

# NOVATEK

## First Quarter 2020 Operational and Financial Results Conference Call



***Mark A. Gyetvay, Deputy Chairman of the Management Board***

***30 April 2020***

# 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 Operational Highlights – 1Q20

- **Hydrocarbons production** totaled 150.2 mmboe, representing an **increase of 2.1%** compared to 1Q19
- **Total revenues** amounted to RR 184.6 bln, representing a **decrease of 21.2%** compared to 1Q19
- **Normalized EBITDA** <sup>(1)</sup> totaled RR 100.7 bln, representing a **decrease of 14.6%** compared to 1Q19
- **Normalized profit** attributable to shareholders of PAO NOVATEK <sup>(1)</sup> <sup>(2)</sup> totaled RR 53.5 bln, representing a **decrease of 18.5%** compared to 1Q19

(1) Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration)

(2) Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures

# Key Events 1Q20

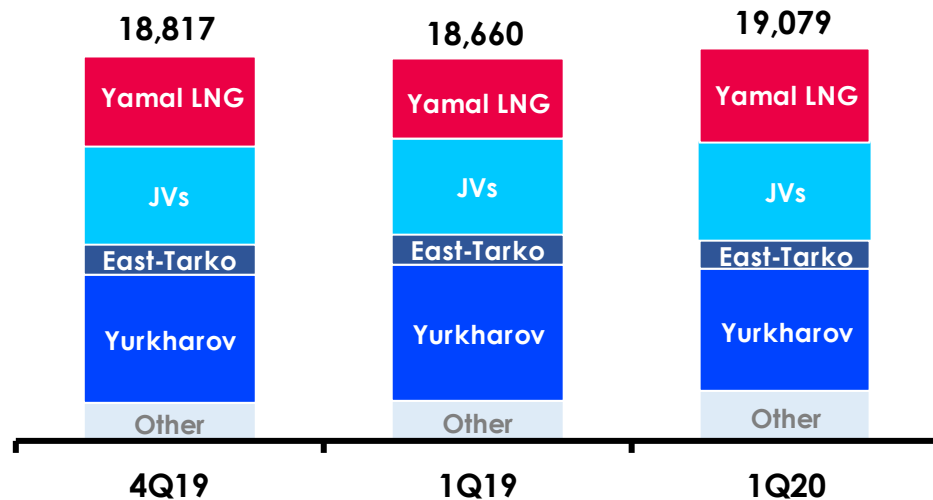
- ❑ NOVATEK reached a milestone of one trillion cubic meters\* in cumulative natural gas production since commencing its natural gas field development program
- ❑ Arcticgas, a joint venture of NOVATEK and PAO Gazprom Neft, expanded the gas condensate treatment facility's capacity at the Samburgskiy license area to accommodate the increased volumes of gas condensate from developing the Achimov horizons
- ❑ NOVATEK's Board of Directors recommended to the Annual General Meeting of Shareholders ("AGM") to approve dividend payments on the Company's shares in the amount of RR 18.10 per ordinary share (or RR 181.0 per GDR), excluding the interim dividends of RR 14.23 per ordinary share (or RR 142.3 per GDR) paid for the six months of 2019

\* Based on 100% of production of the Company's subsidiaries and joint ventures.

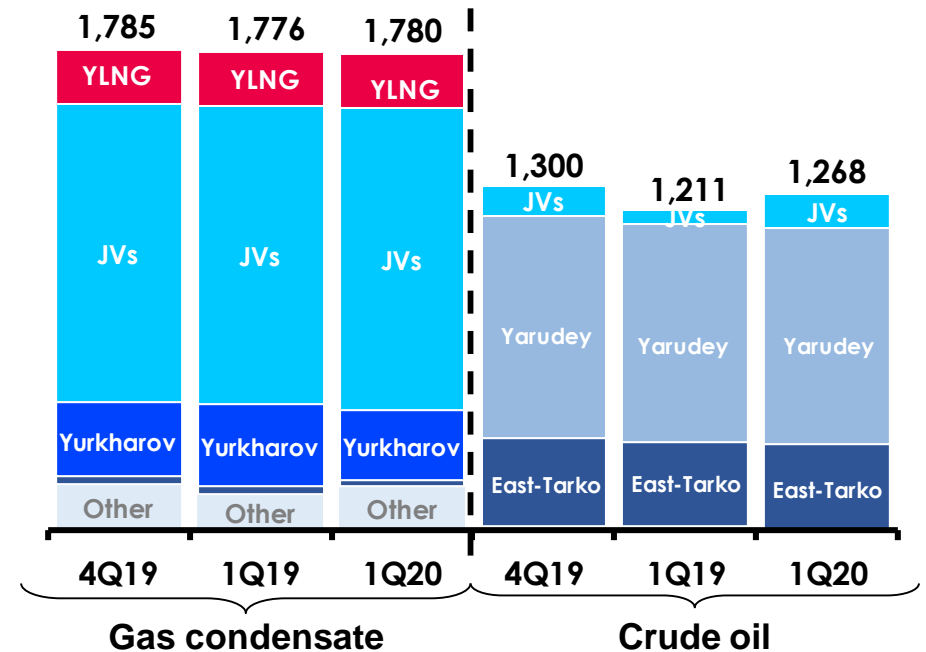
# Operational Overview

# Hydrocarbon Production

Natural Gas Production, mmcm



Liquids Production, mt



The main factors positively impacting our production growth were the launch of the North-Russkoye field in December 2019 and an increase in the production of hydrocarbons from the Achimov horizons at the Urengoykoye field of Arcticgas due to the expansion of gas condensate treatment facility in January 2020.

Total liquids production increased primarily due to an increase in liquids production at our joint venture Arcticgas, as well as an increase in gas condensate production at the Beregovoye field resulted from the commissioning of new wells.

# Purovsky Plant and Ust-Luga Complex

## Purovsky Plant

- ❑ **Total volumes delivered in 1Q20: 2,823 mt**
  - Yurkharovskoye field: 267 mt
  - East-Tarkosalinskoye and Khancheyskoye fields: 120 mt
  - Other fields: 103 mt
  - Purchases from our joint ventures: 2,333 mt
- ❑ **Total output of marketable products: 2,811 mt**
  - Stable gas condensate: 2,129 mt
  - LPG: 682 mt

## Ust-Luga Complex

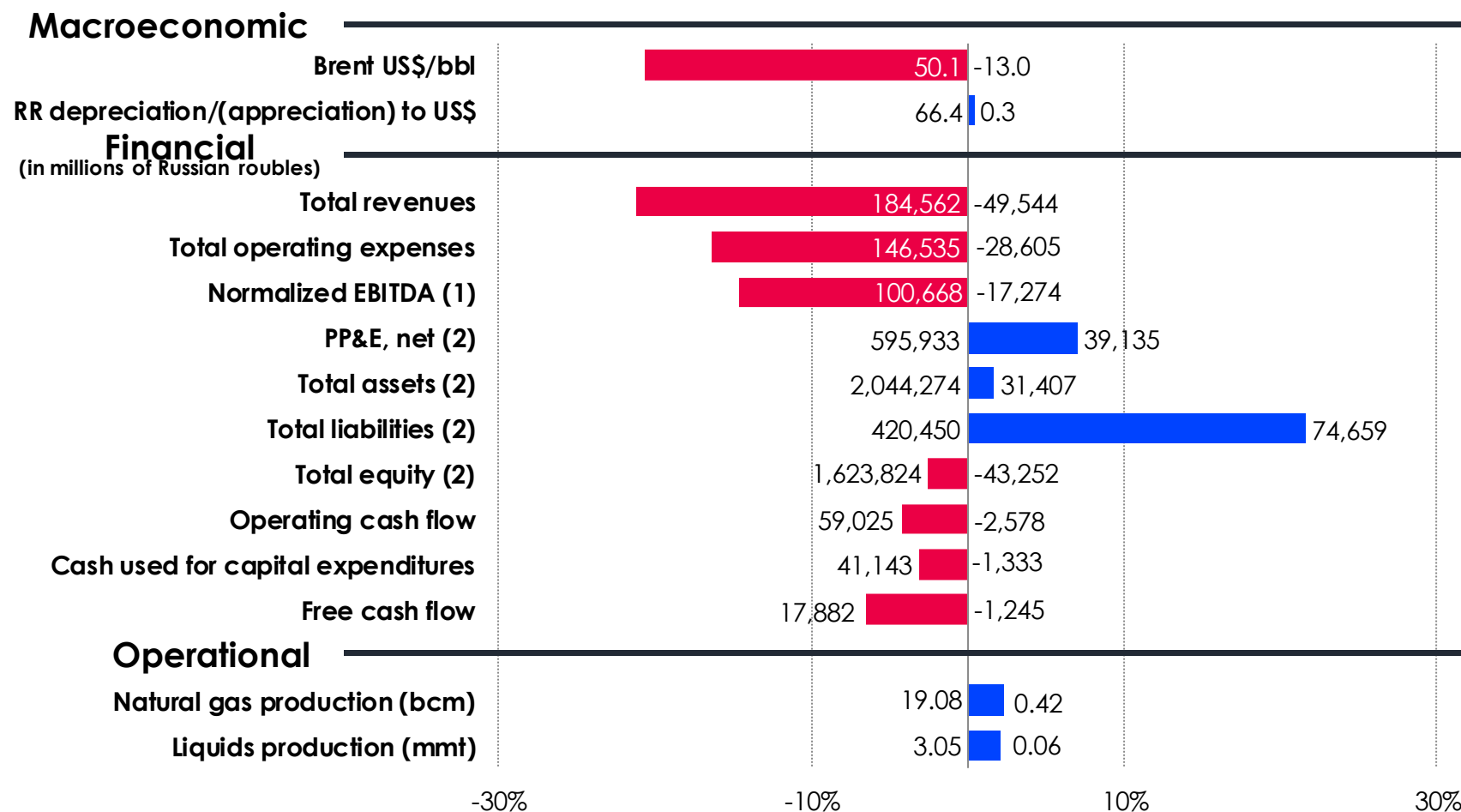
- ❑ **Total volumes delivered in 1Q20: 1,787 mt**
- ❑ **Total output of marketable stable gas condensate refined products: 1,745 mt**
  - Naphtha: 1,116 mt
  - Other products: 629 mt
- ❑ **Stable gas condensate refined products sold: 1,696 mt**
  - to Europe: 879 mt
  - to the Asian Pacific Region: 528 mt
  - to North America: 186 mt
  - Other: 103 mt



