



Gazprom Neft PJSC

Financial Results in 9M 2015 23 November 2015

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen. We are pleased to welcome you to our regular conference call for IFRS results in nine months of 2015. You can also find the presentation on our website. I am Anna Sidorkina, head of Investor Relations, and I would like to introduce my colleagues who will be taking part today. Alexey Yankevich, our CFO and Management Board member, will present and comment on financial results. Alexander Mikheev, who heads the Economics and Investment Department of our Upstream Division, will tell you about upstream operations in nine months of the year. Vladimir Konstantinov, head of the Downstream Economics and Investment Department, will talk about events in downstream during the period. We will be joined for the Q&A session by our head of Strategic Development, Sergey Vakulenko, and our colleagues will be glad to answer your questions.

Allow me to remind that the presentation and all comments made during the conference call may and will contain forward-looking statements relating to the financial position and business results of Gazprom Neft. All statements, other than assertions about past facts, should be treated as forward-looking statements. Such statements express expectations about the future based on the current situation and assumptions made by Company managers, and involve known and unknown risks and uncertainties that may cause actual results, performance or events to differ materially from those, which are contained in or implied by the conference call.

Thanks for your attention, I will now hand over to Alexey Yankevich.

Alexey Yankevich, Chief Financial Officer

Good afternoon, ladies and gentlemen. Before commenting today on Gazprom Neft's business in the first nine months of 2015, let me say that the external operating conditions for oil companies are very tough at present. External conditions in the first nine months of 2015, taken as a whole, were worse than last year, even in rubles. Positive exchange rate differences did not fully compensate the effect of price decline and tax amendments, so it seemed unrealistic to expect strong positive y-o-y trends. However, Gazprom Neft did, in fact, show growth by almost all indicators. We were particularly pleased to achieve production increases: 22% y-o-y increase in barrels-of-oil equivalent and 21% increase in tonnes-of-oil equivalent represent new growth rate records. Certainly, most of this is due to our new projects. We have invested a lot of money and work to launch the new projects, and we are now seeing a return. Growth in the first nine months of 2015 was particularly due to SeverEnergiya, greater output at the Prirazlomnoye field and production growth at the Orenburg cluster. But we also had successes at mature fields. Use of new technologies helps us to keep production levels at legacy fields almost unchanged, avoiding declines, and this makes an important contribution to our overall output. All told, the Company is on target to achieve its strategic objectives of significant increase in production and upscaling of the business. And when prices eventually recover – it will happen sooner or later – all this will be reflected in a significant growth of financial results. But even in the current market conditions, we showed EBITDA growth of almost 10% y-o-y. Net income saw a modest decrease of about 6%, but this was solely due to exchange rate differences arising from revaluation of foreign currency debt. Without that effect, net income would be about 10% higher y-o-y.

Downstream bore the brunt of all these external factors, including tax manoeuvre, but we managed to keep up the momentum of sales, even in downstream. Volume of sales in the premium segment was unchanged, despite a decline in market size. We use the economic situation as a guide for refining volumes – the aim is to keep refining profitable in the current environment. That made us reduce refining volumes y-o-y to some extent, reflecting external conditions. But most of the decrease was for dark oil products, while volumes of our priority products (motor fuels) stayed the same. There was some improvement in the second half of the year, when conditions for refining business became more favourable, so that refining volumes in the third quarter were up on the second quarter. The completion of scheduled maintenance at the Yaroslavl Refinery also



played a role. Overall, we expect a positive trend in downstream. Sales also increased q-o-q, as did operating income.

On that note, I'll hand over to my colleague, Alexander Mikheev, who head the Upstream Economics and Investment Department.

Alexander Mikheev, Head of Economics and Investment (Downstream)

Good afternoon, colleagues. I will begin with a rundown of main events in 9M 2015. Starting with the main Upstream achievement, the first thing to note is record growth of hydrocarbon production, which, as already mentioned, was 21% y-o-y. Three new fields were commissioned. We also kept our leadership in the application of new technologies, notably multi-stage fracing, of which I will say more a bit more in a minute.

