

JSC Gazprom Neft

Financial Results in Q1 2016 31 May 2016

Anna Sidorkina, Head of Investor Relations

Good afternoon, ladies and gentlemen. We are pleased to welcome you to our regular conference call, in which we will present, as usual, our IFRS results in Q1 2016.

Allow me 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 the period. Vladimir Konstantinov, head of the Downstream Economics and Investment Department, will talk about events in downstream in the first quarter of this year. We also have our colleagues from specific departments who will help to answer questions on particular businesses.

Allow me to remind you 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. Today we present the results of Gazprom Neft's business in Q1 2016. I would note that the external conditions for oil companies in Russia worsened in the first quarter, they became even worse than previously. Oil prices came close to record lows, at one point they touched \$28 per barrel, which is the lowest level since 2003. The average price in the quarter was \$34 per barrel, which is also the lowest quarterly average. Conditions were worse, even taking account of the partial compensation that companies received as exporters due to weakening of the ruble. If you look at the price per barrel in rubles the decline was still significant at about 25% compared with last year. Also, the tax burden grew, due to increase of the mineral extraction tax base rate without reduction of export duty, which also negatively affected the financial results of companies in the oil sector. But our Company managed to show growth of financial indicators despite these adverse conditions. EBITDA increased by 3.2% despite lower revenues. This was possible thanks to work inside the company, to internal factors. Primarily, it was due to growth of upstream production and increase of production efficiency as well as sales growth in downstream. In upstream production we showed near-to-record growth once again, achieving 15% after the absolute growth record of 20% y-o-y in 2015. In downstream we continued to optimize the production basket and distribution channels, and showed growth of retail sales. This also contributed to the growth of financial results. Retail sales increased 3.2% and that was in the context of a deteriorating, shrinking market, which should be noted as a very positive factor. As regards other volume indicators in downstream, premium sales were below last year's level (a slight decrease of 1%), but that is still better than the market. The market fell faster. Refining volumes probably can't be regarded as a key indicator at present, since each company is optimizing its volumes in the current market conditions, which is what we are doing as well. We decide each month what volume is best for us. And the volume we obtained was optimal for the market conditions that we saw in Q1. But I would emphasize again (this is described in our MD&A) that the main decrease of refining volumes was for low-margin dark products and output of our priority products was almost unchanged.

As for q-o-q results (quarterly dynamics), we maintained the level of the previous quarter by volume indicators for upstream. But there was a specific structural factor for upstream, namely a decrease of gas against growth of liquid hydrocarbons. Growth of oil and liquid hydrocarbons is, of course, better for the Company, as you will see later in the factor analysis, where the volume factor makes a positive contribution to the growth of

EBITDA even though the total amount of hydrocarbons remained about the same as in the previous quarter. We saw quarterly growth of the financial indicator – operating profit increased by 4%.

I will mention the most important of our major events. One of them may not really be an event of the first quarter, but it needs to be mentioned, namely the launch of our terminal at the Novoportovskoye field and the start of year-round export of oil. This essentially means the full-scale launch of our Novoportovskoye field. My upstream colleagues will talk about this in more detail. It is a very important event for us and, I hope, it will serve as a signal to the investment community that we can launch complex projects of this kind, and that we can do it within stated deadlines. Next in line for us will be Messoyakha and we hope to launch this field on time too, as we promised to our investors.

I will now hand over to Alexander Mikheev for a review of upstream.

Alexander Mikheev, Head of Economics and Investment (Upstream)

Good afternoon, ladies and gentlemen. Here are the results achieved by our upstream business in Q1 2016. I will describe the main events straight away. The most important and essential event, of course, was the first shipment of oil via the Arctic Gates terminal. It happened on May 25 in the presence of President Vladimir Putin. Two Arctic-class tankers were launched. They can operate without icebreaking support, which means that they can transport oil nearly all year round. Each of them has deadweight of 38,000 tonnes. Another significant development was production of the 100 millionth tonne of oil at the Yuzhno-Priobskoye field operated by Gazpromneft-Khantos. This significant result was achieved by the construction of more than 100 surface facilities at the field and the application of new oil production technologies, such as multi-stage hydro-fracturing. An upgraded innovation centre was opened to support implementation of our technology strategy. A pilot EOR project was launched at Salym Petroleum Development, which I will say a bit more about shortly. We also continue to provide steady growth of production at mature fields.

