

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended June 30 and March 31, 2016 and the six months  
ended June 30, 2016 and 2015**

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## Definitions and Conversions

The following discussion is intended to assist you in understanding the Group financial position as of June 30, 2016 and results of operations for the three months ended June 30 and March 31, 2016 and the six months ended June 30, 2016 and 2015 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

This report represents Group's financial condition and results of operations on a consolidated basis. In this report the terms "Gazprom Neft", "Company", "Group" represent PJSC Gazprom Neft, its consolidated subsidiaries and joint operations (as defined in IFRS 11) ("Tomskneft", "Salym petroleum development" (SPD) and Yuzhno-Priobskiy GPZ (UGPZ)). The term "Joint ventures" represents entities accounted for by the equity method.

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of our oil fields. Crude oil purchased as well as other operational indicators expressed in barrels are translated from tonnes using a conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet are made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil and liquid hydrocarbon into barrels of oil equivalent ("boe") are made at the rate of 1 barrel per boe and of cubic feet into boe at the rate of 6,000 cubic feet per boe.

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## Forward-Looking Statements

This discussion contains forward-looking statements concerning the financial condition, results of operations and businesses of Gazprom Neft and its consolidated subsidiaries. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning the potential exposure of Gazprom Neft to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. There are a number of factors that could affect the future operations of Gazprom Neft and could cause those results to differ materially from those expressed in the forward-looking statements contained in this Report, inclusively (without limitation): (a) price fluctuations in crude oil and gas; (b) changes in demand for the Company's products; (c) currency fluctuations; (d) drilling and production results; (e) reserve estimates; (f) loss of market and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) economic and financial market conditions in various countries and regions; (j) political risks, project delay or advancement, approvals, and cost estimates; and (k) changes in trading conditions.

## Key Financial and Operating Data

2Q 2016	1Q 2016	Δ, %		6m		Δ, %
				2016	2015	
<b>Financial results (RUB million)</b>						
405,075	366,002	10.7	Sales*	771,077	803,260	(4.0)
107,166	96,365	11.2	Adjusted EBITDA**	203,531	199,766	1.9
5,132	4,602	11.5	RUB per toe of production	4,867	5,256	(7.4)
10.48	8.30	26.3	USD*** per boe of production	9.32	12.34	(24.5)
48,854	41,541	17.6	Profit attributable to Gazprom Neft	90,395	112,354	(19.5)
<b>Operational results</b>						
155.16	155.60	(0.3)	Hydrocarbon production including our share in joint ventures (MMboe)	310.76	282.06	10.2
20.88	20.94	(0.3)	Hydrocarbon production including our share in joint ventures (MMtoe)	41.82	38.01	10.0
1.71	1.71	-	Daily hydrocarbon production (MMboepd)	1.71	1.56	9.6
107.32	107.38	(0.1)	Crude oil and condensate production including our share in joint ventures (MMbbl)	214.70	202.71	5.9
287.05	289.38	(0.8)	Gas production including our share in joint ventures (bcf)	576.43	476.13	21.1
10.42	10.23	1.9	Refining throughput at own refineries and joint ventures (MMtonnes)	20.65	21.32	(3.1)

\*Sales includes export duties and sales related excise tax

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

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

## 6 months 2016 Highlights

- Performed an official opening ceremony for “Vorota Arctiki” terminal at Novoport field on 25 May 2016
- Launched three of six Arc7 tankers to provide year-round crude exports from Novoport field in first 6 months 2016
- Placed exchange-traded ruble bonds with total par value of RUB 25 billion in March 2016 and 10 billion in June 2016
- As part of a project to increase oil recovery, SPD completed construction of three-component ASP mixture unit at Salym oil fields and started mixture injection into formation
- Received operatorship at Garmian Block in Kurdistan starting March 2016 (former operator Western Zagros) through a production sharing agreement
- Opened revamped high-tech drilling support center at Gazprom Neft Scientific Center in early 2016
- Acquired 75% of LLC NOVA-Brit, which owns an innovative bitumen production plant
- Acquired hi-tech lubricants production group Rospolihim in Nizhny Novgorod
- Received exploration and production licenses for Ostrovo field in Serbia.

## Results for 6 months 2016 compared with 6 months 2015

- Total hydrocarbon production including our share in joint ventures increased by 10.0% to 41.82 MMtonnes due to continued production growth at SeverEnergiya (Arcticgas) fields, consolidation of 50% of Northgas volume, continued production growth at Prirazlomnoye and Novoport fields, an increase in gas utilization in Orenburg and Khanty-Mansiysk regions and sustained production at major fields
- Optimized crude processing volumes relative to crude oil and oil products prices and market conditions. Total refining throughput declined by 3.1% with major decline attributable to fuel oil and bunker oil
- Lower refining volumes for crude oil and oil products and lower prices on international markets were partially offset by higher production volumes, resulting in net sales decline of 4.0%
- Production growth and management actions to optimize refining throughput, product and sales mix have partially offset sales decrease and resulted in 1.9% adjusted EBITDA increase
- Net profit attributable to Gazprom Neft decreased mainly due to increased depreciation in line with investment program and accrual of impairment provision for advances and other non-current assets
- Adjusted net profit attributable to Gazprom Neft in six months 2016 increased by 7.1% from six months 2015 from RUB 97 billion up to RUB 104 billion.\*

\*Net profit in 6 months 2016 was adjusted for expenses related to impairment provision for advances and non-current assets. Net profit in 6 months 2015 was adjusted for one-off income from writing off liability at JSC Tomskneft. Net profit adjustments include income tax effect.

## Results for 2Q 2016 compared with 1Q 2016

- Daily hydrocarbon production including our share in joint ventures totaled 1.71 MMboe
- Total hydrocarbon production including our share in joint ventures decreased by 0.3% Q-o-Q mainly due to planned pipeline repair at SeverEnergiya (Arcticgas) and decrease in production and supply of associated gas due to planned repair at Orenburg gas refinery
- Refining throughput increased by 1.9% Q-o-Q due to improved utilization of processing equipment at Moscow refinery and NIS. The volume of crude processed was optimal in terms of current price and demand environment for crude oil and oil products
- Sales increased by 10.7% due to higher prices for crude oil and oil products on domestic and international markets
- Higher prices for crude oil and oil products resulted in adjusted EBITDA increase of 11.2%
- Net profit attributable to Gazprom Neft in 2Q 2016 resulted mainly from higher adjusted EBITDA and foreign exchange gains from revaluation of Group debt portfolio.

## Operational Data and Analysis

### Production Drilling

2Q 2016	1Q 2016	Δ, %		6m		
				2016	2015	Δ, %
<b>Consolidated subsidiaries</b>						
723	641	12.8	Production drilling ('000 meters)	1,364	1,469	(7.1)
176	162	8.6	New production wells	338	372	(9.1)
54.02	51.16	5.6	Average new well flow (tonnes per day)	42.25	32.58	29.7
<b>Joint operations</b>						
209	130	60.8	Production drilling ('000 meters)	339	394	(14.0)
42	59	(28.8)	New production wells	101	97	4.1
<b>Joint ventures</b>						
305	303	0.7	Production drilling ('000 meters)	608	581	4.6
55	53	3.8	New production wells	108	107	0.9

- Production drilling by consolidated subsidiaries and joint operations (mainly Tomskneft) in 2Q 2016 increased by 12.8% and 60.8%, respectively, Q-o-Q primarily due to drilling rig-up at new deposits in 1Q 2016 in line with drilling plan
- Decrease in production drilling and number of new wells drilled by consolidated subsidiaries and joint operations Q-o-Q and Y-o-Y was due to increased complexity of drilling projects as a result of high-tech wells buildup and partial substitution of new wells drilling by workover operations at producing well stock in order to intensify production
- Increase in average new well flow by consolidated subsidiaries by 29.7% Y-o-Y and 5.6% Q-o-Q due to increased number of high-tech wells and completion of wells at Novoport and Prirazlomnoe fields.

