



IFRS FINANCIAL AND  
OPERATING RESULTS  
FOR SECOND QUARTER 2013

6 August 2013, St. Petersburg

- Highlights, Macro Environment, Financials



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## **Alexey Yankevich**

Member of the Management Board,  
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- Upstream



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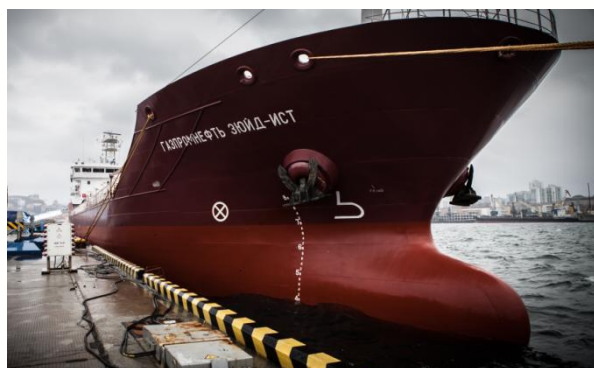
## **Sergey Vakulenko**

Head of Strategic Planning Department

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.

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## 1H 2013 Financial performance:

- Revenue: RUB 591 bln (+1.8% Y-o-Y)
- EBITDA\*: RUB 151 bln (+0.9% Y-o-Y)
- Net Income: RUB 78 bln (-1.4% Y-o-Y)

## Operational progress in 1H 2013:

- Hydrocarbon production up 3.6% Y-o-Y
- Refining volumes down 0.8% Y-o-Y due to planned refinery turnaround
- Premium sales up 0.2% Y-o-Y

## Strategic advances:

- Gazprom Neft completes first oil shipment from Novoport field
- Yuzhno-Priobskaya compressor station receives first associated gas
- Quality program completed at all refineries
- Switch to Euro 5 quality motor fuels at all refineries
- G-Drive and G-Energy declared Brands of the Year

## 2Q 2013 vs. 1Q 2013:

- Hydrocarbon production up 1.2%
- Refining throughput up 4.5%
- Revenue up 2.4%
- EBITDA\* down 3.7% on negative duty lag
- Net Income down 3.8% in line with EBITDA

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

## Upstream

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**Major project execution and use of new technologies deliver continued growth in hydrocarbon output**

## 1H 2013 Key events:



### Exploration: Tight oil

- Testing continues on Bazhenov formation at Palyanovskaya acreage of Krasnoleninskoye field
- Exploratory drilling identified Jurassic layer crude deposit in eastern section of Western Luginetsky license block. Well flowed naturally at a rate of over 17 m<sup>3</sup>/day



### Development: Implementing new technologies

- As part of large-scale implementation of horizontal drilling with multistage hydrofracs at Vyangapurovskoye field, completed first well with 8-stage hydrofrac, producing 75 tons/day
- Drilled first quadrilateral horizontal well at Umseyskoye field, with bore lengths reaching 1,000 meters. Initial production exceeded 200 tons/day.
- Began pilot project on use of acid fracturing technology on Paleozoic deposits at Urmanskoye and Archinskoye fields



### Gas: Improving associated gas utilization

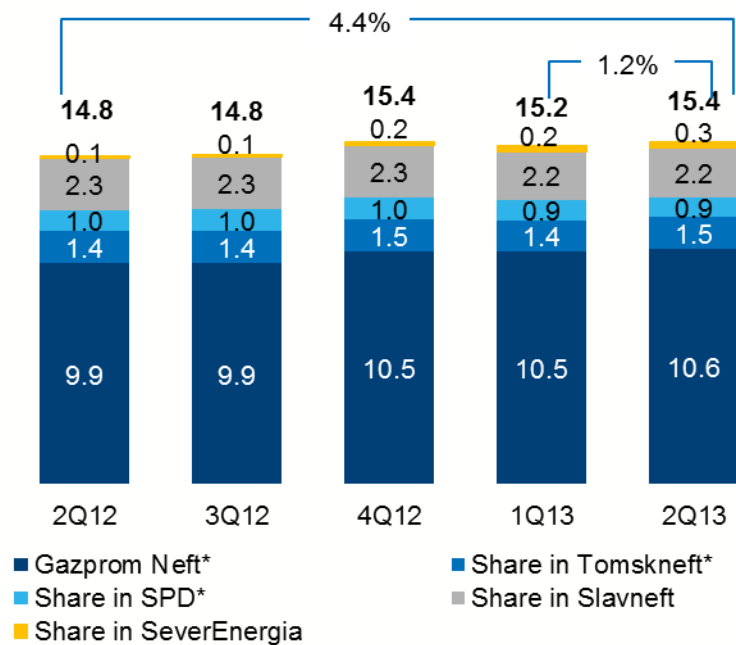
- Expanded associated gas utilization in 1H 2013 by 12% Y-o-Y to 78% as a result of launching first phase of Noyabrsk Integrated Project in October 2012 and vacuum compressor stations at Vyangapurovskoye and Vyangayakhinskoye fields in 1Q 2013
- Began startup of Yuzhno-Priobskaya gas compression station, which received its first associated gas. Began delivering associated gas to Priobskaya gas-turbine power station. Completion of Yuzhno-Priobskoye project will further increase utilization



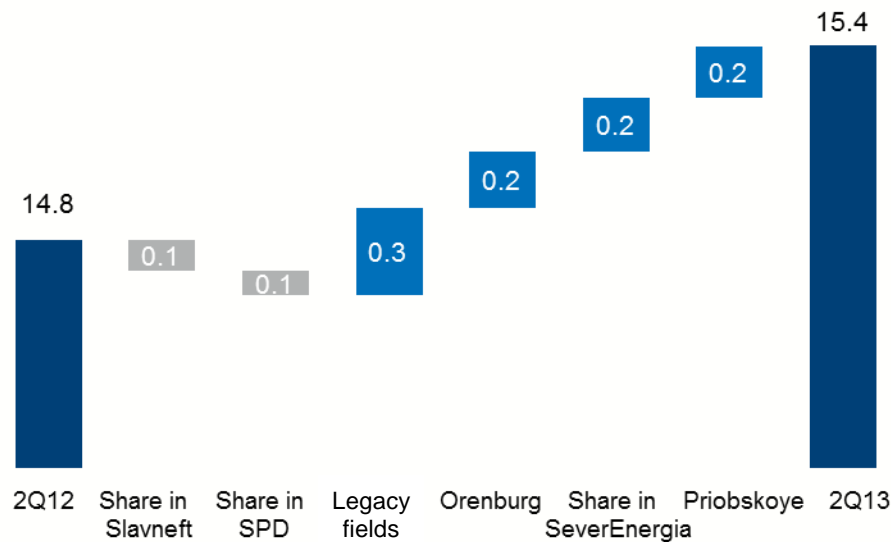
# GROWTH DRIVEN BY ORENBURG ASSETS, SEVERENERGIA, AND EFFICIENT DEVELOPMENT OF LEGACY FIELDS



## Group hydrocarbon production, MMtoe



## 2Q 2013 vs 2Q 2012 reconciliation



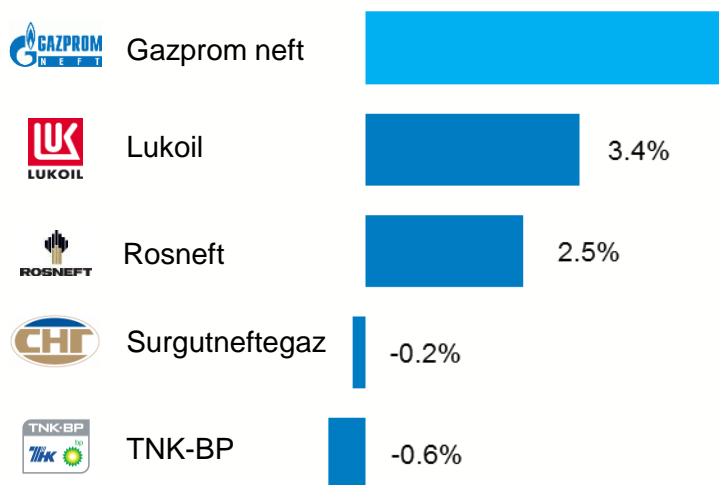
- Increased hydrocarbon production 4.4% Y-o-Y:
  - Application of new technologies at legacy fields (+0.3 MMToe)
  - **Orenburg** fields (+0.2 MMToe)
  - **SeverEnergia** fields (+0.2 MMToe)
  - Increased **Priobskoye** field production (+0.2 MMToe)
  - Started production at **Novoport** (+0.007 MMToe)
- Growth partially offset by:
  - Lower production at Slavneft and SPD fields (-0.2 MMToe)

\*As a result of the application of new standards IFRS 11 Joint Arrangements, the Group changed the accounting method for its interest in Tomskneft and Salym Petroleum Development from the equity method to proportionate consolidation. The operational information above is presented to show the production of JVs and affiliates.

# GAZPROM NEFT LEADS THE INDUSTRY IN 1H 2013 HYDROCARBON PRODUCTION GROWTH

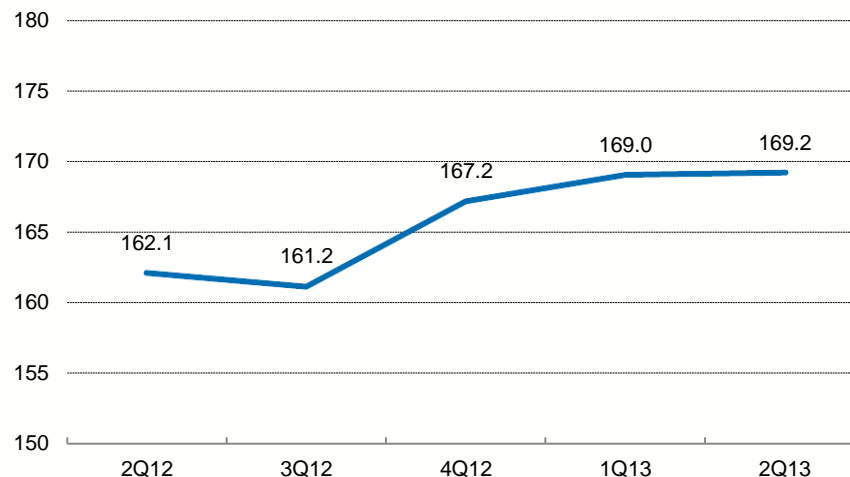


## Peer comparison: hydrocarbon production increase in Russia\* 1H 2013 vs 1H 2012, %



\* Source: Central Control Administration of the Fuel and Energy Complex. Not including share in joint ventures and associates.

