OAO NOVATEK

First Quarter 2014

Financial and Operational Results – Earnings Conference Call
30 April 2014
Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our First Quarter 2014 earnings conference call. I would like to thank everyone for joining us this evening, and again extend our sincere gratitude to Sberbank-CIB for organizing and for hosting our earnings conference call.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2013, as well as any of our earnings press releases and documents throughout the past year for more description of the risks that may influence our results.

SUMMARY HIGHLIGHTS

Despite the warmer than normal winter, we delivered another set of solid financial and operational results for the First Quarter 2014 relative to the year-on-year (Y/y) and quarter-on-quarter (Q/q) comparatives. Despite this fact, we continue to experience significant volatility in our equity share price even though we increased our natural gas and liquids production consistent with our annual guidance, reported double-digit earnings growth and generated strong operating cash flows to fully fund our capital expenditure program and remain free cash flow positive.

Our first quarter 2014 financial and operational results were clearly overshadowed by the geopolitical events in Ukraine and the ensuing rounds of economic sanctions imposed by the United States, the European Union and Canada as well as the escalating tensions in Eastern Ukraine. The capital markets reaction to these events has been swift and negative, and our share price drop subsequent to the imposition of the second round of economic sanctions has clearly reflected this negative market sentiment.

The announcement in the second round of US economic sanctions against Russian citizens included one of our shareholders, Mr. Gennady N. Timchenko, which exacerbated an already negative market situation. Immediately following the US sanctions announcements we sought external legal advice from international law firms to assess the US Treasury Department's Office of Foreign Control – Specially Designated Nationals requirements to understand how the OFAC sanctions are applied and to determine, without question, that NOVATEK was not considered a sanctioned entity under these regulations.

The legal opinions we received were quite straightforward. The sanctions issued against Mr. Timchenko are not applicable against NOVATEK and that NOVATEK should not be regarded as a Specifically Designated National, or SDN. Based on a longstanding OFAC precedent, an entity should be considered a SDN if it is 50% or more owned by a SDN; therefore, the rule does not apply to NOVATEK as Mr. Timchenko's non-controlling shareholding in NOVATEK via Volga Resources is under 24%. The "ownership test" rather than the "ownership and control test" was confirmed in subsequent announcements made by OFAC officials.

I would like to confirm that we are conducting normal business and financial operations, and that NOVATEK is not a sanctioned entity. We continue to conduct normal trading operations in Europe via our wholly owned trading arm, NOVATEK Gas & Power, as well as continuing to load tankers of our petroleum products destined to international markets via our Ust-Luga Gas Fractionation and Transshipment Complex. We continue to transact financial flows concerning payments and receipts through the international financial community, and, subsequent to the announcement of the second round of sanctions, we withdrew the remaining balance of approximately USD 430 million from a syndicate of international banks, again confirming our active participation in the international financial arena.

All work activities relating to our Yamal LNG project are proceeding as planned and we continue to hold constructive discussions with the international banking community, including Export Credit Agencies and commercial banks despite the recent announcement by US EXIM to suspend further discussions on financing all Russian projects, including the Yamal LNG project, while the current US economic sanctions are in effect. We believe there is adequate financial support for the Yamal LNG project from the remaining international export credit agencies as well as positive comments from Chinese financial institutions regarding their commitment to provide a substantial portion of the total financing package as agreed with NOVATEK upon the recent conclusion of our equity transaction and confirmed again in February with the execution of the Inter-Governmental Agreement ("IGA") between the respective governments of Russia and China.

I mentioned in one of my prior earnings conference calls that the NOVATEK investment case has clearly moved away from our sound operational and financial fundamentals and is now squarely focused on external events; in this particular case the escalating geopolitical tensions around the Ukrainian situation. We expect that the market will remain volatile for the foreseeable future or at least until such time as this geopolitical situation de-escalates, which, in both cases, is obviously difficult to predict. We will continue to address this market situation as best as possible in a manner consistent with our historical practice and we encourage you to raise your concerns, risks or issues with us in our question and answer segment or during upcoming investor meetings and conferences. I do not want to monopolize tonight's call on the present geopolitical situation in Ukraine other than to reiterate the statement that NOVATEK is not a sanctioned company under the OFAC rules, and that we are presently conducting normal business and financial operations.

