Second Quarter 2012

Financial and Operational Results – Earnings Conference Call
14 August 2012
Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second 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 for organizing and hosting our earnings conference call.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2011, as well as any of our earnings press releases and documents throughout the past year for more description of the risks that may influence our results.

SUMMARY HIGHLIGHTS

The second quarter was a very volatile quarter for many non-controllable reasons but nonetheless we continued to demonstrate the resiliency of our business model as well as our ability to create new market opportunities for our hydrocarbon products. During the quarter, the Russian rouble depreciated 11.9% relative to the US dollar, resulting in a substantial swing from a non-cash foreign exchange gain in the prior reporting period of RR 1.1 billion to a non-cash foreign exchange loss of RR 5.3 billion, or a change of roughly RR 6.4 billion, which negatively impacted our net profit for the current reporting period. If we exclude this non-cash foreign exchange gain and loss between the reporting periods, we actually achieved a 10.3% increase in our net profit attributable to NOVATEK's shareholders versus the corresponding reporting period.

There was also a significant weakening in the underlying benchmark crude oil prices used in the contractual pricing formulation for our stable gas condensate volumes sold on the international markets of roughly 10% year-on-year (Y/Y) and 13.5% quarter-on-quarter (Q/Q), combined with an increase in both our export duties and transport expenses for both periods. As a result, our average netbacks were generally weaker for all of liquid sales volumes sold on the international markets, which I will return back to a little later in my presentation.

Against this weak macro-economic background, the financial results we achieved in the Second Quarter 2012 were somewhat mixed but relatively stronger than the overall comparative results achieved by our peers in the oil and gas sector. More importantly, however, we achieved strong production growth for our natural gas throughout the first half of 2012, trending much higher than our original production guidance for the year. As a result, we anticipate better financial results and cash generation throughout the remainder of the year, sans a complete collapse in the commodity pricing markets, on continued strong production growth, a good sales mix between end-customers and wholesale traders and the benefits of the recent domestic tariff increase for natural gas effective the 1st July.

Before I discuss the financial and operational results in more detail, I would like to begin my tonight's conference call with my usual update on important news flows of importance to our investors and analysts.

I can formally confirm this evening that we have executed our first commercial contract to sell natural gas on the European markets with the conclusion of a contract with EnBW in Germany, which will commence in the fourth quarter of this year for approximately two (2) billion cubic meters of natural gas per annum with a contract duration of 10 years. This agreement is purely a commercial trading operations between NOVATEK Gas & Power and the counterparty, and will begin our initial process to create a consumer market for our natural gas and LNG in Europe, when production and sales commences, as well as establishing a market position when legislative changes are eventually made to export natural gas. We will continue to appraise the investment community on our ongoing international commercial marketing efforts on future conference calls, but as a normal course of business, we don't disclose specific terms and conditions with counterparties, nor will we speculate on potential future events.

For our Yamal LNG project, we don't have any new news to report at this particular time regarding partner selection, but I can confirm that we are in discussions with a consortium of Indian companies for a potential stake in the project. One of the potential consortium members has already made this information public and, according to a press report, a decision may be made within the next two (2) months. We continue to work closely with interested parties' conducting due diligence but this process is obviously time consuming and will only conclude once this thorough process is completed.

As for the project itself, we are moving forward as planned and we are now in the Engineering and Procurement Contract stage, or EPC, and we expect to begin receiving EPC proposals by year-end from potential contractors. In addition, the Russian government has agreed with our work program at the Port of Sabetta and has recently announced their commitment to finance the cost of this port construction; accordingly, we commenced work activities at the port. During the period, we continued ongoing work activities on the construction of housing for workers, the fuel depot, communication infrastructure, and the landing strip for aircraft. Project documentation for the airport in Sabetta has been completed and this information has been handed over to the relevant governmental agency for review. In addition, RosAtom has recently signed an agreement with AtomFlot for the construction of a new 60 megawatt, dual draft nuclear ice-breaker that has the capabilities to navigate and operate in the Gulf of Ob, which is expected to be completed in time for our production launch.

