OAO NOVATEK

Second Quarter 2015

Financial and Operational Results – Earnings Conference Call

30 July 2015
Moscow, Russian Federation

Operator:

Good day and welcome to the NOVATEK Second Quarter and First Half 2015 Results Conference Call. Today's conference is being recorded. After the presentation, there will be an opportunity to ask a question. I would like to draw your attention to the fact that we are in listen-only mode. At this time I would like to turn the conference over to Mr. Alex Fak, oil and gas analyst of Sberbank CIB. Please go ahead, sir.

Alex Fak:

Hello and thanks for joining this call hosted by Sberbank CIB. I am pleased to introduce Mark Gyetvay.

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second Quarter 2015 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.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2014, 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.

SUMMARY HIGHLIGHTS

This week we celebrated our 10th Anniversary as a publicly-listed company on the London Stock Exchange, and we are very proud of the many accomplishments achieved during this period. Specifically, we began 2005 with a SEC proven reserve base of 4.2 billion barrels of oil equivalent ("BOE") and, as of the 31st December 2014, our proven reserves total 12.6 billion BOE. Our gas production aggregated 20.9 billion cubic meters ("BCM") to begin our journey and we ended 2014 at 62.1 BCM. Although our liquids business is much more prominent today than it was at the time of the IPO, we have grown our liquids production from 2.1 million tons to 6.0 million at year-end 2014, and as you can see from our current results, we have significantly ramped up liquids production with the launching of several new fields this year. Our compound annual growth rate, or CAGR, has averaged roughly 11.5% over the past decade for reserves, and gas and liquids production.

More impressively, we have converted our proven reserves into revenues and operating cash flows, and during this respective period, we have grown our revenues from RR 24.6 billion to RR 357.6 billion, and our EBITDA has increased from RR 8.7 billion to RR 160.0 billion, representing a CAGR of 31% and 34%, respectively. We have grown our business according to our ambitious strategic plans through various commodity and business cycles, and today we remain one of the lowest cost producers in the global oil and gas universe, a testament to our focus on cost control and project execution. Correspondingly, our market capitalization has increased from USD 5.1 billion to approximately USD 30.0 billion during this period.

We remain very optimistic about our future exploration and development prospects as well as consistently demonstrating the cash-generative nature of our business model.

Yamal LNG remains front and center in investor's minds when speaking about NOVATEK, so I will begin tonight's discussion on current developments as has been customary on my earnings conference calls. As of today, the project shareholders have directly invested approximately USD 9.7 billion into the project (First Quarter – USD 9.2 billion), and an additional RR 75 billion (or ~USD 1.2 billion) was received from the National Welfare Fund of the Russian Federation, which was obtained by the Ministry of Finance via a subscription to bonds issued by Yamal LNG.

We, and our partners, have recently signed a guarantee to the Ministry of Finance for our respective interest in the Yamal LNG project, which was a precondition for the release of the second tranche of financing from the National Welfare Fund. We anticipate Yamal LNG to receive the second tranche, or RR 75 billion, over the next several weeks. Equally important, has been the substantial progress made in respect to finalizing the external financing package for Yamal LNG. As we had stated publicly many times, we anticipate having external financing in place for the project in 2015. Without going into specific detail on this conference call I would state that we have substantially completed all of the major negotiation points, and the completion of the project's financing term sheet is imminent. When the external financing package is completed we, together with our partners Total and CNPC, will make the appropriate announcement. For now, this information is all that we will discuss on tonight's call and we will not elaborate any further information or details on this topic during the question and answer ("Q&A") session.

As for the Yamal LNG project, we continue to make progress according to our scheduled work programs, and as of 30 June 2015, we were approximately 32% complete towards the cumulative EPC contract for Train 1 construction. So far, 32 production wells have been drilled and completed with three (3) Arctica drilling rigs in operation and a fourth rig scheduled to be mobilized later in 2015.

The LNG Plant site preparation is approximately 92% complete, including 100% of the land backfilling for Train 1. We have also completed ahead of schedule the piling for the West and South interconnecting pipe racks. Significant work activities are now progressing for the compressor lines, and all six (6) turbines produced by GE are presently in Italy for full load testing. We now anticipate the first LNG plant modules to be delivered in September, and 10 module transport vessels have been secured for the delivery of this equipment to Sabetta.