We remain an open and transparent company with a strong track record of sound corporate governance and, as such, we will continue discussing these matters with all interested parties. We remained active in meeting with investors, financial institutions and credit rating agencies over the past several weeks as we did throughout the 2008-2009 economic crises and it is our strong belief that we should share with you any negative and/or positive news in a constructive manner rather than cancel meetings or our participation at conferences in the hopes that these issues will just dissipate. We understand that the Russian investment climate has changed for investors with the continued escalation of events in Eastern Ukraine, the risk associated with the upcoming presidential elections on the 25th May, and the negative associated effects of the sanctions imposed so far but it is equally important that we take a pragmatic view of the situation and remain focused on our business activities.

I would like to focus the initial portion of tonight's conference call on providing an update on our current operations. The Yamal LNG project continues to play a key role in our main financial and operational activities as we press forward with construction activities. As of the end of 2013, the shareholders have invested approximately USD 2.5 billion into the project, and we presently have over five (5) thousand people working on various activities. The budget for 2014 has been approved by all shareholders and we anticipate that this year's expenditures will be approximately two (2) times more than the previous years of 2012 and 2013. Conservatively, the plan is to currently fund the 2014 budget via shareholder loans, and is subject to the completion of all work related to project financing, which I will discuss separately in a moment.

In terms of field development activities we have executed contracts for the drilling of 124 wells, which ensures the timely startup of the three (3) LNG trains and these contracts support the present drilling program for the years 2013 through 2017. We anticipate that a contract for the drilling of an additional 84 plus wells will be concluded during 2015 based on the results of well tests and an update on our overall well development program. Currently, we have two (2) drilling rigs actively drilling – the Arctika numbers 1 and 2 – and a third drilling rig – Arctika 3 - is on site and being erected. We anticipate that all three of the drilling rigs will be actively drilling by the fall of 2014.

We have already drilled 14 production wells and have prepared four (4) of the anticipated 19 drilling pads. The test results of the production wells confirm the geology of the South Tambeyskoye field, and will serve to determine the future update on the well development program.

The full EPC Contract was signed in April 2014 and presently includes Technip, JGC and the addition of Chiyoda to the contractor group. The contract's effective date was the 1 April 2013, which is the date the contractor and Yamal LNG commenced site preparation activities, engineering and procurement, all under the original Letter of Award. The delay in executing the final EPC Contract was influenced by the joining of CNPC into the project consortium as well as Chiyoda joining the EPC contractor group. The delay in executing the final EPC contract did not have any negative impact on the overall project costs or the project schedule. As of today, we estimated that cumulative main EPC contract progress is approximately 5.7%.

To date, several office complexes and a 1,000 person pilot camp has been built for the EPC contractor at the Sabetta site. An additional camp for roughly 5,000 people is presently being constructed, and I mentioned on my previous conference call that we have already completed approximately 50% of the projected housing complex. The LNG Plant site preparation is approximately 75% completed, including the full completion of the land backfilling for LNG Train number 1. The contractor has commenced piling work for the LNG Plant foundations, purchase orders have been placed for main equipment such as turbines, compressors, and heat exchangers, and the module construction yards have been selected. We have also placed purchase orders for various types of equipment and bulk materials as well as subcontracting construction packages.

We have concluded an EPC contract for the construction of four (4) 160,000 m^3 full containment LNG tanks with the consortium of Entrepose and Vinci. The detail design phase is being finalized and we recently completed the pile foundation for the first out of four LNG tanks – 948 piles were installed. The foundation for the second LNG tank is presently being constructed, and onsite workshops and concrete batch plants have been built. In May 2014, the EPC contractors will commence concrete activities to complete the foundations and walls for the first two LNG tanks during the warmer season.

The EPC contract for the power plant has been signed with a total capacity of 376 mega-watts ("MW"), and the 400 person contractor camp is completed. The detailed engineering phase is in the final stages of completion and purchase orders have been placed to Siemens for the manufacturing of gas turbine generators. The power plant's site has already been prepared and the contractor is currently mobilizing its resources to begin piling works in May 2014.

The Seaport's front wall measuring 1,000 meters is already completed, and the early phase facilities will be fully operational during the third quarter 2014, including port area, warehouses and administrative buildings. The seaport harbor and approach channel was officially designated for winter operations in November 2013, and since that time 19 vessels have arrived and off-loaded 135 thousand cargos of materials and equipment. From inception, approximately 840 thousand tons of construction cargos have been delivered to the Sabetta location, and the present navigation plan calls for the delivery of approximately 1.5 million tons of cargo per year. In addition, the contractor has recently started the construction of the LNG loading jetty trestle foundation.

