# OAO NOVATEK

Fourth Quarter and Full Year 2014

Financial and Operational Results – Earnings Conference Call

2 March 2015
Moscow, Russian Federation

**Operator:**

Good day and welcome to the NOVATEK 2014 IFRS Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Nick Harwood of Sberbank CIB. Please go ahead.

**Nick Harwood:**

Good afternoon everybody and thank you for joining us. It's with great pleasure that we are hosting this conference call today. I'd like to hand over at this stage to Mark Gyetvay, Group CFO to lead the call and to further introduction the management team on the call today. Mark, thank you very much for making yourself available.

**Mark Gyetvay:**

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Fourth Quarter and Full Year 2014 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.

**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 2013, 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

Two thousand and fourteen (2014) was a pivotal year for NOVATEK as we launched several key projects laying the foundation for future sustainable growth in our core business, continuing the transitional path away from being primarily a domestic gas player 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 refined petroleum products on the international markets.

The commissioning of the Ust-Luga Gas Fractionation and Transshipment Complex (hereinafter referred to as the "Ust-Luga Complex") and the expansion of the processing capacity at the Purovsky Plant were two strategic milestones completed in 2013 and 2014 that were requisite projects before increasing production of unstable gas condensate at our fields, correspondingly maximizing our cash flow generation through value-added petroleum products sold to the international markets at world market prices.

The commissioning of these important facilities was quickly followed by the successful launches of the first and second stages of wet gas production at the Urengoyskoye field and the third production train at the Samburgskoye field, all part of the SeverEnergia joint venture's development plans. We also launched the first stage production at the North Khancheyskoye field in December and continued ongoing work activities during 2014 to prepare for new production fields to be commissioned throughout 2015.

At our last formal strategy presentation in late 2011, we clearly articulated a well-defined and visible path to sustainable, cash-generative growth while, at the same time, outlining our longer-term vision to move the Company into the international gas arena through the monetization of the Yamal LNG project. The capital program completed during this past year supported our strategic objectives of increasing our marketable production of natural gas and unstable gas condensate and, capitalizing on these results, during the upcoming year 2015, we will successfully complete the five-year mid-term portion of our Corporate Strategy. We have again demonstrated our focused commitment to delivering financial and operational results, as well as constructing and commissioning key projects within the time and cost parameters outlined in our strategic plans despite the many external challenges that we faced in 2014.

Unfortunately, 2014 was a year of immense market volatility and geopolitical uncertainty. The operational results achieved through our development program was again overshadowed by a series of geopolitical and macro events beginning with the Ukrainian crisis and the negative response by the global community, the subsequent imposition of sanctions on the Company in July restricting our access to new debt issued in US dollars for greater than 90 days, the weakening commodity price environment during the second half of the year, and the significant devaluation of the Russian rouble relative to the US dollar in December. The combination of all of these events created a very difficult and volatile operating environment as well as mitigating the accomplishments that NOVATEK achieved during our 20th Anniversary year.

All of the factors described are non-controllable; therefore, we are not in position to influence these macro events. The significant decline in the benchmark crude oil prices affected all producers in the oil and gas industry to varying degrees, and obviously will have a significant negative effect on the international industry's capital plans in 2015. The benchmark crude oil Brent dropped precipitously in the second half of 2014 from an average high of USD 115 per barrel in June to USD 55 per barrel at year-end. As of today, it is trading in the USD 61 to USD 62 per barrel range.

The devaluation of the Russian rouble in the fourth quarter by 72% was also unprecedented, was not justifiably correlated to the drop in crude oil prices, and appears more speculative than economically warranted. Moreover, as we had mentioned on previous conference calls, there is no rational basis for including NOVATEK on OFAC's Sectoral Sanction List as our commercial and political involvement in Ukraine is nil, and the rationale of targeting one of our shareholders as the reason for this inclusion on the sanctions list contradicts OFAC's own subsidiary requirement of 50% or more equity holding.

Despite all of the noise in the marketplace, we control our business and investment decisions and, as such, we delivered our 2014 development and financial results as stated to the investment community. We remain intensely focused on our strategic plans, our capital investments, our operational goals and our financial position and liquidity. We will move forward in 2015 to deliver sustainable high-value production growth as well as demonstrate notable progress at the Yamal LNG project.

