



Second Quarter 2015 Operational and Financial Results Conference Call



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Moscow, Russian Federation
30 July 2015

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 Highlights – 2Q 2015

- ❑ **Natural gas production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 10.8%
- ❑ **Liquids production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 59.3%
- ❑ **Purovsky Plant output** increased Y-o-Y by 107.2% (effective May 2015, we reached the Plant's peak processing capacity)
- ❑ **Ust-Luga Complex output** increased Y-o-Y by 68.5%

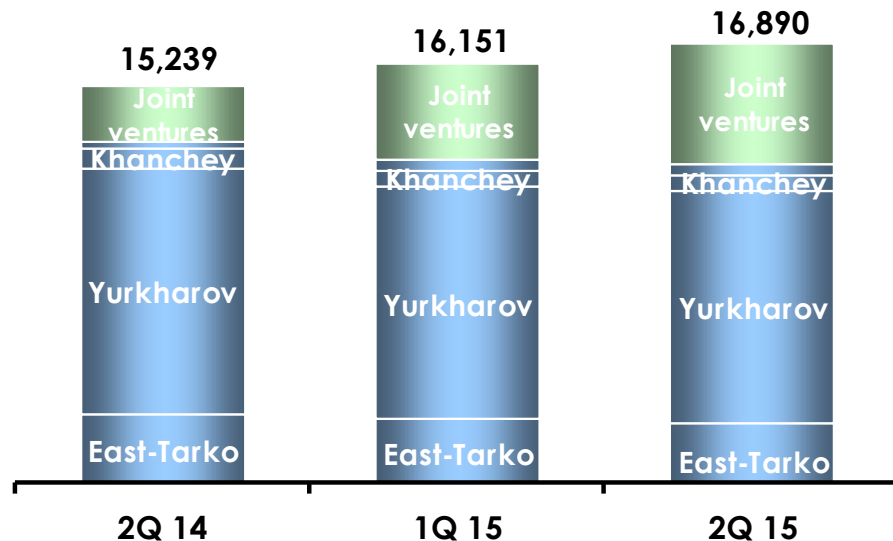
Summary Highlights – 2Q 2015

- ❑ **Increase in revenues** driven by higher liquids sales volumes:
 - Liquids sales increased Y-o-Y by 79.3% to RR 61,040 million
 - Natural gas sales decreased Y-o-Y by 6.2% to RR 50,534 million
- ❑ **EBITDA** (*excluding net gain on disposal of JVs*) **increased** Y-o-Y by 24.4%
- ❑ **EPS increased** Y-o-Y by 31.2%
- ❑ **Cash flow from operations increased** Y-o-Y by 28.1% to RR 30,447 million
- ❑ **Free cash flow increased** Y-o-Y by 261.9% to RR 15,196 million
- ❑ **Capital expenditures decreased** Y-o-Y by 22.1% to RR 15,251 million

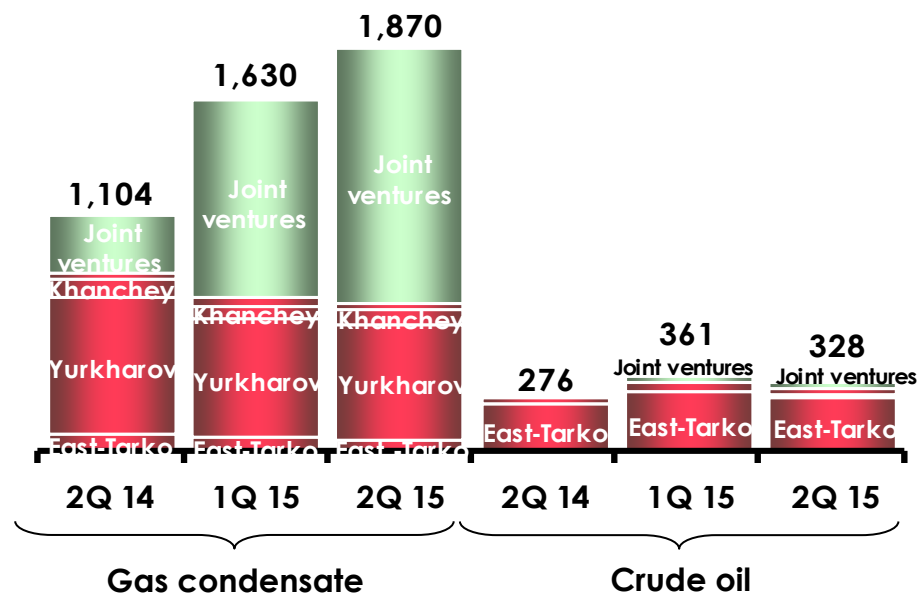
Operational Overview

Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



Natural gas production increased Y-o-Y due to:

- Increase in JV's production due to the launch of additional production facilities at SeverEnerga
- The launch of the Termokarstovoye field in May 2015
- The launch of the North-Khanchey field at the end of 2014
- Increased production at Dobrovolskoye field (Olimpiyskiy license area)

Liquids production increased Y-o-Y due to:

- Increase in our JV's production due to the launch of additional production facilities at SeverEnerga
- The launch of the Termokarstovoye field in May 2015
- Increase in crude oil production at our East-Tarko and Khanchey fields resulting from new wells drilled and technological works performed

Purovsky Plant

❑ Total volumes delivered: 2,934 mt

- Yurkharovskoye field: 531 mt
- East-Tarkosalinskoye and Khancheyskoye fields: 182 mt
- Other fields: 37 mt
- Purchases from our joint ventures: 2,184 mt

❑ Total output of marketable products: 2,904 mt

- Stable gas condensate: 2,378 mt
- LPG: 526 mt

❑ Full capacity utilization



Ust-Luga Complex

- ❑ **Total volumes delivered: 1,744 mt**
- ❑ **Total output of marketable gas condensate refined products: 1,707 mt**
 - Naphtha: 1,031 mt
 - Other products: 676 mt
- ❑ **1,516 mt of gas condensate refined products were dispatched**
 - to Europe: 792 mt
 - to the Asia Pacific Region: 724 mt
- ❑ **Full capacity utilization**



Liquids in Tankers

Liquids sales

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



“Goods in transit”
30.06.2014
~ 25 thousand tons



Singapore
(Naphtha)

“Goods in transit”
31.03.2015
~ 154 thousand tons



USA
(Naphtha)

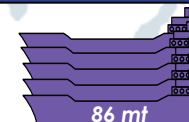


Europe
(Naphtha)

“Goods in transit”
30.06.2015
~ 114 thousand tons



Europe
(Naphtha)



Asia-Pacific Region
(Naphtha)

Financial Overview – 2Q 15 vs. 2Q 14

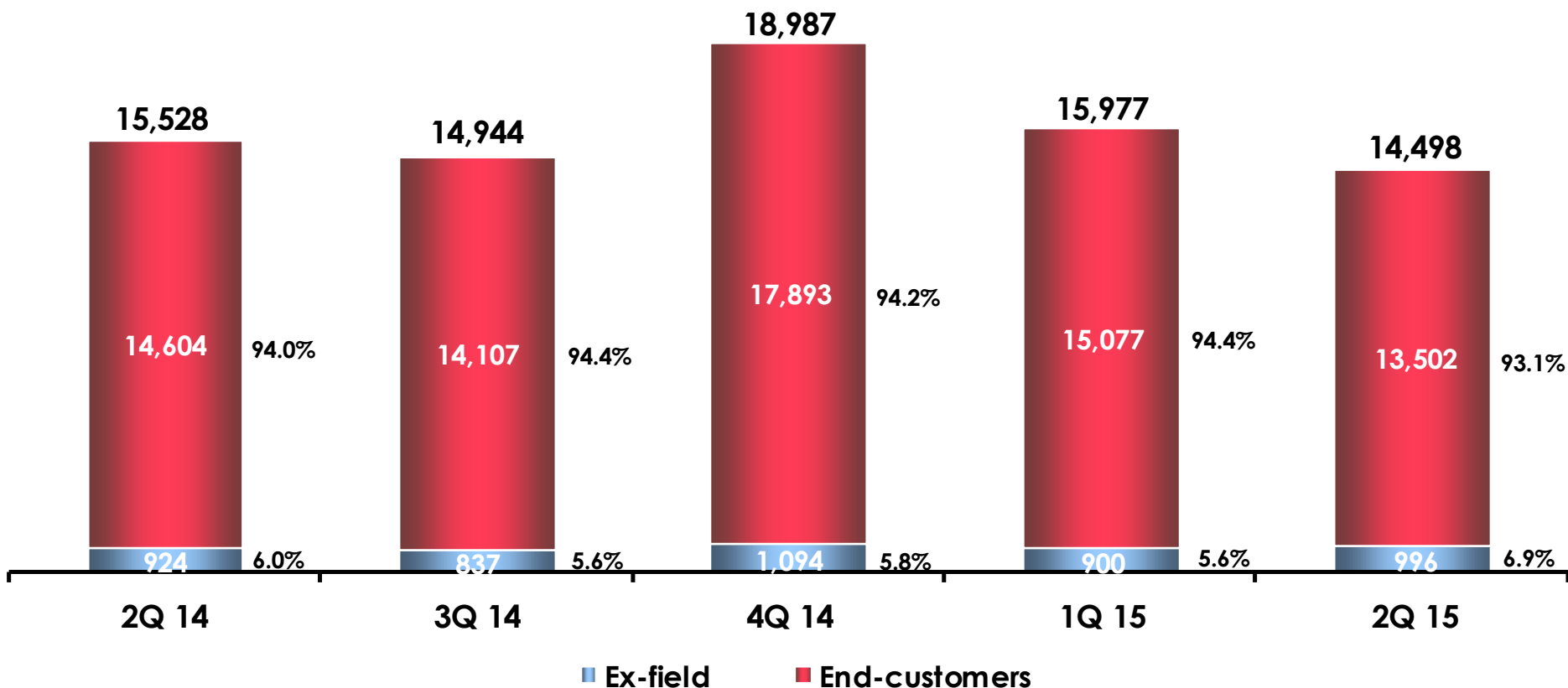
Comparison of Quarterly Results (RR million)

