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## First Quarter 2015 Operational and Financial Results Conference Call

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**Mark A. Gyetvay, Deputy Chairman of the Management Board**  
**Moscow, Russian Federation**  
**29 April 2015**

# Disclaimer – Forward Looking Statement

Matters discussed in this presentation may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors.

The forward-looking statements in this presentation are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the face of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- inherent uncertainties in interpreting geophysical data;
- commercial negotiations regarding oil and gas sales contracts;
- changes to project schedules and estimated completion dates;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our success in identifying and managing risks to our businesses;
- our ability to obtain necessary regulatory approvals for our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the Prosecutor General and his office;
- the effects of international political events;
- the effects of technological changes;
- the effects of changes in accounting standards or practices; and
- inflation, interest rate and exchange rate fluctuations.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The information and opinions contained in this document are provided as at the date of this presentation and are subject to change without notice. By participating in this presentation or by accepting any copy of this document, you agree to be bound by the foregoing limitations.

# Summary Highlights – 1Q 2015

- ❑ **Natural gas production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 4.7%
- ❑ **Liquids production** *(including our proportionate share in JVs)* **increased** Y-o-Y by 46.2%
- ❑ **Purovsky Plant output** increased Y-o-Y by 79.0% (approximately 90% of capacity utilization)
- ❑ **Ust-Luga Complex output** increased Y-o-Y by 69.2% (almost 100% of capacity utilization)
- ❑ In March 2015, we **commenced our stable gas condensate sales** to international markets as a result of the full capacity utilization of our Ust-Luga Complex

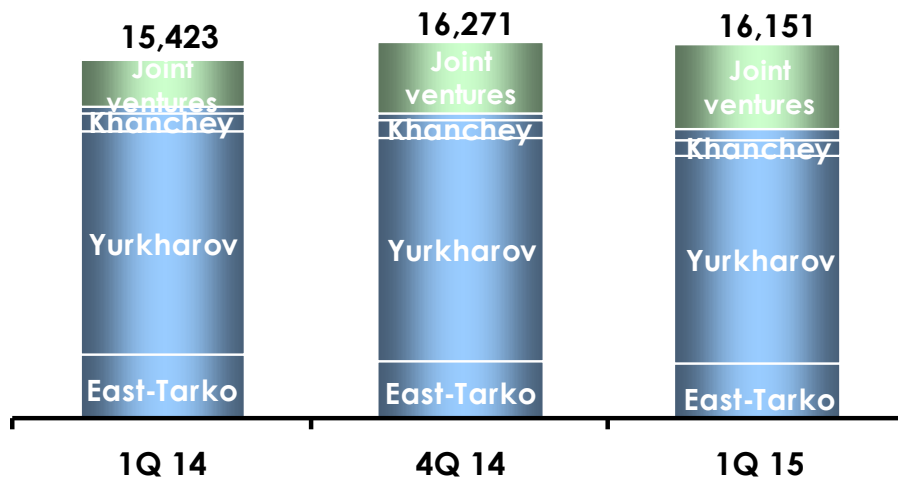
# Summary Highlights – 1Q 2015

- ❑ **Increase in revenues** driven by higher liquids sales volumes and prices in RR:
  - Liquids sales increased Y-o-Y by 99.9% and Q-o-Q by 99.4%
  - Natural gas sales decreased Y-o-Y by 8.7% and Q-o-Q by 17.9%
- ❑ **EBITDA** (*excluding net gain on disposal of JVs*) **increased** Y-o-Y by 28.3% and Q-o-Q by 46.8%
- ❑ **EPS** (*net of the effect from the disposal of interests in JVs*) **increased** Y-o-Y by 35.1%
- ❑ **Cash flow from operations increased** Y-o-Y by 44.5% to RR 39,717 million
- ❑ **Free cash flow increased** Y-o-Y by 83.4% to RR 25,223 million
- ❑ **Capital expenditures increased** Y-o-Y by 5.6% to RR 14,494 million

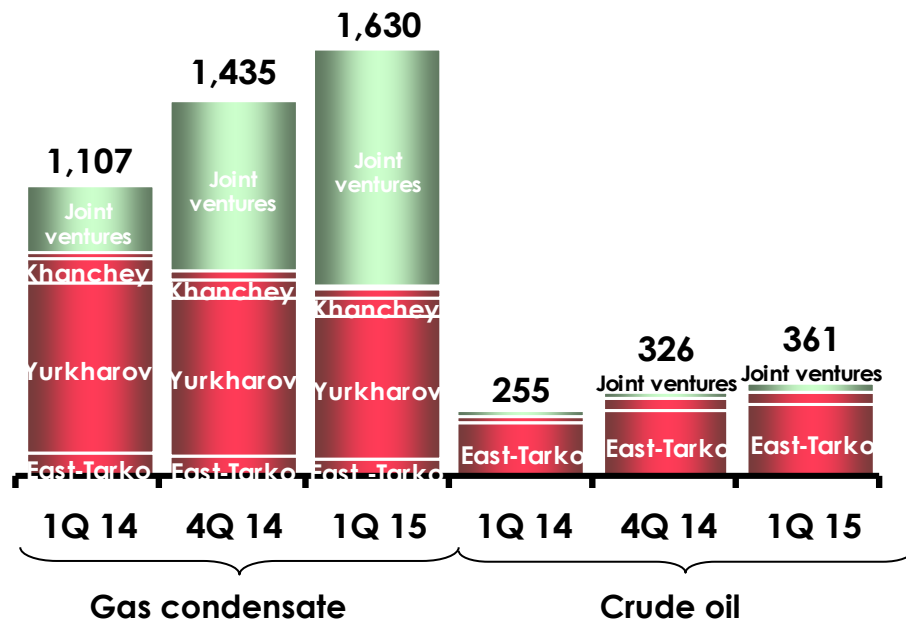
# Operational Overview

# Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



## Natural gas production increased Y-o-Y due to:

- Increase in JV's production due to the launch of additional production facilities at SeverEnergiya, that was partially offset by a decrease in the effective share in SeverEnergiya from 59.8% to 54.9% as of 31 March 2014
- The launch of the North-Khanchey field at the end of 2014
- The production intensification at Urengoy and Dobrovolskoye fields (Olimpiyskiy license area)

## Liquids production increased Y-o-Y due to:

- Increase in our JV's production due to the launch of additional production facilities at SeverEnergiya, that was partially offset by a decrease in the effective share from 59.8% to 54.9% as of 31 March 2014
- Increase in crude oil production at our East-Tarko and Khanchey fields resulting from new wells drilled and technical works performed

# Purovsky Plant

## ❑ Total volumes delivered: 2,490 mt

- Yurkharovskoye field: 553 mt
- East-Tarkosalinskoye and Khancheyskoye fields: 195 mt
- Other fields: 39 mt
- Purchases from our joint ventures: 1,703 mt

## ❑ Total output of marketable products: 2,454 mt

- Stable gas condensate: 2,011 mt
- LPG: 443 mt

## ❑ Capacity utilization: approximately 90%





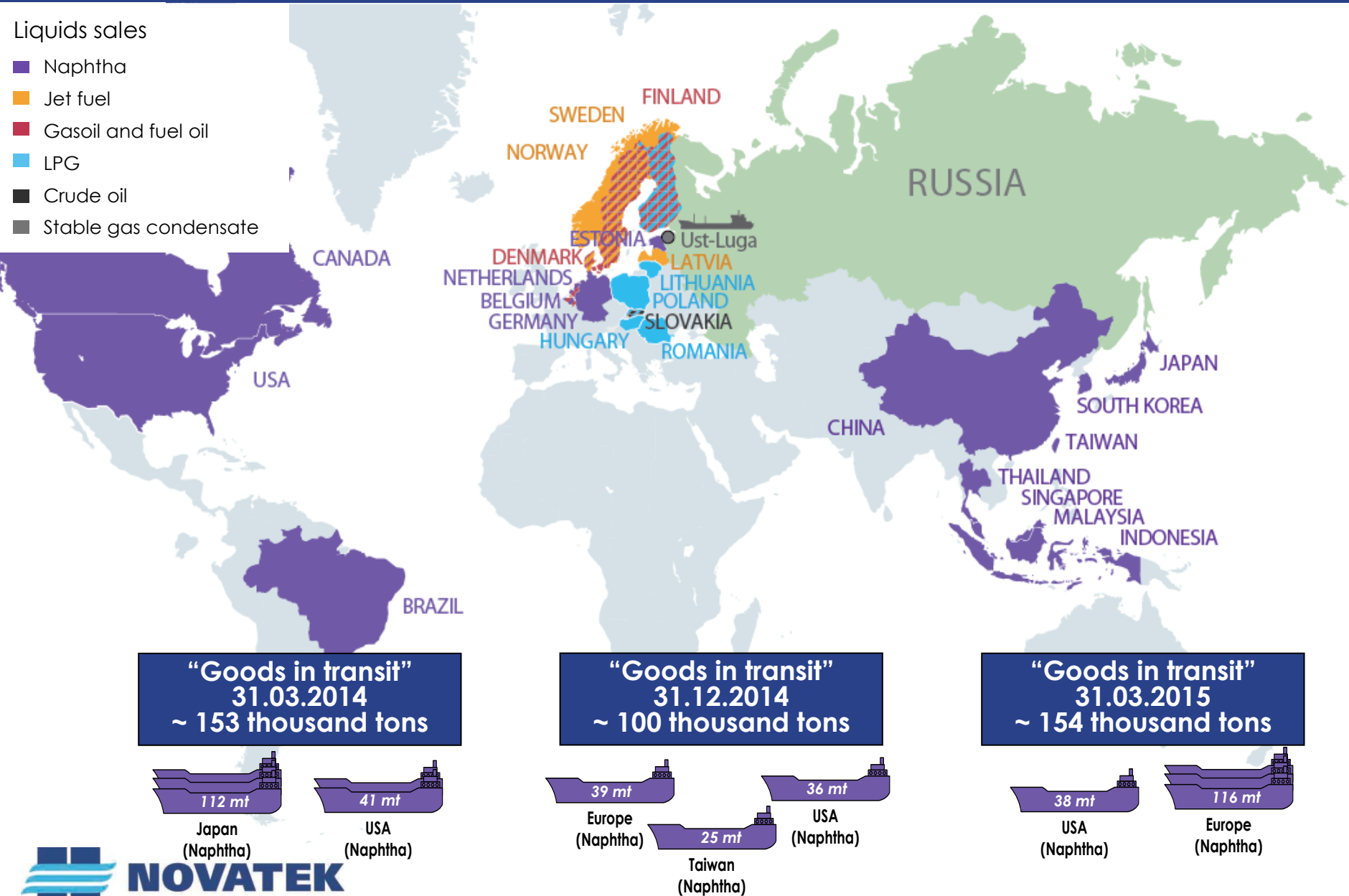
# Ust-Luga Complex

- ❑ **Total volumes delivered: 1,712 mt**
- ❑ **Total output of marketable gas condensate refined products: 1,662 mt**
  - Naphtha: 1,010 mt
  - Other products: 652 mt
- ❑ **1,868 mt of gas condensate refined products were dispatched**
  - to Europe: 1,213 mt
  - to the Asia Pacific Region: 543 mt
  - to North America: 108 mt
  - Other: 4 mt
- ❑ **Gas condensate refined products inventory reconciliation**
  - Ust-Luga Complex storage facilities: 63 mt
  - Tankers in transit: 154 mt of naphtha
- ❑ **Capacity utilization: almost 100%**





