

KEY FINANCIAL AND PRODUCTION RESULTS

PERFORMANCE GOALS AND RESULTS IN 2016

Goal	Result
Implementation of major projects nearing completion	The 'Gates of the Arctic' terminal was launched at the Novoportovskoye field along with year-round oil shipments. Thanks to advanced production drilling, the full-scale development of the East Messoyakha field began ahead of schedule and the first batch of oil was fed into the pipeline system in September 2016.
A two-fold increase in production at the Prirazlomnoye field in the Pechora Sea and the commissioning of new production and absorption wells	Production at the Prirazlomnoye field increased by 150% compared with 2015. A total of 2,154,000 tonnes of the ARCO oil blend (Arctic Oil) was obtained at the Prirazlomnoye field in 2016.
The establishment of a new logistics route for exporting oil from Arctic fields via the Northern Sea Route. Construction of a trans-shipment hub at the Murmansk port	The new oil transportation logistics arrangement was launched in February 2016. A transshipment hub was set up in Kola Bay.
Keeping all options open for the development of the resource base to support new areas of production	The main factor that made it possible to increase the resource base was the use of new technologies in production drilling as well as the more efficient planning of geological exploration work. Three new fields and 26 hydrocarbon deposits were opened at the group's license areas in 2016.
The establishment of strategic and technological partnerships for the joint development of fields in Russia and abroad and to improve the efficiency of hydrocarbon production	A meeting was held with China National Offshore Oil Corporation about the development of the North Wrangel and Heiss license areas. A cooperation agreement was concluded with DeGolyer and MacNaughton. A memorandum on mutual understanding was signed with Japan's JOGMEC on cooperation as part of geological exploration and hydrocarbon production projects in Russia.
Investment in current production projects with a short payback period to maximise cash flows in coming years	Goal achieved. For more, see the 'Key financial and production results' subsection of this chapter.
Construction of a primary oil refining complex at the Omsk Oil Refinery and Complex installation of oil processing 'EURO +' at the Moscow Oil Refinery	The Moscow Oil Refinery continues to build a Euro+ facility. New equipment was installed at the Omsk Oil Refinery in October 2016.
Continued implementation of a project to set up the production of modern cracking and hydroprocessing catalysts in Omsk	Gazpromneft – Catalytic Systems LLC was established within the Company to implement the project to set up the production of catalytic cracking catalysts and hydroprocessing catalysts.
Pilot testing of oligomerisation catalysts	A new oligomerisation catalyst was introduced as part of a methyl tert-butyl ether facility (Moscow Oil Refinery). The output of high-octane oligomerizate was increased by 3%, while the cycle length of the catalyst's operation was increased by 150%.
Launch of a solid acid alkylation test bench	Construction was completed on a solid acid alkylation pilot production unit at Elektrogorsk Institute of Petroleum Refining PJSC.

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Goal	Result
Industrial testing of the hydrotreating catalyst reactivation process	<p>The Omsk Oil Refinery successfully performed industrial testing on a diesel fuel reactivation hydrotreating catalyst.</p> <p>The catalyst demonstrated 100% reactivation from the initial catalyst with the stable production of class 5 diesel fuel with a sulphur content of up to 10 ppm.</p>
The implementation of the most profitable projects for the development of the sales business	Goal achieved. For more, see the 'Key financial and production results' subsection of this chapter.
Balanced investment activities in foreign development projects with the ability to intensify operations in the medium term taking into account international risks	Goal achieved. For more, see the 'Key financial and production results' subsection of this chapter.
The development of targeted automated processes for the quality control and accounting of petroleum products in order to eliminate the human factor	The Company has begun replicating the Khimsoft laboratory control system (LCS) to automate the testing of petroleum products and improve the effectiveness of the quality management system.
The construction and commissioning of a zeolite stabilisation unit and liquefied gas storage at the Omsk Oil Refinery	A zeolite stabilisation unit and liquefied gas storage facility were built.
The development and introduction of high-efficiency cracking, hydrotreatment and hydrocracking catalysts that meet modern oil refining requirements	Gazprom Neft began producing new Avangard catalytic cracking catalysts at the Omsk Oil Refinery in August 2016. Upon completion of industrial testing, the new generation catalysts are scheduled to be used at the Moscow Oil Refinery.
The organisation of work by a research centre based at Gazpromneft-Ryazan Bitumen Materials	In September 2016, Gazpromneft-Ryazan Bitumen Materials established Russia's largest and most advanced specialised bitumen materials scientific research centre.
The introduction of the research method for developing transmission oils at the oils and petrochemical laboratory of the Omsk Lubricants Plant	The method was developed and put into operation.
The assimilation of a pilot plant to develop greasing technology and implementation of a research programme to develop new and improve existing lubricant manufacturing technologies	Pilot unit developed.

