



# US GAAP Financial and Operating Results for Third Quarter 2011

8 November 2011

This presentation contains forward-looking statements concerning the financial condition, 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 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.

Forward-looking statements include, among other things, statements concerning the potential exposure of Gazprom Neft to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. There are a number of factors that could affect the future operations of Gazprom Neft and could cause those results to differ materially from those expressed in the forward-looking statements included in this presentation, inclusively (without limitation): (a) price fluctuations in crude oil and oil products; (b) changes in demand for the Company's products; (c) currency fluctuations; (d) drilling and production results; (e) reserve estimates; (f) loss of market and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) economic and financial market conditions in various countries and regions; (j) political risks, project delay or advancement, approvals and cost estimates; and (k) changes in trading conditions.

All forward-looking statements contained in this presentation are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on these forward-looking statements. Each forward-looking statement speaks only as of the date of this presentation. Neither Gazprom Neft nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information.

- Highlights, Macro Environment



---

**Alexey Yankevich**  
Acting CFO

- Upstream



---

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

- Downstream



---

**Vladimir Konstantinov**  
Head of Economics and Investment Department  
Refining and Marketing Division

- Strategy



---

**Yuri Kalner**  
Head of Strategic Planning Department

- Highlights
- Macro Environment
- Upstream
- Downstream
- Financials
- Q & A
- Appendix

# Strong financial performance while advancing on 2020 strategic goals



## ■ Financial performance in 9M 2011:

- Revenue: US\$ 32,908 mln (+38.8% Y-o-Y)
- EBITDA: US\$ 7,704 mln (+49.7% Y-o-Y)
- Adjusted net Income\*: US\$ 4,393 mln (+91.0% Y-o-Y)

## ■ Continued operational progress :

- 7.1% Y-o-Y production increase (boe) due to startup of Cenomanian gas production from Muravlenkovskoye and Novogodneye fields in 4Q 2010
- 10.8% Y-o-Y increase in refining volumes
- Substantial gains in sales via premium channels (+39.2% Y-o-Y)
- 34.6% Y-o-Y growth in average daily sales per retail site in Russia

## ■ Strategic advances:

- Created new production cluster in Orenburg based on eastern part of Orenburg oil field (transferred from Gazprom) and acquisition of two oil fields - Kapitonovskoye and Tsarichanskoye
- Increase in Eastern Siberia reserves (Chonskaya group recoverable C1 and C2 oil reserves)
- Geographical expansion: acquired Krasnodar retail chain
- Secondary placement of 6.13 bln ruble bond in 3Q 2011



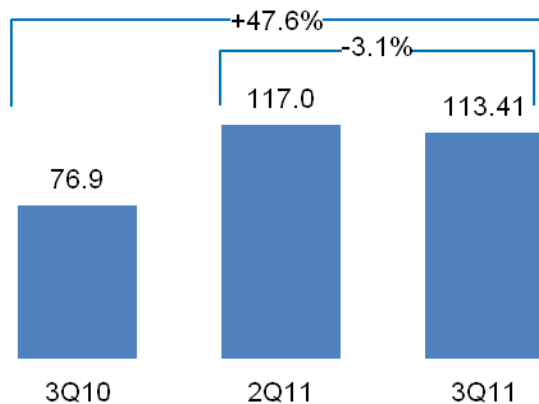
# Macro Environment

---

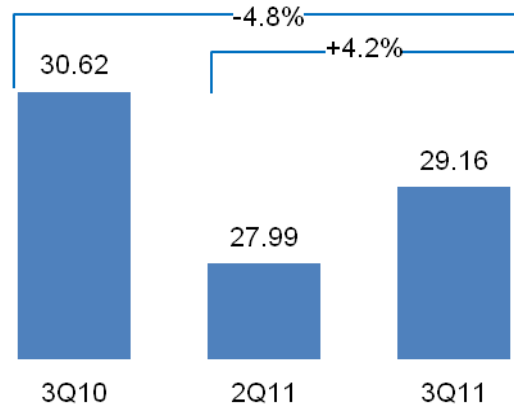
**Stabilizing prices, slight ruble depreciation**

# Mixed macro drivers: stabilizing prices and ruble depreciation

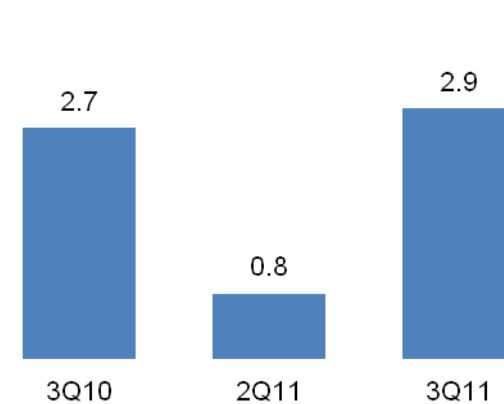
**Brent, \$/bbl**



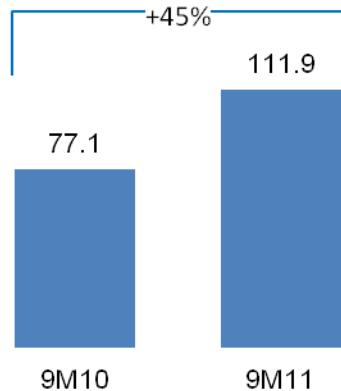
**Average exchange rate**



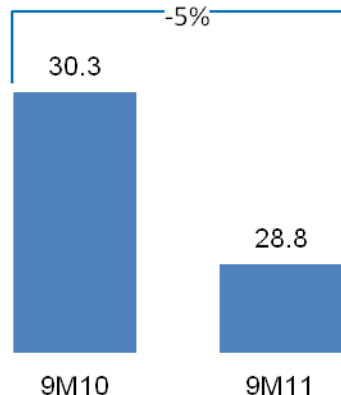
**Inflation (PPI), %**



**Brent, \$/bbl**



**Average exchange rate**



- Stabilized global crude and product prices
- Ruble appreciation against US\$ Y-o-Y
- Ruble depreciation against US\$ Q3/Q2

