



Second Quarter 2017 Operational and Financial Results Conference Call



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Moscow, Russian Federation
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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. By participating in this presentation or by accepting any copy of this document, you agree to be bound by the foregoing limitations.

Summary Operational Highlights – 2Q17

- ❑ **Natural gas production** (including our proportionate share in JVs) was 15.3 bcm in 2Q17 representing a **decrease of 7.3%** compared to 2Q16
- ❑ **Liquids production** (including our proportionate share in JVs) was 2.9 mmt in 2Q17 representing a **decrease of 6.4%** compared to 2Q16
- ❑ Total **natural gas sales** volumes in 2Q17 **increased by 2.3%** compared to 2Q16
- ❑ Excluding the effect of foreign exchange gains and losses, **profit attributable to shareholders increased by 14.1%** compared to the corresponding period in 2016
- ❑ **Normalized free cash flow increased by 40.9%** compared to 2Q16

Key Events 2Q17

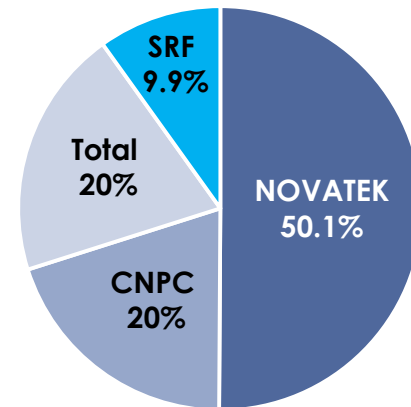
- ❑ OOO «Arctic LNG-1» (NOVATEK's subsidiary) won the bid for a geological survey, exploration and hydrocarbons production license for the Gydanskiy subsoil area for a term of 27 years.
- ❑ As part of 21st Saint Petersburg International Economic Forum NOVATEK signed Memorandums of Understanding with Fluxys, with the Ministry of Industry and Trade and the Murmansk region and an additional agreement with the Yamalo-Nenets Autonomous District.
- ❑ NOVATEK signed Framework Agreement with TechnipFMC, Linde and NIPIGAS and License Agreement with Linde.

Yamal LNG Project

Main events in 2Q17:

- The **first LNG train** is 94% complete, and the whole project is 85% complete
- More than **31,000 construction workers** on site
- **87 production wells** already drilled, what is higher than the well stock required for Train 1
- Yamal LNG signed **credit agreements** with European banks with insurance coverage provided by the Swedish export credit agency EKN and the German export credit agency Euler Hermes

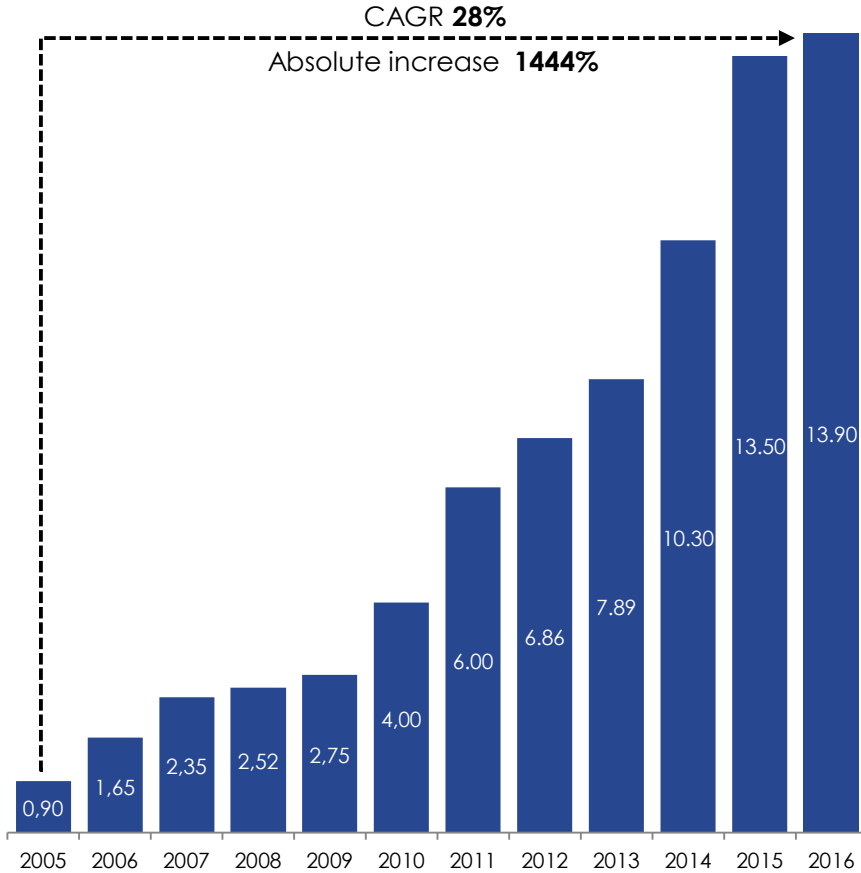
Shareholders



Shareholders Return

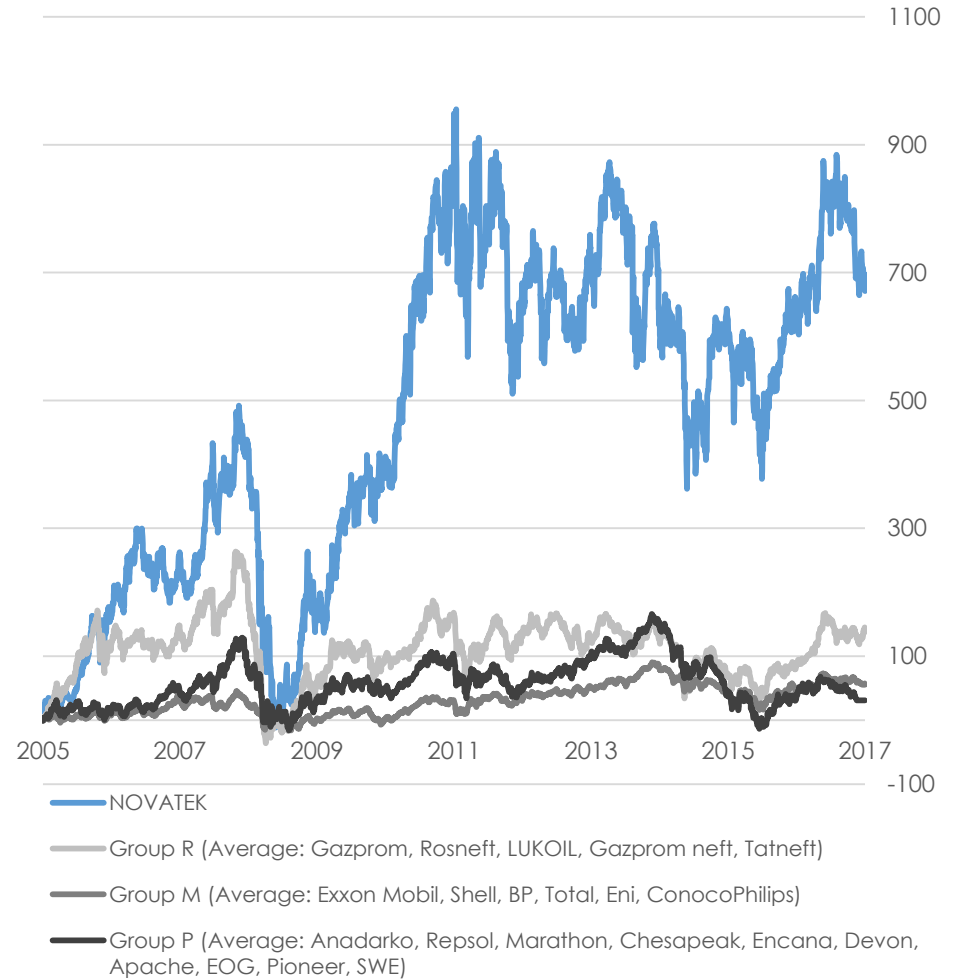
Dividend Payment History

(RR per ordinary share)



Cumulative Total Shareholder Return

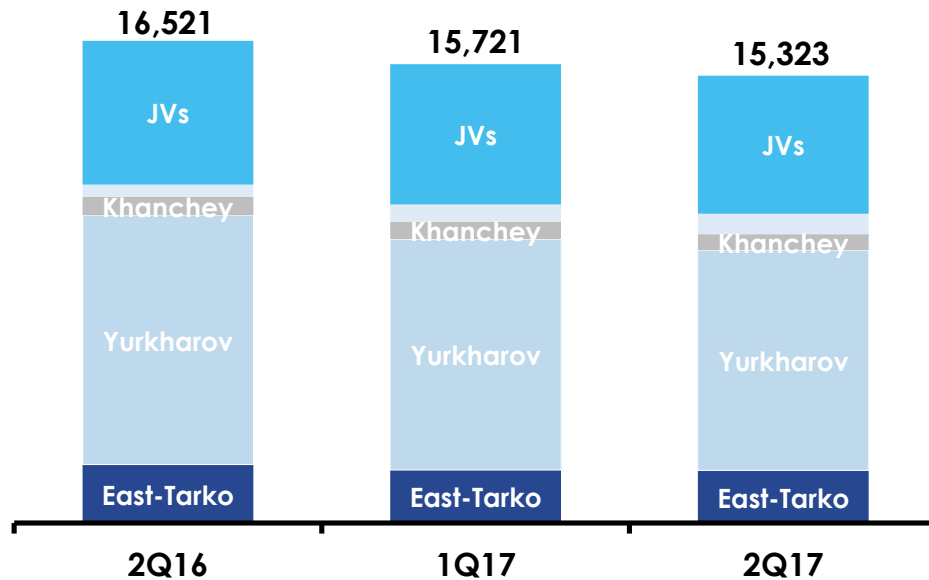
(%)



