PAO NOVATEK

Full Year and Fourth Quarter 2016

Financial and Operational Results – Earnings Conference Call

22 February 2017

Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Full Year and Fourth Quarter 2016 earnings conference call. I would like to thank everyone for joining us this evening.

Mr. Leonid Mikhelson, Chairman of the Management Board and a member of NOVATEK's Board of Directors will join me during the Q&A session, and at such time, we will revert to the dual languages of Russian and English, so please bear this in mind when asking questions for the convenience and respect of other investors. We have allotted sufficient time to address all of your questions.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement, as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, 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, including our Annual Review for the year ended 31 December 2015, as well as any of our earnings press releases and documents throughout the past year for more description of the risks that may influence our results.

CONFERENCE CALL TEXT

Two thousand and sixteen was another difficult year for the oil and gas industry with volatile commodity prices and concerns about weakening global demand and an over-supply of crude oil. The cyclicality in benchmark commodity prices negatively impacted capital programs throughout the past year as well as caused the postponements or cancellations of many large-scale projects. Bankruptcies and credit defaults persisted and large asset and reserve impairments have already occurred and are expected to continue throughout this reporting season. As we look back, 2016 was a year of difficult head winds and a tough macro environment, so it's important to review our financial and operational results under these circumstances.

We heard many concerns voiced by shareholders and analyst throughout 2016, mostly capturing the general themes of price volatility and over-supply, especially as it related to LNG, and as we had stated many times in the past, we believe we have a robust operating model to withstand these cyclical downturns and actually thrive in these markets, and more importantly, as a low cost producer we are able to withstand these head winds and deliver hydrocarbon products to market that creates sustainable shareholder value to the Company. Our financial results

demonstrate this robustness, and when compared to the broader global oil and gas results, we had a very solid year and delivered a strong set of financial and operational results despite operating in a challenging environment.

We achieved significant operational success in 2016 by effectively and efficiently monetizing our resource base and by expanding liquids production. Our Yarudeyskoye fields reached full production capacity in January 2016, and combined with the full year production run rates on launches commissioned in 2015, we reported another impressive year of 37% growth in liquids production over the corresponding year. Highlighting some of our successes in 2016, we increased our SEC proved reserves by 2.8% year-on-year (y/y) (excluding the decrease in the Company's proportional share in the Yamal LNG joint venture), and maintained a respectable reserve-to-production life of 24 years based on current year production.

We achieved an organic reserve replacement rate of 168% due to successful exploration works and drilling, and accordingly, our proved plus probable reserves under the PRMS reserves methodology, including our proportionate share in joint ventures, totaled 22.8 billion barrels of oil equivalent (BOE). We significantly increased our hydrocarbon resource base and obtained the exploration rights for seven (7) new licenses areas (Nyakhartinskiy, Ladertoyskiy, Nyavuyahskiy, West-Solpatinskiy, Syadorskiy, North-Tanamskiy and Tanamskiy license areas), which supports our strategic objective aimed at expanding our resource base in the hydrocarbon rich Yamal and Gydan peninsulas as we actively evaluate the region's vast geological potential for implementing future LNG projects.

Yamal LNG remains our flagship project and significant progress on many fronts was achieved throughout 2016. At year-end 2016, construction of the first LNG train was approximately 87% complete versus 45% at the end of 2015, putting us on track to launch the project on schedule in 2017. Overall project completion was 75% as at 31 December (versus 69% at Q3).

We successfully concluded the external financing package for Yamal LNG, achieving a very important milestone for the project. As we previously reported, loan agreements were signed with the Russian banks Sberbank and Gazprombank, China Development Bank and the Export-Import Bank of China, the Italian bank Intesa Sanpaolo with insurance coverage by the Italian export credit agency SACE and the French export credit agency COFACE, and with the Japan Bank for International Cooperation (JBIC). Participation by international banks and export credit agencies demonstrates the global significance of the Yamal LNG project, and also sends a strong message about their willingness to finance future LNG projects in this hydrocarbon rich area and their commitment and support for this project.

