

JSC Gazprom Neft

FY2013 Financial and Operating Results February 28, 2014

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen! We are very happy to welcome you to our conference dedicated to IFRS results in 2013. We apologize for the technical delay. First of all let me introduce the speakers. We will begin with a presentation and comments on financial reporting by the Management Board member and CFO, Alexey Yankevich. Upstream performance in 2013 will be presented by Mikhail Zhechkov, who heads the Economics and Investment Department of our Upstream Division, followed by downstream presented by Vladimir Konstantinov, who is in charge of Economics and Investments in our Downstream Division. Finally we will be joined by Sergey Vakulenko, Head of the Strategic Planning Department, for Q&A.

As usual, before starting our presentation, which is also available via webcast on our website, we would like to remind you that the presentation and all of the comments to it, as well as all statements made during the teleconference may contain forecasts with respect to the financial situation and the results of operations by Gazprom Neft. All statements, other than assertions about past facts, should be treated as 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 the statements expressed in the course of the conference call.

I will now ask Alexey Yankevich to give his presentation.

Alexey Yankevich, Member of the Management Board, CFO

Good day, ladies and gentlemen. Good morning or good evening to some of you. I will now share with you the results of Gazprom Neft's business in FY 2013.

The Company had a successful year. Gazprom Neft remains one of fastest growing companies in the industry. Overall hydrocarbon production grew by 4.3% y-o-y, which is major achievement compared with average industry rates. We are particularly pleased that our financial results grew even though positive effect from the price factor was very modest and easily outweighed by growth of transport tariffs, so that integral netback of oil companies declined. Despite that and despite growth of the tax burden due to a higher MET rate, we improved our operating income by 4.2% and net income rose by almost 1%. We achieved this thanks to increase of production and broadening of the range of our products, completed modernization of our refineries to improve product quality, and increased the share of sales in premium segments. Premium sales are also growing in absolute terms: overall sales in premium channels grew by 4.8%, and average throughput at filling stations also rose.

There were a number of important events, particularly in our Upstream business. We began offshore production, drilling a first well and starting production at the Prirazlomnoye field, where we currently have operator status. We expect to have the field on our balance sheet by the end of the year. The arrangement has already been approved and we expect to make our first tanker shipment in the first quarter. We have also obtained preferential export duty rates, so shipments will be at these lower rates. So everything at Prirazlomnoye is going according to plan. The second main upstream event in 2013 was increase of our effective stake in SeverEnergia. We increased our stake together with NOVATEK and now hold an effective interest of 40.2%. We also commissioned the Yuzhno-Kinyaminskoye field in a relatively short period of time. We launched the Yuzhno-Priobskaya gas compression station. And we signed a memorandum with Shell on a joint venture for the development of tight and non-conventional reserves.

The most important event in Downstream was successful completion of our modernization program to raise the quality of petroleum products. We commissioned all of the necessary units within a short period of time and the last units in Moscow were commissioned in the second half of 2013. So we are now fully ready to start output of products in the top Euro-4 and Euro-5 classes. We are also developing a line of high-quality products under the G-Drive brand. A 98 gasoline was added to the G-Drive family in the reporting year. Sales of these branded fuels are growing fast, justifying our program. We have also expanded our aviation fuel business, now being present at 125 airports. We have launched a joint venture with Total to produce polymer-modified bitumen under the Styrelf brand. And we have acquired a plant in Ryazan to produce polymer-modified bitumen.

I will now pass you over to the stream representatives. For Upstream, we will hear from the Head of the Economics and Investment Department at the Upstream Division, Mikhail Zhechkov.

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

Good afternoon, ladies and gentlemen.

