OAO NOVATEK

First Quarter 2016

Financial and Operational Results – Earnings Conference Call

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Mark Gyetvay, Deputy Chairman of the Management Board

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our First Quarter 2016 earnings conference call.

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 make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown 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 2015, 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

Market fundamentals seem to be slowly improving in the oil and gas industry but we expect continued volatility in crude oil prices throughout 2016. OPEC and supply-demand dynamics will dominate the news flow in the near term as a structural shift in key market players will continue to draw industry attention.

We have just begun the reporting season for oil and gas companies globally and the results across the industry are expected to be mixed and negatively impacted by lower commodity prices in the first quarter, which makes it all the more compelling to compare and contrast the financial results of Russian energy companies against our global peers. We reported strong financial and operational results in the first quarter in stark contrast to what is expected to be reported across the global oil and gas industry. NOVATEK has positioned itself as the bellwether stock in the Russian oil and gas sector. We have consistently reported exceptional financial and operational results quarter after quarter in challenging market environments as well as in periods of favorable market conditions.

We expect the industry's reaction to this weak reporting season to be more or less predictable – further cuts in expected capital investment programs and more staff reductions – but also a view towards recovering commodity prices in the second half of the year.

The crude oil markets were not supported by the Doha Meetings as no output agreements were reached. Although hopes were high for some form of supply reduction, the outcome was not too surprising as heightened geopolitical differences amongst the various key market players as well as multiple economic agendas took center stage at these meetings. We are assuming continued price volatility throughout 2016 although the recent increase in crude oil prices in the second quarter supports the comments made on the tightening market fundamentals; however, we believe it is too early in the recovery to get overly optimistic.

As a company, we take a relatively conservative view on commodity prices although we believe our business operations are robust enough to grow and prosper through these volatile commodity price cycles. As highlighted many times in the past, our cost competitiveness vis-à-vis the global oil and gas industry serves us well in these volatile markets. We approved a business plan that conservatively supports our expected cash flows and capital expenditure program for the year, and we are confident that we will deliver on these results. We have provided guidance on production growth in our liquids by roughly 30% and relatively flat natural gas production in 2016. Our capital expenditure program will be about 30% lower than the capital spent in 2015. I would like to reiterate this guidance again this evening.

The first quarter 2016 was relatively a quiet period for us in terms of exploration and production activities, particularly after the very active and successful 2015 with the launching of three (3) new production fields. We invested capital in exploration activities mainly in ongoing drilling at our subsidiaries but reduced the level of exploratory drilling at our joint ventures. We also reduced our level of geophysical activities namely the running and processing of three-dimensional (3D) seismic works at our subsidiaries as we are presently interpreting the data we processed in 2015. Our main exploration focus is centered on the license areas in the Gydan peninsula. Based on promising seismic results, we are planning exploratory drilling in this important hydrocarbon basin in 2017. Our prolific Gydan license areas will serve as the future platform for expanding our global LNG ambitions and will be central to our longer term strategic plans.

We plan to drill approximately 89 production wells versus 107 wells drilled in 2015. This reduction reflects the maturity of our development plans and our move towards more maintenance drilling. To support this point, in the first quarter 2016, we drilled 17 new production wells versus 30 production wells in the corresponding period, with most of the drilling conducted at the Yarudeyskoye, East Tarkosalinskoye and South Tambeyskoye fields. We are presently assessing a development plan that targets deeper producing horizons such as the Achimov and Jurassic layers, which we estimate holds substantial untapped production potential in our portfolio as well as two additional fields in Arcticgas and the North Russkoye field.

Our longer term strategic plan calls for renewed focus on analyzing and evaluating potential new licenses to complement our present portfolio of assets. For example, we recently acquired the exploration and production license for the Nyakhartinsky license area in an open tender auction won by our subsidiary company NOVATEK-Yurkharovneftegas. The tender payment was set at roughly RR 1.1 billion with a license term of 27 years. The Nyakhartinsky license area is located in close proximity to our Yukharovskoye field and contains approximately 215 billion cubic meters of natural gas and more than 70 million tons of liquids under the Russian reserve classification methodology. We will commence 3D seismic works on the license area in the second half 2016 and appraise the field’s reserve size and production potential, with exploration drilling expected to commence in 2017.

