

Company: NOVATEK
Conference Title: Q2 & H1 2014 Financial Results
Presenter: Mark Gyetvay
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Operator: Good day and welcome to the Novatek Second Quarter and First Half 2014 Results Conference Call. Today's conference is being recorded. Important information for Russian participants calling on Russian lines: please don't mute your line otherwise you might be disconnected. All the lines will be muted anyway for the time of the main presentation. No questions will be taken from media.

At this time I would like to turn the conference over to Olga Klimova from Sberbank CIB. Please go ahead.

Olga Klimova: Thank you. Good morning, good afternoon all. It's our pleasure on behalf of Sberbank CIB to host this results call for Novatek again and welcome you all to it and introduce our participants, Leonid Mikhelson, the Chairman of the Management Board; Mark Gyetvay, the Chief Financial Officer; and Alexander Palivoda, Head of Investor Relations.

Without further ado I will pass the mic to Mark.

Mark Gyetvay: Thank you Olga. Ladies and gentlemen, shareholders and colleagues, good evening and welcome to our second 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 the earnings conference call.

Joining me this evening on the conference call will be Mr. Leonid Mikhelson, Chairman of the Management Board and a Member of the Board of Directors. During the question and answer session we will switch to simultaneous translation in the Russian and English languages so we kindly ask that you take this into consideration when asking your questions and allow sufficient time to translate both the question and the answer for the courtesy of tonight's listeners. There will be sufficient time allocated to the Q&A session to address your questions and discuss current issues.

DISCLAIMER

Before we begin with specific conference call details I would like to refer you to our disclaimer statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as plans, objectives, goals, strategies, and other similar words which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to the 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 revision to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2013, 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.

SUMMARY HIGHLIGHTS

Our second quarter 2014 financial and operational results is again overshadowed by the recent geopolitical events and the latest rounds of economic sanctions imposed by the United States, the European Union and Canada cumulating from the escalating tensions in Eastern Ukraine and surrounding areas. Therefore I would like to begin tonight's call by discussing the inclusion of Novatek on the Sanctions Sectoral List, or SSL, on the 16th July by the Office of Foreign Asset Control, or OFAC, of the U.S. Treasury Department under Executive Order 13662. The capital markets reacted negatively to this news event, and the subsequent drop in our share price reflects investors' growing concerns over heightened Russian equity risk.

It is unfortunate that we were included in the sanctions list issued by the US government and we are quite disappointed for a number of obvious reasons. We, as managers and employees of NOVATEK, are extremely proud of what we have accomplished as a company over the past 20 years of operations. We are considered by many to be one of the most transparent companies on the Russian capital markets and a model for Russian businesses to emulate. We strived to be an open and transparent company in all of our corporate dealings and the inclusion of Novatek on this sanctions list undermines our actions. Moreover we have adopted industry best practices in corporate governance and made it a primary goal to be recognised by the investment community as a good corporate citizen and one of the premier investable companies on the Russian market. Again the sanctions undermine this recognition.

The company has received many accolades from industry participants and shareholders alike for the way we have professionally managed our business in a very difficult market environment, and the way we have built a sustainable business model that has incorporated the latest operational and processing

technologies as well as adopting environmental best practices despite the fact that we operate our producing fields and processing facilities in an area of remote and harsh climatic conditions. Our steady rise as one of the top natural gas companies in the global oil and gas industry was achieved through hard work and perseverance, the flawless execution of our business strategy as well as a firm commitment by senior management to build a world class energy company in Russia despite some impending obstacles and challenges and overcoming the scepticism of many investors and analysts.

We have made notable progress both operationally and financially in moving forward our large scale Yamal LNG project, which involves many contractors and sub-contractors from around the world, including those from the United States and the European Union, as well as ongoing discussions with many of the world's leading export credit agencies reflecting the truly global nature of this project. Yamal LNG is part of the global solution towards energy security and supply diversification of natural gas. It is considered a landmark project in the oil and gas industry's quest to develop and to exploit the vast Arctic hydrocarbon resources, and as such, it should be supported by industry participants and their respective governments.

The inclusion of NOVATEK on the sectoral sanction list by OFAC is not warranted. We have no business or economic interests in Ukraine, we refrain from dealing in political matters, and, as you are well aware, all of the natural gas that we produce today is sold exclusively on the Russian domestic market. Furthermore, none of our liquid hydrocarbon products are sold into the Ukrainian market. We have no direct state ownership in our shareholder base, so it's hard to understand the political or economic rationale for including us on this list because everyone inside of the company, and for that matter, our investor base, knows that NOVATEK has been an exemplary company and a good corporate citizen, and, the inclusion of NOVATEK on this list has caused real economic value destruction for our valued shareholders, including many U.S. investment and pension funds, since this announcement.

