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## Second Quarter 2014 Operational and Financial Results Conference Call

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**Mark A. Gyetvay, Deputy Chairman of the Management Board**  
**Moscow, Russian Federation**  
**31 July 2014**

# Disclaimer – Forward Looking Statement

Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors.

The forward-looking statements in this presentation are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the face of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- inherent uncertainties in interpreting geophysical data;
- commercial negotiations regarding oil and gas sales contracts;
- changes to project schedules and estimated completion dates;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our success in identifying and managing risks to our businesses;
- our ability to obtain necessary regulatory approvals for our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the Prosecutor General and his office;
- the effects of international political events;
- the effects of technological changes;
- the effects of changes in accounting standards or practices; and
- inflation, interest rate and exchange rate fluctuations.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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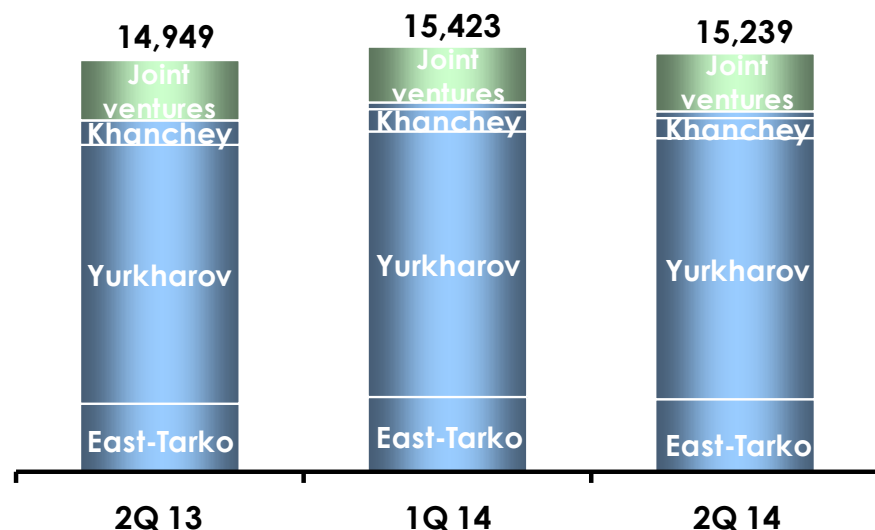
# Summary Highlights – 2Q 2014

- ❑ **Increase in revenues** driven by higher natural gas prices and sales volumes, as well as the commencement of higher value added product sales from the Ust-Luga Complex:
  - Natural gas sales increased Y-o-Y by 24.9%
  - Liquids sales increased Y-o-Y by 129.8%
- ❑ **EBITDA increased** Y-o-Y by 72.1%
- ❑ **Cash flow from operations increased** Y-o-Y by 50.1% to RR 23,657 million from RR 15,758 million
- ❑ **Capital expenditures increased** Y-o-Y by 12.6% to RR 19,576 million
- ❑ **EPS** *(net of the effect from the disposal of interests in JVs)* **increased** Y-o-Y by 176.3% and Q-o-Q by 38.9% to RR 10.58
- ❑ **Natural gas production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 1.9%
- ❑ **Liquids production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 15.6%
- ❑ **Purovsky Plant output** increased Y-o-Y by 16.6%
- ❑ In July 2013, we **commenced our gas condensate refined product sales** – in 2Q 14 we sold 1,087 mt of naphtha, jet fuel, gasoil and fuel oil to international markets

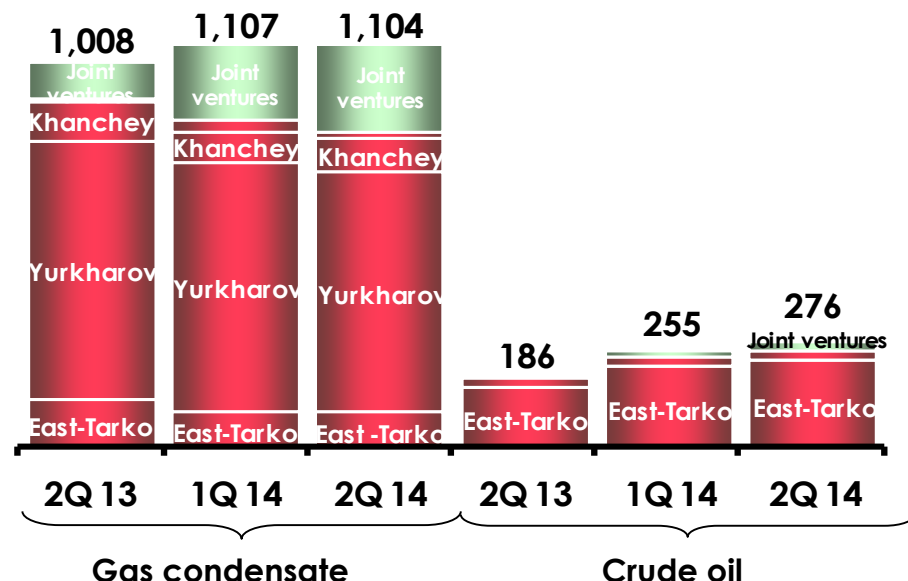
# Operational Overview

# Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



## Natural gas production increased Y-o-Y due to:

- Increase in production at our Urengoyskoye and Dobrovolskoye fields, located within the Olimpiyskiy license area launched in December 2013
- Intensification of natural gas production at Yurkharov and East-Tarko fields
- Partially offset by Sibneftegas disposal in December 2013 and natural declines in the reservoir pressure at the gas producing horizons at our Khanchey field

## Liquids production increased Y-o-Y due to:

- Increase in crude oil production at our East-Tarko field due to new wells drilled and geotechnical works performed
- Increase in our joint ventures production due to the launch of the Eastern dome of the North-Urengoyskoye field at Nortgas in October 2013, as well as an increase in the effective share in SeverEnergiya from 25.5% to 54.9%
- Launch of the Dobrovolskoye field at the end of 2013
- Partially offset by a decrease in gas condensate production at our mature fields (Yurkharov, East-Tarko and Khanchey) due to natural decline in the share of gas condensate in the extracted hydrocarbon mix

# Purovsky Plant

## ■ Total volumes delivered: 1,429 mt

- Yurkharovskoye field: 632 mt
- East-Tarkosalinskoye and Khancheyskoye fields: 212 mt
- Purchases from our joint ventures: 564 mt
- Other fields: 21 mt

## ■ Total plant output: 1,400 mt

- Stable gas condensate (SGC): 1,077 mt
- LPG: 323 mt

## ■ Export sales volumes of LPG: 42% of total LPG sales volumes



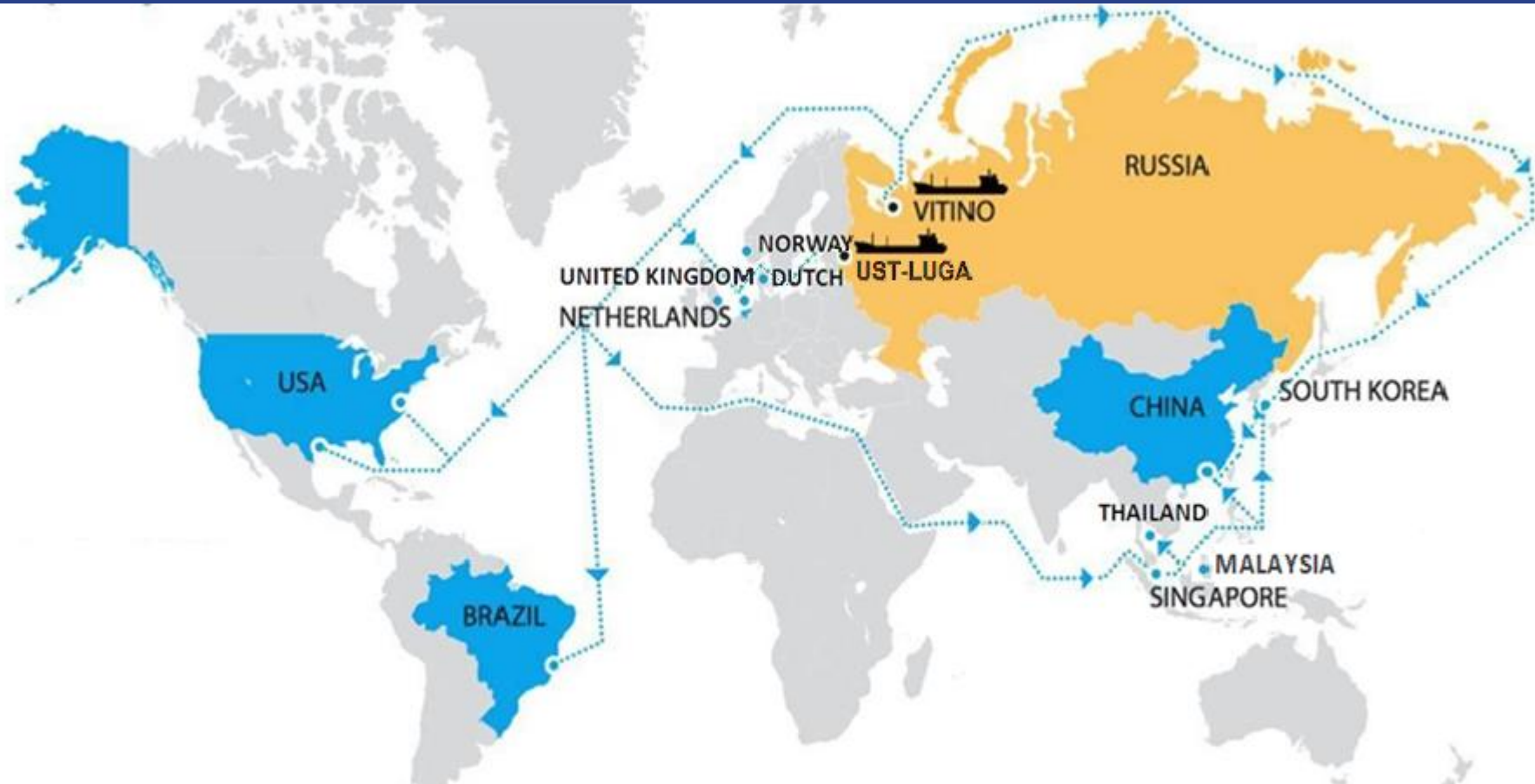


# Ust-Luga Complex

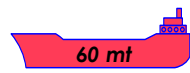
- ❑ **Total volumes delivered: 1,031 mt**
- ❑ **Total output of marketable gas condensate refined products: 1,014 mt**
  - Naphtha: 807 mt
  - Other products: 207 mt
- ❑ **959 mt of gas condensate refined products were dispatched**
  - to the Asia Pacific Region: 455 mt
  - to Europe: 376 mt
  - other: 128 mt
- ❑ **Gas condensate refined products inventory reconciliation**
  - Ust-Luga Complex storage facilities: 152 mt
  - Tankers in transit: 25 mt of naphtha



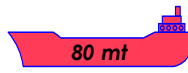
# Liquids in Transit



**“Goods in transit”**  
30.06.2013  
~ 140 thousand tons

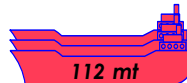


South Korea  
(SGC)

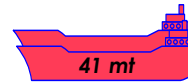


South America  
(Naphtha)

**“Goods in transit”**  
31.03.2014  
~ 153 thousand tons



Japan  
(Naphtha)



USA  
(Naphtha)

**“Goods in transit”**  
30.06.2014  
~ 25 thousand tons



Singapore  
(Naphtha)