## Production

2Q 2016	1Q 2016	Δ, %		6m		Δ, %
				2016	2015	
<b>(MMtonnes)</b>			<b>Crude oil and condensate</b>	<b>(MMtonnes)</b>		
3.47	3.49	(0.6)	Noyabrskneftegaz	6.96	7.19	(3.2)
3.61	3.62	(0.3)	Khantos***	7.23	7.09	2.0
1.18	1.18	-	Tomskneft	2.36	2.48	(4.8)
0.77	0.76	1.3	SPD	1.53	1.53	-
0.67	0.69	(2.9)	Orenburg	1.36	1.28	6.3
0.26	0.26	-	NIS	0.52	0.57	(8.8)
0.42	0.42	-	Vostok**	0.84	0.73	15.1
0.33	0.31	6.5	Novy Port	0.64	0.16	300.0
0.47	0.43	9.3	Prirazlomnoye	0.90	0.30	200.0
0.21	0.16	31.3	Badra & Kurdistan	0.37	0.17	117.6
0.02	0.03	(33.3)	Others	0.05	0.14	(64.3)
<b>11.41</b>	<b>11.35</b>	<b>0.5</b>	<b>Total production by subsidiaries and joint operations</b>	<b>22.76</b>	<b>21.64</b>	<b>5.2</b>
1.87	1.89	(1.1)	Share in Slavneft	3.76	3.87	(2.8)
0.94	0.97	(3.1)	Share in SeverEnergiya (Arcticgas)	1.91	1.46	30.8
0.13	0.15	(13.3)	Share in Northgas	0.28	0.21	33.3
<b>2.94</b>	<b>3.01</b>	<b>(2.3)</b>	<b>Share in production of joint ventures</b>	<b>5.95</b>	<b>5.54</b>	<b>7.4</b>
<b>14.35</b>	<b>14.36</b>	<b>(0.1)</b>	<b>Total crude oil and condensate production MMtonnes</b>	<b>28.71</b>	<b>27.18</b>	<b>5.6</b>
<b>(bcm)</b>			<b>Gas*</b>	<b>(bcm)</b>		
2.49	2.37	5.1	Noyabrskneftegaz	4.86	4.79	1.5
0.26	0.27	(3.7)	Khantos***	0.53	0.31	71.0
0.21	0.21	-	Tomskneft	0.42	0.43	(2.3)
0.03	0.03	-	SPD	0.06	0.06	-
0.58	0.61	(4.9)	Orenburg	1.19	1.00	19.0
0.14	0.14	-	NIS	0.28	0.28	-
0.03	0.02	50.0	Vostok	0.05	0.04	25.0
0.02	0.03	(33.3)	Others	0.05	0.03	66.7
<b>3.76</b>	<b>3.68</b>	<b>2.2</b>	<b>Total production by subsidiaries and proportionally consolidated companies</b>	<b>7.44</b>	<b>6.94</b>	<b>7.2</b>
0.12	0.12	-	Share in Slavneft	0.24	0.22	9.1
2.96	3.07	(3.6)	Share in SeverEnergiya (Arcticgas)	6.03	4.54	32.8
1.28	1.33	(3.8)	Share in Northgas	2.61	1.78	46.6
<b>4.36</b>	<b>4.52</b>	<b>(3.5)</b>	<b>Share in production of joint ventures</b>	<b>8.88</b>	<b>6.54</b>	<b>35.8</b>
<b>8.12</b>	<b>8.20</b>	<b>(1.0)</b>	<b>Total gas production</b>	<b>16.32</b>	<b>13.48</b>	<b>21.1</b>
<b>(MMtoe)</b>			<b>Hydrocarbons</b>	<b>(MMtoe)</b>		
14.43	14.31	0.8	Total production by subsidiaries and proportionally consolidated companies	28.74	27.21	5.6
6.45	6.63	(2.7)	Share in production of joint ventures	13.08	10.80	21.1
<b>20.88</b>	<b>20.94</b>	<b>(0.3)</b>	<b>Total hydrocarbon production MMtoe</b>	<b>41.82</b>	<b>38.01</b>	<b>10.0</b>
<b>155.16</b>	<b>155.60</b>	<b>(0.3)</b>	<b>MMboe</b>	<b>310.76</b>	<b>282.06</b>	<b>10.2</b>
<b>1.71</b>	<b>1.71</b>	<b>-</b>	<b>Daily hydrocarbon production (MMboepd)</b>	<b>1.71</b>	<b>1.56</b>	<b>9.6</b>

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

\*\* Production for Archinskoye and Urmanskoye fields is presented in Gazpromneft – Vostok effective June 1, 2015 due to merger of Archinskoye LLC into Gazpromneft-Vostok in June 2015 (previously included in Others)

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

- Group daily hydrocarbon production increased by 9.6% Y-o-Y and remained unchanged Q-o-Q

- Group oil and condensate production increased by 5.6% Y-o-Y to 28.71 MMtoe, driven by increased production at Prirazlomnoye and Novoport fields, continued increase in production at SeverEnergiya (Arcticgas), consolidation of 50% of Northgas volume, and increased production in Iraq
- Group oil and condensate production Q-o-Q remained stable and unchanged from 1Q 2016 level of 14.35 MMtoe
- Group natural gas production increased by 21.1% Y-o-Y primarily due to higher production at Urengoykoye and Yaro-Yakhinskoye (SeverEnergiya (Arcticgas)) fields, consolidation of 50% of Northgas volume; startup of Yuzhno-Priobskiy gas processing plant (UGPZ) which increased gas utilization in Khanty-Mansyisk region, an increase in gas utilization at Orenburg region fields due to an increase in supply of associated gas to Orenburg gas refinery
- Group gas production declined by 1.0% Q-o-Q primarily due to gas production decline at SeverEnergiya (Arcticgas), restricted gas utilization due to planned pipeline repair and declines in gas production and supply of associated gas due to planned repair at Orenburg gas refinery.

## Crude Oil Purchases

2Q 2016	1Q 2016	Δ, %	(MMtonnes)	6m		Δ, %
				2016	2015	
2.11	2.21	(4.5)	Crude oil purchases in Russia *	4.32	3.53	22.4
0.50	0.19	163.2	Crude oil purchases internationally	0.69	-	-
<b>2.61</b>	<b>2.40</b>	<b>8.7</b>	<b>Total crude purchased</b>	<b>5.01</b>	<b>3.53</b>	<b>41.9</b>

\* Crude oil purchases in Russia:

- exclude purchases from the Group's joint ventures Slavneft and SeverEnergiya (Arcticgas)

- include purchase of stable gas condensate from Novatek (25% of Arcticgas production)

- Crude oil purchases in Russia increased by 22.4% Y-o-Y due to more effective domestic trading operations.

## Refining

2Q 2016	1Q 2016	Δ, %	(MMtonnes)	6m		Δ, %
				2016	2015	
5.07	5.08	(0.2)	Omsk	10.15	10.62	(4.4)
2.77	2.41	14.9	Moscow	5.18	5.52	(6.2)
0.93	0.72	29.2	Pancevo	1.65	1.34	23.1
<b>8.77</b>	<b>8.21</b>	<b>6.8</b>	<b>Total throughput at refineries owned by subsidiaries</b>	<b>16.98</b>	<b>17.48</b>	<b>(2.9)</b>
1.63	1.91	(14.7)	Share in Yaroslavl	3.54	3.64	(2.7)
0.02	0.11	(81.8)	Share in Mozyr	0.13	0.20	(35.0)
<b>10.42</b>	<b>10.23</b>	<b>1.9</b>	<b>Total refining throughput</b>	<b>20.65</b>	<b>21.32</b>	<b>(3.1)</b>
<b>Production of petroleum products</b>						
2.33	2.23	4.5	Gasoline	4.56	4.58	(0.4)
-	-	-	Class 2 and below	-	0.02	-
-	-	-	Class 4	-	0.26	-
2.33	2.23	4.5	Class 5	4.56	4.30	6.0
0.39	0.45	(13.3)	Naphtha	0.84	0.73	15.1
3.01	2.96	1.7	Diesel	5.97	5.86	1.9
0.04	0.03	33.3	Class 2 and below	0.07	0.04	75.0
2.97	2.93	1.4	Class 5	5.90	5.82	1.4
1.38	1.71	(19.3)	Fuel oil	3.09	3.42	(9.6)
0.81	0.67	20.9	Jet fuel	1.48	1.46	1.4
0.58	0.67	(13.4)	Bunker fuel	1.25	1.89	(33.9)
0.65	0.27	140.7	Bitumen	0.92	0.83	10.8
0.10	0.10	-	Lubricants	0.20	0.19	5.3
0.67	0.62	8.1	Other	1.29	1.40	(7.9)
<b>9.92</b>	<b>9.68</b>	<b>2.5</b>	<b>Total production</b>	<b>19.60</b>	<b>20.36</b>	<b>(3.7)</b>

- Total throughput declined by 3.1% Y-o-Y. The Group optimized refining throughput relative to crude oil and oil products prices and demand conditions
- Refining throughput increased by 1.9% Q-o-Q due to growth of utilization rates at Moscow and NIS to conform with current crude oil and oil products price and demand environment
- Bunker fuel production decreased by 33.9% Y-o-Y and 13.4% Q-o-Q due to overall contraction of demand for transit bunker transportation from ship-owners
- Diesel production increased by 1.9% Y-o-Y due to increased throughput in Serbia
- Diesel production increased by 1.7% Q-o-Q due to seasonal factor
- Fuel oil production decreased by 9.6% Y-o-Y due to decreased oil refining, an increase in fuel oil consumption for own purposes instead of natural gas at Omsk refinery (due to economic efficiency) and bitumen production growth
- In 2016 only Class 5 gasoline was produced in accordance with requirements of technical regulations
- Bitumen production more than doubled Q-o-Q due to seasonal demand increase
- Naphtha production decreased by 13.3% Q-o-Q due to the growth of gasoline production.

