PAO NOVATEK

Third Quarter 2018

Financial and Operational Results – Earnings Conference Call

25 October 2018

Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Third Quarter and Nine Months of 2018 earnings conference call. I would like to thank everyone for taking their valuable time to join us this evening on tonight's 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 2017, 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

The oil and gas industry is expected to report solid financial results this quarter aided by continued strong commodity prices underpinned by stronger than expected demand, tighter supplies and geopolitical uncertainties. We are no exception. We had an exceptionally strong third quarter (and nine months) as the macro-environment supported our increasing volumes of LNG produced from our flagship Yamal LNG project as well as our continued drilling and remedial efforts to stem production declines from our legacy assets. Commodity prices across the whole spectrum of oil-related products were exceptionally strong this quarter.

Geopolitics has taken a front and center position throughout 2018, and the imposition of tariffs stemming from the US-China trade war, the upcoming November sanctions on Iran and supply outages/disruptions, all play a major role in price volatility and market uncertainty. The geopolitical situation is clearly supportive of higher commodity prices but we also see strong signs of supply/demand imbalances as well as the beginning of the upcoming winter season as supportive factors in the near term. Brent crude oil averaged $75 per barrel in the third quarter versus $52 per barrel in the prior year, or approximately 44% higher, and this trend was also consistent with Urals blend, except that the usual discount spread narrowed from approximately $2 per barrel to around $1 per barrel.

Despite crude oil prices coming off their highs for the year in recent days they are clearly within a range-bound that supports industry capital investments, but does not negatively impact demand outlook. Commodity prices will remain volatile for the foreseeable period as long as deteriorating geopolitical issues remain.

Global demand for LNG remained strong during the first nine months of 2018 increasing by approximately 7.7% to roughly 239 million tons, led primarily by the strong growth in Chinese natural gas consumption. China imported roughly 38 million tons during this nine-month period, representing a year-on-year (Y/y) increase of approximately 44%, or almost reaching full year 2017 consumption during the first nine months of the year. China's natural gas consumption is forecasted to reach between 275 billion cubic meters (BCM) to 280 bcm in 2018, representing another year of robust growth. China will drive global gas growth for the foreseeable period and will be the favored destination of LNG to supplement local production and the import of pipeline gas.

The global LNG market (excluding China) also remained robust despite higher than expected LNG prices in both the Atlantic and Pacific basins. As I mentioned on our last conference call we saw new importing entrants in the market as well as the continued build out of regasification terminals in key markets. These developments remain important but we need to be cognizant that some of the new entrants, like Bangladesh, might revise consumption forecasts as they did this past week. The markets will evolve.

For instance, India is on pace for another strong year of natural gas imports, albeit at a volume less than China, but nonetheless important as both India and China are home to about one-third of the global population and represents significant societal shifts to cleaner burning fuels, like natural gas, to meet climate change initiatives and pollution issues. We view these market developments as positive indicators of robust demand supporting our position that demand fundamentals for LNG will be revised significantly upwards from relatively conservative forecasts.

In fact, we are beginning to see revisions upward on future LNG demand growth as we had highlighted previously, and recently, in anticipation of this increasing demand outlook, Shell announced one of the first significant FID's, or final investment decision, with their LNG Canada project in British Columbia. This FID announcement is part of the so-called "second wave" of LNG projects expected to meet forecasted supply shortages in the mid-2020's, and represents a growing need to begin a new cycle for LNG investments. Ironically, this announcement has garnered much attention from international press as the first significant new FID announcement, but preliminary estimates seem like a continuation of high cost LNG options that have plagued many of the recent "big scale" projects over the past five years. It's imperative that cost-competitive LNG projects, such as our Arctic LNG 2, get commissioned within the next two years to meet potential supply shortages in the early 2020's.

Our future LNG platform underlying our prolific hydrocarbon resource base on the Yamal and Gydan peninsulas places us in a competitively strong position to deliver world-scale and innovative LNG projects to market in the upcoming decade. Our immense resource base comprising over 3.3 trillion meters of conventional natural gas and growing, combined with the liquids output, gives us a tremendous comparative advantage vis-à-vis our global competitors. Moreover, our use of technology and innovation to reduce our capital cost and environmental footprint on permafrost is another example to unlock economic value and deliver low cost LNG solutions to consuming nations as part of our strategic themes of energy affordability, energy security and energy sustainability.

So, let's begin by discussing an update on Arctic LNG 2. We have completed the FEED work but have given the engineers and contractors another two weeks to respond to some outstanding questions. As we had stated previously, our goal for Arctic LNG 2 with the use of the gravity based structures (GBS) was to significantly reduce the liquefaction capital costs to ensure that our future LNG platform would provide low-cost LNG to major importing nations. We have achieved that aim with our new GBS LNG platform design. Accordingly, we can confirm that the initial capital costs of $20 billion to $21 billion for the 19.8 million tons per annum (mpta) of LNG produced from the proposed three (3) GBS platforms of 6.6 mtpa as quoted by Mr. Mikhelson is realistically achievable.

Detailed design work will start this month and we plan to award the gas turbine package very soon after having signed the supply contract for the coiled-wound heat exchangers. We are striving initially to achieve a 40% to 60% Russian local content, but our aim is to eventually raise this percentage to approximately 70%, if feasible. We anticipate signing the GBS fabrication contract in the near future with a majority of Russian content due to favorable market and economic conditions. The GBS yard construction contracts have been signed and construction started on time to meet our estimated GBS fabrication schedule commencing around July 2019. We aim to take an FID decision sometime in second half of 2019.

Equally important, we repeatedly stated that potential partner interest is quite strong in our Arctic LNG 2 project, and statements made by Mr. Mikhelson, I and others support this assertion. Now that the FEED is essentially completed, we will reopen the data room to provide potential partners with additional information to facilitate their decision process. The ongoing negotiations are very specific, and at a very advanced stage.

We have already named some of the participants that have expressed strong interests in our next project; so tonight we will not confirm speculative statements made recently in the press. This has been our long-standing policy on these matters, so no need to deviate from our norms. But I would like to make a comment on the skepticism we read about regarding Arctic LNG 2's valuation. We see no valid reason why we would issue a formal press release and make public statements on the project's valuation without merit. Our entrance price for the project's valuation has already been set; therefore, there is no need to dispute the valuation underlying the sale of the initial 10% equity stake. In fact, what we believe to be more realistically the case is further upside to the resource base as we announced and confirmation we can achieve the cost savings relative to our Yamal LNG project. So, in our view the valuation is quite conservative.

Let's consider a few important points. The preliminary C1+C2 reserves have been increased by approximately 405 billion cubic meters of natural gas and 40 million tons of gas condensate. This makes the Utrenneye field technically larger in reserves than the South Tambeyskoye field, which is the field feeding natural gas into the Yamal LNG project. This makes the project more attractive for potential investors and is quite conservative now to our preliminary valuation target. In addition, we have concluded the FEED process and are taking further steps to de-risk the project as well as optimize the logistical model. We will provide additional updates as is customary with our communication process to the investment community in due course.

We are very optimistic about our future LNG platform given forecasted LNG and natural gas demand scenarios, the transition from coal to natural gas in the primary energy mix to support climate change and sustainable development principles as well as the evolving LNG trade and the expected increase in market liquidity. We would like to reiterate this point because many commentators and analysts talk about natural gas as a transition fuel. In our opinion, this characterization is blatantly wrong. Natural gas is a primary fuel and not one in transition. Our strategic communication goal, and that of the oil and gas industry, should be to talk about coal as a transition fuel, since we believe we are transitioning from coal to natural gas. Not a bridge fuel, not a transition fuel. Natural gas – both pipeline and LNG – will play a major role in the future energy mix and will be a key contributor to meet climate change and de-carbonization goals.

