales of petroleum products – taking into account changing conditions in the industry and the global economy. The Company aims to continue actively increasing shareholder value in the period until 2025. The development plans for the marine and aviation fuel business and lubricant production business were brought forward to 2025.

2012 – **PRODUCTION LAUNCHED ON ARCTIC SHELF**

Gazprom Neft is the operator of the Prirazlomnoye field in the Pechora Sea, which produced the first oil from the Arctic shelf in December 2013.

2013 – **EURO-5 FUEL STANDARD**

A hydro-processing facility for catalytic gasoline and a light naphtha isomerisation unit was commissioned at Gazprom Neft’s Moscow refinery. This enabled the plant to switch entirely to producing Euro-5 grade gasolines. All of the Company’s refineries have thus completed the switch over to the Euro-5 standard well ahead of the deadline specified in Russian legislation.

2013 – **BITUMEN BUSINESS DEVELOPMENT**

The Company acquired assets in Kyrgyzstan and Kazakhstan to develop its bitumen business. In 2013, Gazprom Neft and France’s Total established a joint venture to produce and sell polymer-modified bitumen (PMB) under the G-Way Styrefit brand as well as bitumen emulsions at the Moscow Oil Refinery.
2014 DEVELOPMENT OF PRODUCTION PROJECTS
Gazprom Neft obtained the first oil at the Badra oil field in Iraq and began the commercial shipment of oil into the Iraqi pipeline system.
The Company made the first summer shipment from the Novopetrovskoye field, marking the first time that raw commodities were exported from the field by sea and sent to European consumers.

PRODUCTION ON THE ARCTIC SHELF
The one millionth barrel of the new ARCO (Arctic Oil) blend was produced at the Priazotemnoye field. The drilling of a new exploration well began at the Dolginskoye oil field on the Pechora Sea shelf.

ACQUISITION OF NEW LICENSES
Gazprom Neft obtained access to the licenses for the Kuvysky and Yadovy license areas in the Orenburg Region. The subsoil resources of the license areas are capable of maintaining and increasing the Company’s oil production level.

2015 COMMISSIONING OF NEW FACILITIES
Gazprom Neft and Sibur commissioned the South Pirozsky Gas Processing Plant.

RUSSIA’S BEST EMPLOYER
Gazprom Neft was declared Russia’s best employer (in the Russian Employers 2015 rating conducted by the Headhunter recruiting holdup). The Company rose two positions compared with the 2014 results.

ACQUISITION OF NEW LICENSES
Gazprom Neft obtained a license to develop the West Yubileynoye field in the Yamalo-Nenets Autonomous District. The Company obtained new licenses in the Khanty-Mansi Autonomous District at the Yukil’-3, Lyaminsky-6, North Ityakhsky-1, Maloyugansky and West Zimmy sections.

OIL PRODUCTION
The one millionth barrel of the ARCO oil blend was produced at the Priazotemnoye field. The one millionth barrel of commercial oil was produced at the Sarqala field in Iraq’s Kurdistan region. The one millionth tonne of oil was produced at the Badra field in Iraq.

2016 Gazprom Neft has completed the commissioning of its Arctic assets – Priazotemnoye, Novopetrovskoye and the fields of the Messoyakha group.
The Gates of the Arctic offshore oil terminal has launched operations in the Gulf of Ob. The terminal is a key facility in the unique arrangement for transporting oil from the Novopetrovskoye field via the Northern Sea Route.

In order to improve the efficiency of management processes for production assets in the Orenburg Region, the reorganisation of Gazprom Neft Orenburg CJSC was completed in 2016 via the acquisition of Centre for Science-Intensive Technologies CJSC (which owns licences for the right to use the subsoil resources of the Tsarichansky area, Filatovskoye field and Tsarichanskooye field) and Zhivoy Istok CJSC (which owns licences for the right to use the subsoil resources of the Slebeikskoye field and Urasksy area) with the simultaneous transformation of Gazprom Neft Orenburg CJSC into Gazprom Neft Orenburg LLC.