We expect to keep up hydrocarbon production growth rates at mature assets in 2015 – our estimate is at least 15% growth y-o-y. We will also bring two new fields into operation, commission the Yuzhnopriobsky gas-processing plant with 900 million m³ capacity and maintain our technology leadership, reducing the time required for well drilling by 5% compared with 2014. As for new projects, we have made progress in the Prirazlomnoye project, where over half a million tonnes of oil were shipped in nine months of this year. Novoport also performed well, delivering 293,000 tonnes of oil to export (63,000 tonnes more than planned this year). The Arctic terminal, which is the key infrastructure facility at Novoport, has been assembled (more of this later) and we have obtained export duty relief. We have drilled and completed three wells at the Badra project and also obtained licenses for five new Bazhenov areas. Prospects for new projects are good and targets to achieve by the end of this year are: to complete installation and prepare the Arctic terminal at Novoport for year-round oil exports from the beginning of 2016; to commission the Yaro-Yakhinskaya gas processing plant with 7 billion m³ capacity; and to achieve the original target production volumes for 2015 at Prirazlomnoye and Badra.

Next slide, please. Here I would note that the steady increase of production continued y-o-y through the year and for nine months of 2015. Growth in daily oil output relative to the third quarter of 2014 was nearly 8% and growth of total hydrocarbon production in the same period, that is relative to the third quarter of 2014, was 24.5%. The impressive growth indicators were mainly thanks to the implementation of major projects, as well as non-organic options. The next slide shows main drivers for growth of liquid hydrocarbon output and gas output. Growth of liquid hydrocarbon production in the first nine months was 2.9 (nearly 3) million tonnes and gas output rose by 7.4 million tonnes of oil equivalent. The main drivers, as already discussed, were the Arcticgas and Novoport projects, and also Northgas and Prirazlomnoye.

As regards OPEX indicators – looking at the next slide – we have pushed growth of per unit operating costs down to 6%, which is nearly twice less than forecast inflation in 2015. Here we present data in terms of investment into production and lifting costs. As we can see, the main factors pushing up spending were fracing and well workovers, classed as production costs, as well as reserve exhaustion and growth of the water cut at our mature assets.

The next slide gives you some more information about one of our most interesting facilities, the Novoport project, which is an Arctic terminal for year-round export of oil. Total maximum capacity is 8.5 million tonnes per year. Accompanying infrastructure has already been built: storage tanks, underwater and overland pipelines with total length of about 11 kilometers, as well as pumping stations with a system to protect against hydraulic pressure shocks.

Next I would like to say a few words about construction of the Yuzhno-Priobsky gas-processing plant. The second phase of the project is due for implementation before the end of the year. The main objective is to be able to process all associated gas from the Yuzho-Priobskaya field group. Annual throughput capacity of the plant will be 900 million m³. The main products will be dry topped gas and broad fraction of light hydrocarbons. Shipments will be divided equally between Sibur and Gazprom Neft.

Let me say a few words about the Mongoose technology as an example of our leading positions in the technology sphere. Use of Mongoose at the Priobskoye field has significantly improved margins from reserve recovery there. We set a new Company record by carrying out 11 fracing stages, and the technology has the



potential for more: we can carry out an unlimited number of frac stages, do repeat operations, as well as dealing with any “stops” by backwashing of the bottom hole.

We usually give a snapshot of milestones in our main new field projects. I will focus on the most important of them. Eight tanker shipments totaling more than half a million tonnes of oil have been dispatched from Prirazlomnoye since the beginning of 2015, which meets earlier targets. Summer and winter oil shipment programmes have been carried out at Novoport: the project has exported 293,000 tonnes in the course of the year. Work has also begun on the second construction phase, focused on infrastructure facilities (the oil gathering point and delivery and acceptance point, with annual capacity of 5.5 million tonnes) and icebreaking supply vessels. In the Messoyakha project we have completed the 2015 programme for infrastructure construction and geological exploration. And I mentioned earlier, with reference to the Yamal field group, Arcticgas and Northgas, that the Yaro-Yakhinskaya gas treatment facility has been commissioned, with daily capacity for 20 million m³ of natural gas and 4400 tonnes of liquid hydrocarbons .

As regards our international projects: in Kurdistan we produced our millionth barrel in early October at the Sarkala field and hydrocarbon presence has been confirmed at the Shakal block. In the Badra project we have drilled and completed three wells. The average flow rate at launch was about 11,000 barrels per day. Two shipments of cost oil have been made and an additional drilling rig has been deployed. Drilling is now being carried out by four rigs.

