



## 1Q 2019 IFRS FINANCIAL AND OPERATING RESULTS

St Petersburg – May 21, 2019



# 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,  
Upstream



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Downstream

**Nikita Anichkin**  
Head of Economics and Investment Department,  
Downstream



# Disclaimer

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The 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 facts 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 may cause actual results, performance or events to differ materially from those expressed or implied in these statements.

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There are a number of factors that can affect the future operations of Gazprom Neft and can cause those results to differ materially from those expressed in the forward-looking statements included in this presentation, including (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 delays or advancements, approvals and cost estimates
- (k) changes in trading conditions

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# 1Q19 highlights



## 1Q19 Financial performance:

- Revenue: RUB **586** bln (+**12.6%** y-o-y)
- EBITDA\*: RUB **198** bln (+**26.9%** y-o-y)
- Net Income: RUB **108** bln (+**54.9%** y-o-y)

## Operational progress in 1Q19:

- Hydrocarbon production up **4.7%** y-o-y (mtoe)
- Refining volumes down **1.7%** y-o-y



## 1Q19 vs. 4Q18

- EBITDA\* up **6.8%**
- Net Income up **38.3%**
- Hydrocarbon production down **3.0%** (mtoe)
- Refining throughput down **10.3%**



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

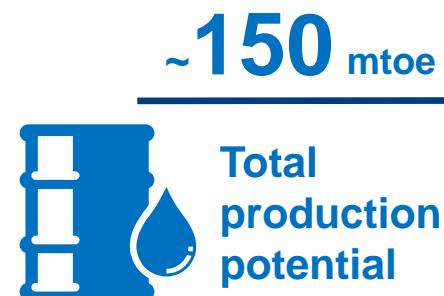
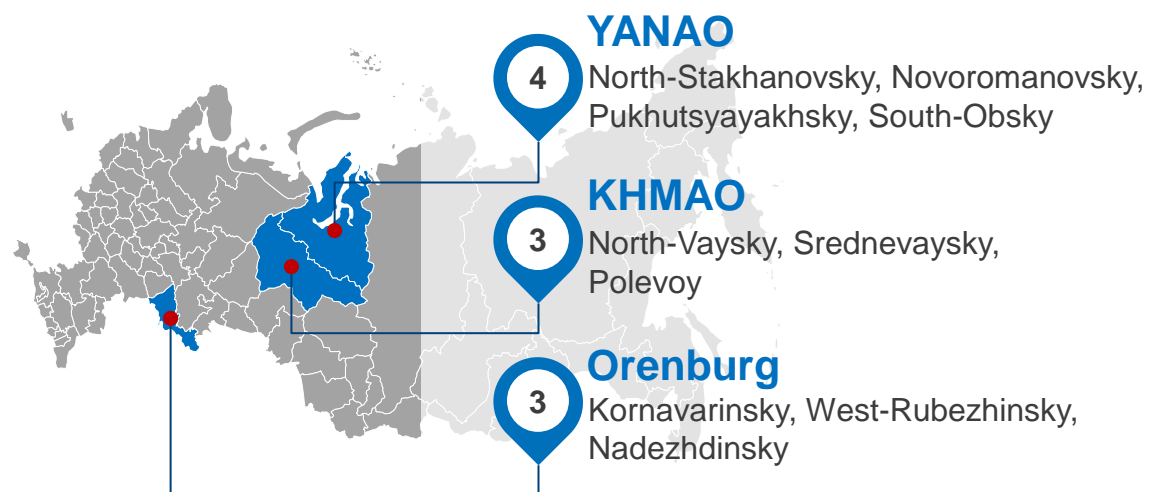
## Exploration and Production

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Focus on the efficient development of the Company's existing fields and further resource-base expansion

# Ongoing resource-base development in key regions of activity

## Resource-base development



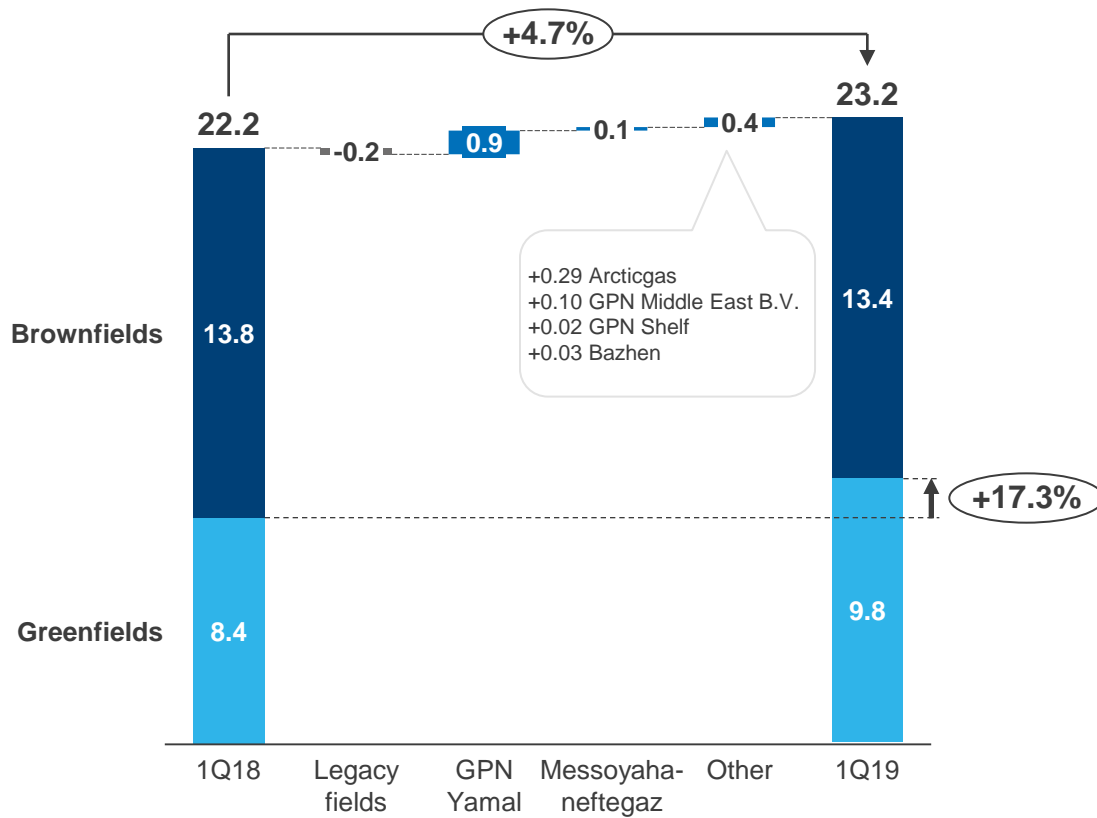
## Key events

- Millionth tonne of oil produced at the Otdalennaya group of fields
- Geological model of the Bazhenov Formation updated for the first time in 20 years
- High-tech horizontal wells with record-length horizontal sections running to more than 2,000 metres drilled at the Tazovskoye oil and gas condensate field
- Drilling of first horizontal wells at the Yamburgskoye field\* (to be completed by multi-stage fracking)

