# 9M2016 IFRS FINANCIAL AND OPERATING RESULTS

November 24, 2016, Saint-Petersburg

# Agenda

| | | |
|---|---|---|
| Highlights, Financials | **Alexey Yankevich**<br>Member of the Management Board, CFO |  |
| Exploration and Production | **Alexander Mikheev**<br>Head of Economics and Investment Department, Exploration and Production Division |  |
| Downstream | **Vladimir Konstantinov**<br>Head of Economics and Investment Department, Refining and Marketing Division |  |

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(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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# 9M16 highlights









## 9M16 Financial Performance:

- Sales: RUB **1,221** bln (**-1.4%** Y-o-Y)
- EBITDA*: RUB **325** bln (**+4.1%** Y-o-Y)
- Net Income: RUB **147** bln (**+12.7%** Y-o-Y)

## Operational Progress in 9M16:

- Hydrocarbon production up **8.1%** Y-o-Y
- Refining volumes down **5.1%** Y-o-Y
- Retail sales of motor fuels up **3.4%** Y-o-Y

## 3Q16 vs. 2Q16

- Sales up **11.2%**
- EBITDA* up **13.2%**
- Hydrocarbon production up **3.9%** (in MMToe)
- Refining throughput up **1.3%**
- Average retail station throughput in Russia reached record **20.0** tonnes/day in 3Q16 (**+5.0%** Q-o-Q)

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

# Key 9M16 events





## Exploration and Production:

- Started commercial production at **East Messoyakha** field
- Launched **Shinginskoye gas turbine power station**

## Downstream:

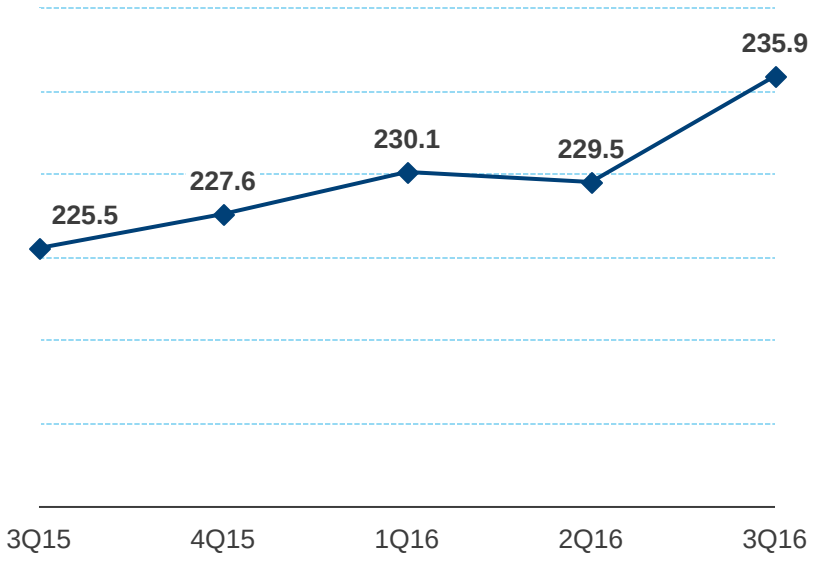
- Launched year-round crude shipments from **Novy Port** through Arctic terminal ‘Vorota Arktiki’
- Completed acquisition of **NOVA-Brit** plant, **Rospolychem** Group assets and **Chukotaerosbyt** (three aviation refueling complexes)

# Exploration and Production

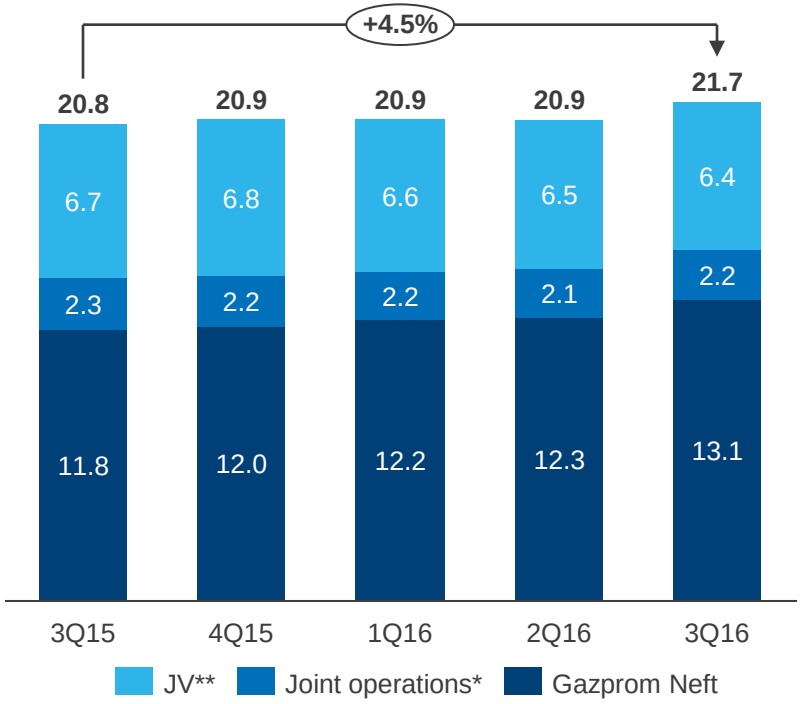
Cost control and application of advanced technologies have improved project economics, enabling further profitable production growth

