

JSC Gazprom Neft

1Q 2013 Financial Results May 16, 2013

Anna Sidorkina, Head of Investor Relations

Good evening, ladies and gentlemen! We are happy to welcome you again at our conference call. This conference call is going to be devoted to IFRS financial and operating results for the first quarter, 2013. Let me introduce to you the participants of today's conference call. As we usually do, the highlights, macro environment and financials are going to be covered by a member of the Management Board and CFO, Alexey Yankevich. Upstream in the first quarter of the year 2013 will be covered by Deputy Chairman of the Management Board, First Deputy CEO, Vadim Yakolev. Then we will give the floor to Vladimir Konstantinov, Head of Economics and Investment Department, Refining and Marketing Division, to speak of our Downstream results in the first quarter 2013. And at the Q&A session, we'll have Head of Strategic Planning Department, Mr. Sergey Vakulenko.

Before we carry on with the conference call and comments, that you can see online in webcast mode, I would like to remind you that the presentation that we're going to give you today and any comments today and any statements given to you during the conference call may contain forward-looking indicators that relate to business of Gazprom Neft and its results. So any statements other than statements of historical facts are or may be deemed to be forward-looking statements. So forward-looking statements are things 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 those statements during this conference call.

And now I'd like to give the floor to Mr. Alexey Yankevich.

Alexey Yankevich, Member of the Management Board, CFO

Good evening, ladies and gentlemen. Speaking of the results for the first quarter 2013, I'd like to point out that this quarter was not very favorable for oil and gas companies, since the crude prices were going down and taxes, MET rate and excise rates were going up. We also had a kind of a New Year's present from Transneft, RZD and Transneftproduct with the tariffs. So in conditions like that, we couldn't expect growth of financial results, however the Company kept developing and still kept the status of most dynamic among the oil companies. Our production went up to 3.1% Y-o-Y, refining volumes were up, retail sales went up more than 12%. However negative factors were not effectively offset by the management activities, and thus EBITDA went down by 3.2% Y-o-Y, net income decreased by 18%. But here, we'd like to point your attention that we should look at the operating income, because the explanation here is that 99% of this decrease is the revaluation of the loan portfolio (unrealized exchange losses). The ruble exchange rate was depreciating in the first quarter 2013 and it was appreciating in the first quarter 2012. So if we take away this effect, we'll see that the decrease is not that dramatic.

Besides short-term results, it's very important to keep creating added value and it's strategic goal. This is what we are progressing in, all of our major projects are going according to the schedule. We began first oil deliveries from Messoyakha and Novoport. We produced first oil in Yuzhno-Kinyaminskoye field. We are very active in involving hard to recover reserves into development, and we even signed a memorandum with Shell to partner in development of Bazhenov formation in the framework of our JV SPD. Also we have drilled the first well in Bazhenov formation in our field - Krasnoleninskoye.

In terms of Downstream, we have started a diesel hydrotreater at YANOS, which would allow us to increase and almost transfer to Class 5 diesel fuel production.

And now concerning the macroeconomic situation, the main characteristic has already been given. The situation was not really favorable for the oil industry at large. From the plot here, you can see that crude oil price in the first quarter 2013 went down Q-o-Q and export duty went up Q-o-Q because of the lag effect. You can see that we're in kind of scissors. And export netback, upon the background of transport tariffs going up,

went down quite considerably, from 52.1 to 44.6 \$/bbl. And besides, we can see that excise tax in petroleum products went up for almost all the products but Class 5 products, and obviously, it couldn't but fall negatively on the financials. And yet, I'd like to highlight once again that the macroeconomic environment keeps changing to the best or to the worst, but most important thing is to look at the fundamentals, and in particular, the major projects.

And here, I'd like to give the floor to Vadim Yakolev, Head of Upstream and First Deputy CEO.

Vadim Yakovlev, Deputy Chairman of the Management Board, First Deputy CEO

Good evening, ladies and gentlemen! In general, the results of the first quarter of 2013, Upstream results, are quite satisfactory. We keep growing our production, and growing in major projects, and we also have structured the new area for our development: we have agreed upon joint venture with Shell to work on Bazhenov formation.

I'd like to start off by giving you highlights of our legacy fields in exploration and production area. I'd like to point out that we have drilled our first well on Bazhenov formation on Palyanovskaya acreage of Krasnolenskoye field and the result is quite big. We keep testing this well, and it keeps giving a stable rate of around 80 tonnes of crude. Bazhenov formation, however, is not the sole area for our activity in terms of unconventional reserves. We almost start to drill paleozoic deposits of Archinskoye field in Gazpromneft-Vostok, with the objective to fine-tune the technology, how to drill, how to operate wells, and besides this well is important for the geologic study. We plan to identify the thickness of the paleozoic deposits on this field.

