



JSC Gazprom Neft

Financial Results in Q4 2014 2 March 2015

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen! We are pleased to welcome you to our regular conference call, in which we will tell you about Gazprom Neft's IFRS results in 2014.

Allow me to introduce the Company representatives who will take part in today's conference call. I am Anna Sidorkina, head of our Investor Relations Department. Alexey Yankevich, CFO and member of the Management Board, will present and comment on our financial statements. Our upstream business during the period will be described by Mikhail Zhechkov, who heads the Economics and Investment Department of our E&P Division, and developments in our downstream business will be presented by Vladimir Konstantinov, who heads the Economics and Investment Department of our Downstream Division. For the question and answer session we will be joined by Sergei Vakulenko, the Head of the Strategic Planning Department, and our colleagues from other departments will be glad to answer your questions.

As usual, before starting the presentation of our financial results, which you can now view as a web cast on our Internet site, I should point out that the presentation and all comments to it may 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.

Thank you very much. I now hand over to Alexey Yankevich.

Alexey Yankevich, CFO and Member of the Management Board

Good evening, ladies and gentlemen. Allow me to present the annual results of Gazprom Neft for 2014. Last year was very challenging for the whole of the oil industry. The major drop in oil prices that we saw in the second half and particularly in the fourth quarter of 2014 was bound to affect companies' results, and the impact was intensified for Russian companies by the time delay in adjustment of duty rates. As you know, duties only follow oil prices downwards after a certain time interval and that puts an additional financial burden on companies.

Gazprom Neft showed decent results despite this difficult environment: we avoided any decline of operating profit, which rose by almost 2% while revenue increased by 11% y-o-y. Net profit without exchange rate differences also increased, but significant foreign exchange differences related to revaluation of the foreign currency part of the loan portfolio pulled net profit down by 31% y-o-y.

Growth of sales and operating profit reflects our success in substantially increasing production volumes. Production rose by 6.4%, which is one of the best figures in the industry. We also substantially increased our sales in the premium segment, which gave us more value added. Premium sales rose by 7.5% y-o-y. And we are pleased to announce a new record for average daily sales at filling stations in Russia of 20 tonnes per day, which is the best figure for any company in Russia. Only a few stations in Moscow sell more than 20 tonnes per day (most probably BP stations).

The fourth quarter was particularly tough, but, again, this was the case throughout the industry. Several factors played a role, particularly the fall of oil prices and the time delay in adjustment of duties. The situation was aggravated for us by the fact that repairs at our facilities had been scheduled for the fourth quarter. All in all, a decline of financial performance was inevitable. But I would emphasize that we expanded our production results and increased operating profit y-o-y.

The company has several specific achievements to report in all of its segments in 2014 and I would like to say a few words about them.



In the upstream segment, we were the first in Russia to begin production on the Arctic shelf, where we commissioned the Prirazlomnoye field. We also fully consolidated this asset in 2014: it is now in 100% ownership of Gazprom Neft group. Another major project, the Novoport field, was commissioned in pilot mode. This is a very large field with reserves in excess of 250 million tonnes and annual output will be about 6 million tonnes at the peak. A trial shipment was made in summer 2014 and this year we carried out a trial winter shipment as part of pilot operations at the field. Most importantly, Novoport is now almost completely ready for industrial development: full-scale development and shipment of oil from the field will begin in 2016, when an Arctic terminal is commissioned. Progress in the Badra project has been difficult, but we were finally able to launch commercial production. We are now producing more than 15,000 barrels per day there and have started to repay our costs.

We also kept working to build our resource potential in 2014, acquiring several promising areas in the Yamal-Nenets and Orenburg regions, as well as a license for deeper horizons at the Priobskoye field, of which more later. We entered the Northgas project, acquiring a 9.1% stake and trust management of 50% of the asset.

Probably the most important event in downstream was final completion of the quality programme at all of our refineries: all of them are now producing petroleum products that meet Euro-5 standards. We started production of innovative polymer-modified bitumen in a joint venture with Total and we created a joint venture with Sibur for polypropylene production at the Omsk Refinery, which substantially increases value added by extension of the production chain from refining to petrochemicals. We have also increased our interest in refuelling assets at Sheremetyevo Airport in Moscow.