# Third quarter sees strong rise in production, driven by fully owned assets

## Average daily hydrocarbon production, ‘000 toe/day

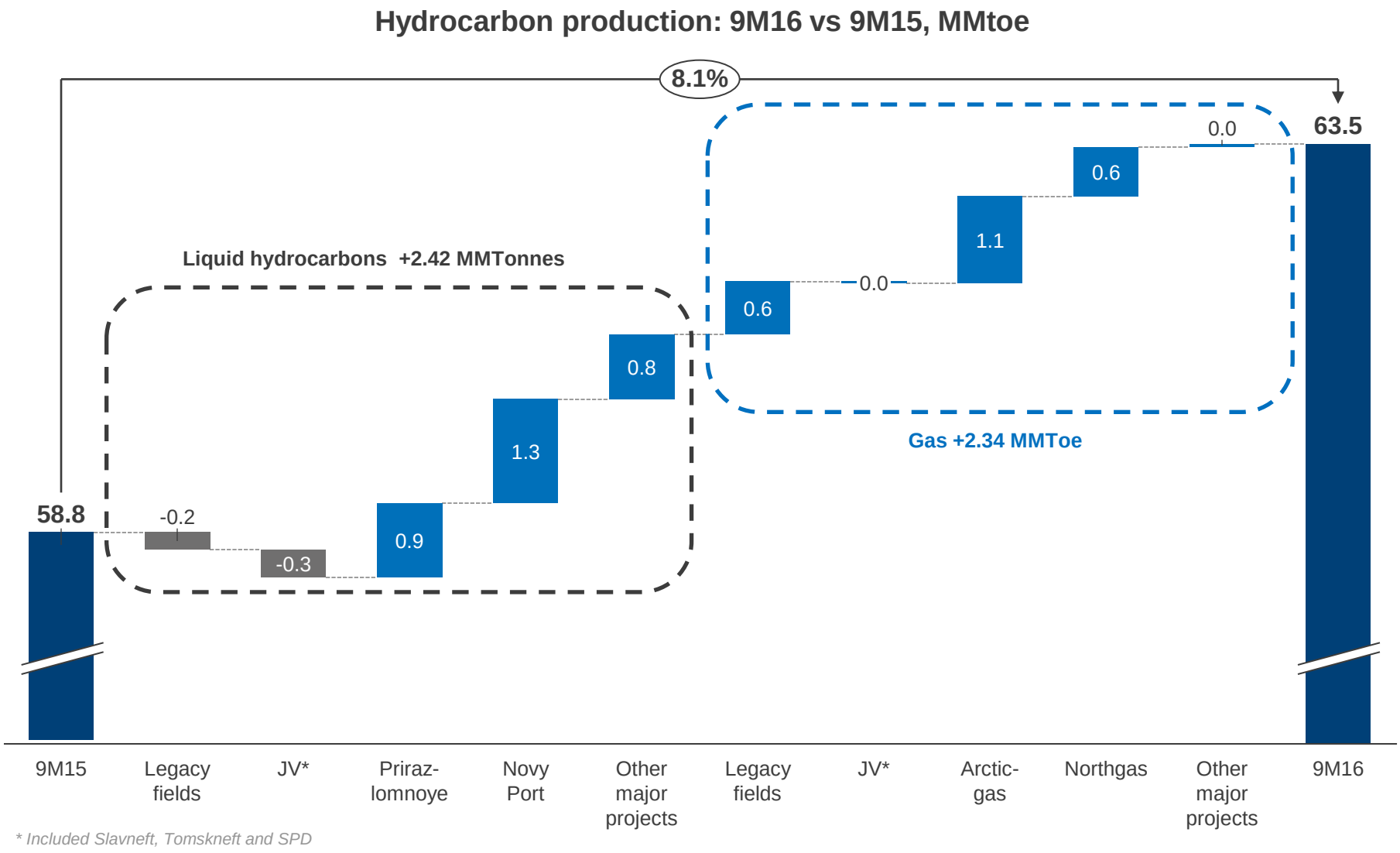



## Hydrocarbon production, MMtoe



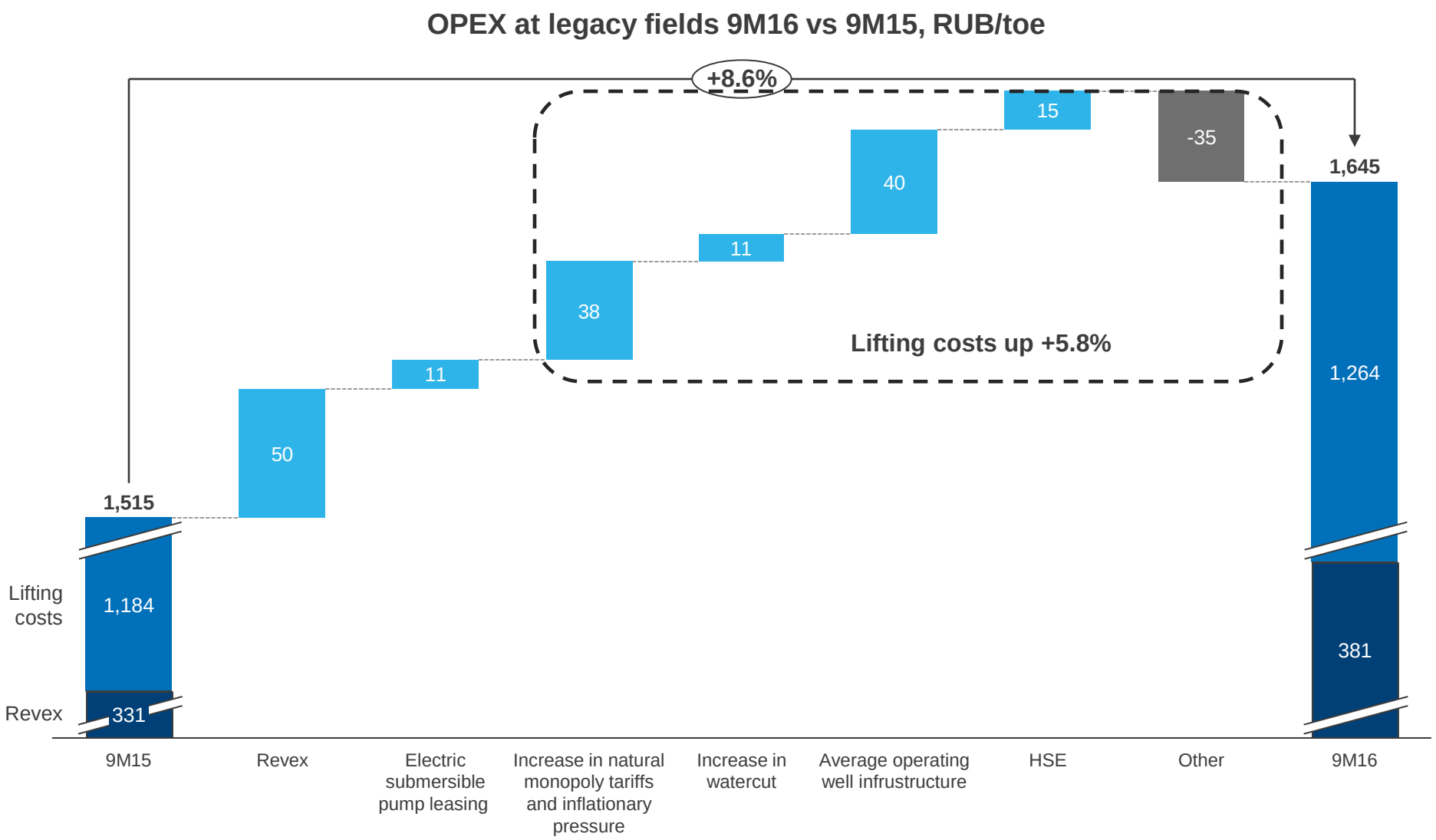

**Joint operations: proportionally consolidated companies (Tomskneft, SPD)*
*** Joint ventures: equity accounted entities (Slavneft, SeverEnergia (Arcticgas), Northgas)*

# Increased production of crude from Novy Port and Prirazlomnoye and gas from Yamal and mature fields




** Included Slavneft, Tomskneft and SPD*

# Controlling OPEX at legacy fields



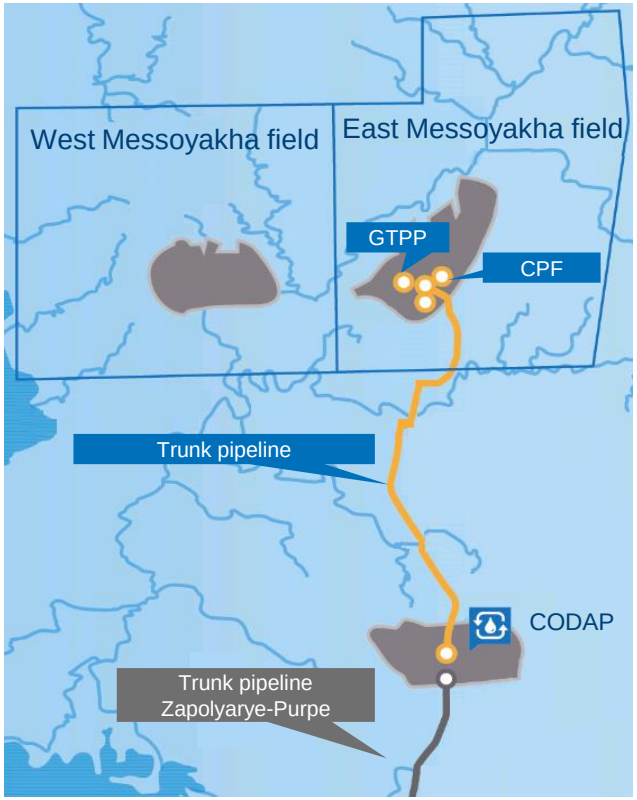

*Note: the chart above takes into account the following projects: NNG, MN, Khantos, Vostok,*

