PAO NOVATEK
Full Year and Fourth Quarter 2017
Financial and Operational Results – Earnings Conference Call
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Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Full Year and Fourth Quarter 2017 earnings conference call. I would like to thank everyone for joining us this evening.

Mr. Leonid Mikhelson, Chairman of the Management Board and a member of NOVATEK's Board of Directors will join me during the Q&A session, and at such time, we will revert to the dual languages of Russian and English, so please bear this in mind when asking questions for the convenience and respect of other investors. We have allotted sufficient time to address all of your questions.

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 2016, 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.

CONFERENCE CALL TEXT

Two thousand and seventeen was quite a year for the company. We essentially laid the foundation for our transition into a global gas company and made some timely acquisitions to stabilize natural production declines in our mature asset base.

The benchmark commodity prices also strengthened throughout the past year, supported by the confidence in the Russian-Saudi Arabia led OPEC production cuts and an improving marco-economic environment in both developed and developing economies.

Our financial results over the past year reflect the overall improvements in the oil and gas markets, but were somewhat overshadowed throughout the year with the production declines in natural gas and liquids from our mature fields. Throughout the past year we indicated that we have taken concrete steps to decelerate the production declines, and we believe we have achieved this objective threefold: (1) increased exploration activities, (2) successful testing of the lower Achimov and Jurassic producing zones, and (3) a series of timely and value accretive acquisitions of fields in close proximity to our existing producing fields and infrastructure.

Our operating model is resilient to sustain operating cash flows under various stress scenarios and, in 2017, we benefited from our continued focus on cost control and project execution. These unique features have served us well in the past and will continue to be a hallmark of our success in the future.

Speaking of the future, on the 12th December, we delivered our long-awaited Corporate Strategy that outlined in detail our new strategy up to the year 2030. NOVATEK is strategically poised to capture an increasing share of the global LNG markets with our new focus on delivering low-cost, competitively priced LNG to key consuming regions. Underlying our long-term strategy is the use of technology and innovation to unlock our prolific hydrocarbon resource base in the Yamal and Gydan peninsulas, as well as constructing ancillary facilities like the LNG construction center and the Kamchatka transshipment terminal to support our global ambitions. It's quite clear to us that we hold a unique opportunity to establish a credible position in the LNG global markets by executing our long-term strategy, as well as combining our efforts in this area with our focus on maintaining our market position within the Russian domestic gas market. Our low-cost position together with a massive untapped resource base creates scalable and sustainable value creation opportunities for our shareholders, both internationally and domestically.

What transpired during 2017 in the global LNG markets is supportive of our future ambitions. Market analysts were fixated on a global LNG glut that never fully materialized, and the demand situation was much stronger to support prices throughout the year. Our corporate strategy analyzed various markets scenarios to determine upcoming trends impacting the global gas markets as well as the support for the increase use of natural gas in the future energy mix. We strongly believe that by the end of this decade future demand forecasts will be increased to reflect a more realistic assessment of the global gas markets as well as the increasing role of LNG to meet future demand. The general market forecasts the growth of LNG by approximately 70% by 2030; however, we believe this number to be a conservative estimate that will be revised upward. Natural gas is not a transition fuel as most claim, but instead a primary fuel. As a clean burning source of energy, natural gas is positioned to achieve a preeminent role in combating carbon emissions and will represent the largest growing segment of fossil fuels in power generation, industrial consumption and marine transport.

Our corporate strategy addressed the three main questions of energy affordability, energy security and energy sustainability by introducing a new column – scalable LNG projects – to our value creating business model. With the evolving energy markets transitioning towards cleaner burning fuels to meet the challenges of climate change, we are aptly positioned to capitalize on these trends, thus strengthening our foundation, our uniqueness and our investment story. Natural gas will play a leading role in the future energy mix in 2030 and beyond, and our new corporate strategy transforms NOVATEK into a global gas and LNG power. We are excited about our prospects.

We achieved a fair amount of operational success in 2017 by effectively confirming the producing viability of the lower Achimov and Jurassic production layers and refocusing our efforts on fundamental exploration activities. Our exploration spending program is expected to be increased by five-fold in 2018 to reflect our renewed focus. Moreover, we managed to solidify our asset base by strategically acquiring licenses in the Yamal and Gydan peninsulas to support our future LNG plans, as well as acquire producing assets through M&A activities primarily in the latter part of the year. The combination of these activities establishes a firm base for future development activities and transitions NOVATEK towards the next wave of production growth. We stated many times in 2017 that we were not ex-growth but instead transitioning to sustainable production to support our processing facilities post Yamal LNG capital investments. The upcoming year in 2018 will continue this transition period until a convergence of activities and new field launches emerge in 2019 and beyond. We are on the cusp of some really exciting development opportunities ahead of us and it all begins with our low-cost resource base.

In 2017, we increased our SEC reserve base by roughly 13% year-on-year (y/y) to 15.1 billion barrels of oil equivalent (BOE), and increased our reserve-to-production life to 29 years based on current year production. We achieved an organic reserve replacement rate of 134%, excluding new license acquisitions, largely due to successful exploratory works and development drilling under the SEC reserve case. With license acquisitions our reserve replace rate for 2017 was 435%. Under the broader PRMS reserve classification scheme, our proved plus probable reserves, or P2, totaled 28.5 billion BOE, representing a reserve-to-production life of 55 years.

Our hydrocarbon resource base was significantly expanded over the past year to support our future development projects. Our key task moving forward is to unlock these resources by efficiently monetizing our reserves through implementing value accretive projects. Our strategy outlined a series of new projects (both for LNG and within the reach of the Unified Gas Supply System), whereby we plan to increase our natural gas and liquids output to support our longer term goals and objectives. The migration of resources is largely a function of capital spent to explore and develop our fields and license areas, and our strategic objective is to actively study the Yamal and Gydan peninsulas geological potential for implementing future LNG projects.

We won't repeat much of the details on tonight's conference call relating to specifics outlined in our corporate strategy, but LNG plays a significant role in NOVATEK's future development plans. We delivered the first train at Yamal LNG on time as promised. Now, we move forward. We are squarely focused on bringing the remaining project to its completion according to our new timelines. The first LNG tanker shipment using the Arc7 ice-class tanker "Christophe de Margerie" represents an extraordinary technical accomplishment for the project, the Company and our partners. It took us approximately 52 months to commission the first LNG train and ship the first cargo of LNG. This milestone event launches a new era for LNG production in the Arctic zone of Russia, and essentially changes the balance of LNG trade patterns flowing west to the European markets and East along the Northern Sea Route to the important Asian Pacific region.