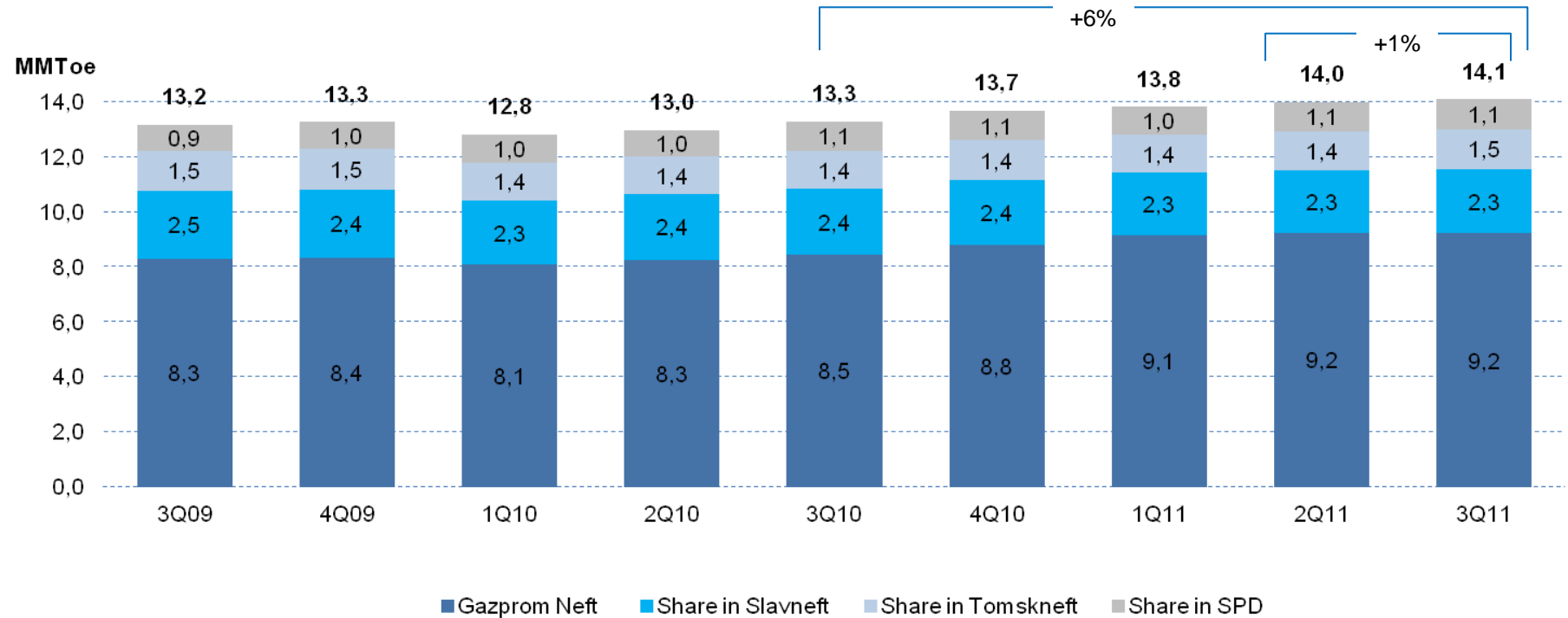
## Upstream

---

**New projects on track, as resource base extension and efficient development of legacy fields continue**

# Sixth straight quarter of production growth

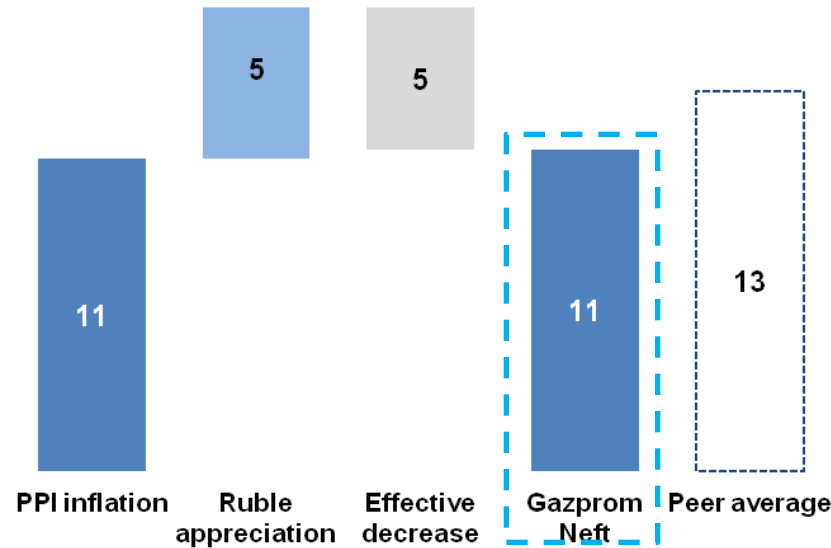
## Group hydrocarbon production



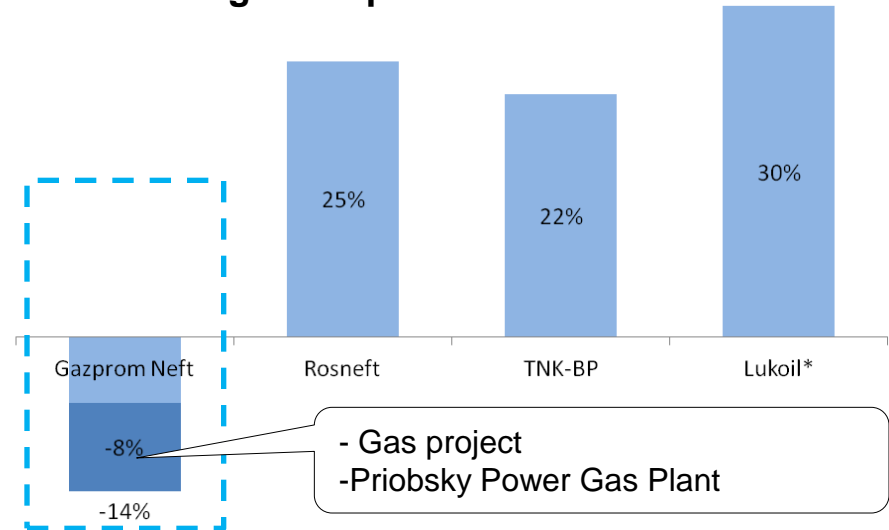
- Total Group hydrocarbon production increased 0.7% Q-o-Q and 6.0% Y-o-Y (toe)
- Gas production increased 134.7% Y-o-Y due to startup of Cenomanian gas production from Muravlenkovskoye and Novogodneye fields in 4Q 2010
- Crude oil production by equity affiliates increased 1.9% Q-o-Q and remained stable Y-o-Y, driven by increased development activity in 3Q 2011, primarily at Tomskneft VNK and achievement of peak production at Salym Production Development

# Operating efficiency backed by industry-leading growth

% change in opex/boe 9M Y-o-Y



% change in capex/boe 9M11 Y-o-Y



## Opex/boe: moderate growth

- **Energy efficiency**
  - Installing energy efficient equipment
  - Reducing inefficient injection and fluid production
  - Discontinuing unprofitable wells
  - Selecting more appropriate equipment
- **Oil service optimization, contracting strategy**
  - Switching to Russian-built electrical centrifugal pumps
  - Optimizing costly contracts
  - Increasing average time between failures through tighter control of frequently repaired wells
- **Transport optimization**
  - Replacing expensive vehicles with cheaper options

## Capex/boe: decreased

- **Reducing drilling time**
- **Optimizing technical decisions**
  - Reduced pad size by changing well placement
  - Changed construction approaches for slopes
- **Optimizing purchasing procedures**
  - Conducting tenders under new procedure
- **Effective decision-making**
  - Adapting new facility specifications to meet specific external and geological conditions

