

NOVATEK

First Quarter 2018 Operational and Financial Results Conference Call



**Mark A. Gyetvay, Deputy Chairman of the Management Board
Moscow, Russian Federation
26 April 2018**

Disclaimer – Forward Looking Statement

Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors.

The forward-looking statements in this presentation are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the face of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- inherent uncertainties in interpreting geophysical data;
- commercial negotiations regarding oil and gas sales contracts;
- changes to project schedules and estimated completion dates;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our success in identifying and managing risks to our businesses;
- our ability to obtain necessary regulatory approvals for our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the Prosecutor General and his office;
- the effects of international political events;
- the effects of technological changes;
- the effects of changes in accounting standards or practices; and
- inflation, interest rate and exchange rate fluctuations.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The information and opinions contained in this document are provided as at the date of this presentation and are subject to change without notice.

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Summary Operational Highlights – 1Q18

- ❑ **Natural gas production** (*including our proportionate share in JVs*) was 16.5 bcm, representing an **increase of 2.2%** compared to 1Q17
- ❑ **Liquids production** (*including our proportionate share in JVs*) was 2.9 mmt, representing a **decrease of 1.0%** compared to 1Q17
- ❑ **Natural gas sales volumes** was 20.3 bcm, representing an **increase of 8.1%** compared to 1Q17
- ❑ **958 mmcm** of natural gas were sold on **international markets**

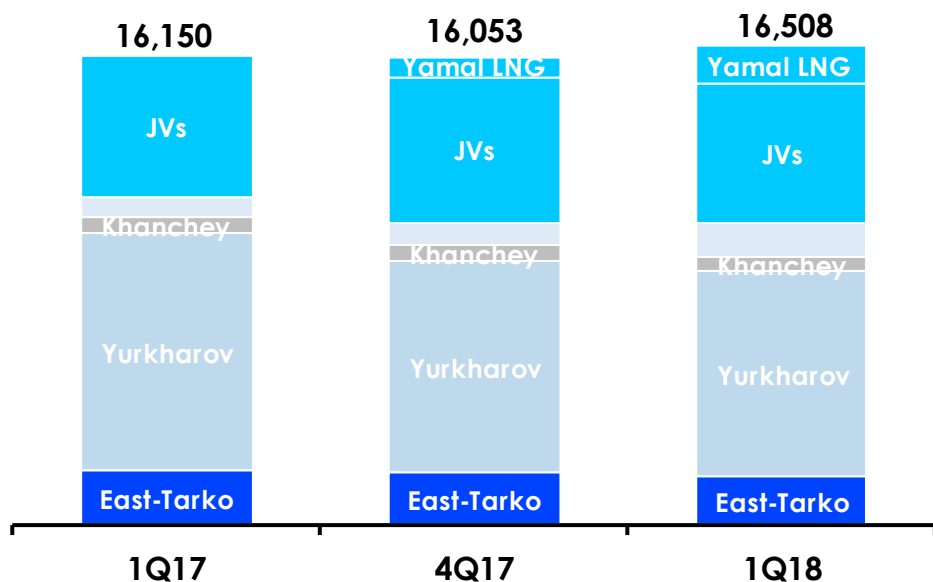
Key Events 1Q18

- ❑ Exploration and production agreements in Lebanon were signed.
- ❑ MOU was signed with Saudi Aramco.
- ❑ NOVATEK won bid for the gas assets of ALROSA.
- ❑ Patent for proprietary “Arctic Cascade” gas liquefaction technology was received.
- ❑ Payutskiy License Area on Gydan was obtained.
- ❑ NOVATEK and COSCO SHIPPING agreed to expand Arctic transportation collaboration.
- ❑ We shipped first LNG cargo to India.
- ❑ Yamal LNG has shipped the first million tons of LNG on 2 March 2018.
- ❑ A 72-hour performance test was conducted to confirm the design parameters of Phase 1 at the Yamal LNG plant. Average production rate exceeded the plant’s design capacity by 9%.

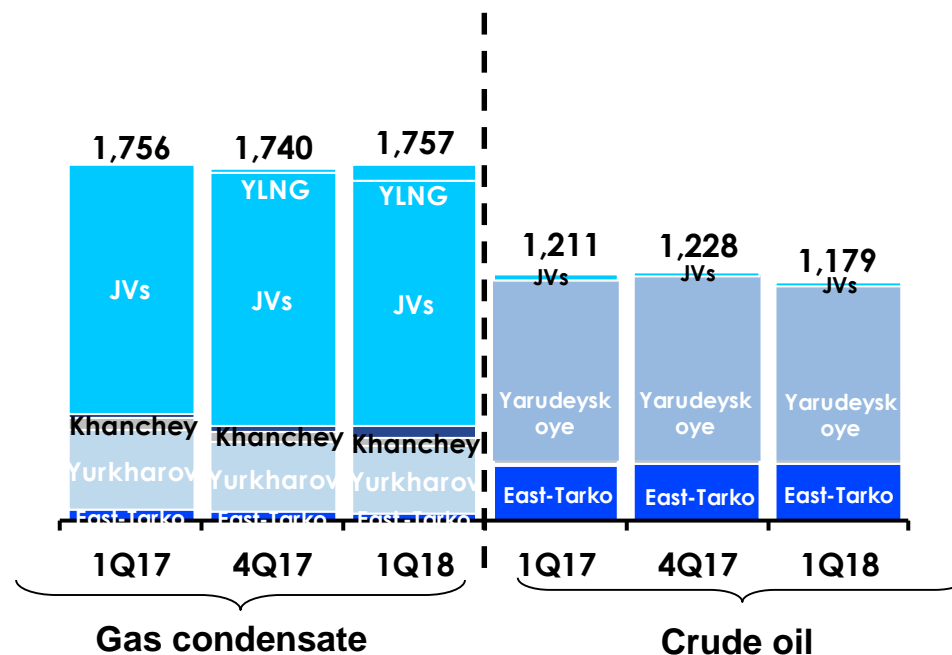
Operational Overview

Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



The commencement of natural gas production for subsequent liquefaction at Yamal LNG at the end of 2017, as well as the acquisition by the Group of new production fields at the end of 2017 and during the first quarter of 2018 (the Beregovoye, the West-Yaroyakhinskoye and the Syskonsyninskoye) fully compensated the decrease in production at mature fields of our subsidiaries (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) and our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

The commencement of gas condensate production at Yamal LNG at the end of 2017, as well as the acquisition by the Group of new production fields almost compensated for the decrease in gas condensate production at mature fields of our subsidiaries (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) and our joint venture Nortgas mainly due to natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

Purovsky Plant and Ust-Luga Complex

Purovsky Plant

- ❑ **Total volumes delivered in 1Q18: 2,763 mt**
 - Yurkharovskoye field: 328 mt
 - East-Tarkosalinskoye and Khancheyskoye fields: 114 mt
 - Other fields: 21 mt
 - Purchases from our joint ventures: 2,300 mt
- ❑ **Total output of marketable products: 2,748 mt**
 - Stable gas condensate: 2,146 mt
 - LPG: 602 mt

Ust-Luga Complex

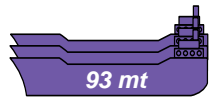
- ❑ **Total volumes delivered in 1Q18: 1,765 mt**
- ❑ **Total output of marketable stable gas condensate refined products: 1,737 mt**
 - Naphtha: 1,081 mt
 - Other products: 656 mt
- ❑ **Stable gas condensate refined products sold: 1,566 mt**
 - to Europe: 679 mt
 - to the Asian Pacific Region: 469 mt
 - to North America: 395 mt
 - Other: 23 mt



Liquids in Tankers

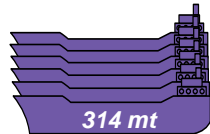


“Goods in transit”
 31.03.2017
 ~ 93 thousand tons



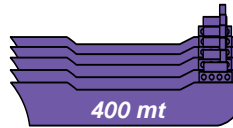
93 mt
 Asia-Pacific Region
 (Naphtha)

“Goods in transit”
 31.12.2017
 ~ 314 thousand tons



314 mt
 Asia-Pacific Region
 (Naphtha)