In terms of field development, we moved forward towards using high-tech operations. By this, I mean that the number of hydrofracs on horizontal wells went up from 3-4 to 6-8 per well. We also have started to implement this technology to develop oil rims and low-permeability reservoirs on Vyngoyachinskoye and Priobskoye fields, which allows us to actively engage these reserves into development, that earlier, before the implementing of such technologies, was impossible. We began test production at Yuzhno-Kinyaminskoye field right after we got this asset from our parent company Gazprom.

In terms of gas program, the general associated gas utilization rate went up by 11%, and now, totals 77%. This is thanks to the Noyabrsk Integrated Gas Utilization project Phase I, we built gas pipeline and modernized Vyngapurovsky gas processing plant jointly with SIBUR, and commission of vacuum compressor stations in Vyngapurovskoye and Vyngoyachinskoye fields.

On the next slide, we see the dynamics of growth. As you can see, according to the publicly available data published by Central Control Administration on the Fuel and Energy complex Gazprom Neft went up by 4.7% in terms of hydrocarbon production, and is now number one. And this is without taking into account the joint venture. With joint ventures taken into account our growth is more than 3%. Our average daily hydrocarbon production increased Q-o-Q. So we are very consistent and dynamic in our activity. This increase in production was due to the fact that we keep going with our major projects, like SeverEnergiya and Orenburg, and also through the successful use of high tech drilling and production operations at our legacy fields. Another contribution is from the program to increase associated gas utilization.

On the next slide we can see the volumes of high tech operations carried out by Gazprom Neft. The total number of horizontal wells drilled went up from 7 wells in 1Q12 to 30 wells in 1Q13. Besides what you can see is that situation is different now. We keep drilling using multistage fracking, and like I said, we complicate the geometry of wells, increase the number of stages for multi-stage fracking. We also have drilled three dual-leg horizontal wells in 1Q13 and these operations were successful. Flow rates given here in the right part of the slide, 88 tonnes per day for horizontal wells with multi-stage hydrofracs and 90 tonnes per day for dual-leg horizontal wells.

On the next slide here we see the dynamics of our CAPEX for exploration and production. Analysts have pointed out that Gazprom Neft manages to keep its production high thanks to a rather relatively high unit CAPEX. What we are demonstrating now it's totally different picture, I have to admit. In the last three years we are best in terms of production growth and at the same time we manage to control our capital expenditure. We

even managed to decrease it in two years. If you look at next slide here, and this is the analysis that was carried out jointly with a consulting company, so here you can see that we are in the best equilibrium with CAPEX control and maximum production growth, and we stay number one among our peers in the industry in terms of production growth by the price of minimum increase in CAPEX.

What we've seen next is the result of increased associated gas utilization in 1Q13. We have increased associated gas utilization by 11% Y-o-Y. As for the whole year, we're going to achieve around 80% of associated gas utilization, from 4.2 billion to 5.3 billion cubic meters. This is what we are forecasting for 2013. The main components of growth are given here as well. This is thanks to the project that we're carrying out in Noyabrsk, the increasing associated gas utilization at Orenburg assets and planned commission of gas compressor station on Priobskoye field in this year.

And a few words about our Upstream development projects. In Messoyakha we carried out field season, acquired 400 km² of 3D seismic, tested exploration wells drilled in 2012, and that increased C1 reserves by 25.1 MMTonnes. In Orenburg, we carry out the unbottlenecking for gas infrastructure, which allows us, without going too high on CAPEX, to increase our gas production and sales. We keep expanding the drilling program of the eastern part of Orenburg field. This is our main asset, basically. And we are going to use just horizontal wells there. Tsarichanskoye field is our new project, and what we have there now is pilot project. The objective of pilot project is to look at various variants of well completions. There are directional wells and horizontal wells. We have drilled five wells there, four of them have already been completed. Right now we are in the process of taking decision on expanding the drilling program of Tsarichanskoye field, in view of the favorable results we have got. Besides, we have exploration activities underway on the newly acquired Filatovskaya formation and Baleykinskoye field. As for Novoport, we just finalized our program on drilling and fracking in the first production well pad. We also carried out hydrofracs on exploration wells. The results were very favorable. The flow rates are higher than what we expected and introduced into our production profile. We plan to keep watching the changes in the flow rates until the autumn and upon the results of our monitoring of the wells we're going to take decision on changing the production profile for the field. Also we completed first winter season of oil shipments from the wells that have already been drilled and are being operated. There was transported more than 10,000 tonnes. We began building CODAP and CODAP-CPF manifold pipeline at Kamenniy cape. As far as SeverEnergiya is concerned, we have fully utilized the second train of gas processing facility in Samburgskoye field and right now production volume is in line with the capacity we have. 13.4 mln cubic meters today is our daily gas production there. And as for Prirazlomnoye field, we are getting ready to commission the drilling center. Oil spill response plan has already been approved. And we are planning to open drilling center while drilling the first well soon. In Dolginskoye field we have contracted all contractors, platform to drill, support ships, all integrated services. And we plan to drill the first well in the summer season. In terms of our international projects, a few words about Badra. We have finalized drilling second well. We tested first of five formations at exploration well. And the result is around 2,000 barrels per day for that formation. We are planning to finalize third well by the end of the year, launch first train infrastructure units and start commercial production. This would be basically all so far as major projects are concerned.