That gives a brief summary of exploration and production. I'll now hand over to my colleague.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Good afternoon, ladies and gentlemen. Alexey Yankevich said that Downstream in general and refining in particular suffered worse from tax manoeuvre. And, generally speaking, in current market conditions, that is correct. If we look at the right side of slide 15, we can see how dramatically refining margins fell in the first and second quarters of 2015. And margin in the third quarter of 2015 was generally lower than in the third quarter of 2014 – the difference was USD 7-8 per barrel. But we see a positive trend in refining margins from the first to the third quarter, even though the oil price in the third quarter (left side of the slide) was probably at its lowest level in recent years. Of course, the duty lag played a quite significant role here. The difference in price movements between months will probably be reflected in refining margins in the fourth quarter, which we expect to be lower than in the third quarter. Not only because of the duty lag, but also because of seasonal price changes for petroleum products (typical in the cold season). But I would emphasize that the conditions, which we are seeing now, help our market efficiency, although an appreciable reduction of demand, by 3-4%, for main light products, is bound to affect the market and financial results.

The next slide shows how we have distributed our crude production in these circumstances. The first thing I would like to say is that the success of our colleagues in boosting production has significantly increased the amount of crude that we have to allocate. Comparison of 3Q 2015 with 3Q 2014 shows an increase by one million tonnes. Naturally, it's hard to increase refining volumes in a situation where the market is not growing and demand is not increasing. Refining rose by just 0.8% in the third quarter, so the y-o-y change was insignificant. At the same time, we greatly increased oil exports beyond the former USSR, by almost 18%, as well as to ex-USSR countries (Belarus) and the domestic market.

The next slide shows y-o-y changes in refining volumes at our various refineries in the first nine months of the year and refining efficiency indicators. There was some throughput decline at the Moscow Refinery, but it was seasonal and we expect volumes there to be 1.5% higher y-o-y for the whole year. This is because a large series of units were out of action for repair in the fourth quarter last year, so that refining volume in the fourth quarter this year will be much higher y-o-y. The reverse is true at the Omsk Refinery. We expect a slight decline of refining at Omsk this year due to major repair and reconstruction of the catalytic cracking facility in the fourth quarter. But we can see that throughput at Omsk increased slightly in the first nine months. The only declines were for the two positions, one of which is Slavneft. But the decline of refining by Slavneft wasn't due to Yaroslavl but to Mozyr, which is included here. I said before that most of the decline was in the first and second quarters of 2015, due to the economic situation. But refining at Yaroslavl will stay at the level of 2014, or even slightly exceed it. A stronger petroleum product market in Serbia enabled an increase of refining volumes by NIS. Key indicators – refining depth and light product yield – rose in comparison with 2014.



The refining indicators are fairly positive, in our view, and they have two principal causes: increase in the processing of gas condensate this year (it will be 1.3 million tonnes, against planned volume of just 1 million tonnes) and successful completion of the catalytic cracking upgrade at Omsk, which finally concludes our quality improvement programme. We can now produce 100% of our gasoline to Euro-5 standard and will do so from December 2015. A gas fractionation unit has been commissioned at the Moscow plant, as well as a unit for of input of additives to gasoline to produce branded fuel – G-Drive 95, a 95-octane. The planned maintenance of a "small ring" of refining units at the Moscow Refinery has been completed. At Omsk some outputs that were previously semi-products and used for further production processes, are now being sold. These include MTBE, light gas oil for bunkering and polymer-bitumen binders (130th grade). A deparaffinization unit for diesel fuel has been commissioned at NIS.

As regards modernization of our refineries: we are not changing our strategy for refinery development, for development of deep refining. We continue to implement projects, although we may slightly adjust our plans. Specific amounts of funding for individual projects in specific years may be shifted in time. But, I repeat, we won't abandon implementation of these projects, we remain strategically committed to them. Projects at the Moscow Refinery being implemented in 2015 include reconstruction of the G-43/107 combined catalytic cracking unit, the Biosphere project (construction of wastewater treatment units), and a refining equipment project that incorporates both primary and secondary refining elements. At the Omsk Refinery, as I already said, we have completed reconstruction of the catalytic cracking unit. An AT-9 primary refining unit was also commissioned as was a water-block for catalytic cracking units. At YANOS we have completed work on a rack for pouring diesel fuel.

