

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended December 31 and September 30, 2019
and years ended December 31, 2019 and 2018**

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Definitions and conversions

The following discussion is intended to assist you in understanding the Group financial position as of December 31, 2019 and results of operations for the three months ended December 31 and September 30, 2019 and years ended December 31, 2019 and 2018, is published and should be read in conjunction with the Consolidated Financial Statements, which were prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended December 31, 2019 and corresponding audit report. Information from this report is included into annual report of PJSC Gazprom Neft for 2019 year.

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

4Q	3Q			12 month		
2019	2019	Δ, %		2019	2018	Δ, %
Financial results (RUB million)						
613,870	656,764	(6.5)	Revenue	2,485,308	2,489,292	(0.2)
179,618	207,456	(13.4)	Adjusted EBITDA*	795,129	799,506	(0.5)
7,431	8,468	(12.2)	RUB per toe of production	8,274	8,608	(3.9)
15.70	17.67	(11.1)	USD** per boe of production	17.24	18.52	(6.9)
80,228	104,934	(23.5)	Profit attributable to Gazprom Neft shareholders	400,201	376,667	6.2
Operational results						
179.58	181.87	(1.3)	Hydrocarbon production including our share in joint ventures (MMboe)	712.72	688.40	3.5
24.17	24.50	(1.3)	Hydrocarbon production including our share in joint ventures (MMtoe)	96.10	92.88	3.5
1.95	1.98	(1.5)	Daily hydrocarbon production (MMboepd)	1.95	1.89	3.2
116.79	122.61	(4.7)	Crude oil and condensate production including our share in joint ventures (MMbbl)	472.31	469.38	0.6
376.66	355.54	5.9	Gas production including our share in joint ventures (bcf)	1,442.46	1,314.24	9.8
10.39	11.09	(6.3)	Refining throughput at own refineries and joint ventures (MMtonnes)	41.47	42.91	(3.4)

* 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

2019 highlights

- In June 2019 the shareholders' meeting approved dividends on the ordinary shares for FY 2018 in the amount of RUB 30 per share (including interim dividends for the nine months in the amount of RUB 22.05 per share)
- In October 2019 the shareholders' meeting approved interim dividends for the six months ended 30 June 2019 in the amount of RUB 18.14 per share
- Long-term risk operating agreements concluded between Gazprom Neft and Gazprom which allow to involve in production previously undeveloped reserves of Gazprom oil rim reserves and neocomian-jurassic reserves
- Following completion of the transaction in July Sibgazpolymer JSC (a Gazprom Neft - SIBUR joint venture) increased its share in Omsky polypropylene plant LLC from 50% to 100%
- Received exploration licenses for 5 new license blocks in Yamalo-Nenets Autonomous Okrug, 4 new license blocks at Orenburg region, 7 new license blocks in Khanty-Mansiysk Autonomous Okrug, 13 new license blocks at Krasnoyarsk region, 1 new license block in the Ob Gulf of Kara Sea, 1 new license block in Sverdlovsk region and 1 new license block in Tyumen region
- The installation of key catalyst reforming equipment at Omsk Refinery was completed. The modernisation of the existing facility will facilitate a 1.5-fold increase in the production of high-octane gasoline components
- Construction of a new 6.5 thousand tons per diem loading unit for light products was completed at Moscow Refinery. The new terminal provides for simultaneous loading of high octane gasoline, diesel and jet fuel, facilitating a four-fold decrease in loading time
- The Company successfully completed the pilot project on constructing the first 1-MW solar-power plant in the region at Omsk refinery using equipment from russian producers which provides energy for all administrative buildings at the refinery and allows to increase energy efficiency and to reduce the environmental impact of the refinery
- In November and December the Group performed 5-year RUB 25 billion 6.85% p.a. and 10-year RUB 20 billion 7.15% p.a. coupon bond placements, respectively. The coupon rates have become the lowest in the history of the Russian market for similar maturities among corporate placements
- In February 2019 Moody's upgraded Company's rating to Baa2 with a stable outlook. In August 2019 Fitch upgraded Company's rating to BBB with a stable outlook.

Results for 12 months 2019 compared with 12 months 2018

- Total hydrocarbon production, including Group's share in joint ventures, increased by 3.5% to 96.10 MMtoe due to production growth at Novoportovskoye and East-Messoyakhskoye fields, in Orenburg region and oil rim projects and an increase in Group's share in Arcticgas
- Total refining throughput decreased by 3.4% due to scheduled repairs at Group refineries during 2019 year
- Revenue remained unchanged compared to the prior year. Price decline on the domestic and international markets was offset by crude oil sales volume growth
- An adjusted EBITDA was almost unchanged compared to the prior year despite changes in the pricing environment
- Profit attributable to Gazprom Neft shareholders increased by 6.2% mainly due to Russian Rouble strengthening for 12 months 2019 and positive impact of net financial income and expenses.

Results for 4Q 2019 compared with 3Q 2019

- Total hydrocarbon production, including Group's share in joint ventures, decreased by 1.3% in accordance with production quotas level under the OPEC+ agreement
- Refining throughput decreased by 6.3% due to scheduled repairs at Omsk and Moscow refineries in 4Q
- Revenue decreased by 6.5% mainly due to lower crude oil and petroleum products sales volumes
- The 13.4% reduction in adjusted EBITDA is mainly the result of lower crude oil and petroleum products prices and lower production
- Profit attributable to Gazprom Neft shareholders decreased mainly in the result of lower EBITDA.

Operating data and analysis

Oil and Gas Reserves

(MMboe)	Share in proportionally consolidated companies and joint ventures							Total
	Gazprom Neft*	Slavneft	Tomsk neft	SPD	Arcticgas	Northgas	Messo yakha	
<i>Proved Reserves (December 31, 2017)</i>	6,407	969	575	174	2,487	578	90	11,280
Production	(411)	(53)	(38)	(23)	(114)	(25)	(16)	(680)
Reserves additions / (disposals)	-	-	-	-	176	-	-	176
Revision of previous estimates	443	38	4	14	377	(84)	39	831
<i>Proved Reserves (December 31, 2018)</i>	6,439	954	541	165	2,926	469	113	11,607
Production	(431)	(53)	(36)	(26)	(116)	(23)	(19)	(704)
Reserves additions / (disposals)	371	-	-	-	(304)	-	-	67
Revision of previous estimates	427	60	(2)	28	218	25	17	773
<i>Proved Reserves (December 31, 2019)</i>	6,806	961	503	167	2,724	471	111	11,743
Total group probable reserves	5,558	1,809	395	180	978	115	427	9,462
Total group possible reserves	7,423	1,372	323	161	560	178	459	10,476

* Reserves above include reserves of Badra and Kurdistan fields on a working interest basis, which differs from net entitlement basis used in the Group consolidated financial statements

- The Company's proved reserves as of 31.12.2019 increased by 367 MMboe and totaled 6,806 MMboe, including 4,585 MMbbl of crude oil and liquid hydrocarbons and 13,326 bcf of gas
- The Group proved reserves, including shares in joint operations and joint ventures, as of 31.12.2019 increased by 136 MMboe and totaled 11,743 MMboe, including 6,899 MMbbl of crude oil and liquid hydrocarbons and 29,073 bcf of gas
- As a result of completion a project on restructuring Arcticgas ownership Gazprom Neft and Novatek exchanged mineral rights for license blocks in 2019
- Reserve replacement ratio and reserves to production ratio for Group proved reserves, including shares in joint operations and joint ventures, as of 31.12.2019 are equal to 119% and 17 years, respectively
- Proved reserves figures exclude reserve volumes related to the Serbian subsidiary, NIS due to limitations on disclosure of this information in Serbia
- Reserve estimates are made by independent reservoir engineers DeGolyer and MacNaughton on the basis of standards of the Society of Petroleum Engineers Petroleum Reserves Management System (PRMS)
- PRMS reserves figures provided in the table differ from those reported in the supplementary information on oil and gas activities included with our consolidated financial statements. Oil and gas reserves included in that supplementary information are prepared using definitions provided by the US Securities and Exchange Commission (SEC), which require the use of a 12-month average of the first day of the month price for each month within the reporting period. The PRMS reserves in the above table use management's best estimate of future crude oil and natural gas prices.

Production drilling

	12 month		Δ, %
	2019	2018	
Consolidated subsidiaries			
Production drilling ('000 meters)	2,628	2,123	23.8
New production wells	639	545	17.2
Average new well flow (tonnes per day)	75.84	57.61	31.6
Joint operations			
Production drilling ('000 meters)	744	759	(2.0)
New production wells	153	159	(3.8)
Joint ventures			
Production drilling ('000 meters)	1,991	1,773	12.3
New production wells	398	378	5.3

- Increase in production drilling by consolidated subsidiaries Y-o-Y was due to development of new fields in traditional production regions
- Increase in number of new production wells and average new well flow rate by consolidated subsidiaries Y-o-Y was mainly due to commissioning of high flow rate wells at Novoportovskoye, Zapadno-Chatylkinskoye and Prirazlomnoye fields
- Increase in production drilling and new wells by joint ventures Y-o-Y was due to further development of Slavneft and Articgas fields.