## Financial Overview – 2Q 14 vs. 2Q 13

# Comparison of Quarterly Results (RR million)

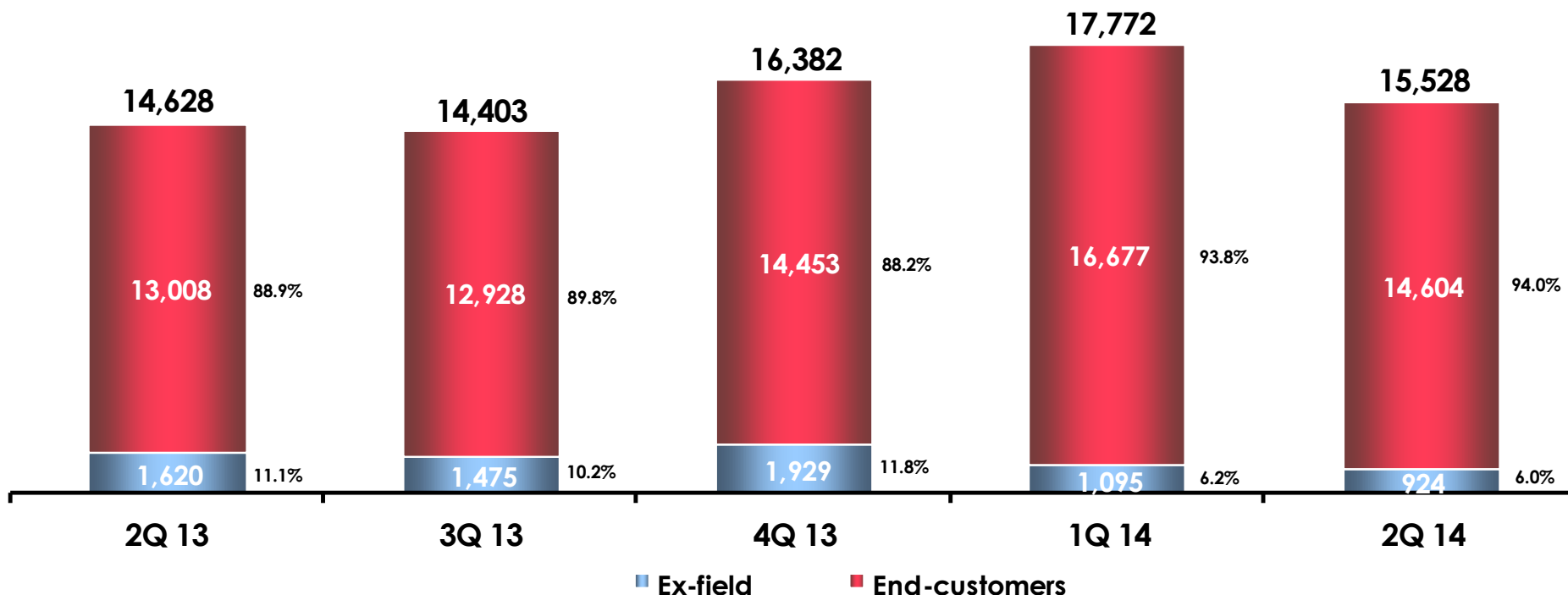
	2Q 13	3Q 13	4Q 13	1Q 14*	2Q 14	Q-o-Q +/- %	Y-o-Y +/- %
Oil and gas sales	57,918	75,541	83,592	88,533	87,881	-0.7%	51.7%
Total revenues	58,030	75,648	83,915	88,676	88,370	-0.3%	52.3%
Operating expenses	(39,613)	(47,080)	(55,012)	(53,875)	(55,670)	3.3%	40.5%
EBITDA <sup>(1)</sup>	23,426	34,428	74,305	45,602	40,323	-11.6%	72.1%
Normalized EBITDA <sup>(2)</sup>	23,426	34,428	36,656	42,979	40,323	-6.2%	72.1%
EBITDA margin	40.4%	45.5%	88.5%	51.4%	45.6%		
Normalized EBITDA margin <sup>(2)</sup>	40.4%	45.5%	43.7%	48.5%	45.6%		
Effective income tax rate <sup>(3)</sup>	19.9%	19.8%	19.8%	19.8%	18.4%		
Profit attributable to NOVATEK	11,602	23,458	52,120	25,155	31,950	27.0%	175.4%
Normalized profit attributable to NOVATEK <sup>(2)</sup>	11,602	23,458	21,939	23,056	31,950	38.6%	175.4%
Profit margin	20.0%	31.0%	62.1%	28.4%	36.2%		
Normalized profit margin <sup>(2)</sup>	20.0%	31.0%	26.1%	26.0%	36.2%		
Earnings per share	3.83	7.75	17.21	8.31	10.58	27.3%	176.3%
Normalized earnings per share <sup>(2)</sup>	3.83	7.75	7.25	7.62	10.58	38.9%	176.3%
CAPEX <sup>(4)</sup>	17,393	16,276	14,321	13,727	19,576	42.6%	12.6%
Net debt <sup>(5)</sup>	127,658	130,408	157,732	125,087	114,496	-8.5%	-10.3%

\* Profit attributable to NOVATEK for 1Q 14 differs from previously reported due to a RR 40 million increase in the Group's share of profit (loss) of joint ventures net of income tax for the three months ended 31 March 2014, which resulted from the decrease of depreciation in SeverEnergiya

Notes:

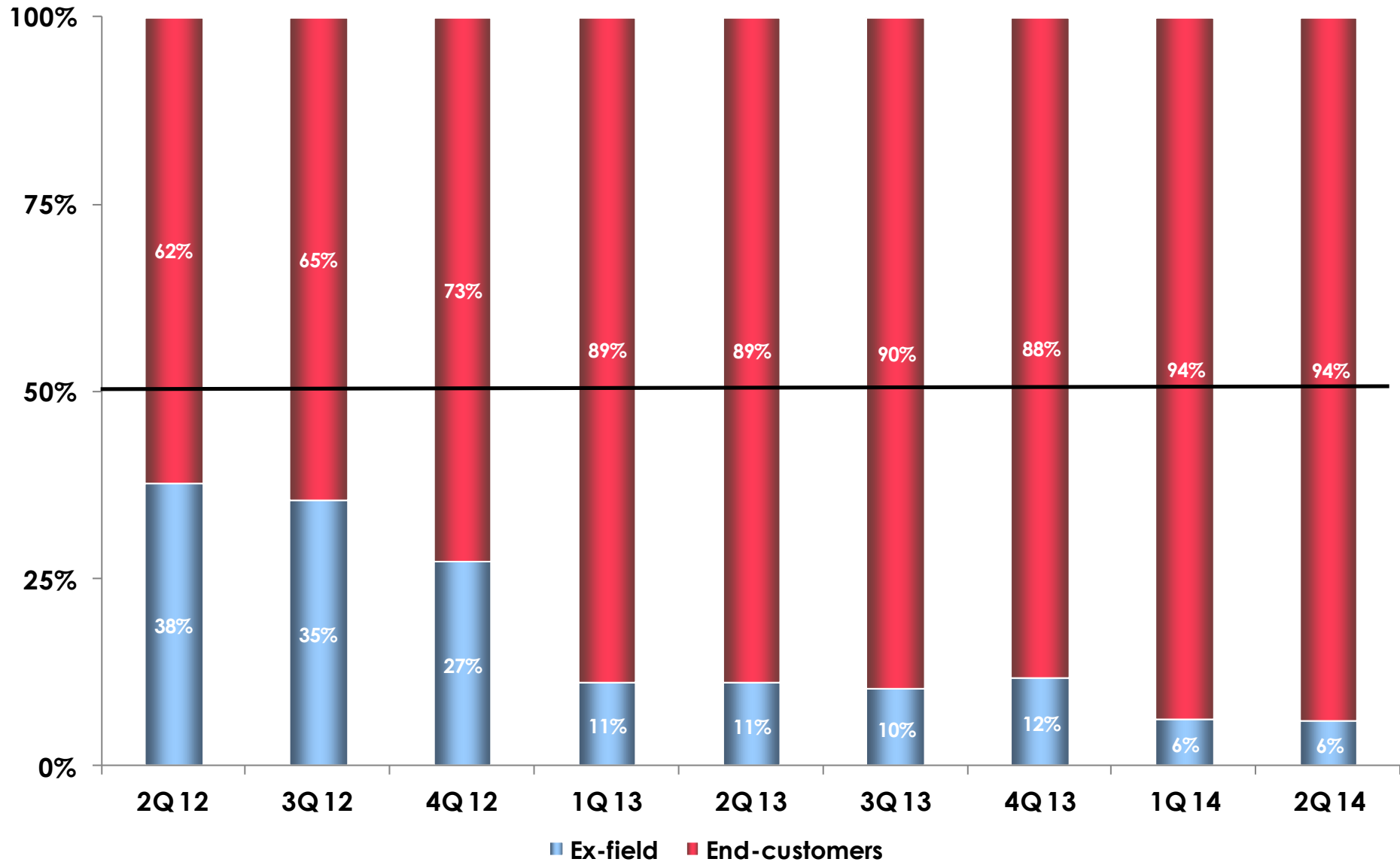
1. EBITDA includes our proportionate share in the EBITDA of our joint ventures and represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the add-back of net impairment expenses (reversals), depreciation, depletion and amortization, income tax expense, share of profit (loss) of joint ventures, net of income tax and finance income (expense) from the Consolidated Statement of Income, income (loss) from changes in fair value of derivative financial instruments
2. Excluding the effect from the disposal of interest in joint ventures and subsidiaries
3. Effective income tax rate in 2Q 14 is lower than the Russian statutory rate of 20% mainly due to the Group's ability to use an incentive income tax rate of 15.5% in relation to a number of Group's investment projects included in the list of priority projects by regional tax authorities
4. CAPEX represents additions to property, plant and equipment excluding payments for mineral licenses
5. Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents

