

Company: NOVATEK
Conference Title: Q4 & Full Year 2013 Earnings Conference Call
Presenter: Mark Gyetvay
Date: Thursday 27th February 2014

Operator: Ladies and gentlemen, the conference is about to begin. Please take note the conference is being recorded. Thank you.

Nick Harwood: Ladies and gentlemen, my name is Nick Harwood and on behalf of Sberbank CIB I am delighted to invite you to the NOVATEK 2013 Financial Results Conference Call. We are privileged that today to speak to you we have the Chairman of the Management Board, Leonid Viktorovich Mikhelson; and Mark Gyetvay, the CFO. I'd like to hand over to Mark at this juncture. Thank you very much.

Mark Gyetvay: Thank you Nick. Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Fourth Quarter and Full Year 2013 earnings conference call. I would like to thank everyone for joining us this evening, and again extend our sincere gratitude to Sberbank-CIB for organizing and hosting our earnings conference call.

Joining me this evening during the question and answer session will be Mr. Leonid V. Mikhelson, CEO, Chairman of the Management Committee, and a member of the Board of Directors. The Q&A session will be handled simultaneously in both the Russian and English languages, so when we come to that part of the conference call, I will ask you to keep this important point in consideration when asking questions for the benefit of all conference call participants. There will be sufficient time allotted to answer your important questions.

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 2012, 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.

Two thousand and thirteen (2013) was an important year for NOVATEK as we began transitioning away from being considered purely a domestic gas play to a more balanced, international energy company with a stronger, strategic focus on monetizing our liquids rich natural gas portfolio of assets and increasing our proportion of higher valued products on the international markets. During 2013, we commissioned the Ust-Luga Gas Fractionation and Transshipment Complex (hereinafter referred to as the “Ust-Luga Complex”) on-time and within budget as well as the expanded the processing capacity at the Purovsky Plant. The timely completion of these important capital projects paves the way for NOVATEK to begin ramping up our production of unstable gas condensate at our fields, which correspondingly maximizes our cash flow generation through value-added petroleum products sold to the international markets at world market prices. The combination of these two events – the completion of the processing complexes and the subsequent ramp up of liquids production – adds a completely new dimension to our business profile by diversifying our revenue stream to higher margin products, stronger cash flows per unit sold and increasing export earnings.

To supplement this transition, we completed the year 2013 with a series of key value accretive M&A transactions thus solidifying our move toward producing more liquids from our natural gas production streams. The value accretive transactions combined with our current development plans is consistent with our strategic objectives outlined in 2011 of doubling our natural gas output and tripling our liquids production by 2020, resulting in a shift toward increasing the proportion of higher value liquids on a barrel of oil equivalent basis. I believe this important distinction – the transitioning to higher valued export earnings per unit sold - is not yet well understood by the investment community.

Specifically, Yamal Development, our 50/50 joint venture between NOVATEK and GazpromNeft), signed an agreement to purchase ENI's 60% equity stake in Artic Russia BV for approximately USD 2.94 billion, which effectively increases the joint ventures stake in SeverEnergia from 51% to 80.4%, or our indirect equity stake from 25.5% to 40.2%. In addition, we signed an asset swap agreement with Rosneft in December whereby we swapped our 51% equity interest in Sibneftegas for Rosneft's 40% equity stake in Artic Russia BV. Following the completion of this asset swap, we increased our effective equity stake in SeverEnergia by another 19.6% or cumulatively to 59.8%. The transaction with Rosneft was a straight asset swap and did not include any additional compensation or cash payments to either party.

The development of SeverEnergia (and its related fields) has the potential to significantly increase our proportionate share of natural gas, gas condensate and, eventually, the joint venture's crude oil production. Moreover, the conclusion of the recent transactions with both ENI and Rosneft not only increased our effective equity stake in SeverEnergia but also allows us to concentrate our efforts on developing fields rich in liquid hydrocarbons, which complements our long-term strategy, taking into consideration our existing infrastructure as well as the commissioning of the Ust-Luga Complex and the expansion of the Purovsky Plant.

