Company: **NOVATEK**

Conference Title: **Q2 & First Half 2013 Results**

Presenter: **Oleg Maximov**

Date: **Tuesday 13th August 2013**

Operator: Good day and welcome to the NOVATEK Second Quarter and First Half 2013 Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Oleg Maximov, Senior Analyst Oil & Gas Managing Director Sberbank CIB. Please go ahead sir.

Oleg Maximov: Good afternoon and welcome. I am Oleg Maximov from Sberbank and this is NOVATEK's Second Quarter 2013 IFRS Results Conference Call. With us today as usual is Mark Gyetvay, Chief Financial Officer and Member of the Board of Directors of NOVATEK; and Alexander Palivoda, Head of Investor Relations. Mark, over to you, please start with your presentation. Thank you.

Mark Gyetvay: Thank you Oleg. Ladies and gentlemen, shareholders and colleagues, good evening and welcome to our Second Quarter 2013 Earnings Conference Call. I would like to thank everybody for joining us again this evening and extend our sincere gratitude to Sberbank CIB for organising and hosting our earnings conference call. Before we begin with the specific conference call details I would like to refer you to our disclaimer statement as is the normal practice. During this conference call we may make reference to forward-looking statements by using words such as plans, objectives, goals, strategies and other similar words which are other than statements of historical facts. Actual results may differ materially from 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 31st December 2012 as well as any of our earnings press releases and documents throughout the past year for more descriptions of the risks that may influence our results.

Traditionally, the second quarter marks the beginning of the seasonal shift from peak to trough and as expected this quarter highlights the significant variability in our production and earnings results on a seasonal quarter-on-quarter basis. The second quarter of 2013 also marked the beginning of the transition from selling of raw materials, stable gas condensate, to the marketing of petroleum products with the successful launch of the Ust-Luga gas fractionation and trans-shipment complex on 19th June, an event attended by many of the analysts on the conference call this evening. To get ready for the formal commissioning of the facilities we began ramping up the inventory feedstock and operational lines to the Ust-Luga complex prior to the processing of the first tanker of finished products by transferring approximately 214,000 tonnes of stable gas condensate thus reducing the volumes of stable gas condensate available for sale. This is obviously a temporary transition which will eventually work its way through the inventory, processing and sales cycles going forward.

Another key variable to consider when analysing our quarter on quarter results is the significant relative changes in the inventory volumes for natural gas and liquids between the respective reporting periods. We substantially reduced our volumes of natural gas in underground storage due to the extended cold weather this past winter season resulting in stronger seasonal demand as well as landed a significant volume of stable gas condensate that would then transit at year end due to our DES or destination ex-ship commercial marketing policies. Consequently this meant that our first quarter financial results were very strong relatively speaking on the back of the significant inventory movements as well as the peak winter demand season.

I noted on our last conference call that we have begun moving more volumes of stable gas condensate to the Asia Pacific region and this market shift in geographical deliveries had notable changes in logistics, timing and pricing. We will continue to deliver hydrocarbon products to the Asia Pacific region going forward but it will be in the form of finished oil products rather than stable gas condensate. We anticipate that the last tankers of stable gas condensate will be dispatched in the September-October time-frame; therefore, all deliveries to market will be finished oil products unless advised otherwise. Overall we delivered another set of reasonably strong financial and operational results for the second quarter and the six months ended 30th June 2013 relative to the year on year comparative results as well as financial and operational results consistent with our expectations quarter on quarter despite the apparent seasonal variations. We continue to deliver robust natural gas and liquid production growth consistent with our annual guidance, reported double digit earnings growth and generated sufficient operating cash flows to fully fund our capital expenditure programme despite reporting negative free cash flow during the current reporting period.

I would now like to discuss some of the key projects and begin tonight's call by discussing the Yamal LNG project. During the second quarter and throughout the first half of 2013 we continue to make significant progress on the port construction activities, development drilling and other important workstreams consistent with the project work plan and timetables. All contractors for the long lead items have been selected and draft contracts have been approved and forwarded to Technip and JGC, the main contractors for execution, specifically Air Products will supply the cryogenic heat exchangers, General Electric will supply the compressors and gas turbines for the LNG plant, Siemens will supply the gas turbines for the power plant, and the French companies Entrepose and Vinchy will be responsible for the LNG tanks.

We also successfully placed all the invitations to bid as part of the open book tender process for the LNG plant and have begun receiving tender offers from participating companies and contractors. We expect to receive the remaining offers by mid to end of September. These bids will be analysed together with our main contractors and only after this process is completed we will be able to provide additional comments on the project's total capital expenditure programme.

In terms of ongoing infrastructure work we completed the installation of piles for the material offloading facilities approximately 950m long which allows us to begin the dredging operations at the port's harbour. As you recall the dredging operations is financed by the Russian government and as of last summer approximately 1.5 million cubic metres of soil was excavated. Currently there are 13 vessels working on the dredging operations and we expect that approximately 8.5 million cubic metres of soil will be dredged during this navigation period. We anticipate that the port facility will be launched by year end which will allow us to receive year end supplies of construction materials. In addition the design product for the ice production facility (also financed by the Russian government) is finalised and has been submitted for state expert review. The tender process for this construction work has already begun.

