OAO NOVATEK

First Quarter 2017

Financial and Operational Results – Earnings Conference Call

27 April 2017
Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our First Quarter 2017 earnings conference call.

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CONFERENCE CALL TEXT

We expect the commodity markets to remain volatile in 2017, so it doesn't make too much sense to spend much time on this point other than to state the obvious – we try to manage our business through various macro-economic cycles and the one we face today is no different from those we have faced in the past. Our aim is to manage our business through these commodity price cycles, both positively and negatively, to achieve the highest risk-adjusted margins for the hydrocarbon product stream we market domestically and internationally.

Tonight, I would like to focus my discussion on the declining production output from our legacy assets, and explain what we are doing in terms of arresting the current decline rates as well as providing an update on some of our current development and exploration plans. We have stated before that our mature fields are declining at varying rates. This situation has become quite obvious from the recent quarter-on-quarter declines over the past year, but it is our firm position that this trend is manageable and not indicative of NOVATEK going ex-growth. We have an exciting array of exploration and development projects in the pipeline but they are geared more towards the end of the decade rather than a quick fix solution.

Management has focused an enormous amount of attention over the past couple of years on delivering our Yamal LNG project on time and on budget, as we believe the pivot to providing global markets with LNG is the future of NOVATEK. This point was articulated by Mr. Mikhelson when asked about pending strategy update. We are also in discussions to potentially acquire producing assets in the general vicinity of our existing asset base but we can only elaborate on this point once a deal is consummated. It's premature at this stage to speculate when any M&A deal will be finalized but we believe we can maintain our current production plateau by complementing our existing asset portfolio.

It is also important to reiterate this evening that we are moving forward with Arctic LNG 2 and that infrastructure work has already begun on the Kola Yard in the Murmansk region to support the localization of module construction. This aspect is important for us as we aim to reduce the cost of new

LNG modules built on gravity-based platforms through the maximum localization of production and testing, as well as substantially reducing transport costs. Arctic LNG 2 will be supported by the natural gas produced at our Utrenneye located on the Gydan peninsula, and we continue to achieve great production results from the production wells drilled on this field. We will submit an update to the C1 + C2 reserve base for governmental approval during the second quarter 2017, so it's important to wait until this process is completed to provide update resource figures.

I will attempt this evening to provide our investors with a preview of some of the upcoming activities that we are currently working on to stabilize output on our core production regions in the medium term, but I would also like to stress that these work activities extend over a period of several years, rather than months, and we ask our investors to remain patient as we believe we have exciting prospects to develop both mid- and longer-term. In the short-term we will continue to focus on the successful launch of Yamal LNG and bring a new chapter to the Company's history.

Our legacy assets began producing in 1996 with the commencement of crude oil production at the East Tarkosalinskoye field, followed by the commencement of natural gas from this field in 1998, the Khancheyskoye field in 2001 and the Yurkharovskoye field in 2003. Our legacy fields have already cumulatively produced more than 550 billion cubic meters (BCM) of natural gas, with the current recoverable ratio at each of the three fields consistent with our development plan and the prudent exploitation of the field's resource bases. More importantly, these three fields will continue producing for another 15 to 20 years, albeit at declining output rates, and today still represent the major share of our consolidated production.

So, what steps are we undertaking to stop declining production at our legacy fields as well as new development activities to bring additional production on stream over the next several years? I would like to highlight some of our main activities.

We recently began evaluating the Achimov and Jurassic layers across our asset portfolio to determine whether or not we can extend the production lives of our legacy assets by tapping into the deeper and more liquids rich lower producing horizons. This decision was made primarily based on our successes to drill deeper at the SeverEnergia and Terneftegas joint ventures. We successfully drilled and are now producing from the deeper Achimov and Jurassic layers.

We began drilling well #135 at the West Yukharovskoye field last year to specifically target the high pressure Jurassic layers at an average vertical depth of four thousand meters. We have completed the vertical and horizontal drilling at this well and this week we began the multi-stage fracturing to determine the permeability and potential flow rates from this deeper horizon. I mentioned previously that our geologist have already confirmed production at both the Valanginian and Jurassic layers, but the economic commerciality of the deeper Jurassic layer needs to be confirmed from the multi-stage fracking as well as developing an economically feasible development plan. We remain optimistic that the lower producing horizons will be commercially viable, and, as such, we will provide more information shortly on this topic.