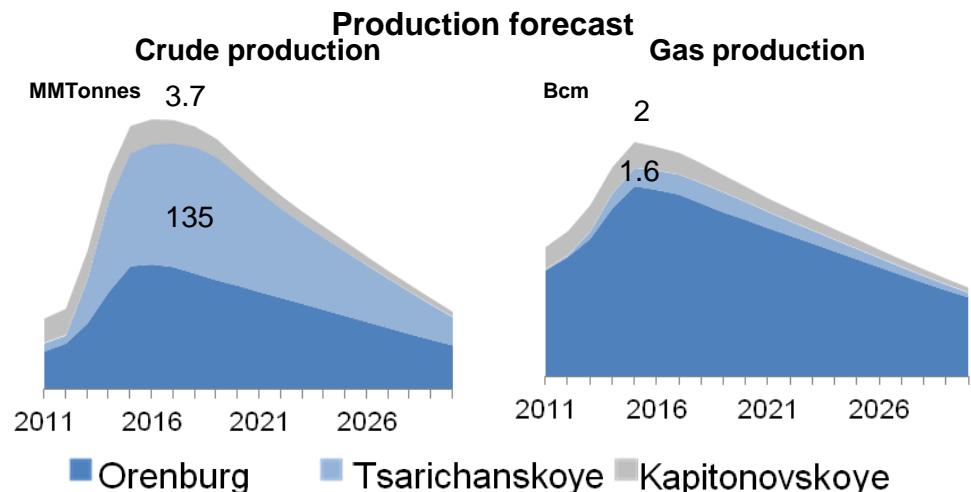
## 9M2011 Results and 2012 Plans

- Creation of new production cluster in Volga-Urals region
  - Adds 185 million metric tons (1.35 billion barrels) of oil equivalent under ABC1 classification
  - Acquisition price for three oil fields (eastern part of Orenburg, Kapitonovskoye and Tsarichanskoye): US\$ 0.60 / boe
- Creating detailed development plan for eastern Orenburg field
- Pilot drilling and sidetracking in 2012
- Completion of drilling tenders



- New assets are located near the Orenburg field in an area with developed infrastructure (gas pipeline, power line, railroad)

**Potential to produce 5 Mmtoe from Orenburg region by 2016**



# New projects driving domestic growth: 9M 2011 results and outlook



## 9 M11 Key Events

- Reactivated & studied 4 wells
- Began FEED for test production
- Developing technical plan for test production (approval December 2011)
- Preparing for drilling and equipment delivery

**Novoport**



## 2011-12 Major Goals

- **Complete asset acquisition in 2012**
- **Begin test production in 2012**

## 9 M11 Key Events

- Prepared for test production
- Completed 3D seismic
- Drilling and testing exploration wells

**Messoyakha**



## 2011-12 Major Goals

- **Complete development plan**
- **Pilot new well pad drilling program**
- **Tax concessions (working with MED\*)**

## 9 M11 Key Events

- Created new production cluster in Volga-Urals region
- Acquired two oil fields – Kapitonovskoye and Tsarichanskoye
- Completed drilling tenders
- Sidetrack testing

**Orenburg**



## 2011-12 Major Goals

- **Integrate new assets**
- **Complete pilot drilling projects and sidetracking in 2012**
- **Institute pilot water flood project**
- **Detailed development plan for eastern Orenburg field**

## 9 M11 Key Events

- Created strategic asset profile
- Completed well testing
- Final stage of infrastructure construction
- Finalized hydrocarbons marketing program

**Sever Energy**



## 2011-12 Major Goals

- **Continue exploration**
- **Start first 2.6 bcm gas train at Samburgskoye in 1Q2012, start up gas processing facility**
- **Start second 2.6 bcm gas train in 4Q2012**
- **Pilot well pad drilling and testing at Samburgskoye and Yaroyahinskoye**

## Key events:

## 2011-2012 Plans:

### Badrah



- Completed de-mining
- Completed 3D seismic
- Completed construction of cluster sites and site roads
- Completed drilling tender
- Completed FEED

- Seismic interpretation results due Nov 2011
- Planning to drill Nov 2011
- Construct crude collector and processing facility in 2012
- Construct Badrah-Garaf crude pipeline

### Junin-6 (operated by PetroMiranda)



- Completed initial social and ecological audit
- Completed first stage of exploration drilling
- Coordination of Early Oil project underway

- Drilling stratigraphic wells
- Drilling and examining test wells
- Developing infrastructure strategy
- Upgrader design

### Offshore projects



- Cuba – Completed 2D seismic; identified potential structures
- Equatorial Guinea – Completed 300 sq. km of 3D seismic; interpretation underway

- Cuba – Planning to drill first exploration well in 1Q2012
- Equatorial Guinea – Begin exploration drilling in blocks T and U

## Downstream

---

**Fuel quality upgrades and increases in premium sales add value to industry-leading portfolio**

# Refinery modernization raises fuel quality, drives continued premium sales growth

## 3Q11 Key Events:

### Refining



- Refining **volumes** up 9% 3Q 2011/3Q 2010
- Commissioned Isomerisation unit at **Yaroslavl**

## 2011 Major Goals:

- Begin construction of isomerization units at **Moscow** while completing unit at **Yaroslavl** to improve gasoline quality
- Upgrade and construct fuel quality-focused units (hydrotreaters) at **all refineries** to achieve EU environmental standards

### Premium Sales



- Premium sales volume up **40%** 3Q11 / 3Q10
- Acquisition of multiple retail chains
- G-Drive test project in St.Petersburg complete; Launched in new regions
- Reached one million loyalty program participants

- Complete retail station rebranding and introduce customer loyalty programs
- Optimize network to increase average per-site throughputs and related products and services sales
- Continue premium sales growth

### International

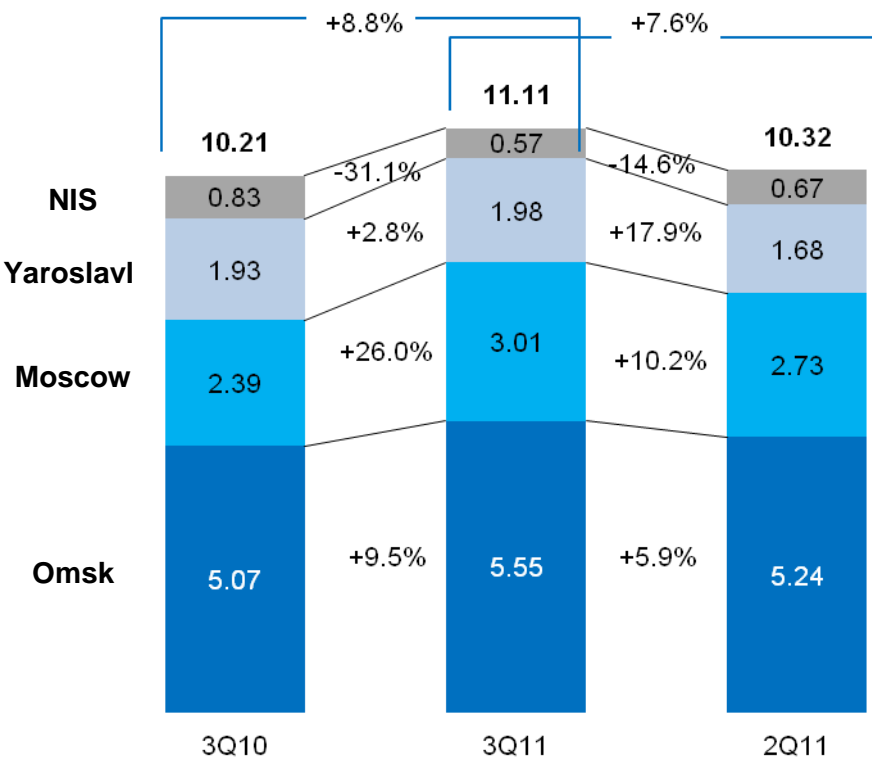


- Increased Euro-quality fuel output at NIS
- New international markets for G-Family lubricants