# Financial Overview – 1Q20 to 1Q19



# Performance Summary 1Q20/1Q19

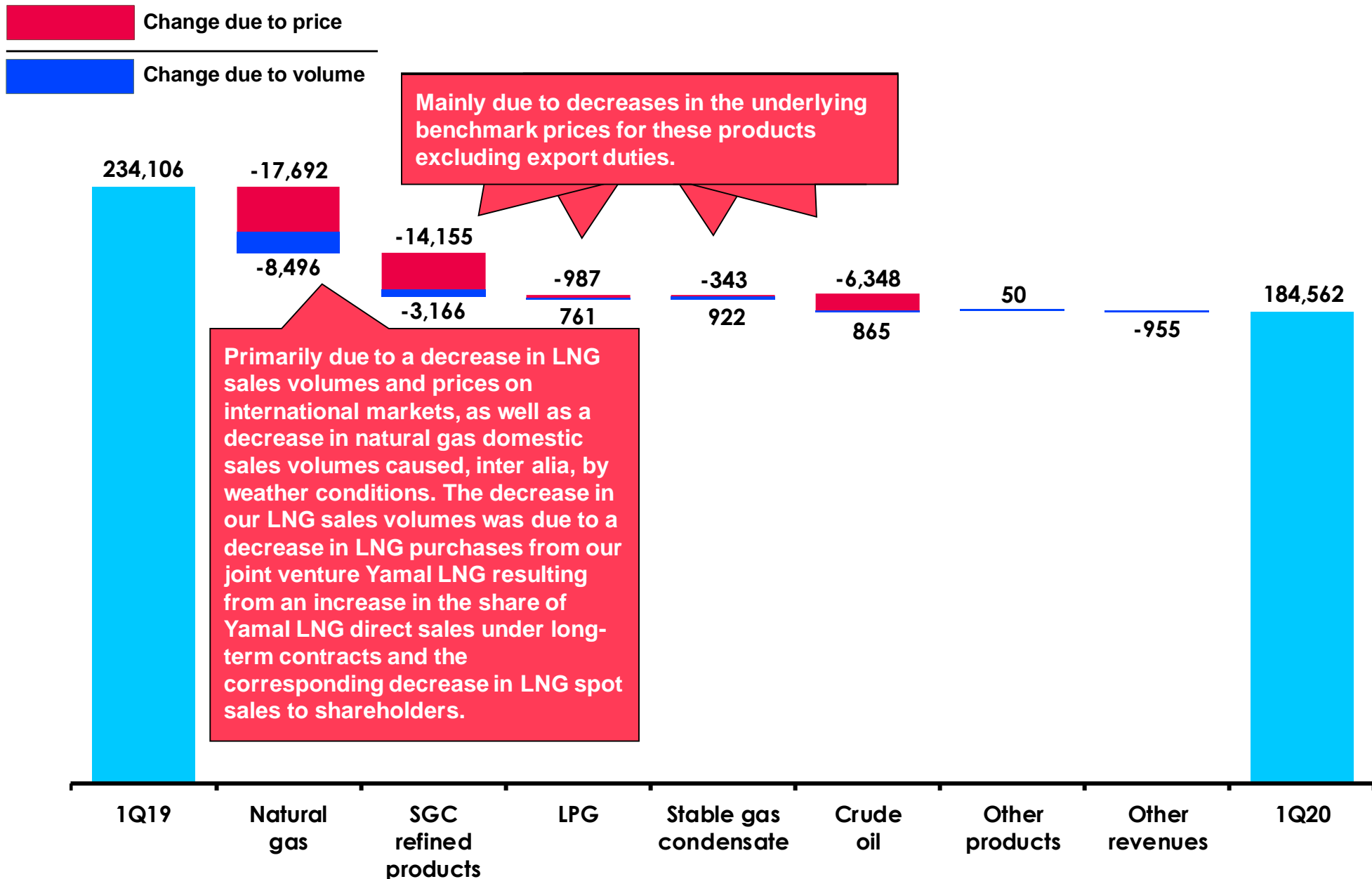


(1) Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration)

(2) 31.03.2020 to 31.12.2019

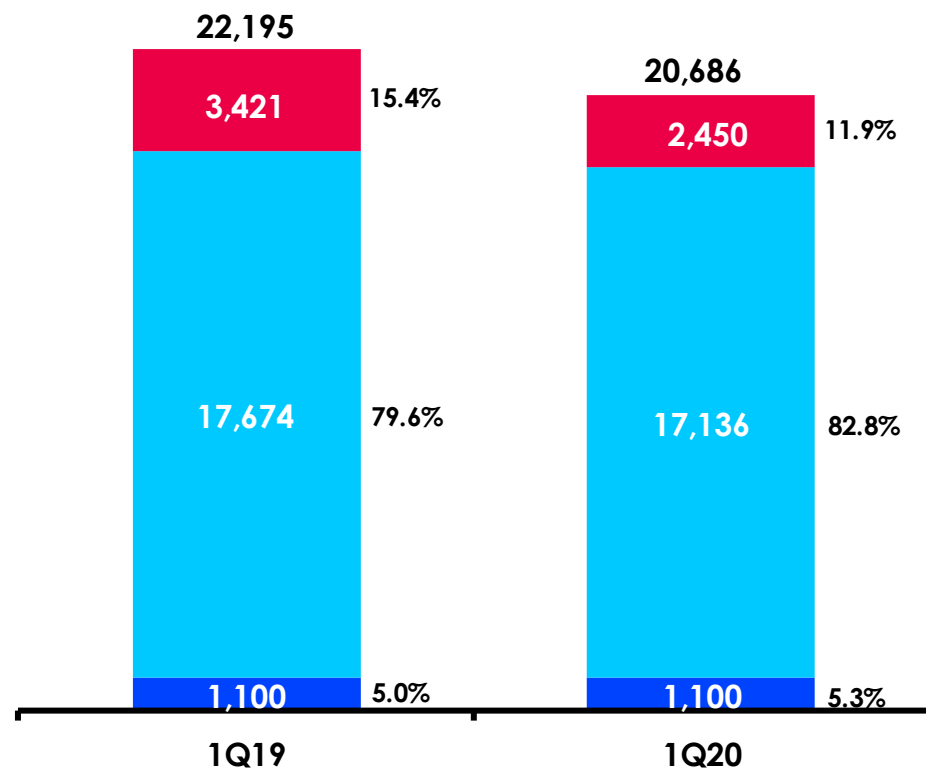
Note: Number on the right is the absolute change, number on the left is the value for the reporting period, size of bar is % change

