

## 1Q2016 IFRS FINANCIAL AND OPERATING RESULTS

May 31, 2016, Saint-Petersburg



# Agenda

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## Highlights, Financials

### **Alexey Yankevich**

Member of the Management Board,  
CFO



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## Upstream

### **Alexander Mikheev**

Head of Economics and Investment Department,  
Exploration and Production Division



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## Downstream

### **Vladimir Konstantinov**

Head of Economics and Investment Department,  
Refining and Marketing Division



# Disclaimer

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## 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.

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- (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.

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# Highlights



## 1Q2016 Financial Performance:

- Sales: RUB **366** bln (**-3.7%** Y-o-Y)
- EBITDA\*: RUB **96** bln (**+3.2%** Y-o-Y)
- Net Income: RUB **42** bln (**+6.2%** Y-o-Y)



## Operational Progress in 1Q2016:

- Hydrocarbon production up **14.8%** MMTon Y-o-Y, (**15.1%** Y-o-Y, MMBbl)
- Refining volumes down **1.5%** Y-o-Y
- Premium sales down slightly **1.1%** Y-o-Y driven by weaker oil product market conditions
- Retail sales up **3.2%** Y-o-Y



## 1Q2016 vs. 4Q2015:

- Hydrocarbon production **in line** with 4Q2015
- Refining throughput **in line** with 4Q2015
- EBITDA\* up **4.1%**

*\*Including GPN share in EBITDA of associates and joint ventures*

## Exploration and Production

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Technology strategy driving production efficiency and new resource development

# Key upstream events

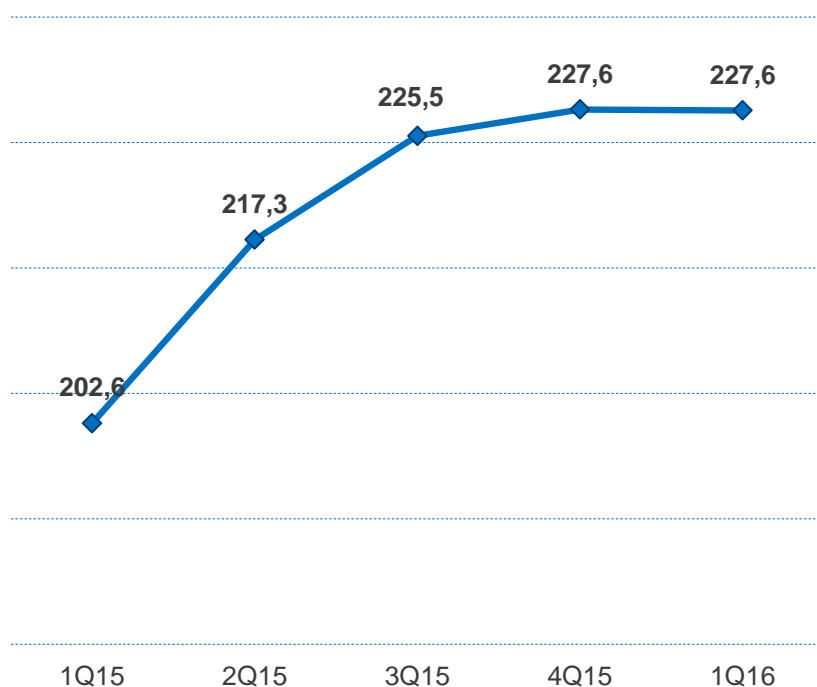
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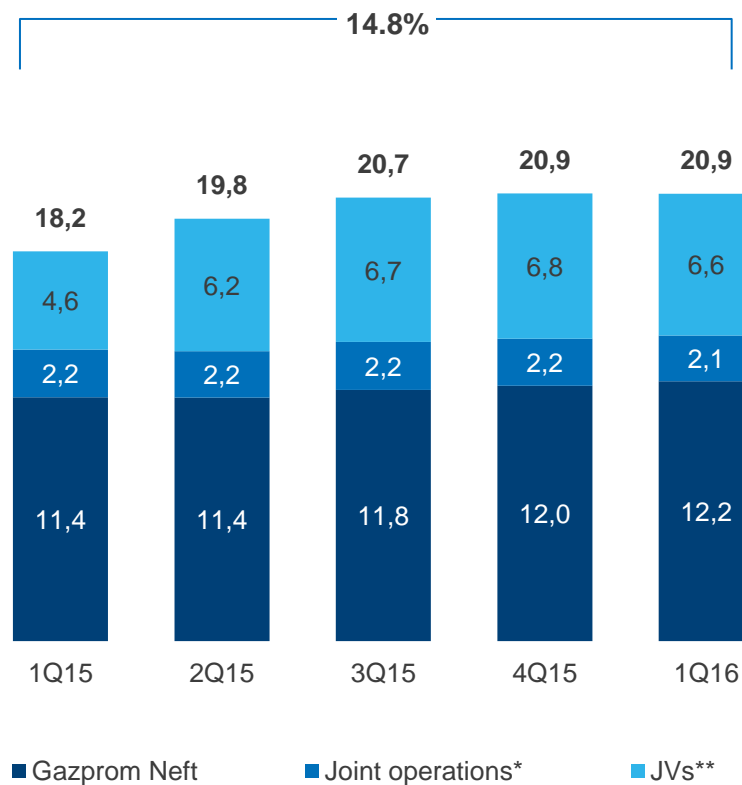
- Commercial production began at **Novoportovskoye field** following official launch (25 May, 2016)
  - ✓ Launched two Arc-7 class tankers for year-round crude exports from Novy port
  - ✓ First shipment of crude via “Arctic Gates” oil terminal
- **Yuzhno-Priobskoye** field produced 100 millionth ton of oil
- Maintained production levels at **legacy fields**
- Continued implementation of Gazprom Neft’s **technology strategy**:
  - ✓ Opened an revamped drilling support center
  - ✓ Launched ASP mixing unit at the Salym pilot project

