Company: **NOVATEK**

Conference Title: **First Quarter 2010 IFRS Results**

Presenter: **Mark Gyetvay**

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Operator: Good day and welcome to the NOVATEK First Quarter 2010 IFRS Financial Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Oleg Maximov, the analyst of Troika Dialog. Please go ahead.

Oleg Maximov: Good afternoon, I'm Oleg Maximov from Troika Dialog and this is NOVATEK's First Quarter 2010 Results Conference Call. With us today is Mark Gyetvay, Chief Financial Officer and member of the Board of Directors. Mark, over to you to start your presentation.

Mark Gyetvay: Ladies and gentlemen, shareholders and colleagues, good evening and welcome to our First Quarter 2010 Earnings Conference Call. I would like to thank everyone for joining us this evening and extend our sincere gratitude to Troika Dialog and their Oil & Gas Analyst Oleg Maximov for organising and hosting our earnings conference call.

Before we begin with 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 'plans', 'objectives', 'goals', 'strategies' and other similar words which are other than statements of historical facts. Actual results may differ materially from these 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 31st December 2009 as well as any of our earnings press releases for more descriptions of the risks that may influence our results.

Let me begin this earnings conference call by stating what a difference a year makes. The year on year operating environments were completely opposite and these profound changes are clearly reflected in our operating and financial results for the first quarter 2010. The earnings momentum that we achieved over the past four quarters of 2009 combined with clear signs of continued economic recovery in both the domestic and global markets, strong seasonal demand for natural gas and a significant recovery in benchmark commodity prices all contributed to another solid quarter for NOVATEK. Our first quarter 2010 earnings clearly reflects these positive trends but equally highlights our ability to continue to capitalise on our market opportunities due to the prudent capital investments we made to expand both production and process and capabilities. The dynamic recovery in the domestic general business climate as supported by recent operating results and economic activities fuels our enthusiasm for continued positive trends for the remainder of 2010 despite the recent financial turmoil in Greece and its impact on investor sentiments towards emerging market equities.

When we speak about demand for natural gas it is important to recognise the seasonal trends in natural gas consumption. Demand for natural gas this past winter season inclusive for the first quarter 2010 was supported by colder than normal winter temperatures which we believe is a primary determinant for demand. The cold winter weather had a positive effect on the consumption of natural gas in Russia as one would expect, however we should not underestimate the positive drivers of economic recovery in Russia during the period as well. The macroeconomic environment during the first quarter 2010 was in stark contrast to the corresponding period in 2009 whereby it was extremely difficult for anyone to imagine a positive outlook for the year, let alone achieve or sustain stellar financial and operational results. Looking back the financial markets were in turmoil, the economic outlook was pessimistic and the natural gas markets were glutted with excess supplies as demand contracted from the lingering economic crisis. Fortunately we believe we have crossed these negative hurdles and are beginning to witness signs of a stronger front end recovery in the demand patterns for natural gas across most segments of the economy.

During the first quarter 2010 we continued to expand our natural gas and liquid production year on year and sequentially quarter on quarter largely due to the expansion of production at our

Yurkharovskoye field and the resumption of normalised production at our East-Tarkosalinskoye and Khancheyskoye fields. Moreover with the general recovery of demand on the Russian domestic market as well as our ongoing capital drilling programme we were able to supply the market with natural gas produced from our own productive capacity which correspondingly reduced our need to purchase natural gas from third parties. We will continue to add productive capacity during the remainder of 2010 with our present capital expenditure programme and we will continue to optimise our commercial marketing efforts with our operational flexibility between wet and dry natural gas. Our natural gas production increased 20.5% year on year and 11.1% quarter on quarter averaging approximately 111 million cubic metres per day or the equivalent 3.9 bcf. We exceeded 10 billion cubic metres for the first time in our corporate history which is a great milestone to start off 2010. However with the expected drop in seasonal demand we are presently producing approximately 86.5 million cubic metres per day or 3.1 bcf which is slightly higher than the trough periods in 2009. For liquids we increased our production by 21.6% year on year and 3.6% quarter on quarter during the first quarter of 2010 again reflecting strong demand across the regions where our stable gas condensate and LPG are consumed. As we continue to increase our volumes of liquids produced we will continue to have quarterly fluctuations in both goods in transit and storage facilities which generally reverses itself in the ensuring one or two quarters.