Since the initial launch on 8th December we have shipped 12 cargos of LNG and three (3) cargos of stable gas condensate to international markets. We have ramped up LNG train #1 faster than originally planned and are currently operating at roughly 90% throughput on an annualized basis. Presently, we are optimizing the technical characteristics of the LNG train through the ramp-up process, and, in some cases, we have achieved hourly and daily productivity above the nameplate capacity.

We also made strong progress at other areas of the Yamal LNG project. As of 31 January 2018, we are approximately 92% complete on the entire project versus 89% at the end of the third quarter 2017. One hundred and forty (140) out of the total 142 modules have already been installed on site. LNG storage tanks #'s 1, 2 and 3 are already placed into operations, and the fourth tank is ready for cool-down approximately six months ahead of schedule. All three 50,000 m3 gas condensate tanks are in operation.

We remain committed to the revised timelines on the launches of LNG trains #2 and #3 as outlined in our recent strategy presentation, and any further revision to the new timelines will be communicated promptly as is our normal practice.

We actively drilled production wells at the South Tambeyskoye field throughout 2017 and have now completed 107 productions wells, far exceeding the number of wells required for Train #1 and #2 at 58 wells and 35 wells, respectively.

This was the fourth season of successfully operating the Sabetta seaport in the Arctic, and, as of today, approximately 17 million tons of equipment and construction materials have been delivered since 2013. All six cargo berths are currently operational.

During 2017, we acquired a series of new license areas on the Yamal and Gydan peninsulas, ultimately forming the resource base underlying future LNG projects. We will significantly increase our exploration budget five-fold in the upcoming year to properly access the resource potential of this strategically important region. The hydrocarbon rich Yamal and Gydan peninsulas represent NOVATEK's future growth area in the next decade and beyond, and it is important that we properly study options to monetize these assets.

In 2017, we completed the running and processing of 1,465 square kilometers of three-dimensional (3D) seismic, representing a 48% increase over 2016. We also drilled approximately 25 thousand meters of exploration drilling, representing a 140% increase over prior year. As a result, we discovered 26 new natural gas, gas condensate and crude oil deposits. Specifically, we discovered 19 new gas condensate deposits and one crude oil deposit at the Utrenneye field, one gas condensate deposit at the West-Yurkharovskoye field with the completion of well #135 and three (3) Valanginian gas condensate deposits, one Jurassic gas deposit and one crude oil deposit at the Kharbeyskoye field with the completion of wells numbers 305, 306 and 307.

Over the past year we concluded a number of Memorandum of Understandings, or MOU's, with various public and State entities to further our development initiatives on future LNG projects. The successful launch of Yamal LNG and the demonstration of the effectiveness of using the Northern Sea route clearly facilitate these discussions and increase the interest of parties seeking to work with us on future LNG projects. Additionally, it's becoming more evident that LNG demand is increasing faster than market forecasts, and the so-called "LNG glut" is dwindling rapidly with the lack of new projects coming on stream. We had indicated on several occasions that our market view has been counter to the prevailing market sentiment, and that we believe global LNG demand will be revised upwards to reflect more realistic demand forecasts.

Another important factor driving partner interest is the lack of high quality LNG projects globally that offer scalability and substantial low-cost, conventional resources to feed the LNG plant. We offer a unique opportunity to participate in LNG projects that meet these important criteria, as well as the optionality of transporting LNG both East and West.

One of the key objectives outlined in our recent corporate strategy is the concrete steps we will undertake to reduce the overall cost of liquefaction by at least 30% to make our LNG cost competitive in any geographical zone of interest. One of these steps entails creating the LNG construction center in the Murmansk region to fabricate and install the gravity based platforms. This new initiative was facilitated through the signing of a MOU with the Ministry of Industry and Trade and the Murmansk Regional Government to create this construction center. Construction of the facility is already underway with excavation and rock blasting work being performed. We formally renamed the Kola Yard project to NOVATEK-Murmansk as a wholly owned subsidiary in line with our corporate naming convention.

We also signed a Strategic Cooperation Agreement in November 2017 with CNPC on cooperating to implement the Arctic 2 LNG project as well as collaborating in different areas of LNG and natural gas marketing, including LNG trading and gas infrastructure development. We also signed a MOU with the China Development Bank on cooperating to implement the Arctic LNG 2 project, as well as other NOVATEK projects.

This week we signed a MOU with Saudi Aramco to collaborate internationally on natural gas projects, including LNG supplies, LNG market development, gas exploration and developments projects, as well as research and development. These MOU's as well as the one's signed in the prior year are reflective of a changing global gas order.

Arctic LNG 2 is presently in the FEED stage and significant progress has already made in this area. We expect this work to be completed in 2018. At the strategy day presentation we mentioned that we are in the process of working with NovaEngineering LNG to value engineer the GBS concept to maximize output and reduce liquefaction costs. There are crucial steps to be performed that precede our wishes to negotiate an equity sale in the project, but clearly we will maintain ongoing negotiations with potential partners. The completion of the FEED would make these negotiations more comfortable for us and potential partners.

Initially, at the Pre-FEED stage, we considered a capacity of 6.1 million tons per annum (mtpa) per LNG train as the appropriate size for the gravity based structures. Subsequently, due to an increase in the reserve base at the Utrenneye field, we determined that an increase in the LNG capacity was warranted. The FEED contractors together with our internal engineers performed a series of optimization tests and determined that we could increase the LNG train capacity by utilizing turbines of higher capacity, as well as some design modifications to the liquefaction modules parameters we could increase the liquefaction capacity per train.

As a result, we recently announced that the GBS liquefaction capacity will be raised from 6.1 million tons per annum (mtpa) to 6.6 mtpa; thus increasing the total project capacity to over 19 million tons per year.

This announcement is one of the outputs of this value engineering review process, so our continuing efforts are crucial to achieving our stated cost reduction goals. The remainder of the year will be quite active with potential partner discussions and the completion of the FEED as well as ongoing development activities at the Utrenneye field. Obviously, we will keep the market informed of any important developments.

Another important area is the optimization of the LNG transport logistics and the utilization of lower cost tankers to ultimately deliver LNG to the Asian markets. The idea of the Kamchatka transshipment facility was introduced on our strategy day whereby Arc7 ice-class tankers would transport LNG from the Yamal and Gydan projects to a transshipment terminal located at Kamchatka. At this point conventional tankers would reload LNG from the host storage ship and transport LNG to the ultimate destination; thus, lowering transport costs and establishing a new FOB point for LNG trading purposes.

There are many practical reasons why this project makes commercial and economic sense, and the reception to this conceptual idea has been well received by potential partners. It is estimated that capital costs would range about RR 90 billion, with a relatively quick payback period for the project sponsors, but it is more prudent to wait for the final costs estimates based on the final design of the terminal facility, natural gas pipeline to local town and any other ancillary processing units that might be required to handle the boil-off gas. The Kamchatka transshipment terminal will become another revenue-generating tollgate for NOVATEK, allowing us to increase cash flows, reduce logistical costs and maximize LNG margins from commercial trading activities. We also preliminary estimate that the local gas sales will cover the majority of the facilities operating expenses.