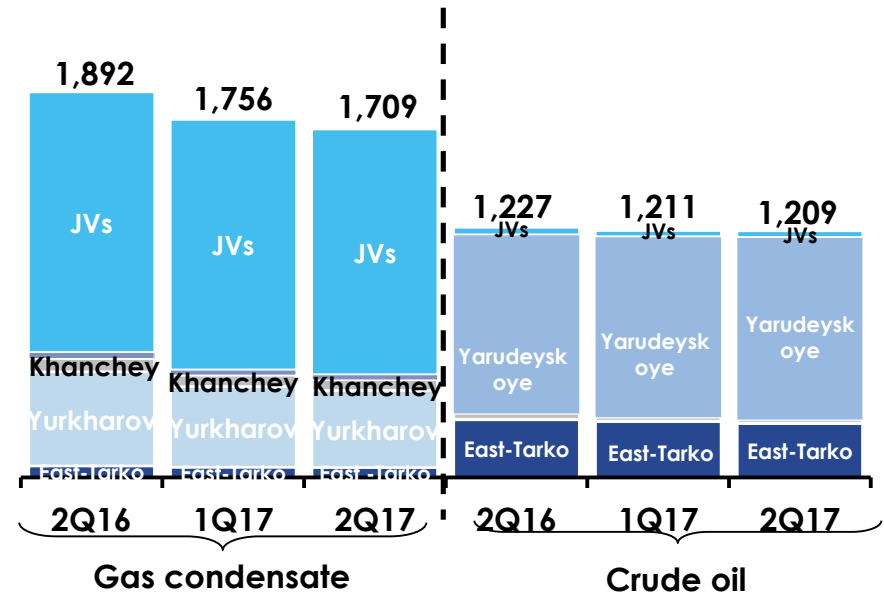
Operational Overview

Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



Natural gas volumes produced at mature fields of our subsidiaries (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) and our joint venture Nortgas decreased mainly due to natural declines in the reservoir pressure at the current gas producing horizons. The decrease was partially offset by improved efficiency of associated petroleum gas utilization at our Yarudeyskoye field.

The volumes of liquids produced by subsidiaries and joint ventures decreased as a result of a decrease in gas condensate production mainly at mature fields of our subsidiaries (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) and our joint ventures, Nortgas and SeverEnergiya, due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

Purovsky Plant

- ❑ **Total volumes delivered in 2Q17: 2,838 mt**
 - Yurkharovskoye field: 380 mt
 - East-Tarkosalinskoye and Khancheyskoye fields: 136 mt
 - Other fields: 26 mt
 - Purchases from our joint ventures: 2,296 mt
- ❑ **Annualized throughput volumes: 11.4 mmt**
- ❑ **Total output of marketable products: 2,815 mt**
 - Stable gas condensate: 2,203 mt
 - LPG: 612 mt



Ust-Luga Complex

- ❑ Total volumes delivered in 2Q17: 1,791 mt
- ❑ Annualized throughput volumes: 7.2 mmt
- ❑ Total output of marketable gas condensate refined products: 1,751 mt
 - Naphtha: 1,076 mt
 - Other products: 675 mt
- ❑ Gas condensate refined products sold: 1,763 mt
 - to Europe: 1,070 mt
 - to the Asian Pacific Region: 551 mt
 - to North America: 106 mt
 - Other: 36 mt



Liquids in Tankers

Liquids sales

- Naphtha
- Jet fuel
- Gasoil and fuel oil
- LPG
- Crude oil
- Stable gas condensate



“Goods in transit”
30.06.2016
~115 thousand tons



Europe
 (Other gas condensate
 refined products)



Asia-Pacific Region
 (Naphtha)

“Goods in transit”
31.12.2016
~ 33 thousand tons



Asia-Pacific Region
 (Naphtha)

“Goods in transit”
30.06.2017
~92 thousand tons

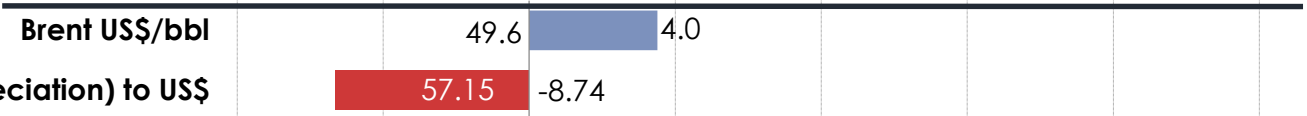


Asia-Pacific Region
 (Naphtha)

Financial Overview – 2Q17 to 2Q16

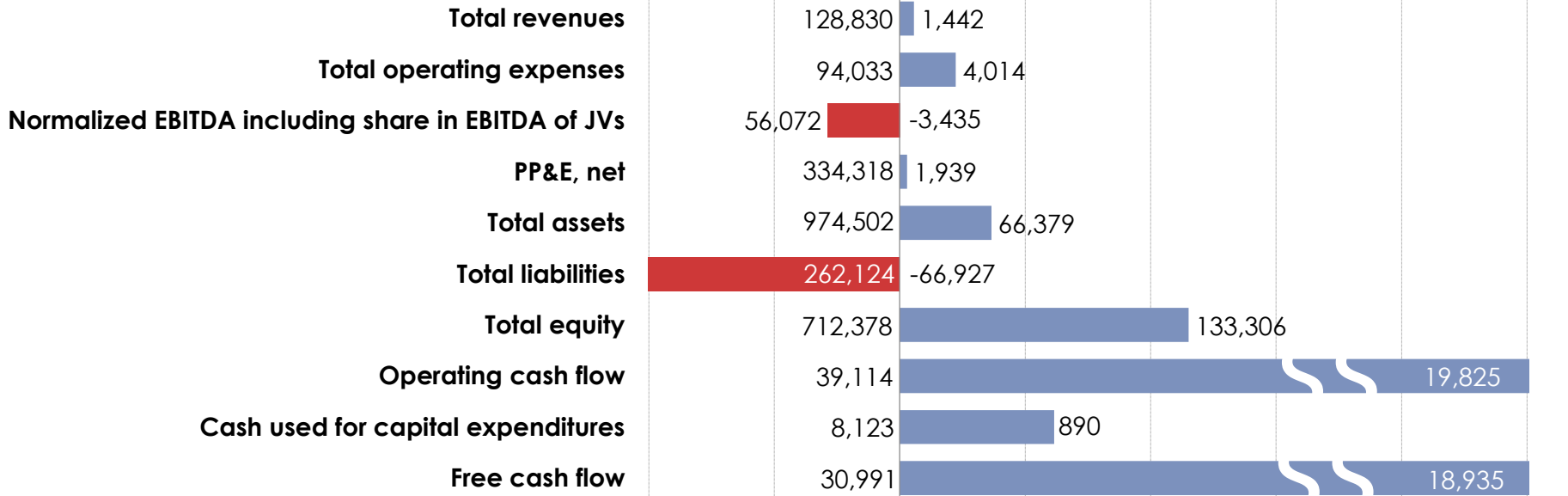
Performance Summary

Macroeconomic

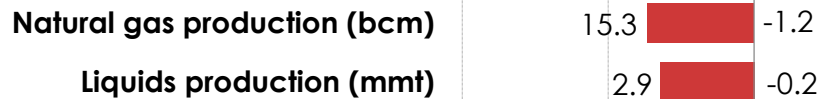


Financial

(in millions of Russian roubles)



Operational



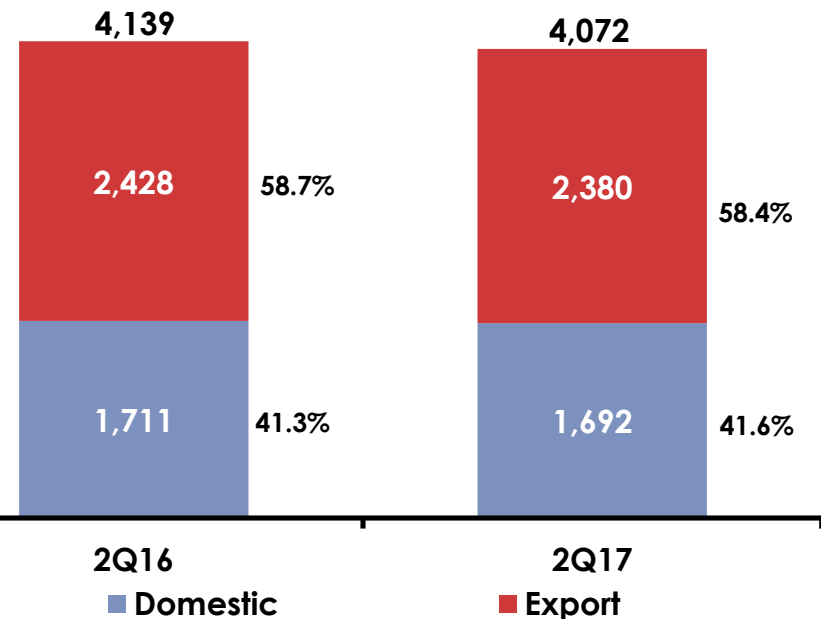
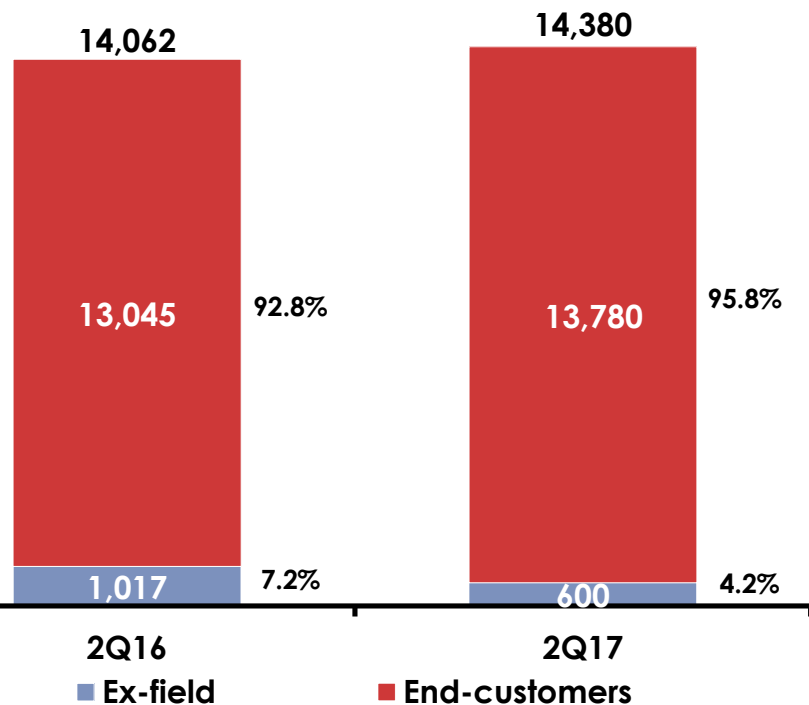
-20% -10% 0% 10% 20% 30% 40% 50%