Turning now to marketing, our main success in the first 9 months and the third quarter was to retain and even increase our market share, despite the difficult market conditions. This also applies to motor fuels, for which our market share grew by 1.4%, helped by increase of our total sales of gasoline and diesel from 13.9 to 14 million tonnes. Our retail sales increased by 2% and we saw growth in Russia and abroad. Throughput per station remained high at 19.7 tonnes per day (Russia). We also purchased some new filling stations, maintaining the development of our retail network.

Our share of premium product markets increased too: Gazprom Neft's share of aviation fuel sales rose by nearly 5 percentage points from 26% to 31%; in bunkering we advanced from 18.5% to 21%; in lubricants from 13.6% to 17.7%; and from 29% to 32% for bitumen. Lubricants deserve special mention: we have a major commitment to import substitution and this enabled us to increase premium sales of lubricants by almost 23% in 9M 2015 compared with 9M 2014.

All told, we believe that our Downstream block performed very well in a difficult environment during 9M 2015. Thank you.

Alexey Yankevich, Chief Financial Officer

Coming back to finance in a little more detail, I'll say something about trends in our financial results. As I mentioned, EBITDA grew by 9% y-o-y. This was entirely due to management efforts and production growth as input from the external environment was negative. The main contributions were from growth of production and retail sales, and from efficiency enhancing measures, which we are implementing in all our businesses. Revenue was about the same as last year with a slight decline due to the price factor. Exchange rate differences let us down on the bottom line, but this is a technical correction, not related to cash flow – revaluation of the foreign currency part of our debt portfolio. Without this effect we would have growth. We also showed growth of operating profit q-o-q, thanks, again, to production growth, downstream performance and measures to improve efficiency. Things are less clear cut for net income. The impact of of exchange rate differences was more significant between quarters than in the whole nine months, due to changing trends: we had a positive difference in the second quarter due to ruble strengthening but a negative difference in the third quarter when the ruble fell. These multi-directional changes gave the different impact from exchange rates in the second and third quarters. What is more, as you may remember, we recorded a positive effect in the second quarter from write-off of Tomskneft liability, which gave a one-off boost to second-quarter income. If you take away all of these effects, the trend would be up. I emphasize – these are valuation factors, not monetary items. They are changes in valuation.

The next two slides look in more detail at factors that influenced operating income. They show more clearly that impact of the external environment was wholly negative, to the tune of about 5 billion rubles. Most of this



was due to tax amendments. The effect was partially offset by positive exchange rate differences, but it was still negative. Our efficiency measures had major impact: they gave a gain of about 37 billion rubles in total compared with last year – 22 billion for Upstream and about 16 billion for Downstream. Note also a one-off effect in the third quarter of 2015 from provisions that we created against a debt owed by Transaero. That gave a minus of 6 billion.

The next slide shows q-o-q details. Here, too, the environment effect was wholly negative and there was also the negative effect from Transaero in the third quarter. But Upstream and Downstream between them compensated these negative factors and gave about 14 billion rubles thanks to volume growth and greater efficiency. So the overall operating income trend was still positive, despite the negative factors.

A few words now about cash flows. Operating cash flow in 9M 2015 was about 220 billion rubles, which is a bit less than for the same period previous year. Trends for EBITDA and cash flow were opposite because most of our EBITDA growth was from new projects, which are partly joint projects, so our cash flow from them is not direct, but through dividends, and most of the cash flow is currently reinvested (because these projects are at an early stage). In SeverEnergia cash flow goes to repayment of the project loan, which was taken for development of these fields. So there is a lag effect: we already get EBITDA from these projects, but cash flow will come later in the form of dividends. This explains why our cash flow fell by about 4% compared with last year. Meanwhile, capex has grown. We are launching a lot of new projects and, as a result, we had negative cash flow of about 14.6 billion rubles in the first nine months. And, if we are sincere, we have to add another 14 billion representing new projects, which are not consolidated, but are joint ventures. And that arithmetic was reflected in our net borrowings: about 32 billion rubles to restore cash flow.

