



Event: Gazprom Neft Financial Results hosted by URALSIB Capital  
– English Feed

Date: 15 April 2009

Speakers: Vadim Yakovlev  
Boris Zilbermints  
Anatoly Cherner  
Yuri Kalner  
Peter Bakaev  
Victor Mishnyakov

Call Duration: 01:37:00

Conference Ref No: 260297

(1 minute 4 seconds of Russian spoken)

INTERPRETER: First and foremost let me highlight that in the course of the year 2008 we have done a lot in terms of investment relations. We now have quarterly publication of our financial results. We've cut on the deadlines of developing financial results. We've started to prepare financial results. Finally the thing that we're doing now is logical and in line with what we have been doing.

Today's conference call is about our financial results in 2008 on US GAAP standards. We're going to specifically mention results of the fourth quarter and we're going to comment on our operation results. Further on our colleagues and myself will be happy to answer your questions.

Before I start the substantial part of my presentation, the one that you hopefully have seen at the website of our company, I would like to remind you that this presentation and my comments contain forward-looking statements concerning the financial condition, results of operations and business of Gazprom Neft. 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 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 expressed in the course of the conference call.

Right, so switching over to the substantial part of our presentation. The year 2008 has been both very successful and very challenging. In the middle of the year oil prices have soared up to \$140 and we had record high revenues therefore and record net income, EBITDA and operating income, while in the fourth quarter prices

plummeted to \$35 a barrel. So what we did we responded quite promptly. We implemented an anti-crisis measures programme; we implemented cost-cutting programmes; we optimised our investment programme, as well as our product flows. Our financial and operating flexibility was manifested in maximising netbacks through increasing the throughput and product sales in the domestic market and yet we kept developing both in upstream and downstream in our company in spite of the crisis. We were active in expanding our activity in marine bunkering and jet fuelling, and let me also remind you that in February 2009 we finally closed the deal on acquiring a controlling stake of 51% in a Serbian refinery, NIS.

On to slide 5, this is what we look like today. Gazprom Neft, as has already been mentioned, is one of the biggest vertically integrated companies with more than what was almost 7 billion Boe of oil and gas reserves in 2008. In our key assets in Astana(?) and Priobskoye fields we had a reserves growth of almost two times. In the year 2008 we have also integrated into our upstream structure and we have consolidated results of the 50% interest in Tomskneft that we own on parity with Rosneft company. Tomskneft produces around 11.5 million tonnes and the share of Tomskneft in our total production amounted to 11%.

Our retail network covers most of the Russian Federation, also Middle Asia and, now that we've acquired NIS, also the Balkans. We are represented in the south of western Siberia and the regions next to our biggest refinery Omsk and the central part of the Russian Federation as well as the north-western part of the Russian Federation. As I have already mentioned, we have been consistent in developing new directions of our retail activities such as bunkering, jet fuel sales as well as lubricant production.

And now briefly on macroeconomic factors, on to slide 6, that we had last year. As has already been mentioned, the middle of the year was characterised by record high oil prices of \$140 and then there was a plummeting oil price to \$35 per barrel.

In the first half of the year inflation level as well as the ruble getting weaker provoked increasing costs. However, in the second half of the year the weakening ruble that kept going in the first quarter of 2009 led to a dollar equivalent decrease in our costs on the one hand. On the other hand in dollar equivalent we had revenues from domestic petroleum product sales going down as well. However, the total effect of the ruble weakening is positive and we keep getting these positive results also in the year 2009.

The negative factor that I would like to draw your attention to has been in 2008 the high tax burden. Mining tax as well as export duty in 2008, taken as a share in our tax burden, has increased as well as our spending on electric energy. It actually went faster than inflation. The fourth quarter, just like everybody else, created loss for us, just as any other oil company. We had losses and in these conditions we minimised our export supplies and tried to maximise redistribution into domestic markets.

On the next slide we see our major financial results - revenues, EBITDA and net income. If we look at the dynamic of these indicators, we have achieved record high revenues, EBITDA and net income. You can also see here the quarterly dynamics and, as I've already mentioned, the fourth quarter with plummeting oil prices entailed a decrease in all the three indicators, which is quite understandable. It's just the influence of the negative market situation of the fourth quarter.

