

Sales of oil and petroleum products



Exports of Arctic oil will continue to grow [\(interview\)](#)

Gazprom Neft is a wholesaler of oil and petroleum products both in Russia and abroad. Small wholesale and retail sales, including sales at filling stations, are managed by dedicated subsidiaries.

OIL SALES

In 2018, crude oil sales decreased 8.6% year-on-year to 24.26 mt as production increased at Russian refineries of the Company.

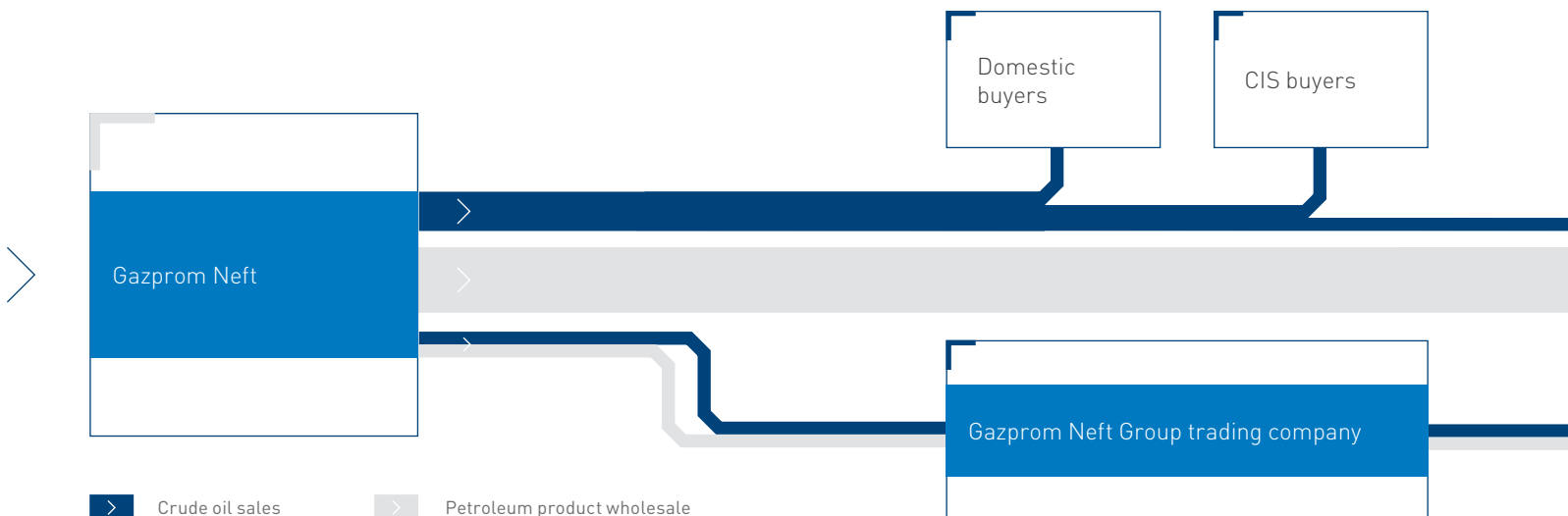
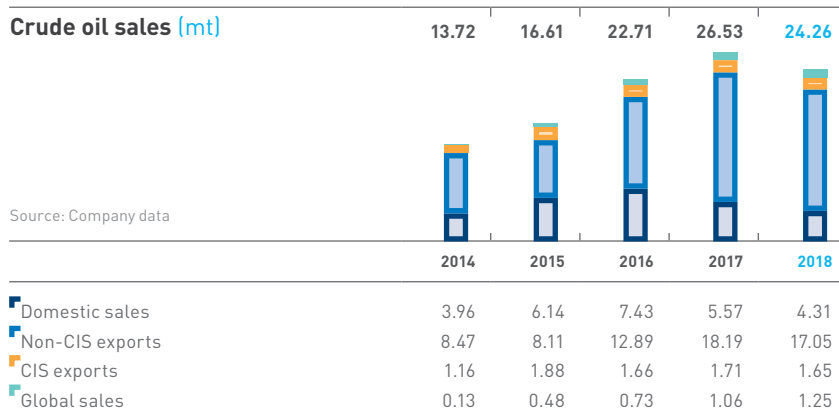
Domestic sales dropped 22.6% to 4.31 mt, and total oil exports decreased 6% to 18.70 mt. By contrast, oil sales to global markets rose 17.9% to 1.25 mt on the back of increased production in Iraq.

In 2018, Gazprom Neft's own fleet received enough vessels to ensure uninterrupted service of the Company's fields in the Arctic region. With the fully-fledged own Arctic fleet, Gazprom Neft ensures year-round oil delivery to global markets with maximum cost efficiency and minimal risk of interruptions caused by external negative factors.