Another important workstream relates to the logistical or shipping aspect of the Yamal LNG project. We recently announced that the South Korean company, Daewoo Shipbuilding & Marine Engineering Company, Ltd., recognised as the world's largest builder of LNG carriers, has been selected as a shipbuilder for the construction of 16 new ARC7 class LNG tankers as well as the signing of a binding slot reservation agreement. The slot reservation agreement sets the preliminary contract price per vessel, the scheduled production and the estimated delivery dates. Moreover the slot reservation agreement provides for the cessation of rights to finance and purchase the ice class LNG tankers to a third party shipping company approved by Yamal LNG. We have shortlisted seven shipping companies as part of the shipping tender process and we anticipate that this tender will be finalised in the coming months. As part of the shipping tender process an agreement has been signed with Sovcomflot and Vnesheconombank for the procurement of two ice class LNG tankers which will be ordered from Daewoo. The estimated plan is to have the first two of the 16 tankers delivered by 2016 and these two tankers will be used to test the main logistical routes prior to the commencement of the LNG plant. Sovcomflot is widely recognised in the global shipping industry as the most experienced shipping company in Arctic navigation and currently has 50 ice captains with extensive Arctic expertise. They also are involved in LNG transport with the present fleet of six LNG carriers and another four LNG carriers under construction with expected deliveries in 2013 and 2014.

A lot of progress has also been made besides the shipping workstream. In terms of production drilling four well paths have been prepared for drilling operations and as of today four horizontal production wells have been drilled of which two have been tested and confirm the expected geology of the South Tambeyskoye field. These early results give us high confidence in the field development plan that has been formulated for the South Tambeyskoye field and we will continue to proceed forward with the current drilling operations.

Another Arctic class drilling rig is presently being fabricated and will be mobilised on site once it's completed most likely in early 2014. The South Tambeyskoye field has 43 hydrocarbon bearing layers and the development plan will initially target the lower layers first which contain wet gas resources similar to cretaceous deposits located at the Yurkharovskoye field. This field development plan is justified technically by easier well placements and economically by exploiting maximum gas condensate volumes at the start of commercial production. The majority of wells will be drilled horizontally and the initial flow rates from the wells already completed were 1.5-2 times higher than initially planned.

There has been many questions raised for senior management on the farm-out of an additional equity stake in the Yamal LNG project and some of the commentary has been extremely negative implying that the delays in announcing a new partner confirmed the challenging nature of the project. We had repeated refuted these comments as unfounded and have consistently advised our shareholders that significant due diligence was being undertaken and appropriate time was necessary for the potential entrants to conclude this important work. At the recent St. Petersburg Economic Forum we signed a framework agreement with the Chinese National Petroleum Corporation, or CNPC, stipulating that CNPC will acquire a 20% equity stake in the Yamal LNG project, conclude a long term sales and purchase agreement for the purchase of at least 3 million tonnes of LNG per annum as well as working closely with us in organising external financing from Chinese financial institutions. This announcement was another landmark deal for the project and demonstrates from an industry perspective the commercial viability of the project. The deal was expected to close in October with the formal execution of transaction documents and once concluded we will provide additional information to the market on these transactions. We now have two supermajors, Total and CNPC representing a combined 40% equity stake confirming the technical, operational and commercial merits of this transformational project and so hopefully we can begin seeing some value accretion unlocked in NOVATEK as well as silencing some of the project's critics.

If still not convinced, in a related development we have been actively discussing the sale of an additional equity stake in the Yamal LNG project to another industry consortium and these discussions are advanced and proceeding constructively from our standpoint. We will provide additional updates on future conference calls or upon the conclusion of another transaction.

More recently we completed our initial project finance kick-off meeting with export credit agencies in Paris and these two days and meetings was extremely positive from a due diligence perspective on a comprehensive project activities to date as well as the feedback we received from the ECAs on project financing. A series of upcoming meetings are planned over the next several months as well as site visits but it is imperative and instructive to get first hand feedback on the project's bankability as well as positive feedback from the ECAs as to the content and source of materials, supplies and contractors becomes evident.

Another important question remains open at this particular moment is the change or amendment to the export law to liberalise liquefied natural gas. In this crucial area we have been actively involved in these discussions and have previewed drafts of the amendment which will be discussed by the state in September. We remain confident that the export law will be amended to allow the Yamal LNG project to export LNG and our confidence mirrors those comments voiced recently in an interview by energy minister Alexander Novak who stated that the law restricting the export of LNG on the territory of the Russian Federation will be amended and will become effective on 1st January 2014. According to Mr. Novak the fundamental decision on export rights for the independent gas producers is already in place and some technical terms are being finalised. There are no plans by the Russian government to regulate the markets and customers, however they would like to avoid any potential conflict with piped gas going to Europe and Gazprom has also voiced its concern in their initial comments but subsequently they have relaxed their position and will accept the independent's role in exporting LNG from Russia. The liberalisation of the LNG export market is clearly imminent and again confirms the strong support received from the Russian government in relation to our Yamal LNG project and this landmark project plays strategic goals as outlined by President Putin of Russia capturing 15% of the global LNG market.

The Yamal LNG project is progressing rapidly and the progress achieved to date in terms of construction of infrastructure activities, logistics, the contractual tender process, field development and the marketing of the plant's future LNG output has without question enhanced the project's overall credibility. The project sponsors have approved the Yamal LNG operating budget and have been investing capital to ensure the aggressive completion targets are met. The questions surrounding export valuation will be finalised in the near term and the commercial marketing of the remaining volumes of LNG output is well advanced at this point in time. We are targeting a final investment decision or FID around the third or early fourth quarter of 2013.

The Ust-Luga complex began processing stable gas condensate into finished petroleum products in early June and as at the end of the quarter the facility processed 184,000 tonnes of condensate which was equivalent to the same volume processed during the month of July. The output of marketable products increased from 155,000 tonnes in June to roughly 185,000 tonnes which included the re-processing of all specification products and the initial plant output. We now have the fractionation unit processing the range of oil products that meet international specifications and as of today three tankers carrying approximately 257,000 tonnes of naphtha, one tanker of 16,000 tonnes of bunker or ship fuel; and one tanker of 15,000 tonnes of kerosene has been shipped to the market.

