

ОАО NOVATEK

Second Quarter 2016

Financial and Operational Results – Earnings Conference Call

28 July 2016

Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second Quarter 2016 earnings conference call.

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

The macro-economic environment in the crude oil markets remains volatile although we are witnessing a narrower trading band for commodity prices than we experienced in 2015 and early 2016. Despite this fact, we still operate in an environment plagued by supply/demand imbalances and heightened geopolitical uncertainties. It will take some time for the industry to rebalance to this new reality but reports are emerging of improving rig counts in the sector, largely supported by lower crude oil price volatility and reduced upstream costs to support drilling activities. These are positive developments but we expect price volatility to remain an issue throughout 2016, pressuring companies to improve cost structures to meet these new challenges.

I have stated many times in conference calls and investor meetings that NOVATEK represents a unique investment proposition because of our low cost structure to withstand long periods of volatile commodity prices. This cost advantage vis-à-vis industry peers underpins our investment proposition as we have further growth

opportunities to develop our asset portfolio as well as expand our processing capabilities. I have no doubt the growth story will continue for us as we assess our resource potential on the Gydan peninsula and formulate strategic development plans to exploit the prolific reserves of this new hydrocarbon base into value accretive projects generating above industry rates of return for our valued shareholders.

We are currently updating NOVATEK's long-term strategy and most likely will present this update to investors towards the end of 2016. We are very optimistic about our growth prospects on the Gydan peninsula, and this positive optimism is reflected in our decision to acquire new license areas to further complement our existing license portfolio on this peninsula.

Specifically, there are four (4) license areas in the central part of the Gydan peninsula that we recently acquired. The Ladertoyskiy license area already holds proven reserves and there is a small-sized customer in close proximity to this area where we will shortly begin delivering natural gas. The three (3) other license areas are primarily exploration licenses with very high production potential. We are currently working on exploration projects for these license areas and plan to create a new production cluster in this strategically important hydrocarbon basin.

Overall, the Gydan peninsula license areas serve as the feedstock for our ambitions to expand our LNG presence globally with the conceptual development of the Arctic LNG projects. We are actively working in this direction and the target is to prepare an investment project – such as, Arctic LNG 2 – which we believe will be competitively globally and a project that is achievable in today's pricing environment. While on this particular topic I would like to add that our present view of the LNG market is somewhat counter to the prevailing news flows we read in the press. Our position is fundamentals driven and probably more consistent with the views shared big energy companies – we are not overly concerned with country-on-country competition that seems to be the prevailing position taken by the financial press to sell stories; rather, our position is focused more on fuel-to-fuel dynamics (i.e., natural gas vs. coal), with an impending long-term shift in consumption patterns more towards natural gas as an environmentally friendly fuel.

While on the topic of LNG this provides a good segue into discussing the current status of the Yamal LNG project. We recently held an investor trip to the field site that was attended by 17 people, comprised mostly of sell-side analysts and other individuals. As you can appreciate this field trip was important for these individuals as it highlighted the significant progress we have achieved on this flagship project as reported each quarter. I was also glad to read the positive post-trip reports by analysts; hopefully, you had a chance to read their comments on the project's progress and their impressions.

The most significant milestone this quarter was the conclusion of the financing agreement with the consortium of Chinese banks for the approximate equivalent

amount of USD 12 billion. At the end of June, the overall amount of investment for the project aggregated USD 17.3 billion, of which USD 12.8 billion was funded by the shareholders and USD 4.5 billion from external financing sources.

The amount of external financing signed to date covers the remaining costs of the project; however, we remain open to continuing our dialogue with Export Credit Agencies (“ECAs”). We expect that some of the ECA’s will join the external financing structure, providing more diversity to the overall financing structure as well as optimizing the project’s financing costs.

The Yamal LNG project has made continued progress since our last conference call. I previously mentioned that work activities will accelerate with the arrival of large modules to the construction site. This fact is happening as we speak. The overall project completion is roughly 60% (versus 51% at Q1) and we are approximately 76% complete on train #1 (versus 65% at Q1). At the end of June, the shipment and delivery schedule was confirmed with all contractors and suppliers, and we do not expect any delays. To facilitate this loading and unloading process, we will soon launch two (2) new cargo berths at the Sabetta sea port.

Forty-two (42) of the 78 modules required for train #1 have been shipped to date, and since the recent site visit field trip, another six (6) modules have been shipped. All remaining modules for LNG train #1 will be shipped in the third quarter and delivered to the construction site by the end of 2016. The main equipment for LNG train #1 is already on site.

There are presently 16,500 construction workers on site (versus 15,000 at Q1), with more than 35,000 people involved in module fabrication at various construction yards around the world. The Yamal LNG is a huge undertaking with over 220 contractors involved in the project as well as more than 3,000 construction vehicles on site.