	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	Q-o-Q +/- %	Y-o-Y +/- %
Oil and gas sales	87,881	84,090	95,169	113,224	111,574	-1.5%	27.0%
Total revenues	88,370	84,733	95,864	113,742	112,244	-1.3%	27.0%
Operating expenses	(55,670)	(55,870)	(71,097)	(73,896)	(79,541)	7.6%	42.9%
EBITDA ⁽¹⁾	40,323	38,757	37,572	55,162	50,162	-9.1%	24.4%
EBITDA margin	45.6%	45.7%	39.2%	48.5%	44.7%		
Effective income tax rate ⁽²⁾	18.4%	32.8%	3.9%	16.2%	13.4%		
Profit attributable to NOVATEK	31,950	7,627	(27,436)	31,075	41,920	34.9%	31.2%
Profit margin	36.2%	9.0%	-28.6%	27.3%	37.3%		
Earnings per share	10.58	2.53	(9.08)	10.29	13.88	34.9%	31.2%
CAPEX ⁽³⁾	19,576	12,284	17,592	14,494	15,251	5.2%	-22.1%
Net debt ⁽⁴⁾	114,496	147,580	204,361	206,926	204,388	-1.2%	78.5%
Free cash flow ⁽⁵⁾	4,199	6,696	23,417	25,223	15,196	-39.8%	261.9%

Notes:

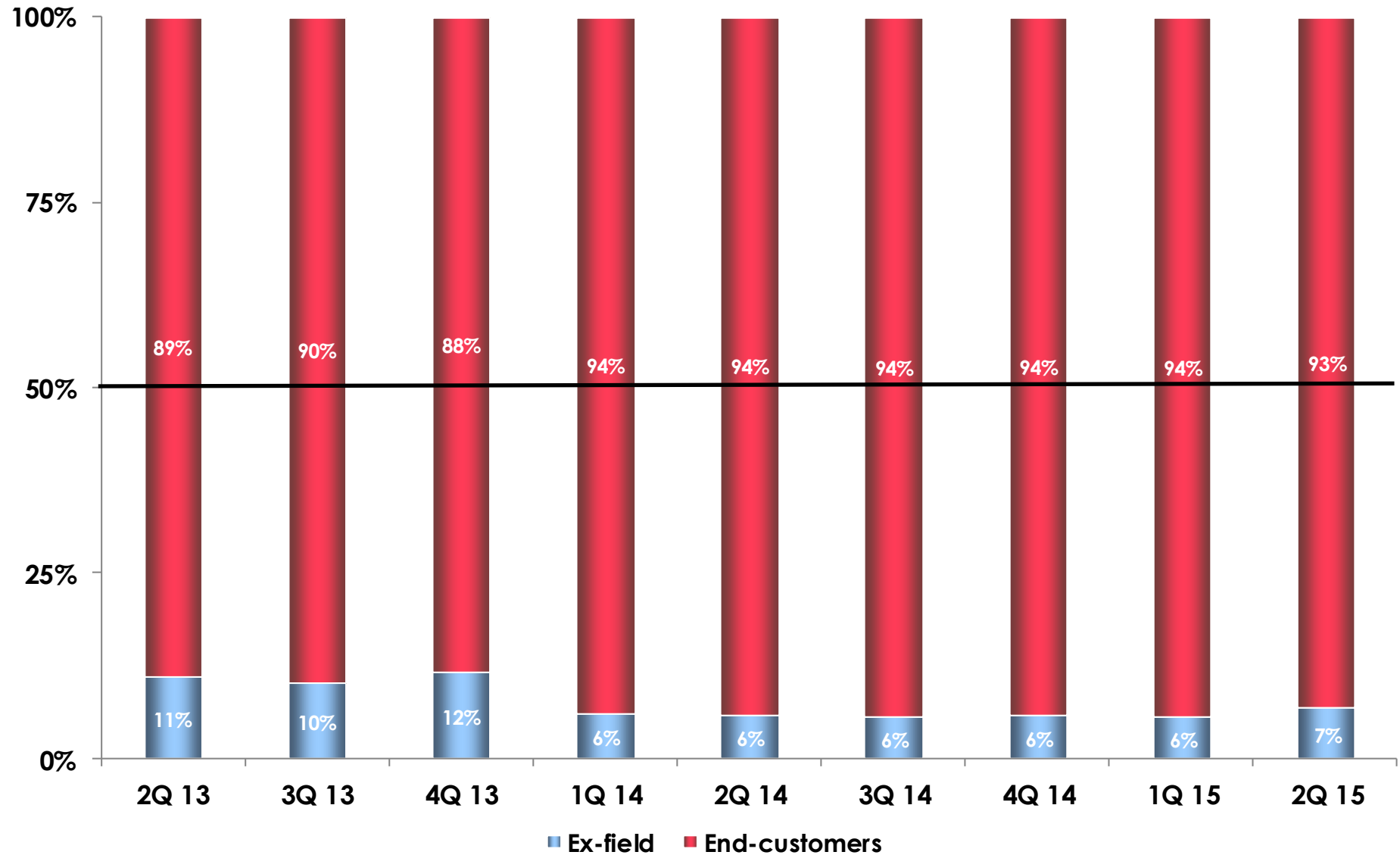
- EBITDA represents profit (loss) attributable to shareholders adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures
- The Russian statutory income tax rate for 2014 and 2015 was 20%. The difference between effective income tax rates and statutory income tax rate was mainly due to recognition by the Group of its share of net profit (loss) from joint ventures, which influenced the consolidated profit of the Group but has not resulted in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures was recorded in their financial statements on an after-tax basis. The Group holds at least a 50% interest in each of its joint ventures, and the dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation
- CAPEX represents additions to property, plant and equipment excluding payments for mineral licenses
- Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents
- Free cash flow represents the excess of net cash provided by operating activities over capital expenditures

Market Distribution – Gas Sales Volumes (mmcm)

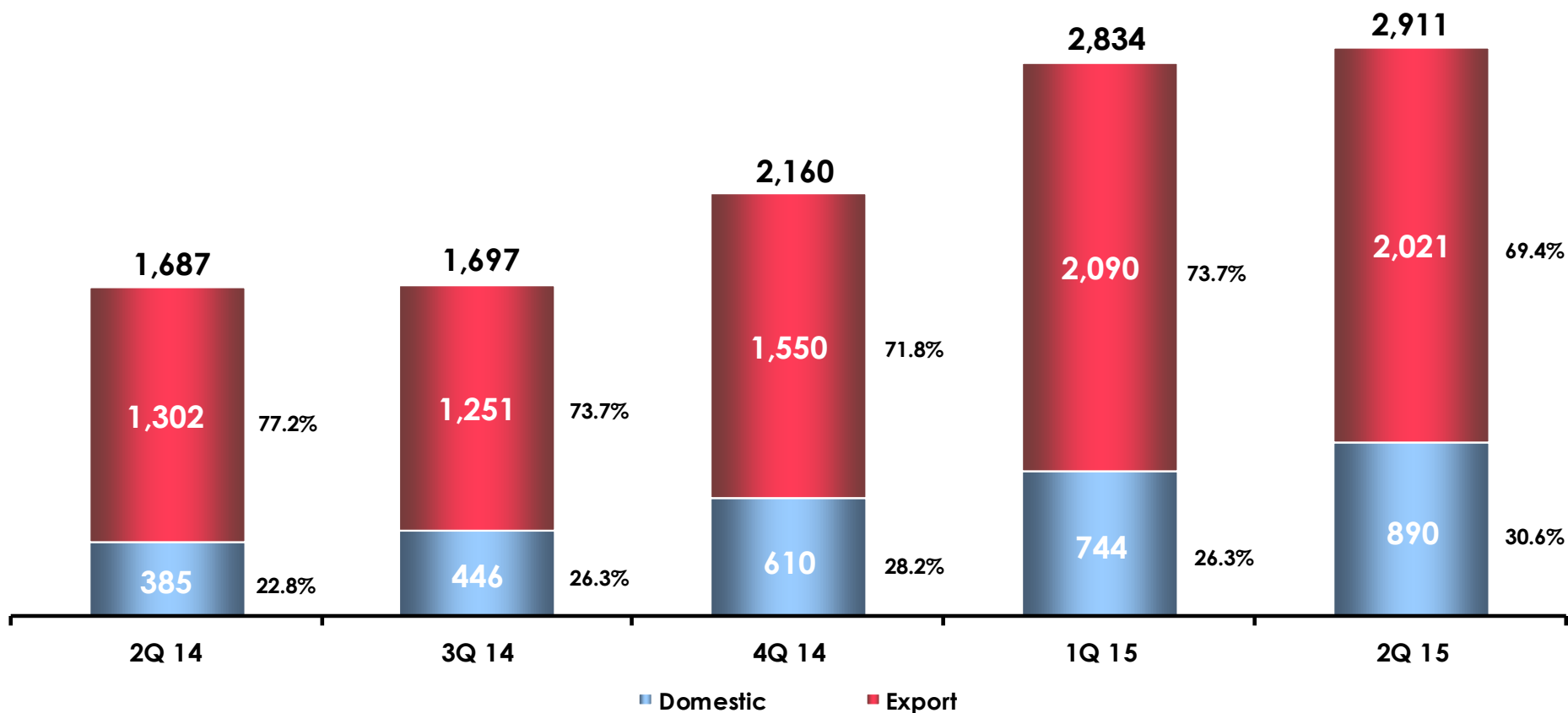


Y-o-Y decrease in natural gas sales volumes was due to one of our major customers not taking temporarily its full contracted volumes due to technical reasons, as well as warmer weather in the Russian Federation in the second quarter of 2015 as compared to the second quarter of 2014