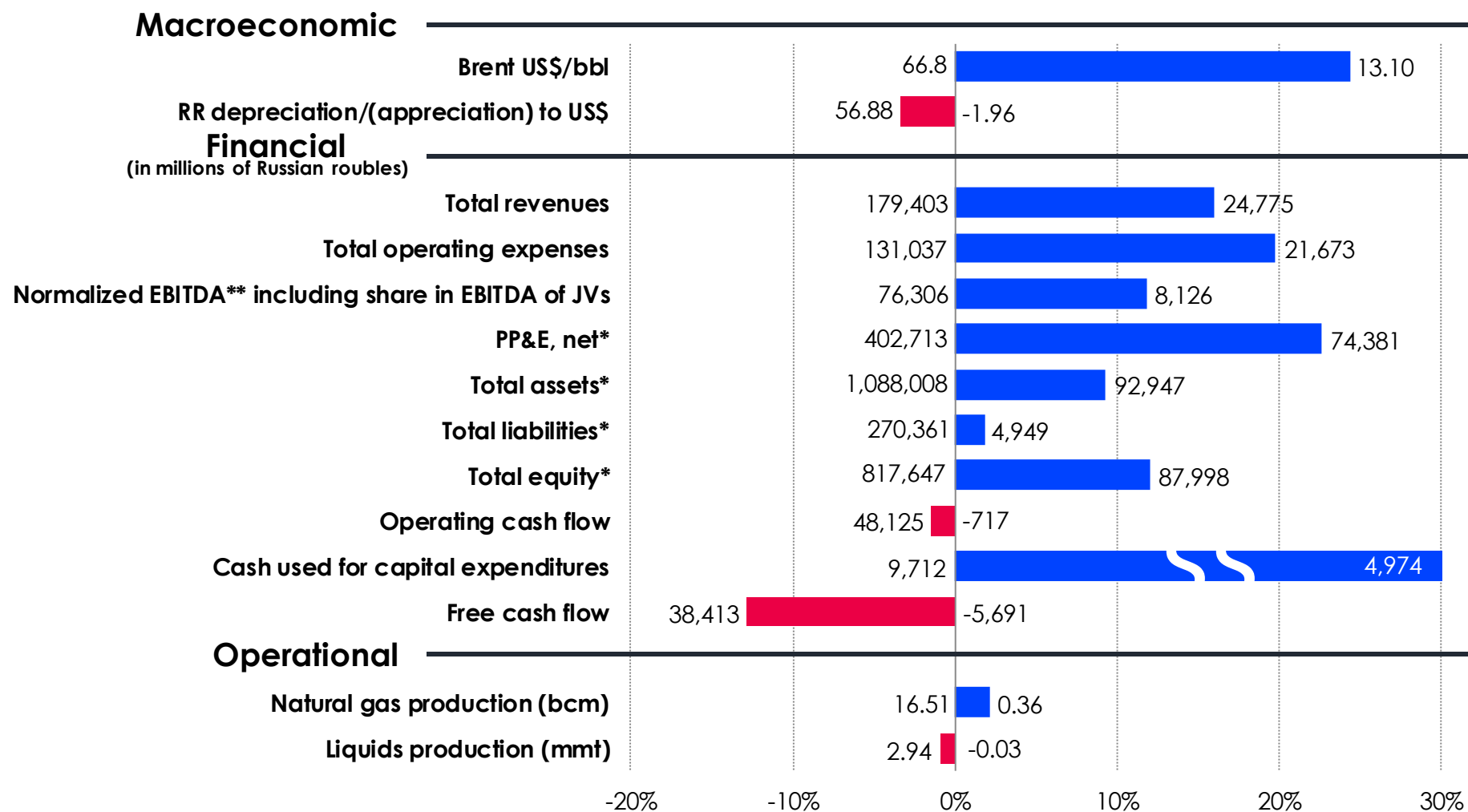
“Goods in transit”
 31.03.2018
 ~ 400 thousand tons



400 mt
 Asia-Pacific Region
 (Naphtha)

Financial Overview – 1Q18 to 1Q17

Performance Summary 1Q18/1Q17



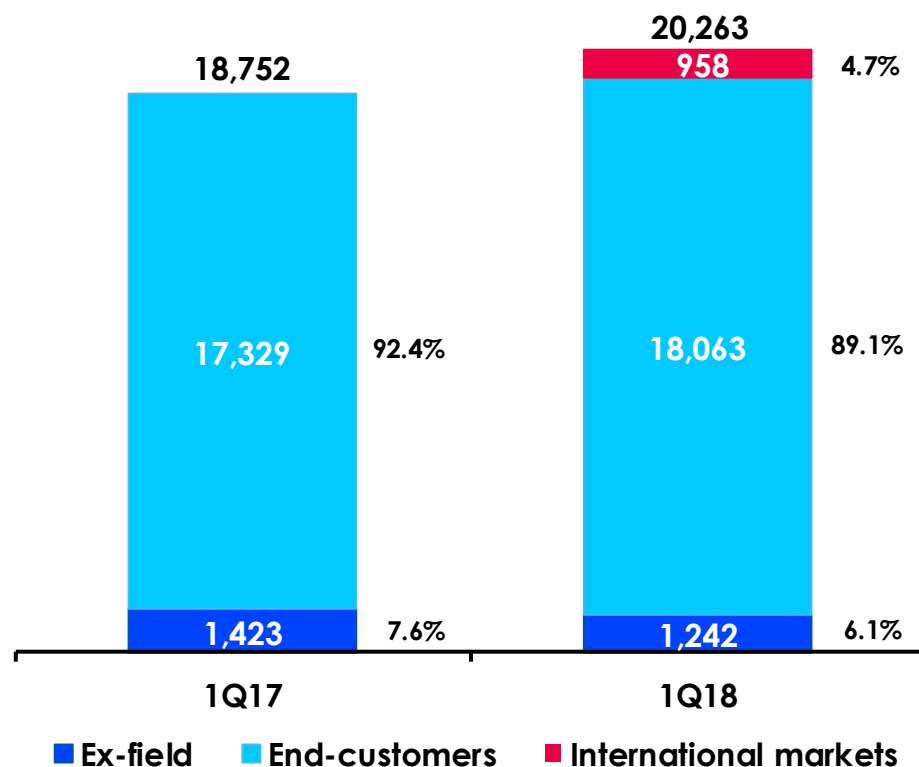
* 31 March 2018 to 31 March 2017.

** Excluding the effect from the disposal of interests in joint ventures.

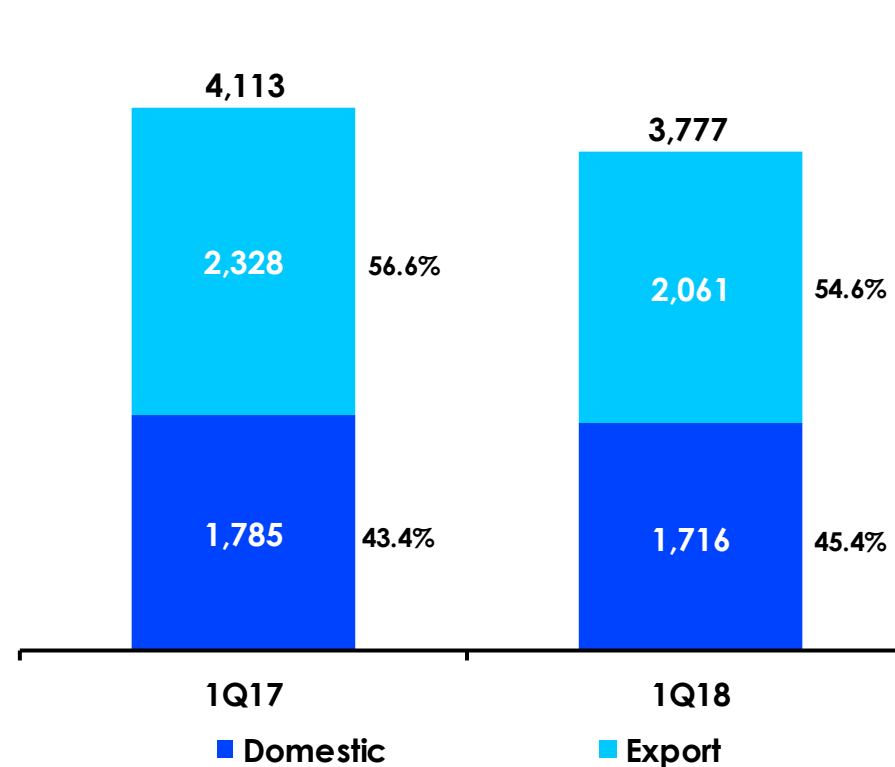
Note: Number on the right is the absolute change, number on the left is the value for the reporting period, size of bar is % change

