PAO NOVATEK

Second Quarter 2017

Financial and Operational Results – Earnings Conference Call

27 July 2017
Moscow, Russian Federation

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second Quarter and First Half 2017 earnings conference call.

DISCLAIMER

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2016, as well as any of our earnings press releases and documents throughout the past year for more description of the risks that may influence our results.

CONFERENCE CALL TEXT

Commodity prices continued to be volatile in the second quarter and we expect this to be case throughout 2017, despite ongoing efforts by OPEC and non-OPEC members to balance supplies with demand. Obviously, the consequences of this volatility have led many oil and gas analyst to adjust their financial models downward and cut earnings estimates across the board for companies operating in the global oil and gas space, including NOVATEK. As I mentioned on my last conference call we manage our business through these commodity cycles, and attempt to achieve the highest risk-adjusted margins for the hydrocarbon product stream we market both domestically and internationally. I understand it is frustrating for many investors to ride out these cyclical markets, and, quite frankly, we are equally frustrated but our focus remains on cost control and project execution. It's been a hallmark of our success. We generated strong cash flows in the first half of 2017 despite the commodity price volatility, and we remain committed towards achieving our strategic aims and transitioning NOVATEK to a preeminent global gas player.

On the first quarter conference call I outlined a series of exploration and development activities to address the declining production from our legacy assets and I would encourage you to revert back to this transcript available on NOVATEK's website portal as we provided a lot of new information on upcoming projects.

We will launch the first train of Yamal LNG this year, which will contribute to production growth in 2017 and beyond as well as develop lower producing zones, like the Jurassic layers. Many of our current exploration and developments projects outlined during the first quarter conference call, such as the North-Russkoye development, are expected to begin contributing production towards the latter part of this decade rather than offering an immediate fix. Discussions are also being held to potentially acquire producing assets in the general vicinity of our existing asset base but, as is our customary policy, we can only elaborate on this point once a deal, if any, is consummated.

Tonight, I would like to provide an additional update on recent development and exploration activities.

A four-stage hydraulic fracturing on well #135 at the West Yurkharovskoye field was performed during the week of our last conference call and I did not have the final results at that time to provide an update. Subsequently, we completed three of the four fracking stages as the testing results indicated positive production potential from the Jurassic layers with initial well flow rates of approximately 500 thousand cubic meters (mmcm) per day of natural gas and about 100 tons of gas condensate. Our geologist and production teams are now preparing the field's Jurassic layer development plan and during the first stage we will drill one more exploration well as well as four (4) new wells utilizing the drilling pad of well #135. Drilling will commence in 2018 and we will deliver two (2) drilling rigs to the site this upcoming winter season. It's premature to provide exact production and cost estimates on this conference call but the initial success of well #135 targeting the Jurassic layer allows us to continue developing the deeper Jurassic zones at our other assets. Preliminary estimates indicate that the West Yurkharovskoye field could potentially contribute between one (1) to two (2) billion cubic meters (BCM) of new gas as well as additional gas condensate.

We also completed the drilling of well #305 at the North-Russkoye field and achieved a commercial flow of gas condensate, with preliminary flow rates of 200 million cubic meters (MCM) of natural gas with a gas condensate factor of approximately 400 grams per MCM from the Jurassic layers. We completed the preparation stages for well #'s 306 and 307 targeting the deeper Jurassic zones and will soon commence drilling activities at this field as well as drill our first Jurassic layer well at the South Tambeyskoye field in 2018. The North-Russkoye field is expected to commence production around late 2018, early 2019 with full field ramp-up by 2020.

In other development news we plan to drill five (5) new wells at the Yurkharovskoye field targeting the Valaginian layer on the eastern portion of the reservoir. The completion of these new wells will slow down the decline rate at this important legacy field. In 2018, we will also drill our first well at the Nyakhartinskiy license area after completing the running and interpreting of 3D seismic in 2016. Our development plan calls for connecting this field to the primary infrastructure of the Yurkhavorskoye field by completing a 90 kilometer pipeline, with production estimated to commence around 2020.

