NOVATEK

Third Quarter 2016 Operational and Financial Results Conference Call



Mark A. Gyetvay, Deputy Chairman of the Management Board
Moscow, Russian Federation
27 October 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.

NOVATEK

Summary Operational Highlights – 3Q16

- **Natural gas production** *(including our proportionate share in JVs)* was 16.2 bcm in 3Q16 representing an **decrease of 5.1%** compared to 3Q15
- **Liquids production** *(including our proportionate share in JVs)* was 3.1 mmt in 3Q16 representing an **increase of 30.4%** compared to 3Q15
- **Share of liquids** in overall hydrocarbon production **increased** to **19.5%** in 3Q16 from **15.3%** in 3Q15
- In 3Q16 **Purovsky Plant throughput decreased** by **8.1%** Y-o-Y (annualized throughput was 12.0 mmt)
- In 3Q16 **Ust-Luga Complex throughput increased** by **3.0%** Y-o-Y (annualized throughput was 6.6 mmt)

NOVATEK

Summary Financial Highlights – 3Q16

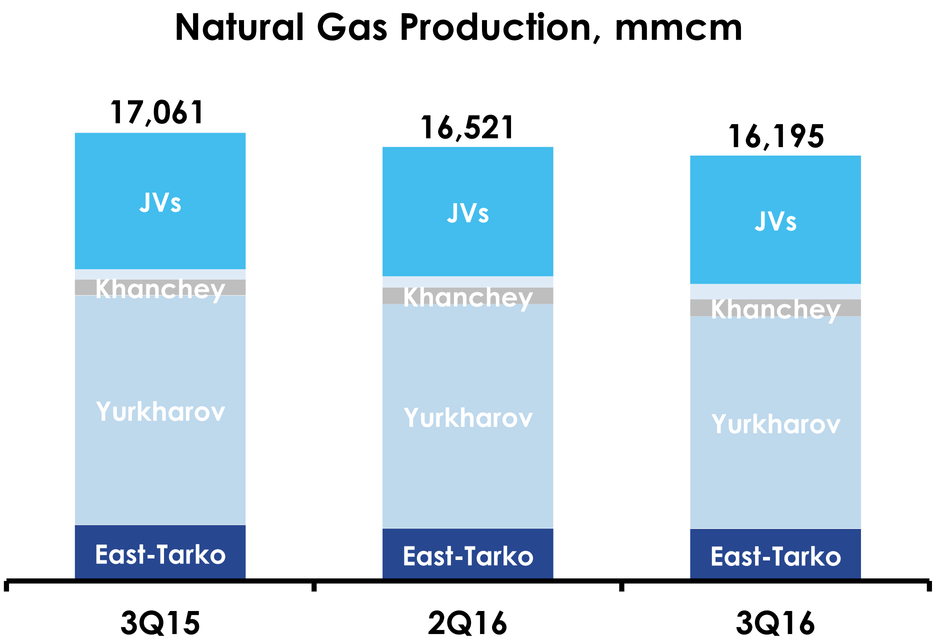
- **Increase in revenues** driven by substantially higher liquids sales volumes:
  - Total revenues **increased** by **7.8 %** Y-o-Y to RR 126.5 billion
  - Liquids sales revenues **increased** by **17.9%** Y-o-Y to RR 74.0 billion
- **EBITDA** *(including share in EBITDA of JVs)* increased by **7.8%** Y-o-Y to RR 57.7 billion
- **Cash used for capital expenditures decreased** by **36.7%** Y-o-Y to RR 7.7 billion
- **Free cash flow increased** by **667%** Y-o-Y to RR 35.1 billion
- **Net Debt decreased** by **22.4%** compared to 3Q15 to RR 200.4 billion

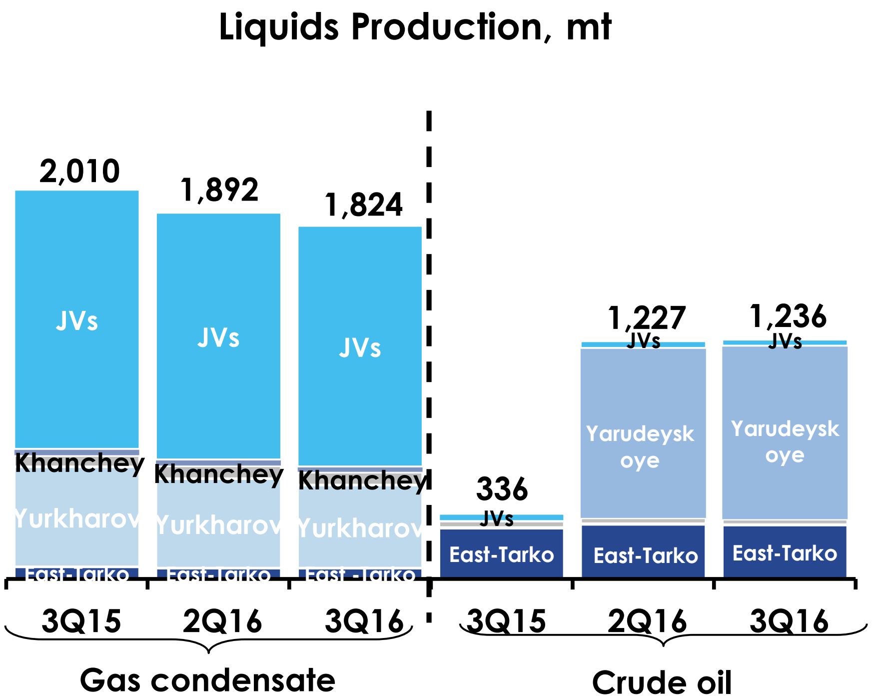
NOVATEK

Operational Overview

NOVATEK

Hydrocarbon Production





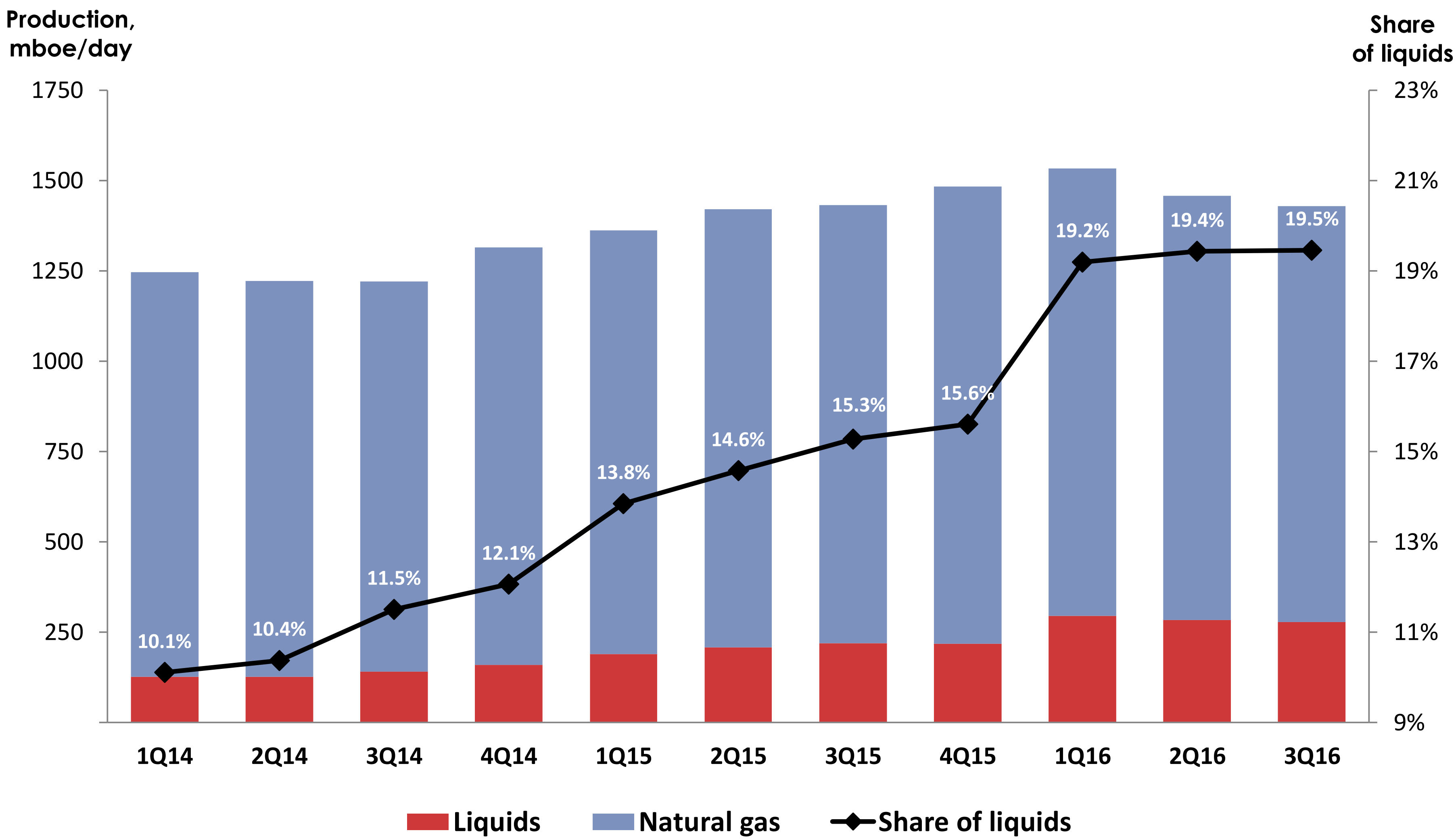
Natural gas production decreased Y-o-Y due to natural declines in the reservoir pressure at the current gas producing horizons at mature fields, partially compensated by the launch of Yarudeyskoye field and the launch of additional facilities to improve the efficiency of associated petroleum gas utilization at our Khancheyskoye field in August 2015.

Gas condensate production at mature fields of our subsidiaries (Yurkharovskoye and East-Tarkosalinskoye) and fields of SeverEnergia and Nortgas decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

At the same time we significantly increased crude oil production primarily due to the commencement of commercial production at the Yarudeyskoye field in December 2015 and reaching the nameplate production capacity by the end of the month.