I believe it is imperative that we remain focused on our core business activities and deliver results according to our strategy, as well as to maintain an open and frank dialogue with all stakeholders of NOVATEK. I would like to state this evening that our fundamental business has not been unduly disrupted by the Company's inclusion on the limited sanctions list. We continue to sell our hydrocarbon products both domestically and internationally without disruption. We continue to process transactions and receive funds via the international monetary system without significant delay. We have sufficient operational cash flow to fund our capital expenditure programme, service our existing debt portfolio and pay dividends according to our dividend policy. We continue to conduct ongoing business operations with our international partners, including U.S., European and Asian contractors, and we openly welcome to work with all of our partners no matter where the origin of source to achieve our

strategic aims. The limited sanctions issued recently by OFAC by including NOVATEK on the list only impacts our ability to attract future debt by U.S. persons of longer than 90 days maturity. I would like to stress that all other work related activities is permissible, and we continue to work with our partners in a normal, professional and business-like manner.

It is also important to distinguish that NOVATEK is not a Specifically Designated National, or SDN, under Executive Order 13662, and therefore, the inclusion on the list does not impact our pre-16th July 2014 debt, nor does it prohibit U.S. persons from holding or transacting in our debt or equity issuances pre-16th July 2014. There are no legal requirements for investors to dispose of your equity and/or your debt holdings in NOVATEK, nor should there be any questions or requirements concerning our ability to be listed on international exchanges or the inclusion of our stock in the MSCI index. We will continue to actively participate in all international and domestic IR events and conferences including those scheduled in the United States, to keep everyone apprised of these matters as well as providing our investor base with regular updates on projects, and as demonstrated tonight, we will continue to be open and frank in our discussions.

We cannot predict the ultimate outcome of the geopolitical events that confront us today, but we resolved to move forward with our capital expenditure programme and continue working with our partners on existing exploration and development projects. We remain steadfast to deliver on our long-term strategic goals and objectives.

As customary, I would like to update our shareholders on the operational results for the quarter before providing a brief overview of the financial results for the reporting period. We will then proceed to the question and answer session with Mr. Mikhelson before concluding this evening's call.

During my last conference call I reported that we incurred a fire at the gas condensate de-ethanisation unit at SeverEnergiya's Urengoykoye field, and that we would provide timely updates on the future work activities to restore our production. I am pleased to report tonight that within a very short period of time we managed to restore production at the Urengoykoye field. Production at the field was renewed in the beginning of July as was discussed at our special event conference call on 30th May. As of today the field is running at approximately 30% of the first stage capacity for natural gas production. We managed to maximise production from the sub-surface layers with the highest concentration of gas condensate in the hydrocarbon flow, which enabled us to achieve 50% of the first stage capacity for gas condensate production at lower gas production rates. If all things proceed as scheduled we expect the full ramp-up of the original Urengoykoye natural gas and gas condensate production plant to be

achieved in the latter part of the fourth quarter. This essentially means that we should reach full field production in 2015.

In other SeverEnergiya related development activities, we expect to commence natural gas production at the Yaro-Yakhinskoye field during the fourth quarter of 2014 as we continue to make substantial progress in completing all of the field's work such as pipeline construction, installation of processing equipment and drilling of production wells. We also planned to launch the third stage of the Samburgskoye field in the fourth quarter 2014 as the installation of the gas treatment facility has been completed and the construction of gas gathering pipelines is underway. I will provide additional updates on the progress of these two launches during our third quarter results.

During the reporting period we continued to fund 100% of the development activities of the Yarudeyskoye field to ensure the timing launch of this crude oil project during the third quarter of 2015, and as of the six months ended 30 June, we have invested approximately RR 10 billion in capital versus RR 770 million in the prior reporting period. We are approximately 70% complete on the construction of a 350 kilometer oil pipeline to Pur-Pe, as well as completing approximately 55% of 150 kilometer gas pipeline to the main trunk line. We plan to commence production drilling later this year to support the expected launch of the field.

We continue to make good progress in our development and infrastructure works at the Termokarstovoye field, and as such, we now plan to launch first production at this field in the early part of 2015 rather than the latter part of the year. Currently, we have completed 14 production wells out of a planned 22 wells to be drilled as well as completing the construction and testing of both the natural gas and gas condensate pipelines.

Our exploration activities in the second quarter of 2014 were relatively limited as compared to the prior year, but we did discover a new gas, crude oil and gas condensate field on the North-Russkiy licence area. The new Kharbeykoye field has estimated reserves of approximately 27 billion cubic metres of natural gas and 7.9 million tonnes of liquids according to the Russian C1 and C2 reserve classification system, and based on the documentation submitted the field officially passed the State Geology Commission Review in July 2014.