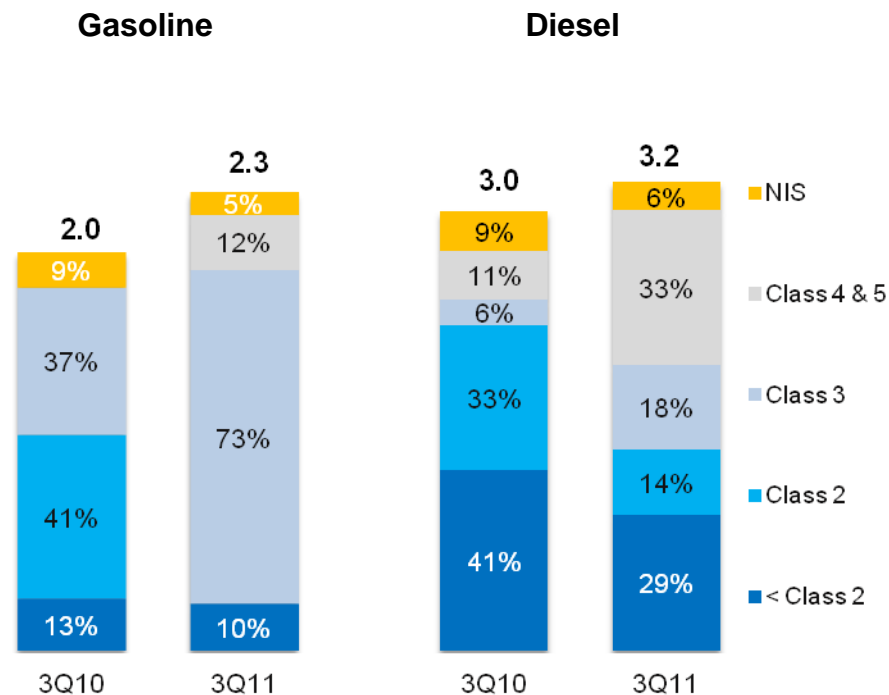
- Continue **NIS** refinery modernization plan, including construction of MHC/DHT unit, allowing transition to Euro-5 product output in 2012
- Growing sales volumes at **Gazpromneft Lubricants Italia**

# Higher-value product yield amid increased refining throughputs

## Gazprom Neft refining throughput (MMTonnes)



## Gazprom Neft gasoline and diesel yields (MMTonnes)

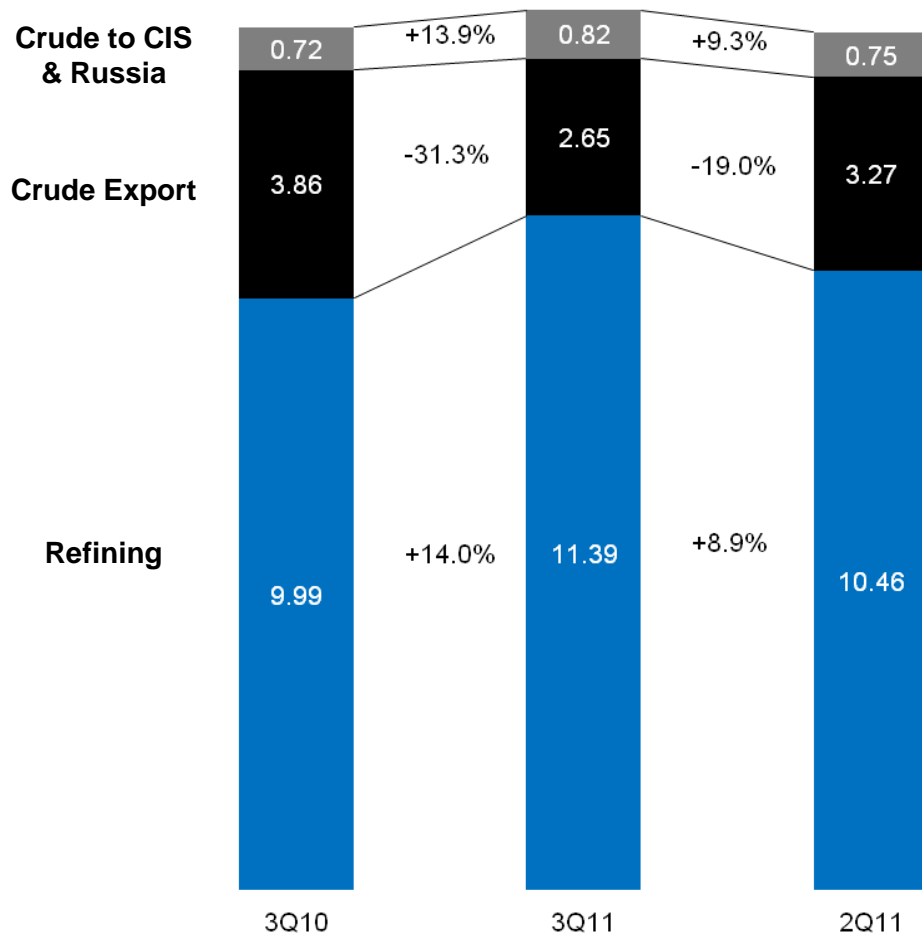


- Refinery throughputs up due to increased demand
- Moscow refining volume up 26% Y-o-Y due to consolidation of third party processing

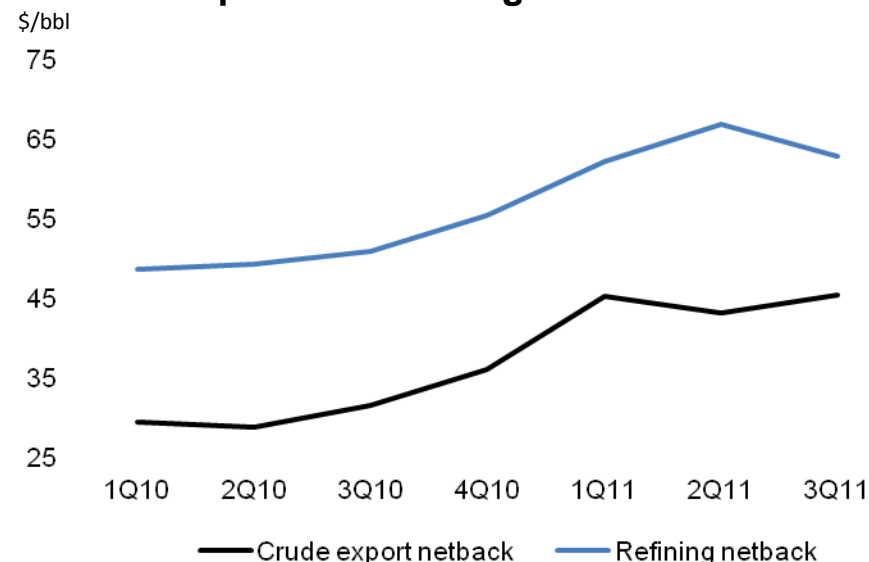
- Class 2 gasoline production suspended
- Class 2 diesel production significantly reduced

# Capitalizing on higher netbacks by channeling crude to domestic refining

**Gazprom Neft Crude mix (MMTonnes)**



**Gazprom Neft average netbacks**



- Refining netbacks remain strong
- Volumes of crude oil exports and sales on international markets declined 19.0% Q-o-Q as more crude was processed at the Company's refineries...
- ...as demand for petroleum products on the domestic market increased

# High-growth premium channels continue strong performance



- Geographical expansion: 21 filling stations in **Krasnodar** region.
- Average daily sales per retail site in Russia grew by 35% Y-o-Y (9M11 vs. 9M10)



- Expanded G-Family lubricants international sales to **Greece, Serbia, Spain, Germany**.
- Began sales of G-Energy branded motor oil in 250 service stations

