Company: **NOVATEK**

Conference Title: **Q1 2012 Financial Results**

Presenter: **Mark Gyetvay**

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Operator: Good day and welcome to the Q1 2012 NOVATEK Financial Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Oleg Maximov, Oil and Gas Analyst at Troika Dialog. Please go ahead sir.

Oleg Maximov: Thank you operator. Good afternoon and welcome. I'm Oleg Maximov from Troika Dialog and this is NOVATEK's First Quarter 2012 Financial Results Conference Call. With us today as usual is Mark Gyetvay, NOVATEK's Chief Financial Officer and Member of the Board of Directors. Mark, please start with your presentation. Thank you.

Mark Gyetvay: Thank you Oleg. Ladies and gentlemen, shareholders and colleagues, good evening and welcome to our First Quarter 2012 Earnings Conference Call. I would like to thank everyone for joining us this evening and again extend our sincere gratitude to Troika Dialog and Oleg Maximov for organising and hosting our earnings conference call.

` 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 references to forward-looking statements by using words such as '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 files including our annual review for the year ended 31st December 2011 as well as any of our earnings press releases and documents throughout the past year for more descriptions of the risks that may influence our results.

For tonight's conference call I want to focus on a few crucial points that emerged recently regarding the Ministry of Finance proposed changes to the mineral extraction tax or MET as well as our position regarding the supporting topics. However I will not go into depth or engage into a debate that is purely speculative because we are presently formulating our position in this important area. As you can appreciate the proposed changes in the MET of this magnitude obviously raises concerns about the government's intention on increasing the economic rent for oil and gas producers in Russia, but the proposed changes were considered significant especially towards the independent gas producers with a different revenue commodity pricing model. It is also important to frame this discussion in terms of facts, not market speculation because as of today the main position is just that: a position that is subject to further review and discussion prior to final decision.

We completely understand everyone's concerns regarding these proposed punitive tax changes and equally important we understand investors' sentiment towards Russian country risk and the negative impact these types of changes imply for further investment opportunities in Russia. Everyone wants some measure of predictability rather than irrational behaviour and you can also appreciate at this point from our perspective as we invest significant capital in field development, infrastructure and processing complexes. We have never avoided discussing these types of issues in any of our investor meetings or conference calls and we don't plan to shy away from addressing these types of topics today. Unfortunately everyone must understand that this particular topic, MET, or for that matter tariff changes to gas prices and export duties are considered non-controllable by the company and we purposely separate and disclose this fact in our analysis of operating expenses. What we can do and what we will continue to do is to lobby our position on these matters and I can assure everyone tonight that we have not lost our ability as some analysts have speculated in the rise up of this topic.

Conversely we are actively involved in these discussions and we will attempt to position our arguments accordingly to minimise any significant impact to our operating cash flows. We strongly disagree with the position regarding the principal way of calculating and assessing the

MET rate and we believe a different position will be adopted once it becomes law. Therefore it is too premature for us to speculate at this point what the impact on our EBITDA will be in 2015 so we will let the analysts make these particular assumptions. Increasing the MET rate only in relation to the domestic gas market is not a correct position and we believe a different methodology will be adopted which will at least take into account inflation and transport tariff increases.

While on this important topic I would like to remind everyone this evening as I have done in my investor meetings that when we deal wit the topic of taxation we do not view this issue as one dimensional, but rather we assess the impact as three dimensional: pricing, transport and tax and try to frame our analysis and arguments along these lines. Our aim is to minimise the negative impact on our netback realisations and we believe we have done a good job to date in achieving our aims.

Another important thing to mention that seemed to be overlooked in the speculative frenzy is our goal of moving closer to the end consumer implying that the transport tariff is also key in these discussions on preserving our netback margins. In fact if you analyse our operating expense categories you will note that transportation in general represents 78% of our non-controllable expenses and approximately 51% of our total operating expenses. Within the specific transportation category for natural gas, this represented about 80% of our transport expenses which shows you why this single category is important in managing our netback margins.

Without question we were surprised by the significance of the many analyst negative write-downs of EBITDA for 2015 which implies to us that our comments regarding domestic gas price tariffs is not being heard or worse yet ignored. I have made it absolutely clear on many investment meetings as well as our strategy presentation in London that our position vis-à-vis domestic gas prices is contrary to what I believe many analysts use in their models. Moreover I mentioned that on our Full Year 2011 Earnings Conference Call that we do not anticipate significant changes to gas MET paid by the independent producers since these percentage increases were already approved in the Russian budget and that we should get some indication for the range of MET discussions as we approach the next three year budget period.

It is also quite frustrating to read many ill-advised commentaries on questioning the fundamental assumptions and forecasts for our business model. We have a clear and enviable track record of delivering quality results in negating these facts with purely speculative conjecture is beyond comprehension. We should not confuse matters that are controllable from those that are non-controllable. The government's imposition of additional tax burden on an industry sector is a troublesome issue to all of us but is an issue that is not controllable from a single entity, but rather requires a collective and insightful lobbying effort by many and we will continue to take an active role in these efforts.

Another recent topic that has emerged through these MET discussions is the possibility of eventual export rights according to independent gas producers. The correlation of topics is reasonable to assume but again quite premature to speculate. While on this topic I would like to clarify a point that was unfortunately disclosed in an analytical report during one of my private group meetings without my permission but was purely framed as a question from investors to me where I provided some theoretical export options. My response to this question was not implying that we already had some insight into potential or imminent export rights but merely trying to explain that there are some theoretical options to consider and we will explore all possible avenues to increase our operating cash flows and improve and/or enhance our netback margins.

