

PAO NOVATEK

Second Quarter and Six Months 2019

Financial and Operational Results – Earnings Conference Call

25 July 2019

Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second Quarter 2019 earnings conference call. We would like to thank everyone for taking your valuable time to join us this evening.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement, as is our normal practice. During this conference call, we may refer to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2018, as well as any of our earnings press releases and documents throughout the past year for more description of the risks that may influence our results.

CONFERENCE CALL TEXT

We had a very successful first half of 2019 thanks in large part to the contributions by Yamal LNG to our overall business results. Since inception, we have garnered a tremendous amount of international recognition for the timely startup of this project, but more importantly, Yamal LNG has contributed meaningfully to the global supply of LNG in its initial 19 months of operations and will remain the global benchmark for future projects to emulate. LNG and our plans has essentially dominated our discussions with the investment community as Yamal LNG has exceeded many expectations. Attention has clearly shifted towards our future LNG platform, but I would like to reiterate tonight that we remain fully committed

and focused on sustaining our cash-generative domestic business by ensuring uninterrupted deliveries of natural gas to the Russian domestic market. The first half of 2019 has been an exciting yet challenging period for the oil and gas industry, and tonight, we will address some of these points as they relate to our business plans and our perception of the market.

Price volatility has increased significantly for natural gas as warmer seasonal weather curtailed consumption at a time of emerging new supplies of LNG arriving on the market. Essentially, the so-called “supply glut” emerged later than originally forecasted but this occurrence was not unexpected as supply and demand equilibrium is hard to achieve in the best of circumstances and the launching of new LNG projects creates a “step-up” in supplies with a general lag in demand. The market is currently oversupplied. We expect this scenario will persist until mid-2020, as the “second wave” of LNG projects bring new sources of supplies to meet increasing natural gas demand.

Global LNG demand remained strong in the second quarter 2019 increasing 9% year-on-year (Y/y) to 88 million tons (mmt), led again by relatively robust LNG demand from China despite warmer seasonal weather. China imported roughly 14.1 million tons during the reporting period, increasing imports Y/y by approximately 11%. Imports of natural gas via pipeline and LNG account for approximately 45% of China’s consumption, so China remains an important and attractive market for LNG suppliers. Japan, Taiwan, South Korea and China represent more than 55% of the global LNG demand according to a recent report by S&P Global Platts, demonstrating the importance of the Asian Pacific region to LNG suppliers.

For the first half of 2019, LNG demand increased by 15% to 178 million tons, led by consumption growth in China, France and the United Kingdom. This growth was somewhat offset by decreases in imports from Japan and South Korea.

The weaker seasonal winter demand combined with new LNG supplies eroded margins in the Asian Pacific region. This led to a shift of cargos sent to the European markets. We expect the current low LNG prices will likely persist throughout the second half of 2019, and may affect LNG prices throughout 2020 as well. With limited storage capacities and high levels of inventory levels as previously discussed on our first quarter conference call, the supply and demand situation remains unbalanced. We should not assume that this present situation is all bad, although it puts pressure on profitability for some LNG producers. More importantly, from our perspective, it should stimulate future demand growth, particularly in regions that are highly price sensitive.

Our low cost LNG combined with the liquids output differentiates our project. It confirms our belief that our low cost, competitively priced LNG platform will remain profitable in cyclical markets. Even in the current low LNG pricing environment, NOVATEK's LNG is competitive in Latin America, Europe and Asia.

In the first half of 2019, Yamal LNG produced slightly more than 9 million tons of LNG and 695 thousand tons of unstable gas condensate. We dispatched 126 LNG shipments 9.13 million tons, and 27 shipments of stable gas condensate for more than 638 thousand tons. The facility operated at roughly 110% of nameplate capacity. We believe we can effectively run the plant at 8% to 10% above nameplate capacity in 2019.

In the second quarter 2019, Yamal LNG dispatched 65 shipments of LNG representing 4.7 million tons, as well as 13 shipments of stable gas condensate totaling 319 thousand tons. Our share of LNG production amounted to slightly more than 2.9 million tons.

We transshipped most of the westbound LNG cargos from Arc7 ice-class tankers to conventional LNG tankers in Northern Norway. We performed the last transshipment in Norway on the 27 June. We performed 123 ship-to-ship (StS) transfers from the start of operations in November 2018 to the final transfer in June 2019. If needed, we will perform future StS transfers around the territory of Murmansk.

Presently, there are 11 Arc7 ice-class tankers in operations and one (1) Arc7 condensate tanker. Ten conventional tankers supplement our ice-class tanker fleet. The 11th Arc7 ice-class LNG tanker – the “Vladimir Voronin” will arrive to the port of Sabetta around mid-August. We expect all 15 Arc 7 ice-class tankers to be in service by the end of 2019.

In 2019, as well in 2018, our Arc7 ice-class tankers opened the summer navigation season eastbound on the Northern Sea Route (NSR). We plan to send at least 13 cargos of LNG eastbound to the Asian markets during the 2019 summer navigation period under long-term contracts and between five to 10 spot cargos. The “Vladimir Rusanov” was the first ice-class LNG tanker to navigate the NSR this summer, and it set another record passing through the NSR in slightly more than six (6) days.

The overall construction progress for the fourth LNG train at Yamal LNG was about 51% completed at 30 June as compared to 38% at the end of the first quarter. There are presently 1,500 workers on the construction site. We target the end of 2019 to complete construction with the formal launch of the facility during the first quarter 2020.