As previously reported we have made progress with all long-lead items, and at the end of June 2015, approximately 43% of the overall cryogenic LNG tanks construction works has been completed. We are presently preparing for roof concrete works on tanks 1 and 2, and the construction of the outer concrete walls is currently underway for tank 3. All remaining piling works for tank 3 and 4 has been completed.

We have begun erecting the steel structures for the 376 MW power plant and we are approximately 33% complete with overall construction works as of the end of June. We are anticipating the arrival of the first two (2) gas turbine units manufactured by Siemens to be delivered to the site during September.

Ongoing infrastructure works at the port and the ice barrier continued throughout the reporting period and, during the first six (6) months of 2015, 65 cargo ships were unloaded with roughly 782 thousand tons of cargo and the construction works on the South-Eastern ice barrier were approximately 85% complete. Rosmorport will commence ongoing dredging operations during the navigation season from late July until the end of October.

There are 10,000 workers (1Q – 9,500) presently onsite and we anticipate this number to reach roughly 14,000 by year-end. The Sabetta Airport has been operational for domestic flights since February 2015, and during this period approximately 30 thousand passengers have been served. There are daily flights from Novy Urengoy as well as Moscow and Samara, and we anticipate that flight certifications will be obtained in 2015 to accept certain direct international flights as well as performing customs services at Sabetta.

In other operational news, we had a successful Second Quarter ("2Q") launching a couple of new fields as well as ongoing exploration activities on the Gydan peninsula. In April 2015, we launched the Yaro-Yakhinskoye field, representing the third field to be successfully launched at Arcticgas. Thirty-seven gas condensate wells have been drilled and put into commercial operations, and the field's planned peak production is 7.7 BCM of natural gas and 1.3 million tons of gas condensate. The field reached its full production capacity in June.

Currently, the Arcticgas joint venture is producing more than 70 million cubic meters of natural gas and 20 thousand tons of gas condensate, which on an annualized basis translates into roughly 26 BCM and 7.5 million tons per year, respectively. Our development activities at Arcticgas, formerly referred to as SeverEnergia, have transformed our liquids business and have largely been responsible for the significant increase in our gas condensate output. On a combined field basis we have achieved an output level for gas condensate that exceeds our initial production plans by more than 15%, or roughly one (1) million tons on an annualized basis. We and our partner, GazpromNeft, are presently studying exploration and development plans on two (2) additional fields within this joint venture along with additional studies on future crude oil production at Arcticgas.

In May 2015, we launched the Termokarstoye gas and gas condensate field along with our joint venture partner, Total, into commercial production almost a year ahead of its original planned launch and under budget for the field's proposed development plan. The field's production capacity is 2.4 BCM of natural gas and 800 thousand tons of de-ethanized gas condensate per annum, and, by the end of June, we achieved the field's projected daily output levels.

These two launches contribute approximately eight (8) percent of our total natural gas production and approximately 16 percent of our overall liquids production on an annualized basis. At a combined 100% working interest, the two fields will produce approximately 85 million BOE per annum, or roughly 230 thousand BOE per day, a significant contribution by any measure and one of the main reasons supporting our expected production growth in 2015.

We also plan to commission our third new field this year – the Yarudeyskoye field – during the fourth quarter, which is primarily a crude oil field with expected annual output of 3.5 million tons. The majority of the field's infrastructure is already completed including the crude oil and gas pipelines, as well as the drilling of 27 production wells, representing about 44% of the field's overall development drilling plan. We anticipate that once this field is commissioned we will quickly ramp-up production to 3.5 million tons, again contributing to our estimated production growth in 2015, but more likely one of the main drivers of production growth in 2016 based on full year run rates.

For the first six months of 2015 we have drilled and completed 52 production wells versus 80 production wells in the corresponding six month period, including 100% of the joint ventures. Our overall development drilling plan calls for the drilling of 103 wells in 2015.

