

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended June 30 and March 31, 2018 and the six
months June 30, 2018 and 2017**

Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of June 30, 2018 and results of operations for the three months ended June 30 and March 31, 2018 and the six months ended, June 30, 2018 and 2017 and should be read in conjunction with the Consolidated Financial Statements and notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

Forward-looking statements

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

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

Key financial and operating data

2Q 2018	1Q 2018	Δ, %		6 months		
				2018	2017	Δ, %
Financial results (RUB million)						
617,103	520,633	18.5	Revenue	1,137,736	914,332	24.4
212,403	155,797	36.3	Adjusted EBITDA*	368,200	245,807	49.8
9,349	7,018	33.2	RUB per toe of production	8,197	5,584	46.8
20.40	16.65	22.5	USD** per boe of production	18.63	12.99	43.4
96,810	69,665	39.0	Profit attributable to Gazprom Neft shareholders	166,475	111,269	49.6
Operational results						
168.51	164.55	2.4	Hydrocarbon production including our share in joint ventures (MMboe)	333.06	326.37	2.0
22.72	22.20	2.3	Hydrocarbon production including our share in joint ventures (MMtoe)	44.92	44.02	2.0
1.85	1.83	1.3	Daily hydrocarbon production (MMboepd)	1.84	1.80	2.0
116.43	112.39	3.6	Crude oil and condensate production including our share in joint ventures (MMbbl)	228.82	230.00	(0.5)
312.50	312.94	(0.1)	Gas production including our share in joint ventures (bcf)	625.44	578.30	8.2
10.44	10.13	3.1	Refining throughput at own refineries and joint ventures (MMtonnes)	20.57	18.73	9.8

* 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

2018 highlights

- Obtained exploration and production licenses for:
 - Osenniy block in Yamalo-Nenets Autonomous Okrug (Arcticgas)
 - Banatsko Miloshevo block in Serbia (NIS)
 - Novozarinskoye field in Orenburg region (upon field discovery)
- Received exploration licenses for 6 new licence blocks in Khanty-Mansiysk Autonomous Okrug (Karabashskiy 17, Karabashskiy 18, Karabashskiy 19, Karabashskiy 25, Karabashskiy 26, Karabashskiy 27), 2 new licence blocks in Yamalo-Nenets Autonomous Okrug (Yuzhno-Portovskiy and Suroviy) and 2 new licence blocks in Orenburg region (Savitskiy and Pohvistnevskiy)
- In March 2018 the Group increased its share in Arcticgas from 46,67% to 50%
- In May 2018 started exploration drilling at Severo-Samburg project
- In May 2018 completed drilling of all exploration wells scheduled under Badra service contract
- In March 2018 the Group placed ruble bonds with total par value of RUB 25 billion
- In June 2018 launched icebreaker Alexander Sannikov.

Results for 6 months 2018 compared with 6 months 2017

- Total hydrocarbon production, including Group's share in joint ventures, increased by 2.0% to 44.92 MMtoe due to production growth at Novoportovskoye, East-Messoyakhskoye fields and increase of Group's share in Arcticgas
- Total refining throughput increased by 9.8% due to planned capital repairs at Group refineries in 1H 2017
- Revenue increased by 24.4% mainly due to higher prices for crude oil on the international and domestic markets
- Higher crude oil prices, production growth at major fields (Novoportovskoye and East-Messoyakhskoye), higher refining effectiveness have resulted in a 49.8% increase in an adjusted EBITDA
- Growth of profit attributable to Gazprom Neft shareholders, supported by growth of EBITDA was partially restricted by foreign exchange losses in 6 months 2018.

Results for Q2 2018 compared with Q1 2018

- Total hydrocarbon production, including Group's share in joint ventures, increased by 2.3% due to higher production in Iraq and increased Group's share in Arcticgas
- Refining throughput increased by 3.1% Q-o-Q due to planned capital repair at refinery in Yaroslavl and Panchevo in 1Q 2018. The Group optimized refining throughput at Omsk and Moscow refineries relative to crude oil and petroleum product prices and demand
- Revenue increased by 18.5% mainly due to higher prices for crude oil on the domestic and international markets
- Higher prices for crude oil, increased production and refining effectiveness have resulted in a 36.3% increase in adjusted EBITDA
- Growth of profit attributable to Gazprom Neft shareholders, supported by growth of EBITDA was partially restricted by foreign exchange losses in 2Q 2018.

Operational data and analysis

Production drilling

2Q 2018	1Q 2018	Δ, %		6 months		Δ, %
				2018	2017	
Consolidated subsidiaries						
568	457	24.3	Production drilling ('000 meters)	1,025	1,199	(14.5)
126	117	7.7	New production wells	243	296	(17.9)
62.98	92.18	(31.7)	Average new well flow (tonnes per day)	71.05	59.15	20.1
Joint operations						
186	169	10.1	Production drilling ('000 meters)	355	399	(11.0)
43	28	53.6	New production wells	71	85	(16.5)
Joint ventures						
436	351	24.2	Production drilling ('000 meters)	786	705	11.5
87	70	24.3	New production wells	157	150	4.7

- Decrease in production drilling and number of new production wells drilled by consolidated subsidiaries Y-o-Y was due to increased number of high-tech wells and a decline of workover operations under OPEC+ production cut agreement
- Increase in average new well flow rate by consolidated subsidiaries Y-o-Y was due to the increased number of high-tech wells at Proibskoye field and commissioning of high flow rate wells at Novoportovskoye and Prirazlomnoye fields
- Increase in share of high-tech well drilling resulted in the Y-o-Y decrease of total new wells drilled by joint operations
- Increase in production drilling and new wells by joint ventures Y-o-Y was due to continued development of East-Messoyakhskoye field
- Increase in production drilling and new wells Q-o-Q was due to seasonal factors
- Decrease in average new well flow rate by consolidated subsidiaries Q-o-Q was due to a decrease of high flow rate wells at Novoportovskoye and Prirazlomnoye fields.