PETROLEUM PRODUCT SALES

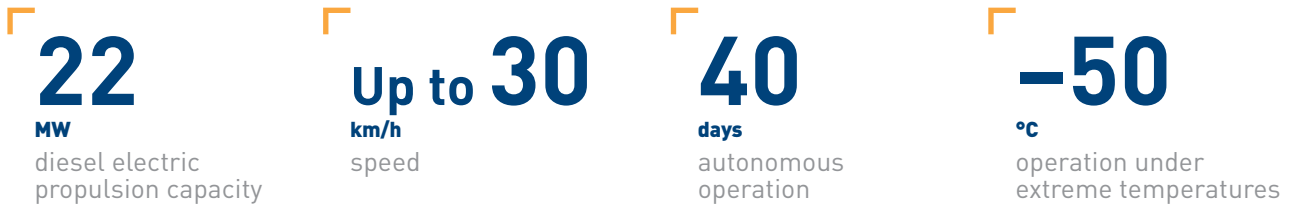
The growth of sales in 2018 was mostly associated with demand in the domestic market where petroleum product sales increased 6.1%.

Cumulative exports of petroleum products and international sales grew 4.6% to 16.24 mt in 2018. The biggest driver of exports was growing sales of naphtha, fuel oil and jet fuel to non-CIS countries. In 2018, actual sales of fuel oil on the domestic and international markets were driven by cost considerations and deemed optimal given the existing demand and price levels.



Technology

High-tech icebreakers



Arctic fleet is essential for the Company's projects in the Arctic region. Efficient logistics is key to continuous year-round transportation of crude oil from the Arctic fields.

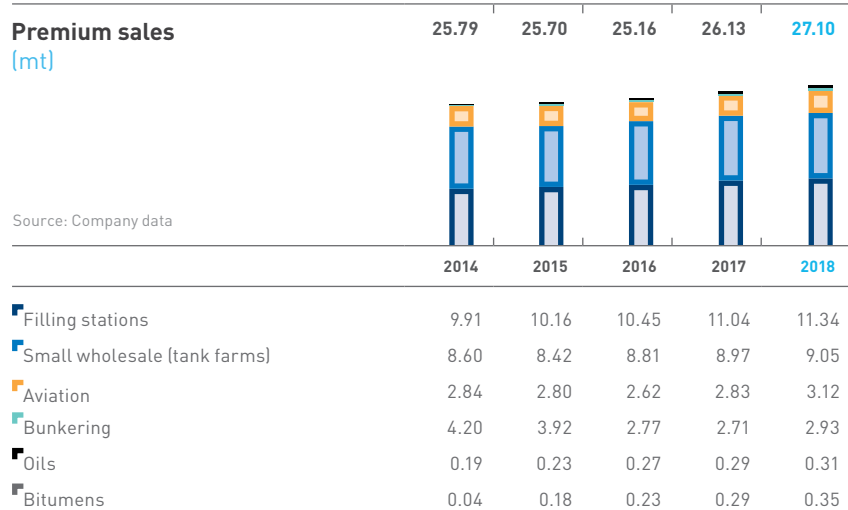
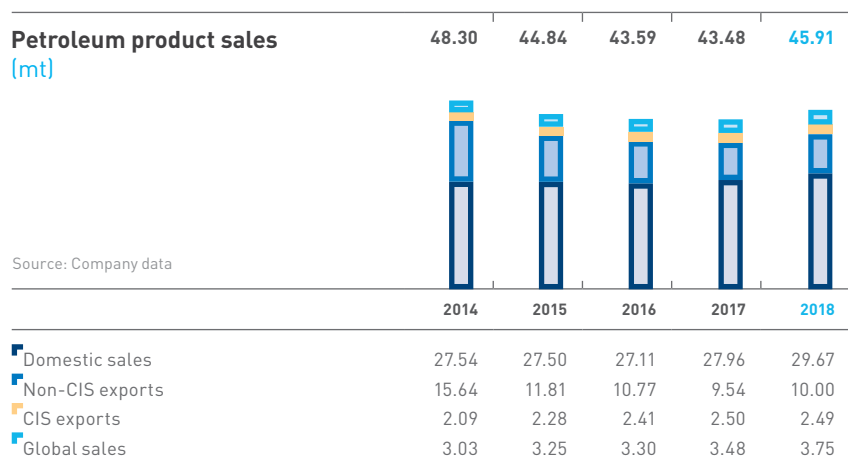
In 2018, Gazprom Neft's own Arctic fleet was joined by Alexander Sannikov, a high-tech icebreaker built at the Vyborg shipyard (Leningrad Region). The vessel is named after Alexander Sannikov, an ex-head of Gazprom Neft Oil Refining Division, who supervised large-scale projects of the Company.

In August, Alexander Sannikov started escorting tankers in the Gulf of Ob from the Arctic Gates terminal to the storage tanker moored in the Kola Bay. In December, the fleet was joined by the second icebreaker named after Russian hydrographer, geodesist and polar explorer Andrey Vilkitsky.

The two icebreakers are some of the most advanced vessels in their class. They are highly maneuverable and need just 60 seconds to make a 360-degree turn. Capacity of their propulsion units is comparable to those of nuclear icebreakers and allows them to move through up to 2 m thick ice.