Next slide. As regards trends and dynamics of hydrocarbon production, we can see that average daily production grew very rapidly in the first nine months of 2015. The rapid growth was provided primarily by considerable achievements in our major projects, such as Arcticgaz, Northgas, Badra, Prirazlomnoye and Novy Port. We will discuss this in a bit more detail later as well. Regarding quarterly dynamics, Alexey Yankevich already said that we grew by 15% in Q1 2016 compared with the same period last year, and on the next slide I focus in more detail on the quarterly dynamics. We can see here that the 15% growth was mainly due to the Arcticgas and Northgas projects as well as the Prirazlomnoye and Novy Port projects. Production growth at Arcticgas was mainly due to commissioning of the gas section of the Yaro-Yakhinskoye field. At Northgas we see the effect of consolidation of a 50% interest in the company in IFRS financial statements. For liquid hydrocarbons the effect was from Novy Port and Prirazlomnoye, and mainly reflects the commissioning of new wells and increase of sea shipments from these projects.

The next slide shows dynamics of our operating expenses. What we see here is that, in spite of natural depletion, deterioration of reserve quality and growth of the water cut, as well as inflationary pressures, our upstream management was and is able to hold back growth of operating expenses. We can see on the slide that increase of lifting costs was 4%, which is well below the rate of inflation in Russia. As for REVEX unit indicators, major growth by 31% was due to the implementation of a compensatory hydro-fracturing programme by Gazpromneft-Khantos in Khanty-Mansi region: the number of operations increased substantially, by almost two times in the first quarter of the current year.

I will say more about Novy Port in a minute. We already mentioned that the Arctic terminal is uniquely adapted to the harsh conditions of the Arctic, with very low temperatures and substantial thickness of ice cover. It also solves the problem posed by the very short period when navigation in the region is possible. At the moment, we plan to produce 2.5 million tonnes of oil equivalent this year. Management focus at present is on starting up surface facilities with annual capacity of up to 5.5 million tonnes per year, and we plan to do that by September.

I will look at the key milestones in development of our new projects. The drilling programme continues at Prirazlomnoye. Drilling work has begun on a new well, PH6. Seven tankers were loaded with about 460,000 tonnes of oil in Q1 2016. Construction and assembly work on the reservoir pressure maintenance system is ongoing at Messoyakha, as well as construction of gas infrastructure. We have also acted quickly to supply goods and equipment for the winter period, delivering 215,000 tonnes in total. Work on a well is continuing at

Badra and the trend is positive as regards optimization of well construction cycles. Drilling time at the last well was reduced to 220 days. We have produced 2 million tonnes of oil since development began and we are still selling cost oil (2.7 million barrels have already been shipped since April 2015). The main event for the Kurdistan project in Iraq was the transfer of operatorship from the company WesternZagros to Gazprom Neft.

I will focus on the highlights of our technology strategy, principally as regards the Drilling Support Centre. The Centre was set up in 2012, but from January this year it has been operating with a completely new platform, fully computerized and equipped with new interactive equipment. It is unique in comparison with analogous centres at other Russian oil companies. The Centre makes it possible to combine online the functions of geological and engineering support for well drilling. Engineers at the Centre monitor drilling of the most sophisticated, high-tech wells at all of the Company's subsidiaries around the clock, 365 days a year. Efficiency in drilling of horizontal boreholes through oil reservoirs, shown in the bottom left of the diagram, has grown by 22% since the Centre was set up, and this has given an increase of average annual debit per well by 10 tonnes per day.

Another initiative or pilot project is going ahead at Salym Petroleum Development. This is an EOR project using alkaline surfactant polymers (ASP), which will be injected to a limited section of the well, and the effect will be measured in terms of additional well debit. Research will also be carried out to obtain and assess results of the project. Based on the results, the technology will be scaled up or replicated in main strata at the Zapadno-Salymskoye ("West Salym") field. The potential effect could be up to 25 million tonnes over 15 years.