Another important event was the closing of a sale of a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund, allowing us to reach the targeted shareholding structure with NOVATEK retaining a 50.1% equity stake.

We actively drilled at the South-Tambeyskoye field throughout 2016 and have now completed 77 production wells (end of January) versus 44 production wells drilled by the end of 2015, substantially exceeding the 58 production wells required for the launch of the first LNG production train. Nine (9) out of 19 well pads are prepared for drilling (seven (7) well pads were prepared at Q3).

All 78 modules for LNG Train 1 were delivered to the project site and installed by year-end, and we have begun testing some of the modules and equipment. We reiterate our plans to start commissioning works in the first half 2017 and commence LNG production in the second half of 2017.

Twelve modules for LNG Trains 2 and 3 were completed and either shipped from the shipyards or delivered to the construction site. We expect all remaining modules for LNG Trains 2 and 3 to be delivered by approximately the third quarter 2017, providing us with the possibility to move forward the commissioning of the third LNG train earlier in 2019. The main LNG cryogenic heat exchangers for LNG Trains 2 and 3 are already onsite.

In 2016, we delivered approximately six (6) million tons of equipment and construction materials to the Sabetta port, representing a two-fold increase as compared to 2015. We have about 22 thousand construction workers onsite, and regular flight service at the Sabetta international airport served approximately 365,000 passengers during 2016.

The first Arc7 ice-class vessel named after Christophe de Margerie was commissioned for waterborne voyages and fully equipped and, by year-end 2016, the LNG vessel successfully passed sea acceptance tests and is prepared for navigation and ice tests in the Arctic.

During 2016, we conducted full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. The Gydan peninsula represents a significant growth area for us in the next decade and we are currently assessing various options to exploit and monetize these assets for future LNG projects

Exploration is key to discovering new sources of hydrocarbons and in 2016 we completed the running and processing of roughly 1,000 square kilometers of 3D seismic as well as drilled approximately 10 thousand meters of exploration drilling. We discovered one new gas condensate deposit in the mid Jurassic layer at the Kharbeyskoye gas condensate field, and nine (9) new gas condensate deposits at the Utrenneye, South-Tambeyskoye and Yevo-Yakhinskoye fields. We also expanded the gas condensate potential of the Achimov layer at the Urengoyskoye field of Arcticgas and confirmed the crude oil potential at the Yarudeyskoye and East-Tarkosalinskoye fields as well as confirmed the natural gas potential at the Malo-Yamalskoye field. Our geological assessments of the deeper Achimov and Jurassic layers are presently ongoing but not complete at this time; however, we remain optimistic that this geological testing will yield positive results.

We are also optimistic about the hydrocarbon resource potential of the Adriatic Sea offshore Montenegro and accordingly signed a concession contract with the government of Montenegro for the exploration and production of hydrocarbons on four offshore blocks in partnership with Italian energy company, Eni, who was subsequently designated as the operator of this joint venture. We are early in the exploration process but these are the types of international opportunities we seek, representing limited capital spending but huge upside potential.

On the Gydan peninsula, we drilled five (5) exploration wells at the Utrenneye field from 2014 to 2016, and the results of these exploration wells allowed us to increase our appraised reserves and confirm higher well flows at the field, thus confirming the production potential for our next LNG project - Arctic LNG 2.

Our prolific hydrocarbon resource base, the successful implementation of the Yamal LNG project and our experience in navigating the Northern Sea Route creates a great platform for developing mutually beneficial cooperation on future LNG projects. As a demonstration of these interests, in 2016, we concluded Memorandums of Understanding (MOU) with Japanese companies Mitsubishi, Mitsui and Marubeni aimed at establishing strategic cooperation for implementing LNG projects in Russia as well as supplying LNG and liquid hydrocarbons. We also signed a MOU for Strategic Partnership with JBIC confirming our joint intentions to

cooperate in implementing NOVATEK's LNG projects, including financing and investment. A MOU was also signed with PTT of Thailand aimed at exploring and producing hydrocarbons, implementing LNG projects, supplying LNG and developing LNG markets, as well as supplying liquid hydrocarbons.