In addition to ongoing construction activities, the commercial marketing team of Yamal LNG completed their initial marketing roadshow and is conducting preliminary discussions with potential LNG buyers. We expect the process of executing concrete purchase and sale contracts to gain more traction once we make the Final Investment Decision ("FID"), which is expected toward the end of 2012, or possibly early 2013.

We continued to solidify our market position in Russia by executing new long-term contracts with end-consumers for the delivery of natural gas covering tenors of 10 years or longer, a new record for the Company is terms of contract duration. During the quarter, we executed new gas supply contracts with MMK and Mechel via NOVATEK Chelyabinsk which demonstrates the importance of maintaining a close dialogue with our consumer base as well a commercial presence in the regions.

Another primary area of focus is our strategic commercial plans to expand our regional presence in Russia. We successfully established our marketing presence in the Perm and Chelyabisnk regions to facilitate our commercial trading operations and we are currently considering the Kostroma region as one of the next commercial trading operations; however, as of this date, we are not presently considering acquiring gas distribution networks to accomplish our regional expansion plans despite some market speculations. We will look at opportunities on a case-by-case basis and determine which geographical regions best facilitate our expansion plans as well as what is the best way to accomplish this objective – either organically by building our own trading operations or through potential acquisitions.

During a recent press interview, Mr. Mikhelson raised our production guidance for natural gas to approximately 7% to 11% based on the actual results achieved to date. As we have done on previous conference calls, I can confirm that we are in fact revising upward our production guidance for the remainder of 2012 subject to normal economic conditions and seasonal weather patterns. For the first half of 2012, we produced approximately 28.7 billion cubic meters ("bcm") of natural gas, including our equity share of natural gas from joint ventures, which represented a Y/Y increase of 12.3%, or by 3.1 bcm. The rate of increase in our natural gas production over the course of this past year has been much stronger than originally anticipated and reflects stronger consumer demand during our seasonally-adjusted trough period although we continue to fluctuate our sales mix between end-customers and wholesale gas traders as well as utilizing available underground storage capacity to smooth out some of seasonal cyclicality in demand.

For liquids, we have not revised our production guidance of 3% to 5% because most of the incremental growth in liquids production will come from the launch of the next stage of field development at the Yurkharovskoye field in the fourth quarter as well as increased crude oil production from the East Tarkosalinskoye and Khancheyskoye fields. Although relatively small in terms of overall volumes, the development of the crude oil layers at these fields has essentially doubled our output of crude oil during the first half of 2012, and we believe we can continue growing these volumes throughout the remainder of this year with our planned capital program.

Another major area of concern from an investor perspective centered on the Russian government's discussions regarding the mineral extraction tax, or MET, and as discussed thoroughly on the first quarter conference call, we believed the aggressive position postulated in the media, and reported by the analytical community, will not materialize for the natural gas sector. We believe the overall changes in the MET rate for natural gas will not be punitive and the recent indications from various governmental agencies support our position.

Presently, we expect a decision to be made in September regarding MET for 2013, and another decision to be made in the early spring of 2014 regarding the question of taxation for the whole gas sector as well as differentiated taxes due to field complexity and geographical location. Recent discussions on this very crucial topic were held with Prime Minister Mevedev, and we believe the final outcome will not be punitive to NOVATEK.

On similar topics, the Russian government has indicated that future increases in the transport tariff will be linked to inflationary adjustments, and this position is the one we adopt for budgetary planning purposes and fully support. For domestic natural gas pricing, the Russian government has already approved tariff increases of 15% for the next couple of years, and we believe they are committed to this gas liberalization plan and will maintain these tariff increases as adopted although the timing of these tariff increases has changed. One of the big differences in our Y/Y comparatives is the fact that the domestic natural gas tariff was increased in the prior year on the 1st January as compared to the 1st July in the current reporting period; therefore, despite strong increases in our overall natural gas production in the first half of 2012, we have only recently benefitted from the change in the domestic gas tariff, and on a dollar-adjusted basis, we actually report a theoretically lower realized price due to the Russian rouble depreciation during the period.