Arctic LNG 2 and our LNG projects beyond represents our belief that we, at NOVATEK, can substantially contribute in a meaningful way to the next wave of LNG projects to deliver cost-competitive LNG to the market, including facilitating the global LNG trade by constructing our transshipment facilities in Murmansk (for the western route) and Kamchatka (for the eastern route), establishing a Russian Far East FOB pricing hub to support regional trade and optimizing the use of the Northern Sea Route for full year round navigation.

Moreover, our recent announcement with Fluxys to construct a 300,000 thousand ton LNG transshipment terminal in the German port city of Rostock, one of the first such LNG terminals in Germany, is another indication that the market is seeking integrative solutions to facilitate demand growth in natural gas to offset declining coal usage to meet de-carbonization targets as well as transitioning marine bunkering fuel to LNG as part of the Sulphur emission reductions mandated by the IMO by 2020 and the use of natural gas in truck transport. Our goal is to capture a niche market for natural gas using the expected LNG output from our Cryogas-Vysotsk LNG plant in the Leningrad region. This will allow us to consider LNG fueling into heavy trucks and bunkering. Projects like the Rostock LNG terminal is of strategic importance to us and will find positive support in the European Union.

We have been investing in the construction of the first train at this liquefaction plant comprising 660 thousand tons, which we expect to launch by year-end. We completed the hydraulic testing of the 43 thousand cubic meters LNG tank, the 42 kilometer gas pipeline link, buildings and the LNG loading berth. Ongoing construction activities relate to the pipeline racks and electricity grid, and we expect to pass the technical commission review of the cargo berth and pipeline link this month.

Although the current market for bunkering in the Baltic region is not big, not more than 100 thousand tons, the introduction of the new IMO Sulphur emission requirements will slowly increase demand for cleaner options, like LNG. Preliminary estimates indicate that the bunkering market in the Baltics can increase almost ten-fold to around a million tons per annum by 2025, justifying our decision to enter this niche market. Moreover, a portion of the volumes from the first LNG train will be sold at regas terminals in the North-Western Europe and Baltic countries, part of the volumes will be sold on trucks to the Baltic region and Scandinavia. We have already secured one major offtaker for the LNG volumes from the first train.

We are making progress at the LNG construction yard in Murmansk. Approximately 1,500 workers and more than 300 construction vehicles are presently on site. More than eight (8) million cubic meters of soil and rocks has been excavated and work in this area is proceeding according to our civil works schedule. Activities relating to the construction of two loading berths and two dry docks are proceeding to plan. We recently commenced construction of basements for buildings for the workers' rotating village, for the concrete plant and for the GBS construction plant.

Yamal LNG has unequivocally been a stellar performer for us and will represent a future benchmark for projects. As of today, we remain on target to deliver LNG train #3 in December, essentially delivering this world-class LNG project more than one year ahead of schedule and on budget, a huge accomplishment for NOVATEK and our partners, and a project that has catapulted our future LNG projects from speculative to realistic.

As of 30 September, the overall construction progress at Yamal LNG was approximately 96% completed, up from 94% at the end of the second quarter. More specifically, we successfully launched LNG train #2 during the reporting period (August 2018) and achieved record ramp-up of the facility in just eight (8) days as well as achieving a record ramp-up for the combined first and second LNG trains. This represents an unprecedented achievement for the LNG industry. Progress on LNG train #3 is 91.5%, up from 82.7% in the second quarter, which gives us confidence that the LNG train will be delivered as scheduled. The commissioning process for train #3 has already begun. The firing of the gas turbines is completed.

We have drilled and completed 126 production wells exceeding the well count of 124 production wells needed to launch all three LNG trains, and this represents about 60% of the total number of wells proposed in the original development plan. Construction of the gas gathering lines for the third LNG train is currently ongoing.

During the first nine months of 2018, we ran and processed 2,830 linear kilometers of two-dimensional (2D) seismic and 3,106 square kilometers of three-dimensional (3D) seismic to support our ongoing exploration activities. Our geological and geophysical works has yielded positive results supporting our exploratory drilling efforts. We had a number of positive results such as the drilling and testing of well #294 at the Utrenneye field, confirming two new commercially viable hydrocarbon deposits at the mid-Jurassic deposits. These discoveries allowed us to increase our reserve by 405 bcm, and as of the 30 September, upon State Commission approval, our C1+C2 reserves amounted to approximately two (2) trillion cubic meters (1,976 TCM). We have now successfully tested the lower- and mid-Jurassic horizons at the field.

We also completed the first exploratory drilling of well #1 at the North Obskiy license area owned by Arctic LNG 3 at a vertical depth of 2,800 meters in the shallow waters of the Ob Bay. As a result, we have discovered a new field – the North Obskoye field, which we estimate contains more than 320 billion cubic meters of natural gas as well as an undefined amount of gas condensate, although we only tested a portion of the hydrocarbon bearing structure due to the rigs limited ability to reach the lower Jurassic layers. The reserve data will be submitted to the Russian State Reserves Commission for approval in November. This represents a major new gas discovery for us and indicates that we should expect the total Yamal and Gydan peninsulas reserve base to be revised upwards from the initial estimates of 3.3 trillion cubic meters. We were originally planning to drill the second well in 2020 but are now considering drilling the second well in 2019, as we begin to develop and prepare our resource base for the next LNG projects beyond Arctic LNG 2.

We reached the Jurassic horizon on well #147 at the West Yurkharovskoye field and a positive decision was made to go forward with the full 15 well drilling program targeting the Jurassic layers. Accordingly, two additional drilling rigs will be mobilized to the area this winter season. We also completed well #1 at the Nyakhartinskiy license area and have begun the testing phase at this well. We expect results to be finalized by year-end. Finally, we completed the Jurassic layer drilling at the South Tamberskoye field with a total wellbore run of 5,040 meters at a vertical depth of 3,780 meters. We will utilize a five-stage fracking program using approximately 2,000 tons of proppant with testing results expected by year-end.

During the third quarter (3Q) we completed the drilling of 26 production wells versus 17 production wells in the prior comparable period. We drilled five (5) wells each at the South Tambeyskoye, Yaro-Yakhinskoye and the East Tarkosalinskoye fields, four (4) wells at the North Russkoye cluster, as well as completed seven (7) additional production wells at our other producing fields. We continue to invest capital in drilling production wells to achieve our development plans as well as meeting our production targets to support our marketing efforts.

To offset some of the declining crude oil production at the Yarudeyskoye field largely attributable to a higher gas factor in the crude oil stream we have decided to implement a new 15 well drilling program, as well as other remedial measures, to stabilize crude oil production or decelerate some of the declines. The new plan calls for the drilling of one well in 2018, 11 wells in 2019, and one well in 2020. We will also transfer 13 production wells into water injection wells to stimulate crude oil production.

Our crude oil production will be supplemented by the eventual launch of the Yaro-Yakhinskoye field at our Arcticgas joint venture in December 2018. For the nine month period we drilled 63 production wells at this new field, representing a 267% increase in the number of completed wells over 2017 prior period. This new field is estimated to produce approximately one million tons per annum of crude oil at plateau levels reached by the end of 2019.

Our Arcticgas joint venture had a decline in production output this quarter which is explained by: (1) a change in ownership interest from 53.3% to 50% with the completion of the parity restructuring between us and GazpromNeft, and (2) the scheduling of maintenance work in the third quarter 2018 versus maintenance work performed in the second quarter of 2017. Otherwise, average daily gas production is reasonable flat year-on-year (y/y), but we plan to commence production at the Achimov layers at the Samburgskiy license area in 2019, which will drive additional production growth at this joint venture.

