

NOVATEK

Second Quarter 2018 Operational and Financial Results Conference Call



Mark A. Gyetvay, Deputy Chairman of the Management Board
Moscow, Russian Federation
26 July 2018

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 – 2Q18

- ❑ **Revenue** was RR 196 bln representing an **increase of 52.0%** compared to 2Q17
- ❑ **Natural gas production** (*including our proportionate share in JVs*) was 16.4 bcm, representing an **increase of 4.2%** compared to 2Q17
- ❑ **Liquids production** (*including our proportionate share in JVs*) was 2.9 mmt, representing an **increase of 0.3%** compared to 2Q17
- ❑ **Natural gas sales volumes** was 15.1 bcm, representing an **increase of 5.3%** compared to 2Q17
- ❑ **NOVATEK's share in LNG production** was 773 mt
- ❑ **653 mmcm of LNG** were sold on **international markets**

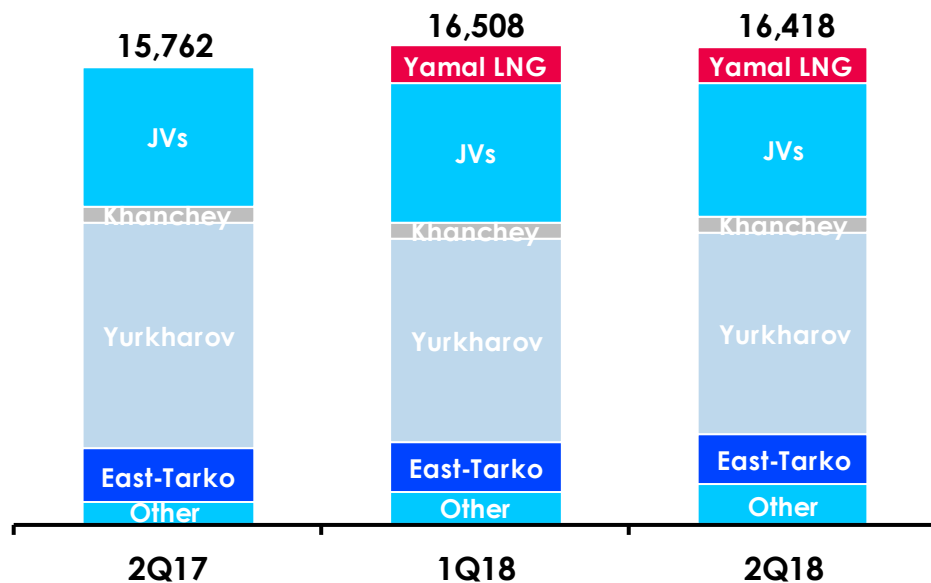
Key Events 2Q18

- ❑ Annual General Meeting of Shareholders approved the dividend payment in amount of RR 14.95 per ordinary share (or RR 149.5 per GDR).
- ❑ NOVATEK and TOTAL become partners in Arctic LNG 2 project.
- ❑ The Board of Directors of NOVATEK resolved on creating a transportation subsidiary called Maritime Arctic Transport LLC.
- ❑ A subsidiary OOO NOVATEK-Kamchatka was established to build an LNG transshipment terminal on the Kamchatka Peninsula.
- ❑ Yamal LNG shipped first LNG cargo to Spain.
- ❑ MOU with KOGAS was signed.
- ❑ Strategic Cooperation Agreement with Sovcomflot was signed.
- ❑ NOVATEK obtained the right for geological research works at the Palkurtoiskiy license area and the Centralno-Nadoyakhskiy license area.
- ❑ NOVATEK was announced as the winner of the “Change Management. Visionaries.” award.

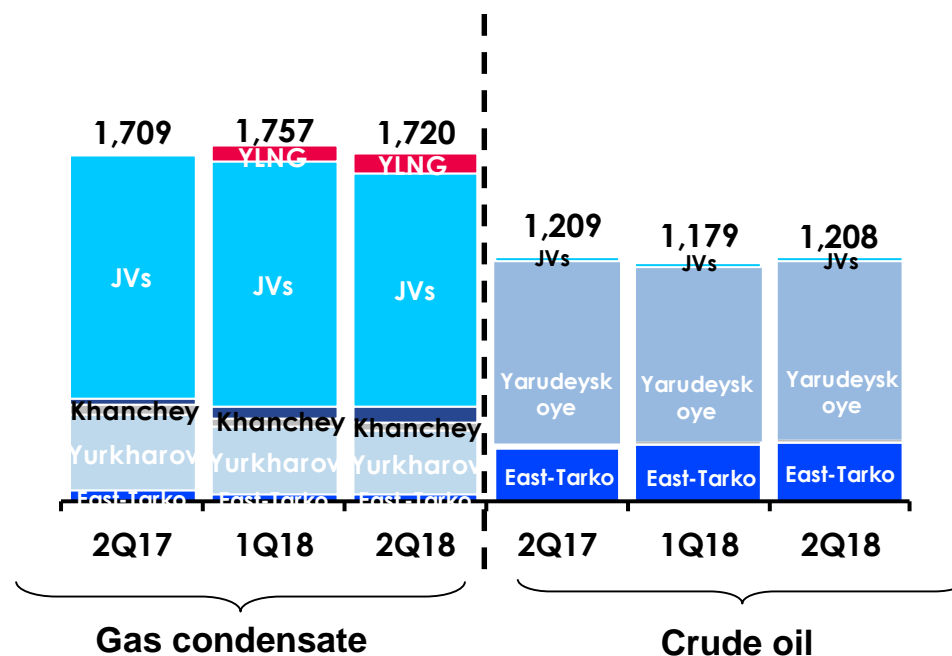
Operational Overview

Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



The main factors positively impacting our production growth were the commencement of natural gas and gas condensate production at Yamal LNG at the end of 2017, as well as the acquisition by the Group of new production fields. This allowed us to fully compensate the decrease in production at mature fields of our subsidiaries and our joint venture Nortgas.

Purovsky Plant and Ust-Luga Complex

Purovsky Plant

- ❑ **Total volumes delivered in 2Q18: 2,788 mt**
 - Yurkharovskoye field: 314 mt
 - East-Tarkosalinskoye and Khancheyskoye fields: 111 mt
 - Other fields: 40 mt
 - Purchases from our joint ventures: 2,323 mt
- ❑ **Total output of marketable products: 2,774 mt**
 - Stable gas condensate: 2,173 mt
 - LPG: 601 mt

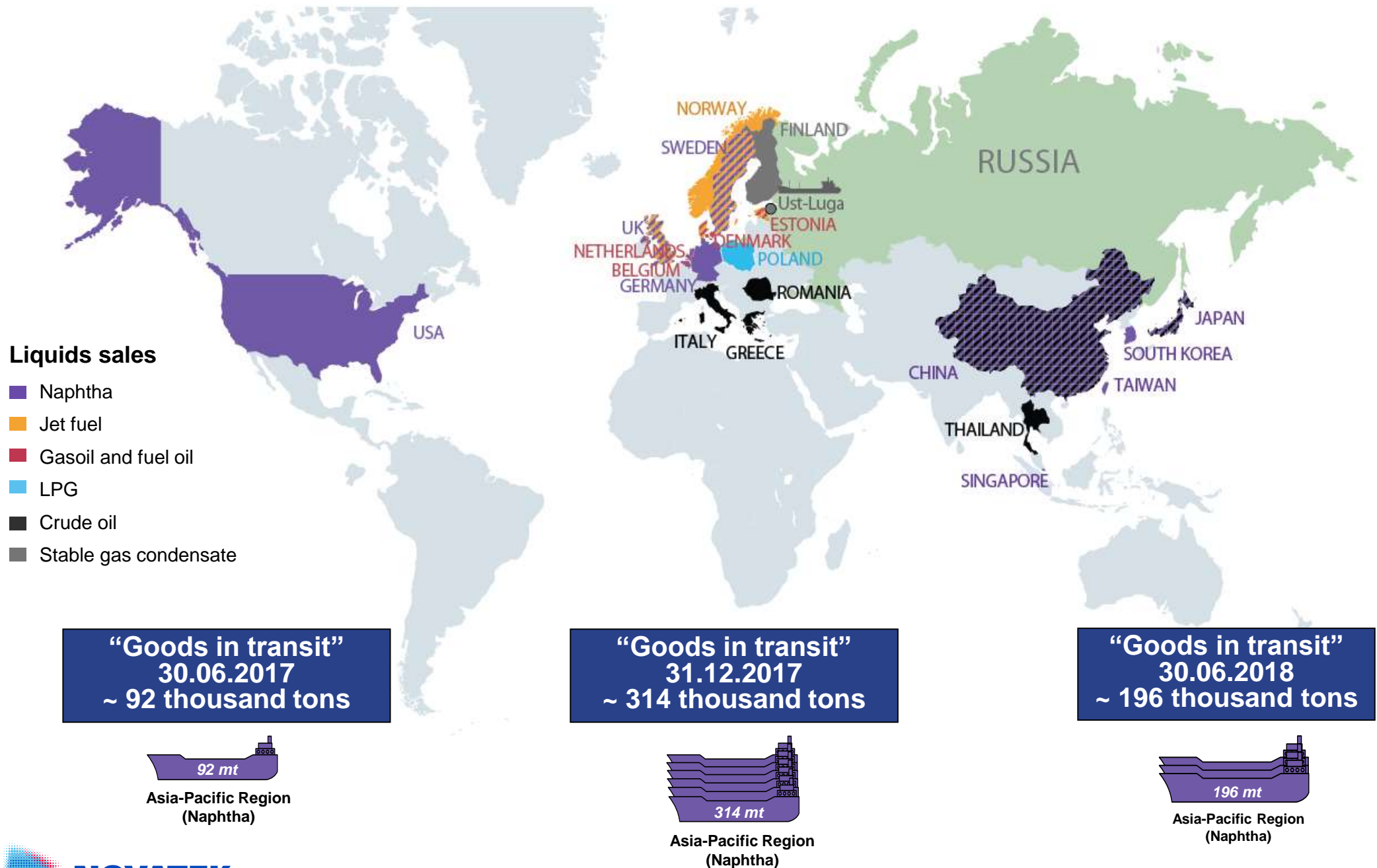


Ust-Luga Complex

- ❑ **Total volumes delivered in 2Q18: 1,782 mt**
- ❑ **Total output of marketable stable gas condensate refined products: 1,735 mt**
 - Naphtha: 1,071 mt
 - Other products: 664 mt
- ❑ **Stable gas condensate refined products sold: 2,028 mt**
 - to Europe: 1126 mt
 - to the Asian Pacific Region: 646 mt
 - to North America: 72 mt
 - Other: 184 mt

