



Second Quarter 2016 Operational and Financial Results Conference Call



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Moscow, Russian Federation
28 July 2016

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.

The information and opinions contained in this document are provided as at the date of this presentation and are subject to change without notice. By participating in this presentation or by accepting any copy of this document, you agree to be bound by the foregoing limitations.

Summary Operational Highlights – 2Q 2016

- ❑ **Natural gas production** (including our proportionate share in JVs) was 16.5 bcm in 2Q 2016 and 33.8 bcm in 1H 2016 representing an **increase of 2.2%** compared to 1H 2015
- ❑ **Liquids production** (including our proportionate share in JVs) was 3.1 mmt in 2Q 2016 and 6.3 mmt in 1H 2016 representing an **increase of 51.0%** compared to 1H 2015
- ❑ **Share of liquids** in overall hydrocarbon production **increased to 19.4%** in 2Q 2016 from **14.6%** in 2Q 2015
- ❑ In 2Q 2016 **Purovsky Plant throughput increased** by **6.2 %** Y-o-Y (annualized throughput was 12.5 mmt)
- ❑ In 2Q 2016 **Ust-Luga Complex throughput increased** by **1.3%** Y-o-Y (annualized throughput was 7.1 mmt)

Summary Financial Highlights – 2Q 2016

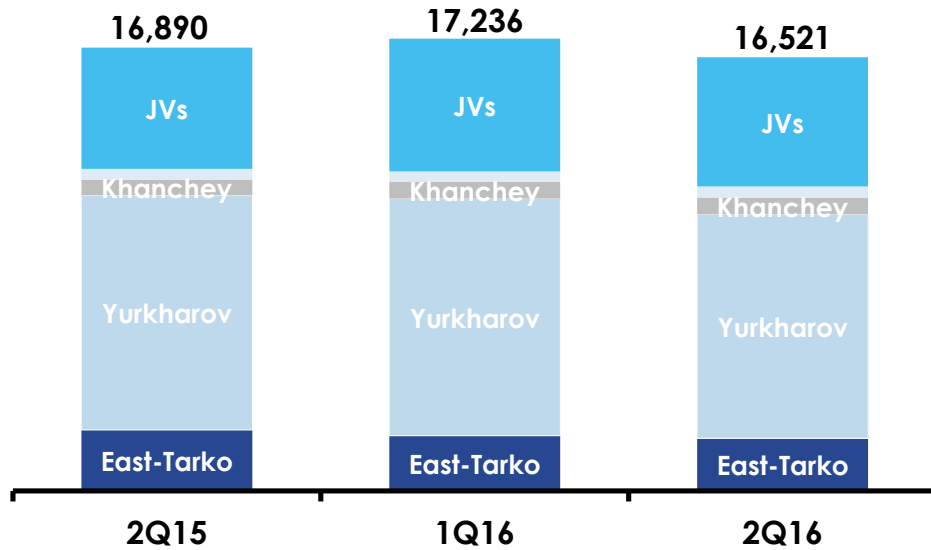
- ❑ **Increase in revenues** driven by substantially higher liquids sales volumes, as well as higher natural gas prices:
 - Total revenues **increased** by **13.5 %** Y-o-Y to RR 127.4 billion
 - Liquids sales revenues **increased** by **24.1%** Y-o-Y to RR 75.8 billion
- ❑ **EBITDA** (including share in EBITDA of JVs) increased by **20.2%** Y-o-Y to RR 59.5 billion
- ❑ **Cash used for capital expenditures decreased** by **53.2%** Y-o-Y to RR 7.2 billion
- ❑ **Normalized free cash flow** ⁽¹⁾ **increased** by **46.7%** Y-o-Y to RR 22.0 billion
- ❑ **Net Debt decreased** by **34.4%** in 1H 2016 to RR 216.0 billion

1. Excluding advance income tax payments of RR 9,932 million in the second quarter of 2016 based on the gain on the disposal of the 9.9% equity stake in Yamal LNG.

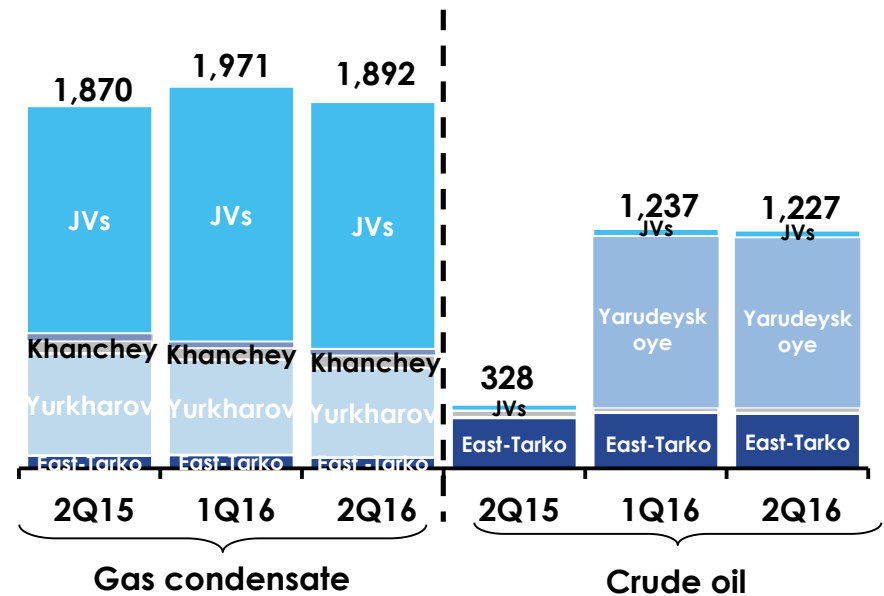
Operational Overview

Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



Natural gas production decreased Y-o-Y due to natural decline in the reservoir pressure at the current gas producing horizons at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye). The decrease in production was partially offset by the reaching the nameplate production capacity of the Yaro-Yakhinskoye field and the Termokarstovoye field in June 2015.

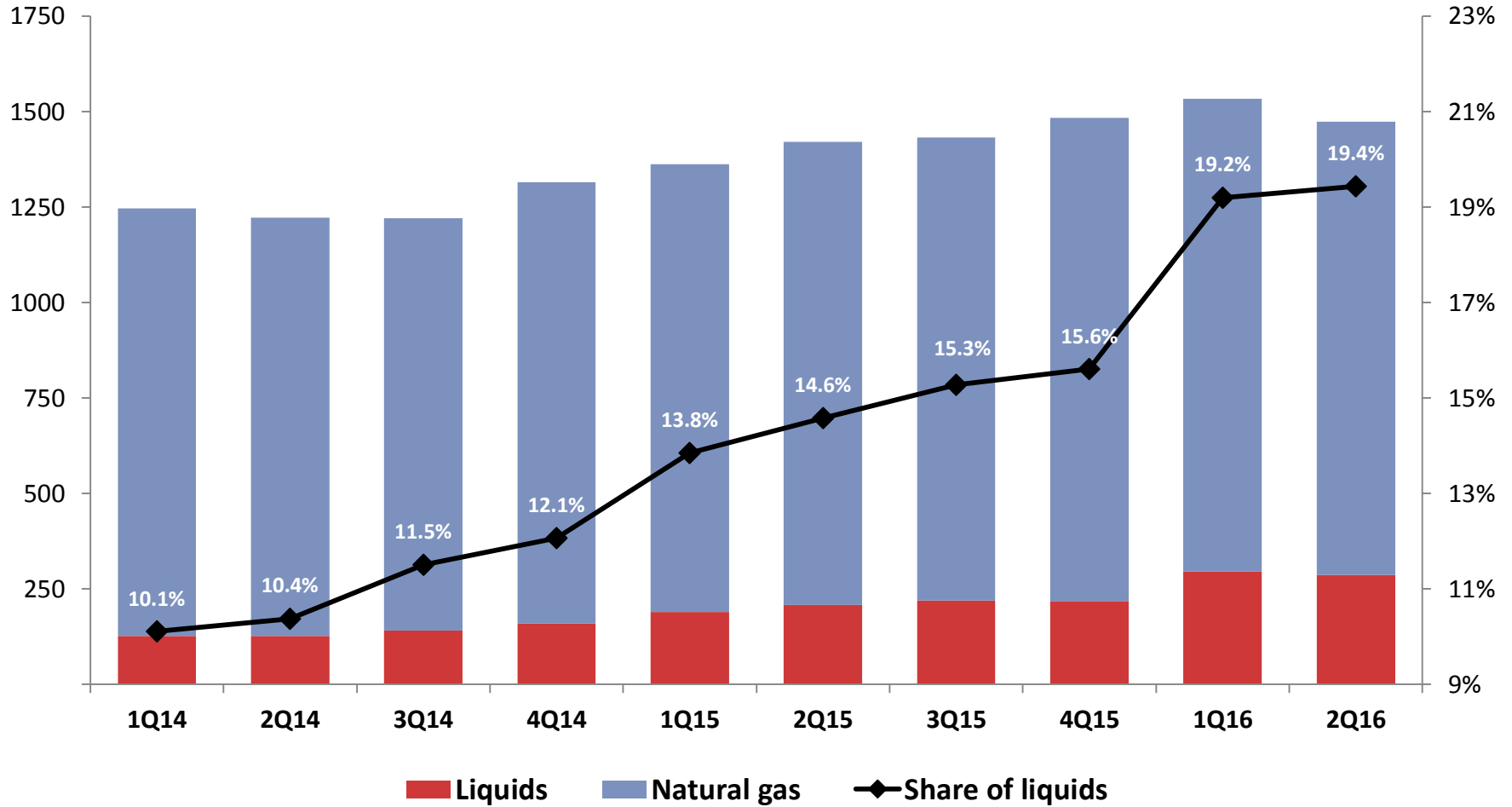
Liquids production increased Y-o-Y due to:

- The commencement of commercial crude oil production at the Yarudeyskoye field in December 2015.
- Significant production increase by SeverEnergia due to reaching the nameplate production capacity of the Yaro-Yakhinskoye field in June 2015.
- The launch of the Termokarstovoye field in May 2015 (the nameplate production capacity was reached in June 2015).

