

Debt management and credit ratings

Debt portfolio

Gazprom Neft uses both internal sources (generated from operations) and borrowings to finance its operations. When determining debt and equity share within the capital structure, the company seeks to maintain the optimal balance between the total cost of capital, on the one hand, and long-term financial sustainability, on the other hand.

Core debt portfolio management principles

The company adheres to a fairly conservative debt financing policy. The key debt-policy principles include a high level of financial sustainability, with such critical indicators as the net debt/EBITDA ratio and the consolidated financial debt/EBITDA ratio, calculated for the Gazprom Neft Group. In accordance with the terms and conditions of the company loan agreements, the consolidated financial debt/EBITDA ratio must not exceed three. At the end of the reporting

Debt-to-EBITDA ratio

As at 31/12/2019

=0.7

period (and during the five-year period preceding the reporting date), that ratio was below the threshold. The net debt/EBITDA ratio decreased by 4.1% in 2019.

The company had a comfortable headroom under all applicable covenants on loan agreements and Eurobonds.

Information transparency of the debt policy is ensured by disclosing the performance of the Gazprom Neft Group debt-portfolio management on the official company website. In the reporting year, the company regularly updated the relevant section of the website.

Key debt instruments

At the end of 2019, the Gazprom Neft Group debt portfolio consisted of such debt instruments as bilateral credit facilities (including revolving facilities), syndicated credit facilities, local bonds, Eurobonds, and a credit facility guaranteed by the Export Credit Agency (ECA). In addition, the company made a number of project-financing transactions.

When raising debt financing, the company takes into account

the features of operations being funded, and the situation on debt-capital markets. The diversified structure of the Gazprom Neft Group debt portfolio makes it possible to maintain a flexible debt policy amid volatility on debt-capital markets.

In 2019, the Gazprom Neft Group raised loans and borrowings totaling ₺259.3 billion (taking into account short-term borrowings), including:

- bond offering for the total amount of ₺1.2 billion;
- placement of local bonds worth ₺45.0 billion;
- drawdown of ₺213.1 billion (including short-term borrowings) under loan agreements.

In 2019, the Gazprom Neft Group repaid the loans and borrowings totalling ₺292.4 billion.

The Gazprom Neft Group regularly implements measures designed to optimise its debt portfolio structure and profile. As part of those measures in 2019, the company agreed on better conditions for existing credit facilities, and carried out unscheduled long-term refinancing of borrowings for ₺148.5 billion in advance.

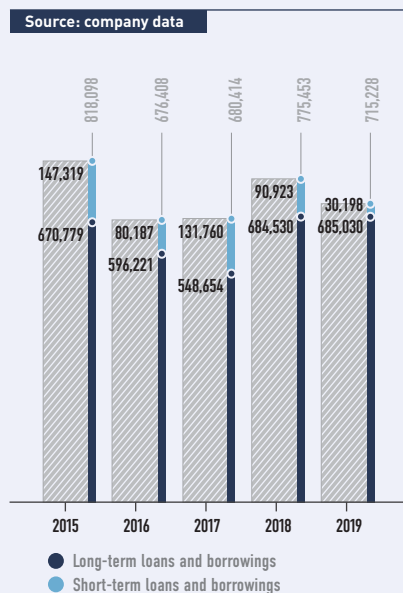
As a result of borrowings and repayments during the year, changes in the debt of other Gazprom Neft Group companies (Naftna Industrija Srbije A.D., the Gazprom Neft Moscow Refinery, Gazpromneft Shipping), and ruble revaluation of FX-denominated borrowings, the debt portfolio of the Gazprom Neft Group for the reporting period declined from ₴775 billion as at 31 December 2018 to ₴715 billion as at 31 December 2019. Thanks to a significant growth in operating profit, the Gazprom Neft Group reduced its debt leverage as defined by the net debt/EBITDA ratio.