At the Sambursky license area, we completed the drilling of well #6001 with a horizontal length of 1,750 meters (~5,250 feet) targeting the Achimov layer, and achieved a gas condensate factor of roughly 800 grams per cubic meter. Although we believe that this high gas condensate factor is not sustainable, it does confirm very positive liquids production dynamics at the field and ensures sustainable liquids plateau through 2030. We have decided to expand the condensate preparation unit by one million tons per annum as a result of this production flow and expect this work to be completed in 2019.

By the end of the second quarter we achieved approximately 4.1 million cubic meters of associated petroleum gas from the Yarudeyskoye field, thereby revising our full year production outlook on this field from 1.2 BCM to 1.5 BCM. We also believe with the higher flow rates at the field as well as the successful results from our exploration efforts we can extend the production plateau at this field to 2020.

In the second quarter, we started two (2) new booster compression stations at Nortgas and at the Samburgsky field. As we had stated previously, one of the reasons for the production decline is the decrease in reservoir pressure, so the launching of the compressor booster stations will partial compensate for these natural declines. If we take Nortgas as an example, commercial natural gas production began on the Eastern Dome in October 2013 shortly after we acquired our equity stake in the asset, which was launched about a year ahead of its schedule. In June 2017, we launched the new booster compressor at the Eastern Dome to compensate for downhole pressure losses and maintain production at the field. In addition, to offset these production declines, we will drill approximately seven (7) new production wells in the Eastern and Western Domes over the next several years and plan to utilize existing well bores to produce from new upper zones once the current producing zones deplete.

In the first half of 2017, we have reconsidered all of our exploration activities and have decided to bring forward some of our work, specifically the running and processing of 3D seismic as well as some exploration drilling. Obviously this type of work is preliminary to implementing a development plan, so we will only begin to see some positive results, if any, by the end of the decade and beyond. During the first half 2017, we ran 992 square kilometers of 3D seismic as well as 15.7 thousand meters of exploration drilling, representing an increase of 305% and 79%, respectively, as compared to the corresponding period.

These are just one of the examples we are doing today to initiate some remediation work at our mature fields, drill deeper to producing layers like the Jurassic zones, refocus efforts on expediting some of our exploration activities, and assessing potential M&A opportunities to name a few. Now, I would like to shift my focus to our LNG initiatives.

At Yamal LNG, overall project completion is 85% as of 30th June versus 80% at the end of the first quarter, and the first LNG train is now 94% complete (versus 91% - 1Q), with various commissioning activities already underway. I know everyone is waiting for us to provide an exact launch date for LNG train #1 but the startup and commissioning process is currently proceeding as planned and our focus today is on ensuring a smooth and successful launch to a very complex project. We are committed to launch LNG train #1 by the end of 2017 as original planned and we remain on budget in terms of overall project costs.

We have drilled 87 productions wells significantly exceeding the well stock for LNG train #1 and fast approaching the 93 production wells needed to supply feedstock for LNG trains #1 and #2. Moreover, we have delivered 30 out of the 32 modules required for LNG train #2 and have already installed 22 of these modules. Twenty-four (24) of the 32 modules required for LNG train #3 are presently in transit to Sabetta and three (3) modules are already delivered to the site. As I mentioned previously, the cryogenic heat exchangers for all three LNG trains are onsite, with this important equipment component already installed on LNG train #1.

With the rapid progress made so far on the project, we have decided to expedite the official launching of LNG train #2 by approximately three (3) months earlier in 2018, and LNG train #3 by roughly six (6) months between the first and second quarters of 2019. The accelerated launches of both LNG trains #2 and #3 allows us to discuss with the external financing banks the possibility of distributing cash earlier to service shareholders loans.

At the end of March we successfully docked the first Arc7 ice-class LNG tanker at the Sabetta facility as I previously reported; subsequently, this ice-class tanker was formally named after the late CEO of Total, “Christophe de Margerie” in June. As of today, nine (9) LNG tankers are being built, including two (2) that are fully completed and in the stage of testing, and two (2) other tankers put into water for outfitting and cargo containment construction. In addition, it was announced in June that Mitsui OSK, or MOL, has ordered four (4) new conventional LNG carriers to deliver transshipment cargoes for the Yamal LNG project.

NOVATEK is pivoting its strategic focus more towards the global LNG markets then on our traditional or legacy domestic market. The move toward becoming a preeminent global gas player underscores our new strategic plans and will guide our investment programs for the foreseeable future. I will announce the date and location of our upcoming Strategy Day during the third quarter conference call in October.

