APPENDIX 1. CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019 WITH INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom Neft ("PJSC Gazprom Neft") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organizations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

Revenue recognition

During the audit we specially focused on revenue recognition as the amount of revenue is material and revenue streams are formed in different geographical and operating segments. In addition, revenue streams differ in such terms of recognition as the identification of performance obligations, determination of transaction prices and the pattern of transfer of risks and rewards.

Despite the high level of automation, a large number of contracts and a significant number of transactions pose a risk of misstatement of this item.

Our audit procedures in respect of the risk of material misstatement of revenue included:

- assessing the consistency of the application of the revenue recognition accounting policy in relation to a variety of performance obligations;
- testing controls and assessing the risk of fraud or error;
- verifying the timeliness of revenue recognition and the right to recognised revenue based on the terms of contracts and other documents;
- receiving confirmation letters from counterparties as of the end of the reporting period.

Based on the results of our audit procedures, we considered the position of the Group's management on the revenue recognition to be acceptable.

Information about the approaches to revenue recognition is provided in Note 2 "Summary of significant accounting policies" to the consolidated financial statements, information about revenue figures, including information by geographic segments, is disclosed in Note 40 "Segment information" to the consolidated financial statements.

Assessment of the recoverable amount of non-current assets

Due to the material carrying amount of the Group's non-current assets, continuing volatility of macroeconomics parameters supplemented by political instability in some regions where the Group operates, sensitivity of impairment models to the assumptions applied by the Group's management as well as the high level of subjectivity of the applied judgements and estimates of the Group's management we consider this matter to be one of most significance in the audit.

The risk of the non-recoverability of the carrying amount of non-current assets primarily relates to production and oil refining assets located in the Russian Federation, oil and gas production and exploration assets located in Iraq, and assets located mostly in Serbia. As at the reporting date, the Group's management measured the recoverable amount of non-current assets for cash-generating units by means of value in use.

Our audit procedures in respect of this area included:

- testing the principles applied to prepare future cash flow forecasts;
- involvement of our valuation experts who:
  - analysed the methodology used by the Group when performing impairment testing of non-current assets and the consistency of its application by the Group;
  - compared the data used by the Group with the information available from independent sources (inflation and income tax rates) as well as with our own assessments in relation to key inputs used in impairment testing (future oil prices and exchange rates, determined discount rates, estimation of oil and gas reserves and its future production and sales volumes);
  - analysed the sensitivity of the models applied for testing purposes to changes in key assumptions.

Based on the results of the audit procedures, we believe that the information and key assumptions applied by the Group's management to calculate the recoverable amount of non-current assets are acceptable and are well in line with current economic environment.

Information about the approaches applied to measure and recognise impairment of non-current assets is provided in Note 2 “Summary of significant accounting policies” and Note 3 “Critical accounting estimates, assumptions and judgements” to the consolidated financial statements, information about the conducted impairment testing is disclosed in Note 11 “Property, plant and equipment” and Note 13 “Goodwill and other intangible assets” to the consolidated financial statements.

Classification and recognition of financial instruments as cash equivalents

Due to the economic importance of cash and cash equivalents, the significance of the cash equivalent balances, and the professional judgement and assumptions applied by the Group's management in classifying and recognising financial instruments as cash equivalents, we consider this matter to be one of the key audit matters.

The classification and recognition of financial instruments as cash equivalents applied by the Group are based on the significant professional judgement applied by the Group's management, which is supported by the intention of the Group’s management to use such financial instruments to settle the Group's short-term cash liabilities. In addition, the Group analyses various factors, including the assessment of liquidity and credit risks, records on cash returns at any point of time without significant loss of interest and penalties.

During our audit procedures regarding the classification and recognition of financial instruments as cash equivalents, we performed the following procedures:

- assessing the appropriateness and consistency of the professional judgements applied by the Group's management regarding the classification and recognition of financial instruments as cash equivalents;
- reviewing intentions of the Group's management regarding the use of financial instruments classified as cash equivalents for the purposes of managing the Group's liquidity;
- assessing liquidity and credit risks related to the solvency of counterparties, including transactions under repurchase agreements and cash pooling agreement with the Group's parent company;
- analysing agreements and other documents confirming the availability of cash at any point of time without significant loss of interest and penalties because of early redemption.

Based on the results of our procedures, we believe that the key assumptions and professional judgements of the Group’s management regarding the classification and recognition of financial instruments as cash equivalents are reasonable and do not contradict the available audit evidence.

Information about the main accounting policies applied to account for cash and cash equivalents is provided in Note 2 "Summary of significant accounting policies" to the consolidated financial statements, and information about the amount of cash and cash equivalents is disclosed in Note 6 "Cash and cash equivalents" to the consolidated financial statements.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 presented in accordance with IFRSs were audited by another auditor (AO PricewaterhouseCoopers Audit) who expressed an unmodified opinion on those statements on 20 February 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in 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 (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, the Annual Report of PJSC Gazprom Neft for 2019 and the Quarterly issuer's report of PJSC Gazprom Neft for the first quarter of 2020, which are expected to be made available to us after the date of this auditor's report.

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 Annual report of PJSC Gazprom Neft for 2019 and the Quarterly issuer's report of PJSC Gazprom Neft for the first quarter of 2020, 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 IFRSs, 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 judgement and maintain professional scepticism throughout the audit. We also:

a. 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;
b. 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;
c. evaluate the appropriateness of accounting policies used, the reasonableness of accounting estimates and related disclosures made by management;
d. 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;
e. 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;
f. 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.

President of FBK, LLC

S.M. Shapiguzov

(by virtue of the Charter,
audit qualification certificate 01-001230)

Engagement partner on the audit resulting in this independent auditor's report

K.S. Shirikova, FCCA

(audit qualification certificate 01-000712)

Date of the independent auditor's report:
21 February 2020

AUDITED ENTITY	AUDITOR
Name: Public Joint Stock Company Gazprom Neft (Gazprom Neft PJSC). **Address of the legal entity within its location:** 3-5 Pochtamtskaya St, St. Petersburg, 190000, Russian Federation. **State registration:** Registered on 6 October 1995 by the Omsk Registration Chamber. Statutory registration certificate No. 38606450. Primary state registration number 1025501701686.	**Name:** FBK, LLC. **Address of the legal entity within its location:** 44/1 Myasnitskaya St, Bldg 2AB, Moscow, 101990, Russian Federation. **State registration:** Registered by the Moscow Registration Chamber on 15 November 1993, registration number 484.583. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number 1027700058286. **Membership in a self-regulatory organization of auditors:** Member of the Self-regulatory organization of auditors Association "Sodruzhestvo". Primary number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.