The next slide illustrates what I would like to say about our positioning in the industry. Previously, we did not show benchmarking, but I think that it is useful to compare ourselves with competitors once a year, so that we are not only looking at our own dynamics, but also how we appear relative to the industry. Not all of the indicators for full-year 2014 are comparable. Some of the data are for prior periods, some are for sliding 12 months (including ROACE – up to the third quarter of 2014). But it can be seen that we are ahead of the rest of the Russian oil industry in many important respects, and that is something we can be proud of. Production volumes are probably the most important criterion for any oil company. We have always said that we are the fastest growing company and this is proved by rates of production growth of companies in 2014 compared with 2013 (these are full-year data, taken from the InfoTEK Russian fuel and energy database).

As regards downstream, it is well known fact that Gazprom Neft has some of the best refineries in Russia, including the excellent Omsk Refinery, which we inherited from Sibneft. As for sales and our retail network, we have created a new brand, a new concept, which has proved to be the best in Russia. This can be seen from our operating results in retail: we are pumping a record number of tonnes per filling station.

At the end of the day, though, any company has to be assessed not only on volume indicators, but on profitability, which it generates for shareholders. Here, also, we look very good. The slide shows a complex indicator of return on capital employed (ROACE). It puts us ahead of other Russian oil and gas companies for the second consecutive year. You can also see that our dividend yield is one of the best in the industry.

I will now hand over to representatives of our business units. Let's start with upstream, then downstream. And then I will round up with a brief overview of financial performance. Mikhail, go ahead.

Mikhail Zhechkov, Head of the Economics and Investment Department at the Exploration and Production Division

Good day to you, ladies and gentlemen. I would like to present the results of our upstream division in 2014. As Alexey Yankevich has already said, our main achievement last year was increase of hydrocarbon production by 6.4% y-o-y. The increase was driven by expansion of our drilling programme and more intensive use of technology. The share of multibore and horizontal drilling grew by 16% y-o-y.

Our main objective at mature fields in 2015 is to maintain the rate of production growth, which we achieved in 2014. We also plan to commission three new fields. We are working hard now to improve operating and financial efficiency in the current macroeconomic situation. In particular, we will hold onto what we have already achieved in early contracting, etc.

There are a number of positive developments to report in our major projects. We dispatched four tankers of our new "Novy Port" crude with total volume in excess of 100,000 tonnes. The Prirazlomnoye field produced its millionth barrel of oil. Commercial production began at Badra at levels of 2000 tonnes per day or more. We



launched the first train of the Urengoy gas processing plant (GPP) with 7 billion cubic meters capacity and the third train of the Samburgskaya GPP with capacity of 2.3 billion cubic meters. The key objective for us in major projects during 2015 will be to complete installation of the terminal for year-round shipping at Novoport and prepare it for use, to commission the Yaro-Yakhinskaya GPP and to continue development drilling at the Prirazlomnoye and Badra fields.

Next, I would like to say a few words about the expansion of our new project portfolio. As Alexey Yankevich mentioned, we have an agreement with Novatek on parity ownership of SeverEnergiya and our effective interest has increased to 45.1%. Prirazlomnoye has been 100% consolidated and we have acquired an efficient interest in Northgas. We acquired 10 licenses in 2014. Growth of ABC1 reserves (Russian classification) at all of our assets was 126 million tonnes of oil equivalent.

The next slide shows change of hydrocarbon reserves. Audit in 2014 added 96 million tonnes of oil equivalent including growth of 69 million tonnes through acquisitions, so our reserve replacement ratio was 254%.

The next slide shows how we are maintaining and accelerating growth of production. The average rate of growth since 2010 was 5.8% and growth in 2014 compared with 2013 was 6.4%. This reflects successful progress in our programme of well interventions at traditional assets in Western Siberia and increasing volumes of high-tech drilling, which gave an output increase of 4 million tonnes of oil equivalent. The 6.4% production growth consists of a 2.3% increase for oil and 4% for gas (you can see this in the right-hand graph). First and foremost, we are a leader in absolute terms: our output grew by 4 million tonnes of oil equivalent. The fastest rate of production growth is at Bashneft, but Gazprom Neft remains the leader by growth measured in absolute quantities.

Then we have benchmarking based on data of the Central Dispatching Centre, which estimates production in Western Siberia. Here you can see again that Gazprom Neft has been the leader in terms of production growth, with y-o-y increases of 0.3% and 0.9% in 2013 and 2014, respectively.