Key features of the debt portfolio

Long-term borrowings dominate the structure of the Gazprom Neft Group debt portfolio in terms of maturity; however, in 2019 the share of long-term debt increased by nine percentage points, which minimised the refinancing risks in 2020.

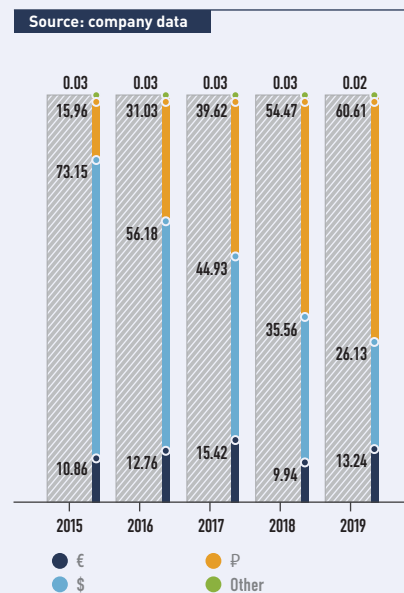
Assets and liabilities denominated in foreign currency significantly reduces the FX risk: current structure of revenues and liabilities acts as a natural hedge with cash flows

Debt portfolio structure, ₴ million



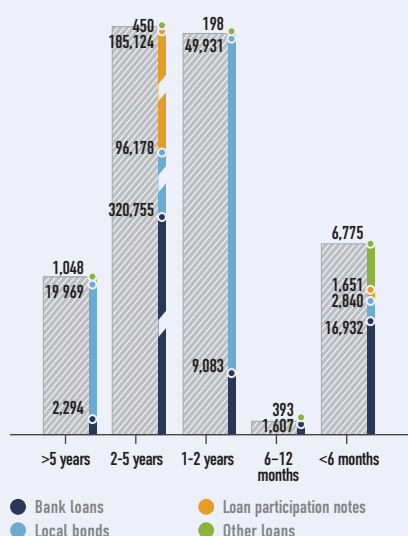
in different currencies offsetting each other. The group applies hedge accounting to its cash flows denominated in foreign currency, to prevent profit and loss volatility. The FX risks of the group debt portfolio were substantially mitigated, as the proportion of ruble borrowings grew to 61%.

Debt portfolio structure by currency, %



Gazprom Neft Group maturity schedule, ₺ million

Source: company data



Debt maturity schedule

According to the 2020-2021 debt repayment schedule, Gazprom Neft Group expects to reduce its debt refinancing burden.

Potential debt sources in 2020

The Gazprom Neft Group not only successfully implemented a financial debt programme using the most efficient instruments in 2019, but also took a number of major steps to raise funds in 2020 with several bank loan agreements signed.

In 2020, the company intends to continue to improve the efficiency of its debt-portfolio management by selecting the best debt

instruments, subject to the current market conditions but not limited to, bonds, bank loans, and project financing.

Within the multi-currency Exchange-Traded Bond Programme registered in 2018, the company may at short notice, arrange the issue of exchange-traded bonds with maturity of up to 15 years, and with a total volume of up to ₺115 billion in equivalent, inclusive. The Programme remains in effect for 15 years. In February 2020, exchange-traded bonds were placed for the amount of ₺10 billion. In addition, the available limit under the programme registered in 2015 amounts to ₺5 billion (with bond maturity of up to 30 years inclusive).

The company also actively cooperates with the Moscow Exchange Bond Issuers Committee to improve Russian laws on the securities