# Production launches at Messoyakha, one of Gazprom Neft's key projects

Startup of
**East Messoyakha** field

21 September 2016

- ✓ Completed development in less than three years
- ✓ 51 producing oil wells
- ✓ 98 km pipeline
- ✓ Two power plants with combined 90MW capacity
- ✓ Obtained tax break for export duty






# Completion of infrastructure projects allows for Novy Port to reach planned production targets

Production of over **2.5 MMToe** forecast in 2016

**Forecast production:**
2017 – 5.5 MMToe
2018 – 6.5 MMToe

- Began year-round crude shipments from Gulf of Ob terminal (‘Vorota Arktiki’)
- Infrastructure completed at Novy Port field (5.5 MMTonnes)

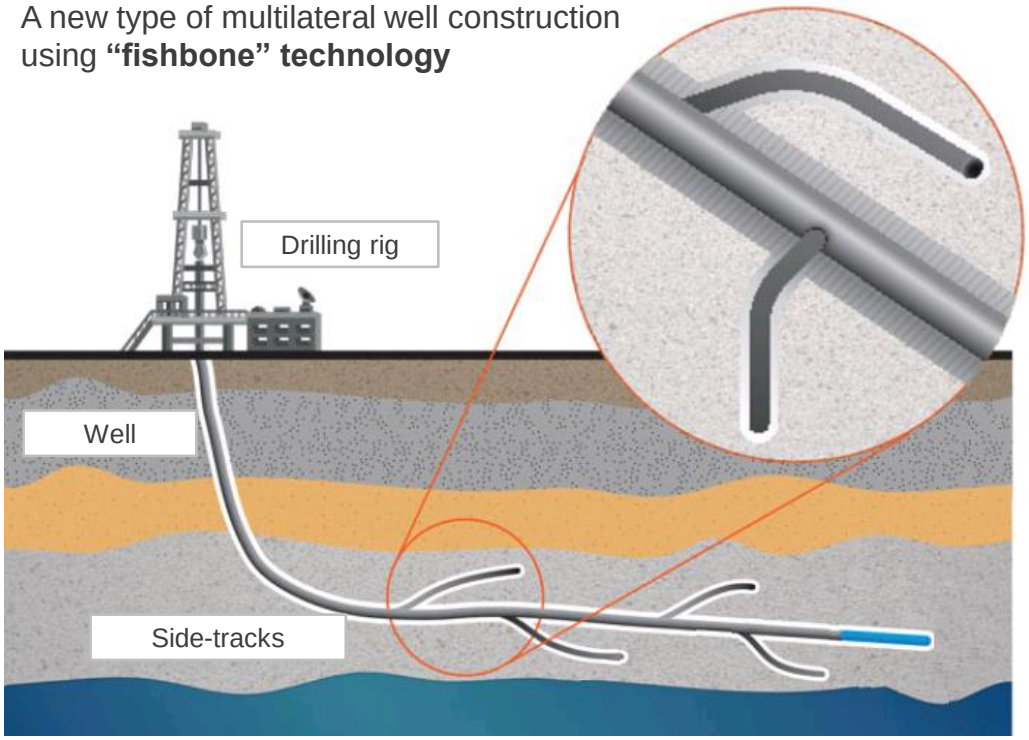
| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|





# Successfully implemented horizontal well drilling using multiple horizontal branches

A new type of multilateral well construction using **“fishbone” technology**




## Purpose:

To increase well productivity through the expansion of oil-saturated reservoir pool coverage

## Features:

- ✓ Allows for an increase in the coverage of oil-saturated shelves, without intensive drilling
- ✓ The fishbone construction allows each of the branches (“laterals”) to be directed at separate reservoirs, without having to encroach on adjacent strata with either water or gas.
- ✓ The laterals can extend in any direction from the horizontal wellbore, at significantly lower cost than drilling individual wells

The initial flow rate for fishbone multilateral wells is **40%** higher than flow rates from conventional horizontal wells drilled in the same reservoir compartments

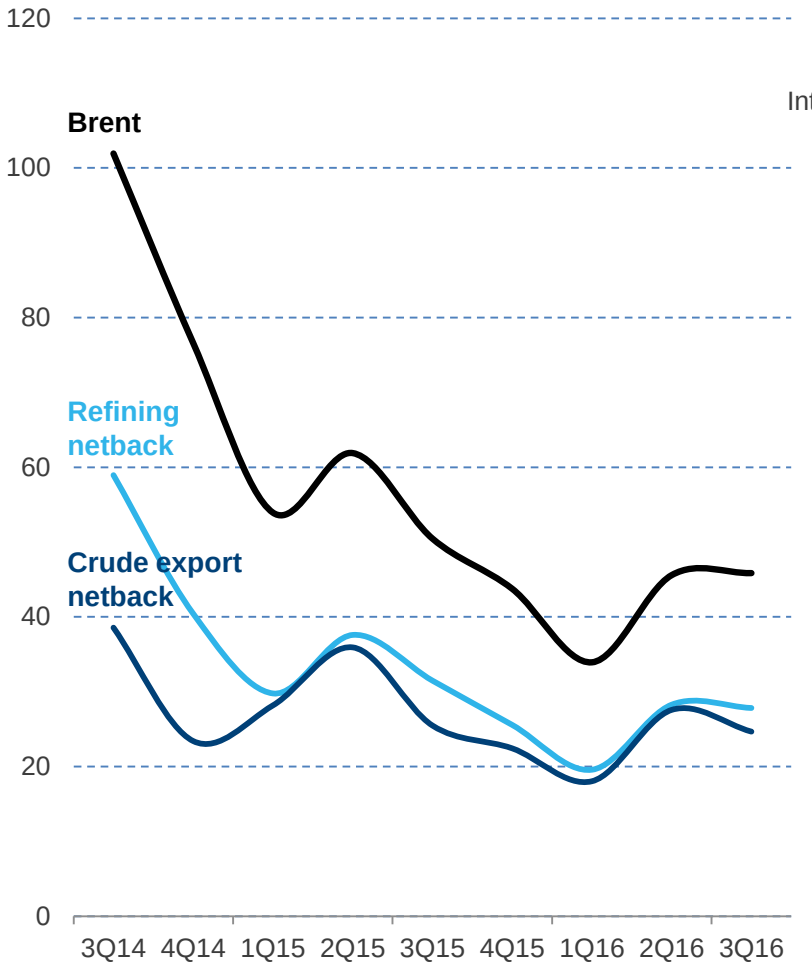
Gazprom Neft’s technology strategy uses a wide range of innovations, including well design optimization, new technologies for well completion and partnerships in the field of high-tech equipment