SeverEnergia holds the exploration and production licenses for the Samburgskiy, Yevo-Yakhinskiy, Yaro-Yakhinskiy and North-Chaselskiy licenses areas via its fully consolidated subsidiary ArcticGas, and as of 31 December 2013, the proved reserves of SeverEnergia under the SEC proven reserves methodology were estimated at 487 billion cubic meters (bcm) of natural gas and 90 million tons of liquid hydrocarbon.

We will launch two major new fields in 2014 as part of ongoing development activities at SeverEnergia. The first field – Urengoyskoye – is expected to commission the first production train in April 2014 and the second production train around the October/November period whereas the second field – Yaro-Yakhinskoye – is expected to be launched sometime in the September/October 2014 time period.

As of today, we have completed 35 production wells at the Urengoykoye field, representing approximately 25% of the field's total well count, and 30 production wells at the Yaro-Yakhinskoye field, representing approximately 68% of the field's total well count. These two fields represent major contributors to our planned increase in liquids output over the next several years as the concentration of liquids measured in grams per thousand cubic meters is much higher than our existing core fields, thus emphasizing the importance of monetizing these liquid assets in a pricing environment whereby oil-linked products trade at a significant premium on a calorific-basis relative to natural gas.

We will continue ramping up production at the Samburgsky field as part of this field's development plans with the third stage development planned to be launched in September 2014. Presently, there are 41 cumulative production wells drilled at the field, representing approximately 51% of the field's total well count.

We anticipate that all three (3) main fields at SeverEnergiya will reach initial plateau levels by late 2015 or early 2016, and these three (3) fields represent approximately 80% of the planned production output of SeverEnergiya. The total estimated production per annum at SeverEnergiya is approximately 35 billion cubic meters of natural gas and 6.5 million tons of gas condensate. These production figures exclude the joint ventures crude oil potential which is being evaluated with additional testing.

In terms of crude oil production, we have been working on infrastructure activities to prepare the Yarudeyskoye field for initial drilling. During 2013, we began constructing the crude oil and gas pipelines as well as piling works and backfilling of drilling pads and the crude oil treatment facility. In 2014, we plan to drill 15 production wells and proceed with the construction of the crude oil treatment facility and oil gathering lines. One (1) drilling rig has already been delivered to the site and is currently being erected, and another three (3) drilling rigs will be delivered to the location in early 2014. The field, scheduled to launch in 2015, is expected to reach plateau production levels of approximately 3.5 million tons per annum. The expected contribution of this joint venture represents a significant increase in the Company's crude oil output located above the 65th parallel subject to zero mineral extraction tax until 2022.

The successful commissioning of the Ust-Luga Complex located on the Baltic Sea was one of the key highlights of 2013 as the facility allows us to expand our vertically integrated value chain and increase sales of higher value products, as well as diversify our markets and expand our product range. With the launch of the Ust-Luga Complex we transitioned away from utilizing the Port of Vitino located on the White Sea as the main export port for our liquid products, which correspondingly reduced the transport distance by approximately 380 kilometers.

The facility include two (2) stable gas fractionation trains with capacity of three (3) million tons per annum each, 520 thousand cubic meters of storage facilities for feedstock and products, two (2) deep-water berths equipped with loading arms capable of loading tankers up to 120 thousand deadweight tons, administrative buildings, and living quarters amongst various other infrastructure equipment and facilities.

During 2013, the Ust-Luga Complex processed 1,873 thousand tons of stable gas condensate into 1,831 thousand tons of petroleum products, including 1,522 thousand tons of light and heavy naphtha, 190 thousand tons of jet fuel, and 119 thousand tons of heating oil and gasoil. The movement away from selling stable gas condensate to finished petroleum products also reduced our export duties based on the respective products sold.

Another precursor to the eventual ramp up of liquids production was the planned expansion works at the Purovsky Plant. During 2013, we increased Purovsky's processing capacity by launching two (2) 1.5 million tons gas stabilization trains, or by three (3) million tons per annum, and in early 2014, we commissioned another two (2) 1.5 million tons trains, thus increasing total processing capacity from five (5) million tons per annum to 11 million tons per annum. As a result, we have achieved a balance between our unstable gas condensate production potential and our processing capacity.