At Yamal LNG, we made significant progress on various work streams during the past year, culminating with the first commercial landing of a Boeing 737 aircraft at the International Sabetta Airport in December. Twenty-six production wells have now been drilled and completed at the South Tambeyskoye field, representing approximately 45% of the production wells needed to supply feedstock to the first LNG train. The completion of the production wells confirmed the field's geology and the estimated well flow rates. Backfilling and piling for the first LNG train is underway, the fabrication of LNG modules was contracted, and the steel cutting works were done for the first modules.

The construction of the cryogenic LNG tanks made notable progress over the past year as the castings works on the external concrete walls of two (2) LNG tanks for the plant's first LNG train were completed as well as the external roofing on one tank.

The work progress on the EPC contract exceeded 20% by year-end, and steel for the first ARC-7 ice class LNG tanker was also cut. Approximately 20 million cubic meters of soil was dredged at the approach channel to the Sabetta port and this facilitated additional ship and barge movements throughout the year – 95 ships and 351 barges. The port facilities handled 2.1 million tons of construction materials and equipment, representing 2.5 times more than 2013. There were approximately 6,800 construction workers and 1,350 construction machinery at the site at year-end. Long-term contracts for more than 95% of the LNG volumes were placed as of year-end and we continued work on progressing toward finalizing external financing.

It is of great interest to us to read the various analyst comments regarding Yamal LNG but the diversity of views (and opinions) regarding the economic viability of this project, our ability to attract external financing and market risks to NOVATEK is extreme and we suspect confusing for most of the readers of this information. Despite hosting our first field trip to the Yamal LNG site this past September and providing quarterly updates on the ongoing progress of work activities, there still appears to be a general negative bias toward the project. We find it quite instructive (and to some degree annoying) that subjective comments are written on speculative or "off-the-cuff" statements, without first contacting the Company to clarify the statements or comments. I believe we need to be crystal clear on one key point – there are no delays on the Yamal LNG project as far the work activities are concerned. We are proceeding forward according to our plans and work schedules.

Let me also state this evening that progress continues to made toward securing the external financing for this project although maybe not at the breakneck speed that some believe should be achieved despite the complexity of project, the size of the financing package, the imposition of the sanctions, the restructuring of the project's consultants and the current macro environment. The external financing discussions are an ongoing process. Our finance team is actively engaged with Export Credit Agencies and other financial institutions as well as project consultants, and we expect this constructive dialogue to continue over the next several months.

In other financing developments, last week, Yamal LNG closed the first tranche of financing from the National Welfare Fund by issuing RR 75 billion of 15-year bonds to the Ministry of Finance, out of the RR 150 billion financing package approved by the Russian government. The funds obtained through the bond placement will be used to partially finance Yamal LNG's capital program in 2015. Moreover, as of today, the project sponsors – NOVATEK, Total and CNPC - have financed the equivalent of approximately USD 9 billion according to approved plans and budgets, demonstrating the project sponsor's commitment toward this important project despite the current commodity price environment.

We will continue to provide periodic updates on the status of our discussions regarding external financing for Yamal LNG as we fully understand and appreciate that this is an important question to all of our investors.

Moving ahead with tonight's discussions I would like to highlight some of our activities and accomplishments over the past year.

In the fourth quarter, Arctic LNG 1, a wholly owned subsidiary, won an auction tender for exploration and production at the Trekhbugorny license area on the Gydan peninsula, which borders our Geofizchesky license area. Estimated natural gas reserves under the Russian reserve classification C1+C2 is 5.9 billion cubic meters (bcm), while the license area's broader recoverable resource classification exceeds one (1) trillion cubic meters (tcm) of natural gas and 90 million tons of liquid hydrocarbons. We paid RR 435 million for the license area through the tender process.

We continued full-scale exploration activities at our license areas located on the Gydan peninsula and offshore in the Gulf of Ob, as this geographical area represents the next phase of NOVATEK's transformation to a global energy company. The future activities at our license areas on the Gydan peninsula along with the current development and construction activities at Yamal LNG represents the Company's ambition to be a significant player in the global LNG markets. Over the next several years, we will continue to explore and develop our fields on the Gydan peninsula and to conduct technical design and feasibility studies for additional LNG capacity. Our 100% owned license areas have already received formal regulatory approval for LNG export rights as well as being approved for the same concessionary fiscal terms as those received by Yamal LNG.