That's everything I wanted to say and I will pass you over to Vladimir Konstantinov.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Good evening, ladies and gentlemen. Alexey Yankevich spoke of the difficult situation that developed on the market in Q1 2016. Nevertheless, a number of positive moments and events, which we implemented, will certainly have positive results for the Company's downstream business. In particular, we increased processing of gas condensate at the Omsk Refinery by 100,000 tonnes and processed 400,000 tonnes overall in the first quarter, and this has impacted the output structure, increasing the light product yield. We are continuing to implement projects. Work is continuing at the Moscow Refinery on construction of a Euro+ oil refining unit. Reconstruction projects and work on the design of various project stages are continuing at the Omsk Refinery and NIS. In the marketing segment, we continued to increase the number of our filling stations in Q1 2016 and the number of our stations increased by 24% compared with Q1 2015. Throughput or average sales per filling station remained at a high level of 17.5 tonnes per day. Our company has kept first place in Russia by this indicator. The trend in our sales of petrol and diesel fuel is better than the overall Russian trend. We have made a new and efficient addition to our assets – the company Nova-Brit. We have acquired a stake in Nova-Brit, which gives us the ability to produce innovative bituminous materials.

Economic conditions were, in fact, unfavourable for downstream. Oil prices dropped from \$54 per barrel in Q1 2015 to \$33.9 dollars per barrel in the first quarter this year, which is a fall of almost 20%. Prices for petroleum products remained stable through the first quarter. Change in the level of duties, the so-called "duty lag", also had impact on financial results in refining. As a result, overall efficiency of refining was comparable to what it was in Q1 2015. It was limited, but differed quite significantly by months. In January financial efficiency in refining was quite strongly positive, but it was minimal in February-March. We distributed the oil, which the Company had at its disposal, guided by the efficiency of various supply directions. Total oil resources in Q1 2016 were greater than the respective amounts in 2015 because of two factors. The first factor was increase of production. Our colleagues in upstream provided us with more resources. Moreover, we increased oil purchase volumes on the Russian market. Our oil refining volumes declined by 1.6% q-o-q.

Going to the next page, we can see which refineries were responsible for that. It was mainly the Moscow and Omsk Refineries. Refining volumes in Moscow decreased by 6.8% and in Omsk by 2.4%. Refining volume at the Yaroslavl Refinery increased by 1.2% and the biggest increase was at our Pancevo Refinery in Serbia (NIS). This is due to trends on the petroleum product market in the Republic of Serbia. Looking at the right side of the slide, we can see that refining volumes were managed quite efficiently. Reduction of refining volumes was accompanied by improvement of refining depth, of light oil product yield. In particular, the biggest decline of refining volumes, at the Moscow Refinery, was matched by achievement in Moscow of the greatest increase of light product yield.

As Alexey Yankevich already said, there were positive changes in the structure of our petroleum product output. Although refining volumes were somewhat reduced, output of fuel oil fell by as much as by 12% while we increased production of bitumens and lubricants. We optimized the product structure in Q1 2016, increasing output of high-margin products. Another point – due to market conditions there was a sufficient amount of petrol on the market and the trend on the petrol market was not positive, so we used another reserve for increasing efficiency, by boosting aromatics production instead of production of petrol, and this also gave us some positive results.

Now as regards premium sales. Our total premium sales volume decreased slightly, by 0.8%. The overall decline in premium sales was due to two business segments: sales of jet fuel and bunker fuel. This was all due to market conditions. Yes, our volume of sales in these segments declined, but the market fell even more rapidly. And our sales of motor fuels, from both filling stations and tank farms, saw fairly substantial growth compared with Q1 2015. Lubricants are another area where we saw quite substantial increase in the volume of premium sales: we are working successfully on the import-substitution market, and the amount of premium sales increased by 13.4% in Q1 2016. If you look at the right side of the slide, you can see that our retail sales in Russia have a better trend than the overall Russian market. In particular, the petrol retail market fell by 1.5%, but we fell by only 0.5%, and for diesel fuel our trend is the opposite of the Russian market – we have growth of retail sales.

To conclude, a few words about our sales in various business segments. I have already said a lot about retail sales. What I want to emphasize is that our retail sales are increasing in Russia and abroad. In particular, there has been a quite substantial increase of retail sales on the Serbian market. Throughput is quite high and the total number of filling stations is also growing. For aviation fuel we continue to work on expanding the reach and geography of our sales, and on improving our refuelling facilities. In the bunkering segment we are extending contracts and making new, efficient contracts, and we have created an Arctic bunkering fleet. For lubricants, we have 57% increase in sales volume of brands in the G-Family on the domestic market compared with Q1 2015. We have expanded our network of branded G-Energy service stations by the addition of four stations, so the total number has reached 26. We are working hard on international sales of lubricants.