I can state that we have been dealing with the possible resolutions on the pipeline export question and that if the proposed MET rate increases announced put into effect were delivered to the Russian domestic market based on domestic pricing, we will act more insistently on obtaining a positive decision allowing us to export natural gas with the aim of resolving this question in 2013. In the event that the principle of calculating the MET rate increase will be implemented as proposed by the MinFin we may revise our long term strategy towards increasing our equity stake in LNG projects on the Yamal Peninsula and accordingly adjust our equity stake in the Yamal LNG projects despite the fact that we are currently negotiating with several companies and we have moved forward significantly in negotiation and process.

We will also consider increasing the output of LNG on the Yamal Peninsula at the expense of developing assets on the Gydan Peninsula in order to minimise the negative impacts on NOVATEK's operating cash flows due to an increase in our net tax obligations. Therefore this is not a simple and straightforward discussion and we will continue to present our position that addresses all of the relevant points.

During the first quarter we began purchasing and reselling natural gas on the Russian domestic market from natural gas purchased from Sibur Holdings, a related party as part of a long term purchase contract that we have previously disclosed. In addition we also completed our first quarter of marketing natural gas through our wholly owned marketing subsidiary NOVATEK Chelyabinsk post the acquisition of Gazprom Mezhregiongas Chelyabinsk, completed in December 2010, which significantly increased our sales in this important consuming region. We sold approximately 40% of our total sales volumes end consumers to this region in a reporting period as compared to 17% and 30% in the first and fourth quarters 2011 respectively or by approximately 5.1 billion cubic metres of natural gas. We will continue to penetrate and expand our gas sales to regional markets as part of our overall commercial marketing plan and we will utilise our existing infrastructure and marketing subsidiaries to facilitate these goals as outlined in our Strategy Day presentation.

The first phase of Severenegia's Samborsky field was launched recently towards the end of April which essentially fast tracked the field's production by utilising our existing infrastructure at the Yurkharov to Purovsky unstable gas pipeline and our processing capacity at the Purovsky Plant. We will provide additional updates on the field performance during subsequent conference calls but presently we are producing approximately 6 million cubic metres of natural gas and roughly 800 tonnes of gas condensate per day. We plan to launch the second train or line during the fourth quarter thus increasing the field's overall productive capacity by another 6 million cubic metres per day and approximately 800 tonnes of gas condensate according to schedule.

The increase in Severenegia's total production will also correspond with our plans to expand our overall processing capacity at the Purovsky Plant by 6 million tonnes done in stages of 3 million tonne upgrades in 2013 and 2014. We are also planning to expand the Yurkharov to Purovsky unstable gas pipeline to accommodate the additional volumes of expected gas condensate from these fields.

In addition during the first quarter we began developing the oil layers at both the East Tarkisolinskoye and the Khancheyskoye fields which increased our crude oil production by 44,000 tonnes year on year and by 15,000 tonnes quarter on quarter although the overall volumes of 99,000 tonnes represented less than 1% of our total production on a barrel of oil equivalent during the quarter, it is still accretive to our earnings because the field's location north of the 65 parallel and the corresponding zero MET exemption which became effective on 1st January 2012.

We continued works on a number of different projects during the first quarter and spent approximately 7.5 billion on capital projects representing an increase of 18.6% year on year and a decrease quarter on quarter of 22.2%. Specifically, we increased our capital spending at the Ust-Luga trans-shipment and gas fractionation plant and ongoing drilling activities at the East Tarkisolinskoye field particularly relating to our crude oil development activities. Of particular note during the quarter was a significant decrease of 29% in the Yurkharovskoye field's capital spending programme which is consistent with our previous comments that this important field is moving closer towards maintenance capital unless a decision is made to expand the field's productive capacity beyond the approximately 4 billion cubic metres we plan to add by year end 2012. These three capital projects aggregated 69% of our total capital spend during the period and we are still forecasting a total capital expenditure programme for 2012 at roughly 50 billion rubles. If there are any revisions in this capital programme we will update everyone on subsequent conference calls, but as of today there are no changes to our forecasted capital expenditure programme.

One particular capital project of interest to investors is our Yamal LNG and I can confirm we are working according to the project time schedules outlined in December at our Strategy Day presentation. We received the initial FEED study from the engineering consortium led by CBI Lummus and are currently preparing tenders for long lead items this summer. There are some additional works needed to finalise this study which we plan to finish over the next couple of months, the procurement of long lead items is one of the critical paths to ensure a timely completion of the project and in April a team of specialists held a series of meetings in London with potential LNG contractors to explain the project, go over some of the requirements in the FEED study and discuss the tender process for long lead items. We expect to finalise some of the EPC vendor contracts this month and the remainder in the third and fourth quarter 2012 for long lead items. Once the FEED study is completed around June we will submit the report to the relevant bodies of the Russian government for export review with the aim of making the final investment decision by year end. There is a defined process that needs to be adhered to and we are proceeding accordingly.

We continue to hold discussions with potential partners on the farm-out of an additional interest in Yamal LNG but I want to make it absolutely clear that the farm-out is not crucial and we will continue to study our options. We have the main strategic investor Total already in the project and we are moving ahead according to the timetable we have outlined for the project but as I have already stated we will consider this whole process in light of the MET discussions and make a decision which we feel is in the best interests of the company. We are proceeding forward with works at the port facility during the winter construction season this year and next to ensure that the facilities are available to expect materials for delivery when required. Ongoing works continue at the airport facilities, housing complex and fuel depots to name a few and we have already delivered the first new rig built by Uralmash to the field site and another custom drilling rig that is currently being fabricated. We project the drilling of additional production wells to commence some time in the third quarter 2013.