The main work activities center on the Gas Treatment and the Gas Liquefaction units. We have installed 29 of the 40 sets of equipment for the gas treatment facility, including main items such as the gas drying and treatment absorbers, absorber for gas purification from hydrocarbons, absorber for gas purification from mercury, air receiver, regeneration gas heater, and the gas cooling compressor unit to name a few. As for the gas liquefaction unit, we installed the main compressor unit, the nitrogen compressor unit and the boil off gas, or BOG, compressor unit. On 3 July, “Cryogenmash” delivered the main cryogenic heat exchanger to Sabetta, and installed this crucial piece of equipment. Overall, we made good progress on construction activities during the second quarter.

As for Arctic LNG 2, we completed the consortium of partners by announcing that Mitsui and JOGMEC will join the project with the purchase of a 10% participation interest. This represented a significant event for the project in the second quarter, but it also represented a significant milestone for us as a Company as we had numerous discussions with Japanese companies over the past five years about entering our LNG projects. Japan has over 50 years of experience importing LNG and is currently the largest consumer of LNG in the world. Subsequent to the signing ceremony at the G20 Meeting in Osaka, we sent our first direct tanker of LNG to Japan. We welcome Mitsui and JOGMEC’s entrance into Arctic LNG 2 and look forward to forging a long-term, mutually beneficial relationship.

We have now concluded our target of selling at least 40% of Arctic LNG 2 to a partner group consisting of Total, CNPC, CNOOC and the consortium of Mitsui/JOGMEC. These transactions were based on the similar terms and conditions as Total, and will be reported in the financial results of the third quarter 2019, since the formal closing of the sale for the remaining 30% was finalized post the balance sheet date.

We also finalized the EPC negotiations during the second quarter with TechnipFMC, as well as concluded the EPC contracts, which covers the work activities on the three LNG trains and associated topside modules. This represented another key step in the project’s timeline prior to making a Final Investment Decision. Moreover, the conclusion of the EPC contract reconfirms our initial cost estimates for Arctic LNG 2.

We finalized the tenders for the fabrication of LNG topside modules for LNG trains number 1 and number 2. As we stated many times, our overall objective is to localize a large portion of the fabrications at our LNG Construction Yard in Murmansk, but this will be a gradual transition process.

Initially, we will fabricate the topside modules in select Asian yards with a gradual transition to our Murmansk yard. We will fabricate all of the topside modules for Train 1 at Chinese yards, and this process

will gradually phase out over Train 2 and Train 3. We will contract more than 80% of the planned procurement expenditures by the end of this summer, and accordingly, have already launched our letter of intent to book the most critical vessels for module transport from Asian yards to Murmansk.

Construction activities at the Murmansk LNG yard are proceeding according to our work plans, so there is not much new activities to report. We completed the installation of the steel structures and walls for the GBS shop, and installed the internal utility networks. Work is underway for external infrastructure such as water supply system, sewage system, and electricity system.

We completed the rebar and formwork shops and transferred access to these facilities to the main GBS contractor, JV SAREN. We commissioned all four (4) of the concrete batch plants as well as meeting the peak rate of production tests at the Rebar Workshop. The JV SAREN has already started preparatory works. Work will commence shortly on the base casting of the first GBS platform. All works are according to our schedule to start Train 1 in 2023.

We commenced full-scale LNG production at our Cryogas-Vysotsk plant in the second quarter, and began selling small volumes of LNG to the Baltic and Scandinavian markets. During the second quarter, we sold 24 tankers comprising 75 thousand tons and loaded 38 trucks for 640 tons with LNG. The entity's general marketing strategy provides for the loading of bunkering vessels, small wholesale LNG sales and LNG sales for motor fuels. Cryogas-Vysotsk is still at a relatively early stage of its operations as is the LNG market to replace fuel oil with LNG for bunker fuels. We will assess our marketing options as the use of LNG as bunker fuel gradually evolves with the implementation of the new IMO 2020 standards.

We achieved good success in our exploration program during the first half of 2019. Exploration activities is important for a number of reasons. It provides a pipeline for future development activities as well as indicating the size of production and resource potential for future LNG projects. Tonight, we will share some of the testing results from prior activities combined with some ongoing works that will continue throughout 2019 and beyond.

We completed the testing of the first well to target the lower Jurassic horizon at the South Tambeyskoye field and have commenced long-term production tests at the well. The horizontally drilled exploration well #172 using a five-stage hydro-fracture flowed natural gas at a rate of 450-500 thousand cubic meters per day with a condensate concentration factor of 250 grams per cubic meter. We will drill at least three more Jurassic wells at the field and preliminarily believe, based on initial test results, that we can extend the

liquids plateau at the field. Obviously, we need to confirm this preliminary assessment with actual test results from the next three wells but this initial well confirmed the productive capability of this target horizon.

We also had very promising preliminary results at our Gydanskoye field with the completion and testing of exploration well #132. Based on only the vertical test of this well without fracking, well #132 achieved a productive flow of approximately 100 thousand cubic meters per day with a condensate concentration factor of 210 to 220 grams per cubic meter at the Achimov layer. We are currently drilling exploration well #136 and we will test this well in latter part of the third quarter.

We recently published a press release announcing the success of a production well at our Arcticgas joint venture. In the second quarter, we completed and tested production well #U2802 targeting the lower Achimov formation at the Urengoyeskoye field. We completed an eight-stage hydro-fracturing program utilizing a record-high proppant volume of 2,187 tons with a total length of 5,624 meters and a horizontal section of 1,500 meters. A unique wireless inline monitoring technology using marked proppant was implemented as well as permanent downhole pressure and temperature gauges in the production stage to monitor real-time data. Utilizing state-of-the-art technologies, the well achieved a daily flow rate of one million cubic meters of natural gas and 500 tons of gas condensate, confirming a significant prospect to develop the lower Achimov formation.