## Average daily production\*\*, ktoepd



Y-o-Y growth in daily output in 1H 2013 due to:

- Implementation of horizontal drilling technologies, including multistage hydrofracs
- Bilateral horizontal drilling
- Increased natural gas production and utilization of associated gas, as a result of:
  - Muravlenkovskiy project extension
  - Phase 1 of Noyabrsk Integrated Project

\*\* Gazprom Neft hydrocarbon production





## Horizontal Drilling

As part of 2013 drilling efficiency improvement program, increased drilling of highly effective horizontal wells by a factor of 2.8 vs. 2012



## Multi-stage hydrofracking

To increase efficiency and develop hard-to-recover reserves, plan to complete 4 times more multistage hydrofracs than in 2012



## Applying new drilling mud technology, e.g. gel-emulsion

Completed successful testing of Multibur drilling mud at Kholmistoye, Vorgenskoye and Karamovskoye fields, resulting in average production of approximately 70 tons/day, 3 times higher than expectation



## Acid hydrofracturing of Paleozoic deposits

Pilot project to use acid hydrofracturing on Paleozoic deposits at Urmanskoye and Archinskoye fields. Acid technology enables production from carbonate reservoirs that cannot be developed using standard hydrofracturing.

# DRILLED FIRST QUADRILATERAL WELL AT UMSEYSKOYE FIELD (KHMAO), DELIVERING 200 TPD INITIAL PRODUCTION

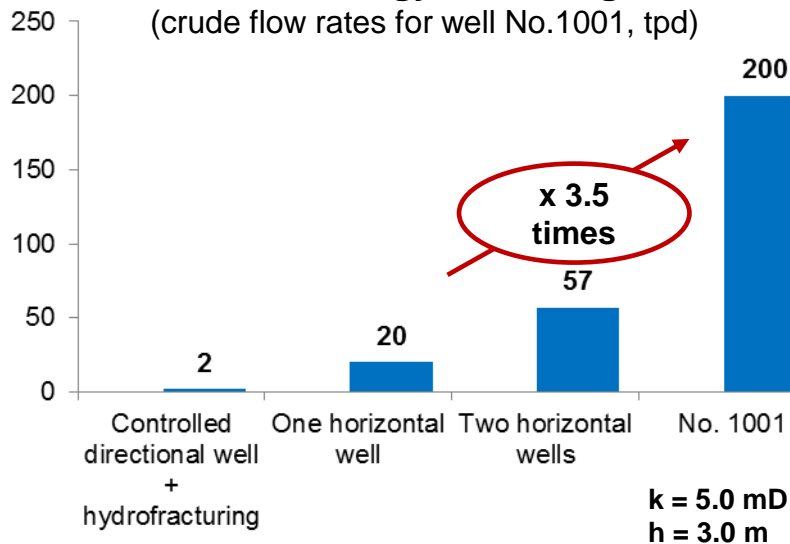
## Well No. 1001, Cluster 13 Umseyskoye Field

Quadrilateral well drilled in an area that was:

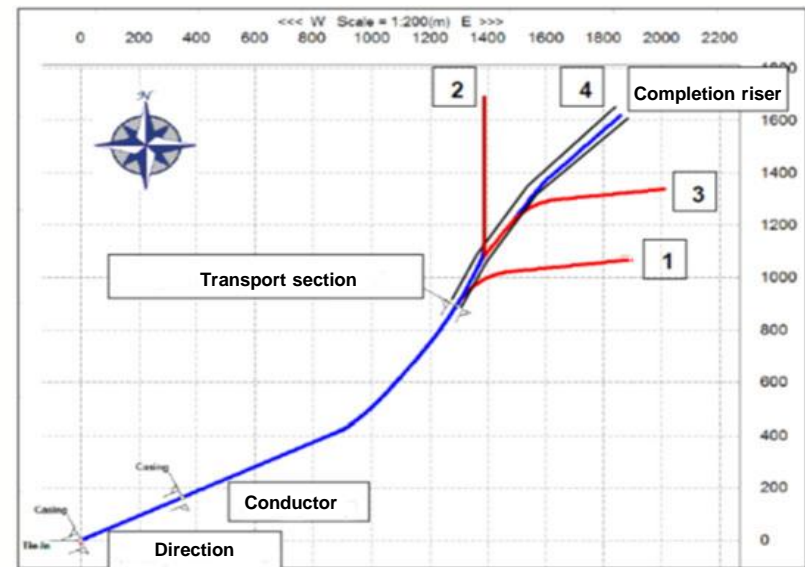
- Not covered by existing production drilling
- Located in the water-oil zone (layer BS10)
- Highly compartmentalized formation
- Outrunning flooding after hydrofracturing in directional well
- Low permeability coefficient

- In planning the drilling project, multiple options were evaluated, including 2, 3, 4 and 5 horizontal bores
- The quadrilateral well options was recommended following evaluation of well economics and technical risks

**Technology screening**  
(crude flow rates for well No.1001, tpd)



Note:  $k$  – permeability,  $h$  – reservoir thickness

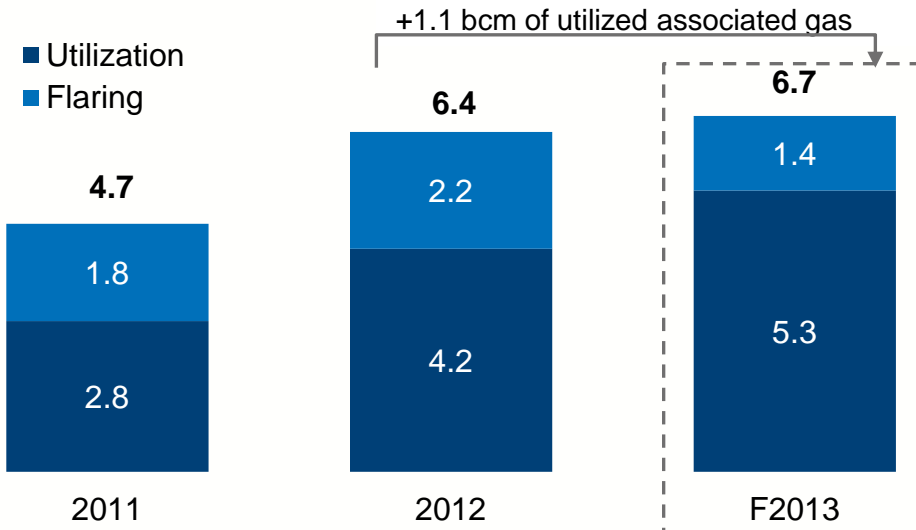


**Crude flow rate shown by indicator permeability \* reservoir thickness**  
**Quadrilateral well is 3.5 times more efficient than single horizontal well**

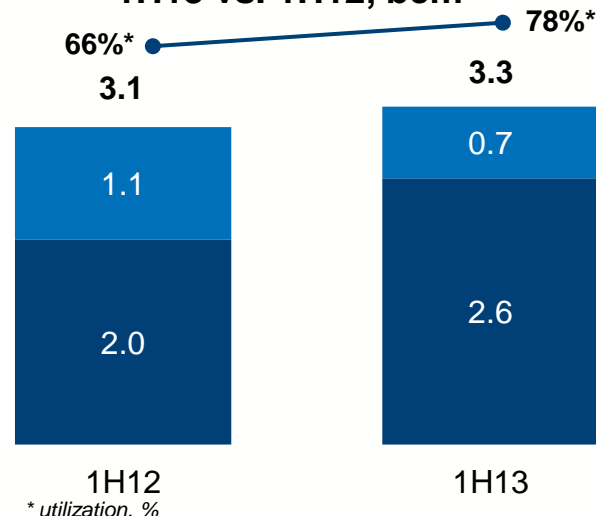
# SIGNIFICANT GROWTH IN ASSOCIATED GAS UTILIZATION



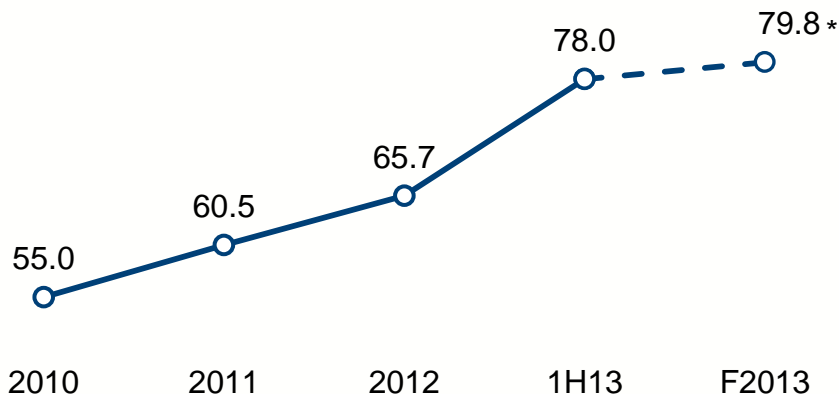
## Associated gas production/utilization, bcm