In addition to the targeting the deeper producing horizons we have begun evaluating concrete remediation steps we can take to slow these rates of declines, including but not limited to, sidetracking present horizontal sidetracks to capture additional production layers, more use of well stimulation and hydro-fracturing and the introduction of plunger lifters to efficiently move liquids within the gas stream as bottom hole well pressures decline. We can also step up our drilling and exploration efforts, which was somewhat negated until we were absolutely sure the Yamal LNG financing was appropriately secured. This was essentially achieved in mid-2016.

We have stated many times already that our primary goal is to maintain our market share on the Russian domestic, which will be met through a combination of our equity natural gas production and purchases primarily from our joint ventures. Some of our main options to achieve this goal relates to activities already underway.

We had previously talked about our work activities at the North-Russkiy license area, so tonight I would like to reiterate some of the things we are currently working on in this area.

Specifically, the North-Russkiy block encompassing the North-Russkoye, East-Tazovskoye, Kharbeyskoye and Dorogovskoye fields, with combined production potential of approximately 12 to 14 BCM of natural gas and 1.2 million tons of gas condensate. We anticipate to commence production around late 2019, early 2020 with commercial ramp-up between 2021 through 2023, depending on the specific field.

Infrastructure construction has already begun on the North-Russkoye and East-Tazovskoye fields with production potential of roughly 7.2 BCM per annum. At the neighboring Kharbeyskoye and Dorogovskoye fields three-dimensional (3D) seismic studies have been completed and a significant increase in hydrocarbon deposits has been discovered. We completed one-stage hydraulic fracturing at well #305 and achieved a commercial flow of gas condensate, with preliminary flow rates of 200 million cubic meters (MCM) of natural gas with a gas condensate factor of approximately 400 grams per MCM from the Jurassic layers. Two (2) additional exploration wells - #306 and #307 – targeting the Jurassic deposits have been prepared for drilling. We will update you on these results during the year.

At SeverEnergia, we further delineated the Urengoyskoye field on the Samburgskiy license area by discovering a new deposit – Ach-1, which will eventually increase the field's natural gas output by three (3) to four (4) BCM per annum from roughly 14 BCM to just under 18 BCM, well as maintain the condensate production levels up to six (6) million tons. We will bring this incremental production on-line around 2020.

We are working on a number of new initiatives that will be discussed later at our Strategy Update, but I would like to flag some of them this evening to highlight how we see new production coming online post-2020 with our planned development program.

ArcticGas, formerly known as SeverEnergia, will play a crucial role in providing incremental production in terms of natural gas, gas condensate and crude oil. If you recall, we already mentioned that the first phase of crude oil production of 1.2 million tons will commence at the Yaro-Yakhinskoye field in 2019. We are also commissioning a series of fields for development between 2020 and 2025, such as the Urengoyskoye field on the Yevo-Yakhinskoye license area with potential production targets of 2.5 BCM of natural gas and 700 thousand tons of gas condensate, the East-Urengoygoyskoye field on the Samburgskiy license area with potential production targets of 2.3 BCM of natural gas and 500 thousand tons of gas condensate, or the North-Chaselskoye field with production potential of 5.3 BCM of natural gas and 200 thousand tons of gas condensate.

ArcticGas provides us with the opportunity to sustain production levels post 2020 on a number of interesting development initiatives as well as further exploratory activities. We will purchase natural gas and unstable gas condensate from this joint venture to support our marketing efforts.

We will also focus more attention on increasing the associated gas production on our Yarudeyskoye (up to 1.8 BCM), Yaro-Yakhinskoye and East Tarkosalinskoye (1.0 BCM) fields, and later when we commence production at the North-Russkiy block.

