

Debt portfolio and credit ratings

DEBT PORTFOLIO AND CREDIT RATINGS

In the course of its operations, Gazprom Neft relies on both own funds generated as operating profit and borrowings. When determining the debt to equity ratio within its capital structure, the Company seeks to strike an optimal balance between the total cost of capital, on the one hand, and the long-term financial sustainability, on the other hand.

KEY PRINCIPLES OF DEBT PORTFOLIO MANAGEMENT

The Company adheres to a fairly conservative debt policy. Our debt policy requires that we maintain strong financial sustainability, including such Group's ratios as Net Debt / EBITDA and Consolidated Financial Debt / Consolidated EBITDA. Under the terms of the Company's loan agreements, Consolidated Financial Debt / Consolidated EBITDA should not exceed 3.0x. At the end of the reporting period, this ratio was well below the threshold, which is also true for the five-year period preceding the reporting date. Net Debt / EBITDA declined by 38.7% in 2018.

The reporting period saw the Company in full observance with other terms of loan agreements and bond and Eurobond offering memoranda.

To ensure information transparency, Gazprom Neft discloses on its corporate website how it manages the Group's debt portfolio. During the reporting year, the Company kept this section of its website continuously updated.

Debt/EBITDA

Source: Company data

Metric	2014	2015	2016	2017	2018
Net debt / EBITDA	1.44	1.90	1.60	1.19	0.73
Debt/EBITDA	1.87	2.37	1.68	1.39	1.07
Debt/EBITDA threshold	3.00	3.00	3.00	3.00	3.00

¹ The coupon rate was the lowest one among the Company's initial bond offerings since inception as well as the lowest one as of the placement date for comparable bond maturities among Russian corporate borrowers with similar ratings (7.20% p. a.).

KEY DEBT INSTRUMENTS

facilities, local bonds, Eurobonds, and a credit facility guaranteed by the Export Credit Agency (ECA). In addition, the Company raised project financing for a number of transactions. When raising debt, the Company takes into account the specifics of operations being funded and the environment prevailing in debt capital markets. The diversified structure of Gazprom Neft's debt portfolio makes it possible to maintain a flexible borrowing policy given the volatile debt capital markets.

In 2018, the Group took out loans and borrowings for a total of ₺ 366.5 bn (including short-term borrowings), including:

- > follow-on bond offering for ₺ 10.0 bn;
- > placement of local bonds for a total of ₺ 25.0 bn¹; and
- > drawdown of ₺ 331.5 bn (including short-term borrowings) under loan agreements.

In 2018, the Group also repaid ₺ 361.1 bn of outstanding loans and borrowings.

Gazprom Neft continuously works to optimise its debt portfolio structure and profile.

In 2018, the Company managed to renegotiate better terms for the existing credit facilities and refinance ₺ 227.8 bn of borrowings ahead of schedule.

0.73

Net debt / EBITDA
in 2018

As a result of the above borrowings and repayments, changes to the debt of other companies of the Gazprom Neft Group (Naftna Industrija Srbije A.D., Gazpromneft – Moscow Refinery, Gazpromneft Shipping) and the rouble revaluation of FX-denominated borrowings, the debt portfolio of the Gazprom Neft Group increased from ₺ 680.4 bn as at 31 December 2017 to ₺ 775.5 bn as at 31 December 2018. Over the same period, the Group's net debt / EBITDA decreased drastically due to a much higher operating profit.

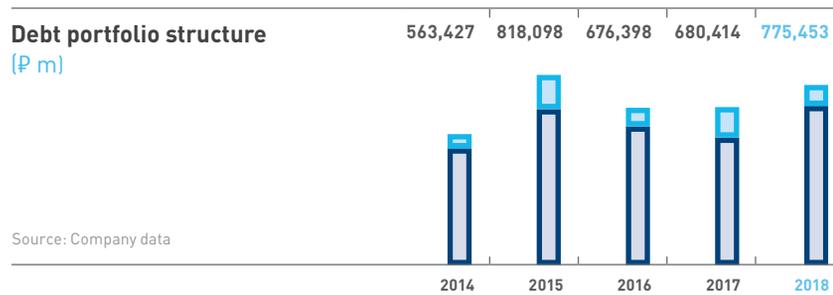
DEBT PORTFOLIO PROFILE

In terms of maturity profile, long-term borrowings dominate the Gazprom Neft Group's debt portfolio, with their share rising by 25 pp in 2018, which helps minimise the refinancing risk in 2019.

