

## JSC Gazprom Neft

### 2Q 2013 Financial and Operating Results August 6, 2013

#### **Anna Sidorkina, Head of Investor Relations**

Good day, ladies and gentlemen! This is Anna Sidorkina speaking, Investor Relations, Gazprom Neft.

We are happy to welcome you once again at our conference call and we are going to present to you IFRS financial and operating results for the first half of year 2013. Before going forward with the presentation, I'd like to introduce to you those who are going to participate in our conference call. Highlights and Financials are going to be presented by a member of the Management Board and CFO, Mr. Alexey Yankevich. Upstream block in the first six months and the second quarter is going to be described by Mr. Mihail Zhechkov, Head of Economics and Investment Department, Exploration and Production Division, followed by Vladimir Konstantinov, Head of Economics and Investment Department, Refining and Marketing Division.

Before going forward with the presentation that you can see in webcast mode on our website, I'd like to address you with a traditional disclaimer. The presentation contains forward-looking statements and all the comments and announcements to be made during this conference call may or do contain forward-looking statements that have to do with financial condition and operational results. And all the statements other than statements of historical facts are or may be deemed to be forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements expressed in the course of the conference all.

And now I give the floor to Mr. Alexey Yankevich. Alexey, the floor is yours.

#### **Alexey Yankevich, Member of the Management Board, CFO**

Good day, ladies and gentlemen. I'm here to present our results of the first six months of 2013. Before I begin my presentation I would like to point out that 2013 macro has not improved for oil industry at large. Generally speaking, we have seen growth in taxes, it is MET indexation, growth in excise from the 1st of January 2013, transport tariffs going up. And at the same time it has not been offset by the growth of prices as it was in the previous periods. That's why oil companies should not be expected to grow considerably if we do not take into account acquisitions. Yet we do have positive dynamics in operating profit. Adjusted EBITDA has increased by 0.9% year on year and now amounts to RUB151 billion. Revenue has increased by 1.8%. And in net income, unfortunately, we did face certain decrease, but this is thanks to non-monetary items. In particular this was due to exchange rate loss on the credit portfolio revaluation nominated principally in USD that we faced, when the ruble went down in the first six months of 2013. And besides we have quite a large investment program which led to increase of DDA line. But in common our operating profit has increased, our operating results have improved. We have seen hydrocarbon production going up and we are demonstrating hydrocarbon production growth on the level highest in the industry. Hydrocarbon production increased by 3.6% year on year. As for refining volumes, we have already mentioned, that we are trying to utilize all the capacities we have in Downstream. However, we do see certain volumes going down thanks to planned refinery turnaround in the first quarter of 2013. Premium sales have an increase of 0.2% year on year, but retail sales keep increasing, they increased by 13%, and it's going from small wholesale to retail by and large.

We also are moving forward with our major projects that create basis for the future growth of the Company, in particular within Novoport's first-time crude shipments and we also have our first gas from Yuzhno-Priobskaya compressor station. And we have completed the quality program at almost all our refineries with launch of isomerization unit at Moscow refinery. Now we are prepared to produce Euro 5 quality motor fuels at almost all our refineries. G-Drive and G-Energy are the two brands that have found recognition on the market and we have even received an Effi "Brand of the year 2012" award.

As far as Q-o-Q dynamics concerned (second quarter compared to the first quarter of 2013) generally speaking operating dynamics was positive, hydrocarbon production went up by 1%, refining throughput was up and consequently revenue was up. As far as financial results are concerned, we almost had no chance to

increase our income since the market prices for oil went down in 2Q13, and it was also underscored by the so-called negative duty lag. Whenever oil prices go down, you get this negative duty lag because the duty change lags 1 month behind the changes in actual prices, that's why EBITDA went down by 3.7%, net income – 3.8%.

And now I'd like to give the floor to my colleague who presents to you Upstream results - Michail Zhechkov and then Downstream – Vladimir Konstantinov will report, and I'll conclude on financials.

**Mihail Zhechkov, Head of Economics and Investment Department, Exploration and Production Division**

Good day, ladies and gentlemen. I'm here to present you the results of Upstream in the first six months of 2013.