Alexey Yankevich, Chief Financial Officer

I will comment further on our financial results with some more detailed analysis of revenue, EBITDA and net income. Revenue declined y-o-y and q-o-q. The decline was due to the fall of world prices for oil and petroleum products, which was not fully offset by weakening of the ruble, leading to decrease in revenue. I have already commented on operating income. Income rose y-o-y and q-o-q, and we will show the factors in more detail on the next slide. Net income also increased both q-o-q and y-o-y, following the growth of EBITDA. There was an additional contribution from exchange rates, as the ruble began to strengthen towards the end of the first quarter.

The slides, which we will look at now, show quarterly and y-o-y trends in operating income. The main negative factor for the y-o-y trend was changes in tax legislation. What we see is mainly the effect of increase in the base rate of mineral extraction tax, which was not offset by a decrease in export duty rates, as had been originally intended in the plans for tax reform. The effect was around 5 billion. The price factor, which is integrated here, has decline in prices on the minus side and weakening of the ruble on the plus side, but the overall effect is negative to the value of about 3 billion rubles. And all of the growth was driven by internal factors. As I said, the biggest factor was growth of upstream production volumes, launch of new projects, all the things which my upstream colleagues described. There were also downstream factors – optimization of our product basket, output volumes, sales channels, which my downstream colleagues spoke about. If you look at the trend compared with the last quarter it is also positive for the same reasons: negative impact from tax changes and prices, but more pronounced due to the sharp decline in prices and the effect of duty lag. Again, growth of financial results was achieved thanks to internal factors, to internal work. There was growth of efficiency in upstream even though the integral volume factor for hydrocarbons was unfavourable – as I said, overall volumes did not grow. There was a structural factor at play, which increased profits, and production of liquid hydrocarbons grew, which offers greater profit per tonne of oil equivalent, plus the launch of new fields, which give higher margins per tonne than our other assets. So the overall effect was positive. And optimization of downstream business also contributed to the quarterly trend of income growth.

Now I turn to cash flows. We saw a significant improvement in the first quarter. You can see that free cash flow was not negative despite growth of investments, which I will talk about in a moment. We generated enough operating cash flow to cover capex. Free cash flow was about zero. In addition, we repaid a number

of loans as scheduled, so our cash flow was negative. But, overall, our cash including bank deposits decreased slightly from 114 to 87 billion.

As I said, our investments did grow, due to the fact that we are still developing new projects – you heard that we launched the Novoportovskoye field and are preparing to launch Messoyakha. Naturally, this requires substantial capital investments, and we are going through a kind of investment peak, as we have discussed on many occasions at meetings with our investors. This is what determines our trend in comparison with last year. For example, investment in new projects grew by 9%. Growth in brownfields was insignificant – these are well interventions and, in general, investments were at a level of Rub 30.6-31.8 bln. Growth in the refining segment was substantial due to the fact that we are starting the second phase of modernization. We took a sort of a break after completing the quality programme, but not a major break. Naturally, we have been busy with project work and preparations, but now project development is entering the active stage. So we are starting to order and deliver equipment, and these deliveries are partially prepaid, which means that investments are growing. Future growth of investments in refining must be expected, as we have to complete the second phase of modernization, after which our refineries will match the best practices of European and American refineries. Reduction for marketing was due to completion in previous periods of the large-scale rebranding and modernization programme. We are now seeing a slight decline. Overall, our investment plans for this year have been kept. And we expect about the same level of capex next year.