In terms of construction activities we are approximately 90% complete on a second splitter unit and we expect to begin testing this facility in October with the formal operational launch in the latter part of the fourth quarter. As I mentioned many times in the past the formal commissioning of the Ust-Luga complex represents a significant change on our liquid marketing strategy whereby we will be marketing a completely new range of petroleum products across the regions as well as significantly expanding the numbers of customers for our output. We will require some time to normalise these marketing activities and confirm the netback enhancements. Our marketing will be based on a combination of term agreements as well as utilising the spot market as we are viewed as a new player in this particular market. Presently we have averaged approximately $50 per tonne additional margin over the selling of stable gas condensate which is reasonably consistent with our commercial marketing expectations. At Ust-Luga we will need additional operational time to optimise the plant’s input-output capacity but we remain confident that this investment will enhance our position in the market and achieve the value-added margins from some unfinished products rather than a raw material.

During the second quarter the Purovsky Processing Plant operated at approximately 97% capacity and for the six months ended 30th June the plant processed 2.4 million tonnes of unstable gas condensate representing a year on year increase of 21%. The Purovsky Processing Plant expansion activities are currently underway and we expect the first 3 million tonnes or two trains of 1.5 million tonnes each to be completed in October with the remainder of the further expansion activities of 3 million tonnes to be completed in early 2014. The expansion work will increase the processing capacity of the Purovsky Plant from 5 million tonnes per annum to 11 million tonnes per annum and will be required due to the expected significant increase in unstable gas condensate output on the SeverEnergia fields as well as increased output from our existing asset portfolio.

I would like now to make a few comments about our upstream business. During the reporting period we continue to make good progress in terms of exploration and field development activities and I will highlight some of the notable achievements as well as ongoing work activities. During the first half of 2013 we discovered a new gas condensate field called the Doregoyskoye field which resides within the boundaries of our North Russkiye licence area. The discovery consists of seven hydrocarbon bearing layers with an estimated recoverable C1, C2 reserves of approximately 16.5 billion cubic metres of natural gas and 2.3 million tonnes of liquids. We are in the process of preparing a development plan for this new field. We drilled approximately 26,000 linear kilometres of exploration during the period of which approximately 65% was performed on our joint ventures. We also ran approximately 2,700 square kilometres of 3D seismic and another 610 kilometres of 2D as part of our ongoing geophysical and geological activities. We are actively performing exploration work at the Utonay field as well as other licence areas.

We undertook a series of development activities at our core fields' particularly ongoing development activities to the oil bearing layers at the East Tarkisolinskoye field as well as pilot tests and oil rims at the Yurkharovskoye field. With the additional work performed on the Yurkharovskoye field's core Valeginian deposit we have increased the plateau level of the field from 36.5 billion cubic metres of natural gas to 37.2 bcm. We are presently spending additional capital at the Yurkharovskoye field to build a new booster compression station and funds will be spent over the next two years with the compressor booster station expected to be operational in 2016. Once commissioned the field's plateau level will increase to approximately 38 bcm per annum.

At Nordgas we are presently on schedule to launch the Eastern Dome in the fourth quarter 2013 which will increase the North Urengoyskoye field productive capacity to approximately 10.7 billion cubic metres of natural gas and 1.4 million tonnes of unstable gas condensate from its present capacity of 4.2 bcm of natural gas and 400,000 tonnes of liquid. At the end of the second quarter we completed the gas gathering facilities which are currently being tested and have completed approximately 95% of the work related to construction of the gas treatment facility. Our commitment to exploit the field's hydrocarbon resources in a timely manner is consistent with our historical track record of bringing projects on stream, within budget and on schedule. During the reporting period we also increased our equity stake in Nortgas from 49% to 50% as previously speculated we would do and as a result we are now paying the independent gas producers' rate for the mineral extraction tax as well as continuing to offtake our equity share of natural gas and 100% of the unstable gas condensate.

We continue to make good progress at SeverEnergia's Urengoyskoye and Yaro-Yakhinskyoye fields during the period. At the Urengoyskoye field we completed the construction of a gas and gas condensate pipelines and will commence work to install equipment for the gas treatment facility. We also successfully drilled two horizontal wells out of the total 22 wells drilled a day into the optimal formation with the horizontal sections averaging approximately 600 metres in length. Due to the successful drilling of horizontal wells our geology team is currently reassessing the development plans at the Urengoyskoye field. The flow rates from the horizontal wells have exceeded two times the vertical wells depending on the length of the horizontals which will lead us to reduce the number of wells to exploit the field. Currently the horizontal wells average about 20-30% more capex per well than a vertical well with hydrofracture but the additional flow rates clearly justify the additional costs per well and will ultimately reduce the overall forecasted capital expenditure to exploit the field. The field's development activities are on schedule and we plan to launch initial production around April 2014.

At the Yaro-Yakhinskyoye field a number of work activities are presently underway but none were completed during the reporting period. Infrastructure work to backfill areas such as well pads, roads and areas surrounding the gas treatment facility and other units is approximately 70% completed and ongoing pipeline work for the gas and gas condensate pipeline is presently underway. We were on schedule to work activities to date and we plan to launch this new field some time during the early part of the third quarter 2014.

There were reports in the media that NOVATEK acquired all of the retail activities of Statoil on the Polish market but I would like to reiterate that these news reports were erroneous as we only acquired 122 LPG tanks combine with the respective supply contracts for a transaction value of approximately $500,000. This acquisition was a minor transaction but supports our wholly owned subsidiaries' commercial activities by adding roughly 500 tonnes of LPG used mainly for household heating in the Polish market. For the first half of 2013 our natural gas production increased by roughly 9% year on year which was driven largely by the launch of the last stage of our Yurkharovskoye field, the first and second stages of the Samborsky field as well as our proportional equity share of Nortgas production post acquisition.