There are currently over 5,400 people and 866 construction vehicles at the Sabetta construction site and the South Tambeyskoye field. The new international airport designed to accompany aircrafts such as a Boeing 737 is 60% completed and is expected to become operational in the fourth quarter 2014.

In terms of marketing, 77% of the expected LNG volumes have been contracted on a long-term basis at internationally referenced LNG market prices based on the region of delivery, and the Project's marketing team is in active negotiations with potential buyers for the remaining unplaced volumes. We believe this process will be wrapped up in the near term, again confirming the market's appetite for LNG volumes sold from this project specifically, and Russia in general.

With the recent signing of the main EPC contract the ECA's (or Export Credit Agencies) consultants can finalize their technical due diligence and report back to their clients. We believe this process will take a few months to complete and we are scheduled to have the next set of meetings in early June. Last week, I led a delegation of NOVATEK's finance team to Beijing to continue our discussions with CNPC as well as Chinese financial institutions, and we had a very positive and constructive working group meetings relating to Chinese participation in project finance. We will continue to hold various working group meetings with international, Russian and Chinese financial institutions, and we believe the term sheet is in advanced stages of negotiation at this point in time.

As for potential partner discussions, we are presently satisfied with the current shareholder structure of NOVATEK at 60% and both TOTAL and CNPC each holding a 20% equity stake. We will continue to entertain talks about the remaining sale of nine percent (9%) if the transaction value is acceptable to us, but it is not cardinal to our present work activities or financing requirements.

There were no major updates to report in terms of exploration activities during the first quarter 2014. We relinquished two exploration licenses during the reporting period but we were also able to expand the Yurkharovskoye license area by identifying additional hydrocarbon layers in this important field. We completed 33 production wells during the quarter as compared to 28 production in the 1Q 2013.

As reported in the Russian press yesterday, we encountered technical problems at the Urengoyskoye field as a result of a fire at the de-ethanization unit, or condensate treatment facility, which separates the gas condensate stream from natural gas. We estimate that it will take several weeks to assess the situation, conduct an investigation and determine the extent of damage and its potential impact on production output from the joint venture and, correspondingly, our forecasts for the year. There were no fatalities and injuries to report as a result of this fire.

At the Urengoyskoye field, we managed to launch the field's first production on the 9th/10th April as planned; however, the fire has shut down production at the field. We realize that this news is disappointing to both you as investors and to us and GazpromNeft as joint venture partners. The Urengoyskoye field was considered a major driver of our expected growth in liquids output in 2014 and our production guidance will need to be revised to reflect this event. We will provide an update on this situation once we have additional information to report as well as the potential effect on our production guidance in 2014.

Despite the fire, we are currently working on the second production train at the field and this scope of work activity was not affected.

At the Yaro-Yakhinskoye field, we have completed the drilling of 33 cumulative production wells, or roughly 75%, of the field's drilling program as well as other work activities such as the backfilling of drilling pads, roads and other infrastructure related activities. We are currently testing the completed condensate pipeline and we are approximately 90% complete on the 20 kilometer gas pipeline. A power plant was launched on the field and the first stage of the oil treatment facility was completed. We anticipate that the field will be launched during the latter part of 2014.

At the Samburgskoye field, we have completed the drilling of 42 cumulative production wells, or roughly 53%, of the field's drilling program as well as practically completing the piling for the gas treatment facility. We are scheduled to complete and launch the third production train in September 2014.

In terms of capital spent during the quarter we significantly ramped up the infrastructure and field development activities at the Yarudeskoye field, our main crude oil program. During the quarter, three (3) drilling rigs were on site and we completed our first production well. The 350 kilometer oil pipeline from the field to Pur-Pe is approximately 70% complete and the 150 kilometer gas pipeline is roughly 35% complete. The backfilling for the oil treatment facility is 70% complete and piling works have begun. We plan to launch this crude oil field in 2015.

At Termokarstovoye, we have completed 11 out the planned 22 wells, and the wells which have been tested indicate higher than expected initial flow rates. We are approximately 75% complete on the 179 kilometer gas pipeline, approximately 95% complete on the 236 kilometer gas condensate pipeline and have begun piling and construction works at the field's living camp. The field is expected to be launched in 2015, one year ahead of the original timetable.

From an operational perspective, our natural gas production volumes were negatively impacted during the quarter, on a comparative basis, due largely to the swap of Sibneftegas to Rosneft in December 2013. Overall, our organic production volumes were down by 2% while our combined production figures, including our proportionate share in the production of our joint ventures decreased by 8%. If you exclude the natural gas production of Sibneftegas during the first quarter 2013, making the analysis more comparable, our overall natural gas production increased by approximately 5.2%, which is slightly lower with our production guidance for 2014 but largely takes into consideration the warmer winter weather. The largest growth contribution came from the successful launch of Eastern dome at the Nortgas field in October 2013.