We have completed the drilling of 57 production wells (versus 48 wells at Q1), representing 98% of the wells expected to be drilled for train #1. As of today, we have seven (7) out of 19 wells pads prepared and we are in the final stages of completing the construction of the gathering lines for train #1.

This has been our third season of successful year-round navigation and operation of the Sabetta port facilities and, to date, 9.3 million tons of construction material and supplies have been delivered. We recently successfully completed the hydraulic testing of LNG tanks #1 and #2, and the process of installing the internal walls for tanks #3 and #4 are proceeding according to schedule. The completion of the first two LNG tanks is important for the successful operation of the first LNG train. We are constructing three (3) 50,000 cubic meters storage tanks for storing gas condensate as part of the project design and two (2) of the tanks are already complete and the first tank has successfully passed the hydraulic testing. We are now in the process of installing the external roof on tank #3.

Yamal LNG is our flagship project. Providing timely information is an important element in our ongoing communications efforts with all stakeholders. We will provide additional project updates on future conference calls and investor meetings as a normal course of our business, but as of tonight's call, we are pleased with the present status of the project's construction phase and we have no changes to report on the project's cost budget at USD 27 billion. In 2016, we anticipate investing capital of approximately USD 7 billion, and with the closure of the external financing package, we do not anticipate future project cash calls to shareholders.

In other operational news, the second quarter 2016 was a quiet period for us in terms of exploration and production activities, particularly after the very active and successful 2015 with the launching of three (3) new production fields. We invested capital in exploration activities mainly in ongoing drilling at our subsidiaries but significantly reduced the level of exploratory drilling and geophysical activities at our joint ventures. During the first half of 2016, we reduced our level of geophysical activities namely the running and processing of three-dimensional (3D) seismic works at our subsidiaries by 54% and our exploratory drilling by 22%. All of our exploration activities were centered at our subsidiary companies, rather than joint ventures, whereas the bulk of production drilling activities were at the Yamal LNG project and continued drilling at the crude oil layers at both our East Tarkosalinskoye and Yarudeyskoye fields.

We drilled 34 production wells in the first half 2016 versus 52 wells drilled in corresponding 2015 period. We had stated many times in the past that the reduction in drilling activities reflects the maturity of our development plans and our move towards more maintenance drilling. As I stated in the first quarter conference call and I would like to repeat again this evening - 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.

We are presently analyzing and evaluating potential new licenses to complement our present asset portfolio as part of our longer term strategy to continue growing our resource base and production capabilities. Obviously, this takes a little time as we need to run three-dimensional (3-D) seismic, process and interpret the information as well as confirm the productivity of the hydrocarbon layers by drilling exploration wells. We will complement our existing producing assets with exploration opportunities, but we believe our focus on developing the prolific resources of the Gydan peninsula and the deeper producing formations of the Achimov and Jurassic layers provide us with an advantage to bring on-stream future production potential at a competitively low cost. This future low cost production potential coupled with expanding our existing processing platform will drive future risk-adjusted cash flows and enhance product margins. We remain committed to our growth story.

At NOVATEK, we spent approximately RR 7.3 billion in our capital program in the second quarter 2016 on a cash basis, with approximately 41% of the funds spent on carryover costs from the recent launch of the Yarudeyskoye field in December 2015. Our year-on-year (y/y) and quarter-on-quarter (q/q) capital expenditures declined by roughly 53% and 19%, respectively, clearly demonstrating again the decline in the capital intensity of our capital program and a move towards maintenance capital in our investment cycle. We previously provided guidance of a 30% reduction in our 2016 capital expenditures program relative to the prior year. We remain committed to this guidance.

Total oil and gas revenues in the second quarter (Q2) 2016 was RR 127 billion, representing an increase y/y of 13% but a decrease q/q by 8.5%. Our oil and gas revenues are impacted by a number of factors but more recently are largely driven by increases in our liquids revenues, volatility in benchmark commodity prices and the corresponding translation of these foreign earnings to Russian roubles. Volume growth particularly with the launch of the Yarudeyskoye field in December will be the main factor contributing to our increased revenues as we realized mixed commodity prices for the majority of our liquids products y/y and q/q consistent with the volatile movements in benchmark reference prices.

Our liquid revenues accounted for approximately 60% of our total revenues in the second quarter versus 54% in the Q2 2015 and 55% in the Q1 2016. Revenues derived from our liquids sales are generally indexed to international benchmark crude oil or oil product derivatives reference prices, which have historically been higher than domestic prices. In addition, export volumes are denominated in foreign currencies, which offer a better hedge against our predominately US dollar-denominated debt portfolio as well as positively impacting our revenues in the reporting periods due to the favorable movements in the USD/RR exchange rates. From a credit rating perspective, our ability to achieve consistent export denominated revenues above 50% will help us in our ongoing discussions with our credit rating agencies to potentially pierce through the sovereign rating ceiling as this criteria is one of the main tests to achieve this rating differentiation. We will surely discuss this point in our upcoming annual credit rating meetings.