# Liquids in Transit



## Financial Overview – 1Q 15 vs. 1Q 14

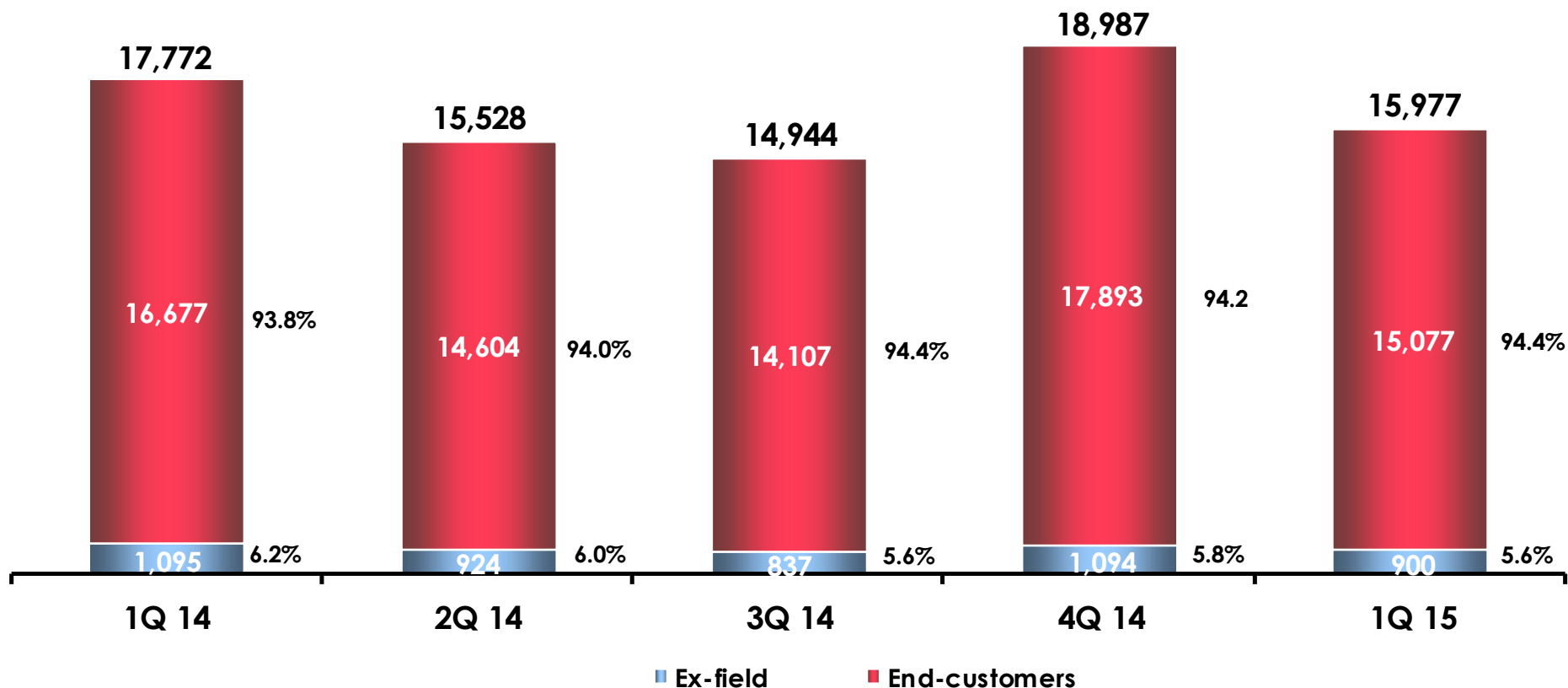
# Comparison of Quarterly Results (RR million)

	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	Q-o-Q +/- %	Y-o-Y +/- %
<b>Oil and gas sales</b>	88,533	87,881	84,090	95,169	113,224	19.0%	27.9%
<b>Total revenues</b>	88,676	88,370	84,733	95,864	113,742	18.6%	28.3%
<b>Operating expenses</b>	(53,875)	(55,670)	(55,870)	(71,097)	(73,896)	3.9%	37.2%
<b>EBITDA <sup>(1)</sup></b>	45,602	40,323	38,757	37,572	55,162	46.8%	21.0%
<b>Normalized EBITDA <sup>(2)</sup></b>	42,979	40,323	38,757	37,572	55,162	46.8%	28.3%
<b>EBITDA margin</b>	51.4%	45.6%	45.7%	39.2%	48.5%		
<b>Normalized EBITDA margin <sup>(2)</sup></b>	48.5%	45.6%	45.7%	39.2%	48.5%		
<b>Effective income tax rate <sup>(3)</sup></b>	19.8%	18.4%	32.8%	3.9%	16.2%		
<b>Profit attributable to NOVATEK</b>	25,155	31,950	7,627	(27,436)	31,075	-213.3%	23.5%
<b>Normalized profit attributable to NOVATEK <sup>(2)</sup></b>	23,056	31,950	7,627	(27,436)	31,075	-213.3%	34.8%
<b>Profit margin</b>	28.4%	36.2%	9.0%	-28.6%	27.3%		
<b>Normalized profit margin <sup>(2)</sup></b>	26.0%	36.2%	9.0%	-28.6%	27.3%		
<b>Earnings per share</b>	8.31	10.58	2.53	(9.08)	10.29	-213.3%	23.8%
<b>Normalized earnings per share <sup>(2)</sup></b>	7.62	10.58	2.53	(9.08)	10.29	-213.3%	35.0%
<b>CAPEX <sup>(4)</sup></b>	13,727	19,576	12,284	17,592	14,494	-17.6%	5.6%
<b>Net debt <sup>(5)</sup></b>	125,087	114,496	147,580	204,361	206,926	1.3%	65.4%
<b>Free cash flow <sup>(6)</sup></b>	13,750	4,199	6,696	23,417	25,223	7.7%	83.4%

## Notes:

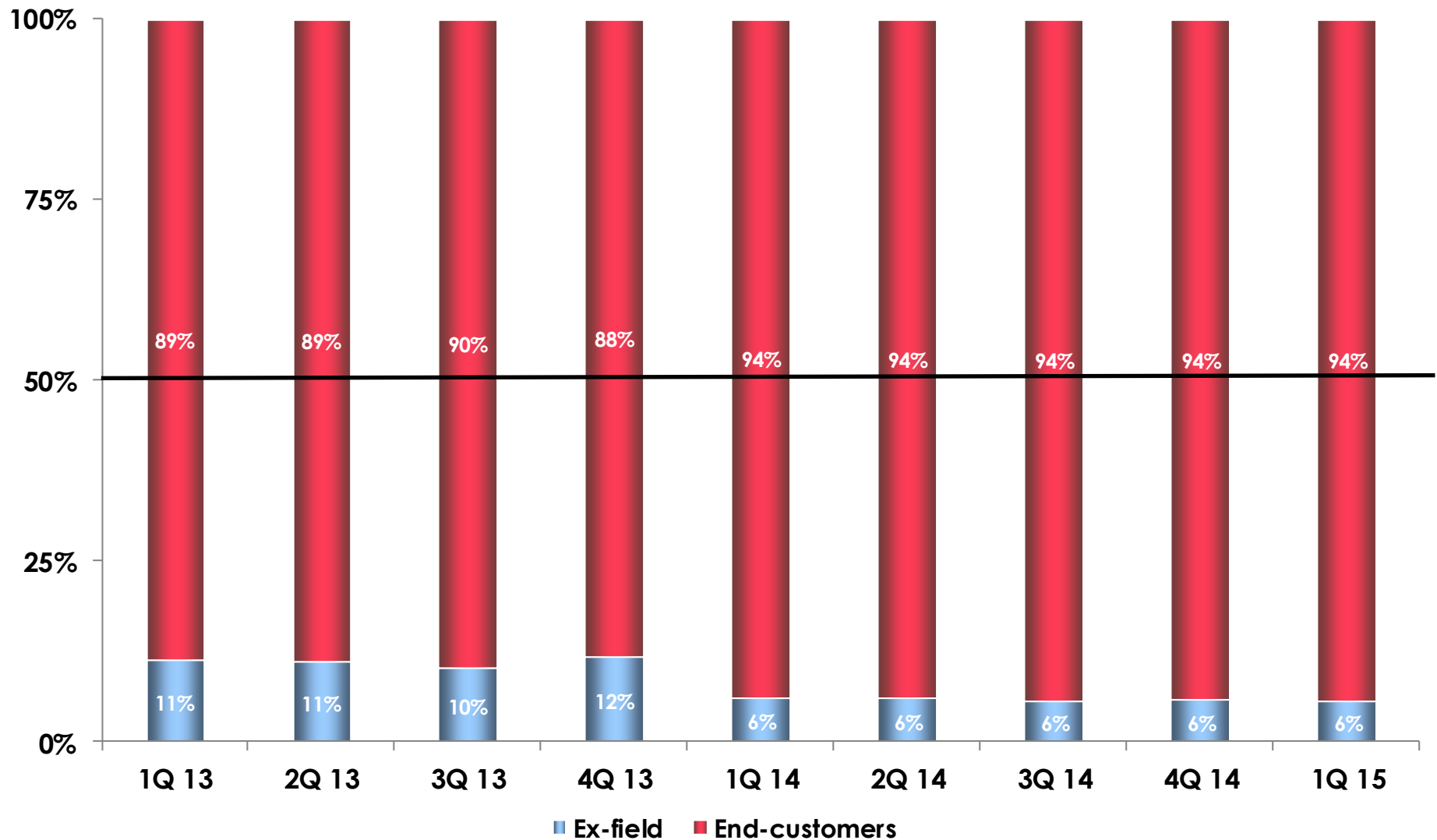
1. EBITDA includes our proportionate share in the EBITDA of our joint ventures and represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the add-back of net impairment expenses (reversals), depreciation, depletion and amortization, income tax expense, share of profit (loss) of joint ventures, net of income tax and finance income (expense) from the Consolidated Statement of Income, as well as income (loss) from changes in fair value of derivative financial instruments
2. Excluding the effect from the disposal of interests in joint ventures
3. The Russian statutory income tax rate for 2014 and 2015 was 20%. Effective income tax rate differs from the statutory rate period-on-period mainly due to the recognition by the Group of its share of net profit (loss) from joint ventures, which influenced the consolidated profit of the Group but has not resulted in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures is recorded in their financial statements on an after-tax basis. The Group holds at least a 50% interest in each of its joint ventures, and the dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation
4. CAPEX represents additions to property, plant and equipment excluding payments for mineral licenses
5. Net debt calculated as long-term debt plus short-term debt less cash and cash equivalents
6. Free cash flow represents the excess of net cash provided by operating activities over capital expenditures