### Petroleum Product Purchases on International Markets

	2Q 2016		1Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	3,592	0.13	2,724	0.11	31.9	18.2
Jet fuel	842	0.03	468	0.01	79.9	200.0
Bunker fuel	784	0.03	757	0.03	3.6	-
Lubricants	250	0.00	331	0.00	(24.5)	-
<b>Total</b>	<b>5,468</b>	<b>0.19</b>	<b>4,280</b>	<b>0.15</b>	<b>27.8</b>	<b>26.7</b>

	6m 2016		6m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	6,316	0.24	4,178	0.14	51.2	71.4
Fuel oil	-	-	61	0.00	-	-
Jet fuel	1,310	0.04	5,032	0.14	(74.0)	(71.4)
Bunker fuel	1,541	0.06	3,017	0.11	(48.9)	(45.5)
Lubricants	581	0.00	583	0.00	(0.3)	-
<b>Total</b>	<b>9,748</b>	<b>0.34</b>	<b>12,871</b>	<b>0.39</b>	<b>(24.3)</b>	<b>(12.8)</b>

- Jet fuel purchases on international markets increased Q-o-Q due to seasonal factors, attraction of new airlines and expansion in Thailand, Spain, Cyprus, China and Dominican Republic markets
- Jet fuel purchases on international markets decreased Y-o-Y due to lower demand (due to reduced tourism), charter flights stoppages to Turkey and Egypt, Transaero Airlines bankruptcy
- Bunker fuel purchases on international markets declined Y-o-Y due to decrease in capacity of bunker markets in Estonia and Romania
- Increased diesel purchases connected with expanded oil product trading in Europe were partially set off by decline in jet and bunker fuel purchases on international markets Y-o-Y.

### Petroleum Products Purchases in CIS

	2Q 2016		1Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	453	0.01	235	0.01	92.8	-
Low octane gasoline	114	0.00	196	0.01	(41.8)	-
Diesel	1,217	0.06	402	0.02	202.7	200.0
Other	121	0.00	148	0.01	(18.2)	-
<b>Total</b>	<b>1,905</b>	<b>0.07</b>	<b>981</b>	<b>0.05</b>	<b>94.2</b>	<b>40.0</b>

	6m 2016		6m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	688	0.02	844	0.02	(18.5)	-
Low octane gasoline	310	0.01	23	0.00	-	-
Diesel	1,619	0.08	741	0.03	118.5	166.7
Other	269	0.01	295	0.01	(8.8)	-
<b>Total</b>	<b>2,886</b>	<b>0.12</b>	<b>1,903</b>	<b>0.06</b>	<b>51.7</b>	<b>100.0</b>

### Domestic Petroleum Products Purchases

	2Q 2016		1Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	9,856	0.29	9,082	0.30	8.5	(3.3)
Diesel	4,874	0.16	6,082	0.20	(19.9)	(20.0)
Fuel oil	-	-	10	0.00	-	-
Jet fuel	1,026	0.03	1,328	0.07	(22.7)	(57.1)
Bunker fuel	467	0.02	584	0.04	(20.0)	(50.0)
Lubricants	222	0.01	83	0.00	167.5	-
Other	281	0.01	275	0.01	2.2	-
<b>Total</b>	<b>16,726</b>	<b>0.52</b>	<b>17,444</b>	<b>0.62</b>	<b>(4.1)</b>	<b>(16.1)</b>

	6m 2016		6m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	18,938	0.59	16,668	0.57	13.6	3.5
Diesel	10,956	0.36	7,808	0.25	40.3	44.0
Fuel oil	10	0.00	693	0.07	(98.6)	-
Jet fuel	2,354	0.10	4,404	0.17	(46.5)	(41.2)
Bunker fuel	1,051	0.06	1,124	0.06	(6.5)	-
Lubricants	305	0.01	221	0.00	38.0	-
Other	556	0.02	725	0.03	(23.3)	(33.3)
<b>Total</b>	<b>34,170</b>	<b>1.14</b>	<b>31,643</b>	<b>1.15</b>	<b>8.0</b>	<b>(0.9)</b>

- Diesel purchases decreased Q-o-Q due to its increased production at own refineries
- Diesel purchases increased Y-o-Y due to increased trading operations on domestic market
- Jet fuel purchases decreased Y-o-Y due to lower demand for international flights (reduced tourism), charter flight stoppages to Turkey and Egypt, Transaero Airlines bankruptcy and increased own production
- Domestic bunker fuel purchases remained unchanged Y-o-Y due to sustained demand for ultra-low sulfur fuel oil (ULS FO) as a result of the adoption of MARPOL standards in North-West Europe.



## Products Marketing

2Q 2016	1Q 2016	Δ, %		6m 2016	2015	Δ, %
<b>(units)</b>			<b>Active retail stations</b>	<b>(units)</b>		
1,166	1,175	(0.8)	In Russia	1,166	1,161	0.4
255	256	(0.4)	In CIS	255	249	2.4
424	418	1.4	In Eastern Europe	424	422	0.5
<b>1,845</b>	<b>1,849</b>	<b>(0.2)</b>	<b>Total retail stations (as at the end of the period)</b>	<b>1,845</b>	<b>1,832</b>	<b>0.7</b>
<b>19.0</b>	<b>17.5</b>	<b>8.5</b>	<b>Average daily sales per retail site in Russia (tonnes per day)</b>	<b>18.3</b>	<b>18.3</b>	<b>-</b>
<b>(MMtonnes)</b>			<b>Sales volume through premium channels</b>	<b>(MMtonnes)</b>		
4.78	4.34	10.1	Gasoline and Diesel	9.12	8.85	3.1
0.66	0.55	20.0	Jet	1.21	1.42	(14.8)
0.64	0.71	(9.9)	Bunkering	1.35	1.94	(30.4)
0.08	0.05	60.0	Lubricants	0.13	0.11	18.2
<b>6.16</b>	<b>5.65</b>	<b>9.0</b>	<b>Total sales volume through premium channels</b>	<b>11.81</b>	<b>12.32</b>	<b>(4.1)</b>

- Total number of active retail stations increased by 0.7% Y-o-Y
- Average daily sales per retail site in Russia remained unchanged Y-o-Y due to Group's marketing activities despite falling overall demand for gasoline
- Sales volumes through premium channels decreased by 4.1% Y-o-Y primarily due to:
  - Decline in bunkering sales due to overall contraction of demand for transit bunker transportation from ship-owners
  - Decline in jet fuel sales Y-o-Y due to lower consumption by airlines, connected with lower demand of international flight (reduced tourism), charter stoppages to Turkey and Egypt, and liquidation of Transaero Airlines
- Sales volumes through premium channels increased by 9.0% Q-o-Q primarily due to seasonal factors.

## Results of Operations

2Q	1Q			6m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
405,075	366,002	10.7	Sales*	771,077	803,260	(4.0)
(33,352)	(36,050)	(7.5)	Less export duties and sales related excise tax	(69,402)	(88,166)	(21.3)
<b>371,723</b>	<b>329,952</b>	<b>12.7</b>	<b>Total revenue</b>	<b>701,675</b>	<b>715,094</b>	<b>(1.9)</b>
<b>Costs and other deductions</b>						
(84,758)	(73,570)	15.2	Purchases of oil, gas and petroleum products	(158,328)	(160,844)	(1.6)
(45,156)	(48,650)	(7.2)	Production and manufacturing expenses	(93,806)	(97,093)	(3.4)
(25,999)	(24,422)	6.5	Selling, general and administrative expenses	(50,421)	(44,845)	12.4
(31,820)	(34,915)	(8.9)	Transportation expenses	(66,735)	(65,769)	1.5
(27,315)	(27,989)	(2.4)	Depreciation, depletion and amortization	(55,304)	(45,867)	20.6
(98,522)	(70,610)	39.5	Taxes other than income tax	(169,132)	(187,737)	(9.9)
(191)	(108)	76.9	Exploration expenses	(299)	(302)	(1.0)
<b>(313,761)</b>	<b>(280,264)</b>	<b>12.0</b>	<b>Total operating expenses</b>	<b>(594,025)</b>	<b>(602,457)</b>	<b>(1.4)</b>
(16,421)	(657)	2,399.4	Other (loss) / gain, net	(17,078)	13,142	-
<b>41,541</b>	<b>49,031</b>	<b>(15.3)</b>	<b>Operating profit</b>	<b>90,572</b>	<b>125,779</b>	<b>(28.0)</b>
10,307	5,724	80.1	Share of profit of associates and joint ventures	16,031	17,265	(7.1)
13,815	2,295	502.0	Net foreign exchange gain / (loss)	16,110	(743)	-
2,717	2,547	6.7	Finance income	5,264	6,946	(24.2)
(8,714)	(9,724)	(10.4)	Finance expense	(18,438)	(13,738)	34.2
<b>18,125</b>	<b>842</b>	<b>2,052.6</b>	<b>Total other income</b>	<b>18,967</b>	<b>9,730</b>	<b>94.9</b>
<b>59,666</b>	<b>49,873</b>	<b>19.6</b>	<b>(Loss) / Profit before income tax</b>	<b>109,539</b>	<b>135,509</b>	<b>(19.2)</b>
(6,499)	(1,637)	297.0	Current income tax (expense)	(8,136)	(15,046)	(45.9)
(3,012)	(6,644)	(54.7)	Deferred income tax expense	(9,656)	(7,259)	33.0
<b>(9,511)</b>	<b>(8,281)</b>	<b>14.9</b>	<b>Total income tax benefit / (expense)</b>	<b>(17,792)</b>	<b>(22,305)</b>	<b>(20.2)</b>
<b>50,155</b>	<b>41,592</b>	<b>20.6</b>	<b>(Loss) / Profit for the period</b>	<b>91,747</b>	<b>113,204</b>	<b>(19.0)</b>
(1,301)	(51)	2,451.0	Less: Profit attributable to non-controlling interest	(1,352)	(850)	59.1
<b>48,854</b>	<b>41,541</b>	<b>17.6</b>	<b>Profit attributable to Gazprom Neft</b>	<b>90,395</b>	<b>112,354</b>	<b>(19.5)</b>

