OAO NOVATEK

First Quarter 2017

Financial and Operational Results – Earnings Conference Call

28 April 2017
Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our First Quarter 2017 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 2016, 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 expect the commodity markets to remain volatile in 2017, so it doesn't make too much sense to spend much time on this point other than to state the obvious – we try to manage our business through various macro-economic cycles and the one we face today is no different from those we have faced in the past. Our aim is to manage our business through these commodity price cycles, both positively and negatively, to achieve the highest risk-adjusted margins for the hydrocarbon product stream we market domestically and internationally.

Tonight, I would like to focus my discussion on the declining production output from our legacy assets, and explain what we are doing in terms of arresting the current decline rates as well as providing an update on some of our current development and exploration plans. We have stated before that our mature fields are declining at varying rates. This situation has become quite obvious from the recent quarter-on-quarter declines over the past year, but it is our firm position that this trend is manageable and not indicative of NOVATEK going ex-growth. We have an exciting array of exploration and development projects in the pipeline but they are geared more towards the end of the decade rather than a quick fix solution.

Management has focused an enormous amount of attention over the past couple of years on delivering our Yamal LNG project on time and on budget, as we believe the pivot to providing global markets with LNG is the future of NOVATEK. This point was articulated by Mr. Mikhelson when asked about pending strategy update. We are also in discussions to potentially acquire producing assets in the general vicinity of our existing asset base but we can only elaborate on this point once a deal is consummated. It's premature at this stage to speculate when any M&A deal will be finalized but we believe we can maintain our current production plateau by complementing our existing asset portfolio.

It is also important to reiterate this evening that we are moving forward with Arctic LNG 2 and that infrastructure work has already begun on the Kola Yard in the Murmansk region to support the localization of module construction. This aspect is important for us as we aim to reduce the cost of new LNG modules built on gravity-based platforms through the maximum localization of production and testing, as well as substantially reducing transport costs. Arctic LNG 2 will be supported by the natural gas produced at our Utrenneye located on the Gydan peninsula, and we continue to achieve great production results from the production wells drilled on this field. We will submit an update to the C1 + C2 reserve base for governmental approval during the second quarter 2017, so it's important to wait until this process is completed to provide update resource figures.

I will attempt this evening to provide our investors with a preview of some of the upcoming activities that we are currently working on to stabilize output on our core production regions in the medium term, but I would also like to stress that these work activities extend over a period of several years, rather than months, and we ask our investors to remain patient as we believe we have exciting prospects to develop both mid- and longer-term. In the short-term we will continue to focus on the successful launch of Yamal LNG and bring a new chapter to the Company's history.

Our legacy assets began producing in 1996 with the commencement of crude oil production at the East Tarkosalinskoye field, followed by the commencement of natural gas from this field in 1998, the Khancheyskoye field in 2001 and the Yurkharovskoye field in 2003. Our legacy fields have already cumulatively produced more than 550 billion cubic meters (BCM) of natural gas, with the current recoverable ratio at each of the three fields consistent with our development plan and the prudent exploitation of the field's resource bases. More importantly, these three fields will continue producing for another 15 to 20 years, albeit at declining output rates, and today still represent the major share of our consolidated production.

So, what steps are we undertaking to stop declining production at our legacy fields as well as new development activities to bring additional production on stream over the next several years? I would like to highlight some of our main activities.

We recently began evaluating the Achimov and Jurassic layers across our asset portfolio to determine whether or not we can extend the production lives of our legacy assets by

tapping into the deeper and more liquids rich lower producing horizons. This decision was made primarily based on our successes to drill deeper at the SeverEnergia and Terneftegas joint ventures. We successfully drilled and are now producing from the deeper Achimov and Jurassic layers.