NOVATEK

Growing Share of Liquids



NOVATEK

Purovsky Plant

- **Total volumes delivered in 3Q16: 3,009 mt**
  - Yurkharovskoye field: 431 mt
  - East-Tarkosalinskoye and Khancheyskoye fields: 167 mt
  - Other fields: 29 mt
  - Purchases from our joint ventures: 2,382 mt
- **Annualized throughput volumes: 12.0 mmt**
- **Total output of marketable products: 2,975 mt**
  - Stable gas condensate: 2,355 mt
  - LPG: 620 mt

NOVATEK

Ust-Luga Complex

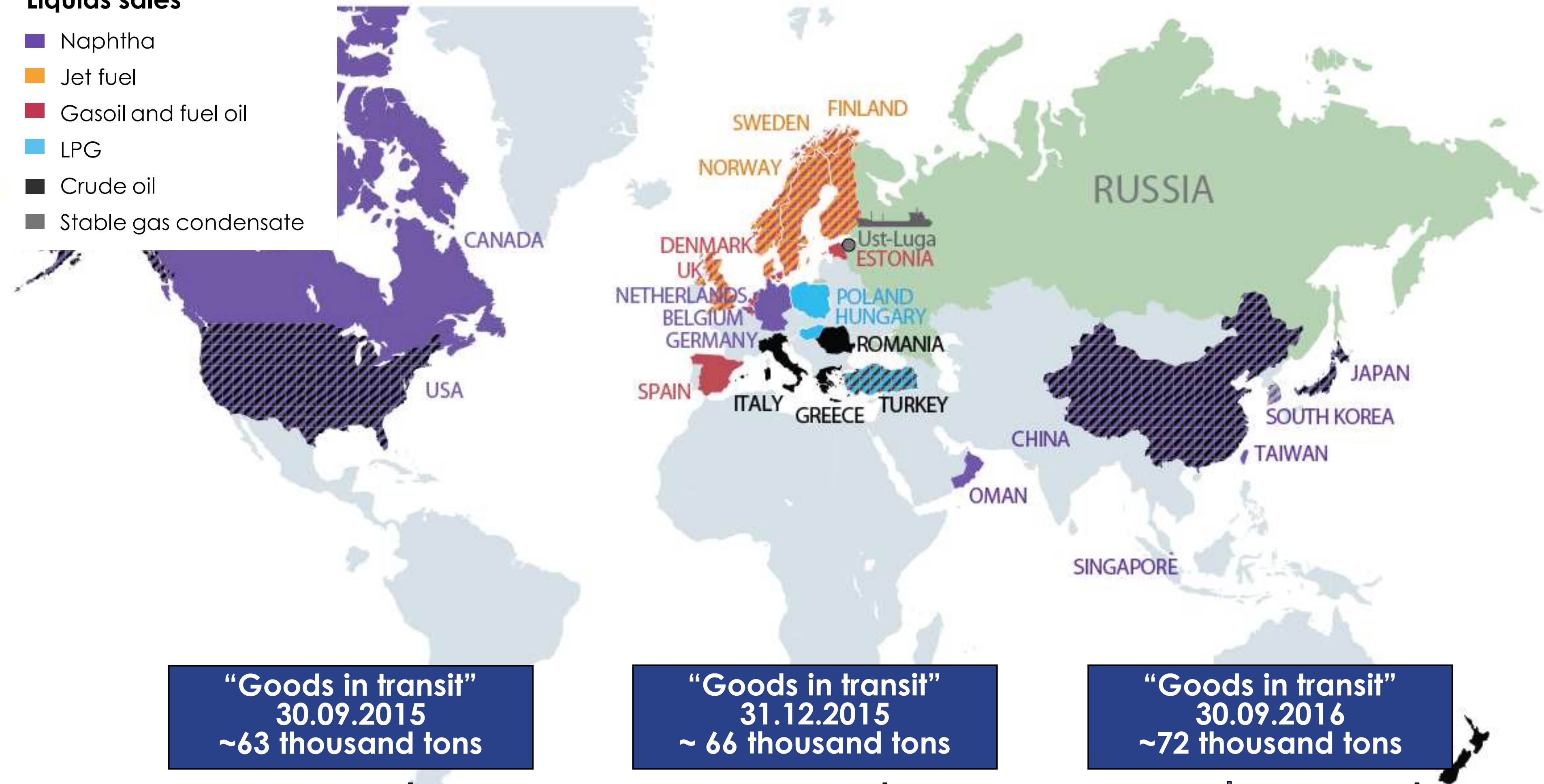
- Total volumes delivered in 3Q16: 1,657 mt
- Annualized throughput volumes: 6.6 mmt
- Total output of marketable gas condensate refined products: 1,621 mt
  - Naphtha: 993 mt
  - Other products: 628 mt
- Gas condensate refined products sold: 1,647 mt
  - to Europe: 876 mt
  - to the Asian Pacific Region: 449 mt
  - to North America: 295 mt
  - Other: 27 mt

NOVATEK

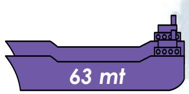
Liquids in Tankers

Liquids sales

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

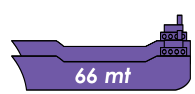


"Goods in transit" 30.09.2015 ~63 thousand tons



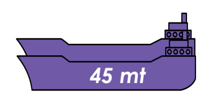
Asia-Pacific Region (SGC)

"Goods in transit" 31.12.2015 ~ 66 thousand tons

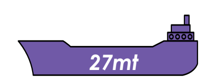


Asia-Pacific Region (SGC)

"Goods in transit" 30.09.2016 ~72 thousand tons



Asia-Pacific Region (Naphtha)



Europe (Other gas condensate refined products)

NOVATEK

Financial Overview – 3Q16 to 3Q15

NOVATEK

Comparison of Quarterly Results (RR million)

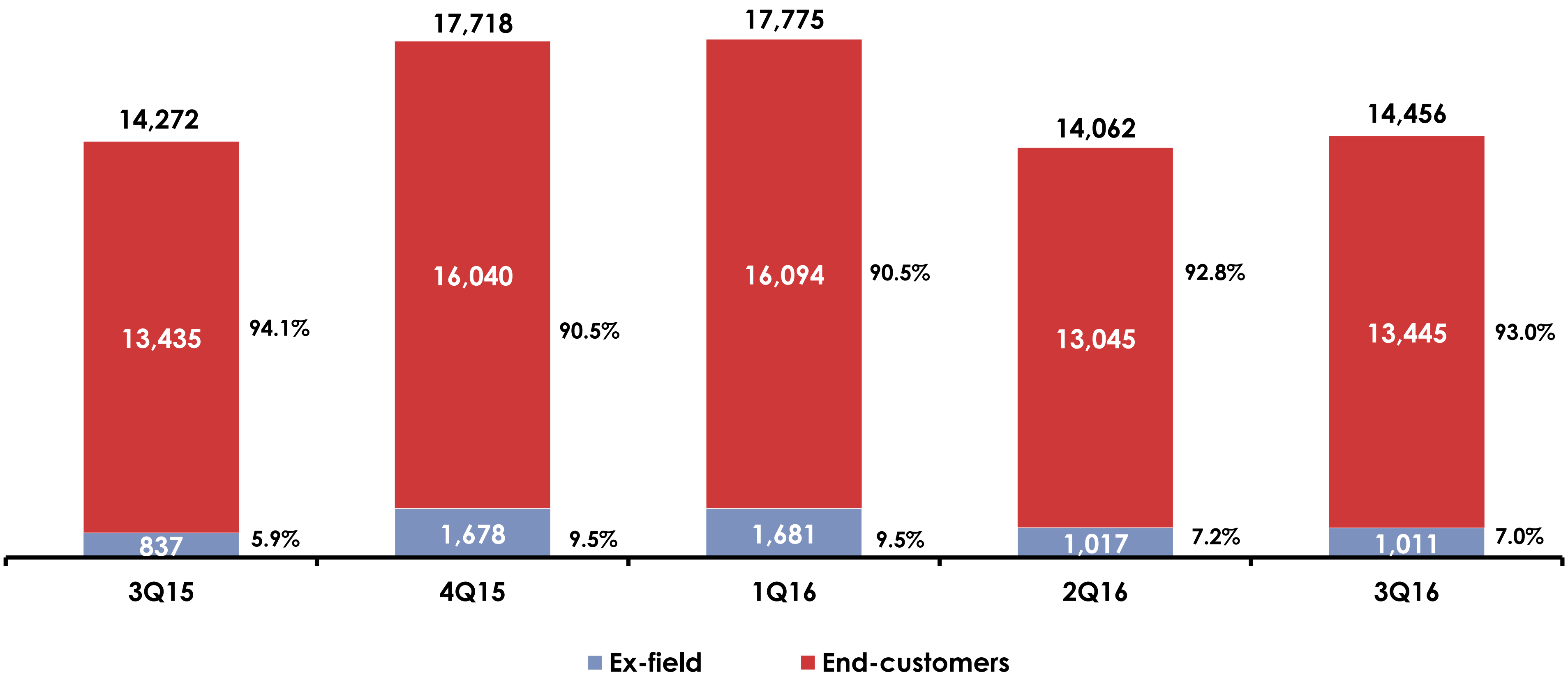
	3Q15	4Q15	1Q16	2Q16	3Q16	Q-o-Q +/- %	Y-o-Y +/- %
Total revenues	117,367	131,972	139,351	127,388	126,483	-0.7%	7.8%
Operating expenses	(85,096)	(96,509)	(97,159)	(90,019)	(93,458)	3.8%	9.8%
Normalized (1) EBITDA (2)	52,579	57,267	62,136	59,507	57,726	-3.0%	9.8%
Normalized (1) EBITDA margin	44.8%	43.4%	44.6%	46.7%	45.6%		
Normalized (1) profit (loss) attributable to NOVATEK	(13,405)	13,817	58,240	45,934	36,494	-20.6%	n/a
Normalized (1) profit (loss) margin	-11.4%	10.5%	41.8%	36.1%	28.9%		
Normalized (1) earnings (loss) per share	(4.44)	4.57	19.29	15.22	12.09	-20.5%	n/a
Cash used for capital expenditures (3)	12,198	13,604	8,976	7,233	7,716	6.7%	-36.7%
Net debt (4)	258,212	329,518	203,019	216,010	200,412	-7.2%	-22.4%
Free cash flow (5)	4,574	32,324	45,448	12,056	35,079	191.0%	666.9%

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

In 2Q16 free cash flow was influenced by 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.