\* Sales include export duties and sales related excise tax

## Revenues

2Q	1Q			6m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>Crude oil</b>						
47,402	36,450	30.0	Export	83,852	54,118	54.9
57,447	45,423	26.5	Export sales	102,870	84,067	22.4
(10,045)	(8,973)	11.9	Less related export duties	(19,018)	(29,949)	(36.5)
3,077	1,552	98.3	International markets	4,629	3,212	44.1
9,031	5,100	77.1	Export to CIS	14,131	16,839	(16.1)
9,031	5,229	72.7	Export sales and sales in CIS	14,260	17,225	(17.2)
-	(129)	-	Less related export duties	(129)	(386)	(66.6)
23,328	20,724	12.6	Domestic	44,052	42,431	3.8
<b>82,838</b>	<b>63,826</b>	<b>29.8</b>	<b>Total crude oil revenue</b>	<b>146,664</b>	<b>116,600</b>	<b>25.8</b>
<b>Gas</b>						
339	622	(45.5)	International markets	961	2,580	(62.8)
7,432	6,876	8.1	Domestic	14,308	14,684	(2.6)
<b>7,771</b>	<b>7,498</b>	<b>3.6</b>	<b>Total gas revenue</b>	<b>15,269</b>	<b>17,264</b>	<b>(11.6)</b>
<b>Petroleum products</b>						
43,477	46,613	(6.7)	Export	90,090	116,213	(22.5)
47,165	56,174	(16.0)	Export sales	103,339	147,509	(29.9)
(3,688)	(9,561)	(61.4)	Less related export duties	(13,249)	(31,296)	(57.7)
24,684	20,728	19.1	International markets	45,412	48,959	(7.2)
44,021	38,043	15.7	Sales on international markets	82,064	75,455	8.8
(19,337)	(17,315)	11.7	Less sales related excise	(36,652)	(26,496)	38.3
17,446	16,073	8.5	CIS	33,519	35,188	(4.7)
17,728	16,145	9.8	Export sales and sales in CIS	33,873	35,227	(3.8)
(282)	(72)	291.7	Less related export duties	(354)	(39)	807.7
181,668	160,231	13.4	Domestic	341,899	346,273	(1.3)
<b>267,275</b>	<b>243,645</b>	<b>9.7</b>	<b>Total petroleum products revenue</b>	<b>510,920</b>	<b>546,633</b>	<b>(6.5)</b>
<b>13,839</b>	<b>14,983</b>	<b>(7.6)</b>	<b>Other revenue</b>	<b>28,822</b>	<b>34,597</b>	<b>(16.7)</b>
<b>371,723</b>	<b>329,952</b>	<b>12.7</b>	<b>Total revenue</b>	<b>701,675</b>	<b>715,094</b>	<b>(1.9)</b>

## Sales Volumes

2Q	1Q			6m		
2016	2016	Δ, %		2016	2015	Δ, %
<b>(MMtonnes)</b>			<b>Crude oil</b>	<b>(MMtonnes)</b>		
2.77	2.63	5.3	Export	5.40	3.56	51.7
0.17	0.14	21.4	Sales on international markets*	0.31	0.16	93.8
0.54	0.49	10.2	Export to CIS	1.03	1.09	(5.5)
1.63	1.93	(15.5)	Domestic sales	3.56	2.99	19.1
<b>5.11</b>	<b>5.19</b>	<b>(1.5)</b>	<b>Total crude oil sales</b>	<b>10.30</b>	<b>7.80</b>	<b>32.1</b>
<b>(bcm)</b>			<b>Gas</b>	<b>(bcm)</b>		
0.03	0.05	(40.0)	International markets	0.08	0.16	(50.0)
3.31	3.29	0.6	Domestic sales	6.60	7.14	(7.6)
<b>3.34</b>	<b>3.34</b>	<b>-</b>	<b>Total gas sales</b>	<b>6.68</b>	<b>7.30</b>	<b>(8.5)</b>
<b>(MMtonnes)</b>			<b>Petroleum products</b>	<b>(MMtonnes)</b>		
2.25	3.27	(31.2)	Export	5.52	6.24	(11.5)
0.83	0.70	18.6	Sales on international markets	1.53	1.46	4.8
0.59	0.54	9.3	Export and sales in CIS	1.13	1.01	11.9
6.75	6.27	7.7	Domestic sales	13.02	13.30	(2.1)
<b>10.42</b>	<b>10.78</b>	<b>(3.3)</b>	<b>Total petroleum products sales</b>	<b>21.20</b>	<b>22.01</b>	<b>(3.7)</b>

\* Including production sharing agreement (PSA)

## Average Realized Sales Prices

2Q	1Q			6m		
2016	2016	Δ, %		2016	2015	Δ, %
<b>(RUB per tonne)</b>			<b>Crude oil</b>	<b>(RUB per tonne)</b>		
20,739	17,271	20.1	Export	19,050	23,614	(19.3)
16,724	10,671	56.7	Export and sales in CIS	13,845	15,803	(12.4)
14,312	10,738	33.3	Domestic sales	12,374	14,191	(12.8)
<b>(RUB per tonne)</b>			<b>Petroleum products</b>	<b>(RUB per tonne)</b>		
20,962	17,179	22.0	Export	18,721	23,639	(20.8)
53,037	54,347	(2.4)	Sales on international markets	53,637	51,682	3.8
30,047	29,898	0.5	Export and sales in CIS	29,976	34,878	(14.1)
26,914	25,555	5.3	Domestic sales	26,260	26,036	0.9

## Crude Oil Sales

- Crude export volumes increased by 51.7% Y-o-Y due to crude oil production increase at Prirazlomnoye and Novoport oil fields, an increase in domestic oil purchases and lower refining throughput
- Oil sales on international markets increased by 93.8% due to production growth in Iraq
- Crude export volumes to CIS decreased by 5.5% Y-o-Y due to discontinued export to Uzbekistan from February 2016
- Domestic crude volumes increased by 19.1% Y-o-Y due to more effective domestic trading operations and an increase in crude oil production at Orenburg region
- Domestic crude volumes decreased by 15.5% Q-o-Q due to lower volumes of domestic trading operations.

## Gas sales

- Domestic gas sales decreased by 7.6% Y-o-Y due to changes in the sale scheme of natural gas from Yaro-Yakhinskoye field.

## Petroleum Products Exports

	2Q 2016		1Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	606	0.02	1,660	0.07	(63.5)	(71.4)
Naphtha	6,736	0.27	8,778	0.39	(23.3)	(30.8)
Diesel	19,830	0.72	26,674	1.19	(25.7)	(39.5)
Fuel oil	10,619	0.88	10,481	1.26	1.3	(30.2)
Jet fuel	1,757	0.06	1,154	0.04	52.3	50.0
Bunker fuel	3,713	0.16	3,448	0.19	7.7	(15.8)
Bitumen	223	0.02	24	0.00	829.2	-
Lubricants	1,355	0.03	1,708	0.04	(20.7)	(25.0)
Petrochemicals	1,545	0.06	1,666	0.06	(7.3)	-
Other	781	0.03	581	0.03	34.4	-
<b>Total</b>	<b>47,165</b>	<b>2.25</b>	<b>56,174</b>	<b>3.27</b>	<b>(16.0)</b>	<b>(31.2)</b>

	6m 2016		6m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,266	0.09	1,515	0.05	49.6	80.0
Low octane gasoline	-	-	642	0.02	-	-
Naphtha	15,514	0.66	14,721	0.55	5.4	20.0
Diesel	46,504	1.91	55,941	1.80	(16.9)	6.1
Fuel oil	21,100	2.14	43,853	2.68	(51.9)	(20.1)
Jet fuel	2,911	0.10	10,798	0.33	(73.0)	(69.7)
Bunker fuel	7,161	0.35	11,675	0.46	(38.7)	(23.9)
Bitumen	247	0.02	196	0.01	26.0	100.0
Lubricants	3,063	0.07	1,570	0.05	95.1	40.0
Petrochemicals	3,211	0.12	5,890	0.27	(45.5)	(55.6)
Other	1,362	0.06	708	0.02	92.4	200.0
<b>Total</b>	<b>103,339</b>	<b>5.52</b>	<b>147,509</b>	<b>6.24</b>	<b>(29.9)</b>	<b>(11.5)</b>

- Petroleum products export decreased by 11.5% Y-o-Y mainly due to decline in fuel oil and bunker oil sales resulting from reduced production of heavy petroleum products and greater output of light oil products
- Petroleum products export volumes decreased by 31.2% Q-o-Q due to increased domestic sales and lower fuel oil and naphtha production.