A few words about the right-hand side of the slide. This shows production by Noyabrskneftegaz. You can see that we achieved growth of 0.4% in 2014 compared with an average annual rate of decline of 7.4%. Under this graph you can see oil production at low-efficiency fields, where we have effected a major change for the better. You also see what we have achieved thanks to intensive use of drilling technologies and management of field development. Increase of output at mature assets comes from well interventions, multi-stage fracking and horizontal drilling. In nine years of work at Noyabrskneftegaz we halted production declines and managed to increase production, bringing 15 million tonnes of hard-to-recover reserves into production.

At Prirazlomnoye we shipped four tankers with 300,000 tonnes of oil in 2014. At SeverEnergiya we repaired and fully commissioned the first train of the Urengoy GPP. In September the third section of the Samburgskaya GPP was put into operation and construction work on the Yaro-Yakhinskaya GPP was completed in December.

At Novoport we carried out a summer shipment programme, testing four tankers. We also carried out the work schedule for construction of a cofferdam, installation of an underwater pipeline, piling and dredging to create a new sea terminal, which needs to be completed in 2015 in order to start operations at full capacity in 2016.

In Kurdistan we tested the Sarkala well and obtained a daily flow rate of 10,000 barrels. We plan to start commercial production there in 2015. At Messoyakha three exploration wells were tested at the East Messoyakhsky license area and one well at the West Messoyakhsky area. Daily inflows up to 375,000 cubic meters of dry gas and 110 tonnes of oil were obtained. Work continues on gas turbine generators, a central gathering station and a metering station.

Commercial production has begun at Badra. Oil production commitments were met in November and the consortium of investors has fulfilled the basic contract conditions agreed with the Iraqi government for development of Badra.

A few words about the Chonsky project. The target for reserve expansion has been over-fulfilled and a confirmation agreement has been signed with JOGMEC compensating our expenses of 1.6 billion rubles for the first phase of geological exploration work.



The next slide shows summer shipments at Novoport. The first summer shipment of “Novy Port” oil (registered trademark) was made in August 2014 from Cape Kamenny. Four tanker loads were dispatched (about 100,000 tonnes in total). In February 2015 we tested winter shipments by sea. The first consignment of oil (16,000 tonnes) was sent from Novoport to European customers.

Finally, a slide showing developments at Badra. As I have said, the basic terms of the development contract have been met. The production target for 2015 is 281,000 tonnes. Main infrastructure for the Phase-1 of CPF has been put in place. And, as I mentioned, the millionth barrel of oil has been produced.

That is everything I wanted to say today. I hand you over to my colleague, Vladimir Konstantinov.

Vladimir Konstantinov, Head of the Economics and Finance Department of the Logistics, Refining and Marketing Division

Good evening, ladies and gentlemen. Gazprom Neft saw further quantitative and qualitative development in its downstream segment during 2014. Refining volume increased and the share of high-quality product classes in total production grew. We carried out a number of equipment overhauls in 2014, which make our oil refining processes more efficient. I should specially mention a major series of complex repair works at the Moscow Refinery in November-December 2014. Large-scale reconstruction of the main gasoline pool was carried out at YANOS (the Yaroslavl Refinery), which enables us keep these facilities operational and significantly improves the structure of light product outputs. The Omsk refinery benefited from a full overhaul of its catalytic reforming and diesel hydrotreatment facilities.

We are keeping our plans for 2015 unchanged at present. Deep refining projects are going ahead, including the preparation of pre-project documentation and start of work on EPC contracts at the Omsk Refinery (for the deep refining complex, VDU and delayed coker), and further work on installation of an integrated refining unit at the Moscow Refinery.

Product marketing, which is part of our downstream division, made impressive progress in 2014. We increased our premium sales by more than 7%, showed significant increase in unit sales of all motor fuels, and did much to extend and improve our filling station network. We built 20 new stations in 2014, renovated 62 and rebranded 16 (not including Serbia). The acquisition of shares in Poliom was completed.

We have ambitious plans for development of the filling station chain in 2015: 12 stations will be built, 37 will be upgraded, 3 are to be rebranded and we expect to purchase 21 stations (excluding Europe). Our jet fuel business will see major expansion, including the creation of a refuelling complex at Saratov Airport. We also plan to rebuild the bunkering terminal at Novorossiysk. Our lubricant production business will receive a boost from expansion of the range and increase of capacity at the Omsk Lubricant Plant and work also continues on the project to build a unit that will produce third-group lubricants at YANOS.

Now let me say something about specific aspects of our downstream business in 2014.