Production

4Q	3Q			12 month		
2019	2019	Δ, %		2019	2018	Δ, %
(MMtonnes)			Crude oil, condensate and NGLs*	(MMtonnes)		
2.26	3.05	(25.9)	Noyabrskneftegaz	10.69	11.11	(3.8)
3.15	3.29	(4.3)	Khantos	12.66	13.69	(7.5)
1.00	1.02	(2.0)	Tomskneft	4.04	4.31	(6.3)
0.82	0.80	2.5	SPD	3.14	3.07	2.3
0.80	0.78	2.6	Orenburg	3.05	2.72	12.1
0.23	0.24	(4.2)	NIS	0.93	0.95	(2.1)
0.44	0.44	-	Vostok	1.70	1.65	3.0
1.94	1.95	(0.5)	Novoportovskoye	7.73	7.16	8.0
0.83	0.67	23.9	Prirazlomnoye	3.14	3.19	(1.6)
0.33	0.39	(15.4)	Badra & Kurdistan	1.52	1.61	(5.6)
0.21	0.15	40.0	Others	0.58	0.19	>200
12.01	12.78	(6.0)	Total production by subsidiaries and joint operations	49.18	49.65	(0.9)
1.74	1.80	(3.3)	Share in Slavneft	6.98	6.91	1.0
1.06	1.03	2.9	Share in Arcticgas	4.13	3.89	6.2
0.06	0.08	(25.0)	Share in Northgas	0.28	0.31	(9.7)
0.74	0.72	2.8	Share in Messoyakha	2.73	2.23	22.4
3.60	3.63	(0.8)	Share in production of joint ventures	14.12	13.34	5.8
15.61	16.41	(4.9)	Total crude oil, condensate and NGLs	63.30	62.99	0.5
(bcm)			Gas**	(bcm)		
2.07	2.14	(3.3)	Noyabrskneftegaz	8.51	9.13	(6.8)
0.28	0.26	7.7	Khantos	1.08	1.08	-
0.25	0.21	19.0	Tomskneft	0.94	0.95	(1.1)
0.04	0.04	-	SPD	0.14	0.13	7.7
0.86	0.85	1.2	Orenburg	3.25	2.71	19.9
0.11	0.12	(8.3)	NIS	0.45	0.48	(6.2)
0.11	0.04	175.0	Vostok	0.23	0.15	53.3
2.25	1.95	15.4	Novoportovskoye	7.93	4.53	75.1
0.05	0.05	-	Badra	0.22	0.23	(4.3)
0.04	0.04	-	Others	0.17	0.17	-
6.06	5.70	6.3	Total production by subsidiaries and joint operations	22.92	19.56	17.2
0.12	0.12	-	Share in Slavneft	0.48	0.47	2.1
3.59	3.32	8.1	Share in Arcticgas	13.81	13.31	3.8
0.87	0.89	(2.2)	Share in Northgas	3.53	3.79	(6.9)
0.03	0.03	-	Share in Messoyakha	0.11	0.09	22.2
4.61	4.36	5.7	Share in production of joint ventures	17.93	17.66	1.5
10.67	10.06	6.1	Total gas production	40.85	37.22	9.8
(MMtoe)			Hydrocarbons	(MMtoe)		
16.87	17.36	(2.8)	Total production by subsidiaries and joint operations	67.58	65.36	3.4
7.30	7.14	2.2	Share in production of joint ventures	28.52	27.52	3.6
24.17	24.50	(1.3)	Total hydrocarbon production	96.10	92.88	3.5
179.58	181.87	(1.3)	MMtoe	712.72	688.40	3.5
1.95	1.98	(1.5)	MMboe	1.95	1.89	3.2
			Daily hydrocarbon production (MMboepd)			

* Crude oil and condensate production includes gas recycling (NGL, LHG and others)

** Gas production includes marketable gas and gas used for the company needs taking into account reinjection for maintaining formation pressure. Gas production does not include gas used for gas recycling

- Group daily hydrocarbon production increased by 3.2% Y-o-Y and decreased by 1.5% Q-o-Q
- Group oil and condensate production increased by 0.5% Y-o-Y to 63.30 MMtonnes due to new wells commissioning and production growth at Novoportovskoye and East-Messoyakhskoye fields, in Orenburg region and at oil rim projects and an increase of Group's share in Arcticgas since end of March 2018
- The decrease in Group oil and condensate production by 4.9% Q-o-Q mainly was in accordance with production quotas level under OPEC+ agreement
- Group gas production increased by 9.8% Y-o-Y due to commissioning of the second gas processing line at the Novoportovskoye field in 3Q 2018, commissioning of a gas compressor station in Orenburg Region, higher natural gas production at Arcticgas and an increase of Group's share in Arcticgas
- Group gas production increased by 6.1% Q-o-Q due to seasonal factor, completion of scheduled repairs of gas processing lines at Arcticgas and activities at Novoportovskoye field.

Logistics, refining and marketing

Crude oil purchases

4Q 2019	3Q 2019	Δ, %	(MMtonnes)	12 month		
				2019	2018	Δ, %
1.52	2.22	(31.5)	Crude oil purchases in Russia *	7.78	7.81	(0.4)
0.56	0.48	16.7	Crude oil purchases internationally	1.51	1.36	11.0
2.08	2.70	(23.0)	Total crude purchased	9.29	9.17	1.3

* Crude oil purchases in Russia:

- exclude purchases from the Group's joint ventures Slavneft, Arcticgas and Messoyakha
- include purchase of stable gas condensate from Novatek (25% of Arcticgas production)

- Crude oil purchases on the domestic market decreased Q-o-Q mainly due to lower refining throughput
- Crude oil purchases on the international markets increased Y-o-Y and Q-o-Q due to growth of third party purchases share for Panchevo refinery.

Refining

4Q 2019	3Q 2019	Δ, %	(MMtonnes)	12 month		
				2019	2018	Δ, %
Refining throughput						
5.13	5.24	(2.1)	Omsk	20.72	21.00	(1.3)
2.26	2.78	(18.7)	Moscow	10.08	10.50	(4.0)
0.99	1.04	(4.8)	Pancevo	3.14	3.55	(11.5)
8.38	9.06	(7.5)	Total throughput at refineries owned by subsidiaries	33.94	35.05	(3.2)
2.01	2.03	(1.0)	Share in Yaroslavl	7.53	7.86	(4.2)
10.39	11.09	(6.3)	Total refining throughput	41.47	42.91	(3.4)
Production of petroleum products						
1.97	2.24	(12.1)	Gasoline	8.02	8.86	(9.5)
1.97	2.24	(12.1)	Class 5	8.02	8.86	(9.5)
0.49	0.48	2.1	Naphtha	2.01	1.95	3.1
3.05	3.09	(1.3)	Diesel	11.87	12.32	(3.7)
0.03	0.02	50.0	Class 2 and below	0.09	0.10	(10.0)
3.02	3.07	(1.6)	Class 5	11.78	12.22	(3.6)
1.87	1.49	25.5	Fuel oil	6.45	6.20	4.0
0.82	0.94	(12.8)	Jet fuel	3.34	3.47	(3.7)
0.45	0.76	(40.8)	Bunker fuel	2.49	2.58	(3.5)
0.58	1.05	(44.8)	Bitumen	2.77	2.93	(5.5)
0.15	0.13	15.4	Lubricants	0.54	0.49	10.2
0.32	0.35	(8.6)	Petrochemicals	1.39	1.29	7.8
0.40	0.29	37.9	Other	1.35	1.31	3.1
10.10	10.82	(6.7)	Total production	40.23	41.40	(2.8)

- Total throughput decreased by 3.4% Y-o-Y due to scheduled repairs at refineries during 2019
- Total throughput decreased by 6.3% Q-o-Q due to scheduled repairs of catalytic cracking process units at Omsk and Moscow refineries in 4Q
- Production of petroleum products decreased by 2.8% Y-o-Y and by 6.7% Q-o-Q due to lower refining throughput
- High-octane gasoline production volume decreased by 9.5% Y-o-Y and 12.1% Q-o-Q due to lower overall refining throughput resulted from scheduled repairs at the refineries and due to high-octane gasoline demand conditions
- Volume decrease in diesel production by 1.3% Q-o-Q was due to lower overall refining throughput and due to pricing environment on the domestic and international markets
- Volume production decrease in jet fuel by 12.8%, bunker fuel by 40.8% and bitumen by 44.8% Q-o-Q was due to seasonal factors
- Fuel oil production volume increased by 4.0% Y-o-Y and 25.5% Q-o-Q due to scheduled repairs at the refineries, decline of bitumen production and pricing environment on the domestic and international markets
- Petrochemicals production volume increased by 7.8% Y-o-Y due to demand increase on the European markets and economic efficiency
- Other products volume increase by 37.9% Q-o-Q was mainly due to higher vacuum gas oil production during scheduled repairs at refineries.