# Market Distribution – Gas Sales Volumes (mmcm)

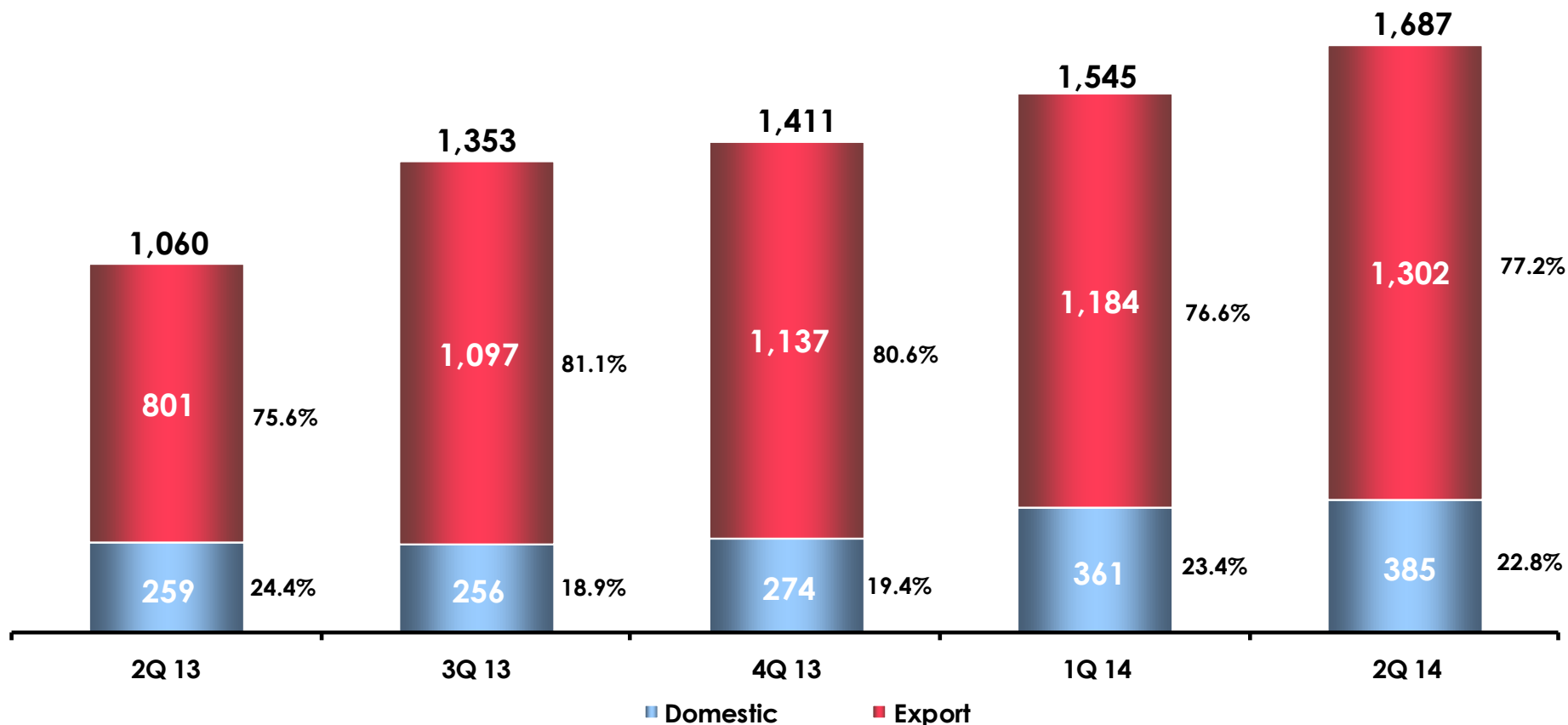


- Y-o-Y increase in natural gas sales volumes was due to production growth at our Olimpiyskiy license area, the Yurkharovskoye and East-Tarkosalinskoye fields as well as lower volumes of natural gas injected into the underground gas storage facilities (UGSF). Lower volumes of natural gas injected into UGSF during 2Q 14 resulted from sufficient quantities of natural gas inventory as at the end of 2Q 14 to fulfill our contractual obligations
- Our proportion of natural gas sold to end-customers increased Y-o-Y due to the cessation of natural gas deliveries to one of the major traders in December 2013. In addition, we significantly increased natural gas deliveries to our end-customers located at the Khanti-Mansiyskiy Autonomous Region under long-term natural gas sales contracts

# Natural Gas Sales Volume Mix



# Market Distribution – Liquids Sales Volumes (mt)

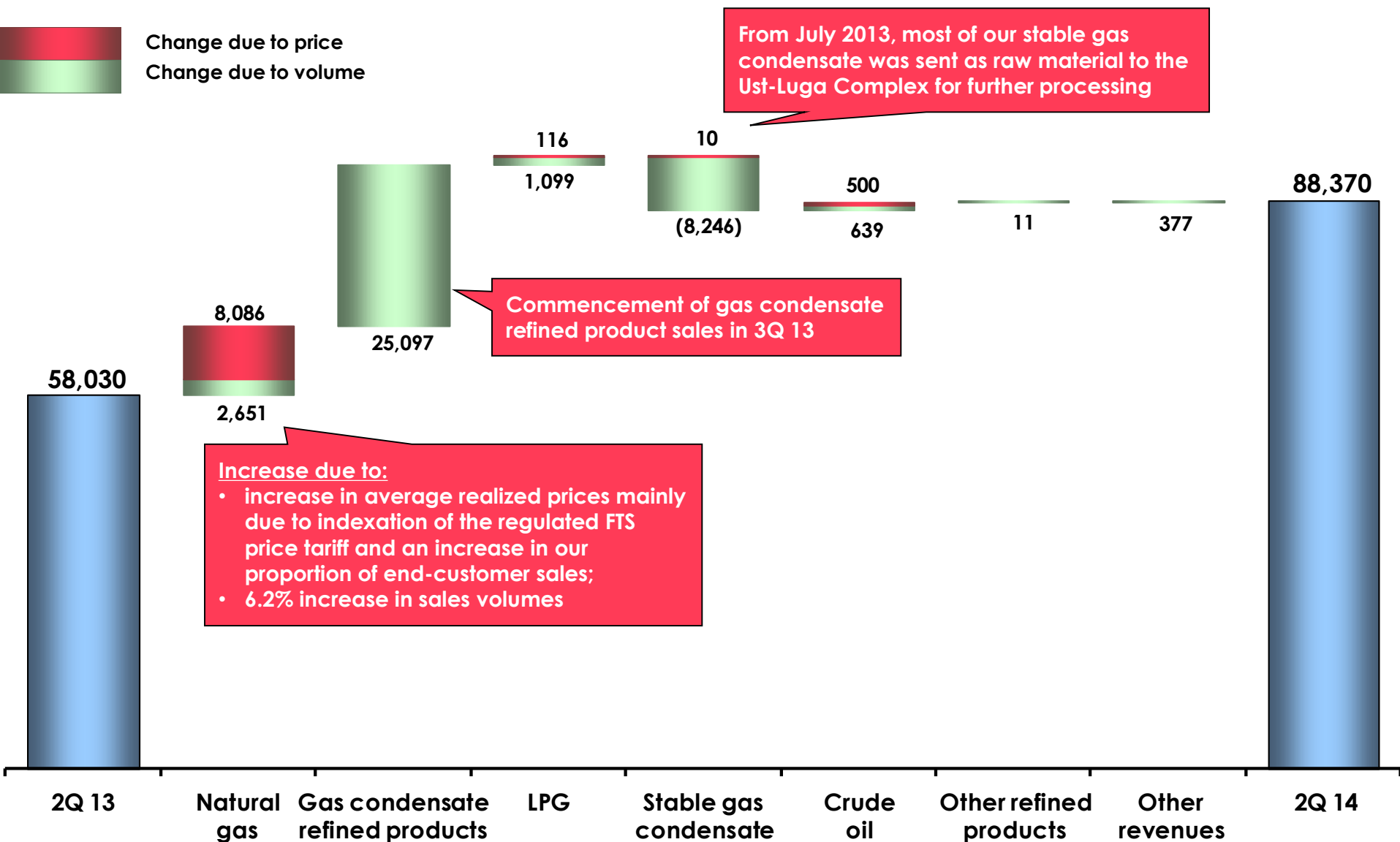


Y-o-Y increase in liquids sales volumes was due to:

- an increase in unstable gas condensate production in our joint ventures and crude oil production in our subsidiaries
- a significant increase in liquids inventory balances of raw materials during 2Q 13 as a result of the launch of the Ust-Luga Complex in June 2013



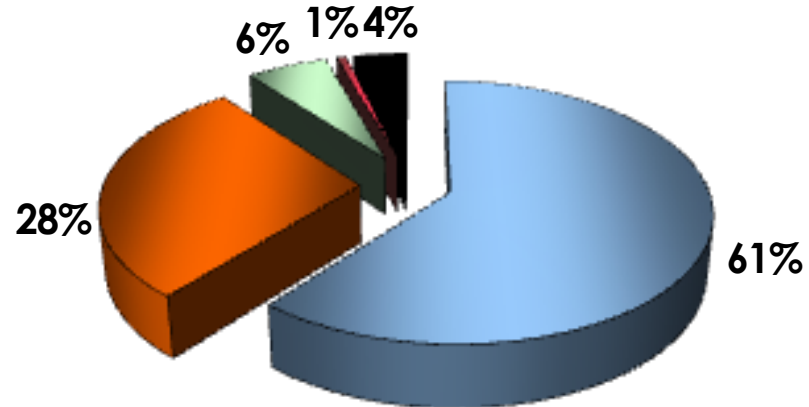
# Total Revenues (RR million)



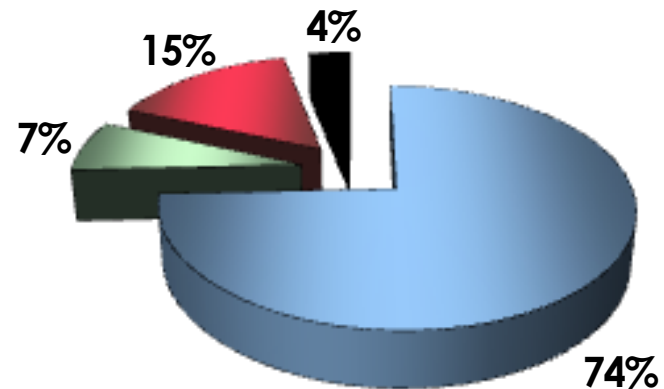
# Total Revenues Breakdown

- Natural gas
- Gas condensate refined products
- LPG
- Stable gas condensate
- Other

2Q 14



2Q 13



# Realized Hydrocarbon Prices (net of VAT and export duties)

2Q 13	2Q 14	+ / (-)	+ / (-) %		1Q 14	2Q 14	+ / (-)	+ / (-) %
<b><u>Domestic prices</u></b>								
3,117	3,571	454	14.6%	<b>Natural gas end-customers, RR/mcm</b>	3,400	3,571	171	5.0%
1,581	1,834	253	16.0%	<b>Natural gas ex-field, RR/mcm</b>	1,834	1,834	-	0.0%
11,661	14,220	2,559	21.9%	<b>Stable gas condensate, RR/ton</b>	13,724	14,220	496	3.6%
13,250	12,351	(899)	-6.8%	<b>LPG, RR/ton</b>	13,443	12,351	(1,092)	-8.1%
10,654	12,950	2,296	21.6%	<b>Crude oil, RR/ton</b>	13,032	12,950	(82)	-0.6%
<b><u>Export market</u></b>								
14,114	-	n/a	n/a	<b>Stable gas condensate, RR/ton</b>	-	-	n/a	n/a
-	23,144	n/a	n/a	<b>Naphtha, RR/ton</b>	21,263	23,144	1,881	8.8%
-	22,844	n/a	n/a	<b>Other gas condensate refined products, RR/ton</b>	22,876	22,844	(32)	-0.1%
17,750	21,133	3,383	19.1%	<b>LPG, RR/ton</b>	21,074	21,133	59	0.3%
11,165	13,352	2,187	19.6%	<b>Crude oil, RR/ton</b>	13,511	13,352	(159)	-1.2%

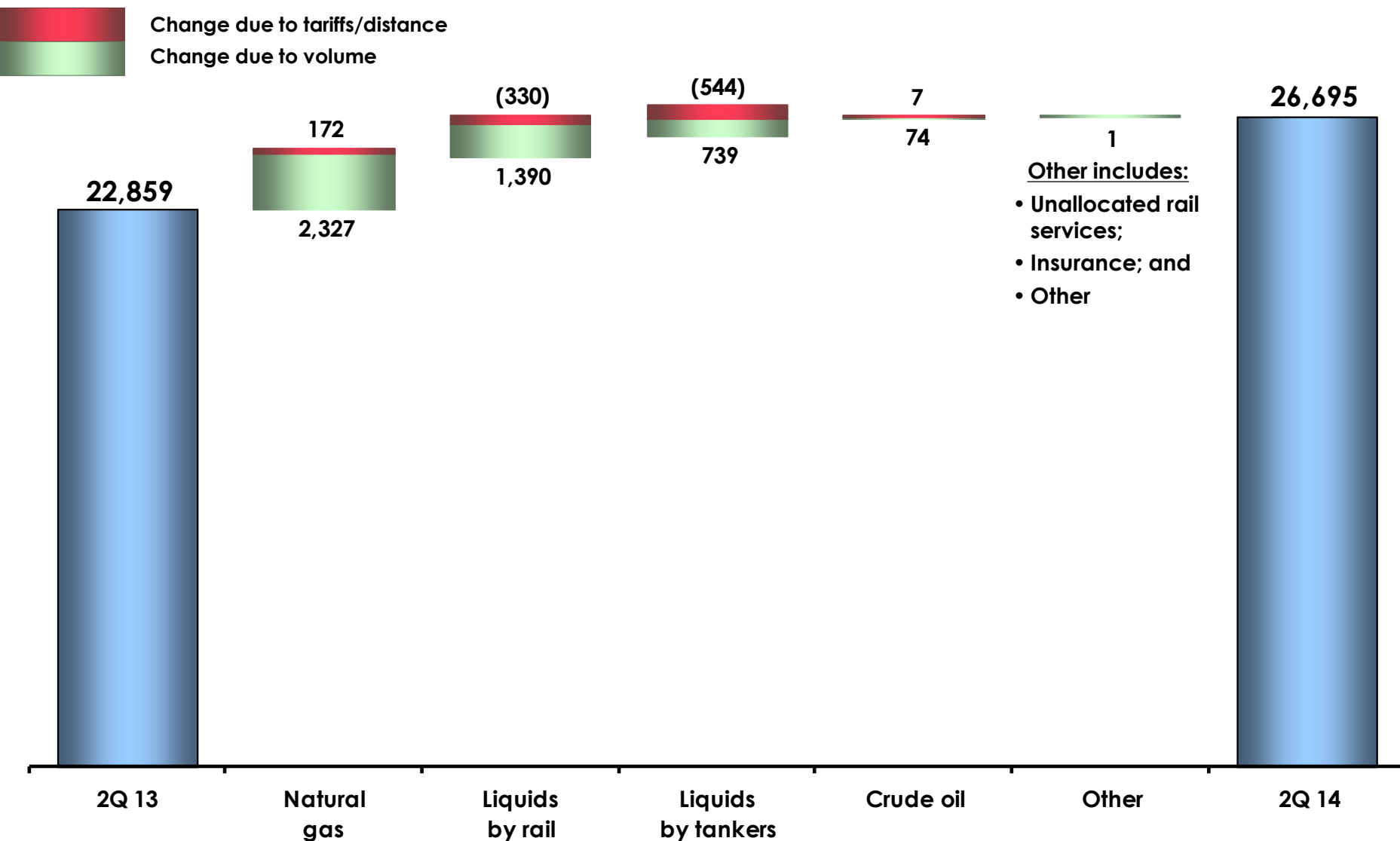
Note: Prices are shown excluding trading activities