I would like to add a few things to what we have already heard from Alexey Yankevich. Firstly, I would call attention to our success in stabilizing oil production in Noyabrsk region, where we reversed output decline and increased hydrocarbon production by 3.3% y-o-y. This is important in view of what has been said about our use of technology, and I will say more about it later on. We also successfully completed pilot drilling in the eastern part of the Orenburg field and at the Tsarichanskoye field. As a result the growth of production in Orenburg region was 47% compared with 2012, which is an impressive figure. The Yuzhno-Priobskaya gas compression station is functioning to maintain gas deliveries to the Priobskaya gas-turbine power station. We have also reached project capacity at the 1st and 2nd trains of the Samburgskoye gas treatment facility (13.8 million m³ per day) and launched the 1st train of CPF. That is what I had to say in addition to what Alexey mentioned. I will add a few more details about Prirazlomnoye later.

We won the auction for a license to develop the Yuzhno-Pudinsky license area in Tomsk Region. And, as Aleksey Yankevich said, we increased our stake in SeverEnergiya. In Iraq we signed a third production sharing agreement in February with the regional government in Kurdistan giving exploration rights for five years with possibility of a two-year extension at the Halabja block. And in our partnership with Shell we obtained a commercial oil inflow of 82 tonnes per day from Bazhenov formations at well 153 in the project for developed tight reserves at the Palyanovskaya area.

The next slide shows change of PRMS hydrocarbon reserves. The revisions give additional 112 million tonnes, of which 60 million tonnes at Novoport. Acquisitions of 91 million tonnes represent the increase of our interest in SeverEnergiya. So we have the highest reserve replacement ratio, as you can see on the right-hand side of the slide.

The next slide shows production and I would like to emphasize that we achieved 4.3% growth compared with 2012 (62.3 million tonnes). We also have very ambitious plans for 2014, when we are targeting hydrocarbon production growth by at least 5%.

In 2013 we discussed a program to bring tight reserves into development. The approved program calls for the development of up to 60 million tonnes of additional reserves by 2015. The slide shows that the number of workover actions for tight reserves rose to 216 in 2013, representing 10-15% of all workovers, compared with 7% in 2012. The average daily flow rate at workover wells increased to 5,200 tonnes.

The next slide shows the trend in horizontal drilling, multi-stage hydrofracs and multilateral drilling. These are the core techniques in our program for recovery of tight reserves. You can see that the share of high-tech wells has risen from 4% to 35%, which is helping us to keep up the positive production trend.

And the next slide looks at three fields: Priobskoye, Vyngapurovskoye and Kraineye. The main point here is that our approach to field development has changed compared with 2009 thanks to the development of horizontal drilling and multi-stage hydrofracs. The broken line on the graphs shows that. The area in grey represents our planned additional production over 10 years. We are going to produce an extra 42 million tonnes at Priobskoye, 6 million tonnes at Vyngapurovskoye and 3.2 million tonnes at Kraineye. This is the tangible outcome of our recent work to get better results from our current assets.

The next slide is about the key achievements in our major projects. At Dolginskoye we have obtained a drilling permit, contracted a rig and we made arrangements for supply vessels just a few days ago. The project is on track. At Novoport, the production drilling program for 2013 was completed, the Arctic terminal supplier was selected and we approved a concept for first-phase infrastructure. At Messoyakha maximum output in test production was 250 tonnes per day and completion of the exploration program has raised reserves by 30 million tonnes. At Badra we have finished testing of well Bd-4 with a flow of 7,200 bbl/day, completed the construction of the oil export pipeline linear section, chosen a contractor to drill six production wells and finalized the EPC contract to build gas infrastructure. In Kurdistan, we have acquired the Halabja block and 3D seismic work was completed at the Garmian and Shakal blocks. At SeverEnergiya, it has been decided to feed oil into the condensate pipeline during test production and, as I said above, we have reached project capacity in the 1st and 2nd lines of the Samburgskoye gas treatment facility. 3D seismic work has been completed in the Chona project, including 350 km² using UniQ technology. Figures for Orenburg have already been given: it is one of our key points of growth, where we are working successfully and efficiently. At Prirazlomnoye the well flow rate was 1,695 tonnes per day compared with a target level of 1,588 tonnes, and daily potential is as high as 2,200 m³. We have made long-term service contracts with contractors and met our

license obligations. The first tanker shipment is scheduled in 1Q and production in 2014 should be as much as 300,000 tonnes.

