



ANNUAL REPORT

2016

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ABOUT THE REPORT¹

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 this 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 IFRS financial statement for 2016.

The 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 Commission and approved by 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 amounts when rounding estimated values. The data cited in the Annual Report may differ slightly from previously published data due to the difference in rounding.

¹ 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 see:
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 Yaroslavl 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.

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 refineries¹

>2,000

petroleum product wholesale and retail network outlets

REGIONS OF OPERATION



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.

¹ Oil refining takes place at three of the Company's oil refineries – the Omsk Oil Refinery, Moscow Oil Refinery and NIS. In addition, Gazprom Neft owns stakes in Slavneft-YANOS and Mozyr Oil Refinery and utilises part of their refining facilities (only on the conditions of customer-supplied raw materials). 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 volume at the refinery is determined based on its cost-effectiveness.



LEADERSHIP ON THE RUSSIAN MARKET

No. 1

Filling station pumping

19.3 t/day

Yield of light petroleum products

64.4%

No. 2

Petroleum product sales in Russia

27.11 mn t

Oil refining depth

81.8%

Motor fuel sales

14.75 mn t

No. 3

Hydrocarbon production among VIOC in Russia

86.20 mn TOE

Oil and condensate refining in Russia

38.66 mn t

> For more, see the 'Oil industry of the Russian Federation' section, p. 16



CAPITALISATION AND INCOME FOR SHAREHOLDERS

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 other countries.

> For more, see the 'Dividend policy' section, p. 138

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.

> For more, see the 'Advantages of the business model in strategy implementation' section, p. 21

2

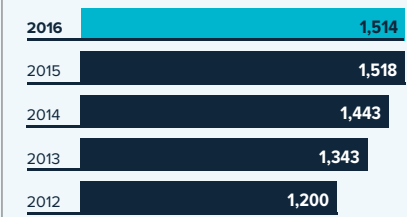
STRATEGY IMPLEMENTATION AND FUTURE GROWTH

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.

KEY INDICATORS

LEADING POSITIONS IN HYDROCARBON PRODUCTION GROWTH

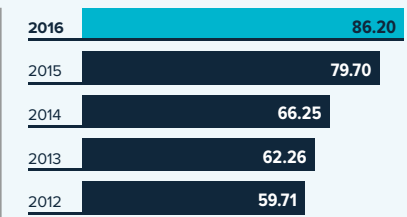
PROVEN HYDROCARBON RESERVES (PRMS-SPE)¹ (mn TOE)



The resource base of the Company's current assets has deteriorated in terms of the remaining commercial reserves as most fields are in a late stage development. An increase in high-tech drilling and the use of tertiary methods to boost oil recovery has enhanced the efficient development of these reserves.

> For more, see the 'Raw materials base and production' section, [p. 36](#)

HYDROCARBON PRODUCTION (mn TOE)

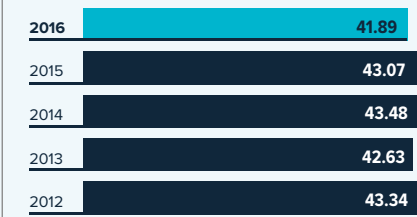


The launch of the Gates of the Arctic export terminal at the Novoportovskoye field, the start of production at the East Messoyakha field, increased output at the Prirazlomnoye field, Orenburg Region fields and SeverEnergy (Arcticgas), the consolidation of 50% of the production of Northgas CJSC, growth in the use of associated gas at fields in the Khanty-Mansi region and expanded production in Iraq all combine to provide the Company with high growth rates in hydrocarbon production volumes from year to year.

> For more, see the 'Oil and gas production' section, [p. 36](#)

BALANCED REFINING

OIL REFINING² (mn t)

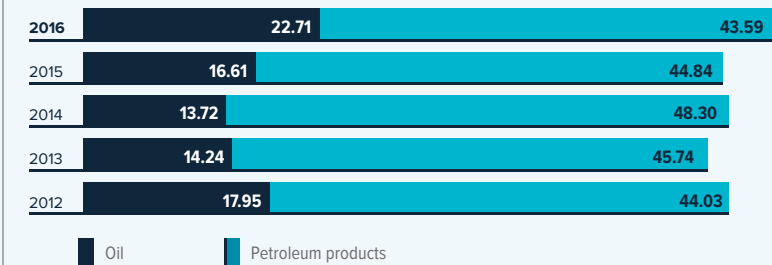


The volume of oil refined in 2016 was optimal given the existing demand and price situation for oil and petroleum products. The Company also increased the production volume of light petroleum products, while fuel oil and marine fuel accounted for the biggest decrease in output.

> For more, see the 'Oil refining' section, [p. 40](#)

STRONG GROWTH IN OIL AND PETROLEUM PRODUCT SALES

OIL AND PETROLEUM PRODUCT SALES (mn t)

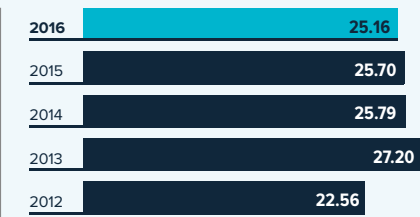


The 36.7% year-on-year growth in oil sales is due to increased oil production at the Novoportovskoye, Prirazlomnoye and Messoyakha fields, in Iraq and the Orenburg Region as well as a decrease in refining volumes in the Russian Federation.

- The decrease in petroleum product sales in 2016 resulted from:
- > a decrease in refining volume;
 - > a decrease in the sales volume of marine fuel due to diminished demand among ship owners for transit bunkering;
 - > a decrease in jet fuel sales due to reduced demand for international travel and the suspension on charter flights to Turkey and Egypt.

> For more, see the 'Sale of oil and petroleum products' section, [p. 43](#)

SALES VIA PREMIUM CHANNELS (mn t)

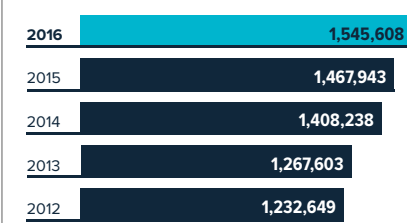


Sales volume via premium channels decreased by 2.1% year-on-year primarily due to a reduction in sales of marine fuel due to lower demand for transit bunkering from ship owners and the introduction of an excise tax on medium distillates. An effective marketing strategy led to a 3.7% increase in motor fuel sales despite an overall decline in demand on the market.

> For more, see the 'Sale of oil and petroleum products' section, [p. 43](#)

STRONG FINANCIAL RESULTS DESPITE LOW OIL PRICES

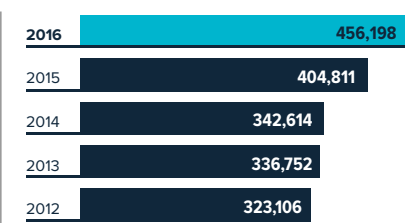
SALES REVENUE (RUB mn)



Sales revenue increased by 5.3% due to growth in the production and sales volume of the Company's own oil and oil acquired from third-party manufacturers, growth in petroleum product prices on the domestic market and a decrease in the customs duty rate for oil and petroleum products. Growth in revenue was also constrained by lower oil and petroleum product prices on global markets.

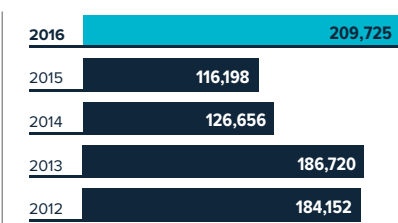
¹ Data does not include the reserves and production volume of NIS.

ADJUSTED EBITDA (RUB mn)



Increasing hydrocarbon production, maintaining the Company's positions on petroleum product sales markets and management's actions to improve cost effectiveness and optimisation in 2016 led to a 12.7% increase (RUB 51.4 bn) in operating profit (EBITDA) in 2016 compared with 2015.

NET PROFIT (RUB mn)



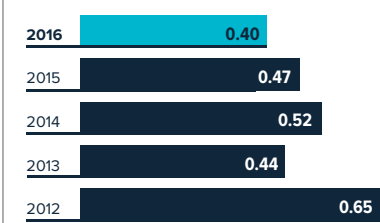
The growth in net profit was mainly due to an increase in EBITDA and positive exchange rate differences from the revaluation of the loan portfolio.

> For more, see the 'Financial results' section, [p. 52](#)

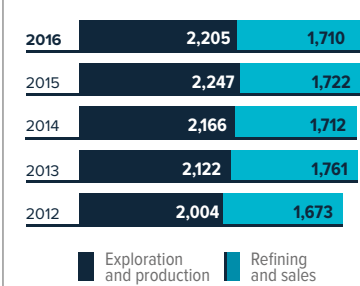
² At the Company's oil refineries and joint venture assets.

RESPONSIBLE APPROACH TO SUPPORTING PRODUCTION SAFETY, RESOURCES AND THE ENVIRONMENT

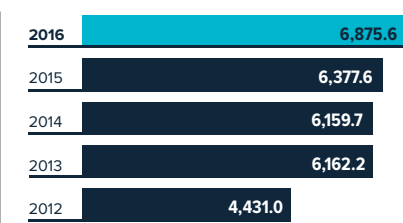
LTIFR INJURY RATE



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

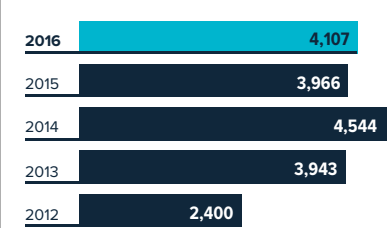


EXPENSES ON SUPPORTING ENVIRONMENTAL SAFETY AND PROTECTION³ (RUB mn)



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

SOCIAL INVESTMENTS⁴ (RUB mn)



³ This report presents updated statistics on environmental safety expenses taking into account the current overall expenses on all environmental protection activities and expenses on environmental services in accordance with state statistical reporting 4-OS 'Information about current expenses on environmental protection and environment payments'. The new form was approved by Order No. 387 of the Federal State Statistics Service dated 4 August 2016.

The information is presented without taking into account expenses on capital construction, reconstruction and the repair of fixed assets which had a positive environmental effect.

⁴ Includes social projects, volunteer and charitable events and grant contests.



STRATEGIC REPORT

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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



MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

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 Pirazlomnoye 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

MARKET OVERVIEW

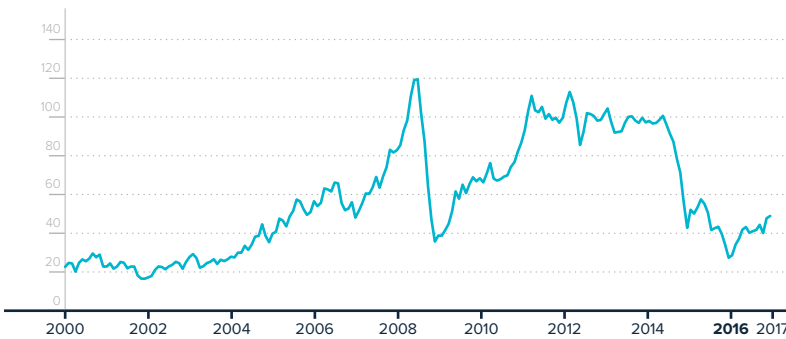
GLOBAL OIL MARKET

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.

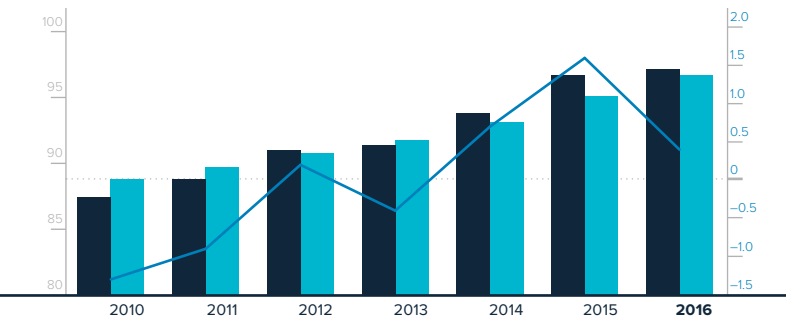
BRENT OIL PRICES (USD/barrel)

Source: U.S. Energy Information Administration



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

Source: IEA



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.

Production	87.4	88.7	90.9	91.3	93.7	96.6	97
Demand	88.7	89.6	90.7	91.7	93.0	95.0	96.6
Balance (along right axis)	(1.3)	(0.9)	0.2	(0.4)	0.7	1.6	0.4

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

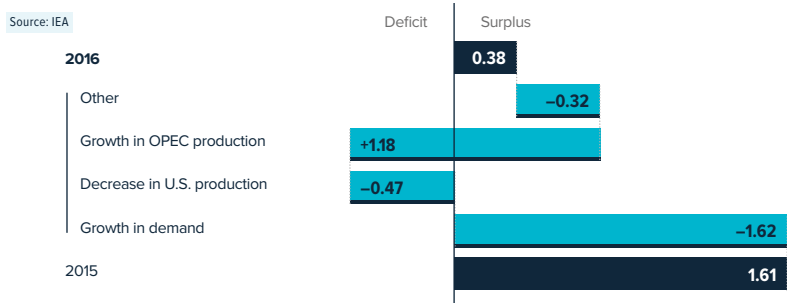
In early 2016, a substantial oil surplus caused prices to fall to their lowest levels since 2003. Over the course of the year, however, despite the growth in OPEC production, a combination of factors led to a significant price recovery.

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.

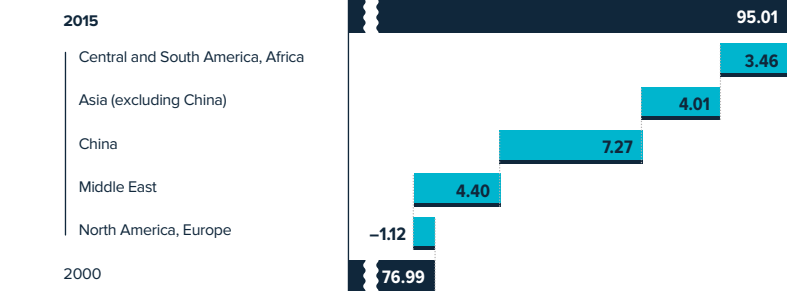
OIL MARKET BALANCE OF SUPPLY AND DEMAND IN 2015-2016 (mn barrels/day)

Source: IEA



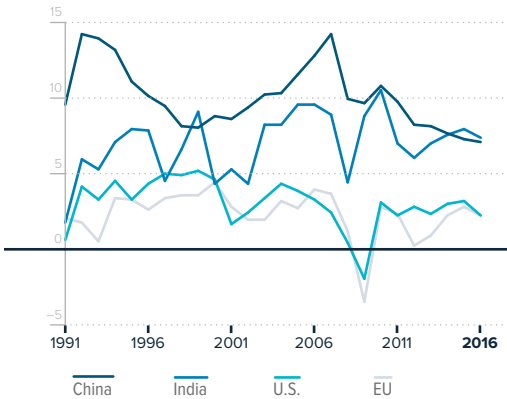
CHANGE IN OIL CONSUMPTION BY COUNTRY (mn barrels/day)

Source: BP Statistical Review of World Energy June 2016



GDP DYNAMICS OF KEY ECONOMICS (% vs. previous year)

Source: World Bank



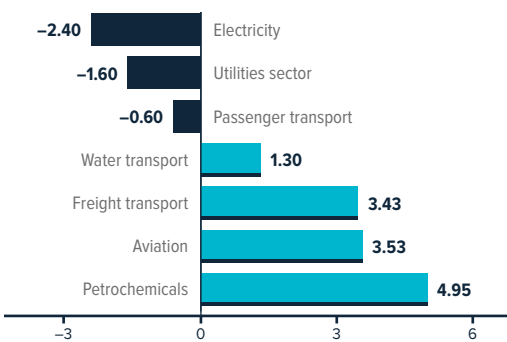
GLOBAL OIL CONSUMPTION (mn barrels/day)

Source: IEA



GROWTH IN GLOBAL OIL DEMAND BY SECTOR FROM 2015 TO 2040 (mn barrels/day)

Source: IEA

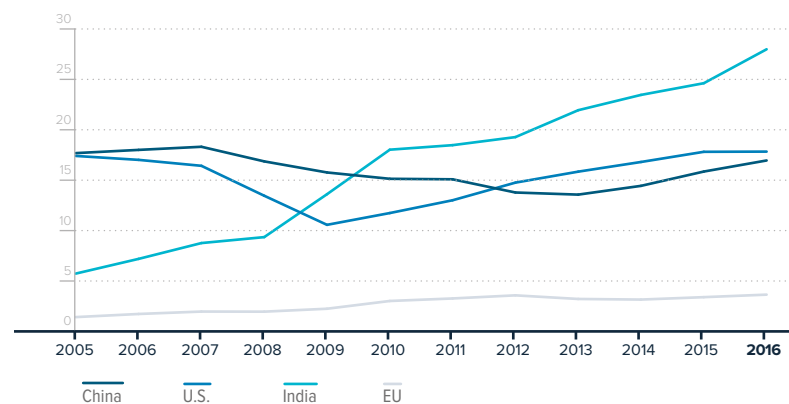


CONTINUED GROWTH IN CAR OWNERSHIP

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.

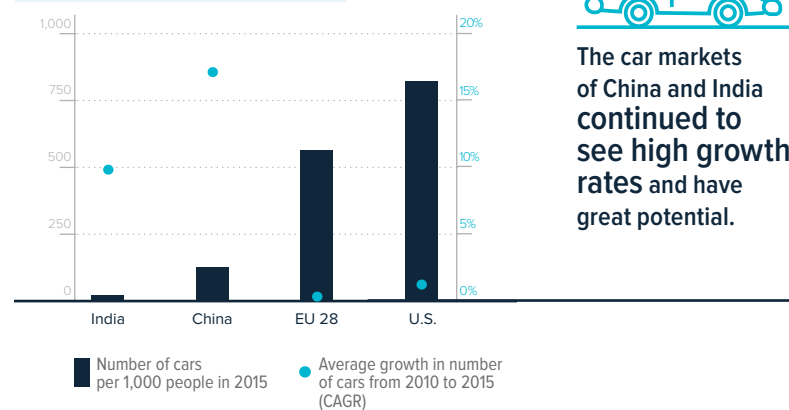
CAR SALES (mn cars)

Source: OICA



CAR OWNERSHIP

Source: OICA, World Bank, Kraftfahrt-Bundesamt Deutschland, Ministry of Public Security China, ICCT



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

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.

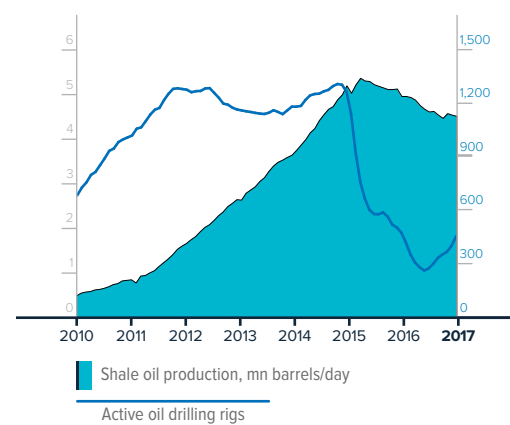
GLOBAL OIL PRODUCTION

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 barrels/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



GROWTH IN PRODUCTION BY OPEC COUNTRIES

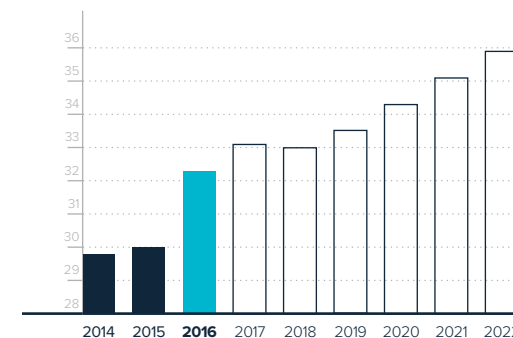
OPEC countries increased production by 0.9 million barrels/day in 2016. The bulk of growth came from Iran, which quickly returned to its pre-sanctions production levels following the lifting of the international embargo. In the future, Iranian oil production dynamics will be constrained by the development 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 barrels/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.

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 barrels/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 (mn barrels/day)

Source: IEA

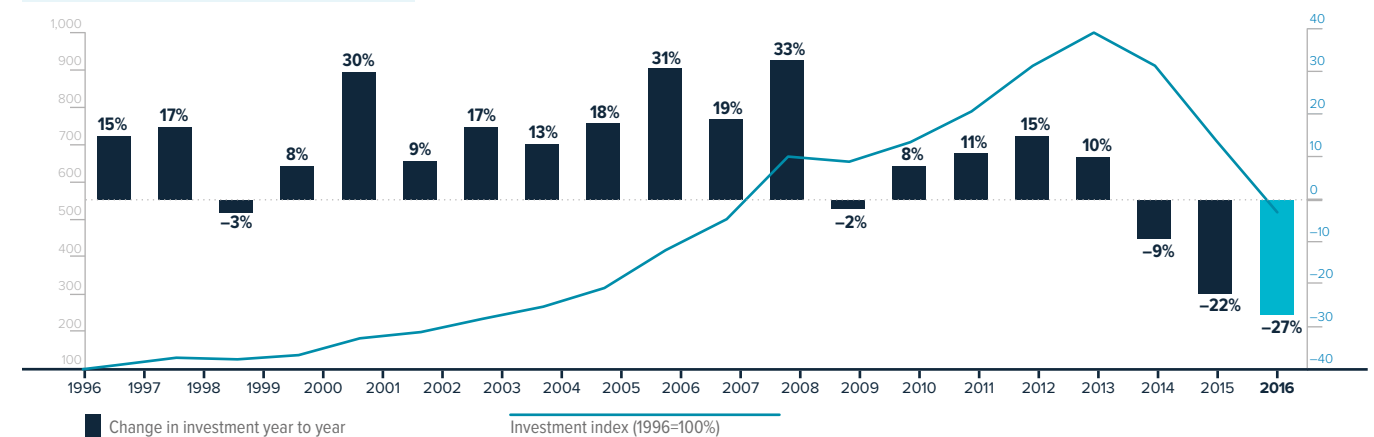


DECREASED INVESTMENT IN OIL PRODUCTION

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.

CHANGE IN INVESTMENT BY MAJOR GLOBAL OIL AND GAS COMPANIES¹

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

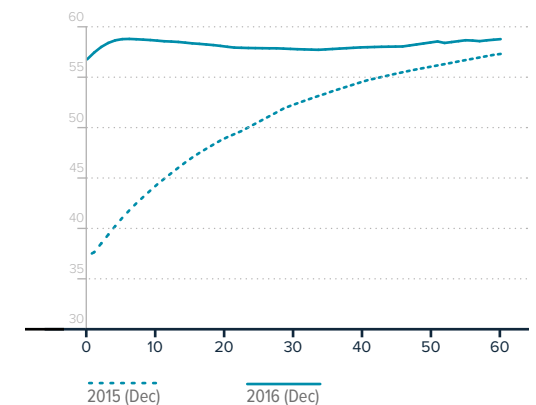


¹ Major international companies in the sector.

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.

BRENT FORWARD CURVE (USD/barrel)



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)

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.



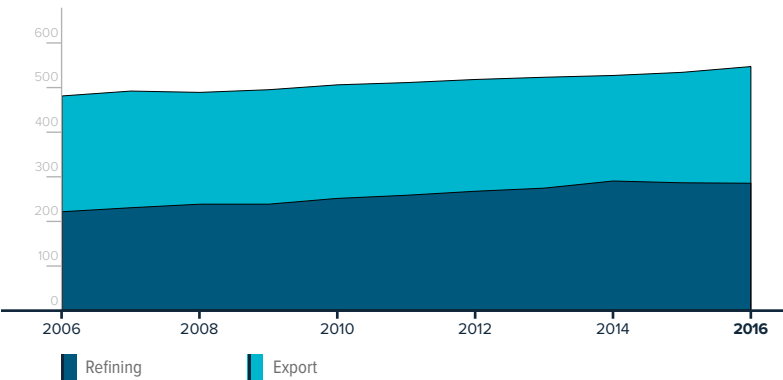
547.5
mn t

of oil and condensate
produced in 2016

Primary oil refining in the Russian Federation declined by 1.1% 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 to 30% of the crude oil export duty, while the export duty rates for dark petroleum products were increased to 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.

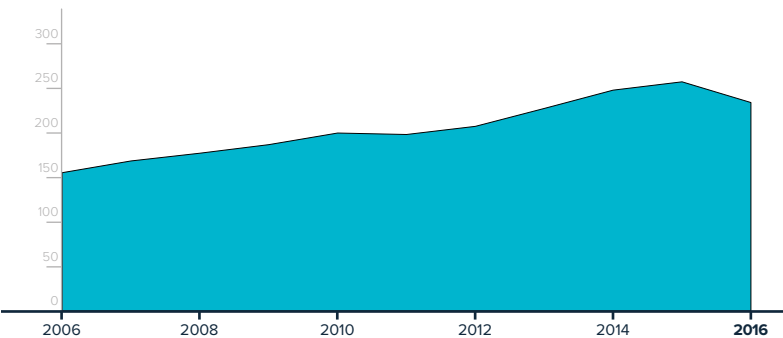
OIL PRODUCTION, EXPORT AND REFINING¹ DYNAMICS (mn t)

Source: Russian Ministry of Energy



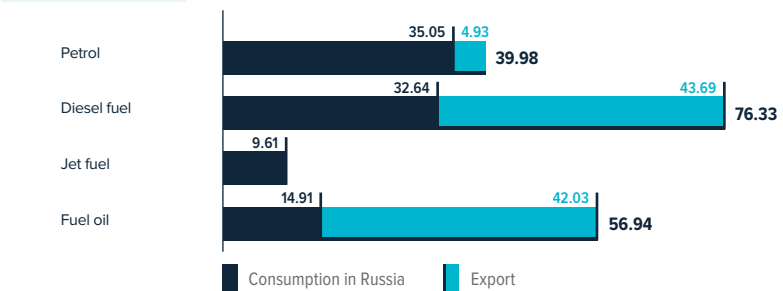
PETROLEUM PRODUCT EXPORTS (mn t)

Source: Bank of Russia, Federal Customs Service



CONSUMPTION AND EXPORT OF KEY PETROLEUM PRODUCTS IN 2016 (mn t)

Source: Russian Ministry of Energy



¹ Refining = production – export.

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.

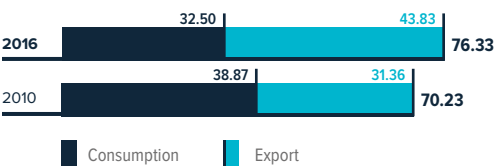
PETROLEUM PRODUCT CONSUMPTION AND
EXPORT DYNAMICS (mn t)

Source: Russian Ministry of Energy

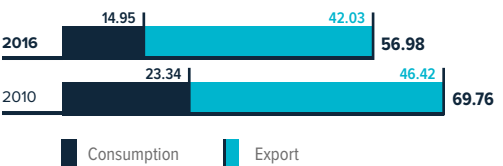
PETROL



DIESEL FUEL

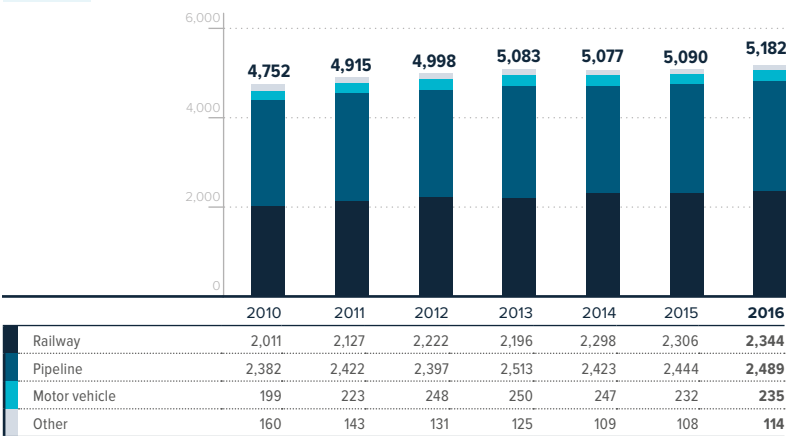


FUEL OIL



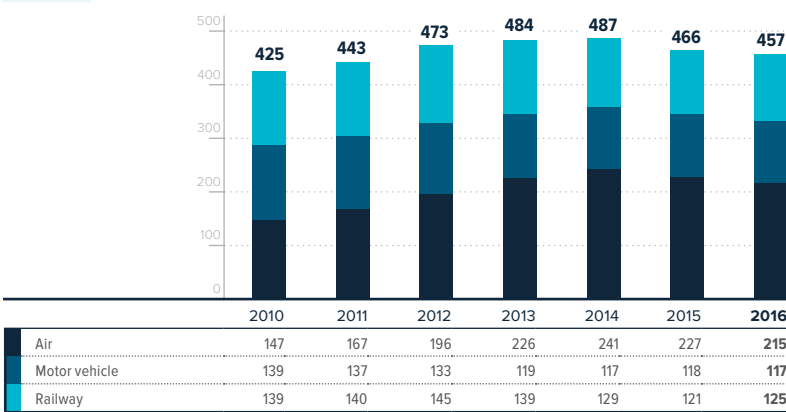
FREIGHT TURNOVER STRUCTURE BY TYPE OF TRANSPORT (bn tkm)

Source: Rosstat



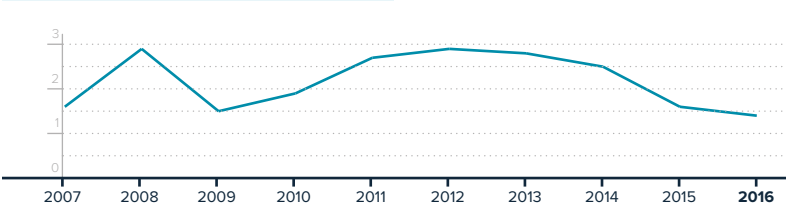
PASSENGER TRAFFIC STRUCTURE BY MAIN TYPES OF PUBLIC TRANSPORT
(bn pass. km)

Source: Rosstat



NEW CAR SALES (mn)

Source: The Association of European Businesses in the Russian Federation



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 role 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 5.5).

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, 357 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

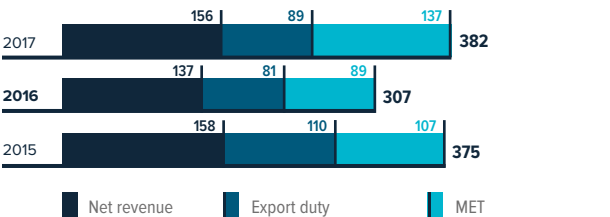
The list of excisable goods was expanded in 2016 through the taxation of transactions involving the production and sale of medium distillates. The primary goal of the innovation was to combat surrogates of diesel fuel. The identification of a new excisable product through quality specifications (density 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 (USD)

Source: Russian Ministry of Energy



LEADERSHIP ON THE RUSSIAN MARKET

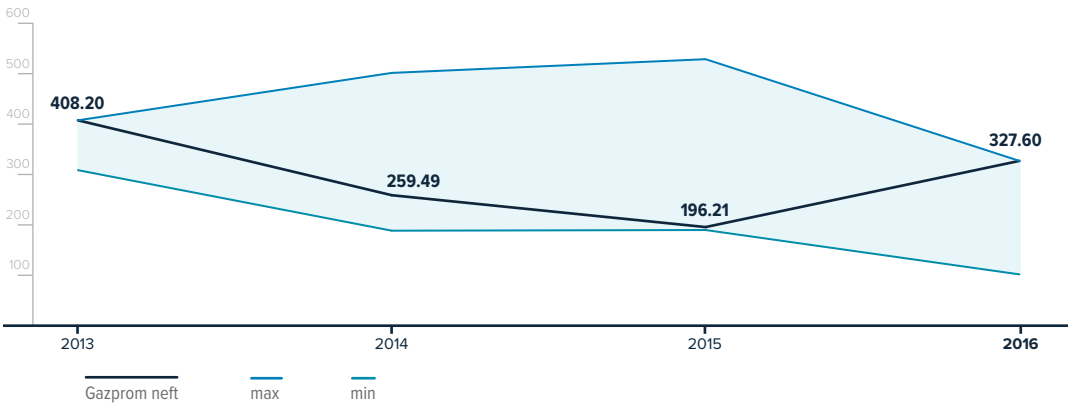
Indicators ¹	Result	Share, %	Market ranking among VIOC
RESERVES AND PRODUCTION			
Reserves, mn TOE	1,514	–	4
Hydrocarbon production, mn TOE	86.20	–	3
REFINING			
Yield of light petroleum production, ² %	64.4	–	1
Oil refining, mn t	38.66	13.8	3
Oil refining depth, ² %	81.8	–	2
SALES			
Sale of petroleum products, mn t	27.11	–	2
Filling station network in Russia, stations	1,244	–	3
Pumping via one filling station, t/day	19.3	–	1
Motor fuel, ³ mn t	14.75	26.1 ⁴	2
Jet fuel, ⁵ mn t	2.083	26.2	1
Bunkering, ⁵ mn t	2.087	19.1	2
Lubricants materials, ⁶ mn t	0.145	20	2
Bitumen materials, mn t	1.83	31.3	2

Gazprom Neft is one of the leaders in the Russian market in terms of key performance indicators.

> For more, see the ‘Strategic benchmarks and priorities’ and ‘Overview of results’ sections, p. 24

EFFICIENCY

NET PROFIT PER 1 BARREL OF OIL EQUIVALENT OF HYDROCARBON PRODUCTION (RUB /barrel of OE)



¹ Data given for the Russian portion of Gazprom Neft’s business.
² Source: Central Dispatching Department of the Fuel and Energy Complex (taking into account the consolidation of Bashneft PJSC and Rosneft Oil Company PJSC).
³ Data for the Russian retail market and regions of operation.
⁴ Share of the Russian market in regions of operation.
⁵ Data for the Russian retail market.
⁶ Data for the packaged oils market.

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 covers such important areas as improving safety at work, reliability of assets and efficiency, and optimizing 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.

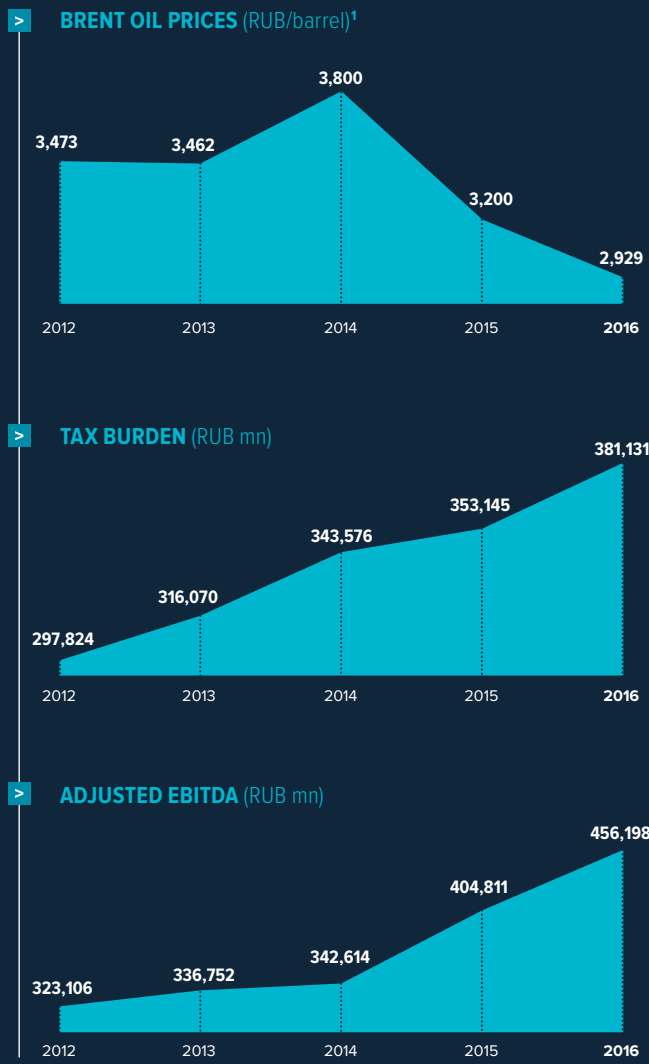
- Despite the unfavourable market situation, the Company has demonstrated stable positive dynamics in its production and operating performance and is steadily moving towards its strategic goals. Thanks to a highly efficient business model and timely response to external changes, the Company has maintained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

ADVANTAGES OF THE BUSINESS MODEL IN STRATEGY IMPLEMENTATION

EFFICIENCY IN A WIDE RANGE OF OIL PRICES

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

- > **EXPLORATION 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
 - > Company-owned network 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	IMPLEMENTATION OF STRATEGY	STRATEGIC GOALS FOR 2025	CREATING VALUE FOR STAKEHOLDERS															
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UNIQUE FEATURES OF ASSETS	ENSURING EFFICIENCY IN VOLATILE MARKET CONDITIONS	MAJOR PROGRESS TOWARDS ACHIEVING OUR GOALS	VALUES	HOW WE DO IT	RESULTS											
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| <div><div>BALANCED PORTFOLIO OF PRODUCTION ASSETS</div><div>Gazprom Neft’s portfolio includes 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 maximise profit based on market conditions.</div></div> | <div><div><div><div></div><div>RESERVES</div><div>1,514 MN TOE</div></div><div>Maintained the level of hydrocarbon reserves due to revision and successful geological exploration</div></div><div><div><div><div></div><div>PRODUCTION</div><div>86.2 MN TOE</div></div><div>Record growth of 8.2% among Russian companies due to the commissioning of the Novoportovskoye and Messoyakha fields, growth in output at the Prirazlomnoye field as well as the increased yield of mature fields thanks to the use of production intensification technology and the integration of HTRR (hard-to-recover reserves).</div></div></div></div> | <div><div><div>1,500 MN TOE</div><div>PROVEN RESERVES</div><div>15 years – proven reserve life
100% – annual replacement ratio of proven and probable reserves excluding acquisitions</div></div><div>Implementation risks : 11 12 14 15 16 21 23 32</div></div> <div><div><div>100 MN TOE PER YEAR</div><div></div><div>Implementation risks: 13 14 15 16 21 22 23</div></div></div> | <div><div>SHAREHOLDERS AND INVESTORS</div><div>Long-term growth in the Company’s value and a high level of dividend yield.</div><div><div>Constant communication with investors, shareholders and analysts to support a fair price for the Company’s securities.</div><div>Development of a corporate governance system that balances compliance with the best Russian and international practices with a high level of industry specificity.</div><div>Information transparency in covering the results of the development strategy.</div><div>Equitable dividend policy.</div><div>Observance of minority shareholder rights.</div><div>Continuous development of a risk management system with a detailed elaboration of responsibility.</div></div></div> | <div><div>CONSUMERS AND CUSTOMERS</div><div>Good availability and a stable supply of petroleum products with excellent consumer and environmental properties.</div><div><div>Direct sales to corporate clients through the Company’s own distribution network.</div><div>Network of GazpromNeft petrol stations and a loyalty programme.</div><div>Partnership with leading automakers.</div><div>Enhanced environmental classes of products.</div></div></div> | <div><div>PERSONNEL</div><div>Stable employer that allows for effective development. Respectable compensation package.</div><div><div>Systematic recruitment and rotation of personnel.</div><div>Talent management, competency development and training.</div><div>Development of motivation systems and establishment of a culture of engagement.</div><div>Growth in labour productivity and organisational effectiveness.</div><div>Enhanced effectiveness of HR relations function.</div></div></div> | <div><div>SOCIETY AND REGIONS OF OPERATION</div><div>Responsible business with a high level of contribution to the regions of operation.</div><div><div>Ensuring a significant volume of tax revenue to local budgets.</div><div>Contribution to the development of social infrastructure.</div><div>Creation of highly efficient jobs.</div><div>Minimising any negative environmental impact.</div><div>Ensuring a high level of production safety.</div><div>Growth in the energy efficiency of the Company’s enterprises.</div><div>Support for the population and key stakeholders.</div></div></div> | <div><div>GOVERNMENT</div><div>Energy security. Tax payments. Technological development of the Russian oil and gas industry.</div><div><div>Stable growth in production and effective oil refining with a broad petroleum product sales network in Russia.</div><div>Among the top taxpayers in Russia (tax payments in subsidised regions of Russia).</div><div>Implementation of the first major offshore project – the Prirazlomnoye platform and the comprehensive development of Russia’s Arctic shelf.</div><div>Development of a centre of technological competencies and technological import substitution.</div></div></div> | <div><div>SALES</div><div>22.7 MN T OF OIL
43.6 MN T OF PETROLEUM PRODUCTS</div><div>Despite the negative market dynamics, Gazprom Neft maintained and increased its share on virtually all premium markets in Russia enabling the Company to retain its previous level of petroleum product sales. An increase in oil sales volumes from its own and purchased resources ensured profit growth in this segment.</div></div> <div><div><div>100%</div><div>products from the Company’s Russian oil refineries via high-margin sales channels</div></div><div>Implementation risks: 14 15 16 21 23 24</div></div> | <div><div>ADJUSTED EBITDA</div><div>RUB 456,198 MN (+12.7%)</div><div>Rapid response to changes on the oil and petroleum product market as well as high efficiency in each business segment enabled the Company to generate record adjusted EBITDA for the last 5 years.</div></div> | <div><div><div>ADJUSTED EBITDA</div><div>RUB 456,198 MN (+12.7%)</div></div><div>Implementing the plans outlined in the Strategy until 2025 is designed to create the greatest added value on the invested capital of shareholders in the oil and gas industry of the Russian Federation.</div></div> | <div><div><div>ADJUSTED EBITDA</div><div>RUB 456,198 MN (+12.7%)</div></div><div>Implementing the plans outlined in the Strategy until 2025 is designed to create the greatest added value on the invested capital of shareholders in the oil and gas industry of the Russian Federation.</div></div> | <div><div>SOCIETY AND REGIONS OF OPERATION</div><div>Responsible business with a high level of contribution to the regions of operation.</div><div><div>Ensuring a significant volume of tax revenue to local budgets.</div><div>Contribution to the development of social infrastructure.</div><div>Creation of highly efficient jobs.</div><div>Minimising any negative environmental impact.</div><div>Ensuring a high level of production safety.</div><div>Growth in the energy efficiency of the Company’s enterprises.</div><div>Support for the population and key stakeholders.</div></div></div> | <div><div>GOVERNMENT</div><div>Energy security. Tax payments. Technological development of the Russian oil and gas industry.</div><div><div>Stable growth in production and effective oil refining with a broad petroleum product sales network in Russia.</div><div>Among the top taxpayers in Russia (tax payments in subsidised regions of Russia).</div><div>Implementation of the first major offshore project – the Prirazlomnoye platform and the comprehensive development of Russia’s Arctic shelf.</div><div>Development of a centre of technological competencies and technological import substitution.</div></div></div> | <div><div>SALES</div><div>22.7 MN T OF OIL
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¹ Per PRMS-SPE standards.
² At oil refineries in Russia.
³ Paid by the Group’s Russian companies taking into account proportionally consolidated and joint ventures in accordance with equity participation, including taxation/fees, export duties and insurance contributions.