To round off I will say a few words about our financial policy and what we are doing as regards management of our loan portfolio. Main events to note include the issue by Gazprom Neft in Q1 of an innovative instrument – these are 30-year ruble bonds, but with a life cycle of 5 years using a put option. They are innovative because, in addition to the put option, which is common practice for reducing factual duration of bonds, they also have a two-year call option. This is our option to settle. This was done in order to hedge our risks in case interest rates come down. We really do expect that if things go on as they are now going, ruble interest rates will fall, and we have issued this instrument to avoid being tied to a relatively high rate for 5 years. It is unique, because, on the one hand it is long (5 years), but on the other hand it lets us be flexible and combines the benefits of a loan with early repayment, a good bond rate and a long maturity. The interest rate of 10.65% is one of the best achieved by Russian issuers since the imposition of sanctions. It is a good figure, taking account of the premium for the call option. We will also continue to work in the future on diversification of our loan portfolio. We think that it is fairly well balanced already, but we will continue work to improve it. The results are already there to see: we had increased the average duration of our portfolio from 3.33 to 3.44 years by the end of March 2016. It is true that the average interest rate has grown. But, in general, this is to do with the fact that the share of ruble loans in our portfolio is increasing. This lets us be more flexible and hedge the risk of possible fluctuations of the dollar exchange rate against the ruble, and it reflects the current situation of relatively high rates on the market. They have already started to come down. And we believe that the decline will continue and will enable us to reduce the average rate in the future.

I will end my presentation there. To summarize I would say that Q1 2016 was a successful quarter for us despite very bad external conditions for us as an oil company. We showed growth in production volumes and financial indicators. We are showing that we can launch large and complex projects, and we are confident that all of the projects, which are to be launched, will be launched on time. This will enable us to further strengthen our financial performance and create value for shareholders.

Thanks for your attention.

Q&A

Question №1

Alexander Kornilov, ATON

Good afternoon. Thank you very much for the opportunity to ask a question. I have a couple of questions. The first question is probably more general. Could you share your forecasts for production at brownfields in the current year? Perhaps just in broad strokes – West Siberia against Gazpromneft Orenburg.

And the second question: in the last call you shared your forecast for this year's capex at 360 billion rubles. Could you say whether the figure has changed or not, if it is still what you expect? Thank you.

Alexey Yankevich, Chief Financial Officer

Yes, Alexander, thanks for your questions. I'll start with the second, as it is more simple. The outlook for capex is unchanged. We talked about 360 billion rubles, and that, generally, is our plan for this year. I think I even mentioned it in the presentation.

As for the second part of the question, concerning brownfields: you know that we have a quite successful project to maintain production at mature fields by the use of new technologies. The result was indeed very good. Production last year hardly fell at all and even increased slightly, but it should be understood that if "brownfields" are called "brownfields", it is precisely because production there cannot be kept at a constant level – there comes a point at which it is simply not economically feasible. So we expect a decline in the future, but it will be quite insignificant. I won't give any numbers just now, but the reduction will be slight, at least for this year. Orenburg cannot be viewed as a brownfield. There is still active drilling work going on there, so although it is formally classified as brownfield, it is really on the border between brownfield and greenfield, so increase of production there is possible. In general we expect a +/- stable trend at other brownfields. We will give more clarification later as to production volumes in future years, but for this year we roughly expect stabilization.

Question №2

Ekaterina Rodina, VTB Capital

Hello. Thank you very much for your presentation. A couple of questions. The first, to have done with upstream, could you also tell us your updated plan for Prirazlomnoye and Novy Port for this year. And the second question: if possible, can you share with us the forecast for your share in Iraq and Kurdistan. Thank you.

Alexey Yankevich, Chief Financial Officer

Yes, as regards production volumes at Novy Port, our plans are unchanged at 2.5 million tonnes this year and 2.1 million tonnes for Prirazlomnoye. As for production in the Iraqi project and the projects in Kurdistan, you have to understand that there are many more uncertainties attached to the implementation of these projects. I have said that we are currently carrying out additional analysis of our foreign projects. It is no secret that their economics has suffered much more than that of Russian projects, so we can't give you exact figures now for Iraqi production, but for Novy Port and Prirazlomnoye, where our plans are fairly detailed, considered and remain the same, as I said, we have 2.1 million and 2.5 million, respectively. That's 2.1 million tonnes at Prirazlomnoye and 2.5 million tonnes at Novy Port.

Question №3

Evgeny Stroinov, Renaissance Capital

Good evening. Thank you very much for your presentation. I have a question about refining. You talked about the second phase and that it has begun. Could you tell us in more detail when you plan to complete this phase, how much you plan to spend and just what results it will bring in terms of petroleum product output or any other indicators.