I would like to make a few comments about our largest producing asset, the Yukharovskoye field, and some of the possibilities we have to reduce the current decline rates. We have studied various development opportunities to monetize additional reserves on this field as way back as pre-IPO to understand the most efficient way to exploit this field's vast potential. We decided to drill a series of large diameter horizontal wells from drilling clusters onshore to tap the reserves located in the Ob River. This development process has proved to be largely successful as we managed to cost-effectively exploit 314 BCM of natural gas, or 55% of the recoverable reserves, while drilling only 94 production wells. Now, we are studying the possibility of extending the field's reserves and production capacity by developing the eastern part of the field.

Moving forward, I would like to provide a brief update on activities at Yamal LNG over the past quarter.

The overall project completion was 80% at the 31 March 2017 versus 75% complete at year-end 2016. The first LNG train is now 91% complete and we have begun commissioning work on some of the modules with projected startup of LNG train #1 in the second half of 2017 as scheduled.

We have also reached the peak labor force and presently there are approximately 31,000 construction workers versus 22,000 in the fourth quarter with about 4,000 construction vehicles onsite. There are approximately 13,000 people working on module fabrication at various construction yards. It's a massive undertaking.

We completed and tested six (6) new production wells in the 1Q 2017 and eighty-one productions wells have now been drilled, significantly exceeding the number of wells required for LNG train #1. Construction of the gas gathering lines for the first train is also being finalized.

I mentioned on our annual conference call that all 78 modules for LNG train #1 were installed and at various stages of testing, including the placement and installation of the cryogenic heat exchanger for LNG train #1. The cryogenic heat exchangers for LNG trains #2 and #3 have already been delivered to Sabetta, and roughly 33 modules have been completed and are either in the process of being shipped or have already been delivered to the construction site. All remaining modules for LNG trains #2 and #3 will be delivered by year-end.

The most significant news in the first quarter was the successful ice testing of the first Arc7 ice-class LNG vessel. The vessel was placed into water fully equipped in 2016 and during the period of November-

December 2016 passed the navigation tests in the Arctic Ocean. On the 24 January 2017, the vessel docked at the Fluxys transshipment facility at Zeebrugge in Belgium to cool down its cargo tanks and load some LNG for fuel and testing. In February-March 2017 the LNG vessel successfully passed the ice tests in the Kara Sea and docked at the port of Sabetta on 30 March 2017. The ice test results exceeded the design expectations of the vessel, as the maximum speed in 1.5 meter thick ice was seven (7) nautical knots rather than the planned five (5) nautical knots. Seven (7) more LNG vessels are currently being built.

As of today, we have received $23.4 billion in overall financing for the Yamal LNG project, inclusive of the $13.1 billion provided by the shareholders. The budget for 2017 is forecast at approximately $ 6 billion.

Mr. Mikhelson mentioned last week at our Annual General Meeting of Shareholders (AGM) that the German (Eular Hermes) and Swedish (EKN) export credit agencies have decided to take part in the overall financing of Yamal LNG. We believe this decision is another important step for the project as we broaden the participation by the international financial community into the external financing package and can better optimize the overall cost of financing. The total limit of $ 19 billion will remain in place.

The first quarter 2017 was relatively a quiet period in terms of exploration and production activities, although we increased the running of 3D seismic works but reduced exploratory and production drilling, most notably at our subsidiary companies. During the quarter, we drilled and completed 14 production wells versus 17 production wells in 1Q 2016 and 30 production wells in 1Q 2015. The trend toward maintenance drilling is clear.

We are assessing a development plan that targets deeper producing horizons such as the Achimov and Jurassic layers, which we estimate holds substantial untapped production potential in our portfolio as well as two additional fields in ArcticGas and the North Russkoye field as I mentioned earlier. This focus will drive investment decisions over the coming years as we shift our asset portfolio and consider potential M&A activities in our core region of operations.

Longer term, our strategic focus will center on analyzing and evaluating potential new licenses to complement our present portfolio of assets, particularly where we believe we can maximize our synergies for developing an LNG center of excellence in the Yamal and Gydan peninsulas. As Mr. Mikhelson mentioned on the Q&A session during our full year financial conference call, the plan to more than double our LNG output is a strategic plan and we will elaborate more on this vision in our upcoming Strategy Update in the latter part of this year.