Our prolific hydrocarbon resource base located on the Yamal and Gydan peninsulas, the successful implementation of the Yamal LNG project and our experience in navigating the Northern Sea Route creates a great platform for developing mutually beneficial cooperation on future LNG projects. We will work diligently, yet prudently, to maximize economic value for NOVATEK and our shareholders.

Yesterday, we formally concluded the acquisition of the Alrosa gas assets through the auction process for a purchase price of RR 30.3 billion, which was consistent with our internal assessment of the acquired assets and in line with market based multiples. Geotransgas is the holder of the Beregovoye field which produced approximately 1.6 billion cubic meters of natural gas and around 170 thousand tons of gas condensate. We will immediately incorporate this production output into our gas marketing efforts and process the gas condensate through our Purovsky and Ust-Luga facilities. The Beregovoye field will have an immediate impact on cash flows. The other asset acquired – Urengoy Gas Company – comprises two green-field projects which we will outline a comprehensive development plan. We anticipate that initial production from these two fields will commence around early 2020 producing about 2 bcm of natural gas and roughly 300 thousand tons of gas condensate.

Our recent series of acquisitions support our plan to balance new green-field developments, like the North Russkoye cluster and deeper layer horizons with complimentary acquisitions in close proximity to our core asset base, and we will believe we have achieved this objective. More importantly, we will quickly monetize these assets into our production streams to decelerate legacy production declines. The results of our deceleration efforts have already been noted in natural gas production year-to-date.

We outlined in relative detail our plans to monetize our resource base within reach of the Unified Gas Supply System on our corporate strategy day. We have begun the process of decelerating declines in our legacy natural gas production through development drilling, the launch of Yamal LNG and our recent acquisitions. We also stressed quite strongly that we believe our liquids production will stabilize during 2018 and that our primary objective was to ensure that we produced enough unstable gas condensate to fully load our processing facilities at Purovsky and Ust-Luga. We will also achieve this objective. Furthermore, our capital plans call for increasing the processing depth at Ust-Luga by constructing a one million ton per annum hydrocracker to maximize the margins on our product sales. This construction work has already commenced.

We spent approximately RR 48 billion on total capital costs in 2017, comprised of RR 30 billion for exploration and production projects, RR 10 billion on acquisitions of mineral licenses, and RR 8 billion on right-of-use assets, mainly leased tankers. In terms of exploration and production activities, our capital expenditure remained relatively flat y/y but we had a significant increase in the funds spent on the Arctic LNG 2 project in the fourth quarter relative to the third quarter 2017. In the fourth quarter we spent approximately RR 10.4 billion versus RR 6.9 billion, representing a quarter-on-quarter (q/q) increase of approximately 50%.

A significant proportion of our capital program in 2017 representing approximately RR12 billion was spent on the Arctic LNG 2 activities and the construction costs relating to the future LNG center. We also spent capital on the oil program at the East Tarkosalenskoye and Yarudeyskoye fields, drilling at the North Russkoye cluster, and the commencement of work activities at the North Obskiy license area to name a few of the major projects.

In 2018, we have budgeted approximately RR 90 billion and as of today we are maintaining this annual capital expenditure guidance.

The overall financial and operational results in the fourth quarter 2017 were reasonably strong considering the seasonality impact of our business and the stronger commodity prices underlying our liquid sales. We believe this was reasonably understood by the market. Absent any major surprises, which there were none, the quarter materialized as we expected

Our total oil and gas revenues in the fourth quarter (4Q) 2017 were relative strong against both the y/y and quarter-on-quarter (q/q) comparatives. We increased our oil and gas revenues y/y by 17% and q/q by 29% largely driven by seasonal increases in our natural gas sales volumes as well as increase in average prices for the majority of our liquids products consistent with the positive movements in benchmark reference prices and stronger volumes.

Our liquid revenues accounted for 57% of our total revenues versus 54% in 2016.

We sold approximately 65.0 billion cubic meters (bcm) of natural gas versus 64.7 bcm in 2016, so the yearly volumes were relatively consistent in both reporting periods. Despite some relative changes in our customer base we slightly increased both natural gas sales volumes and netbacks, reiterating our ability to market natural gas and generate sustainable margins. Weather played a minor role in our natural gas sales volumes in the fourth quarter as warmer winter temperatures across Russia constrained volumes sold and resulted in minor inventory injections. Our fourth quarter total natural gas volumes were seasonally strong increasing by almost 30% q/q, and to meet our customer demand we withdrew 386 million cubic meter, or mmcm, from underground gas storage facilities on the back of this strong seasonal demand.

Winter weather has been much more supportive in the first quarter of 2018.

We commenced the sales of LNG from our Yamal LNG in December, which are included in our total natural gas volumes sold. During the ramp-up phase the shareholders were allowed to sell LNG volumes on the spot market in relations to their respective shareholdings. Three (3) LNG cargos were dispatched from the Sabetta sea port in 2017. We sold approximately 106 million cubic meters (mmcm) of natural gas from this project by year-end.

As of today, we have dispatched 12 spot cargos of LNG from Yamal LNG, with the Christophe de Margerie leaving the port of Sabetta today. Effective April 2018, the partners will begin selling contractual volumes of LNG according to executed contracts. We will again revert to partial spot sales during the ramp up phase in proportion to our equity holdings once LNG train #2 is launched in the third quarter of 2018. The same spot sales will happen for LNG train #3.

We sold 15.9 million tons of liquids representing a 5.4% decrease over the prior year. The average price we received in dollar terms was higher across our product range because of the increase in international commodity reference prices, but this increase was partially offset by the appreciation of the Russian rouble versus the US dollar. During the fourth quarter, we increased our liquid sales volumes by 312 thousand tons (or 8.4%), largely due to the realization of inventory balances in transit or storage from the third quarter. Benchmark commodity prices underlying our liquids sales remained volatile although our average commodity prices received during the fourth quarter for our product range were relatively strong as compared to the third quarter 2017 on the back of positive international reference prices dynamics.

Our fourth quarter liquids sales were impacted by “goods in transit” of approximately the equal volumes realized in the quarter from third quarter inventory balances (3Q – 312 thousand tons; 4Q – 314 thousand tons). These volumes of roughly 314 thousand tons in transit were already realized in the first quarter 2018 at strong underlying commodity prices. Our financial results will always be impacted q/q by the movements of inventory, so this fact is not unusual.

