

JSC Gazprom Neft

Financial Results in H1 2015 13 August 2015

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen. Anna Sidorkina, Investor Relations, Gazprom Neft. We are very pleased to welcome you to our usual conference call for results in the first half of 2015. Allow me to introduce my colleagues who will be taking part in the call. Alexey Yankevich, our CFO and Management Board member, will present and comment on financial results. Alexander Mikheyev, who heads the Economics and Investment Department of our Upstream Division, will tell you about upstream operations in the first half of the year. And Vladimir Konstantinov, head of the Downstream Economics and Investment Department, will talk about downstream. We will be joined for the Q&A session by our head of Strategic Development, Sergey Vakulenko, as well as other specialists who can answer your questions about Company business.

As ever, before proceeding I will take a moment to remind you that the presentation and all comments made during the conference call may and will contain forward-looking statements relating to the financial position and business results of Gazprom Neft. All statements, other than assertions about past facts, should be treated as forward-looking statements. Such statements express expectations about the future based on the current situation and assumptions made by Company managers, and involve known and unknown risks and uncertainties that may cause actual results, performance or events to differ materially from those, which are contained in or implied by the conference call.

Thanks for your attention, I will now hand over to Alexey Yankevich.

Alexey Yankevich, Chief Financial Officer

Good afternoon, ladies and gentlemen. Today we are presenting the business results of Gazprom Neft in the first half of 2015. Our results were good, despite the tough environment. The decline of world prices for crude oil and petroleum products caused a 1.4% y-o-y decline of our revenue, but we still achieved a substantial increase of operating income, by 12%, and net income rose by 28%. These figures underline improvements of our business efficiency. Our operating indicators in the first half set new records: consolidated hydrocarbon production in barrels rose by over 20% and by 19.4% in tonnes, which is a record figure, the highest in our history. More importantly, we are confident that our production growth will be maintained. The growth may not be at the record rates of the first half, but we fully intend to keep up the trend – production will grow, despite all the external difficulties, and we have the means to ensure that it happens. Gazprom Neft's business will remain a growth business.

There was a slight decline of refining volume in Downstream, as we had to respond to market factors, to external conditions. It is important to note that, despite the slight decrease, levels of output of our main products that are in demand on the market – primarily automotive fuels – were almost unchanged and production of petrol even increased. Premium sales volumes through our own retail network and our premium business units also grew.

Quarter-on-quarter comparisons are fairly simple. As you know, the market, including the world market, improved in the second quarter and this led to a substantial increase of our q-o-q financial indicators such as EBITDA, revenue and net income.

Major strategic events in the first half that I would emphasize included commissioning of the Yaro-Yakhinskoye field, which is the third field in the SeverEnergiya (Arcticgaz) project, production of the first batch of Kirkuk oil in the Badra project, serving to repay investments, and expansion of our portfolio of assets: we obtained four new licences at auction, of which more when we talk about Upstream.

I will now hand over to my colleagues. Let's start with Upstream.

Alexander Mikheyev, Head of Economics and Investment (Downstream)

Good afternoon, ladies and gentlemen. I will say a little more about our half-year results in Upstream. As has been said, production growth in the first six months compared with the same period of 2014 was 19.4% in tonnes. This was mainly due to the maintenance of production volumes at mature fields, the use of new technologies that enable us to check the rate of decline at our mature assets, start-up of new fields and increase of production in major projects (particularly Novoport and Badra), increase of our ownership of SeverEnergiya and the consolidation of Prirazlomnoye and Northgas in Gazprom Neft. We expect at least 10% year-on-year growth of production for the Group.

Key events that I would emphasize are the completion of manufacture of our new terminal for Novoport and pre-commissioning tests of the equipment at the manufacturer's site. The equipment has now been loaded onto a ship in the port of Abu Dhabi and is on its way to Cape Kamenny where it is expected to arrive in September, although the exact date will depend on the weather conditions and the route taken by the vessel. Installation and preparation of the Arctic terminal for year-round oil shipments should be completed by the end of the year.