I would like to spend some time now to briefly discuss what we are doing on some of our other LNG projects. By now everyone has heard us discuss our next LNG project called Arctic LNG 2, which is based on the prolific hydrocarbon resources of the Utrenneye field located on the Gydan Peninsula. Presently, we own 100% of this project but most likely will form a strategic partnership to share project risks and seek external financing similar to the structure executed at Yamal LNG.

The Utrenneye field has approximately 1.5 trillion cubic meters of natural gas under the Russian reserve classification C1-C2 and is technically larger than the South Tambeyskoye field. We have completed all preparatory works and have begun drilling production wells, which we estimate will produce slightly higher than 30 BCM per annum along with corresponding liquids, enough natural gas resources to commission three (3) LNG trains with a capacity of six (6) million tons per train, or 18 million tons of LNG annually. The huge onshore conventional natural gas resource base provides a plateau life on the field that is sufficient to yield attractive returns to shareholders. We are presently holding discussions with various potential partners for the project.

We recently signed a Front End Engineering and Design contract, or FEED, with a newly formed company called "LNG NovaEngineering", which is a joint venture comprised of TechnipFMC, Linde and the Design and Research Institute for Gas Processing, or NIPIgas. We anticipate that the FEED will take about 18 months to finalize, so roughly it should be concluded by the end of 2018. If this timetable is met we expect a Final Investment Decision (FID) in 2019, with the first LNG train startup toward the end of 2022 or beginning of 2023.

Arctic LNG 2 will be based on utilizing gravity-based platform structures (GBS) that will be designed by Saipem, and built and fabricated at the Kola Yard located in the Murmansk region of Russia. Our goal is to localize the fabrication and building of these GBS platforms at the Kola Yard while maximizing the use of Russian produced equipment where economically justified. Although early in the design and engineering process, our goal is significantly reduce the LNG liquefaction cost by at least 30% to make our Russian LNG competitive at any point in the world. We already have some of the lowest feedstock in the world, so we believe this cost competitiveness is crucial as we can reasonably estimate the cost of competing LNG on the market.

Each LNG train will be situated on separate ice-protected platforms installed along the coastal area, and by the end of August/September, we will have completed the majority of the research work for the designated platform locations.

It's not possible to really discuss the Arctic LNG 2 project or our other LNG projects without mentioning the Kola Yard located in the Murmansk region. The Kola Yard will build and fabricate the gravity based structures as well as other major units for our future LNG projects. The Kola Yard will become an integral link in our LNG value chain as this allows us to control and directly monitor the cost of building and fabricating these modules as well as significantly reduce the logistical costs of transporting modules to the project site after testing.

Initial construction began in late June, with the first contracts signed for digging and blasting operations. The first phase will entail preparing the site and building the dock walls. We have received the necessary governmental approvals and anticipate that the first phase will be completed in 2019. It is envisaged that there will be two docks, where the GBS platforms will be produced. We will be able to install all of the LNG equipment on the platforms at the yard, with only field production, tie-in lines and commissioning done on site. The second phase will be approved next year and will entail building the top-side plant modules.

The Kola Yard is one major step to meet the challenge of reducing capital costs on future LNG projects, and we plan to invest approximately RR 40 billion to RR 50 billion over the next three years.

We recently acquired a 51% stake in the CryoGas-Vysotsk LNG project which involves the construction of a medium-tonnage LNG plant located in the port of Vysotsk, including a pipeline link to the St. Petersburg-Vyborg-Russian border. The LNG plant will include two (2) production trains with a capacity of 330 thousand tons each, or 660 thousand tons in total, and it is estimated that we will launch this facility toward the end of 2018. Capital expenditures are presently estimated to be approximately RR 50 billion, and we have the capability to expand with a second LNG train of equal capacity, and we will consider this potential expansion in 2018 or 2019.

Our wholly owned subsidiary, Arctic LNG 1, recently won the State tender to acquire the Gydanskiy license area containing approximately 4.7 billion barrels of oil equivalent under the Russian resource classification of C and D for a one-time payment of RR 2.3 billion. The license area is located approximately 80 kilometers from the Utrenneye field, and, according to our estimates, a three to four year timeframe will be sufficient to conduct all of our exploratory activities, meaning that this license area will be ready as potential LNG feedstock around 2021 or shortly thereafter.

