

Gazprom Neft PJSC

Financial Results in 4Q 2015 2 March 2016

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen. We are pleased to welcome you to our regular conference call dedicated to IFRS results for 2015.

Let me introduce our speakers. Our CFO Alexey Yankevich will present and comment on the financial statements, followed by the head of the Economics and Investment Department of our Upstream Division, Alexander Mikheyev, who will tell you about upstream operations in 2015, and then Vladimir Konstantinov, Head of Downstream Economics and Investment, will talk about developments in his Division during the period. We will be joined for the question and answer session by the Head of our Strategic Planning Department, Sergey Vakulenko, and our colleagues from other relevant departments.

I should remind you that the presentation and everything said during the conference call may contain forward-looking statements relating to the financial position and business results of Gazprom Neft. All statements, other than assertions about past facts, are or may be viewed as forward-looking statements. Such statements involve known and unknown risks and uncertainties that may cause actual results, indicators or events to differ materially from those, which are announced in the course of our conference call today.

Thanks you. Let me hand over to Alexey Yankevich.

Alexey Yankevich, CFO

Good afternoon, ladies and gentlemen. I will present Gazprom Neft's business results for 2015.

The Company showed substantial increase in volume components of its operating income during 2015 despite the difficult external environment: production growth approached 20%, which is close to our previous record, and growth of EBITDA, which reflects the scale of operations, was 18%. Unfortunately, our net income was down, but this was mainly a revaluation effect—primarily revaluation of foreign-currency loans, but also the effect of provisions made to comply with IFRS (I will say more about this later). An additional point is that we successfully implemented our plans for the development of new projects and my colleagues will have more to say about that. All of our major projects are on schedule, and our work on cost efficiency is producing results. For example, the rise in unit costs at our mature fields is still at a level of 6-7%, which is below inflation, and my colleagues will give you more details. The fourth quarter is usually tougher for oil companies than the third quarter, due to seasonal factors, and this was compounded for us in the fourth quarter last year by various scheduled maintenance work at our refineries, particularly on the catalytic cracking unit at the Omsk Refinery. In addition, most of the revaluations came in the fourth quarter. That explains the net loss in the last three months of 2015. We are ready to provide more detailed breakdowns regarding that, and we will discuss it later on.

Let me now hand over to my colleagues, starting with Upstream.

Alexander Mikheyev, Head of Economics and Investment (Upstream)

Colleagues, good afternoon. I am going to tell you about our results last year in exploration and production. Let me start with the main developments.

The first thing to mention is our record results for hydrocarbon production, which grew by 20% year-on-year. We maintained production levels at our mature assets and obtained substantial increases in major projects, particularly Novoport, Prirazlomnoye and Badra. Output growth in these three projects was about 2 million tonnes of oil equivalent. As regards exploration projects, we launched commercial production at the Garmian block in Kurdistan. For gas infrastructure, I would single out commissioning of the Yaro-Yakhinskoye gas processing facility and the Yuzhno-Priobsky gas processing plant. I would also note some important strategic milestones, particularly the completing of installation and preparation of the Arctic terminal in our Novoport project, which is now being made ready for year-round oil shipments. We have obtained parity management

of the Northgas project in the Yamal production cluster, and the Group's share in SeverEnergiya—the Arcticgas project—has increased to 46.7%.

The next slide deals with the resource base and you can see that we are continuing to build our resource potential. Reserve replacement in 2015 was 196% or nearly 1.5 trillion tonnes of oil equivalent (1P), thanks mainly to a successful exploration programme as well as revaluation of reserves and acquisitions (the increase of our interest in Arcticgas and Northgas, which I referred to).

The next slide shows growth trends in hydrocarbon production. You can see that the total average annual growth rate from 2011 is nearly 9% and we continue to keep a close eye on our production trends in the Russian context, making benchmark comparisons with our main competitors. We have maintained a strong leading positions here.

Next slide. The increase was achieved by substantial output growth from major projects, and also by acquisitions. Output growth for liquids was 3.6 million tonnes and for gas it was almost 10 million tonnes of oil equivalent.