During the second quarter and first half of 2012, we invested capital in various exploration, development and processing activities, consistent with our announced capital expenditure program for the year. Specifically, we invested capital in the Ust Luga Gas Fractionation and Transshipment Complex, which represented about 26% of our total capital expenditures in the first half of the year, as well as doubling our capital spend at both the East Tarkosalinkoye and Khancheyskoye fields as part of the our plan to exploit the crude oil layers at these fields.

Our decision to increase our capital program for crude oil development was facilitated by the adoption of a zero MET rate for crude oil development in the Yamal Nenets Autonomous Region above the 65th degree of the northern latitude, which corresponds to the geographical location of our fields. During the first half of 2012, we correspondingly increased our crude oil production at our East Tarkosalinskoye and Khancheyskoye fields by approximately 100 thousand tons, although the overall volumes of 217 thousand tons represented less than one percent of our total production on a barrel of oil equivalent (boe).

As for Ust Luga, we are still on track for a project commissioning in the fourth quarter of this year, and we will announce the formal commissioning at a later date. During the first half of the year, we worked on the construction of the first phase of the processing complex, plant infrastructure and reservoir tank farm. Twenty-five (25) reservoir tanks with a capacity of 640 thousand cubic meters were completed and final testing is being conducted. We expect the capital intensity of this project to remain quite high throughout the remainder of 2012.

As for exploration activities, we drilled approximately 27 thousand meters (or 81 thousand feet) of exploration drilling in the first half of 2012, which was mainly distributed to the Olimpiyskiy, Samburgskiy, North-Russkiy, North-Khancheyskiy and West-Yurkharovskoye license areas, as well as conducted a series of geological surveys at various license areas. Our exploratory activities continue to yield positive results.

We had a number of new discoveries in the first half of the year as the result of our exploratory activities; specifically, new gas condensate deposits were discovered at the South Tambeyskoye (1), North-Chaselskiy (1), Khancheyskoye (1) and Yurkharovskoye fields (1), as well as positive indications of another 13 hydrocarbon deposits at the Yurkharovskoye (4) and Dorogovskoye (9) fields. As we migrate away from our core producing fields and begin developing our full portfolio of assets, we will incur significant costs in geological and geophysical activities at these early stages of field exploration and/or development. We have a substantial portfolio of un-booked resources as well as our recent acquisition of new licenses areas in the Yamal and Gydan peninsulas; therefore, after careful consideration and concurrence with our external auditors, we decided to change our accounting policy in this respect to capitalize the cost of our three-

dimensional seismic surveys retroactively to the 1st January 2012. An adjustment to the financial results of approximately RR 597 million was booked in the current reporting period.

We commenced initial gas and gas condensate production at SeverEnergia's Samburgskoye field in April and are currently producing approximately six (6) million cubic meters (mmcm) of natural gas and roughly 800 tons of gas condensate per day. Ongoing work activities are underway to launch the second production complex at the field whereby we plan to launch the second train, thus increasing the field's overall productive capacity by another six (6) mmcm/day and approximately 800 tons of gas condensate according to our scheduled work program. Over the next couple of years (or mid-term), we expect to substantially increase the productive capacity at SeverEnergia's other fields through our planned capital program, which will serve as a significant driver of wet gas and liquids production for the joint venture.

The expected increase in SeverEnergia's total production corresponds with our expansion plans at the Purovsky processing plant whereby we will increase the Plant's processing capacity by an additional six (6) million tons over a two phase upgrade in 2013 and 2014, as well as expand the existing Yurkharov-to-Purovsky unstable gas condensate pipeline to accommodate the expected increase in liquids production.