We began drilling well #135 at the West Yukharovskoye field last year to specifically target the high pressure Jurassic layers at an average vertical depth of four thousand meters. We have completed the vertical and horizontal drilling at this well and this week we began the multi-stage fracturing to determine the permeability and potential flow rates from this deeper horizon. I mentioned previously that our geologist have already confirmed production at both the Valanginian and Jurassic layers, but the economic commerciality of the deeper Jurassic layer needs to be confirmed from the multi-stage fracking as well as developing an economically feasible development plan. We remain optimistic that the lower producing horizons will be commercially viable, and, as such, we will provide more information shortly on this topic.

In addition to the targeting the deeper producing horizons we have begun evaluating concrete remediation steps we can take to slow these rates of declines, including but not limited to, sidetracking present horizontal sidetracks to capture additional production layers, more use of well stimulation and hydro-fracturing and the introduction of plunger lifters to efficiently move liquids within the gas stream as bottom hole well pressures decline. We can also step up our drilling and exploration efforts, which was somewhat negated until we were absolutely sure the Yamal LNG financing was appropriately secured. This was essentially achieved in mid-2016.

We have stated many times already that our primary goal is to maintain our market share on the Russian domestic, which will be met through a combination of our equity natural gas production and purchases primarily from our joint ventures. Some of our main options to achieve this goal relates to activities already underway.

We had previously talked about our work activities at the North-Russkiy license area, so tonight I would like to reiterate some of the things we are currently working on in this area.

Specifically, the North-Russkiy block encompassing the North-Russkoye, East-Tazovskoye, Kharbeyskoye and Dorogovskoye fields, with combined production potential of approximately 12 to 14 BCM of natural gas and 1.2 million tons of gas condensate. We anticipate to commence production around late 2019, early 2020 with commercial ramp-up between 2021 through 2023, depending on the specific field.

Infrastructure construction has already begun on the North-Russkoye and East-Tazovskoye fields with production potential of roughly 7.2 BCM per annum. At the neighboring Kharbeyskoye and Dorogovskoye fields three-dimensional (3D) seismic studies have been completed and a significant increase in hydrocarbon deposits has been discovered. We completed one-stage hydraulic fracturing at well #305 and achieved a commercial flow of gas condensate, with preliminary flow rates of 200 million cubic

meters (MCM) of natural gas with a gas condensate factor of approximately 400 grams per MCM from the Jurassic layers. Two (2) additional exploration wells - #306 and #307 – targeting the Jurassic deposits have been prepared for drilling. We will update you on these results during the year.

At SeverEnergia, we further delineated the Urengoyskoye field on the Samburgskiy license area by discovering a new deposit – Ach-1, which will eventually increase the field's natural gas output by three (3) to four (4) BCM per annum from roughly 14 BCM to just under 18 BCM, well as maintain the condensate production levels up to six (6) million tons. We will bring this incremental production on-line around 2020.

We are working on a number of new initiatives that will be discussed later at our Strategy Update, but I would like to flag some of them this evening to highlight how we see new production coming online post-2020 with our planned development program.

ArcticGas, formerly known as SeverEnergia, will play a crucial role in providing incremental production in terms of natural gas, gas condensate and crude oil. If you recall, we already mentioned that the first phase of crude oil production of 1.2 million tons will commence at the Yaro-Yakhinskoye field in 2019. We are also commissioning a series of fields for development between 2020 and 2025, such as the Urengoyskoye field on the Yevo-Yakhinskoye license area with potential production targets of 2.5 BCM of natural gas and 700 thousand tons of gas condensate, the East-Urengoygoyskoye field on the Samburgskiy license area with potential production targets of 2.3 BCM of natural gas and 500 thousand tons of gas condensate, or the North-Chaselskoye field with production potential of 5.3 BCM of natural gas and 200 thousand tons of gas condensate.

ArcticGas provides us with the opportunity to sustain production levels post 2020 on a number of interesting development initiatives as well as further exploratory activities. We will purchase natural gas and unstable gas condensate from this joint venture to support our marketing efforts.