As for the major events in Upstream at Gazprom Neft, we should definitely mention Palyanovskaya acreage drilling in Krasnoleninskoye field in Bazhenov formation and discovery of new reservoir. The flow of well, that opened a new reservoir, was more than 17 cubic meters per day. Besides we have good dynamics in legacy fields. We have 0.4% increase as compared to the growth planned. And besides we have started field development of Yuzhno-Kinyaminskoye. We are carrying out implementation of horizontal drillings with multistage hydrofracs. We have carried out eight-stage hydrofrac producing 75 tpd as compared to 30-35 tpd traditionally that we got. We have also drilled first quadrilateral horizontal well on Umseyskoye field and began pilot project on acid fracturing technology on Urmanskoye and Archinskoye fields. On these type of rocks hydrofracs happens to be not efficient so we try new technologies. As for gas we also have a positive dynamics, the utilization has increased by 12% and, as Alexey has already mentioned, we have started on commission of Yuzhno-Priobskaya gas compression station.

The positive dynamics in hydrocarbon production of Gazprom Neft was driven by Orenburg assets, SeverEnergiya and implementation of new technologies and we see that the growth has been retained by joint ventures from within the SPD and Slavneft. At the left site of the slide you can see in dynamics quarter on quarter: we are growing. We are also growing as compared to the second quarter of 2012, you can see it on the right site of the slide. And this growth is demonstrated on legacy fields, Orenburg, SeverEnergiya and Priobskoye field.

On the next slide, you can see average daily production growth and you can see it has increased by 4.5% Y-o-Y.

In the first half of 2013 we have hydrocarbon production increase of 5.7%, which places us among the leaders of the industry. As I have already mentioned, this is thanks to the use of horizontal drilling technologies with multistage hydrofracs, bilateral horizontal drilling, increased natural gas production and utilization of associated gas.

As far as drilling of horizontal wells is concerned, as has already been mentioned in the previous year, in the first quarter of 2013, we plan to increase the number of horizontal wells drilled 2.8 times. And also we increase the number of multistage hydrofracs four times. That is to say we have successfully pilot-tested these technologies in 2012 and now we are using it more actively that allows us to increase production and show the positive dynamics. We are also looking at new drilling muds which allows us to get average production of approximately 70 tpd, which is three times higher than expected. And we also try acid hydrofracturing on Paleozoic deposits and carbonates since other types of hydrofracs happen to be ineffective.

As has already mentioned, we have drilled first quadrilateral well with initial flow 200 tpd. At the right side of a slide you can see the demonstrated effect of such drilling, at the left side there is the visualization of the quadrilateral well. This allows us to increase our flow rate by around 3.5 times in comparison with the horizontal bilateral wells.

On the next slide you can see growth in associated gas utilization. It's quite significant as compared to the first six months of 2012. We are planning 1.1 billion cubic meters utilization growth year on year. Six months to six months, the growth 12% was from 66% to 78%. And also by the end of the year we are planning to get to 80% utilization.

Next slide is here to illustrate you Upstream project development update on the first half of 2013. In Messoyakha field, as a result of exploration activity, we have increased reserves by 2.9 million tons of oil equivalents and we are now ordering equipment for key infrastructure and we plan drilling exploration wells. As far as Orenburg is concerned, production increased by 51.4% as compared to the year 2012. And we are expanding our drilling program in Tsarichanskoye field and we also begin exploration projects at Filatovskaya area and Baleikinskoye field. In Novoport, we implemented winter crude oil shipments; conducted test

procedures and fracing at 4 wells with initial flows of 535 tpd. We are also work out the utilization concept for hydrocarbons and have started to order compressor station and external gas transportation equipment. As far as SeverEnergia is concerned, the gas processing facility is already working at full capacity (13.8 mln cubic metres) and we launched first train of CPF at Samburgskoye field. As for SeverEnergia, we are committed to our plans here. At Prirazlomnoye, we approved oil spill response plan, we have mobilized our drilling contractor and we are carrying out start-up operations. We plan to start production by the end of the year. Chonskiy is as planned. And Kuyumba: conducted seismic program and three exploration wells are being drilled.

Regarding international projects, we have finalized drilling of two wells in Badra and they are in development. We signed EPC contracts for infrastructure. We are planning commercial production to begin by the end of the year and we are planning to begin drilling under the second contract and comission infrastructure. The key event is the start of commercial production. In the rest of international projects, in Venezuela in particular, we haven't seen any considerable movement: transferred operatorship to Rosneft and realization of project "early production". In NIS, the licenses for exploration work in Serbia were extended, we have tested a technology for small-bore drilling and we continue exploration drilling. In Kurdistan, there are a stage of demining and preparation for seismic exploration. In 2013 we plan to complete seismic exploration and preparation to drill exploratory wells, and also we plan mining and chemical audit.

