

Company: NOVATEK

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Presentation

Operator

Thank you for standing by and welcome to the NOVATEK Third Quarter and Nine Month 2013 Results conference. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star, one on your telephone. Today' speakers are Mark Gyetvay, CFO and Alexander Palivoda, Head of IR. I must advise you that this conference is being recorded today on Friday 8th November 2013. Let me hand the call now to your first speaker today, Alex Fak, Senior Oil and Gas Analyst of Sberbank CIB. Alex, over to you.

Alex Fak – Sberbank CIB - Analyst

Hello and welcome. We are going to get a running start straight into the weekend today with NOVATEK's conference call. With us, we have Mark Gyetvay, the CFO and Alexander Palivoda, the Head of IR. I now hand over to Mark.

Mark Gyetvay - NOVATEK - CFO

Thank you, Alex. Ladies and Gentlemen, shareholders and colleagues, good evening and welcome to our third quarter earnings conference call. I would like to thank everyone for joining us this evening and, again, extend our sincere gratitude to Sberbank CIB for organising and hosting an earnings conference call.

Before we begin with the specific conference call details, I'd like to refer you to our disclaimer statement, as is normal practice. During this conference call, we will 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 risk and uncertainties and reflect our views, as of the day 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 2012 as well as any of our earnings, press conference releases and documents throughout the past year for more descriptions of the risk that may influence our results.

For tonight's call, I would like to deviate somewhat from our traditional format by highlighting some of the major points that were discussed at our strategy presentation in London in early 2011. Not to regress, but largely to remind our shareholders that some of our key projects discussed on that event were recently launched during the second and third quarters of 2013. I believe it is relevant to spend a few minutes to circle back to this presentation, because over the past 12-18 months, most, if not all of our investors and certainly the majority of analysts covering NOVATEK focused their primary attention on external events, such as mineral extraction tax debate as well as domestic price and other external issues.

Considering the nature of these external items to our operating revenues and margins, it is quite understandable that many questions were directed to us regarding these important topics, but unfortunately, many investors and analysts moved their focus away from the company's strong fundamentals and this was notable when we began discussing the outcome of our new fields and processed complex launches. During that event, we outlined a respective timeline for the launch of various new fields that were either acquired recently or a part of our ongoing exploration activities, namely, the timely launches of the first and second stages at the Sambugrskoye field at SeverEnergia and the recent launch of the Eastern Dome at Nortgas.

We also recently launched the first and second processing units at our Ust-Luga Complex for a total processing capacity of six million tons, as well as a first two additional processing trains at the Purovsky processing plant, to increase our processing capacity of unstable gas condensate from five million tons to eight million tons. We are currently working on the next two processing trains at Purovsky, which, when completed in early 2014, will increase our total processing capacity to 11 million tons per annum. The relative timing of our processing capacity expansion projects has been correlated to the expected launches of new wet fields and hence an increase in our liquids volumes.

Moreover, we recently launched first production at the Urengoykoye field, which is part of our Olimpiyskiy licence area, with annual production capacity of approximately one billion cubic metres.

Why is this relevant? Firstly, our capital commitment to expand our processing capabilities corresponds to the expected increases in the volumes of unstable gas condensate from our fields and joint ventures, as mentioned during our strategy presentation. We forecasted a tripling of our liquids productions up to the end of the decade. Secondly, over the next couple of years, we will continue to launch a series of new fields, either core fields like the Urengoykoye and the Yaro-Yakhinskoye fields at SeverEnergia or smaller satellite fields, like the North Khancheyskoye and the Dobrovolskoye field, as well as the Termokarstovoye field, which is part of Terneftegaz joint venture with Total and the Yarudeyskoye oil field at our Yargeo joint venture. Collectively, these new fields will comprise the lion's share of our expected production growth over the next two to three years, and highlights that the growth model of NOVATEK is clearly intact with visible production growth translated into increased earnings, dividends from our joint ventures and operating cash flow generation in the foreseeable future.

The other important point I wanted to stress, regarding the aforementioned projects, before we revert back to the respective quarterly results is a clear track record of successful project execution. We have delivered on our projects on time and within the proposed budgets. We are committed to delivering the results outlined in our strategy day presentation and I cannot underscore the importance of this point as it is quite obvious to everyone that there are plenty of recent external factors that could have easily distracted our attention from our core business. We are focused on our core business activities and this is a strong testament to the commitment and direction of senior management as well as the dedication of each and every one of our trusted employees at NOVATEK and our subsidiary companies. We take these issues very seriously and spend a huge commitment of time driving the business towards the goals and objectives we have established for the group. The continued success of NOVATEK is predicated on delivering on our growth prospects as well as our underlying focus to project execution and cost control.

Moving forward, I would like to provide a brief update on the Yamal LNG project as well as some of the other noteworthy news flows during the reporting period. In October 2013, Russia's main state export agency issued a positive opinion on the engineering and design documentation package for the seaport facility's construction, including the navigable channel in the Ob River. This essentially means that Yamal LNG now holds all the necessary state approvals for the construction of facilities required for gas production, treatment, liquefaction as well as shipment of LNG and stable gas condensate. Also in October 2013, the Russian State enterprise Rosmorport completed the dredging of four- kilometre channel in the harbour

of Sabetta port. Overall, 11 million cubic metres of soil has been excavated, which, essentially, increased the sea depth to 11.5 metres, allowing tankers with 9-metre drafts to use the port facilities 12 months per year. In addition, with the completion of this dredging operation an official order was issued by the captain of the seaport of Sabetta, allowing winter navigation for the first time at the port. This official order, combined with the completion of two material offloading berths will allow the receipt of approximately 170,000 tons of construction materials to be delivered during the winter navigation period.

