

PAO NOVATEK

Second Quarter and First Half 2020

Financial and Operational Results – Earnings Conference Call

30 July 2020

Moscow, Russian Federation

Mark Gyetvay:

Ladies and Gentlemen, Shareholders and colleagues good evening and welcome to our Second Quarter and First Half 2020 earnings conference call. We would like to thank everyone for taking your valuable time to join us this evening.

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 refer 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 2019, 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

The spread of the COVID-19 virus in first half 2020 has caused much financial and economic stress to the global markets. It has led to lower demand for crude oil, natural gas and oil products, which combined with the increase in the supply of crude oil due to the cancellation of the OPEC+ production agreement in March 2020 has led to the precipitous declines in energy commodity prices that have negatively impacted all companies in the sector.

Our financial results were negatively impacted by this decline in commodity prices, as our average natural gas prices declined by 20%, while our average liquid prices declined by 38% during the first six months of 2020. Despite this fact we did see a notable rebound in benchmark crude oil prices from the average lows of \$16 per barrel reached in April 2020 to \$36 per barrel as of the end of the reporting period, representing an increase of more than 100%. Brent crude oil is currently trading at \$43 per barrel, so actually a very nice price recovery from the lows in April. Unfortunately, natural gas prices at key gas hubs still remain at historical lows, but the forward curve for the upcoming winter months looks promising for the sector.

We began to see some economic recovery in the Second Quarter following the partial removals of restrictions aimed at preventing the further spread of the virus, as well as a partial recovery in benchmark crude oil prices following the new OPEC+ production agreement reached and the members' compliance to the target cuts. Nevertheless, the scale and duration of these key events remain uncertain and may continue to influence our future earnings, cash flows and financial position.

The Group's management took necessary precautions to protect the safety and wellbeing of our employees, our contractors and their families against the infectious spread of COVID-19, while maintaining our commitment to deliver clean-burning natural gas to our customers. We worked closely with Federal, Regional and Local authorities, as well as our partners, to contain the spread of the virus, and will take appropriate action, where necessary, to minimize possible disruptions to our operations. It is important to unequivocally state that we place the health, wellbeing and safety of our employees above profits.

The Second Quarter 2020 was a very challenging quarter but we managed to achieve a reasonable set of financial and operational results despite the sharp declines in crude oil and natural gas prices globally, the seasonal reduction in natural gas sales, and the economic disruptions caused by the COVID-19 pandemic. Many oil and gas companies have reported billions of dollars of impairment write-offs, cargo cancellations,

bankruptcies and debt defaults as well as recent staff layoffs. We had none of these negative impacts during the reporting period. No impairments, no cargo cancellations, no staff reductions.

Global LNG imports were approximately 88 million tons, or roughly comparable to the second quarter 2019. China imported approximately 17 million tons, representing an increase of 21% as compared to the prior year, and we see reasonable strength in Chinese LNG imports through the remainder of 2020 as the country's economic activities steadily improve. The EU (European Union) imported 21 million tons of LNG representing less than one-percent growth year-on-year (Y/y), but the lockdowns and stagnant economic growth in key importing markets as well as higher than historical inventory levels at this time of the year will limit this region's flexibility to import more LNG cargos. This situation combined with negative margins due to weak European gas prices has led to significant US LNG cargo cancellations in June, July and August, but a slowdown in cargo cancellations for September deliveries is expected as forward curve gas prices improve as we enter the upcoming winter season.

So far, the COVID-19 pandemic has had a limited impact on natural gas demand in China in 2020, despite the country's severe lockdown at the start of the outbreak. LNG imports declined by 7.2% Y/y in February, but by mid-March LNG imports were restored and started to rise. Chinese gas demand is now forecasted to increase about 4% Y/y, with LNG imports expected to reach approximately 65 million tons.

In contrast, Europe remains the most liquid market with its ability to consume additional LNG volumes, but high inventory levels will constrain natural gas prices throughout the third quarter and up to the start of the traditional winter season. Although LNG imports in the first half 2020 were up 13% to slightly more than 44 million tons, we saw the first signs of relative weakness in June LNG imports. This leads us to believe that LNG imports will be lower in the summer months, including possibly September, than LNG volumes imported in 2019. Underground gas storages are now full at a record high of 83% in mid-July (for reference purposes mid-July 2019 storage levels were approximately 77% full, which also represented a record high at that time.) We expect full year 2020 LNG imports into Europe will be comparable to prior year volumes of 80 million tons, or potentially slightly higher.

Currently, natural gas prices in key gas hubs are weak and trading at less than \$2.00 per mmbtu, but the forward curves for the upcoming months looks encouraging for the gas industry. We expect that natural gas prices will rebound in the fourth quarter, but the rebound will be limited by the resumption of US LNG

exports. If the winter is cold, we could see a significant rebound in gas prices but the arbitrage between Europe and Asia, or the Atlantic and Pacific basins, will most likely not exceed \$1.00 per mmbtu.