2009 was a special year for us at NOVATEK for many reasons but most notably we were proud of our ability to navigate through one of the worst economic crises on record without any significant deterioration to our financial and operational results. Taking this fact into consideration we continued to increase our dividend payout to 2.75 rubles per share or roughly by 9% over the 2008 payout which is unanimously approved at our recent annual general meeting of shareholders. We will continue to look at ways to increase total shareholder returns which we prudently balanced between funding capital expenditures, normal operating expenses and debt servicing. We believe the strong momentum in our earnings combined with sufficient cash flow generation will accomplish these strategic objectives.

As you know beginning in the second quarter of 2009 we made a decision to sustain our production profile in order to continue increasing our liquids production. As we explained during the past year that decision required an economic trade-off between netback margins and volumes but as we have demonstrated throughout 2009 this important decision was economically advantageous to NOVATEK and its shareholders. We also mentioned during our Full Year 2009 Earnings Conference Call that we had ceased sales to traders in remote points effective 1st January 2010 with the aim of concentrating our commercial trading activities on broadening our end customer sales. We have eliminated this sales category in the first quarter and delivered natural gas directly to our new customers, therefore our natural gas volumes sold to end customers increased by 32.9% as compared to the first quarter 2009 and represented 60.5% of our total sales volume versus 53.7% year on year.

We continued to see strong organic production growth from our Yurkharovskoye field of 32.4% as well as the resumption of normal production levels from both the East-Tarkosalinskoye and Khancheyskoye fields to meet market demand. During the first quarter of 2010 we fully utilised our operational capacity to fulfil our volume commitments and also withdrew 272 million cubic metres of natural gas from underground storage. We will continue to invest capital to further expand our operational capacity and when needed utilise the underground storage facilities to balance the effect of seasonal demand patterns. In comparison to the fourth quarter of 2009 we increased our quarter on quarter volumes sold by 1.2 billion cubic metres or roughly 13.5% demonstrated continued positive momentum in domestic demand as we enter the peak consumption season for natural gas. Comparatively one of the key differences quarter on quarter was the increased volumes sold ex-field to Gazprom and to a lesser extent other gas traders which essentially accounted for the volumetric growth relative to the fourth quarter. During the first quarter 2010 we had no ex-field sale volumes sold to Itera.

Continuing on this point I would like to make a few brief observations on average realised prices and transportation. Our average realised price for end customer sales during the first quarter of 2010 increased by 28.1% and 13.4% in comparison to year on year, quarter on quarter respectively which is reasonably in line with our expectation vis-à-vis the general tariff increase effective 1st January and relative geographical mix of our primary customer base. Through ex-field or wholesale traders our average realised price increases year on year by 227 rubles per thousand cubic metres or by 23.1% and by 76 rubles per thousand cubic metres or 6.7% quarter on quarter. By eliminating sales to traders in remote points we strengthened our combined average realised prices by 16.2% or by 168 rubles per thousand cubic metres thus improving our average netbacks for natural gas sold to end customers by 119 rubles per thousand cubic metres or 11% year on year and by 148 rubles per thousand cubic metres or 14% quarter on quarter. We also continued the positive trend of narrowing the margin differential between end customer and ex-field netbacks in the first quarter of 2010 which materialised over the past year due to demand pressures incurred during the economic crisis.

To transport our natural gas to end customers we experienced a year on year increase in distance of approximately 11% or 195 kilometres with our total distance averaging roughly 1,950 kilometres as well as a slight increase quarter on quarter of 2% or approximately 47 kilometres. Our average transportation expense increased by approximately 386 rubles per thousand cubic metres reflecting the greater transport distance to deliver our end customer sales specifically to customers in the Orenburg and St Petersburg regions which were offset by a reduction of volumes sold to customers closer to our production facilities in the Khantimansysk region. In essence we sold more volumes of natural gas to regions with higher transport costs in the first quarter versus the volumes sold in both the year on year and quarter on quarter comparatives.

