

JSC Gazprom Neft

2Q 2012 Financial Results August 13, 2012

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen, my name is Anna Sidorkina, Head of IR. So let me open this conference call please and we're giving you financial and operating results for the six months of 2012 and these are given to you according to IFRS.

Now, to begin with let me introduce you our participants today. We will have comments and presentation after the financial report given by Member of the Management Board and CFO, Alexey Yankevich; Upstream will be given to you by Mihail Zhechkov, Head of Economics and Investment Department of Upstream; Downstream will be given to you by Vladimir Konstantinov, who's Head of Economics and Investment Department of Downstream; and during the Q&A Sergey Vakulenko, Head of Strategic Planning Department, will join us.

Now before we start the presentation, which is actually available on our website in webcast mode, let me also remind you once again 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.

Thank you very much and without further ado I give over to Alexey Yankevich. Sir, you have the floor.

Alexey Yankevich, Member of the Management Board, CFO

Dear ladies and gentlemen, I'd like to give you Gazprom Neft' results for the first six months of 2012. Results are very strong. All key indicators are up for the first half of 2012.

Adjusted EBITDA including share in joint ventures is up versus the previous year by 7%. Net income is up, despite the fact there is a FX loss on a revaluation of the debt portfolio (there was a FX gain in the previous year).

Operational indicators are up: hydrocarbon production is up 5%, refining throughput is up 8%, premium channels sales are up 27% Y-o-Y and average retail site throughput in Russia is up 32%. And that gives us the leading place among oil and gas majors in Russia.

Now there has been a number of major events in 2Q and in 1H, that's the start-up of SeverEnergiya gas production, we also launched FCC gasoline hydrotreater at Omsk refinery and began production of Class 5 high octane gasoline from Yaroslavl refinery and Class 4 from Moscow refinery.

Now in terms of 2Q12 versus 1Q12, we see stable hydrocarbon production, refining throughput up 10%, but operating profit is actually down as well as with other companies due to the so-called duty lag that affected all oil majors in Russia due to dramatic decline in world market prices in 2Q12.

Now let me move on to macroeconomic analysis for 1H12 and 2Q12 that delivered this kind of results for the oil and gas companies. As I have mentioned already, oil prices in 2Q went down quite dramatically and quite sharply. And, as you probably know, every time the oil price goes down, due to the fact that there's a monthly lag on duties, there is a time-lag lowering of export duty therefore and when a price increase is changed to decrease - export duty catches up and we might see that export duty goes up versus the price, which actually goes down, as it has been in 2Q. At the slide we see that duties are up and prices are down. In 2Q the negative duty lag determined a decrease primarily in the Upstream effectiveness.

You see here on the top right chart, that a net upstream price, which is netback minus mineral extraction tax, is actually down from \$28 to \$14 per barrel in 2Q. And since Downstream is significant for our Company, we're not that much suffering from it, but still there is an effect.

In terms of first six months results versus the previous year, the price macroeconomic situation was more or less similar, the prices are up insignificantly and the overall macro environment had a very mild effect on operational results. And you'll see it during the factor analysis of operational profit.

Now I would like to give word to Mihail Zhechkov who is going to give you our Upstream results.

Mihail Zhechkov, Head of Economics and Investment Department of Upstream

Good afternoon, ladies and gentlemen. So as a follow up to Alexey's words, let me just say that the first-half results for exploration and production are successful. In 2012 we're expecting to keep up the trend in production output. So this growth is expected to be more than 4,5%. Mainly the growth is achieved through the Orenburg consolidation, the gas factor and our effective work at brown fields and consequently we are increasing the injection efficiency.

For legacy fields in the second half of 2012 we see as the main growth driver the drilling of new wells in Noyabrskneftegas and Muravlenkovskneft. Also in 2H we are going to keep on drilling in Khantos and do more hydrofracturing.

In terms of overall efficiency of cost management, we should say that Gazprom Neft during the first half of 2012 has become better, versus its competitors. We've actually reduced our costs by 4.8%. And the main factor of this cost reduction is gas component increase and in terms of oil we decreased lifting cost per unit by 1.9%. In terms of cost management, the efficiency in this exercise comes from the fact that for this year the target setting and using benchmarking in terms of our OPEX were efficient and this year we'll continue to use this kind of experience and set operation benchmarks in terms of our CAPEX for the next 2013, so we have a cost optimization program that enables us to achieve the KPI targets.