We also completed the drilling of well #U2804 targeting the lower Achimov deposits at the Urengoyeskoye field in a record 43 days. The total length of the well is 5,405 meters, with a horizontal section of 1,536 meters. We drilled the horizontal section of the well in only one-trip, which is an industry record, and we achieved substantial drilling rates of 16.6 meters per hour. Drilling the horizontal section in one trip means a quicker well completion, which is positive for both the client and the drilling company, particularly if the drilling company is drilling on a turnkey contract. We will test well #U2804 in the upcoming months.

We will provide regular updates regarding our exploration program during each upcoming conference calls.

We had an active period of development drilling in the second quarter 2019 relative to the prior year. We drilled and completed 44 production wells in this reporting period versus 23 production wells in corresponding 2018 period, representing a 91% growth in drilling completions. We plan to drill approximately 161 wells in 2019 according to our development plans, and as of the first six months of 2019, have completed 71 wells or 44% of our planned program.

In the second quarter 2019, we remained focused on the North Russkoye field as we prepare this field to commence initial production in the latter part of 2019. We have already drilled 15 wells out of the planned 16 production wells to achieve plateau production at this field, as well as drilled six (6) production wells at the East-Tazovskoye field, which is set to commence initial production starting in 2020.

Presently, we are building the gas treatment unit, the gas de-ethanization unit as well as utility networks and pipelines. These works are a continuation of the activities reported in the first quarter conference call. The gas pipeline link is completed and connected to the UGSS and preliminary testing is underway.

We are targeting natural gas production growth of 8% to 10% in 2019, with liquids production slightly increasing Y/y. With the upcoming launch of the North-Russkoye field and subsequently, the other fields comprising the North-Russkoye cluster, we will replace production declines in our legacy core fields in both natural gas and liquids.

We will have a series of new green-field domestic production commencing towards the latter part of 2019 and throughout 2020. Yesterday, we announced the commencement of natural gas production at our South-Khadyryakhinskoye field. This field will add about one billion cubic meters to our annual production at plateau levels. In addition, we will commence production at the Ach5-1 layers at the Samburgskiy license area in the fourth quarter 2019, eventually reaching production of four billion cubic meters of natural gas and more than two million tons of gas condensate at plateau production levels mid-2020's.

Our operational and financial results over the first six months of 2019 were relatively strong despite weakening global commodity prices, particularly weaker natural gas prices in Europe and Asia. Moreover, our quarter-on-quarter (Q/q) results were also impacted by seasonal adjustments in demand from peak winter months, but overall we were very pleased with our solid financial and operation results in the second quarter and for the first six months of 2019.

In the second quarter 2019, Brent crude oil averaged approximately \$69 per barrel as compared to \$74 per barrel in the prior year, representing an average decline of 7%. Prices for crude oil improved by roughly 10% per barrel between the first and second quarters 2019, but remained volatile. We expect benchmark crude oil prices to remain volatile for the foreseeable period as we experience short-term demand/supply imbalances, technical corrections as well as increasing geopolitical tensions.

Global natural gas prices were very weak in the second quarter, and that was well documented and discussed in various research reports and news stories. The average NBP price per mmbtu declined on

average by 33% over the first half 2019 as compared to the corresponding period in 2018, and Q/q by roughly 44%. We expect that the current low LNG prices will persist throughout the remaining summer season, potentially limiting spot price increases in the third and fourth quarters 2019. The futures market, although not perfect, indicate a seasonal recovery in the upcoming winter months. Currently, natural gas inventory levels are above seasonal averages in both Europe and Asia. This fact, combined with new project commissionings expected during the year, could put further downside pressure on spot prices in the market.

Our total oil and gas revenues were approximately RR 216 billion, or 11% higher than in second quarter 2018. Natural gas represented 46% of our total oil and gas revenues whereas liquids accounted for the remaining 54%. We produced 149 million barrels of oil equivalent in the second quarter 2019, or approximately 1.64 million barrel of oil equivalent per day. This represented a daily production increase of 13% year-on-year but remained relatively flat Q/q.

Our oil and gas revenues decreased Q/q by 6.7% primarily through a combination of factors. For natural gas, we had a decrease in volumes sold on the Russian domestic market due primarily to seasonality, offset slightly by stronger prices and a shift in sales mix more towards end-consumers. For LNG, we increased our sales volumes Q/q but had an average decline in realized prices by 29% in US dollar terms. The commencement of LNG production at Yamal in December 2017 and the subsequent launches of LNG trains #2 and #3 in 2019 ahead of schedule had a positive impact on our natural gas sales as we primarily sold early volumes at 60% share.

We began to sell more volumes from LNG trains #1 and #2, on contractual terms, rather than spot sales as the year progressed. Declining spot prices did not materially affect our volumes sold under long-term contracts, as prices under these contracts are essentially based on oil-linked price formulas. We anticipate that by the end of first quarter 2020, we will sell the majority of all volumes produced by Yamal LNG train #2 on contractual terms, with some residual volumes sold via the spot market, including those volumes produced over the nameplate capacity of the facility. Furthermore, we anticipate that we will most likely sell the upcoming volumes produced from LNG train #4 when formally launched on a spot basis.