Factor analysis of major indicators in the last year is represented on the next slide. Major drivers for net income and revenues were high prices for oil and petroleum products. Besides, we increased the throughput almost by 9% and, as I have already mentioned, the greater volume of petroleum products has been sent to the domestic market which was the premium market. Once again, our major constraints were taxes and a natural monopolies tariff increase, and we also had non-cash foreign exchange loss in the fourth quarter.

Similar analysis of the fourth quarter compared to the third quarter is given on the

next slide. Here you can see that plummeting oil prices entailed some consequences. It had some consequences on net income, EBITDA and revenues. However, a tax decrease that was connected to the price going down compensated to a certain extent these results going down. In the fourth quarter non-cash foreign exchange loss and revaluation of ruble assets amounted to \$384 million which also couldn't but influence our financial results of the fourth quarter. On the next slide we see the indicators that I have commented on already. Besides, you can see that we give analysis on the so-called adjusted EBITDA, and let me explain to you why we do it in view of Gazprom Neft's structure. The thing is that most of our business is placed on Slavneft, Tomskneft, Moscow refinery and other subsidiary bodies, or dependent bodies, and in order to do the benchmarking right I think it is worthwhile to include EBITDA of our subsidiaries into our EBITDA indicator. That's what we call adjusted EBITDA, and look at the dynamics of this indicator. Adjusted EBITDA margin is also given on this slide as well as adjusted EBITDA per barrel, and let me point out we're leaders in terms of these indicators. We are still leaders in 2008.

Now let's have a look at our operational performance. That is production in 2008 has risen by 6% year on year compared to 2007 and it amounted to 337 million barrels. This came as a result of acquiring 50% of Tomskneft in parity with Rosneft. Throughput of refinery has grown by 9% year on year. We increased the volume of our domestic sales as well and the most profitable retail direction saw the increase of 22% this year. .

We have been increasing throughput volumes, as I've already mentioned, and as you can see on the next slide this is premium as compared to crude oil exports for our company. The comparative netback analysis is given on the next slide. For example, in Omsk refinery we have very good results and indicators and refining at Omsk in 2008 has gone up. As far as general balance of refining to crude export we've increased the role of refining: 61% of our volume produced has been refined.

That is to say we have increased the volume of oil we had at our disposal through acquisition of Tomskneft and our balance did not deteriorate because we also managed to increase the throughput of our refining. On the next three slides we're going to look at major indicators such as liquidity, debt level and capital investment. As far as cash performance liquidity is concerned, in the course of the year we have created quite a nice liquidity cushion that allows us in the second half of the year, in this tough market situation, to feel quite comfortable and at ease. As far as funding of capital investment is concerned, both in 2008 and 2009 we have financed our investment from investment cash flow. As far as debt is concerned, last year most of our debt was used mostly for refinancing.

Debt structure and terms of payback is given on the next slide. Most of it is in the year 2009, which is why we need a liquidity cushion for the year 2009. As far as financial stability indicators are concerned, gearing level as well as debt EBITDA level, you can see that what we have here is quite comfortable and the debt burden of our company is lower than average indicators of this kind, similar indicators in the industry. We are consistent in increasing our credit ratings and in the year 2008 we have received investment rating from Standard & Poor's and Moodys rating agencies.

A few words about our investment, about our capex. In the year 2008 we kept increasing our investment volumes. As you can see here we primarily invested into the new products, including Priobskoye field. The volume of investment into Priobskoye field has grown by two times almost, as you can see in the slide. Besides, we keep investing into revamping our refining assets, including revamp of Omsk refinery, as well as our retail network. We've increased investment into all spheres of our activity.

This is all in general on indicators of the company. Now a few words about operation results of our company, upstream results. Our reserves, SPE based

reserves upon results of audit of the year 2008 remained at the level similar to the beginning of 2007. It decreased only by 1.5% in spite of the different market situation. Proved reserves life maintained at 21 years. We're quite successful in replenishing our reserves and we keep increasing our reserves in the last few years. The three-year reserve replacement ratio amounted to 118%. As far as Russian classification reserves amounts are concerned, we have grown in ABC1 our reserves by 61 million tonnes, as you can see on this slide.