Our Yamal LNG project loaded and dispatched 61 cargos or 4.5 million tons of LNG in the second quarter 2020, of which 35 cargos or 57% were long-term contracts and the remaining 26 cargos or 43% were spot sales. This represents a decline in our long-term contract sales from 72% in the first quarter 2020 largely as a result of the planned maintenance work on two LNG trains in the second quarter, the plant running above its nameplate capacity and the seasonal divergence of long-term offtake contracts. Yamal LNG also dispatched six (6) cargos of gas condensate totaling 249 thousand tons. All counterparties fulfilled their respective obligations within the agreed contractual timeframe, and at the balance sheet date, there were no force majeure notification events with our customers.

Yamal LNG's liquefaction trains operated above its nameplate capacity at 109%, despite the maintenance work and temporary shutdowns of LNG trains #2 and #3 in the second quarter. LNG train 2 was fully shutdown for 10.8 days from the 21st May, while LNG train 3 was stopped for 9.2 days from the 4th June. All planned maintenance was performed without problems.

The number of LNG shipments since inception as at 30 June 2020 totaled 497 cargos of LNG for the total volume of slightly more than 36 million tons along with 85 shipments of stable gas condensate totaling approximately 2.5 million tons.

On 5 July 2020, Yamal LNG offloaded its five hundredth (500th) cargo of LNG in two years and seven months since the Project's first LNG shipment in December 2017, setting an industry record and making Yamal LNG the fastest LNG project globally to reach this milestone. The 500th cargo was loaded onto the Arc7 LNG tanker "Fedor Litke".

In addition, the Arc7 LNG tanker "Christophe de Margerie" successfully transited the Eastbound ice-covered part of the Northern Sea Route (NSR) and reached the Bering Strait in only 12 days, while traversing 2,563 nautical miles. This voyage officially opened the 2020 navigation season and was completed one month ahead of the traditional start of the summer navigation period.

We are actively working on optimizing our logistical model to improve our netback margins to the growing Asian Pacific region. This early voyage to start the summer navigation season is one step towards our goal. We will expand the eastbound navigation season for the NSR and look forward to further State

support for this trade route by increasing icebreaking capabilities as well as full-scale navigation and hydrographic assistance for shipping. It's important to reiterate that this early voyage is not connected to climate change as this shipment is in line with our strategy of expanding the NSR navigation season and was the result of excellent logistical planning by NOVATEK as well as the exceptional performance characteristics of our unique Arc7 tanker fleet. We made four Eastbound cargoes in 2018, 17 cargoes in 2019 and we plan to send at least 25 cargos in 2020.

It's very important that Arctic LNG 2 is being realized despite massive delays and cancellations of other global LNG projects. With the delays and cancellation of other LNG projects we are seeing an increased interest in securing Arctic LNG 2 volumes, which represents a very good marketing opportunity for us. We have been marketing Arctic LNG 2 volumes since 2019 and have already signed some Heads of Agreement in the name of our wholly owned subsidiary, Novatek Gas and Power. We will continue these marketing efforts in earnest but there is no rush to execute long-term contracts at today's LNG prices.

We will focus our highlights on the Arctic LNG 2 project as there is no new information on Train 4 at Yamal LNG and no decision has been made on Obskiy LNG project. We continue to move along on the construction of Train 4 and expect the completion of this work in the fourth quarter, with commissioning shortly thereafter. Engineering work is proceeding forward on the Obskiy LNG as we previously advised but there is really nothing new to report on this project at this time. We will keep everyone apprised of any changes or further progress.

At the end of June 2020, the overall progress for Arctic LNG 2 is estimated at 21%. This percentage essentially corresponds to the press release issued in early June when the CEO's virtually met to discuss the project's overall progress. The first train's overall progress, including platform construction, module fabrication, and facilities on site, is slightly more than 29% completed. In particular, the progress of casting concrete for the first GBS platform is roughly 45% complete, and in early July we commenced pouring of concrete for the second GBS platform at Dry Dock #2.

We drilled five (5) production wells in the second quarter, for a combined total of 11 production wells drilled to date. This represents approximately 16% of the field's development drilling plan. Work at the field is being performed by three (3) drilling rigs for production drilling, as well as one (1) drilling rig for exploration drilling. Two (2) additional drilling rigs are being mobilized for production drilling commencing from the

beginning of 2021 and an additional two (2) drilling rigs will be deployed for drilling exploratory wells for the upcoming 2020 – 2021 exploration program.