The icebreakers are equipped with state-of-the-art automatic power supply and navigation systems. Their electronic equipment can be controlled remotely. The vessels are designed around the zero-waste principle: all ship-generated waste is either recycled or stored until the ship returns to the port.





Premium sales¹ in the reporting period increased 3.7% to 27.10 mt. Sustained growth of premium sales was a result of the product range expansion, production capacity upgrade and implementation of innovative solutions in customer segments.

Focus on aviation fuel, premium bitumen and lubricant sales allowed the Company to increase its share in relevant retail segments in the reporting year. Aviation fuel and bitumen sales in the premium channels were up 10.6% and 22.9%, respectively. Higher demand in Russia's north-western and Black Sea ports drove a 7.7% year-on-year increase in bunkering volumes in 2018. Premium sales of oils and motor fuels increased 6.9% and 1.9%, respectively.

Development of small wholesale and retail sales of petroleum products is one of the Company's priorities. Having a nationwide brand with strong recognition and customer confidence helps the Company to deliver on one of its strategic goals of becoming a leader in Russia and the CIS in terms of retail sales and filling station network performance by 2025.

As at the end of 2018, the total retail sales of motor fuels via filling stations grew 2.7% year-on-year to 11.34 mt, including 9.12 mt in Russia. The Company confirmed its status as a Russian market leader in terms of average daily sales per filling station, which grew 3.3% year-on-year reaching 20.7 tpd.

¹ Premium sales are:

- >> sales of petroleum products via premium marketing channels, both retail and small wholesale. This group includes all product sales at filling stations and tank farms, as well as into-plane and direct-to-vessel fuelling, small wholesale at refuelling terminals at airports and seaports;
- >> sales of premium petroleum products with a higher added value due to advantages over other products in the same category. This group includes sales of packaged products (oils in barrels and cans, polymer modified asphalt cements (PMAC) in clovertainers, etc.), premium-branded liquid lubricants (Gazpromneft, G-Family, Texaco), premium-branded bituminous materials (PMAC, polymer modified bitumens, bitumen emulsions, etc.), all brands of bitumen-based products, and potential wholesale of premium motor fuels (G-Drive, etc.).

Technology

Premium fuel

In 2018, Gazprom Neft launched G-Drive 100 premium fuel, a new product in its mix of G-Drive premium gasolines. This is a high-octane fuel for modern engines requiring at least a 95 RON gasoline. It boasts great efficiency and very low environmental impact.

The new branded gasoline has successfully passed qualification tests at the Russian Research Institute for Oil Refining (VNII NP) and was found to comply with the Technical Regulations of the Customs Union for K5 fuel class (an analogue of Euro-5). Compliance with the European fuel quality requirements was also confirmed by SGS, the largest international laboratory.

Production of a 100 RON gasoline without octane-increasing additives was made possible through

2.236 **>30%**

mt
 sales of branded fuel
 in Russia and CIS
 in 2018

share of G-Drive branded
 fuel in 95+ RON gasoline
 sales

a large-scale upgrade project at Omsk Refinery where an automated gasoline mixing station was built. All major components of the new fuel are also produced at Omsk Refinery.

In 2018, G-Drive 100 replaced G-Drive 98 across the entire network of Gazprom Neft's filling stations. The new fuel successfully passed the toughest test in the engines of the G-Drive Racing team.

Financial results

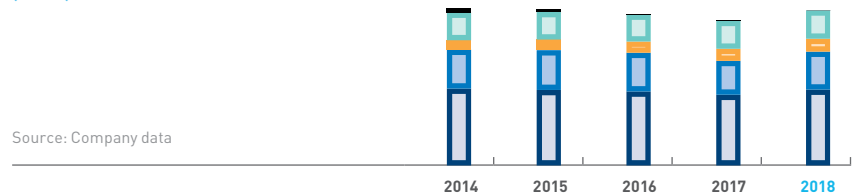
In 2018, Gazprom Neft showed sustainable growth in key financial indicators. The Company's revenue went up by 28.7% to ₺ 2.49 tn on the back of a favourable price environment, greater operational efficiency, and continuing production growth at the Novoportovskoye, Prirazlomnoye and Vostochno-Messoyakhskoye fields.

In 2018, adjusted EBITDA increased by 45%. The growth was driven by favourable oil prices globally and domestically, successful development of new upstream projects, and increased operating efficiency.

In 2018, the Company's net profit grew by almost 49%, driven by stronger oil and petroleum product prices as per unit upstream and refining expenses went down. Cost cutting was made possible by an upgrade of refineries and introduction of innovations in the upstream segment.

Key financial indicators

(₺ bn)



Source: Company data

■ Sales revenue	1,408	1,468	1,546	1,934	2,489
■ Adjusted EBITDA	343	405	456	551	800
■ Net profit	127	116	210	270	401
■ Capital expenditures	271	349	385	357	375
■ Taxes other than income tax	344	353	381	492	653