Three-dimensional (3D) seismic activities were recently concluded at the North Obskiy license area and will begin soon to prepare works to commence the drilling of the first exploration well in 2018. We are very optimistic about this license area for future LNG developments as the seismic results confirm a large hydrocarbon structure.

License acquisitions are integral to maintaining a successful exploration program and a pipeline of future projects. We will continue building our resource capabilities in both the Yamal and Gydan peninsulas to support our LNG ambitions and over the past couple of years have added a series of new license areas to our asset portfolio. License acquisitions are a normal course of our business and we will participate in upcoming new tenders toward the end of August.

A couple of Memorandum of Understanding, or MOU's, were recently signed that support our strategic move into the global LNG markets. Specifically, we signed a MOU with Fluxys at the St. Petersburg International Economic Forum to pursue mutual cooperation in developing LNG marketing, optimizing LNG logistics as well as other potential LNG projects, like small-tonnage LNG plants to facilitate the transition of all transport fuels towards clean burning natural gas. Our aim is to create market opportunities to secure future LNG demand and this underscores our recent decision to join the Society for Gas as a Marine Fuel and the SEA/LNG Association. We believe there is a good market opportunity to secure future demand in the conversion of marine transport fuel from bunker fuels to LNG.

During the second quarter 2017, we spent approximately RR 8.1 billion in our capital program on a cash basis versus RR 7.2 billion in the corresponding year, representing a 12% increase period-on-period. Our focus of capital expenditures has shifted more towards new future LNG projects such as the Arctic LNG 2 project, North Obskiy license area, the Kola Yard, and future new developments like North Russkoye, as well as some remedial work at East Tarkosalinskoye and Yarudeyskoye fields. We also spent capital on the new West Yurharovskoye development activities and it is likely that these capital expenditures will increase on this field as we move into a development drilling program.

We plan to invest approximately RR 40 billion in total capital expenditures in 2017, allocating funds between legacy assets, new development activities and infrastructure work for new LNG projects. For the six months ended 30th June, total capital investments aggregated RR 18.0 billion for capital expenditures, license acquisitions and "right of use" assets, mainly time-chartering of marine tankers, as compared to RR 16.1 billion spent in the corresponding period.

Total oil and gas revenues in the second quarter (2Q) 2017 was RR 128 billion, representing an increase year-on-year (y/y) of 1.2% and a seasonally adjusted quarter-on-quarter (q/q) decline of 16.9%. Our oil and gas revenues continue to be impacted negatively and/or positively by fluctuating benchmark commodity prices and the translation of our export liquid volumes by movements in foreign currency exchange rates.

Specifically, our natural gas sales volumes and corresponding revenues were impacted by seasonal fluctuations in demand between the first and second quarters 2017, and decreased q/q by 4.4 BCM, or by 23% on a volume basis and by RR 13 billion, or by 19%, in revenues. On a y/y comparison, our natural gas sales volumes increased by 2.3%, while our natural gas revenues increased by RR 3.9 billion, or by 7.6%, reflecting a shift in our mix more towards end-customers and a higher netback price in the reporting period.

Average natural gas prices to end-customers increased by 3.8% y/y largely due to the geographical mix of our sales at more distant locations, which in essence also increased our average transport tariff by 8.8% and resulted in a slight increase in our average netbacks of slightly less than one percent. We managed to improve our average netbacks q/q by 2.6% by selling more volumes to end-customer although overall sales volumes were down by 23% due to seasonality factors.

Our total liquid revenues decreased q/q and y/y by 15% and 3%, respectively, driven by a number of factors, such as volatile commodity prices, changes in the Russian rouble rate versus the USD, and lower sales volumes.

Our liquid volumes sold declined by 1.6% y/y, largely due to decreased gas condensate sales which were slightly offset by crude oil volumes recognized in the current period from prior weather delays at the port loading facility in the first quarter and higher refined product sales. The decline in gas condensate output was mainly attributable to the Yurkharovskoye and Khancheysoye fields during the reporting period. We also recognized 114 thousand tons from changes in inventory balances in the second quarter 2017 as compared to 31st March.