# Downstream

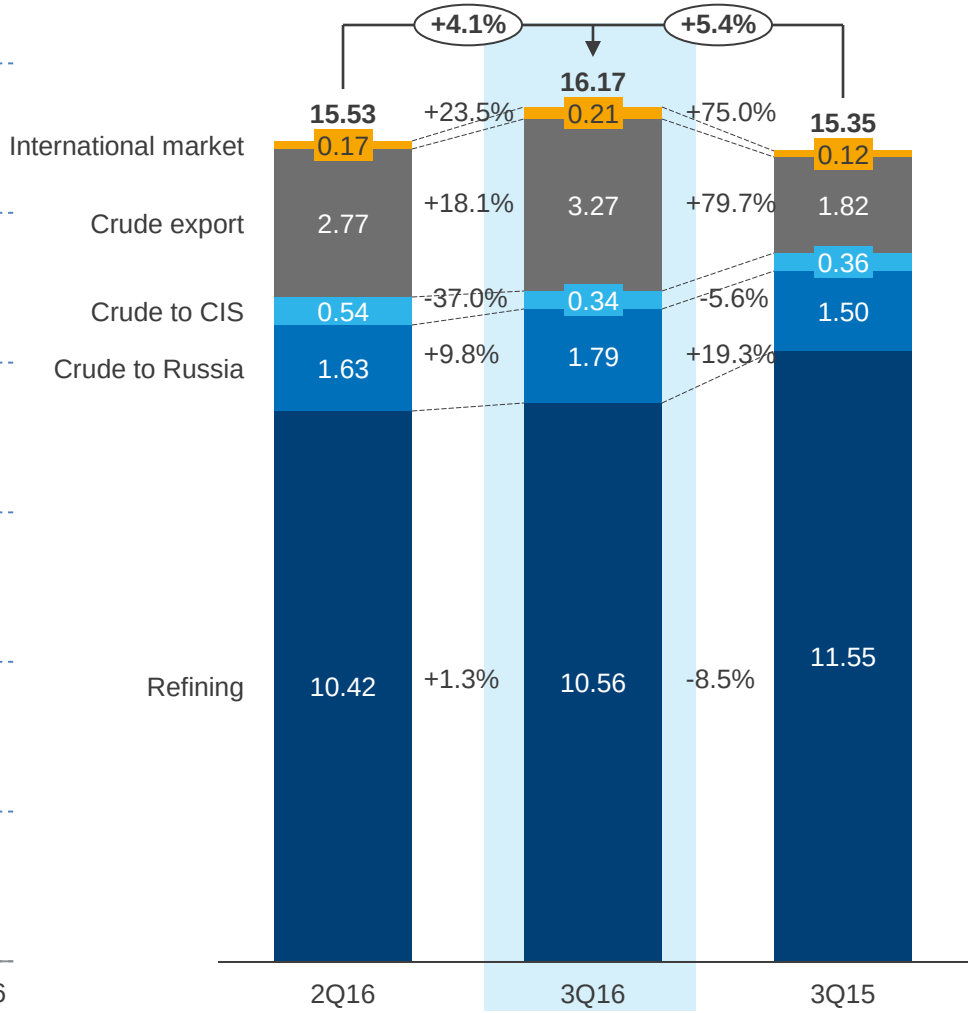
Optimizing refining throughputs while maintaining market share

# Crude exports rise on strong production increases

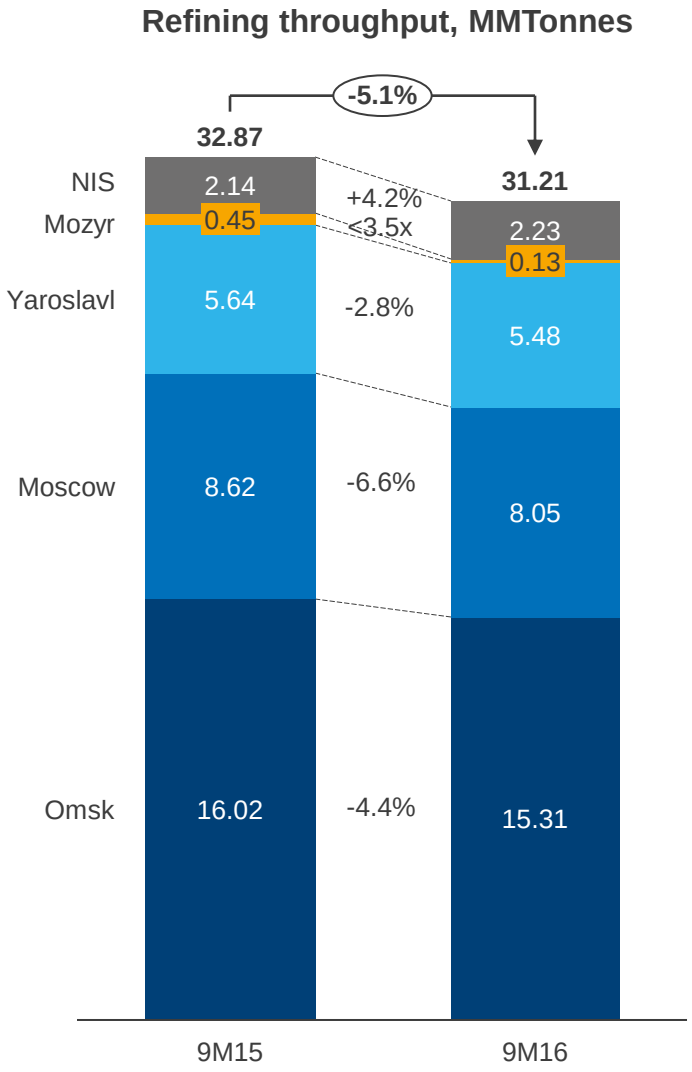
## Crude price and average netbacks, $/bbl