## Associated gas production/utilization 1H13 vs. 1H12, bcm



## Associated gas utilization, %




\* Risk of Rosneft limiting access to pipeline at Priobskoye

- Drivers** of increased associated gas utilization in Y2013 vs. Y2012:
  - +0.5 bcm:** full-year operation of Noyabrsk Integrated Gas Utilization project Phase I (launched October 2012)
  - +0.3 bcm:** increased associated gas utilization at Orenburg assets
  - +0.1 bcm:** new gas compressor stations at Vyngapurovskoye and Vyngoyachinskoye fields
  - +0.2 bcm:** planned new associated gas utilization facility at Priobskoye field

## 1H 2013 Key events:

## 2013 Major goals:

### Russian projects

- 
- **Messoyakha:** Increased reserves by 2.9 MMtoe as a result of exploration program. Delivered 421 tonnes by winter road
  - **Orenburg:** Launched high-pressure compressor, increasing associated gas production by 30 m<sup>3</sup>/day. Increased horizontal drilling program by 18 wells
  - **Novoport:** Implemented winter crude shipments (12 mtonnes). Conducted test procedures and fracking at 4 wells (total initial production 535 tpd). Launched natural gas fired power plant.
  - **SeverEnergiya:** Completed 3D seismic at Evo-Yakhinskoye and Samburgskoye fields. Expanded first and second trains at Samburgskoye gas processing facility to projected capacity of 13.8 million m<sup>3</sup>/day). Launched first train of CPF at Samburgskoye field
  - **Prirazlomnoye:** Approved oil spill response plan. Drilling contractor mobilization.
  - **Dolginskoye:** Contracted for services to drill 3-SD well. Completed field stage of engineering surveys to drill 4-SD well in 2014
  - **Chonskiy:** Successfully completed field work for 2012-2013 season (500 km<sup>2</sup> 3D seismic, including 350 km<sup>2</sup> using UniQ technology); conducting drilling and core sampling at 4 exploration wells
  - **Kuyumba:** Conducted seismic program for 2012-2013 season (501.5 km<sup>2</sup>), drilling three exploration wells
- **Messoyakha:** Order equipment for key infrastructure. Drill and test exploration wells
  - **Orenburg:** Increase production by 51.4% Y-o-Y. Expand drilling program at Tsarichanskoye field. Begin exploration programs at Filatovskaya area and Baleikinskoye field. Expand infrastructure at East Orenburg field
  - **Novoport:** Examine results of long-term well operation. Develop utilization concept for hydrocarbons (crude + gas + gas condensate). Order compressor station and gas transportation equipment. Construct first phase of CPF for pilot oil production period
  - **SeverEnergiya:** Start test production at oil rims. Continue drilling and infrastructure construction at Samburgskoye and Yaro-Yakhinskoye fields
  - **Prirazlomnoye:** Drill production wells. Pre-commissioning of offshore ice-resistant offshore platform. Conduct second phase of HAZOP
  - **Dolginskoye:** Complete drilling №3-SD exploration well in 3Q 2013
  - **Chonskiy:** Complete electric exploration for volume of 6300 physical observation, retest two previously drilled wells, drill four exploration wells
  - **Kuyumba:** Implement exploration program and test production (8 wells)



## 1H 2013 Key events:

## 2013 Major goals:

### International Projects

- **Iraq (Badra):** Two wells drilled and in development. Finalized EPC contract with Samsung to build gas infrastructure. Concluded EPC contract with CPP for connection to strategic pipeline. Began construction of export pipeline.
- **Venezuela:** Transferred operatorship to Rosneft. Began work on wells in block's eastern section. Brought 3 wells into production with average flow of over 300 tpd (including one in 2012).
- **NIS:** Extended exploration licenses in Serbia to 2020. Tested technology for small-bore drilling. Drilled first well in Romania and started testing. Began exploratory drilling in Bosnia and Hungary.
- **Iraq (Kurdistan):** Planned seismic exploration at Shakal block. Expanded activity at Halabja block. Completed 3D seismic in south of Garmian block.

- **Iraq (Badra):** Drill and complete well P8. Test three wells. Commission infrastructure for first phase of field development. Commission second phase of camp and begin gas infrastructure construction. Begin commercial production
- **Venezuela:** Implement early production project. Continue supplementary exploration. Continue work on FEED for infrastructure and upgrader.
- **NIS:** Drill six exploration wells; accelerate seismic program; consider additional exploration drilling program in Serbia for 2013-2014. Continue exploration drilling in Bosnia and Hungary. Complete well test in Romania. Carry out 3D seismic at Block 2 in Romania.
- **Iraq (Kurdistan):**
  - Shakal Block: Complete seismic, prepare to drill two exploration wells
  - Garmian Block: Complete seismic, drill Hasira-1 well. Begin drilling Baram-1 well.
  - Halabja Block: Mining and chemical audit. Demining and preparation for seismic activities



## Key Events

- Kuyumba exploration and test production: Shot 501.5 km<sup>2</sup> of 3D seismic; drilled a total of 5.9 km of exploratory wells, 13.9 km of development wells
- Palyanovskiy Project: Well 153 in Palyanovsk area flowed at 82 tpd from Bazhenov formation
- Formed JV with Shell to develop unconventional resources. Defined priority regions; project now in access phase
- Archinskiy Project: Well 1111 flowed at 90 tpd, confirming project's economic viability

### Well 153 P of Palyanovskaya area at Krasnoleninskoye field



### Archinskiy Project

**Recoverable reserves:**

5.6 MMtonnes

**Production level:**

325 Mtonnes/year

### Palyanovskiy Project

**Recoverable reserves:**

7.3 MMtonnes

**Production level:**

168 Mtonnes/year



## Downstream

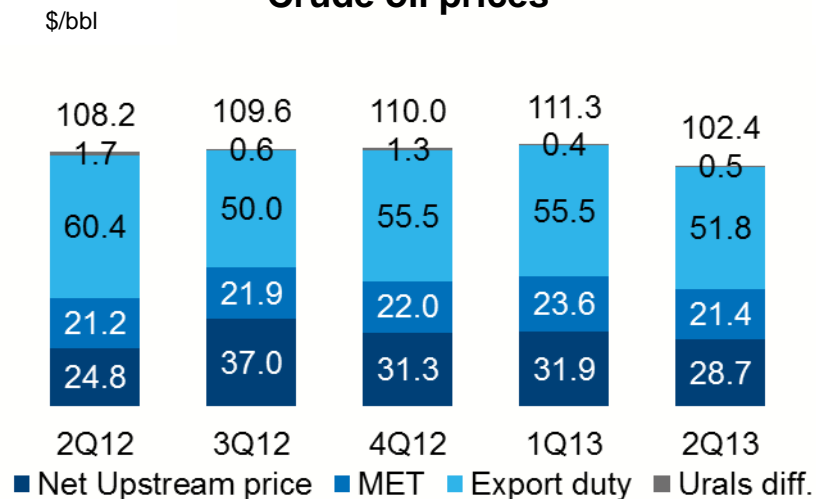
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**Continuing product quality increases and substantial growth in premium channels**