# Strong y-o-y production growth and consistent q-o-q growth for fully-owned assets

Average daily hydrocarbon production, '000 toe/day



Hydrocarbon production, MMtoe

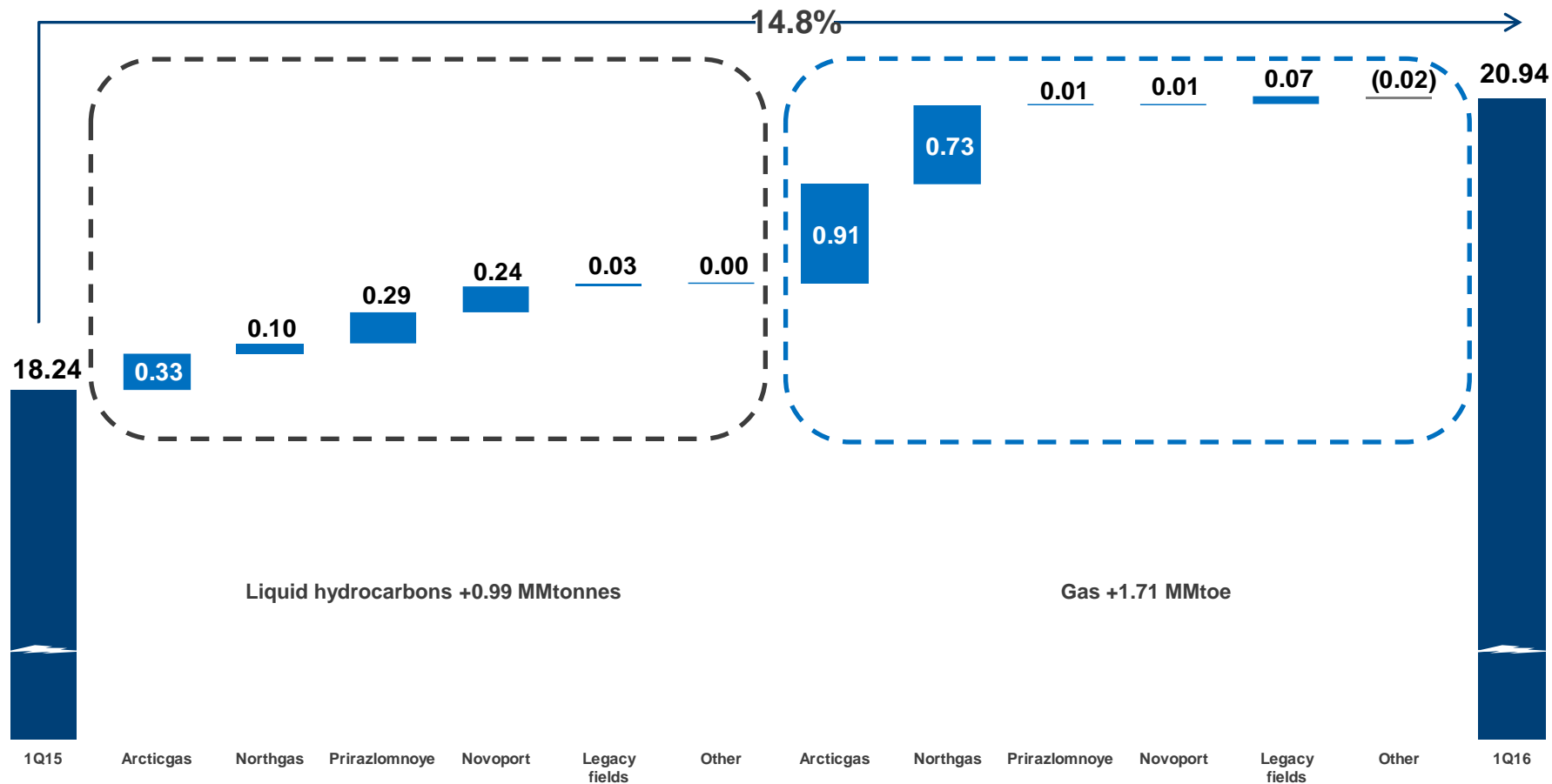


\*Joint operations: proportionally consolidated companies (Tomskneft, SPD)

\*\* Joint ventures: equity accounted entities (Slavneft, SeverEnergiya (Arcticgas), Northgas)

# Significant rises in crude production at Novoport and Prirazlomnoye and gas production at Yamal

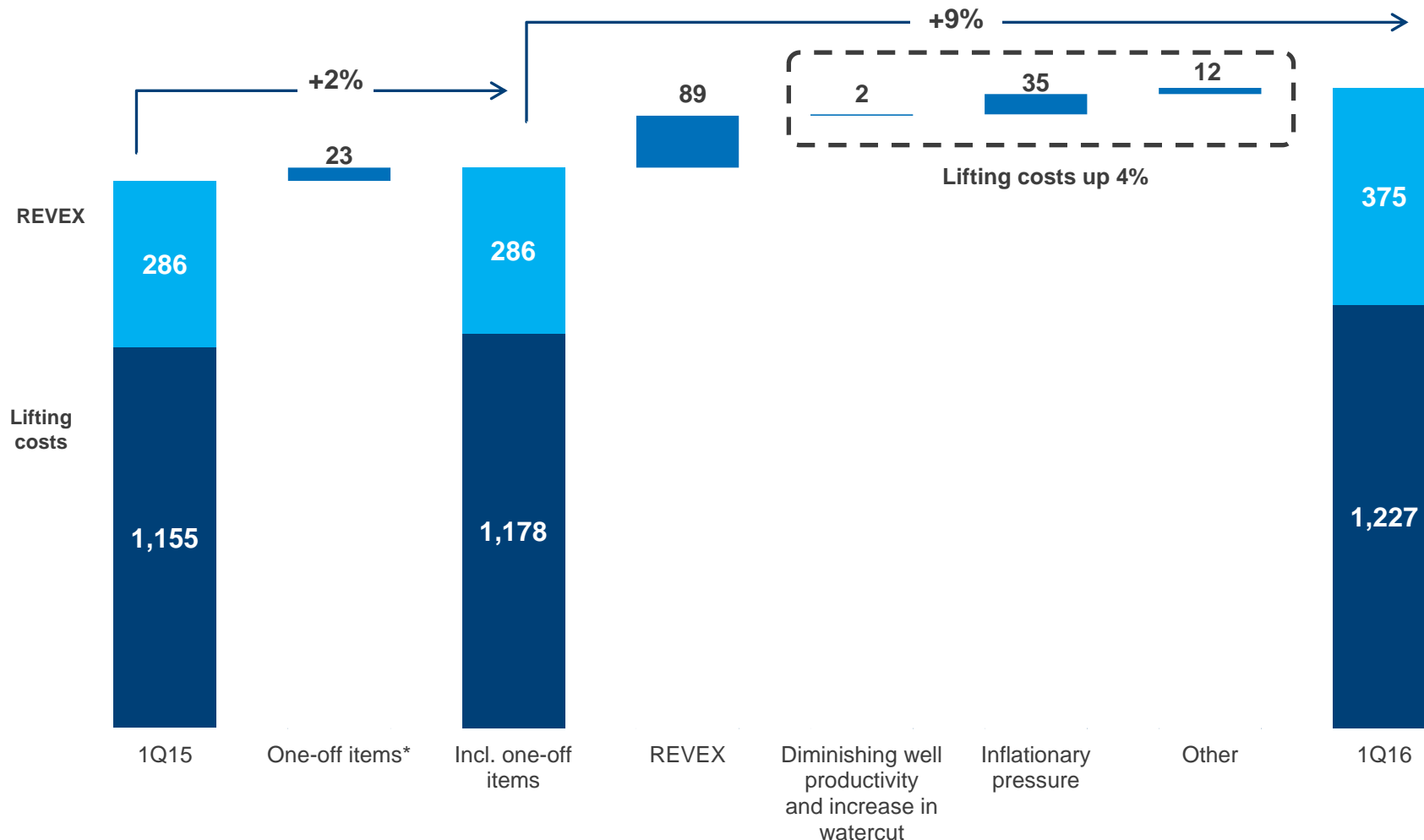
Hydrocarbon production: 1Q2016 vs. 1Q2015, MMtoe





# Marginal increase in lifting costs and OPEX-growth constrained despite reserves depletion

Brownfield OPEX Indicators 1Q 2016 vs. 1Q 2015, RUB/toe



Note: the chart above takes into account the following projects: NNG, MN, Khantos, Vostok,

