

DEBT PORTFOLIO AND CREDIT RATINGS

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 of 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.

The Company also repaid RUB 173.2 billion in previously received borrowings in 2016, including the unscheduled repayment of RUB 42.5 billion in order to improve the Gazprom Neft Group's debt portfolio.

As a result of the Company's borrowings described above, changes to the debt of other companies of the Gazprom Neft Group (NIS a.o. Novi Sad, Gazpromneft-Moscow Oil Refinery JSC and others) and the rouble revaluation of borrowings denominated in foreign currency, the debt portfolio of the Gazprom Neft Group decreased to RUB 676.4 billion 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

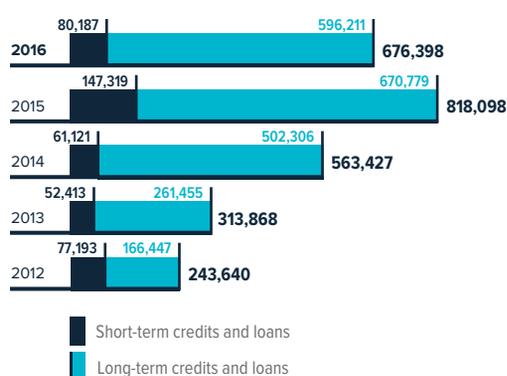
Source: Company data

Indicator	2011	2012	2013	2014	2015	2016
Net debt/EBITDA	0.71	0.51	0.59	1.44	1.90	1.60
Debt/EBITDA	0.82	0.80	0.99	1.87	2.37	1.68
Debt/EBITDA threshold	3.00	3.00	3.00	3.00	3.00	3.00

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)

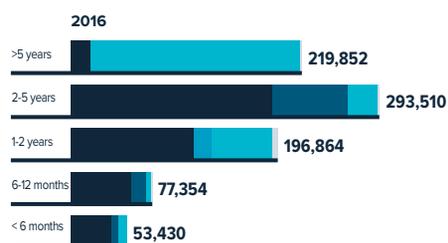


DEBT PORTFOLIO STRUCTURE BY CURRENCY (%)



DEBT REPAYMENT SCHEDULE

DEBT REPAYMENT SCHEDULE OF THE GAZPROM NEFT GROUP (RUB mn)



Based on the Gazprom Neft Group's debt repayment schedule, the Company does not anticipate any significant increase in the debt refinancing burden in 2017–2018.

As of 31 December 2016	Under 6 months	6-12 months	1-2 years	2-5 years	5 years or more
Bank loans	38,717	57,491	117,135	191,904	18,571
Local bonds	6,063	14,155	16,431	71,342	–
Loan participation notes	8,252	4,720	58,029	28,322	198,696
Other loans	398	988	5,269	1,942	2,585

POTENTIAL INSTRUMENTS FOR ATTRACTING FINANCING IN 2017

The Company 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.

The Group is considering various options for financing in 2017, including but not limited to rouble-denominated bonds, credit facilities from Russian and foreign banks and project financing.

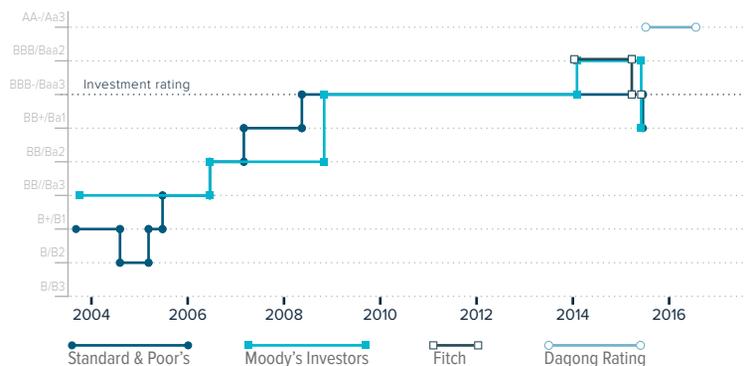
In order to ensure the ability to promptly raise debt financing in the form of a local bond issue, the Company registered a multi-currency Exchange Bond Programme in 2015. The undrawn limit under the programme was the equivalent of RUB 100 billion as of the end of 2016. The Programme remains in effect 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.

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.

CREDIT RATINGS OF GAZPROM NEFT¹



¹ As of 31 December 2016.

Source: ratings agency data

STANDARD & POOR'S

BB+

Positive

International scale
in foreign currency

FITCH

BBB-

Stable

Long-term issuer
default rating in foreign
and national currency

MOODY'S

Ba1

Stable

International scale
in foreign currency

DAGONG

AA-

Negative

Long-term credit rating on obligations in foreign and Russian
currency

Event after
the reporting date:
In February 2017,
Moody's revised
its rating and
changed the outlook
to 'Stable'.