Production

2Q 2018	1Q 2018	Δ, %		6 months				
				2018	2017	Δ, %		
(MMtonnes)			Crude oil, condensate and NGLs			(MMtonnes)		
2.70	2.57	5.1	Noyabrskneftegaz	5.27	5.96	(11.6)		
3.47	3.45	0.6	Khantos***	6.92	7.09	(2.4)		
1.06	1.05	1.0	Tomskneft	2.11	2.32	(9.1)		
0.76	0.74	2.7	SPD	1.50	1.52	(1.3)		
0.68	0.63	7.9	Orenburg****	1.31	1.40	(6.4)		
0.24	0.23	4.3	NIS	0.47	0.48	(2.1)		
0.41	0.40	2.5	Vostok**	0.81	0.82	(1.2)		
1.61	1.72	(6.4)	Novy Port	3.33	2.67	24.7		
0.90	0.78	15.4	Prirazlomnoye	1.68	1.62	3.7		
0.43	0.33	30.3	Badra & Kurdistan	0.76	0.60	26.7		
0.02	0.04	(50.0)	Others	0.06	0.05	20.0		
12.28	11.94	2.8	Total production by subsidiaries and joint operations	24.22	24.53	(1.3)		
1.71	1.64	4.3	Share in Slavneft	3.35	3.62	(7.5)		
1.01	0.92	9.8	Share in Arcticgas (SeverEnergiya)	1.93	1.83	5.5		
0.08	0.08	-	Share in Northgas	0.16	0.19	(15.8)		
0.54	0.50	8.0	Share in Messoyakha	1.04	0.70	48.6		
3.34	3.14	6.4	Share in production of joint ventures	6.48	6.34	2.2		
15.62	15.08	3.6	Total crude oil, condensate and NGLs	30.70	30.87	(0.6)		
(bcm)			Gas*			(bcm)		
2.24	2.31	(3.0)	Noyabrskneftegaz	4.55	5.22	(12.8)		
0.27	0.27	-	Khantos***	0.54	0.56	(3.6)		
0.21	0.25	(16.0)	Tomskneft	0.46	0.45	2.2		
0.03	0.03	-	SPD	0.06	0.06	-		
0.63	0.66	(4.5)	Orenburg****	1.29	1.27	1.6		
0.12	0.12	-	NIS	0.24	0.26	(7.7)		
0.04	0.04	-	Vostok	0.08	0.07	14.3		
0.78	0.88	(11.4)	Novy Port	1.66	0.06	>200		
0.08	0.06	33.3	Others	0.14	0.03	>200		
4.40	4.62	(4.8)	Total production by subsidiaries and joint operations	9.02	7.98	13.0		
0.11	0.11	-	Share in Slavneft	0.22	0.23	(4.3)		
3.42	3.17	7.9	Share in Arcticgas (SeverEnergiya)	6.59	6.04	9.1		
0.90	0.94	(4.3)	Share in Northgas	1.84	2.11	(12.8)		
0.02	0.02	-	Share in Messoyakha	0.04	0.02	100.0		
4.45	4.24	5.0	Share in production of joint ventures	8.69	8.40	3.5		
8.85	8.86	(0.1)	Total gas production	17.71	16.38	8.1		
(MMtoe)			Hydrocarbons			(MMtoe)		
15.81	15.65	1.0	Total production by subsidiaries and joint operations	31.46	30.94	1.7		
6.91	6.55	5.5	Share in production of joint ventures	13.46	13.08	2.9		
22.72	22.20	2.3	Total hydrocarbon production	44.92	44.02	2.0		
168.51	164.55	2.4	MMtoe	333.06	326.37	2.0		
1.85	1.83	1.1	MMboe	1.84	1.80	2.2		
			Daily hydrocarbon production (MMboepd)					

* Production volume includes marketable gas and gas utilized in the Company's power plants

** Khantos oil production in 2016-2017 includes NGL in the share of Gazprom Neft (50%). Associated gas utilization excludes gas used for NGL production at UGPZ (50%)

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

**** Vostok oil production since 2017 includes DGS. Associated gas utilization excludes gas used for DGS

- Group daily hydrocarbon production increased by 2.2% Y-o-Y

- Group oil and condensate production decreased by 0.6% Y-o-Y to 30.70 MMtonnes in line with OPEC+ agreement regarding oil cut
- The increase of Group oil and condensate production by 3.6% Q-o-Q was due to increased production in Iraq, increased Group's share in Arcticgas and higher number of days in 2Q 2018
- Group gas production increased by 8.1% Y-o-Y, primarily due to the increase in associated gas utilization resulted from gas processing facility commissioning at Novoportovskoye field, higher natural gas production in Arcticgas and increased Group's share in Arcticgas
- Group's natural gas production decreased by 0.1% Q-o-Q, primarily due to planned repairs of gas processing facility at Novoportovskoye, Muravlenkovskoye fields in Orenburg region. The decrease was partially offset by increased Group's share in Arcticgas.

Crude oil purchases

2Q 2018	1Q 2018	Δ, %	(MMtonnes)	6 months		
				2018	2017	Δ, %
1.86	1.94	(4.1)	Crude oil purchases in Russia *	3.80	3.65	4.1
0.38	0.17	123.5	Crude oil purchases internationally	0.55	0.68	(19.1)
2.24	2.11	6.2	Total crude purchased	4.35	4.33	0.5

* Crude oil purchases in Russia:

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

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

- Crude oil purchases in Russia increased Y-o-Y due to higher production at subsidiaries's refineries and decrease in own production in line with OPEC limits
- Crude oil purchases at international markets increased Q-o-Q due to increased production at Pancevo.

Refining

2Q 2018	1Q 2018	Δ, %	(MMtonnes)	6 months		
				2018	2017	Δ, %
Refining throughput:						
5.18	4.94	4.9	Omsk	10.12	9.79	3.4
2.44	2.64	(7.6)	Moscow	5.08	3.71	36.9
0.84	0.71	18.3	Pancevo	1.55	1.53	1.3
8.46	8.29	2.1	Total throughput at refineries owned by subsidiaries	16.75	15.03	11.4
1.98	1.84	7.6	Share in Yaroslavl	3.82	3.70	3.2
-	-	-	Share in Mozyr	-	-	-
10.44	10.13	3.1	Total refining throughput	20.57	18.73	9.8
Production of petroleum products						
2.24	2.13	5.2	Gasoline	4.37	3.94	10.9
2.24	2.13	5.2	Class 5	4.37	3.94	10.9
0.47	0.53	(11.3)	Naphtha	1.00	0.64	56.3
3.02	2.93	3.1	Diesel	5.95	5.34	11.4
0.03	0.02	50.0	Class 2 and below	0.05	0.06	(16.7)
2.99	2.91	2.7	Class 5	5.90	5.28	11.7
1.26	1.55	(18.7)	Fuel oil	2.81	2.60	8.1
0.89	0.77	15.6	Jet fuel	1.66	1.42	16.9
0.69	0.55	25.5	Bunker fuel	1.24	1.36	(8.8)
0.85	0.52	63.5	Bitumen	1.37	1.02	34.3
0.12	0.12	-	Lubricants	0.24	0.22	9.1
0.63	0.60	5.0	Other	1.23	1.45	(15.2)
10.17	9.70	4.8	Total production	19.87	17.99	10.5

- Total throughput increased by 9.8% Y-o-Y due to planned capital repairs at Group refineries in 1H 2017

- Refining throughput increased by 3.1% Q-o-Q due to planned capital repair at refinery in Yaroslavl and Panchevo in 1Q 2018. The Group optimized refining throughput at Omsk and Moscow refineries relative to crude oil and petroleum product prices and demand
- High-octane gasoline, diesel, jet fuel, bunker fuel, bitumen production increased due to seasonal factors
- High-octane gasoline and diesel production increased by 10.9% and 11.4% Y-o-Y respectively due to higher throughput at Moscow refinery as there were no modernization or capital repairs in 1H 2018
- The jet fuel production increased by 16.9% Y-o-Y due to higher crude oil throughput and increased output at refinery in Yaroslavl resulted from optimization of technical processes
- Bitumen production increased by 34.3% Y-o-Y due to higher demand on domestic market and geographic expansion of export sales.

Petroleum product purchases on international markets

	2Q 2018		1Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	5,428	0.13	2,370	0.07	129.0	85.7
Jet fuel	2,235	0.05	2,791	0.07	(19.9)	(28.6)
Bunker fuel	1,745	0.05	2,789	0.09	(37.4)	(44.4)
Lubricants	318	-	240	-	32.5	-
Total	9,726	0.23	8,190	0.23	18.8	-

	6 months 2018		6 months 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	7,798	0.20	4,441	0.17	75.6	17.6
Jet fuel	5,026	0.12	3,180	0.09	58.1	33.3
Bunker fuel	4,534	0.14	2,031	0.09	123.2	55.6
Lubricants	558	-	405	-	37.8	-
Total	17,916	0.46	10,057	0.35	78.1	31.4

- Diesel purchases on international markets increased Q-o-Q and Y-o-Y due to project development regarding wholesale diesel trading expansion in West Europe
- Jet fuel purchases on international markets increased Y-o-Y due to geographic expansion and higher demand for international flights
- Bunker fuel purchases on international markets increased Y-o-Y due to lower production at own refineries.