Another important announcement we made during the quarter was the memorandum of understanding we signed with Gazprom whereby we will endeavour to work together to develop clean sources on the Yamal and Gydan Peninsulas, specifically we agreed to form a joint venture owned 75% by Gazprom, 25% by NOVATEK whereby Gazprom will contribute its Tambey fields and we will develop these fields and potentially expand the overall production of

LNG utilising the port facilities at Sabbetta by another 20 million tonnes per annum. Although discussions are quite early at this point, we raised the possibility at our recent Strategy Day presentation by indicating the potential to raise the overall level of LNG produced on the Yamal Peninsula to 25-30 million tonnes per annum. The second part of this announcement was the formation of another joint venture equally owned at 50% each whereby we, NOVATEK, will contribute our recently acquired licences at the Utrenny licence areas to the joint venture located on the Gydan Peninsula and we would jointly develop this important field with the aim of connecting this area to the Yamburg pipeline infrastructure owned and operated by Gazprom. The gas produced on this field will be delivered to the Russian domestic market.

We have established working groups between our respective companies and have begun working on implementing these projects, but the ultimate decision regarding the pace of work and the timing of project will rest on the outcome of the MET discussions. Depending on the outcome of the MET discussions one option will be moved forward with the projects that have export potential rather than projects delivering natural gas to the Russian domestic market. We will keep our various options open while these discussions are underway.

Moving forward I would like to briefly discuss the operational and financial results achieved in the first quarter of 2012 before opening this session to questions and answer. Our natural gas and liquids production excluding purchases and inventory movements increased by 9.3% and 5.5% respectively during the first quarter of 2012 as compared to the prior year which is trending slightly higher than our full year forecast on a percentage basis. We have maintained a strong production trend for natural gas in April 2012 and early May during the traditional trough period, in fact our natural gas production for the month of April was approximately 20% higher year on year and relatively consistent with the prior month's production runs although this fact was missed or overlooked during the MET frenzy.

For natural gas we had strong production growth from our three core fields led by an 11.5% growth in production from the Yurkharovskoye field or by approximately by 900 million cubic metres. We also increased our purchase of natural gas from our joint ventures amounting to 1.4 billion cubic metres representing an increase of 2.8% as well as commencing purchases from third parties totalling 900 million cubic metres as compared to no volumes purchased in the first quarter of 2011. As for natural gas sales we increased our volumes sold year on year by approximately 2.1 billion cubic metres or by 14.7% and quarter on quarter by 471 million cubic metres or by 3%. The biggest change in our natural gas sales was the distribution of the volumes sold between end consumers and wholesale traders. In the first quarter we significantly increased our percentage of natural gas sold to end consumers from 51% in the first quarter of 2011 to 76% in the current reporting period, an increase of roughly 25%. In comparison to the fourth quarter 2011 we increased our proportion of sales to end consumers from roughly 57% to the current 76%.

The change in our natural gas sales mix is important for a number of reasons but essentially meant that we achieved a higher realised average price, stronger netback realisation excluding residential sales of approximately 79 rubles per thousand cubic metres or $2.61 per mcm based on current exchange and was able to effectively control our production profile by maintaining the customer relationship. Moreover we significantly increased our sales volume to the Chelyabinsk region representing 40% of our end customer volumes sold which also contributed to the higher average realised price and improved netback margins. The more we transport gas to end consumers, the higher our overall costs incurred to transport natural gas and this was clearly demonstrated to the higher transport costs year on year and quarter on quarter as reported in our operating expenses but it is important to note that some of our best netback margins are achieved closer to the point of production.

Our average realised prices for end consumer sales during the first quarter of 2012 decreased slightly by two tenths of 1% in comparison to year on year and were slightly higher than those realised quarter on quarter. For ex-field or wholesale trader sales our average realised price increased year on year by approximately 11 rubles per mcm or by eight tenths of 1% and was slightly higher by 1.1% with the prices we received for this category of sales quarter on quarter. As a reminder we had no tariff increase for our natural gas pricing during the first quarter of 2012 and the effective data raising tariffs by 15% is scheduled to be 1st July representing essentially a 7.5% year on year increase when implemented. We continue to achieve a higher margin differential between end consumers and ex-field netbacks excluding trading activities and sales to residential customers as compared to the prior year which continues the pricing dynamics achieved prior to the economic crisis although we cannot be certain that this trend will remain consistent or continue to fluctuate period on period. Our overall netback margins for natural gas sold during the current reporting period increased by 99 rubles per thousand cubic metres or by 7% as compared to the prior year and increased slightly by eight tenths of 1% quarter on quarter. The increase in our netback margins was primarily due to our sales mix and our geographical regions.

We also decreased our overall distance to transport natural gas to end consumers by approximately 2% and 6% year on year and quarter on quarter respectively averaging approximately 1,800 km during the first quarter of 2012. The geographical markets representing at least 10% of our sales volume were the Chelyabinsk and Perm regions which were different from the comparable reporting periods which generally had four regions of at least 10% sales including Moscow, Orenburg, Perm and Chelyabinsk.

We ended the first quarter 2012 with an inventory balance of 32 million cubic metres versus 760 million cubic metres of natural gas in underground storage facilities at year end representing a reduction of approximately 728 million cubic metres as compared to the beginning of the year.