Natural Gas Sales Volume Mix

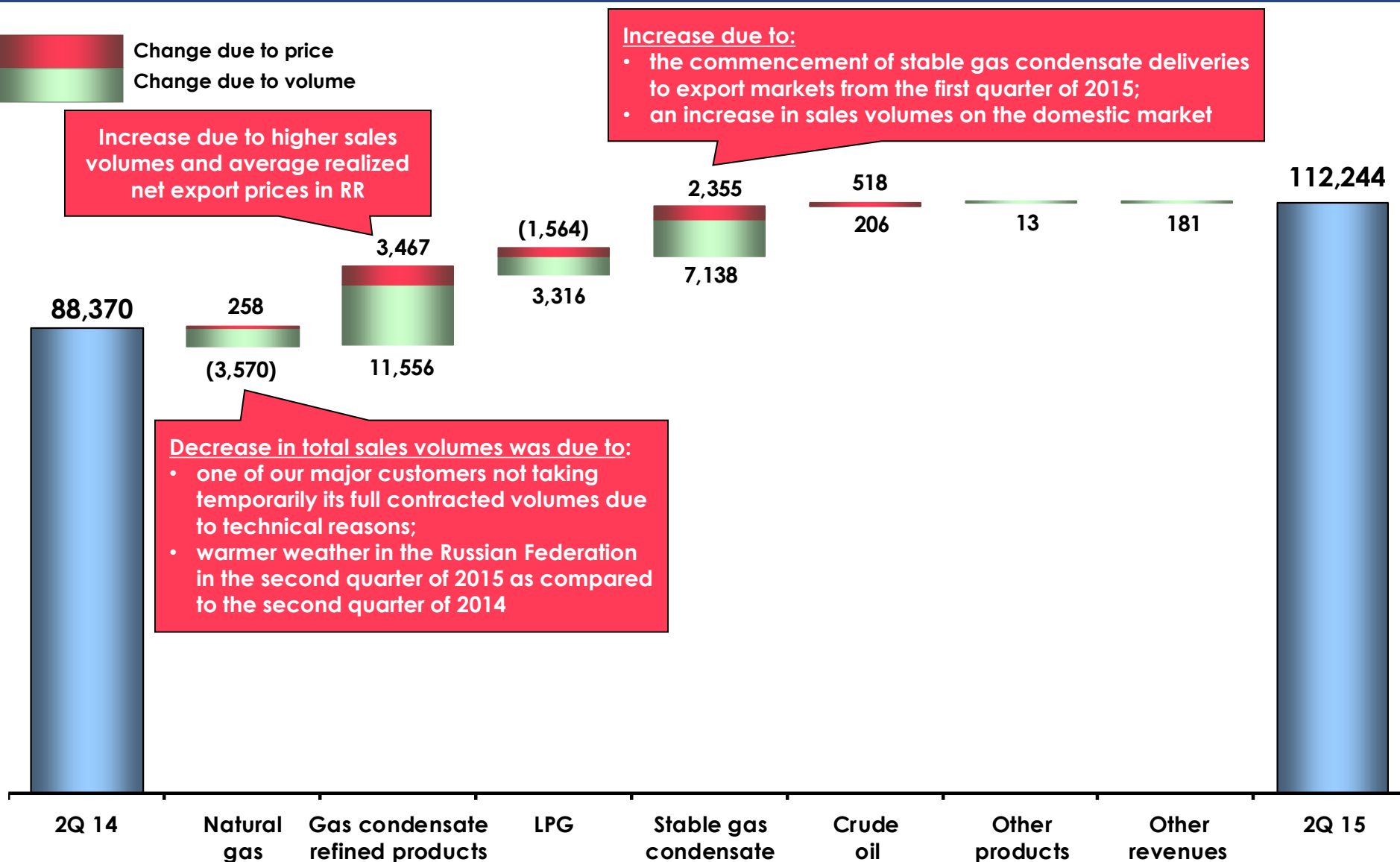


Market Distribution – Liquids Sales Volumes (mt)



Y-o-Y increase in liquids sales volumes was due to a significant increase in unstable gas condensate production in our JV's and crude oil production in our subsidiaries

Total Revenues (RR million)



Total Revenues Breakdown

■ Natural gas

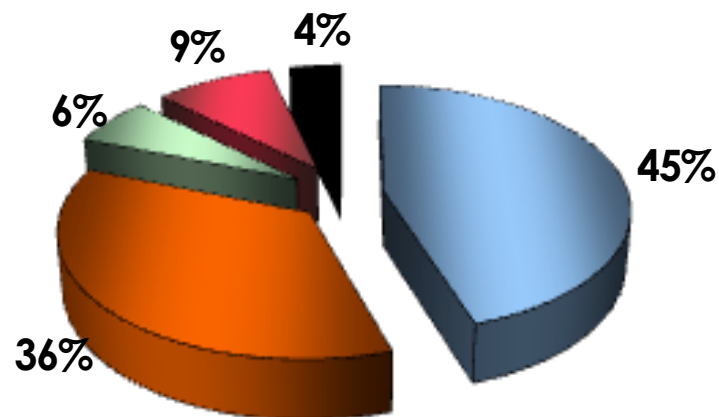
■ Gas condensate
refined products

■ LPG

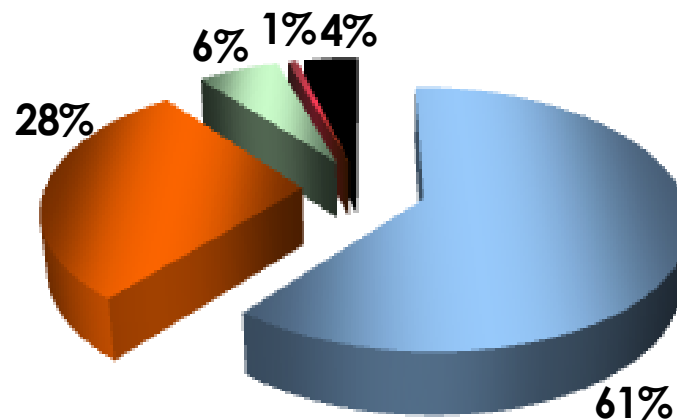
■ Stable gas condensate

■ Other

2Q 15



2Q 14



Realized Hydrocarbon Prices (net of VAT and export duties)

2Q 14	2Q 15	+ / (-)	+ / (-) %		1Q 15	2Q 15	+ / (-)	+ / (-) %
<u>Domestic prices</u>								
3,571	3,605	34	1.0%	Natural gas end-customers, RR/mcm	3,447	3,605	158	4.6%
1,834	1,868	34	1.9%	Natural gas ex-field, RR/mcm	1,831	1,868	37	2.0%
14,220	16,320	2,100	14.8%	Stable gas condensate, RR/ton	13,114	16,320	3,206	24.4%
-	20,804	n/a	n/a	Other gas condensate refined products, RR/ton	20,258	20,804	546	2.7%
12,351	10,036	(2,315)	-18.7%	LPG, RR/ton	9,170	10,036	866	9.4%
12,950	14,862	1,912	14.8%	Crude oil, RR/ton	13,979	14,862	883	6.3%
<u>Export market</u>								
23,144	25,842	2,698	11.7%	Naphtha, RR/ton	24,354	25,842	1,488	6.1%
22,844	24,512	1,668	7.3%	Other gas condensate refined products, RR/ton	26,078	24,512	(1,566)	-6.0%
-	21,881	n/a	n/a	Stable gas condensate, RR/ton	24,796	21,881	(2,915)	-11.8%
21,133	21,759	626	3.0%	LPG, RR/ton	20,639	21,759	1,120	5.4%
13,352	15,721	2,369	17.7%	Crude oil, RR/ton	15,188	15,721	533	3.5%

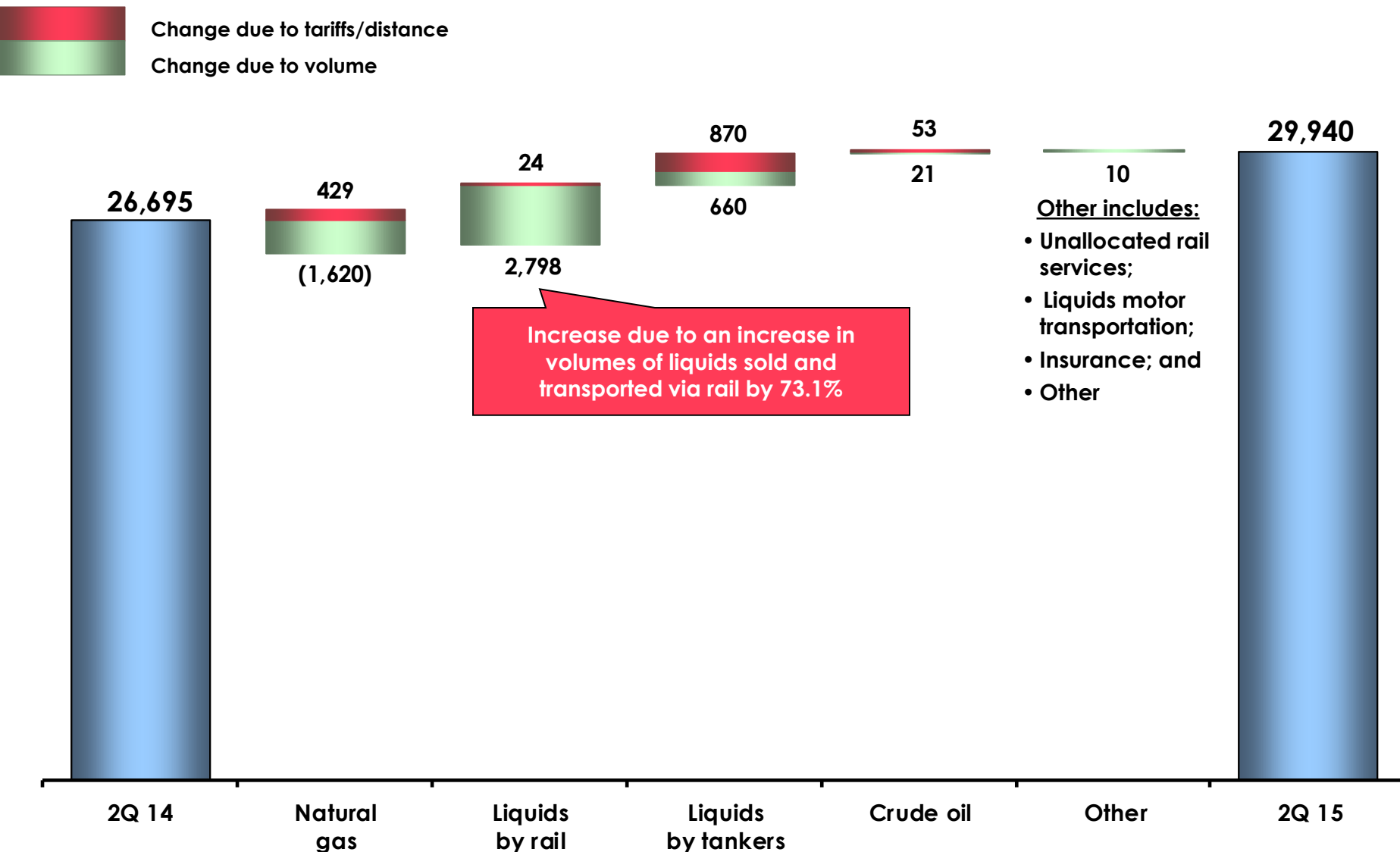
Note: Prices are shown excluding trading activities

