



## Gazprom Neft

### Financial Results in 2017 28 February 2018

#### Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen. Welcome to Gazprom Neft, I am Anna Sidorkina from Investor Relations. I am pleased to open this conference call, during which you will hear the company's business results for 2017 under IFRS. Allow me to introduce the participants of today's call. Alexey Yankevich, CFO and member of the Management Board, will give a presentation and comment on financial aspects. Work by the Upstream Division will be presented by Alexander Mikheev, Head of Economics and Investments for Upstream. Then Vladimir Konstantinov, Head of Economics and Investment in the Downstream Division, will discuss refining and marketing events in the reporting period. Our colleagues from the relevant departments will join us for the Q&A session, and they will be glad to answer your questions.

Before starting the presentation I would like to remind you that the presentation and comments to the presentation, and all the statements made during today's conference call can contain and will contain forward-looking statements that relate to the financial position and business results of Gazprom Neft. All statements, other than assertions about past facts, are or 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 both known and unknown risks and uncertainties that may cause actual results to differ materially from those, which are contained in or implied by the conference call today.

Thank you. I will now hand over to Alexey Yankevich.

#### Alexey Yankevich, Chief Financial Officer

Good afternoon, ladies and gentlemen. Today we will be presenting Gazprom Neft's business results for 2017. This conference call is a bit unusual, because we have already published preliminary results, so there is less of a mystery. You already know the numbers, or you can make a good guess as to what they are. You know that the results, which we published as official—our reporting signed by the auditors—do not differ from the preliminary figures that we showed to you. So I don't need to repeat that the results are positive. Our operating income increased substantially, by 21%, as the published figures showed. Net income also increased, by 27%, also in line with our preliminary forecast. We set a new record - 253 billion rubles, more than ever before. This was mostly due to growth in production volumes, which we achieved despite the OPEC limitations. Production grew by 4% y-o-y. In downstream there was a certain decline of refining volumes, but that was due to repair work, which we will talk about later. It's a fact that we had quite a large programme of planned repairs this year. That factor will disappear next year. So we have a slight reduction in refining, but that didn't stop us improving our financial results in downstream. We developed further in retail segments, we continued to grow. We increased our sales volumes in premium segments, increased throughput per filling station, and overall retail sales grew by 5.6%.

On the next slide, we made an interesting comparison, we did some analysis based on the fact that in 2005—the year when the history of our company began—the price of oil was about the same as in 2017, so we can follow the history of our financial indicators over a long period (the whole history of our team at Gazprom Neft from 2005 to 2017). And the comparison is easy to do, because oil prices are practically the same, there's no need for any adjustments. If you look at the figures in dollars, you can see that our financial indicators have practically doubled. It's not just volumes that have doubled, but our financial indicators in dollars have doubled too. In 2005 adjusted EBITDA was about USD 5 billion, and now we are approaching USD 10 billion. And it is the same story for net profit: it was about USD 2.8 billion dollars, and now it is above 4 and moving towards 5 billion. We are proud that our growth has been consistent, and that we have met the objective of doubling the size of the business without loss of efficiency, just as we said in our strategy that we would do. Our financial indicators in dollars, in the same price conditions, have essentially kept pace with growth of our volume indicators.



Regarding important events of 2017, I would note, first of all, the successful ongoing development of our new upstream assets. We have launched all of our large fields, and that has made the biggest contribution to growth of both volumes and financial indicators. This refers mainly to our flagship projects—the Novoportovskoye, East-Messoyakhskoye and Prirazlomnoye fields. We are moving forward according to plan everywhere, we are showing production increases everywhere. What's more, we have upped the forecasts in our main project, Novoport. We have approved a revised development plan for this field, which changes the production shelf of 5.5 million tonnes, which we announced previously. We now foresee a shelf of 8.6 million tonnes, which means a major increase of volumes and improves the economics of the project.

We are also working intensively to create potential for new production, preparing new reserves, and we have made good progress in this work too. We have set up a joint venture with Repsol to develop new blocks in Khanty Mansiysk Autonomous Region and we have obtained a number of new licenses, including the Tazovskoye and North-Samburgskoye fields, and a number of other licenses. We have discovered a new field on the continental shelf of Okhotsk Sea, which can be described as large. Estimated reserves there are 255 million tonnes, representing a major offshore discovery. It also creates good base for us to develop further and open up new reserves.