Petroleum product purchases in the CIS

	2Q 2018		1Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,805	0.14	1,796	0.06	56.2	133.3
Low octane gasoline	16	-	44	-	(63.6)	-
Diesel	4,163	0.18	2,105	0.07	97.8	157.1
Petrochemicals	220	0.02	227	0.01	(3.1)	100.0
Other	69	0.01	62	-	11.3	-
Total	7,273	0.35	4,234	0.14	71.8	150.0

	6 months 2018		6 months 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	4,601	0.14	2,136	0.07	115.4	100.0
Low octane gasoline	60	-	129	-	(53.5)	-
Diesel	6,268	0.18	2,418	0.09	159.2	100.0
Petrochemicals	447	0.02	328	0.02	36.3	-
Other	131	0.01	186	0.03	(29.6)	(66.7)
Total	11,507	0.35	5,197	0.21	121.4	66.7

- The increase of petroleum product purchases in CIS was due to higher deliveries from local refineries resulted from higher prices for petroleum products from Group's refineries.

Domestic petroleum product purchases

	2Q 2018		1Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	17,651	0.41	13,064	0.36	35.1	13.9
Diesel	9,013	0.22	11,326	0.28	(20.4)	(21.4)
Jet fuel	2,040	0.05	1,095	0.03	86.3	66.7
Bunker fuel	1,459	0.04	705	0.03	107.0	33.3
Bitumen	446	0.04	45	-	>200	-
Petrochemicals	1,040	0.02	267	-	>200	-
Other	1,061	0.01	795	0.05	33.5	(80.0)
Total	32,710	0.79	27,297	0.75	19.8	5.3

	6 months 2018		6 months 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	30,715	0.77	32,531	0.92	(5.6)	(16.3)
Diesel	20,339	0.50	19,619	0.58	3.7	(13.8)
Jet fuel	3,135	0.08	3,906	0.14	(19.7)	(42.9)
Bunker fuel	2,164	0.07	1,684	0.08	28.5	(12.5)
Bitumen	491	0.04	156	0.02	>200	100.0
Lubricants	-	-	176	0.01	-	-
Petrochemicals	1,307	0.02	55	-	>200	-
Other	1,856	0.06	3,802	0.10	(51.2)	(40.0)
Total	60,007	1.54	61,929	1.85	(3.1)	(16.8)

- High-octane gasoline and bitumen purchases increased Q-o-Q due to seasonal factors
- Jet fuel purchases increased Q-o-Q due to higher demand due to FIFA World Cup
- Petroleum product purchases decreased Y-o-Y due to higher production at own refineries.

Petroleum product marketing through premium channels

2Q 2018	1Q 2018	Δ, %		6 months		Δ, %
	(units)			2018	2017	
			Active retail stations		(units)	
1,185	1,199	(1.2)	In Russia	1,185	1,201	(1.3)
192	191	0.5	In CIS	192	189	1.6
416	416	-	In Eastern Europe	416	413	0.7
1,793	1,806	(0.7)	Total retail stations (as at the end of the period)	1,793	1,803	(0.6)
20.50	19.73	3.9	Average daily sales per retail site in Russia (tonnes per day)	20.12	19.07	5.5
	(MMtonnes)		Sales volume through premium channels	(MMtonnes)		
5.05	4.74	6.5	Gasoline and Diesel	9.79	9.25	5.8
0.80	0.66	21.2	Jet	1.46	1.29	13.2
0.70	0.61	14.8	Bunkering	1.31	1.28	2.3
0.08	0.07	14.3	Lubricants	0.15	0.15	-
0.11	0.02	450.0	Bitumen	0.13	0.10	30.0
6.74	6.10	10.5	Total sales volume through premium channels	12.84	12.07	6.4

- The total number of active retail stations decreased by 0.7% Q-o-Q due to reconstruction and repairs of retail stations
- Average daily sales per retail station in Russia increased by 5.5% Y-o-Y due to Group's marketing activities
- Sales volume through premium channels increased Q-o-Q mainly due to seasonal factors

- Gasoline sales through premium channels increased Y-o-Y due to growth of sales to corporate clients
- Jet fuel sales increased Y-o-Y due to higher demand for air carriage in Moscow airports
- Bunker fuel sales increased Y-o-Y due higher demand.

Results of operations

2Q 2018	1Q 2018	Δ, %		6 months		Δ, %
				2018	2017	
600,224	504,355	19.0	Crude oil, gas and petroleum products sales	1,104,579	883,397	25.0
16,879	16,278	3.7	Other revenue	33,157	30,935	7.2
617,103	520,633	18.5	Total revenue*	1,137,736	914,332	24.4
Costs and other deductions						
(143,479)	(122,618)	17.0	Purchases of oil, gas and petroleum products	(266,097)	(226,960)	17.2
(56,672)	(51,500)	10.0	Production and manufacturing expenses	(108,172)	(100,372)	7.8
(28,412)	(24,211)	17.4	Selling, general and administrative expenses	(52,623)	(47,948)	9.8
(34,106)	(36,680)	(7.0)	Transportation expenses	(70,786)	(71,394)	(0.9)
(42,340)	(37,509)	12.9	Depreciation, depletion and amortization	(79,849)	(66,294)	20.4
(166,033)	(141,075)	17.7	Taxes other than income tax	(307,108)	(226,031)	35.9
(20,674)	(21,599)	(4.3)	Export duties	(42,273)	(41,975)	0.7
(186)	(269)	(30.9)	Exploration expenses	(455)	(146)	>200
(491,902)	(435,461)	13.0	Total operating expenses	(927,363)	(781,120)	18.7
125,201	85,172	47.0	Operating profit	210,373	133,212	57.9
25,589	14,768	73.3	Share of profit of associates and joint ventures	40,357	18,710	115.7
(19,939)	(4,378)	>200	Net foreign exchange (loss) / gain	(24,317)	5,705	-
1,082	1,848	(41.5)	Finance income	2,930	5,226	(43.9)
(5,465)	(5,945)	(8.1)	Finance expense	(11,410)	(13,261)	(14.0)
(2,964)	(2,665)	11.2	Other loss, net	(5,629)	(3,379)	66.6
(1,697)	3,628	-	Total other (expense) / income	1,931	13,001	(85.1)
123,504	88,800	39.1	(Loss) / Profit before income tax	212,304	146,213	45.2
(16,835)	(11,106)	51.6	Current income tax (expense)	(27,941)	(20,614)	35.5
(3,675)	(3,549)	3.6	Deferred income tax expense	(7,224)	(7,548)	(4.3)
(20,510)	(14,655)	40.0	Total income tax benefit / (expense)	(35,165)	(28,162)	24.9
102,994	74,145	38.9	(Loss) / Profit for the period	177,139	118,051	50.1
(6,184)	(4,480)	38.0	Less: Profit attributable to non-controlling interest	(10,664)	(6,782)	57.2
96,810	69,665	39.0	Profit attributable to Gazprom Neft	166,475	111,269	49.6

* Revenue include sales related excise tax

Revenues

2Q 2018	1Q 2018	Δ, %		6 months		
				2018	2017	Δ, %
Crude oil						
139,618	117,901	18.4	Export	257,519	209,421	23.0
10,167	6,523	55.9	International markets	16,690	9,839	69.6
9,826	9,505	3.4	Export to CIS	19,331	14,255	35.6
27,487	15,262	80.1	Domestic	42,749	46,171	(7.4)
187,098	149,191	25.4	Total crude oil revenue	336,289	279,686	20.2
Gas						
352	252	39.7	International markets	604	707	(14.6)
8,673	8,636	0.4	Domestic	17,309	18,059	(4.2)
9,025	8,888	1.5	Total gas revenue	17,913	18,766	(4.5)
Petroleum products						
79,432	80,013	(0.7)	Export	159,445	110,375	44.5
39,152	28,279	38.4	International markets	67,431	48,180	40.0
61,431	48,650	26.3	Sales on international markets	110,081	77,567	41.9
(22,279)	(20,371)	9.4	Less sales related excise	(42,650)	(29,387)	45.1
22,884	19,597	16.8	CIS	42,481	34,218	24.1
23,094	19,795	16.7	Export sales and sales in CIS	42,889	34,773	23.3
(210)	(198)	6.1	Less related export duties	(408)	(555)	(26.5)
262,633	218,387	20.3	Domestic	481,020	392,172	22.7
404,101	346,276	16.7	Total petroleum products revenue	750,377	584,945	28.3
16,879	16,278	3.7	Other revenue	33,157	30,935	7.2
617,103	520,633	18.5	Total revenue	1,137,736	914,332	24.4