As for Yamal LNG, the project shareholders NOVATEK, Total and CNPC have invested approximately \$5.8 billion as of today, and we have contracted approximately 95% of the LNG sales volume on a long-term contractual basis.

We have executed a contract with two experienced contractors for the drilling of 124 production wells, and as of today, drilled and completed 18 production wells and prepared four (4) drilling pads for ongoing drilling activities. There are three (3) drilling arctic-type rigs in operations as the third drilling rig, which was being mobilised during the first quarter, commenced drilling this month at the field. We expect to sign another drilling contract some time in 2015 for the drilling of approximately 84 production wells based on the positive results of well tests and an update on the well development plan. During the second quarter 2014, four (4) new production wells were completed as part of our development drilling plan for the current year.

The full EPC contract was signed in April 2014 between Yamal LNG and a joint venture consortium comprised of Technip, JGC and Chiyoda. The effective date of the signed EPC contract was 1 April 2013, which is the actual date the contractors in Yamal LNG commenced work activities such as site preparation, engineering works and procurement under the original Letter of Award. We estimate that the cumulative work progress under the EPC contract is approximately 8.5% as of 30 June 2014.

We continue to build facilities for the base camp at the Sabetta site and, as of today, several offices and a 1,000 person pilot camp has been built. We are approximately 50% complete on the construction of an additional base camp suitable to accommodate 5,000 people. The LNG Plant site preparation is approximately 75% completed, including 100% of the land backfill for train number one. We commenced the drilling of pilings for the LNG plant foundation, and although we are only about 2.5% complete at this stage, we are currently running ahead of planned schedule.

Purchase orders for the main equipment comprising turbines, heat exchangers and compressors, etc have been placed and we also selected module yards during the quarter. Three out of 12 module fabrication packages, or sub-contracts, were placed in the second quarter of 2014, and in July, an additional seven (7) module packages were placed with subcontractors. The modules placed so far include all the main technological modules as well as fast-track modules, and we continue to make progress in placing equipment in both materials, and subcontracting construction packages.

We concluded the EPC contract for the construction of the cryogenic LNG tanks with a consortium comprising ENTREPOSE and Vinci, and the detailed design phase is currently being finalised. The piling work for two (2) out of the four (4) LNG tanks is now complete, and we began concrete works on the basement of tank number one and have already installed the thermo stabilizers for the foundation of this tank. We are almost complete on the backfilling for tanks number 3 and number 4 and we expect to shortly commence piling works at these tank sites.

We concluded the EPC contract for the construction of a 376 megawatt power plant and completed the work activities to construct a base camp for 400 people. The detailed engineering works for the power plant is nearly completed, and a purchase order has been placed with Siemens for the manufacturing of gas turbine generators. A power plant at site has already been prepared, and the contractor had begun piling works in May.

Work activities for the construction of the Sabetta seaport are currently underway and during the winter navigation period, 24 vessels have unloaded 312 thousand tonnes of materials and supplies versus 250 thousand tonnes planned for the period. We recently commenced summer navigation on the 16th July, and already 30 barges have unloaded approximately 56 thousand tonnes of cargo. We anticipate that the early phases of the seaport facilities will be fully operable by September 2014, including the port area, warehouses and administrative buildings.

There are currently around 6,000 people and 1,580 construction vehicles at the construction site and at the field and we estimate approximately 65% of the airport facilities are completed, which is designed to accommodate Boeing 737 planes.

We have made very good progress in finalising the technical, shipping, environmental and marketing due diligence as required to facilitate financing for the project, and we recently held a series of meetings with the ECA's in London as well as ongoing meetings in Beijing with the Chinese financial institutions. The term sheet for project financing was at a very advanced stage of negotiations up until the inclusion of NOVATEK on the U.S. sectoral sanctions list. Our legal and financial advisors as well as the Project's shareholders are currently assessing the implications of NOVATEK on the list, and its potential impact on project financing. As a defined U.S. person, I will have to personally recuse myself from participation in this process as defined by the restrictions placed on U.S. person under Executive Order 13662. None of my other primary roles and responsibilities as the CFO in NOVATEK has been impacted by the sanctions except for participating in new debt issuance with maturities of 90 days or longer.