\* One-off items include electric submersible pump leasing

# Novy Port: began year-round crude exports

May 25, 2016 marked the official launch of **year- round crude exports** at Novoportovskoye field

“Arctic Gates” – the world’s first oil terminal capable working in an extreme Arctic environment:

- ✓ Low temperatures (can reach -50°C)
- ✓ Freshwater ice thickness of up to 2.5 meters
- ✓ Averaging no more than 85 days per year of free navigation
- ✓ Shallow waters: 11-13 meters
- ✓ Frequent storms

**A key outpost in the development of the Northern Sea Route and Arctic exploration**



**2016 production forecast: >2.5 MMtoe**

January	February	March	April	May	June	July	August	September	October	November	December
				■ Beginning of year-round crude exports from terminal in the Gulf of Ob					■ Launch of technological infrastructure at 5.5 MMtonnes Novoportovskoye oil-condensate field		

# New project developments continuing, domestically and internationally

## Prirazlomnoye



- Executed program for the construction of well IHS2, began drilling well PH6
- Camp – concluded construction of the third line
- Water facilities: construction, installation and commissioning
- Loaded 7 crude tankers in 1Q16

## Messoyakha



- Began construction activities: water intake, initial gas discharge unit, gas pipeline
- Completed winter material and equipment deliveries: delivered 215.4 mtonnes (192.6 mtonnes on March 31)
- Drilling proceeding using 6 rigs

## Badra



- Produced 2 MMtonnes of oil since beginning of development
- Reduced drilling time from 270 to 220 days at well P-12
- Loaded tanker of compensated crude (loaded 2.7 million barrels from April 2015)

## Kurdistan (Iraq)

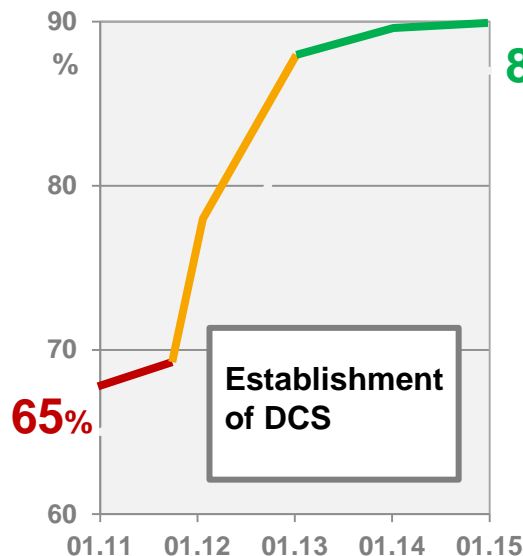


- Gazprom Neft received operatorship at Kurdistan from Western Zagros
- Performed FEED for infrastructure expansion at Sarkala

# Drilling Support Center (DSC) launch enabling an increasing number of high-technology wells



Horizontal drilling efficiency rate



**87%** **+22%**

Increase in drilling rate efficiency ratio from 2011

**~600 wells/y**

Volume of high-tech drilling in 2015 (includes lateral wellbores)

**↓46%**

Reduction in average high-tech drilling time

**+10 tonnes/day**

Increase in average production per high-tech well

**~1.5 MMtonnes/y**

Extra production

**22+MMtonnes**

Extra production – total for four years of work



# SPD launched ASP mixing unit



As part of the **Zapadno-Salymskoye field**, Gazprom Neft built:

- ✓ 7 wells
- ✓ Alkaline Surfactant Polymer mix unit (capacity of 1,000 m<sup>3</sup>/day) – the key facility in the infrastructure of **the pilot EOR project**
- ✓ Unit for emulsion separation for fluids
- ✓ Pipeline

**+10%**

Increase in the oil recovery ratio at the field

**~25 MMtonnes**

Extra production over 15 years

## Downstream

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Strategic investments result in higher product quality and rising market share

# Refinery modernization proceeding on schedule, while motor fuel sales outpace Russian average

## Major achievements in 1Q 2016:

### Refining



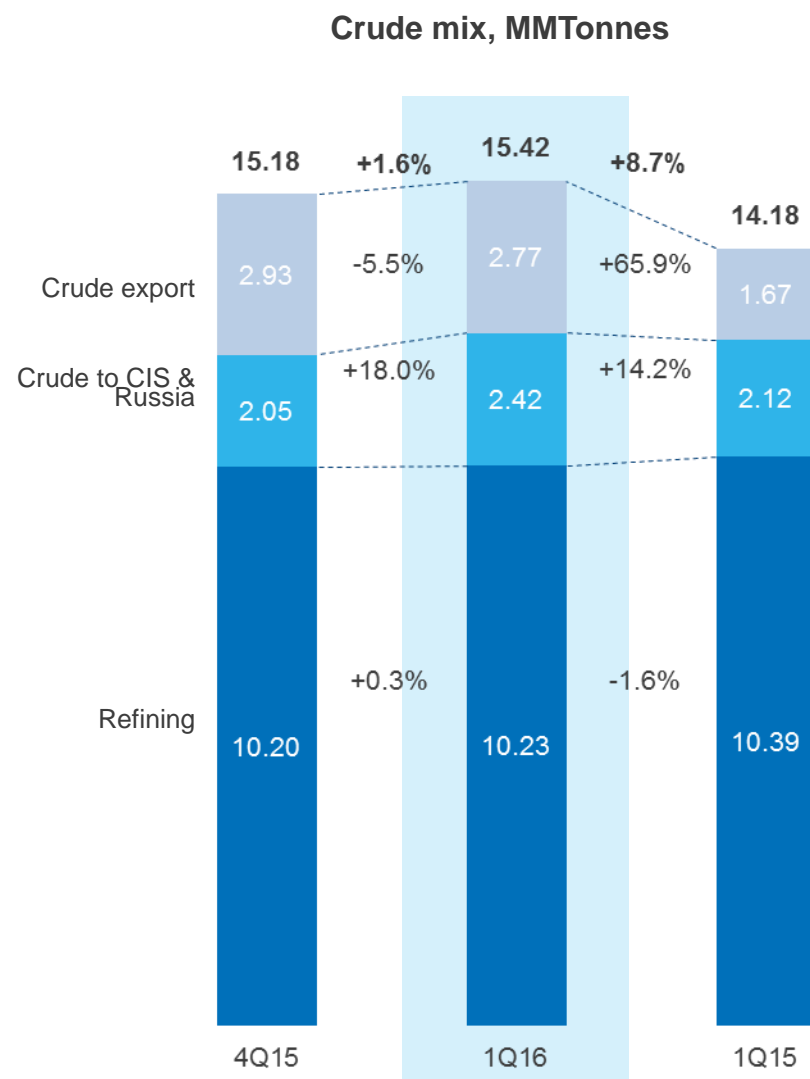
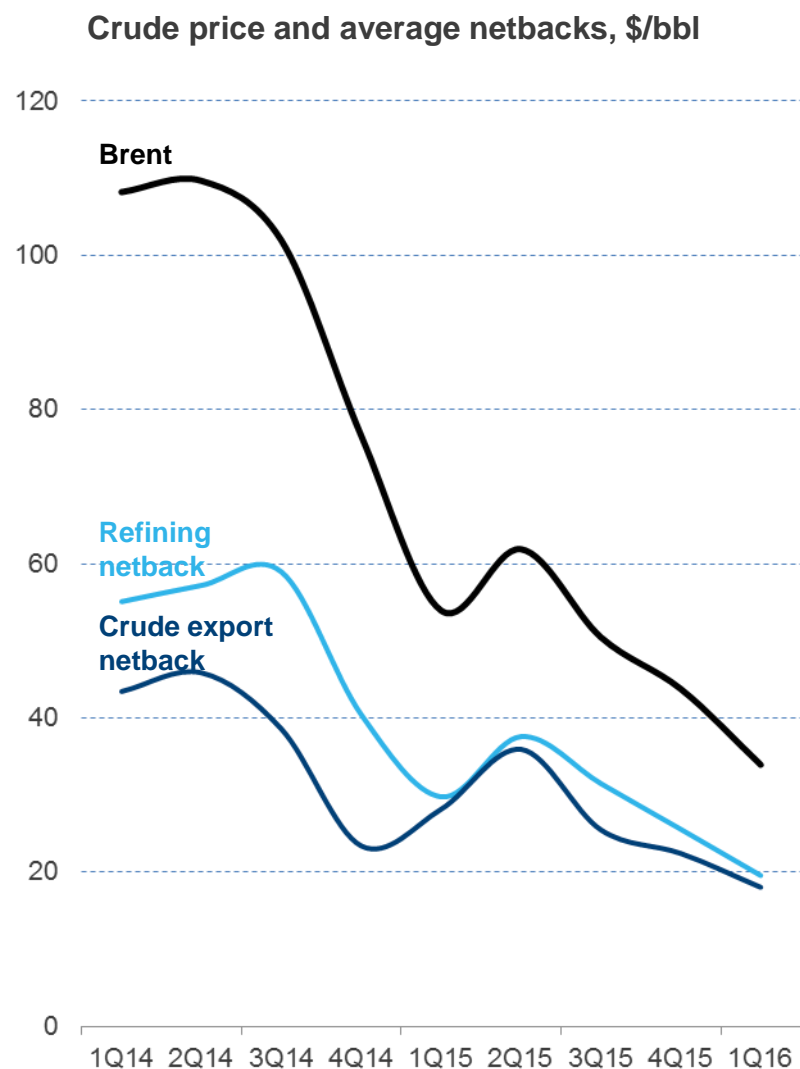
- Increased condensate processing at **Omsk** to **0.4** MMTonnes (+ 0.1 to 1Q15)
- **Omsk**: Concluded reconstruction of sulfuric acid alkylation unit
- **NIS**: Concluded development of FEED for delayed coking unit
- Active construction of complex oil refining unit at **Moscow**