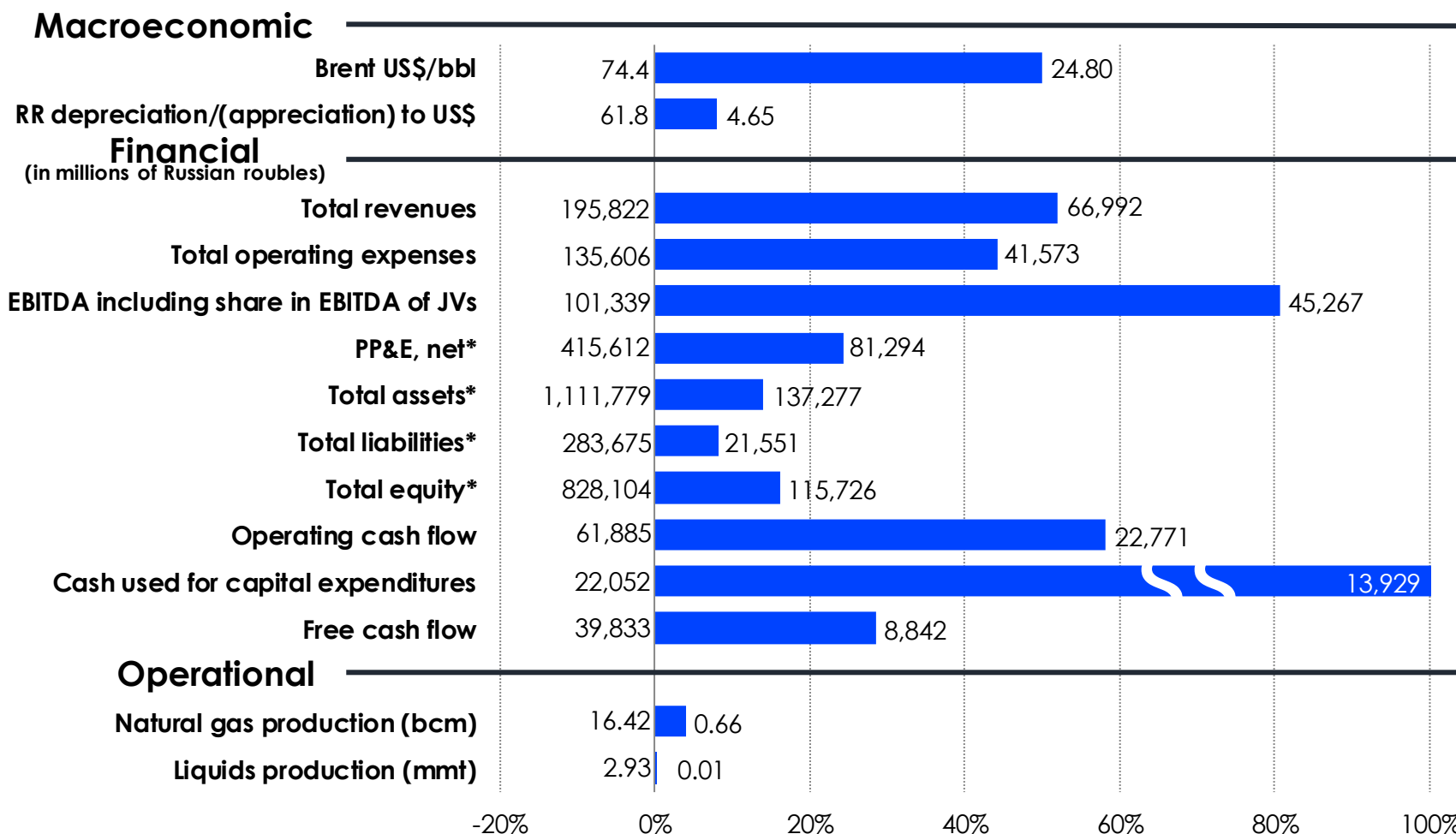


Liquids in Tankers



Financial Overview – 2Q18 to 2Q17

Performance Summary 2Q18/2Q17

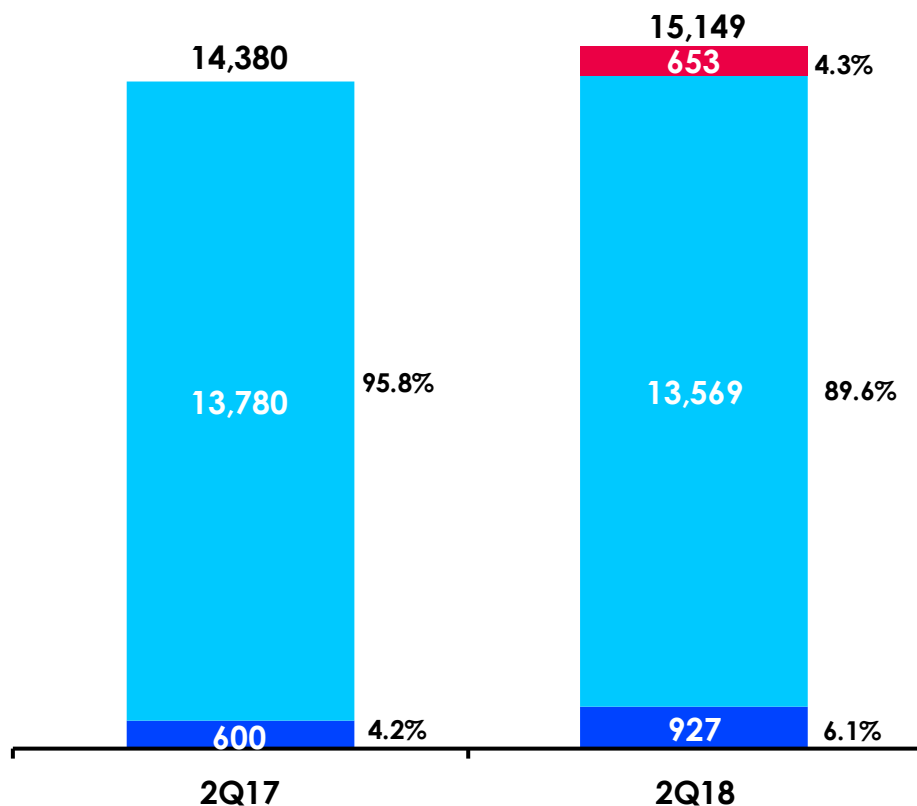


* 30 June 2018 to 30 June 2017.

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

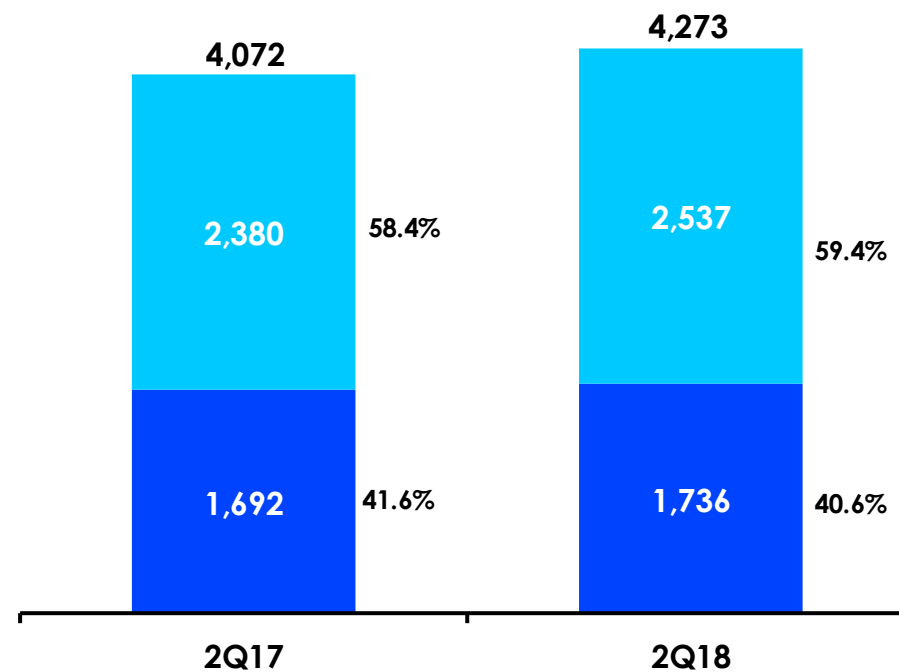
Natural Gas Sales Volumes, mmcm



■ Ex-field ■ End-customers ■ International markets

Our total natural gas sales volumes increased due to sales of LNG purchased from our joint venture Yamal LNG to international markets from December 2017, as well as an increase in volumes sold in the Russian Federation.