STRATEGIC BENCHMARKS
AND PRIORITIES

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

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.



GEOLOGICAL EXPLORATION WORK AND PRODUCTION

STRATEGIC OBJECTIVES

KPI for 2025

100
mn TOE

hydrocarbon
production volume

15 years

availability of proven
reserves
(TP¹/production)

100%

annual replacement
ratio of proven
and probable reserves (2P category)
excluding acquisitions

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 practices 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.

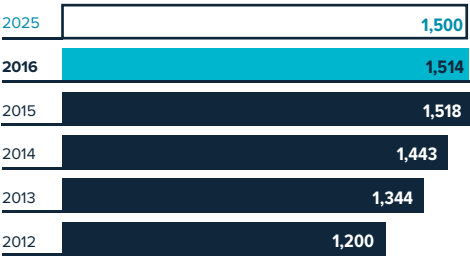
MILESTONES OF 2016

- > 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

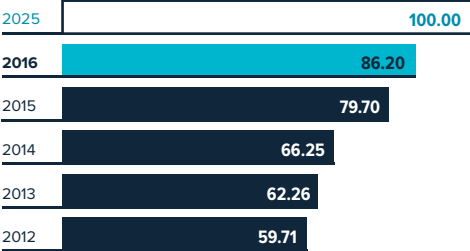
¹ TP – total proven reserves.

DYNAMICS OF KEY INDICATORS

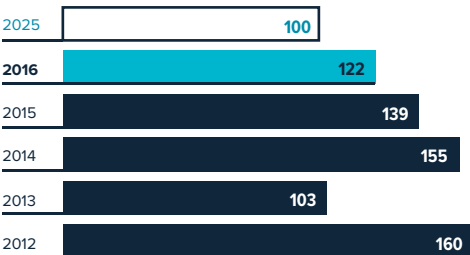
PROVEN HYDROCARBON RESERVES
(PRMS-SPE) (mn TOE)



HYDROCARBON PRODUCTION (mn TOE)



2P RESERVE REPLACEMENT RATIO EXCLUDING
ACQUISITIONS (%)





OIL REFINING

> STRATEGIC OBJECTIVES

> KPI for 2025

40

mn t

oil refining volume
in Russia

95%

refining depth
in Russia

80%

yield of light
petroleum products
in Russia

Implementing programmes to modernise oil refining facilities as well as growth in operating efficiency remain strategic priorities for Gazprom Neft as it develops its oil refining business in Russia. The Company has completed the first stage of the extensive modernisation of its oil refineries, which aims to improve the quality of the petroleum products it manufactures. All the motor fuels it produces correspond to fifth-class emission standards. The Company continues to implement key projects in the second stage of the modernisation programme, which aims to increase oil refining depth and expand the yield of light petroleum products. Work is also being continued on projects to improve operating efficiency and to mitigate the Company's environmental impact.

> MILESTONES OF 2016

Continuation of the oil refinery modernisation programme:

- > Active construction of the Euro+ 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



SALES

> STRATEGIC OBJECTIVES

> KPI for 2025

100%

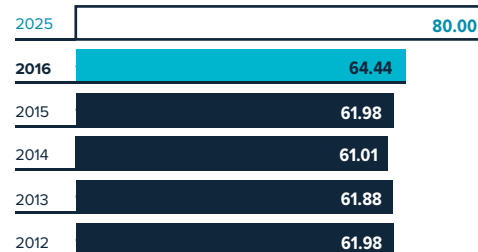
volume of products manufactured at the Company's Russian oil refineries
sold via its high-margin sales channels

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)

REFINING DEPTH AT RUSSIAN OIL REFINERIES (%)

YIELD OF LIGHT PETROLEUM PRODUCTS AT RUSSIAN
OIL REFINERIES (%)> For more, see the 'Sale of oil
and petroleum product' section, [p. 43](#)

SALE OF MOTOR FUELS

> STRATEGIC OBJECTIVES

> KPI for 2025

19

mn t

premium sales
in Russia and the CIS

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.

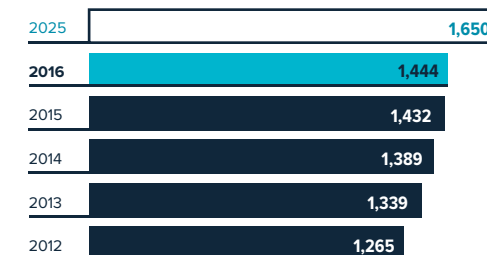
> MILESTONES OF 2016

Filling stations:

- > The Company's filling station network in the Russian Federation increased by 55 stations last year and included 1,244 filling stations at the end of 2016. The total number of Gazpromneft filling stations in all regions of operation grew to 1,868
- > The Company has 839 filling stations with a convenience store in the Russian Federation. Revenue from cross-selling goods and services totalled RUB 16.2 billion in 2016 (+15% versus 2015)
- > Successful implementation of a project to transfer filling station convenience stores to the management of the professional retailer Stop Express
- > Approval of the new 'Both Better and Cheaper' communications platform;
- > The 'Going the Same Way' loyalty programme was put online. The total number of loyalty cards surpassed 7.7 million

Corporate sales:

- > Mobile app launched for corporate clients
- > The Company achieved the best corporate client satisfaction level among VIOC – 52.5 p.p. using NPS methodology (client satisfaction index)
- > 599,000 fuel cards accepted at more than 2,370 of the Company's own and partner filling stations in 77 regions of the Russian Federation

> DYNAMICS OF KEY
PERFORMANCE INDICATORSNUMBER OF FILLING STATIONS¹ IN RUSSIA
AND THE CIS (stations)¹ Number of filling stations at the end of the year including franchises.PREMIUM SALES VOLUME²,
RUSSIA AND THE CIS (mn t)² Retail market sales.> For more, see the 'Motor fuel and filling
stations' section, [p. 46](#)

PETROLEUM PRODUCTS SALES TO INDUSTRIAL CONSUMERS BY PRODUCT BUSINESS UNITS

> STRATEGIC OBJECTIVES

> KPI for 2025



5.5
mn t

sales of jet fuel in Russia and on the global market



3.4
mn t

sales of marine fuel in Russia and on the global market



2.3
mn t

sales of bitumen in Russia and on the global market



1.37
mn t

sales of petrochemical products in Russia and on the global market



0.75
mn t

sales of oils and lubricants in Russia and on the global market

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.

The Company plans to further increase sales in the business units and boost its market share. In addition, Gazprom Neft plans to introduce new products to the market and also develop its distribution capacity.

JET FUEL SALES

> STRATEGIC OBJECTIVES

Development of the Company's own distribution network:

- > To expand the activities of jet fuel supply facilities in the Russian Federation by building and acquiring refuelling complexes in target Russian regions
- > To expand the activities of jet fuel supply facilities abroad by developing reselling and acquiring refuelling complexes in target regions abroad

Expansion of the product range:

- > To produce jet fuel on a give-and-take basis and promote it in the sales network
- > To promote the RT brand in the sales network

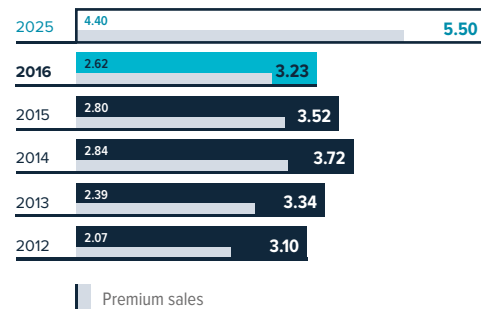
> MILESTONES OF 2016

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 Kerpeyevm
- > The Company organised wet wing aircraft fuelling at airports in Yekaterinburg and Saransk

> DYNAMICS OF KEY INDICATORS

JET FUEL SALES (mn t)



> For more, see the 'Aircraft fuelling' section, p. 49

BUNKERING

> STRATEGIC OBJECTIVES

Development of the bunkering fleet:

- > Renovations to the fleet of bunkering vessels
- > Implementation of a liquefied natural gas (LNG) project: construction of LNG bunkering vessels prior to 2025

Outsourcing:

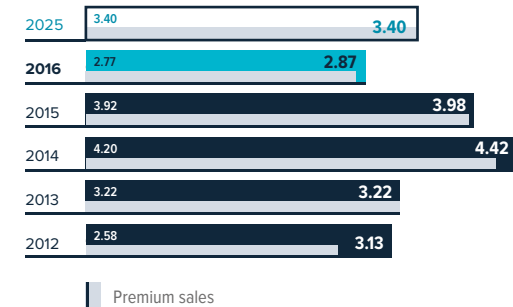
- > Active work with fuel oil outsourcing starting in 2021 due to the implementation of a modernisation programme at the Company's oil refineries

> MILESTONES OF 2016

- > A five-year fuel supply contract was extended with one of the world's largest container carriers ZIM Integrated Services
- > Six Gazpromneft Marine Bunker bunkering vessels were inspected according to Shell and ExxonMobil standards, creating additional growth of 42,000 tonnes in retail sales
- > Gazprom Neft was the first among all bunkering companies to conduct bunkering at the new Bronka port
- > The Company conducted pilot integrated bunkering of marine oils and fuel at the Ust-Luga port
- > The capacity of the transshipment terminal in St. Petersburg was increased by 120,000 tonnes of petroleum products
- > Bunkering operations were established with the Nord handling complex for Arctic fleet vessels

> DYNAMICS OF KEY INDICATORS

MARINE FUEL SALES (mn t)



> For more, see the 'Bunkering' section, p. 50

LUBRICANTS

> STRATEGIC OBJECTIVES

Development of production:

- > To increase the range of different groups of oils at Slavneft-YANOS and the Omsk Lubricants Plant
- > To modernise the production facilities of the Moscow Lubricants Plant

Development of premium sales:

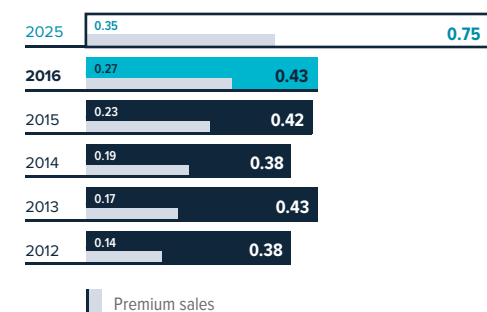
- > To enter new oils segments for the pipe and oil and gas industries
- > To expand the range of synthetic oils
- > To develop an international network of branded service stations

> MILESTONES OF 2016

- > A programme was continued to develop a premium network of branded service stations: the Company has a total of 70 service stations
- > The number of countries in which the Company operates was increased to 65
- > The Company acquired the asset Rospolikhim – a plant that manufactures special oils to meet the needs of the Gazprom Group – as well as metallurgical enterprises
- > The Company continues to develop an import substitution programme: it concluded agreements with a number of regions in 2016 under which more than 1,500 tonnes of premium oils were supplied to replace imported oils

> DYNAMICS OF KEY INDICATORS

SALES OF OILS AND LUBRICANTS (mn t)



> For more, see the 'Oils and lubricants production and sales' section, p. 50

BITUMEN MATERIALS

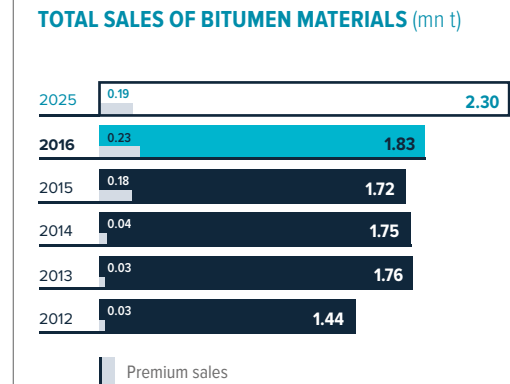
STRATEGIC OBJECTIVES

- Expansion in the product range:
- > To increase the range of bitumen produced at the Company's oil refineries
 - > To manufacture a product range that meets the new industry standards
 - > To develop the Scientific Research Centre

MILESTONES OF 2016

- > The number of foreign markets was increased to 21
- > The Company organised the work of a unique inter-industry Scientific Research Centre at the site of the Ryazan Bitumen Materials Plant
- > The Company acquired the asset NOVA-Brit LLC – a plant that manufactures high-tech bitumen derivative materials
- > An agreement was concluded with FSUE Civilian Airport (Airfield) Administration and FSUE Main Road and Airfield Construction Department under the Russian Federal Agency for Special Construction on the use of innovative products in road and airfield construction

DYNAMICS OF KEY INDICATORS



For more, see the 'Bitumen materials' section, p. 51

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.

STRATEGIC FOCUSES AND PRIORITIES OF THE CORPORATE AND SOCIAL RESPONSIBILITY PROGRAMME

1

SUSTAINABLE DEVELOPMENT

- > Enhancing production safety
- > Minimising the environmental risks of oil production and refining
- > Careful use of natural resources
- > Preservation of biodiversity

> For more about implementation tools and performance results, see the 'Sustainable development' section, p. 66

2

HUMAN RESOURCE DEVELOPMENT

- > Staying healthy
- > Occupational safety
- > Improvement to the employee professional development system
- > Social support for employees and their families

> For more about implementation tools and performance results, see the 'Human resources development' section, p. 76

3

REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES

- > Improving the quality of life of the local population
- > Support for the sustainable development of the regions of operation

> For more about implementation tools and performance results, see the 'Regional policy and development of local communities' section, p. 79

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.



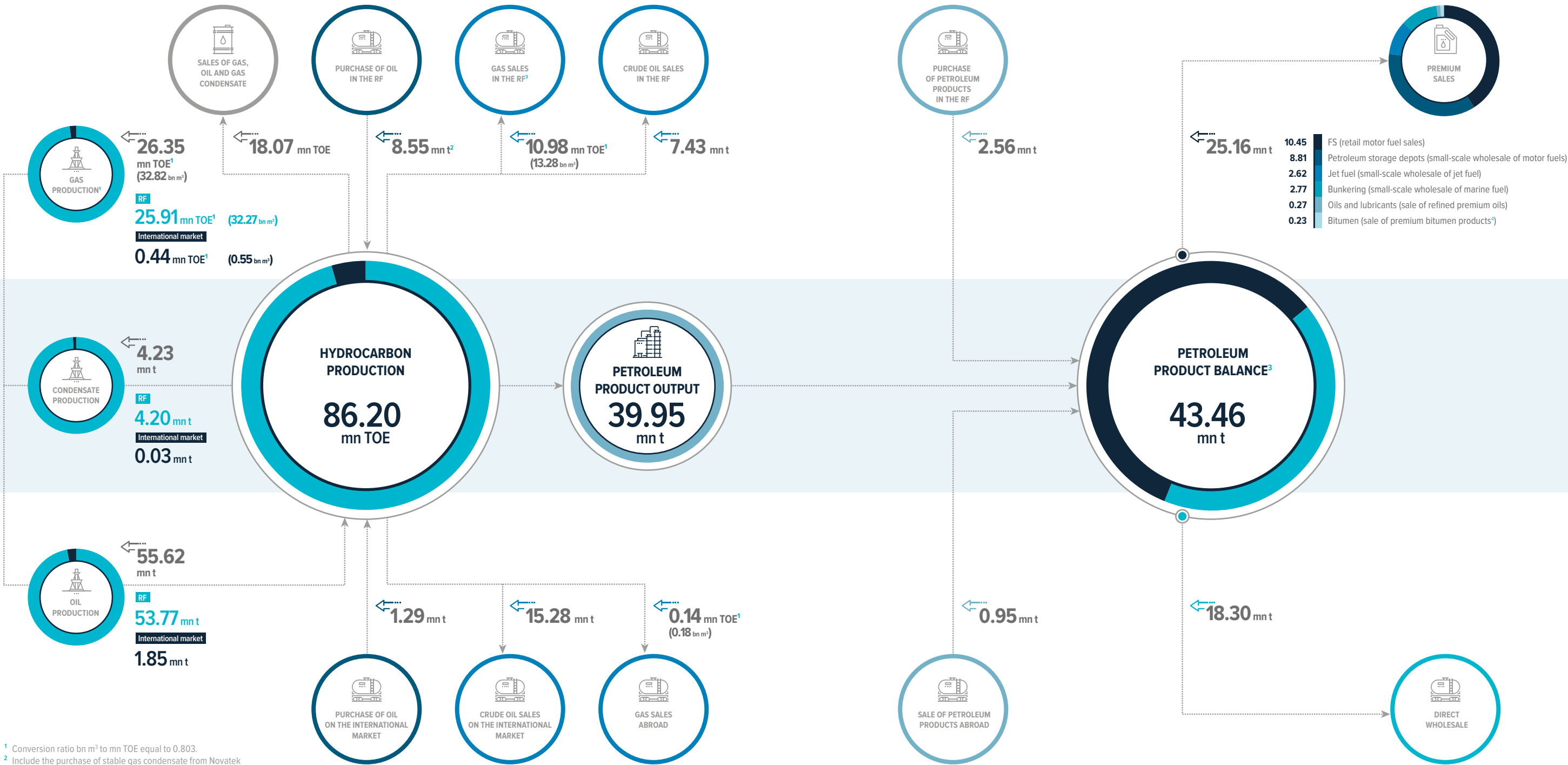
OVERVIEW OF RESULTS

MATERIAL FLOWS OF OIL AND PETROLEUM PRODUCTS	34
RAW MATERIALS BASE AND PRODUCTION	36
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REGIONAL POLICY AND DEVELOPMENT OF LOCAL COMMUNITIES	79

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 bn m³ to mn TOE equal to 0.803.
² Include the purchase of stable gas condensate from Novatek amounting to 25% of the production of Arcticgas.
³ Taking into account internal consumption / changes in balances.
⁴ Polymer-bitumen binders and bitumen emulsions.

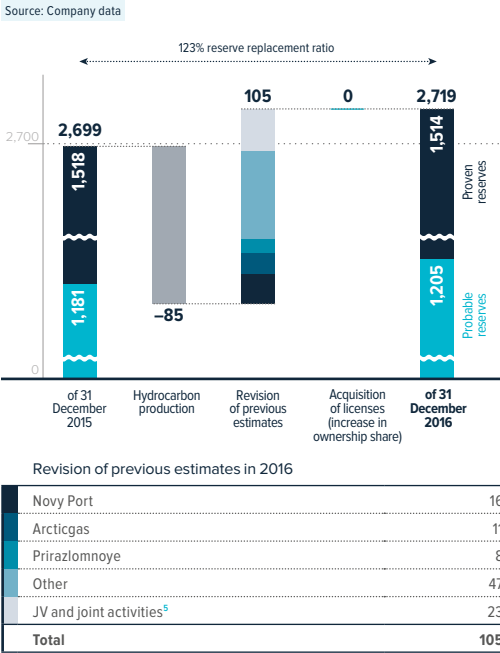
RAW MATERIALS BASE AND PRODUCTION

RAW MATERIALS BASE

The resource base of the Company's current assets has deteriorated in terms of the remaining commercial reserves as most fields are in a late stage of development. An increase in high-tech drilling and the use of tertiary methods for boosting oil recovery has enhanced the efficient development of these reserves.

The Company's reserves are audited according to PRMS-SPE standards and the more conservative SEC standards. Based on the report of DeGolyer and MacNaughton's independent reservoir engineers, total proven and probable hydrocarbon reserves (including the Company's stake in the reserves of affiliates accounted for using the equity method) amounted to 2.719 billion TOE (1.867 billion tonnes of oil, 1.07 trillion m³ of gas), excluding NIS, as of 31 December 2016.

DYNAMICS OF THE RAW MATERIALS BASE FOR 2015–2016¹ (mn TOE)

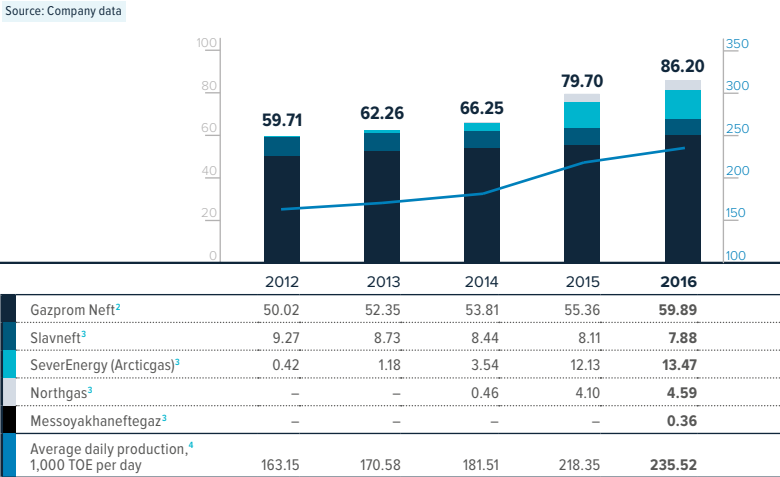


¹ Data does not include reserves and production volume of NIS.
² Consolidated companies.
³ Share in production.
⁴ Average daily production by the Gazprom Neft Group.
⁵ JVs and joint activities include Tomskneft, Slavneft, Salym Production Development, Northgas and Messoyakhaneftgaz.

OIL AND GAS PRODUCTION

The Company is increasing its reserves in addition to the volume and efficiency of production at 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)



Growth in hydrocarbon production in 2016 was due to:

- > current assets – further drilling of the Priobskoye field and Orenburg assets;
- > major projects – increased production at the Prirazlomnoye and Novoportovskoye fields, at assets belonging to SeverEnergy LLC (Arcticgas), Northgas 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 (HTRR) 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 Transneft pipeline system;
 - exemption obtained for export duty;
 - commissioning of a gas turbine power plant with total capacity of more than 90 MW.

- > Prirazlomnoye:
 - 32 tankers of oil shipped;
 - 4 wells drilled (3 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).

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

GAS PRODUCTION

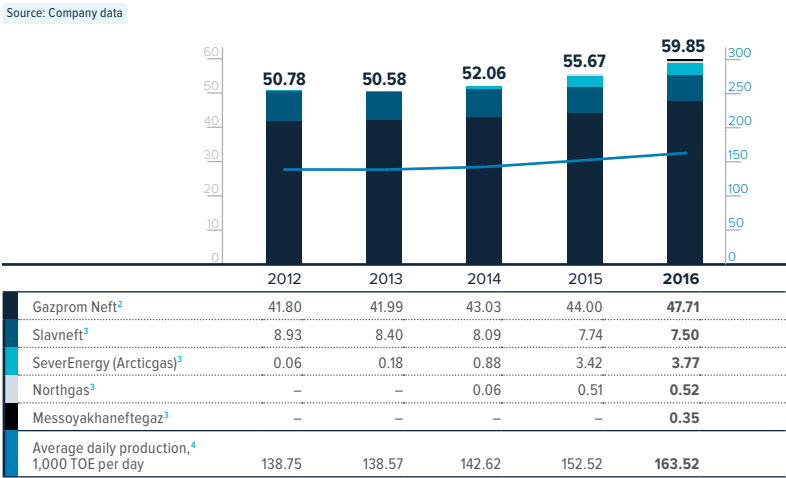
The Company is actively developing its gas business with a focus on commercialising the reserves of associated and natural gas produced at fields. The Gazprom Neft Group's gas programme envisages accelerated growth in gas production in Russia.

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.

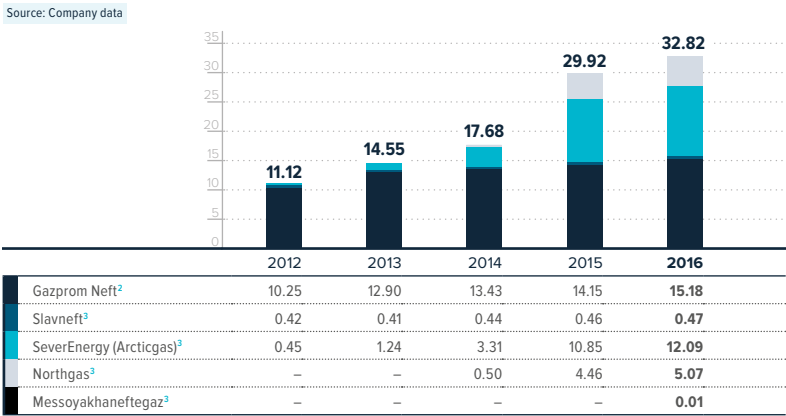
OIL PRODUCTION

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 7.2% over the reporting year.

OIL PRODUCTION¹ (mn t)



GAS PRODUCTION⁴ (bn m³)



¹ Including gas condensate.
² Consolidated companies.
³ Production share.
⁴ Gas production consists of commercial gas and gas used for internal needs.

RUSSIAN PROJECTS



Novy Port¹



Messoyakha¹



Prirazlomnoye



Kuyumba¹



Chonsky



SeverEnergy¹



Northgas¹



Dolginskoye



Badra¹



Kurdistan¹

Garmian Shakal Halabia

PRMS hydrocarbon reserves (proven + probable), mn TOE									
188.9 (116.6 + 72.3)	71.8 (10.9 + 60.9)	58.0 (25.9 + 32.1)	123.3 (9.6 + 113.7)	78.0 (13.9 + 64.1)	503.5 (324.9 + 178.6)	221.8 (180.3 + 41.5)	No estimate conducted	22.4 (10.5+11.9)	0.8 (0 + 0.8)
Stake of Gazprom Neft									
90%	50%	100%	50%	100%	46.67%	50%	100%	30%	40% 80% 80%
Start of commercial production → attainment of projected capacity									
2016 → 2021	2016 → 2022 2022 → 2025	2014 → 2023	2018 → 2032	2024 → 2024	2012 → 2016	2001 → 2015	2027 → n/a	2014 → 2019	2015 → 2020
Projected capacity, mn t of oil per year									
8.0	7.1	4.8	5.45	n/a	14.84 mn TOE	4.95 mn TOE	n/a	1.71	1.2
Hydrocarbon production in 2016 (oil, mn t and gas ² , mn m ³ , DEC ³)									
2.96 (2.9 and 51)	0.36 (0.36 and 0)	2.19 (2.15 and 45)	0.04 (0.04 and 0)	0.03 (0.03 and 0)	13.48 (0.115 and 12,089 and 3.653)	4.59 (0 and 5,064 and 0.519)	— (—)	0.78 (0.78 and 4.2)	0.09 (0.09 and 0)
> Milestones of 2016: > launch of infrastructure to ensure annual oil exports of up to 5.5 mn TOE by sea; > successful implementation of a technological plan to drill complex wells and conduct hydraulic fracturing, and the drilling of the longest horizontal wellbore (2,000 m) of all wells previously drilled at the subsidiary. > Plans for 2017: > complete construction on a compressor station with a complex gas treatment unit, inject gas into the reservoir and make a decision on the monetisation of the gas; > determine the technical feasibility of the option of monetising condensate and conducting marketing research; > build and launch a gas-turbine thermal power plant.	> Milestones of 2016: > start of the commercial development of the East Messoyakha license area and start of oil delivery to the Transneft PJSC pipeline system (September); > coordination of technical and technological solutions for gas injection projects, and start of design and survey work; > customs duty exemption obtained. > Plans for 2017: > design and ordering of equipment for a compressor station with a gas treatment unit; > drilling under abnormally high reservoir pressure; > construction of wells using Fishbone technology with wellbore casing.	> Milestones of 2016: > 3 millionth tonne of ARCO oil produced; > 32 oil tankers shipped; > shift camp put into operation; > modernisation of an offshore ice-resistant fixed platform (OIRFP). > Plans for 2017: > complete a programme to build four horizontal wells; > transition to the use of hydrocarbon-based solutions when drilling wells; > implementation of a sootless APG flaring project; > implementation of a pilot testing plan and field performance of spare parts, tools and accessories for the OIRFP as part of an import substitution programme.	> Milestones of 2016: > design and survey work completed for the main 'Early Oil' on-site facilities; > construction and installation work completed for the 'Early Oil' facilities. > Plans for 2017: > start of oil delivery to the Transneft PJSC pipeline system; > obtain an export duty exemption; > well testing under the 'Early Oil' programme; > construction of a central gathering facility (CGF) and crude oil delivery and acceptance point (CODAP) with first phase capacity of 1.3 mn t.	> Milestones of 2016: > well workover performed with hydraulic fracturing at one well on terrigenous reservoirs; > transition to day rate, contracting of services and drilling of a well under day rate conditions; > 1,200-m horizontal sidetrack well drilled at the Ignyalinsky license area without accidents or complications with an on-the-fly adjustment of the borehole trajectory; > successful hydraulic fracturing was performed at the Ignyalinsky license area with a five-fold increase in the oil flow rate. > Plans for 2017: > confirmation of the effectiveness of hydraulic fracturing based on well workover with hydraulic fracturing at two existing wells in terrigenous reservoirs; > multi-stage hydraulic fracturing at the project's first horizontal well; > drilling of a second horizontal well with two pilot holes; > completion of field data analysis on the interpretation of seismic data at the Bolshaya Medveditsa site.	> Milestones of 2016: > start of commercial operation of the UPM-50 methanol production and regeneration unit at the Urengoykoye oil and gas condensate field (OGCF); > design documentation for the oil infrastructure of Yaro-Yakha transferred to the State Expert Evaluation Department. > Plans for 2017: > completion of the design and start of construction and installation work on the oil component of the Yaro-Yakha OGCF; > launch of the booster compressor station at the Samburgskoye OGCF.	> Milestones of 2016: > preparatory measures for 3D seismic survey. > Plans for 2017: > 3D seismic survey; > search for a partner to jointly implement the project.	> Milestones of 2016: > 3 millionth tonne of oil produced; > 5 oil tankers shipped; > drilling completed and 5 wells put into operation; > launch of priority infrastructure facilities for a central gathering facility, camp and the third oil treatment processing line. > Plans for 2017: > launch of a gas plant and export gas pipeline; > adjustments to the final development plan and adoption of a decision on the drilling of additional wells.	> Milestones of 2016: > operating functions for the Sarkala field transferred to Gazprom Neft from WZL; > piping and instrumentation diagram for the Sarkala field endorsed by the Ministry of Natural Resources of the Kurdish Autonomous Region; > 3D interpretation of seismic works completed at the northwest Shakal block based on which the geological model was updated and the resource base was reassessed; > standard 2D interpretation of seismic work completed at the Halabja block and the conceptual geological model of the block was updated. > Plans for 2017: > well workover of Shakal-1 (hydraulic fracturing of Lower Jaddala); > drilling of a well and preparatory work to expand the oil treatment unit at the Sarkala field.	
<div><div>¹ Data given taking into account Gazprom Neft's stake in the project.</div><div>² Gas production consists of total commercial gas and gas used for internal needs.</div><div>³ Gas condensate in the projects of SeverEnergy and Northgas.</div></div>									

¹ Data given taking into account Gazprom Neft's stake in the project.
² Gas production consists of total commercial gas and gas used for internal needs.
³ Gas condensate in the projects of SeverEnergy and Northgas.

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

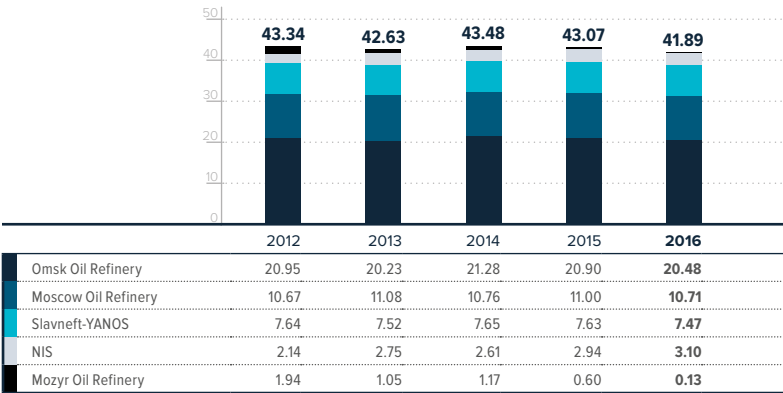
Gazprom Neft paid great attention to innovative development in 2016. In accordance with the Company’s strategy, priority areas of R&D in the oil refining segment include increasing the depth of refining, the release of new products and the enhanced eco-friendliness of the production process.

In 2016, the Company continued to implement a modernisation programme for its oil refineries that aims to improve their operating efficiency, increase the depth of oil refining, expand the yield of light petroleum products and enhance production and environmental safety. 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

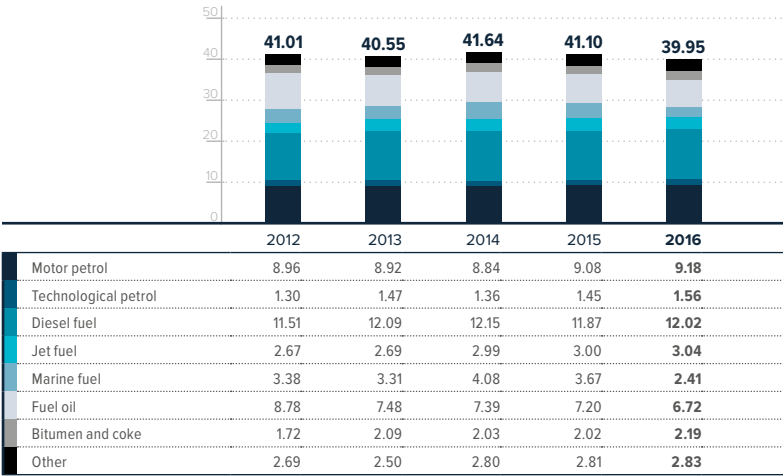
OIL REFINING VOLUME BY OIL REFINERY (mn t)

Source: Company data



STRUCTURE OF PETROLEUM PRODUCT PRODUCTION (mn t)

Source: Company data



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.

OIL REFINING AT COMPANY ASSETS

OMSK OIL REFINERY

22.0 mn t installed capacity

20.5 mn t refining

90.6% refining depth

70.9% yield of light petroleum products

- Milestones of 2016:
- > projects are continuing to increase oil refining depth that include 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.

- Plans for 2017:
- > continue 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.

MOSCOW OIL REFINERY

12.2 mn t installed capacity

10.7 mn t refining

75.8% refining depth

58.1% yield of light petroleum products

- Milestones of 2016:
- > continued implementation of projects to increase oil refining depth, including the construction of an AORC, DCU and the Euro+ advanced oil refining unit;
 - > construction of a sulphurous alkaline waste and process condensate treatment unit and biological treatment facilities (the Biosphera project);
 - > reconstruction of a catalytic cracking unit in order to improve oil refining efficiency.

- Plans for 2017:
- > continue implementing projects to increase oil refining depth (AORC, DCU and Euro+);
 - > 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.

NIS (SERBIA)

7.3
mn t
installed capacity¹

3.1
mn t
refining

84.9%
refining depth

73.4%
yield 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.

OIL REFINING AT JOINT VENTURE OIL REFINERIES

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.

SLAVNEFT-YANOS

15.0
mn t
installed capacity

7.5
mn t
refining²

66.5%
refining depth

55.9%
yield of light petroleum
products

- > **Milestones of 2016:**
- > construction completed on a pressurised fuel oil loading unit;
 - > implementation of a project to build a group three oil production unit.
- > **Plans for 2017:**
- > commission the group three oil production unit;
 - > continue implementing an environment project to build a hydrogen sulphide utilisation unit as well as projects to improve operating efficiency, including a project to convert process furnaces to natural gas and replace the furnace of the primary oil refining unit of Atmospheric-Vacuum Distillation Unit-4;
 - > to select an oil residue refining technology and complete a feasibility study.

MOZYR OIL REFINERY

12.0
mn t
installed capacity

0.13
mn t
refining³

74.04%
refining depth

58.95%
yield of light petroleum
products

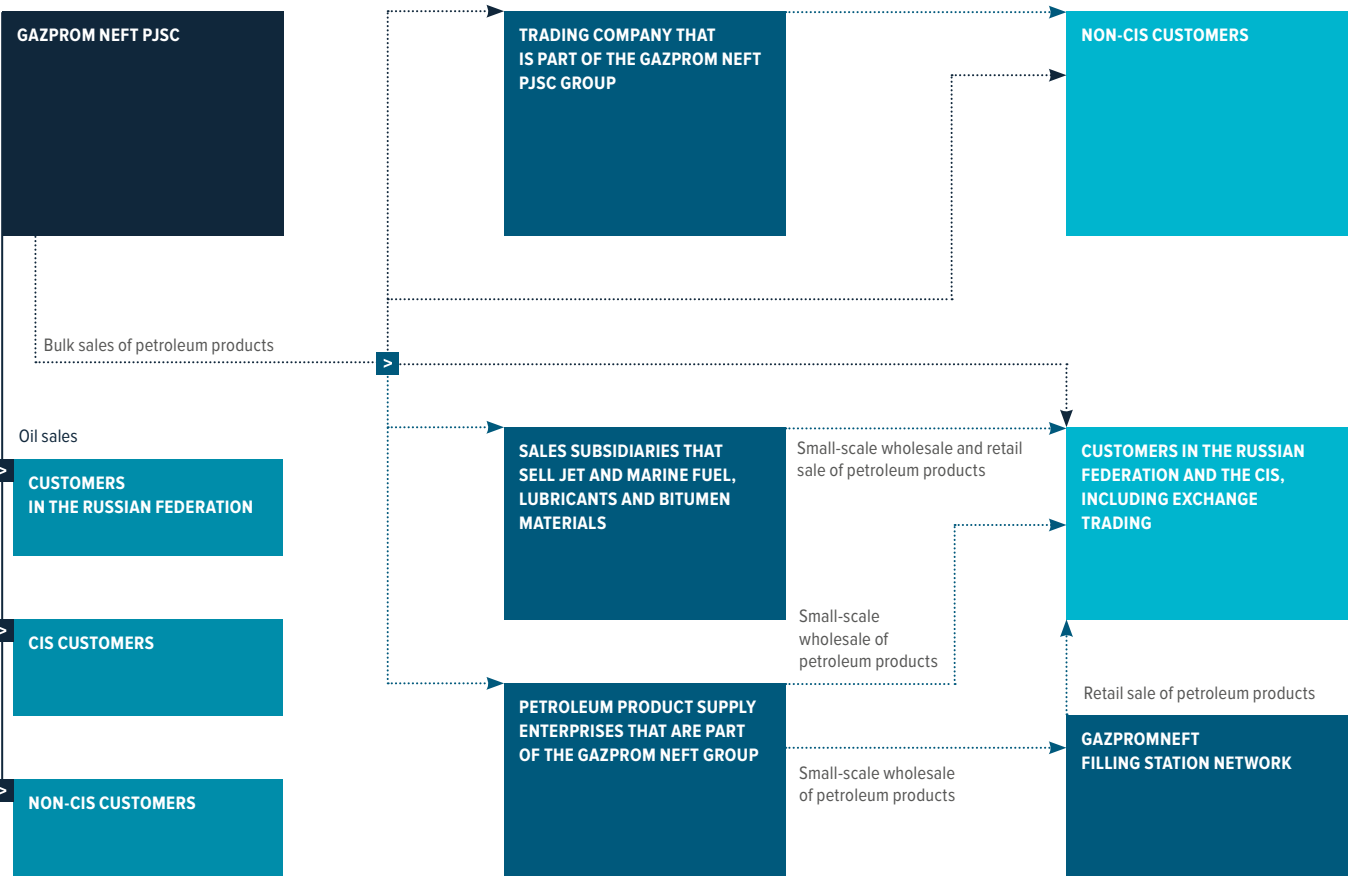
- > **Milestones of 2016:**
- > the following facilities were built and commissioned as part of the Company's Production Development Programme: a complex high-octane petrol component production unit (tert-amyl methyl ether + methyl tertiary butyl ether + Dimersol-G), C4 fraction adsorption purification 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.