### Marketing



- Number of **filling stations** in operation reached **1,849** (+24 sites vs. 1Q15)
- Average **daily throughput per station** for Russian network **17.5 tpd**
- Dynamics of gasoline and diesel sales outpaced Russian market
- Completed acquisition of NOVA-Brit plant, which produces high-margin bitumen-based products

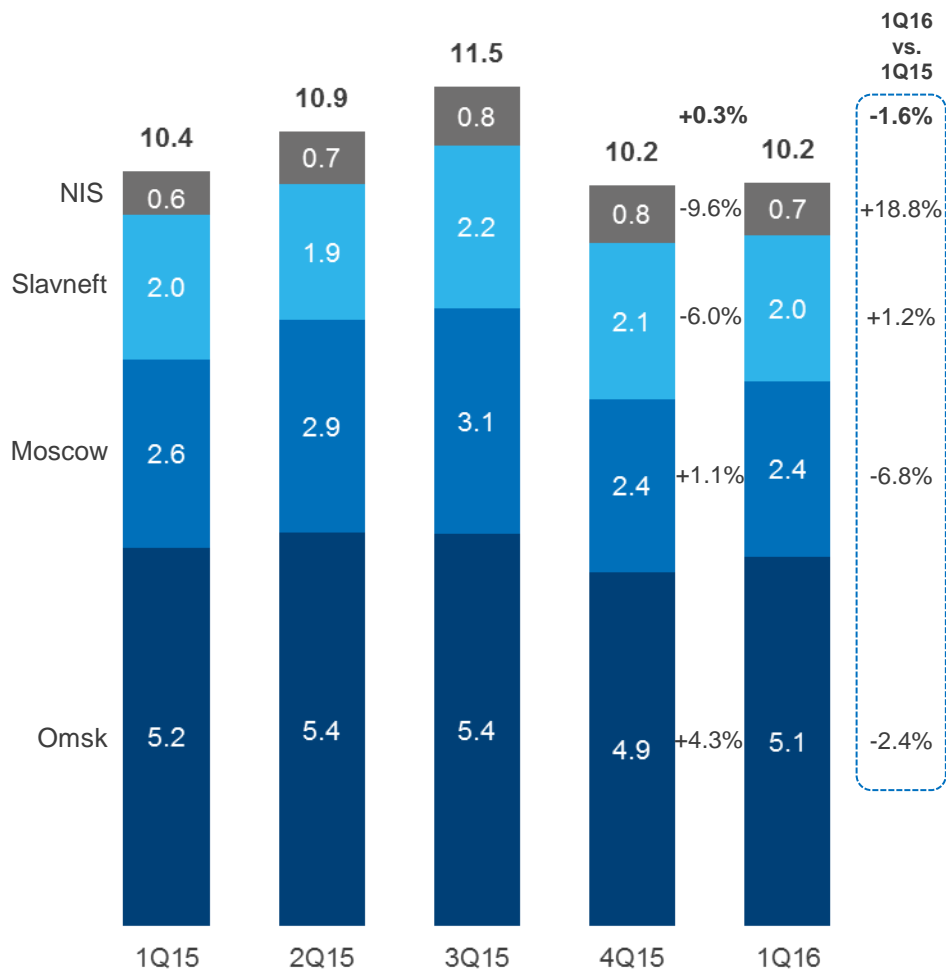
# Crude and product mix reflects shifting regulatory and price environment



