

**UBS**  
**Thursday, 12<sup>th</sup> May 2011**  
**14:00 Hrs UK time**  
Chaired by Anna Sidorkina

**Anna Sidorkina**

Good day ladies and gentlemen, let me on behalf of Gazprom Neft open this conference call. This conference call is going to be devoted to US GAAP Financial and Operating Results for First Quarter 2011.

First of all, I'd like to point out that we are having a different set of Managers. We have a season of business trips, so our top Management is on business trips. Nevertheless, the presentation that we have prepared for you will be presented and it will be no different from the regular presentation, and everybody is there to answer your questions after we present the main financial and operating results of our activities.

Let me now introduce you briefly to the participants of the conference call. The introductory word and comment on financials is going to be made by Mr Alexey Yankevich, Director on Economics and Corporate Planning Gazprom Neft. Upstream block is going to be discussed with you by Victor Saveliev, Head of Exploration and Development Directorate, and then Vladimir Konstantinov, Head of Economics and Investment Department Refining and Marketing Division. Then right at the end we will have our Q&A session. Before we begin this presentation that you right now see in webcast mode on our website, I need to remind you that this presentation contains forward-looking statements as well as the statements to be made in the course of this conference call.

The presentation contains forward-looking statements concerning the financial conditions, results of operations and businesses of Gazprom Neft and its consolidated subsidiaries. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on the Management's current expectations and assumptions, and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements or expressed in the course of this conference call.

Thank you very much for your attention and now I give the floor to Alexey.

**Alexey Yankevich**

Good day ladies and gentlemen. I'm happy to present to you results of the first quarter and we take pride in the fact that it's good. Financials look nicely as well as production volume and also refining volume. We demonstrate +8% in production year-on-year, mainly due to achieving our project's production rate in Cenomanian gas. Besides with past couple of very important stages in our high priority projects, in particular we commissioned a second unit at South Priobsky gas turbine to power our South Priobsky

field. In the first quarter of 2011 in Omsk and Moscow refineries Euro-4 gasoline standard started to be produced. This side in downstream we have experienced substantial increase in premium channel sales. We also would like to point out that we increased our ownership in Sibir Energy to 100%. We increased shareholding in NIS to 56% and here it's worth mentioning that the multiplier EV to EBITDA 3.63 is much lower than that; a similar multiplier in comparable assets, which speaks vividly of the fact that the price was very much attractive to us and the initial acquisition price was also very attractive to us, because the acquisition price was equal the initial price, so this was very good for us. Besides, we have refinanced and restructured our debt.

Now a few words about the macro environment for the Company that we experienced in the first quarter; here it's worth mentioning that the situation was much better than last year. Global crude prices went up as well as domestic demand, yet price situation in domestic markets was far from being easy. This is something to be amplified on by my colleague from Refining and Marketing.

Now I would like to give the floor to Mr Victor Saveliev, who is going to say a few words about upstream.

### **Victor Saveliev**

Good day colleagues, ladies and gentlemen. Well, a few brief words about our results. Alexey has already mentioned and I'll reiterate that in the first quarter of the year 2011 our Cenomanian gas field and Novogodneye field has achieved full-scale production. As of today, we have stabilised production from this field and end of the year we expect 4.2 billion cubic metres of gas from these fields.

As far as other projects are concerned, Messoyakha field we finalised our technical studies, seismic studies in particular, and right now we are looking at acceleration drilling problem. We have drilled two exploration wells and we're planning to drill two more in May. According to well #77 while in the very first object we already hit the oil-bearing information, which makes us very hopeful as far as the increasing reserves are concerned. As far as Orenburg and Novoport are concerned, these projects also hold in first on them we are preparing for licence transfer from Gazprom to Gazprom Neft. This is a very active process and hopefully in the near future it's going to be finalised.

As far as Novoport is concerned, it's worth mentioning we have already finalised the three wells re-entry and secondary production fluid sample proved the quality of oil – it's very high to the extent that it can be sold with premium to the existing order that's being sold, and as far as SeverEnergy we have already started to do exploration and also production drilling. As far as our international projects are concerned, Badrah project, well, we almost finalised de-mining; it's 90% complete. We are active in 3D seismic. 73% of area has been covered with our 3D seismic data, and we are also involved deeply into infrastructure work by this and in the supplier system, road systems etcetera. Equatorial Guinea we have completed 3D marine seismic successfully. We finalised it and right now we are interpreting the data acquired. The preliminary data that we've got looks very helpful. However, we'll get the final results by the end of the year. As far Venezuela and Cuba is concerned, everything is going according to our plans and we do hope that by the end of the second quarter of the year 2011 we'll enter the active phase in this project. Very promising information in our Eastern Siberia projects in Ignyaminskoye,

Timpuchikanskoe, and Vakunaiskoe fields. For more than a year we have been involved in interpreting and re-interpreting seismic data. We also interpreted well testing and geophysical exploration well results, and now we suppose that more than 200 million tons of geologic reserves and in the end of the first half of this year we're going to put them in our reserve space.

