

OAQ NOVATEK

Third Quarter 2014

Financial and Operational Results – Earnings Conference Call

30 October 2014

Moscow, Russian Federation

**Operator:**

Good day and welcome to the NOVATEK Third Quarter and Nine Months 2014 Results Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Alex Fak from Sberbank CIB. Please go ahead sir.

**Alex Fak:**

Good day everyone. I'm Alex Fak with Sberbank CIB and we are proud to host this conference call. With us today is Mark Gyetvay, the CFO of NOVATEK; and Alexander Palivoda, the Head of Investor Relations. I now hand over to Mark.

**Mark Gyetvay:**

Thank you Alex.

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Third 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 HIGHLIGHT

Before we begin tonight's conference call the Senior Management of NOVATEK wishes to extend its deepest sympathy to the family of Christophe de Margerie, who tragically died last week in a plane crash at Vnukovo Airport here in Moscow. Mr. de Margerie was good friend of the Company, and his untimely passing will be certainly missed by each of us here at NOVATEK. He was large supporter of Total's initiative here in Russia and was instrumental in moving forward the direct equity investment in NOVATEK, as well as Total's participation in our Terneftegas joint venture and Yamal LNG. We will miss Christophe's participation in the eventual launching of Yamal LNG but his legacy within the global oil and gas industry, his contribution to Russia and his friendship and support of NOVATEK will endure.

Our Third Quarter financial and operational results were once again overshadowed by a series of external events, a weakening commodity price environment and a depreciating Russian rouble versus the US dollar in the currency market. We continued to operate in a normal and sustained manner despite these externalities but it is clear from the financial results that we, as well as other Russian companies and energy producers were negatively affected.

During the reporting period, the Russian rouble depreciated against the US dollar by 17.1% year-on-year (Y/y) and by 20.3% since the 31 December 2013, and this impact is quite notably as we continue to report volatile non-cash foreign exchange movements period-on-period against the backdrop of a higher weighted debt portfolio denominated in US dollars. At period end, our US dollar denominated debt portfolio represented approximately 76% of our debt borrowings as well as the majority of our loans provided to our joint ventures.

For the three months ended 30 September, we reported a non-cash net foreign exchange loss of RR 6.1 billion mainly on our US denominated debt portfolio and a corresponding loss on the share of profit from our joint ventures, which mainly comprised the non-cash net effects of providing loans in US dollars.

In the energy commodity markets, we experienced a quarter of weakening benchmark prices for crude oil and their derivative petroleum products, which was further exasperated by the weakening of the Russian rouble relative to the US dollar. This essentially meant that we not only received less physical cash for our products sold but also the translation into the functional reporting was partially impacted by the depreciating Russian rouble.

We continued to demonstrate sustained volume growth with the successful launching of new fields, the partial restoration of production at the North Urengoyskoye field, and the continued growth of crude oil output from our development program to exploit these hydrocarbon layers, but were offset by external events outside of our control. We maintained our commitment toward cost control throughout our operations and achieved positive results in core expense categories, but nonetheless had to contend with the weakening external market that looks to persist through the remainder of the year. Overall, we were pleased with the results we have achieved both financially and operationally during the current reporting period in a tough macro environment.

The geopolitical backdrop continues to take front and center stage, but we believe the events in Ukraine appear to at least settle down from the heightened uncertainty that characterized the first and second quarters, and the present cease-fire initiative remains in force. The Ukrainian election results were conducted without any major disruption which is another positive development in this crisis and three-party talks remain on the table for settling the ongoing gas

price and debt issues. With that background I would like to provide a brief update on some of operational activities before discussing some of the specifics relating to the financial results.

During the third quarter we worked diligently to move the Yamal LNG project forward and have achieved positive results, despite the distractions and various ancillary discussions consuming management time regarding the sanctions. It is imperative that we as a management team remain focused on our core business activities and deliver results according to our development strategy, and hopefully, over a reasonable time frame we begin to see the lifting of the sanctions as the geopolitical situation deescalates.

We hosted our first analyst trip to the Yamal LNG field site amongst other core operations, and I believe this trip provided the analyst community with a firsthand experience on understanding the magnitude and scale of the project undertaking and the various work stages that are currently underway. Hopefully, everyone had a chance to read some of the comments and reports that were published post-trip, but overall I believe the general consensus was quite positive and a favorable experience for those who made this trip. We will periodically hold similar trips in the future for both investors and analysts.