Petroleum product purchases on international markets

	4Q 2019		3Q 2019		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	4,864	0.13	5,118	0.13	(5.0)	-
Jet fuel	3,773	0.08	3,119	0.07	21.0	14.3
Bunker fuel	548	0.01	735	0.03	(25.4)	(66.7)
Lubricants	181	0.01	177	-	2.3	-
Other	616	0.01	24	-	>200	-
Total	9,982	0.24	9,173	0.23	8.8	4.3

	12 month 2019		12 month 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	22,553	0.57	14,246	0.35	58.3	62.9
Jet fuel	14,010	0.31	11,373	0.24	23.2	29.2
Bunker fuel	3,066	0.09	6,471	0.20	(52.6)	(55.0)
Lubricants	830	0.01	1,055	0.01	(21.3)	-
Other	661	0.01	264	0.01	150.4	-
Total	41,120	0.99	33,409	0.81	23.1	22.2

- Diesel purchases on the international markets increased Y-o-Y due to facilitating diesel wholesale programme in Europe
- Bunker fuel purchases volume decreased Y-o-Y mainly due to a larger share of own supply.

Petroleum product purchases in the CIS

	4Q 2019		3Q 2019		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	3,085	0.15	4,923	0.14	(37.3)	7.1
Diesel	4,637	0.11	4,711	0.11	(1.6)	-
Petrochemicals	313	0.01	345	0.01	(9.3)	-
Other	62	-	46	0.01	34.8	-
Total	8,097	0.27	10,025	0.27	(19.2)	-

	12 month 2019		12 month 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	15,572	0.53	13,863	0.44	12.3	20.5
Diesel	19,294	0.46	17,417	0.46	10.8	-
Petrochemicals	1,128	0.04	1,218	0.04	(7.4)	-
Other	197	0.01	374	0.01	(47.3)	-
Total	36,191	1.04	32,872	0.95	10.1	9.5

- Petroleum product purchases in the CIS increased Y-o-Y due to higher supply from local refineries resulting from changes in market conditions.

Domestic petroleum product purchases

	4Q 2019		3Q 2019		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	17,005	0.43	15,208	0.37	11.8	16.2
Diesel	9,707	0.21	9,132	0.22	6.3	(4.5)
Jet fuel	2,926	0.07	3,399	0.09	(13.9)	(22.2)
Bunker fuel	2,901	0.10	2,062	0.06	40.7	66.7
Bitumen	307	0.01	786	0.05	(60.9)	(80.0)
Petrochemicals	915	0.03	1,748	0.03	(47.7)	-
Other	281	0.01	1,051	0.03	(73.3)	(66.7)
Total	34,042	0.86	33,386	0.85	2.0	1.2

	12 month 2019		12 month 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	57,617	1.48	64,728	1.56	(11.0)	(5.1)
Diesel	33,108	0.76	40,407	0.96	(18.1)	(20.8)
Jet fuel	9,448	0.24	6,601	0.17	43.1	41.2
Bunker fuel	7,235	0.22	5,309	0.15	36.3	46.7
Bitumen	1,747	0.10	1,310	0.08	33.4	25.0
Petrochemicals	4,718	0.10	3,378	0.06	39.7	66.7
Other	3,138	0.08	4,253	0.12	(26.2)	(33.3)
Total	117,011	2.98	125,986	3.10	(7.1)	(3.9)

- Petroleum products purchases volume on the domestic market Q-o-Q remained unchanged compared to the prior quarter
- Petroleum products purchases volume decreased Y-o-Y due to demand and pricing environment for petroleum products.

Petroleum product marketing through premium channels

4Q 2019	3Q 2019	Δ, %		12 month 2019	2018	Δ, %
	(units)		Active retail stations		(units)	
1,251	1,218	2.7	In Russia	1,251	1,190	5.1
205	204	0.5	In CIS	205	201	2.0
407	405	0.5	In Eastern Europe	407	410	(0.7)
1,863	1,827	2.0	Total retail stations (as at the end of the period)	1,863	1,801	3.4
			Average daily sales per retail site in Russia			
18.56	19.18	(3.3)	(tonnes per day)	18.54	20.74	(10.6)
	(MMtonnes)		Sales volume through premium channels		(MMtonnes)	
4.91	5.37	(8.6)	Gasoline and Diesel	19.51	20.40	(4.4)
0.77	0.95	(18.9)	Jet	3.22	3.12	3.2
0.48	0.91	(47.3)	Bunkering	2.99	2.92	2.4
0.08	0.08	-	Lubricants	0.32	0.31	3.2
0.11	0.16	(31.3)	Bitumen	0.42	0.35	20.0
6.35	7.47	(15.0)	Total sales volume through premium channels	26.46	27.10	(2.4)

- The total number of active retail stations in Russia increased by 5.1% Y-o-Y due to new retail stations leased
- Average daily sales per retail station in Russia decreased by 10.6% Y-o-Y due to market conditions and refining throughput decline
- Sales volume through premium channels decreased by 15.0% Q-o-Q due to seasonal factors, market conditions and refining throughput decline.

Financial data and analysis

Interim Condensed Consolidated Statement of Profit and Loss

4Q	3Q			12 month		
2019	2019	Δ, %	(RUB million)	2019	2018	Δ, %
575,309	636,745	(9.6)	Crude oil, gas and petroleum products sales	2,393,444	2,418,717	(1.0)
38,561	20,019	92.6	Other revenue	91,864	70,575	30.2
613,870	656,764	(6.5)	Total revenue*	2,485,308	2,489,292	(0.2)
Costs and other deductions						
(162,976)	(189,814)	(14.1)	Purchases of oil, gas and petroleum products	(663,068)	(617,306)	7.4
(79,980)	(64,216)	24.5	Production and manufacturing expenses	(260,688)	(228,618)	14.0
(35,199)	(32,393)	8.7	Selling, general and administrative expenses	(125,592)	(114,882)	9.3
(37,114)	(34,975)	6.1	Transportation expenses	(143,474)	(147,182)	(2.5)
(47,530)	(47,297)	0.5	Depreciation, depletion and amortization	(181,372)	(175,451)	3.4
(141,813)	(148,660)	(4.6)	Taxes other than income tax	(591,193)	(652,784)	(9.4)
(18,131)	(19,925)	(9.0)	Export duties	(71,601)	(94,916)	(24.6)
(1,119)	(432)	159.0	Exploration expenses	(1,752)	(1,411)	24.2
(523,862)	(537,712)	(2.6)	Total operating expenses	(2,038,740)	(2,032,550)	0.3
90,008	119,052	(24.4)	Operating profit	446,568	456,742	(2.2)
19,055	19,913	(4.3)	Share of profit of associates and joint ventures	83,906	90,704	(7.5)
3,422	2,134	60.4	Net foreign exchange gain / (loss)	10,518	(33,558)	-
5,357	6,047	(11.4)	Finance income	22,906	7,506	>200
(6,451)	(7,813)	(17.4)	Finance expense	(32,772)	(21,476)	52.6
(7,637)	(5,259)	45.2	Other loss, net	(23,292)	(19,796)	17.7
13,746	15,022	(8.5)	Total other income	61,266	23,380	162.0
103,754	134,074	(22.6)	Profit before income tax	507,834	480,122	5.8
(10,176)	(16,430)	(38.1)	Current income tax expense	(52,502)	(59,585)	(11.9)
(8,241)	(6,345)	29.9	Deferred income tax expense	(33,244)	(19,544)	70.1
(18,417)	(22,775)	(19.1)	Total income tax expense	(85,746)	(79,129)	8.4
85,337	111,299	(23.3)	Profit for the period	422,088	400,993	5.3
(5,109)	(6,365)	(19.7)	Less: Profit attributable to non-controlling interest	(21,887)	(24,326)	(10.0)
80,228	104,934	(23.5)	Profit attributable to Gazprom Neft shareholders	400,201	376,667	6.2

* Sales include sales related excise tax

Revenues

4Q	3Q			12 month		
2019	2019	Δ, %	(RUB million)	2019	2018	Δ, %
Crude oil						
137,997	156,660	(11.9)	Export	586,357	552,692	6.1
6,249	6,509	(4.0)	International markets	28,339	37,938	(25.3)
9,420	9,286	1.4	Export to CIS	41,067	38,993	5.3
19,880	21,379	(7.0)	Domestic	88,797	88,848	(0.1)
173,546	193,834	(10.5)	Total crude oil revenue	744,560	718,471	3.6
Gas						
41	42	(2.4)	International markets	863	1,010	(14.6)
7,898	6,409	23.2	Domestic	29,891	35,805	(16.5)
7,939	6,451	23.1	Total gas revenue	30,754	36,815	(16.5)
Petroleum products						
78,015	67,215	16.1	Export	328,434	330,290	(0.6)
42,895	45,546	(5.8)	International markets	156,423	165,880	(5.7)
68,445	70,724	(3.2)	Sales on international markets	249,131	257,803	(3.4)
(25,550)	(25,178)	1.5	Less sales related excise	(92,708)	(91,923)	0.9
21,661	24,174	(10.4)	CIS	86,752	91,334	(5.0)
21,863	24,401	(10.4)	Export sales and sales in CIS	87,623	92,245	(5.0)
(202)	(227)	(11.0)	Less sales related excise	(871)	(911)	(4.4)
251,253	299,525	(16.1)	Domestic	1,046,521	1,075,927	(2.7)
393,824	436,460	(9.8)	Total petroleum products revenue	1,618,130	1,663,431	(2.7)
38,561	20,019	92.6	Other revenue	91,864	70,575	30.2
613,870	656,764	(6.5)	Total revenue	2,485,308	2,489,292	(0.2)

