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Presenter: Leonid Mikhelson, Mark Gyetvay, Olga Klimova
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Operator: Good day, and welcome to the Novatek first quarter 2013 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Olga Klimova, global head of equity sales, managing director, Sberbank CIB. Please go ahead.

Olga Klimova: Hi, thank you very much. Hello everybody. It's our pleasure and honour to host this call for Novatek. We do it every quarter, but I guess I am introducing it for really blow-out quarterly results. So congratulations. On the call with us, we have Mark Gyetvay, the CFO of Novatek, and Alexander Palivoda, who runs investor relations. And without further ado, I will pass the mike to Mark.

Mark Gyetvay: Thank you, Olga. Ladies and gentlemen, shareholders, and colleagues – welcome to our first quarter 2013 earnings conference call. I would like to thank everyone for joining it this evening, and again extend our sincere gratitude to Sberbank CIB for organizing and hosting our earnings conference call.

Joining me this evening during the question and answer session will be Mr. Leonid Mikhelson, CEO, Chairman of the Management Committee, and a member of the Board of Directors. The question and answer session will be handled simultaneously in Russian and English languages, so when we come to that part of the presentation call, I will ask to keep this important point in consideration when asking questions, as there will be sufficient time allotted to answer all of your important questions.

Before we begin with the specific conference call details, I would like to refer you to our disclaimer statement, as is normal practice. During this conference call, we may make reference to forward-looking statements by using such words as plans, goals, strategies, and other similar



words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward- looking statements due to known and unknown risks and uncertainties, and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings included in our annual review for the year ended 31 December 2012, as well as any of our earnings press releases and documents throughout the past year, for more descriptions of the risks that may influence our results.

We have delivered another stellar set of financial and operational results for the first quarter 2013, relative to the year on year and quarter on quarter comparables. Despite this fact, we continue to experience significant volatility in our earnings share price, even though we increased our natural gas and liquid production consistent with our annual guidance, reported double-digit earnings growth, and generated strong operational cash flow to fully fund our capital expenditure program and remain free cash flow-positive.

The Novatek investment case has clearly moved away from business fundamentals, and is now squarely focused on external events, market speculations, and more recently, on comments made by third parties on our Yamal LNG project, effectively discounting what we have conveyed to the investment community. Although we remain committed to maintaining an open and transparent dialogue with all investors and analysts, and our confident in our ability to execute our long-term strategy, we understand that the overall investment climate of Russia has changed from your perspective, and that the investment community has placed a higher risk premium on Russia in general, and specifically on our investment story. We will address some of these market concerns as best as possible, in a manner consistent with our historical practice, as well as encourage you to raise these concerns, risks, or issues in our question and answer segment.

I would like to begin tonight's discussion on our key Yamal LNG project. Yamal LNG is, without question, a transformational project for the company, and a project that has received its fair share of market comments and, in our opinion, misunderstandings. We recognize that the size



and scale of the project, relative to our historical projects, raises some concerns amongst investors, but we believe we have taken a balanced approach towards risk and rewards to successfully execute this core project.

We selected a strategic partner who we felt had industry capabilities and LNG “know-how” to complement our proven experience in operating and delivering gas products in the Arctic zone. We have successfully achieved fiscal terms that support the economics of this project. We have successfully demonstrated the viability of using the Arctic Ocean’s northern sea route as a navigational route to the Asia and Pacific region. We completed all of our pre-FEED, FEED, and main contractor selection process according to our project timetables, and we recently commenced drilling of production wells, utilizing brand new drilling rigs fabricated specifically for this project, to name just a few of the milestones achieved to date.

Recently, we also received a positive state expert review opinion by Russia’s [GlavRosExpertisa], included in the receipt of the state environmental approval, which is similar to the receipt of an environmental impact assessment, fully sanctioning the construction of our liquefaction plant in March, demonstrating our full commitment to comply with all regulatory approvals, as well as maintaining our commitment to sustainable development practices in the regions where we operate.

During the first quarter, we awarded the EPC contract to Technip (France) and JGC (Japan) as the main constructing contractors for the project, and we are now fully engaged with both contractors in preparing detailed engineering and technical documentation as well as open-book tender (OBT) materials. We believe this consortium has the requisite technical experience to deliver this project, as they have been involved in the majority of LNG projects constructed globally, and they understand our project schedule, and believe it is achievable in the timeframes noted. We have also finalized most of the tender documentation for long-lead items, such as gas turbines, cryogenic units, gas compressors and pumps, and we plan to begin placing firm orders shortly. In addition, we have made significant progress in finalizing the tender process for shipbuilding and shipping arrangements, and we anticipate that the first tanker will be ordered this summer.



We mentioned on the last conference call that the port of Sabetta is being constructed according to our project schedule, and will be ready sometime in the second half of 2014 to begin accepting equipment and materials for LNG plant construction, and that the airport terminal is expected to be operational by the end of this year. To date, approximately 77% of port piling is completed, and roughly 75% of the airstrip is backfilled. These two infrastructure projects were along the project's critical path to begin transporting large volumes of materials and supplies before construction activities can commence.