Our organic production volumes increased year on year by 2.7%, while our combined production figures, including our proportionate share in the production of our joint ventures which increased year on year by a slightly lower 2.1%, representing an offset between the volumes disposed at Sibneftegas in December 2013 and a corresponding increase in gas production at Nortgas. If you exclude the natural gas production at Sibneftegaz during the second quarter of 2013, making the analysis more comparable, our overall natural gas production increased by approximately 12%, which is above our revised production guidance for 2014. The main growth contribution in our natural gas portfolio came from the

successful launch of the Eastern Dome at the Nortgas field in October 2013 as we increased our purchases from this joint venture from 507 million cubic metres to 1.4 billion cubic metres.

Total natural gas sales for the reporting period aggregated 15.5 billion cubic metres as compared to 14.6 bcm year on year and 17.7 bcm quarter on quarter. Natural gas sales are generally impacted by seasonal factors in the second and third quarters, so the drop in volumes sold quarter on quarter was fully anticipated. Our total volume of natural gas sold increased year on year by approximately 900 million cubic metres, or roughly 6.2%, largely driven by organic growth at our core fields, an increase in purchases from related parties, the contributions from Nortgas which was slightly offset by the divestiture of Sibneftegas in December 2013 and a reduction in our injection of natural gas into underground storage.

The share of end-customers in our total sales mix increased from 89% in the second quarter 2013 to 94% in the current reporting period, which impacts both margins and transport costs. The change in the composition of our sales mix contributed additional revenues to the company since the average netback we received for our end-customers was approximately 15% greater than the average ex-field or wholesale traders' sales per thousand cubic metres.

During the quarter, we reported total gas sales to end-customers of 14.6 bcm, which was higher than the same category of volumes sold year on year by 12.3% but correspondingly lower than our volumes sold quarter on quarter by 12.4% due to the seasonal effect on our natural gas sales. Within our end-customers sales profile, power companies and large industrial companies represented roughly 94% of our sales volumes delivered or approximately 89% of our total gas sales for the quarter.

We continued to optimise our sales of natural gas to specific regions based on contractual obligations and/or the execution of new contracts. We increased our sales volume to the Khanty-Mansiysk region by roughly 1.3 billion cubic metres during the current reporting period as compared to the prior year, but more or less remained relatively consistent with deliveries to other core consuming regions. The geographical regions representing greater than 10% of our sales volumes included the Perm, Khanty-Mansiysk and Chelyabinsk regions as well as the City of Moscow. As a result of the changes in our regional sales mix, our average distance to market was approximately 2,000 km representing a decrease in our transport distance of 187 km year on year but represented a notable increase of 540 km quarter on quarter. The notable increase in the distance of gas delivered quarter on quarter was mainly attributable to a reduction in deliveries to the Khanty-Mansiysk region and a correspondingly large increase in deliveries of natural gas to the City of Moscow.

Our average netback for natural gas sold to end-customers increased by RR 442 per thousand cubic metres or by 26.6%, as compared to the second quarter 2013, and was slightly higher by RR 44 per thousand cubic metres quarter on quarter, whereas our average ex-field sales price increased by 16.0% year on year but remained relatively consistent with the average price we received in the first quarter of 2014. We were pleased with the strong gas pricing we received for both end -customers and ex-field sales in the current reporting period.

In terms of liquids production, we maintained relative output of liquids from our core fields mainly due to the contribution of crude oil production at the East-Tarkosalinskoye field, however the majority of the second quarter's positive year on year growth was largely attributable to the increase in the output of liquids from our joint ventures, particularly the contribution made by Nortgas after the successful launch of the Eastern Dome in October. Overall our combined liquids production growth was 20.8% year on year and 3.6% quarter on quarter.

During the reporting period we sold roughly 1.7 million tonnes of liquid hydrocarbons representing a year on year and quarter on quarter increase of 627 thousand tonnes and 142 thousand tonnes, respectively. The increase in our liquids volumes sold was attributable to a combination of factors, including the growth in output of crude oil from the East-Tarkosalinskoye field, an increase in purchases from our joint ventures namely Nortgas, and a swing in inventory movements from increasing "goods in transit" in the prior reporting periods to a reduction in "goods in transit" during the current reporting period. We reduced our "goods in transit" by 85 thousand tonnes in the current reporting period as compared to an increase in the prior reporting period of 291 thousand tonnes, which was mainly due to the operational build-up of inventory prior to the launch of the Ust-Luga Complex.

The transition to deeper processing capabilities at the Ust-Luga Complex continues to make significant contributions to our earnings and cash flow streams through enhanced netback margins by selling finished products rather than raw materials. Since the formal launch in June 2013, we have been achieving netback enhancements averaging from around \$75 to \$90 per tonne, but due to the significant change in the composition of liquid products sold from Ust-Luga, it remains difficult to make like-kind comparisons between reporting periods.