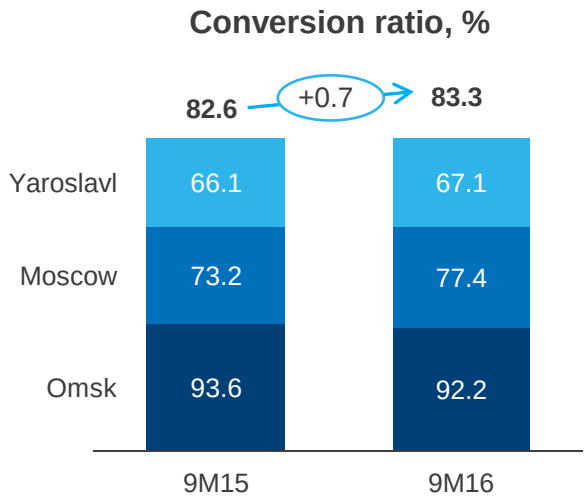


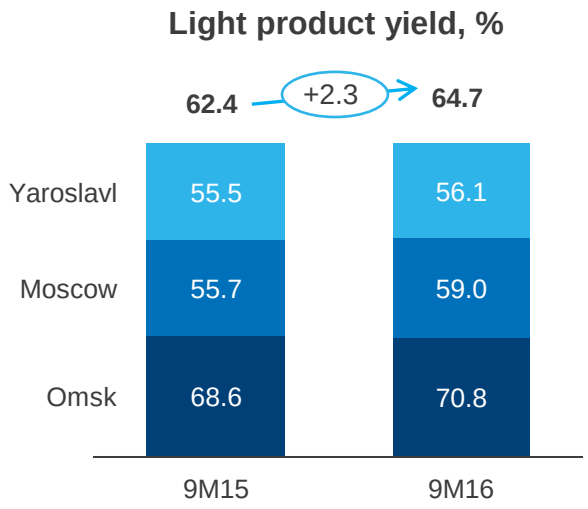

## Crude mix, MMTonnes



# Optimizing refining throughput as operational metrics see improvement

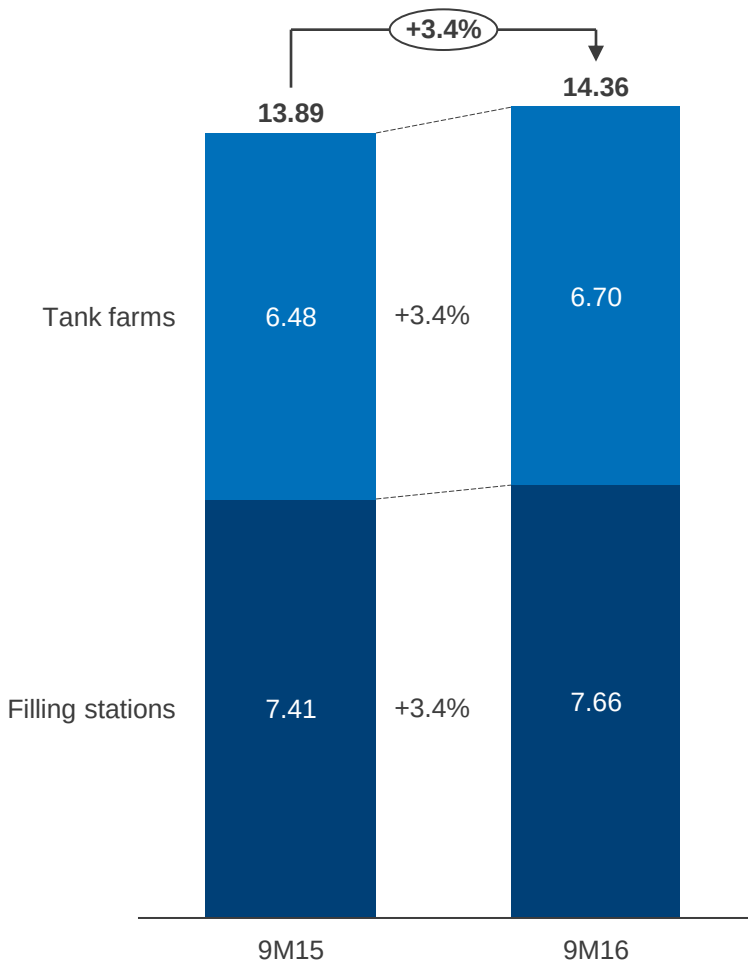


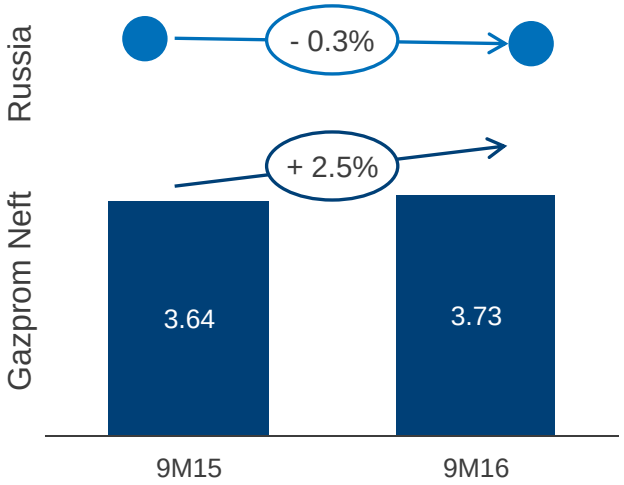



# Russian motor fuel sales rise even as domestic demand declines

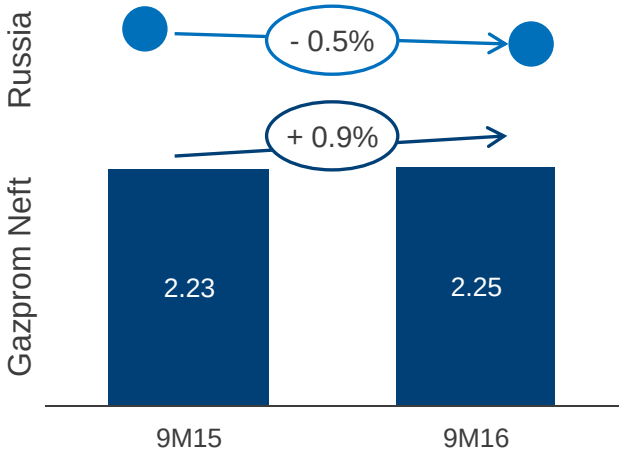
## Premium sales of motor fuels, MMTonnes




## Retail gasoline sales in Russia, MMTonnes

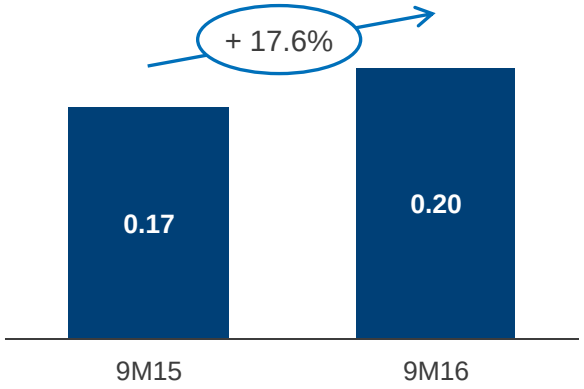



## Retail diesel sales in Russia, MMTonnes



# Lubricants sales rise on strengthening of market position

**Premium lubricants sales, MMTonnes**





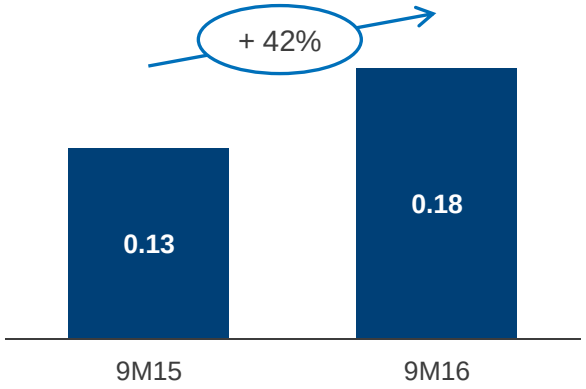


Increase in premium sales due to:

- **Domestic market**
  - ✓ well-balanced support to the distribution network
  - ✓ prudent pricing and credit policies
  - ✓ organization of marketing initiatives focused on import substitution
- **Customs Union countries**
  - ✓ strengthening market position of trading representatives
  - ✓ expansion of distribution network
- **International markets**
  - ✓ expansion of distribution network
  - ✓ growth in competitiveness due to ruble devaluation

# Bitumen sales rise as production line and geographic reach expand

**Premium bitumen sales, MMTonnes**







Increase in premium sales due to :