Looking specifically at the first quarter 2017, we spent approximately RR 4.7 billion in our capital program on a cash basis versus RR 8.1 billion in the corresponding year, representing a 47% decrease period-on-period. Most notably, was the declines in capital spent at the Yarudeyskoye and Yurkharovskoye fields and a shift towards capital spending at the West-Yurkharovskoye and Utrenneye fields as well as the North-Russkoye block. Overall, we plan to invest about RR 40 billion in capital expenditures in 2017, allocating funds between legacy assets, new development activities and infrastructure work for new LNG projects.

The comparability of financial results year-on-year (y/y) is challenging largely due to the increase in commodity prices between reporting periods as well as the volatility in foreign exchange between the RR and USD. As a result I will focus most of my discussion on quarter-to-quarter (q/q) comparative and when illustrative y/y.

Total oil and gas revenues in the first quarter (1Q) 2017 was RR 154 billion, representing an increase over both the y/y and q/q comparatives of roughly 11% and 7%, respectively. This growth was largely driven by a substantial increase in commodity prices y/y for our liquids revenues on lower volumes sold and the corresponding translation of these foreign earnings to Russian roubles. Our volumes sold declined by 11% y/y, largely due to decreased gas condensate sales and weather disruption at the port loading facility for crude oil. The decline in liquid output was mainly attributable to the Yurkharovskoye field but also the production output for this current period was affected by a difference in the number of days producing between the first quarters 2016 and 2017. Our liquid output declined by 2.3 thousand tons or by 6.5% for the differences in days and output declines between the reporting periods. We also had a larger change in inventory balances of roughly 208 thousand tons in the first quarter 2016.

It's also important to note that declines in output from the producing fields did not affect our ability to maximize risk-adjusted margins at the Ust-Luga complex as this facility continued to operate at 117% of its nameplate capacity on an annualized basis. We are maximizing revenues from this facility as sales of naphtha and other refined products were strong y/y and q/q.

Our liquid sales increased q/q by roughly 12%, which were impacted by a combination of factors including increased volumes sold by 228 thousand tons, slightly better commodity prices across the slate of our product range and a reversal in inventory movements by roughly 366 thousand tons. Inventory balances will fluctuate period-on-period due largely to loading schedules and time to destination.

Natural gas revenues between the respective reporting periods were reasonably strong, increasing y/y and q/q by 10% and 2%, respectively. The increase in natural gas revenues were driven largely by increased volumes sold, a shift more towards end-customer sales, a change in geographical mix and seasonal withdrawals from storage. Our average sales on a netback basis taking into consideration transportation and customer mix increased by 6% and 4% y/y and q/q, respectively.

Average natural gas prices to end-customers increased by 3.9% y/y largely due to the geographical mix of our sales at more distant locations, which in essence also increased our average transport tariff by 10% and resulted in a slight increase in our average netbacks. Conversely, we improved our average netbacks q/q by 2.1% on slightly higher sales volumes.

Our liquid revenues accounted for 56% of our total revenues in the first quarter 2016 and 2017 and 54% in the 4Q 2016. Natural gas volumes sold to end-customers remains slightly more than 92% with the remaining 8% sold ex-field. Liquid sales remain geographical diverse with Europe and the Asian Pacific region as the primary markets, with a notable increase in stable gas condensate and naphtha sold to North America.

At 31 March 2017, we had 93 thousands of naphtha in transit to the Asian Pacific region which was consistent with prior year but 60 thousand tons higher than year-end. Total liquids in storage were 813 thousand tons. We finished the reporting period with 130 MCM of natural gas in underground storage, a decrease of 704 MCM from year-end reflecting stronger seasonal demand in the current quarter.

Our operating expenses were again consistent with our overall business trends and we did not have any major surprises in our expense categories during the reporting period. Our operating expenses increased relative to the growth in our business, representing an increase of approximately 13% y/y and by 4% q/q. The most significant increase in our operating expenses y/y related to the purchases of hydrocarbons as we continued to purchase both unstable gas condensate and natural gas from our joint ventures. This trend will continue as we meet our customer demand through a combination of equity production from our subsidiaries and purchases from our joint ventures. Purchases of hydrocarbons represented 38% of our total operating expenses during the quarter.