We are continuing to ramp up production in the Badra project. Drilling has been completed and oil production has started at two new wells, P-4 and P-5. Initial flow rate for each of them was over 10,000 barrels per day. As already mentioned, a third field – Yaro-Yakhinskoye – was commissioned in April as part of the Arcticgaz project. Gazprom Neft is showing steady q-o-q growth of production on both average daily basis and in absolute terms. So we are setting a stable trend, and our growth rate in the first half of the year was the highest in the industry at +19.4%, representing nearly 6 million tonnes of oil equivalent. These are data from the Central Dispatching Department for the Russian oil & gas industry, not including our foreign assets.

Hydrocarbon output increases are a steady trend in all spheres as you can see from the diagram. I would point out that organic growth and growth without Prirazlomnoye and Northgas is 13.3%, and increase of liquid hydrocarbons in Russia is 6.8%, of which nearly 1% for oil.

A couple of words about the unit indicator for operating costs. Gazprom Neft has managed to contain increases of operating costs despite natural exhaustion of reserves, increase of water cut and rise of pressure. Lifting costs at mature assets in the third and fourth stages of development grew by just 3% per unit, which is significantly lower than inflation for the industry. REVEX growth was due to work with established wells, which has positive effect in reducing the rate of decline at our mature assets.

Our technology initiatives are going well. We are proceeding with industrial replication of HiWay hydraulic fracturing technology. This technology has been available on the market for several years, but we went ahead with industrial replication this year, in the first half of the year. The technology reduces risk of accidents during fracing operations and also reduce costs by significantly reducing the cost of proppants used in fracing, by 40-45%. In the first half we carried out five operations, including two at horizontal wells. We plan to use the technology at the Priobskoye field in the near future.

There are a few things to say about the development of new fields. Regarding Prirazlomnoye, I won't go through all the details, but will focus on key factors: in March we completed one cuttings disposal and one production wells. Construction of surface infrastructure is proceeding, including the shift camp. There has been no significant slippage of deadlines. At Novoport we completed the winter programme of oil shipments by sea. We loaded over 111,000 tonnes in total onto seven tankers, using the temporary arrangement. At Messoyakha exploration well number 118 was completed on 18 June. Results of the geological exploration programme will clarify reserve structure and enable updating of the geology and development concept. A third SeverEnergiya field – Yaro-Yakhinskoye – was commissioned in the Arcticgaz project (I already talked about this). On 15 April a complex gas treatment unit was launched at Yaro-Yakhinskoye with capacity of 20 million cubic metres per day of natural gas and it was operating at planned capacity by mid-May. Our foreign project in Kurdistan began production from well Sarkala-1 at the Sarkala field in February 2015. Production in 2015 was about 200,000 tonnes totalling. The geological model and evaluation of the resource base has been updated at the Shakal block after drilling and testing of wells Shakal-2 and -3. 2D field seismic in the southern part of the Halabja block has been completed, totalling 479 linear kilometres, and work has started in the north of the block. A decision whether to continue work will be taken based on the results. Output levels at the Badra field have increased, drilling has been completed and oil production started at two wells, P-4 and P-5

(as already mentioned), with initial flow rate in excess of 10,000 barrels per day. Production levels are now being stepped up and we produced 123,000 tonnes in six months of 2015.

That is what I wanted to say about Upstream results. I'll now hand you over to my colleague, Vladimir Konstantinov.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Good evening, ladies and gentlemen. Reviewing Downstream events in first half of 2015, I would call special attention to the major increase in gas condensate processing at the Omsk Refinery where we refined 600,000 tonnes of condensate, which is almost three times more than in the first half of last year. Further increase in the share of Class-5 motor fuel outputs is particularly important for us – the share increased from 90 to 94 percent for gasoline and from 93 to 99 percent for diesel. We are continuing intensive work to modernize our refineries. A new gas fractionation plant has been put into operation at the Moscow Refinery and the start of FEED work has been approved for the flexicoker and hydrocracker. Final investment decisions have been made for major reconstruction and construction projects at the Omsk Refinery, including rebuilding of the catalytic cracking unit and construction of a delayed coker and CDU/VDU.

In the marketing sphere, we keep expanding our filling station network and increasing premium sales volumes, which grew by 1% in the first half of 2015. Average sales per station in Russia increased in 2Q15 to 18.7 tonnes per day. We have increased our sales of motor fuels despite market stagnation.