Growing Share of Liquids

Production,
mboe/day

Share
of liquids



Purovsky Plant

- ❑ **Total volumes delivered in 2Q 2016: 3,115 mt**
 - Yurkharovskoye field: 466 mt
 - East-Tarkosalinskoye and Khancheyskoye fields: 167 mt
 - Other fields: 31 mt
 - Purchases from our joint ventures: 2,451 mt
- ❑ **Annualized throughput volumes: 12.5 mmt**
- ❑ **Total output of marketable products: 3,077 mt**
 - Stable gas condensate: 2,433 mt
 - LPG: 644 mt



Ust-Luga Complex

- ❑ **Total volumes delivered in 2Q 2016: 1,763 mt**
- ❑ **Annualized throughput volumes: 7.1 mmt**
- ❑ **Total output of marketable gas condensate refined products: 1,729 mt**
 - Naphtha: 1,072 mt
 - Other products: 657 mt
- ❑ **Gas condensate refined products sold: 1,684 mt**
 - to Europe: 772 mt
 - to the Asian Pacific Region: 549 mt
 - to North America: 257 mt
 - Other: 106 mt



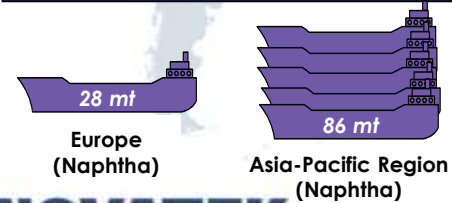
Liquids in Tankers

Liquids sales

- Naphta
- Jet fuel
- Gasoil and fuel oil
- LPG
- Crude oil
- Stable gas condensate



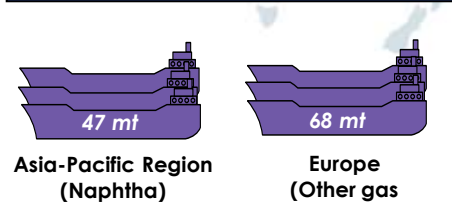
"Goods in transit"
30.06.2015
~114 thousand tons



"Goods in transit"
31.12.2015
~ 66 thousand tons



"Goods in transit"
30.06.2016
~115 thousand tons



Financial Overview – 2Q 2016 to 2Q 2015

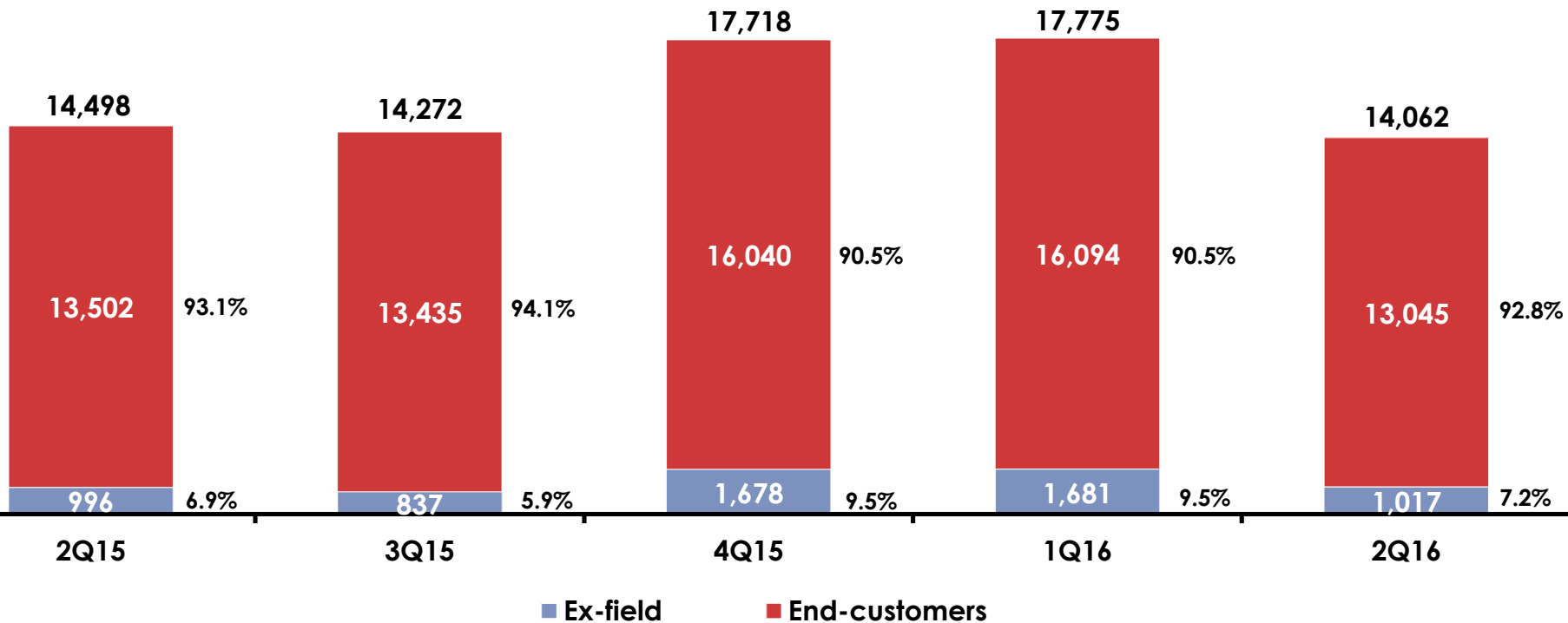
Comparison of Quarterly Results (RR million)

	2Q15	3Q15	4Q15	1Q16	2Q16	Q-o-Q +/- %	Y-o-Y +/- %
Total revenues	112,244	117,367	131,972	139,351	127,388	-8.6%	13.5%
Operating expenses	(79,541)	(85,096)	(96,509)	(97,159)	(90,019)	-7.3%	13.2%
Normalized ⁽¹⁾ EBITDA ⁽²⁾	49,511	52,579	57,267	62,136	59,507	-4.2%	20.2%
Normalized ⁽¹⁾ EBITDA margin	44.1%	44.8%	43.4%	44.6%	46.7%		
Normalized ⁽¹⁾ profit (loss) attributable to NOVATEK	41,920	(13,405)	13,817	58,240	45,934	-21.1%	9.6%
Normalized ⁽¹⁾ profit (loss) margin	37.3%	-11.4%	10.5%	41.8%	36.1%		
Normalized ⁽¹⁾ earnings (loss) per share	13.88	(4.44)	4.57	19.29	15.22	-21.1%	9.6%
Cash used for capital expenditures ⁽³⁾	15,463	12,198	13,604	8,976	7,233	-19.4%	-53.2%
Net debt ⁽⁴⁾	204,388	258,212	329,518	203,019	216,010	6.4%	5.7%
Free cash flow ⁽⁵⁾⁽⁶⁾	14,984	4,574	32,324	45,448	21,988	-73.5%	-19.5%

Notes:

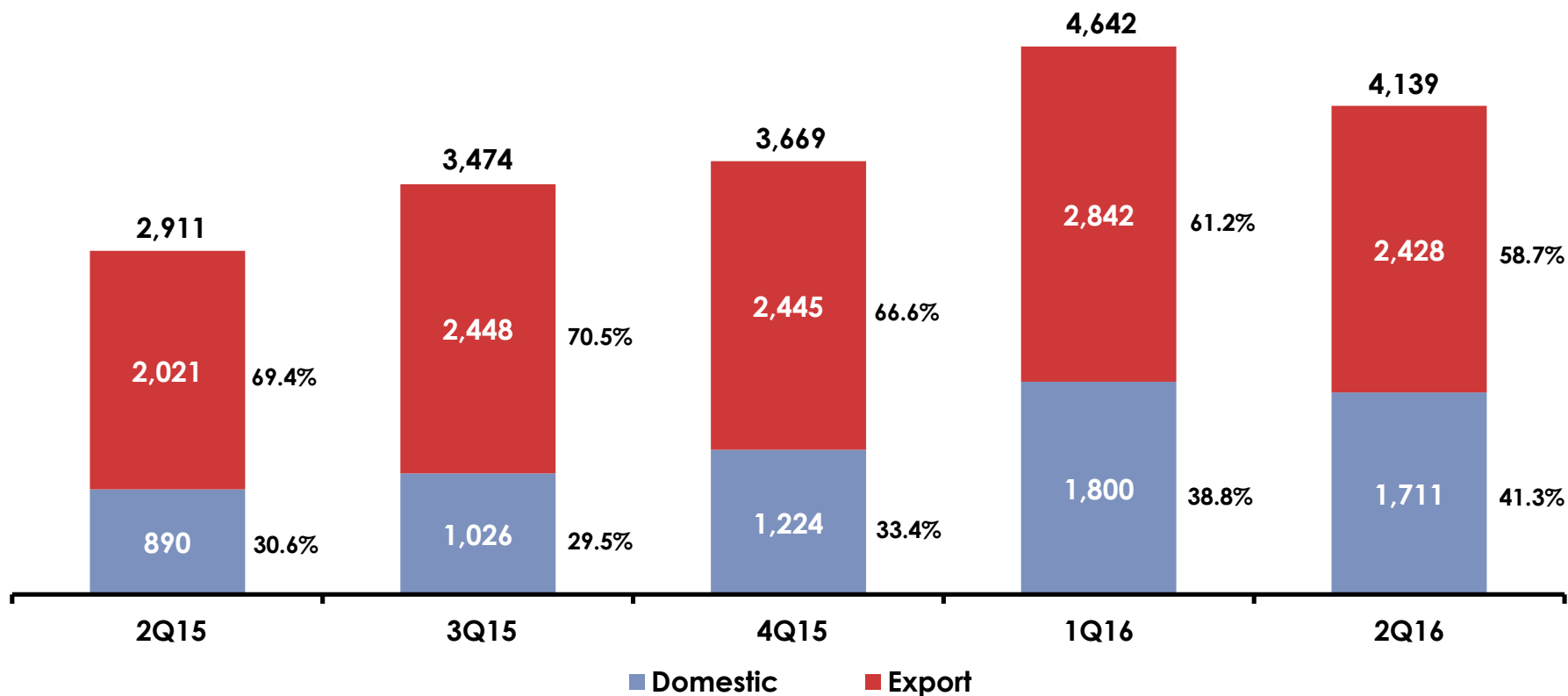
1. Excluding the effect from the disposal of interests in joint ventures
2. EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures
3. Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries
4. Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents
5. Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures
6. For 2Q16 excluding advance income tax payments of RR 9,932 million in the second quarter of 2016 based on the gain on the disposal of the 9.9% equity stake in OAO Yamal LNG.