Sales volumes

2Q 2018	1Q 2018	Δ, %		6 months		
				2018	2017	Δ, %
(MMtonnes)			Crude oil		(MMtonnes)	
4.23	4.29	(1.4)	Export	8.52	9.78	(12.9)
0.32	0.26	23.1	Sales on international markets*	0.58	0.49	18.4
0.40	0.45	(11.1)	Export to CIS	0.85	0.86	(1.2)
1.26	0.89	41.6	Domestic sales	2.15	3.25	(33.8)
6.21	5.89	5.4	Total crude oil sales	12.10	14.38	(15.9)
(bcm)			Gas		(bcm)	
0.02	0.02	-	International markets	0.04	0.07	(42.9)
3.22	3.18	1.3	Domestic sales	6.40	6.97	(8.2)
3.24	3.20	1.3	Total gas sales	6.44	7.04	(8.5)
(MMtonnes)			Petroleum products		(MMtonnes)	
2.30	2.82	(18.4)	Export	5.12	4.83	6.0
0.90	0.76	18.4	Sales on international markets	1.66	1.54	7.8
0.63	0.58	8.6	Export to CIS	1.21	1.12	8.0
7.39	6.66	11.0	Domestic sales	14.05	13.04	7.7
11.22	10.82	3.7	Total petroleum products sales	22.04	20.53	7.4

* Sales on international markets include Production-Sharing Agreements

Average realized sales prices

2Q	1Q			6 months		
2018	2018	Δ, %		2018	2017	Δ, %
(RUB per tonne)			Crude oil	(RUB per tonne)		
33,007	27,483	20.1	Export	30,225	21,413	41.2
24,565	21,122	16.3	Export and sales in CIS	22,742	16,576	37.2
21,815	17,148	27.2	Domestic sales	19,883	14,206	40.0
(RUB per tonne)			Petroleum products	(RUB per tonne)		
34,536	28,373	21.7	Export	31,142	22,852	36.3
36,657	34,129	7.4	Export and sales in CIS	35,445	31,047	14.2
35,539	32,791	8.4	Domestic sales	34,236	30,075	13.8

Crude oil sales

- Crude oil export volumes decreased Q-o-Q due to a shift of sales volumes to domestic market
- Crude oil export volumes decreased Y-o-Y due to an increase in crude oil throughput at own refineries
- Crude oil export sales on international market increased Y-o-Y and Q-o-Q due to a production growth in Iraq
- Domestic crude oil volumes decreased Y-o-Y due to an increase in crude oil throughput at own refineries
- Domestic crude oil volumes increased Q-o-Q due to higher demand for sulfur crude oil and higher efficiency of its deliveries.

Gas sales

- Domestic gas sales decreased by 8.2% Y-o-Y due to decreased natural gas production at Noyabrsk region in line with OPEC agreement regarding production oil cut.

Petroleum product exports

	2Q 2018		1Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	-	-	830	0.03	-	-
Naphtha	13,104	0.33	12,022	0.37	9.0	(10.8)
Diesel	29,094	0.71	27,851	0.82	4.5	(13.4)
Fuel oil	18,527	0.78	21,136	1.06	(12.3)	(26.4)
Jet fuel	5,160	0.11	4,616	0.11	11.8	-
Bunker fuel	9,509	0.27	8,988	0.31	5.8	(12.9)
Bitumen	381	0.02	120	0.01	>200	100.0
Lubricants	1,322	0.02	1,688	0.03	(21.7)	(33.3)
Petrochemicals	1,907	0.04	2,139	0.06	(10.8)	(33.3)
Other	428	0.02	623	0.02	(31.3)	-
Total	79,432	2.30	80,013	2.82	(0.7)	(18.4)

	6 months 2018		6 months 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	830	0.03				
Naphtha	25,126	0.70	12,754	0.48	97.0	45.8
Diesel	56,945	1.53	39,274	1.41	45.0	8.5
Fuel oil	39,663	1.84	23,588	1.47	68.1	25.2
Jet fuel	9,776	0.22	5,339	0.16	83.1	37.5
Bunker fuel	18,497	0.58	14,628	0.70	26.4	(17.1)
Bitumen	501	0.03	383	0.03	30.8	-
Lubricants	3,010	0.05	2,357	0.05	27.7	-
Petrochemicals	4,046	0.10	2,268	0.08	78.4	25.0
Other	1,051	0.04	9,784	0.45	(89.3)	(91.1)
Total	159,445	5.12	110,375	4.83	44.5	6.0

- Naphtha and fuel oil sales at Y-o-Y and Q-o-Q were optimized relative to petroleum product prices and demand
- Diesel sales increased Y-o-Y due to planned reconstruction and capital repairs of “large ring” units at Moscow refinery in 1H 2017
- Bunker fuel sales decreased Y-o-Y due to a decline in bunker market in Romania.

Petroleum product sales in the CIS

	2Q 2018		1Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	8,338	0.21	8,055	0.23	3.5	(8.7)
Low octane gasoline	113	-	79	-	43.0	-
Diesel	9,235	0.23	7,748	0.22	19.2	4.5
Jet fuel	1,895	0.05	2,289	0.06	(17.2)	(16.7)
Bitumen	1,396	0.08	358	0.02	>200	>200
Lubricants	1,060	0.03	697	0.01	52.1	200.0
Petrochemicals and Other	1,057	0.03	569	0.04	85.8	(25.0)
Total	23,094	0.63	19,795	0.58	16.7	8.6

	6 months 2018		6 months 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	16,393	0.44	14,536	0.43	12.8	2.3
Low octane gasoline	192	-	346	0.01	(44.5)	-
Diesel	16,983	0.45	12,716	0.39	33.6	15.4
Jet fuel	4,184	0.11	3,625	0.13	15.4	(15.4)
Bitumen	1,754	0.10	1,120	0.08	56.6	25.0
Lubricants	1,757	0.04	1,262	0.03	39.2	33.3
Petrochemicals and Other	1,626	0.07	1,168	0.05	39.2	40.0
Total	42,889	1.21	34,773	1.12	23.3	8.0

Domestic sales of petroleum products

	2Q 2018		1Q 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	102,424	2.33	86,861	2.20	17.9	5.9
Low octane gasoline	100	0.01	89	-	12.4	-
Naphtha	1,945	0.06	1,096	0.04	77.5	50.0
Diesel	86,198	2.10	75,826	1.96	13.7	7.1
Fuel oil	5,879	0.42	4,888	0.46	20.3	(8.7)
Jet fuel	30,274	0.78	23,461	0.65	29.0	20.0
Bunker fuel	13,021	0.47	8,598	0.39	51.4	20.5
Bitumen	8,872	0.67	4,048	0.41	119.2	63.4
Lubricants	3,535	0.07	3,168	0.06	11.6	16.7
Petrochemicals	6,587	0.25	6,863	0.27	(4.0)	(7.4)
Other	3,798	0.23	3,489	0.22	8.9	4.5
Total	262,633	7.39	218,387	6.66	20.3	11.0