This is final slide about hard-to-recover reserves. In Kuyumba, exploration and test production programs should be mentioned. It was made footage a total of 5.9 kilometers of exploratory drilling and 3.9 kilometers of production drilling. The key projects for us are Palyanovskiy and Archinskiy. At Palyanovskaya area (Bazhenov formation) we have seen a flow of 82 tpd. We formed a joint venture with Shell to develop hard-to-recover reserves and identified the priority regions, the project is in Access phase. We also drilled Well 1111 in Archinskiy, which flowed at 90 tpd. So this is about our program of development hard-to-recover reserves at our traditional geographic locations.

That would be all. Thank you very much for your attention.

#### **Vladimir Konstantinov, Head of Economics and Investment Department, Refining and Marketing Division**

Good day, ladies and gentlemen. Just a few words about the macroeconomic situation that had an impact on Downstream. After three quarters of considerable stability at the level of \$110 - \$111 per barrel, the price went down to \$102 per barrel, and this impact our financial results. Net upstream price went down \$3.2 per barrel. However, if we are looking at the efficiency of giving crude to our refineries or to export, we didn't have a considerable impact because petroleum products changed their prices accordingly. You can see here wholesale prices for petroleum products going down considerably in the second quarter of 2013. But retail prices since December 2012 till June of 2013 have stayed by and large at the same level and in the last month they even went down. Correspondingly, oil refining seems to be more efficient than exports of crude oil abroad; and exports of crude oil to the former Soviet Union countries seem to be more efficient than to faraway countries.

Next slide you can see the Company crude oil distribution structure in the second quarter of 2013 as compared to the second quarter of 2012. The resources from our own production was similar to the last year. However, we bought 52% less than last year in the Russian federation market, and this is thanks to two factors, first one being that Russian overall refining throughput has been growing at higher rates than production. The refining throughput has increased by more than 2%, but production has increased only by 0.7% in the first half of the year. And at the same time the second train of ESPO has been put in. That resulted in sufficient proficit in export capacities. As a result everybody had a chance to export their products and the domestic market prices went up correspondingly. As a result, our oil feedstock resources went down by almost 11% in the second quarter of 2013 on Y-o-Y basis and yet we use them quite effectively, 76% of all the feedstock resources have been sent to refining. And, like I mentioned, it was more efficient that sending crude oil for export. And if we now look at refining relative to our crude production, we'll see that it would amount to around 87%, which is pretty high and speaks of high efficiency of the Company. As for sending crude to our refineries, here you can see negative dynamics. It's minus 1% at Omsk refinery almost at the level of last year and 1.5% growth for 1H13. As far as the other two refineries are concerned, Moscow Refinery and Yaroslavl refinery, we can see minus 3% and this is thanks to the differences in turnaround cycles scheduled. In Moscow Refinery the diesel hydrotreater has been put on turnaround in comparison with previous period. And in Yaroslavl the primary distillation unit also has been through turnaround for 10 days more than in 2012. As far as Belarus is concerned, we can see minus 38%, and this is thanks to the change in the supply schedule from the Ministry of Energy. Almost all oil companies have a chance to send oil to Belarus today unlike it was in 2012. And correspondently, our share of sending it to Belarus went down. As far as sending our crude to Kazakhstan, you can see an increase, plus 78%, and this is thanks to new contract

signed for one year. And what happens next year, whether we're going to extend this contract or not, it is a question of further negotiation.

On the next slide, you can see the main events in refining. The two areas in refining that can be seen as our highlights are our quality program and increasing the depth of conversion. The quality program has almost been finalized and now all our refineries are able to produce Euro 5 gasoline and diesel. As far as depth of conversion is concerned, here we are very actively involved in engineering and analysis projects in all our refineries. And another area is our operating efficiency. Thanks to these measures taken we have increased quite efficiently availability. Solomon availability is given to you on slide 18. You can see that in Omsk it went up from 95% to 95.5%. In Moscow refinery availability went up from 94% to 95.3%. And in the Yaroslavl refinery: from 94.9% to 95.2%.