The main focus in downstream is on modernization of our refineries. The second stage of modernization is in the implementation phase. Construction work is underway at both the Omsk and the Moscow refineries. The Euro+ project at the Moscow Refinery is slightly ahead. We plan to complete it in 2018 and start feeling the benefit as early as 2019, but full-year effect is likely to be in 2020. We have also started construction of a deep refining complex at our Serbian refinery in Pancevo. This is a delayed coking unit, which will significantly increase the efficiency of our refining in Serbia. In addition, we have completed environmental projects at the Moscow Refinery.

Another important thing that I didn't mention before is the creation of an efficiency management centre in downstream. You are all familiar with our scientific and technical centre for production and the drilling management centre. We now have something similar in downstream. It's an innovative centre that optimizes the performance of our refineries. It lets us react quickly to changes (changes in the macro environment, changes in the operating regime of refining units) so that we can achieve maximum efficiency in refining. Vladimir Konstantinov will tell you more about this.

That covers all the important events, so I will now hand over to Alexander Mikheev and come back to you later with financial indicators.

### **Alexander Mikheev, Head of Economics and Investment (Upstream)**

Good evening ladies and gentlemen. I will present the results of work in 2017 by our exploration and production division. I will start with indicators for the geological exploration programme.

We have kept up a steady trend of reserve replacement. Growth of reserves compared to 2016 was 9%, and proven 1P reserves now stand at more than 1.5 billion tonnes of oil equivalent. This was achieved mainly due to the production trend, which we will talk about later, but also due to results of the exploration programme, which are shown in the diagram on the right. The progress was mainly from geological exploration work, but also from revaluation of reserves as we work to develop our assets. Essentially, this reflects more intensive production drilling in the Novoport and Arcticgaz projects and also offshore, in the Prirazlomnoye project. As regards production trends, we have already said that hydrocarbon production in 2017 was 89.8 million tonnes of oil equivalent. That is over 4% more than in 2016 and it was achieved as our major projects—Novoport, Messoyakha, Prirazlomnoye—reached their production shelf. We also showed a strong trend in 2017 in our Badra project in the Middle East.

Going into more detail about our major projects: at Novoport we have clarified prospects for development of the asset, as a result of which we have revised the production shelf. We now expect a production shelf of 8.6 million tonnes of oil equivalent, which we plan to reach in 2020. Also, in October 2017 we began to re-inject associated gas, achieving our target for utilization of associated gas at the field. And we launched a gas treatment unit at Novoport at the end of last year.

We drilled four wells in 2017 in the Prirazlomnoye project (three production wells and one injection well).



We have secured project financing for Messoyakha of about 100 billion rubles and confirmed the programme for future development of the West-Messoyakhsky license block (the second, southeastern part of the field).

The exploration and production division is still focused on maintaining a strong trend in replacement of our resource base, and the next slide shows our new discoveries, as well as M&A deals and new acquisitions made last year. Looking at the new discoveries, I would draw attention to the Otdalyennaya group of fields in Noyabrsk region. We already told you about discovery of the Ayashsky offshore license area. Geological reserves are estimated to be in excess of 250 million tonnes of oil equivalent. The Zapadno-Zimny license area is another new discovery, and we have initiated a new exploration project with Salym Petroleum Development—the Southern Hub project—with production potential of over 20 million tonnes. Also, I would also call attention to one other discovery, the Uransky licence area, where two fields have been found—Novozarinskoe and Novosamarskoye.

Then there are acquisitions, and I would call attention first of all to the closure of a deal with Repsol in 2017 to set up a joint venture. This project is currently at the "evaluation" stage. We see production potential of over 50 million tonnes of oil equivalent. We have also purchased two license areas from our parent company, the Tazovsky and Severo-Samburgsky areas, which we plan to develop intensively from this year.

In terms of project logic, all of the projects I have mentioned are still in their early stages—the "access"/"evaluation" stage. So we expect that hydrocarbon production at these areas will start in the medium-long term. We are mainly looking 5-7 years into the future. I would also points out that these reserves promise a strong production profile for the exploration and production division in the long-term.

That's all from me. I will ask Vladimir Konstantinov to take over.