Next slide. This shows levels of efficiency and trends for operating expenses, and you can see that increases of lifting expenses have been modest despite the strong volume increase and that we have also kept a rein on overall operating expenses. The latter grew by 6% year-on-year and the increase in lifting expenses was 4%. In absolute terms current operating expenses are 1582 rubles per tonne of oil equivalent.

I will say a few words about key milestones in our major projects, starting with Novoport, which exported 293,000 tonnes of oil in 2015. 2P reserves at Novoport grew by 38% to 176 million tonnes of oil equivalent. The first winter shipments began in February, in August the Novoport field was included in the list of fields entitled to export duty preferences, in September we completed installation of the Arctic oil terminal, and in November the first ice-breaking vessel for oil transport logistics was laid down at the shipyard.

Next slide. A few words about the Yamal project cluster. We obtained trust management of an interest in the Northgas project in March, the Yaro-Yakhinskoye gas processing facility unit was launched in April, in June the Yaro-Yakhinskoye field reached its design production level (nearly 8 billion cubic meters of gas and 1.3 million tonnes of condensate at Arcticgas), and in October we closed the deal for project financing of Arcticgas, lengthening the debt maturity and lowering the interest rate.

Then there are further milestones in our new projects, I will take a quick look at each of them. At Prirazlomnoye we produced 870,000 tonnes of oil and made 12 tanker shipments. The exploration programme has been fully implemented at Messoyakha, and plans have been prepared for integrated construction of wells. Average daily production at Badra reached 45,000 barrels and we shipped nearly 2.5 million barrels of cost oil. We have stepped up the drilling rate at the Badra fields, mobilizing an additional drilling rig, so we now have four rigs at work there. Transfer of operator status is going ahead at the Garmian block In Kurdistan, 3D field seismic surveys have been successfully completed in the northwest of the Shakal block and 2D field work in the south and north of the Halabja block.

That rounds off my summary of work by the Upstream Division. I will pass you over to Vladimir Konstantinov.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Good afternoon, ladies and gentlemen. The first quarter was the most difficult period of 2015 for Downstream. We have already talked about it. That was when we had three factors that were negative for the Division, one on top of the other: changes in the tax system; low prices for petroleum products in the domestic market; and adverse effect of the duty lag. The first quarter was tough, refining margin was low. Then two of these factors—the domestic market price and duty lag—were mainly eliminated, and prices found their usual pattern. Margin was a lot higher in the second, third and fourth quarters and for the whole year it was about USD 4-6 per barrel, which we view as fairly efficient considering the environment we had to work in during 2015. Crude oil resources in 2015 were 2.5 million tonnes more than in 2014 thanks to good work by our upstream colleagues and efficient operations on the market for crude oil. Total deliveries to the domestic market increased by almost 3 million tonnes. We successfully sold crude oil on commercial terms in the domestic market. We continued to deliver our oil to countries of the near abroad, and efficiency of these deliveries remains high. We also continued to supply oil for refining to refineries in Russia and to our overseas facilities. Overall, though, our refining volumes were slightly down, by 0.9%. But that is just 400,000 tonnes in absolute terms, and it was due primarily to the structure of refinery repairs. I will talk about that later—we carried out fairly major repair and reconstruction work at the Omsk Refinery.

This brings us to main events in refining. We continued step-by-step implementation of the refinery modernization programme, despite the difficult macroeconomic environment. Major repairs to the second process chain were carried out at the Omsk Refinery, with reconstruction of the catalytic cracking unit as the biggest single project—that gives us ability for 100% production of Euro-5 gasoline. We are now ready to produce 100% of gasoline and diesel fuel—all of our motor fuel—in Class 5 in 2016, complying with the technical regulations. Also as part of this major upgrade we completed installation of the water block for the catalytic cracking unit and reconstruction of the primary distillation unit. Increase in refining of gas condensate from our production companies was a defining factor for our efficiency in 2015. Supply and refining of condensate more than doubled to 1.4 million tonnes. And we can see how this gave further increase of motor gasoline output. We made a start on our big project for upgrading of catalyst production at the Omsk Refinery, linked to increase in condensate production volumes and to improvement of structure. We are now starting design work on the project. We also launched new products at Omsk: MTBE, light gasoil for bunkering and 130-grade polymer-bitumen binders. The commissioning of a new gas fractionation plant at the Moscow Refinery was another important event. It will increase the overall efficiency of operations at the plant. We began construction of an integrated refining installation in Moscow, which will increase crude processing capacity and boost efficiency of the secondary refining process. Construction of an aggregate for input of additives to gasoline was completed, which means that we can sustainably produce more gasoline of the quality required for the G-Drive brand, which enjoys strong demand on the market and is popular with motorists. Output of Euro-5 fuel increased by 20% in 2015 after the reconstruction work in 2014. Various work was carried out at Yanos as part of our modernization programme there.