I believe the main question on everyone's mind regarding this project is the current state of project financing post NOVATEK being included on the U.S. Sectoral Sanctions List issued on the 16<sup>th</sup> July 2014. Without question, a project of this size and scale is important for NOVATEK and our project shareholders, Total and CNPC, and ongoing efforts and discussions continue both with the financial community as well as their respective governments. The Russian government has unequivocally stated that the Yamal LNG project is strategically important for Russia, and as such, we will qualify for financial support from the Russian government. Subsequently, we have applied to the Ministries of Finance, Economic, and Energy for access to the National Wealth Fund and will continue to explore this option for partial State financing.

The Company continues to have active discussions with relevant Export Credit Agencies as well as Russian and Chinese financial institutions, and we believe that these discussions will continue through the remainder of 2014 and early 2015. As a result of the sanctions, there has been some changes to the composition of the team and consultants, but in my understanding that everyone is presently working on the financing arrangements, and we will provide more information at a later date when the financing arrangements have been finalized. It is clear at this stage that the financing discussions have moved away from US dollar financing, and that a combination of other currencies will be considered. For example, the most recent financing provided from the shareholders was denominated in Euros.

At the project level, we continue to invest capital according our planned work schedules for 2014, and as of today, the shareholders have increased their investment in the project from \$5.8 billion as of our last conference call to approximately \$6.9 billion.

We have completed another five (5) production wells during the quarter and now have completed a total of 23 production wells representing 11% of the planned drilling program, which essentially means that we have completed 100% of the planned drilling program for 2014 and are presently ahead of our overall drilling program. We are currently preparing and backfilling the fifth well pad for the upcoming 2015 drilling season.

In terms of LNG plant construction, we are approximately 13% complete on the cumulative EPC contract at the end of September, and we have completed roughly 87% of the plant sites preparation, including completing 100% of the land backfilling for the first LNG train. The EPC

contractor has begun piling work for the first LNG train and power plant. All six (6) Frame 7 gas turbines produced in the US by General Electric has been shipped to Italy for full load tests and further delivery to the project site in packages with compressors and helper motors.

All module yards have been selected and all fabrication contracts have been awarded. This essentially means that work activities at these facilities have begun, and as of today, the first steel cut took place for four (4) module packages, including fast track modules, scheduled for delivery in 2015. We continue to place purchase orders for non-critical equipment and bulk materials, as well as subcontracting construction packages.

The pilings, thermal stabilization, foundations and concrete walls for the first two cryogenic LNG storage tanks supporting the first LNG train have been completed, and work has already begun on the roof installation for the first tank. We have also begun prefabrication works for the site pilings for the third LNG storage tank, and as of today, we estimate that overall LNG tank progress at approximately 21% completed versus the 5% reported in July.

The work activity on the 376 megawatt (MW) power plant is progressing as planned. The first stage of piling works for the main building foundation was completed at the end of September, and we are presently awaiting the delivery of metal structures to the site which will allow the contractor to begin main construction activities in November.

During the first nine months of 2014, 64 ships were unloaded at the marine berthing facilities as well as 350 barges. Over 20 million cubic meters of soil has been excavated during the 2014 navigational season, and construction works has commenced on the building of the ice barriers. We continue to make progress on “other infrastructure” works like roads, power lines and water supply systems, and presently there are around 7,000 contractors and 1,700 construction vehicles on site. The airport certification process has begun and the first dry runs were made in September. The first certification flight, including landings and take offs will arranged in the coming weeks weather permitting.

A lot of construction activities are presently underway at the Yamal LNG site and much has been completed since we started providing project updates during our conference calls. I believe the work activities highlighted tonight corresponds to the significant levels of project activities noted by the analysts on their recent site visit, and should demonstrate to everyone tonight, that despite the sanctions, work and construction activities are proceeding as planned.

Moving forward to our other projects I would like to highlight some of the notable changes made since our last conference call. Specifically, I believe it is important to note the progress made at the Urengoykoye field to mitigate the damages of the fire in April. Most of the damaged equipment has been replaced and testing on the facility has commenced. We expect the restoration of the de-ethanization facility will be finished and re-launched by the end of November. The second stage production line will be launched right after the facility is put back into operations by year-end; therefore, we should see full production capacity in 2015.

Within the SeverEnergiya joint venture, we launched the third stage of the Samburgskoye field in September as planned, and we are now working on the formal launch of the Yaro-Yakhinskoye field in early 2015. At Yaro-Yakhinskoye, we have now completed 40 production wells, the gas gathering lines, and the installation of equipment at the gas treatment facility. Equipment is currently being installed at the de-ethanization facility.

At Termokarstovoye, drilling of production wells is currently underway and we have completed 19 of the 22 planned wells for the field. We anticipate launching this field in early 2015 rather

than later in the year. We have continued to make good progress at the Yarudeyskoye field, our crude oil project, and we are anticipating a launch of this new field with a production capacity of 3.5 million tons of crude oil to be launch in the second half of 2015.