We do not anticipate delays in the delivery of modules, as the shipyards were able to eliminate the slight lag associated with the temporary shutdown of the shipyards in the first quarter with the introduction of quarantines. For many of the modules, including the main technological modules of GBS #1, the work being performed today is slightly ahead of schedule. We expect the first modules for GBS #1 will arrive to Murmansk in September 2021. Accordingly, the launch of GBS #1 is scheduled for 2023 and we see no delays meeting this target. GBS #2 and #3 will also be launched in 2024 and 2026, respectively, according to our projected commissioning schedule.

As of 30 June, about 23% of total project's capital program has been already financed by the shareholders, and we already contracted more than 81% of the project's total capital expenditures. Work is still underway to secure the project's external financing, and we believe this will be completed in 2021. With the recent closing of the Mozambique LNG financing, we are confident there is sufficient interest from international financial institutions to finance large scale, quality LNG projects like Arctic LNG 2.

There are 3,580 people currently working at the Utrenneye field and we estimate the completion rate on the field's infrastructure facilities for the 1st stage at approximately 23%. Work activities underway include the living camp for 3,500 construction workers, the Rotational Residential Complex to house 1,500 operating personnel, the water and sewage treatment plants, a fuel and lubricants warehouse, a 48 MW gas turbine power plant, an Emergency Rescue Center, the industrial and fire-fighting water supply facilities, construction of power lines to well pads and infrastructure facilities, and the construction of technical facilities for Gas and Gas Condensate Treatment Unit #1, to name a few. Work is also underway for the construction of the airport terminal and runway.

Construction progress at the Utrenniy Terminal at the end of June is approximately 48% completed, including ongoing construction works on the administrative area. Moreover, work activities for the dredging and construction of ice protection structures for the terminal, under the State contract, is also underway. We are presently on schedule for all construction activities at the Utrenniy Terminal.

At Cryogas-Vysotsk, we produced 113 thousand tons of LNG during the reporting period, or roughly 60% of its capacity utilization. The market for bunkering fuel in the Baltic Region has been impacted by COVID-

19 and this situation will most likely remain stagnant for several quarters; however, it is becoming more relevant on a global scale as many countries are adopting LNG to replace fuel oil for marine transport. Shell just published an interesting study on “Decarbonizing Shipping”, which highlights many of the challenges ahead to meet the IMO 2020 standards. It’s an interesting read for those wanting more information on this topic. We will define our niche within this market space and eventually link our LNG marketing strategy with the construction of the Rostock Terminal in Germany, and the build out of retail LNG stations in Poland and Germany, as well as small scale LNG projects in Russia.

We had an active First Half 2020 in our exploration and development drilling program. We essentially doubled our exploration drilling to over 28 thousand meters and ran 5,400 square kilometers of three-dimensional (3D) seismic. A majority of the seismic activity was performed on the Utrenneye field as well as other license areas recently acquired to support our future LNG projects. We drilled our second exploration well at the Nyakhartinskoye field, which was confirmed as a productive well, and we will finalize our exploration program on this field by drilling another exploration well in 2021. In addition, we continued our exploration and production drilling at the Samburgskiy License Area, to expand production of wet gas from the Achimov layers of the Urengoykoye field. All exploration works for the 2019/2020 season was fully completed as planned.

We maintained our development-drilling program throughout the reporting period but had a slight decline in the total number of wells drilled and completed during the period. We drilled and completed 62 production wells in the period which was nine (9) wells less than that drilled in prior year. The decline was largely focused on reducing wells drilled for crude oil and some slowdown in work activities due to the coronavirus. We remained focused on developing the North Russkoye Cluster, and good progress was made to ready the various fields’ commissioning over the next two years.

We have not revised our previously announced production guidance and remain committed to increasing natural gas production by approximately 2% or slightly higher, while remaining relatively flat with our liquids production. We complied with the OPEC+ production agreement, by decreasing our crude oil production starting on the 1st May by 18%. As mentioned on our last conference call our gas condensate production is not impacted by the OPEC+ production agreements and we will increase our gas condensate output this year, theoretically offsetting the majority of the declines in crude oil output. As always, our primary goal

is to ensure that our processing facilities run at 100% of their respective operating capacities. We will maintain plateau levels at both our Purovsky Processing Plant and the Ust-Luga Complex.

The second quarter and First Half 2020 financial results were mainly impacted by weaker commodity prices and a weak macro-environment. The main issues with our financial results were the significant price declines in our whole range of hydrocarbon products, and to a lesser extent, the seasonal fluctuations in domestic gas volumes sold, a warmer winter, and the shift in the purchase of spot LNG volumes from Yamal LNG.

Brent crude oil prices declined by 57% year-on-year (Y/y) from an average of \$69 per barrel to just under \$30 per barrel, whereas benchmark natural gas prices like NBP (National Balancing Point (UK)) and TTF (Title Transfer Facility (Netherlands)) both declined by 61%, respectively, during the quarter. On the other hand, the Russian domestic gas tariffs increased Y/y by approximately 1.4%, and this increase positively impacts our revenues and netbacks achieved for gas sold domestically via the Unified Gas Supply System despite the seasonal reduction in volumes sold quarter-on-quarter (Q/q).