I would like to now shift tonight’s discussion to our flagship project – Yamal LNG. Yamal LNG is the cornerstone of our ambitions to become a global player in the LNG markets. It has received much media attention over the past year as the project has progressed dispute the imposition of sectoral sanctions on NOVATEK and the precipitous decline in benchmark crude oil prices and the corresponding impact on global LNG prices.

Yamal LNG is a world class undertaking in some of the most challenging and harsh environmental conditions. Unfortunately, it has its fair share of skeptics, largely from the analytical community covering NOVATEK. Some of the reports and comments made about the project were subjective speculation at best and often contradicted what was disclosed by us and our partners. We have also received a fair share of criticism on the timing of the external financing but again it has to be taken in the broader context of the market environment. We have done everything possible to close the financing package in a reasonable time frame, but it did not happen as planned due mostly to unforeseen circumstances. Tonight, I hope to dispel the skeptics and critics.

We have crossed over the half-way mark on the overall construction on Yamal LNG. We are approximately 51% complete on the overall project at end of the first quarter versus 44% at year-end. Construction on the first LNG train is now more than 65% completed versus 56% at the year-end 2015. It should be relatively obvious that the pace of work activities at Yamal LNG has now begun to accelerate. We have moved beyond the more intensive and timely infrastructure-related works at the construction site and have now begun installing units and modules upon arrival at Sabetta. This will accelerate the construction progress on the first train through the remainder of 2016.

The plant’s first module was delivered to the site in September 2015 and the delivery of other long-lead items started to arrive around the same period. Among the major items delivered to Sabetta were seven (7) LNG plant modules, a cryogenic heat exchanger and the full equipment package for compressor lines for the first and second trains, boil-off compressors, power plant turbines, a backup heater, 23 thousand tons of steel pipe racks as well as pipe spooling and other equipment.

To facilitate the arrival of large modules, we streamlined the process of unloading oversized equipment at the port facility as well as the subsequent transport of this equipment to its place of installation. With the increased activities at module fabrication yards around the world the pace of work and deliveries of modules to the construction site will substantially increase. We are expecting another large cargo of heavy equipment to be delivered and unloaded at the port of Sabetta this week.

The outer concrete walls were completed as well as the installation of the roofs on the project's four (4) LNG tanks, and work on installing the multi-layer internal walls are presently underway. In May, we will begin hydraulic testing on the first LNG tank and in June on the second LNG tank. LNG tanks 1 and 2 are required to be completed for the launch of first production.

We are ahead of schedule in development drilling at the South-Tambeyskoye field and have now completed and tested 48 production wells versus 41 production wells at year-end 2015, representing more than 80% of the well stock required to launch the first LNG production train. The drilling results achieved to date confirm the field's geology and production capacity in line with our expectations, and we will continue drilling through the remainder of 2016 according to our drilling program. We anticipate drilling 208 production wells over the life of the project and the wells currently drilled and completed represents almost one-quarter of the total number of wells expected to be drilled.

We have more than 60,000 people involved in the Yamal LNG project, including 15,000 workers in Sabetta versus 13,000 at year-end. Approximately 3,000 construction vehicles are active on site (versus 2,500 at year-end), and there are more than 650 Russian companies working on the project throughout Russia, and approximately 30,000 people involved in module fabrication at different international construction yards. It is quite an impressive undertaking.

The project shareholders have invested approximately $12.8 billion, comprised of $1.6 billion in direct equity contributions and $11.2 billion of shareholder loans to Yamal LNG. In 2015, we received both tranches of the National Welfare Fund in the amount of RR 150 billion, and these funds have also been invested into the project. On a combined basis, we have now invested $15.2 billion into the capital program for the Yamal LNG project.

More recently, we announced that Yamal LNG has signed a loan agreement in the amount of EURO 3.6 billion with two leading Russian banks - Sberbank and Gazprombank. The term of the loan is for a maximum period of 16 years with the interest rate begged to the 6M EURIBOR plus a margin not to exceed 4.7% per annum. Obtaining the Russian financing as part of the overall Yamal LNG financing structure was another milestone in our quest to finalize this chapter of the project.