In 2013, Purovsky processed 4.86 million tons of de-ethanized unstable gas condensate, or roughly 20% more than in 2012, resulting in the commercial production of 3, 712 thousand tons of stable gas condensate, 1,088 thousand tons of liquefied petroleum gas, or LPG, and 16 thousand tons of methanol produced during the LPG scrubbing process. The growth in

Purovsky's input feedstock mainly reflects production growth at the Samburgskoye field and the start of deliveries of de-ethanized unstable gas condensate from the North-Urengoyskoye field at the end of 2012, and the commissioning of early production at the Eastern dome of the field in October 2013.

On 18 December 2013, we and our partners made the Final Investment Decision, or FID, on the Yamal LNG project at an estimated cost of USD 26.9 billion, of which approximately USD 3 billion has already been financed by the shareholders. Approximately 70% of the LNG plant capital expenditures are now fixed, and we plan to increase the proportion of fixed costs over the next several quarters through additional negotiations with the EPC contractors and suppliers. The remaining balance of the project's costs principally relates to construction activities and field development in the Arctic zone where we have substantial expertise in these areas.

Yamal LNG, another transformative project, is expected to produce 16.5 million tons of LNG via three (3) liquefaction trains of 5.5 million tons each, and the first train is expected to be completed and commissioned by the end of 2016 with the commercial launch of production in early 2017, which is consistent with our project time schedule.

As previously announced, we concluded the sale of a 20% equity stake in the Yamal LNG to CNPC, which was effectively closed in January 2014. The sale of this equity stake is another major milestone for the project and a landmark transaction for CNPC as it represents the first large upstream gas project for a Chinese energy company in Russia. The entrance of CNPC into Yamal LNG provides direct commercial access to the fast growing energy markets of China, whereby natural gas is expected to play a much larger role in the total primary energy mix in the foreseeable future.

As part of the deal, CNPC made the first, second and third tranche payments to NOVATEK aggregating approximately USD 1,021 million as well as reimbursing our prior costs in the amount of USD 95 million and reimbursing a shareholder loan totaling USD 364 million, for a total aggregate consideration of USD 1,480 million. The transaction also stipulates

disproportional financing for the project through contributions to the charter capital of Yamal LNG and direct shareholder loans.

A Heads of Agreement (HOA) with CNPC was also signed whereby CNPC (or one of subsidiaries) will off-take three (3) million tons for a period of 15 years with the option for supply extensions. In addition, our agreement with CNPC stipulates that they will work closely with us on arranging significant Chinese banks participation in the overall financing scheme of the Yamal LNG project. We are currently in discussions with the China Development Bank, the Industrial and Commercial Bank of China, the Bank of China and the China Construction Bank for their active participation in the external project financing transaction for Yamal LNG. We are conducting ongoing negotiations with export credit agencies and domestic and international commercial banks for their participation in the Yamal LNG project financing structure, so at this point of time I do not have any additional information to report.

I previously mentioned that Yamal Trading, a wholly owned subsidiary of Yamal LNG, had executed long-term sales and purchase agreements with Gas Natural Fenosa as well as the gas trading arms of both Total and NOVATEK. Presently, we have contracted over 70% of the plant's output and we are confident that the remaining HOA's will soon be transformed into binding sales and purchase agreements.

NOVATEK presently holds a 60% equity stake in Yamal LNG with the remaining 40% equity divided equally between Total and CNPC at 20% each. We continue to maintain dialogue with other interested parties but as of today's conference call there is no additional news on disposing an additional 9% (or a portion thereof) equity stake in the project. We do not feel that the sale of the 9% stake is critical for us at this point but we would evaluate offers from interested parties if the price is acceptable to us.

In December, the State Duma of the Russian Federation formally approved an amendment to the existing export law allowing direct export rights to projects which have special terms in the production license stipulating construction of an LNG plant or usage of the produced natural gas for liquefaction. This means that the Yamal LNG project and our fields located on the Gydan

peninsula will receive direct export rights. In addition, during 2013, our fields located on the Gydan peninsula were granted the same package of tax concessions as Yamal LNG, again demonstrating significant support by the Russian government to facilitate LNG projects as part of their initiative to increase Russia's relative share in the global LNG markets.