Right, in terms of technology efficiency, during the first half we've drilled 20 horizontal wells, which is 25% more versus the same period of 2011, with an average initial flow of 102 tonnes per day, which is plus 40% versus the same period of last year. In 2011 we had 64.8 tonnes per day. So this has been improved due to lengthening horizontal parts, for example, in 2011 the length was 457 metres but in 2012 it was already 678 metres. And also we have increased the effective power, so in 2011 we had 67.3% and in 2012 we're planning to reach 82.2%.

Now I also have to say that we're successful in implementing multi-stage frac program. So far we've done two multi-stage frac in Vingayahinskoye and Priobskoye fields and that resulted in 210 and 101 tonnes per day, respectively. So we're planning to deliver 18 multi-stage fracs and this is a very efficient exercise and that raises our well rate from 35-40, on average, to 100-200 tonnes per day.

So, further on, again on the topic that we touched upon during the first quarter, we continue to implement our hard-to-recover reserves development program. We have about 550 MMtonnes of hard-to-recover reserves, which is 55.4% of total reserves that are currently on the State Register of Mineral Reserves. And on slide you see our efficiency here. So far 53 wells were completed, it is resulted in 1,782 tonnes per day and it is 33.6% increment of daily output. During the second half we're planning to drill 81 wells with 2,722 tonnes in total per day. So according to the program, we see 3.2 MMTonnes of reserves brought into development for the first half and we're planning to grow this volume up to 8.1 MMTonnes by the year end.

In terms of our major projects, at Novoport we extended the pilot development program (we are drilling 4 pilot production wells), we selected contractors for arctic oil loading terminal and started construction of CPF. In terms of Messoyakha field, we're continuing exploration and started pilot development. In Orenburg, which is a new area for us, we're increasing drilling activity. In 2Q we had 18 rigs in operation (including sidetracking) versus 6 rigs in 1Q. In terms of SeverEnergiya, we began construction of second train of gas processing facility and started drilling pilot oil production wells. In terms of East-Siberian assets, we have the same positive dynamics. So, in terms of Kuyumba, we've completed annual plan of 3D seismics and we extend the exploration and pilot development programs. In terms of Chonskiy, in June during the St. Petersburg

economic forum we've signed agreement with the Japanese Company for joint geologic exploration of south module.

In terms of international projects that's NIS, number one, where we see an production increase of 10% in versus last year. And we are now at the first stage of a number of international projects in this region. In terms of Badrah, at the end of the last year we started drilling and now started detailed engineering of CPF. In Venezuela we have three rigs at the field, built well pads for five stratographic wells. In terms of Cuba, where we have our partner Petronas as the operator, we got a dry well as a result of drilling. Now we are in the process of evaluating further geophysical prospects of the project.

That's all from me, thank you.

Anna Sidorkina, Head of Investor Relations

Now I'd like to give the floor to Vladimar Konstantinov, Head of Economic and Investment Department of Downstream.

Vladimir Konstantinov, Head of Economics and Investment Department of Downstream

Good afternoon, ladies and gentlemen. In terms of Downstream let me say that during the first half we highlight the events in the following directions: first one is the further growth of refining throughput as the most effective crude oil usage and the second one is the qualitative development of our refineries, that is expressed in introducing new units that improve overall quality of our products. And it is FCC gasoline hydrotreater at Omsk that was already mentioned by Alexey, and that's also lubricants packing complex at Omsk. As a result of the launching of these and a number of other units, that are smaller but no less important for the Company, we have increased the quality of our products dramatically and that delivered a better margin due to difference in excise between different classes of motor fuels. Regarding our yearly targets they haven't changed, we haven't deviated from that, we will continue to introduce major units. Until the end of the year we are going to launch the diesel hydrotreater at Omsk and reconstruct diesel hydrotreater at Moscow refinery, also we are at the last stage of construction and launching the complex hydrocracking and hydrotreating unit at refinery in Serbia (NIS' refinery - Panchevo).