We have made great strides in meeting our mid-term production strategy as outlined in our last strategy day presentation, and accordingly, we will begin a period of a notable ramp-up in the Company's liquids production and the generation of foreign currency earnings. The next evolution in our longer term strategy is the eventual launch of Yamal LNG and the beginning of design and engineering activities for the expansion of LNG output on the Yamal and Gydan peninsulas. We are confident that we have the financial and technical resources to undertake these large scale LNG projects as well as the participatory interest of international energy partners and the support of the Russian government.

Our organic production volumes for natural gas for the first nine months of 2014 increased y/y by 5.8%, while our combined production figures, including our proportionate share in the production of our joint ventures increased over the corresponding period by 3.9%, representing an offset between the volumes disposed at Sibneftegas in December 2013 and a corresponding increase in gas production at Nortgas and SeverEnergia. The main growth drivers came from the successful launch of the Eastern dome at the Nortgas field in October 2013 as we increased our purchases from this joint venture from 2.1 billion cubic meters (bcm) to 4.6 billion cubic meters and from other third parties, including purchases from SIBUR.

Total natural gas sales for the current reporting period aggregated 14.9 bcm as compared to 14.4 bcm y/y and 15.5 bcm quarter-on-quarter (q/q). Natural gas sales are generally impacted by seasonal factors in the second and third quarters, so the drop in volumes sold q/q is not an unusual trend in our seasonal flows, and accordingly, we increased our injection rates into the underground storage by approximately one (1) bcm, which will be used to support our sales efforts during the peak season in the fourth and first quarters.

Overall, our total volume of natural gas sold increased y/y by 541 million cubic meters ("mmcm"), or roughly 3.8%, largely driven by organic growth at our core fields, an increase in purchases from SIBUR, and the contributions from Nortgas, which was slightly offset by the divestiture of Sibneftegas in December 2013 as well as an increase in our natural gas injection natural gas into underground storage.

The share of end-customers in our total sales mix increased from 90% in the 3Q 2013 to 94% in the current reporting period, which impacts both margins and transport costs. This change in the contributes additional revenues to the Company since the average netback we received for our end-customers was higher by RR 43 per mcm and reversed the negative trend from prior year. The sequential q/q netback differential was lower by RR 27 per mcm but remained positive and reflected the seasonal softening of sales between the respective quarters. Our average netback for natural gas sold to end-customers was consistent with the netbacks received as compared to the third quarter 2013, reflecting no change in the gas tariffs, but was slightly lower, by less than one percent, as compared to the netbacks we received for this category of sales in the second quarter 2014.

We continued to optimize our natural gas sales to specific regions based on contractual obligations and accordingly increased our sales volumes to the Khanty Mansiysk region by roughly one (1) bcm during the current reporting period as compared to the prior year, but more or less remained relatively consistent with deliveries to other core consuming regions. The geographical regions representing greater than 10% of our sales volumes included the Perm, Khanty Mansiysk and Chelyabinsk regions as well as the City of Moscow. Our average

distance to market was approximately 2,200 kilometers, which was relatively consistent with the y/y and q/q, but was slightly lower by 97 kilometers if we consider the first nine months of the year.

In terms of liquids production, we maintained our relative output of liquids from core fields mainly due to the contribution of crude oil production at the East Tarkosalinskoye field as well as other smaller fields; however, the majority of the third quarter's positive year-on-year growth was largely attributable to the increase in the output of liquids from our joint ventures, particularly the contribution made by Nortgas after the successful launch of the Eastern dome in October and the contributions made from SeverEnergiya. Overall, our combined liquids production growth rate was 49.8% y/y and 19.5% q/q.

During the reporting period, we sold roughly 1.7 million tons of liquid hydrocarbons representing a y/y and q/q increase of 344 thousand tons and 10 thousand tons, respectively. The increase in our liquids volumes sold was attributable to a combination of factors, including the growth in output of crude oil from the East Tarkosalinskoye field, an increase in purchases from our joint ventures, namely Nortgas and SeverEnergiya, which was offset by a swing in inventory movements from increasing "goods in transit" in the current reporting periods to a reduction in "goods in transit" y/y and q/q. We increased our "goods in transit" by 196 thousand tons in the current reporting period as compared to a decrease in the prior reporting periods of 65 thousand tons and 85 thousand tons, respectively.