# Total Revenues (RR million)



# Market Distribution - Sales Volumes

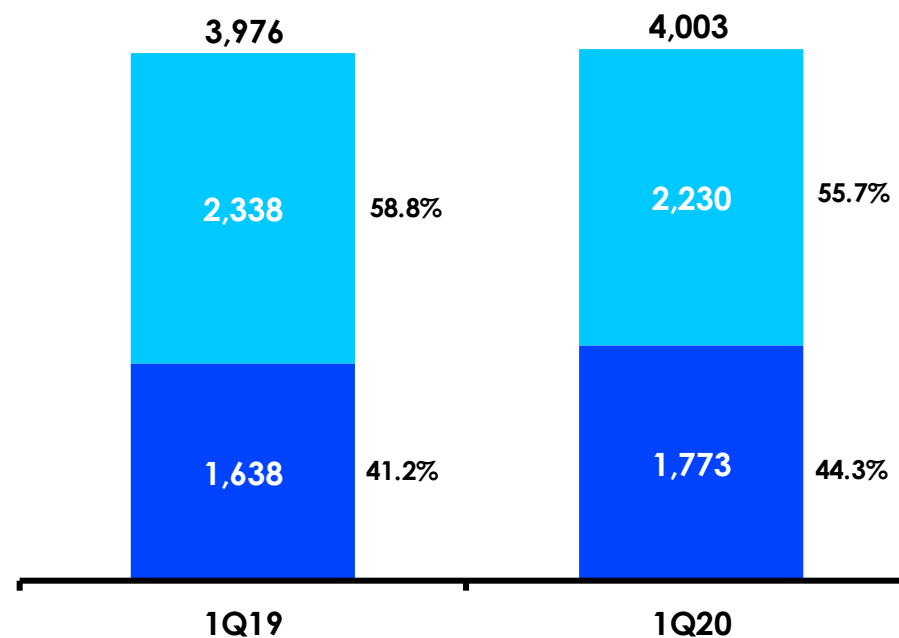
## Natural Gas Sales Volumes, mmcm



■ Ex-field ■ End-customers ■ International markets

Decreased primarily due to a decrease in LNG sales volumes purchased mainly from our JV OAO Yamal LNG for subsequent sale on international markets resulted from an increase in the share of Yamal LNG direct sales under long-term contracts. Volumes sold on the domestic market decreased as a result of lower demand from end-customers due to, inter alia, warmer winter weather conditions.

## Liquids Sales Volumes, mt

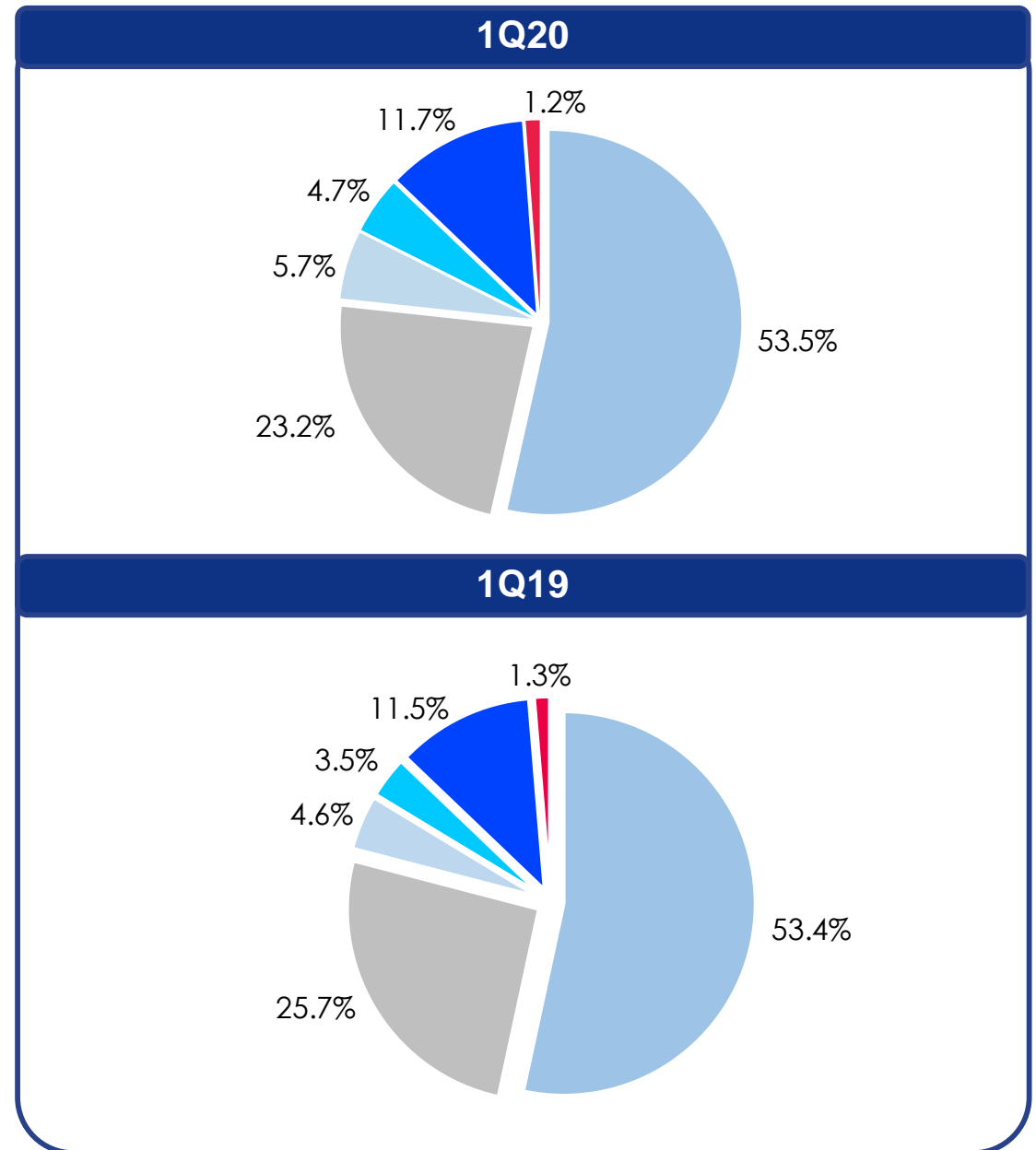


■ Domestic ■ Export

Our liquids sales volumes increased mainly due to liquid hydrocarbons purchases from our joint venture Arcticgas.

# Total Revenues Breakdown (RR billion)

- Natural gas, including LNG
- Stable gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other

