

ОАО NOVATEK

First Quarter 2015

Financial and Operational Results - Earnings Conference Call

29 April 2015 Moscow, Russian Federation

Operator:

Good day and welcome to the NOVATEK First Quarter 2015 Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Alex Fak from Sberbank. Please go ahead, sir.

Alex Fak:

Hello, everyone. This is Alex Fak from Sberbank CIB and welcome to the call. We are just about it looks like 30 hours away from May holidays and just a little more patience required. Meanwhile, it is my pleasure to introduce to you Alexander Palivoda, the head of Investor Relations, and Mark Gyetvay, the CFO. Mark, I now hand over to you.

Mark Gyetvay:

Alex, thank you very much. Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our First 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

The present oil price markets presents enormous challenges for the oil and gas industry, including those companies operating in the Russian markets, as these low pricing dynamics impact the viability of many long-term projects, creates a volatile market for oil field services, and puts enormous pressure on management to effectively and efficiently manage and reduce costs through this down commodity price cycle. Although we have successfully navigated through the prior commodity price downturns, nonetheless, we remain cautious yet focused on delivering results according to our long-term strategic plans.

It is also important to take a balanced view in these current market conditions as we are making significant, strategic investments that we believe will deliver sustainable long-term production growth for our Company as well as generating substantial future cash flows to support shareholder value creation. The current environment offers unique opportunities for oil and gas companies, like NOVATEK, to take advantage of this downturn to further strengthen our present market position vis-a-vis our competitors as well as taking a critical review of our overall cost structure and investment plans. As of today, we remain committed to our capital expenditure program of RR 50 billion, and there are no plans to revise our guidance.

I recently had the opportunity to present the current status of the Yamal LNG project at the Flame Gas Conference in Amsterdam and the IHS CERA week in Houston, but as an attendee to both of these events it was also illuminating to hear a number of presenters discuss the challenges they face in this present market environment as well as their various forecasts and scenarios around the state of crude oil pricing. Therefore, to begin tonight's conference call I would like to provide a few highlight points from these two key industry events.

The main themes resonating from the majority of presentations was the need to ensure tight control around capital expenditures with the primary aim of reducing headline numbers over the next two (2) to three (3) years, maintain a keen focus on project efficiencies and enhanced productivities, particularly through the use of innovation, and an almost consensus view that we will not see a V-shape recovery in the crude oil prices, but rather a longer U-shape curve over the next 18 to 24 months. These views were predominately expressed by the Super-Majors, or International Oil Companies, but these same sentiments were also discussed by National Oil Companies, large independent producers and other major players in the global energy space.

Another topic that generated a fair share of discussion was the potential for US LNG exports to be a game-changer but there was a fairly wide divergence on the quantities of potential LNG exports, but generally speaking, most forecasts settled on around 70 million tons per annum rather than the wider range of 150 to 200 million tons. The current commodity pricing environment has negatively affected (or postponed) those projects that have not taken a Final Investment Decision, although most of the main speakers or panel discussions noted the need to remain focused on the longer term view of project implementation rather than a short term view driven primarily by the current pricing environment. We completely agree with this longer term sentiment and largely anticipate that the Yamal LNG project will come on-stream when the forecasted commodity prices are expected recover to the \$70 to \$80 per barrel price range, but more importantly, we should anticipate that over the course of the project's life we will operate in multiple commodity price and business cycles.

What I also found interesting throughout both conferences was the shifting model towards a tolling or hybrid approach for LNG marketing arrangements, specifically led by the US LNG projects, but most of the main buyers present, those from Japan and South Korea for example, still considered long-term contracts to play a large role in future LNG contractual discussions. Most of the main LNG buyers are looking for flexibility in pricing terms as well as an increase in spot trading of LNG to complement their long-term portfolios. This wish to seek more flexibility is understood by the industry but it needs to be balanced against the cost of building liquefaction capacity. The probable outcome will most likely be a range of diverse LNG projects from tolling to hybrid to the fully integrated model, like the Yamal LNG and Qatari projects. I would like to remind everyone again this evening that we have already executed long-term contracts for over 95% of Yamal LNG's output.