Market Distribution - Sales Volumes

Natural Gas Sales Volumes, mmcm



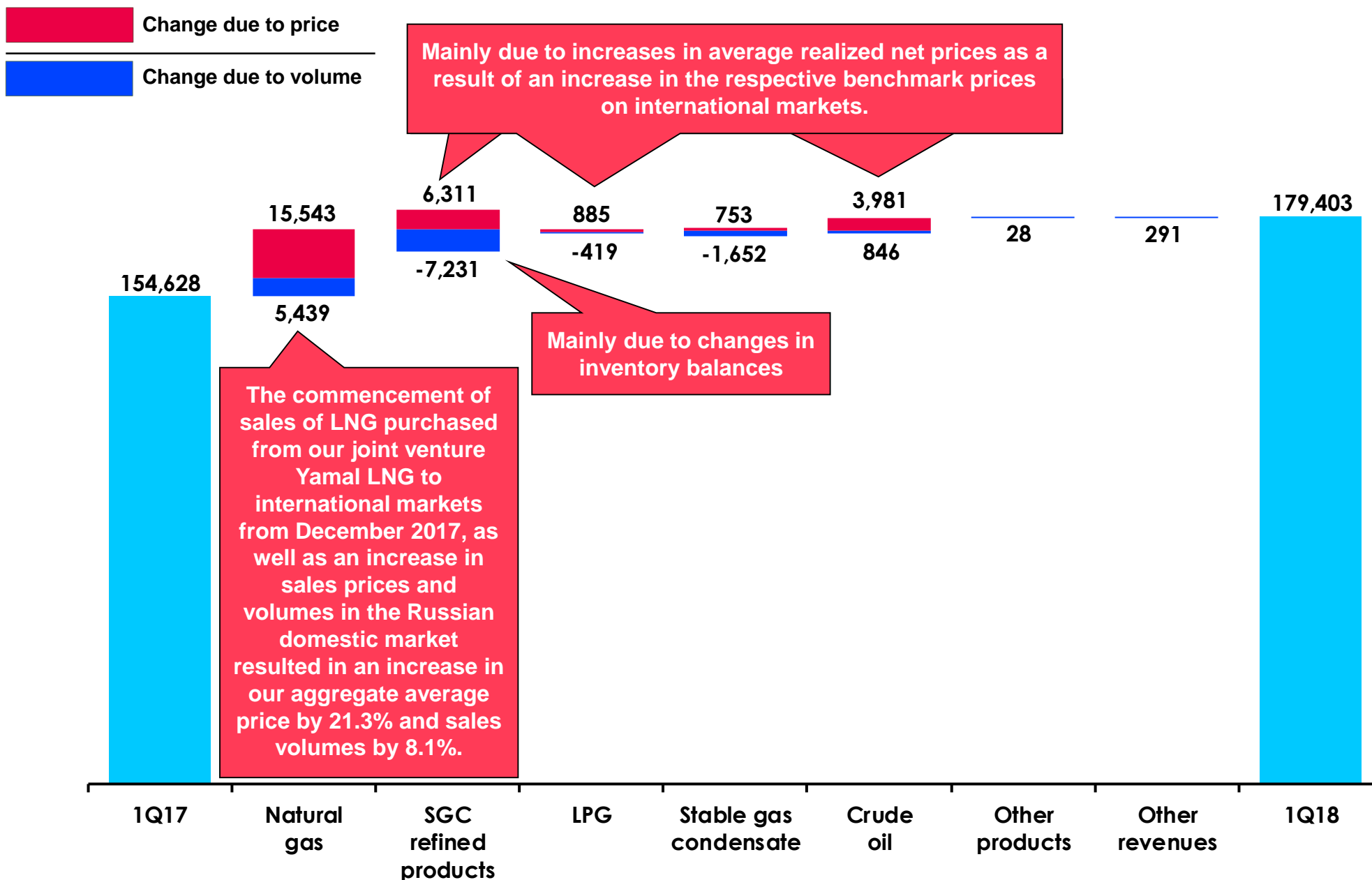
Liquids Sales Volumes, mt



Our total natural gas sales volumes increased due to sales of LNG purchased from our joint venture Yamal LNG to international markets from December 2017, as well as an increase in volumes sold in the Russian Federation.

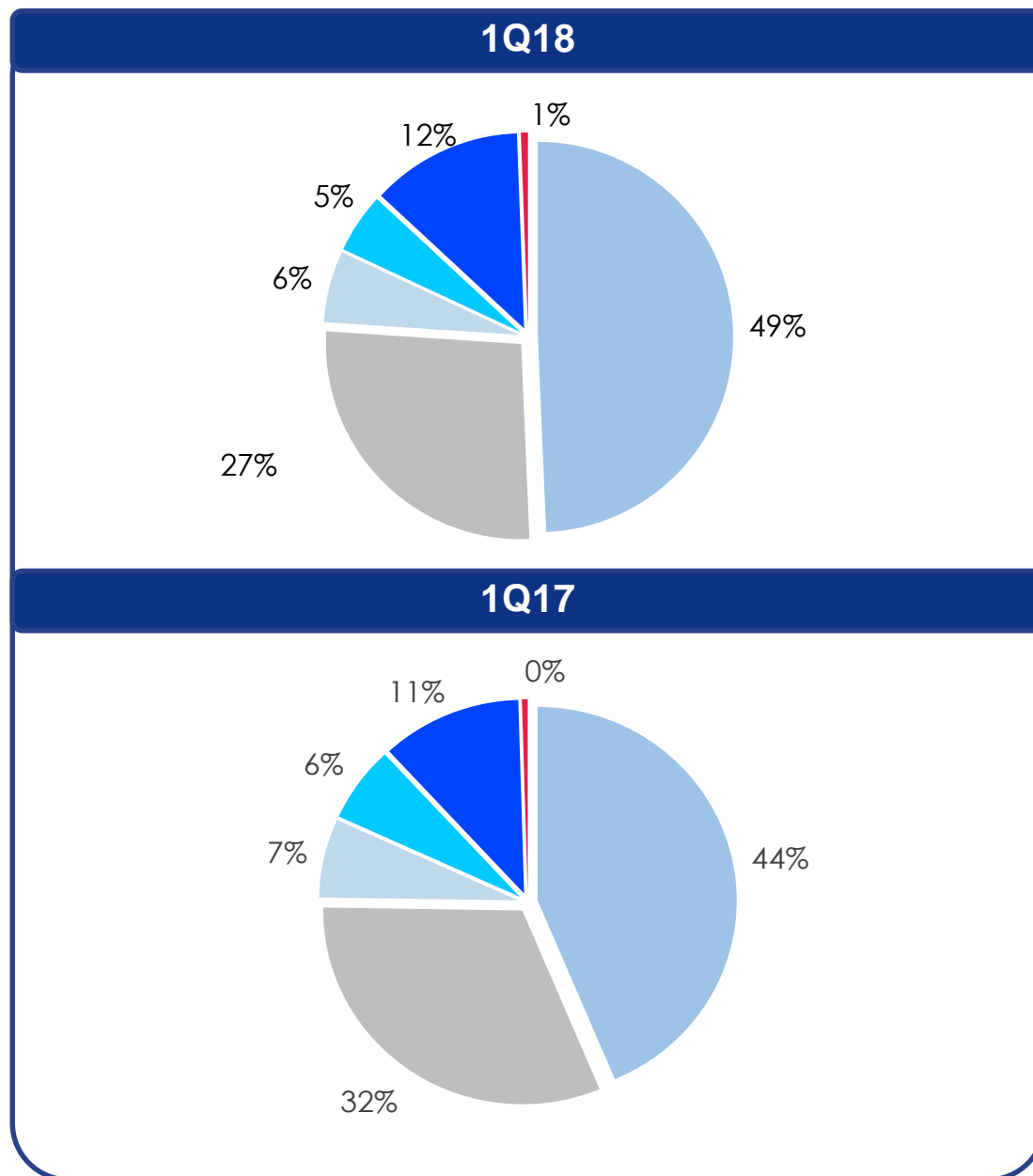
Our total liquids sales volumes decreased mainly due to changes in inventory balances that vary period-to-period depending on shipping schedules and final destinations of our liquid hydrocarbons shipments.

Total Revenues (RR million)



Total Revenues Breakdown

- Natural gas, including LNG
- Stable gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other

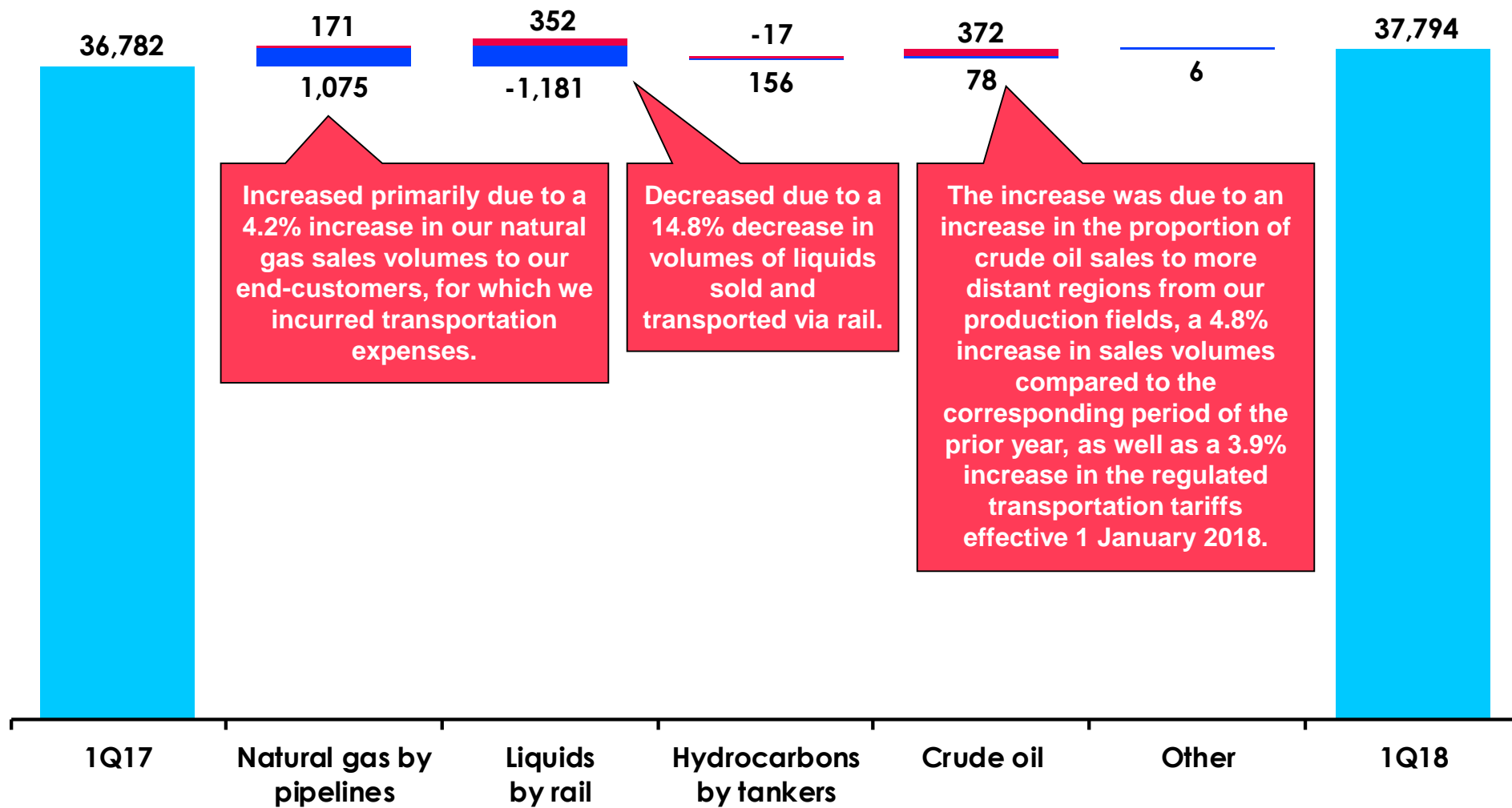
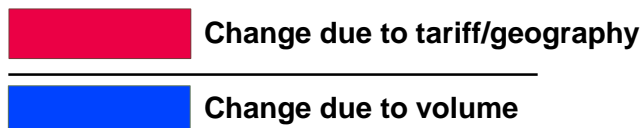