Ongoing work activities at our North Russkoye cluster is proceeding as planned but there are no new updates to provide tonight except that we are still on target to officially commission the initial stage of the field in the latter part of 2019.

We signed the license agreement for the Ust-Luga hydrocracker upgrade. We also completed the tender list of participants and engineering surveys are presently in progress. Main construction activities will commence in 2019 and be completed by mid-2020 for formal launch of this upgrade. There are no revisions to our prior estimated capital costs of RR19 billion, and we forecast an expected payback period of less than three years based on preliminary margin enhancements from moving from heavy fuel oil to lighter products in the output mix.

We briefly discussed on our last conference some of the market confusion about the shipping situation here in Russia. Quite frankly, we believe these news stories are overblown and present a more negative slant than reality. The Russian government is very supportive of our LNG development activities, and we mentioned that our Yamal LNG project concerning shipping is being fully realized within the existing legal framework in Russia. We also mentioned that any new law regarding domestic flag vessels will not negatively impact our Arctic LNG 2 project from the vantage point of future LNG vessels and logistics.

There were also reports indicating concerns on the construction of future LNG tankers. These concerns are totally unfounded. Zvezda is developing their respective shipbuilding capabilities and have partnered with firms possessing the appropriate technological skills, including constructing LNG tankers, to meet our technical specifications and time schedule. Obviously, we take this matter seriously and would not jeopardize the timing of our future LNG projects; so this point has been voiced by our shipping team in various meetings with the government and representatives of the shipping concerns.

Optimizing our LNG logistical model will ultimately unlock enormous economic value for NOVATEK and our shareholders, so this area is being closely studied by our specialist in shipping and our commercial teams. We announced that we will construct two transshipment facilities in Murmansk and Kamchatka, as well as look at ship-to-ship transfer in Norway to minimize the use of the Arc7 ice-class tankers in non-ice waters, and maximize their use to shuttle between terminals and the LNG facilities.

We also announced a joint venture with RosAtom to construct LNG powered ice-breakers that we will use in the Ob Bay area allowing the larger State-owned nuclear ice-breakers to transverse the Northern Sea Route. This facilitates the efficient use of the nuclear ice-breakers where they are most needed, and opens the Arctic sea route for a longer time period. The joint venture with RosAtom is not the same as the new shipping subsidiary we established – Maritime Arctic Transport, or MART. MART has a completely different objective, with its aim to optimize our shipping logistics, better manage diverse shipping and port operations, and reduce our overall transport costs. Collectively, these entities goals are consistent with our desires to reduce overall shipping related costs and minimize the number of Arc7 ice-class tankers needed for our future LNG projects.

As of today, we have seven (7) Arc7 ice-class tankers in operations, and we can say without reservation that these vessels have exceeded all of our design and operational expectations. During the 3Q, three (3) vessels made their inaugural transit through the Northern Sea Route to the Asian Pacific markets in record time, confirming once again, that this navigational route reduces time and nautical distance by about 50%.

We will receive an additional two (2) tankers – the "Georgiy Brusilov" in November and the "Boris Davidov" in December, bringing the total fleet to nine (9) vessels by year-end. This number is sufficient to meet the needs of our current LNG output. In early 2019, most likely January, we will receive another tanker, with the remaining five (5) Arc7 tankers arriving throughout 2019. We will supplement this tanker fleet with lesser-ice-class LNG tankers, Arc4, when and where needed, to ensure uninterrupted LNG shipments to international markets.

During the third quarter we spent approximately RR 24.3 billion on total capital costs. Approximately 39% or RR9.4 billion, of our capital program was spent on the Arctic LNG 2 project and infrastructure for future LNG projects, while approximately RR 6.4 billion or about 26% was spent on the North Russkiy and North-Obskiy license areas, and the East Tarkosalinskoye oil program. The remaining 35% was spent on a myriad of other capital related activities, the largest of these costs comprising development activities at the Yarudeyskoye field and Gydanskiy license area, the hydrocracker project at Ust-Luga and our new office complex.

Our capital program represents a significant increase Y/y by roughly RR 17.4 billion, or by 250%, and higher quarter-on-quarter (Q/q) by RR 2 billion, or by 10.5%. The increase in our Q/q capital expenditures reflects the drilling of well #1 at the North-Obskiy license area and other related work activities at this site, continued progress at the LNG construction yard in Murmansk, the new office complex in Moscow, and the Ust-Luga hydrocracker upgrade.

The financial and operational results were quite strong Y/y and Q/q largely due to the commencement of LNG sales from Trains #1 and #2 at Yamal LNG, but equally important, by a very favorable macro-environment of high commodity prices across the whole spectrum of energy-related products, despite a quarterly drop in liquids sales volumes of roughly 339 thousand tons, or 7.9%.

Our total oil and gas revenues in the third quarter (3Q) 2018 exceeded both the Y/y and Q/q comparatives. We increased our oil and gas revenues Y/y by 68% and Q/q by 12% through a combination of increased LNG sales volumes, stronger commodity prices for liquids as well as enhanced margins for natural gas from the LNG sales. Natural gas represented an increase of RR 37 billion of the change in our oil and gas revenues, whereas liquids accounted for RR 51 billion of the change between reporting periods.

We sold 15.6 billion cubic meters (bcm) of natural gas in the reporting period versus 13.9 bcm Y/y and 15.2 bcm Q/q, representing an increase of 12.2% Y/y and 2.6% Q/q, respectively. Our combined average natural gas price of RR 5,869 per mcm was up Y/y by 50% and Q/q by 33%, reflecting the higher mix of LNG sales in our gas portfolio. Natural gas netbacks (domestic and international) were also very strong in the reporting period reflecting the blending of domestic and international gas sales during the quarter. Our natural gas netbacks increased by 85% Y/y and 52% Q/q. The change between the second and third quarters 2018 was even starker as we sold higher valued LNG in the natural gas sales mix with the ramp-up of Train #2. These higher margin sales increased our percent of natural gas sold in the total revenue mix from 34% in the second quarter to 42% in the third quarter, essentially meaning that liquids contribution to total oil and gas revenues as a percentage declined.

We mentioned on the second quarter conference call that comparability of information is somewhat distorted with the launches of Trains #1 and #2, whereby our nine months of 2017 results were without LNG sales. This distortion also occurs during the ramp-up phase of each train as volume offtakes are based on our equity ownership sold primarily in the spot market.

The LNG sales volumes Q/q increased by 1.2 bcm, or by 179%, and represented almost 12% of our share of natural gas volumes sold versus only 4% in the second quarter. Comparatively, the average price per mcm in Russian roubles for LNG sales increased relative to our Russian domestic gas price by four-fold in the current reporting period, demonstrating the positive impact the Yamal LNG project has on our financial results. Another way to consider this point is that LNG sales abroad represented 39% of our natural gas revenues on 12% sales volumes as mentioned. It's important to stress that we take advantage of the additional equity volumes during ramp-up, but nonetheless, the strength in prices per "mcm" or "mmbtu" is indicative of the future earning potential from our LNG platform.

We will have a mix of spot sales and contract volumes, and this mix will continue through the respective ramp-up of LNG train #3 as we will market a combination of equity interest and direct contractual sales via NOVATEK Gas & Power as an off-taker. The net impact will positively support revenues, especially since we can market the spot volumes during the upcoming peak demand season.

During the current reporting period we increased our injections of natural gas in storage by approximately 950 million cubic meters bcm versus 815 million cubic meters in the prior year. We now have approximately 2.4 billion cubic meters in underground storage or LNG tankers in transit at the end of the reporting period.