Market Distribution – Gas Sales Volumes (mmcm)



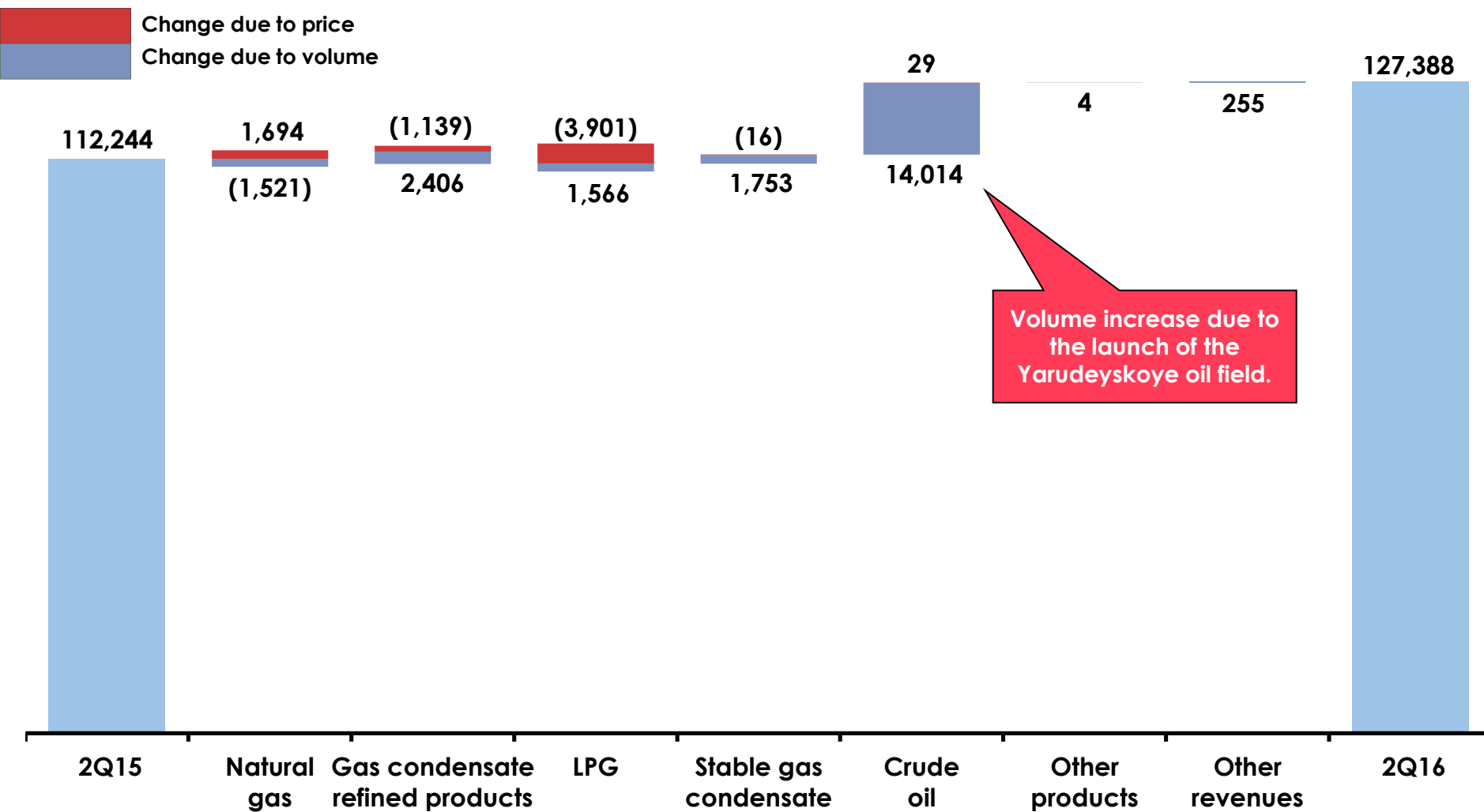
Y-o-Y natural gas sales volumes slightly decreased as a result of one of our major customers taking more volumes in the first quarter of 2016 and the respective reallocation of sales volumes in subsequent quarters. In addition, during the second quarter of 2016, we increased our natural gas inventory balances by 6.1% as compared to the corresponding period in 2015 for future sales in the peak winter season.

Market Distribution – Liquids Sales Volumes (mt)



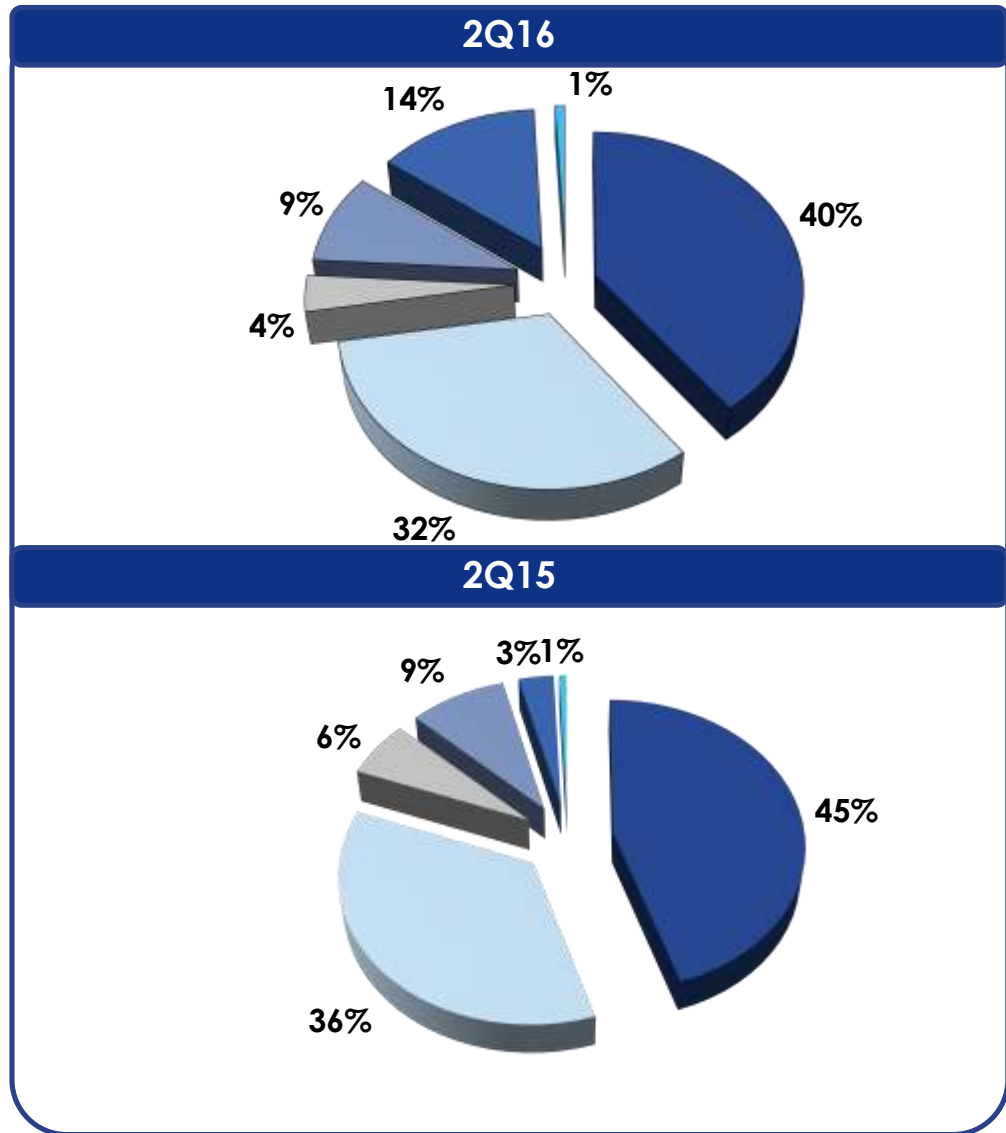
Y-o-Y increase in liquids sales volumes was due to an increase in the production of crude oil in our subsidiaries, as well as gas condensate production in our joint ventures.

Total Revenues (RR million)



Total Revenues Breakdown

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



Realized Hydrocarbon Prices (net of VAT and export duties)

2Q15	2Q16	+ / (-)	+ / (-)%		1Q16	2Q16	+ / (-)	+ / (-)%
<u>Domestic prices</u>								
3,605	3,727	122	3.4%	Natural gas end-customers, RR/mcm	3,586	3,727	141	3.9%
1,868	2,051	183	9.8%	Natural gas ex-field, RR/mcm	2,051	2,051	0	0.0%
16,320	16,002	(318)	-1.9%	Stable gas condensate, RR/ton	11,889	16,002	4,113	34.6%
20,804	19,464	(1,340)	-6.4%	Other gas condensate refined products, RR/ton	15,271	19,464	4,193	27.5%
10,036	3,975	(6,061)	-60.4%	LPG, RR/ton	5,890	3,975	(1,915)	-32.5%
14,862	14,721	(141)	-0.9%	Crude oil, RR/ton	11,183	14,721	3,538	31.6%
<u>Export market</u>								
25,842	26,073	231	0.9%	Naphtha, RR/ton	24,517	26,073	1,556	6.3%
24,512	21,849	(2,663)	-10.9%	Other gas condensate refined products, RR/ton	20,704	21,849	1,145	5.5%
21,881	22,425	544	2.5%	Stable gas condensate, RR/ton	17,649	22,425	4,776	27.1%
21,759	16,816	(4,943)	-22.7%	LPG, RR/ton	22,633	16,816	(5,817)	-25.7%
15,721	16,538	817	5.2%	Crude oil, RR/ton	12,950	16,538	3,588	27.7%