During the third quarter conference call I provided a significant update of the various ongoing activities at the Yamal LNG project so I will not repeat myself this evening on the same point, but I would like to mention that there are presently around 4,400 workers on site, and, with the formal announcement of the winter navigation season, 11 vessels arrived at the material offloading facility at Sabetta to offload around 50 thousand tons of construction materials and supplies. In addition, the third drilling rig has been fabricated at Uralmash and was recently shipped to Sabetta. We will begin erecting this drilling rig in March and the current plan is to commence production drilling with this new rig in August. To date, we have completed the drilling and testing of 11 production wells.

We will continue to provide updates on the Yamal LNG project throughout the year.

As of the 31 December 2013, our SEC proved reserves totaled 12,537 million barrels of oil equivalent, representing a 1.2% increase in our proved reserves as compared to year-end 2012. Proved natural gas reserves totaled 1,740 million cubic meters and reserves of liquid hydrocarbons were estimated at 134 million tons. In the current reporting year, we added 582 million barrels of oil equivalent, inclusive of 2013 production, and achieved a reserve replacement rate of 132%. At year-end 2013, our reserves to production life (or R/P ratio) equalled 29 years.

The dynamics and structure of our reserves, among other factors, were influenced by several transactions concluded in 2013 – the sale of the 20% stake in Yamal LNG, the purchase of a mineral license for the East-Tazovskoye field, as well as the increase in our share of SeverEnergiya from 25.5% to 59.8%, including the asset swap with Rosneft. The combined effect of these transactions resulted in an increase in our proved liquid reserves by 23 million tons and an offsetting decline in our proved gas reserves by 39 billion cubic meters. If you exclude the

effects of these transactions, our organic reserve replacement rate was 144% and was due largely to successful exploration works and production drilling at our fields.

Under the PRMS reserves reporting standard, NOVATEK's total proved and probable reserves based on our equity ownership in the respective fields aggregated approximately 23.1 billion barrels of oil equivalent, which included 3.1 trillion cubic meters of natural gas and 314 million tons of liquid hydrocarbons, and represents an increase of 730 million barrels of oil equivalent as compared to year-end 2012.

We commissioned a series of new fields in the fourth quarter 2013, including the launch of the Urengoykoye and Dobrovolskoye fields within the Olimpiyskiy license area, and the Eastern dome of the North-Urengoykoye field developed by Nortgas. Twenty-five (25) production wells have been completed at the Eastern dome, and the field's infrastructure includes a gas treatment plant with annual capacity of six (6) billion cubic meters, gas gathering networks, and a gas and gas condensate pipeline to the Western dome of the field. With the official launch of the Eastern dome in October, the Nortgas joint venture is expected to achieve peak natural gas production of more than 10 billion cubic meters and 1.4 million tons of gas condensate in 2014. In 2013, total gross production of natural gas amounted to 62 billion cubic meters, representing 91% of our total production output on a barrel of oil equivalent basis. Gross natural gas production increased by 4.9 billion cubic meters, or by 8.5%, as compared to 2012 and was within our full year production guidance, with the Valanginian layers, or "wet gas", representing 76% of the total gas production.

In terms of liquid hydrocarbons, gross production totaled 4.77 million tons, of which 84% was unstable de-ethanized gas condensate and 16% consisted of crude oil. Our gross production of liquids increased by 11%, or by 487 thousand tons as compared to 2012, and our crude oil increased by 46% to 755 thousand tons. The growth in gas condensate production was largely driven by ongoing development activities at our fields and the initial launch of the Eastern dome at the North-Urengoykoye field, while the notable increase in the production of crude oil was largely the result of development drilling at our East-Tarkosalinskoye field.

Looking ahead in 2014, we are forecasting sustainable growth in our natural gas production of 7% to 8% over 2013 levels, whereas our forecasted growth in liquid hydrocarbons is estimated to be at a record level of 1.4 to 1.5 times higher in absolute terms than this past year. The liquids growth will be driven by the new launches at the Urengoykoye and Yaro-Yakhinskoye fields of SeverEnergia and ongoing development drilling in the crude oil layers at our East-Tarkosalinskoye field. We are prepared for this considerable growth of gas condensate production with the completion of the Ust-Luga Complex and the Purovsky expansion as mentioned previously; thus, we have built a vertically integrated value chain to maximize our margins from gas condensate. The forecasted growth in our combined liquid hydrocarbons is expected to increase the proportional share of liquids in our overall hydrocarbon production on a barrel of oil equivalent basis from 9% to approximately 12%.