We have laid 6,700 concrete slabs, or approximately 1,600 metres of airstrip, representing approximately 70% of the work activities for the landing strip and we expect this portion of the work to be completed this winter season. The airport facilities and communication networks are currently being built and we will soon begin the work activities related to the construction and installation of specialised airport equipment, such as the radio, meteorological and air traffic control equipment. The airport is expected to be formally commissioned sometime in early third quarter of 2014. Presently, we have roughly 1,500 people on site, working on various infrastructure stages of the project and to date, 43 km of road, approximately 27% of the total, were backfilled, 27 km of power line, approximately 16% of the total, were built.

In terms of living quarters, nine buildings have already been built and another eight buildings are currently under construction. We anticipate that EPC contractors, Technip and JGC will employ approximately 6,000 employees while Entrepouse and Vinci, contractors for the LNG storage tanks, will employ, approximately 1,200. The LNG plant construction site is currently being backfilled. During the winter construction period, we estimate completing the pylons for the LNG tanks, the eight living quarters, backfilling the 50 km of road, one more well drilling pad, backfilling of the EPC contractors' site and the construction of eight bridges.

In terms of production drilling, five well pads have already been prepared and two drilling rigs are currently drilling wells on the South Tambeyskoye field. We have completed drilling eight production wells, representing 100% of the planned drilling activity for 2013 and five production wells out of eight completed have been tested and confirmed to field geology as well as exceeding the estimated planned flow rates. We have completed the first round of tenders for shipping and seven out of the initial 11 shipping companies have been shortlisted for the second round tender. We expect to receive their proposals for the second round by the end of November. The tender for the trans-shipment services is also at the final stages and we will provide additional updates once completed.

Most of the offers for the construction of the LNG plant have been received according to the open book tender process and we are currently evaluating the proposals. We expect this evaluation process to be completed in the nearest future and we will continue to provide status updates once this process is completed. A binding contract to sell a 20% stake in the

Yamal LNG was signed with CNPC on 5th September and we estimate the closing date around 1st December, subject the receipt of all necessary regulatory approvals. At the time of this signing, there was also commitment made, regarding an off-take agreement with CNPC and their help in securing Chinese commercial banks' participation in project financing. On 22nd October, our heads of agreement were signed with CNPC for the delivery of at least three million tons per annum of LNG delivered on ex-ship or DES terms for a period of 15 years with possible supply extensions with the LNG price index for the Japanese crude cocktail. We have stated many times in our past, that it was important for us to secure a partner in a project, with the ability to provide us with a commercial market. We have accomplished this objective with the upcoming entrance of CNPC to the Yamal LNG project.

We are currently in discussions with the China Development Bank, the Industrial and Commercial Bank of China, the Bank of China and the China Construction Bank for their active participation in the external project finance and transaction for Yamal LNG. We have already had a series of construction meetings with the Chinese banks and they are presently doing their due diligence on the project. We anticipate that the final documentation for participating in a project financing will be executed simultaneously with all the other lending participants in the project finance package, including, but not limited to foreign export credit agencies, international and Russian commercial banks and other financial institutions. This process is on-going and we will provide additional updates on future earning conference calls.

As part of the on-going marketing activities, I would like to confirm that Yamal LNG and Gas Natural Fenosa recently announced a conclusion of an LNG off-take agreement, which stipulated that Gas Natural will purchase 2.5 million tons of LNG per annum, the equivalent of roughly three BCM for a period of 25 years at Brent/NBP LNG prices indexed in the relevant Spanish market. As of today, we have collectively contracted approximately 70% of the overall estimated LNG production according to HOAs or binding contracts subject to our final investment decision. The progress to date in our LNG marketing efforts confirms the willingness and receptivity of buyers towards our project and a necessary precondition to project financing.

Another question on the minds of many investors has been government's plans to liberalise the LNG export markets. The Russian Government has recently approved the amendments to the export law at the end of October, and a package has now been sent to the state Duma for approval on 6th November. Essentially, direct export rights will be granted to projects, which have special terms in a production licence, stipulating construction of an LNG plant with the supply of LNG gas produced for liquefaction. This means that the Yamal LNG project and our fields located on the Gydan Peninsula all qualify for direct export rights, according to the approved amendments. In addition, according to Energy Minister Alexander Novak, to coordinate LNG flows, the Ministry of Energy plans to request information on directions,

volumes, prices and customers. We expect the Russian Government to issue a special order on this in the near-term. More importantly though, there are no restrictions placed on us to market LNG to the eastern and western markets.

President Putin also recently issued an order to relevant ministerial bodies to consider zero mineral extraction tax and export duties for our Gydan Peninsula fields, subject to liquefaction of produced gas on the Yamal peninsula. This order, again, confirms the Russian Government's support for our projects and their commitment to expand Russia's role in the global LNG markets. We continued our on-going exploration activities: both drilling and seismic work out of subsidiaries and joint ventures during the period where, presently, no new fields or deposits were discovered in the third quarter.

In terms of production drilling for the year to date, ending 30th September, we drilled 117 production wells out of subsidiaries and joint ventures, of which, 17 wells are currently being finalised. We plan to drill approximately 172 wells for the full year of 2013. In October 2013, the Eastern Dome of the North Urengoykoye field, developed by Nortgas was formally launched. 18 production wells have been completed at the Eastern Dome and the field's infrastructure includes a gas treatment plant, with annual capacity of 6 BCM, gas gathering networks and a gas and gas condensate pipeline to the Western Dome of the field. With the official launch of the Eastern Dome, the Nortgas joint venture is expected to achieve peak natural gas production of more than ten billion cubic metres and 1.4 million tons of gas condensate in 2014.