¹ The Pancevo Oil Refinery has projected capacity of 4.818 bn t, while the Novi Sad Oil Refinery has projected capacity of 2.495 bn t and is currently under reconstruction with no plans for oil refining in 2016-2018.
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.

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



Oil flows
Petroleum product flows

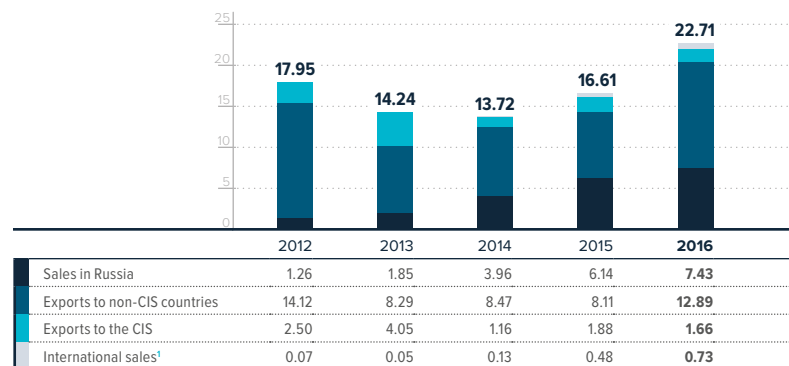
OIL SALES

Oil sales increased by 36.7% in 2016 compared with 2015 to 22.71 million tonnes, in particular:

- > the growth in exports to non-CIS countries is attributable to increased oil production at the Novoportovskoye and Prirazlomnoye fields and the start of production at the Messoyakha 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.

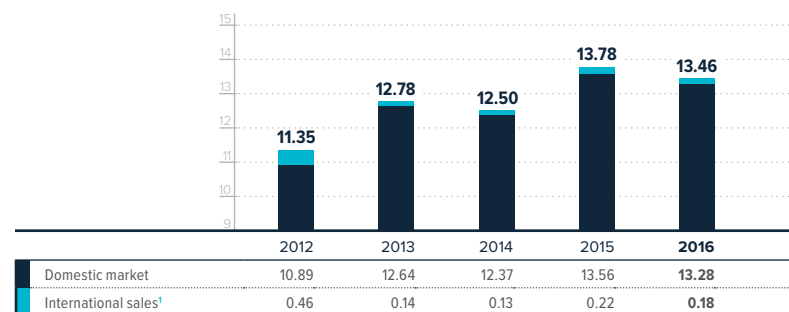
OIL SALES (mn t)

Source: Company data



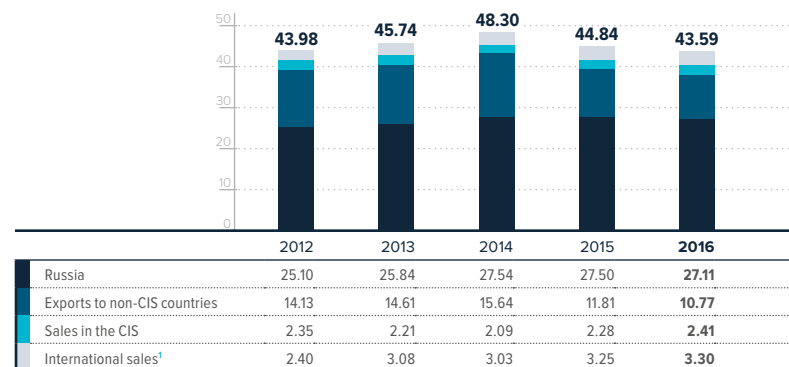
GAS SALES (bn m³)

Source: Company data



PETROLEUM PRODUCT SALES BY REGION (mn t)

Source: Company data



¹ International sales refer to sales by Gazprom Neft's foreign subsidiaries.

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 27.11 million tonnes of petroleum products (-1.4% versus 2015). At the same time, motor fuel sales increased by 2.7% 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.

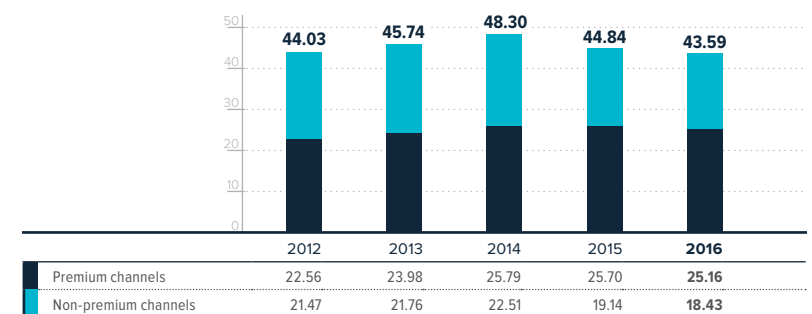
Premium sales:

- > sales of petroleum products via premium distribution channels for retail and small-scale wholesale. This group includes all petroleum product sales via filling stations and petroleum storage depots as well as wet wing aircraft fuelling, ship fuelling and small-scale wholesale from refuelling 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.

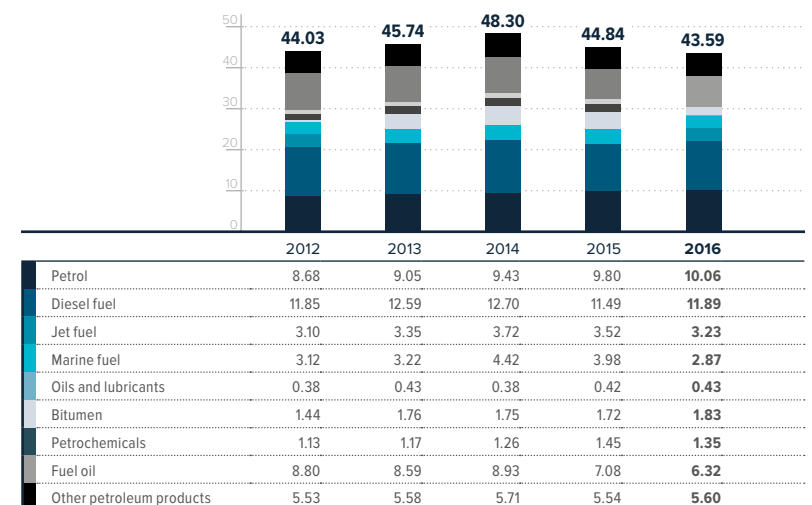
SALES STRUCTURE BY CHANNEL (mn t)

Source: Company data



SALES STRUCTURE BY PRODUCT (mn t)

Source: Company data



MOTOR FUEL AND FILLING STATIONS

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 1,197 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.

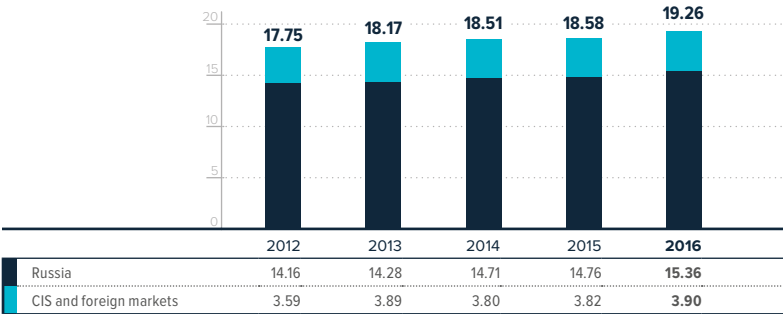
Developing the network, maintaining control over partner filling stations and continuously working to improve the efficiency of business processes has enabled the Company to increase its market share in the regions where it operates. As of the end of the year, the Company had increased its share of the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

¹ Data only presented for existing filling stations.
² Data as of the end of the year.

In foreign markets, the Company’s filling station network consists of 624 stations, including 200 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.

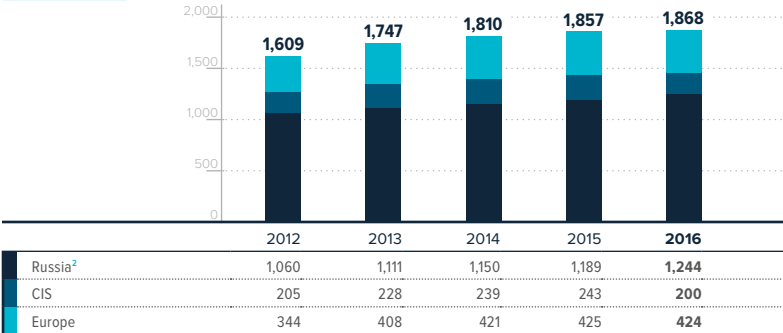
PREMIUM SALES OF MOTOR FUELS BY REGION (mn t)

Source: Company data



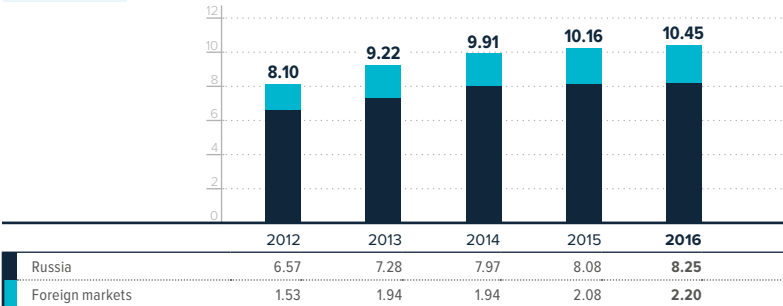
FILLING STATION NETWORK¹ (stations)

Source: Company data



FILLING STATION SALES (mn t)

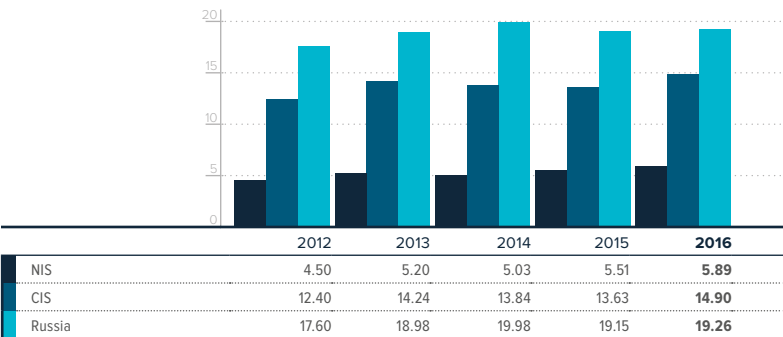
Source: Company data



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 (t/day)

Source: Company data



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 ‘Covering 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.

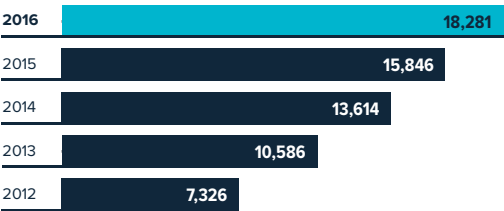
The most significant changes were seen in the development of the Drive Café brand of non-fuel products at Gazpromneft filling stations. In 2016, the network’s Russian filling stations sold 21 million cups of coffee, an 18% increase versus the previous year, while total revenue from hot beverages amounted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

KEY CROSS-SELLING EFFICIENCY INDICATORS OF THE FILLING STATION NETWORK IN RUSSIA AND THE CIS

Source: Company data

REVENUE (RUB mn including VAT)



REVENUE PER 1 T OF PETROLEUM PRODUCTS SOLD TO INDIVIDUALS (RUB 1,000 including VAT)



REVENUE PER 1 M² OF RETAIL SPACE

(RUB 1,000 including VAT)



NUMBER OF FILLING STATIONS WITH A STORE AT THE END OF 2016 (stations)



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 last year thanks to marketing and IT measures and included some 7.7 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 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 reduce 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 16% 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.

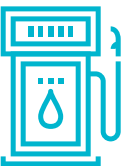
The Company increased sales of premium branded fuel at its filling stations by 5% in 2016.

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 (mn t)

Source: Company data

	2012	2013	2014	2015	2016
G-DRIVE 95	0.21	0.38	0.51	0.57	0.59
number of filling stations selling fuel	600	789	998	1,065	1,149
G-DRIVE 98	–	0.01	0.06	0.06	0.06
number of filling stations selling fuel	–	322	416	464	494
G-DRIVE 92	–	–	–	0.02	0.03
number of filling stations selling fuel	–	–	–	46	56



30%
of high-octane petrol customers preferred G-Drive fuel

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

Source: Company data

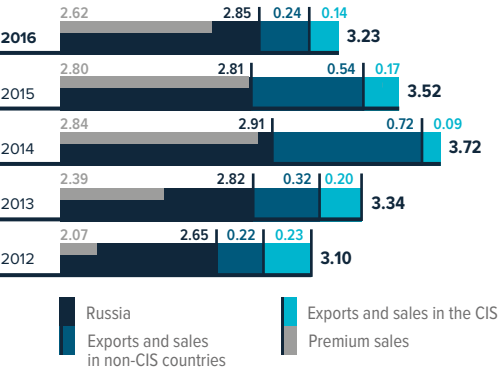
	2012	2013	2014	2015	2016
LPG, 1,000 t	92	93	97	105	115
CNG, 1,000 m³	11,611	12,749	15,106	17,080	17,500
Number of VFS ¹	125	123	136	153	156
Number of NGVFS ²	4	4	7	7	7

¹ The number of vehicle filling stations (VFS) under the Gazpromneft brand within multi-fuel filling complexes.
² The number of natural gas vehicle filling stations (NGVFS).

AIRCRAFT FUELING

AIRCRAFT FUELING (mn t)

Source: Company data



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 Kerpeyevm.

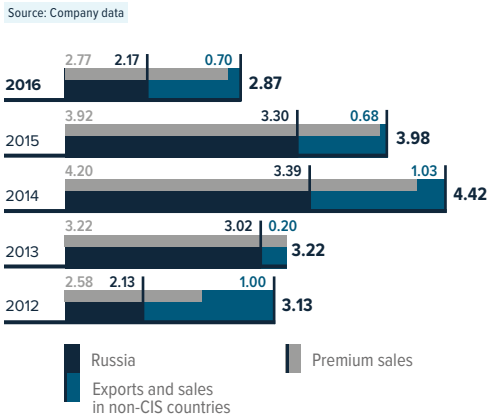
As of the end of 2016, the Company provided jet fuel supply services at 235 airports in 63 countries located in Southeast Asia, Europe, Africa, Australia as well as North and Latin America.

↑ 0.4 p.p.
26.2%
market share of the Russian Federation

↑ 11.9%
235
airports
airport network

BUNKERING

BUNKERING (mn t)



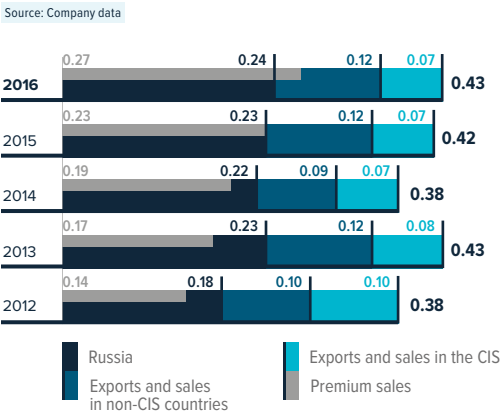
The Company provides bunkering for ships at all key sea and river ports in the Russian Federation (20 sea and 14 river ports). At present, Gazprom Neft has the most extensive geographical operations in Russia among all domestic bunkering companies. The Company's clients include major Russian and foreign shipping companies. Besides Russia, the Company provides bunkering in the port of Constanta (Romania) and the port of Tallinn (Estonia). The Company's fleet consists of nine bunkering tankers.

Gazprom Neft further expanded the geography of its operations last year as it started providing bunkering for the Arctic fleet transporting oil from the Novoportovskoye field and also conducted its first bunkering at the ports of Ust-Luga and Bronka (St. Petersburg).

The domestic bunkering market continued to shrink in 2016 due to diminished demand for bunkering from companies that own major container vessels. As a result, market capacity decreased by 25.3%. As of the end of the year, the Company's market share stood at 19.1%.

OILS AND LUBRICANTS PRODUCTION AND SALES

OILS AND LUBRICANTS SALES (mn t)



↑ 2.9 p.p.
20.0%
market share of the Russian Federation¹

↑ 2.9 p.p.
70
stations
branded partner service stations

Gazprom Neft sells oils and lubricants via its own filling station network and also supplies products to retail chains, online stores, service stations and the assembly lines of automotive manufacturers. Growth in the premium sales of lubricant materials 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 1.1% 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%.

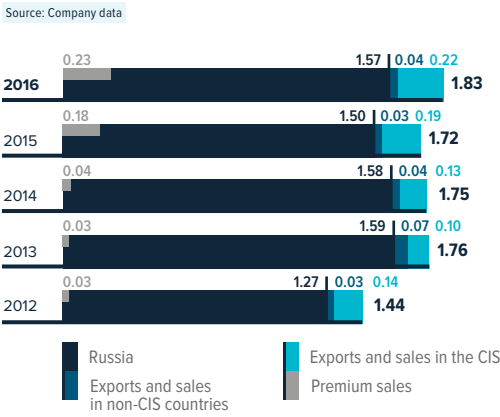
In 2016, the Company significantly expanded the range of lubricants it supplies to the market through the acquisition of the Rospolikhim group of companies, a developer and manufacturer of specialised lubricants. The acquisition of Rospolikhim made it possible to start supplying lubricants for pipe-rolling 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 Bosnia and Herzegovina).

BITUMEN MATERIALS

SALES OF BITUMEN MATERIALS (mn t)



↑ 0.2 p.p.
31.3%
market share of the Russian Federation²

With modern bitumen material production facilities in Moscow, Omsk, Yaroslavl, Ryazan and Vyazma, Gazprom Neft is one of the biggest producers and suppliers of bitumen products in Russia. In addition to its Russian plants, the Company manufactures bitumen products in Serbia and Kazakhstan. Total bitumen material sales amounted to 1.83 million tonnes in 2016, a 6.4% increase from 2015. The Company's share of the conventional bitumen materials market in the Russian Federation increased to 31.3% (+0.2 p.p.).

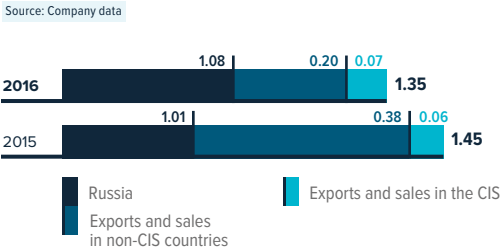
Gazprom Neft considerably strengthened its positions on the premium bitumen materials market in 2016 by acquiring a controlling stake in Nova-Brit LLC (Vyazma), a major manufacturer of innovative bitumen products. Thanks to the purchase of the stake in Nova-Brit LLC, the Company entered the market for high-tech bitumen products used to build roads, airfield runways and pipelines in addition to industrial construction. The Company began supplying premium bitumen products to the markets of Poland, Uruguay, Costa Rica, Paraguay, Brazil and Serbia in 2016. The expansion in the range and geography of supplies enabled the Company to increase sales of premium products by 88% to 105,000 tonnes.

The Company shipped and delivered an all-time high of 377,000 tonnes of binders using branded carriers during the reporting period, an 80% increase from 2015.

¹ Packaged oils market.
² Total bitumen market in the Russian Federation.
³ Separation of the petrochemical production segment included in reporting from 2015.

PETROCHEMICALS

SALES OF BASIC PETROCHEMICAL PRODUCTS³ (mn t)



Gazprom Neft is a major Russian manufacturer of a number of basic petrochemical products – aromatic hydrocarbons (benzene, paraxylene, orthoxylene and toluene) and propane-propylene fraction products (propylene liquefied petroleum gas). Basic petrochemical products are manufactured at all Gazprom Neft oil refineries (Omsk, Moscow and Yaroslavl). The production of petrochemical products for further stages of added value (polypropylene) takes place at integrated enterprises – Neftekhimiya NPP (Moscow) and Poliom LLC (Omsk).

In 2016, both integrated enterprises achieved record levels of equipment productivity and polypropylene production: 130,000 tonnes at Neftekhimiya NPP and 203,000 tonnes at Poliom LLC. Taking into account the Company's stakes in these assets, Gazprom Neft's polypropylene production increased by 7% in 2016 versus the previous year and totaled 116,000 tonnes.

Poliom LLC introduced and certified an integrated management system during the reporting period in accordance with the requirements of the international standards: ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007.

FINANCIAL RESULTS

KEY INDICATORS

KEY INDICATORS (RUB mn)

	2015	2016	Δ, %
Sales ¹	1,655,775	1,695,764	2.4
Less: export duties and sales related excise tax	(187,832)	(150,156)	(20.1)
TOTAL REVENUE	1,467,943	1,545,608	5.3
COSTS AND OTHER DEDUCTIONS			
Purchases of oil, gas and petroleum products	(345,909)	(351,294)	1.6
Production and manufacturing expenses	(214,267)	(201,862)	(5.8)
Selling, general and administrative expenses	(100,176)	(108,981)	8.8
Transportation expenses	(133,320)	(132,984)	(0.3)
Depreciation, depletion and amortization	(114,083)	(129,845)	13.8
Taxes other than income tax	(353,145)	(381,131)	7.9
Exploration expenses	(922)	(1,195)	29.6
TOTAL OPERATING EXPENSES	(1,261,822)	(1,307,292)	3.6
OPERATING PROFIT	206,121	238,316	15.6
Share of profit of associates and joint ventures	24,956	34,116	36.7
Net foreign exchange gain / (loss)	(67,910)	28,300	–
Finance income	14,732	11,071	(24.9)
Finance expense	(33,943)	(34,282)	1
Other (loss) / gain, net	1,494	(17,982)	–
TOTAL OTHER INCOME / (EXPENSE)	(60,671)	21,223	–
(LOSS) / PROFIT BEFORE INCOME TAX	145,450	259,539	78.4
Current income tax (expense)	(38,026)	(21,290)	(44)
Deferred income tax (expense) / benefit	8,774	(28,524)	–
TOTAL INCOME TAX BENEFIT / (EXPENSE)	(29,252)	(49,814)	70.3
(LOSS) / PROFIT FOR THE PERIOD	116,198	209,725	80.5
Less: profit attributable to non-controlling interest	(6,537)	(9,546)	46
PROFIT ATTRIBUTABLE TO GAZPROM NEFT	109,661	200,179	82.5

> For more, see:
> IFRS financial statement (Appendix 2)
> The full version of the financial results analysis is provided in the appendices in the online version of the report

¹ Sales include export duties and sales related excise tax.

REVENUES

REVENUES (RUB mn)

	2015	2016	Δ, %
CRUDE OIL			
Export	115,905	225,137	94.2
Export sales	180,240	266,661	47.9
Less: related export duties	(64,335)	(41,524)	(35.5)
International markets	9,146	12,683	38.7
Export to CIS	27,581	23,528	(14.7)
Export sales and sales in CIS	28,416	23,657	(16.7)
Less: related export duties	(835)	(129)	(84.6)
Domestic	81,187	94,809	16.8
TOTAL CRUDE OIL REVENUE	233,819	356,157	52.3
GAS			
International markets	3,411	1,853	(45.7)
Domestic	28,243	30,116	6.6
TOTAL GAS REVENUE	31,654	31,969	1
PETROLEUM PRODUCTS			
Export	202,477	184,272	(9)
Export sales	260,731	215,837	(17.2)
Less: related export duties	(58,254)	(31,565)	(45.8)
International markets	107,405	99,440	(7.4)
Sales on international markets	171,749	175,247	2
Less: sales related excise	(64,344)	(75,807)	17.8
CIS	78,070	71,838	(8)
Export sales and sales in CIS	78,134	72,969	(6.6)
Less: related export duties	(64)	(1,131)	1,667.20
Domestic	740,520	743,721	0.4
TOTAL PETROLEUM PRODUCTS REVENUE	1,128,472	1,099,271	(2.6)
OTHER REVENUE	73,998	58,211	(21.3)
TOTAL REVENUE	1,467,943	1,545,608	5.3

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.

PRODUCTION AND MANUFACTURING EXPENSES

PRODUCTION AND MANUFACTURING EXPENSES (RUB mn)

	2015	2016	Δ, %
UPSTREAM EXPENSES	98,095	106,490	8.6
Consolidated subsidiaries inside Russia	72,854	80,392	10.3
including Brownfields	61,225	65,960	7.7
RUB per toe	1,582	1,692	6.9
USD ¹ per boe	3.54	3.44	(2.8)
Greenfields	11,629	14,432	24.1
Consolidated subsidiaries outside Russia (including PSA ²)	9,426	9,655	2.4
Joint operations	15,815	16,443	4
RUB per toe	1,787	1,892	5.9
USD ¹ per boe	4	3.85	(3.7)
DOWNSTREAM EXPENSES	53,549	53,132	(0.8)
Refining expenses at own refineries	30,724	30,619	(0.3)
RUB per tonne	882	893	1.2
USD ¹ per bbl	1.97	1.82	(7.9)
Refining expenses at refineries of joint ventures ³	14,648	12,453	(15)
RUB per tonne	1,778	1,639	(7.8)
USD ¹ per bbl	3.98	3.33	(16.2)
Lubricants manufacturing expenses	8,177	10,060	23
TRANSPORTATION EXPENSES TO REFINERIES	27,541	29,561	7.3
OTHER OPERATING EXPENSES	35,082	12,679	(63.9)
TOTAL	214,267	201,862	(5.8)

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 6.9% 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 monopoly 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 SPD expenses as a result of ASP project development⁴, an increase in average well stock, the transition to the electric submersible pump (ESP) rental program, increased expenses for repair;
- > an increase in Tomskneft expenses as a result of higher tariffs, increased HSE program activities, increased well workover operations to intensify production.

Refining expenses at the refineries of consolidated subsidiaries include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor and electricity costs, and other similar costs at the Group's refineries.

Refining expenses per tonne at own refineries increased by 1.2% YOY primarily due to higher tariffs of natural monopolies. Tariffs growth was partially offset by:

- > Optimized consumption of fuel (fuel oil consumption instead of natural gas at Omsk refinery);
- > Optimized use of additives and components in diesel production.

Refining expenses per tonne at refineries of joint ventures declined by 7.8% YOY due to a decline in processing costs at YANOS refinery in accordance with legislation on transfer pricing and market conditions.

Transportation expenses to refineries increased by 7.3% YOY mainly due to a 5.8% increase in oil transportation tariffs.

Other operating expenses decreased by 63.9% YOY mainly due to transfer of operator function to Messoyakha.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include general business expenses, wages, salaries (except wages and salaries at production subsidiaries and own refineries), insurance, legal fees, consulting and audit services, and other expenses.

Selling, general and administrative expenses increased by 8.8% YOY, driven by:

- > Higher expenses at foreign subsidiaries due to rouble depreciation
- > Business growth, Group expansion and marketing campaigns.

TRANSPORTATION EXPENSES

Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, rail, shipping, handling, and other transportation costs.

Transportation expenses remained unchanged YOY. Crude oil transportation expenses increased due to higher crude sales volumes. Petroleum product transportation expenses decreased due to a reduction of petroleum product sales volumes and logistics chain optimization.

DEPRECIATION, DEPLETION AND AMORTIZATION

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

Depreciation, depletion and amortization expenses increase by 13.8% YOY in line with an increase in depreciable assets driven by implementation of the investment program and increased production.

¹ Translated to USD at the average exchange rate for the period.

² PSA refers to production sharing agreement.

³ Refining expenses of joint ventures is based on processing agreement.

⁴ Construction was completed on a plant that will mix the three-component alkaline-surfactant-polymer blend at the Salym group of fields.

TAXES OTHER THAN INCOME TAX (RUB mn)

	2015	2016	Δ, %
Mineral extraction taxes	256,477	237,300	(7.5)
Excise	68,358	112,102	64
Social security contributions	15,599	18,530	18.8
Other taxes	12,711	13,199	3.8
TOTAL TAXES OTHER THAN INCOME TAX	353,145	381,131	7.9

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

SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS (RUB mn)

Companies	2015	2016	Δ, %
Slavneft	9,265	13,916	50.2
SeverEnergia (Arcticgas)	11,913	14,472	21.5
Nortgaz	3,466	3,009	(13.2)
Other companies	312	2,719	771.5
SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES	24,956	34,116	36.7

The Group's share in profit of SeverEnergia (Arcticgas) increased by 21.5% YOY as a result of increased hydrocarbones 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.

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

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS (RUB mn)

	2015	2016	Δ, %
Net cash provided by operating activities	285,175	321,297	12.7
Net cash used in investing activities	(314,511)	(323,854)	3
Net cash (used in) / provided by financing activities	82,193	(68,430)	–
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	52,857	(70,987)	–

NET CASH PROVIDED BY OPERATING ACTIVITIES (RUB mn)

	2015	2016	Δ, %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	312,169	361,567	15.8
Net changes in working capital	18,342	15,216	(17)
Income tax paid	(19,522)	(22,158)	13.5
Interest paid	(28,229)	(36,476)	29.2
Dividends received	2,415	3,148	30.4
NET CASH PROVIDED BY OPERATING ACTIVITIES	285,175	321,297	12.7

NET CASH USED IN INVESTING ACTIVITIES (RUB mn)

	2015	2016	Δ, %
Capital expenditures	(349,036)	(384,817)	10.3
Acquisition of subsidiaries, shares in joint operations and equity affiliates	197	(2,028)	–
Net changes in deposits	45,745	48,517	6.1
Net changes in loans issued and other investments	(22,603)	(2,104)	(90.7)
Other transactions	11,186	16,578	48.2
NET CASH USED IN INVESTING ACTIVITIES	(314,511)	(323,854)	3

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 increased by 3.0% YOY due to higher capital expenditures.

NET CASH USED IN FINANCING ACTIVITIES (RUB mn)

	2015	2016	Δ, %
Net changes in debt	121,565	(63,929)	–
Payment of dividends to shareholders	(36,346)	(2,598)	(92.9)
Other transactions	(3,026)	(1,903)	(37.1)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	82,193	(68,430)	–

CAPITAL EXPENDITURES (RUB mn)

	2015	2016	Δ, %
Exploration and production	255,235	245,256	(3.9)
Consolidated subsidiaries	239,199	228,084	(4.6)
Joint operations	16,036	17,172	7.1
Refining	31,552	50,095	58.8
Marketing and distribution	13,547	9,728	(28.2)
Others	13,317	14,724	10.6
SUBTOTAL CAPITAL EXPENDITURES	313,651	319,803	2
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 second stage of modernisation programm at Omsk and Moscow refinery

DEBT AND LIQUIDITY (RUB mn)

	December 31, 2015	December 31, 2016
Short-term loans and borrowings	147,319	80,187
Long-term loans and borrowings	670,779	596,221
Cash and cash equivalents	(114,198)	(33,621)
Short-term deposits	(49,206)	(886)
NET DEBT	654,694	641,901
Short-term debt / total debt, %	18	11.9
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 5.52% as at December 31, 2016 mainly due to the increased share of loans denominated in rouble 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 of 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

REFERENCE MATERIALS**EBITDA RECONCILIATION** (RUB mn)

	2015	2016	Δ, %
PROFIT FOR THE PERIOD	116,198	209,725	80.5
Total income tax benefit / (expense)	29,252	49,814	70.3
Finance expense	33,943	34,282	1
Finance income	(14,732)	(11,071)	(24.9)
Depreciation, depletion and amortization	114,083	129,845	13.8
Net foreign exchange gain / (loss)	67,910	(28,300)	–
Other (loss) / gain, net	(1,494)	17,982	–
EBITDA	345,160	402,277	16.5
Less: share of profit of associates and joint ventures	(24,956)	(34,116)	36.7
Add: share of EBITDA of equity accounted investments	84,607	88,037	4.1
ADJUSTED EBITDA	404,811	456,198	12.7

PROFITABILITY (%)

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

ADJUSTED ROACE CALCULATION (%)

For 12 months preceding	December 31, 2015	December 31, 2016
Adjusted EBITDA	404,811	456,198
Depreciation, depletion and amortization	(140,659)	(158,919)
Effective income tax charge on EBIT	(53,501)	(62,429)
ADJUSTED EBIT¹	210,651	234,850
AVERAGE CAPITAL EMPLOYED	1,733,285	1,994,626
ADJUSTED ROACE	12.15	11.77

¹ Adjusted EBIT represents the Group's EBIT and its share in associates and joint ventures' EBIT

LIQUIDITY

	December 31, 2015	December 31, 2016	Δ, %
Current ratio	1.46	1.37	(6.2)
Quick ratio	0.79	0.66	(16.5)
Cash ratio	0.51	0.26	(49)

LEVERAGE

	December 31, 2015 r.	December 31, 2016 r.	Δ, p.p.
Net debt/ Total Assets, %	26.34	25.18	(1.2)
Net debt/ Equity, %	52.44	44.45	(8)
Gearing, %	36.05	30.8	(5.3)
			Δ, %
Net debt/ Market Capitalization	0.9	0.64	(28.9)
Net debt/ EBITDA	1.9	1.6	(15.8)
Total debt/ EBITDA	2.37	1.68	(29.1)

MAIN MACROECONOMIC FACTORS AFFECTING OPERATIONAL RESULTS

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

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

CHANGES IN MARKET PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS

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

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

The decrease in crude oil and petroleum product prices on international markets in 12 months 2016 had a negative impact on the Group’s results, but the drop in oil prices was largely offset by changes in the exchange rate for the US dollar relative to the Russian rouble.

OIL AND PETROLEUM PRODUCT PRICE DYNAMICS

Sources: Platts (international), Kortes (domestic)

	2015	2016	Δ, %
INTERNATIONAL MARKET (USD/ BARREL)			
Brent	52.46	43.73	(16.6)
Urals Spot (average Med + NWE)	51.49	42.02	(18.4)
INTERNATIONAL MARKET (USD/ BARREL)			
Premium gasoline (average NWE)	569.96	467.05	(18.1)
Naphtha (average Med. + NWE)	450.05	377.85	(16)
Diesel fuel (average NWE)	500.7	398.58	(20.4)
Gasoil 0.1% (average Med.)	486.26	391.21	(19.5)
Fuel oil 3.5% (average NWE)	247.49	199.93	(19.2)
DOMESTIC MARKET (RUB/T)			
High-octane gasoline	32,488	34,574	6.4
Low-octane gasoline	28,435	29,858	5
Diesel fuel	28,944	27,965	(3.4)
Fuel oil	7,202	6,051	(16)

ROUBLE VS. US DOLLAR EXCHANGE RATE AND INFLATION

The Group’s management has determined that the Russian rouble is the presentation currency for the Group’s financial statement. The functional currency of each subsidiary is considered the currency of the economic environment in which the company does business and is the Russian rouble for most subsidiaries.

	2015	2016
Change in Consumer Price Index, %	12.9	5.4
Average RUB/USD exchange rate for the period	60.96	67.03
USD/ RUB exchange rate as of the beginning of the period	56.26	72.88
USD/ RUB exchange rate as of the end of the period	72.88	60.66
Depreciation (appreciation) of Russian rouble to USD, %	30	17

HYDROCARBON TAXES

AVERAGE TAX RATES EFFECTIVE IN REPORTING PERIODS FOR THE TAXATION OF OIL AND GAS COMPANIES IN RUSSIA

	2015	2016	Δ, %
EXPORT DUTY, (USD/ T)			
Crude oil	120.25	75.61	(37.1)
Light petroleum products	57.67	30.21	(47.6)
Diesel	57.67	30.21	(47.6)
Gasoline	93.75	46.07	(50.9)
Naphtha	102.17	53.63	(47.5)
Heavy petroleum products	91.34	61.96	(32.2)
MINERAL EXTRACTION TAX			
Crude oil (RUB/t)	6,326	5,770	(8.8)

> For more details about taxation and its specific application with respect to Gazprom Neft, please see Appendix 6 ‘Oil Industry Taxation’, p. 223

INNOVATIONS
IN PRODUCTION

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.

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. They 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.



>50
technological
projects

launched as part
of the Gazprom Neft
Technology Strategy in 2016

IMPROVING WELL DRILLING
AND COMPLETION TECHNOLOGIES

One of the key priorities for developing drilling technologies is to increase the length of the horizontal section of wells. The length of the horizontal wellbore at the Novoportovskoye Port field has reached 2,000 metres, the Company’s highest such indicator.

Another key priority is to increase drilling speed. Salym Petroleum Development, a joint venture between Gazprom Neft and Shell, drilled a well at the Verkhnesalymskoye field with a depth of 3,300 metres in less than eight days. The construction speed of this well was a new technical record for such depth.

A landmark technological event in 2016 was the opening of a renovated drilling support centre at the Gazpromneft-STC site which provides 24-hour monitoring of horizontal well drilling processes. The centre is the first in the Russian oil and gas industry to combine the functions of geological and technological support for well construction work.

A key factor that has enhanced well completion efficiency is the improvement of multi-stage fracturing technology. In March 2016, Gazpromneft-Khantos was the first in the Gazprom Neft Group to conduct 18-stage hydraulic fracturing at the South Priobskoye field in the Khanty-Mansi Autonomous District. Prior to this, the maximum level had been 15 stages of hydraulic fracturing in a single horizontal wellbore. In July 2017, 30-stage hydraulic fracturing was performed at the South Priobskoye field, the first such operation for the Russian oil and gas industry.

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.



>
18
patents

>
26
applications

>
2
international
applications

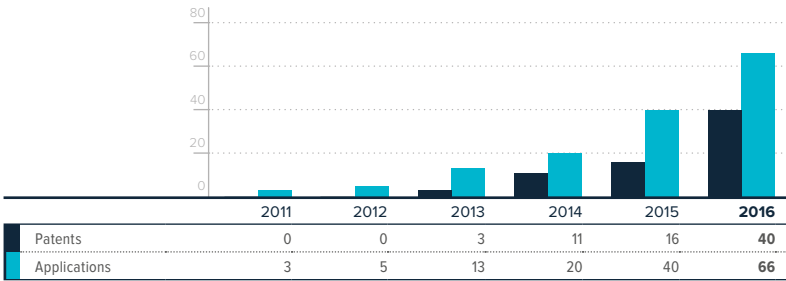
obtained from Rospatent
in 2016 for key oil refining
technical solutions

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 technical solutions in oil refining, including technologies for oligomerisation, 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.

GROWTH IN INTELLECTUAL PROPERTY ITEMS

Source: Company data



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.

The Ministry of Energy of the Russian Federation has assigned national status to Gazprom Neft’s project to develop catalyst production.

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 (VNIINP 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.

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.

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.

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

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.

[Interactive version of the Company’s social report: csr2016.gazprom-neft.com](#)

SAFE 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.

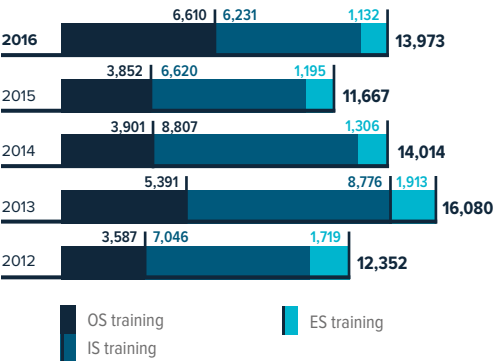
Gazprom Neft regularly carries out industrial environmental control and monitoring, conducts audits of the occupational safety management systems at its subsidiaries and affiliates and evaluates key areas of the activities of its enterprises in this regard.