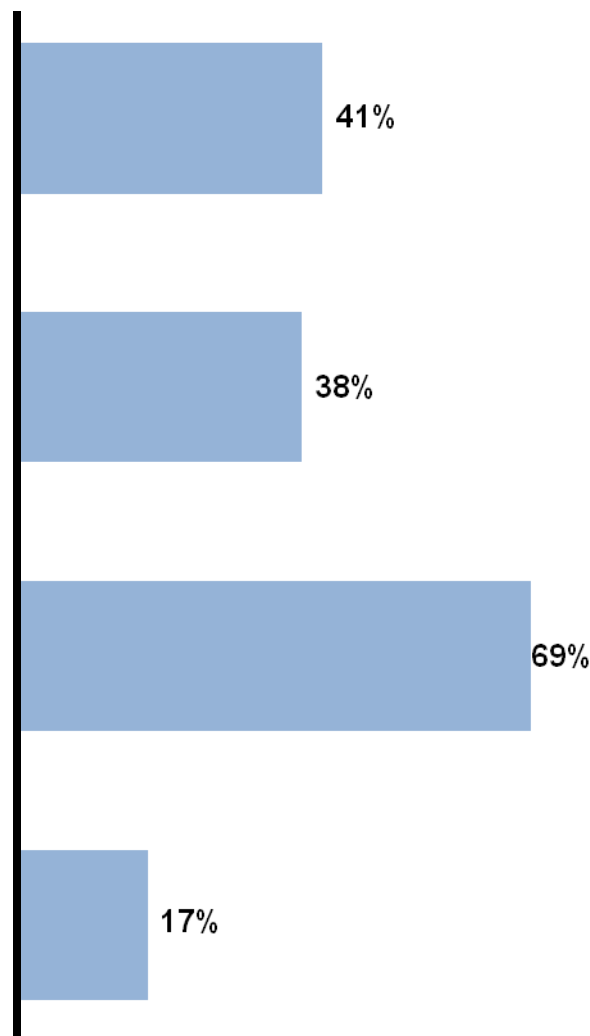


- Retail sales volumes grew 69% Y-o-Y
- 9M 2011 market share in Russia reached 19%

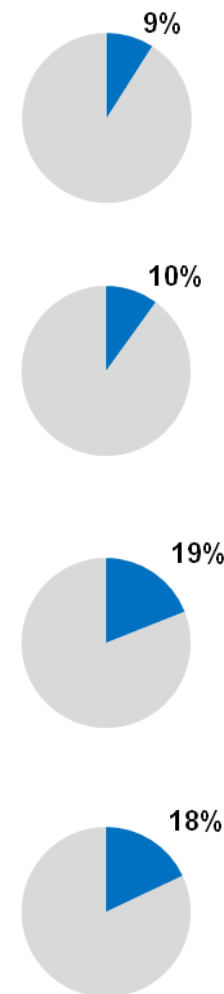


- Opened two modern ship-bunkering facilities at **St. Petersburg** and one in **Novorossiysk**
- 9M 2011 market share in Russia reached 18%

**Y-o-Y 3Q premium\* sales increase**



**Market share\*\***



\*premium sales include retail and small wholesale

\*\*Market shares are retail market shares for retail fuels and lubricants, overall national market shares for aviation and bunkering

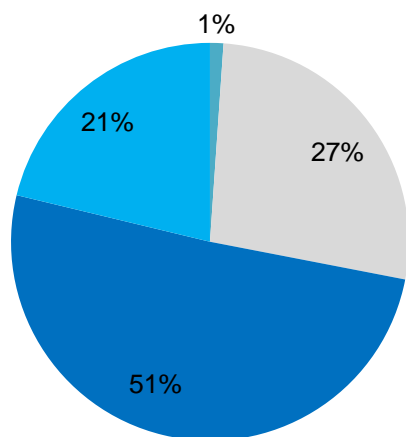
# Yaroslavl Refinery modernization continues with launch of Isomalk isomerization unit

- October 2011 startup of Isomalk isomerization unit (design capacity 650,000 tpa)
- Isomalk produces high-octane component of commercial gasoline and will boost high octane gasoline output

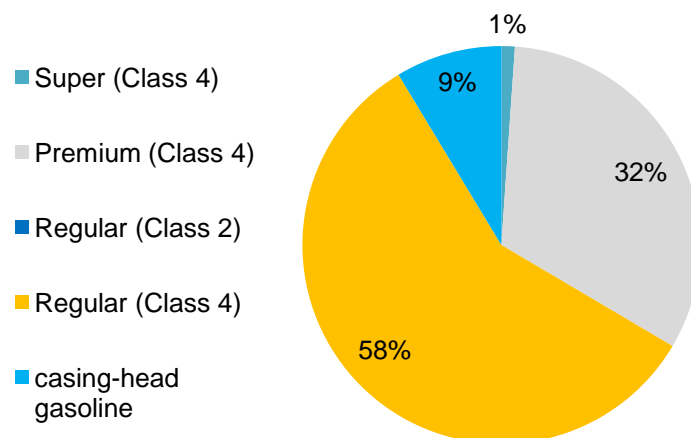
*Isomalk is another step in the long-term program to modernize Company refineries and increase the yield of environmentally friendly fuels*

## Gasoline slate through 2012

### Before Isomalk unit



### With Isomalk unit



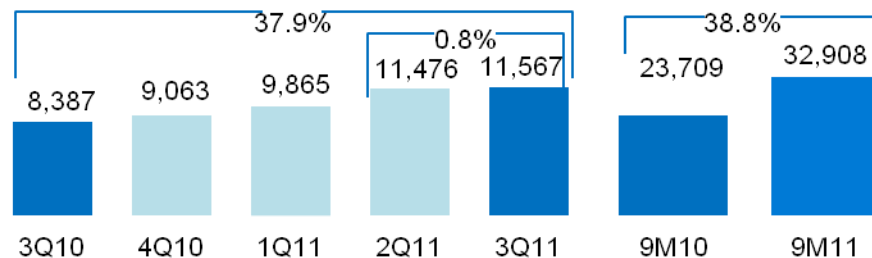
# Financials

---

**Strong results on higher volumes and prices**

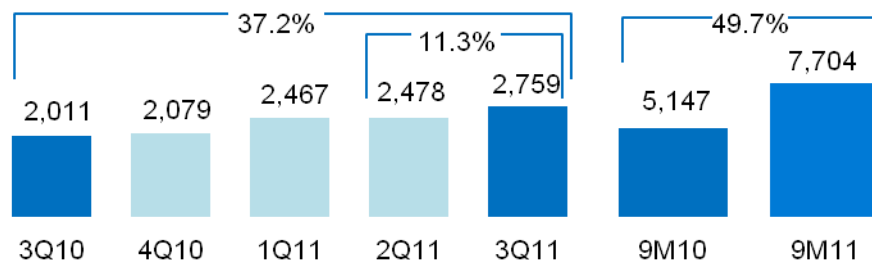
# Financials continue to see strong growth despite quarterly price decline

