

JSC Gazprom Neft

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Anna Sidorkina, Head of Investor Relations

Good day, ladies and gentlemen! We are happy to welcome you at our conference call devoted to IFRS financial and operating results for the 9 months of 2013. This is Anna Sidorkina and I represent Investor Relations. Let me introduce to you the participants of our conference call today. The Financials are going to be presented by Mr. Alexey Yankevich, Member of the Management Board, CFO. Upstream is going to be presented by Mr. Mikhail Zhechkov, Head of Economics and Investment Department, Exploration and Production Division. And subsequently, as far as Downstream is concerned, Mr. Vladimir Konstantinov, Head of Economics and Investment Department, Refining and Marketing Division, is going to inform you on what has happened in the 9 months of 2013. During Q&A session we will be joined by Head of Strategic Planning Department, Mr. Sergey Vakulenko.

However, before we start this presentation that you can already see in webcast, I'd like to remind you once again that this presentation, as well as all the comments therein and the statements to be made in the course of this conference call, may contain and do contain forward-looking statements concerning the financial conditions, results of operations of Gazprom Neft. All statements other than statements of historical fact are or may be deemed to be forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in these statements expressed in the course of the conference call.

With this, I thank you for your attention. I'd like to give the floor to Mr. Alexei Yankevich. Alexei, the floor is yours.

Alexey Yankevich, Member of the Management Board, CFO

Good day, ladies and gentlemen. Let me start this presentation.

The nine months of the year 2013 turned out to be worse for the oil sector than similar period of the previous year in terms of macroeconomic environment. The oil price has gone down by approximately 3%, and this happened on the back of tax burden increase. As you know, there was an increase in a rate of mineral extraction tax and the excise taxes. So, with all the factors taken into account, you should not expect financials to grow. However, we did manage to increase operating profit. The adjusted EBITDA grew by 2.9%. This happened due to increasing hydrocarbon production, premium and retail sales, and also thanks to other activities and management efforts.

I'd like to point out specifically high hydrocarbon production increase (4%). It is one of the highest growth rates in the industry, and this is going to be emphasized later in this presentation. We keep developing along all our strategic lines and are realizing our strategic exploration and production plans. First oil was shipped from Novoport and Messoyakha fields. In Prirazlomnoye field, we have already load-tested drilling facilities, reached and entered the formation. We also signed a memorandum with Shell on development of oil liquids shale.

As far as Downstream is concerned, we've almost finalized our quality program at all our refineries, which enables us to produce products of high classes (Class 5). We are now starting our program on increasing depth of conversion.

As for business units and retail segment, we expanded jet fueling network to 117 airports, created a joint venture with Total to produce polymer-modified bitumen under G-Way Styrelf brand. We expanded G-Drive portfolio to gasoline 98, and we're planning to expand it to diesel fuels.

Another important positive event to mention here is that we announced first ever interim dividends for the 6 months 2013. They will be paid out by the end of November.

As far as third quarter results are concerned, it turned out to be very successful. Adjusted EBITDA grew by 37.2%, Net Income - by 51.2%. External factors did support this growth: the positive duty lag effect, increasing

global and domestic prices as well as the increase in hydrocarbon production, refining and sales through premium channels.

And now I'd like to give the floor to my colleagues from Upstream and Downstream to give more details on the results achieved.

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

Good day, colleagues. My name is Mikhail Zhechkov. Speaking about main events (regarding legacy fields and new opportunities) for nine months 2013 I'd like to point out the following: we drilled a second well at Palyanovskaya acreage, carried out well logging operations and confirmed fluid content. As for project with SPD, we have carried out hydraulic fracturing at Bazhenov formation resulted in oil inflow and we're now in the research phase. Another important event is that we were the first to carry out 10-stage hydrofracturing at Vyngapurskoye field (we received 135 tons) and multi-stage acid fracturing at the eastern part of Orenburg field (80 tons). We are talking about initial flow rates here. As far as associated gas is concerned, utilization has grown by 15% year-on-year.

On the next slide, as Mr. Yankevich mentioned, you can see that we're the best in industry in terms of hydrocarbon production growth with 4.1% if we compare 9 months 2013 against 9 months 2012. We also have positive quarter-on-quarter dynamics amounting to 4.8%. I'd like to say about our management efforts at Megionneftegas (Slavneft). A program has been prepared to drill additional wells at West-Ust-Balykskoye, Taylakovskoye and other fields (total of 23 wells) and we are also drilling more actively at our new assets (Yuzhno-Ostrovnoye field). I am commenting on this, because we have a marginal decrease here. We are now doing our best and working closely with our JV to mitigate this situation.