Our natural gas sales volumes were down roughly 3% y/y, or by 436 million cubic meters (mmcm), but significantly down q/q by 21%, or 3.7 billion cubic meters (bcm), reflecting the change in seasonal consumption patterns – from winter peak to beginning of summer trough. Gas demand in the first quarter 2016 was exceptionally strong as we had a solid recovery in natural gas demand after a period of unseasonably warm winter weather, which necessitated the underground storage drawdown of approximately 900 mmcm. We sold 14.1 bcm of natural gas in the second quarter 2016 versus 14.5 bcm in the corresponding period. In the first quarter 2016, we sold 17.8 bcm, which represented an increase in natural gas sales from a combination of factors such as stronger seasonal demand from wholesale traders as well as the resumption of offtakes from one of our end-customers. We

also had a significant change in the withdrawal of natural gas from underground storage facilities of roughly 2.2 bcm of natural gas between the first and second quarters of 2016. At quarter-end, our volumes of natural gas in storage totaled 1.7 bcm versus 429 mmcm at the end of the first quarter.

Our average natural gas prices increased y/y by 3.4% and q/q by 4.0%, reflecting a shift in regional sales during the quarter. We rebalanced our gas sales portfolio with a shift in our regional sales to reflect some changes in our customer base and increased volumes sold on the St. Petersburg Mercantile Exchange. We also take into consideration seasonal changes in consumption patterns and this was reflected in one of our customers taking more natural gas in the first quarter and correspondingly reducing offtakes in this quarter. We sold 93% of our natural gas to end-customers and 7% ex-field. This represented a slight shift back to our normal sales mix as we had a higher proportion of ex-field sales in the first quarter 2016. Overall, our average netback increased y/y by 9.5% and 9.8% for end-customers and wholesale traders, respectively, but increased q/q by 2.0% for end-customers and was flat for wholesale traders.

We sold 4.1 million tons of liquids representing a 42% increase over the volumes sold in the prior year. The average price we received in dollar terms was generally lower across our product range because of the decline in international benchmark reference prices but the negative effect of the price declines was somewhat mitigated in Russian rouble terms by the average currency depreciation by 25% against the USD and the corresponding reduction in the majority of our liquids export duties. During the second quarter, we increased our liquid sales by 1.2 million tons, largely driven by the commencement of crude oil production from the Yarudeyskoye field in early December, which reached full production capacity by month-end, as well as the impact from full year production run rates at the Yaro-Yakhinskoye and Termokarstovoye fields. On a q/q basis, we decreased our liquid sales volumes by 503 thousand tons or 11%, which was largely driven by a reduction in stable gas condensate volumes sold of 229 thousand tons and oil products sold from Ust-Luga of 197 thousand tons.

We achieved positive dynamics in our liquids pricing q/q on most oil related products due to the strengthening of the benchmark commodity prices and the lag in export duties, but our pricing on LPG both domestically and internationally continued to be weak y/y and q/q due to market supply/demand fundamentals. We did not experience anything unusual in the comparative periods but would like to stress that the commodity prices we received for our liquid products sold will largely be determined by external market factors beyond management's control.

There were no major surprises in our operating expenses during the reporting period, as our operating expenses grew relative to the growth in our business, representing an increase of 13% y/y but a decrease of 7% q/q. Purchases of hydrocarbons representing 21% of our total operating cost as a percentage of revenues were the largest cost category this quarter and for the first time exceeded

that of our transportation expenses. This was not unusual as we reduced our natural gas transport cost by 13% q/q due to the change in seasonality and the reduction of volumes sold by 21%. The reduction in transport cost was somewhat offset by our increase in end-customer sales during the quarter. I would also like to note that a large impact on our y/y changes in operating expenses resulted from the consolidation of the Yarudeyskoye field, which was not part of operating expenses in the prior year reporting period.

Our SG&A increased during the reporting period largely due to the increased headcount with the launch of the Yarudeyskoye field and other production units combined with our annual salary indexation on base salaries and the corresponding increase in social contributions. For example, our y/y headcount at Yargeo increased from 41 people to 493 people with the field's successful launch in December 2015. Overall, the changes in our SG&A were not unexpected as we generally index salaries effective July 1st and the corresponding flow through effect on social payments. We also paid performance bonuses in the second quarter.

Our depreciation, depletion and amortization, or DDA, expenses increased y/y and q/q with the application of higher unit charges for the increased level of crude oil production at the East Tarkosalinskoye and Yarudeyskoye fields. We also had a very large swing in our Change in Inventory movements between the first and second quarters 2016 largely due to the significant release of inventory balances for natural gas and liquids in the first quarter 2016. This cost category will fluctuate period-on-period depending on movements in our inventory balances over the course of the year.