Geographically, we dispatched approximately 1.1 million thousand tons of liquid products in the third quarter 2014, of which 471 thousand tons were shipped to the Asian Pacific Region, 391 thousand tons were shipped to Europe, and 203 thousand tons were shipped to the United States. At quarter end, we had 65 thousand tons of naphtha in transit to Taiwan and Japan versus 151 thousand tons recorded as "goods in transit" in the prior reporting period. The remaining 242 thousand tons were in storage at the Ust-Luga Complex.

Natural gas represented 62% of our total oil and gas revenues and our combined liquids represented the remaining 38% versus 34% in the prior year. We continue to report a growing proportion of our revenue stream from liquids as our production continues to increase with the launching of new, wet gas fields. On a total barrel of oil equivalent ("BOE") basis, our third quarter 2014 production increased by 8.7% to approximately 112 million BOE versus 103 million BOE in the prior reporting period, representing an average total hydrocarbon production per day of approximately 1,220,000 barrels of oil equivalent per day.

We remained focused on our overall cost structure and were pleased that we have done a good job managing our expenses, both operational costs and capital programs, during the quarter. Our overall operating expenses increased during the quarter consistent with the growth of our business. Specifically, our non-controllable expenses comprising transportation and taxes increased by RR 2.8 billion, of which our transportation expenses increased in line with our growth in end-customer sales and our extraction taxes increased in line with volumetric growth in our production.

The new formula based tax calculation became effective the 1 July 2014 as previously reported, and the change in our per unit tax rates for both natural gas and gas condensate production were in line with our expectations. I would like to have a few more quarters of financial results to determine a base or trend in the movement of our per unit taxes for mineral extraction, but generally speaking we had a slight increase in our gas MET rate and a slight decrease in our gas condensate MET rate for the period relative to the rates paid in the second quarter 2014.

There were no material surprises in our General and Administrative and other expense categories to highlight except for the increase in consulting services relating to ongoing works on the Yamla and Gydan peninsulas, and a general reduction in employee compensation due to a reduction in bonus paid to management for the period. Purchases of oil, gas and gas condensate continues to increase in line with the growth in production output from our joint ventures, and represents one of our most important cost categories. We reported higher purchases of gas condensate from our joint ventures mainly due to the launching of the Urengoyskoye field and recent launch of the third stage at Samburgsky, both fields operated by SeverEnergiya.

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 approximately 6.5% as a result of a very strong cash position. We remained free cash flow positive during the third quarter 2014 and ended the quarter with a free cash flow position for the Company of RR 6.6 billion, which was lower than our free cash flow position in the prior year, but during the current reporting period we made a large income tax payment relative to the prior period, thus reducing our cash flows from operations. 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.

I want to highlight another important trend as we have discussed in the past but it is becoming more obvious as we move toward maintenance capital in our core fields. Our Yurkharovskoye field was predominately the major capital program over the past several years, as well as the funding toward constructing our Ust-Luga Complex or expanding our Purovsky Plat. We have significantly reduced the amount of capital to the Yurkharovskoye field and shifted more capital to new growth projects such as the crude oil development at the Yarudeyskiy and the North Khancheyskiy license areas. We will continue to see a gradual shift in our capital expenditure program over the next several years to new growth areas like the Yamal and Gydan peninsulas, but I believe it is safe to say that our core fields are now primarily in maintenance capital mode.

Another important point I want to mention is the increasing EBITDA contribution from our joint ventures. Recently, we began disclosing separately the EBITDA from our joint ventures and our proportionate share of this amount. We expect this trend to continue and our joint ventures will represent a larger proportion of our future cash flows, earnings and dividend contributions, and the inclusion of this information provides additional information and improved financial transparency.

## **CONCLUSION**

To conclude tonight's call, I would like to reiterate that the OFAC sectoral sanctions have not delayed the work activities at the Yamal LNG project but has obviously affected the financing element. We will continue to provide periodic updates on this situation but we believe we will have credible financing structure in place sometime during the latter part of the first half of 2015, and in the meantime, all of the core partners are committed to funding the capital program based on the approved budget plans. We see no major reason for delays as a majority of the equipment is being delivered to the site at an expedited pace, and everyone is still working toward a committed timetable for launching the first train in 2017.

We are cognizant of the difficult and evolving geopolitical situation but as I already mentioned we have not seen an escalation of tensions in the Ukrainian situation and we are hopeful for more fruitful dialogue amongst all of the parties involved in the discussion. We will continue to maintain our course on all capital projects and deliver the sustainable growth as outlined in our mid-term strategy, of which the results are already obvious.

The financial and operational results we achieved in the current reporting period demonstrate our commitment to sound corporate governance and financial transparency despite the unwelcomed noise in the capital markets. We are confident in our ability to generate sufficient cash flows from our existing asset base although the weakening of the commodity markets will have to be factored in our future expectations if we are operating in a sustained period of a lower band of benchmark crude oil prices.