We continued works on a number of different projects during the first half of 2012 and spent approximately RR 19.8 billion on capital projects, representing an increase of RR 5.8 billion Y/Y, or by 41.8%, as well as increased our capital spend Q/Q by RR 4.8 billion, or by 63%. Our capital spending at the Ust Luga complex increased from RR 1.4 billion to RR 5.2 billion as we moved forward with our plans to launch the initial phase of this plant in the fourth quarter 2012. We also tripled our capital spending at the East Tarkosalinskoye field, particularly relating to our crude oil development activities, by spending RR 3.3 billion versus RR 866 million over the first half of the year. Of particular note during the second quarter, we increased our capital spent at the Yurkharovskoye field by RR 412 million Y/Y and by RR 1.2 billion Q/Q as we plan to launch another production line of approximately four (4) bcm at the field by year-end, but equally important is the fact that our capital intensity over the first half of the year has actually declined by 6.4%, reflecting our gradual shift toward maintenance capital at this important producing field.

The main capital projects aggregated 68% of our total capital spending during the first half of the year, and we are still forecasting a total capital expenditure program for 2012 at roughly RR 50 billion. As of tonight's conference call, there are no changes to our forecasted capital expenditure program of RR 50 billion for the full year.

I would now like to discuss the operational and financial results achieved in the second quarter 2012 before opening the tonight's session to questions and answers.

Excluding purchases and inventory movements, our natural gas production increased by 16.5% whereas as liquids production declined by 9/10th of one percent during the second quarter 2012 as compared to the prior year. We have maintained this strong production trend for natural gas throughout the first half of 2012, which necessitated an upward revision in our production forecast for the remainder of the year as noted earlier. The slight decrease in liquids production, however, was essentially an anomaly in the reporting period as we had a decline in liquids output from the Yurkharovskoye field mainly due extremely warm temperatures in the region which affected the wet gas separation process at the field. Essentially, gas injected into the underground storage contained liquid concentrations that normally would have been separated from the dry gas stream prior to injection.

For natural gas, we had relatively strong production growth from our three core fields, led by the resumption of gas production at both the East-Tarkosalinskoye and Khancheyskoye fields of 51% and 49%, respectively, as well as continued output growth at the Yurkharovskoye field of roughly 5%, representing total growth in gas production of 1.8 billion cubic meters as compared to the prior year. We had a slight decline of 3.4% in our purchases of natural gas from our Sibneftegas joint venture largely due to a pipeline pressure differential in Gazprom's UGSS network which negated our ability to inject some gas into the UGSS from the Beregovoye field, as well as other purchases from third parties totaling 800 million cubic meters as compared to nil volumes purchased in the second quarter 2011.

We have explained many times in the past that it is difficult to compare Q/Q sales volumes when you are subject to seasonal fluctuations in demand, so it is not too surprising that we had a 16.2% decline in our sales volumes, or by roughly 2.6 bcm, in the second quarter relative to the first quarter. This situation was also somewhat magnified by a substantial increase Q/Q in our injection of natural gas into the underground storage facility of approximately 1.1 bcm, but nonetheless we continued to demonstrate our ability to market our natural gas volumes in comparable periods by increasing our volumes of natural gas sold by approximately 1.6 bcm, or by 13.7%, year-on-year. It is also important to note that the compositional mix of our volumes sold between end-customers and wholesale traders changed between both reporting periods.

In the second quarter 2012, we significantly increased our percentage of natural gas sold to end-customers from 54.5% in the second quarter 2011 to 62.2% in the current reporting period, which meant that we were able to capture additional retail netback margins of RR 46 per mcm (or USD 1.48/mcm), or by 3.2%, over the corresponding period. Despite the seasonality effect on total volumes sold, we managed to increase our end-customer netback margins Q/Q by RR 21 per mcm, or by 1.4%, reflecting marginally stronger pricing dynamics in the geographical regions where we market our natural gas, even though our proportional mix of end-customer sales declined from 76% in the first quarter 2012 to roughly 62% in the current reporting period.

