

# OAO NOVATEK

Full Year and Fourth Quarter 2015

Financial and Operational Results – Earnings Conference Call

26 February 2016

Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Full Year and Fourth Quarter 2015 earnings conference call. I would like to thank everyone for joining us this evening, and state that tonight is the first time that we are hosting our earnings conference call.

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

## **DISCLAIMER**

Before we begin with the specific conference call details, I would like to refer you to our Disclaimer Statement as is our normal practice. During this conference call we may make reference to forward-looking statements by using words such as our plans, objectives, goals, strategies, and other similar words, which are other than statements of historical facts. Actual results may differ materially from those implied by such forward-looking statements due to known and unknown risks and uncertainties and reflect our views as of the date of this presentation. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our regulatory filings, including our Annual Review for the year ended 31 December 2014, 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 fifteen was an extremely difficult year for the oil and gas industry with the precipitous decline in the benchmark crude oil prices, and its corresponding impact on business operations and cash flow generation. Many industry insiders believe we are at a low point in the commodity price cycle but its impact has been profoundly felt in all areas of the industry, including a significant amount of asset impairments and rising debt defaults. Unfortunately, the pricing question continues to persist in early 2016 and bankruptcy announcements have begun.

I will not spend much time stating the obvious implications of sustained lower prices and its impact on our industry, as I am sure everyone on this call tonight fully understands the present macro environment and the severity of this problem such as reduced capital expenditures, increased employee reductions, stressed balance sheets, credit defaults and bankruptcies to name a few.

I would prefer to spend this evening focusing on the strengths of NOVATEK's operating model to grow and prosper through these commodity cycles. One of our main strengths has been (and will continue to be) our ability to bring low cost production to the market and this enviable position has served us well in both boom and bust price cycles. Equally important, we did not leverage our balance sheet during the past several years to fuel debt-driven production growth in a high commodity price environment like many of our global peers. We maintained a disciplined approach to capital deployment and invested into production growth within the means of our cash flows.

Leveraging our present infrastructure to facilitate our growth combined with the close proximity of our processing facilities to our producing fields obviously reduced our cost structure and contributed to the strong rates of return we have achieved over the years. Our focus on cost control throughout our operations has been a hallmark of our business over the years and this mindset permeates throughout our organization and is a testament to the hard work and dedication of our valued employees.

We achieved significant operational success by efficiently monetizing our asset base through timely production launches in 2015. The successful launches of the Yaro-Yakhinskoye, Termokarstoye and Yarudeyskoye fields during the year, combined with the full year production run rates on launches commissioned in 2014 contributed to our record 51% growth in liquids production in 2015 over the corresponding year. We also achieved a 9% growth year-on-year (y/y) in our natural gas production, which slightly exceeded our production forecasts for the year. Expanding on our success, we managed to increase our SEC proved reserve base by 1.4% y/y to 12.8 billion barrels of oil equivalent (BOE), representing a reserve life of 25 years based on the current year production. Excluding the effect on the reduction of our interest in SeverEnergia, the organic growth in our SEC proved reserves was 2.0%, which represented a reserve replacement rate of 148%. According to the PRMS reserves methodology, our proved plus probable reserves, including our proportionate share in joint ventures, totaled 23.1 billion BOE.

It is also important to note this evening that by year-end 2015, we completed the mid-term or five years of our 10-year strategic plans and I would like to highlight some of our major accomplishments.

Since we outlined our strategic plans in late 2011 in London, we have achieved:

- A 58% growth in our SEC proved resource base from 8.1 billion BOE to 12.8 billion BOE
- A 90% growth in our total marketable production comprised of a 82% growth in natural gas and a 151% growth in liquids

- A five-year average reserve replacement cost of \$2.19 per barrel
- A five-year average finding and development cost of \$2.85 per barrel
- Our lifting costs were some of the lowest in the global industry at \$0.49 per barrel in 2015 versus \$0.54 per barrel in 2010
- Our free cash flows increased 337% from RR 19 billion in 2010 to RR 82 billion at year-end
- And finally, we have consistently raised our dividend payments since 2010 despite the growth nature of our business

Our results have been stellar over the past five years despite the many obstacles along the way. We remain optimistic that we will be profitable at stressed commodity prices while maintaining strong free cash flows and achieving above industry rates of returns throughout our investment cycles relative to our global peers.