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.

EMPLOYEE TRAINING IN HSE AND OS (employees)

Source: Company data

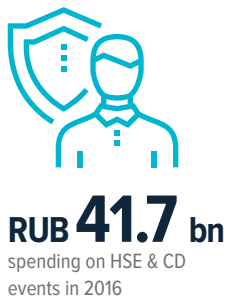


IMPROVE INDUSTRIAL SAFETY CULTURE

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.



PRODUCTION CONTROL

A new type of production control that was introduced in 2015 – a leadership behavioural safety audit – gained traction during the reporting year. It consists of a manager observing an employee’s work and then holding a discussion about safe or hazardous behavioural strategies. This approach helps to establish the proper behavioural model for the employee, correct dangerous behaviour and also identify why work is performed in violation of safety rules and assess the effectiveness of industrial and occupational safety activities.

- 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 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.

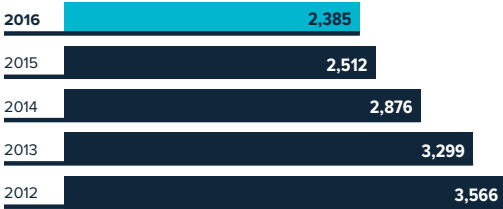
The ‘Occupational Safety in the Office’ online training course in 2016 took first place and earned a gold medal in the ‘Health and Safety-2015’ contest.

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.

NUMBER OF INCIDENTS AT HAZARDOUS PRODUCTION FACILITIES

Source: Company data



- > 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 reoccurring. 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.

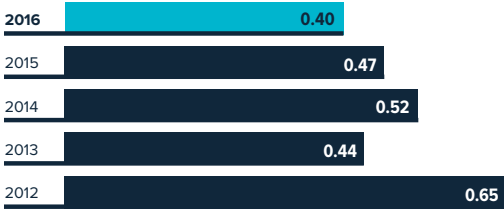
NUMBER OF INJURIES IN WORKPLACE ACCIDENTS

Source: Company data



LTIFR INJURY RATE

Source: Company data



MITIGATING NEGATIVE ENVIRONMENTAL IMPACTS AND THE EFFECTIVE USE OF RESOURCES

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 environmental 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;



RUB 14.3 bn investment in environmental safety and protection in 2016

- > 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.

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

PROTECTING THE ATMOSPHERE

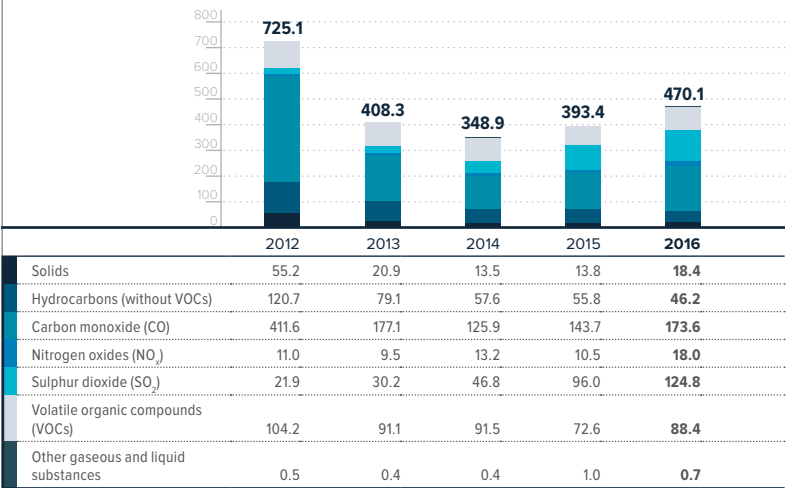
One of the Company's primary environmental objectives is to reduce air pollutant emissions. In an effort to meet this objective, Gazprom Neft is carrying out an ambitious programme to modernise and rebuild its oil refining assets with a focus on boosting their industrial safety, minimising their environmental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

PRODUCTION CONTROL

The first stage of the oil refining assets modernisation programme, which Gazprom Neft completed in 2015, has enabled the Company to proceed with the production of a full range of high-octane petrol and diesel fuel that meet Euro-5 emission standards. The transition by consumers to fuel of this higher emission standard significantly reduces emissions when used in motor vehicle engines.

STRUCTURE OF GROSS AIR POLLUTANT EMISSIONS (1,000 t)

Source: Company data



- > 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.

¹ CO₂-equivalent (CO₂-equ., CO₂e) is a unit used to measure the potential global warming of greenhouse gases. Carbon dioxide is the standard used to estimate all other greenhouse gases.

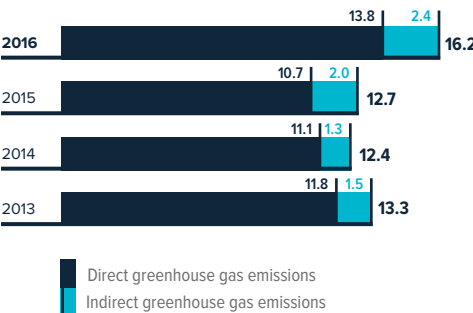
GREENHOUSE GAS EMISSIONS

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 Yety-Purovskaya 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 Shinginskoye field, and construction continued on Russia's largest complex gas treatment plant (CGTP) at the Novoportovskoye field. The Company's strategic goal is to increase value-added APG utilisation to 95%.

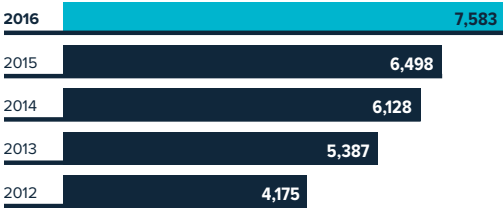
GREENHOUSE GAS EMISSIONS (mn t of CO₂-equivalent)¹

Source: Company data



APG USAGE (mn m³)

Source: Company data



APG UTILISATION LEVEL¹ (%)

Source: Company data



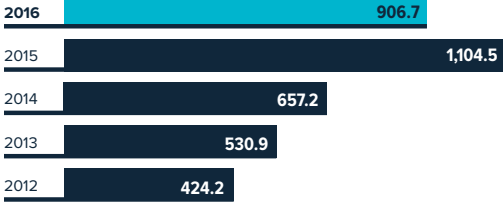
WASTE MANAGEMENT

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 year, 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 expert environmental review. Gazpromneft-Noyabrskneftegaz successfully used the method to reclaim sludge pits.

WASTE GENERATION (1,000 t)

Source: Company data



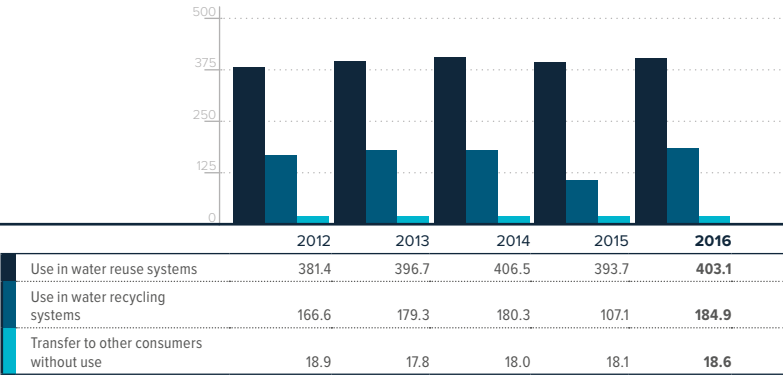
WATER MANAGEMENT

Gazprom Neft implements action programmes that aim to minimise its volume of water consumption, mitigate environmental risks in water resource conservation and improve the environmental condition of water bodies and their coastal areas.

One of the key projects of 2016 was the construction of the 'Biosphera' biological treatment plants at the Moscow Oil Refinery with some of the best wastewater treatment efficiency in the world. The 'Biosphera' plant is slated to open in 2017. Another major water management project was preparation for the construction of enclosed treatment plants at the Omsk Oil Refinery. The advanced technological solutions for multi-stage treatment will reduce the consumption of river water and increase its reuse in production.

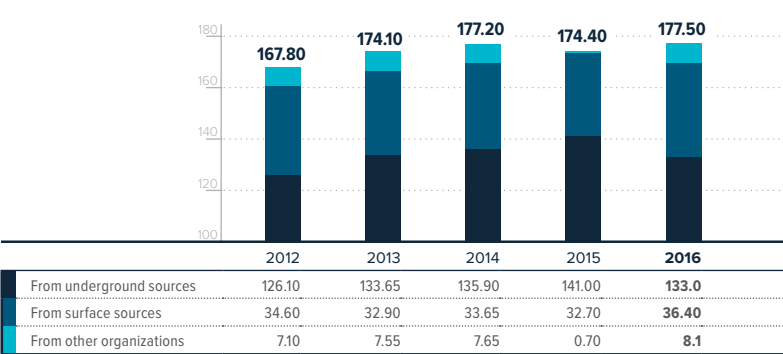
VOLUME OF WATER CONSUMPTION (mn m³)

Source: Company data



VOLUME OF WATER WITHDRAWN AND RECEIVED FROM VARIOUS SOURCES² (mn m³)

Source: Company data



¹ Data for 2014-2016 includes performance of Gazpromneft-Yamal.

² The increase in the volume of water withdrawn and received is related to increased drilling volumes at the enterprises of the Company's Upstream Division.

PROTECTION OF LAND RESOURCES AND VEGETATION

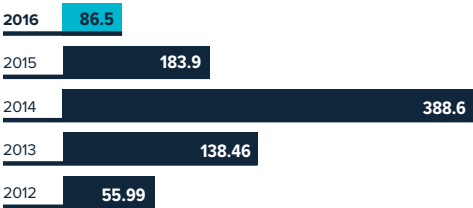
Gazprom Neft reclaims disturbed and contaminated land and sludge pits. The reclamation programmes involve an inventory of the land, an assessment of the soil contamination level, the selection of the most effective rehabilitation technology and an assessment of the quality of environmental restoration 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 LAND³ (ha)

Source: Company data



> The decrease in the amount of oil contaminated lands reclaimed in 2016 compared with 2015 is due to the early implementation of the soil reclamation programme during previous periods as well as the use of resource-saving technologies as part of the 'Clean Territory' corporate project, which led to a decrease in the area of contaminated land.

ARCTIC LAND RECLAMATION PROGRAMME

Messoyakhaneftgaz 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-Messoyakha 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.

PRESERVING BIODIVERSITY

The Company's field development projects include a programme to rehabilitate aquatic biological resources.

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.

In accordance with the programme, the Company conducted a study in 2016 on a wide range of fauna species in the sea, on the coast and in coastal waters. The study results revealed that neither the Pirazlomnaya platform in the Pechora Sea nor escort vessels and tankers providing delivery of Novy Port and Pirazlomnoye oil to Murmansk have had any significant stressful impact on plankton, on the successful breeding of birds (including the emergence of new, rare species) or on marine mammals.

³ Oil contaminated lands were fully reclaimed in 2016. The decrease in reclamation compared with 2015 is due to the use of resource-saving technologies as part of the 'Clean Territory' corporate project, which led to a decrease in the area of contaminated land.

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.



433
mn kWh
energy savings
of the Upstream Division
in 2016

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.

DOWNSTREAM 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 mn 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 528.9 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 ‘Power’ Centre of Excellence achieved an economic effect of RUB 330 mn during the reporting year by implementing best practices proposed by the Centre’s experts.

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

	2012	2013	2014	2015	2016
Electricity consumption (purchased + generated), MWh	5,690,232	6,032,738	6,177,164	6,419,919	6,298,276
Change vs. previous period, %	6.9	6.0	2.4	3.9	(1.9)
Thermal energy consumption (internally produced and purchased from third-party suppliers), GJ	1,231,237	1,218,555	1,064,758	982,015	996,644
Change vs. previous period, %	(3)	(1)	(13)	(8)	1

CONSUMPTION OF PURCHASED ENERGY BY THE DOWNSTREAM DIVISION

	2012	2013	2014	2015	2016
Purchased electricity (minus electricity transferred to third parties), MWh	3,121,124	3,322,147	3,262,669	3,340,550	3,400,210
Change vs. previous period, %	–	6.4	(1.8)	2.4	1.8
Purchased thermal energy (minus electricity transferred to third parties), GJ	16,854,981	17,373,245	16,581,709	16,081,895	15,186,997
Change vs. previous period, %	–	3.1	(4.6)	(3.0)	(5.6)

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.

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

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)

Source: Company data



21,797	Petroleum product sales
11,082	Production
5,857	Multi-profile enterprises
5,134	Oil refining
4,412	Oilfield service and geological exploration
2,127	Jet fuel supply
2,354	Product subsidiaries
945	Research
12,853	Other

PERSONNEL EXPENSES (RUB mn)

	2012	2013	2014	2015	2016
Payroll	39,364	45,040	58,510	74,400	79,316
Social payments	2,896	3,186	2,097	2,432	3,260
TOTAL	42,260	48,226	60,607	76,832	82,576

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 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 totalled 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.



RUB 707.2 mn

Investment in personnel training and development in 2016



52,582 company employees

underwent training in 2016

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 with 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 manmade 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:

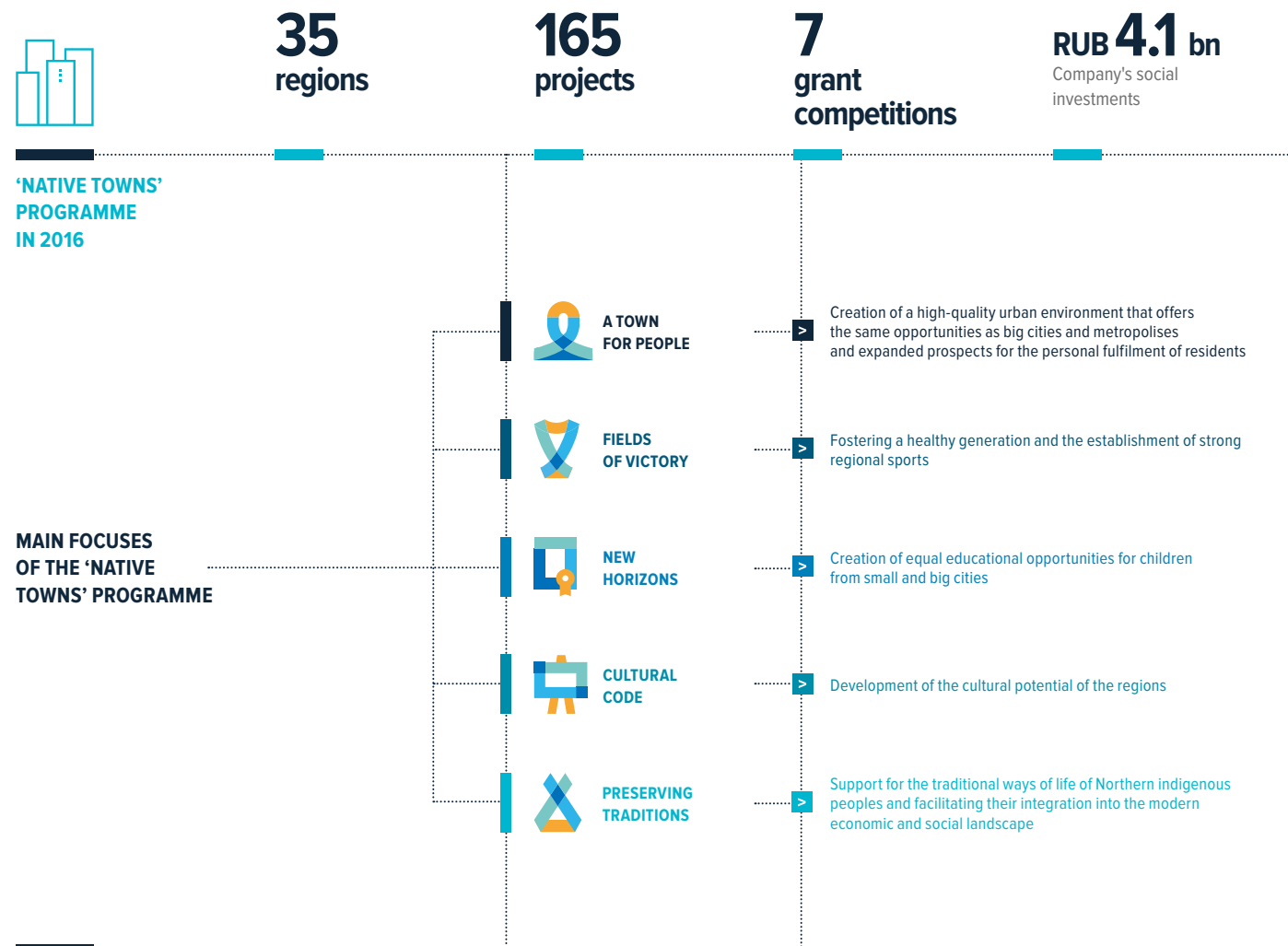
- > agreements on cooperation with the authorities of the constituent entities of the Russian Federation and municipalities;
- > its own social projects;
- > targeted corporate charity;
- > corporate volunteering;
- > grant competitions for social initiatives among local communities and corporate volunteers;
- > 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, 286 charitable and 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 sociocultural 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**
- > 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.
- > The scaling of the 'Stenograffia' 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 sociocultural 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 Russian 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 Gazprom Neft Cup international children's hockey team tournament – one of the largest children's hockey competitions in Europe. Twenty-six teams from five countries took part in the tournament in 2015, which was attended by 32,000 spectators.

Gazprom Neft also continued investing in the development and construction of social, sports and educational infrastructure, supporting the development of professional and grassroots sports, organising festive public events in the regions where it operates, supporting cultural institutions and major cultural events at the federal and local level and providing assistance to the families of indigenous minorities of the North in 2016.

CORPORATE VOLUNTEERING

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 volunteering 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.

Gazprom Neft won the 'Contribution to the development of corporate volunteering' category at the 'Good Deeds Champion' national competition in 2016.

Gazprom Neft organises 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.



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MESSAGE FROM OF 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 demonstrated 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.

The 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.

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

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.

BOARD OF DIRECTORS

Gazprom Neft PJSC

DESCRIPTION OF CORPORATE GOVERNANCE PRACTICE

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 no 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 onsite 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 individuals 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.

The financial and non-financial information disclosure practice features the following positive aspects:

- > The Company discloses information about the structure of its shareholder capital.
- > The Company discloses detailed information about members of the Board of Directors and the Management Board.
- > The Company discloses information about the structure of compensation for members of the Gazprom Neft Board of Directors and Management Board.
- > The Company discloses all the main forms of financial statements prepared in accordance with IFRS and RAS. The disclosed statements are accompanied by the relevant audit reports.
- > Gazprom Neft PJSC discloses detailed information about related party transactions.
- > The Gazprom Neft PJSC website is regularly maintained and updated with a large amount of current information about the Company and its operating results.

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 14001 standard as regards environmental protection.
- > The activities of the Gazprom Neft Group’s enterprises are certified for compliance with the ISO 9001 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 Corporate Centre of the Gazprom Neft Group is Gazprom Neft PJSC, which ensures effective control over all processes. As of 31 December 2016, the Gazprom Neft structure included 137 Russian and foreign legal entities.

The corporate governance structure of the Gazprom Neft Group’s subsidiaries is strictly aligned with that of Gazprom Neft PJSC. Subsidiaries retain a three-tiered structure of governing bodies – the Meeting of Shareholders (Participants), the Board of Directors and the sole executive body.

Regardless of the structure of its charter capital, Gazprom Neft PJSC is the core Company with respect to the organisations of the Gazprom Neft Group, as duly recorded in the Charters of the Gazprom Neft Group’s subsidiaries.

The effective corporate governance and monitoring of subsidiary activities is ensured, among other ways, by submitting key matters concerning subsidiary activities to the management bodies of Gazprom Neft PJSC for consideration.

DECISION-MAKING MATRIX AT SUBSIDIARIES

The Gazprom Neft PJSC Board of Directors adopts decisions on the following matters concerning subsidiary activities:

- > increasing or decreasing a subsidiary’s charter capital;
- > contributions to a subsidiary’s property;
- > the acquisition, alienation or encumbrance of a company with the shares/ interests of other organisations;
- > contributions by a subsidiary to the property of other organisations;
- > the issuance and placement of shares by a subsidiary;
- > the reorganisation or liquidation of a subsidiary.

The Gazprom Neft PJSC Management Board considers matters concerning the strategic development of subsidiaries activities.

GMS/GMP of a subsidiary

The legally prescribed exclusive purview of the General Meeting of Shareholders/ Participants of subsidiaries regarding decision-making on key matters concerning subsidiary activities is supplemented by items concerning the approval of any transactions for an amount exceeding a certain threshold (which is determined for each subsidiary individually taking into account the subsidiary’s financial and economic performance).

The Board of Directors of subsidiaries has broader purview compared with the law due to restrictions on the purview of the sole executive body with respect to the adoption of decisions on transactions that involve the receipt or provision of loans (credits), the sale, other alienation or encumbrance of real estate, the lease of key immoveable property, the acquisition, alienation or encumbrance of stakes in charter capital, shares, bonds, mortgage or bills, transactions that involve the gratuitous alienation of property, corporate contracts and other agreements on joint activities and any transactions exceeding a certain threshold; the adoption of decisions on participation or the termination of participation in other organisations as well as a pre-determined position on matters that fall within the purview of the General Meeting of Shareholders (Participants) of business companies in which a subsidiary is a shareholder (participant).

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 CEO) are appointed and dismissed after the approval of the candidates by the Corporate Centre.

COMPLIANCE WITH THE PRINCIPLES OF THE CODE OF CORPORATE GOVERNANCE¹

Section	Principles recommended by the Code	Principles observed in full	Principles observed in part	Principles not observed by the Company
Rights of shareholders and equitable treatment of shareholders in the exercising of their rights	13	9	3	1
Board of Directors of the Company, purview, committees, independence	35	21	12	2
Corporate secretary of the Company	2	1	1	0
Remuneration system for members of the Board of Directors, executive bodies and other key employees of the Company	10	8	1	1
Risk management and internal control system	6	5	1	0
Information disclosure about the Company, information policy	7	5	2	0
Significant corporate actions	5	2	2	1
TOTAL	78	51	22	5

¹ Statistics provided based on the Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance Recommended by the Central Bank of the Russian Federation in Information Letter No. IN-06-52/8 dated 17 February 2016.

PRIMARY CHANGES TO THE CORPORATE STRUCTURE OF GAZPROM NEFT

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. Gazprom Neft’s large-scale project to develop catalyst production at the Omsk Oil Refinery entails the construction of a modern high-tech complex to manufacture domestic catalytic cracking catalysts as well as hydrotreating and hydrocracking catalysts (not currently manufactured in Russia). These include catalysts for key secondary oil refining processes that ensure the production of Euro-5 motor fuels.

The Omsk Oil Refinery currently has catalyst production capacity of approximately of 3,000 tonnes of products per year. The Gazprom Neft project, which is intended to be carried out over the period until 2020, involves the construction of a state-of-the art production facility for hydrogenation catalysts with capacity of 6,000 tonnes per year and catalytic cracking catalysts with capacity of 15,000 tonnes per year. Thus, the Omsk Oil Refinery will have combined catalyst 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 Rospolikhim Group of Companies: Sovkhimtekhn CJSC, Poliefir LLC and BSV-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 5,450 tonnes per year. Apart from real estate, the main assets that were acquired include the companies’ licences, 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-Brit 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-Brit 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 Chukotsnab 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 Keperveyem. 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 April 2016, the activities of Gazpromneft-Aero Ulyanovsk LLC were terminated via 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 fueling 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 Gazpromneft-Aero JSC.

In an effort to improve the efficient management of production assets in the Orenburg Region, the reorganisation of Gazprom Neft Orenburg CJSC was completed in 2016 through the acquisition of Centre for Science-Intensive Technologies CJSC (which owns licenses for the right to use the subsoil resources of the Tsarichansky area, Filatovskoye field and Tsarichanskoye field) and Zhivoy Istok CJSC (which owns licenses for the right to use the subsoil resources of the Baleykinskoye field and Uransky area) with the simultaneous transformation of Gazprom Neft Orenburg CJSC into a limited liability company.

As part of optimising the ownership structure of the Gazprom Neft Group’s subsidiaries, the following companies were put under the direct ownership of Gazprom Neft PJSC:

- > Gazpromneft-Supply LLC (ownership interest of Gazprom Neft PJSC – 80.89%; other participants – Gazpromneft-Omsk Oil Refinery JSC and GPN-Invest LLC);
- > Meretoyakhaneftegaz LLC (ownership interest of Gazprom Neft PJSC – 100%).

In order to reduce administrative expenses on supporting the activities of the Gazprom Neft Group’s companies, two joint-stock companies that are part of the Gazprom Neft Group were reorganised into limited liability companies in 2016: Gazpromneft-NNGGF OJSC and Gazpromneft-RZBM CJSC.

REORGANISATION OF SALES ENTERPRISES

Given the change in the regional sales model, the Gazprom Neft Group is actively restructuring its sales enterprises to create a retail business centre on the core of one of the Gazprom Neft Group’s enterprises in an effort to improve the cost effectiveness of petroleum product sales, increase the scale of the petroleum product business, enhance the quality of management decisions, accelerate the introduction of innovation solutions and new technologies

and the automation of business processes, reduce administrative expenses and introduce the concept of the centralised management of a network of regional petroleum storage depots by a specialised company of the Gazprom Neft Group.

As this model was introduced, the Gazprom Neft Group’s sales assets underwent the following restructuring over the course of 2016:

- > Gazpromneft-Kuzbass JSC and Gazpromneft-Chelyabinsk LLC were merged with Gazpromneft-Centre LLC;
- > Gazpromneft-Corporate Sales LLC was reorganised through the spin-off of Gazpromneft-Corporate Sales LLC (AZS) and the latter was simultaneously merged with Gazpromneft-Centre LLC;
- > Gazpromneft-Northwest JSC was reorganised through the spin-off of Gazpromneft-Northwest LLC and the latter was simultaneously merged with Gazpromneft-Centre LLC;
- > Gazpromneft-Omsk OJSC was reorganised through the spin-off of Gazpromneft-Omsk (NB) LLC.

The following sales assets were also restructured for the same purposes:

- > reorganisation of Gazpromneft-Omsk OJSC through a merger with Gazpromneft-Centre LLC;
- > reorganisation of Gazpromneft-Ural JSC through the spin-off of Gazpromneft-Ural (AZS) LLC and Gazpromneft-Ural (NB) LLC;
- > reorganisation of Gazpromneft-ZS LLC through the spin-off of Gazpromneft-ZS (Retail) LLC.

STRIVING FOR BETTER CORPORATE GOVERNANCE

In improving its corporate governance practices, the Company closely monitors the development of corporate legislation and corporate governance practices in Russia and abroad.

In 2014 the Bank of Russia adopted and recommended employing the Code of Corporate Governance and in 2015 it published a new version of the G20/OECD Corporate Governance Principles, which specified the development vectors for corporate governance in Russia and around the world. These documents set a high benchmark for the development of the Company’s corporate governance system, which has become a subject of close scrutiny for the Company.

In improving its corporate governance practices, the Company closely monitors the development of corporate legislation and corporate governance practices in Russia and abroad.

As a result, the Company focused throughout 2016 on studying the novelties of corporate legislation, principles, recommendations, best practices and procedures related to corporate governance and analysing the feasibility of applying them in its own corporate governance practices.

INITIATIVES TO DEVELOP CORPORATE GOVERNANCE PRACTICES

Observing shareholder rights

- > improving the transparency of disclosed information
- > implementing a range of measures to improve engagement with shareholders
- > developing the capabilities of the shareholder user account

Improving the efficiency of governing bodies

- > improving certain procedures for organising the work of governing bodies
- > drafting new versions of key internal Company documents to harmonise them with the requirements of legislation, regulatory and best corporate governance practices

Improving the quality of corporate governance and adhering to best practices

- > improving the management system of subsidiaries and affiliates
- > updating internal documents and procedures regulating corporate governance regulations within the group
- > conducting an external assessment of corporate governance practices once every three years

Information disclosure

- > drafting of a new version of the Regulation on Information Policy
- > improving the quality of information disclosure in the annual report and on the Company’s website
- > introducing the practice of the Board of Directors (or one of its committees) considering matters related to the Company’s compliance with its information policy

CORPORATE GOVERNANCE SYSTEM

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 (VIOC) 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 preservation 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 (ir.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.

MEETING OF SHAREHOLDERS

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

BOARD OF DIRECTORS

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.

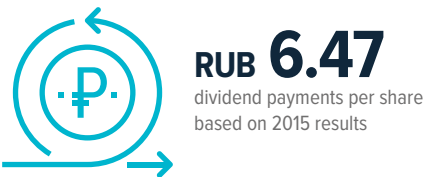
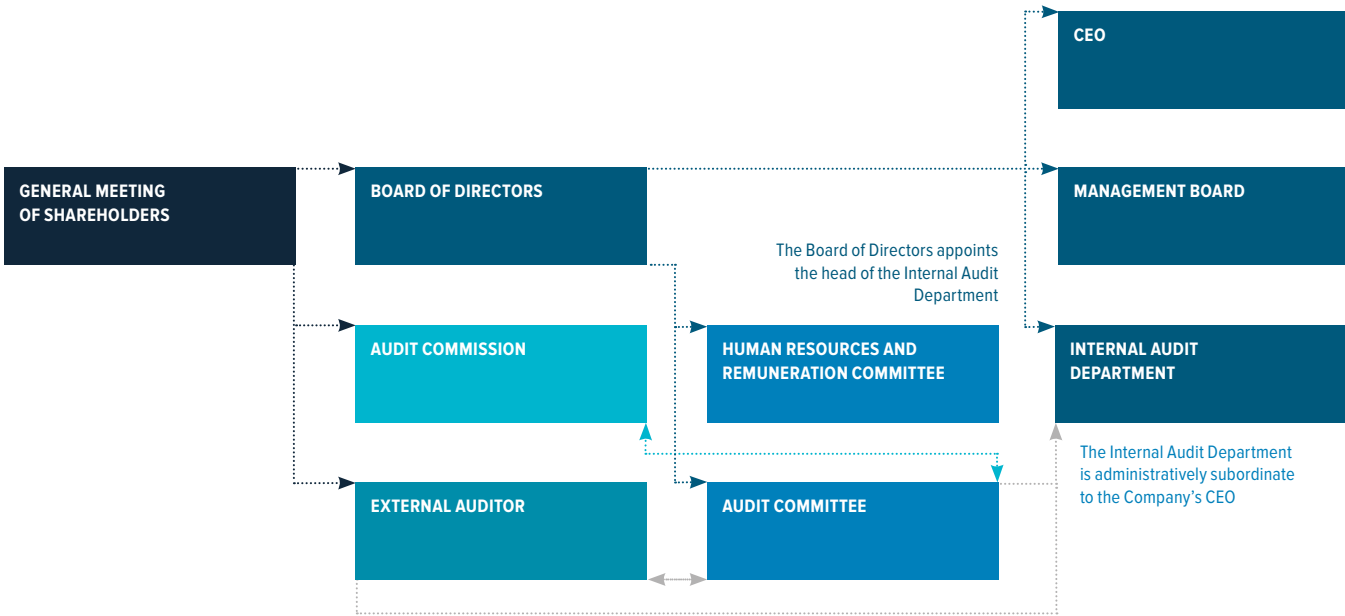
One of the most crucial functions of the Board of Directors is to form effective executive bodies and supervise their activities.

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.

STRUCTURE OF GOVERNING AND SUPERVISORY BODIES OF GAZPROM NEFT PJSC



Taking into account the strategic importance of the challenges facing the Board of Directors, the Board members must have the confidence of shareholders and ensure the duties entrusted to them are performed in the most efficient manner possible.

The main functions of the Chairman of the Board of Directors are specified by the Charter, Regulation on the Board of Directors and Code of Corporate Governance and include:

- > organising the work of the Board of Directors;
- > ensuring an open discussion of agenda items and taking into account the opinions of all members of the Board of Directors;
- > identifying key items that should be considered by the Board of Directors and selecting the optimal meeting form to discuss the items;
- > representing the Board of Directors in relations with shareholders, management and other stakeholders;
- > preparing proposals to distribute tasks among members and committees of the Board of Directors.

The purview and work procedure of the Board of Directors and existing corporate procedures allow for adopting decisions on a substantial portion of items with a simple majority of votes by members of the Board of Directors. At the same time, the Chairman of the Board of Directors takes into account the opinion of each member of the Board of Directors during the discussion of agenda issues and takes measures to achieve a common opinion on key items.

The Chairman of the Board of Directors in 2016 was non-executive director Alexey Miller, who is not a member of any committees under the Board of Directors. The concurrent participation by Chairman of the Board of Directors Alexey Miller in the work of the boards of directors of other companies and his performance of official duties as Chairman of the Gazprom PJSC Management Board in the Company’s view has not in any way affected his effectiveness in performing his functions and duties on the Gazprom Neft PJSC Board of Directors.

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 13 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.

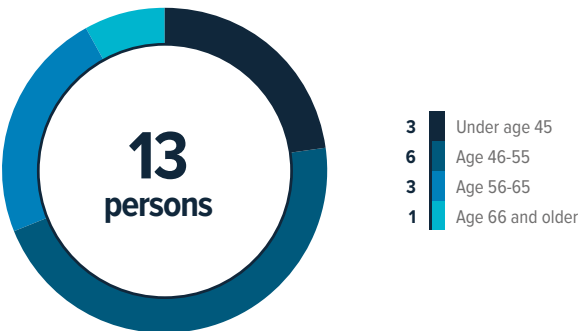
The Board of Directors is balanced in terms of its members possessing the key skills that are essential for effective work and their continued work on the Board. The members of the Board of Directors have skills in strategic management, corporate governance, corporate finance, risk management and accounting 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 bank 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.

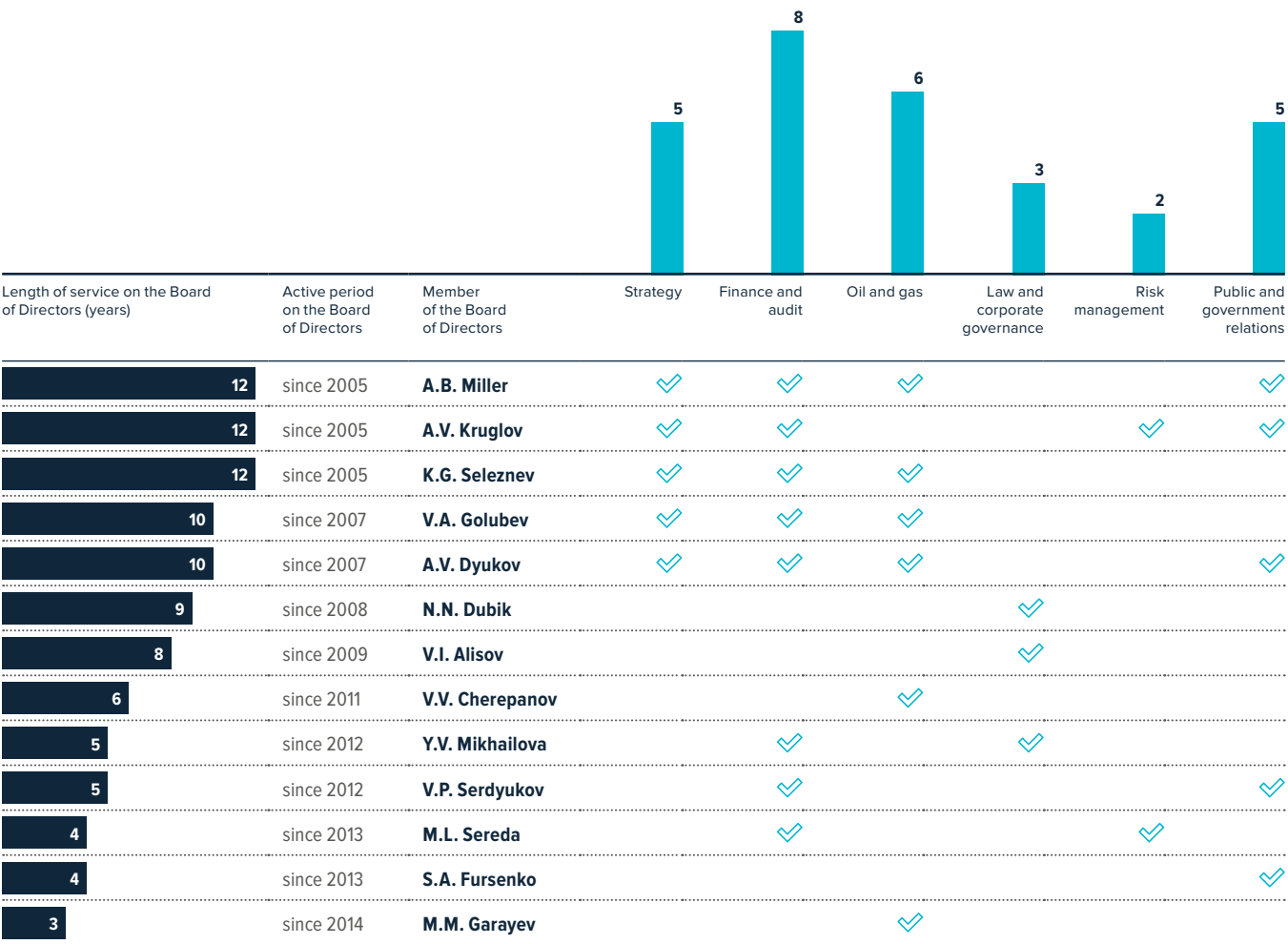
BALANCE OF THE BOARD OF DIRECTORS BY AGE (persons)

Source: Company data



CORE COMPETENCIES OF THE BOARD OF DIRECTORS THE GAZPROM NEFT

Source: Company data



Length of service on the Board of Directors (years)	Active period on the Board of Directors	Member of the Board of Directors	Strategy	Finance and audit	Oil and gas	Law and corporate governance	Risk management	Public and government relations
12	since 2005	A.B. Miller	✓	✓	✓			✓
12	since 2005	A.V. Kruglov	✓	✓			✓	✓
12	since 2005	K.G. Seleznev	✓	✓	✓			
10	since 2007	V.A. Golubev	✓	✓	✓			
10	since 2007	A.V. Dyukov	✓	✓	✓			✓
9	since 2008	N.N. Dubik				✓		
8	since 2009	V.I. Alisov				✓		
6	since 2011	V.V. Cherepanov			✓			
5	since 2012	Y.V. Mikhailova		✓		✓		
5	since 2012	V.P. Serdyukov		✓				✓
4	since 2013	M.L. Sereda		✓			✓	
4	since 2013	S.A. Fursenko						✓
3	since 2014	M.M. Garayev			✓			

BALANCE OF THE BOARD OF DIRECTORS BY TYPE OF DIRECTOR

Name	Non-executive	Independent
A.B. Miller	✓	
V.A. Golubev	✓	
A.V. Kruglov	✓	
A.V. Dyukov		
M.L. Sereda	✓	
K.G. Seleznev	✓	
Y.V. Mikhailova	✓	
N.N. Dubik	✓	
V.I. Alisov	✓	
V.V. Cherepanov	✓	
V.P. Serdyukov		✓
M.M. Garayev	✓	
S.A. Fursenko		✓

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 30 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 Voznesensky 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;
> 2003 – Chairman of the Board of Directors of SOGAZ JSC;
> 2007 – Chairman of the Board of the Gazfond Private Pension Fund;
> 2007 – Chairman of the Board of Directors of Gazprom-Media Holding JSC;
> 2008 – Chairman of the Board of Directors of Shtokman Development AG;
> 2010 – Chairman of the Supervisory Board of Gazprom Neft International S.A.;
> 2012 – Chairman of the Board of Directors of Russian Hippodromes 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 Russian Academy of Education Federal State Budgetary Institution;
> 2016 – President, Chairman of the Management Board and Chairman of the Presidium of International Business Congress (IBC).