As to future plans for refining in 2015, we are continuing work on a complex refining installation, selecting a company to prepare FEED and project documentation for the hydrocracking and flexicoking units. At the Omsk Refinery we plan to complete reconstruction of the AT-9 and the catalytic cracking unit. We are also working on the deep refining complex and a delayed coker at the Refinery.

In the marketing business we plan to acquire 21 filling stations, build 12, reconstruct 37 and rebrand 3 stations in Russia.

In the aviation fuel business we want to expand the number of airports where we are present and in bunkering we aim to increase capacity of our terminal in the port of Novorossiysk. In the lubricants segment we will start construction of Group III base oils facility at the Yaroslavl Refinery.

As regards impact of the macroeconomic situation – specifically price markers, price parameters – on our efficiency, I would say that the second quarter of 2015 brought fewer macroeconomic extremes than the first quarter. The price of oil rose compared with the first quarter, and the increase was not as dramatic as the drop in the previous three quarters, so we were more able to ensure efficiency in our refining business. While in the first quarter refining was only slightly more efficient than export, in the second quarter we saw a return to the traditional situation, when the efficiency of refining at all three of our refineries was considerably higher than that of export.

Comparing the volume of oil supplies, the structure of oil supplies in the second quarter compared with the first quarter of 2015, we see a seasonal increase of refining volume by 5.2%. Deliveries to Russia and the CIS countries were lower than in the first quarter, due to specifics of pricing and efficiency in these markets. Supplies of oil to export rose by about 23%.

We find it more useful to compare half years than quarters. If we take the first half of 2015 and compare it with the first half of 2014, we see that refining volume in the first half of 2015 was down slightly, by 3%. Most of the reduction was for refining in Belarus. In most months of the first half we had very limited efficiency. Omsk saw about 2% growth of refining while there was a volume decline of 8% at the Moscow Refinery, due mainly to the first quarter when we did not increase refining volumes over and above earlier plans, because we had nothing to gain from refining more tonnes. But we are carefully monitoring the efficiency of refining, thanks to which refining depth increased by 1.4 percentage points in the first half of 2015 compared with a year earlier and light product yield increased by about the same amount.

On the next slide, we show our sales in comparison with the wholesale market. Here I would like to emphasize that we not only retained our market share, but increased it, despite stagnation and decline of the

wholesale market in Russia. In particular, the market for petrol stagnated with growth of just 0.1%, while we increased sales by 3.4% and thus increased our market share by one percentage point. Our diesel sales fell slightly, but the decline was less than the overall market decline. The same goes for kerosene and fuel oil.

The next slide compares the overall retail market and our retail sales. Overall volumes of petrol retail fell by 1.9%, while our sales increased by 4%; for diesel fuel there was a market decrease by 3.9%, while we added 0.7%. I should emphasize that we are selling more and more motor fuel with enhanced quality, particularly G-Drive motor fuels. We are seeing growth of turnover and gross income from the sale of non-fuel products and services. Our loyalty programme is developing well.

Sales of fuels other than automotive are also showing a positive trend. Premium sales of aviation fuel grew by 2.5% and our share of the retail market increased as did the the number of airports we serve. The domestic market for bunker fuel saw major contraction, but we managed to keep our premium sales at the level of 2014. There was a major increase in sales of lubricants, including premium sales. We are working hard on import substitution and that, in particular, helped us to increase premium sales in the first half of 2015 by 21.4%.

That's about it. The Downstream Division believes that it achieved positive and strong results, given the difficult conditions that we faced in the first half of 2015. Thank you.

Alexey Yankevich, Chief Financial Officer

Colleagues, allow me to analyze the financial results for you in a bit more detail. I already said that, despite a decline in sales due to the fall in world prices, we managed to increase operating and net income. But it is undeniable that exchange rate differences also had a positive impact on net income, as the ruble rallied in the second quarter, so that, compared with the first quarter, we had reverse, i.e. positive exchange rate differences, causing substantial growth of net income in the second quarter.

We traditionally analyze our operating results, our operating income, separating between external and internal factors, we distinguish the impact of various external factors and, respectively, of our own actions. This slide clearly shows that, if you look at the situation in ruble terms, impact of the external environment was almost neutral. The positive price factor, which mainly related also to the exchange rate, to weakening of the ruble, was virtually cancelled out by negative impact of major fiscal changes, which left us worse off to the order of 23 billion. So, as a result, the external environment did not give us much in ruble terms – just 2 billion rubles. Most of the increase in our EBITDA – more than 20 billion – was due to efforts by management. That is about 19 billion, which includes increase in volumes, extensive growth, as well as efficiency gains at unchanged volumes (optimization of the product basket, optimization of sales channels and work to optimize costs).