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

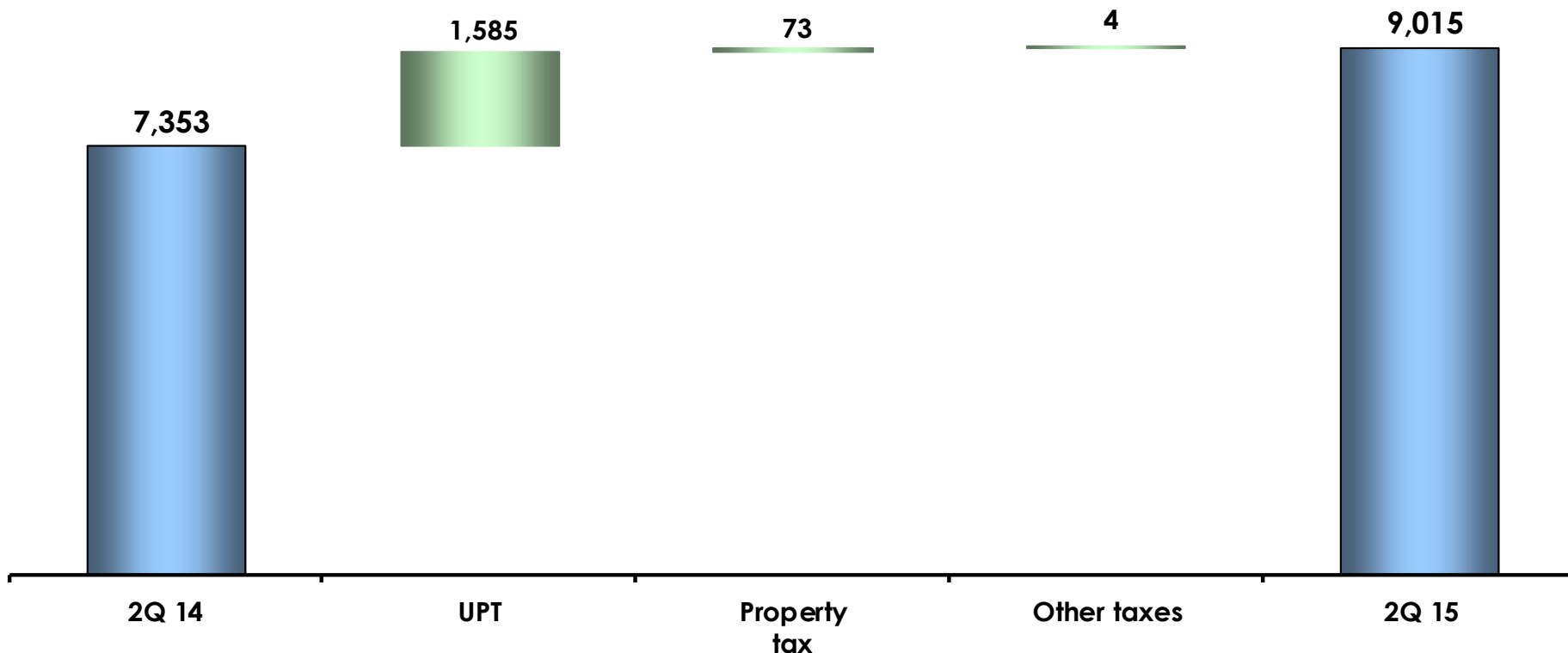
2Q 14	% of TR	2Q 15	% of TR		1Q 15	% of TR	2Q 15	% of TR
26,695	30.2%	29,940	26.7%	Transportation expenses	30,823	27.1%	29,940	26.7%
7,353	8.3%	9,015	8.0%	Taxes other than income tax	9,018	7.9%	9,015	8.0%
34,048	38.5%	38,955	34.7%	Non-controllable expenses	39,841	35.0%	38,955	34.7%
3,155	3.6%	4,907	4.4%	General and administrative	3,113	2.7%	4,907	4.4%
4,167	4.7%	4,681	4.2%	Depreciation and amortization	4,515	4.0%	4,681	4.2%
2,909	3.3%	3,294	2.9%	Materials, services & other	3,176	2.8%	3,294	2.9%
3	n/m	22	n/m	Exploration expenses	18	n/m	22	n/m
				Net impairment expenses				
22	n/m	(261)	n/m	(reversals)	29	n/m	(261)	n/m
				Change in natural gas, liquids				
(493)	n/m	(1,949)	n/m	and WIP	(219)	n/m	(1,949)	n/m
43,811	49.6%	49,649	44.3%	Subtotal operating expenses	50,473	44.4%	49,649	44.3%
				Purchases of natural gas and				
11,859	13.4%	29,892	26.6%	liquid hydrocarbons	23,423	20.6%	29,892	26.6%
55,670	63.0%	79,541	70.9%	Total operating expenses	73,896	65.0%	79,541	70.9%

- ❑ Operating expenses increased Y-o-Y by 42.9% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures enabling us to sell increased volumes of hydrocarbons to both domestic and international markets
- ❑ Our hydrocarbons purchases significantly increased Y-o-Y primarily due to an increase in purchases of unstable gas condensate from SeverEnergiya as a result of the launch of additional production facilities and due to the commencement of purchases from Terneftegas from May 2015
- ❑ Transportation expenses increased Y-o-Y mainly due to an increase in liquid hydrocarbons volumes sold and transported that was partially offset by a decrease in natural gas volumes sold to end-customers
- ❑ Taxes other than income tax increased primarily due to a significant increase in the UPT rate for gas condensate from 1 January 2015 as part of the tax maneuver in the oil industry
- ❑ General and administrative expenses increased Y-o-Y primarily due to an increase in employee compensation related to administrative personnel as a result of the higher average number of employees, an indexation of base personnel salaries effective 1 July 2014, as well as additional bonuses paid in the second quarter of 2015 based on prior year performance and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation

Transportation Expenses (RR million)



Taxes Other Than Income Tax Expense (RR million)

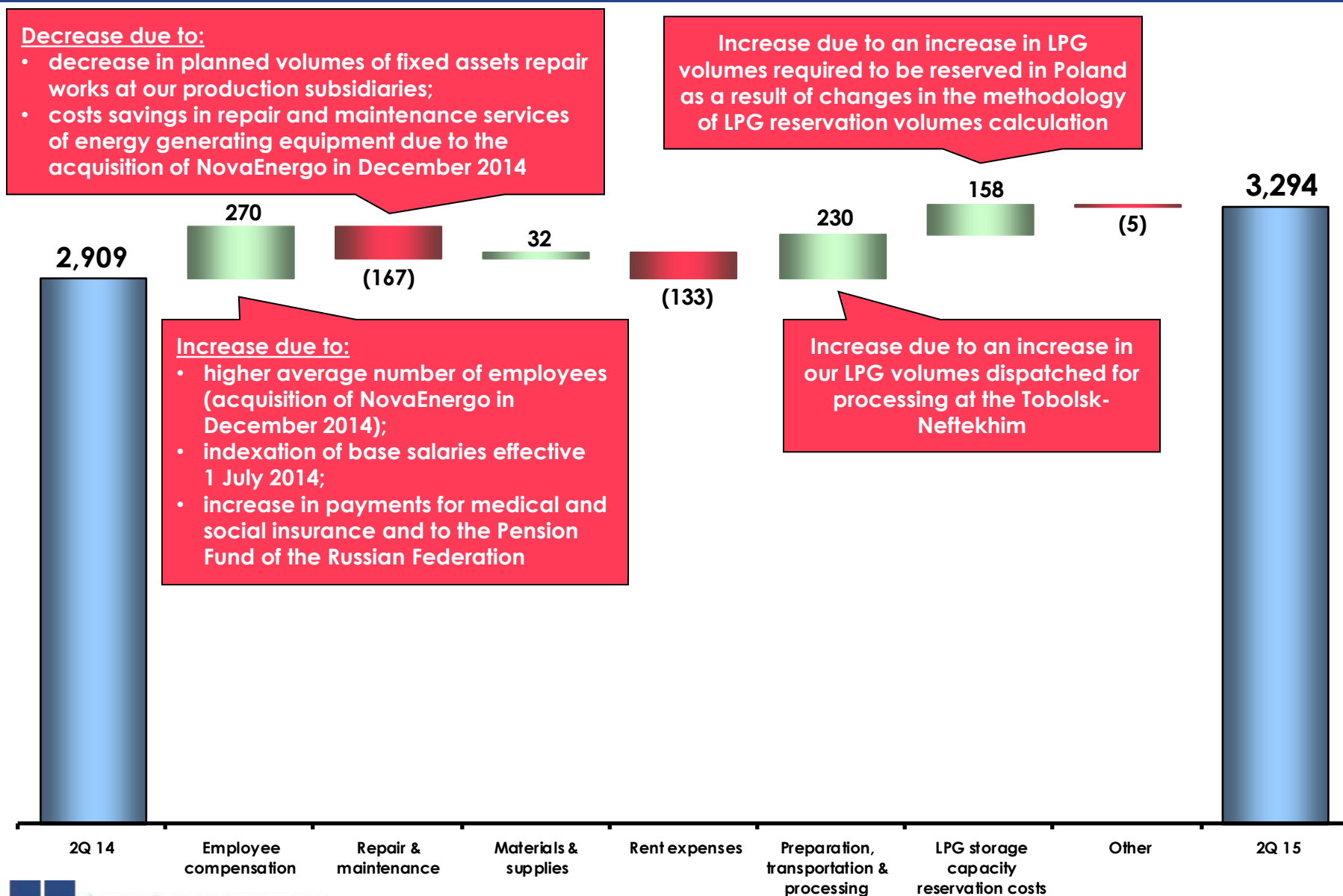


- ❑ Y-o-Y increase in UPT expense was primarily due to a significant increase in the UPT rate for gas condensate as a result of changes in the Tax Code of the Russian Federation
- ❑ From 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude oil produced at our Yurkharov, East-Tarko and Khanchey fields as part of the tax maneuver in the oil industry. In 2014, we applied a zero UPT rate