Our operating expenses continued to grow y/y and q/q relative to the growth in our business, increasing by 16% and 29%, respectively. Our cost trends have been reasonably consistent over the past several years as operating expenses support our business operations as well as fluctuate due to increases in personnel and the corresponding adjustments to salary indexation and social payments. The most significant increase in our operating expenses y/y and q/q related to the purchases of hydrocarbons followed by increases in both transportation and taxes other than income. Our purchases of hydrocarbons increased by RR 11 billion and RR 14 billion y/y and q/q, respectively, largely driven by prices and volumes of purchased gas condensate and natural gas from our joint ventures.

We haven't experienced any major surprises in our operating expenses for quite a long time as we pay very close attention to controllable expenses.

Our balance sheet and liquidity position improved significantly in 2017 and remained very strong throughout the reporting year. We generated strong free cash flow of RR 151 billion in 2017 versus RR 139 billion in the prior year, based on an increase in our operating cash flows of 4% and a corresponding reduction in our capital expenditures by 12%. We achieved a record FCF for the fourth quarter despite a 50% increase in our capital expenditures in the quarter, which demonstrates the strong operating leverage we have with changing commodity prices. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due.

Our strong balance sheet and liquidity metrics as well as our strong operating cash flows was recognized by our credit rating agencies. We now have reverted back to investment grade ratings by all three international credit rating agencies, and, earlier this week, we received the highest credit rating score from Expert Rating Agency for our Russian National Scale.

In conclusion, 2017 was a year of transition for NOVATEK, a year in which we transitioned from being primarily a domestic gas producer to our entrance into the global LNG arena. The formal launch of train #1 at Yamal LNG on time was a watershed moment for NOVATEK and the start of our new journey as a global gas producer.

Two thousand and seventeen also marked a year whereby declining legacy production became a primary focal point for management, and concrete steps were implemented to decelerate production declines post-completion of the Yamal LNG financing. We believe everyone could appreciate that a lot of time and effort was focused on Yamal LNG and funds had to be preserved to finance our commitments. That stage (YLNG financing) is now behind us. We completed the necessary work on assessing and developing our lower productive zones of the Achimov and Jurassic layers as one of the primary immediate steps to address this question. We have also begun implementing a new development and exploration program that we believe will see tangible, positive results throughout the upcoming year. Equally important we managed to supplement this work with timely, value accretive acquisitions on producing assets in close proximity to our existing asset base. We will quickly integrate these assets into our production stream and undertake the necessary development work to further monetize these investments.

We introduced our new corporate strategy up to the year 2030 with a primary focus on becoming a global LNG powerhouse through the use of technology and innovation to unlock our prolific resources on the Yamal and Gydan peninsulas. It's quite clear that our future growth lies in developing a low-cost, competitively price LNG business model to deliver LNG to all key consuming regions. We are excited about our prospects and recognize that we offer a unique value proposition to potential partners wanting to capitalize on the emerging LNG trends. Our future LNG projects are scalable to meet future market demand and the development of the Kamchatka transshipment facility creates a new LNG trading hub offering short distances to key Asian markets.

We also clearly articulated that our existing core business is sustainable and cash flow generative. We achieved the peak capital investment cycle over the past couple of years and built a strong operating platform to fund our future ambitions, retire our debt and distribute dividends to our shareholders. Moreover, we have potential upside to our existing asset base supported by the recent license acquisitions and development of the lower producing layers. This gives us increased optimism to arrest declining production and extend production plateaus beyond the strategy period. We will also ensure ample liquids production to fully load our processing units and maximize risk-adjusted margins. Our ability to monetize our wet gas distinguishes us from our global peers.

We achieved some key milestones at our Yamal LNG project during the past year despite the market skepticism. It is now time to reduce the perceived risk ascribed to this project by the analytical community. The risk ascribed to our cash flows and overall project ramp up is still way too high giving our demonstrable track record of successful project execution, substantial conventional gas reserves, and our low cost operations vis-à-vis our global competitors. We are on track to bring LNG trains #2 and #3 on stream according to our new launch schedule (see Strategy Presentation – 12 December 2017) , and LNG train #1's ramp-up has proceeded ahead of our plans despite some arbitrary yet unfounded comments on potential risks. We have also successfully loaded and delivered 12 LNG cargos and three cargos of gas condensate to the market. Our logistical model works. We will continue to optimize the time of cargo loading and tanker movement with more operational experience.

Accordingly, we believe the time has come to ascribe economic value to our LNG portfolio, especially Arctic LNG 2. We no longer feel that the analytical community is aptly justified in valuing only a portion of our asset portfolio when we provided sufficient details at our strategy day presentation. It's simply a matter of doing the necessary analytical work to properly value our business. Correspondingly, it's time to remove the veil of false premises and recognize that the evolving LNG business is much more robust than first perceived, that demand is much stronger than initially forecasted, and the perception of a LNG glut is not real. The evolving LNG market is rapidly changing the nature of the global gas business and its time to accept this reality.

It was an exciting past year for the Company marked by periods of highs and lows, but we persevered and delivered on the core aspects of our annual business plan and our prior corporate strategy. Ladies and gentlemen, dear shareholders, we are on the cusp of some extremely exciting times for our Company and we are ready to meet these new challenges and new opportunities.

You are no longer investing in a pure Russian domestic gas producer with some exposure to the international markets via our liquids sales. You are now invested in a global gas company with massive hydrocarbon resources, a low cost business operating model, and an enormous opportunity to capitalize on the changing dynamics in the global gas markets through our LNG platform. LNG is quickly transforming the global gas trade, and we have witnessed the emergence of new portfolio players and consuming nations entering the market. This past year saw China emerge as the second largest importer of natural gas via LNG in the Asian market overtaking South Korea. The Chinese government has taken concrete steps this past year to tackle their air quality problem by phasing out coal and mandating natural gas as the preferred choice of fossil fuels. It's just a matter of time before India follows this same governmental mandate to reduce coal pollution and massively increase the import of natural gas.

We are very optimistic about the upcoming year and our future LNG prospects.

We are entering our next wave of massive value creating growth for the Company. What we delivered at Yamal LNG is only the beginning of our transformation and we are confident that our next growth phase will be equally exciting.

As we ended the year 2017 on a solid foundation and we begin the next evolution of the Company's growth, it is with our sincere gratitude that we thank all of the employees of NOVATEK and our subsidiaries and joint ventures for their commitment and dedication. We have built a culture of excellence that is focused on delivering exceptional financial and operational results to create sustainable shareholder value, while recognizing our firm commitment to sustainable development practices.

I would like to thank everyone for attending tonight's conference call and for your continued support of NOVATEK. I would now like to up open up tonight's session to question and answers with our Chairmen of the Management Board, Mr. Leonid Mikhelson.

Thank you.

Operator: Thank you. If you would like to ask a question at this time, please press star one on your telephone keypad. Please ensure that the mute function on your telephone is switched-off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing star two. Again: that's star one to ask a question. We will now pause for a moment, to allow everyone a chance to signal.