We will also focus more attention on increasing the associated gas production on our Yarudeyskoye (up to 1.8 BCM), Yaro-Yakhinskoye and East Tarkosalinskoye (1.0 BCM) fields, and later when we commence production at the North-Russkiy block.

I would like to make a few comments about our largest producing asset, the Yukharovskoye field, and some of the possibilities we have to reduce the current decline rates. We have studied various development opportunities to monetize additional reserves on this field as way back as pre-IPO to understand the most efficient way to exploit this field's vast potential. We decided to drill a series of large diameter horizontal wells from drilling clusters onshore to tap the reserves located in the Ob River. This development process has proved to be largely successful as we managed to cost-effectively exploit 314 BCM of natural gas, or 55% of the recoverable reserves, while drilling only 94 production wells. Now, we are studying the possibility of extending the field's reserves and production capacity by developing the eastern part of the field.

Moving forward, I would like to provide a brief update on activities at Yamal LNG over the past quarter.

The overall project completion was 80% at the 31 March 2017 versus 75% complete at year-end 2016. The first LNG train is now 91% complete and we have begun commissioning work on some of the modules with projected startup of LNG train #1 in the second half of 2017 as scheduled.

We have also reached the peak labor force and presently there are approximately 31,000 construction workers versus 22,000 in the fourth quarter with about 4,000 construction vehicles onsite. There are approximately 13,000 people working on module fabrication at various construction yards. It's a massive undertaking.

We completed and tested six (6) new production wells in the 1Q 2017 and eighty-one productions wells have now been drilled, significantly exceeding the number of wells required for LNG train #1. Construction of the gas gathering lines for the first train is also being finalized.

I mentioned on our annual conference call that all 78 modules for LNG train #1 were installed and at various stages of testing, including the placement and installation of the cryogenic heat exchanger for LNG train #1. The cryogenic heat exchangers for LNG trains #2 and #3 have already been delivered to Sabetta, and roughly 33 modules have been completed and are either in the process of being shipped or have already been delivered to the construction site. All remaining modules for LNG trains #2 and #3 will be delivered by year-end.

The most significant news in the first quarter was the successful ice testing of the first Arc7 ice-class LNG vessel. The vessel was placed into water fully equipped in 2016 and during the period of November-December 2016 passed the navigation tests in the Arctic Ocean. On the 24 January 2017, the vessel docked at the Fluxys transshipment facility at Zeebrugge in Belgium to cool down its cargo tanks and load some LNG for fuel and testing. In February-March 2017 the LNG vessel successfully passed the ice tests in the Kara Sea and docked at the port of Sabetta on 30 March 2017. The ice test results exceeded the design expectations of the vessel, as the maximum speed in 1.5 meter thick ice was seven (7) nautical knots rather than the planned five (5) nautical knots. Seven (7) more LNG vessels are currently being built.

As of today, we have received $23.4 billion in overall financing for the Yamal LNG project, inclusive of the $13.1 billion provided by the shareholders. The budget for 2017 is forecast at approximately $ 6 billion.

Mr. Mikhelson mentioned last week at our Annual General Meeting of Shareholders (AGM) that the German (Eular Hermes) and Swedish (EKN) export credit agencies have decided to take part in the overall financing of Yamal LNG. We believe this decision is another important step for the project as we broaden the participation by the international

financial community into the external financing package and can better optimize the overall cost of financing. The total limit of $ 19 billion will remain in place.

The first quarter 2017 was relatively a quiet period in terms of exploration and production activities, although we increased the running of 3D seismic works but reduced exploratory and production drilling, most notably at our subsidiary companies. During the quarter, we drilled and completed 14 production wells versus 17 production wells in 1Q 2016 and 30 production wells in 1Q 2015. The trend toward maintenance drilling is clear.

We are 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 as I mentioned earlier. This focus will drive investment decisions over the coming years as we shift our asset portfolio and consider potential M&A activities in our core region of operations.