#### **Vladimir Konstantinov, Head of Economics and Investment (Downstream)**

Good afternoon, ladies and gentlemen. 2017 was a good year for refining and marketing. Our refining margin was in positive boundaries throughout the year, fluctuating between USD 3 and 10 per barrel. That was helped by the external environment and efficiency gains in our refining and marketing work. As regards crude oil supplies, there was major growth of oil exports, a large part of which was Arctic oil. The share of Arctic oil in total export sales in 2017 was over 40%. Refining volumes fell by 4.2%, which is explainable.

We can see on the next slide that most of the reduction in refining was at the Moscow Refinery. I will go into more detail later about the large-scale repairs that we have carried out in Moscow. There were also volume reductions at the Omsk Refinery, where there was some quite substantial repair work in the second half of the year. Our other refineries showed increases in refining volumes, ranging from 8% for NIS to 4% for YANOS. Turning to efficiency indicators, processing depth increased by 1.6 percentage points, and there were improvements at all refineries. The best performer was the Moscow Refinery, with growth of 4.5%, driven by large-scale repairs. This is because refining depth is measured as refining volume minus fuel used, minus losses, minus production of fuel oil, and the repairs changed the structure of dark product outputs, with reduction of the share of fuel oil and increase in the share of other products. So refining depth increased. The scale of the repair work carried at the Moscow Refinery was the main determining factor for output of light products: we had a slight decline of light product output, which was due to the Moscow Refinery. The Omsk Refinery increased its light product output by nearly one percentage point.

Now in more detail about the repairs and reconstructions that we carried out in 2017. There were unprecedented repairs involving reconstruction work at the Moscow Refinery. This was the biggest overhaul to have been carried out there in the entire history of Gazprom Neft. The principal task was overhaul of the main production chain or cycle, the main AVT and catalytic cracking unit G-43-107. The work required suspension of hydrotreatment, reforming and isomerization, which inevitably affected refining volumes and efficiency indicators. Refining volume was down by 1.3 million tonnes. There will be a big increase of refining volume in 2018 compared with 2017, and that will be seen in the efficiency indicators. It's important that the reconstruction work did more than restore facilities to their original condition—it gave efficiency gains. In particular, reconstruction of the catalytic cracking unit boosted its capacity by 20%, so gasoline output will rise by 200,000 tonnes in comparison with the pre-repair year 2016.

We also combined repair and reconstruction work at the Omsk Refinery. The repair work affected the primary chain, including the primary refining unit, which caused a reduction of refining volumes, and also affected secondary processes that are part of the chain. Reconstruction work was carried out on the bitumen unit and will have positive impact by expanding the range of bitumen outputs. We will see major growth in production and sale of bitumen as early as 2017.



We had a small increase in refining volume at the Yaroslavl Refinery (YANOS), but there was no reconstruction work there and repairs at Yaroslavl in 2017 were on a much smaller scale than in Moscow and Omsk.

I now move on to marketing, where the first segment is motor fuels. As usual, our growth outpaced growth of the overall market. The Russian retail market for diesel fuel and gasoline grew, respectively, by 1% and 2%, while our retail sales in Russia grew by 3.6% for gasoline and 14% for diesel. At the same time, we are developing non-fuel retail business at filling stations. Sales of non-fuel products and services increased by more than 10% in 2017. We are bringing new branded fuels to market via our filling station chain. In 2017 we launched a superior diesel fuel, Diesel Opti, and began pilot projects for sale of Opti gasoline in Ekaterinburg and Novosibirsk. Other areas of our business connected with the sale of motor fuels have also performed well. In particular we have been carrying out laboratory work to improve the quality of our motor fuels. We won prizes in the Safety Leaders competition, where our fuel quality control system came first in the Best Technology of the Year nomination.

There was a positive trend too in other marketing areas — so-called product businesses. Premium sales of aviation fuel grew by 8%, of lubricants by more than 7%, and, as I already said, we had particularly rapid growth of bitumen sales, by over 20%. There was a slight decline in bunkering, but we already explained in quarterly presentations why this happened. We don't have logistics advantages in the Far East, and we are working to compensate the decline in sales in the Far East by increasing our sales volumes in European ports, which we are doing quite successfully.