For the first nine months of 2018, Yamal LNG offloaded 67 LNG cargos from the plant, representing approximately five (5) million tons of LNG -very strong progress on quick ramp-ups. This week Yamal LNG achieved six (6) tons of LNG produced since the plant's inception, and the new Arc7 ice-class tanker – Vladimir Vize – received its first cargo for shipment.

NOVATEK sold 32 cargoes of LNG during the first nine months of the year, including 17 cargoes in the third quarter, representing cumulative LNG sales volumes of approximately 2.28 million tons. In the 3Q 2018, we dispatched our first LNG cargo to the Brazilian market with LNG produced by the Yamal LNG project. The cargo was delivered to the Bahia Regasification Terminal owned by Petrobras. We have now delivered LNG to five continents since inception of the Yamal LNG, demonstrating the commercial viability to deliver cost-competitive LNG to key consuming regions of the world. We sold approximately 1.8 billion cubic meters (mmcm) of natural gas by the end of the quarter as compared to 653 million cubic meters in the second quarter.

We anticipate the number of spot cargoes sold will increase in the upcoming fourth quarter relative to long-term contracts, which will be further supported by the early ramp-up volumes from the launch of LNG train #3. This same combination pattern of early ramp-up (or spot sales) and long-term contractual volumes will persist until all three LNG trains are operating at full capacity and we revert primarily to long-term contractual sales.

We sold 3.9 million tons of liquids representing a 5.8% increase over the prior year but a 7.9% decrease relative to the second quarter 2018. We exported 57% of our total liquid volumes, which was higher Y/y by 3% but lower Q/q by the equivalent percentage. The average price received in dollar terms was significantly higher across our liquids product range (except small volumes of domestic oil product sales) because of the significant increase in international commodity reference prices, which translated into higher Russian rouble-denominated revenues that was partially offset by higher export duties. Nonetheless, a very strong pricing market for oil and gas producers.

Our third quarter liquids sales were also positively impacted by realizing revenues from prior inventory balances classified as "goods in transit". We had 245 thousand tons of liquids in transit at quarter end and these volumes will be realized as revenues in the subsequent reporting period. This compares to 314 thousand tons at the end of the third quarter 2017 and 196 thousand tons at the end of the second quarter.

As of the 30th September 2018, we had 850 thousand tons of liquids in various stages of inventory and 2.4 billion cubic meters of natural gas in underground storage, which will be realized during this year or used to ensure adequate inventory is available for peak demand. Our financial and operational results will always be impacted Y/y and Q/q by relative inventory movements and the ultimate timing event to realize these balances as revenues.

Our operating expenses increased by 66% Y/y and roughly 16% Q/q in the current reporting period as compared to prior periods, which reflects the growing and evolving nature of our business activities. Our purchases of hydrocarbons have increased substantially over the past several quarters with the successful launch of Yamal LNG and our ability to purchase LNG at our equity position during the ramp-up phase and before the start of the contractual volumes. In addition, our liquid purchases were also affected by the higher commodity price paid to our joint ventures. Purchases increased by RR 59 billion and RR 31 billion Y/y and Q/q, respectively, reflecting the higher unit costs for both liquids and natural gas.

Hydrocarbon purchases as a percent of our total operating costs has essentially changed the dynamics of our cost structure both in absolute numbers and by percentage to total revenues. Purchases now represent more than double the next expense category – transportation – which historically has been our highest expense since we began publishing our financial statements. This reflects our evolving business model as joint ventures play an increasingly important role in our operations and our financial results.

Besides purchases, the most significant cost components in our operating expenses are both transportation and taxes other than income as is traditionally the case. There were no unusual fluctuations in our operating expenses this quarter. However, there were some specific increases in G&A expenses related primarily to payment of bonuses to key employees and their associated social and insurance contributions, an increase in administrative personnel by roughly 9%, and our normal annual salary indexation for all employees. For taxes other than income the primary change related to a 76% Y/y change in the UPT rate for crude oil, which accounted for the majority (71%) of the increase in this expense category. Our cost trends have been reasonably consistent over the past several years as operating expenses support our business operations as well as fluctuate periodically due to increases in personnel, accruals of bonus payments and the corresponding adjustments to salary indexation and social payments.

Our balance sheet and liquidity position is remains extremely strong. We have focused our efforts on strengthening our financial position and this has clearly been reflected over many quarters, as we generate robust operating cash flows to fund our business operations, internally finance our capital program and service all of liabilities and debt obligations as they become due. In the current reporting period we generated free cash flows of RR 26 billion, which was lower than both comparative periods, but reflects a significantly higher capital spent in the current reporting period as we invest in our future LNG platform, prepare the next large domestic gas and gas condensate field, as well as other ongoing development and exploration projects. Our total free cash flows for the nine months ended 30 September was slightly more than RR 104 billion, or relatively comparable to the prior period despite significantly higher capital expenditures.

We achieved an EBITDA of RR 118 billion, which was about double the prior year and 17% higher relative to the second quarter 2018. Our operating cash flows exceeded our cash used to finance capital expenditures by two times, despite the fact that we significantly increased our cash spent on our capital program Y/y by 337%. This also applies Q/q as we increased our capital spent by 12%. We fully funded our capital programs through internally generated cash flows. We improved all of our credit metrics during the period, and again demonstrated a solid balance sheet to easily support our international and domestic credit ratings. Our net debt to normalized EBITDA stood at 0.31 versus 0.45 at year-end.

In conclusion, our nine months financial and operational results were again stellar and demonstrate our ability to generate substantial cash flows from our transforming business model from purely a domestic gas producer to a major LNG exporter. The ramp-up of Yamal LNG had a positive impact on our per unit realizations for natural gas as well as positively contributing to our revenues from the LNG volumes sold on the international markets. We had stated many times that Yamal LNG and broadly speaking, our future LNG platform, will substantially change and dramatically transform our business. This was expected and our financial results already confirm these benefits. We believe these positive benefits will continue to accrue to our financial and operational results as we further build out our LNG platform.

Two thousand and eighteen (2018) represents a pivotal and important step for NOVATEK as the international oil and gas community recognizes the successes we have achieved with our Yamal LNG project. We are no longer considered an outlier by our peers but instead an integral player in the future LNG market with an asset portfolio second to none in terms of hydrocarbon resources and market position.

We have delivered the first two LNG trains according to our schedule and train #3 is preparing for its formal launch in December, a full year ahead of the planned launch date. It’s worth noting again that this accomplishment – launching on time and on budget – has been unprecedented in an environment where delays and cost overruns have become accepted business practice and the new norm. We continue to see this negative trend as a few US projects have recently announced further delays in project start dates. We reject that notion and kept focused on delivering what we said we would deliver to our valued shareholders, and in the process create sustainable shareholder value. This has been a cornerstone of our success over the years and we are proud of these achievements.

Our next LNG project – Arctic LNG 2 – has garnered much press recently with comments made by various parties interested in entering this large-scale LNG project. We understand their interest in our LNG platform. It will be a global LNG game-changer. We will significantly reduce our operational footprint with our new LNG platform based on gravity based structures that will be four times more compact that Yamal LNG. We will also reduce our liquefaction cost per ton of LNG produced and reach our stated target as initially confirmed by the FEED study. Innovation and technology will unlock our massive low-cost, long-lived conventional resource base on the Yamal and Gydan peninsulas with this project and those earmarked after Arctic LNG 2.

There is no disputing our endowment of hydrocarbon resources. Everyone recognizes that our geographical zone of operations is endowed with an enormous resource potential that is cost-effective to exploit and provides the necessary natural gas feedstock to build scalable LNG projects to meet growing LNG demand. Moreover, we have demonstrated without doubt the operational efficiencies gained from the colder ambient temperatures of the Arctic area, which many people considered a disadvantage at the beginning.