Our Russian domestic business remains quite stable and profitable and represents a critical part of our revenues and operating cash flows. During the reporting periods, sales of natural gas domestically accounted for 79% and 76% of our revenues in the second quarter and first half 2020, respectively, as compared to 62% and 60% in the prior reporting year. The change is largely attributable to the drop in our spot LNG volumes sold as Yamal LNG commenced more long-term contracts and the significant decrease in average global LNG prices as well as benchmark liquids prices.

Our total natural gas revenues declined 24% Y/y and 23% quarter-on-quarter (Q/q), which were largely driven by declines in international gas revenues of 57% and 36%, respectively, as well as traditional seasonal declines Q/q from peak winter months. We sold 14.4 billion cubic meters of natural gas on the Russian domestic market and 2.5 billion cubic meters in equivalent LNG sales during the reporting period, accounting for a combined net decrease of 1.9 billion cubic meters, or by almost 10%. On a Q/q basis, our volumes sold on the domestic market decreased by 21%, representing seasonal winter declines as well as the consumption of more hydro power generation because of high water flows, and by less than 1% for our international sales volumes. For your information, hydro power will always take precedent when available and abundant.

Our total LNG revenues declined Y/y by RR 21.6 billion, which resulted mainly from a 32% reduction in volumes sold and a 43% reduction in LNG prices. Domestically, our combined sales volumes from end-customers and wholesale traders decreased by 680 million cubic meters, resulting in our domestic gas revenues declining by RR 2.1 billion, or by 3.4%.

LNG sales on international markets represented 15% of our total natural gas volumes sold and accounted for 21% of our natural gas revenues in the second quarter 2020 (13% and 24%, respectively, in the first half 2020). Our average netback remained more than 2.4 times higher for LNG volumes sold internationally than netbacks received on the domestic market, although this netback ratio in the second quarter was the lowest ratio since we commenced LNG sales and was reflective of the steep decline in our average realized prices. Even with these weak spot prices, LNG volumes sold internationally contributed positively to our revenues and netbacks for natural gas. We see LNG prices improving in the latter part of this year and we believe this will improve our netback ratio from this current low.

We sold 4.2 million tons of liquids in the reporting period, representing a Y/y increase of less than one percent, and a Q/q increase of 4%. For the First Half 2020 we sold 8.2 million tons, representing an increase of just under one percent as compared to the prior period. We exported 60% of our total liquid volumes during the quarter, which is consistent Y/y but 4% more than the first quarter. Our total liquid sales decreased Y/y and Q/q by 45%, and 28%, respectively, driven by significant decreases in essentially all of our liquid hydrocarbon prices but this decline in sales was slightly offset by higher liquids volumes sold. Although underlying Brent crude oil prices have recovered from the lows of roughly \$16 per barrel in April to \$43 per barrel today, or by 1.7 times, they (crude oil prices) are still forecasted to remain somewhat depressed throughout the year, largely resulting from an excess of global oil supplies and lower global demand from the pandemic.

Our operating expenses during the reporting period declined by RR 41 billion, or by 26%, due to the significant reduction in purchases from joint ventures as a result of lower commodity prices. Purchases declined by approximately RR 37 billion or by 45%, representing about 90% of the reduction in operating expenses during the reporting period. This trend was consistent with that reported in the first quarter 2020 as purchases declined by RR 20 billion, or by 31%. Most of the remaining operating expenses, including G&A, were consistent with our expectations for the reporting periods and seasonal adjustments.

We spent RR 61 billion in cash on our capital program, representing an increase of RR 30 billion, or 97% versus prior year, and an increase of RR 20 billion, or 49% Q/q. The majority of our capital program remained focused on our future LNG projects – Murmansk LNG construction yard, Obskiy LNG as well as capital spent to prepare future LNG fields. We also allocated investment capital on the North-Russkoye license area and to complete our ongoing administrative projects.

Considering the present macro-environment, we will again revise our capital expenditure guidance downward by another 15%, in addition to the 20% reduction already announced. We are revising our capital program to approximately RR 170 billion, or roughly RR 80 billion reduction than originally planned. It is important in this macro-environment that we remain flexible in deciding whether or not to revise upward or downward our capital program. Most importantly, we remain committed with our investment decision to fully fund our future LNG programs and key domestic-related production projects.

Our normalized EBITDA totaled RR 71 billion for the second quarter 2020, decreasing by 39% over the prior year. We had relatively consistent EBITDA contributions from Yamal LNG despite the weaker global LNG prices, and despite having sold more LNG volumes on the spot market during the quarter. EBITDA contributions from both subsidiaries and joint ventures were lower as liquid sales were negatively impacted by lower commodity prices.