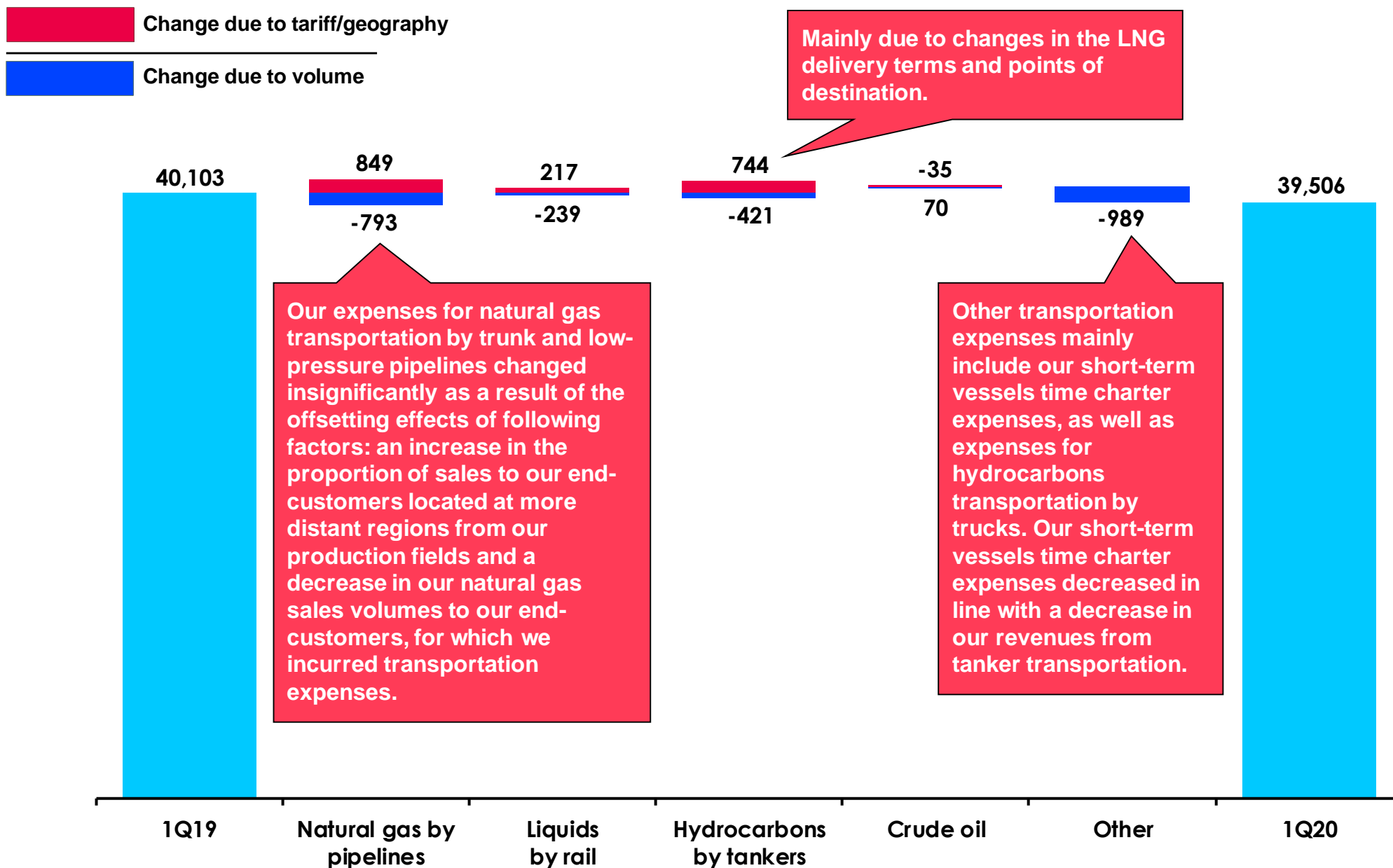


# Operating Expenses (RR million and % of Total Revenues (TR))

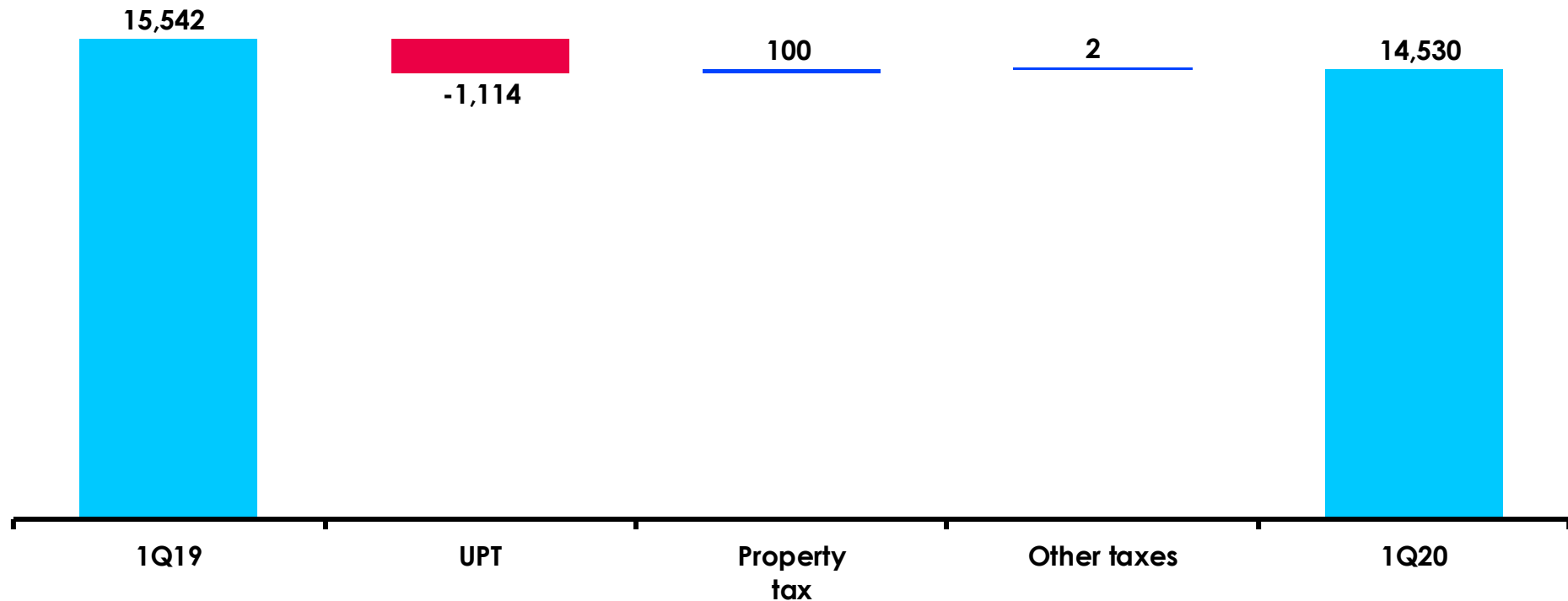
1Q19	% of TR	1Q20	% of TR		4Q19	% of TR	1Q20	% of TR
40,103	17.1%	39,506	21.4%	Transportation expenses	40,254	18.2%	39,506	21.4%
15,542	6.6%	14,530	7.9%	Taxes other than income tax	15,087	6.8%	14,530	7.9%
55,645	23.7%	54,036	29.3%	<b>Non-controllable expenses</b>	55,341	25.0%	54,036	29.3%
7,487	3.2%	8,871	4.8%	Depreciation and amortization	8,553	3.9%	8,871	4.8%
6,030	2.6%	6,812	3.7%	Materials, services & other	6,685	3.0%	6,812	3.7%
5,033	2.1%	5,664	3.1%	General and administrative	8,148	3.7%	5,664	3.1%
3,377	1.4%	2,788	1.5%	Exploration expenses	2,095	0.9%	2,788	1.5%
				Net impairment expenses				
1	n/a	3	n/a	(reversals)	178	0.1%	3	n/a
				Change in natural gas, liquids and WIP				
2,807	1.2%	3,299	1.8%		4,149	1.9%	3,299	1.8%
80,380	34.3%	81,473	44.1%	<b>Subtotal operating expenses</b>	85,149	38.5%	81,473	44.1%
				Purchases of natural gas and liquid hydrocarbons				
94,760	40.5%	65,062	35.3%		82,063	37.2%	65,062	35.3%
175,140	74.8%	146,535	79.4%	<b>Total operating expenses</b>	167,212	75.7%	146,535	79.4%

Our total operating expenses decreased mainly due to a decrease in average purchase prices for hydrocarbons resulted from a decline in commodity prices on international markets, as well as a decrease in volumes of LNG purchased from our joint venture Yamal LNG due to the reallocation of Yamal LNG sales volumes in favour of long-term contracts sales.