Again, we proved the skeptics wrong.

The transition from coal to natural gas has begun. Natural gas is not a “bridge” fuel but rather a significant component of the current and future primary energy mix. The consumption of natural gas in power generation, industrial and residential use will grow as countries adapt climate change initiatives and seek carbon friendly means to fuel economic expansion as well as economic prosperity to many people in the world today without affordable access to electricity. The global trend toward electrification will proceed unabated and natural gas and renewables will be the primary source of energy to achieve this end in the upcoming decades.

We understand the changing energy landscape ahead of us and our responsibilities to deliver affordable, secure and sustainable energy to a growing number of import consuming nations. The ability to deliver low-cost LNG under flexible commercial trading arrangements will define the winners and losers in this evolving landscape. Competition amongst producers will not be defined geographically, but rather by those companies delivering low cost natural gas in the race to displace coal in the energy mix. Quite simply, it will come down to a fuel-on-fuel competition with coal, and we believe natural gas will emerge as the winner.

Equally important, we understand our responsibilities and stewardship in sustaining the ecological region of the Arctic territories where our base of operations is located, and, we recently released our 11th Sustainable Development Report, which can be downloaded from our website, that addresses this important topic. NOVATEK supports these climate change initiatives and, recently, signed the UN Pact on Human Rights. Sustainable development is embedded into our operational procedures and fundamental to our corporate strategy.

We have lofty goals in our corporate strategy to 2030 by developing our hydrocarbon resource endowment into a major LNG producing zone and serving multiple geographical markets as we have already demonstrated by reaching five continents with shipments from our Yamal LNG project. But this is not our complete story. Besides LNG, we will actively develop our resource base within reach of the Unified Gas Supply System to deliver uninterrupted natural gas to the Russian domestic market as well as consider further options to stimulate additional demand for natural gas in the domestic market. We are on target to deliver the initial launch of the North-Russkoye field in 2019 as well as incremental production on various fields from developing the lower producing horizons of the Achimov and Jurassic formations.

We anticipate fully loading our processing facilities at Purovsky and Ust-Luga in 2019 and beyond, as our liquids business remains a significant contributor to our profitability and cash flows. We see the hydrocracker upgrade project at our Ust-Luga plant as further proof that we have enough liquids to fully load our facilities and transition the output slate to higher margin, lighter fractionations. Despite ongoing discussions regarding changes or amendments to upstream and refining tax legislation, we see no negative affect to our business and financial results.

Ladies and gentlemen, dear shareholders, we would like to thank everyone for attending tonight’s conference call and for your continued support of NOVATEK. It’s been an extremely volatile market and frustrating one to comprehend – especially the recent volatility on the equities market.

Our management attention is focused on delivering sustainable shareholder value. We avoid the distracting external noise. In this regards, we are well positioned to begin our next major LNG project – Arctic LNG 2. The market undoubtedly welcomes the diversity of supplies delivered cost-competitively. We will keep everyone informed as usual about our ongoing developments.

We would like end tonight’s call on a positive note. We are very proud of our recent announcements to build a new residential school for 800 schoolchildren in the Gyda settlement located on the Gydan peninsula, as well as our ability to launch the “Health Territory Charity Project” to assist children with medical care and targeted aid in the Yamal Nenets Autonomous Region. This area is the principal home of our major oil and gas operations. Social commitments are often overlooked in the grander scheme of our development activities and lofty LNG ambitions but it is crucial that we give back to society, aid those people less fortunate to us and develop the future generation of Russia. We would like to thank everyone involved who made these events possible. We are now ready to open tonight’s call to our question and answer session.

Thank you.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please signal by pressing star and then 1 on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, if you have a question, please press star and then 1 to ask it.

We will now take our first question from Alex Comer of JPMorgan.

Alex Comer: Hi, just one question. You were very vociferous on coming on the valuation that's been ascribed to Artic LNG 2. I mean just simplistically, the 10% sell to Total for 25.5 billion overall valuation, is there any reason for me not to think that that translates directly to a 2.5 billion cash payment from Total to you at some point in the 2019 year? Or is there some other wrinkles in the way that's going to play out?

Mark Gyetvay: Right now, the valuation as you mentioned, is correct but we don't comment on the deal until it's done. So we expect to have that finalized by the end of this year and close the deal by the first quarter 2019 and, in 2019, we will disclose the results of that transaction.

Alex Comer: Okay. Thanks.

Mark Gyetvay: You're welcome.

Operator: As a reminder, if you find that your question has been asked, you can remove yourself from the queue by pressing star 2. We will now take our next question from Ron Smith of Citibank.

Ronald Smith: Mark, good evening. A couple of questions regarding Yamal LNG. Could you give me a confirmation on the launch schedule for Train 3? Last I'd heard it was going to be either December or January. I'm curious if you have any finer timelines on that. And second, I remember back I guess in February a capacity test on Train 1 and it came in, I don't remember the number now, 8% or 10% above nameplate. And you'd said at the time you'd need to test it in the summer to get an idea of the year round capacity relative to nameplate.

Now that we're out of summer, can you give us any more information on that?

Mark Gyetvay: Thank you, Ron. I said we don't have a date scheduled yet, but I said it would be December this year on the launch of Train 3. And as we get closer, we'll be able to announce that but right now, I'll just leave it as launching in December. And your second question on capacity, we did say correctly that we would monitor the capacity utilization over the course of the whole year. I would want to wait and let it get a full year of operational history before we comment on that question. I think it's incorrect to make a statement on a quarterly basis because we're also, remember, we're are ramping up Train 2 at the same period of time.

All I would say at this particular juncture is that we are operating above the nameplate capacity on both of those LNG trains but to give you an exact percentage, let's wait until we get through the whole year and let's see how it operates. I'll probably do that sometime after - maybe after the first quarter conference call.

Ronald Smith: Sounds good. Thank you.

Mark Gyetvay: You're welcome.

Operator: Thank you. We can now take our next question from Igor Kuzmin of Morgan Stanley.

Igor Kuzmin: Hi, good afternoon, Mark and the Novatek team. I just wanted to ask two questions here please. One is, is it possible to comment on the percentage of total production from Yamal Train 1 and Train 2 that Novatek has been off-taking in Q3 and how that might be changing in Q4? Off-taking meaning sort of Novatek purchasing from Yamal LNG and then marketing it elsewhere in the rest of the world.

And the second question, in terms of the Arctic LNG 2, are there any sort of details that you potentially can disclose around how the contracts potentially might be structured and what sort of pricing formulas are in discussion if possible? Thank you.

Mark Gyetvay: Thank you, Igor. On the first question, we basically said that we took 32 cargos for the nine months, and I said that this number included 17 cargos in the third quarter. So the total volumes off take in terms of a million tons were about 2.28 mpta. I don't have the breakdown specifically on the third quarter - well, I do. Excuse me, for the third quarter I do have that number. In the third quarter, we had about 1.2 million tons of LNG. Okay. So that was the number in the third quarter.

To estimate what it's going to be in the fourth quarter, post the third quarter, it would depend on the start-up date on Train 3 because that's obviously going to have an impact on the volumes sold. So I would reserve not answering that part of the question. But 32 cargos for nine months, 17 cargos in the third quarter, 2.28 million tons for the 32 cargos, and 1.2 million tons for the 17 cargos approximately.

All right, on your second question, I mean we're in discussion with people on off take agreements right now but, I, again, it's premature to provide you any guidance at this particular point in time. Because we have stated previously that it will be a combination, probably by the time this project launches in 2022, it will be a combination of spot and long-term contractual sales.