Our international LNG sales revenues increased Y/y by RR 28 billion, or by 296%, largely attributable to an increase in volumes sold by roughly 3 billion cubic meters, which was offset by a 29% decrease in the average realized price in RR terms. Domestically, we had an increase in both Y/y volumes sold and average realized prices.

Our natural gas sales volumes increased by 4.9 billion cubic meters, or by 8.6%, whereas our average price per mcm increased by a 4.2%. We sold 96% of our domestic gas to end-customers and 4% to ex-field traders. We do not have the same level of price volatility on the domestic market, which makes revenues more predictable.

We sold 15.1 billion cubic meters (bcm) of natural gas on the Russian domestic market and 3.7 billion cubic meters in equivalent LNG sales during the second quarter 2019, accounting for a Y/y increase of 3.6 billion cubic meters, or 24%. Our combined average natural gas price of RR 5,329 per mcm increased Y/y by about 21%, reflecting the higher mix of LNG sales in our gas portfolio. Natural gas netbacks (domestic and international) increased by 38% Y/y but declined 8% Q/q. The decrease in the Q/q netbacks was mainly due to the decline in spot LNG prices between periods as we sold approximately 28 cargoes under spot sales from early startup volumes.

Despite the declines in spot LNG prices in key markets, we remained profitable due to our low operating and lifting costs. This distinction is important as we develop our future LNG platform either relative to other global projects discussed or currently in the project pipeline. In the respective reporting periods, sales on international markets represented 19.5% of our total gas volumes sold and 38% of our natural gas revenues. Our average netback was four times higher for volumes sold internationally than netbacks received on the domestic market as compared to the prior year. Our average netbacks sold internationally between the first and second quarters 2019 decreased by 32% due to the weaker LNG spot prices, although we partially offset this decline by higher volumes sold in the current period. Even with weak spot prices, LNG volumes sold internationally contributed significantly to our revenues and netbacks for natural gas. This demonstrates the importance of expanding our LNG platform.

We injected approximately 614 million cubic meters into underground gas storage versus 1.2 billion cubic meters in the prior year. We withdrew 1.4 billion cubic meters in the first quarter. We have approximately 1.4 billion cubic meters in underground storage or LNG tankers in transit at the end of the reporting period versus 813 million cubic meters at 31 March 2019 and 2.2 billion meters at year-end.

We sold slightly more than four (4) million tons of liquids in the reporting period, representing a Y/y decrease of 3.3% versus a Q/q increase of 3.9%. We exported 59% of our total liquid volumes, or 2.4 million tons, which was equivalent in percentage terms to the liquid volumes exported Y/y and Q/q. Our average commodity prices somewhat improved during the reporting period but was lower for our product range due to weak underlying contract prices relatively to the prior year period.

Our operating expenses increased by 16%, which was again attributable to the significant increases in hydrocarbon purchases. Purchases accounted for approximately 83% of the comparative increase in operating expenses. We purchased hydrocarbons primarily from our joint ventures rather than third parties. This distinction is important because money circulates within the Group and we now receive significant dividend payments from joint ventures. Most of the remaining operating expenses, including G&A, was consistent with our expectations for the reporting period.

We generated RR 80 billion in positive free cash flows during the current reporting period. This reflects the strength and resiliency of our operating cash flows driven by volumes and netback growth with LNG sales, and a fairly consistent and reliable core domestic business that is cash generative. We have been able to increase our positive free cash flows despite increasing capital expenditures in both comparative periods.

We spent RR 31 billion in cash on our capital program, representing an increase of RR 9 billion, or 42% over the prior year period. It is important to note that with the recent sales of participation interests in Arctic LNG 2, we effectively deconsolidated this subsidiary and eliminated the capital expenses from the Group's consolidated statements this reporting period. We now account for Arctic LNG 2 as a joint venture.

The increase Y/y in capital expenditures related to two main projects – the LNG construction yard in Murmansk and the North-Russkoye license area. These main projects accounted for RR 18 billion, or 49%, of our total capital expenditures in the current reporting period. We allocated the remaining capital spent over a range of development projects across our project portfolio, some capitalized exploration works and our new office complexes in Moscow and Novy Urengoi. We spent roughly RR 43 billion in the first quarter 2019, or roughly 16% lower on a cash basis Q/q.

As of the end of the first half 2019, our capital spent totaled RR 85 billion, inclusive of RR 79 billion for exploration and development projects, RR 2 billion on acquisition of mineral licenses, and RR 4 billion on right-of-use assets, namely vessel charter. Our capital program for 2019 was originally projected to reach approximately RR 185 billion, or a two-fold increase year-on-year, but for tonight's call we will revise upwards the 2019 capital program to approximately RR 200 billion, to account for the additional unplanned work at our new LNG project – Obskiy LNG.

Preliminarily, the Obskiy LNG project will consist of three liquefaction trains at 1.6 million tons per train, or 4.8 million tons per annum. The project will use a modified version of our "Arctic Cascade" liquefaction technology, and will utilize the hydrocarbon resource base of the West-Seyakhinsky and Verkhnetiuteysky

fields, located southwest of Yamal LNG's South-Tambeyskoye field. The initial plan is to connect the two fields via a pipeline to the Yamal LNG complex where we will construct the LNG trains. The ABC1+C2 reserves for the combined two fields is 377 billion cubic meters of natural gas and 9.1 million tons of gas condensate. We completed the run of 3D seismic at the fields during the quarter and will interpret this information in the second half of 2019.