Sales volumes

4Q	3Q			12 month		
2019	2019	Δ, %		2019	2018	Δ, %
(MMtonnes)			Crude oil			
4.64	5.35	(13.3)	Export	19.16	17.05	12.4
0.29	0.27	7.4	Sales on international markets*	1.15	1.25	(8.0)
0.41	0.41	-	Export to CIS	1.71	1.65	3.6
1.04	1.12	(7.1)	Domestic sales	4.37	4.31	1.4
6.38	7.15	(10.8)	Total crude oil sales	26.39	24.26	8.8
(bcm)			Gas			
-	-	-	International markets	0.05	0.07	(28.6)
3.44	3.46	(0.6)	Domestic sales	13.48	13.13	2.7
3.44	3.46	(0.6)	Total gas sales	13.53	13.20	2.5
(MMtonnes)			Petroleum products			
3.00	2.25	33.3	Export	10.76	10.00	7.6
1.08	1.10	(1.8)	Sales on international markets	3.70	3.75	(1.3)
0.60	0.67	(10.4)	Export to CIS	2.35	2.49	(5.6)
6.61	8.26	(20.0)	Domestic sales	28.63	29.67	(3.5)
11.29	12.28	(8.1)	Total petroleum products sales	45.44	45.91	(1.0)

* Sales on international markets include Production-Sharing Agreements

Average realized sales prices

4Q	3Q			12 month		
2019	2019	Δ, %		2019	2018	Δ, %
(RUB per tonne)			Crude oil	(RUB per tonne)		
29,741	29,282	1.6	Export	30,603	32,416	(5.6)
22,976	22,649	1.4	Export and sales in CIS	24,016	23,632	1.6
19,115	19,088	0.1	Domestic sales	20,320	20,614	(1.4)
(RUB per tonne)			Petroleum products	(RUB per tonne)		
26,005	29,873	(12.9)	Export	30,524	33,029	(7.6)
36,438	36,419	0.1	Export and sales in CIS	37,286	37,046	0.6
38,011	36,262	4.8	Domestic sales	36,553	36,263	0.8

Crude oil sales

- Crude oil export sales volumes increased by 12.4% Y-o-Y mainly due to crude oil production growth at Novoportovskoye and East-Messoyakhskoye fields and refining throughput decrease
- Crude oil sales volumes decreased by 10.8% Q-o-Q mainly due to crude oil production decline in accordance with production quotas level in 4Q 2019.

Gas sales

- Domestic gas revenue decreased Y-o-Y due to change in terms of gas supply contracts with consumers which was offset by transportation expenses decrease.

Petroleum product exports

	4Q 2019		3Q 2019		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	10,629	0.35	8,455	0.26	25.7	34.6
Diesel	26,415	0.70	20,037	0.52	31.8	34.6
Fuel oil	20,830	1.37	18,140	0.85	14.8	61.2
Jet fuel	5,889	0.13	5,933	0.13	(0.7)	-
Bunker fuel	5,210	0.18	10,266	0.32	(49.2)	(43.8)
Bitumen	604	0.03	732	0.03	(17.5)	-
Lubricants	1,519	0.03	1,351	0.02	12.4	50.0
Petrochemicals	1,485	0.04	528	0.04	181.3	-
Other	5,434	0.17	1,773	0.08	>200	112.5
Total	78,015	3.00	67,215	2.25	16.1	33.3

	12 month 2019		12 month 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	770	0.02	830	0.03	(7.2)	(33.3)
Naphtha	43,124	1.33	49,911	1.34	(13.6)	(0.7)
Diesel	116,748	3.01	113,616	2.90	2.8	3.8
Fuel oil	83,087	4.04	89,993	3.75	(7.7)	7.7
Jet fuel	23,630	0.52	23,124	0.48	2.2	8.3
Bunker fuel	29,415	0.91	32,034	0.95	(8.2)	(4.2)
Bitumen	2,410	0.11	1,260	0.06	91.3	83.3
Lubricants	6,344	0.11	6,610	0.11	(4.0)	-
Petrochemicals	7,899	0.23	6,689	0.16	18.1	43.8
Other	15,007	0.48	6,223	0.22	141.2	118.2
Total	328,434	10.76	330,290	10.00	(0.6)	7.6

- Diesel export sales volumes increased Q-o-Q due to demand and pricing environment on the international markets
- Bunker fuel sales volumes decreased Q-o-Q due to seasonal factors

- Diesel export sales volumes increased Y-o-Y due to facilitating diesel wholesale programme in Europe
- Fuel oil export sales volumes increased Y-o-Y and Q-o-Q due to economic efficiency of sales on the international markets
- Other petroleum products export sales volumes increased Y-o-Y and Q-o-Q mainly due to higher vacuum gas oil production during planned repairs at refineries.

Petroleum product sales in the CIS

	4Q 2019		3Q 2019		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	7,618	0.21	7,968	0.20	(4.4)	5.0
Diesel	8,977	0.21	10,198	0.23	(12.0)	(8.7)
Jet fuel	1,684	0.04	1,104	0.03	52.5	33.3
Bunker fuel	261	0.01	521	0.02	(49.9)	(50.0)
Bitumen	1,043	0.06	1,619	0.09	(35.6)	(33.3)
Lubricants	806	0.02	913	0.02	(11.7)	-
Petrochemicals and Other	1,474	0.05	2,078	0.08	(29.1)	(37.5)
Total	21,863	0.60	24,401	0.67	(10.4)	(10.4)

	12 month 2019		12 month 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	31,293	0.83	33,945	0.87	(7.8)	(4.6)
Diesel	37,080	0.85	38,542	0.94	(3.8)	(9.6)
Jet fuel	4,367	0.11	6,010	0.15	(27.3)	(26.7)
Bunker fuel	1,052	0.04	1,000	0.04	5.2	-
Bitumen	4,294	0.24	5,150	0.28	(16.6)	(14.3)
Lubricants	3,590	0.07	3,529	0.07	1.7	-
Petrochemicals and Other	5,947	0.21	4,069	0.14	46.2	50.0
Total	87,623	2.35	92,245	2.49	(5.0)	(5.6)

- Bitumen sales volumes decreased Q-o-Q due to seasonal factors
- Sales volumes of motor fuels decreased Y-o-Y mainly due to higher supply from local refineries and change in market conditions.

Domestic sales of petroleum products

	4Q 2019		3Q 2019		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	98,065	2.21	110,789	2.47	(11.5)	(10.5)
Naphtha	1,448	0.06	1,175	0.05	23.2	20.0
Diesel	91,588	2.05	100,798	2.35	(9.1)	(12.8)
Fuel oil	2,862	0.36	9,006	0.64	(68.2)	(43.8)
Jet fuel	29,585	0.72	36,340	0.91	(18.6)	(20.9)
Bunker fuel	8,684	0.32	12,999	0.47	(33.2)	(31.9)
Bitumen	6,362	0.42	13,617	0.80	(53.3)	(47.5)
Lubricants	4,493	0.08	4,752	0.08	(5.5)	-
Petrochemicals	6,211	0.25	6,122	0.26	1.5	(3.8)
Other	1,955	0.14	3,927	0.23	(50.2)	(39.1)
Total	251,253	6.61	299,525	8.26	(16.1)	(20.0)

	12 month 2019		12 month 2018		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	388,408	8.85	408,550	9.43	(4.9)	(6.2)
Naphtha	7,206	0.27	6,510	0.21	10.7	28.6
Diesel	361,382	8.29	360,918	8.53	0.1	(2.8)
Fuel oil	30,071	2.17	31,215	2.11	(3.7)	2.8
Jet fuel	123,513	3.10	120,917	3.03	2.1	2.3
Bunker fuel	45,797	1.70	52,476	1.90	(12.7)	(10.5)
Bitumen	33,899	2.17	31,265	2.21	8.4	(1.8)
Lubricants	17,325	0.30	15,731	0.29	10.1	3.4
Petrochemicals	25,602	0.99	29,626	1.04	(13.6)	(4.8)
Other	13,318	0.79	18,719	0.92	(28.9)	(14.1)
Total	1,046,521	28.63	1,075,927	29.67	(2.7)	(3.5)

- Petroleum product sales volumes on the domestic market decreased Q-o-Q due to seasonal factors, market conditions and refining throughput decrease
- Petroleum product sales volumes on the domestic market decreased Y-o-Y due to lower refining throughput and economic efficiency of operations on the international markets.