Alexei Yankevich already said that we have set up a centre for the increase of efficiency. This is an important entity, which has taken responsibility for integrated planning of the added-value chain. We have transferred units that deal with operational planning (modelling, use of optimization tools) to the new centre. We have moved the calendar planning function there, and we are implementing new up-to-date IT projects to raise the level of automation of calendar planning. We are pursuing measures in the centre to increase technology efficiency, adjusting the process regime, adjusting product recipes and carrying out other work to make the use of technology more efficient. One important focus of the centre's activities is ensuring maximum reliability of equipment functioning and user safety. And the last major task of the centre is the oil monitoring programme, which is intended to control both the quality of crude oil inputs and the quality of outputs. The efficiency management centre has set itself ambitious goals. I expect to bring you further reports on its work at our forthcoming meetings. Thank you.

#### **Alexey Yankevich, Chief Financial Officer**

Ladies and gentlemen, coming back to financial indicators, let's go straight on to the next slide, which shows factor analysis of financial trends. We have strong y-o-y growth of 21%, but what is more important is that over two thirds of this increase in financial results wasn't due to the external environment, although it did improve, but to internal factors, to the work done by the company. First and foremost, it was the effect of new upstream projects—they gave more than 60 billion rubles. In downstream, there were a range of actions to increase efficiency, operational readiness, to increase efficiency of the product basket, reduce operating costs and boost sales in premium segments. The repair factor was very substantial in volume terms, in the sense that refining volumes decreased and all these repairs, all these measures, served to compensate for the negative effect. But, even taking account of the large-scale repairs, there was almost no reduction of downstream profit in the same prices, and profit with price changes increased. Overall, more than 60 out of total 90 billion growth of our financial results y-o-y was due to the company's efforts and our internal factors.

The next slide gives a q-o-q analysis of profits. I always point out that quarterly trends are largely seasonal, and it is difficult to compare quarter to quarter consistently, because the fourth quarter is very different from the third. It's different because demand always declines and profit in downstream is lower in the last quarter. Here, we have the repair factor on top of that, because most of the repairs occurred in the fourth quarter. There was also another factor due to redistribution of quotas associated with the OPEC restrictions: we were able to use certain quotas in the third quarter, but in the fourth quarter we had to give them back, reducing production in order to stay inside our quotas, so that production volume declined in the fourth quarter compared with the third. In general, we have growth through the year, and we made maximum use of the opportunities that we have within the restrictions, but we didn't have the scope for increase in the fourth quarter, which we had in the third. So we clearly lost out due to a decrease in production.

At the same time, we had major positive impact from new projects, totalling 13 billion, and the external environment also helped a little. As a result, all these factors balanced out, and the trend was flat, EBITDA of



152-153 billion rubles. We can say that profit in the fourth quarter remained at the level of the third for these reasons.

The next slide is dedicated to cash flows. Here I can say that my promises of consistently positive free cash flow generation have been kept. Free cash flow for the year was 65 billion rubles. That is a bit less than for 9 months, but the figure for 9 months was an outright record. We have warned that the seasonal nature of our investment programme means that most of the investment costs-- most of the payment for investment projects—fall in the fourth quarter. So investment cash flow in the fourth quarter was higher than the third, as we expected, and in the fourth quarter—in this quarter alone—we had negative cash flow, but we still had a strong positive result for the year as a whole, totalling 65 billion rubles. To which should be added 33 billion rubles, which we did not receive as iterated cash flow, but we effectively returned the investments that we had made as loans for development of the Messoyakha project. We deduced it for project financing, so this money is now project financing money, which is to say that shareholder money has come back to us. In formal terms, this is negative investment cash flow. Putting it in completely formal terms, free cash flow was almost 98 billion rubles. This meant that we increased cash balances by 57 billion rubles without increasing the loan portfolio, on top of which we paid dividends. All this from our own cash flows. We are pleased with this result.

The next slide shows the capital investment trend. It is fairly logical and fits with the forecasts, which we discussed and shared with you. As we said, investments in greenfields have begun to decline gradually. This is because main investments in new projects have already been made, so we see a decrease of about 9% for greenfields. Investments in brownfields are also down. This gives the answer to questions from some analysts and investors, who thought that investments were bound to decrease in the context of OPEC restrictions: it's true, they did decrease. There are factors here that work in different directions: on the one hand, the share of high-tech wells is on the increase and this is a growth driver; on the other hand, we optimized our investment programme to some extent, due to the external conditions in which we operate.