# Transportation Expenses (RR million)

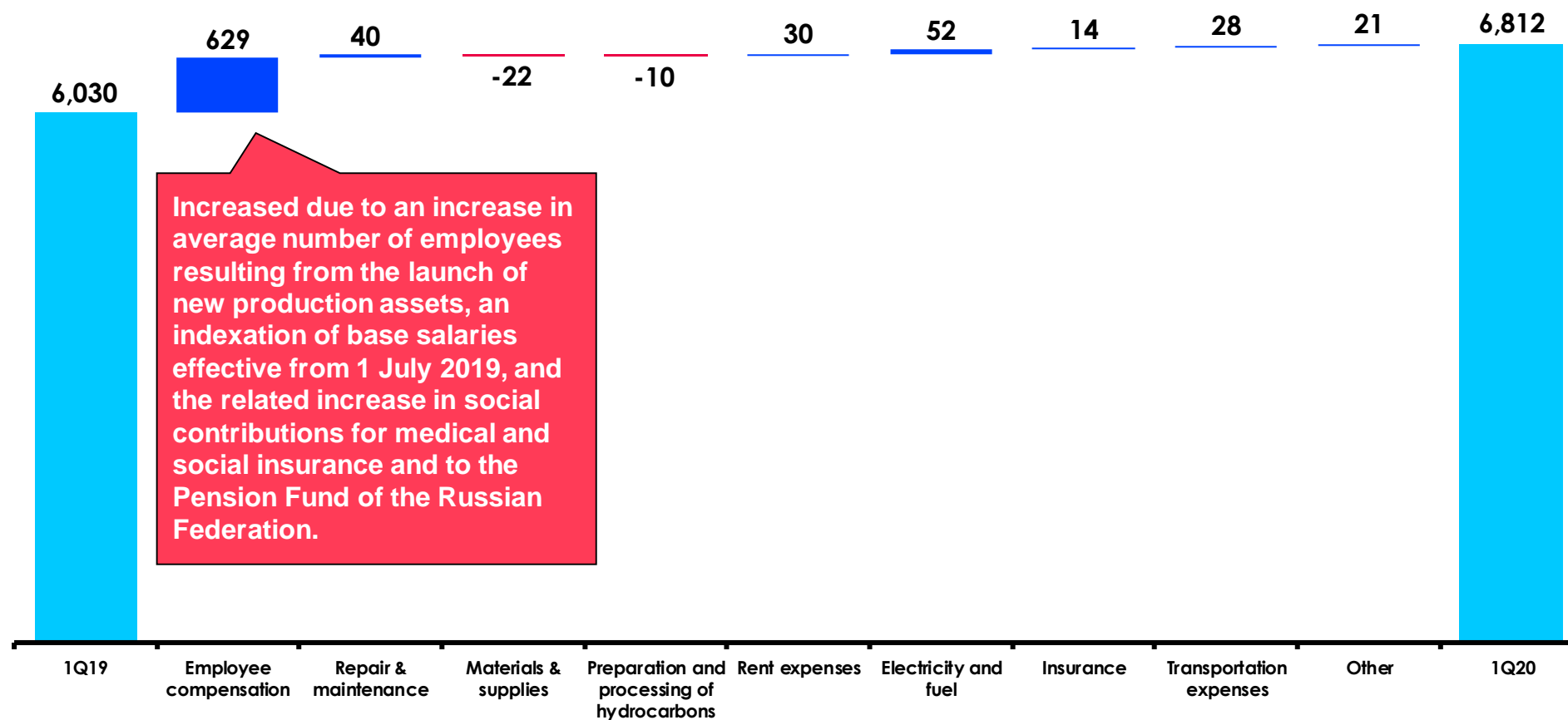


# Taxes Other Than Income Tax Expense (RR million)



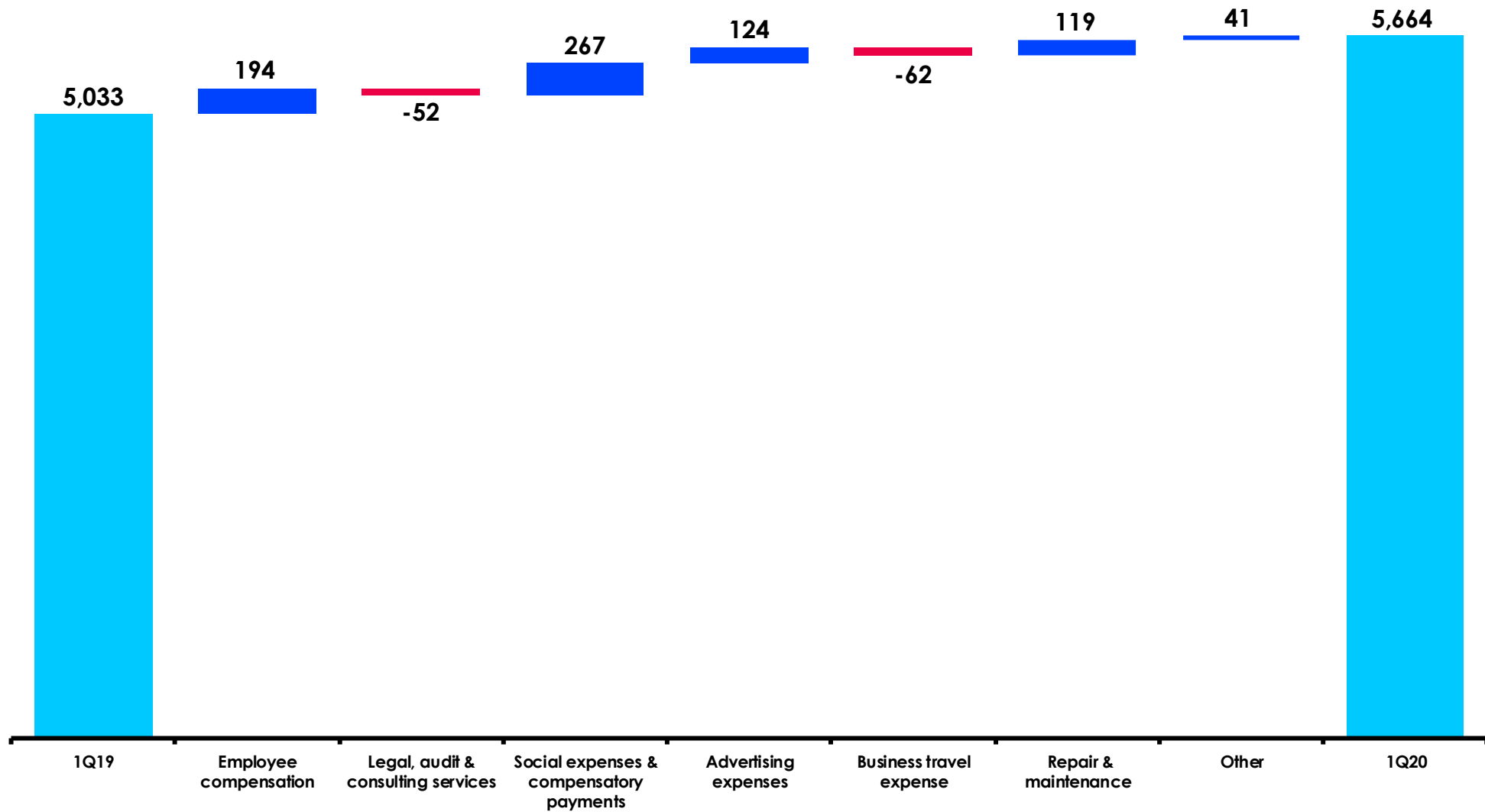
Our UPT expense decreased due to a decline in benchmark crude oil prices, which are used for UPT rates calculation, as well as a decrease in hydrocarbons production at mature fields of our subsidiaries.