As far as the volume of our activity is concerned, in the year 2008 we increased our activity, we increased drilling. The number of wells commissioned increased by 17% and now amounts to 611 production wells. Due to the depletion of some of our fields in the region of Noyabrsk, average rates kept going down. As you can see, we had 44.3 tonnes per day compared to 51.6 in 2007.

A few words about downstream results. We have 28.5 million tonnes refined, which is 9% higher than last year. This amounts to more than 60% of the total amount of oil we have at our disposal and the capacity utilisation rate is almost full while depth of conversion at our refinery is pretty high. All the figures are on the slide. The share of light petroleum products amounted to 68%.

As you probably know, we have been pretty active in developing our retail activity, automobile fuel and other types of fuel, and this has already been mentioned in the course of this conference call. These are also factors that influence the positive trend in our indicators. All in all I'd like to point out that the positive results of the last year can be explained not only by the price situation. It also is a result of -- we have analysed how we got to this result. Two-thirds of EBITDA growth last year was not because of the external market situation but rather due to our internal optimisation, increased optimisation of structure of retail, and the results that we have got is due to the higher downstream results that we managed to see.

The development of our retail network is represented here on the next slide. We increased the number of retail stations by 11%. We have acquired NIS so the retail

network is growing and they have a number of stations in Serbia. A priority of this year is to carry out rebranding of the filling station network. By the end of the year we're hopeful we will carry out modernisation and rebranding of more than 200 filling stations that previously belonged to NIS and now will work under the brand of Gazprom Neft. The volume of retail sales increase amounted to 22% in 2008 and the volume of sales to the domestic market has increased as well. And now briefly on the outlook for the year 2009. To the moment of the formation of the business plan we have looked at three scenarios: the conservative scenario of \$32 per barrel, optimistic \$70 per barrel, and moderate \$50 per barrel price. We looked at the \$50 per barrel price finally and this was the scenario we used in compiling the business plan. As you can see, capex will amount to \$1.9 billion in the year 2009, total debt won't exceed \$4 billion, and subsequently we adjusted our outlook scenario to the base case scenario and we expect 35.1 exchange rate, US to rubles. As far as the impact on the business plan is concerned, while it's almost like the price of \$50 forecast, it all compensates for each other and the correspondent decrease in our ruble expenditure in dollar equivalent.

In conclusion, I'd like to point out once again that the year 2008 has been record positive in terms of results as well as record challenging by the end of the year. The market situation has created a lot of challenges and the challenges created have been met quite successfully by the company. We are proud to announce that we responded quite promptly in cutting our operation costs as well as decreasing the price we get from the suppliers, we're flexible in distributing our product flows, and these measures all together allowed us not to suffer from major losses on entering the year 2009, and we managed to smooth out the negative impact of the fourth quarter.

For the year 2009 we are planning to successfully consolidate NIS business into the Gazprom structure. We'll keep working in upstream to stabilise our production and to put Gazprom fields on our balance, and we're also planning rebranding and

revamping activities in downstream sector, particularly in Omsk refinery.

That will be all I plan to say at this stage. Myself and my colleagues, as has already been mentioned, will be more than happy to answer your questions.

Viktor Mishnyakov,

Uralsib:

I would remind you that the top management of Gazprom Neft would be glad to answer your questions. We have here the Vice-President in Production, the Vice-President in Refining, Marketing and Logistics, and the Head of the Strategy Department, and also Peter Bakiya(?) from Gazprom has joined us to answer your questions regarding the relations between Gazprom Neft and Gazprom Inc. Thank you.

OPERATOR:

We'll now begin the question and answer session. If you are on the phones and you have a question could you please press 01 on your phone keypad now. You will enter a queue and then after you're announced simply ask your question. Once you have had your question answered we'll go on to the next one. If you find your question has been answered or you wish to retract that question just press 02 at any point.

Okay, we'll now go on to Irina Yerevskaya of Renaissance Capital. Please go ahead with your question, ma'am.

(all questions and answers interpreted)

IRINA ELINEVSKAYA: My name is Ms Yerevskaya. I'm from Renaissance Capital. If you don't mind I have several questions to ask. If you like I can ask all of them or I can go one by one and listen to your answers after each of the questions. And by the way, thank you for the very interesting and informative presentation.