A centralised energy service enterprise called Gazpromneft-Energy Service LLC in which the sole participant is Gazprom Neft PJSC was established in order to provide energy services to the Gazprom Neft Group’s production assets located in the Moscow and Omsk regions.

Gazpromneft-Catalytic Systems (100% of the charter capital is owned by Gazprom Neft PJSC) was established within the structure of the Gazprom Neft Group to implement a project to build catalytic cracking catalyst and hydrogenating process catalyst production facilities. This project has been granted the status of a national project based on a decision by a Ministry of Energy working group.

In June 2016, Gazpromneft-Lubricants LLC acquired 100% shares/interest in the assets of the Rospolikhim Group of Companies: Sovkhimtech CJSC, Polehr LLC and BV-KHIM LLC. As a result of the transaction, the Gazprom Neft Group acquired an asset with a full elder production cycle.

Gazpromneft-Bitumen Materials LLC acquired a 75% stake in the charter capital of NOVA-Bit LLC, a company that specialises in the production of bitumen-derived encapsulating materials under the BRT® brand, which are used for the construction, repair and maintenance of roads, airports and artificial structures and also in civil engineering. The company’s products meet international quality standards.

A transaction was closed to acquire a 100% stake in the charter capital of CHUKOTKAEROBÝTY LLC as part of the Gazprom Neft Group’s project to acquire the aviation fuel business at airports of the Chukotka Autonomous District.

APPENDIX 4. STRUCTURE OF THE COMPANY’S GROUP

PRODUCTION
> Gazpromneft–Noyabrskneftegaz OJSC
> Gazpromneft-Khantiss LLC
> Gazpromneft-Itonos LLC
> Messoyakhaneftegaz LLC
> Zapolyarnye LLC
> Gazpromneft-Angara LLC
> Gazpromneft-Sakhalin LLC
> GNP LLC
> Yugo-INTEX LLC
> Yukhushinskoye OJSC
> Gazpromneft-Yamal LLC
> Gazpromneft-Shelf LLC

SERVICE COMPANIES
> Gazpromneft–NNGOF OJSC
> Gazpromneft-Nefservice LLC
> Novosibirskneftegaz LLC
> Noyabrskneftegaz LLC
> Gazpromneft – Energoservice LLC
> Neftehimiremont LLC
> RMK Gazpromneft-Omsk Oil Refinery LLC
> Automatika-Service LLC

REFINING
> Gazpromneft – Moscow Oil Refinery JSC
> Gazpromneft – Omsk Oil Refinery JSC
> Slavneft-TAMOS (JV) OJSC

OIL AND PETROLEUM PRODUCT SALES
> Gazpromneft Trading GmbH
> Gazpromneft-Centre LLC
> Munay-Myrza CJSC
> Gazpromneft-Capitalo LLC
> Gazpromneft-Tyumen PJSC
> Gazpromneft-Krasnoyarsk LLC
> Gazpromneft-North West JSC
> Gazpromneft-Yaroslav OJSC
> Gazpromneft-Transport JSC
> Gazpromneft-Neosibirsk JSC
> Gazpromneft-Belnefto produkt LLC

OIL AND PETROLEUM PRODUCT SALES
> Gazpromneft-Tajikistan LLC
> Gazpromneft–Kazakhstan LPP
> Aralco-Oil Asia LLC
> Gazpromneft-Moscow Sales LLC
> Gazpromneft-Mobile Map JSC
> Mosneftproduk LLC
> Gazpromneft-MNIGK JSC
> Gazpromneft-Regional Sales JSC
> Gazpromneft-Alternative Fuel JSC
> Gazpromneft-Terminal JSC
> Universal-Oil CJSC
> Gazpromneft-Omsk (MB) LLC

Taking into account changes occurring after the reporting date.
LUBRICANTS AND PETROCHEMICALS

- Gazpromneft Lubricants LLC
- Gazpromneft Moscow Lubricants Plant JSC
- Gazprom Neft Lubricants Italia S.p.A.
- Gazpromneft Lubricants Ukraine LLC
- Gazpromneft – Bitumen Materials LLC
- Gazpromneft – Catalytic Systems LLC
- GPN-RZBM LLC
- NOVA-BRIT LLC
- Polyefir LLC
- RSU KHMM LLC
- Sokritemsk LLC
- Sibgipolymer JSC (JV)
- Gazpromneft-Butumen Kazakhstan LLP