# Materials, Services and Other Expenses (RR million)



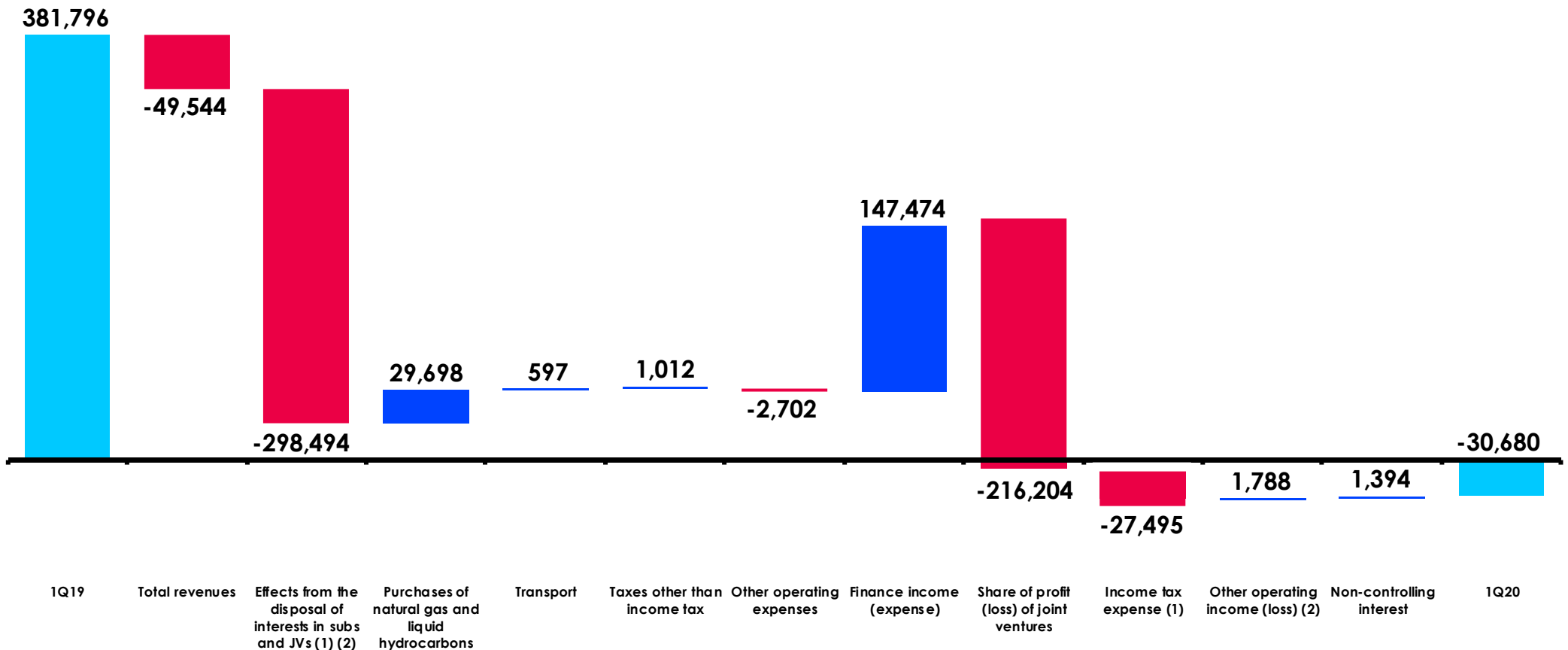


# General and Administrative Expenses (RR million)



# Profit Attributable to NOVATEK Shareholders

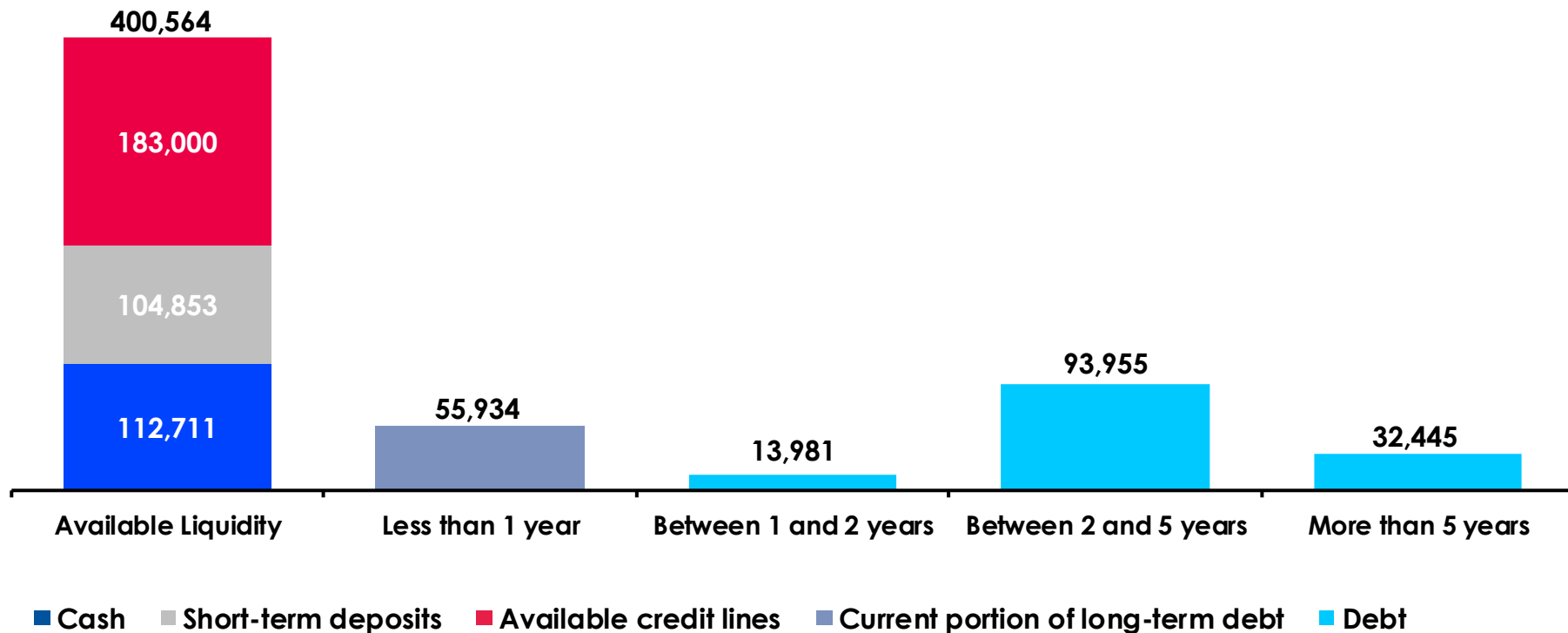
(RR million)



(1) Net of income tax effects related to the disposal of a 10% participation interest in Arctic LNG 2 in 1Q19 (income tax expense of RR 37,372 million) and to subsequent non-cash revaluation in 1Q20 of contingent consideration on the sale of a 40% participation interest in 2019 (income tax benefit of RR 6,822 million).  
 (2) Effects from the disposal of interests include a loss of RR 34,110 million related to changes in fair value of contingent consideration on the sale of a 40% participation interest in 2019, which was reported in 1Q20 within the "Other operating income (loss)".

The Group's financial results in the current reporting period were significantly impacted by unfavorable macroeconomic conditions, which led to a decrease in our hydrocarbons sales prices and a recognition of substantial foreign exchange effects. In addition, in both reporting periods, we recorded effects from the disposal of interests in the Arctic LNG 2 project.

# Total Debt Maturity Profile (RR million)



## Debt repayment schedule:

Up to 31 March 2021 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD 650 mln)

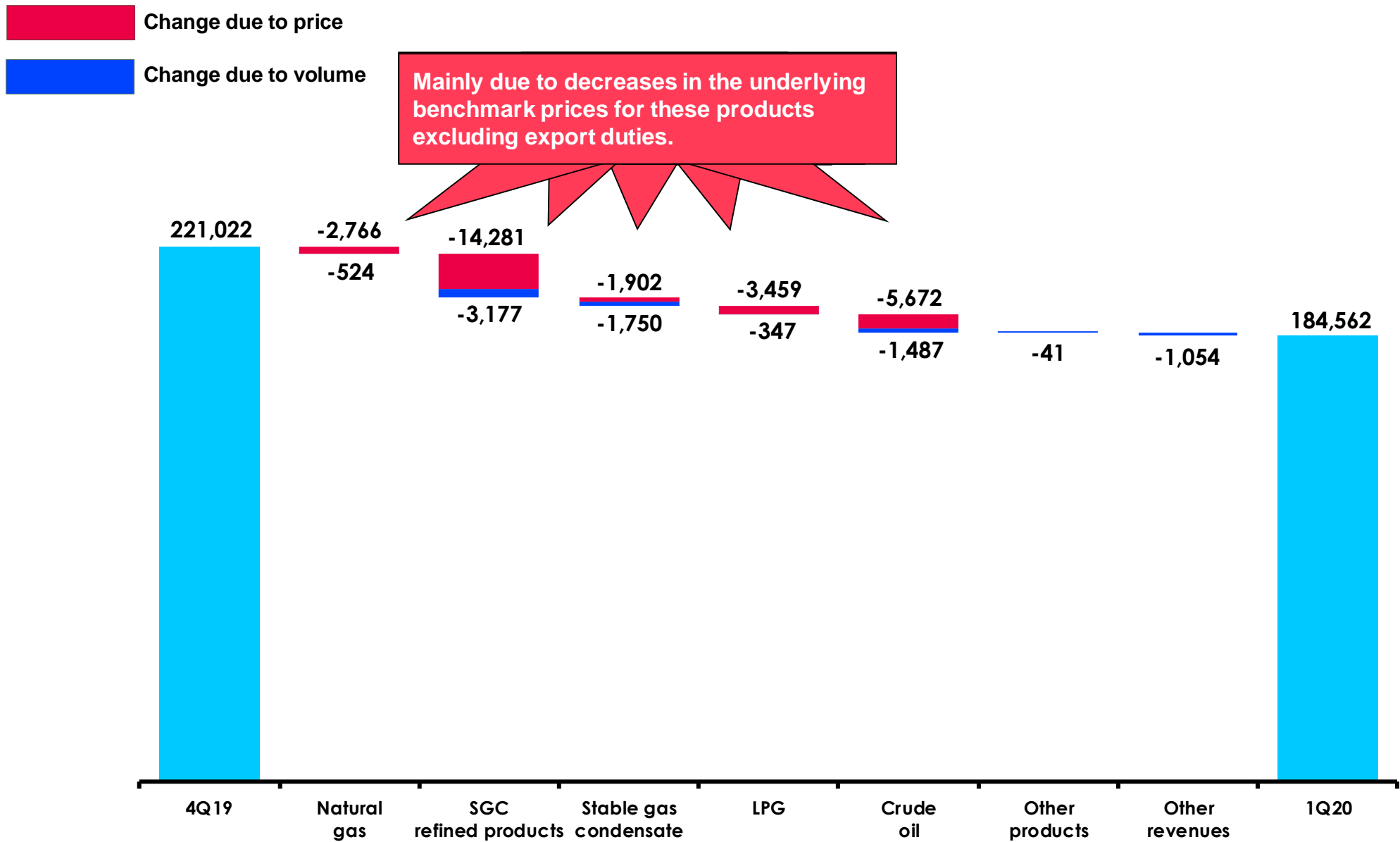
Up to 31 March 2022 – Loan from the Silk Road Fund and Other loans