In terms of geographical regions, we dispatched approximately 959 thousand tonnes of refined petroleum products from the Ust-Luga Complex in the second quarter 2014, of which 455 thousand tonnes were shipped to the Asian Pacific Region, 376 thousand tonnes were shipped to Europe, 73 thousand tonnes were shipped to the United States and the remaining 55 thousand tonnes to "other"

regions. At quarter end, we had 25 thousand tonnes of naphtha in transit to Singapore versus 14 thousand tonnes recorded as “goods in transit” in the prior reporting period.

Natural gas represented 61% of our total oil and gas revenues and our combined liquids represented the remaining 39%. On a total barrel of oil equivalent basis, our second quarter 2014 production increased by 3.2% to approximately 111 million barrels of oil equivalent versus 108 million barrels of oil equivalent in the prior reporting period, representing an average total hydrocarbon production per day of approximately 1,221,000 barrels per day.

Our overall operating expenses increased during the quarter consistent with the growth of our business. Specifically, our non-controllable expenses comprising transportation and taxes increased by RUB 6.8 billion, of which our transportation expenses increased in line with our growth in end-customer sales and our extraction taxes increased due to the significant change in mineral extraction tax for natural gas as was previously reported.

As part of the migration to the new formula based tax calculation effective the 1 July 2014, the Russian government has effectively increased our natural gas MET by 51.7% in July and another 17.2% on 1 January 2014. This change essentially increased the tax rate charged to independent gas producers from RR 265 per thousand cubic metres to RR 471 per thousand cubic metres in the reporting period. This rate was in effect until 1 July 2014 when the new amendments to the Russian Tax Code regarding the new methodology for calculating the MET rate becomes effective.

There were no material surprises in our G&A expenses and other expense categories to highlight except for the increase in employee headcount of approximately 667 employees post the launch of the Ust-Luga Complex and the expansion of the Purovsky Plant, which contributed to an increase in employee compensations within G&A expenses as well as material and supplies. Overall, I believe we did another effective job controlling our operating expenses, which as a percentage of sales represented 63% of total revenues versus 68% and 61% in the second quarter 2013 and first quarter 2014, respectively.

Our Balance Sheet and liquidity position remained strong throughout the reporting period as we decreased our overall net debt portfolio this quarter relative to the year-end debt balance by 27% as a result of a very strong cash position. All three of our credit rating agencies have reiterated our investment grade rating demonstrating the strong fundamentals of our business and our present liquidity position.

We remained free cash flow positive during the second quarter and ended the quarter with a free cash flow position for the Company of RUB 4.1 billion, which is a reversal of a negative free cash flow position in the prior year. We will continue to fund our capital expenditure program through internally generated cash flows and have the ability to meet all of our debt obligations and liabilities when they mature or become due for payment.

I believe it is also important to highlight the continued volatility in the currency markets and its impact on our dollar-denominated debt positions, both from a standpoint of debt on NOVATEK's balance sheet as well as the dollar-denominated loans we provide to our joint ventures. During the reporting period we again experienced a pronounced swing in the Russian ruble relative to the U.S. dollar, and its positive impact on non-cash foreign exchange movements. We attempt to normalise these effects on our EBITDA and Net Profit numbers, but nonetheless given the recent geopolitical events it is important to take this fact into account and we expect further volatility in the currency markets which may have either a positive and/or negative impact on our reported numbers.

CONCLUSION

Although the recent inclusion of NOVATEK on the OFAC sectoral sanctions List overshadowed our positive operational and financial results for the reporting period, I want to again reiterate to everyone this evening that Senior Management is fully committed to steering the Company through this difficult geopolitical environment and maintaining our course on all of our capital projects. The financial and operational results we achieved in the current reporting period clearly demonstrate that we have a very sound and robust business model despite the unwelcome noise in the capital markets. We have sufficient liquidity and operating cash flows to limit our need to access the capital markets for NOVATEK over the next 18 months and we are able to fund our capital expenditure programme, service all of our short- and long-term debt as well as maintaining our present dividend policy. This is a key message to take away from tonight's conference call.

Thank you very much for your continued support and belief in the NOVATEK investment story. Thank you.

Operator: Thank you. If you wish to ask a question at this time please press *1 on your telephone keypad. We will pause for just a moment to allow everyone to signal.

We are going to take our first question from Karen Kostanian from Bank of America.

Karen Kostanian: Good day gentlemen, thank you so much for the presentation. I have one question. It's very unfortunate that you have been included on the sanctions list, I agree with that, however without even the inclusion on the sanctions list, access to financing for Russian corporates in the current environment is becoming increasingly difficult. If I remember correctly you wanted to obtain approximately 70% of your project financing for Yamal LNG which is approximately \$19 billion through again project financing. Could you please update us as to how this is going? Has it been increasingly difficult since the geopolitical environment deteriorated and how confident are you that you will obtain this financing in time and from what sources to launch the project in the indicated timeline? Thank you.