In the first quarter, like I said, we have signed the partnership agreement with Shell to work in Bazhenov formation. Here are the main details of this agreement. First priority plan is to get around 1.7 MMTonnes of production. And by this I mean the acreages that we have already identified as the ones of higher priority in KHMAO region. Also one important factor is picking the right technology. And of course, tax is not a minor issue, so we work jointly with other oil companies. And hopefully by the end of the year, we'll have progress in this area and a final decision will be taken on the necessary amount of incentives to keep working in Bazhenov formation successfully.

This is all as far as my part is concerned, and I'd like to give the floor to Mr. Konstantinov to speak on Downstream.

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

Good evening, ladies and gentlemen. Firstly general information and highlights on the major events in 1Q13 and major goals until end of 2013 in terms of Downstream. In 1Q13 refining throughput increased by 1.9% Y-o-Y and it does reflect the efficiency of our operations, since right now the efficiency of refining is higher than of export. We keep going with our quality program. In particular, we launched our diesel hydrotreater at YANOS and this was done one month before the scheduled commissioning. In parallel, we keep working to increase the quality of our refining and this has to do with depth of conversion. The key event was initiation of FEED at Omsk refinery for the construction of primary distillation unit. And we plan to keep going in this area, and one of the highest priority here is launch of two units in Moscow refinery. On May 8, 2013 we have already launched FCC gasoline hydrotreating unit and from June 1, 2013 we are planning to launch isomerization unit at MNPZ. Thanks to these two units, by June, all the gasoline made on the Moscow refinery is going to be Class 5, excluding the shutdown period, of course. In parallel to that, we keep working along various lines in terms of FEED. In particular, by the end of the year, we are planning to finalize FEED for VGO hydrocracker and delayed coker at Omsk refinery. We are planning to start active work for FEED at Moscow refinery for construction of deep processing unit (VGO hydrocracker and flexicoker). In 2013 we are planning also a FEED for complex processing unit again for Moscow refinery. That would include diesel hydrotreater, catalytic reforming, primary distillation and gas-fractionation units.

As far as sales are concerned, here we do everything to increase efficiency in this area. And it would be sufficient to say that in 1Q13, we already increased retail sales of motor fuels by 12.3% Y-o-Y. We have increased not only the volume of sales, however we also improved our network. We have built 2 stations, reconstructed 8, rebranded 1. Generally speaking, the rebranding program is already finished and only the newly acquired retail stations are being rebranded. As for premium channels, on the one hand we have the policy of expanding the retail chain and we acquire new assets, on the other hand we improve our chain, reconstruct the existing objects and build new complexes. In particular in the area of lubricants we plan to keep working quite actively on construction of lubricants packaging complex at Omsk lubricant plant (phase 2). In terms of expanding our retail chain, we are planning to build 32, reconstruct 88, acquire 28, and rebrand 10 stations. Besides we plan to expand aviation refueling complex network in Russia and former Soviet Union countries and acquire new assets, new bunkering tankers.

And now a few additional words about Refining. On the next slide here you can see that our refining throughput in Russia has gone up by 0.9%. And you can also see here the contribution of international refining throughput in Serbia and Belarus combined have brought to total growth by 1.9%. As far as Russian refining is concerned, compared to the similar period of 2012, we have improved throughput mostly as a result of growth at Omsk refinery. 4.5% decrease in Moscow refinery was due to the maintenance. We reconstructed hydrotreating unit there in March 2013. On the other hand, if we have a look at the fourth quarter, you can see increase of 10% in Moscow refinery. That has to do with the fact that in 4Q12 we carried out large scale maintenance of the big refining chain at the Moscow refinery. Another factor that tells on quarter to quarter results is season effects, of course. In terms of quality of the yields, the bar chart on the right shows vividly how it keeps changing. 25% of 4 and 5 Class gasoline we used to have, and now we have more than 90% of these two classes, in light blue and in gray. We also can see the increase in diesel but it's lower. And it's a result of two units' commission, such as FCC gasoline hydrotreating and isomerization units at Omsk and Yaroslavl refineries. Commissioning similar units in Moscow refinery is something that will led to the increase in Class 4 and Class 5 in total production of petroleum products.