VADIM YAKOVLEV: We're going to take the questions one by one, if you don't mind.

IRINA ELINEVSKAYA: To the best of my knowledge, reserves replacement ratio, and you mentioned it, has been quite positive. However, as compared to the year 2007, in the year 2008 it couldn't but go down and this obviously had a negative impact on reserves replacement ratio as seen in your results. Do you think that the auditing companies have just changed or corrected their requirements in auditing your results just like they did with other companies or not? Thank you.

BORIS ZILBERMINTS: Thank you for your question and the question is taken by Mr Boris Zilbermints, our Vice-President on E&P.

Okay. If we look at audited reserves company-wide we'll see that these proven reserves have decreased by about 5.5% to 6%. This is connected with the fact that proven reserves do promptly react to the change in oil prices, especially the ones announced on 31 December of the year where reserves are calculated in accordance with the international classification system. However, let me point out that if we look at the total of proven reserves and probable reserves, that is to say 2P category according to SPE classification, this sum has increased by 17% and this includes the reserves that have already been engaged or will soon be engaged into production. Let me highlight once again that this figure has increased. If we look at all three SPE categories - that being proven, probable and possible reserves - I'd like to point out that our 3P reserves, due to our very successful geological exploration activities, have increased by 30%.

IRINA ELINEVSKAYA: Thank you. My next question is on dividend policy. Have you already taken a decision on what would be the share of net income to go to pay dividends in the year 2008? Thank you.

VADIM YAKOVLEV: As far as our dividend policy, we haven't approved of it yet, at least finally. We're in the process of discussing our dividend policy with our main shareholder. As far as the history of dividend payouts is concerned, in the year 2007 it amounted to 26% of our income and according to US GAAP classification methods. This level of dividend payments is higher than the industrial average. At the same time we're quite active in expanding our business, and here I should mention the acquisition of Tomskneft as well as the acquisition of NIS refinery and network of filling stations. Now that we are going to keep following this strategy of business expansion I think it would be quite agreeable to keep our dividends lower. In any case we're going to look at the average dividends in the industry. We're going to do our benchmarking comparing ourselves to other Russian majors.

As far as exact figures are concerned, I believe it's too early to mention the exact figures. In May we're going to have our board of directors meeting that is going to consider the acceptable and recommended dividend level that is going to be subsequently approved or not approved of by the general shareholder meeting.

Thank you.

IRINA ELINEVSKAYA: My next question concerns the non-cash exchange loss. Could you amplify on which assets actually entailed this considerable loss? As far as I can understand, you publish your financial reports in dollars so what was the assets in rubles? It should be quite considerable if it entails such a considerable loss. If you could amplify that.

VADIM YAKOVLEV: Yes, you're exactly right. The nature of these losses was due to the revaluation of ruble assets and in particular our accounts receivable. The exact amounts from revaluation of assets amounted to \$300 million. Also we were influenced by advance payments in rubles and residue of cash and cash equivalents in rubles that

the company had. Besides, the loss on our hedging deal is also included into this part of our profit and loss report to the total amount of \$179 million.

IRINA ELINEVSKAYA: This is my very last question. There was a request to let somebody else ask the questions as well. May I ask my last question?

VADIM YAKOVLEV: Yes.

IRINA ELINEVSKAYA: As far as I could understand, revisited expenditures both in 2008 and 2007, this is probably connected with the fact that you started to include excise tax in your calculation. Could you also comment on how come your operating expenses have been changed in the year 2007?

VADIM YAKOVLEV: Yes indeed, we corrected our P&L and included excise tax, and the results of this can be seen on the seventh slide of our presentation.

As far as the opex going down is concerned, it is not in any way connected with any kind of reclassification. Besides, let me point out additionally that this is only a result of our considerable effort. In the fourth quarter, as I have already mentioned, we took an effort to decrease prices from suppliers and it decreased by 10% to 30%. We also did our cost control. Besides, due to the weakening of the ruble in the fourth quarter we did recalculation of expenditures we had in rubles into dollars which led to a decrease in other figures, both year on year and fourth quarter compared to third quarter.