# Market Distribution – Gas Sales Volumes (mmcm)



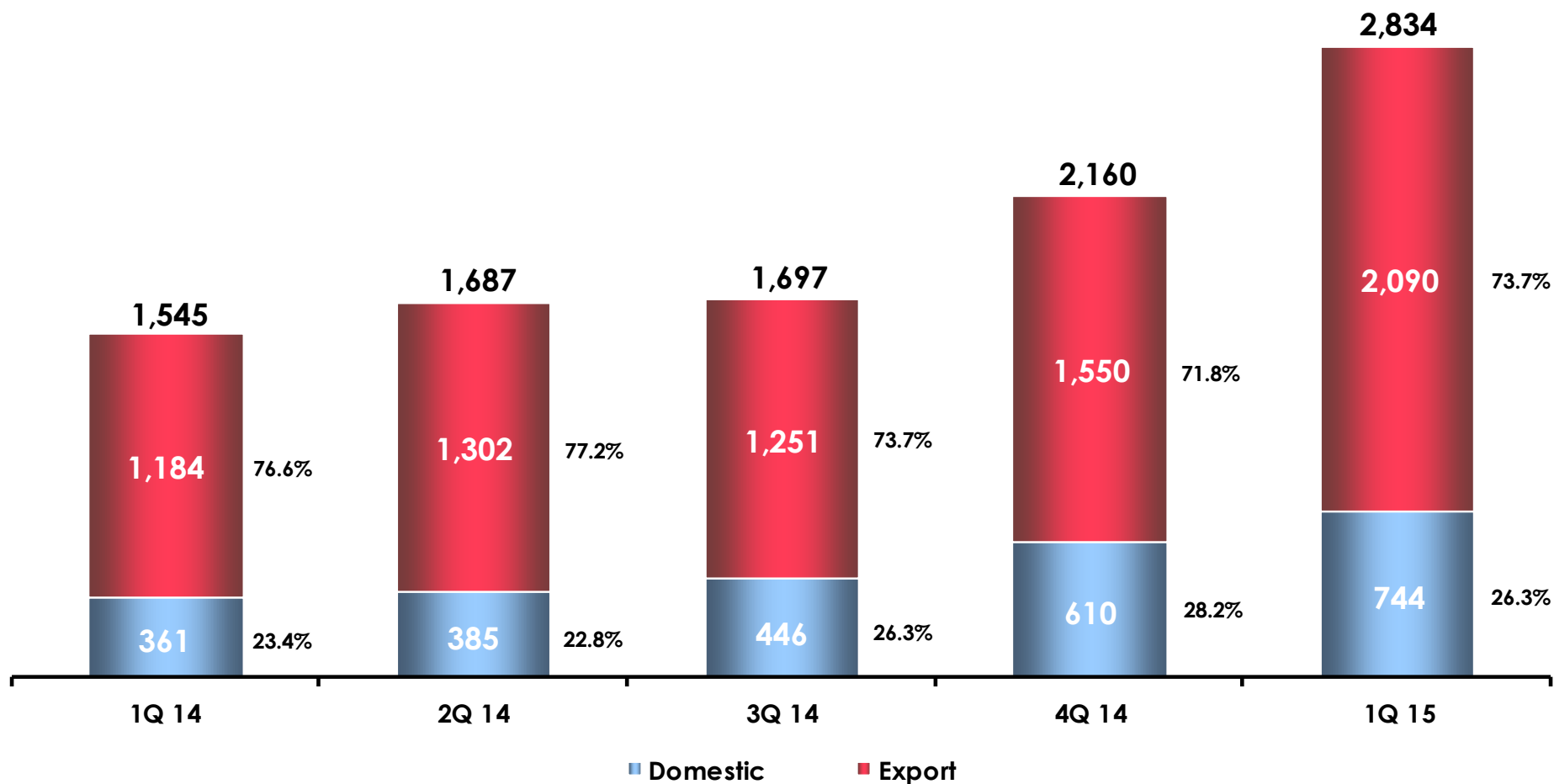
Y-o-Y and Q-o-Q decrease in natural gas sales volumes was due to a decrease in natural gas consumption as a result of warmer weather in the beginning of 2015 as compared to the beginning of 2014 in the Russian Federation, as well as a failure to take contracted natural gas volumes by one of our major customers

# Natural Gas Sales Volume Mix



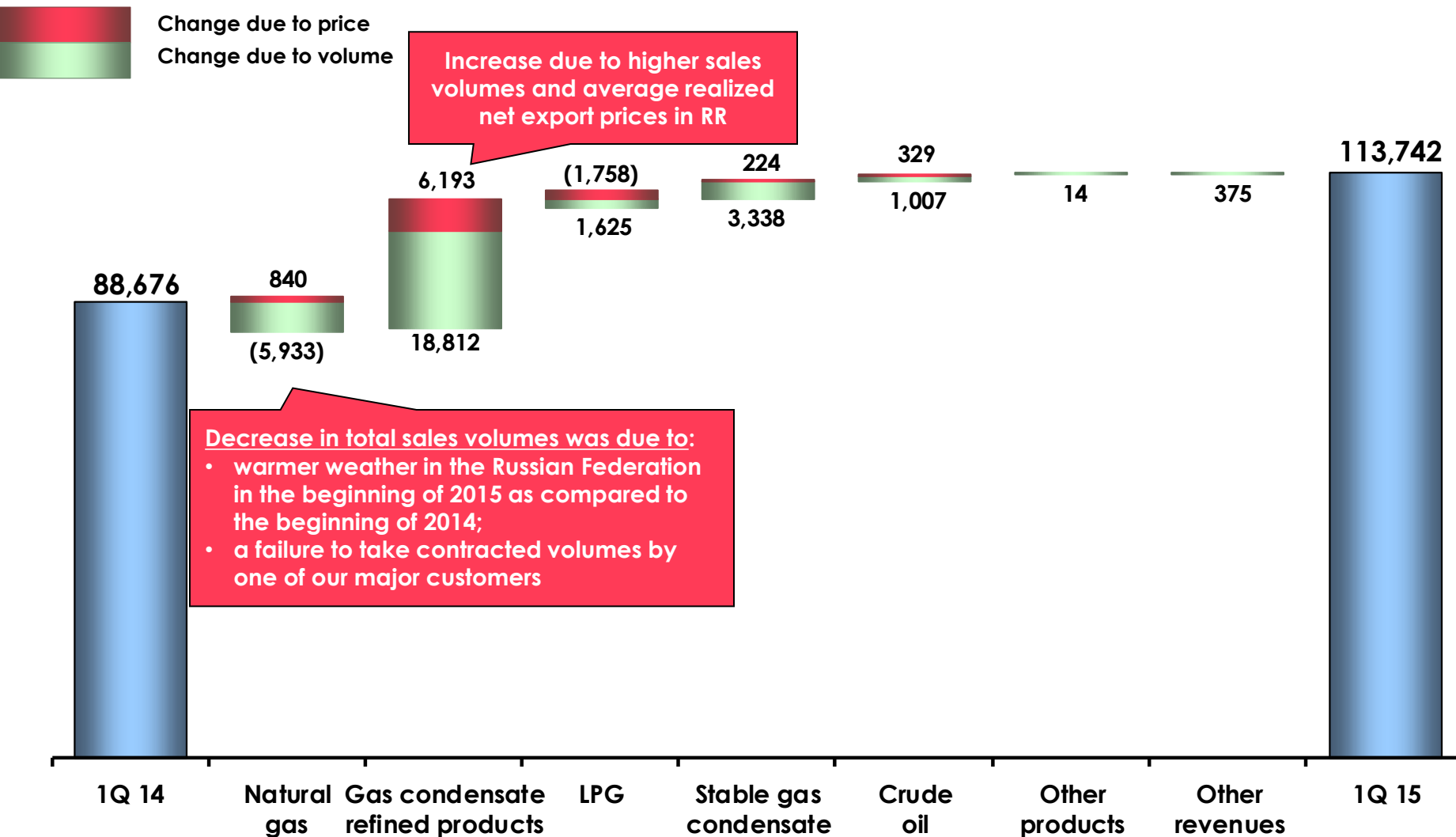


# Market Distribution – Liquids Sales Volumes (mt)



Y-o-Y and Q-o-Q increase in liquids sales volumes was due to a significant increase in unstable gas condensate production in our JV SeverEnergiya and crude oil production in our subsidiaries

# Total Revenues (RR million)



# Total Revenues Breakdown

■ Natural gas

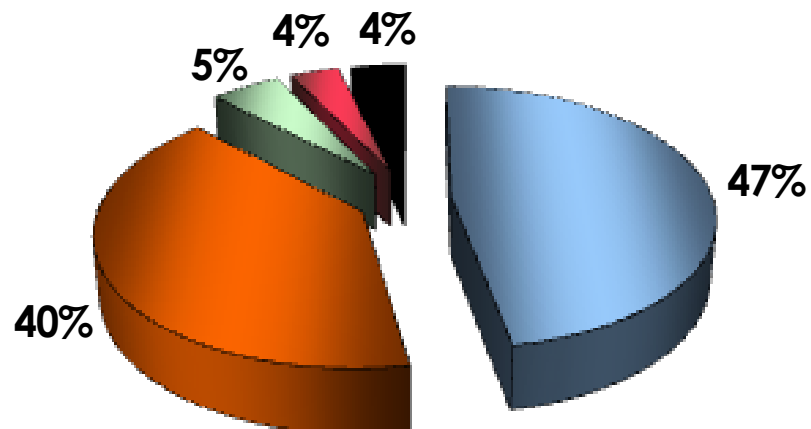
■ Gas condensate  
refined products

■ LPG

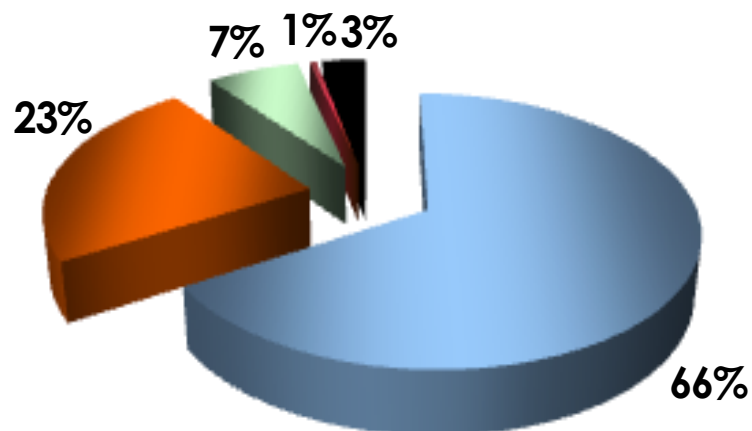
■ Stable gas condensate

■ Other

1Q 15



1Q 14



# Realized Hydrocarbon Prices (net of VAT and export duties)

1Q 14	1Q 15	+ / (-)	+ / (-)%		4Q 14	1Q 15	+ / (-)	+ / (-)%
<b><u>Domestic prices</u></b>								
3,400	3,447	47	1.4%	<b>Natural gas end-customers, RR/mcm</b>	3,536	3,447	(89)	-2.5%
1,834	1,831	(3)	-0.2%	<b>Natural gas ex-field, RR/mcm</b>	1,831	1,831	-	0.0%
13,724	13,114	(610)	-4.4%	<b>Stable gas condensate, RR/ton</b>	11,697	13,114	1,417	12.1%
-	20,258	n/a	n/a	<b>Other gas condensate refined products, RR/ton</b>	20,101	20,258	157	0.8%
13,443	9,170	(4,273)	-31.8%	<b>LPG, RR/ton</b>	14,486	9,170	(5,316)	-36.7%
13,032	13,979	947	7.3%	<b>Crude oil, RR/ton</b>	11,893	13,979	2,086	17.5%
<b><u>Export market</u></b>								
21,263	24,354	3,091	14.5%	<b>Naphtha, RR/ton</b>	11,340	24,354	13,014	114.8%
22,876	26,078	3,202	14.0%	<b>Other gas condensate refined products, RR/ton</b>	18,624	26,078	7,454	40.0%
-	24,796	n/a	n/a	<b>Stable gas condensate, RR/ton</b>	-	24,796	n/a	n/a
21,074	20,639	(435)	-2.1%	<b>LPG, RR/ton</b>	20,753	20,639	(114)	-0.5%
13,511	15,188	1,677	12.4%	<b>Crude oil, RR/ton</b>	9,962	15,188	5,226	52.5%