The first phase of field development at the Urengoyskoye field (part of SeverEnergia) was commissioned in April 2014, followed by the second phase in December. Overall production capacity is approximately 13 bcm of natural gas and over 4.7 million tons of de-ethanized gas condensate per annum. We successfully re-launched the field's de-ethanization unit which caught fire in April over the course of year, recovering a portion of the field's production during this period, and we are now operating the field at full capacity.

We also launched the third production train at the Samburgskoye field in September, adding another two (2) bcm of natural gas to the field's overall production flows, which now equals approximately seven (7) bcm of natural gas and 900 thousand tons of de-ethanized gas condensate per year. In December, the North-Khancheyskoye dry gas field was commissioned with a total capacity of 400 million cubic meters of natural gas per annum.

In 2015, we plan to launch three (3) new fields as part of our ongoing development plans – the Yaro-Yakhinskoye field operated by SeverEnergia with peak production of 7.7 bcm of natural gas and 1.3 million tons of de-ethanized gas condensate, the Termokarstovoye field operated by Terneftegas with peak production of 2.4 bcm of natural gas and 800 thousand tons of de-ethanized gas condensate and the Yarudeyskoye field operated by YARGEO with crude oil production of 3.5 million tons, all of which are estimated per annum volumes. During the past year, we invested capital in preparing these fields for launch, and, accordingly, we anticipate that the Yaro-Yakhinskoye and Termokarstskoye fields will be commissioned during the second quarter and the Yarudeyskoye field sometime during the latter part of the fourth quarter.

We anticipate all three (3) main producing fields at SeverEnergia will reach initial plateau levels during 2015 and that these three (3) producing fields represent approximately 80% of the planned production output of SeverEnergia. The total estimated production per annum at SeverEneria is approximately 35 billion cubic meters of natural gas and 6.5 million tons of gas condensate. These production figures exclude the joint venture's crude oil potential with is being evaluated with additional testing.

During 2014, the Ust-Luga Complex processed 4.7 million tons of stable gas condensate into 4.6 million tons of refined end products, including 3.4 million tons of heavy and light naphtha, 472 thousand tons of jet fuel, and 721 thousand tons of fuel oil and gasoil, representing a year-on-year (Y/y) increase of 151%. By year end, the Ust-Luga Complex reached it full design capacity as a result of the increase in processing volumes at the Purovsky Plant.

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 year-end was operating at 85% of its design capacity of 11 million tons per year. The Purovsky Plant processed 6.6 million tons of de-ethanized gas condensate, producing 5.1 million tons of stable gas condensate, one million tons of light hydrocarbons, 339 thousand tons of LPG and 14 thousand tons of regenerated methanol, representing a 36% Y/y increase.

As of the 31 December 2014, our SEC proved reserves totaled 12.6 billion barrels of oil equivalent, a $3/10^{th}$ of 1% increase in our proved reserves as compared to year-end 2013, and representing a Y/y reserve replacement rate of 109%. Proved natural gas reserves totaled 1.8 trillion cubic meters and our proved reserves of liquid hydrocarbons were estimated at 135 million tons. At year-end 2014, our reserves to production life (or R/P ratio) equaled 28 years.

Our reserve movements Y/y were partly affected by the decrease in the Company's proportional ownership share in SeverEnergia from 59.8% as at the 31 December 2013, to 54.9% at year-end 2014. Excluding this effect, our SEC proved reserves increased by approximately 2% and our organic reserve replacement rate was 152%.

Under the PRMS reserves reporting standard, NOVATEK's total proved and probable reserves based on our equity ownership in the respective fields aggregated 22.9 billion barrels of oil equivalent, which included 3.1 trillion cubic meters of natural gas and 293 million tons of liquid hydrocarbons. Under both reserve measurement standards, NOVATEK ranks in the top echelon of the global oil and gas industry, and currently ranks in the Top 5 in terms of natural gas reserves amongst our global industry peers.