 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 Ulyanov (Lenin) Leningrad Electrotechnical Institute and the Academy of National Economy under the Government of the Russian Federation.
2006 – Deputy Chairman 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 Volgogradneftemash 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 KazRosGaz;
> 2007 – Chairman of the Supervisory Board of Moldovagaz JSC;
> 2007 – Member of the Board of Directors of International Gas Transportation Consortium LLC;
> 2007 – Member of the Board of Directors of Mosenergo PJSC;
> 2007 – Chairman of the Board of Directors of Gazprom Armenia CJSC;
> 2009 – Co-chairman of the Supervisory Board for PSAs and Member of the Board of Directors of Sakhalin 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 Ossetia 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 Belgazprombank PJSC;
> 2003 – Member of the Board of Directors of Gazprombank JSC;
> 2004 – Member of the Board of Directors of Vostokgazprom OJSC;
> 2004 – Member of the Board of Directors of Tomskgazprom OJSC;
> 2006 – Member of the Board of Directors of SOGAZ JSC;
> 2008 – Member of the Board of Directors of Gazprom Repair Centre OJSC;
> 2009 – Member of the Supervisory Board of GAZPROM Germania GmbH;
> 2009 – Member and Chairman of the Supervisory Board of Gazprom EP International B.V.;
> 2009 – Member of the Board of Directors of Gazprom Investproekt LLC;
> 2010 – Deputy Chairman of the Board of Directors of Overgaz Inc. JSC;
> 2010 – Member of the Supervisory Board of Gazprom Neft Finance B.V.

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



ALEXANDER VALERYEVICH DYUKOV

Member of the Human Resources and Remuneration Committee of the Board of Directors

Born in 1967.
Graduated from Order of Lenin Leningrad Shipbuilding Institute. Obtained IMISP MBA in 2001.
December 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 SIBUR 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 Lakhta Centre Multifunctional Complex JSC;
> 2009 – Member of the Board of Directors of National Oil Consortium LLC;
> 2010 – Member of the Board of Directors of Hockey Club SKA CJSC;
> 2012 – Member of the Board of Directors of Hockey City LLC;
> 2012 – Member of the Board of Directors of LIGA-TV LLC.

 Interest in charter capital (as of 31 December 2016)
0.005357244% (254,003 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 1970.
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:

- > 2002 – Member of the Board of Directors of WIEH GmbH and Co KG;
- > 2002 – Member of the Board of Directors of Wingas GmbH;
- > 2002 – Member and Chairman of the Board of Directors of GAZPROM (U.K.) LIMITED;
- > 2002 – Member and Deputy Chairman of the Board of Directors of Gazprombank OJSC;
- > 2002 – Member and Chairman of the Board of Directors of Vostokgazprom OJSC;
- > 2003 – Member of the Board of Panrusgaz CJSC;
- > 2003 – Member and Chairman of the Board of Directors of Centrenergogaz SOJSC;
- > 2004 – Chairman of the Board of Directors of Tomskgazprom OJSC;
- > 2005 – Member and Chairman of the Board of Directors of Gazpromtrubinvest OJSC;
- > 2007 – Member of the Board of Directors of Gazprom Cosmic Systems OJSC;
- > 2014 – Member of the Board of Directors of Gazpromtrubinvest OJSC;
- > 2015 – Member and Chairman of the Board of Directors of Gazprom Marketing & Trading Limited;
- > 2015 – Member of the Board of Directors of Gazprom Marketing & Trading Singapore Ltd;
- > 2015 – Member of the Board of Directors of Gazprom Global LNG;
- > 2015 – Member of the Supervisory Board of Gazprom Germania GmbH;
- > 2015 – President of the Administrative Board of Gazprom Schweiz AG.
- > 2016 – Member of the Board of Directors of Gazprom Austria GmbH;
- > 2016 – President of the Administrative Board of WIEE AG.



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

**KIRILL GENNADYEVICH
SELEZNEV**

Born in 1974.
Graduated from Ustinov Baltic State Technical University and Saint Petersburg State University.
2002 – Head of the Gazprom Department PJSC.
2003 – Member of the Management Board of Gazprom PJSC.
2004 – CEO of Gazprom Mezhhregiongaz LLC.
Candidate of economic sciences.
Positions held at other organisations:

- > 2003 – Member and Chairman of the Board of Directors of Latvijas Gāze JSC;
- > 2003 – Member of the Supervisory Board of LPP KazRosGaz;
- > 2003 – Member of the Board of Directors of Vostokgazprom OJSC;
- > 2004 – Member of the Board of Directors of Tomskgazprom OJSC;
- > 2006 – Member of the Board of Directors of Football Club Zenit JSC;
- > 2006 – Member of the Supervisory Board of Russian Gas Company Non-profit Partnership;
- > 2007 – Chairman of the Board of Directors of Mosenergo PJSC;
- > 2008 – Chairman of the Board of Directors of Territorial Generating Company No. 1 OJSC;
- > 2010 – Member of the Board of Directors of Gazprombank JSC;
- > 2011 – Member of the Board of Directors of Rossiya Bank OJSC;
- > 2011 – Member of the Supervisory Board of Gazprom Neft Finance B.V.;
- > 2013 – Member of the Supervisory Board of Russian Regional Development Bank OJSC.



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

**ELENA VLADIMIROVNA
MIKHAILOVA**

Born in 1977.
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.
2003–2011 – Deputy CEO for Corporate and Property Relations of Gazprom Mezhhregiongaz LLC.
2011 – Department Head at Gazprom PJSC.
2012 – Member of the Management Board of Gazprom PJSC.
Positions held at other organisations:

- > 2009 – Member of the Board of Directors of Gazprom Gas Energy Network JSC;
- > 2012 – April 2017 – Member of the Board of Directors of Gazprom Investproekt LLC;
- > 2012 – Member of the Board of Directors of Mosenergo PJSC;
- > 2012 – Member of the Board of Directors of Severneftegazprom OJSC;
- > 2012 – Member of the Board of Directors of Leader CJSC;
- > 2012 – Member of the Board of Directors of Gazprom Gas Engine Fuel LLC;
- > 2013 – Member of the Board of Latvijas Gāze JSC.
- > 2016 – Member of the Board of the GAZFOND Private Pension Fund;
- > 2016 – Member of the Board of Conexus Baltic Grid JSC.



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 in 2009.
2008 – Member of the Management Board and Deputy Department Head at Gazprom PJSC.
Honoured Lawyer of the Russian Federation.
Positions held at other organisations:

- > 2006 – Member of the Supervisory Board of Moldovagaz JSC;
- > 2008 – Member of the Supervisory Board of EuRoPolGAZ JSC;
- > 2008 – Member of the Board of Directors of Lazurnaya LLC;
- > 2008 – Member of the Board of Directors of Gazprom-Media Holding JSC;
- > 2008 – Member of the Board of Directors of Shtokman Development AG;
- > 2009 – Member of the Supervisory Board of Gazprom Transgaz Belarus OJSC;
- > 2010 – Member of the Supervisory Board of Gazprom Neft International S.A.;
- > 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
- > 2013 – Member of the Board of Directors of Latvijas Gāze JSC;
- > 2014 – Member of the Board of Directors of Gazprom Armenia CJSC;
- > 2014 – Member of the Board of Directors of Gazprom Kyrgyzstan LLC;
- > 2015 – Member of the Board of Directors of Gazprom Marketing & Trading Ltd;
- > 2015 – Member of the Board of Directors of GAZPROM Germania GmbH;
- > 2015 – Member of the Administrative Board of Gazprom Schweiz AG.
- > 2016 – Managing Director of GAZPROM Germania GmbH;
- > 2016 – Member of the Board of Conexus Baltic Grid JSC;
- > 2016 – Member of the Board of Directors of Gazprom Marketing & Trading Singapore PTE Ltd.;
- > 2016 – Member of the Administrative Board of Gazprom Marketing & Trading Switzerland;
- > 2016 – Member of the Board of Directors of Gazprom Global LNG Ltd.;
- > 2016 – Member of the Administrative Board of WIEE AG.




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



**VLADIMIR IVANOVICH
ALISOV**

Born in 1960.
Graduated from the Legal Department of Zhdanov Leningrad State University.
2008 – 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 the title of Honoured Lawyer of the Russian Federation under a decree from the President of the Russian Federation.
Positions held at other organisations:
> 2007 – Member of the Board of Directors of Gazprom Automation OJSC;
> 2008 – Member of the Board of Directors of Kamchatgazprom OJSC;
> 2008 – Member of the Board of Directors of Daltransgaz OJSC.

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



**VSEVOLOD VLADIMIROVICH
CHEREPANOV**

Member of the Human Resources and Remuneration Committee of the Board of Directors

Born in 1966.
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 CentreKaspneftegaz LLC;
> 2010 – Member of the Board of Directors of Achimgaz CJSC;
> 2010 – Member of the Supervisory Board of Wintershall AG;
> 2010 – Member of the Board of Directors of Shtokman Development AG;
> 2010 – Member of the Board of Directors of Severneftegazprom OJSC;
> 2010 – Member of the Supervisory Board of Gazprom EP International B.V.;
> 2011 – Chairman of the Board of Directors of Gazpromviet LLC;
> 2011 – Non-executive Director of the Board of Directors of Sakhalin Energy Investment Company Ltd.;
> 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC;
> 2013 – Member of the New Technologies of the Gas Industry Association of Equipment Manufacturers.
> 2016 – Member of the Board of Directors of Gazprom Kyrgyzstan LLC;
> 2016 – Member of the Board of Directors of Achim Development LLC.


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



**VALERY PAVLOVICH
SERDYUKOV**

Independent Director

Born in 1945.
Graduated from Plekhanov 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



**SERGEY ALEXANDROVICH
FURSENKO**

Member of the Human Resources and Remuneration Committee of the Board of Directors, Independent Director

Born in 1954.
Graduated from Leningrad Polytechnic Institute.
2011 – 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 Fuel LLC.

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



**MARAT MARSELEVICH
GARAYEV**

Born in 1973.
Graduated from Saint Petersburg State University of Economics and Finance with a degree in economics.
2002–2014 – 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 Liquid Hydrocarbons Department of 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 JSC;
> 2009 – Member of the Board of Directors of Gazprom Sera OJSC;
> 2010 – Member of the Board of Directors of Kazanorgsintez OJSC.

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

The current Board of Directors as of 31 December 2016 was elected at the annual General Meeting of Shareholders on 10 June 2016 (Minutes No. 0101/01 dated 14 June 2016).

There were no changes to the Company’s Board of Directors in 2016. All standing members of the Company’s Board of Directors were re-elected for the following corporate year of 2016-2017 at the General Annual Meeting of Shareholders.

Apart from Alexander Dyukov, the chairman and members of the Board of Directors did not own any Company shares during the reporting period. No members of the Board of Directors concluded any transactions for the acquisition or alienation of any Company shares during the reporting year.

No claims were filed against members of the Board of Directors in 2016.

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 Documents;
 - > 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 1,000 Russian Managers’ rating)¹. In addition, Dvortsov ranked among



ALEXEY VLADIMIROVICH DVORTSOV

Secretary of the Board of Directors

Born in 1972
Graduated from the State University of Management in Moscow and obtained an EMBA diploma from Stockholm School of Economics in 2012.
2007 – Head of the Corporate Regulation Department of Gazprom Neft PJSC.
2008 – Secretary of the Board of Directors.
Dvortsov does not own shares or interests in Gazprom Neft PJSC or its subsidiaries, nor does he have kinship with any other people who are members of governing bodies and/or bodies that monitor financial and business operations.



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

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 Exchange².

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.

¹ Detailed information about the rating is available at the website: www.kommersant.com
² Prepared by experts of the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in partnership with PricewaterhouseCoopers Audit JSC and the Moscow Exchange.

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

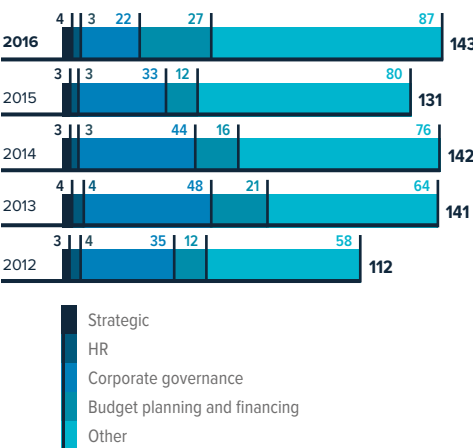
Members of the Board of Directors took part in all meetings of the Board of Directors except for Alexander Dyukov since he does not attend meetings where related party transactions are considered.

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

Board of Directors Member	Number of meetings attended by the Member of the Board of Directors (including providing a written opinion)	Total number of meetings the Member of the Board of Directors could have attended
A. B. Miller Chairman of the Board of Directors Non-executive Director	59	59
V. A. Golubev Non-executive Director	59	59
A. V. Kruglov Non-executive Director	59	59
A. V. Dyukov Executive Director	33	59
M. L. Sereda Non-executive Director	59	59
K. G. Seleznev Non-executive Director	59	59
Y. V. Mikhailova Non-executive Director	59	59
N. N. Dubik Non-executive Director	59	59
V. I. Alisov Non-executive Director	59	59
V. V. Cherepanov Non-executive Director	59	59
V. P. Serdyukov Independent Director	59	59
M. M. Garayev Non-executive Director	59	59
S. A. Fursenko Independent Director	59	59

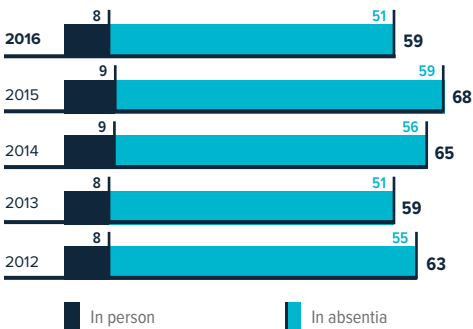
STRUCTURE OF ITEMS CONSIDERED BY THE BOARD OF DIRECTORS IN 2012-2016 BY THEME

Source: Company data



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

Source: Company data



STRATEGIC DEVELOPMENT

In accordance with the recommendations of the Code of Corporate Governance, matters concerning the strategic development and priority areas of activities of Gazprom Neft PJSC are considered at in-person meetings of the Board of Directors.

- The Board of Directors considered the following issues in strategic and investment planning in 2016:
- > The implementation of the Gazprom Neft PJSC Development Strategy until 2025.
 - > The resource base development strategy of Gazprom Neft PJSC.
 - > The Gazprom Neft PJSC development programme on the shelf of the Russian Federation.
 - > The international business development plans of Gazprom Neft PJSC.
 - > The effectiveness and prospects of activities in small wholesale and retail segments for the sale of petroleum products.
 - > The implementation of the Investment Programme based on the Company's performance results in 2015 and its implementation in 2016.
 - > The preliminary results of the implementation of the Gazprom Neft Group's Investment Programme and Budget for 2016.
 - > The future plans for the development of raw materials processing capacity in the current economic conditions.
 - > The Gazprom Neft Group's procurement activities in the changed market conditions and measures to minimise the share of import procurements.
 - > The status and prospects for the development of the exchange trading of Gazprom Neft PJSC oil and petroleum products on the Russian market.
 - > An analysis of the development of new energy 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 reserves target. 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.

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 geological 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 Gazprom Neft 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 procurements of imported goods. Gazprom Neft is committed to providing comprehensive support to domestic producers in helping them to develop new types of products and technologies and promotes the development of a national production base and network of suppliers. When choosing services and equipment to implement its projects, the Company gives preference to goods, work and services of Russian origin. More than 90% of the funds that Gazprom Neft spends on procurements go to Russian contractors. The Company is also actively involved in the work of intersectoral groups to support initiatives associated with the establishment of joint ventures and the localisation of production capacity as well as the research and development work of leading foreign producers working in Russia.

The Gazprom Neft Board of Directors considered information in 2016 about the development of new energy and transport technologies and their potential impact on the future of the oil and gas industry. In particular, a presentation was given of the most significant technologies and trends that could influence the global energy balance, including gas production from hydrates, technologies that increase the efficiency of internal combustion engines, the development of the electric and unmanned vehicle segments, alternative generation and the use of natural gas in the transport sector. Supply and demand development scenarios are the basis for Gazprom Neft's long-term development strategy. The company will continue to regularly monitor how technologies develop in the energy sector and related industries and analyse the appropriate risks and business opportunities.

FINANCIAL AND ECONOMIC ACTIVITIES AND RISK MANAGEMENT

The Gazprom Neft PJSC Board of Directors devotes significant attention to monitoring the financial, economic and investment activities of the Gazprom Neft Group.

- In 2016, the Board of Directors considered the following issues:
- > The debt structure and management of the debt portfolio of the Gazprom Neft Group in 2015 and proposals for its optimisation in 2016.
 - > The execution of the Gazprom Neft Group's Budget (financial plan) and the financial borrowing programme for 2015 based on the Company's performance results in 2015 (including the forecast of debt ratios based on the 2016 results).
 - > The implementation status and effectiveness of the Gazprom Neft Group's Investment Programme for 2016 based on the Company's performance in the first half of 2016. Amendments to the Gazprom Neft Group's Investment Programme and Budget (financial plan) for 2016.
 - > The preliminary results of the implementation of the Gazprom Neft Group's Investment Programme and Budget for 2016.
 - > The draft Investment Programme and Budget (financial plan), including the Gazprom Neft Group's financial borrowing programme and Cost Optimisation (Reduction) Programme for 2017 and the forecast through 2019.

The Board of Directors devoted significant attention to risk management issues at the Company.

The Board of Directors considered reports from the head of the Internal Audit Department about the main results of activities involving the organisation and monitoring of the integrated risk management system at in-person meetings throughout 2016.

In its risk management activities, the Company focused on updating its key risk register, including measures to identify, analyse and assess the risks of subsidiaries and major projects of the Upstream and Downstream Divisions.

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 the Report on the Implementation of the Gazprom Neft PJSC Innovative Development Programme for 2015.
 - > 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. The introduction 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 programme to utilise 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 95% in 2016 due to the commissioning of a booster gas compressor station with capacity of 200 million cubic metres per year at the Novogodnoye 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 conducts a self-assessment of its own activities within 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 audit 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

	2015	2016
Number of meetings	8	11
Number of items considered	22	30
Number of items considered for meetings of the Board of Directors	7	10

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.
- > The candidacy of the Gazprom Neft PJSC External Auditor for 2016.
- > Approaches to the external audit, plan 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 man-made and professional risks in industrial and occupational safety 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 report on the Audit Committee’s work was considered at a meeting of the Board of Directors in 2016. The Board 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 2016.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee is an advisory body under the Board of Directors.

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 Human Resources and Remuneration Committee.

In accordance with the Regulation, the Committee’s main tasks are to provide a preliminary comprehensive analysis of items falling within the purview of the Board of Directors and prepare recommendations for the Board of Directors to adopt decisions concerning the Company’s activities in human resources and remuneration for members of governing bodies and the Company’s Audit Commission.

The Human Resources and Remuneration Committee is comprised of four non-executive directors (elected by the Board of Directors on 20 June 2016):

- > N. N. Dubik (Chairman)
- > A. V. Kruglov
- > V. V. Cherepanov
- > S. A. Fursenko (independent director)

STATISTICS ON THE NUMBER OF MEETINGS HELD BY THE HUMAN RESOURCES AND REMUNERATION COMMITTEE UNDER THE BOARD OF DIRECTORS

	2015	2016
Number of meetings	6	7
Number of items considered	10	10
Number of items considered for meetings of the Board of Directors	5	5

The Audit Committee held seven meetings in 2016 and considered the following key issues:

- > remuneration for members of the Board of Directors and Audit Commission;
- > the results of a performance effectiveness assessment of the Company’s Board of Directors;
- > the participation of members of the Gazprom Neft Management Board in the governing bodies of other organisations;
- > the criteria for 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 included the increased awareness of members of the Board of Directors, including the timely provision of information and improvements to communication channels with 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 Board’s 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 Secretary 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 main 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 CEO. The term of office 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 2006 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: Vadim Yakovlev (First Deputy), Vitaly Baranov or Anatoly Cherner. A deputy is elected upon recommendation by the Management Board Chairman by a majority vote of the elected Management Board members. If the Chairman and the deputies are absent, 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.

PURVIEW OF THE MANAGEMENT BOARD AND CEO

Main issues within the purview of the Management Board	Main issues within the purview of the CEO
<p>The purview of the Management Board is determined by the Company’s Charter.</p> <p>The main functions of the Management Board include organising the monitoring of the implementation of decisions adopted by the Company’s 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.</p> <p>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.</p> <p>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.</p>	<p>The CEO is accountable to the Gazprom Neft PJSC Board of Directors and General Meeting of Shareholders.</p> <p>The CEO manages the Company’s day-to-day operations and acts within the purview prescribed by the Gazprom Neft PJSC Charter.</p> <p>Main issues of purview:</p> <ul style="list-style-type: none">> concludes 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 deputy CEO’s, the chief accountant, head of the legal service, head of the internal audit (control) department, head of the security service, head of the department in charge of preparing for and 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 Company’s 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.
Graduated from Order of Lenin Leningrad Shipbuilding Institute. Obtained IMISP MBA in 2001.
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 2008 – Chairman of the Management Board and CEO of Gazprom Neft PJSC.
Positions held at other organisations:
> 2007 – Member and Chairman of the Board of Directors of MFC Lakhta Centre JSC
> 2008 – Chairman of the Board of Directors and President of Football Club Zenit JSC
> 2009 – Member of the Board of Directors of NNK LLC
> 2010 – Member of the Board of Directors of Hockey Club SKA LLC
> 2011 – Deputy Chairman of the Board of Directors of SIBUR Holding JSC
> 2012 – Member of the Board of Directors of Hockey City LLC.

 Interest in charter capital (as of 31 December 2016)
0.005357244% (254,003 shares)



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).
2009 – Earned a diploma from the British Institute of Directors (ID).
2005–2006 – Deputy CEO for Economics and Finance of SIBUR-Russian Tyres LLC;
2006–2007 – Head of the Budget Planning Department of Sibneft 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.
The Company handles matters related to exploration and production, strategic planning as well as merger and acquisition transactions.
Positions held at other organisations:
> 2007 – Member of the Board of Directors and Chairman of the Board of Directors of Gazpromneft-NNG JSC.
> 2007 – Member of the Board of Directors of Slavneft OGC OJSC.
> 2008 – Member of the Board of Directors and Chairman of the Board of Directors of GPN-Development LLC.
> 2009 – Chairman of the Board of Directors of Naftna Industrija Srbije A.D. Novi Sad.
> 2011 – Chairman of the Board of Directors of Gazpromneft-Vostok LLC.
> 2011 – Chairman of the Board of Directors of Gazpromneft-Khantos LLC.
> 2011 – Chairman of the Board of Directors of Gazpromneft-NTC LLC.
> 2011 – Chairman of the Supervisory Board and Member of the Supervisory Board of Salym Petroleum Development N.V.
> 2012 – Member of the Board of Directors of SN-MNG OJSC.
> 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC.
> 2012 – Chairman of the Board of Directors of Gazpromneft-Orenburg LLC.
> 2014 – Chairman of the Board of Directors of Tomskneft VNK OJSC.
> 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.


 Interest in charter capital (as of 31 December 2016)
0.001051526% (49,856 shares)



IGOR KONSTANTINOVICH ANTONOV

Member of the Management Board, Deputy CEO for Security

Born in 1951.
Graduated from Leningrad Aviation Instrumentation Institute.
2000–2005 – CEO of Saint Petersburg Unitary Enterprise Informatika;
2005–2007 – Vice President for Security at Sibneft OJSC;
December 2007 to present – Deputy CEO for Security of Gazprom Neft PJSC.

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



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 1993 with a major in economics and production management.
2008 – Completed training at the London Business School Senior Executive Programme in London, UK.
2003 – Successively 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;
March 2009 – Deputy CEO of Gazprom Neft PJSC for Organisational Matters;
June 2009 – Member of the Management Board of Gazprom Neft PJSC.
Positions held at other organisations:
> 2009 – Chairman of the Board of Directors of ITSK LLC.
> 2011 – Member of the Board of Directors of Slavneft OGC OJSC.
> 2013 – Member of the Board of Directors of Gazpromneft-Omsk Oil Refinery JSC.
> 2014 – Member of the Board of Directors of Russian Helicopters JSC.
> 2014 – Chairman of the Board of Directors of Avtomatika-Service LLC.

 Interest in charter capital (as of 31 December 2016)
0.0032% (149,880 shares)



**VLADISLAV VALERYEVICH
BARYSHNIKOV**

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

Born in 1965.
Graduated from the Red Banner Military Institute.
2002–2009 – Director of the Gazprom OJSC representative office in China and the regional representative office in Asia-Pacific Region countries; State Councillor of the Russian Federation, third 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.


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



**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-Teleset JSC.


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



**ELENA ANATOLYEVNA
ILYUKHINA**

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

Born in 1969.
Graduated from the Ulyanov (Lenin) Saint Petersburg State Electrotechnical University and Saint Petersburg State University.
Awarded PhD in Economic Sciences in 2001.
2001–2007 – Deputy CEO of FSUE Rublevo-Uspensky LOK of the Russian Presidential Administration;
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 Gazpromneft-NNG JSC.
> 2009 – CEO and Member of the Board of Directors of MFC Lakhta Centre JSC.
> 2010 – Member of the Supervisory Board of Gazprom Neft Finance B.V.
> 2010 – Member of the Supervisory Board of Gazprom Neft International S.A.
> 2011 – Member of the Board of Directors of GPN-Development LLC.
> 2012 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC.
> 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.

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



**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.
> 2004–2007 – Administrative Director of EuroChem MCC 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;
> 2007 – Member of the Gazprom Neft PJSC Management Board and Deputy CEO for Organisational Affairs;
> 2009 – CEO and Member of the Board of Directors of NIS a.d. Novi Sad.
> 2009 – Deputy CEO of Gazprom Neft PJSC for Foreign Asset Management.


 Interest in charter capital
(as of 31 December 2016)
0.000068462% (3,246 shares)



**ANDREY NIKOLAYEVICH
PATRUSHEV**

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

Born in 1981.
2003 – Graduated from the Academy of the Federal Security Service of the Russian Federation with a major in jurisprudence.
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 Gubkin Russian State University of Oil and Gas with a major in the oil and gas business.
2006–2009 – Advisor to the Chairman of the Board of Directors of Rosneft OC OJSC;
2009–2011 – Deputy CEO for Business Development at RN-Service LLC;
2011 – Work at Zarubezhneft OJSC and involvement in organising the activities of the Russian-Vietnamese joint venture Vietsovpetro to develop Vietnam’s offshore fields;
2012 – First Deputy CEO of Vietsovpetro and Deputy CEO of Zarubezhneft;
Mid-2013 – Appointed Deputy CEO for Major Construction at Gazprom Dobycha Shelf LLC (renamed Gazprom Dobycha Shelf Yuzhno-Sakhalinsk in 2014);
April 2015 – Deputy CEO for Offshore Project Development at Gazprom Neft OJSC.
Positions held at other organisations:
> 2015 – Member of the Board of Directors of Gazpromneft-Sakhalin LLC.
> 2015 – Chairman of the Board of Directors of Gazprom Neft Shelf LLC.
> 2015 – Chairman of the Board of Directors of CentreCaspneftegaz LLC.

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



**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 Sibneft OJSC for Processing and Sales;
December 2007 – Member of the Management Board of Gazprom Neft OJSC and Deputy CEO for Logistics, Processing and Sales.
Responsible for oil refining and the logistics and sales of oil and petroleum products at the Company.
Positions held at other organisations:
> 2006 – Chairman of the Board of Directors of Gazpromneft-Omsk Oil Refinery LLC.
> 2006 – Member of the Board of Directors of Slavneft OGC OJSC.
> 2007 – Chairman of the Board of Directors of Gazpromneft-Aero OJSC.
> 2007 – Member of the Board of Directors and Chairman of the Board of Directors of Gazpromneft-Moscow Oil Refinery OJSC.
> 2007 – Member of the Board of Directors of Slavneft-YANOS OJSC.
> 2008 – Chairman of the Board of Directors of Gazpromneft Marine Bunker LLC.
> 2008 – Chairman of the Board of Directors of Gazpromneft-SM LLC.
> 2009 – Member of the Board of Directors of SPbMTSB JSC.
> 2009 – Member of the Board of Directors of Naftna Industrija Srbije A.D. Novi Sad.
> 2009 – Member of the Supervisory Board of Mozyr Oil Refinery OJSC.
> 2010 – Chairman 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.


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



**ALEXEY VIKTOROVICH
YANKEVICH**

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

Born in 1973.
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 LLK-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 – Acting Deputy CEO for Economics and Finance of Gazprom Neft OJSC;
March 2012 – Member of the Management Board and Deputy CEO for Economics and Finance of Gazprom Neft PJSC.
Positions held at other organisations:
> 2011 – Member of the Board of Directors of Gazpromneft-Aero JSC.
> 2011 – Member of the Board of Directors of Gazpromneft-SM 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 Lubricant Italy.
> 2011 – Member of the Board of Directors of Gazpromneft Marine Bunker LLC.
> 2013 – Member of the Board of Directors of Slavneft OGC OJSC.
> 2013 – Member of the Board of Directors of Naftna Industrija Srbije A.D. Novi Sad.
> 2015 – Member of the Board of Directors of Gazprom Neft Shelf LLC.

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

Neither the Chairman nor members of the Management Board concluded any transactions involving the acquisition or alienation 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.

**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 Regulation 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 Rospolikhim Group of Companies and an interest in the charter capital of NOVA-Brit 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 2015 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.

- > information about the development strategy for the Gazprom Neft PJSC resource base was taken under advisement and priorities were identified for the development of the resource base in the coming five years. The recommendation was given to consider the main provisions of the development strategy for the Gazprom Neft PJSC resource base at a meeting of the Gazprom Neft PJSC Board of Directors.

PARTICIPATION BY MANAGEMENT BOARD MEMBERS IN MEETINGS IN 2016

Member of the Management Board	Number of meetings attended by the member of the Management Board	Total number of meetings which the member of the Management Board could have attended
A. V. Dyukov Chairman of the Management Board	22	22
I. K. Antonov	17	22
V. V. Baranov	18	22
V. V. Baryshnikov	19	22
A. M. Dybal	19	22
E. A. Ilyukhina	18	22
K. A. Kravchenko	18	22
A. N. Patrushev	19	22
A. M. Cherner	20	22
V. V. Yakovlev	21	22
A. V. Yankevich	19	22

STRUCTURE OF ITEMS CONSIDERED BY THE MANAGEMENT BOARD IN 2016 BY THEME

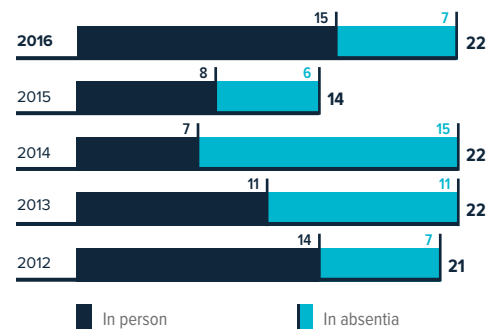
Source: Company data



- > 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 defence 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.

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

Source: Company data



REMUNERATION FOR MEMBERS OF GOVERNING BODIES

REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS

The amount of remuneration for members of the Board of Directors depends on the Company’s financial results and is approved annually by shareholders. The ability of shareholders to engage in discretionary intervention eliminates the risk of potential abuse of the remuneration programme.

In accordance with the decision of the General Meeting of Shareholders, members of the Board of Directors who do not hold positions within the Company’s executive bodies (who are not executive directors) were paid remuneration in the amount of 0.005% of EBITDA for 2015 according to the Company’s consolidated IFRS financial statement for 2015.

Besides the base portion of remuneration, members of the Board of Directors were paid additional remuneration for performing the functions of Chairman of the Board of Directors (50% of the remuneration for a member of the Board of Directors), a member of the Board of Directors (10% of the remuneration for a member of the Board of Directors) and chairman of a committee of the Board of Directors (50% of the remuneration for a committee member).

The total amount of remuneration paid to members of the Board of Directors in 2016 based on the results of 2015 amounted to RUB 269.2 million (remuneration includes personal income tax). No compensation was paid to members of the Board of Directors for expenses related to participation on the Board of Directors in 2016.

PAYMENT OF REMUNERATION TO MEMBERS OF THE GAZPROM NEFT PJSC BOARD OF DIRECTORS IN 2016 FOR PARTICIPATING IN THE BOARD'S WORK OF THE GOVERNING BODY¹

Name	Position	Substitution of government positions and civil service positions	Amount, RUB
A. B. Miller	Chairman of the Board of Directors	No substitution	30,360,825
V. A. Golubev	Member of the Board of Directors, Member of the Audit Committee	No substitution	22,264,605
A. V. Kruglov	Member of the Board of Directors, Member of the Audit Committee, Member of the Human Resources and Remuneration Committee	No substitution	22,264,605
A. V. Dyukov	Executive Member of the Board of Directors	No substitution	No remuneration paid
M. L. Sereda	Member of the Board of Directors, Chairman of the Audit Committee	No substitution	23,276,633
K. G. Seleznev	Member of the Board of Directors	No substitution	20,240,550
Y. V. Mikhailova	Member of the Board of Directors	No substitution	20,240,550
N. N. Dubik	Member of the Board of Directors, Member of the Audit Committee, Chairman of the Human Resources and Remuneration Committee	No substitution	25,300,688
V. I. Alisov	Member of the Board of Directors	No substitution	20,240,550
V. V. Cherepanov	Member of the Board of Directors, Member of the Human Resources and Remuneration Committee	No substitution	22,264,605
V. P. Serdyukov	Member of the Board of Directors	No substitution	20,240,550
M. M. Garayev	Member of the Board of Directors	No substitution	20,240,550
S. A. Fursenko	Member of the Board of Directors, Member of the Human Resources and Remuneration Committee	No substitution	22,264,605
TOTAL			269,199,315

¹ Payment includes personal income tax.

CONTROL

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: ir.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,

REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD

The Company has a clearly structured and objective remuneration programme for top and senior executives that ensures a connection between short-term goals and the amount of bonus payments. In addition to bonuses tied to short-term results, the Company has a motivation system based on the dynamics of the Company’s market capitalisation over a three-year period.

- Remuneration for Management Board members consists of three parts:
- > base portion of remuneration,
 - > annual bonus,
 - > long-term incentive programme.

The base portion of remuneration is determined on an individual basis and fixed in the employment contract.

The annual bonus aims to motivate key management personnel to achieve the annual goals. When determining the size of the annual bonus, the degree to which executives fulfilled a fixed set of KPIs and business initiatives is analysed and approved. This set of KPIs includes performance indicators with respect to the Company’s strategic goals as well as corporate, financial and performance targets, and starting in 2016 it also comprises indicators demonstrating compliance with industrial safety and occupational safety standards.

The long-term incentive programme is based on the appreciation of share value and was approved by the Board of Directors in 2012. The programme is an integral component of the Company’s long-term growth strategy and envisages the payment of remuneration to management for increasing the value of Gazprom Neft for shareholders over a certain period. The Company’s value is determined on the basis of its market capitalisation. The programme is available

to management employees of the Gazprom Neft Group, subject to the performance of specific duties. The remuneration is assessed at fair value at the end of each reporting period and paid at the end of the three-year programme term. Remuneration depends on certain market conditions and responsibilities that are taken into account when determining the amount payable to such employees. Expenses are recognised over the duration of the action plan. In 2015, a new three-year plan took effect for the long-term incentive programme.

Income accrued for members of the Management Board totalled RUB 1.094 billion in 2016. Payments included salary for the reporting period, taxes charged for such salary and other mandatory payments to the relevant budgets and extra-budgetary funds, annual paid leave for work during the reporting period and payment for treatment and medical care.

No additional remuneration is paid to members of the Management Board for work in the governing bodies of Gazprom Neft or its subsidiaries and affiliates. Members of the Management Board may be paid additional remuneration based on the decision of the Board of Directors.

The Company did not issue any loans (credits) to members of the Board of Directors or Management Board.

TOTAL REMUNERATION FOR 2016 WITH A BREAKDOWN BY EACH TYPE OF PAYMENT (RUB 1,000)

	Board of Directors	Management Board	Total
Remuneration for participating in governing bodies	269,199	–	269,199
Salary	–	605,354	605,354
Bonuses	–	481,519	481,519
Other payments	–	7,440	7,440
TOTAL	269,199	1,094,313	1,363,512

supporting, monitoring and improving the effective organisation and operation of the Company's internal control system; conduct a regular performance assessment of the Company's employees and train personnel on internal control in connection with changes to the internal and external conditions of the Company's operation.

The **heads of the Company's structural units and employees** perform functions that aim to develop, document, introduce, fulfil, monitor (self-assessment) and improve control procedures within the framework of their relevant competencies and in the zone of their responsibility; and timely inform supervisors about incidents when it is impossible to perform control procedures for any reason and/or changes must be made to control procedures due to changes to the internal and external conditions of the Company's operation.

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. Mironova
- > 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:

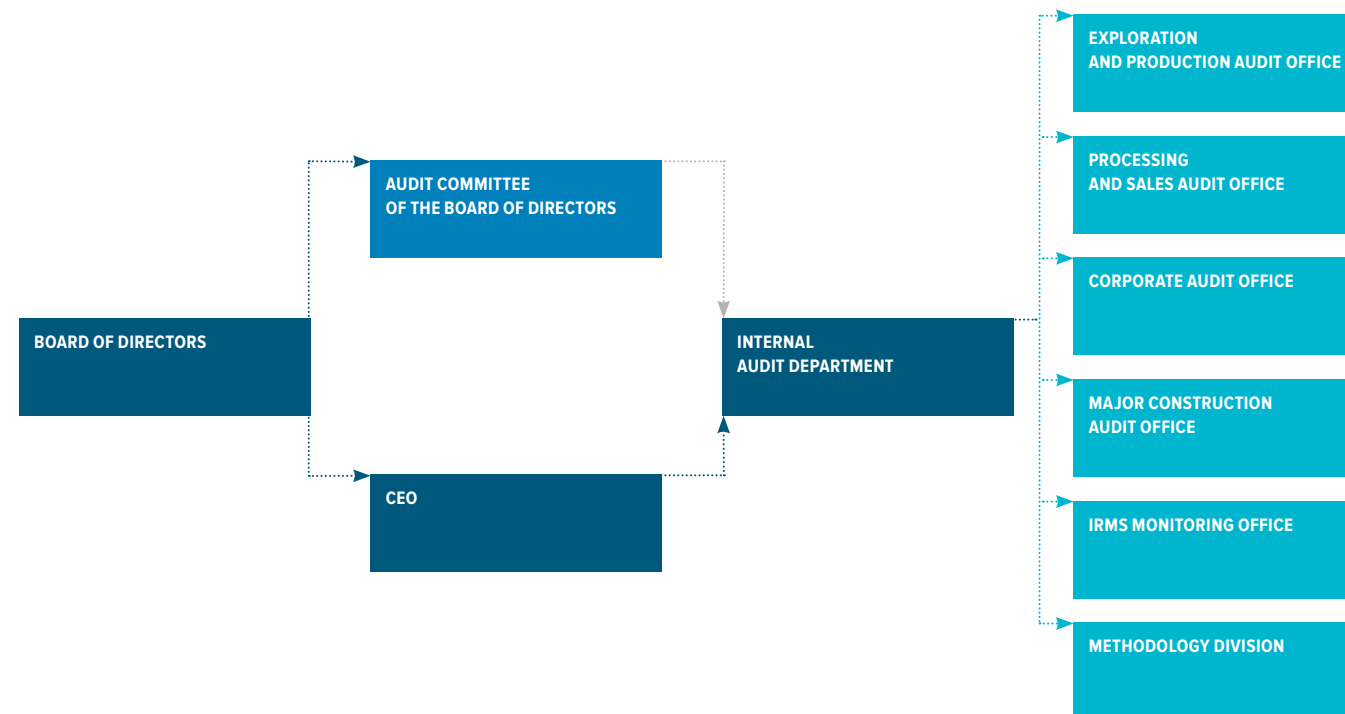
- > Assessing the effectiveness of the internal control system for the Company's business processes.
- > Assessing the effectiveness of procedures that ensure the safeguarding and legitimate use of the Company's assets.
- > Assessing the effectiveness of the internal control system for the accuracy of 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 for the reporting period and also regularly provides information about other audit issues falling within the Audit Committee's purview as part of meetings held in person and in absentia.

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, transshipment 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



GALINA YURIEVNA DELVIG

Head of the Internal Audit Department

Born in 1960.
Graduated from Plekhanov Moscow Institute of National Economy.
2008 – 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 experiencing 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 audited by 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 290.219 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 procedures 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 6.06 million – audit services for Gazprom Neft 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 a requirement on the management of conflicts of interest (threats of ‘self-assessment’) regarding an external auditor’s non audit-related services. The risk of ‘self-assessment’ is understood as a situation where the same contractor provides 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 involve 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 counterparties, may also file reports via the hotline. The Board of Directors reviews the hotline results twice a year, including statistics on the (processed) reports received and violations that are ultimately identified.