# Operating Expenses (RR million and % of Total Revenues (TR))

2Q 13	% of TR	2Q 14	% of TR		1Q 14	% of TR	2Q 14	% of TR
22,859	39.4%	26,695	30.2%	Transportation expenses	27,657	31.2%	26,695	30.2%
4,436	7.6%	7,353	8.3%	Taxes other than income tax	7,508	8.5%	7,353	8.3%
27,295	47.0%	34,048	38.5%	<b>Non-controllable expenses</b>	35,165	39.7%	34,048	38.5%
3,054	5.3%	4,167	4.7%	Depreciation and amortization	4,056	4.6%	4,167	4.7%
2,258	3.9%	3,155	3.6%	General and administrative	2,612	2.9%	3,155	3.6%
1,866	3.2%	2,909	3.3%	Materials, services & other	2,340	2.6%	2,909	3.3%
				Net impairment expenses (reversals)	(586)	n/m	22	n/m
68	n/m	22	n/m	Exploration expenses	8	n/m	3	n/m
239	0.4%	3	n/m	Change in natural gas, liquids and WIP				
(2,057)	n/m	(493)	n/m		1,228	1.4%	(493)	n/m
32,723	56.4%	43,811	49.6%	<b>Subtotal operating expenses</b>	44,823	50.6%	43,811	49.6%
				Purchases of natural gas and liquid hydrocarbons				
6,890	11.9%	11,859	13.4%		9,052	10.2%	11,859	13.4%
39,613	68.3%	55,670	63.0%	<b>Total operating expenses</b>	53,875	60.8%	55,670	63.0%

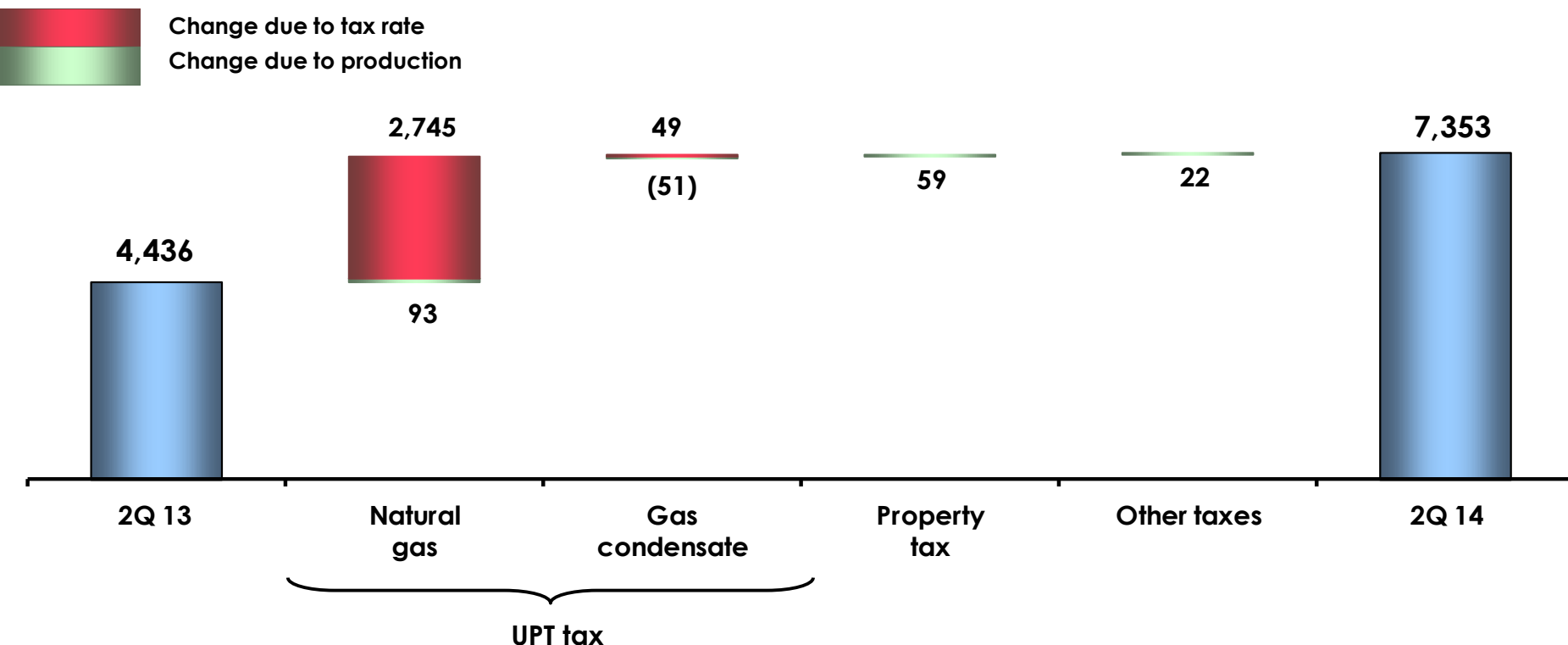
- Operating expenses increased Y-o-Y by 40.5% primarily due to an increase in purchases of natural gas and liquid hydrocarbons from our joint ventures and related parties, transportation expenses and taxes other than income tax
- Our hydrocarbon purchases increased Y-o-Y by 72.1% due primarily to an increase in purchases of unstable gas condensate and natural gas from Nortgas that was partially offset by a decrease in natural gas purchases from Sibneftegas as a result of its disposal in December 2013
- Transportation expenses increased Y-o-Y by 16.8% mainly due to an increase in the natural gas volumes sold to end-customers with associated transportation expenses, as well as increased liquid hydrocarbons volumes transported