Another theme that was hotly debated was the potential lifting of the US export ban of crude oil that has been in place since the Arab embargoes of the late 1970's. Many US producers support the lifting of the export ban and this sentiment was further echoed by Senator Lisa Murkowski of Alaska, who became the Chairwoman of the US Senate Energy and Natural Resources Committee in January 2015. Arguments were made by various senior executives that this export ban should be lifted before the lifting of sanctions

against Iran are considered, and Senator Murkowski stated that a legislative bill will most likely be issued this year allowing the export of US crude oil. I believe this issue is gaining steam but there are still likely barriers that need to be resolved before we see any changes to this legislation.

There were not many discussions on further industry consolidation except for the announced Shell-BG deal, but I believe it is safe to say that a prolonged period of lower oil prices, lack of capital investments, and debt service issues to name a few, will bring compelling opportunities for oil and gas companies to selectively enhance existing asset portfolios as well as consolidate geographical areas of operations. Overall, I believe the industry sentiments expressed at these two leading conferences was well balanced - not too pessimistic and not overly optimistic in the short-term, but rather another commodity price cycle that needs to be cautiously and effectively managed. I believe it was widely understood that large scale oil and gas projects intended to start pumping crude oil and natural gas in say 5 to 10 years require sufficient lead-times to complete, and the impact of the industry-wide spending cuts (or postponements) in capital programs of approximately \$114 billion will play a major role in the future supplies of hydrocarbons. This is the major challenge confronting the industry today.

Moving forward, I would now like to provide a recap of our main activities during the First Quarter 2015.

Yamal LNG continues to play a major role in the future development of NOVATEK, so I will begin this evening discussing some of the key highlights of this important project.

As of today, we have approximately 9,500 people working on the project site, including 68 contractors and 104 subcontractors, with approximately 1,500 construction vehicles at the construction site and in the field. The cumulative EPC contract progress as of the end of March is approximately 24.3% completed, and the first modules for the LNG plant are currently being fabricated in Asian yards.

The LNG plant site preparation is approximately 90% complete, including 100% of the land backfilling for the first LNG train. Pilings for the west and south interconnecting pipe racks are completed ahead of schedule, and pile caps delivery and installation is currently underway. The first pipe rack modules are scheduled for delivery this summer.

All module yards have been selected and all fabrication contracts have been awarded. Current progress in terms of module fabrication, excluding procurement, is approximately 20%, and the first LNG plant modules are scheduled for delivery to the construction site in August 2015. Overall, 10 fast track modules are scheduled for delivery in 2015, and to ensure prompt delivery, a fleet of module transport vessels have been chartered to guarantee the timely delivery of these modules.

The contract for inlet facilities and condensate storage was awarded in February 2015, with piling activities commencing in March. Approximately 90% of purchase orders for long lead items for this phase of work activities have been placed. We have completed the piling, thermal stabilization, concrete walls and roofing for the first two (2) tanks required for the first LNG train, and work has now begun inside of these two (2) tanks. We have also completed the piling works for tanks three (3) and four (4), and as of the end of March, the overall progress for constructing and completing the cryogenic LNG storage tanks is approximately 35% completed. We continue to make good progress on the construction of the power plant as approximately 27% of construction activities are completed, with the first and second gas turbine units manufactured by Siemens ready for shipment to the site.

As for the Sabetta sea port, 18 ships transporting roughly 192 thousand tons of cargo were unloaded at the marine berths during the first quarter. The contract for the construction of the LNG and Condensate Jetty Trestle foundation was signed, and the fabrication of 95% of the piles is complete and the first batch of piles were delivered to the site in March. Sixty-eight (68) piles have been driven representing approximately 16% of the work activities. The Russian government selected the contractors for the construction of the ice barrier walls, and, as of today, progress towards the construction of the South-

Eastern ice barrier is 46% completed.

I mentioned on our last conference call that the first Boeing 737 airplane landed at the Sabetta International Airport in December, and as of the first quarter, there has been an additional 72 flights to the new airport. In February, the Sabetta airport became operational for domestic flights and there are now daily flights from Novy Urengoi, as well as Moscow and Samara. Since becoming operational for domestic flights, 21 thousand passengers have used the new airport terminal, and the airport is capable of handling Boeing 737 and 767 aircrafts, Airbus 320 and 321, and all major international cargo aircrafts.