GAZPROM NEFT IS CONFIDENTLY ATTAINING ITS LONG-TERM GOALS WHILE DEMONSTRATING SUSTAINED GROWTH IN PRODUCTION AND OPERATING PERFORMANCE DESPITE ADVERSE ECONOMIC CONDITIONS.

Each year the Company is one of the leaders in the hydrocarbon production industry, maintains a high level of refining volumes, shows strong financial results and demonstrates steady growth in sales and the effectiveness of its premium sales channels. Given the financial instability and economic slowdown, the Company's efficiency has become key to the sustainability of its business.

Over the past two years, the Company has become the leader in operating efficiency in Russia. Our next goal is to become one of the global leaders in terms of efficiency. As part of developing this area, the Company is introducing the operating activities management system (OAMS), which contributes to the overall development of the organisation and covers such important areas as improving safety in the workplace, reliability of assets and efficiency, and optimizing the Company's operations as a whole. The OAMS is designed to integrate these activities into a single system and strengthen the links between various systems, standards and regulations.

Thanks to a highly efficient business model and timely response to external changes, the Company has maintained stability and investment appeal.

PROACTIVE RESPONSE TO EXTERNAL CHALLENGES:

> Exploration and production:

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

> Refining and sales:

- > implementation of oil refinery modernisation projects;
- > development of premium sales channels and maximising added value as part of the existing petroleum products resources.

> General areas of work:

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

KEY OPERATING INDICATORS

Indicator	2012	2013	2014	2015	2016
Proven hydrocarbon reserves (PRMS-SPE), mn TOE ¹	1,200	1,343	1,443	1,518	1,514
Production of commercial hydrocarbons by the Gazprom Neft Group, mn TOE	59.71	62.26	66.25	79.70	86.2
Oil refining, mn t	43.34	42.63	43.48	43.07	41.89
Oil sales, mn t	17.95	14.24	13.72	16.61	22.71
Petroleum product sales, mn t	44.03	45.74	48.3	44.84	43.59
Sales via premium channels, mn t	22.56	23.98	25.79	25.7	25.16

KEY FINANCIAL INDICATORS (RUB mn)

	2012	2013	2014	2015	2016
Sales	1,519,450	1,504,037	1,690,557	1,655,775	1,695,764
Sales revenue	1,232,649	1,267,603	1,408,238	1,467,943	1,545,608
Adjusted EBITDA	323,106	336,752	342,614	404,811	456,198
Net profit	184,152	186,720	126,656	116,198	209,725
Capital investments	169,213	208,611	271,330	349,036	384,817

EXPLORATION AND PRODUCTION

The Company is increasing its reserves as well as the volume and efficiency of production at its own and shared assets, and explores, develops and produces oil and gas in Russia as well as in countries outside the former Soviet bloc. In 2016, Gazprom Neft maintained its position among Russian oil companies as an industry leader in terms of oil and gas production. Commercial hydrocarbon production increased 8.2% to 86.2 million TOE compared with 2015.

The Company has achieved its results due to:

- > for current assets – further drilling of the Priobskoye field and Orenburg assets;
- > for major projects – increased production at the Prirazlomnoye and Novoportovskoye fields and at assets belonging to SeverEnergiya LLC (Arcticgas), Northgas CJSC and Badra.

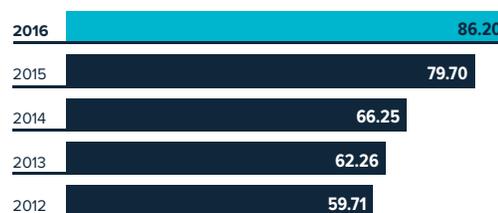
Gazprom Neft assumed the leading position in the industry in terms of oil production growth rates among Russian oil companies in 2016. Oil production increased by 7.2% over the reporting year.

The Company is actively developing its gas business with a focus on commercialising the reserves of associated and natural gas produced at fields. The Gazprom Neft Group's gas programme envisages accelerated growth in gas production in Russia. Total gas production by the Company amounted to 32.82 billion m³ in 2016.

COMMERCIAL HYDROCARBON PRODUCTION

(mn TOE)

Source: Company data



GAS PRODUCTION (bn m³)

Source: Company data



¹ Data does not include reserves and production of NIS.