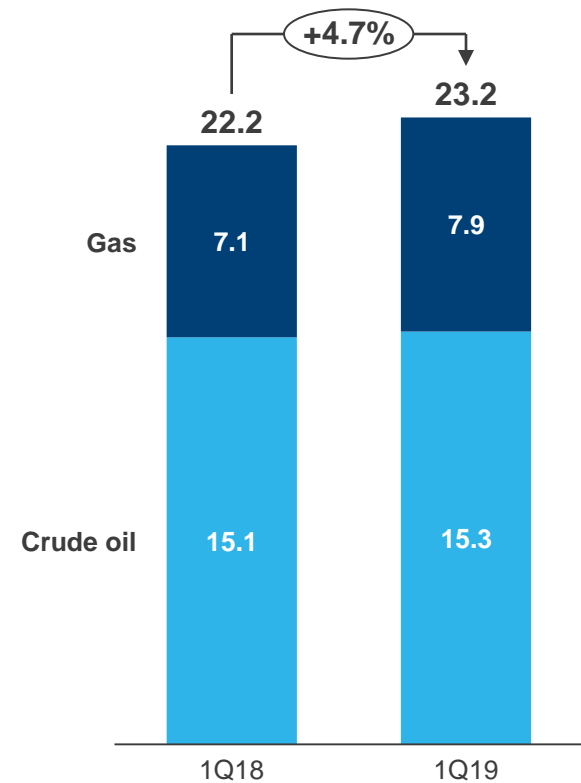
\* Gazprom Neft is Operator on this project.

# Production growth at cost-effective projects

## Hydrocarbon production, mtoe

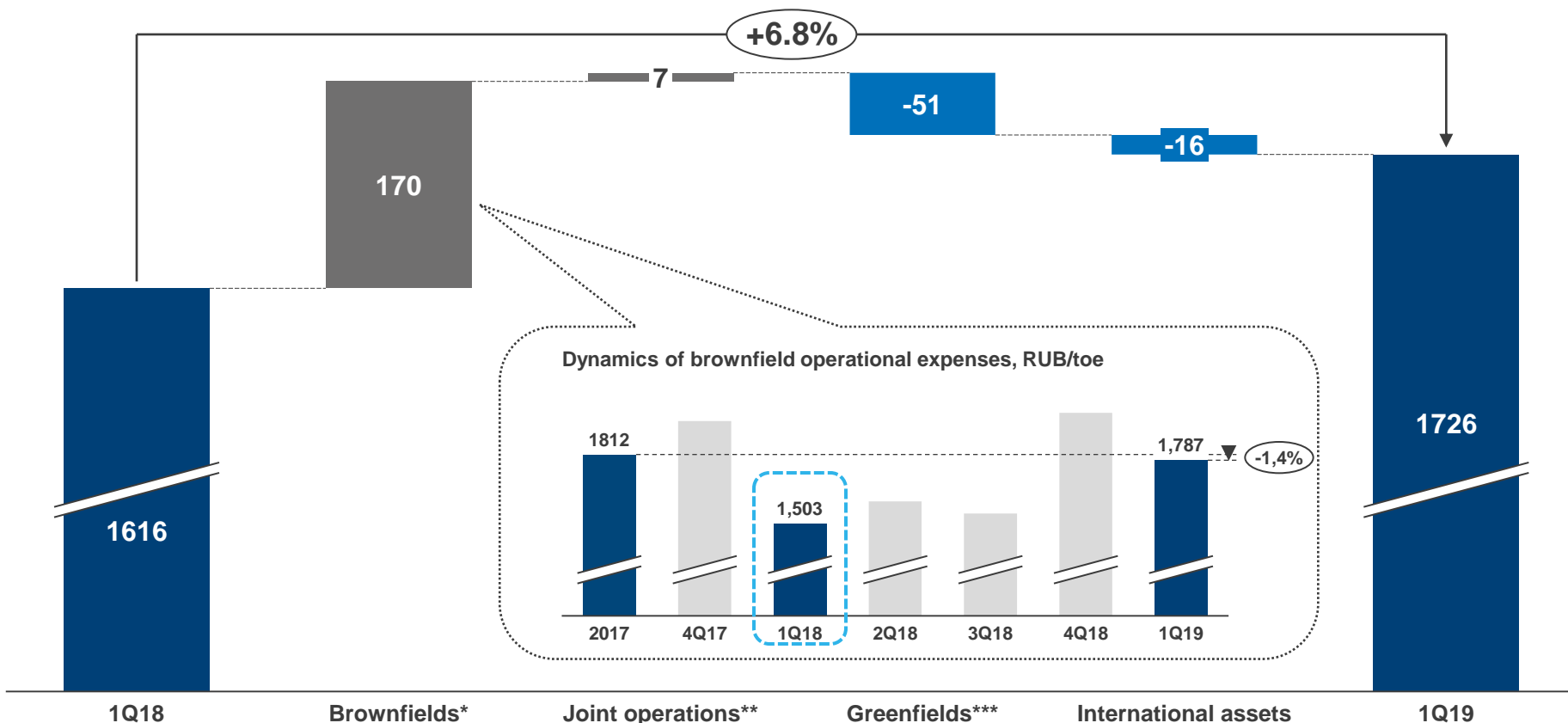


## Production breakdown, mtoe



# Operational expenses per unit increased Y-o-Y due to the low base of 1Q18 resulted in shut downs of base well stock under OPEC+ agreement

Operational expenses: 1Q19 vs 1Q18, RUB/toe



\*NNG, Khantos, Vostok, Orenburg

\*\* Tomskneft, SPD

\*\*\* GPN Yamal, Prirazlomnoye



# Implementation of new technologies in 1Q19

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## Technology utilised

## Expected outcome

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Test fracking using polyacrylamide derivative polymer successfully completed by Gazpromneft Khantos

➤ Fracture conductivity

**up 60%**

➤ Incremental hydrocarbon production per well

**up at least 15%**

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Two wells with autonomous inflow control devices (ACIDs) constructed at the Vostochno-Messoyakhskoye field

➤ Risk minimization of gas/water breakthrough

➤ Cumulative well production

**up 20%**

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Industry record multilateral “fishbone” well (comprising eight side-tracks) constructed at the Vostochno-Messoyakhskoye field

➤ Well productivity

**up 40%**

➤ Effective length of wellbore reached 5.1 kilometres, with the total length of the well 9.1 kilometres

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First two high-tech dual-casing pipe horizontal wells commissioned at the Priobskoye field

➤ Drilling times cut from **38 to 19** days

➤ Greater efficiency in bringing hard-to-recover hydrocarbon reserves into production