Gazprom Neft has approved internal documents which enshrine the values and principles that serve as the basis for the establishment and development of the Company's corporate culture.

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 officials provide information about all affiliates. 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 counterparty companies in all agreements concluded by Gazprom Neft 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 combatting 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.

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 combatting corruption.

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 1.9 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 Sogaz JSC 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 owner 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;

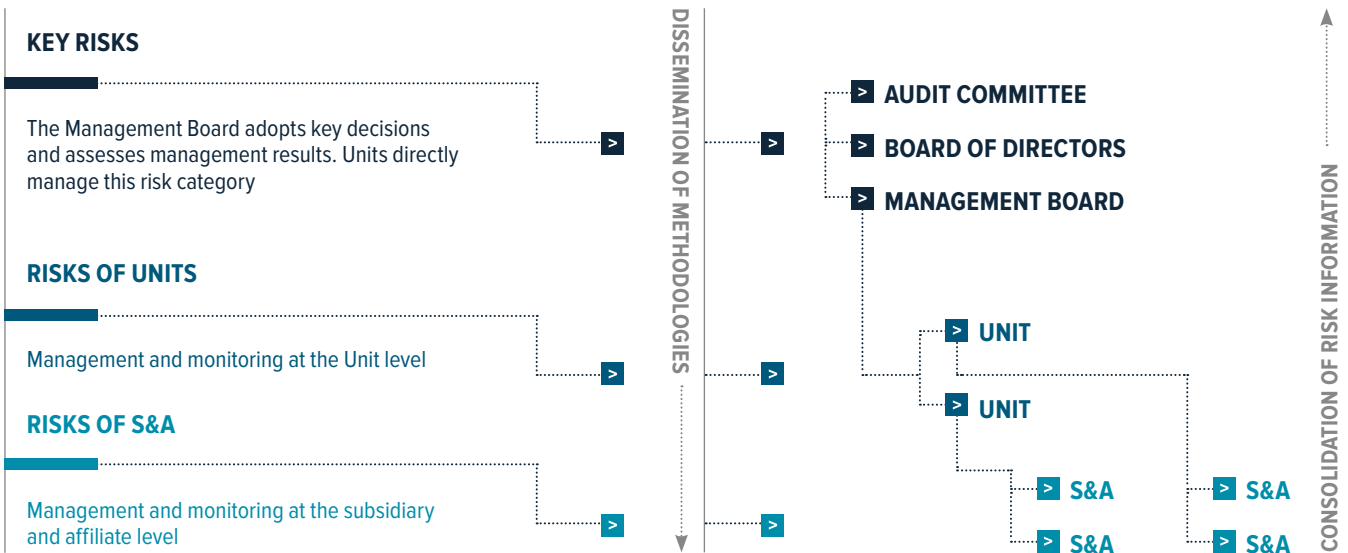
- > to stimulate the exchange of information on risks between the Company’s structural divisions and the joint development of risk management actions;
- > to provide systematic information about risks to the Company’s governing bodies.

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).

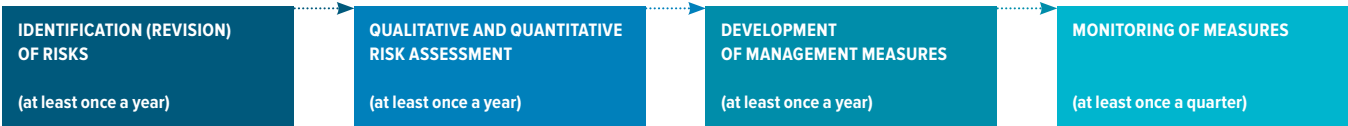
- The regulatory and methodological framework of the IRMS includes the following documents:
- > the Risk Management Policy;
 - > the ‘Integrated Risk Management System (IRMS)’ Company Standard;
 - > methodological guidelines for the risk management process;
 - > additional methodological guidelines for 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



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 analyse certain substantial 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 design documents.

RISK MANAGEMENT MEASURES

Gazprom Neft has considerable experience conducting geological exploration work and employing the latest geophysical methods to prospect and explore hydrocarbons 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 auditor 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.

> For more, see the **'Geological Exploration Work'** and **'Production and Raw Materials Base'** sections

1.2 LICENSING RISKS

The Company performs its subsoil resource 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 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 expenses incurred on acquiring the right to use the subsoil resources, investments to develop the subsoil site and decreased capitalization associated with the loss of the resource base.

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.

One of the measures aimed at reducing the level of licensing risks was the transition from risk management to managing licensing obligations. The basic idea of managing license obligations is to adjust the physical volumes of specific types of geological exploration and development indicators that had previously been strictly recorded in the conditions for subsoil resource use in accordance with the requirements of design documents (for example, an associated gas processing facility or raw hydrocarbon production levels). The Company's goal is to update the entire license portfolio with the exclusion of specific types, volumes and indicators from the conditions for the use of subsoil resources.

The CEOs of the Company's subsidiaries are responsible for retaining licenses for the right to use subsoil resources with the relevant objectives recorded at their training and production centres.

1.3 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.

1.4 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 skilled 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

1.5 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 core activities, including the breakdown or 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.

> For more, see the 'Industrial and Environmental Safety, Occupational Health and Safety, Energy Efficiency and Energy Conservation' section

1.6 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. In the future, costs associated with observing environmental requirements or obligations may increase.

RISK MANAGEMENT MEASURES

The environmental protection policy of Gazprom Neft aims to ensure compliance with the requirements of current environmental legislation by investing substantial funds in environmental measures, including the use of technologies that ensure minimal negative impact on the environment. These activities have resulted in a significant decline in the probability of risks associated with environmental pollution. The Company also follows the changes in environmental legislation in the different countries in which it operates.

> For more, see the 'Mitigating negative environmental impacts and the effective use of resources' section

2 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.

2.1 RISKS ASSOCIATED 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.

RISK MANAGEMENT MEASURES

The Company is implementing a number of measures that aim to mitigate the impact of such risks:

- > long-term planning of commodity flows and the timely provisioning of the cumulative flow of oil and petroleum products as well as the necessary rolling stock;
- > the optimal redistribution of commodity flows by transportation type;
- > the use of alternative and internal sources of power generation;
- > long-term contracting with fixed volumes and prices for the entire duration of the contracts;
- > the use of transparent cost revision formulas as part of long-term service contracts that are strictly dependent on market fluctuations.

These measures make it possible to reduce risks associated with the use of services and the acquisition of goods from monopoly providers to an acceptable level and ensure the Company's continuity of operations.

> For more, see the 'Production and manufacturing expenses' section

2.2 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.

RISK MANAGEMENT MEASURES

Comprehensive measures were prepared to reduce the cost of extracting minerals. The Company has a business planning system which at its core has a scenario-based approach for determining the Company's key performance indicators depending on oil prices on the global market. This approach makes it possible to cut costs, including by reducing them or carrying them over to future periods of investment programmes. These measures enable the Company to reduce risks to an acceptable level and fulfil the obligations it undertook.

> For more, see the 'Market overview' and 'Changes in market prices for crude oil and petroleum products' sections

2.3 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

2.4 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.

RISK MANAGEMENT MEASURES

In order to mitigate the negative effect of this risk on its performance results, the Company works to ensure a balance between domestic sales and exports as well as oil production and refining and also maintains a focus on expanding the markets of premium sales channels and increasing product sales in foreign countries.

Gazprom Neft companies also provide support to the country's economy as major taxpayers and take part in large-scale infrastructure and socially significant projects.

The Company is constantly improving production and working on enhancing performance efficiency, including by implementing investment projects as well as updating and modernising fixed assets.

> For more, see the 'Oil industry of the Russian Federation' section

3 FINANCIAL RISKS

Financial risks at Gazprom Neft are managed by employees in accordance with their professional activities.

The Financial Risk Management Committee determines the unified approach to financial risk management at Gazprom Neft and its subsidiaries. This approach is based on mitigating 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.

3.1 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 fulfil 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.

3.2 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.

> For more, see the ‘**Liquidity and capital resources**’ section

3.3 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 rouble 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 minimises the impact of currency market factors on the results of the Company’s financial and business activities. As regards the unbalanced proportion of claims and liabilities, the Company hedges such risks and in each specific situation utilises internal tools and provisions that allow for effectively managing the currency risk and guaranteeing the performance of its obligations.

> For more, see the ‘**Main macroeconomic factors affecting operational results**’ section, p. 60

3.4 INTEREST RISK

As a major borrower, the Company is exposed to risks associated with changes on financial markets. Much of the debt portfolio consists of loans denominated in U.S. dollars. The interest rate for servicing the existing credits is based on interbank loan rates (primarily LIBOR). An increase in these interest rates may lead to higher debt servicing costs for the Company. Growth in the cost of credits for the Company may negatively impact creditworthiness and liquidity indicators.

RISK MANAGEMENT MEASURES

The Company in each specific situation utilises internal tools and provisions to manage financial risks that guarantee the performance of its obligations.

4 RISKS ASSOCIATED WITH GOVERNMENT REGULATION AND POLICY

Gazprom Neft carries out its activities in strict compliance with the standards of Russian legislation as well as the legislation of the jurisdictions in which the Company performs its operations.

Gazprom Neft cannot guarantee the absence of adverse changes in Russian legislation in the long term since most risk factors are out of its control. The negative impact of this risk category is mitigated by monitoring and timely reaction to changes made to various sections of legislation as well as active interaction with the legislative and executive authorities and public organisations on matters involving the interpretation, proper application and improvement of legislative norms.

4.1 RISKS ASSOCIATED WITH MORE SANCTIONS FROM THE EU AND U.S.

In 2014, the U.S., EU countries and certain other nations imposed sanctions on the Russian energy sector and a number of Russian companies from different industries. Further sanctions could negatively impact the overall situation in the industry and also have a specific effect on the Company’s long-term projects and the ability of its counterparties to meet their obligations.

RISK MANAGEMENT MEASURES

The sanctions have had a negligible effect on the Company’s business and financial condition. In response, the Company is implementing a targeted programme to phase out imported services and equipment. The Company has no grounds to believe that it will be specifically targeted by any new sanctions, but the sanctions may have a specific effect on the Company’s long-term projects. At present, the Company continues to assess the impact of the sanctions, but does not believe that they will have a significant effect on the consolidated financial statement.

4.2 POLITICAL RISKS

The political situation in Russia is currently stable, which is characterised by the stability of the federal and regional branches. Gazprom Neft PJSC is registered as a taxpayer in St Petersburg, which is the second largest city in the Russian Federation and the administrative centre of the Northwest Federal District with significant natural resource potential, highly developed industry and an extensive transportation network. Gazprom Neft PJSC has subsidiaries in the Central, Northwest, Urals, Volga, Siberian and Far Eastern Federal Districts.

RISK MANAGEMENT MEASURES

Overall, the Company regards the political situation within the country as stable and believes that there are currently no risks of negative changes.

> For more, see the ‘**Regional policy and development of local communities**’ section

4.3 RISKS ASSOCIATED WITH FOREIGN ASSETS

The Company is implementing a number of foreign projects that aim to expand the geography of production operations. Entering new regions is associated both with the ability to obtain additional competitive advantages as well as the risks of underestimating the economic and political situation in countries where the Company’s assets are located, which subsequently may lead to the failure to achieve planned performance indicators.

RISK MANAGEMENT MEASURES

At present, Gazprom Neft assesses the level of risks associated with foreign assets as acceptable, however it cannot guarantee the absence of negative changes since the risks described are beyond the Company’s control.

4.4 CORRUPTION RISKS

As the Company actively enters new international markets, the risk increases of U.S. or UK anti-corruption laws extending to it.

RISK MANAGEMENT MEASURES

Gazprom Neft pursues a strategy of corruption risk management on an ongoing basis. The Company has approved an anti-fraud and anti-corruption policy, and all Gazprom Neft subsidiaries have been given recommendations to approve similar policies. All Gazprom Neft employees are required to review and comply with the policy requirements. In order to monitor corruption risks when working with third-party contractors, standard forms of anti-corruption reservations have been prepared and approved by an order of the Gazprom Neft CEO for inclusion in contracts with third parties (both Russian and foreign). The Company also has a permanent anti-fraud and anti-corruption hotline. An internal inspection is conducted in response to hotline complaints.

4.5 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 carries out thorough 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. 'Oil industry taxation'

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.

4.6 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.

> For more, see the 'Overview of key changes to tax, customs and tariff legislation of the Russian Federation' section and Appendix 6. 'Oil industry taxation'

5 RISKS ASSOCIATED WITH IMPLEMENTING STRATEGIC GOALS

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.

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 Pirazlomnoye, 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

6 RISKS OF ATTRACTING PARTNERS

Given the unstable macroeconomic and political situation, attracting partners to implement joint projects is both a 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

INTERACTION

WITH INVESTORS AND SHAREHOLDERS

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 16 legal entities and 8,669 individuals.

LIST OF REGISTERED ENTITIES (% of charter capital)

Legal entities	As of 31 December 2015		As of 31 December 2016	
Entities recorded in the shareholder register	Share of charter capital, %	Number of shares, mn	Share of charter capital, %	Number of shares, mn
Gazprom PJSC	72.66	3,445.16	92.66	4,393.43
NCO National Settlement Depository CJSC (Nominal holder)	7.06	334.73	7.07	335.19
Deutsche Bank LLC (Nominal holder)	20.00	948.27	–	–
Other legal entities and individuals	0.28	13.13	0.27	12.68

¹ Converted at the exchange rate of the Central Bank of the Russian Federation as of 31 December 2016.
² 1 ADR is equivalent to 5 common shares of Gazprom Neft PJSC.

LISTING

INFORMATION ABOUT SHARE CIRCULATION

BASIC INFORMATION ABOUT THE SHARES AND AMERICAN DEPOSITORY RECEIPTS (ADR) OF GAZPROM NEFT AS OF 31 DECEMBER 2016

Share value on MICEX	
RUB (closing price)	214.0
USD ¹ (closing price)	3.5
52-week maximum price	214.2
52-week minimum price	141.6

Value of 1 ADR ² 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 bn)	9.4
London Stock Exchange (IOB system, USD mn)	128.9

Market capitalisation on MICEX	
RUB mn	1,015.0
USD mn ¹	16,727.0
Code in MICEX-RTS system / ISIN code	SIBN / RU0009062467
Number of common shares	4,741,299,639
Nominal value of common shares (RUB)	0.0016
Size of charter capital (RUB)	7,586,079.4224
Shares in free float, %	4.32
Number of ADR issued	24,012,996
Proportion of ADR in free float, %	59
Average monthly trading volume (IOB system, USD mn)	10.7
Average monthly trading (MICEX, RUB mn)	779.8

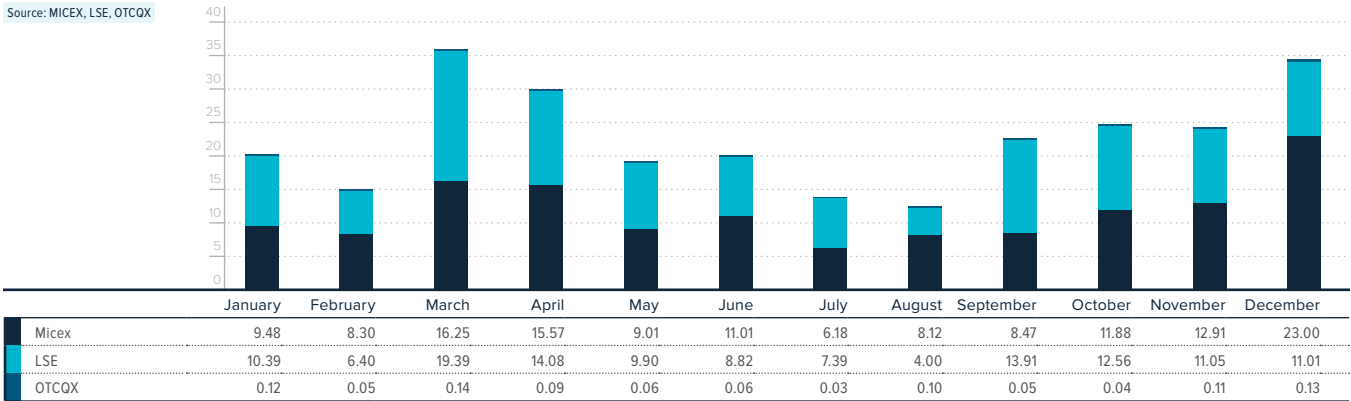
The common shares of Gazprom Neft circulate in Russia on the main trading platforms of the unified exchange Moscow Exchange PJSC. Globally the Company’s shares trade in the form of ADRs, primarily in OTC trading in the UK via the LSE IOB system, in the U.S. via the OTCQx system as well as in Germany.

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.

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.

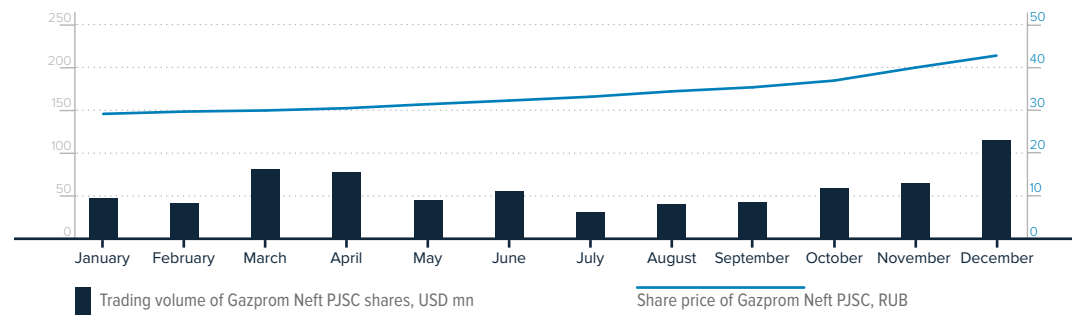
TRADING VOLUME DYNAMICS OF GAZPROM NEFT PJSC SHARES ON MICEX STOCK EXCHANGE, LONDON EXCHANGES AND OTCQX IN 2016 (USD mn)



PARTICIPATION IN DEPOSITORY RECEIPTS PROGRAMME

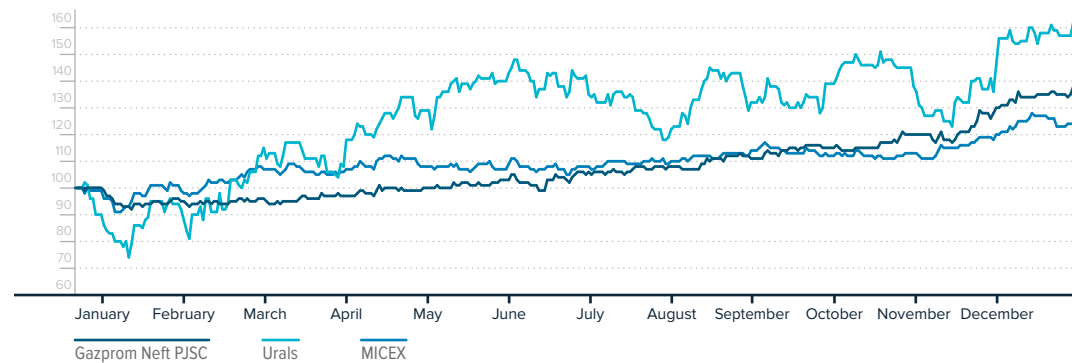
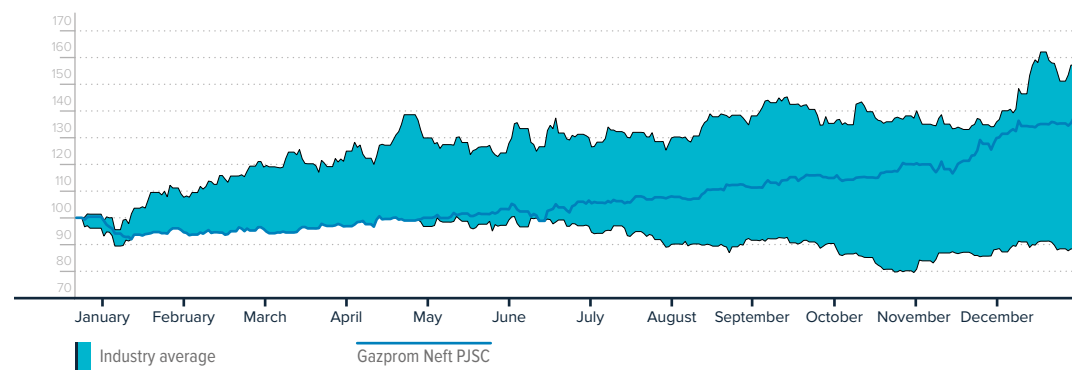
TRADING VOLUME DYNAMICS OF GAZPROM NEFT PJSC SHARES ON MICEX STOCK EXCHANGE IN 2016

Source: MICEX Stock Exchange trading data



TRADING VOLUME DYNAMICS OF GAZPROM NEFT PJSC SHARES ON MICEX STOCK EXCHANGE IN 2016¹ (%)

Source: BBG



¹ Including share quotes of Gazprom Neft, Lukoil, Rosneft, Gazprom, Tatneft named after V.D. Shashin, Surgutneftegas and Novatek.



USD 135 mn

ADR trading volume of Gazprom Neft PJSC in 2016

USD 129 mn

trading volume on the London Stock Exchange IOB in 2016

USD 1 mn

trading volume on OTCQx in 2016

USD 5 mn

trading volume on other exchanges in Europe (mainly Germany) in 2016

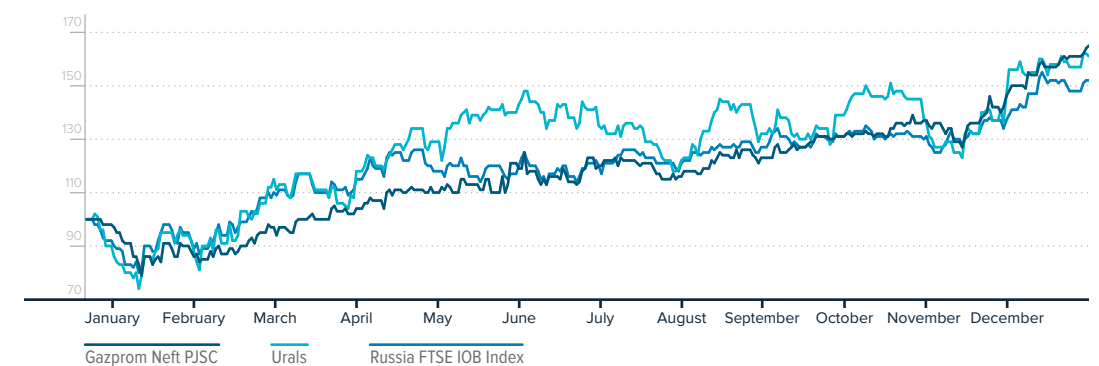
American and Global Depository Receipt programmes continued throughout 2016 for the Company's shares trading on the OTC market of the U.S., UK, Germany and other countries. One ADR is equal to 5 common shares of Gazprom Neft. The depository bank for the Company's depository receipt programme is The Bank of New York Mellon.

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 totalled 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 (%)

Source: LSE



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.

Gazprom Neft adheres to the principle of ensuring positive dynamics in dividend payments when the Company increases net profit.

- > 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 (announce) dividends or 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.

DIVIDEND HISTORY

DIVIDEND HISTORY OF THE COMPANY

	2011	2012	2013	2014	2015
Amount of dividends accrued per one share, RUB	7.3	9.3	9.38 (including dividends for H1 2013)	6.47 (including dividends for H1 2014)	6.47 (including dividends for H1 2015)
Total amount of dividends accrued per share of a particular category, RUB	34,611,487,365	44,094,086,643	44,473,390,614	30,676,208,664	30,676,208,664
Percentage of US GAAP/IFRS net profit , %	22	25	25	25	28
Compilation date of list of persons entitled to receive dividends	24/04/2012	23/04/2013	23/06/2014	22/06/2015	27/06/2016
Meeting date of issuer’s governing body at which the decision was made to pay dividends and the date and number of the minutes	08/06/2012 Minutes No. 0101/02 dated 14/06/2012	07/06/2013 Minutes No. 0101/03 dated 17/06/2013	06/06/2014 Minutes No. 0101/01 dated 06/06/2014	05/06/2015 Minutes No. 0102/18 dated 05/06/2015	10/06/2016 Minutes No. 0101/01 dated 14/06/2016
Deadline given for payment of declared dividends	Before 07/08/2012	Before 06/08/2013	Before 28/07/2014	Before 27/07/2015	Before 01/08/2016
Form and other conditions of payment of declared dividends	In cash form	In cash form	In cash form	In cash form	In cash form
Ratio of unpaid dividends to accrued dividends, ¹ %	0.02	0.03	0.05	0.02	0.02

COMPARISON OF TOTAL RETURN

SHAREHOLDER’S TOTAL RETURN

Source: Company data, Moscow Exchange PJSC

		2011	2012	2013	2014	2015	2016
Gazprom Neft	Amount of dividends accrued per one share, RUB	7.3	9.3	9.38	6.47	6.47	10.68
	Share price at start of period, RUB	130.47	150.80	143.75	147.67	142.00	152.90
	Share price at end of period, RUB	148.18	142.52	146.77	143.00	153.95	214.00
	TSR, %	19.2	0.7	8.6	1.2	13.0	46.9

¹ Dividends not paid to shareholders who failed to provide data for the calculation of dividends in accordance with clause 5 of Article 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 once the rights of the shareholders to the securities have been established.

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

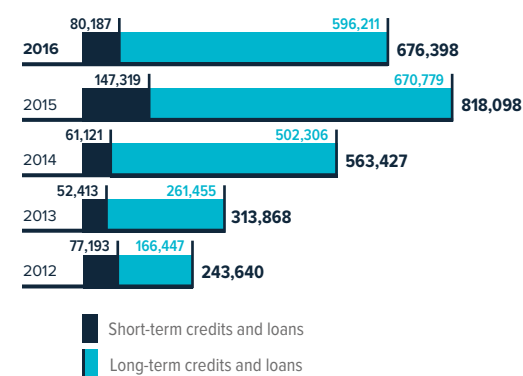
Source: Company data

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

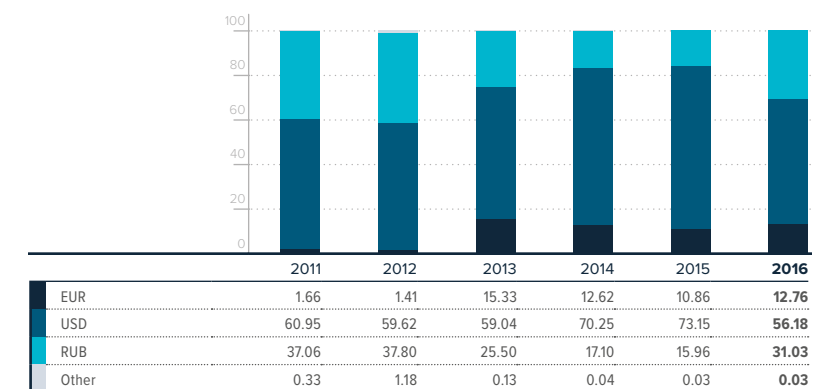
MAIN FEATURES OF THE DEBT PORTFOLIO

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)

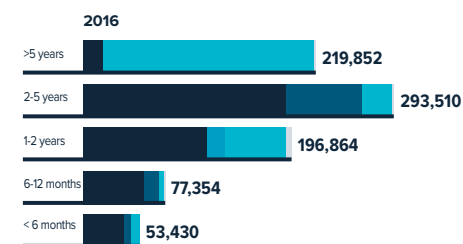


DEBT PORTFOLIO STRUCTURE BY CURRENCY (%)



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.

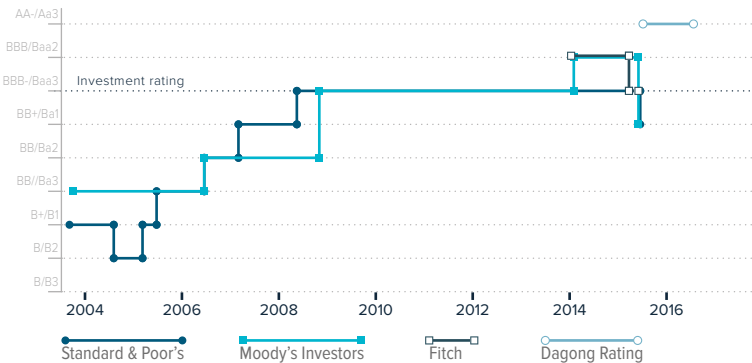
In order to ensure the ability to promptly raise debt financing in the form of a local bond issue, the Company registered a multi-currency Exchange Bond Programme in 2015. The undrawn limit under the programme was the equivalent of RUB 100 billion as of the end of 2016. The Programme remains in effect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

INFORMATION POLICY AND DISCLOSURE

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 has developed and introduced an Information Policy that ensures effective information interaction between the Company, shareholders, investors and other stakeholders.

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.

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 minimise 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 Databook and Datafeed 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.

> For additional information, see the ‘Shareholder User Account’ draga.ru/lichnyj-kabinet-akcionera

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

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.

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 best practice in investor relations and to support the professional development of its members. The IR Society Best Practice Awards contest is held each year and included more than 170 representatives of international business in 2016.



COMPETITIONS AND AWARDS



MOSCOW
EXCHANGE

Moscow Exchange and Securities Market Journal annual report contest

Short list of nominations
‘Best Annual Report’



IR Society Best Practice Awards¹ (UK)

Short list of nominations
‘Best Annual Report’
‘Best Interactive Annual Report’

Winner in the nomination
‘Best Use of Digital Communications’

ReportWatch

Rating Report Watch

Debut in top reports
with ‘B’ rating



Expert PA annual report contest

Winner in the nomination
‘Best Interactive Annual Report’

Winner in the nomination
‘Best Design and Printing’

Laureate in the nomination
‘Best Annual Report (Non-financial Sector)’



LACP (USA)

8 certificates
including joining the [global Top-100](#)

INTERACTION WITH ANALYSTS AND A CONSENSUS FORECAST

ANALYST RECOMMENDATIONS

Broker	Analyst	Date	Recommendation	Tgt Px, RUB
BrokerCreditService	Kirill Tachennikov	21/01/2017	Buy	225
Gazprombank	Yevgeniya Dyshlyuk	23/11/2016	Buy	210
Sberbank	Alexander Fek	26/01/2017	Buy	333
Deutsche Bank	Pavel Kushnir	22/02/2017	Buy	220
Bank of America ML	Karen Kostanyan	24/02/2017	Buy	248
Goldman Sachs	Geydar Mamedov	24/02/2017	Buy	276
Aton	Alexander Kornilov	23/01/2017	Buy	278
Raiffeisen	Andrey Polishchuk	10/01/2017	Hold	237
Renaissance Capital	Ildar Davletshin	24/11/2016	Buy	230

ANALYSTS' STATEMENTS FOR Q4 2016

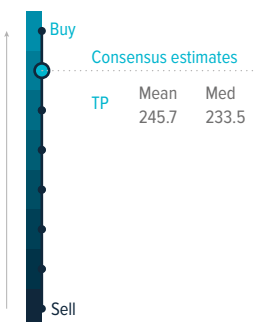
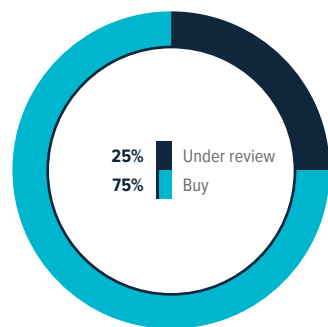
Source: Thomson Reuters

Bank of America Merrill Lynch

In 2016 G-neft delivered 8% YoY oil production growth primarily driven by the new projects, Prirazlomnoye and Novoport. In October 2016, in addition to these fields, Gneft and Rosneft launched jointly developed East Messoyakha field. The contribution from these fields should exceed 14MMt of oil by 2019 driving total G-neft's oil production up by 19% vs 2016. More importantly, all three projects obtained significant tax exemptions making production up to 2x more value-accretive than conventional brownfield developments.

Goldman Sachs

While Gazprom Neft will likely remain FCF neutral in 2017 as this will be the final year of the greenfield investment cycle, we expect it to be able to deliver a 13% average FCF yield from 2018 following a capex decline from peak levels and earnings growth. At the same time, an uplift in earnings creates upside for dividends: we expect the dividend yield to grow from 4% in 2016 (at the current price) to 7% in 2018 under the current dividend policy of a 25% IFRS net income payout. Valuation remains attractive: the stock is trading at 4.0x 2017E EV/EBITDA vs. an industry average of 4.8x. We reiterate our Buy rating.



URALSIB FINANCIAL CORPORATION

The company expects significant growth in production at new projects in 2017-2019, including the Novoportovskoye and Prirazlomnoye fields as well as the Messoyakha group. As a result of the increased production, management is forecasting an increase in net profit, which will lead to growth in dividends taking into account the Company's payout rate of 25% per IFRS. At the same time, capital investments in new production projects should decrease as the latter reach full capacity, making it possible to generate a positive free cash flow.

ATON

We view the 2016 results as strong and positive and specifically note the higher EBITDA than expected. We maintain our BUY recommendation for Gazprom Neft shares.

Q&A

> What projects will 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 Refinery) 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 at the East Messoyakha field in September 2016. Drilling at the field will double in 2017. Messoyakhaneftegaz (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.

> For additional information, see the 'Russian projects' section, p. 38

> 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 2015, 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 PJSC Gazprom Neft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the PJSC Gazprom Neft (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.

Basis for opinion

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.

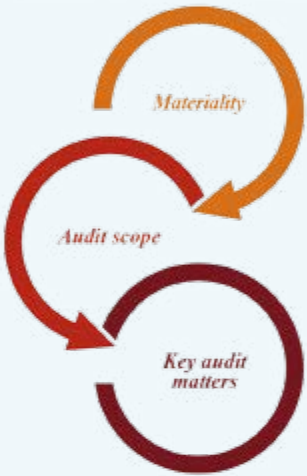
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



Our audit approach

Overview



- Overall group materiality: 10,500 million Russian Roubles ("RUB"), which represents 2.5% of the adjusted EBITDA.
- We conducted audit work on 30 Group entities in 4 countries.
- The group engagement team visited the following locations: Saint-Petersburg and Omsk (Russia) as well as Belgrade (Serbia).
- Our audit scope addressed more than 76% of the Group's revenues and more than 74% of the Group's absolute value of underlying profit before tax.
- Revenue recognition
- Impairment assessment of goodwill and fixed assets

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we have determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate, on the consolidated financial statements as a whole.

AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F: +7 (495) 967-6001, www.pwc.ru

Overall group materiality	RUB 10,500 million
How we determined it	2.5% of the adjusted EBITDA
Rationale for the materiality benchmark applied	We chose to apply adjusted EBITDA as the benchmark for establishing the materiality level, because we believe it is most commonly used to assess the Group's performance (see Note 39). Management uses adjusted EBITDA as a 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. We established materiality at 2.5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

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 these matters.

Key audit matter	How our audit addressed the Key audit matter
<p>Revenue recognition</p> <p>Refer to note 2 ("Revenue recognition") in the consolidated financial statements for the related disclosures of accounting policies.</p> <p>We focused on revenue recognition because the Group has various revenue streams with different terms underlying revenue recognition, including price determination, title, as well as risk and rewards transfer. Due to the high volume of transactions, possible manual intervention, different management accounting systems and the interfaces of these with the accounting records, there is the potential for deliberate manipulation or error.</p> <p>The Group's revenue consists of different streams, comprising mainly sales of crude oil, petroleum products and other materials. The Group sells oil products to industrial customers, via small-scale wholesale distribution channels and via the Group's own network of retail petrol stations in the Russian Federation and abroad.</p> <p>Under ISAs, there is a rebuttable presumption of fraud risk in revenue recognition on every audit engagement. We focused on judgements in</p>	<p>We assessed the consistency in the application of the revenue recognition accounting policy against various sources of the Group's revenues. We tested the design and operating effectiveness of controls (including Information Technology ("IT") controls) over revenue recognition across the Group to determine the extent of additional substantive testing required.</p> <p>We checked operational effectiveness of controls over the formulation of prices at petrol stations, over reconciliation of data between operating and accounting systems in both quantitative and monetary terms and over cash collection.</p> <p>We performed analytical procedures (based on investigation of contract details and reconciling and testing the details of inventory movement starting from production through to final sale) and we tested the details over revenue transactions.</p> <p>We submitted requests for confirmation letters to financial institutions for confirmation of collected cash and cash received through credit card sales and customers for confirmation of</p>

Key audit matter	How our audit addressed the Key audit matter
<p>relation to revenue recognition under certain contractual arrangements and assessed the risk of fraud and error in revenue recognition for each revenue stream.</p>	<p>certain transactions or accounts receivable balances.</p> <p>We checked the appropriateness of the timing of revenue recognition by testing a sample of transactions and comparing ownership, and the dates of the transfer of risks and rewards against the corresponding dates of revenue recognition.</p> <p>We checked whether the Group was entitled to, and appropriately recognised, revenue in line with their contractual obligations and the Group's revenue recognition policy. We also tested manual journal entries posted to revenue and reconciled actual selling prices to the contractual terms as well as amounts shipped to source shipping documents.</p> <p>No significant exceptions were noted from our testing.</p>
<p>Impairment assessment of goodwill and fixed assets</p> <p>Refer to notes 12 and 13 in the consolidated financial statements.</p> <p>We focused on this area due to the size of goodwill (RUB 31,926 million at 31 December 2016) and fixed assets balance (RUB 1,726,345 million at 31 December 2016) and because the management assessment of the 'value in use' of the Group's Cash Generating Units ("CGUs") involves judgements and estimates about the future results of the business, commodity prices and discount rates.</p> <p>In the current economic environment we note high volatility of macroeconomic parameters used in models which makes forecasting more difficult and judgemental.</p> <p>We focused on evaluating projects whose pay-off period could be increased due to a sharp decline in crude oil prices that is not compensated for by the weakening of the Russian Rouble. Such projects are development and production projects in Kurdistan and Badra, and are governed by the terms of the Production Sharing Agreement (PSA) and the Development and Production Service Contract (PDSC). The Iraqi business was entered into by the Group in 2012.</p>	<p>We assessed the risk of impairment of tangible and intangible assets, which involves the analysis of the estimation of future cash flows. We evaluated and challenged the composition of management's future cash flow forecasts, and the process by which they were prepared. In particular, we focused on whether they had identified all significant cash generating units. We found that management had followed their formal, approved process for the preparation of future cash flow forecasts, which was subject to timely oversight and challenge by senior management.</p> <p>We compared the current year actual results to the figures included in the prior year forecast, to consider whether any forecasts included assumptions that, with hindsight, had been overly optimistic. We extended the use of our own valuation experts and external data from independent sources in critically assessing and obtaining audit evidence to support the revised assumptions used in impairment testing. The most significant assumptions are those regarding future oil prices, reserves and resources volumes as per the report from independent appraisers DeGolyer and</p>

Key audit matter	How our audit addressed the Key audit matter
Performance since then has been impacted by a general deterioration in the macroeconomic environment both globally and in Iraq, and by the PSA and DPSC 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 those projects as of the date of impairment test is disclosed in Note 12 Property, plant and equipment.	<p>MacNaughton as well as discount rates depending on Iraq's country risk. For the purpose of the analysis of future market prices we have used Brent crude quotations as per IHS, Wood Mackenzie, PIRA Energy Group's data. We have also performed an analysis of the competence, independence and objectivity of the external expert engaged by the Group. We tested input data which was submitted to the external expert. We checked that the revised estimation of reserves was appropriately accounted for in the impairment analysis.</p> <p>For all CGUs we also challenged management's assumptions in forecasts for long term growth rates by comparing them to economic and industry forecasts; and the discount rate, by assessing the cost of capital for the particular CGU and comparable organisations, as well as considering country/territory specific factors.</p> <p>We found the assumptions to be consistent and in line with our expectations.</p> <p>We also performed audit procedures on the reliability and consistency of data used in the impairment models and sensitivity analysis as well as procedures aimed to ensure the completeness of the impairment charge and exploration costs write-offs.</p> <p>No significant exceptions were noted.</p>

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 geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We identified the following significant components where we performed full-scope audit procedures: PJSC Gazprom Neft (parent holding company, corporate centre located in Saint-Petersburg, Russia), Naftna Industrija Srbije a.d., Novi Sad (Serbian subsidiary), Gazpromneft – Regionalnye Prodazhi LLC (Russian subsidiary responsible for regional wholesale and retail oil products sales) and Gazpromneft – Center LLC (Russian subsidiary responsible for retail oil products sales). In addition, we performed specified audit procedures over selected financial information of several non-significant components located in Russia, Iraq and Austria in order to increase coverage and audit comfort, including procedures at Business-Service LLC (Russian subsidiary located at Omsk, Noyabrsk and Ekaterinburg responsible for accounting and bookkeeping services for all entities of the Group in Russia).

