

PAO NOVATEK

Full Year and Fourth Quarter 2018

Financial and Operational Results – Earnings Conference Call

21 February 2019

Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Full year and Fourth Quarter 2018 earnings conference call.

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 point in mind when asking questions for the convenience and respect of other investors. We have allotted sufficient time to address all of your questions.

We would like to thank everyone for taking your 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

Two Thousand and Eighteen (2018) was an incredible year for NOVATEK as we successfully launched LNG trains #2 and #3 at Yamal LNG ahead of schedule by roughly six months and more than a year, respectively. This represented an accomplishment unprecedented in the oil and gas industry. With the successful launches of the three LNG trains, NOVATEK is now considered one of the largest producers of LNG in the world, accounting for approximately 5% of the global LNG market and the largest LNG producer in Russia. Yamal LNG is clearly transformative to us but this project represents only one in a series of future LNG projects that we plan to launch from our prolific, low-cost hydrocarbon resource base on the Yamal and Gydan peninsulas.

This past year was also extremely volatile for commodities and equities markets. Although we had relatively strong underlying commodity prices throughout the first three quarters of the year, the fourth quarter experienced a sharp decline in crude oil prices as concerns emerged over slowdowns in key consuming markets as well as negative reactions to further trade wars and other

geopolitical events. We were not immune to this share price fall in December although our US dollar denominated market capitalization growth in 2018 was quite impressive at 42%.

Despite the weakening commodity market in the fourth quarter, we reported another year of impressive financial and operational results in 2018 driven by the successful launch of Yamal LNG, stabilizing domestic production and a relatively strong pricing environment across all commodity prices in 2018 relative to 2017.

Brent crude oil averaged \$71 per barrel in 2018 versus \$54 per barrel in the prior year, but experienced a 9% decline between the third and fourth quarters 2018. Despite the relative weakness in crude oil prices they remain within a range-bound that supports industry capital investments, and, more importantly, does not erode but rather supports our demand outlook, despite the seasonal demand weaknesses across certain geographical areas due primarily to warmer winter weather. Commodity prices will remain volatile for the foreseeable period as we experience short-term demand/supply imbalances as well as increasing geopolitical tensions.

Global demand for LNG remained strong during 2018. Demand increased by slightly more than 10% to roughly 319 million tons, led primarily by the strong growth in Chinese natural gas consumption. During the fourth quarter 2018 LNG demand reached roughly 86 million tons, representing a 15% increase over the prior year period. China imported roughly 54 million tons during 2018, increasing imports year-on-year (Y/y) by approximately 41%. China was clearly the destination of choice throughout most of 2018, but weakening demand due to warmer winter weather and new LNG supplies entering the market saw the traditional premium margins erode and a shift of cargos to the Atlantic basin, primarily to European markets.

Although markets shift for various factors, China will drive global gas growth for the foreseeable future and remain the favored destination for LNG to supplement local production and the import of pipeline gas. Moreover, the broader Asian Pacific Region, including India, will see a structural shift towards increasing natural gas consumption at the expense of coal as their economies expand and pressures from societal demands for cleaner burning fossils fuels, a trend that will not abate but intensify in the upcoming years and decades.

LNG is the most discussed aspect of the natural gas industry as the gas market moves to a truly global trade. Our future LNG platform places us in a strong competitive position to deliver scalable LNG projects. Our immense, yet conservative, resource base comprising over 3.3 trillion meters of conventional natural gas in the Yamal and Gydan peninsulas is growing. The success of our exploration program confirmed this fact. The combination of low-cost gas feedstock and an optimized logistical model gives us a tremendous comparative advantage vis-à-vis our global competitors. Unlocking economic value and delivering low cost LNG solutions to consuming nations underscores our strategic themes of energy affordability, energy security and energy sustainability.

So, let's begin tonight by discussing an update on Arctic LNG 2. We mentioned on our last conference call that we have completed the FEED work, and, as of today, we signed several contracts with major supplier and contractors. Effectively, we have contracted more than 50% of the equipment for the project. All of the executed contracts cover the three LNG trains as well as equipment options for further LNG projects, and have varying degrees of local content embedded in the agreements. We will continue with the contracting process over the next several months, but all tenders are currently in process.

Detailed design of the topside modules and the GBS platform commenced in October 2018, and we do not anticipate any major conceptual changes. Accordingly, we can confirm that the capital costs of \$20 billion to \$21 billion for the 19.8 million tons per annum (mpta) of LNG produced is maintained.

Everyone is interested in the status of finalizing our partner selection process for Arctic LNG 2. It's probably the single most important question this evening and an important step to unlock economic value for the Company. We will close our Total transaction by the end of the first quarter 2019. Ongoing negotiations with other interested partners are positive and proceeding favorably to conclusion. We have an optimistic view that we will conclude the selection process prior to making the final investment decision, or FID. Potential partner interest in Arctic LNG 2 has been very strong. Our success at Yamal LNG and our ability to deliver LNG cargos to five continents in 2018 without seasonal disruption clearly demonstrated the economic attractiveness of the Arctic region as a new LNG hub. Our Arctic LNG 2 project clearly benefits from these positive sentiments. We aim to take an FID decision sometime in second half of 2019.

A considerable amount of time was spent on prior conference calls discussing the various stages of construction progress on the Yamal LNG project. The main construction phase is now completed. The facility is fully operational and we have established a significant presence in the global LNG markets. Yamal LNG established a new industry benchmark in project execution, cost control, and project management. So, for tonight's call, we will provide a brief update on work activities relating to LNG train 4 and focus more time on LNG marketing, shipping and logistics.

We anticipate that LNG train 4 will be ready by the end of 2019, but no later than the first quarter 2020. We have approximately 300 workers on site and various work activities are proceeding as planned. The facility's main equipment is being manufactured and various completed parts have already been delivered to the Sabetta area. We will use "Arctic Cascade" our proprietary liquefaction technology to take advantage of the colder ambient temperature and reduce capital cost. Overall progress is estimated at about 27% and about half of the wells needed to launch LNG train 4 have been drilled.