Our balance sheet and liquidity position remained strong in the second quarter 2016, which was obviously supported by the receipt of funds from the Silk Road Fund on the sale of the 9.9% equity stake in Yamal LNG in the first quarter.

We fully anticipate that our free cash flow generation will be strong in 2016 but we are subject to seasonal fluctuations in the numbers and some one-off adjustments throughout the year. Specifically, our free cash flow generation in Q2 2016 was lower than in the previous quarter and I believe it is important to explain some of the key factors behind this decline and provide a normalized number to confirm your guidance for the next few quarters. As you know our free cash flow in the first quarter 2016 was very strong primarily driven by a substantial growth in our liquids production.

Among other factors was the peak season for natural gas sales combined with the recognition of liquids sales from inventory drawdowns in the Q1 in order to realize higher netbacks. In Q2, we increased both natural gas and liquids inventory injections driven by seasonality and our marketing policy. These different moves are one of the three main factors behind the lower free cash flow generation in Q2 versus Q1. The other two factors are purely one-off and relate to taxes.

In the first quarter 2016, our taxable profit was boosted by the sale of our 9.9% equity stake in Yamal LNG to China's Silk Road Fund. We paid RR 9.9 billion in the current period and it is reported in our cash flows from investing activities. This should have no impact on our operating cash flows for the period. However, Russian tax legislation provides for advance tax payments for the quarter based on the results of the previous quarter, i.e., we made the advance tax payment on the actual taxes accrued in the first quarter 2016, which was higher by roughly RR 10 billion than normal. This advance tax payment lowered our operating cash flows in the current reporting period but essentially means that it will be used to cover future tax payments, which will release material operating cash flows.

The other tax factor impacting our free cash flows was the Value Added Tax, or VAT, reimbursement related to the export of liquid hydrocarbons. In the first quarter 2016 we had a material release of VAT receivables followed by an accumulation in the second quarter; therefore, we had an absolute movement of roughly RR 13 billion in our working capital between the quarters.

If we take these factors into consideration we can normalize our free cash flows for the respective periods. On a normalized basis, i.e. excluding changes in working capital and the income tax factors discussed, our free cash flow generation was quite similar in the first two quarters of 2016, i.e. approximately RR 35 billion per quarter.

CONCLUSION

In conclusion, the second quarter 2016 was a good seasonally adjusted financial and operational quarter for NOVATEK despite some one-off movements in our free cash flows and accounting for the changes in our operating expenses due to the consolidation of Yargeo post the field's launch in December 2015.

I believe everyone understands that we are operating in a difficult macro-environment, and as a result, the crude oil commodity markets will remain volatile throughout the remainder of 2016 and we should expect continued geopolitical uncertainties to be front and center for the foreseeable future. Even though these external factors sometimes overshadow what we have achieved, we are very positive in our optimism that we will thrive under various economic and commodity pricing scenarios.

Another area of positive optimism is the fact that our Yamal LNG project is proceeding according to schedule and budget. We expect the receipt of large modules will be onsite towards the end of the third quarter, and, with the arrival of these shipments, we will accelerate the completion of the first LNG train. I also believe our recent field trip confirmed our ongoing assertions about the status of the significant progress we have made towards bringing the first train on-stream in 2017. The post-trip reports gave a fair, unbiased confirmation of the project's

construction progress and, hopefully, left everyone with a more positive perspective on the project.

With the de-risking of the external finance question now behind us, we can move forward to the next chapter in our pursuit to be a truly global natural gas company. I am certain we will have rough patches along the way but as I have stated many, many times in meetings and conferences, we are poised for the challenges that lie ahead of us. We have built a phenomenal energy company with large upside potential remaining in our asset portfolio, and a company that has crossed an inflection point in our capital cycle to generate strong free cash flows in the years ahead.

In an industry sector that had its fair share of negative new stories over the past 18 months and endured a stream of bankruptcies, reduced capital expenditures and massive staff layoffs, we remain the true exception. I like to remind our investors that the company story we crafted for our investors at the time of our IPO of four pillars – large reserve base, strong production growth, low cost producer, and limited downside risk to commodity prices – is still applicable in today's environment. This sustainable competitive advantage, or moot as the investment community sometimes likes to refer to as this term, underscores our strong investment case, drives shareholder value, and remains one of the most compelling reasons why NOVATEK trades at higher multiples relative to our industry peers.

We remain a growth story.

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: If you would like to ask a question at this time, please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press *1 to ask a question. We will now take the first question from Alex Fak from Sberbank. Please go ahead.