We generated negative free cash flows of RR 57 billion, which is our first quarter of reporting negative free cash flows since 2013. As previously mentioned, we increased our capital spending by 97%, but the main underlying reason for the negative free cash flows was the significant reduction in our operating cash flows. The net cash provided from operating activities decreased by 96% Y/y and by 93% Q/q, representing one of the weakest quarterly operating cash flows we have historically reported.

Despite this fact, we generated sufficient operating cash flows to fully fund our capital program, fully service any debt payment or liabilities, as they become due, and disburse a 24% increase in our annual dividends paid to shareholders.

Our balance sheet remained very strong during the first half 2020. Our fundamental credit metrics supports our international and domestic credit ratings, and we continue to believe that a sound and conservative financial position is important in these tough economic times, particularly when we see a significant increase in bankruptcies and debt defaults.

As you can anticipate it will be a weak reporting season for the oil and gas industry, and our weaker than normal financial results highlight the difficult market conditions we as an industry faced in the first half of 2020. Despite this fact, we remained profitable, demonstrating our operational and financial resiliency, and we are optimistic that better times for the sector lies ahead.

Over the last several quarter we discussed the importance of our Russian domestic gas business in terms of stable volumes sold and less volatile prices. In the second quarter, 85% of our total sales volumes, or 14.4 billion cubic meters, was sold on the Russian domestic market that was not negatively impacted by the decrease in global spot gas prices. Our sales volumes represented a seasonal decline of 2.7% Q/q, but a 5% increase Y/y. We believe our Russian domestic gas business insulates us from the severe volatility in global markets and, more importantly, was not impacted to any significant degree from the lockdowns caused by the COVID-19 pandemic but more so from the reduction in sales volumes from the warmer winter weather.

The COVID-19 lockdowns, however, put short- to medium-term pressure on all of our core export markets, but LNG imports in key consuming countries like China has resumed. We have seen a 7.4% increase YTD June 2020 in global LNG imports even though many of these major consuming regions were impacted by the pandemic. LNG imports totaled 189 million tons in the first half 2020 versus 176 million tons in the corresponding period. We recognize that this growth figure is lower than original pre- COVID -19 forecasts but nonetheless they are still positive. Most industry forecasts call for a 3.2% to 3.5% reduction in LNG imports pre- and post-COVID-19, but it is difficult to give any precise forecasts as lower gas prices, for example, has recently stimulated seasonal demand growth above the five-year average in Europe helping to alleviate the region's storage injections.

The only major importing country that showed a negative import trend in the first half 2020 was Japan with a decrease of 1.4 million tons, or 4%. Interestingly, we just reported our first eastbound spot cargo of LNG to Japan using our Arc7 ice-class tankers. This shipment demonstrates our ability to use our tanker fleet to deliver future volumes of LNG to the Japanese market.

We understand the challenges we face in the near-term and the uncertainties that may require some revisions to our long-term strategies and capital projects. These challenges will require a more flexible approach to business dealings and a renewed interest on cost control and project execution. Accordingly,

we have refocused our attention mainly on our Arctic LNG 2 project as well as getting some of the preparatory works done on our future LNG platform. This decision to focus mainly on Arctic LNG 2 is important as our ability to cost-competitively construct and build the gravity-based structures will also serve as the LNG platforms for Arctic LNG 1 and Arctic LNG 3. We remain committed to furthering our engineering work on our “Arctic Cascade” liquefaction technology and we will continue to move forward with our Obskiy LNG project in due course.

Despite a quarter of negative free cash flows, we have built a robust business that is resilient to periods of economic stress and a business that generates sufficient cash flows to achieve our long-term strategic goals and objectives. We have no doubts that the future of natural gas looks promising. Natural gas is the only fossil fuel that is projected to grow with increasing demand across all scenarios for upcoming decades. Natural gas plays a pivotal role towards an environmentally sustainable future with LNG as a key driver in future global gas demand growth.

Our focus is to become a leader during this “Energy Transition” by implementing our future LNG projects. Our corporate strategy favors cleaner-burning natural gas and this fuel already accounts for 83% of NOVATEK’s combined hydrocarbons production. Many of our global competitors are trying to move their business model more toward natural gas – we already have a significant impact on the energy transition with our current and future natural gas platform.

Climate change is the defining issue of this generation. Obviously, the oil and gas industry are at the forefront of this debate and we must ensure that our collective efforts remain focused, and our voices are heard. The LNG we produce at NOVATEK has one of the lowest carbon footprints in the industry: the cold Arctic climate and our high-quality resource base as well as the advanced liquefaction technologies that provides approximately 20% higher efficiency of LNG produced as compared to other LNG projects located in warmer climates.