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

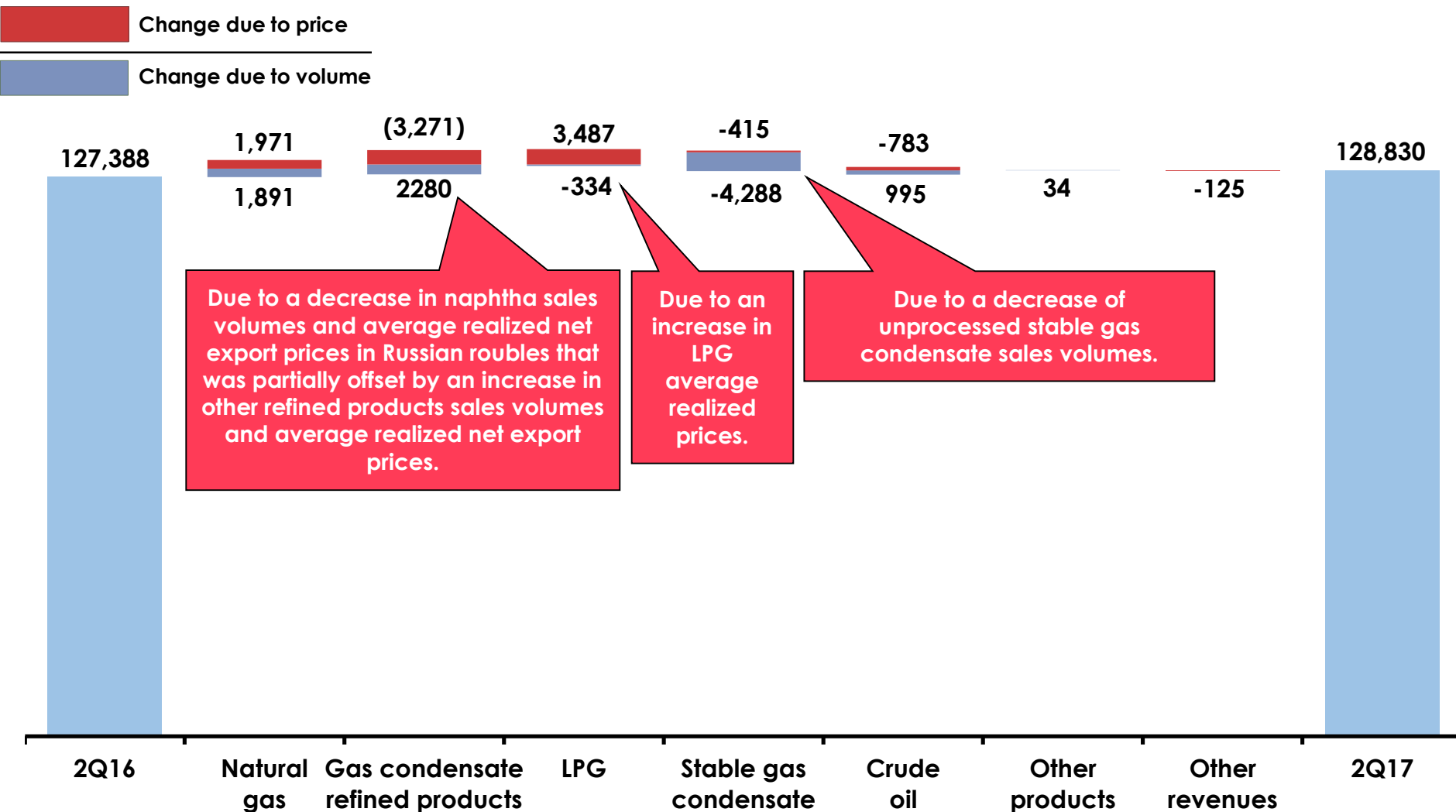
Market Distribution - Sales Volumes

Natural Gas Sales Volumes, mmcmm

Liquids Sales Volumes, mt

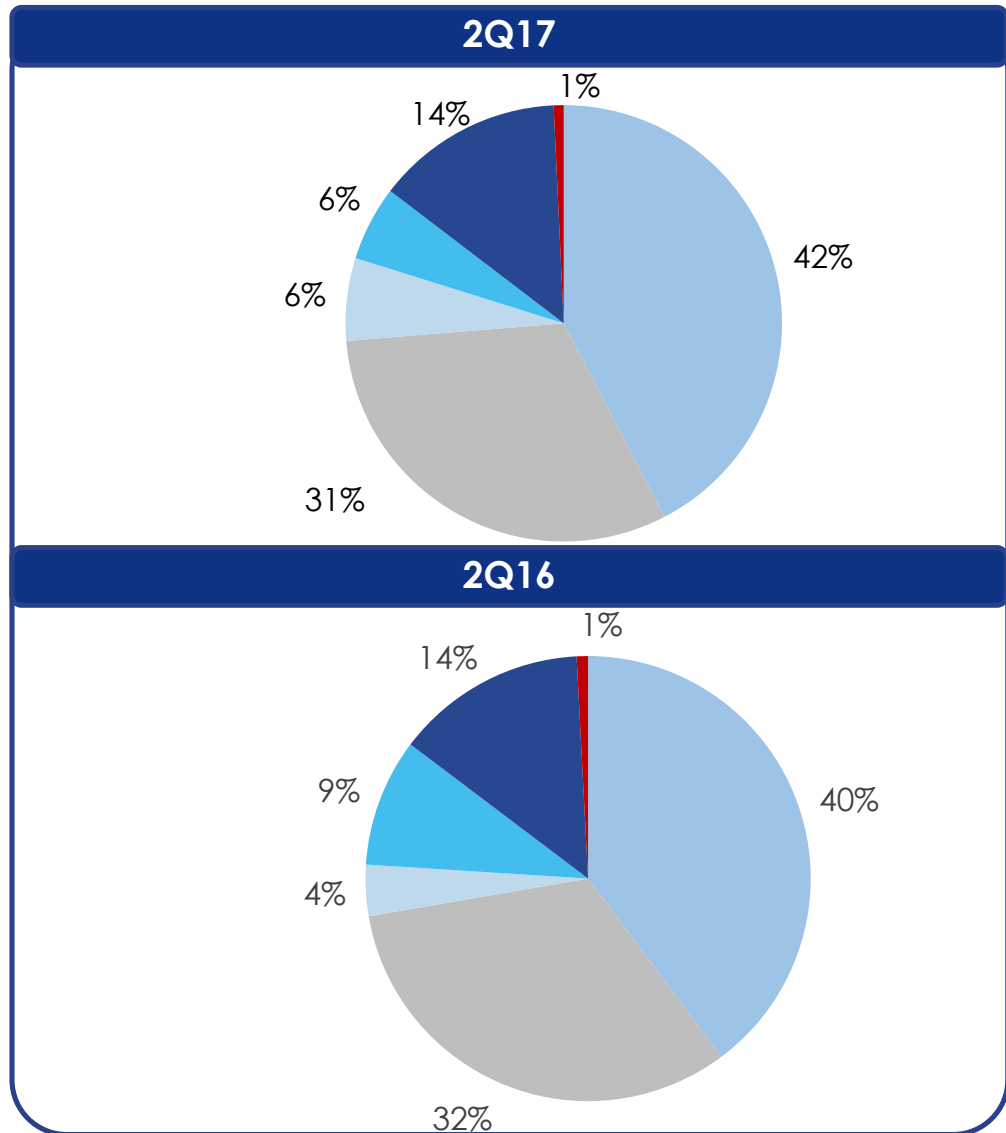


Total Revenues (RR million)