I think what we said previously we don't need to have as many long-term contracts to support the financing because the structure of the deal will be completely different - more equity contributions rather than debt contributions. But to give you an indication right now, the best thing I could say, it's going to be some kind of hybrid pricing model as the market evolves more towards that structure. But to give you specifics, it's too early to give you any specifics.

Igor Kuzmin: Mark, I was just more kind of looking for an indication of what it is now in terms of exactly how you said it, just trying to understand where the market is moving, if, for example, it's a slope, what sort of slope we're talking about. But if it's too early from your side to comment then we'll wait. Thank you.

Mark Gyetvay: First of all, I think we've said many, many times before, we don't disclose the commercial terms specifically on contracts. I think what you can see, which I tried to point out on today's conference call is if you look on the average price, you can see a substantial growth in the average price recorded for natural gas. And I think that's reflected of LNG sales. You know what the Russian price is approximately and it's (increase) reflective of the LNG sales. And I highlighted this specifically by saying 12% of the volumes represented about 36% of the gas revenues.

So I think you can see the impact that the LNG sales has to our financial results, as well as its positive impact to the per unit realizations. But we're not going to disclose individually what the slopes would be on the contracts.

Igor Kuzmin: Understood. Thank you.

Mark Gyetvay: You're welcome.

Operator: Thank you. We can now take our next question from Alexander Kornilov of Aton.

Alexander Kornilov: Yes, good evening gentlemen. Thanks for the opportunity to ask a question. Actually, I have a couple questions. First of all, as we now have around ten months behind almost, can you share with us your targets i.e. production and CAPEX for 2019 if possible? And maybe it's premature. Sorry about that.

And the second question is related to Artic LNG again. During your presentation, Mark, you mentioned that the valuation of this project implied by the deal with Total looks rather conservative, if I got it right. Can you share with us if possible what kind of valuation you would attribute to that project and what kind of long-term oil price you're incorporating for that particular valuation? Thank you.

Mark Gyetvay: Okay. On your first question on CAPEX and production volumes, as historically been the case, we usually provide that guidance during the year-end conference call. Because what's happening now is the teams are going through the budgeting process as we speak. Once we get the budgeting process decided, we look at the capital program for 2019, and that amount has to get approved by the management board. Once the management board approves the budget, then it has to get approved by the Board of Directors and that usually doesn’t happen until sometime in December. So we generally don’t give these types of forecasts until after the Board of Directors approves the budget. So I am sorry to say tonight for everybody who wants to know what our production forecasts for 2019 or our CAPEX, you're just going to have to wait on that particular point.

In terms of Arctic LNG 2, I'm still kind of perplexed a little bit and surprised why there's so much focus on questioning this valuation. I mean I don’t see anybody questioning the Canadian LNG project at USD 31 billion. All I see is that Canada thinks it's the greatest thing to happen to the country in a long time and everybody is supportive of this, but we give a valuation out to the market after we were the only ones that were able to, so far, deliver a project on time and and on budget, and everybody is questioning this valuation.

I just don’t see that logic. I just don’t understand. When are we going to stop trying to question what we publish in the market? We wouldn’t put out a statement, a press release, without it being discussed with our parties. And so I mean that should give you comfort right there that the valuation that's been ascribed to this particular project is what we say it is.

And why we say it's conservative right now is because, as you now know, we just added another 400 billion cubic meters of natural gas. We just added another 40 million tons of condensate to the project. We just completed a FEED study. I mean we've been working on value engineering this particular concept for more than a year now. We raised the initial output of the initial design from 6.1 million to 6.6 million tons per annum.

Total made a decision early on to join this project and we think as it stands today, given all the positive attributes that we see accruing to the work we've done so far, we believe it's conservative. Oil prices going forward on market projections, I mean, I don't think anybody can give you a realistic number when we've seen, what, $65 per barrel as a reasonable average price long-term. But we don't know if that's going to hold over the course of the life of the project.

The most important thing for us right now, and what we said before, we said at Strategy presentation and we continued to repeat this statement throughout the year. Our goal is to be a low cost provider of LNG to the market. The only way we're going to be able to be a low cost provider to the market is twofold. One, we can build a project that's low cost, meaning reduce the capital intensity of the project from what we did at our Yamal LNG project by moving everything from onshore development, using pilings, et cetera, on permafrost, to build these GBS systems. And we know what it's going to cost us, relatively speaking, on the field development.

Second, how do we optimize the logistic transport on the Northern Sea route? The more we can optimize that route by utilizing it on a longer timeframe, I think Mr. Mikhelson has already commented before at Vladivostok Conference that we believe we can reduce the transport cost by about 7% to 10%.

So our goal right now is to deliver a project that is one of the lowest cost projects in the world. And once we do that, we're absolutely certain that we can deliver volumes to the consumer nations. And, you can see that already by the very strong interest that we have today from potential partners looking at this project. If it wasn't attractive value wise, if it wasn't attractive on somebody's oil price future index, whatever price deck they're using, whatever discount rate they're using, they would not be looking at this project.

So right now, we still have strong interest. We think it's a great project. It's going to unlock economic value in the Gydan and Yamal peninsulas. We think that we can eventually lower the capital cost per unit as we get more engineering experience from building out these GBS units. And time will tell what the oil price would be in the future. Right now, it's very attractive and as I mentioned earlier, we're selling spot volumes in a very attractive market and we're going to be selling spot volumes in a very attractive market coming up in the winter season.

So I think let's give us credit and say that we've delivered our project on time. We have built a platform right now that I think people respect us in the industry for what we've achieved. And now, it's our time to monetize this success. And like I said to Igor on the previous question, you can see the results in the financial statements. It's without question.

So let's wait a little bit. We don't have a crystal ball on the price deck. $65 is a reasonable assumption to use and we'll see how it plays out over time. So $65 per barrel is a reasonable target for us.

Alexander Kornilov: Okay, thank you, Mark for such a detailed explanation. I'm not trying to challenge all your points, you know. They all look reasonable. Let me just rephrase with the question. Let's say if, for instance, Saudi Aramco or someone else would buy just a share of that project would you expect them to pay a higher price compared to Total or would it be a wrong assumption?

Mark Gyetvay: Look, I tried to say we've set the floor, okay? So the floor has already been set. So people have their valuation estimates, you know, we have our valuation – they have their estimations. They have their chance to revisit the data room. We hope that our partners will use the same logic of a higher price and higher reserves. So hopefully, in our opinion, right now the valuation that Total paid is conservative. Okay? And if anybody would look at the project and look at the fact that there's more resources, a lower cost has been confirmed, to us, means higher value. But I can't make that decision. The buyers are going to have to assess the value from their own perspective and they're going to have to make that judgment call.

What we did on this particular project, what we did specifically on the Yamal LNG project that's extremely crucial for us is that we've been able to remove it from the so-called Russian risk. So we're not looking at a project that's going to have a huge discount factor as most people apply to the domestic gas business. So when you start doing it on a realistic valuation basis and you take a realistic price forecast on the outlook of LNG prices depending on where they're going to bring it to the market, you'll see that there's a valuation that we have put for Yamal LNG is solid and the valuation upgrade from Yamal to Arctic LNG 2 is recognition of what the market has evolved to at this point and recognition of what we have achieved.

I know you're not challenging me on the valuation question but, as you know, we know right now that the valuation it's really going to be through the negotiations – whatever they feel is comfortable to pay for this project and whether or not we believe it's fair value to us we'll come to that conclusion, but right now the floor has been established and we made that known to anybody who's interested in this particular project.

Alexander Kornilov: Okay, thank you.

Operator: Thank you. We can now take our next question from Thomas Adolff of Credit Suisse.