# Transportation Expenses (RR million)



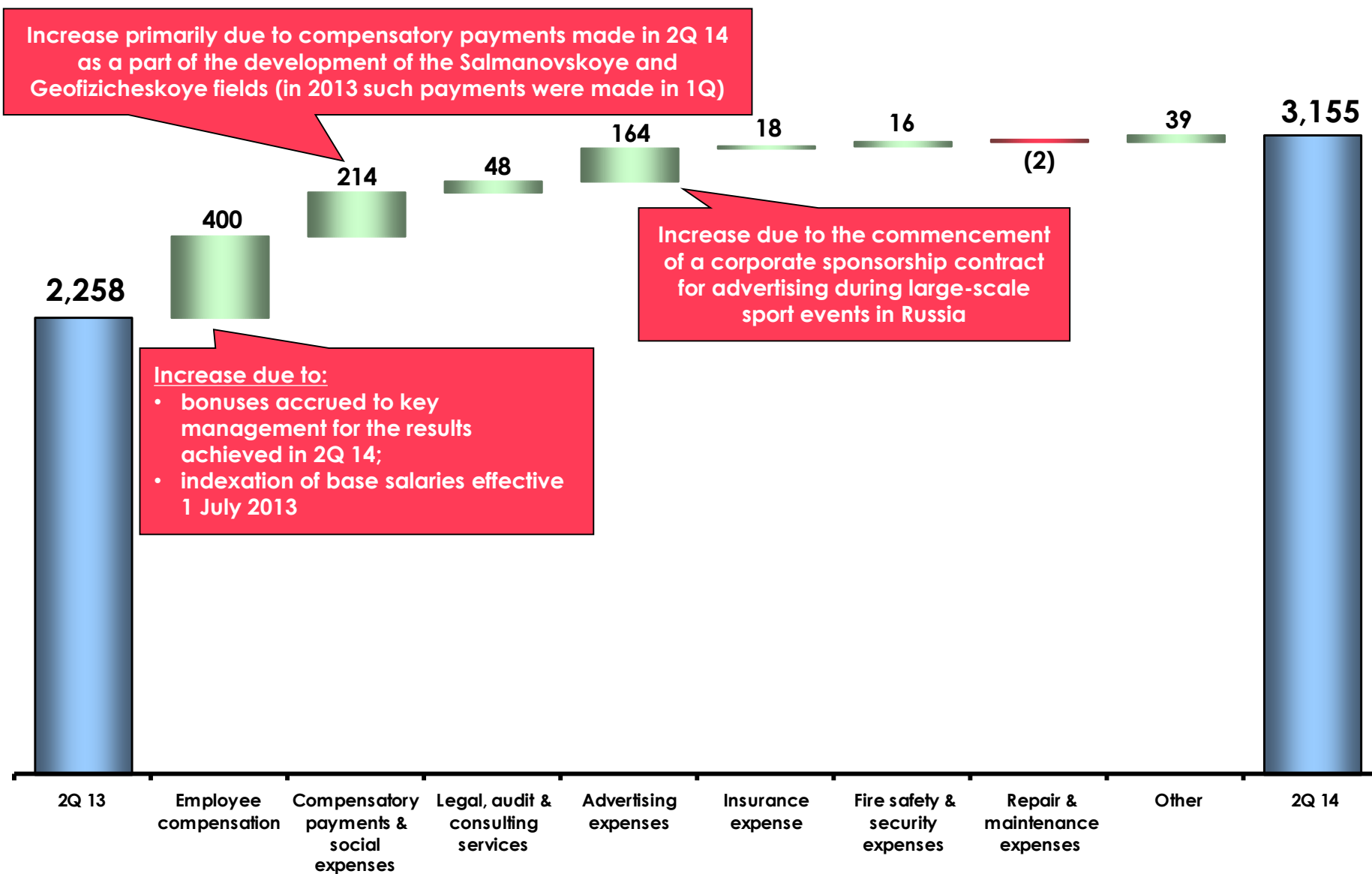


# Taxes Other Than Income Tax Expense (RR million)

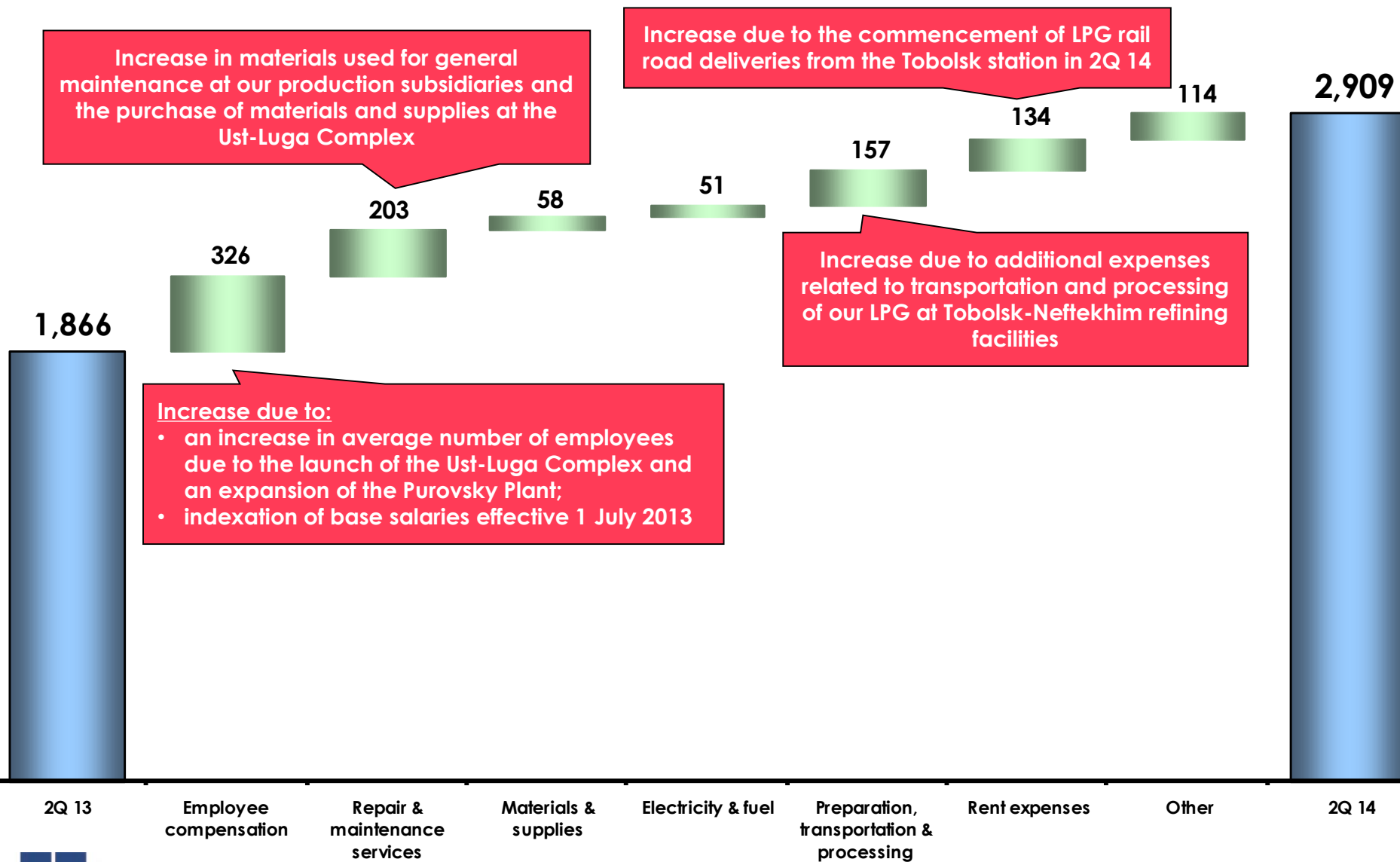


- ❑ The increase in UPT expense was primarily due to a 51.7% and a 17.2% increases in the natural gas production tax rate effective from 1 July 2013 and 1 January 2014, respectively
- ❑ We applied a zero UPT rate for crude oil produced at our Yurkharov, East-Tarko and Khanchey fields according to the Russian Tax Code in both reporting periods
- ❑ The increase in property tax expense was due to additions to property, plant and equipment at our production subsidiaries

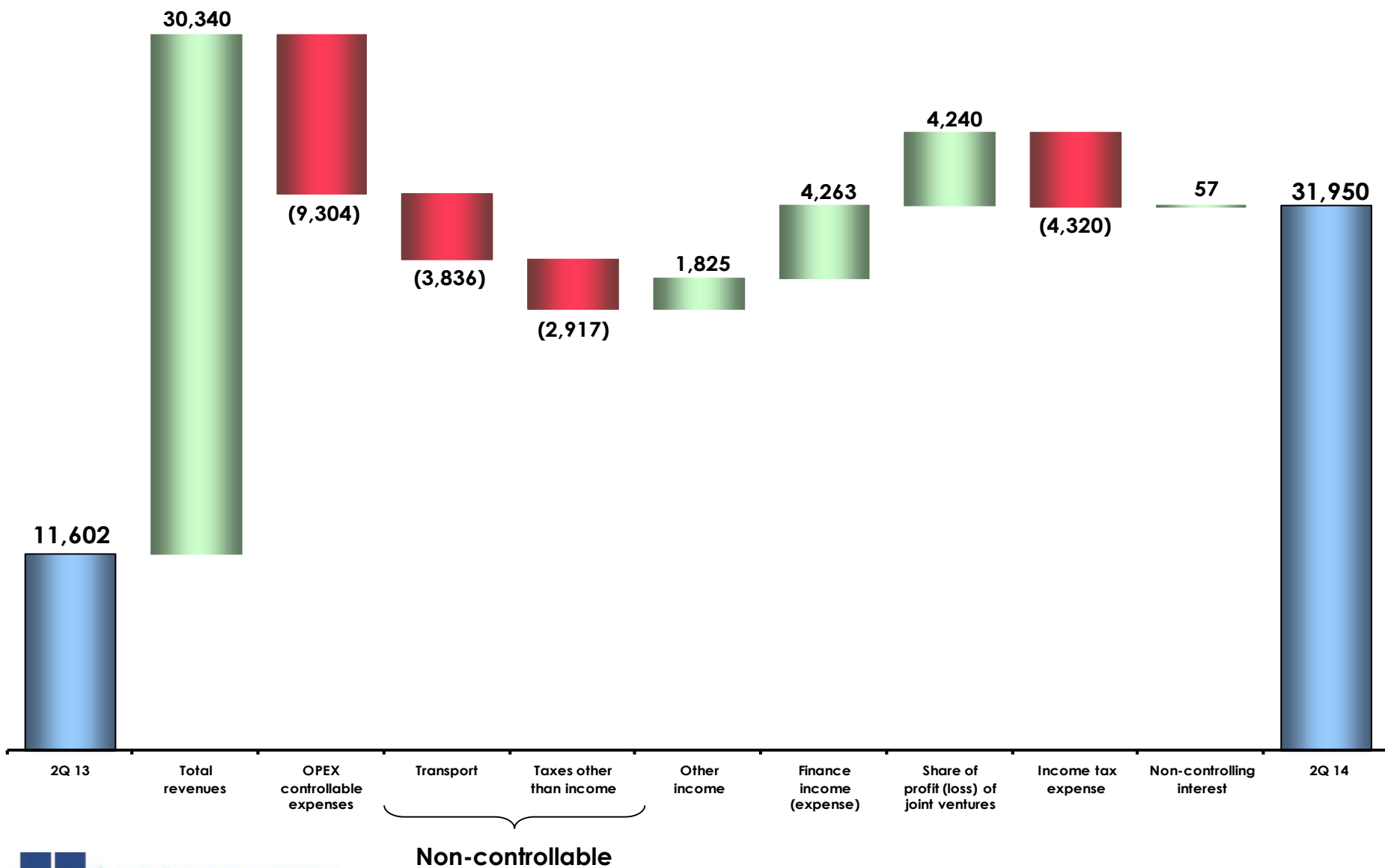
# General and Administrative Expenses (RR million)



# Materials, Services and Other Expenses (RR million)



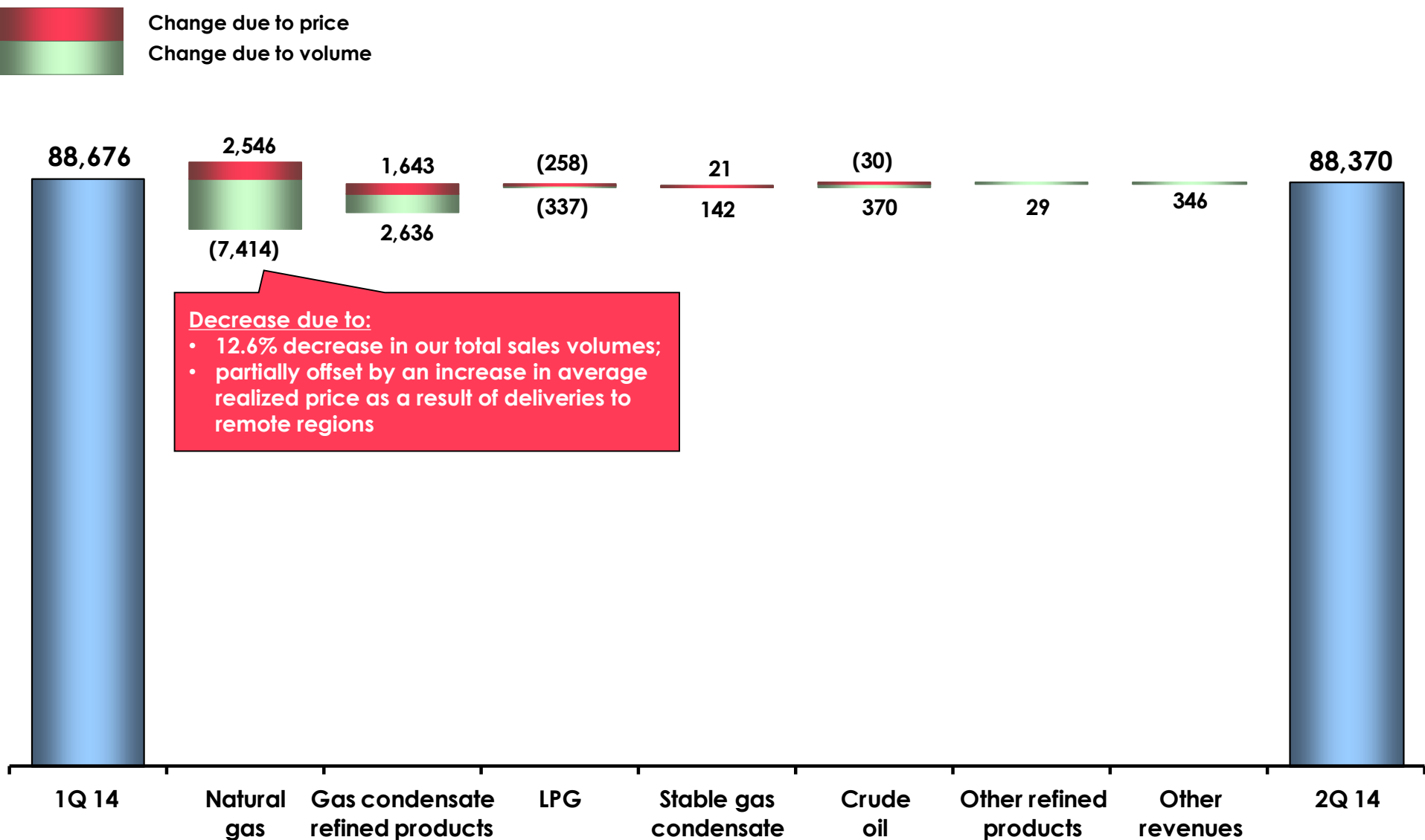
# Profit Attributable to NOVATEK Shareholders (RR million)



