

# NOVATEK

## First Quarter 2019 Operational and Financial Results Conference Call



***Mark A. Gyetvay, Deputy Chairman of the Management Board  
Moscow, Russian Federation  
26 April 2019***

# Disclaimer – Forward Looking Statement

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

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

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

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

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

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# Summary Operational Highlights – 1Q19

- ❑ **Hydrocarbons production** totaled 147.1 mmboe, representing an **increase of 11.0%** compared to 1Q18
- ❑ **Revenue** was RR 234.1 bln representing an **increase of 30.5%** compared to 1Q18
- ❑ **Normalized\* EBITDA** was RR 117.9 bln representing an **increase of 54.6%** compared to 1Q18
- ❑ **Normalized\* profit** was RR 110.6 bln representing an **increase of 166.6%** compared to 1Q18
- ❑ **NOVATEK's share in LNG production** was 2,586 mt
- ❑ **3,421 mmcm of natural gas** were sold on **international markets**

\* Excluding the effect from the disposal of interests in subsidiaries and joint ventures

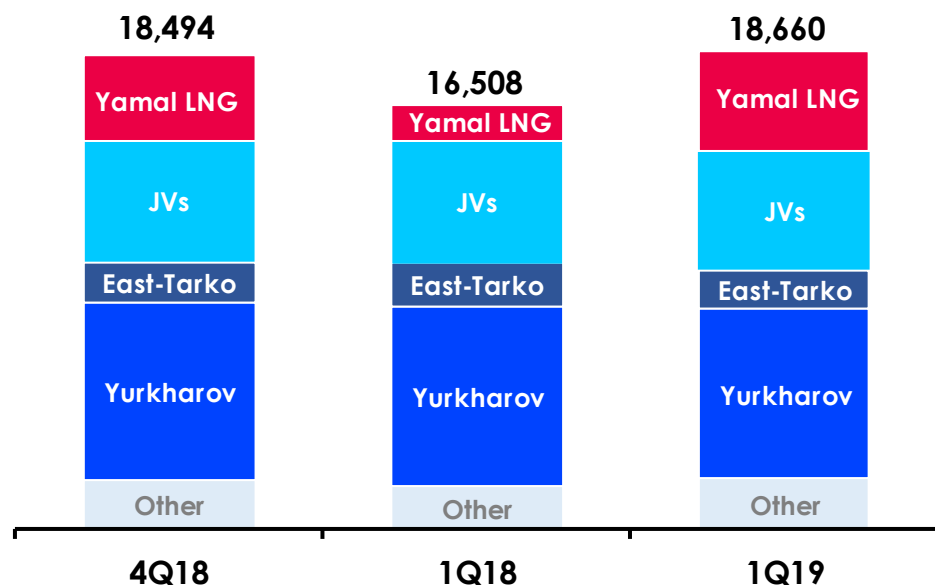
# Key Events 1Q19

- ❑ NOVATEK closed sale of 10% interest in Arctic LNG 2 to TOTAL
- ❑ Arctic LNG 2 and Siemens signed equipment supply contract
- ❑ NOVATEK signed heads of agreements with several international companies for the supply of liquefied natural gas from the Arctic LNG 2 project as well as other Group's projects
- ❑ NOVATEK won the sustainability impact assessment award. The Company's Sustainability Report was recognized as the winner in the category "Disclosure of Information on Corporate Governance"

# Operational Overview

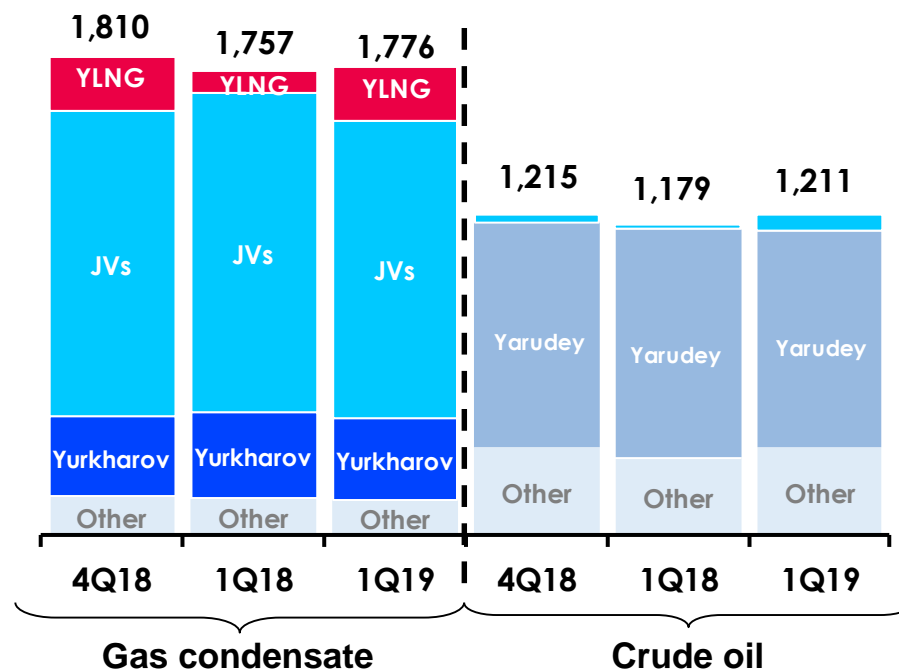
# Hydrocarbon Production

Natural Gas Production, mmcm



The main factors positively impacting our production growth were the increase of natural gas production at Yamal LNG resulting from the start of LNG production at the second and third LNG trains of the LNG liquefaction plant in the second half of 2018, as well as the acquisition of the Beregovoye field by the Group in the first quarter of 2018. These positive factors allowed us to fully compensate for the decrease in production at mature fields of our subsidiaries and joint ventures.

Liquids Production, mt



The increase in total liquids production volumes YoY was mainly due to a gas condensate production growth at Yamal LNG resulting from the launch of the second and third LNG trains of the LNG liquefaction plant in the second half of 2018, which allowed us to fully compensate for a decrease in gas condensate production at mature fields of our subsidiaries and joint ventures.

# Purovsky Plant and Ust-Luga Complex

## Purovsky Plant

- ❑ **Total volumes delivered in 1Q19: 2,693 mt**
  - Yurkharovskoye field: 309 mt
  - East-Tarkosalinskoye and Khancheyskoye fields: 110 mt
  - Other fields: 21 mt
  - Purchases from our joint ventures: 2,253 mt
- ❑ **Total output of marketable products: 2,679 mt**
  - Stable gas condensate: 2,054 mt
  - LPG: 625 mt



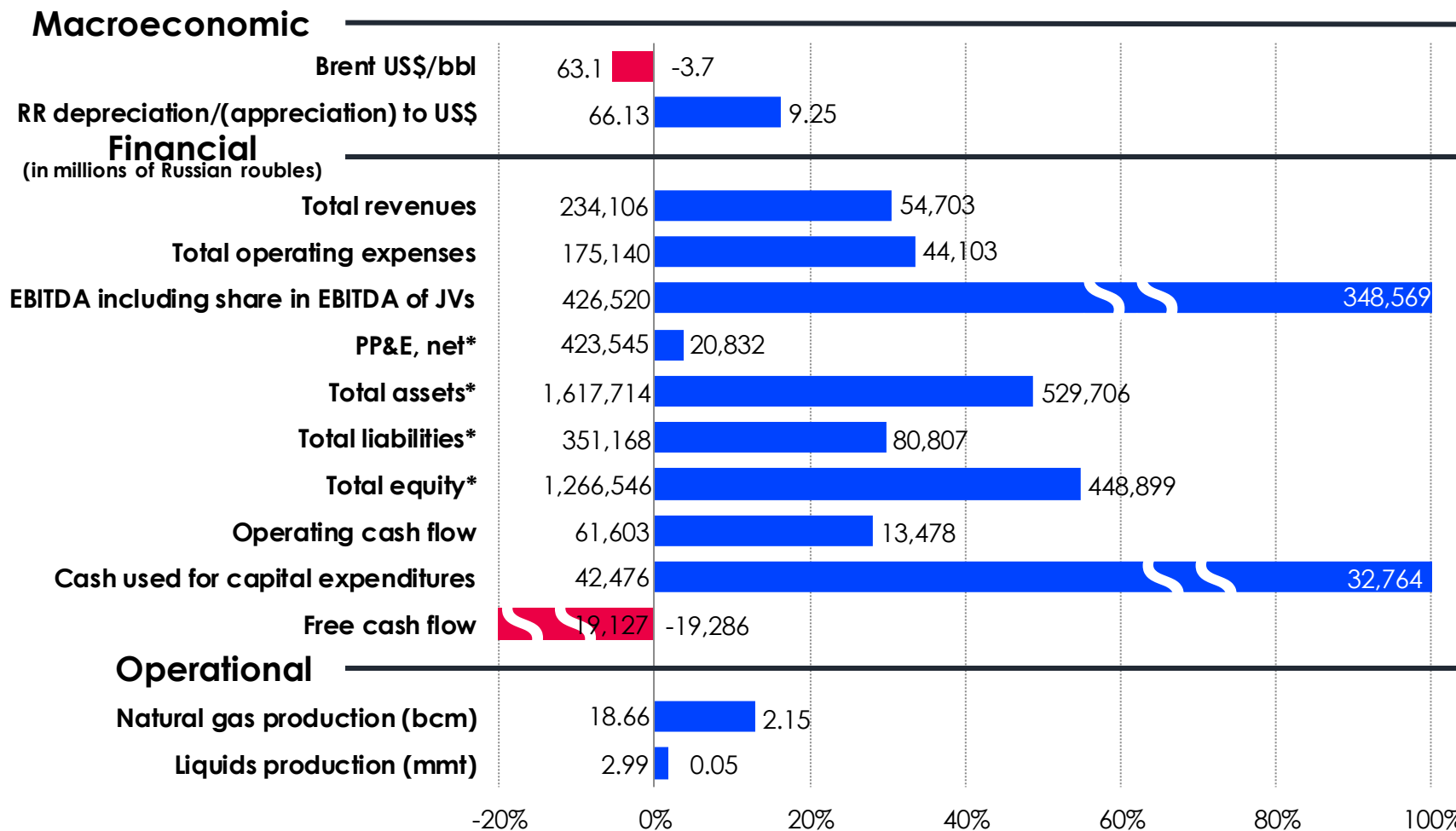
## Ust-Luga Complex

- ❑ **Total volumes delivered in 1Q19: 1,770 mt**
- ❑ **Total output of marketable stable gas condensate refined products: 1,726 mt**
  - Naphtha: 1,101 mt
  - Other products: 625 mt
- ❑ **Stable gas condensate refined products sold: 1,797 mt**
  - to Europe: 1,072 mt
  - to the Asian Pacific Region: 533 mt
  - to North America: 179 mt
  - Other: 13 mt