AIRCRAFT FUELLING

- Gazpromneft-Aero CJSC
- Gazpromneft-Aero Marmaisa LLC
- Gazpromneft-Aero Kemerovo LLC
- Gazpromneft-Aero Sharmatyevoy LLC
- North-West Refuelling Complex (JV) LLC
- Sovec (JV) CJSC
- Gazpromneft-Aero Astana (JV) LLP
- Gazpromneft-Aero Osh (JV) LLC
- Gazpromneft-Aero Tomsk (JV) LLC
- Gazpromneft-Aero Bryansk LLC
- Gazpromneft-Aero Kyrgyzstan (JV) LLC
- Yaroslavl Refuelling Complex (JV) LLC
- Gazpromneft-Aero Chita LLC
- Aero TO LLC
- Gazpromneft-Aero Noveobhrad CHSC (JV)
- Slavnet-Tunoshna LLC (JV)
- TZK Omsk (Central) LLC (JV)

OTHER ACTIVITIES

- Lakhta Centre MFC JSC
- Gazpromneftfinance LLC
- Gazpromneftenergo LLC
- Gazpromneft FS LLC
- Gazpromneft RDC LLC
- Gazpromneft Invest LLC
- Gazpromneft Logistics LLC
- ITSJ LLC
- Gazpromneft-Supply LLC
- Blagovest Publishing House OJSC
- Gazprom Neft International S.A.
- Gazprom Neft Finance B.V.
- Gazprom Neft Projects B.V.
- Gazprom Neft Downstream B.V.
- Gazprom Neft North Africa B.V.
- TK-BA (JV) LLC
- Galernaya 5 Complex LLC
- Gazpromneft-Supply LLC
- ITSC LLC
- Gazpromneft-China LLC
- Gazpromneft-Supply LLC
- Blagovest Publishing House OJSC
- Gazprom Neft International S.A.
- Gazprom Neft Finance B.V.
- Gazprom Neft Projects B.V.
- Gazprom Neft Downstream B.V.
- Gazprom Neft North Africa B.V.
- TK-BA (JV) LLC
- National Oil Consortium (JV) LLC

BUNKERING

- Gazpromneft Marine Bunker LLC
- Gazpromneft Shipping LLC
- Gazpromneft Terminal IPI LLC
- GAZPROMNEFT MARINE BUNKER BALKAN S.A.
- AS Baltic Marine Bunker
- Novorossiyk Oil Transhipment Complex LLC
- Novorossiykafuelservice LLC

DIVERSIFIED COMPANIES

- Naftna Industrija Srbije А.D., Novi Sad

APPENDIX 5. INFORMATION ABOUT THE USE OF ENERGY RESOURCES BY GAZPROM NEFT PJSC

<table>
<thead>
<tr>
<th>Type of energy resource</th>
<th>Volume of consumption in physical terms</th>
<th>Measurement unit</th>
<th>Volume of consumption, RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>2.2</td>
<td>1,000 MWh</td>
<td>8.9</td>
</tr>
</tbody>
</table>

The consumption of other energy and heat resources is not reflected in the accounting of Gazprom Neft PJSC.

APPENDIX 6. OIL INDUSTRY TAXATION

APPENDIX 6.

OIL INDUSTRY TAXATION

AVERAGE TAX RATES EFFECTIVE IN REPORTING PERIODS FOR THE TAXATION OF OIL AND GAS COMPANIES IN RUSSIA

<table>
<thead>
<tr>
<th>Type of Duty</th>
<th>2015</th>
<th>2016</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export duty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>100.25</td>
<td>75.61</td>
<td>(37.1)</td>
</tr>
<tr>
<td>Light products</td>
<td>57.67</td>
<td>30.21</td>
<td>(47.6)</td>
</tr>
<tr>
<td>Diesel</td>
<td>57.67</td>
<td>30.21</td>
<td>(47.6)</td>
</tr>
<tr>
<td>Gasoline</td>
<td>93.75</td>
<td>46.07</td>
<td>(50.9)</td>
</tr>
<tr>
<td>Naphtha</td>
<td>102.07</td>
<td>53.63</td>
<td>(47.5)</td>
</tr>
<tr>
<td>Heavy products</td>
<td>91.34</td>
<td>61.96</td>
<td>(32.2)</td>
</tr>
<tr>
<td>Mineral extraction tax</td>
<td>6.326</td>
<td>5.770</td>
<td>(8.8)</td>
</tr>
</tbody>
</table>

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

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.