In terms of Marketing, again we stick to our targets. We're increasing our premium sales volumes, the growth is 27% in the first half of 2012 versus the same period of last year. We've managed to expand and improve our retail network, we have expanded our network beyond Russia. Notably that we have opened four franchising retail stations in Ukraine. We've dramatically increased average daily throughput per station, so it's up 24% in 2Q12 (Y-o-Y, Russia and CIS). We're expanding our non-oil sales, sales of associated goods, these sales are up by 52% in 1H12 comparing to 2011.

In terms of the year-end, we're planning to complete a retail station rebranding program. We expect that our premium sales channels continue to grow and we believe that sales per unit continue to stay high versus 1H12.

And now a little bit more details in terms of all these events. In terms of use of crude, we've increased our crude supply for both refineries and export. We've increased volume for refining due to its highest efficiency. And if you look at the right side of slide number 15 you see that duty lag, that Alexey mentioned, had a favorable effect during the second quarter of 2012 on refining. You see there the difference between exports and refining efficiency is now reaching a dramatic scale, I would say, you see more than \$100 per tonne and more. Of course, we have tried to utilize our refining capacities to the fullest and at the same time continued to increase oil export versus 2Q11 and 1Q12 because it gave us very good revenue as well.

In terms of refining it's up more than 8% regarding all our refineries and it's up versus 2Q11 and up versus 1Q12. And in line with growing refining throughput we have optimized the product slate. If you look at the right part of slide number 16, you see that in terms of gasoline, that the share of gasoline of Class 4 and 5 have increased from 11 to 52% Y-o-Y, i.e. in five times. In terms of diesel fuel we also see dramatic increase Class

4 and Class 5 from 30% to 40% and Class 3 is up to 32%. And we didn't actually produce Class 3 diesel fuel in 2011, now we're doing this. That led to dramatic increase in financial results that you have seen, which results in more than RUB 1.5 bln.

Now, in terms of our sales via small wholesale and retail outlets, we see dynamic growth here. The throughput per station is 17 tonnes per day. And overall sales of premium channels went up. We see an increase in retail sales of 38% comparing to 1H11. Our share significantly grew and now reached 14%. Our share of lubricants grew from 9% up to 10.5%, our share of aviation grew from 17.6% up to 19%, our share of bunkering – from 17.5% up to 18.3%. Now from this slide you see that by improving the quality of our network, improving efficiency of our network and, both in terms of qualitative and quantitative metrics, we're now delivering a dramatic improvement in financial results and a growth of our market share.

Now if we take a look at the slide18, you can see our development in an area that is sometimes downplayed, which is bitumen. In last year we launched a program of increasing the efficiency of bitumen business that principally aimed the increase of share in premium channels sales. The premium channels sales for us is the production of polymer bitumen which increase the quality of the roadway covering and their production is economically viable. In 2011 we've launched our project. So we began production of this polymer bitumen at Omsk refinery. We are using it in some regions: in Altai, in Omsk and Omsk region as well as in Moscow region. And besides that, we're now innovating in terms of transportation of bitumen, which is very important. In 2012 we've acquired and launched new bitumen trucks. So hopefully with all that this bitumen business will take off, because potentially in terms of scale, in terms of importance, this is going to be a very important business alongside with our product business units such as lubricants, aviation and bunkering.

So that's all in terms of first half of 2012. So I would like to say that 1H for Downstream was as successful as for the Company in whole . Thank you.

Alexey Yankevich, Member of the Management Board, CFO

Now coming back to financial results, for the first half and the second quarter 2012, let me again underline the fact that, as a result of management effectiveness in terms of growing the volumes to the business, in terms of some improving overall sales structure, in terms of optimizing costs, etc., all key financials of our Company for 1H12 are up and have improved, both in terms of revenue and in terms of EBITDA. You see the numbers here, so EBITDA is up 6.6% Y-o-Y and even net income is up, despite the fact that there's a negative FX revaluation. EBITDA actually is up in 2Q12 Y-o-Y, you see there's a 2.3% increase. As concerns the comparison of 2Q12 to 1Q12, we can see the overall industry trends, there's been some deterioration due to the duty lag, which resulted in more than RUB 8 bln, you will see it at the factor analysis' slide. In terms of net profit dynamics, you see that in the second quarter of 2012 versus 1Q12 Net income decreased stronger than EBITDA because like I said there was a negative FX revaluation in 2Q (in 1Q was FX gain) that resulted in about RUB 10 bln.