Operating Expenses (RR million and % of Total Revenues (TR))

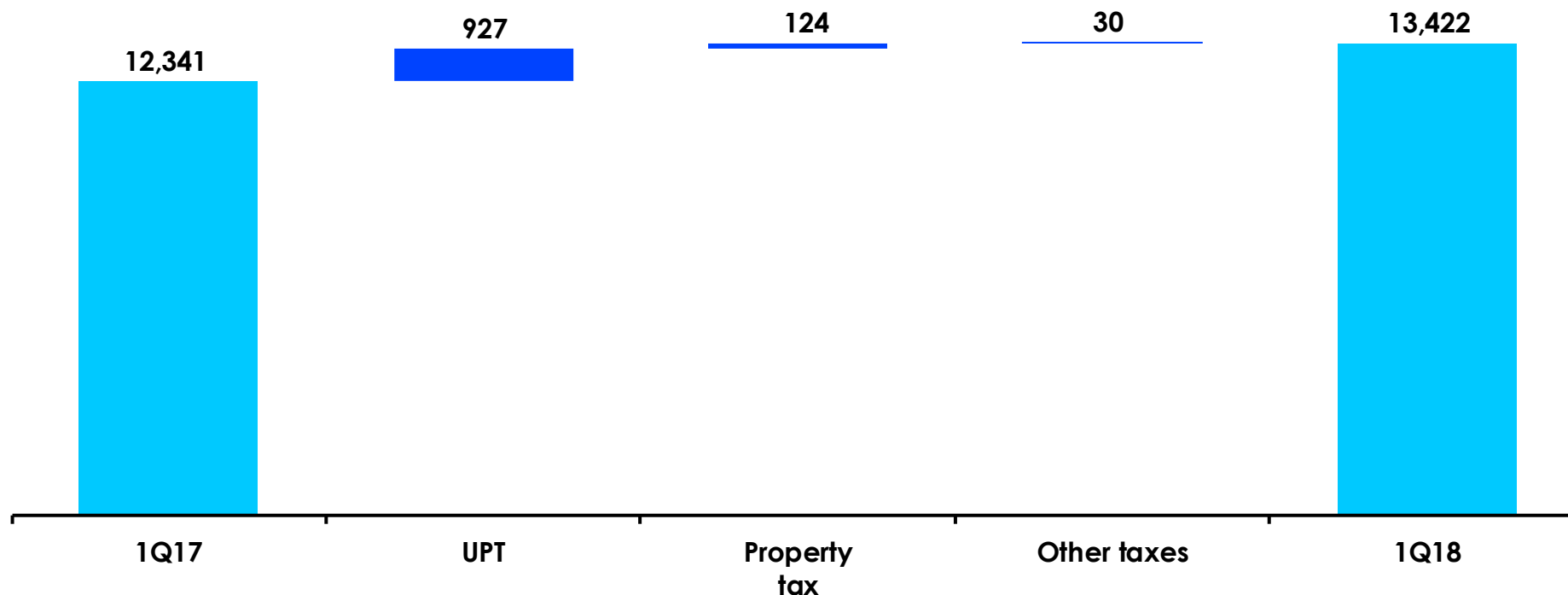
1Q17	% of TR	1Q18	% of TR		4Q17	% of TR	1Q18	% of TR
36,782	23.8%	37,794	21,1%	Transportation expenses	37,597	22.2%	37,794	21,1%
12,341	8.0%	13,422	7.5%	Taxes other than income tax	13,598	8.0%	13,422	7.5%
49,123	31.8%	51,216	28.6%	Non-controllable expenses	51,195	30.2%	51,216	28.6%
8,488	5.5%	8,097	4.5%	Depreciation and amortization	8,466	5.0%	8,097	4.5%
4,800	3.1%	5,563	3.1%	Materials, services & other	5,676	3.4%	5,563	3.1%
3,993	2.6%	4,593	2.6%	General and administrative	5,394	3.2%	4,593	2.6%
388	0.3%	1,709	1.0%	Exploration expenses	630	0.4%	1,709	1.0%
0	n/a	-4	n/a	Net impairment expenses (reversals)	43	0.0%	-4	n/a
602	0.4%	-1,952	n/a	Change in natural gas, liquids and WIP	-528	n/a	-1,952	n/a
67,394	43.6%	69,222	38.5%	Subtotal operating expenses	70,876	41.9%	69,222	38.5%
41,970	27.1%	61,815	34.5%	Purchases of natural gas and liquid hydrocarbons	51,201	30.3%	61,815	34.5%
109,364	70.7%	131,037	73.0%	Total operating expenses	122,077	72.2%	131,037	73.0%

- Our total operating expenses increased by 19.8% as compared to the corresponding period in 2017 mainly due to an increase in purchases of natural gas and liquid hydrocarbons as a result of an increase in volumes of natural gas purchased from our joint ventures, in particular, in connection with the commencement of LNG production at Yamal LNG at the end of 2017, as well as an increase in the average purchase prices for hydrocarbons, which in turn allowed us to earn higher revenues from hydrocarbons sales.

Transportation Expenses (RR million)

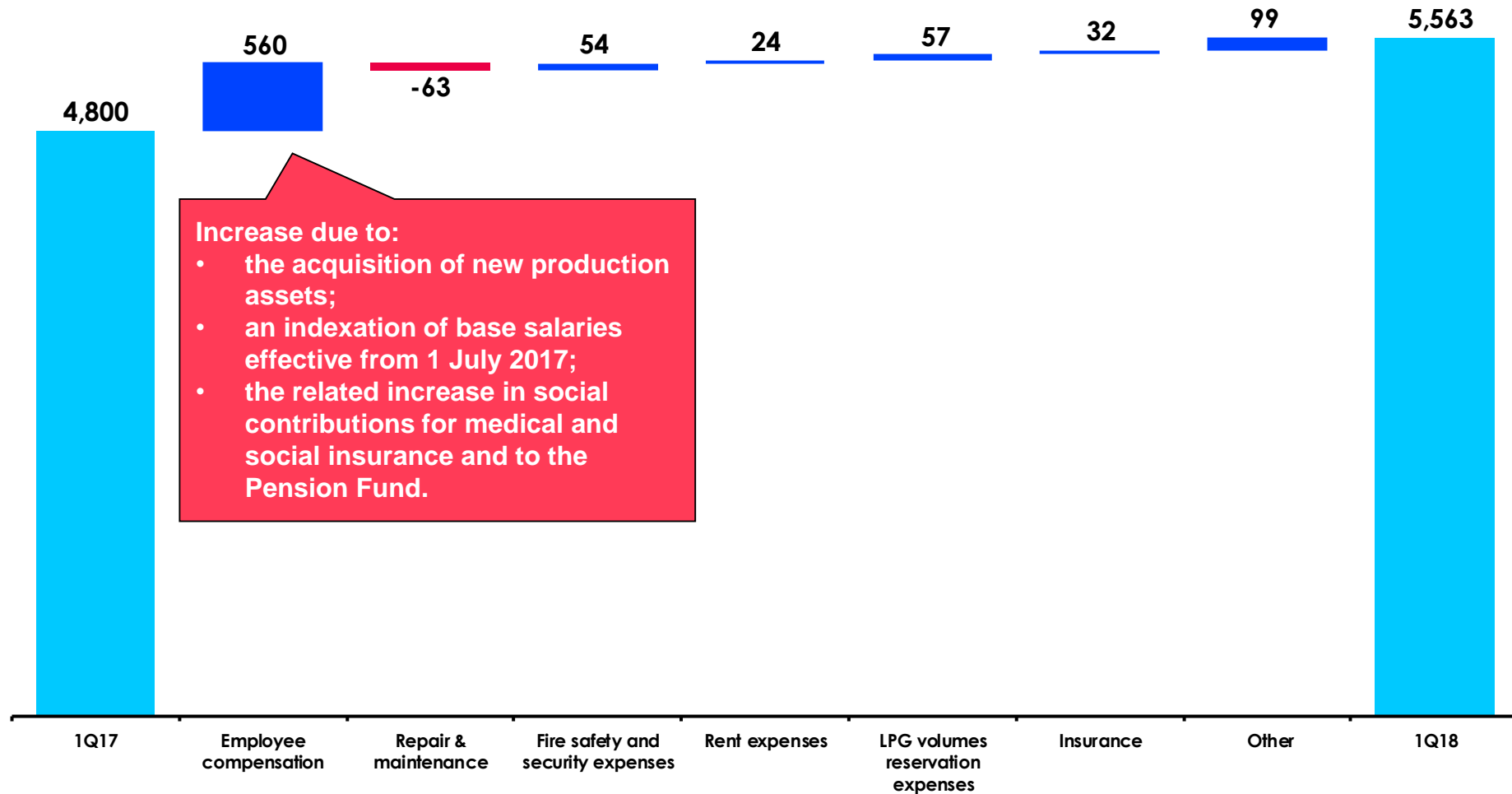


Taxes Other Than Income Tax Expense (RR million)