The formal launch is another significant accomplishment by the company to fast-track the development and production of natural gas and gas condensate from the Eastern Dome by almost one year earlier than the field's original development plan since we acquired our equity stake in Nortgas in late November 2012.

At SeverEnergia, we continue to move forward with our development plans at both the Urengoykoye and the Yaro-Yakhinskoye field with expected field launches in the second quarter of 2014. The SeverEnergia joint venture is expected to be a major contributor of our near-term gas and gas condensate production group through 2015 and it is, obviously, a point of recent news flow with our expressed interest to increase our equity stake in the joint venture.

At the Urengoykoye field, we have completed the drilling of 25 cumulative production wells, the construction of the gas and gas condensate pipelines and electricity lines and we are approximately 90% complete with the installation of equipment for the gas treatment facility. As mentioned on our last conference call, the successful drilling of horizontal wells in the Achimov Formation has resulted in our decision to review the overall development plan by

replacing vertical wells, utilising hydro-fractures with the drilling of larger bore horizontal wells. We expect a new development plan will reduce the overall number of wells required to exploit the field, thus less capital expenditures, as well as increasing the flow rates per well drilled.

At the Yaro-Yakhinskoye field, we have completed 20 cumulative production wells, but are at various stages of completion on field infrastructure activities. For example, the backfilling of well pads, roads and areas for gas treatment and other units is approximately 70% completed. The condensate pipeline of 56 km is roughly 55% complete. Works are currently underway to complete the 20 km gas pipeline. We have ordered equipment for the gas treatment facility and some of the equipment has already arrived on the site, while other pieces are currently being fabricated at a factory.

At our Termokarstovoye field, we have completed the backfilling of well pads, roads and areas for all the units on-site and have begun, both pylon work and production drilling. Seven production wells have been completed out of a total production well count of 22, which have indicated higher flow rates than initially planned for those wells tested. We are targeting an earlier launch at a field in 2015, rather than the initial launch field expected in 2016.

As mentioned on prior conference calls, the company has decided to increase our capital commitments to the development of crude oil to areas or fields in our asset portfolio to capitalise on the recent changes to the tax legislation, which exempt mineral extraction tax from all crude oil fields developed above the 65th parallel. This exemption includes all of our crude oil development activities and accounts for the significant production growth in our crude oil output over the past few years. Specifically, we have increased our investment commitment to the East-Tarkosalinoskoye field, which, essentially, accounts for the majority of the present growth in our crude oil output. But more importantly, in my opinion, will be the capital investment over the next three years at our Yargeo joint venture, a strictly crude oil field development.

We estimate spend at approximately \$1.5 billion during this period, of which, we are responsible for 51% of the capital costs, but the field's crude oil output is forecasted to peak at approximately 3.5 million tons per annum, which we subject to zero minimal extraction tax until the year 2022. We have not begun development drilling at the Yargeo joint venture, but have mainly concentrated construction efforts on the field's infrastructure related work like backfilling the construction site and building the associated gas and crude oil pipelines. During 2014, we planned to drill 15 production wells and proceed with the construction of an oil treatment facility and complete the associated pipeline construction work. The field is expected to be launched in 2015.

At Ust-Luga, we completed the construction activities and began commissioning tests at the second stage fractionation unit in October. The second stage includes a stable gas condensate fractionation unit with a name-plate capacity of three million tons per annum and then an additional deepwater facility. We now have total name-plate processing capacity of six million tons per annum and we expect the plant to be operating at full capacity after the launch of the Yaro-Yakhinskoye field, which, more or less, translates to the middle or end of 2014.

During the quarter, the Ust-Luga Complex processed 714,000 tons of stable gas condensate and produced 718,000 tons of refined product output, which included the reprocessing of off-spec products accumulated in June. 12 tankers, including two tankers via the Arctic Ocean's northern sea route with 562,000 tons of naphtha, four tankers with 73,000 of jet fuel and four tankers with 55,000 tons of gas oil and fuel oil were sold during the quarter. In October, the Ust-Luga Complex processed 309,000 tons of stable gas condensate versus 265,000 tons in September. The output of marketable refined products increased then from 264,000 tons in September to 305,000 tons in October or by approximately 16%.

As we ramp up, we will effectively increase our process and efficiencies and reduce our per unit cost of processing. Therefore, we will need a few more quarters of operational data to provide meaningful comparative information as well as understanding the cost dynamics as we reach full operational capacity. Nonetheless, the formal commissioning of this complex, combined with the increased margins we received for our refined gas condensate products contributed to the overall strength in our liquid earnings for the reported period.

I would like to make a few brief remarks on some macroeconomic matters: The Russian Government achieved its stated aim of increasing the regulated gas tariffs by 15% in 2013 through a series of price adjustments throughout the year. The third quarter results were the beneficiary of a 15% price increase, effective July 1st and another 3.1% price increase, effective August 1st to offset the 3% reduction effective 1st April. More recently on 1st October, the government increased the gas tariff by another 1.9% to essentially, achieve the stated 15% increase in 2013, relative to 2012. We expect the domestic gas price to remain flat at the August/September 2013 levels or implying a year on year annualized growth of 8% versus 2013 price levels. This, essentially, means that we expect a 1.9% decrease, effective 1st January 2014 to achieve their aim of maintaining the August/September 2013 price levels. We would also like to point out that there are present discussions on eliminating the plus or minus 3% adjustment quarter, again, implying flat prices for 2014.