Next slide: new technologies. It's worth mentioning that we keep the momentum that we've gained in full scale introduction of new technologies and horizontal well drilling in particular that allows us to maintain legacy fields' production and increase its efficiency as well as lifespan. We also make use of acid multi-stage hydrofracturing, which helps achieve higher flow rate at wells drilled in carbonate reservoirs and stabilize legacy fields' production. At the Shakal block (Kurdistan) we have set a world record of using transmitted data from 6,200 wireless sensors.

As far as the new fields are concerned, it's worth mentioning that we have acquired all the necessary approvals to drill at Dolginskoye field. In Chonskiy project we completed field work, using UniQ technology, which helps increase productivity and effectiveness of distribution of exploration wells in the future. In Kurdistan, we're carrying out preliminary operations for appraisal and exploration drilling on all the three blocks in 2014.

The next slide is devoted to the new fields' development. It's worth mentioning that first and second trains of Samburgskoye gas processing facility have already achieved its designed capacity (13.8 mln m³/day) and we successfully drilled 3 pilot wells at Samburgskoye field that confirmed the development plan. We also picked a contractor drilling company in Iraq – Chinese ZPEC. In Orenburg we confirmed decision to build transport infrastructure at Tsarichanskoye field based on pilot drilling.

Next slide concerns Novoport. We already received approval from Krylovsky State Scientific Centre for our transportation plan. We have all the necessary geological information that confirms the feasibility of gas injections up to 2018. Consequently, we announced tender for injection compressors construction and deliveries. At the same time, considering the amount of gas in place, we are also planning to build transport infrastructure to compressor station "Yamburgskaya". We have also announced a tender for ice class tankers construction and successfully held public hearings regarding marine terminal construction in Cape Kamenny.

Prirazlomnoye field: one important event is that we got approval for oil spill prevention and response plan and we also began drilling facilities' load-test. The bottom hole is currently at 4,132 meters. We penetrated the productive horizon and carried out geophysical exploration operations on the horizon.

At this, I give the floor to my colleague from Downstream – Vladimir Konstantinov

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

Good day, ladies and gentlemen. Let me start with macro environment of the Downstream block of Gazpromneft. As Alexey Yankevich mentioned, indeed macroeconomic conditions were not too favorable in 2013 as compared to the year 2012. If we look at the left upper graph on slide 14 we can see that we have a substantial decrease in effectiveness of oil deliveries. If we compare third quarter of 2012 to the third quarter of 2013 we see a decrease of Net Upstream price by \$2.60 per barrel while the price of Brent stayed the

same. This is primarily due to factors such as MET and export duty. At the same time wholesale and retail prices for petroleum products were fluctuating quite considerably during the year. But if we compare against the third quarter of last year, we see that it's at the level of plus 5%, or about so. I need to say that refining continued to be more lucrative compared to crude oil export. The difference between refining and crude exports remained virtually the same during last year. And if we compare it against the third quarter of 2012, it even increased a little bit. This is mainly thanks to the improvements we've achieved in refining quality and the quality of products underway at our refineries.

On slide 15, we can see that in the third quarter of 2013, as compared to the third quarter of 2012, crude resources went down a little bit. But this is not because of production - the production is still at the level of 2012. Resources went down thanks to the situation in the crude purchases market.

The refining volumes in Russia grow. The growth rate of refining exceeds production growth rate. This is one factor. Another factor is increase in pipeline capacity due to ESPO-2 launch. So, buying crude is quite a challenging task. And since we are one of the companies who have a share of refining rather large compared to production, when we see that the market is limited and we experience difficulties in buying crude, it's a challenge for us. Although I must say we provide enough crude for our refining capacity, i.e. make most efficient use of our resources.

If we look at comparison against the third quarter of the previous year, we see 10% increase at Moscow refinery. The minus 11% at Omsk refinery is a seasonal quarterly factor. We had quite a large-scale turnaround program there, which is already completed. As far as Moscow refinery is concerned: for timing and activating deliveries at the central market we agreed with the Ministry of Energy that our turnaround is shifted 27 days later (began in the end of September). So we have surplus in terms of refining if we compare it to third quarter of 2012. As far as NIS concerned, +115%. It's thanks to hydrocracking and hydrotreating unit commissioned in December last year. So, since we've launched this unit the refining volumes increased considerably.