As far as brownfields are concerned, we have stabilised production in our brownfields. We are at the level of the exit production rate at the 1 of January and even increasing that rate, and our main task today is to increase efficiency of our geologic activity. We have already achieved certain results. The rate of well construction has been cut considerably; in particular well construction is now done quicker by around one day faster on almost all of our projects.

As far as our expectations for the end of the year is concerned, we guarantee achieving 4.2 billion cubic metres of gas in Cenomanian field, and Messoyakha we are getting ready with a comprehensive development project. Right now we are actively drilling and well testing the object, and hopefully we are going to hit our goals. In Orenburg we activate drilling. Hopefully we'll decrease the cost of drilling considerably in this field and thus make our projects even more economically efficient.

As far as the current situation in our production in general is concerned, I'd like to point out that this year due to gas production launch we have stabilised and even increased our rates as compared to the previous quarter, and also the similar period of last year. This is primarily due to Cenomanian gas. We have certain deviations in Salym Petroleum which is related to seasonality factors and also revamping of some object facilities. Right now the situation is being stabilised and we do hope that our business plan goes certainly to be hit and even surpassed.

As far as Slavneft is concerned, in the first quarter of 2011 we have carried out a couple of maintenance activities, so it lags behind a little bit, but we're going to hit the goals of the business plan nevertheless.

It's worth mentioning that we have gained momentum and we keep momentum in drilling new wells and it is comparable to the figures of well drilling in the fourth quarter of 2010, and we actually surpassed the commissioning by 44 wells. By the end of the year we expect that 2011 drilling would be not less than 2010. We have a couple of very good, effective projects in the pipeline and hopefully we'll actively implement those.

As far as other geologic activities and technical activities are concerned, we have increased the number of hydraulic fracture jobs, deepening of sidetracks and sidetracking. This is something that we are very active this year and hopefully this would result in incremental production.

Now just a few words about Cenomanian field and Cenomanian gas. Muravlenko and Novogodneye fields back in the fourth quarter of 2010 were commissioned and cumulative production of the year 2010 amounted to 500 million cubic metres, and this year we're expecting 4.2 BCM. We have approved our reserves and most of it in Muravlenko field. We are right now preparing materials to register additional reserves and put it in our balance. It's worth mentioning that both in Russia and in this Company this is a first project where both these technologies are used. We have fully automated

systems, project management system. Total investment into the project amounted to \$174 million over the period of 2009/2010. Our expectations on that we work primarily with Omsk area producers, our own power plants and Gazprom affiliates.

Another important point is that December last year we commissioned phase two of Gas Turbine Power plant in Khanty-Mansiysk. This GTPS is for around 160 million in investment, in Capex. Annual electricity output is 757 million kilowatts per hour and this covers our needs in power almost completely in South Priobsky field, and what we can see is that costs, opex is going down. Opex is going down by around 25% and this actually depends largely on regional tariffs. The regional tariffs would be of large importance to us since we're going to cover all our own power needs.

And this will be all for upstream.

Now I give the floor to Mr Vladimir Konstantinov. He is going to say a few words about our downstream results.

### **Vladimir Konstantinov**

Good evening ladies and gentlemen. Initial downstream refining volumes increased in the first quarter of the year 2011 by 5% year-on-year and the situation in the first quarter of 2011 in general was quite positive. Refining efficiency was actually greater than export efficiency, but this is not the most important thing. The most important thing that we're planning to achieve by the end of 2011- is to increase the quality and structure of motor fuels. In the first quarter of 2011 in Omsk and in Moscow refineries we launched our Euro-4 motor fuel production and we have in our plans for the year 2011 in general to construct units that would help us to increase motor fuel quality both in terms of its composition and also in terms of performance quality. You probably remember that last year we commissioned Isomalk isomerisation unit in Omsk refinery that allowed us to considerably cut on straight run gasoline production and increase high-octane gasoline production, and right now corresponding activities are carried out in Moscow and Yaroslavl. Besides we're consistent in creating hydro treatment capacities in our refineries in order to provide for class 4 by the year 2012 and Euro-5 by 2015.

