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## Third Quarter 2015 Operational and Financial Results Conference Call

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**Mark A. Gyetvay, Deputy Chairman of the Management Board**  
**Moscow, Russian Federation**  
**29 October 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 – 3Q 2015

- ❑ **Natural gas production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 12.3%
- ❑ **Liquids production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 53.0%
- ❑ **Purovsky Plant output** increased Y-o-Y by 96.9% (effective May 2015, we reached the Plant's peak processing capacity)
- ❑ **Ust-Luga Complex output** increased Y-o-Y by 35.4%

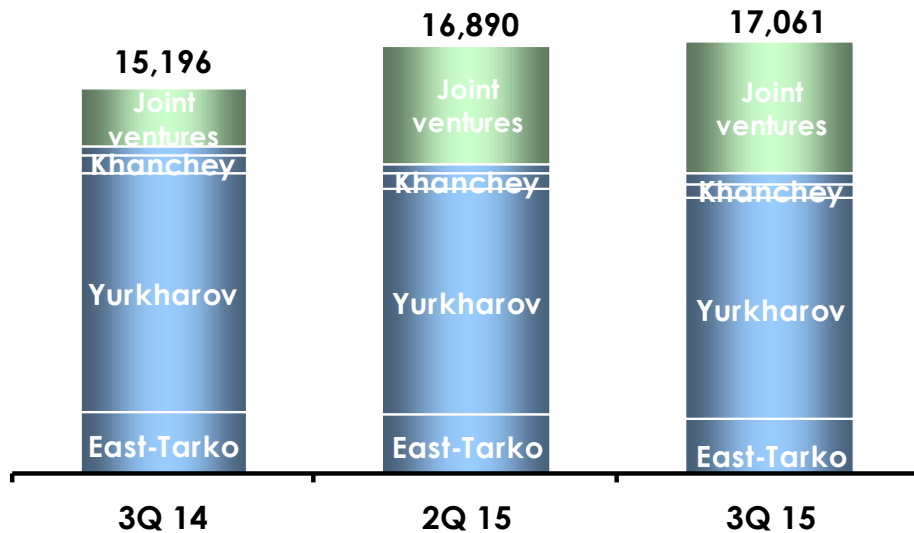
# Summary Highlights – 3Q 2015

- ❑ **Increase in revenues** driven by higher liquids sales volumes, as well as natural gas and liquids prices in RR:
  - Liquids sales increased Y-o-Y by 99.4% to RR 62,787 million
  - Natural gas sales increased Y-o-Y by 1.6% to RR 53,425 million
- ❑ **EBITDA** (excluding net gain on disposal of JVs) **increased** Y-o-Y by 35.7%
- ❑ **Cash flow from operations decreased** Y-o-Y by 11.6% to RR 16,772 million
- ❑ **Capital expenditures increased** Y-o-Y by 18.3% to RR 14,534 million
- ❑ **EPS** (net of the effect from the disposal of interests in JVs and excluding the effect of foreign exchange gains (losses)) **increased** Y-o-Y by 31.5%

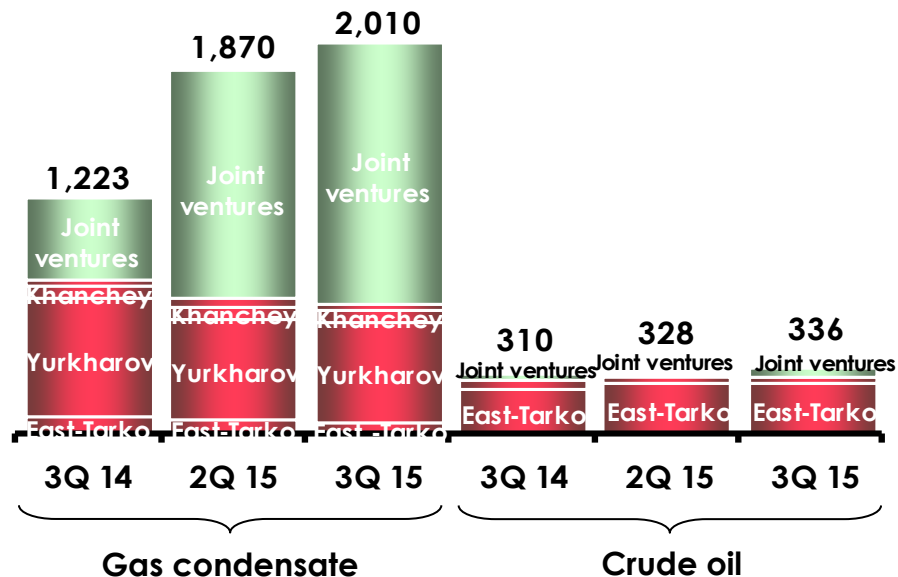
# Operational Overview

# Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



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

- Increase in JVs 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) due to new wells drilled at the end of 2014

## Liquids production increased Y-o-Y due to:

- Increase in our JVs 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 field resulting from new wells drilled and technological works performed

# Purovsky Plant

## ■ Total volumes delivered: 3,275 mt

- Yurkharovskoye field: 520 mt
- East-Tarkosalinskoye and Khancheyskoye fields: 167 mt
- Other fields: 33 mt
- Purchases from our joint ventures: 2,555 mt

## ■ Total output of marketable products: 3,242 mt

- Stable gas condensate: 2,644 mt
- LPG: 598 mt

## ■ Full capacity utilization since May 2015

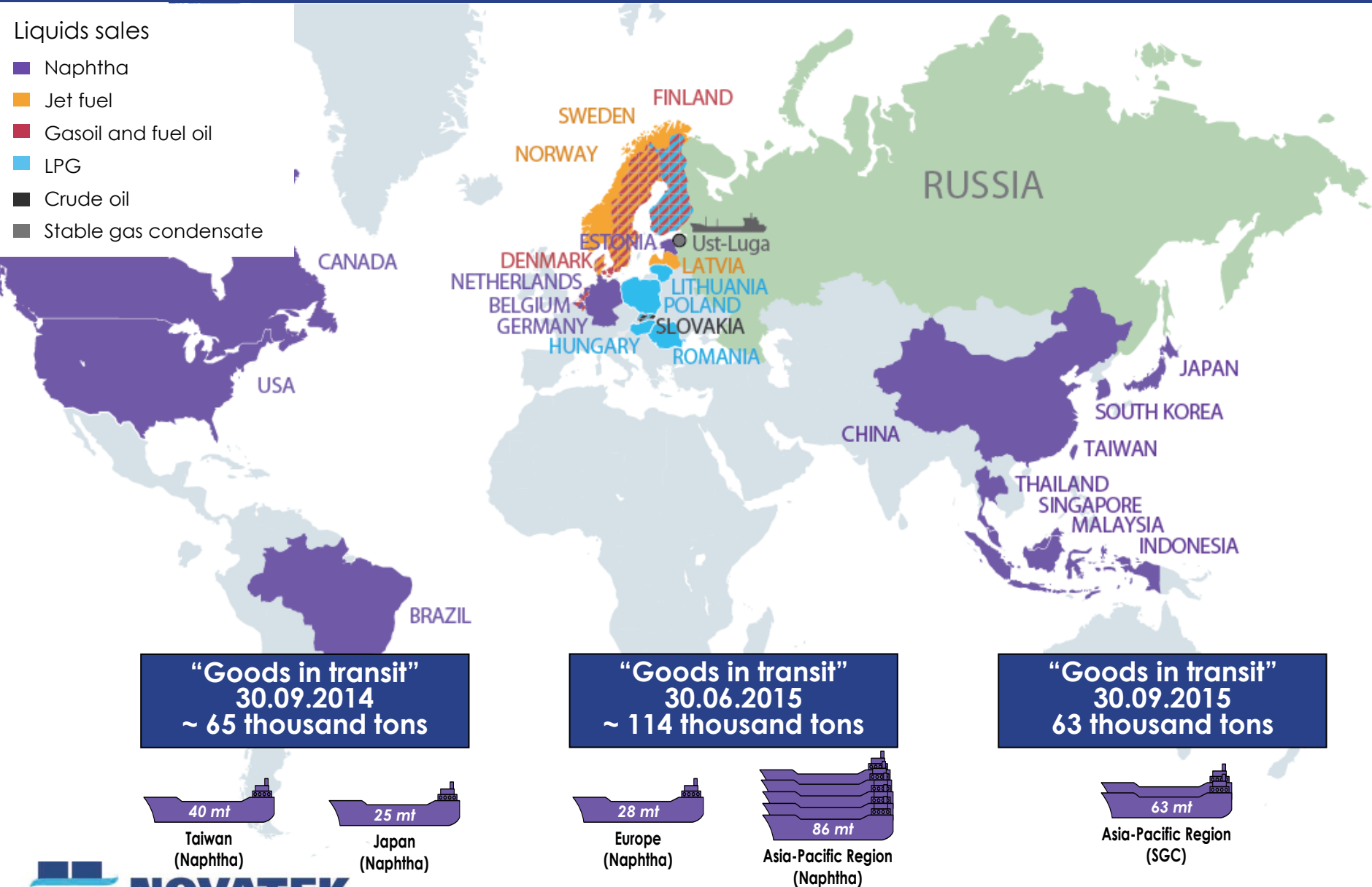


# Ust-Luga Complex

- ❑ **Total volumes delivered: 1,607 mt**
- ❑ **Total output of marketable gas condensate refined products: 1,576 mt**
  - Naphtha: 951mt
  - Other products: 625 mt
- ❑ **1,480 mt of gas condensate refined products were dispatched**
  - to Europe: 903 mt
  - to the Asia Pacific Region: 408 mt
  - to North America: 106 mt
  - Other: 63 mt
- ❑ **Full capacity utilization since 1Q 15**