In terms of liquids we increased our production output by 11.9% year on year which was largely driven by increasing crude oil production at the East Tarkisolinskoye field, the two respective launches at the Samborskyoye field and our equity share of production from Nordgas. Our production growth for natural gas in liquids in July continued to remain robust as recently reported by CDU Tech, the central dispatching unit of the fuel and oil complex, increasing year on year by 10.4% and 15.4% respectively as compared to the comparative reporting period. Despite the reasonably strong production growth we have achieved year to date our annual guidance for natural gas and liquid production remains unchanged at 7-8% growth in natural gas and approximately 9% for liquids as of this conference call.

For the six months ended 30th June 2013 we reported positive organic growth of natural gas at our Yurkharovskoye field which was slightly offset by declines in gas production at both the East Tarkisolinskoye and Khancheyskoye fields. The decline in gas output at the East Tarkisolinskoye and the Khancheyskoye fields were largely attributable to an operational decision to optimise output of wet natural gas to the Yurkharovskoye field to maximise unstable gas production during the reporting period. We achieved positive growth contributions from our equity share of natural gas production from Sibneftegas as well as commence purchasing from Nordgas effective 1st January 2013. We continue to purchase natural gas from Sibur, a related party, and during the first half of the year we purchased approximately 3.4 bcm of natural gas from this entity for resale in the domestic market. On a quarter on quarter basis we had a total decrease in both our core production and purchases of approximately 1.7 bcm or 9.7% essentially representing the seasonal adjustment between reporting periods. We also had a massive swing in inventory volumes between the first and second quarters of 2013 of roughly 2.4 bcm. In the first quarter 2013 we withdrew approximately 1.4 bcm of natural gas underground storage facilities for eventual resale to the market representing a strong seasonal demand for natural gas in the cold winter months. This withdrawal of natural gas was completely reversed in the second quarter where we injected into underground storage approximately 1.4 bcm from later use in the peak winter season. For liquids we increased our production volumes including our share of purchases from our joint ventures for the first half of 2013 by 24.7% driven largely by the production growth of crude oil from the East Tarkisolinskoye field, the launch of the two stage production at Samborsky, and the production of contributions from the recent acquisition of the 49% stake in Nordgas.

On a quarter on quarter basis we managed to slightly increase our liquids production including our share of equity purchases by 2.5% but also had a large swing in inventory movements during the respective reporting periods. In the first quarter we managed to significantly reduce the volume of inventory in transit as reported at year end and we recognise these volumes as revenue in the reporting period, however in the second quarter as previously noted we began to transition volumes of stable gas condensate processed at the Purovsky Plant as raw material feedstock to the Ust-Luga complex. As a result we recorded an inventory build-up of approximately 292,000 tonnes in the current period as compared to a withdrawal of 296,000 tonnes in the first quarter. Our inventory volumes tend to fluctuate period on period as the normal course of our business but the build-up in the second quarter was largely attributable to the start-up of the Ust-Luga complex which will eventually work itself through the inventory sealed conversion cycle as is normal practice.

In terms of sales volumes we significantly increased the proportion of our natural gas sales to end consumers to approximately 89% from roughly 70% in the second quarter 2012 and maintain the same relative sales mix quarter on quarter. The change was largely driven by new gas sales contracts included in 2012 as well as the acquisition of an 82% equity stake in the Gazprom region in December. During the quarter we reported total gas sales to end consumers of 13 bcm which represented an increase of 56% year on year but a seasonal decrease of 22% quarter on quarter. Within our end customer sales category power companies and large additional customers represented approximately 94% of the sales volumes delivered or approximately 83% of our total gas sales for the quarter. Total natural gas sales for the reporting period inclusive of ex-field sales aggregated 14.6 bcm of natural gas representing a year on year growth of 8.8% and a similar corresponding seasonal decline of 22%. Geographical regions representing greater than 10% of our sales volumes during the current reporting period included the Chelyabinsk and Perm regions and the City of Moscow. Collectively the City of Moscow and the Moscow region represented approximately ¼ of our sales volumes which influences the distance transported to market. Our average distance to market was approximately 2,200km representing an average increase of 265 km year on year and approximately 300km quarter on quarter. Correspondingly we reported a significant year on year increase in our transportation expense for natural gas during the current quarter primarily due to the higher proportion of end customer sales as compared to the second quarter 2012, the increase in average distance to market in both periods and a change in the purchase agreement with Sibur and a transport tariff growth of 7% effective July 1st 2012. Our average netbacks for natural gas sold to end customers increased by 182 rubles per thousand cubic metres or by 12.3% as compared to the second quarter 2012 and we are slightly lower by roughly 54 rubles per mcm or by 3.2% quarter on quarter whereas our ex-field sales price increased by 13% year on year but was lower by 7.4% quarter on quarter.

During the second quarter the federal tariff service or FTS adjusted the wholesale gas prices to end consumers by 3% effective 1st April 2013 which obviously had an obvious negative effect on pricing during the latter part of the second quarter. In July the FTS recalculated the minimum and maximum wholesale gas prices for end consumers and effective 1st August the average wholesale end consumers' prices were raised by 3%. Overall we were pleased with the relative strength in our gas pricing for both end consumers and ex-fields in the reporting period despite the reduction in the regulated tariff in April and the change in the regional mix of our sales.

The biggest impact on our reported revenues for the period was a corresponding reduction in liquid sales year on year and quarter on quarter due to the transition of raw material feedstock with the commencement of processing at the Ust-Luga complex as well as the inventory movements I discussed earlier this evening. These items should not have been a surprise this quarter as they were flagged on a previous conference call as well as discussed at the commission of the new facility in June. Specifically we had notable decreases in volumes of stable gas condensate sold which was slightly offset by an increase in volumes of crude oil sold and to a lesser extent LPG and other products. The transition to the Ust-Luga complex is obviously a temporary situation as we have already begun to shift finished products to the international markets.