Next slide. This is a brief q-o-q analysis. Here, as I said, everything is pretty simple. The main thing, of course, was the price factor, the recovery in prices, which gave the basic 12 billion growth of operating income compared with the previous quarter, but I would say that volumes grew too, and management also contributed to the growth of these indicators.

The next slide is about cash flows. What we see here is what we expected. You may remember that two or three years ago we said that in 2015-2016 we would go through an "investment peak" associated with the simultaneous launch of several very large fields, upstream assets, and that at this point our free cash flow would most probably go into minus. That actually happened this year. Of course, external factors have imposed certain conditions on this, but the reduction occurred all the same. It was not dramatic. You can see that in the first half of the year the volume of capital investments, including materials and advance payments associated with investment projects amounted to 148 billion, which was greater than operating cash flow. We also still have to finance major projects which are being implemented as joint ventures, and are mainly financed through loans. So all this is sitting in a separate box, because it is also treated separately in reporting, it is not included in capex. There is also negative impact on cash flows from the "loans" item – we have called it that, but it is really a mix, – which is based on our calculations for those same joint projects. Certain purchases of materials, advances paid and construction costs are borne by us first of all as the operator. We are the main operator at large fields, particularly at Messoyakha. Accordingly, settlements with partners occur later than the costs actually arise. And this small time lag has an impact, and it was felt in the first half. In fact, we expect these amounts to be offset in the third quarter, and you will see the reverse situation. And plus there are about 4 billion there, which are the interest that we paid for Arcticgaz (Yamal Razvitie). We gave a loan to Yamal Razvitie to compensate interest. This is also a temporary situation,

pending completion of the deal to restructure Yamal Razvitie and SeverEnergiya; the structure will be optimized soon, so that Arcticgaz will be fully self-financing through syndicated loans. As a result, we had negative net cash flow of about 16 billion. But I stress once again that this situation is temporary, it was foreseen. As we bring these large fields into operation our cash flow will improve significantly and we expect to bring our free cash flow back into positive territory quite quickly – just like you, we have got used to seeing our cash flows positive.

The next slide, dedicated to investment trends, precisely explains our cash flow situation. You can see that we have greatly increased investments, and these are mainly investments in new fields: preparation of the Novoport field for commissioning, our main costs for creating infrastructure and for building the terminal. We plan to complete all this by the end of the year and to launch the field as early as next year. Then there is preparation for launch of the Messoyakha field, where commissioning is scheduled for the end of 2016; consolidation of Prirazlomnoye; investments in our new projects, in traditional provinces, so to speak – our Orenburg group. This is not a new oil province, but these are new assets for us, new fields that we will actively invest in, our greenfields.

As for brownfields, the growth here is only to do with reclassification. We reclassified Priobskoye as brownfield. If we disregard this factor – take out Priobskoye – then all other investments are practically flat (more or less, taking account of inflation).

Investments in refining were roughly at the level of the previous year, just 2% lower. This is because most of our investments were in the quality programme, which is complete, but we have already begun work on the next phase of the modernization program, to increase processing depth. We are now at the preparatory stage, carrying out design and research, making advance payments and procurements for new construction. The advances are allocated to a different category. If we add them up, we get about the same amount.

We have quite substantial growth for marketing and that is because we are moving ahead quite fast in our project for construction of an aviation refuelling complex. The project is mainly for the Ministry of Defence. We have also started intensive work for reconstruction of tank farms, which has been a long time in preparation. Last year, we were mainly taken up with design and research work, and now we have begun physical construction. This programme is active, it is having a growth effect.

There are investments in so-called non-consolidated new projects: the Messoyakha field, which we are working hard on and plan to bring into operation by the end of 2016.

Finally, a few words about the loan portfolio. It looks well balanced, even though average maturity has been somewhat reduced. But the decrease is only slight, not substantial. We still feel comfortable overall: the greater share of the portfolio has maturity of more than two years and more than five years. We are using all possible and available tools. It is also important to note that all our financing needs for this year are already covered by closed transactions and commitments, which we already have. So we feel comfortable this year and have already begun to implement the borrowing programme for next year.