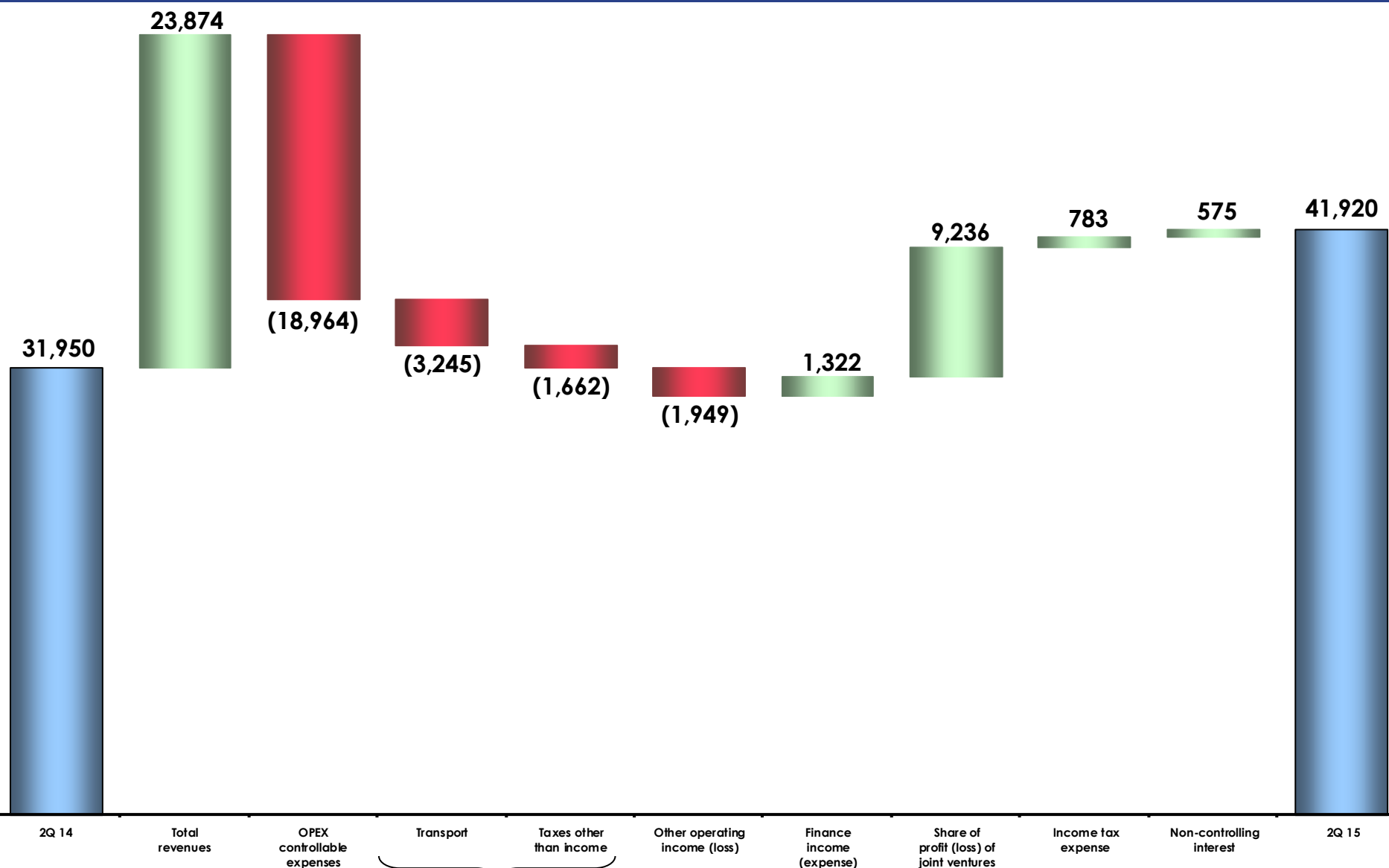
General and Administrative Expenses (RR million)



Materials, Services and Other Expenses (RR million)

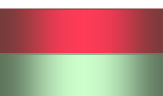


Profit Attributable to NOVATEK Shareholders (RR million)



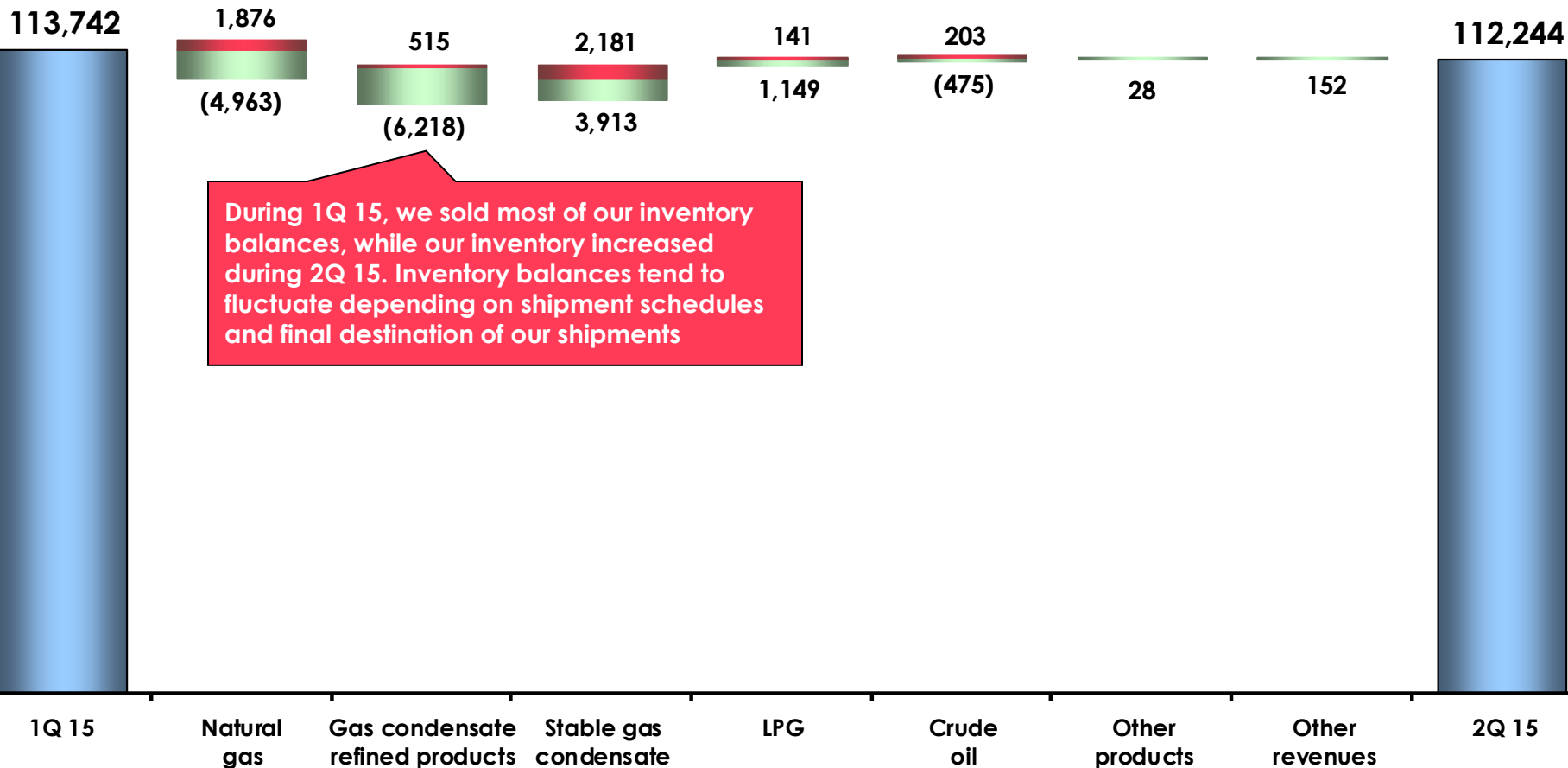
Financial Overview – 2Q 15 vs. 1Q 15

Total Revenues (RR million)



Change due to price

Change due to volume



During 1Q 15, we sold most of our inventory balances, while our inventory increased during 2Q 15. Inventory balances tend to fluctuate depending on shipment schedules and final destination of our shipments