	6 months 2018		6 months 2017		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	189,285	4.53	165,247	4.30	14.5	5.3
Low octane gasoline	189	0.01	364	0.01	(48.1)	-
Naphtha	3,041	0.10	-	-	-	-
Diesel	162,024	4.06	133,576	3.93	21.3	3.3
Fuel oil	10,767	0.88	7,230	0.79	48.9	11.4
Jet fuel	53,735	1.43	38,572	1.32	39.3	8.3
Bunker fuel	21,619	0.86	17,021	0.95	27.0	(9.5)
Bitumen	12,920	1.08	7,770	0.79	66.3	36.7
Lubricants	6,703	0.13	6,287	0.12	6.6	8.3
Petrochemicals	13,450	0.52	11,098	0.43	21.2	20.9
Other	7,287	0.45	5,007	0.40	45.5	12.5
Total	481,020	14.05	392,172	13.04	22.7	7.7

- Petroleum product sales on the domestic market increased Q-o-Q mainly due to seasonal factors and higher demand for petroleum products resulted from FIFA World Cup
- Petroleum product sales on the domestic market increased Y-o-Y mainly due to the growth of production at own refineries resulted from planned capital repairs during 2017
- Jet fuel sales increased Y-o-Y due to demand growth and cooperation with airline companies (new agreements and geographic expansion)
- Bunker fuel sales decreased Y-o-Y due to shift to higher margin directions (North-East and Black Sea regions) from the Far East
- Bitumen sales increased Y-o-Y due to expansion of complex delivery and logistics services, formation of long-term direct agreements with major clients.

Purchases of oil, gas and petroleum products

- Purchases of oil, gas, and petroleum products increased by 17.2% Y-o-Y due to higher crude oil and petroleum product prices. The growth was partially offset by a reduction of petroleum product volumes purchases resulted from higher throughput.

Production and manufacturing expenses

2Q	1Q			6 months		
2018	2018	Δ, %	(RUB million)	2018	2017	Δ, %
27,041	25,297	6.9	Upstream expenses	52,338	53,592	(2.3)
1,710	1,616	5.8	RUB per toe	1,664	1,732	(3.9)
3.77	3.88	(2.8)	USD per boe	3.82	4.07	(6.1)
20,273	18,957	6.9	Consolidated subsidiaries inside Russia	39,230	41,264	(4.9)
1,563	1,467	6.5	<i>RUB per toe</i>	1,515	1,628	(6.9)
3.45	3.52	(2.0)	<i>USD per boe</i>	3.48	3.83	(9.1)
			including			
14,585	13,697	6.5	Brownfields	28,282	33,280	(15.0)
* 1,690	* 1,608	5.1	<i>RUB per toe</i>	1,649	1,793	(8.0)
3.73	3.86	(3.4)	<i>USD per boe</i>	3.79	4.22	(10.2)
5,688	5,260	8.1	Greenfields	10,948	7,984	37.1
1,311	1,195	9.7	<i>RUB per toe</i>	1,253	1,176	6.5
2.89	2.87	0.7	<i>USD per boe</i>	2.88	2.77	4.0
			Consolidated subsidiaries outside Russia (including			
2,331	2,048	13.8	PSA)**	4,379	3,871	13.1
2,878	2,968	(3.0)	<i>RUB per toe</i>	2,919	2,978	(2.0)
6.35	7.12	(10.8)	<i>USD per boe</i>	6.71	7.01	(4.3)
4,437	4,292	3.4	Joint operations	8,729	8,457	3.2
2,207	2,125	3.9	<i>RUB per toe</i>	2,166	1,985	9.1
4.87	5.10	(4.5)	<i>USD per boe</i>	4.98	4.67	6.6
14,587	13,551	7.6	Downstream expenses	28,138	26,135	7.7
7,885	7,452	5.8	Refining expenses at own refineries	15,337	14,561	5.3
932	899	3.7	<i>RUB per tonne</i>	916	969	(5.5)
2.06	2.16	(4.6)	<i>USD per bbl</i>	2.11	2.28	(7.5)
3,173	2,978	6.5	Refining expenses at refineries of joint ventures***	6,151	5,717	7.6
1,603	1,618	(0.9)	<i>RUB per tonne</i>	1,610	1,545	4.2
3.54	3.88	(8.8)	<i>USD per bbl</i>	3.70	3.63	1.9
3,529	3,121	13.1	Lubricants manufacturing expenses	6,650	5,857	13.5
7,653	7,842	(2.4)	Transportation expenses to refineries	15,495	12,977	19.4
7,391	4,810	53.7	Other operating expenses including	12,201	7,668	59.1
56,672	51,500	10.0	Total	108,172	100,372	7.8

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

** PSA refers to production sharing agreement

*** Refining expenses of joint ventures is based on processing agreement

- Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor costs, fuel and electricity costs, enhanced oil recovery activities and other similar costs at our upstream subsidiaries
- Upstream hydrocarbon unit expenses at consolidated subsidiaries in Russia increased by 6.5% Q-o-Q due to increased brownfield expenses resulted from growth in workover operations and higher fluid production connected with launch of high watercut wells in Noyabrsk region
- Upstream expenses per toe at consolidated subsidiaries in Russia decreased by 6.9% Y-o-Y due to decreased brownfields expenses
- Upstream expenses per toe at consolidated subsidiaries at brownfields decreased by 8.0% Y-o-Y due to optimisation of expenses:
 - o Shutdown of low-margin wells (low well flows and high watercut)
 - o Decreased workover activities.
- Upstream USD hydrocarbon unit expenses at consolidated subsidiaries outside Russia decreased by 4.3% Y-o-Y mainly due to an increase of production in Iraq
- Upstream expenses at joint operations increased by 9.1% Y-o-Y mainly due to production decline in line with OPEC limits
- 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 Group's refineries

- Refining expenses per tonne at own refineries increased by 3.7% Q-o-Q due to:
 - o Increased purchases of MTBE* due to methanol purchases limitations
 - o Increase in maintenance expenses
 - o Increased expenses for ecological program, ecologic monitoring and expenses for equipment cleaning services.
- Refining expenses per tonne at own refineries decreased by 5.5% Y-o-Y primarily due to:
 - o Throughput growth
 - o Decrease of ecological program expenses
 - o Decreased purchases of MTBE* due to finalization of “large ring” units maintenance at Moscow refinery (reconstruction was held in 1Q and 2Q 2017).
- Refining unit expenses at joint ventures increased by 4.2% Y-o-Y due to increased processing expenses (new refining units launch and increased natural gas costs)
- Transportation expenses to refineries increased by 19.4% Y-o-Y mainly due to increased crude oil volumes delivered to refineries
- Other operating expenses increased Y-o-Y in line with other sales growth.

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 9.8% Y-o-Y, driven mainly by:
 - o Increased estimated liabilities resulted from share price growth
 - o Increased expenses at foreign subsidiaries due to serbian dinar strengthening.

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 decreased insignificantly by 0.9% Y-o-Y. Petroleum product transportation expenses growth was offset by a decline in crude oil transportation expenses resulted from decreased crude oil export sales.

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 20.4% Y-o-Y in line with an increase in depreciable assets driven by implementation of the investment program and increased production at Novoportovskoye field and Iraq.