I will finish on that. Just to conclude, I would like to say that, despite the tough conditions, which are affecting all oil companies at present, we at Gazprom Neft are continuing to increase the scale of our business and also to improve its operating efficiency, that is to try and increase its financial results through intensive development, working on various optimization programmes, unblocking bottlenecks, increase profitability and optimizing the product basket. We are also working hard to optimize and reduce costs – the trends in our unit operating costs at brownfields give a vivid example of that. We all understand that, in view of inflation and specifics of brownfields, which are mainly in the third or fourth stage of development, with falling production rate – depletion, – if we did nothing, then, of course, units costs would increase by double-digit figures, but we have actually kept the increase somewhat lower than inflation. We can see that all our major projects are going according to plan, we are confident about launch and profitability of all of the projects that we have planned for the near future: Messoyakha, the Novoport field, Prirazlomnoye, our Orenburg assets. All of these represent our immediate growth prospects, and we can see that everywhere, in all these projects, we are, first of all, keeping to target, and, secondly, we are confident that we will launch these fields and that they will be profitable even in the current price environment. And this makes us confident that we will create value for shareholders and that, consequently, the scale of the business will continue to grow and the Company's value will increase too.

Thank you for attention.

Q&A session

Question №1

Karen Kostanyan, BoA Merrill Lynch

Good day to you. Thank you very much for your presentation. I have two questions. The first question is that the Ministry of Energy and the Ministry of Finance are preparing new pilot projects for the development of old fields – brownfields. And, as I understand it, there will be several pilot fields of large companies. I would like to know whether any of your fields are included in these pilot projects, and how things stand in general at tight-oil fields with sanctions in force. Will you continue to develop them, can you develop them on your own?

And the second question is about dividends. Will your policy of 25% continue to be based precisely on headline IFRS, including all exchange rate differences? And the gain, that you received from the settlement with Yukos. Thank you.

Alexey Yankevich, Chief Financial Officer

Karen, thanks for the questions, which I will answer in order. As regards the new tax system for brownfields - yes, we are actively involved in this work. Four of our fields – the Vyingayakhinskoye, East Vyingayakhinskoye, Ety-Pur and Valyntoyskoe – have been put forward as pilot fields. These are the main fields in our Noyabrsk block.

The next question was about tight reserves. We are still working with tight reserves. And, generally, you understand that tight reserves – if you leave out shale oil on the narrow definition – are not subject to sanctions, so there is nothing to prevent us from working on them, in principle. I mean in the context of sanctions. As for shales as such – the Bazhenov formation, – we can work with them on our own, and we are doing that. The prospects are quite good, plus the fact that, one way or another, tight reserves are entitled to benefits and that also helps us to bring these reserves into development.

The last question was about dividends. Yes, we plan to keep the level of up to 25% of total net income, including all possible components of that net income. And since we did not exclude foreign exchange differences last time, it would surely be fair this time and in the future not to exclude positions that are, on the contrary, favourable, and to pay the full amount. So we will be guided by our official net income, as recorded in our financial statements. And I would like to say that the Board of Directors yesterday recommended interim dividends, which are calculated as precisely 25% of IFRS net income, including all positions, so without adjustments.

Question №2

Ksenia Mishankina, UBS

Thank you very much for your presentation. The first question is about your capex plans in 2015-2016 and the second question is about refinancing plans and what base level for oil prices you plan to use?

Alexey Yankevich, Chief Financial Officer

Ksenia, thanks for the questions. As we have already said, we expect about 380 billion of capex in 2015, which is about as much as our Board of Directors approved. The Board approved a slightly smaller amount, but there are some adjustments, mainly foreign exchange differences, and for 2016 we expect a figure of roughly the same order. So much for capex. As regards refinancing, as I said, all of our needs for this year are already covered, and that includes repayments of short-term debt. As for next year's programme, I can say that we have already started work on it and we have tools that will at least allow us to pay our debts. And, again, as I said, we are starting work on our financing needs to fund the investment programme for next year.

As for oil prices, it is difficult to say. You know full well that there is much volatility on the market, so we are considering several price scenarios, including a scenario close to the current level of prices, a scenario below and a scenario above.