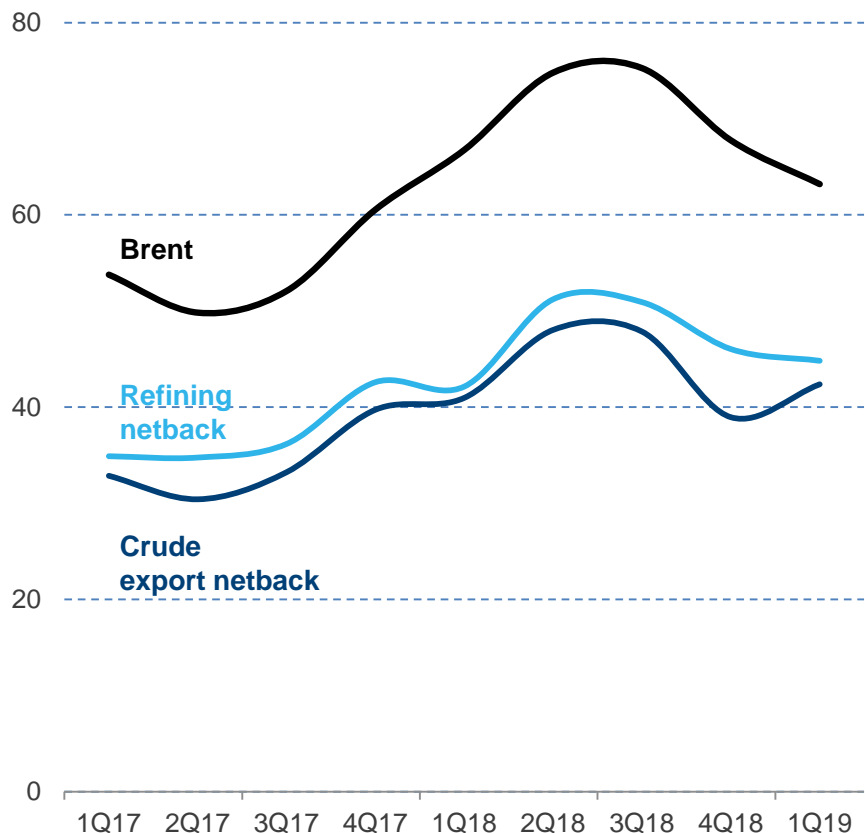
## Downstream

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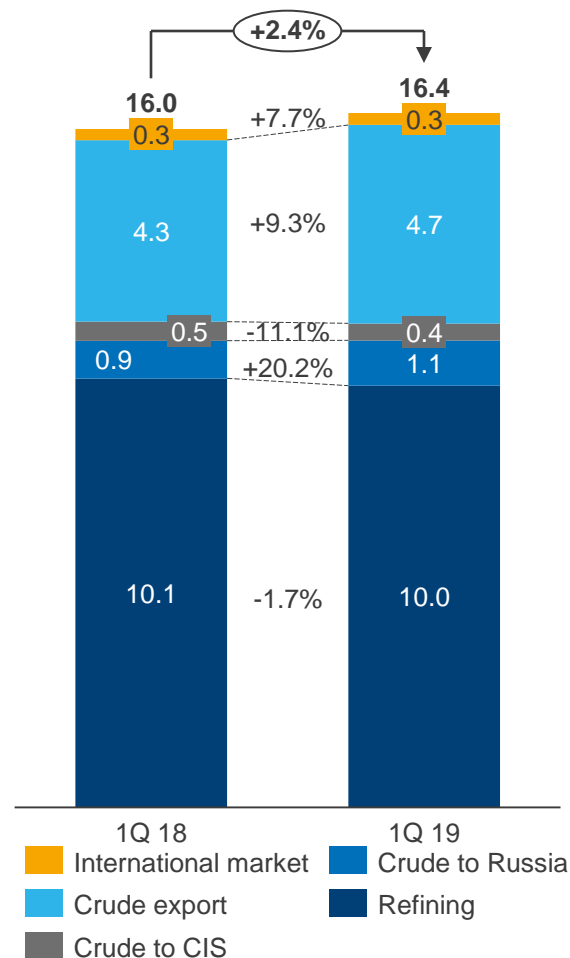
Seasonal reductions in demand, together with maintenance at Company refineries, resulted in an adjustment to refining volumes in Q1 2019

# The current pricing environment, and current level of demand, have lead to an increase in export volumes of Arctic oil

Crude price and average netbacks, \$/bbl

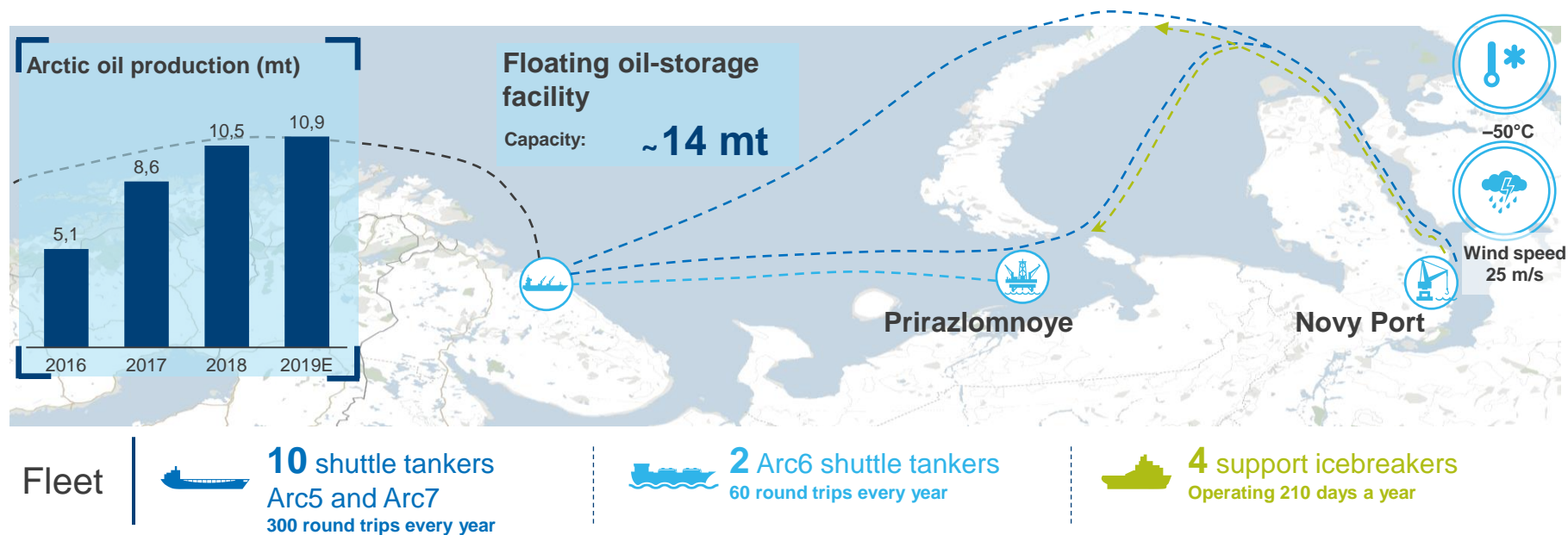


Crude mix\*, mt



\* Percentage changes may differ from the calculated figures and values may not sum to total due to rounding