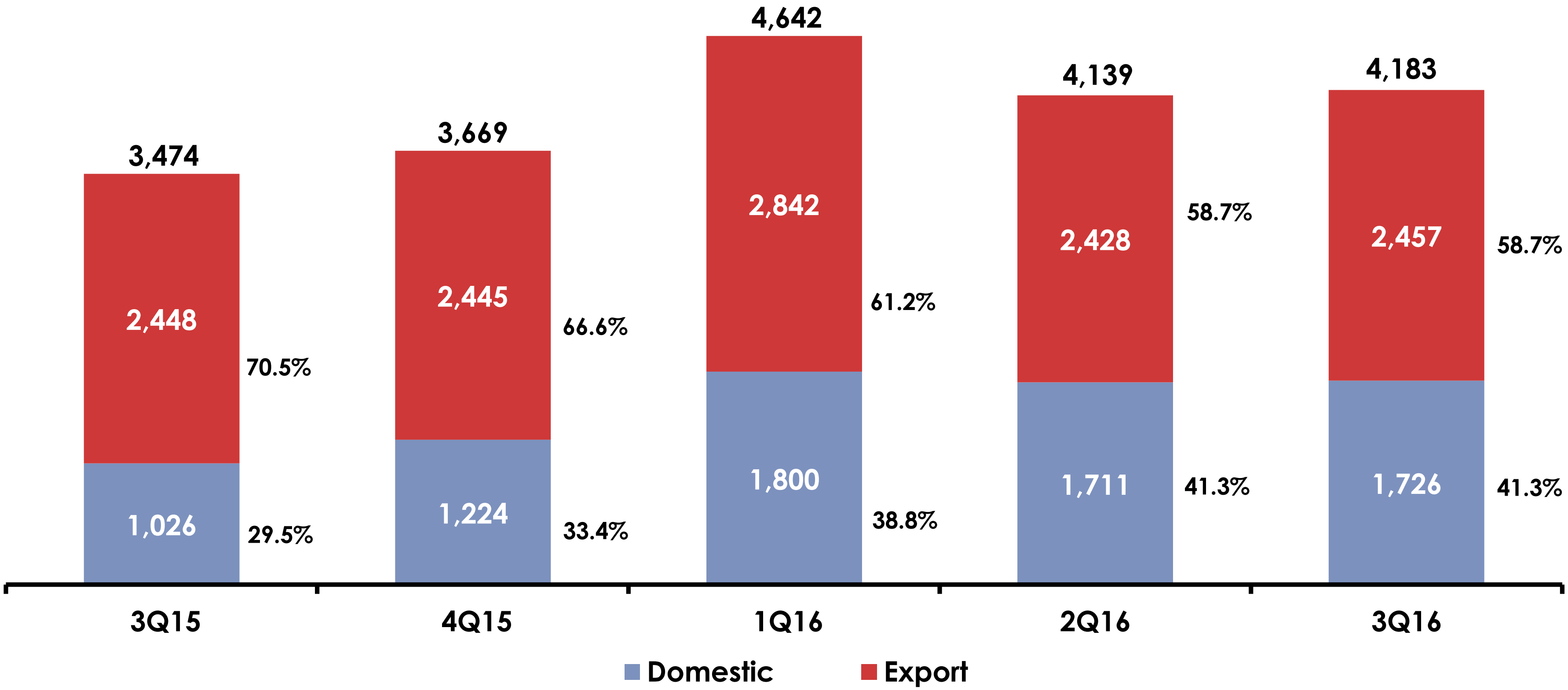
NOVATEK

Market Distribution – Gas Sales Volumes (mmcm)



NOVATEK

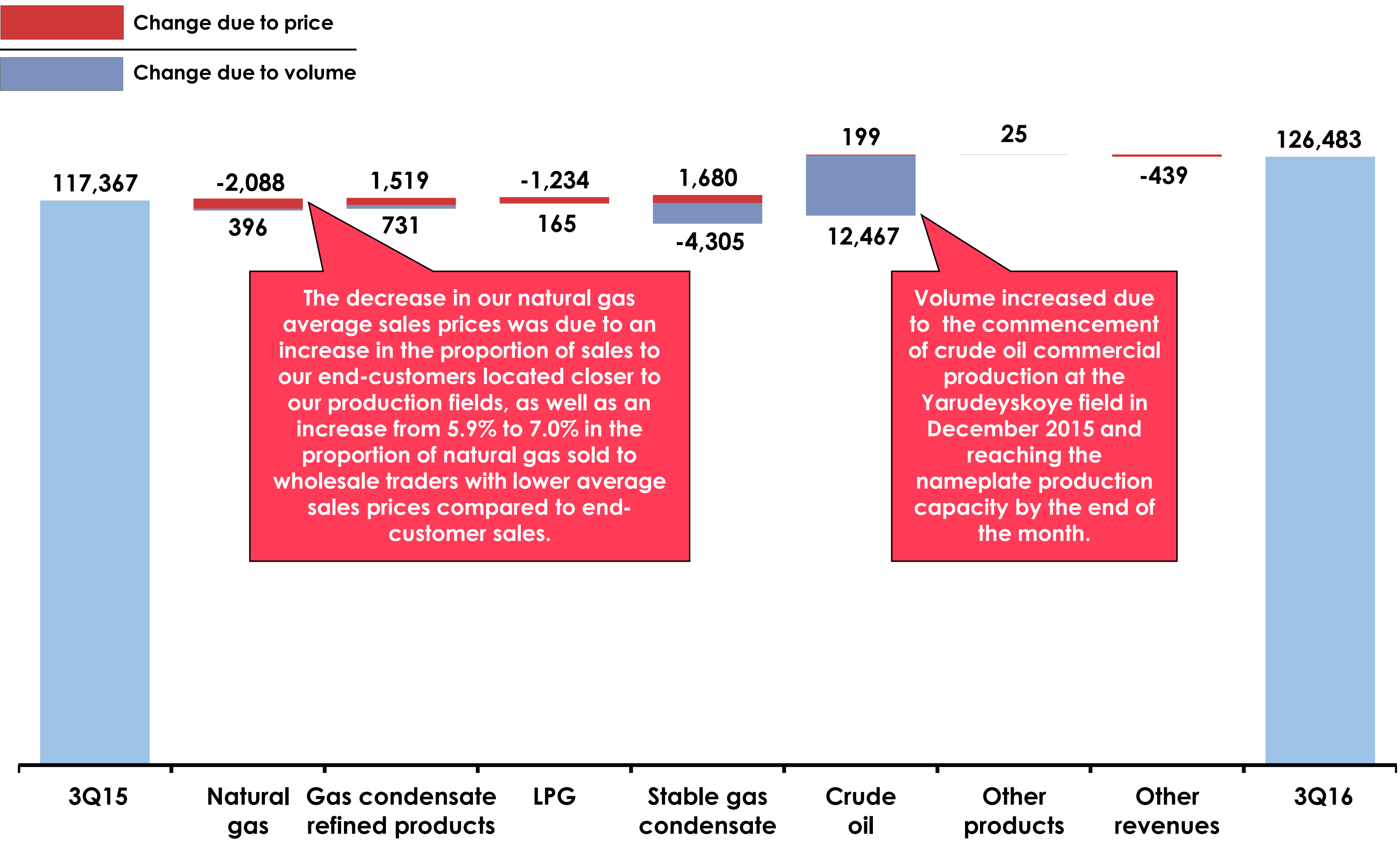
Market Distribution – Liquids Sales Volumes (mt)



Y-o-Y increase in liquids sales volumes was due to an increase in the production of crude oil in our subsidiaries.

NOVATEK

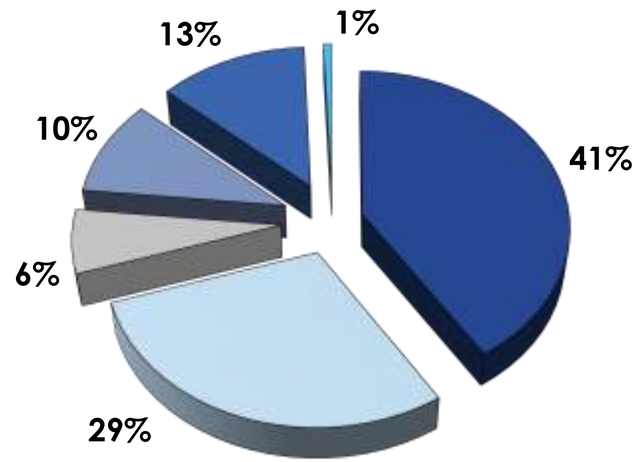
Total Revenues (RR million)



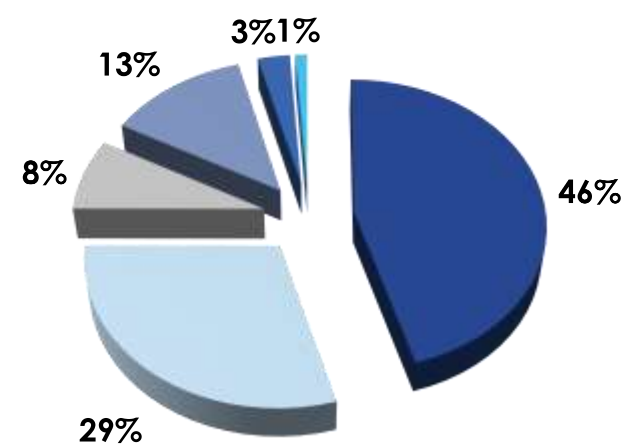
Total Revenues Breakdown

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

3Q16



3Q15



NOVATEK

Realized Hydrocarbon Prices (net of VAT and export duties)