Our EBITDA for the second quarter 2019 totaled RR 116 billion, and was 14% higher than the prior year and roughly two percent lower relative to the first quarter 2019. Our operating cash flows exceeded our cash used to finance capital expenditures by 3.6 times, despite the fact that we have increased our cash spent on our capital program Y/y by 42%. We generate sufficient operating cash flows to fund our capital program, service any debt payments or liabilities, as they become due, and disburse semi-annual dividends to shareholders.

Our balance sheet remained very strong in the first half of 2019. We improved all of our credit metrics during the period, and again demonstrated a solid balance sheet to support our international and domestic credit ratings. Our net debt to EBITDA stood at 0.28 times.

We concluded another solid quarter of operational and financial results in a period of weak natural gas prices in key consuming markets. Significant volatility in commodity prices represents an enormous challenge to many oil and gas producers, particularly those companies operating in a high cost environment. Earnings pressure will continue unabated if we have a prolonged period of lower commodity prices.

Yamal LNG has been an enormous success in the global LNG market. We have dispatched 257 cargos representing 18.8 million tons since the commencement of LNG production 19 months ago. Essentially, the LNG complex is loading and dispatching an LNG cargo every 32 hours to all key markets, and recently, we opened the 2019 summer navigational season on the Northern Sea Route with the ARC7 ice-class tanker "Vladimir Rusanov". This represents the second consecutive year where one of our LNG tankers commenced the eastbound navigational season on the Northern Sea Route.

Arctic LNG 2 has completed our target shareholder structure by selling 40% of the project to Total, CNPC, CNOOC, and the consortium of Mitsui/JOGMEC. This was our strategic vision and now allows us to focus on FID and the financing structure. The success of Yamal LNG and our ability to deliver cargos to the Asian Pacific markets year-round makes our LNG platform highly attractive to our Asian partners. We welcome the opportunity to expand the number of countries participating in our LNG projects. We are still

considering “other” potential partners to this “game-changing” project beyond the 40% already sold. If another partner decide to enter the project post-FID, we will consider but at a higher project valuation. We will report the specific details in our third quarter results on the recently announced closed transactions, but I would like to reiterate again that we based these transactions on the valuation and terms already announced with Total.

We also successfully launched our Cryogas-Vysotsk LNG project in the second quarter 2019. It is still very early in the projects operational cycle, but we are carefully assessing the bunkering markets as IMO 2020 fast approaches. Transport fuels are transitioning toward cleaning burning natural gas and we believe we can capture a niche market in this area.

The next couple of years will be a volatile period for LNG producers, as the current oversupply puts downside pressure on global LNG prices. Lower prices are not always bad though, and we remain optimistic about the future LNG demand and our LNG platform. NOVATEK has one of the lowest lifting costs in the global oil and gas industry. We will achieve some of the lowest liquefaction costs in the industry with our Arctic LNG 2 project. In addition, we will further reduce our transport costs to key Asian importing markets by optimizing our logistical model with the proposed transshipment terminals in Murmansk and Kamchatka.

NOVATEK remains highly competitive in the Asian, Latin American and the European markets. Low LNG prices will stimulate LNG demand. LNG prices will eventually rebound but to a more sustainable level. Cost-competitiveness will be key to sustain sufficient demand growth. Future LNG projects must be cost-competitive to achieve sufficient profitability to justify investment decisions.

What we have created at NOVATEK is “game changing” in the true sense of the word. Our dedicated Arc7 ice-class tankers represents one of the newest LNG fleets in the world, and their vessel performances make the Asian Pacific markets a prime candidate for our increasing LNG volumes. Our prolific conventional hydrocarbon resource base on the Yamal and Gydan peninsulas offers low-cost natural gas feedstock to our future LNG projects ensuring the cost-competitiveness of our projects. Our use of technology and innovation to conceptualize an LNG project based on scalable gravity-based LNG platforms redefines the LNG model. This new concept utilizing GBS platforms is game changing.

Over the past 19 months, we have established ourselves as a key player in the LNG market. Our LNG has made a noticeable difference, and we are expanding our efforts to penetrate key markets, like our recently announced agreement to form a joint venture with Sinopec and Gazprombank to market natural gas in the

Chinese domestic market. We will assess select opportunities to facilitate downstream demand for natural gas and capture more margins along the value chain.

It has been profoundly rewarding and equally challenging to be at the forefront of the next wave of global LNG projects. We are building a sustainable LNG model in a dynamically changing world. New trade patterns are emerging. Liquidity will redefine the traditional LNG buyer-supplier interface, and new intermediaries will emerge that create trading strategies and risk management tools. Swaps and other derivative arrangements will no doubt influence commercial arrangements.

There are five key LNG producing centers in the world that will meet the growing demand for flexibly priced and flexibly delivered natural gas in a world transitioning from coal to clean-burning natural gas. The Russian arctic zone is one of them. We estimate that the main LNG producing centers can produce in excess of 500 million tons of LNG by 2040. Global demand for natural gas is also increasing. Industry participants forecast LNG demand will increase to around 700 million tons by the mid- to late 2030's. We agree with these demand forecasts. Therefore, we do not operate in a zero sum game. Competitively priced LNG provides some real solutions to meet climate change challenges. We need to remove the geopolitics out of the dialogue and let market forces determine the best projects to meet this growing demand for natural gas.

We are now operating at full capacity at Yamal LNG, we successfully launched the Cryogas-Vysotsk LNG complex, and we sold the target 40% stake in Arctic LNG 2 to a great group of partners. We will make the FID decision on Arctic LNG 2 in the third quarter. We will also commence initial design and pre-FEED work on our upcoming Obskiy LNG project later this year. Our exploration efforts will further delineate our hydrocarbon resource base to support our future LNG projects. Accordingly, we will increase the number of fields appraised this year for our upcoming international reserves report.