Our total volume of natural gas sold declined by 967 million cubic meters ("mmcm"), or roughly 5.2%, largely driven by the divestiture of Sibneftegas in December 2013 and a reduction in purchases from SIBUR. We also had a substantial reduction in volumes stored in the underground storage facilities of roughly 2.5 billion cubic meters ("bcm") to fulfill our contractual obligations, which also correlated to the reduction of purchases from SIBUR and to a lesser extent, Nortgas.

The share of end-customers in our total sales mix increased from 89% in the 1Q 2013 to 94% in the current reporting period. The 5% change in the composition of our sales mix also contributed additional revenues to the Company since the average netback we received for our end-customers was approximately 12% greater than the average ex-field or wholesale traders' sales per thousand cubic meters.

During the quarter, we reported total gas sales to end-customers of 16.7 bcm, which was consistent with the volumes sold Y/y and greater than 15.4% quarter-on-quarter ("Q/q"). Within end-customer sales, power companies and large industrial customers represented roughly 89% of the sales volumes delivered or approximately 84% of our total gas sales for the quarter. Total natural gas sales for the reporting period aggregated 17.8 bcm, representing a Y/y decline of 5.2% and Q/q growth of 15.4%, respectively.

We had a change in the regional mix of our gas deliveries as a result of new contracts. We increased our sales volumes Y/y to the Khanty Mansiisyk region by roughly 1.8 bcm and had a corresponding decrease in volumes sold to the City of Moscow by 1.5 bcm. Geographical regions representing greater than 10% of our sales volumes included the Perm, Khanty Mansiisyk and Chelyabinsk regions. As a result of the changes in our regional sales mix, our average distance to market was approximately 1,460 kilometers, representing a significant decrease in our transport distance of 875 kilometers Y/y and 610 kilometers Q/q. This reduction in our average transport distance resulted in a roughly RR 1 billion reduction in our natural gas transport cost despite a 6.4% increase in the average transport tariff effective 1 August 2013.

Our average netback for natural gas sold to end-customers increased by RR 345 per mcm, or by 20.2%, as compared to the first quarter 2013, but was down by RR 88 per mcm Q/q, whereas our ex-field sales price increased by 7.4% Y/y but decreased by 11% Q/q. The Q/q decrease was largely due to a 1.9% reduction in the average gas tariff effective the 1 January 2014, and a shift in the composition of volumes sold to certain clients and regions. Otherwise, we were generally pleased with the stronger gas pricing we received for both end-customer and ex-field sales in the current reporting period.

In terms of liquids production, we maintained relative output of liquids from our core fields mainly due to the contribution of crude oil production at the East Tarkosalinskoye field; however, the majority of the first quarter's positive year-on-year contribution was attributable to the growth in the output of liquids from our joint ventures, particularly the contribution made by Nortgas after the launch of the Eastern dome of the North-Uregoyskoye field in October. Overall, our liquids production growth rate was 15.3% Y/y.

During the reporting period, we sold 1.5 million tons of liquid hydrocarbons representing a slight decrease over the comparable reporting period. The decrease was mainly driven by a significant reduction of stable gas condensate volumes in transit of 295 thousand tons in the first quarter 2013, which was offset by a slight increase in naphtha and other refined products volumes in storage of 20 thousand tons in the current reporting period. Our refined product recorded as inventory aggregated 555 thousand tons as of the 31 March 2014 as compared to 268 thousand tons of stable gas condensate Y/y and 535 thousand tons of refined products at year-end.

The current reporting period represents the first full quarter that we operated the Ust-Luga Gas Fractionation Unit, since it was commissioned in two stages in 2013 – the first stage representing three (3) million tons capacity in June and another three (3) million tons launched in October. As we discussed previously, the successful launch of Ust-Luga dramatically changes the composition of our liquid sales from selling raw materials to the market in the form of stable gas condensate to refined petroleum products such as light and heavy naphtha, jet fuel, diesel fuel, heating oil and bunker fuel. The new range of higher valued finished products changes our marketing and logistical operations as well as enhanced the average netback we received for our products sold in the international markets.