Up to 31 March 2023 – Loan from the Silk Road Fund and Eurobonds Ten-Year (USD one bln)

After 31 March 2023 – Loan from the Silk Road Fund

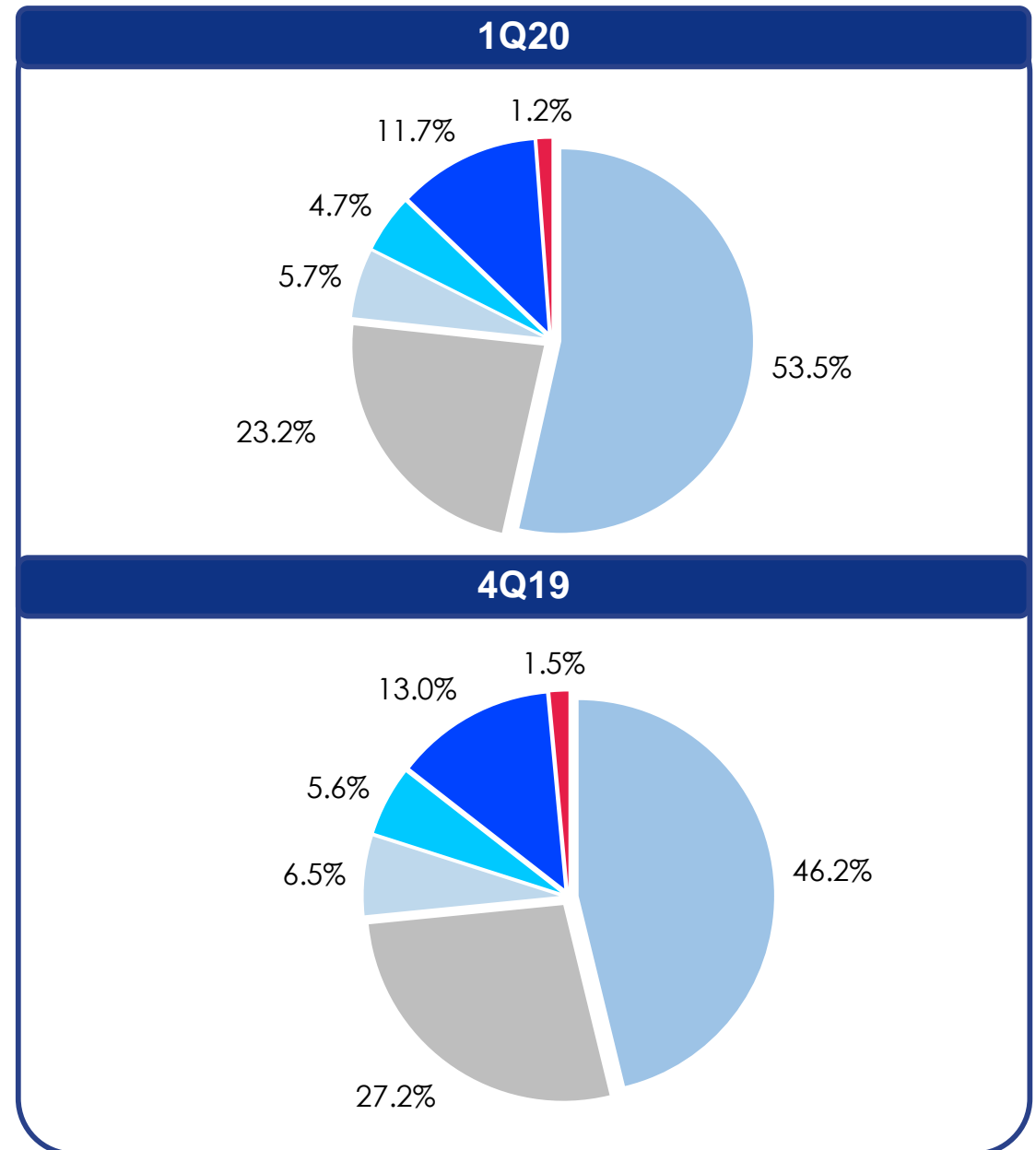
# Financial Overview – 1Q20 to 4Q19

# Total Revenues (RR million)

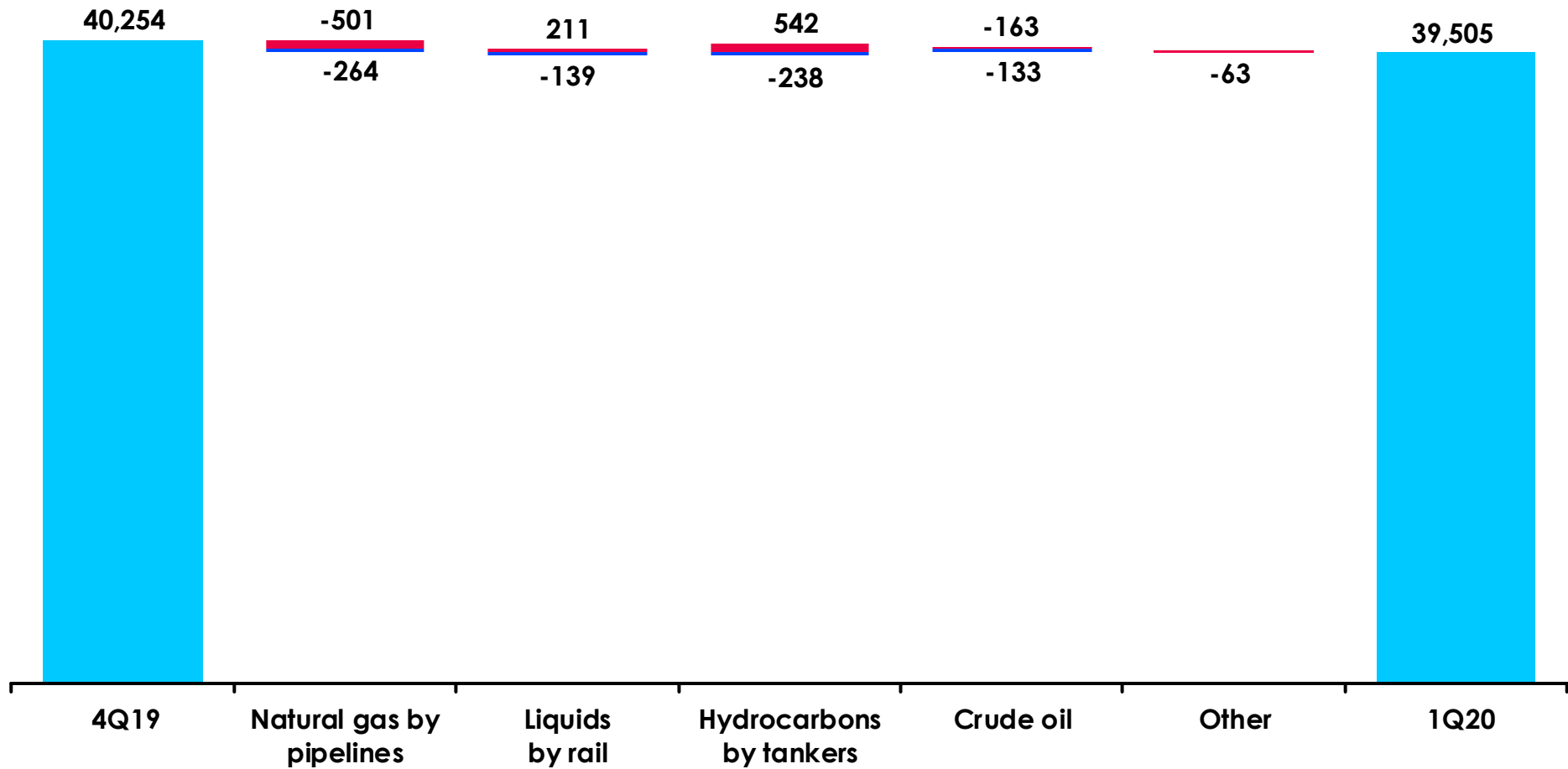
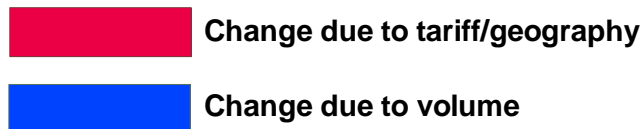