We are close to finalizing the remaining portion of the financing structure as reported in the press. Mr. Mikhelson reiterated this point at our recent Annual General Meeting of Shareholders. It has also been confirmed by our partners. I will not elaborate on this specific financing question on tonight's conference call. I would like to state that we expect the remaining capital expenditures will be funded by external creditors. I would also like to strongly emphasize that there will be no further need for shareholder funding. We are completely covered for the project's capital program for 2016.

At NOVATEK, we spent approximately RR 9.0 billion in our capital program in the first quarter 2016 on a cash basis, with approximately 41% of the funds spent on carryover costs from the recent launch of the Yarudeyskoye field in December 2015. Our year-on-year (y/y) and quarter-on-quarter (q/q) capital expenditures declined by roughly 43% and 39%, respectively, reiterating my earlier comments on moving more towards maintenance capital at this point in our investment cycle. Overall, we plan to invest about 30% less capital in 2016 versus 2015 based on our assessment of various capital projects within our asset portfolio.

Total oil and gas revenues in the first quarter (1Q) 2016 was RR 138 billion, representing an increase over both the y/y and quarter-on-quarter (q/q) comparatives. We increased our oil and gas revenues by 22% y/y and 5.5% q/q largely driven by a substantial increase in our liquids revenues and the corresponding translation of these foreign earnings to Russian roubles. Volume growth particularly with the launch of the Yarudeyskoye field in December was the main factor contributing to our increased revenues as we realized declining average prices for the majority of our liquids products y/y and q/q consistent with the declines in benchmark reference prices.

Our liquid revenues accounted for 55% of our total revenues in the first quarter versus 52% in the 1Q 2015 and 50% in the 4Q 2015. Revenues derived from our liquids sales are generally indexed to international benchmark crude oil or oil product derivatives reference prices, which have historically been higher than domestic prices. In addition, export volumes are denominated in foreign currencies, which offer a better hedging match against our predominately US dollar-denominated debt portfolio as well as positively impacting our revenues in the reporting periods due to the favorable movements in the USD/RR exchange rates.

We had a reasonably strong recovery in natural gas demand in the first quarter after a period of unseasonably warm winter weather. We sold 18.8 billion cubic meters (bcm) of natural gas versus 16 bcm y/y and 17.7 bcm q/q. Our increase in natural gas sales resulted from a combination of factors such as stronger seasonal demand from wholesale traders as well as the resumption of offtakes from one of our end-customers. We also withdrew approximately 900 million cubic meters of natural gas from underground storage facilities to support the stronger seasonal demand. At quarter-end, our volumes of natural gas in storage totaled 429 million cubic meters versus 654 million cubic meters y/y and 1.3 bcm at year-end.

Our average natural gas prices increased by 4.0% y/y but declined q/q by 6.0%, reflecting a shift in regional sales during the quarter. In the 1Q 2016, we ceased delivering natural gas to Inter-RAO as previously reported. This meant that we had to rebalance our gas portfolio accordingly, including a shift in our regional sales and an increase in volumes sold on the St. Petersburg Mercantile Exchange. We sold 91% of our natural gas to end-customers and 9% ex-field. Overall, our average netback increased y/y by 7.7% and 12.0% for end-customers and wholesale traders, respectively, but was flat q/q for both customer classes.

We sold 4.6 million tons of liquids representing a 64% increase over the volumes sold in the prior year. The average price we received in dollar terms was lower across our product range because of the decline in international benchmark reference prices but the effect was somewhat mitigated in Russian rouble terms by the average currency depreciation by 20% against the USD and the corresponding reduction in export duties. During the first quarter, we increased our liquid sales by 1.8 million tons, largely due to the commencement of crude oil production from the Yarudeyskoye field in early December as well as the impact from full year production run rates at the Yaro-Yakhinskoye and Termokarstovoye fields. On a q/q basis, we increased our liquid sales volumes by 973 thousand tons or 27%.

We did not have any major surprises in our operating expenses during the reporting period. Our operating expenses continued to grow relative to the growth in our business, representing an increase of 32% y/y and by less than 1% q/q. The most significant increase in our operating expenses y/y related to the purchases of hydrocarbons followed by increases in transportation, mineral extraction taxes and depreciation, depletion and amortization.