And now about oil flows, just like I said, efficiency of refining is higher than that of crude oil export. You can see here that the difference is around \$10 per barrel. And all our efforts are aimed at redistributing most of our oil to efficient directions such as refining and export to CIS. This is what happened. In 1Q13 compared to 1Q12 throughput went up, sending the crude for refining in NIS and Belarus has gone up as well. And we see that export to CIS increased, but crude export went down.

Now a few words about our premium channels. We have successes here as well in 1Q13. I'd like to point out, it's a good tradition already that we keep increasing our premium sales. In particular, like as I mentioned already, the growth in retail sales volumes amounted to 12%. Average daily throughput per site in Russia is around 17.6 tpd in 1Q13 in Russia. We also increased sales in product business units: 20% in jet fuel, 22% in lubricants, 15% in bunkering. Correspondingly, our shares in the market of these products either went up considerably, as you can see on the pie chart in the right or grew in line with the markets. A few words about our plans. Our plan is to keep going and expanding premium sales and the market share in premium sales and increasing the number of sites. That would allow us to effectively provide for such increase in premium channel sales. We are going to improve even further.

Thank you for your attention.

Alexey Yankevich, Member of the Management Board, CFO

Ladies and gentlemen, let me go back to financials and I'm also going to summarize what has already been mentioned. In terms of dynamics of our financials, I already commented on it briefly (revenue, EBITDA). I'd like to point out once again what happens with net income. For you not to get too frightened with minus 18.2%, I'd like to mention once again that the bulk of it is due to FX. It was positive in 1Q12 and this appreciation of ruble decreased our loan portfolio in rubles correspondingly, and this amounted to around RUB9 billion. So if we take away this effect it would leave us with around RUB39 billion in 1Q12 and dynamics would be either flat or there would be even slight growth, rather than minus 18.2%.

And this is our EBITDA reconciliation and basically this is something that represents our business results. Unfortunately the macro environment was negative in 1Q13 and produced negative impacts on the whole industry. The marginal growth that we had in petroleum products, because of the ruble netback, was more than offset by the increase in excise tax. In view of the fact that the market 1Q13 was quite weak, most of this tax burden connected to excise tax was shouldered by the oil companies, which led to worse financial results. More than that we had seen transport tariffs going up and electricity prices going up, thanks to the increase in gas prices. And also an increase of MET base rate, that was announced earlier and formalized by Ministry of Finance, resulted in additional minus RUB 3 billion. Thus, our efforts to increase the financial results of the business failed to offset this negative result fully. We have a 3% decrease in EBITDA. However, as you can follow, if you look at other companies, this is not at all the worst result in the industry.

And here you can see a quarter on quarter analysis of EBITDA. I know you are interested in that, so I'm going to comment on that. Again similar factors in terms of external environment, such as increased taxes and tariffs from the 1st of January that led to these dynamics between the 4Q12 and 1Q13. Excise tax, here again, and it was not offset by the growth in prices. Transport tariffs and MET rate were going up. It was partially offset by increase in volumes of refining throughput and increased share of more profitable products in our product range, as well as additional measures to increase our economic efficiency. But we will still have a little bit of going down, it's almost flat.

A few words about our cash flows. I hope you are as happy as ever with quite considerable positive free cash flow. In 1Q13, despite of all the difficulties, we still have positive free cash flow. It amounts to plus RUB7 billion. Taking into account investments in our projects where we have economic interest, free cash flow amounted to RUB4.5 billion (you have to deduct RUB2.5 billion of new projects). And we paid back some of the loans from our cash, so the loan portfolio decreased and net cash flow became negative, as you can see.

A few words about investments and what is the dynamics of our CAPEX. Basically, this is a reflection of our developing very actively. We have considerable increase in CAPEX. However, it's well grounded. And here we have several segments to talk about. I'll start from bottom to top. In terms of brownfields, we have two factors of growth. The first one is the increase in high tech operations, mentioned by Vadim Yakolev earlier, the things that give us higher economic effects, but they are quite costly, so CAPEX goes up. And another quite important factor is the seasonality of 1Q12. Last year was not very even and in the first quarter of last year we were not very active in terms of development activities. This year we distribute our development activities more evenly. So this explains this CAPEX growth. Greenfield projects: here the growth is logical. I'm

not going to repeat what Vadim Yakovlev has already mentioned. But our new projects (Novoport, Kurdistan, Orenburg) obviously ask for major investments. In terms of refining, just as we promised, we can see even a slight decrease in CAPEX and this is thanks to finalizing our program to increase the quality of refining. We are finalizing Moscow refinery projects, we're commissioning the units that have to do with the quality of refining, some environmental sites are now being commissioned. And we are switching over to the next stage, which has to do with depth of conversion. And until this stage is active we'll probably see a slight decrease in CAPEX in refining. Investment into marketing stay almost same. Due to the seasonality factors in the first quarter it's not very considerable, but our priorities are still the same: rebranding, reconstruction, expanding our marketing network and premium channels. Next two segments are investments outside our CAPEX according to IFRS. First one has to do with our new projects which are either joint ventures that are not consolidated, or with projects such as Prirazlomnoye, where we are not just as yet license owner, so we do not consolidate the financial results, but we invest there. And this is a kind of advance payment that would be taken into account when the price of acquiring the asset would be identified, like in Novoport. These investments also increased, it's basically our greenfields, only not consolidated yet, and mainly there are Prirazlomnoye and Messoyakha. Besides, we have a couple of M&A, which we didn't have in 1Q12. This includes acquisition of retail chain of OMV in the Balkans and also entering to regional energy projects in NIS.