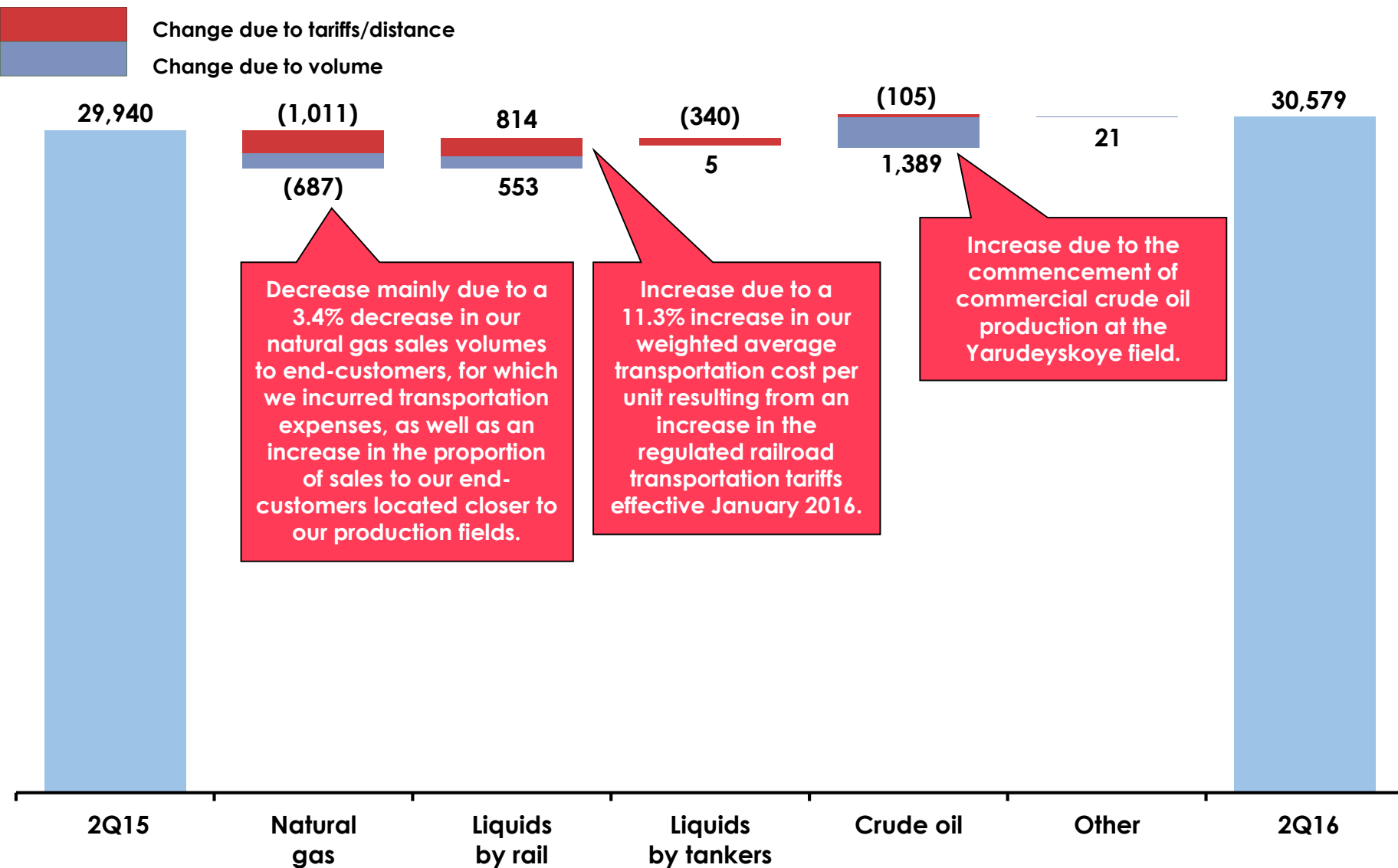
Note: Prices are shown excluding trading activities.

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

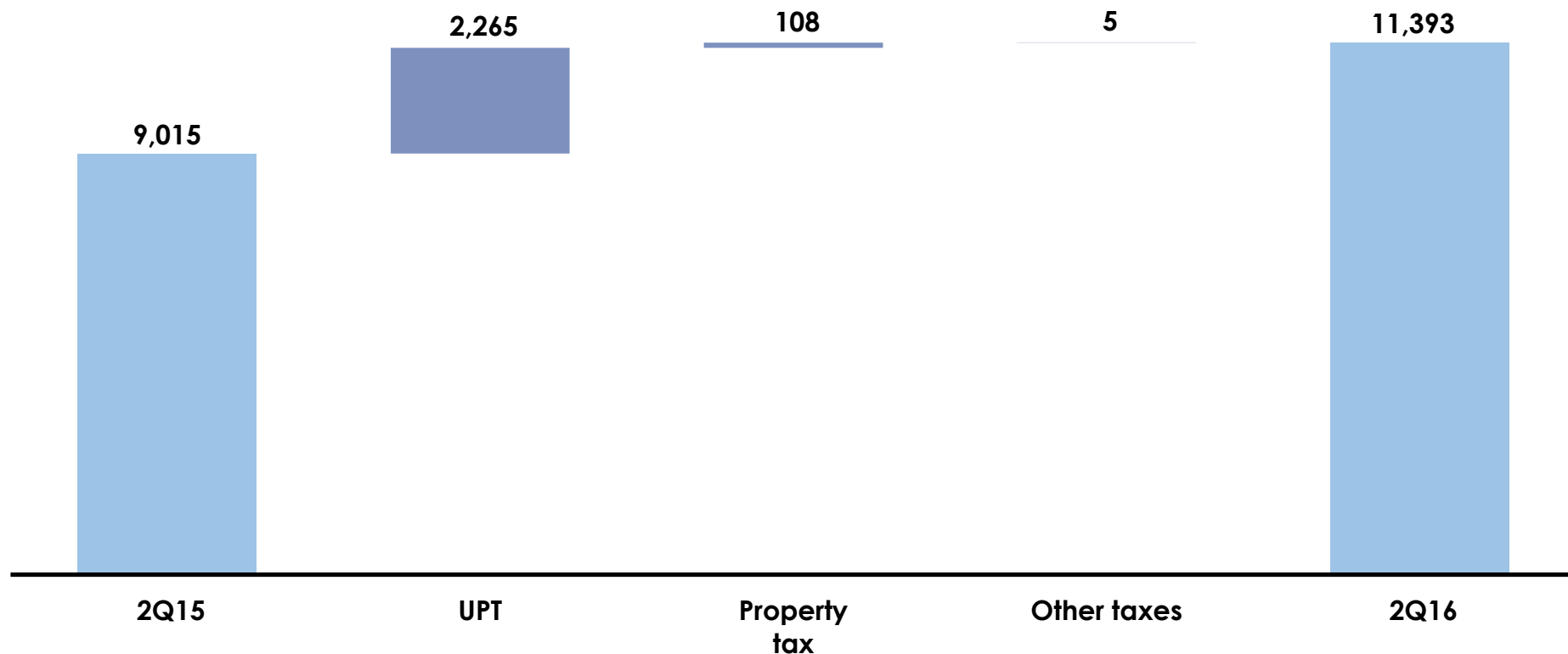
2Q15	% of TR	2Q16	% of TR		1Q16	% of TR	2Q16	% of TR
29,940	26.7%	30,579	24.0%	Transportation expenses	36,573	26.2%	30,579	24.0%
9,015	8.0%	11,393	8.9%	Taxes other than income tax	10,597	7.6%	11,393	8.9%
38,955	34.7%	41,972	32.9%	Non-controllable expenses	47,170	33.8%	41,972	32.9%
4,681	4.2%	8,363	6.6%	Depreciation and amortization	7,833	5.6%	8,363	6.6%
4,907	4.4%	5,553	4.4%	Materials, services & other	4,229	3.0%	5,553	4.4%
3,294	2.9%	4,384	3.4%	General and administrative	4,357	3.1%	4,384	3.4%
22	0.0%	42	0.0%	Exploration expenses	102	0.1%	42	0.0%
(261)	n/a	(40)	n/a	Net impairment expenses (reversals)	153	0.1%	(40)	0.0%
(1,949)	n/a	(2,258)	n/a	Change in natural gas, liquids and WIP	3,598	2.6%	(2,258)	n/a
49,649	44.3%	58,016	45.5%	Subtotal operating expenses	67,442	48.4%	58,016	45.5%
29,892	26.6%	32,003	25.1%	Purchases of natural gas and liquid hydrocarbons	29,717	21.3%	32,003	25.1%
79,541	70.9%	90,019	70.7%	Total operating expenses	97,159	69.7%	90,019	70.7%

- Total operating expenses increased Y-o-Y by 13.2% primarily due to the launch of the Yarudeyskoye field in December 2015 and the respective increased transportation, taxes other than income tax expenses, depreciation, depletion and amortization, and materials, services and other expenses;
- Depreciation, depletion and amortization expense increased Y-o-Y due to the launch of the Yarudeyskoye field in December 2015, as well as additions of property, plant and equipment at our production subsidiaries during the 12 months preceding the reporting period.