In addition, we made significant progress in completing the EPC tender process for early works, such as the power station and LNG reservoir tanks. A lot of work progress has been made in a relatively short period of time, due to the focus and commitment of senior management and the diligent work efforts of all our team members.

A series of questions have been raised lately regarding the use of icebreakers for our project, and the government's wavering comment to fund the construction of a new fleet. Therefore, it is important to get some of the facts correct. Over the past three years, we have used leased tankers accompanied by nuclear icebreakers to transport stable gas condensate to the Asia and Pacific region to demonstrate the logistical viability of this important commercial route during its navigational period. During these voyages, we did not encounter any significant problems requiring the use of icebreakers, but nonetheless, they are required by federal law. From purely a technical perspective, we do not need new icebreakers for the project, as the envisaged LNG tanker fleet will be able to pass through the northern sea route on their own, and icebreakers for emergency purposes are already available.

However, the government's initiative to build new icebreakers is consistent with the general implementation of the Russian Arctic program, not solely our Yamal LNG project, and the construction and delivery of new LK60 class icebreakers are part of the phase-out initiative. As a result, we do not see the present issues raised by investors regarding icebreakers as a major risk for the commercial viability of the project.



Another important topic that continues to be discussed is the Russian government's plan to liberalize the LNG markets from the present export restrictions. During the reporting period, we visited China, South Korea, and Japan as part of a Russian government delegation led by energy minister Alexander Novak to better understand the concerns raised by the important consumer regions on the counterparty risk relating to the export agency arrangement via Gazprom export, as well as getting a better sense of the potential demand for off-take of LNG from Russia. As of today, no formal decision has been made with respect of these LNG liberalization discussions. However, we are confident that the Russian government will make a positive decision in respect of excluding LNG from the export law, which will facilitate the signing of counterparty agreements with the Asia Pacific consumers.

As for our potential partner discussions, we have previously reported that we are in present negotiations with a couple of potential partners for an equity stake in Yamal LNG. These negotiations are presently ongoing, and we will update the investment community once the due diligence process is completed, and a binding agreement has been executed. We understand this is an important issue for many investors, and we remain confident that the current negotiations underway are constructive for all parties involved, and that significant progress has been made recently to move this process forward in a reasonable time period.

Another topic that continues to concern investors is the present discussions on the pace of Russia's gas tariff growth in the future. It is understandable that many investors are confused by this uncertainty, but we are reasonably confident that the Russian government will increase the gas tariff by 15% on 1 July as originally planned. Looking ahead, we have to take into consideration that tariff growth may be potentially revised after the conclusion of all these discussions. It is too early to provide any clarity on this issue, as it is presently a hot topic among many policy makers as a means to stem potential concerns of rising inflation as well as ongoing lobbying efforts to reduce the price burden on potential consumers.

It is important to repeat what had previously been mentioned, that we do not like to discuss the gas pricing topic in isolation, but rather frame our discussions regarding the overall changes to



gas and transport tariffs as well as gas mineral extraction taxes. We believe this approach to be more constructive and focuses' everyone's attention on the key variables.

As you know, we are presently awaiting the final decision on the new gas MET formula which will take into consideration all of these important factors: gas and transport tariffs, international oil price, and the netback impact of these variables. We believe the final decision will be made soon on this important topic, which should remove one of the key uncertainties plaguing the gas sector, but as of today, the Russian government has already opted the current proposed gas MET rates into the present budget for the years 2013 through 2015, and we believe these rates will remain in effect as agreed.

We have finalized all the pre-commissioning testing at the Ust-Luga complex during the first quarter, as well as additional works to optimize the plant performance, and we expect the first tanker to be officially launched for the complex in the second half of June. The second stage of the complex is expected to be completed by year-end, and the combined works will give us a total capacity of 6 million tons per annum, with an approximate 20% upside in nameplate capacity on the plant. The formal commissioning of the Ust-Luga project will essentially change the commercial marketing of our liquid hydrocarbons to include a slate of petroleum projects as well as the expansion of our customer base in various geographical areas.

In the first quarter, we significantly increased our capital spending at the Purovsky processing plant, as expansion works began to increase the facility's overall processing capacity from 5 million tons to 11 million tons. The first stage of the expansion, representing 3 million tons, is expected to be completed in the early part of the fourth quarter, whereas a second 3 million tons expect to be completed in early 2014. The expansion of the plant's processing capabilities is consistent with the expected growth of liquid output from our core fields as well as our joint ventures.

Ongoing upstream construction activities in the Eastern Dome of the North Urengoiskiy field, and we presently expect to launch first production in the fourth quarter of 2013, almost one year ahead of its originally planned schedule. At full-field development, comprised of Western



and Eastern Domes, we expect to reach peak production in 2015 of approximately 10.7 billion cubic meters of natural gas and 1.48 million tons of gas condensate.