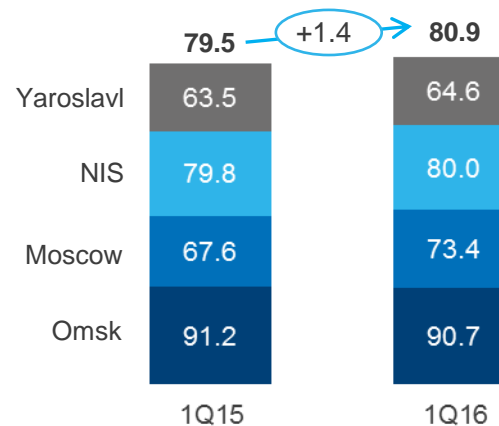


# High-quality product yield continues to rise

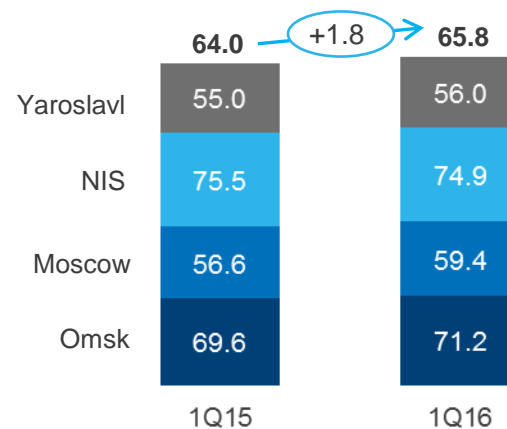
## Refining throughput, MMTonnes



## Depth of refining, %

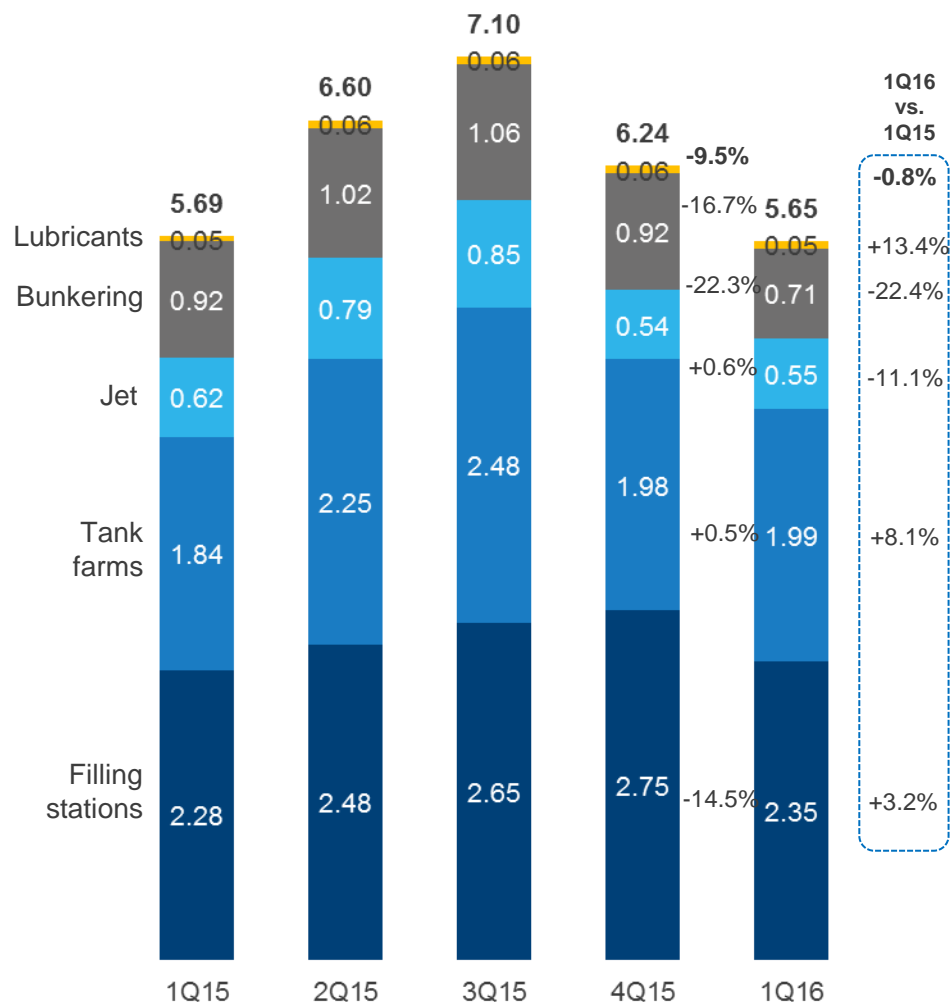


## Light products yield, %

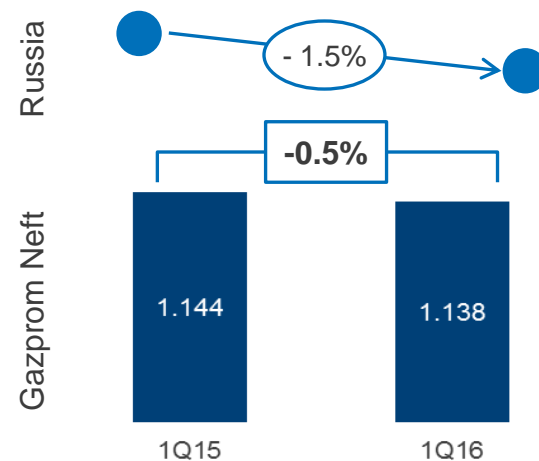


# 1Q16 sales largely steady, outpacing Russian average

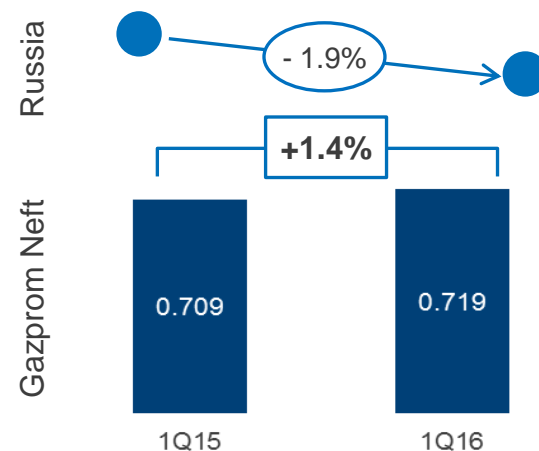
## Premium sales, MMTonnes



## Retail gasoline sales, MMTonnes



## Retail diesel sales, MMTonnes



# Retail sales rise as premium channel activities continue to expand

## Retail



## Aviation



## Bunkering



## Lubricants



- Retail sales in 1Q16:
  - Russia **+1%** Y-o-Y
  - International **+11%** Y-o-Y
- Throughput per station in Russia stood at **17.5 tpd**
- Total number of active stations reached **1,849**
- Number of refueling complexes reached 211:
  - Russia **48 (40 company-owned complexes)**
  - Internationally **163 (1 company-owned complex)**
- Number of international contractors for GPN-Aero reached **77** (+5 from the beginning of 2016), including new contracts with : Singapore Airlines, Asiana, TAP Portugal, Lux Aviation, Moldova Air
- Sustained **leading market position** in the Black Sea and domestic waterways
- Began bunkering with RPK “Nord” Arctic fleet
- Concluded Shell’s fleet certification for **GPN Shipping** (vetting)
- Domestic premium sales rose by **8%** from 1Q15, with a rise in domestic sales volumes of **G-Family** lubricants of **57%** Y-o-Y
- Expanded G-Energy Service network by **4**, with the total network now at **26**
- Began deliveries in **Tunis**, **Guinea** and **Sweden**. Volume of premium product sales to international market rose by **6%** from 1Q15

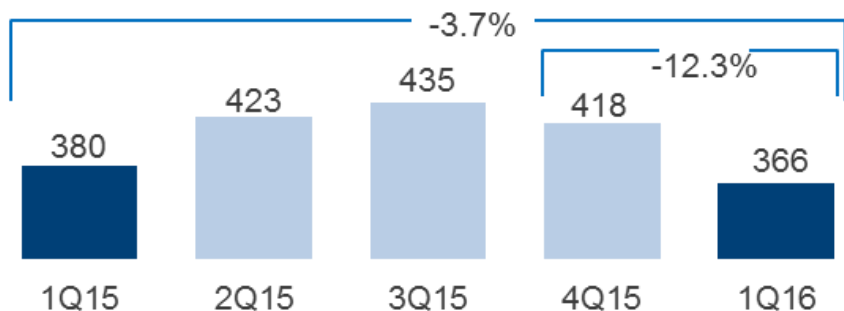
## Financials

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Strategic focus and targeted management actions helped drive increase in EBITDA