IRINA ELINEVSKAYA: I was referring rather to the year 2007, not the year 2008, and the change in the figures thereof. All I'm saying is that in the report for the year 2007 you had opex at the level of \$2.4 billion while now when you give the figures for comparison you have opex in the year 2007 at the level of \$1.9 billion. So my question is what is the

explanation for opex in 2007 going down?



VADIM YAKOVLEV: I am prompted by my colleagues that we requalified a part of our expenditures from opex to SG&A, and you can get all the details, if you're interested, from our investor relations specialists. As far as year on year comparison is concerned, the results are comparable and the opex going down really indeed reflects what we have in real life.

IRINA ELINEVSKAYA: Thank you for the detailed answers.

OPERATOR: Okay. We now go on to Igor Kabsar of Reifhizen Capital. Please go ahead.

IGOR KABSAR: Now that Gazprom has acquired 20% of shares do you think it will mean that licences will keep going from Gazprom to you and how fast do you think this process is going to be carried out? Additionally, what is your forecast in connection with this fact of increments in reserves?

VADIM YAKOVLEV: Well, the deals, the acquisition of shares you are referring to is not a starting point nor is it a final point in transference of licences from Gazprom to Gazprom Neft. However, this process keeps going. The preparation stage here has been there beforehand. We are now in the process of co-ordinating all the factors and getting all the necessary approvals and evaluating constraints and doing our feasibility studies in the course of the process of the licence going from Gazprom to our company. However, it's not connected, I repeat, with acquisition of shares.

IGOR KABSAR: Thank you. What is your forecast on incremental reserves as a result of licences going from Gazprom to you?

BORIS ZILBERMINTS: Thank you. This is Boris Zilbermints answering your question. As



far as the reserves are concerned, the reserves that Gazprom is transferring to us in the form of licence transferring, both in terms of purely oil fields as well as gas fields with oil ring, amount, in accordance with Russian classification C1, to 400 million tonnes.

IGOR KABSAR: I address my next question both to you and to your major shareholder. What is going to be the entity that is going to, in fact, buy these shares? Is it going to be Gazprom as a company or Gazprombank? If it's going to be Gazprombank how is the whole deal going to be handled?

BORIS ZILBERMINTS: The shares are going to be bought by our major shareholder himself, and I mean all the shares, including the ones that are currently with our subsidiaries -- all the shares are going to be consolidated in Gazprom.

IGOR KABSAR: Thank you.

OPERATOR: We now go on to Lev Snykov of VTB Capital. Please go ahead.

LEV SNYKOV: I have three questions. The first one is referring to slide 9 where you give \$984 million, which is a considerable gain with the EBITDA that you have on this slide, and this is obviously coming from your trading operations. Can you comment on that? I'll ask two more questions, if you don't mind, later on.

VADIM YAKOVLEV: This figure of \$984 million comes not from the financial results of trading but from the decrease in avoidance of procurement in oil and petroleum products in the fourth quarter. This procurement decrease entails a decrease in oil sales. As I've already mentioned, in the fourth quarter our crude oil export was a loss creating

activity. That's why we finished exporting oil and therefore we did decrease our oil sales and our procurement correspondingly.

LEV SNYKOV: My next question refers to production and capex. Does it have any flexibility as connected to oil prices. As far as I could get your goal for the year 2009 in terms of production is a 5% decrease but is it tied anyhow to the oil price? And if yes, what if the oil prices are higher than \$40 - are you going to change your production level? And the same question goes to capex.

BORIS ZILBERMINTS: We have two reasons for the 5% decrease in production rates. That is there in our business plan. Reason number one is natural depletion of our oil fields that are now on the third production stage. Number two is indeed decreased financing of production activities. Besides, I'd like to point out that we have looked at three scenarios of oil prices, as well as foreign exchange scenarios, and we're now going in full accordance with base scenario, even going a little bit ahead of the scenario, and we produced more than was there in the business plan. Besides, the positive price situation as well as exchange rate situation is also used by us to our benefit. That is to say the money that we get additionally from the benefits of the market situation is directed to expansion of our business, the one that we described in the course of the presentation.

LEV SNYKOV: What are your expectations on capex in 2009, by the way?