At SeverEnergiya, work continued at the both the Urengoiskiy and the Yaro-Yakhinsky fields, and we expect that these new fields will be formally launched into production at the end of the first half of 2014. At the end of the first quarter, we completed nine wells at the Urengoiskiy field, of which three were completed during the reporting period. We also completed the construction of an 89 km condensate pipeline, and more than 50% complete of a 96 km gas pipeline. We also commenced to drill on the first horizontal well test, targeting the Achimov formation with a horizontal section of approximately 700 meters, and we are presently waiting on the well test results from this formation.

We completed 28 production wells during the first quarter: 8 wells were completed at Tarkosaleneftegaz, 3 wells completed at Yakharovskoyeneftegaz, 13 wells completed at SeverEnergiya, and 4 wells completed at Nortgaz. We also continued ongoing exploration activities at the Utrenneye field, and the Samburgskiy, Yurkharovskoye, and East Tarkosalinskoye license areas, by running and processing 353 km of 2-d seismic and 1320 sq km of 3-d seismic as well as the exploration drilling of approximately 7785 meters.

During the quarter, our wholly-owned subsidiary, Novatek Tarkosaleneftegaz, won an auction for the exploration and production license for the East-Tazovskoye field with a successful bid of RUR3.19 billion. The new license is located in the Yamal-Nenets autonomous region, in close proximity to our North Russkoye field, a license that is also held by the subsidiary. And as of January 1, 2012, recoverable reserves under the Russian reserve classification C1+C2 aggregated approximately 65.3 billion cubic meters of natural gas, and 13.4 million tons of liquid hydrocarbons.

From an operational perspective, we continue to demonstrate robust production growth in natural gas of 9.8% year on year, and 4.8% quarter on quarter, led by organic production growth at the Yurkharovskoye and East Tarkosalinskoye fields, as well as positive growth contributions at our equity share of natural gas production from our joint ventures. We continue to purchase



gas from Sibur, a related party, and during the first quarter we purchased approximately 2.1 bcm of natural gas from this entity for resale on the domestic Russian market.

One of the primary changes in the reporting period was a change in the delivery point of purchases of Sibur. Previously, we had purchased natural gas in the region where the gas delivered, thus incurring transportation costs as part of the overall purchase price, and Sibur directly paid the transport costs. We now purchase the natural gas at ex-plant, and directly pay for the transport cost to market.

For liquids, we increased our year-end production volumes, including our share of purchases in joint ventures, by 9.3%, driven largely by production growth of crude oil from the East Tarkosalinskoye field, the launch of the two stages of production at the Samburgskiy field, and production contribution of our recent acquisition of a 49% equity stake in Nortgas. Our production from natural gas and liquids in April of 2013, as currently reported by CDU-TEK, increased year on year by 9.5%, and 12.2% respectively, and we remain committed to our initial production guidance for the year of 7% to 8% for natural gas, and 9% for liquids. We will review our full year guidance in the second half of the year to determine if any changes to this forecasts are warranted.

In terms of sales volumes, we significantly increased our proportion of natural gas sales end customers to approximately 90% from roughly 76% and 73% in the first and fourth quarters respectively, driven by new gas sales contracts concluded in 2012, as well as the acquisition of an 82% equity stake in Gazprom Mezhhregiongaz Kostroma in December. During the quarter, we reported total gas sales to end customers of 16.6 bcm, which represented an increase of 37% year on year and 44% quarter on quarter. Within end customer sales, power companies and large industrial customers represented roughly 87% of the total sales volume delivered or approximately 77% of our total sales for gas for the quarter. Total natural gas for the reporting period aggregated 18.7 bcm, representing a year on year and quarter on quarter growth of 16.8% and 18% respectively.



We had a change in the regional mix in our gas as a result of these new contracts. We increased our sales volumes, quarter on quarter, by approximately 2.3 bcm to the city of Moscow and the Moscow region, as well as an increase on the sales volumes to the Kostroma region by 1.1 bcm during the reporting period. Geographic regions representing greater 10% of our sales included the Chelyabinsk, Kostroma, and Moscow regions, as well as the city of Moscow.

As a result of the changes in our regional sales mix, we had a notable increase in the average distance to market of approximately 2,335km, representing an increase of 533km year on year, or 411km quarter on quarter. As expected, we reported a significant increase on our transportation expense for natural gas during the current quarter relative to the first and fourth quarters of 2012, primarily due to the higher proportion of end customer sales, the increase in average distance to market, the change in the purchase arrangements with Sibur, and the transport tariff growth of 7%, effective 1 July.

Our average netbacks of natural gas sold to end customers increased by RUR255 per 1000 cubic meters, or by 17.5%, as compared to the first quarter of 2012 and were relatively flat quarter on quarter, whereas our ex-sale price increased by 21% year on year, and roughly 4% quarter on quarter. We were reasonably pleased with the strong gas pricing we received for both end customer and ex-field sales in the reporting period, but we reported some margin differential erosions between the netbacks received from end customers and the price at the well-head due to the increased transport costs resultant from longer distance to market.