Yamal LNG produced about 8.6 million tons of LNG and 904 thousand tons of unstable gas condensate in 2018. One hundred and thirteen (113) LNG shipments were dispatched for a total volume of 8.36 million tons, along with 30 shipments of stable gas condensate representing more than 717 thousand tons. In the fourth quarter, the plant dispatched 46 LNG cargos, or 3.38 million tons, and nine (9) shipments of stable gas condensate, or more than 244 thousand tons.

In November, NOVATEK shipped its first cargo to China National Offshore Oil Corporation, or CNOOC, via the Northern Sea Route (NSR) by an Arc7 ice-class LNG carrier in 20 days, completing the NSR part of the journey in 7.5 days. The speed of this voyage demonstrated the operational effectiveness of the ice-class tankers. From a logistics optimization perspective, it also demonstrated the tankers ice-breaking capability to deliver a LNG cargo late in the seasonal navigation period.

Specifically, NOVATEK sold 57 LNG cargos in 2018, including eight (8) under long-term contracts from LNG train 1, representing approximately four (4) million tons of LNG. During the fourth quarter, we sold 25 cargos, including three (3) under long-term contract, or roughly 1.73 million tons. There were marginal volumes sold in 2017 as the first LNG train was commissioned in December 2017.

We have 10 Arc7 ice-class LNG tankers and one Arc7 ice-class condensate carrier. Our fleet is supplemented by 12 conventional tankers, and by the end of 2019, we expect to receive the remaining five (5) Arc7 ice-class tankers for a full complement of 15 Arc7 ice-class tankers. We have one of the newest and most sophisticated LNG tanker fleet serving Yamal LNG in the industry.

On 26th November, Yamal LNG completed the first ship-to-ship LNG transshipment in Norway. The Arc7 ice-class tanker “Vladimir Rusanov” successfully reloaded an LNG cargo delivered from the Yamal LNG facility to the lower class designated tanker “Pskov”, which then delivered the reloaded cargo to North-West Europe. This temporary approach allows us to optimize our transport cost by decreasing the voyage time of the Arc7 ice-class tankers and to ensure the timely and consistent offloading of LNG from Yamal LNG.

We have completed the construction phase at the Cyrogas-Vysotsk LNG plant and commissioning activities are in the final stages. We anticipate receiving first LNG output relatively soon and first cargos of LNG shipped by the end of the first quarter 2019. As a reminder, this medium scale LNG project will serve the Baltic region’s bunkering fuel requirements as well as cargos sent to regasification terminals in North-Western Europe and Baltic countries. We have already secured a major off-taker for LNG volumes produced from the first LNG train.

Progress at the LNG construction yard in Murmansk continues to proceed according to our work plans. Approximately 2,000 workers and more than 500 construction vehicles are presently on site. More than nine (9) million cubic meters of soil and rocks has been excavated, including 700 thousand cubic meters inside dry dock #1. Work is underway on the construction of berths #1 and #2, dry docks #1 and #2, as well as the shore protection structures. The metal structures for the GBS workshops are being installed, and the installation of the first concrete plant has been completed. Concrete work continues for warehouses, and the manufacturing of the metal structures for the top-side modules has begun.

We have spoken extensively over the past year about our ongoing activities related to exploration activities. Our spending increased significantly year-on-year to prepare our prospective fields for future development activities, so tonight we will provide additional updates in this important area.

During 2018, we ran and processed about 3,000 linear kilometers of two-dimensional (2D) seismic and 4,760 square kilometers of three-dimensional (3D) seismic to support our ongoing exploration activities. We also drilled approximately 36 thousand meters of exploration drilling in 2018, representing a 47% increase over 2017. Our geological and geophysical works yielded significant results supporting our exploratory drilling efforts.

According to the consultancy firm, WoodMac, NOVATEK had two of the top five exploration discoveries in 2018. At the top of the list (at number 1) was our announced discovery at the North-Obskiy license area with our first exploratory well drilled in the shallow waters of the Ob Bay, and at number 3 on the list, was our exploration success with our first exploration well drilled at the Nyakhartinskiy license area. Combined, these wells added approximately 2.5 billion barrels of oil equivalent to our exploration program according to their estimates.

We believe that our exploration program actually yielded more positive results than outlined in the WoodMac report. To recap, well #294 at the Utrenneye field confirmed two new commercially viable hydrocarbon deposits at the mid-Jurassic deposits. These new discoveries increased the field’s reserves by 405 bcm of natural gas and 40 million tons of liquids. Accordingly, our C1+C2 reserves aggregate approximately two (2) trillion cubic meters (1,976 TCM) of natural gas, making

this gas field larger than Yamal LNG's South-Tambeyskoye field. Moreover, we significantly increased our reserves at this field under international standards and have booked approximately 1.1 trillion cubic meters of natural gas and 57 million tons of gas condensate under the PRMS reserve methodology. We have now successfully tested the lower- and mid-Jurassic horizons at the field.

At the North Obskiy license area owned by Arctic LNG 3 we discovered the North Obskoye field. Eight (8) new hydrocarbon deposits were identified at various productive layers between the depth of 1,000 to 2,800 meters, although we only tested a portion of the hydrocarbon bearing structure due to the drilling rigs limited ability to reach the lower Jurassic layers. The initial reserves appraised for this discovery according to the Russian reserve methodology is 322 billion cubic meters of natural gas and 26 million tons of gas condensate.

WoodMac stated in their aforementioned report that the exploration success at the North-Obskoye field was the largest discovery in Russia since 2012. This represented a major new gas discovery and clearly indicates that our total Yamal and Gydan peninsulas initial reserve estimates of 3.3 trillion cubic meters of natural gas is probably quite conservative. We plan to drill the second exploration well in 2020.