## Revenues US\$ mln



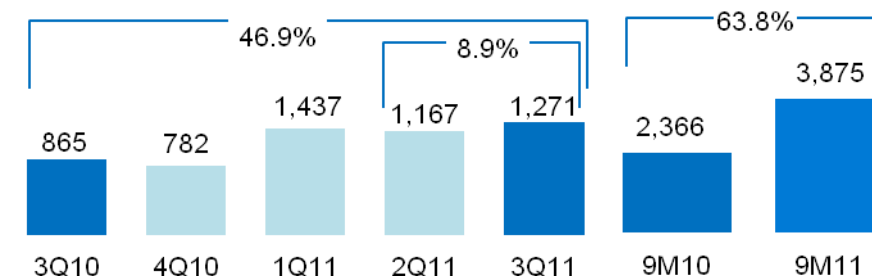
- Increased sales volume offset by lower crude and petroleum prices resulted in 0.8% revenue increase Q-o-Q
- Average Urals price decreased 2.0% Q-o-Q and increased 47.5% Y-o-Y

## EBITDA\* US\$ mln



- Improved sales mix drove 11.3% Q-o-Q EBITDA growth
- Higher prices, increased refining throughput and product mix optimization supported Y-o-Y EBITDA growth

## Net Income US\$ mln



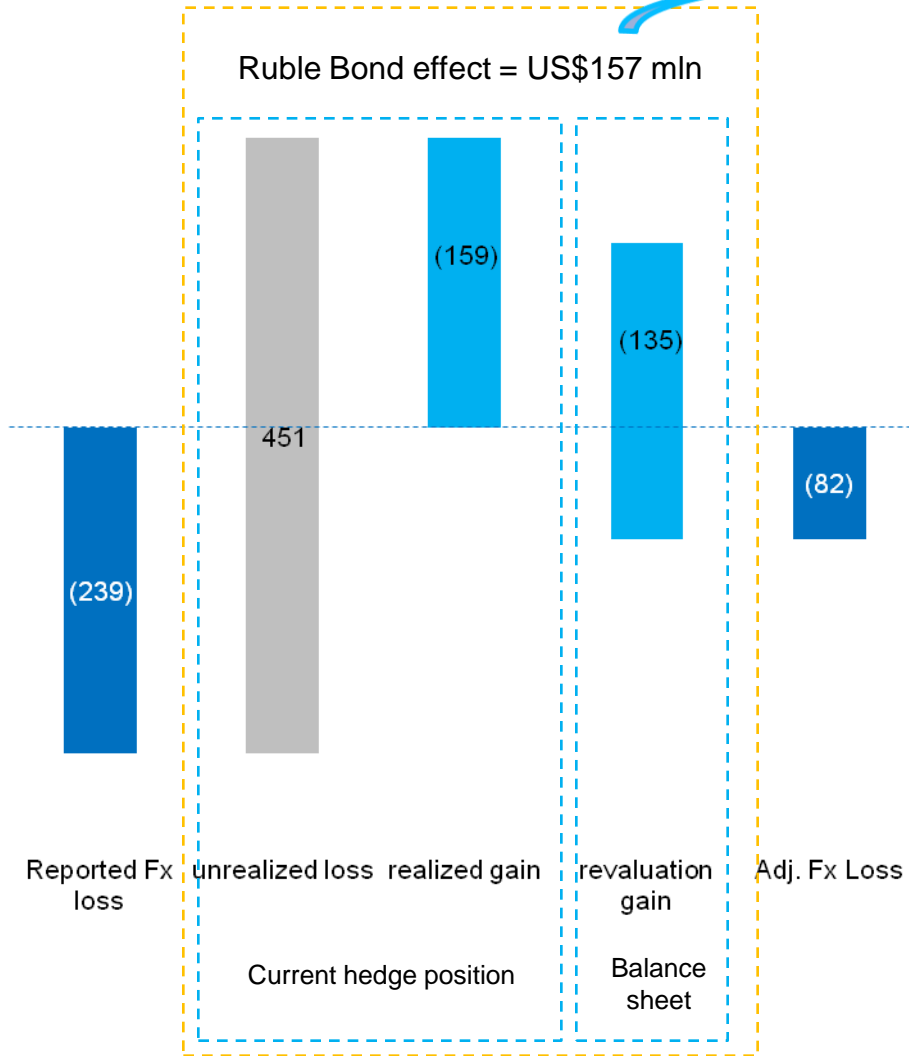
- Net income rose 8.9% Q-o-Q and 46.9% Y-o-Y due to:
  - Change in effective tax rate partially offset by Fx loss
- Fx result is mainly determined by Ruble Bond hedging

-- Net Income is adjusted for changes in fair value derivatives

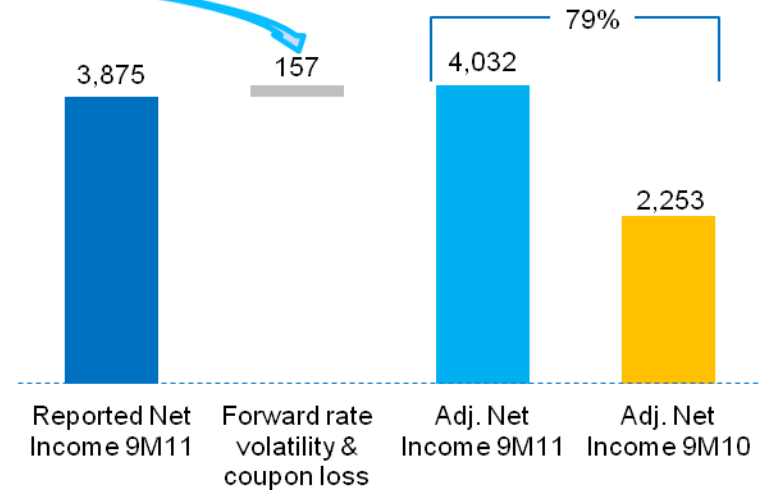
\*EBITDA includes share of affiliates' EBITDA

# Forward rate volatility can cause significant paper losses that will reverse closer to the contract expiration date

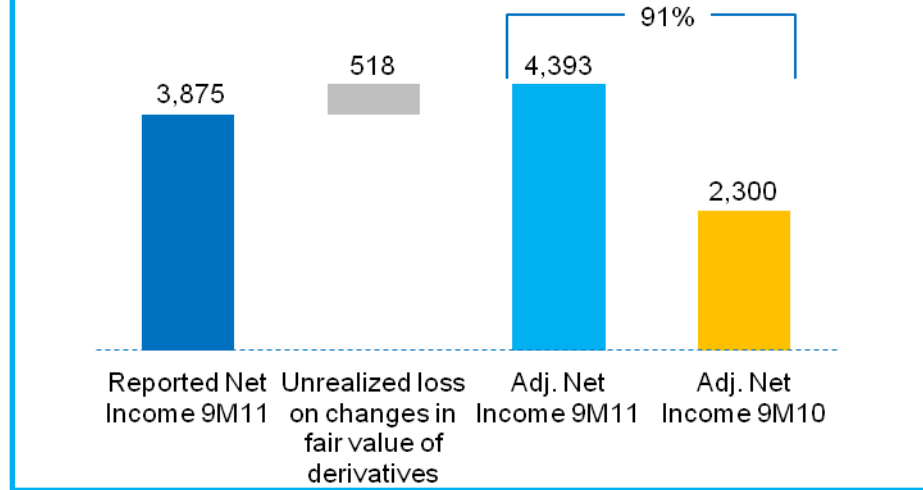
Profit & Loss FX loss reconciliation, US\$ mln