Table:

<table>
<thead>
<tr>
<th>Quoted Urals Price (P), USD/tonne</th>
<th>Maximum Export Customs Duty Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 109.50</td>
<td>0 %</td>
</tr>
<tr>
<td>109.50 &lt; P ≤ 146.00</td>
<td>35 % x (P – 109.50)</td>
</tr>
<tr>
<td>146.00 &lt; P ≤ 182.50</td>
<td>12.78 + 45 % x (P – 146.00)</td>
</tr>
<tr>
<td>&gt; 182.50</td>
<td>29.20 + 42 % x (P – 182.50) for 2015</td>
</tr>
<tr>
<td></td>
<td>29.20 + 42 % x (P – 182.50) for 2016</td>
</tr>
<tr>
<td></td>
<td>29.20 + 30 % x (P – 182.50) for 2017</td>
</tr>
</tbody>
</table>

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.

Crude oil exports to Kazakhstan and Belarus are not subject to oil export duties.
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 (TNVED 15 2709 00 900 1 and 2709 00 900 3). According to Russian Government Resolution No. 276 (March 29, 2013), these lower export duty rates are calculated based on the average Urals price in the monitoring period using the following formula:

\[ C_t = (P - 182.5) \times K - 56.57 - 0.14 \times P - 6,500 \]

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.

Under Federal Law No. 5003-1 (May 21, 1993) clause 35 subclause 13, crude oil produced at offshore fields is exempt from export duties until:

- 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 the Caspian Sea;
- 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;
- 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 Resolution of the Russian Government No. 276 (March 29, 2013), 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:

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

### COEFFICIENTS, K, FOR DIFFERENT PETROLEUM PRODUCTS ARE AS FOLLOWS

<table>
<thead>
<tr>
<th>Petroleum products</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light and middle distillates</td>
<td>0.48</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Diesel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lubricants oil</td>
<td>0.85</td>
<td>0.71</td>
<td>0.55</td>
</tr>
<tr>
<td>Naphtha</td>
<td>0.78</td>
<td>0.65</td>
<td>0.3</td>
</tr>
<tr>
<td>Gasoline</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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:

### EXCISE DUTY RATES ON PETROLEUM PRODUCTS (roubles/tonne)

<table>
<thead>
<tr>
<th>Petroleum products</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline</td>
<td>7,530</td>
<td>10,500</td>
<td>13,100</td>
</tr>
<tr>
<td>Below Class 5</td>
<td>5,310</td>
<td>7,510</td>
<td>10,150</td>
</tr>
<tr>
<td>Class 5</td>
<td>11,200</td>
<td>13,500</td>
<td>15,000</td>
</tr>
<tr>
<td>Naphtha</td>
<td>3,450</td>
<td>4,150</td>
<td>5,293</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>3,000</td>
<td>4,150</td>
<td>5,293</td>
</tr>
<tr>
<td>Heating oil</td>
<td>6,500</td>
<td>6,000</td>
<td>5,400</td>
</tr>
<tr>
<td>Motor oil</td>
<td>4,150</td>
<td>5,293</td>
<td>7,800</td>
</tr>
<tr>
<td>Middle distillate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### MINERAL EXTRACTION TAX (MET) ON CRUDE OIL

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 roubles/tonne) is calculated using the following general formula.

\[ R = K_{met} \times (K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) \]

\[ D_m = K_{met} \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) \times R \]

where \( K_{met} = 530 \) for 2015, 559 starting from 2016.
Kc reflects the volatility of crude oil prices at the global market. 

\[ K_c = (P - 15) \times D / 261 \]

where P is the average monthly Urals oil price at the Rotterdam and Mediterranean markets (in USD/bbl) and D is the average monthly ruble/US dollar exchange rate.