# Liquids in Tankers



## Financial Overview – 3Q 15 vs. 3Q 14

# Comparison of Quarterly Results (RR million)

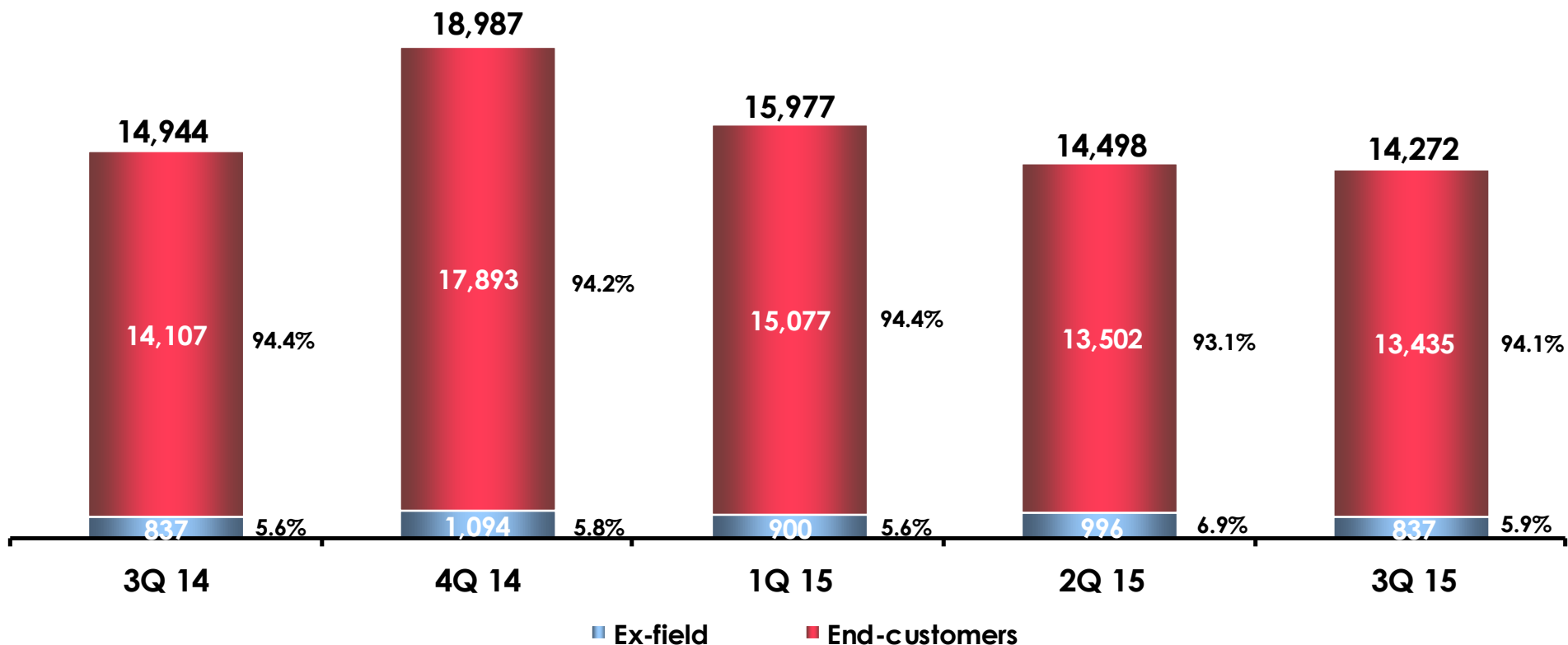
	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	Q-o-Q +/- %	Y-o-Y +/- %
<b>Total revenues</b>	84,733	95,864	113,742	112,244	117,367	4.6%	38.5%
<b>Operating expenses</b>	(55,870)	(71,097)	(73,896)	(79,541)	(85,096)	7.0%	52.3%
<b>Normalized <sup>(1)</sup> EBITDA <sup>(2)</sup></b>	38,757	37,572	55,162	50,162	52,574	4.8%	35.7%
<b>Normalized <sup>(1)</sup> EBITDA margin</b>	45.7%	39.2%	48.5%	44.7%	44.8%		
<b>Normalized <sup>(1)</sup> profit (loss) attributable to NOVATEK</b>	7,627	(27,436)	31,075	41,920	(13,405)	n/a	n/a
<b>Normalized <sup>(1)</sup> profit (loss) margin</b>	9.0%	-28.6%	27.3%	37.3%	-11.4%		
<b>Normalized <sup>(1)</sup> earnings (loss) per share</b>	2.53	(9.08)	10.29	13.88	(4.44)	n/a	n/a
<b>CAPEX <sup>(3)</sup></b>	12,284	17,592	14,494	15,251	14,534	-4.7%	18.3%
<b>Net debt <sup>(4)</sup></b>	147,580	204,361	206,926	204,388	258,212	26.3%	75.0%
<b>Free cash flow <sup>(5)</sup></b>	6,696	23,417	25,223	15,196	2,238	-85.3%	-66.6%

**In 3Q 15, our financial results were negatively impacted by significant non-cash foreign exchange losses as a result of the Russian rouble depreciation relative to the US dollar and Euro by 19% and 21%, respectively**

## Notes:

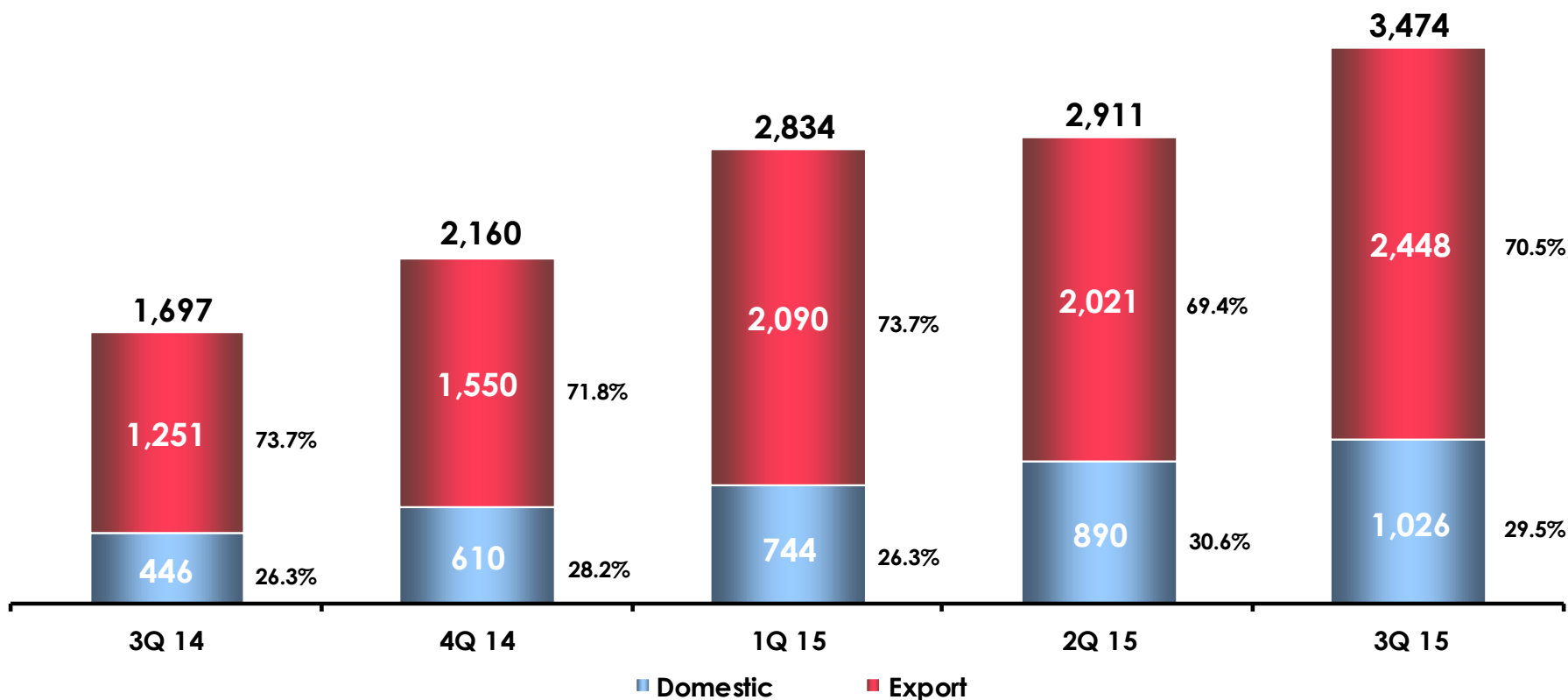
1. Excluding the effect from the disposal of interests in joint ventures
2. EBITDA represents profit (loss) attributable to shareholders adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as 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
3. CAPEX represents additions to property, plant and equipment excluding payments for mineral licenses and acquisitions of subsidiaries
4. Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents
5. Free cash flow represents the excess of net cash provided by operating activities over capital expenditures