## Financial Overview – 1Q19 to 1Q18

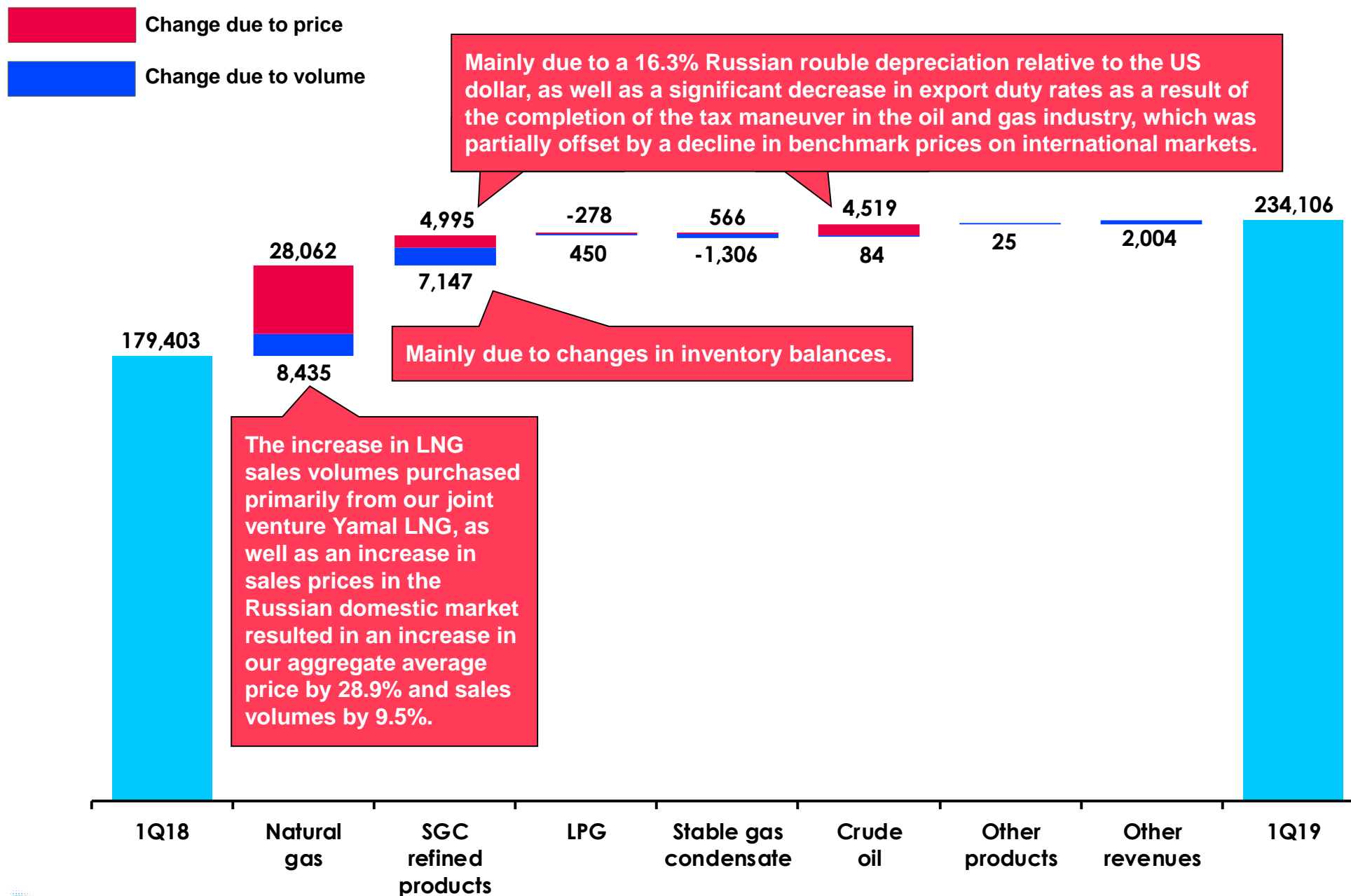
# Performance Summary 1Q19/1Q18



\* 31 March 2019 to 31 March 2018.

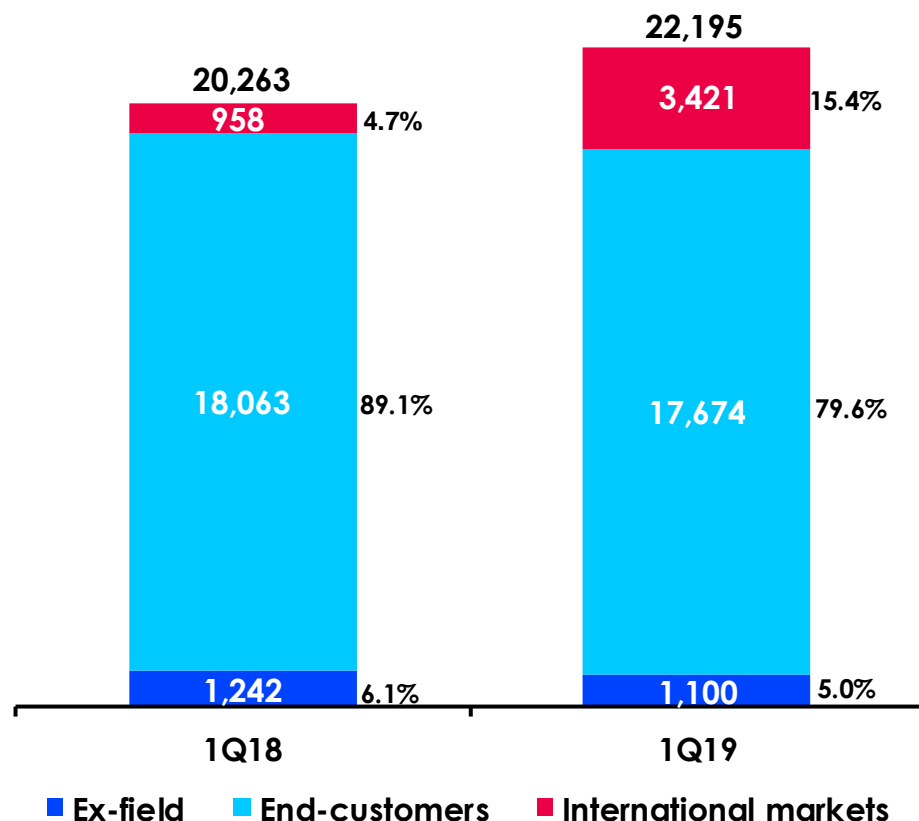
Note: Number on the right is the absolute change, number on the left is the value for the reporting period, size of bar is % change

# Total Revenues (RR million)



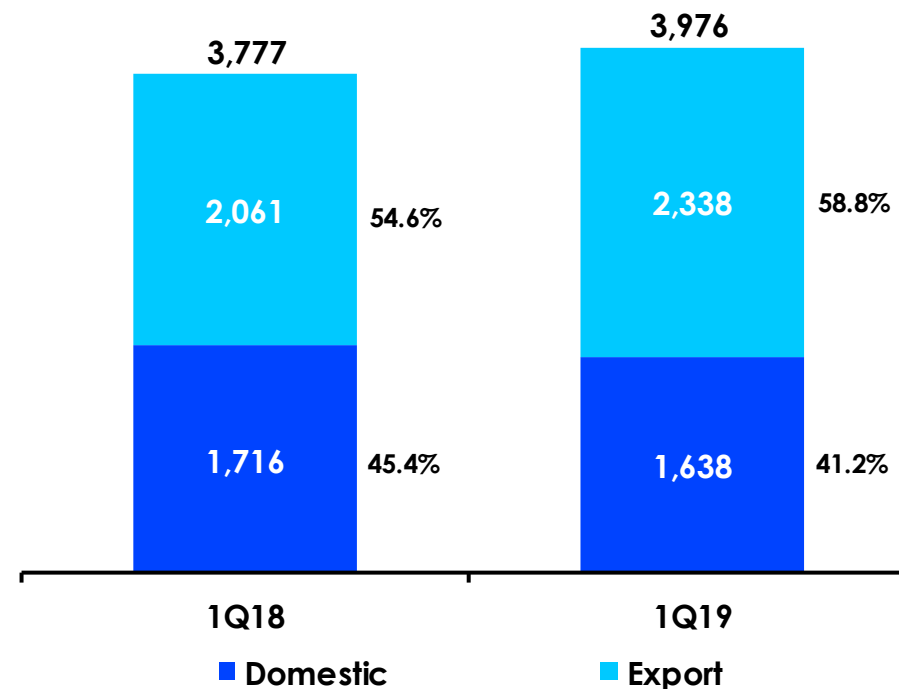
# Market Distribution - Sales Volumes

Natural Gas Sales Volumes, mmcm



Our total natural gas sales volumes increased by 1,932 mmcm, or 9.5%, due to increased sales of LNG purchased primarily from our joint venture Yamal LNG.