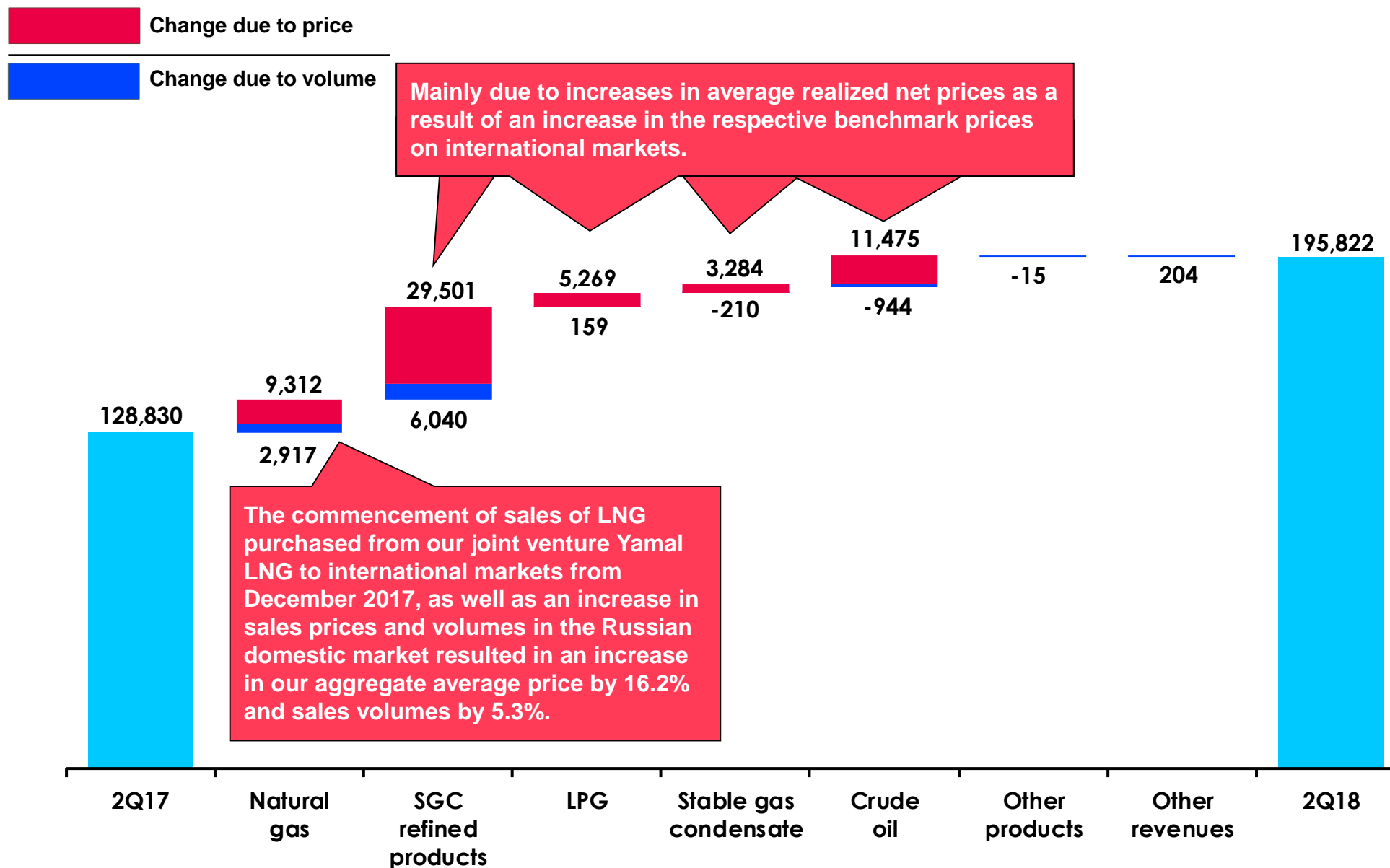
Liquids Sales Volumes, mt



■ Domestic ■ Export

Our total liquids sales volumes increased mainly due to the sale of stable gas condensate refined products in transit at the end of the first quarter of 2018.

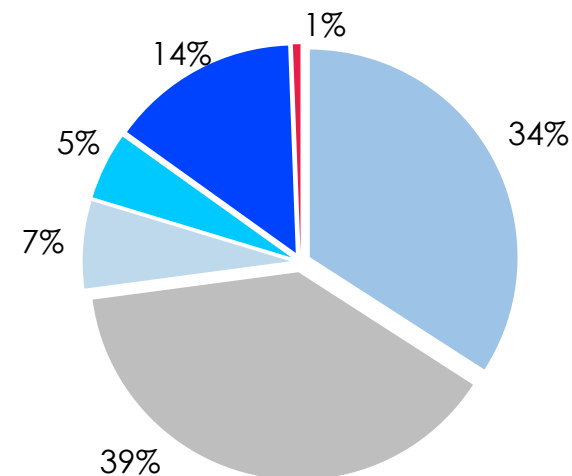
Total Revenues (RR million)



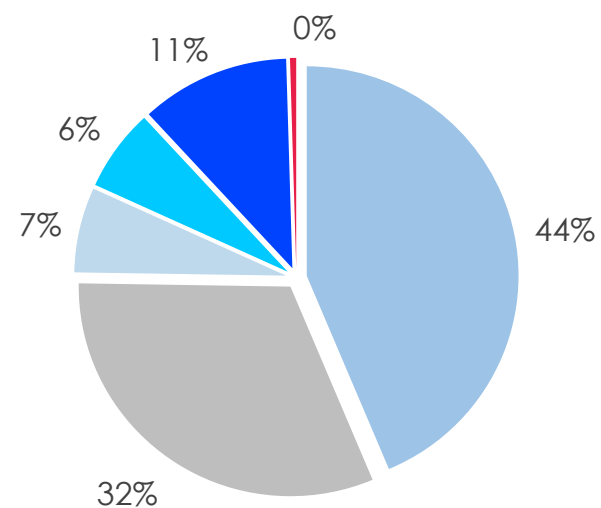
Total Revenues Breakdown

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

2Q18



2Q17

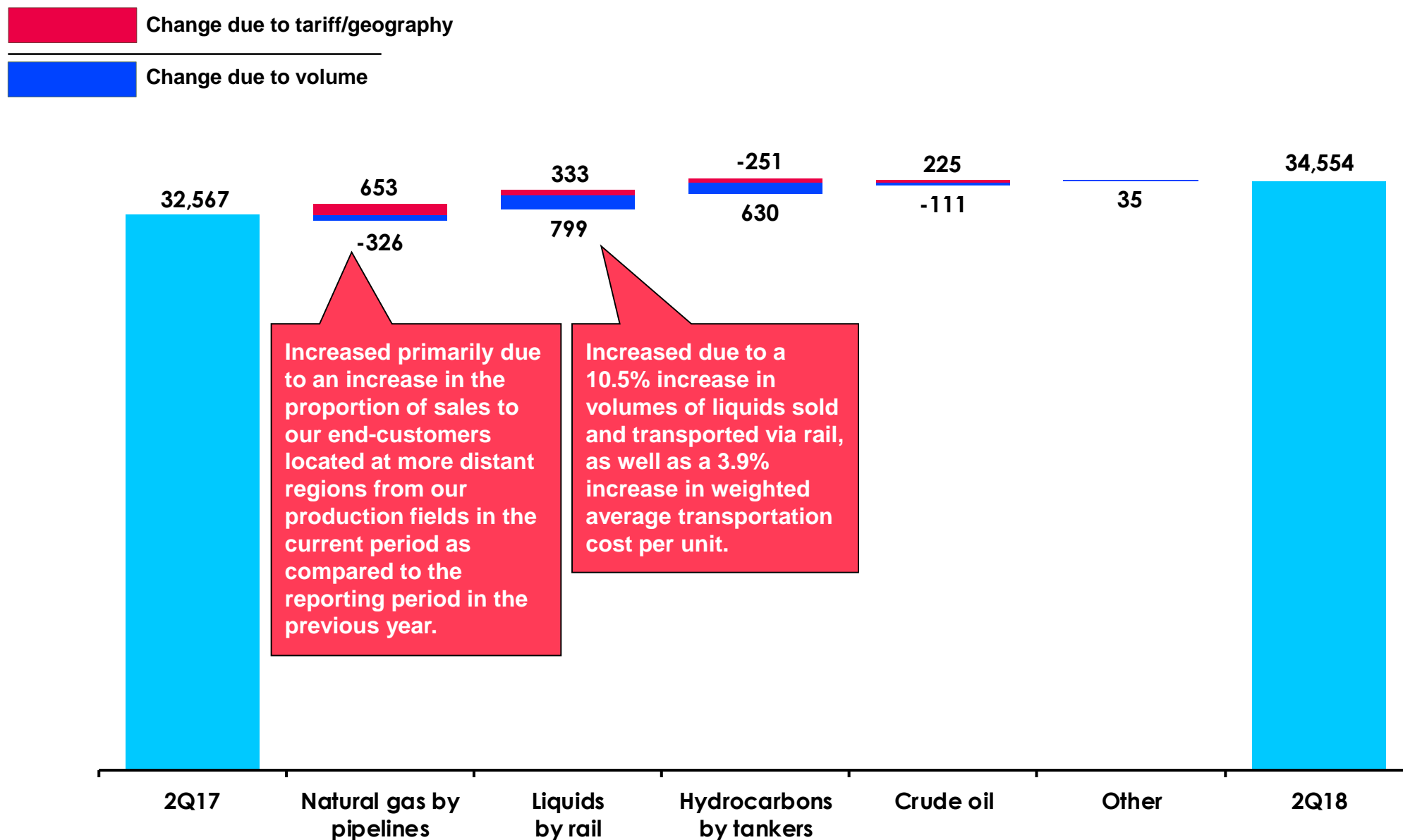


Operating Expenses (RR million and % of Total Revenues (TR))