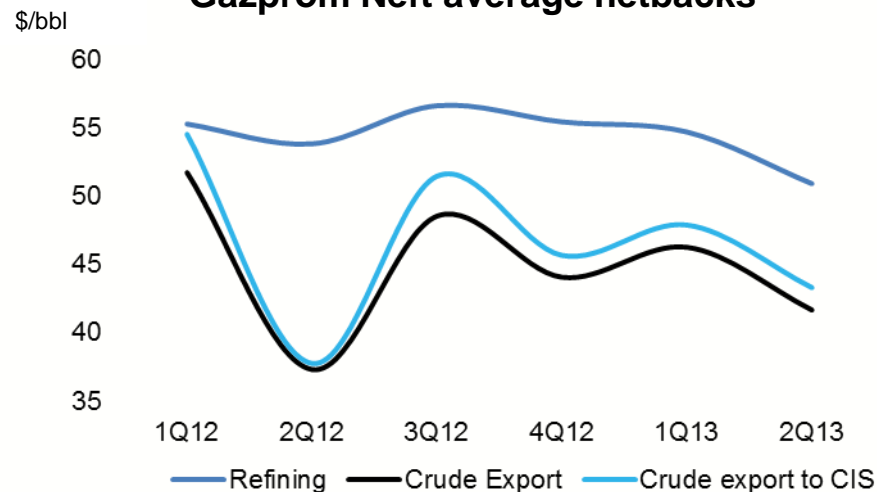
# CRUDE PRICES AND NETBACKS FALL AS RETAIL PRICES FLUCTUATE



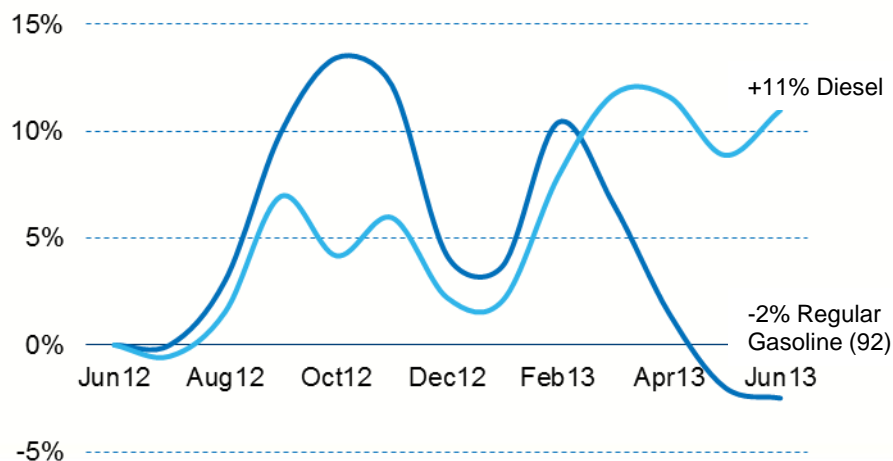
### Crude oil prices



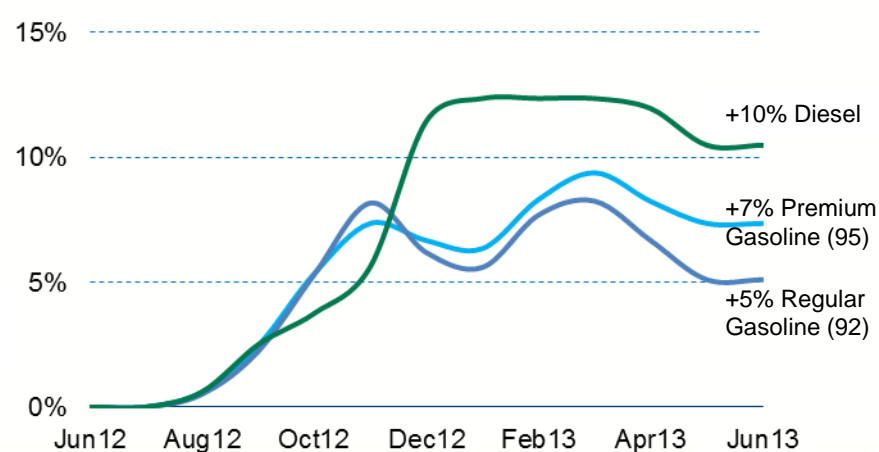
### Gazprom Neft average netbacks



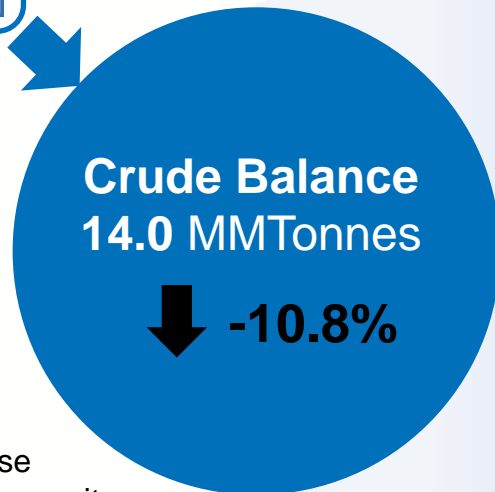
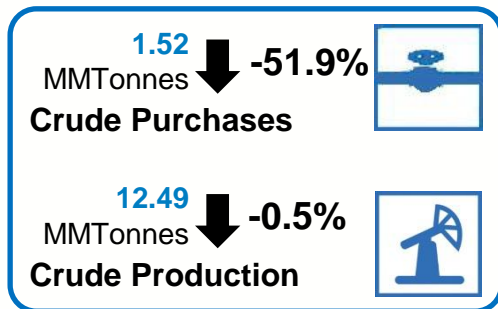
### Domestic product wholesale prices change



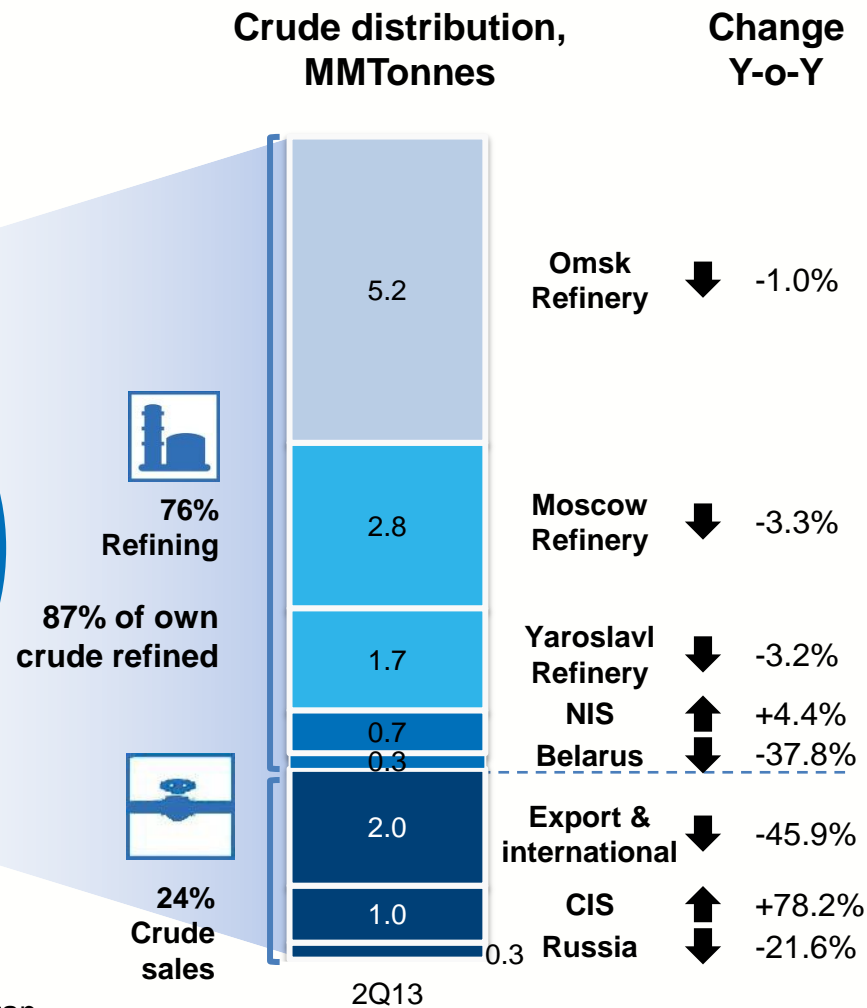
### Domestic product retail prices change



# 87% OF OWN CRUDE PROCESSED IN COMPANY'S HIGH QUALITY REFINERIES



- Crude purchases down 52% Y-o-Y in 2Q13 due to:
  - Rise in Russian refining ahead of production increase
  - Increase in export pipeline capacity due to ESPO-2 launch
- Refining throughput at Moscow and Yaroslavl refineries is down 3% Y-o-Y in 2Q13 due to turnaround cycle difference
- Crude exports to CIS increased 78% due to deliveries to Kazakhstan

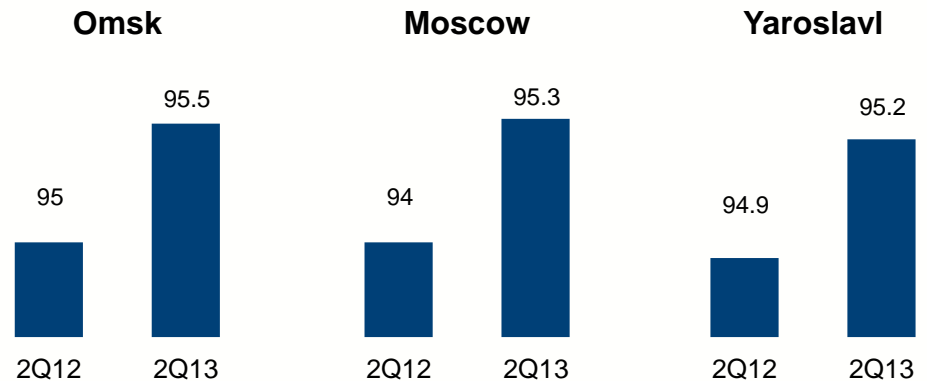


# REFINING HIGHLIGHTS



- Executing **turnaround cycle extension** programme
- **Complete Quality programme** at all Refineries
- Switch to **Euro 5** quality motor fuels at all refineries
- Formed **JV with TOTAL** to produce euro-bitumen at Moscow Refinery

## Solomon availability



# COMPLETED RUSSIAN REFINERY QUALITY UPGRADE PROGRAM



## Omsk

Unit	Capacity (MM tonnes)	Year
Isomerization	0.8	2010
FCC Hydrotreater	1.2	2012
Diesel Hydrotreater	3.0	2012

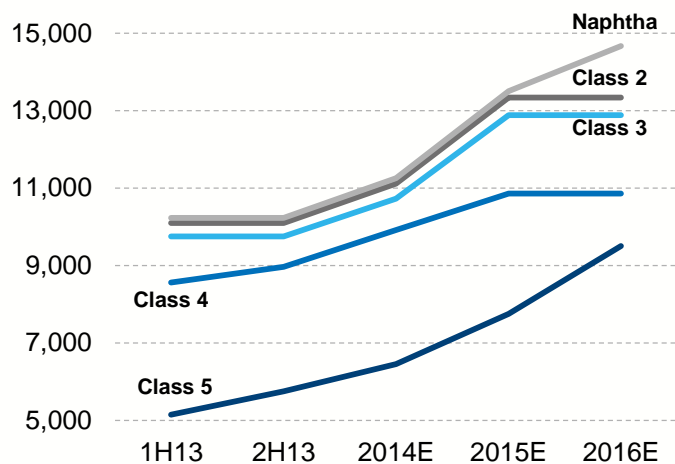
## Moscow

Unit	Capacity (MM tonnes)	Year
Isomerization	0.65	2013
FCC Hydrotreater	1.2	2013
Diesel Hydrotreater (reconstruction)	2.0	2013

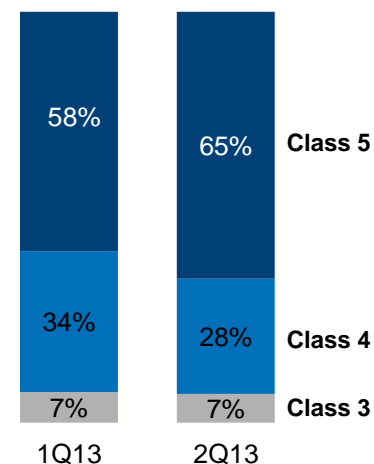
## Yaroslavl

Unit	Capacity (MM tonnes)	Year
Isomerization	0.48	2011
FCC Hydrotreater	0.87	2011
Diesel Hydrotreater	1.5	2013