A couple of words about investments. As I said, our capex has increased, by about 30%. Overall investments declined slightly, because we didn't make the acquisitions this year that we made last year. But capex grew. Most of the increase is from development of major projects. This slide shows clearly that if we exclude reclassification of the Priobskoye field, which we have moved from greenfields to brownfields, because it really is becoming a more mature asset, then growth of investment in greenfields was about 72% (83 billion this year against 48 in the same period last year). These are our flagship projects: Novoport, Prirazlomnoye, Badra and the Orenburg assets. These together led to growth of investments, but they shouldn't scare you, because virtually all of the projects, in which we are investing large sums, are now at an advanced stage, very close to launch. In 2016-2017 they will launch and give production, providing cash flow to revive our overall cash flow situation. As for brownfields, if we exclude reclassification of Priobskoye, the increase is about 7%. That is equal to inflation – slightly above, due to the fact that we use more modern and therefore more expensive technology, which gives higher flow rates and returns. But, it is a modest growth figure for capex. In marketing, too, there was a 13% increase. This is mainly due to rapid development of our product business units, which Vladimir spoke of (aviation fuel, lubricants, bunkering and nearly all of our product businesses). We also have another category of so-called new, unconsolidated projects – “new projects” – which are shown here. Essentially, they are joint projects that we fund not from organic capex but through loans. Most of these sums refer to the Messoyakhskoye field, which we are developing together with Rosneft. This is another project that promises income soon – we plan to launch production at the end of 2016 or in early 2017.

Finally, a few words about our financial condition, the structure of our debt portfolio. At the end of September we owed about 670 billion rubles. About 20% of this is due in a year or less, but we know exactly how we will refinance it. First, we have our financial assets to set against it: cash and deposits and short-term investments. They cover practically all short-term debt that matures in less than one year. We also have a clear understanding of how to refinance the 9% of debts that you can see are due in 1-2 years. We have a number of agreements, which are already close to signing and that I cannot discuss at present but will do in due course. So there every reason for confidence that we can not only refinance these debts, but, if necessary, raise additional funds this year and next year. I should note a slight decrease in the average duration of our debt portfolio, from 4.49 to 3.95 years, but this is a consequence of the current situation: our ability to attract long-term financing is limited, but we hope that this is a temporary situation. Higher interest rates are also due to the market. Interest rates have risen worldwide but domestic interest rates are particularly high.

I will end here, but I would like to add that our Company continues to develop. All of our flagship projects are on schedule, despite the difficult situation. Our plans remain unchanged and that means that we can feel confident this year and next year. Thank you. Questions please.

Q&A session

Question №1

Karen Kostanyan, BoA Merrill Lynch

Good evening, I am Karen Kostanyan. Thank you very much for the presentation. I have two questions. The first is about the level of capex next year. Could you give us some guidance to what it will be? And, generally, when you budget, what oil price do you use and at what point do you expect to achieve positive free cash flow? This is my first question.

The second question is about your shale oil projects. It has been reported that you have postponed development of your new Arctic development projects to the quite distant future. I would like to ask about the current status of your shale oil projects. Are you conducting geological exploration work at present or have sanctions affected equipment and technology? Thank you.

Alexey Yankevich, Chief Financial Officer

Karen, thanks for the question, I'll answer the first part. As regards capex, we haven't completely finalized our programme for next year, but this year we expect our investment programme to be worth about 380 billion rubles and we estimate about the same figure next year. As regards cash flow, everything will depend on the external environment, but I think that we should reach positive cash flow in about 2017. As regards price assumptions, we use about USD 45 per barrel of Urals for the next three years.

Alexander Mikheev, Head of Economics and Investment (Upstream)

Regarding Karen's second question, about tight reserves: our projects for Bazhenov formations are still at the originally planned investment levels, and we don't expect significant reductions or delays in their implementation.

Karen Kostanyan, BoA Merrill Lynch

Thank you very much.

Question №2

Sergei Pigarev, RMG Securities

Good afternoon. Thank you for your presentation. My question is this: how do you estimate petroleum product prices on the domestic market? Including retail. What trends do you expect? Because we are seeing fairly high rates of inflation, while retail prices are not growing much – I don't know who is keeping them down, or whether it is an objective process. What will we see next year? Thank you.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

I would try to answer this question as follows. There's no direct connection. We have market-based pricing, and there is no way of directly influencing inflation on prices. But there is an indirect influence. Prices depend on various types of parity, depending on the products. World prices and exchange prices are important for mazout, diesel fuel, petrol and kerosene. Export parity is crucial here. But, of course, there is a domestic market premium, which we expect to remain stable in the near future. As for retail prices, they change more smoothly, even when there is significant change in wholesale prices and world prices. We don't expect jumps in retail prices in either direction. We believe that retail prices will smoothly follow the general trend of wholesale prices.