Refining volumes grew by 2% last year, but what is most important is that we refined 39.7 million tonnes in Russia – more than ever before, and already very close to our strategic goal of 40 million tonnes in 2020.

The 18th slide shows the indicator trend from 2010 to 2014. Overall growth of refining volumes in the period was almost 15%. Our Russian assets showed strong growth: volumes at the Omsk Refinery rose by 12% and the figure for Moscow was over 20%. A growth rate in excess of 20% was also achieved at Slavneft assets (Slavneft-YANOS and Mozyr), in which we have a stake. All of our Russian refining saw growth of volumes in 2014 with the exception of the Moscow Refinery, where the decline is explained by the major upgrading and repair work, which I have already described.

Regarding quality: virtually all of our facilities had changed over to production of Euro-5 outputs by 2014. The share of Euro-5 gasoline was 93%, and the figure for diesel was 94%. We expect to reach 100% at all our Russian refineries this year.

Increase of refining volumes has been a conscious policy, since the financial efficiency of refining significantly exceeded that of crude oil exports in 2014. The left-hand graph shows that the netback difference was as great as \$20 per barrel. This has been the main factor behind consistent increase of our refining.

Comparing quarters (the comparison, which is usually of most interest to analysts), we see that refining dropped off in the fourth quarter of 2014 compared with the third quarter. This was due to the repair works,



which I referred to earlier, at the Omsk and Moscow Refineries. Crude exports increased accordingly in the fourth quarter.

Despite this, we can see that refining volumes in the fourth quarter of 2014 were greater than in the same period last year (respectively, 14.7 and 14.5 million tonnes of crude oil were refined), with increases of 6.4% in Omsk and 1.8% at YANOS. The y-o-y decline for Moscow was the effect of upgrading work.

Our sales saw substantial improvement across the board in 2014, from motor fuels to jet fuel, bunkering, and lubricants. Daily retail sales of motor fuel per filling station increased from 19 to 20 tonnes per day y-o-y, while our market share in Russia reached 24%. Revenues from the sale of non-fuel goods were up by 27% in comparison with 2013. Sales of premium jet fuel rose substantially from 2.4 to 2.8 million tonnes, and market share approached 25%.

The company acquired a new bunkering vessel for work on the Black Sea, expanding the bunkering fleet to 11 vessels in total. Work continued on annual contracts with the major container carriers and the company launched bunkering operations in new ports, including Riga. Total volume of premium bunkering fuel sales leapt from 3.2 to 4.2 million tonnes and market share approached 19%.

Lubricants business also saw an increase of premium sales volumes and of market share. We opened nine G-Energy branded service stations, an automated line for oil mixing was commissioned in Omsk and sales of Gazprom Neft lubricants were expanded to more countries.

Finally, I would like to point out that growth of our retail sales is well ahead of the market. All sales of gasoline at Russian filling stations increased by 1% in 2014 while Russian retail sales by Gazprom Neft gained 7.8%. The advance was not due solely to increase in the number of stations, but also to growth of unit sales per station. Average sales of diesel fuel at all Russian filling stations rose by 3% in 2014 while the increase for Gazprom Neft was 12%.

Overall, we view our downstream results for 2014 as quite strong, and we believe that last year was a good one for the downstream division. Thank you.

Alexey Yankevich, CFO and Member of the Management Board

Ladies and gentlemen, I will round off the presentation with a more detailed review of our financial indicators.

This slide shows trends of our major indicators: revenue, EBITDA and net profit. There is not much that I need to add, as I already commented briefly on how all of these developed in 2014 compared with 2013.

I would emphasize once again that, although net profit declined, this was solely due to the one-off effect of revaluation of foreign currency loans, so it was a paper loss – the consequence of revaluation of the loan portfolio. Our loan portfolio is quite long, so we reasonably assume that the loss will be more than compensated by exchange rate gains from revaluation of revenue arising from the repayment of foreign currency loans (this, in fact, was the logic of our foreign-currency borrowing).