At the South-Tambeyskoye field, the project stipulates a production drilling program of 208 wells, with 58, 35, and 31 wells required to start production for LNG trains 1, 2 and 3, respectively, and the remaining production wells to maintain production plateau. We have completed the drilling of 28 production wells of the 58 production wells for the first LNG train. Currently, there are three (3) Arctica drilling rigs in use, and a fourth drilling rig is planned to begin drilling in late 2015.

The project sponsors, NOVATEK, Total and CNPC, have invested approximately \$9.2 billion into the Yamal LNG project as of the end of the reporting period (as of 31 December 2014 - \$7.6 billion), and in addition to the direct contribution by sponsors, an additional RR 75 billion (out of the approved RR 150 billion) was received from the National Welfare Fund in February as already reported. We are at a very advanced stage of our negotiations regarding external financing for the Yamal LNG project that was confirmed recently by the joint press conference held by Mr. Leonid Mikhelson (CEO, NOVATEK) and Mr. Patrick Pouyanne (CEO, Total SA) at the Sabetta site. Therefore, for tonight's conference call I do not have any new news to report on external financing for Yamal LNG other than to say that we will keep our shareholders informed on new developments when they occur.

In other development news, we successfully launched the Yaro-Yakhinskoye field in April as part of a series of new launches we expect to complete in 2015. As a result, we have now launched three (3) major fields at the SeverEnergiya joint venture - the Urengoykoye, Samburgskoye and Yaro-Yakhinskoye fields, representing approximately 80% of the planned natural gas output and 100% of the gas condensate production at this important joint venture. On an annualized basis, the three (3) fields account for about 28 billion cubic meters of natural gas and slightly more than seven (7) million tons of gas condensate.

Great progress continues to be made towards completing our projects that we will launch over the remainder of 2015. We are planning to launch the Termokarstovoye field operated by our joint venture Terneftegas (NOVATEK - 51%; Total - 49%) towards the end of May, which will have an annualized peak production of 2.4 billion cubic meters of natural gas and 800 thousand tons of gas condensate. This joint venture will culminate in another successful milestone for the Company as it represents our first full joint venture with an international oil company, Total, that started completely as a green-field exploration project and has now progressed to the state of completion. All 22 production wells have been drilled and the formal launch of first production is scheduled one year ahead of the field's original development plan.

Another important event scheduled for the fourth quarter of 2015 will be the formal launch of the YARGEO joint venture. All necessary equipment has been purchased and delivered to construction site. We have completed the construction of a 350 kilometer crude oil pipeline and a 150 kilometer gas pipeline, and both pipelines are currently being tested. For the oil treatment facility, we have completed 98% of the piling work, installed approximately 70% of all the equipment and completed 95% of storage tanks, comprising six (6) tanks of 5,000 cubic meters each. We have also completed 100% of the backfilling for the gas treatment facility, 55% of the piling works, and have recently begun installing the main equipment. Other infrastructure activities such as metering points and power stations are also in advanced stages of completion. The Yarudeyskoye field is expected to produce 3.5 million tons of crude oil per annum.

Our primary exploration activities are being conducted on the Gydan peninsula, particularly the Utrenneye

license area, as we have begun drilling exploration wells to confirm the resource base on this area. As I mentioned previously, 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. I will provide additional updates later this year on the status of our exploration efforts since it is kind of premature at this point to provide meaningful information.

The Purovsky Plant increased its throughput 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 90% of its design capacity of 11 million tons per year. The Purovsky Plant processed 2.5 million tons of de-ethanized gas condensate, producing 2.0 million tons of stable gas condensate, and 443 thousand tons of LPG, representing a 79% year-on-year increase.

During the first 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 652 thousand tons of other refined petroleum products, representing a year-on-year increase of 69%. The Ust-Luga Complex reached its full design capacity as a result of the increase in processing volumes at the Purovsky Plant, which meant that in March 2015, we commenced selling stable gas condensate to the international markets from the Port of Ust-Luga.