Thank you very much for your continued support of the NOVATEK investment case and your confidence in our Senior Managements' ability to navigate this turbulent period we presently face.

Now we're ready for questions and answers.

## **QUESTIONS AND ANSWERS**

### **Operator:**

Thank you. If you would like to ask a question at this time please press \*1 on your telephone keypad. Please ensure the mute function on your phone is switched off to allow the signal to reach our system. Again please press \*1 to ask your question. We will now take our first question from Maxim Moshkov from UBS. Please go ahead, your line is open.

### **Maxim Moshkov:**

Hello Mark, thank you very much for the presentation. I have a quick question if I may. First on SeverEnergiya production plans for next year. The second question about the capex outlook for 2015 for Yamal LNG and NOVATEK's share in the approved capex plan for this project? The third question is about extraction tax - what were the effective rates for gas condensate and gas in the third quarter? Thank you.

### **Mark Gyetvay:**

Unfortunately on the first two questions I appreciate you asking but it's a little early to provide that data as we're in the process starting in November for the upcoming planning season and approval of budgets, so I think on that point we'll ask you to wait a little bit towards the latter part of December when we generally give this information to the market, but right now budgets are being prepared for the upcoming season both for NOVATEK and the joint ventures including Yamal LNG, so I appreciate if you would hold off on that for a little bit more time. As for the MET rate as I mentioned it was slightly lower on a weighted average base, i.e. natural gas was slightly higher on a weighted average base for the group compared with RUB 471 per mcm in the second quarter and on the condensate side it was slightly lower in the low to mid-500 range, but I guess that I'd prefer to wait a couple of quarters and make sure that trend stabilises and we'll get back to you with that at a later date.

### **Maxim Moshkov:**

Thank you very much.

### **Mark Gyetvay:**

You're welcome.



**Operator:**

Thank you. We will now take our next question from Artem Konchin from Otkritie. Please go ahead, your line is open.

**Artem Konchin:**

Yes, hello. Good evening. Thank you for the presentation and the disclosure of EBITDA for your equity subsidiaries is a welcome addition of course. My question relates to your purchases of gas from third parties. I'm trying to use your disclosure on relationships with Sibur, the price you're paying there, and for the last quarter it looked to me like there was some increase if I'm calculating this right in terms of the prices that they are charging you, so I was wondering if you could comment on that to help us to project this cost line a bit more precisely. Thank you.

**Mark Gyetvay:**

It doesn't appear to change dramatically. What we end up doing, we purchase from a set amount of companies - it was Sibneftegas (that's no longer there), Norgas, Sibur and other parties. Our average price we paid relative to last year, year on year is up about 10%, which I think reflects the fact that we're no longer purchasing from Sibneftegas, so the combination of gas purchased from the other joint ventures are slightly higher. The quarter on quarter differential is just about 1% so I'm not sure what the major concern is. And I believe if you look at Sibur specifically it's about the same, it's roughly about 1% difference quarter on quarter in the purchase price, so I don't think it's a question of being alarmed. We don't provide that level of granularity in the details of our purchases. We do it on a weighted average base and like I said quarter on quarter it's about 1% increase so I don't think it's too alarming.

**Artem Konchin:**

I guess it's my numbers, I'm just simply using the line you have on your related parties disclosure in terms of what your purchases were there and then the volume that you provide in the disclosure, so it's either a timing issue or perhaps I'm not seeing the right numbers basically.

**Mark Gyetvay:**

Send a question offline, we'll see where you're making a mistake or missing. I can see from the numbers I have on my Sibur schedules, there isn't really any major difference between quarter on quarter and the purchase that we do with Sibur.

**Artem Konchin:**

Ok, then it must be the timing of the disclosure. I also wanted to ask you about your plans for participating in gas trading on the Saint Petersburg exchange. Whether you see this as an opportunity or a liability? Do you have any kind of volumes allocated to that perhaps for next year and so on, if you could comment on that? Thank you.

**Mark Gyetvay:**

No problem. We welcome the launch of the independent trading venue as we see it as an important step in the further liberalisation of the Russian gas market. In the long term we expect the gas exchange to provide a fair spot price for natural gas. As everybody can appreciate we are at the very, very early stages of establishing this mechanism so it's kind of premature to make

any conclusions and/or expect what influence it will have on the domestic market and the prices. It's also difficult to make any predictions at this particular point what the level of volumes will be traded, but one thing I'm certain of - we will be a market participant and we will make all efforts as we can do to help support this new market mechanism. As it stands right now the government has basically set some indicative volume to the trading platform, roughly about 17 billion cubic metres for Gazprom, but overall no more than the volumes sold by independents. So we kind of have an order of magnitude of what we believe will be trading on this exchange. Given the new start-up, we don't believe that such volumes can be achieved as early as 2015 but of course we will be an active participant in this exchange and as I mentioned we fully welcome the government's approach to more a more liberalised market and a creation of a spot market trading mechanism in Russia. That's really about all I can tell you at this juncture.