OIL REFINING

GAZPROM NEFT REFINED 41.89 MILLION TONNES OF OIL IN 2016, MAINTAINING ITS POSITION AS ONE OF THE LEADERS AMONG RUSSIAN OIL COMPANIES IN TERMS OF REFINING VOLUME.

The Company continued to implement a modernisation programme for its oil refineries that aims to improve their crude refining efficiency, increase the depth of oil refining and enhance production and environmental safety. Gazprom Neft carried out projects at the Omsk and Moscow Oil Refineries to build advanced oil refining facilities as well as a number of environmental projects.

The Company established Gazpromneft – Catalytic Systems LLC to develop its new business for the production of oil refining catalysts. In 2020, the Company plans to launch the largest complex for the production and maintenance of catalysts for catalytic cracking, hydrotreatment and hydrocracking in the CIS.

STRUCTURE OF GAZPROM NEFT PETROLEUM PRODUCT PRODUCTION (mn t)

Source: Company data

	2012	2013	2014	2015	2016
Motor petrol	8.96	8.92	8.84	9.08	9.18
Technological petrol	1.30	1.47	1.36	1.45	1.56
Diesel fuel	11.51	12.09	12.15	11.87	12.02
Jet fuel	2.67	2.69	2.99	3.00	3.04
Marine fuel	3.38	3.31	4.08	3.67	2.41
Fuel oil	8.78	7.48	7.39	7.20	6.72
Bitumen and coke	1.72	2.09	2.03	2.02	2.19
Other	2.69	2.50	2.80	2.81	2.83
Total	41.01	40.55	41.64	41.10	39.95



The increase in the output of marginal products versus 2015 with comparable volumes of oil refining is evidence of the improved operating efficiency of the Moscow Oil Refinery. The growth in the depth of refining makes it possible to reduce energy and resource consumption to produce an increasing amount of modern ecological products and to ease the Company's impact on the environment.

Arkady Yelizaryan
CEO of Gazpromneft – Moscow Oil Refinery

ALSO IN THE REPORTING YEAR

At the Omsk Oil Refinery:

- > Projects are continuing to increase oil refining depth that include the construction of an advanced oil refining complex and a delayed coking unit.
- > A number of environmental projects were continued, including the construction of a complex of treatment facilities, a process condensate purification unit and a catalytic cracking regeneration gas treatment unit.
- > Reconstruction of catalyst production and a sulfuric acid alkylation unit, and an LPG park was built.

At the Moscow Oil Refinery:

- > Continued construction of a sulphurous alkaline waste and process condensate treatment unit and biological treatment facilities (the Biosphera project).
- > Continued construction of a Euro+ advanced oil refining unit and the reconstruction of a catalytic cracking unit.

OIL AND PETROLEUM PRODUCT SALES

In 2016, the Company supplied 7.43 million tonnes of oil to the domestic market, or 1.29 million tonnes more than in 2015. Total oil sales increased by 36.7% versus 2015 to 22.71 million tonnes.

The higher sales in the Russian Federation are due to the improved efficiency of trading operations on the domestic market and increased production in the Orenburg region. Increased oil production at the Novoportovskoye and Prirazlomnoye fields and the start of production at the Messoyakha field led to increased oil exports.

The Company sold 43.6 million tonnes of petroleum products in 2016, a 2.8% decrease from 2015. On the domestic market, the Company's sales units sold 27.11 million tonnes of petroleum products (-1.4% versus 2015). At the same time, motor fuel sales increased by 2.7% on the domestic market to 16.82 million tonnes.

OIL SALES (mn t)

Source: Company data

	2012	2013	2014	2015	2016
Sales in Russia	1.26	1.85	3.96	6.14	7.43
Exports to non-CIS countries	14.12	8.29	8.47	8.11	12.89
Exports to the CIS	2.50	4.05	1.16	1.88	1.66
International sales	0.07	0.05	0.13	0.48	0.73
Total	17.95	14.24	13.72	16.61	22.71

> For more details on the sale of oil and petroleum products see in the Annual Report for 2016: ar2016.gazprom-neft.com/results/distribution

PETROLEUM PRODUCT SALES FOR RETAIL AND BY PRODUCT BUSINESS UNITS

RETAIL SALES

The development of the petroleum product retail sales segment is one of the key focuses of the Company's activities. One of the Company's strategic goals is to be a leader in Russia and the CIS in terms retail sales volume and the efficiency of the filling station network by 2025.

Having its own national brand as well as a high level of awareness and trust in the quality of its product is a key factor for success in achieving this goal. According to research by the companies TNS and Nielsen for 2015, the Gazpromneft filling station network is among the top two in terms of key marketing indicators in the regions where it is present. The 'Going the Same Way' loyalty programme is currently the most popular and widespread among Russian fuel retailers and is used by more than 6.4 million drivers.