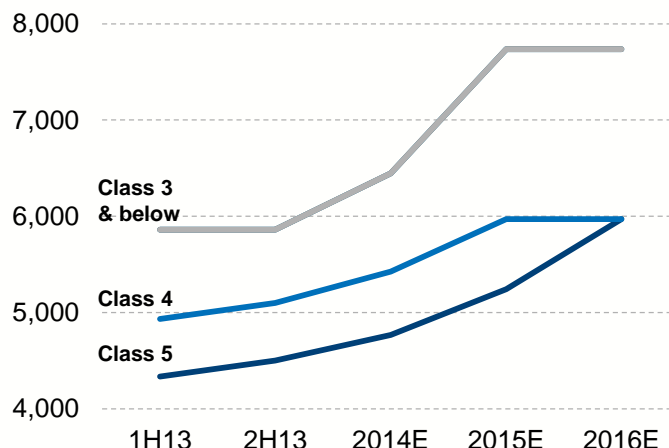
## Gasoline excise tax rates\*, RUB/tonne



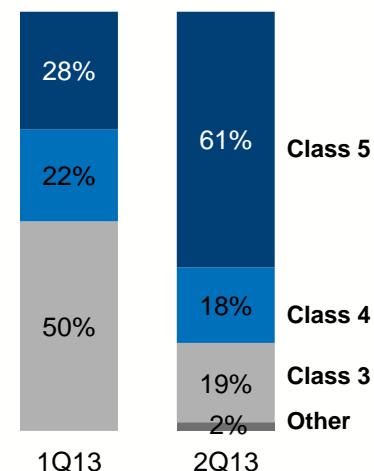
## Gasoline yield



## Diesel excise tax rates\*, RUB/tonne



## Diesel yield



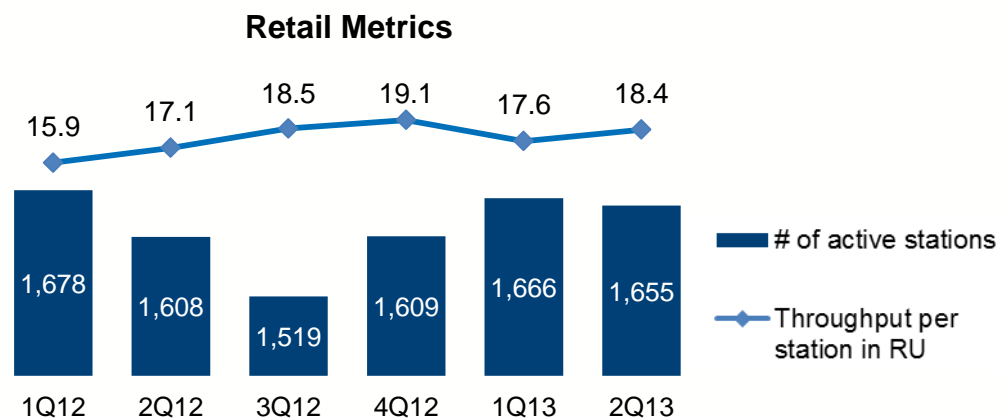
\* Federal law № 297819-6 project «About changing article 193 part 2 Tax Code of the Russian Federation» (approved by State Duma in first reading)



# RETAIL SALES GROW IN SECOND QUARTER

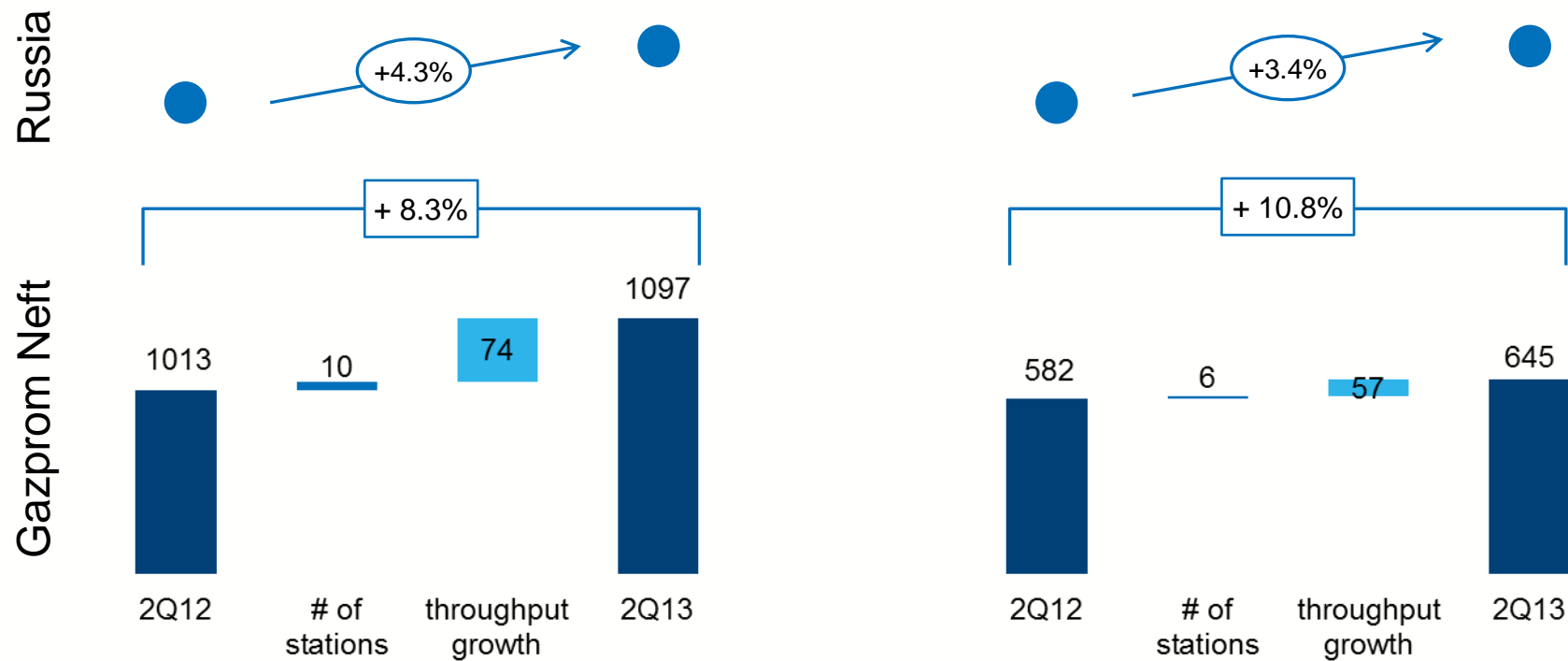


- Retail sales in 2Q 2013:
  - Russia and CIS      2.0 MMTonnes **+7.1%** Y-o-Y
  - NIS                    0.2 MMTonnes **+66.1%** Y-o-Y
- Throughput per station in Russia reached **18.4 tpd** in 2Q 2013
- Non-oil sales grew by **41%** Y-o-Y in 2Q 2013
- **Acquired 1** station, **built 3** stations, **reconstructed 19** stations, **rebranded 2** stations
- Total number of active stations reached **1,655**
- Opened new stations under Gazprom brand in **Bosnia-Herzegovina and Bulgaria**





# GAZPROM NEFT RETAIL GASOLINE AND DIESEL SALES OUTPERFORM RUSSIAN AVERAGE



## Gasoline sales growth drivers:

- Retail chain rebranding
- G-Drive fuel sales growth
- Loyalty program and non-oil sales

## Diesel sales growth drivers:

- Retail chain rebranding
- Non-cash payment system
- Loyalty program and non-oil sales

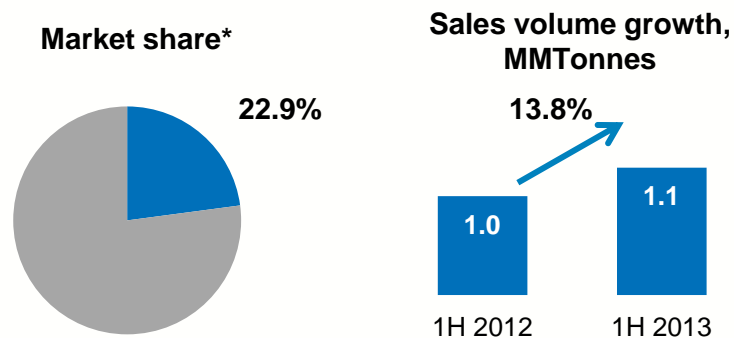
# SUBSTANTIAL INTERNATIONAL EXPANSION IN PREMIUM CHANNELS

## Aviation



### 1H 2013 Key events:

- Expanded global presence to **104** airports in **42** countries (+16 in 1H 2013)
- Increased number of Russian and foreign contractors to **50**
- Awarded Emirates Airlines certificate for "Recognition of High Service Level at Airports in the Russian Federation"



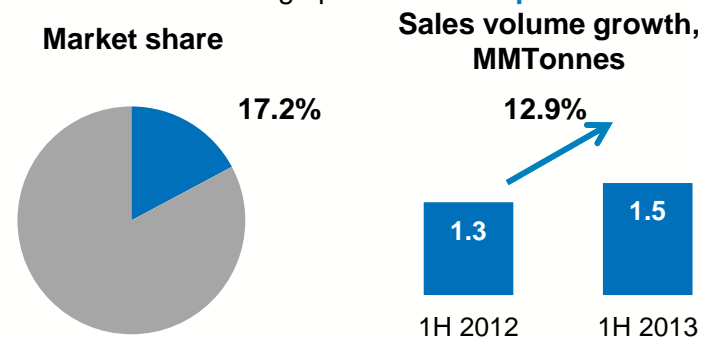
\*includes Ministry of Defense market share

## Bunkering



### 1H 2013 Key events:

- Finalized acquisition of Romanian bunkering operator **Marine Bunker Balkan S.A.**
- Began bunkering operations in the **port of Constanta** in March 2013
- Commissioned new Far East **bunker tanker**
- Conducted first bunkering operation in **the port of Sochi**