Why is this important to understand from an investor's perspective?

Firstly, we have a large historical difference in oil-linked pricing relative to natural gas on a calorific parity basis. For example, the standard calorific parity conversion is 6:1 or more conservatively, 10:1. This means that if natural gas is priced at say \$5 per mmbtu, then the equivalent parity price for crude oil implies a price of either \$30 per barrel or \$50 per barrel depending on the conversion factor used. We have been in a crude oil pricing market that implies a 20:1 to 25:1 ratio over the past year. In NOVATEK's case, we are averaging around \$3.10 per mmbtu (based on the RR exchange rate to the USD), and if we assume a \$100 per barrel oil price, which is presently below the average of Brent for 2013, this implies a ratio of 32:1. Therefore, the more liquids rich gas we produce as part of our production stream the higher cash flows we receive on a per unit basis.

Secondly, if we analyze our liquid hydrocarbons contribution we can see that its contribution to our EBITDA is generally higher than natural gas by 6 to 8 times on a per unit basis. Our liquids represented approximately 40% of our EBITDA on roughly 9% of our combined volumes on a barrel of oil equivalent basis in 2013; therefore, with the forecasted increase in our liquids output to approximately 12% in 2014, we expect that liquids will contribute to higher EBITDA growth during the year.

And finally, the higher the proportion of our liquid volumes sold on the export markets relative to the natural gas volumes we sell on the domestic market, both on an oil equivalent basis, means that an increasing proportion of our revenues and cash flows, hence our transitioning business profile, should be re-rated from the market's current perception of Russian country risk and be accorded a higher market valuation.

The Russia government achieved its stated aim of increasing the regulated gas tariff by 15% in 2013 through a series of price adjustments throughout the year and the fourth quarter results were the beneficiary of this 15% price increase. We expect the domestic gas price to remain flat at the August-September 2013 levels, or implying a year-on-year (y/y) growth of 7% to 8% versus 2013 price levels. Looking ahead, we are modeling domestic gas tariff increases at inflation beginning the 1 July 2015 and 2016. Beyond that period the Ministry of Economy is proposing tariff growth in-line with inflation.

The new MET formula, approved by the State Duma on the 20th September, is expected to come into effect on the 1st July 2014, and as previously stated, we believe the end result of these discussions were consistent with our expectations and lobbying efforts. In September, the government also approved a plan to reduce the marginal export duties for crude oil and refined products in 2014 to 2016, and, based on this new plan and the proposed rates, we expect to achieve notable savings by 2016 based on our forecasted production volumes.

We experienced unseasonably warm weather which negatively impacted the demand for natural gas during the peak winter season. This uncontrollable situation is not the first time we have experienced warmer weather but it did have a negative impact on our daily gas output and required us to maintain a higher volume of natural gas in underground storage facilities. Although the fourth quarter was warmer than normal we did achieve our stated production guidance for 2013.

We delivered another set of strong financial and operational results for the Fourth Quarter and the Full Year 2013 relative to the year-on-year (Y/Y) comparative results, primarily due to increased volumes for both natural gas and liquids and reasonably strong commodity prices for

our production sold in the reporting period. We delivered robust natural gas and liquids production growth consistent with our annual guidance, reported double-digit earnings growth and generated strong operating cash flows to fully fund our capital expenditure program.

Specifically,

Our total revenues, adjusted EBITDA and normalized net profit for the full year 2013 increased by 41%, 28% and 15%, respectively, clearly demonstrating the Company's ability to deliver solid financial results in a slower market economy as well as achieving double-digit growth as forecasted.

Our production cost on a barrel of oil equivalent basis increased y/y by 32% to USD 10.63 per BOE largely due to a significant increase in our transport cost resulting from a shift towards more end-customers as well as increasing distance to market.

Our average netback for natural gas sold to end-customers increased by 19% y/y reflecting the tariff adjustments during the year and the sales to more remote regions of Russia.