Ksenia Mishankina, UBS

Could you also comment on the basis for the oil price, which you used to calculate the economic efficiency of future projects?

Alexey Yankevich, Chief Financial Officer

There isn't a unique price for each project in dollars. I am sure you understand that the oil price in dollars and its change causes a change in the ruble exchange rate. The costs of most of our projects, which are being implemented in Russia, are in rubles. So defining a break-even price is something like a task with circular references. But it is certainly below the current price levels. Generally, we feel quite comfortable. At prices under 60 dollars per barrel. As for overseas projects – yes, the situation is more complex and we have to look at each project separately. But at current prices we also feel quite comfortable, the projects pay for themselves.

Question №3

Evgenia Dyshlyuk, Gazprombank

Good evening, thank you very much for your presentation. I have three questions. First, I would like to hear about the initiatives of other market participants, which are proposing postponement of refinery modernization and a lift of the ban on Euro-4. Do you support this initiative? And how do you look at it in the context of statements about a possible petrol shortage, etc.? The second question is more technical: does purchase of condensate from SeverEnergia somehow affect light product yield at the Omsk Refinery? Can this effect be estimated somehow in money terms? And a third question about the structure of transport costs: what part of them is tied to foreign currency? This is for modelling purposes, to understand sensitivity to a change in the exchange rate. Thank you.

Alexey Yankevich, Chief Financial Officer

Thanks for the questions, Evgenia. Vladimir Konstantinov will answer the first two questions relating to Downstream, and I will answer the third.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

On the first question. I referred to the figure, that Class-5 or Euro-5 motor fuels are now more than 90% our of total output of motor fuels. After reconstruction of the catalytic cracking unit at the Omsk Refinery is completed this year, the figure will reach 100%. So we are absolutely prepared to deliver all of our products in Class 5 from 2016 and it is not of principal importance for us whether the resolution that makes Euro 5 compulsory is cancelled or not. As to the second question: yes, we are increasing supplies of gas condensate to the Omsk refinery. This year we will increase the supply by 700,000 tonnes compared with last year, from 500,000 to 1,200,000. According to our estimates, the increase will cause light product yield to rise by one percentage point. That is a major increase and it will help us to improve our efficiency. Thank you.

Alexey Yankevich, Chief Financial Officer

Evgenia, I will answer the third part of the question. In short, almost all costs associated with the transport of petroleum products for sale on the domestic market are ruble costs. A foreign currency component only exists where we are supplying petroleum products to export. But if this is for a model, it would be better if the Investor Relations service could send a breakdown, which you will need because it is difficult to describe in words. It is not simple to say what the share is. In any case you will need the breakdown to do the calculation.

Evgenia Dyshlyuk, Gazprombank

Thank you very much.

Question №3

Alexander Kornilov, Alfabank

Good evening, gentlemen. Thank you very much for the presentation, I congratulate you on the strong results. I have, in fact, one question about Downstream. Your refining volumes increased in the second quarter relative to the first, and you have said on a few occasions that the average margin at your refineries in the first quarter was close to zero. If I understand correctly, we can say that your margin improved substantially in the second quarter. Could you tell us in more detail what margin you actually achieved in the second quarter at your refineries? Thank you.

Alexey Yankevich, Chief Financial Officer

Alexander, thanks for your question. Indeed, you are right, and we always said when we commented in the previous quarter that the first quarter was very tough for refining business. Margin increased in the second quarter, that's a fact. But, unfortunately, we can't tell you exact figures for refining margins at each plant, since

that is commercially sensitive information, it is detailed information. But to help your understanding - you're right, yes, there was such a trend.

Alexander Kornilov, Alfabank

Sorry, but can I follow up with another question? How did margin in the second quarter match up to average margin for the whole of 2014? If it is possible to answer that. Thank you.

Alexey Yankevich, Chief Financial Officer

Alexander, if you compare margin with last year, it was down, and the reason for that was fiscal changes. The extent of the decline – by about two times compared with the previous year.

Alexander Kornilov, Alfabank

Thank you.

Alexey Yankevich, Chief Financial Officer

It is important to note too that, generally speaking, in the context of the whole industry, our refineries are significantly better than the industry average. If you take the Nelson Index and look at its average value for Russia and for Gazprom Neft refineries, you will see that our indicator is much higher. So, for your understanding, the scale of margin reduction for us was most probably much less than for other refineries with worse technology.