Total Revenues Breakdown

■ Natural gas

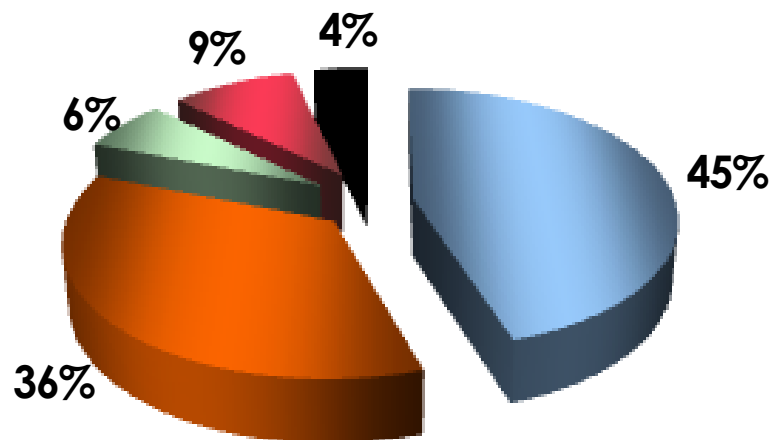
■ Gas condensate
refined products

■ LPG

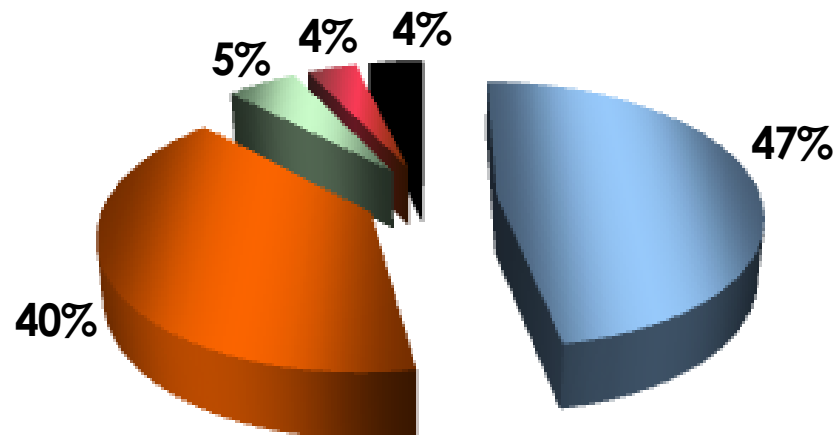
■ Stable gas condensate

■ Other

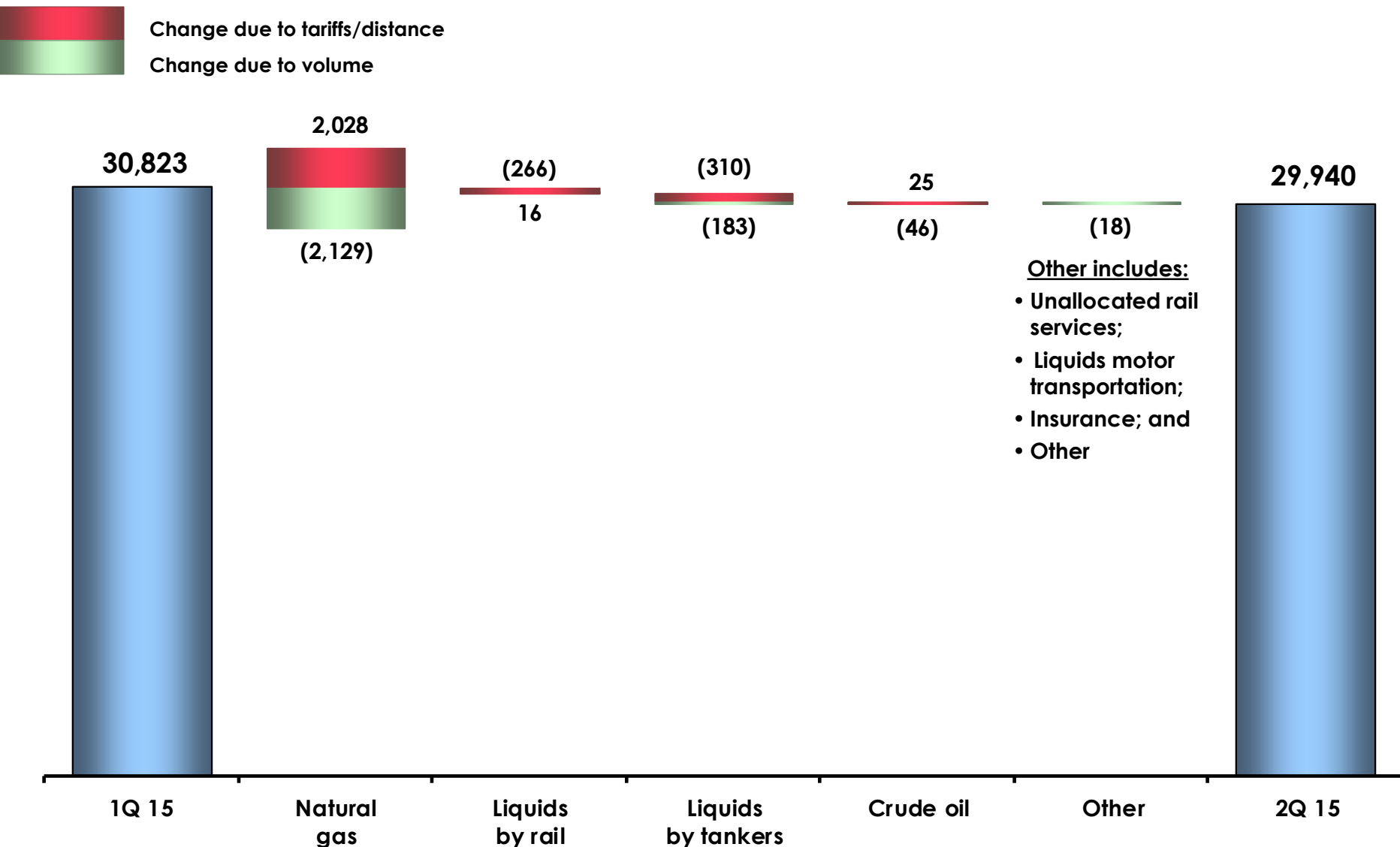
2Q 15



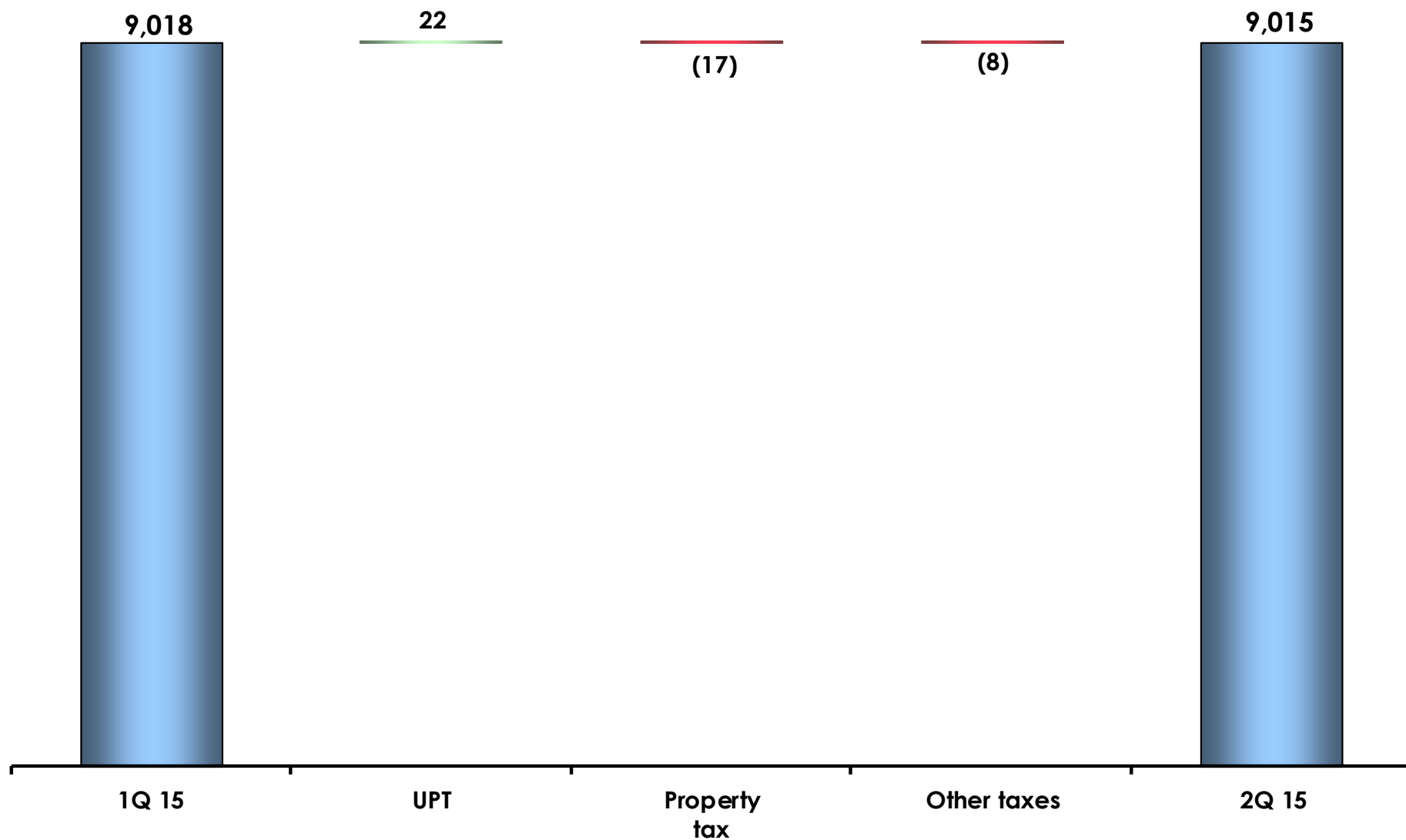
1Q 15



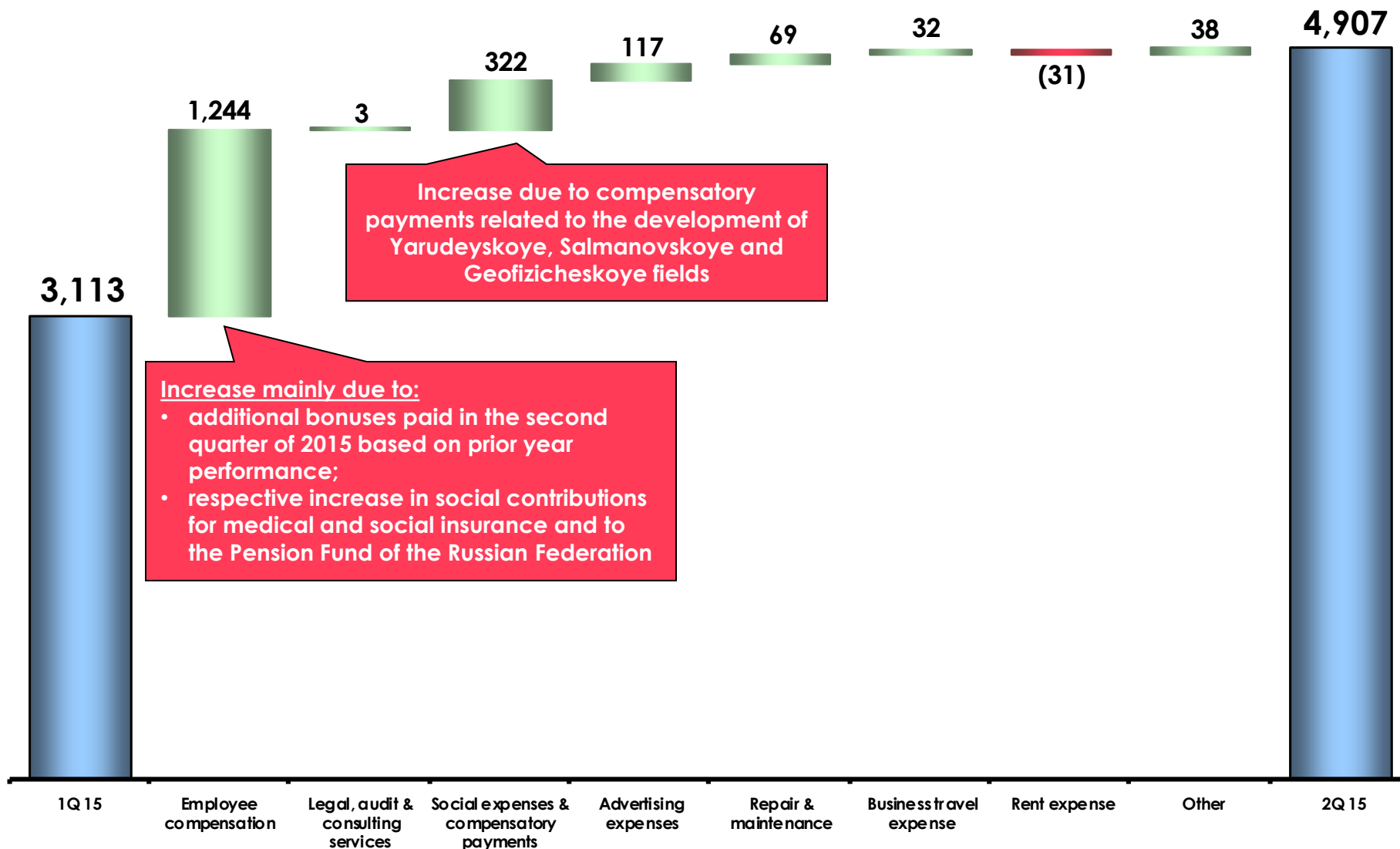
Transportation Expenses (RR million)