Purchases of oil, gas and petroleum products

- Expenses for oil, gas, and petroleum products purchases increased by 7.4% Y-o-Y mainly due to higher crude oil volume purchases on the domestic market and petroleum products on the international markets.

Production and manufacturing expenses

4Q	3Q			12 month		
2019	2019	Δ, %	(RUB million)	2019	2018	Δ, %
33,714	30,696	9.8	Upstream expenses	121,167	109,090	11.1
1,998	1,768	13.0	RUB per toe	1,793	1,669	7.4
4.28	3.74	14.4	USD* per boe	3.78	3.63	4.1
25,733	23,314	10.4	Consolidated subsidiaries inside Russia	91,984	81,385	13.0
1,838	1,605	14.5	<i>RUB per toe</i>	1,634	1,510	8.2
3.94	3.39	16.2	<i>USD* per boe</i>	3.44	3.29	4.6
			including			
19,742	18,352	7.6	Brownfields ****	72,414	65,870	9.9
2,121	1,797	18.0	<i>RUB per toe</i>	1,876	1,660	13.0
4.54	3.80	19.5	<i>USD* per boe</i>	3.95	3.61	9.4
5,991	4,962	20.7	Greenfields ****	19,570	15,515	26.1
1,277	1,170	9.1	<i>RUB per toe</i>	1,120	1,104	1.4
2.73	2.47	10.5	<i>USD* per boe</i>	2.36	2.40	(1.7)
			Consolidated subsidiaries outside Russia (including PSA)**			
2,740	2,407	13.8		9,899	9,311	6.3
3,971	3,209	23.7	<i>RUB per toe</i>	3,322	2,975	11.7
8.50	6.78	25.4	<i>USD* per boe</i>	7.00	6.47	8.2
5,241	4,975	5.3	Joint operations	19,284	18,394	4.8
2,557	2,463	3.8	<i>RUB per toe</i>	2,396	2,232	7.3
5.48	5.21	5.2	<i>USD* per boe</i>	5.05	4.86	3.9
16,893	16,979	(0.5)	Downstream expenses	66,104	58,919	12.2
8,781	8,789	(0.1)	Refining expenses at own refineries	35,637	32,251	10.5
1,048	970	8.0	<i>RUB per tonne</i>	1,050	920	14.1
2.24	2.05	9.3	<i>USD* per bbl</i>	2.21	2.00	10.5
3,678	3,551	3.6	Refining expenses at refineries of joint ventures***	13,450	12,496	7.6
1,830	1,749	4.6	<i>RUB per tonne</i>	1,786	1,590	12.3
3.92	3.70	5.9	<i>USD* per bbl</i>	3.76	3.46	8.7
4,434	4,639	(4.4)	Lubricants and bitumen manufacturing expenses	17,017	14,172	20.1
8,171	8,707	(6.2)	Transportation expenses to refineries	32,910	32,950	(0.1)
21,202	7,834	170.6	Other operating expenses	40,507	27,659	46.5
79,980	64,216	24.5	Total	260,688	228,618	14.0

*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

**** GPN-Orenburg for 2018-2019 is included in brownfields (in report for 2018 FY GPN-Orenburg was included in greenfields)

***** Expenses for new oilfields at pilot development stage are included into other operating expenses (in the report for 2018 and 1Q 2019 were disclosed as part of greenfield expenses)

- Upstream expenses include expenditures on 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 Group's upstream subsidiaries
- Upstream expenses per toe of consolidated subsidiaries in Russia increased by 8.2% Y-o-Y and 14.5% Q-o-Q mainly due to brownfields production decline
- Upstream expenses per toe of consolidated subsidiaries at brownfields increased by 18.0% Q-o-Q due to:
 - Production decrease
 - Seasonal expense increase in winter (energy and transportation expenses, maintenance of winter roads, preparation of infrastructure and equipment for winter)
- Upstream expenses per toe of consolidated subsidiaries at brownfields increased by 13.0% Y-o-Y due to:
 - Comparison with low base in 2018 due to high watercut well-stock shutdowns in 1H 2018 under OPEC+ agreement
 - Inflationary pressure
- Upstream expenses per toe of consolidated subsidiaries at greenfields increased by 9.1% Q-o-Q mainly due to:

- Number of active wells increase at Novoportovskoye oilfield and as a result higher maintenance expenses for those facilities
- Expenses increase for hydrocarbon logging and well repairs in accordance with plan
- Geotechnical actions implementing new technologies (multifrac)
- Seasonal expense increase in winter
- Upstream expenses USD per boe at consolidated subsidiaries outside Russia increased by 25.4% Q-o-Q due to production decrease in Iraq and well workover and oilfield equipment repair expenses growth
- Upstream expenses per boe of joint operations increased by 7.3% Y-o-Y mainly due to electricity tariffs growth, higher liquid production volume and water injection
- Refining expenses at the refineries of consolidated subsidiaries include expenditures on raw materials and supplies, maintenance and repairs of production equipment, labour and electricity costs, and other similar costs at Group's refineries
- Refining expenses per tonne at own refineries increased by 14.1% Y-o-Y due to:
 - Increase in maintenance expenses
 - MTBE¹ purchases increase
 - Throughput decline
 - Increase in expenses related to environmental programmes
- Refining expenses per tonne at own refineries increased by 8.0% Q-o-Q due to:
 - Throughput decline
 - Energy resources costs growth (including seasonal factors)
 - Increase in expenses related to environmental programmes
- Refining unit expenses at joint ventures increased by 12.3% Y-o-Y due to higher processing expenses (new refining units launch, electricity and repairs)
- Lubricants and bitumen manufacturing production expenses increased by 20.1% Y-o-Y mainly due to high-technology additions and packing prices increase
- Transportation expenses to refineries decreased by 6.2% Q-o-Q mainly due to throughput decline
- Other operating expenses increased Y-o-Y and Q-o-Q mainly due to other revenue increase which related to services rendered growth and development of oil rims.

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 9.3% Y-o-Y, driven mainly by:
 - Increased estimated liabilities due to share price growth
 - Increased advertising and marketing expenses as part of selling expenses.

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 by 2.5% Y-o-Y mainly due to change in terms of gas supply contracts with consumers and application of IFRS 16 since January 1, 2019. The decrease was restrained by higher crude oil and petroleum products transportation expenses due to crude oil sales volume growth and higher transportation tariffs
- Transportation expenses increased by 6.1% Q-o-Q due to increase in transportation tariffs and longer distances of petroleum products transportations.

¹ MTBE – methyl-tret-butyl-ether. Applied as an motor vehicles additive intended for increasing of gasoline octane number

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 increased by 3.4% Y-o-Y due to an increase in cost of depreciable assets driven by implementation of the investment programme and application of IFRS 16 since January 1, 2019.

Taxes other than income tax

4Q	3Q			12 month		
2019	2019	Δ, %	(RUB million)	2019	2018	Δ, %
107,441	116,180	(7.5)	Mineral extraction taxes	464,773	487,492	(4.7)
3,507	3,933	(10.8)	Additional income tax for hydrocarbon producers	14,348	-	-
19,990	18,431	8.5	Excise	70,125	126,779	(44.7)
6,741	6,219	8.4	Social security contributions	25,707	22,113	16.3
4,134	3,897	6.1	Other taxes	16,240	16,400	(1.0)
141,813	148,660	(4.6)	Total taxes other than income tax	591,193	652,784	(9.4)

- MET expense decreased by 4.7% Y-o-Y mainly due to lower MET effective rate as a result of lower crude oil prices
- MET expense decreased by 7.5% Q-o-Q mainly due to lower crude oil production volume in Russia
- Additional income tax for hydrocarbon producers (AIT) is stated since January 1, 2019. The Group introduced AIT for several fields in Western and Eastern Siberia
- Excise taxes expense decreased by 44.7% Y-o-Y mainly due to introduction of crude oil materials excise duty deduction and dempfer part since January 1, 2019, which was partly restrained by motor fuels excise rates increase by 28%
- Excise taxes expense increased by 8.5% Q-o-Q mainly due to dempfer part impact which was partly offset by lower petroleum products sales volume on the domestic market.

Export duties

4Q	3Q			12 month		
2019	2019	Δ, %		2019	2018	Δ, %
7,101	11,929	(40.5)	Crude oil export duties	34,968	46,109	(24.2)
11,030	7,996	37.9	Petroleum export duties	36,633	48,807	(24.9)
18,131	19,925	(9.0)	Total export duties	71,601	94,916	(24.6)

- Total export duties decreased by 24.6% Y-o-Y due to lower average export duty rates on crude oil and petroleum products due to tax manoeuver completion and export duty lag impact. The decrease was restrained by higher crude oil export sales volume
- Total export duties decreased by 9.0% Q-o-Q mainly due to lower crude oil export sales volume. The decrease was partly restrained by the higher petroleum products export sales volume.