Leonid Mikhelson: Thank you very much for the question. It is indeed a pleasure for me to see that Bank of America joins us in our concern with the fact that the Company was added to the sectoral sanctions list. I may repeat the words which Mark Gyetvay previously stated to a certain extent, meaning to say that we find it hard to understand what was the criteria which the people were guided by, the ones who included NOVATEK into this sanctions list. Today NOVATEK together with its partners in the Yamal LNG project is analysing what could be the impact of the sectoral sanctions over the project execution and we believe that we will be in a full position to execute all of the commitments which we so far have taken onto ourselves for the project to be achieved. There are several points which I would like to draw the attention to before the investment community, the first one being that the Yamal LNG budget did not call for credit project funding within 2014 and was to be covered only by financing made available by the project partners and we are currently reviewing the possible options that the company may go including the excessively negative ones in terms of the way the events may unfold because of the great need that the project has for its future development. You are quite correct in noting that the original plans that the company had were to bring in on a borrowing basis up to 70% of the project funding. Currently we are looking into more pessimistic plans and we are capable, including I mean NOVATEK with its biggest share in the project of 60%, to expand the share of a shareholder funding, so let's make sure that the company maintains its full schedule commitment. All the partners in the project in a very concerted way are acting on the objective within the next month to resolve all of the issues to avoid any delay in as far as the scheduled implementation is concerned. Thank you.

Operator: We are going to take our next question from Artem Konchin from Otkriitie Capital. Please go ahead. Your line is open.

Artem Konchin: Hi, good day everyone and thanks for the presentation. I have a few questions so it will pick a couple of the ones that seem to be most important. The question relates to Yamal actually. Can you update on the fate of the 10% stake that was earmarked for sale? There are reports that the Japanese negotiations either stalled or completely stopped. Are there any other candidates or are you

talking to anyone else? Also on a more technical side, if you could comment on the decline of your liquids output at Yurkharov, we see that the gas production is flat almost while all the liquids are down more than 8%, so the question is whether we should expect this decline rate in the future and whether this is what we should use for our forecasts particularly for that asset? Also if you have an estimate for the production tax for gas for July already, the number per cm would be great. Thank you.

Leonid Mikhelson: There are three questions. I will start by answering the first one. At every conference call I used to comment on the possibility of putting up for sale about a 10% share in our Yamal LNG project and I have always been saying that this is a possibility but without any action to speed up this particular project. Like I previously stated the partners in the project are currently analysing the effect of the sanctions over the future of the project and also considering a certain negative course which events might take without any delays which may make the reconsideration of this particular issue also a timely and appropriate one which means that in the future we will release it on a substantive basis. As far as the second question is concerned specifically the volumes of production at the Yurkharovskoye field, I should explain that this is a planned reduction of the reservoir pressure related to the lower production which is part of the operation plans which is a normal thing and as far as the voluntary and gas condensate deposits are concerned. This is going to be compensated for by the production increase which took place in Nortgas and then would also take place in Articgas, Terneftegas and the capacities which we have created at the Purovsky Plant and Ust-Luga, this is all part of the comprehensive plan. One side of it called for the production increase as well as allowing for a decrease of production at the Yurkharovskoye field. As far as the third question was concerned which was specially about the new system and the new MET formula for the production of natural gas, this formula came into effect as of July 1st this year. You will be able to see what the result was once we report our third quarter figures, but in terms of the negative or positive in fact it is going to be so immaterial that effectively you may not have to pay any attention to it. As far as NOVATEK is concerned the introduction of this formula we are looking at it as a positive development because it becomes much simpler to plan our taxation for a much more extensive period of time, unlike it used to be the case in the past where in between the two budgets certain government decisions take place which would simply propel us towards certain mathematical activities, so I have to be able to clearly plan ahead. With the introduction of the formula we no longer have to feel this burden. Thank you.

Operator: We are going to take our next question from Alexander Kornilov from Alfa Bank. Please go ahead, your line is open.

Alexander Kornilov: Good afternoon gentlemen, this is Alexander Kornilov from Alfa Bank. Thanks a lot for the presentation. I have only one minor question related to your JVs. Could you please specify your expected capex for this year for both SeverEnergiya and Yamal LNG respectively? Thank you.