Equally important, NOVATEK controls the total LNG supply chain, from upstream production to the end-customer delivery. This fact allows us to successfully participate in low-carbon, clean LNG tenders, similar to the recent tender announced by Pavilion Energy, which requires the tender winner to cut their carbon footprint of LNG supplies. Our LNG projects are not only one of the most cost competitive, but also low-

carbon emission competitive. We will strive to be a leader in providing affordable, secure and sustainable energy to key consuming nations for many years.

In July, NOVATEK's Management Board approved a number of ecological and climate change goals within our long-term business strategy, and in August, these goals will be presented to the Board of Directors and then published. We will also publish our 13th Sustainability Report in latter part of August. Yesterday, we were informed that we have maintained our FTSE4Good Index rating after the completion of their committee's review in June, which again confirms our commitment to maintaining our ESG global rankings. It's been a very difficult year for the oil and gas industry, but we will survive and prosper as we believe we have reached the bottom in commodity prices. We have achieved all of our operational targets in the first half 2020, despite the looming threat of the COVID-19 lockdowns and the spread of the virus at our construction site in Murmansk and at the fabrication yards in China. Moreover, the past three quarters have been plagued by significant weaknesses in benchmark crude oil prices and natural gas prices at key gas hubs. Unfortunately, this cannot be controlled by the company.

As we said last quarter, we will get through this unprecedented time in our history as a much more determined company – more resilient and more resolved to reach our strategic goals and objectives. We will develop our LNG platform as outlined in our corporate strategy and we will study alternative fuels like hydrogen, which we believe will play a significant role in the future energy mix. We already produce hydrogen for our own internal needs, and we are presently studying the most economically efficient projects for commercial scale hydrogen production. Before we can make any big decisions on hydrogen, it is important to understand not only how to produce hydrogen, but also, we need to consider the product's demand and its future market perspectives. We will provide more details for this area on future calls.

And finally, we are committed to increase our dividend payout and will address this question at our upcoming Board of Directors meeting. We have passed all of the requisite DSU completion tests in April as previously reported but we are still waiting on the formal release of documents from the financial institutions. We are working diligently to get this process completed as quickly as possible, but rest assured we will raise the dividend payout.

We would like to thank everyone again for attending tonight's conference call and for your continued support of NOVATEK. It's been a tumultuous period for everyone, but we will emerge stronger as a Company and

are even more determined to meet our long-term goals of delivering up to 70 million tons of LNG by 2030.

It is the right strategic decision.

We hope everyone remains safe and healthy.

We are now ready to open tonight's session to questions and answers.

Thank you.

Operator: Thank you. We'll take our first question from Ron Smith at BCS.

Ron Smith: Yeah. Good. Well, good afternoon, Mark. Thank you for the call. Got a question regarding the LNG market. I'm curious about NOVATEK's general attitude that it's encountering in its negotiations and talks with potential customers. You had stated something earlier on the call to the effect that NOVATEK is seeing interest in Arctic LNG to contracts, but that you don't want to sign contracts at today's prices. Therefore, from your vantage point, when do you forecast the LNG market coming back into balance sufficiently to allow such contract signings to take place at reasonable prices to both parties. Thanks.

Mark Gyetvay: Thank you, Ron. And welcome back to the Moscow oil and gas scene again.

Ron Smith: It's good to be here.

Mark Gyetvay: I think it's important to understand that first of all, when we look at Arctic LNG 2, as a project itself, it's already pre-sold. All the volumes are already pre-sold. We've agreed that our shareholders will offtake their respective share of LNG and we have signed Heads of Agreements with all our projects shareholders with terms basically FOB Mumansk and FOB Kamchatka and with agreed price and formula. So now it means that we at NOVATEK (LNG trading) will need to go out and market our share of LNG and, like I said, we've already signed some particular contracts and Heads of Agreement with Novatek Gas and Power.

I think the most important thing Ron is that we see tenders that are being offered in a market today, two in particular, I think there's one that was recently done by Petronet LNG and then I think there was one that was recently announced by Sinopec, that are actually looking for long-term contracts, but I think it's impossible today for a producer, a project sponsor to even consider these long-term contracts at these particular prices. So, we have this buyer/seller expectation gap that needs to close and I think everybody really understands that in order for these projects to move forward, we have to have a reasonable sort of price for both the seller of projects like NOVATEK, and also we understand that the buyer is trying to secure LNG volumes at a low price.

So, I think you're right, at these low natural gas prices, which are near historical lows, this is making the contract process very, very complicated. Sellers are not willing to fix current low prices. They're not willing to commit to long-term contracts because we all know that the gas prices will eventually increase. And I think we have to understand that, like I said, there are certain financial returns because if we don't have adequate returns on these particular projects, they're not going to move forward. And this fact is going to cause financial stress a lot of these higher cost projects to be able to meet certain threshold returns.