I will hand over now to Vladimir Konstantinov.

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

Good afternoon, ladies and gentlemen.

We made further progress in 2013 towards our strategic goals in refining and sales. As mentioned by Alexey Yankevich, we have completed our refining quality program after commissioning FCC gasoline hydrotreatment, isomerization and diesel hydrotreatment units at the Moscow Refinery, and a diesel hydrotreatment unit at YANOS. We also moved onto our second strategic goal – the development of deep conversion, – starting FEED work on deep conversion units: a VGO hydrocracker and delayed coker at the Omsk Refinery; and a VGO hydrocracker and flexicoker at the Moscow Refinery. FEED work is also being carried out on the complex processing unit at the Moscow Refinery and for renovation of the primary distillation unit at the Omsk Refinery. These tasks will approach completion in 2014. Also in 2014 we will carry out renovation of the CDU/VDU unit and start EPC contracting for the complex processing unit at the Moscow refinery. We also plan to complete reconstruction of gasoline pool units at YANOS.

In sales and marketing we saw further growth of premium sales, which grew by 4.8% in 2013 compared with 2012. We continued expanding our retail network, building 26 filling stations, rebuilding 110, acquiring 24, and rebranding 6. Efficiency indicators in the retail network improved. Average station throughput in Russia grew by 5% to 20 tonnes per day by the end of 2013. We acquired two bunkering tankers in 2013 and worked on construction of a lubricant packaging complex in Omsk.

In 2014 we will continue developing the retail network (see targets on the slide), commission new refueling facilities at airports where we are present and start regular bunkering operations in the Baltic countries (we previously operated there with acquirer status). Construction work will also start on production facilities for 2nd and 3rd group base oils at the Omsk Refinery.

I will now move onto more specific results of our operations and performance. There were no dramatic changes in the general context of our operations. We did see some fluctuation of wholesale prices for refined products in the first half of 2013, due to large amounts of gasoline entering the Russian market from Belarus. But there weren't any dramatic changes in wholesale and retail fuel prices: the range was from -2% to +4-6%. The ratio of crude netback to product netback was favorable for refining. Refining remained much more efficient than crude sales and that naturally had positively impact on overall downstream results.

We weren't able to keep up volumes of crude oil purchases in 2013 – market conditions led to a substantial decline of crude oil purchases, as I already said in previous conference calls, but we did our best to redistribute available resources with maximum efficiency and I believe that we were successful. We kept refining in Russia nearly unchanged: a slight decline by 1% was conditioned by the difference in maintenance schedules between 2012 and 2013. We considerably increased our supplies of crude oil to CIS countries, which are much more efficient than exports outside the CIS, and deliveries to NIS were increased after commissioning of hydrocracking and hydrotreatment units, with respective reduction of supplies to other foreign markets. Reduction of deliveries to the Mozyr Refinery was due to lowering of volume allocations to our Company. If you look at our refining dynamics in the past five years, you see that Rosneft is the only company with rates of refining growth comparable to ours, and we are slightly ahead. Growth of volumes at specific refineries has been due to increase of ownership stakes (particularly at the Moscow Refinery and NIS), and also to improved process efficiency and further development of our sales network.

On the next slide, on the right hand side, we show how our investments in the quality program have impacted product output. In 2013 we effectively moved away from production of third and lower classes and 96% of gasolines are now produced in classes 4 and 5. The share is somewhat lower for diesel fuel, but you should remember that these figures include the Mozyr Refinery and NIS, where the quality of products is not as high as at our Russian refineries. The figures for Russian refineries alone are more impressive. The left part of the slide shows that the share of fuel oil in our output is declining, so the overall structure is improving. Zero growth of gasoline output is mainly due to foreign assets, while gasoline production in Russia grew by 1%.

The next slide shows progress in major projects. I won't spend time explaining, because the information is fairly self-explanatory.