For liquids we managed to increase our liquid production year on year by 5.5% and quarter on quarter by 2.1% led by the production growth at our Yurkharovskoye field and our East Tarkisolinskoye field with the Yurkharovskoye field accounting for about two thirds of our liquids production which has been relatively consistent over the past few periods. Although we managed to increase our production of liquids through the reporting period our overall sales of stable gas condensate was lower year on year by 4.7% and quarter on quarter by 10.4% due primarily to a build-up of inventory movements between reporting periods. We do not recognise revenues until such time that the product reaches its intended destination and our inventory movements fluctuate period on period depending on loading schedules and ports of destination. In the first quarter we had four tankers in transit in the Asian Pacific region representing approximately 240,000 tonnes in water borne transit which are generally recognised in the follow-on period. This is purely a revenue timing issue.

Stable gas condensate continued to represent the largest portion of liquid sales although volumes sold during the first quarter were down, relative volumes sold year on year and quarter on quarter with the decrease of volumes sold principally due to inventory in transit. During the first quarter we sold 624,000 tonnes versus 724,000 tonnes in the corresponding period and 847,000 tonnes in the fourth quarter of 2011. We increased the volumes of LPG sold in the first quarter by 3.9% year-on-year and 5.3% quarter-on-quarter. Crude oil sales during the reporting period was also up by 66% and 12.2% relative to the first and fourth quarters 2011 but as I previously mentioned, represented less than 1% of our total sales volumes for the period. Our overall liquid hydrocarbon volumes in inventory aggregated 449,000 tonnes at period end versus 371,000 tonnes year-on-year and 325,000 tonnes at year end, of which 352,000 tonnes represented stable gas condensate in inventory.

Commodity prices remained robust through the first quarter 2011 and were primarily driven by double-digit growth in Urals and Brent benchmark prices. Our average export netbacks on a US dollar basis for stable gas condensate and LPG volumes sold during the period increased by approximately 7.1% and decreased by 2.7% respectively despite increases in both export duties during both periods and a slight decrease in average transportation expenses. In comparison to the fourth quarter, our average export netbacks for stable gas condensate increased by 29.4%, largely due to an increase in our average contractual price by 12.7% and a slight decrease in the export duties which was offset by increases in both our real and transport tariff cost.

For stable gas condensate we sold 624,000 tonnes, realising an average netback price per ton of USD 513 per ton in the first quarter as compared to USD 479 per ton in the corresponding period and USD 397 per ton in the fourth quarter. During the first quarter we despatched 15 tankers of stable gas condensate from the Port of Vitino, of which 6 tankers were destined to the European markets, 2 tankers were destined to the United States and the remaining 7 tankers destined to the Asia Pacific region. Our Purovsky plant operated at 79% of its rated capacity with a total plant output reaching 986,000 ton comprised of 749,000 tonnes of stable gas condensate, 232,000 tonnes of LPG and 5,000 of methanol products. On a total barrel of oil equivalent basis, we increased our first quarter production to 104 million barrels of oil equivalent versus 96 barrels of oil equivalent in the prior reporting period, representing an average total hydrocarbon per day of 1,139,000 barrels per day, an increase of 7.3% year-on-year.

We have no major surprises to our operating costs during the first quarter relative to the continued growth of our revenues. Our total operating expenses increased, in absolute terms from RUB 23.4 billion to RUB 31.9 billion, an increase as a percent of revenues from 52% to 59%, largely due to the significant increase in transportation expenses and third-party purchases. Operating expenses in the fourth quarter amounted to RUB 28.9 billion, relatively consistent as a percentage of revenues as compared to the current reporting period.

As expected, the most significant changes in our operating expenses for the comparative periods was a relative increase in our transportation expenses, which is explainable by the overall growth in our end customer sales combined with the annual tariff increase as compared with the prior year. During the first quarter, we significantly increased our sales to end consumers on a volume basis by 72% and 38% as compared to the first and fourth quarters respectively. During the first quarter, we managed to reduce our transport costs on a per unit basis for delivery of natural gas, with the average transport rate per 1,000 cubic metres declining by RUB 135 per MCM or by 11.2% despite a significantly higher proportion of end customer sales in the period. For liquids, we had a reduction in our transport costs by tanker which was largely driven by the increase in good and transit and to a lesser extent the geographical mix of our sales volumes.

We continue to effectively manage and control our G&A expenses as a normal course of business although these expenses continue to fluctuate during the period in the controllable expense category, due primarily to semi-annual and annual bonus payments and accruals, charitable contributions, consulting services and business travel expenses, among other line items. The main increase in our G&A expenses was attributable to employee bonus accruals in the amount of RUB 188 million, an increase in our overall employee headcount and the acquisition of the Chelyabinsk gas trader and a salary indexation of 9.6% effective from July 1st, 2011. At the end of the first quarter, the Company had a total headcount of approximately

4,645 employees of which 1,338 employees or 29% represent employees classified under the general and administrative category. Although our total headcount increased year-on-year by approximately 890 employees, which represented additional employees acquired from the regional gas trader and an increase in employees hired to work at our retail distribution subsidiary.

We had a significant increase in our exploration expenses quarter-on-quarter of approximately RUB 717 million, which was largely attributable to the expensing of geophysical works, primarily seismic activities, during the reporting period. The primary change year-on-year was also due to expensing the seismic that occurred, which is required by the successful efforts accounting policy. In the previous year we also wrote off unsuccessful exploration wells at our YarGeo and Raduzhniy Licensed Areas.