3Q15	3Q16	+/(-)	+/(-)%		2Q16	3Q16	+/(-)	+/(-)%
				Domestic market				
3,849	3,693	-156	-4.1%	**Natural gas end-customers, RR/mcm**	3,727	3,693	-34	-0.9%
2,051	2,051	0	0.0%	**Natural gas ex-field, RR/mcm**	2,051	2,051	0	0.0%
14,063	15,105	1,042	7.4%	**Stable gas condensate, RR/ton**	16,002	15,105	-897	-5.6%
18,930	18,656	-274	-1.4%	**Other gas condensate refined products, RR/ton**	19,464	18,656	-808	-4.2%
11,932	9,522	-2,410	-20.2%	**LPG, RR/ton**	4,187	9,522	5,335	127.4%
13,557	13,558	1	0.0%	**Crude oil, RR/ton**	14,721	13,558	-1,163	-7.9%
				Export market				
20,429	22,302	1,873	9.2%	**Naphtha, RR/ton**	26,073	22,302	-3,771	-14.5%
23,247	22,738	-509	-2.2%	**Other gas condensate refined products, RR/ton**	21,849	22,738	889	4.1%
16,547	20,346	3,799	23.0%	**Stable gas condensate, RR/ton**	22,425	20,346	-2,079	-9.3%
24,912	25,346	434	1.7%	**LPG, RR/ton**	16,892	25,346	8,454	50.0%
14,229	14,768	539	3.8%	**Crude oil, RR/ton**	16,538	14,768	-1,770	-10.7%

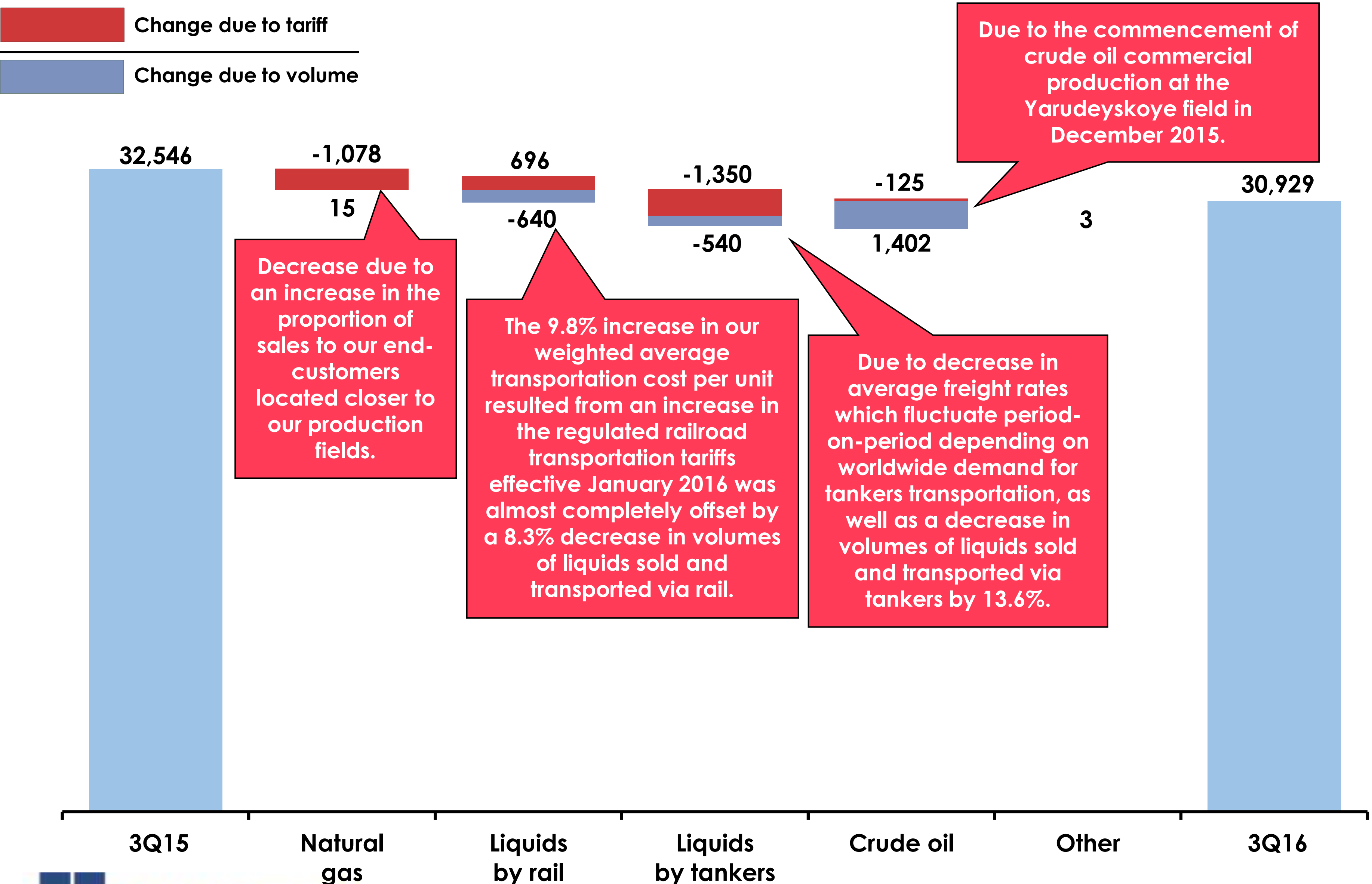
NOVATEK

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

3Q15	% of TR	3Q16	% of TR		2Q16	% of TR	3Q16	% of TR
32,546	*27.7%*	**30,929**	*24.4%*	Transportation expenses	**30,579**	*24.0%*	**30,929**	*24.5%*
9,054	*7.7%*	**10,872**	*8.6%*	Taxes other than income tax	**11,393**	*8.9%*	**10,872**	*8.6%*
41,600	*35.4%*	**41,801**	*33.0%*	**Non-controllable expenses**	**41,972**	*32.9%*	**41,801**	*33.0%*
4,883	*4.2%*	**10,233**	*8.1%*	Depreciation and amortization	**8,363**	*6.7%*	**10,233**	*8.1%*
2,930	*2.5%*	**3,817**	*3.0%*	General and administrative	**5,553**	*4.4%*	**3,817**	*3.0%*
3,626	*3.1%*	**5,010**	*4.0%*	Materials, services & other	**4,384**	*3.4%*	**5,010**	*4.0%*
439	*0.4%*	**906**	*0.7%*	Exploration expenses	**42**	*0.0%*	**906**	*0.7%*
-16	*n/a*	**-6**	*n/a*	Net impairment expenses (reversals)	**-40**	*n/a*	**-6**	*n/a*
-1,258	*n/a*	**-532**	*n/a*	Change in natural gas, liquids and WIP	**-2,258**	*n/a*	**-532**	*n/a*
52,204	*44.5%*	**61,229**	*48.4%*	**Subtotal operating expenses**	**58,016**	*45.6%*	**61,229**	*48.4%*
32,892	*28.0%*	**32,229**	*25.5%*	Purchases of natural gas and liquid hydrocarbons	**32,003**	*25.1%*	**32,229**	*25.5%*
85,096	*72.5%*	**93,458**	*73.9%*	**Total operating expenses**	**90,019**	*70.7%*	**93,458**	*73.9%*

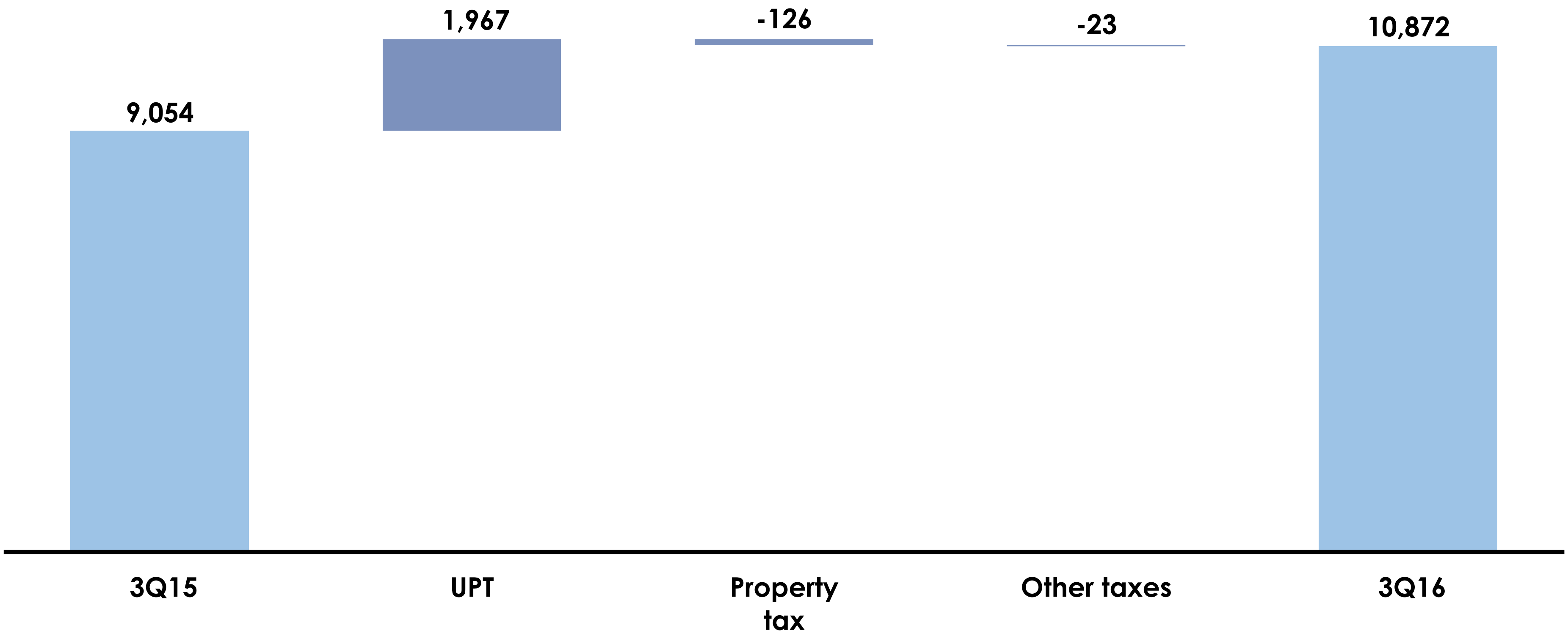
- **Total operating expenses increased Y-o-Y by 9.8% primarily due to the launch of the Yarudeyskoye field in December 2015 and the respective increased transportation, taxes other than income tax expenses, depreciation, depletion and amortization, and materials, services and other expenses;**
- **Depreciation, depletion and amortization expense increased significantly 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 decreased Y-o-Y due to an increase in the proportion of natural gas sales to our end-customers located closer to our production fields and due to a decrease in average freight rates which fluctuate period-on-period depending on worldwide demand for tankers transportation, as well as a decrease in volumes of liquids sold and transported via tankers by 13.6%.**