It’s difficult to make a like-kind comparison between the first quarters 2013 and 2014 due to the significant change in the composition of liquid products sold. Therefore, I will not provide a detailed analysis of these differences but will focus mainly on the results achieved in the current reporting period. If we combined (or lumped together) all of the products sold from Ust-Luga relative to a single product sold last year of stable gas condensate we can see that the average netback that we received this quarter increased by approximately USD 102 per ton, which demonstrates the value-added netback we received post the implementation of Ust-Luga. On an individual product basis, we achieved higher relative netbacks on each product stream than achieved by solely selling stable gas condensate.

In terms of geographical regions, we dispatched 941 thousand tons of refined petroleum products from the Ust-Luga Complex in the first quarter 2014, of which 526 thousand tons were shipped to the Asian Pacific Region, 318 thousand tons were shipped to Europe and 97 thousand tons were shipped to the United States. At the quarter end, we had 153 thousand tons of naphtha in transit to both the US and Japanese markets versus zero “goods in transit” in the comparative period.

We also managed to achieve relatively strong LPG prices on our international sales during the first quarter 2014, with Poland and Finland representing the largest geographically areas in terms of volumes sold.

Natural gas represented 66% of our total oil and gas revenues whereas our combined liquids represented the remaining 34%. On a total barrel of oil equivalent (“BOE”) basis, our first quarter 2014 production slightly declined 1.2% to approximately 112 million BOE versus 114 million BOE in the prior reporting period, representing an average total hydrocarbon production per day of approximately 1,247,000 barrels per day. In the first quarter 2014, the share of our liquids represented approximately 10.1% on a combined BOE basis versus 8.7% in the previous year.

We effectively manage our overall operating expenses during the quarter, and the increase period-on-period of RR 2.8 billion, or 6%, was primarily due to an increase in our “taxes other than income” expense category as a result of a significant increase in our natural gas mineral extraction tax (“MET”), which was offset by a reduction in transport costs for both natural gas and liquids.

As part of the migration to the new formula based tax calculation effective the 1 July 2014, the Russian government has effectively increased our natural gas MET by 51.7% in July and another 17.2% on the 1 January 2014. This change essentially increased the tax rate charged to independent gas producers from RR 265 per mcm to RR 471 per mcm in the reporting period, and this rate will be in effect until 1 July 2014 when the new amendments to the Russian Tax Code regarding the new methodology for calculating the MET rate becomes effective.

There were no material surprises in our General and Administrative and other expense categories to highlight except for the increase in employee headcount post the launch of the Ust-Luga Complex and the expansion of the Purovsky Plant.

Our Balance Sheet and liquidity position remained strong throughout the reporting period as we decreased our overall net debt portfolio this quarter relative to the year-end debt balance by 21% as a result of a very strong cash position. As a result of the economic sanctions, slowing domestic economy and high capital flight in the first quarter of 2014, all three of the credit rating agencies held discussions with the Company and undertook "Event Driven Credit" meetings. The credit agencies have reiterated our investment grade credit rating demonstrating the strong fundamentals of our business and our present liquidity position. As of today, NOVATEK has over USD 2 billion in cash on the balance sheet and continues to closely monitor our credit policy relating to domestic and international sales. Yesterday, however, S&P issued a general statement on placing a series of Russian companies, including NOVATEK, on "Negative Outlook" following the downgrade of the Russian sovereign debt rating this past week but reaffirmed again our investment grade rating.

We remained free cash flow positive during the first quarter 2014 and ended the quarter with a free cash flow position for the Company of RR 13.4 billion, which is lower than the prior year but takes in account a higher capital expenditure program in the current year. We will continue to fund our capital expenditure program through internally generated cash flows and have the ability to meet all of our debt obligations and liabilities when they mature or become due for payment.

CONCLUSION

In conclusion, NOVATEK ended the first quarter of 2014 with another set of strong financial and operational results, as well as delivering robust production growth consistent with our Corporate Strategy. Notwithstanding the recent geopolitical events in Ukraine and the US/EU sanctions we remain keenly focused on the core business operations and the various work streams relating to the Yamal LNG project.

The recent fire at the de-ethanization plant at SeverEnergia's Urengoyskoye field is clearly a major disappointment to us and our joint venture partners GazpromNeft as we successfully launched the new field in accordance to our project time schedule. We are mindful of the implications this shutdown in production will have on our production guidance for 2014 but it is still too early to make overall comments until the investigation is completed, the extent of damage is assessed, and corrective measures are implemented. We were thankful that no fatalities or injuries occurred from the fire, which was the first point of concern for us when we were informed of this event.

I would like to end this portion of the conference call and now open the session to questions and answers.

Thank you very much.