During the reporting period we sold 0.6 million tons of liquid hydrocarbons, representing a significant increase over the comparable periods, which was driven mainly by a reduction of natural gas volumes in transit of 302,000 tons, as well as an increase of crude oil production and the commencement of purchasing stable gas condensate from our joint ventures. The significant reduction in goods in transit for stable gas condensate represented an aggregate inventory change of approximately 426,000 tons year on year, and 494,000 tons quarter on quarter.

For liquid pricing in netbacks, we experienced a general decrease for the majority of our products sold both internationally and domestically, due mainly in the decrease in the



benchmark crude oil prices and other reference prices for our products sold, as well as general increases in general costs and export duties. On a total barrel of oil equivalent basis, we increased our first quarter production to approximately 114 million boe versus 104 million boe in the prior reporting period, representing an average total hydrocarbon production per day of approximately 1.262 million barrels per day for a combined increase of 11% year on year.

We continue to effectively manage our overall operating expenses during the quarter, and the significant increase, period on period, of RUR19.5 billion, or 62%, was primarily due to increase in our transportation expenses, as I already discussed, and the purchases of natural gas and liquid hydrocarbons. There were no material surprises in our G&A expenses to highlight, except for the commencement of compensatory social payments based on the start of work activity at the Utrenneye and Geofizicheskoye fields, as well as minor adjustments to the methods of our bonus accruals for key management.

Our balance sheet and liquidity position continued to remain strong throughout the reporting period, as we managed to decrease our overall debt portfolio this quarter, relative to the year end balance, by RUR6.4 billion, due to repayment of two loans ahead of their respective maturity schedules, offset by the issuance of the Russian rouble-denominated Eurobond in February. We remained free cash flow-positive during the first quarter of 2013, and ended the quarter with a free cash flow position for the company of RUR14.3 billion, which is lower than prior year, but takes into account a significantly higher capital expenditure program for the current year. We continued to fund our capital expenditure program through internally generated cash flows, and have the ability to meet all of our current obligations and liabilities when they mature, or payment becomes due.

In conclusion, Novatek ended the first quarter of 2013 with another set of record financial and operational results, as well as delivering robust production growth, consistent with our corporate strategy. Our business model is sound, despite the external noise in the market, and we understand the concerns and issues raised by the investment community over the uncertainties in gas tariff growth, and the present discussions regarding mineral extraction taxes.



We also understand that you would like us to promptly complete the sale of an additional stake in Yamal LNG to another strategic partner, but this takes time to conclude, and we are proceeding diligently with our negotiations. More importantly, we are investing capital and moving forward with the project without delays, and with the recent awarding of the EPC contract to Technip and JGC, we should be concluding the tender process and finalizing the project's capital program and project timetable in the nearest future.

It has been a frustrating period for all of us to witness a fall in share price when the company had delivered double-digit EBITDA and earnings growth, strong production growth, value-accretive acquisitions, and continues to remain one of the lowest-cost producers in the global oil and gas industry. Despite this fact, we remain keenly focused on delivering future growth as outlined in our business strategy. And equally important, we are committed to sound corporate governance and financial transparency, and we can assure all of our investors that our economic interests are fully aligned to create sustainable shareholder value.

I would like to end this portion of the conference call, and now open the session to questions and answers. Thank you very much.

Operator: Thank you sir. If you would like to ask a question at this time, please press the star or asterisk key followed by the number one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has been answered, you may remove yourself from the queue by pressing star two. Again, please press star one to ask a question. We will pause for a moment to assemble the queue.

And we can take our first question from Geydar Mamedov of Goldman Sachs. Please go ahead.

Geydar Mamedov: Hello, Mark. This is Geydar Mamedov from Goldman Sachs. I have one question on Yamal LNG, if I may. Thank you for updating us on the progress, but I think one of the questions that are still remaining where the investors generally are interested are – earlier, I think we



were expecting first presale contracts on the sale of the volumes to European and to Asian consumers to be announced in the first half of the year. Should we still expect that there will be announcements on the first contracts in the first half of the year? This is the first thing I ask on Yamal LNG. And secondly, I wanted to understand whether you think whether the FID for the project is still realistic in the second or the third quarter of this year. Or realistically, we should be looking at the end of this year, beginning of the next year in terms of the FID for the project. Thank you.

Translator: Mr. Michelson will be answering this question.

Leonid Michelson [Translated]: There should be a certain consistency and an understanding of the way the LNG project is taking place. We were saying that we might not have full confidence in terms of the ultimate portfolio as to where we are going to be starting our future LNG product sales. We were saying that we see as our priority as the Asia Pacific market, but we are going to also diversify our shipments to certain parts of the European market as well as to the Asia Pacific region. As Mark has told you that we have finished our EPC tendering process and we currently go through the open-book tender, and currently one should say that we have completed the tendering for all the long-lead items, and we have also received some very good prices for those deliveries as well as we expected, and most importantly, the timing which is necessary for the kind of performance that we are accepting for the project completion.