The next page shows refining volume. I have already said that overall refining volume declined slightly. You can see here that most of the decline was at Omsk and it was a natural, normal development caused by the large-scale reconstruction work, which I have already talked about. Refining volumes also declined at Mozyr, which was due to market factors, optimization of crude distribution and refining volumes. An increase of refining volumes at Mozyr would have been inefficient in the given period, so the level was lower than in 2014. The situation was quite different at NIS, where refining volumes were increased because they brought extra income. A small increase of refining at the Moscow Refinery was again due to the repair cycle: we overhauled the small production chain in 2015, while in 2014 we carried out work on the main chain. If you look at the right side of the slide, we will see that we increased production of motor gasoline by 2.7%. This was mainly thanks to change of input structure and change of process quality following overhaul of the main chain in 2014. The share of high-octane gasoline increased. We are phasing out production of 80-octane gasoline, for which there is less and less demand: we produced just over 200,000 tonnes in 2015 and that figure will be at least halved this year. We are ready to close down production of 80-octane gasoline altogether if there is no demand for it. To give an idea of our product quality: in 2015 only 4% of total gasoline production in was in Class 4 or lower, and the share for diesel was just 1%. All the rest was in Class 5.

In the marketing segment our main task in the difficult business environment was to at least stabilize and at best increase our market share, not to lose major customers. We think that we succeeded in that. For motor fuels, for example, our gasoline sales grew by 3% while the market for gasoline fell by 2% in 2015. It's true that our diesel sales fell slightly, by 1%, but the overall market decline was 5%. So our market share grew. Overall, our products increased their share in domestic sales of motor gasoline and diesel by 1-2 percentage points. We increased output of gasoline and diesel in premium segments, and retail sales via our chain passed a landmark: we sold over 10 million tonnes of oil products, gasoline and diesel fuel via retail in 2015—300,000 tonnes more than in 2014. We continued to develop our premium network of filling stations to the best of our ability and keeping a close eye on investment efficiency: 11 stations were acquired, 11 were built, 24 were upgraded and 12 were branded. By the end of the year we had 1,852 stations, of which 1,155 in Russia, 248 in the CIS and 449 in Eastern Europe. Our approach and the results achieved were broadly similar for other products: jet fuel, bunkering, lubricants and bitumen. Our share of the Russian market for jet fuel increased by 1.1 percentage points to 26.3%. In bunkering we showed fairly strong growth of 2.5 points to achieve a share of 21%—the overall bunkering market fell heavily (by 13%), while our sales decline was only 4%, so our market share increased. Lubricants were particularly strong: the market shrank by 5%, but our premium sales grew by 18%. That was mainly because we made best use of the import substitution programme. We signed contracts with 200 Russian agricultural, industrial and transport companies and the quality and diversity of our products helped to boost our premium product sales and market share, which increased by 3.5% points. The market for bitumens fell by 14%, while our sales were only 6% lower than in 2014. The success in increasing our bitumen market share was thanks to long-term supply contracts, quality of our products, proximity to consumers and the fact that we have an extensive, developed and complete network for bitumen deliveries.

What I would stress overall is that the Downstream business—the logistics, refining and marketing Division—dealt successfully with the obstacles, which we had to deal with, and achieved good results.

Thank you.

