APPENDIX 1. REPORT ON AUDIT RESULTS OF THE CONSOLIDATED FINANCIAL STATEMENT FOR 2018

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Gazprom Neft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Gazprom Neft (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

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

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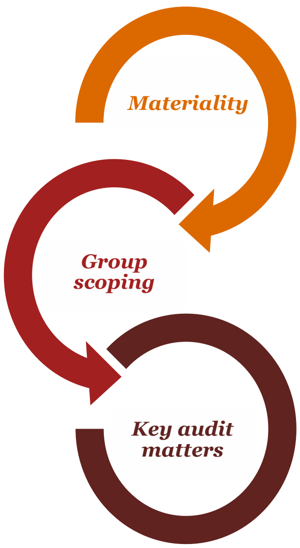
Our audit approach

Overview



- Overall group materiality: Russian Roubles ("RUB") 19,900 million, which represents 2.5% of the adjusted EBITDA

- The Group has offices and operations in different countries with parent company and corporate centre located in Saint Petersburg (Russian Federation). We conducted audit work at 28 components in 5 countries.
- The group engagement team visited the following locations: Saint Petersburg, Ekaterinburg and Omsk (the Russian Federation) as well as Belgrade and Pancevo (Serbia). We also engaged PwC network offices in Serbia, the Russian Federation, Austria, Iraq and the UAE to perform audit procedures at components.
- Our audit scope addressed more than 80% of the Group's revenues and more than 81% of the Group's absolute value of underlying profit before tax.

- Revenue recognition
- Impairment assessment of Iraqi assets

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

Materiality

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

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

Overall Group materiality	RUB 19,900 million
How we determined it	2.5% of the adjusted EBITDA
Rationale for the materiality benchmark applied	We chose to apply adjusted EBITDA as the benchmark for establishing the materiality level, because we believe it is most commonly used to assess the Group's performance (see Note 39 to the consolidated financial statements). Management uses adjusted EBITDA as a means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. We established materiality at 2.5%, which is within the range of acceptable quantitative materiality thresholds for profit-oriented entities in this industry.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition *Refer to Notes 2, 4 and 39 in the consolidated financial statements.* This year our focus remained on revenue recognition because of: • the users' ongoing attention to this financial reporting line item as a performance measure, • its sizable amount in value terms, • diversity in revenue streams, • essential associated risks of material misstatement due to both fraud and error and	We continued to use computer-assisted audit techniques (CAATs) for all hydrocarbons revenue transactions at corporate centre, and all revenue transactions from sales of petroleum and associated products through own retail network of petrol stations in the Russian Federation throughout the audited period. In addition, this year we expanded the scope of application of CAATs on the Group's significant component responsible for regional petroleum products wholesale. With the help of these techniques, we performed a reconciliation of each revenue transaction with accrued accounts receivable or payment received from the counterparty covering the total revenue population.