We would like to thank everyone for attending tonight's conference call and for your continued support of NOVATEK. The first half of the 2019 has been exciting for us. The remainder of 2019 will be equally exciting, but equally challenging for the global gas industry. Operationally, we will launch a new major domestic gas field – the North Russkoye field, continue our exploratory efforts, complete Train 4 at Yamal LNG and begin the construction of the first GBS unit at Arctic LNG 2.

Financially, we received our first interest payment from Yamal LNG, and the facility is generating sufficient cash flows despite the weaknesses in gas prices to make considerable cash payments this year. We also received our first dividend payment totaling RR 38.5 billion from Arcticgas, which was a new milestone for

this significant joint venture. We will soon finalize our completion tests at Yamal LNG when we receive the remaining Arc7 tankers and demonstrate that all 15 tankers are operating to satisfy the shipping completion tests. Eleven Arc7 tankers are now operating and delivering LNG to markets. In fact, more than 25 countries consume natural gas molecules from LNG produced at our Yamal LNG facility. An extraordinary accomplishment and a “game changer” for Russian LNG produced from the Arctic zone and for us at NOVATEK.

A new chapter in our investment story will soon emerge. We will significantly increase our future dividend payments. Historically, we have shared our success by increasing dividend payouts each year since 2005. We have consecutively increased our dividends paid twenty-nine fold since 2005, representing a compound annual growth rate of 30%. Once the final shipping completion test is satisfied, we will increase the dividend payouts. We are committed to increasing total shareholder returns.

We look forward to our future challenges, the opportunities and the rewards.

Thank you.

Operator: To signal for a question, please press star one on your touch-tone key pad at this time and please make sure that your mute function is turned off so your signal can reach our equipment. Again, that is star one. And we will go first to Karen Kostanian at Bank of America.

Karen Kostanian: Good evening everyone. Mark, thank you very much for the presentation. I have one question about Ob LNG, since you started talking about this. Do you have a preliminary timeline in mind in terms of the launch of what I believe is going to be three trains? That’s my first question.

And, are you considering also a capital structure with partners for Ob LNG or are you going to do that yourself? Thank you.

Mark Gyetvay: I think on the first part of your question – it's expected to be launched pretty much in line with Arctic LNG 2. So, according to that timeline, probably around the 2022-2023 timeframe for Obskiy LNG. We expect to make an FID decision sometime in the first half of 2020 based on the results that we do in the FEED, pre-FEED and design work this year.

The second part of your question, I think it's too early at this particular stage to start talking about partners at this point. We will obviously consider, but I think it's too premature.

Karen Kostanian: Okay. Thank you, Mark.

Operator: We'll go next to Thomas Adolff of Credit Suisse.

Thomas Adolff: Hi. Hi, Mark. Thank you for the presentation. I've got three questions please.

Firstly on CAPEX. I may have missed it. The RUB 200 billion, is this all cash capex? And what's driven this increase? And what can we expect for 2020?

And then, secondly, in relation to Yamal Train 3, most – kind of all the volumes currently are sold into the spot market. Where do they go? Is that predominately into Europe? And do you have contracted re-gas in Europe?

And then finally, as Yamal LNG seems to be paying a dividend to shareholders and Arctic LNG partially funded through proceeds from the asset sales, do you have a self-funded LNG business now? And if so, would it make sense to split up the business into LNG only and domestic gas only businesses? Thank you.

Mark Gyetvay: Thomas, can you repeat the third part of your question? I'm trying to write it down.

Thomas Adolff: The last one you said? Yes, so –

Mark Gyetvay: Yes., the third part of your question.

Thomas Adolff: The third one is basically now that Yamal LNG is paying a dividend and Arctic LNG 2 is partially funded through proceeds from asset sales, I was wondering whether you have a self-funded LNG business today. And if so, would it make sense to split up these businesses into LNG-only versus – and domestic gas only businesses – so, two different businesses.

Mark Gyetvay: Okay. The RR 200 billion – the first question on capital expenditures. I said that the increase in capital expenditures was primarily related to the unplanned work that we're doing at the Obskiy LNG that we've recently announced. There is no increase in our capital program for other projects. It is specifically focused on the additional unplanned work at the Obskiy LNG plant. Okay.

Thomas Adolff: Yeah.

Mark Gyetvay: Second question – Train number 3, where are they going? I think – we have two primary markets. It depends if they're going to Asia market. I mentioned that we have a series of tankers that we will ship via the NSR both on what I would say are long-term contracts plus, about five to ten spot deals. They will go to the Asian markets.

I think the other question too pertains to our transshipments, whether it's in Europe – there are three main facilities that we used prior to the ship-to-ship transfers in Norway, they're going to be disbursed out to different markets. And, I said we've sold – at least our gas molecules, at least the way we understand our marketing people have confirmed, that our gas molecules have made it to 25 different countries. But I can't tell you exactly where they'll go in the future, including contracted re-gas.

In terms of splitting the business, I assume – are you talking about having a listing of just LNG and/or – and a listing just of a company with sales on the domestic market? Is that what you're implying?

Thomas Adolff: Yeah, yeah.

Mark Gyetvay: No. The answer is no.

Thomas Adolff: For pure play. Why not?

Mark Gyetvay: No. The answer is no. We don't have any interest to do that (split our business) at this particular point in time. We considered this idea earlier but at this particular juncture we decided that that's not going to be the business model we want to put forth.