We will take our first question from Karen Konstanian of Bank of America: your line is open, please go ahead.

Karen Konstanian: Gentlemen, thank you so much for a good presentation, and congratulations on your launch of Yamal. I – Mark, I completely agree with you that, assigning economic value to Arctic LNG-2 is appropriate, but as you said, we do need a little bit more information.

To that end, I have two questions. My first question is: have you already thought, and can you disclose, what your target financing structure on Yamal LNG – on Arctic LNG-2, will be? And my second question: Yamal was launched in the midst of low oil prices and sanctions., do you feel that Arctic LNG-2 has a lot more financing options available to it right now, as you lead your negotiations with banks and potential partners? Thank you.

Interpreter: And so, a bit of an explanation to the second part of the question, was that: during the time when Yamal was – LNG was being financed there were some difficulties in raising funding from the banks. There were a limited number of the banking institutions ready to offer lending. So, in the current environment, do you feel that you will be in a position to diversity these pool of lenders, and apart from the – you know, Chinese banks, have somebody else to join in?

Leonid Mikhelson: [Russian, 00.04.01-00.05.52].

Interpreter: So, Mr Mikhelson is saying that he willl start with the second question. Before he does that, he would kindly ask everyone connected to the call who would be asking questions, if there is not one, just two questions that they would like to raise, please go ahead. Please ask the first one, and then he would answer it, and then you would get an opportunity to ask the second question; because that would be a better flow of information.

So I'd like to begin with the second question that you asked: i.e., you were saying that we were raising external funding, of about – the equivalent of US$19 billion, and that was the way it was agreed, and that was the way it was ranked by our financing organisation, as well as the project participants. We were able to close this call quite some time ago. And so, this financing was joined-in by all of the financial institutions, which originally had been part of the negotiations - apart from the Russian and the Chinese financial institutions: those were the Japanese, Italian, French, German, Swedish and, accordingly, Yamal LNG does not require any additional funding. It would have been proper for the shareholders to ask a question, let me say: 'Are you not expecting to earn any additional cash from Yamal LNG; the one which is not part of the financial model?' There are such opportunities today, because – both because of the early volumes, as well as because of the current environment. These are the kind of negotiations, which with both our shareholders and our financing partners, we are holding. We believe that we may end-up receiving positive feedback. And so, the plans to have NOVATEK earn cash from Yamal LNG will dramatically improve, starting even from the end of this year.

Leonid Mikhelson: [Russian, 00.07.49-00.07.52].

Interpreter: Now with respect to the first question.

Leonid Mikhelson: [Russian, 00.07.56-00.08.10].

Interpreter: Mark actually made a reference partially to this, when during his presentation, he stated that compared to Yamal LNG the partners in the investment community – in as far as our next project Arctic LNG-2 is concerned, see less risks.

Leonid Mikhelson: [Russian, 00.08.31-00.08.51].

Interpreter: And so, the way it is technologically organised; and here I mean specifically the liquification was placed up on the gravity platforms, further reduces this risk and most importantly as we used to state, we expect our capital spend here to further go down by about 30%.

Leonid Mikhelson: [Russian, 00.09.14-00.09.40].

Interpreter: And so, bearing this in mind, and taking into account the fact that we are going to bring in partners into this project, on slightly different terms and conditions; and so the value of the project with the risks thus minimised, is greater. I'm currently not in a position to tell you what the target-model will be; but definitely it is going to be much better for NOVATEK.

Leonid Mikhelson: [Russian, 00.10.09-00.20.22].

Interpreter: What I can tell you, that if you take a look at the Yamal LNG financing, whereby about 45% was equity funding, while 55% came from external sources.

Leonid Mikhelson: [Russian, 00.10.21-00.10.50].

Interpreter: So, here I can tell you, that we have an opportunity to reduce external funding of Arctic LNG 2 by quite a big margin. With that in mind, we are getting an opportunity to choose the most appropriate target structure.

Mark Gyetvay: Yes. I would like to add a comment. Under the Yamal financing structure if you recall, we had external debt by third parties; we had sovereign wealth debt; we had a tranche of debt, which we called carried financing; some people categorise it as carried-cost; and then we had the shareholder financing. In Arctic LNG-2, we want to remove that tranche of carried financing, and ensure that the funding that is put into the project, is done in the form of equity contribution rather than debt to the project. And, that's going to be one of the big changes between the Yamal and Arctic LNG-2 going forward.

Operator: Thank you. We will now take our next question from Henri Patricot of UBS. Please go ahead.

Henri Patricot: Yes. Hello. Thank you for the presentation. I would like to know if you could give us a bit more details on the MOU you've signed with Saudi Aramco; along with the possible timing of an agreement if they would like to join Arctic LNG-2; to get confirmation of that. And also, if this agreement implies that you would be making some investments on your side as well, to ship LNG there eventually. And then second question on M&A: you were very active, as you said, last year, and just recent acquisition of Alrosa gas assets: do you feel you've done enough inorganic replacements of preserve at this stage? Or you're still planning to be quite active on M&A? Thank you.

Leonid Mikhelson: [Russian, 00.13.54-00.14.57].

Interpreter: Well, with respect to the first question, we were quite thorough in covering what – as we presented it, I would like to underscore – was, a memorandum that was signed with Saudi Aramco –

Leonid Mikhelson: [Russian, 00.15.13-00.15.19].

Interpreter: And Mark Gyetvay during his presentation told us the details about what this memorandum was about.

Leonid Mikhelson: [Russian, 00.15.27-00.15.35].

Interpreter: Saudi Aramco is quite a big company with many traditions, and consequently, the discussion of what eventually led us to signing this memorandum, took quite some time.

Leonid Mikhelson: [Russian, 00.15.48-00.16.14].

Interpreter: And so currently, Saudi Aramco's in-house people are starting to scrutinise and study this project, and as Mark told us as well as our future partners, that it would be most comfortable to discuss any specific steps, once there is tangible progress achieved during the FEED stage.

Leonid Mikhelson: [Russian, 00.16.44-00.16.52].

Interpreter: We also stated that we are interested in having partners in our Arctic LNG-2 project.

Leonid Mikhelson: [Russian, 00.17.01-00.17.14].

Interpreter: And we are having partners who are currently with us in Yamal LNG, which is CNPC and Total; and so we are looking forward for them to be also amongst those who would first manifest their intention. We do expect them to participate in our future projects as well.

Leonid Mikhelson: [Russian, 00.17.34-00.17.39].

Interpreter: And, we are also holding similar conversations with other companies who are established players in the LNG market.

Leonid Mikhelson: [Russian, 00.17.48-00.17.54].