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Key audit matter	How our audit addressed the key audit matter
• the adoption of a new accounting standard IFRS 15 "Revenue from contracts with customers" applicable since 1 January 2018. The Group's revenue consists of different streams, comprising mainly sales of crude oil, petroleum products, gas and other sales on domestic and international markets. The Group sells petroleum products to industrial customers via small-scale wholesale distribution channels and via the Group's own network of retail petrol stations in the Russian Federation and abroad. These revenue streams have different terms underlying revenue recognition such as identification of the performance obligation, timing of its satisfaction and allocated transaction price. Application of the new standard required extensive analysis of different types of contracts and contractual arrangements with customers to determine whether any changes in revenue recognition methods are needed. Due to the same high volume of transactions, possible manual intervention, different commercial accounting systems and the interfaces of these with the accounting records, there is the potential for deliberate manipulation or error. We assessed the risk of fraud and error for each individual revenue stream and tailored audit strategy based on internal control reliance expected for all full-scope significant components audits.	Similar to prior year, we evaluated the design and tested operating effectiveness of controls over revenue recognition across significant components. At petrol stations, we validated controls over price setting and reconciliation of data between operating and accounting systems in both quantitative and monetary terms. We performed disaggregated analytics over remaining non-significant components not covered by CAATs and based investigation on contract details and reconciliation of inventory movement starting from production through to final sale. Our audit plan of substantive procedures this year included the following: • the assessment of IFRS 15 adoption by the Group and the corresponding disclosures in the consolidated financial statements; • the verification of whether the Group was entitled to, and appropriately recognised revenue in line with the satisfaction of performance obligations; • the detailed testing of selected operations leading to revenue recognition; • the confirmation of selected accounts receivable balances at the year-end; and • the verification of appropriateness of the timing of revenue recognition by comparing the dates of the satisfaction of performance obligation per contract arrangement against the corresponding dates of revenue recognition. We performed substantive procedures for more than 80% of the Group's revenue including all significant components. We also tested manual journal entries posted to revenue and reconciled actual selling prices to the contractual terms as well as amounts shipped to source shipping documents.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of Iraqi assets	
Refer to notes 2, 3 and 11 in the consolidated financial statements. The Group's assets in Iraq relate to oil and gas production assets located in Badra and exploration and production assets in Kurdistan, which are governed by the terms of the Development and Production Service Contract and the Production Sharing Agreement. These assets are tested for impairment on an annual basis. We continued to focus on this area in 2018 due to the significant remaining carrying value of these assets. Furthermore, estimation of the 'value in use' recoverable amount for these assets requires management to make subjective judgements and estimates about the future production volumes, commodity prices and discount rates. The impairment testing results and carrying value of the assets related to Iraqi projects are disclosed in Note 11 Property, plant and equipment. Management process to determine the 'value in use' did not change comparing to previous periods. High volatility of macroeconomic parameters supplemented by political instability in the region together with sensitivity of the model to management assumptions significantly increase estimation uncertainty for this accounting estimate.	We evaluated and challenged the composition of management's future cash flow forecasts, and the process by which they were prepared, confirming validity of any changes implemented from the prior year. We compared the current year actual results to the figures included in the prior year forecast, to consider whether any forecasts included assumptions that, with hindsight, had been overly optimistic. We used our internal valuation experts and external data from independent sources in assessing and obtaining audit evidence to support the revised assumptions used in impairment testing. The most significant assumptions relate to future oil prices, discount rates depending on Iraq's country risk and the estimation of oil and gas reserves and future production volumes at the fields. For the purpose of the analysis of future market prices, we used Brent crude oil quotations as per Bloomberg, IHS, Wood Mackenzie and PIRA Energy Group's data. We also challenged the discount rate applied by assessing the cost of capital for comparable entities, as well as considering country/territory specific factors. In relation to production volumes and oil and gas reserves, we performed reconciliation of input data to prior year amounts and information received from external experts and science and technology centre engaged with geological studies within the Group.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

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

Based on the above we determined the nature and scope of audit procedures at the level of significant components as well as at the level of the group as a whole. We identified the following significant components where we performed full-scope audit procedures: PJSC Gazprom Neft (parent holding company, corporate centre located in Saint Petersburg, the Russian Federation), Gazprom Neft Regional Sales LLC (Russian subsidiary responsible for regional petroleum products wholesale) and Gazpromneft-Centre LLC (Russian subsidiary responsible for retail petroleum products sales). Naftna Industrija Srbije a.d. was determined as the fourth significant component where a PwC network office in Serbia performed full-scope audit procedures based on our instructions.

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

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months ended December 31 and September 30, 2018 and years ended December 31, 2018 and 2017" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the PJSC Gazprom Neft Annual Report and 1st quarter 2019 Quarterly Issuer's Report, which are expected to be made available to us after that date.

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

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

When we read the PJSC Gazprom Neft Annual Report and 1st quarter 2019 Quarterly Issuer's Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

AO PricewaterhouseCoopers Audit

20 February 2019

Moscow, Russian Federation

I.V. Shanina, certified auditor (licence no. 01-001340), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Gazprom Neft

Record made in the Unified State Register of Legal Entities on 21 August 2002 under State Registration Number 1025501701686

The Russian Federation, 190000, St. Petersburg, Pochtamtskaya ul., 3-5

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547