



# NOVATEK

**OAQ Yamal LNG Acquisition - Conference Call  
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Moscow, Russian Federation**

## **CORPORATE PARTICIPANTS**

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OAQ NOVATEK – Chairman of the Management Board and Member of the Board of Directors

## **PRESENTER**

Mark A. Gyetvay

## **INTRODUCTION**

Ladies and Gentlemen, Shareholders and colleagues, I would like to thank everyone for participating in this conference call on our recently announced acquisition of a 51% equity stake in Yamal LNG, and again extend our sincere gratitude to Troika Dialog for organizing this important conference call.

## **DISCLAIMER**

During this conference call we may make certain 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.

## **CONFERENCE CALL NOTES**

Joining me tonight on this important conference call is Mr. Leonid Mikhelson, Chairman of the Management Board and a Member of the Board of Directors. I will initially present the conference material in English followed by a question and answer session.

When we begin the question and answer portion of this conference call we will revert to both the English and Russian languages; therefore it is important that you take this point into consideration when asking questions since this portion of the session will be handled through translation. We would greatly appreciate if you can limit your questions to facilitate translation – there will be ample time allotted for everyone to ask questions.

## SUMMARY HIGHLIGHTS

The economic slowdown and ensuing credit crunch has caused enormous dislocation in the financial markets as well as reshaped the corporate landscape for companies pursuing expansion opportunities. We had stated on many occasions that we will carefully assess acquisition opportunities fitting our long-term strategic goals of expanding our resource base, expanding our productive capacity and/or enhancing our processing capabilities. We have closely reviewed this particular asset over the past 18 months and felt that the time and valuation was right to consummate this transaction.

The ability to acquire an asset of the size and quality of the South-Tambeyskoye field does not come by that often, and the chance to actively participate in the joint development of the Yamal Peninsula in a meaningful way was an important criterion in our ultimate decision. Prior to completing the transaction we received ***unanimous approval*** from the Members of the Board of Directors to proceed forward with our acquisition plans at the agreed acquisition price of USD 650 million for the 51% equity stake as well as engaging various financial advisors, professionals and industry consultants to assist us throughout the decision process.

The South-Tambeyskoye field is a world class natural gas asset holding more than 1.3 trillion cubic meters of natural gas, and will anchor NOVATEK's development of the northeastern portion of the Yamal Peninsula. It was one of the largest natural gas assets available in the marketplace and will play a significant role in our future development activities.

## LOOKING AHEAD

It is extremely important to consider the long-term implications in any investment decision because the lead times for replacement of future production through either successful exploration activities (which has been our historical preference) or through acquisition, such as this transaction, requires careful planning throughout the field's development cycle. Furthermore, our long-term sustainable development plan required that we successfully pursued exploration and development opportunities that ensured the replacement of future production declines in our present portfolio of core assets. To date, we have managed to cost-effectively build our productive capacity through the successful phased development of our Yurkharovskoye field, which will continue to serve as the backbone of our future development plans for many years to come.

However, to successfully grow our business (or operations) we felt it was necessary to seek investment opportunities today that would ensure continued growth in our productive capacity beyond 2020. I cannot understate the importance of maintaining a long-term perspective for all large scale development projects in the oil and gas industry, and this transaction fully recognized this implication. It was also extremely important for us seek an investment opportunity with the size and scale of the South-Tambeyskoye field to complement our present asset portfolio, while at the same time, providing us with a new platform to expand our geographical and market reach.

Even though the Nadym Pur Taz (NPT) area of the Yamal-Nenets Autonomous Region will continue to serve as the core natural gas basin of Russia for the foreseeable years, the exploration and development of the Yamal Peninsula is equally important for us as it will serve as the platform of future Russian gas production. This key point was crucial in

our investment decision as we look forward to jointly developing this prolific natural gas area with OAO Gazprom, a significant shareholder of NOVATEK.

We will spend the next 12 months or more formulating the future development plan for the South-Tambeyskoye field. Immediately upon announcing that we had acquired the 51% equity stake in Yamal LNG, we put into immediate action our management structure to review and assess what is needed in the short-term. Once this assessment is completed, we will provide additional updates on future conference calls, as well as any planned revisions to our capital expenditure program. Our initial scope of work will be to review Yamal LNG's present development plan and to determine whether or not modifications are necessary to ensure a coordinated and efficient work plan is formulated. We will also work closely with all responsible ministries of the Russian Federation to ensure the extension of the present license term is obtained for us to effectively carry out our plans to fully develop the resource base of this asset, as well as to continue our unblemished track record of developing our fields in a socially and environmentally sustainable manner.

## **FIELD HISTORY**

Discovered in 1974, the South-Tambeyskoye field is located on the Northeastern portion of the Yamal Peninsula and holds C1 + C2 natural gas reserves of approximately 1.3 trillion cubic meters and 52 million tons of gas condensate, for total reserves of approximately 8.7 billion barrels of oil equivalent (BOE) as of the 1 January 2008. It is undoubtedly one of the largest untapped gas fields in Russia and the world, and adds significant C1 + C2 reserves to NOVATEK's reserve balance. The last independent reserve audit was conducted by Ryder Scott as of the 1 July 2007, and included P2 and P3 reserves of 717 billion cubic meters of natural gas and 29 million tons of gas condensate, for total reserves of approximately 4.9 billion barrels of oil equivalent.

Prospecting and exploration work began on the field in 1972 in accordance with the exploration project at the Tambeyskoye license area, resulting in the official discovery of the South-Tambeyskoye gas condensate field in 1974. Over the ensuing period from 1972 through 1995, there have been 55 exploration wells drilled on the license area. During the period from 1988 through 2007, six pilot production wells were drilled and initial flows of gas condensate from the field were delivered to market via tankers.