So, I think it's just this expectation gap that that needs to be resolved. At NOVATEK, we don't really need to go out and secure long-term contracts at this particular point in time, but we are actively working and we believe we will get through this expectation gap. I think it's just a matter of time and we'll report back when we do sign some more contracts, but, right now, I just think there is this price expectation gap and sellers are not willing to commit at these historical low prices. At the same time, buyers obviously are trying to secure volumes but they realize that is not realistic to think that they are going to get a 10-year contract at these current prices. So I think we just need to wait a little longer.

Ron Smith: Sounds rational. Thank you, Mark.

Operator: We'll go next to Henry Patricot at UBS

Henry Patricot: Yes. Hi, Mark. Thank you for the update. A couple of questions for me. Just want you to come back to the comments you made around another CAPEX cut of 15%. So, I was just wondering if you can give us some details as to what is driving that cut? And secondly, good to hear that Arctic LNG 2 is on track. I wanted to talk about Obskiy LNG since there is no update to make today. But can you get us up to date on all the timing as to when you think you could take FID and perhaps when is the earliest and the project could start up? Thank you.

Mark Gyetvay: Like I said, we're reducing CAPEX by another 15% and it's going to be dispersed mostly on some of the ancillary projects that we work on and in terms of upgrading facilities, et cetera. So I think it was just a decision that was made by the Management Board, after looking at the macro environment and figuring out we don't really need to expend certain capital at this particular point on projects that we think that we can wait year or so down the line. It was just a decision based on the current forecast of crude oil prices and looking at the forward curves and the current low gas prices that we figured that we can at least delay some of these projects to a little later date, and therefore nothing magical about that decision. I think we will continue to look at the market and like I said, we have the right to go back and revise either downward or upward, our capital program even further. There could be a reversion to this upward if we see the macro-environment improve. On your second question, with Arctic LNG 2. Yes, it's moving along according to schedule, so we don't really see any delays, but when you ask about Obskiy LNG and the FID decision, we have not made that decision yet because we're still doing engineering work. And I don't think there's really a big push right now to make a decision in this particular market environment until after we get all this engineering work done. So I don't have a decision, a date to give you when a decision will be made. I know, we're constantly discussing Obskiy LNG and we're still investing capital in Obskiy LNG, as you can note in our spending for the first half of the year. I think it's just one of those areas where you just need to wait a little bit longer until we make that decision. But I suspect that when like we said before, we'll keep to this project. We expect to launch the 1st Train at Obskiy

LNG as it was pushed back one year to 2024. That's really about all I can tell you about this project at this particular moment.

Henry Patricot: Merci. Thank you.

Mark Gyetvay: You're welcome.

Operator: We'll go next to Angelina Glazova at JPMorgan.

Angelina Glazova: Good afternoon. Thank you for the opportunity to ask a question. I have a question – a clarifying question on Yamal LNG. So on the first quarter conference call, you mentioned that you expect that a maximum 25% of sales will be on spot basis, and now we're given that the share of spots will exceeded 40% in the second quarter. Does this guidance still stand?

Mark Gyetvay: Yes, our target is to achieve a level of 75% long-term, 25% spot that I previously guided and that's on an annualized basis. I tried to explain that considering we had the maintenance work in the second quarter there were more spot sales than long-term, and the flexibility to have some seasonal adjustments in sales. But the overall goal is roughly a 75:25 ratio, considering that we are expected to operate at least 110% over the nameplate capacity during the year. So all volumes that we sell over the nameplate capacity is obviously sold on spot basis and this ratio will also change again once we launch Train 4, because as we speak right now, Train 4 might go primarily to spot sales. Therefore, we might have to adjust this ratio again in 2021, but the overall plan for the year was to achieve a 75:25 split as you correctly stated.

Angelina Glazova: Alright, thank you.

Mark Gyetvay: You're welcome.

Operator: We'll go next to Olga Danilenko at Prosperity.

Olga Danilenko: Hey everyone. Thank you very much for the presentation. I have some follow up questions.

Can you please elaborate a little bit more detailed on the interest rates dynamics themes. So there have been quite a material downward movements in the rates. Is it directly linked to, or do you have any fixed rates? So are you benefiting in full from the recent dynamics in the rate? And my second question will be on the current contracting. Actually, two of them, the first one. Do you see any pressure on your particular contracts right now in terms of potential renegotiation from the customers? And secondly, I wonder if you can give a bit more detailed, what are the most recent demands by the customers on the pricing? If you can comment on a slope versus Brent, for example. So how has it decreased materially? What's the dynamics? Thank you.

Mark Gyetvay: Okay Olga on interest rates. In our financial statements, we show what is fixed rates and variable rates and you can see split in this particular quarter in note 17 in our financial statements. The majority of the interest expense is actually on fixed rate debt. So we have a combination of both fixed and flexible rates, and I'm just trying to see where I can direct you in that particular area. I'll have somebody get back with you on where that table is because I don't have all this information in front of you, but it's a combination of both fixed and flexible.