# Logistics strategy for sustained year-round oil shipments in place, along with greater efficiency in Arctic logistics management



## The “Kapitan (Captain)” digital Arctic-logistics management system

### Own data

- Travelling speeds
- Route
- Fuel consumption

### External data

- Production volumes/cumulative oil stocks
- Icebreaker fleet scheduling
- Export schedule

### Standalone data

- Weather
- Ice conditions
- Tidal graphs

6,760 metrics taken into account every day

### Planning

Compilation of annual schedule

### Fleet management

Efficiency improvements in transport-complex utilisation

### Analysis

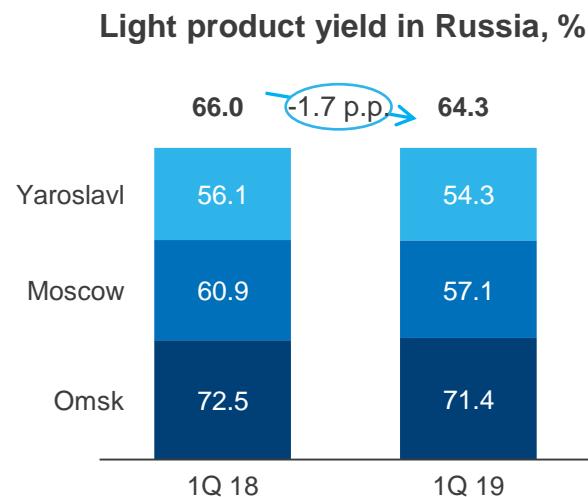
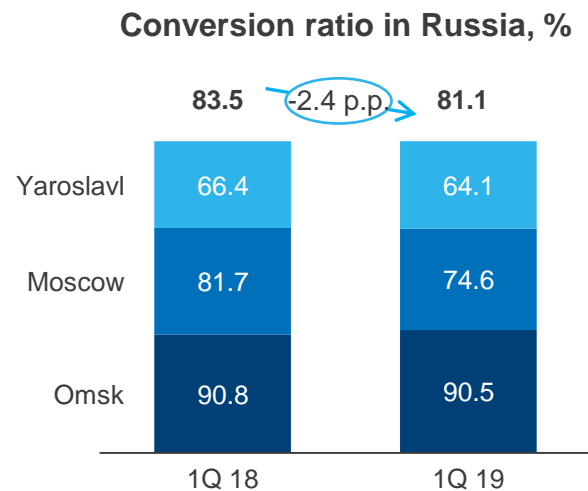
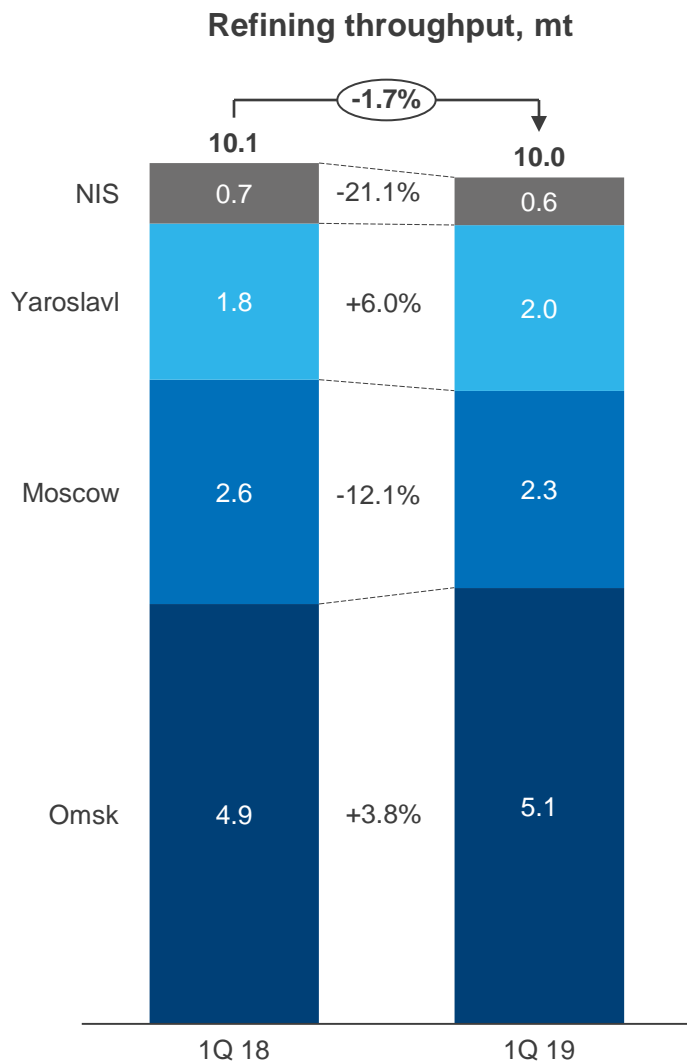
Able to process 1,000,000 variables per minute

### Predictive analytics

### Impacts

- Greater safety
- Ensures shipments of all produced oil are made at minimum cost
- Shorter payment times and improved coordination of shipment operations

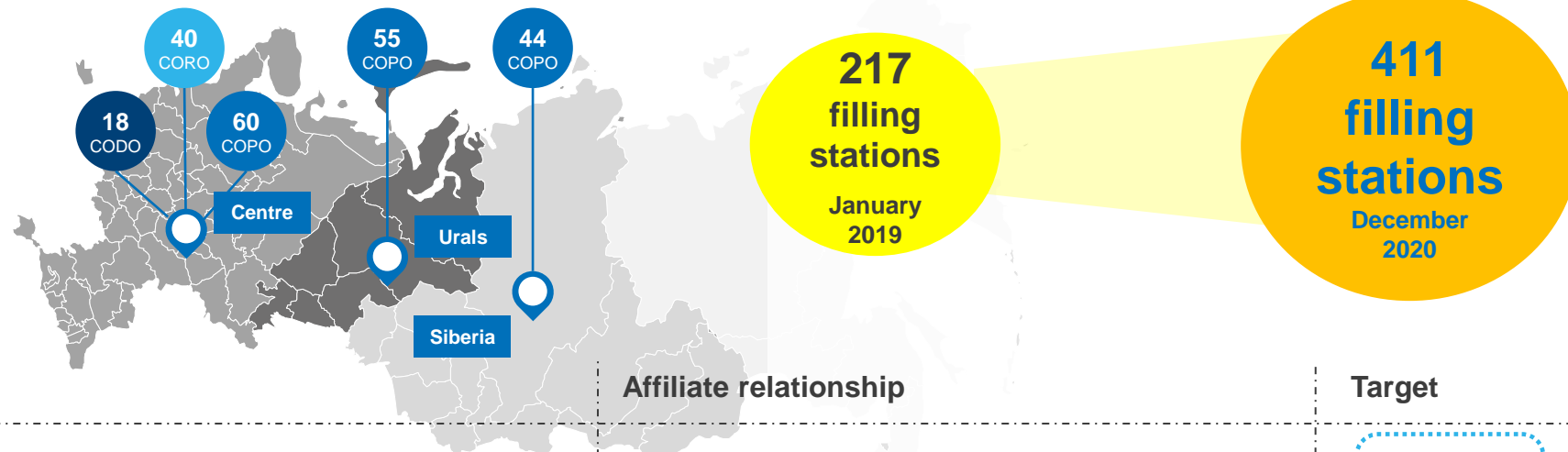
# Maintenance activities at Company refineries has resulted in a minor reduction in total refining volume