Kv characterizes the degree of depletion of the specific field, providing lower tax rates for highly depleted deposits. Depletion is measured by Ndv, where N is the cumulative production volume from the deposit and V is the total volume of initial extractable reserves (total reserves for all categories as at January 1st of the year preceding the tax period).

For deposits with depletion between 0.8 and 1, Kv = 3.8 – 3.5 * Ndv / V. Where depletion is greater than 1, Kv = 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 as V3) defined as total extractable reserves for all categories as at January 1st of the year preceding the tax period) below 5 MMTonnes and depletion (N/V3, where N is the cumulative production volume of the field) less than 0.05, Kz = 0.125 \times V3 + 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^{-12} \mu^3 and effective formation thickness no greater than 10 meters

> 0.4 – for oil produced from deposits with permeability no greater than 2 \times 10^{-12} \mu^3 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 1st 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 = 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, Inikalik 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.

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

According to the Russian Federation Tax Code clause 342, subclause 2.1 and clause 338, subclause 6 the following ad vooren MET rates should be used for oil produced at 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, 2022 – for fields located more than 50% in the Black Sea (all 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, 2027 – 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**

<table>
<thead>
<tr>
<th>Rates</th>
<th>2015</th>
<th>2016</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal crude oil MET rate, RUB/tonne</td>
<td>6,326</td>
<td>5,770</td>
<td>(9.8)</td>
</tr>
<tr>
<td>Effective crude oil MET rate, RUB/tonne</td>
<td>5,981</td>
<td>5,148</td>
<td>(15.5)</td>
</tr>
<tr>
<td>Difference between nominal and effective rates, RUB/tonne</td>
<td>345</td>
<td>623</td>
<td></td>
</tr>
<tr>
<td>Difference between nominal and effective rates, %</td>
<td>5.8</td>
<td>10.8</td>
<td></td>
</tr>
</tbody>
</table>

In 12 months 2016, the Group’s effective MET rate was 5,349 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 Kx) that reduce the MET rate.
## 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).

### TYPES OF TAX INCENTIVES

<table>
<thead>
<tr>
<th>Tax benefits applied during 1Q 2016</th>
<th>Subsidiaries (Oil Fields) belonging to the Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET FOR GAS</strong></td>
<td></td>
</tr>
<tr>
<td>Hard-to-recover factor Kr.</td>
<td>Gazpromneft Yamal LLC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Orenburg LLC</td>
</tr>
<tr>
<td><strong>NET FOR OIL</strong></td>
<td></td>
</tr>
<tr>
<td>Small fields factor Kz</td>
<td>Gazpromneft Noyabrskneftegaz OJSC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Orenburg LLC</td>
</tr>
<tr>
<td>Depletion factor Kv</td>
<td>Gazpromneft Vostok LLC</td>
</tr>
<tr>
<td></td>
<td>Yuylarsneftegaz JSC</td>
</tr>
<tr>
<td>Hard-to-recover factor Kd</td>
<td>Gazpromneft Noyabrskneftegaz OJSC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Vostok LLC</td>
</tr>
<tr>
<td></td>
<td>Zapolyarn LLC</td>
</tr>
<tr>
<td>Oil production region and oil quality factor Kkan</td>
<td>Gazpromneft Angara</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Yamal LLC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Khantos LLC</td>
</tr>
<tr>
<td>Zero MET rate for fields classified as belonging to Bazhenov formation</td>
<td>Gazpromneft Khantos LLC</td>
</tr>
<tr>
<td>Lower MET rate for new offshore fields in the Pechora Sea</td>
<td>Gazpromneft UshK LLC</td>
</tr>
<tr>
<td><strong>PROFITS TAX</strong></td>
<td></td>
</tr>
<tr>
<td>16% rate (4% concession under Khanty-Mansiysk Autonomous Okrug regional legislation)</td>
<td>Gazpromneft Khantos LLC</td>
</tr>
<tr>
<td>15.5% rate (5% concession under Yamalo-Nenets Autonomous Okrug regional legislation)</td>
<td>Gazpromneft Noyabrskneftegaz OJSC</td>
</tr>
<tr>
<td>19.3% rate (0.7% concession under Tumen regional legislation)</td>
<td>Gazpromneft Khantos LLC</td>
</tr>
<tr>
<td>15.5% rate (5% concession under St. Petersburg regional legislation)</td>
<td>Gazpromneft PJSC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Aero JSC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft NTC LLC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Razvitie LLC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Bonava Service LLC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Regionalnie-produzhl LLC</td>
</tr>
<tr>
<td></td>
<td>Gazpromneft Marine Banker LLC</td>
</tr>
<tr>
<td><strong>PROPERTY TAX</strong></td>
<td></td>
</tr>
<tr>
<td>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)</td>
<td>Gazpromneft Khantos LLC</td>
</tr>
<tr>
<td>11% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional legislation)</td>
<td>Gazpromneft Noyabrskneftegaz OJSC</td>
</tr>
<tr>
<td>Property tax exemption for investment projects in Orenburg region (under Orenburg regional legislation)</td>
<td>Gazpromneft Orenburg LLC</td>
</tr>
</tbody>
</table>