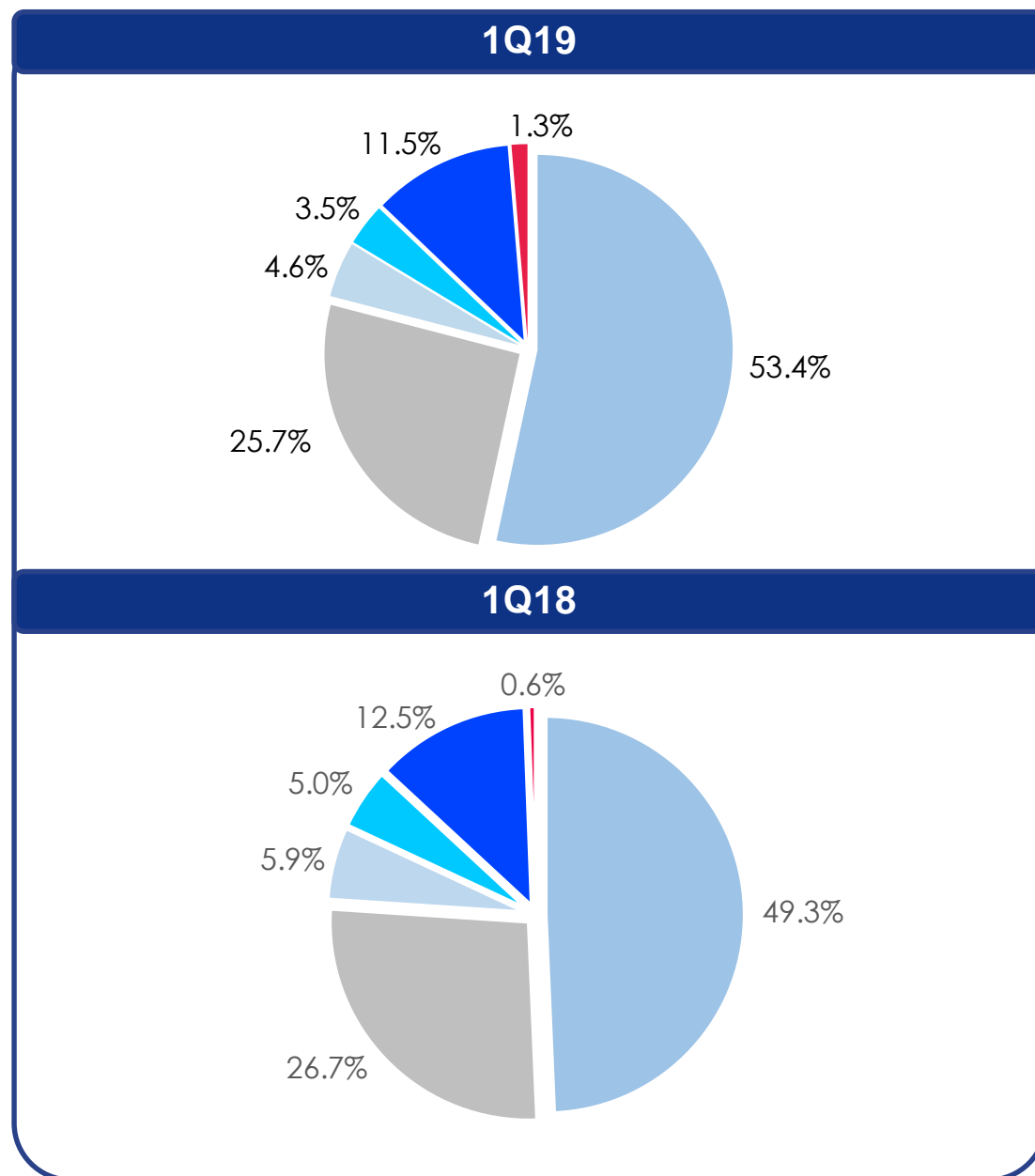
Liquids Sales Volumes, mt



Our liquids sales volumes increased by 199 mt, or 5.3%, mainly due to changes in inventory balances that vary period-to-period depending on shipping schedules and final destinations of our liquid hydrocarbons shipments.

# Total Revenues Breakdown

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

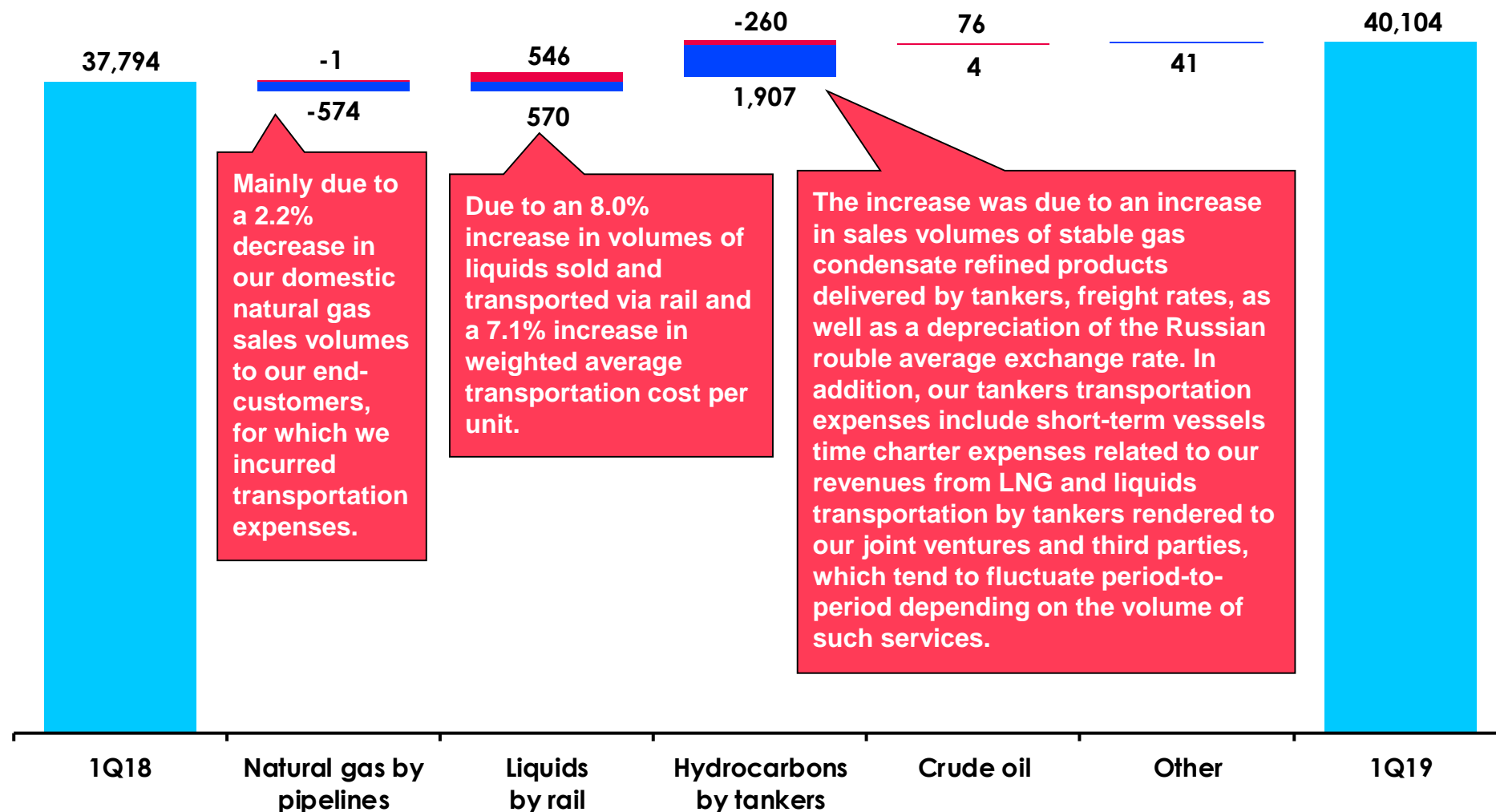
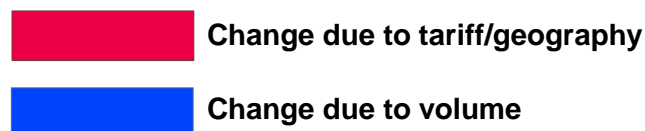