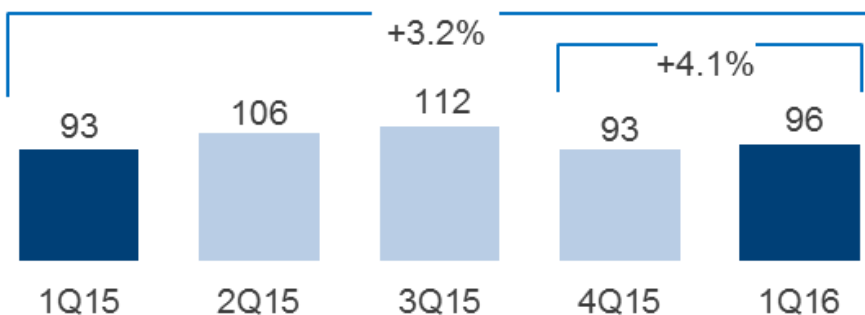
# Commercial and operational improvements and increased hydrocarbon production had a positive effect on EBITDA

## Sales RUB bln



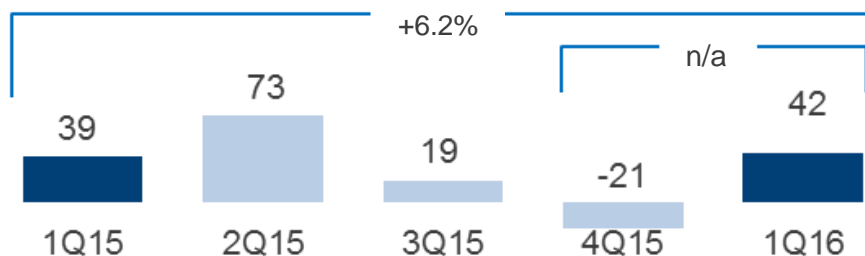
- Sales fell by 3.7% y-o-y, driven by the decline in global crude and oil product price, but was partially offset by increased hydrocarbon production volumes
- Sales fell by 12.3% q-o-q, driven by lower crude and oil product prices and the seasonal decline in oil product consumption on domestic and international markets

## EBITDA\* RUB bln



- Sales mix optimization and increased hydrocarbon production pushed adjusted EBITDA up by 3.2% y-o-y
- Adjusted EBITDA rose 4.1% q-o-q on cost optimization and management effectiveness