# Market Distribution – Gas Sales Volumes (mmcm)



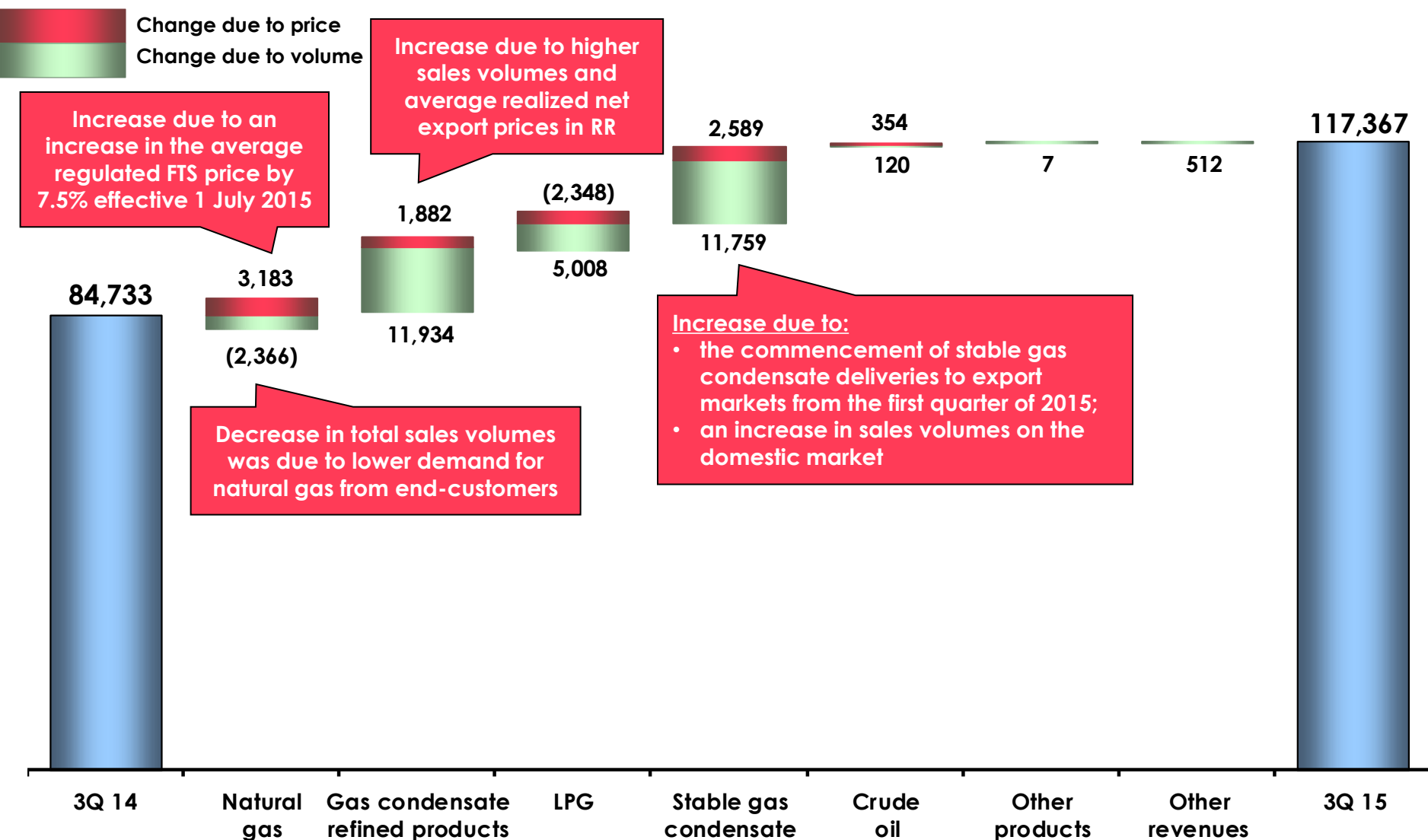
Y-o-Y decrease in natural gas sales volumes was due to the lower demand for natural gas from end-customers

# 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 JVs and crude oil production in our subsidiaries

# Total Revenues (RR million)



# Total Revenues Breakdown

■ Natural gas

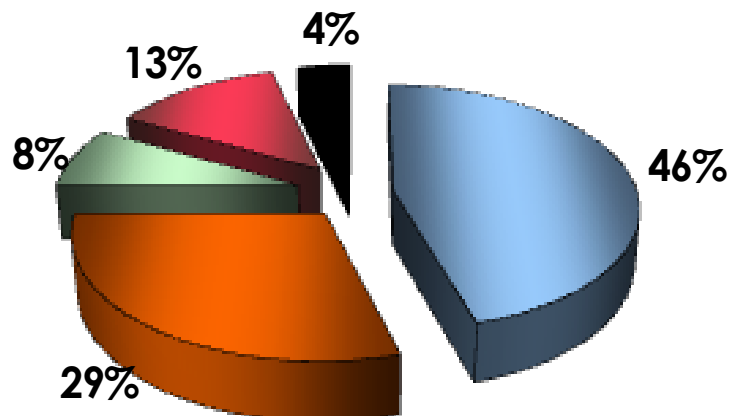
■ Gas condensate  
refined products

■ LPG

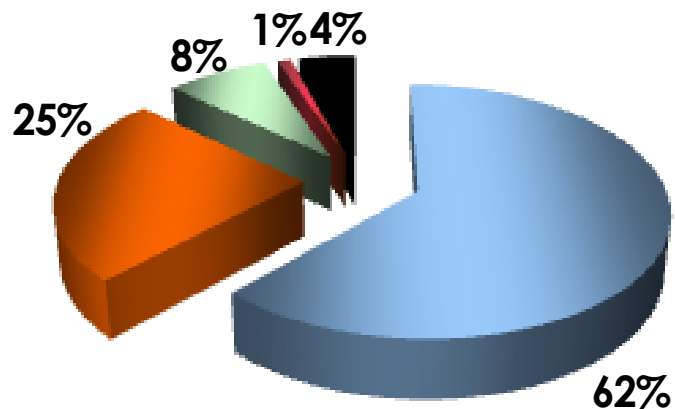
■ Stable gas condensate

■ Other

3Q 15



3Q 14



# Realized Hydrocarbon Prices (net of VAT and export duties)

3Q 14	3Q 15	+ / (-)	+ / (-) %		2Q 15	3Q 15	+ / (-)	+ / (-) %
<b><u>Domestic prices</u></b>								
3,620	3,849	229	6.3%	<b>Natural gas end-customers, RR/mcm</b>	3,605	3,849	244	6.8%
1,832	2,051	219	12.0%	<b>Natural gas ex-field, RR/mcm</b>	1,868	2,051	183	9.8%
12,955	14,063	1,108	8.6%	<b>Stable gas condensate, RR/ton</b>	16,320	14,063	(2,257)	-13.8%
-	18,930	n/a	n/a	<b>Other gas condensate refined products, RR/ton</b>	20,804	18,930	(1,874)	-9.0%
14,871	11,307	(3,564)	-24.0%	<b>LPG, RR/ton</b>	10,036	11,307	1,271	12.7%
12,485	13,557	1,072	8.6%	<b>Crude oil, RR/ton</b>	14,862	13,557	(1,305)	-8.8%
<b><u>Export market</u></b>								
20,154	20,429	275	1.4%	<b>Naphtha, RR/ton</b>	25,842	20,429	(5,413)	-20.9%
20,751	23,247	2,496	12.0%	<b>Other gas condensate refined products, RR/ton</b>	24,512	23,247	(1,265)	-5.2%
-	16,547	n/a	n/a	<b>Stable gas condensate, RR/ton</b>	21,881	16,547	(5,334)	-24.4%
22,546	24,912	2,366	10.5%	<b>LPG, RR/ton</b>	21,759	24,912	3,153	14.5%
12,338	14,229	1,891	15.3%	<b>Crude oil, RR/ton</b>	15,721	14,229	(1,492)	-9.5%

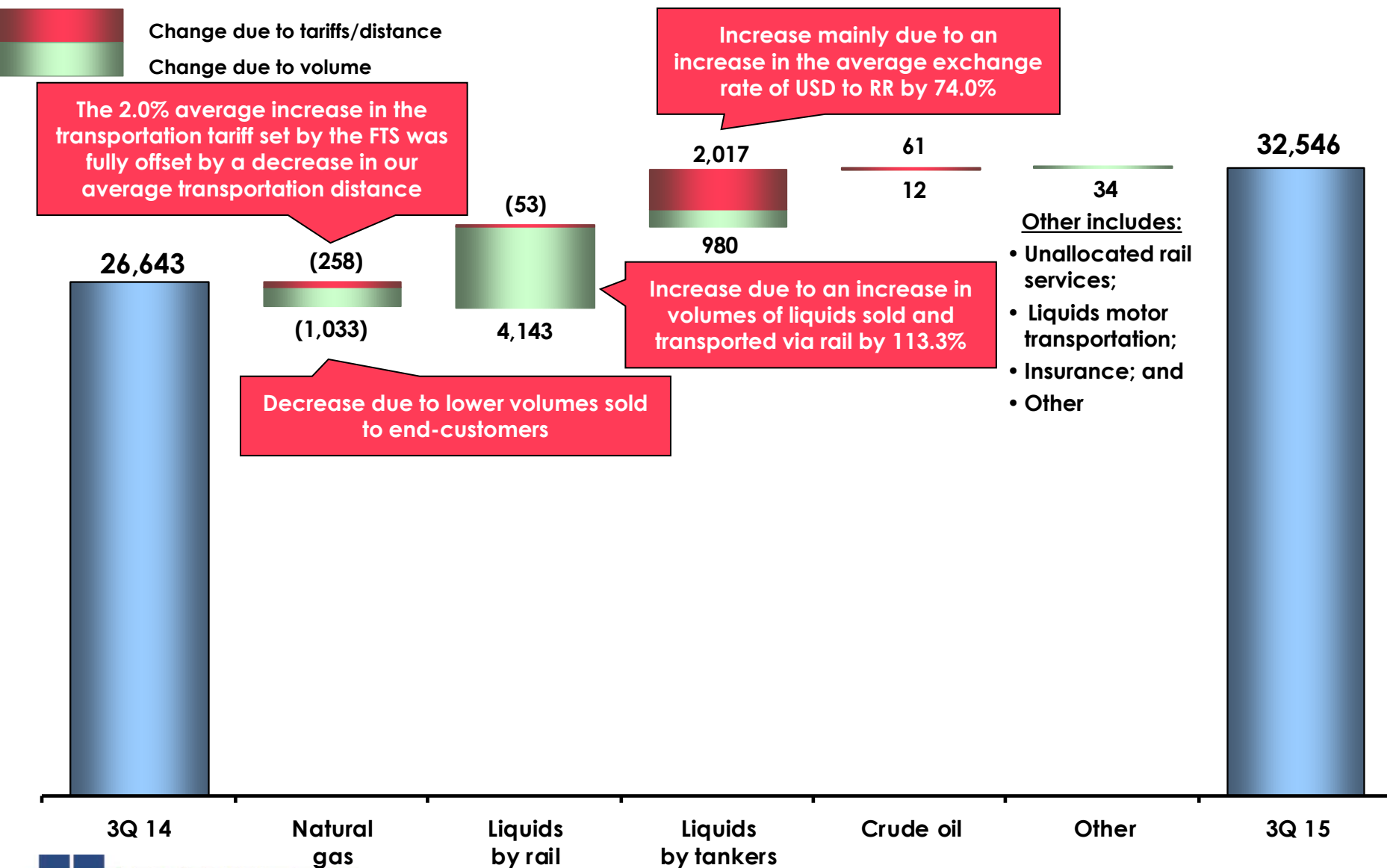
Note: Prices are shown excluding trading activities