Longer term, our strategic focus will center on analyzing and evaluating potential new licenses to complement our present portfolio of assets, particularly where we believe we can maximize our synergies for developing an LNG center of excellence in the Yamal and Gydan peninsulas. As Mr. Mikhelson mentioned on the Q&A session during our full year financial conference call, the plan to more than double our LNG output is a strategic plan and we will elaborate more on this vision in our upcoming Strategy Update in the latter part of this year.

Looking specifically at the first quarter 2017, we spent approximately RR 4.7 billion in our capital program on a cash basis versus RR 8.1 billion in the corresponding year, representing a 47% decrease period-on-period. Most notably, was the declines in capital spent at the Yarudeyskoye and Yurkharovskoye fields and a shift towards capital spending at the West-Yurkharovskoye and Utrenneye fields as well as the North-Russkoye block. Overall, we plan to invest about RR 40 billion in capital expenditures in 2017, allocating funds between legacy assets, new development activities and infrastructure work for new LNG projects.

The comparability of financial results year-on-year (y/y) is challenging largely due to the increase in commodity prices between reporting periods as well as the volatility in foreign exchange between the RR and USD. As a result I will focus most of my discussion on quarter-to-quarter (q/q) comparative and when illustrative y/y.

Total oil and gas revenues in the first quarter (1Q) 2017 was RR 154 billion, representing an increase over both the y/y and q/q comparatives of roughly 11% and 7%, respectively. This growth was largely driven by a substantial increase in commodity prices y/y for our liquids revenues on lower volumes sold and the corresponding translation of these foreign earnings to Russian roubles. Our volumes sold declined by 11% y/y, largely due to decreased gas condensate sales and weather disruption at the port loading facility for crude oil. The decline in liquid output was mainly attributable to the Yurkharovskoye

field but also the production output for this current period was affected by a difference in the number of days producing between the first quarters 2016 and 2017. Our liquid output declined by 2.3 thousand tons or by 6.5% for the differences in days and output declines between the reporting periods. We also had a larger change in inventory balances of roughly 208 thousand tons in the first quarter 2016.

It's also important to note that declines in output from the producing fields did not affect our ability to maximize risk-adjusted margins at the Ust-Luga complex as this facility continued to operate at 117% of its nameplate capacity on an annualized basis. We are maximizing revenues from this facility as sales of naphtha and other refined products were strong y/y and q/q.

Our liquid sales increased q/q by roughly 12%, which were impacted by a combination of factors including increased volumes sold by 228 thousand tons, slightly better commodity prices across the slate of our product range and a reversal in inventory movements by roughly 366 thousand tons. Inventory balances will fluctuate period-on-period due largely to loading schedules and time to destination.

Natural gas revenues between the respective reporting periods were reasonably strong, increasing y/y and q/q by 10% and 2%, respectively. The increase in natural gas revenues were driven largely by increased volumes sold, a shift more towards end-customer sales, a change in geographical mix and seasonal withdrawals from storage. Our average sales on a netback basis taking into consideration transportation and customer mix increased by 6% and 4% y/y and q/q, respectively.

Average natural gas prices to end-customers increased by 3.9% y/y largely due to the geographical mix of our sales at more distant locations, which in essence also increased our average transport tariff by 10% and resulted in a slight increase in our average netbacks. Conversely, we improved our average netbacks q/q by 2.1% on slightly higher sales volumes.

Our liquid revenues accounted for 56% of our total revenues in the first quarter 2016 and 2017 and 54% in the 4Q 2016. Natural gas volumes sold to end-customers remains slightly more than 92% with the remaining 8% sold ex-field. Liquid sales remain geographical diverse with Europe and the Asian Pacific region as the primary markets, with a notable increase in stable gas condensate and naphtha sold to North America.

At 31 March 2017, we had 93 thousands of naphtha in transit to the Asian Pacific region which was consistent with prior year but 60 thousand tons higher than year-end. Total liquids in storage were 813 thousand tons. We finished the reporting period with 130 MCM of natural gas in underground storage, a decrease of 704 MCM from year-end reflecting stronger seasonal demand in the current quarter.