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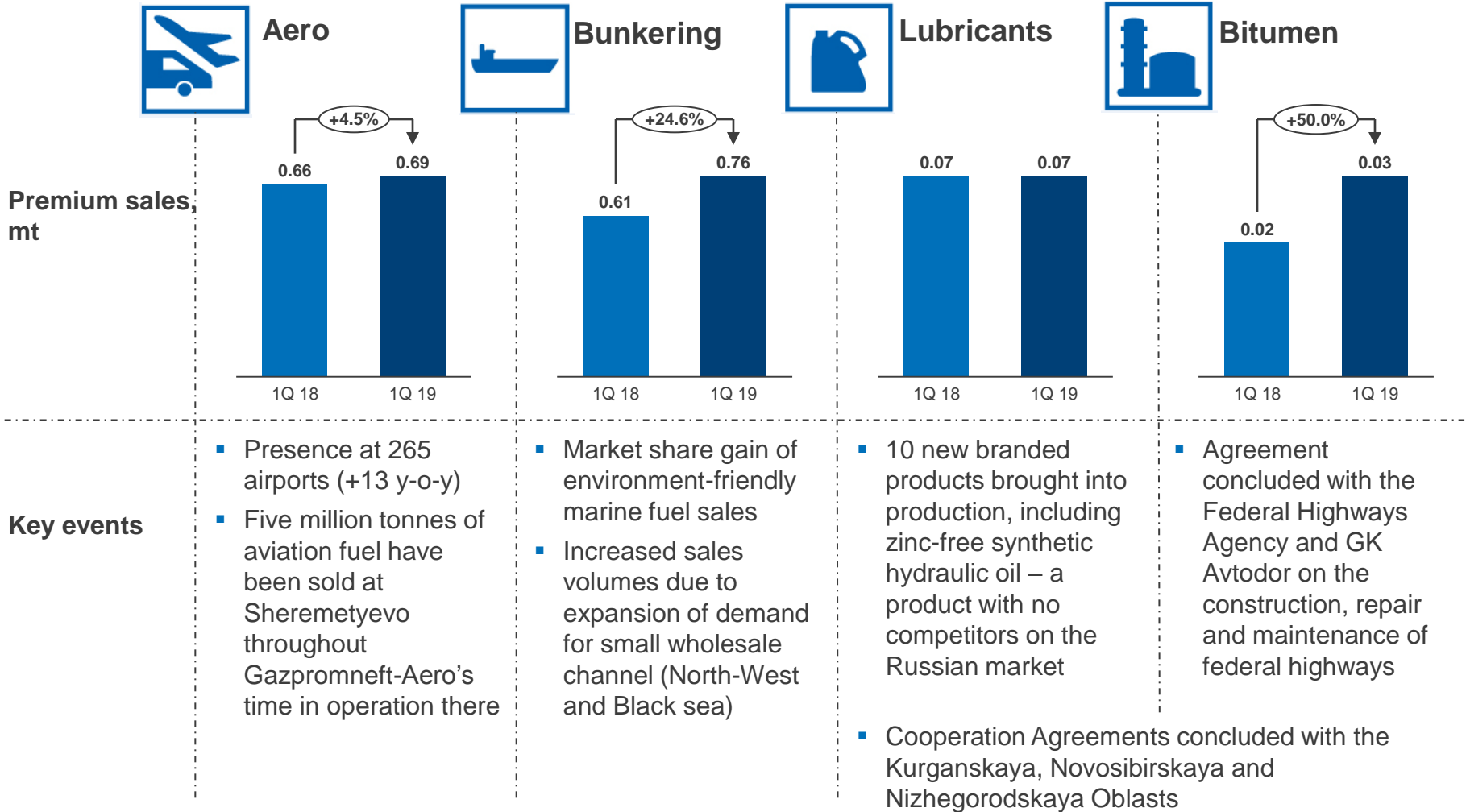
# New management strategies introduced to improve efficiency throughout filling stations

## The geography of flexible management



	Affiliate relationship	Target
 <b>COPO</b> (Company Owned, Partner Operated)	<ul style="list-style-type: none"> <li>Agency fee for fuel sales</li> <li>Bonus for exceeding sales targets on supplementary goods</li> <li>Managing staff costs as well as cleaning, uniform and office costs</li> </ul>	 ↓12% (actual)
 <b>CORO</b> (Company owned, Retailer Operated)	<ul style="list-style-type: none"> <li>Agency fee for fuel sales</li> <li>Full autonomy in managing sales of supplementary goods</li> <li>The supplementary-goods business is owned by the retailer and operated under its own brand</li> </ul>	 <b>Fill-up costs down 5%</b>
 <b>CODO</b> (Company Owned, Dealer Operated)	<ul style="list-style-type: none"> <li>Agency fee for fuel sales</li> <li>Manages sales of supplementary goods owned by the dealer (80% meeting Gazpromneft filling station standards and 20% being selected in line with local demand), paying royalties to Gazprom Neft on sales of supplementary goods</li> <li>The costs of maintaining the filling station are borne by the dealer</li> </ul>	

# B2B business development



## Financials

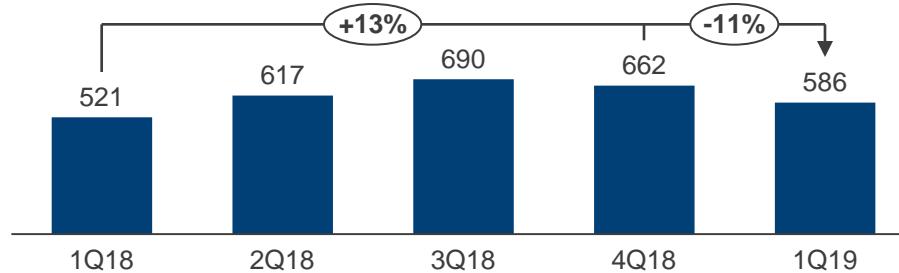
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Stable production growth at major projects is driving positive financial performance year-on-year