Looking ahead, we are modelling domestic gas price tariff increases at inflation for 2015 and 2016. The new MET gas formula approved by the State Duma on 20th September is expected to come into effect on 1st July 2014 and, as previously stated, we believe the end results of

these discussions were consistent with our expectation and lobbying efforts. There are also present discussions surrounding the reduction of the marginal export duties for crude oil and refined products in 2014–2016, although positive to us, based on initial discussions, we prefer to take a position of wait and see before providing any comments on these discussions at this time.

As for gas production, we have been experiencing unseasonably warm weather in November, relative to this time of year; however, this is not the first time we have experienced warmer weather, but it does have an impact on our planned daily gas output. Our production guidance for the year is based on the assumption of normal weather patterns and an extended period of warm winter weather, during the traditional peak season could impact our full-year guidance, but it is too premature to provide any revisions to our full-year guidance at this point. But I wanted to raise this point to make everybody aware of the current weather situation.

For the nine months ended 30th September, our natural gas production was up by 8.9% year on year, while our liquids production was up 12.7% year on year. The actual results to date are slightly higher than our guidance for natural gas, but much higher than our initial guidance for liquids. In October 2013, our natural gas production was up 10.4% year on year and our liquids production was up 7.1% year on year. At this point in time, we are maintaining our overall production guidance for 2013. We will provide our production guidance for 2014 later in the year after we conclude our business planning for 2014.

In terms of capital expenditures, we are still maintaining our overall guidance of RUB 60 billion for 2013. Aggregated capital spend is approximately RUB 48 billion for the nine months, 2013, inclusive of RUB 45 billion on core capital projects and, approximately three billion on acquisitions of mineral licences. Our Yurkharovskoye field accounted for approximately 31% of the capital spent for the nine months ended 30th September with the on-going work on construction of a new booster compressor station, which is expected to be completed by the latter part of 2014. In addition, we had a notable increase in capital outlay for the process and expansion at the Purovsky Processing plant, which we will continue into 2014 as we complete the third and fourth train editions. We will also provide our capital expenditure guidance for 2014 at a later date.

We delivered another set of strong financial and operational results for the third quarter and nine months, ended 30th September 2013, relative to the year on year comparative results, primarily due to increased volumes for both natural gas and liquids and reasonably strong commodity prices for our production sold in a reporting period. We delivered robust natural gas and liquids production growth consistent with our annual guidance, reported double digit earnings growth and generated strong operating cash flows to fully fund our capital

expenditure programme and during the third quarter, we reverted back to reporting positive free cash flows.

In terms of sales volumes, we significantly increased the proportion of our natural gas sales to end customers' year on year to approximately 90% from 65% and remained relatively consistent quarter on quarter. This change was largely driven by new sales contracts concluded in 2012 as well as the acquisition of an 82% equity stake in Gazprom mezhregiongas Kostroma in December. During the third quarter, we reported total gas sales to end customers of 12.9 billion cubic metres, which represented an increase of 48% year on year and remained relatively flat, quarter on quarter. Within end customer sales, power companies and large industrial customers represented roughly 96% of our sales volume delivered or approximately 86% of our total gas sales for the quarter. Total natural gas sales for the reporting period aggregated 14.4 billion cubic metres, representing a year on year growth of 6.6% but slightly down 1.5% quarter on quarter.

The decrease in our quarter on quarter total sales volumes was largely attributable to a decrease in ex-field sales to smaller regional traders as well as increased injections to the underground storage facilities. We had a change in a regional mix of our gas deliveries as a result of these new contracts. We increased our sales volumes year on year by approximately 2.3 BCM to the city of Moscow and the Moscow region as well as increased our sales volumes to Kostroma region by 685 million cubic metres during the reporting period. Geographical regions representing greater than 10% of our sales volumes included a Chelyabinsk, Perm and Moscow regions and the city of Moscow. As a result of the changes in our regional sales mix, we had a notable increase in our average distance to market to approximately 2,240 km, representing an increase of 282 km year on year and 56 km quarter on quarter.

We reported a significant increase in our transportation expenses for natural gas during the current reported period, due to the higher proportion of end customer sales, the increase and the average distance to market, the change and the process arrangement with Sibur and a transport tariff growth of 6.4% effective 1st August. We also achieved reasonably strong netbacks for our natural gas sold during the reporting period, due to the regulated tariff increases and our regional mix of sales.

Our average netbacks for natural gas sold to end customers increased by RUB 370 per 1,000 cubic metres or 22%, as compared to the third quarter 2012 and by RUB 427 per 1,000 cubic metres or 26% quarter on quarter. Our average ex-field sales price increased by approximately 22% year on year and 25% quarter on quarter, largely due to the gas tariff increase as previously mentioned. We are pleased with the strong gas pricing we received for both end customers and ex-fields in a current reporting period and we achieved a reasonably

good margin differential between the netbacks received for end customers and a price at the well-head applied to a larger proportion of sales to end consumers.

With the commissioning of the Ust-Luga Complex in June 2013, we began to process that transition in selling primarily stable gas condensate to selling a slate of refined products, fractionated from the stable gas condensate as raw material feedstocked to the plant. During the reporting period, we sold 1.4 million tons of liquid hydrocarbons, representing a 27% increase over the comparable year on year and quarter on quarter reporting periods. The increase was mainly driven by the reduction of liquid volumes in transit or the initial build up of raw materials to the Ust-Luga Complex as well as an increase in crude oil production and the purchasing of stable gas condensate from our joint ventures. At quarter end, we had approximately 494,000 tons of liquid hydrocarbons in storage or transit, including approximately 185,000 tons of stable gas condensate in storage at Ust-Luga and approximately 172,000 tons of naphtha and products in storage and/or in transit.