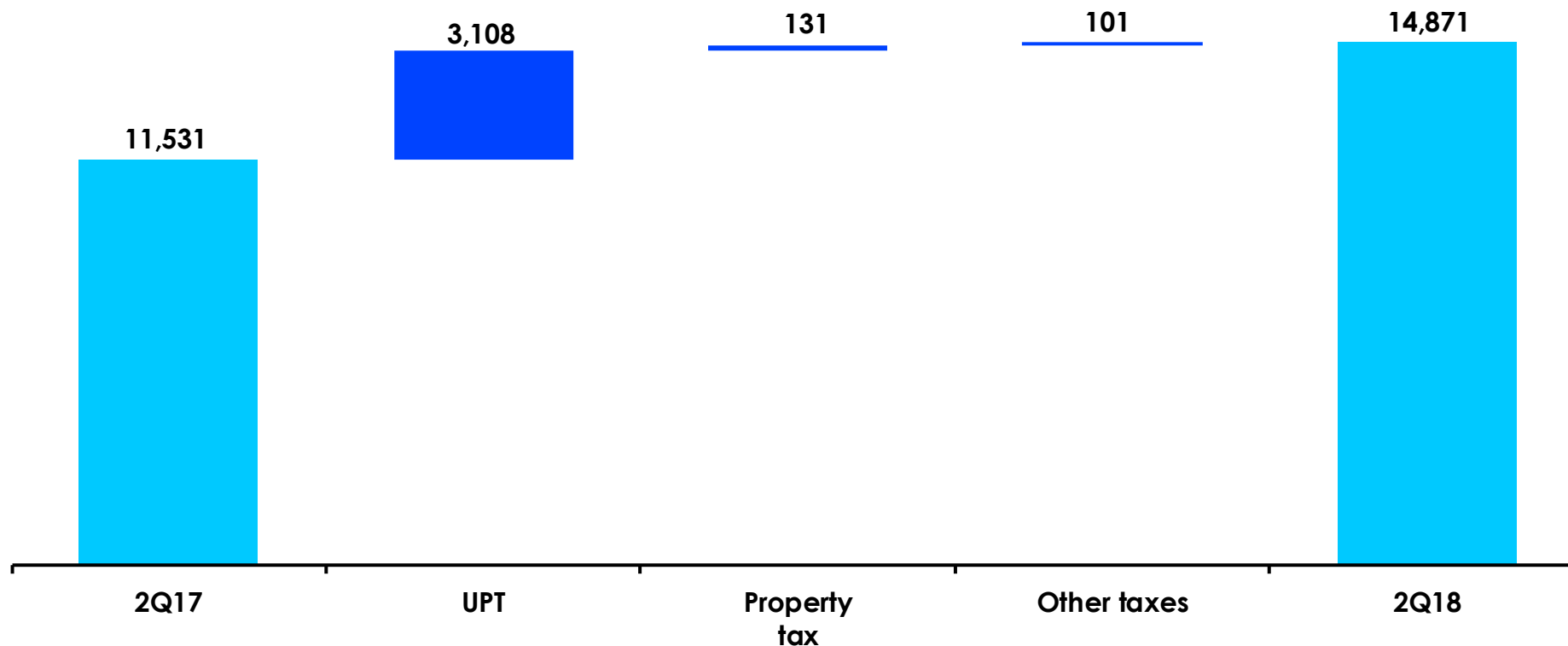
2Q17	% of TR	2Q18	% of TR		1Q18	% of TR	2Q18	% of TR
32,567	25.2%	34,554	17.6%	Transportation expenses	37,794	21.1%	34,554	17.6%
11,531	9.0%	14,871	7.6%	Taxes other than income tax	13,422	7.5%	14,871	7.6%
44,098	34.2%	49,425	25.2%	Non-controllable expenses	51,216	28.6%	49,425	25.2%
8,572	6.7%	8,655	4.4%	Depreciation and amortization	8,097	4.5%	8,655	4.4%
5,084	3.9%	5,826	3.0%	Materials, services & other	5,563	3.1%	5,826	3.0%
3,911	3.0%	5,079	2.6%	General and administrative	4,593	2.6%	5,079	2.6%
504	0.4%	2,004	1.0%	Exploration expenses	1,709	1.0%	2,004	1.0%
-	n/a	89	n/a	Net impairment expenses (reversals)	-4	n/a	89	n/a
874	0.7%	943	0.5%	Change in natural gas, liquids and WIP	-1,952	n/a	943	0.5%
63,043	48.9%	72,021	36.8%	Subtotal operating expenses	69,222	38.5%	72,021	36.8%
30,990	24.1%	63,585	32.5%	Purchases of natural gas and liquid hydrocarbons	61,815	34.5%	63,585	32.5%
94,033	73.0%	135,606	69.3%	Total operating expenses	131,037	73.0%	135,606	69.3%

- Our total operating expenses increased YoY by 44.2% mainly due to an increase in volumes of natural gas purchased from our joint ventures, in particular, with the commencement of LNG production at Yamal LNG at the end of 2017, and an increase in the average purchase prices for hydrocarbons.

Transportation Expenses (RR million)

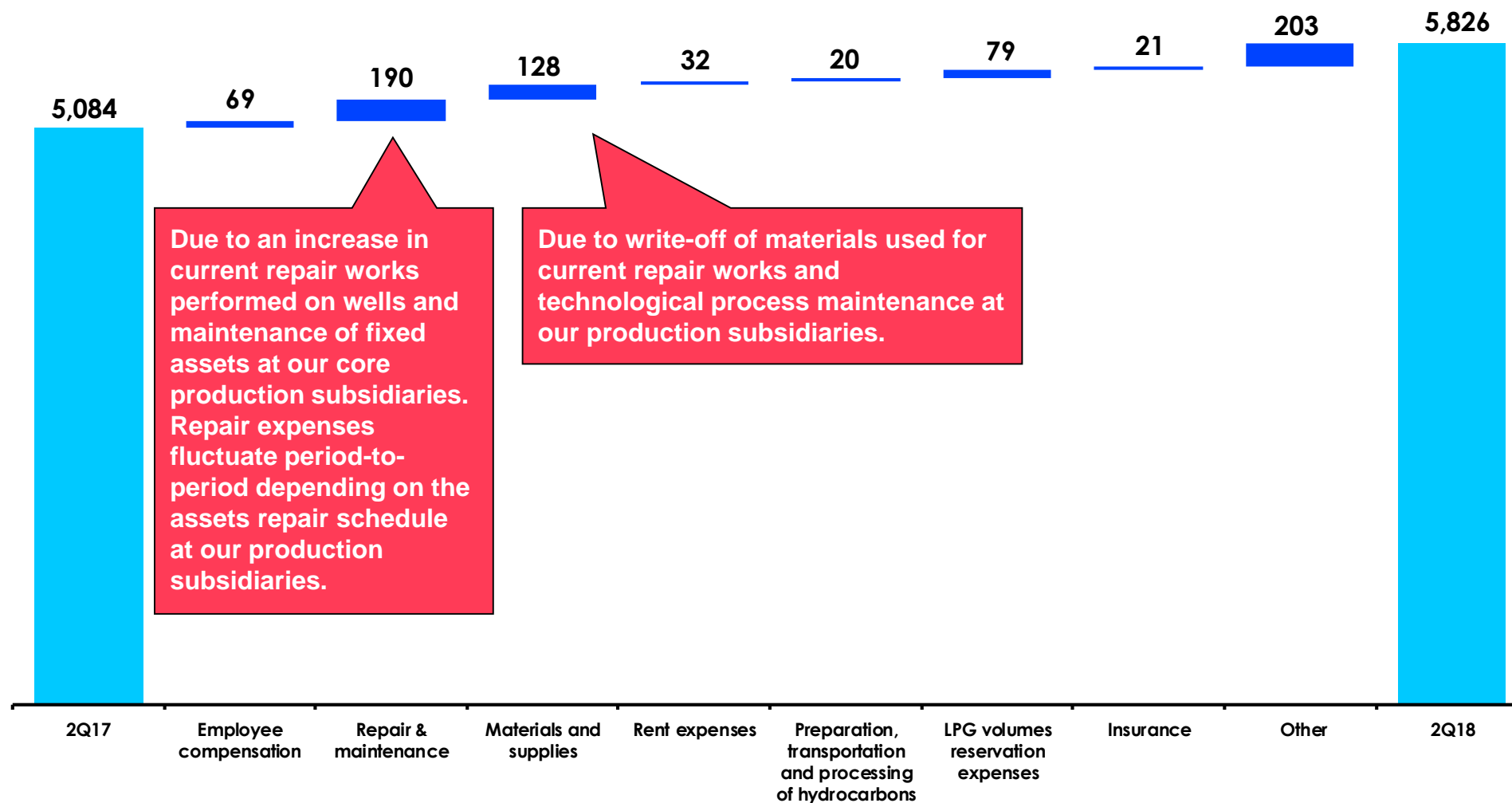


Taxes Other Than Income Tax Expense (RR million)