So currently, going through this OBT stage, we do work with the future manufacturers of the modules. It will definitely take some time in order for us to be able to receive from them the well-prepared pricing as well as the understanding of the timeframe. We have already received preliminary offers, and so I do expect that this work will be finished by us in the quarter, or the next three to four months, so that in these preliminary contracts for the LNG delivery, we would have very specific dates written in and after that, we'll be in a position to make the announcement about the contracts signed. Thank you. Next question, please.

Operator: Our next question comes from Karen Kostanian of Bank of America. Please go ahead.



Karen Kostanian: Thank you very much. Mark, thank you very much for the presentation. I just wanted to clarify one question. Now, in your presentation you said that the gas price increases, you were fairly certain that the gas prices will increase domestically in Russia by 15% in July. But 2014 and 2015 are under considerable discussion from the government members. I just wanted to clarify that that's true. And I also wanted to clarify another thing. Regarding that you wanted us to look at the gas prices in the basket with the MET and the transportation costs but – are you fairly certain that the MET increases after 2015 will remain in place and then the formula will change from 2015? Or the MET increases in 2014 and 2015 will also be reconsidered from your perspective? Thank you.

Leonid Michelson [Translated]: Also as Mark Gyetvay mentioned in his presentation, I think it was the most important thing that you missed in that he said was that we expect and we believe the formula is definitely going to be adopted, which will cover the taxation of the gas industry, and it would take into account the entire growth of the regulated prices, the growth of the transportation tariffs and maybe other components which are related to various peculiarities in the location of the fields under development and to be developed.

So currently, there is a discussion going on about the price growth for gas in 2014 and 2015, and so I expect that there are not going to be any changes of decision made within 2013, and I also believe that not such a big growth which was written into the 15% of the 2014/2015 and the lobbying by the industrial groups for the reduction of this rate would mean the detriment to Russia rather than the benefit to Russia. Because the 15% increase I view, it would be correct to keep it, but of course you should understand that it doesn't depend upon Novatek only. During the introduction of the formulas we expect to be adopted this year, we are no longer going to be so strongly dependent on any one-off sector which is decided for the industry. You know that in the tax code for the current MET rate is for 2014-2015, and this had been estimated based upon the increase of the prices in 2014 and 2015 by 15%. So if it is enacted, which we don't believe to be correct – this isn't about the lower increase of the internal gas prices automatically; when the formula is introduced, the taxation would go down.



But as far as the transportation tariff is concerned, the government last year made a separate decision on it to the extent that transportation tariff should be raised not above inflation level, without taking into account the exemptions for the property. And that suspension took place this year by 0.4% for those companies, including Gazprom, who has on its books its gas transportation system. So the tax came into effect. And so this increase will be taking place in the subsequent years up to 2019 by 0.3% per annum. And so in compliance with this decision which was made by the government in 2012, the federal tariff service has estimated that the tariff which it has preliminarily published, which is 7.65, and so we believe that it should insignificantly be lower according to the decision made. Just insignificantly, but it should be smaller.

So once again I should underscore the most important thing that the government confirms is that the formula for taxation, taking into account all of these factors, will be adopted this year, and this is the most important thing for the future of Novatek's operation in the domestic gas market, and somehow this formula does give you an answer in terms of what is going to happen beyond the threshold of 2015/2016, the formula will come into effect.

And I should offer my apologies because that I missed answering one of the questions that was raised by the previous caller, in terms of when I expect to, when the final definite decision is to be made for Yamal LNG. In the first half year or the second half year, Novatek feels very confident in doing the Yamal LNG project. This is the first grand project of this sort, and as such, FID is not held in terms of very important factor because the budget has been adopted for Yamal LNG, with the timeframe for commissioning it into operation. And as we stated, by the end of 2016, the shareholders are funding this whole budget, it is the incremental part of all our plans, and in order to perform all of the indicators written into FID, including contracting the time charters and the team process in terms of coming up with the final estimation of the capital investments. The formal budget investment decision is going to be made. But when I told you that we are going to reach the final contract signing for Yamal LNG that will take about three to four months' time, and I meant to say that is when we would formally adopt that decision. But once again, I would like to emphasize this in no way affects our ability to move forward and to fund this project by Novatek. Thank you.



Operator: We can now take our next question from Artem Konchin of JPMorgan. Please go ahead.

Artem Konchin: Good afternoon, gentlemen. My question actually concerns the recent reports on the repo transaction that involved a significant stake of Novatek stock, and whether the company is aware of any covenants that might have been attached to this deal which might have impacted the stock's performance for example, or the execution of your buyback program. Thank you.

Mark Gyetvay: From our perspective, we do not believe this has any material effect on the current share price of Novatek. I think it's more driven by the external factors of tariff growth, MET taxes, and some of the other uncertainties surrounding the Yamal LNG project. I believe that the repo agreement has no effect on the share price today.

Leonid Michelson [Translated]: And also I would like to add that the first time that I'm hearing about repo transactions, being the biggest shareholder of the company. No repo transactions are taking place with the stock belonging to me, but nevertheless thank you very much for this information.

Artem Konchin: I think it was in connection to Volga Resources' holdings. And if I may ask on your capex funds for 2013, if you can reiterate your guidance, what you expect to spend this year. That will be my final question. Thank you. The question was actually on your capex plans for 2013, and the Volga Resources was a comment on the previous question on the fact that you were unaware of the significant repo deals.