Our goal of maximizing liquids production through the timely launches of new fields has been achieved. Last year was the first year that our liquids revenue exceeded that of our core gas business. This has transformed the Company from purely a domestic player to one with global ambitions. The foreign currency earnings from our international liquid sales achieve higher cash flows per unit sold and provide a better matching of dollar-denominated debt to the repayment of such debt when it matures.

At Yamal LNG, we made good progress throughout the year according to our planned work program and are approximately 45% complete on the overall project at year-end versus 36% at the end of the third quarter. Construction on the first LNG train continued to progress in the fourth quarter and we are now more than 56% completed versus 44% at the end of September. The shareholders have invested approximately \$12.5 billion, inclusive of \$3.9 billion invested by NOVATEK. The project has now received both tranches of the National Welfare Fund of RR 150 billion.

Presently, we have about 13 thousand construction workers on-site at Sabetta with roughly 3,100 construction vehicles in use. With the Sabetta airport now fully operational we transported approximately 130,000 people to and from the site in 2015, which dramatically improves the efficiency of shift workers logistics.

We actively drilled production wells at the South Tambayskoye field throughout 2015 and have now completed 44 production wells or roughly 75% of the wells required for the launch of the first production train. We will continue to actively drill wells in 2016 utilizing four (4) drilling rigs on site.

By the end of 2015, we had delivered to the project site seven (7) LNG plant modules, a cryogenic heat exchanger from Air Products, and the full equipment package for the compressor lines for the first and second LNG trains, boil-off compressors, a backup plant heater, 46 crates of steel pipe racks, six (6) packages of piping spools, electrical substation, power plant turbines and other ancillary equipment.

The outer concrete walls as well as the installation of the roofs for four (4) LNG tanks were completed and work has now progressed on the multi-layer internal walls. We also made significant progress on a construction of a 376 MW power station by installing four (4) gas turbine units on the concrete foundations as well as full piping on two units.

Other work streams such as the southeastern ice barrier, dredging of harbor area and ongoing piling works are at various stages of completion and we will continue to provide periodic updates on the progress of Yamal LNG throughout the year.

In terms of exploration work, we focused our efforts in 2015 on the Gydan peninsula and the Gulf of Ob to assess the resource potential of this strategically important area. We commenced the running of three-dimensional (3D) seismic activities at the North Obskiy license area and continued 3D seismic interpretation and exploration drilling works at the Utrennye field. The hydrocarbon rich Gydan peninsula represents the future growth area for the Company in the next decade and we are currently studying options on how best to monetize these assets.

Exploration work was also conducted on our fields and license areas in the Nadym-Pur-Taz region including ongoing works at our joint ventures. In 2015, we completed the running and interpretation of 1,004 square kilometers of 3D seismic, drilled approximately 15 thousand meters of exploration drilling, and completed seven (7) prospecting and exploration wells. We discovered nine (9) new gas deposits at the Utrenneye, North-Russkoye and North-Chaselskoye fields, as well as adding wet gas reserves from the Achimov formation at the Urengoyskoye field within the Samburgskiy and Yevo-Yakhinskiy license areas. Our ongoing exploration efforts throughout 2015 produced positive results.

We successfully commissioned three (3) new fields as part of our development program last year, which contributed to our production growth for natural gas and liquids in 2015. We completed and launched a 2.5 MW gas turbine plant at the Yurkharovskoye field as well as completing scheduled turnaround maintenance work on the field's booster compressor stations. We drilled eight (8) new production wells targeting the shallower Cenomanian layers and carried out construction works on a new 48 MW booster compression station. In 2015, we invested RR 7.6 billion of capital into the Yukharovskoye field, representing a y/y reduction in capital expenditures of 29%.

At the East Tarkosalinskoye field we intensively targeted the field's crude oil deposits and completed 23 oil production wells during the year. The field's development activities over the past several years have been largely focused to increase crude oil production, and in 2015, we invested RR 8.8 billion, a decrease of 30% from the prior year. We will continue to target crude oil producing zones from this field in 2016. We also launched a condensate de-ethanization facility at the western-dome of the North-Urengoyskoye field, reducing our dependence on utilizing Gazprom's de-ethanization facilities and increasing our product output and lower operating costs.