Transportation Expenses (RR million)



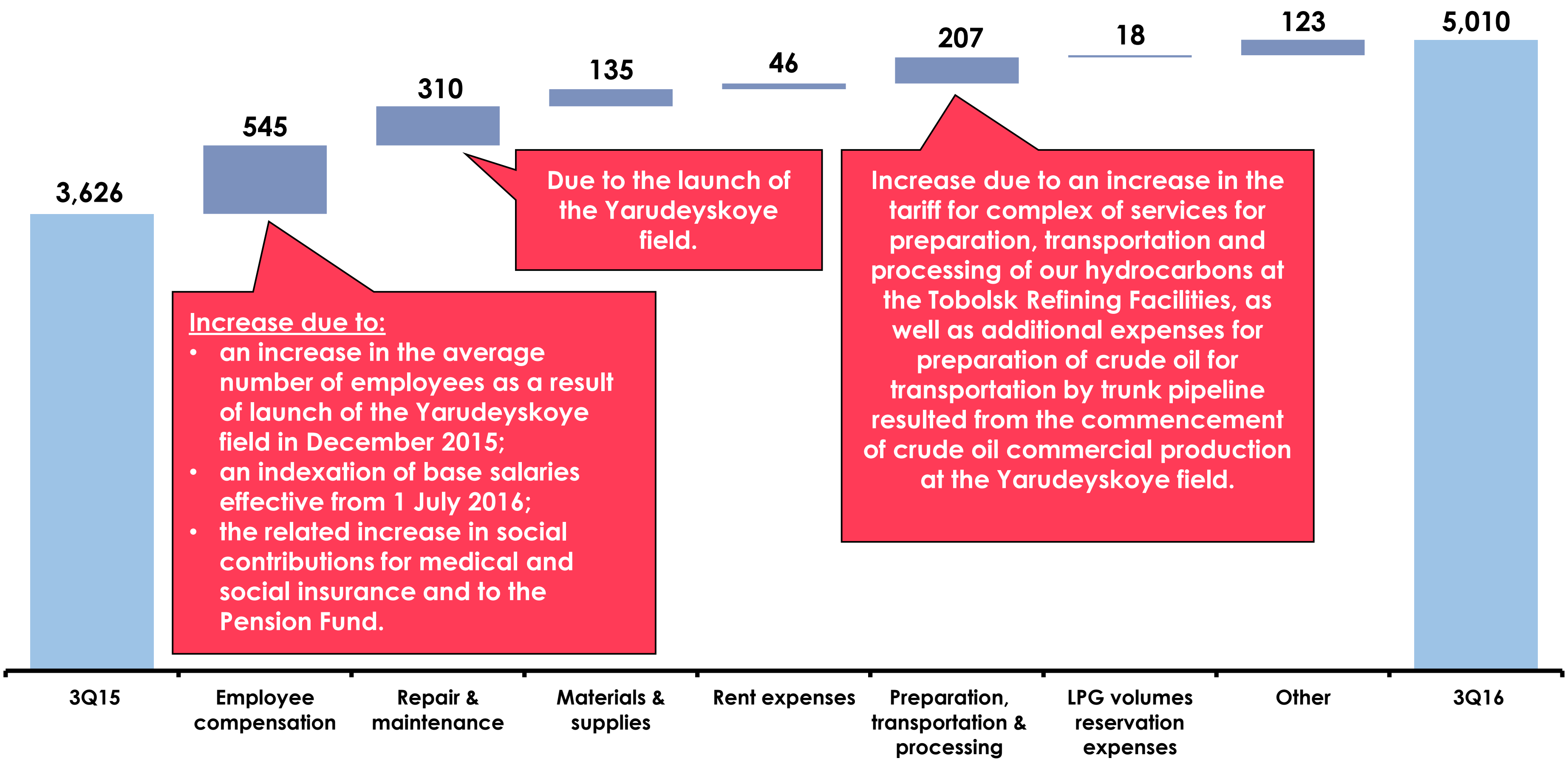
NOVATEK

Taxes Other Than Income Tax Expense (RR million)



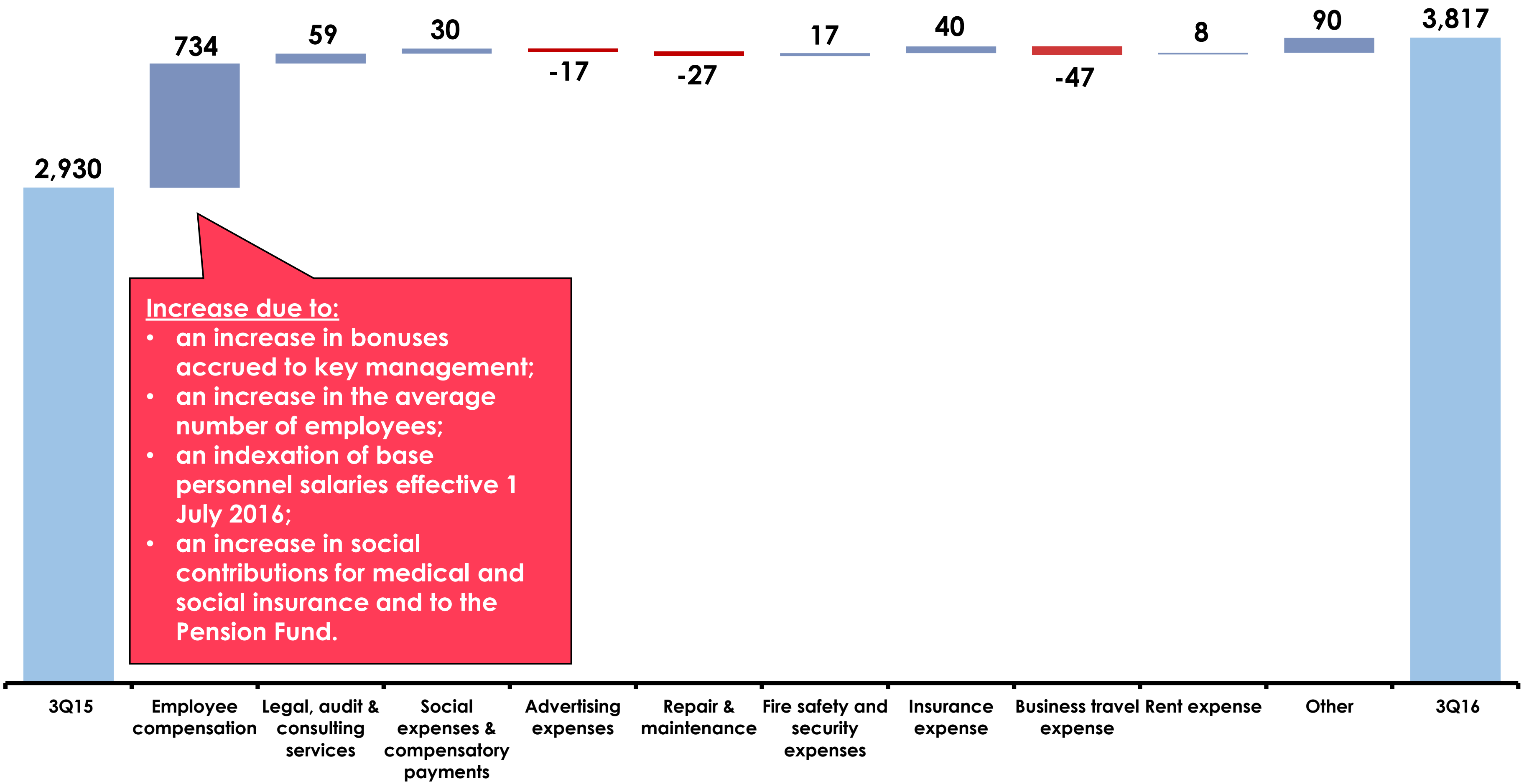
- Y-o-Y increase in UPT expense was primarily due to a significant increase in crude oil production as a result of the commercial production commencement at the Yarudeyskoye field in December 2015.
- In addition, as a part of the tax maneuver in the oil and gas industry, the adjusting coefficient that is applied in the calculation of the UPT rate for gas condensate was increased by 25.0% from 1 January 2016 in relation to 2015, thus also leading to an increase in our UPT expense.

Materials, Services and Other Expenses (RR million)