**Artem Konchin:**

Thank you.

**Mark Gyetvay:**

You're welcome.

**Operator:**

Thank you. We will now take our next question from Alexander Kornilov from Alfa Bank. Please go ahead, your line is open.

**Alexander Kornilov:**

Good evening gentlemen, thank you very much for the presentation. I have only one question. I'm just looking at your capital expenditure as a breakdown and I have noticed that the capex for the Yurkharovskoye field dropped dramatically up to RUB 240 million. You have mentioned that this is just a reflection of the fact that you are readily moving towards the maintenance at the existing fields. So should we consider that quarterly spending amount of 240 as a kind of sustainable level for the Yurkharovskoye field or are you expecting higher numbers? Could you please comment on that? Thank you.

**Mark Gyetvay:**

I think it's safe to say that we are moving closer and closer to the maintenance mode on all these fields. To say that Yurkharovskoye is stabilized at this point and juncture, again I think it's a little premature but you should see again a notable decrease in the level of capital being applied to that. We are doing some test wells up there on some of the crude oil zones and so if we're successful in monetising that, which I believe the early indications look like - the test results were positive, but the extent of the programme is being formulated. I think it's safe to say that you will see a precipitous drop in the amount of capital spent at the Yurkharovskoye field, but to use these numbers, at this juncture as the maintenance capital I think it's a little too premature. I think it's better to look at when we see how we bring out the oil development program etc at that field to look at what is being spent at the Yurkharovskoye field. Secondly I just want to add a point too, is that when we talked about the Yurkharovskoye field we might also have questions about expenditures in the Greater Yurkharovskoye licence area and if that starts picking up to a large extent, we will separate that out from the field's and the licence area so that you get some clarity in what the maintenance capital mode would be for the field. But I think it would be a little premature to use the numbers that you see in nine months as an indication yet of what the

maintenance capital. I believe the nine month numbers so far will be actually higher than the maintenance capital mode that we expect for this particular field. But let's give it a little more time.

**Alexander Kornilov:**

Ok, fair enough. Thank you.

**Operator:**

Thank you. We will now take our next question from Alexander Nazarov from Gazprombank. Please go ahead, your line is open.

**Alexander Nazarov:**

Thank you. Good evening and thank you for the opportunity to ask questions. I have two questions please. First of all it's about Total. We all also regret that Christophe de Margerie passed away too early of course and he was a good friend not only for Novatek, but also for the whole Russian oil and gas industry and Russia as well, nevertheless we already saw a conference call without him and new management at Total. I want to ask: did you contact them before? Did you contact them just for example this week? Have you discussed strategy about Total being in NOVATEK and being a shareholder in Yamal LNG? Do you expect any changes or they reconfirmed the Total strategy regarding Russia as a whole and NOVATEK and Yamal LNG? The second question is regarding the article in the Kommersant newspaper this week about the Sabetta sea port possible problems with taking the audit of the project. As well as other analysts I was there back in September and I saw the cargo sea port at Sabetta operated fully and I do not really understand their concerns. Could you please give your view on this situation, if this issue is a real issue or is it just let's say overestimating by journalists of this fact? Thank you.

**Mark Gyetvay:**

Okay. On the first question let me just remind everybody that the discussions with Total actually began in 2003 pre-IPO and at that time Christophe was part of the management structure within Total but the CEO was Desmarais and so we had a lot of ongoing dialogue over the years with different sections of Total management in terms of their participation, whether it was Termokarstovoye which is the Terneftegaz joint venture and actually most of the new management that's in place today including the CEO actually participated in the discussions on the Terneftegaz joint venture because as you recall when we did not receive formal approval on the initial investment and NOVATEK management and shareholders decided to do the IPO, we kept contact with Total and their first foray into a project with NOVATEK was the Terneftegaz joint venture. So we're very well aware of the new management structure. They have confirmed to us already and actually there's other meetings coming up over the next couple of weeks not only with us, I think there's an ongoing roadshow that Total plans to take to discuss the change in management structure but we're very well aware of the management. They are very well aware of the company and the investment and the importance of NOVATEK as an investment for Total, so I think things will be relatively status quo continuing on with all the investments. Mr. Mikhelson attended the funeral services for Christophe de Margerie on Monday and he also had a chance to meet up with some of the senior Total management and although it wasn't really the time and place for that particular discussion, they did have a chance to have a brief discussion on basically again reiterating their complete support following along the path that de Margerie outlined with the investment in NOVATEK, so I think things will remain as it is and we welcome the continual working with Total management.