Interpreter: In conclusion I would say, that we are certainly interested in such a partner as Saudi Aramco, and we are definitely going to consider this option.

Leonid Mikhelson: [Russian, 00.18.02-00.18.15].

Interpreter: So, as to the second question, which was about the acquisition of the ALROSA assets, and about our strategic ambitions and visions for the future?

Leonid Mikhelson: [Russian, 00.18.29-00.18.31].

Interpreter: I may give you a lengthy answer.

Leonid Mikhelson: [Russian, 00.18.34-00.18.44].

Interpreter: And actually, Mark said this during his presentation, that 2017 was quite an important year, which was almost a turnaround year for NOVATEK.

Leonid Mikhelson: [Russian, 00.18.55-00.19.03].

Interpreter: And I feel like I should reiterate and say, that the most important thing that we launched Yamal LNG.

Leonid Mikhelson: [Russian, 00.19.09-00.19.26].

Interpreter: We also laid the necessary foundation to maintain the plateau over our presence in the domestic market, and specifically, by delivering gas through a unified gas transportation system. We are already seeing positive results.

Leonid Mikhelson: [Russian, 00.19.44-00.19.49].

Interpreter: And so in this second part, our strategy is split into three components.

Leonid Mikhelson: [Russian, 00.19.55-00.19.57].

Interpreter: Mark covered all of them in his presentation.

Leonid Mikhelson: [Russian, 00.20.01-00.20.16].

Interpreter: And specifically, within the existing asset-base in our fields, we are starting to develop our lower producing horizons. Essentially meaning our Jurassic program at the Yurkharovskoye field and the same development program we do at other assets and fields that we operate.

Leonid Mikhelson: [Russian, 00.20.35-00.20.47].

Interpreter: While the second part consists of assets or the fields, which are NOVATEK's but are not being developed, such as the North-Russkiy cluster and the Nyakhartinskiy field.

Leonid Mikhelson: [Russian, 00.21.02-00.21.08].

Interpreter: Like the case is with acquisitions that we did last year, meaning – and this year as well; including the ALROSA assets.

Leonid Mikhelson: [Russian, 00.21.18-00.21.26].

Interpreter: But most importantly is that the assets that we acquired are all located in the territory in close proximity to our existing and well-developed infrastructure.

Leonid Mikhelson: [Russian, 00.21.39-00.21.53].

Interpreter: For example, the South-Khadyryakhinskiy field is located in very close proximity to our North-Khancheyskoye field; which does not require any significant investments. The gas treatment capacity that we have there...

Leonid Mikhelson: [Russian, 00.22.11-00.23.23].

Interpreter: ....would enable us next year, to take this field to the planned 50% of production, and by 2020 to achieve the design capacity, which is going to be about 1 billion cubic metres.

Leonid Mikhelson: [Russian, 00.22.41-00.22.56].

Interpreter: And the ALROSA assets, effectively is an operating asset of Geotransgaz, from which as Mark put it, we're going to enjoy an additional monetisation for the contents that have been produced there, and thus being connected to our processing system.

Leonid Mikhelson: [Russian, 00.23.18-00.23.31].

Interpreter: The Urengoy Gas Company is very close-by to our Olimpiyskiy acreage, as well as to the Yaro-Yakhinskiy acreage, which is developed by our joint-venture ArcticGas.

Leonid Mikhelson: [Russian, 00.23.49-00.24.05].

Interpreter: As a result of this acquisition, we are reviewing our investment approach and we are putting together one investment case for the three fields; thus achieving a synergy in outcome for the three acreages.

Leonid Mikhelson: [Russian, 00.24.24-00.24.33].

Interpreter: I feel, that in about two years' time, the Urengoy Gas Company will be able to achieve the level of 2 billion cubic metres.

Leonid Mikhelson: [Russian, 00.24.45-00.24.54].

Interpreter: So, as far as the 2018 is concerned, we are currently noticing, and we note –

Leonid Mikhelson: [Russian, 00.25.02-00.25.04]

Interpreter: – that in 2018 so far, that there was no decline registered in gas production.

Leonid Mikhelson: [Russian, 00.25.07-00.25.13].

Interpreter: And, taking into account these recent acquisitions, we are expecting slight growth this year.

Leonid Mikhelson: [Russian, 00.25.19-00.25.25].

Interpreter: In terms of liquids, we are going to have comparable results compared to last year.

Leonid Mikhelson: [Russian, 00.25.31-00.25.48].

Interpreter: And so, with the risks back to next year, there will be a slight growth in as far as the domestic gas markets segments is concerned, the amount of gas production which will be a part of the total Russian domestic production we are increasing – as far as our percentage is concerned, we are increasing our long-term prospective.

Mark Gyetvay: I'd just like to go back a second, on the questions on the MOUs. And just highlight, that if you went back a year or two ago, and to think that Saudi Aramco or all these other companies would've come to talk to us, you could imagine now the changing dynamics in the global gas order. Our ability to launch this project on-time, creates an enormous amount of credibility for NOVATEK, and particularly our future LNG projects. So the fact that we're getting interest, as Mr Mikhelson talked about, not only from Saudi Aramco but from the existing partners: from the Japanese, Koreans, etc., that are looking at this particular field, only demonstrates that LNG as I tried to say in the prepared text, is actually changing the gas trade. This gives us an enormous competitive advantage, when we can bring to the market low-cost, resource base, competitively-priced, LNG liquefaction projects, and the ability to move LNG both East and West. Then you add that competitive advantage with the Kamchatka facility, that gives us the ability to take LNG short distance to market, changes the trading platform: this gives us enormous credibility, and strong interest, from the prospective partners. We are seeing this strong interest everywhere we go. Whether it's from my recent speaking event in India, or next week in Houston, wherever; we're seeing this strong, positive interest from all these people, as well as a lot of these new companies that would have never talked to us three years ago. You can see the change in dynamics.

Leonid Mikhelson: [Russian, 00.27.53-00.29.35].

Operator: Thank you. We will now take our next question from Artem Konchin of SOVA Capital. Please go ahead.

Question: [Russian 00.29.52-00.30.31].

Interpreter: [Russian, 00.30.32-00.30.34]. Good afternoon. Thank you very much for this conference call. Where I would like to congratulate it was a record quarter; because based on my records, I think the results are clearly demonstrating the highest results. My questions are quite simple. First of all, you began demonstrating your own gas consumption – your own need separate line items; and consequently raise the production line item: how are we to model that in the view that, because your consumption grew by 8% year-on-year, while the production went down: is there any dependence between the first and the second? Or, in terms of the own energy consumed; or something like that?

Leonid Mikhelson: [Russian, 00.31.15-00.31.58].