We were very busy in 2016 signing MOU's with mainly Asian Pacific companies and conducting very fruitful discussions centered on our plans to increase our LNG capacity in the Arctic region of Russia. To facilitate our future LNG ambitions, we also signed Strategic Cooperation Agreements with SAIPEM S.P.A., Nuovo Pignone and Linde AG, to localize the technical and technological solutions to a maximum extent, as well as constructing process modules and respective sourcing of equipment for future NOVATEK's LNG projects in Russia. LNG represents the largest share of future natural gas growth globally, and NOVATEK has the hydrocarbon resource base in the Yamal and Gydan peninsulas to capitalize on these opportunities and become a major player in the global LNG markets.

We have seen many forecasts and analysis of the potential LNG markets, and Shell this past week issued their first LNG Outlook highlighting that natural gas is expected to increase 2% per annum between 2015 and 2030, with LNG demand expected to rise at twice the rate at 4% to 5% annually. These projections support those of other LNG projections by major industry players and consulting groups as well as our own internal assessments of the future LNG demand. It's crucial to understand that this trend or shift toward LNG has already begun, and our assessments on demographic and population shifts, climate change initiatives, future energy mix, economic developments as well as shifts from coal to natural gas, transitioning of marine and transport fuels, renewables and other sources of energy, and the significant increase in new LNG markets around the world underscores our strategic pivot towards LNG and the future direction of NOVATEK.

We mentioned many times in the past that we essentially concluded the investment cycle on our core areas of operations, and that we were fast approaching the maintenance cycle of our capital program. After successfully launching several major projects, our capital expenditure program declined by 32% to approximately RR 34 billion on a strictly cash basis. We achieved our mid-term strategic goals in 2015 and, accordingly, we plan to further reduce our capital expenditures for our legacy assets in 2017. At the same time, we will enter a new phase of growth for the Company and we plan to start investing in new projects in 2017 and beyond. Our total capital expenditure program in 2017 is estimated at roughly RR 40 billion, but we are proactively evaluating new investment opportunities, and, as already confirmed in the press, we are negotiating on a number of potential mergers and acquisition (M&A) deals. The successful conclusion of any deals would obviously impact our capital expenditure guidance. I would like to reiterate that we don't provide commentary on ongoing deals before they are completed. If and when a M&A deal is consummated, we will make the appropriate announcement to the investment community.

Our total oil and gas revenues in the fourth quarter (4Q) 2016 were relative strong against both the y/y and quarter-on-quarter (q/q) comparatives. We increased our oil and gas revenues by 9.5% y/y and 14% q/q largely driven by seasonal increases in our natural gas sales volumes as well as increase in average prices for the majority of our liquids products consistent with the positive movements in benchmark reference prices.

Our liquid revenues accounted for 57% of our total revenues versus 53% in 2015.

We sold approximately 64.7 billion cubic meters (bcm) of natural gas versus 62.5 bcm in 2015. Despite changes in our customer base we increased both natural gas sales volumes and netbacks, reiterating our ability to market natural gas and generate sustainable margins. Weather played a crucial role in our natural gas sales volumes in the fourth quarter as colder winter temperatures across Russia supported robust volumes sold and significant inventory movements. Our fourth quarter natural gas volumes were especially strong increasing by 27% q/q, and to meet our customer demand we withdrew more than 1.7 bcm from underground gas storage facilities on the back of this strong seasonal demand.