## Petroleum Products Export and Sales in CIS

	2Q 2016		1Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	8,998	0.26	7,636	0.22	17.8	18.2
Low octane gasoline	743	0.03	931	0.03	(20.2)	-
Diesel	5,317	0.17	4,727	0.13	12.5	30.8
Fuel oil	32	0.01	444	0.06	(92.8)	(83.3)
Jet fuel	819	0.04	1,198	0.04	(31.6)	-
Bitumen	479	0.06	138	0.02	247.1	200.0
Lubricants	751	0.02	527	0.01	42.5	100.0
Petrochemicals	174	0.00	113	0.00	54.0	-
Other	415	0.00	431	0.03	(3.7)	-
<b>Total</b>	<b>17,728</b>	<b>0.59</b>	<b>16,145</b>	<b>0.54</b>	<b>9.8</b>	<b>9.3</b>

	6m 2016		6m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	16,634	0.48	16,031	0.41	3.8	17.1
Low octane gasoline	1,674	0.06	2,207	0.06	(24.2)	-
Diesel	10,044	0.30	11,369	0.30	(11.7)	-
Fuel oil	476	0.07	32	0.01	1,387.5	600.0
Jet fuel	2,017	0.08	1,953	0.06	3.3	33.3
Bitumen	617	0.08	1,159	0.08	(46.8)	-
Lubricants	1,278	0.03	1,226	0.03	4.2	-
Petrochemicals	287	0.00	554	0.03	(48.2)	-
Other	846	0.03	696	0.03	21.6	-
<b>Total</b>	<b>33,873</b>	<b>1.13</b>	<b>35,227</b>	<b>1.01</b>	<b>(3.8)</b>	<b>11.9</b>

### Domestic Sales of Petroleum Products

	2Q 2016		1Q 2016		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	81,175	2.21	71,725	2.11	13.2	4.7
Low octane gasoline	278	0.01	270	0.01	3.0	-
Diesel	58,708	1.95	52,817	1.75	11.2	11.4
Fuel oil	1,731	0.33	1,214	0.37	42.6	(10.8)
Jet fuel	18,921	0.72	16,263	0.66	16.3	9.1
Bunker fuel	7,355	0.48	6,942	0.65	5.9	(26.2)
Bitumen	3,448	0.51	1,073	0.21	221.3	142.9
Lubricants	3,113	0.07	2,538	0.05	22.7	40.0
Petrochemicals	4,484	0.28	5,084	0.30	(11.8)	(6.7)
Other	2,455	0.19	2,305	0.16	6.5	18.8
<b>Total</b>	<b>181,668</b>	<b>6.75</b>	<b>160,231</b>	<b>6.27</b>	<b>13.4</b>	<b>7.7</b>

	6m 2016		6m 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	152,900	4.32	144,390	4.37	5.9	(1.1)
Low octane gasoline	548	0.02	1,009	0.04	(45.7)	(50.0)
Diesel	111,525	3.70	106,334	3.47	4.9	6.6
Fuel oil	2,945	0.70	6,351	0.79	(53.6)	(11.4)
Jet fuel	35,184	1.38	35,126	1.34	0.2	3.0
Bunker fuel	14,297	1.13	27,347	1.60	(47.7)	(29.4)
Bitumen	4,521	0.72	6,053	0.71	(25.3)	1.4
Lubricants	5,651	0.12	4,853	0.11	16.4	9.1
Petrochemicals	9,568	0.58	9,555	0.52	0.1	11.5
Other	4,760	0.35	5,255	0.35	(9.4)	-
<b>Total</b>	<b>341,899</b>	<b>13.02</b>	<b>346,273</b>	<b>13.30</b>	<b>(1.3)</b>	<b>(2.1)</b>

- Bunker fuel volumes decreased by 26.2% Q-o-Q and 29.4% Y-o-Y due to overall contraction of demand for transit bunker transportation from ship-owners
- Bitumen sales doubled Q-o-Q and diesel sales increased by 11.4% Q-o-Q due to seasonal factors
- Diesel sales increased by 6.6% Y-o-Y due to higher trading operations on domestic market
- Domestic jet fuel sales increased Y-o-Y due to sales expansion at Sheremetyevo.

### Other Revenue

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

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

## Purchases of Oil, Gas and Petroleum Products

- Purchases of oil, gas, and petroleum products increased by 15.2% Q-o-Q due to higher oil products purchase volumes and higher oil and petroleum products prices.

## Production and Manufacturing Expenses

2Q	1Q			6m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
<b>25,508</b>	<b>24,334</b>	<b>4.8</b>	<b>Upstream expenses</b>	<b>49,842</b>	<b>44,617</b>	<b>11.7</b>
18,906	18,472	2.3	Consolidated subsidiaries inside Russia including	37,378	34,237	9.2
15,661	15,496	1.1	Brownfields	31,157	28,358	9.9
1,608	1,602	0.3	<i>RUB per toe</i>	1,605	1,472	9.1
3.33	2.93	13.6	<i>USD* per boe</i>	3.12	3.50	(10.9)
3,245	2,976	9.0	Greenfields	6,221	5,879	5.8
			Consolidated subsidiaries outside Russia (including PSA)**	4,671	3,379	38.2
2,554	2,117	20.6	Joint operations	7,793	7,001	11.3
4,048	3,745	8.1	<i>RUB per toe</i>	1,821	1,591	14.4
1,900	1,742	9.1	<i>USD* per boe</i>	3.54	3.78	(6.5)
3.94	3.18	23.6				
<b>11,630</b>	<b>12,643</b>	<b>(8.0)</b>	<b>Downstream expenses</b>	<b>24,273</b>	<b>24,707</b>	<b>(1.8)</b>
6,407	7,082	(9.5)	Refining expenses at own refineries	13,489	14,100	(4.3)
731	863	(15.3)	<i>RUB per tonne</i>	794	807	(1.5)
1.51	1.58	(4.1)	<i>USD* per bbl</i>	1.54	1.92	(19.5)
2,711	3,398	(20.2)	Refining expenses at refineries of joint ventures	6,109	6,789	(10.0)
1,643	1,682	(2.3)	<i>RUB per tonne</i>	1,665	1,768	(5.8)
3.40	3.08	10.6	<i>USD* per bbl</i>	3.23	4.20	(23.1)
2,512	2,163	16.1	Lubricants manufacturing expenses	4,675	3,818	22.4
<b>7,302</b>	<b>6,680</b>	<b>9.3</b>	<b>Transportation expenses to refineries</b>	<b>13,982</b>	<b>13,340</b>	<b>4.8</b>
<b>716</b>	<b>4,993</b>	<b>(85.7)</b>	<b>Other operating expenses</b>	<b>5,709</b>	<b>14,429</b>	<b>(60.4)</b>
<b>45,156</b>	<b>48,650</b>	<b>(7.2)</b>	<b>Total</b>	<b>93,806</b>	<b>97,093</b>	<b>(3.4)</b>

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

\*\* PSA refers to production sharing agreement

- Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of producing equipment, labor costs, fuel and electricity costs, activities to enhance oil recovery, and other similar costs at our Upstream subsidiaries
- Upstream expenses at consolidated subsidiaries in Russia increased by 9.2% Y-o-Y due to increased expenses at Brownfields in connection with increased workover operations to support production
- Upstream expenses per toe at consolidated subsidiaries at Brownfields increased by 9.1% Y-o-Y due to:
  - Workover and other enhanced oil recovery activities (fracturing of existing wells)
  - Accelerated transition to electric submersible pump (ESP) rental program
  - Higher natural monopoly rates and inflationary pressures
  - Prices and rates of suppliers increased below inflation level
  - Upstream expenses increased by 3.9% excluding expenses related to fracturing, and an increase in ESP rental program resulted in optimization of capital expenditures
- Upstream expenses at consolidated subsidiaries outside Russia increased by 38.2% Y-o-Y and 20.6% Q-o-Q due to increased production at Iraq (Badra project)
- Upstream expenses at joint operations increased by 11.3% Y-o-Y mainly due to:
  - increase of SPD expenses as a result of transition to electric submersible pump (ESP) rental program and increased expenses for maintaining formation pressure
  - Increase of capital repairs of wells in Tomskneft to support the production level
- Refining expenses at own refineries include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labor and electricity costs, and other similar costs
- Refining expenses per tonne at own refineries decreased by 1.5% Y-o-Y primarily due to:

- Optimized consumption of technical fuel (fuel oil consumption instead of natural gas at Omsk refinery)
- Optimized use of additives and components in diesel treating
- Decrease of refining expenses per tonne was restrained by higher rates for natural monopolies
- Refining expenses per tonne at refineries of subsidiaries declined by 15.3% Q-o-Q due to:
  - Optimized use of additives and components in diesel treating
  - Seasonal reduction in electricity costs
- Refining expenses per tonne at refineries of joint ventures declined by 5.8% Y-o-Y due to a decline in processing cost at Yaroslavl refinery in accordance with legislation on transfer pricing and market conditions
- Transportation expenses to refineries increased by 4.8% Y-o-Y due to 5.8% increase in oil transportation rates partially offset by lower throughput at Moscow and Omsk refineries
- Other operating expenses decreased by 60.4% Y-o-Y mainly due to transfer of operator function to Messoyakha.

### **Selling, General and Administrative Expenses**

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

- Selling, general and administrative expenses increased by 12.4% Y-o-Y, driven by:
  - Higher expenses at foreign subsidiaries due to weakening of Russian ruble
  - Business growth and retail station expansion.

### **Transportation Expenses**

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

- Transportation expenses increased by 1.5% Y-o-Y due to increased export crude oil sales, higher tariffs of natural monopolies, and weakening Russian ruble, which affected transportation costs for crude and oil product exports, which was partially offset by decrease in oil products transportation expenses as a result of sales volumes decline.

### **Depreciation, Depletion and Amortization**

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

- Depreciation, depletion and amortization expenses increase by 20.6% Y-o-Y in line with an increase in depreciable assets driven by investment program implementation.

### **Taxes Other than Income Tax**

2Q	1Q			6m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
62,129	40,599	53.0	Mineral extraction taxes	102,728	139,274	(26.2)
29,665	20,745	43.0	Excise	50,410	33,741	49.4
4,338	4,752	(8.7)	Social security contributions	9,090	7,982	13.9
2,390	4,514	(47.1)	Other taxes	6,904	6,740	2.4
<b>98,522</b>	<b>70,610</b>	<b>39.5</b>	<b>Total taxes other than income tax</b>	<b>169,132</b>	<b>187,737</b>	<b>(9.9)</b>

- Taxes other than income tax declined by 9.9% Y-o-Y. Excise tax expenses increased 49.4% due to higher base tax rate, partly offset by 26.2% Y-o-Y MET decrease due to decline in oil prices.
- Taxes other than income tax increased by 39.5% Q-o-Q due to MET and excise tax rate increase in 2Q 2016.



### Share of Profit of Equity Accounted Investments

2Q	1Q			6m		
2016	2016	Δ, %	(RUB million)	2016	2015	Δ, %
4,871	3,358	45.1	Slavneft	8,229	8,192	.5
4,063	2,320	75.1	SeverEnergia (Arcticgas)	6,383	6,756	(5.5)
1,373	46	2,884.8	Other companies	1,419	2,317	(38.8)
<b>10,307</b>	<b>5,724</b>	<b>80.1</b>	<b>Share of profit of associates and joint ventures</b>	<b>16,031</b>	<b>17,265</b>	<b>(7.1)</b>

- Share of Slavneft profit increased Q-o-Q mainly due to foreign exchange gain
- Share of SeverEnergia (Arcticgas) profit decreased by 5.5% Y-o-Y. A decline in profit due to increased depreciation and financial expenses as a result of fixed assets put in use resulting in a decrease of interest capitalized.

### Other income and expenses

- Other expenses increased Q-o-Q due to recognition of impairment provision for advances and non-current assets. Other income in 2015 resulted from writing off Company's RUB 16.1 billion share in liability at Tomskneft.

### Other Financial Items

- Foreign exchange gains/losses were mainly due to revaluation of portion of Group debt portfolio that is denominated in foreign currencies.

### Liquidity and Capital Resources

#### Cash Flows

(RUB million)	6m		
	2016	2015	Δ %
Net cash provided by operating activities	145,795	143,998	1.2
Net cash used in investing activities	(115,298)	(161,193)	(28.5)
Net cash (used in) / provided by financing activities	(59,182)	18,136	-
<b>(Decrease) / Increase in cash and cash equivalents</b>	<b>(28,685)</b>	<b>941</b>	<b>-</b>

#### Net Cash Provided by Operating Activities

(RUB million)	6m		
	2016	2015	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	162,302	153,305	5.9
Net changes in working capital	12,933	14,914	(13.3)
Income tax paid	(12,166)	(12,726)	(4.4)
Interest paid	(19,248)	(13,314)	44.6
Dividends received	1,974	1,819	8.5
<b>Net cash provided by operating activities</b>	<b>145,795</b>	<b>143,998</b>	<b>1.2</b>

- Net cash provided by operating activities increased by 1.2% Y-o-Y primarily due to operating profit increase and dividends received from joint ventures.

#### Net Cash Used in Investing Activities

(RUB million)	6m		
	2016	2015	Δ %
Capital expenditures	(166,398)	(148,084)	12.4
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(738)	303	-
Net changes in deposits	48,439	15,825	206.1
Net changes in loans issued	(3,095)	(32,732)	(90.5)
Other transactions	6,494	3,495	85.8
<b>Net cash used in investing activities</b>	<b>(115,298)</b>	<b>(161,193)</b>	<b>(28.5)</b>

- Net cash used in investing activities decreased by 28.5% Y-o-Y due to:
  - Growth of cash inflow from returned deposits
  - Growth of cash inflow from loan repayments.

### **Net Cash Used in Financing Activities**

(RUB million)	6m		
	2016	2015	Δ %
Net changes in debt	(59,104)	20,763	-
Payment of dividends to shareholders	(3)	(2,395)	(99.9)
Other transactions	(75)	(232)	(67.7)
<b>Net cash (used in) / provided by financing activities</b>	<b>(59,182)</b>	<b>18,136</b>	<b>-</b>

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

### **Capital Expenditure**

(RUB million)	6m		
	2016	2015	Δ, %
Exploration and production	115,727	105,704	9.5
Consolidated subsidiaries	107,799	97,011	11.1
Joint operations	7,928	8,693	(8.8)
Refining	11,482	9,358	22.7
Marketing and distribution	2,244	5,059	(55.6)
Others	4,326	6,630	(34.8)
<b>Subtotal capital expenditures</b>	<b>133,779</b>	<b>126,751</b>	<b>5.5</b>
Change in advances issued and material used in capital expenditures	32,619	21,333	52.9
<b>Total capital expenditures</b>	<b>166,398</b>	<b>148,084</b>	<b>12.4</b>

- Capital expenditures for Exploration and Production increased 9.5% Y-o-Y primarily due to
  - Construction of major infrastructure for Novoport
  - Construction of gas utilization facilities at major fields and in Orenburg region.

### **Debt and Liquidity**

(RUB million)	June 30, 2016	December 31, 2015
Short-term loans and borrowings	106,581	147,319
Long-term loans and borrowings	602,766	670,779
Cash and cash equivalents	(79,134)	(114,198)
Short-term deposits	(1,034)	(49,206)
<b>Net debt</b>	<b>629,179</b>	<b>654,694</b>
Short-term debt / total debt, %	15.0	18.0
Net debt / EBITDA ttm	1.81	1.90

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds, and other instruments
- Average debt maturity remained unchanged at June 30, 2016 from December 31, 2015 level of 3.33 years
- Average interest rate increased from 4.31 % at December 31, 2015 to 4.86% at June 30, 2016.