Total Revenues Breakdown

- Natural gas
- Gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other

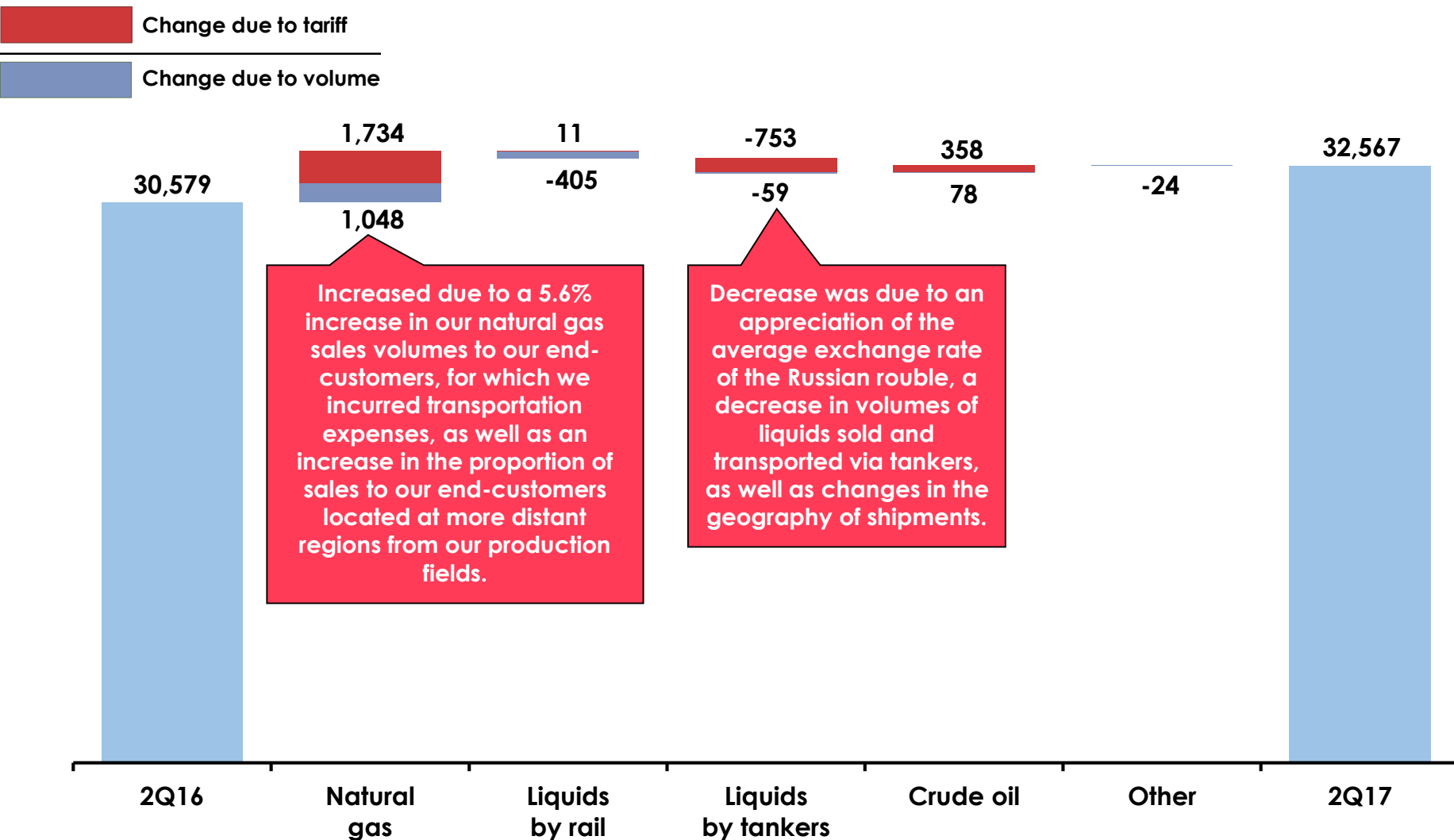


Operating Expenses (RR million and % of Total Revenues (TR))

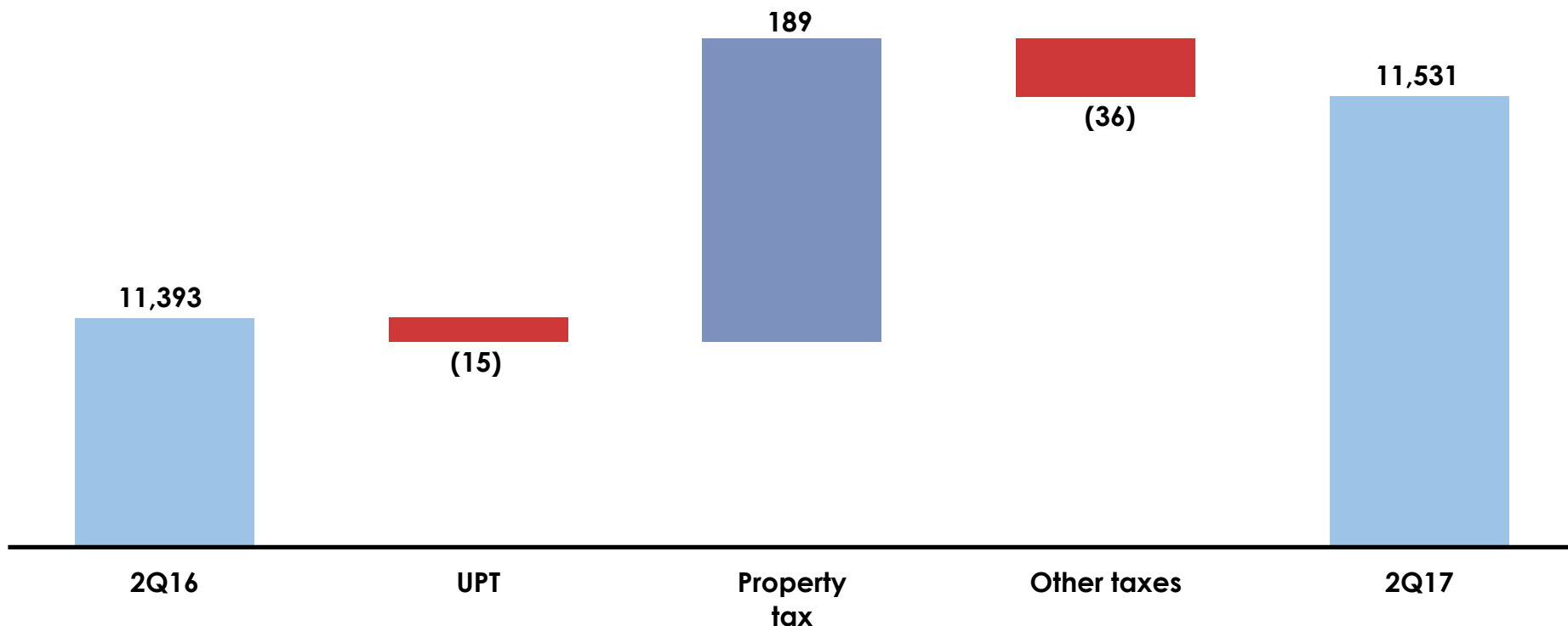
2Q16	% of TR	2Q17	% of TR		1Q17	% of TR	2Q17	% of TR
30,579	24.0%	32,567	25.2%	Transportation expenses	36,782	23.8%	32,567	25.2%
11,393	8.9%	11,531	9.0%	Taxes other than income tax	12,341	8.0%	11,531	9.0%
41,972	32.9%	44,098	34.2%	Non-controllable expenses	49,123	31.8%	44,098	34.2%
8,363	6.6%	8,572	6.7%	Depreciation and amortization	8,488	5.5%	8,572	6.7%
4,568	3.6%	5,084	3.9%	Materials, services & other	4,800	3.1%	5,084	3.9%
5,230	4.1%	3,911	3.0%	General and administrative	3,993	2.6%	3,911	3.0%
181	0.1%	504	0.4%	Exploration expenses	388	0.3%	504	0.4%
-40	n/a	0	0.0%	Net impairment expenses (reversals)	0	0.0%	0	0.0%
-2,258	n/a	874	0.7%	Change in natural gas, liquids and WIP	602	0.4%	874	0.7%
58,016	45.6%	63,043	48.9%	Subtotal operating expenses	67,394	43.6%	63,043	48.9%
32,003	25.1%	30,990	24.1%	Purchases of natural gas and liquid hydrocarbons	41,970	27.1%	30,990	24.1%
90,019	70.7%	94,033	73.0%	Total operating expenses	109,364	70.7%	94,033	73.0%

- Total operating expenses increased mainly due to an increase in natural gas transportation expenses due to an increase of natural gas sales volumes and the proportion of sales to our end-customers located at more distant regions from our production fields, and a decrease of liquid hydrocarbons inventory balances;
- We recorded a charge of RR 874 million to changes in inventory expense due to a decrease in most of our liquid hydrocarbons inventory balances as of 30 June compared to 31 March. In the corresponding period in 2016 there was a reverse situation – we recorded a reversal to changes in inventory expense of RR 2,258 million due to a significant increase in our hydrocarbons inventory balances.

Transportation Expenses (RR million)