We are off to a strong start in 2015 as our expanding production profile driven largely by SeverEnergiya continues to demonstrate the strength and resiliency of our operating business model. Despite weaker natural gas sales due to abnormally warm weather in Russia during the first quarter, we managed to achieve stronger year-on-year domestic gas prices as well as more robust natural gas netbacks for both the year-on-year and quarter-on-quarter gas sales, largely due to the changing geographical mix in our sales portfolio and lower transport charges. Our proportional mix between end-customers and wholesale traders remained relatively consistent throughout the reporting periods at 94% and 6%, respectively.

The most notable change between reporting periods was the growing proportion of liquid hydrocarbons in our total sales volumes with the successful launches in 2014 of the SeverEnergiya and period's full effect on the output growth. Our total output of liquids produced combined with the purchases from our joint venture increased by 73% year-on-year and 20% quarter-on-quarter. This important development will play a major role in 2015 as we continue to ramp-up our liquids production as promised in our strategic plans. Moreover, the first quarter 2015 represented the first time our liquids revenues exceeded 50% of our total sales even though we operated in a period where the benchmark reference contract prices for all of our products were substantially reduced. It is due time that the market recognizes the changing dynamics of our business profile and robust cash flows as we transition towards higher valued, risk-adjusted margins and sustainable shareholder value creation.

Our natural gas production and sales in the first quarter had a few peculiarities that I would like to highlight on tonight's call but we believe this situation will be partially corrected during the remainder of the year. As for production, the Yukharovskoye field was shut-down for unplanned maintenance at the field for three (3) days reducing our output by roughly 300 million cubic meters. In addition, the Yukharovskoye field was producing at flow rates above-planned levels in 2014, which we will reduce to the field's peak levels during 2015. We also reduced gas sales to one of our main customers due to an accident at one of their facilities, which meant we had to balance the flow of gas from our fields and underground storage to compensate (or adjust) for this incident. We also purchased a portion of the natural gas output from SeverEnergiya during the quarter, which is consistent with our agreement to periodically purchase natural gas from this joint venture, if needed. We will continue to balance our planned gas output

with purchases to meet our contractual commitments.

Our total revenues and adjusted EBITDA increased each by 28%, whereas our normalized net profit increased by 35%. Net cash provided by operating activities was strong during the period, and increased year-on-year by RR 12 billion, or by 45%, which meant that we generated Free Cash Flows of RR 25 billion, or 83% higher than the comparative reporting period. We mentioned previously that the overall intensity of our capital program is declining toward maintenance mode and this trend is notable in the changing mix of our quarterly capital expenditures. We spent RR 14.5 billion during the quarter of which RR 7.1 billion was used for ongoing work activities at the Yarudeyskiy license area reflecting the eventual launch of this important new 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 1.8 billion and RR 1.5 billion, respectively, and other smaller field activities.

Our operating expenses increased by approximately 37% year-on-year driven by 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. We expect that future purchases of hydrocarbons will continue to grow as a relative proportion of our overall operating expenses due to the continued growth in production output from our joint ventures.

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. I have received many questions from investors during our recent meetings concerning the level of inflation experienced by us in our operating and capital expenditures. I can report tonight that we are not experiencing any notable inflation pressures on our capital program. Based on the first quarter results, we do not see any accelerated cost inflation pressures as far as operating expenses are concerned and, more specifically, in our general and administrative category. We will continue to monitor cost inflation issues and report back to our shareholders accordingly.

Our Balance Sheet and liquidity position remained strong throughout the reporting periods although we increased our total debt position year-on-year from RR 168 billion at the 31 March 2014 to RR 254 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 and continued in the first quarter 2015, albeit at a lower rate of depreciation. 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.

CONCLUSION

I would like to conclude tonight's presentation with a quote that I slightly modified from Dr. Martin Luther King which I felt adequately sums up our situation:

“The true measure of a company is not where it stands in times of comfort and convenience, but where it stands in times of challenges.”

We have had our fair share of challenges over the past 20 years where many people felt we would not survive in a monopolistic environment, or we would not achieve our ambitious production and sales growth targets. We have had people question our ability to tackle the technical and political obstacles to building the Yamal LNG project or securing export rights and international partners. We had to overcome the stigma and challenges from being named on the US Treasury Department's OFAC sectorial sanctions list and the implications that this meant to us in raising capital to finance the Yamal LNG project. These

are just a few of the more notable challenges that we heard from investors and analysts over the years. I believe we have directly met all of these challenges and have built a world class energy company that is poised for substantial and sustainable production and cash flow growth for the foreseeable years.