Taxes other than income tax increased effective 1 January for both crude oil and gas condensate as the base rates increased by 21% and 18%, respectively. Our SG&A increased during the reporting period largely due to the growth in headcount combined with our annual salary indexation on base salaries and the corresponding increase in social contributions. Other major cost trends were relatively similar on a comparative basis with a large swing between reporting periods representing a change in inventory balances between periods with the withdrawal of natural gas in the period and the recognition of sales from liquids in transit.

Our balance sheet and liquidity position remained positive in the first quarter 2017 and all of our credit metrics continued to improve. Free cash flow generation of RR 44 billion remained very strong despite a drop in operating cash flows by 10% as well as a 47% decrease in capital expenditures. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due. We decreased our net debt position by 44% to RR 114 billion as we repaid debt according to repayment schedules or before maturity.

In conclusion, we have shown without doubt the cash-generating nature of our business over the past several years, and we have a turned a major corner in the allocation of capital from legacy assets to our pivot towards the global LNG markets. We understand the concerns voiced recently by analysts over the production declines in our core legacy but part of this decline was a combination of overproducing at the Yurkharovskoye field for two years as I had mentioned on one of my prior conference calls when we reduced the plateau levels at the field as well as need to conserve cash until such time as the external financing for Yamal LNG was secured.

Tonight, I provided a glimpse into some of our current development and exploration projects because I felt it was important to provide this preview prior to our Strategy Update later this year, which will be a more comprehensive picture of our strategic plans for the next 10 plus years. We have many opportunities to consider, including potential M&A deals or license acquisitions which first must be concluded before we can provide context into how these new opportunities fit into our broader strategy.

Moreover, our strategic decision to pivot towards LNG is supported by growing demand and the need to transition away from solely pipeline gas to more flexible delivery options. LNG growth in 2016 was roughly 7.3%, and the initial data so far for 2017 shows continued demand growth. First quarter 2017 volumes were about 74 million tons, or approximately 10% higher as compared to corresponding period in 2016. China alone has increased LNG import by 17% in March, and we see more and more countries opening up as potential demand points.

We understand that the LNG is presently a "buyer's market" for the next several years and, quite frankly, we don't feel that this is a bad situation. The more consumers are comfortable with pricing and supply choices, the faster the LNG market will crystallize for suppliers. These developments underscore our decision to begin designing and construction works at the Kola Yard in the Murmansk region to make our LNG proposition competitive in any market condition. We see the emerging LNG market as an opportunity for NOVATEK to be a formidable player, and we will work extremely hard to ensure our future projects are competitive and compete with the likes of the Qatari projects.

There was an announcement yesterday by the Australian government to unveil the "Australian Domestic Gas Security Mechanism" that will impose export controls on LNG if there is a forecasted shortfall in natural gas earmarked for domestic consumption. This obviously puts pressure on LNG exporters and projects in Australia, but I also believe it calls into question the perception of country risk and the need to reassess the analyst's country risk assessment of Russia, generally, and our Yamal LNG project, specifically.

I believe we have delivered another set of strong results. And, hopefully, I have provided a glimpse into some of the concrete steps we are presently taking to reduce the production declines on our legacy assets. Our strategy team met yesterday for several hours to discuss the final steps in presenting the updated strategy to the Management Board for review and approval. There is an internal process that we must adhere to but in general our strategy will be aimed toward sustaining our domestic market share as well as full utilization of our processing capacities. We will consider gas chemistry projects, expand the depth of our refining capacity, and expand our global LNG footprint.

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

Thank you.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We will take our first question today from Alex Kantarovich from JP Morgan, please go ahead.

Alex Kantarovich: Yes, thank you, it's Alex Kantarovich from JP Morgan. If I may, could you please share with us your expectations about total production growth for the full year, on annual basis, 2017 versus 2016?

Mark Gyetvay: Yes, I think if we look at the full year results, I suspect that we will show a product decline – it shall not be higher than 10%. We'll show some declines initially as we did in the first quarter, but it should not be higher than 10% for the full year.

Alex Kantarovich: Right, and for the next several years, how is the business?

Mark Gyetvay: We'll discuss that at the strategy presentation.