It's important that declines in liquid output from our producing fields did not affect our ability to maximize risk-adjusted margins at the Ust-Luga complex as this facility operates at approximately 120% of its nameplate capacity on an annualized basis. Our goal is to maximize our revenues and risk-adjusted margins through the sale of finished products at the Ust-Luga complex. In the current reporting period our naphtha sales were down by 15% largely due to the 13.3% Russian rouble appreciation against the USD. Other refined products were stronger and grew by 27% although the Russian rouble appreciation affected the currency translation of these dollar-denominated sales to the international markets. We realized weaker products sales q/q on the majority of both our domestic and export sales.

The Ust-Luga complex is a key component in our liquids value chain, so I would like to state this evening that we are close to making a positive investment decision to expand the processing depth of the plant to convert heavy fuel oil into lighter fractionated products. It is estimated that this expansion project will cost approximately RR 20 billion and be completed in 2019. Upon completion, we estimate that the deeper conversion may increase our netbacks by an additional 20% to 25% as compared to current margins.

At 30 June 2017, we had 92 thousands of naphtha in transit to the Asian Pacific region which was lower than prior year by 23 thousand tons but 60 thousand tons higher than year-end. Total liquids in storage were 699 thousand tons (2Q16 – 670 tons). We finished the current reporting period with 611 MCM of natural gas in underground storage, a decrease of 223 MCM from year-end. Our underground storage was significantly lower than the volumes stored at the end of 2Q 2016 by one BCM reflecting stronger current sales and our decision to reduce purchases to meet customer demand.

Our operating expenses were again consistent with our overall business trends and there were no major surprises during the reporting period. The movements in our operating expense categories were consistent with our business operation q/q and y/y, and reflected a change in higher transport cost for natural gas as well as lower purchases of unstable gas condensate and natural gas products from our JV's and other suppliers. Purchases of hydrocarbons represented 33% of our total operating expenses during the quarter.

Taxes other than income tax increased effective 1 January for both crude oil and gas condensate as the base rates increased by 21% and 18%, respectively. Our SG&A decreased during the reporting period largely due to lower accrued bonus payments and a slight decrease in headcount, which was partially offset by our annual salary indexation on base salaries and the corresponding increase in social contributions. Other major cost trends were relatively similar on a comparative basis with a large change in inventory balances between periods with the withdrawal of natural gas in the period and the recognition of sales from liquids in transit.

Our balance sheet and liquidity position remained very positive in the second quarter 2017, as well as further improvements in all of our credit metrics. We generated RR 31 billion of free cash flow (FCF) despite an increase in our capital expenditures on the back reasonably strong operating cash flows. Free cash flows for the first half of 2017 totaled RR 75 billion versus RR 57 billion during the corresponding period. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due. Our net debt position was RR 114 billion at the end of this reporting period as we repaid debt according to repayment schedules or before maturity.

In conclusion, our financial and operational results were good and consistent with our expectations for the period, especially between seasonality periods. Volatility in both the commodity and foreign currency markets continues to affect our results either positively or negatively, but we are not unique in this situation as these movements, particularly relating to commodity prices, affects all oil and gas industry players. Therefore, the key to our business success is controlling our operating expenses and capital costs, and delivering on project execution. I believe we have adequately achieved these results.

We are now a step closer to formally launching our Yamal LNG project and transforming NOVATEK into a global gas player. This transformational move will catapult us into the global spotlight as more interest will be focused on us in terms of our future LNG projects as well as our global marketing initiatives. We will outline our global LNG plans at our upcoming Strategy Day as our portfolio of assets for future LNG projects has increased with the recent acquisition of the Gydanskiy license area.

Global LNG demand is growing. In 2016, LNG growth was roughly 7%, and the data so far in 2017 shows continued demand growth. In the 1H 2017 volumes of LNG sold were approximately 142 million tons, or approximately 9% higher as compared to corresponding period in 2016. We see more and more countries entering the LNG markets as potential new sources of demand. Consensus forecasts from research institutes and consulting firms, as well as major LNG producers, have collectively estimated that LNG growth will outpace the average growth of natural gas through 2030 and beyond, and these external forecasts support our own internal assessments of the natural gas markets through this period.