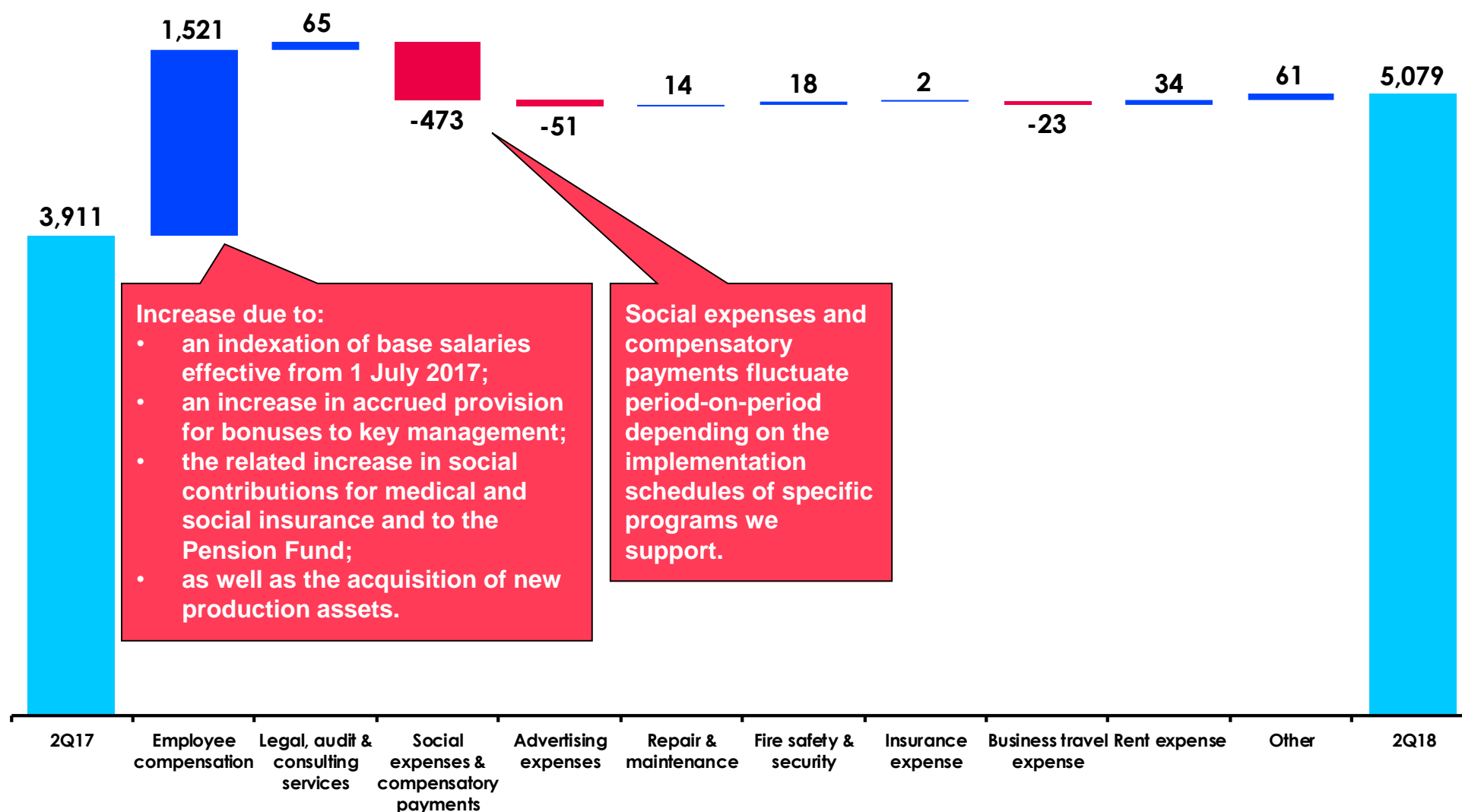


- Our unified natural resources production tax expense increased mainly due to an increase in UPT rates for crude oil and natural gas as a result of an increase in benchmark crude oil prices, as well as due to changes in the formula for crude oil UPT rate calculation effective 1 January 2018.

Materials, Services and Other Expenses (RR million)

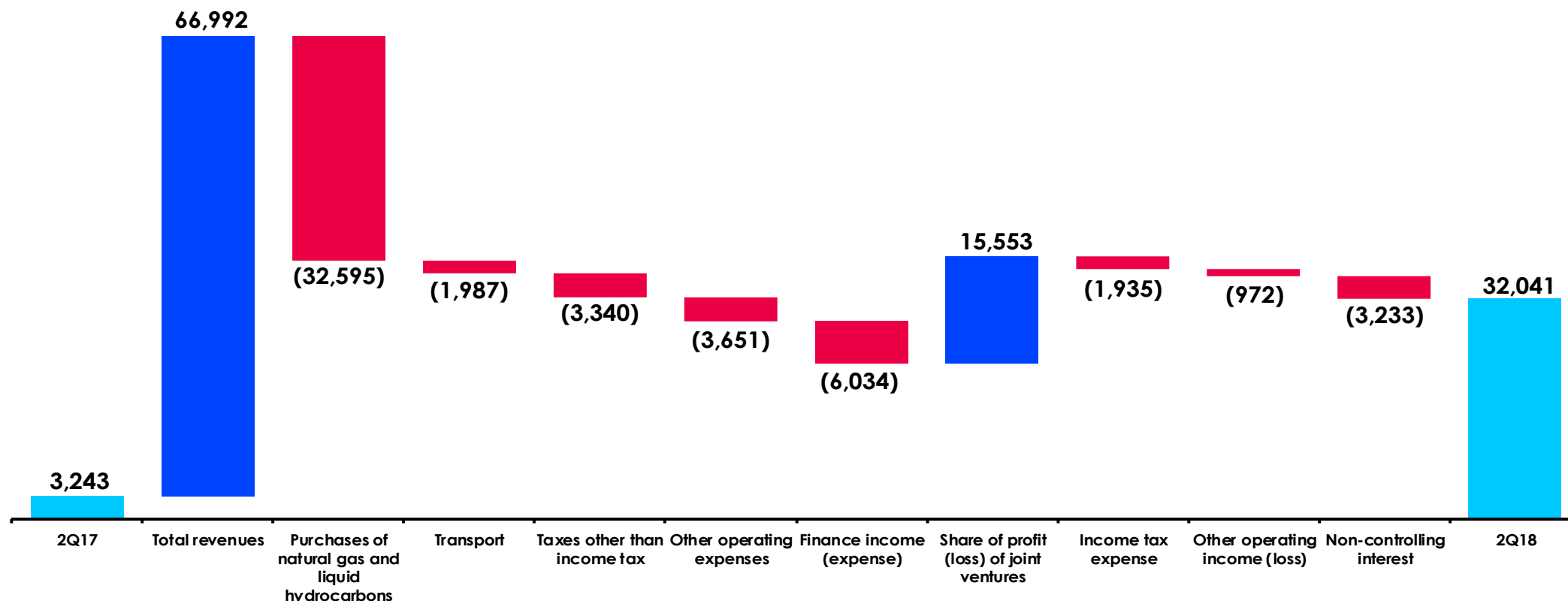


General and Administrative Expenses (RR million)



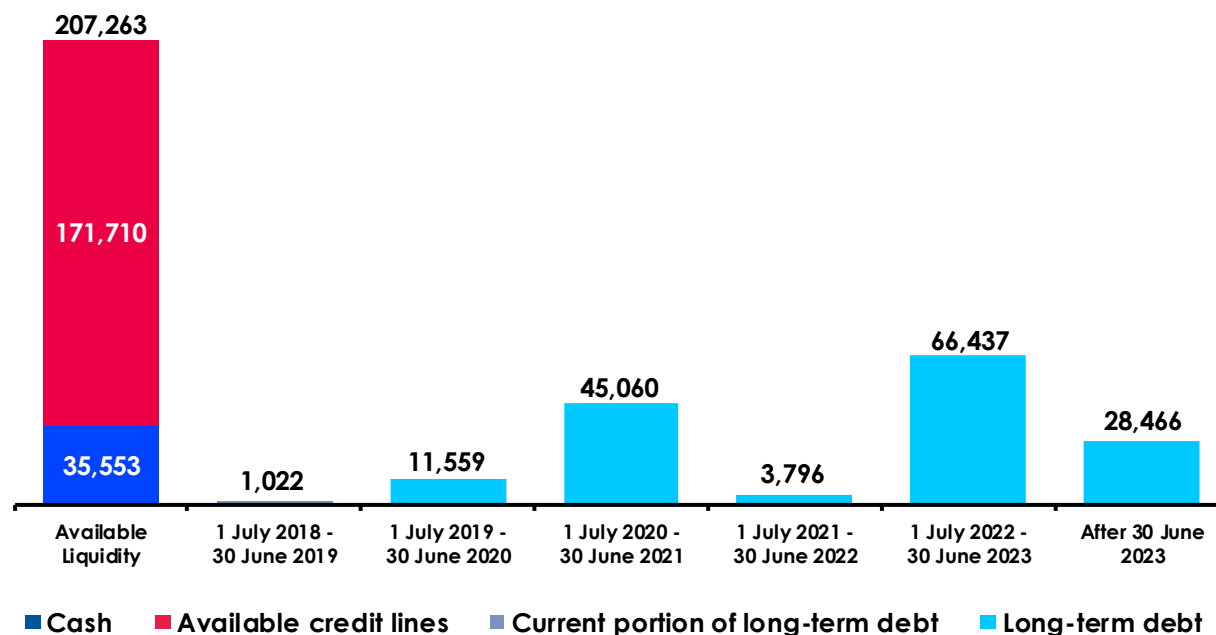
Profit Attributable to NOVATEK Shareholders

(RR million)



- Our purchases of unstable gas condensate from our joint ventures increased by 97.3% as compared to the corresponding period in 2017 due to an increase in purchase prices, which are impacted by international crude oil prices excluding export duties.
- Our purchases of natural gas increased by 123.2% as compared to the corresponding period in 2017 mainly due to the commencement of purchases of LNG produced at Yamal LNG for subsequent sale on international markets from December 2017 and an increase in volumes of natural gas purchased from Arcticgas in order to fulfill our contractual sales obligations on the domestic market. In addition, our purchases of natural gas increased due to an increase in purchase prices on the domestic market that are influenced by the regulated natural gas prices.
- Our proportionate share of loss of joint ventures decreased by 46.1% as compared the corresponding period in 2017 primarily due to the production launch at the first LNG train at our joint venture Yamal LNG in the end of 2017, as well as an increase in revenues from liquids and natural gas sales in our joint venture Arcticgas primarily as a result of higher average realized prices.