We also completed the testing of well #172 targeting the Jurassic layer at the South-Tambeyskoye field and achieved significant initial flow rates for natural gas and condensate. It was the first horizontal well drilled into the Jurassic layer with a 1,000 meter horizontal run and included a five-stage hydro-fracking design. We will disclose more information about the testing results at a later date.

Our exploration efforts were not solely directed at our future LNG projects. At the West-Yurkharovskoye field, we confirmed two productive layers at the Jurassic horizon with the completion of well #147. We will complete the testing of this well in 2019 but made a positive decision to proceed with the full 15 well drilling program targeting the Jurassic layers. In 2018, we commenced production from the Jurassic layers and will continue ongoing exploration and development activities. We anticipate that this new field will produce approximately two (2) billion cubic meters of natural gas when it reaches plateau levels in 2021.

For the North-Russkoye cluster, we confirmed high productivity flow rates at the Kharbeyskoye field targeting the Valiginian oil deposits. We have now prepared a development plan for the Kharbeyskoye field with estimated plateau production reaching approximately six (6) billion cubic meters of gas, 700 thousand tons of condensate and 3.1 million tons of crude oil. Collectively, the North-Russkoye field, which initial production scheduled to commence in the latter part of 2019, will reach roughly 14 billion cubic meters of gas and 5 million tons of liquids at plateau levels. In 2019, we plan to drill and test four (4) wells and expect an increase in the reserves attributable to this cluster. The North-Russkoye cluster represents a major new producing asset delivering natural gas into the UGSS network as well as future liquids production to offset mature fields and ensure our processing facilities – Purovsky and Ust-Luga – are fully loaded.

At year-end 2018, we increased our overall Russian classified C1+C2 reserves by 897 billion cubic of natural gas and 37 million tons of liquids through our exploration program and reserve revisions. This represents an extremely successful year and we will continue with our exploration plans in 2019 to prepare our prospective fields.

We completed the drilling of 105 production wells versus 64 production wells in 2017. In the fourth quarter we drilled 34 production wells versus 20 wells in the prior year and 26 production

wells in the third quarter 2018. Most of our drilling activities were focused at new producing fields. We will invest sufficient capital in drilling production wells to achieve our development plans as well as meeting our production targets to support our commercial marketing efforts.

During 2018, we spent RR 96 billion on our capital program, representing an increase of RR 65 billion, or 215% over 2017. The significant increase year-on-year was primarily confined to three main projects – Arctic LNG 2, the LNG construction yard in Murmansk, and the North-Russkoye license area. In aggregate, these three main projects accounted for RR 56 billion, or 59%, of our total capital expenditures in 2018. We also increased capital spending across our whole project portfolio such as the East Tarkosalinskoye oil program, development drilling at the Yurkharovskoye and West-Yurkharovskoye fields, the Ust-Luga hydrocracker upgrade and drilling at the Gydanskiy license area to highlight just a few. We spent roughly RR 39 billion in the fourth quarter, or 40% of the yearly total, which was approximately RR 14 billion, or 59% higher than the capital spent in the third quarter 2018.

We expect our capital program in 2019 to remain higher than historical levels as we expedite works at our LNG construction yard in Murmansk and continue capital spending on Arctic LNG 2, and the North-Russkoye cluster amongst other development projects. Our capital program for 2019 is projected to reach approximately RR 185 billion, or a two-fold increase year-on-year.

Our financial and operational results were quite strong for the full year as expected, aided by increasing sales volumes, including LNG sales from Yamal LNG, and strong underlying commodity prices, despite the decrease in the underlying crude oil price in the fourth quarter. Our total oil and gas revenues were approximately RR 826 billion, or 42% higher than in 2017. Natural gas represented 45% of our total oil and gas revenues, whereas liquids accounted for the remaining 55%. We produced 549 million barrels of oil equivalent in 2018, or approximately 1.5 million barrel of oil equivalent per day. This represented a daily production increase of 7% year-on-year.

We increased our oil and gas revenues quarter-on-quarter (Q/q) by 7.6% primarily through a combination of increased LNG purchases and seasonal domestic gas sales volumes, which were partially offset by weaker commodity prices for our liquid sales. Our international LNG sales revenues increased Q/q by RR 18.5 billion, or 51%, largely attributable to an increase in volumes sold by 804 million cubic meters with the launch of LNG trains #2 and #3, as well as an increase in the average realized price in RR terms. Domestically, our natural gas sales volumes increased by 4.7 billion cubic meters, or by 34%, which reflected strong seasonal gas sales to both end-customers and ex-field traders.

We sold 66.1 billion cubic meters (bcm) of natural gas on the Russian domestic market and 6.1 billion cubic meters in equivalent LNG sales during 2018, accounting for an annual increase of 7.1 billion cubic meters, or 11%. Our combined average natural gas price of RR 5,201 per mcm was up Y/y by about 37% and Q/q by 3.5%, reflecting the higher mix of LNG sales in our gas portfolio. Natural gas netbacks (domestic and international) were also very strong in the respective reporting periods reflecting the blending of domestic and international gas sales. Our natural gas netbacks increased by 63% Y/y and 6% Q/q.

We sold higher valued LNG in the natural gas sales mix with the ramp-up of Train #2 in August and the commencement of LNG sales from Train #3 in December. These higher margin sales increased our percent of natural gas sold in the total revenue mix from 42% in the third quarter to 54% in the fourth quarter, essentially meaning that liquids contribution to total oil and gas revenues as a percentage declined.

LNG sales accounted for 12% of our natural gas volumes sold in the fourth quarter but represented 42% of our total combined gas revenues. In the third quarter, 12% of volumes accounted for 39% of our natural gas revenues, demonstrating that we did achieve relatively good average LNG prices in the fourth quarter despite the lower crude oil prices and the declining regional LNG spreads.