Alex Kantarovich: Right, and also on the license acquisition, I appreciate that it's not complete and you will provide an update, but how is realistic to assume that those will come to a conclusion? And which potential targets are we discussing?

Mark Gyetvay: Now, when you talk about the license acquisitions, are you talking about primarily Gazprom fields?

Alex Kantarovich: Yes, correct.

Mark Gyetvay: You know, as I mentioned before, we do not disclose deals until they're finalized. I can just basically say that at this point in time, we are still in the negotiation process with Gazprom. Price and a form of the deal is one of the points for negotiation. We are considering joint development of these fields with Gazprom, although it is premature to give you any particular guidance at this particular point.

As for licenses in the general sense of the term (from the state), we will continue participating as we've done as the normal course of our business.

Alex Kantarovich: Okay, thank you very much.

Mark Gyetvay: You're welcome.

Operator: Thank you, we will take our next question today from Ron Smith from Citi

Ron Smith: Yeah, good evening Mark, thanks for the presentation. You mentioned several times about the strategy presentation, that you're getting prepared to publish it. Could you give us a little more idea of the timing, or did I misunderstand it. Is it – we're talking this summer, this fall? About when could we put that in our calendar?

Mark Gyetvay: Yes. Ron, thank you. Ron, I think we're aiming to present it [strategy update] as soon as possible, but I believe it'll be more toward the fall period. We talked about this many times in the past already, and I think it's important that everybody should understand that our strategy is going to be LNG. We have the second LNG project that we're going to do, as I mentioned, our new Arctic LNG 2 project. And together, these two projects account for about half of the Qatari production right now. So I would say that it's best, if you're going to put it on a calendar, it'll be in the fall period of 2017. And I would say probably in the latter part of the fall.

Ron Smith: Okay. Thanks.

Mark Gyetvay: You're welcome.

Operator: Thank you. We will take our next question today from Alex Fak from Sberbank. Please go ahead.

Alex Fak: Mark, hi, yes. Two questions from me. First, concerning SeverEnergia. You mentioned some of the developments there. I was just wondering overall production last year was 25.5 billion cubic meters for the entire asset and 8.1 million tonnes of condensate. Where can we expect to see the peak of gas and condensate production at SeverEnergia? At what levels?

Mark Gyetvay: I believe that we can achieve about 34 billion cubic meters in natural gas, roughly in that line. And I believe it's about 8 to 10 in liquids.

Alex Fak: And that includes crude oil?

Mark Gyetvay: And that includes crude oil.

Alex Fak: Okay, thanks. And then my second question is, are there any plans for any joined ventures with Qatar, the Russian ambassador to Qatar a couple of months ago was taking about Qatari investing in some of your projects or in NOVATEK itself, it was kind of hazy. And so I was just wanted to follow up on that.

Mark Gyetvay: I believe it's still hazy as we speak.

Alex Fak: Okay.

Mark Gyetvay: I have no comment. I have no further comment on this subject.

Alex Fak: Okay, thanks.

Mark Gyetvay: You're welcome.

Operator: As a reminder ladies and gentlemen to ask a question at this time over the telephone please press star one. We will take our next question today from Ksenia Mishankina from UBS. Please go ahead.

Ksenia Mishankina: Hi. Thank you for the presentation. Could you please indicate short-term debt that you plan to repay and what portions you plan to refinance? And what is your Capex guidance for this year? Thanks.

Mark Gyetvay: Let me see. Our Capex guidance for this year is about 40 billion roubles as I already stated. And in terms of short-term financing, I don't believe we have any specific short-term financing that needs to be repaid this year. The financing that we will continue paying in 2017 will be the quarterly instalments on the syndicating loan and that's about 115 million dollars each quarter. We just paid back 14 billion in a rouble financing. So I think it's just going to be the main repayment – it's about 115 million dollars per quarter. And that repayment schedule runs into about mid-2018.

Ksenia Mishankina: So you'll be repaying that debt?

Mark Gyetvay: Absolutely.

Ksenia Mishankina: Okay.

Mark Gyetvay: We have been paying our debt as they become due or before maturity and we will continue to pay our debt obligations accordingly.

Ksenia Mishankina: Thanks.

Mark Gyetvay: You're welcome.