Transportation Expenses (RR million)

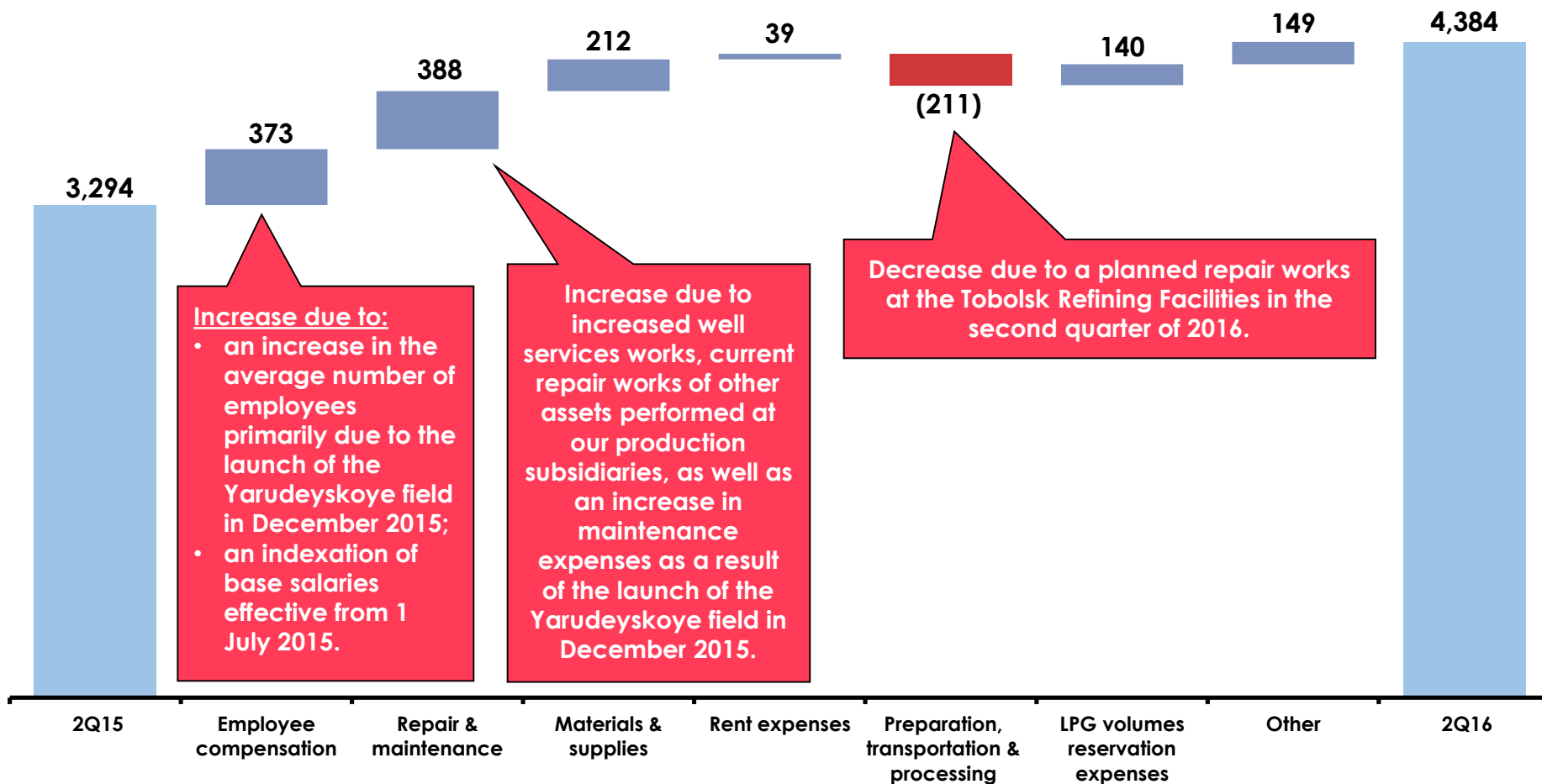


Taxes Other Than Income Tax Expense (RR million)

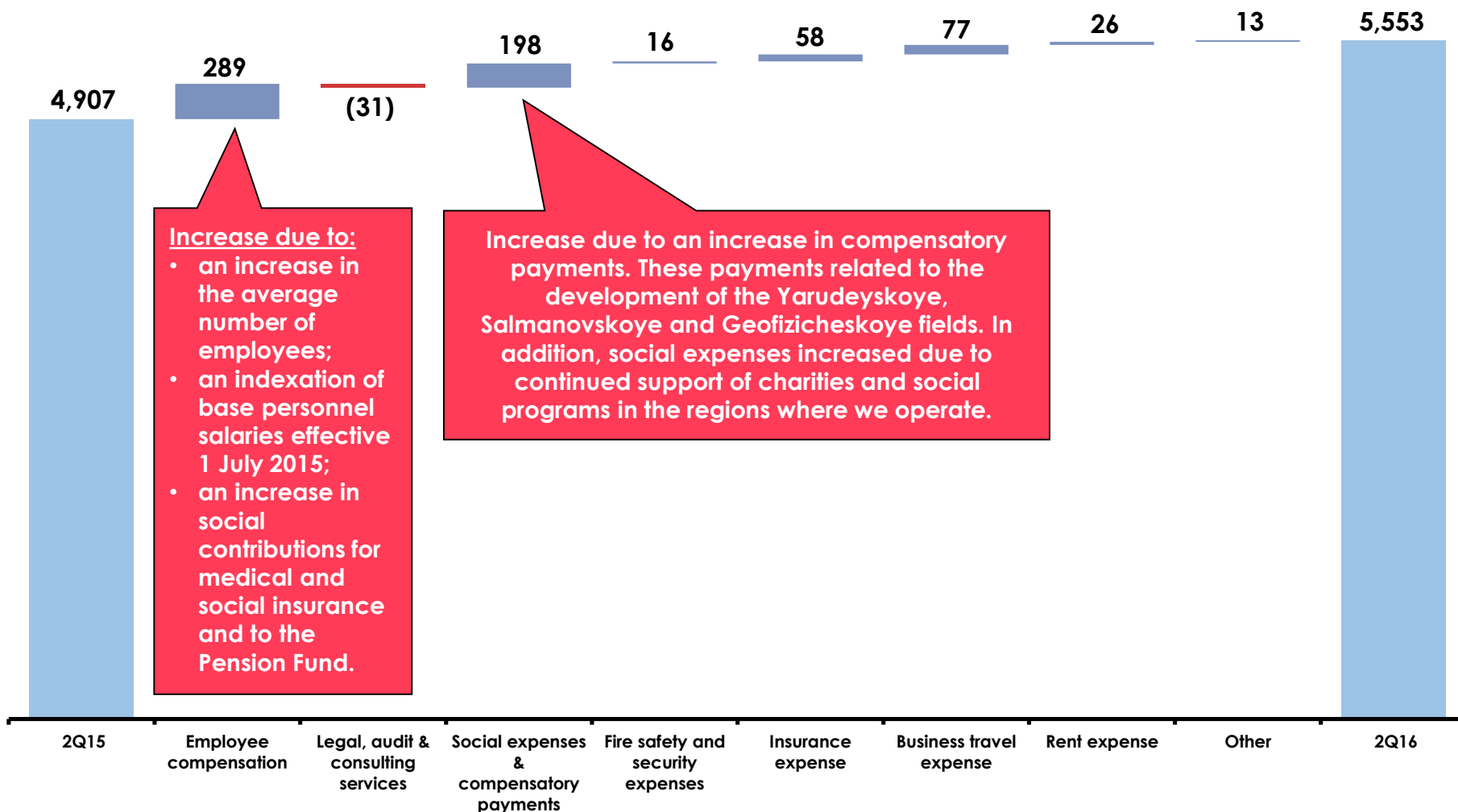


- Y-o-Y increase in UPT expense was primarily due to a significant increase in crude oil production as a result of the commercial production commencement at the Yarudeyskoye field in December 2015. In addition, as a part of the tax maneuver in the oil and gas industry, the formula used for gas condensate UPT rate calculation was adjusted by a coefficient that increased the rate by 25.0% from the 1 January 2016 in relation to 2015 which also increased our UPT expense;
- The increase in property tax expense was due to the launch of the Yarudeyskoye field in December 2015, as well as additions to property, plant and equipment at our other production subsidiaries.

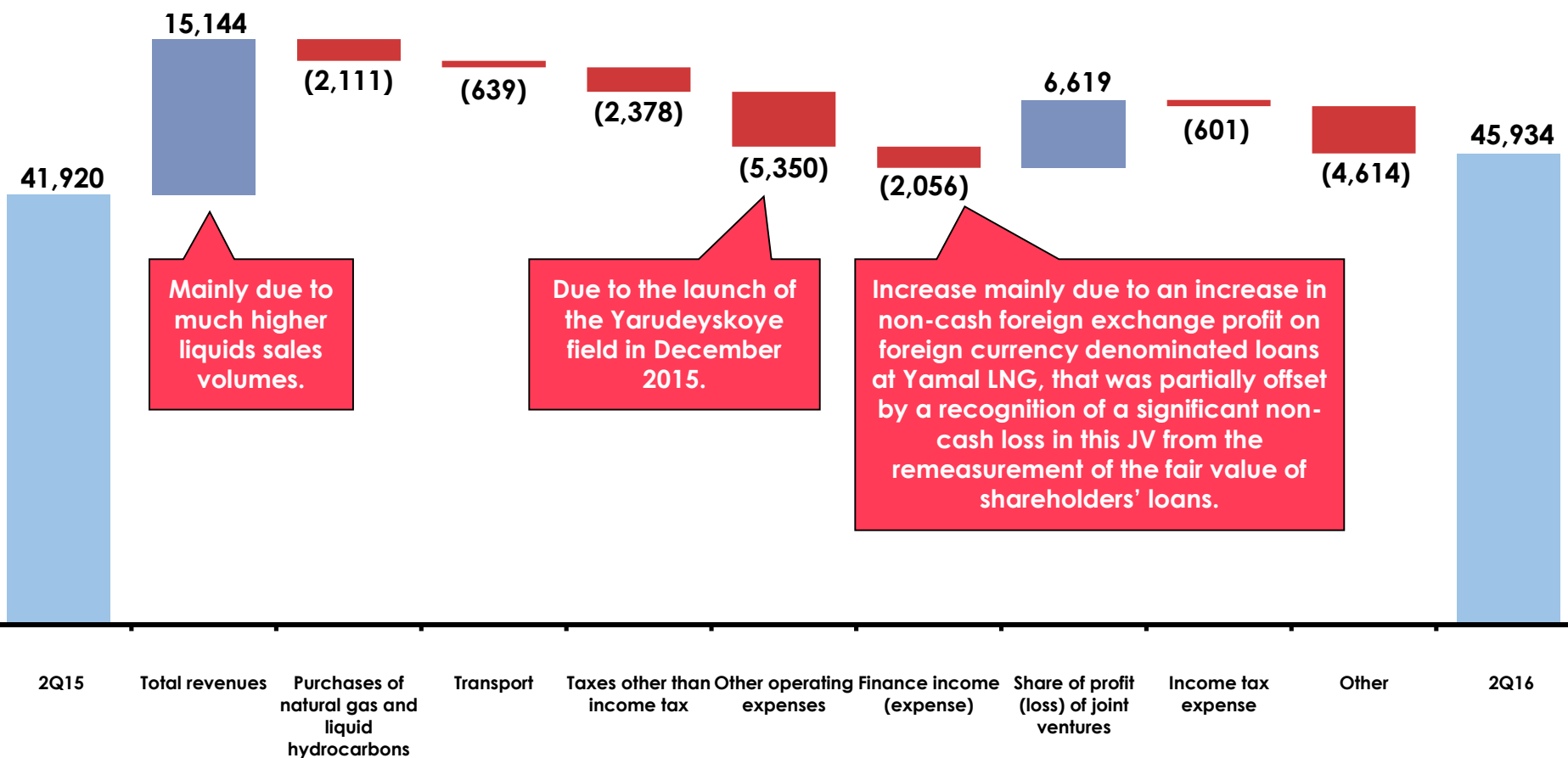
Materials, Services and Other Expenses (RR million)