On a total barrel of oil equivalent basis we produced approximately 108 million barrels of oil equivalent representing an average total hydrocarbon production per day of approximately 1.2 million barrels per day.

We did an excellent job during the second quarter managing our overall operating expenses despite the increases year on year in transport expenses consisting with the growth in volumes sold to end consumers, the increase in average distance to market and the increase in the transport tariff to 7% as well as continued practice of purchase of natural gas and liquid hydrocarbons. There are no material surprises in our G&A expenses.

Our balance sheet and liquidity position continues to remain strong throughout the reporting period despite a slight increase of 2.1 billion rubles and our overall deposition this quarter relative to the year end balance. We secured a $1.5 billion syndicated loan facility from 10 commercial banks of which $500 million was drawn down during the quarter. Although we were negative free cash flow during the second quarter of 2013 mainly due to higher capital expenditures in the reporting period which was offset by lower operating cash flows we remain confident that we will continue to fund our capital expenditure programme through internally generated cash flows and have the ability to meet all of our debt obligations and liabilities when they become mature or become due for payment. We spent approximately 17.4 billion rubles in capital expenditures excluding the payment for a mineral licence which represented a significant year on year and quarter on quarter increase of 42% and 54% respectively. The major increase in capital spent represented the funds spent on the compressor booster station at the Yurkharovskoye field, ongoing crude oil development at the East Tarkosalinskoye field and funds spent on the Ust-Luga complex and the Purovsky Processing expansion. We remain committed to our initial guidance between 50-60 billion rubles for the full year 2013 which includes approximately 10 billion rubles of carry-over capital from the prior year, essentially meaning that our capital expenditure programme will remain reasonably flat year on year.

In conclusion, NOVATEK reported another set of solid financial and operational results for the second quarter 2013 consisting with our expectation of seasonality in the formal launch of the Ust-Luga complex. I believe we have demonstrated once again that our commercial marketing efforts deliver more volumes of natural gas to end consumers as well as the geographical mix of sales is a sound policy and further solidifies our domestic market position vis-a-vis other suppliers. The announcement of the CNPC transaction for a 20% equity stake in Yamal LNG was a major news story for us in the reporting period and we welcome CNPC together with our strategic partner, Total, in delivering a world class LNG project in the Arctic zone.

Much progress has been made in a relatively short period of time and we look forward to provide periodic updates on the status of various workstreams in upcoming conference calls as well as investor meetings.

I would like to end this earnings conference call by reminding everybody that we are fully committed to ensuring sound corporate governance and financial transparency, that senior management’s primary attention is focused on delivering our key projects on time and with the proposed budget like Ust-Luga or the early launch of the Eastern Dome of Nortgas and by maintaining this commitment and achieving these targets we can continue to create sustainable value for all of our valued stakeholders.

Thank you very much. I now open the session to questions and answers.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question today please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Once again please press *1 to ask a question. We will take our first question from Oleg Maximov. Please go ahead sir, your line is open.

Oleg Maximov: Hi Mark and thank you for the presentation. Just maybe three questions from me, just a year ago we thought that the Yurkharovskoye field surpassed this 34 bcm and you raised the guidance to 33.5 bcm and now you are saying 38 billion cubic metrics which effectively I guess created 4 bcm, right? Do you think that this new plateau comes at the expense of the long term production of the field or should we move the entire production curve of the field upwards? So in other words do you think that this new plateau will translate into higher pooled reserves at the field or not? The second question on the Orengoyskoye field, if I heard you correctly you were sort of trying to hint that your upstream people believe that production can be raised from these elephant fields within SeverEnergia, so is this the correct assessment or not? The third question on your production guidance on the gas side of 7-8% this year, do you think that this looks a little bit conservative given so far this year the Yurkharovskoye field is outperforming pretty massively the initial expectations? Thank you.

Mark Gyetvay: Thank you Oleg. On the first question I think it's just a function as we continue to drill additional wells at the Yurkharovskoye field as has historically been the case we have been finding additional layers or deposits for future exploitation and I believe the ability to demonstrate reserve growth is evident in the field as well as maintaining this plateau for a longer period of time. I think those two elements are in the field and I think we should assume that given the results today and our ability to increase the plateau level over the last couple of years as a result of additional drilling confirms that there's still hydrocarbon bearing layers to be found at the Yurkharovskoye field. On the second part of the question with returns to SeverEnergia particularly relating to the Orengoyskoye field, I think it's a function not that we're then just going to massively change the production profile of the field. I think there was also the horizontal well that I said was coming in at 1.5, 2 times higher than expected was really no different than the original change in plan we had at the Yurkharovskoye field when we adopted the larger bore wells and started drilling longer horizontal legs for these particular fields. It just became evident that we can redevelop, redesign the field programme which meant that we can reduce the number of wells needed to exploit the field although the capital expenditure per well increase, it justified the additional spend because the flow rates were substantially higher than the vertical wells. So I don't think I would feel comfortable at this point in time saying that the Orengoyskoye field is going to be higher than anticipated. I just think that overall we will probably end up reducing the number of well stock needed to exploit the field, particularly get up to the plateau levels and possibly over the life of the field in terms of its maintenance project. Your third question, I don't think it's a question of being conservative at this particular point because we're seeing quite a change in the marketplace, if you look at what's happening in Europe and the demand being pulled into Europe and Gazprom's strong exports for the particular summer months, I think it's reasonably in line with our expectations for the demand growth in Russia considering that overall GDP has slowed down, the growth has slowed down and I think it's kind of premature at this point right now until we sort of move away from some of the social spending to see how economic activity picks up and we can again look at this maybe in the third quarter but right now I believe it's not trying to be conservative. I think it's our realistic assessment of what we think demand will be for the remainder of the year which will be in line with those more or less targets we've said. I understand your point, I understand that given so far year to date we are above that but I still think it's a little premature because now we're into the second leg of the trough period and it just depends on how long we go into the second leg of the trough or conversely how quick do we go into the winter months? If we go into the winter months or colder winter earlier, obviously the opposite of what happened this past winter where the winter tended to be later in the year, it could affect or alter our forecasts for the particular year, but right now I think it was a collective decision on the group both from a commercial as well as senior management that the guidance we provided to the market was reasonable in this current environment.