Share of profit of associates and joint ventures

4Q	3Q			12 month		
2019	2019	Δ, %	(RUB million)	2019	2018	Δ, %
1,176	3,125	(62.4)	Slavneft	11,944	15,025	(20.5)
5,542	6,233	(11.1)	Messoyakha	25,814	28,172	(8.4)
10,805	8,938	20.9	Arcticgas	39,849	40,451	(1.5)
754	653	15.5	Nortgaz	3,090	3,699	(16.5)
778	964	(19.3)	Other companies	3,209	3,357	(4.4)
19,055	19,913	(4.3)	Share of profit of associates and joint ventures	83,906	90,704	(7.5)

- The Group's share of Slavneft profit decreased Q-o-Q due to lower crude oil production and sales volume

- The Group's share of Slavneft profit decreased Y-o-Y mainly due to higher MET expenses caused by the nominal tax rate increase and interest expenses in result of debt structure growth. The decrease in share of profit was partly offset by revenue growth due to production increase
- The Group's share of Messoyakha profit decreased Y-o-Y and Q-o-Q mainly due to higher financial expenses
- The Group's share of Arcticgas profit increased Q-o-Q mainly due to higher production
- The Group's share of Nortgas profit decreased Y-o-Y mainly due to lower production.

Other income and expenses

- Other expenses mainly include disposal of non-current assets.

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.

Cash flows and capital expenditures and analysis

(RUB million)	12 month		
	2019	2018	Δ %
Net cash provided by operating activities	609,076	537,523	13.3
Net cash used in investing activities	(363,589)	(335,038)	8.5
Net cash used in financing activities	(276,720)	(56,543)	>200
(Decrease) / Increase in cash and cash equivalents	(31,233)	145,942	-

Operating activities

(RUB million)	12 month		
	2019	2018	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	616,311	624,783	(1.4)
Net changes in working capital	39,505	326	>200
Income tax paid	(53,087)	(61,157)	(13.2)
Interest paid	(59,057)	(46,492)	27.0
Dividends received	65,404	20,063	>200
Net cash provided by operating activities	609,076	537,523	13.3

- Net cash provided by operating activities increased by 13.3% Y-o-Y primarily due to higher dividends received from joint ventures and positive effect of changes in working capital.

Investing activities

(RUB million)	12 month		
	2019	2018	Δ %
Capital expenditures	(453,011)	(370,067)	22.4
Purchases of oil and gas licences	(9,623)	(5,130)	87.6
Net changes in deposits	(15,090)	6,710	-
Proceeds from sale of property, plant and equipment, net of tax	115,710	4,413	>200
Net changes in loans issued and other investments	(4,965)	10,151	-
Interest received	17,155	18,885	(9.2)
Other cash flows from investing activities	(13,765)	-	-
Net cash used in investing activities	(363,589)	(335,038)	8.5

- Net cash used in investing activities increased by 8.5% Y-o-Y. Cash outflow in investing activities for capital expenditure, changes in deposits, loans issued and other investments was partly offset by inflow from transfer of capital construction object to the shareholder in 1Q 2019.

Financing activities

(RUB million)	12 month		Δ %
	2019	2018	
Net changes in debt	(33,416)	5,484	-
Payment of dividends to shareholders	(227,120)	(70,774)	>200
Other transactions	(16,184)	8,747	-
Net cash used in financing activities	(276,720)	(56,543)	>200

- Net cash used in financing activities increased Y-o-Y due to higher dividends paid and loan exposure decrease.

Capital expenditures

(RUB million)	12 month		Δ, %
	2019	2018	
Exploration and production	266,386	224,852	18.5
Consolidated subsidiaries	247,754	208,138	19.0
Joint operations	18,633	16,714	11.5
Refining	118,210	95,202	24.2
Marketing and distribution	16,204	15,585	4.0
Others	21,469	18,296	17.3
Capital expenditures	422,269	353,935	19.3
Change in advances issued and materials used in capital expenditures	30,742	16,132	90.6
Total capital expenditures	453,011	370,067	22.4

- Capital expenditures for exploration and production increased by 18.5% Y-o-Y mainly for consolidated subsidiaries and due to:
 - Increase in production drilling and workover operations at new fields in traditional production regions
 - Increase in production drilling, construction of multi-well pads and infrastructure facilities at greenfields and at shelf projects
 - Implementation of seismic survey projects at newly acquired license blocks
- Capital expenditures for refining increased by 24.2% mainly due to increased costs at Omsk refinery resulting from implementing advanced refining projects and constructing a catalyst production plant.

Debt and liquidity

(RUB million)	December 31 2019	December 31 2018
Short-term loans and borrowings	30,198	90,923
Long-term loans and borrowings	685,030	684,530
Cash and cash equivalents	(202,404)	(247,585)
Short-term deposits	(15,076)	-
Net debt	497,748	527,868
Short-term debt / total debt, %	4.2	11.7
Net debt and financial lease liabilities/ EBITDA for 12 months preceding	0.70	0.73

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

- The average debt maturity decreased from 3.84 years as of December 31, 2018 to 3.18 years as of December 31, 2019
- The average interest rate decreased from 6.29% as of December 31, 2018 to 6.18% as of December 31, 2019.

Financial coefficients

EBITDA reconciliation

4Q 2019	3Q 2019	Δ, %	(RUB million)	12 month		
				2019	2018	Δ, %
85,337	111,299	(23.3)	Profit for the period	422,088	400,993	5.3
18,417	22,775	(19.1)	Total income tax expense	85,746	79,129	8.4
6,451	7,813	(17.4)	Finance expense	32,772	21,476	52.6
(5,357)	(6,047)	(11.4)	Finance income	(22,906)	(7,506)	>200
47,530	47,297	0.5	Depreciation, depletion and amortization	181,372	175,451	3.4
(3,422)	(2,134)	60.4	Net foreign exchange loss / (gain)	(10,518)	33,558	-
7,637	5,259	45.2	Other loss, net	23,292	19,796	17.7
156,593	186,262	(15.9)	EBITDA	711,846	722,897	(1.5)
(19,055)	(19,913)	(4.3)	less Share of profit of associates and joint ventures	(83,906)	(90,704)	(7.5)
42,080	41,107	2.4	add Share of EBITDA of associates and joint ventures	167,189	167,313	(0.1)
179,618	207,456	(13.4)	Adjusted EBITDA	795,129	799,506	(0.5)

Profitability

	December 31 2019	December 31 2018	Δ, p.p.
Adjusted EBITDA margin, %	31.99	32.12	(0.1)
Net profit margin, %	16.98	16.11	0.9
Return on assets (ROA), %	11.49	12.43	(0.9)
Return on equity (ROE), %	20.08	21.97	(1.9)
Adjusted Return on average capital employed (ROACE), %	17.42	19.66	(2.2)

Adjusted ROACE calculation

	December 31 2019	December 31 2018
For 12 months preceding		
Adjusted EBITDA	795,129	799,506
Depreciation, depletion and amortization	(227,150)	(216,480)
Effective income tax charge on EBIT	(112,464)	(114,725)
Adjusted EBIT*	455,515	468,301
Average capital employed	2,615,316	2,381,424
Adjusted ROACE	17.42	19.66

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

Liquidity

	December 31 2019	December 31 2018	Δ, %
Current ratio	1.51	1.18	28.0
Quick ratio	0.84	0.67	25.4
Cash ratio	0.44	0.44	-

Leverage

	December 31 2019	December 31 2018	
Net debt/ Total Assets, %	13.01	14.99	Δ, p.p. (2.0)
Net debt/ Equity, %	22.49	26.50	(4.0)
Gearing, %	18.23	20.74	(2.5)
			Δ, %
Net debt/ Market Capitalization	0.25	0.32	(21.9)
Net debt/ EBITDA	0.70	0.73	(4.1)
Total debt/ EBITDA	1.00	1.07	(6.5)

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 and 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 the 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 the international markets in turn determine domestic prices. Price trends are different for different types of petroleum products.

The decrease in crude oil and petroleum product prices on the international markets for the 12 months 2019 had a negative impact on the Group's results.