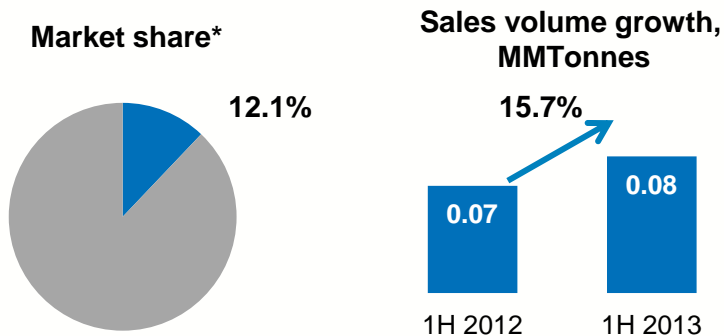


## Lubricants



### 1H 2013 Key events:

- Sales of G-Family products grew by **41%** y-o-y
- Began deliveries to Libya, Nigeria and Turkmenistan, bringing total number of foreign countries to **41 (+3 in1H13)**

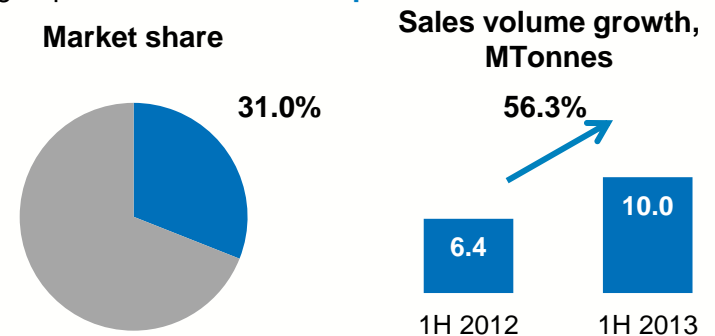


## Bitumen



### 1H 2013 Key events:

- Began **rail shipments of packaged bitumen** from Omsk refinery in March 2013
- **Expanded product range** at Moscow refinery; developed and implemented system for loading three products simultaneously for road transport
- Began production at **bitumen plant in Kazakhstan**



# G-DRIVE AND G-ENERGY DECLARED BRANDS OF THE YEAR



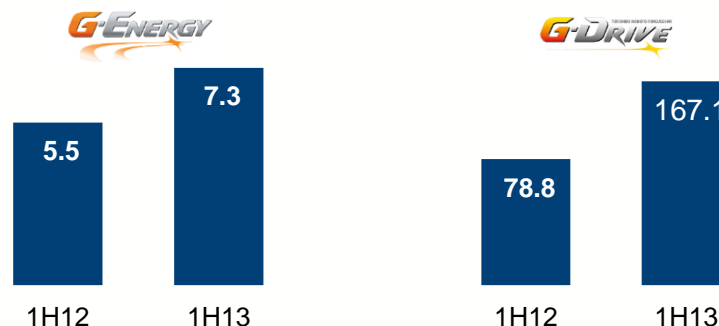
The **G-Drive** premium fuel and **G-Energy** premium-class motor oil brand names were awarded **the 2012 Effie Brand of the Year award**, given to the most successful brand creation and promotion programs

**G-Energy** series is part of a new **G-Family** range of automotive oils. **G-Profi** motor oil for commercial van and truck diesel engines was approved for use by **Mercedes-Benz**.

The **G-Drive** fuel advertising campaign links to Gazprom Neft's international G-Drive initiative in support of auto racing. Gazprom Neft supports the **G-Drive Racing** team by Signatech Nissan, which is performing in the FIA World Endurance Championship.



Premium branded sales, MTonnes





## Financials

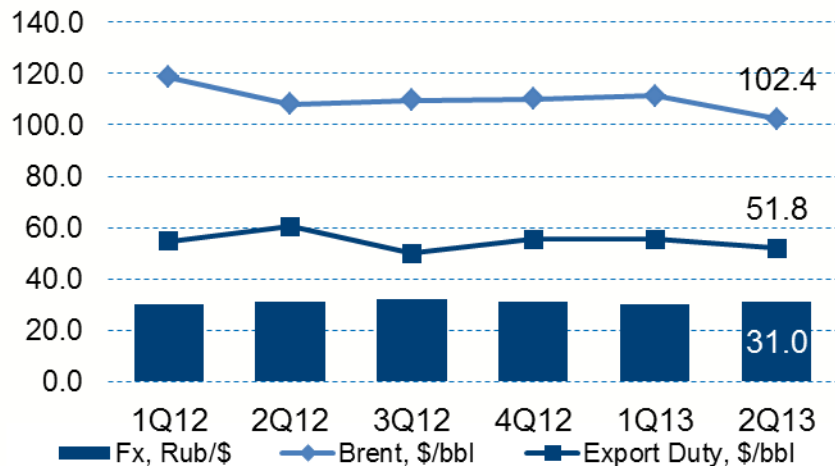
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**Production increases offset by adverse moves in prices, taxes, inflation and exchange rates**

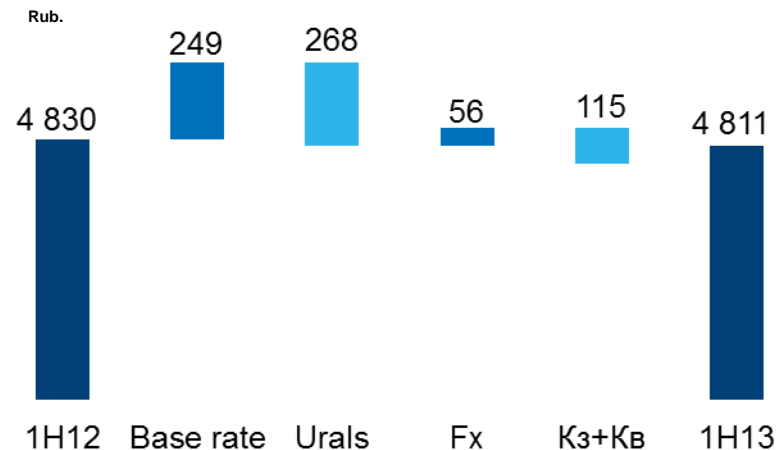
# LOWER CRUDE PRICE AND HIGHER TAXES NEGATIVELY AFFECTED GAZPROM NEFT FINANCIALS



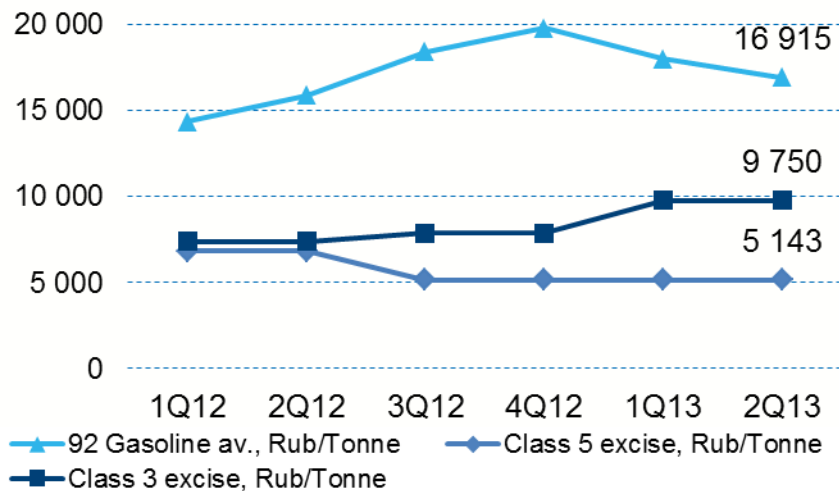
### Brent, export duty & Fx



### MET tax rate reconciliation



### Domestic product prices & excise taxes



- Crude prices decrease Y-o-Y and Q-o-Q
- Ruble devaluation lags oil price dynamics
- Growing Taxes: MET and Excise
- Domestic product prices stable

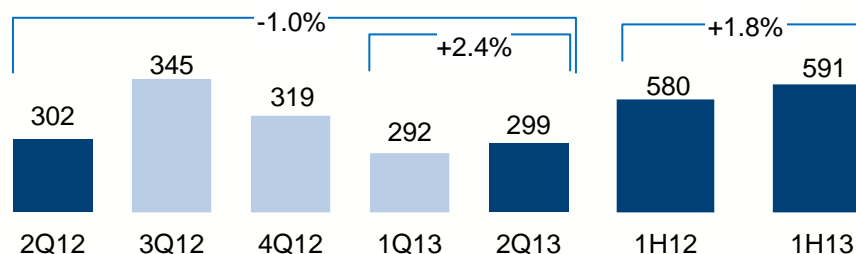
$K_B$  characterizes the degree of depletion of the specific field.  
 $K_3$  characterizes the relative size of the field (by reserves) and provides lower tax rate for small fields.