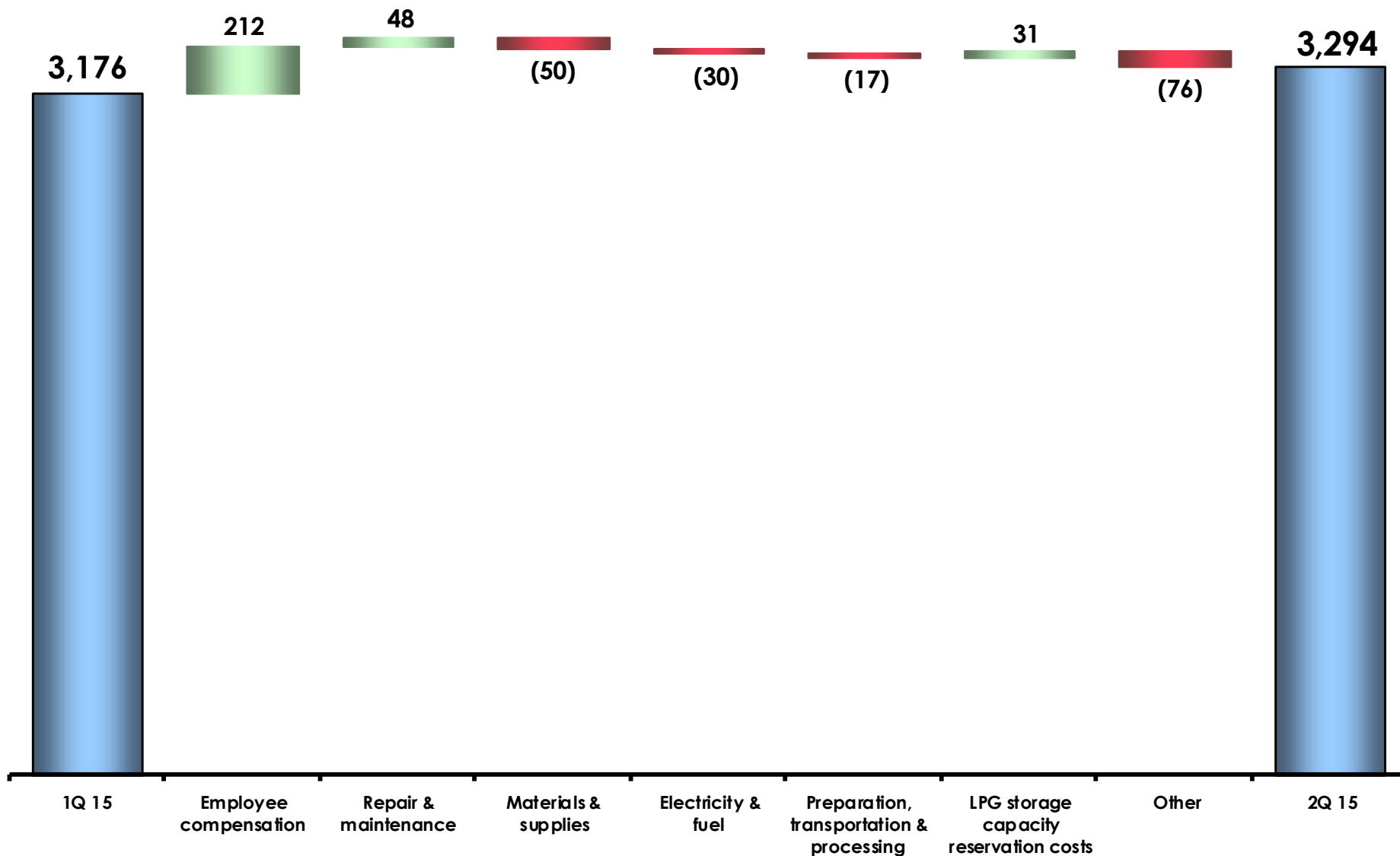
Taxes Other Than Income Tax Expense (RR million)



General and Administrative Expenses (RR million)

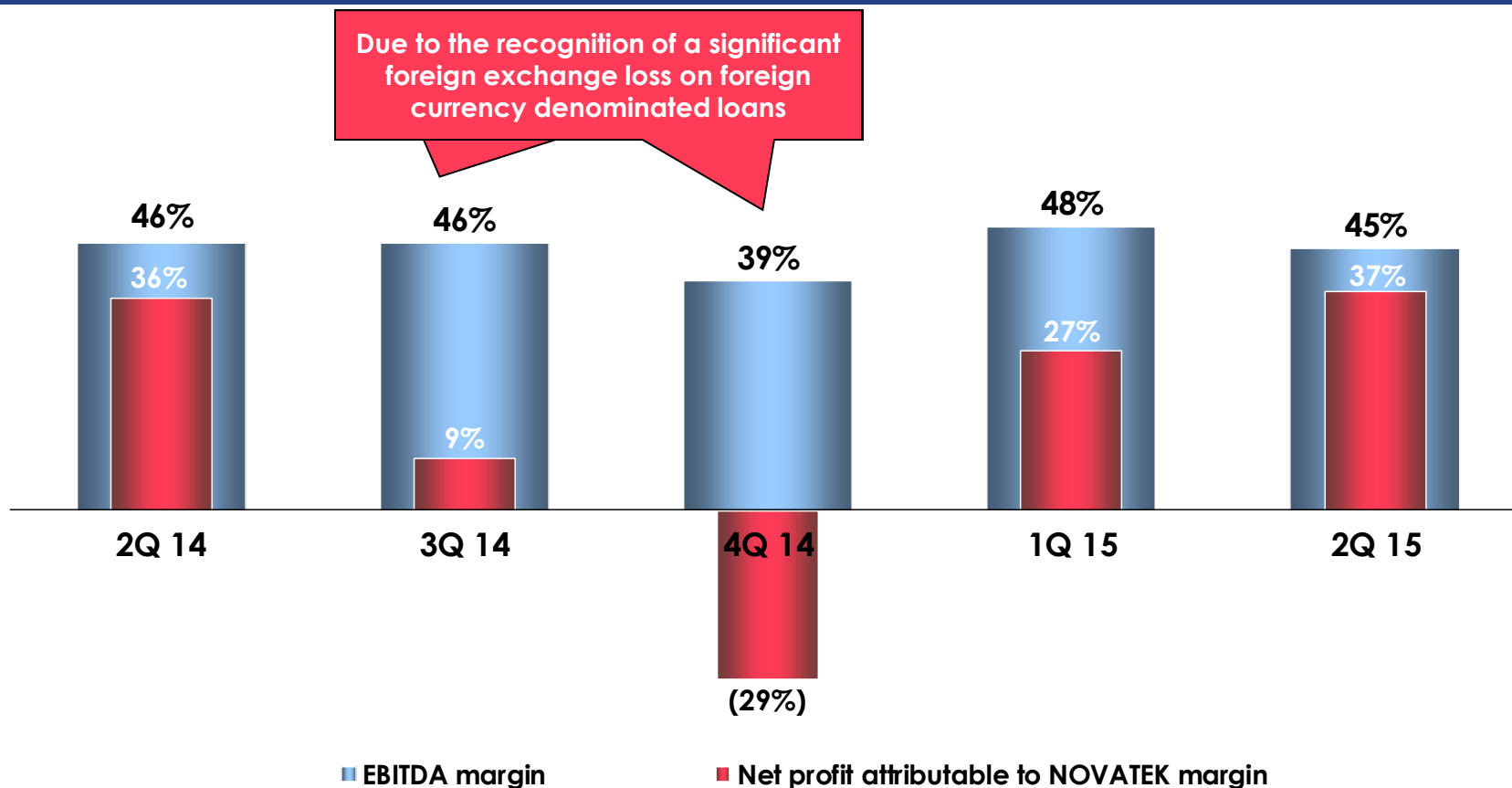


Materials, Services and Other Expenses (RR million)



Appendices

Maintaining Margins (% of total revenues)

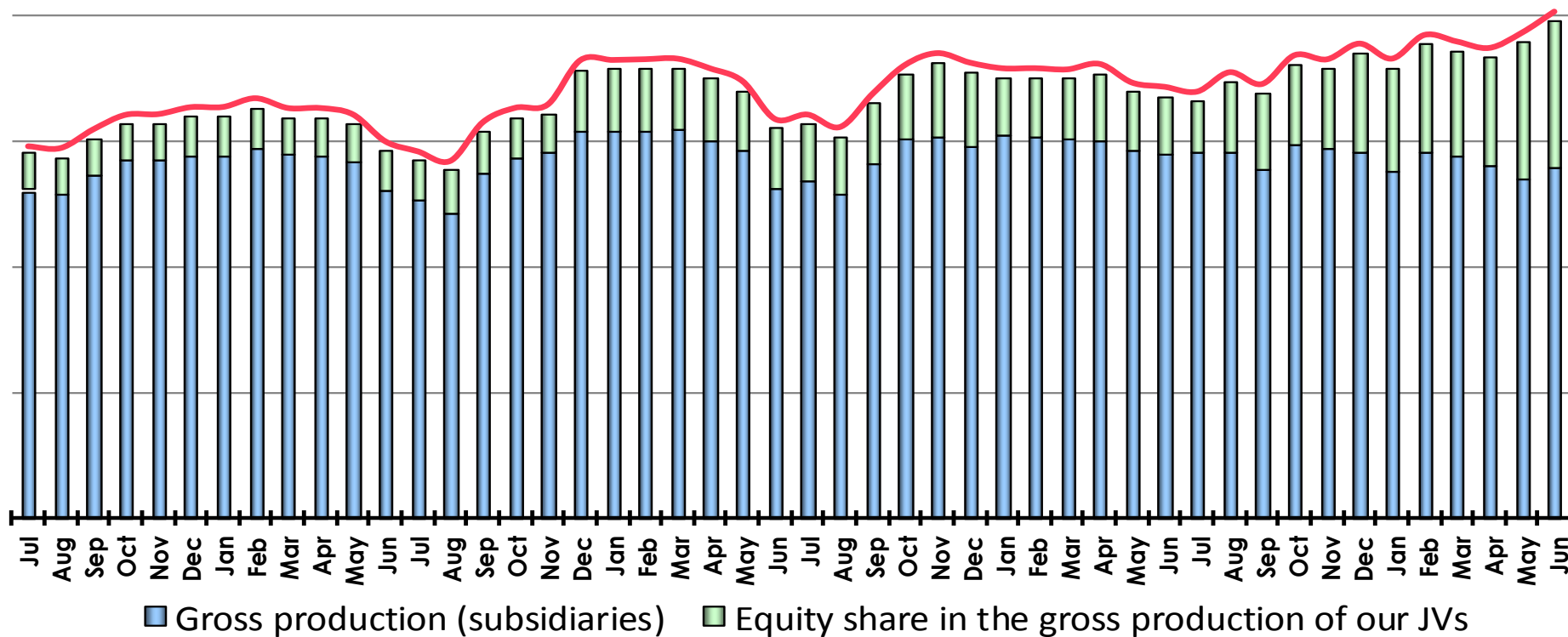


Margins in-line with Group's strategic guidance, but negatively impacted by the depreciation of Russian rouble in the second half of 2014