Alexey Yankevich, Chief Financial Officer

Yes, thanks for your questions, Evgeny. As regards the second stage of modernization – yes, indeed, it has begun, but it should be remembered that, in conditions of capital constraints, we are optimizing the sequence of implementation of these projects. Generally speaking, we will implement nearly all projects, but the question is how fast and in what order. So I won't give you an exact figure now, since it will be affected by exchange rate fluctuations, which are hard to predict with accuracy now in view of duration of the projects. As for timing, we plan to complete the programme sometime around 2020, depending on how quickly the available funding and the external environment allow us to implement the projects. As for the final outcomes, I will call on Vladimir Konstantinov: he will give numbers for change of refining depth and light product yield after implementation of this project.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

Colleagues, I can only give a few prospective numbers. We expect a level of refining depth at various refineries between 94% and 97% after completion of the deep refining programme. The level for light product yield will be in excess of 80%.

Evgeny Stroinov, Renaissance Capital

Thanks very much. One more question about the Messoyakhskoye field, if I may. Do I understand right that you still expect production to start in 2016 and could you tell us your production plans for 2016 and 2017.

Alexey Yankevich, Chief Financial Officer

As regards Messoyakha, I already said that we expect to launch that field to schedule in the fourth quarter of 2016. Volumes this year are not big – a total of 500,000 tonnes for the whole project. And then a bit less than 3 million tonnes in 2017, also for the whole project. But, again, that is more or less.

Evgeny Stroinov, Renaissance Capital

Thanks.

Question №4

Pavel Kushner, Deutsche Bank

Good afternoon. I have two questions, if I may. The first is about the size of foreign exchange differences in the first quarter. Despite major volatility of the ruble, the exchange differences were quite low compared with about one billion dollars FX Loss for the whole of last year. Could you explain what caused this reduction? Perhaps you started hedging currency risk and that reduced the exchange rate differences?

And the second question about the presentation. On page 25, where you discuss capital investment in the first quarter, could you explain the significant increase of so-called "other capital investments" from 3 billion rubles last year to nearly 10 billion rubles in 2016. Thank you.

Alexey Yankevich, Chief Financial Officer

Pavel, thanks for the questions. As to the first question about exchange rate differences, you're right. The first quarter was volatile and the exchange rate did indeed strengthen, and one might have expected more substantial exchange rate differences with a positive sign. But the fact is that exchange rate differences include results from complex loan instruments, where we used cross-currency swaps – this is disclosed in financial statements. When we did swaps, we transferred loans from one currency to another, and this was done using various kinds of treasury instruments and contracts. So these complex, synthetic instruments, dollar instruments in this case, are not carried as a normal foreign currency credit. A normal foreign currency credit is carried every quarter, at each accounting date, regardless of whether the exchange difference is realized or unrealized. But for synthetic instruments, the unrealized exchange differences at revaluation are not recognized in the profit and loss account, but in comprehensive income. Then when the instrument is settled, when the relevant loan is paid off, all the differences that are associated with it are transferred from comprehensive income to the profit and loss account. This is what happened in the first quarter: a large sum was transferred from comprehensive income to the profit and loss account in a one-off operation. And it reduced the overall positive exchange rate differences, so that the overall difference was small. This has a plus and a minus side. The minus, which I told you about, is on the synthetic dollar instrument. I can explain it to you afterwards in more detail, one-to-one, and just send you the table.

The answer to your second question, about investments, is that other expenses include all of our corporate projects, which are not directly related to the segments – our IT-projects as well as our project to build an office centre. For construction of the office centre and, partly, for IT-projects, there was growth. That explains the growth in the "other" item.

Question №5

Ksenia Mishankina, UBS

Thanks for the presentation. Could you say how you plan to fund short-term debt? Thanks.

Alexey Yankevich, Chief Financial Officer

Thanks very much for the question. In principle, we have a substantial cash balance, which is sufficient to settle our current debts. But we are also close to finalizing agreements with a number of Russian banks to provide us with financing. So, as I already said in previous conference calls, our funding programme for this year, which includes refinancing of existing debt as per the schedule, is fully covered by instruments, and bonds that we have issued and maybe will issue just go towards reducing the loans that we planned with Russian banks. So, overall, we have sufficient instruments to raise funds, including for repayment of current debt, plus we have a fairly substantial cash balance, which we can also use to settle current loans, current debt.

Ksenia Mishankina, UBS

Thanks, could I ask as well – what share of short-term debt are you planning to refinance?

Alexey Yankevich, Chief Financial Officer

We plan to repay the whole of what we have to repay on schedule. I don't really understand the question. We will settle everything that needs to be settled. This will be done either from cash balances or from additional borrowings, but that will depend on the current situation, market prices and our cash flows.