# PROFIT ERODED BY TAXES AND TARIFFS ON NATURAL MONOPOLIES

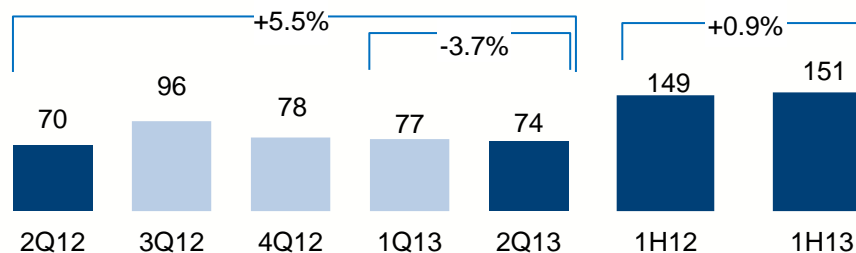


## Revenues RUB bln



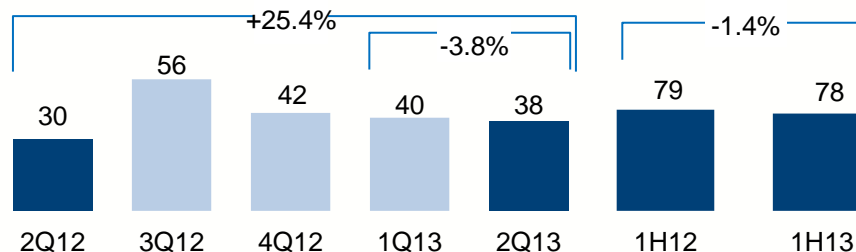
- Revenue grew 1.8% Y-o-Y on higher production volumes and increased sales through premium channels, partially offset by lower crude oil sales volume
- Expanded refining throughput and premium sales led to higher revenues Q-o-Q

## EBITDA\* RUB bln



- Expanded production and product mix optimization supported 0.9% EBITDA growth Y-o-Y
- Lower crude and product prices and duty lag effect decreased EBITDA by 3.7% Q-o-Q

## Net income RUB bln



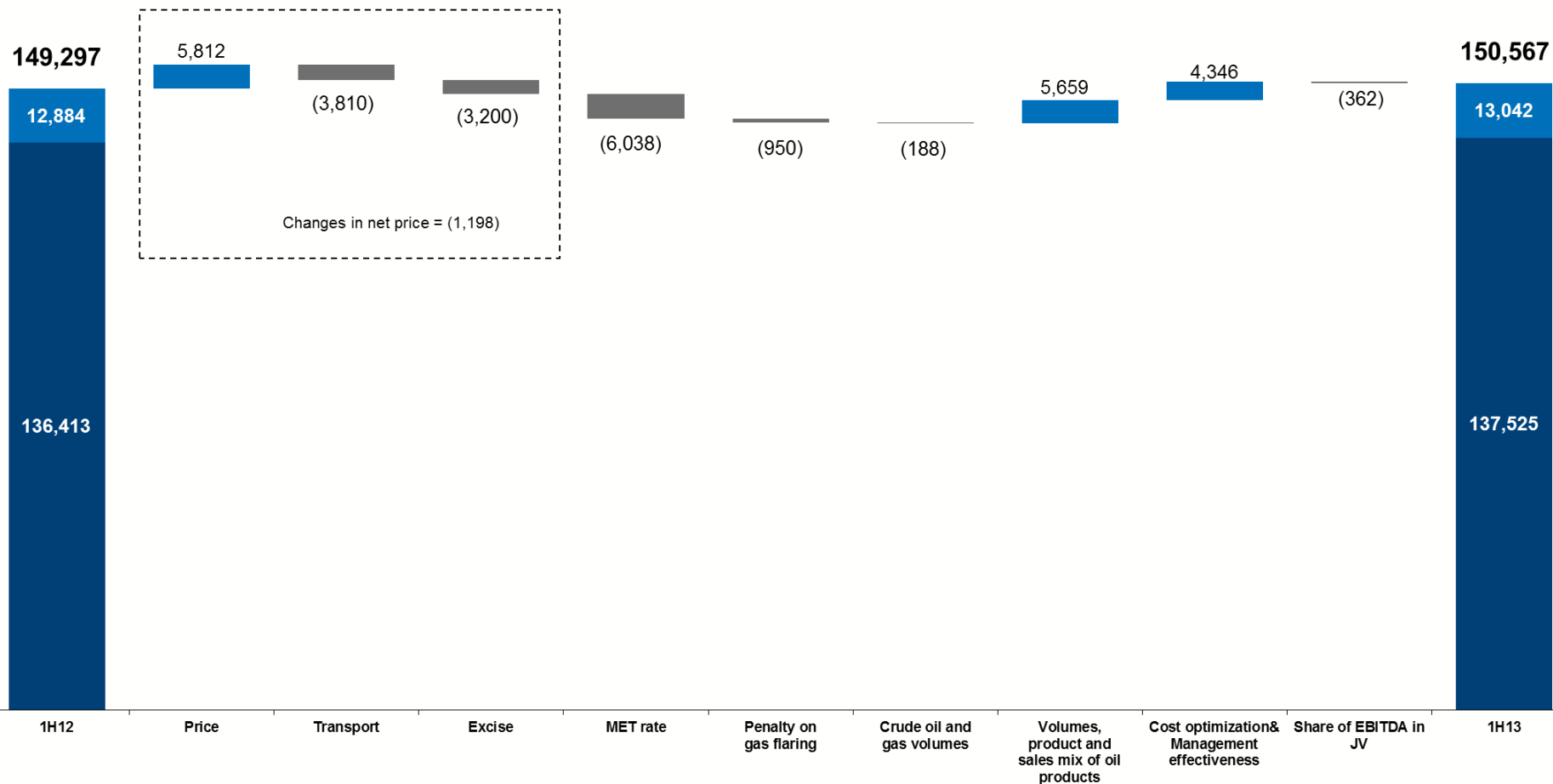
- FX losses combined with rising depreciation expenses associated with investment program drove the 1.4% decrease in Net Income Y-o-Y
- Net Income change Q-o-Q is in line with EBITDA (-3.8%)