Total Debt Maturity Profile (RR million)



The Group has available credit line facilities from banks with credit limits in the amount of RR 120 billion and the equivalent of USD 750 million and EUR 50 million.

Debt repayment schedule:

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, Eurobonds Ten-Year (USD 650 mln) and Other loans

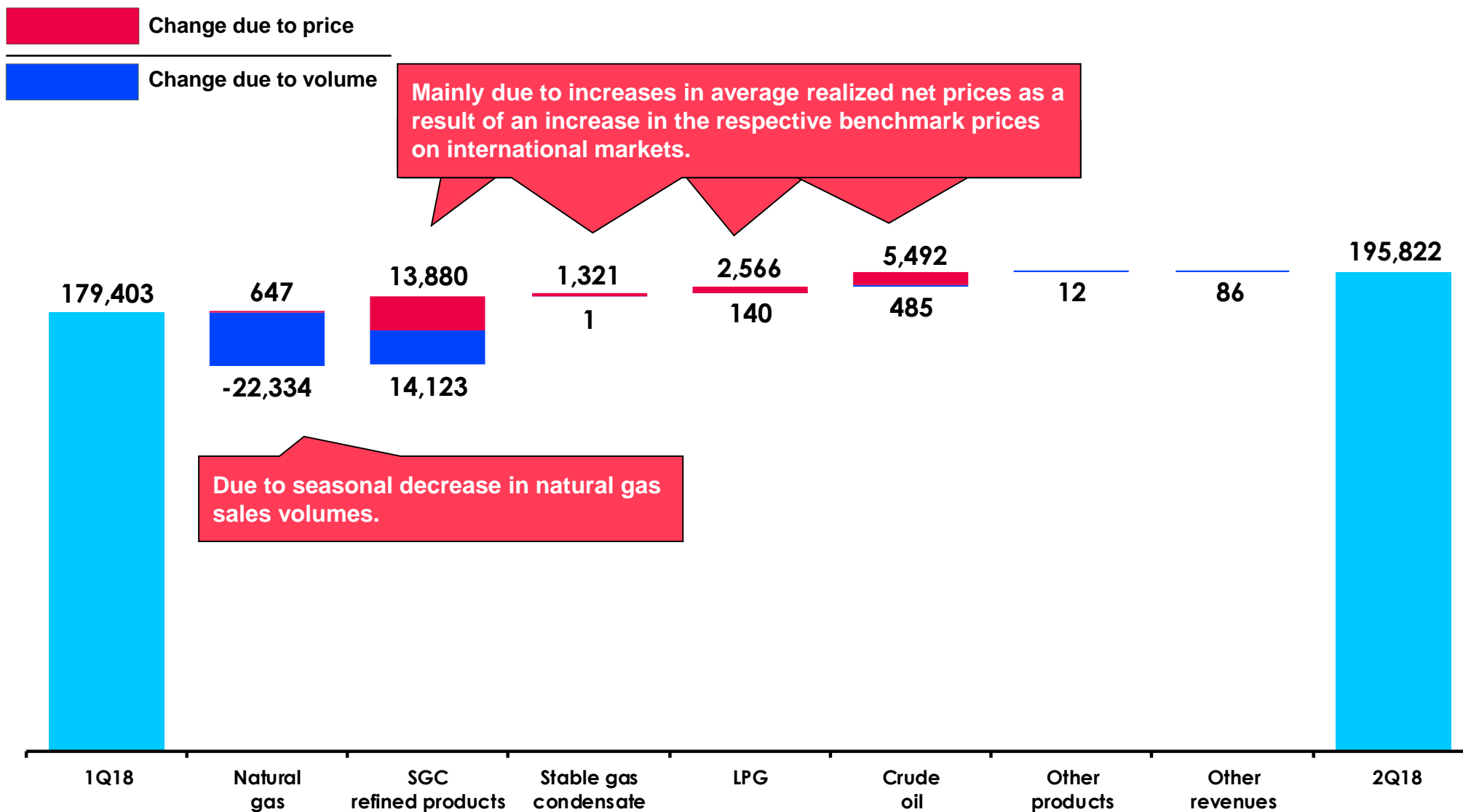
Up to 30 June 2022 – Loan from the Silk Road Fund

Up to 30 June 2023 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD one bln)

After 30 June 2024 – Loan from the Silk Road Fund

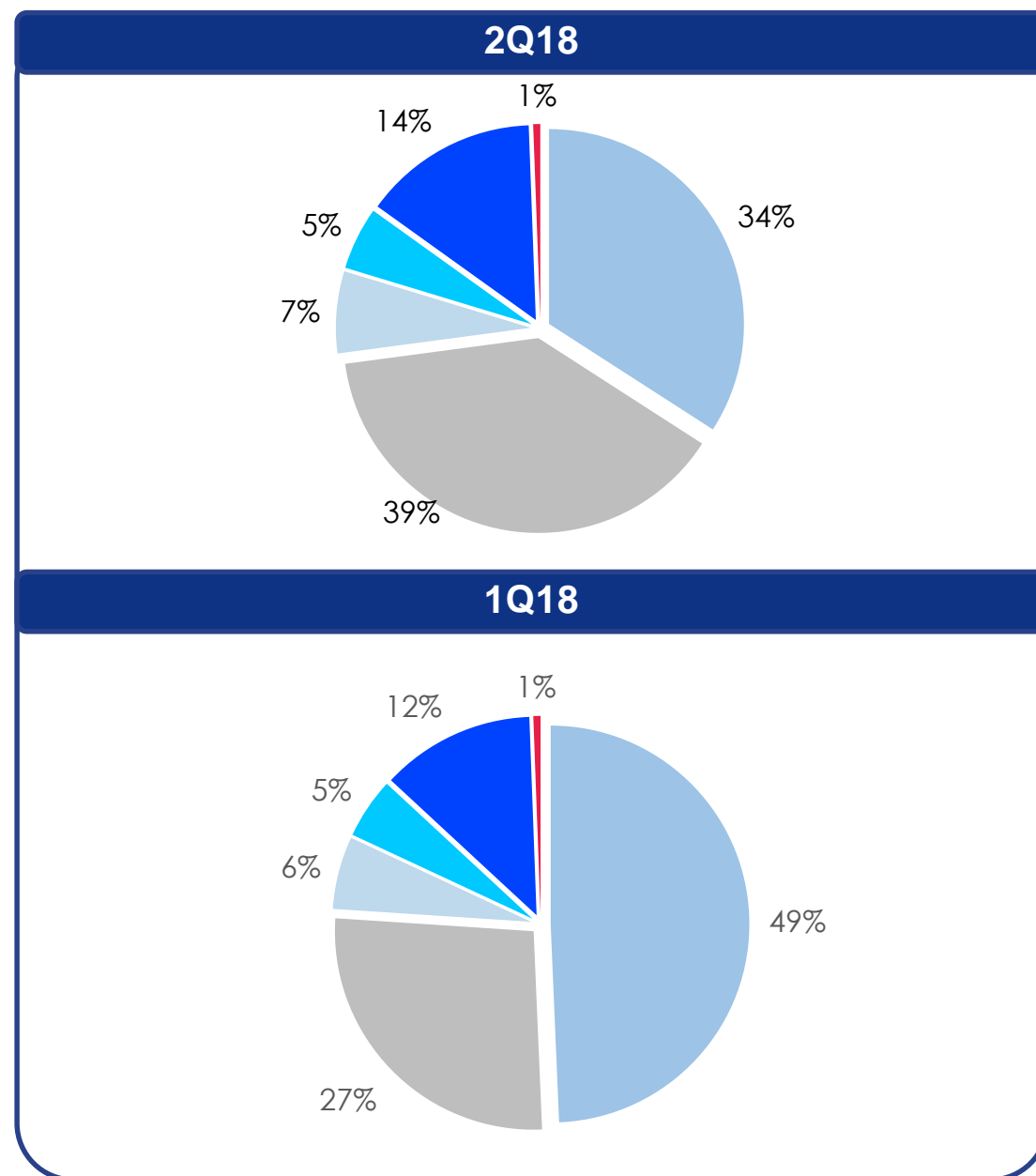
Financial Overview – 2Q18 to 1Q18

Total Revenues (RR million)