General and Administrative Expenses (RR million)

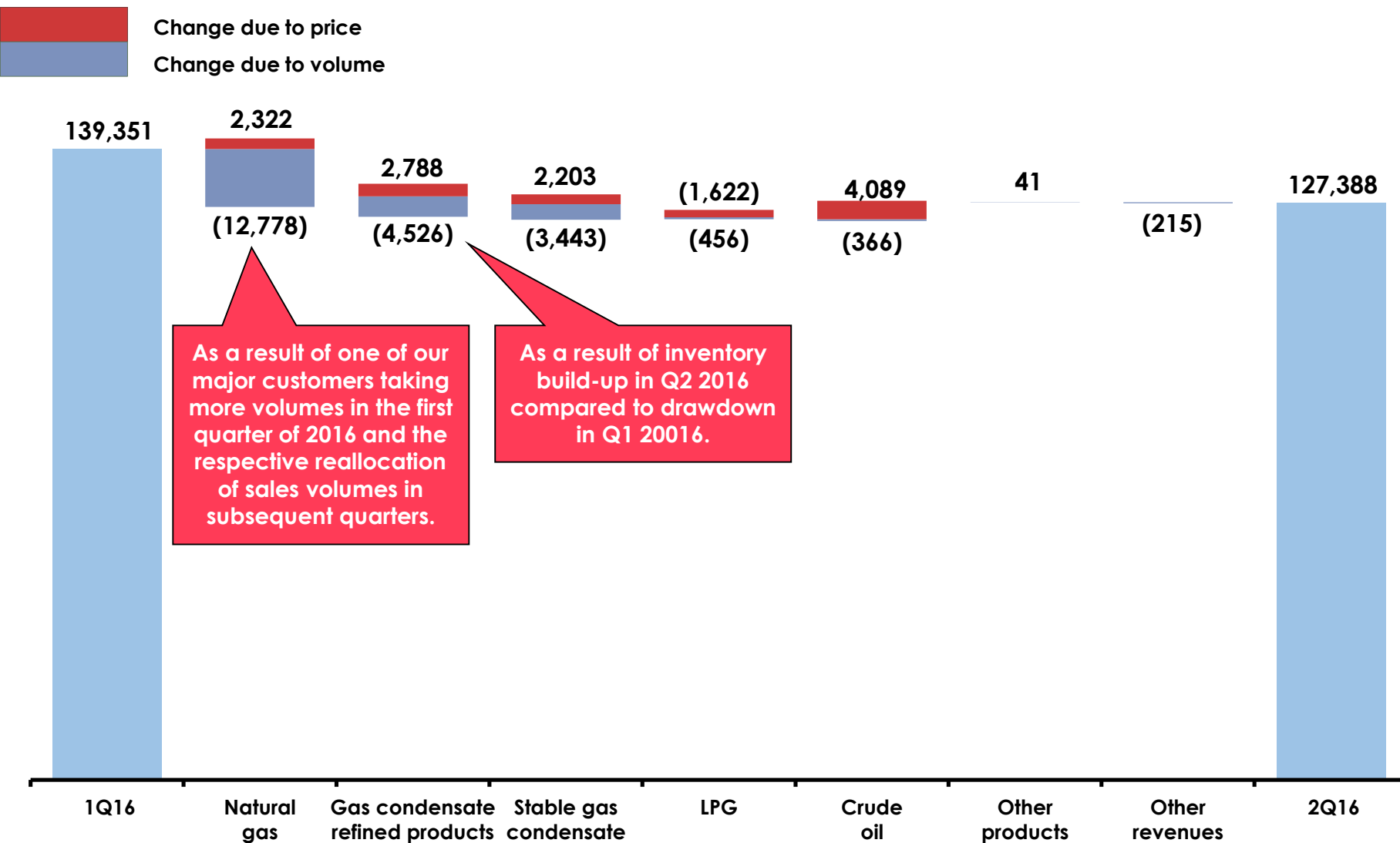


Profit Attributable to NOVATEK Shareholders (RR million)



Financial Overview – 2Q 2016 to 1Q 2016

Total Revenues (RR million)