We spent approximately RR 50 billion in our capital program in 2015 on a cash basis, with almost half of the funds or RR 26 billion spent on completing the launch of the Yarudeyskoye field. Y/y our capital expenditures declined by roughly 10%. We achieved our operational goals in 2015 and, accordingly, we plan to invest about 30% less capital in 2016 based on our assessment of various capital projects within our asset portfolio.

Total oil and gas revenues in the fourth quarter (4Q) 2015 were relative strong against both the y/y and quarter-on-quarter (q/q) comparatives. We increased our oil and gas revenues by 33% y/y and 13% q/q largely driven by a substantial increase in our liquids revenues and the corresponding translation of these foreign earnings to Russian roubles. Volume growth was the main factor contributing to our increased revenues as we realized declining average prices for the majority of our liquids products y/y and q/q consistent with the declines in benchmark reference prices.

Our liquid revenues accounted for 53% of our total revenues versus 35% in 2014. This is important for a number of reasons. Revenues derived from our liquids sales are generally indexed to international benchmark crude oil or oil product derivatives reference prices, which have historically been higher than domestic prices. In addition, export volumes are denominated in foreign currencies better matching our dollar-denominated debt portfolio and, particularly in 2015 our export sales were favorably correlated to the movement in USD/RR exchange rates, which positively impacted revenues throughout the year.

We sold slightly more than 62 billion cubic meters (bcm) of natural gas versus 67 bcm in 2014. This decrease resulted from a combination of factors such as lower demand offtake from end-customers due to unseasonably warmer weather as well as a disruption in volume of offtakes from a customer due to technical reasons. On a q/q basis, we increased our natural gas sales by 3.5 bcm due to the resumption of offtake from our end-customers as well as seasonal growth in demand.

Our average natural gas prices increased by 3.8% in 2015 but more importantly, we increased our average netbacks by 6.3% and 7.2% for end-customers and wholesale traders, respectively. During the fourth quarter our end-customer sales price declined by less than 1% q/q; however, to certain shifts in regional sales we had a 3.2% reduction in our average netbacks this past quarter.

We sold 12.9 million tons of liquids representing an 82% increase over the prior year. The average price we received in dollar terms was lower across our product range because of the decline in international reference prices but we achieved reasonably strong prices in Russian rouble terms due to the average currency depreciation by 59% against the USD. During the fourth quarter, we increased our liquids sales by 194 thousand tons (or 5.6%), largely due to the commencement of crude oil production from the Yarudeyskoye field in early December. Our average commodity prices received during the quarter were relatively mixed as compared to the third quarter 2015.

Our operating expenses continued to grow y/y and q/q relative to the growth in our business, representing an increase of 42% and 13%, respectively. The most significant

increase in our operating expenses y/y related to the purchases of hydrocarbons followed by increases in both transportation and taxes. Y/y and q/q our purchases of hydrocarbons increased by RR 68 billion and RR 1.4 billion, respectively, driven by substantial increases in the purchase of gas condensate from our joint ventures. Our major cost trends were relatively the same on the q/q comparatives but we marginally increased salaries and bonuses paid in our general and administrative cost category during the fourth quarter. Overall, there were no major surprises in our operating costs y/y and q/q.

Our balance sheet and liquidity position remained strong in 2015. We generated free cash flow of RR 82 billion in 2015 versus RR 49 billion in the prior year, based on an increase in our operating cash flows of 19.4% and a corresponding reduction in our capital expenditures by 18.5%. We have sufficient cash flows to fund our operations and pay our obligations and debt service as they become due. We repaid our \$600 million Eurobond tranche in February 2016 according to the bonds maturity schedule.

In conclusion, 2015 was a very good financial and operational year for NOVATEK despite the decline in crude oil prices throughout the year, the negativity surrounding the industry and the general declines in oil and gas equity values in December. We launched three (3) new fields on schedule and within budget which will serve as a platform for volume growth in 2016 and beyond.