Crude deliveries to Belarus is mainly related to non-economic factors. Increase in deliveries to CIS by 84% is because of increase in supplies to Shymkent refinery in Kazakhstan. And 75% increase in Russia - is crude deliveries from Orenburg fields to the nearest refineries. That is to say it's more efficient for us to send oil to CIS rather than to far abroad countries. As part of optimization of our crude distribution, we decreased international exports by 44%. And we suppose that the increase in efficiency is quite obvious during the period we are talking about.

Our next page is devoted to the other area of our refining investment which is very important for us. We have discussed previously that we're finalizing and completing our quality program and start focusing on depth of conversion. We're in the active phase of designing in new units at almost all our refineries, we develop base projects, FEED, prepare operational documentation and equipment delivery takes place already at some of our refineries. Project characteristics are given in the bottom part of the slide, I'm not going to read from the slide. If you're interested, you can check for yourself.

As far as our retail activity is concerned, we also think it's quite successful in the third quarter of 2013. Retail sales in Russia and CIS has increased by 13% as compared to the similar period of last year. In the Balkans, and it's mostly NIS, the increase is 24%. And it's not only the sales volumes that increased, but also operating efficiency, characterized by the throughput per station. In Russia in particular, it reached almost 20 tons per day in the third quarter of 2013, over 6% growth year-on-year. We also see that non-oil sales are growing. They grew by 41% year-on-year in the third quarter of 2013. We have finalized our large-scale station's modernization program. We have built 7 stations, reconstructed 33 stations, and rebranded 50 stations.

Next slide, please. We are very effective in motor fuel sales segment. The growth in motor fuel sales on average grows faster than the market. In Russia it amounted to 4%, while in Gazprom Neft at large it's almost 10%. As we can see, we have similar dynamics in diesel fuel sales: 3% growth in the Russian market and 13% company-wide. The reasons for this growth are given in the bottom of the slide. These are: rebranding, sales structure optimization, the fact that we have new effective fuels in our mix and loyalty programs for our customers.

A few words about premium channels, i.e. aviation, bunkering, lubricants and bitumen. Here, we also see very positive dynamics and growing market shares. In particular as you can see our share in jet fuels is almost 23%. And sales volumes increased by 16.3% quarter-on-quarter. Geography expansion both in Russia and international is also obvious.

As for bunkering fuel, our market share has grown as well and almost achieved 18% with sales volume increasing by 16.9%. Most important events in nine months of 2013 are the acquisition of Romanian bunkering operator, Marine Bunker Balkan SA, and Estonian bunkering operator AS Baltic Marine Bunker.

These entities do work, they are successfully integrated into the Company and generate revenue. We are also operating in the Far East and new bunker tanker started to operate there. We are expanding bunkering operation both in Russia and abroad.

Lubricants are given on the next slide. You can see here that sales are growing; 13% growth in sales year-on-year with market share of more than 12%.

Bitumen. Here we can see that our market share is the largest among our premium channels, around 30% in the Russian markets, and we have very considerable sales volume growth of 61%. This sales volume growth is related both to the conventional products sales growth and to the high growth rate of sales of new polymer-modified bitumen, the more premium, high quality ones. Here, the key thing to be mentioned is that production at bitumen plant in Kazakhstan has already begun, a joint venture with Total that has been mentioned above was created, and we were the first in Russia who started producing bitumen that conform with provisional national standards at Moscow Refinery.

Next slide is here to demonstrate that our brand strengthens, develops and gains more and more recognition, brand awareness keeps increasing. New products that can be seen as ambassadors of our brand are introduced. Gazprom neft filling stations network, G-Drive and G-Energy won Effie Brand of the Year awards in their respective categories.

That would be all in terms of Downstream for Gazprom neft.