Leonid Mikhelson: Specifically as far as SeverEnergiya is concerned everything is on a planned basis but frankly speaking I don't have figures in front of me because we usually do not disclose any figures. Why do you ask the question? I guess that it might be important for you to know that for this year in as far as Artigas and SeverEnergiya is concerned, we are planning to have two launches in the Urengoy field and as Mark Gyetvay has stated in terms of the liquidation of the aftermath of the fire in the first phase of the project, it will be completely re-launched later in the year which with respect of the income side with the launch of the second stage. Also for this year we planned the launching of the Yaro-Yakhinskiy field as well as the third stage launching for the Samburgskoye field as well. Thank you.

Alexander Kornilov: Thank you. Just to add from my side, the reason why I'm asking that question is because SeverEnergiya is increasingly becoming an important part of your investment case – right? So we are trying to gather as much information as possible as analysts can cover your company. That's my opinion. Thank you.

Leonid Mikhelson: Thank you very much for your interest. I should only add that SeverEnergiya and Artigas are viewed by us as high revenue earners and you are aware that NOVATEK is the kind of company that is doing its best to control its capital spending specifically dedicated to the volumes of production which traditionally have been previously as far as the debts are concerned on the low side of things.

Alexander Kornilov: Thank you.

Operator: We are going to take our next question from Ildar Davletshin from Ren Cap. Please go ahead, your line is open.

Ildar Davletshin: Good evening gentlemen. I have three questions. One on the gas margin side domestically. What are your mid-term expectations for the trajectory on the tariff side, mineral extraction tax and transportation tariff? Primarily I'm interested if you see the risk of a potential squeeze in profitability as mineral extraction tax is going faster as well as transportation while tariffs might remain frozen or are you confident that the formula for the mineral extraction tax will remain in place? Two other short questions, one on the dividend policy. Any plans to change it, review it given that the free cash flow profile is improving dramatically for your company? Last question on the shipbuilding project

in the Far East, it seems like you are becoming a partner. Could you just provide a bit more colour in terms of potential investments in that project and your participation? Thank you.

Leonid Mikhelson: As far as the first question is concerned I should say that it might be correct to consider and we are considering various options whereby the domestic gas prices might grow but following inflation and maybe a little bit ahead of it and something gives us confidence to think that the transportation tariff is not going to grow higher percentage which might turn out to be greater. With the introduction of the MET formula and bearing in mind what I've just described with respect to the transportation tariff in the domestic gas prices 1 May, expect a different level of revenue growth from the domestic gas sales but at the same time, we do not expect this kind of revenue level from the domestic gas sales would decrease.

And as far as the second question is concerned about the company's dividend policy, we recently have adopted a more transparent approach to it for the sake of our shareholders, having connected it to the reporting prepared by the parent company, I mean NOVATEK itself, in as far as the IFRS standards are concerned, whereby 30% is going to be dedicated to dividend payments. And we do not intend to change this dividend policy.

And actually, I must admit that I was expecting at this conference call to hear a question about the situation because of the sanctions list: doesn't NOVATEK consider a reduction of its dividend payments? And me myself, being one of the major shareholders, I'd like to tell you that we do not consider such a way to go even despite this negative environment. The dividends will continue to be paid according to the plans and the Company policy as is.

And in as far as our possible investments into shipyards are concerned or the construction of the marine equipment, I can't give you any comment because it's too premature and I don't have information to share out. But I can assure you one thing: Novatek will never venture into projects which economically are unviable or is not strategy.

Question: Thank you very much.

Operator: We are going to take our next question from Ksenia Mishankina from UBS. Please go ahead, your line is open.

Ksenia Mishankina: Hi, thank you for the presentation. I have several questions. Could you please provide your overall capex guidance for full year '14 and full year '15? Could you please comment

whether you plan to buy back any of your Eurobonds and approximate amounts? Have you made any adjustments to your strategy in the light of the sanctions? And could you please comment on the alternative sources of funding and how much in terms of credit lines you have with Russian banks? Thank you.

Leonid Mikhelson: What was the third question please? Would you repeat it?

Ksenia Mishankina: So the third question was have you made any adjustments to your strategy in the light of the new sanctions?

Leonid Mikhelson: You mean just with one set of sanctions, I am sorry to say that.

Ksenia Mishankina: Yes, so I am referring to the sanctions that were recently imposed or that – the same sanctions, yes.

Leonid Mikhelson: As far as the point about capital investments are concerned, I should say that as far as our reporting and the presentation of our plans, they do contain sufficient information in as far as bankers, investors and analysts are concerned. And we also used to state previously that notwithstanding our major projects which you are very well familiar with, the level of capital investments will remain at the level of the previous year. Similarly, I do not see any grounds for the Company to consider buying back its Eurobonds so I don't understand why you think that the Company should be considering this.