# Operating Expenses (RR million and % of Total Revenues (TR))

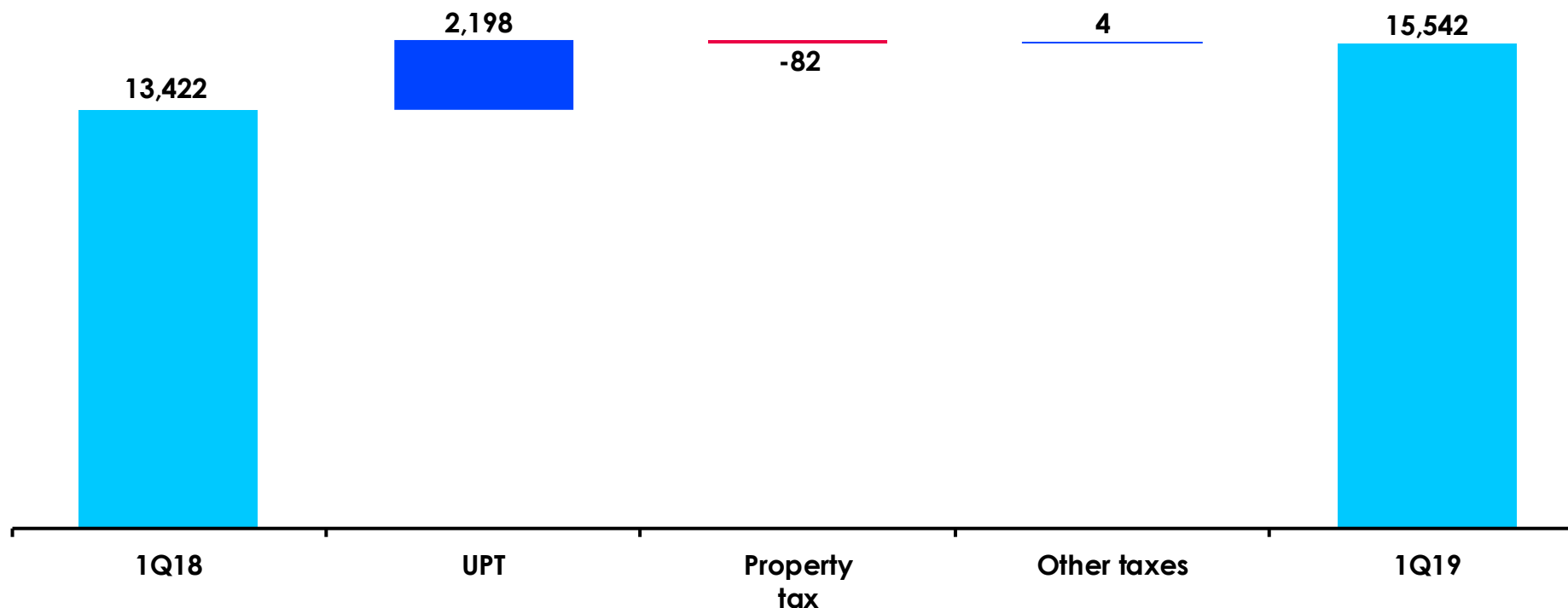
1Q18	% of TR	1Q19	% of TR		4Q18	% of TR	1Q19	% of TR
37,794	21.1%	40,103	17.1%	Transportation expenses	39,644	16.7%	40,103	17.1%
13,422	7.5%	15,542	6.6%	Taxes other than income tax	15,035	6.3%	15,542	6.6%
51,216	28.6%	55,645	23.7%	<b>Non-controllable expenses</b>	54,679	23.0%	55,645	23.7%
8,097	4.5%	7,487	3.2%	Depreciation and amortization	7,831	3.3%	7,487	3.2%
5,563	3.1%	6,030	2.6%	Materials, services & other	5,812	2.5%	6,030	2.6%
4,593	2.6%	5,033	2.1%	General and administrative	6,670	2.8%	5,033	2.1%
1,709	1.0%	3,377	1.4%	Exploration expenses	2,461	1.0%	3,377	1.4%
				Net impairment expenses				
-4	n/a	1	n/a	(reversals)	172	0.1%	1	n/a
				Change in natural gas, liquids and WIP				
-1,952	n/a	2,807	1.2%		2,309	1.0%	2,807	1.2%
69,222	38.5%	80,380	34.3%	<b>Subtotal operating expenses</b>	79,934	33.7%	80,380	34.3%
				Purchases of natural gas and liquid hydrocarbons				
61,815	34.5%	94,760	40.5%		100,432	42.3%	94,760	40.5%
131,037	73.0%	175,140	74.8%	<b>Total operating expenses</b>	180,366	76.0%	175,140	74.8%

Our total operating expenses increased YoY by 33.7% to RR 175,140 million mainly due to an increase in volumes of LNG purchased from our joint venture Yamal LNG with the launch of LNG production at the second and third LNG trains in the second half of 2018, as well as an increase in the average purchase prices for hydrocarbons, which in turn allowed us to earn higher revenues from hydrocarbons sales.

# Transportation Expenses (RR million)

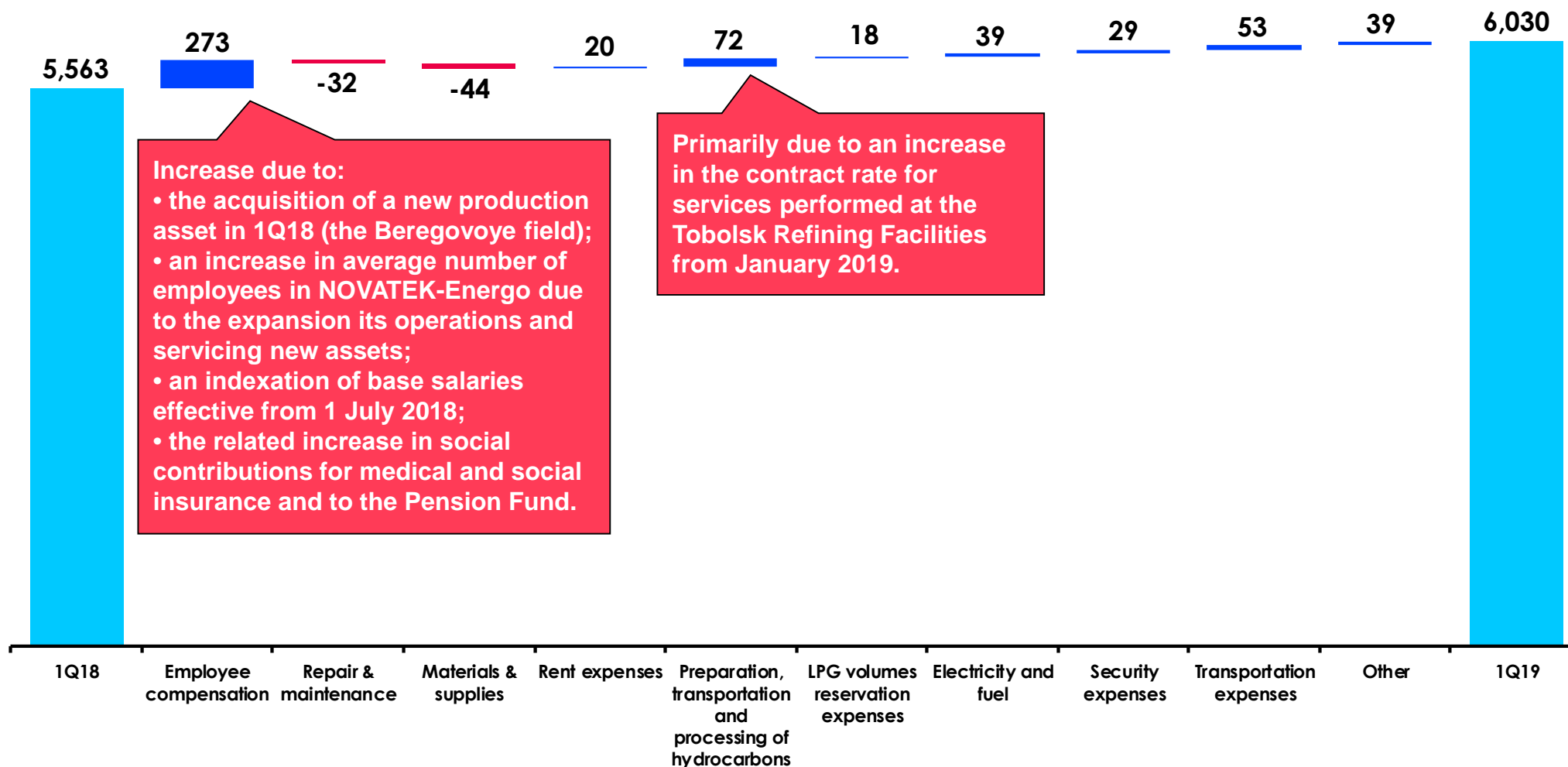


# Taxes Other Than Income Tax Expense (RR million)

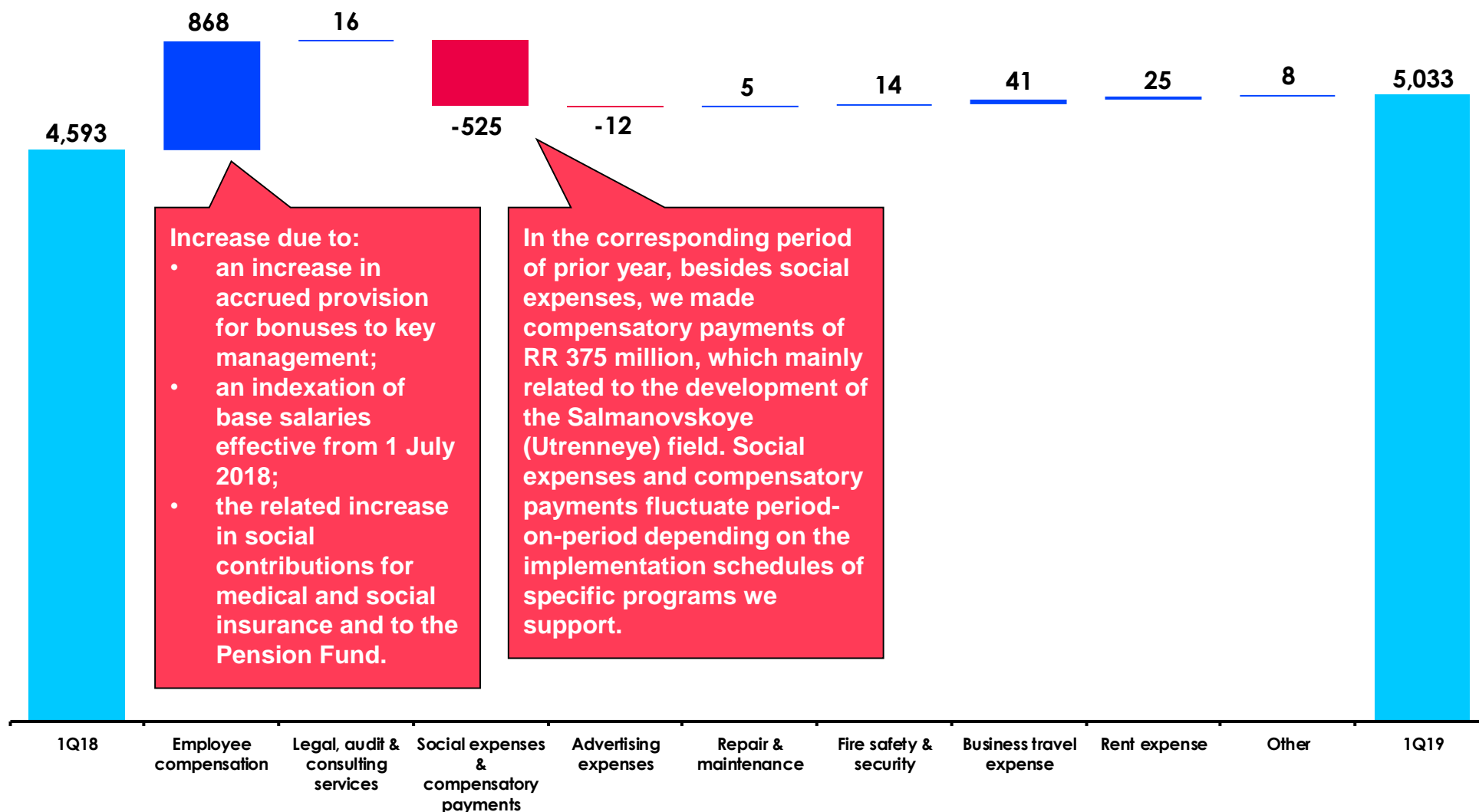


Our unified natural resources production tax expense increased by 17.7% mainly due to an increase in UPT rates for crude oil and gas condensate. The increase was mainly the result of changes in the UPT rates formulas effective 1 January 2019 caused by the completion of the tax maneuver in the oil and gas industry.