Note: Prices are shown excluding trading activities

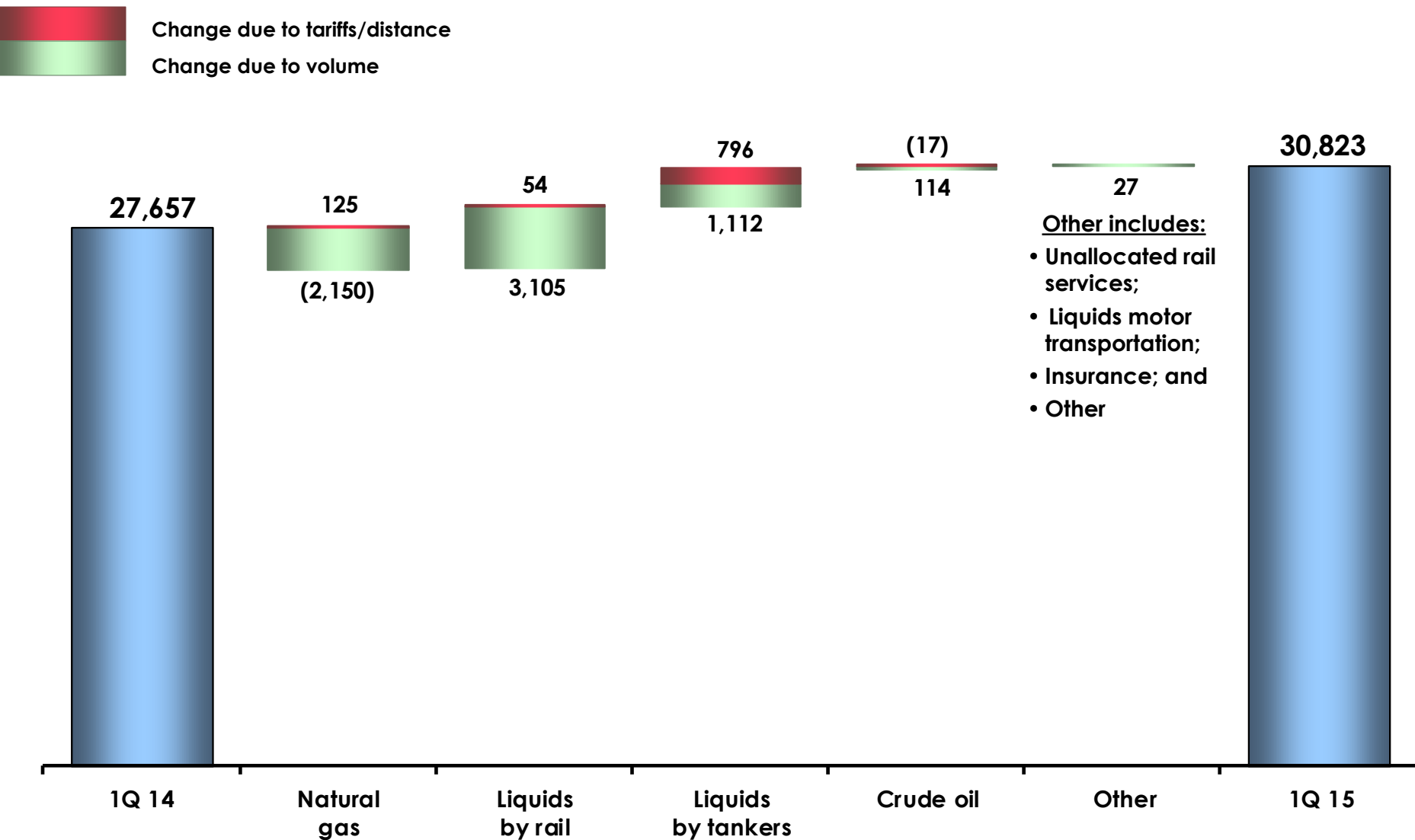
# Operating Expenses (RR million and % of Total Revenues (TR))

1Q 14	% of TR	1Q 15	% of TR		4Q 14	% of TR	1Q 15	% of TR
27,657	31.2%	30,823	27.1%	Transportation expenses	33,516	35.0%	30,823	27.1%
7,508	8.5%	9,018	7.9%	Taxes other than income tax	7,277	7.6%	9,018	7.9%
35,165	39.7%	39,841	35.0%	<b>Non-controllable expenses</b>	40,793	42.6%	39,841	35.0%
4,056	4.6%	4,515	4.0%	Depreciation and amortization	4,633	4.8%	4,515	4.0%
2,340	2.6%	3,176	2.8%	Materials, services & other	3,179	3.3%	3,176	2.8%
2,612	2.9%	3,113	2.7%	General and administrative	3,521	3.7%	3,113	2.7%
(586)	n/m	29	n/m	Net impairment expenses (reversals)	324	0.3%	29	n/m
8	n/m	18	n/m	Exploration expenses	-	n/a	18	n/m
1,228	1.4%	(219)	n/m	Change in natural gas, liquids and WIP	1,494	1.6%	(219)	n/m
44,823	50.6%	50,473	44.4%	<b>Subtotal operating expenses</b>	53,944	56.3%	50,473	44.4%
9,052	10.2%	23,423	20.6%	Purchases of natural gas and liquid hydrocarbons	17,153	17.9%	23,423	20.6%
53,875	60.8%	73,896	65.0%	<b>Total operating expenses</b>	71,097	74.2%	73,896	65.0%

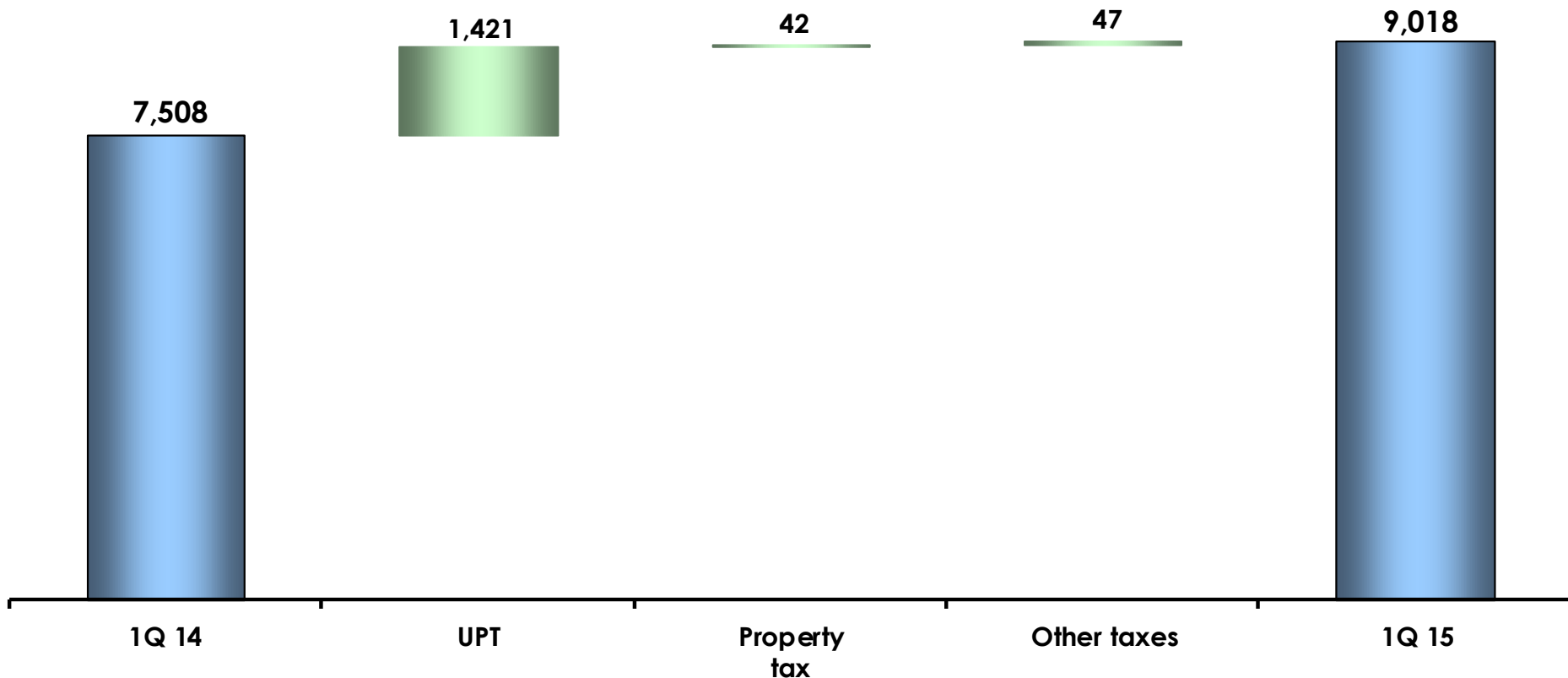
- Operating expenses increased Y-o-Y by 37.2% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures enabling us to sell increased volumes of hydrocarbons to both domestic and international markets
- Our hydrocarbon purchases increased Y-o-Y primarily due to an increase in purchases of unstable gas condensate from SeverEnergiya as a result of the launch of additional production facilities, as well as higher purchases of natural gas from Nortgas as a result of the volumes reallocation between the first and second half of 2014
- Transportation expenses increased Y-o-Y mainly due to an increase in liquid hydrocarbons volumes sold and transported that was partially offset by a decrease in natural gas volumes sold to end-customers
- Taxes other than income tax increased primarily due to a significant increase in the UPT rate for gas condensate from 1 January 2015 as part of the tax maneuver in the oil industry