Alexey Yankevich, Member of the Management Board, CFO

I'm here to give you a few words about financials. Like I said, we have managed to increase operational income by 2.9% year-on-year in 9 months 2013, and this is thanks to activities of the management team, increase in hydrocarbon production, and increase in sales through premium and retail segments. EBITDA grew even more considerably quarter-on-quarter, and this is in particular thanks to more favorable macroeconomic environment and positive export duty lag. As far as net income is concerned, it changed in line with our operational results. In the third quarter, it grew by 51.2% in line with strong results of operating income. As far as year-on-year dynamics are concerned, you can see that net income growth lags behind EBITDA growth, and this is because of negative foreign exchange effects that emerge when we re-evaluate the credit portfolio that is denominated mostly in foreign currency.

Historically we analyze EBITDA dynamics in greater detail, since it is our main performance indicator. In particular, we can see here EBITDA reconciliation in nine months and you can see that price factor is by and large positive. But if you look more closely, you can see export prices went down while domestic prices went up and export duty went down partly due to export duty lag effect. Overall this factor was positive, even though there was a negative impact from export prices. And also higher excise taxes almost offset an increase in domestic prices. Net effect turned out to be positive, but small. Besides, as mentioned before, we had stable prices while tax burden went up: increase in MET brought about RUB10 bln negative impact (change in base rate). Another negative effect of RUB 6 billion was because of transport tariff increase (mainly tariff indexation by Transneft). And another minor negative factor is increased penalties for flaring associated gas.

Among the positive factors, however, we have management activities, hydrocarbon production increase, optimization of sales structure, increased share of premium segments and higher retail sales and also cost control. So, despite the negative external environment, around minus RUB 10 billion, we still have an 2.9% increase year-on-year.

Next slide, please. These quarter-on-quarter dynamics are more obvious, and here we can see that price increase is the most important factor, that was further amplified by export duty lag effect and made an impact of around RUB 17 bln. And also management effectiveness allowed us to achieve positive results and EBITDA growth of 37% quarter-on-quarter.

It's worth mentioning that we consistently demonstrate very good cash flow results. These nine months were not an exception and these results are really something that makes us proud. If you have a look at the positive cash flow, it's more than USD 2 billion, even when new project (shown here) are accounted for it is USD 2.1 bln. To be fair, this is our organic investments: these are mainly the assets that have not yet been consolidated, but they are to show up on our balance sheets. This is mainly Prirazlomnoye and Dolginskoye. So, you can see here that even when these new projects are considered free cash flow is quite substantial - more than USD 2 bln.

Next slide, please. Speaking of investments, investments have gone up and we are still in line with the previously announced plans. We promised to increase investments. Our main growth drivers are the new projects in Upstream, our greenfields. Growth in this segment is around 50%. Novoport, Orenburg and

projects in Iraq lead the way here. Increase in brownfields is related to new technologies implementation and increase in share of drilling more complex wells. As a result this has caused more substantial effects.

As far as refining is concerned, we see that CapEx is decreasing for the first time in several years. That's because we have completed our quality program quite successfully. All the units we planned to commission have already been commissioned. Besides that we have launched hydrocracking unit in Panchevo. So now we are planning new projects to increase depth of conversion and this will determine refining CapEx dynamics.

Marketing, you can see here, is almost at the last year's level. 3.4% growth is related to our reconstruction and rebranding program expansion.

You can see that there is a big percentage change in M&A activity but the actual figures are not very large - around RUB 5.5 bln. These are deals of NIS: acquisition of OMV filling stations network, participation in Energowind project. And also the minority share to reach 100% ownership of Magma was acquired.

Major projects, the so-called new projects that you saw on the slide with cash flow, are the investments in assets that we haven't consolidated yet, but that we are planning to get on our balance sheet. They are mostly related to Prirazlomnoye field.

And finally, a few words about our financing policy. As stated before our main objective is to increase credit portfolio maturity and it's something we are succeeding at. In the third quarter, in particular, we increased the average debt maturity to 4.26 years. At the same time the average interest rate slightly decreased. Net debt to EBITDA is still pretty low at 0.46, which means we still have sufficient debt capacity. Our future actions are going to be aimed at credit portfolio diversification, its maturity increase and cost optimization.

Generally, we're happy with our results for nine months of 2013. We expect 2013 to be a positive year and we hope with very positive results. We're very optimistic about the future. All our strategic projects are being realized according to the plans, that we communicated to you, so we keep working along these lines.

And at this, I thank you for your attention and we are more than happy to answer your questions.

Questions&Answers

Question №1

Andrey Gromadin – JP Morgan

Good evening. I have two small questions that are interrelated with each other. My congratulations with good results. My first question deals with CapEx and the second one with the projects.