As far as marketing is concerned, our primary sales volume grew up to 27% year-on-year and here we mean retail and small wholesales volumes. Just like I already mentioned, premium sales volume increased by 27% and we also introduced into our retail chains new high quality motor fuel, branded G-drive. This motor fuel is characterised by best environmental friendly conditions and the share of the sales in some of the regions achieves around 10 to 15%. Simultaneously we keep working on increasing sales volumes in premium segment and here remains rebranding that is due to be completed in 2011, and a loyalty programme that also brings us additional customers.

Some other plans for us for this year are the optimised retail network and increase the volume and quality of sales per each retail station.

As far as our international projects are concerned, we have increased efficiency in Serbia. In the first quarter of 2011 we increased motor fuel production and the euro-quality fuel output at NIS, and retail sales growth in Serbia amounted to 8%. We also increased the quality of motor fuel by building a comprehensive hydrotreatment and hydrocracking unit

that would allow us to produce by 2012 Euro-5 motor fuels. Besides, we're planning to keep increasing premium sales in Serbia.

As far as plant by plant refining is concerned, I'd like to compare with the 2010 fourth quarter. We see that refining volumes are going down, but it is only natural. This is due to the fact that we're going from high season to low season. This is a seasonal effect that we observe every year, but if we compare to the first quarter of previous year we will see that the volume in refining is increasing. This is true for everything apart from NIS. In Moscow refinery this is related with the fact that we have greater share in Moscow refining. As far as NIS and decreasing volume by 23% is concerned, it is due to some specific conditions of Serbian market in this particular period of time. As far as yield breakdown is concerned, we have increased our high quality fuel yield. In the first quarter of 2010 most gasoline we produced was Euro-2 gasoline. In the first quarter of 2011 we have mostly Euro-3 gasoline produced. Besides we have greater yield of Euro-4 and Euro-5 gasoline and this amounts to around 20% of total refinery yield. A similar trend is true for diesel yield, and high-octane gasoline in 2011 as compared to 2010 grew by 11%.

As far as product sales is concerned – the situation is as following. Both crude and petroleum products – in crude we have a 11% reduction in exports which is due to the fact that in general exports efficiency was less than refining efficiency in the first quarter of 2011. Besides what we have is +24% in the domestic market. The majority of this growth is due to increase in premium product sales.

Right now let me draw your attention to the right hand part of the slide, and we will see that crude export netback and refining netback are quite far apart in the beginning of the period, and yet they are almost joining currently. In March 2011 refining netback was almost as high as crude export netback. However this should be seen as out of trend one time result related to crude oil prices rate falling behind the export duty rate. Right now refining netback is 50-70% different from crude export netback, which is the usual situation for us.

Our high margin premium channels are shown in the next slide. We see 35% growth in premium sales in regional markets. We see in oils and lubricants that in the first quarter we increased sales by 9%. We also have increased jet fuel/aviation fuel by 33%. This is due to the fact that right now the total amount of our enterprises is 18 – this is 11 civil plus military airports that we're servicing. We also have 28% growth in high margin premium channels for bunkering. We have commissioned two new bunker units that work in St Petersburg and Murmansk, and this 28% of growth is due to this fact.

Now a few words about the situation that is definitely of interest to you ladies and gentlemen – special price forming methodology that we have had in the first quarter of 2011 and the way it impacted our financials. You probably know that in February wholesale and retail prices for petroleum products decreased and you can see it in the left hand part of the slide. You can see the scale of decrease. You see that premium gasoline prices went down by 6%, in wholesale prices in this period. We have decrease in diesel fuel by 17% and -9 for jet fuel, and that couldn't tell on our financial results obviously. You can see that our petroleum products export netback was higher than domestic petroleum products netback, around \$20 for fuel oil in particular, and the rest you can see in the centre of the slide. We could see that the price fluctuations had their results on us and our losses amounted to \$100 million and \$14 million - additional gains from

increasing the volume of sales. We can see that on the one hand our price effects loss was considerable, at the same time we had certain gains due to the volume increase, so total loss amounted to 87 million.

This would be all as far as downstream is concerned, and now back to financial results.

### **Alexey Yankevich**

Financial results have improved. We saw a considerable increase in revenues due to the price increase and also due to volumes and sales structure. Operating revenue and EBITDA increased due to optimisation of product mix and optimisation of sales direction and also we optimised our costs. Our net income growth was even higher than that of EBITDA. This was due to the fact that apart from growth in operating profits, we also could get positive financial results from working with financial instruments. Here our analysis for changes in our EBITDA. You can see in the plot right now that we experienced growth year-on-year, not only due to the price situation changes, but also because of our management activities, because of volume increases, and also due to taxes and costs and also sales of Cenomanian gas.