As a result of the factors enumerated above, our EBITDA and net profit margins continue to remain robust in the respective reporting periods, achieving levels of approximately 45% and 39% respectively for the first quarter 2012, which is consistent with our overall financial guidance. Our balance sheet and liquidity position continue to remain strong throughout the reporting period as we reduced our overall net debt position from RUB 69.4 billion in the first quarter 2011 to RUB 48.1 billion in the current period. Our net debt stood at RUB 71.7 billion at year end. All of our liquidity and credit ratios strengthened throughout the period and we ended the first quarter with a cash and cash equivalent position of RUB 27.7 billion or approximately USD 940 million. We remain cash flow-positive during the reporting period and in the first quarter with a record level of free cash flow for the Company based on the quarter results at RUB 16.4 billion or 28% higher than the prior year. We will continue to fund our capital expenditure program through internally generated cash flows and have the ability to meet all of our debt obligations and liabilities when they mature or become due for payment.

In conclusion, we enter the current reporting period where we left off full year with record financial and operational results and a strong pipeline for growth. As we harness the energy in the far north, we will no doubt encounter new challenges, yet the opportunities are enormous for us to continue expanding our resource base, our production profile and our global reach.

Despite the uncertainties concerning the ongoing discussions relating to MET or natural gas, we remain steadfast in our investment programme and our commitment to deliver superior risk-adjusted returns, and we strongly believe the position advocated by the MinFin is not a correct position to support ongoing development activities and foster an attractive investment environment for Russia. Investors want predictability in the markets where they invest, and we also want the same level of certainty as we embark on new challenging capital projects to ensure future production growth and supply sources of energy. We will continue on the lobbying efforts to ensure that our position is heard.

I would like to sincerely thank all our valued shareholders for the positive support you have provided to us despite the recent periods of market volatility and speculative commentary. We will continue to keep everyone apprised of important matters as has been our market practice, and we look forward to meeting you directly at investor meetings and conferences in the upcoming months. I'd like to end this portion of the conference call and now open the session to questions and answers. Thank you very much.

Operator: Ladies and gentlemen, if you would like to ask a question at this time, please press *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 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.

And we will take our first question from Jacha Azachiakov of Goldman Sachs. Please go ahead.

Geydar Mamedov: Hello Mark, this is Geydar Mamedov from Goldman Sachs. I have two questions if I may. The first one is in relation to Yamal LNG. If I understood correctly from your comments, you have mentioned that if the Ministry of Finance proposal to raise the mineral extraction tax on independent gas producers is adopted then you might reconsider the strategy in relation to the Yamal LNG and might decide to keep the higher stake than before, than you planned before, i.e. higher than 51%. Is this understanding correct?

Mark Gyetvay: Yes, that's correct.

Geydar Mamedov: And the second question is in relation to the export access on pipeline export access. Are there negotiations currently going on between Novatek and the government in relation to the potential pipeline export access at all or this is just something that Novatek will consider if the Ministry of Finance goes ahead and the government, and the current Minister goes ahead with the approval of the increase in the MET?

Mark Gyetvay: As I mentioned, we will, we are definitely looking at this position and once we come up with more definitive information we will disclose it but at this point I don't want to speculate.

Geydar Mamedov: Ok, thank you very much.

Mark Gyetvay: You're welcome.

Operator: And we will take our next question from Karen Kostanian of BofA. Please go ahead.

Karen Kostanian: HI Mark, thank you very much for the presentation. I also have two questions. My first question, we are, as we see the data coming out from Europe and also domestically, in Russia we might admit that we are actually in pretty stagnant gas markets right now and given that the economic projections are not as high as they were in 2007-2008 for both markets, we might be facing a pretty slow growth environment in the gas consumption for the next couple of years. My question is, as we see from several monthly data, Gazprom's production is declining; your production is increasing at the same time. Do you think this situation is sustainable and do you see any threats to your gas production goals that you stated during your strategy presentation? That's my first question and the second question I just wanted to clarify: you said that you disagreed with the pricing projections that, if I understood you correctly, that the analysts have in their models for Novatek. Could you clarify, are we basically too bullish, too bearish here, or what is, what have we missed? Thank you.

Mark Gyetvay: I mean on your first question, again it's, when you look at the numbers – like you said over the next couple of years, so considering a relatively short-term view, you're absolutely correct. I mean the EU is still going through its economic downturn as you know, and as a result of its problems the overall demand is stagnant as you rightly pointed out. But the converse side of the argument is the fact that EU production, indigenous production is still declining rapidly. So we believe that there is opportunity for continued expansion of natural gas sales in the European market and as we know, the Asia Pacific, particularly China, etc. and the imports of LNG to Japan are booming at this particular point.

In terms of our strategy presentation, yes, we have not adjusted any of our projections, and we sticking by those numbers of doubling our gas production by 2020. We have not revised and there's no need to revise them at this particular juncture and since we don't invest in short-term projects, it's important for us to continue looking at making these capital investments over a long period of time. We are sticking to the strategy that we've outlined in December and no modifications to that at this particular point unless, unless we have the MET issue which then we'll obviously change, and we'll come back and revise that accordingly.

In terms of the pricing, what I said on the second point and part of your second question is that it's obvious, it's obvious to us, I mean is when I see the magnitude of the 20%-25% EBITDA adjustments to analyst's models for the year 2015, you obviously got to question of what pricing assumption people have used in their model, and I'm afraid to say that we still see and I still hear commentary that are being conveyed to investors that the pricing model proposed by some analysts – I'm not saying all of the analysts but some analysts – are much higher than the ones that we've outlined in our strategy presentation. I think I was absolutely clear in stating that our USD 125-USD 150 per MCM was a pricing range that we use, ok.