Oleg Maximov: Great. Thank you.

Operator: Our next question comes from Karen Kostanian of Bank of America. Please go ahead, your line is open.

Karen Kostanian: Mark, thank you very much for your presentation and I apologise, I joined a little bit late so if you touched upon what I am going to ask again, my apologies, but two questions. First your contract on Yamal LNG with CMPC, when do you expect the final signing of that agreement? Second I just wanted to hear your thoughts about the upcoming LNG liberalisation as announced by Mr. Djvarkovic whether you expect this to be a full liberalisation or a partial liberalisation? Finally given that this is coming up do you expect and are you in talks to sell an additional 10% stake to another partner and have these talks, have them being more active with the upcoming LNG liberalisation? Thank you.

Mark Gyetvay: Quickly on the first question, we expect to finalise all the transaction documents by 1st October so that will officially close the CMPC transaction. In terms of the second question on the LNG exports, we believe as I mentioned in my discussion that this is imminent and that there will be change...I can't comment at this particular point whether it's going to be full liberalisation or partial liberalisation. I think we will wait to see how that materialises but I know it will have a positive impact on our Yamal LNG project, so irrespective of whether it's partial or full is irrelevant for us at this particular juncture because as I mentioned it's not the government's intent to control markets and/or customers. I think in terms of its impact on the marketing side of the LNG I think we are already beyond that. I think actually if you look at the marketing element of the Yamal LNG we actually have more demands for the volume produced today that are being discussed with potential contracts, so I think the demand part of the offtake has been pretty strong and I believe we will have some very, very positive news on those fronts in the near term in terms of additional LNG contracts signed. Now it's not a function, I think it's probably a mistake to associate the signing of an export liberalisation with an increased potential sale of a stake in Yamal LNG, it's not 10%, it's actually 9%. I think the announcement of the CMPC contract was more an impetus to get people on notice that there's only 9% remaining so if you've been sitting on the sidelines anticipating or thinking about it, you had better move pretty quickly because it's the company's decision on whether or not they're going to sell this or retain it ourselves. Post a CMPC transaction announced in June we had a significant level of activity from interested parties to discuss the additional equity stake and as I reported earlier we are already in advanced stages so I think hopefully in the near term we will have some more positive news to report in terms of the additional equity stake, but at this time I don't really want to go into it as we don't really discuss speculations and market rumours other than say that when a transaction is finalised you will hear it and we will discuss it in the marketplace.

Karen Kostanian: Thanks Mark.

Mark Gyetvay: You're welcome.

Operator: Our next question comes from Max Moshkov of UBS. Please go ahead, your line is open.

Max Moshkov: Thank you very much for the presentation. I had a couple of questions. First, when should we expect to receive proceeds from this stake sale to CMPC? The second question on the utilisation of LNG exports, would you adjust your long term productions today? Where should we reasonably expect this to happen? Thank you.

Mark Gyetvay: On your first question yes, when the transaction closes we will announce just like we did with the Total transaction, we will provide an update on the terms and conditions so there will be a payment made for the interims into the state as well as a recoupment of prior costs as we have already defined many times before and it was representative of the Total transaction. So I think it's best to wait till we conclude it and it's effective by 1st October. Your second question, I don't think it's the LNG exports that are going to change or drive the strategy. I think what we need to do quite honestly and the discussion has been already bounced around among senior management is that post the December 2011 strategy update there has been changes to the business, such as the acquisition of Nortgas. There has been changes with regional distribution so I think there's questions that I think yes, we want to sit down and discuss to look at it with a fresh approach on how we're going to approach the market. We also see the emergence of Rosneft on a consolidation of some of the other industry participants although we don't believe that the market is expanding dramatically, it's more a question of consolidation, we have to assess these into our longer term strategy. So I believe we will tackle that question some time in the third or fourth quarter and hopefully by the spring of next year come out to the market with an updated or revised strategy to take those factors into consideration, but right now we don't really have any comments on that other than it has been and is currently being discussed at the senior management level, at the management board and once we prepare something we obviously need to seek approval by the Board of Directors before we can publish that to marketplace and I don't anticipate that happening until some time in the early spring.

Operator: As a reminder ladies and gentlemen to ask a question please press *1 on your telephone keypad. Our next question comes from Artem Conchin of JP Morgan. Please go ahead, your line is open.

Artem Conchin: Yes, hello Mark and everyone. Just a couple of questions on the liquids side actually. You have referenced that your netback premium if I heard you correctly was around $15 per tonne. In that context I was curious if you could update us with your understanding of the current naphtha export duty and whether or not there's any kind of progress in your negotiations with the state on this situation? Second question was on Gazprom's performance year to date and potential impact on the domestic market from elevated export volumes that they are sending out, whether or not you see any kind of room domestically to sort of step up and perhaps capture some of the market or maybe compensate the redirectional volumes? That's about it. I also wanted to know if you can expand your storage capacity, the underground storage capacity for gas by I guess renting or leasing more of it from the monopoly, whether or not you are pursuing this opportunity? Thank you.