There is more to say about the next slides. When analyzing financial performance, we always try to distinguish between external factors that affected the company, on the one hand, and the impact of actions by our management – i.e. the company's own efforts – on the other hand. On this slide you can see that 2014 was indeed a tough year and that overall negative impact of the macro environment was 14 billion rubles. The main factors were lowering of oil prices and the time delay in change of duty levels. The slide shows the price factor of -3.3 without a breakdown. It includes the positive effect of exchange rate differences from the weakening of the ruble, because for us as exporters the effect is positive. But there is a significant impact from the time delay in change of duty levels (about 18 billion), as well as revaluation of reserves – that has to be mentioned too. Our accounting policy uses a weighted average approach to reserve inventory: we write down more expensive reserves of previous periods to costs, so when prices fall we have an additional negative effect from revaluation. But when prices rise this effect is, on the contrary, positive, so the negative effect is temporary and is compensated when the price starts to recover. The effect of time delay in change of export duties and of reserve revaluation was almost 10% of EBITDA, or about 30 billion. Revision of mineral extraction tax rates as part of changes to tax legislation had further negative impact amounting to 13 billion rubles (this was partially offset by decrease of export duty, but only to a small extent). So the aggregate effect of the environment is negative to the tune of 14 billion rubles. However, it was more than compensated by actions taken by management – i.e. the company's own efforts, – which had positive effect of nearly 20 billion

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rubles. That is a large amount, representing nearly 7-8% of total operating profit. The main factor here, clearly, was growth of production and improvement of our sales mix, as well as sales growth in premium segments.

Just a couple of words now about the fourth quarter. The investment community and analysts are often interested in the quarter-on-quarter trend, but it is not very indicative due to various seasonal factors even in periods of relative stability, since a quarter is a relatively short period. The fourth quarter of 2014 was not at all indicative of the general trend. As I have said, two factors were at play. First, scheduled repair work was carried out at refineries, which gave a substantial negative effect in comparison with the previous quarter, as margins in refining were quite high, as Vladimir Konstantinov was saying. Second, there was the effect of sharp decline in oil prices, intensified by the lag in change of export duty. These two factors gave a significant reduction of operating profit.

On the next slide I want to focus on cash flows. Despite the difficult year, Gazprom Neft managed to generate positive cash flow of 12.6 billion rubles. If you subtract investments in new projects that were not in the form of organic capex or capital construction, but were made as loans, i.e. investments in our joint projects, cash flow was approximately zero. But at the same time our net borrowings and net debt increased due to the fairly large acquisitions, which we made last year. These were truly strategic acquisitions, including increase of our share in the SeverEnergiya project. At the moment our effective interest is just under 50%, but it has been agreed that it will be increased to 50%. We also became the trust manager of 50% of Northgas, and we acquired and consolidated the Prirazlomnoye, Sheremet'yev and the Poliom projects. That is about 62 billion In total.

Organic capital investment grew by 25% and the main growth driver here was investment in large greenfields: several very large fields were commissioned or prepared for commissioning.

I already spoke about the Novoport field, but there is also the Messoyakha group of fields, which we will launch in 2016 when the Transneft pipeline is completed. And there is the Orenburg group, which is a major growth driver – we are growing in double digits there, with major investments in infrastructure development and drilling. Then, of course, there is the launch of our new Prirazlomnoye project. All of these entailed a substantial increase of investments.

Investments in traditional fields increased as we deployed new technologies. These technologies are expensive, but they are justified by the effect, which they give. You saw what has been achieved with our current assets – almost a little miracle – where fields that are already in the third or fourth stage of development and which were bound to experience falls in output by any reasonable expectations, actually saw the rate of decline slow down or stop, and in some cases output levels actually increased. All this is the result of improved development efficiency and the use of new technologies.

This growth of upstream investment was partially offset by decline of investments in the marketing segment, associated with our timetable for the achievement of strategic objectives: the main stage of retail modernization and reconstruction came to an end and further retail expansion will not require investments on the same scale as in previous years, when we needed to impose uniform standards throughout the network. The results are plain for all to see: our retail chain is one of the best in Russia.

Investments in refining declined slightly following completion of our programme of quality enhancement in 2014. We are now moving onto the next stage of refinery upgrades, focused on processing depth. But these projects are still at the very early design stage.

All of these factors together gave a 25% increase of investments.

I have already said something about our strategic asset acquisitions: SeverEnergiya, Northgas, Prirazlomnoye and Sheremet'yev.

Let me finish with a few words about our financial policy and debt portfolio. First, some positive news. You have probably seen the press release reporting that the Dagong rating agency has given us a credit rating at the very high level of AA. We are very pleased by this and believe that is a fair evaluation of our financial policy and stability. Our financial position remains stable even in the present challenging environment. We have debt-to-EBITDA below 1.5x, our loan portfolio is balanced, and maturities in the coming year or even in the next two years are only a small percentage of our total loan portfolio. This year we are repaying about USD 700 million, which is not much, so we expect to come through the current difficult period quite easily. The bulk of repayments are at a horizon of two-to-five years from now up to 2020, when we expect to have strong cash flow from our major projects, and we believe that we will have no problem repaying these loans and Eurobonds.