Interpreter: Mr Mikhelson would answer the first question in a brief way. Primarily, what you see in what you refer to is a condition by us launching our Yamal LNG project, because in order to produce LNG, one requires quite an amount of electricity. We installed, if my memory serves me right, a 376 megawatt-capacity power station, which naturally consumes gas; and so our own needs went up. We thought it would be proper to have this separate line item, where we could demonstrate our own requirements; since our production – I mean, in our sales; so that you could see what is it we consume in order to sell in market this gas.

Leonid Mikhelson: [Russian, 00.32.45-00.33.16].

Question: [Russian, 00.33.17-00.33.18].

Interpreter: And the second question is about reporting issues: you no longer itemise in between the export and domestic sales, in terms of pricing. I mean, you still show the difference in terms of volume; but the price is just one. How are we to follow it, in order to - how are we to understand what will happen in the future? Do you have any normalized net back that you are trying to achieve? Is something in between the exports and domestic sales, or is this simply – could you just please explain.

Leonid Mikhelson: [Russian, 00.33.49-00.33.55].

Interpreter: I will give a brief answer, says Mr Mikhelson. We are a business operation, and so we operate in a competitive market.

Leonid Mikhelson: [Russian, 00.34.01-00.34.07].

Interpreter: And we're doing our best in order to give our shareholders as much profit as possible in a transparent.

Leonid Mikhelson: [Russian, 00.34.12-00.34.19].

Interpreter: I believe that the reporting that we share after is very transparent, because – not always, but sometimes I do have a chance to read the reports by other companies.

Leonid Mikhelson: [Russian, 00.34.30-00.34.40].

Interpreter: And if you do it like I do, then I would believe there to be enough information in order to recreate and understand the way we do our business, and how great is our financial future. [Russian 00.34.53-00.34.55].

Operator: Thank you, we will now take our next question from Ildar Davletshin of Wood and Company. Please go ahead.

Question: [Russian, 00.35.07-00.35.47].

Interpreter: So, the first question: it is about the Arctic LNG-2 project, considering like you could that investors and partners see nowadays less risk in this project, and on the other hand, there is a big potential in the gas demand: do you consider the possibility of using pricing which will be different, which won't be linked to oil; which possibly could be spot based, or maybe even launch your own benchmark?

Leonid Mikhelson: [Russian, 00.36.31-00.36.35].

Interpreter: Thank you very much for this question, which is effectively a very proper and very good question.

Leonid Mikhelson: [Russian, 00.36.40-00.36.41].

Interpreter: This is something that we're continuously thinking about.

Leonid Mikhelson: [Russian, 00.36.44-00.36.48].

Interpreter: The oil market as you see is quite volatile.

Leonid Mikhelson: [Russian, 00.36.54-00.36.59].

Interpreter: And the gas market and the LNG market, is turning into a global market rather than a regional market

Leonid Mikhelson: [Russian, 00.37.08-00.37.22].

Interpreter: If we look at the European market, where we already have certain hubs, and the gas prices are – in terms of linking themselves to the gas, is possible and this is something that we start finding in a routine way.

Leonid Mikhelson: [Russian, 00.37.41-00.37.52].

Interpreter: And so with respect to negotiating our contracts with our future consuming partners, we already touch upon these topics, and have this kind of a discussion.

Leonid Mikhelson: [Russian, 00.38.07-00.38.15].

Interpreter: So, quite often, whenever certain opportunities like that are considered – I mean, for some kind of a benchmark, this must be used the side of the consumer.

Leonid Mikhelson: [Russian, 00.38.28-00.38.38].

Interpreter: And so, the fact that we have in our plans, to create a transshipment hub at Kamchatka which we'd planned originally to have a volume of about 20 million tonnes –

Leonid Mikhelson: [Russian, 00.38.53-00.39.02].

Interpreter: – well, may well serve as the appropriate reason to switch over into benchmarking – to a certain extent specifically related or linked to the supply hub offering spot pricing.

Leonid Mikhelson: [Russian, 00.39.15-00.39.23].

Interpreter: So, I would say that within the next four – let's say maybe five years, some certain serious changes may evolve in this issue.

Leonid Mikhelson: [Russian, 00.39.34].

Ildar Davletshin:[Russian, 00.39.37-00.40.04]

Interpreter: And this question is about investment activities. During the Investor Day, you mentioned the figure of RR90 billion which you intend to spend during 2018. Considering recent acquisitions, and the offshore projects in the East-Mediterranean region, could you possibly share with us more updated figures; having these new projects in-mind?

Leonid Mikhelson: [Russian, 00.40.34-00.40.39].

Interpreter: Those were the investment figures we announced to the investment community, and it was not long ago, 12th December.

Leonid Mikhelson: [Russian, 00.40.47-00.41.02].

Interpreter: So, I won't be giving you any new updates, since Mark also mentioned all of it including the North-Russkiy cluster and Ust-Luga, and our start-up investments into the Arctic LNG-2 project.

Leonid Mikhelson: [Russian, 00.41.17-00.41.34].

Interpreter: And in as far as the Mediterranean is concerned, the figures there are so minimal I mean, in terms of our investments. In 2018, we're not expecting to make any investments under the agreement which is lasting for five years. We would say that it's not really worth your attention in terms of volumes.

Operator: Thank you. We will take our next question now from Ron Smith of Citi. Please go ahead.

Ron Smith: Well, good evening, everybody. Thank you for the conference call. My question is going back to Arctic LNG-2, and in particular the facilities – the LNG construction facilities, up on the Kola peninsula. This is obviously a key part of NOVATEK's strategy going into the 2020s, and I would kind of like to understand how it's going to work. In particular – first question, and it will be very short: what's the CapEx? Could you please confirm the level of CapEx you'll add into that facility, over the next couple of years? And second – more deeply: what major components of - how much of the capex do you anticipate, for Arctic LNG-2, once you get to building it, will be done on-shore in Russia? As opposed to being – for the Yamal LNG, we had major components constructed in Asia and shipped to site in modules, and bolted into place. How much of this will all be done on-shore in Russia once this construction is underway? And second: what major components – if any, will still have to be imported? Thank you.

Leonid Mikhelson: [Russian, 00.43.18-00.44.44]

Interpreter: So he came up with five things –

Leonid Mikhelson: [Russian, 00.44.47-00.44.55].

Interpreter: So Mr Mikhelson will try and do his best to answer all of them.

Leonid Mikhelson: [Russian, 00.44.59-00.45.11].

Interpreter: We said, that we're going to reduce the level of capital investments into Arctic LNG-2 by about 30%, compared to Yamal LNG.

Leonid Mikhelson: [Russian, 00.45.18-00.45.33].

Interpreter: And so, whenever we say something like that, you should understand that we calculate our CapEx, which includes the field completion, as well as our investment in CapEx per one ton of liquification.

Leonid Mikhelson: [Russian, 00.45.51-00.46.01].