NOVATEK

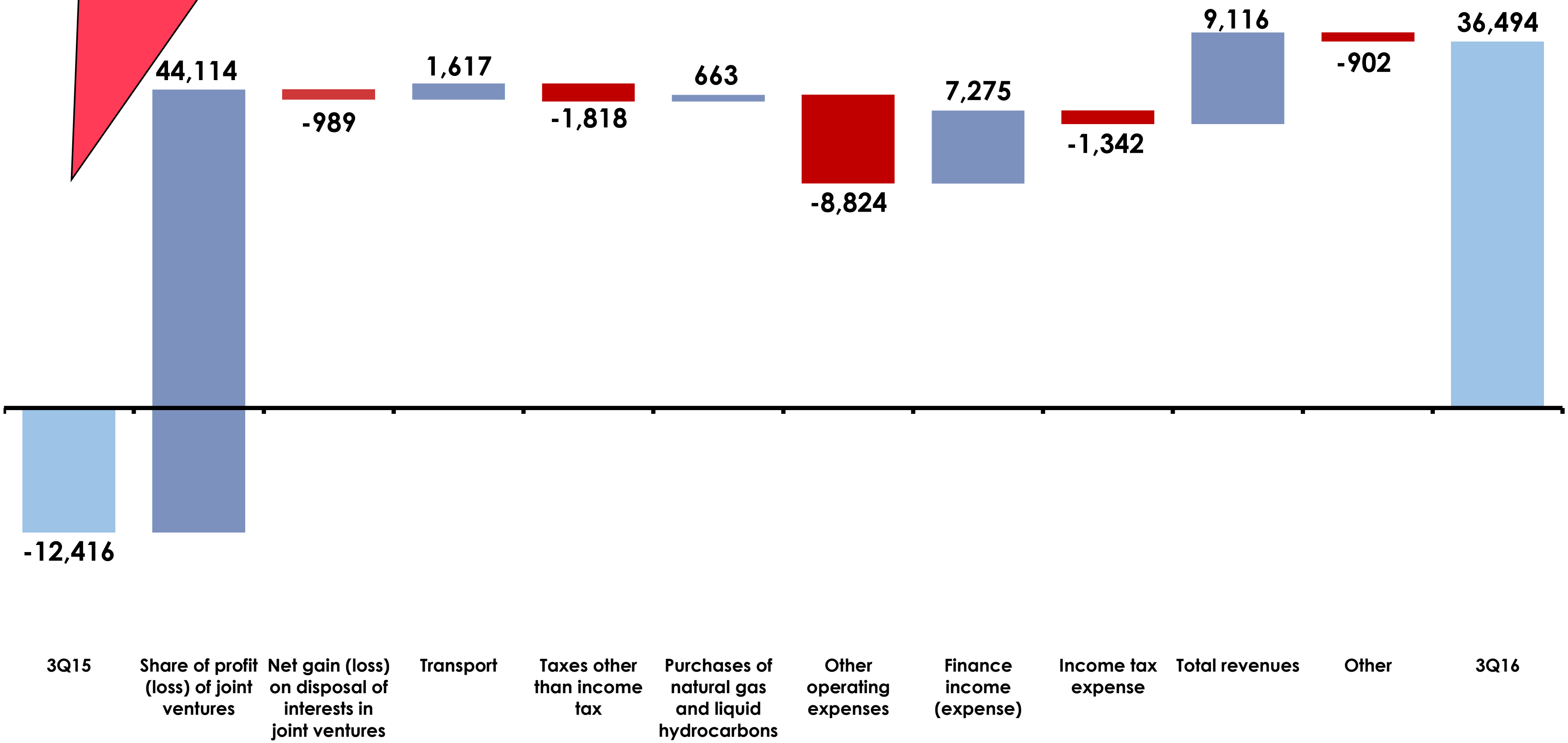
General and Administrative Expenses (RR million)



NOVATEK

Profit Attributable to NOVATEK Shareholders (RR million)

Due to significant non-cash foreign exchange losses on foreign currency denominated loans of the Group and its joint ventures in 3Q15.

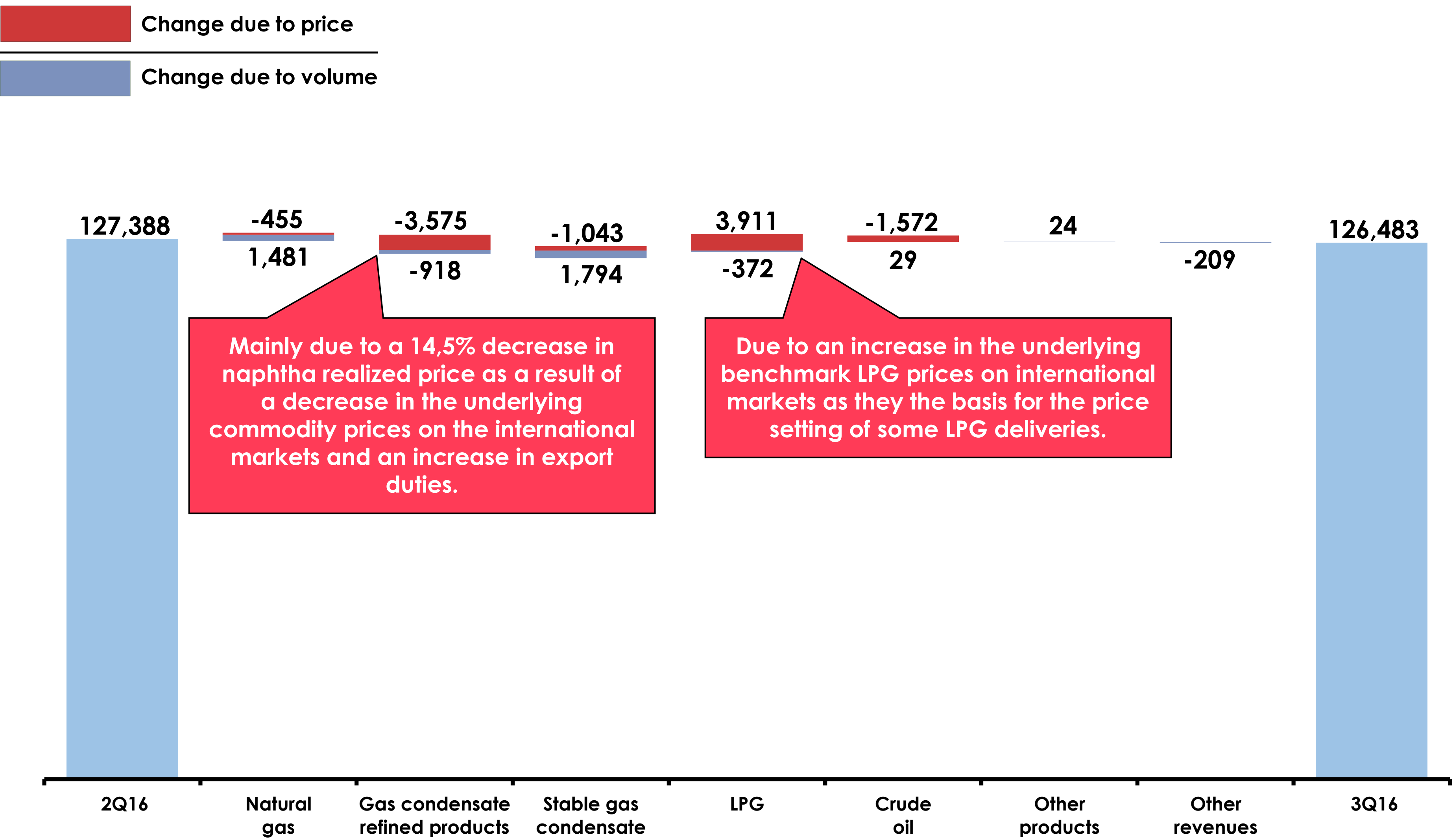


NOVATEK

Financial Overview – 3Q16 to 2Q16

NOVATEK

Total Revenues (RR million)

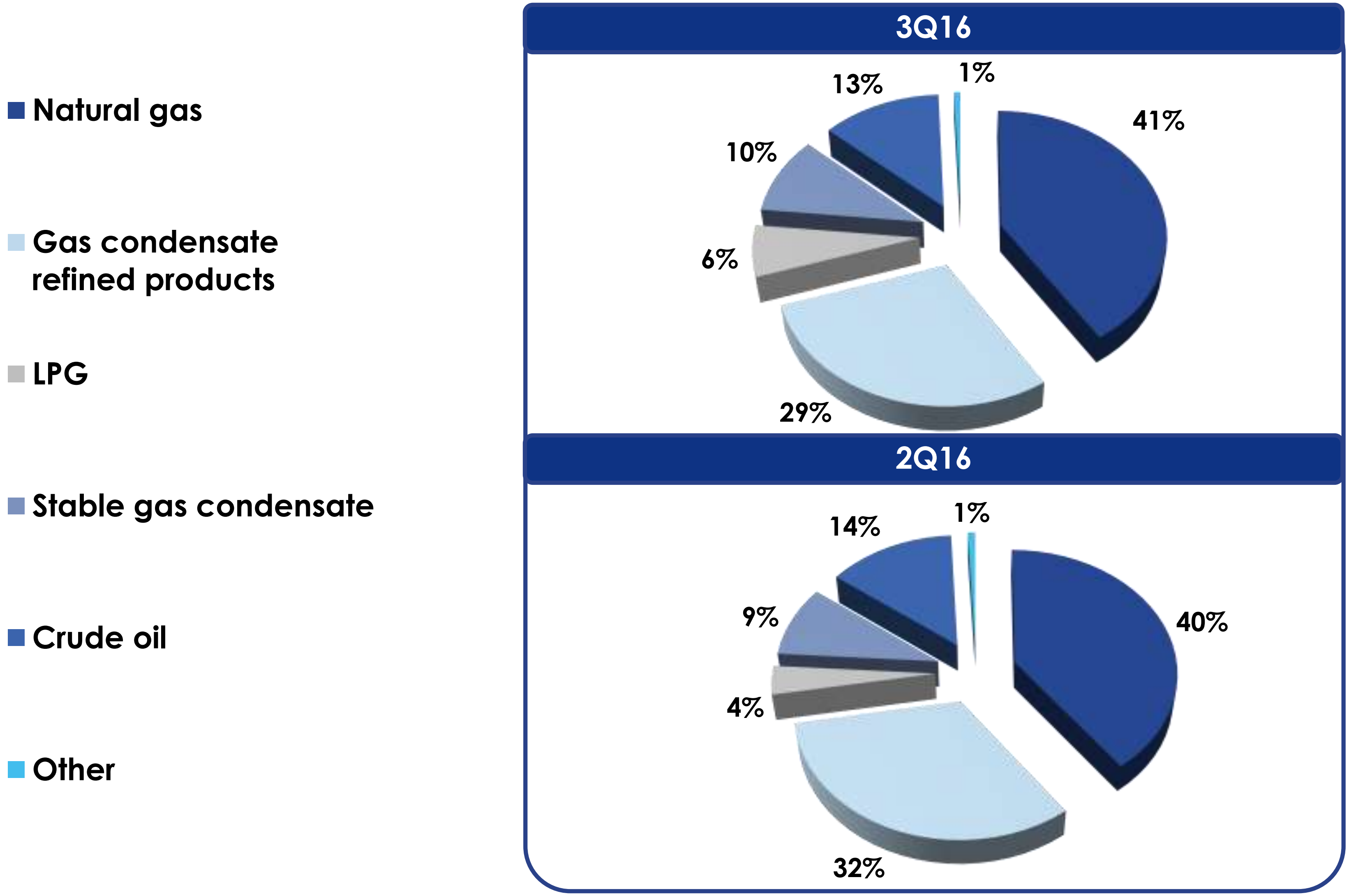


Mainly due to a 14,5% decrease in naphtha realized price as a result of a decrease in the underlying commodity prices on the international markets and an increase in export duties.

Due to an increase in the underlying benchmark LPG prices on international markets as they the basis for the price setting of some LPG deliveries.