There was a decision last night by Petronas to cancel its LNG project in British Columbia and, following this decision, news reports indicating a growing list of scrapped or terminated projects because of the worldwide glut in natural gas. Unfortunately, many of these LNG projects where predicated on unrealistically high commodities prices and were simply uneconomical to provide adequate returns to sponsors. We have already seen this scenario play out in the Australian LNG market as cost overruns; project delays and the recent governmental decision to limit exports of natural gas created a negative market sentiments towards LNG that fits very well in a negatively biased news world.

Our goal is quite simple. We aim to become a significant player in the global LNG market by utilizing our prolific low-cost resource base in the Yamal and Gydan peninsulas. As I mentioned earlier, cost competitiveness will be a key driver to unlock global LNG demand and this is one of the major reasons we will focus on localizing construction and LNG module fabrication at our Kola Yard. Our ability to source long-life, low-cost conventional natural gas from our prolific hydrocarbon resources combined with our goal of reducing the cost of liquefaction with the building of the gravity-based structures will make our LNG projects competitive globally. When you combine these factors with our ability to also monetize the liquid components in our natural gas stream, what emerges is a unique LNG story comparable to the competitiveness of the LNG projects from Qatar.

Despite a weaker quarter I believe we delivered another set of strong financial results during a volatile commodity period, the appreciation of the Russian rouble against the USD and Euro as well as demand seasonality for natural gas. Our free cash flow generation was again robust and this trend will continue throughout the remainder of 2017. It should be clear to everyone by now that our business model is generating sufficient cash to support our business goals and growth initiatives as well as to meet all of our debt obligations and liabilities as they mature.

We have taken steps to slow down the rate of production decline at our legacy assets by drilling to lower producing layers, implementing remediation steps, and increasing our exploration spending on our license areas. The information presented tonight supports those steps and time is required to realize the fruits of these investments.

I would like to thank everyone for your continued support of NOVATEK and our investment story as well as your time to attend tonight’s conference call. I would now like to open up tonight’s call for question and answers.

Thank you.

Q&A

Operator: Thank you. If you would like to ask a question, please signal by pressing Star 1 on your telephone keypad. If you are using a speakerphone, please make sure that your mute function is off to allow your signal to reach our equipment.

Again, that is Star 1 to ask a question. We will pause for just a moment to allow everyone the opportunity to signal for questions.

We will take our first question from Geydar Mamedov from Goldman Sachs. Please go ahead, sir.

Geydar Mamedov: Hi, Mark. It's Geydar speaking from Goldman. I had a quick question about the cash allocation in the coming 12 to 18 months. So if we look at your CAPEX guidance for 2017 and the financial results for the first half of the year, it looks like, you know, assuming that there is nothing major happening in the second half of the year, you are going to generate a preconditioned free cash flow for the full year in excess of 100 billion roubles. Obviously, you have the big projects ahead that you are planning to execute and you're looking for partners. It's interesting to hear how you are thinking about this free cash flow and allocation of that cash that you are just going to keep it on the balance sheet with the plan of spending it further on your new projects or you have any other type of thoughts within the company on allocation of this free cash flow.

Mark Gyetvay: Geydar, thank you very much for your question. We will continue to pay our dividend policy at 30% of our IFRS net income adjusted for the one-off and non-cash items. We plan to increase our dividend pay-out by the means of the growth in the company's financials but we are not adjusting the policy at this particular point.

We have a series of projects that I tried to enumerate in the first quarter conference call as well as tonight that's going to require the use of capital. So, I would fully anticipate, given the new development plans, that we should see an increase in capital expenditures over the next couple of years to meet the development of these projects. I would say that we're probably reverting more back to where we were a couple of years back in that sort of 60 billion rouble per annum range, .but it's kind of premature at this particular point at this time to elaborate precisely on our capital expenditure plans. We will update that more or less on the strategy presentation when we do it by the end of this year.

As I mentioned, there's always the possibility of acquisitions but given the fact that it may be difficult to attract financing externally, which is what we have done on previous years, we might have to use some of the cash that we have on our balance sheet to meet these acquisition costs. Right now there is none on the table that I can speak of today.

So, there will be some call on this cash in the future but we are generating substantial cash to fund all of our operations, pay our debt as I mentioned. I think we just need to wait until the Strategy when we give you a better outline of what we plan to do over the next three to five years in terms of some of the capital allocated to these new projects that we're currently working on.