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

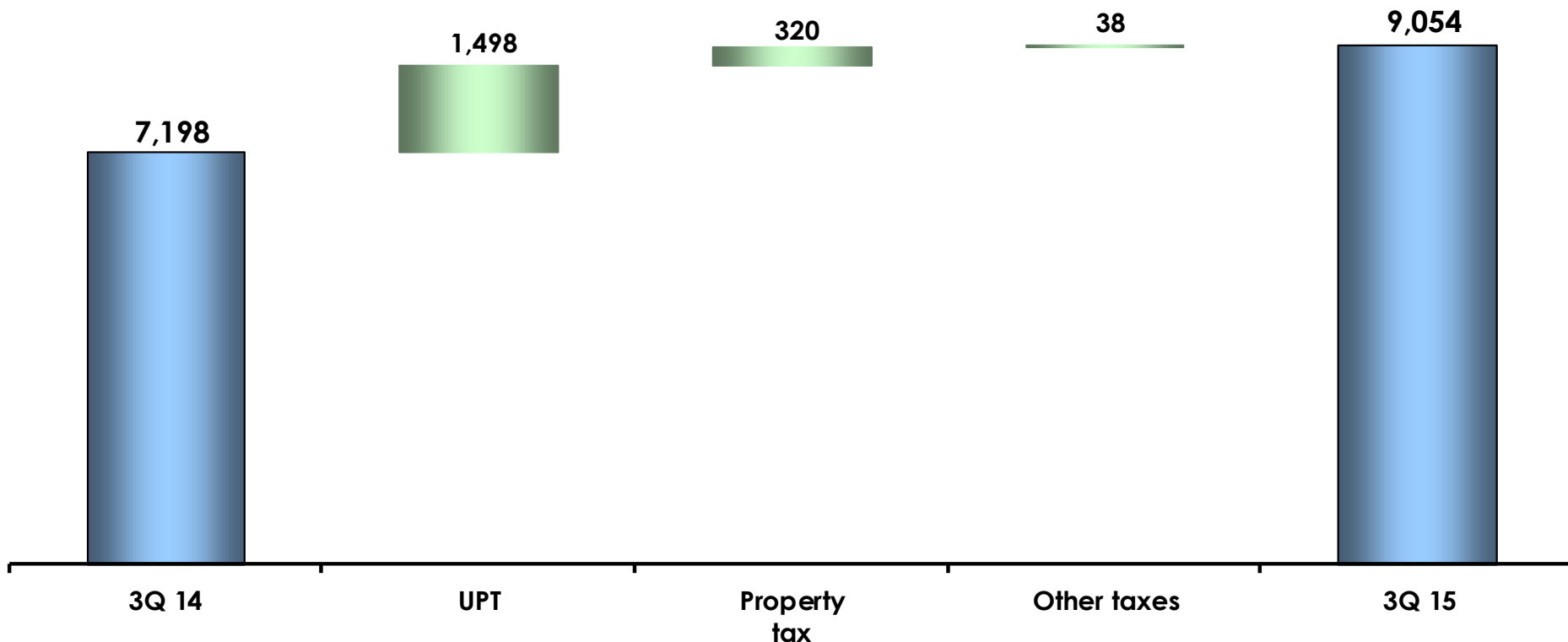
3Q 14	% of TR	3Q 15	% of TR		2Q 15	% of TR	3Q 15	% of TR
26,643	31.4%	32,546	27.7%	Transportation expenses	29,940	26.7%	32,546	27.7%
7,198	8.5%	9,054	7.7%	Taxes other than income tax	9,015	8.0%	9,054	7.7%
33,841	39.9%	41,600	35.4%	<b>Non-controllable expenses</b>	38,955	34.7%	41,600	35.4%
4,316	5.1%	4,883	4.2%	Depreciation and amortization	4,681	4.2%	4,883	4.2%
3,014	3.6%	3,626	3.1%	Materials, services & other	3,294	2.9%	3,626	3.1%
2,543	3.0%	2,930	2.5%	General and administrative	4,907	4.4%	2,930	2.5%
101	0.1%	439	0.4%	Exploration expenses	22	n/a	439	0.4%
				Net impairment expenses (reversals)	(261)	n/a	(16)	n/a
11	n/a	(16)	n/a	Change in natural gas, liquids and WIP	(1,949)	n/a	(1,258)	n/a
(2,488)	n/a	(1,258)	n/a					
41,338	48.7%	52,204	44.5%	<b>Subtotal operating expenses</b>	49,649	44.3%	52,204	44.5%
				Purchases of natural gas and liquid hydrocarbons				
14,532	17.2%	32,892	28.0%		29,892	26.6%	32,892	28.0%
55,870	65.9%	85,096	72.5%	<b>Total operating expenses</b>	79,541	70.9%	85,096	72.5%

- Operating expenses increased Y-o-Y by 52.3% 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 and, to a lesser extent, an increase in transportation expenses
- Our purchases of hydrocarbons 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 at the end of 2014 and in April 2015 and due to the commencement of purchases of natural gas and gas condensate from Terneftegas from May 2015
- Transportation expenses increased Y-o-Y mainly due to an increase in liquid hydrocarbons volumes sold and transported, as well as an increase in the average exchange rate of US dollar to Russian rouble by 74.0%, which was partially offset by a decrease in natural gas volumes sold to end-customers and a slight decrease in our average transportation distance
- Taxes other than income tax increased Y-o-Y 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