Mark Gyetvay: To answer your first question, I think you said 15, it's actually 50, so it's more...we are anticipating something around $50-70 range and it looks like it's in the $50 range right now netback enhancement which is consistent with our expectations, so we are pleased that the luminance of the product stream will enhance the overall revenue stream for the group. In terms of naphtha tax it's a little bit more difficult to answer at this particular point in time because these discussions are ongoing and obviously they are sensitive questions that need to be addressed but we are clearly...I believe this was also addressed by Mr. Mikhelson at the launch of Ust-Luga in June that we are in discussions with the government on this. That's one of our key strategic points moving forward to try to get this law changed but I think it's going to take a little effort and some time before that's finalised, so I guess it's one of these questions where there's no definitive answer at this particular point, just like the export liberalisation law, although we are more confident that that's going to happen sooner, the change in naphtha tax I think we're just going to have to wait a little bit and see what transpires from the discussions we have with the relevant ministries. Your second question in relation to the export markets, I think it's funny, the market has picked this up and are jumping on the bandwagon in relation to an increase in export markets and the reason why. Fundamentally the reasons have not really changed. Indigenous production on European markets are declining and have been declining for years which is probably irreversible trends. This year again any cold spell in weather, some countries, some take the risk of waiting to determine when they want to refill and if you look at the storage facilities in Europe today they massively withdrew storage to deal with the cold weather and I think the last element of this is I believe it's not sustainable to continue to expect cheap coal will be exported from the United States and used in European power generation although that has happened over the last year or so I think it's a contradiction to the climate control and carbon disclosure policy, so I think there's going to be some debates over that issue, but Gazprom has been able to pick up these additional volumes and I think it was inevitable that would happen. How that translates back to the domestic market I think leads into the question that Oleg Maximov had about our ability to revise our production guidance. We are there, we are ready. We will deliver additional volumes on the Russian domestic market if the market needs it but it's hard to say if there's a direct linkage to the export route whether or not it's going to have an impact on the Russian domestic market. The other notable change that the markets and investors should be focused on is that there's a dramatic shift in LNG that's going out to the European market due to the tightness in the Asia Pacific market, so overall I think it has characterised the global gas industry particularly as it relates to certain geographical regions as being very tight and I think this will remain so for the foreseeable future which theoretically should help all participants hopefully it provides us with an additional opportunity to deliver more gas on the Russian domestic market because as I mentioned we are prepared, we do have the capacity and we will deliver gas if the market needs it but more importantly I think it bodes very well for our Yamal LNG offtake arrangements that we're doing right now is that there's a clear need in the market for volumes coming in LNG and I think our projects and the timetable fits those expectations. On your last point it's something that we have discussed with Gazprom for many, many years as we were trying to balance out what would be the optimal level of capacity and I believe we are looking at maintaining probably up to 3 bcm of natural gas availability to us but as we saw previously it's subject to availability so it's not a definitive volume of gas that we can inject, it's also subject to availability but if it's available for us and we need to inject gas, we will do that and we inject gas to try and bring it closer to the market regions in which we operate and then withdraw it later on either in the fourth or first quarter when demand picks up. But we have talked to Gazprom and I think there's a gentlemen's agreement that we could put up about 3 bcm of gas in the underground storage facilities.

Artem Conchin: Thanks Mark. It sounds like you have been reading some pretty solid research by the banks because those are exactly the same things we have been highlighting for the past couple of months. Thanks again.

Mark Gyetvay: You're welcome.

Operator: Our next question comes from Timor Salakov of BCS. Please go ahead, your line is open.

Timor Salakov: Good evening Mark, good evening Alexander. Thank you very much for taking my questions. My question is regarding Yamal LNG. In the LNG delivery contracts which NOVATEK signed today, has the company defined the pricing terms and if yes and even if not do you plan to update investors on the key parameters of the pricing formula so that we could get a better understanding of the project's economics of future returns? Also the upcoming LNG export liberalisation, what kind of impact if any is it going to have on the LNG delivery contract negotiation process with customers?

Mark Gyetvay: The first question is relatively straightforward. The answer would be yes, when the time is appropriate we will obviously disclose some of the terms and conditions of the major offtake agreements but I can tell you all the contracts that we are talking about now are standard LNG contracts that take into consideration the appropriate benchmark pricing for that particular region, so if it's the Asia Pacific market it's going to be a Japanese fruit cocktail plus or minus a percentage of that and in Europe it will be based on the European contracts, so there are standard terms and conditions that are expected inside the LNG market. I think you can assume dependent on where the markets are going that those types of benchmarks will be used. I think there are questions on whether or not this will be introduced into the equation but right now we have not accepted those terms and conditions in any of the discussions. Your second question I kind of alluded to earlier. I don't believe as we speak today right now that the export liberalisation law is having any negative bearing on our ability to continue marketing LNG. I think some of the updates that I have received recently from the marketing group, it's clear that the demand for the offtake is exceeding current supply. It's just a question I think of where the shift goes, what's the proportion going to Europe or what's the proportion going to Asia will also be determined as we, not the export liberalisation law is we as a trader balance out where we believe is the optimum market for maximising the returns on our LNG sales, so I think to equate the delays in the export liberalisation laws is probably not an accurate statement at this particular point in time.

Timor Salakov: That's very clear. Thank you very much.

Operator: As a final reminder ladies and gentlemen, to ask a question please press *1 on your telephone keypad. Our next question comes from Geydar Mamedov of Goldman Sachs. Please go ahead, your line is open.