We can only manage what's within our control so we are subject to the declining commodity prices like all of our global peers, but one of the main differentiation factors in our business model is our relative cost advantage and our ability to generate strong cash flows across a range of commodity prices. We demonstrated the robustness of our business model during the last crude oil price collapse in 2008/09 and hopefully we have demonstrated this again with the release of our current year financial results. Not many of our global oil and gas peers can make this assertion.

We are confident we can successfully navigate the company during these turbulent business times and withstand this volatile commodity price cycle. NOVATEK represents substantial investment value at present equity prices and we believe the investment community has significantly discounted our operational and financial strength in this current environment. We have a solid track record over the past 10 years of executing what we promised according to our strategy and delivering superior industry rates of return.

We outlined three primary themes – the short-term build-out of our processing capabilities; the mid-term growth of our liquids production; and now we begin our journey towards our long-term aspirations to enter the global gas markets via liquefied natural gas, or LNG. We have achieved extraordinary financial and operational results over the past five years despite the difficult macro environment along this journey and we are quite proud of these accomplishments. But we don't rest on our past accomplishments.

As shareholders of NOVATEK, I can unequivocally state that our commitment towards achieving sustainable operational and financial excellence, together with our commitment to climate change, the environment and our social responsibilities to the regions where we

operate, has not diminished despite the economic slowdown, the imposition of unwarranted sanctions on the Company in 2014 and the present cyclical downturn in the industry.

The industry is currently in turmoil and we understand that fact very well. We are committed to achieving our goals despite these obstacles. We will deliver on the next phase of our strategy – Yamal LNG.

I would like to thank everyone for attending tonight's conference call and now open up tonight's session to question and answers.

Thank you.

Operator:

We will now take our first question from Max Moshkov from UBS. Please go ahead, your line is open.

Max Moshkov:

Hello Mark, thank you very much for the presentation and congratulations with so solid results in these very turbulent markets. I have a couple of questions. First, if I may start this discussion with Yamal LNG because we see the company continues providing loans to this potentially very profitable project and very important from the strategic point of view to the company. So when do you finally expect to open the external funding for this project and is it subject to the completion of the transaction with the Silk Road Fund? And the second question on capex, do I understand correctly that you plan to cut capex in rouble terms in 2016 by 30% relative to 2015? And one minor question, what is the capex outlook for the Yarudeyskoye project for 2016. Thank you very much.

Leonid Mikhelson [Translated]:

Well, if I may, let me handle this question. When I meet investors and journalists, I get many questions but this one would be the first to be asked. I would like to state that the project is getting and will be getting financing in order to launch the facility fully in line with the schedule and with the plan - in 2017. In November last year, the project received the second tranche from the National Welfare Fund for an equivalent of \$1.2 billion. In December last year, as part of the transaction with Silk Road, NOVATEK obtained a long-term targeted loan for financing of the project. And in the very near future, we expect to execute significant in scale loan agreements between Yamal LNG and the banks.

As far as the Silk Road Fund transaction is concerned, it will be completed in the near future and we do not link this transaction to any external funding.

Indeed, Mark put it correctly in his presentation, 30% is our target to reduce capex in 2016 versus 2015. As we said, we are reducing our capex for all of our main fields excluding

new projects. The Yarudeyskoye field was launched at the very end of 2015 and some payments are still pending. If you take the capex for this year, then payments due under this project would be about one-quarter or 25% of that.

Operator:

We will now take our next question from Ron Smith from Citi. Please go ahead, your line is open.

Ron Smith:

Thank you very much for the call, gentlemen. I was wondering, and I've had clients asking, when can we expect the next five-year strategy presentation from NOVATEK? As you mentioned earlier in the call, Mark, the last one was in 2011. It's about time.