# Transportation Expenses (RR million)

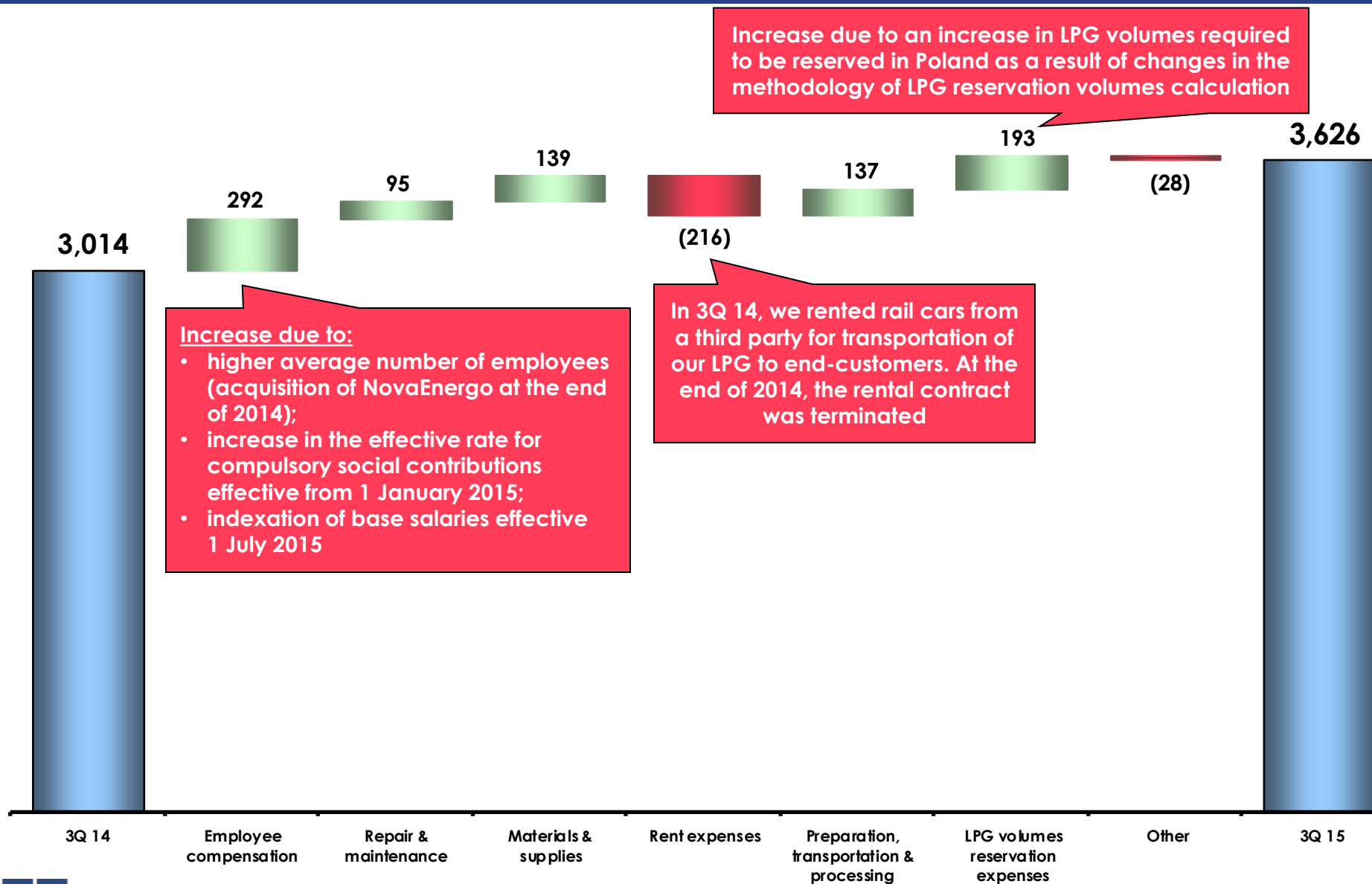


# Taxes Other Than Income Tax Expense (RR million)

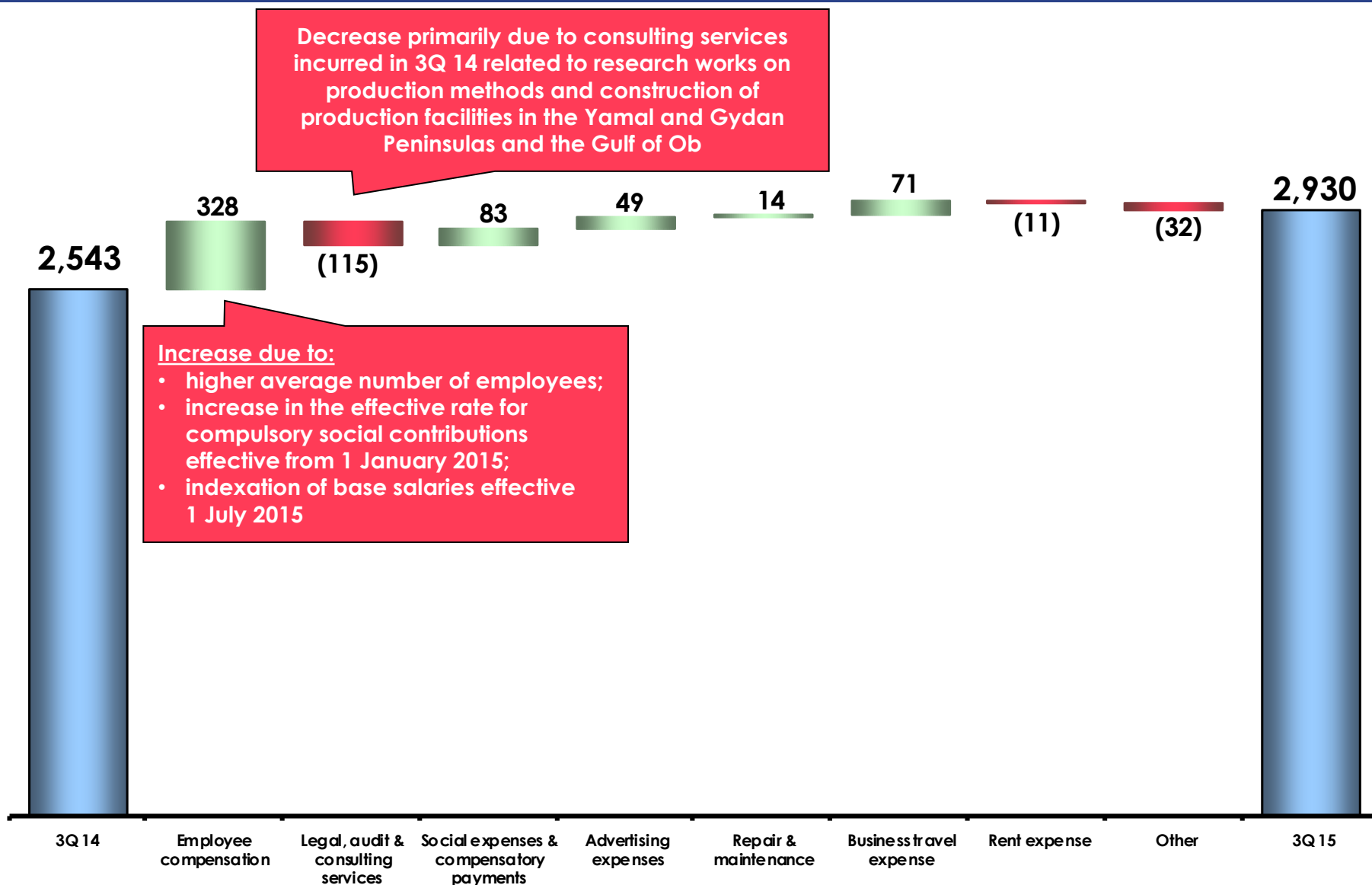


- ❑ Y-o-Y increase in UPT expense was primarily due to a significant increase in the UPT rate for gas condensate as a result of changes in the Tax Code of the Russian Federation
- ❑ From 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude 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
- ❑ The increase in property tax expense was due to additions to property, plant and equipment at our production subsidiaries, as well as an insignificant additional tax charge for prior periods

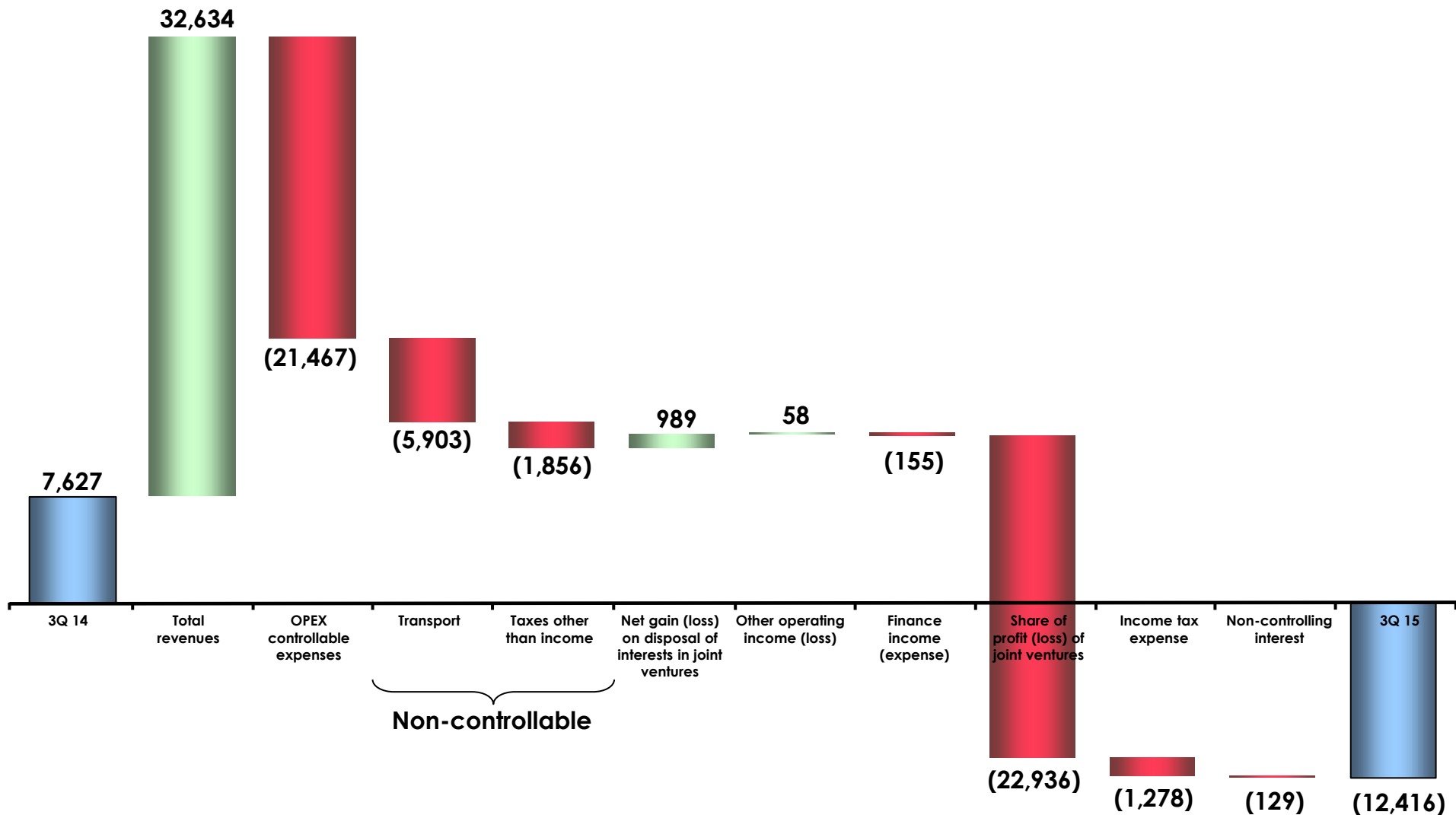
# Materials, Services and Other Expenses (RR million)