Purchases continued to increase relative to the growth in the output from our joint ventures and represented 21% of our cost category for the quarter. Our SG&A increased during the reporting period largely due to the increased headcount with the launch of the Yarudeyskoye field and other production units combined with our annual salary indexation on base salaries and the corresponding increase in social contributions. Other major cost trends were relatively similar on a comparative basis with the largest increase representing a change in inventory balances between periods with the withdrawal of natural gas in the period and the recognition of sales from liquids in transit.

Our balance sheet and liquidity position remained strong in the first quarter 2016, further supported by the receipt of funds from the Silk Road Fund on the sale of the 9.9% equity stake in Yamal LNG. We generated very strong free cash flow of RR 45.5 billion versus RR 30.4 billion in the prior year, based largely on a 37% increase in our operating cash flows and a corresponding reduction in our capital expenditures by 4%. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due. We repaid our $600 million Eurobond tranche in February 2016 according to the bonds maturity schedule, and as a result of our strong financial performance, we had a substantial improvement in all of our credit metrics at quarter-end.

In conclusion, the first quarter 2016 was a very good financial and operational quarter for NOVATEK despite the declines in crude oil prices throughout the period and the continued negativity surrounding the industry.
The successful production launches throughout 2015 served us well in the present quarter and remains the primary platform for growth in 2016 and beyond. We achieved strong production growth for both natural gas and liquids, and on a combined barrel of oil equivalent basis (boe), we are now producing over 1.5 million boe per day, or 14% higher than the prior year.

We remain confident that we can successfully navigate the company during these turbulent business times and withstand this volatile commodity price cycle. We have built an extraordinary company over the past decade and have successfully executed an ambitious growth strategy. Although we have lagged behind our Russian oil and gas peers on the equity markets in 2016 we believe NOVATEK continues to represents substantial investment value at present equity prices.

In an industry sector experiencing turbulent times we remain resolved to deliver solid financial and operational results despite these obstacles. Yamal LNG is the next chapter in our story. We are moving closer to this transformational shift in our business dynamics with the planned production launch of the first train in 2017. We have crossed the halfway mark on completing the construction for the whole project and, at the end of the first quarter, we are over 65% complete on the construction phase for train one. With the recent closing of the Russian financing structure we have essentially de-risked the financing question for the project and our expectation is that the remaining external financing will be finalized shortly.

I believe we have delivered truly exceptional results.

I would like to thank everyone for attending tonight's conference call and now open up tonight's session to question and answers.

Thank you.

Operator:

The first question is from Karen Kostanian from Bank of America. Please go ahead.

Karen Kostanian:

Gentlemen, thank you very much for the presentation and congratulations on very good results in this very difficult environment. I just had one question. During my roadshows, many investors are starting to ask me, your company remains very free cash flow-generative even in a difficult oil price environment and as you yourself said, you are reducing your capex. All your projects are funded and potentially Yamal LNG is going to be externally funded pretty soon according to Total's statements, and Gydan is some ways away. What do you intend to do with all of this free cash flow at the present stage? Are you considering additional buybacks, higher dividends, or are there any other projects potentially in the pipeline, or is Gydan going to be consuming all of that?

Mark Gyetvay:

Karen, thank you very much for your question. You know, as you can appreciate, as an upstream company, we're mainly concerned about uninterrupted production growth so I believe the answer to the question today would say that we are looking at opportunities in the surrounding areas to continue growing our production according to our long-term strategy and as you rightly said, the Gydan Peninsula is really the key focus of investment opportunities in the near term. We are not opposed to looking at potential opportunities, to increase dividends and/or further share buybacks, but right now, the focus of our attention is on continuing to grow the company. You know we have a flexible dividend policy, to distribute not less than 30% of the consolidated profits, and we have done so. I would say that over the time since we went public in 2005, you can see in correspondence to the significant growth, we have paid dividends each and every year, and I think that's been a testament to the fact that we are producing cash flows sufficient for our business to fund, pay back debt and pay for our obligations. So right now I would just say that our focus is to continue growing our business - we are focusing on some of the exploration activities, some of the other field developments such as North-Russkoye, we're looking at the new license areas that we just acquired, potential development going on at Arcticgas, as well as looking at the opportunities to start doing the feasibility study, etc. for additional LNG expansion. So if we decide to change, we decide to make any kind of announcement that's different to that, we'll obviously convey it to the investment community.