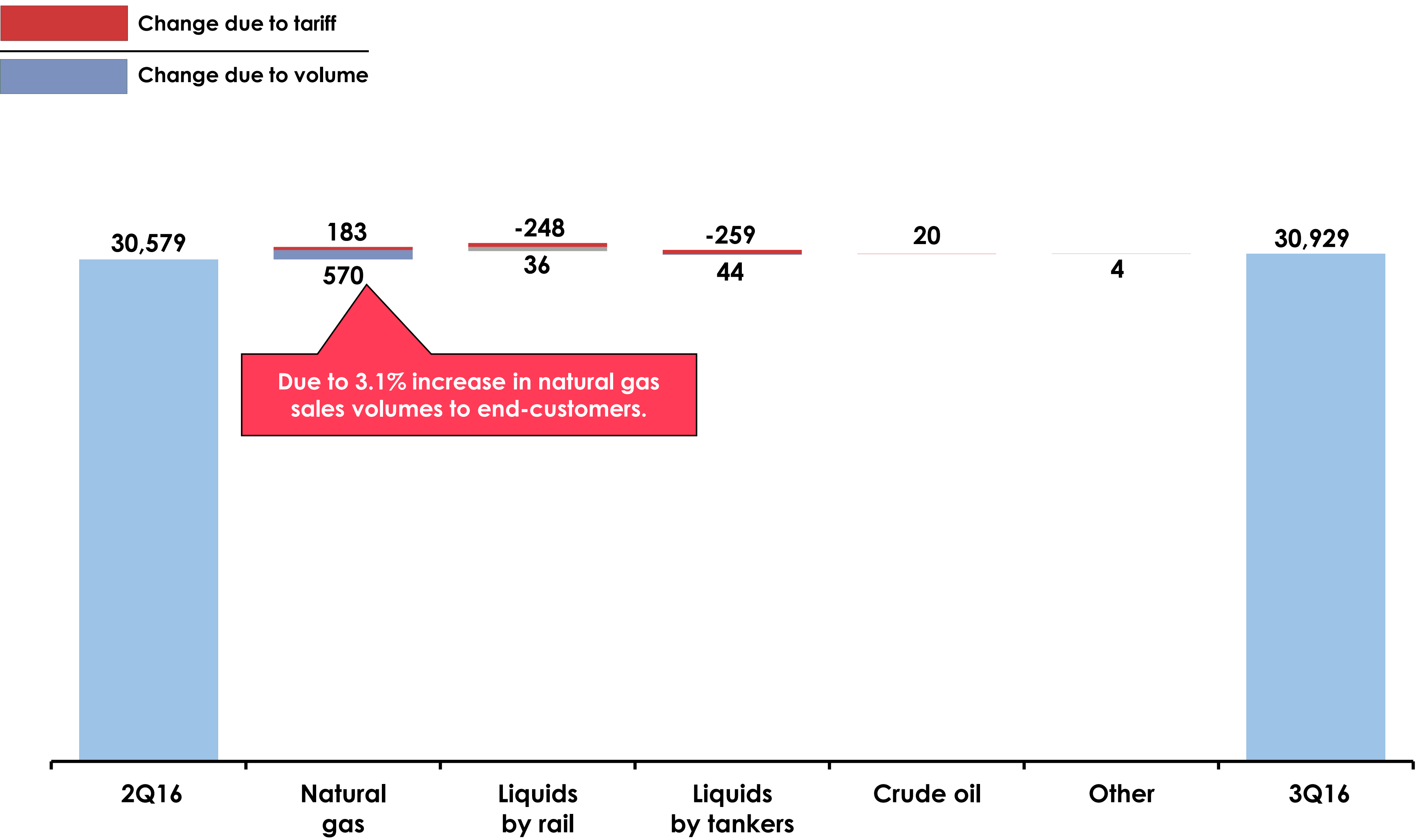
NOVATEK

Total Revenues Breakdown

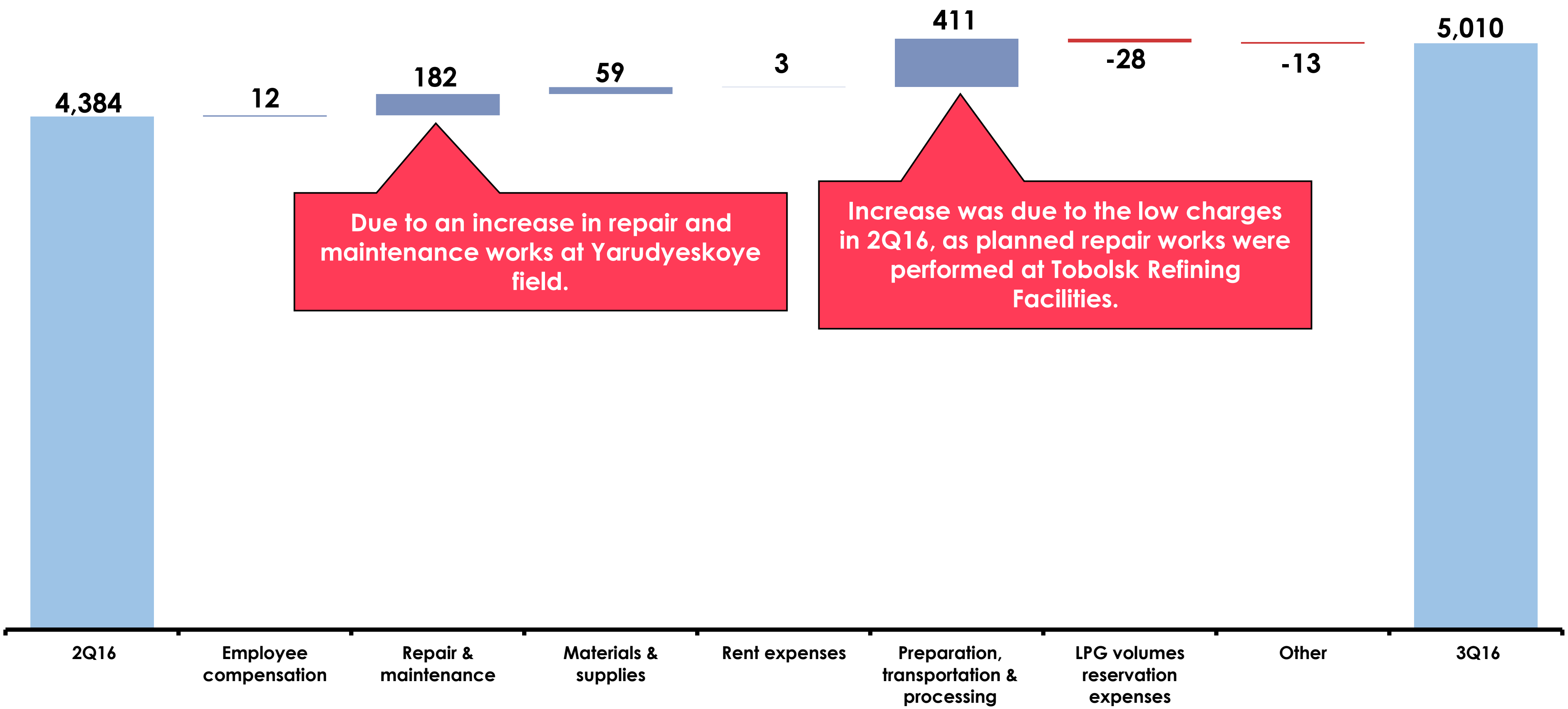


NOVATEK

Transportation Expenses (RR million)

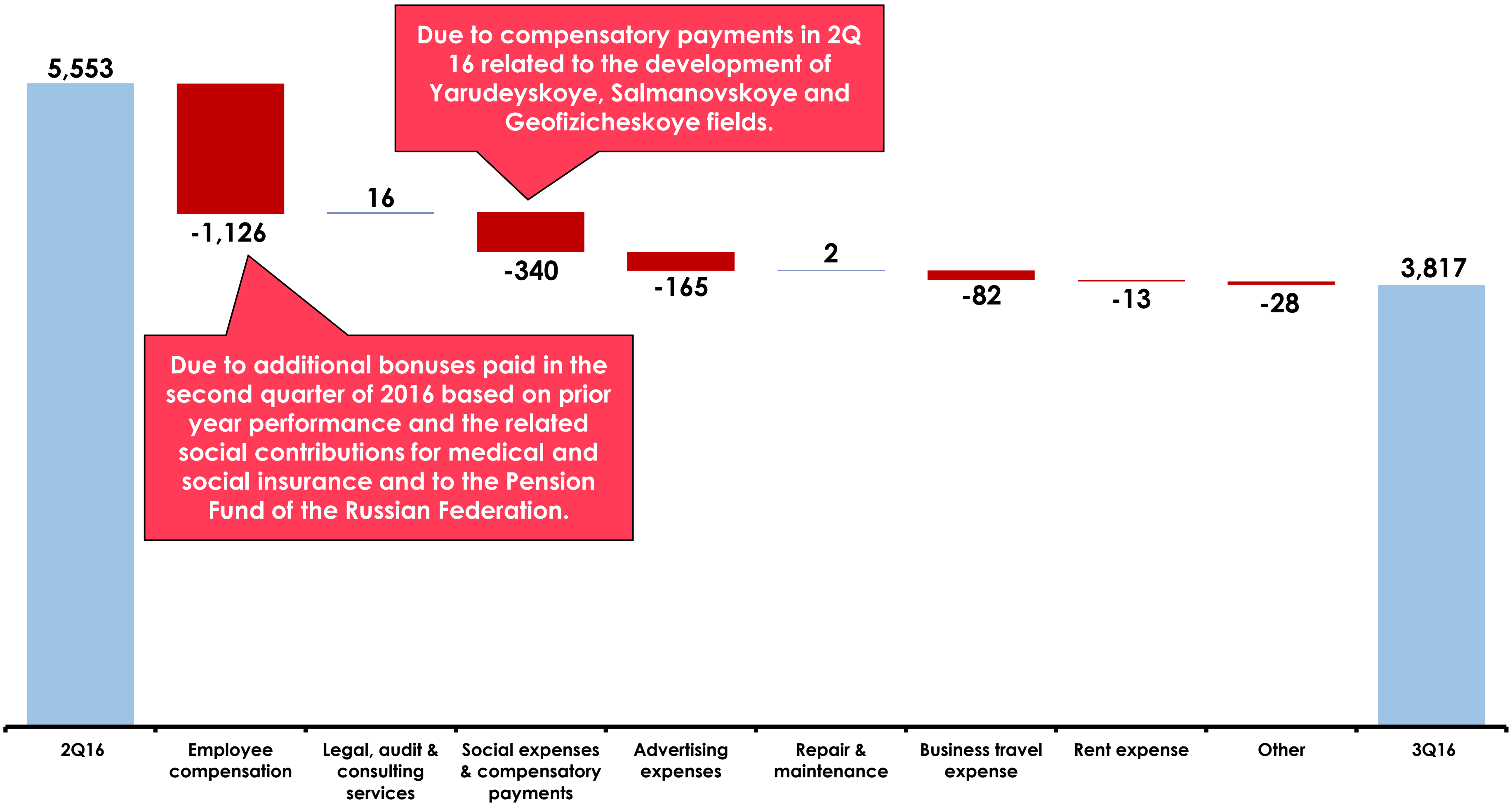


Materials, Services and Other Expenses (RR million)