With the increase in natural gas volumes produced at the Yurkharovskoye field we also managed to significantly increase our unstable gas condensate production by approximately 130,000 tonnes or by 38.2%. This organic growth in our production supports the successful implementation of Phase II development activity at the field which consumed the lion's share of our capital programme over the past couple of years. Throughout the remainder of this year we will continue to complete Phase III development activities as part of our capital expenditure programme in 2010. Our total volumes of liquids increased by 12.5% or by approximately 76,000 tonnes as compared to the corresponding period in 2009. Specifically we had strong growth of 19.1% in our exports of stable gas condensate as well as a 44.2% increase in our volumes sold for LPG across all markets which were offset by a reduction in volumes sold for crude oil from the divestiture of one of our licence areas. During the period we also significantly increased the volume of stable gas condensate in transit and storage by approximately 166,000 tonnes from year end culminated in a period ending inventory balance of 277,000 tonnes. As part of our continuous efforts to enhance our financial reporting we increased the level of our MD&A disclosure for the change in natural gas, liquid hydrocarbons, polymer products and work in progress to help our investors and analysts better understand the movements in our inventory balances and inventory charges and reversals during each respective period.

One of the most notable differences in our liquid sales year on year was the significant increase in commodity prices between the respective periods which had a positive strengthening effect on our liquid netbacks. Our average export netbacks on a US dollar basis for stable gas condensate and LPG volumes sold during the period increased by approximately 211% and 207% respectively despite increases in both export duties and average transportation expenses. In comparison to the fourth quarter of 2009 however our average export netbacks for stable gas condensate and LPG decreased by 10.3% and 11.5% respectively largely attributable to increases in transport and export duties.

Last year we successfully negotiated reductions in both the export duty for LPG and a reduction of real tariffs for the transportation of our stable gas condensate and LPG. For 2010 we were able to retain the majority of these concessions albeit with some modification and/or changes. Unfortunately we were not able to take advantage of the discounts for transportation to the Limbey railroad station throughout the whole quarter of 2010 due to minimum volume requirements but we fully anticipate utilising these discounts throughout the remainder of 2010. We applied discounts to stable gas condensate in the middle of February and we will apply the discounts for LPG from the second quarter onwards.

Even though we have experienced recent commodity price volatility, benchmark crude oil prices have been trading at a reasonable commodity pricing band ranging from $75 to $85 per barrel during the first quarter 2010 which strengthened our product netbacks for deliveries to our key markets. We also realised a contraction in the discounts offered in a price formula which further contributed to netback margin growth.

During the first quarter of 2010 we dispatched nine tankers carrying approximately 532,000 tonnes from the Vitino Sea Port Terminal of which seven tankers or 77% of the volumes dispatched were destined to the United States markets. The remaining tankers were sold to Europe and South America; therefore, we had no tanker sales to the Asia Pacific region in the first quarter of 2010.

Our Purovsky Processing Plant operated at 65% of its rated capacity with total plant output reaching 804,000 tonnes comprising of 578,000 tonnes of stable gas condensate and 226,000 tonnes of LPG. During 2009 our average processing plant utilisation was approximately 57%. For stable gas condensate we sold 412,000 tonnes realising an average netback per tonne of $299 in the first quarter of 2009 as compared to $96 per tonne in the first quarter of 2009 and $333 per tonne in the fourth quarter of 2009. The difference of approximately $35 per tonne quarter on quarter was largely attributable to a 7% increase in export duties and a 20% increase in transport charges because comparatively speaking the average contractual price was consistent period on period. We also managed to increase our year on year LPG export volumes by approximately 27,000 tonnes or 35.1% realising an average netback of $384 per tonne whereas our quarter on quarter comparison noted a 12% reduction in volumes or 14,000 tonnes and a 12% reduction in our average netback largely due to the increase in both transport and export duties of 48.6% and 182.5% respectively.