## Financial Overview – 2Q 14 vs. 1Q 14

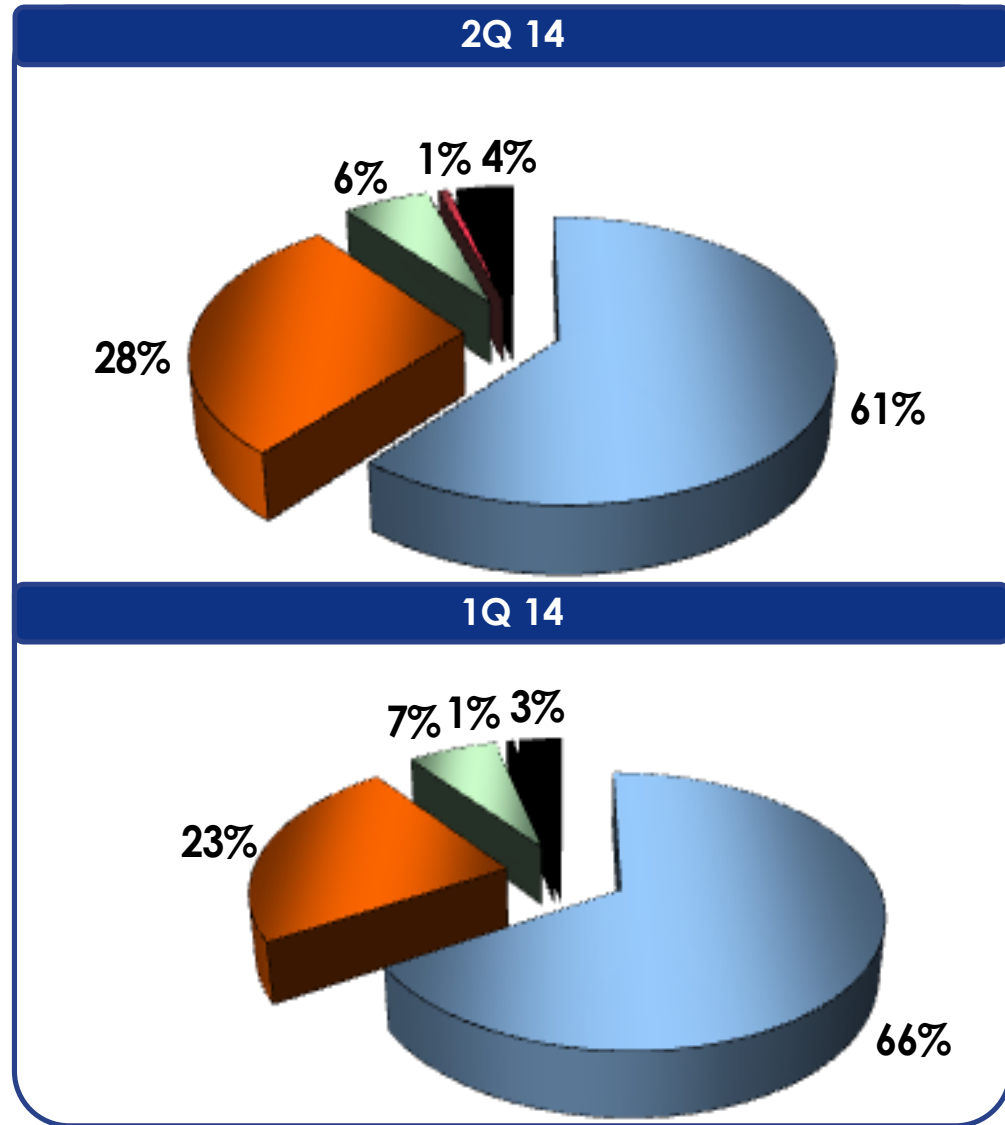


# Total Revenues (RR million)

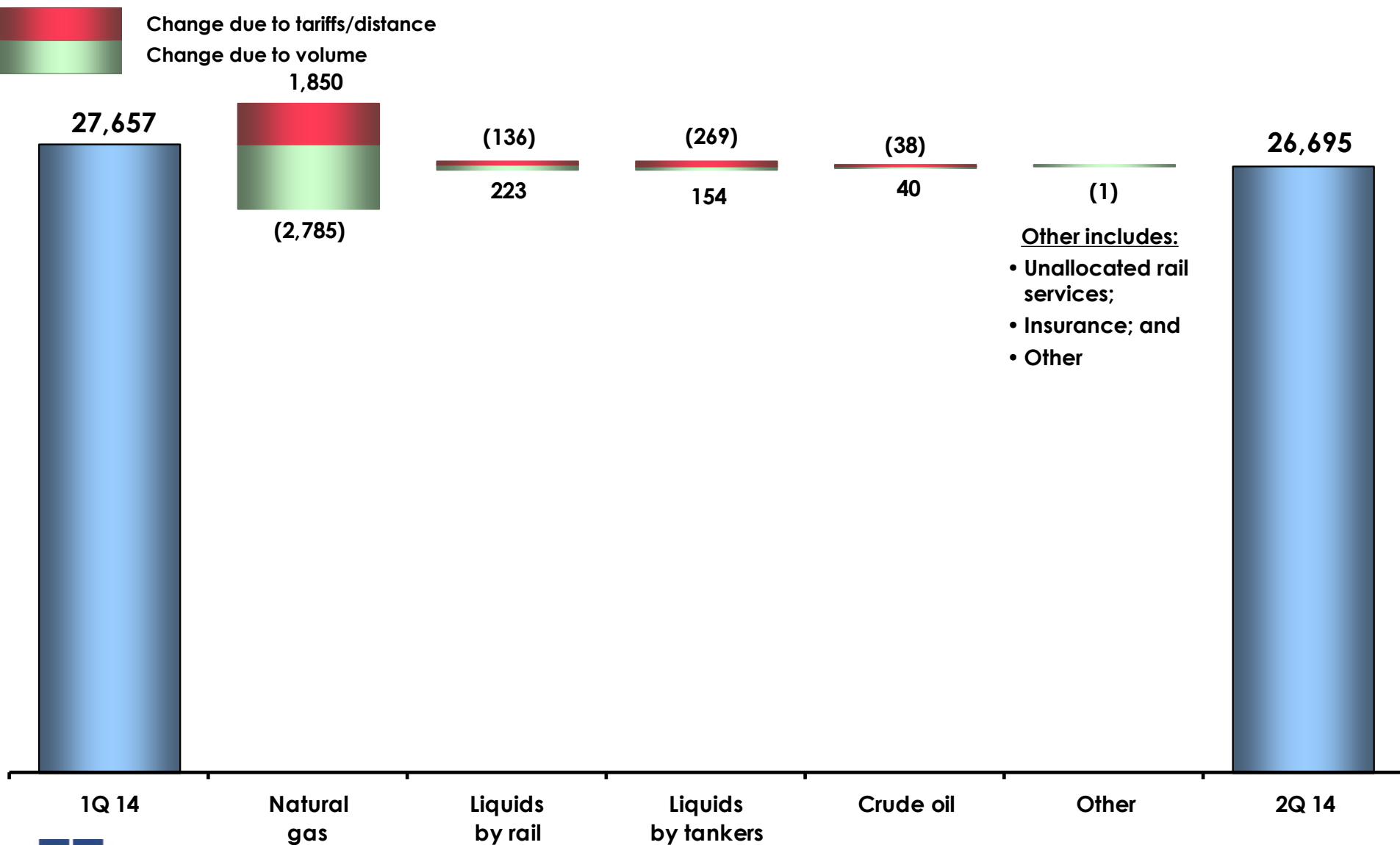


# Total Revenues Breakdown

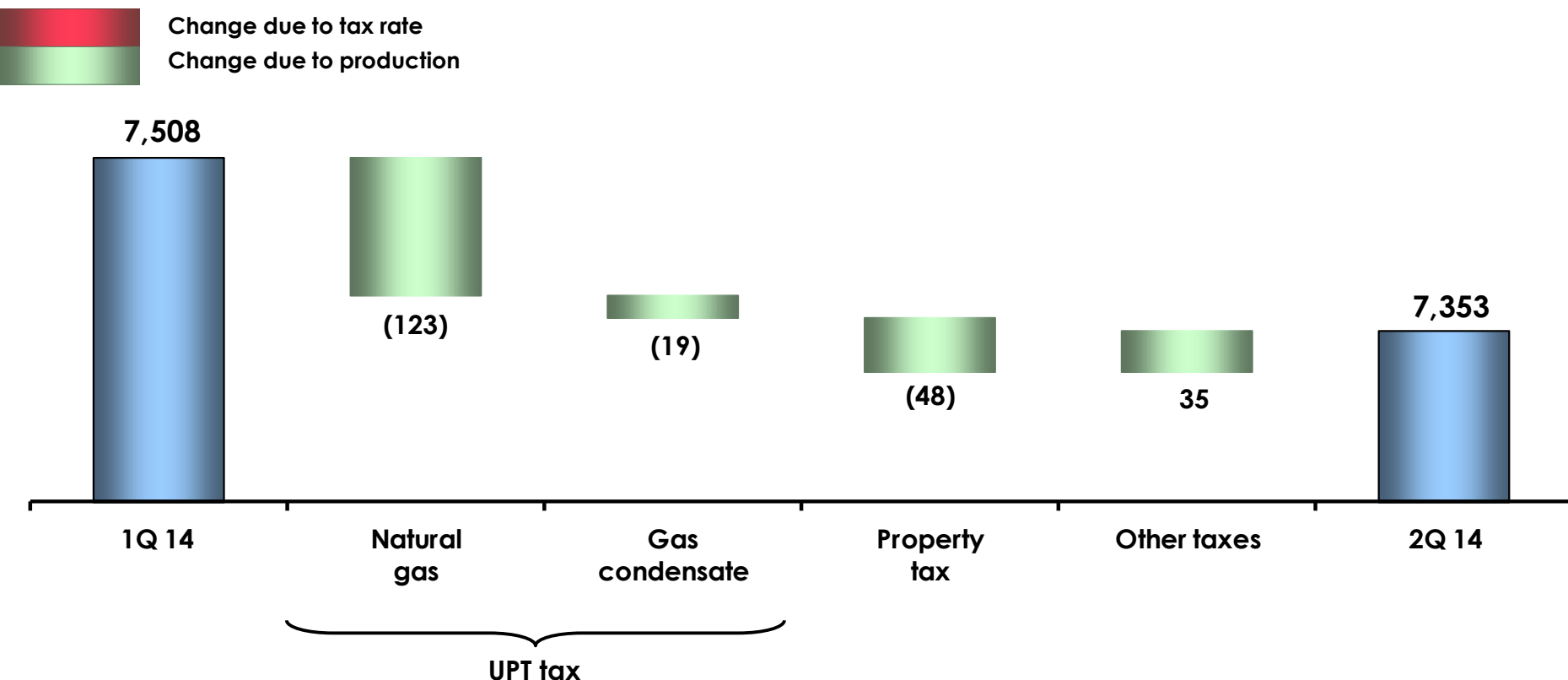
- Natural gas
- Gas condensate refined products
- LPG
- Stable gas condensate
- Other