# Materials, Services and Other Expenses (RR million)

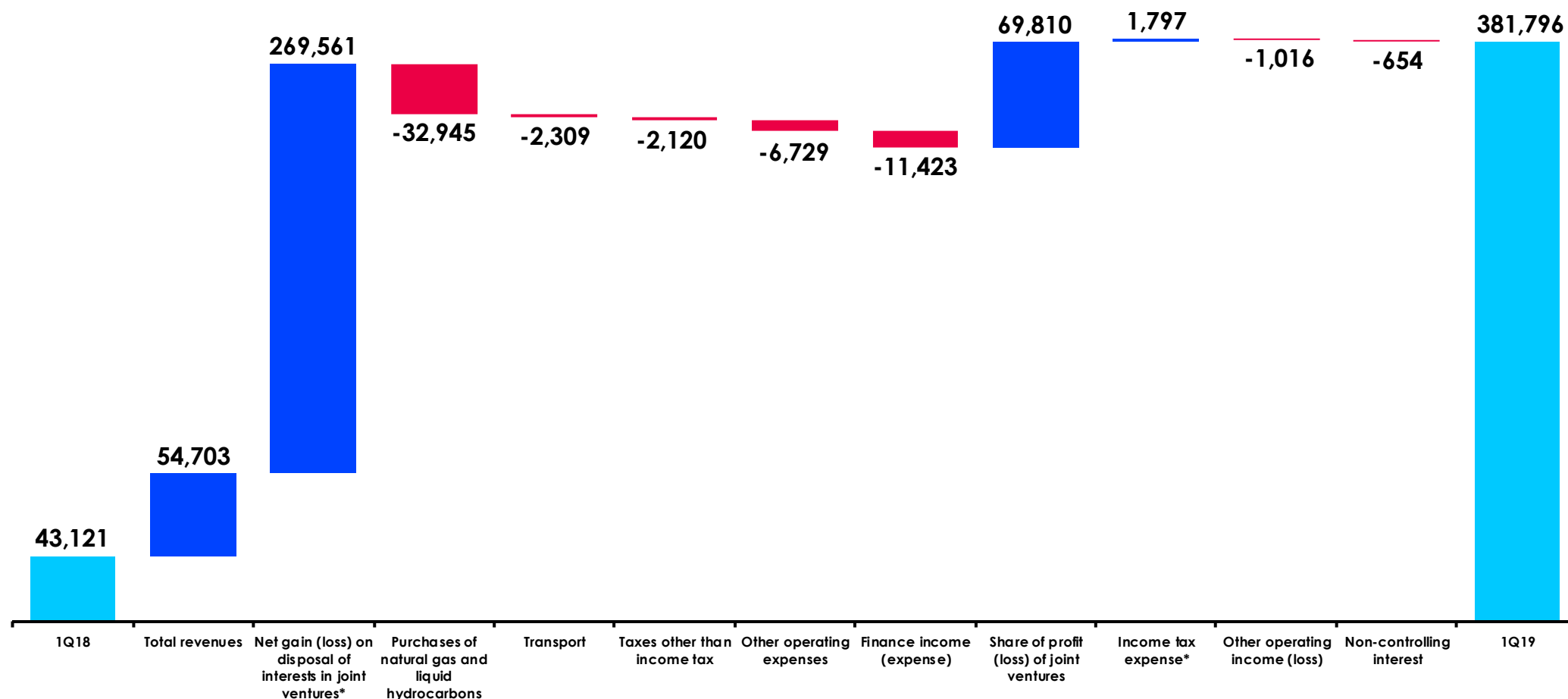


# General and Administrative Expenses (RR million)



# Profit Attributable to NOVATEK Shareholders

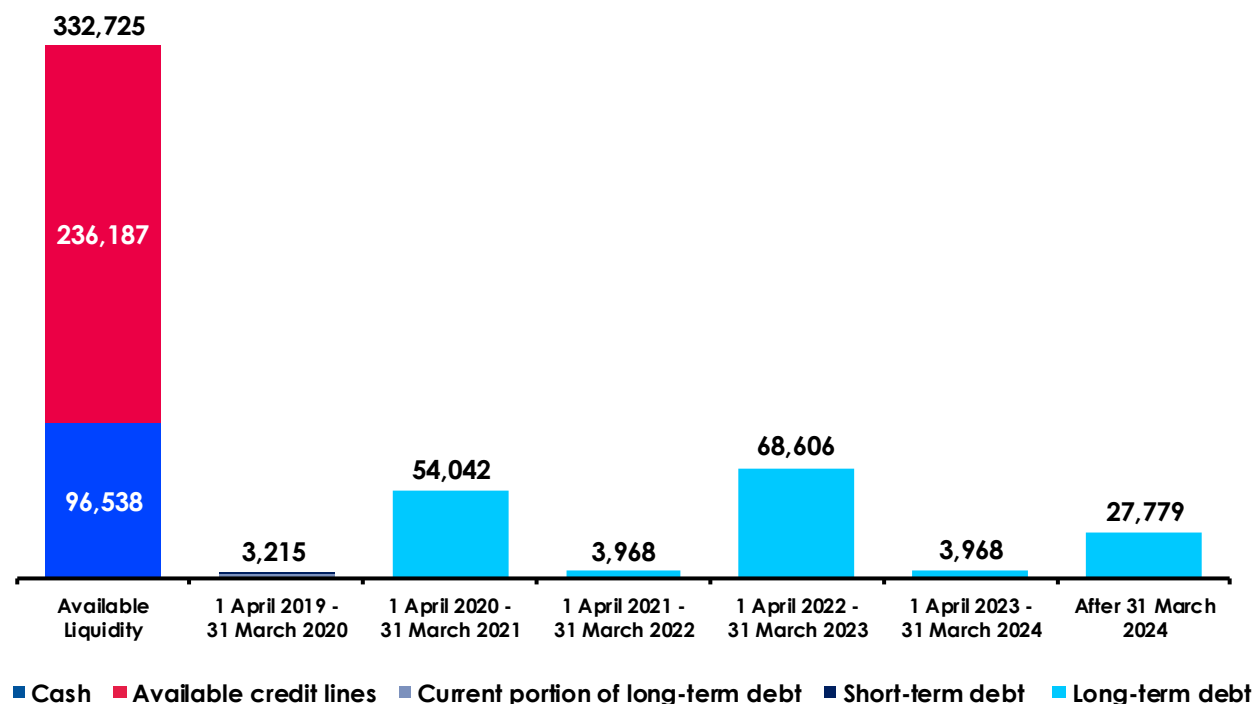
(RR million)



**In the three months ended 31 March 2019, we recognized a gain on the disposal of a 10% participation interest in OOO Arctic LNG 2 to a subsidiary of TOTAL S.A. in the amount of RR 308,578 million before income tax.**

\* Net of income tax of RR 37,372 million associated with the disposal of 10% interest in Arctic LNG 2 in March 2019

# Total Debt Maturity Profile (RR million)



The Group has available credit line facilities from banks with credit limits in the amount of RR 184 billion and the equivalent of USD 750 million and EUR 50 million.