The change in our natural gas sales mix is important for a number of reasons but essentially meant that we achieved a higher realized average price, stronger netback realizations, and was able to effectively control our production profile by maintaining our customer relationship. We significantly increased our volumes sold to the Chelyabinsk region, representing 36% of our end-customer volumes sold, which contributed to a higher realized average price and improved netback realizations. During the first half of 2012, 57% of the volumes sold were to the power sector; 33% to large industrial customers; and the remaining 10% split between regional gas companies (1%), residential customers (2%) and others (7%).

Our average realized price for end-customer sales during the second quarter 2012 increased by 1.4% Y/Y and 1.5% Q/Q despite no domestic tariff increase during the period. For ex-field or wholesale trader sales, our average realized price increased Y/Y by RR 12 per mcm, or by nine-tenths (9/10th) of one percent, but slightly decreased relative to the prices we received for this category of sales Q/Q. We continued to achieve a higher margin differential between end-customer and ex-field netbacks, excluding trading activities and sales to residential customers, as compared to the prior year, which continues the pricing dynamic trends achieved prior to the economic crisis, although we cannot be certain that these trends will remain consistent or continue to fluctuate period-on-period.

Our overall average distance to transport our natural gas to end-customers was relatively consistent with that achieved in the prior year averaging approximately 1,920 kilometers during the second quarter 2012, but was 118 kilometers higher relative to the first quarter 2012. The geographical markets representing at least 10% of our sales volumes were the Chelyabinsk, Perm

and Orenburg regions, which was comparable to the prior reporting periods with the exception of including the Moscow region.

The financial results of many oil and gas companies have been negatively impacted from the declines in benchmark prices during the current reporting period. We were no exception. During the second quarter, we realized weaker liquids pricing Y/Y and Q/Q across all three products – stable gas condensate, LPG and crude oil. Specifically, our contractual price for stable gas condensate sold on the international markets was lower by USD 95 per ton Y/Y and USD 138 per ton Q/Q, largely due a decrease in the underlying commodity prices during the respective periods as well as pricing pressures in the markets where are products were shipped. The underlying weakness in commodity prices combined with increases in both our tanker expenses and export duties during the periods resulted in lower netback prices of approximately USD 112 per ton Y/Y and USD 175 per ton Q/Q.

Our total volume of liquid sold increased by 9.2%, or by 94 thousand tons, and was largely comprised on purchases and inventory movements during the respective reporting period. In terms of liquids production from our core producing fields, we achieved positive growth in crude oil output from the East-Tarkosalinskoye field sufficient to offset declining liquid concentrations in the field's wet gas stream, but overall declines in output from both the Khancheyskoye field consistent with our recent field experience and the anomaly reported earlier regarding wet gas separation issues experienced this quarter at the Yurkharovskoye field resulted in a less than one percent overall decline in liquids output. Nonetheless, the Yurkharovskoye field still represented about 65% of our total liquids output.

Stable gas condensate continued to represent the largest proportion of our liquid volumes sold during the second quarter 2012, accounting for approximately 71% of our total sales volumes. We sold 794 thousand tons of stable gas condensate versus 755 thousand tons in the corresponding period, and 624 thousand tons in the first quarter realizing an average netback per ton of USD 339 per ton in the second quarter 2012 as compared to USD 450 per ton in the corresponding period and USD 514 per ton in the first quarter. The general weakness in our average realized netback prices covered a range of price formulations and was not specific to any particular region. Although the price weaknesses tended to occur over the second half of the quarter, we are experiencing general price strengthening in the cargos delivered in the third quarter.