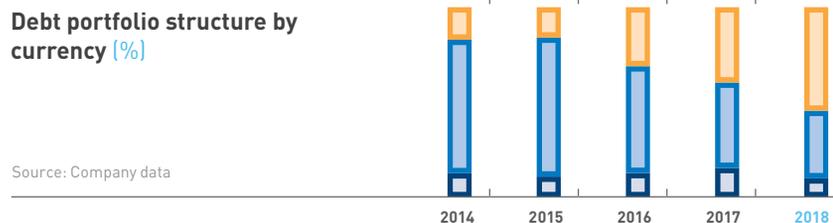
The Group's FX risk is substantially mitigated by its FX-denominated assets and liabilities as the current mix of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies a hedge accounting policy to manage volatility in profit and loss with its FX-denominated cash flows. The FX risk of the Group's debt portfolio was substantially mitigated as rouble-denominated borrowings grew to account for 54.5%.

FINANCING DEAL OF THE YEAR

In 2018, Messoyakhaneftegaz, a joint venture of Gazprom Neft and Rosneft, raised project financing for a total of ₺ 100 bn², which was named the Financing Deal of the Year at the Corporate Treasury Association's annual Treasury of the Year event, one of the most prominent awards in the Russian financial community.



Long-term loans and borrowings	502,306	670,779	596,211	548,654	684,530
Short-term loans and borrowings	61,121	147,319	80,187	131,760	90,923



EUR	12.62	10.86	12.76	15.42	9.94
USD	70.25	73.15	56.18	44.93	35.56
RUB	17.10	15.96	31.03	39.62	54.47
Other	0.04	0.03	0.03	0.03	0.03

² The Messoyakha group of fields includes the Vostochno-Messoyakhsy and Zapadno-Messoyakhsy licence blocks. The licences to develop the fields are held by JSC Messoyakhaneftegaz, a 50/50 joint venture of Gazprom Neft (the project operator) and Rosneft.

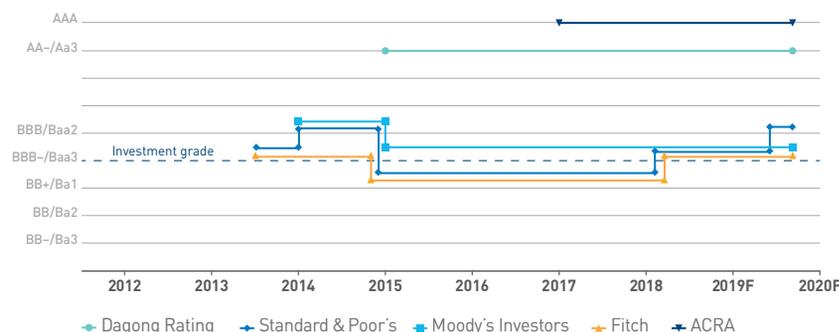
Gazprom Neft's debt repayment schedule (₽ m)

Source: Company data



	Less than 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years
Bank loans	19,594	50,112	4,118	346,400	4,223
Local bonds	12,719	0	0	65,000	55,000
Loan participation notes	1,852	0	0	207,574	0
Other borrowings	6,244	402	175	670	1,370

Gazprom Neft's credit ratings



Currently, Gazprom Neft's ratings are all investment grade

DEBT REPAYMENT SCHEDULE

Based on Gazprom Neft's debt repayment schedule, the Company expects to reduce its debt refinancing burden in 2019–2020.

POTENTIAL FINANCING INSTRUMENTS IN 2019

The Group not only successfully implemented its 2018 Financial Borrowings Programme relying on the most efficient instruments, but also secured its ability to borrow in 2019, having signed loan agreements with a number of banks.

In 2019, the Company plans to keep improving the efficiency of its debt portfolio management choosing the best financing instruments available in the prevailing market environment (including, but not limited to, bonds, bank loans and project financing).

In order to ensure the ability to promptly raise debt in the form of local bonds, the Company registered a multi-currency Exchange-Traded Bond Programme in 2018. The Programme remains in effect for 15 years, enabling the Company to promptly proceed with a bond offering with a maturity of up to 15 years and for a total of the equivalent of ₽ 170 bn, inclusive, if the need arises. In addition, the undrawn limit under the 2015 bond programme amounts to ₽ 5 bn (with a maturity of up to 30 years inclusive).

The Company actively cooperates with the Bond Issuers Committee of the Moscow Exchange with a view to improving the Russian laws and regulations applicable to the securities market which specifically govern the placement and circulation of bonds.