## Debt repayment schedule:

Up to 31 March 2020 – Loan from the Silk Road Fund and Other loans

Up to 31 March 2021 – Loan from the Silk Road Fund, Eurobonds Ten-Year (USD 650 mln) and Other loans

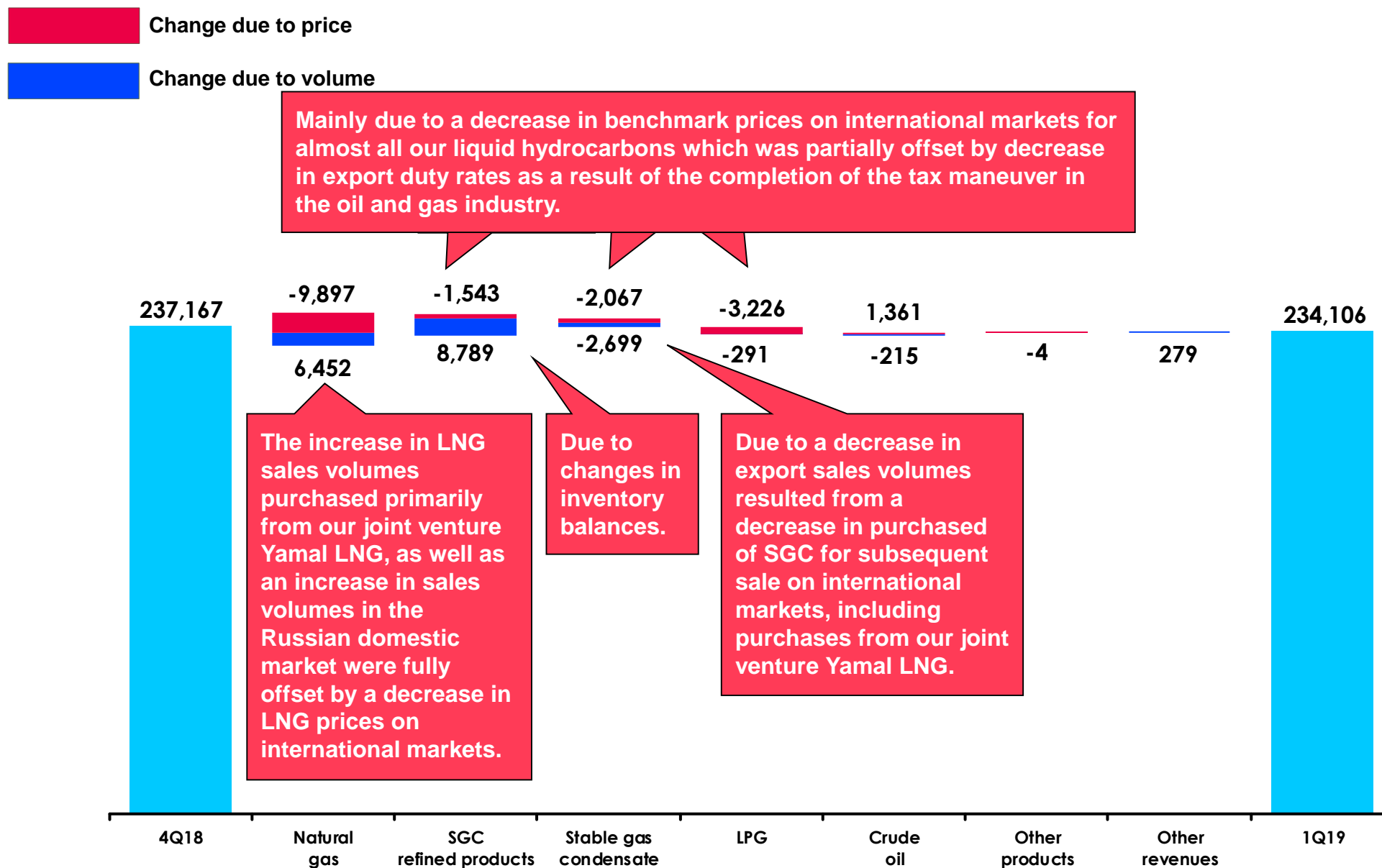
Up to 31 March 2022 – Loan from the Silk Road Fund

Up to 31 March 2023 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD one bln)

After 31 March 2024 – Loan from the Silk Road Fund

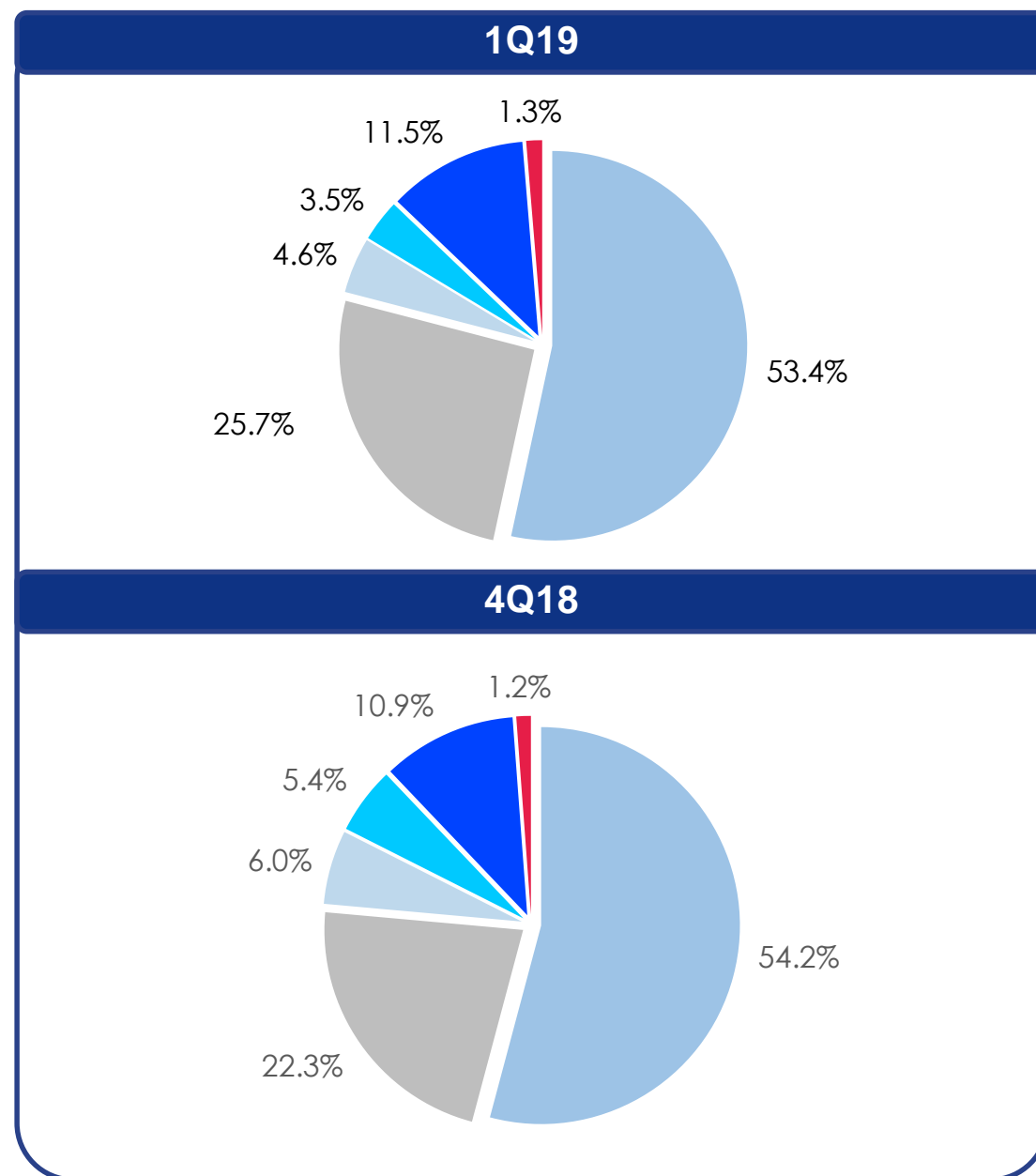
## Financial Overview – 1Q19 to 4Q18

# Total Revenues (RR million)

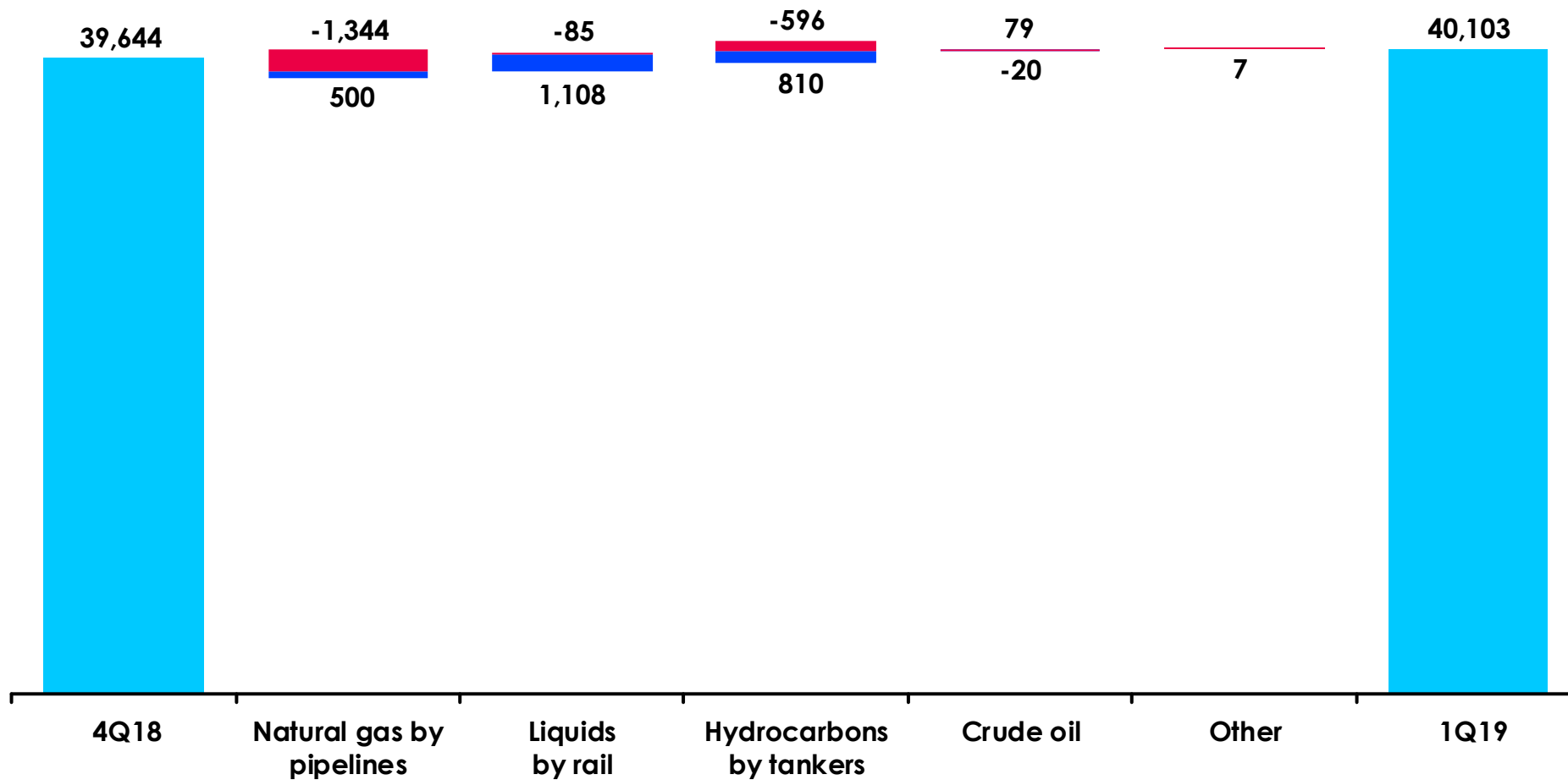
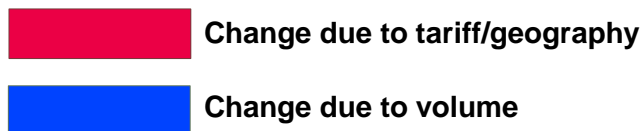


