

# FINANCIAL RESULTS

## KEY INDICATORS (IFRS)

### KEY INDICATORS (RUB MN)

Indicator	2016	2017	Δ, %
Sales <sup>1</sup>	1,695,764	2,003,575	18.2
Less: export duties and sales related excise tax	(150,156)	(145,644)	(3.0)
<b>TOTAL REVENUE</b>	<b>1,545,608</b>	<b>1,857,931</b>	<b>20.2</b>
<b>COSTS AND OTHER DEDUCTIONS</b>			
Purchases of oil, gas and petroleum products	(351,294)	(456,037)	29.8
Production and manufacturing expenses	(201,862)	(216,530)	7.3
Selling, general and administrative expenses	(108,981)	(106,629)	(2.2)
Transportation expenses	(132,984)	(141,982)	6.8
Depreciation, depletion and amortization	(129,845)	(140,998)	8.6
Taxes other than income tax	(381,131)	(492,269)	29.2
Exploration expenses	(1,195)	(963)	(19.4)
<b>TOTAL OPERATING EXPENSES</b>	<b>(1,307,292)</b>	<b>(1,555,408)</b>	<b>19</b>
<b>OPERATING PROFIT</b>	<b>238,316</b>	<b>302,523</b>	<b>26.9</b>
Share of profit of associates and joint ventures	34,116	45,504	33.4
Net foreign exchange (loss) / gain	28,300	(241)	-
Finance income	11,071	10,098	(8.8)
Finance expense	(34,282)	(25,127)	(26.7)
Other (loss) / gain, net	(17,982)	(7,557)	(58.0)
<b>TOTAL OTHER (EXPENSE) / INCOME</b>	<b>21,223</b>	<b>22,677</b>	<b>6.9</b>
<b>(LOSS) / PROFIT BEFORE INCOME TAX</b>	<b>259,539</b>	<b>325,200</b>	<b>25.3</b>
Current income tax (expense)	(21,290)	(43,695)	105.2
Deferred income tax benefit / (expense)	(28,524)	(11,827)	(58.5)
<b>TOTAL INCOME TAX BENEFIT / (EXPENSE)</b>	<b>(49,814)</b>	<b>(55,522)</b>	<b>11.5</b>
<b>(LOSS) / PROFIT FOR THE PERIOD</b>	<b>209,725</b>	<b>269,678</b>	<b>28.6</b>
Less: profit attributable to non-controlling interest	(9,546)	(16,404)	71.8
<b>PROFIT ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS</b>	<b>200,179</b>	<b>253,274</b>	<b>26.5</b>

 For more on the financial results, see the IFRS financial statement in Appendix 2, p. 192

 The full version of the financial performance analysis is in the appendices to the online version of the report:  
<https://ar2017.gazprom-neft.com/interactive-analysis>

## REVENUE

### REVENUE (RUB MN)

Indicator	2016	2017	Δ, %
<b>CRUDE OIL</b>			
Export	225,137	367,299	63.1
Export sales	266,661	413,662	55.1
Less: related export duties	(41,524)	(46,363)	11.7
International markets	12,683	22,480	77.2
Export to CIS	23,528	29,732	26.4
Export sales and sales in CIS	23,657	30,117	27.3
Less: related export duties	(129)	(385)	198.4
Domestic	94,809	83,393	(12.0)
<b>TOTAL CRUDE OIL REVENUE</b>	<b>356,157</b>	<b>502,904</b>	<b>41.2</b>
<b>GAS</b>			
International markets	1,853	1,237	(33.2)
Domestic	30,116	36,351	20.7
<b>TOTAL GAS REVENUE</b>	<b>31,969</b>	<b>37,588</b>	<b>17.6</b>
<b>PETROLEUM PRODUCTS</b>			
Export	184,272	198,597	7.8
Export sales	215,837	228,346	5.8
Less: related export duties	(31,565)	(29,749)	(5.8)
International markets	99,440	112,912	13.5
Sales on international markets	175,247	180,803	3.2
Less: sales related excise	(75,807)	(67,891)	(10.4)
CIS	71,838	75,898	5.7
Export sales and sales in CIS	72,969	77,154	5.7
Less: CIS	(1,131)	(1,256)	11.1
Export sales and sales in CIS			
Domestic	743,721	868,225	16.7
<b>TOTAL PETROLEUM PRODUCTS REVENUE</b>	<b>1,099,271</b>	<b>1,255,632</b>	<b>14.2</b>
<b>OTHER REVENUE<sup>2</sup></b>	<b>58,211</b>	<b>61,807</b>	<b>6.2</b>
<b>TOTAL REVENUE</b>	<b>1,545,608</b>	<b>1,857,931</b>	<b>20.2</b>

2 — Mainly consists of revenue from the sale of transportation, construction, and utility services.