Going onto slide 21. Successful development of our sales network is visible from the growth of premium sales, both through small retail and wholesale, and growth of average sales per filling station. Comparing 2013 with 2010, we can see that the average throughput per retail station has doubled and we look pretty good in

comparison with our main peers and competitors: the middle part of the slide shows us well ahead of them by average throughput. This is due to our rebranding program and also to our customer loyalty program, which drew 27% more members in 2013 to exceed 4 million customers. Non-fuel sales are also doing a lot to improve our financial results in marketing. You can see on the right of this slide that non-fuel revenue has seen double-digit growth rates since 2010.

A few more details about our product business units. Our share of the Russian aviation fuel market reached 22.9% in 2013. Premium aviation fuel sales have been growing year by year and came close to 2.4 million tonnes in 2013. Our presence at airports is trending upwards – we were working at 170 airports by 2013 and the number of our refueling facilities is growing in parallel.

Developments in our bunkering business have been roughly similar. Growth of premium sales in 2013 was above 11% and our market share was 18.6%. Premium sales volumes are increasing and we are entering new markets – acquiring new assets in Russia and abroad, and developing business at new ports.

To conclude I will mention two other businesses, which we are looking at closely – lubricant production and bitumen production. As I said before, we are working hard to develop new production of second and third group lubricants. But we are also working on premium sales, which are growing year by year and reached 162,000 tonnes in 2013. Our market share is 12.5%. We have also focused on premium bitumen since 2013, particularly polymer bitumen binders and emulsions. We have considerably expanded our capacities through acquisition of the Ryazan plant and our share in the Russian market is an impressive 30%. We will continue developing our bitumen production in Kazakhstan, which reached tens of thousands of tonnes in 2013, and we are also pursuing a joint venture with Total.

Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Ladies and gentlemen, I will round off the presentation with a detailed account of financials, investments, cash flow and dividends. I have already talked about the annual financial trend and I won't repeat what I said, but there is more to say about Q4 compared with Q3 – a comparison, which analysts traditionally make. Q4 was unrepresentative, as often happens (two consecutive quarters cannot always be compared straightforwardly). There were several reasons for this. Firstly, we delayed maintenance operations from Q3 to Q4. This was positive, because, all things being equal, Q3 is traditionally best for sales, and we decided to shift maintenance work forward in order to maximize profits in Q3. Another negative factor in Q4 was decline of oil prices and resulting negative effect of the duty lag (when duty is charged as if prices were still at a higher level than their actual level in the current month). So all of these factors together meant that profit was considerably lower than in Q3. But the two quarters are not really comparable, and Q4 shouldn't ever be viewed as a "typical" quarter.

Let me add a few remarks about year-on-year changes in our financial performance. As I said, EBITDA grew in 2013 despite several negative factors. You can see from the slide that, if you look at prices alone and take account of the exchange rate, growth of ruble prices was only just positive (just under RUB 2 billion), and was more than outweighed by growth of transport tariffs, so that integral netback turned out lower. Growth of the MET rate (its indexation to 470) was a major negative factor, with about RUB 13 billion effect. But all these negative factors were more than compensated by the efforts of Company management, which led to growth of EBITDA by 4.2%. The positive factors, engineered by management, were increase of output, a broader product range and cost optimization program, which we are systemically implementing.

The next slide, which I would like you to look at, shows cash flows. We continue to generate stable and sizeable positive free cash flow, which gives cause for satisfaction. We have one of the best figures for cash flow per barrel of production in the industry, if not the best. Even if we take account of our new projects in free cash flow – that is RUB 14 bln not consolidated under IFRS, these projects are essentially loan financed – cash flow per barrel is still \$4, which is a very good figure.

The next slide I would like to comment on concerns investments. Our investments grew by 16% in 2013 and that reflects our strategy, which makes 2014, 2015 and 2016 peak investment years. We are preparing and commissioning several major greenfields – Messoyakha, Novoport and Prirazlomnoye – in the period, and they require major capital spending. Hence the investment peak. And after that we will still have to complete the program for deepening of refining conversion, but that will not require sums comparable to the current upstream projects in terms of the whole Company.