# Total Revenues Breakdown

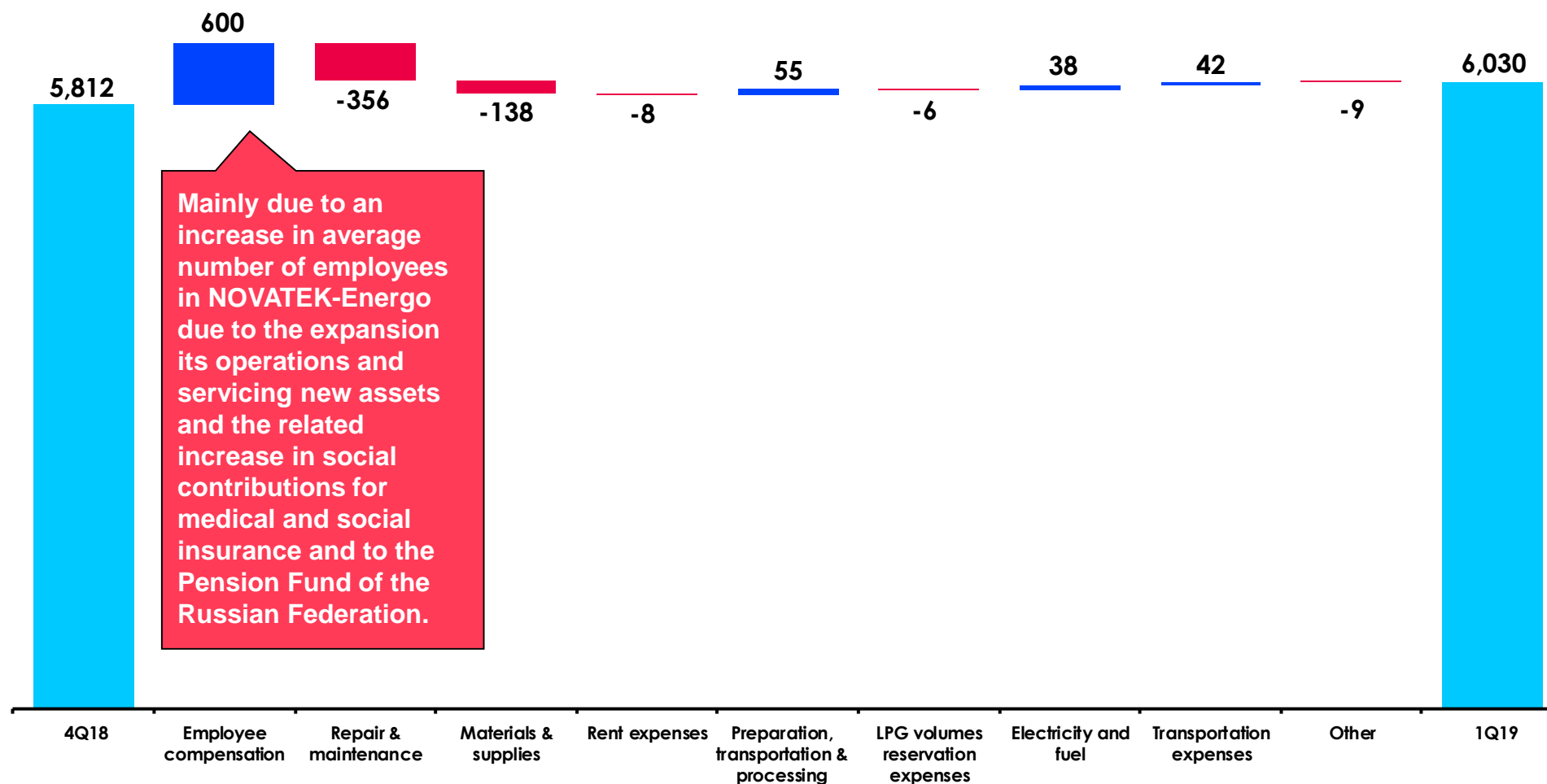
- Natural gas, including LNG
- Stable gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other



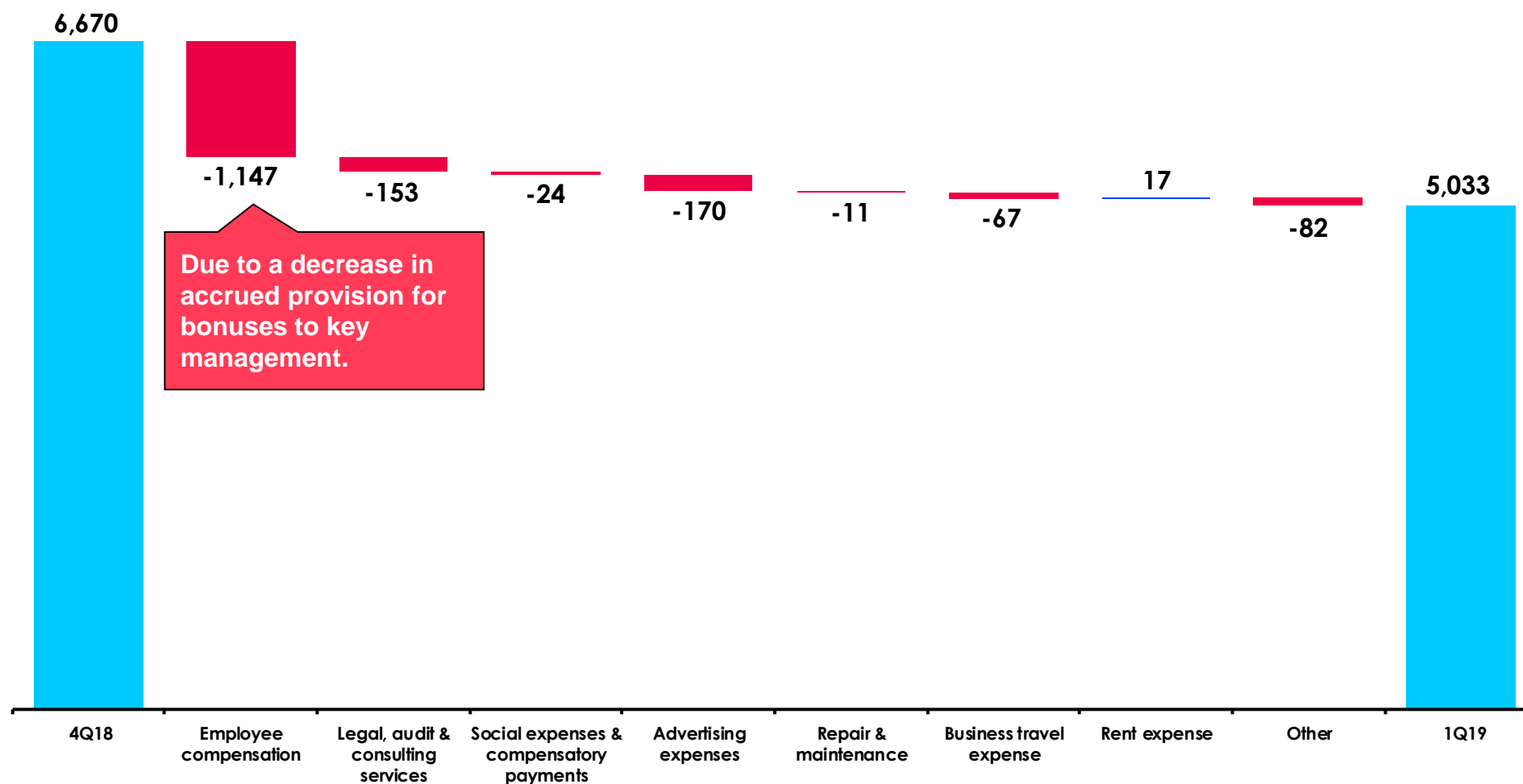
# Transportation Expenses (RR million)