# PRODUCTION AND MANUFACTURING EXPENSES

## PRODUCTION AND OPERATING EXPENSES (RUB MN)

Indicator	2016	2017	Δ, %
<b>UPSTREAM EXPENSES</b>	<b>106,765</b>	<b>111,837</b>	<b>4.8</b>
RUB per toe	1,782	1,767	(0.8)
USD <sup>1</sup> per boe	3.63	4.13	13.8
Consolidated subsidiaries inside Russia including	80,392	85,898	6.8
RUB per toe	1,647	1,653	0.4
USD <sup>1</sup> per boe	3.35	3.87	15.5
Brownfields	65,960	67,923	3.0
RUB per toe	1,692	1,812	7.1
USD <sup>1</sup> per boe	3.44	4.24	23.3
Greenfields	14,432	17,975	24.5
RUB per toe	1,470	1,242	(15.5)
USD <sup>1</sup> per boe	2.99	2.9	(3.0)
Consolidated subsidiaries outside Russia (including PSA) <sup>2</sup>	9,655	8,381	(13.2)
RUB per toe	4,144	3,059	(26.2)
USD <sup>1</sup> per boe	8.43	7.15	(15.2)
Joint operations	16,718	17,558	5.0
RUB per toe	1,924	2,061	7.1
USD <sup>1</sup> per boe	3.92	4.82	23.0
<b>DOWNSTREAM EXPENSES</b>	<b>53,132</b>	<b>55,318</b>	<b>4.1</b>
Refining expenses at own refineries	30,619	31,191	1.9
RUB per tonne	893	966	8.2
USD <sup>1</sup> per bbl	1.82	2.26	24.2
Refining expenses at refineries of joint ventures <sup>3</sup>	12,453	12,259	(1.6)
RUB per tonne	1,639	1,568	(4.3)
USD <sup>1</sup> per bbl	3.33	3.67	10.2
Lubricants manufacturing expenses	10,060	11,868	18.0
<b>TRANSPORTATION EXPENSES TO REFINERIES</b>	<b>29,561</b>	<b>29,265</b>	<b>(1.0)</b>
<b>OTHER OPERATING EXPENSES INCLUDING</b>	<b>12,404</b>	<b>20,110</b>	<b>62.1</b>
<b>TOTAL</b>	<b>201,862</b>	<b>216,530</b>	<b>7.3</b>

Hydrocarbon production expenses include the cost of raw materials and supplies, maintenance and repair of equipment used for the production of hydrocarbons, expenses on payroll, fuel, and lubricants, the cost of enhanced oil recovery measures, and other similar expenses at the Group's production enterprises.

<sup>1</sup> — Translated to USD at the average exchange rate for the period.

<sup>2</sup> — PSA refers to production sharing agreement.

<sup>3</sup> — Refining expenses of joint ventures is based on processing agreement.

The 0.4% YOY increase in specific operating expenses for hydrocarbon production at subsidiaries in the Russian Federation was due to growth in costs at mature fields, which in turn increased as a result of:

- a reduction in production volumes given the restrictions of OPEC+;
- growth in natural monopoly tariffs;
- an increase in the share of rolling equipment for electric centrifugal pumps (ECPs);
- inflationary pressure on the cost of services and resources;
- an increase in the cost of refining associated petroleum gas (APG).

The 15.2% YOY decrease in specific operating expenses for hydrocarbon production by subsidiaries outside the Russian Federation in U.S. dollars per barrel is the result of increased production in Iraq and cost optimization for the repair of wells at fields in Serbia.