# Transportation Expenses (RR million)

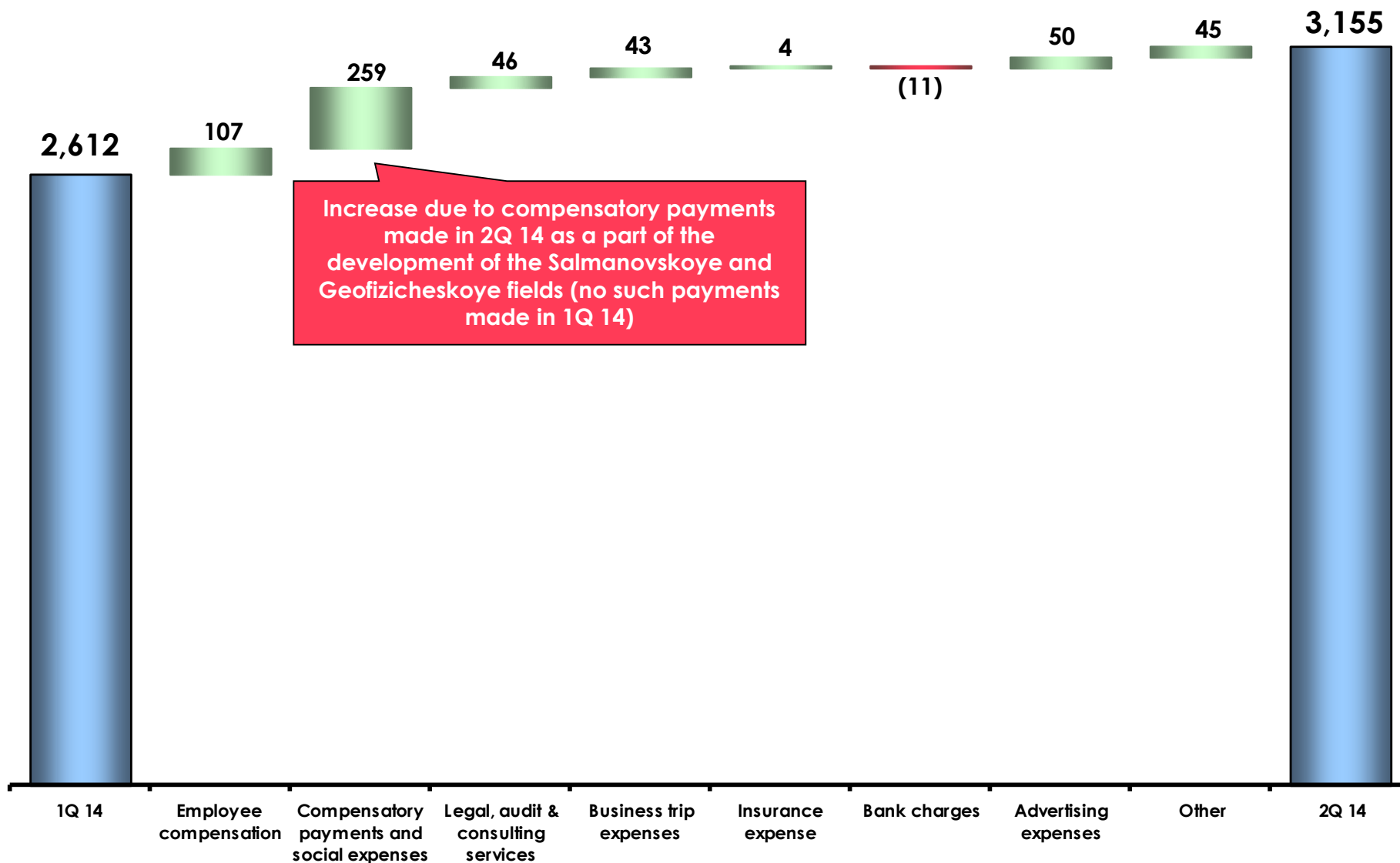


# Taxes Other Than Income Tax Expense (RR million)



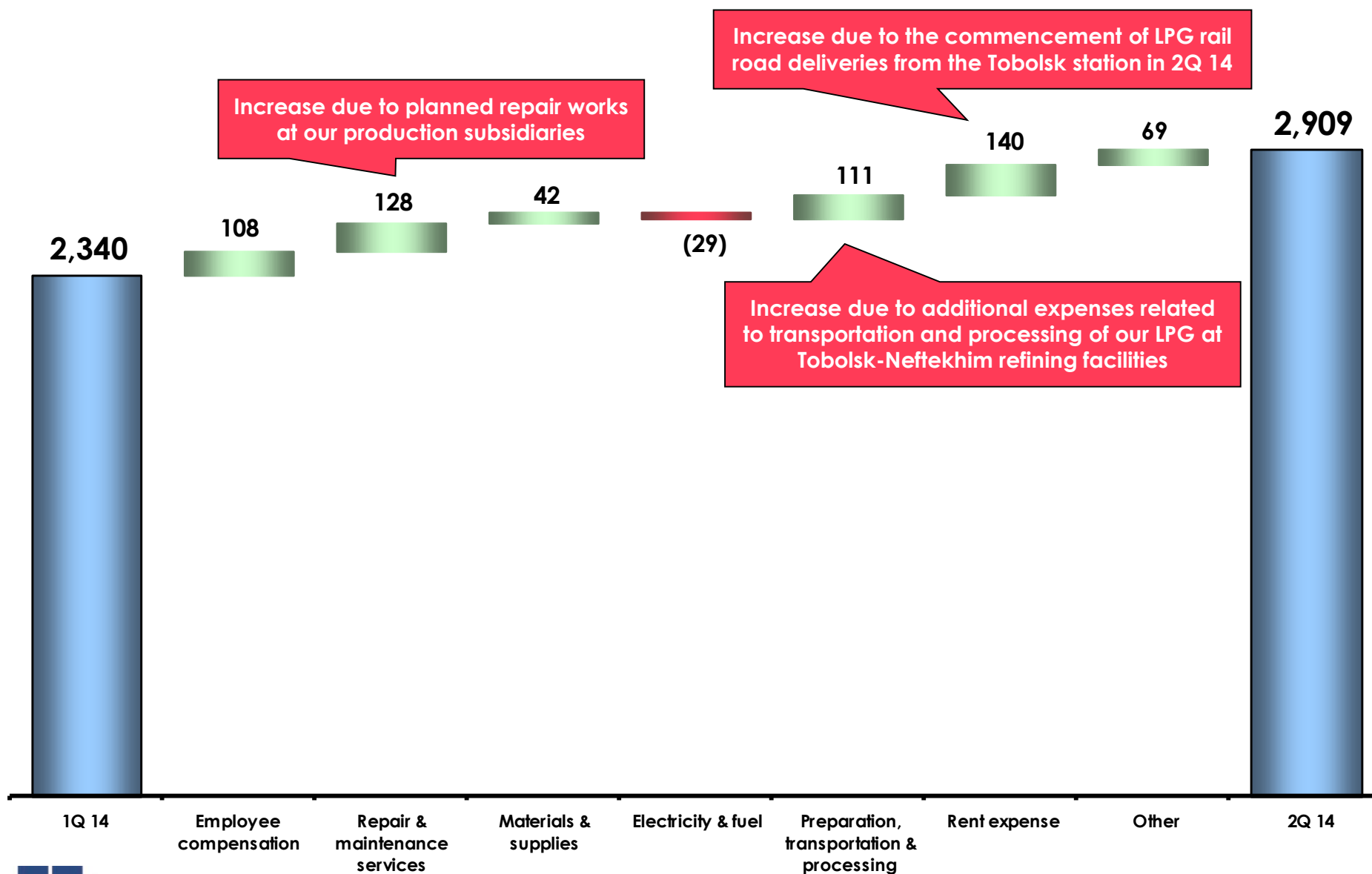
- ❑ The decrease in UPT expense was primarily due to a 2.0% and 3.4% decrease in natural gas and gas condensate production
- ❑ We applied a zero UPT rate for crude oil produced at our Yurkharov, East-Tarko and Khanchey fields according to the Russian Tax Code in both reporting periods

# General and Administrative Expenses (RR million)





# Materials, Services and Other Expenses (RR million)

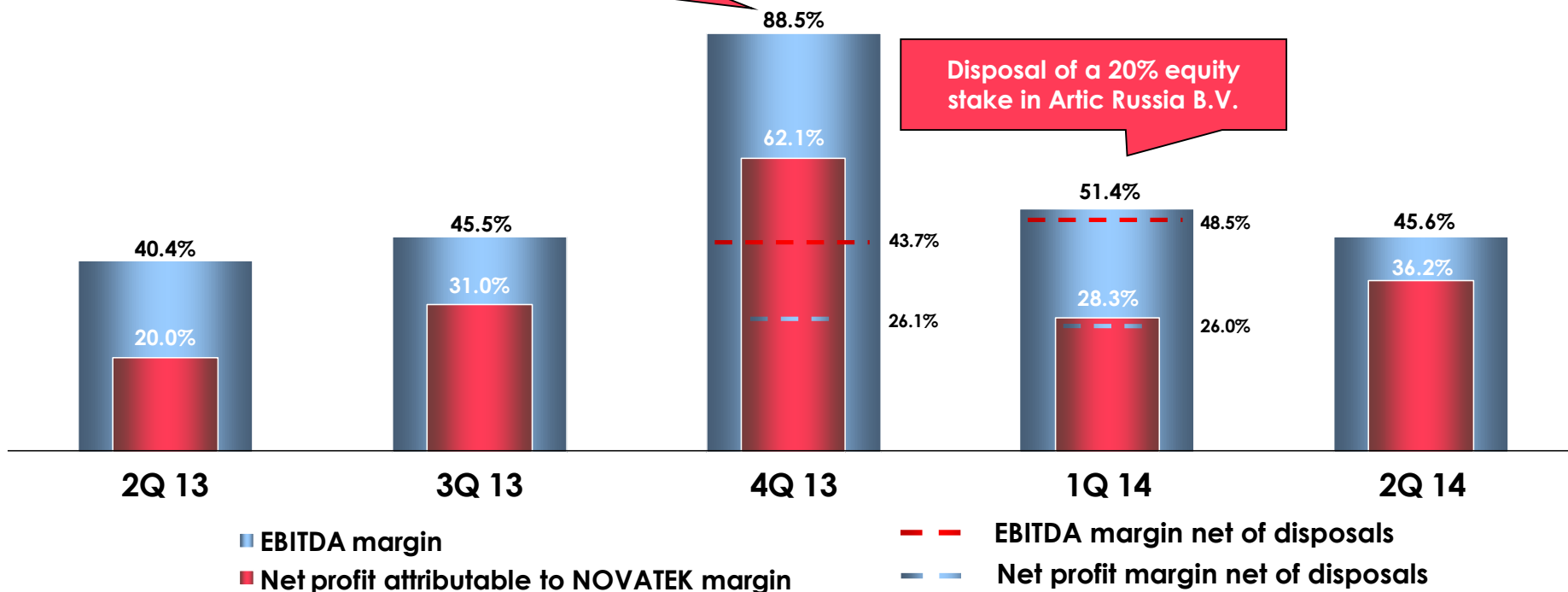


# Appendices

# Maintaining Margins (% of total revenues)

Disposal of a 51% equity stake in OAO Sibneftegas under the assets swap agreement and 20% equity stake in OAO Yamal LNG

Disposal of a 20% equity stake in Artic Russia B.V.