# General and Administrative Expenses (RR million)



# Profit Attributable to NOVATEK Shareholders (RR million)



## Financial Overview – 3Q 15 vs. 2Q 15

# Total Revenues (RR million)

Change due to price

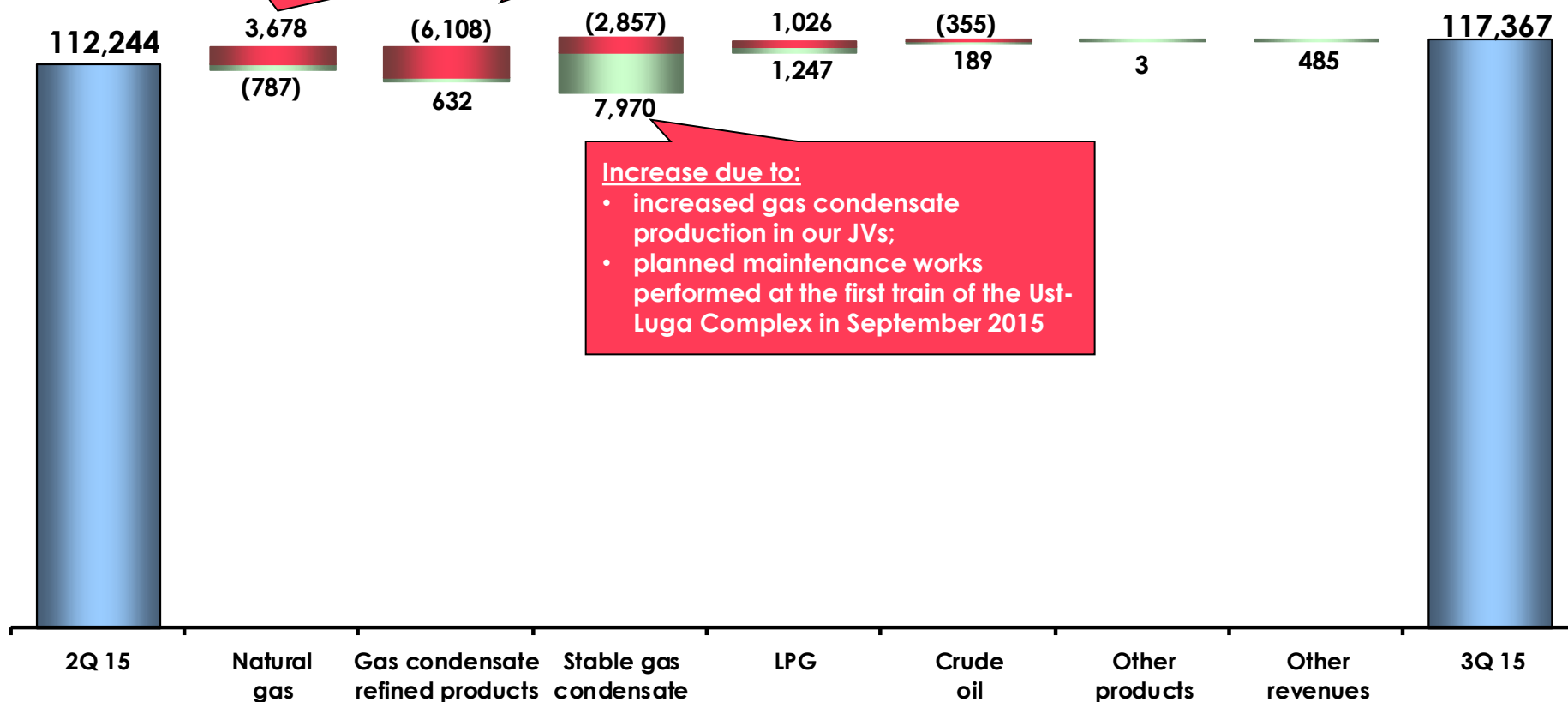
Change due to volume

Increase due to an increase in the average regulated FTS price by 7.5% effective 1 July 2015

Decrease primarily due to decreases in average realized export contract prices

Increase due to:

- increased gas condensate production in our JVs;
- planned maintenance works performed at the first train of the Ust-Luga Complex in September 2015