## Financial Appendix

### EBITDA Reconciliation

2Q 2016	1Q 2016	Δ, %	(RUB million)	6m		Δ, %
				2016	2015	
<b>50,155</b>	<b>41,592</b>	<b>20.6</b>	<b>Profit for the period</b>	<b>91,747</b>	<b>113,204</b>	<b>(19.0)</b>
9,511	8,281	14.9	Total income tax benefit / (expense)	17,792	22,305	(20.2)
8,714	9,724	(10.4)	Finance expense	18,438	13,738	34.2
(2,717)	(2,547)	6.7	Finance income	(5,264)	(6,946)	(24.2)
27,315	27,989	(2.4)	Depreciation, depletion and amortization	55,304	45,867	20.6
(13,815)	(2,295)	502.0	Net foreign exchange gain / (loss)	(16,110)	743	-
16,421	657	2,399.4	Other (loss) / gain, net	17,078	(13,142)	-
<b>95,584</b>	<b>83,401</b>	<b>14.6</b>	<b>EBITDA</b>	<b>178,985</b>	<b>175,769</b>	<b>1.8</b>
(10,307)	(5,724)	80.1	less Share of profit of associates and joint ventures	(16,031)	(17,265)	(7.1)
21,889	18,688	17.1	add Share of EBITDA of equity accounted investments	40,577	41,262	(1.7)
<b>107,166</b>	<b>96,365</b>	<b>11.2</b>	<b>Adjusted EBITDA</b>	<b>203,531</b>	<b>199,766</b>	<b>1.9</b>

### Financial ratios

#### Profitability

	June 30, 2016	June 30, 2015	Δ, p.p.
Adjusted EBITDA margin, %	29.01	27.94	1.1
Net profit margin, %	13.08	15.83	(2.8)
Return on assets (ROA), %	4.05	7.59	(3.5)
Return on equity (ROE), %	7.37	13.03	(5.7)
Adjusted Return on average capital employed (ROACE), %	12.10	14.38	(2.3)

#### Adjusted ROACE calculation

	June 30, 2016	June 30, 2015
<b>For 12 months preceding</b>		
Adjusted EBITDA	408,578	363,997
Depreciation, depletion and amortization	(136,659)	(110,285)
Effective income tax charge on EBIT	(51,176)	(40,284)
<b>Adjusted EBIT*</b>	<b>220,743</b>	<b>213,428</b>
<b>Average capital employed</b>	<b>1,824,387</b>	<b>1,484,555</b>
<b>Adjusted ROACE</b>	<b>12.10</b>	<b>14.38</b>

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

#### Liquidity

	June 30, 2016	June 30, 2015	Δ, %
Current ratio	1.32	1.62	(18.8)
Quick ratio	0.67	0.83	(19.3)
Cash ratio	0.31	0.42	(27.2)

## Leverage

	June 30, 2016	June 30, 2015	Δ, p.p.
Net debt/ Total Assets, %	25.41	20.40	5.0
Net debt/ Equity, %	47.08	36.53	10.5
Gearing, %	32.05	29.54	2.5
			Δ, %
Net debt/ Market Capitalization	0.83	0.70	17.8
Net debt/ EBITDA	1.81	1.44	25.8
Total debt/ EBITDA	2.04	1.82	12.1

## Main Macroeconomic Factors Affecting Results of Operations

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

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

## Changes in Market Prices of Crude Oil and Petroleum Products

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

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

The sharp drop in crude oil and petroleum product prices in the international markets in six months 2016 negatively affected Group results, but the oil price declines were largely offset by changes in the exchange rate for the US dollar relative to the Russian ruble.

2Q 2016	1Q 2016	Δ, %		6m 2016	2015	Δ, %
			<b>International market</b>	<b>(US\$/ barrel)</b>		
45.59	33.94	34.3	Brent	39.81	57.84	(31.2)
43.83	32.19	36.2	Urals Spot (average Med + NWE)	38.06	57.26	(33.5)
				<b>(US\$/ tonne)</b>		
503.24	386.04	30.4	Premium gasoline (average NWE)	445.11	608.90	(26.9)
391.65	312.03	25.5	Naphtha (average Med. + NWE)	352.16	489.85	(28.1)
412.96	313.21	31.8	Diesel fuel (average NWE)	363.48	553.96	(34.4)
405.70	307.26	32.0	Gasoil 0.2% (average Med.)	356.87	539.20	(33.8)
192.07	127.55	50.6	Fuel oil 3.5% (average NWE)	160.07	290.43	(44.9)
			<b>Domestic market</b>	<b>(RUB/ tonne)</b>		
35,303	31,669	11.5	High-octane gasoline	33,486	30,382	10.2
31,243	26,126	19.6	Low-octane gasoline	28,684	26,767	7.2
26,682	25,970	2.7	Diesel fuel	26,326	28,381	(7.2)
5,523	3,451	60.0	Fuel oil	4,487	7,916	(43.3)

Sources: Platts (international), Kortes (domestic)

## Ruble vs. US Dollar Exchange Rate and Inflation

The Group's presentation currency is the Russian ruble. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates, which for most entities is the Russian ruble.

2Q 2016	1Q 2016		6m 2016	2015
1.2	2.1	Change in Consumer Price Index (CPI), %	3.3	8.4
65.89	74.63	Average RUB/US\$ exchange rate for the period	70.26	57.40
67.61	72.88	US\$/ RUB exchange rate as of the beginning of the period	72.88	56.26
64.26	67.61	US\$/ RUB exchange rate as of the end of the period	64.26	55.52
(0.05)	(0.07)	Depreciation (appreciation) of Russian rouble to US\$, %	(0.12)	(0.01)

## Hydrocarbon taxes

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

2Q 2016	1Q 2016	Δ, %		6m 2016	2015	Δ, %
			<b>Export customs duty</b>			
						<b>(US\$/ tonne)</b>
67.17	54.93	22.3	Crude oil	61.05	130.10	(53.1)
26.83	21.97	22.2	Light petroleum products	24.40	62.38	(60.9)
26.83	21.97	22.2	Diesel	24.40	62.38	(60.9)
40.90	33.47	22.2	Gasoline	37.18	101.44	(63.3)
47.63	38.97	22.2	Naphtha	43.30	110.53	(60.8)
55.03	45.00	22.3	Heavy petroleum products	50.02	98.85	(49.4)
			<b>Mineral extraction tax</b>			
6,136	4,076	50.5	Crude oil (RUB/ tonne)	5,106	6,972	(26.8)

### Crude oil and petroleum products export duty rates

Resolution of the Russian Government # 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 oil products.

#### Crude oil export customs duty rate

a) According to Russian Federal Law # 5003-1 (May 21, 1993) clause 3.1. subclause 4, amended by Russian Federal Law # 366-FZ (November 24, 2014) export custom duty rates should not exceed the marginal export duty rates calculated according to the following formulas:

Quoted Urals price (P), USD/ tonne	Maximum Export Custom Duty Rate
≤109.50	0%
109.50 < P ≤ 146.00	35.0% x(P - 109.50)
146.00 < P ≤ 182.50	12.78 + 45.0% x (P - 146.00)
	29.20 + 42.0% x (P - 182.50) for 2015
	29.20 + 42.0% x (P - 182.50) for 2016
>182.50	29.20 + 30.0% x (P - 182.50) for 2017

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

b) Under Federal Law # 239-FZ (December 3, 2012) the Government of the Russian Federation established formulas for lower customs duty rates for crude oil that meets certain chemical and physical conditions, identified by the codes TN VED TS 2709 00 900 1 and 2709 00 900 3. According to Russian Government Resolution # 276 (March 29, 2013) these lower duty rates are calculated based on the average Urals price in the monitoring period using the following formula:

$$Ct = (P - 182.5) * K - 56.57 - 0.14 * P$$

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

Resolution of the Russian Government # 846 (September 26, 2013) sets the rules for applying specific crude oil export duty rates and monitoring their use in respect of Group investment projects in Sakha Republic (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai, and Yamalo-Nenets Autonomous Okrug north of Latitude 65°.

Order # 868 (December 3, 2013) of the Ministry of Energy establishes the application form and methodology to analyze the applicability of these special rates for crude oil.

c) Under Federal Law # 5003-1 (May 12, 1993) "Custom tariffs" crude oil produced from new offshore fields is exempted from export duties until:

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

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

#### Export customs duty rate on petroleum products

In accordance with clause 3.1 of Russian Federal Law # 5003-1 (May 21, 1993) the export customs duty rate on petroleum products is determined by the Government. Petroleum products exported to Kazakhstan, Belarus and Kyrgyzstan are not subject to customs duties. Exports of petroleum products to Tadzhikistan and Armenia within the indicative limits are not subject to customs duties from November 13, 2013 and January 19, 2015 respectively.

According to Resolution of the Russian Government # 276 (March 29, 2013) the export customs duty rate on petroleum products is calculated using the following formula:

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

The coefficients K for different petroleum products are as follows:

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

## Excise duties on petroleum products

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

Tax Code RF clause 193 (amended by Russian Federal Law # Law # 34-FZ February 29, 2016) established the following excise duty rates for petroleum products (in rubles/tonne):

	2015	2016 01.01-31.03	2016 01.04-31.12	from 2017
<b>Gasoline</b>				
Below Class 5	7,300	10,500	13,100	12,300
Class 5	5,530	7,530	10,130	7,430
Naphtha	11,300	10,500	13,100	12,300
Diesel fuel	3,450	4,150	5,293	5,093
Heating oil	3,000	4,150	5,293	5,093
Motor oil	6,500	6,000	6,000	5,400
Middle distillate	-	4,150	5,293	5,093

## Mineral extraction tax (MET) on crude oil

a) According to Russian Federation Tax code clause 193 the mineral extraction tax rate on crude oil (R) is calculated using the following general formula:

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

$Dm = Kmet \times Kc \times (1 - Kv \times Kz \times Kd \times Kdv \times Kkan)$ , where

$Kmet$  – 530 for 2015 FY, 559 starting from 2016 FY.