In terms of our finance policy, our priorities stay the same. The rate debt/EBITDA is quite stable and on a quite low level. Interest rate is quite low and we even managed to optimize it even further. In 1Q13 average interest rate was 3.46%. And we're especially proud of the fact that we managed to increase the share of long debt in our portfolio. We are very active in eurobond market, which is new to us. We had a successful issue at the end of the last year. And we have had second bond issue in euros in 2Q13, though it was not reflected in 1Q13. And hopefully, we'll keep going optimizing the debt portfolio in terms of improving its quality, its reliability and growing the share of long debt with longer debt maturity.

And summarizing, I'd like to add some positive notes, that hopefully investors will be happy about. The Board of directors decided to increase the payout ratio to 25% of IFRS net income. It used to be 22%, for those of you who don't remember. And now we want to be best in the industry, so we are trying to keep it up. And you can see here that dividends looks very nice. Dividends of RUB9.3 per share is recommended by the Board. Officially the final decision is taken on the 7th of June and the shareholder register was closed on the 23rd of April, 2013. Following the request of shareholders, apart from increasing the dividends per share we consider the payment of interim dividends. So, you can expect that on the results of 2013, we'll announce first interim dividends either following the results of the first half of the year, or the results of 9 months.

And finally, I'd like to point out that despite the macroeconomic environment decreasing the financial results of the industry, low prices plus additional tax burden, it doesn't prevent us from going on and developing. And we hope that our financial results, long-term, will be very positive. We have in our plans \$95 per barrel, so we're not afraid of the current prices. And our successful new projects support our expectations of great financial success in the future.

With this we close our official presentation and we'll be happy to answer your questions.

Questions&Answers

Pavel Kushnir - Deutsche Bank

First of all, let me thank you for the presentation. You mentioned that in Upstream you are actively implementing new technologies. Obviously it would be logical to expect that in the latest period the additional production should be reflected. However, if you look at the last six months of production according to the Central Control Administration for Fuel and Energy complex you will see that Gazprom Neft's production went down 1.3%, and Slavneft went down 4.5%, as well SPD going down in terms of production. So obviously, there are some challenges you have to cope with, judging by these figures. What are these challenges you have to cope with? What is still there that drags companies behind in terms of production? Thank you.

Vadim Yakovlev, Deputy Chairman of the Management Board, First Deputy CEO

Well, I'd like to point out that it would be hard to expect that on each and every asset you see an increase. Especially so as far as SPD is concerned. In SPD we have three fields, they are approximately equal stage of maturity, they are brownfields, so the fact that production is going down in that asset is only natural. As far as Slavneft is concerned apart from the fact that it's natural to have a decreasing production there due to the maturity phase, we have to admit that we have something not quite desirable there and we are trying to cope with some organizational issues, providing our assistance thereof to Slavneft as our asset. As for the new technology, the main test site is our own, 100% owned asset - Priobskoye field, fields of Noyabrskneftegas. However, right now, we are planning to move forward and offer the use of new technologies to our joint ventures as well, including the active discussions that we are currently going with Slavneft. Also we understand that our operator's attention is appropriate at SPD, but although they have their own operator's team. So in SPD we can offer our expert view on how to improve there. Generally speaking, new technology is something we'll keep going on with and apply it in terms of increasing number of such new technologies employed and complexity of these technologies on our own assets as well as joint ventures. Thank you.