# Transportation Expenses (RR million)

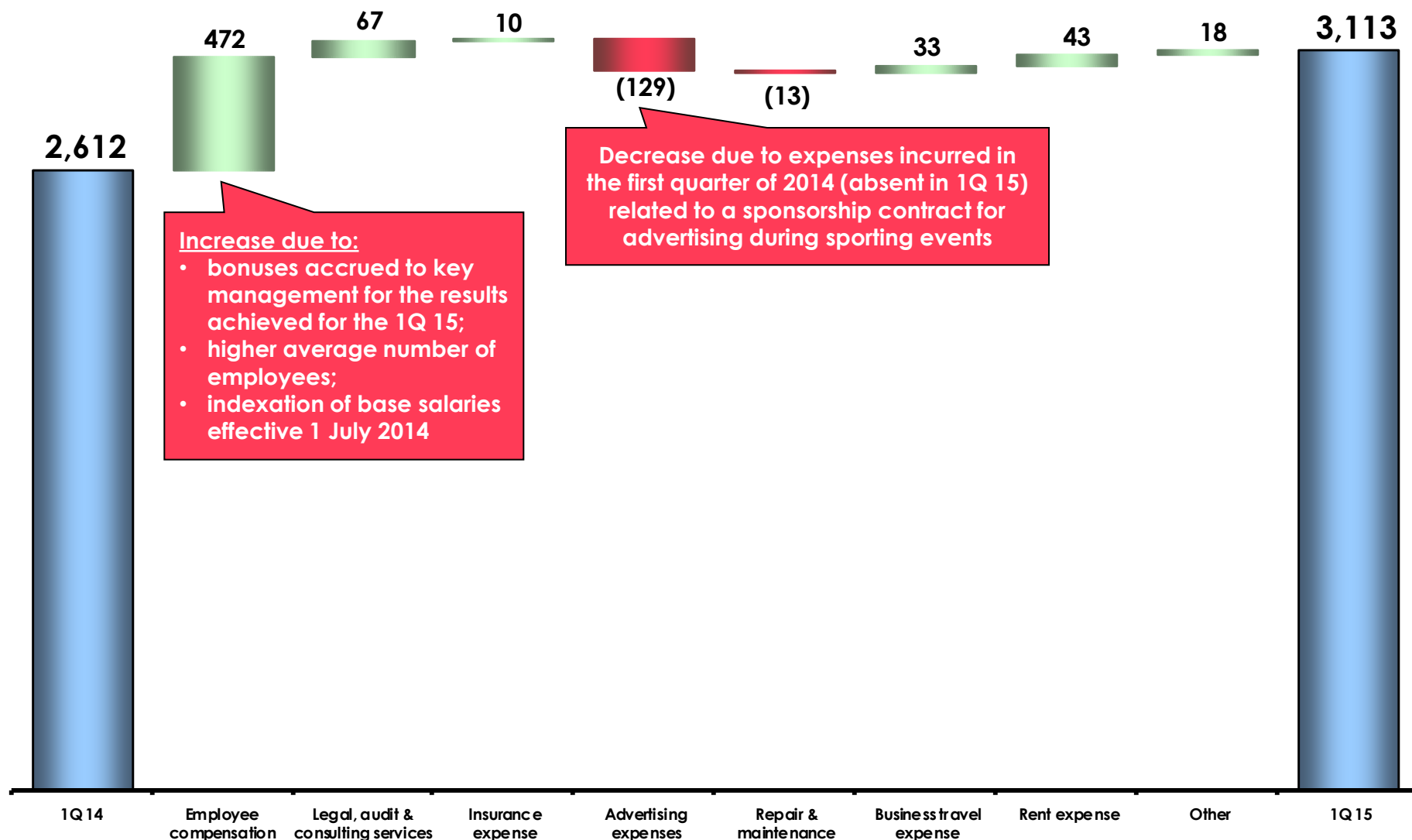


# Taxes Other Than Income Tax Expense (RR million)

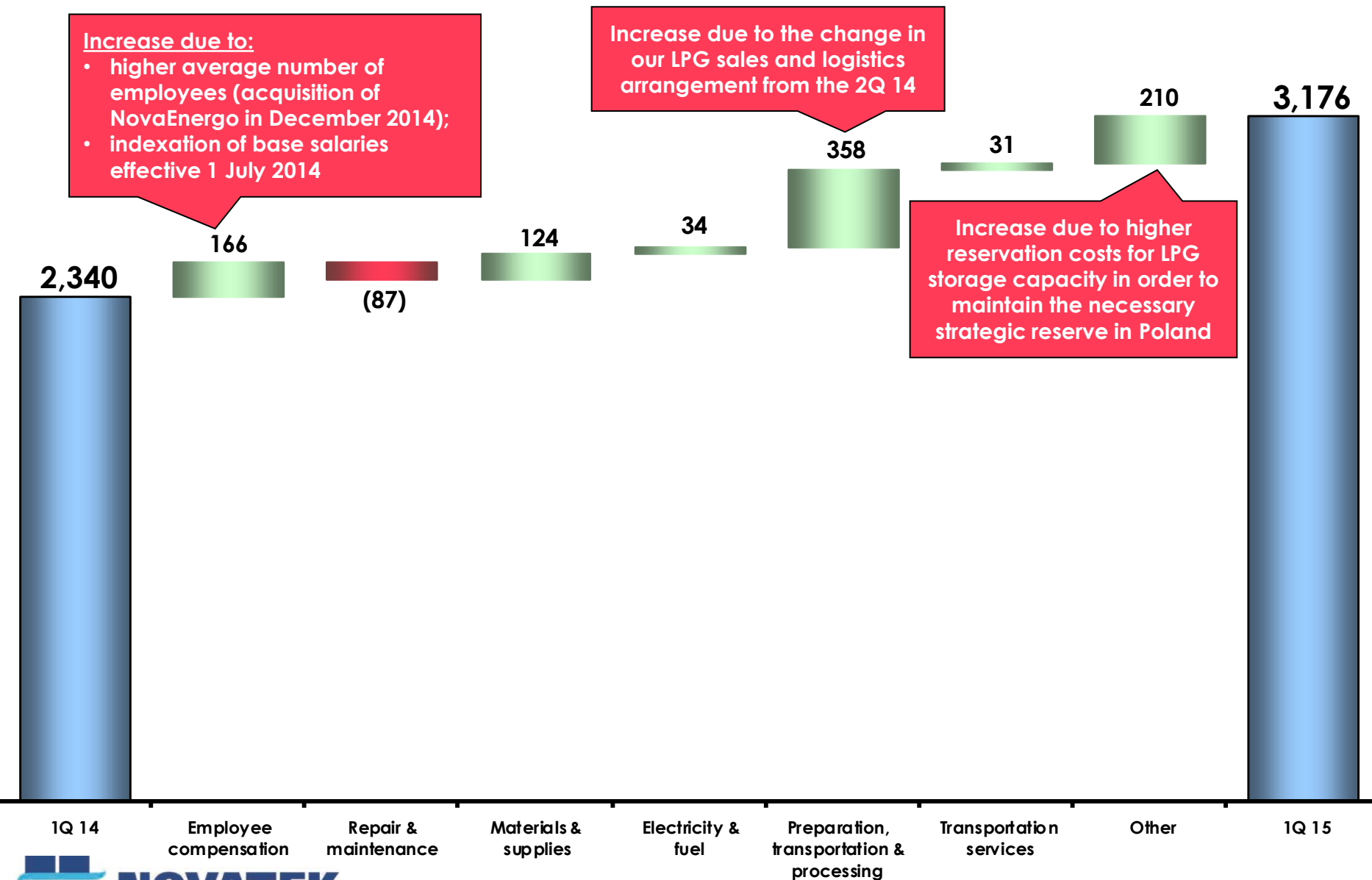


- ❑ Y-o-Y increase in UPT expense was primarily due to a significant increase in the UPT rate for gas condensate from 1 January 2015 as a result of the adjustment of a formula for UPT rate calculation by a co-efficient that increased the rate by 4.4 times
- ❑ From 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude oil produced at our Yurkharov, East-Tarko and Khanchey fields as part of the tax maneuver in the oil industry. In 2014, we applied a zero UPT rate

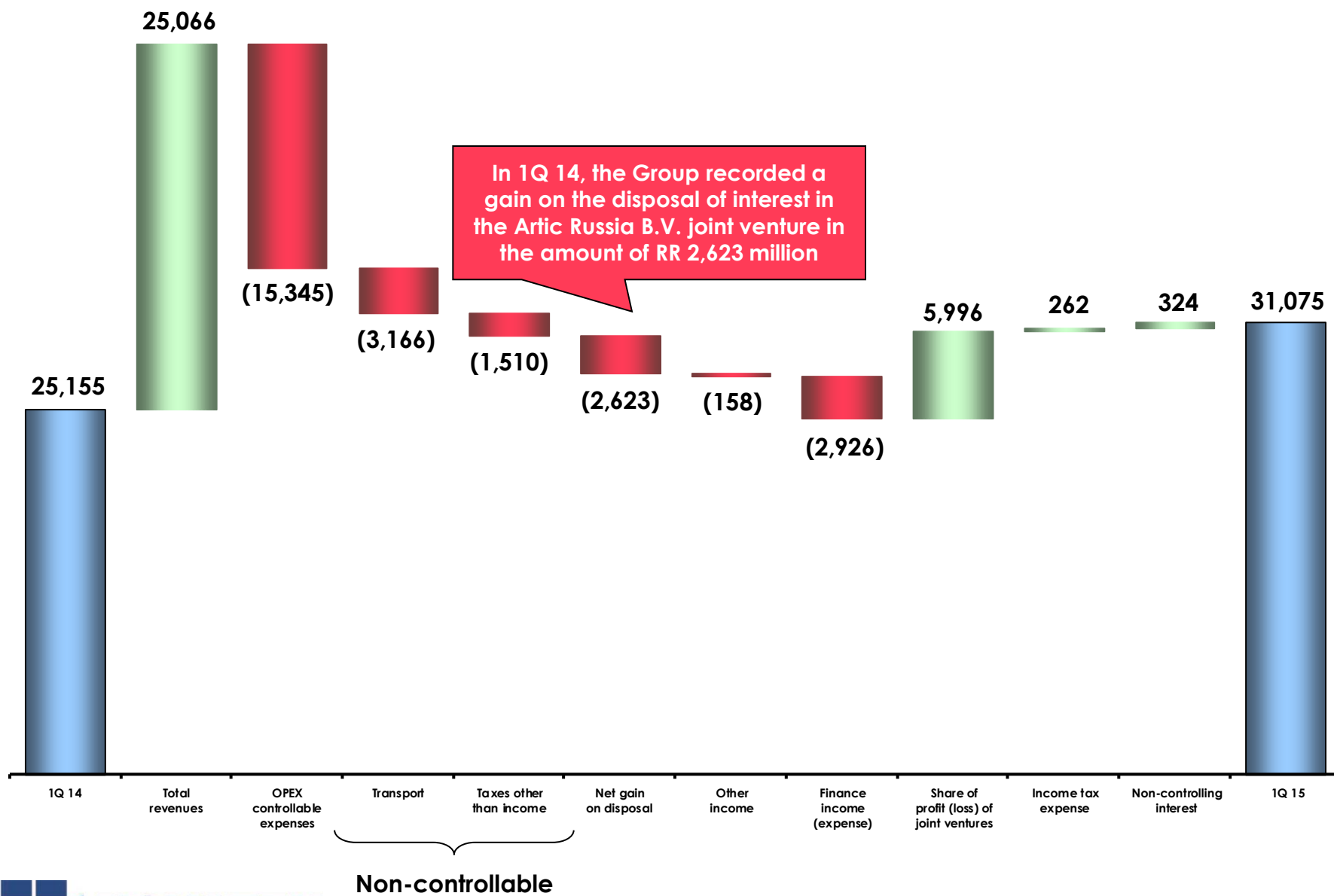
# General and Administrative Expenses (RR million)



# Materials, Services and Other Expenses (RR million)



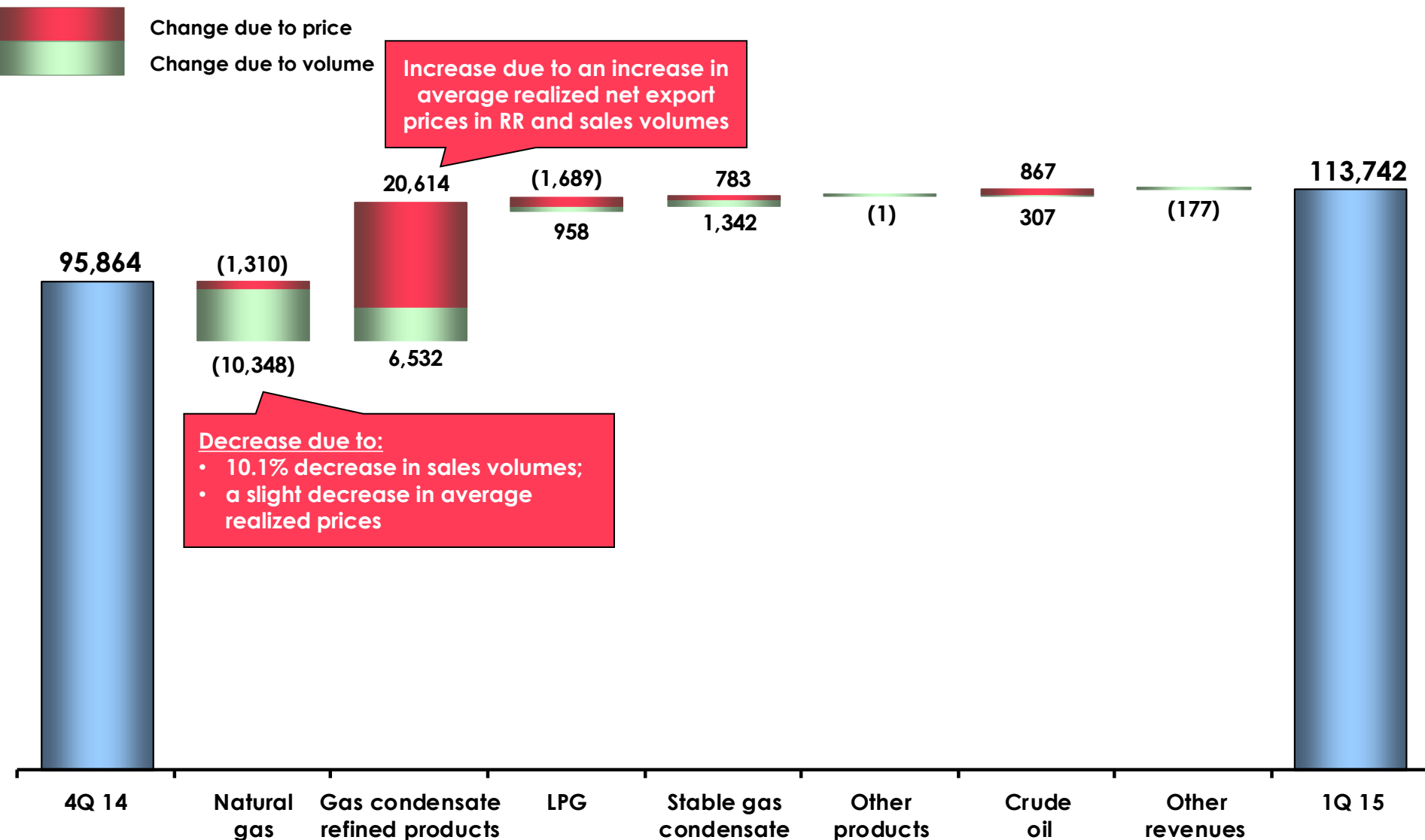
# Profit Attributable to NOVATEK Shareholders (RR million)