Alex Fak: Hi Mark, hi Sasha. Thanks very much for the call. A couple of questions from me. First of all, I was wondering if you could give us some guidance on SeverEnergiya's crude oil program, in particular when do you expect the first crude oil now that the Zapolyarye-Purpe pipeline is going to – it seems like it's going to be launched in November? And also, how much crude oil do you expect in 2016, if any, and in 2017? And my second question concerns something you mentioned about fuel on fuel competition and your faith in the global LNG market. We've actually seen gas losing out to coal, at least in Europe and actually partially in Asia as well, over the past few years and so I was wondering what gives you faith that gas will overcome coal at the end of the day. Does it really take political interference of some

sort such as carbon taxation or raising prices on carbon emissions, or can this be done without political interference, just naturally in the space of the evolution of the fuel market? Thank you.

Mark Gyetvay: Okay Alex, as to your first question, I'd just like to bring to your attention, I would prefer to hold off on that question on the oil development situation at SeverEnergia until we update everybody on the upcoming strategy because that really impacts the development of the crude oil layers as they're still being tested right now. So I would prefer that we address that overall question, that whole development question, including forecasts, etc. for the oil side when we do this update towards the latter part of the year. I think that will be more instructive for everybody to understand what our thought process is in terms of developing, further developing, i.e. SeverEnergia, particularly when it relates to the crude oil side of the business. So I would prefer to hold off on any forecasts at this particular point.

The second question is a little more complicated but one that we have quite different views on the topic. I mean, if you look at the world today and you try to assess the market vis-à-vis coal versus natural gas, I think you're right. I think in the short period, we are seeing some shifts back and forth between coal and/or natural gas, and I think if we look at Europe as one example, I think the general view is that you have countries like Germany or a country like Poland that are relatively big in the coal markets. They have strong labour unions, etc. protecting the coal industry. But if you look at what really moves the needle in terms of gas consumption, I think we can just assume that these countries are not going to be a major player in the question for whether or not this transition between coal and gas really makes a huge difference in the total markets.

I think when we start looking at the Asia market, the question becomes more pronounced because when we look at this sort of so-called glut in the market of natural gas and we look at this transition between coal and natural gas, all we need is a few percentage point changes in the movement from coal in China to natural gas or the move in coal from India to natural gas, and that basically solves our problem. So I think it's going to be a twofold solution. It will be kind of legislated through this clean air initiative project that everybody signed up to the movement, but I think it's also, more importantly, probably going to be somewhat of a grassroots movement being driven largely by the population unwilling to continue tolerating these excessive pollutions, excessive smog, etc. So I think it's going to be a combination of factors. But I believe the real change comes in more or less from the Asia movements by a couple of percentage points in either China and/or India moving away from coal to natural gas.

I think the question about the LNG is the same question. It's a function we'll see LNG move in the marketplace as a way of transferring volumes from one region to the other region, but I think it's going to follow the same pattern. I think

everybody is anticipating that over time, we will see a higher proportion of natural gas relative to coal. So I hope that answers your question.

Alex Fak: Well, and just a quick follow-up. Do you have any particular timeline in mind in which this could start happening?

Mark Gyetvay: I don't think anybody can put any specific timelines in this, Alex. I mean, I think if you – if we go back to the IEA's "Golden Age of Gas" scenario, we can see that even then, they missed it. And I don't think anybody really has a crystal ball to forecast the actual dates or times. I think what we're really looking for is the general trend and the trend points towards that direction, and that's why we see people continuously moving towards finalising their LNG projects, etc. for future delivery. So I don't know if we want to specifically put a concrete time on it but I think it's more of a trend movement that I think everybody recognises will happen over the course of time.

Alex Fak: Okay, thank you.

Operator: Thank you. We will now take the next question from Max Moshkov from UBS. Please go ahead.

Maxim Moshkov: Hello Mark, thanks for the presentation. A couple of questions from me. On LPG, so you said that it's the low price is driven by supply/demand situation and I think presumably on domestic market because you supply two-thirds of your volumes to the domestic market. So what's the outlook here? So it is really quite oversupplied and how long it will last? And the second question is very simple. Are you guys looking at Bashneft here at all? Thank you.

Mark Gyetvay: On the first question, we can see the strong movements downward on prices between each period, which just gives me an indication there is an oversupply in the marketplace. So I think that's the question. I mean, how long that will take to work its way out, it's really hard to predict at the time. But I would say that it's principally an oversupply situation – because it's kind of decoupled from crude oil pricing. The movement in the LPG price has been pretty substantial downward over the last two quarters and year-on-year and so I don't know if there's any prediction we can make in terms of where this trend is going. I guess we'll have to just wait a little more on seasonality but right now, the market is pretty weak at this particular point and that's clearly affecting domestic consumption on the market.

And as for your second question regarding our plans to participate in Bashneft's privatisation, I think at this point right now, we see no rationale for buying a stake in Bashneft and I'll leave it at that.