We sold 16.9 million tons of liquids representing a 31% increase over the prior year. The average price we received in dollar terms was lower across our product range because of the decline in international commodity reference prices, but this decrease was partially compensated by the depreciation of the Russian rouble versus the US dollar. During the fourth quarter, we decreased our liquid sales volumes by 299 thousand tons (or 7%), largely due to the buildup of inventory balances, which will be released in early 2017. The volatility of benchmark commodity prices underlying our liquids sales was well published in 2016, but I would like to highlight that our average commodity prices received during the fourth quarter for our product range were relatively strong as compared to the third quarter 2016 on the back of positive international reference prices dynamics.

Our operating expenses continued to grow y/y and q/q relative to the growth in our business, increasing by 15% and 12%, respectively. This cost trend has been reasonable consistent over the past several years as operating expenses increased to support our business operations as well as increases in personnel and the corresponding adjustments to salary indexation and social payments. The most significant increase in our operating expenses y/y related to the purchases of hydrocarbons followed by increases in both transportation and taxes other than income. Our purchases of hydrocarbons increased by RR 6 billion and RR 8 billion y/y and q/q, respectively, largely driven by prices and volumes of purchased gas condensate from our joint ventures and to a lesser extent purchases of natural gas. All of our major cost trends remained relatively consistent with the q/q comparatives but we marginally increased salaries and bonuses paid in our general and administrative cost category during the fourth quarter. Overall, there were no major surprises in our operating expenses during the reporting periods..

Our balance sheet and liquidity position improved significantly in 2016 and remained very strong throughout the reporting year. We generated exceptionally strong free cash flow of RR 139 billion in 2016 versus RR 82 billion in the prior year, based on an increase in our operating cash flows of 31% and a corresponding reduction in our capital expenditures by 32%. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due.

We announced last night that we repaid our RR 14 billion rouble-denominated Eurobond tranche according to the bonds maturity schedule. Our strong balance sheet and liquidity metrics as well as our strong operating cash flows was recognized by our credit rating agencies. In November 2016, we successfully restored our credit rating to investment grade from S&P (BBB minus).

In conclusion, we again demonstrated the robustness of our operating model in a challenging macro-environment largely due to our keen focus on cost control, successful project execution and our enviable position as one of the lowest cost producers in the global oil and gas universe. In the recent edition of the IHS Global Upstream Performance Review dated October 2016, NOVATEK ranked #2 under the Reserve Replace Cost category and #3 for lifting costs amongst global oil and companies, both results over the three-year period of 2013 to 2015.

We achieved a series of key milestones at our Yamal LNG project during the past year, reducing some of the perceived risk ascribed to this project by the analytical community, although we continue to argue that the risk ascribed to our cash flow stream is still way too high giving our demonstrable track record of successful project execution, substantial conventional gas reserves, our low cost vis-à-vis our global competitors and the export nature of this particular project.

I would like to end tonight's conference call as I began by reiterating that 2016 was a very challenging year for the oil and gas industry but with the recent stability in benchmark commodity prices and a renewed effort to balance supply and demand fundamentals, we remain committed to creating shareholder value while maintaining the highest standards of corporate governance and sustainable development practices. We are proud of what we have accomplished this past year and believe that our financial and operational results demonstrate our commitment to our strategic goals.

LNG is the future of NOVATEK and the main driver of growth for the natural gas industry. New markets for the delivery and consumption of LNG are opening at a rapid pace, and we aim to participate in this growth across the whole LNG value chain if we believe we can achieve meaningful market penetration and attractive, sustainable margins. It's also important to reiterate that we remain focused on securing our domestic market share, while considering other domestic investment opportunities to further enhance our margins and our business prospects.

NOVATEK is in a unique position to capitalize on our high quality resource base, our onshore conventional natural gas and our low cost position to further expand our operational footprint. We have focused our primary attention over the past several years on delivering our Yamal LNG on time and on budget. Now it's time to begin looking forward to next wave of value creating growth for the Company, and we are confident this next growth phase will be well received by the investment community and our shareholders.

I would like to thank everyone for attending tonight's conference call and for your continued support of NOVATEK. I would now like to up open up tonight's session to question and answers.

Thank you.