At the end of last year the Board of Directors approved the CapEx plan, which amounted to RUB 240 billion and last time you said this plan is not going to change. And from what we've learned later, the Board of Directors raised it to RUB 245 billion. However, if we look at the amount invested in nine months of 2013, even with non-consolidated projects CapEx, it reached only RUB 143 billion. So my question is are you still sure that you are going to meet this target? Are you still adhering to this target of RUB 245 billion?

And my second question is related to the first one. There seems to be a lag in investment particularly related to new projects, e.g. Prirazlomnoye. We expected investment to be at the level of USD 700 mln to USD 800 mln in one year, but we only have USD 300 mln in the nine months. Or for example Novoport. So, my question is, when do you expect to clarify the taxation changes effect on new projects? And is it somehow related to the CapEx planned on your new projects?

Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Let me start with the first question about CapEx. The figure that was announced and approved by our Board of Directors is still in force and we see no indicators of not meeting the objectives and we're still going through all the milestones that we planned for all our new projects. Another story is how it's going to be reflected in the balance sheet and when and how we are going to see it, and this is something that is quite difficult to forecast. At this point I can't tell you what the final figure for investment will be in financial reports, because it depends

on when all the paperwork is ready. However, let me reiterate that we are still in line with what was planned for our new projects and its main milestones at the last Board of Directors meeting.

As far as your second question is concerned, main taxation issues for major projects, we have already reached a full understanding of the taxation scheme: we received MET benefits for all our main projects. We probably will have an increase in terms, but this is something that can be seen as an upside rather than anything else, if we are successful in convincing the government. And what concerns export duty methodology, almost all our projects have the necessary criteria and we have no reason to doubt that we will get these export duty benefits. It's all about filing for getting this benefit and having certainty about the forecasted parameters and investment volumes. Most probably Prirazlomnoye field will be the first one on which we'll file for this benefit, and Novoport and Messoyakha will follow. I'm not ready to give you any details on when exactly it's going to be done, but, generally speaking, the taxation situation is crystal clear for us. Some tax benefits have already been received. Some other are to be received as soon as we file for them.

Andrey Gromadin – JP Morgan

Thank you very much. Just to clarify the first question, I really doubt that we're going to see RUB100 billion CapEx in fourth quarter, or are we?

Alexey Yankevich, Member of the Management Board, CFO

Not for nothing we always claim that we are using forward-looking statements. I can't give you a precise forecast. It's all in the plan and Board of Directors approved this plan, and we have no reason to revisit it internally. And what's going to happen, in fact – it's a forward-looking statement. I'm afraid I can't give you any more precise forecast at this point.

Question №2

Pavel Kushnir – Deutsche Bank

Thank you very much for your presentation. Let me ask two questions. My first question has to do with the following: you have very strong results, and I think this is very much thanks to the fact that your sales in petroleum products are greater than what you produced for distribution. According to my calculations it's about 650,000 tons greater than what you produced and purchased for reselling. So, my question is how many petroleum products do you have left in your storage that is available for sale?

And my second question has to do with gas prices. It looks like this gas price in the third quarter went down by 14% quarter-on-quarter. Could you give an explanation to this variation, especially in the context of the fact that the tariff grew since 1st of July by 15%? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Let me answer the first part of your question by saying that it's not really correct to say that most of our strong result is thanks to the residue sold. When we sell residual stock, we are not writing it down at no-cost. Yes, there certainly is some positive revenue, due to the fact that this stock can be evaluated below its market value. But the total effect of this will be less than \$100 million, and the factor analysis that we've presented in the course of this presentation shows you vividly that there were many more other important factors (both positive and negative) that impacted our strong results. Although this did have a positive effect. And now I give the floor to Mr. Konstantinov to comment on.

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

Yes, I'd like to agree with what Mr. Yankevich has just said. The main cause of the strong results is not decrease in stock, which remained roughly unchanged. And this is related to the state regulation of supplies, mainly it is related to the supplies of high-octane gasoline to the domestic market, meaning that a certain amount of products has to be kept in storage to ensure uninterrupted supplies. If you want to know some figures, our gasoline stock fluctuates around 280,000 to 320,000 tons each month and it shows vividly that we don't see any decrease, we actually see some increase thanks to the market growth and state policy. A similar situation is seen in the area of diesel fuels. Our storage of diesel remains almost unchanged. So it may be said that there were no substantial change in stock year-on-year.