On a total BOE basis, we increased our third quarter production to approximately 103 million BOE versus 94 million BOE in a prior reporting period, representing an average total hydrocarbon production per day of approximately 1,116,000 barrels per day for a combined increase of 9.4% year on year. We continued to effectively manage our overall operating expenses during the third quarter and the significant increase, period on period of RUB 17.5 billion or 59% was primarily due to an increase in our transportation expenses, taxes other than income and the purchase of natural gas and liquid hydrocarbons. As previously mentioned, we had a significant increase in end customer sales, which includes transport costs as well as a change in regional markets; essentially, a greater distance to market.

For taxes, the increase was, essentially, attributable to the significant increase in natural gas MET tax rate in July of roughly 60% year on year and 52% quarter on quarter. We also significantly increased our purchase of natural gas from our joint ventures and Sibur as well as increasing our purchases of stable gas condensate. There were no material surprises at our G&A expenses to highlight during the comparable reporting periods.

Our balance sheet and liquidity position continue to remain strong throughout the reporting period, although we increased our total debt position from RUB 135 billion at 30th June to RUB 141 billion at 30th September through the use of our existing credit facilities. We were cash flow positive during the third quarter of 2013 and ended the quarter with a free cash flow position for the company of RUB 9.7 billion, which is lower than a prior year, but takes into account a significantly higher capital expenditure programme in the current year. We will continue to fund the capital expenditure programme through internally generating cash flows and have the ability to meet all of our debt obligations and liabilities when they mature/become due for payment.

I would like to thank everyone for attending tonight's earnings conference call and again, reiterate the importance of delivering our projects on time and within budget. Project execution is a crucial element to maintain credibility with our investors. Moreover, I would like to stress the importance of the recent field and processing launches; these projects underlie the foundation for continued growth for NOVATEK in terms of production earnings and cash flows. So, the comments on NOVATEK being ex-growth are unfounded.

The recent release of IHS Herold's global upstream performance review again confirms NOVATEK's top position as one of the lowest-cost producers in the global oil and gas industry. We've ranked number two in the worldwide survey under both finding and development costs and reserve replacing cost categories and this marks the seventh consecutive year that NOVATEK has ranked amongst the top five global oil companies in these important industry metrics over three-year periods. We ended the third quarter with above consensus earnings, EBITDA and net income and we are very pleased with the strong financial and operational reports during the third quarter. I would like to end this portion of the conference call and now open the session to questions and answers. Thank you very much.

Questions and Answers

Operator

Thank you. As a reminder, if you wish to ask a question or make a comment on today's call, please press star, one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, it's star, one for any questions or comments. Your first question comes from Charles Evans Lombe of Egerton Capital. Your line is open.

Charles Evans Lombe - *Egerton Capital - Analyst*

Yes, hi, Mark. I have a few questions. Starting off, just on the crude oil, which is, obviously, becoming a bigger business line for you, I appreciate the largest field coming on to doing a joint venture and, I think, you mentioned 2015, but you're also ramping up East Tarkosalinskoye field. Can you give us a, kind of, some clarity on how the crude oil production

is going to ramp from 2013 to 2016 and the profitability of those barrels, just for my understanding?

Mark Gyetvay - NOVATEK - CFO

Okay. Well, I believe, Charles, on the overall growth in crude oil, it's estimated to be up to about five million, five million tons per annum by 2015/2016 period of time. I mean, in terms of overall profitability, I mean, it's just subject to the crude oil prices, you know, at that given particular moment in time, so I really can't give you a definitive answer on that, other than say that we would not have made this investment without the question of this being a very profitable business for us, aided, obviously, by the tax concessions given for zero MET per fields above the 56th parallel. I mean, you're just going to follow this on a quarter for quarter basis, but crude oil, you know, has, obviously, become a much more significant business for us and that doesn't even take into consideration, potentially, a future growth in crude oil out of the SeverEnergiya assets.

Charles Evans Lombe - Egerton Capital - Analyst

Okay. So, that five million tons is pre SeverEnergiya assets?

Mark Gyetvay - NOVATEK - CFO

Correct.

Charles Evans Lombe - Egerton Capital - Analyst

And then on the—I appreciate this is something you might not be able to comment on in too much detail but you said that the three million ton off-take agreement with the Chinese will be, kind of, benchmarked on JCC. Would that be similar to existing LNG contracts in the region with, I mean...? Or how is it indexed? I mean, should I just assume it's similar to other contracts in that region?

Mark Gyetvay - *NOVATEK - CFO*

Yes, it's going to be, it's going to be referenced off that benchmark price and it, and it should be consistent with LNG being landed in that market as we speak today. So, it's, you know, it's standard terms consistent with that particular region, as well as the product going into the European markets will be, basically, standard LNG terms and conditions referenced of some kind of benchmark.

Charles Evans Lombe - *Egerton Capital - Analyst*

Okay, and final question: can you give us an update on the timeline for the final investment decision?

Mark Gyetvay - *NOVATEK - CFO*

Yes, it's, we're, like I said in the presentation, we're currently now reviewing all the final open book tender questions and we expect that we will make that decision before yearend.

Charles Evans Lombe - *Egerton Capital - Analyst*

Brilliant. Thank you very much.

Mark Gyetvay - *NOVATEK - CFO*

You're welcome.

Operator

Your next question comes from Karen Kostanian from Bank of America. Please ask your question.

Karen Kostanian - *Bank of America - MD*

Mark, hello. Thank you very much for the presentation. Just a question for you: could you, would you be able to comment about the situation around SeverEnergia? Whether

negotiations are all going for the ENI stake and whether, as newspapers are, actually, reporting, there is also a negotiation on-going for the Enel stake, which Rosneft supposedly purchased? Thank you.