Cost dynamics are in the centre of attention on the next slide. This is controlled growth I would say and this was due to the fact that volumes increased, tariffs increased and exchange rate differences increased. If we exclude those factors, the manageable(?) costs growth was much less than that of similar periods.

On the next slide you can see our cash flows in the first quarter of 2011. I would like to point out specifically several important things that were very peculiar and special for the first quarter of 2011. Most probably you noticed that our operating cash flow was considerably lower than we might expect. This was due to an increase in working capital due to price increases and seasonal factors. This lower level is very atypical and we expect that next quarter our cash flow would look better. Besides, in the first quarter we placed five year and seven year maturity bonds. This was a nice point for borrowing and the results that we have achieved, 4.3% in five-year bonds and 5.2% in seven-year maturity bonds is a very good result. This compared with Eurobonds yield curve and you will see that it looks very positive. This is something that would suffice, so it is not only for the first quarter but also for the year 2011 and onwards.

Continuing on borrowings structure – the debt structure is getting better. We did everything we could in terms of cost of capital and also the terms of debt. We now have increased the length of debt from 2.1 to 2.4, and we also decreased our interest rate with the help of Rouble bonds.

A few words about our Capex and investment programme. In the first quarter of the year 2011 Capex was similar to that of the year 2010. We didn't experience almost any growth, although in terms of physical activity, actually we increased our activity and we drilled more wells, and our investments were quite active both in upstream and downstream sectors.

In conclusion I would like to say a few words about our dividend policy. One point to mention here is that dividend paid in 2011 increased. This would be due to the growth in net profits and also other sources of income. In conclusion I would like to point out that

we are happy with our results in the first quarter of 2011. We have worked hard in conditions far from being easy, especially in view of the domestic market. We optimised our product mix and also did everything to control costs. Costs – Opex dynamic satisfies us. We have experienced growth in Opex, but this was due to exchange rate differences and price fluctuations. We are hitting the schedule in all of our projects, so everything looks quite positive for us this quarter.

### **Anna Sidorkina**

Thank you Alexey. Ladies and gentlemen we now go for the Q&A session. I would like to remind you once again that here today we have Mr Yankevich Director and Head of Economics and Corporate Planning, Mr Victor Saveliev Head of Exploration and Development Directorate, Vladimir Konstantinov Head of Economics and Investment Department Refining and Marketing Division, and we also have Director on Corporate Communications, Alexander Dybal and also Mr Yuri Kalner, Head of Strategic Planning Department. They all are happy to answer your questions.

## **Questions and Answers**

### ***Lubov Nikitina, Renaissance Capital***

*Thank you very much for your presentation. My name is Lubov Nikitina. I am from Renaissance Capital; I have three questions. One is concerning your plans for Capex – what are your plans for Capex in general for the year 2011? My second question concerns the \$600 million of credit debt you apparently took according to the material that we have received. Could you please specify what are you going to do with this money, what is it aimed at. On the more general terms – could you please comment, do you plan to take any more credit this year, or probably attract capital through Rouble bonds or anything like that? Thank you.*

Thank you for this question. As far as our Capex is concerned just as we have already announced, we are planning to increase our Capex 10% year-on-year compared to the year 2010. As far as our \$600 million of credit is concerned – well we actually haven't yet attracted this credit, we just signed all the necessary documents and we will be able to attract it if necessary, when and if necessary.

Generally speaking our credit portfolio is going to be totally in line with the plans that we previously announced, and as I have mentioned in the general presentation – the debt that we attracted in the first quarter of the year 2011, we plan that it is going to last us all through the year 2011. We do not currently have any plans to attract any other debt. Thank you.

### ***Maxim Moshkov, UBS.***

*I have two questions: one is concerning upstream and Yamal project in particular. From what we have heard, Transneft is now revisiting its plans on Zapolyarye – Purpe pipeline and this is something that can hit quite sensitively your projects, in particular everything concerning Messoyakha's development. Could you please comment on that? Also one question that is of great interest to all investor communities out there is the tax context.*

*What is the tax context currently and what is the scenario for taxes in oil and gas industry the way you see it. Thank you.*

This is Victor Saveliev and I am going to answer your first question concerning the upstream Yamal project. We have currently no plans to change our activity in the Yamal assets and we have no grounds to do that, since we together with Transneft have agreed on everything, including the active phase of the project to be started by the year 2015. So far no considerable changes are expected, so we're planning to keep working along these lines.