Leonid Mikhelson [Translated]:

I fully share what you say. It's about time. The markets are rather volatile now and NOVATEK has very strong sustainability in front of that, with the reserve life at 25 years at the current production rates. We have launched quite a number of fields and we have achieved significant growth in our production volumes for gas and more importantly, larger in size for liquid hydrocarbons. As of now, our share in total Russian production stands at 10-11% and our share in the domestic sales is about 20%. We believe this share to be optimal for NOVATEK and its operations in the domestic gas market. Our strategy is about maintaining that level flat and maintaining the market share. And as we mentioned it earlier, we are ready to look into potential new LNG projects. I would like to emphasize that we are looking into that conceptually. Our current experience and track record with Yamal LNG gives us confidence looking ahead, with new projects becoming more feasible, and we could carry them out at lower cost. In terms of strategic options, we would like to look into potential developments of those markets at yet another time and come up with a more optimal strategy. I fully share that with you in the nearest future we are to disclose our strategic plans to the investment community. And to an extent, that is linked to completion of external financing for Yamal LNG, of which we have no doubt, I would like to emphasise that. This is also linked to further development trends in the global gas market. Thank you.

Operator:

We will now take our next question from Ksenia Mishankina from UBS. Please go ahead, your line is open.

Ksenia Mishankina:

Hi, this is Ksenia Mishankina from UBS. I have one question. How do you plan to pay back your short-term debt and what portion of it do you plan to refinance? Thank you.



Leonid Mikhelson [Translated]:

As Mark explained in his presentation, we have paid off a major portion of our debt for 2016. Sixty percent of the repayment comes from our own funds, whereas forty percent are new loans. We have no difficulties in repaying our debt, so meeting our obligations in 2016, that's taking into account the Silk Road Fund transaction. Looking ahead in 2017, our obligations will be lower, much lower. Whereas further ahead in 2018 through 2020, they will keep to a minimum. And again, as credit becomes more available and as markets improve, we would probably consider borrowing funds for our future projects. But we don't have any plans like that in the near future. Thank you.

Operator:

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

Artem Konchin [Translated]:

Thank you for the presentation and this opportunity to ask questions. I have two questions. My first question is about Yamal. You mentioned in your presentation that this project features very low cash costs per unit due to close proximity of your processing and production facilities. Now, have you developed an understanding of the operating costs for the processing plant itself and can you disclose that for us to have more detailed insight into the economics of that project. And then I have another question.

Leonid Mikhelson [Translated]:

Let me start with the operating costs. We have very low cash costs per unit, that's true. I believe that lifting costs will stay pretty much similarly low at the South-Tambeyskoye field of Yamal LNG – that is about 50 cents per barrel. Which translates into less than 10 cents per MMBTU. More than two years ago now, we endorsed capital expenditures for the project. And it still remains on par with the benchmark we set back then of USD 27 billion. Since our project is located in the Arctic area, pilot testing of the equipment in lab conditions has proved it's more productive in this environment. And even though the transportation costs would be somewhat higher since we need icebreaker tankers to transport our gas, we still believe our LNG will be competitive in any market. Thank you.

Artem Konchin [Translated]:

And then I had another question. Can you comment generally on the export prices and the pricing environment generally and globally, especially LNG prices? Thank you.

Leonid Mikhelson [Translated]:

In terms of the LNG market developments, we are keeping a close eye on that. It has just been reported to me that the first LNG tanker from the United States has set course to its first consumer. Liquidity in this market is increasing. So customers who buy today can get very favorable terms. And in terms of the supply side, it's the supply with low cost base that wins. And that's the angle we look at it when considering our future projects. Considering our Yamal LNG project, well, we have contracted pretty much all the volumes. And even though pricing forecasts today look most pessimistic, we're confident that our project is feasible in that environment and ensures resilience and sustainability credit-wise. Thank you.

Operator:

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

Alexander Nazarov [Translated]:

I would like to thank Mr Mikhelson for answering questions and thank you, Mark, for the presentation. My question concerns the prospects of natural gas exports from Russia. Some government officials have been reported to say that potential access to exports markets could be granted to those independent producers of gas who have the function of guaranteeing supplier, so the question is to NOVATEK do you have this status in your regions, and what would be the cash cost associated with that status?

Leonid Mikhelson [Translated]:

I would put this in a little bit different perspective, not associating this fact with any potential additional cost. The most recent meeting of the Commission for Fuel and Energy Complex under the President of the Russian Federation considered this particular matter. And talking about this guaranteeing supplier status and its introduction, we believe that given the fact NOVATEK has changed its strategy towards regional gas distribution and you know that we contribute pretty much 100% of gas supply in Chelyabinsk and Kostroma regions, so we have effectively gained that status. That's our vision and corresponding instructions have been given to the government following that meeting of the Presidential Commission, we believe that key players of the domestic gas markets have to enjoy certain commitments as well as obligations and also rights in exchange for that.