We were also successful in converting these reserves into marketable production and cash flows. During 2014, our total gross marketable production of natural gas, including our share in our joint ventures, totaled 62 billion cubic meters, or 2.2 trillion cubic feet (tcf), representing 89% of our total production output on a barrel of oil equivalent basis. Gross natural gas production increased by 900 million cubic meters, or by 1.5%, as compared to 2013, with the Valanginian layers, or “wet gas”, representing 83% of the total gas production. We averaged roughly 172 million cubic meters, or 6.1 billion cubic feet (bcf) per day of gas production in 2014. NOVATEK is a formidable gas producer relative to our global energy peers, and our track record of delivering sustainable growth annually since we announced our ambitions as a public company is not only impressive but one of admiration by our industry peers.

The growth in our liquids hydrocarbon output was even more impressive. Our gross production totaled slightly more than six (6) million tons, of which 81% was unstable de-ethanized gas condensate and the remaining 19% consisted of crude oil. Our gross production of liquids increased by 27%, or by 1.3 million tons as compared to 2013, whereas crude oil significantly increased by 55% to 1.2 million tons.

The gas market in Russia has been undergoing a series of structural changes over the past several years, which we feel directionally, were the right steps to implement. We now have a formula-based mineral extraction tax in place as well as the recently launched gas trading exchange. We don’t see downward pricing pressure in the market, and the results from trading activities confirm this assertion. The Russian government has previously stated that domestic tariffs in 2015, 2016 and 2017 will rise in line with forecasted inflation, and we have no reason at this point in time to question or change this expectation. This position was confirmed this past Friday by comments from the Federal Tariff Service. Moreover, we see no signs of price discounting from Gazprom, and as such, don’t even believe this discounting question is being discussed.

Our overall gas portfolio is well positioned in our opinion as we deliver a large proportion of our gas production, representing 67% of our gas volumes to power companies, which represents a relatively consistent and stable base load demand. Another 25% of our gas volumes are sold to large industrial companies, some of which are experiencing robust export growth with the Russian rouble devaluation.

In terms of the currency devaluation, the majority of both are operating costs and capital expenditures are denominated in Russian roubles, which are substantially matched to our rouble-denominated gas sales and further supported by our growing foreign currency earnings from our liquid sales. The Y/y comparatives were obviously distorted as the underlying currency environments were drastically different. We have been reporting large non-cash movements’ period-on-period relative to the strengthening or weakening of the Russian rouble to the US dollar, or other foreign currencies. At year-end 2014, our financial results were impacted by several non-cash movements – at the joint venture level, primarily from Yamal LNG and Terneftegaz, we reported a non-cash loss of RR 20 billion from their re-measurement of US dollar-denominated loans from partners, due to a change in the underlying discount rates and a significant increase in interest rates in the fourth quarter. We also reported a net non-cash loss at the NOVATEK level of RR 26 billion primarily relating to our revaluation of our foreign currency loans, both borrowings and those provided to our joint ventures. It is important to understand that at Yamal LNG, once production is commenced our external revenues will be matched to our loan repayments and this should mitigate the effect of these forex movements on our accounts.

We normalize these non-cash foreign currency effects by adjusting our EBITDA and Net Profit, but the negative currency effect in the fourth quarter was so severe at 72%, which clearly contributed to our first quarterly loss since reporting as a public company. We also take these adjustments into account when recommending dividend payments to the Board of Directors.

We witnessed a large drop in the benchmark crude oil prices during the second half of 2014, which clearly influences the underlying prices we receive for our liquid hydrocarbons. The unstable gas condensate derived from the production of wet gas is a by-product of our natural gas business, and when combined with the cash we receive from selling natural gas, increases our overall cash flow per barrel of oil received, so the negative impact is not overly dramatic to our profitability. Although we are not in a position to predict the direction of commodity prices, our position is relatively consistent with our global peers that the current pricing environment is not sustainable in the longer-term.