The second point on the sea port, God knows where that came out of, that information has come from. Our position on that is that the Kommersant article as written is basically not wholly correct, as a government order on the amendments to the Federal Special Purpose programme has already been issued and all necessary agreements are being currently signed. The schedule of the construction has been approved by Rosmoport which is actually as you saw personally all the work activity such as dredging etc has already been underway. So as I alluded in my prepared text, 64 ships and 350 barges have already landed on the site, so I think it's...unfortunately I think everybody is jumping on the Russian bashing mode these days in the press and I don't give much credence or credibility to that article.

**Alexander Nazarov:**

Ok, thank you very much. I appreciate the answers.

**Mark Gyetvay:**

You're welcome.

**Operator:**

Thank you. We will now take our next question from Alexander Rozhetskin from UniCredit. Please go ahead, your line is open.

**Alexander Rozhetskin:**

Good evening and thank you very much for your presentation. Just two questions from my side, first a follow-up on capex. If you could provide guidance for this year, what do you expect the capex of Novatek to be? The second question is regarding the obligation for the government support that you've made. If you could shed some light as to when do you expect to receive the support, the amount of the potential support and if possible any light on the structure? Thank you.

**Mark Gyetvay:**

In terms of your first question regarding capex, as I mentioned before...I think so far for the first nine months we spent about RUB 46 billion in capex. I think the overall plan was consistent with 2013 at about RUB 60 billion, so we're kind of probably trending slightly less but I think at this juncture right now I think it's basically safe to say that we will stick with that number.

On the second question in terms of the National Wealth Fund, as you can appreciate we applied for about RUB 150 billion, roughly about \$3.8 billion loan and we currently have passed all the so-called strategic approval process and now are just basically undergoing some of the technical feasibility approval. I think we'll expect the funds to be brought against bonds, Yamal bonds and we're relatively optimistic that this structure will be finalised in the near future as the government essentially as I mentioned in the text portion supports the position as a strategic project as well as we've had various ongoing discussions with the three ministries that are basically responsible for overseeing this particular project and this fund. So it's roughly about RUB 150 billion and I think we're just waiting for some more of the mechanisms to get done but I think in the near future when this thing is completed we'll issue a press release etc accordingly

showing the structure, the amount and everything else. But right now it's still being reviewed and discussed.

**Alexander Rozhetskin:**

Ok, thank you. Just as a follow-up, if you can shed some light into it as well. The support, will it be provided for specific projects or you will be able to use the proceeds for what you decide?

**Mark Gyetvay:**

First of all let me make it clear to everybody, we have enough cash flow generation to fund all of our current operations as well as service our debt and pay our obligations. So from the core perspective we do not need any cash and we will not be going to the capital markets for the next 12 months or so considering the current situation. This specific request is specifically earmarked for the Yamal LNG project. That's why the government has classified or considered this project to be a strategic project and the funds that will be utilised via the Welfare National Fund will be coming specifically for the Yamal LNG project.

**Alexander Rozhetskin:**

Thank you.

**Operator:**

Thank you. We will now take a follow-up question from Maxim Moshkov from UBS. Please go ahead, your line is open.

**Maxim Moshkov:**

Thank you. I have one question on the strategy update. As we've seen the strategy has been changed since 2010 and the company is starting to focus on the liquids which is indeed quite a profitable business compared to the gas sales and also given the depreciating ruble relative to the US dollar. So your view, when we should be expecting the strategy update at the earliest? Thanks.

**Mark Gyetvay:**

I think it's important to first state that the company has not deviated dramatically from the strategy presentation that we did in December 2011 in London. That strategy more or less outlined all the mid-term, mid-range projects that we are executing as we speak including the building of the Ust-Luga complex and the eventual expansion of Purovsky from 5 million tonnes to 11. So we are pretty much operating according to those sort of principles and following the strategy that we outlined in 2011. We have been in a process of updating the strategy to take this forward to the next series of developing activities, more or less like the next mid-term and the longer term, which obviously the next mid-term will accomplish the launch of the Yamal LNG as well as the longer term we'll look at the development of the new Arctic 1, 2 and 3 LNG projects that are currently being discussed as we speak. So that needs to be formalised and put into a comprehensive strategy presentation. Unfortunately as you can appreciate the sanctions have sort of taken an inordinate amount of management time away from focusing on updating our strategy and the idea was to try to get it done before the end of this year but it's unlikely to be. So I think it's safe to say that it will be some time in 2015 which will complete the mid-term range as well as provide you with more updates on Yamal LNG and what we plan to do with