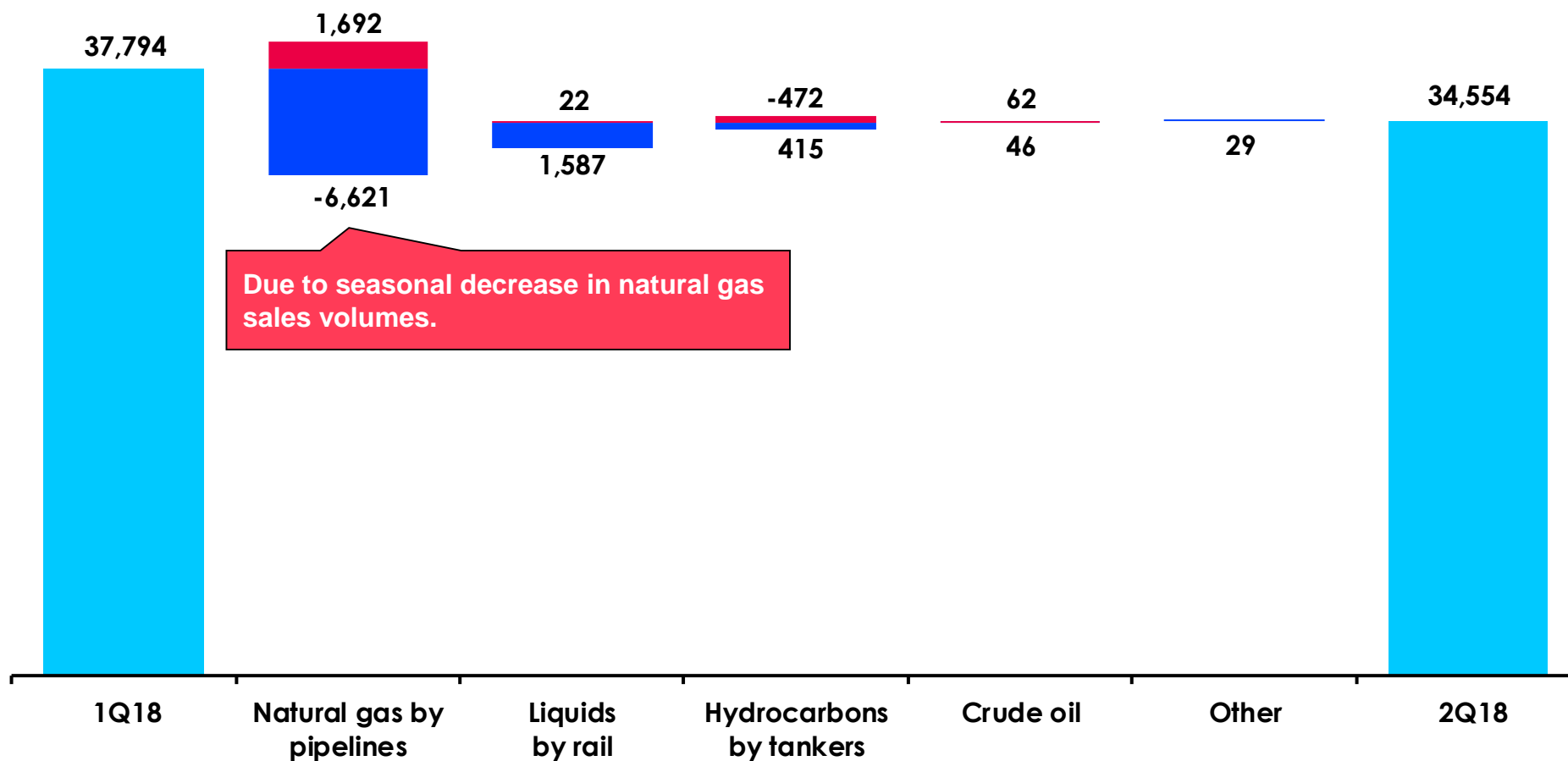
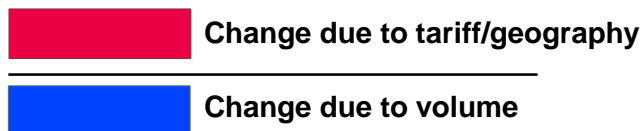


Total Revenues Breakdown

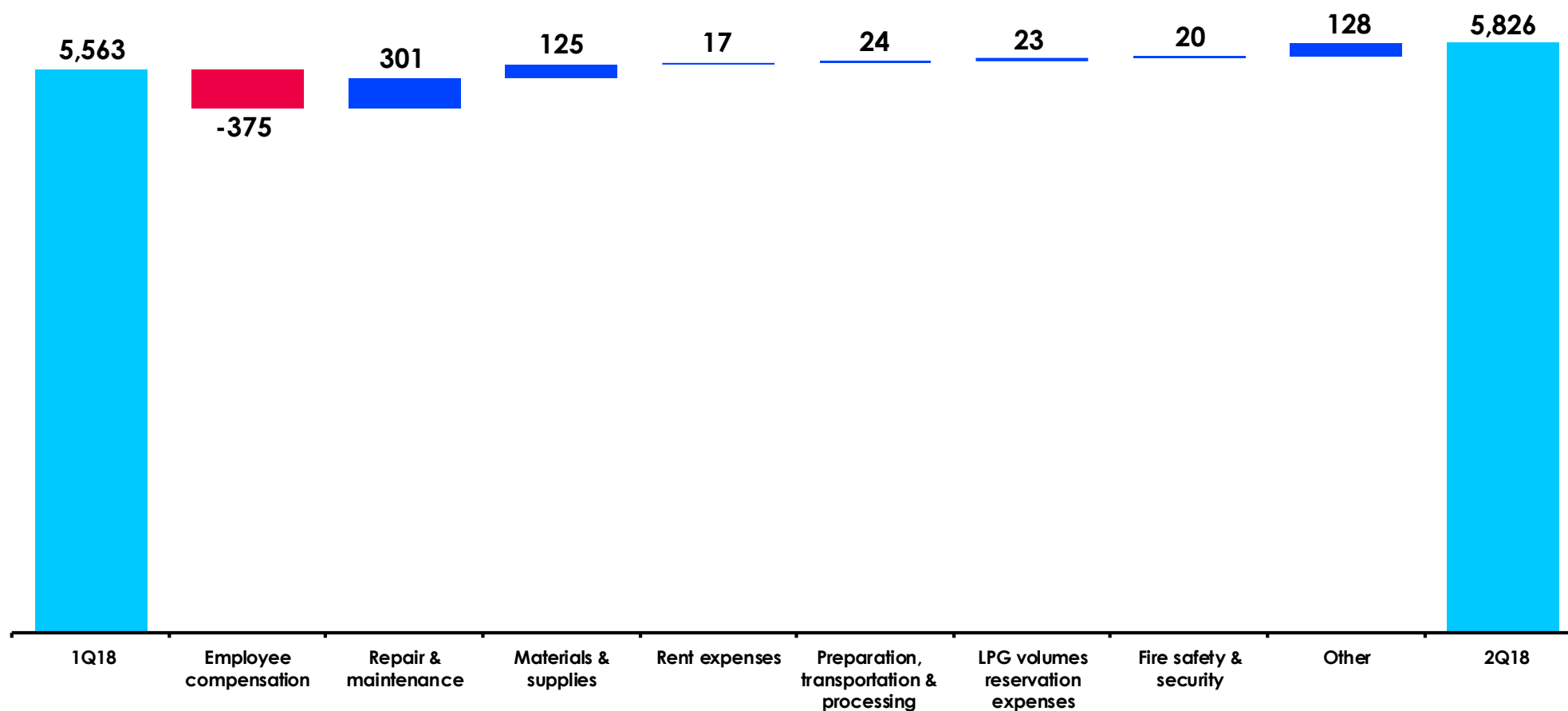
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- Crude oil
- Other