Leonid Michelson [Translated]: Well, thank you very much once again for this information and this connection to Volga Resources. We used to say that we are somewhere at the level of the capital spending of the last year, maybe just a little bit more than that, we will end up having it without taking it into account the investments have been made into Yamal LNG.



You know, as Mark stated, we are completing the big Ust-Luga project, and we expect to commission it into operation and have the first tankers filled in the second half of June. We are also expanding and almost 90% of the investments are going to be made this year into the expansion of our Purovsky gas processing plant, which would raise its capacity from 5 million to 11 million tons with addition of 6 million tons. So this additional plant in terms of long-term development, we're not going to expand its capacities anymore, and also commissioning into operation our smaller facilities in order to maintain these current levels of production in our main fields. Thank you.

Artem Konchin: Thank you very much.

Operator: Our next question comes from Viacheslav Shilin of Deutsche Bank. Please go ahead.

Viacheslav Shilin: Yes. Good afternoon everyone. I just wanted to check that, I believe we have seen the company go through the destocking through the first quarter which was underpinning your export of liquids and also the growth of revenues and EBITDA. Is this – how likely is this to recur again in 2013, or do you believe that the second quarter onwards, the growth will be more organic of nature and we shouldn't be expecting the same hike in your top line and EBITDA line that we have seen in the first quarter? That's it. Thank you.

Leonid Michelson [Translated]: As you mentioned, this hike of the EBITDA is not very much related to the lowering of the stocks that we went through. This was just one of the drivers of all that, to be able to project in terms of what kind of stock levels we are going to have by the end of the first quarter of next year is something that I won't take unto myself. It will depend upon what kind of market environment there will be, what kind of customs duties will manifest themselves during any particular period when we will be putting together our tanker shipments. And this is what we're trying to do during the most fortuitous period of time, we will take into account also the pricing and how much we will respond to the demand in terms of taking gas from the underground storage and what kind of winter we will go into. It will all depend upon these factors. So one shouldn't apply the word of our pipe to our EBITDA; I would apply this word to



the level of our share prices, and the organic growth that we announced we do confirm that it will continue as is.

Viacheslav Shilin: Thank you so much. Thank you.

Operator: Our next question comes from Max Moshkov of UBS. Please go ahead.

Max Moshkov: Hello there. Thanks for the presentation. I have a couple of questions basically on Yamal. With your current vision of the project, how many icebreak tankers need to be built for this project with respect in terms of cost of tankers? And also about Yamal, how much capital have you already invested into this project? The second question also relates to Yamal. You said that the shareholders would like to support this project before FID you'd be taking. But is the maximum amount the shareholders could fund for this project before the FID decision. Thank you.

Leonid Michelson [Translated]: In terms of the number of icebreak tankers, we view that to be about 14 to 16 tankers. We have received proposals from potential shipyards who are ready to build tankers according to the specifications that have been written into the project, and you might know that we do not envisage to have the Yamal LNG project fund the construction of the tankers themselves, but the price offerings that we received do correspond to the matrix that we expect, and the ones that were written into the Yamal LNG financial model, which would enable us to enjoy exactly the time charter rates that we are planning for.

Now in terms of the size of capital, I cannot quote you a very exact figure; currently an estimate without considering the value of the assets upon the entry into the Yamal LNG project we view to be at about the level of more than USD1.5 billion. Now my [vision] in terms of the number of shareholders apart from the current existing Novatek and Total, my vision is just two. No more questions?

Operator: We will now take our next question which comes from Alexander Kornilov of Alfa Bank.



Alexander Kornilov: Good afternoon, gentlemen. This is Alexander Kornilov from Alfa Bank. Thank you very much for the presentation. I have a couple of questions, if I may. First of all, my first question is related to the gas MET formula. When you think, in your view, you are going to see the final clarity, the final decision on that formula? As far as I remember, Mr. Dvorkovich has promised that the ultimate decision could have been taken by the end of March, but now it's mid-May, we still don't see any final clarity on that issue, so if you could provide some considerations on that issue, that would be great. My second question is related to the domestic gas tariff regulation. Currently, we are seeing some sort of changes to the regulatory paradigm. The federal regulators tend to revise the gas tariffs once a year. Now we are seeing some attempts, changes to the approach that it should be on a quarterly basis for revision of tariffs, and moreover, the gas tariffs should be, or are supposed to be linked to the petroleum product prices at Rotterdam exchange with nine-month lag period. What's your view on that? How do you take it? Do you think it's giving you more comfort in terms of operations, or do you disagree with that approach? If you could provide some ideas on that, it would be also great. Thank you.

Leonid Michelson [Translated]: In terms of the structure of the formula, that would definitely create greater comfort for the company to be able to plan its operations, and it would be difficult to respond on behalf of Mr. Dvorkovich because one has to demonstrate consideration towards him, since he is covering a lot of areas of responsibility in his position in the government. But I do expect that the formula, which effectively already has been put together, and I emphasize "effectively", has been cleared between different government agencies and so I hope that during this quarter, it will be submitted into the Russian parliament for the parliament to endorse it ultimately.