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 auditor's report thereon), which we obtained prior to the date of this auditor's report, and the PJSC Gazprom Neft complete Annual Report and 1st quarter 2017 Quarterly Issuer's Report, which are expected to be made available to us after that date.

Our opinion 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.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the PJSC Gazprom Neft complete Annual Report and 1st quarter 2017 Quarterly Issuer's Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are 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 has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Irina Shanina.

AO PricewaterhouseCoopers Audit
21 February 2017

Moscow, Russian Federation

Jason Warden, Partner, for AO PricewaterhouseCoopers Audit

I.V. Shanina, certified auditor (Licence no. 01-001340), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Gazprom Neft

State registration certificate № 38606450 issued by the Omsk Registration Bureau on 06 October 1995

Certificate of inclusion in the Unified State Register of Legal Entities issued on 21 August 2002 under registration № 1025501701686

Russian Federation, 190000, St. Petersburg, Galernaya str., 5, lit. A

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027500148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

APPENDIX 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(RUB mn)

	Notes	31 December 2016	31 December 2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	33,621	114,198
Short-term financial assets	7	42,113	65,157
Trade and other receivables	8	115,559	95,241
Inventories	9	100,701	102,378
Current income tax prepayments		10,353	13,903
Other taxes receivable	10	53,482	57,700
Other current assets	11	40,503	62,167
TOTAL CURRENT ASSETS		396,332	510,744
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,726,345	1,587,653
Goodwill and other intangible assets	13	70,151	75,090
Investments in associates and joint ventures	14	201,548	169,611
Long-term trade and other receivables		5,129	8,867
Long-term financial assets	16	40,167	50,884
Deferred income tax assets	17	8,039	22,099
Other non-current assets	18	101,100	60,518
TOTAL NON-CURRENT ASSETS		2,152,479	1,974,722
TOTAL ASSETS		2,548,811	2,485,466
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term debt and current portion of long-term debt	19	80,187	147,319
Trade and other payables	20	95,624	104,830
Other current liabilities	21	28,680	32,870
Current income tax payable		2,296	1,096
Other taxes payable	22	67,259	49,011
Provisions and other accrued liabilities	23	15,406	13,938
TOTAL CURRENT LIABILITIES		289,452	349,064

The accompanying notes are an integral part of these Consolidated Financial Statements

	Notes	31 December 2016	31 December 2015
NON-CURRENT LIABILITIES			
Long-term debt	24	596,221	670,779
Other non-current financial liabilities	25	89,744	115,375
Deferred income tax liabilities	17	81,347	68,752
Provisions and other accrued liabilities	23	45,942	31,065
Other non-current liabilities		1,938	1,942
TOTAL NON-CURRENT LIABILITIES		815,192	887,913
EQUITY			
Share capital	26	98	98
Treasury shares	26	(1,170)	(1,170)
Additional paid-in capital		51,047	44,326
Retained earnings		1,276,210	1,078,626
Other reserves		33,955	35,189
EQUITY ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS		1,360,140	1,157,069
Non-controlling interest	37	84,027	91,420
TOTAL EQUITY		1,444,167	1,248,489
TOTAL LIABILITIES AND EQUITY		2,548,811	2,485,466



A.V. DYUKOV
Chief Executive Officer
Gazprom Neft PJSC



A.V. YANKEVICH
Chief Financial Officer
Gazprom Neft PJSC

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)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
SALES		1,695,764	1,655,775
Less export duties and sales related excise tax		(150,156)	(187,832)
TOTAL REVENUE FROM SALES	39	1,545,608	1,467,943
COSTS AND OTHER DEDUCTIONS			
Purchases of oil, gas and petroleum products		(351,294)	(345,909)
Production and manufacturing expenses		(201,862)	(214,267)
Selling, general and administrative expenses		(108,981)	(100,176)
Transportation expenses		(132,984)	(133,320)
Depreciation, depletion and amortisation		(129,845)	(114,083)
Taxes other than income tax	22	(381,131)	(353,145)
Exploration expenses		(1,195)	(922)
TOTAL OPERATING EXPENSES		(1,307,292)	(1,261,822)
OPERATING PROFIT		238,316	206,121
Share of profit of associates and joint ventures	14	34,116	24,956
Net foreign exchange gain / (loss)	29	28,300	(67,910)
Finance income	30	11,071	14,732
Finance expense	31	(34,282)	(33,943)
Other (loss) / gain, net	28	(17,982)	1,494
TOTAL OTHER INCOME / (EXPENSES)		21,223	(60,671)
PROFIT BEFORE INCOME TAX		259,539	145,450
Current income tax expense		(21,290)	(38,026)
Deferred income tax (expense) / benefit		(28,524)	8,774
TOTAL INCOME TAX EXPENSE	32	(49,814)	(29,252)
PROFIT FOR THE PERIOD		209,725	116,198

The accompanying notes are an integral part of these Consolidated Financial Statements

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
OTHER COMPREHENSIVE (LOSS) / INCOME			
Currency translation differences		(48,319)	43,739
Cash flow hedge, net of tax	33	31,501	(9,333)
Other comprehensive loss		(166)	(199)
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		(16,984)	34,207
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		192,741	150,405
PROFIT ATTRIBUTABLE TO:			
Gazprom Neft shareholders		200,179	109,661
Non-controlling interest		9,546	6,537
PROFIT FOR THE PERIOD		209,725	116,198
TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO:			
Gazprom Neft shareholders		198,945	133,746
Non-controlling interest		(6,204)	16,659
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		192,741	150,405
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		42.43	23.24
Diluted earnings (RUB per share)		42.43	23.24
Weighted-average number of common shares outstanding (millions)		4,718	4,718

The accompanying notes are an integral part of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(RUB mn)

	Notes	Attributable to Gazprom Neft shareholders						Non-controlling interest	Total equity
		Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total		
BALANCE AS OF 1 JANUARY 2016		98	(1,170)	44,326	1,078,626	35,189	1,157,069	91,420	1,248,489
Profit for the period		–	–	–	200,179	–	200,179	9,546	209,725
OTHER COMPREHENSIVE (LOSS) / INCOME									
Currency translation differences		–	–	–	–	(32,569)	(32,569)	(15,750)	(48,319)
Cash flow hedge, net of tax		–	–	–	–	31,501	31,501	–	31,501
Other comprehensive loss		–	–	–	–	(166)	(166)	–	(166)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		–	–	–	200,179	(1,234)	198,945	(6,204)	192,741
TRANSACTIONS WITH OWNERS, RECORDED IN EQUITY									
Dividends to equity holders		–	–	–	(2,595)	–	(2,595)	(1,273)	(3,868)
Transaction under common control	25	–	–	6,835	–	–	6,835	–	6,835
Acquisition through business combination		–	–	(114)	–	–	(114)	84	(30)
TOTAL TRANSACTIONS WITH OWNERS		–	–	6,721	(2,595)	–	4,126	(1,189)	2,937
BALANCE AS OF 31 DECEMBER 2016		98	(1,170)	51,047	1,276,210	33,955	1,360,140	84,027	1,444,167

	Notes	Attributable to Gazprom Neft shareholders						Non-controlling interest	Total equity
		Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total		
BALANCE AS OF 1 JANUARY 2015		98	(1,170)	50,074	1,005,642	11,104	1,065,748	64,037	1,129,785
Profit for the period		–	–	–	109,661	–	109,661	6,537	116,198
OTHER COMPREHENSIVE INCOME / (LOSS)									
Currency translation differences		–	–	–	–	33,617	33,617	10,122	43,739
Cash flow hedge, net of tax		–	–	–	–	(9,333)	(9,333)	–	(9,333)
Other comprehensive loss		–	–	–	–	(199)	(199)	–	(199)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		–	–	–	109,661	24,085	133,746	16,659	150,405
TRANSACTIONS WITH OWNERS, RECORDED IN EQUITY									
Dividends to equity holders		–	–	–	(36,677)	–	(36,677)	(1,842)	(38,519)
Transaction under common control		–	–	(5,748)	–	–	(5,748)	12,566	6,818
TOTAL TRANSACTIONS WITH OWNERS		–	–	(5,748)	(36,677)	–	(42,425)	10,724	(31,701)
BALANCE AS OF 31 DECEMBER 2015		98	(1,170)	44,326	1,078,626	35,189	1,157,069	91,420	1,248,489

The accompanying notes are an integral part of these Consolidated Financial Statements

CONSOLIDATED STATEMENT

OF CASH FLOWS (RUB mn)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		259,539	145,450
ADJUSTMENTS FOR:			
Share of profit of associates and joint ventures	14	(34,116)	(24,956)
(Gain) /loss on foreign exchange differences	29	(28,300)	67,910
Finance income	30	(11,071)	(14,732)
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		(3,462)	6,128
Taxes receivable		4,218	1,704
Other assets		8,999	6,294
Accounts payable		12,288	(2,245)
Taxes payable		19,729	(2,905)
Other liabilities		3,841	(6,653)
TOTAL EFFECT OF WORKING CAPITAL CHANGES		15,216	18,342
Income taxes paid		(22,158)	(19,522)
Interest paid		(36,476)	(28,229)
Dividends received		3,148	2,415
NET CASH PROVIDED BY OPERATING ACTIVITIES		321,297	285,175

The accompanying notes are an integral part of these Consolidated Financial Statements

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries and joint operations, net of cash acquired		(1,040)	303
Increase in cash due to acquisition of a subsidiary under common control		–	2,229
Proceeds from disposal of subsidiaries, net of cash disposed		–	(9)
Acquisition of associates and joint ventures		(988)	(106)
Bank deposits placement		(1,425)	(128,298)
Repayment of bank deposits		49,942	174,043
Acquisition of other investments		–	(4,476)
Proceeds from sales of other investments		3,241	–
Short-term loans issued		(6,940)	(26,169)
Repayment of short-term loans issued		10,815	27,883
Long-term loans issued		(21,904)	(25,578)
Repayment of long-term loans issued		12,684	5,737
Purchases of property, plant and equipment and intangible assets		(384,817)	(349,036)
Proceeds from sale of property, plant and equipment and intangible assets		1,008	982
Proceeds from sale of other non-current assets	18	11,186	–
Interest received		4,384	7,984
NET CASH USED IN INVESTING ACTIVITIES		(323,854)	(314,511)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		81,319	35,171
Repayment of short-term borrowings		(95,656)	(13,691)
Proceeds from long-term borrowings		142,947	153,748
Repayment of long-term borrowings		(192,539)	(53,663)
Transaction costs directly attributable to the borrowings received		(649)	(350)
Dividends paid to Gazprom Neft shareholders		(2,598)	(36,346)
Dividends paid to non-controlling interest		(1,254)	(2,676)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES		(68,430)	82,193
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(70,987)	52,857
Effect of foreign exchange on cash and cash equivalents		(9,590)	8,174
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 assets and liabilities 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 venturer, 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 as 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 in equity is reclassified to profit and loss.

NON-DERIVATIVE FINANCIAL LIABILITIES

The Group initially recognises debt securities issued and liabilities on the date that 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:

Intangible asset group	Average useful life
Licenses and software	1-5 years
Land rights	25 years

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 turnarounds 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 (including 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.

Expenditures 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:

Asset group	Average useful life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

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 (cash-generated units - CGUs). 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 these 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 estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

RETIREMENT AND OTHER BENEFIT 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 amortization 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 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 depreciation, depletion and amortisation charges that are based on the estimates of 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 reservoirs 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 are issued 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 2016).

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 at 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 bundled 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 lessees 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
 - (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- > IFRS 16 substantially carries forward the lessor 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 the Consolidated Financial Statements for 2017.

The following other new standards are not expected to have any material impact on the Group when adopted:

- > The amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after 1 January 2017).
- > 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:

	31 December 2016	31 December 2015
Cash on hand	882	986
Cash in bank	21,284	39,937
Deposits with original maturity of less than three months	8,647	69,891
Other cash equivalents	2,808	3,384
TOTAL CASH AND CASH EQUIVALENTS	33,621	114,198

7. SHORT-TERM FINANCIAL ASSETS

Short-term financial assets as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Short-term loans issued	41,136	15,802
Deposits with original maturity more than 3 months less than 1 year	886	49,206
Forward contracts - cash flow hedge	91	–
Financial assets held to maturity	–	149
TOTAL SHORT-TERM FINANCIAL ASSETS	42,113	65,157

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:

	Notes	31 December 2016	31 December 2015
Trade receivables		121,229	112,572
Other financial receivables		6,604	7,254
Less impairment provision	34	(12,274)	(24,585)
TOTAL TRADE AND OTHER RECEIVABLES		115,559	95,241

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:

	31 December 2016	31 December 2015
Petroleum products and petrochemicals	47,467	41,692
Materials and supplies	26,277	38,782
Crude oil and gas	20,059	16,947
Other	8,378	8,497
Less provision	(1,480)	(3,540)
TOTAL INVENTORY	100,701	102,378

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:

	2016	2015
Buy / sell transactions for the year ended 31 December	92,932	92,949

10. OTHER TAXES RECEIVABLE

Other taxes receivable as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Value added tax receivable	44,936	47,616
Prepaid custom duties	6,419	6,728
Other taxes prepaid	2,127	3,356
TOTAL OTHER TAXES RECEIVABLES	53,482	57,700

11. OTHER CURRENT ASSETS

Other current assets as of 31 December 2016 and 2015 comprise the following:

	Notes	31 December 2016	31 December 2015
Advances paid		27,671	40,080
Prepaid expenses		1,104	999
Other assets	34	11,728	21,088
TOTAL OTHER CURRENT ASSETS, NET		40,503	62,167

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:

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
AS OF 1 JANUARY 2016	1,355,282	308,037	152,795	17,933	369,274	2,203,321
Additions	2,280	1,365	–	–	319,426	323,071
Acquisitions through business combinations	–	38	–	452	16	506
Changes in decommissioning obligations	9,626	–	–	–	–	9,626
Capitalised borrowing costs	–	–	–	–	13,840	13,840
Transfers	248,107	21,528	10,280	4,473	(284,388)	–
Internal movement	25,813	(6,474)	6,192	1,711	(27,242)	–
Disposals	(5,588)	(1,250)	(1,753)	(604)	(4,530)	(13,725)
Translation differences	(65,995)	(15,052)	(14,643)	(434)	(17,092)	(113,216)
AS OF 31 DECEMBER 2016	1,569,525	308,192	152,871	23,531	369,304	2,423,423

DEPRECIATION AND IMPAIRMENT

AS OF 1 JANUARY 2016	(489,288)	(81,461)	(41,440)	(3,479)	–	(615,668)
Depreciation charge	(83,199)	(13,083)	(11,305)	(1,918)	–	(109,505)
Impairment	(14,763)	–	–	–	–	(14,763)
Internal movement	828	1,558	(1,240)	(1,146)	–	–
Disposals	5,222	221	1,050	561	–	7,054
Translation differences	28,060	3,659	3,883	202	–	35,804
AS OF 31 DECEMBER 2016	(553,140)	(89,106)	(49,052)	(5,780)	–	(697,078)

NET BOOK VALUE

AS OF 1 JANUARY 2016	865,994	226,576	111,355	14,454	369,274	1,587,653
AS OF 31 DECEMBER 2016	1,016,385	219,086	103,819	17,751	369,304	1,726,345

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
AS OF 1 JANUARY 2015	1,120,873	260,219	134,430	18,659	245,847	1,780,028
Additions	12,641	1,016	–	–	311,871	325,528
Acquisitions through business combinations	–	–	24	283	47	354
Changes in decommissioning obligations	(214)	–	–	–	–	(214)
Capitalised borrowing costs	–	–	–	–	14,558	14,558
Transfers	183,139	38,093	16,543	1,921	(239,696)	–
Internal movement	(12,394)	(75)	(483)	(394)	11,893	(1,453)
Disposals	(12,249)	(1,061)	(2,747)	(2,800)	(2,871)	(21,728)
Translation differences	63,486	9,845	5,028	264	27,625	106,248
AS OF 31 DECEMBER 2015	1,355,282	308,037	152,795	17,933	369,274	2,203,321
DEPRECIATION AND IMPAIRMENT						
AS OF 1 JANUARY 2015	(383,053)	(68,395)	(32,593)	(2,187)	–	(486,228)
Depreciation charge	(70,978)	(11,032)	(10,552)	(1,256)	–	(93,818)
Impairment	(15,582)	–	–	–	–	(15,582)
Acquisitions through business combinations	–	–	–	(143)	–	(143)
Internal movement	222	(31)	1,114	148	–	1,453
Disposals	8,246	199	1,600	62	–	10,107
Translation differences	(28,143)	(2,202)	(1,009)	(103)	–	(31,457)
AS OF 31 DECEMBER 2015	(489,288)	(81,461)	(41,440)	(3,479)	–	(615,668)
NET BOOK VALUE						
AS OF 1 JANUARY 2015	737,820	191,824	101,837	16,472	245,847	1,293,800
AS OF 31 DECEMBER 2015	865,994	226,576	111,355	14,454	369,274	1,587,653

As of 31 December 2016 the exploration and evaluation assets relating to Garmian 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 31 December 2016 (11.0% for the year ended 31 December 2015). Capitalised borrowing costs for the year ended 31 December 2015 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:

	2016	2015
AS OF JANUARY 1	83,005	75,294
Additions	13,670	26,032
Impairment	(9,362)	(4,024)
Unsuccessful exploration expenditures derecognised	(628)	(132)
Transfer to proved property	(2,214)	(26,323)
Disposals	(268)	(279)
Translation differences	(8,860)	12,437
AS OF DECEMBER 31	75,343	83,005

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 79.0 billion (translated into Roubles 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:

Cost	Goodwill	Software	Land rights	Other IA	Total
AS OF 1 JANUARY 2016	36,537	24,243	17,582	15,451	93,813
Additions	–	3,556	9	2,238	5,803
Acquisitions through business combinations	–	7	–	865	872
Internal movement	–	1,250	31	(1,281)	–
Disposals	–	(520)	–	(1,007)	(1,527)
Translation differences	(4,431)	(1,557)	(101)	(260)	(6,349)
AS OF 31 DECEMBER 2016	32,106	26,979	17,521	16,006	92,612
AMORTISATION AND IMPAIRMENT					
AS OF 1 JANUARY 2016	(228)	(11,030)	(4,457)	(3,008)	(18,723)
Amortisation charge	–	(3,528)	(759)	(1,290)	(5,577)
Internal movement	–	35	–	(35)	–
Disposals	–	318	–	149	467
Translation differences	48	1,145	2	177	1,372
AS OF 31 DECEMBER 2016	(180)	(13,060)	(5,214)	(4,007)	(22,461)
NET BOOK VALUE					
AS OF 1 JANUARY 2016	36,309	13,213	13,125	12,443	75,090
AS OF 31 DECEMBER 2016	31,926	13,919	12,307	11,999	70,151

Cost	Goodwill	Software	Land rights	Other IA	Total
AS OF 1 JANUARY 2015	33,635	19,327	17,513	14,881	85,356
Additions	–	3,529	–	1,881	5,410
Internal movement	–	989	–	(711)	278
Disposals	–	(767)	–	(830)	(1,597)
Translation differences	2,902	1,165	69	230	4,366
AS OF 31 DECEMBER 2015	36,537	24,243	17,582	15,451	93,813
AMORTISATION AND IMPAIRMENT					
AS OF 1 JANUARY 2015	(196)	(7,778)	(3,829)	(2,313)	(14,116)
Amortisation charge	–	(3,035)	(627)	(1,021)	(4,683)
Internal movement	–	(309)	–	31	(278)
Disposals	–	666	–	400	1,066
Translation differences	(32)	(574)	(1)	(105)	(712)
AS OF 31 DECEMBER 2015	(228)	(11,030)	(4,457)	(3,008)	(18,723)
NET BOOK VALUE					
AS OF 1 JANUARY 2015	33,439	11,549	13,684	12,568	71,240
AS OF 31 DECEMBER 2015	36,309	13,213	13,125	12,443	75,090

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 of 31 December 2016 (RUB 29.2 billion and RUB 7.1 billion as of 31 December 2015). Goodwill was tested for impairment and no impairment was identified.

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying values of the investments in associates and joint ventures as of 31 December 2016 and 2015 are summarised below:

		Ownership percentage	31 December 2016	31 December 2015
Slavneft	Joint venture	49.9	97,084	83,301
SeverEnergy	Joint venture	46.7	86,599	72,128
Northgas	Joint venture	50.0	11,517	8,196
Others			6,348	5,986
TOTAL INVESTMENTS			201,548	169,611

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:

	2016	2015
CARRYING AMOUNT AS OF 1 JANUARY	169,611	150,727
Share of profit of associates and joint ventures	34,116	24,956
Dividends declared	(3,152)	(2,862)
Share of other comprehensive (loss) / income of associates and joint ventures	(174)	141
Other changes in cost of associates and joint ventures	1,147	(3,351)
CARRYING AMOUNT AS OF 31 DECEMBER	201,548	169,611

The total amount of dividends received from joint ventures in 2016 amounts to RUB 3,144 million (RUB 2,415 million in 2015).

SLAVNEFT

The Group's investment in NGK Slavneft OJSC and various minority stakes in Slavneft subsidiaries (Slavneft) are held through a series of legal entities. Slavneft is engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and NK Rosneft PJSC.

SEVERENERGY

The Group's investment in SeverEnergy LLC (SeverEnergy) is held through Yamal Razvitie LLC (Yamal Razvitie, an entity jointly controlled by the Group and NOVATEK PJSC). SeverEnergy, through its subsidiary Arctic Gas Company OJSC (Arcticgas), is developing the Samburgskoye, Urengoiskoe and Yaro-Yakhinskoye oil and gas condensate fields and some other small oil and gas condensate fields located in the Yamalo-Nenetskiy 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 SeverEnergy by RUB 18.2 billion as of 31 December 2016 due to complex holding structure, current financing scheme and goodwill arising on acquisition (RUB 18.3 billion as of 31 December 2015).

NORTHGAS

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.

The summarised financial information for the significant associates and joint ventures as of 31 December 2016 and 2015 and for the years ended 31 December 2016 and 2015 is presented in the table below.

	Slavneft		SeverEnergy		Northgas	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Cash and cash equivalents	4,333	8,078	13,530	13,875	277	2,160
Other current assets	22,505	15,830	16,506	13,941	3,280	3,131
Non-current assets	312,935	288,077	357,480	363,513	52,986	49,695
Current financial liabilities	(46,727)	(49,748)	(53,439)	(31,762)	(2,677)	(6,110)
Other current liabilities	(25,368)	(18,294)	(12,368)	(9,309)	(54)	(2,001)
Non-current financial liabilities	(42,876)	(54,562)	(123,252)	(185,376)	(24,990)	(24,841)
Other non-current liabilities	(36,587)	(30,034)	(51,995)	(49,297)	(4,415)	(3,645)
NET ASSETS	188,215	159,347	146,462	115,585	24,407	18,389

	Slavneft		SeverEnergy		Northgas	
	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
Revenue	214,509	224,224	133,229	125,450	25,692	28,888
Depreciation and amortisation	(33,732)	(32,169)	(23,445)	(20,786)	(2,600)	(2,328)
Finance income	1,652	2,074	1,080	2,354	1,332	1,151
Finance expense	(6,593)	(5,279)	(26,100)	(36,041)	(3,697)	(5,275)
Total income tax expense	(6,224)	(6,486)	(3,447)	(3,570)	(1,608)	(2,004)
Profit for the period	29,101	19,566	30,877	20,991	6,019	8,008
Total comprehensive income	28,698	19,054	30,877	20,991	6,019	8,008

OTHERS

The aggregate carrying amount of all individually immaterial joint ventures and associates as well as the Group's share of those joint ventures' and associates' profit or loss and other comprehensive income is not significant.

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:

	31 December 2016	31 December 2015
Long-term loans issued	34,015	41,047
Available for sale financial assets	7,549	11,534
Financial assets held to maturity	–	3
Less impairment provision	(1,397)	(1,700)
TOTAL LONG-TERM FINANCIAL ASSETS	40,167	50,884

17. DEFERRED INCOME TAX ASSETS AND LIABILITIES

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
AS OF 31 DECEMBER 2016			
Property, plant and equipment	5,424	(96,586)	(91,162)
Intangible assets	1	(3,662)	(3,661)
Investments	719	(988)	(269)
Inventories	894	(962)	(68)
Trade and other receivables	2,321	(30)	2,291
Loans and borrowings	–	(2,152)	(2,152)
Provisions	7,258	(8)	7,250
Tax loss carry-forwards	14,152	–	14,152
Other	2,857	(2,546)	311
Net-off	(25,587)	25,587	–
TAX ASSETS / (LIABILITIES)	8,039	(81,347)	(73,308)
AS OF 31 DECEMBER 2015			
Property, plant and equipment	11,775	(93,593)	(81,818)
Intangible assets	6	(3,887)	(3,881)
Investments	732	(630)	102
Inventories	747	(997)	(250)
Trade and other receivables	611	(27)	584
Loans and borrowings	–	(1,066)	(1,066)
Provisions	5,498	(29)	5,469
Tax loss carry-forwards	32,896	–	32,896
Other	2,897	(1,586)	1,311
Net-off	(33,063)	33,063	–
TAX ASSETS / (LIABILITIES)	22,099	(68,752)	(46,653)

Movement in temporary differences during the period:

	As of 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2016
Property, plant and equipment	(81,818)	(12,029)	2,684	1	(91,162)
Intangible assets	(3,881)	290	–	(70)	(3,661)
Investments	102	(108)	(263)	–	(269)
Inventories	(250)	182	–	–	(68)
Trade and other receivables	584	1,827	(120)	–	2,291
Loans and borrowings	(1,066)	(1,086)	–	–	(2,152)
Provisions	5,469	1,911	(130)	–	7,250
Tax loss carry-forwards	32,896	(18,587)	(164)	7	14,152
Other	1,311	(924)	(78)	2	311
	(46,653)	(28,524)	1,929	(60)	(73,308)

	As of 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2015
Property, plant and equipment	(64,043)	(14,552)	(3,346)	123	(81,818)
Intangible assets	(4,137)	256	–	–	(3,881)
Investments	1,715	1,132	(2,745)	–	102
Inventories	(516)	266	–	–	(250)
Trade and other receivables	330	183	71	–	584
Loans and borrowings	(1,132)	66	–	–	(1,066)
Provisions	2,989	2,368	28	84	5,469
Tax loss carry-forwards	13,958	19,088	(150)	–	32,896
Other	1,264	(33)	82	(2)	1,311
	(49,572)	8,774	(6,060)	205	(46,653)

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:

	31 December 2016	31 December 2015
Bank loans	6,321	24,193
Other borrowings	1,061	1,731
Current portion of long-term debt	72,805	121,395
TOTAL SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT	80,187	147,319

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:

	31 December 2016	31 December 2015
Trade accounts payable	78,161	76,372
Forward contracts - cash flow hedge	11,358	23,545
Dividends payable	2,115	2,659
Other accounts payable	3,990	2,254
TOTAL TRADE AND OTHER PAYABLES	95,624	104,830

21. OTHER CURRENT LIABILITIES

Other current liabilities as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Advances received	21,293	23,008
Payables to employees	2,627	2,864
Other non-financial payables	4,760	6,998
TOTAL OTHER CURRENT LIABILITIES	28,680	32,870

22. OTHER TAXES PAYABLE

Other taxes payable as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Mineral extraction tax	25,261	14,898
VAT	20,140	17,578
Excise tax	11,389	6,738
Social security contributions	4,721	4,275
Other taxes	5,748	5,522
TOTAL OTHER TAXES PAYABLE	67,259	49,011

Tax expense other than income tax expense for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Mineral extraction tax	237,300	256,477
Excise tax	112,102	68,358
Social security contributions	18,530	15,599
Other taxes	13,199	12,711
TOTAL TAXES OTHER THAN INCOME TAX	381,131	353,145

23. PROVISIONS AND OTHER ACCRUED LIABILITIES

Movement in provisions and other accrued liabilities for the years ended 31 December 2016 and 2015 is below:

	Decommissioning provision	Other	Total
CARRYING AMOUNT AS OF 1 JANUARY 2015	23,456	20,984	44,440
SHORT-TERM PART	168	18,396	18,564
LONG-TERM PART	23,288	2,588	25,876
New obligation incurred	2,085	8,634	10,719
Utilisation of provision / accrual	(123)	(11,557)	(11,680)
Change in estimates	(2,939)	–	(2,939)
Unwind of discount	2,172	–	2,172
Translation differences	1,446	845	2,291
CARRYING AMOUNT AS OF 31 DECEMBER 2015	26,097	18,906	45,003
SHORT-TERM PART	121	13,817	13,938
LONG-TERM PART	25,976	5,089	31,065
New obligation incurred	5,783	13,134	18,917
Utilisation of provision / accrual	(182)	(5,665)	(5,847)
Change in estimates	3,987	–	3,987
Unwind of discount	2,308	–	2,308
Translation differences	(1,632)	(1,388)	(3,020)
CARRYING AMOUNT AS OF 31 DECEMBER 2016	36,361	24,987	61,348
SHORT-TERM PART	151	15,255	15,406
LONG-TERM PART	36,210	9,732	45,942

24. LONG-TERM DEBT

As of 31 December 2016 and 2015 the Group has long-term outstanding loans as follows:

	31 December 2016	31 December 2015
Bank loans	348,142	451,887
Loan participation notes	231,250	280,193
Bonds	81,879	51,748
Other borrowings	7,755	8,346
Less current portion of long-term debt	(72,805)	(121,395)
TOTAL LONG-TERM DEBT	596,221	670,779

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 Libor+1.5% 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+1.45% 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 154.8 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 Libor+1.75% per annum and final maturity date in October 2018. In March and September 2016 the Group performed partial principal repayment in the total amount of USD 200 million (RUB 13.2 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 Libor+1.50% 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 614 million (RUB 41.5 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is USD 1,536 million (RUB 93.3 billion).

In September 2014 the Group signed a RUB 30 billion term loan facility with Rosselkhozbank 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 35.0 billion term loan facilities with Sberbank PJSC with final maturity date in September 2019. As of 31 December 2016, the interest rates vary from 10.98% 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 in September 2020 at an interest rate of Libor +5% per annum. In 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 local 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 18 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 PJCS 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 Rouble 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 Rouble 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 Rouble exchange traded bonds (series BO-03) 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 Rouble 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 Rouble Bonds placed in 2009, 2011, 2012 and 2016 is RUB 81.9 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:

	31 December 2016	31 December 2015
Deferred consideration	60,384	60,603
Forward contracts - cash flow hedge	28,015	52,714
Other liabilities	1,345	2,058
TOTAL OTHER NON-CURRENT FINANCIAL LIABILITIES	89,744	115,375

Deferred consideration represents liability to Gazprom PJSC for assets relating to Pirazlomnoye 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:

	Ordinary shares		Treasury shares	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016
ON ISSUE AS OF 31 DECEMBER, FULLY PAID (RUB MILLION)	8	8	(1,170)	(1,170)

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 6.47 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 2015 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 6.47 per share.

27. EMPLOYEE COSTS

Employee costs for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	66,987	71,288
Stock appreciation rights (SAR)	3,730	657
Other costs	6,751	5,103
TOTAL EMPLOYEE COSTS	77,468	77,048
Social security contributions (social taxes)	18,530	15,593
TOTAL EMPLOYEE COSTS (WITH SOCIAL TAXES)	95,998	92,641

28. OTHER LOSS / GAIN, NET

Other loss / gain, net for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Impairment of advances and other receivables	(11,546)	1,041
Write-off of assets	(4,456)	(7,772)
Penalties	277	4
Write-off payables	243	16,107
Other losses, net	(2,500)	(7,886)
TOTAL OTHER (LOSS) / GAIN, NET	(17,982)	1,494

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:

	Year ended 31 December 2016	Year ended 31 December 2015
NET FOREIGN EXCHANGE GAIN / (LOSS) ON FINANCING ACTIVITIES, INCLUDING:	69,159	(111,816)
foreign exchange gain	101,320	53,989
foreign exchange loss	(32,161)	(165,805)
NET FOREIGN EXCHANGE (LOSS) / GAIN ON OPERATING ACTIVITIES	(40,859)	43,906
NET FOREIGN EXCHANGE GAIN / (LOSS)	28,300	(67,910)

30. FINANCE INCOME

Finance income for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income on loans issued	7,630	7,383
Interest on bank deposits	1,885	5,076
Other financial income	1,556	2,273
TOTAL FINANCE INCOME	11,071	14,732

31. FINANCE EXPENSE

Finance expense for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest expense	45,814	40,411
Decommissioning provision: unwinding of discount	2,308	2,172
Less: capitalised interest	(13,840)	(8,640)
FINANCE EXPENSE	34,282	33,943

32. INCOME TAX EXPENSE

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	Year ended 31 December 2016		Year ended 31 December 2015	
	RUB mn	%	RUB mn	%
TOTAL INCOME TAX EXPENSE	55,751	21.2	34,943	23.1
Profit before income tax excluding share of profit before tax of associates and joint ventures	225,423		120,494	
Profit before income tax of associates and joint ventures	37,720		30,645	
PROFIT BEFORE INCOME TAX	263,143		151,139	–
Tax at applicable domestic tax rate (20%)	52,629	20.0	30,228	20.0
Effect of tax rates in foreign jurisdictions	2,363	0.9	3,892	2.6
Difference in statutory tax rate in domestic entities	(4,290)	(1.6)	(2,983)	(2.0)
Non-deductible income and expenses	3,220	1.2	3,517	2.3
Adjustment for prior years	(232)	(0.1)	2,803	1.9
Change in tax rate	714	0.3	–	–
Foreign exchange loss / (gain) of foreign non-operating units	1,347	0.5	(2,514)	(1.7)
TOTAL INCOME TAX EXPENSE	55,751	21.2	34,943	23.1

Reconciliation of effective tax rate:

	Year ended 31 December 2016	Year ended 31 December 2015
CURRENT INCOME TAX EXPENSE		
Current year	19,318	34,057
Adjustment for prior years	1,972	3,969
	21,290	38,026
DEFERRED INCOME TAX EXPENSE / (BENEFIT)		
Origination and reversal of temporary differences	27,810	(8,774)
Change in tax rate	714	–
	28,524	(8,774)
TOTAL INCOME TAX EXPENSE	49,814	29,252
Share of tax of associates and joint ventures	5,937	5,691
TOTAL INCOME TAX EXPENSE INCLUDING SHARE OF TAX OF ASSOCIATES AND JOINT VENTURES	55,751	34,943

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:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
AS OF 31 DECEMBER 2016					
Forward exchange contracts and interest rate swaps					
Assets	91	91	–	–	–
Liabilities	(39,373)	(692)	(10,667)	(25,232)	(2,782)
TOTAL	(39,282)	(601)	(10,667)	(25,232)	(2,782)
AS OF 31 DECEMBER 2015					
Forward exchange contracts and interest rate swaps					
Liabilities	(76,258)	(22,609)	(935)	(49,280)	(3,434)
TOTAL	(76,258)	(22,609)	(935)	(49,280)	(3,434)

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:

	2016			2015		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME AS OF THE BEGINNING OF THE YEAR	(76,258)	10,498	(65,760)	(58,312)	1,885	(56,427)
Foreign exchange effects recognised during the year	10,695	(2,025)	8,670	(30,990)	5,819	(25,171)
Recycled to Net foreign exchange (loss) / gain on operating activities	26,281	(3,450)	22,831	13,044	(1,382)	11,662
Tax adjustments related to prior years	–	–	–	–	4,176	4,176
TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	36,976	(5,475)	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)	(76,258)	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:

Year	2017	2018	2022	Total
TOTAL, NET OF TAX	(10,023)	(21,644)	(2,592)	(34,259)

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

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

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 these borrowings are denominated in 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:

As of 31 December 2016	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	10,811	12,024	3,061	5,685	2,040
Bank deposits	56	341	215	–	274
Loans issued	41,007	16	113	–	–
Forward exchange contracts	–	91	–	–	–
Trade and other financial receivables	39,243	55,595	6,341	12,495	1,885
NON-CURRENT					
Trade and other financial receivables	797	–	4,332	–	–
Loans issued	33,895	–	120	–	–
Available for sale financial assets	6,083	–	–	69	–
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(18,353)	(50,981)	(10,826)	–	(13)
Trade and other financial payables	(59,004)	(11,750)	(6,071)	(6,072)	(1,369)
Forward exchange contracts	–	(11,358)	–	–	–
NON-CURRENT					
Long-term debt	(191,103)	(329,248)	(75,418)	–	(287)
Forward exchange contracts	–	(28,015)	–	–	–
Other non-current financial liabilities	(61,728)	–	(1)	–	–
NET EXPOSURE	(198,296)	(363,285)	(78,134)	12,177	2,530

As of 31 December 2015	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	22,142	81,112	2,514	6,271	2,159
Bank deposits	1,956	45,959	636	–	655
Loans issued	15,728	–	74	–	–
Trade and other financial receivables	37,553	35,464	6,063	14,716	1,445
NON-CURRENT					
Trade and other financial receivables	1,184	–	7,684	–	–
Loans issued	33,983	6,959	91	–	–
Held to maturity financial assets	–	3	–	–	–
Available for sale financial assets	9,748	–	–	99	–
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(23,774)	(117,713)	(5,813)	–	(19)
Trade and other financial payables	(57,946)	(9,046)	(4,133)	(8,076)	(2,084)
Forward exchange contracts	–	(23,545)	–	–	–
NON-CURRENT					
Long-term debt	(107,072)	(479,958)	(83,255)	(1)	(493)
Forward exchange contracts	–	(52,713)	–	–	–
Other non-current financial liabilities	(62,654)	(7)	–	–	–
NET EXPOSURE	(129,152)	(513,485)	(76,139)	13,009	1,663

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2016	31 December 2015
USD 1	60.66	72.88
EUR 1	63.81	79.70
RSD 1	0.52	0.66

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.

	Weakening of RUB	
	Equity	Profit or (loss)
31 DECEMBER 2016		
USD/RUB (30% increase)	988	(98,662)
EUR/RUB (30% increase)	(4)	(23,588)
RSD/RUB (30% increase)	(21,572)	–
31 DECEMBER 2015		
USD/RUB (30% increase)	(19,357)	(135,791)
EUR/RUB (30% increase)	(3)	(22,923)
RSD/RUB (30% increase)	(19,891)	(2)

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 its 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:

	Carrying amount	
	31 December 2016	31 December 2015
FIXED RATE INSTRUMENTS		
Financial assets	109,645	220,239
Financial liabilities	(501,086)	(474,639)
	(391,441)	(254,400)
VARIABLE RATE INSTRUMENTS		
Financial liabilities	(175,143)	(343,459)
	(175,143)	(343,459)

Cash flow sensitivity analysis for variable rate instruments

The Group’s financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group’s profit before taxation will change by the amounts shown below:

	Profit or (loss)
31 DECEMBER 2016	
Increase by 100 bp	(1,751)
31 DECEMBER 2015	
Increase by 100 bp	(3,435)

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.