As we demonstrated already in 2018, our decision to invest capital into our LNG platform is the right strategic decision as our revenues and netbacks have expanded to reflect higher international pricing. Moreover, the change in our natural gas sales mix will have a large impact on our free cash flow generation in subsequent years despite the higher initial outlay of capital to build out this platform. So in essence, we are investing capital today to significantly achieve higher revenues and cash flows on a per unit basis, stronger free cash flow generation, and stronger returns on capital employed. Ultimately, this leads to a higher market valuation and dividend payouts.

At year-end, we increased our injections of natural gas in storage by approximately 1.2 billion cubic meters versus 199 million cubic meters in the prior year. We now have approximately 2.2 billion cubic meters in underground storage or LNG tankers in transit at the end of the reporting period.

We sold 15.8 million tons of liquids in 2018 representing a marginal decline of 7/10ths of one percent over the prior year and a 2.4% decrease relative to the third quarter 2018. We exported approximately 57% of our total liquid volumes, which was consistent Y/y and Q/q. The average price received in dollar terms was significantly higher across our liquids product range, which translated into higher Russian ruble-denominated revenues that was partially offset by higher export duties.

In the fourth quarter, however, we had decline in average realized prices in both US dollar and Russian ruble terms for our liquid sales as a result of weakening crude oil prices as well as the negative effect of higher export duties. The average Brent crude oil price declined by USD 7 per barrel, or about 9%, relative to the average crude oil price in the third quarter. These two factors combined with a 2.4% decline in sales volumes impacted liquid sales for the quarter.

In 2018, our operating expenses increased by 44% as compared to 2017, which was largely attributable to the significant increases in hydrocarbon purchases. Purchases accounted for approximately 86% of the comparative increase and were largely driven by purchases of both LNG and gas condensate, reflecting a higher unit cost paid to our joint ventures for these products. Purchases 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 formal start of the contractual volumes

We primarily purchase hydrocarbons from our joint ventures rather than third parties. This essentially means that we provide the capital necessary for these joint ventures to invest in developing their asset base. In 2019, Arcticgas will begin distributing dividends to its shareholders.

We made some fundamental changes in reporting our production and lifting costs to confirm more to our global industry peers. We now only report production cost per unit directly related to the extraction of natural gas, gas condensate and crude oil. Our production cost now exclude processing costs after saleable hydrocarbons are received. We also now disclose production costs for our joint ventures as well as a combined weighted average of the Group's subsidiaries and joint ventures. We believe this information provides additional insights into our operations.

Our joint venture production costs are lower than our subsidiaries as this number reflects the mineral extraction tax concessions at the Yamal LNG project. Overall, we have one of the lowest cost structures in the global oil and gas industry, which ultimately drives higher returns and profitability.

Our balance sheet and liquidity position 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. For 2018, we generated free cash flows of RR 122 billion, which was lower than the prior year, but reflects a significantly higher capital spent in the current reporting period as we invested capital into our future LNG platform, prepare the next large domestic gas and gas condensate field, as well as other ongoing development and exploration projects.

We achieved a Normalized EBITDA of RR 415 billion, which were 62% higher than the prior year and slightly more than one percent higher relative to the fourth quarter 2018. Our operating cash flows exceeded our cash used to finance capital expenditures by 1.3 times, despite the fact that we significantly increased our cash spent on our capital program Y/y by 215%. 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 0.25 versus 0.35 at year-end 2017, despite the fact that our foreign denominated debt was impacted negatively by the depreciation of the Russian ruble to the US dollar of 20.6% at the end of the period.

It's important to note that the foreign denominated debt at our Yamal LNG project is impacted positively or negatively by non-cash foreign exchange gains and losses. This past year with the depreciation of the Russian ruble we incurred a significant non-cash forex loss. We believe we are sufficiently hedged with the matching of the debt repayment with increasing revenues in foreign denominated currencies from LNG sales at the joint venture level.

In conclusion, 2018 was an exceptional year for NOVATEK. We achieved another record year of financial and operational results. In addition, our fourth quarter 2018 results were strong despite the weakening commodity price environment, once again confirming the resiliency and robustness of our operating model.

We delivered Yamal LNG on budget and ahead of schedule. This combination of project execution and capital discipline has clearly been absent in the global oil and gas industry, and despite the market skepticism and immense project challenges, we delivered. Two thousand and eighteen represented a pivotal shift for NOVATEK from being viewed as a Russian domestic gas producer to a large global gas player delivering LNG to five continents in our inaugural year. Despite LNG representing only 12% of our total gas volumes sold, the transformation has been enormously impactful on our financial results and sets the stage for Arctic LNG 2 and beyond.

Arctic LNG 2 will be an industry game changer. We will use technology and innovation to redefine our LNG platform to gravity based structures to reduce capital costs and limit our environmental footprint in the Arctic region. NOVATEK's strategic vision is to be a leader in the global LNG market, at the forefront of the market's transition from coal to natural gas. We have an enormous opportunity with our large, low-cost, conventional hydrocarbon resource to change the global LNG landscape and establish the Russian Arctic zone as one of the main LNG producing centers.

Prudently investing capital has been a cornerstone of our success over the years. We have achieved double-digit returns on invested capital that are the envy of the oil and industry, combined with consistently generating positive free cash flows. We have successfully executed our strategy and remain focused on project execution, capital discipline, cost control, free cash generation and profitable production growth.

The global oil and gas industry has been plagued with investing capital and achieving low returns and negative free cash flows, thus prompting investor activism to demand capital discipline, increase returns back to shareholders in the form of dividends and share buybacks. Essentially, the industry has adopted a mindset that is focused on seeking growth without hopes of adequate financial returns - a model of value destruction.

This value destructive mentality is not the case at NOVATEK. We invest capital in projects that increase our revenues, expand our netback margins, generate free cash flows and maintain our strong returns on invested capital. Yamal LNG has already contributed positively to our financial results after just one year of operations and will begin repaying interest and debt to shareholders in 2019. Our Arcticgas joint venture will commence distributing dividends comparable to that of NOVATEK in 2019. And finally, Arctic LNG 2 and our other future LNG projects, combined together with the successful launching of our new development projects, will eventually do the same.