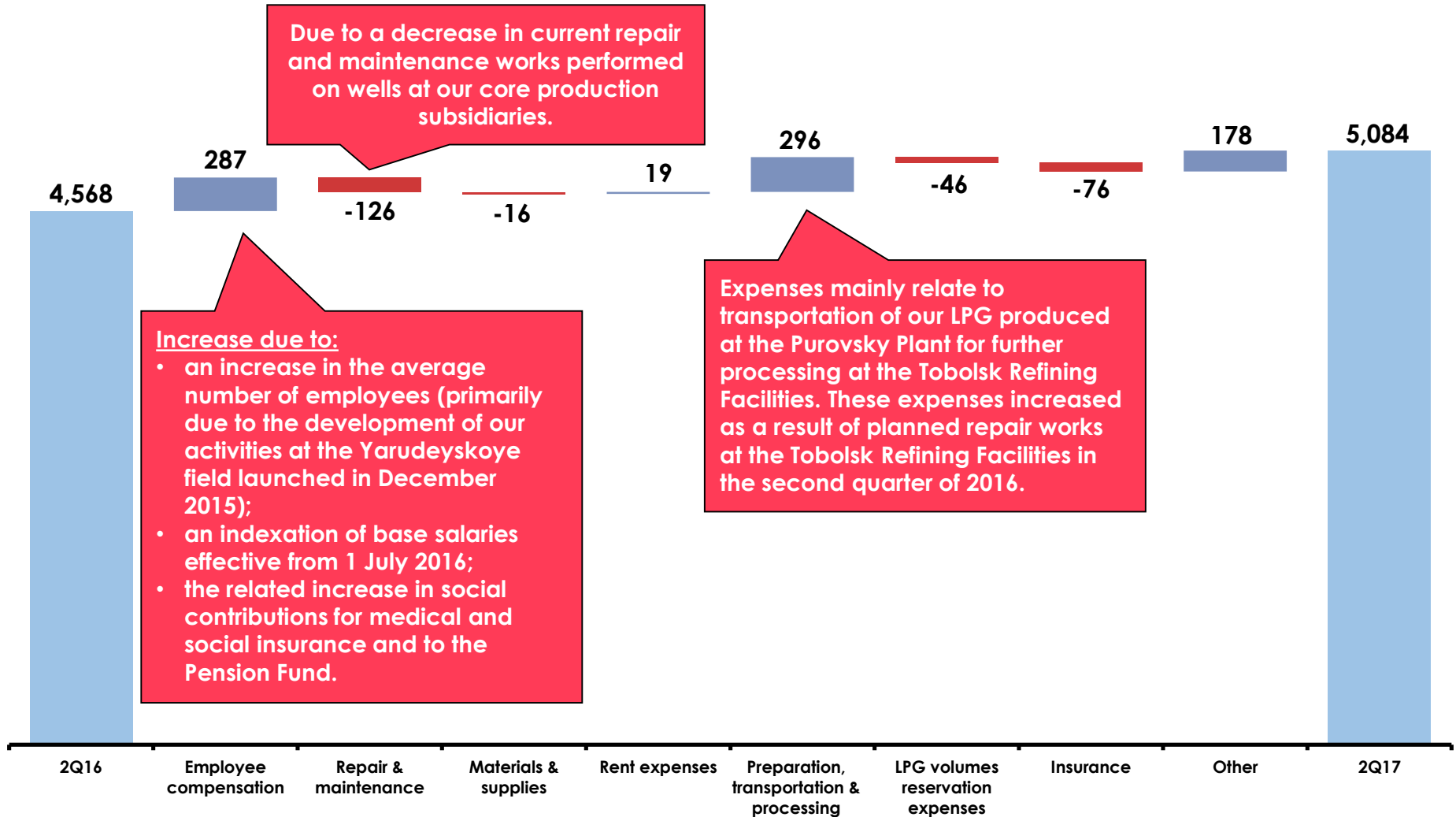


Taxes Other Than Income Tax Expense (RR million)

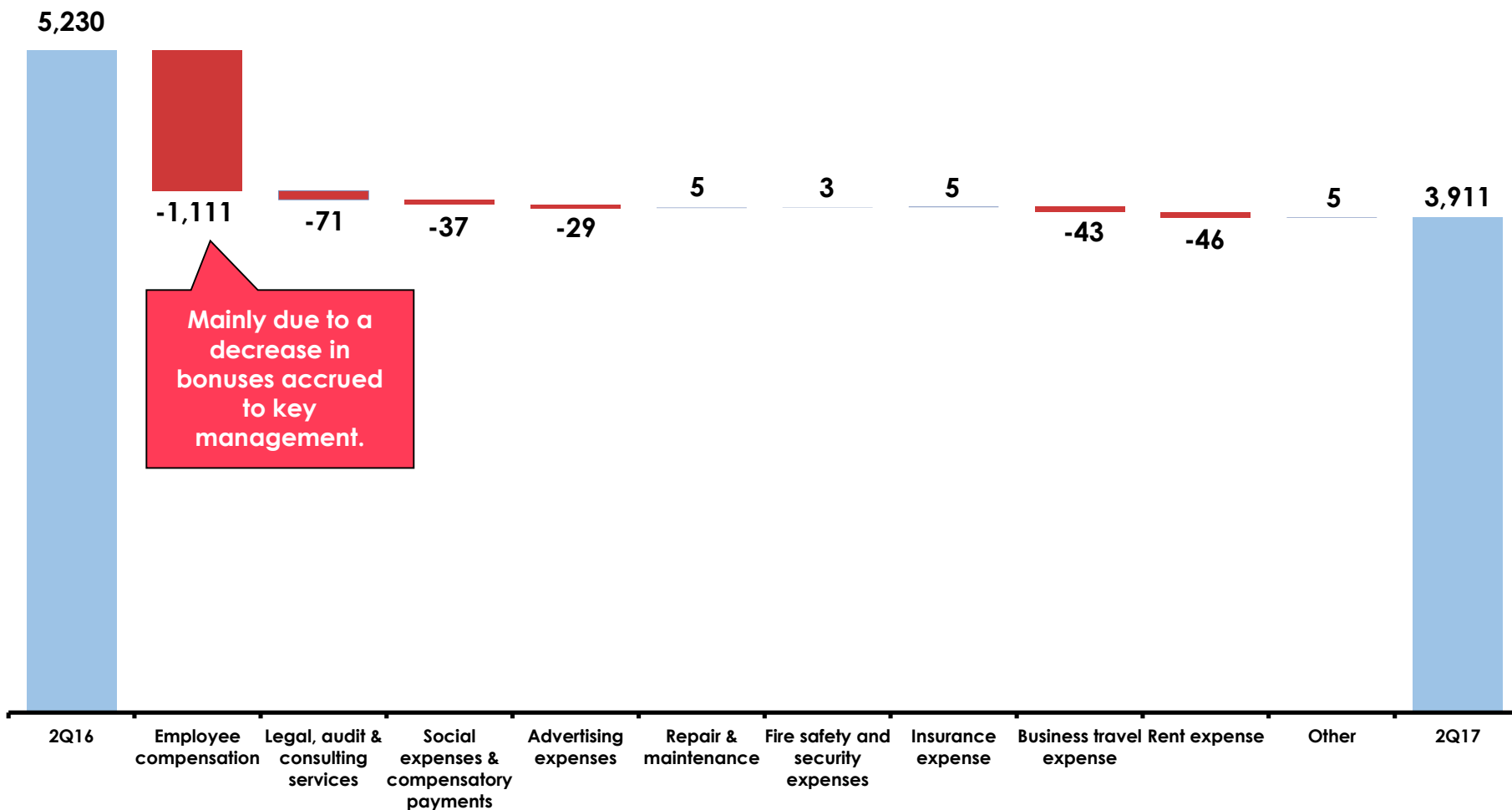


- Our unified natural resources production tax expense changed marginally as a result of the offsetting effects of two factors: an increase in UPT rates for crude oil and gas condensate effective 1 January 2017 as part of the tax maneuver in the oil and gas industry, on the one hand, and a decrease in hydrocarbon production, on the other hand.
- Our property tax expense increased due to the termination of a property tax relief at one of our processing subsidiaries effective from January 2017, as well as a result of additions to property, plant and equipment at our production subsidiaries.

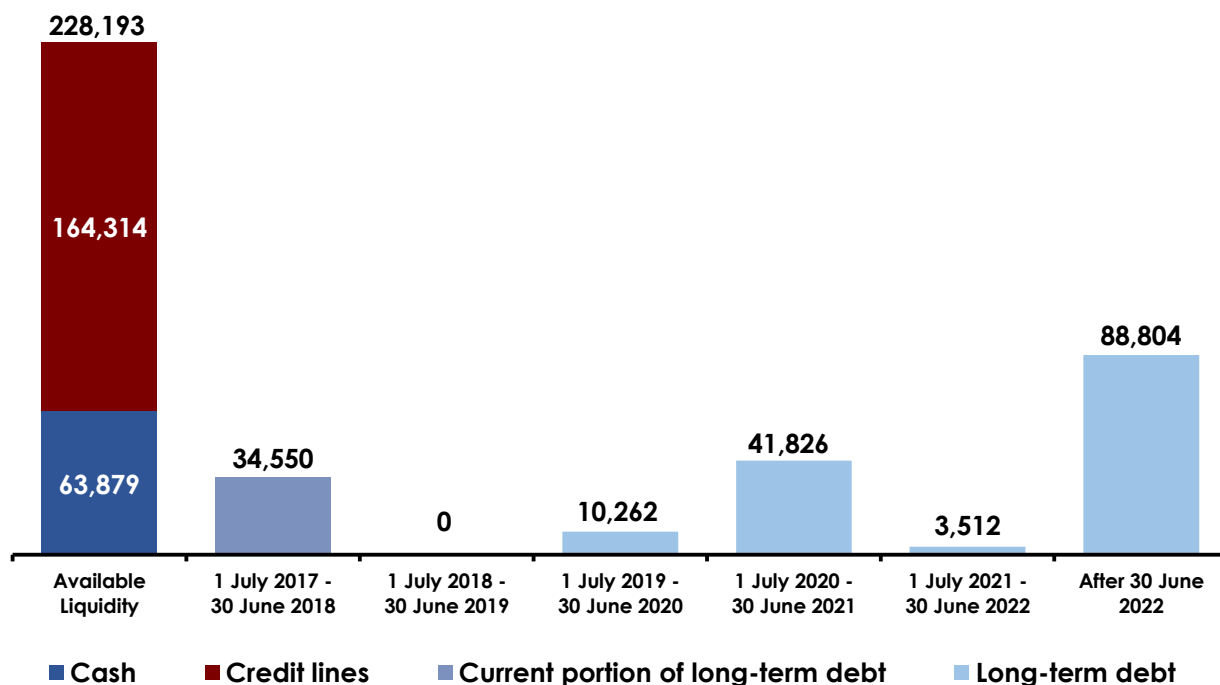
Materials, Services and Other Expenses (RR million)



General and Administrative Expenses (RR million)



Total Debt Maturity Profile (RR million)