Thomas Adolff: Okay. Thank you.

Mark Gyetvay: Okay. You're welcome.

Operator: The next question comes from Ron Smith of Citi.

Ron Smith: Mark, good evening. Thank you for the presentation. If you wouldn't mind, I would like to return back to Obskiy LNG for a quick question. Do you have an estimate – a general estimate on the capital requirements for that entire project? And if not, if you could at least give us an idea how much it might cost to either build the two storage tanks that I've seen reported and how much you might be expecting per ton of liquefaction, I would appreciate it. Thank you.

Mark Gyetvay: Ron, I think it's quite premature as I tried to allude before. We're in the design stage and the pre-FEED stage. So, I think it's premature to really give that type of information out at this time. And, it's definitely premature to disaggregate the project into what it's going to cost us for the construction of tanks – the two tanks that you referred to. So, I think you just need to let us complete this work over the course of this remaining year and we'll be glad to provide that number as soon as we get done with the design, pre-FEED and start work into the FEED study. We know we're going to have to make that announcement sometime in early 2020 if we plan to do the FID in 2020. So, I think it's really premature to talk about all the cost structures.

Ron Smith: Well, I'll do my best to be patient.

Mark Gyetvay: Thank you very much. I appreciate that.

Operator: And again, that's star one to signal for a question at this time. And we'll go next to Olga Danilenko of Prosperity.

Olga Danilenko: Hi, Mark. Thank you very much for the presentation. I have two questions. The first one is on gas prices. You mentioned both in your presentation that you expect the lower gas prices to continue throughout the summer and potentially affecting the second half of this year. So, my question to you will be, would you consider – would you think it is worthwhile to hedge using the futures curve the second half of 2019 and maybe first half 2020 prices, and does liquidity of hubs allow to hedge it?

And my second question relates to the dividends for Arcticgas, which you also mentioned. My question is, is it paid annually or we may expect some more distributions from Arcticgas later this year?
Thank you.

Mark Gyetvay: The second part of your question is easier. Yes, we expect dividends to be paid out more from Arcticgas.

The first question is much more complicated, because we're really not at that stage in the business cycle to start looking at hedging. Obviously, do we hedge a gas hub price or do we hedge a crude oil price is really the only choice we have at this particular juncture. And I don't think at this point in time given the volumes that are being sold that we're really going to start executing some longer term hedges. I don't think we have the volume liquidity in our own position, because soon we're going to pretty much be rolling off the 60% equity volume. And then if we go back into the long-term contracts, the long-term contracts are already linked to oil indexes. So, I just think at this stage right now I don't think we're going to be looking at committing ourselves to a long-term hedging strategy.

With that said, as we increase our volumes with Arctic LNG 2 and the Obsskiy LNG project and the other futures, obviously, if NOVATEK moves more towards a portfolio player with a larger volume of equity LNG to sell, I think it becomes more important that we consider hedging strategies. And I think Mr Mikhelson has already talked once before that longer term, we're looking at maybe a split of 50% spot versus 50% long-term contract. But, I think considering where liquidity is today, I don't think we have made that decision. But clearly, we have looked at a hedging strategy and what it offers to us as a company. We have also looked at swap arrangements to consider a way of increasing potentially the profitability of each cargo as well as targeting certain markets. But again, they're not readily available– they're something that's at the very infancy of trading, and this is what we see as the market evolves – as the industry evolves more, as liquidity increases, etc., and as contracts become more standardized in the process, I think we'll see more of these types of derivative activities as well as more risk management strategies put in place. But right now, I would say we do not. We do execute hedges in our European trading operations for the gas that we sell on the European market, but in the LNG strategy today, we're just studying it and seeing how it impacts our business. I don't think we've made that decision to move forward with it yet.

Olga Danilenko: Thank you.

Operator: And again, that's star one to signal for a question at this time. And we'll go next to Timothy Riminton of Barclays.

Timothy Riminton: Hi, Mark. Thanks for your time this afternoon. I just have a quick question on the non-financial guarantees relating to Yamal LNG. I just noticed that the euro guarantees increased to EUR 7.9 billion in this quarter compared to EUR 7.2 billion at the end of the year. Why was this the case, because we were under the impression that they would start gradually dropping off as the various tests were met?

Mark Gyetvay: Yes. I think your original comment was correct. But, we withdrew additional monies on the project financing arrangement, and that's why there was an increase in the guarantees this particular period.

Timothy Riminton: Okay. So, you still expect them to drop away materially as the tankers and ships come online toward the end of the year?

Mark Gyetvay: Yes. That's a correct assessment. This relates to my comment on the shipment and completion tests.

Timothy Riminton: Yeah.

Mark Gyetvay: Okay.

Timothy Riminton: Thanks for that.

Mark Gyetvay: You're welcome.

Operator: And we'll go next to Anna Kotelnikova with Sberbank.

Anna Kotelnikova: Hello. Thank you for presentation. I have one question. You had very strong contribution to EBITDA from your JVs of RUB 46 billion in second quarter. And almost RUB 100 billion for the first half. So, could you give some guidance approximately how much of this is attributable to Yamal LNG? That's it.

Mark Gyetvay: First of all, I would ask the question – I assume everybody was pleased and happy with the contributions of the dividends from Arcticgas as well as the start of repayments of interest at Yamal LNG. I think everybody's been waiting for this moment to occur. To be able to provide you with splits between our joint venture operations, we're just not providing that granularity of information at this particular point of time. I think we should be happy that these joint ventures are now at the state of their lifecycle that they can start paying back monies in the form of dividends to us and in terms of the interest payments as well as eventually the loan repayment start process at Yamal. But I'm not going to get into the point of separating who is contributing what at this particular point in time.