Next slide is here to look at our quality upgrade program. On the left, you can see that at all our refineries we have realized three groups of major projects. First group being isomerization projects that allowed us to get high-octane gasoline instead of straight-run gasoline. Besides we've carried out projects to construct and to revamp gasoline hydrotreaters and diesel hydrotreaters. As a result, we managed to improve the structure of the yields of our motor fuels. And on the right you can see that even in the Q-o-Q dynamics the increase in yield of fuel Class 5 is quite noticeable. As far as Class 3 is concerned, it's not high octane gasoline. All the high-octane number gasoline is Class 4 or 5. As far as diesel is concerned, you can see that the increase of Class 5 is even more considerable, it's 61% in second quarter of 2013. Yaroslavl refinery produces 100% of Class 5 fuel. And since the second half of 2013, almost all the yield from Moscow refinery also is going to be of Class 5. And obviously thanks to differences in excise tax, this would give us corresponding benefits.

As far as our retail sales are concerned, we want to keep increasing our premium sales. And indeed in the second quarter our premium sales have increased by 7.1% in Russia and CIS. In NIS, even more, by 66%. But this basically is thanks to the fact that last year we had quite a low base as well as that we have acquired new filling stations in Serbia and in other countries in the Balkans. Throughput per station in Russia reached 18.4 tons per day in the second quarter of 2013. As far as the non-oil sales are concerned, it grew by 41% year on year in second quarter of 2013. We keep building and commissioning new filling stations, some of them are rebranded, some of them reconstructed, some of them acquired or built. And if we look at dynamics, we can see that initially we mostly acquired stations, but this year we get 80% increase mostly thanks to building or reconstructing the existing stations. And by the way, going to the new channels and improved structure of sales, this is the major source of growth of financial results in Downstream. All the indicators related to external factors are off less an impact on the dynamics of our financial results. As far as general number of filling stations is concerned, we have 1,655 filling stations and during the last few months we have commissioned new stations abroad, in particular in Bosnia-Herzegovina and Bulgaria.

Another interesting way to illustrate efficiency on our filling stations and the fact that we are leading the market in premium sales is to look at slide 21. If we now analyze gasoline market, it went up by 4.3% while our sales went up by 8.3%. In diesel fuel, the market grew by 3.4% while we grew by 10.8%.

We keep expanding our business units: jet fuel, bunkering, bitumen and lubricants. In all the above-mentioned fields, we at least retained our market share or increased it. And we also see the increase in sales volumes. We are acquiring new assets. We are revamping the existing ones.

And the last but not least I'd like to mention G-Drive and G-Energy, our premium brands. You can see here considerable growth, see the graph on slide 24. You can see here growth that could be measured by tens of percent. We are going to keep on going in the same direction: improve sales structure and increase premium sales.

And with this, basically, I've finished my part of the presentation. Thank you.

#### **Alexey Yankevich, Member of the Management Board, CFO**

Ladies and gentlemen, let me complete the presentation by giving some comments on our financials. Let us get back to the main macroeconomic conditions which we experienced in the first six months of 2013. I already mentioned that these conditions have worsened rather than improved. This is thanks to the decrease in oil prices, increase in tax burden (indexation of mineral extraction tax, increase in excise tax) as well as growth of natural monopolies and transport tariffs. We are going to illustrate to you the impact of the aforementioned factors in greater details.

Despite the aforementioned negative external factors, we managed to increase our EBITDA by 0.9% Y-o-Y. Net income went down, but this is thanks to non-monetary items – DDA and exchange loss. As far as dynamics quarter on quarter are concerned, you can see the impact of external factors was too strong. Apart from oil prices going down quite considerably quarter on quarter, we also had a duty lag effect which

amounted to almost RUB2.5 billion. And obviously we couldn't but see certain decreases in EBITDA and net income.

On the next slide, we show you how adjusted EBITDA has changed. And here you can see that when compared to 6M 2012 we had a rather small effect from ruble prices going up, partially driven by ruble devaluation, was more than offset by increase in transportation expenses, excise tax and also the MET changes. But thanks to activities of our management, including the product mix changes, ways to optimize and reduce costs, we managed to increase our operating profit.

As far as quarter-on-quarter dynamics are concerned, as the figures illustrate, we have negative effect of oil prices going down. More to it we have this effect of duty lag, RUB2.2 billion. And changes in net price was around RUB8 billion. The growth in sales, in premium sales, change in product mix and increase in production couldn't offset this.