I will comment on the graph from bottom to top. At the bottom we have brownfields. Investments in brownfields grew by 32%, due to the application of expensive drilling technologies at mature fields. These

investments pay for themselves by considerably reducing rates of production decline at mature oilfields. For example, in Noyabrsk region we have achieved growth of daily output since the start of last year, which nobody could have foreseen.

The greenfield growth (preparation for commissioning of our new fields) is fairly straightforward. The biggest item here is the consolidation of Novoport, which wasn't treated as capex under IFRS for the full year in 2012. Investments in the Orenburg field cluster also grew (these fields are one of our main production growth drivers at present). And there were investments in Kurdistan.

The next segment is refining where there is a temporary decline at present due to completion of the quality program, including commissioning of the MHC/DHT complex at Pancevo. These investments will grow once projects to deepen the conversion rate reach the implementation stage.

Growth in the marketing segment is modest at 8%. There are no surprises here – reconstruction and rebranding of filling stations is going forward, particularly reconstruction (rebranding is nearly finished, though of course newly acquired stations are still being rebranded). Investments also include expansion of our presence in premium segments.

Then we have other investments, where there is a decline due to specifics of the accounting of capitalized interest. So where the broken column ends you have capex, which you see as IFRS capex. Then, as usual, just to give the full picture, we show investments that aren't yet counted in consolidated assets. These are mainly Prirazlomnoye and Messoyakha. Messoyakha is a joint venture, which won't be consolidated. Investments in Prirazlomnoye are shown as loans for the moment, but will be counted as capex when we put the asset on our balance sheet. Investments in this group are growing due to ongoing work at Prirazlomnoye and Messoyakha, which we are preparing to commission.

The next slide shows our debt policy. As was already said, we are trying to grow the average maturity of our debt portfolio and reduce the share of short-term loans in order to improve financial stability of the Company. We were successful in that during 2013. You can see that the share of borrowings with maturity under one year decreased in 2013 while the share of borrowings with maturity of 2-5 years and over five years grew. We will continue these efforts, repaying some loans to reduce the share of loans with 1-2-year maturity and lengthening the debt portfolio maturity. Rating agencies have already rewarded us for these efforts: Moody's upgraded our rating by one notch and we are now one notch higher than the minimum investment grade. We also received a positive outlook from S&P and hope for a rating upgrade in the future. We received a sovereign rating from Fitch, which immediately gave us BBB.

Finally a few words about dividend policy, which is of particular interest and importance to shareholders. Our dividend policy requires payment of 25% of consolidated IFRS net income and we continue to pay 25%. We have also started paying interim dividends. In 2013 we paid dividends for six months for the first time. We will continue the practice this year, announcing interim as well as main dividend payout. Net income was almost unchanged from 2012, so we can expect a payout of RUB 5.2 per share or RUB 9.3 including dividends already paid out, which is exactly the same as last year. If you look at benchmarking, you can see that our dividend yield is one of the best in the industry. I think that we are paying a fair level of dividends in absolute terms and dividend yield is high. We are keeping an eye on dividends levels. We will make sure that our dividend yield matches our competitors. We might even become the best in the industry by that criterion.

I will stop there. To sum up: 2013 was a successful year and we are optimistic that 2014 will be successful too. We showed good results last year and laid foundations for the future. Daily output rates were impressive – we showed growth even in Noyabrsk – and we created a good downstream base. We have promising opportunities for future development of the business. So there is every reason to expect that this year will be as good as last year, and that progress towards our strategic objectives will continue.

Thank you very much. I'm ready for your questions.

Q&A

Question №1

Maxim Mashkov, UBS

Good afternoon. I have three questions, if you permit. The first is about the Yuzhno-Kirinskoye field. The field was discovered by Gazprom. What stage is Gazprom Neft at in the debate about future development of this

field? Do you expect to obtain operator rights or maybe simply development rights, because the crude oil component there is quite large?

The second question is about capex and production in 2014. It would nice to hear some guideline figures.

The third question is about fuel oil. How many tonnes do you expect to sell at Russian refineries in 2014?

Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Thank you for the questions, Maxim. I will begin with the first two. I am not sure that I heard the third one correctly. So, beginning with the first two questions.

As regards the Kirinskoye field, certainly we have all read in the media about this major discovery of oil pools and reserves, but for the moment this is Gazprom's asset. The only thing I can say is that, undoubtedly, we are sticking to the oil strategy, which was approved by Gazprom, according to which Gazprom Neft is involved in the development of all oilfields, so we can expect to play a part in the development of this field, but how exactly and under what arrangement remains to be discussed.

And to the second question, about our capex and production in 2014. Our guideline for capex is still about RUB 300 billion – the figure approved by our Board of Directors. In dollars that is about \$7-8 billion. We gave these indicative figures some time ago. As regards production in 2014, as my colleague, Mikhail Zhechkov, said, we are expecting hydrocarbon production this year to be at least 5% more than in 2013.

Maxim Mashkov - UBS

Thanks. And can you tell us how much crude oil you expect to produce in 2014?

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

We are targeting 50.8 million tonnes for 2014. So growth of crude oil production should be about 1.5%.

Alexey Yankevich, Member of the Management Board, CFO

I would add one thing. You spoke quietly, so I didn't hear the name of the field. The proper name is the Yuzhno-Kirinskoye field, part of Gazprom's Sakhalin-3 project. Not to confuse it with similar sounding fields elsewhere.

Vladimir Konstantinov will answer the third question about the product mix.

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

The question was about fuel oil. We are reducing output of fuel oil year by year. The decrease in Russia in 2013 was to 6.7 million tonnes from 7.7 million tonnes in 2012, which is a drop of 12% or 1 million tonnes. This decline reflects improvement of refining technologies and production of more expensive and premium products: we are increasing production of bitumen and bunkering fuel. We anticipate further decline of fuel oil production in 2014, though it may not be as big as in 2013. This is an objective market trend: consumption of fuel oil in Russia is in decline. As regards supplies to the domestic market, they are 30-40% of total output at different periods. That is the approximate level of our fuel oil production supplied to the Russian market. We are fully compliant with our obligations under government contracts, contracts with our main consumers, and contracts with regional administrations and municipalities. We are also meeting our commitments for fuel oil sales via the commodity exchange. The share of sales via the exchange exceeds 10%, our share is 10%. There were no problems in 2013 meeting the needs of our consumers for fuel oil and I don't foresee any problems in 2014.

Anna Sidorkina, Head of Investor Relations

Can I ask our colleagues to speak up, if possible, because we are having trouble hearing, and please try to ask not more than two questions at a time.

Thank you very much.

Question №2

Pavel Kushnir, Deutsche Bank

Good afternoon. I have two questions. First, can you tell us more about the mechanism for compensation of Gazprom's costs incurred at Prirazlomnoye in case the license is transferred to Gazprom Neft. Do I understand correctly that the cost of the platform alone will be about RUB 90 billion?

And my second question: you mentioned positive trends at the Noyabrsk cluster, but can you give us some guidance as to likely rates of decline or maybe growth at Noyabrskneftegaz fields in 2014?

Alexey Yankevich, Member of the Management Board, CFO

Thank you very much, Pavel, for these questions. Let me start with the first question about the mechanism of compensation to Gazprom. It is correct that the value of Gazprom Neft Shelf (the license holder) is not considerable, but there are the main costs related to the platform. The amount is substantial, so we have reached an agreement with Gazprom for the payment to take place in stages, and that has been communicated to our rating agencies.

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

As regards Noyabrsk region, as I said in my presentation, we have stabilized the rate of oil production there. It was 5.4 in 2012, 1.8 in 2013. Muravlenko and Noyabrsk are not points of growth for the Company, for obvious reasons, Generally, though, we are trying to stabilize output at last year's level. The 2013 results were better than in the previous three years and we will try to maintain those results.