We are close to finalizing our partner selection for Arctic LNG 2 and are optimistic about the negotiation process. Our goal is to form the shareholder structure prior to making our FID decision. Moreover, in contrast to Yamal LNG, we don't need to secure a substantial proportion of long-term offtake agreements prior to making our FID decision. For Arctic LNG 2 we are targeting about 50% offtake prior to FID. One of the main differences between the two projects is that partners entering Arctic LNG 2 will be required to offtake LNG proportionally to their equity share in the project. The LNG markets are becoming increasingly more liquid and we do not see any marketing problems working with short- and medium-term contracts.

The natural gas markets are rapidly changing and competition is increasing. The competitive energy landscape requires affordable, secure and sustainable energy without massive disruptions and absent geopolitical uncertainties. Natural gas is a fungible product that defies geographical boundaries. Delivering low-cost LNG under flexible arrangements will define the emerging winners and losers in this evolving energy landscape. Competition amongst producers will not be defined geographically, but rather by those companies who can deliver cost competitive natural gas to displace coal in the energy mix. We said many times in the past that it will come down to a fuel-on-fuel competition with coal, and, considering the focus on climate change and sustainable development, we believe natural gas will emerge as the winner. Climate change and sustainable development principles are important aspects of our corporate strategy.

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 exciting journey for us with the successful launch of Yamal LNG but it's also been an extremely volatile and frustrating market. We are long-term, patient capital investors.

In 2019, we forecast an increase in natural gas production ranging from 8% to 10%, with liquids growing slightly based on the dates of the estimated production launches. We have crossed the inflection point of reversing declining production and will launch a series of new projects over the next several years. This will ensure that our processing facilities are fully loaded with liquids and we meet our domestic natural gas contractual commitments.

We remain committed to deliver sustainable shareholder value by avoiding the distracting external noise and instead focusing our attention on project execution and value creation. We are well-positioned to begin our next major LNG project – Arctic LNG 2. The pre-marketing roadshow has been well received as consumers welcome the diversity of supplies delivered cost-competitively. We will keep everyone informed as usual about our ongoing developments.

We would like to thank all of our valued employees for their commitment and dedication over the past year. Without them we would never accomplish the success we have achieved over the years. Finally, a special thanks to the members of our Board of Directors for their wisdom, guidance, and stewardship over our activities.

Two thousand and nineteen will be another exciting year for NOVATEK.

Thank you.

Operator: Thank you. If you would like to ask a question please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star one to ask the question. We will pause now for just a moment to allow everyone an opportunity to signal for questions. We will now take our first question from Karen Kostanian of Bank of America. Please go ahead.

Karen Kostanian: Thank you very much, Mark. Thank you very much for the presentation. I will ask my question in English. My first question would be, recently couple of days ago, we saw some news in the Asian press about your negotiations with Mitsui and Mitsubishi and the valuation and the numbers that were mentioned there ranged from I think \$27 billion to \$36 billion. Now it's clear from your presentation that it's not CAPEX for Arctic LNG 2. Now I was wondering if you can expand on those numbers and if you can't mention specific numbers, provide a theoretical basis as to can you seek higher valuation from other partners than Total than the number 24 - 25.5 billion that you mentioned and then what would be the basis for seeking higher valuation from additional partners?

And my second question would be regarding CAPEX. The number you mentioned is quite a bit higher than we expected. Could you by any chance provide a breakdown as to which portion of that CAPEX is related to Arctic LNG 2? Thank you.

[Russian 01:52 - 03:05].

Interpreter: Thank you for the question. If possible I'd like to talk to you in the future to ask questions one-by-one given that we have a consecutive interpretation.

[Russian 03:21 - 03:31]

Interpreter: I do not want to give any assessment or opinion about what the media are writing about even if they are reputable as Japanese.

[Russian 03:45 - 03:56]

Interpreter: And we have already told, we plan to close our transaction with Total in Q1 this year. And financial indicators related to that transaction, that information has already been communicated to the investors' community.

[Russian 04:17 - 04:23]

Interpreter: Of course, the first company to sign on to Arctic LNG 2 enjoys the best terms and conditions.

[Russian 04:31 - 04:36]

Interpreter: We keep negotiating with the whole group of potential partners and we're quite optimistic as to the ongoing negotiation process.

[Russian 04:48 - 04:59]

Interpreter: I think that before the FID is made, we'll have the shareholding structure completed. The finalization of the shareholding structure for the Arctic LNG project is one of our most important aspects of our work prior to commencing the project.

[Russian 05:12 - 05:17]

Interpreter: Further to your second question --

[Russian 05:21 - 05:31]

Interpreter: As Mark had mentioned in his presentation, our CAPEX will be doubled this year, approximately double, as compared to prior year.

[Russian 05:42 - 05:45]

Interpreter: I think it is much better than to fall sick with the Dutch disease. We must invest capital to bring forth our LNG projects and other domestic projects.

[Russian 05:51 - 06:02]

Interpreter: I can elaborate on it even further. We plan the launch of the Northern-Russkoye field in the area of the UGSS, which serves as one of our core new growth projects on the domestic market.

[Russian 06:15 - 06:24]

Interpreter: And of course, we plan significant CAPEX to be invested into NOVATEK Murmansk for the large-scale marine facilities construction.

[Russian 06:38 - 06:41]

Interpreter: And that capacity being built will not only be used Arctic LNG 2 but our other LNG projects in the future.

[Russian 06:46 - 06:58]

Interpreter: And we have already said that we are confident that there will be a growth in LNG sales of 57 million tons from our LNG platform.

[Russian 07:10 - 07:31]

Interpreter: And given our recent large discoveries and our dramatic increase in our exploration spent, we envision that within the next one or two years, this cost will further go up to develop these fields for future projects.