Mark Gyetvay - *NOVATEK - CFO*

I mean, generally, we don't speak and discuss rumours that are speculated in market. All I can tell you is that, yes, we are interested in that, in that asset and we will continue, you know, negotiating for a stake in that particular asset.

Karen Kostanian - *Bank of America - MD*

Thanks.

Operator

Your next question comes from Timur Salikhov of BCS. Please ask your question.

Timur Salikhov - *BCS*

Good evening, Mark. Thank you for taking my questions. I've got a couple of those. The first one is regarding capex for the Urengoykoye field. Could you please advise on the best way to model the field's capex after the company launches the booster compressor station next year?

Mark Gyetvay - *NOVATEK - CFO*

Yes. Going forward, I would say, you probably have similar capex for the next year or two and then, and then I would say, dropping down to maintenance capital, probably a third of what you're seeing being spent today.

Timur Salikov - *BCS*

Okay, that's very clear. Thanks. And my other question is regarding the use of cash flows. I assume, in stable macro, NOVATEK is expected to turn more and more cash flow going

forward and, on my numbers, cumulative free cash flow over the next three years could total something like \$6/7 billion. Assuming \$3 billion paid in dividends, how does the company plan to spend the rest of the cash flows?

Mark Gyetvay - *NOVATEK - CFO*

Yes, again, it's, if you look at our on-going activity, we have, we have operations to fund the Yargio transaction, in terms of that field. We have, eventually, capital being spent on the Gydan Peninsula, so there's activity that we have in the forthcoming, you know, three-five/five-seven-year horizons that we would need to be spending funds. If we, if we accumulate a certain balance of cash that, you know, is in excess of where we need to spend, I think, we may, we may consider, you know, revising a dividend policy, but at this particular point I, you know, it's too far in the future to speculate on that. But we do and we will have uses of cash for the, for the foreseeable future as we get tenure of some of these other big field developments and I would think, particularly, related to either the expansion of LNG, processing capabilities on the Yamal peninsula, as well as the development of the Gydan fields.

Timur Salikhov - *BCS*

Okay, I understood. Thanks very much.

Mark Gyetvay - *NOVATEK - CFO*

You're welcome.

Operator

Your next question comes from Max Moshkov of UBS. Please ask your question.

Max Moshkov - *UBS - Analyst*

Yes, hello Mark. Thank you. I have just three questions, if I may. First one is, what is your estimate for new extraction tax for producing fields, based on the formula at (unclear) for the

next year? Second question: if you liberated business on the SeverEnergy production sharing agreement, how future production will be shared in existing shareholders? Just to understand it in more detail. And last question: given this LNG (unclear) expert monopoly, (unclear) monopoly, when should we expect a strategy, production strategy update from NOVATEK? And would you prioritise Gydan fields, ie, would you consider the index of section of the production from Gydan fields, given this development? Thank you.

Mark Gyetvay - NOVATEK - CFO

Okay. Let me just go back. Okay, on the, on the first question, that first part of your question on MET for next year, I would say that we're on... if you, if you look at... you got to, you got to take this in consideration for twofold for 2013. 2013, we have seen two rates, so you have to combine those two rates, because you've got a rate up until July 1st and then the additional increase in the formula, so on average, well, we have a blended rate in 2013 of approximately, say, RUB 350 and we expect that number, given the new formula beginning July 2014 to go up about 459. So, you know, an increase of RUB 100-109, based on a new formula. But that, again, would be consistent with our expectations of the, of the tariff in that given particular period of time. The second, the second question you asked was on SeverEnergia; can you, can you repeat that question again? I mean, I'm trying to understand what you're trying to get; what kind of information.

Max Moshkov - UBS - Analyst

Yes, I'm trying to understand what is the production sharing agreement for the other fields, not just the Samburgskoye field but for other fields of SeverEnergia. How, ex-shareholders, I mean, you, I mean, Yamal development and then how they will share production from the other fields?

Mark Gyetvay - NOVATEK - CFO

It's, yes, no, I mean, the, it's agreement with SeverEnergia, 100% of the gas is now, you know, off-take by Gazprom and 100% of the liquids by NOVATEK. I don't see that, I don't see that changing. Okay? That's for current and going future. And your third question related to...?

Max Moshkov - UBS - Analyst

Okay, and the third question about the update on the production stage. Because, it's also going on with oil, lands and with Gydan sales. So, when we should expect you make an update?

Mark Gyetvay - NOVATEK - CFO

I'm working on that. We started working on that this past week and I suspect, you know, we all probably view the springtime as the next update, because that will give us, that will give us a chance now to, more or less, get the Yamal LNG, FID, everything in decision moving forward. It will then also show us the launches of these two new fields coming on at SeverEnergiya, etc, and then it, kind of, gives us a little, probably, more clarity of what's going to go on a little more in the future on Gydan. But I'm expecting that we'll have an update. Now, what I just want to say to everybody tonight, you know, our goal, I, our goal is to maintain the strategy as we present it. That's what we're working towards. What we, probably, would do would just provide some updates, given a change in, you know, formulas that we've seen being proved, a change in export rights; we may be able to get some more clarity on the marketing for LNG between regions, as well as an update on some of the field developments, post the December 2011, but I'm looking at the springtime on that, Max, okay.

Max Moshkov - UBS - Analyst

Okay, I think, that will be very helpful. Thank you very much.

Mark Gyetvay - NOVATEK - CFO

My pleasure.

Operator

Your next question comes from (unclear) [Ardal Cross] of Renaissance Capital. Please ask your question.