Karen Kostanian: Thank you, Mark.

Operator:

Thank you. We will now move on to our next question from Alexander Nazarov from Gazprombank. Please go ahead.

Alexander Nazarov:

Good evening, Mark. Congratulations indeed with the very good results and thank you for the presentation. I have a question on marketing of your crude oil if I may. As we could see from the press, from the CDU-TEK reports, partially crude from Yarudeyskoye field was exported through ESPO, which I assumed gave you some premium netbacks compared to the European sales. At the same time, we see that larger increase was on your domestic crude oil sales. So could you broadly comment on what's your outlook for your crude oil marketing further as you are already at the maximum production? What is the outlook for probable increase of exports, probably through ESPO or other links? Thank you.

Mark Gyetvay:

Alexander, thank you for the question. I think it's something that you have rely on our liquids trading business to realize where they move products to the highest netbacks to the company. So I don't have the definitive answer on whether or not we'll continue looking at the ESPO or through the normal channels of export versus how much will be placed on the domestic market, but we let that decision be made by our trading group, and I think they have demonstrated, as you've seen in this first quarter, to be able to execute very good results. So that's about all I can on this thing at this particular juncture.

Alexander Nazarov:

Okay, thank you.

Operator:

Thank you. We will now move on to our next question from Alex Fak from Sberbank. Please go ahead.

Alex Fak:

Mark, hi, thanks for the call. A couple of questions. Could you give us an update on SeverEnergia's crude oil program? When can we expect first volumes and a little bit on the timing of the plateau. And also the Nyakhartinskiy area, you just acquired the exploration licence as you mentioned, assuming the exploration is successful, when can we expect the first volumes there? Thanks.

Mark Gyetvay:

Okay, in relation to the first part of your question on SeverEnergia, I just mentioned in the prepared text that we are looking at the two additional fields at Arcticgas, so at such times as we finish our assessment of these fields, we'll get back to the market with an explanation of what we plan to do. So I don't have any sort of definitive answer for you at this juncture about what the expected profile will look on that particular fields.

On the second one, let us get a chance to go through the exploration activity first before we comment on what's the production profile and delivery of first production on the new license area. So, I would say that we're going to do, run additional 3D seismic this second half of the year, 2017 we expect to start exploration drilling. I think, dependent on the results of 3D seismic, the geophysical side as well as the results we obtain through the exploration drilling, we are looking to expedite the development of this field as quickly as possible but there's really no definitive timeline at this particular juncture. So you just have to wait for additional updates from us.

Alex Fak:

Okay, thanks and the second question, you mentioned targeting the Achimov and Jurassic layers. Can you talk about that a little bit? I mean what are some of the difficulties there? Why haven't you been doing that before and are only about to start doing that now? What's the condensate content there?

Mark Gyetvay:

Well, again, it's a zone that has not historically been targeted by the Russian oil and gas industry because of the high pressure and fractured reservoirs, and we've been successful in targeting these layers on Termokarstovoye and Urengoyskoye fields and so now we're actually applying the same level of techniques that we learned from those particular wells that were drilled onto some of the other fields. So I'm not going to get into discussions on what the condensate content is, etc. but we do know that there is a substantial amount of resources in both the Achimov and the Jurassic level and once we've finished the assessment and we determine what the impact will be on our production profile then we'll let you know.

Alex Fak:

Okay, thank you.

Operator:

Thank you. Again, as a reminder, if you would like to ask a question today, it is *1 on your telephone keypad. We will now move on to our next question from Ksenia Mishankina from UBS. Please go ahead.

Ksenia Mishankina:

Hi, thank you for the presentation. I have a couple of questions. What portion of your short-term debt do you plan to refinance? And the second question is you mentioned that you planned to reduce capex by 30% in 2016, I assume this is in rouble terms. Thank you.

Mark Gyetvay:

There is no need to refinance short-term debt. I mean, we just paid back our Eurobond and will continue to service the debt as it becomes due. So there's no question presently on the table where we plan to refinance our short-term debt.

On the second question, 99% of our capital expenditure program is rouble-based so it doesn't really have any major dollar components.

Ksenia Mishankina:

Okay, thank you very much.

Operator:

Thank you. We will now move on to our next question from Artem Konchin from Otkritie Capital. Please go ahead.