We are actively conducting exploration activities on the Gydan peninsula, most notably at the Utrenneye field. Four (4) exploration wells have been drilled at the field and are currently being tested. In 2015, we conducted mainly three-dimensional ("3D") seismic activities and, as of today, we have run and processed approximately 1,985 square kilometers of 3D seismic as well as the previously run and processed 2,197 kilometers of 2D seismic. The whole field is essentially covered with both 2D and 3D seismic and, accordingly, we are updating our subsurface geological models based on this seismic information.

During the 2Q 2015, we discovered three (3) new gas deposits and one (1) gas condensate deposit as a result of our efforts. We are very optimistic about the future prospective of the Gydan peninsula as this geographical area represents the next evolution of NOVATEK's long-term strategy and the primary feedstock for our future plans to expand LNG output. As you know, all of our 100% owned license areas on the Gydan peninsula received the same legal status as Yamal LNG, and accordingly, we have already received formal regulatory approval for both export rights and fiscal tax concessions as those received by Yamal LNG for the liquefaction of natural gas into exportable LNG.

In the 2Q and first half 2015, we processed 2.9 million tons and 5.4 million tons, respectively, of unstable gas condensate at the Purovsky Processing Plant representing an increase in processed volumes by 105% and 93% as compared to the comparative periods in 2014. The Purovsky Plant increased its throughput capacity as a result of increasing volumes of de-ethanized gas condensate production at our producing fields and joint ventures, and by quarter-end was operating at 120% of its design capacity of 11 million tons per year. Average daily throughput increased to 35 thousand tons in June 2015, which represents a more than two-fold increase than in June 2014.

During the second quarter 2015, the Ust-Luga Complex processed 1.7 million tons of stable gas condensate into 1.7 million tons of refined end products, including 1.0 million tons of heavy and light naphtha and 700 thousand tons of other petroleum products, representing a year-on-year increase of 69%. The Ust-Luga Complex has reached it full design capacity as a result of the increase in processing unstable gas condensate volumes at the Purovsky Plant and is currently operating at 113% of its nameplate capacity of six (6) million tons per annum.

The seasonally-adjusted financial and operational results we have achieved in the second quarter 2015 (as well as in the first half 2015) remained strong despite weaker natural gas sales due to warmer weather and the inability of one of our major customers to offtake the full contractual volumes due to an accident at one of their facilities, and were mainly driven by increasing volumes of liquids in our total product mix.

The most notable trend continued to be the significant growth in our liquids output with the new field launches as previously mentioned and the full year run rates on prior year launches. Our total output of liquids produced combined with the purchases from our joint venture increased by 69% year-on-year (Y/y) and 15% quarter-on-quarter (Q/q). With the ramp-up of our liquids production in 2015 as promised in our strategic plans, our liquids revenues represented 54% of our total sales even though we continued to operate in a volatile commodity market whereby the benchmark reference contract prices for the majority of our products were substantially reduced by roughly 40% to 45% Y/y although we had a slight recovery of commodity prices Q/q. Our growing liquids business has changed the fundamental dynamics of our business profile and we expect robust cash flows as we transition towards higher valued, risk-adjusted margins and sustainable shareholder value creation.

Despite the weaker gas sales in the second quarter 2015, we managed to slightly grow our average netback margins Y/y and Q/q although our average distance to market per kilometer increased by 9% and 20%, respectively. Sequentially, we significantly increased the volume of natural gas sold to city of Moscow by 1.8 BCM as compared to the first quarter, which were offset by decreases in volumes sold to both the Chelyabinsk and Kostroma regions. The changing geographical sales mix and its corresponding impact on transport cost per million cubic meters affects the netback we receive for our gas volumes sold. Our proportional mix between end-customers and wholesale traders was slightly lower than prior reporting periods at 93% and 7%, respectively.

The regulated tariff for natural gas and transport charges were approved on the 1 July 2015 by the Regulator (formerly, the FTS) and, accordingly, were raised by 7.5% and 2.0%, respectively. This represents the first time that the Regulators have approved a notable difference in the percentage between both the gas price and the transport tariffs, recognizing our requests for a more balanced approach to maintaining the relative profitability of domestic gas sales for independent gas producers.