Alexey Yankevich, CFO

We will finish off our presentation with a discussion of financial aspects

As I said, we see the substantial increase of operating income as our main achievement in 2015. It shows that our business is growing, and not only in terms of physical volume. Our earnings from continuing operations are also growing, as are their profitability. Our revenue trends reflect world price trends. World prices for oil products fell and volume growth could not fully compensate the decline in prices. As a result, revenues were roughly at the level of the previous year—just 2% lower. Net income is another matter. As I said earlier, it was affected mainly by valuation factors—exchange rate differences and valuation provisions under IFRS. The creation of provisions was dictated by the fact that oil prices reached what we view as historical lows at the end of the fourth and start of the first quarters. Taking a medium-term view, we believe that this situation is temporary. We are counting on some recovery of the market and of oil prices. So these provisions will be partially or fully returned and cancelled, and the income will be regained.

The next two slides give more analysis of the factors that influenced our operating income. I would emphasize that the increase of operating income by 18% year-on-year was mainly due to efforts by management to improve business efficiency: production growth, optimization of the production programme, retaining and increasing market share in premium channels and increase of our retail sales. This brought us about 50 billion rubles of extra operating income and growth of 18%. External factors didn't account for much of this as such—they gave about 10 billion “plus”. And taxation changes were a major negative factor. They basically increased the burden on the oil industry, and the effect on us was about 30 billion. Exchange rate differences compensated for this by a small margin, but everything here—change of prices and positive effect of ruble devaluation—is unified into the price factor.

The next slide shows quarterly trends. As I already said, the fourth quarter is always worse than the third, due to seasonal factors. When temperatures are lower, it costs more to keep our facilities running. Costs are greater, and hence a number of seasonal factors. You can see on the slide—the effect is about 5 billion. But the main factor, as I have said, is overhauls. Mainly the catalytic cracking unit. This is a very important part of the secondary refining process and its suspension caused a temporary reduction in output of high-margin products, which pulled down financial results, but I repeat, this was a one-off effect in the fourth quarter and it will disappear in coming quarters. There was one other quarterly factor, associated with the shipment schedule from the Novoport field. The way the schedule worked out, deliveries in the fourth quarter were significantly lower than in the third. Since production there is quite efficient, the fall in shipments had some negative impact. Also, costs were distributed unevenly by quarters. Some costs, mainly under social and economic agreements, were greater in the fourth quarter than in the third. These factors together are what mainly led to the decrease of operating income quarter-on-quarter.

Next, a few words about cash flows. We generated about 285 billion rubles of operating cash flow in 2015. Capital investments were about 349 billion. So we booked negative free cash flow of about 63.9 billion rubles. In principle, this is what we expected, We said before that there would be an investment peak in the next few years, due to the simultaneous launch of several major projects. This explains the negative cash flow. Net borrowing for the year was about 121 billion rubles. Cash flows were also affected by dividends of 36 billion rubles and new projects, consisting of non-consolidated investments, not included in the capex in our reporting, representing funding of our joint projects. These are mainly the Messoyakha field group.

The next slide shows investments. It explains their high level and growth, which have led to negative cash flow. Basically, as I said, this represents investments in the development of our new fields, such as Novoport and Prirazlomnoye. You can see that the increase was 29%. For the sake of comparison, we have separated out the Priobskoye field, which was transferred from greenfields to mature fields in 2015. If you remove the effect of that transfer, investments in mature fields even declined slightly. So this shows our efforts to optimize capital investments and maximize cash flows at our mature fields. Investments in refining grew in 2015, unlike 2014. This was because we began the second phase of our refinery modernization. Projects are starting, procurement of equipment with long manufacturing periods is starting, and that entails growth of cash costs for these projects. Marketing investments are down, as we have completed the biggest part of the reconstruction and rebranding program. Investment growth in new projects is mainly connected with development of the Messoyakha group, as I have already said.

Finally let me give you a snapshot of our debt portfolio. A few words about our financial policy. Our loan portfolio has not changed much. Yes, there has been some reduction of average maturity from 4.5 to 3.5 years, but most repayments (70%) are more than two years into the future, so we feel quite comfortable. We have an understanding of how to refinance all of the 18%, which is due for repayment within the next year. The business plan approved by the Board of Directors calls for borrowing this year on the international market mainly for scheduled loan repayment. All of the instruments have already been identified, most of the agreements have been signed, so we understand how we are going to raise this sum. We feel perfectly comfortable in terms of financial stability.