Our operating expenses were again consistent with our overall business trends and we did not have any major surprises in our expense categories during the reporting period. Our operating expenses increased relative to the growth in our business, representing an

increase of approximately 13% y/y and by 4% q/q. The most significant increase in our operating expenses y/y related to the purchases of hydrocarbons as we continued to purchase both unstable gas condensate and natural gas from our joint ventures. This trend will continue as we meet our customer demand through a combination of equity production from our subsidiaries and purchases from our joint ventures. Purchases of hydrocarbons represented 38% of our total operating expenses during the quarter.

Taxes other than income tax increased effective 1 January for both crude oil and gas condensate as the base rates increased by 21% and 18%, respectively. Our SG&A increased during the reporting period largely due to the growth in headcount 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 a large swing between reporting periods 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 positive in the first quarter 2017 and all of our credit metrics continued to improve. Free cash flow generation of RR 44 billion remained very strong despite a drop in operating cash flows by 10% as well as a 47% decrease in capital expenditures. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due. We decreased our net debt position by 44% to RR 114 billion as we repaid debt according to repayment schedules or before maturity.

In conclusion, we have shown without doubt the cash-generating nature of our business over the past several years, and we have a turned a major corner in the allocation of capital from legacy assets to our pivot towards the global LNG markets. We understand the concerns voiced recently by analysts over the production declines in our core legacy but part of this decline was a combination of overproducing at the Yurkharovskoye field for two years as I had mentioned on one of my prior conference calls when we reduced the plateau levels at the field as well as need to conserve cash until such time as the external financing for Yamal LNG was secured.

Tonight, I provided a glimpse into some of our current development and exploration projects because I felt it was important to provide this preview prior to our Strategy Update later this year, which will be a more comprehensive picture of our strategic plans for the next 10 plus years. We have many opportunities to consider, including potential M&A deals or license acquisitions which first must be concluded before we can provide context into how these new opportunities fit into our broader strategy.

Moreover, our strategic decision to pivot towards LNG is supported by growing demand and the need to transition away from solely pipeline gas to more flexible delivery options. LNG growth in 2016 was roughly 7.3%, and the initial data so far for 2017 shows continued demand growth. First quarter 2017 volumes were about 74 million tons, or approximately 10% higher as compared to corresponding period in 2016. China alone

has increased LNG import by 17% in March, and we see more and more countries opening up as potential demand points.

We understand that the LNG is presently a "buyer's market" for the next several years and, quite frankly, we don't feel that this is a bad situation. The more consumers are comfortable with pricing and supply choices, the faster the LNG market will crystallize for suppliers. These developments underscore our decision to begin designing and construction works at the Kola Yard in the Murmansk region to make our LNG proposition competitive in any market condition. We see the emerging LNG market as an opportunity for NOVATEK to be a formidable player, and we will work extremely hard to ensure our future projects are competitive and compete with the likes of the Qatari projects.

There was an announcement yesterday by the Australian government to unveil the "Australian Domestic Gas Security Mechanism" that will impose export controls on LNG if there is a forecasted shortfall in natural gas earmarked for domestic consumption. This obviously puts pressure on LNG exporters and projects in Australia, but I also believe it calls into question the perception of country risk and the need to reassess the analyst's country risk assessment of Russia, generally, and our Yamal LNG project, specifically.

I believe we have delivered another set of strong results. And, hopefully, I have provided a glimpse into some of the concrete steps we are presently taking to reduce the production declines on our legacy assets. Our strategy team met yesterday for several hours to discuss the final steps in presenting the updated strategy to the Management Board for review and approval. There is an internal process that we must adhere to but in general our strategy will be aimed toward sustaining our domestic market share as well as full utilization of our processing capacities. We will consider gas chemistry projects, expand the depth of our refining capacity, and expand our global LNG footprint.

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.