From 1988 through 1991, 1,906 linear kilometers of two-dimensional (2D) seismic was completed, and from 2005 through present, over 1,160 square kilometers of three-dimensional (3D) seismic work has been shot and processed. An initial geological model of the field was constructed based on the initial set of geophysical information.

Our geologists plan to begin assessing and re-interpreting the seismic data for the work completed to date and we will construct our own geological model of the field which will serve as the foundation for NOVATEK's geological exploration and development plan. Most likely, we will not need to drill any additional exploration wells as the C1 reserve information based on the seismic work completed indicates the existence of definitive hydrocarbon deposits. We will be in a better position to formulate the placement of production wells as part of the field's new development plan after we have had the opportunity to construct our new geological model.

We are in the process of reviewing the specifics of the license terms and will be formulating various development scenarios for the field. This work scope will be closely

coordinated with our petroleum engineering firm, DeGolyer and MacNaughton (D&M), to assess the field's reserve potential according to our reserve reporting methodology – both under the SEC (Securities and Exchange Commission) and PRMS (Petroleum Resources Management System) cases. We plan to include this new field in our annual assessment of reserves during 2009.

In terms of valuation and due diligence, we worked very closely with our financial advisors, BNP Paribas and UBS, as well as our legal advisors, Vinson & Elkins to assist us in this acquisition. We also consulted with various industry consultants, such as Poten & Partners and Fearnleys A/S to provide certain technical inputs to our valuation modeling. In addition to the valuation modeling that we prepared for the field, the Board was also provided with separate Fairness Opinions from our financial advisors, which served as one of the inputs to the overall decision process.

Based on the acquisition price of USD 650 million for a 51% equity stake in Yamal LNG, holder of the South-Tambeyskoye field license, we were able to acquire this world class natural gas asset for approximately USD 0.15 to USD 0.30 per barrel based on the ABC1 + C2 and P2 reserves, respectively. This acquisition value is less than the recent average FSU comparable transactions for P2 reserves, as well as significantly below our present market capitalization to P2 reserves.

The acquisition of our 51% equity stake in the license holder of the South-Tambeyskoye field provides NOVATEK with long-term reserve and production growth consistent with our core business strategy; it will allow us to continue expanding our commercial activities to include domestic and export markets for our products; it will strengthen our position as the leading independent gas producer in Russia as well as globally; and the prolific natural gas field was acquired at an attractive valuation per BOE which we believe will be accretive to our long-term valuation.

The immediate impact of the acquisition on our reserve base is significant. If we consider our P2 reserves, or PRMS, the acquisition of our 51% equity stake in the field increases our reserve base by 320 billion cubic meters or by 31.5%. If we consider our C1 + C2 reserves under the Russian reserve classifications, we increase our reserve base by 641 billion cubic meters, or by 50.9%. We do not believe that there is any other comparable asset on the market with this level of impact to our reserve base.

The financing structure we will use to finance the acquisition includes three parts:

1. The first part will include USD 250 million to be paid in cash, of which USD 200 million will be paid immediately followed by USD 50 million to be paid no later than 31 December 2009. This initial payment will be financed with cash presently on our balance sheet and through internally generated cash flows.
2. The second part will be financed through the issuance of USD 300 million (or Russian rouble equivalent) of promissory notes to be paid no later than 31 December 2009.
3. The third or final part of USD 100 million will be paid in cash no later than 31 December 2011 and will also be financed through internally generated cash flows.

Our priority over the next couple of years will be to ensure a joint plan with Gazprom is developed that considers various options for optimizing the hydrocarbon development of the Yamal Peninsula, including but not limited to, securing a feasibility study to design a

joint LNG facility for the exploitation of the North- and South-Tambeyskoye fields, reviewing alternative options for constructing a pipeline to connect the fields amongst various other studies and analysis.

Concurrently, we will also invite potential strategic investors with financial, technical and commercial capabilities to review the merits and investment potential of this world class natural gas project.

## **CONCLUSION**

In conclusion, the payment terms that we have structured for the acquisition of our equity stake in Yamal LNG are completely within our financing and cash flow generation capabilities, and we believe once we have put together our coordinated development plan we will be able to attract the right strategic and financial investors in the project. The fundamental credit worthiness of our Company combined with our strong liquidity position made this acquisition possible. We do not anticipate any significant changes to our immediate capital expenditure program as a result of this acquisition but accordingly we will revise our long-term strategic plans as well as our long-term capital expenditures once the development program is formulated.

I would like to thank all of our shareholders and colleagues for taking the time this evening to participate in this very important conference call on the acquisition of our equity stake in Yamal LNG. We view your active participation in these unscheduled events as an important source of dialogue between our management team and our valued investors. We will continue to actively engage with our investors throughout the year at various conferences and investor meetings and always welcome your feedback and questions through our Investor Relations section of our website.

I would like to thank our primary financial advisors, BNP Paribas and UBS, as well as Vinson & Elkins for your assistance on legal and other matters, and our industry consultants – Fearnleys A/S and Poten & Partners. We also will continue to work very closely with our syndicate banks in designing and structuring the appropriate financing packages required to undertake a project of this magnitude, as well as maintaining and expanding our dialogue with industry participants.

We have built a world class company over the past decade, and we are firmly committed to continuing our endeavors to deliver industry leading financial and operational results. Equally important, we are committed to delivering according to our business strategy and, in this regard, we believe this acquisition is one important step along that path. Our recent acquisition of this world class natural gas and gas condensate asset will no doubt change the future prospects of NOVATEK, and as we “**Move Forward**” in to the next decade of our operations, we welcome the various challenges and immense opportunities accorded to the largest independent gas company in the world.

I would like to end the presentation portion of this conference call and open the session to questions and answers with my esteemed colleagues.

Thank you.

## **Q&A**