We realized higher netbacks on our sales of petroleum products with the successful launching of the Ust-Luga Complex relative to sales of stable gas condensate despite a lower average crude oil market pricing market during the year, which was offset by lower export duties on petroleum products versus stable gas condensate.

Our operating expenses increased by approximately 60% y/y driven largely by substantial increases in our transport and tax obligations, considered non-controllable and volumetric, as well as a large increase in third party purchases of natural gas and liquids and a net impairment of some oil and gas properties. There were no major surprises in our General and Administrative expenses as we continued to demonstrate strong cost controls across all of our controllable expense categories.

In terms of capital expenditures, we spent approximately RR 59 billion, which was consistent with our overall guidance of RR 60 billion for 2013, but this represented a 36% increase over the prior year. Approximately 50% of our capital was spent on development activities at our Yurkharovskoye and East-Tarkosalinskoye fields, with the remaining capital distributed amongst various capital projects such as the expansion of Purovsky and the construction of the Ust-Luga

Complex. Our capital expenditure guidance for 2014 for our core activities is roughly the same as in 2013 at approximately RR 60 billion.

On a total barrel of oil equivalent (“BOE”) basis, we increased our full year production to approximately 439 million BOE versus 405 million BOE in the prior reporting period, representing an average total hydrocarbon production per day of approximately 1,203,000 barrels per day, for a combined increase of 8.4% y/y.

Our Balance Sheet and liquidity position continued to remain strong throughout the reporting periods although we increased our total debt position y/y from approximately RR 133 billion at 31 December 2012 to RR 166 billion at year-end mainly through the issuance of a Russian rouble denominated Eurobond and through the use of our syndicated credit line facility.

We were free cash flow positive during 2013 and ended the year with a free cash flow position for the Company of RR 29 billion, which is lower than the prior year by 9% but takes in account a significantly higher capital expenditure program in the current year. We will continue to fund our capital expenditure program through internally generated cash flows and have the ability to meet all of our debt obligations and liabilities when they mature or become due for payment.

In conclusion, NOVATEK ended the fourth quarter and full year 2013 with another set of record financial and operational results. During the year we completed a series of key capital projects that position us to continue growing revenues, cash flows and net income on a sustainable basis and this has been the hallmark of our success over the years.

We ended 2013 with a series of key transactions that strengthens Company’s current asset portfolio as well as providing a stronger platform to deliver robust production growth consistent with our Corporate Strategy.

We closed the transaction with CNPC at an attractive valuation after a long period of negotiations but the deal brings another strong partner into Yamal LNG, a partner that provides the project with an opportunity to secure a foothold in a nation with attractive gas market dynamics. There remains a lot of work ahead of us in regards to the Yamal LNG project but you

can clearly see the positive momentum, the Russian government's support, and ongoing progress made in terms of the construction, infrastructure, drilling and marketing activities.

The Company's transition to a global energy company has already begun and this new direction corresponds to the celebration of NOVATEK's 20th Anniversary in 2014. We can see no better way of celebrating this milestone than continuing on our path of growth and transitioning the Company from a purely domestic gas player to one of the largest global energy companies within the next decade.

As always, we are committed to sound corporate governance and financial transparency, and we can ensure all of our investors, both present and in the future, that our economic interests are fully aligned to create sustainable shareholder value.

I would like to end this portion of the conference call and now open the session to questions and answers. Thank you very much.

Operator: Thank you. Ladies and gentlemen, to ask a question over the telephone please press *1 on your telephone keypad. Once again please press *1 on your telephone to ask a question. We will now take our first question from Charles Evans Lombe from Egerton. Please go ahead.

Charles Evans Lombe: Yes, hi, good afternoon Mark, congratulations. Just a couple of things, you've clarified the capex profile for the existing fields, the existing operations in 2014 being similar to last year's 59 billion rubles. Do you have any clarity on what we should be expecting for years '15 and '16?

Mark Gyetvay: Thank you Charles. We're expecting it at relatively the same, so about 60 billion over the next couple of years.

Charles Evans Lombe: Ok. So with SeverEnergiya being probably more or less fully developed by the end of 2015, what are the big capex projects beyond 2015 which you're considering at the moment?