The growth in refining is perfectly logical. It is large, at 62%, but that shouldn't surprise you. We are moving into a very intensive stage of our deep refining programme. The programme is led by projects that aren't just about depth, but are total reconstruction projects, which also result in an improvement of the refining basket, but not in terms of refining depth. These are the Euro + project at the Moscow Refinery and the CDU/VDU project at the Omsk Refinery. Then come projects that are just about depth, but the overall result of this programme will be that the product basket will improve significantly. It will improve, in part, thanks to the results of this first phase of reconstruction—the CDU/VDU and Euro+ projects. We will see this in 2019-2020. Directly after that come the deep refining projects, which will give an even bigger effect. As I said, the programme is calculated for 2023-2025.

Investments in marketing. The growth looks substantial at 28%, but the share is small overall. It is all fairly logical and according to plan. In previous years, we put the brake on our development programme for tank farm facilities. That programme has now entered a more active phase. On top of which we have implemented a number of projects at product business units. All of the projects are highly profitable, so we are not worried by the trend. Advances have declined due to the fact that work volumes on our new major projects has declined.

I also wanted to look at financial sustainability. Here you see the trend of net debt to EBITDA. We are very pleased that we have achieved and maintained debt to EBITDA below one and a half, and the ratio is now 1.19. This is a very comfortable level for us. In general, we don't plan to increase our loan portfolio, but the stability is good and it means that we have some capacity in our loan portfolio, so we can respond to events in case of need.

A positive development I would like to note is that we have finally returned to investment-grade ratings at all three credit agencies. I would remind you that, following certain credit events on the oil market and lower prices, two rating agencies—Moody's and Standard & Poor's—lowered our rating below investment level. Fitch kept us at investment grade throughout. After macro conditions and the company's performance began to improve, we were returned to investment grade first by Moody's, raising our credit rating to Ba3, and just yesterday Standard & Poor's published a press release, which also returned our credit rating to investment grade.

The next slide is the last one. Everything we do we do for our shareholder, and it's pleasing to see that the company's successes in implementing projects, improving its financial performance and operating indicators, is reflected in the company's valuation. Our capitalization has grown, and if we take an indicator such as aggregate income to shareholders, which is probably the most important indicator for us, we can see the total



yield we bring to the shareholder. This is the sum of dividend yield, that is, the income that the shareholder receives from dividends, and increase in the share price, i.e. growth of capitalization—what the shareholder receives as profits from growth in the value of shares. We were practically the leader in 2017 by this indicator of aggregate income to shareholders. I hope that we pleased all our shareholders. We have opportunities for further successes in the future, both as regards increase of value and in terms of dividends. We have already pleased you with interim dividends, and I think that final dividends for 2017 will amount to a good figure; I expect the growth to be no less than our profit growth. I think that we will achieve 30% y-o-y growth of dividends per share. So we will have good news for you as regards dividends.

That's it for my presentation. We are ready to answer your questions.

## Q&A session

### Question №1

#### **Pavel Kushnir, Deutsche Bank**

Good afternoon, thank you for the presentation. Can you tell us, please, what caused the major growth of your SG&A expenses in the fourth quarter compared with the third quarter. Thanks.

#### **Alexey Yankevich, Chief Financial Officer**

Pavel, thanks very much for your question. You can't compare the fourth quarter to the third and expect the trend to remain flat. This is specific to all large companies. A bigger share of costs get reflected in the fourth quarter, partly costs associated with advertising, partly other contracts that are settled in that quarter, plus a number of valuation reserves that were reflected in the fourth quarter. And all these were laid onto SG&A; you can see it in detail in the accounts. I stress that you need a correct perspective on the annual trend. Our SG&A declined y-o-y, as we planned, so we are comfortable. In the first quarter you will see another decline of SG&A, for the first quarter against the fourth. So the fourth quarter isn't like the others, it isn't representative. You have to remember that this is the last quarter of the year, when all reserves are adjusted and annual reporting is prepared, and that everything that gets accrued—everything related to valuation reserves, with the reflection of contracts for the year—is piled into the fourth quarter. It's purely seasonal dynamics, there are no special reasons. There is a number of reserve accruals in the fourth quarter associated with fluctuations in the market situation. You can read about it in the financial statements. Thank you.