Operator: Thank you. We will take our next question today from Henry Patricot from UBS. Please go ahead.

Henry Patricot: Yes everyone, thank you for the presentation. Just a couple of questions on the new Yamal LNG project. I was wondering what your latest thinking around this start-up of the second and third trains given the progress of the project. And then secondly, some idea of the timing for FID on Arctic LNG 2. Thank you.

Mark Gyetvay: Progress on the second train and third train. As we've already stated before and we we specifically stated the projected start up times at the annual conference call. It'll be the second half of 2018 for train number two. And given that all the equipment is onsite, there's a possibility that we may be able to move up the third train earlier in 2019. That's really all I can say at this particular time. In terms of FID decision, I don't have a specific time yet – we're still, we're looking to aim – I think the end of May, we're looking to sign the Front-End Engineering Design [FEED] contract shortly. And then once that's done, it usually takes about 18 months of work activity to go through the FEED process before we make an investment – a Final Investment Decision. So, if you look at 2017, in eighteen months you kind of get an indicative time. So you're talking about latter part of 2018, early 2019 will be the earliest we can make an FID decision, I think, on Arctic LNG 2.

Henry Patricot: Okay, thank you.

Operator: We will take our next question today from Karen Kostanian from Bank of America Merrill Lynch. Please go ahead.

Karen Kostanian: Hi, Mark. This is Karen Kostanian from Bank of America. Thank you very much for the presentation. You know, you mentioned something interesting here that the Swedish and German credit agencies have agreed to finance Yamal. I have more of a theoretical question. In your, high level question, in your negotiations on funding and partnership for your future LNG projects, have you seen a general shift in attitude from those credit – export credit agencies and also, from potential western and eastern partners for LNG projects compared to one, two years ago when the sanctions were imposed?

Mark Gyetvay: First of all, Karen, thank you very much for your question. But let me make it absolutely clear to everybody that I myself as a US citizen is not participating in the finance and discussions as a result of the sanctions. So, I'm only going to give you information from second-hand discussions I had with my team.

Karen Kostanian: Okay.

Mark Gyetvay: Okay, you understand that?

Karen Kostanian: Yes.

Mark Gyetvay: I would say that the finance coming from German and Swedish export credit agencies, as I mentioned, is positive. I think it's a realization that most people are looking at the merits of the project on a standalone basis and we have received positive discussions and finance commitment from JBIC earlier. JBIC has specifically talked about not only financing contributed to Yamal LNG, but also working with us as a partner and potentially finance our next project, which will be Arctic LNG 2. So, I believe at this stage that it's probably safe to assume that we will still get participation in the future from the export credit agencies for Arctic LNG 2. But I think it's also important that everybody understands from this perspective is that as we move forward with the completion of Yamal LNG, we now have a benchmark project that we can discuss with our partners. Because if you go back in time, if you want to take it back three, four years ago, there was no analogous projects for us to actually sit down and constructively discuss with potential partners.

So, now we do, we have a world class project that is coming on stream, we have interest coming from various eastern and western partners that are now talking to us about Arctic LNG 2. So, I think it's a little premature to state specifically where these discussions and what geographical regions, excuse me, these discussions are coming from, but I would say that there is strong interest. And I believe that given the fact that Yamal LNG has moved to the state of where it is today, the fact that we have now demonstrated the marketing side of the project with the tankers designed to go both to the eastern and western markets, I think it's just a question now on the matter of time that we will begin the dialogue with potential western and eastern partners. But I would also like to mention too, and I believe that it's important, that up until that point of time, NOVATEK will continue funding Arctic LNG 2 at 100% of our own capital until such time as we get the project into the shape and form where we believe we can maximize the sell down and create economic value for our shareholders.

Karen Kostanian: Thank you, Mark. Thanks.

Mark Gyetvay: You're welcome.

Operator: We will take our next question today from Alexander Kornilov from Aton. Please go ahead.

Alexander Kornilov: Yes, hello, Mark. My question is related to your Yurkharovskoye field. You mentioned during the call that you're undertaking some steps towards dealing with production decline there. So, you mentioned that you are currently targeting the eastern part of the field going forward. Could you please clarify what kind of incremental production we could expect from there for both gas and condensate? Thank you.