*MTBE- methyl-tret-butyl-ether. Applied as an motor vehicles additive intended for increasing of gasoline octane number

Taxes other than income tax

2Q 2018	1Q 2018	Δ, %		6 months		
				2018	2017	Δ, %
122,310	97,177	25.9	Mineral extraction taxes	219,487	151,388	45.0
34,121	34,390	(0.8)	Excise	68,511	58,391	17.3
5,449	5,750	(5.2)	Social security contributions	11,199	9,860	13.6
4,153	3,758	10.5	Other taxes	7,911	6,392	23.8
166,033	141,075	17.7	Total taxes other than income tax	307,108	226,031	35.9

- MET increased by 25.9% Q-o-Q due to higher oil prices and higher production
- MET increased by 45.0% Y-o-Y due to higher oil prices and higher additional multiplying ratio (Kk in the MET rate formula)
- Excise taxes increased by 0.8% Q-o-Q due to a decrease of excise rates in June 2018
- Excise taxes decreased by 17.3% Y-o-Y due to higher rates and higher production at refineries of consolidated subsidiaries in Russia in 2018.

Export duties

2Q 2018	1Q 2018	Δ, %		6 months		
				2018	2017	Δ, %
10,226	11,106	(7.9)	Crude oil export duties	21,332	27,723	(23.1)
10,448	10,493	(0.4)	Petroleum export duties	20,941	14,252	46.9
20,674	21,599	(4.3)	Total export duties	42,273	41,975	0.7

- Crude oil export duties decreased by 23,1% Y-o-Y due to export sales reduction and decline in share of sales imposed by export duties
- Petroleum export duties increased by 46,9% Y-o-Y due to rates growth resulted from higher crude oil prices and export sales growth.

Share of profit of equity accounted investments

2Q 2018	1Q 2018	Δ, %	(RUB million)	6 months		
				2018	2017	Δ, %
5,285	2,642	100.0	Slavneft	7,927	4,177	89.8
7,090	4,281	65.6	Messoyakha	11,371	4,172	172.6
11,144	6,509	71.2	Arcticgas (SeverEnergia)	17,653	7,762	127.4
972	737	31.9	Nortgaz	1,709	1,630	4.8
1,098	599	83.3	Other companies	1,697	969	75.1
25,589	14,768	73.3	Share of profit of associates and joint ventures	40,357	18,710	115.7

- The Group's share of Slavneft profit increased Y-o-Y and Q-o-Q due to higher crude oil prices
- The Group's share of Arcticgas (SeverEnergia) profit increased by 127.4% Y-o-Y as a result of production growth, higher crude oil prices, reduction of financial expenses in line with debt portfolio optimisation and increase of Group share in Arcticgas (SeverEnergia) from 46.67% up to 50% since 21 March 2018
- The Group's share of Messoyakha profit increased Y-o-Y as a result of production growth and higher crude oil prices.

Other income and expenses

- Other expenses mainly include disposal of non-current assets and sale of inventories.

Other financial items

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

Liquidity and capital resources

Cash flows

(RUB million)	6 months		
	2018	2017	Δ %
Net cash provided by operating activities	210,289	181,128	16.1
Net cash used in investing activities	(130,713)	(148,018)	(11.7)
Net cash (used in) / provided by financing activities	(109,895)	3,173	-
(Decrease) / Increase in cash and cash equivalents	(30,319)	36,283	-

Net cash provided by operating activities

(RUB million)	6 months		
	2018	2017	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	287,415	198,771	44.6
Net changes in working capital	(32,535)	16,703	-
Income tax paid	(24,984)	(14,835)	68.4
Interest paid	(25,079)	(20,283)	23.6
Dividends received	5,472	772	608.8
Net cash provided by operating activities	210,289	181,128	16.1

- Net cash provided by operating activities increased by 16.1% Y-o-Y primarily due to higher operating profit and dividends received from joint ventures. The growth was partially offset by negative changes in working capital resulted from higher crude oil and petroleum product prices.

Net cash used in investing activities

(RUB million)	6 months		
	2018	2017	Δ %
Capital expenditures	(162,755)	(154,235)	5.5
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(250)	(457)	(45.3)
Net changes in deposits	7,116	654	>200
Net changes in loans issued and other investments	12,127	2,276	>200
Interest received	11,890	3,074	>200
Other transactions	1,159	670	73.0
Net cash used in investing activities	(130,713)	(148,018)	(11.7)

- Net cash used in investing activities decreased by 11.7% Y-o-Y. Higher capital expenditures were offset by loan repayment and interest received from Messoyakha.

Net cash used in financing activities

(RUB million)	6 months		
	2018	2017	Δ %
Net changes in debt	(58,607)	4,135	-
Payment of dividends to shareholders	(47,183)	(2)	>200
Other transactions	(4,105)	(960)	>200
Net cash (used in) / provided by financing activities	(109,895)	3,173	-

- Repayments of loans and borrowing exceed the amount of new funds raised (repayment of RUR and Euro bonds) in 6 month 2018. The Group paid dividends for 9 months 2017 in 1Q 2018.

Capital expenditures

(RUB million)	6 months		
	2018	2017	Δ, %
Exploration and production	94,793	98,446	(3.7)
Consolidated subsidiaries	86,726	91,038	(4.7)
Joint operations	8,067	7,408	8.9
Refining	31,492	26,680	18.0
Marketing and distribution	3,444	2,658	29.6
Others	6,308	4,891	29.0
Subtotal capital expenditures	136,037	132,675	2.5
Change in advances issued and material used in capital expenditures, including	26,718	21,560	23.9
Total capital expenditures	162,755	154,235	5.5

- Capital expenditures for exploration and production decreased by 3.7% Y-o-Y due to:
 - o Decline in activities for infrastructure construction at Novoportovskoye field
 - o Reduction of exploration drilling and finalization of infrastructure construction at Badra project
 - o Decline in activities resulted from OPEC production limits.
- Capital expenditures for refining increased by 18.0% Y-o-Y mainly due to the modernisation of plant in Serbia (construction of delayed coking unit).

Debt and liquidity

(RUB million)	June 30	December 31
	2018	2017
Short-term loans and borrowings	68,611	131,760
Long-term loans and borrowings	606,210	548,654
Cash and cash equivalents	(66,237)	(90,608)
Short-term deposits	(102)	(5,779)
Net debt	608,482	584,027
Short-term debt / total debt, %	10.2	19.4
Net debt and financial lease liabilities/ EBITDA for 12 months preceding	1.01	* 1.19

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments
- The average debt maturity increased from 3.60 years as at December 31, 2017 to 3.95 years as at June 30, 2018
- The average interest rate increased from 5.54% as at December 31, 2017 to 5.99% as at June 30, 2018.

Financial appendix

EBITDA reconciliation

2Q	1Q			6 months		
2018	2018	Δ, %	(RUB million)	2018	2017	Δ, %
102,994	74,145	38.9	Profit for the period	177,139	118,051	50.1
20,510	14,655	40.0	Total income tax benefit / (expense)	35,165	28,162	24.9
5,465	5,945	(8.1)	Finance expense	11,410	13,261	(14.0)
(1,082)	(1,848)	(41.5)	Finance income	(2,930)	(5,226)	(43.9)
42,340	37,509	12.9	Depreciation, depletion and amortization	79,849	66,294	20.4
19,939	4,378	>200	Net foreign exchange (gain) / loss	24,317	(5,705)	-
2,964	2,665	11.2	Other loss, net	5,629	3,379	66.6
193,130	137,449	40.5	EBITDA	330,579	218,216	51.5
(25,589)	(14,768)	73.3	less Share of profit of associates and joint ventures	(40,357)	(18,710)	115.7
44,862	33,116	35.5	add Share of EBITDA of equity accounted investments	77,978	46,301	68.4
212,403	155,797	36.3	Adjusted EBITDA	368,200	245,807	49.8

Financial ratios

Profitability

	June 30 2018	June 30 2017	Δ, p.p.
Adjusted EBITDA margin, %	32.36	26.88	5.5
Net profit margin, %	15.57	12.91	2.7
Return on assets (ROA), %	11.28	9.09	2.2
Return on equity (ROE), %	19.49	16.44	3.1
Adjusted Return on average capital employed (ROACE), %	16.91	12.54	4.4