BORIS ZILBERMINTS: It's \$1.9 billion. This information is on the 23rd slide of the presentation.

LEV SNYKOV: If you could give us any guidance as to the financial results of NIS in the first quarter and probably in the beginning of the year 2009?

VADIM YAKOVLEV: As far as NIS is concerned, it's too early to make forecasts. Besides, we do not have right now at hand the audited financial results for the year 2008. In the previous periods NIS has never had a non-qualified audit carried out in its company. We are working extensively on improving the quality of financial data acquisition and processing in NIS. The first audited financial report was the financial report for the year 2008 and we are expecting currently to get it in May this year.

LEV SNYKOV: Thank you.

OPERATOR: We now go on to Svetlana Grezan of VTB Capital. Please go ahead.

SVETLANA GRIZAN: I also have a few questions. My first question is about hedging. In the fourth quarter you had quite a considerable loss from hedging of, if the interpreter had it right, \$89 million. It will probably say on the slide somewhere. And I also saw in one interview that you gave to Interfax that in the year 2009 you are not planning to continue hedging operations. So I would ask for confirmation if that's true.

VADIM YAKOVLEV: Yes, indeed. In 2009, we hedged part of our foreign currency risk, our exchange rates. We closed our hedging deals in the beginning of the year, and if I may remind you that it was very difficult to forecast where the exchange rate is going at that period of time. We hedged about 50% of our cash flow risk, and indeed, due to the ruble getting weaker, we got a negative result for the hedged part. However, the unhedged part was sold at stock(?) rate that was higher than the stock rate that was there when we did close the hedging deal, so all in all the result is neutral for us. As far as our policy for the year 2009 is concerned, the exchange rate -- and now that the exchange rate goes in just one direction, we don't find it reasonable to do hedging and we don't have any open hedge contracts for now.

SVETLANA GRIZAN: Thank you. And may I have the figures for the total debt as of the first quarter of 2009, please?

VADIM YAKOVLEV: Do you mean total debt as of the end of the first quarter of 2009?

SVETLANA GRIZAN: Yes.

VADIM YAKOVLEV: Net debt didn't increase. As far as gross debt is concerned, total debt, let me check. Well, it's 136 billion rubles. Unfortunately, I don't have the figure in dollars right now.

SVETLANA GRIZAN: My next question refers to bonds. We've seen the news today that you are planning to -- on 21 April, you are planning bonds for 10 billion rubles - that is \$300 million - and you mentioned earlier that you are planning to raise \$1.5 billion in debt this year. Could you comment on that and, additionally, anything you could share with us at this stage as far as what -- as far as the banks from which you are going to take this money are concerned and the interest rates; anything you can share with us at this point?

VADIM YAKOVLEV: As far as \$1.5 billion is concerned, this is the sum of what we need totally in terms of fundraising for the year 2009, while ruble bonds that you have referred to is only one tool that we are planning to use to raise this money. Yes, indeed, we are handling ruble bonds now, and this Friday, on 17 April, the process will come to an end. The volume of funds raised will amount to 5 to 10 billion rubles, and it all depends on participants' appetite as well as the interest, coupon interest rate at which we are guaranteed a cap.

SVETLANA GRIZAN: Thank you.



VADIM YAKOVLEV: Did we answer your question?

SVETLANA GRIZAN: Yes, you did. Thank you.

OPERATOR: We now go on to Andre Gromagin of JP Morgan. Please go ahead, sir.

ANDREY GROMAGIN: My first question was the SP reserves. You have changed your auditor, now it's DeGolyer; previously you used Miller. If I may, could you share with us the oil price used by DeGolyer to do the estimate for the year 2008 and by Miller to do the estimates for the year 2007?

VADIM YAKOVLEV: Okay, let me take this question. As far as 2007 reserve estimates is concerned, the price that Miller was using was average December price, which was, if I'm not mistaken, \$90 to \$95 per barrel. As far as 2008 reserves estimation is concerned, the current December price was at abnormally low level, and in full accordance with SPE evaluation standards, rather than using the current December price, the forward curve price for the next two years was used, and it amounted to \$65 per barrel for the subsequent period. This I mention again is in accordance with SPE evaluation standards.