This is Alexey Yankevich. I would like to comment on the taxation situation. As you all know the new taxation is something that is currently being discussed by the profile ministries and companies. Step one in this whole process would be a transition period where export duties would be in accordance with the so-called 60-66 System. However now with crude prices going up the system has been modified to 55/86, which effectively means that with prices of oil above \$90 per barrel export duties for crude go down to \$55 while for petroleum products this goes up to 86. Obviously we looked at this scenario and we did our calculations for our company, what does it mean for our company?

We do not lose in a short-term perspective and we win in a long term, since we have our plans to increase production and to commission new assets.

Have I answered your question?

***Lev Snykov – VTB Capital, Moscow***

*I have two questions – one concerning the gasoline market. You have already mentioned everything concerning the gasoline market and yet do you expect any changes and any changes in business structure of sales as a result of government activity. How would this tell on quarter-on-quarter results, I mean second compared to first quarter of 2011? This is my first question. My second question concerns of Slavneft assets. Any schedule for that and what is the status of this whole situation with Slavneft?*

As far as gasoline market is concerned – it is Konstantinov speaking – while gasoline market situation is seen as follows, Gazprom Neft in the first quarter of 2011 has increased production of gasoline by 13% as compared to the first quarter of the year 2010. As of April, beginning of May we saw an increase in refining and also in yields and actually we have increased the high-octane gasoline yield by 50% as compared to May 2010. This is obviously partially due to the fact that we have increased our share in Moscow refinery and also due to the fact that in May last year we had our maintenance in some of our refineries and yet the situation is such that even with high demand of March and April we still are guaranteed to cover this high demand with the yields that we are playing.

As far as gasoline supply to the regions is concerned – in April for example in Siberia, Altai region saw increase in gasoline supply from us by 35% as compared to the year 2010. Now it is 25%, Novosibirsk region by 25%, Sverdlovsk region which is 19% and all the issues that you might have noticed in the market were rather due to the extreme demand upon the backdrop of low gasoline prices.

My name is Yuri Kalner I am Head of Strategic Planning Department and I would like to take your second question concerning the field and Messoyakha field in particular. The thing is, Slavneft assets in particular, the thing is that we only comment as you probably already know on the facts that have already occurred, about Slavneft assets is that the

Messoyakha assets has been made a separate entity and is now managed on parity by shareholders. No other events on Slavneft assets have occurred so correspondingly we don't have any comments concerning other Slavneft assets and anything going on with it.

***Konstantin Cherepanov – UBS***

*I am from UBS and I have two questions, one concerning your plans to develop your retail chain. Are you planning to expand your retail chain for example by some new original players or something like that? Could you comment on that in the context of activity of anti-trust agency that has constantly claiming that oil companies are carrying out local markets monopolisation. Could you please comment on that? I also have a question on plans in Europe. Do you have any interest in expanding your assets, both in retail or refining in Europe? Thank you.*

Vladimir Konstantinov

In fact we are aimed at qualitative improvement of our retail chain. In this context we are planning to finalise our re-branding activity this year. We are also in the process of large scale revamping of our retail chain. In fact if we see an effective chain we strategically do not mind buying it in order to buy and let's say a new region where we only have marginal presence. This would effectively allow us to manage the anti-trust agency situation. If we enter, we enter a new region with an efficient chain. However if we look at our plans to expand our retail chain according to our three year plan to the year 2012, we only see that we are planning to extend it by a mere 5%, which once again highlights that our accents lie with qualitative improvement of the existing retail chain, rather than buying new ones. We are going to keep working in increasing our unit sales just like in the first quarter of 2011 due to this qualitative improvement of retail chain.

Yuri Kalner

This is Yuri Kalner I am going to take your question on international expansion, and I would like to split your question into aspects if I may. Number one being already current assets, the assets that we currently hold in NIS in particular, and the second aspect being all the rest. As far as NIS is concerned our feeling is that this asset has already proven that it has very high capacity in the market as an independent player. This is in view of the fact that Balkanise is in fact quite a challenging market in view of competition, so we are extremely hopeful about NIS. We also see logistics potential related to waterways and this is a way to enter some new markets probably. We're planning to expand around NIS.

As far as the second aspect is concerned – our interest in European downstream assets. As we see our operation in crude going up. We are definitely going to cover it with corresponding downstream assets. However as far as short term and mid term perspective, we don't have any specific plans concerning buying any downstream assets or something like that. We are currently just probing into the market, looking at players, analysing the situation.

### **Closing Comments**

Thank you very much. With this we are ending our conference call. Thank you very much for your interest in our company. Should you have any questions remaining, please feel free to contact us in Investor Relations, and I would like to take this opportunity to

thank our management for this precise, accurate and detailed discussion and answers to the questions posed by our listeners. Thank you and see you next time.