Geydar Mamedov: Thank you. And, if I may ask just a second question here. As you launch Yamal LNG train one and obviously, you know, the first cargo starts going to the clients, you will start getting the first cash flow from the project. What is the right way of thinking about the allocation of that cash flow? Is it going to be spent and disbursed on the paying off the debt or there will be some kind of split between paying dividends to the shareholders and paying the debt? I'm speaking about the cash coming from the train one only. I understand as you add trains, there would be enough cash for both.

Mark Gyetvay: Well, I think as I mentioned just a second ago, we don't look at individual trains - on a train-by-train basis. We look at this question as part of the total project. I think one of the things that, as I mentioned, and I think Mr. Mikhelson mentioned it earlier in the week also, was the fact that if we expedite LNG trains two and three, these earlier cash payments were not considered in the financial models that were provided to the banks. I think we should expect that we would receive additional cash quicker that would be allowed to provide cash to the shareholders' loans, as I mentioned.

We have a repayment schedule for external financing. We think that given that plan, when that starts, we ought to be able to start shareholders repayments by 2019. That is really the plan in place - start paying back shareholder loans in 2019.

Geydar Mamedov: Thank you very much.

Mark Gyetvay: You're welcome.

Operator: And we will go to our next question. Our next question is from Olga Danilenko from Prosperity. Please go ahead.

Olga Danilenko: Hi, Mark. Hi,everyone. Thank you so much for the presentation. I have two questions. For 2018, can you possibly make arranged guidance, nothing specific but maybe depending on the projects, you mentioned some new projects like this 20 billion rouble investment in Ust-Luga facility, so maybe you can name the range which we can potentially expect in terms of your CAPEX.

And a broader question, for the next maybe five years, how do you approach the split between your currently producing assets and some other expansion projects like LNG, etcetera? So maybe some rough estimates of what could be the split between the capital expenditures. Thank you.

Mark Gyetvay: Olga, I really appreciate your question but you are really impinging upon the information that we will provide at the upcoming strategy presentation. We will be providing the market with guidance and our plans are over the next couple of years, you know, including up to five years and probably further.

What I attempted to achieve during the first conference call and the second conference call was just to provide you with an outline of what we are planning to do in terms of reducing some of the production declines at the legacy assets. As you can appreciate, we have received many questions at our investor meetings and we have read many analyst reports on the same topic. I also wanted to demonstrate to everybody on the conference calls that we have steps in place to mitigate or even to decelerate those rates of decline.

At the same time, obviously I've been saying that we're not ex-growth and we're going to be undertaking a series of new projects that are in our asset portfolio but those are the projects, such as North Russkoye field or even further to North Russkiy Cluster, which is a bigger than just one field. All of this material will be discussed on the strategy presentation.

Now, if I go into too much information or depth, then it makes no sense to have this big presentation that outlines all these plans. I would really like to say that I provided you with some guidance. It was not meant to provide you with a year-on-year CAPEX outline or even to give you forward guidance for 2018 and beyond.

It was meant to show you that we do have plans in place, we are working on them. We do have projects that we'll be investing in in the next couple of years. So really to answer your question, Olga, I would appreciate if you can be patient and wait until we have this strategy update conference later in the year.

Olga Danilenko: Okay, sure, we'll wait. Thank you.

Mark Gyetvay: Thank you very much.

Operator: And we will take our next question from Pavel Kushnir from Deutsche Bank. Please go ahead.

Pavel Kushnir: Yes, thank you. Mark, I have a question about your second quarter general and administrative expenses. In the previous three years, you always have spikes in this expense item. So your costs increased in the second quarter then dropped in the third quarter. We see that in the second quarter 2017 you have about the same G&A costs quarter on quarter so no similar spike to what we see - what we saw in the past.

So my question is whether we should expect some increase in your G&A costs in the third quarter or fourth quarter of this year. Thank you.

Mark Gyetvay: Probably not much, Pavel. I mean, our SG&A obviously fluctuates. I think one of the things that we have always had some disconnect between what the analysts have been forecasting and what we actually show in our financial statements is the fact that on July 1 we usually have salary adjustments. So we usually have this period of time were we have one set of numbers and all of a sudden that same set of numbers gets increased by this base adjustments or indexation in salary, and then it has all the social contribution elements that go along with that adjusted number.

The other thing is also the company has grown over time and we've added a substantial amount of new employees both in the administrative side as well as in the operational side with the launching of some of these new projects.