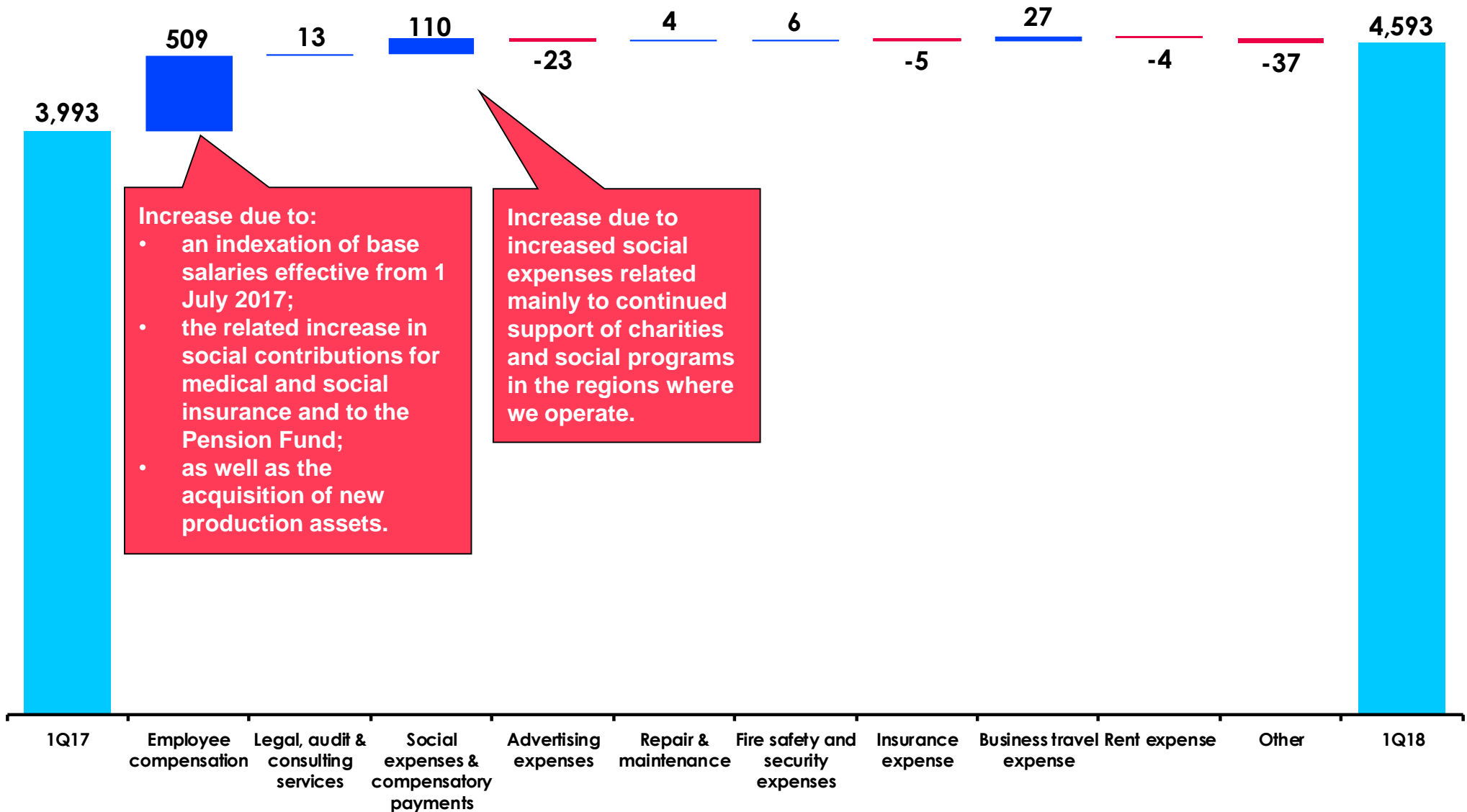


- Our unified natural resources production tax expense increased mainly due to an increase in UPT rates for crude oil as a result of an increase in benchmark crude oil prices, as well as due to changes in the formula for crude oil UPT rate calculation effective 1 January 2018.
- Our property tax expense increased due to acquisitions of new production assets at the end of 2017 and in the first quarter of 2018.

Materials, Services and Other Expenses (RR million)

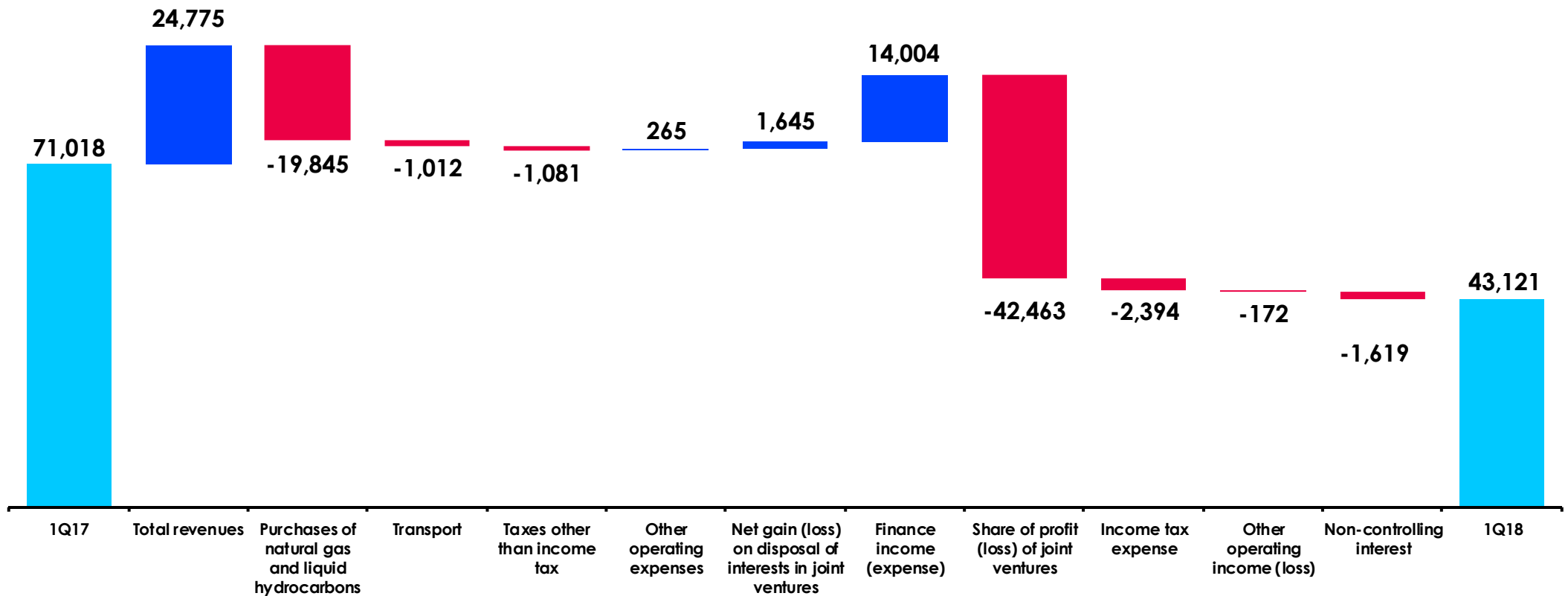


General and Administrative Expenses (RR million)

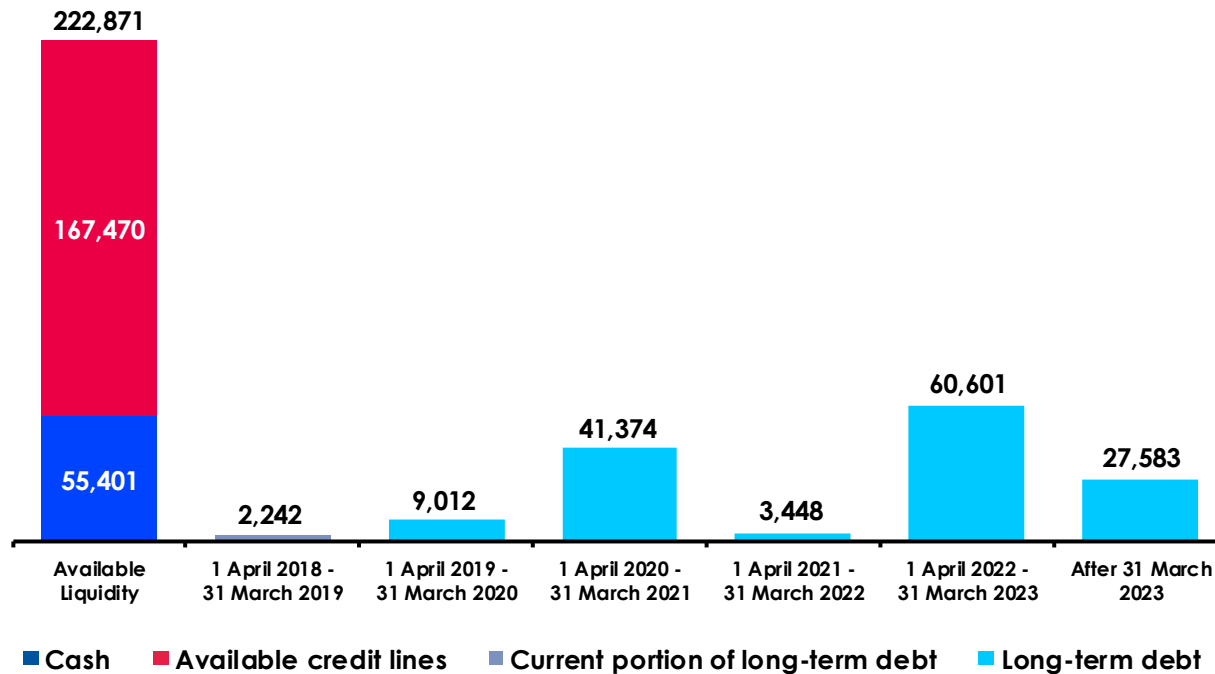


Profit Attributable to NOVATEK Shareholders

(RR million)