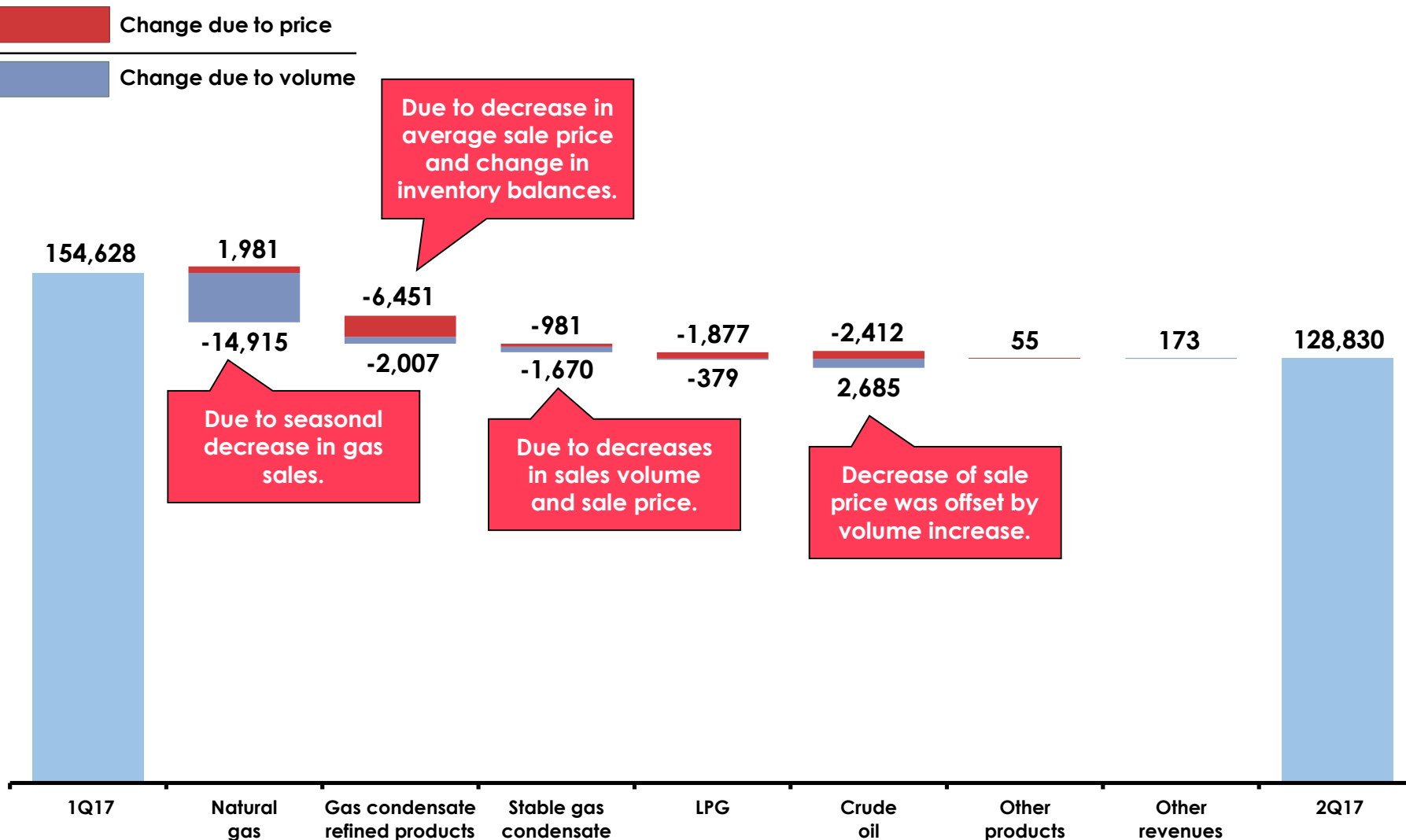
The Group has available credit line facilities from Russian banks with credit limits in the amount of RR 120 billion and equivalent of USD 750 million.

Debt repayment schedule:

- Up to 30 June 2018 – Syndicated term credit line and Other loans
- Up to 30 June 2020 – Loan from the Silk Road Fund and Other loans
- Up to 30 June 2021 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD 650 mln)
- After 30 June 2021 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD 1,000 mln)

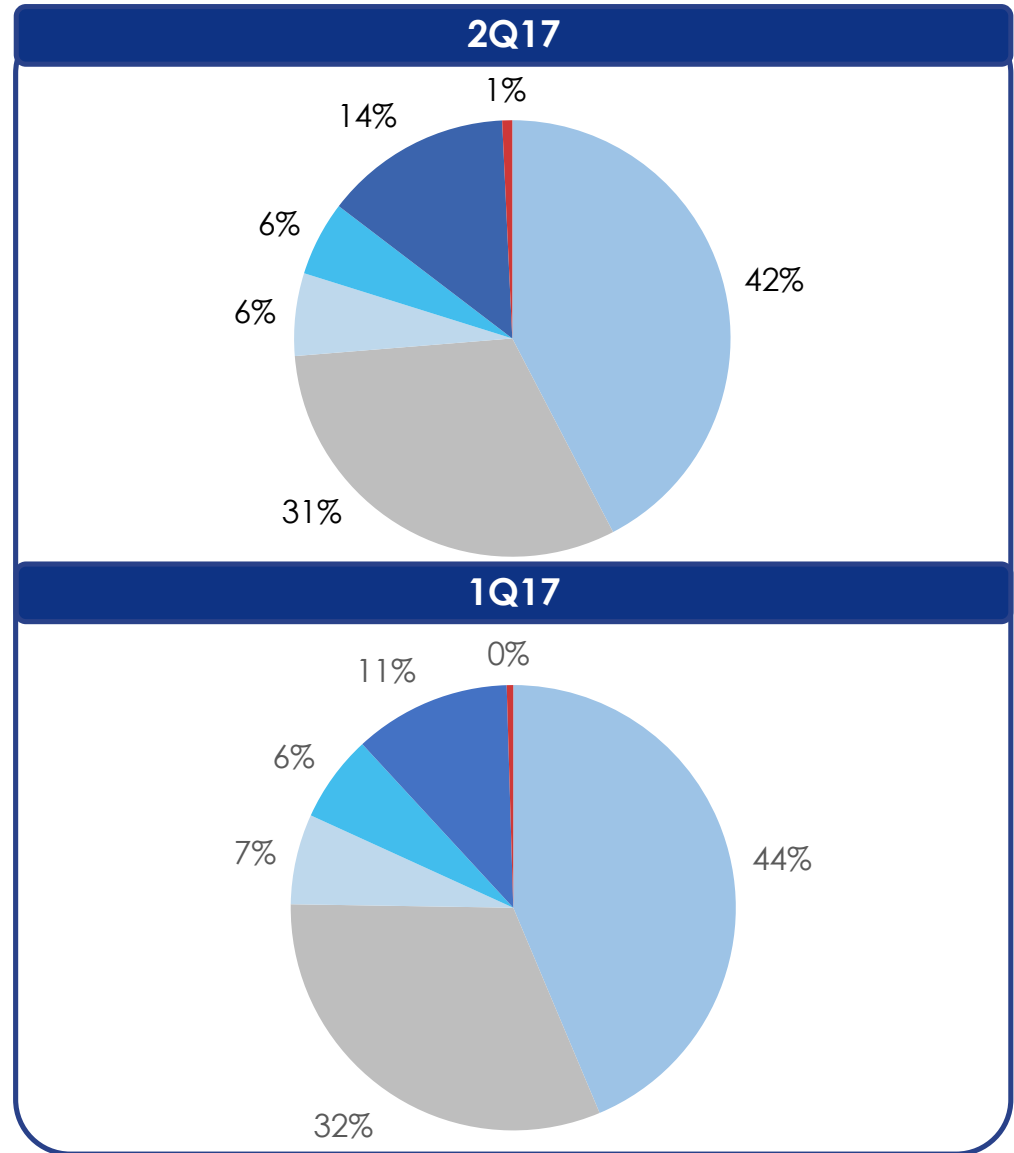
Financial Overview – 2Q17 to 1Q17

Total Revenues (RR million)