Colleagues, I would like to conclude the presentation at this point. I would like to say that we are very pleased with our results: they really are very good. We have achieved substantial improvement of quantitative indicators, we have grown our volumes and, perhaps most importantly, we have made important strides towards the future, launching large-scale projects, which will further increase our volume performance and give a significant increase of shareholder value in the future.

I am ready to answer your questions.

Q&A

Question №1

Ekaterina Rodina, VTB Capital

Thank you very much for your presentation and for the opportunity to ask questions. I have three questions, if I may. First, I apologize if you already mentioned this in your presentation – I missed the beginning, – but could you specify target production volumes in 2015, separately for oil and gas, if those are numbers that you are willing to disclose?

The second question is about the significant increase in operating costs per barrel in upstream. Could you clarify what caused such a large increase in rubles, both quarter-on-quarter and year-to-year?

My last question is more wide-ranging: I would like to know how you see development of bunkering business in 2015, both the overall Russian market and for Gazprom Neft, in view of changes to tax legislation and lower prices for crude and petroleum products. Thank you.

Alexey Yankevich, CFO and Member of the Management Board

Thank you for your questions, Ekaterina. I will start off, and then hand over to my colleagues to give full answers to your questions. I can give a short answer to your question about our production plans: we expect growth of production in 2015, and it should at least match the rate of growth seen in 2014. We hope that growth this year will be greater than in 2014.

I will ask Mikhail Zhechkov, Head of the Economics and Investment Department (Upstream), to answer the question about operating costs and then call on the Head of the Commercial Directorate, Levan Kadagidze, to comment on bunkering.

Mikhail Zhechkov, Head of the Economics and Investment Department at the Exploration and Production Division

Increase of operating costs was mainly due to consolidation, as we are launching several projects that are in intensive construction and start-up stages. We have an efficient system for the management of overall costs. As I said in my report, contracting was carried out efficiently, we used early contracting and the programme for 2014 was implemented. This gave us high-quality contractors and good prices. We are still the effective industry leaders by many benchmarking indicators, our cost management system is quite efficient, as can be seen from benchmarking and from trends, which we monitor closely.

Levan Kadagidze, Director of the Commercial Directorate

I will answer the third question about bunkering. You mentioned things that will indeed affect the market strongly in 2015: changes to tax legislation and the fall in prices for oil and petroleum products. We expect these factors to reduce margins, but we will try to compensate for lower margins by increasing our market share and boosting sales.

Another major factor for the bunkering market in 2015 is the 0.1% ceiling on sulfur emissions from fuel, brought in from 1 January 2015 by MARPOL in the North-West region, which is our largest market. We will follow the new requirements and the preferences of the ship owners, who are our customers. Some of them prefer to buy fuel with sulfur content below 0.1%, while others plan to install special equipment on their vessels to reduce emissions.

LNG bunkering represents another market development path, which we are pursuing.



Anna Sidorkina, Head of Investor Relations

Ladies and gentlemen, Anna Sidorkina. Since several of you wish to ask questions, I would ask you to limit yourselves to one or maximum two questions. We will certainly take further questions if we have time. Thank you very much.

Question №2

Maxim Moshkov, UBS

Good evening and thank you very much for the opportunity to ask a question. I have two questions. The first is about the capital investment programme for 2015: if I understand correctly, the Board of Directors plans to spend 346 billion rubles. Could you clarify whether this amount includes investments in your joint ventures, and what sums are earmarked for spending on joint ventures?

The second question is about dividends. The situation in the fourth quarter led to significant losses from exchange rate differences. Will you adjust the dividend base by the amount of these losses? Thank you.

Alexey Yankevich, CFO and Member of the Management Board

Thank you for your questions, Maxim. The first question concerns the investment programme. Yes, our investment programme has been approved by the Board of Directors and amounts to 346 billion rubles. It includes all investments in our consolidated subsidiaries, including NIS, and also those joint operations, which are consolidated in our financial statements.

As for joint ventures that are defined as such in our accounts, the amount I just mentioned includes investments in such joint ventures only to the extent, to which they are funded by us, as at the Messoyakha group of fields. Those joint ventures, which are self-financing and have a separate balance sheet, such as Slavneft, finance their investments from their own cash flow.