## APPENDIX 7.

### MAJOR TRANSACTIONS

In 2016, Gazprom Neft PJSC did not conclude any transactions that are recognised as major transactions in accordance with Federal Law of the Russian Federation No. 208-FZ dated 26 December 1995 ‘On Joint-Stock Companies’ and for which approval is required under Chapter XI of the Federal Law ‘On Joint-Stock Companies’.

The Company’s Charter does not establish any other transactions to which the procedure for approving major transactions applies.

### RELATED PARTY TRANSACTIONS

In the 2016 reporting year, Gazprom Neft PJSC concluded transactions that are recognised as related party transactions in accordance with Federal Law of the Russian Federation No. 208-FZ dated 26 December 1995 ‘On Joint-Stock Companies’ and for which approval is required under Chapter XI of the Federal Law ‘On Joint-Stock Companies’.

Information about the transactions concluded in 2016 is contained in the Report on Related Party Transactions Concluded by Gazprom Neft PJSC in 2016 (hereinafter the Report) approved on 21 April 2017 by the Board of Directors (Minutes No. IT-1-0102/23 dated 24 April 2017).

The Transactions Report is available on the Company’s website at the address: ir.gazprom-neft.com/shareholders-meeting.
### APPENDIX 8.
#### GLOSSARY

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADR</td>
<td>American Depository Receipt</td>
</tr>
<tr>
<td>ASP (technol)</td>
<td>Associated petroleum gas</td>
</tr>
<tr>
<td>BANK OF RUSSIA</td>
<td>Central Bank of the Russian Federation</td>
</tr>
<tr>
<td>CD</td>
<td>Civil defence</td>
</tr>
<tr>
<td>CGS</td>
<td>Central gathering station (oil treatment)</td>
</tr>
<tr>
<td>CGTP</td>
<td>Complex gas treatment plant</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States – former republics of the USSR, except Latvia, Lithuania, Georgia and Estonia</td>
</tr>
<tr>
<td>COSTS</td>
<td>Central oil gathering and treatment station</td>
</tr>
<tr>
<td>CNG</td>
<td>Compressed natural gas</td>
</tr>
<tr>
<td>D&amp;O</td>
<td>Directors and Officers Liability Insurance</td>
</tr>
<tr>
<td>DOW</td>
<td>Downstream Logistics, Processing and Sales Unit</td>
</tr>
<tr>
<td>EBIT</td>
<td>Earnings before interest, taxes, depreciation and amortisation</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, taxes, depreciation and amortisation</td>
</tr>
<tr>
<td>ECA</td>
<td>Export Credit Agency</td>
</tr>
<tr>
<td>EMS</td>
<td>Energy management system</td>
</tr>
<tr>
<td>GOE</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>HC</td>
<td>Hockey club</td>
</tr>
<tr>
<td>HSE</td>
<td>Health, Safety and Environment</td>
</tr>
<tr>
<td>HTRR</td>
<td>Hard-to-recover reserves</td>
</tr>
<tr>
<td>IEA</td>
<td>International Energy Agency</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IRMS (STANDARD)</td>
<td>Integrated Risk Management System standard</td>
</tr>
<tr>
<td>IISG</td>
<td>Independent International Standard of the Society of Petroleum Engineers</td>
</tr>
<tr>
<td>JSC</td>