As far as cash flow concerned, our second quarter is much better and we have seen quite good results. Our free cash flow is around RUB35 billion. But even if we take away the investments in our new projects, it would still be around RUB30 billion. This amount is quite significant, especially considering the fact that we have seen increase in investments. This is thanks to optimization of our working capital. We have mentioned to you during the previous conference call that it was a temporary thing and indeed it turned out to be true. The amount of working capital decreased in 2Q13 and we received the cash flow that we expected.

On the next slide you can see dynamics of investments. You probably remember that we mentioned that in the year 2013 we expect around 20% growth in investments year on year. This is what we see. In fact, as you can see by comparison half year on half year, it's 22%, part of this investment growth is related to increased investment into new unconsolidated assets and mergers and acquisitions activity. Around RUB5 billion have been invested in Prirazlomnoye field, that is not consolidated. Last year we haven't had any costs there. Besides we have acquired several Retail assets in the Balkans, mainly in Bosnia and Herzegovina. This refers to NIS. And if we look at organic CapEx, it amounted to around 14% from RUB68.9bln to RUB 78.6bln. You can see all the breakdown here in our slide.

If we go from bottom to top, first we have brownfields. And here you can see the growth of around 12% thanks to the use of new technologies related to stimulation of the flows like drilling of more expensive wells, including the increased share of horizontal wells.

Next is greenfield's new projects. Here the growth is mostly related to our major projects in new fields: Orenburg group of fields, Novoport consolidation. We have acquired it and now it's consolidated; this is something that belongs to our organic CapEx. And also the greenfield exploration projects in Kurdistan.

Next is refining. And in this segment we have a decrease, we have seen decrease in investment because some of the projects of 2012 have come to the end, including the project MHC/DHT in NIS and the project in Omsk.

You can see growth in Marketing and Distribution. This is because of growth in reconstruction of our retail stations. We had our temporary rebranding, as you remember, and it's produced quite considerable effect, but still we want our retail station to meet new standards as this would allow us to get to the target throughput and we'll get our project payback as we expect. The new retail stations are not only going to have our new brand but also going to have a totally new format.

Few words of our finance policy - it stays virtually the same. We keep the external constraint, including financial stability and net debt to EBITDA in particular. We are also planning to have short-term debt decreasing and the long-term debt increasing. And you can see it on the slide. Moreover we are looking into optimizing and reducing costs. And you can see the actual results on the slide. Besides, we are working on diversifying our debt portfolio, using all available lending instruments. As has already been mentioned, in April we had quite a good placement in Eurobonds and also we have also signed a PXF loan agreement.

This would be all, ladies and gentlemen. And now I thank you for your attention. And we will be happy to answer to questions.

## Questions&Answers

### Question №1

#### **Andrey Gromadin – JP Morgan**

First of all let me thank you for the wonderful presentation and congratulations on great results. And I have three questions for you.

First one has to do with refining costs in affiliated companies and in particular I'm interested in Yaroslavl refinery. In the first half of the year, if I'm reading the table correctly, it amounted to RUB8.2bln while in the year 2012 it amounted to RUB5bln. And usually the amount is not that considerable (\$90-100mln per quarter). Is something changing? And what indeed is currently changing for your refineries? Does it have something to do with SeverEnergiya? And, generally speaking, what is the cost of refining at Yaroslavl refinery in the second quarter?

My second question has to do with NIS. And I noticed that gas sales used to be 0.1-0.12 bcm for a quarter. But now I can see it at 0.06 bcm for a 1Q13 and then 0.03 bcm for 2Q13. Could you explain the reason for that? Why is it happening and what is the outlook?

And my third question has to do with CapEx and this RUB12 billion of pre-payment. You gave us part of the breakdown. I believe it's thanks to two projects, it's Prirazlomnoye and Badra. And you mentioned Prirazlomnoye has to do with RUB5bln. And what is the figure for Badra? Thank you.

#### **Alexey Yankevich, Member of the Management Board, CFO**

Thank you very much for your question. I'd like to give the floor to Andrey Shvetsov to address the first and third questions and I will comment on gas later myself. Andrey, the floor is yours.