Total Debt Maturity Profile (RR million)



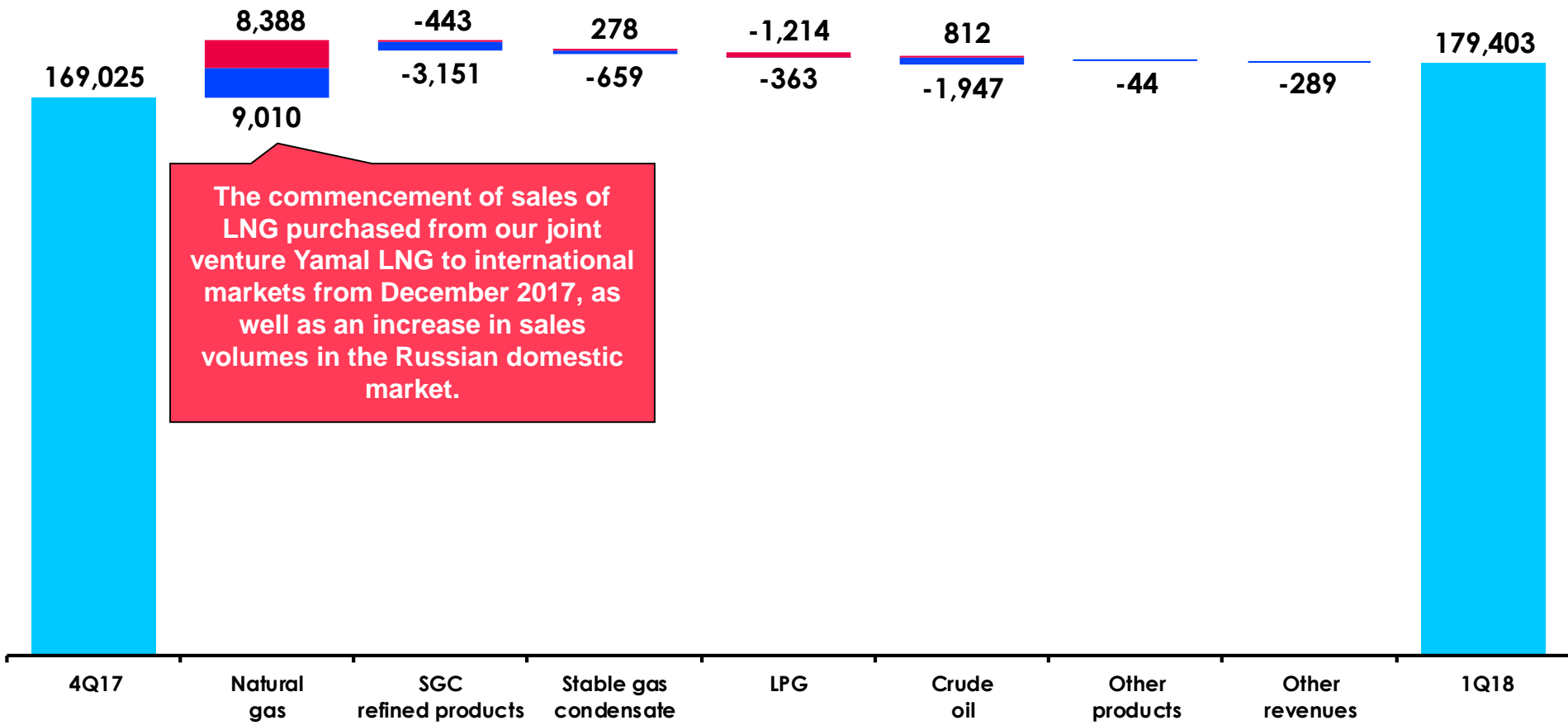
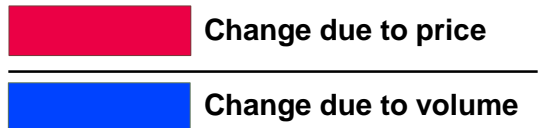
The Group has available credit line facilities from Russian banks with credit limits in the amount of RR 121 billion and the equivalent of USD 750 million and EUR 50 million.

Debt repayment schedule:

- Up to 31 March 2020 – Loan from the Silk Road Fund and Other loans
- Up to 31 March 2021 – Loan from the Silk Road Fund, Eurobonds Ten-Year (USD 650 mln) and Other loans
- Up to 31 March 2022 – Loan from the Silk Road Fund
- Up to 31 March 2023 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD one bln)
- After 31 March 2024 – Loan from the Silk Road Fund

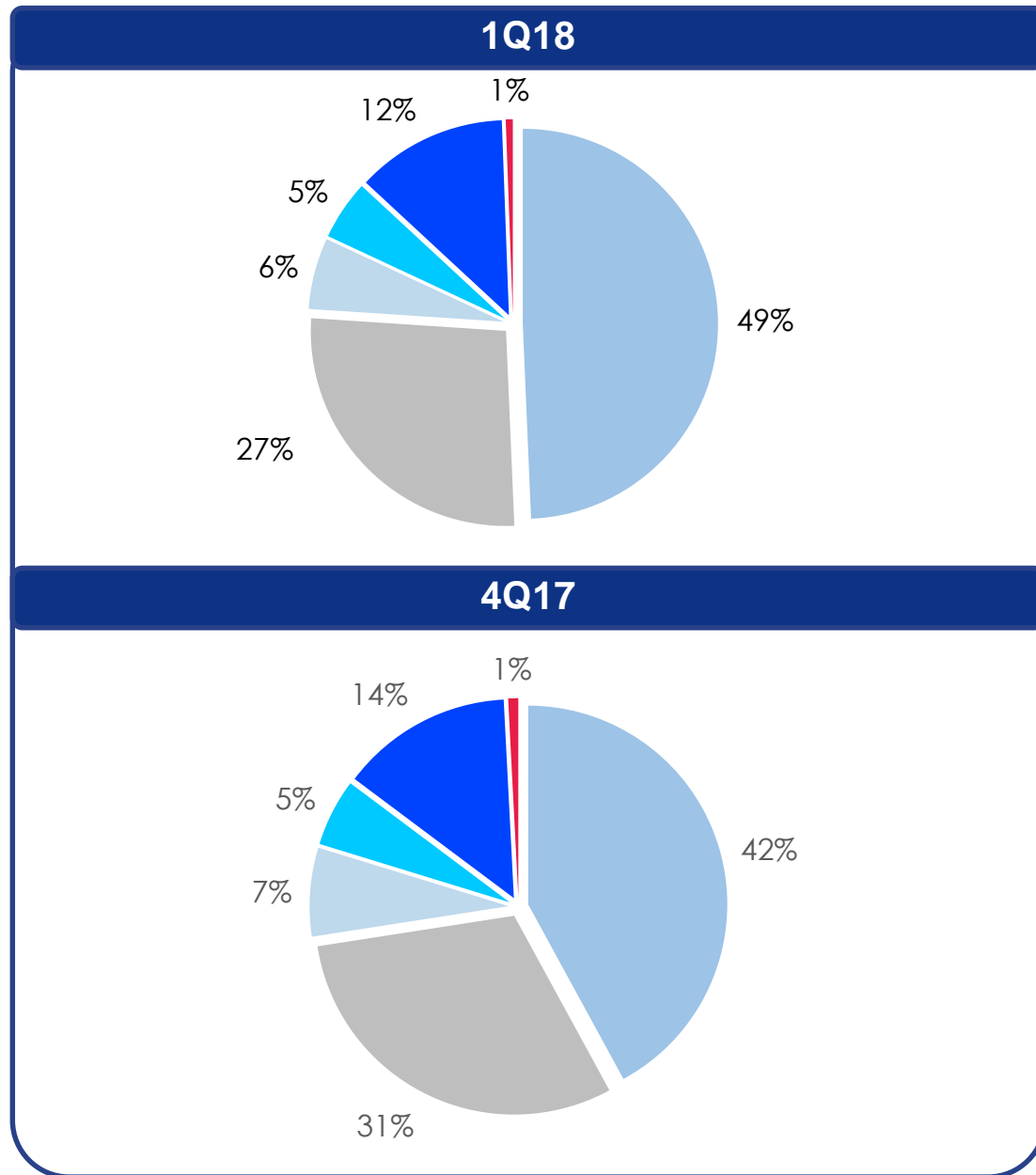
Financial Overview – 1Q18 to 4Q17

Total Revenues (RR million)