NOVATEK

General and Administrative Expenses (RR million)

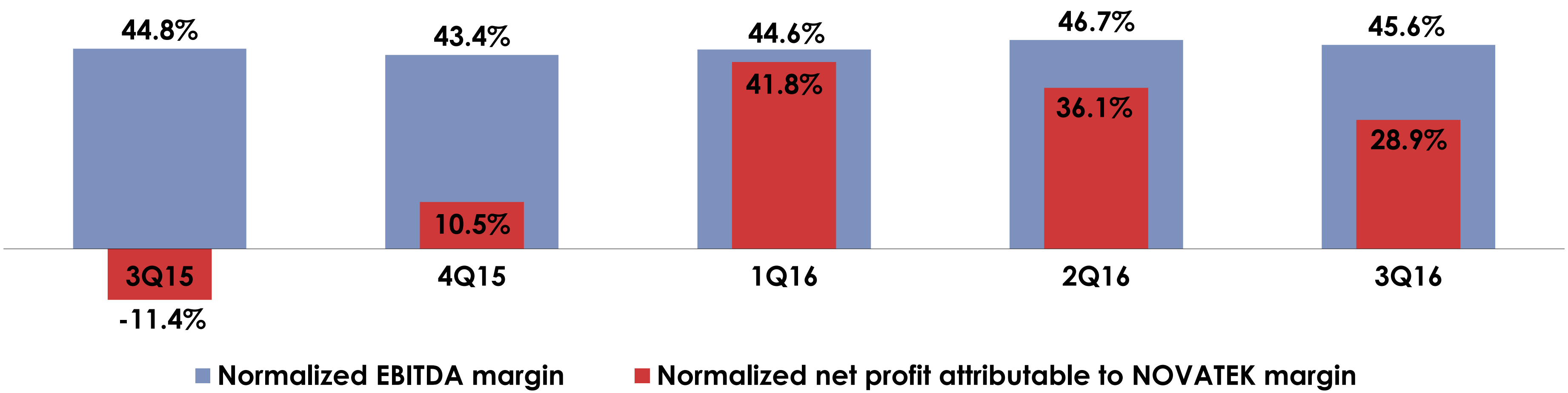


NOVATEK

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

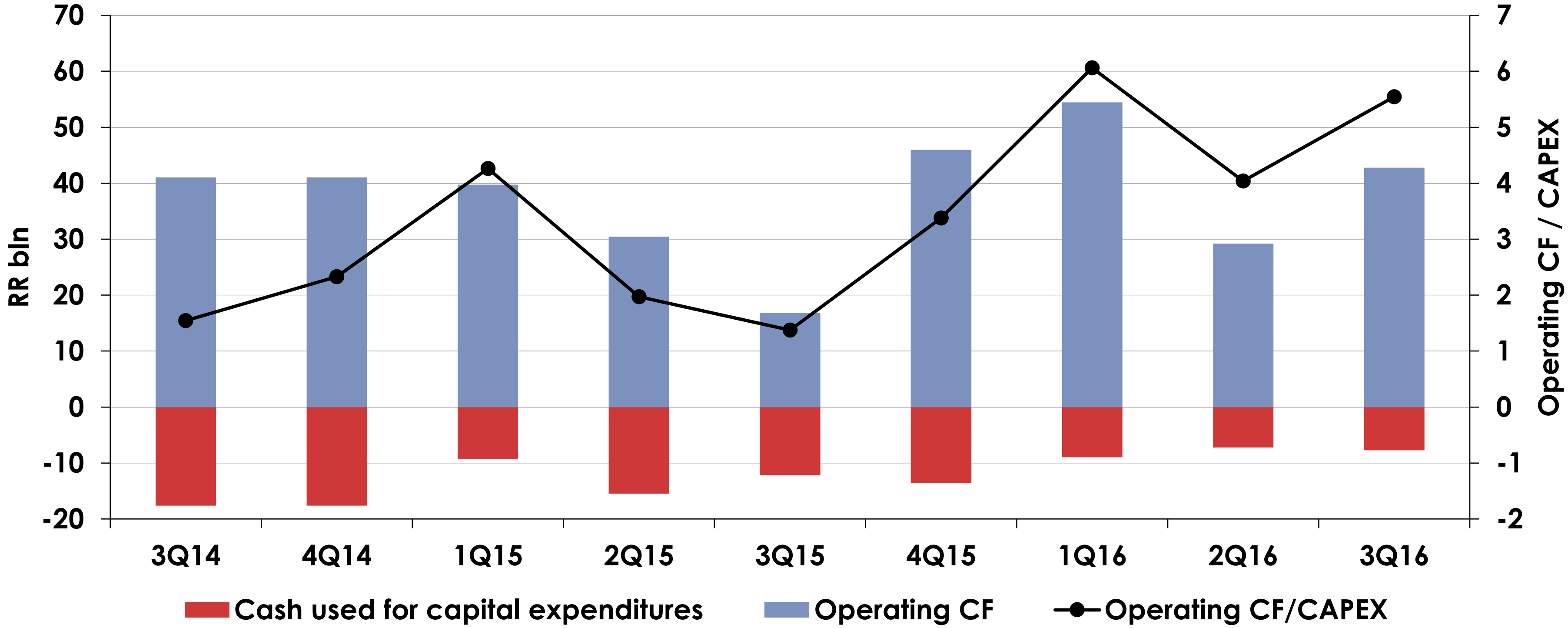
NOVATEK

Condensed Statement of Financial Position (RR million)

	30 September 2016	31 December 2015	+/(-)	+/(-)%
Total current assets	**118,559**	**120,485**	**(1,926)**	**-1.6%**
Incl. Cash and cash equivalents	*27,455*	*29,187*	*(1,732)*	*-5.9%*
Total non-current assets	**804,302**	**751,552**	**52,750**	**7.0%**
Incl. Net PP&E	*329,870*	*331,712*	*(1,842)*	*-0.6%*
Assets held for sale	-	**7,987**	**(7,987)**	**-100.0%**
Total assets	**922,861**	**880,024**	**42,837**	**4.9%**
Total current liabilities	**109,862**	**169,675**	**(59,813)**	**-35.3%**
Incl. ST & current portion of LT debt	*44,368*	*106,655*	*(62,287)*	*-58.4%*
Total non-current liabilities	**218,038**	**282,178**	**(64,140)**	**-22.7%**
Incl. Deferred income tax liabilities	*24,407*	*23,706*	*701*	*3.0%*
Incl. LT debt	*183,499*	*252,050*	*(68,551)*	*-27.2%*
Total liabilities	**327,898**	**451,853**	**(123,955)**	**-27.4%**
Total equity	**594,963**	**428,171**	**166,792**	**39.0%**

NOVATEK

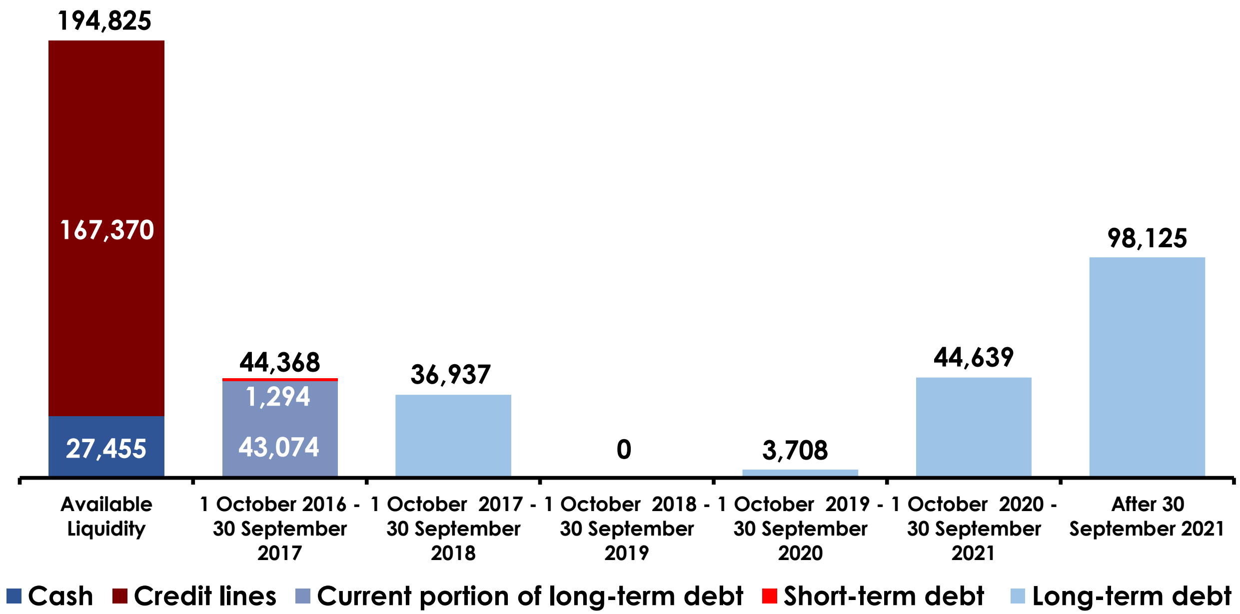
Internally Funded Investment Program



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 120 billion and the equivalent of USD 750 million.

Debt repayment schedule:

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

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

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

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

NOVATEK

Questions and Answers