I think it's probably fair to say that we probably will have just a minor increase - nothing really major is forecasted to increase in the second half of the year.

Pavel Kushnir: Thank you.

Mark Gyetvay: You're welcome.

Operator: And our next question comes from Henri Patricot from UBS. Please go ahead.

Henri Patricot: Yes. Thank you for the presentation. I just want to follow up on the comments that you made on Nortgas production. Gas production was down 20% year on year in the second quarter. And so I was wondering if you can give us more details as to where the production will be thanks to this new gas compressor and then with the new work that you will be doing. Thanks.

Mark Gyetvay: I appreciate your question again just like everybody else's questions, but it's kind of premature to give you an exact number or to tell you that it will be less than the 20%. I mean, we have taken the remediation steps. I think it is best to wait to see what the results happen over the remainder of the year.

I believe we will be able to show some demonstrable improvements as the year progresses. I think it is more important to understand is that we have two domes here. We have the old legacy dome that we already acquired as a producing asset. Then, we have the green-field element - the eastern dome. Therefore, the western dome, which has been producing for many years already, is already at various stages of decline. Now we have just started with the compressor, beginning to boost the compression station on the eastern dome and we believe that this will be able to maintain some of the levels of production.

I think more importantly, I think what I outlined today is that there has been a decision made that that we will drill seven additional wells in both western and eastern dome formations. Once we have depleted all those layers - producing layers, the plan is to move up the well bores and start capturing some of the smaller formations using existing well bores.

So I think its best that we wait a little bit to see what the results are from these remediation works. I am not talking about waiting a quarter, . I think let us wait to see what it looks like by the end of the year, and hopefully we'll see some improvement in the deceleration of the declines at this particular field.

Henri Patricot: Understood. Okay.

Operator: And again, ladies and gentlemen, if you have a question, please press Star 1. Our next question comes from Stella Cridge from Barclay's. Please go ahead.

Stella Cridge: Hi there. Good afternoon and many thanks for the presentation. I was wondering if I can ask a question about Arctic LNG. So it sounds like it would be quite a large project in the same way as Yamal LNG and it may be quite early to ask this question.

But in terms of the financing structure, what would you be thinking at this stage? Would it perhaps be a similar structure as to the way that Yamal LNG was funded, you know, perhaps a combination of shareholder loans with some borrowing, which would be proportionally guaranteed by shareholders? That would be my question. Any comments would be really helpful.

Mark Gyetvay: I would say that the structure on all of our future LNG projects, not only Arctic LNG 2, would be based on probably a similar model that we did with Yamal LNG whereby we bring in partners into the field to help carry costs as well as a financing structure. You know, its typical structure - I mean, I think we just need to wait until we have some of our discussions and make a decision before we can actually show you what we're doing.

Yes, that's the goal. The goal is to sell down the interest and minimize some of the risk to NOVATEK. At the same time, we also want to create value for the shareholders because now that we have Yamal LNG complete and the licenses all carry the tax concession terms and all the export terms already embedded in a license. That was not the case when sold down our interest in the Yamal LNG project.

Therefore, I think in due course we will disclose our intentions. We will build the GBS platforms for Arctic LNG 2 as I mentioned at the Kola Yard. NOVATEK will maintain 100% and we will fund the FEED work so that we can maximize the amount of value creation to our shareholders.

The structure will be similar, whereby we sell down our interest and there will be a combination of financing; we will require from the other partners to bring in financing sources. Unfortunately, I cannot give you anything definitive right now because we have not sold any interest down yet. I think we would have to revert to you at a future date. , I would say that the structure would be similar to what you saw with Yamal LNG. Okay?

Stella Cridge: Okay. That's superb. Many thanks.

Mark Gyetvay: Thank you.

Operator: And I see no further questions at this time. If you have a question, press Star 1.

Mark Gyetvay: Okay, If no further questions I would just like to thank everybody for again attending tonight's conference call. We at NOVATEK wish you a wonderful summer. I know many people are on holidays right now and have safe travels wherever you go. We look forward to seeing you in probably in September, beyond as our conferences become busier, and we have a chance to meet up with investors at conference events. So again, thank you very much and we appreciate all your support. Have a safe and enjoyable summer. Thank you.

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