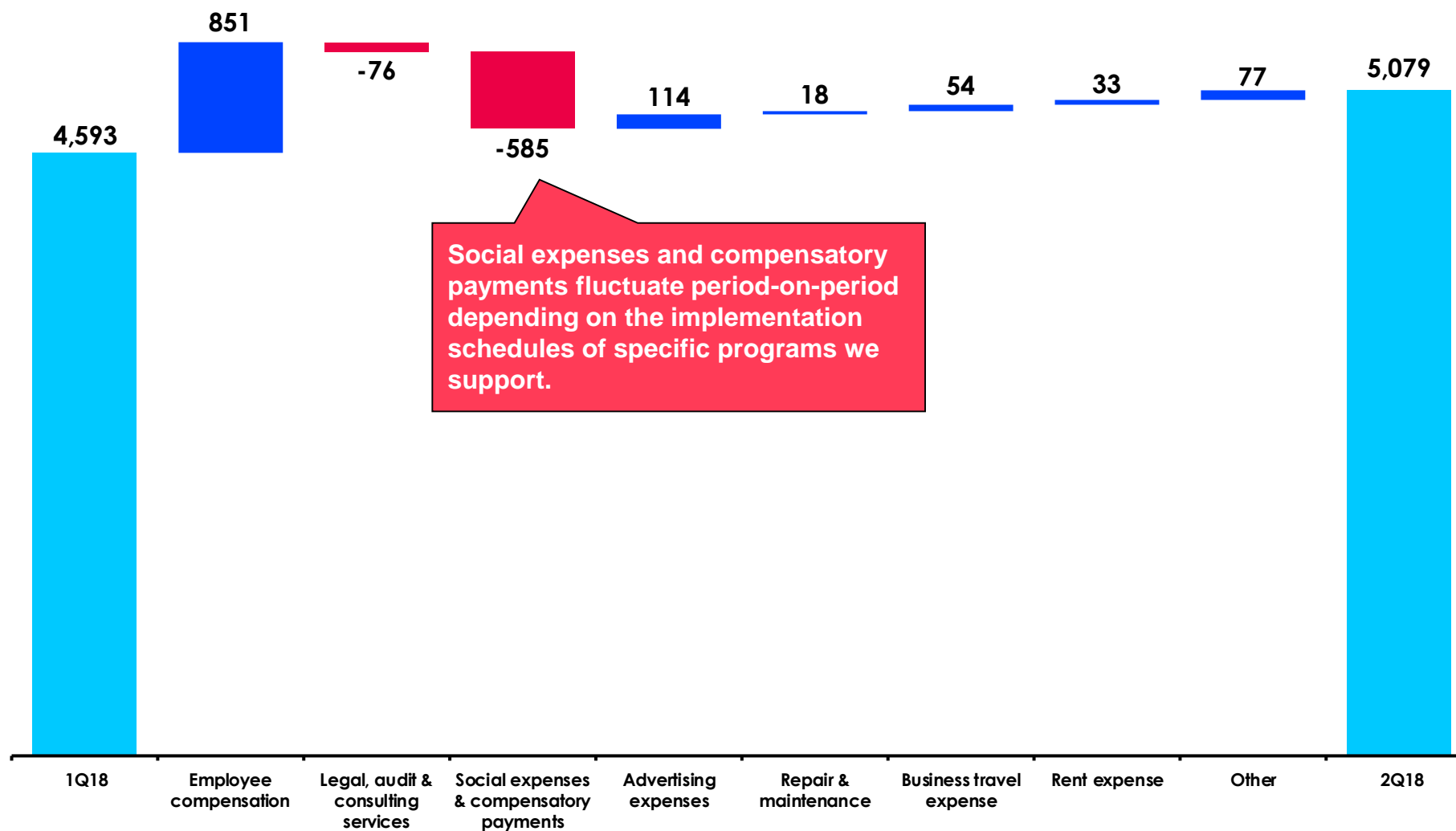
Transportation Expenses (RR million)



Materials, Services and Other Expenses (RR million)

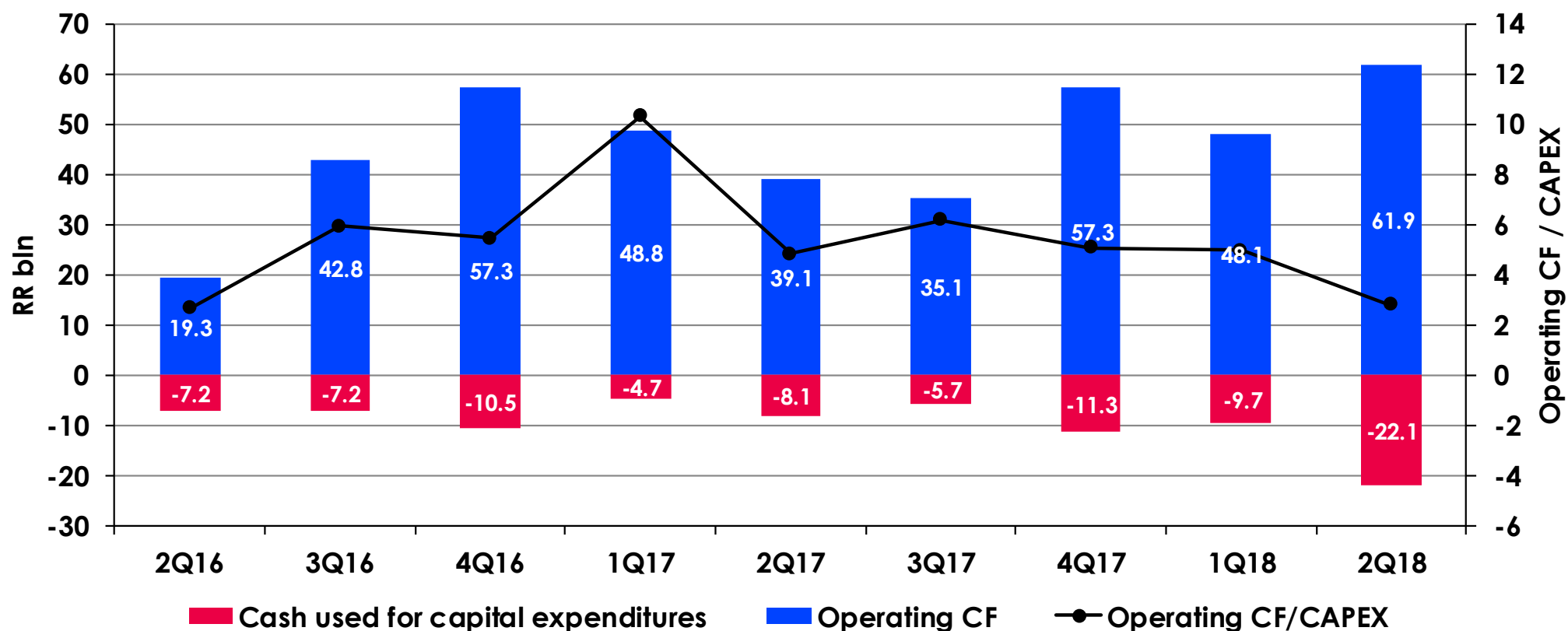


General and Administrative Expenses (RR million)



Appendices

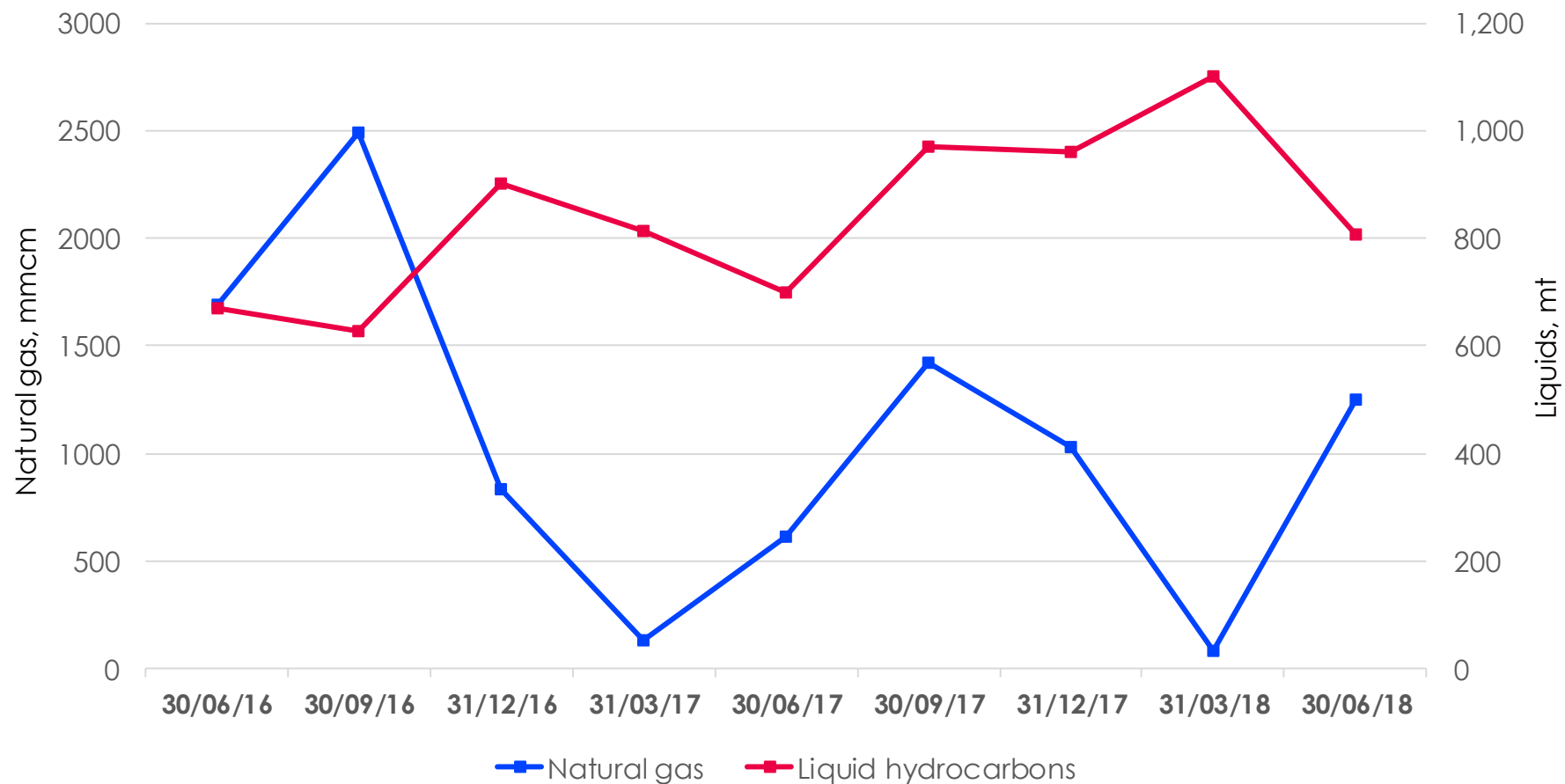
Internally Funded Investment Program



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

Note: for 2Q16 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