Specific operating expenses for hydrocarbon production at joint operations increased by 7.1% YOY primarily due to:

- a reduction in production given the restrictions of OPEC+;
- growth in natural monopoly tariffs;
- an increase in the share of rolling equipment for ECPs and the cost of its maintenance;
- inflationary pressure on the cost of services and resources.

Oil refining costs at the oil refineries of subsidiaries include the cost of raw materials and supplies, the maintenance and repair of equipment used for processing hydrocarbons, payroll and electricity costs, and other similar expenses at the Group's refining facilities.

Specific operating costs on oil refining at the refineries of subsidiaries increased by 8.2% YOY due to:

- a decrease in production volume due to scheduled repairs;
- an increase in the purchase of MTBE to maintain the level of gasoline production in connection with the repair of 'big ring' facilities at the Moscow Refinery;
- an increase in expenses on natural gas for the refinery's internal needs.

Specific operating costs on oil refining at the refineries of joint ventures decreased by 4.3% YOY due to the optimized consumption of reagents, chemical reagents, and additives.

The 62.1% YOY increase in other operating expenses was primarily due to growth in the provision of services to joint ventures.

## 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.

Commercial, general, and administrative expenses decreased by 2.2% YOY, primarily at foreign subsidiaries as a result of the rouble's appreciation.

## 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 increased by 6.8% YOY mainly due to higher export crude sales volumes.

## 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 8.6% YOY in line with an increase in depreciable assets driven by implementation of the investment program and increased production.

### TAXES OTHER THAN INCOME TAX (RUB MN)

Types of tax	2016	2017	Δ, %
Mineral extraction tax	237,300	329,579	38.9
Excise tax	112,102	128,229	14.4
Social security contributions	18,530	20,433	10.3
Other taxes	13,199	14,028	6.3
<b>TOTAL TAXES OTHER THAN INCOME TAX</b>	<b>381,131</b>	<b>492,269</b>	<b>29.2</b>

Taxes, excluding profit tax, grew by 29.2% YOY. The 38.9% increase in mineral extraction tax expenses resulted from growth in the tax rate under the Tax Code of the Russian Federation, the introduction of an additional mark-up factor as well as an increase in oil production volumes and oil prices. Excise tax expenses increased by 14.4% YOY due to higher rates.

## SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS

### SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS (RUB MN)

Companies	2016	2017	Δ, %
Slavneft	13,916	10,347	(25.6)
SeverEnergiya (Arcticgas)	14,472	19,861	37.2
Messoyakha	(947)	9,976	-
Nortgaz	3,009	3,433	14.1
Other companies	3,666	1,887	(48.5)
<b>SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES</b>	<b>34,116</b>	<b>45,504</b>	<b>33.4</b>

The share of Slavneft profit decreased YOY mainly due to a production decline, depreciation growth and decreased income from foreign exchange differences. The share of SeverEnergiya (Arcticgas) profit increased by 37.2% YOY as a result of increased EBITDA and reduction of financial expenses. The share of Messoyakha profit increased YOY as a result of started commercial production in 4Q 2016.

## OTHER INCOME AND EXPENSES

Other expenses decreased by 58.0% YOY. Other expenses in 2017 mainly include impairment provision of advances paid.

## 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 MN)

Indicator	2016	2017	Δ, %
Net cash provided by operating activities	321,297	421,700	31.2
Net cash used in investing activities	(323,854)	(312,889)	(3.4)
Net cash used in financing activities	(68,430)	(50,521)	(26.2)
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(70,987)</b>	<b>58,290</b>	<b>-</b>

### NET CASH PROVIDED BY OPERATING ACTIVITIES (RUB MN)

Indicator	2016	2017	Δ, %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	361,567	439,320	21.5
Net changes in working capital	15,216	52,808	>200
Income tax paid	(22,158)	(36,530)	64.9
Interest paid	(36,476)	(39,449)	8.2
Dividends received	3,148	5,551	76.3
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>321,297</b>	<b>421,700</b>	<b>31.2</b>

Net cash provided by operating activities increased by 31.2% YOY primarily due to higher operating profit and changes in working capital.