## Financial Overview – 1Q 15 vs. 4Q 14

# Total Revenues (RR million)



# Total Revenues Breakdown

■ Natural gas

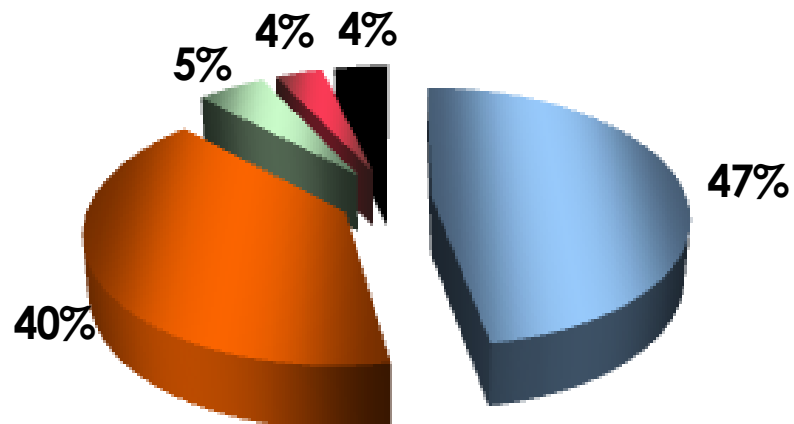
■ Gas condensate  
refined products

■ LPG

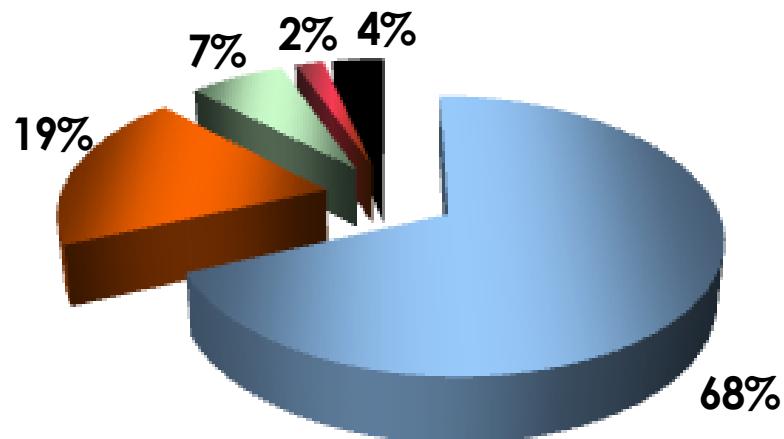
■ Stable gas condensate

■ Other

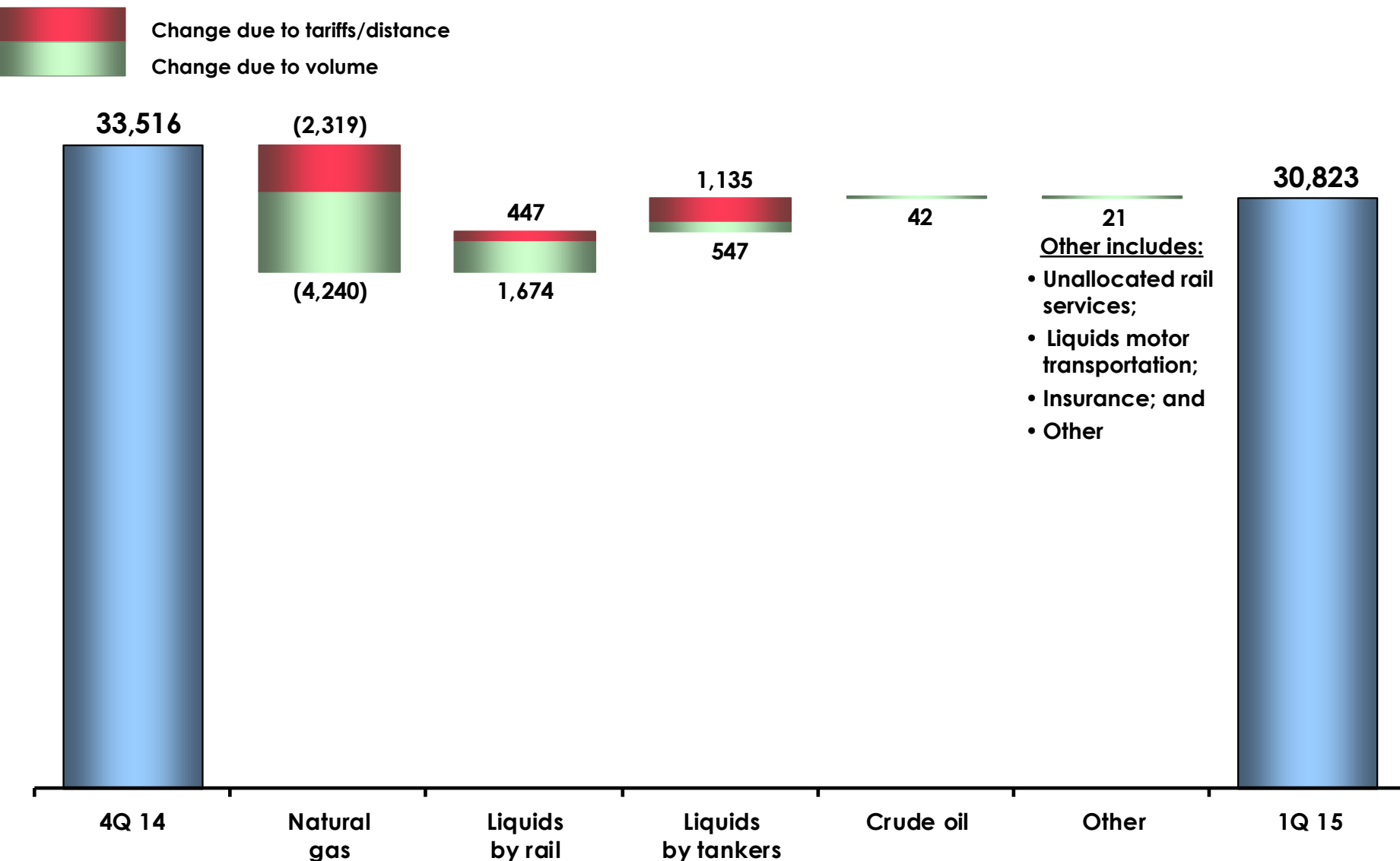
1Q 15



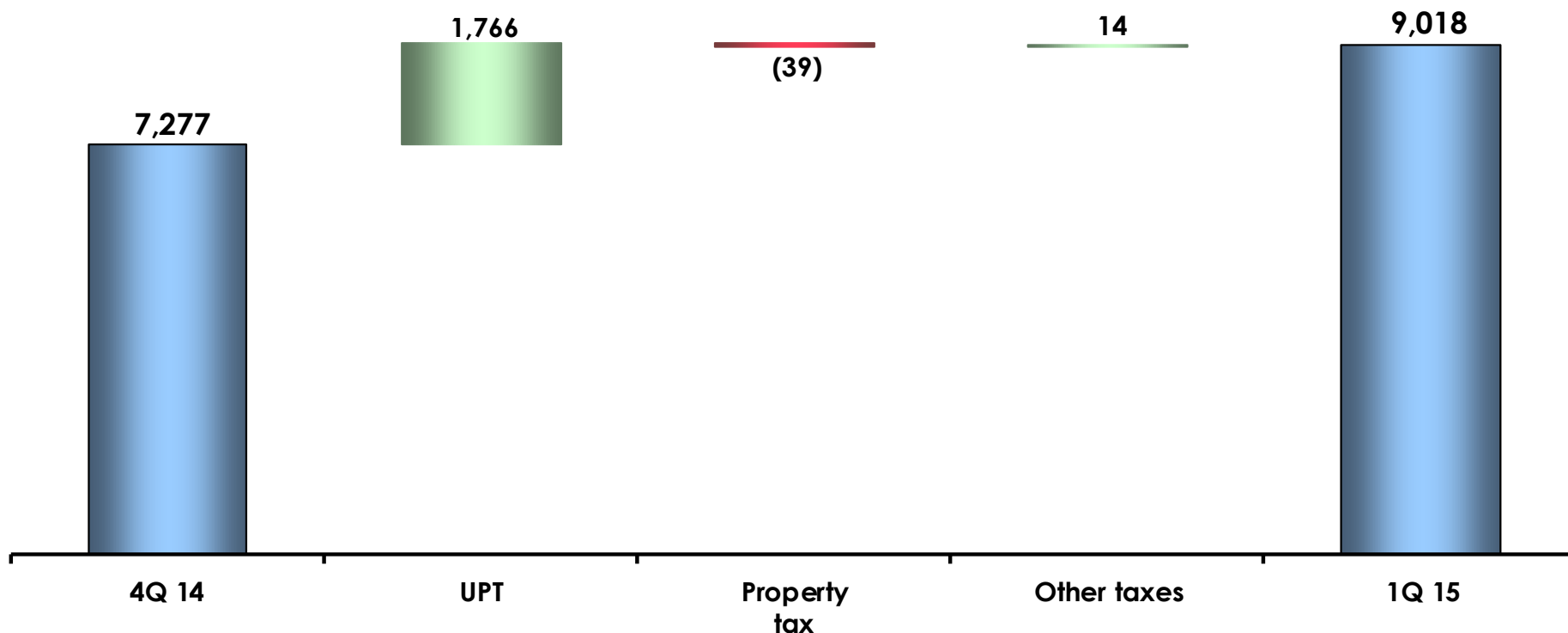
4Q 14



# Transportation Expenses (RR million)



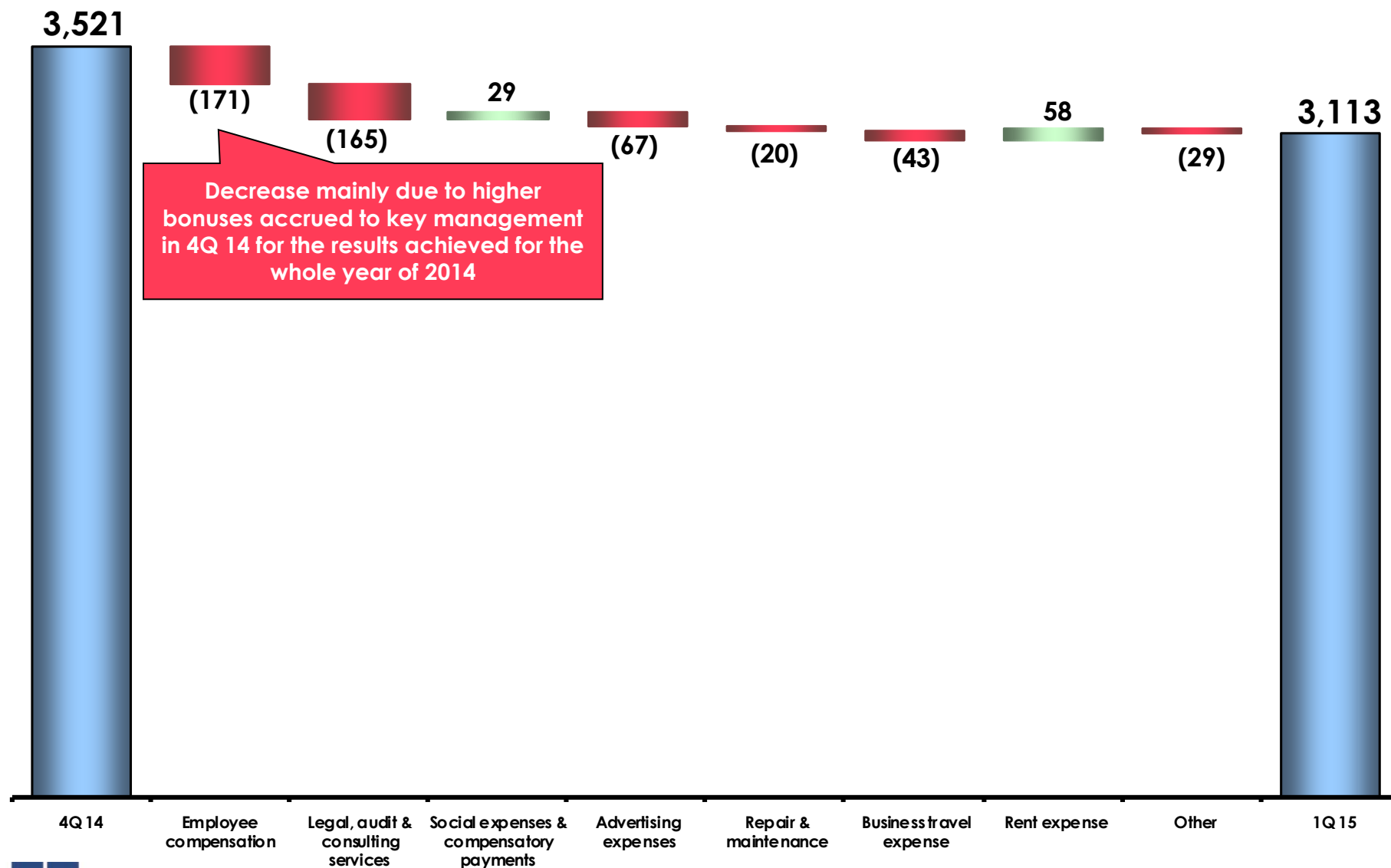
# Taxes Other Than Income Tax Expense (RR million)



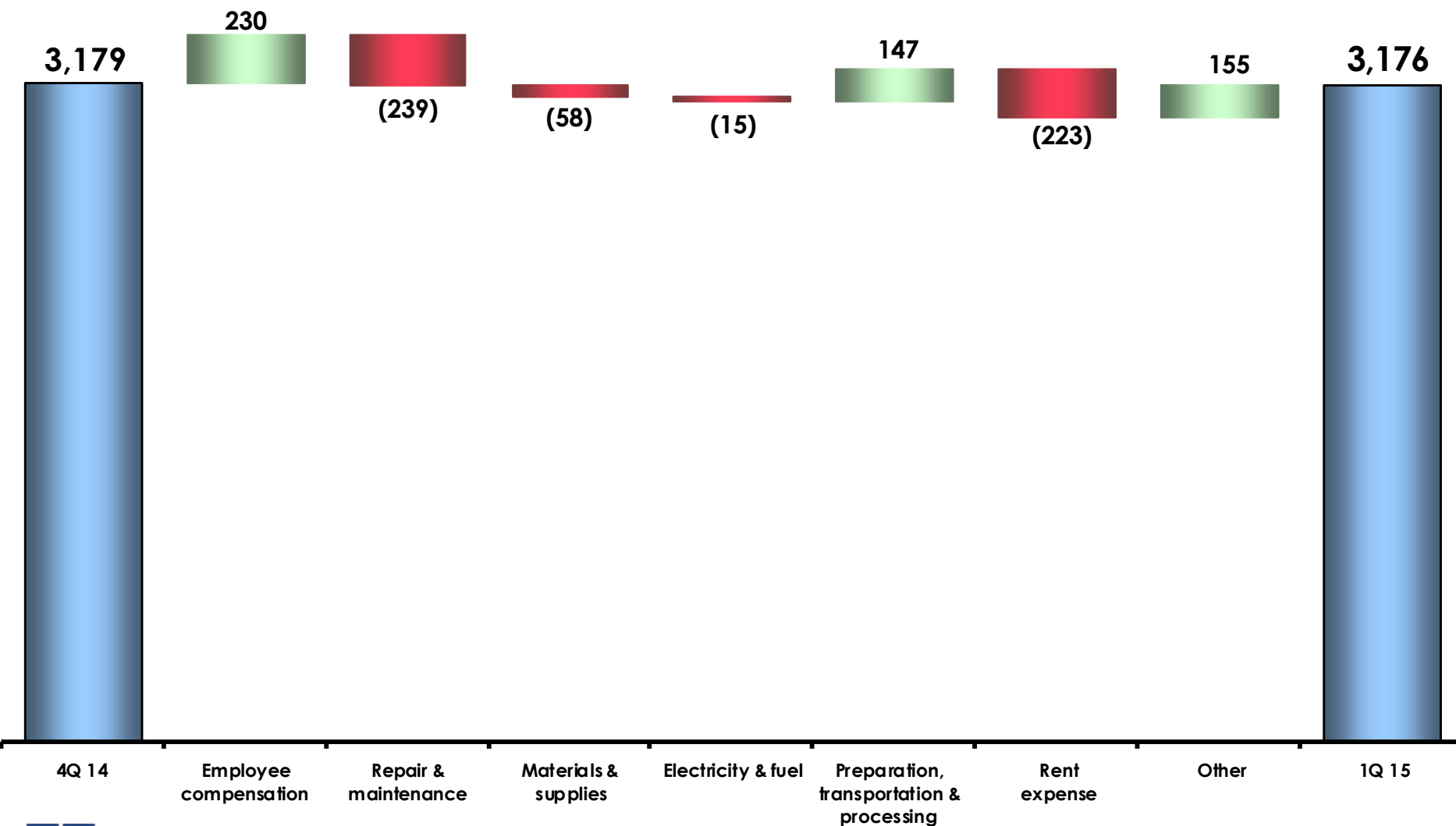
- Q-o-Q increase in UPT expense was primarily due to a significant increase in the UPT rate for gas condensate from 1 January 2015 as a result of the adjustment of a formula for UPT rate calculation by a co-efficient that increased the rate by 4.4 times
- From 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude oil produced at our Yurkharov, East-Tarko and Khanchey fields as part of the tax maneuver in the oil industry. In 2014, we applied a zero UPT rate