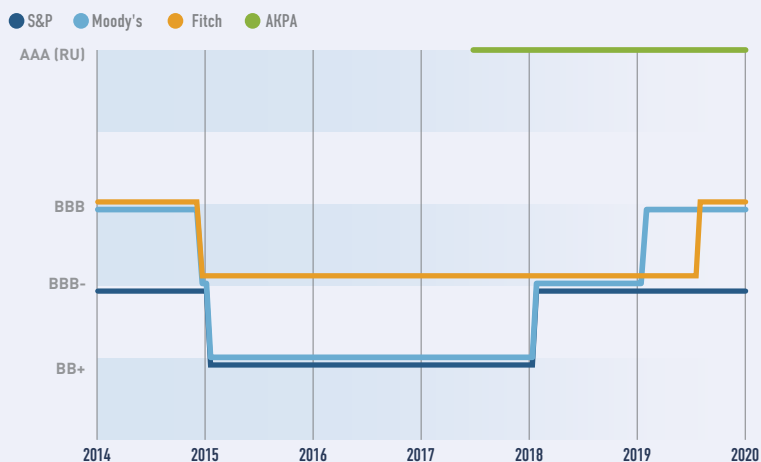
market in terms of placement and circulation of bonds.

Credit ratings

As at the end of February 2019, all of the company credit ratings were in investment grade category:

- In February 2019, Moody's upgraded the company rating to Baa2, and revised the outlook to Stable;
- in August 2019, Fitch upgraded the rating of Gazprom Neft to BBB, and revised the outlook to Stable.

Gazprom Neft PJSC credit ratings



Investor and shareholder relations

The company holds regular conference calls for investors, involving its executives. In addition, Gazprom Neft publishes the Management's Discussion and Analysis of Financial Condition and Results of Operations on a quarterly basis, as an appendix to the Gazprom Neft PJSC financial statements (IFRS). The company also publishes the Databook and Datafeed statistical reference guides to enable detailed analysis of its operations.

To ensure comprehensive communication, the company holds regular meetings with investors and shareholders, and takes part in all major investment and broker conferences. Every year, Gazprom Neft PJSC holds an Investor Day attended by its top management and company representatives, who directly answer questions from analysts and investors from investment companies.

Gazprom Neft organises regular site visits to its production and upstream facilities to keep investors and analysts informed about its production assets.

Information about the company is included in all industry reports. About 10 reports are published each quarter, following the publication of the company results. In general, analysts assess the information disclosed during conference calls as positive or neutral for the market. Any irregular or unpredictable events affecting the company performance are discussed with analysts.

Analyst assessment of the company events in 2019

Positive factors	Negative or neutral factors
FINANCE	
<ul style="list-style-type: none"> - Substantial generation of free cash flow - Lower debt burden - Continued payment of interim dividends, and an increase in the payout ratio to 50% in H2 2019 	<ul style="list-style-type: none"> - Increased capital investment forecast for 2020-2021 - Seasonal increase in operating, selling and administrative expenses
PRODUCTION	
<ul style="list-style-type: none"> - Increase in the resource base - Control over OpEx in the upstream segment - Developing partnerships and new forms of cooperation as part of managing the project portfolio 	<ul style="list-style-type: none"> - Restriction of liquid hydrocarbon production under the OPEC+ agreement
DOWNSTREAM	
<ul style="list-style-type: none"> - Continued modernisation of refineries and implementation of environmental initiatives - Development of catalyst production - Continued development of premium distribution channels 	<ul style="list-style-type: none"> - Reduction in refining volume in 2019 due to scheduled repairs

Consensus forecast for the Gazprom Neft PJSC target share price

Broker	Analyst	Date	Recommendation	TP, ₪
BrokerCreditService	Kirill Tachennikov	21/02/2020	Buy	663.4
VTB Capital	Dmitry Lukashov	26/02/2020	Hold	473.9
Gazprombank	Evgeniya Dyshlyuk	27/02/2020	Buy	517.6
Sberbank	Andrey Gromadin	26/02/2020	Hold	480.4
Bank of America ML	Karen Kostanyan	28/02/2020	Buy	549.3
Sova Capital	Mitch Jennigs	26/02/2020	Buy	490.0
Aton	Anna Butko	26/02/2020	Buy	506.4
Raiffeisen	Andrey Polishuk	25/02/2020	Buy	495.0
Renaissance Capital	Alexander Burgansky	25/02/2020	Hold	470.0
Goldman Sachs	Heydar Mamedov	28/02/2020	Buy	669.9
MEAN				531.6