Olga Danilenko: Okay. Can I follow up –

Mark Gyetvay: Yes, you can follow up –

Olga Danilenko: Even without any particular data on the combination of fixed and variable in the circumstances like we have right now, do you think that it is possible for you to need to renegotiate your fixed towards a lower reliable linked contracts and do you think it's unnecessary, profitable or what is your view?

Mark Gyetvay: So you're talking about on the debt side, right?

Olga Danilenko: Correct. So I'm thinking, you know, maybe your fixed rates can be on the high side right now, and if NOVATEK may be willing to renegotiate down in a current circumstances. Maybe the banks would accept that. I just don't know, I'm asking.

Mark Gyetvay: I would just say that in general, we're always in contact with the banking community on a regular basis. And, if there's any scope of reducing the interest rates on any of our debts by refinancing, we do that. But I can't give you a general answer or even a specific answer to your question because it's too hypothetical right now. I would just say that we do have that opportunity from time to time and we do take advantage of that situation when it's available to us. On the second question in terms of contract and stage – your first part of the question was on renegotiations. And the answer is no, we don't have any renegotiations coming up at this particular point in terms of our contracts. We don't expect any of our off-takers to renegotiate contracts at this particular moment in time. So I think we're pretty safe on that one.

And the second part of that second question. We weren't involved in this deal, but just look at a deal that just happened recently. Let's look at the Pakistan LNG deal, as it's ridiculously low. We had a supplier who was willing to go Brent slope at about 5.5% roughly, which would make the spot vessel a little more than \$2, \$2.20, \$2.30, whatever it is per MMBtu. If you look at the competition, that was listed on the three bidders for that particular cargo, it was clearly the lowest one, and the slope was more in line with 10% and 7.5%. But I think even at 10% today, people are reluctant to execute contracts or without at least that level of slope.

So that was just the most recent contract. I'm not going to be talking about anything within our contracts, obviously. It's commercial secret. But that was recently published on Pakistan's first foray back into the market and its first spot cargo in I think more than a year. And, like I said, it was Brent

with the slope of 5.5% and that is what we would consider to be ridiculously low. We won't even bother participating with it at these prices. But I think, Olga, that's an isolated case.

Olga Danilenko: I understand that.

Mark Gyetvay: Because we wouldn't sell at that price.

Olga Danilenko: Okay.

Mark Gyetvay: Okay.

Operator: And we'll move next to Alexander Burgansky at Renaissance Capital.

Alexander Burgansky: Hello, Mark and thank you very much for the presentation. I just have a follow-up question on your comments on dividends. You said in your opening remarks that you would like to raise your dividends on one occasion and then you said that you would like to raise your dividends payout ratio. But can you just clarify on what exactly you would like to do, are you planning to raise the dividend payout ratio, as a matter of policy, or are you also suggesting that absolute dividend payments are going to increase this year? Thank you.

Mark Gyetvay: We have a Board meeting coming up in August where we're also going to talk about the dividend payments. So I think it's better to wait to see what the outcome is from that discussions and that we're going to have at the Board level. But as I mentioned many, many times before and I'll reiterate it again. It is our intentions as a company to increase our dividends payout, based on our results and based on the macro environment. I believe that once we get this process done with receiving the formal paperwork, I mean, we've met the requirements of the DSU and it's been confirmed. So whether or not this means a change in the dividend policy itself that will be discussed. And so I believe Alexander, it's best to wait until next month when we formally make the

announcement on the results of the Board meeting, because this is a topic on one of the agenda items.

Alexander Burgansky: Okay. Thank you very much.

Mark Gyetvay: You're welcome.

Operator: And at this time, we have no further questions in the queue. Mark, I'll turn the conference back over to you for any closing remarks.

Mark Gyetvay: Okay. Well again, I just want to say thank you to everybody and as I mentioned, it has been an extremely difficult year so far for the oil and gas industry, but looking at the forward curves, it does give us some hope that things will start recovering in the winter months. I think the only major concern that most people have, as I see the spread of the virus again in the United States, is whether or not we'll go back to any sort of lockdowns and maybe a second wave of the pandemic. But right now, I think we're pretty much moving all our operations according to our plans. And I wanted to emphasize that that despite the economic environment, we did meet all our requirements that we proposed to do in the first half of the year.

We look forward to addressing you again for the third quarter results. I know you'll hear the outcome of the Board presentation as the meeting is going to happen in August. Hopefully, that will address some of the questions that was asked tonight. So, we look forward to seeing you at a future conference or at one-on-one virtual meetings. Thank you very much for your support and we look forward to addressing you again in the future.