APPENDIX 1. REPORT ON AUDIT RESULTS OF THE CONSOLIDATED FINANCIAL STATEMENT FOR 2017

Independent Auditor’s Report

To the Shareholders and Board of Directors of PJSC Gazprom Neft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Gazprom Neft (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group’s consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

### Overview

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Overall group materiality: Russian Roubles (&quot;RUB&quot;) 13,700 million, which represents 2.5% of the adjusted EBITDA</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Audit scope</th>
<th>The Group has offices and operations in different countries with parent company and corporate centre located in Saint Petersburg (Russian Federation). We conducted audit work at 28 components in 5 countries.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The group engagement team visited the following locations: Saint Petersburg, Ekaterinburg and Omsk (Russian Federation) as well as Belgrade (Serbia). We also engaged PwC network offices in Serbia, Russia, Austria, Iraq and UAE to perform audit procedures at components.</td>
</tr>
<tr>
<td></td>
<td>Our audit scope addressed more than 80% of the Group’s revenues and more than 71% of the Group’s absolute value of underlying profit before tax.</td>
</tr>
</tbody>
</table>

### Key audit matters

<table>
<thead>
<tr>
<th>Revenue recognition.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment assessment of Iraqi assets.</td>
</tr>
</tbody>
</table>

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

### Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate, on the consolidated financial statements as a whole.
**Overall group materiality**  
RUB 13,700 million

**How we determined it**  
2.5% of the adjusted EBITDA

**Rationale for the materiality benchmark applied**  
We chose to apply adjusted EBITDA as the benchmark for establishing the materiality level, because we believe it is most commonly used to assess the Group’s performance (see Note 40 to the consolidated financial statements). Management uses adjusted EBITDA as a means of assessing the performance of the Group’s ongoing operating activities, as it reflects the Group’s earnings trends without showing the impact of certain charges. We established materiality at 2.5%, which is within the range of acceptable quantitative materiality thresholds for profit-oriented entities in this industry.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How our audit addressed the Key audit matter</th>
</tr>
</thead>
</table>
| **Revenue recognition**  
Refer to note 2 ("Revenue recognition") in the consolidated financial statements for the related disclosures of accounting policies.  
This year we continued to focus on revenue recognition because of the users’ ongoing attention to this financial reporting line item as a performance measure, its sizable amount in value terms, diversity in sources and essential associated risks of material misstatement due to both fraud and error.  
The Group’s revenue consists of different streams, comprising mainly sales of crude oil, petroleum products and other materials on domestic and international markets. The Group sells oil products to industrial customers, via small-scale wholesale distribution channels and via the Group’s own network of retail petrol stations in the Russian Federation and abroad. | This year we launched computer-assisted audit techniques (CAATs) for all hydrocarbons revenue transactions at corporate centre, and all revenue transactions from sales of petroleum and associated products through own retail network of petrol stations in the Russian Federation throughout the audited period. With the help of these techniques, we performed a verification of the calculation of each revenue transaction, based on the applicable price and quantity, as well as its reconciliation with accrued accounts receivable or payment received from the counterparty covering the total revenue population.  
Similar to prior year, we evaluated the design and tested operating effectiveness of controls over revenue recognition across significant components (including review of relevant Information Technology controls). |
### Key audit matter

These revenue streams have different terms underlying revenue recognition, including price determination and risks and rewards transfer. Due to the same high volume of transactions, possible manual intervention, different management accounting systems and the interfaces of these with the accounting records, there is the potential for deliberate manipulation or error.

We assessed the risk of fraud and error for each individual revenue stream and tailored audit strategy based on internal control reliance expected for all full-scope significant components audits. Previously established substantive audit approach was reengineered this year with the implementation of computer-assisted audit techniques at corporate centre and the retail component.

### How our audit addressed the Key audit matter

At petrol stations, we validated controls over price setting and reconciliation of data between operating and accounting systems in both quantitative and monetary terms.

We performed disaggregated analytics over remaining streams not covered by CAATs and based investigation on contract details and reconciliation of inventory movement starting from production through to final sale.

Our audit plan of substantive procedures this year was limited to detailed testing of selected operations leading to revenue recognition, confirmation of selected accounts receivable balances at the year-end, and check of appropriateness of the timing of revenue recognition by comparing the dates of the transfer of risks and rewards of ownership of goods per contract arrangement against the corresponding dates of revenue recognition. We performed substantive procedures for 80% of the Group’s revenue including all significant and certain other components selected on risk or rotation basis.

Our detailed testing included verification whether the Group was entitled to, and appropriately recognised, revenue in line with their contractual obligations and the Group’s revenue recognition policy. We assessed the consistency in the application of the revenue recognition accounting policy against various sources of the Group’s revenues. We also tested manual journal entries posted to revenue and reconciled actual selling prices to the contractual terms as well as amounts shipped to source shipping documents.