Geydar Mamedov: Hello Mark, this is Geydar Mamedov from Goldman Sachs. I have two questions, one is on domestic markets, one is on LNG. On domestic markets it seems like the government at least at this stage sees the gas price is growing in the coming couple of years by 5%, 6% per annum, at least the internal indexation that's going to happen from July 1st and obviously with the introduction of the MET formula we're going to see the adjustment to the MET rates for both cash from independent producers has led up to the end of last year. My question is have you done the calculation of what's the rough MET rates you're going to be paying in 2014 and 2015 with the 5%, 6% annual gas price increase? That's my first question. Second on the LNG market, if I recall correctly at the end of last year there were some headlines that around 80% of the LNG volumes from the Yamal LNG have been pre-agreed for sale and I was wondering if you plan to announce any additional contracts on the LNG pre-sale, is there during the third quarter or fourth quarter basically by the end of this year or is it something that we shouldn't be expecting? Thank you.

Mark Gyetvay: The first question is kind of a tough question because it's one of those things where obviously there has been a lot of debates going on right now and probably what I would say at this specific juncture, nobody is going to believe me but we have taken a long look at the pricing market and I believe the position that we have taken on the domestic market was that the government has outlined the programme in place and that they would stick to that programme despite some changes and some of those changes were the introduction of this export marketing adjustments + or – 3% that came into effect at the beginning of January of 2013 and I think if you look at the overall expectations that the analysts had in our results, they found a reduction of 3%, I think we have been able to successfully maintain a reasonably consistent pricing by the end customer as well as the geographical mix in our portfolio. Now we know that at August 1st there's an increase again by 3%. As of July 1st they increased it by 15% as was expected which I think largely most of the investors and analysts did not anticipate, they were sceptical or whether or not they were going to do, so I hate to make any predictions on this other than say that we are in discussion with our commercial people. This is a regular discussion that we have through our management planning meetings and the question is raised periodically about the pressure applied to our commercial people based on the current pricing and the feedback we receive is that there's really no pressure being exerted by the customers in relation to the gas sales that we have. Now does that mean that everybody is particularly happy with the current tariff? I think if you listen and you ask and you poll all the customers I think they would always say that they want a lower gas price without question but I don't think that's a realistic situation and I think the industry led by Gazprom and now with the lobbying efforts combined with Rosneft and ourselves, I think we're going to fight for an additional or at least fight to maintain what was already agreed to in the pricing model. Now given that question is raised let me too state that I would have to say at this particular point in time there is pressure from the government on the growth of the tariff, so there may be some adjustments to that tariff as you rightly said whether it's 10% or 5% or 6% remains to be seen, so there is pressure in terms of adjusting the tariffs, but again it's one of these things where it's premature to make that decision at this particular point and we as an independent gas producer at least look at it and say that the MET will take this into consideration, so it's one of the component parts of the calculation although it may not have a one to one weighting factor but it is taken into consideration in the algorithm for the MET which I think was an important concession that we have achieved in terms of the new tax policy because going forward I think everybody has to come to the expectation that prices will not continually rise forever. That has to be understood by the analysts and it has to be understood by investors. The Russian domestic market is a market that's long on natural gas and it does not have to pay the same tariff, the same rate as countries that are short natural gas, so we've got to assume that at a certain point in time this tariff growth rates that have been in play since 2003 are going to go away, going to be inflation adjusted and that's what our business plan calls for. Our business plan calls for the government maintaining this 15% tariff increase for three years, maybe adjusted down to 10% on the latter part of the year and inflation adjusted thereafter, so I think we've just all got to come the realisation that at a certain point in time you're not going to see this large growth in the rate of tariffs. To the MET calculates, takes it into consideration and we are happy with the situation. We would like to provide you obviously with more definitive information but we will all be just speculating at this particular point and we've just got to wait to see what direction the Russian government goes in terms of natural gas pricing. We believe that they will still to the plan as put in place for the next couple of years. There may be some pressure on the latter part of the increases and we together with our industry participants will continue for maintaining that level as we spend more capital in developing some of the more remote fields, it's just to justify the arguments of maintain the price. On the second part of your question again it's one of these things that eventually will come out with disclosure on the general terms and conditions of our LNG contracts, so I don't want to go into it at any particular time. We do have pre-sales already confirmed. We do want to wait a little bit to give us the flexibility of maximising the regional distribution of gas once this export law is changed and we have clarity on where we believe we would maximise the revenues to the particular projects, so I think it's a little premature to answer that question, but yes we will provide those details on future conference calls and yes we will eventually start talking about the terms and conditions etc and when the plan is operating obviously you will see that information in the financial results as well as our table that we provide on the average realised LNG prices we receive. So yes but it needs a little more patience from the market to wait until these things are resolved first and we will disclose them.

Geydar Mamedov: Thank you.

Mark Gyetvay: You're welcome.

Operator: As there are no further questions in the queue that will conclude today's Q&A session. I would now like to turn the call back for any additional or closing remarks.

Mark Gyetvay: I don't really have any other additional closing remarks except thank you for your support in the company and although we still see a little volatility in the share price recently, we believe that the projects that we have undertaken, the projects that we have put in place have been on time and on schedule as we have advised the market. We are just looking for with the conclusion of the CMPC deal and a potential another partner coming in to the Yamal LNG project we'd just like to see at what particular point we should start unlocking some economic value to our share price in relation to the market recognising that Yamal LNG is forthcoming and that it does have some value assigned to the group as we are investing capital and making significant progress along the project. So with that said we will probably provide a lot of updates and direct investor meetings at conferences throughout the remainder of this year on Yamal LNG. We will advise you again on the progress we make in terms of our discussions with the banks in terms of project financing and as always we are available to answer any questions that you may have of the group including any questions you may have for Mr. Mikhelson directly.

With that said thank you very much and we look forward to seeing you again in the near future. Thank you.

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