Our total revenues and adjusted EBITDA increased by 27% and 24%, whereas our normalized net profit increased by 31%. Net cash provided by operating activities increased Y/y by RR 6.7 billion, or by 28%, which meant that we generated Free Cash Flow of RR 15 billion, or 262% higher than the comparative reporting period. Capital expenditures are declining toward maintenance mode and this trend has been noted over the past several periods with the changing mix of our quarterly capital expenditures, and during the second quarter, we spent RR 15 billion of which RR 7.1 billion was used for ongoing work activities at the Yarudeyskoye field to support the launch of this new crude oil field in the latter part of 2015. The East-Tarkosalinskoye field accounted for RR 2.5 billion of the capital spent mainly on further development of the field's crude oil layers, with the remaining funds disbursed amongst the Yurkhavoskoye and Utrenneye fields at RR 2.3 billion and RR 1.3 billion, respectively, and other smaller field activities.

This trend is important as we anticipate that our estimated capital expenditures in 2016 will be almost 50% less than the projected full amount spent in 2015. The intensity of the capital program is reflective of our commitment to realize our strategic goals and objectives, and with the five (5) year mid-term portion of our ten year strategy (2011 to 2020) fast approaching realization we have achieved our main aim of expanding and building out our processing capability as well as delivering value-added margins with our liquids production growth. Our current investor relation (IR) presentation package includes a recap of what we have achieved over the past years relative to our strategic objectives, and I would encourage both investors and analyst to review this information as it clearly demonstrates our longstanding practice of delivering results according to our announced plans and serves as a good benchmark of the robustness of our financial and operational results relative to our global peers.

In line with the growth of our business we had corresponding increases in our total operating expenses by approximately 43% Y/y largely due to increases in our transport and tax obligations, considered non-controllable and volumetric, but more importantly by a significant increase in purchases of natural gas and liquids mostly from our joint ventures and, to a lesser extent, from third parties. The purchases of hydrocarbons as a relative proportion of our overall operating expenses increased significantly due to the continued growth in production output from our joint ventures. The purchases of gas condensate from our joint ventures accounted for 79% of the total expense category in Russian rouble terms, with the majority of purchases from the Arcticgas joint venture. We continued to purchase natural gas from third parties, mainly SIBUR, and our joint ventures for all reporting periods to support our gas marketing efforts.

General and Administrative expenses were reasonably in line with our expectations as we continued to demonstrate strong cost controls across all of our controllable expense categories. As I mentioned on our First Quarter conference call we did not experience any accelerated cost inflation pressures as far as operating expenses are concerned and, more specifically, in our general and administrative category. Effective 1 July, we indexed our general base salaries for the Group at 7%, which supports this observation. In the present reporting period, our employee compensation was higher than we internally forecasted due largely to the payment of prior year performance bonuses in the quarter, accounting for 68% of the increase, that was higher than the amount original accrued combined with increased headcount in the Group by 120 new employees and the corresponding changes in benefit payments. Our total headcount, including administrative and operational personnel, increased from 5,786 employees to 6,637, or by 581 new employees, largely due to the prior acquisition of NovaEnergo and the expansion of our business activities.

Our Balance Sheet and liquidity position remained strong throughout the reporting periods although we moved RR 85 billion in long-term loans to the current portion of short-term debt reflecting our quarterly payments of the syndicate facility as well as the expected retirement of the USD 600 million tranche of our Five (5) year Eurobond during the first half of 2016. Our total debt position increased Y/y from RR 161 billion at the 30 June 2014 to RR 242 billion at the end of the current reporting period, largely due to the revaluation of our loan portfolio and the impact from the significant devaluation of the Russian rouble to the US dollar that we experienced in late 2014.

We have the necessary cash flow generation to fund our capital expenditure program through internally generated cash flows as well as having the ability to meet all of our debt obligations and liabilities when they mature or become due for payment. The Company's ability to generate cash flows is clearly supported by our growing liquids business despite the volatile commodity pricing environment and represents one of the main fundamental changes underlying our transformation into a global energy company. Another important point to highlight is the Company's ability to generate robust free cash flows ("FCF"). In the first half of 2015, we generated FCF of RR 40,419 billion versus RR 17,949 billion in the comparative period despite a significant decrease in the benchmark crude oil prices during this period. We are confident in our ability to sustain robust FCF as we move into the next phase of our corporate development.