In answer to your question on dividends: yes, we understand that there is an effect from exchange rate differences. However, it is our policy to pay 25% of net profit under IFRS. This matter will be brought before the Board of Directors, which will determine the size of dividends.

Question №3

Olga Danilenko, Prosperity

Thank you very much for your presentation. I also have two questions. The first is about operating costs, following up the question asked by Ekaterina. Could you clarify what share of total operating costs was spent on new projects? My second question is also about costs: total SG&A expenses also increased quite substantially in rubles q-o-q. Could you explain whether they included some non-recurring items, or what is the explanation of this growth? Thank you.

Alexey Yankevich, CFO and Member of the Management Board

Thank you, Olga, for the questions. I will start with the second part, about SG&A.

With regard to SG&A, there are no special factors or specific expenses that relate precisely to the fourth quarter. It's more of a general trend, by which many contracts are closed in the fourth quarter – a seasonal factor, that a lot of costs in contracts, which lasted the whole of 2014, are accounted in the fourth quarter. These are things such as auditing, consulting services, expert services, IT costs. Many such long-term contracts are closed at the end of the year, so that a large share of costs occur in the fourth quarter. But in general, if you look at year-on-year developments, the greater part of cost increases reflect business expansion. As you know, SG&A are not just purely administrative costs, but also the costs of maintaining marketing and the retail chain, and since we are growing quite rapidly in this segment, you see a year-on-year increase. Also we made several acquisitions and their SG&A was consolidated in our statements, so there is a consolidation effect.

The first part of your question was about upstream operating costs. I cannot give you the exact figure – we will send it on to you, – but I know that our classic growth of unit costs is no more than about 8%, mainly reflecting growth of natural monopoly tariffs, electricity tariffs. You also have to remember that assets are much depleted, the water cut at production wells is increasing. Anything above that 8% is the effect I talked about –



consolidation of our new projects. Assets that are at an early stage are only producing a small amount of oil, but money is being spent to bring them into production. Also we have switched to an equipment lease scheme, which gives overall savings, but increases our operating costs y-o-y on a one-off basis.

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Question №4

Ksenia Mishankina, UBS

Could you please comment on your borrowing plans for this year?

Alexey Yankevich, CFO and Member of the Management Board

Ksenia, thanks for your question. This is a tough year for borrowing. You probably know that we signed loan agreements last year with Sberbank and Rosselkhozbank. Accordingly, we plan to draw down all of the sums under those agreements this year. We already drew down a part of them last year.

We are also working on a number of instruments this year, including the Central Bank refinancing programme, launched to help exporters refinance foreign currency loans. We are also looking at opportunities on Asian markets, perhaps using bonds, bilateral loan agreements or syndicates.

We published a report today about our new credit rating from Dagong agency: the rating reflects the systematic work we have done on Asian markets. Unfortunately, I cannot offer you exact figures, since everything changes quickly on the market, but we are examining all the possibilities. As soon as we find a proposal on terms that are attractive to us, we will of course take advantage of it.

Ksenia Mishankina, UBS

Thank you very much.

Question №5

Ildar Khaziev, HSBC

Good evening. I have one question about the domestic market for petroleum products. What I am trying to understand is this: if I understand correctly, margin on domestic sales in November-December-January was substantially higher than export netbacks because export duties were very due to the time-delay effect. In February, if I understand correctly, the situation changed, and the margin on domestic sales is now much smaller than export netback. Is that right and how do you see the situation developing in the future if the ruble exchange rate does not change? Thank you.

Alexey Yankevich, CFO and Member of the Management Board

Thanks for that question, It is true that the environment for refining is far from straightforward in connection with changes to tax legislation and the external market situation. But because we sell a substantial part of our motor fuels through our own retail and small wholesale network, domestic sales remain profitable for us overall, so, by and large, there is no change in how we are distributing our resources. What will happen in the future is difficult to predict – it's probably not worth trying to make any forecasts. Thank you.

Ildar Khaziev, HSBC

Thank you.

Anna Sidorkina, Head of Investor Relations

Ladies and gentlemen, Anna Sidorkina, Investor Relations. Thank you very much for your interest and for attending our presentation, despite today being very intensive in terms of news, publications and conference calls. If you have any more questions, we will always be happy to answer them: please contact Investor Relations. I wish you all the best until our next meeting.