Thomas Adolff Hi. Good afternoon. I'm afraid I have three questions so bear with me. Firstly just on the shipping fleet you've mentioned that you will have more spot cargoes due to earlier startup and faster ramp up with the third train likely a year ahead of the original schedule. So I wonder whether you manage to get all the ships ready to facilitate for these earlier volumes?

And then secondly in terms of the FID and Arctic LNG 2 I wonder whether you are hoping to do so without locking in long term contracts like LNG Canada or will the timing of FID be dictated by the signing of long term contracts for a decent portion of the overall volumes? And then I guess finally the question I have is obviously it is a popularity contest and you've done a great job in Yamal and a lot of, you know, credible LNG buyers want a piece of Arctic LNG, some claiming to want to have a bigger stake. So I wonder -- and of course it will be driven by value -- but strategically whether it makes sense to have as many important LNG players join the consortium as opposed to just a few? And then and perhaps will there be an early Christmas present or will it rather be a New Year's gift? Thank you.

Mark Gyetvay: Thomas, on the shipping question, I kind of addressed that point and said that as of today we have seven Arc-7 class tankers in operation, and they are operating efficiently moving product back and forth to the marketplace. We have supplemented those vessels with the lower ice-class tankers and we've been using about four, I guess right now about four of them to supplement the Arc7 tankers. But they have lower class ice capabilities so we prefer to use them, you know, in areas where there's no ice.

And then by transshipment back and forth we've been able to offload into conventional tankers. So right now we don't really see any issue. But then you bring up the question of the ramp up of a third train. As I mentioned we have two more Arc-7s arriving shortly, one in November and the other one I believe it was in December. We have one more tanker coming in probably the beginning of the year, January probably, so that gives us ten tankers and then over the course of the year (2019) we'll get an additional five vessels So right now we fully anticipate that we have enough vessel fleet to handle all of our loading requirements.

Another thing that we talked about and you may have read with interest is we're going to do some transshipment - ship-to-ship - in Norway. That would also facilitate the use of a lower number of vessels, you know, to help us through this transition period. And Norway would be more or less a transition period or a temporally decision for transshipment, until we build our Murmansk's facility which should be around 2022. So I think right now it's safe to say that I believe according to our commercial people and according to our shipping people we're okay in shipping. And if there's any problem obviously this will be raised in the press like it usually does and we'll have to deal with it but right now we believe there's enough ships to transport our LNG to the marketplace.

Your second question on FID with or without long term contracts, as you know, Canada LNG made the decision to move forward without securing long term contracts which is quite different than, you know, Global Venture's project and everybody else who are securing long term contracts. So it's going to be a combination. I think the most important thing that we stressed early on in some of our conversations, we talked that the structure for Arctic LNG 2 would be more equity based than debt based. We would have a lower debt base for this project. Right now we're looking at probably a 70% equity, 30% debt structure preliminarily at this particular project. We don't need to secure the same level of long-term contracts as we did in Yamal LNG, which was secured by 96% of the volumes under long-term contracts.

But I think we've got to also address this question in the timeframe when this project will be moving forward because the market evolution that we talk about for the industry, is we expect to see more liquidity in the market by having more waterborne LNG carriers around. We expect to see some of the trading portfolio players stepping in to facilitate some of the trading activity and increase market liquidity.

So I'm not quite sure at this point that these projects, the so-called second wave projects that we'll not see that evolution away from having to secure long term contracts, before making an FID decision as well as the security decision required on behalf of the bankers to finance a particular project. I think right now it's not imperative for the FID decision but obviously we're in the process of talking to potential off-takers. And when the contracts are signed obviously we'll make that announcement. But right now I don't think it's imperative in the decision process yet for the making an FID decision at this point.

And for your third question, you know, it's a little premature to make, I mean it's hard to say. We have Total in the project at 10% equity and we hear speculation that Saudi Aramco wants 30% right? And we have speculation that maybe the Chinese or the Koreans or the Japanese are going to want to come in. I mean what's important for us right now is looking at the end markets, how do we deliver these LNG volumes to the marketplace? And obviously the countries that I mentioned are interested in the particular project are all oil and gas consuming nations. So what the mix is in terms of the size each partner takes I think it's irrelevant to us. You know, at the end of the day whether we have two partners or three partners or five foreign partners it doesn't matter, as long as the valuation we obtain is the right valuation that we want for the particular project.

Now obviously let's look forward because, as you know, what we're talking about here is scalable projects. So as we start with Arctic LNG 2 we finalize that project, we're already focused on the projects beyond Arctic LNG 2. So what I mean is that we have a platform ahead of us that will be viewed by the marketplace as a desirable place to invest in LNG projects particularly if we can continue demonstrating the operational efficiencies of the plant as we discussed a little earlier and secondly if we can open up the Northern Sea Route for full-year passage, so that it makes the time and nautical distance to the Asian consuming markets much shorter.

And then I think the other thing that we're not talking about is there's also the possibility for swap arrangements. We should expect to see an increase in swap trading starting to emerge as these projects move forward with the second wave. So I think today it's not really important the number of parties that are involved. I think it's really important the right parties get involved in our project. And I think the people that we're talking with today are the right parties that would be interested in not only the Arctic LNG 2 project, but also more or less our LNG platform, and that's important for us.

Thomas Adolff: Right. May I ask one last question just since you've mentioned…

Mark Gyetvay: Okay.

Thomas Adolff: …Arctic LNG 3 de-risking the next project does Novatek have the organizational capacity to do two projects at the same time or should I consider Arctic LNG3 to be sanctioned after Arctic LNG 2 is completed?

Mark Gyetvay: Well, Thomas, I don't know why you doubt that. I mean it's like – I mean then we go back to the question of people doubting we're never going to deliver any of these projects on time and I think we've killed that skepticism. No I mean of course we have the capability of doing it. It's not the capabilities of management of the project because we've been investing in our LNG business in terms of the right hires. And I think the question, the right question to answer this particular issue – to address your question would be whether or not the LNG construction yard in Murmansk can build enough GBS structures to be able to have multiple projects done consecutively. That's really the question right now.

So that's a decision that obviously we're looking at and it's a decision that's very important for us because it does move us away from sequential execution of projects to concurrent execution of projects. So it's not a management skill or management capability. I think we clearly demonstrated already that we can deliver a large-scale project. So I think it's more like a technical question on the construction yard at this particular point.

But let's also address the question a little further. I talked about the North-Obskoye field and I talked about Arctic LNG 3. You know we also have other fields that are in close geographical proximity to Utrenneye Terminal that will be the main point of shipment. So it may not be right away, it may not be Arctic LNG 3 that's the next project. So I apologize for the confusion in the project numbering sequence but nonetheless, you know, we'll determine this question based on the fields development activity, and also how successful we are with Arctic Cascade because that might also come into the decision process about how we want to build out some of the other LNG projects. As we're building out the GBS structures, you know, we might decide that Arctic Cascade is of sufficient enough scale to do some of these satellite fields might be the next way to monetize our asset base. So I think it's save to say that there is a lot of factors that come into that decision. It's not a straightforward question. But I appreciate your question very much.

Thomas Adolff: Thank you very much.

Operator: Thank you. We can now take our next question from Henry Patricot of UBS.

Henri Patricot: Yes, thank you for your data. I actually wanted to pull up on the comments you just make. About Arctic LNG-3. I was wondering the well results compared to your initial expectations and where you're thinking I think last year you had a number of 12 million tons free capacity of the project. So, what are you thinking about it for the well result and also secondly for Arctic LNG-2 and the upside potential you mentioned with new reserve additions enough to do a potential two additional trains on this stage, or do you still need to firm up a bit more reserves. Thank you.