And as far as the financial result is concerned, it's mainly thanks to the improvement in quality of our product, first and most crucial factor in refining. We improved the structure of production of our products, which is the result of our investment program.

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

As far as gas is concerned, we had a Federal Tariff Service price decrease of 3%, if I got your question right, which was the main cause.

Pavel Kushnir – Deutsche Bank

Yes, but there was a 15% increase from the 1st of July.

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

Excuse me, I didn't quite get the question: from 1st July +14.8% (FTS prise) and from 1st April -3%. Could you repeat the question?

Pavel Kushnir – Deutsche Bank

Well, I concluded from your financial reports that gas prices fell by 14% quarter-on-quarter. I calculated these figures.

Anna Sidorkina, Head of Investor Relations

This is Anna Sidorkina. If you don't mind, we'll look closer at this and get back to you as soon as we get it all cleared up. Thank you.

Question №3

Pavel Sorokin – Morgan Stanley

Thank you very much for your presentation. I have two short questions. First question: what is your forecast for production volume next year? As we've seen some rumours in the press that it's going to go down, especially upon the background of the taxation system changes, and it's pretty obvious that it's going to be changed.

And my second question has to do with the news in press that Gazprom neft and Novatek made an offer to Eni and Enel to buy their shares in SeverEnergiya for 4.9 bln. Could you provide us with some details of the deal and when are you planning to complete negotiations?

Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Thank you for your question. Let me answer the first question. The business plan for the next year has not been approved yet, so we are not prepared to give you any exact figures at this point. But definitely, hydrocarbon production is not going to be lower than this year.

As far as SeverEnergiya is concerned, it is by all means an attractive asset and we are looking into it. At this point this is all I have to comment on this.

Pavel Sorokin – Morgan Stanley

Thank you.

Question №4

Maxim Mashkov - UBS

Good evening. I have two questions. Firstly, you admit that domestic market for crude oil is in deficit and that you're experiencing certain difficulties in getting the oil resources enough to use full capacity at your refineries. And yet, we can see that your oil sales in the domestic market are growing. So, do you find oil trading more attractive or you make use of some kind of swap schemes with other producers?

And my second question has to do with Novoport. You mentioned that you are planning to have an underwater gas pipeline to Yamburgskaya compressor station. So, my question is, what's your forecast on cost of this venture? And do you see any regulatory risks here related to the fact that you are planning to lay the pipeline on the bottom of the Gulf of Ob?

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

I'll answer your first question. It's Vladimir Konstantinov. It's not that complicated as it might seem. Our oil production is enough to use on our refineries, to load our refineries. As far as domestic sales are concerned (it's oil from the Orenburg fields) it's all about logistics. It is logistically better and more efficient to sell it on the domestic market rather than to export this crude. So, this is purely driven by the idea of effectiveness and efficiency.

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

As far as Novoport is concerned, I'd like to remind you that based on geological information the feasibility of long-term gas injections has been confirmed and this is what we are focusing on at the moment. As far as pipeline is concerned, it's too early to comment on costs. We will work on this option closely and will clarify future potential along the way. The core issues at the moment are gas injections and compressor purchases.

Question №5

Ivan Khromushin - Gazprombank

Good evening. Thank you for this opportunity to ask a question. I have a question on non-conventional hydrocarbons development. What happened with your main projects during the third quarter? Has your evaluation of the potential of these assets changed? How serious do you think the effect is going to be on the industry in Russia? Do you see any risks for the oil prices analogues to what has happened with shale gas revolution?

Thank you.

Alexey Yankevich, Member of the Management Board, CFO

What concerns unconventional reserves, the research is still at the initial stage and it continues. All the figures are preliminary at this stage. We already announced that we can get up to 300 million tonnes of additional reserves thanks to unconventional resources. This is from the interview with Mr. Dyukov, you can look it up. It might increase in the future, but it's just a preliminary assessment at this stage.

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

I would like to add to what Alexey has said. Like I said, we have drilled a second well at Palyanovskaya acreage, seen results of hydrofracs at Bazhenov formation, planning to start drilling in SPD in the fourth quarter. We are planning to implement ASP technology. We are carrying out pilot exploration and pilot testing both on our own fields and also on fields of our JVs with Shell. So, at this point we are testing, we are looking into it, we are seeing what we can do and what technology we should use. This is all about our practical approach.