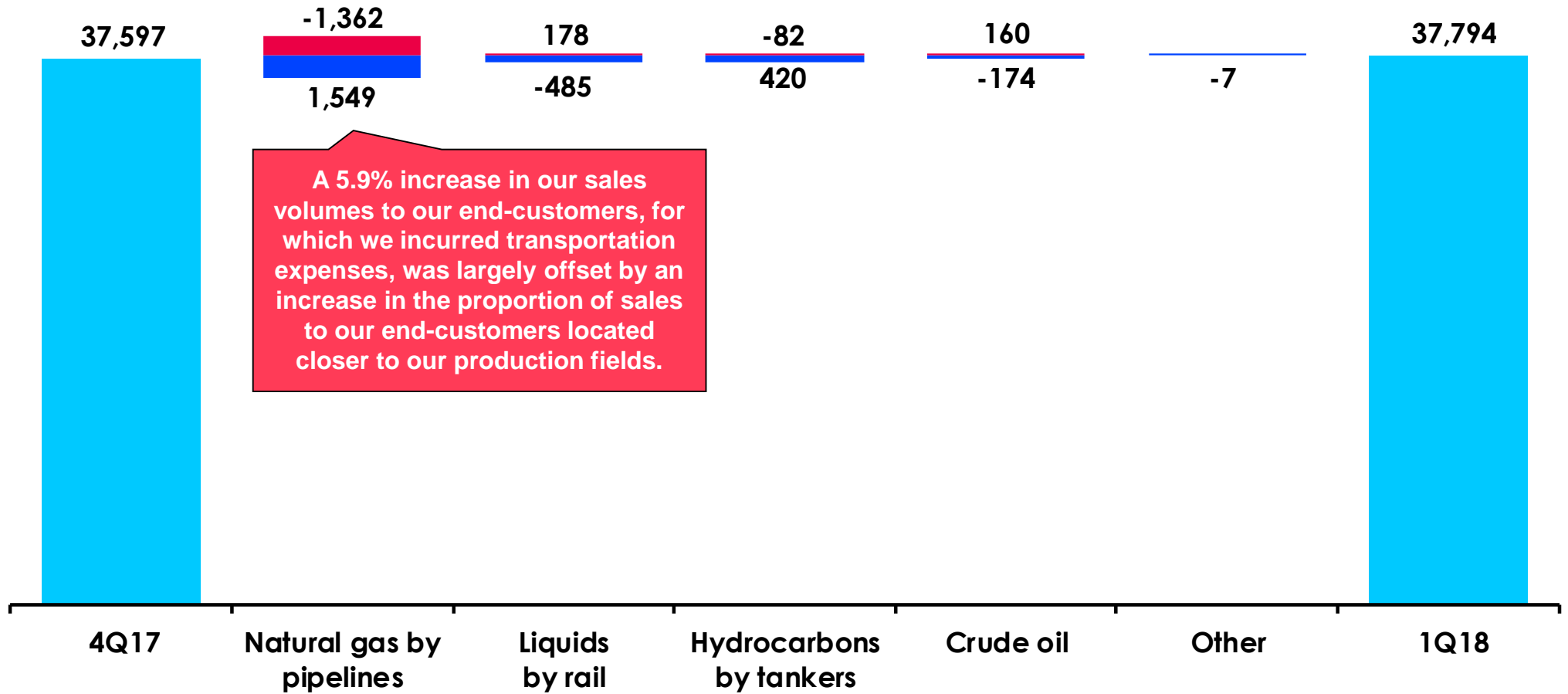
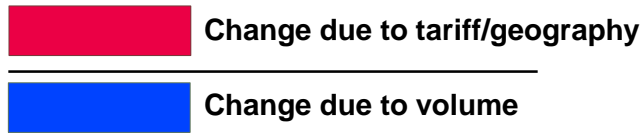


Total Revenues Breakdown

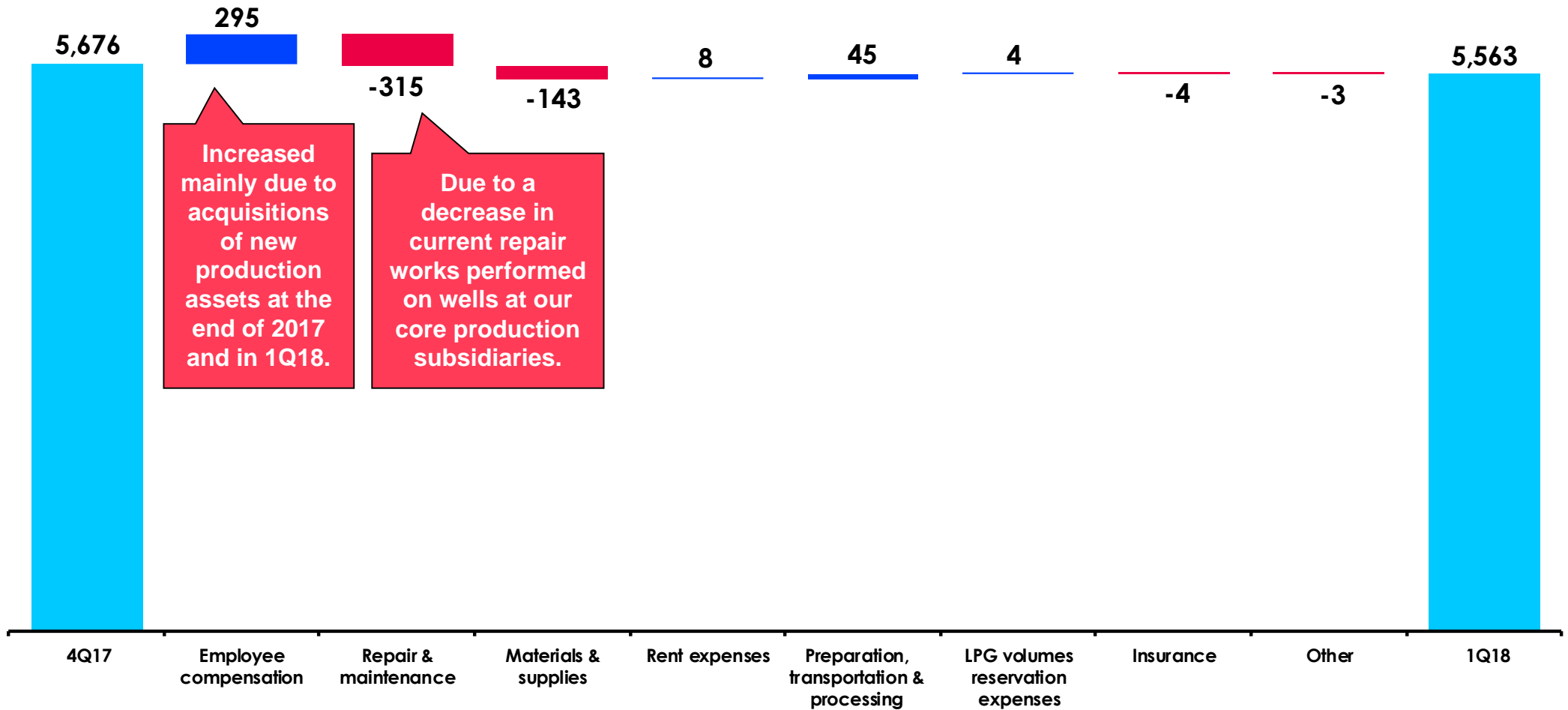
- Natural gas, including LNG
- Stable gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other



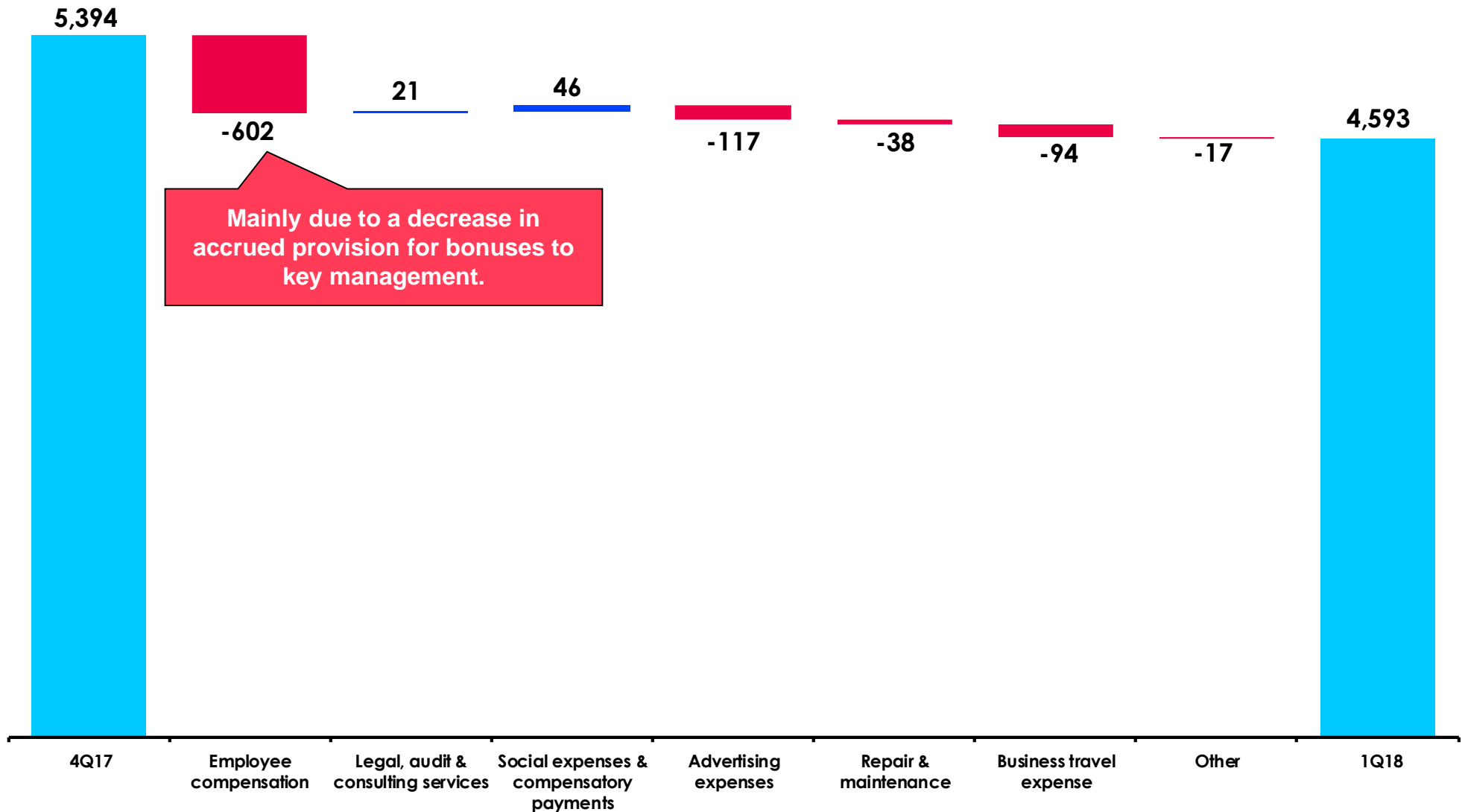
Transportation Expenses (RR million)