In terms of the revision of the energy formula either on a quarterly or an annual basis, I do expect that the formula, which has been announced, will be compliant with the gas prices being graded on an annual basis. But in this case, the formula and the gas prices aren't going to be that relevant since we are going to have the formula in place. And I remember that back in 2010 there was a government decree that within any particular quarter, it could be changed to plus or minus 3%, but without the overall changes in terms of the government plans to raise gas prices.



Alexander Kornilov: Okay, clear enough. Thank you.

Operator: Our next question comes from Artem Kvas of Renaissance Capital. Please go ahead.

Artem Kvas: Artem Kvas, Renaissance Capital. Good evening, gentlemen. I have a few questions. First, if you could just clarify the all-in capex for the years 2013 and 2014, including the Yamal LNG capex – and in relation to this, we have seen RUR5.5 billion of loans provided in the first quarter of 2013, so could you please clarify whether this is to fund capex or in relation to what this number is referring. And my second question is on the purchase prices for gas and liquids, given the rise in share purchases. Should we assume that the purchase prices will move in line with the market trends, or do you have some sort of long-term agreement on this front that we should be aware of? Thank you very much.

Leonid Michelson [Translated]: So as far as this particular topic is concerned, specifically the capital spending as part of the Novatek holding as well as the capital spending for the Yamal LNG, we have mentioned just recently in answering some questions that a more precise figure we will have the next three to four months. I also refer to the main projects as part of the part of the capital expenditure projects that Novatek is going to commission to operation within 2013, and then on the capital spending will be aimed more at maintaining the [level], as well as maintaining the operation of the smaller facilities as well as increasing the production of the liquid hydrocarbons, as well as the increase of the production of oil within the near-term perspective as the result of the introduction of regional MET exemption for the production of oil.

But even taking this into account, without the LNG project into account, we expect the capital spending to go down within the mid-term perspective. As far as the acquisition prices for the liquid prices for the liquid hydrocarbons from our joint ventures are concerned, and the acquisitions of gas, certainly these have been signed on a long-term basis, and they have been signed taking into account the market trends in terms of the prices of the liquid hydrocarbons as well as the increase of the domestic gas prices and with a view of maintaining the current



profitability that we are having right now and also with a view to increase the volumes that we want to have for crude oil as well as the gas from the projects. Thank you.

Artem Kvas: Thank you very much. That's clear. And if I may just follow up on this figure for RUR5.5 billion on the loans provided, because it's quite significant, if maybe you have details on who was it provided to. Thank you very much.

Leonid Michelson [Translated]: Well in answer to this question, I should say that one shouldn't be so direct in terms of aligning the borrowing that we have borrowed and the one that is actually taking place and connect it to any particular event because the financial markets are extremely volatile right now. If you ever paid attention to the way Sibur did its Eurobond issue, its maiden Eurobond issue, it was able to fix itself into a very nice environment and thus got very beneficial borrowing terms. And so we were looking at the market environment and realizing that the environment is quite all right, which could pose an opportunity to transform our portfolio into more common-sense kind of a correlation in the currencies, roubles and dollars, and so we decided to make the most out of this opportunity in order to enjoy less expensive placement and compensation for the one we have on the deal.

Mark was saying that I possibly did not get your question that correctly and wants to add a few comments as well.

Mark Gyetvay: I can just say that the point that Mr. Michelson just made is really the strategy we have in refinancing our existing portfolio at Novatek to take into consideration overall tenors as well as the lower costs of finance. The specific question that was just asked on the RUR5.5 billion to loans – that's what it is. It's a loan to Yamal LNG for the funding of the capital expenditure program.

Artem Kvas: Thank you very much for clarifying. Thank you.

Operator: Our next question comes from Kalim Aziz from Armajaro Asset Management. Please go ahead.



Kalim Aziz: Thank you very much, Mark. Thanks for the presentation. I really appreciate it. I have a couple of questions. There were some headlines on Interfax with respect to gas prices. I don't know where this was heading, but apparently, it was from Interfax. The gas price increase will be limited to 3% or 5% or much lower than what is anticipated. I know it's not very clear, but can you repeat if there's any formula in place so that we all can understand how the gas price changes are to be estimated or predicted for the regulated prices in the Russian market, please?

Leonid Michelson [Translated]: Well, I must confess – this is the first time I heard about there being any sort of a formula for domestic gas prices, surely. The Russian government is making its decisions in setting the domestic regulated gas prices based upon the market economics and taking into account the state of the Russian economy.