So now let's move on to our factor analysis, we look at both macro and internal factors and if you would analyze overall 1H12 dynamics versus 1H11, like I said, there's been a mild macro factor impact, a RUB 2 bln positive effect, so all that drove 2012 versus 2011 most results in proper management rather than anything else, this is just pure improvement in efficiency and operating results.

Right, in terms of second quarter 2012, again, versus 1Q12 there was a reduction of oil price plus the negative effect of duty lag. If that was simultaneous between the price of oil and the duty, in that case we would see a positive effect, but because there's lag in establishment of export duty actually you see that duty is up versus the price, which is down, and that resulted in this negative effect, which is minus RUB 8.4 bln. On a positive side was that ruble has weakened versus the dollar and there was a decrease in mineral extraction tax, because this tax is nearer real-time change than the export duty. Also, management actions have managed to compensate for that loss, positive effect was RUB 7.5 bln and we've managed to increase both the sales and refining volumes and that delivered us about RUB 4 bln. So, on average it was the total of plus RUB 11 bln, but that couldn't unfortunately turn the sharp decline in the global market prices and the negative effect of duty lag on overall results.

Now let's move on to the cash flow reconciliation, something to be proud of, and we see very strong cash flows Q-o-Q. So free cash flow was around \$ 1.7 bln, which is a very good indicator I believe. Net debt is down by RUB 5.8 bln. Additionally the cash flow was increased by the return of funds from SeverEnergiya that has been self-financed through syndicated bank loan.

Now let's look at our CAPEX dynamics, so overall investment including M&A during the first half 2012 falls down versus the same period of last year. But if M&A is excluded, organic CAPEX is up. So we did invest a lot in marketing and refining. We constructed more outlets as well as reconstructed a number of them and acquired the number of retail stations in Saint-Petersburg, Chelyabinsk, Tyumen and Kazakhstan. In terms of refining CAPEX increase, you see increase due to the peak of the quality program investments at Moscow refinery and we're also completing the reconstruction of a refinery at Panchevo and the construction of MHC/DHT. So also Upstream green fields CAPEX have increased. The main part was investments in Orenburg assets, because we are very active developing this new area for our Company. In terms of brownfield investment though, CAPEX is in line Y-o-Y as Mihail Zhechkov has said. As concerns the implementation of new state-of-the-art technologies we're trying to drill more complicated wells but, at the same time, more effective wells. As you can see from our MD&A, our overall production drilling and the number of wells are down versus last year, but at the same time the wells are more complicated and cumulative effect is bigger versus last year.

Now, in terms of our financial policy we work over optimising our debt portfolio as a tradition. In terms of debt to EBITDA and our financial sustainability you see that it's improving year on year. Our profit is up and at the same time you see there's net debt decrease, consequently it is resulted in the improving of the net debt to EBITDA ratio. Also we've reduced average interest rate to 3.19%. I think that's a record indicator. In terms of short to long-term borrowings, that deteriorated a little bit. This has to do with the fact that a number of loans are maturing this year and at the beginning of the next year. But it's nothing out of the ordinary so we have enough of our own funds to pay down these nearest debt maturities and we will continue to work on new financial instruments.

In terms of major events of the past six months, well in terms of positive facts there's the closing of deal related to project financing of the Panchevo refinery' reconstruction. Through expert agencies we have managed to get a very good loan, about \$ 300 mln at an interest rate of lower than 4% and maturity of 7 to 10 years.

So with that I'd like to complete this presentation and finally let me just to recap that the first half of 2012 results turned out to be very good. We're happy about it as well as in terms of operating results and major projects, financial results.

So thank you very much for that and we're open to your questions.