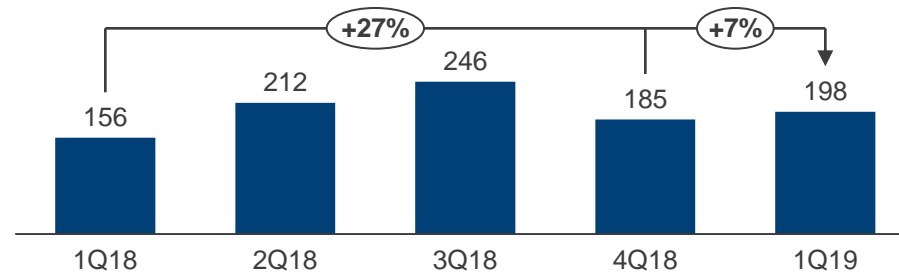
# Higher production volumes and a favourable pricing environment have led to a significant improvement in financial performance, year-on-year

## Revenue RUB bln



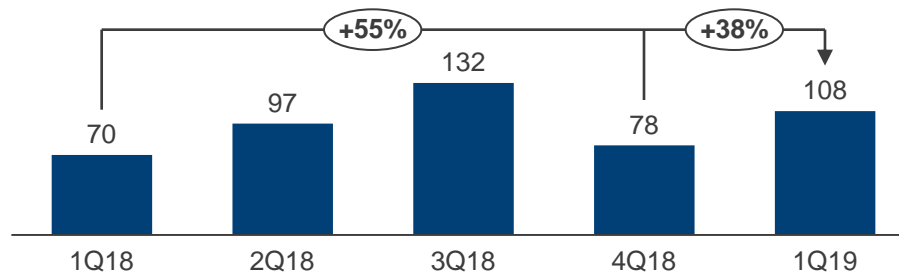
- A 12.6% y-o-y increase in revenue was driven by higher crude oil sales and favourable price environment
- Q-o-q revenue is down 11.4% due to lower production and refining volumes

## Adj. EBITDA\* RUB bln



- Adjusted EBITDA increased 26.9% y-o-y, driven by higher production at major projects
- 6.8% of the q-o-q increase in adjusted EBITDA is the result of duty lag positive impact, together with changes in the pricing environment