Speaker: [Russian 07:49 - 07:59]

Interpreter: Despite this significant CAPEX increase, we are generating robust operating cash flows.

[Russian 08:07 - 08:19]

Interpreter: And we plan to generate significant free cash flows that would be sufficient to service our debts, and to pay out dividends.

[Russian 08:256 - 08:27]

Interpreter: Thank you.

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

Ron Smith: Good afternoon, Mark, everyone, thank you. Mark, I have a question about your Yurkharovskoye field, it looks like the production declines there pretty much stabilized and ceased in the middle of the last year sometime in third quarter. First, if I assume that is accurate, did this come largely from going after the deeper tighter wet gas in the Achimov and Jurassic drilling programs or was there something else at work there? Thank you.

Interpreter: [Russian 09:16 - 09:47]

[Russian 09:49 - 09:55]

Interpreter: The production decline, at best, is driven by the geology of the reservoirs that were developing.

[Russian 10:05 - 10:12]

Interpreter: The Jurassic development results would be seen in the second half of 2019 and further on.

[Russian 10:21 - 10:26]

Interpreter: And it is also crucial to note that we have made a good discovery in the neighboring Nyakhartinskiy field.

[Russian 10:35 - 10:40]

Interpreter: And I think that within the next year and a half, we will be able to develop and announce a very well substantiated development project for this new field.

[Russian 10:50 - 10:57]

Interpreter: And we will make sure that the processing facilities of the Yurkharovskoye field are then fully loaded because Yurkharovskoye is immediately adjacent to the field.

[Russian 11:08 - 11:08]

Interpreter: Thank you.

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

Henri Patricot: Yes, hello everyone. Thank you Mark for the presentation update. I was interested in your views on the recent weakness that we see in LNG prices and spot prices in Asia and also lower gas prices in Europe. What's driving that and whether you expect that to persist for an extended period of time. Thank you.

Speaker: [Russian 11:48 - 12:20]

Interpreter: I don't know, maybe you would be surprised, but to a certain extent this price drop is encouraging to us.

[Russian 12:29 - 12:35]

Interpreter: We have repeatedly stated that our main competitors are not gas, but other energy sources.

[Russian 12:45 - 12:53]

Interpreter: And you must be able to see that many countries are revisiting their energy mixes in favor of gas.

[Russian 13:01 - 13:17]

Interpreter: China presents a very eloquent example of it with a 41% increase of gas offtake and with 54 million tons of LNG purchases, they rank number two globally.

[Russian 13:35 - 13:41]

Interpreter: And Mark has mentioned in his presentation that our lifting cost and our gas production cost are some of the lower costs globally.

[Russian 13:49 - 14:01]

Interpreter: And the technological solution as we've selected to use gravity-based structures for liquefaction would enable us to be strongly competitive in this sector.

[Russian 14:13 - 14:28]

Interpreter: And given the current prices, we believe that we're going to be a highly profitable across all the regions consuming LNG.

[Russian 14:39 - 14:52]

Interpreter: And this significant growth in consumption would enable us to fast track the development of our immense and huge resource base.

[Russian 15:02 - 15:03]

Interpreter: Thank you.

Operator: Thank you. As a reminder if you would like to ask a question please press star one on your telephone keypad. We will now take our next question from Alexander Kornilov of Aton. Please go ahead.

Alexander Kornilov: [Russian 15:21 - 16:09]

Speaker: Well good evening. I will ask a question in Russian for diversity if you have nothing against it. My question, excellent, you have nothing against it. My question relates to your expected pricing formula and LNG contracts for Arctic LNG. Please correct me if I'm wrong, we see a shift towards spot pricing rather than oil prices. And today many contracts are based on spot prices. What is your suggestion to this effect and what are your expectations with respect to the pricing formula that you are going to use in your contracts with your partners for Arctic LNG 2?

[Russian 17:03 - 17:12]

Interpreter: I think it is not quite correct to address this question to the producer only because this is a question that involves both parties, the producer and consumer.

[Russian 17:25 - 17:40]

Interpreter: But I quite agree with you that there are more and more contracts that are not based on oil prices, but that have other pricing basis and are with prices based on different hub pricing.

[Russian 18:02 - 18:05]

Interpreter: And I believe that this trend will continue and will develop.

[Russian 18:11 - 18:11]

Interpreter: And this we dream about the future.

[Russian 18:15 - 18:27]

Interpreter: And maybe if we indulge in dreams then we may say that the 20 million transshipment hub in Kamchatka could be used as a hub for price indexation.

[Russian 18:40 - 18:40]

Interpreter: Thank you.

Operator: We will now take our next question from Igor Kuzmin of Morgan Stanley. Please go ahead.

Igor Kuzmin: Good afternoon. I would like to maybe check your feeling or check your understanding of the situation in terms of the competition versus other LNG projects, which are currently been in the pipeline. So 2019 potentially will become a year when we are seeing a bigger appetite for more FIDs, for more LNG projects globally. Hence, I'm assuming that in the coming years of the situation, the global gas markets remain healthy. You might potentially see higher competition for the services and the equipment, which is needed for this project. So basically the competition will increase among those companies that will want to build LNG for such services and for the equipment required for this project. Just wanted to test your feeling, do you expect any bottlenecks potentially or some dependencies or contingencies, which we need to monitor very carefully to – as the Arctic LNG 2 is making progress towards the completion? Thank you.

Speaker: [Russian 20:16 - 21:48]

Interpreter: Actually, our technological solution to use GBS gravity-based structure, is actually is a major part of my answer to your question.

[Russian 22:03 - 22:06]

Interpreter: We are constructing a facility that will build the gravity-based structures.

[Russian 22:12 - 22:22]

Interpreter: And we try to reduce unit CAPEX per ton while/when we build the first liquefaction lines for Arctic LNG 2.

[Russian 22:34 - 22:42]

Interpreter: We are fully confident, and I hope you will believe us too that the next platform, the next GBS, each next or subsequent GBS will be cheaper than the previous one.