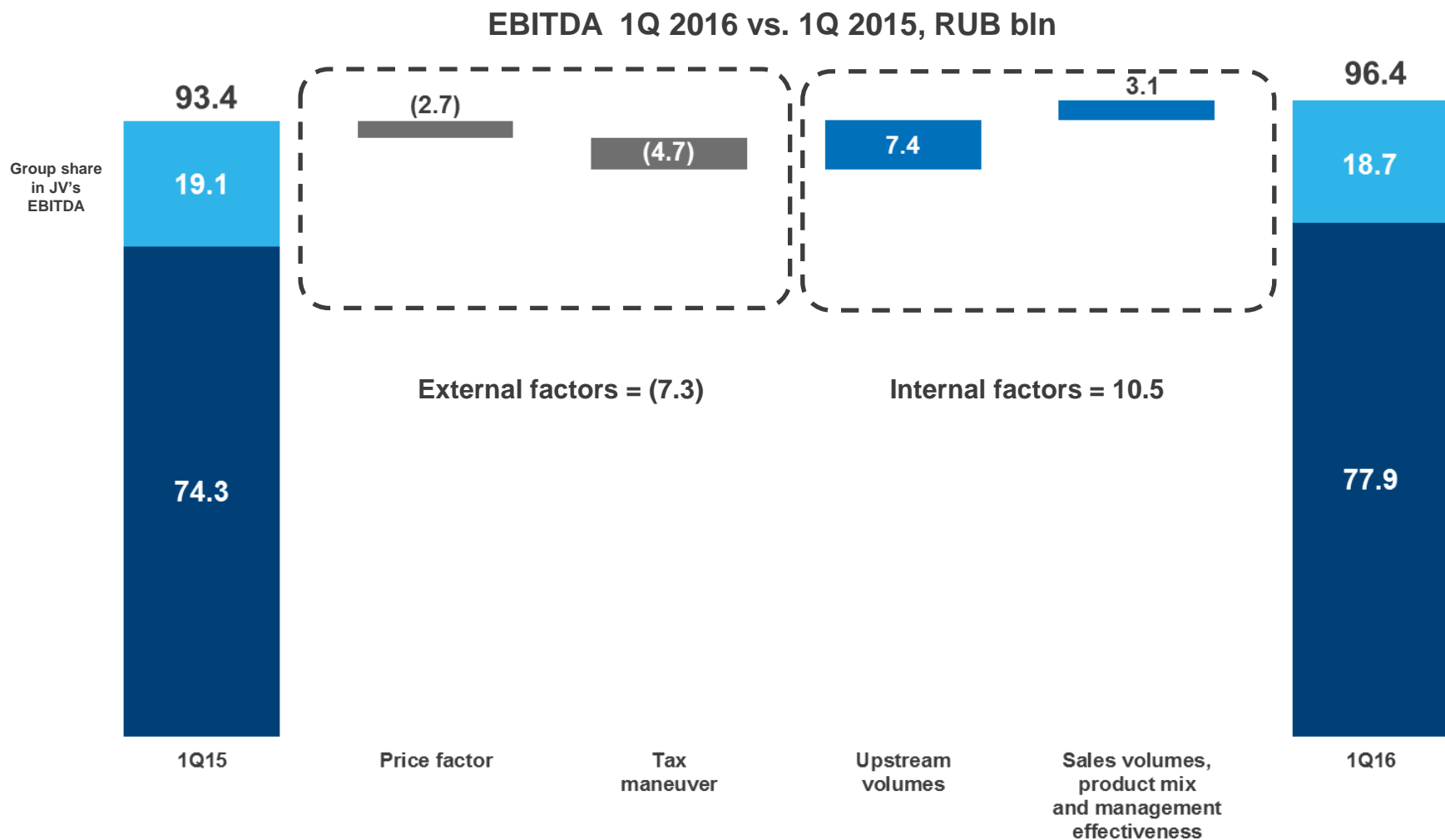
## Net income RUB bln



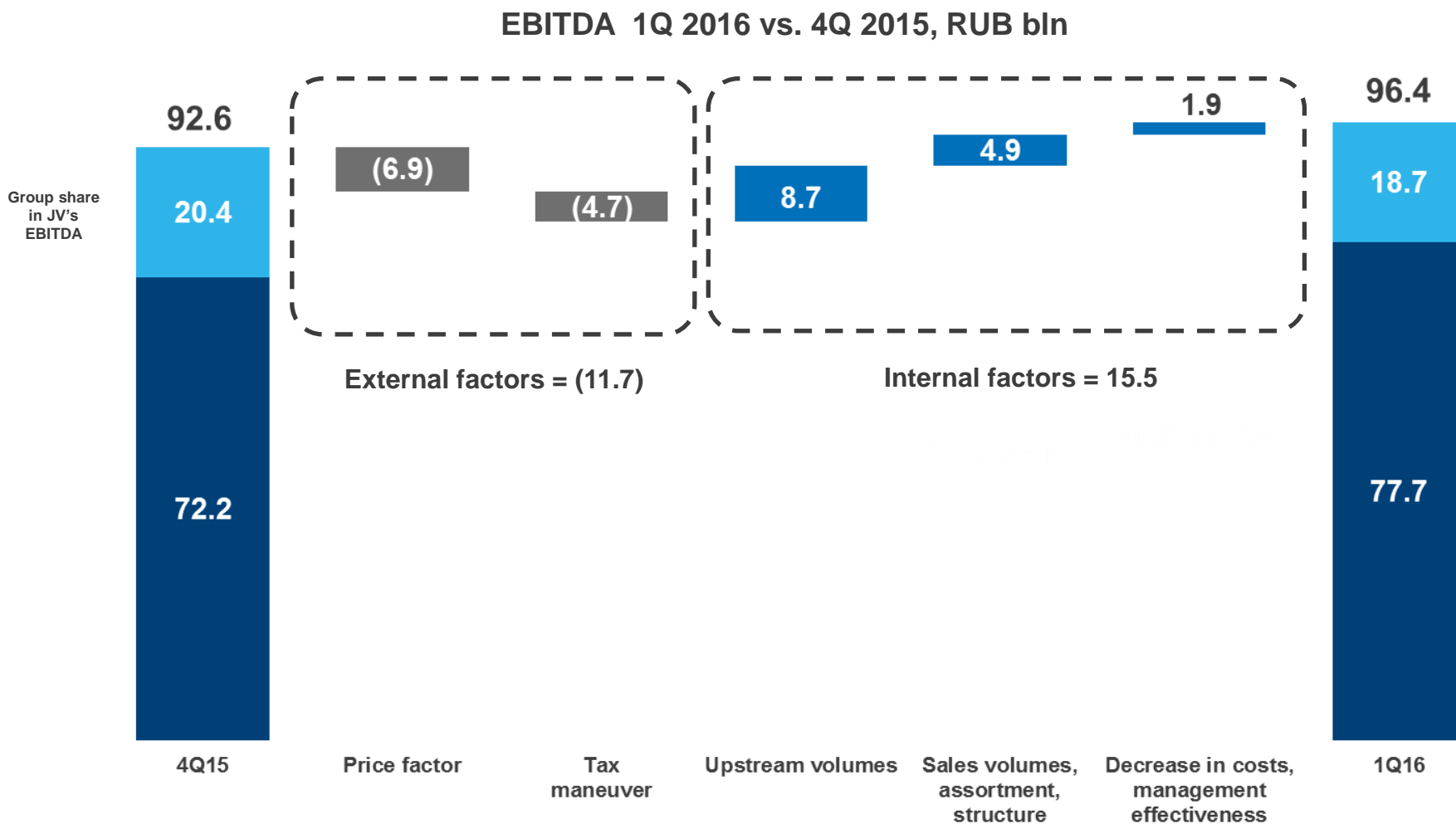
\*Including GPN share in EBITDA of associates and joint ventures

- Net income rose 6.2% y-o-y as a result of higher EBITDA and FX gains from debt revaluation
- Net income rose q-o-q as a result of EBITDA and FX gains from debt revaluation