Mark Gyetvay: Henri, that's the important question right now. I mean that's why we've increased our exploration budget five-fold to begin the process of developing and preparing our resource base to a stage that we can start making these decisions. You know, that's fundamental. Nobody's going to talk to anybody if you don't have your resource base proved up to a level that everyone feels is sufficient to roll out an LNG train.

So you started off the question by asking about Arctic LNG 3 and the North Obskoye field. Well, quite frankly I tried to address that question that we were only able to drill to a vertical depth of 2,800 meters, which barely got us into the target horizon on the Valanginian layer. We were not even able to drill and access the deeper horizons due to the drilling limitation on the vessel.

So to be able to say that we found a major hydrocarbon field on an initial test that we were not able to completely test all the potential producing horizons gives us enormous optimism that we just now made a major new field discovery. And I tried to say also that the 3.3 trillion cubic meters that we have earmarked as reserves on the Yamal and Gydan peninsulas is probably conservative. We will probably see some significant upside to those particular reserve numbers. And so, again, it comes down to the question of not being resource constrained. It's how do we develop these resources and prepare them so that we can market some future projects and start bringing potential partners in to access.

So, it is safe to say that the North-Obskoye field was a tremendous, tremendous, tremendous success for us. And we're very optimistic that this will be a major discovery across the entire license area when we start drilling. That's why we're going to bring forward drilling of the second well up a year (from 2020 to 2019) because we think this will be a field that needs to be prepared quicker. But largely I think the most important thing is that the exploration budget has been increased five-fold to address that very question that you're looking for me to answer.

Henry Patricot: So, thank you.

Operator: As a reminder, you can press Star 1 to ask a question. We will now take our next question from Ildar Davletshin of WOOD and Company.

Ildar Davletshin: Yes, good afternoon. Thank you for taking my question. I've two if I may. So one on Artic LNG 2, I just wanted to confirm the CAPEX estimate on the cost of 20 to 21 billion for what looks like a 19.8 tons. That seems very conservative. Does this include upstream part as well? Or is it just the infrastructure? And then the second - on Yamal LNG current project, when do you expect - is there a chance for earlier distribution of earnings given that it's - the project is significantly ahead of original schedule. So what needs to be done? And when can we learn about possibly earlier distribution of profits among the shareholders?

Mark Gyetvay: Hello, Ildar thank you very much. On the first question, the USD 20-21 billion is both costs - that's both the liquefaction and the upstream part of it. So that includes the infrastructure. Okay? I think that's pretty much consistent in the range that we talked about in our Strategy presentation. And, I think we've talked about the liquefaction plus the upstream side of the cost in that presentation. So we're comfortable that that number is reasonable so far.

So I would just wait until we make that formal announcement on that in the FID decision. But that would be the liquefaction as well as the field development, infrastructure related costs. Now your second one - your second question, you know, we talked about that point on the second quarter we spent a lot of time talking about the first question on the second quarter conference call about dividend payments. And obviously this is of interest to everybody including us.

As it relates to Yamal LNG, I talked a little bit about the ongoing test that we have to do - the completion test, and so we are now making the technical test. Ok? So that's ongoing right now. I would say within the first quarter of 2019 maybe slightly after, maybe within the first three to five months, possibly three to four months. We're going to perform logistical and commercial tests, which will allow us to start cash distribution. So once we complete that level of tests, we can then start cash distribution between the project shareholders, and this will relate solely to interest and loan repayments.

Ildar Davletshin: Right.

Mark Gyetvay: So that's that point. But let's just look - I want to follow this up on the dividend side because I think it's also important. Because even without a dividend payout increase, because I talked about that at length in the second quarter to say that the payout would not happen until, you know, probably at best after we finish the structure of Arctic LNG 2 financing, partner selection, et cetera, as well as the completion tests.

Let's be realistic. You are going to start seeing on an absolute basis that the dividend payment will increase significantly because of the contribution that Yamal LNG is already making to NOVATEK. And we tried to stress that with the difference between the spot sales and the long-term contractual volumes and the early ramp up volumes, which is attributable to spot sales but this combination is an enormous benefit to our shareholders. And you know - at this particular point of time that the additional cash coming into the particular project probably gives us a position we don't even have to draw down on the total debt position

So right now, I think we're in a very good period of time to be able to, like you just said, demonstrate strong cash flows generated from the project. We'll be able to meet those commercial and logistical completion tests, and start paying back interest and loan repayments to the partners. But also, watch for a significant increase in the absolute dividend payments because this is clearly representative of the Group’s profitability today as well as the cash flow generation that we're receiving for these early ramp up volumes, et cetera. So right now, that's probably all I would say on that particular point.

Ildar Davletshin: That's very helpful. And maybe if I just could ask on the first question on Arctic LNG 2, given that you may probably need much less third-party financing, I mean, banking financing, is there - have you considered selling more gas under spot conditions? Having more flexibility? Or you would stick more to long-term contracts , maybe oil-linked contracts?

Mark Gyetvay: Yes. That's a question that's been asked previously on tonight’s call. I mean you're right. You're essentially right. I mean theoretically, you know, having a lower debt structure means that we won't have to go out and secure long-term contracts to support the financing structure on that project, right? And so, there's a possibility it may be more spot.

And this is what we talked about - again this point is what we're talking about when we say the evolution of the market. I mean, you must be clear on this point because the market is looking at flexibility as a key term - flexibility on destination, flexibility on volumes, flexibility on terms. We are also at a point of time right now where I think other sponsors realize this point - that this is a change - that this evolution will eventually come. But at the same time, this makes it confusing. At the same time we think the market is evolving, we see Cheniere just execute a long-term 20-year contract with Chinese companies. We see Venture Global, again another LNG producer, sign a long-term contract to support their project. So there's going to be a combination of spot and long-term sales and although the evolution moves that we believe are forthcoming – we will move more towards spot eventually.

You know, we're seeing contradictions to this point as buyers are looking to secure volumes. So, it's hard to predict right now if we'll say it's all spot. But the market is clearly moving in that direction right now. But I would say at this point, it's safe to say that to address your specific question in the way you phrased it. It's probably safe to say that yes, we don't need to have as much long-term contracts to support the debt. But if somebody comes to us and wants to execute a 20-year contract, you know, long term contract for said volume, I mean of course we're going to listen to that. That's the nature of our business.

So I think right now when we start that process of announcing how the sales will look like for our projects, we'll make the announcements on that point - at least we'll update everybody on future conference calls. But your premise is right. But we're seeing some contradictions to the market right now. But I think ultimately, the evolution that we talked about will be the new norm in the LNG trading. I think I alluded to this point on the last conference call again - I talked about why do we have to have long term contracts for LNG, but we don't have the same long-term contracts in the crude oil markets?

And the reason why you don't have that situation is that you have enough volumes trading that people aren't concerned about whether or not they're going to lose sales volumes not being able to find a home for a cargo. So, the more waterborne volumes that we have in the marketplace right now, obviously we're going to move more to spot trading. And also, we'll start increasing the level stop trading. That's how we see the market evolving, but we do have contradictions in some countries and some companies are still executing long-term offtake contracts as we speak.

Ildar Davletshin: Thanks. Very helpful. Thank you, Mark.

Operator: Thank you. As there are no further questions in the queue, I will hand it back to our host Mark Gyetvay for any additional or closing remarks.

Mark Gyetvay: That was a long one. But anyway, thank you very much to everybody. We appreciate you taking time this evening to listen to our third quarter conference calli. Your attendance today and your belief in our story is important to us. And I hope that by now you can see the impact of the change in business model already in the financial results. We believe that this will continue with the further launch of Yamal LNG train number 3 as well as, you know, positive news flow coming out to market on the eventual equity sale of Artic LNG 2. So again, thank you very much. We look forward to addressing you again on the final conference call in February. So, thank you. And have a good evening.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.