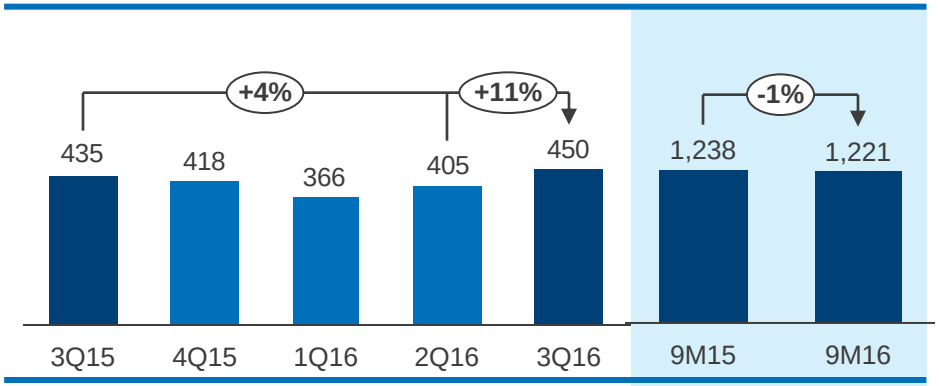
- expansion of modern binder market (working with customers, promotion via “Bitumen and PBB” conference and creation of a research center at the Ryazan bitumen plant)
- expansion of presence in the Moscow region
- rise in polymer-bitumen binder sales due to entry into new export markets in Europe, South America and Asia
- expansion in number of bitumen-derived products (sealants, road strips, bituminous mastics) via production at Nova-Brit (Vyazma)

# Financials

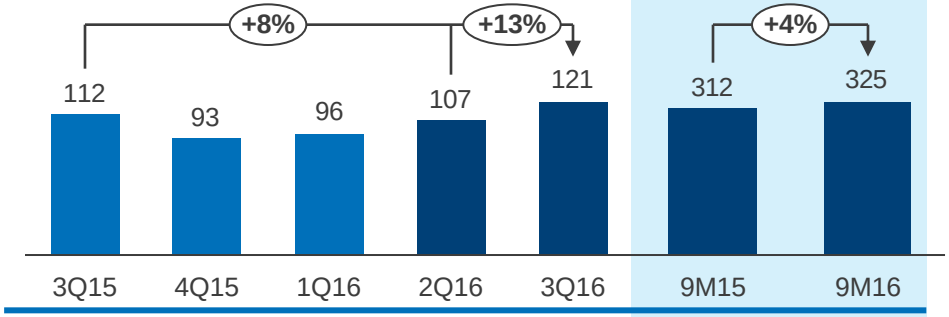
Consistent strategic focus and rising production drive a continued increase in EBITDA