Ardal Cross - *Renaissance Capital*

Hi, this is Ardal Cross from Renaissance Capital. One question from me: you've managed to grow your netbacks at over 23% year on year and even higher than that quarter on quarter in the third Q while the market has grown by 15% and I understand that it's a result of improvement of regional mix of sales, etc, but can you, how much room do you see for additional growth beyond tariff, going forward?

Mark Gyetvay - *NOVATEK - CFO*

Well, that's, again, it's one of these, it's a difficult question to answer at this particular time. I mean, we, what we, what we are expecting... sorry, that is a fire alarm. I mean, what we're expecting to continue moving forward with, you know, our moving down to the end consumer markets in these particular regions. So, I, it's just very difficult to give you, with any clarity, other than, you know, what is the expected growth rate in the transportation tariff? What's the expected, you know, effect on the inflation-adjusted prices, etc.? You know, I would say, that would probably, reasonably, in a, in an order of magnitude of what we're showing now. But I can't give you any certainty on those numbers. It's just hard for us to make that decision (over-talking).

Ardal Cross - *Renaissance Capital*

Right, okay. So, maybe, breaking this out into pieces, do you expect to see an increasing share of end customers? Like, I mean, right now, you're almost at 90%, so maybe you will switch to, like, say, 100% sales to end customer or almost 100% and then, as a result of this the netback will improve further.

Mark Gyetvay - *NOVATEK - CFO*

Yes, but I don't see us going to 100%. So, I mean, I think, we're pretty comfortable with the 90-10 split we have now and so I would, I would assume that you should, at least, model what we have presently, going forward, but I, no, I can't say that will preserve the same, you know, netback increase of the same orders of magnitude. It's just too hard to predict right now.

Ardal Cross - *Renaissance Capital*

All right, okay. Thank you.

Operator

Your next question comes from the line of Alexander Nazarov of Gazprombank. Please ask your question.

Alexander Nazarov - *Gazprombank - Director*

Good evening, Mark. Thank you very much for the presentation. I have a more general question, rather than other guys had. Considering your long-term strategy, talking about Yamal LNG and precisely, you shouldn't ignore the shale gas theme. So, could you please share us what's your view, what's NOVATEK's view on the shale gas outlook? What's the outlook for Northern American gas production and probably LNG experts in the future? What risks in this particular topic you're considering, during assessing your Yamal LNG perspectives? Thank you.

Mark Gyetvay - *NOVATEK - CFO*

Again, it's a macro question on the industry and, you know, obviously, we look at the, you know, the effect of the revolution that's happened in the United States and, you know, it's, obviously, had a serious impact on, you know, production growth in the US and then, in off-take, as some of the volumes are called to Europe and it's, kind of, impacted a little bit on the European demand side. I, you know, the question is not the shale revolution. The question is, more specifically, is how many of the proposed export projects that are on the drawing board in the United States will get approved by the department of Energy, etc., for the export of LNG? And, I think, well, as of today, there's about 30 or so applications and, I believe only two of them have been formally approved. But, I think, the market should expect that at some time in the future, there will be exports coming of LNG out of the United States. Maybe not in the same order of magnitude, but clearly, there will be some volumes coming out into the, into the Asian Pacific, European basin market.

So, we have to, we have to, we have to account for that in the overall supply side. What, you know, does it have any risk on our projects? Probably very little right now. I mean, I think, there's an impending shortage. Our tightness in the LNG markets, you know, given some of the delays in some of the projects and the lack of any new FID projects that we see in the

market today. So, I think, given the fact that we are in a market, we're seeing that there's strong demand for the LNG that we will be marketing once the plant begins processing and the sales process. You know, we're seeing that there is a strong receptivity towards our project, so I believe we'll be able to have all our condensate, our LNG contracted out and with minimal risks, based on these export projects, but it's something, you know, you have to consider, you have to look at, you have to understand. You have to understand the markets that are being delivered.

But, I think, the point that a lot of people are missing in all these discussions is that when you add the transportation, profit margins, etc., shipping costs coming from the United States to the Asian market, we're not talking about a dramatic changes in the price. So, you know, what you're really looking at is not a negative effect on overall pricing. It's just that you may have some competition coming against a supply side, a diversity supply questions and I believe that our project, in that mix will be considered as part of this diversity of supply, although, you know, some people say it may be coming out of Russia, it will be coming out of Russia, but from another player. So, I think, we'll fit into that, sort of, you know, diversification supply side. So, I'm pretty confident we'll be able to move... I'm pretty confident we'll be able to move our supplies without any major risk.

Alexander Nazarov - *Gazprombank - Director*

Okay, thank you very much. They are very helpful.

Mark Gyetvay - *NOVATEK - CFO*

Thank you.

Operator

Your next question comes from Alexander Kornilov of Alfa-Bank. Please ask your question.

Alexander Kornilov - *Alfa-Bank - Analyst*

Yes, good evening, Mark. Thank you very much for the presentation. Actually, many of my questions have already been answered. I have only one left: could you please specify, if you may, if it's really, sort of, public information, what is your, sort of, reference benchmark, price benchmark for your contract with the Spanish firm you have recently signed? I'm talking about the 2.5 million tons per annum, the contract you have signed last week with the Spanish firm. Thank you.

Mark Gyetvay - *NOVATEK - CFO*

Well, both of, both are going to be a reference to the standard price, in that we're, where we are standing in each respective market. I mean, there's nothing, there's nothing unusual about, or magical about any of these contracts. I mean, they're, basically, using reference prices that are out in the marketplace and, you know, and I, at this point in time, we're not really, you know, going to be talking about the pricing until we contract everything out. So I would say, I would like to hold off on that comment other than saying that, you know, you'll find out that it will be, basically, standard reference prices for these particular transactions and sales in the particular region where we're delivering the product.