# EBITDA reconciliation 1Q 2016 vs. 1Q 2015

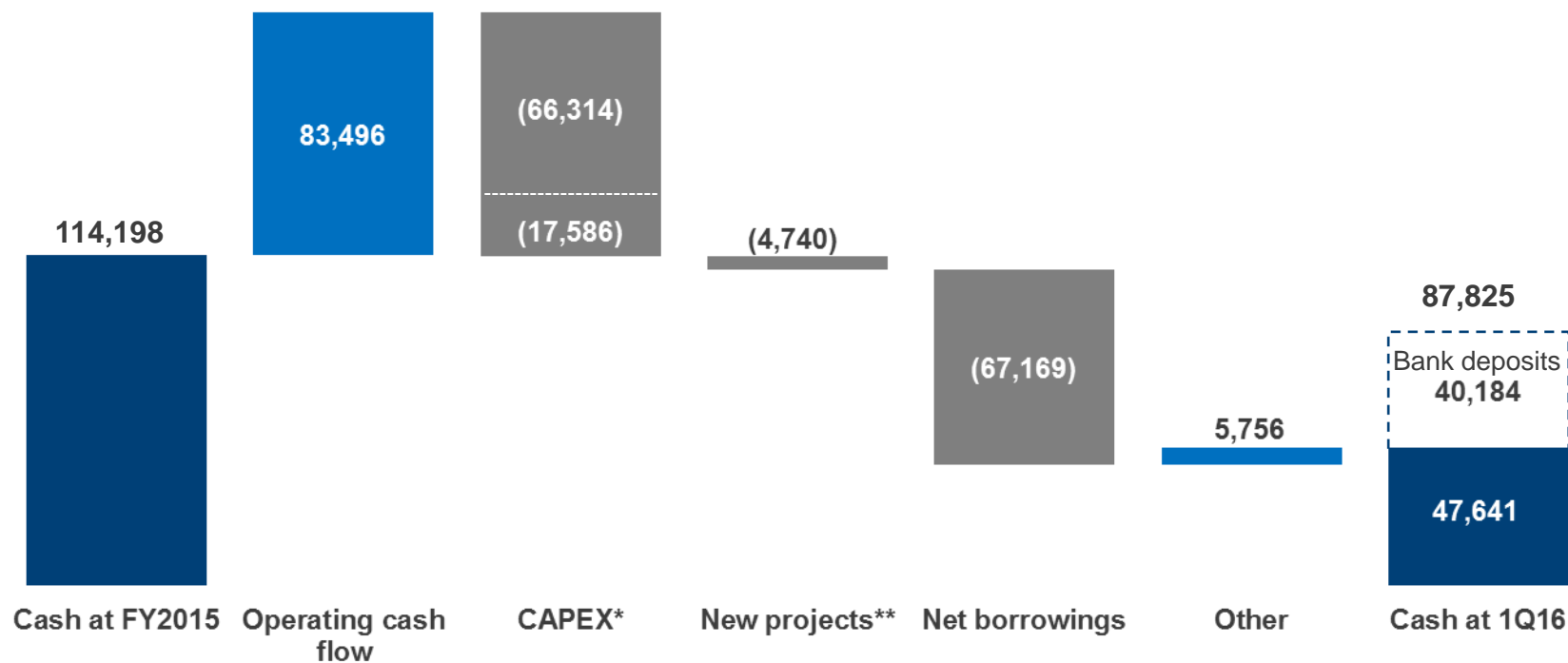


# EBITDA reconciliation 1Q 2016 vs. 4Q 2015



# Balanced cash flow in volatile price environment

1Q 2016 cash flows, RUB mln



\* Including changes in advances & inventory

\*\* Projects not consolidated under IFRS



# Upstream capex growth driven by stronger focus on brownfields, increasing greenfield development



**20%** Y-o-Y increase in **IFRS capex**

**4%** Y-o-Y higher **brownfield** capex

**Greenfield** capex rose by **9%** Y-o-Y on active development of **Novoport** and **Prirazlomnoye**

**Refining** capex increased by **62%** due to an active **reconstruction program** at Omsk and Moscow refineries



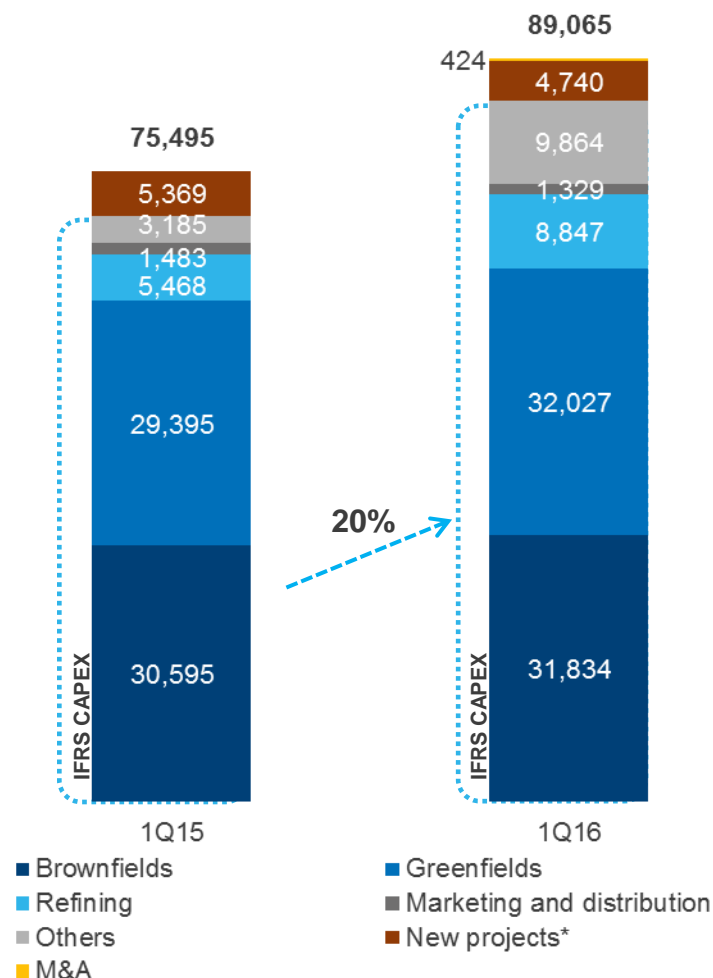
**10%** Y-o-Y lower **marketing** capex, driven mainly by decrease in retail rebranding program and the completion of premium sales infrastructure



Investments in **new projects\*** mainly reflect **Messoyakha field development**

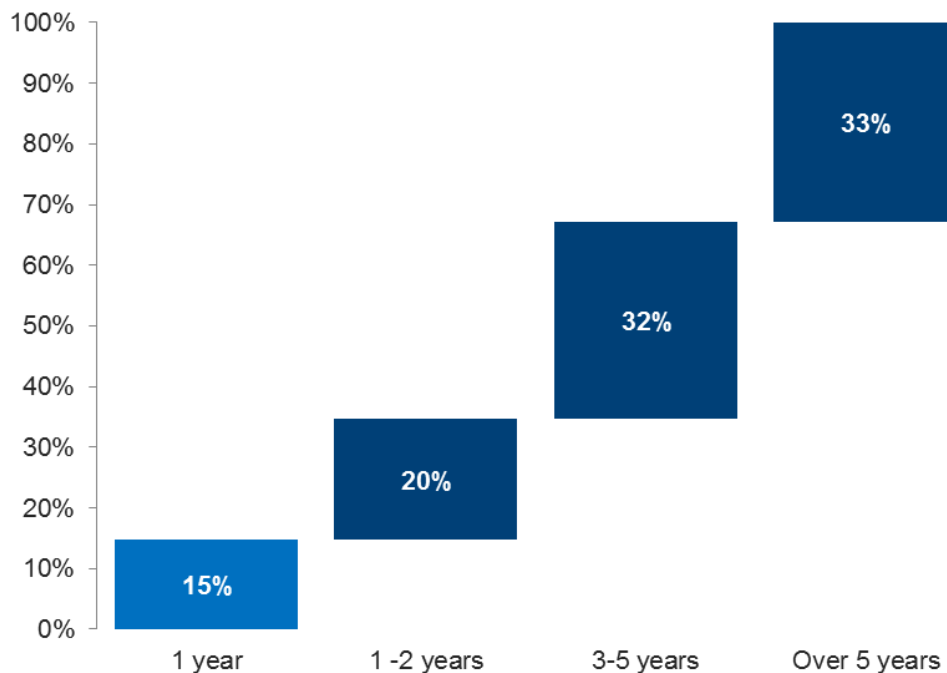
*\* Projects not consolidated under IFRS*

## Investments, RUB mln

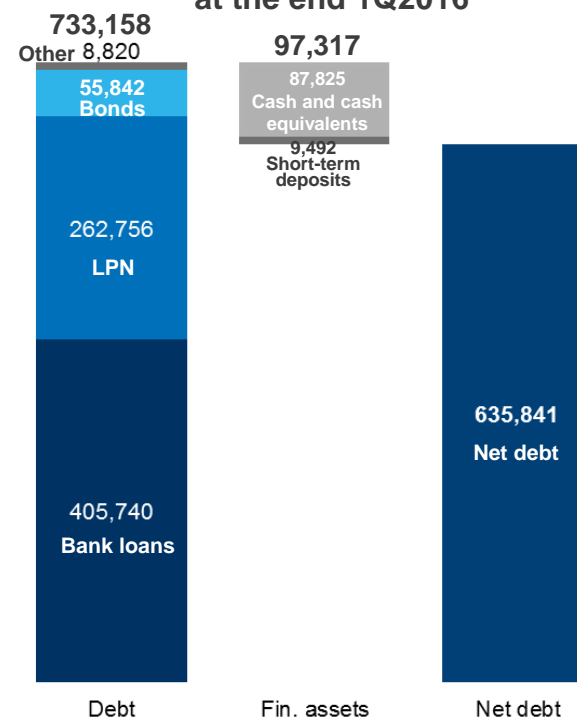


# Proactive management of robust financial structure

Debt maturity profile at the end of 1Q2016



Debt structure by instruments at the end 1Q2016



- Increased average debt maturity from 3.33 years at December 31, 2015 to 3.44 years at March 31, 2016
- Increased average interest rate from 4.31% at December 31, 2015 to 4.86% at March 31, 2016
- In March 2016 Gazprom Neft has successfully completed the placement of RUB25 bln 30y 10.65% bonds with a 5y put-option which:
  - ✓ is **unique** for the Company in featuring a 2y call option, granting Gazprom Neft with the flexibility of the early bonds' redemption;
  - ✓ was and remains **the highest-value market transaction** from a Russian corporate issuer since 2014;
  - ✓ was **the lowest coupon rate deal** among Russian corporate borrowers since mid-2014 at the moment of the deal