The Yamal LNG project is a world class project that will transform the Company into an international energy player as well as substantially increasing our cash flows from operations. We will launch value-accretive projects throughout 2015 that will substantially increase our liquids production and continue to generate significant foreign denominated revenues to counter-balance our domestic gas business. These are substantial changes that we have outlined in detail and articulated in our Strategy Presentation, countless meetings with investors and analysts, and highlighted on all of our past earnings conference calls.

Yesterday, we announced the signing of a new four-year contract for the delivery of nine (9) billion cubic meters of natural gas to MosEnergo, an important provider of power generation to the City of Moscow and the Moscow Region. We have read recently that some analysts are questioning our ability to market our natural gas beyond 2016, so hopefully the execution of this contract dispels some of these concerns or speculations. We are absolutely confident in our ability to market 100% of our future gas production, and in the nearest future we will finalize our gas balance for 2016 and beyond.

In summary, we have delivered what we promised we would deliver.

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

Thank you very much.

QUESTIONS AND ANSWERS

Operator:

Thank you. 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. Again please press *1 to ask a question. We will pause for a moment to allow everyone to signal. And our first question comes from Alex Fak from Sberbank. Please go ahead.

Alex Fak:

Mark, thanks very much. This might be running ahead a little bit but you mentioned Gydan LNG project and your partners in Yamal LNG, Total, have said that Yamal LNG project is just above breakeven at the current oil prices assuming the full equity finance. And so I wanted to ask you, given the oil price decline, does it still make sense to proceed with the second LNG project based on the Gydan fields?

Mark Gyetvay:

Thank you, Alex. As I mentioned before, nobody is looking at the Yamal LNG under these current pricing environments. We're not producing today and we fully anticipate that by the time production comes on stream, we will return or revert back to the \$70-\$80 per barrel of oil, which is what the industry is forecasting as we speak. Gydan, what I mentioned earlier, we're just at the very beginning stages of undertaking exploration activities and design work. Again, this is a project that we look at post 2020 and it's important to understand that again, these are long-term projects that we fully anticipate, just as Yamal LNG, that we will go through various price commodity cycles. So at this particular point, we're very comfortable with where we stand on the Yamal LNG project as well as our wish is to move forward with

the preliminary works on Gydan. It's just more important to understand that we have stated as well as Total have stated that this particular project is profitable in the current pricing environment.

Alex Fak:

Okay, thank you.

Operator:

Thank you. Our next question comes Karen Kostanian in Bank of America. Please go ahead.

Karen Kostanian:

Mark, thank you very much for the presentation. I have two questions. First of all, you know, it's very commendable that in the current gas glut environment in Russia basically and recession following, you're still increasing your volumes. So my question is, in your renegotiations of contracts, given the recession and everything else, do you have to make price concessions or any other special adjustment to perhaps take-or-pay volumes to sustain the contracts and to sign them again? And my second question, given that the situation with the sanctions has stabilized, you are close to perhaps selling 9% stake in Yamal LNG and also to securing project financing. Have you thought perhaps about resuming the buyback that you have suspended last year? Thank you.

Mark Gyetvay:

Thank you, Karen. On the first question, the contract was extended at the same price and terms we had on a previous contract so there are no discounts offered on these particular contracts and we don't see the pressure on discounts at this particular time. So I guess I can only say that they are on the same terms and conditions as the prior three-year contract. In relation to your second question, no, as you rightly said, we're in negotiations on a potential transaction for the 9% stake but in terms of reinstating our buyback, the buyback period is usually extended for one year. We'll consider that coming up pretty soon because it expires in June. I believe we're pretty comfortable that we will extend it out for another year and once we settle the financing situation in regards to Yamal LNG, we will consider going back in the market on the share buyback program.

Karen Kostanian:

Thanks, Mark.

Mark Gyetvay:

You're welcome.

Operator:

Thank you. Our next question comes from Alexander Kornilov in Alfa-Bank. Please go ahead.