# Hydrocarbon production growth and management effectiveness led to a rise in adjusted EBITDA

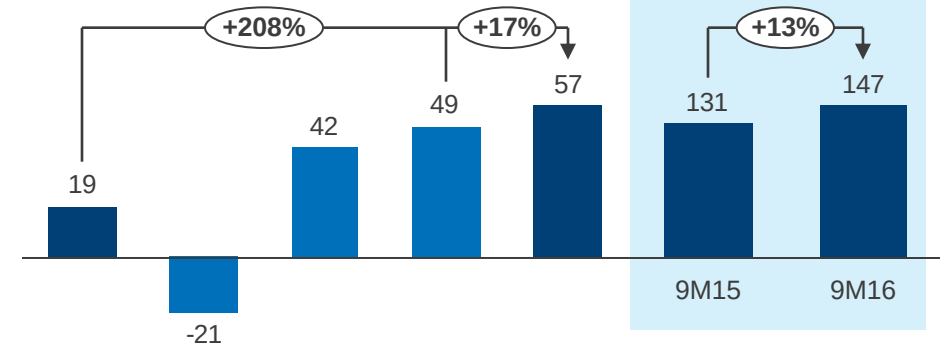
**Sales RUB bln**




**EBITDA* RUB bln**



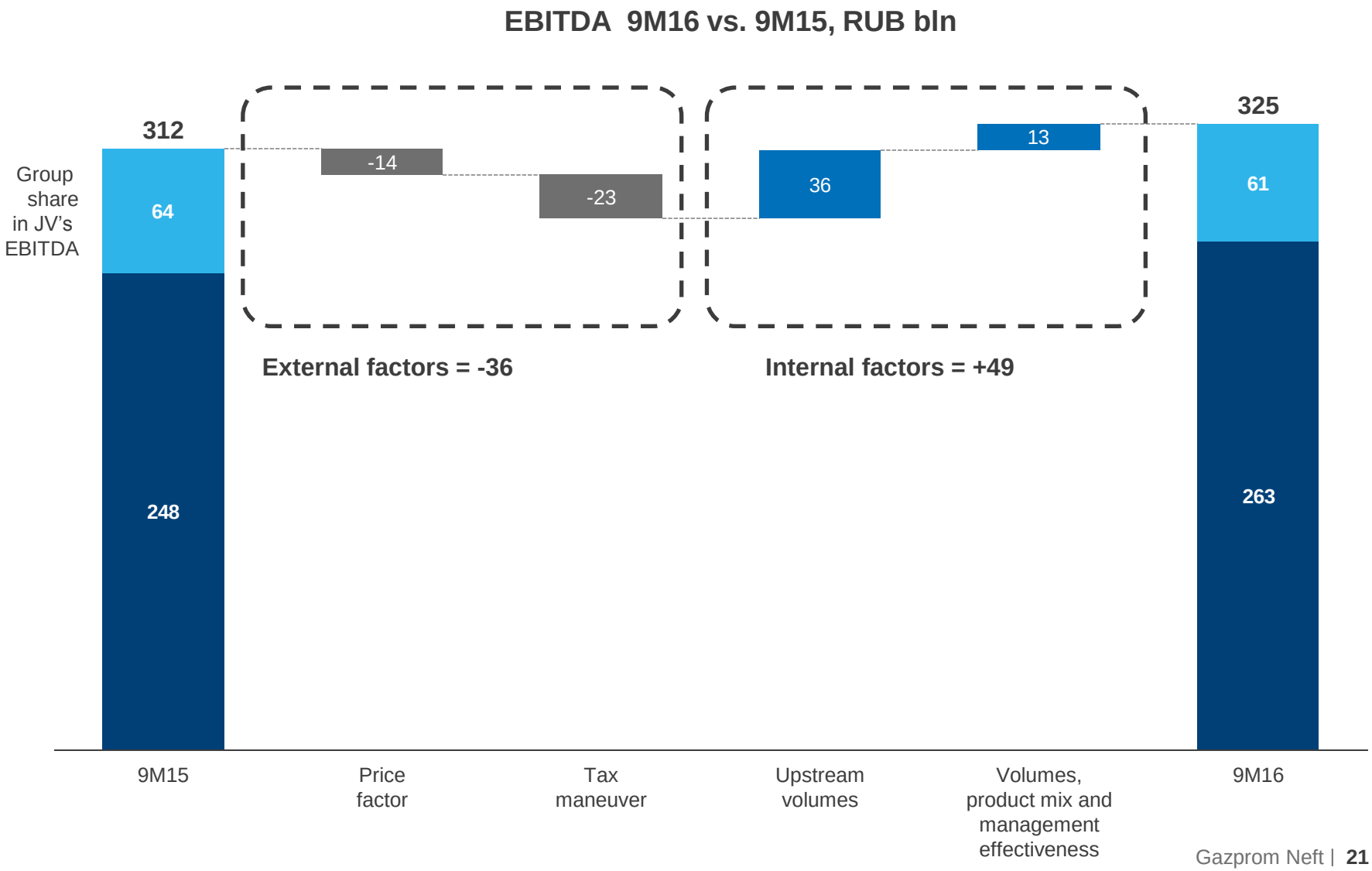

**Net income RUB bln**



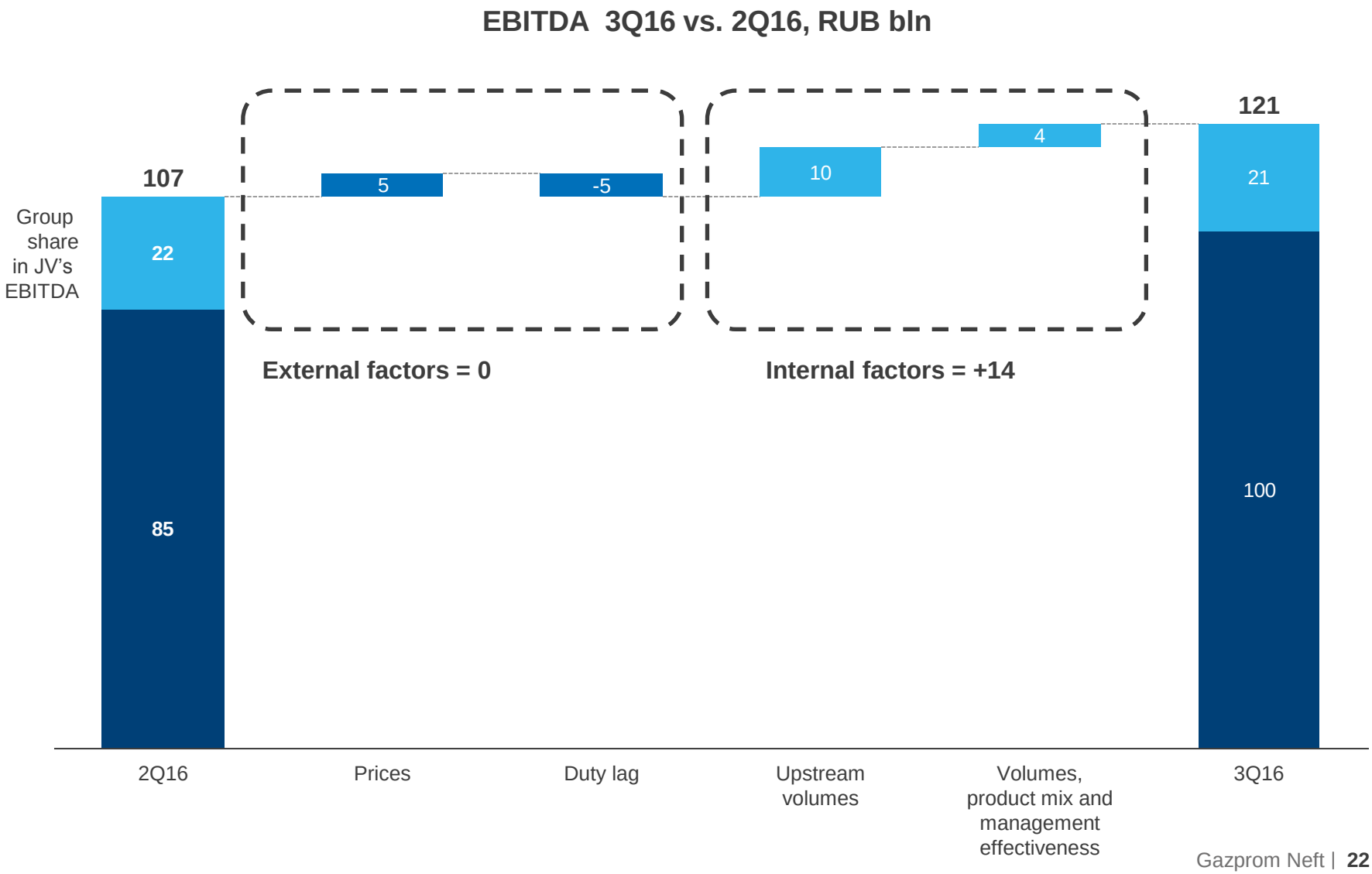

- The 1.4% drop in sales was driven by the decline in global crude and oil product prices, but was partially offset by a rise in crude production
- Sales rose by 11.2% q-o-q, due to a combination of crude production growth, an increase in global crude prices and rising prices and production of oil products on the domestic market
- Rising hydrocarbon production and sales mix optimization pushed adjusted EBITDA up by 4.1% y-o-y
- Adjusted EBITDA rose by 13.2% q-o-q due to significant hydrocarbon production growth and management effectiveness
- Net income rose by 12.7% y-o-y as a result of higher EBITDA and FX gains from loan revaluation
- Net income rose by 16.8% q-o-q as a result of EBITDA gains

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

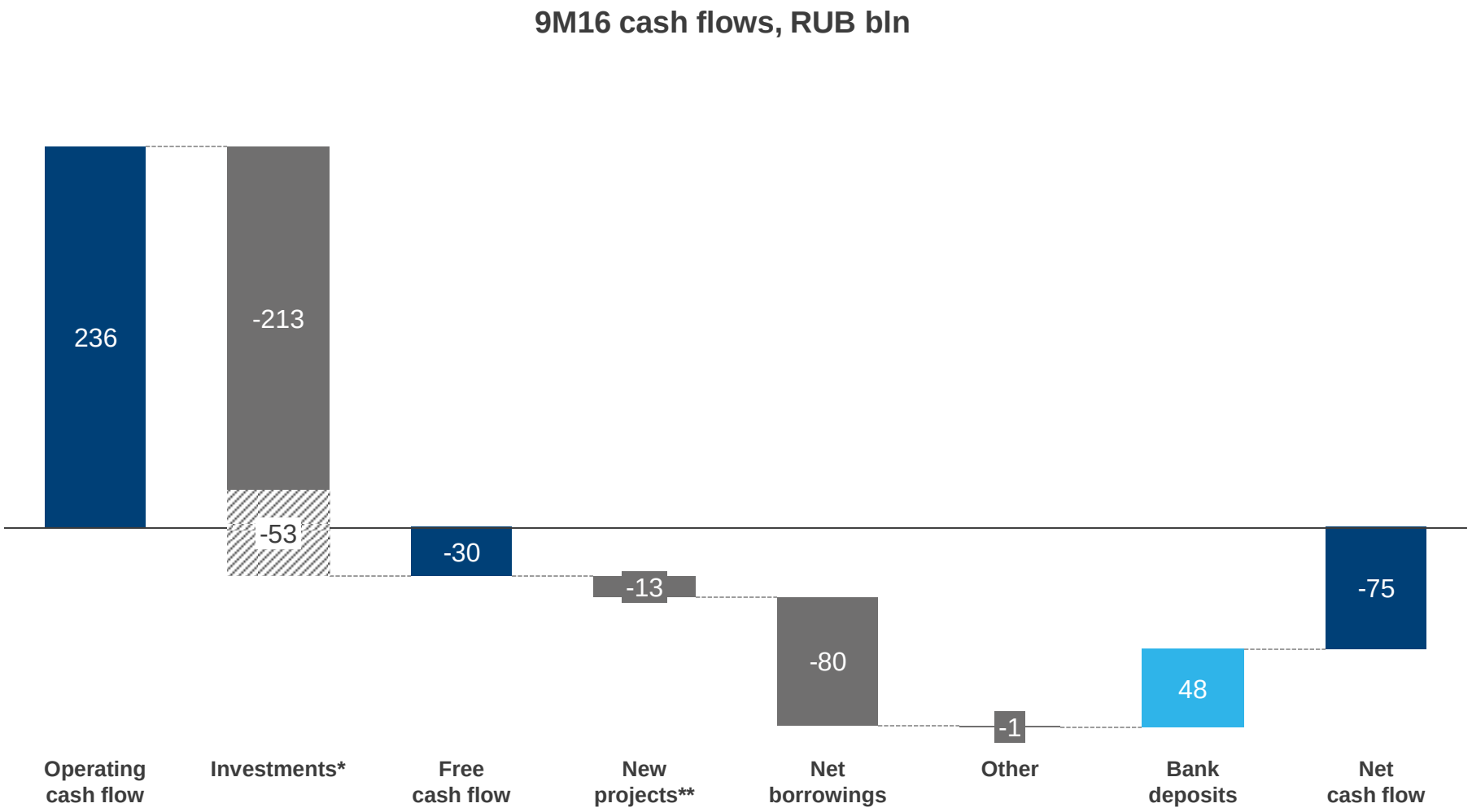
# EBITDA reconciliation 9M16 vs. 9M15



# EBITDA reconciliation 3Q16 vs. 2Q16



# Intensive capital program resulted in decreased net cash flow




* *Changes in the amount of prepayments and materials for capital construction*
** *Projects not consolidated under IFRS capex*