We had a significant decrease in our overall volumes sold quarter on quarter especially relating to our export volumes primarily due to the number of tankers dispatched between periods and zero tankers in transit at year end. As a result we recorded record volumes sold in the fourth quarter of 2009 both in absolute terms and volumes sold to the export markets. With the increasing volumes of liquid expected to be produced it is imperative that we continue to seek new market opportunities and/or expand our penetration to existing markets. On a total barrel of oil equivalent basis we increased our production to 71.6 million barrels of oil equivalent in the first quarter of 2010 versus 59.3 million barrels of oil equivalent in the first quarter of 2009 and 65 million barrels of oil equivalent in the fourth quarter of 2009. We averaged 796,000 barrels of oil equivalent per day in the first quarter of 2010 representing approximately a 21.2% increase over the full year 2009 average of 657,000 barrels of oil equivalent per day.

As I mentioned on our Full Year Earnings Conference Call we will provide our investors with periodic feedback on any new market opportunities or changes to our customer mix. As of today we have nothing new to report concerning this important area.

I also spent some time discussing the status of our capital expenditure programme and particularly some of the specific projects currently underway. Briefly we increased our capital expenditures year on year and quarter on quarter by approximately 61% and 18% respectively. The majority of our development activities and hence our capital programme is focused on the Phase III development activities at the Yurkharovskoye field with the remainder allocated amongst various exploration and development projects and the Purovsky Processing Plant. During the first quarter of 2010 the Yurkharovskoye field accounted for approximately 78% or 4.8 billion rubles of our invested capital of which 1.9 billion was spent on the unstable gas condensate pipeline, 1.1 billion was spent on drilling activities, 910 million was spent on intra-field gas pipeline connections with the remaining 900 million disbursed among various other activities. The Yurkharovskoye field will continue to account for the majority of our capital expenditures over the next couple of years as we continue with the build-out of its planned capacity. Our total capital expenditure plan is estimated to aggregate approximately 28 billion in 2010 exclusive of value added tax.

We have ongoing discussions with potential strategic partners and engineering firms for the Yamal LNG project and have engaged with a series of advisors to assist us in the negotiation process including marketing related activities. We continue to study the global marketing of LNG from Russia as well as the current and future supply picture. The high level of interest expressed on this project so far confirms our belief that the South Tambeyskoye field including the LNG project is a commercially viable project which will ultimately attract international partners. We will provide more concrete information when it is available to properly disclose project milestones etc. We will keep the investment community apprised of our activities. Please keep in mind that the South Tambeyskoye development is a long term project that will complement our future production profile while in the meantime we are primarily focusing on the exploitation of our existing asset base particularly the Yurkharovskoye field which has the ability to generate near term cash flow growth. We manage a portfolio of assets each with different timeframes for development and we combine these development activities with ongoing exploration works to continuously expand our resource and production capabilities. We will elaborate more on this point and other topics of interest during our strategy update.

Our share of natural gas as a proportion of total revenues decreased year on year from 72% to approximately 68% which corresponded to the strong growth in our liquid revenues during the first quarter period from increasing commodity prices. From a quarter on quarter perspective our natural gas as a percentage of total revenues increased from 55% to 68% reflecting the growth in natural gas volumes sold, the effective tariffs increase as of 1st January and the overall reduction of liquid volumes sold particularly stable gas condensate between the respective periods. Our total operating expenses year on year increased in absolute terms from 11.4 billion rubles to 16 billion rubles but decreased as a percentage of total revenues from 67% to 57.5% but remained relatively consistent quarter on quarter both in absolute amounts and percentage terms. We continued to effectively manage our operating costs during the first quarter 2010 relative to the size of our business and the growth of our revenues. As expected the most significant changes in our operating expenses for the comparative periods was the relative increases in our transportation expenses which is explainable by the overall growth in end customer sales combined with the annual tariff increase. Taxes of earning income also grew period on period and year on year largely due to the volumetric nature of this expense item. As we increased our natural gas and liquid production volumes we should expect a corresponding increase in our tax obligations. It is important to note that our overall production costs on a unit base decreased slightly despite the strong appreciation of the Russian ruble. This point is largely explainable by the benefits of operational scale or leverage we achieved in our first quarter 2010 results as compared to the corresponding 2009 period.