In conclusion I would say that we remain confident despite the difficult situation at present. We have a large safety margin. We began work improving efficiency long before the crisis, and that work is now bearing fruit. You can see our unit cost trend in production: it is very good, and that gives us confidence that we will come through these difficult times with a strong foundation for the future, and that our revenues will grow as the oil market recovers.

That's everything I wanted to say. Thank you. We are ready for your questions.

Q&A

Question №1

Alexander Kornilov, Aton

Good evening, gentlemen. Thank you very much for the presentation and for the opportunity to ask questions. I have a couple of questions, if I may. The first question is probably more specific. In previous presentations, you showed your refining margin broken down by quarters. Could you share with us Gazprom Neft's refining margin in the fourth quarter of 2015? That is the first question.

The second question is more conceptual and concerns your main joint ventures. We know that they are already either at peak production or close to it. I'm thinking of SeverEnergiya and Northgas. So it seems fair to ask whether the Company expects some substantial dividend payments from these joint ventures in the near future. Could you let us know your expectations regarding dividends, how dividend policy will be defined; if possible, if you already have an understanding and you are ready to share this information. Thank you.

Alexey Yankevich, CFO

Alexander, thanks for the questions. I will ask Vladimir Konstantinov to respond to the first question about refining margin, and then I will answer the question about dividends myself.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

I said that the average margin for the year fluctuated in a range from USD 4 to 6 per barrel, depending on the refinery. And I said that it was considerably lower in the first quarter and that maximum margin was in the third quarter, when it reached USD 10-15 per barrel. And then a bit lower in the fourth quarter, at between USD 5 and 10 per barrel in various months for various refineries. I can say that our highest margin is at the Omsk Refinery, while margin at our facilities in European Russia (Moscow and Yaroslavl) is slightly lower. Thank you.

Alexey Yankevich, CFO

Alexander, now for my part of the question, about joint ventures. I would say that, on the one hand, you are right: our main new joint venture, SeverEnergiya, is progressing from a greenfield to an asset with industrial production. But I would remind you that this project is funded on a project financing basis, by a syndicate of banks. The project took loan financing for development independently, so that profits have to be used for debt servicing and interest payments. We are now working on plans for optimization and development of these assets. The market situation is very volatile. My answer is that we expect dividends in the next two years, but this will of course depend on the macroeconomic situation and on tax policy. There are too many uncertainties. Thank you.

Alexander Kornilov, Aton

Thank you

Question №2

Evgenia Dyshlyuk, Gazprombank

Good evening. Thanks for the presentation. I have a few questions. The first question is: could you explain what caused the increase of other operating expenses. I'm thinking of the line, "production manufacturing expenses", where there is an item called "other operating expenses", which showed quite significant increase in the fourth quarter. What was the reason for that? Thank you.

Alexey Yankevich, CFO

Thanks for the question, Evgenia. I'll start from the second part, from other expenses, which are below EBITDA. As I already said, this is mainly due to valuation provisions. You know that IFRS rules require creation of provisions in the event of significant macroeconomic changes for impairment of assets in a situation where the price of the main product is changing substantially. The large drop in oil prices made us audit our entire project portfolio—exploration and production projects, that is. And we created provisions for impairment of investments in some of these projects due to the decline of oil prices.

As regards other operating expenses, which you see in production and manufacturing expenses, they are already in EBITDA, and so-called cost of other activities. Most of the growth of the latter is from our provision of services to our joint venture, Messoyakhaneftegaz. It's just a matter of how we organize our interaction, that is how we do it at present. Being the operator, we, as Gazprom Neft in the person of our subsidiary, Gazprom Neft Development, provide operating services to our joint venture, Messoyakhaneftegaz, for the operation and development of this field. We show this in both revenue and expenditure. If next year this scheme changes and all activity will be fully focused on the joint venture, then the revenues and costs will no longer be shown on our profit and loss statement. But for the moment the scheme is as I have described it.

Evgenia Dyshlyuk, Gazprombank

Thank you. The next question I have is this. What caused the reduction of the share of net income in joint ventures in the fourth quarter? The figure fell, I think, to 700 million rubles, if I am not mistaken.