# General and Administrative Expenses (RR million)

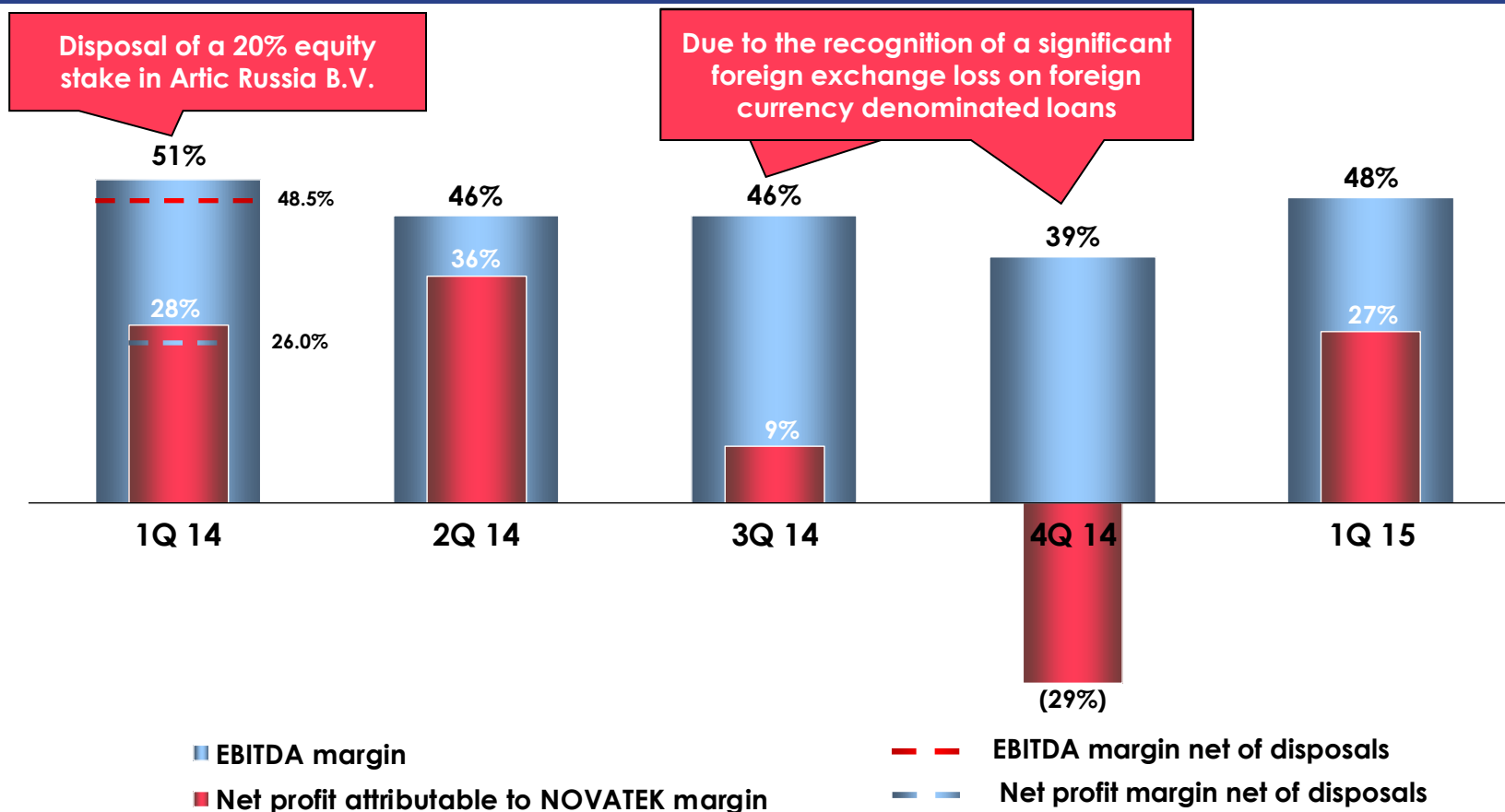


# Materials, Services and Other Expenses (RR million)



# Appendices

# Maintaining Margins (% of total revenues)

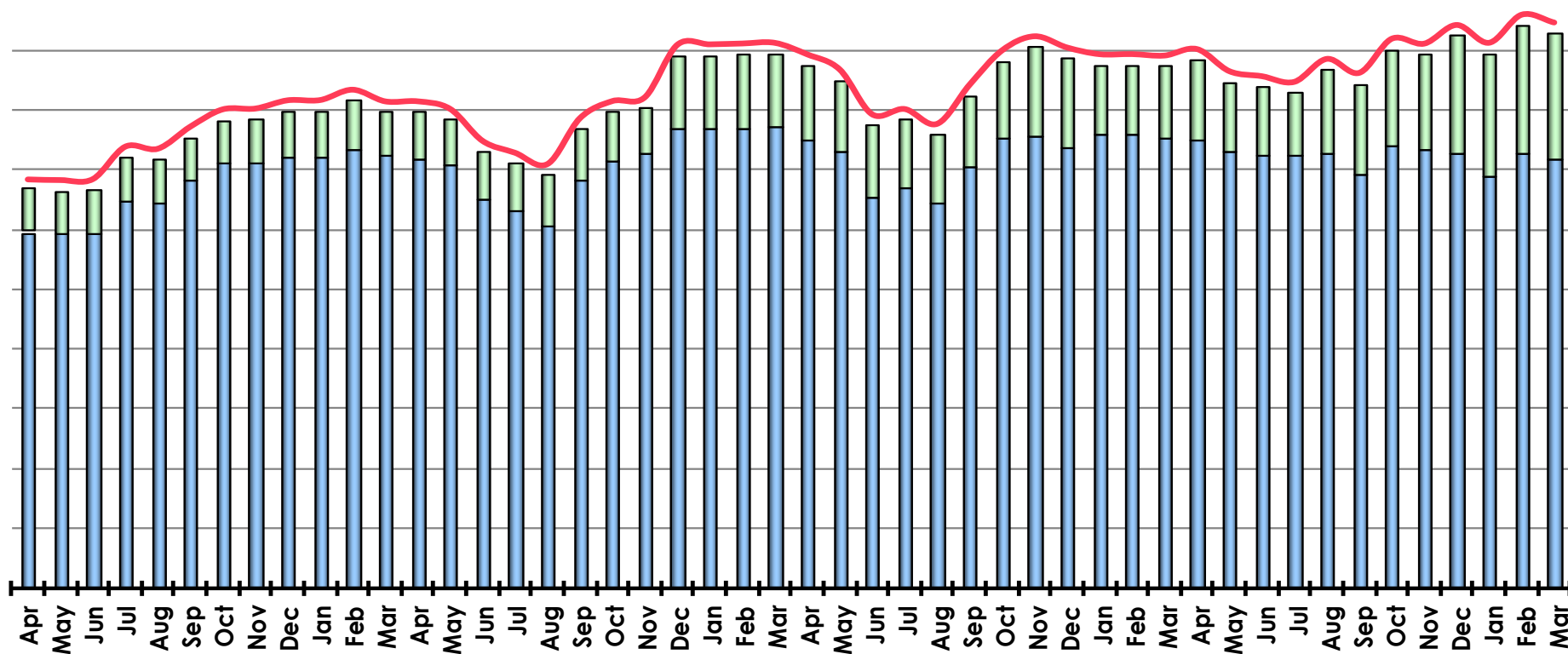


**Margins in-line with Group's strategic guidance, but negatively impacted by the depreciation of Russian rouble in the second half of 2014**

## Notes:

EBITDA includes our proportionate share in the EBITDA of our joint ventures and represents profit (loss) attributable to shareholders of OAO NOVATEK adjusted for the add-back of net impairment expenses (reversals), depreciation, depletion and amortization, income tax expense, share of profit (loss) of joint ventures, net of income tax and finance income (expense) from the Consolidated Statement of Income, as well as income (loss) from changes in fair value of derivative financial instruments

# Increasing Natural Gas Production (mmcm per day)



■ Gross production (subsidiaries) ■ Equity share in the gross production of our JVs

2012

2012 Avg.  
157 mmcm/day  
5,531 bcf/day

2013

2013 Avg.  
170 mmcm/day  
6,020 bcf/day

2014

2014 Avg.  
174 mmcm/day  
6,160 bcf/day

2015

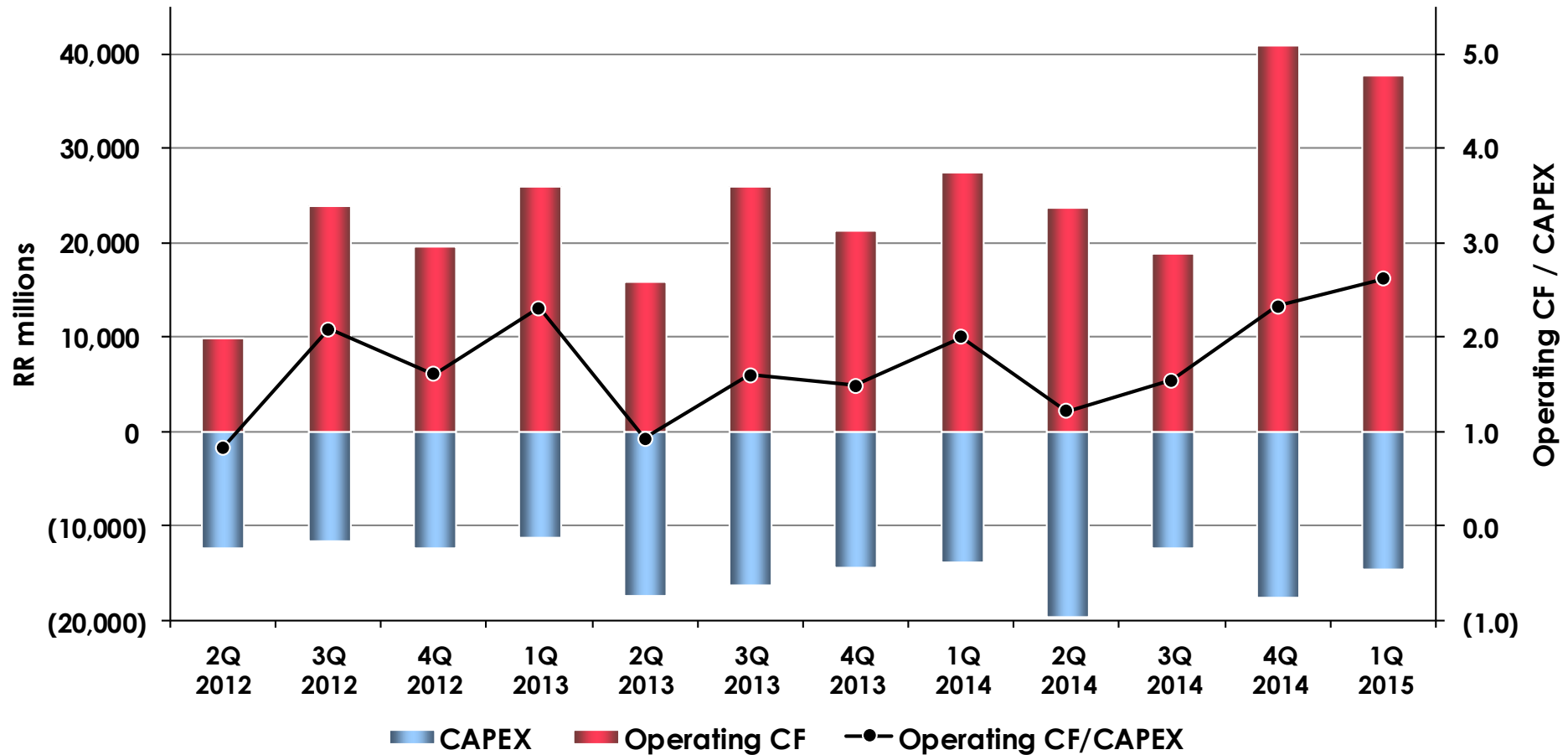
1Q 15 Avg.  
184 mmcm/day  
6,512 bcf/day

1Q 14 Avg.  
175 mmcm/day  
6,185 bcf/day

# Condensed Statement of Financial Position (RR million)

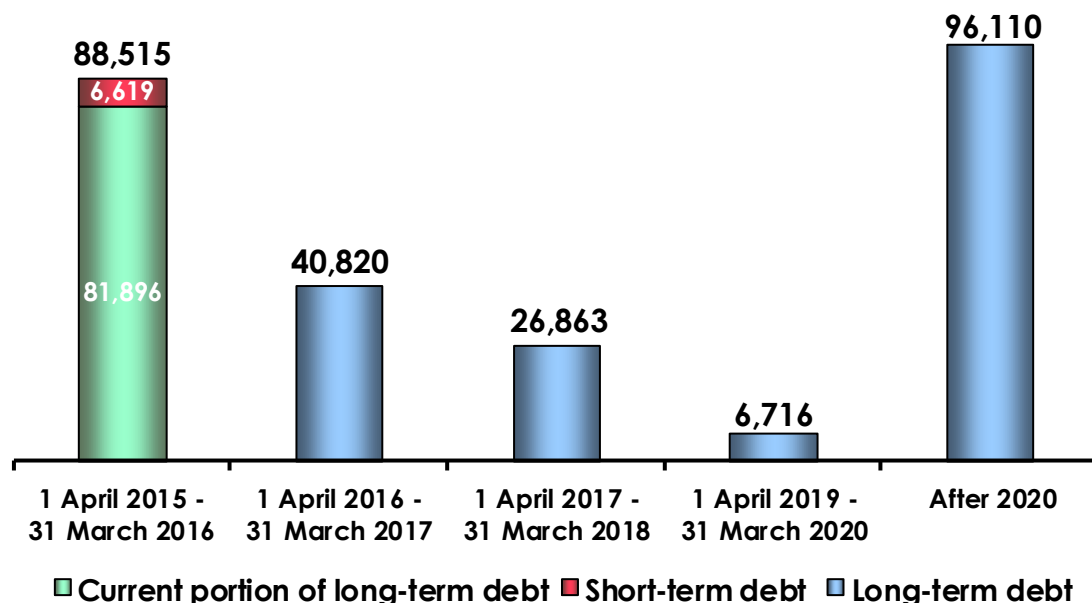
	31 March 2015	31 December 2014	+ / (-)	+ / (-) %
<b>Total current assets</b>	<b>135,932</b>	<b>126,591</b>	<b>9,341</b>	<b>7.4%</b>
<i>Incl. Cash and cash equivalents</i>	<i>52,098</i>	<i>41,318</i>	<i>10,780</i>	<i>26.1%</i>
<b>Total non-current assets</b>	<b>618,577</b>	<b>572,548</b>	<b>46,029</b>	<b>8.0%</b>
<i>Incl. Net PP&amp;E</i>	<i>301,647</i>	<i>291,726</i>	<i>9,921</i>	<i>3.4%</i>
<b>Total assets</b>	<b>754,509</b>	<b>699,139</b>	<b>55,370</b>	<b>7.9%</b>
<b>Total current liabilities</b>	<b>136,508</b>	<b>81,208</b>	<b>55,300</b>	<b>68.1%</b>
<i>Incl. ST &amp; current portion of LT debt</i>	<i>88,515</i>	<i>40,980</i>	<i>47,535</i>	<i>116.0%</i>
<b>Total non-current liabilities</b>	<b>195,726</b>	<b>230,807</b>	<b>(35,081)</b>	<b>-15.2%</b>
<i>Incl. Deferred income tax liabilities</i>	<i>21,847</i>	<i>21,063</i>	<i>784</i>	<i>3.7%</i>
<i>Incl. LT debt</i>	<i>170,509</i>	<i>204,699</i>	<i>(34,190)</i>	<i>-16.7%</i>
<b>Total liabilities</b>	<b>332,234</b>	<b>312,015</b>	<b>20,219</b>	<b>6.5%</b>
<b>Total equity</b>	<b>422,275</b>	<b>387,124</b>	<b>35,151</b>	<b>9.1%</b>
<b>Total liabilities &amp; equity</b>	<b>754,509</b>	<b>699,139</b>	<b>55,370</b>	<b>7.9%</b>

# Internally Funded Investment Program



Core investments in upstream exploration, production and processing facilities funded primarily through internal cash flows

# Total Debt Maturity Profile (RR million)



## The Group has available funds:

- ✓ ZAO UniCredit Bank – USD 180 mln until August 2015
- ✓ Credit Agricole Corporate and Investment Bank – USD 100 mln until April 2015
- ✓ Gazprombank – RR 10 bln until July 2015

## Debt repayment schedule:

- Up to 31 March 2016 – Short-term loan from a non-controlling shareholder, RR denominated bonds (RR 20 bln), Eurobonds Five-Year (USD 600 mln) and Syndicated term credit line
- Up to 31 March 2017 – Eurobonds Four-Year (RR 14 bln) and Syndicated term credit line facility
- Up to 31 March 2018 – Syndicated term credit line facility
- Up to 31 March 2019 – Syndicated term credit line facility
- After 2020 – Eurobonds Ten-Year (USD 650 mln and USD one bln)



# Questions and Answers