CONCLUSION

In conclusion, we have once again delivered solid financial and operational results for the second quarter 2015 and for the first half of 2015. Equally important, we continue to deliver on our strategic objectives which are a testament to the dedication, commitment and hard work of all of our valued employees. We have an exceptional group of people at NOVATEK and our subsidiaries and joint ventures, and I want to take this opportunity to credit them for our continued success.

Without question the current environment in the oil and gas sector globally is challenging and you can clearly see this point through financial and operational results as well as the recent announcements by many of our global peers to cut capital expenditures and reduce employee headcounts. You can then add another layer of complexity and challenges with the current sanctions in place, and it would be easy to make a myriad of excuses on why goals and objectives are not being met. But this has not been the case at NOVATEK. We have accepted these challenges and continue to exceed the market's expectation with solid financial and operational results. We have not cut capital expenditures but continued to make the appropriate investments to grow our business and create value for our shareholders.

Ten years have passed since we completed our IPO and initiated trading of NOVATEK's shares on the London Stock Exchange, and our business has grown over these years to a point where we are now a formidable player in the global oil and gas industry. A lot has changed over this period but one thing remained constant – we have delivered everything we have promised to our shareholders.

The next major event is obviously the launching of Yamal LNG and the further transformation of our Company into an international gas player. We have made great progress on delivering this next stage of transformation, and today, we have a group of investors visiting the site at Sabetta. I am sure their impression will reflect the enormity of construction activities presently taking place at the site but also observing, and hence intuitively recognizing, the scale and size of our eventual footprint into the global LNG market. We truly understand that the main topic on everyone's mind is the closure of the financing package for Yamal LNG, and I can say tonight that we are very close to finalizing this process, which I am also reiterating the recent comments made by our CEO, Mr. Mikhelson as well as the periodic updates I receive by my colleagues.

We will continue to provide timely updates and notification on the progress of our works, including the status of closing the external financing package. I would like to again thank everyone for attending tonight's earnings conference call and your continued support of our Company. I would now like to end tonight's prepared comments and open up the session to questions and answers.

Thank you very much.

QUESTIONS AND ANSWERS

Operator:

Thank you, Mr. Gyetvay. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

We will now take our first question comes from Alex Fak. Please go ahead, your line is open.

Alex Fak:

Mark, thank you very much for the presentation. Two questions from me, first of all on the crude oil output potential and in particular on the Yarudeyskoye field. I was wondering if you could update the guidance for whether we can expect production there to start in the fourth quarter or maybe even in the third quarter and how much crude oil you expect to produce there. And the second question relates to the potential sale of 9% stake in Yamal LNG that was discussed previously. Is that being negotiated at all and if so, is it in any way connected to the project financing negotiations for Yamal LNG? And if so, can we expect an announcement on that at about the same time as the announcement on project financing? Thanks.

Mark Gyetvay:

Thank you, Alex. As to your first question on the crude oil output, I mentioned that we planned to launch the Yarudeyskoye field in the latter part of 2015. Obviously, you know, its impact on our crude oil production or liquids production in total will be dependent on the date it's actually launched, but I can say that once we launch it, we anticipate that we will be able to almost immediately ramp up to the 3.5 million tons, but I can't give you the exact date as to when we expect to make that announcement or launch. Once we know that, we'll inform the market.

As to your second question regarding the 9% stake, I can say tonight that we're at advanced stages of negotiation on the stake and that's all I'll be able to talk about today. If and when it is completed, we will make the appropriate announcement to the market.

Alex Fak:

Mark, thanks and just a very quick follow-up. On capital expenditures, can you update the guidance for 2015 in rouble or dollar terms, then also for 2016?

Mark Gyetvay:

Capital expenditures for 2015 have not been changed and it's estimated at roughly about RUB 50 billion and as I mentioned, we're anticipating that 2016 will be roughly half of that amount. We will provide the formal announcement once the final capital expenditure plan is prepared and approved by the Board of Directors in late December, but by all indications, as of today, we can see that the capital intensity of our program is declining as we move to maintenance mode and I fully anticipate that that number will be reduced by at least 50%.

Alex Fak:

Ok, thank you very much.

Operator:

Thank you. We will now take our next question from Karen Kostanian of Bank of America. Please go ahead.