Questions&Answers

Andrey Gromadin – JP Morgan

Good day! Thank you very much for the presentation. I have three small questions. The first question is about Slavneft. In FS the one-off loss of revaluation was disclosed. Can you tell about it more, what is the loss sum and what was the reason of this loss? The second one is about SPD. As we've seen quite a negative trend in terms of the first half year, so what would you say when can we expect the stabilization of the production at this asset. And the third question is about CAPEX. On CAPEX for the whole year the target was supposed to be \$ 5.5 bln. For the first six months you've done more than about \$ 2 bln. So are you planning the growth of your CAPEX in 2H12 or should we expect your CAPEX to be in line with your previous number? Thank you.

Andrey Shvetsov, Head of Financial reporting and Methodology Department

In the Slavneft' Financial statements was disclosed the one-off item related to the impairment of the assets. These assets were impaired as a result of the inventory check of assets under construction and partly as a result of the dry holes write-off in Krasnoyarsk. The Management estimation is that the situation is supposed to be not changed until the year end.

Mihail Zhechkov, Head of Economics and Investment Department of Upstream

So answering the question about SPD, there was natural decline, which is not something that is unusual for us. So as you know for 2013 we are planning horizontal well drilling at Bazhen and we're also planning to use the alkaline-surfactant-polymer flooding technique. And it will be difficult to say whether this technology is going to be efficient or not, but we're doing this jointly with Shell and SPD, so hopefully it's going to be an efficient technology and that would allow us to stop the decrease of production on these fields.

Alexey Yankevich, Member of the Management Board, CFO

And in terms of CAPEX, we have announced \$ 5.5 bln of overall CAPEX. So we haven't reset the CAPEX program in terms of numbers and we do expect during the second half of the year a bit more in terms of CAPEX versus the first half. It is a typical situation for most oil and gas companies, it's just pure seasonality.

Additionally in terms of adjustments, let me just say that indeed we stick to the original number in terms of CAPEX and I was mostly speaking about the ruble numbers, due to the fact that we mostly operate in rubles for our management accounting. Depending on the way FX rate is going to behave, this number might be adjusted. So if we see the ruble tending to weaken so the dollar number might be lower, but in terms of the ruble number it's going to stay the same. Moreover, it's going to be higher due to the additional projects that we might undertake because 2012 macro-scenario turned out to be better than we expected. So some of the projects might become more profitable, so that means we will probably undergo some more projects versus original expectation.

Pavel Sorokin – Morgan Stanley

Good afternoon, thank you very much for the presentation, I also have three questions to you. These questions are mostly related to Slavneft. In the press recently we've see this topic debated, so could you give us more details. So what is the status quo with TNK-BP in terms of managing Slavneft' assets at the moment, in terms of production, in terms of refining? So what would be the arrangement and when can we expect the finalization of this question specifically?

The second part of the question concerns difficulties between the shareholders of TNK-BP and its impact on Messoyakha and Kuyumba. We've seen BP blocking the Rospan development plan, so are you expecting similar problems for Messoyakha and Kuyumba.

And the third question is in the press recently we've heard that Ministry of Finance is considering to flatten the excise rates for gasoline Class 4, 5 and 3. So the question to you would be what's your take on this initiative and are you going to become a permanent member of this governmental discussion? What are the chances of this initiative to go through because we believe that this might have an impact on the upgrade program? So have you done any calculations on that front? Thank you.

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

Ladies and gentlemen, good afternoon. In terms of Slavneft let me cover that since I am directly involved in this endeavor.

The overall scheme of Slavneft asset management will be the following: the shareholders (Gazprom neft and TNK-BP) have split operators roles for each of the assets taking into account the fact that this kind of model is used in both our company and TNK-BP and it is something that we are used to. So I believe that this operator split scheme will allow us to engage all required resources on both our side and TNK-BP side as per assets. So the split of assets is as follows: we have split greenfield projects. Gazprom neft on a long-term basis will be the operator for Messoyakha project and TNK-BP on a long-term basis will be the operator for Kuyumbinsky project. Taking into account the fact that both companies have a number of major projects in the portfolio, have a lot of competence accumulated over years, so both companies are capable of doing this role. So like I said one asset for us and one asset for TNK-BP. In terms of legacy assets, taking into account synergies on existing operations in Western Siberia, operator role for Megion will be TNK-BP's and Gazprom Neft is in charge of being operator for YANOS because our refining segment is more extended versus TNK-BP.