Leonid Mikhelson: Good afternoon. I will also be adding to Mark's answer to this question, and the way Mark stated in his part of the presentation that approximately 80% of the project production of Arctic Gas is supposed to be funded in 2014 and I am specifically speaking about the licence areas under the names of Samborsky and Yevo-Yakhinskiy. The other two licence areas are subject to the complete design preparation and will be done so in 2015 and 2017 respectively. As you can judge by the profile of our capital expenditures we have considerably increased the share of our capital expenses specifically into the liquid hydrocarbons including crude oil. Looking at the results of the crude production which we achieved in 2013, I could say that within the next three years in between 2014 and 2016 we are planning to raise the crude output by about 5-6 times. As you know we have specifically intended to do that within as short a period of time as possible. These investments because of the introduction of the zero MET rate for crude which is beyond the 65th parallel which will be effective until the end of 2020. Similarly we would focus our investment assets within the Yamal LNG project. Additionally to that you may know that the Russian government has issued a decree to increase in the LNG production within the region and so we are considering the fields such as Utrenneye and Gdanskoye for the potential ramp-up of future LNG production. Thank you.

Charles Evans Lombe: Can I have one follow-up? Obviously the liquid production is going to increase not just for crude but also the condensates enormously in the coming years. As I previously understood it SeverEnergiya would sell liquids to yourselves and then you would make a margin on the liquids you bought from SeverEnergiya because of the processing at Purovsky and Ust-Luga. What would the dividend stream be that you might expect to get from your stake in SeverEnergiya be based upon your new ownership? Can you give me some idea for once SeverEnergiya is developed what kind of dividends you might be able to get from your proportionate ownership in that field? I'm not talking now about the additional mark-up you make on the liquids, it's just from your stake in that field.

Leonid Mikhelson: Well, you can basically judge for yourself in terms of looking at the full cycle of condensate processing at Purovsky and at Ust-Luga and you can easily estimate our profitability within this chain. Additionally we expect with the launch into production of the Tazovskiy field where we would also receive additional gas condensate amounts, we are planning for the

Purovsky Gas Processing Plant to be completely 100% loaded to design capacity by 2015. Thank you.

Charles Evans Lombe: Sorry, is there going to be a dividend stream coming from your ownership in SeverEnergiya which is separate to the kind of processing revenues that you might be making under your traditional offtake arrangements?

Leonid Mikhelson: Well, our partner in this arrangement is GazpromNeft which is something that we are very much satisfied with and you might know, but this is not the only one that they are managing because they also manage a 50% stake in Nordgas and so we are certainly expecting and planning for a considerable dividend flow towards us from this joint venture with them. New payload horizons are very highly profitable and besides the plans and indeed budgets which we together with GazpromNeft are considering within these joint venture operations shows that the cluster of production is going to be materially less than in NOVATEK itself which would definitely lead us to enjoy a very good dividend payout. Thank you.

Charles Evans Lombe: Sorry, last question if I may and then I'll give space to other people. With your capex being kind of stable at this 60 billion rubles level for the coming years but obviously with the profit stream set to increase considerably given the huge growth in liquids that you're going to see, what are your plans vis-a-vis potential returns of capital to shareholders either through dividends or other means?

Leonid Mikhelson: Am I correct to understand that you are asking about the whole of NOVATEK?

Charles Evans Lombe: Yes.

Leonid Mikhelson: Well, in terms of the information that has been shared with you as part of today's presentation, you can see the way the production is going to grow and we are not planning to reduce our profitability because of the expected growth of the liquid hydrocarbons and that would definitely point to our profitability growing proportionately. Thank you.

Operator: We will now take a question from Karen Kostanian from Bank of America Merrill Lynch.
Please go ahead.

Karen Kostanian: Hi gentlemen, this is Karen Kostanian from Bank of America Merrill Lynch. Thank you very much for the presentation. Congratulations on a good result. I have a quick question, you guided towards 7-8% volume growth and continuously have guided towards higher gas volume growth in several very sluggish markets where we see actual consumption of gas in Russia declining and competition increasing. With that I have two questions: has it been more difficult to place those volumes? Could you guide over the next three years how much of your volumes are actually contracted? In the latest contract that you have concluded for those volumes, do you face a lot of pressure from your consumers for additional price discounts? Thank you.