Notes:

EBITDA represents profit (loss) attributable to shareholders adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures

Increasing Natural Gas Production (mmcm per day)



2012

2012 Avg.
157 mmcm/day
5,531 bcf/day

2013

2013 Avg.
170 mmcm/day
6,020 bcf/day

2014

2014 Avg.
174 mmcm/day
6,160 bcf/day

2015

6M 15 Avg.
187 mmcm/day
6,614 bcf/day

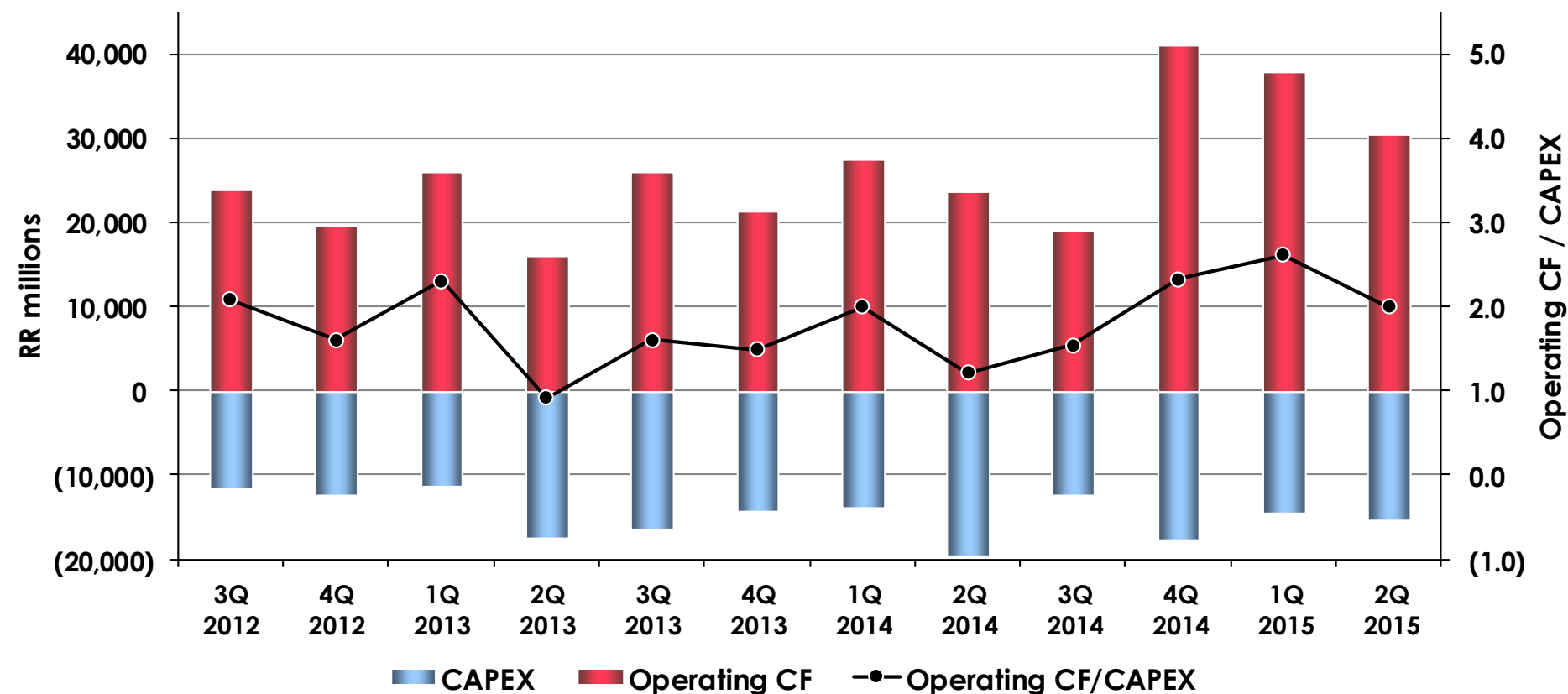
2Q 14 Avg.
171 mmcm/day
6,056 bcf/day

2Q 15 Avg.
190 mmcm/day
6,716 bcf/day

Condensed Statement of Financial Position (RR million)

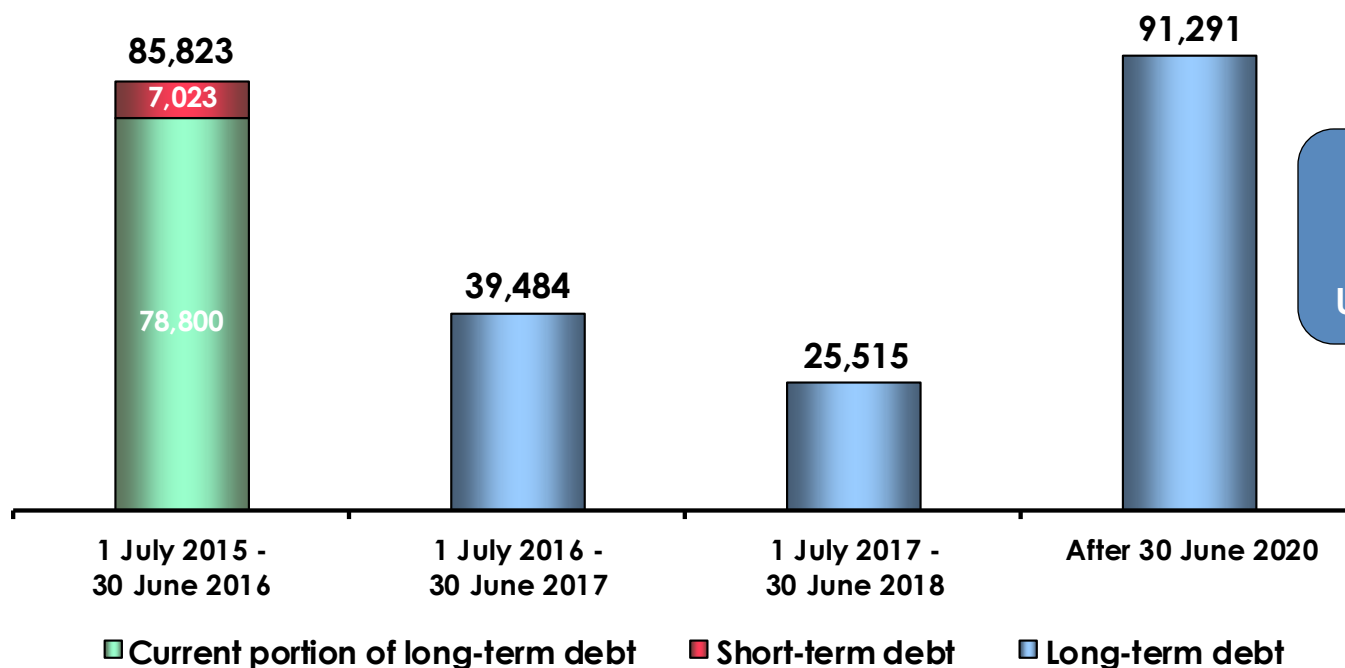
	30 June 2015	31 December 2014	+ / (-)	+ / (-)%
Total current assets	129,022	126,591	2,431	1.9%
<i>Incl. Cash and cash equivalents</i>	<i>37,725</i>	<i>41,318</i>	<i>(3,593)</i>	<i>-8.7%</i>
Total non-current assets	641,485	572,548	68,937	12.0%
<i>Incl. Net PP&E</i>	<i>312,306</i>	<i>291,726</i>	<i>20,580</i>	<i>7.1%</i>
Total assets	770,507	699,139	71,368	10.2%
Total current liabilities	138,780	81,208	57,572	70.9%
<i>Incl. ST & current portion of LT debt</i>	<i>85,823</i>	<i>40,980</i>	<i>44,843</i>	<i>109.4%</i>
Total non-current liabilities	183,565	230,807	(47,242)	-20.5%
<i>Incl. Deferred income tax liabilities</i>	<i>22,463</i>	<i>21,063</i>	<i>1,400</i>	<i>6.6%</i>
<i>Incl. LT debt</i>	<i>156,290</i>	<i>204,699</i>	<i>(48,409)</i>	<i>-23.6%</i>
Total liabilities	322,345	312,015	10,330	3.3%
Total equity	448,162	387,124	61,038	15.8%
Total liabilities & equity	770,507	699,139	71,368	10.2%

Internally Funded Investment Program



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

Total Debt Maturity Profile (RR million)



The Group has available credit facility with UniCredit Bank in the amount of USD 180 mln until August 2015

Debt repayment schedule:

- Up to 30 June 2016 – Short-term loan from a non-controlling shareholder, RR denominated bonds (RR 20 bln), Eurobonds Five-Year (USD 600 mln) and Syndicated term credit line
- Up to 30 June 2017 – Eurobonds Four-Year (RR 14 bln) and Syndicated term credit line
- Up to 30 June 2018 – Syndicated term credit line facility
- After 30 June 2020 – Eurobonds Ten-Year (USD 650 mln and USD one bln)

Questions and Answers