CREDIT RATINGS

As at the end of February 2019, Gazprom Neft's credit ratings were all investment grade or higher:

- > Standard & Poor's upgraded its rating to BBB- with a stable outlook in February 2018; and
- > Moody's upgraded its rating to Baa2 changing the outlook to stable in February 2019.

INVESTOR AND SHAREHOLDER RELATIONS

The Company regularly holds conference calls for investors with the participation of its senior management. In addition, Gazprom Neft publishes its quarterly Management's Discussion and Analysis of Financial Condition and Results of Operations as an appendix to the Group's IFRS financial statements. The Databook and Datafeed reference guides are also published to provide more details on the Company's operations.

To ensure maximum transparency, Gazprom Neft holds meetings with investors and shareholders and takes part in all major investment and broker conferences on a regular basis. Each year, the Company holds its Investor Day attended by senior management where analysts and investors from investment companies can get first-hand answers to all of their questions.

Site visits are often held at the Company's upstream and downstream facilities to keep investors and analysts updated on the latest developments.

Information on the Company's operations is part of all industry reports, with Gazprom Neft's results being covered approximately ten quarterly reports. Analysts assess the information disclosed during conference calls generally as positive or market neutral. All irregular and unpredictable events affecting its results are discussed with analysts.

Analysts' assessment of the Company's developments in 2018

Positive factors	Negative or neutral factors
FINANCE	
<ul style="list-style-type: none"> > Stronger free cash flow > Lower leverage > Interim dividends continue to be paid with the payout ratio rising up to 35% 	<ul style="list-style-type: none"> > Prior capex guidance for 2019 confirmed > Operating and SG&A expenses seasonally rising
UPSTREAM	
<ul style="list-style-type: none"> > The Company's resources growing > Upstream opex optimised > Novoportovskoye field being subject to AIT 	<ul style="list-style-type: none"> > Prior hydrocarbon production guidance for 2019 confirmed
DOWNSTREAM	
<ul style="list-style-type: none"> > Refinery upgrades continue > Catalyst production expanding 	<ul style="list-style-type: none"> > Refining margins changing throughout the year

32
OIL&GAS ANALYSTS

16
INVESTMENT BANKS

2018 saw
50+
ONE-ON-ONE MEETINGS WITH ANALYSTS

300
PARTICIPANTS IN QUARTERLY CONFERENCE CALLS

Consensus forecast for Gazprom Neft's share price target

Broker	Analyst	Date	Recommendation	TP (₽)
BrokerCreditService	Kirill Tachennikov	22 February 2019	Buy	493
VTB Capital	Dmitry Lukashov	22 February 2019	Sell	308
Gazprombank	Evgenia Dyshlyuk	22 February 2019	Buy	459
Sberbank	Andrey Gromadin	22 February 2019	Buy	459
Bank of America ML	Karen Kostanian	22 February 2019	Buy	419
Sova Capital	Mitchell Jennings	22 February 2019	Buy	408
Aton	Alexander Kornilov	22 February 2019	Buy	446
Raiffeisen	Andrey Polishchuk	22 February 2019	Buy	425
Renaissance Capital	Alexander Burgansky	22 February 2019	Hold	350
Goldman Sachs	Heydar Mamedov	22 February 2019	Buy	446

Q&A for investors



Will Gazprom Neft increase production in 2019 vs 2018 given the OPEC+ deal and the overall market environment? How does the Company assess the OPEC+ deal?

Assuming that OPEC+ countries are supposed to cut production in 1H 2019, we thus expect to increase our own production by 2% in 2019. The exact figures will depend on the deal terms for 2H 2019.

As of now, the deal helps maintain oil prices at a sufficient level for us to implement both ongoing and prospective projects. The key is to maintain stable oil prices going forward. The fact that oil majors got united by and large to address this issue is indicative of the industry's ability to cooperate and work towards a common goal. Indeed, the oil price predictability is not only about revenues for oil companies. It also ensures that our supply meets the future demand while guaranteeing the stability of investment cycles which take at least five years to complete across our industry.



Who can become Gazprom Neft's partner in developing the Ayashsky license area and other new offshore fields?

In the next three years, we are going to continue exploration in offshore Sakhalin. Following exploration and appraisal, we will decide on the required financing. The evidence from global practices shows that only 10% of offshore projects are self-reliant. So, we are looking to establish mutually beneficial long-term relations with both Russian and overseas companies. However, we want our prospective partners to offer economically viable terms. If such terms prove to be less attractive than solo work, we will be developing the field on our own. For instance, we continue exploration in the Arctic on our own.