Besides, we never comment on the statements or any headlines that have been published by different media channels without any specific record as to the source because it is more appropriate to comment on existing government decree and the Russian laws. And the fact that the investment community quite often applies these headlines or unsourced comments to describe –

Kalim Aziz: Sorry, if I may rephrase the question. The gas price increase is set by the government but I understand they want a 15% or whatever increase they want to on an annual basis. What I understand is the formulary, the way it is implemented is that they take the netback price of gas at the quota and apply a coefficient to get a quarterly price of gas. I want to understand if this stands true because there was a suggestion that the gas price is down 3% quarter on quarter, first quarter over second quarter. I just wanted to get some clarification on how it is implemented. I understand you can't say what the gas price increase would be, but at least how it is implemented so that we get a better idea to just see if there [inaudible] in the headlines.

Leonid Michelson [Translated]: Thanks very much for this more specific question, and I will try to give you an explanation. It began in 2006 when the Russian government started to decide the period of time upon which we should reach the equal parity situation. To begin with, the milestone, so



to say, was to be 2011, then the government announced that it was going to be 2014. So currently, the government is looking at another period of time in which equal parity is going to be reached. And so consequently, the federal tariff service, looking at these current prices which otherwise would have manifested this equal parity, is issuing an approximate schedule of price increases that is believed to be the one that will take the country to this period of time when the equal parity is supposed to be reached.

Nevertheless, as I previously mentioned, the most important driver, which is taking into account within what is the usual case, the three-year budget for the country, is the market economics. It's the market economic environment the government takes into account. Thank you.

Kalim Aziz: Thank you.

Operator: Our next question comes from Pavel Kushnir of Deutsche Bank. Please go ahead.

Pavel Kushnir: Thank you. Two questions if I may. First of all, there were reports that exports liberalization may be conditional; in other words, the Russian government does not want Russian gas producers to be competing on international markets, and as a consequence, Novatek may be unable to supply gas to Europe where Gazprom supplies its pipeline gas. Can you please comment on that? Do you see a possibility that there will be certain market limitations, limitations of the markets where Novatek will not be able to deliver its gas? And second question, when do you expect the Russian government, in particular, federal tariff service, to provide compensation for a 3% tariff reduction which took place in April and for a proposed 3% reduction of tariff which is now planned for July? Thank you.

Leonid Michelson [Translated]: So in terms of any terms of any sort of limitations or restrictions which might be imposed upon the overall process of liberalization of LNG exports, the government would definitely arrive at, but I hardly think that this would be of the nature of you right now, meaning an entry to any sort of external markets so as to avoid competition between the Russian producers. Please note that during 2012, more than 30% of LNG sold – and this figure, if my memory serves me right, last year was 36 million tons – which was sold into the spot market.



Many would say that more than 30% of LNG last year was sold without any connection to long-term contracts or to any specific markets. And the Europeans' share within this spot delivery was quite considerable. So we expect that if this decision would be made, but it will be based more upon various market economic conditions and not the limitations that the board would rather avoid. So it would take into account various factors which might affect the development of the national resources in terms of LNG and the access portability of that, but it would take into account Russian conditions mostly.

And now with reference to your second question, and we have partially commented in our previous answers according to the decree which was issued back in 2010, the federal tariff service has the right to change the quarterly prices which are being regulated by the federal tariff service plus or minus 3%. And what is notable is that it can do so without touching or changing the increases which the government introduces. So what we expect is that during the second half of the year, the decrease which took place in April will be compensated for during the second half of the year.

Operator: Our last question comes from Pavel Sorokin of Morgan Stanley. Please go ahead.

Pavel Sorokin: Gentlemen, thanks a lot for the presentation. I have just got one brief question about the buyback program which expires quite soon. I just wanted to ask if you have plans to extend it, since most of the money has not been spent yet, based on your weekly updates. Thank you.

Leonid Michelson [Translated]: We are engaged in buyback activities in smaller amounts, and one can say thankfully, whenever according to the market rules, we have the right to do so. The amount spent so far is less than half of the figure announced for the buyback but we are planning to carry on.

Pavel Sorokin: Thank you very much for the answer.



Operator: We have no further questions. I will now hand back to the hosts for any closing or additional remarks.

Leonid Michelson [Translated]: Thanks everyone for connecting to our conference call. Specifically, I would like to comment that most of the questions that have been raised were driven very key professional interest in the work done by Novatek, thank you very much for that. The management of the company, in a very dedicated manner, is working hard to make all of these obligations and commitments and statements that the company is making to come true, and in view of the current market volatility and based upon various negative market outlooks which refer to negative market economics. And quite often we hear comments or analysis of the way that the gas market is going to evolve further, and so I will call on the investors to be cautious in the way you receive this news and to be more realistic in terms of what the future has in store for us.

And taking into account the amount of gas that we acquire, one could say that Novatek currently enjoys a very significant share in the domestic market, and so the government, whenever considering various issues relating to the gas industry in Russia, also invites Novatek to hold their discussions as well as to prepare its future decisions. So we are actively involved in this process, for which we are very grateful to the Russian government. And so once again, I would like to say that what is more important is the decision already made rather than an expectation or a comment or a prognostic statement made by various publications.

And so, being so keenly involved in the discussion and the preparation of the various decisions, we are in a position to predict our future operations in the manner which is most economically viable and beneficial to the future of Novatek. Once again, thank you very much for your participation.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.