When it comes to commitments and obligations, that's quite clear. We have to supply our consumers and offtakers in the regions of our operations, subject to and including potential flexibility when it comes to high season/low season ambient temperatures. Our commitment and obligations may also include providing gas to every consumer including households. But at the same time, this means we also have to enjoy equal conditions of operating in this market. So I wouldn't quite link the two matters between each other, guaranteeing supply and potential access to export markets. Instructions provided by the Presidential Commission also include potential consideration of the basis for the

transportation tariff. We would be happy to enjoy equal terms and be on par with Gazprom in this regard.

So in a nutshell, I think it's too early to conclude at this point as to how this arrangement may work out, which we have started involvement with the government when it comes to these matters. Thank you.

Operator:

We will now take our next question from Evgeny Stroinov from Renaissance Capital. Please go ahead, your line is open.

Evgeny Stroinov [Translated]:

Thank you for your presentation and questions. I have another question related to Yamal LNG. As we know, you provided a loan of about €1 billion to this project back in the fourth quarter last year. Does this mean you are now contributing according to your 60% equity stake? What's your outlook for 2016, what kind of loans are you planning to extend to Yamal?

Leonid Mikhelson [Translated]:

I can't produce the exact number as to how much total loans were provided to Yamal LNG in the fourth quarter 2015. The shareholders do provide funding to Yamal LNG in accordance with the business plans and cash calls. I understand your question is related to the fact that the previous equity contributions did involve a major carry from our shareholders. Indeed, some of the carry remains for this year but it is insignificant. We do envisage some shareholder contributions in the course of 2016, but that will be insignificant.

Operator:

We will now take our next question from Ildar Khaziev from HSBC. Please go ahead, your line is open.

Ildar Khaziev [Translated]:

Thank you and good evening. I have a couple of questions as well. The first one is related to Yamal LNG. Well, as usual, this has grown into somewhat of a longer story and it's generally clear why but my question is this: did you have the need to reevaluate the project? That's my first question and then I have another one.

Leonid Mikhelson [Translated]:

What do you mean by Yamal LNG revaluation or project revaluation? Can you explain?

Ildar Khaziev [Translated]:

Let me explain. This project started quite a long time ago and the macro environment has changed since then. Did you have the need to do any FCF revaluation ever since in discussions with your other partners when considering future cash flows and the terms and conditions for their loans respectively? Thank you.

Leonid Mikhelson [Translated]:

We have not considered any revaluation of the terms of loans and the project generally together with our partners. As I have put it earlier today, we have based our judgment on the most pessimistic expectations. And again, we have contracted the gas from Yamal LNG as I said already, and we understand our operating expenses looking ahead. And even if we take the most pessimistic assumptions from the current forecasts available, we still see good feasibility of the project. I hope this answers.

Ildar Khaziev [Translated]:

Thank you. And then I have another question. What about your JVs and their liabilities as well? Your current presentation does provide for metrics where you outline numbers for Yamal LNG, Nortgas and SeverEnergiya and you have a line called long-term liabilities which then adds 33 billion and 34 for SeverEnergiya. Can you explain what these are please?

Mark Gyetvay:

Okay, I'll try to explain in principle. Included in those numbers of other non-current liabilities is deferred asset retirement obligations, and also deferred income tax liabilities. That's what comprises the majority of those numbers.

Operator:

We will now take our next question from Denis Derushkin from Bank of America. Please go ahead, your line is open.

Denis Derushkin [Translated]:

Just a quick follow-up. Again, Yamal LNG funding, you mentioned loan agreements due to be signed in the near future. Do these involve European credit agencies or are you talking only about banks, be it Russian and Asian?

Leonid Mikhelson [Translated]:

I just don't want to put it in any other way and I hope you understand me. Let me repeat. In the near future, we expect to sign a significant volume of loan agreements. You mentioned three particular sources of credit money and all of those will be involved. Thank you.