So, in each of these cases the role of the second shareholder in asset management is not a passive role. The participation of the second shareholder in management of assets is done via the Boards of Directors of course for each of these assets. And to make sure that the Boards of Directors perform properly we can use unified corporate standards of Slavneft. The role of Slavneft is a corporate governance facility. Let's say corporate governance service to make sure that the Boards of Directors are efficient. Also it is the centralized financial

function. It is nothing about the split of assets. So that means that there is a consolidated reporting, there is a relationship with creditors, with bankers. And all these functions are currently with Slavneft and will continue to be with Slavneft and are in charge of Slavneft management.

So, overall, let me say that these kind of arrangements are in place and we've launched all these activities to make sure that as of January 1, 2013 we can move on to the above scheme that I've mentioned.

In terms of Messoyakha we have no concerns in terms of relationships between TNK-BP' shareholders to have any negative impact on ongoing process and ongoing progress. So we don't feel any concerns there. And all investment decisions and corporate decisions are currently going on in due time.

Alexey Yankevich, Member of the Management Board, CFO

Let me cover the third part of the question related to excise. So first of all, let me underline the fact that excise differentiation that was adopted in place was declared as a long-term policy which aims to stimulate quality. And we, as any other major company, are taking investment decisions in line with that policy and we treat this policy as such. And in terms of Ministry of Finance this proposal is not an official proposal from what I know and was announced on one of the forums. In any case it has to be approved by dedicated ministries such as the Ministry of Economic Development and the Ministry of Energy. And so far as I know the discussions have not been taking place yet. But both ministries, Ministry of Energy and Ministry of Economic Development have been supportive of us in terms of excise differentiation. We will continue to stand for the need that excise rates have to be differentiated through dedicated ministries as well as other boards such as TEK Commission and other commissions. So once again let me recap that the we consider the differentiation policy to be correct and we don't want it to be changed.

Ildar Davletshin - Renaissance Capital

Good afternoon and thank you for the presentation again. I have three questions for you if I may. Firstly I would like to clarify CAPEX details. What is the proportion of expenditures per unit for horizontal and vertical wells, would you be so kind to give us dynamics for the future? And also what about the factor of inflation in terms of cost for both horizontal and vertical wells? The second question is about the upgrade program on your refineries. Would you give us the recent cost estimate on this upgrade? And what part of that CAPEX has been drawn? And the third question is about the premium sales channels. If I'm not mistaken at the beginning of the year you've given us whole year expectations and you said that 2012 sales through premium channels will be in line with 2011. But it turns out that the actual dynamics is much better. So would you tell us where this difference comes from and that the actual results actually much better than you expect, is it through M&A or is it through upgrade or through anything else? Thank you very much.

Mihail Zhechkov, Head of Economics and Investment Department of Upstream

Now in terms of drilling of horizontal wells we see the average flow increase of up to 102 tonnes per day from 30 to 32 tonnes per day for directional wells. So we've seen more than tripling. In terms of cost, a directional well would cost something like RUB 58 mln versus RUB 70-75 mln for horizontal wells. So it's much more efficient to drill a horizontal well in terms of output. So as of the end of the year we are expecting to drill 68 horizontal wells. Last year we drilled 29 wells. I also should mention that according to benchmarking, we have the most complicated wells, so this is the five string wells. And in terms of cost and efficiency of complicated wells drilling we are the most efficient drilling company among all oil and gas majors in Russia at the moment according to our analysis.

Let me also add that in terms of benchmarking and both in terms of OPEX and CAPEX it's not just our company's view but it's the result of joint project with Schlumberger that we've done last year on OPEX and this year on CAPEX. So that's not a personal opinion but this is a factual opinion and the given data in terms of cost and our efficiency of horizontal well drilling.

Alexey Yankevich, Member of the Management Board, CFO

Regarding the second and the third parts of this question I will start with that and Vladimir Konstantinov will continue with that.

So in terms of refining upgrade we need to split up two major parts, two major programs. That's the quality improvement program and satisfying high eco-standards, the Euro standards. That's the first part which is nearing completion. And Vladimir Konstantinov will give you more details on that. And the second part relates to the projects of increasing the refining depth: catalytic cracking and hydro-cracking units construction. In

this part the investment decision is still pending, so I wouldn't give you final numbers. They are only preliminary.