Operator: Thank you. We will now take the next question from Alexander Nazarov from Gazprombank. Please go ahead.

Alexander Nazarov: Hi Mark, thank you for presentation and for taking my questions. Two questions from my side as well. We see that the share of the domestic sales of liquids, which also is growing last four quarters consecutively, what's the reason behind that? Is it because of the crude oil or probably your gas condensate is well-demanded inside Russia? And the second question is regarding, I would like to continue the discussion about potential future export rights for pipeline gas for NOVATEK as well for other independents. Some authorities mentioned during last month that for export rights, it's necessary for independents to take part into the gasification process. So I would like to ask you what's your involvement in this process? Are you involved into gasification in your core regions like Kostroma, Perm or Chelyabinsk? Thank you.

Mark Gyetvay: I think the answer to your first question is yes, you can obviously see that the majority of the impact is on crude oil staying in the domestic market, and I think that's a reflection of the prices that have actually been pretty consistent with the global prices. We haven't seen these really sharp discounts on the domestic market relative to sort of price volatility of Brent and WTI, etc. So yes we're finding a market for our product on the Russian domestic market. Now that's purely a question, what our trading group feels is the best way to deliver these liquid hydrocarbons, so they'll make the call on where they think we can achieve the best netbacks for the product sold. So I can't even give you any guidance on whether or not this is going to be a continuing trend or not. They make the decision at the time to see where's the best market to place our products.

On your second question, again, it's a difficult question to answer. I mean, I don't know if I can give you any sort of concrete, definitive answer other than say, it's obvious that we will participate in any government discussions relating to the districts in your question, and since we do have a fairly large presence in a couple of geographical areas, it obviously makes an impact for us to be active in these discussions. But I'm not here to really speculate on what the Russian government is going to do in relations to providing access to the pipeline. I think when that issue is crossed, when we actually have definitive answers from the government, clearly you would know because it will be announced through the press, but we would also discuss its impact to NOVATEK. But right now, I'd just be purely speculating and I'd prefer not to do that.

Alexander Nazarov: Okay, thank you, I understand that but the question is more concrete. Are you now involved actually into the gasification in the regions you operate in? So do you take any costs on that, on taking some last mile –

Mark Gyetvay: No, we don't.

Alexander Nazarov: You don't? Okay, thank you.

Mark Gyetvay: We don't.

Operator: Thank you. We will now take the next question from Ksenia Mishankina from UBS. Please go ahead.

Ksenia Mishankina: Hi, thank you for the presentation. Can you please explain how do you plan to fund your short-term debt and whether you plan any borrowings? And can you please also comment on your capex for 2017? Thank you.

Mark Gyetvay: Short-term debt will be financed through cash flow. There's no really major plans of taking any additional debt out at this particular point. So it will be serviced or retired through cash flow generation.

In terms of capex for 2017, we haven't given that number and we'll give that number towards the end of the year. So right now, we're looking at about RUB 35 billion for 2016 and that's the only number we have in the marketplace.

Ksenia Mishankina: Okay, thank you.

Mark Gyetvay: Welcome.

Operator: Thank you. As a reminder, to ask a question at this time, please press *1. We will now take the next question from Pavel Kushnir from Deutsche Bank. Please go ahead.

Pavel Kushnir: Thank you. Mark, given very strong progress towards technical implementation of Yamal LNG, maybe you are in a position today to say when the project plans to deliver first LNG to international customers. Thank you.

Mark Gyetvay: Pavel, thank you for the question but I don't think I'm in a position right now to give you the exact date of launch, so I would wait until we formally make that announcement, and so I would say only – second half, some time the second half of 2017 but that's about all I will say at this point.

Pavel Kushnir: Understood, thank you.

Mark Gyetvay: Thank you.

Operator: Thank you. There are no further questions in the queue at this time. Apologies, we do have another question that's just joined from Alex Fak from Sberbank. Please go ahead.

Alex Fak: Hi Mark, I'm just going to take advantage of the queue. Just a couple of very fast questions. First of all, Yamal LNG, you have drilled 57 wells so far so you must have some idea of whether there is enough resources to scale up this project beyond the three initial trains that you have planned, and so I was wondering if there is, in your opinion, enough resources to do that and whether that would be

economical to do and necessary to do. And the second question is about the tariffs. The FAS, the FAS, they did not take a decision as of July 1 about raising gas prices for industrial consumers. Do you know when they plan on taking that decision? Thanks.