Ksenia Mishankina, UBS

OK, thanks.

Alexey Yankevich, Chief Financial Officer

Current debt to be repaid is 83 billion. Our cash balances are 87 billion. So we even have enough cash to pay off the debt that comes due this year.

Ksenia Mishankina, UBS

Thanks.

Question №6

Maxim Moshkov, UBS

Good evening. Thank you for your presentation. I have two questions. Again, about brownfields. If possible, could you tell us your targets in metres for production drilling this year, consolidated across subsidiaries.

The second question concerns capital investments in construction of the office building in St. Petersburg. How much capital investment remains to be made on your estimates? And how long will they take to complete? Thank you.

Alexey Yankevich, Chief Financial Officer

Yes, thanks, Maxim. Alexander Mikheev will answer your question about drilling and then I will comment on the office centre.

Alexander Mikheev, Head of Economics and Investment (Upstream)

The volume of drilling at our subsidiaries per year is about 2.5 million metres. That is about the range we are targeting in 2016, in forecast terms, and the same for next year.

Alexey Yankevich, Chief Financial Officer

Regarding the office centre, the project is quite complicated and we will probably use various financing schemes, including project financing. You are mainly interested in how much capex for this project will be on our balance sheet, but I can't give you a figure for that, because it won't be clear until after we have finished sorting out the financing schemes for the project. It will probably be partially or completely funded as project financing and won't be fully on our balance sheet, but partly off the balance sheet, so we will clarify the exact amount later, and I will comment on it.

Maxim Moshkov, UBS

Can you clarify regarding drilling. Looking at reports for the previous year I see approximately 3.1 million metres drilled and about 2.9 million metres in 2014. You say, "2.5 million metres," so you still expect to

significantly reduce the volume of drilling in 2016? Am I right or not? Please put me right. And I have another question about SeverEnergiya. Taking account of the first 5 months of this year and operating efficiency of the company, do you expect dividends from SeverEnergiya this year? Thank you.

Alexey Yankevich, Chief Financial Officer

I will answer the question about dividends at SeverEnergiya. Various scenarios are possible, mainly price scenarios. The last scenario, which we looked at, was quite conservative, about \$30 per barrel. In that scenario, of course, we couldn't generate dividends from this asset, because SeverEnergiya needs to service and amortize the debt, which it has. You know that the asset has project financing and a project loan. The situation has improved now, so you should probably watch and see what happens with oil prices and if the situation on the market lets us improve our forecast and forecast flows based on a higher price scenario, maybe our outlook will change. But I still think that, most probably, dividends should be expected from next year and further on in the next year or two.

Alexander Mikheev, Head of Economics and Investment (Upstream)

Colleagues, as regards your question about drilling volumes. The figure, which was previously mentioned, only concerned 100% subsidiaries. If we also take account of joint operations and joint ventures, we get a figure of around 3 million metres per year. We do not plan to reduce the amount of drilling.

Question №7

Alexander Bespalov, Citi Bank

Hello. Thank you very much for your presentation. I have a quick question about refining efficiency. Vladimir Konstantinov said in the presentation that efficiency was changing quite substantially from month to month in the first quarter, and February and March were difficult. Could you share your observations for April and May this year, do you see an improvement of trends? If you can tell us something in terms of quantities. Thank you.

Vladimir Konstantinov, Head of Economics and Investment (Downstream)

I would say that refining efficiency in April-May was probably more comparable with March than with January. These months were very unstable in terms of price trends for oil and petroleum products. There were oil price jumps, on the one hand, and seasonal increase in prices for petroleum products, on the other hand. I would say that efficiency wasn't lower than the same period last year by absolute value and absolute amount. As for trends, you understand that it is quite hard now to predict trends for oil and petroleum product prices, which are affected by a huge number of factors. In our view, refining efficiency may increase in the next few months, but the increase won't be total.

Alexander Bespalov, Citibank

Thanks very much.

Anna Sidorkina, Head of Investor Relations

Colleagues and friends, thank you very much for your questions. The questions were surprisingly wide-ranging. We hope that we were able to respond to your interest. If you have any other comments, suggestions and proposals, please contact IR, we are always glad to help. Thank you so much. We'll meet again for the next conference call. All the best.