The overall financial and operational results for 2014 were good and relatively consistent with our expectations, but the weakening functional currency was a problem throughout the year, and took a severe drop in December, which essentially accounts for the reported loss in the fourth quarter. We delivered natural gas and liquids production growth consistent with our annual guidance, reported double-digit earnings growth, excluding the non-cash effects, and generated strong operating cash flows to fully fund our capital expenditure program. In our view, there were no major surprises in our overall financial accounts, except for the 72% devaluation in December, and the corresponding effect this currency movement had on the loans provided to our joint ventures and our largely weighted US dollar-denominated debt position.

- Our total revenues and adjusted EBITDA increased by 20% and 23%, respectively, whereas our normalized net profit decreased by 56%, largely on the currency devaluation noted.
- Our production cost on a barrel of oil equivalent basis decreased Y/y by 10% to USD 9.53 per BOE largely influenced by an increase in mineral extraction taxes and the depreciation, depletion and amortization charge, offset by the 21% Y/y change in the Russian rouble to US Dollar. On a rouble-to-rouble basis our production cost increased Y/y by 8%, well within our inflation-adjusted expectations.
- Our average netback for natural gas sold to end-customers increased by 9% Y/y reflecting the domestic tariff adjustments as well as a geographic change in our gas sales mix during the year.
- Our liquid realizations for 2014 was impacted by an average year-on-year decrease in benchmark crude oil prices by 9%, but the change between the third and fourth quarters was pretty significant, decreasing on average by USD 25 per barrel for Brent, or by 25%. The end of period was even more pronounced than the average, decreasing by roughly 50% as compared to year-end 2013. These movements have a direct impact on our liquids pricing formulation for “goods in transit” as the final selling price is determined closer to landing rather than at dispatch.
- Our operating expenses increased by approximately 23% Y/y driven largely by increases in our transport and tax obligations, considered non-controllable and volumetric, as well as a large increase in purchases of natural gas and liquids from our joint ventures and third parties. 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.

We spent RR 63 billion in capital expenditures this past year continuing on our path of delivering sustainable, high-quality growth, which was relatively consistent with our overall guidance of RR 60 billion for 2014. The most notable change in our capital program Y/y was the move away from processing projects to more growth oriented, cash-generating projects that I highlighted earlier as well as the projects we expect to launch in 2015. Equally notable was the large decrease in our capital expenditure program at the Yurkarovskoye field, signaling a clear move toward maintenance capital in 2016 and beyond. This movement toward maintenance capital is an important differentiating factor from prior years and represents one of the most compelling variables in our investment case as we generate substantial cash flows sufficient to maintain our growth story, provide ample liquidity to meet our obligations, service our debt portfolio, and increase our dividend payout.

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 166 billion from the 31 December 2013 to RR 246 billion at year-end mainly through the final withdrawal of funds from our syndicated credit line facility, but more dramatically from the revaluation of our loan portfolio at year-end and the negative effect on this revaluation resulting from the significant devaluation of the Russian rouble to the US dollar by 72% in December.

We remained free cash flow positive throughout 2014 and concluded the year with a free cash flow position for the Company of RR 47 billion, representing a Y/y increase of 61% despite a 7% increase in our overall capital expenditures program in the reporting year. 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.

As you know, both S&P and Moody's recently downgraded the Russian sovereign debt rating to below investment grade, which prompted both credit rating agencies to downgrade Russian issuers, including NOVATEK, to below investment grade. We do not agree with this broadly negative macro assessment on the Russian sovereign level and the corresponding implications to our credit rating as our liquidity and cash flow position improved, and by the fact that we will generate sufficient cash flows from our core business operations as well as substantially increase our foreign earnings with the ramp up of our liquid hydrocarbons for sale to the international markets. Although both credit rating agencies understand our cash flow generating capabilities and our strong liquidity position, it is warranted to highlight these points on tonight's call because of the many fixed income investors who have expressed concerns to us regarding this trend.

**CONCLUSION**

In conclusion, our fourth quarter results were an anomaly, affected largely by the devaluation of the Russian rouble and its negative, non-cash foreign currency effect on our US dollar-denominated loan portfolio. We are not going to make any excuses for these results since the rapid devaluation of the currency is not something we can control. Our financial and operational results achieved this past year was consistent with our expectations, and, more importantly, the capital program we completed in 2014 positions the Company to deliver high-quality, sustainable results consistent with our strategic plan. We remain committed to our guidance provided earlier this year and we forecast a Y/y growth of natural gas and liquids at 6% and 40%, respectively, and our capital expenditure program at roughly RR 50 billion, which is approximately 15% less than 2014.