ANDREY GROMAGIN: Okay, this question I suppose is more concerning Gazprom's strategy. You were mentioning that Gazprom is going to transfer its licences to Gazprom Neft. Could you give us the timeframe when it's going to happen? Is it going to happen next year or this year, and besides, how this all is going to happen strategically speaking?

VADIM YAKOVLEV: Well, this licence transferral process is a multi-stage process, the way we've planned it, and the first stage is when we are going to get from Gazprom licences for major oil sales or major assets, and it is planned in the way and carried out in the way as to end by the end of this year. I mean, the first stage is going to end by the end of this year. As far as the ways which are going to be used by Gazprom to transfer these licences, we are currently looking at several ways to do it, and now that this process is ongoing and we are in the process of looking into various options, I would refrain from any comments thereon.

ANDREY GROMAGIN: Is that to say that you are going just to finalise the plan by the end of the year, and no activities whatsoever are going on right now?

VADIM YAKOVLEV: The multi-phase plan has already been approved of, and we hope that by the end of this year the first stage of this multi-stage or multi-phase plan is going to be finalised.

ANDREY GROMAGIN: My next question refers to Gazprom strategy. We've heard of 20% shares buyout that would lead to a 95.7% package of Gazprom Neft shares belonging to Gazprom. This will entail certain financial liabilities and I'm interested in how these financial liabilities are going to be settled and what is -- my next question, follow-up question, would be do you plan to list your Gazprom Neft shares at the exchange, and what is the strategy of that?

VADIM YAKOVLEV: Well, I would say the first part of the question rather is something to be discussed at the conference call with Gazprom rather than Gazprom Neft conference call. We're not going to use any un-standard or abnormal approaches to paying back our liabilities entailed by buying these shares. This is going to be done by way of mid-term financing, from operating cash flow and from the revenues that Gazprom

is going to get in the next period.

I can't comment on the second part of your question, as it hasn't yet been discussed. I don't see any reasons in discussing the sale of share package, as we are now in the process of procuring share package and you are asking about it, it's kind of reverse process. So at this point, I don't see any reason to discuss this issue.

ANDREY GROMAGIN: I probably worded my question in not quite the correct way. Let me reformulate it.

Yes, well, of course in the current market conditions, neither FPO or anything else of this kind is something that is reasonable to discuss. I am just interested in what is the share in Gazprom Neft shares that Gazprom would be happy with?

VADIM YAKOVLEV: Well, unfortunately this is a question to be discussed in the course of a special Gazprom conference call rather than Gazprom Neft call, I suppose.

May I additionally ask all the participants to limit the amount of questions to just one question, as we are running out of time, and we want to listen to maximum the number of participants for the conference call. Thank you for your understanding and patience.

OPERATOR: We'll now go on to Natalia Milchakova of Otkritie. Please go ahead.

NATALIA MILCHAKOVA: Okay, thank you for the great presentation. I have a question on your long-term production forecast. We have seen your long-term production forecast with increase of 80 million tonnes per year to the year 2020. In the price situation that has changed, do you expect that you will live up to these expectations, or the forecast change?

BORIS ZILBERMINTS: Great question, Natalia, thank you very much. Thank you for the question. We are

not planning to change our strategic goal of a production increase of 80 million and up to 100 million tonnes. It's still in force, and we suppose that this crisis is a temporary thing and it actually creates opportunities for non-organic growth, so we are not decreasing these figures.

NATALIA MILCHAKOVA: But right now your production is going down. Since when do you think your production will -- when are you expecting the inflection point? When do you think your production will start going up?

BORIS ZILBERMINTS: This is a follow-up question. We are making our last exclusion for the lady who was so kind as to praise our presentation. We do ask you to limit your numbers of questions to just one question.

Well, let's put it this way: we are expecting the Gazprom assets and our Siberian assets to input into upturn in organic growth, upturn in production; that is organic growth in the years 2011/2012. However, as I've already mentioned, this crisis gives us a lot of opportunities for non-organic growth that would allow us not to decrease our production levels in spite of the fact that we are not going to have organic growth until the year 2011/2012.

NATALIA MILCHAKOVA: Thank you.

OPERATOR: We now go on to Andrei Ivanov of Gazprombank. Please go ahead.