# Total Revenues Breakdown

■ Natural gas

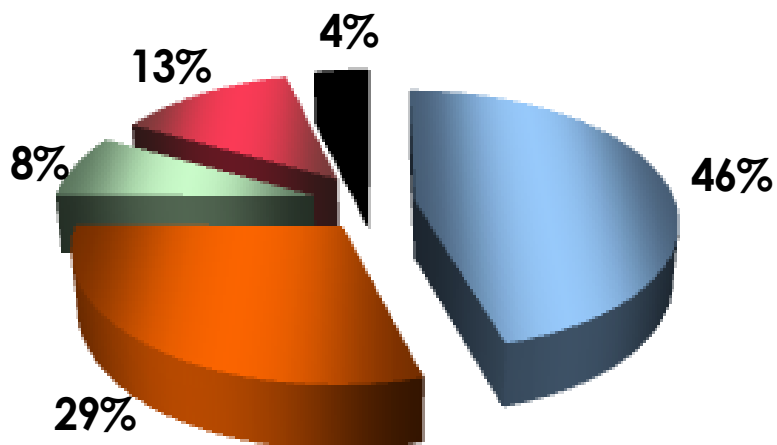
■ Gas condensate  
refined products

■ LPG

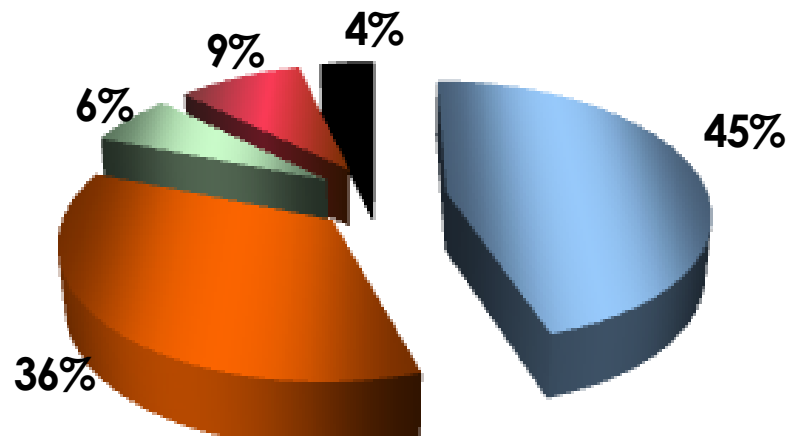
■ Stable gas condensate

■ Other

3Q 15



2Q 15

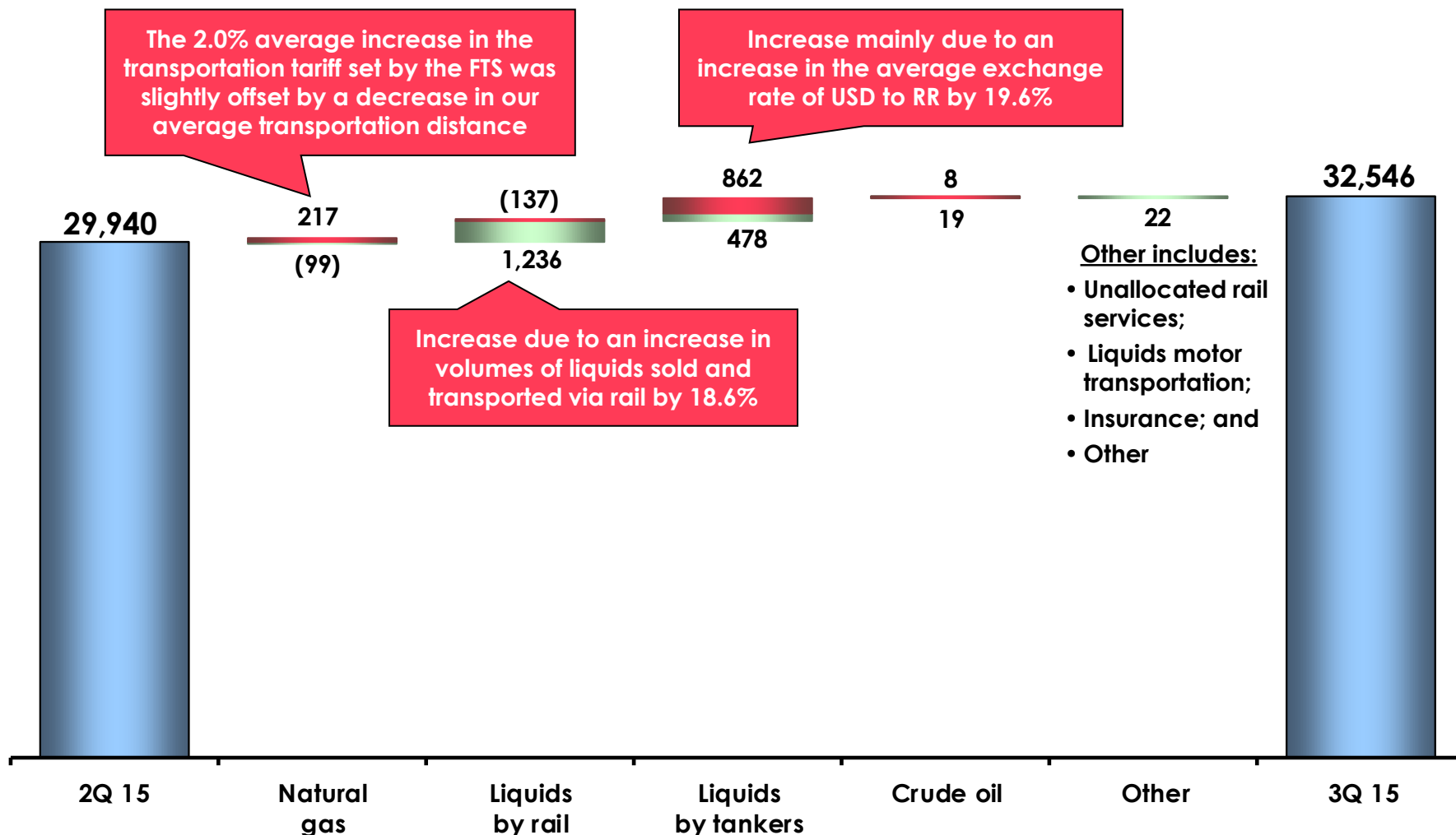


# Transportation Expenses (RR million)

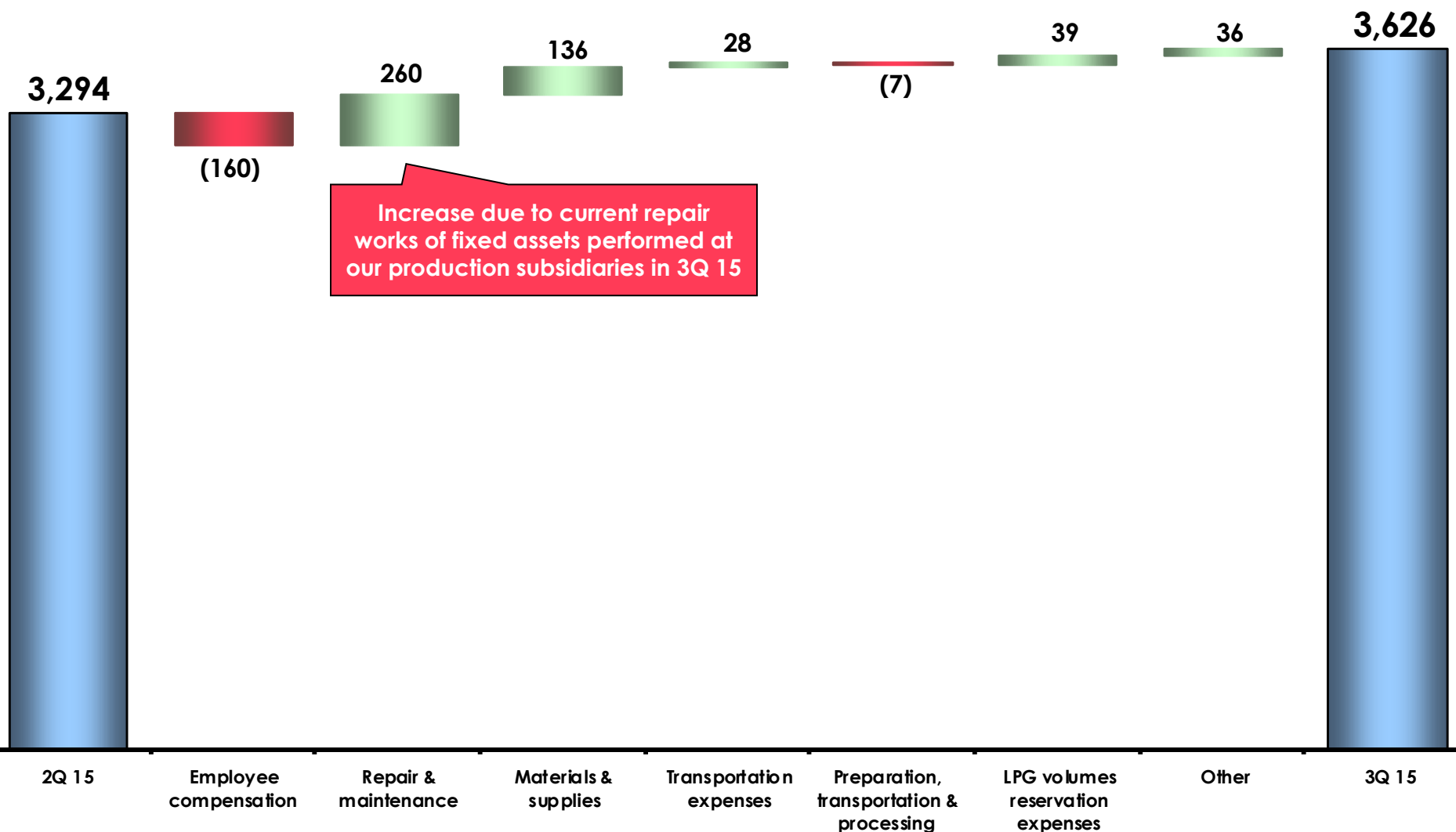


Change due to tariffs/distance

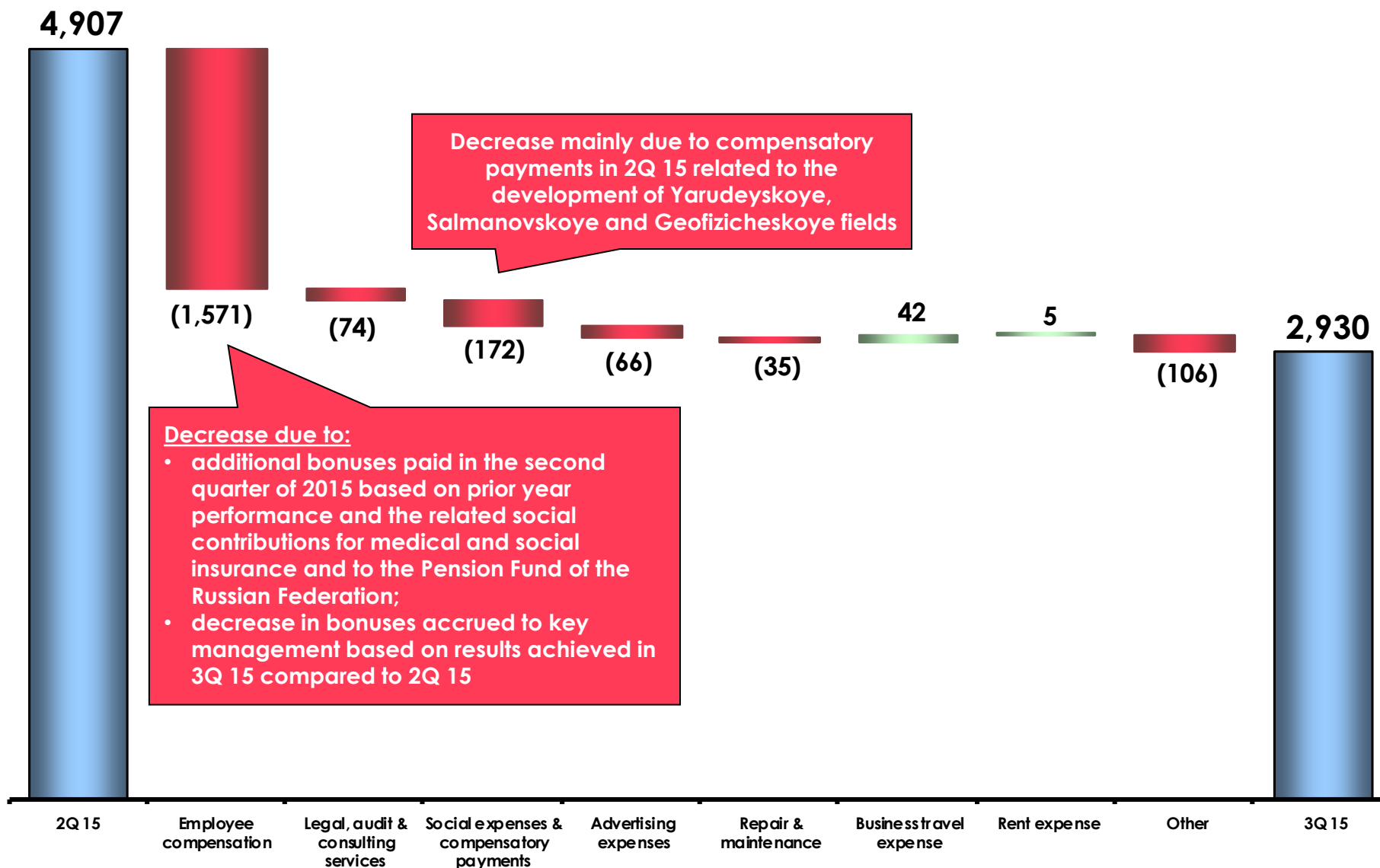
Change due to volume



# Materials, Services and Other Expenses (RR million)



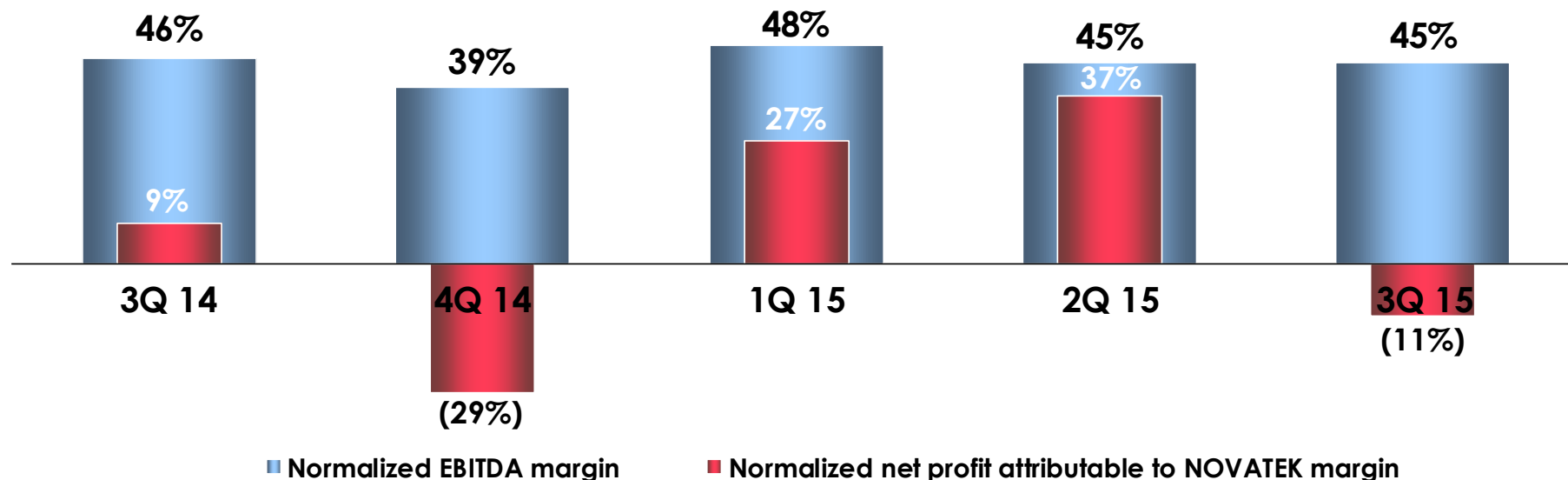
# General and Administrative Expenses (RR million)



# Appendices

# Maintaining Margins (% of total revenues)

Due to the recognition of a significant foreign exchange loss on foreign currency denominated loans of the Group and its JVs