We are well positioned to meet our challenges. We have built a resilient company that is on the cusp of generating substantial cash flows and industry leading rates of returns on our past capital expenditure programs. With the launching of our new producing fields in 2015, we will complete another chapter of our Company's story, and we look forward to the next chapter of growth and transformation to a global energy company.

We remain keenly focused on our upcoming challenges. We will complete the next phase of our business transformation as planned. We will get through this period of market volatility in a stronger position, generating sufficient cash flows from our previous capital programs, and as always, we are committed to sound corporate governance, financial transparency and sustainable development practices. We can unequivocally state to all of our investors 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. To ask a question please press *1 on your telephone keypad at this time. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again that's *1 to ask a question. We will now take our first question from Max Moshkov from UBS.

**Max Moshkov:**

Hello Mark, thank you for the presentation. I have two questions. First regarding your Yarudeyskoye project and the second regarding the utilization of Purovsky plant. First, actually what is the situation with the shareholder dispute over Yarudeyskoye ownership and how would you share profits and production, whether you will start producing this year? Regarding the Purovsky plant, when do you expect Gazprom Neft and NOVATEK reaching parity for SeverEnergia in terms of the ownership and how this would impact the distribution of stabilized gas condensate from the Purovsky plant? Thank you.

**Leonid Mikhelson:**

Thank you for your questions. As for Yarudeyskoye, everything is going according to plan and we are expecting to launch this field between Q3 and Q4 with significant volumes there. The litigation currently ongoing does not affect in any way the launch date. The profits from production as realised will definitely be distributed pro rata as to the equity holding, subject to payoff of all shareholder loans first and foremost, and that's mostly to NOVATEK. As for SeverEnergia balancing out it's a purely legal matter given that companies from other jurisdictions than Russia are involved and we believe that legally this matter will be finally resolved next year. Purovsky Plant in the meanwhile is operating in a very sustainable manner and it will reach full capacity in the near future and that is 11 million tonnes plus of unstable gas condensate. Thank you.

**Operator:**

Thank you. We will now take our next question from Ildar Davletshin of Renaissance Capital.

**Ildar Davletshin:**

I have two questions for now. The first question is this: in 2014 we marked good natural gas price dynamics which was above the average tariff growth which is explained by the fact that you redistributed your sales geographically, so based on your historical experience, what do you think of your potential for the same exercise going forward? That means how you can exceed tariff price growth in the future as you may optimize your geographies again? My second question is this: Mark has already provided some guidance on your capex plan for 2015 which is RUB 50 billion in total but can you give a more specific split to natural gas on the one hand and liquid hydrocarbons on the other? Then again I also have a question on your liquidity position. Currently you have 40 billion plus to pay off and you're probably going to pay some dividends as well. Would you need some loans for this?

**Leonid Mikhelson:**

As far as I understand you have asked three questions and here are the answers. The first question is about our geographies management so to say which did provide better price dynamics as compared to the growth of the domestic tariff. Indeed that is a regular effort and we will continue to explore further opportunities here. Opportunities may include the launch of new generating capacities or an increase in consumption volumes by our consumers. We're going to look into those opportunities forward as well. As to another question of yours Mark has noted indeed a total capex plan of RUB 50 billion in 2015 which marks a 15% reduction as compared to last year. It's important to note here many reports in the media portray that as if the capex has been taken down from a larger figure, but no, that was planned initially at this lower level. We stress-tested it, we looked at it, considered different approaches and understood that there was no need to take it any further down. The 15% reduction is vis-à-vis 2014 but that is as planned. We have no need to take it further down in any way. As for the third question considering our external debt payoff and the dividends, we believe our liquidity position is sufficient to manage these obligations without any need for any external funding. Thank you.

**Ildar Davletshin:**

Thank you. A follow-up question, whether you provide a breakdown of loans planned for 2015 to your JVs or affiliates?