Question №4

Pavel Kushnir, Deutsche Bank

Good afternoon. I have two questions. The first question is about purchases of gas condensate from SeverEnergiya. For modelling purposes, could you give figures for how much was purchased in the first and in the second quarters? And the second question concerns your guidance for production growth. You modestly named a figure of at least 10% for production growth this year, but in the first half it was more than 20%. So could you clarify the scale of the growth? You might want to say that it will be more than 15% or close to 20%, because 10% is too low. Thank you.

Alexey Yankevich, Chief Financial Officer

Thank you for the question, Pavel. The first part about purchase of condensate from SeverEnergiya. I'll give you the overall figure for the purchase of gas condensate: it is 280,000 in the first quarter and 320,000 in the second, and something over 95% of that is condensate from SeverEnergiya. As for the production forecast: indeed, you are right, 10% is a conservative estimate. I would say 15%, but we are hoping for more than 15%.

Question №5

Pavel Sorokin, Morgan Stanley

Good afternoon, thank you very much for the presentation. Two quick questions. Going back to refining margin. We are already two months into the third quarter and the price of oil has fallen significantly. Could you comment on what roughly is the level of margin now in comparison with the second quarter, and do you have a situation that repeats the first quarter, when it was close to zero, since the exchange rate is now roughly the same as it was then? And the second question, about SeverEnergiya. Could you give an estimate of how long you will be able maintain the rate-plateau once it has been achieved? Thank you.

Alexey Yankevich, Chief Financial Officer

Thank you for the question, Pavel. As regards refining margin, I'd say that the margin we are seeing now, in the third quarter, it is at least no worse than in the second quarter. As for the production plateau at SeverEnergiya, we are counting on seven years. So we see production of about 14 million tonnes of oil equivalent over a seven-year period.

Pavel Sorokin, Morgan Stanley

Thanks very much. A small clarification on the second question, if I may. You expect to keep the plateau at that level for seven years or you just have a seven-year forecasting horizon at present?

Alexey Yankevich, Chief Financial Officer

That plateau for seven years, that's right.

Pavel Sorokin, Morgan Stanley

Thanks.

Question №6

Kirill Komarov, VTB Capital

Good evening. Thank you for your presentation. I would like to ask a question about oil purchases. I noticed that they increased quite significantly in this quarter, namely oil purchases in Russia. And this led to an increase in inventories by about one million tonnes in the second quarter. Could you comment on that? Thank you.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

In fact, there is no direct link between increase of inventories in a particular period and growth of purchases, because the increase of inventories is due to increase of sales. We buy in order to sell, and we do it in an efficient manner. Growth of inventories may be associated with other things, such as the tanker traffic schedule and other things relating to logistics.

Kirill Komarov, VTB Capital

Thanks.

Question №7

Alexander Fak, Sberbank

Hello. The question is about your guidance concerning 380 billion dollars of capex in 2015-2016. Is this IFRS, so is it net of VAT? And does it include loans that you make to subsidiaries such as SeverEnergiya? Thank you.

Alexey Yankevich, Chief Financial Officer

Thanks for the question, Alex. The forecasts, which I give, include all of our investments, all capital investments. As for loans, notably loans to SeverEnergiya, as I already said in my presentation, we are optimizing the ownership structure of SeverEnergiya, instead of the holding company there will be Arcticgaz, which will be fully funded by the syndicated loan. And, overall, the shareholders do not plan to issue any loans to the project in the future, particularly since the project will soon have positive free cash flow and will fund itself and return the loans issued previously, including repayment of the syndicate loan, which was taken for its financing. So once again, this sum is all inclusive. As regards SeverEnergiya, we don't expect any loans to be issued to it in the future.

Alexander Fak, Sberbank

Does this figure include VAT or not?

Alexey Yankevich, Chief Financial Officer

No, it is IFRS, there is not VAT in it.

Alexander Fak, Sberbank

Thanks.

Anna Sidorkina, Head of Investor Relations

Colleagues, thank you for taking part in our conference call. If you still have any questions, we are always happy to receive them by e-mail. We will send you everything we need to send you. Once again, thanks to the conference participants for their detailed answers and informative presentation. I wish you all the best, until our next meeting.