On the first point, just talking about that, I just said that the economic situation in Europe is obviously understood by everybody. Growth of natural gas consumption is slowing although the other factor, the converse factor of the rapid decline in indigenous production, and we know that Asia Pacific, notably China and LNG to Japan, is actually booming in this particular time period, so we believe that there should be no revisions to our long-term forecast outlined in our

2020 projections, whereby we stated in our strategy presentation that we planned to double our natural gas production by that particular time.

On the second point you raised is the question on pricing, and it becomes obvious to us, as I mentioned, that the write-offs, the EBITDA margins or EBITDA reductions of 20%-25% by 2015 clearly, clearly implies to us that there's obviously a difference in pricing assumptions and I hear that from time to time from my meetings with investors. Now I'm not accusing or stating that all analysts are advocating a higher price but obviously some are and what we clearly state, and I clearly stated in our strategy presentation, that the Company's position vis-à-vis natural gas, we don't believe in this export pricing parity basis and we said that market liberalisation will be between USD 125 per 1,000 cubic metres and USD 150 per 1,000 cubic metres. However, it could spike up from time to time but that's going to be the relative range we believe is acceptable for consumption growth in Russia. So you know, that obviously implies that our pricing model is quite different, is more conservative than those being used in the forecasts by other analysts, because I just don't see any significant write-downs to our earnings, EBITDA relating to those orders of magnitude of 20%-25%. That's my point.

Karen Kostanian: Thank you, Mark.

Mark Gyetvay: You're welcome, Karen.

Operator: And we will take our next question from Lev Snykov of Greenwich Capital Moscow. Please go ahead.

Lev Snykov: Yes, hi Mark, I have a question on exports as well. I think it's probably fair to assume that at some point in the future, everyone will be able to export gas independently from Gazprom but if we're talking about let's say one to two years' horizon, and I understand it's premature probably to talk about that but maybe you have any thoughts you could share, do you think it would rather be an agreement with Gazprom as an exports agent, which is obviously what you have done already in the past with respect to offshore projects, or you could actually target the European customers and you could actually be able to sign contracts with European customers on your own. Do you think this could be, do you think the latter option could be considered as well?

Mark Gyetvay: I mentioned previously, on the last earnings conference call, and I confirmed that we were in the process of negotiating contracts with end consumers in Western Europe and at that particular time, we did not have anything finalised and we said that's coming from our trading, our trading group and Novatek Gas & Power. So that's one option. I don't, I'm not interested in speculative issues again; we are not here to speculate. We're not here to talk about something that's not defined yet. So what I'll just say, as I mentioned in the text, we are in the process, we are looking at this year – you see [like I] mentioned, you heard some reports that came out today, we are working very closely on looking at all the options to increase our operating cash flows and enhance our netback margins. And one of those avenues is obviously the export routes. Now, can we use that agency agreement? That is one of the options that can be proposed but I would say at this point it's too premature and I would just wait until we get some more definitive answers coming up and we will definitely disclose that because obviously, as everybody can appreciate, that's a very strong catalyst for our share price.

Lev Snykov: Mark, and just a follow-up question, obviously I'm not talking about big politics but rather the – your view and the company view on this, do you think you could consider an option whereby you would be, you would assume any further obligations let's say with respect to some social, maybe some social obligations or with respect to upgrading the transport infrastructure if you are given the right to export gas, or this is something you wouldn't want to deal with?

Mark Gyetvay: We already have some social obligations so this is not something that we're not familiar with dealing with. You know, we have social obligations in the Yamal Peninsula that we've undertaken as a result of our development activities in the Yamal Peninsula. We have social obligations we've taken in the areas where we operate because they're remote areas. We have a history of providing our fair share towards the social elements for the areas in which our core operations are located. We'll continue to do that. I'm not advocating or believe that there'll be significant increases in those particular expenses.

And then the second point of your question, again this is a question of law because the trunk pipeline system is owned and operated by Gazprom. We make investment into field infrastructure pipeline and if we need to look at options beyond that, we would probably consider those in light of potential expansion of our sales, but that again is something that's premature and I don't want to speculate at this particular point.

Lev Snykov: Ok, well thank you very much.

Mark Gyetvay: You're welcome, Lev.

Operator: And we will take our next question from Ilya Balonovsky of Renaissance Capital. Please go ahead.

Ilya Balonovsky: Mark, first of all thank you for the presentation and congratulations on excellent 1Q results, and just one very quick question from me. Are you looking to increase your 2012 full year production guidance from prior 6%-7% in light of the obviously extremely strong production that we've seen from you over the first four months of the year? Thank you.

Mark Gyetvay: I would say again it's one of those questions that is a little too premature to answer at this point – a little more short-term view, ok? Let us get through the first quarter results, you know, we got through the first quarter with very strong results as one would expect. The second quarter is our trough period, yes, the first month and half of the second quarter was very good. Let us get through a little bit more on the second quarter and then I will address that point in our second quarter earnings conference call as I usually do in my past conference calls. I just need more time to see where we are relative to production during the trough period to determine what we believe will be our full year production because when we plan out, we plan that dip and there could be various different movements along that dip. It could be less – it could be equal to what we're doing in terms of production in the first quarter, and obviously that implies that there's potential for a stronger production profile than those proposed by us at our planning stage when we give out this guidance. So I will address that question specifically on the second quarter conference call because it will give me more visibility in discussions with the second half of the year since we've gone through the first trough period, ok.

Ilya Balonovsky: Understood.

Mark Gyetvay: Give you an indication on that point.