Mark Gyetvay: I don't know if I would characterize this work as actually increasing output - I wouldn't say that we're looking at this work as an increase in production. I think it's really maintaining the plateau levels on the Yurkhaovskoye field. So, I don't want to provide you with any guidance until such time as we determine how we're going to do that work because there's various steps that we have discussed internally about how we can target that eastern portion of the reserve base, but a decision has not been made yet on what is the most cost effective way. But I think the plan would be to sustain production levels, you know, not to really grow production levels.

Alexander Kornilov: Okay, fair enough. Thank you.

Operator: Once again, if you would like to ask a question please press star one. We will take our next question from Igor Kuzmin from Morgan Stanley. Please go ahead.

Igor Kuzmin: Hi, good afternoon everyone. Mark, a couple of questions for you, please. One question on the sort of purchases from JV's. Is it possible to maybe indicate the trend that we potentially might see in terms of the volumes of purchases from JV's condensate and of gas. And the second question is in regards to the developments around the pilot liberalization in the domestic market, gas market, and I was just wondering. In my understanding, basically, not much is happening, but maybe there is some news that you can share in terms of whether the discussions have now been halted all together? Because that is what I've picked up in the media most recently. And are there any developments in terms of rated determination of how the transportation targets are set and if there are any, some sort of, events essentially that we might would be looking forward to for some clarity? Thank you.

Mark Gyetvay: Thank you Igor. On the first part of the question I don't want to give you a specific number other than to say that we have the rights to purchase volumes from our joint ventures. And we will continue to supplement our core production with the purchases from the joint ventures and we will continue to buy as much of the joint ventures as we need to meet our marketing requirements. So, I don't want to specifically give you a number other than the fact that that option is available to us and that we're taking advantage of it. But I don't want to give you a specific number at this particular point in time.

Your second question, I obviously think it's a much broader question and you know as we have said in the past, for us when I say for us for NOVATEK we've always advocated that the Russian government should look at the gas market in its total form. We don't want to continue going down these path where we look only at price liberalization or transportation or storage. We believe that a solution to the overall gas market needs to be formulated by looking at all of these factors because the model that the gas market has been built upon is based on an old vision of what Gazprom looked like in the past. And that market has changed, as the growth of the independents like ourselves and Rosneft et cetera have emerged. So, you know I think it's important that you know we look at all these factors and take them into consideration, if I was going to take and distil it back down to NOVATEK specifically. We've already stated that for us the most important thing that we would like to see is clarity on the transportation costs. I think we've already have determined with our own assessments inside NOVATEK that the current transport tariff rates are not justified given the current structure of the pipeline infrastructure here in Russia. And we believe that we'd pay a high transport rate per thousand cubic meters, so we would like to see some movement in that regards because we think that would be beneficial to us. You know, but right now we see no logic in the discussions that are going on as you rightly mentioned. We wanted to point out that present decisions are taken by the Government and not by the Federal Anti-Monopoly Service. As you know, we have a decision already from the Presidential Commission on Energy, which states the transport tariffs move towards this more economically justified decision-making process on gas tariffs, transportation tariffs, underground storage charges which was not executed. You know, we insist it to be executed first which goes back to my point earlier to talk about how we view the market; we need to really assess these changes in a more holistic approach rather than focus in solely on each of the component parts. And I don't have- I don't think anybody can give you a definitive time, but that's our position as we lobby and discuss this point with the Russian government.

Igor Kuzmin: Thank you, understood.

Mark Gyetvay: You're welcome.

Operator: As a final reminder ladies and gentlemen, if you would like to ask a question at this time please press star one. There are no further questions at this time over the telephone.

Mark Gyetvay: Ok, well thank you very much and we appreciate your support and we look forward to updating you on the second quarter as well as seeing you at investor conferences and meetings. As soon as we define a date for the strategy update presentation we'll provide that as well as any news from the developments that I talked about today. We will provide it either through a press release and or through discussions we have with our investors on a regular basis or through this same forum like tonight, on a conference call. But again, thank you very much for your participation.

Operator: This concludes today's call thank you for your participation you may now disconnect.