Total Revenues Breakdown

■ Natural gas

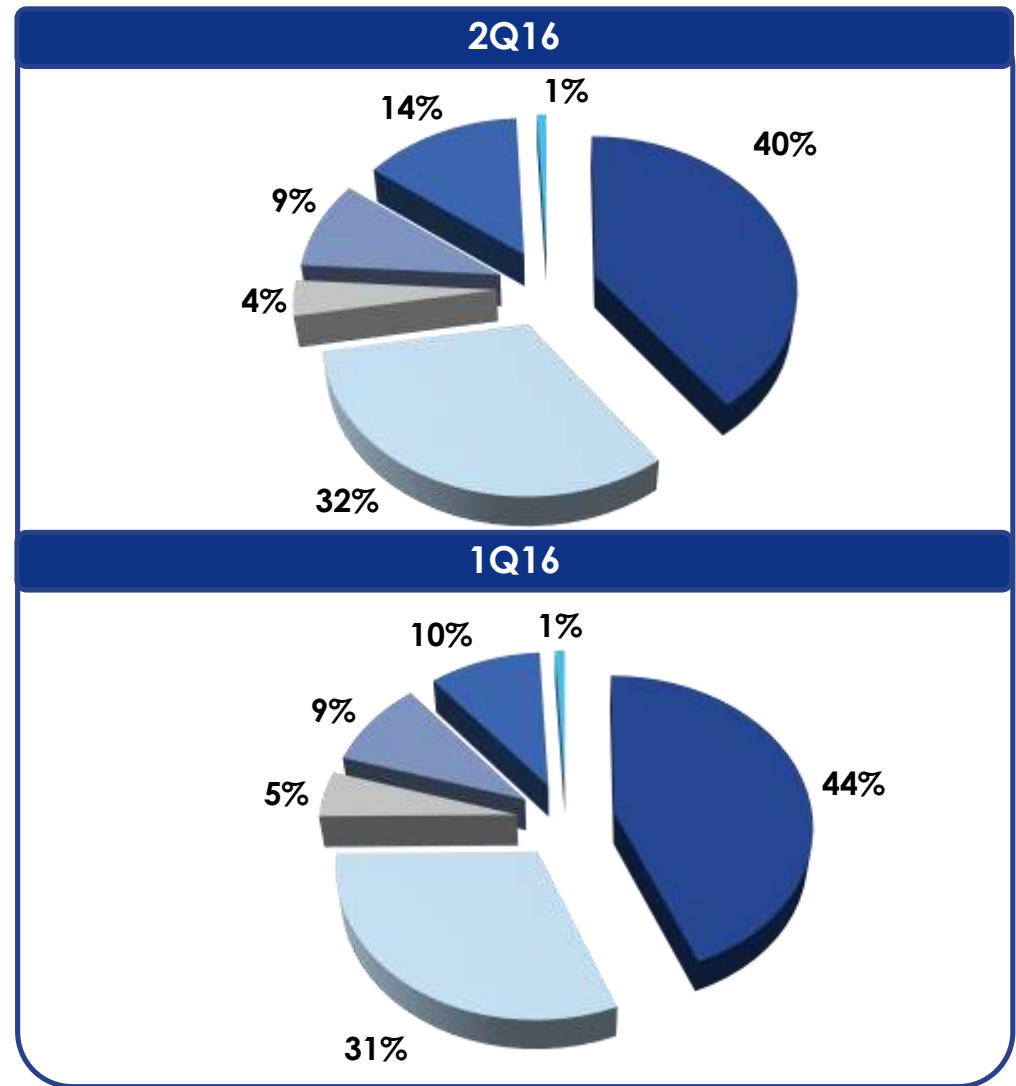
■ Gas condensate refined products

■ LPG

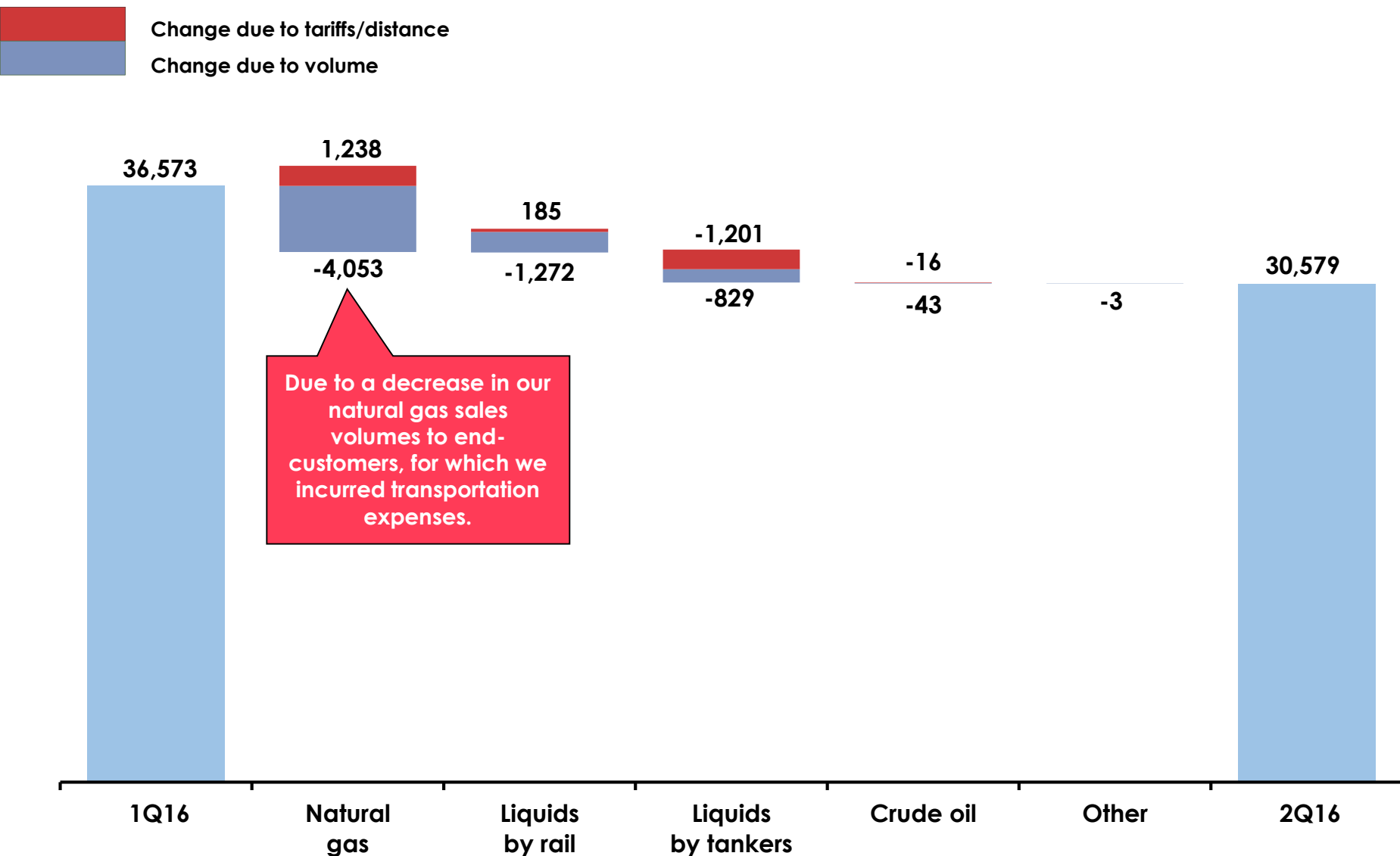
■ Stable gas condensate

■ Crude oil

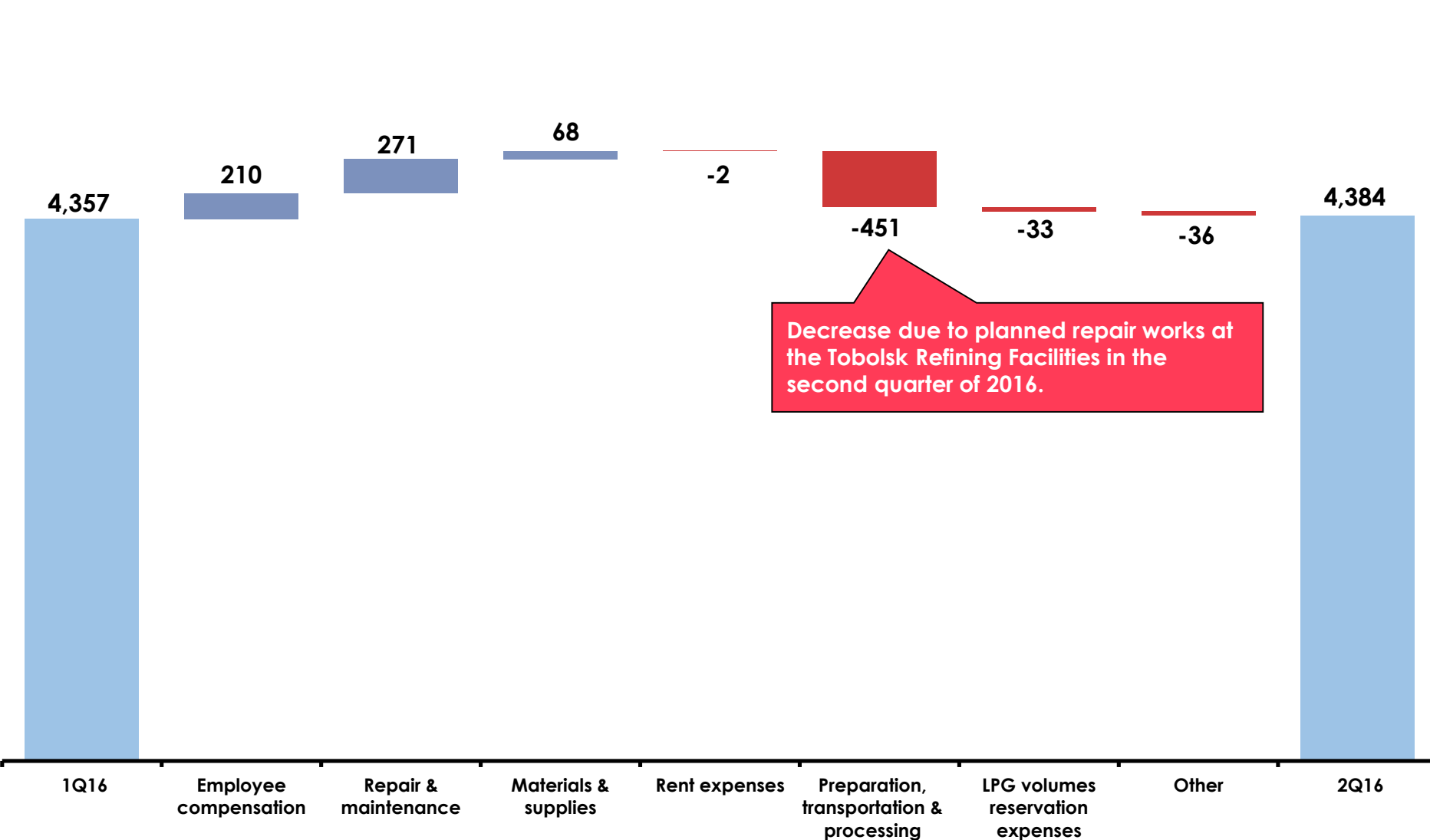
■ Other



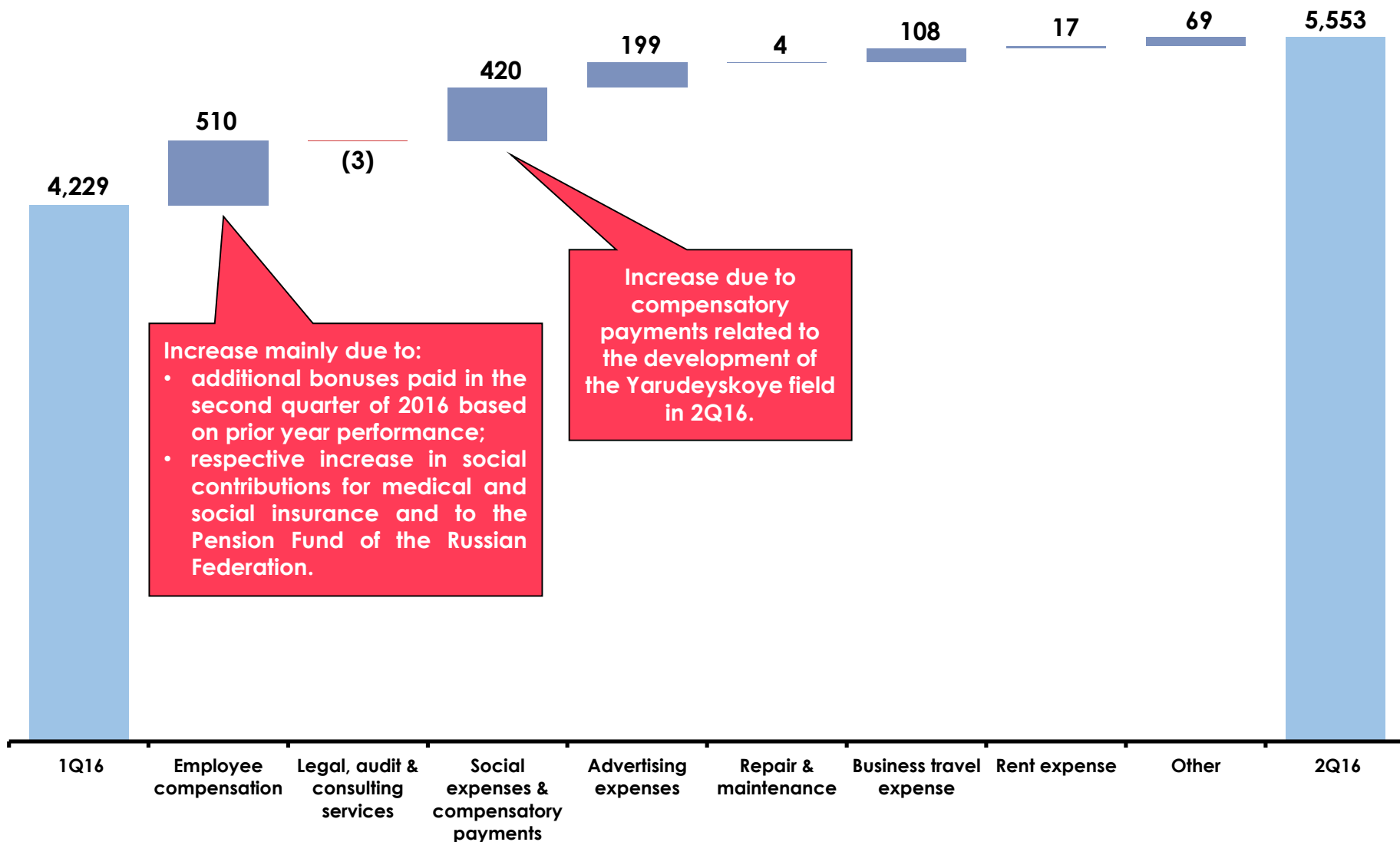
Transportation Expenses (RR million)