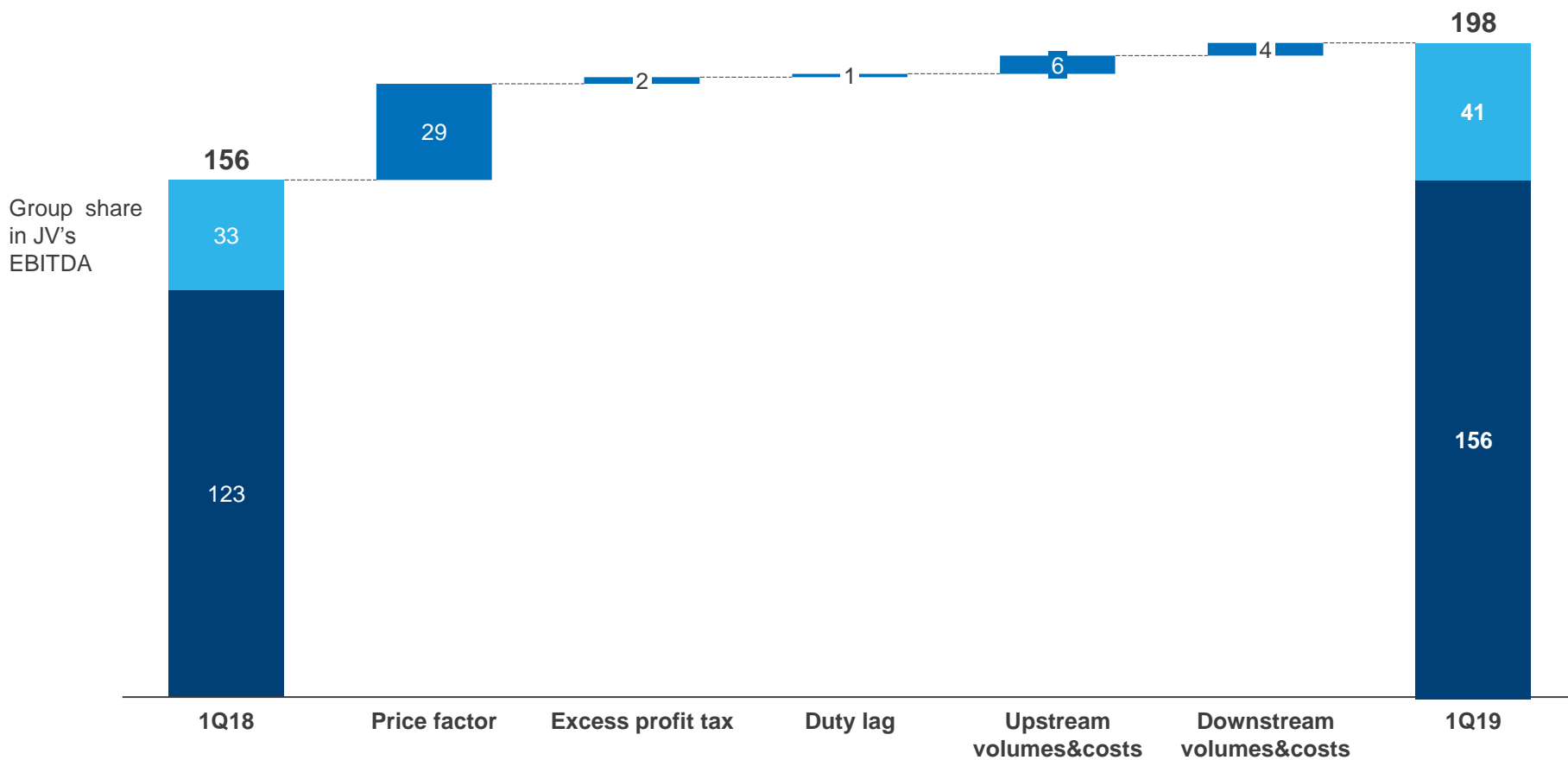
## Net income RUB bln



- Y-o-y and q-o-q net profit growth was driven by higher EBITDA and FX gains

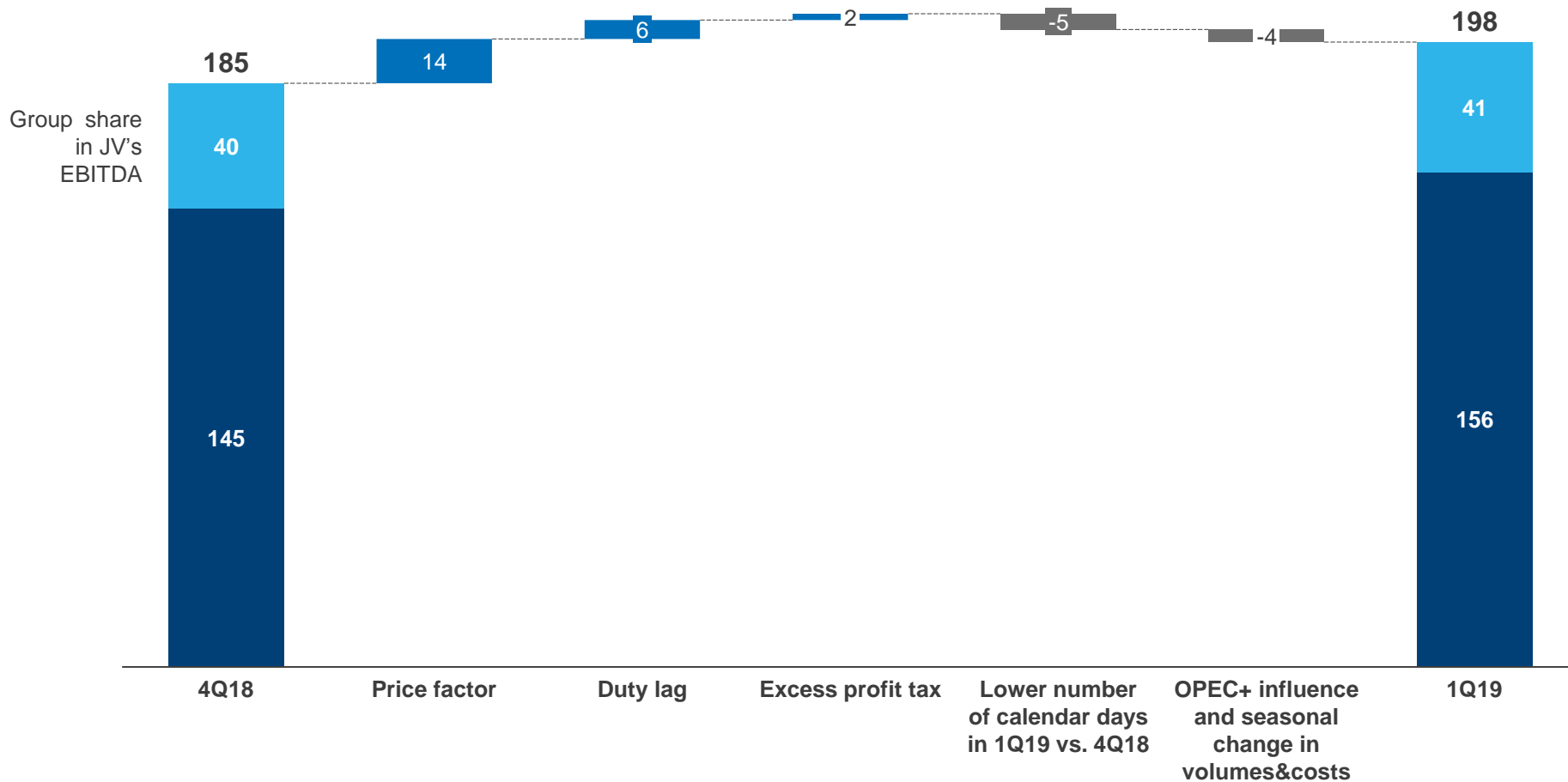
\*Including GPN share in EBITDA of associates and joint ventures

# Adjusted EBITDA\* reconciliation 1Q19 vs. 1Q18, RUB bln



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

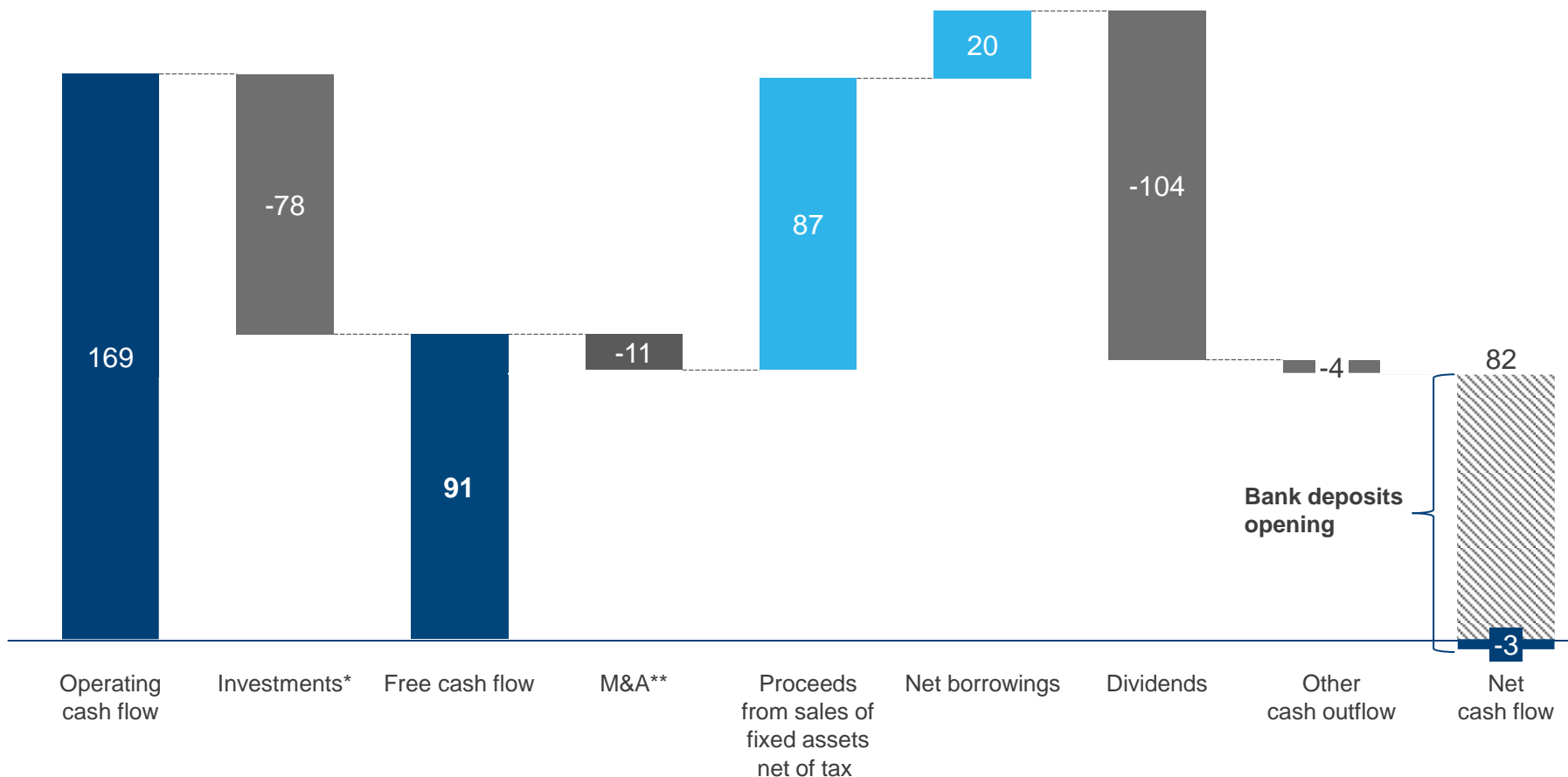
# Adjusted EBITDA\* reconciliation 1Q19 vs. 4Q18, RUB bln