**Leonid Mikhelson:**

It's rather difficult to give those numbers out off the top of my head. As you hear from Mark our projects are in an advanced stage, the development is ongoing and we are launching new fields this year with some small maintenance capex already priced into the total of RUB 50 billion of the investment programme, however it's rather difficult for me to come up with a JV or affiliate breakdown off the top of my head. To conclude with this matter I would like to note that our major affiliate Arcticgas is capable of generating enough cash flow to manage its own investment and operating activities. Thank you. Any more questions please?

**Operator:**

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

**Alexander Nazarov:**

Thank you Mr. Mikhelson for this opportunity, thank you Mark for the presentation and the question and answer session. I have a question regarding the financing of Yamal LNG. As far as I understand the total amount for 2015 stands at $8 billion. From what I hear from the presentation RUB 75 billion have already been received from the National Wealth Fund out of the total of RUB 150 billion, so that takes the required amount down from $8 billion in total to a little bit less than $6 billion. My question is how much more money do you need until the project financing kicks in, that is how much more funding is required mandatorily in the first half of 2015, that means how much money the shareholders will have to contribute on their own before the project financing kicks in? My other question is about disproportionate funding options for

NOVATEK. When does it end in terms of the total size or in terms of some deadline or timing? That is when would NOVATEK have to contribute the full amount, so say pro rata to its share?

**Leonid Mikhelson:**

Thank you for your questions. You have mentioned the correct figure which we produced as an estimate for Yamal LNG 2015 budget, that is $8 billion. Given that more than 30% of our costs related to this project are in rubles and you've heard of the ruble devaluation, we are now reconsidering this number. This exercise is close to complete and the eventual number will stand at slightly above $7 billion. We are optimistic regarding the timing of external project financing. According to our assessments we expect the funding to arrive within 3-4 months. The shareholders are producing enough investment to suffice for delivery of this project on schedule. As to your last question regarding the disproportionate financing, as to its timing, it's going to end in early Q3. Thank you.

**Alexander Nazarov:**

Thank you.

**Operator:**

Thank you. We'll now take our next question from Ksenia Mishankina of UBS.

**Ksenia Mishankina:**

Hi, my questions have been answered. Thank you very much.

**Operator:**

We will now take our next question from Artem Konchin of Otkritie Capital.

**Artem Konchin:**

Thank you. I have two or rather two and a half questions. My first question is about the tariff growth as expected in 2015. I heard this morning that the Federal Tariff Service announced no growth in tariffs in 2015 surprisingly. How do you read that? Does this mean no growth at all or do you understand that as growth to plan and no further growth, so do you expect the tariff growth in 2015 in line with 2014 inflation or half of that amount? What's your view on the subject overall? My second question concerns the MET, the mineral extraction tax you are paying for crude. So what's the tax environment these days and what's the current numbers that you are paying given let's say the Urals price at $60 per barrel. My third question is about your downstream operation. You marked in the presentation that Q4 saw a certain delay of naphtha deliveries while in transit and because of that Ust-Luga was a loss rather than a gain. Looking forward to the first quarter of 2015 I'm thinking about the domestic crude price which went up significantly and SeverEnergia has a formula in their contract for unstable condensate, so I'm wondering, in the current environment of higher domestic crude prices, can you disclose the margins at the Purovsky Plant? Is that earning anything at all and what the margin could be, a temporary quotation and what could happen in Q2?

**Leonid Mikhelson:**

Thank you for your questions which have turned out to be more than 2½ in total. Speaking of the domestic tariffs, indeed the original plan by the government was 7.5% of tariff adjustments which is in line with planned 2014 inflation, however the government is still considering a potential increase as to that target number. This discussion has not been finished as yet. Our plan internally however is 7.5% in total. As you may be aware the government is also discussing a potential hike in the transportation tariff which does affect the earnings of the Company and that could be as high as 7.5% again, however discussions do envisage lesser growth. As you understand these discussions are still ongoing. They are to be complete within three months from now, however we internally target 7.5% of natural gas tariff increase as well as a 7.5% hike in the transportation tariff. Concerning your second question about the MET and the ongoing tax manoeuvre, all our fields are beyond the 65 degrees latitude and they have enjoyed historically a zero MET rate, however now the export duty decrease has been offset by the MET increase, but nothing changed for us fundamentally. As for your next question regarding Ust-Luga and the Q4 developments vis-à-vis Q1 this year, as you understand we normally account for revenues upon delivery, that means accrual of profits once the product has been delivered to the customer and we work a lot with customers in Asia Pacific. Indeed that means a lengthier transportation route but overall Ust-Luga does provide us with a good extra margin. As for your next question concerning the Purovsky Plant, indeed we have a formula to buy unstable gas condensate from SeverEnergia and Arcticgas . The price does include a transportation element as well as the investment element, fully compensating for these two for us and we have expanded the Purovsky Plant to account for sustainable growth with a good margin. Thank you.