Artem Konchin:

Yes, good afternoon, Mark and everyone. Thank you for excellent disclosure and a very strong quarter. Congratulations. Just two minor questions on capex clarification. I hope I didn’t miss it. Can you provide a number for your Yarudeyskoye capex? I notice that it’s materially lower quarter-on-quarter but still quite a substantial number. So that would be very appreciated. And the second question, a minor one also on capex, I notice that annual comparisons for the first quarter spending diverged from the numbers that you published last year for the first quarter of 2015, so should I assume this is some kind of a feature of the non-audited results and shouldn’t be really focused upon, or is there something else going on there? Thank you.

Mark Gyetvay:

On the first part of your question, on the Yarudeyskoye field, as I mentioned, some of the capital expenditure that we incurred in Q1 is basically an extension of the carry-over expenses for the project. Generally, the fourth quarter/first quarter is primarily the big drilling seasons due to the freezing of the temperatures up there. I think it’s pretty much say that we’re going to – probably about RUB 9.5 billion overall for the year which includes VAT. So I think we've spent a substantial portion of that already and we don’t really expect much more to be spent in the remainder of the year.

In terms of your first question and the second part of your question, I’m not 100% sure I understand specifically what you mean by capex is different between reporting. I mean…

Artem Konchin:

You have a capex breakdown between different assets and if you look at your report from the first quarter of last year, the Yurkharov spending was RUB 1.8 billion, Salmanovskiy was RUB 1.5 billion. Now looking at the first quarter of ’16, we see previous year reported and the number is different.

Mark Gyetvay:

They might just be adjustments that are made from period on period. But nothing to be alarmed about.

Artem Konchin:

Okay, as long as it’s just some reporting. And about Yarudeyskoye, I asked precisely because of the late December launch. We would like to be able to estimate whether this first quarter capex is something that’s going to be recurring or this is a one-off and we will see a decline. So obviously it is 9.5 total; it should be lower subsequent quarters. Thank you very much.

Mark Gyetvay:

Yes, absolutely. You're welcome.

Operator:

Thank you. We will now move on to our next question from Ildar Khaziev from HSBC.

Ildar Khaziev:

Thanks. Thank you for the presentation. I have a question about the share of EBITDA of associates which you reported in the first quarter. You might have mentioned this already but I just wanted to understand why this number is roughly flat year-on-year in rouble terms – although at SeverEnergia I think the production was like almost two times higher in gas and liquid. Is this due to the changes in the purchase prices? Thank you.

Mark Gyetvay:

Absolutely. That’s the single largest reason why because of the differences in prices paid to purchaser side and as well as also higher MET tax or UPT taxes in the quarter that began effective on the 1 January.

Ildar Khaziev:

Okay, understood. Thank you.

Mark Gyetvay:

You’re welcome.

Operator:

Thank you. Again, as a reminder, if you wish to ask a question today, it is *1 on your keypad. We will move on to our next question from Igor Kuzmin from Morgan Stanley. Please go ahead.

Igor Kuzmin:

Good afternoon. I have one question about the working capital. I was just wondering if there is any expectation of how the working capital impact on the cash flows might evolve over the next two to three quarters if possible. Any sort of guidance, because it was quite a significant positive impact in Q1. Thank you.

Mark Gyetvay:

It’s kind of, it’s almost an impossible answer to give you on that because we have obviously timing differences in movements of products through goods in transit, etc. So it’s not an easy answer to give you and you’ve just got to bear with it and each quarter will be different. I can’t give you any definitive guidance as to what the working capital changes will be throughout the year. I’m sorry.

Igor Kuzmin:

No problem, thank you.

Operator:

Thank you. We will move on to our next question from Artem Konchin from Otkritie Capital. Please go ahead.

Artem Konchin:

Thank you once again. The question is about your purchases of gas from related parties and now actually non-related parties. I noticed that Sibur is no longer a related party. So that will complicate for us a little bit the calculations of your cost of purchases of hydrocarbons. I was wondering if you could maybe make a note of that and maybe offer some kind of either solution or maybe improve your disclosure in the future periods so that we don’t have to guess the prices that you are paying to your equity subsidiaries and other companies.