Alexey Yankevich, CFO

Yes, I'll tell you what this is. It is due to our SeverEnergiya project and the way interest costs are reflected. You know that interest expenses associated with the creation and construction of plant and equipment can be capitalized during the construction period. Then when the plant and equipment are commissioned and begin to operate, these costs move from the balance sheet to the profit and loss account. A large quantity of fixed assets were commissioned in the fourth quarter, so that interest began to be reflected in the profit and loss account and was no longer capitalized.

Evgenia Dyshlyuk, Gazprombank

Thank you very much. The last question is about capital expenditure for the year. You said earlier that it would be less about USD 5 billion, at an oil price in the budget of around USD 50 per barrel. And the question is this. If the oil price stays low, USD 30-35 per barrel, and you have negative free cash flow, how are you going to cover this difference, in view of sanctions and all the other restrictions? What sources of funding do you have available? Thank you.

Alexey Yankevich, CFO

We already mentioned the figure for investments this year, which has been approved by the Board of Directors, totalling 360 billion rubles, and we are sticking to that plan. This is the first point. The second point is that we have a certain margin, we have substantial funds at the start of the year, so we have some flexibility for this year and we have reserves to finance our investment programmes in case the oil price stays low. As for our borrowings, as I have said, we will essentially only raise money this year to refinance our loans. That is the approach.

Evgenia Dyshlyuk, Gazprombank

Thank you very much.

Anna Sidorkina, Head of Investor Relations

Ladies and gentlemen, can you please keep to one or two questions, since we have a lot of people waiting. Thank you very much.

Question №3

Maxim Moshkov, UBS

Good evening. Two questions. First on Upstream. Can you tell us about production plans at Prirazlomnoye and Novoport for this and next year, taking account of the possible restrictions, which were discussed at yesterday's meeting with the President. And also for oil production at Arcticgas's Yaro-Yakhinskoye field—what are the latest data? Will there be oil production and in what time frame?

The second question is about Downstream. We see that the Company's refineries in Russia are quite complex and generally efficient. They have changed over completely to production of Euro-5 for both diesel and gasoline. In view of the current limitations on operating cash flow due to low oil prices, doesn't the company plan to revise the second phase of modernization, putting it off to a later date? Because building an ideal refinery in Russia probably isn't a project that is needed under these conditions. Thank you.

Alexey Yankevich, CFO

Maxim, thank you. I'll start with the Novoport field. As we said, our plan is for 2.5 million tonnes this year. But as for the second part of your question, about discussions on freezing production and what we all heard of the outcome of yesterday's meeting. I would ask you to seek comments at the Ministry of Energy. Coordination is their job. I will tell you our plans.

For Downstream, of course, we understand the current situation. On the strategic level, we are not revising our programmes, we have verified that all these projects pay for themselves. Of course, realizing the situation, we are trying to optimize the implementation timeline, so that we do not have a peak load of several projects in any given year. That way we can optimize our cash flows over time, in turn. But we are not giving up the programme as a whole. That is on the one hand. On the other hand, we will be sensible. Nobody is planning to build an "ideal" refinery, we have looked at the programme and optimized it so that we only implement projects, which definitely pay for themselves, which are essential in order to improve the efficiency of our refineries.

Maxim Moshkov, UBS

Thank you. Can you clarify the Prirazlomnoye production plan and for Yaro-Yakhinskoye? The production plan for this year at the Prirazlomnoye field.

Alexey Yankevich, CFO

2.1 million tonnes

Maxim Moshkov, UBS

2.1? Excellent. And for Yaro-Yakhinskoye?

Alexey Yankevich, CFO

At Prirazlomnoye the plan is about 2.1 million tonnes. As regards Yaro-Yakhinskoye and the oil programme, I can't name any specific timescales and volumes yet. As I said when answering the previous question about SeverEnergiya, we are working now on optimization of the production programme at SeverEnergiya and generally to optimize cash flows in that project. So work is ongoing, and we will soon have a clear idea on the capital investment programme and specific timing of the oil programme, taking account of the changed macro conditions, new planning data, and cash flow optimization. So we will tell you about Yaro-Yakhinskoye a bit later.

Question №4

Ildar Khaziev, HSBC

Good evening. Thank you very much for your presentation. Two questions. One about SeverEnergiya. Could you clarify what the debt repayment schedule looks like? If possible, the amounts per year and approximately how much will have to be repaid?