For our general & administrative (G&A) expense category we demonstrated strong control over our costs throughout the period which was one of our key steps implemented to reduce controllable expenses during the economic crisis. Even though we increased our G&A expenses for the year on year and quarter on quarter comparatives we believe this increase was benign and relatively consistent in percent terms and positively reflects management's ability to manage costs in a variety of market environments. Within our G&A expenses as well as materials, services and other we have various expenses related to salaries and bonuses. On the administrative side the largest increase related to the accrual of bonuses of 219 million rubles based on the full year 2009 financial results. Our total administrative headcount of approximately 1,020 employees across all consolidated subsidiaries remained relatively consistent between the comparative periods. For materials, services and other expense category we had a combination of salary increases and additional staffing at the Yurkharovskoye field combined with the new employees gained through the acquisition of Yamal LNG. At the end of the first quarter of 2010 the company had a total employee head count of approximately 40,360 employees.

As a result of the factors enumerated above our EBITDA and net profit margins continue to improve relative to the comparative periods reaching 54.6% and 40.3% respectively. We also increased our earnings per share year on year and quarter on quarter by 427.1% and 19.3% respectively to 3.69 rubles per share during the period. Our profits from operations was aided by a one-off disposal of the 49% interest in ZAO Terneftegas which was comprised of a non-cash fair market revaluation gain of 807 million rubles and 776 million rubes in net consideration. Our net profit for the period was also aided by the strengthening of the Russian ruble relative to our US dollar denominated debt and resulted in a foreign exchange gain of 646 million rubles versus a foreign exchange loss of 3 billion rubles in the first quarter of 2009.

Our balance sheet and liquidity position continued to remain strong throughout the first quarter of 2010 due to the significant increase in our net cash provided by operating activities. We continued to reduce our debt position in the first quarter relative to our year end balances and we will continue to service our debt when payments are due according to the maturity schedules. Post balance sheet we made another debt payment of approximately $114 million in April 2010 towards the servicing of our syndicated loan facility. I believe our long term and short term debt is completely manageable in respect to our cash flow generation and we expect to repay approximately 18 billion rubles of debt this year. We remain free cash flow positive during the first quarter of 2010.

Yesterday we formally announced the acquisition of the remaining participation interest in three limited liability companies holding title to six exploration licence areas. The ongoing exploration work performed on these licence areas will be conducted through our wholly owned subsidiaries NOVATEK Yurkharovneftegaz and NOVATEK Tarkosalineftegaz. This acquisition was completed in a series of transactions beginning in July 2007 when we acquired the initial 25% participation interest, conducted ongoing exploration activities and determined that we will proceed forward with acquiring additional participation interest in these limited liability companies based on successful results achieved. The total cost aggregated approximately 4.5 billion rubles for the acquisition of our stakes. We will provide more details on this transaction in the second quarter results.

Today the Russian press reported that there is a structural shift in non-payments in the country and that a NOVATEK source confirmed that some non-payment issues for gas sales in the first quarter 2010. This report is really nothing new in terms of this issue. I would like to reiterate that we do not have any serious problems with non-payments nor are we experiencing any changes relative to past practices. We did confirm however that there are some general non-payment issues in the Russian economy.

As usual I would like to conclude my First Quarter Earnings Conference Call by sincerely thanking all of our valued shareholders for your confidence in our management and your continued belief in the growth story of NOVATEK. We have delivered solid financial and operational results through the peaks and troughs in the market and I believe we have created a company with the capacity to withstand various market environments. We are a low cost producer of natural gas and gas condensate with some of the best performance indicators in the global oil and gas universe and we have not deviated from our strategic plan to continue growing our resource base and production profile to meet the challenges and demands of the marketplace. The results achieved over the past year and the first quarter 2010 attest to the strength and viability of NOVATEK's business model and reflect positively on the decision entrusted to management to create sustainable shareholder value. Even though we have not completely recovered from the lingering effects of the economic crisis and its impact on the overall demand of natural gas I believe we are on the right road to recovery and the underlying statistics will confirm this positive trend. The capital we invest today lays the foundation for future growth of the company and we remain highly confident in the future prospects of NOVATEK.