Mark Gyetvay:

So I assume that’s a statement because I would say my job is not to make your work any easier and we do provide a level of disclosure on it. If an entity is no longer a related party, I mean we’re not going to provide that level of detail because it’s not necessary according to the standards. I mean, we know what you say, we’ll look into it but our job isn’t – we’re already providing a substantial amount of details already in our financial statements, okay?

Artem Konchin:

Exactly, no questions about that. Your disclosure level is excellent and this has been a very minor deterioration to that so that's why I asked the question hoping that…

Mark Gyetvay:

Yes, but again it's not a deterioration because if it's no longer a related party, it's no longer required to be disclosed as we did in the prior periods. I mean this is not the first time – this is not the first time that an entity is falling off of the related parties situation and yet it's been never raised before. So I would just say we note your concern, we'll take a look at it and I think this is one thing that you just need to keep in touch with us and we'll try to help you through that question.

Artem Konchin:

Cool, thank you very much.

Mark Gyetvay:

Okay, you're welcome.

Operator:

Thank you. We will now move on to our next question from Ildar Davletshin from Renaissance Capital. Please go ahead.

Ildar Davletshin:

Yes, good afternoon. Thank you very much. Just wanted to ask your view on the domestic sales, gas sales and profitability in the near-term outlook and specifically if you could provide just comment within these four categories, like end customer tariff, transportation tariff, MET and then this regional mix, meaning high netback region versus less profitable regions. I mean, how do you expect this profitability to evolve? Should we assume 2015 profitability is kind of a new norm or is it that you're going to see some expansion? I would be interesting to hear your views. Thank you very much.

Mark Gyetvay:

Again it's not a simple answer to a complex question. I mean, there's a lot of dynamics that come into play when our gas department is moving gas around the country to various markets. So it's not a straightforward answer. All I can say is that obviously the most important element for us right now is managing the transportation costs element. We have recently given our views to the Russian government on finding a way to lower the transportation costs because that really is the major component that determines some of the profitability in the particular regions where we deliver. So I would just say it's not a very straightforward question because I don’t know for example how much gas we’re going to put on the exchange at any given particular time. There might be shifts to the customer requests for additional gas that I can’t forecast right now. As you saw, the mix even changed. We were more or less averaging 94% end customers and now it went down to 91%, so that has an impact. But the most important thing I think from our perspective and the most important thing that I can share with our investors today is to tell them, is that our goal is to maximise the netback margins. That is our primary goal, and we move gas along the system to effect that strategic goal. And as you can see in the first quarter results, particularly when we look at against the fourth quarter, you can see that our netback margins were reasonably strong. And that’s the key element and that’s where we focus on our efforts. So to be able to give you a split of what gas is being moved to what region, what customer, what class of customers, it’s just not possible right now. But the goal that you should understand is that the strategic direction is to maximise our netback profits and that’s what we do.

Ildar Davletshin:

All right, thank you. Is it fair to assume that it can grow with inflation or you don’t want to provide this level…?

Mark Gyetvay:

I’m not going to provide that level of granularity because it’s impossible to say whether it's going to keep pace with inflation or not. I mean, we report this information each quarter and it’s not possible to give you that specificity of guidance throughout the rest of the year. So it is what it is each quarter and our goal is to maximise the netback margins.

Ildar Davletshin:

Sure, okay, thank you very much.

Mark Gyetvay:

Okay, you're welcome.

Operator:

Thank you. As there are no further questions in the queue, I would now like to turn the call back to the speaker for any additional or closing remarks.

Mark Gyetvay:

Well, first of all I’d like to say again thank you, everyone, for bearing with us through these volatile times, and we've been actively out in the market speaking to investors recently and we’ll continue to do so in the upcoming months. I think it’s important also to look at what we've achieved in a relatively, I say, difficult operating environment and when we look at the results that the Russian energy industry is going to produce, I think you can actually see that we have finally, can separate the results between the different geographical regions and I think it's going to be quite impressive to see the strong results that are being generated by the Russian energy industry despite all these sort of macro environment and the sanctions and people's concerns about GDP growth, economic growth, etc. I'd also like to say that I know the question on financing is still an important question in everybody's mind and I would like to close tonight to tell you that we will sign the agreements by the end of this month. So that's my closing statements that they will be signed by the end of this month. So thank you very much and we look forward to addressing you again in the second quarter.

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