4Q 2019	3Q 2019	Δ, %		12 month 2019	2018	Δ, %
(US\$/ barrel)			International market	(US\$/ barrel)		
63.25	61.94	2.1	Brent	64.25	71.16	(9.7)
61.50	61.26	0.4	Urals Spot (average Med + NWE)	63.39	69.86	(9.3)
(US\$/ tonne)				(US\$/ tonne)		
602.35	622.55	(3.2)	Premium gasoline (average NWE)	613.20	674.67	(9.1)
508.05	469.14	8.3	Naphtha (average Med. + NWE)	495.23	595.99	(16.9)
587.60	579.46	1.4	Diesel fuel (average NWE)	590.95	641.23	(7.8)
575.55	575.55	-	Gasoil 0.1% (average Med.)	580.92	632.07	(8.1)
215.94	322.78	(33.1)	Fuel oil 3.5% (average NWE)	320.46	387.07	(17.2)
(RUB/ tonne)			Domestic market	(RUB/ tonne)		
40,145	41,500	(3.3)	High-octane gasoline	39,438	41,724	(5.5)
-	-	-	Low-octane gasoline	8,515	37,249	(77.1)
41,376	40,869	1.2	Diesel fuel	40,530	41,070	(1.3)
8,028	13,278	(39.5)	Fuel oil	12,666	14,319	(11.5)

Sources: Platts (international), Kortes (domestic)

b) According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1 subclause 6.2 the Government of the Russian Federation has the right to establish protective export duty rate for crude oil which is calculated according to the following formulas:

Quoted Urals Price (P), USD/ tonne	Maximum Export Customs Duty Rate
≤ 182.50	0%
$P > 182.50$	$29.20 + 45\% \times (P - 182.50)$

The order can be for 6 months starting from the month following the 3-month period during which the crude oil prices change more than 15% in each month.

c) According to Russian Federal Law No. 5003-1 (May 21, 1993) clause 3.1 subclause 4, 5, the Government of the Russian Federation establishes formulas since 1 January 2019 for lower export duty rates for crude oil with special chemical and physical properties produced within borders of determined geographical objects. The export duty benefit is applied till the determined volumes of crude oil exported with lower export duty rates are achieved for each geographical object:

$Ct = (P - 182.5) \times K - 56.57 - 0.14 \times P$, where P - the Urals price (USD/tonne).

d) According to Russian 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.

e) According to Russian Federal Law No. 5003-1 (May 12, 1993) clause 35 subclause 7 since 1 January 2019 an exemption for crude oil export duty rate is applied for crude oil produced at oil fields which paid excess profit tax during period when coefficient K_r less than 1 to MET rate is applied.

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, Belarus, Armenia and Kyrgyzstan 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:

$R = K * R_{crude}$, 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:

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

According to Russian Federal Law No. 5003-1 (May 12, 1993) clause 3.1 subclause 6.2 the Government of the Russian Federation has the right to establish protective export duty rate for certain petroleum products, which is equal to 60% of crude oil export custom duty. The order can be applied for 6 months starting from the month following the 3-month period during which the oil prices change more than 15% in each month.

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 to Russia.

Clause 193 of the Russian Federation Tax Code (as amended by Federal Law No. 326-FZ September 29, 2019) established the following excise duty rates for petroleum products (in roubles/tonne):

	2018		2019	2020	2021
	01.01 - 31.05	01.06 - 31.12			
Gasoline					
Below Class 5	13,100	13,100	13,100	13,100	13,100
Class 5	11,213	8,213	12,314	12,752	13,262
Naphtha	13,100	13,100	13,912	14,720	15,533
Diesel fuel	7,665	5,665	8,541	8,835	9,188
Motor oil	5,400	5,400	5,400	5,616	5,841
Middle distillate	8,662	6,665	9,241	9,535*	

* - for the period from January 1 to March 31, from April 01 the excise rate for middle distillate calculates per formula $A_{MD} = (A_{DF} + 750) - D_{DF} \times K_{DF_COMP}$, where A_{DF} – excise rate, stated in tax period for diesel fuel; D_{DF} , K_{DF_COMP} – rates calculated in accordance with clause 200 subclause 27 of the Russian Federation Tax Code. If value of D_{DF} , calculated in accordance with clause 200 subclause 27 of the Russian Federation Tax Code, is more than 0, than value of D_{DF} is equal to 0.

Clause 181 subclause 13.1 of the Russian Federation Tax Code introduces a new product subject to excise duty effective from January 1, 2019 – crude oil materials. The new excise duty is payable by companies – owners of crude oil materials, which has obtained special registration certificate of a company refining crude oil materials at own refining facilities or at refining facilities of other companies under processing agreements. Crude oil materials excise rate calculated according to the following formulas:

$$A_{COM} = ((P_{\text{crude oil}} \times 7.3 - 182.5) \times 0.3 + 29.2) \times R \times S_{PU} \times K_{ADJ} \times K_{REG}$$

$P_{\text{crude oil}}$ – average Urals price on the international markets (USD/tonne).

R – average USD/RUB ex-rate.

S_{PU} – specific coefficient defining the set of petroleum products produced from the crude oil materials.

K_{ADJ} - equal to 0.167 for 2019, 0.333 for 2020, 0.5 for 2021, 0.667 for 2022, 0.833 for 2023, 1 from 2024.

K_{REG} – coefficient reflecting regional specifics for petroleum products market. K_{REF} is equal to 1.05 for refining facilities located in Omsk region.

An excise duty on crude oil materials is subject to deduction. The amount of deduction is defined as the amount of crude oil materials excise duty multiplied by coefficient 2 and increased by K_{DEMP} .

$$K_{DEMP} = ((D_G + F_G) \times V_G + (D_{DF} + F_{DF}) \times V_{DF}) \times K_{COMP} \text{ for period from January 1 to June 30, 2019}$$

$$K_{DEMP} = D_G \times V_G \times K_{G_COMP} + D_{DF} \times V_{DF} \times K_{DF_COMP} + D_{G_FE} \times V_{G_FE} + D_{DF_FE} \times V_{DF_FE} \text{ for period from July 1, 2019}$$

V_G / V_{DF} – gasoline with octane value 92 and above class 5 / diesel fuel class 5 volumes sold or used for own purposes in the Russian Federation.

K_{COMP} – equal to 0.6 for the period January-June 2019.

K_{G_COMP} – equal to 0.75 for the period July-December 2019, 0.68 from January 1, 2020.

K_{DF_COMP} – equal to 0.7 for the period July-December 2019, 0.65 from January 1, 2020.

D_G / D_{DF} – difference between the average export alternative price and nominal average wholesale price of gasoline with octane value 92 class 5 / diesel fuel class 5 in the Russian Federation.

V_{G_FE} / V_{DF_FE} – gasoline with octane value 92 and above class 5 / diesel fuel class 5 volumes sold at the delivery basis in the Russian Far East region.

D_{G_FE} / D_{DF_FE} – Far East allowances calculated as sum of 2 000 Roubles and D_G / D_{DF} . If value of D_G / D_{DF} is more than 2 000 Roubles or less than 0, than value of D_G / D_{DF} is equal to 2 000 or 0 respectively.

F_G, F_{DF} – compensating allowance for gasoline / diesel fuel equal to:

- 0, if value of D_G, D_{DF} is less or equal to 0 or
- $F_G = 5,600$ и $F_{DF} = 5,000$, if value of D_G, D_{DF} is more than 0 respectively.

According to Russian Federal Law No. 326-FZ (September 29, 2019) middle distillates excise rate is calculated according to the following formula from April 1, 2020:

$$A_{MD} = (A_{DF} + 750) - D_{DF} \times K_{DF_COMP}$$

A_{DF} – excise rate determined for diesel fuel.

If D_{DF} is more than 0, for the purpose of calculating the middle distillates excise rate it shall be considered as 0.

Mineral extraction tax (MET)

MET on crude oil

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

MET oil	$919 \times K_c - D_m$
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$$D_m = K_{met} \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) - K_k \text{ for 2018}$$

$$D_m = K_{met} \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan}) - K_k - K_{MAN} \times S_{OV} - K_{GDF} \text{ from 2019 г.,}$$

where K_{met} – 559.

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

K_v 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, $K_v = 3.8 - 3.5 \times N / V$. Where depletion is greater than 1, K_v is 0.3. In all other cases $K_v = 1$. Where fields include deposits with $K_d < 1$, K_v is equal to 1.

K_z characterizes the size of the field (by reserves) and provides lower tax rates for small fields. For fields with initial reserves (designated by V_3 , defined as total 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, $K_z = 0.125 \times V_3 + 0.375$.

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 $2 \cdot 10^{-3} \mu\text{m}^2$ and effective formation thickness not greater than 10 meters
- 0.4 – for oil produced from deposits with permeability not greater than $2 \cdot 10^{-3} \mu\text{m}^2$ 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 N_{dv}/V_{dv} , where N_{dv} is the cumulative production volume from the deposit and V_{dv} 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, $K_{dv} = 3.8 - 3.5 \cdot N_{dv} / V_{dv}$. Where depletion is greater than 1, Kdv is 0.3. In all other cases, $K_{dv} = 1$. Kdv for all other deposits of the field (for which the coefficient $K_d=1$) is the value of K_v 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 2019-2021.

$$K_{MAN} = K_E \times R \times K_{ADJ} - K_{FM}$$

K_E – coefficient calculated as follows:

Quoted Urals Price (P), USD/ tonne	Ke, USD/ tonne
≤ 109.50	0%
$109.50 < P \leq 146.00$	$35\% \times (P - 109.50)$
$146.00 < P \leq 182.50$	$12.78 + 45\% \times (P - 146.00)$
> 182.50	$29.20 + 30\% \times (P - 182.50)$

R – average USD/RUB ex-rate.