Adjusted ROACE calculation

For 12 months preceding	June 30 2018	June 30 2017
Adjusted EBITDA	673,360	498,474
Depreciation, depletion and amortization	(195,859)	(167,974)
Effective income tax charge on EBIT	(89,559)	(73,078)
Adjusted EBIT*	387,942	257,422
Average capital employed	2,293,619	2,052,777
Adjusted ROACE	16.91	12.54

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

Liquidity

	June 30 2018	June 30 2017	Δ, %
Current ratio	1.12	0.96	16.7
Quick ratio	0.49	0.50	(2.0)
Cash ratio	0.17	0.26	(34.6)

Leverage

	June 30 2018	June 30 2017	Δ, p.p.
Net debt/ Total Assets, %	19.54	22.27	(2.7)
Net debt/ Equity, %	33.09	39.44	(6.3)
Gearing, %	24.63	27.99	(3.4)
			Δ, %
Net debt/ Market Capitalization	0.40	0.71	(43.7)
Net debt/ EBITDA	1.01	1.37	(26.3)
Total debt/ EBITDA	1.12	1.53	(26.8)

Main macroeconomic factors affecting operational results

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

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

Changes in market prices for crude oil and petroleum products

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

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

The increase in crude oil and petroleum product prices on international markets in 6 months 2018 had a positive impact on the Group's results.

2Q 2018	1Q 2018	Δ, %		6 months		Δ, %
(US\$/ barrel)			International market	(US\$/ barrel)		
74.80	66.76	12.0	Brent	70.74	51.85	36.4
72.62	65.17	11.4	Urals Spot (average Med + NWE)	68.86	50.61	36.1
(US\$/ tonne)				(US\$/ tonne)		
712.39	644.40	10.6	Premium gasoline (average NWE)	678.12	536.38	26.4
628.74	565.18	11.2	Naphtha (average Med. + NWE)	596.70	452.01	32.0
658.82	591.34	11.4	Diesel fuel (average NWE)	624.81	466.09	34.1
649.43	584.66	11.1	Gasoil 0.1% (average Med.)	616.79	460.02	34.1
392.80	345.05	13.8	Fuel oil 3.5% (average NWE)	368.74	274.50	34.3
(RUB/ tonne)			Domestic market	(RUB/ tonne)		
43,753	37,005	18.2	High-octane gasoline	40,398	36,326	11.2
35,570	34,459	3.2	Low-octane gasoline	35,018	30,558	14.6
39,569	36,405	8.7	Diesel fuel	37,996	31,348	21.2
13,686	10,647	28.5	Fuel oil	12,175	8,880	37.1

Sources: Platts (international), Kortes (domestic)

Ruble vs. US dollar exchange rate and inflation

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

2Q 2018	1Q 2018		6 months	
			2018	2017
1.3	0.8	Change in Consumer Price Index (CPI), %	2.1	2.3
61.80	56.88	Average RUB/US\$ exchange rate for the period	59.35	57.99
57.26	57.60	US\$/ RUB exchange rate as of the beginning of the period	57.60	60.66
62.76	57.26	US\$/ RUB exchange rate as of the end of the period	62.76	59.09
* 0.10	* (0.01)	Depreciation (appreciation) of Russian rouble to US\$, %	* 0.09	* (0.03)

Hydrocarbon taxes

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

2Q 2018	1Q 2018	Δ, %		6 months		Δ, %
(US\$/ tonne)			Export duty	(US\$/ tonne)		
120.57	117.00	3.1	Crude oil	118.78	85.42	39.1
36.13	35.07	3.0	Light petroleum products	35.60	25.60	39.1
36.13	35.07	3.0	Diesel	35.60	25.60	39.1
36.13	35.07	3.0	Gasoline	35.60	25.60	39.1
66.23	64.30	3.0	Naphtha	65.27	46.95	39.0
120.57	117.00	3.1	Heavy petroleum products	118.78	85.42	39.1
			Mineral extraction tax			
12,861	10,391	23.8	Crude oil (RUB/ tonne)	11,626	7,498	55.1

Crude oil and petroleum products export duty rates

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

Crude oil export duty rate

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

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

Crude oil exports to Kazakhstan and Belarus are not subject to oil export duties. Crude oil export to Kyrgyzstan under indicative limits is not subject to oil export duties.

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

$$Ct = (P - 182.5) \times K - 56.57 - 0.14 \times P$$

where P is the Urals price (USD/tonne) and K is an incremental coefficient equal to 30% from 2017.

Resolution of the Russian Government No. 846 (September 26, 2013) sets out the rules for applying specific export duty rates and monitoring their use for crude oil produced, inter alia, at fields located in Sakha Republic (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai, and to north of latitude 65° in Yamalo-Nenets Autonomous Okrug.

Order No. 868 (December 3, 2013) of the Ministry of Energy establishes the application form and methodology to analyze the applicability of these special rates for crude oil.

c) According to Federal Law No. 5003-1 (May 12, 1993) clause 35 subclause 1.1, crude oil produced at new offshore fields is exempt from export duties until:

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

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

Export duty rate on petroleum products

In accordance with clause 3.1 of Russian Federal Law No. 5003-1 (May 21, 1993), the export duty rate on petroleum products is determined by the Government. Exports of petroleum products to Tajikistan, Kyrgyzstan and Armenia within the indicative limits are not subject to export duties.

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

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

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

	from 2017
Light and middle distillates	
Diesel	0.3
Lubricants oil	
Naphtha	0.55
Gasoline	0.3

Excise duties on petroleum products

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

Clause 193 of the Russian Federation Tax Code (as amended by Russian Federal Law No. 199-FZ dated July 19, 2018) established the following excise duty rates for petroleum products (in rubles/tonne):

	2017	From 2018	
		01.01.-31.05	01.06.-31.12
Gasoline			
Below Class 5	13,100	13,100	13,100
Class 5	10,130	11,213	8,213
Naphtha	13,100	13,100	13,100
Diesel fuel	6,800	7,665	5,665
Motor oil	5,400	5,400	5,400
Middle distillate	7,800	8,662	6,665

Mineral extraction tax (MET) on crude oil

- a) According to clause 342 of the Russian Federation Tax Code, the MET rate on crude oil (R, in rubles/tonne) is calculated using the following general formula:

from 2017

MET oil - R 919 x Kc - Dm

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

, where

Kmet – 559.

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

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

Kz characterizes the size of the field (by reserves) and provides lower tax rates for small fields. For fields with initial reserves (designated by 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 as at January 1, 2012 (or as at January 1 of the year of issuance of a licence if the licence is issued after January 1, 2012) less than 0.05, $Kz = 0.125 \times V3 + 0.375$

Kd is designed for specific deposits with hard-to-recover oil. It varies between 0.2 and 1 depending on the deposit as follows:

- 0.2 – for oil produced from deposits with permeability not greater than $2 \times 10^{-3} \mu^2$ and effective formation thickness not greater than 10 meters
- 0.4 – for oil produced from deposits with permeability not 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. Kdv is applied when the oilfield contains any deposit with Kd less than 1. For deposits with Kd less than 1, depletion is measured by Ndv/Vdv , where Ndv is the cumulative production volume from the deposit and Vdv is total initial extractable reserves (total reserves for all categories as at January 1 of the year preceding the tax period). For deposits with depletion between 0.8 and 1, $Kdv = 3.8 - 3.5 \times Ndv / Vdv$. Where depletion is greater than 1, Kdv is 0.3. In all other cases, $Kdv = 1$. Kdv for all other deposits of the field (for which the coefficient $Kd=1$) is the value of Kv as calculated for the entire area.