Karen Kostanian:

Mark, thank you very much for the presentation. I have two questions. The first question is: we wait for the financing for Yamal LNG – are there any potential delays to implementation of the project and how are you funding it in the meantime while you are waiting for the financing to be in place? Is it from internal cash flows; are partners contributing to that as well? And my second question comes regarding your strategy. Congratulations on completing the five-year goal. Now are you currently working on releasing a long-term strategy? When should we expect that and, you know, can you provide a potential date for this presentation? Thank you.

Mark Gyetvay:

Karen, thank you very much and good evening. As to your first question regarding the funding, the timing of funding, there's no delays in the project construction, as I've mentioned. I mean we've continued through with shareholder funding as we mentioned before, and I believe the number was about 9.2 billion at the end of the first quarter, and I said today it was 9.7 billion at the end of June. We're anticipating the release of the next tranche of the National Welfare Fund of RUB 75 billion in the upcoming weeks and as I mentioned, we're at the very end of the negotiations on the term sheet. So I believe that we're pretty much funded from the shareholder perspective but it's also my understanding that the shareholders have agreed to continue financing the project until such time as the funds are received from the external financing. But right now I can say without question there are no delays in the project at all.

Second, in relation to the strategy question, again thank you for the recognition of the five years, and we are currently working on updating NOVATEK probably to 2025 I would say, so taken on a ten-year horizon, largely probably related to information about our ambition on the Gydan Peninsula. Right now I don't have a timing for the update. I spoke with Mr. Mikhelson on Monday about this point and you know, we would like to try to get something to the market as quickly as possible, although we recognize that it has been delayed, but it's been delayed largely due to the fact that it's important for us to get additional information on Gydan to provide a kind of meaningful update on the next wave of strategy development. So I think it's just, it would be just helpful to be a little more patient as we continue moving forward with the exploration work at Gydan as well as some of the other work we're doing in terms of potential expansion of LNG, the Arctic LNG 1, 2 and 3, and I believe that will really underscore what we will talk about in the next update on strategy. So I would just ask for a little more patience on that and we'll get it to the market as soon as we feel comfortable that we have substantive material to talk about.

Karen Kostanian:

Ok, thank you very much, Mark.

Operator:

Thank you. We will now take our next question from Alexander Nazarov of Gazprombank. Please go ahead.

Alexander Nazarov:

Good evening, Mark, thank you very much for the presentation. I have two questions as well. First sorry asking this again but on Yamal LNG financing, as far as I can see from the report, NOVATEK financing for the loans was basically zero in the second quarter. Did I understand it correctly, probably this is not true. Second question is on actually marketing of gas condensate. I see from the report that the main increase of the sale of your excessive gas condensate, I understand that Ust-Luga capacities are fully utilized, but the main sale of excessive gas condensate was domestically while again I see that export netback is more than RUB 5,000 higher. Can you please elaborate on that? What’s the NOVATEK marketing strategy for excessive gas condensate? Why are you selling so much on the domestic market? Thank you.

Mark Gyetvay:

Ok, thank you Alex. In relation to your first question, again I’m going to limit my comments on Yamal LNG financing, but you are right in your assessment on the quarter-on-quarter impact. I think we’re pretty comfortable with the levels of financing to date so far taking into account what we’ve already contributed as a shareholder as well as the funds that we received from the National Welfare Fund. Second question, you’re right to point out that as a result of increasing unstable condensate being processed by Purovsky Plant, as well as reaching almost full capacity of processing stable gas condensate at the Ust-Luga complex, we’ve commenced selling quantities of stable gas condensate on the market and that commenced I think roughly in March 2015, so the end of the first quarter. We have signed an agreement with Gazprom Neft whereby they will take roughly 1 million tons of gas condensate at the Purovsky Plant tailgate and that’s where we stand right now. Anything above the 1 million tons we will sell on the export markets. That’s really about all I can comment on this particular point at this time.

Alexander Nazarov:

Sorry, just to follow up, 1 million tons a year?

Mark Gyetvay:

Yes. We effectively have a negotiated contract with Gazprom Neft to sell them 1 million tons of gas concentrate at the Purovsky Processing Plant tailgate.