\*EBITDA includes share of affiliates' EBITDA

# EBITDA RECONCILIATION 1H 2013 VS. 1H 2012



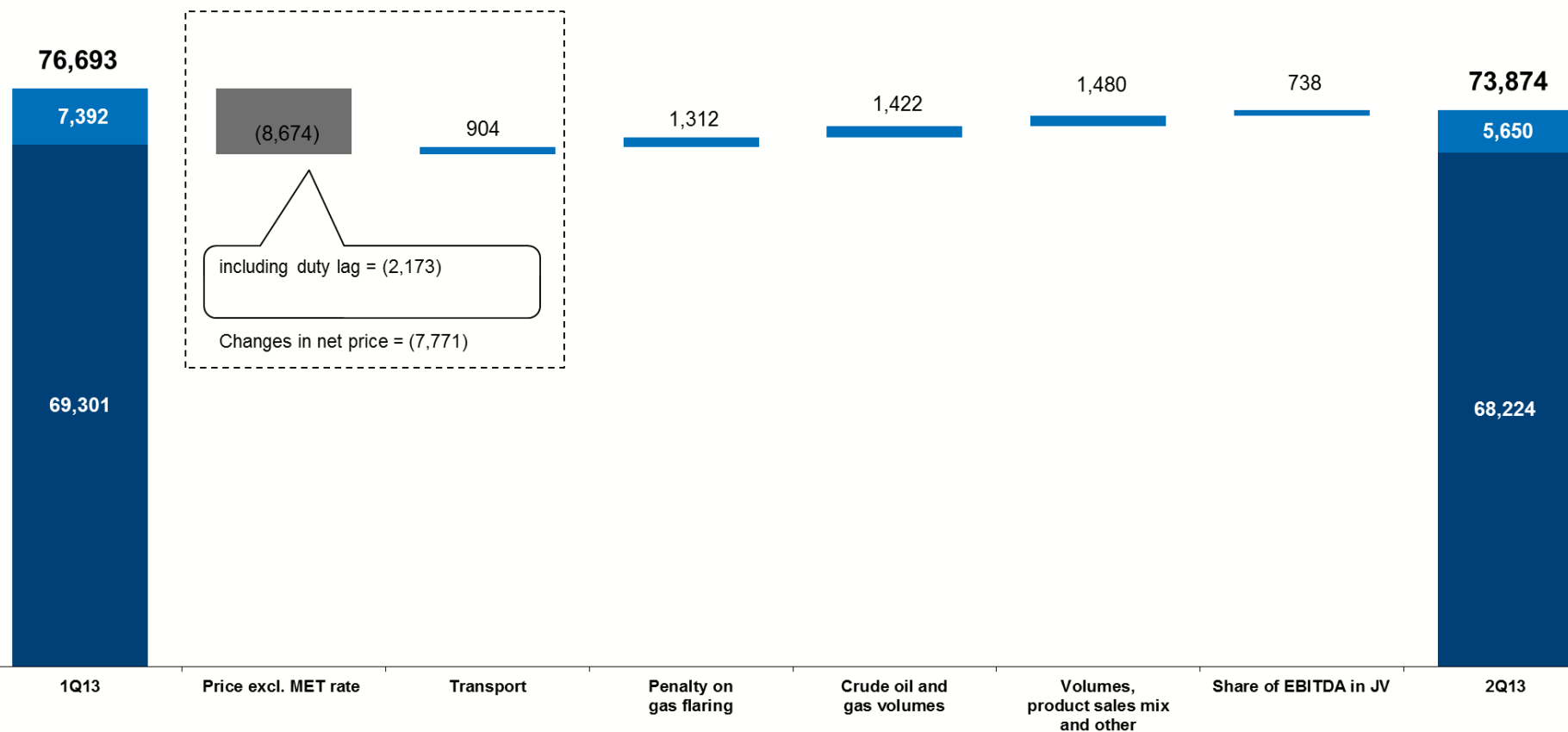
EBITDA 1H 2013 vs 1H 2012, RUB mln



# EBITDA RECONCILIATION 2Q 2013 VS. 1Q 2013



EBITDA 2Q 2013 vs 1Q 2013, RUB mln

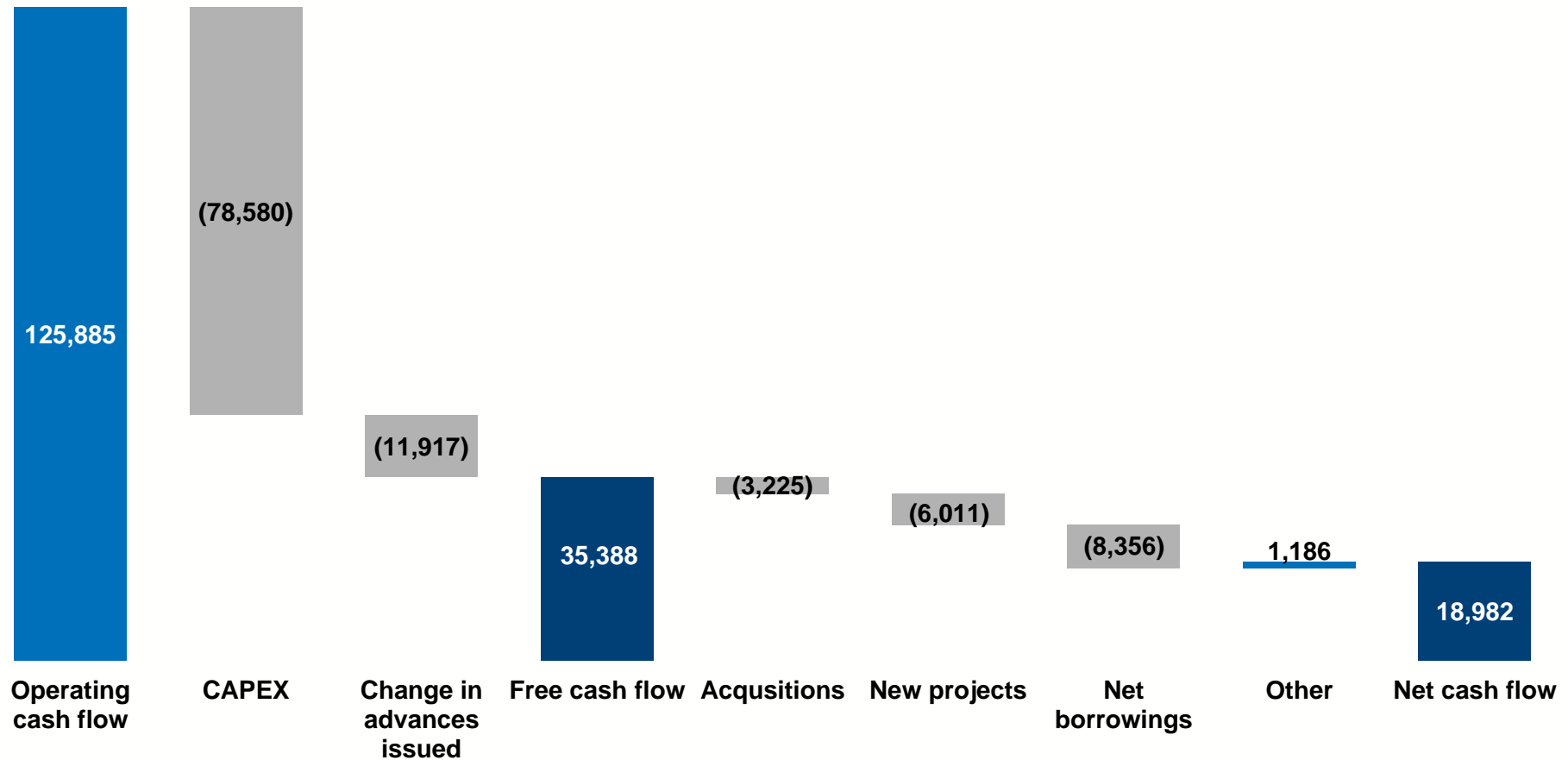


# STRONG FREE CASH FLOW GENERATION



RUB million

## Cash flow reconciliation 1H 2013



# INVESTMENTS SUPPORT STRATEGIC GOALS AND UPSTREAM PRODUCTION IN MATURE FIELDS



**12%** Y-o-Y growth in **brownfield** capex due to increase in use of new technologies in legacy fields



Active development of **Orenburg**, **Novoport** consolidation and continued **Priobskoye** development drove **67%** Y-o-Y increase in **greenfield** capex



**Refining** capex decreased **16%** Y-o-Y as quality improvement projects reached completion at all refineries



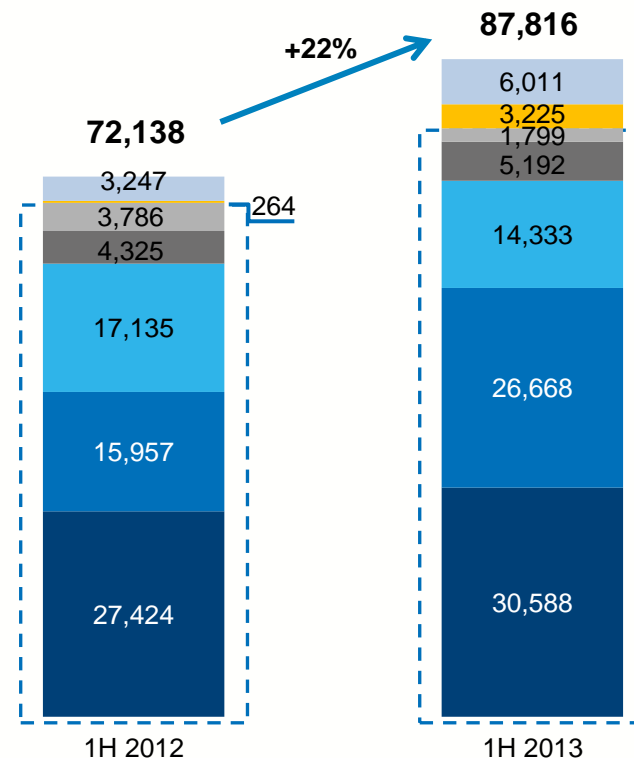
**20%** Y-o-Y increase in **marketing** capex due to continued reconstruction and rebranding of newly acquired retail sites in Russia and abroad



**Investments in new projects** increased **85%** as a result of new project development (mainly **Prirazlomnoye** and **Messoyakha**)

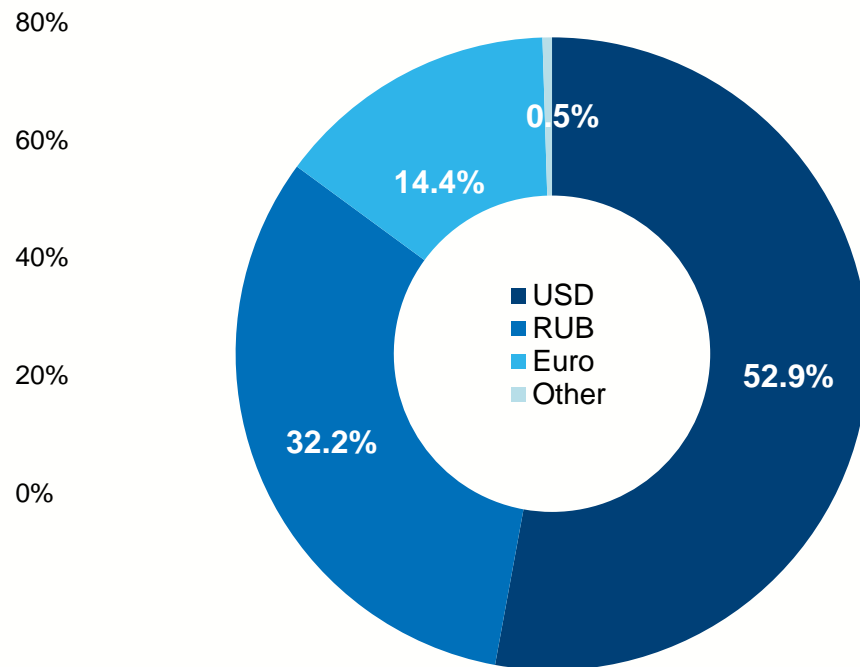
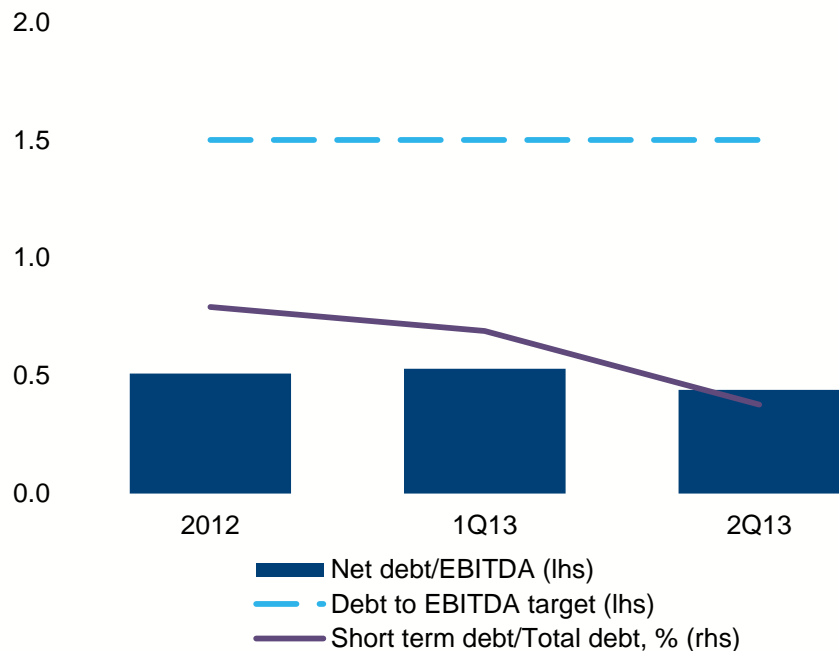
**M&A** includes **NIS acquisition** of downstream assets in the Balkans and increase in shares of equity affiliates

Investments (RUB mln)



- Upstream brownfield
- Upstream greenfield
- Refining
- Marketing and distribution
- Other
- M&A
- New projects
- IFRS CAPEX

# CONTINUED IMPROVEMENTS IN BALANCE SHEET AND DEBT PORTFOLIO



- Net debt/EBITDA 0.4x vs. target <1.5x
- Increased average debt maturity from 3.81 years in 4Q12 to 4.46 years in 2Q13
- Reduced average interest rate from 3.48% in 4Q 2012 to 3.30% in 2Q 2013
- Diversified debt portfolio: bank loans, bonds, PXF (pre-export finance facility), LPN (loan participation notes)



# Questions & Answers

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