Leonid Mikhelson: A considerable number of our contracts as we have shown in our reporting has been concluded on a long term basis and we decided to very intentionally follow the marketing approach which is based upon regional signs which creates a greater certainty on our part in the future stability of the market, although alongside with that does entail certain negative ramifications and what I mean by this and some of you may raise this question is the growth of our receivables, but let me immediately answer this unanswered question that the receivables really doesn't pose too much of a headache to us. We used to state previously that we were going to reconsider our marketing strategy, which we disclosed to you by the end of 2011. Let me remind us that when we were presenting this information, questions were raised about the Utrenneye and Geofizicheskiy fields to the extent of what will be the market that the GazpromNeft field be sold to? We responded by saying at that point in time we didn't know. You have heard today that practically a decision has already been made that the volumes from these fields will be considered for a subsequent ramp-up of LNG production and so taking into account the volume of gas which we enjoy in terms of sales in the domestic market, in the long term perspective we feel very confident in our future. Thank you.

Karen Kostanian: Thank you.

Operator: We will now take a question from Geidar Mamedov from Goldman Sachs. Please go ahead.

Geidar Mamedov: What are your plans with respect to the fields in the Gydan Peninsula? Like you have recently stated these fields may constitute a base for the increase of the LNG production by NOVATEK. Could you say how quickly and in what way you are planning to move upwards with the implementation of this project? When should we expect for the project company to be set? When will you start looking for possible partners and when will you be disclosing additional information about the field developments in the Gydan Peninsula or you may consider them as an additional contribution into Yamal LNG? Would it be a separate project and generally speaking what are your future plans about them?

Leonid Mikhelson: I will be able to give you a clear answer only to the second part of your question. These will be considered as a separate project rather than an expansion of the existing Yamal LNG project. We are not going to hurry with making specific decisions, specifically in the case of the Utrenneye field we have completed approximately 80% of the exploration work and compared to that the Geofizicheskiy field is still subject to a considerable exploration effort and we would like to seriously give thought to doing additional studies in surveying servers to make a very well thought out decision in terms of the future dedication of these two fields to a possible additional LNG project. Considering the fact that as of today the amount of investments required for Yamal LNG have been done at the level of about 10%, it would be best for us to wait for much more considerable investments into Yamal LNG and then in about 1.5-2 years we will be in a better position to share with you very specific plans with respect to the Gdansk Peninsula fields. Thank you.

Geidar Mamedov: Thank you.

Operator: We will now take a question from Alexander Kornilov from Alfa-Bank. Please go ahead.

Alexander Kornilov: Yes, good afternoon, thank you very much for the presentation. Congratulations for the good results. Actually I have a couple of questions first of all. Am I right presuming that

you will start consolidating SeverEnergiya in your financial statements as of the first quarter of this year? That's my first question. The second question is could you please give us some colour on the future destiny of the volumes you have purchased from Sibneftegaz earlier in the context of your recent deal with Rosneft when in fact you cease to be the shareholder of Sibneftegaz, so any colour on what are you going to do with those volumes would be great. Thank you.

Leonid Mikhelson: The first question about the consolidation of SeverEnergiya within the overall arrangements for SeverEnergiya, there is a management contract between the partners and today this is GazpromNeft. So today it's being done on a parity basis and so once we have consolidated this share of our ownership but into our reporting, so it will remain the same. It's just that this share will grow considerably. As far as the marketing strategy for Sibneftegaz is concerned, if I understood you correctly I am not in a position to really comment on it. Because of the asset arrangements with Rosneft all of the contracts have been terminated which applies both to our suppliers of gas to Sibneftegaz gas, as well as our supplies of products to Itera. Thank you.

Alexander Kornilov: Thank you.

Operator: We will now take a question from Maxim Moshkov from UBS. Please go ahead. The caller disconnected so we currently have no further questions.

Mark Gyetvay: Ok, if there's no further questions I'd like to thank everybody and I guess that will end the session today for the conference call. Thank you very much for attending and we look forward to seeing you on various meetings and other conferences as well as this conference call on the respective quarters. Thank you very much.

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