Alexander Nazarov:

Ok. Thank you very much for that.

Mark Gyetvay:

You’re welcome.

Operator:

Thank you. Our next question comes from Max Moshkov of UBS. Please go ahead.

Max Moshkov:

Hello Mark, thank you for the presentation. I have a couple of questions. So the first question is regarding your joint venture, the biggest one is SeverEnergia. Could you name what is the outstanding external debt of SeverEnergia and when do you expect dividends from SeverEnergia? This year, next year? Also regarding the shareholders loans to joint ventures, it seems to me that you're quite happy that the joint ventures are now self-funded, potentially including Yamal because the external project financing will be granted and regarding the repayment of loans being already provided to joint ventures, given that the free cash flow improvement is happening with NOVATEK and also the joint ventures, would you expect early repayment of these shareholder loans provided to joint ventures? It seems that the contribution from the joint ventures is kind of increasing quite dramatically. Would you consider an improvement of the disclosure on the joint ventures to better see revenues, EBITDA and net income, maybe also net debt by material joint ventures? Thank you.

Mark Gyetvay:

In relation to your first question, Max, I don't have in front of me the outstanding debt of SeverEnergia so I'm not really going to talk about that topic at this point, but in relation to dividends, most dividends we received in the first quarter came from Nortgas and we expect some time during the latter part of the year that we should be starting to receive cash from the Arcticgas joint venture. Second question, it's hard to say right now if there's any…we have outstanding loans, it's self-financing as you rightly said. Whether or not there will be any early repayments on the loan facilities, we have certain tenors which we have established on these loans. If we feel that it's prudent to early repay, we'll do that but I don't really have any subsequent comment to make on this at that point. I think it's really up to the joint ventures to decide according to their schedule of cash flows and needs on what the repayment schedule would be. Your third question on disclosures, I understand as joint ventures continue to take a larger proportion of our business that it's inevitable that we will continue tweaking the disclosures on that and we've already started as you can see on the EBITDA and profit levels…Whether or not we'll put any more disclosures, I think I just have to sit there and talk with my reporting team to see what makes sense for us and potentially look at benchmark comparative reporting disclosures by other companies etc. I don't think we will provide any more detail than what's really a currently acceptable practice in the oil and gas industry but I understand that we will continue to look at this as joint ventures become a large portion of the business. So right now I can't give you a definitive yes or no answer but we are constantly tweaking the levels of disclosure to make it more transparent and easily understood by our investors and analysts alike, so I think you just have to wait on that point. Next question.

Operator:

Thank you. Our next question comes from Ksenia Mishankina of UBS. Please go ahead.

Ksenia Mishankina:

Hi, thank you for the presentation. I have one question: could you please indicate whether you plan to refinance your short term debt or repay it? Thank you.

Mark Gyetvay:

Right now it's scheduled for repayment.

Ksenia Mishankina:

Thank you very much.

Mark Gyetvay:

You're welcome.

Operator:

Thank you. As a reminder to ask a question at this time please press *1 and please ensure that the mute function is switched off. We will now take our next question from Artem Konchin of Otkritie Capital. Please go ahead.

Artem Konchin:

Hi Mark and everyone, congratulations on firm results. I have one question on today's statement by federal tariff regulators who said that they are favouring to replace Gazprom's 16% potential discount on gas price domestically with some sort of unified transportation tariff or schedule or whatever. I was curious if you could shed some light as to what it could mean in terms of the industry impact and impact on your particular company?

Mark Gyetvay:

Artem, unfortunately I have not seen that yet. If it just came out today…

Artem Konchin:

About 1:30 p.m.

Mark Gyetvay:

I have not seen it. We would not make comment until we have a chance to assess its impact, so you'll have to wait on that.

Artem Konchin:

Ok. Just in case maybe I can rephrase this: have you heard of any kind of discussion with regard to changes, potential changes in tariff for gas transportation mechanisms? Is this something new to you as well?

Mark Gyetvay:

Not that I'm aware of. I have not heard anything about any changes in the transport tariff…If that's the case, obviously it will get published and we'll get a better sense of it when everybody gets a chance to analyze exactly what it is, but just reading on the press, it's something that we would never comment until we had a chance to formally see what the regulation is, what the change is and have a chance to assess its potential impact on the company. We have not seen that and I have not heard that yet.