Interpreter: And the South of – it's almost like the South-Tambeyskoye field in terms of the amount of CapEx, the number of wells and the completion efforts; so, the level of expenditure is going to be almost the same.

Leonid Mikhelson: [Russian, 00.46.17-00.46.23].

Interpreter: And in terms of the liquification train, we are approaching it in two ways, together with our engineering services.

Leonid Mikhelson: [Russian, 00.46.32-00.46.42].

Interpreter: The most important decision, is that we are not going to construct this line at the field; we will do that at NOVATEK Murmansk, which will complete most of the fabrication worksindoors.

Leonid Mikhelson: [Russian, 00.46.57-00.47.12].

Interpreter: And that should definitely give a good way of imagining that we are avoiding the expenditures to – for earth moving works, or driving piles, and for the permafrost measures. So we are saving a lot of money on logistical things.

Leonid Mikhelson: [Russian, 00.47.32-00.47.53].

Interpreter: And exactly like Mark noted in his presentation, and specifically that of just undertaking this new technology applications and new solutions, like he said, and boosting the capacity of the compressor equipment, and additional technological applications where able to increase the line throughput and capacity, without increasing investment.

Leonid Mikhelson: [Russian, 00.48.19-00.48.27].

Interpreter: And moreover, these capacities with NOVATEK Murmansk, is not the purpose of, I mean we don't have the purpose of doing that, specifically for the sake of Arctic LNG-2.

Leonid Mikhelson: [Russian, 00.48.43-00.48.51].

Interpreter: The investments into these capacities are not going to be mirror-reflected in the cost structure of Arctic LNG-2 project.

Leonid Mikhelson: [Russian, 00.49.07-00.49.10].

Interpreter: Like we like to say to ourselves, that we are building a specialty kind of a facility, which will be the ‘mother’ of future – many future facilities.

Leonid Mikhelson: [Russian, 00.48.23-00.49.38].

Interpreter: And as you very correctly noted, with respect to the exported – or imported components, I would say that we would have significantly less imported components, and mostly Russian.

Leonid Mikhelson: [Russian, 00.49.55-00.50.05].

Interpreter: When going through contracting with NOVATEK engineering firms for the FEED stage, we held big conference with potential contractors and suppliers.

Leonid Mikhelson: [Russian, 00.50.17-00.50.29].

Interpreter: And that event itself evolved into them being indirectly participating in the design stage of the project, by offering their equipment and their sourcing.

Leonid Mikhelson: [Russian, 00.48.487-00.51.04].

Interpreter: And as far as all our potential suppliers in the future are concerned, in as far as, the super-complex equipment is concerned, we are negotiating with them, and they are looking at this future by way of localising their manufacturing capacities here in Russia.

Leonid Mikhelson: [Russian, 00.51.24-00.51.31].

Interpreter: And they're very keen to follow this particular approach, by witnessing that it is not only about the Arctic LNG-2 project, but about all other future NOVATEK projects.

Leonid Mikhelson: [Russian, 00.51.44-00.51.54].

Interpreter: And we're confident that with every new liquification line, their share of the Russian localisation and involvement is going to be greater, and that would invariably lead to our CapEx going down steadily..

Leonid Mikhelson: [Russian, 00.52.12].

Interpreter: Thank you.

Ron Smith: Thank you very much.

Operator: Thank you. As a reminder: to ask a question, it's star one on your telephone keypad. We will now take our next question from Ildar Khaziev of HSBC. Please go ahead.

Question: [Russian, 00.52.32-00.52.42].

Ildar Khaziev: A very brief question about the Yamal LNG. Could you possibly share the freight-term costs for the shipments that already took place in December and January?

Leonid Mikhelson: [Russian, 00.52.57-00.52.58].

Interpreter: A very brief answer: I do not know.

Leonid Mikhelson: [Russian, 00.53.03-00.53.06]?

Interpreter: Is it allowed for a person like me, to not know something in the company?

Leonid Mikhelson: [Russian, 00.53.13-00.48.15].

Interpreter: Well, I'm hearing somebody telling me that I must know such a question – the answer to such a question, but just imagine us trying to hold negotiations for the next tanker, and quote the price now.

Leonid Mikhelson: [Russian, 00.53.32-00.53.33].

Interpreter: Could you answer me this question, please?

Leonid Mikhelson: [Russian, 00.53.49 - 00.54.00].

Interpreter: There is the one question that Mr Mikhelson would like to raise himself, and that is the question, which Mr Mikhelson asked Mark Gyetvay not to cover in his presentation.

Leonid Mikhelson: [Russian, 00.54.12-00.54.20].

Interpreter: Mark mentioned that in the Yamal LNG project, we are going to commission into operation the second and the third train, before schedule...

Leonid Mikhelson: [Russian, 00.54.32-00.54.39].

Interpreter: But he - you were told, you know, previously, that we made a decision that we are going to commission into operation, the fourth train as well.

Leonid Mikhelson: [Russian, 00.54.50-00.54.54].

Interpreter: And this is going to be a very important happening to us.

Leonid Mikhelson: [Russian, 00.54.57-00.54.59].

Interpreter: Because that would entail our proprietary technology...

Leonid Mikhelson: [Russian, 00.55.02-00.455.03].

Interpreter: The one that we're entrusting ourselves, and the one that we believe –

Leonid Mikhelson: [Russian, 00.55.07-00.55.15].

Interpreter: – it is the kind of a technical know-how, which we definitely can state will demonstrate the best possible performance; specifically within the kind of the climate environment where we do our Northern projects; Arctic projects.

Leonid Mikhelson: [Russian, 00.55.26-00.55.34].

Interpreter: The testing that we are currently going to do, would be for less than 1 million tons.…

Leonid Mikhelson: [Russian, 00.55.41-00.55.47].

Interpreter: And this new train specifically will be built almost with 100% Russian-produced equipment.

Leonid Mikhelson: [Russian, 00.55.56-00.56.12].

Interpreter: So, I would describe it in a different way: that with this kind of a decision, to build this line upon the platforms that we are going to do we will undertake an enormous leap towards reducing our costs, almost tomorrow.

Leonid Mikhelson: [Russian, 00.56.31-00.56.44].

Interpreter: And through testing it, and trying the operation by the time-frame of 2020, I believe that would create an opportunity for us to undertake yet another leap like that to reduce our costs even further.

Leonid Mikhelson: [Russian, 00.57.03-00.57.13].

Interpreter: And so the exploration effort ramp-up that we are planning for the next few years, would enable us specifically with the kind of the resource-base we have, is to definitely achieve what we are planning.

Leonid Mikhelson: [Russian, 00.57.32-00.57.34].

Interpreter: Now, thanks, very much, to all those connected to this call.

Operator: Thank you ladies and gentlemen. You may now disconnect.