#### **Andrey Shvetsov, Head of International Reporting and Methodology**

Actually the operating expenses for processing in Yaroslavl refinery include processing costs in Y2012. And in Y2013 it includes not just the processing costs of YANOS but also Mozyr refinery and plus the transportation costs to the refinery. Basically the structure has changed. And if you're interested in greater details, Investor Relations will be happy to provide you with this detail. So the operating expenses at YANOS increase but not so considerably.

As far as your third question is concerned, the prepayment in the CapEx, it has to do with the way it's going to be reflected in the books as fixed assets. These prepayments are not related to Prirazlomnoye or Badra.

#### **Alexey Yankevich, Member of the Management Board, CFO**

I would like to add to what Andrey Shvetsov has just said. You can't see the new projects in prepayments, they are not consolidated. They can be seen as financial investments, loans. We are not the owners of those projects yet and that's why they are shown separately as RUB6bln (slide 30).

What concerns the question about gas, you can actually see the decrease in gas realization. At the moment we are trying to store the excess gas when there is no peak of demand. And consequently we use it during peak season. We are trying to divert gas to domestic usage, refineries, what we see as a more effective way of gas utilization, which maximizes the economic efficiency due to synergies.

#### **Andrey Gromadin - JPMorgan**

Thank you. Do I understand it right, you spent only around RUB1.5 bln on Badra?

#### **Alexey Yankevich, Member of the Management Board, CFO**

No, the investment in Badra amounts to around RUB3bln. The Badra contract is set out in such a way that according to IFRS this CapEx is consolidated as our own.

#### **Andrey Gromadin - JPMorgan**

Ok. Thank you

**Alexey Yankevich, Member of the Management Board, CFO**

I would like to ask everyone, if you have any technical questions, ask one each, and send the rest to the Investor Relations department, otherwise we spend too much time discussing it here. I mean questions regarding classification etc.

**Question №2**

**Karen Kostanian – Bank of America Merrill Lynch**

Thank you for the presentation. My question has to do with hard-to-recover reserves, as a new legislation related to hard-to-recover reserves was passed. What is your plan for production drilling and how many production wells are you planning to drill by the end of this year? When will first results be announced? Has your programme changed in anyway following the new legislation? Thank you.

**Alexey Yankevich, Member of the Management Board, CFO**

Let me pass the floor to Mihail, but before doing that I'd like to highlight that this legislation didn't come unexpected. By all means we took into account this legislation coming into force when making plans about hard-to-recover reserves. And it did not come as a surprise. Mihail, now the floor is yours. Thank you.

**Mihail Zhechkov – Head of Economics and Investment Department, Exploration and Production Division**

As for the ways we are going to make use the new legislation, indeed we counted on this new legislation to come into force, but right now we are going to revisit the actual benefits that we are getting. Are we utilizing the new legislation to its full in terms of benefits and privileges that we theoretically can get. So we are now considering it closely.

**Question №3**

**Artem Kvas – Renaissance Capital**

Good evening, thank you for the presentation. I have a follow-up question on Palyanovskoye field and in particular could you please specify what is the average production rate on well 153? And generally speaking, what are the production rates on hard-to-recover reserves and what's the outlook for hard-to-recover reserves? What is the decline rate at hard-to-recover wells?

**Alexey Yankevich, Member of the Management Board, CFO**

Thank you for the question. I'll ask Aleksandr Bilinchuk, Head of Geology and Development Department, to answer.

**Aleksander Bilinchuk, Head of Geology and Exploration Department**

On the well 153 our initial flow rate was 82 tpd and then it went down and stabilized at 75 tons. We're expecting the flow rate to go down to 25 - 30 tons, which is in line with our geologic and hydro-dynamic model. And this is first of such wells in the development plan for Bazhenov and Abalak formations. So far it is performing better than we expected.

**Question №4**

**Geydar Mamedov - Goldman Sachs**

I have two question but they are interconnected so hopefully they will pass as one. My first question has to do with new projects. You have described the progress on all new projects, which shows us that you're planning to reach commercial production stage in the timeframe of two to three years. So we are interested in your vision on what would be the production from the existing fields and what would be the share of the new fields in this total production after 2015. And do you expect brownfields to still be incremental in the total portfolio of your production or are you expecting the decrease in brownfield production because we haven't seen it yet and we are very much interested in long-term trends for brownfields?