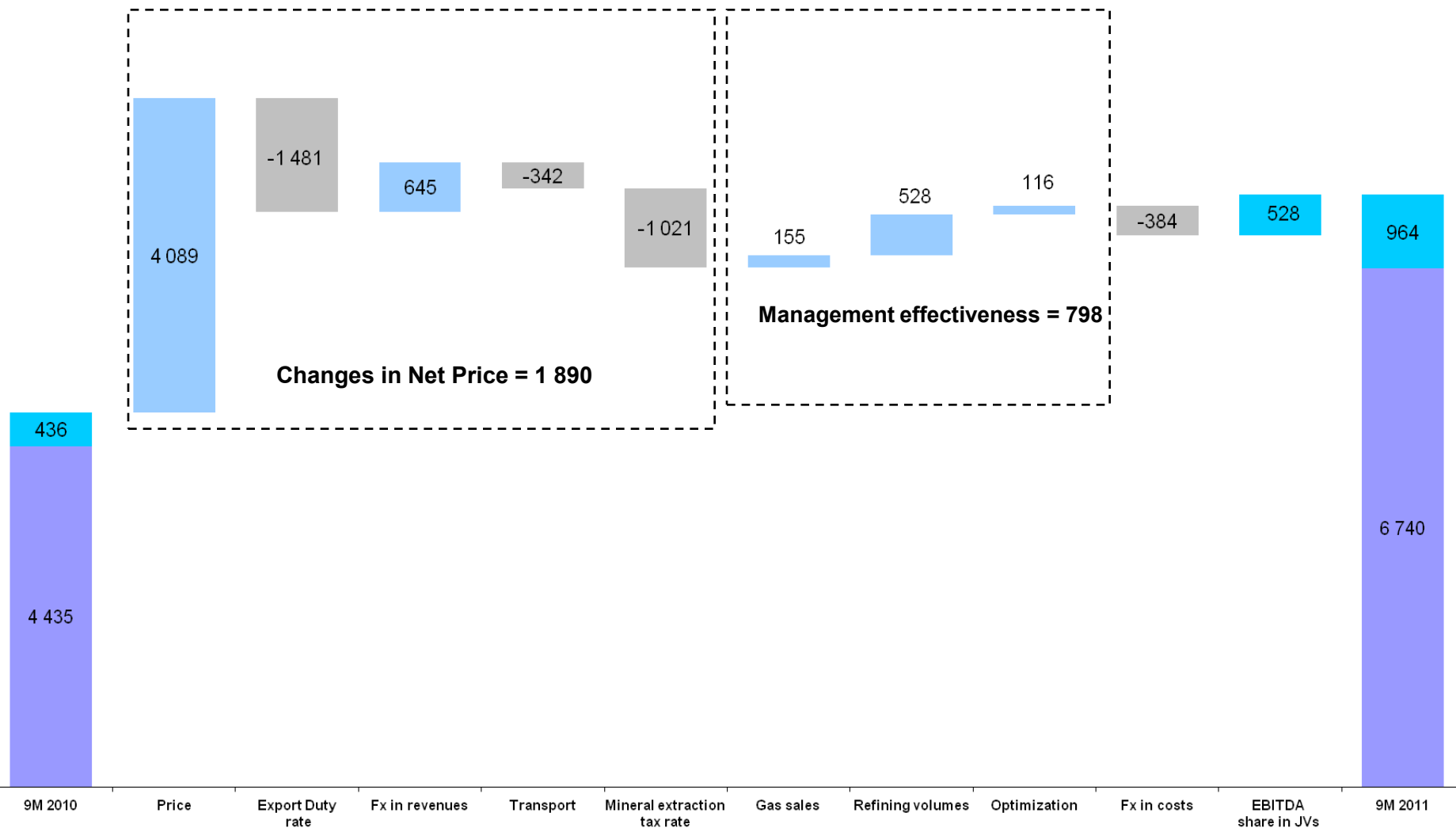
Adj. Net Income reconciliation, US\$ mln



Hedge accounting Net Income reconciliation, US\$ mln

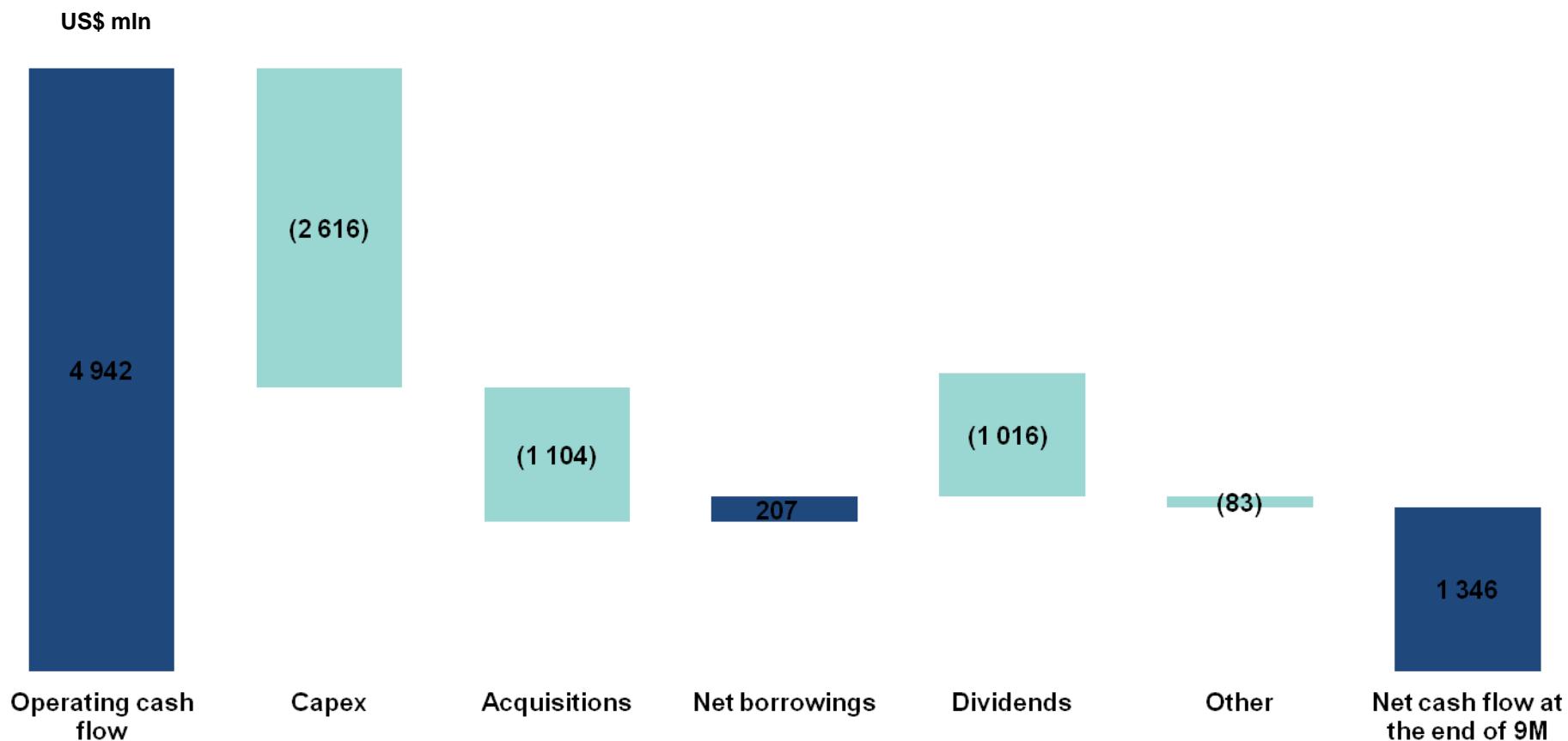


EBITDA 9M 2011 vs 9M 2010, \$ mln.