K_{ADJ} - equal to 0.167 for 2019, 0.333 for 2020, 0.5 for 2021, 0.667 for 2022, 0.833 for 2023, 1 from 2024.

K_{FM} – coefficient of special circumstances and applied in case the decision of Government of the Russian Federation regarding the application of protective export duty rate for crude oil is adopted (for more details please refer to «Export duty rate for crude oil» section, clause b).

S_{OV} – equal to 0.1 for crude oil production with oil viscosity not less than 10,000 mPa (in formation conditions). In other cases S_{OV} is equal to 1.

$$K_{GDF} = N_G \times I_G + N_{DF} \times I_{DF}$$

N_G , **N_{DF}** – markup coefficient for gasoline (equal to 125 for January-September 2019, 200 for October – December 2019 and 105 from 2020) and for diesel fuel (equal to 110 for January-September 2019, 185 for October – December 2019 and 92 from 2020).

I_G и **I_{DF}** - binary coefficient for gasoline / diesel fuel equal to 0 if amount of D_G , D_{DF} not more than 0. If D_G , D_{DF} are more than 0 than I_G и I_{DF} are equal to 1.

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

- 30% from the start of commercial hydrocarbon production for a five-year period – 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 – 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 – 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 – 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 benefit 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. According to the Russian Federation Tax Code clause 343.2 subclause 3.2 since 1 January 2019 there is an opportunity for oil fields named at Russian Federal Law No. 5003-1 (May 21, 1993) article 4, clause 3.1 subclause 5, to apply tax benefit in the amount of $K_{\text{man}} \times V_{\text{EO}}$, where V_{EO} – volume of crude oil produced at the oil field and exported with special crude oil export duty rates.

c) According to the Russian Federation Tax Code clause 346.2 for crude oil produced at oil fields under excess profit tax the following rate for MET calculation is stated:

MET for crude oil	$(50\% \times (P - 15) \times 7,3 \times Kr - \text{EDR}) \times R$
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P – monthly average Urals price on the Rotterdam and Mediterranean markets (USD/barrel).

R – monthly average USD/RUB ex-rate.

EDR – crude oil export duty rate (USD/tonne).

Kr – coefficient which characterized period of time since crude oil production start at the oil field. The coefficient is stipulated decrease of MET rate for crude oil at new oil fields fully or partly located at West (in particular, Khanty-Mansiysk Autonomous Okrug, Yamalo-Nenets Autonomous Okrug) and East Siberia (in particular, Irkutsk region, Sakha Republic (Yakutia)). The coefficient is applied till the time limit is achieved since the year next to excess of crude oil depletion level of 1% for oil field. For active oil fields the coefficient is equal to 1.

Effective MET rate for the Group

4Q	3Q		12 month		
2019	2019	Δ, %	2019	2018	Δ, %
12,639	12,405	1.9	Nominal crude oil MET rate, RUB/tonne		
9,330	9,493	(1.7)	Effective crude oil MET rate, RUB/tonne		
3,309	2,912		Difference between nominal and effective rates, RUB/tonne		
26.2%	23.5%		Difference between nominal and effective rates, %		

For the 12 months 2019 the Group's effective MET rate was 9,873 RUB/tonne or 3,166 RUB/tonne lower than the statutory nominal MET rate. The difference results from the application of certain coefficients (K_v , K_z , K_d and K_g) that reduce the MET rate.

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:

	2018	Since 2019
MET on natural gas (RUB/mcm)	$35 * Eut * Kc + Tg$	$35 * Eut * Kc + Tg$
MET on gas condensate (RUB/tonne)	$42 * Eut * Kc * Kkm$	$42 * Eut * Kc * Kkm + 0.75 * Kman$

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 2017-2019 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.

For the 12 months 2019 the Group's effective MET rate for natural gas was 620 RUB per thousand m³, which is 38 RUB per thousand m³ lower than the statutory nominal MET rate. The difference results from the application of tax benefits, especially coefficient **Kc** that reduces the MET rate.

Additional income tax for hydrocarbon producers (AIT)

According to Russian Federal Law No. 199-FZ (July 19, 2018) new tax for excess income from hydrocarbons production is stated since 1 January 2019. The income from hydrocarbons production less calculated export duty rate, transportation expenses and actual capital and operating expenses regarding production is subject to tax with 50% rate.

New tax regime stipulates decrease of total tax payments which depend on gross values (MET and crude oil export duty rate) due to change of MET calculation and implementation of tax benefit system for MET and crude oil export duty rate for determined categories of new projects.

For approbation period of new tax regime there is stated the several categories of new projects at West and East Siberia with possibility of additional income tax for hydrocarbon producers implementation. The Group takes part at all categories of new projects.

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 2019	Subsidiaries (Oil Fields) belonging to the Group
MET for gas	
Hard-to-recover coefficient Kc	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft Yamal LLC Gazpromneft Orenburg LLC
MET for oil	

Tax benefits applied during 2019	Subsidiaries (Oil Fields) belonging to the Group
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 Gazpromneft-Khantos LLC Gazpromneft Orenburg LLC
Highly depleted deposits coefficient Kdv	JSC Gazpromneft-Noyabrskneftegaz
Oil production region and oil quality factor Kr	PJSC Gazprom Neft Gazpromneft-Angara LLC Gazpromneft-Yamal LLC Gazpromneft-Khantos LLC Meretoyakhaneftegaz LLC
Reduced MET rate for fields classified as belonging to Bazhenov formation	JSC Technological Center Bazhen
Lower MET rate for new offshore field in the Pechora Sea	Gazprom neft shelf LLC
Profits tax	
16% rate (4% tax rate decrease under Khanty-Mansiysk Autonomous Okrug regional legislation)	JSC Gazpromneft-Noyabrskneftegaz
17% rate (3% tax rate decrease under Khanty-Mansiysk Autonomous Okrug regional legislation)	Gazpromneft-Khantos LLC
16.5% rate (3.5% tax rate decrease under Yamalo-Nenets Autonomous Okrug regional legislation)	JSC Gazpromneft-Noyabrskneftegaz Gazpromneft-Yamal 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)	Gazpromneft-Khantos LLC JSC Gazpromneft-Noyabrskneftegaz
Property tax exemption for national project «Creation of domestic technologies and high-technology equipment for Bazhen formation resources development complex» (under Khanty-Mansiysk Autonomous Okrug regional legislation)	JSC Technological Center Bazhen
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
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	Gazpromneft-Vostok LLC

Tax benefits applied during 2019	Subsidiaries (Oil Fields) belonging to the Group
Tomsk region in the amount of 50% of tax to be paid to Tomsk region budget (under Tomsk regional legislation)	
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

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:

4Q 2019	3Q 2019	Δ, %	(RUB per tonne)	12 month		Δ, %
				2019	2018	
Crude oil						
Export						
2,478	2,328	6.4	Pipeline	2,420	2,289	5.7
CIS						
1,676	1,709	(1.9)	Pipeline	1,683	1,599	5.3
Transportation to Refineries						
765	787	(2.8)	Omsk	769	749	2.7
1,600	1,652	(3.1)	Moscow	1,635	1,558	4.9
1,370	1,403	(2.4)	Yaroslavl	1,382	1,323	4.5
Petroleum products						
Export from ONPZ						
4,635	4,453	4.1	Gasoline	4,645	3,848	20.7
5,872	5,591	5.0	Fuel oil	5,811	5,495	5.8
3,896	4,401	(11.5)	Diesel fuel	4,293	4,540	(5.4)
Export from MNPZ						
3,576	3,546	0.8	Gasoline	3,474	1,357	156.0
3,895	3,876	0.5	Fuel oil	3,872	3,273	18.3
2,850	2,883	(1.1)	Diesel fuel	2,898	2,858	1.4
Export from YaNPZ						
3,139	3,015	4.1	Gasoline	3,077	3,088	(0.4)
3,274	3,262	0.4	Fuel oil	3,225	3,099	4.1
2,367	2,407	(1.7)	Diesel fuel	2,471	2,446	1.0

The Group's crude oil export route mix (tonnes) for 12 months 2019 and 2018 is presented below:

	12 month	
	2019	2018
Crude oil export		
Primorsk Baltic Sea port	13.5%	9.8%
Ust-Luga Baltic Sea port	0.5%	0.0%
Druzhba pipeline	11.2%	14.5%
Port of Novorossiysk	6.9%	6.8%
ESPO pipeline and the port of Kozmino	13.7%	12.9%
Meget (pipeline and railway) China	0.0%	0.0%
Exported without using Transneft system, including:	54.2%	56.0%
Prirazlomnoye	15.8%	17.0%
Novoport	38.4%	39.0%
Total	100.0%	100.0%
Crude oil export to CIS countries		
Belarus	100.0%	97.1%
Uzbekistan	0.0%	2.9%
Total	100.0%	100.0%

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