Alexander Kornilov - *Alfa-Bank - Analyst*

Fair enough. Thank you.

Operator

As a reminder, it's star, one if you wish to ask a question or make a comment and the hash key to remove your request. Your next question comes from the line of Artem Konchin of J.P. Morgan. Please ask your question.

Artem Konchin - *J.P.Morgan - VP*

Hi, guys. Just some questions for you: surprisingly, in light of the increasing, potential increasing gas on gas competition domestically, could you estimate, or perhaps, do you have

a firm number of the turn rate of the total market per annum? What is the, so to speak, average annual renewals or contracts up for gas, basically, every year? Thanks.

Mark Gyetvay - *NOVATEK* - CFO

May I? Yes, again, that's a hard question to answer when I'm not looking at, sort of, portfolios of Gazprom, etc, and determining, you know, what contracts are coming up for renewals at a particular point. So, I would, I would like to hold off on answering that question, because I just don't have that, I don't have that number in front of me right now to even, to even speculate. But I do like to go back, just to go back to the question on the pricing for a second, because I, you know, it's not a question of trying to avoid, you know, providing any of this data. You know, you know, we've already said, the, it's really going to be indexation, the JCC and a mix of NBP and Brent. I mean, that's going to be the standard pricing terms for these particular LNG contracts. So, I just want to make sure that, you know, we're not, we're not hearing I don't want to disclose information; they are standard. There's nothing unusual. There's nothing of any, you know, huge discounts given an (unclear) pricing to secure these particular contracts. I just want to make that point. It's, you know, we say the Japanese crude cocktail and so far the Europeans will be based on a Brent or NBP index. So, that's where the starting point of the contracts would be.

Artem Konchin - *J.P.Morgan* - VP

Okay. I guess, I have to thank you in lieu of the other guy who asked that question and I'll...

Mark Gyetvay - *NOVATEK* - CFO

Yes, you're welcome.

Artem Konchin - *J.P.Morgan* - VP

Yes, and for the, for the, for my part, I don't know if maybe we can take it offline or whatever?

Mark Gyetvay - *NOVATEK - CFO*

I, no, I mean, I would ask that. I mean, you can ask Gazprom what contracts are up for extension, but I just think that's too difficult to answer at this particular point, because I...

Artem Konchin - *J.P.Morgan - VP*

Yes, I would suspect that you might have some insight already into that, considering that you have to, basically, compete with them at some point in the near future.

Mark Gyetvay - *NOVATEK - CFO*

I'm sure I am going to be, but I just don't have that information in front of me right now. I mean, sure, if there's, if there's contracts up for renewal, they're already on top of that. I just don't have that information in front of me to be able to give you any comments.

Artem Konchin - *J.P.Morgan - VP*

Okay. Sounds reasonable. Yes, thanks.

Mark Gyetvay - *NOVATEK - CFO*

Okay. Thank you.

Operator

Your next question comes from Geydar Mamedov of Goldman Sachs. Please ask your question.

Geydar Mamedov - *Goldman Sachs - Analyst*

Hello, Mark. I have two questions. The first one is on SeverEnergiya: You mentioned that the change development program leads to the revision of the drilling programme and drilling more horizontal wells versus vertical wells with the fracs and that that leads to potential reduction of the capex on the project. Is it possible to quantify in terms of the percentage change versus

the initial plan? And what's the reduction in the total capex for the, for the project? And my second question is on Yamal LNG shareholder's structure: Is it correct to think that it is not finalised yet? And there will be another partner joining the project, reducing your stake to 51% from 60, currently? Thank you.

Mark Gyetvay - *NOVATEK - CFO*

Geydar, on the first question, what I said, in the text of the presentation is that we are now currently revising a plan, so I can't give you that number at this particular point. I mean, we will, we will, we will provide you with that at a later date, because then I'll be able to provide you and say, here's the original plan. This was the number of wells drilling and this is what we're going to change it to. All I can say is that we're seeing, on an average, per well basis, it's about 20 or 30% higher per well, with an almost two-time increase in the output per well and I'm pretty certain I talked about that briefly on our, on the last earnings conference call. But the total number of wells to be drilled still needs to be determined. So, they're revising that plan as we speak. So, once we get that then we'll be glad to, you know, give you that information on a future conference call.

In the second question, yes, we are, we're still, there are still negotiations being held for the, for the particular sale. It's not, it's not as critical for us, at this particular point, as you can appreciate. We have two major, you know, IOCs involved in that particular project and if it, if it happens, you know, in the near-term, we'll just make that announcement like we've done on the other previous two, but right now, there is still negotiations and there's people still looking at it, but I can't give you any indication of will that happen soon? Or will it happen at all? You know, at this point.

Geydar Mamedov - *Goldman Sachs - Analyst*

Thank you.

Operator

There are no further questions at this time. Please continue.

Mark Gyetvay - NOVATEK - CFO

Okay, I just wanted to thank everybody and we look forward to the next time we get a chance to speak or at one of our, you know, upcoming conferences. But if you, if you have any questions, specifically, on any of the details that are provided, throughout any of the presentation material that we, that we, that we put out in the market place, particularly, as this issue that's come up more recently with the, with the liquid developments over the, over the next couple of years, please feel free to give us, drop us a line at our IR website and we'll get back to you and specifically set up a call to discuss it, but anyway, thank you very much and we look forward to addressing you in the future.

Operator

And that does conclude the conference for today. Thank you for participating. You may all disconnect.