### Question №2

#### **Alexander Kornilov, Aton**

Colleagues, good evening, thanks very much for the presentation and for the opportunity to ask a question. I have a couple of quick questions. The first is: after the end of the repair season, in particular at the Moscow Refinery, what refining volume do you expect in 2018 compared to 2017, including your stake in YANOS? And the second question is about CAPEX: on slide 23 you have a breakdown of CAPEX for different businesses. At its Investor Day in early February Gazprom gave guidance for CAPEX for Gazprom Neft, showing it as flat up to 2020. In connection with this, my question is: looking at your expected CAPEX in 2018-2020 in the context of the breakdown you give, how much do you expect to spend on refining and how much on greenfields and maintaining production? Could you comment on the breakdown and indicate what share of CAPEX will go to downstream and what share to upstream? Thank you.

#### **Vladimir Konstantinov, Head of Economics and Investment (Downstream)**

Answering the first question, about volume of refining in 2018: we expect that refining in 2018 will be approximately at the level of 2016. Naturally, everything will depend on the business environment, on how efficient refining is, and we keep constant track of this. One factor will be that the figure for the Moscow Refinery will probably be somewhat lower than in 2016, because in 2016 we had no repairs at all at the Moscow Refinery. The figure will certainly be higher than in 2017, probably by one million tonnes, but time will tell. Perhaps we will reach the level of 2016.

As for the Omsk Refinery, we expect refining volumes there to be higher than in 2017, roughly at the level of 2016, or even slightly higher.



The answer is: about at the level of 2016, between 40 and 41 million tonnes in total for the company, including foreign refineries.

**Alexander Kornilov, Aton**

Thanks!

**Alexey Yankevich, Chief Financial Officer**

Thanks for your question. Allow me to answer the second part, about the forecast structure of capital investments, the investment structure. You noted correctly that we expect the CAPEX trend to be nearly flat in 2017-2020. But the ratio will change in favour of downstream. Currently, investments in refining are about 23% of total CAPEX. This percentage could grow to 28-30% in some years, probably in 2019-2020, after which the downstream share will start to decline, and upstream will grow.

### Question №3

**Ekaterina Smyk, Bank of America Merrill Lynch**

Good evening, thank you for the presentation. I have two questions, the first concerns tax benefits at Novoport. In 2019 total production should already exceed the threshold for entitlement to benefits, both for mineral extraction tax and for export duties. You said earlier that you expect the field to migrate to a different tax system, namely tax on additional income (NDD). Do you have any idea now whether that will happen in 2019?

The second question is about working capital. It fell by 53 billion in 2017. You said that you are making efforts to optimize working capital. So the question is: do you see an opportunity for even more optimization in 2018? Thank you.

**Alexey Yankevich, Chief Financial Officer**

Thank you very much for your questions, it is right that we are planning to bring the Novoportovskoye field under a new tax system. We assume that there will be a declarative arrangement there for some time to come, so that the company will be able to choose, and we are planning to put the Novoportovskoye field under the new regime of tax on additional income (NDD). If NDD comes into operation, Novoport certainly has the right to be included in the system. But we can't predict whether NDD will start from 2019, because that doesn't depend on us. That is a matter for the government. But we can already see that the probability is quite high: there is a lot of preparatory work underway, and discussions about parameters and about how the system will be administered. We are already working intensively with the Federal Tax Service, which is looking at how this new tax system will be administered. All parties are actively preparing for it. We expect the system to come into operation, and the Novoportovskoye field, and possibly some others, can be transferred to the new system.

As for working capital, as they say: the more, the better. But it was a very important step, from the point of view of reducing working capital. It was specifically in 2017, when a lot was done: work with receivables, optimization of settlements with contractors, and faster repayment of VAT. The optimization, which we carried out on our accounting systems and in work with customs and tax authorities, enabled us to speed up our VAT turnover. All of this work added up to give the effect that it did. I don't see so much scope for reduction of working capital in 2018. We will work to improve working capital, but I would predict a flat trend rather than any major reduction, and if there is a reduction it won't be so significant. Thank you.