Question №3

Ksenia Mishankina, UBS

My question is short. How much short-term debt are you planning to refinance? Thanks.

Alexey Yankevich, Chief Financial Officer

Ksenia, thanks for asking. I really don't see that we have many options as regards short-term debt. Of course, it will be fully refinanced, that is to say, we will settle it and take refinancing. If the question was about the overall level of debt, we don't expect to reduce total debt, so we will refinance everything that we settle. I suppose that would be my answer.

Ksenia Mishankina, UBS

Thanks very much.

Question №4

Ekaterina Rodina, VTB

Hello, thank you very much for your presentation, I have a couple of questions, one clarifying what Karen asked about capex, including next year. As I recall, you have 380 billion, including acquisitions. When you're talking about next year, and that the capex will be about the same, do you reckon on any acquisitions, or will it be investments only? This is the first question.

And the second question. Maybe I heard wrong about bunkering, but, as I understand it, your market share increased. But at the same time, if I'm reading the slide correctly, volumes fell. Do I understand correctly that the bunkering market in Russia has shrunk for some reason? Thank you.

Alexey Yankevich, Chief Financial Officer

Ekaterina, thank you for your questions, I will clarify concerning capex. Look, we have no acquisitions this year. Maybe there were some small amounts included in organic capex. Accordingly, we don't foresee any major acquisitions next year either. It's all comparable in figures, but it includes new projects. That is practically all our investments.

I'll ask Vladimir Konstantinov to answer the second part of your question.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Yes, in fact, the answer to your question is positive. According to our estimates, the bunkering market decline was deeper than the drop in our sales. That is, we "fell" less than the overall market. And as a result, according to our estimates, our market share increased.

Question №5

Olga Danilenko, Prosperity

Hello, Alexey. Can you please explain how much of your debt is now in rubles and how much in other currencies? Thank you very much.

Alexey Yankevich, Chief Financial Officer

Olga, thank you. Including synthetic instruments, about 90% of the debt is in various foreign currencies. We don't have much in rubles. We will probably increase the share this year and next. But for the moment the ratio is about what I said.

Question №6

Alexander Nazarov, Gazprombank

Good evening, thank you very much for your presentation. My question is technical, about Arcticgas. Your effective interest at present is 46.7%. When do you expect to increase it to 50%, and how much money does



Gazprom Neft still owe or do you plan to convert into capital, as was done this year, or pay Novatek? And the second question is also a clarification. Alexey mentioned, if I understood correctly, that you don't expect anything from SeverEnergia for 2015, in 2016, and that it is more likely to be for 2016? Thank you.

Alexey Yankevich, Chief Financial Officer

Alexander, thank you for your question. As regards timing, we plan to increase our interest to 50% in the course of a year, counting from now. We have nothing more to pay, the settlements have been completed. The issue here is legal restructuring, restructuring of the ownership scheme. When it is fully formed, our share will formally become 50%. Regarding SeverEnergia, everything is going according to plan, we are developing this asset. We restructured the loan portfolio, the entire loan was reassigned to Arcticgas – that's a new project syndicate and the old one has been repaid. So there has been a loan renewal. We have commissioned the third field, Yaro-Yakhinskoye, and dealt with all the consequences of the accident. We have fully met the target dates and the implementation schedules for this project. We are now quite confident about the sustainability of this project and that it will be able to pay back the project loan, which was taken for it. I would remind you that shareholders put hardly any of their own money into the project, so it will start to give returns for shareholders sometime in 2016-2017.

Alexander Nazarov, Gazprombank

Thanks.

Question №7

Yury Volov, April Capital

Good afternoon, I wanted to ask about today's news that Gazprom increased its direct stake in the Company from 90% to over 95%. How could you comment on that, does it mean a change in the plans of your key shareholder with respect to the Company? Thank you.