As the size of the motor fuel market in Russia declines overall, Gazprom Neft's highly efficient filling station network is demonstrating stable growth in terms of the volume of petrol and diesel fuel sales. Total sales increased by 2% to 10.4 million tonnes, including 8.2 million tonnes in Russia, in 2016.

AWARDS FOR THE GAZPROMNEFT FILLING STATION

In 2016, the Gazpromneft filling station chain won the annual award 'Consumer Rights and Quality of Service' for the third time. The company received awards in the nominations 'Retail Services' (in the 'Gas Stations' category) and 'Customer Choice'.

'100 BEST GOODS OF RUSSIA'

In 2016, three of Gazprom Neft's diesel fuel brands produced at Omsk Oil Refinery were awarded gold diplomas at the national competition '100 Best Goods of Russia' in the 'Industrial Goods' nomination. All diesel fuel produced at Omsk Oil Refinery meets the Euro-5 emissions standard.

AVERAGE DAILY SALES VIA FILLING STATIONS (t/day)

Source: Company data

	2012	2013	2014	2015	2016
Russia	17.60	18.98	19.98	19.15	19.26
CIS	12.40	14.24	13.84	13.63	14.90
NIS	4.50	5.20	5.03	5.51	5.89

Gazprom Neft continued to develop sales of its premium branded fuel at its filling station network during the reporting year. The Company sold 594,000 tonnes of G-Drive 95 premium fuel in 2016, which accounted for 27% of total Ai-95 sales. Sales of G-Drive 98 premium class motor fuel totalled 62,000 tonnes.

The Company increased sales of premium branded fuel at its filling stations by 5% in 2016. The number of filling stations offering G-Drive 95 increased by 84 stations to 1,149 filling stations in 2016 compared with 2015. Approximately 30% of high-octane petrol customers purchased G-Drive during the reporting period.

Environmental friendliness and cost-effectiveness play a key role in municipal and commercial transportation in large cities, making these segments major consumers of gas engine fuels. Gazprom Neft pays close attention to developing sales of gas engine fuels, in particular liquefied petroleum gas (LPG) and compressed natural gas (CNG). The Company increased sales of LPG by 9.5% to 115,000 tonnes in 2016, while sales of CNG expanded by 2.5% to 17.5 million m³.

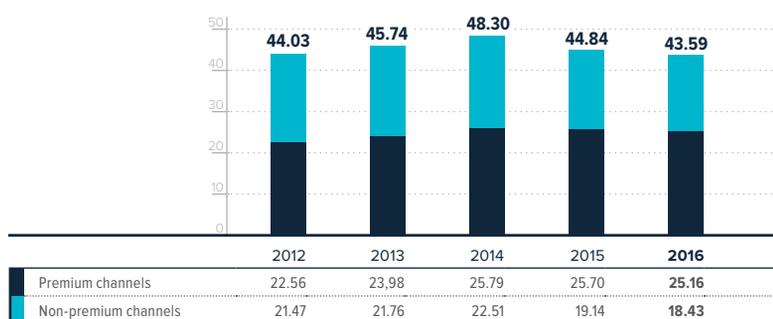
SALES OF PREMIUM PRODUCTS

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

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

TOTAL PREMIUM SALES BY PRODUCT BUSINESS UNIT IN RUSSIA AND ABROAD (mn t)

Source: Company data



Total small-scale wholesale and retail sales increased by 4.8% in 2016 compared to the previous year and amounted to 19.26 million tonnes. The Company managed to increase premium sales both on the domestic market as well as the foreign markets where the Company has a sales network.

PETROCHEMICALS

Gazprom Neft is a major Russian manufacturer of a number of basic petrochemical products – aromatic hydrocarbons (benzene, paraxylene, orthoxylene and toluene) and propane-propylene fraction products (propylene liquefied petroleum gas). Basic petrochemical products are manufactured at all Gazprom Neft oil refineries (Omsk, Moscow and Yaroslavl). The production of petrochemical products for further stages of added value (polypropylene) takes place at integrated enterprises – Neftekhimiya NPP (Moscow) and Poliom LLC (Omsk). In 2016, both integrated enterprises achieved record levels of equipment productivity and polypropylene production: 130,000 tonnes at Neftekhimiya NPP and 203,000 tonnes at Poliom LLC. Taking into account the Company's stakes in these assets, Gazprom Neft's polypropylene production increased by 7% in 2016 versus the previous year and totalled 116,000 tonnes.