Anna Kotelnikova: Okay. Thanks.

Mark Gyetvay: You're welcome.

Operator: We'll go next to Ron Smith of Citi.

Ron Smith: Yes, Mark, one more question. I'm about to go back to your statement right at the end of your prepared comments. You said that you're about – that NOVATEK is about to enter a new phase, paraphrasing, that you would significantly increase your dividend payments once – if I got it right – once the final shipping completion test is satisfied. I presume that's – first, that that is the shipping test for Yamal LNG. Please correct me if I'm wrong.

And second, when you say significantly increase, I mean are you talking about just increasing your targeted payout from say 30% to 40%, or 50% as a lot of your peers in Russia are now doing? Can you give us a bit more detail? And on the – is that a first quarter announcement or – if you can give a bit more details, I'd appreciate it.

Mark Gyetvay: Welcome back Ron.

Ron Smith: It's always good to talk to you.

Mark Gyetvay: No, it's okay. It's okay. I understand. No, we are not changing the payout ratio as we have stated many times in the past, I mean our dividend policy we will distribute at least 30%. That represents the minimum level of dividends that we would pay. And, as I tried to demonstrate at the very end, of my prepared text we have paid – in the presentation that's included with the conference call, there's a slide in the appendix section that shows each and every year what we paid in dividends. You can see the absolute growth. So, when everybody's talking about dividends being paid by Russian entities, we have been paying dividends throughout our whole public life for a company that has shown exceptional growth. So, we're just at that phase now where we can complete the tests – when we finish the completion tests at Yamal LNG as you rightly alluded, that's what it relates to. The company's is generating cash to increase distributions.

Today, we have policy that is basically capped because of these completion tests. Once we finish them, meet the tests completion requirements; we will increase the dividend distributions based on the cash flow that the company is achieving these days. And so, that's why I would say that beginning some time, probably in the early part of 2020 – like April or so timeframe when we complete the last sets of tanker movements because it's really based on demonstrating 15 tankers operating in this particular winter season, I think the plan would be to almost immediately increase payouts with the declaration of the dividends for the first half results of 2020 to be above the 30% minimum.

But we're not coming out with a new policy, because the policy already accounts for us to pay more than the minimum. It accounts for our ability to significantly raise the dividends above the 30% minimum based on our financial results. So, I suspect that we'll know very early in the first quarter how we do in relation to this test. So, I assume by the time we meet and talk about the first quarter numbers of 2020, we would have already completed this particular test and we can give you an indication that this increase distributions will indeed be related to the first half dividends. But I can tell you right now, it's management's intention, it's the shareholders' intentions, everybody wants to see us increase the amount of dividend payouts. And that's why – that's why I specifically ended tonight's discussion on this one particular point, because I know it's an important point that many, many investors as well as many analysts, including you, have focused on – in the Russian oil and gas industry. Last year, you can see, from 2017 to 2018, we increased our dividends from RUB 14.95 per share, to RUB 26.06 per share, representing a significant increase year on year. But at the same time, it's still equated to roughly about a 3% dividend yield because that dividend yield was also impacted by the 42% increase in our share price.

So, our total shareholder returns for 2018 was roughly 45%. And so, we could have had a higher dividend yield if our share price didn't move as much as it did last year. But the company is still growing – which is part of our business strategy and we're saying that we will try to balance and increase total shareholder returns by paying more dividends, but I think we have to just wait, and as I mentioned, complete the tests, make the announcement basically in either the year end results, or first quarter results after these tests have been completed, and then I think we'll look at this issue for the six months numbers, the first half of 2020 where we actually see the effect of this increase beyond the 30%.

Ron Smith: Sounds good, Mark, thanks.

Mark Gyetvay: My pleasure.

Operator: We'll go next to Andrey Gromadin with Sberbank CIB.

Andrey Gromadin: Yes, hello. I have a follow up actually on EBITDA contribution from JVs. I understand the reason you don't give a breakdown or guidance on kind of contribution. But basically Yamal LNG will report its financials in two weeks' time. So, we'll see the number. Maybe you can give us kind of a bit of feeling, the estimated Yamal LNG EBITDA at about roughly USD 1 billion for first half for NOVATEK's share or roughly USD 2 billion for the whole project for the first half. Is it close to – kind of is it reasonable in your view?

Mark Gyetvay: Like I said, I'm not going to speculate and provide numbers based on things that we have to wait and see what the macro economic situation looks like in terms of prices we receive in the second half. We're moving away – as I tried to explain, we're moving away from spot contracts to long-term contracts, right? These contracts are oil-linked prices. We have condensate sales that we're selling from this particular project. We have a lot of factors that are going to impact what the EBITDA numbers will be, and we're just not going to give a joint venture by joint venture breakdown, I'm sorry. Particularly when Yamal LNG has not yet reported its financial results, and as you rightly stated, they will be issued in the upcoming weeks.

Andrey Gromadin: Okay, thank you.

Operator: And at this time, we have no further questions in the queue.

Mark Gyetvay: Okay. Well, thank you very much for tonight's call - we look forward to addressing you soon in October with our nine months' financial and operational numbers. But again, before we end tonight's call, we wish everybody a good remaining summer. Thank you very much.

Operator: And again, this does conclude today's call, ladies and gentlemen. We appreciate everyone's participation today. And you may now disconnect.