Alexey Yankevich, Chief Financial Officer

Yury, thank you for your question. It is probably the question we hear most often just recently, but I can say that, really, the operation is quite technical. If you look at Gazprom overall, not as the legal entity PJSC Gazprom, but as a group, its ownership interest in our company has not changed. It was already just over 95%. But now Gazprom doesn't own us through two group companies, but all of the ownership is through the parent company i.e. Gazprom. As to "how?", "why?" and "why it was done?" – you will need to ask Gazprom. We can say that our free float has not changed as a result of this operation. It was just over 4 percent and it remains at that level. So we have no reason to think that the plans of our shareholder have somehow changed. I say again – these are the plans of our shareholder, so you should ask Gazprom for clarification. But since the operation is of a technical nature and free float does not change, we feel justified to suppose that Gazprom's plans haven't changed. The operation doesn't affect the ownership interest of Gazprom group in Gazprom Neft.

Question №8

George Gorbатов

Good evening, I have a question about dividends. If your operating cash flow in 2015-2016 won't be sufficient to cover the investment programme and dividends in full – if, for example, we assume a scenario of low oil prices for the next two years – will the Company review its dividend policy downwards, or will the policy remain unchanged? And are you prepared to fund dividends by borrowing money if your own cash flow isn't sufficient? Thank you.

Alexey Yankevich, Chief Financial Officer

George, thanks for the question. It certainly has strategic importance. Certainly, no one in this room can make a decision and predict how the Company will behave in the event of deterioration in cash flows: whether it will cut dividends or increase borrowing. It is a question for the Board of Directors, to be discussed at a very high level. The only thing I will say is that our dividend policy (25% of IFRS) has always been respected and there are no reasons to change it at present, and I can say that we have no plans to change this policy today. But,

of course, anything is possible. Anything can happen and we cannot predict what prices will be next year, in 2017. So the final decision will be for the Board of Directors and the Company's management board, which will make a proposal to the Board of Directors. To summarize, I would say that our policy of 25% remains in place for now. At present our cash flow, including our borrowing plans, is sufficient to carry out the investments that we plan to approve for next year. But only time can tell what will actually happen – it's a matter for the future.

Question №9

Kirill Tachennikov, BCS

Good afternoon, thank you for the call. My first question is about capex for 2015. Could you clarify the breakdown of expected capex including the fourth quarter. The second question is about production at Novoport and Prirazlomnoye – how much do you expect to produce in 2016 and when will the peak come? You have given all these timescales now, and maybe you have some comments about current status, as regards future projects that you plan to commission after 2017, and which are now at the investment stage. Thank you.

Alexey Yankevich, Chief Financial Officer

Kirill, thank you for the questions, I'll start with capex structure. I don't think I can give you an accurate prediction of capex structure in the fourth quarter, but I can only say that it won't seriously change the overall structure of capex for 2015. So you can expect the same structure for the year as for nine months. As for projects, the ones I named are all for the immediate future – Novoport (the biggest one), the Messoyakhskoye field, which is to be launched, and SeverEnergiya and Northgas, which have already been commissioned. The major projects, which are scheduled to start production in the immediate future, are these two fields – Novoport and Messoyakhskoye. Novoport sometime in early 2016 and Messoyakhskoye in late 2016 or early 2017. I'll ask my colleagues from Upstream to comment on peak outputs.

Alexander Mikheev, Head of Economics and Investment (Upstream)

We expect a production plateau of about 5 million tonnes in 2017-2018 for Novoport; for Prirazlomnoye we expect a plateau of about 6 million tonnes beyond 2020. For Messoyakha we are looking at about 5 million tonnes in 2018 and after.

Kirill Tachennikov, BCS

And what levels of production do you expect at Novoport and Prirazlomnoye in 2016?

Alexey Yankevich, Chief Financial Officer

Kirill, we can't give you exact plans for production now –the business plan is still taking shape. It will be approved in December. We are still at the stage of internal discussions, updating our forecasts for launch of capacities and everything else. Everything we have said is guidance as to our project plans. I have told you about launch schedules, but I can't give the exact production volume now. I will be able to do it closer to the end of the year.

Anna Sidorkina, Head of Investor Relations

Anna Sidorkina, Investor Relations. Colleagues, thank you very much for your answers. Thanks and we look forward to the next conference call. All the best to you.