Andrey Gromadin - JPMorgan

Thank you very much and good evening. I'd like to ask a question about investment program. At Investor Day last year you mentioned that the expected CAPEX this year is around RUB7.5 billion, and then to grow next year to RUB8.3 billion to RUB8.4 billion. And now, judging by the first quarter, we see that the CAPEX is not that high. Well, it's quite obvious that first quarter is probably not that overloaded with investment, investment is something that usually starts more actively later on. However, now that we are in the second half of the second quarter, probably you could comment on how you are in terms of your planned CAPEX. Do you expect it to be lower than the estimated figure or forecasted figure, just like it happened in 2012? And I would like you to comment on CAPEX of the major projects such as Badra and Prirazlomnoye and how you are going to account that CAPEX? And when Prirazlomnoye will be transferred to Gazprom neft? And one more question: what is the reason do not consolidate proportionally Slavneft as Tomskneft and SPD were consolidated? Could you comment on that as well? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Thank you for this question. I'll answer first and third parts of this question and let us address Badra and Prirazlomnoye to Vadim Yakovlev. Well, indeed, the way we do our business planning is such that we prefer to be aggressive and ambitious in our plan, and then do less, than be over-conservative in our plans and do more. And such is the situation with our investment projects as well. I would like to point out that according to our agreement with some of the contractors, some payments can be shifted for the later. This also would decrease CAPEX, but not very considerably. So if we said that our CAPEX is going to amount to RUB7.5 billion, then guaranteed almost probable that it's going to amount to RUB7 billion. Besides there is no considerable shift in schedule, only some marginal shift in payments.

As far as consolidation of Slavneft, there are certain criteria to carry out the proportionate consolidation, as you might know. It does depend on whether a joint venture is a joint activity or it's a separate activity. This is something that is a decisive factor. In case of SPD and Tomskneft, we take all the volume of crude, we are engaged in sales and transportation, we carry out cash pooling there. It's definitely our joint activity and they are our upstream entities. Unlike the Slavneft, because it is a vertically integrated company in itself. It has its own Upstream and Downstream, it's very strong corporate center. It has its own financial and loan policy, and it attracts its own capital to finance its own operations. And so we don't have any cash pooling, we receive only dividends. So that stands as a main reason for us do not partially consolidate Slavneft, unlike some other assets.

Vadim Yakovlev, Deputy Chairman of the Management Board, First Deputy CEO

I would like to comment on Prirazlomnoye and Kurdistan. As far as Prirazlomnoye oil field is concerned, the project is financed by way of loans. The total volume for 2013 is RUB20 billion, and this is for finalizing the construction of the platform and drilling of first three wells. And this is going to be taken into account when

acquiring the object finally. And as far as Badra is concerned, we carry out our funding in accordance with the 40% interest sharing in the project. The expected volume of financing is RUB10 billion, and this includes three wells to be drilled by the end of the year and construction of first train infrastructure units, infrastructure to process and transport crude oil.

Andrey Gromadin - JPMorgan

I have just one question about the RUB7 billion that you have mentioned. Is it including Tomskneft and SPD that we currently include into the CAPEX for the whole company? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Yes, this is RUB7 billion in cash flow in view of the fact that we have Tomskneft and SPD partially consolidated.

Maxim Moshkov - UBS

Thank you very much for this presentation. My first question has to do with CAPEX, about new projects. For me to feel better the trend, could you give us a breakdown of CAPEX for 1Q13 on these new projects? And about Bazhenov formation, Krasnoleninskoye field, if I understood it correctly, you mentioned that the testing result was of 80 tonnes per day, which is quite impressive in view of the fact that if you compare it with the other wells in the Company they give you around 35 tonnes per day. So it's quite a considerable incremental production. However, just for us to get what was the payback aspect, what was the cost of drilling and completing that well in Krasnoleninskoye field? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Well, as far as the breakdown is concerned, I didn't have the corresponding table. I can comment on the RUB2.5 billion of CAPEX, that is not consolidated line-by-line into our reporting, which is RUB1.9 billion for Prirazlomnoye, and RUB300 million for Messoyakha and then some others projects. And by all means, our Investor Relations is going to come back to you and give you the breakdown later. And now I'd like to give the floor to Vadim Yakolev to answer the second half of your question about Bazhenov formation.

Vadim Yakovlev, Deputy Chairman of the Management Board, First Deputy CEO

As for the well on Bazhenov formation at Palyanovskaya acreage, it's typical directional well. The average cost of drilling a well like that is around RUB80 million, I would guess. So something around there. And result, I would say that it is more out of the ordinary. I wouldn't expect that every well in Bazhenov formation would give you this flow rate. It just speaks of the fact that we picked optimal first well location and we entered the area of high permeability that allows us to achieve such high flow rates, and we optimized the surface of contact between the formation and the well, and that's it.

Maxim Moshkov - UBS

I have a follow-up question on distribution between Gazprom Neft and Shell in project for development of Bazhenov formation.

Vadim Yakovlev, Deputy Chairman of the Management Board, First Deputy CEO

We have two projects in Bazhenov formation. One is the existing one, for the joint venture that is SPD and it has to do with not just conventional oil (Verkhne-Salymkoye, Zapadno-Salymkoye and Vadelypskoye fields), but also there are unconventional reserves of Bazhenov formation in KHMAO. So it's one of the sweet spots, where we plan to work in Bazhenov formation in the framework of licensed areas of SPD. Besides we have signed another agreement with Shell, on another joint venture, to work on new license blocks. And on all of our projects (SPD and a new joint venture) the interests split at 50/50, and crude oil splits 50/50 as well.