Materials, Services and Other Expenses (RR million)

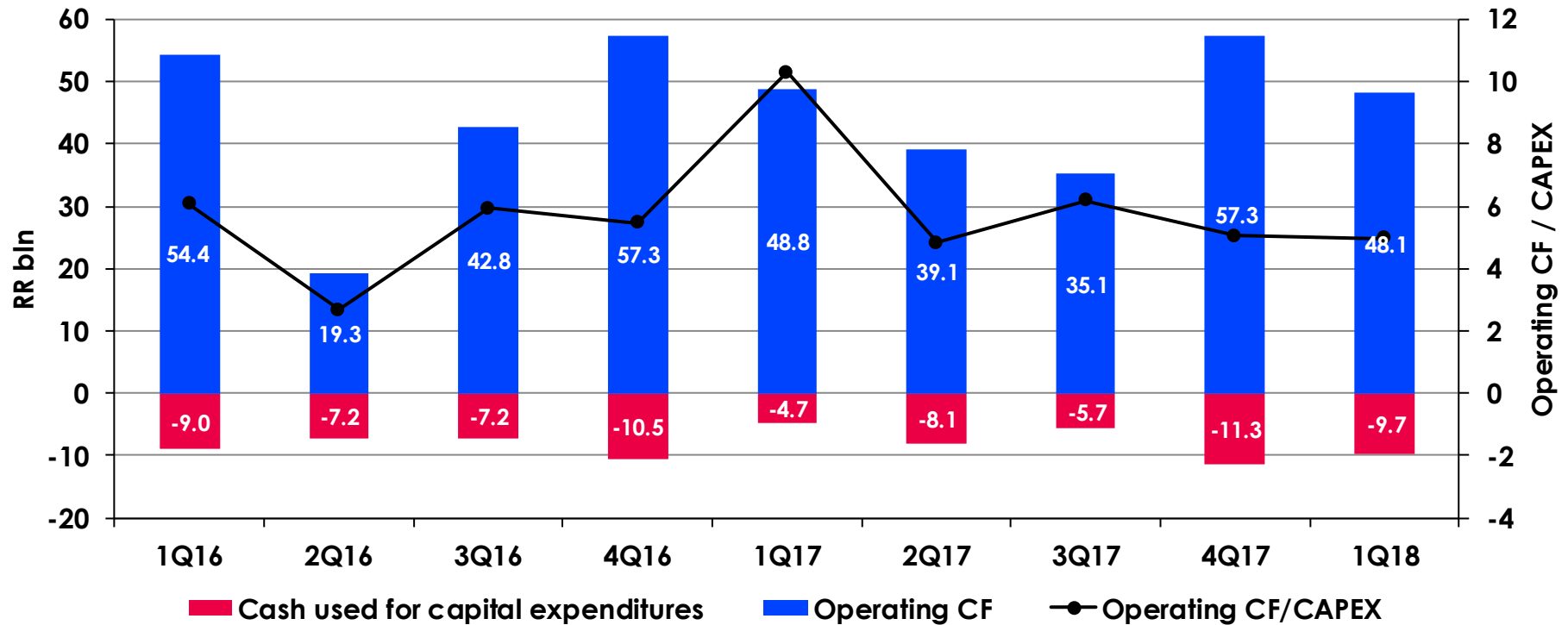


General and Administrative Expenses (RR million)



Appendices

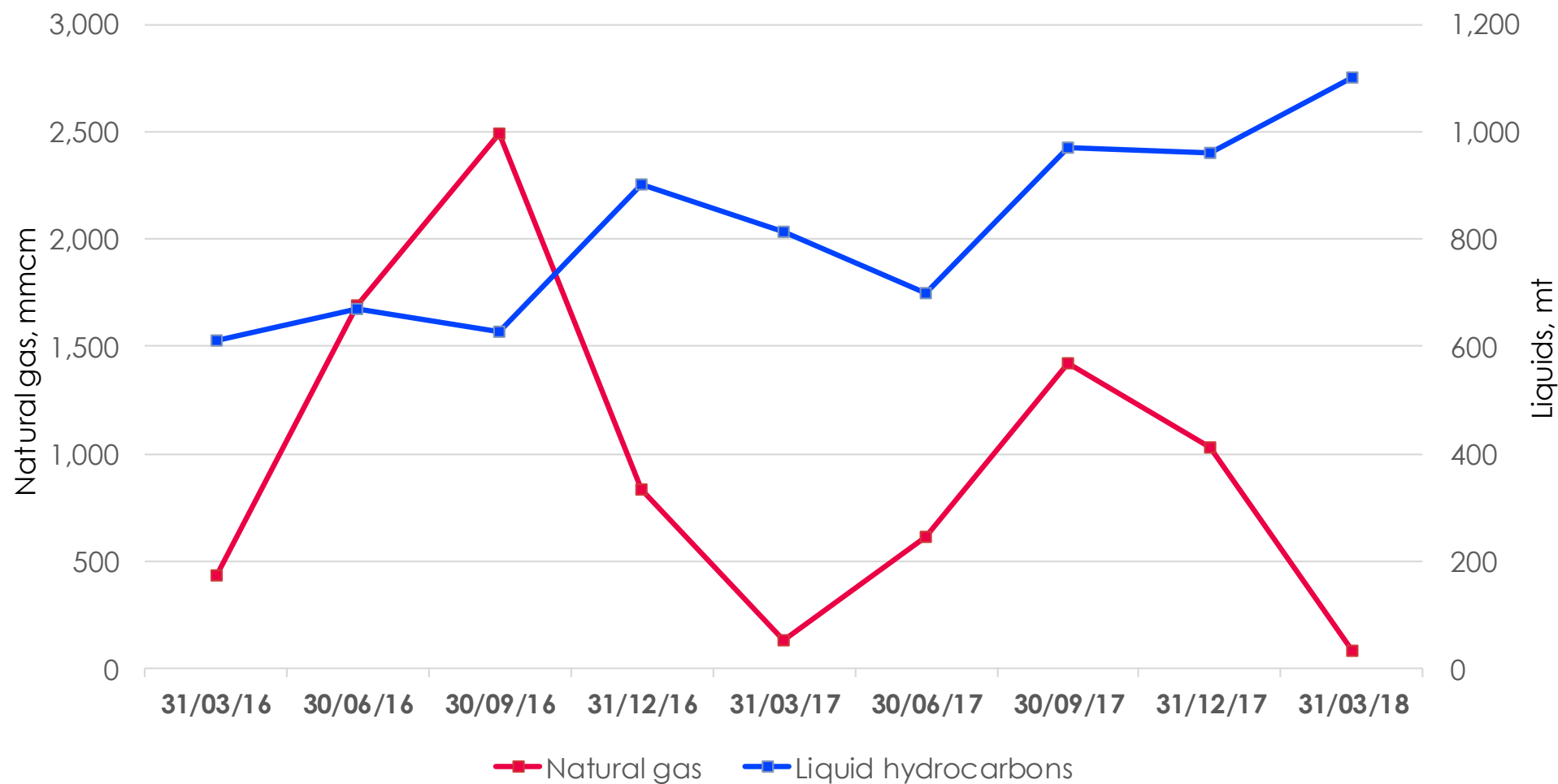
Internally Funded Investment Program



Core investments in upstream exploration, production and processing facilities funded primarily through internal cash flows

Note: for 2Q 2016 Normalized Operating Cash Flow is used, excluding advance income tax payments of RR 9,932 million based on the gain on the disposal of the 9.9% equity stake in OAO Yamal LNG.

Change in Inventories



Questions and Answers