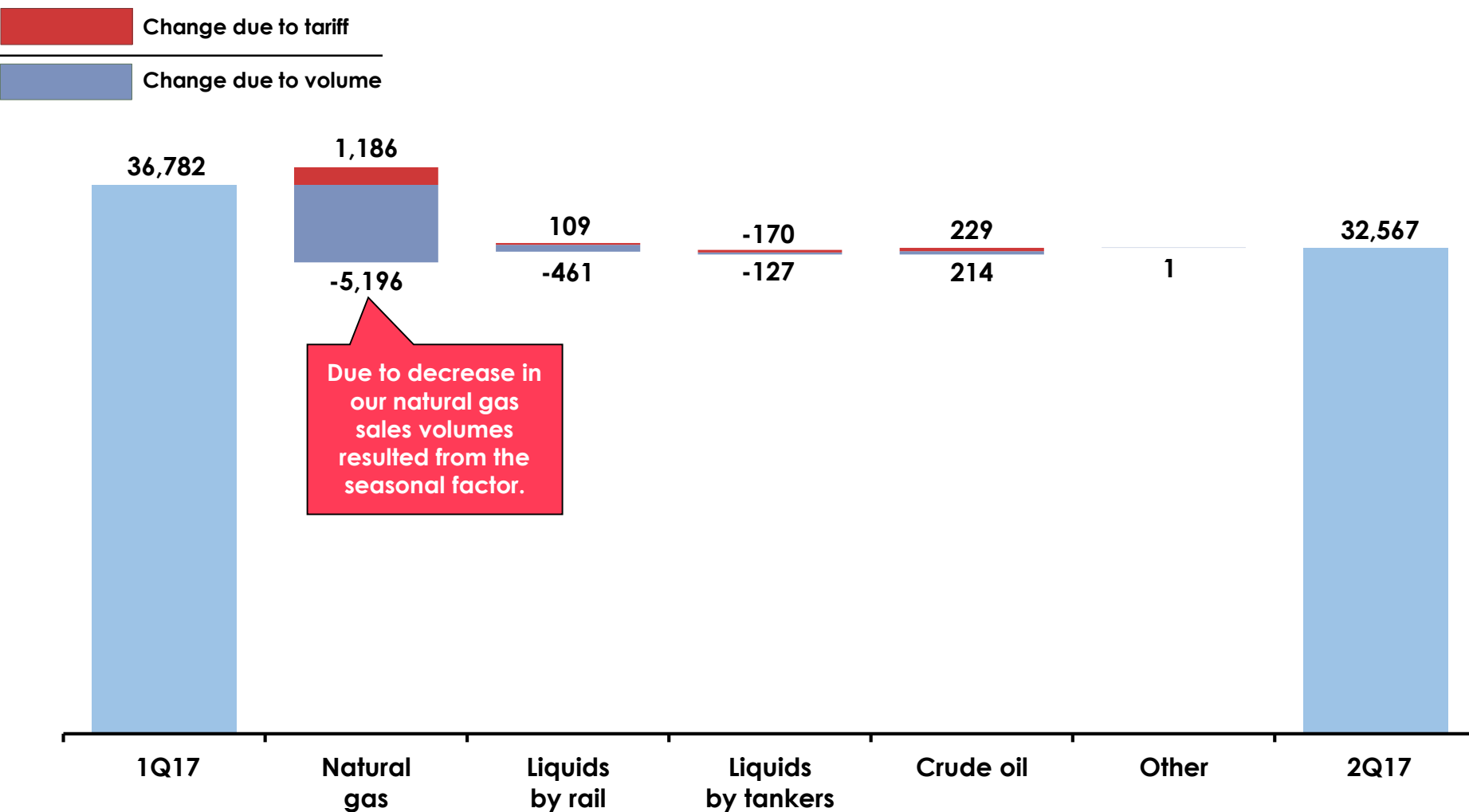


Total Revenues Breakdown

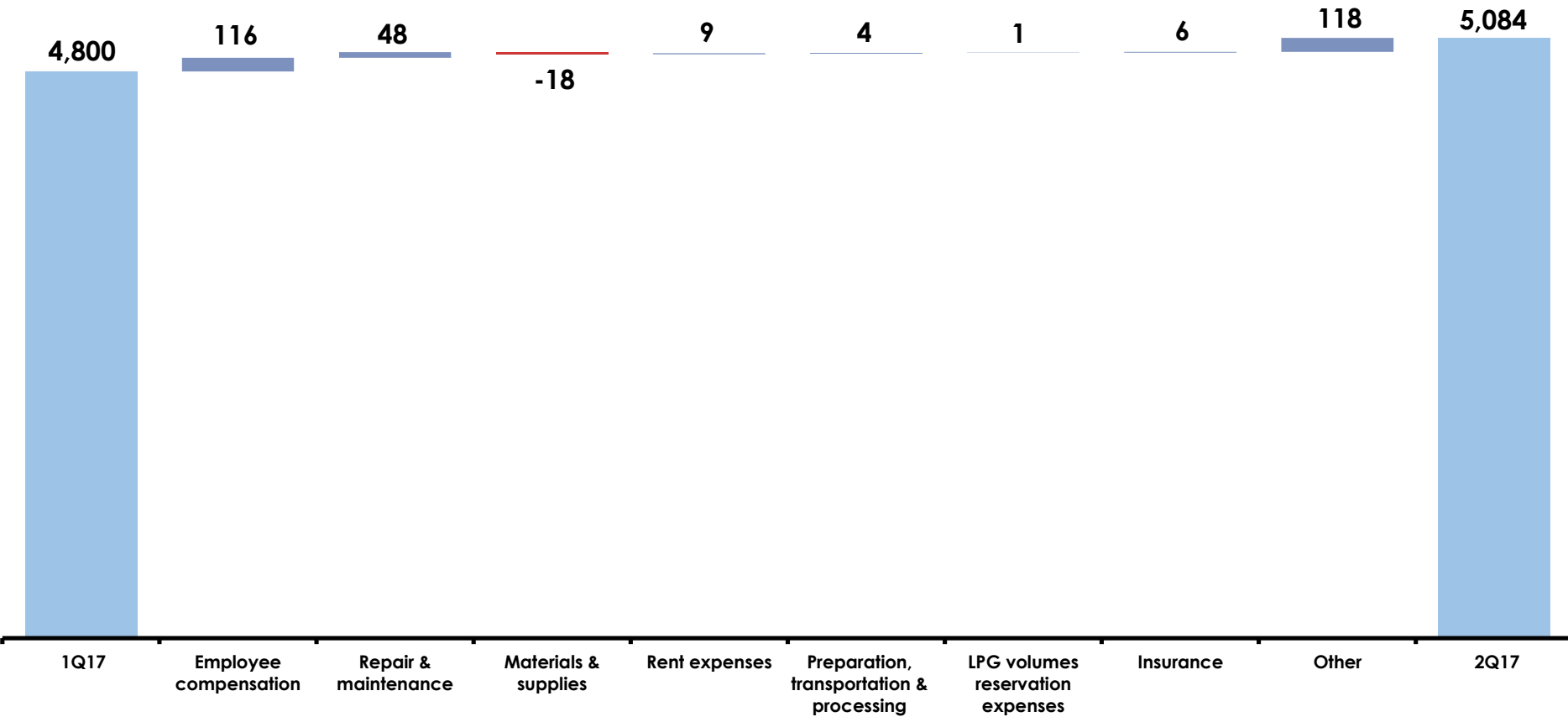
- Natural gas
- Gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other



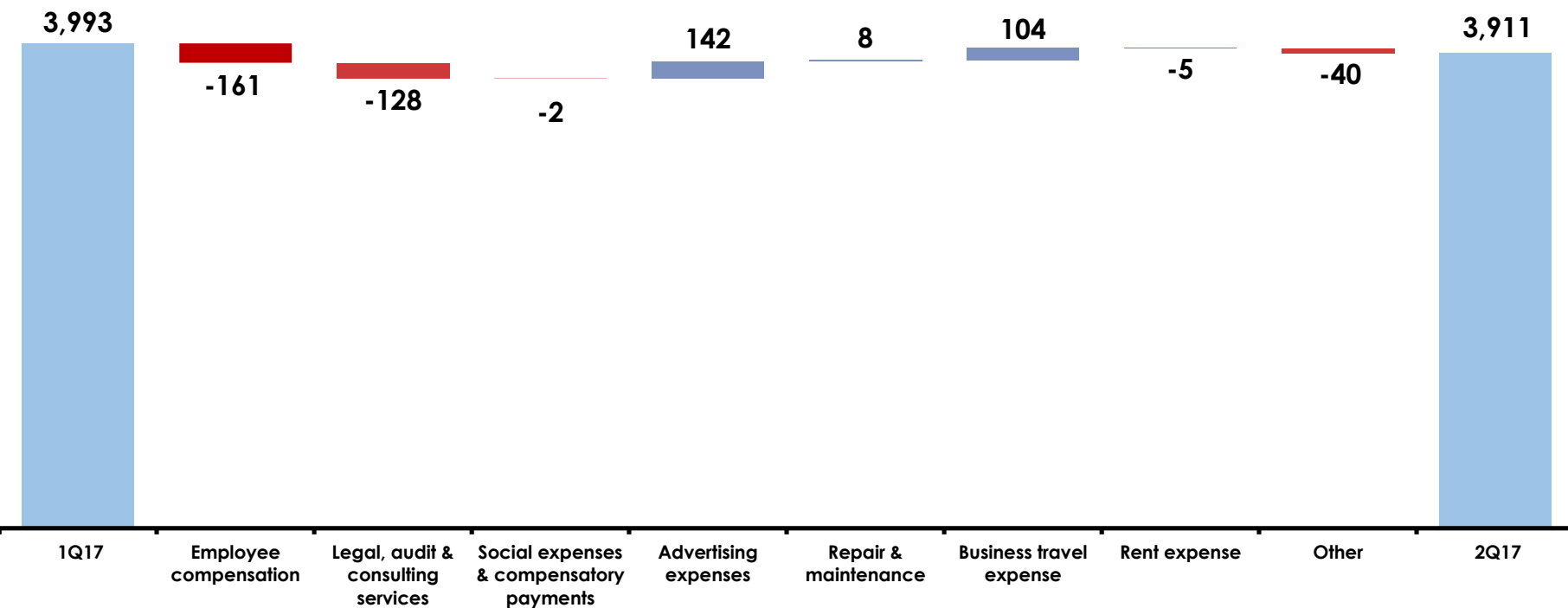
Transportation Expenses (RR million)



Materials, Services and Other Expenses (RR million)