Alexander Kornilov:

Yes, good afternoon, gentlemen, thank you very much for the presentation. I have two minor questions actually related to the cash flow statements. I have noticed that you have received the dividends in the amount of RUB 1.9 billion roughly from your JVs. As far as I understand, this is the dividend, that perhaps came from Nortgas. So I have two related questions. First, what kind of amount would you expect for the whole year? Do you expect any further dividend proceeds going forward before the end of the year? And secondly, is there any particular dividend policy which Nortgas is sticking to? So if you could elaborate a

little bit more on that, it would be great. Thank you.

Mark Gyetvay:

So on the first part of your question, you're absolutely correct. The dividends received were from Nortgas and we fully anticipate that our joint ventures, given that they're ramping up production, etc. will start paying dividends in future. That was anticipated. I believe that was slightly delayed in 2014 due to the incident we had early on with SeverEnergiya with the fire at the deethanization facility but we should be in a position to start generating dividends in the future on our joint ventures. As relates to the dividend policy specifically at Nortgas, I really can't comment on that at this particular time.

Alexander Kornilov:

Okay, thank you

Mark Gyetvay:

You're welcome.

Operator:

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

Maxim Moshkov:

Thank you. So Mark, just also two questions. First, regarding the Ust-Luga output, we are seeing that the amount of fuel oil is increasing, probably on the back of the more heavy nature of the gas condensate stemming from SeverEnergiya fields. What's your kind of outlook when SeverEnergiya will reach its peak production? What will be likely rough amount of fuel oil this splitter will be producing? And second question is regarding Yamal. What is actually LNG breakeven price for the project, if you can provide this estimate? Thank you.

Mark Gyetvay:

In terms of the Ust-Luga output it's roughly about 60%+ naphtha and then the rest of the other product. And the plan is to remain at roughly about 60% on a relative stable basis. So you know, it actually has dropped down slightly from the original output that we had when we originally launched, because I believe it was roughly about 74% initially so it has decreased slightly. In terms of your second one, I'm just not at the stage to provide that information right now. We don't provide our breakeven points for Yamal LNG.

Operator:

Thank you. Our next question is from Alexander Nazarov in Gazprombank. Please go ahead.

Alexander Nazarov:

Yes, good afternoon and thank you very much for your presentation, Mark. You have been abnormally short tonight. I'm not sure whether because of Gazprom or because of the upcoming holidays. So my question is I ask you to clear – you mentioned several comments from both Mr. Mikhelson and from Total's CEO on Yamal LNG financing. So can you make clear, do you expect financing from Chinese banks to be on the level of \$12 billion or \$13.5 billion? And what is the amount now being discussed with the export agencies because I saw also two different numbers for that amount? Thank you.

Mark Gyetvay:

Alexander, the answer to the first part of your question, you're absolutely correct, we're cognisant of the fact that Gazprom will be following us and also the fact that we didn't want to overwork you folks given that the May holidays are fastly approaching. I mean, we've already, we've kind of outlined already but Mr. Mikhelson and Mr. Pouyanné have basically given relative ranges on the expectation of financing for Yamal LNG, you know, and the numbers that were given before were in the range of USD 10-15 billion, okay. And how that number ultimately comes out is a factor of additional negotiation, etc. So I just, I wanted to put the message out today is that we are getting closer to finalizing this transaction and it will be within that relative range on financing. As relates the other question, there is some other discussions going on and I don't want to specifically indicate an amount at a point in time but it's in the range that you talked about. And so I'd like to leave the financing as that until it's complete. Once it's complete, we obviously will have an announcement of that. We'll have full discussions. Let us finish this work. There's still a lot of documentation, stuff that needs to be completed, and we're moving along the path of finalizing the financing. And that's all I want to talk about tonight on Yamal LNG so please for the rest of the questions, I am not going to answer any more questions related to the financing.

Alexander Nazarov:

Okay, thank you very much.

Mark Gyetvay:

You're welcome.

Operator:

Thank you and another question from Farid Abasov in Standard Bank.

Farid Abasov:

Yes, good afternoon, Mark. I have two questions, if I may. My first question is regarding your decline rates at the core fields and specifically Yurkharovskoye. I noticed that the condensate actually posted quite a steep decline. What are your expectations going forward? I mean the condensate decline rate was a result – a function of the overall gas decline and what do you expect going forward? I mean should we model sort of a 7% year-on-year decline? This is the first question. And two is could you please clarify your take-or-pay volumes for domestic sales. What is sort of the minimum amount that has a commitment from your clients for the next five years? If you could elaborate on this, would be really grateful. Thank you.