**Ekaterina Smyk, Bank of America Merrill Lynch**

Thank you very much,

### Question №4

**Olga Danilenko, Prosperity**

Hello, thanks you very much for the presentation. I have one question. What is the role of shelf projects in your strategy? Have your plans changed with the discovery at the Ayashsky block and, if so, how? Thanks.

**Alexey Yankevich, Chief Financial Officer**

Thank you very much for the question. On the one hand, the shelf is very promising. These are new reserves, large new reserves. On the other hand, of course, we look at the shelf with much caution due to the fact that

these are more complex reserves, more expensive reserves. Naturally, we must only undertake projects that are cost-effective for us. Therefore, taking account of the large uncertainties and the large amount of capital investments, we are moving very carefully as regards developments on the shelf. The main thing is that we start from reserves that we understand, that we know we can deal with. This is primarily the part of the shelf, where we have the Prirazlomnaya. As we have already said, this is shallow water, it's a case that we can carry out with confidence. The Ayashskaya discovery is also a non-deep-water shelf, which will not require the huge investments that are required for typical deep-water Arctic shelf development. But, even so, we don't intend to go there alone. We intend to go there with a partner, so that we can share risks and, possibly, obtain technology synergies. Thank you.

#### Question №5

##### **Eldar Khaziyev, HSBC**

Good evening, thank you very much for the presentation. I have two questions. One of them is about your strategy: you have a growing share of investments in downstream. I wanted to know: does this mean that the number of growth points in upstream is decreasing? Or maybe it is because of tightening of regulation in downstream or some sort of fiscal policy, or maybe, before now, you just didn't get round to the downstream investments because of limitations on funding of such projects. I wanted to understand what caused this. And the second question is also about downstream. You continually amaze us with positive results in downstream, even last year, which wasn't an easy year. I was wondering: in the first quarter of this year have you succeeded in dealing with the change in excises and growth of oil prices by price adjustment on the local and domestic market? What is your current margin for gasoline sales in Russia? Has it deteriorated in comparison with export netbacks? Thank you very much.

##### **Alexey Yankevich, Chief Financial Officer**

Thanks very much for the question. Our main strategist, Sergey Vakulenko, will answer the first part and then Vladimir Konstantinov will say more about the market and about margins.

##### **Sergey Valukenko, Head of the Strategy and Innovation Department**

Our pipeline of projects, including upstream and downstream developments, was defined quite a long time ago. We have long said that we will develop these specific projects in upstream, Novoport and Messoyakha, and that we will significantly improve the technical standard of our refineries. We intended to do these things simultaneously. After 2014, conditions got tougher for all of the world's oil companies. In particular, they all started looking closely at their investment peaks. We also decided to look at how we could plan our investments over time, and selected priority investments in upstream, specifically because these projects could guarantee a quick return on investments. Investments in refineries were seen to be more time-intensive projects, but offering very long-term and consistently high subsequent profitability in the downstream segment. So we intended from the start to carry out all of these projects. What happened in 2014 made us spread these projects a bit further over time. We are already looking at new possibilities for the upstream project pipeline. And we are now putting more emphasis on implementation of downstream projects, which we delayed slightly a few years ago.

##### **Vladimir Konstantinov, Head of Economics and Investment (Downstream)**

On the second question, about margin. We have been working for a long time to build our end-user network, both small wholesale and retail. We have built it and we believe that it is one of the best in Russia. It enables us to maintain positive wholesale and retail margins at times when the market situation is not entirely favourable. Margin fell due to macroeconomic conditions in the first quarter of 2018, particularly in wholesale. But it didn't fall into negative territory, either in January or in February. Retail margin also decreased slightly, but it remains positive in any case. I'm talking about gasoline, of course. Small wholesale margin for diesel fuel is also positive. Diesel fuel margin was negative for a certain time, but it is improving and has almost reached zero. We expect it to turn positive in the near future.

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

Ladies and gentlemen, Anna Sidorkina from Investor Relations. I would like to thank you for taking an active part in our conference call. Thanks very much to company managers for the excellent presentation and if you have any other questions, we are always ready to answer. We can always be reached. Have a nice evening and best wishes for International Women's Day. Good bye.