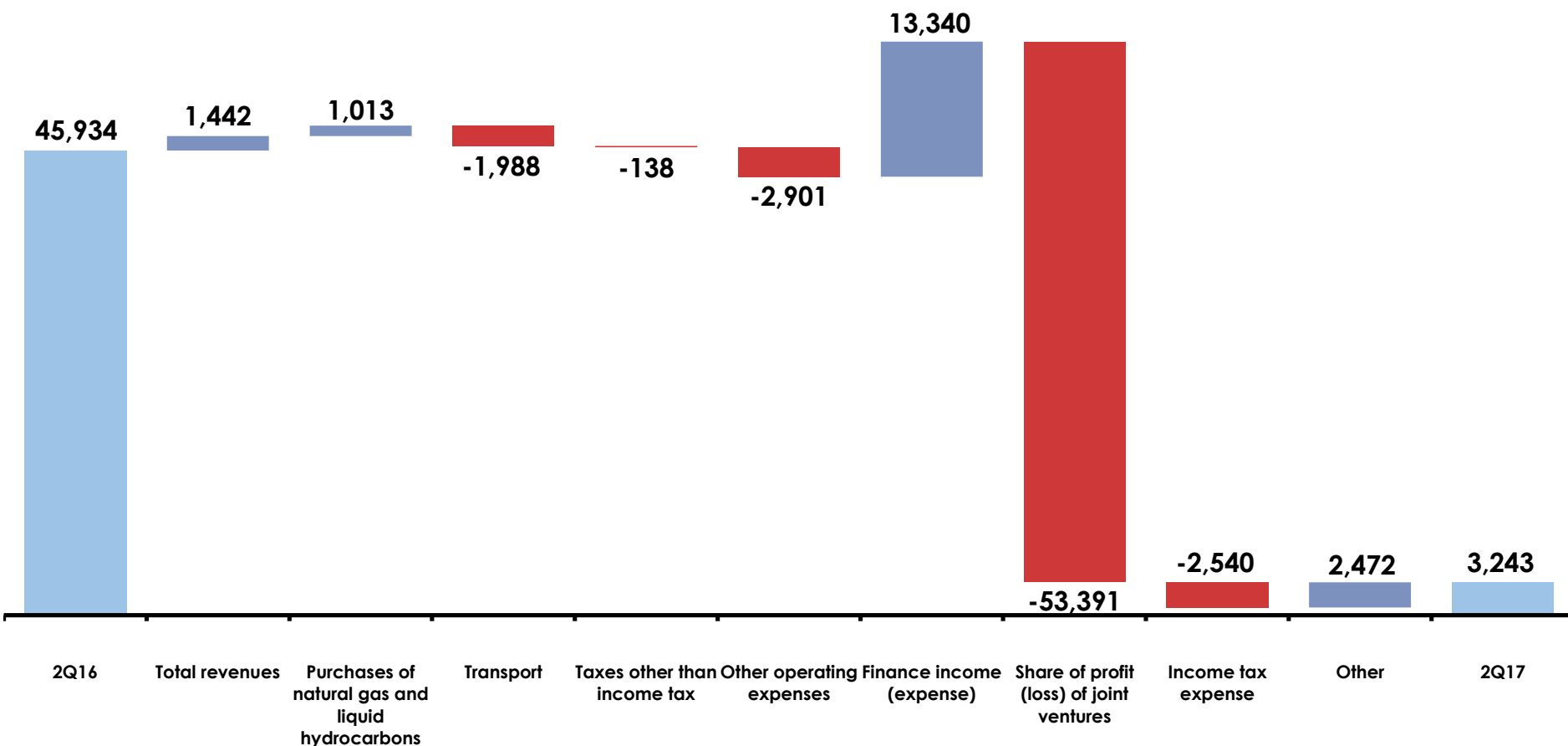


General and Administrative Expenses (RR million)



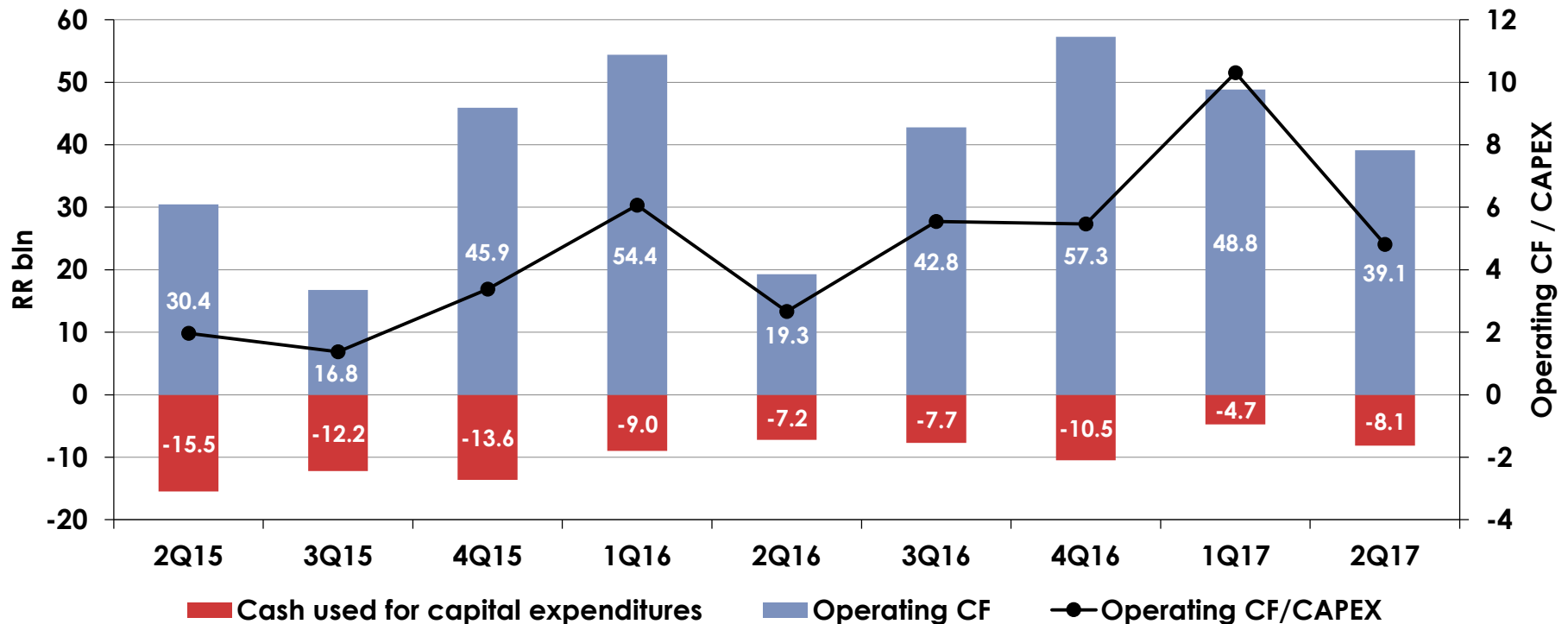
Appendices

Profit Attributable to NOVATEK Shareholders (RR million)



One of the major factors that had an effect on the Group's financial result was the recognition of significant non-cash foreign exchange gains (losses) on foreign currency denominated loans of the Group and its joint ventures in both reporting periods. Excluding the effect of foreign exchange gains and losses, our profit attributable to shareholders of PAO NOVATEK increased by RR 4,162 million, or 14.1%, and amounted to RR 33,772 million.

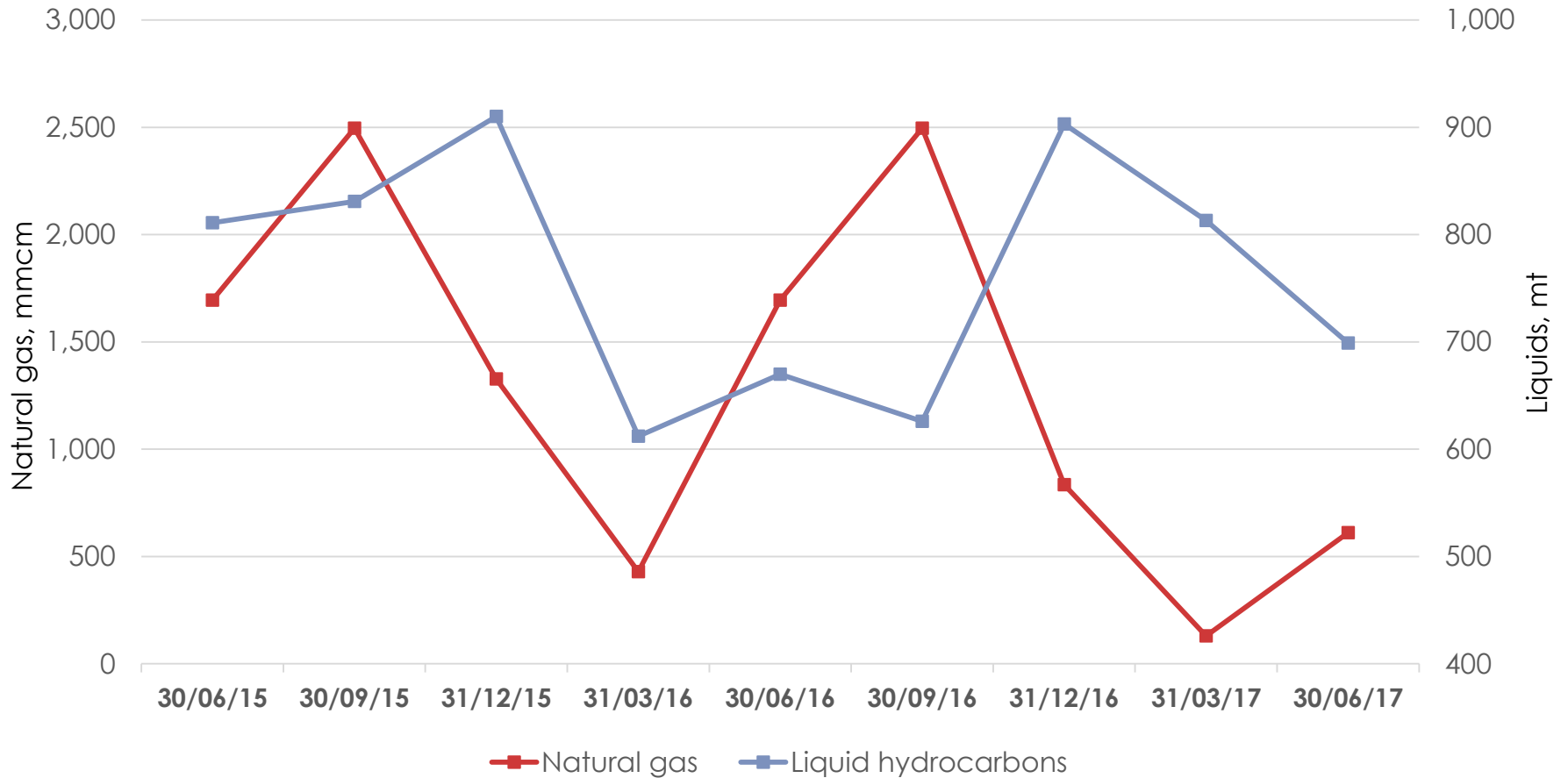
Internally Funded Investment Program



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

Note: for 2Q 2016 Normalized Operating Cash Flow is used, excluding advance income tax payments of RR 9,932 million based on the gain on the disposal of the 9.9% equity stake in OAO Yamal LNG.

Change in Inventories



Questions and Answers