Ivan Khromushin - Gazprombank

Do you see any strategically important effects, including your forecast for oil prices?

Sergey Vakulenko - Head of Strategic Planning Department

We expect that this incremental oil coming from tight reserves, low-permeability horizons and unconventional reserves will just offset the increase in demand and certain complications coming from OPEC countries. Rather than doing anything else and the market will still stay balanced. For example what we've seen in the last 2 years: incremental oil supplies from US (several million barrels per day) was successfully absorbed by the market without considerable effect on the price. We consider the opinion of leading market analysts and we expect the balance to stay there, especially considering the fact that unconventional oil is not the cheapest to recover.

Alexey Yankevich, Member of the Management Board, CFO

This was Sergey Vakulenko, Head of Strategic Planning Department at Gazprom neft.

Question №6

Aleksandr Rozhetskiy - UniCredit

Good evening. Thank you for your presentation. I have 2 question. Can you give us any forecast on the CapEx figures for 2014?

And a similar question concerning dividend policy for 2014. Are there going to be any changes and what would be the amount in the year 2014?

Alexey Yankevich, Member of the Management Board, CFO

Well, as far as investments and CapEx are concerned, as I said, at this point I cannot be of much help because the business plan has not been approved yet and it's only going to be approved around the 20th of December. But I can certainly say that investment is going to grow. You can use the figures we provided previously in the presentation for investors. We are expecting to be around those figures.

And our dividend policy is still going to be 25% of consolidated net income, according to IFRS. Although official dividend policy prescribes 15% of net income for dividends, but we continue to stick to 25%.

Aleksandr Rozhetskiy - UniCredit

Thank you!

Question №7

Ekaterina Rodina – VTB Capital

Thank you for your presentation. I have two questions. First one is very straightforward. Could you please comment on the increase in SG&A by 12% quarter-on-quarter? 12% seems a bit high.

And the second question is more broad concerning your possible cooperation on Vietnam refinery. What is the scale of investment? What is the timeframe? What would be the scale investment necessary for buying the asset and also organic investment that you will subsequently need? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Ekaterina, thank you for your questions. I will start with the easy one: 12% SG&A increase. It was a one-time effect, really. SG&A reflects long-term management remuneration provision, which is dependent on the share price. The share price was going down in the 2nd quarter and rising in the 3rd quarter. This led to higher provision and therefore higher SG&A costs. There was also the seasonal effect but it was less prominent. So the main factor is negative re-evaluation of provisions in the 2nd quarter and positive re-evaluation in the 3rd quarter.

The second question about Vietnam is more complex. We definitely expected that one. First of all, we signed a framework agreement, which basically means that we are already at the stage of active negotiations, which in turn means that we cannot voice any figures at this point. However, I will happily share with you some more general information. Indeed, it is a very interesting project for us, because Asian market is very attractive. The deficit in the market means that downstream will be profitable. Unlike very saturated European markets, the Asian markets still suffer the deficit, so that's our case, basically. The current refinery that we are talking about is far from meeting the demand in Vietnam. And even if new refineries are built, it still won't be met, so it looks like a good and interesting project in terms of return. We are expecting high profitability and this determines our stance in the negotiations. But I can't really give you anything more precise, we have just started negotiations.

Question №8

Alexander Fak - Sberbank

Good day, it's Alexander Fak, Sberbank. Your investment program looks very intensive for the next 2-3 years. Do you look into issuing additional shares as a way to get the funding? Or rather, what would be the amount of funding that you would expect to gain through such an additional issue of shares? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Thank you for your question. Well, I suppose the shareholders are the ones to address this question to, really, because it's their decision to issue or not to issue the shares. Indeed, our investment program is intensive, but I mentioned in my presentation that our debt capacity is quite high and that we are really underleveraged as compared to some other companies in the market. That's why we will use debt instrument first of all. We are looking into other options and discussing them. Again as I said a precise answer can be given only by our shareholder.

Alexander Fak - Sberbank

Thank you

Anna Sidorkina, Head of Investor Relations

Thank you very much for participating in our investor call. This is Anna Sidorkina, Investor Relations. Thank you for your interest in our Company. Should you have any other questions or anything is unclear, please contact Investor Relations for further information.

Thank you and let's stay in touch.