that, but I think it's more important that we start looking and moving forward to what are the other potential LNG expansion projects that we're looking at and utilising the resource bases of Utrenneye, Geophysical and other fields in that general vicinity to support the growth of NOVATEK's business as well as the growth of LNG coming out of Russia. So I think that will be really the next evolution of our corporate strategy and hopefully we'll get to that some time in 2015. From your perspective the earlier the better but I think it's important right now that we provide you the updates on a regular basis of the Yamal LNG, but it's also important to understand and to demonstrate to the market that we have achieved the strategy that we outlined up to 2015 with the launches of all this new liquids business. So that was the heart of the mid-term strategy as I said outlined in 2011. So hopefully some time in 2015 we'll be able to give you an update.

**Maxim Moshkov:**

Great, thanks.

**Operator:**

Thank you. As a reminder to ask a question press \*1 on your telephone keypad. We will now take our next question from Andrey Gromadin from JP Morgan. Please go ahead, your line is open.

**Andrey Gromadin:**

Yes, good afternoon. I have a small follow-up on Yamal LNG financials. You mentioned that the partners committed to finance the project with these loans until...I think I understood correctly until the middle of next year and you expect finalising some kind of project financing in the latter part of the first half 2015, so this RUB 150 billion from the Russian government, is it a kind of backup plan? Maybe you expect to agree on project financing later maybe in the end of 2015 because this RUB 150 billion looks like 6-9 month financing for the project? Thank you.

**Mark Gyetvay:**

I don't know if I would look at it from that perspective. I think right now it's probably better to categorise the finance and structure as external financing as opposed to just project financing. The reason I say that is because obviously we are still considering what the impact of the drop-offs on the export credit agencies will be and whether or not we will receive any funds from some of the ones that remain in the dialogue. So I think it's better to categorise it more as just external financing which will encompass a wider range of financing structure including the National Wealth Fund. I think what I want to say is, what is important, is that as we speak today the shareholders are committed to continue with this project and that is pretty evident by the financing already put to date. The shareholders have all confirmed in this period of uncertainty they will continue to finance the remainder of this project to the point of the budgets that are approved. Then subsequently we look as hopefully finalising the remainder of this sort of external financing package, whether it's a combination of Russian government, Chinese government, Chinese financial banks, national wealth funds as well as maybe some participation from some of the ECAs and Russian banks and that whole package we hopefully have done by the latter part of the first half of 2015. That's where the discussions are going right now is my understanding. Unfortunately as you can appreciate I am no longer directly involved in any of the discussions so what has been reported back to me from these meetings is essentially that that's the direction we're headed and that's more or less the timeframe. Now does it mean that we look at an optimistic, we look at a base case and we look at a pessimistic case in terms of

financing and what I think is important also to take away from this call tonight is that as you can appreciate, when we went out and looked at the financing structure of this pre July 16th sanctions, the goal of the group was to look at a 70% project financing and then 30% equity financing. It's probably safe to say today that the external financing package will be somewhere between the 60s to 70 range. That's what we're working on. The term sheets and all that are well in advance stages. We had to change out the legal groups, we had to change some of the parties involved in the process and so there's some catching up to do but I think we're pretty much at that point where there's full discussions going on as we speak and that is a target which we plan to seek in terms of closing the financing package. Until it's done I won't be able to give you any definitive answer into what the whole composition of the financing structure looks like, but right now those are the specific component parts and those discussions are going on on a regular basis. My team is basically flying back and forth between Europe and Asia on a regular basis. Mr. Mikhelson has had to step into my place to start talking to some of these senior people at the banks etc because of the sanctions, but this is what I'm getting fed back in my discussions, that things are proceeding as planned although the package will look different than we originally estimated. So that's pretty much all I can say at this particular juncture.

**Andrey Gromadin:**

Thanks a lot. Just again a small question: what kind of capex is already invested? What kind of money is already invested in the project? What's already in it year to date?

**Mark Gyetvay:**

The shareholders I've mentioned invested up to so far it's about \$6.9 billion.

**Andrey Gromadin:**

Thank you.

**Operator:**

Thank you. There are no further questions at this time so I will hand the call back to the speakers for any additional or closing remarks.

**Mark Gyetvay:**

Again thank you very much for attending tonight's call and we look forward to engaging you on a regular basis as is customary practice at NOVATEK, so again thank you for your support and we look forward to hearing your comments in the near future.

**Operator:**

Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.