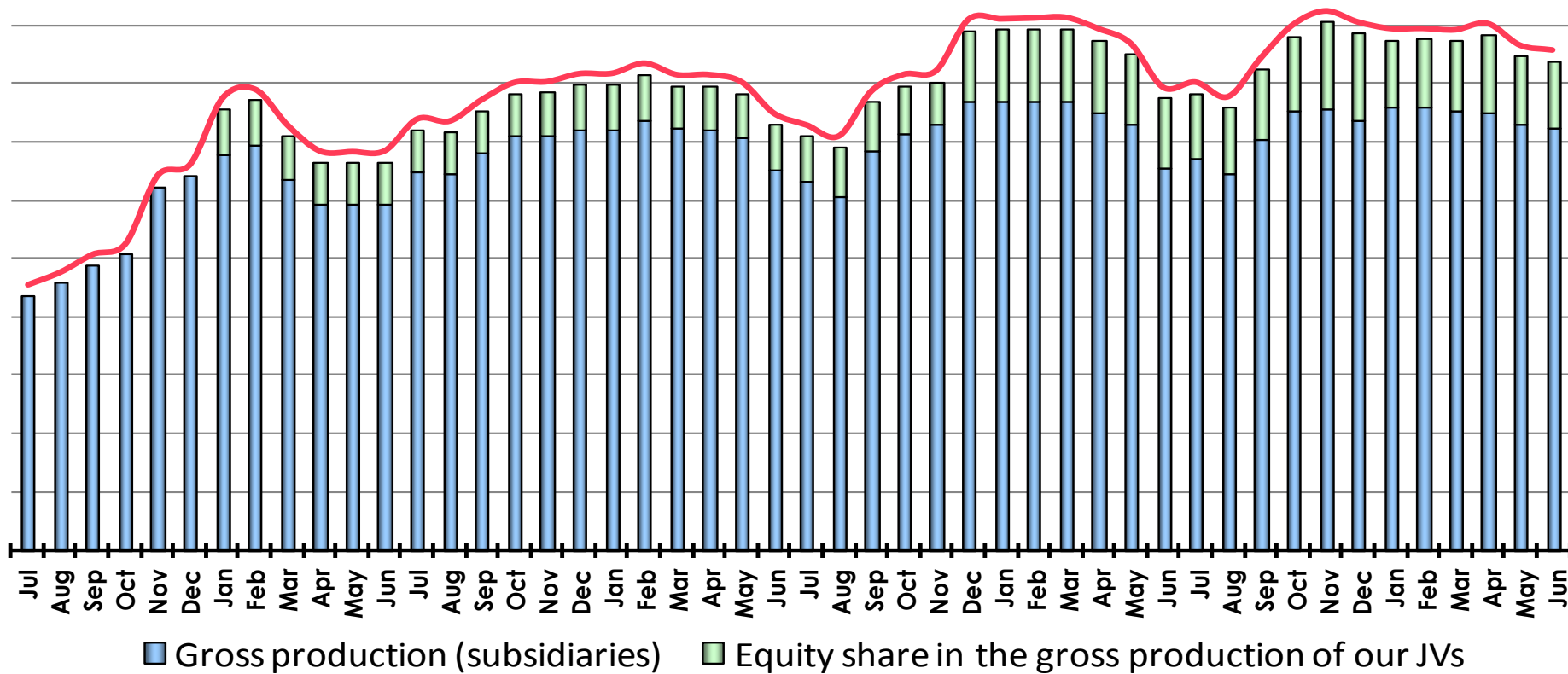


**Margins in line with Group's strategic guidance**

## Notes:

EBITDA includes our proportionate share in the EBITDA of our joint ventures and represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the add-back of net impairment expenses (reversals), depreciation, depletion and amortization, income tax expense, share of profit (loss) of joint ventures, net of income tax and finance income (expense) from the Consolidated Statement of Income, income (loss) from changes in fair value of derivative financial instruments

## Increasing Natural Gas Production (mmcm per day)



# 2011

# 2012

# 2013

# 2014

2011 Avg.  
147 mmcm/day  
5,180 bcf/day

**2012 Avg.  
157 mmcm/day  
5,531 bcf/day**

**2013 Avg.  
170 mmcm/day  
6,020 bcf/day**

2Q 13 Avg.  
167 mmcm/day  
5,895 bcf/day

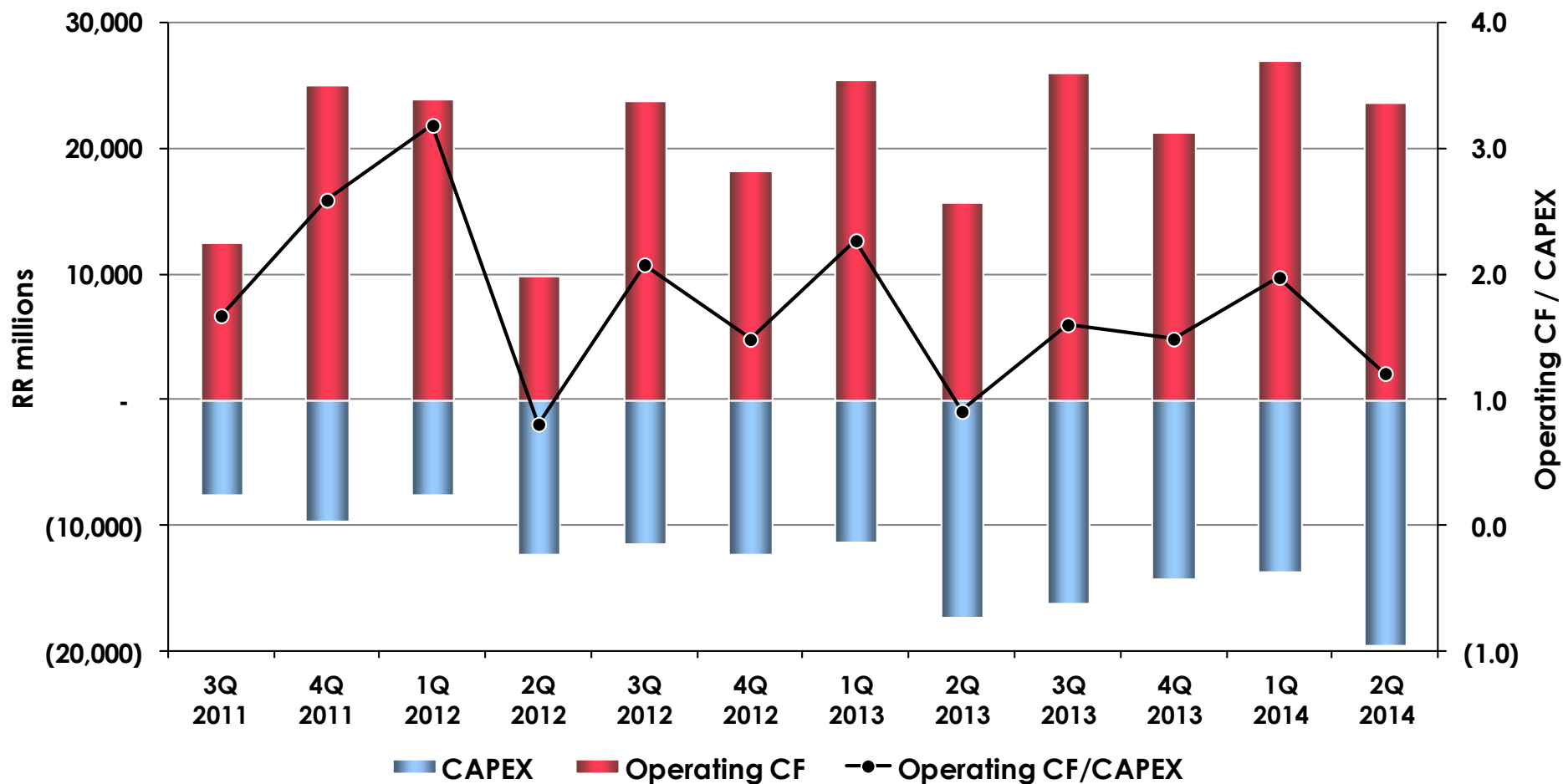
6M 14 Avg.  
173 mmcm/day  
6,120 bcf/day

2Q 14 Avg.  
171 mmcm/day  
6,056 bcf/day

# Condensed Statement of Financial Position (RR million)

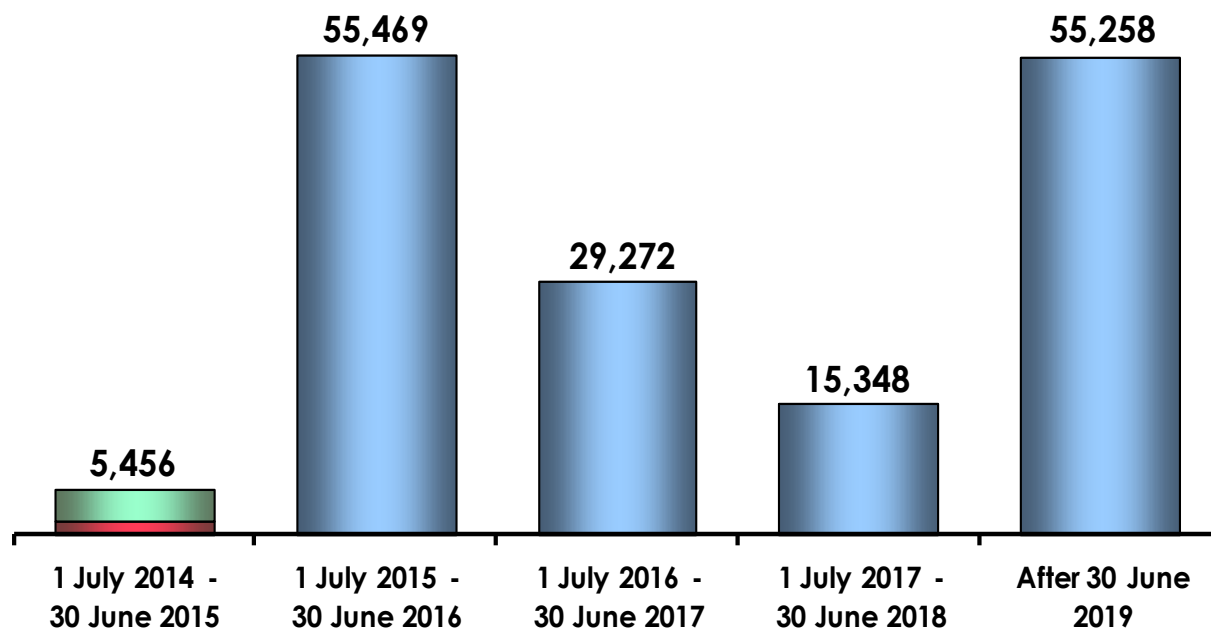
	30 June 2014	31 December 2013	+ / (-)	+ / (-)%
<b>Total current assets</b>	<b>107,483</b>	<b>82,426</b>	<b>25,057</b>	<b>30.4%</b>
<i>Incl. Cash and cash equivalents</i>	46,307	7,889	38,418	487.0%
<b>Total non-current assets</b>	<b>526,731</b>	<b>515,569</b>	<b>11,162</b>	<b>2.2%</b>
<i>Incl. Net PP&amp;E</i>	268,405	243,688	24,717	10.1%
<b>Total assets</b>	<b>634,214</b>	<b>597,995</b>	<b>36,219</b>	<b>6.1%</b>
<b>Total current liabilities</b>	<b>34,137</b>	<b>59,873</b>	<b>(25,736)</b>	<b>-43.0%</b>
<i>Incl. ST &amp; current portion of LT debt</i>	5,456	24,026	(18,570)	-77.3%
<b>Total non-current liabilities</b>	<b>182,267</b>	<b>165,065</b>	<b>17,202</b>	<b>10.4%</b>
<i>Incl. Deferred income tax liabilities</i>	21,690	18,219	3,471	19.1%
<i>Incl. LT debt</i>	155,347	141,595	13,752	9.7%
<b>Total liabilities</b>	<b>216,404</b>	<b>224,938</b>	<b>(8,534)</b>	<b>-3.8%</b>
<b>Total equity</b>	<b>417,810</b>	<b>373,057</b>	<b>44,753</b>	<b>12.0%</b>
<b>Total liabilities &amp; equity</b>	<b>634,214</b>	<b>597,995</b>	<b>36,219</b>	<b>6.1%</b>

# Internally Funded Investment Program



Core investments in upstream exploration, production and processing facilities funded primarily through internal cash flows

# Total Debt Maturity Profile (RR million)



The Group has a credit line facility with Gazprombank in the amount of RR 10 bln available until July 2015

■ Short-term debt ■ Current portion of long-term debt ■ Long-term debt

## Debt repayment schedule:

Up to 30 June 2015 – Short-term loan from a non-controlling shareholder

Up to 30 June 2016 – Eurobonds Five-Year (USD 600 mln), RR denominated bonds (RR 20 bln) and Syndicated term credit line facility

Up to 30 June 2017 – Eurobonds Four-Year (RR 14 bln) and Syndicated term credit line facility

Up to 30 June 2018 – Syndicated term credit line facility

After 30 June 2019 – Eurobonds Ten-Year (USD 650 mln and USD one bln)

## Questions and Answers