[Russian 22:52 - 23:03]

Interpreter: And when we negotiate with our potential partners as well as our real suppliers with whom we have contracts.

[Russian 23:11 - 23:17]

Interpreter: We do not talk about three trains of Arctic LNG 2, but we are looking at further opportunities, beyond Arctic LNG 2.

[Russian 23:28 - 23:43]

Interpreter: I fully agree with you that if there is an increasing interest in LNG capacity construction projects, then those equipment providers and suppliers will quietly hike their prices.

[Russian 23:59 - 24:15]

Interpreter: But because we're going to build multiple trains, we hedge ourselves against this risk because we will use the same design, engineering and design solution and documents to build multiple facilities.

[Russian 24:31 - 24:44]

Interpreter: As far as we know in the US market, the most competitive liquefaction unit cost is in the order of \$2.25-2.50 per Btu.

[Russian 25:00 - 25:06]

Interpreter: We believe that even the first three trains of Arctic LNG 2 would enable us to achieve better results in this respect.

[Russian 25:15 - 25:28]

Interpreter: And as Mark has mentioned, because we have one of our lowest gas production cost, we do feel confident that we can deliver cost-competitive LNG in this fast pacing and quickly developing market.

[Russian 25:41 - 25:41]

Interpreter: Thank you.

Speaker: Igor, I'd just like to add on that point too. So when you're talking about competition and potentially the squeeze on contractors who will work in the second wave that we're looking at right now that these projects will match up with Arctic LNG 2. These construction processes has already begun so technically speaking that should not have a dramatic impact on the overall cost structures of the project that we're currently doing. And so I think what you really need to focus on in your question is what happens beyond the second wave of projects that are relatively new because all the ones that we're talking about coming on stream by 2022, 2023, 2024 are already being built out as we speak right now.

Speaker: [Russian 26:36 - 27:38]

Interpreter: I fully agree with Mark and I need to mention that as far as Arctic LNG 2 is concerned, more than 50% of the equipment has already been contracted.

[Russian 27:48 - 27:48]

Interpreter: Thank you.

Operator: We will now take our next question from Alexander Burgansky of Renaissance Capital. Please go ahead.

Alexander Burgansky: [Russian 28:01 - 28:34].

Interpreter: Hello, thank you very much for your presentation. In your presentation, in your report, you have disclosed that after the 10% equity stake is acquired by Total and the deal was closed despite the difference in the equity stakes the voting rights will be spread equally between

NOVATEK and Total. Could you please elaborate on it in more detail explaining the reasons for this decision and how votes are going to be distributed if new partners come onboard? Thank you.

[Russian 29:20 - 29:28]

Interpreter: The Arctic LNG 2 corporate governance agreement has already been agreed with Total.

[Russian 29:37 - 29:49]

Interpreter: And as compared to Yamal LNG, the operator of Arctic LNG 2 will have more rights in terms of making ongoing operational decisions.

[Russian 30:03 – 30:08]

Interpreter: And all future partners are supposed to accede to this agreement and of course they will be familiarized with the agreement.

[Russian 30:16 – 30:23]

Interpreter: Of course, there is a list of issues that are subject to 100% consensus vote.

[Russian 30:34 – 30:36]

Interpreter: For example, license holding.

[Russian 30:37 – 30:38]

Interpreter: Et cetera.

[Russian 30:39 – 30:39]

Interpreter: Thank you.

Operator: We will now take our next question from Ildar Davletshin of Wood & Company. Please go ahead.~~~~~

Ildar Davletshin: [Russian 30:53 – 32:11]

Interpreter: Good afternoon. Thank you and congratulations on your strong results and on your robust development. I'd like to clarify one point that relates to your investment in 2019. On the one hand, the logic to invest more is clear given that the historical ROIC which is not quite typical if we look at other players in the industry. But nevertheless, I'd like to understand your mid-term investment cycle outside 2019. Given your active development plans, can you just give us an idea about your mid-term investment. This number, 185 billion rouble, is it going to be within the norm or would it be 150 or 200? Are we going down, back down, because the range was very huge from 20 – 30 billion to 185. How about your mid-term investment given your ambitious plan, if the current forecast relevant for the next year or should we expect a decrease in the investment, Mark? That's my first question. I'll ask the second one later on.

[Russian 33:42 – 33:50]

Interpreter: As you can see from our report the EBITDA growth rate was almost 62%.

[Russian 33:57 – 34:01]

Interpreter: We are unlocking new investment opportunities that we have to take advantage of in our portfolio to create shareholder value.

[Russian 34:06 – 34:12]

Interpreter: Thank you for your assessment of the effectiveness of our investment and how you determine our investment. I agree with you.

[Russian 34:22 – 34:33]

Interpreter: Naturally we are going to keep investing, and I do believe that there may be some growth in our future investments.

[Russian 34:41 – 35:15]

Interpreter: And given the launch of the Northern-Russkoye field and given the capacity of the gas transportation system capacity we talked about, actually, we have declared we are not going to further expand capacity until 2030. But we'll keep our production of gas and liquids flat to make sure that our processing capacity will be loaded and we meet contractual sales.

[Russian 35:46 – 35:49]

Interpreter: Which would not require any material investment on our part.

[Russian 35:54 – 36:02]

Interpreter: And the bulk of our future investment will be focused on LNG projects.

[Russian 36:07 – 36:17]

Interpreter: I believe that it is the right strategic focus. We need to be as quick as possible to occupy a reasonable share in the global LNG market.

[Russian 36.32 – 36.40]

Interpreter: As Mark said, we have made significant investment in our JV with Gazpromneft (Arctic Gas).

[Russian 36:47 – 36:58]

Interpreter: And Mark never lies. He mentioned that this year's Arctic Gas dividend would be comparable to NOVATEK dividends.

[Russian 37:11 – 37:24]

Interpreter: And we are currently going through to the final test (completion) of Yamal LNG, which is going to be a source of significant cash generation.