### NET CASH USED IN INVESTMENT ACTIVITIES (RUB MN)

Indicator	2016	2017	Δ, %
Capital expenditures	(384,817)	(357,090)	(7.2)
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(2,028)	(8,345)	>200
Net changes in deposits	48,517	(5,933)	-
Net changes in loans issued and other investments	(2,104)	44,938	-
Other transactions	16,578	13,541	(18.3)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(323,854)</b>	<b>(312,889)</b>	<b>(3.4)</b>

Net cash used in investment activities decreased by 3.4% YOY due to lower capital expenditures and repayments of loans issued to Messoyakha.

**NET CASH USED IN FINANCING ACTIVITIES** (RUB MN)

Indicator	2016	2017	Δ, %
Net changes in debt	(63,929)	3,556	-
Payment of dividends to shareholders	(2,598)	(50,382)	>200
Other transactions	(1,903)	(3,695)	94.2
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(68,430)</b>	<b>(50,521)</b>	<b>(26.2)</b>

Net cash used in financing activities decreased by 26.2% YOY mainly due to a decline of net amount of new funds raised and repayments of loans and borrowings. The Group paid dividends for 2016 in 3Q 2017.

**CAPITAL EXPENDITURES** (RUB MN)

Indicator	2016	2017	Δ, %
Exploration and production	245,256	223,916	(8.7)
Consolidated subsidiaries	228,084	207,900	(8.8)
Joint operations	17,172	16,016	(6.7)
Refining	50,095	81,370	62.4
Marketing and distribution	9,728	12,466	28.1
Others	14,724	16,227	10.2
<b>SUBTOTAL CAPITAL EXPENDITURES</b>	<b>319,803</b>	<b>333,979</b>	<b>4.4</b>
Change in advances issued and material used in capital expenditures, including	65,014	23,111	(64.5)
<b>TOTAL CAPITAL EXPENDITURES</b>	<b>384,817</b>	<b>357,090</b>	<b>(7.2)</b>

Capital expenditures for exploration and production decreased by 8.7% YOY due to:

- Completion of first stage of infrastructure construction at Novoportovskoye field
- Completion of oil infrastructure construction at Badra
- Decreased drilling volumes at brownfields.

Capital expenditures for refining increased by 62.4% YOY due to the second stage of modernization programme at Omsk and Moscow refineries (catalytic cracking reconstruction and construction of plant Euro+ at Moscow refinery).

**DEBT AND LIQUIDITY** (RUB MN)

Indicator	2016	2017
Short-term loans and borrowings	80,187	131,760
Long-term loans and borrowings	596,221	548,654
Cash and cash equivalents	(33,621)	(90,608)
Short-term deposits	(886)	(5,779)
<b>NET DEBT</b>	<b>641,901</b>	<b>584,027</b>
Short-term debt / total debt, %	11.9	19.4
Net debt / EBITDA for 12 months preceding	1.60	1.19

The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments.

As at December 31, 2017 average debt maturity remained unchanged from 3.6 years as at December 31, 2016.

The average interest rate increased insignificantly from 5.52% as at December 31, 2016 to 5.54% as at December 31, 2017.

 For more about debt, see the Debt Portfolio and Credit Ratings subsection on p. 177

## FINANCIAL APPENDIX

### EBITDA RECONCILIATION (RUB MN)

Indicator	2016	2017	Δ, %
<b>PROFIT FOR THE PERIOD</b>	<b>209,725</b>	<b>269,678</b>	<b>28.6</b>
Total income tax benefit / (expense)	49,814	55,522	11.5
Finance expense	34,282	25,127	(26.7)
Finance income	(11,071)	(10,098)	(8.8)
Depreciation, depletion and amortization	129,845	140,998	8.6
Net foreign exchange (loss) / gain	(28,300)	241	-
Other (loss) / gain, net	17,982	7,557	(58.0)
<b>EBITDA</b>	<b>402,277</b>	<b>489,025</b>	<b>21.6</b>
Less: Share of profit of associates and joint ventures	(34,116)	(45,504)	33.4
Add: Share of EBITDA of equity accounted investments	88,037	107,446	22.0
<b>ADJUSTED EBITDA</b>	<b>456,198</b>	<b>550,967</b>	<b>20.8</b>