# Operating cash flow boosted due to net income growth

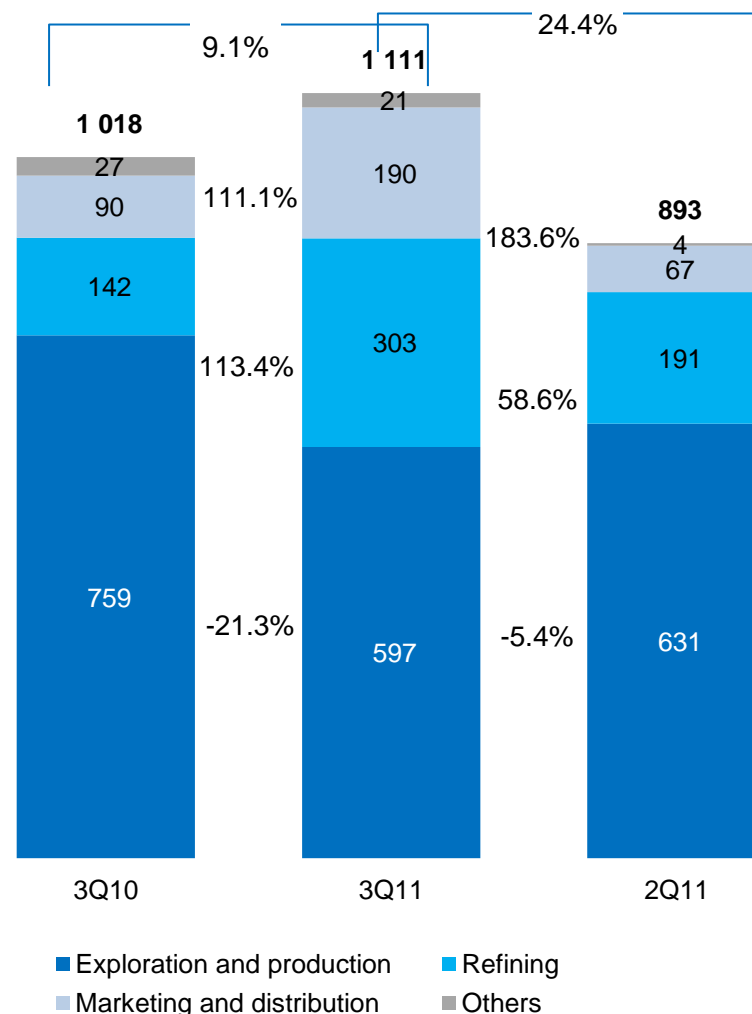
## Cash flow reconciliation



# Rebranding and improvement program continues to drive capex

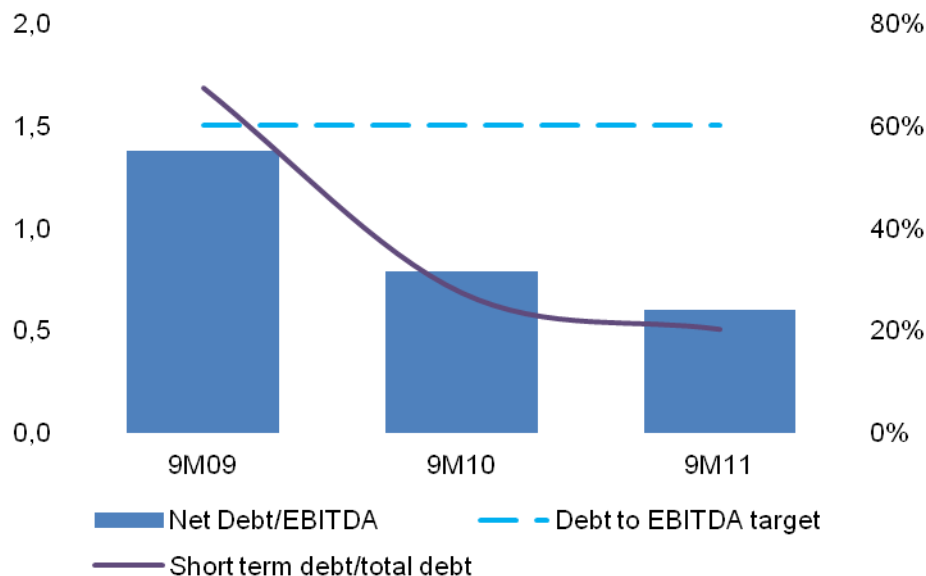
- Capital expenditures up Q-o-Q 24.4% due to:
  - 58.6% increase in refining capex due to ongoing modernization program
  - Significant 183.6% increase in M&D capex due to integration of Sibir Energy retail assets, ongoing rebranding campaign and acquisition of 21 filling stations in Krasnodar
  - Increase partially offset by 5.4% reduction in E&P capex due to decrease in production drilling
- 9.1% Y-o-Y growth was due to:
  - 113.4% increase in R&M due to ongoing modernization program at Company's refineries
  - 111.1% increase in M&D due to retail rebranding campaign and acquisition of retail assets
  - Increase partially offset by 21.3% reduction in E&P capex due to reduction in production drilling

Capex (US\$ mln)

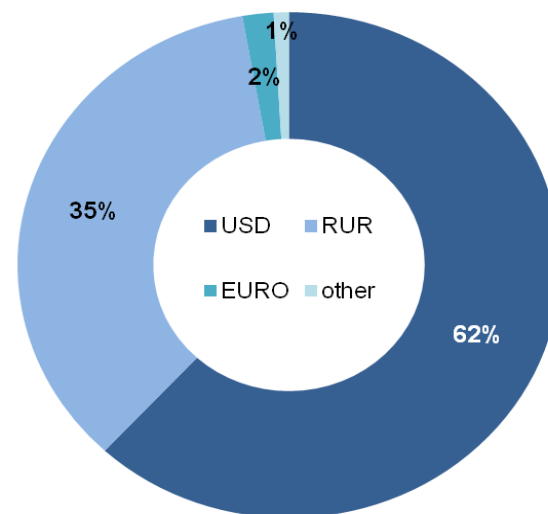


# Record Net Debt/EBITDA ratio as a result of commitment to capital discipline and debt optimization

## Debt ratios and maturity mix



## Debt by currency



- Net debt/EBITDA 0.6 vs. target < 1.5
- Share of short term debt decreased from 67% in 9M2009 to 20% in 9M2011 due to balanced borrowing policy and refinancing efforts
- Average interest rate decreased 1 p.p. to 3.42% Y-o-Y
- Increased US\$ 600 mln Club Term Loan Facility to US\$ 870 mln
- Increased average debt maturity by 7.3% Q-o-Q (from 2.59 to 2.78 years) and by 31.1% Y-o-Y

# Questions & Answers

---

bbbl	barrel
boe	barrel of oil equivalent
tonne	metric ton
toe	tonnes of oil equivalent
MMTonnes	million tonnes
MMbbl	million barrels
MMboe	million barrels of oil equivalent
Mmtoe	million tonnes of oil equivalent
bcm	billion cubic metres
mcm	thousand cubic metres
MMm3	million cubic metres
bcf	billion cubic feet
kbpd	thousand barrels per day
kboepd	thousand barrels of oil equivalent per day
ktpd	thousand tonnes per day
tonnes/day	tonnes per day

For additional definitions:  
<http://ir.gazprom-neft.com/>