Ilya Balonovsky: Thank you.

Mark Gyetvay: Ok, thank you. Thank you.

Operator: And we will take our next question from Evgeniy Grigoriev of VGB Asset Management. Please go ahead.

Evgeniy Grigoriev: Hello Mark, my question is related to the last news about success to European markets which you plan to get, and the question is actually additional supply of gas could bring this balance to European markets and it could bring more harm than benefits for Russian gas industry, so how do you supply the benefits of giving of gas to exports for independent producers to Europe which could bring this balance to the markets? Thank you.

Mark Gyetvay: You're welcome. You know, I think you have a very, very valid point there and that's why I wanted to say it's premature to discuss, because all these factors have to be considered in determining what is additive to Russia rather than cannibalising Gazprom's sales, and I think that's a very, very important issue that has to be dealt with in any discussions about export rights for independents. I mean, the last thing you want to see is complete chaos in negotiating with various customers in Western Europe and I don't think that's the intent. So that is a very important point and that will obviously come out when the discussions personalise a little bit more but I'm glad you raised that issue.

Evgeniy Grigoriev: Thank you. I hope then there will be some points that we'll discuss on the benefits which can give for this to both parties because now it looks more like cannibalising sales rather than creating new markets in Europe.

Mark Gyetvay: No, I think that will become clearer when we start moving forward a little bit with these discussions, ok, and I'm sure that when that point comes in time, you will see the rationale and the benefits of these discussions.

Evgeniy Grigoriev: Thank you.

Mark Gyetvay: You're welcome.

Operator: Ladies and gentlemen, as a reminder, to ask a question please press *1, and we will take our next question from Zena Psiola of Granite Investments. Please go ahead.

Zena Psiola: Hello. I want to go back to the competitive situation in Russia, especially within 3-5 year horizon, not immediate, and we hear you plan to increase production, we hear, not with Rosneft and not Gazprom, who is gas producers in Russia, oil companies. What do you think makes Russia fundamentally different from the US, another big gas producer who now has a glut regards too much, producing too much gas at the moment? Especially in light of the fact that export infrastructure in Russia is extremely, extremely focused on Europe and there is very little what could be done in terms of physical diversification.

Mark Gyetvay: First of all, I think you have to consider that there's, you know, the US, it's not a very comparable discussion to talk about the US market in Russia. They're completely different in terms of the industry structure. In the United States you have many, many companies delivering natural gas on an open market, and various intermediaries like third-party pipeline access, master limited partnerships, etc., gas traders so it's a completely different industry structure. However, with that said, obviously what you've referred to the growth in gas in the United States as a result of the shale developments. Now, keep in mind this year was probably more of an anomaly in the United States than what was expected due to the warm weather, and the only reason why we have this so-called glut which is obviously driving the price down – it is the fact that we have too much gas in underground storage in America which needs to be worked off. Outside of that, the gas markets were relatively balanced although prices were driving down.

In Russia it's completely different. I mean, it's a market controlled by one dominant player. There's a series of independents led by Novatek. The oil majors are obviously trying to monetise their gas, and everybody has a defined a gas programme. However, what I've been saying to our investors at meetings, etc. and I'll continue saying this is that Novatek first and foremost is a natural gas producer and we focus primarily on the development of natural gas. It is not secondary to our business.

The second point I want to make is that if you were to assume that everybody completes every project in which they say they will do, we would have a glut in all commodities and that just does not happen from a practical perspective. So what we have done, we have assessed in our strategy presentation that we delivered in December in London, we have assessed, like we have done in the past, even in the IPO and post the IPO when we are involved with the Russian government in terms of building and providing input into the gas balance, we look at all these factors. We look at the transport structures, we look at the other producers and based on those factors, we believe that Novatek is best positioned right now to continue adding on gas to the Russian domestic market, and eventually, eventually we'll start seeing other producers start adding production on. But right now I believe we have, up until about 2015, 2016, etc. we have a competitive advantage due to the development of our gas fields, the structure of where we are located on the pipeline to continue growing our market share and that's what we plan to do, and that was what was outlined in our strategy presentation to 2020. Next question.

Operator: We will take our next question from Kalim Aziz of Armajaro Asset Management. Please go ahead.

Kalim Aziz: Hello Mark, congratulations once again. It was good to see you last time around. Very, very quickly, if I was to ask you to give me an indication of profit per unit of gas condensate and profit per unit of oil and profit per unit of – direct profit per unit of gas, what would those numbers be for the first quarter and how do they stack up relative to first quarter of last year?

Mark Gyetvay: Can you repeat the first part of your question because you were kind of breaking up a little bit there?

Kalim Aziz: Ok, sorry. Mark, profit per 1,000 cubic metres of gas – I mean cash profit per 1,000 cubic metres of gas 2012 first quarter versus 2011 first quarter, and profit per barrel of oil or gas condensate if you want, for lack of a better word.

Mark Gyetvay: Well, first of all we don't separate that out – gas versus liquids. We do everything on a barrel of oil equivalent.

Kalim Aziz: Yes.

Mark Gyetvay: And unfortunately I don't have that information in front of me right now but the way, the simple way to do that is just take, you know, the cash cost out. So you just have to remove the depreciation and I'm sure some of the analysts have done that in their analysis, but right now we're trending about; like I said, 45%-46% EBITDA margins on our sales and you would just have to remove the depreciation and other non-cash charges but I don't have that information, sorry, right in front of me to provide these figures.