<td>Joint-stock company</td>
</tr>
<tr>
<td>KMAD</td>
<td>Khanty-Mansi Autonomous District</td>
</tr>
<tr>
<td>KPI</td>
<td>Key performance indicator</td>
</tr>
<tr>
<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
</tr>
<tr>
<td>LPC</td>
<td>Liquefied petroleum gases</td>
</tr>
<tr>
<td>LTIF</td>
<td>Lost Time Injury Frequency</td>
</tr>
<tr>
<td>MD&amp;A</td>
<td>Management’s Discussion and Analysis of Financial Condition and Results of Operations</td>
</tr>
<tr>
<td>MET</td>
<td>Mineral extraction tax</td>
</tr>
<tr>
<td>MICEX</td>
<td>Moscow Interbank Currency Exchange or Moscow Exchange</td>
</tr>
<tr>
<td>NP</td>
<td>Non-profit partnership</td>
</tr>
<tr>
<td>OC</td>
<td>Oil company</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OEC</td>
<td>Oil equivalent</td>
</tr>
<tr>
<td>OECF</td>
<td>Oil and gas condensate field</td>
</tr>
<tr>
<td>OJSC</td>
<td>Open joint-stock company</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organisation of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>OS</td>
<td>Occupational safety</td>
</tr>
<tr>
<td>PJSC</td>
<td>Public joint-stock company</td>
</tr>
<tr>
<td>PMB</td>
<td>Polymer-modified bitumen</td>
</tr>
<tr>
<td>P.P.</td>
<td>Percentage points</td>
</tr>
<tr>
<td>RAS</td>
<td>Russian Accounting Standards</td>
</tr>
<tr>
<td>RLC</td>
<td>Regional licensing commission</td>
</tr>
<tr>
<td>ROACE</td>
<td>Return on Average Capital Employed</td>
</tr>
<tr>
<td>PRMS-SPE</td>
<td>Petroleum Resources Management System developed by the Society of Petroleum Engineers. The system not only takes into account the ability to detect oil and gas, but also the cost-effectiveness of hydrocarbon recovery. Reserves are assessed based on three categories: proved, probable, possible</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>S&amp;L</td>
<td>Stock Appreciation Rights</td>
</tr>
<tr>
<td>SAS</td>
<td>Surface active substances</td>
</tr>
<tr>
<td>SEC</td>
<td>U.S. Securities and Exchange Commission</td>
</tr>
<tr>
<td>S&amp;A</td>
<td>Subsidiaries and affiliates</td>
</tr>
<tr>
<td>UPSTREAM</td>
<td>Exploration and Production Unit</td>
</tr>
<tr>
<td>US GAAP</td>
<td>United States Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-added tax</td>
</tr>
<tr>
<td>VIDC</td>
<td>Vertically integrated oil company</td>
</tr>
<tr>
<td>VMI</td>
<td>Voluntary medical insurance</td>
</tr>
<tr>
<td>YANOS</td>
<td>Yaroslavnefteorgsintez (Slavneft, Yaroslavnefteorgsintez, Slavneft-YANOS) – Yaroslavl Oil Refinery</td>
</tr>
<tr>
<td>YNAD</td>
<td>Yamalo-Nenets Autonomous District</td>
</tr>
</tbody>
</table>
Gazprom Neft PJSC

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Saint Petersburg, Russian Federation

The Company’s accounting (financial) reports in 2016 were audited by PricewaterhouseCoopers Audit CJSC (PwC Audit CJSC).

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Fax: +7 (495) 967-60-01,
Web address: www.pwc.com

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