No significant exceptions were noted as the result of our procedures performed.
### Key audit matter

*Impairment assessment of Iraqi assets*

*Refer to notes 2, 3 and 12 in the consolidated financial statements.*

The assets located in Iraq have been impaired and written down to recoverable amounts during both 2015 and 2016. We continued to focus on this area in 2017 due to the significant remaining carrying value of these assets. Furthermore, estimation of the ‘value in use’ recoverable amount for these assets requires management to make subjective judgements and estimates about the future results of the business and production volumes, commodity prices and discount rates.

Those assets relate to upstream oil and gas assets located in Kurdistan and Badra, which are governed by the terms of the Production Sharing Agreement (PSA) and the Development and Production Service Contract (PDSC). The Group entered the Iraqi business in 2012. Performance since then has been impacted by a general deterioration in the macroeconomic environment both globally and in Iraq, and by the PSA and PDSC terms and conditions, resulting in the recognition of impairment in the preceding years. Current year impairment testing results and carrying value of the assets related to Iraqi projects are disclosed in Note 12 Property, plant and equipment.

Management process to determine the ‘value in use’ did not change comparing to previous periods. High volatility of macroeconomic parameters supplemented by political instability in the region together with sensitivity of the model to management assumptions significantly increase estimation uncertainty for this accounting estimate.

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How our audit addressed the Key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment assessment of Iraqi assets</td>
<td>We evaluated and challenged the composition of management’s future cash flow forecasts, and the process by which they were prepared confirming validity of any changes implemented from the prior year. We compared the current year actual results to the figures included in the prior year forecast, to consider whether any forecasts included assumptions that, with hindsight, had been overly optimistic. We extended the use of our internal valuation experts and external data from independent sources in assessing and obtaining audit evidence to support the revised assumptions used in impairment testing. The most significant assumptions relate to future oil prices and discount rates depending on Iraq’s country risk. For the purpose of the analysis of future market prices we have used Brent crude oil quotations as per Bloomberg, IHS, Wood Mackenzie and PIRA Energy Group’s data. We also challenged the discount rate applied by assessing the cost of capital for comparable entities, as well as considering country/territory specific factors. In relation to production volumes, we performed reconciliation of input data to prior year amounts and information received from science and technology center engaged with geological studies within the Group. We found information to be consistent and the assumptions being within the acceptable range. No significant exceptions were noted.</td>
</tr>
</tbody>
</table>

**How we tailored our group audit scope**

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.
When scoping our group audit we determined the nature of audit procedures and the scope of work to be performed at significant components in order to ensure that we obtain sufficient audit evidence to enable us to provide an opinion on the consolidated financial statements as a whole.

When determining our audit approach we considered materiality of the Group components for the consolidated financial statements, our risk assessment for each component, volume of evidence received from our audit procedures at the level of the Group as a whole as well as risks associated with non-significant components for which no full scope audit procedures were performed.

Based on the above we determined the nature and scope of audit procedures at the level of significant entities as well as at the level of the group as a whole. There were no components with significant risk of material misstatement to the Group consolidated financial statements. However we identified the following significant components where we performed full-scope audit procedures: PJSC Gazprom Neft (parent holding company, corporate centre located in Saint Petersburg, Russian Federation), Gazprom Neft Regional Sales LLC (Russian subsidiary responsible for regional oil products wholesale) and Gazpromneft-Centre LLC (Russian subsidiary responsible for retail oil product sales). Naftna Industrija Srbije a.d. was determined as the fourth significant component where PwC network office in Serbia performed full-scope audit procedures based on our instructions.

In addition to audit evidence obtained at the group level and significant components, we performed specified procedures over selected financial line items of several not significant components. Our selection aimed to cover both oil production and refining entities as well as premium channel sales on a rotational basis. In addition, we evaluated controls over reporting at Gazprom Neft Business Service LLC (Russian subsidiary with divisions located in Saint Petersburg, Omsk, Noyabrsk and Ekaterinburg responsible for accounting and bookkeeping services for all Russian entities). We also leveraged audit evidence obtained by PwC network offices in Russia, Iraq, Austria and UAE during statutory audits of selected components.

Other information

Management is responsible for the other information. The other information comprises “Management’s discussion and analysis of financial condition and results of operations for the three months ended December 31 and September 30, 2017 and years ended December 31, 2017 and 2016” (but does not include the consolidated financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the PJSC Gazprom Neft Annual Report and 1st quarter 2018 Quarterly Issuer’s Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

26 February 2018
Moscow, Russian Federation

I.V. Shanina, certified auditor (licence no. 01-001940), AO PricewaterhouseCoopers Audit

Audit entity: PJSC Gazprom Neft
State registration certificate № 38604350 issued by the Omsk Registration Bureau on 06 October 1995
Certificate of inclusion in the Unified State Register of Legal Entities issued on 21 August 2006 under registration № 0125507106566
Russian Federation, 199034, St. Petersburg, Gakkiyova str., 5, str. A

Independent auditor: AO PricewaterhouseCoopers Audit
State registration certificate № 008 890, issued by the Moscow Registration Chamber on 28 February 1992
Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1127700148431
Member of self-regulated organization of auditors - Russian Union of auditors (Association)
OREN № 106031500543 in the register of auditors and audit organizations