And the second part of my question is my understanding that on most of the new projects you are going to address the Ministry of Finance for the privileges on export duty to get within 16% IRR. And so when do you

think we could expect some figures and what would be the amount of crude production that would be subject to such privileges in export duties? Thank you.

**Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

Thank you very much for your questions, although they are indeed tricky.

My answer to the question concerning brownfield is the following. We are seeing our hydrocarbon production not bowing down till the year 2015 and including the year 2015. And, generally speaking, our brownfields are giving us more production than expected and we do not expect production from our brownfields to go down significantly in the near future.

As far as new projects are concerned, well, it's only theoretically that we can draw nice production profiles, but the reality is such that thanks to a whole array of uncertainties it's not very easy to build a production profile that you would trust.

As well the tax privileges are concerned, indeed we are planning to apply for tax benefits by all means, but there is a trade off there because on the one hand there is the tax benefits that you can get and you can use it for your further investment decisions. But on the other hand the new projects are related to very considerable geological uncertainty, while according to the terms of the export duty exemption we will not be able to update project's data and features in the future. And mostly it's according to the new legislation. If you apply for the tax benefits, you are not supposed to revise your project and/or at least you are limited in that. And so we have to find an optimal balance between filing for privileges soon enough, and on the other hand not going too fast, at least not before we are pretty sure that we won't see the project going worse than we expected in terms of payback and in terms of realization of geological risk. And, by the way, the first phase of investment, we have seen payback even without the privileges. As far as the decisions on next stages of investments are concerned, we are planning to file for tax benefits but my view is that it's not going to happen this year, it's probably going to happen next year.

#### Question №5

**Ildar Haziev - HSBC**

Thank you very much for your presentation. I have a very quick question on Slavneft. I noticed the increase footage drilled by 40% during the first 6 months of this year. And do you think this can be somehow related to underinvestment into this asset that probably was experienced previously? And second part of the question is: do you think positive change will impact the production profile? Thank you.

**Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

I'll give the floor to Mr. Bilinchuk once again.

**Aleksandr Bilinchuk, Head of Geology and Exploration Department**

We suppose this is seasonal in nature. Some of the regions are dependent on various factors including transportation issues, or rivers or some other external factors rather than anything else.

#### Question №6

**Konstantin Cherepanov - UBS**

Thank you very much for your presentation. My question has to do with hard-to-recover reserves. And we are interested to know what is your estimate of share of hard-to-recover reserves in your whole portfolio of reserves. And what production volume from hard-to-recover reserves would be recovered mid-term or long-term, just for us to understand the general figure like close to 1 million or 3 million, or 5 million? Thank you.

**Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

Well, hard-to-recover reserves or, strictly speaking, resources rather than reserves, really they are not called so according to the international methodology. It's very hard to predict what would be the exact share of this total volume that could be engaged into production. According to our interviews that are available in public sources, we are expecting that by the year 2020 cumulatively we might have around 300 million tons from hard-to-recover reserves. But again this is our projection.

And to add on that, I don't want anyone to confuse the two things. The hard-to-recover reserves, resources that the new legislation refers to, it's actually quite a narrow group and it only looks at hard-to-recover by one criteria, by permeability. While, generally speaking, permeability is only one of the many aspects of hard-to-recover reserves. And when we are talking about hard-to-recover, we mean this broader category like anything that is hard to recover using the existent conventional technologies and the existent conventional approaches to the development of fields. Thank you!

#### Question №7

##### **Roman Odarich - Otkrytie**

Good evening, Thank you for the presentation. I have a quick question concerning the guidance in the volume of production and exploration drilling. Now that we see that you are drilling increasingly complex wells, how do you think this is going to impact the total volume of drilling of production and exploration wells? Thank you.

##### **Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

Well, unfortunately, I am not going to give you any exact figures at this point at least. Firstly because we are now reconsidering and updating our long-term development models, and, secondly, because we are now preparing our business plan for the next year, and so hopefully later this year we are going to give you a forecast for this year and for the next one. And you need to take into account that indeed such figures and volume of drilling is a multi-factor task. It has to do with the availability of well candidates for drilling and some economic factors as well as financing funding factors. Thank you.

##### **Roman Odarich - Otkrytie**

Okay. Let me rephrase my question then. Is the volume of drilling going to increase or decrease or stay same, or it's difficult to judge at this point as well?