[Russian 37:35 – 37:45]

Interpreter: And given that we are selling stakes in Arctic LNG to new partners.

[Russian 37:51 – 38:05]

Interpreter: I believe that it is a must for us to ramp up our investment in LNG projects that have competitive production cost.

Mark Gyetvay: I'd just like to jump in for a second too, because I think it's important that when you look at our capital expenditures over the years and then you're looking at the significant increases this year and next, some of these investments are one-time investments. You know, we're building out the construction yard in Murmansk which will be a one-time investment, as Mr. Mikhelson mentioned, that will service multiple LNG projects. The upgrade at Ust-Luga will be a one-off item that needs to be taken out of future capital program. The expenditures that are being invested in the new office complexes both here in Moscow and Novyi Urengoy are also one-off items.

So if you look forward, you have to disaggregate between what we would outline to be future LNG projects versus what I would think would be the more focused core domestic gas projects. And I think once you distinguish between those two areas, you will find out that domestically, on the UGSS, we're not going to see dramatic inflation in our CAPEX program. It will be spent on the LNG platform which already you can see returns significant – it was almost four times higher revenues per unit sold than we receive on the domestic market. So, clearly, this platform is much more profitable on a per unit basis, but we need to spend the capital in order to reach that level.

Interpreter: [Russian 39:58 – 41:34]

Ildar Davletshin: [Russian 41:37 – 42:05]

Interpreter: My second question relates to Yamal LNG performance, Yamal LNG plant performance. Last year, we regularly saw that the production exceeded demand capacity. And we would like to understand whether this will continue this year and in any future years. Whether the plant would be able to run at capacity which is above the normal capacity or whether it was weather-driven or maybe there are some technical upgrades possible.

[Russian 42:44 – 42:48]

Interpreter: You are stating this question in a very correct way, it is very important.

[Russian 42:58 – 43:04]

Interpreter: Given that the first train was put on stream in December, I would not be able give you a very accurate answer.

[Russian 43:13 – 43:29]

Interpreter: Actually, the three trains have gone live, they are currently – they are being tested. And according to our tests, we see significant opportunities to increase the capacity of the design capacity.

[Russian 43:45 – 43:58]

Interpreter: Once we have run the plant in summer under maximum – under temperature peak, we would be able to quote the percentage more accurately. But I don't think I would error if I would say from 5 to 9 percent increase.

[Russian 44:18 – 44:24]

Interpreter: Today every three hours we have a 70,000-ton tanker being loaded.

Ildar Davletshin: [Russian 44:37]

Interpreter: Sorry it is every 33 hours. Every 33 hours.

[Russian 44:42 – 44:43]

Interpreter: And, actually, you can use a calculator to calculate the rest.

[Russian 44:49 – 44:50]

Interpreter: Thank you.

Operator: We will now take our next question from Patrick Sykes of ICIS. Sorry, Patrick's line has just dropped. We will take our next question from Ildar Khaziev of HSBC. Please go ahead.

Ildar Khaziev: [Russian 45:11 – 45:35]

Interpreter: Good evening! Thank you very much! I have a question regarding Arctic LNG 2 and localization. As far as I understand, your plans will have a higher localization. But I'd like to understand risk associated with late delivery under such contracts. What is the difference in working with Russian contractors, domestic contractors, compared to foreign vendors and contractors?

[Russian 46:16 – 46:17]

Interpreter: I do not quite understand your question.

[Russian 46:21 – 46:25]

Interpreter: If we enter into a contract, we work with our vendors and so far, we have been happy with our vendor's performance.

[Russian 46:36 – 46:38]

Interpreter: Whether Russian or foreign.

[Russian 46:40]

Interpreter: Thank you.

Ildar Khaziev: [Russian 46:43]

Operator: As a reminder, if you would like to ask a question, please press star one. It appears there are no further questions at this time. I'd like to turn the conference back to the host.

[Russian 47:06 – 47:08]

Interpreter: Thank you very much to all the participants.

[Russian 47:12 – 47:19]

Interpreter: As Mark has said, this is something for us to be proud of, I'm talking about our 2018 performance.

[Russian 47:27 – 47:41]

Interpreter: And, most importantly, we, as NOVATEK, I'm talking about the NOVATEK leadership, are very happy with the progress and the pace, the development pace, of Arctic LNG 2.

[Russian 47:56 – 48:07]

Interpreter: As we have mentioned, and I'm repeating it here again, the FID will be made in the second half of 2019, and perhaps in the first half of the second half of 2019.

[Russian 48:23 – 48:30]

Interpreter: But we have actually started the implementation of the project, and as I've mentioned, quite a number of crucial contracts have been signed.

[Russian 48:42 – 48:52]

Interpreter: At the end of Q1 we are commissioning the first start-up complex in Murmansk –

[Russian 49:01 – 49:11]

Interpreter: – which would make it possible for our contractor starting in July to launch construction of the site, a gravity-based structure made of concrete.

[Russian 49:28 – 49:39]

Interpreter: And we are not only on track of our construction schedule, but we are currently ahead of it.

[Russian 49:46 – 49:51]

Interpreter: And I believe that we have adopted the right strategy.

[Russian 49:58 – 50:05]

Interpreter: We have ramped up our exploration expenditure, that you've noted, –

[Russian 50:11 – 50:17]

Interpreter: – and it is critical for us to have the Murmansk facility running at full capacity.

[Russian 50:26 – 50:34]

Interpreter: And as I said, we are going to revisit our LNG strategy upward within the next one or two years.

[Russian 50:43 – 50:49]

Interpreter: And the questions raised today about our dramatic increase in CAPEX, –

[Russian 50.55 – 50.58]

Interpreter: – I think that you should feel happy about it and give us every support in this respect.

[Russian 51.05]

Interpreter: Thank you.

Operator: This concludes today's call. You may now disconnect. Thank you.