### PROFITABILITY (%)

Indicator	December 31, 2016	December 31, 2017	Δ, p. p.
Adjusted EBITDA margin	29.52	29.65	0.1
Net profit margin	13.57	14.51	0.9
Return on assets (ROA)	8.33	9.84	1.5
Return on equity (ROE)	15.58	17.38	1.8
Adjusted Return on average capital employed (ROACE)	11.77	13.9	1.9

### ADJUSTED ROACE CALCULATION (%)

Indicator	December 31, 2016	December 31, 2017
Adjusted EBITDA	456,198	550,967
Depreciation, depletion and amortization	(158,919)	(178,449)
Effective income tax charge on EBIT	(62,429)	(71,605)
<b>ADJUSTED EBIT<sup>1</sup></b>	<b>234,850</b>	<b>300,913</b>
<b>AVERAGE CAPITAL EMPLOYED</b>	<b>1,994,626</b>	<b>2,164,614</b>
<b>ADJUSTED ROACE</b>	<b>11.77</b>	<b>13.9</b>

<sup>1</sup> — Adjusted EBIT represents Group's EBIT and its share in associates and joint ventures' EBIT.



## LIQUIDITY

Indicator	December 31, 2016	December 31, 2017	Δ, %
Current ratio	1.37	0.90	(34.3)
Quick ratio	0.66	0.43	(34.8)
Cash ratio	0.26	0.21	(19.2)

## LEVERAGE

Indicator	December 31, 2016	December 31, 2017	Δ, p. p.
Net debt/ Total Assets, %	25.18	19.93	(5.3)
Net debt/ Equity, %	44.45	35.20	(9.3)
Gearing, %	30.80	25.97	(4.8)
			Δ, %
Net debt/ Market Capitalization	0.64	0.51	(20.3)
Net debt/ EBITDA	1.60	1.19	(25.6)
Total debt/ EBITDA	1.68	1.39	(17.3)

## MAIN MACROECONOMIC FACTORS AFFECTING OPERATIONAL RESULTS

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

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

## CHANGES IN MARKET PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS

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

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

The increase in crude oil and petroleum product prices on international markets in 12 months 2017 had a positive impact on the Group's results.

## PRICE DYNAMICS OF OIL AND PETROLEUM PRODUCTS

Sources: Platts (international), Kortes (domestic)

Types of fuel	2016	2017	Δ, %
<b>INTERNATIONAL MARKET (USD / BARREL)</b>			
Brent	43.73	54.09	23.7
Urals Spot (average Med + NWE)	42.02	52.94	26.0

Types of fuel	2016	2017	Δ, %
<b>INTERNATIONAL MARKET (USD / TONNE)</b>			
Premium gasoline (average NWE)	467.05	557.58	19.4
Naphtha (average Med. + NWE)	377.85	477.10	26.3
Diesel fuel (average NWE)	398.58	493.65	23.9
Gasoil 0.1% (average Med.)	391.21	483.49	23.6
Fuel oil 3.5% (average NWE)	199.93	290.96	45.5
<b>DOMESTIC MARKET (RUB/ TONNE)</b>			
High-octane gasoline	34,574	36,820	6.5
Low-octane gasoline	29,858	31,931	6.9
Diesel fuel	27,965	32,619	16.6
Fuel oil	6,051	9,594	58.6

## ROUBLE VS. US DOLLAR EXCHANGE RATE AND INFLATION

The Group's presentation currency is the Russian rouble. 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 rouble.

Indicator	2016	2017
Change in Consumer Price Index (CPI), %	5.4	2.5
Average RUB / USD exchange rate for the period	67.03	58.35
USD / RUB exchange rate as of the beginning of the period	72.88	60.66
USD / RUB exchange rate as of the end of the period	60.66	57.60
Depreciation (appreciation) of Russian rouble to USD, %	(17)	(5)

## TAXATION

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

Indicator	2016	2017	Δ, %
<b>EXPORT DUTY (USD / TONNE)</b>			
Crude oil	75.61	86.74	14.7
Light petroleum products	30.21	25.99	(14)
Diesel	30.21	25.99	(14)
Gasoline	46.07	25.99	(43.6)
Naphtha	53.63	47.67	(11.1)
Heavy petroleum products	61.96	86.74	40
<b>MINERAL EXTRACTION TAX (RUB/ TONNE)</b>			
Crude oil (RUB/ tonne)	5,770	8,134	41