ANDREI IVANOV: What is your policy in respect to the remaining percentage of shares, and in view of assets being transferred from Gazprom to the balance of Gazprom Neft, what is going to happen with this remaining 4.3%?

VADIM YAKOVLEV: Actually, we don't have yet any solutions on this 4.3% of shares, so it's not going to

- so far at least - influence the process of licence transferring from Gazprom to Gazprom Neft.

ANDREI IVANOV: I'm more interested in the ways or the schemes you are going to use for asset transferral. I mean, if it's 100% ownership and Gazprom just transfers its assets to the 100% subsidiary, it's one way, and if it's a partial ownership scheme, then the way to transfer assets from Gazprom to Gazprom Neft was going to be different. So in view of the fact that Gazprom Neft still holds 4.3% of its shares, what is going to be the scheme of this asset transferral?

VADIM YAKOVLEV: Well, as I've already mentioned, we're now in the process of feasibility studies, financial and economic studies of different variants to transfer licences from Gazprom to Gazprom Neft. When this process comes to an end, we'll make our final conclusions on the ownership structure and introduce appropriate changes into the way we are going to transfer these licences. That would be in full accordance with ownership structure.

And let me remind you, one question. This is the way to go for us.

OPERATOR: Okay, the final question then in the queue is from Tom Ferda of URALSIB. Please go ahead, Tom.

TOM FERDA: Good afternoon, it's Tom Ferda from URALSIB, Auerbach Grayson in New York. Thank you very much for the presentation. My question regards tax reform. I was wondering if you could comment on how effectively you believe the process is moving along in terms of tax reform, and also what changes you believe are realistic and when you think certain changes may be implemented. Thank you very much.

VADIM YAKOVLEV: Thank you very much for this question. Well, this is a topical issue. This is a topical

issue for industry at large, for Russian oil industry in particular, and actually, whether or not Gazprom Neft will be capable of producing 80 million tonnes by the year 2020 as planned, and whether or not other oil companies are going to meet their expectations does depend largely on the success of such reforms.

And it's pleasing for me to mention that on the state level, on the government level, there is an awareness that this is a topical issue, that this is the issue of prime importance. As you probably know, tax reform was one of the major issues on the agenda that was discussed with our chairman of our government in Kirishi(?), and upon the results, the Prime Minister asked the profile ministries and the industry to develop by middle of the year a new model of industry taxation.

We are actively involved in governmental activity that's now going on in this direction; virtually weekly we work together with representatives of Ministry of Energy, Ministry of Finance and Ministry of Economic Development, and this co-operation looks quite constructive. And the tax system we are looking for and we aspire to create should ideally provide for incentives for efficient production of new fields. Financial results, that is to say the profits, should be taxed rather than the things that are taxed currently, just like the payback of such projects should still retain in a wide range of prices in the context of inflation and in dynamically changing economic environments. This being a complicated issue and an issue of vital importance, we are still, I repeat, very optimistic, and we suppose that by the end of the year, we'll have a more or less clear understanding of what this new taxation system should look like.

As far as implementation timeline is concerned, while it's probably too early to give exact figures there, but we are expecting it to be implemented in 2010/2011, although the general industry-wide expectation is 2010; that is the earlier, the better.

Thank you.

OPERATOR:

Okay, that seems to be it for the questions for this call today. Gentlemen, could I

pass it back to you for any closing comments?



VICTOR MISHNYAKOV: This is Victor Mishnyakov from URALSIB Capital, and on behalf of URALSIB Capital and the whole investment community, I want to say thank you to Gazprom Neft. That was really the first conference with the investment community within the last five, six years after it was acquired by Gazprom, and probably Vadim Yakovlev will give a last comment on the conference call.

VADIM YAKOVLEV: Thank you to all the participants of today's conference call. Well, this is something new to us, but we liked it and we are going to make it a tradition and will meet and talk to you in this way every quarter. I suppose we haven't answered all the questions you had in mind. However, we will be more than happy to do so if you send all these remaining questions to our investor relations department, and let me assure you that none of the questions will be overlooked.

Thank you once again for your kind participation and attention to our company.

OPERATOR: This now concludes our call. Thank you all very much for attending.