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

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

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

$Kd$  characterizes the effort required to recover oil. It varies between 0.2 and 1 depending on recovery complexity from the deposit as follows:

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

$Kdv$  characterizes the degree of depletion of the deposit, providing lower tax rates for highly depleted deposits. Depletion is measured by  $Ndv/Vdv$ , where  $Ndv$  is cumulative production volume from the deposit and  $Vdv$  is total

initial reserves (total reserves categories 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 areas containing deposits for which the coefficient Kd is less than 1, the coefficient Kdv for all other deposits in the area (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)). Coefficient Kkan is set at 0 until the first day of the month following the month when one of the following conditions is met: (1) Achieving maximum cumulative stipulated production from the field; (2) Expiration of the stipulated term. When the tax exemption term expires Kkan is equal to 1.

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

- 30% from start of commercial hydrocarbon production until a five-year termination period, but not later than 31 March 2022 – for fields located entirely in the Sea of Azov or for fields located more than 50% in the Baltic Sea
- 15% from start of commercial hydrocarbon production until a seven-year termination period, but not later than 31 March 2032 – for fields located more than 50% in the Black Sea (at water depths less than 100 meters), the Sea of Japan, Pechora Sea, White Sea, Sea of Okhotsk (south of 55° N), Caspian Sea
- 10% from start of commercial hydrocarbon production until a ten-year termination period, but not later than 31 March 2037 – for fields located more than 50% in the Sea of Okhotsk (north of 55° N), Black Sea (at depths exceeding 100 meters), Barents Sea (south of 72° N)
- 5% from start of commercial hydrocarbon production until a 15-year termination period, but not later than 31 March 2042 – for fields located more than 50% in the Kara Sea, Barents Sea (north of 72° N), and eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea).

Russian Federation tax law also provides for a zero rate of MET on oil produced from deposits classified in the state mineral reserves balance as related to the Bazhenov formation, provided all other Tax Code conditions are met.

#### Group effective MET rate

2Q 2016	1Q 2016	Δ, %		6m		Δ, %
				2016	2015	
6,136	4,076	50.5	Nominal crude oil MET rate, RUB/tonne	5,106	6,972	(26.8)
5,600	3,749	49.4	Effective crude oil MET rate, RUB/tonne	4,676	6,545	(28.6)
			Difference between nominal and effective rates, RUB/tonne	430	427	
			Difference between nominal and effective rates, %	8.4%	6.1%	
536	327					
8.7%	8.0%					

In 6 months 2016 the Group's effective MET rate was 4,676 RUB/tonne, or 430 RUB/tonne lower than the nominal MET rate established in Russian legislation. The difference results from the application of certain factors (Kv, Kz, Kd and Kkan) that reduce the MET rate.

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

Russian Federation Tax Code clause 342 established mineral extraction tax rates for natural gas and gas condensate as follows:

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

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



**Kc** characterizes the effort required to recover hydrocarbons from the particular deposit. The coefficient is designed to reduce the tax rate on natural gas and gas condensate and is equal to the lowest of the following concessionary coefficients: Kr – depending on location, Kvg – for highly 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 Federal Tariff Service of the Russian Federation).

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

### Tax concessions

Under effective tax legislation Group subsidiaries apply the following tax concessions (including lower tax rates and coefficients that reduce the MET rate):

#### Tax concessions applied during 6 m 2016

##### MET for Gas

Hard-to-recover factor Kc

#### Subsidiaries (oil fields) belonging to the Group

LLC Gazpromneft -Yamal  
LLC Gazpromneft Orenburg

##### MET for Oil

Small fields factor Kz

OJSC Gazpromneft-Noyabrskneftegaz  
LLC Gazpromneft Orenburg

Depletion factor Kv

OJSC Gazpromneft-Noyabrskneftegaz  
LLC Gazpromneft-Vostok  
JSC Yuzhuralneftegas

Hard-to-recover factor Kd

OJSC Gazpromneft-Noyabrskneftegaz  
LLC Gazpromneft-Vostok  
LLC Zapolyarneft  
LLC Gazpromneft-Khantos

Oil production region and oil quality factor Knan

LLC Gazpromneft-Angara  
LLC Gazpromneft-Yamal

Zero MET rate for fields classified as belonging to Bazhenov formation

LLC Gazpromneft-Khantos

Lower MET rate for new offshore fields in the Pechora Sea

LLC Gazpromneft-Shelf

##### Profit tax

16% rate (4% concession under regional legislation of Khanty–Mansiysk Autonomous Okrug)

LLC Gazpromneft-Khantos  
OJSC Gazpromneft-Noyabrskneftegaz

15.5% rate (4.5% concession under regional legislation of Yamalo-Nenets Autonomous Okrug)

OJSC Gazpromneft-Noyabrskneftegaz  
LLC Zapolyarneft

19.3% rate (0.7% concession under regional legislation of Tumen)

LLC Gazpromneft-Khantos

15.5% rate (4.5% concession under regional legislation of Saints-Petersburg)	<p>PJSC Gazpromneft JSC Gazpromneft Aero LLC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft-Business Service LLC Gazpromneft-Regionalnie prodazhi LLC Gazpromneft-Marin Bunker</p>
<b>Property tax</b>	
Exemption from property tax for investment projects in Khanty–Mansiysk Autonomous Okrug under applications filed before January 1, 2011 (under regional legislation of Khanty–Mansiysk Autonomous Okrug)	<p>LLC Gazpromneft-Khantos</p>
1.1% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under regional legislation of Yamalo-Nenets Autonomous Okrug)	<p>OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft</p>
Exemption from property tax for investment projects in Orenburg region (under Orenburg regional legislation)	<p>LLC Gazpromneft Orenburg</p>

## Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are established by the state authorities to ensure a balance between the interests of the state and all participants in the transportation process. Transportation tariffs for natural monopolies are set by the Federal Tariff Service of the Russian Federation (FTS). Tariffs are dependent on transport destination, delivery volume, transportation distance, and several other factors. Changes in tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, investment needs of the owners of transportation infrastructure, other macroeconomic factors, and compensation of economically reasonable expenses incurred by entities of natural monopolies. Tariffs are to be revised by FTS at least annually, and comprise dispatch, loading, transshipment, pumping, and other tariffs.

The following table shows average transportation costs per tonne for the Group's crude oil for export and use at its refineries, as well as costs per tonne for transportation of its petroleum products from refineries for export:

2Q	1Q			6m		
2016	2016	Δ, %	(RUB per tonne)	2016	2015	Δ, %
<b>Crude oil</b>						
Export						
1,530	1,492	2.6	Pipeline	1,511	1,709	(11.6)
CIS						
1,532	1,466	4.5	Pipeline	1,499	1,182	26.8
Transportation to Refineries						
669	678	(1.3)	Omsk	673	444	51.6
1,503	1,287	16.8	Moscow	1,395	1,117	24.9
1,205	1,224	(1.6)	Yaroslavl	1,215	1,027	18.3
<b>Petroleum products</b>						
Export from ONPZ						
1,496	1,942	(23.0)	Gasoline	1,719	2,771	(38.0)
5,644	4,780	18.1	Fuel oil	5,212	4,528	15.1
5,368	4,532	18.4	Diesel fuel	4,950	4,190	18.2
Export from MNPZ						
1,786	2,016	(11.4)	Gasoline	1,901	1,901	-
3,579	2,971	20.5	Fuel oil	3,275	2,369	38.2
1,532	2,005	(23.6)	Diesel fuel	1,769	1,971	(10.2)
Export from YaNPZ						
1,552	1,507	3.0	Gasoline	1,529	1,388	10.2
1,539	1,651	(6.8)	Fuel oil	1,595	1,826	(12.6)
1,645	1,515	8.6	Diesel fuel	1,580	1,744	(9.4)

The Group's crude oil export route mix (tonnes) in 6 months 2016 and 6 months 2015 is presented below:

	6m	
	2016	2015
<b>Crude oil export</b>		
Primorsk Baltic Sea port	8.4%	5.5%
Druzhba pipeline	14.2%	15.4%
Port of Novorossiysk	36.0%	36.4%
ESPO pipeline and the port of Kozmino	18.2%	37.2%
Exported without using Transneft system, including:	23.2%	5.5%
Prirazlomnoye	14.0%	3.7%
Novoport	9.2%	1.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Crude oil export to CIS countries</b>		
Belarus	98.3%	95.2%
Uzbekistan	1.7%	4.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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