During the second quarter, we dispatched 12 tankers of stable gas condensate from the Port of Vitino, of which five (5) tankers were destined to the European markets, two (2) tankers were destined to the United States, and the remaining five (5) tankers destined to the Asian Pacific Region. To date, we have launched and landed two (2) tankers utilizing the Northern Sea Route to China and South Korea, and we have another three (3) tankers time chartered later this quarter. Our Purovsky Plant operated at 78% of its rated capacity with total plant output reaching 972 thousand tons, comprised of 737 thousand tons of stable gas condensate, 231 thousand tons of LPG and approximately four (4) thousand tons of methanol products.

We increased the volumes of LPG sold in the second quarter by 3.2%, or by seven (7) thousand tons, as compared to the prior reporting period but experienced a decrease of 14 thousand tons, 5.9% Q/Q. Correspondingly, our volumes of crude oil sold during the reporting period was up by 91% and 20% relative to the second quarter 2011 and the first quarter 2012, respectively, but overall these volumes represented less than one percent of our sales volumes for the period.

Our liquid hydrocarbon volumes in inventory aggregated 402 thousand tons at period end versus 371 thousand tons Y/Y, and 449 thousand tons at the end of the first quarter, of which 295

thousand tons represented stable gas condensate in various stages of the inventory supply chain. On a barrel of oil equivalent ("BOE") basis, we increased our total second quarter hydrocarbon production to 99 million BOE versus 87 million BOE in the prior reporting period, representing an average total hydrocarbon production per day of 1.1 million barrels per day, or an increase of 13.8% year-on-year.

We had no major surprises to our operating costs during the second quarter 2012 relative to the composition and growth of our revenues. Our total operating expenses increased in absolute terms from RR 22.5 billion to RR 26.8 billion as well as increasing as a percentage of revenues from 55% to 59%, largely due to a significant increase in transportation expenses and third party purchases of natural gas. It is also important to note that we incurred transport and MET charges for the volumes of natural gas injected into the underground storage facilities without any corresponding increase in our revenues. Operating expenses in the first quarter 2012 amounted to RR 31.9 billion but was relatively consistent as a percentage of revenues as compared to the current reporting period.

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 Y/Y growth in end-customer sales volumes by roughly 30%, combined with a slightly higher per unit transport cost as compared to the prior year. In addition, during the second quarter, we increased the amount of natural gas purchased from a related party, Sibur Holdings, as well as slightly decreased the volumes purchased from our joint venture, Sibneftegas, to complement our commercial gas marketing efforts. Natural gas, accounting for 86% of our total hydrocarbon purchases, was relatively consistent with the amount spent on gas purchases in the first quarter 2012, and is consistent with our commercial strategy to further capture market share in the Russian domestic market.

With our efforts to penetrate new gas trading opportunities in the European markets as well as expanding our processing capabilities such as the Ust Luga complex, we should expect to see our overall cost of purchasing hydrocarbons increase as we expand the future level of our commercial trading activities.

We manage and control our overall General and Administrative (G&A) expenses as a normal course of business, although these expense items continue to fluctuate period-on-period in this controllable expense category due primarily to semi-annual and annual employee bonus payments and/or bonus accruals, charitable contributions, consulting services and business travel expenses amongst other line items.

The increase in our G&A expenses during the reporting quarter was largely attributable to salary expenses due to the increased employee headcount resulting from the acquisition of the Chelyabinsk regional gas trader in the amount of RR 124 million as well as our employee salary indexation of 9.6% effective from 1 July 2011. We also incurred an additional RR 140 million payment as part of our social insurance contribution due to changes in the taxable base rates and a new 10% tax rate payable to the State Pension Fund which was offset by reductions in our share based compensations amongst other minor changes.

At the end of second quarter 2012, the Company had a total employee headcount of approximately 4,658 employees, of which 1,324 employees, or 28%, represent employees classified under the general and administrative cost classification. Overall, our total headcount increased for the first half of 2012 by approximately 810 employees, representing additional employees acquired from the regional gas trader and an increase in the number of employees hired at Yurkharovneftegas due to expanded work requirements.