Mark Gyetvay:

You're welcome. On the first question, again, without elaborating in too much details on the decline rates. Our East-Tarkosalinskoye field was producing gas since 1998. So naturally some of the wells in that field are in various states of decline. Yurkharov and Khancheiskoye fields were launched in 2002 and 2003 and some of the earlier wells are in a declining state. Part of the problem that we had in the first quarter, what I tried to explain on the call is that in 2014 we ran at a higher output level for Yurkharovskoye. So it's not a direct function of notable declines in the overall gas. We plan to be at a plateau level towards the latter part of this year. We've also had that unplanned shutdown. But I have to say, and we've reported it over the years, is that the concentration of condensate inside the gas stream is constantly declining. So over time, due to pressure differentials down-hole, the wet gas becomes more drier and this is just a fact of the operating model. And Mr. Mikhelson has explained that in prior conference call; we've talked about it many times. It's even mentioned in our MD&A that we have, this particular issue. It's not unique to our field. It's just a function of declining pressures. So I really can't give you a good estimation on what would

be an acceptable decline rate for you to model. I think what you need to do is just look at it for the rest of the year as we plan to correct some of these issues. In your second question, again, we don't specifically give terms and conditions of our gas contracts so again, I will refrain from answering on the take-or-pay question in that regards.

Farid Abasov:

Thank you. Thanks, Mark.

Operator:

Thank you, our next questions comes from Ildar Khaziev in HSBC.

Ildar Khaziev:

Hi, hi Mark. I have a question about SeverEnergia. Can you share with us when you expect the debt repayments to start? And what sort of yielding amounts do you expect to receive going forwards? Thank you.

Mark Gyetvay:

Can you just explain what do you mean by "yield" and "amounts" going forward. I don't understand your question.

Ildar Khaziev:

No, I mean you have provided some financing for SeverEnergia, right, along with your partner, and my question was when do you expect this venture to start paying back the debt?

Mark Gyetvay:

Okay, well I can tell you tonight already that SeverEnergia has already started paying back its debt. So I mean that process has already begun.

Ildar Khaziev:

And then what sort of instalments, yearly instalments do you expect?

Mark Gyetvay:

I don't want to get into that granularity about how much we have to pay each quarter at this particular point. All the point is that we are, we started the process of repaying back the SeverEnergia debt.

Ildar Khaziev:

Okay, thank you.

Mark Gyetvay:

Great, thank you.

Operator:

Thank you. As a reminder, to ask a question please press *1. And our net question comes from Artem Konchin in Otkritie. Please go ahead.

Artem Konchin:

Yes, hi, good afternoon everyone, Mark, Alex. As usual, my favorite topic, your downstream netbacks. I wanted to ask you, Mark, if you can tell us that we are out of the woods by now and that the numbers we're seeing, as far as differences in realized prices and the prices of the acquisition of your stock, the unstable condensate, if we are back to normal. And moving forward, what your feelings are for the pricing environment for the naphtha net of duty, and domestic acquisition prices for the condensate. Thank you.

Mark Gyetvay:

It's like almost an impossible question to answer, as they're based on spot market prices. So I mean we're basically operating at more or less the whims of the market. I can tell you what the effect of the tax manoeuvre is - obviously we're paying higher mineral extraction tax, but that is offset on the other side by the change in the export duty. Now, I think it's kind of premature because the export duty for say naphtha was only reduced by 5% and we should start seeing this over the next couple of years it'll be little more pronounced with the changes on the reduction in the export duty rates. But just to say, that we're kind of a marginal benefactor of these changes. But to predict and analyze what our netbacks are going to be or what the price will be on this particular market it's almost impossible to do at this particular time. You're just going to have to wait till we actually report the numbers in each quarter.

Artem Konchin:

Okay, thanks. Fair enough.

Operator:

Thank you. There are currently no more questions in the queue.

Mark Gyetvay:

Okay, well then thank you very much for your time this evening and we look forward to reporting to you on the second quarter and any additional information in the future. 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.