And as Mark Gyetvay previously stated in his presentation about the Company's operational activities and its capital investment program and debt servicing, the Company feels very confident and meaning to say that if the fact of inclusion into the sanctions, this doesn't – despite that, we do not see anything to do to change our plans. The schedule of repayments in terms of the borrowings that the Company originally scheduled was done on a very well thought-out basis so it gives us a good level of confidence and doesn't create any reasons for us to think about any adjustments. Thank you.

Ksenia Mishankina: Thank you.

Operator: We are going to take our next question from Andrey Gromadin from JP Morgan. Please go ahead.

Andrey Gromadin: The question, the first one is about Yamal LNG. Previously in the call you stated that the project finance was already finalized for this year but I didn't hear the confirmation of this being ultimately done. Could you please confirm whether by the end of this year or beginning of the next year, to what extent the Company will be in a position to allocate funds into this project. The second question was about the sanctions. The central sanctions are currently, they also include the importation into Russia of technologies and equipment. The LNG technologies so far haven't been part of this effort but there are certain mentionings of various options to go although not specifically. But if that takes place, is there any plan B that the Company has that it may utilize in case the LNG technologies are included into the restrictions?

Leonid Mikhelson: Like I stated previously, we and our partners are currently analysing the factor of the adopted central sanctions and we consider various options as well as the negative development of events in terms of raising funding, including the ones that may be delayed until a certain later stage in time so as to make funds available for projects. In all such scenarios, we envisage specifically financing for the project and the project execution in conformity with the schedule, and the shareholders are capable of making their own funding available into the project in case they deem it necessary to delay borrowing from the outside.

As far as your second question is concerned, as far as all of the main items and as far as the equipment is concerned and the procurement on the side of our contractors, having awarded and are currently being manufactured by our partner producers. On the statement made by the European Union and as far as the sanctions were announced, it separately underscored that the technology, if considered for sanctions, should not be imposed upon the gas industry. But despite that, we definitely have had a discussion between ourselves and we do have funding. Thank you.

Andrey Gromadin: Thank you.

Operator: Thank you. If you wish to ask a question please press *1 on your telephone keypad. We are going to take our next question from Heydar Mamedov from Goldman Sachs. Please go ahead, your line is open.

Geydar Mamedov: The question was that recently, certain news was out to the effect that Novatek might become a shareholder in the Far Eastern shipbuilding sector, and so the question is: is it true and if so, would it oppose any commitments on the Company to finance the development of this Far Eastern shipbuilding sector?

Leonid Mikhelson: I would, I might reiterate what I've previously stated when answering this question. Yes indeed, Novatek has signed such a memorandum of intent but I would like also to say that there is nothing to comment and that is the subject of consideration; that might not concern only the Far Eastern shipbuilding centre. We are looking at different possibilities in the future but I should also state that Novatek would not enter into any project which is economically unviable and so one, we are looking at the same time at the subsequent stages of the development of LNG project in the area of Yamal and Gydan inlet. Thank you.

Geydar Mamedov: Thank you.

Operator: We are going to take our next question from Konstantin Cherepanov from UBS. Please go ahead.

Konstantin Cherepanov: So the question is a quick one about the export naphtha duties. We know that the Company is currently trying to achieve a reduction of the export duties for naphtha and there is a discussion taking place about the tax manoeuvre with the Russian government. Could you please share with us what is the current stage of the discussions with the government and Novatek in as far as the naphtha duties are concerned?

Leonid Mikhelson: Once again, thank you for the question. Yes indeed, we have submitted our proposals and our ideas to the government and they currently have been revised/reviewed. And you have very correctly stated that this particular issue cannot be considered by the government separately from the tax manoeuvre. And as part of such a comprehensive review, our ideas are also going to be considered and we are expecting a much more favourable schedule of the reduction of the export duties for naphtha as opposed to what currently is the level. Thank you.

Konstantin Cherepanov: Thank you.

Operator: There is no further question.

Leonid Mikhelson: If there are no further questions, I would like to express my gratitude to all who participated in today's conference call. And I did enjoy hearing, as part of the first set of questions, that the investment community is expressing its support for Novatek. And what is indeed notable is that in terms of our midterm program of the company development, as applied to its current fields without considering Yamal LNG, we are in a position to enjoy a strengthening of our financial position. And as I have stated previously, the Company is reviewing and reconsidering its long-term development strategy.

And so the Company is fully capable, despite being included into the central sanctions list, to offer a very positive, in the eyes of the investment community, development plan which is underpinned by the very significant improvement of its financial and operational performance result. And so in the light of this, the task of the management of the Company in the first place is to understand and see all the possible risks which may arise in front of the Company so as to be able to mitigate any possible outcome. Thank you very much.

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