Materials, Services and Other Expenses (RR million)



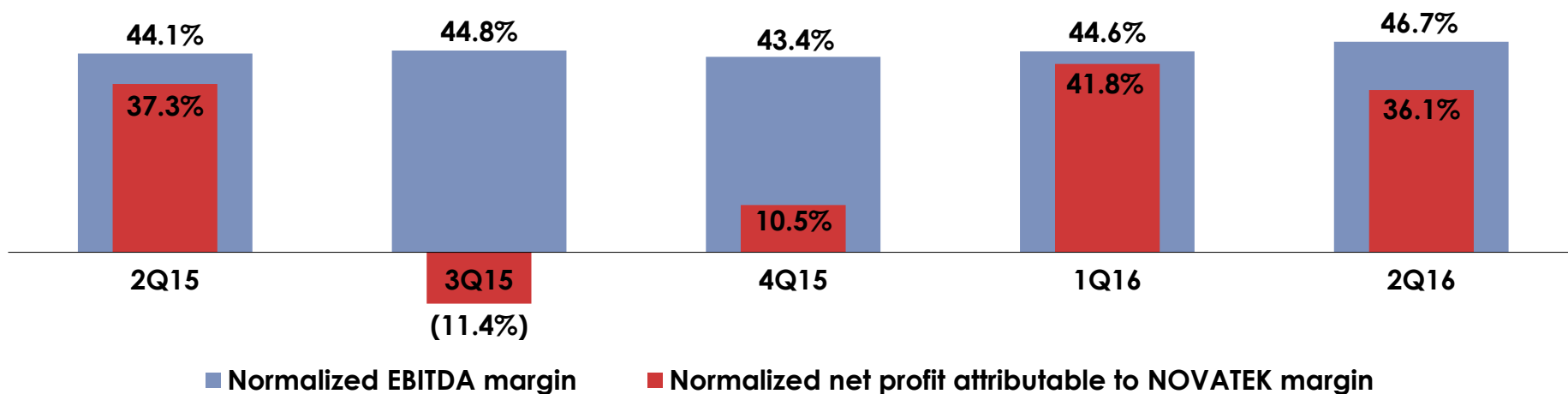
General and Administrative Expenses (RR million)



Appendices

Maintaining Margins (% of total revenues)

Lower profit margin due to foreign exchange loss effect on foreign currency denominated loans of the Group and its JVs.



Margins in-line with Group's strategic guidance, but negatively impacted by the depreciation of Russian rouble in the second half of 2015

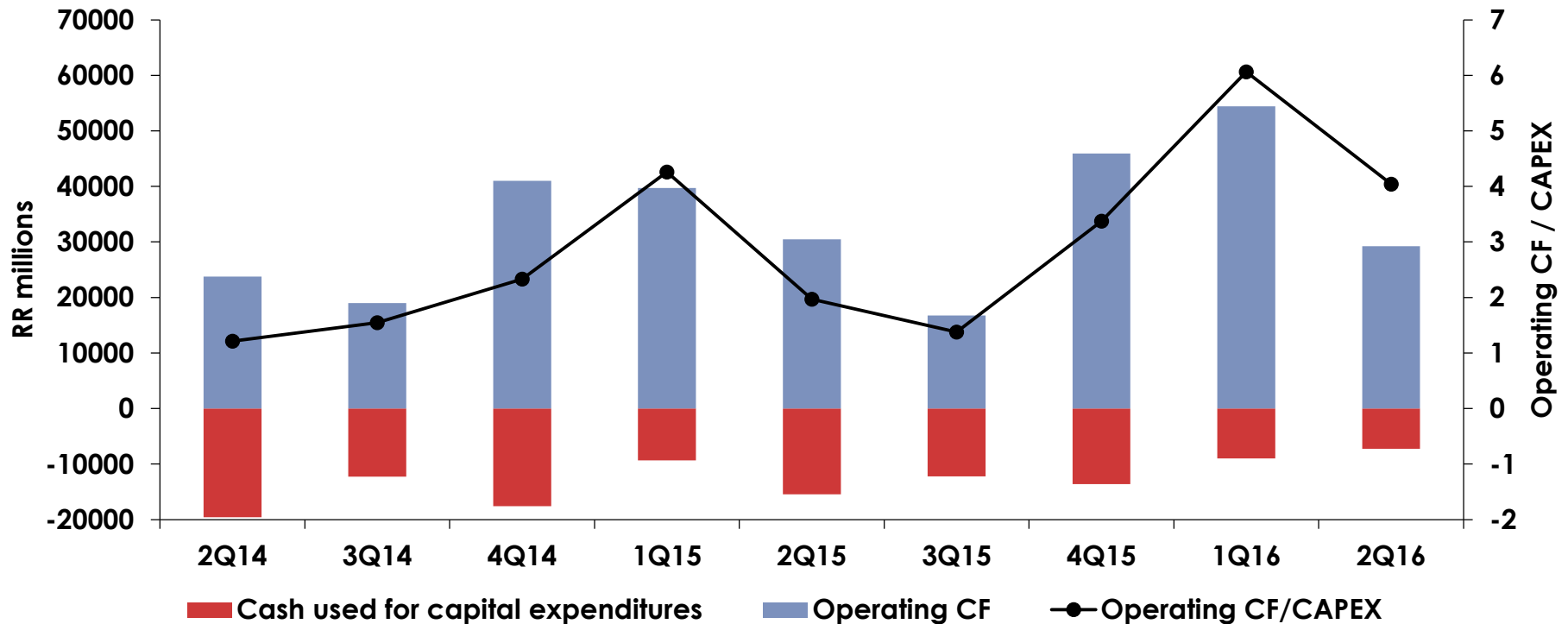
Notes:

1. EBITDA margin and net profit attributable to NOVATEK margin exclude the effect from the disposal of interests in joint ventures
2. EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures

Condensed Statement of Financial Position (RR million)

	31 June 2016	31 December 2015	+ / (-)	+ / (-)%
Total current assets	125,163	120,485	4,678	3.9%
<i>Incl. Cash and cash equivalents</i>	25,788	29,187	(3,399)	-11.6%
Total non-current assets	782,960	751,552	31,408	4.2%
<i>Incl. Net PP&E</i>	332,379	331,712	667	0.2%
Assets held for sale	-	7,987	(7,987)	-100.0%
Total assets	908,123	880,024	28,099	3.2%
Total current liabilities	101,958	169,675	(67,717)	-39.9%
<i>Incl. ST & current portion of LT debt</i>	47,648	106,655	(59,007)	-55.3%
Total non-current liabilities	227,093	282,178	(55,085)	-19.5%
<i>Incl. Deferred income tax liabilities</i>	24,722	23,706	1,016	4.3%
<i>Incl. LT debt</i>	194,150	252,050	(57,900)	-23.0%
Total liabilities	329,051	451,853	(122,802)	-27.2%
Total equity	579,072	428,171	150,901	35.2%

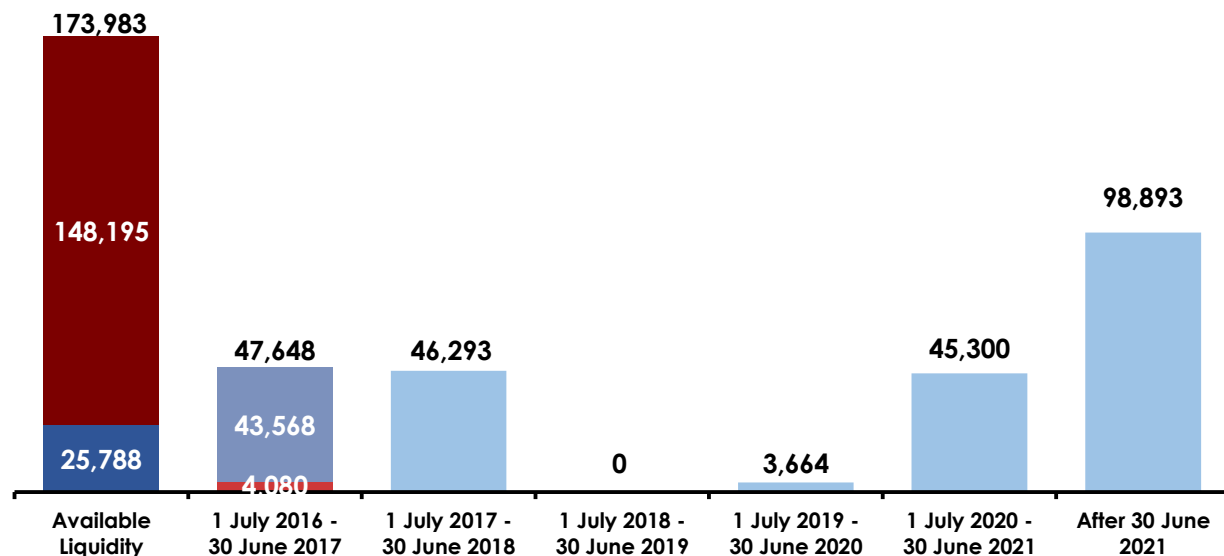
Internally Funded Investment Program



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

Note: for 2Q 2016 Normalized Operating Cash Flow is used, excluding advance income tax payments of RR 9,932 million based on the gain on the disposal of the 9.9% equity stake in OAO Yamal LNG.

Total Debt Maturity Profile (RR million)



The Group has available credit line facilities from Russian banks with credit limits in the amount of RR 100 billion and the equivalent of USD 750 million.

■ Cash ■ Credit lines ■ Short-term debt ■ Current portion of long-term debt ■ Long-term debt

Debt repayment schedule:

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

Up to 30 June 2018 – Syndicated term credit line facility and Other loans

Up to 30 June 2020 – Loan from the Silk Road Fund

After 30 June 2020 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD 650 mln and USD 1,000 mln)

Questions and Answers