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

Kk – 357 for 2018 and 428 for 2019-2020.

b) According to the Russian Federation Tax Code clause 342, subclause 2.1 and clause 338, 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 for 50% or more of its area 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 for 50% or more of its area in the Black Sea (at water depths of less than 100 meters), the Sea of Japan, Pechora Sea, White Sea, Sea of Okhotsk (to south of 55° N), Caspian Sea
- 10% from the start of commercial hydrocarbon production for a ten-year period, ending not later than March 31, 2037 – for fields located for 50% or more of its area in the Sea of Okhotsk (to north of 55° N), Black Sea (at depths exceeding 100 meters), Barents Sea (to south of 72° N)
- 5% from the start of commercial hydrocarbon production for a 15-year period, ending not later than March 31, 2042 – for fields located for 50% or more of its area in the Kara Sea, Barents Sea (to north of 72° N), and Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea).

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

Effective MET rate for the Group

2Q		1Q		6 months		
2018	2018*	Δ, %		2018	2017	Δ, %
12,861	10,391	23.8	Nominal crude oil MET rate, RUB/tonne	11,626	7,498	55.1
10,486	8,480	23.7	Effective crude oil MET rate, RUB/tonne	9,494	6,388	48.6
2,375	1,911		Difference between nominal and effective rates,	2,132	1,110	
18.5%	18.4%		Difference between nominal and effective rates, %	18.3%	14.8%	

* Considering the amended tax returns for 1Q 2018

In 6 months 2018, the Group's effective MET rate was 9,494 RUB/tonne, or 2,132 RUB/tonne lower than the statutory nominal MET rate. The difference results from the application of certain coefficients (Kv, Kz, Kd and Kkan) that reduce the MET rate.

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

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

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

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

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

Tg reflects gas transportation costs (set at zero for 2017-2018 according to the Federal Tariff Service of the Russian Federation).

Kkm is a correction coefficient equal to 6.5/Kg, where Kg is a coefficient characterising export return per fuel-equivalent unit.

In 6 months 2018, the Group's effective MET rate for natural gas was 587 RUB per thousand m³, which is 45 RUB per thousand m³ lower than the statutory nominal MET rate. The difference results from the application of tax benefits, especially coefficient Kc that reduce the MET rate.

Tax benefits

According to the effective tax legislation, the Group's subsidiaries apply the following tax benefits (including lower tax rates and coefficients that reduce the MET rate):

Tax benefits applied during 6m 2018	Subsidiaries (Oil Fields) belonging to the Group
MET for gas	
Hard-to-recover coefficient Kc	JSC Gazpromneft-Noyabrskneftegaz Zapolyarneft LLC Gazpromneft Yamal LLC Gazpromneft Orenburg LLC
MET for oil	
Small fields coefficient Kz	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft Orenburg LLC
Depletion coefficient Kv	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Vostok LLC JSC Yuzhuralneftegas Gazpromneft-Khantos LLC
Hard-to-recover coefficient Kd	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos LLC Gazpromneft Orenburg LLC
Highly depleted deposits coefficient Kdv	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Vostok LLC
Oil production region and oil quality factor Kkan	PJSC Gazpromneft Gazpromneft-Angara LLC Gazpromneft-Yamal LLC
Zero MET rate for fields classified as belonging to Bazhenov formation	Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz
Lower MET rate for new offshore field in the Pechora Sea	Gazpromneft shelf LLC
Profits tax	
16% rate (4% tax rate decrease under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz
17% rate (3% tax rate decrease under Orenburg regional legislation)	JSC Yuzhuralneftegas
16.5% rate (3.5% tax rate decrease under Yamalo-Nenets Autonomous Okrug regional legislation)	JSC Gazpromneft-Noyabrskneftegaz Zapolyarneft LLC Gazpromneft-Yamal LLC
19.475% rate (0.525% tax rate decrease under Tumen regional legislation)	Gazpromneft-Khantos LLC
16.5% rate (3.5% tax rate decrease under St. Petersburg regional legislation)	PJSC Gazpromneft JSC Gazpromneft Aero LLC Gazpromneft-NTC LLC Gazpromneft-Razvitie LLC Gazpromneft Business-service LLC Gazpromneft-Regionalnie prodazhi LLC

Tax benefits applied during 6m 2018	Subsidiaries (Oil Fields) belonging to the Group
	Gazpromneft Marine Bunker LLC MFC Lakhta Center Gazpromneft Shipping LLC Gazpromneft shelf 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)	LLC Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz
Reduced tax rate 1.1% on property purchased/constructed in the course of investment projects in Yamalo-Nenets Autonomous Okrug (under Yamalo-Nenets Autonomous Okrug regional legislation)	JSC Gazpromneft-Noyabrskneftegaz Zapolyarneft LLC
Property tax exemption on property purchased/constructed in the course of investment projects in Orenburg region (under Orenburg regional legislation)	Gazpromneft-Orenburg LLC
Property tax decrease on properties purchased/constructed and put into operation in the course of investment projects in Tomsk region in the amount of 50% of tax to be paid to Tomsk region budget (under Tomsk regional legislation)	Gazpromneft-Vostok LLC
Property tax exemption on property purchased/constructed and put into operation in the course of R&D work on technologies for exploration of pre-Jurassic reserves in Tomsk region (under Tomsk regional legislation)	Gazpromneft-Vostok LLC

*Regarding other activities connected with Consolidated taxpayers group of PJSC Gazprom

Transportation of crude oil and petroleum products

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

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

2Q	1Q			6 months		
2018	2018	Δ, %	(RUB per tonne)	2018	2017	Δ, %
Crude oil						
Export						
2,327	2,218	4.9	Pipeline	2,273	2,006	13.3
CIS						
1,608	1,570	2.4	Pipeline	1,589	1,567	1.4
Transportation to Refineries						
754	767	(1.7)	Omsk	760	713	6.6
1,530	1,517	0.9	Moscow	1,524	1,544	(1.3)
1,332	1,306	2.0	Yaroslavl	1,319	1,310	0.7
Petroleum products						
Export from ONPZ						
3,769	3,342	12.8	Gasoline	3,557	2,530	40.6
5,519	5,338	3.4	Fuel oil	5,429	5,289	2.6
4,537	4,176	8.6	Diesel fuel	4,357	4,088	6.6
Export from MNPZ						
-	2,697	-	Gasoline	1,341	2,797	(52.1)
3,222	3,099	4.0	Fuel oil	3,161	3,049	3.7
2,865	2,721	5.3	Diesel fuel	2,793	2,044	36.6
Export from YaNPZ						
3,311	2,857	15.9	Gasoline	3,085	2,692	14.6
3,079	2,960	4.0	Fuel oil	3,020	2,882	4.8
2,493	2,212	12.7	Diesel fuel	2,353	2,053	14.6

The Group's crude oil export route mix (tonnes) for 6 months 2018 and 6 months 2017 is presented below:

	6 months	
	2018	2017
Crude oil export		
Primorsk Baltic Sea port	11.2%	21.7%
Ust-Luga Baltic Sea port	0.0%	2.0%
Druzhba pipeline	14.4%	10.0%
Port of Novorossiysk	6.6%	14.4%
ESPO pipeline and the port of Kozmino	13.6%	10.0%
Meget (pipeline and railway) China	0.0%	0.3%
Exported without using Transneft system, including:	54.2%	41.6%
Prirazlomnoye	18.0%	15.3%
Novoport	36.2%	26.3%
Total	100.0%	100.0%
Crude oil export to CIS countries		
Belarus	95.8%	100.0%
Uzbekistan	4.2%	0.0%
Total	100.0%	100.0%

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