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

# Considerable operating cash flow supported the record 9M18 dividend payout

1Q 2019 Cash flow reconciliation, RUB bln



\* Includes changes in the amount of prepayments and materials for capital construction

\*\* Mainly refers to the acquisition of 10 license blocks

# Full-scale refinery modernisation and new exploration projects are driving greater investments

**8.5% y-o-y**

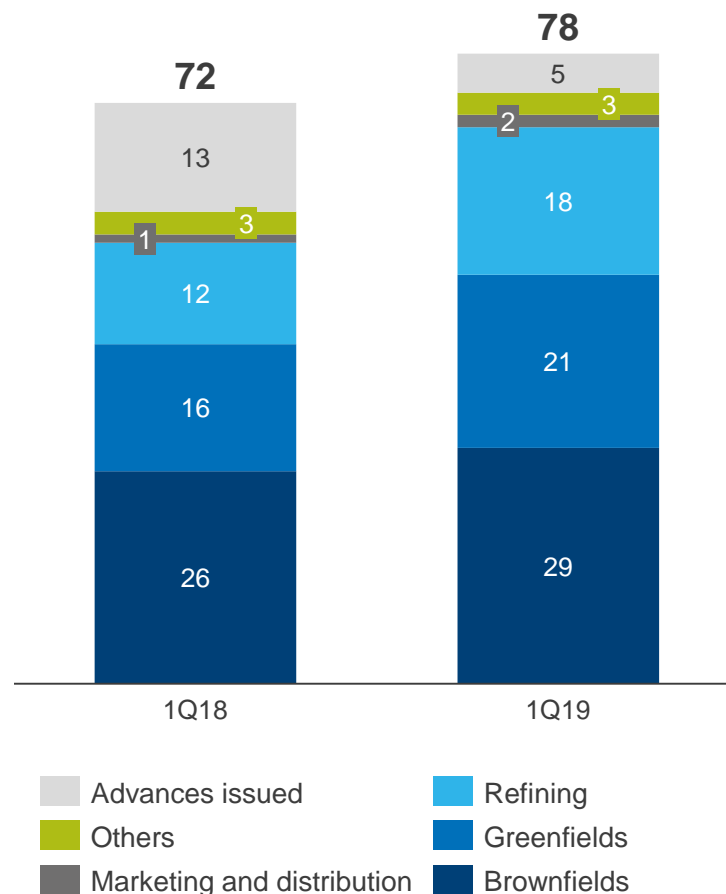
increase in **investments**

**Brownfields CAPEX** increased y-o-y due to implementation of drilling program at Orenburg cluster and further development of Otdalennaya group of fields in Noyabrsk region

The development of new exploration projects drove up **Greenfields CAPEX**

**Refining CAPEX** increased by **46%** y-o-y as the modernization projects continue at the Moscow and Omsk refineries

Investments, RUB bln

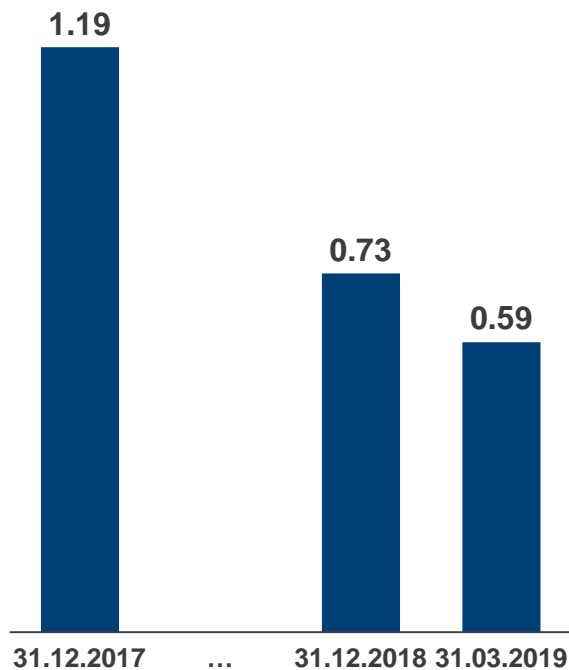


Changes in the amount of prepayments and materials for capital construction includes the cost of materials and equipment for ongoing projects

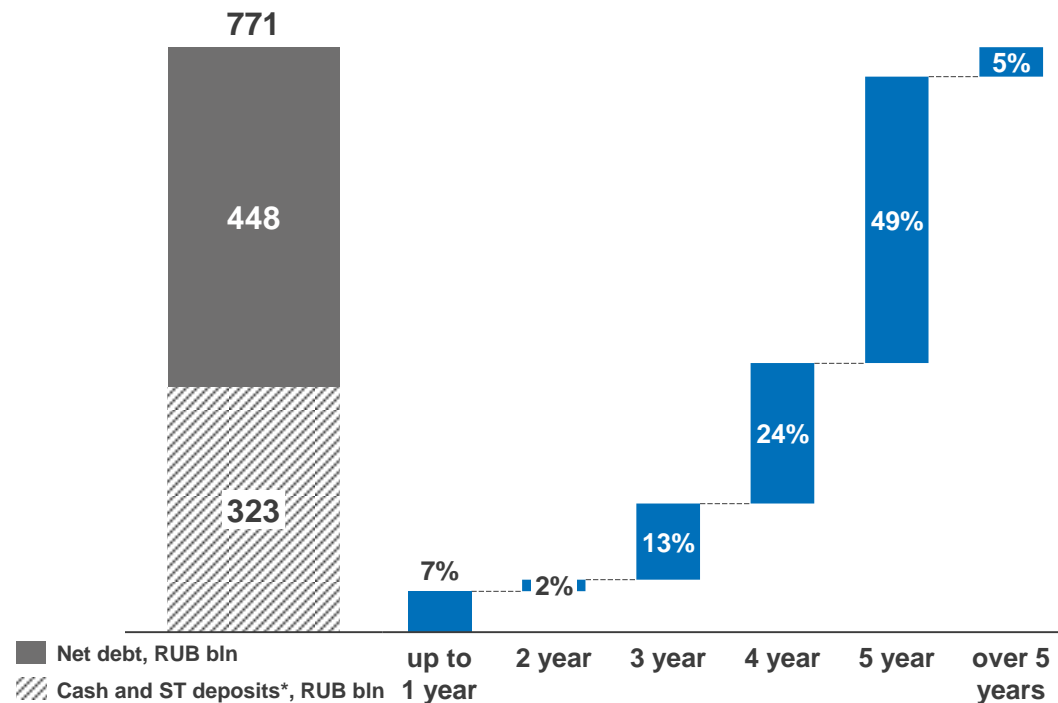
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# Consistently high credit-worthiness maintained

## Net debt/EBITDA dynamics



## Debt maturity profile at the end of 1Q19



- The ruble debt rate (which comprises 57% of Gazprom Neft's portfolio) dropped to 7.9% in Q1 2019 – the lowest in GPN's history (≈ OFZ rate on similar average terms to maturity across the ruble portfolio).

\*Cash and cash equivalents, short-term deposits