Operator:

We will now take our next question from Alexander Kornilov from Aton. Please go ahead, your line is open.

Alexander Kornilov [Translated]:

Thank you for your presentation and the opportunity to ask questions. My question concerns your mature fields. NOVATEK has demonstrated a 7% decline in both gas and liquids in mature fields, so what's the outlook post '16 and in particular we're interested in Yurkharovskoye field.

Leonid Mikhelson [Translated]:

Thank you for your question. I think this question would be very interesting to our investors. Some of our mature fields are indeed in their decline phase, including Yurkharovskoye, that's true. But it's important to mark that those still enjoy some significant potential. For example, if we take Yurkharovskoye, the Valanginian reserves have been replaced with Cenomanian gas in the recent couple of years. But we are considering a potential development of our Jurassic layers as well, those that we are successful in development in the Termokarstovoye field. As you are aware, those horizons are rich in gas condensate. Given that Arcticgas has launched some of its fields, still the potential is quite good there. We still have the Yaro-Yakinskoye and Severo-Chaselskoye which have a significant potential even on the exploration side. Talking about the North-Russkiy cluster including North-Russkoye field, Dobrovoskoye field and East-Tazovskoye fields, these fields are closely by eastwards from our producing assets. Currently the C1 plus C2 reserves for these fields stand at more than 230 billion cubic metres of gas and about 30 million tons of liquid hydrocarbons. On top of that, we enjoy a number of smaller fields in our asset portfolio as well and overall, these assets enable us to maintain the production levels that we have achieved so far. On top of that, we are actively working on the Gydan Peninsula. We have Geofizicheskoye field, which is well explored already, and to complement that we recently acquired the Trekhbugorniy license area. That's where we are starting exploration soon. These can and will serve as further sources of sustained and increased production. Thank you.

Operator:

We will now take our next question from Max Moshkov from UBS. Please go ahead, your line is open.

Max Moshkov [Translated]:

Let me have just a quick follow-up, thank you. My question concerns your JVs and in particularly SeverEnergiya. When do you expect first dividends from that given its debt liabilities?

Leonid Mikhelson [Translated]:

We got the first dividends from our JVs last year. That was so insignificant that it was hardly noted by anyone. If you take the partial repayments of some of the outstanding loans, that's, when I sum it up, it's RUB 5.5 billion. Obviously the dividend policy of our JVs does envisage a distribution of all outstanding profit to the shareholders. In the near future, we'll sit down together with our partner to plan further developments of Arcticgas looking ahead and I have mentioned two fields already. Given its leverage – by the way, we are working to optimize and we will keep working to optimize our debt portfolio. The overall plan has not been endorsed as yet but I think we will focus on maximizing shareholder dividend. Thank you.

Operator:

We will now take our next question from Ildar Khaziev from HSBC. Please go ahead, your line is open.

Ildar Khaziev [Translated]:

Thank you. Just a quick question. I may have missed that. Can you remind me of short-term and mid-term plans for SeverEnergiya production targets for both gas and liquids? Thank you.

Leonid Mikhelson [Translated]:

Well, if I can recollect the numbers right, we seem to have reached the plateau of 26 bcm of gas and about 8 million tons of liquids at the three fields that are in production today. These are new fields, freshly launched, so the plateau can be sustained for pretty much extended time. Thank you.

Leonid Mikhelson [Translated]:

I would like to thank all participants on this call. I hope you are looking closely at both our achievements and our plans. We've had a very justified question on this call that is a reminder we haven't yet delivered to the investment community our strategic plan. This is a very timely and a very justified question. But I would like to assure all our investors at this time that we keep working on that very closely, at every moment.

Let me reiterate that NOVATEK enjoys significant reserves and resources, a large infrastructure of processing facilities, and then again the Ust-Luga alone which only achieved full capacity in 2015, that contributes very significantly to our total overall performance. We do not stay where we are when it comes to our reserves and resources. We are looking closely at potential M&As and opportunities in that field as well as potential auctions for new license areas. Having completed the exercise of analyzing both domestic, European and global markets, we will complete the most optimal development strategy for NOVATEK which will bring most profit and most value to our shareholders. Thank you to all participants.

Operator:

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