Mark Gyetvay: Okay, well, first of all on the first question, I like your report – as a matter of fact, I have it in my hand right now as I'm going through it and I know you're talking about the empty lot question. I think it's too early to make any decision at this particular point. I mean, what we've been able to confirm from the drilling of the wells already is that the productivity is higher than we anticipated and so we already know at this juncture that we've already drilled more wells for the first train than we actually need at this particular point in time. So to make any speculation that we're going to add another train onto the project, this will have to be a discussion that we have with each of the partners. So that has not happened at this particular juncture in time and I think it would be better to wait to see if we can address that question strategically towards the end of the year with the update on the strategy. I would say right now I think the focus on the group, the working group, is to look at the Arctic LNG projects at this particular point in time, but I think if there's any change in that, we would advise you guys a little later on that as a strategic development.

I think you're raising a good point. I mean, you're raising a point that people are going to want to know because they want to know that it's economically attractive to add a train. I think we all know that. You know, it's not rocket science that adding another train, if we have the reserve base, makes sense. So I would say, I would say that it is technically possible, right, but I think it would only be made – and determining its feasibility will only be studied after at least two trains are launched to make sure that everything is okay. So I would say that at this juncture right now, we understand your question, we appreciate your question. I like your resource on the mystery of the empty lot and I think you raised a good point, and this is something I think that we would address a little later. But let us finish the existing project first before we talk about expanding it at this juncture.

The other question on tariffs, you know, the tariffs answer is really two questions. We have the transportation tariffs and then we have the gas prices, right? So I would say, as you already said, as of July 1 there was no change in either of these tariffs. When we talk about transportation, I think the regulator is basically under the presidential order, are looking at something called the 'economically justified tariff'. So I think what they're doing, they're basically studying this thing, they're calculated this so-called economically justified tariff and also talking about the whole concept of equal economic rights for all participants in the domestic gas market. You know clearly, clearly, as you can appreciate, we would put our contributions into these discussions. I mean, when we're delivering approximately 70 billion cubic metres of natural gas as an independent company, we would at least have our voice heard. So we're involved in these discussions.

In terms of pricing, again, it did not change in July. They are currently discussing – it's my understanding, excuse me – they're currently discussing this question of indexation and there's discussions that this will possibly be resolved earlier than this transportation question. So I think we can possibly expect that we may see an earlier movement in the gas tariffs before we see any changes in the transportation tariff and it's also our understanding from these discussions and the dialogue that's being done with the government that we expect that the indexation coefficient will also compensate us for this time shift. So in other words, if it's done towards the latter part of the year, that indexation will take into consideration that it did not happen July 1.

So I think right now, we should just wait to find out what the ultimate outcome is going to be from the government's discussions. We are actively involved, as you can appreciate, and once this is announced, you obviously will again see it through the news flow and then we'll address it at another conference call how it specifically impacts us. But right now, that's probably the latest information we can share on both the transportation and the gas price indexation.

Alex Fak: Okay, I got you. Thank you.

Mark Gyetvay: Okay.

Operator: Thank you. We will now take the next question from Maxim Moshkov from UBS. Please go ahead.

Maxim Moshkov: Sorry, it's again like a circle now but I have one question, probably quite important, for the oil sector – I am talking about the upcoming auction for the Erginskoye field. So which I think you already expressed an interest then. So Mark, do you think for NOVATEK and potentially jointly with Gazpromneft it will be quite a good combination to bid for this project jointly, maybe SeverEnergia? So how well are you equipped for this potential auction? Can you elaborate if it's possible? Thank you.

Mark Gyetvay: Actually, I think if we elaborate on it, we've already turned our cards over for the auction so I think it's better to wait to see how the auction comes out. We're not going to tip our hat to tell everybody whether or not we're going to bid or not bid on a particular field. I think we would prefer to wait, make our decision jointly and then submit. So I think if I was going to elaborate anything further than that, I think we'd be tipping our hat right now, so I'd prefer not to talk about that.

Maxim Moshkov: Understood, thank you.

Operator: Thank you. We will now take the next question from Evgeniy Khilinskiy from Gazprombank. Please go ahead.

Evgeniy Khilinskiy: Hello Mark, thank you for the presentation and just one question on my side. You said that you are in the process of negotiating with the rating agencies the possible piercing of the sovereign rating. As far as I understand S&P's concerns, and indeed we haven't seen anything on NOVATEK from this agency from quite a long time. So the question is what is, in your opinion, the approximate timing for the next maybe publication or review from S&P? Thank you.