# IFRS capex sees slight rise on refining and greenfield investments

**4.7%** Y-o-Y increase in **IFRS capex**

**Brownfield capex** in-line Y-o-Y

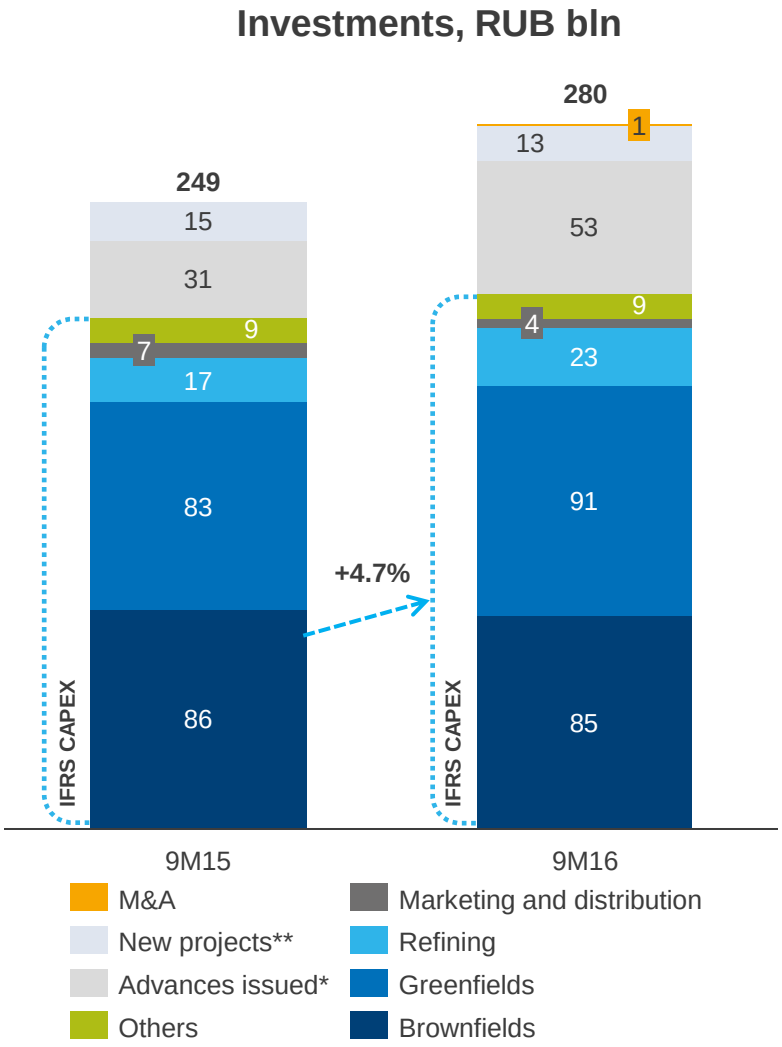
**Greenfield capex** rose by 9.5% Y-o-Y on major infrastructure projects at Novy Port

**Refining capex** increased by 37.6% Y-o-Y as the “Euro +” modernization project continued at the **Moscow refinery**

**Marketing capex** declined by **38.4%** Y-o-Y on the completion of premium channel retail infrastructure

Investments in **new projects*** mainly reflect development at **Messoyakha**

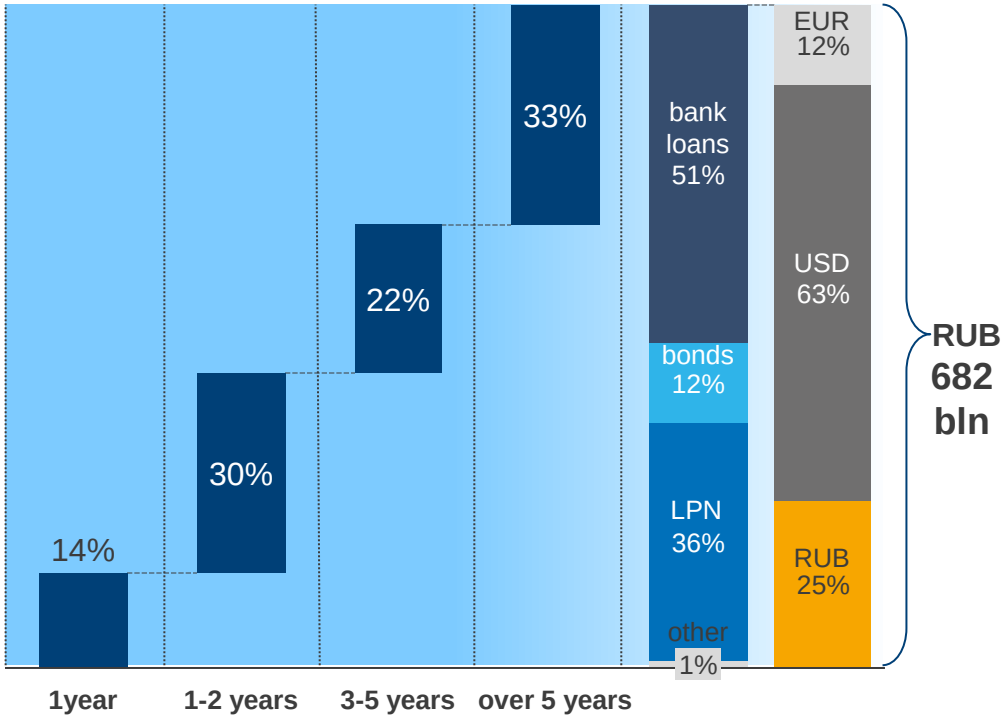
Changes in the amount of prepayments and materials for capital construction includes the cost of materials and equipment at ongoing projects




* *Changes in the amount of prepayments and materials for capital construction*
** *Projects not consolidated under IFRS capex*

# Proactive management of robust financial structure

## Debt maturity profile at the end of 3Q16




## Credit ratings

**Credit ratings at sovereign level:**

| | |
|---|---|
| S&P | BB+ STABLE |
| Moody's | Ba1 NEGATIVE |
| Fitch | BBB- STABLE |
| Dagong | AA- NEGATIVE |

- In September and October 2016 **Standard & Poor's** and **Fitch** revised Company's outlook from negative to stable
- In August 2016 Gazprom Neft successfully completed bond-placement: **RUB 15 bln 30-year 9.4% p.a. bonds with 5 year put-option** (lowest coupon for a Russian corporate borrower at the time of the deal since the beginning of 2014)