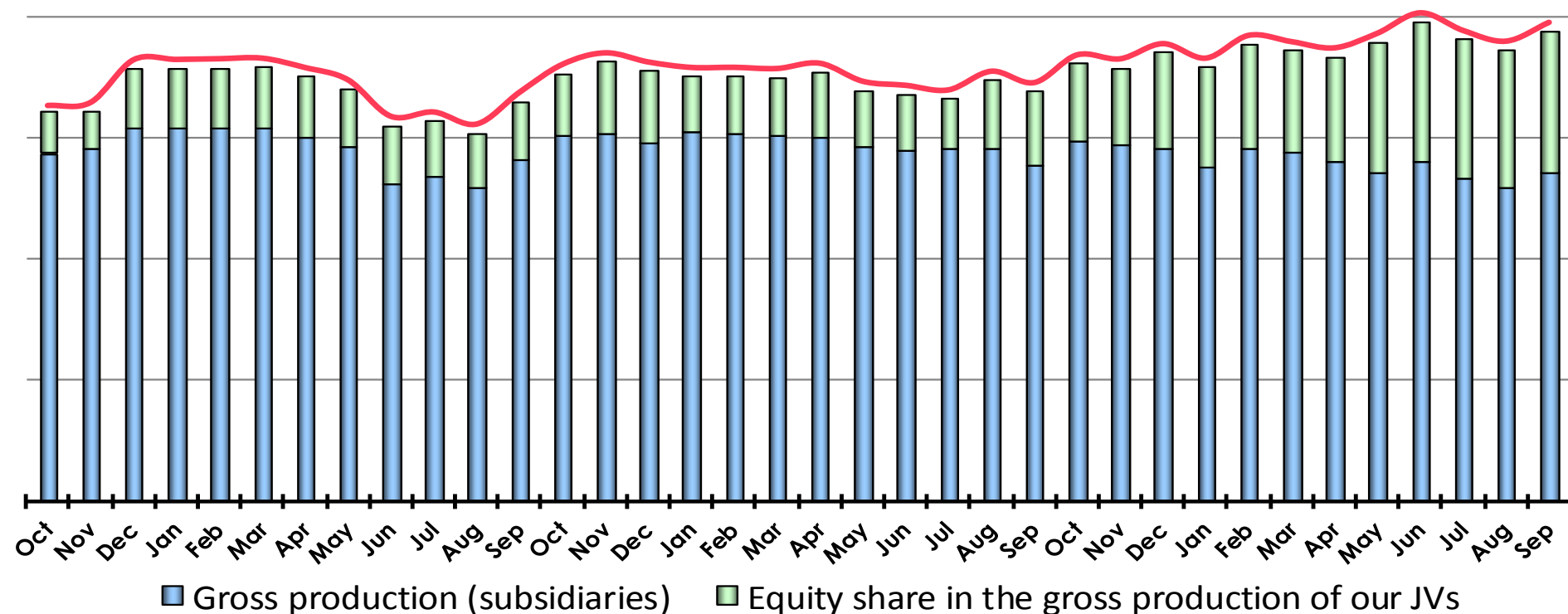


Margins in-line with Group's strategic guidance, but negatively impacted by the depreciation of Russian rouble in the second half of 2014 and 3Q 15

## Notes:

1. EBITDA margin and net profit attributable to NOVATEK margin exclude the effect from the disposal of interests in joint ventures
2. 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

9M 15 Avg.  
188 mmcm/day  
6,648 bcf/day

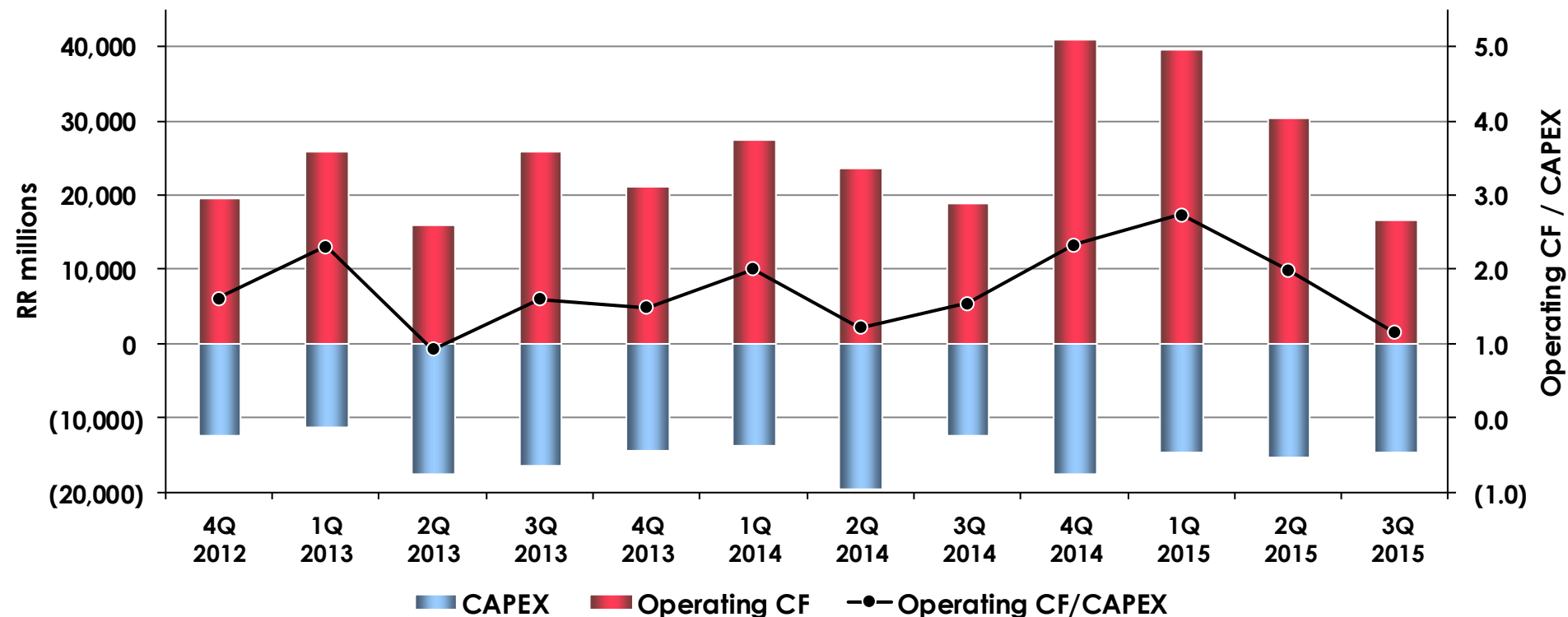
3Q 14 Avg.  
170 mmcm/day  
5,989 bcf/day

3Q 15 Avg.  
190 mmcm/day  
6,714 bcf/day

# Condensed Statement of Financial Position (RR million)

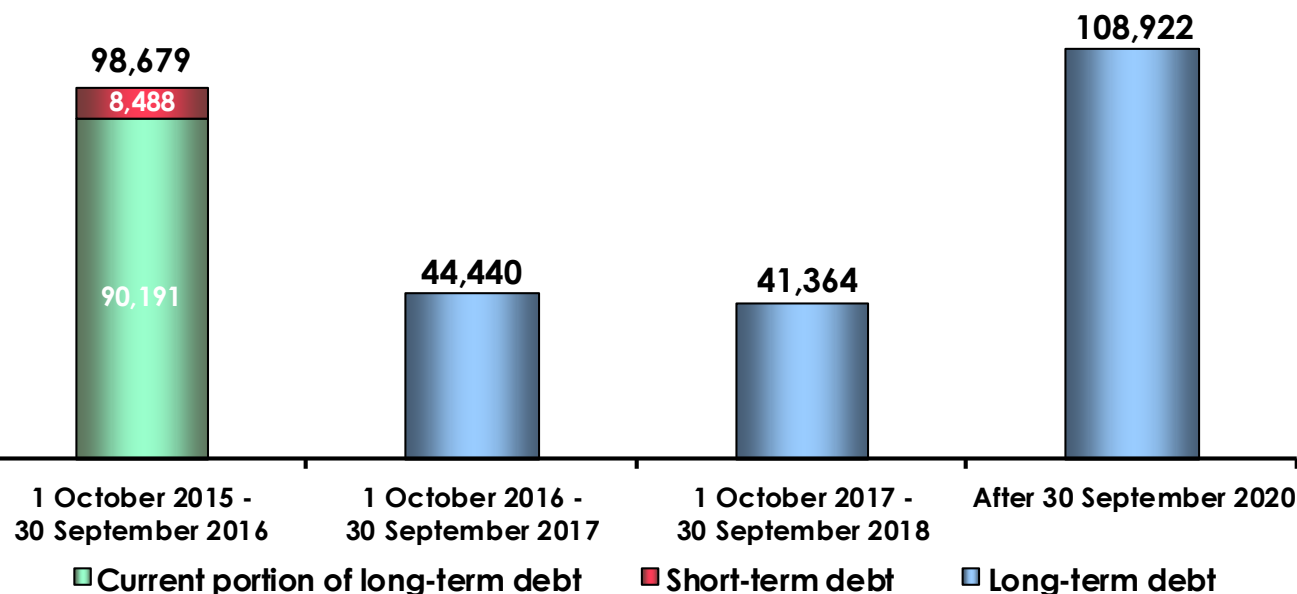
	30 September 2015	31 December 2014	+ / (-)	+ / (-) %
<b>Total current assets</b>	<b>136,720</b>	<b>126,591</b>	<b>10,129</b>	<b>8.0%</b>
<i>Incl. Cash and cash equivalents</i>	35,193	41,318	(6,125)	-14.8%
<b>Total non-current assets</b>	<b>665,729</b>	<b>572,548</b>	<b>93,181</b>	<b>16.3%</b>
<i>Incl. Net PP&amp;E</i>	322,064	291,726	30,338	10.4%
<b>Total assets</b>	<b>802,449</b>	<b>699,139</b>	<b>103,310</b>	<b>14.8%</b>
<b>Total current liabilities</b>	<b>166,366</b>	<b>81,208</b>	<b>85,158</b>	<b>104.9%</b>
<i>Incl. ST &amp; current portion of LT debt</i>	98,679	40,980	57,699	140.8%
<b>Total non-current liabilities</b>	<b>223,367</b>	<b>230,807</b>	<b>(7,440)</b>	<b>-3.2%</b>
<i>Incl. Deferred income tax liabilities</i>	23,845	21,063	2,782	13.2%
<i>Incl. LT debt</i>	194,726	204,699	(9,973)	-4.9%
<b>Total liabilities</b>	<b>389,733</b>	<b>312,015</b>	<b>77,718</b>	<b>24.9%</b>
<b>Total equity</b>	<b>412,716</b>	<b>387,124</b>	<b>25,592</b>	<b>6.6%</b>
<b>Total liabilities &amp; equity</b>	<b>802,449</b>	<b>699,139</b>	<b>103,310</b>	<b>14.8%</b>

# 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 from Russian banks with credit limits in the amount of RR 50 billion and equivalent of USD 300 million, valid until September 2018 and March 2019, respectively

## Debt repayment schedule:

Up to 30 September 2016 – RR denominated bonds (RR 20 bln), Eurobonds Five-Year (USD 600 mln) and Syndicated term credit line

Up to 30 September 2017 – Eurobonds Four-Year (RR 14 bln) and Syndicated term credit line

Up to 30 September 2018 – Syndicated term credit line facility and Other loans

After 30 September 2020 – Eurobonds Ten-Year (USD 650 mln and USD one bln)

# Questions and Answers