Mark Gyetvay: Okay, maybe I need to clarify myself. I didn't say we were talking to them at this particular point. We haven't had our meetings. I'm just laying out that there's an ability for us to consider this question if we can demonstrate consistent export earnings greater than 50%. So I'm saying that those types of discussions will clearly be had with these agencies, and I'm talking about all three of them, to discuss what opportunities we can have to move up our rating for what is really justified other than being where we are today at sub-investment grade. We're scheduling now, so I mean we're in a process now of scheduling the annual reviews. I can't – I mean we had our S&P review already. It's up to them; we can't determine when they publish or not publish. That's their decision. We provide them with all the information, we provide them with the models of the Group, we have our quarterly liquidity reports and then we schedule our annual reviews. So the annual reviews generally start in the fall, so we should be getting notifications relatively soon to start discussing the upcoming credit meetings. But right now, we have no views from them other than we're just going to apply this factor as part of our discussions because we know this is one of the key criteria that they will use to making a judgment on whether or not an individual company can pierce the sovereign ceiling. I think, you know, we've now demonstrated consecutive quarters, almost two years now or at least a year and a half, of 50% approach and above on export earnings. So I think it's going to be a strong argument and we'd like to see how they view that. But nothing right now. This will be discussed in the upcoming meetings in the fall.

Evgeniy Khilinskiy: Thank you.

Operator: Thank you. As a reminder, to ask a question at this time, please press *1. We will now take the next question from Olga Danilenko from Prosperity. Please go ahead.

Olga Danilenko: Yes, hello, thank you very much for the presentation. I have two questions. The first one, Mark, what do you make of FAS's idea that Gazprom sells gas below regulated price in two regions, Yamalo-Nenetskiy and Khanty-Mansiyskiy regions of Russia? Can it affect your business? And if the answer is yes, in what sense? And my second question is a very broad one. What do you expect regarding taxes on oil, gas, gas condensate, oil products in 2017? Do you think that there may be some changes that can affect your business? Thanks.

Mark Gyetvay: Olga, you're asking a lot of political questions and it's hard to determine exactly what the outcome will be from these particular discussions. But

what we understand from our involvement in these particular questions, I can provide you. What the ultimate outcome is, I think it's best to wait – we just have to wait to see what's published by the government as a fact.

On your first question, you know about the discounts, we've been hearing this story for such a long time and right now it's our position that Gazprom holds the monopoly position on the domestic market as well as owning the unified gas supply system. The discussions about discounts or any flexibility for Gazprom really contradicts the decisions made in November of last year by the Presidential Commission on the Power and Energy Sector in relation to equal economic rights for gas market participants and it also contradicts legislation. So at this particular point, we don't really see this proposal as valid and quite frankly, we feel that the pricing transparency, etc. or this free pricing experiment is already underway at the St Petersburg Mercantile Exchange. So I think we just need to wait to see what the government concludes on that particular point.

On the second question, again, it's a governmental question on taxation. You know, we see changes all the time. It's hard, it's hard to come up with any sort of reasonable explanation because we read the same news as you do; we hear some of the same stories that you hear in the press. We actively participate in some of these discussions but you know, just recently we heard that there's a possibility that the export duties will be lowered next year to confirm this position with the tax manoeuvring. I think it's just, it's hard to make a definitive answer on some of these governmental questions because they're balancing certain questions on budget, and I think it's hard to, it's hard to make that definitive answer to you to say that they will go one way or the other because I think there's budget questions that need to be resolved. So this is another question just like the transportation, the gas pricing, questions on taxation, questions on export access rights, etc. We can't give you definitive answers at this particular point, only when a formal announcement is made by the Russian government that we can clearly see, we can clearly analyse its effect, then we can talk about it. You know, because we can't really – if we're just providing hypothetical situations, I think we create possibly false expectations in the marketplace. So we'd rather wait to see what the actual outcome would be, then we can look at it and assess its impact on our business. So right now, I would prefer that we don't talk about it. We're involved in these discussions, as I said earlier, on questions of gas pricing and transportation, export rights, tariffs, etc. and clearly we're involved in these discussions on the taxation question, particularly when it relates to our business, but I think it's just best to see what the government does and then from that point in time, then we can really get into the definitive impact, whether it's positive or negative to our business, at a later date.

Olga Danilenko: Okay, thank you, much appreciated.

Mark Gyetvay: You're welcome.

Operator: Thank you. There are no further questions in the queue at this time.

Mark Gyetvay: Okay. I would just like to end tonight's conference call on a personal note. Tomorrow is Alexander's last working day at NOVATEK as he has decided to leave the company for personal reasons. You know, obviously I have mixed emotions about this announcement as we have worked very closely together for the past four years to share the story of NOVATEK to the investment community, but I understand his reasons for leaving. Alexander has clearly demonstrated to me a very high level of professionalism that I sought to manage the IR department at NOVATEK, someone who has effectively communicated with our shareholder base, someone who has engaged with the analytical community, someone who has instilled the trust and responsiveness that I believe is the hallmark of an effective IR function. It's hard to believe that four years have passed so quickly, but I wanted to sincerely thank him for his contributions to the company and to myself over this period and I wanted to personally wish him much success and happiness in his future career developments, and I hope that everybody on the call tonight that has worked closely with him will also offer the same, you know, condolences I guess for leaving NOVATEK – but best wishes for his future new job.

With that said, thank you very much and we look forward to the next conference call.

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