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

Operator: Thank you. If you would like to ask a question please press *1 on your telephone keypad. 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 just a moment to allow everyone to signal for questions.

We will now take our first question from Oleg Maximov from Troika Dialog. Please go ahead.

Oleg Maximov: Hi Mark, thank you for the presentation. Just two related questions if I may, in the first quarter of 2010 Tarkosalin-Khanchey Capex combined was only $7 million which to me suggests that it cost the subsidiaries less than 4 cents in Capex to generate $1 of EBITDA. Obviously fantastic leverage but the question is: is this sort of Capex sustainable, what sort of Capex for these subsidiaries you budget this year and how many wells are you planning to drill at Tarkosalin-Khanchey this year? The second question is if you can split maintenance and growth Capex at Yurkharov this year, again if you tell just how many wells you plan to drill at the Yurkharovskoye field in 2010 I will be able to figure out the rest. Thank you.

Mark Gyetvay: First of all thank you for that observation. I think you're absolutely correct when you bring up that point because we have mentioned in the past before that the company in terms of its capital intensity is one of the lowest in the oil and gas industry and I think by the numbers you just demonstrated and the statistics that you just presented I think that confirms the points that we made previously. What I'd just like to say without going into all the specific details of how many wells etc we're going to drill we do believe that the ongoing maintenance capital for the group particularly as it relates to Tarkosalineftegaz and Khancheyneftegaz is relatively low to the generation of the EBITDA from the particular fields, so we don't really anticipate any dramatic changes from that perspective, but I think if you were to combine the capital expenditure programme as it relates specifically to maintenance capital with the Yurkharov field I think we can probably safely say that we're probably a little bit more than double, about $15 per dollar generated rather than the $7 that you noted just from the two fields. So we don't think that the overall point will be raised dramatically but we still think given the efficiencies of the fields we'll continue to be able to show that the capital we expend will generate sufficient profitability and cash flow for NOVATEK in the future. But the number of wells, I really don't want to get to it at this particular point.

Oleg Maximov: Great, thank you.

Operator: We will now take our next question from Artem Konchin from UniCredit. Please go ahead.

Artem Konchin: Yes, hi guys, I actually have a couple of questions as well. How sustainable is the domestic market share that you've managed to capture in 2009? Obviously you've mentioned that end customer sales are up 33% year on year. Is this what we have to assume going forward or will this number change? You've also made no purchases from other gas producers during this quarter – is this also sustainable? I believe you've mentioned that East-Tarkosalinskoye field has reached its peak, for some reason I had higher estimates for this field probably from earlier guidance. Is this something that should be corrected at my end? That's it.

Mark Gyetvay: I will go to your third point first. We made no mention in this conversation anything about reaching peak production at East-Tarkosalinskoye field. All we mentioned is that what we did, we have the flexibility to be able to deliver both wet and dry gas in the field and all we did was just increase some of the volumes in the particular field as well as Khancheyskoye field to meet market demands. As you know if you look at the capacity today we had the capacity in the first quarter to produce about 120 million cubic metres a day, so we were slightly below full capacity on the particular fields. In your first point about sustainability, all we can say is that the company has made capital investments over the years to reach a certain level of production profile and we will continue to make investments in the future to continue growing our production capabilities. With that said we are obviously subject…

Artem Konchin: The question was actually about the mixture of your sales, I'm sorry to interrupt you, but it's end customer versus…

Mark Gyetvay: I'll get to that in a second, but first we'll just look at the sustainability of production. We will look at the delivery between end customers and ex-field and I think that we should look at probably a mix anywhere from 60-75% end customer sales and 40-25% as you just say on this particular quarter. I don't think we're going to see much variation from those particular numbers. In terms of purchases that you mentioned, as I said in the text is that even though we did not purchase in this particular quarter because we have enough capacity, from time to time we may have to go to the market to buy gas, but it's not our plan today because I think as we continue adding capacity we like to produce from our fields as first priority; and secondly if we need to go to the market we would like to take it from underground storage; the third point if we have to absolute go purchase we will look at it as a third option.