As mentioned previously, we began capitalizing our three-dimensional seismic activities for those seismic surveys that are performed to maintain production levels at our current producing fields, increase the recoverability of our reserves, as well as increasing the effectiveness of our well placements for development drilling, and accordingly, recorded a reversal to our exploration expenses in the amount of RR 597 million during the current reporting period as compared to a exploration charge of RR 273 million in the prior year. We will continue to write-off unsuccessful exploratory wells as incurred as part of our successful effort accounting policy.

As a result of the factors enumerated above, our EBITDA margin continued to remain robust in the respective reporting period achieving a level of approximately 45% for the second quarter 2012, which is consistent with our overall financial guidance. Unfortunately, we continue to see high levels of volatility in the currency markets which can positively and/or negatively influence the Russian rouble and US dollar exchange rates, and when applied against our US dollar weighted debt portfolio, we tend to report wide swings in non-cash foreign exchange gains and losses during our reporting periods. Therefore, we adjust our Net Profit numbers and margins in an attempt to smooth out these fluctuations, and when adjusted in the current period, our Net Profit margin is consistent with our financial guidance. In the absence of making this non-cash foreign exchange adjustment, our Net Profit margin was 21% in the current reporting period.

Our Balance Sheet and liquidity position continued to remain strong throughout the reporting period although we had some movements in our debt and working capital position during the period. Our net debt position increased from RR 69.4 billion at the end of the first quarter 2012 to RR 77.8 billion, largely on the use of a portion of our SberBank credit facility in the amount of RR 10 billion, which was offset by a reduction in our cash and cash equivalent position and a corresponding reduction in accrued liabilities. In the reporting period, we made our final option payments aggregating approximately RR 16.3 billion in respect of acquiring our equity stakes in Yamal LNG.

All of our liquidity and credit ratios remained strong throughout the reporting period, and we ended the second quarter with a cash and cash equivalent position of RR 15.9 billion (or approximately USD 483 million).

We ended the reporting period in a negative free cash flow position for the first time over the past 12 quarters, largely due to a 61% increase in our capital expenditures, but more importantly to a significant cash payment of income taxes during the period resulting in a current income tax prepayment on our balance sheet. If we adjust our financial results and exclude this income tax prepayment, we would be free cash flow positive in the amount of approximately RR 1.3 billion. 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.

CONCLUSION

In conclusion, we ended the current reporting period in a reasonably strong position despite the mixed financial results, and we continued to demonstrate our ability to increase our gas production, develop new market opportunities and execute long-term contractual relationships with our end-consumers.

We confirmed our commitment to seek new market opportunities in Europe, and we believe this development will open a new chapter in our corporate history and another milestone toward becoming a truly global energy company. We also confirmed the Russian government’s commitment and financial support to our Yamal LNG project and the building of the port facility

at Sabetta, and recently laid the groundwork to commence work with the ceremonial commissioning of construction activities at the port.

Despite the period of uncertainty surrounding the discussions relating to MET for natural gas, we remained steadfast in our capital investment program and believe the position ultimately adopted by the Russian government in respect of MET for natural gas will not be punitive to NOVATEK.

I would like to sincerely thank all of our valued shareholders for the positive support you have provided to us and you continued belief in our Company, in our growth story, and in our management's ability to deliver industry leading results. We know the journey to success is not always linear and periodically there will be bumps along the path, but the foundation we have established in terms of our portfolio of opportunities, our commitment to cost control and project execution, our commitment to financial transparency and corporate governance, our commitment toward sustainable development, social responsibility and environmental awareness, and the commitment and dedication of each and every one of our employees throughout the NOVATEK organization, will serve us well in the future as we realize our ambitious strategic objectives and goals.

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

Thank you very much.