Kalim Aziz: Ok, but the reason I was asking is, is to understand do you have any reason to believe that this number would deteriorate further in, this base number in terms of per unit profitability, to deteriorate whatsoever for the next three years or do you expect that to increase because you're getting a tariff increase and I presume the MET increase this less than the increase in tariff?

Mark Gyetvay: Well, the aim is to balance all those factors. That's the big question we're dealing with now and that's, that was the whole point of my argument. The aim is to balance these particular items so that the overall impact is not a negative or a contraction in the margins. So if you look at what we did – we have an example in our strategy presentation whereby we believe with the tariff programme in place today and the shift away from wholesale traders to end consumers, we felt that we should get approximately 10%-12% margin enhancements given the current structure in place. That's for natural gas. Now obviously, obviously with the MET discussion, the transport tariff discussions, etc., pricing discussions, they all have an interrelated connection to this question you're asking. All I was trying to bring out in the presentation is that if you look at the tax side of the question, right, and if we look at the pricing question, I mean if you stripped everything out, prices are still rising higher than the level of taxation and you should still be able to see some netback improvements although it may be on a slower pace.

Kalim Aziz: Ok.

Mark Gyetvay: But transportation, the point I was making on the transportation side is that that is a much more significant cost component to us, as you know, in terms of our natural gas business. On the liquid side, the uncontrollable portion for us is obviously the benchmark pricing and if the benchmark pricing stays in a reasonable range from USD 90-USD 100 which I believe will probably be the range for the upcoming year, we should do fine on our netback margins on liquid sales. But it depends also on the specific regions where we sell our products.

If you look at prices in 2010 we had about a USD 0.50 per barrel difference over the course of the year between Brent and WTI. But in 2011, that was almost USD 20 difference, right, and so when we sell our condensate to customers, say to the United States, we want to make sure that we're not selling it at a lower price so we kind of used a 50/50 – 50% Brent price, 50% WTI price. So it all plays into the dynamics of the market with the aim of enhancing rather than contracting the margins. But these are discussions that go on with our commercial trading group on a daily basis as you can appreciate, we're dealing with these types of dynamic variables on a regular basis and all we're doing from the reporting side is trying to disclose this fact. But the aim is that we're hoping that the next couple of years we don't see margin contractions based on the plan that we've put in place, and we believe that the taxes will not materialise, as discussed.

Kalim Aziz: Sorry, last question on this – Mark, is your profitability on – I know it's a very difficult question to answer. Do you think your gas condensate is a more profitable product than the gas itself? The reason I'm asking this is as you had mentioned that the growth in the volume of liquids will double more or less in the next three years versus a growth of about 40% on gas output. Do you think that should have a favourable impact on your margins?

Mark Gyetvay: Assuming, assuming that the oils environment stay…

Kalim Aziz: All things equal. Yes.

Mark Gyetvay: Stays in the relative range, yes.

Kalim Aziz: Ok, thank you very much, sir.

Mark Gyetvay: You're welcome.

Operator: And we will take our next question from Katya Rodina of VTB Capital. Please go ahead.

Katya Rodina: Thank you. Hi Mark. Thanks for the presentation, and I have two follow-up questions if I may. First, when do you expect all the discussions and negotiations on MET, transportation tariffs and so on to be finalised? If you have any timeline in mind, you mentioned that it can be probably resolved in some one month horizon, if I heard correctly. And the second question, I just missed your estimates on export netback price in Russia in 2015. Did you say that it should be something like USD 150 or I misheard?

Mark Gyetvay: Ok, this is where we come unfortunately with all the confusions. When I said before on MET, ok, it is that discussions are going on and will be finalised some time this year. You know, it's not going to be finalised in the next month but there is a discussion, we believe, over the course of the summer, when we go up to the next level of the new government being formed, etc. we'll revert back to this question. So it's not going to be done in a month and we need to make sure that it's done correctly, not expediently and something being implemented that is wrong. So we're going to obviously lobby strongly on the MET question and it's not just a timing issue. I think that this will be resolved over the course of the remainder of this year. If we have any news to report, we'll obviously report it in the upcoming conference calls.

On the second point, what I'm saying is that if you look at the trends, and again we had a slide in our strategy presentation that looked at if we followed a netback export parity model, our assumptions would be that, one, you would have higher tax [rates] and two, you would have higher transportation costs. And we said that we do not believe that that would be the model adopted and what we're saying, and what I'm saying now, if you take these 15% increases that are being proposed and you extend them out to 2015-2018, that range, or whatever range they decide, they can go further than that. The point is, is that we're presently sell gas at about USD 90, given an exchange rate on an MCM basis, delivered and we're saying that we believe that an acceptable price in the Russian domestic market that continues to facilitate demand growth, is reasonable and absorbable in the Russian market is around USD 125-USD 150. That is our own forecast. It obviously could change. That's what we believe is the acceptable range in the Russian market and that's what we think will be the price by the time this liberalised market occurs, whether it's 2015, 2018, somewhere in that range of pricing models.

Katya Rodina: Right, thank you.

Mark Gyetvay: You're welcome.

Operator: As a final reminder, if you would like to ask a question today please press *1, and there are no further questions in the queue.

Mark Gyetvay: Ok, and I'd just like to end the call and thank everybody and I look forward to seeing and discussing these issues, which obviously are important, in more detail in the upcoming months. I believe there is a series of investor meetings, conferences that we'll be attending. We'll be glad to discuss this and once we, once we have some more information, rest assured, everybody, we will absolutely go out and state our position in the market. But again I'd like to thank everybody for attending this conference call and look forward to seeing you soon in the upcoming months. So thank you very much.

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