Artem Konchin: Got you. Thank you.

Operator: We will now take our next question from Davel Kushner from Deutsche Bank. Please go ahead.

Davel Kushner: Good afternoon Mark, thank you for the presentation. Can you please comment on the government's proposal to impose mineral extraction tax on gas condensate which would be similar to mineral extraction tax for crude oil? Thank you.

Mark Gyetvay: Unfortunately I'm not aware of that. I don't know where you picked that up because I have not heard that.

Davel Kushner: Yes. This news was in one of the newspapers, I think it was Kommersant two days ago, I can send you an article or a link if you want but they consider that.

Mark Gyetvay: I appreciate you asking that question but we're not going to respond to things we read in the press. I think until official notice or something is given there has been no changes.

Davel Kushner: Ok.

Operator: We will now take our next question from Oswald Clint from Sanford Bernstein. Please go ahead.

Oswald Clint: Good evening Mark. Two questions, South Tambeyskoye, you talked about it being a commercial project at this stage. Have you done full costing on that? Can you tell us Capex required on that? You mentioned it is a long term project but in terms of volumes impacted, will we see any Capex outflows towards that in the near or medium term? I may have missed it but just 2010 production guidance if possible. Thank you.

Mark Gyetvay: When we talk about the South Tambeyskoye field and the Yamal LNG project it's still premature to provide any meaningful Capex numbers, production profiles, timelines etc because we're still in the process of formulating and discussing with potential partners, discussing with engineering firms, visiting other LNG facilities around the world to see how best to construct and operate a plant in this particular region. So I think at this point it's not trying to avoid your question, I just think that we would be prematurely answering something that I think the market will eventually try to hold us accountable for, so I think I would prefer not to discuss that. All I would say is that we are looking at the factors that you just enumerated. We are studying the Capex etc and different ways of reducing the Capex to construct a plan. We think the field development will be relatively – I can't say it's absolutely the same – but relatively consistent to our experience so far in the Yurkharovskoye field but again I think we'd rather withhold comments on that at this particular point and discuss it in more detail once we get more information. In terms of the gas forecasts or gas production growth this year I think Mr. Mikhelson answered that on the earnings conference call when he stated that he thought it would be higher than 2009 and I think what we really need to look at is the seasonality periods and the winter effect. If we can reasonably hold production strong during the troughs we'll have a good year, but we're still cautiously optimistic that the overall demand recovery is starting to be apparent in the market but again I'm not going to give any specific number because I think again we could hold to these particular forecasts and I'd just rather wait to see as the year progresses and we see how we go through the trough period before we can at least firm those numbers up a little bit.

Oswald Clint: Perfect, that's great. Thank you.

Mark Gyetvay: You're welcome.

Operator: We'll now take our next question from Vadim Kovshov from Discovery Capital. Please go ahead.

Vadim Kovshov: Hi Mark, a couple of things. Can you either reiterate or provide further guidance on your price expectations for domestic regulator tariffs in 2011 and also are you currently expecting that the new structuring tariffs will be revised starting in 2011? The other thing is also can you isolate the cold weather effect from the Q1 numbers? Then I guess finally the condensate that you have currently in transit for your fixed prices on this?

Mark Gyetvay: In terms of your first question on the price, we're working on the assumption now is a 15% increase, so that's what we're using at this particular point. In terms of MET tax right now there are discussions but there's nothing definitive come out as we speak. The last thing that I heard was more like inflation based, it presently is 147 rubles per thousand cubic metres today and I say that it would be relatively either flat or slightly inflation based. Your third point in terms of isolating a figure, I think that would be extremely difficult. I know some of the analysts have attempted to try to look at this and try to anticipate growth in demand based on a percentage change or a change in the degree Celsius or Fahrenheit to come up with consumption. We don't do that. We just know as it stands today that the fourth and first quarters are generally the peak demand seasons in Russia and the colder the weather is, the longer the winter season is, the overall increase in consumption of natural gas. On your fourth point in terms of the pricing – yes we did. They are already priced out.

Vadim Kovshov: Great, thanks so much.