And in terms of the first part so I refer to my colleague Vladimir Konstantinov and he will also answer the third part of the question in terms of our overall expectations about the premium sales channels. So, the fact that we've turned out to be too conservative about the actual sales and then been able to reach much better results.

Vladimir Konstantinov, Head of Economic and Investment Department of Downstream

Ladies and gentlemen, thank you very much for that. On the first part about refining upgrade, in this year we are completing quality improvement programs at Omsk refinery as well as there are some final finishing touches on YANOS. And in terms of the Moscow refinery there are two major units (isomerization unit and FCC gasoline hydrotreater) these will be launched in 2013. And that's 90% of overall quality improvement program for the Company. Taking into account the reconstruction of diesel hydrotreater at Moscow refinery the sum of overall investments hasn't changed versus the year ago or 18 months ago when we started this planning. So you will see something like \$ 1.5 bln in total investments for quality improvement program.

Now in terms of refining depth, so we are nearing start-up of this project. We are in active stage of design works and feasibility studies for these projects. And the CAPEX will be subject to further adjustment. So I wouldn't say that investments will not differ dramatically from the first estimations. But the numbers are going to be substantial regardless of any adjustments, we are speaking about billions of dollars potentially, because it's a major program that includes the construction of units associated with hydroprocessing.

And the second part of the question in terms of our market share, so indeed we were too conservative and we thought that it's going to be very difficult for us to retain our market share and the volumes that we've reached in the second quarter of the last year. But the quality of network that was delivered and the scale that we've reached allows us to provide the further growth of overall sales, and in the first place we are speaking about throughput per site. So we are not growing through opening more outlets, but rather through increasing throughput. So that's the key factor. And this has to do with very high quality of our network. And of course credit should go to the marketing department that has done proper promotion across the board in all key regions of our presence. But we believe that this high growth also is a result of high quality management and of course high quality network. Thank you.

Geidar Mamedov - Goldman Sachs

Good evening. The question is as follows, from what I remember the design stage of the Lahta center was supposed to be completed in 2012 and then construction will commence. So would you give us details in terms of this project potential and the potential of your participation in that project? So has anything changed in terms of your participation specifically?

Alexey Yankevich, Member of the Management Board, CFO

Geidar, thank you very much for the question. So let me answer this question as follows. This project is in the evaluation stage and hasn't yet been cleared by all our internal valuation procedures from viewpoint of investment attractiveness. And besides that I should also mention that we are currently in negotiations with the general contractor, so the numbers so far are not available. I guess these are preliminary. And the same goes for the deadlines and the overall terms. So far we haven't yet cleared this project internally. So it's hard for me to give you any specific data, so far it's in the deliberation stage. Thank you.

Marianna Vidrevich - PSA Asset Management

Good afternoon, thank you very much for a very interesting presentation. And my question concerns the strategy of your Company. As it was mentioned until 2020 you plan to increase your refining capacity by 75% to 70 MMtonnes. So at the moment from what I know total refining capacity is actually a lot less than that number. So how are you going to bridge that gap? Are you planning to acquire any new capacities and if yes, where? Or are you planning to build any new refining capacity, and if yes, where specifically? Thank you.

Sergey Vakulenko, Head of Strategic Planning Department

So this number 70 MMtonnes of refining capacity is actually access to 70 MMtonnes of refining capacity. And that involves not necessary ownership. This can be long-term contracts on the crude supplies or long-term

contract on refining or tolling etc. And that means that at this moment of time we are not planning construction of any new refining capacities. But at the same time we are considering acquisitions of assets. So primary area where we are considering acquisitions is Europe where the situation is quite favorable for new acquisitions. But at the same time should any acquisition go through this will be done on the basis of a long-term added value through any particular asset. And also in a more long-term perspective we could go into the construction or reconstruction of refining capacities in other regions, it can be South-East Asia.

Anna Sidorkina , Head of IR

Ladies and gentlemen, I would like to thank you for your interest in our financial and operational results and thank the management of Gazprom Neft that has been present here during this conference call.

So if you have any further questions please email them to IR and we'll have a talk about it. Thank you very much and goodbye.