Karen Kostanian - Bank of America

Thank you very much for your presentation. I also have a question about your joint venture with Shell. I was wondering, for the year 2013-2014, what is the planned number of exploration wells that you are going to drill? And additionally, are you going to announce about each drilled well right after drilling them, or rather you

would prefer to announce about all of them after they are drilled, like in consolidated manner in the end of the year? And, if it's not confidential, what is the service company you are using to drill on Bazhenov formation? Thank you.

Vadim Yakovlev, Deputy Chairman of the Management Board, First Deputy CEO

I'm going to cover our plans on Bazhenov formation at large, not just in the view of our joint venture with Shell, but also what we are planning to do. In Palyanovskaya acreage we are going to drill ourselves four exploration wells, and jointly with Shell we are going to drill five wells (SPD). As far as the new joint venture is concerned, in the year 2013 our plan is to participate in tenders for such license blocks, as for operating activities, we do not expect it before the year 2014.

As far as service companies are concerned, in Palyanovskaya acreage we are using a Siberia service company, SSK. But most importantly we have to pay special attention to completion and we use Schlumberger for completion at this well.

As far as our plan to unveil the information about the wells drilled, we haven't discussed it with Shell yet, but hopefully they wouldn't mind that we would do it just like we do with all the rest of our other information, share it with you in the course of such conference calls, quarter by quarter.

Ivan Khromushin - Gazprombank

I have a two-fold question. Thank you very much for your presentation and I'd like to ask you for a comment on the decreasing volume of purchased crude oil, is it a one-time situation, or is it something that you expect to have in next quarters as well? And are you planning to share with us in terms of financials of your joint ventures? How about P&Ls, and cash flows, and the like? And I also have a special question for Mr. Vakulenko, concerning the speculations about changes in tax regimes. The information that I got is that discussions are now underway in terms of increasing excise tax, or probably, it has to do with accelerated fuel oil duty increase, and MET base rate going up. So what is your view where we're going, in this respect? What's the outlook for the situation? Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Since the question is quite complex, we're going to answer them piece by piece, and this is Mr. Konstantinov with a comment on crude oil purchases, I will answer about consolidated data of our joint ventures and Sergey will answer the tax part.

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

Well, I suppose that it's very easy to explain. It's just that last year we had abnormally high procurement of crude oil in the first quarter, and generally speaking, in 2012. And this was due to a very peculiar market situation that we then enjoyed, and we, quite lucratively, acquired as much crude oil as we could. And now, the efficient opportunities are going down. Companies increase their own refining throughput or find it more lucrative to export their crude. So the situation has changed considerably. We are not expecting to increase procurements year on year. It was just a one-time situation, thanks to the market conditions.

Alexey Yankevich, Member of the Management Board, CFO

As far as the partially consolidated joint ventures are concerned and information thereof, I do understand that you needed additional information to build your models and we only provided you with information on the first and the fourth quarters. But this is due to the time constraint. It's quite a labor-intensive and time-intensive effort. And we do understand that you have this need and we will do our best to get all the information, to process it and provide it, either by the end of the second quarter, or the third quarter. Or anyhow, we'll give you that.

Ivan Khromushin - Gazprombank

Whether or not this concerns both proportionally consolidated companies and also the companies where you just have an interest, for example Slavneft? Will you provide the statements of such companies simultaneously with your statements?

Alexey Yankevich, Member of the Management Board, CFO

Well, it's like the more you get, the more you want, right? We do understand that and Investor Relations will try to see what they can do about it. Should it be possible, we'll provide it. But I don't think that other companies do it the same way. As for joint ventures, they are non-consolidated companies, so you shouldn't expect this detailed breakdown of all the elements like for consolidated companies. Generally, we will try to provide you with the additional information.

Sergey Vakulenko, Head of Strategic Planning Department

Well, as far as the tax burden is concerned, indeed, in the last few months we have seen a lot of discussion of specific code changes. And if you read the website of the Ministry of Finance, you will see the official documents of the tax policy update. And probably you followed the situation in the newspapers. It was very well reflected by the media. And indeed general idea of the Ministry of Finance that the tax burden on production shouldn't be changed or increased in general, because by all means it doesn't support the production. Although the Ministry of Finance does feel it's not really convenient for it to have such a patchwork kind of taxation system for the industry. And the industry response that Excess-Profits Tax is the answer to that, and a discussion of this is very active these days. And Mr. Trunin mentioned a tax maneuver and this is something that is very largely discussed nowadays. Part of the maneuver is changing the proportion of export duty and compensation covered by the MET with the general tax burden remaining virtually unchanged. And basically it means that, through a certain point, you basically move the payments to the end user, so it's the user that's going to pay. And this fine tuning means that refineries will get its worth without major changes. And at least for major refineries nothing is going to change. And the Ministry of Finance is still very unhappy with the increased refining volume at small primary distillation refineries. However, fuel oil duty increase is not really taken very seriously and not discussed at large. Right now, Ministry of Finance, Ministry of Energy and the companies are in the phase of brainstorming this whole situation. And speaking of excise tax, Ministry of Finance admits that the decision to differentiate excise tax led to unexpected consequences. The treatment units were constructed and commissioned by the industry at an accelerated pace, so it should be certainly welcomed. And from viewpoint of Ministry of Finance, the road funds receive less money than they are supposed to receive. But the President has different position in this respect, as you probably know if you followed the Q&A session with Mr. President in the television. And actually the issue about how excise tax rates can be changed is discussed and what will be the difference of excise tax for the third, fourth and fifth classes of fuel, and here the situation is still very obscure and has a lot of uncertainty. And some companies say that this differential in excise tax is well grounded and should be fixed until 2016. So we'll see whether it's going to be taken into account.