Operator: As a reminder today to ask a question in today's question and answer session please press *1. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will now take our next question from Nadia Kazakova from JP Morgan. Please go ahead.

Nadia Kazakova: Hello. I have a question on the production numbers. You mentioned that now you're producing 86.5 million cubic metres a day of gas, that's almost similar to what you were producing in May last year. Arguably you're talking about economic recovery and better gas demand in Russia yet your production number in May is not fantastic so far whereas for Gazprom for example I can see production still being much higher year on year in May compared to May last year, I think their production is still 30% above last May's levels. What's going on so far in May and what do you see going on?

Mark Gyetvay: Again I'm not going to comment on Gazprom's production, it's not our place to comment on those figures. What I would say is that if we look at so far in the second quarter, you specifically are looking at 15, 16 days in a month. We're not done with the month yet. All I can say is if you look at April and you add in May, we're reasonably ok, we're reasonably higher than the troughs that we had last year in the same period. I think if you look at today's number, if you look at 86.5 and you assume that's over the whole second quarter which I believe will not be the case you're still looking at higher than the 84 or so MCM per day that we had throughout last year, so to be able to isolate one two week period or day by day, it's not helpful for us. We look at it from a longer perspective and we believe that given what we're seeing in the market today demand has held up reasonably well and if demand is there we will continue delivering volumes to the Russian domestic market. Next question, please.

Operator: We'll now take our next question from Vadim Mitroshin from Otkritie. Please go ahead.

Vadim Mitroshin: Yes, good evening, it's Vadim Mitroshin from Otkritie Bank. I have two quick questions - Mark if I may, first on production costs. I noticed that in Q1 you had more than a

20% increase in rubles versus the end of last year whereas the statutory increase was around 12%. Is 1,100 rubles something that we should model going forward on your end customer sales or will there be different dynamics? Generally speaking did you have any changes in the kind of average distance or other factors which could have influenced this number?

Mark Gyetvay: Vadim, when you asked me the first part of the question and you started talking about production costs and then you went into the revenue side, what are you specifically looking for in your question?

Vadim Mitroshin: I'm looking just at transportation costs for end customer sales and I think the costs went up from just under 900 rubles per MCM in Q4 to almost 1,100 in the first quarter 2010, so this is more than a 20% increase.

Mark Gyetvay: I addressed that in the text by basically saying that we had greater transportation distance because of the customer mix. We delivered more gas to the St. Petersburg-Orenburg region in the first quarter, so we basically had about an 11% increase year on year and about a 2% increase quarter on quarter, so that would explain for the higher transportation costs during the quarter.

Vadim Mitroshin: Ok, thank you. The second one, on the South Tambey project, I know it's very premature but can you at least maybe indicate to us in terms of timing when and what should we expect from you in terms of potential announcements like the partners, the consortium, the joint venture?

Mark Gyetvay: I would answer that question. I know it's important for everybody to have information exactly today but as a company we're not going to make a rash decision or an expedited decision to appease everybody. We're doing a methodical review of all the potential partners that we're dealing with. We're in dialogue with a series of international oil companies etc. These dialogues take time. They're not going to be done in a relatively short period, like I say a month or two months because we're going from one to each partner and every time we're having these discussions, things are being brought out into the structure that need to be assessed, changed, analysed so it's something that it's too difficult to even think about what would happen in a month or two months. The point that I think the investors should clearly understand is that we're taking the right approach by sitting there and having ongoing dialogue, sitting there trying to understand what technologies are out there, how best can we use the technologies in an arctic environment, how best to handle the shipping side of this particular LNG facility. We're looking at the financing, how best to accomplish the financing of this particular project and this is not going to happen in a short period of time. My suggestion would be is please wait until we have more definitive information. Once we do have that information or once we have decided on the particular partners etc we will make that announcement to the market, but right now it's too premature.

Vadim Mitroshin: Ok, very clear. Thank you.

Operator: As there are no further questions I would like to turn the call back over to your hosts for any additional or closing remarks.

Mark Gyetvay: Again I would just like to thank everybody for attending. We look forward to addressing you again on our Second Quarter 2010 Financial Results. Thank you very much.

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