Question №3

Ekaterina Rodina, VTB Capital

Good afternoon, and thank you very much for the presentation. I have two questions that supplement questions already asked. First, you mentioned an oil production forecast of 50.8 million tonnes in 2014. Could you please break that down between Russian production and production from foreign assets?

And the second question is about the capex figure for 2014. Could you break that down between downstream/upstream and also give us an upstream breakdown between Russian and foreign projects, or between brownfields and greenfields. It would be excellent if you could send us figures later for breakdown in 2012-2013, shown on your slide.

Thank you very much.

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

49.4 of the 50.8 million tonnes are for Russia, and the rest refers to foreign assets, primarily Serbia and, to a lesser extent, Iraq. So the lion's share of crude production is from Russia.

Alexey Yankevich, Member of the Management Board, CFO

The second question was about capex figures. As I already said, the guideline figure for capex is about RUB 300 billion. Distribution of capex by segments will not change significantly compared with 2013. There might be a slight growth in the share of greenfields, because investments in those projects are growing. Investor relations will send you a detailed breakdown.

Question №4

Denis Derushkin, Bank of America Merrill Lynch

Good afternoon. Thank you for the presentation. The question is a quick one about development of tight reserves. At the beginning of 2013 you drilled a first successful well to the Bazhenov suite. It would be good to get an update on how many wells you have drilled now, and could you share some of the results from these wells with us?

Thank you.

Sergey Vakulenko, Head of Strategic Planning

The first well, which was drilled at the Palyanovskaya area of the Krasnoleninskoye field in the spring is still working and output levels are good. There has been a slight decline, but the well continues to exceed our

expectations. As for more recent news: we are now drilling a well to the Bazhenov suite at Salym. It will be a horizontal well with hydrofracs in the horizontal segment. Testing results should be available in April. So at the Palyanovskaya area we have drilled a vertical well and tested the vertical borehole, which gave a lot of promising data, confirming our view of Bazhenov structure in the Salym field area. Specific data on production from the horizontal well will be available by April. The well will be drilled, fracked and tested. It is important to note that we are currently giving a lot of effort and attention to shale development technologies at our traditional fields. It was in our presentation – the long horizontal sections and 10 hydrofrac stages. These are the lower-hanging fruits, which we are gathering at the same time as we study potential of the Bazhenov suite.

Denis Derushkin, Bank of America Merrill Lynch

Thank you.

Question №5

Alexander Fak, Sberbank

Good afternoon. A question about the Novoport field. My understanding from the media is that field launch has been somewhat delayed. You said before that you would produce nearly 0.5 million tonnes this year and 3 million tonnes by 2015. So my question is, firstly, why the delay of field launch, and, secondly, what forecast can you give for output from Novoport in 2015 and 2016? Thank you.

Denis Sugaipov, Head of Major Project Management

The concept for Novoport development was only defined last year: we decided not to build two terminals (one with lower capacity and one with full capacity). Instead we decided to go ahead and build the full-capacity terminal. That saved some of the costs, although it entailed a certain delay in our production plans. But the new concept includes plans for summer shipments without a terminal. So, overall, the new concept enables us to develop the field more efficiently, despite some slowdown of growth rates in the first two years.

Alexander Fak, Sberbank

A related question: what level of total production do you expect in 2016? And also, what are you going to do with the large gas cap at this field? What are you going to do with it for the first few years, until you build a gas pipeline?

Denis Sugaipov, Head of Major Project Management

Starting from the second part of the question: in the first stage of development we anticipate, firstly, to utilize this gas at gas turbine power stations to produce electricity for well operations and for the oil treatment center, and, secondly, we will use it to maintain formation pressure by re-injecting the gas into the gas cap. As regards production, you have to remember that in the first two years – 2014 and 2015 – we will be in test mode. Full-scale production is expected to start in 2016, once the terminal has been commissioned.

Alexander Fak, Sberbank

Thank you.

Anna Sidorkina, Head of Investor Relations

Ladies and gentlemen, thank you very much for participating in this conference call. If you have any more questions, please forward them to our Investor Relations department. We will always be glad to help. Thank you very much and have a nice weekend!