Artem Konchin:

OK. That sounds fair. It’s just that it is kind of vague in terms of what he said and I was curious if you might have seen anything on the same topic or whatever, but anyway, thank you.

Mark Gyetvay:

You’re welcome.

Operator:

Thank you. We will now move to our next question from Nick Ivanov of Prudential Financial. Please go ahead.

Nick Ivanov:

Hello Mark, thank you for the call. I have a quick question on cash and short term debt. You have around RUB 38 billion in cash and equivalents, however RUB 86 billion in short term debt. You have also USD 180 million available credit facility which is around RUB 10 billion ballpark, so how are you going to get the financing for the rest? You said that you were going to repay short term debt?

Mark Gyetvay:

Right now we’re paying on a quarterly basis on our debt position as it becomes due. We’ve already made payments beginning in June for the syndicate facility. We are in the process of also ramping up liquids as you see in the financial results, so we believe that we’ll have sufficient cash to generate, to pay back this debt when it becomes due. So all I can tell you at this point Nick is that as we move along and we look at the debt servicing, we’re fully aware what’s due, when it becomes due. We’ve always paid back our debt earlier or on time. We’ve never had any concern about that and we don’t anticipate that we’ll have any problem moving forward. I think another situation is it’s difficult for us as you can appreciate looking at any way of refinancing the first tranche of the Eurobond when it comes due of 600 million with the sanctions in place so it was inevitable that either we look at something in a different currency if needed but at this juncture right now the plan is to pay it back when it becomes due.

Nick Ivanov:

Ok, thank you.

Mark Gyetvay:

You’re welcome.

Operator:

Thank you. As a final reminder, to ask a question at this time please press *1. Our next question comes from Ildar Khaziev of HSBC. Please go ahead.

Ildar Khaziev:

Good evening. I have one small question about the share of profits from associates. It is possible at all to break down the RUB 8 billion number which you reported as a profit from operations in the second quarter in SeverEnergia and Yamal, if it's at all applicable? Thank you.

Mark Gyetvay:

I don't think we're doing that on a quarterly basis. We do that on an annual basis, so that might be one of the changes that Maxim of UBS mentioned about also changing a little bit of disclosure, but we're talking about that now. But right now we just disclosed it on a quarterly basis combined where on an annual we did it on a breakdown by ventures, so that's something that we will look at, ok?

Ildar Khaziev:

Ok, thanks.

Operator:

Thank you. We will now take our next question from Evgeny Stroinov of Renaissance Capital. Please go ahead.

Evgeny Stroinov:

Hi Mark, thank you very much for your presentation. I have a small question for you. You mentioned that you expect capital expenditures to fall significantly already in 2016. The question is will capital expenditures for your core fields also decrease and if yes what effect it will have on production from your core fields?

Mark Gyetvay:

The first part of it is that yes, it will happen in terms of the reduction in the capital intensity but we fully anticipated that we would be moving from what we call growth capital to maintenance capital and the maintenance capital will be spent to ensure the plateau levels of our fields, so what we'll be looking at is the maintenance capital will be used to either drill additional wells for the field as well as potentially put in some compressor stations when needed, but that's taken into consideration at the maintenance mode level. Then we have to balance out the basic natural declines that we experience in the field due to its life of production so that's balanced out between what we expense between growth capital and maintenance capital, so our core capital expenditure will be decreased to maintenance. We don't anticipate any reduction in output at this particular juncture and as a result going into maintenance capital.

Evgeny Stroinov:

Thank you.

Mark Gyetvay:

You're welcome.

Operator: Thank you. Ladies and gentlemen, this is the last opportunity to ask your question. Please press *1.

As there are no further questions in the phone queue I would like to turn the call back to Mr. Mark Gyetvay for any additional or closing remarks.

Mark Gyetvay:

Again I'd just like to thank everybody for taking the time this evening to attend our call. We will be glad to provide you with further updates particularly relating to the financing once we have that information in place, but again thank you for your continued support and we look forward to seeing you when we're on Investor Relations conferences or non-deal roadshows. Thank you very much.

Operator:

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