##### **Aleksandr Bilinchuk, Head of Geology and Exploration Department**

The general trend is the increase in the number of wells drilled. And I also mean not just the number of wells but also the well complexity, the number of horizontal wells with multiple laterals and also horizontal wells with multistage fracturing.

#### Question №8

##### **Alexander Fak - Sberbank**

My question has to do with interim dividends, are you going to pay interim dividends? If yes, when are we going to get to know that? If you are not going to use it, then, why you are not going to use it? Thank you.

##### **Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

Indeed we have discussed the opportunity of using interim dividend in our shareholders' meeting and we are taking this opportunity very seriously and currently preparing the documents for the upcoming Board of Directors meeting, so hopefully the decision on that will be taken by fall.

#### Question №9

##### **Shawn Callahan – Wood&Company**

My question has to do with your operations in Kurdistan. I'm wondering if there are any plans or talks with WesternZagros. Specifically I'm asking about the Garmian and Halabja blocks.

##### **Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

Unfortunately, I can't give you any specific information regarding this question. Mr. Yakovlev (First Deputy CEO) , who is the key person in this field, is absent today. He and Mr Dyukov are the people who should be asked these questions. Unfortunately I can't answer this question.

**Mihail Zhechkov – Head of Economics and Investment Department, Exploration and Production Division**

Shawn, maybe I should add something. Generally speaking, in Kurdistan we have no separate talks, we are just carrying out business as usual. We are working out the programs of geologic exploration, seismic and we are preparing to drill exploration wells, we're doing de-mining activities and all the general activities. Halabja is a venture project as you understand. So, generally speaking, to our knowledge nothing, no additional talks or negotiations are going on at this point and we are following our plans.

**Question №10**

**Alexander Razedski - UniCredit**

Thank you very much. I have two questions. My first question has to do with CapEx. Are there any plans to revisit your targets to revise upwards your 20% CapEx increase compared to the year 2012 according to your plans announced at 1Q13 conference-call? And my second question has to do with your plans to go into international debt capital markets, are you planning to do that? Thank you.

**Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

As for the first question, now we don't have any plans to revisit our investments. We stick to the target that was approved by Board of Directors and you can trust us on that.

As far as going to international markets for loans is concerned, we have already fulfilled our program for loans. And unless something unexpected or extraordinary happens, we're not planning to go there. Thank you.

**Question №11**

**Gregory Birg - Investcafe**

I have a question on operating results, in particular drilling. We see that the number of production wells drilled increases while the average flow rate of those wells goes down. Could you please comment on that, especially in view of the increasing complexity of the wells drilled that you announced earlier?

**Aleksandr Bilinchuk, Head of Geology and Exploration Department**

We don't see a significant decrease in flow rates per well neither year on year nor quarter on quarter. And mostly it's the increase in the number of complex wells that allows us to retain the flow rate in addition to the engagement of hard-to-recover reserves into production. And we are very active in various aspects of this hard-to-recover reserves. This being recovery of oil from oil rims and recovery with close to water and going to low permeability zones, Achimov formation. And basically these high rates of production are achieved by using the complex completion of wells. So this allows us to keep the flow rate stable

**Gregory Birg - Investcafe**

So how does it comply with the figures of average flow rate, tpd shown on page 4 of MD&A for 1H13?

**Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

Let us clear things out. What you are referring to on page 4, it's what about you are asking. As far as new wells are concerned, we don't see a decrease in average flow rate there. And what you see in MD&A is all the production divided on the total number of wells. So it doesn't relate to new wells.

**Gregory Birg - Investcafe**

This is taking into account the number of new wells?

**Alexey Yankevich - Gazprom Neft OAO - Member of the Management Board, CFO**

The share of new wells is not very considerable. Mostly it's the wells from the previous periods.

**Aleksandr Bilinchuk, Head of Geology and Exploration Department**

As to the decrease in average flow rate, that you see looking at all the wells, the common spirit is that we're working on the idle well stock, where the flow rates are economically viable but below the average. That's why you see the average flow rate somewhat decreasing but in common it is a positive momentum.

**Anna Sidorkina, Head of Investor Relations**

Ladies and gentlemen, thank you very much for joining us today and for the interest in our Company. Should you have any additional questions and should you need any statistical data or any breakdowns, we will be more than happy to provide with that. And let's hear from you. And we're going to talk to you later with the results of nine months for 2013. Thank you.