Grigory Birg – Invest cafe

I have three questions. I'd like to ask a clarifying question concerning CAPEX. You mentioned the positive free cash flow. While I do remember that, in the course of Investor Day you mentioned, that in the period of 2013 to 2015 it's highly possible to have negative free cash flows. Does this effectively mean that you have a change in your view of the long-term outlook? And I also have a question about Downstream. Are you going to extend the network of retail stations? And you mentioned increasing sales through premium channels, but judging by MD&A, the investments were flat or even decreased, so the growth was achieved through increased volume of sales and positive macro environment. Could you comment on that? And also, I'd like hear your comments about Slavneft, its decreasing contribution in terms of revenue. Was it a result of crude prices being quite low, or a decrease in production, or some other factors?

Anna Sidorkina , Head of IR

Grigory, unfortunately we have not so much time. Can we discuss the last two questions later, after the conference-call? As for the contribution of joint ventures, we can consider it in details.

Alexey Yankevich, Member of the Management Board, CFO

Well, I'd like comment on questions briefly. And I would appreciate, in the interest of time, if you only ask one question per speaker. As far as the cash flow is concerned, indeed, we expected and forecasted it to be the negative from 2013 to 2015 and marginally negative in 2013. However, we based this forecast on the \$90 per barrel (Brent), and now Brent stays above \$90 per barrel, and we expect it to stay this way during the year. So we expect free cash flow definitely not to be negative and probably positive, maybe marginally positive.

And the answer to your question concerning Slavneft, I address you to slide 6, with netbacks and you'll find the answers to your question quite clear. If you compare netback of 1Q13 to 1Q12, you can see decrease. And it was flat Q-o-Q. Slavneft, like Mr. Yakovlev mentioned, is decreasing its production, so we do not expect any breakthroughs in terms of their financial results. And there was not a positive impact from increase in MET, by all means, since this is largely a producing company. Obviously, the increase in MET from the first of January couldn't have told positively on the financials of every upstream company both quarterly and annually.

And now I give the floor to Mr. Konstantinov to briefly comment on your Downstream related question.

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

In answering your question, indeed, we are planning to increase our premium channel network and keep developing it, but not through acquisition, but rather through building and reconstruction the fuel stations, as well as the tank farms, that we have. This is something we are going to work on as well. And this brings us to the second question of premium sales. You mentioned that it went down. Yes, indeed, there was a marginal decrease in premium sales. This is if you take into account small wholesale and retail combined, and this is thanks to certain regional peculiarities in consuming motor fuel. However, if we look at the high margin products, and this is what we are aiming at, if we look at retail of high margin premium channel products, we saw the increase of 12%. And this is where our efforts are going to rest onwards. This is what we are going to develop further.

Alexander Burgansky - Otkritie Capital

Thank you very much for your presentation, and answering the question. In December at Investor Day, you mentioned the date for the launch of commercial production for Prirazlomnoye and Novoport. And judging by what we see today, you seem to be less optimistic. Have you changed your plans in terms of commercial production for Prirazlomnoye and Novoport?

Denis Sugaipov – Head of major projects' directorate

As far as Prirazlomnoye is concerned, we plan to start commercial production in 2013, to test our drill complex as well as oil preparation and transportation complex. As far as Novoport is concerned, well, they used winter road to transport 10,000 tonnes of oil last year, and this is what we are planning to do this year as well. As far as commercial production is concerned, we are planning to launch it in the end of 2014.

Anna Sidorkina , Head of IR

Thank you very much, ladies and gentlemen. This is Anna Sidorkina from Investor Relations. Thank you for being with us this two hours. We had indeed a very interesting discussion. If you still have any questions, please feel free to address Investor Relations and let us thank our management for their detailed and comprehensive answers. Hopefully we have satisfied your queries for information about Gazprom Neft for the coming three months ahead.

So, hope to see you next time. Thank you.