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:

	Gross	Impairment	Gross	Impairment
	31 December 2016	31 December 2016	31 December 2015	31 December 2015
Not past due	113,222	(8)	95,916	(134)
Past due 0 - 180 days	3,828	(272)	11,190	(4,796)
Past due 180 - 365 days	3,566	(89)	3,199	(3,012)
Past due 1 - 3 year	7,206	(6,898)	7,976	(6,371)
Past due more than three years	5,140	(5,007)	10,412	(10,272)
	132,962	(12,274)	128,693	(24,585)

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2016	2015
BALANCE AT THE BEGINNING OF THE YEAR	24,585	12,976
Increase during the year	528	6,284
Amounts written off against receivables	(5,520)	110
Decrease due to reversal	(2,614)	(4,426)
Reclassification to other lines	(1,212)	7,946
Other movements	(50)	(610)
Translation differences	(3,443)	2,305
BALANCE AT THE END OF THE YEAR	12,274	24,585

The movement in the allowance for impairment in respect of other current assets during the period was as follows:

	2016	2015
BALANCE AT THE BEGINNING OF THE YEAR	8,993	16,951
Increase during the year	10,770	1,410
Amounts written off against receivables	(5,851)	(4,047)
Decrease due to reversal	(1,239)	–
Reclassification to other lines	1,212	(7,946)
Other movements	2	903
Translation differences	(1,917)	1,722
BALANCE AT THE END OF THE YEAR	11,970	8,993

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:

	BBB	Less than BBB	Without rating	Total
AS OF 31 DECEMBER 2016				
Cash and cash equivalents	2,402	20,333	7,196	29,931
Short-term loans issued	–	–	41,136	41,136
Deposits with original maturity more than 3 months less than 1 year	–	886	–	886
Long-terms loans issued	–	–	34,015	34,015
AS OF 31 DECEMBER 2015				
Cash and cash equivalents	84,361	19,825	5,642	109,828
Short-term loans issued	–	–	15,802	15,802
Deposits with original maturity more than 3 months less than 1 year	42,652	6,554	–	49,206
Long-terms loans issued	–	–	41,047	41,047

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:

	Carrying amount	Contractual cash flows	Less than 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
AS OF 31 DECEMBER 2016							
Bank loans	354,463	423,818	38,717	57,491	117,135	191,904	18,571
Bonds	81,879	107,991	6,063	14,155	16,431	71,342	–
Loan Participation Notes	231,250	298,019	8,252	4,720	58,029	28,322	198,696
Other borrowings	8,637	11,182	398	988	5,269	1,942	2,585
Other non-current financial liabilities	61,729	61,729	–	–	5,853	55,876	–
Trade and other payables	84,266	84,266	81,736	2,362	20	148	–
	822,224	987,005	135,166	79,716	202,737	349,534	219,852
AS OF 31 DECEMBER 2015							
Bank loans	476,080	540,886	67,680	68,683	108,054	282,073	14,396
Bonds	51,748	63,783	25,678	2,159	14,272	21,674	–
Loan Participation Notes	280,193	363,090	10,104	5,672	12,509	94,967	239,838
Other borrowings	10,077	11,928	5,024	690	2,807	1,413	1,994
Other non-current financial liabilities	62,662	62,662	–	–	60,601	2,061	–
Trade and other payables	81,285	81,285	78,774	2,511	–	–	–
	962,045	1,123,634	187,260	79,715	198,243	402,188	256,228

CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. 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 equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Long-term debt	596,221	670,779
Short-term debt and current portion of long-term debt	80,187	147,319
Less: cash, cash equivalents and deposits	(34,507)	(163,404)
NET DEBT	641,901	654,694
Total EBITDA	402,277	345,160
NET DEBT TO EBITDA RATIO AT THE END OF THE REPORTING PERIOD	1.60	1.90
Operating profit	220,334	207,615
Operating profit adjusted for income tax expenses	171,645	157,213
less share of profit of associates and joint ventures	34,116	24,956
Average capital employed	1,994,626	1,733,285
ROACE	10.32%	10.51%

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 (forward exchange contracts and interest-rate swaps used as hedging 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.

	Level 2
AS OF 31 DECEMBER 2016	
Forward exchange contracts	91
TOTAL ASSETS	91
Forward exchange contracts	(39,373)
Other financial liabilities	(3,730)
TOTAL LIABILITIES	(43,103)
AS OF 31 DECEMBER 2015	
Forward exchange contracts	–
TOTAL ASSETS	–
Forward exchange contracts	(76,258)
Other financial liabilities	(657)
TOTAL LIABILITIES	(76,915)

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 in 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:

	31 December 2016	31 December 2015
Volatility	3.6%	4.1%
Risk-free interest rate	8.7%	10.3%
Dividend yield	5.5%	6.1%

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:

	31 December 2016	31 December 2015
Less than one year	14,267	8,179
Between one and five years	36,081	17,169
More than five years	95,944	65,404
	146,292	90,752

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:

Subsidiary	Country of incorporation	Ownership interest. %	
		31 December 2016	31 December 2015
EXPLORATION AND PRODUCTION			
Gazprom Neft-Noyabrskneftegaz JSC	Russian Federation	100	100
Gazprom Neft Orenburg LLC	Russian Federation	100	100
Zapolyarneft LLC	Russian Federation	100	100
Gazprom Neft Shelf LLC	Russian Federation	100	100
Gazprom Neft-Khantos LLC	Russian Federation	100	100
Gazprom Neft-Vostok LLC	Russian Federation	100	100
Gazprom neft Yamal LLC	Russian Federation	90	90
Uzhuralneftegaz JSC	Russian Federation	87.5	87.5
REFINING			
Gazprom Neft-Omsk Refinery JSC	Russian Federation	100	100
Gazprom Neft-Moscow Refinery JSC	Russian Federation	100	100
MARKETING			
Gazpromneft-Tumen PJSC	Russian Federation	99.5	99.5
Gazpromneft-Omsk JSC	Russian Federation	100	100
Gazpromneft-Ural JSC	Russian Federation	100	100
Gazprom Neft-Novosibirsk JSC	Russian Federation	100	100
Gazpromneft-Yaroslavl OJSC	Russian Federation	92.5	92.5
Gazpromneft-Centre LLC	Russian Federation	100	100
Gazpromneft Regional Sales LLC	Russian Federation	100	100
Gazprom Neft-Severo-Zapad JSC	Russian Federation	100	100
Gazpromneft-Kuzbass JSC	Russian Federation	100	100
Gazprom Neft-Aero JSC	Russian Federation	100	100
Gazprom Neft Marin Bunker LLC	Russian Federation	100	100
OTHER OPERATIONS			
Gazpromneft-Lubricants LLC	Russian Federation	100	100
Gazpromneft-Bitumen Materials LLC	Russian Federation	100	100
Gazpromneft-NTC LLC	Russian Federation	100	100
Gazpromneftfinance LLC	Russian Federation	100	100
Gazpromneft-Invest LLC	Russian Federation	100	100
MULTIBUSINESS COMPANIES			
Naftna industrija Srbije A.D.	Serbia	56.2	56.2

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.

	Carrying amount of non-controlling interest		Profit for the period attributable to non-controlling interest	
	31 December 2016	31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Naftna industrija Srbije A.D. and its subsidiaries	58,792	71,528	3,273	26,616
Gazprom Resource Northgas LLC	19,502	15,460	3,304	3,319

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:

	Naftna industrija Srbije A.D. and its subsidiaries		Gazprom Resource Northgas LLC	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current assets	48,388	56,620	12,346	2,009
Non-current assets	195,271	243,131	11,517	8,197
Current liabilities	(35,641)	(43,006)	(22)	(7)
Non-current liabilities	(57,136)	(76,400)	–	–

	Naftna industrija Srbije A.D. and its subsidiaries		Gazprom Resource Northgas LLC	
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	189,781	183,022	–	–
Profit	7,483	7,071	4,039	4,058

Dividends paid in 2016 by Naftna industrija Srbije A.D. to the non-controlling share comprised RUB 1.0 billion (RUB 2.6 billion in 2015). Gazprom Resource Northgas LLC didn't pay dividends in 2016 and 2015.

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 associates and joint ventures.

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 not related entities. The tables below summarise transactions in the ordinary course of business with either the parent company or parent's subsidiaries and associates or associates and joint ventures of the Group.

As of 31 December 2016 and 2015 the outstanding balances with related parties were as follows:

31 December 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	–	7,723	–
Short-term financial assets	–	860	40,381
Trade and other receivables	3,693	4,160	13,212
Other assets	614	4,290	1,224
Long-term financial assets	–	–	30,273
TOTAL ASSETS	4,307	17,033	85,090
Short-term debt and other current financial liability	–	–	1,029
Trade and other payables	1,921	3,236	8,066
Other current liabilities	772	392	201
Long-term debt and other non-current financial liability	60,276	60,657	–
TOTAL LIABILITIES	62,969	64,285	9,296

31 December 2015	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	–	15,402	–
Short-term financial assets	–	3,135	14,901
Trade and other receivables	1,232	2,895	17,941
Other assets	–	4,527	1,253
Long-term financial assets	10	503	30,791
TOTAL ASSETS	1,242	26,462	64,886
Short-term debt and other current financial liability	–	–	1,672
Trade and other payables	3,203	2,737	1,567
Other current liabilities	2,107	1,107	241
Long-term debt and other non-current financial liability	62,650	72,883	–
TOTAL LIABILITIES	67,960	76,727	3,480

For the years ended 31 December 2016 and 2015 the following transactions occurred with related parties:

Year ended 31 December 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	28,680	35,165	48,407
Other revenue	29	6,349	5,571
Purchases of crude oil, gas and oil products	–	41,457	98,508
Production related services	29	20,317	18,749
Transportation costs	7,557	1,753	7,106
Interest expense	6,616	3,627	142
Interest income	–	167	6,770

Year ended 31 December 2015	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	18,678	34,597	56,641
Other revenue	8	1,088	31,739
Purchases of crude oil, gas and oil products	—	41,799	98,785
Production related services	31	14,332	17,730
Transportation costs	6,000	1,811	8,130
Interest expense	5,993	94	160
Interest income	370	1,588	3,580

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 132 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.

Year ended 31 December 2016	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	131,242	1,414,366	—	1,545,608
Inter-segment	523,155	18,463	(541,618)	—
TOTAL REVENUE FROM SALES	654,397	1,432,829	(541,618)	1,545,608
Adjusted EBITDA	337,085	119,113	—	456,198
Depreciation, depletion and amortisation, including:	98,110	31,735	—	129,845
Impairment of assets	14,763	—	—	14,763
Capital expenditure	245,994	138,823	—	384,817

Year ended 31 December 2015	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	74,802	1,393,141	—	1,467,943
Inter-segment	520,390	18,373	(538,763)	—
TOTAL REVENUE FROM SALES	595,193	1,411,514	(538,763)	1,467,943
Adjusted EBITDA	266,879	137,932	—	404,811
Depreciation, depletion and amortisation, including:	86,735	27,348	—	114,083
Impairment of assets	15,582	—	—	15,582
Capital expenditure	244,958	104,078	—	349,036

The geographical segmentation of the Group's revenue and capital expenditures for the years ended 31 December 2016 and 2015 is presented below:

	Russian Federation	CIS	Export and international operations	Total
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YEAR ENDED 31 DECEMBER 2016				
Sales of crude oil	94,809	23,657	279,344	397,810
Sales of petroleum products	743,721	72,969	391,084	1,207,774
Sales of gas	30,116	—	1,853	31,969
Other sales	45,050	2,050	11,111	58,211
Less custom duties and sales related excises	—	(1,260)	(148,896)	(150,156)
REVENUES FROM EXTERNAL CUSTOMERS, NET	913,696	97,416	534,496	1,545,608

YEAR ENDED 31 DECEMBER 2015				
Sales of crude oil	81,187	28,416	189,386	298,989
Sales of petroleum products	740,520	78,134	432,480	1,251,134
Sales of gas	28,243	—	3,411	31,654
Other sales	66,235	2,085	5,678	73,998
Less custom duties and sales related excises	—	(899)	(186,933)	(187,832)
REVENUES FROM EXTERNAL CUSTOMERS, NET	916,185	107,736	444,022	1,467,943

SUPPLEMENTARY INFORMATION

ON OIL AND GAS ACTIVITIES (unaudited)

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:

	31 December 2016	31 December 2015
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Unproved oil and gas properties	68,046	78,442
Proved oil and gas properties	1,424,023	1,199,223
Less: Accumulated depreciation, depletion and amortisation	(537,277)	(474,857)
NET CAPITALISED COSTS OF OIL AND GAS PROPERTIES	954,792	802,808
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Proved oil and gas properties	538,829	472,931
Less: Accumulated depreciation, depletion and amortisation	(135,809)	(101,596)
Net capitalised costs of oil and gas properties	403,020	371,335
TOTAL CAPITALISED COSTS CONSOLIDATED AND EQUITY INTERESTS	1,357,812	1,174,143

	Russian Federation	CIS	Export and international operations	Total
Non-current assets as of 31 December 2016	1,822,912	11,396	310,132	2,144,440
Capital expenditures for the year ended 31 December 2016	354,392	898	29,527	384,817
Impairment of assets for the year ended 31 December 2016	–	–	14,763	14,763
Non-current assets as of 31 December 2015	1,548,036	13,861	390,726	1,952,623
Capital expenditures for the year ended 31 December 2015	301,070	1,277	46,689	349,036
Impairment of assets for the year ended 31 December 2015	4,023	–	11,559	15,582

Adjusted EBITDA for the years ended 31 December 2016 and 2015 is reconciled below:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the period	209,725	116,198
Total income tax expense	49,814	29,252
Finance expense	34,282	33,943
Finance income	(11,071)	(14,732)
Depreciation, depletion and amortisation	129,845	114,083
Net foreign exchange gain / (loss)	(28,300)	67,910
Other (loss) / gain, net	17,982	(1,494)
EBITDA	402,277	345,160
less share of profit of associates and joint ventures	(34,116)	(24,956)
add share of EBITDA of associates and joint ventures	88,037	84,607
TOTAL ADJUSTED EBITDA	456,198	404,811

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

	Year ended 31 December 2016	Year ended 31 December 2015
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Exploration costs	1,195	922
Development costs	234,925	242,400
COSTS INCURRED	236,120	243,322
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Exploration costs	533	311
Development costs	65,898	55,792
TOTAL COSTS INCURRED CONSOLIDATED AND EQUITY INTERESTS	302,551	299,425

Results of operations from oil and gas producing activities for the years ended:

	Year ended 31 December 2016	Year ended 31 December 2015
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Revenues:		
Sales	165,153	120,476
Transfers	432,301	426,604
TOTAL REVENUES	597,454	547,080
Production costs	(96,835)	(99,138)
Exploration expenses	(1,195)	(922)
Depreciation, depletion and amortisation	(83,199)	(70,978)
Taxes other than income tax	(206,338)	(268,750)
PRETAX INCOME FROM PRODUCING ACTIVITIES	209,887	107,292
Income tax expenses	(27,606)	(19,211)
RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	182,281	88,081
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Total revenues	172,288	165,500
Production costs	(21,607)	(19,521)
Exploration expenses	(533)	(311)
Depreciation, depletion and amortisation	(27,636)	(24,046)
Taxes other than income tax	(65,619)	(64,248)
PRETAX INCOME FROM PRODUCING ACTIVITIES	56,893	57,374
Income tax expenses	(4,301)	(5,274)
RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	52,592	52,100
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	234,873	140,181

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 reservoirs 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):

Proved Oil Reserves Quantities - in MMBbl	31 December 2016	31 December 2015
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
BEGINNING OF YEAR	4,842	5,051
Production	(343)	(315)
Purchases of minerals in place	–	–
Revision of previous estimates	354	106
END OF YEAR	4,853	4,842
Minority's share included in the above proved reserves	(30)	(27)
Proved reserves, adjusted for minority interest	4,823	4,815
Proved developed reserves	2,707	2,573
Proved undeveloped reserves	2,146	2,270
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
BEGINNING OF YEAR	1,414	1,362
Production	(95)	(92)
Purchases of minerals in place	–	73
Revision of previous estimates	132	71
END OF YEAR¹	1,451	1,414
Proved developed reserves	707	681
Proved undeveloped reserves	744	734
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES - END OF YEAR	6,304	6,256

¹ Including 82% NCI share in Gazprom Resource Northgas.

Proved Gas Reserves Quantities - in Bcf	31 December 2016	31 December 2015
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
BEGINNING OF YEAR	6,137	6,321
Production	(516)	(479)
Purchases of minerals in place	—	—
Revision of previous estimates	766	295
END OF YEAR	6,387	6,137
Minority's share included in the above proved reserves	(41)	(51)
Proved reserves, adjusted for minority interest	6,346	6,086
Proved developed reserves	4,261	3,598
Proved undeveloped reserves	2,126	2,539
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
BEGINNING OF YEAR	13,357	10,188
Production	(622)	(557)
Purchases of minerals in place	—	3,202
Revision of previous estimates	466	524
END OF YEAR ¹	13,201	13,357
Proved developed reserves	7,254	6,846
Proved undeveloped reserves	5,947	6,511
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES - END OF YEAR	19,588	19,494

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 Group's 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.

	31 December 2016	31 December 2015
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Future cash inflows	9,962,668	10,101,648
Future production costs	(5,236,343)	(6,506,491)
Future development costs	(771,656)	(804,747)
Future income tax expenses	(545,985)	(428,252)
Future net cash flow	3,408,684	2,362,158
10% annual discount for estimated timing of cash flow	(1,759,813)	(1,237,504)
STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	1,648,871	1,124,654
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Future cash inflows	3,305,653	3,560,911
Future production costs	(1,590,138)	(1,840,372)
Future development costs	(240,299)	(231,270)
Future income tax expenses	(241,235)	(243,400)
Future net cash flow	1,233,981	1,245,869
10% annual discount for estimated timing of cash flow	(734,334)	(752,451)
STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	499,647	493,418
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN THE STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	2,148,518	1,618,072

APPENDIX 3.

COMPANY HISTORY

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, Omsk Refinery OJSC and Omsknefteprodukt OJSC.

1996–1997

PRIVATISATION OF SIBERIAN OIL COMPANY OJSC

The Russian Government privatised Sibneft as part 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 Krasnoyarsk Regions, and the cities of St. Petersburg and Moscow). One of the Company’s major purchases during this period was its acquisition of 49.9% of the shares in Slavneft Oil JSC and Gas Company, which produced oil and gas in Western Siberia and the Krasnoyarsk Region.

RAPID DEVELOPMENT

Good resource potential, efficient refining capacities and professional management ensured the rapid development of the Company. Sibneft management worked hard to modernise production, introduce the latest technologies and optimise business processes.

2005

GAZPROM OJSC ACQUIRES CONTROLLING STAKE

The Gazprom Group bought a controlling interest in Sibneft OJSC (75.68%) and the Company’s name was changed to Gazprom Neft JSC on 13 May 2006. The new strategic objectives of Gazprom Neft were to become a global company with regionally diversified assets along the entire value chain.

2006

ENTRY TO THE CENTRAL ASIAN MARKET

Gazprom Neft entered the retail market in Central Asia by creating a subsidiary – Gazprom Neft Asia – to sell the Company’s petroleum products in Kyrgyzstan, Tajikistan and Kazakhstan.

2007

PURCHASE OF TOMSKNEFT OJSC

In December 2007, to further expand its resource base, Gazprom Neft acquired a 50% stake in Tomskneft (VNK), a company producing oil and gas in the Tomsk Region and Khanty-Mansi Autonomous District.

CREATION OF BUSINESS UNIT

Business units were set up within the Company to focus on activities in specific segments: Gazprom Neft Marine Bunker, Gazprom Neft-Lubricants and Gazprom Neft-Aero.

2008

PROJECTS IN VENEZUELA

Gazprom Neft OJSC, Rosneft OJSC, Lukoil OJSC, TNK-BP and Surgutneftegas 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 Serbian oil company, NIS, and a controlling stake in Sibir 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

GLOBAL 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 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 SeverEnergia LLC holds the development licenses. In February, Gazprom Neft closed a deal to purchase STS Service, a production unit of Sweden’s Malka 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 Tsarichanskoye and Kapitonovskoye fields as well as the eastern part of the Orenburg field. Drilling began at the Badra field in Iraq.

PREMIUM FUEL

The Company began manufacturing environmental grade 4 gasolines at its oil refineries and launched sales of a new G-Drive premium-class motor fuel at its Gazpromneft filling station network, which was further expanded when the Company entered the market of Russia’s Southern Federal District.

HIGH QUALITY BITUMINOUS MATERIALS

A project was implemented to prepare raw materials for bitumen production at the Omsk Oil Refinery, ensuring the stable quality of raw commodities for bitumen production and guaranteeing the quality of the finished products manufactured using the refinery processing unit. An industrial unit was launched in 2011 to produce polymerbitumen binders and bitumen emulsions from Italy’s MASSENZA.

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 Messoyakha and Novoportovskoye. The first stage of commercial production began at the Samburgskoye oil and gas condensate field, which belongs to the Russian-Italian company SeverEnergia, in which Gazprom Neft holds a 25% 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 gasolines, 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.

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.

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.

BITUMEN BUSINESS DEVELOPMENT

The Company acquired assets in Ryazan 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 Styrelf 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 Novoportovskoye 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 Prirazlomnoye 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 Kuvaysky and Yagodny 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 Priobsky 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 holding). 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 Yuilsky-3, Lyaminsky-6, North Ityakhsky-1, Maloyugansky and West Zimny sections.

OIL PRODUCTION

The one millionth tonne of the ARCO oil blend was produced at the Prirazlomnoye field. The one millionth barrel of commercial oil was produced at the Sarqala field in Iraq's Kurdish 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 – Prirazlomnoye, Novoportovskoye 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 Novoportovskoye 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 Tsarichanskoye field) and Zhivoy Istok CJSC (which owns licences for the right to use the subsoil resources of the Baleykinskoye field and Uransky 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: Sovkhimtekhn CJSC, Poliefir LLC and BSV-KHIM LLC. As a result of the transaction, the Gazprom Neft Group acquired an asset with a full ester production cycle.

Gazpromneft-Bitumen Materials LLC acquired a 75% stake in the charter capital of NOVA-Brit 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.

A transaction was closed to acquire a 100% stake in the charter capital of CHUKOTKAEROSBYT 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 GROUP¹

PRODUCTION

- > Gazpromneft–Noyabrskneftegaz OJSC
 - > Gazpromneft-Khantos LLC
 - > Gazpromneft-Vostok LLC
 - > Meretoyakhaneftgaz LLC
 - > Zapolyarneft LLC
 - > Gazpromneft-Angara LLC
 - > Gazpromneft-Sakhalin LLC
 - > GPNO LLC
 - > Yugra-INTEK LLC
 - > Yuzhuralneftgaz OJSC
 - > Gazpromneft-Yamal LLC
 - > Gazpromneft-Shelf LLC
- > Gazpromneft-Zapolyarye LLC
 - > Gazpromneft-Development LLC
 - > Khanty-Mansi Oil and Gas Union (JV) CJSC
 - > Slavneft OGC (JV) OJSC
 - > Tomskneft VNK (JV) OJSC
 - > SeverEnergia (JV) LLC
 - > Messoyakhaneftgaz (JV) LLC
 - > Arcticgas (JV) OJSC
 - > Salym Petroleum Development N.V. (JV)
 - > Gazprom Neft Badra B.V.
 - > Gazprom Neft Middle East B.V.

SERVICE COMPANIES

- > Gazpromneft-NNGGF OJSC
- > Gazpromneft-Nefteservice LLC
- > NoyabrskNefteGazAvtomatika LLC
- > Noyabrskteploneft LLC
- > Noyabrskenergoneft LLC
- > Noyabrskneftenazsvyaz LLC
- > Gazpromneft – Energoservice LLC
- > Neftekhimremont LLC
- > RMZ Gazpromneft-Omsk Oil Refinery LLC
- > Avtomatika-Service LLC

REFINING

- > Gazpromneft – Moscow Oil Refinery JSC
- > Gazpromneft – Omsk Oil Refinery JSC
- > Slavneft-YANOS (JV) OJSC

OIL AND PETROLEUM PRODUCT SALES

- > Gazprom Neft Trading GmbH
 - > Gazpromneft-Centre LLC
 - > Munay-Myrza CJSC
 - > Gazprom Neft Asia LLC
 - > Gazpromneft-Tyumen PJSC
 - > Gazpromneft-Krasnoyarsk LLC
 - > Gazpromneft-Ural OJSC
 - > Gazpromneft-North-West JSC
 - > Gazpromneft-Yaroslavl OJSC
 - > Gazpromneft-Transport JSC
 - > Gazpromneft-Novosibirsk JSC
 - > Gazpromneft-Belnefteprodukt LLC
- > Gazpromneft-Tajikistan LLC
 - > Gazpromneft-Kazakhstan LPP
 - > Alliance-Oil-Asia LLC
 - > Gazpromneft-Corporate Sales LLC
 - > Gazpromneft-Mobile Map JSC
 - > Mosnefteprodukt LLC
 - > Gazpromneft-MNGK JSC
 - > Gazpromneft-Regional Sales LLC
 - > Gazpromneft-Alternative Fuel JSC
 - > Gazpromneft-Terminal JSC
 - > Universal-Oil CJSC
 - > Gazpromneft-Omsk (NB) LLC

¹ 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

> BSV-KHIM LLC

> Sokhimtekh LLC

> Sibgazpolymer JSC (JV)

> Gazpromneft-Bitumen Kazakhstan LLP

AIRCRAFT FUELLING

- > Gazpromneft-Aero CJSC

> Gazpromneft-Aero Murmansk LLC

> Gazpromneft-Aero Kemerovo LLC

> Gazpromneft-Aero Sheremetyevo LLC

> North-West Refuelling Complex (JV) LLC

> Sovex (JV) CJSC

> Gazpromneft-Aero Astana (JV) LLP

> Gazpromneft-Aero Dushanbe (JV) LLC

> Gazpromneft-Aero Tomsk (JV) LLC

> Gazpromneft-Aero Bryansk LLC

> Gazpromneft-Aero Kyrgyzstan (JV) LLC

> Yenisey Refuelling Complex (JV) LLC

> Gazpromneft-Aero Chita LLC

> Aero TO LLC

> Gazpromneft-Aero Novosibirsk CHSC (JV)

> Slavnet-Tunoshna LLC (JV)

> TZK Omsk (Central) LLC (JV)

BUNKERING

- > Gazpromneft Marine Bunker LLC

> Gazpromneft Shipping LLC

> Gazpromneft Terminal SPb LLC

> GAZPROMNEFT MARINE BUNKER BALKAN S.A.

> AS Baltic Marine Bunker

> Novorossiysk Oil Transhipment Complex LLC

> Novorosneftservice LLC

OTHER ACTIVITIES

- > Lakhta Centre MFC JSC

> Gazpromneftfinance LLC

> Gazpromneftenergo LLC

> Gazpromneft-FS LLC

> Gazpromneft RDC LLC

> Gazpromneft Invest LLC

> Gazpromneft Business Service LLC

> Galernaya 5 Complex LLC

> Gazpromneft-Logistics LLC

> ITSC 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 Business Service B.V.

> Gazprom Neft North Africa B.V.

> TK-BA (JV) LLC

> National Oil Consortium (JV) LLC

DIVERSIFIED COMPANIES

- > Naftna Industrija Srbije A.D., Novi Sad

APPENDIX 5. INFORMATION ABOUT THE USE OF ENERGY RESOURCES BY GAZPROM NEFT PJSC

Type of energy resource	Volume of consumption in physical terms	Measurement unit	Volume of consumption, RUB mn
Electricity	2.2	1,000 MWh	8.9

The consumption of other energy and heat resources is not reflected in the accounting of Gazprom Neft PJSC.

APPENDIX 6. OIL INDUSTRY TAXATION

AVERAGE TAX RATES EFFECTIVE IN REPORTING PERIODS FOR THE TAXATION OF OIL AND GAS COMPANIES IN RUSSIA

	2015	2016	Change, %
Export duty, (USD/ tonne)			
Crude oil	120.25	75.61	(37.1)
Light petroleum products	57.67	30.21	(47.6)
Diesel	57.67	30.21	(47.6)
Gasoline	93.75	46.07	(50.9)
Naphtha	102.17	53.63	(47.5)
Heavy petroleum products	91.34	61.96	(32.2)
Mineral extraction tax			
Crude oil (RUB/ tonne)	6,326	5,770	(8.8)

CRUDE OIL AND PETROLEUM PRODUCTS EXPORT DUTY RATES

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

CRUDE OIL EXPORT DUTY RATE

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

Quoted Urals Price (P), USD/ tonne	Maximum Export Customs Duty Rate
≤ 109.50	0 %
109.50 < P ≤ 146.00	35 % x (P – 109.50)
146.00 < P ≤ 182.50	12.78 + 45 % x (P – 146.00)
> 182.50	29.20 + 42 % x (P – 182.50) for 2015 r.
	29.20 + 42 % x (P – 182.50) for 2016 r.
	29.20 + 30 % x (P – 182.50) for 2017 r.

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

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.

EXCISE DUTIES
ON PETROLEUM PRODUCTS

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

Clause 193 of the Russian Federation Tax Code (as amended by Russian Federal Laws No. 34-FZ dated February 29, 2016 and No. 401-FZ dated November 30, 2016) established the following excise duty rates for petroleum products.

EXCISE DUTIES ON PETROLEUM PRODUCTS (roubles/tonne)

Petroleum products	2015	2016		2017
		January 1 – March 31	April 1 – December 31	
Gasoline				
Below Class 5	7,300	10,500	13,100	13,100
Class 5	5,530	7,530	10,130	10,130
Naphtha	11,300	10,500	13,100	13,100
Diesel fuel	3,450	4,150	5,293	6,800
Heating oil	3,000	4,150	5,293	7,800
Motor oil	6,500	6,000	6,000	5,400
Middle distillate	–	4,150	5,293	7,800

MINERAL EXTRACTION TAX (MET) ON CRUDE OIL

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.

CHANGE IN MET SINCE 2015

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

Dm = Kmet x Kc x (1 – Kv * Kz * Kd * Kdv * Kkan) for 2015-2016

Dm = Kmet x Kc x (1 – Kv * Kz * Kd * Kdv * Kkan)-Kk from 2017

where Kmet = 530 for 2015, 559 starting from 2016

Under Federal Law No. 239-FZ (December 3, 2012), the Government of the Russian Federation established formulas for lower export duty rates for crude oil with special chemical and physical properties, identified by the specific customs codes (TN VED TS 2709 00 900 1 and 2709 00 900 3). According to Russian Government Resolution No. 276 (March 29, 2013), these lower export duty rates are calculated based on the average Urals price in the monitoring period using the following formula:

> Ct = (P – 182.5) x K – 56.57 – 0.14 x P
where P is the Urals price (USD/tonne)
and K is an incremental coefficient equal to 42% for 2015 and 36% for 2016.

Resolution of the Russian Government No. 846 (September 26, 2013) sets out the rules for applying specific export duty rates and monitoring their use for crude oil produced, inter alia, at fields located in Sakha Republic (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai, and to north of latitude 65o 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 12, 1993) clause 35 subclause 1.1, crude oil produced at offshore fields is exempt from export duties until:

> March 31, 2032 – for fields located entirely in the Sea of Azov, or located 50% or more in the Baltic Sea, Black Sea (at water depths of less than 100 meters), Pechora Sea, White Sea, Sea of Okhotsk (to south of 55° N), or the Caspian Sea;

- > March 31, 2042 – for fields located 50% or more in the Black Sea (at depths exceeding 100 meters), Sea of Okhotsk (to north of 55o), or Barents Sea (to south of 72oN)
- > Indefinitely – for fields located 50% or more in the Kara Sea, Barents Sea (to north of 72o N), or the Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea)

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

EXPORT DUTY RATE ON PETROLEUM PRODUCTS

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

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

> R = K * Rcrude , where Rcrude is the export duty rate per tonne of crude oil and K is a coefficient depending on the type of petroleum product.

COEFFICIENTS, K, FOR DIFFERENT PETROLEUM PRODUCTS ARE AS FOLLOWS

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

MINERAL EXTRACTION TAX (MET) ON NATURAL GAS AND GAS CONDENSATE

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

MINERAL EXTRACTION TAX (MET) ON NATURAL GAS AND GAS CONDENSATE

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

Eut is the base value per fuel-equivalent unit calculated by the taxpayer depending on natural gas and gas condensate prices and their relative production amounts.

Kc characterizes the degree of difficulty of the extraction of natural gas and gas condensate. The coefficient is designed to reduce the tax rate on natural gas and gas condensate, and is equal to the lowest of the following reducing coefficients: Kr – depending on location, Kvg – for depleted deposits, Kgz – for deposits at depths of more than 1,700 meters, Kas – for deposits related to the regional gas supply system, and Korz – for deposits classified as Turonian formations.

Tg reflects gas transportation costs (set at zero for 2015 2016 according to the Federal Tariff Service of the Russian Federation).

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

According to the Russian Federation Tax Code clause 342, subclause 2.1 and clause 338, subclause 6 the following ad valorem MET rates should be used for oil produced at new offshore fields (as a % of price):

- > 30% from the start of commercial hydrocarbon production for a five-year period, ending not later than March 31, 2022 – for fields located entirely in the Sea of Azov or for fields located more than 50% in the Baltic Sea;
- > 15% from the start of commercial hydrocarbon production for a seven-year period, ending not later than March 31, 2032 – for fields located more than 50% in the Black Sea (at water depths of less than 100 meters), the Sea of Japan, Pechora Sea, White Sea, Sea of Okhotsk (to south of 55o N), Caspian Sea;
- > 10% from the start of commercial hydrocarbon production for a ten-year period, ending not later than March 31, 2037 – for fields located more than 50% in the Sea of Okhotsk (to north of 55o N), Black Sea (at depths exceeding 100 meters), Barents Sea (to south of 72o 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 72o 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

Rates	2015	2016	Change, %
Nominal crude oil MET rate, RUB/tonne	6,326	5,770	(8.8)
Effective crude oil MET rate, RUB/tonne	5,961	5,149	(13.6)
Difference between nominal and effective rates, RUB/tonne	365	621	
Difference between nominal and effective rates, %	5.8	10.8	

In 12 months 2016, the Group’s effective MET rate was 5,149 RUB/tonne, or 621 RUB/tonne lower than the nominal MET rate established in Russian legislation. The difference results from the application of certain coefficients (Kv, Kz, Kd and Kkan) that reduce the MET rate.

Kc reflects the volatility of crude oil prices at the global market.

Kc = (P - 15) * 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 rouble/ US dollar exchange rate.

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

Kz characterizes the size of the field (by reserves) and provides lower tax rates for small fields. For fields with initial reserves (designated by V3, defined as total extractable reserves for all categories as at January 1 of the year preceding the tax period) below 5 MMtonnes and depletion (N/V3, where N is the cumulative production volume of the field) less than 0.05, Kz = 0.125 * 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 * 10⁻³ μ² and effective formation thickness no greater than 10 meters
- > 0.4 – for oil produced from deposits with permeability no greater than 2 * 10⁻³ μ² and effective formation thickness greater than 10 meters
- > 0.8 – for oil produced from deposits classified in the state mineral reserves balance as related to the Tyumen formation
- > 1 – for oil produced from other deposits

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

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

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

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

Tax benefits applied during 12 m 2016	Subsidiaries (Oil Fields) belonging to the Group
MET FOR GAS	
Hard-to-recover factor Kc	Gazpromneft Yamal LLC Gazpromneft Orenburg LLC
MET FOR OIL	
Small fields factor Kz	Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft Orenburg LLC
Depletion factor Kv	Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft-Vostok LLC Yuzhuralneftegas JSC
Hard-to-recover factor Kd	Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos LLC
Oil production region and oil quality factor Kkan	Gazpromneft-Angara Gazpromneft-Yamal LLC
Zero MET rate for fields classified as belonging to Bazhenov formation	Gazpromneft-Khantos LLC
Lower MET rate for new offshore fields in the Pechora Sea	Gazpromneft-Shelf LLC
PROFITS TAX	
16% rate (4% concession under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC Gazpromneft-Noyabrskneftegaz OJSC
15.5% rate (4.5% concession under Yamalo-Nenets Autonomous Okrug regional legislation)	Gazpromneft-Noyabrskneftegaz OJSC Zapolyarneft LLC
19.3% rate (0.7% concession under Tumen regional legislation)	Gazpromneft-Khantos LLC
15.5% rate (4.5% concession under St. Petersburg regional legislation)	Gazpromneft PJSC Gazpromneft Aero JSC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft-Business Service LLC Gazpromneft-Regionalnie prodazhi LLC Gazpromneft-Marine Bunker LLC
PROPERTY TAX	
Property tax exemption for hydrocarbon fields in Khanty-Mansiysk Autonomous Okrug with the first hydrocarbon extraction after January 1, 2011 (under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC
1.1% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional legislation)	Gazpromneft-Noyabrskneftegaz OJSC Zapolyarneft LLC
Property tax exemption for investment projects in Orenburg region (under Orenburg regional legislation)	Gazpromneft Orenburg LLC

APPENDIX 7.
LIST OF MAJOR TRANSACTIONS
AND RELATED PARTY TRANSACTIONS

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’.

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. ПТ-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

Abbreviation	Definition
ADR	American Depository Receipt
APG	Associated petroleum gas
ASP (technology)	A method for increasing oil recovery based on the idea of injecting a mixture consisting of anionic surfactant, soda and polymer into the reservoir
BANK OF RUSSIA	Central Bank of the Russian Federation
CD	Civil defence
CGS	Central gathering station (oil treatment)
CGTP	Complex gas treatment plant
CIS	Commonwealth of Independent States – former republics of the USSR, except Latvia, Lithuania, Georgia and Estonia
COGTS	Central oil gathering and treatment station
CNG	Compressed natural gas
D&O	Directors and Officers Liability Insurance
DOWNSTREAM	Logistics, Processing and Sales Unit
EBIT	Earnings before interest, taxes, depreciation and amortisation
EBITDA	Earnings before
ECA	Export Credit Agency
EMS	Energy management system
GDP	Gross domestic product
HC	Hockey club
HSE	Health, Safety and Environment
HTRR	Hard-to-recover reserves
IEA	International Energy Agency
IFRS	International Financial Reporting Standards
IRMS (STANDARD)	Integrated Risk Management System standard
JSC	Joint-stock company
KMAD	Khanty-Mansi Autonomous District
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
LPG	Liquefied petroleum gases
LTIF	Lost Time Injury Frequency
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MET	Mineral extraction tax

Abbreviation	Definition
MICEX	Moscow Interbank Currency Exchange or Moscow Exchange
NIS	Naftna Industrija Srbije A.D., Novi Sad
NP	Non-profit partnership
OC	Oil company
OECD	Organisation for Economic Cooperation and Development
OE	Oil equivalent
OGCF	Oil and gas condensate field
OJSC	Open joint-stock company
OPEC	Organisation of the Petroleum Exporting Countries
OS	Occupational safety
PJSC	Public joint-stock company
PMB	Polymer-modified bitumen
P.P.	Percentage points
RAS	Russian Accounting Standards
RLC	Regional licensing commission
ROACE	Return on Average Capital Employed
PRMS-SPE	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.
R&D	Research and development
SAR	Stock Appreciation Rights
SAS	Surface active substances
SEC	U.S. Securities and Exchange Commission
S&A	Subsidiaries and affiliates
UPSTREAM	Exploration and Production Unit
US GAAP	United States Generally Accepted Accounting Principles
USA	United States of America
VAT	Value-added tax
VIOC	Vertically integrated oil company
VMI	Voluntary medical insurance
YANOS	Yaroslavlnefteorgsintez (Slavneft- Yaroslavlnefteorgsintez, Slavneft-YANOS) –Yaroslavl Oil Refinery
YNAD	Yamalo-Nenets Autonomous District

DISCLAIMER

THIS ANNUAL REPORT WAS PREPARED BASED ON INFORMATION KNOWN TO PUBLIC JOINT-STOCK COMPANY GAZPROM NEFT AND ITS SUBSIDIARIES (‘GAZPROM NEFT’) ON THE DATE OF REPORTING.

This Report contains forward-looking statements that represent the expectations of the Company’s executive management. Such estimates are not based on any actual circumstances, and they include all statements concerning the Company’s intentions, opinions or current expectations as regards its activities, financial situation, liquidity, future growth, strategy and the industry in which Gazprom Neft operates. By their very nature, such forward-looking statements are exposed to risks and factors of uncertainty because they describe events and depend on circumstances that may or may not occur in the future.

Such words as ‘assume’, ‘believe’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘surmise’, ‘examine’, ‘might’, along with other similar words and phrases, also expressed as negations, typically mark forward-looking statements. Such assumptions contain risks and uncertainties, both expected and unforeseeable. Therefore, future performance may differ from current expectations, and the users of this information must not base their own estimates solely on the information contained herein. Apart from the official information on the activities of Gazprom Neft this Annual Report includes information acquired

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ADDRESSES AND CONTACTS

FULL NAME OF THE COMPANY

Gazprom Neft Public Joint-Stock Company

SHORT NAME OF THE COMPANY

Gazprom Neft PJSC

REGISTERED OFFICE

Saint Petersburg, Russian Federation

The Company was registered on 6 October 1995 by the Registration, Chamber of the City of Omsk. Statutory Registration Certificate No. 38606450. Main Federal Registration Number 1025501701686.

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AUDITOR

The Company’s accounting (financial) reports in 2016 were audited by PricewaterhouseCoopers Audit CJSC (PwC Audit CJSC). Address: Belaya Ploschad Business Center Butirskiy Val, 10, Moscow, ul. 125047, Russian Federation, Tel: +7 (495) 967-60-00, Fax: +7 (495) 967-60-01, Web address: www.pwc.com

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