And the second question is about Downstream. Your presentation had some very interesting negative statistics for Russia as a whole, showing sales declines for nearly all products. In that context your sales figures certainly look very strong. Isn't a geography a factor here (among others), because, as I understand, your main markets are outside European Russia? And do you have some understanding of where the overall market in Russia is moving now, this year? Thank you.

Alexey Yankevich, CFO

Ildar, thank you. Unfortunately, the payment schedule is a part of our commercial agreements with banks. I cannot disclose the amount, I'm sorry. As regards the market, I will ask Vladimir Konstantinov to comment.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Of course, we analyze market trends not only in Russia as a whole, but also by various regions of Russia. What I would say is: the decline of the market for gasoline in regions where we operate—the Central Region, Western Siberia and the Urals—is practically the same as for Russia as a whole. There is practically no difference. For gasoline, the market decline in our regions is slightly greater, by one percentage point, than for the whole of the Russian Federation. Again, those are our estimates. Our marketing services forecast a zero trend for gasoline in our business regions in 2016, i.e. market volume in 2016 will be approximately equal to market volumes in 2015. There will be a slight decrease for diesel fuel, of up to one percent. For jet fuel, probably a reduction of 2% to 3%. This is what we expect. But, I repeat, this is an estimate and we can't be sure what will actually happen.

Ildar Khaziev, HSBC

Many thanks.

Question №5**Evgeny Fedorov, Renaissance Capital:**

Good afternoon. Thank you very much for your presentation. I also have two questions. The first is about your dividend policy. Gazprom Neft showed a loss for the second half of 2015, when 25% of net income for the first half of the year had already been paid as an interim dividend. In view of that, could you share with us your expectations for full-year dividends, i.e. for the second half of 2015? What I mean is, are you considering adjustment of the dividend base for non-cash write-offs?

The second question is more technical, about other losses. You commented on the asset impairment item of just under 16 billion rubles, and in the other section there is an item with asset write-offs amounting to about 8 billion rubles. Could you comment on the nature of these expenses?

Alexey Yankevich, CFO

Evgeny, thanks for the questions. The first question is important. As regards dividends, it is right that losses in the fourth quarter, mainly from the impact of one-off revaluation, meant that profit for the second half was almost zero, so the question arises of how we are going to calculate dividends. I can say that, yes, indeed, we are considering the possibility of a certain adjustment for non-recurring items. But we still have to think which of them to correct for—they have been positive and negative through the year. This issue is being discussed, and a final decision will be made soon by the Board of Directors.

Regarding the other expenses item. There's a write-off there, which is called a "provision" (the principle is essentially the same). Write-off provisions are 100% for some things, and for other things we have a partial impairment provision. But all this is due to recalculation of our investments based on change of oil prices. Essentially it is all impairment

Evgeny Fedorov, Renaissance Capital

Thank you very much.

Question №6**Pavel Kushnir, Deutsche Bank:**

Good evening. In one of your answers you mentioned the instability of the tax system. Could you tell us what specific rates and what specific taxes you are talking about, and in which segment increases are possible?

The second question concerns the gas exports by SeverEnergiya. Vedomosti newspaper wrote about it today. As the parity partner in this company, have you participated in any way in the debate, not so much about exports, but about the proposal that has been submitted to President Putin? Thank you.

Alexey Yankevich, CFO

Pavel, thank you for your question. Regarding the first question, about tax. The most imminent thing that we can expect with high probability is excises. As you probably know, a decision has been made, so we take account of it in our plans. The other things you know about from the media. The Finance Ministry has made

some statements about its plans. All of these alternatives are on the table, but I would find it hard to comment on them, because it's not our decision.

As for gas, you know that, in principle, in this partnership between us and Novatek, Novatek has more to do with gas. The initiative, which you mention, came from them, so it would be better and more appropriate to ask them to comment. We are waiting to see what the outcome will be.

Alexey Yankevich, CFO

Ladies and gentlemen! It looks as if we don't have anyone else waiting with questions. I would like to thank you all for taking part in the conference call and to say that we are always ready for any questions you may have. Please send them to our IR-service and we will be happy to answer all these questions in detail. Thank you very much.