**Artem Konchin:**

Thanks a lot for all your answers.

**Operator:**

Thank you. As a reminder please press *1 to ask a question. We will now take our next question from Alexander Rozhetskin of Unicredit.

**Alexander Rozhetskin:**

Yes, good afternoon. Thank you very much for your presentation. Just two questions from me if I may. The first is when do you expect to receive the second tranche of the RUB 150 billion National Wellfare Fund support? The second question also relates to this: what do you expect the impact of this RUB 150 billion to be on NOVATEK's leverage if any? Thank you.

**Leonid Mikhelson:**

To answer your first question we expect another 75 billion to arrive in the second quarter subject to decisions by credit committees of banks involved in the project financing. What we expect from that is very straightforward – that is we are going to need the equivalent of RUB 75 billion less in foreign currency loans. That's it. Thank you.

**Alexander Rozhetskin:**

Thank you for your answers.

**Operator:**

We will now take our next question from Max Moshkov of UBS.

**Max Moshkov:**

I have a follow-up question regarding the Mineral Extraction Tax. You commented on the crude MET but what about gas and gas condensate? Can you provide some further insight in terms of tax per thousand cubic metres or per tonne? Thank you.

**Leonid Mikhelson:**

I think I don't quite understand the purpose of this question. Do you want me to give you the exact absolute numbers as to how much tax we pay?

**Max Moshkov:**

I just wanted to clarify because there is a formula which we are all well aware of but this formula contains a ratio that is not as transparent and not disclosed. That ratio would affect the rate for certain types of reserves, so can you basically provide just the effective MET rate you are paying? Thank you.

**Leonid Mikhelson:**

You rightly put it indeed, the formula is very intricate with lots of factors involved. We have been working with the government at length to produce that formula eventually in order to link to formally independent processes which is about tariff regulation on the one hand and MET regulation on the other. In the past these two were not related at all but as now there is a clear link between MET development vis-à-vis tariff increases, so this really facilitates our planning internally. I think this answer clarifies. Thank you.

**Operator:**

Thank you. We will now take our next question from Alan Kamberziev. Please go ahead.

**Alan Kamberziev:**

I have two questions for now. One question concerns your Yarudeyskoye field. What's the current valuation and how do you expect that to change post launch? For example there is another field valued at €5 billion, 5 million tonnes of production so what would your assessment be in a similar fashion regarding your Yarudeyskoye field?

**Leonid Mikhelson:**

We don't look at NPV for any particular field. We have that spliced into our capex plan and we are going to launch per schedule. Once launched we'll see some improvements, but I don't see the purpose of your question and what you are asking about. What was your second question please?

**Alan Kamberziev:**

The other question is regarding your oil assets. The market believes it's reasonable to carve out your oil related assets into standalone entities such as Gazprom Neft for example. Can you comment on that? Would you consider a potential carve out?

**Leonid Mikhelson:**

It's the first time I hear of these discussions and we are definitely not considering anything like that internally. Thank you. Do we have any final questions or is that it?

**Operator:**

There are no further questions.

**Leonid Mikhelson:**

I would like to thank all participants on this call and to conclude I would like to note that there has been no question on the dividend so may I kindly put that forward to myself. As Mark mentioned in his presentation the FX related non-cash loss does not affect NOVATEK's performance financially. Most of the loss is accounted in relation to the Yamal LNG project while all future sales of its products would be in foreign currency. The Management Committee is going to propose to the Board to consider a dividend payout adjusted for these losses, that means not accounting for the loss. Thank you.

**Operator:**

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