# Materials, Services and Other Expenses (RR million)

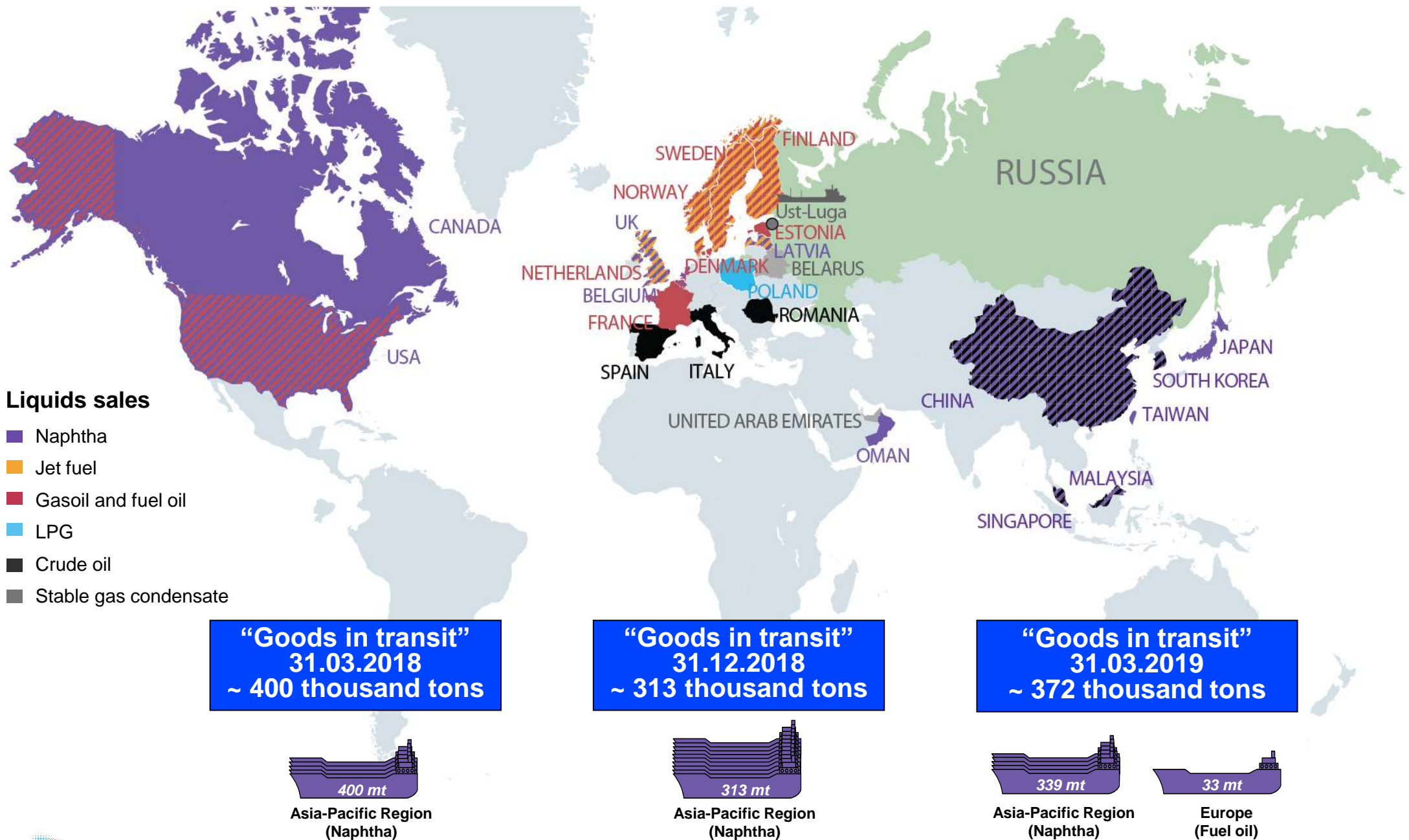


# General and Administrative Expenses (RR million)

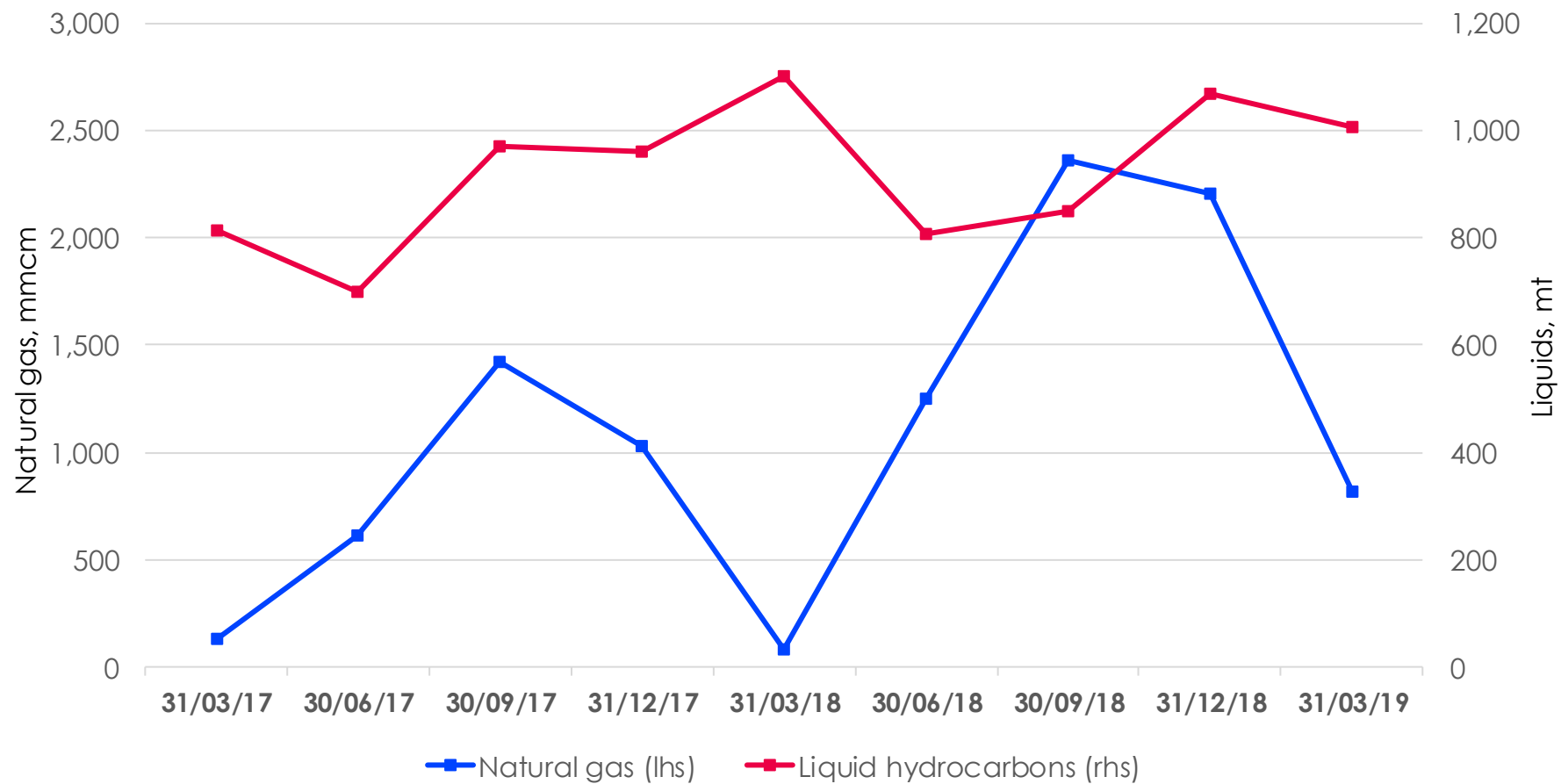


# Appendices

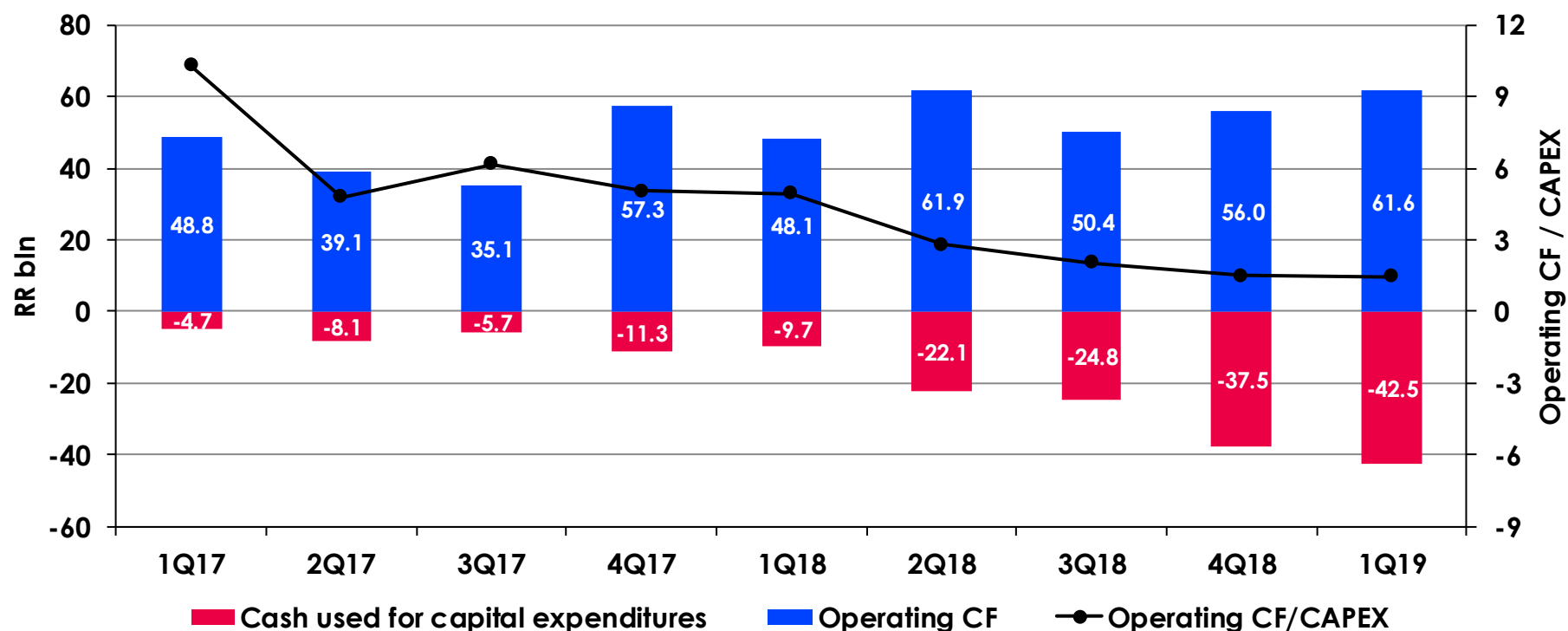
# Liquids in Tankers



# Change in Inventories



# Internally Funded Investment Program



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

## Questions and Answers