# Total Revenues Breakdown

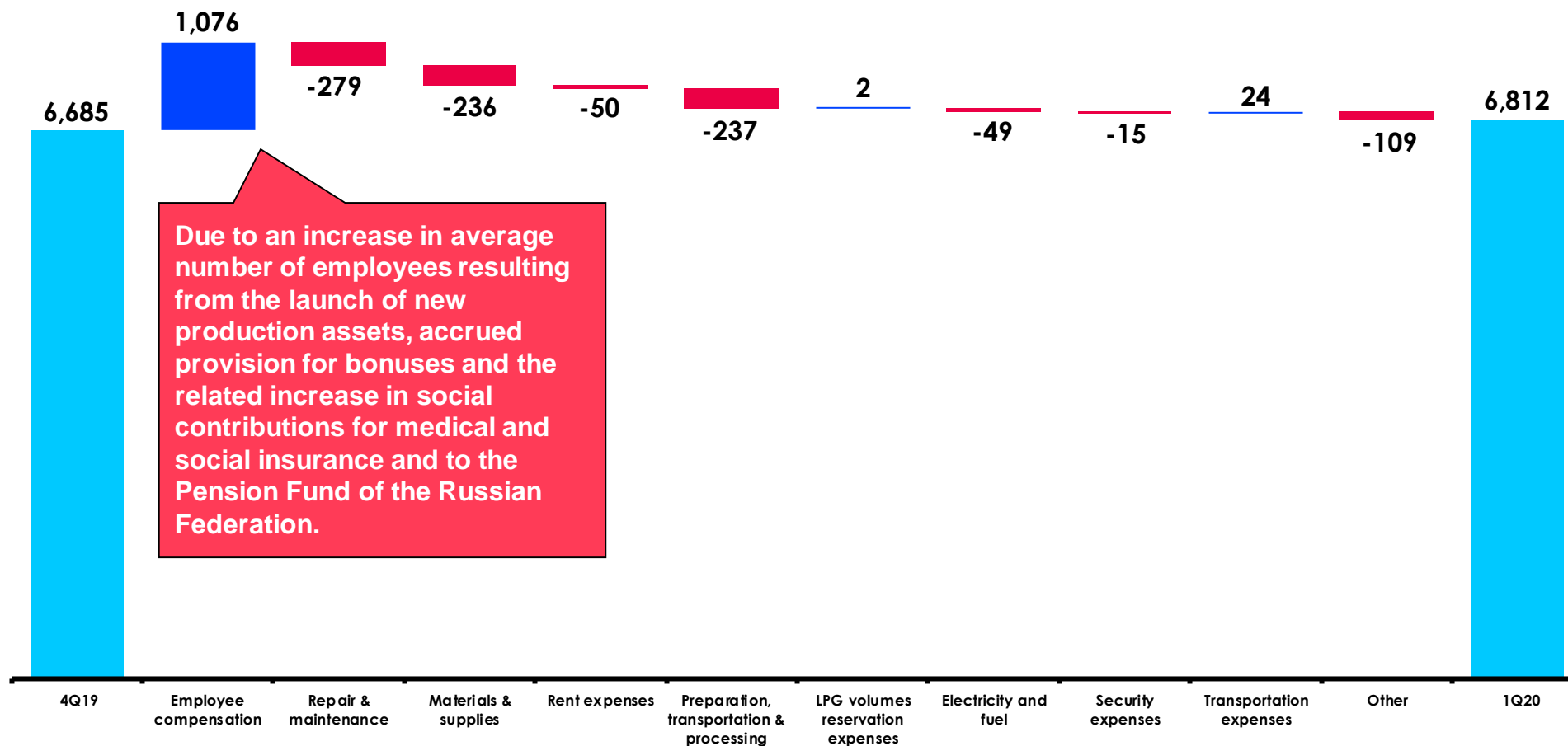
- Natural gas, including LNG
- Stable gas condensate refined products
- LPG
- Stable gas condensate
- Crude oil
- Other



# Transportation Expenses (RR million)

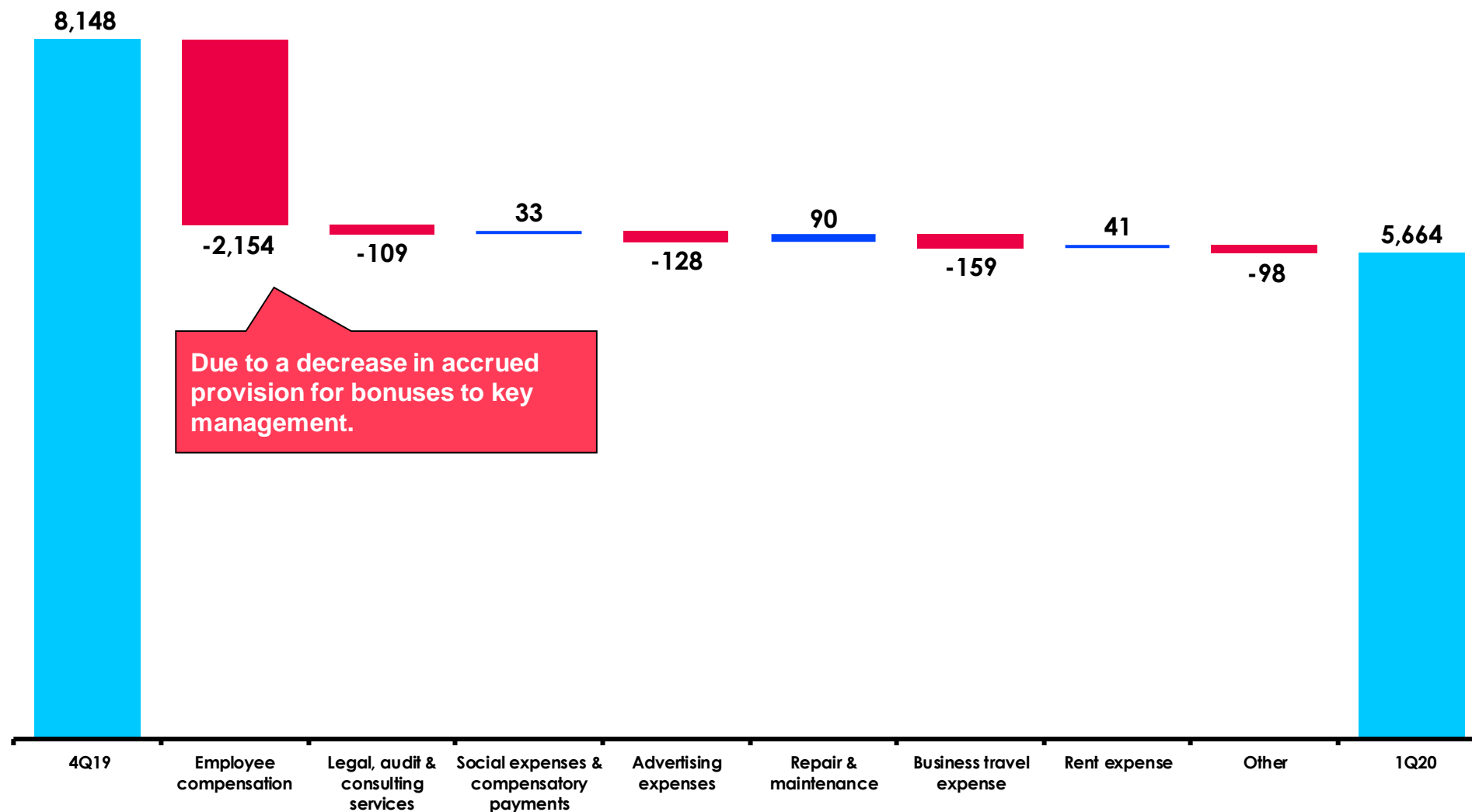


# Materials, Services and Other Expenses (RR million)





# General and Administrative Expenses (RR million)

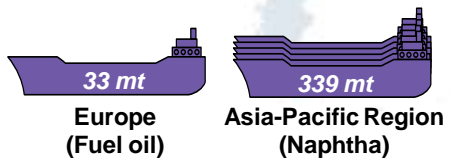


# Appendices

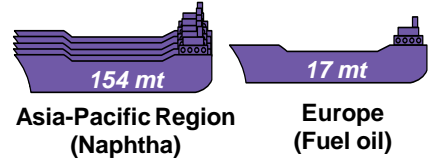
# Liquids in Tankers



**“Goods in transit”**  
**31.03.2019**  
 ~ 372 thousand tons



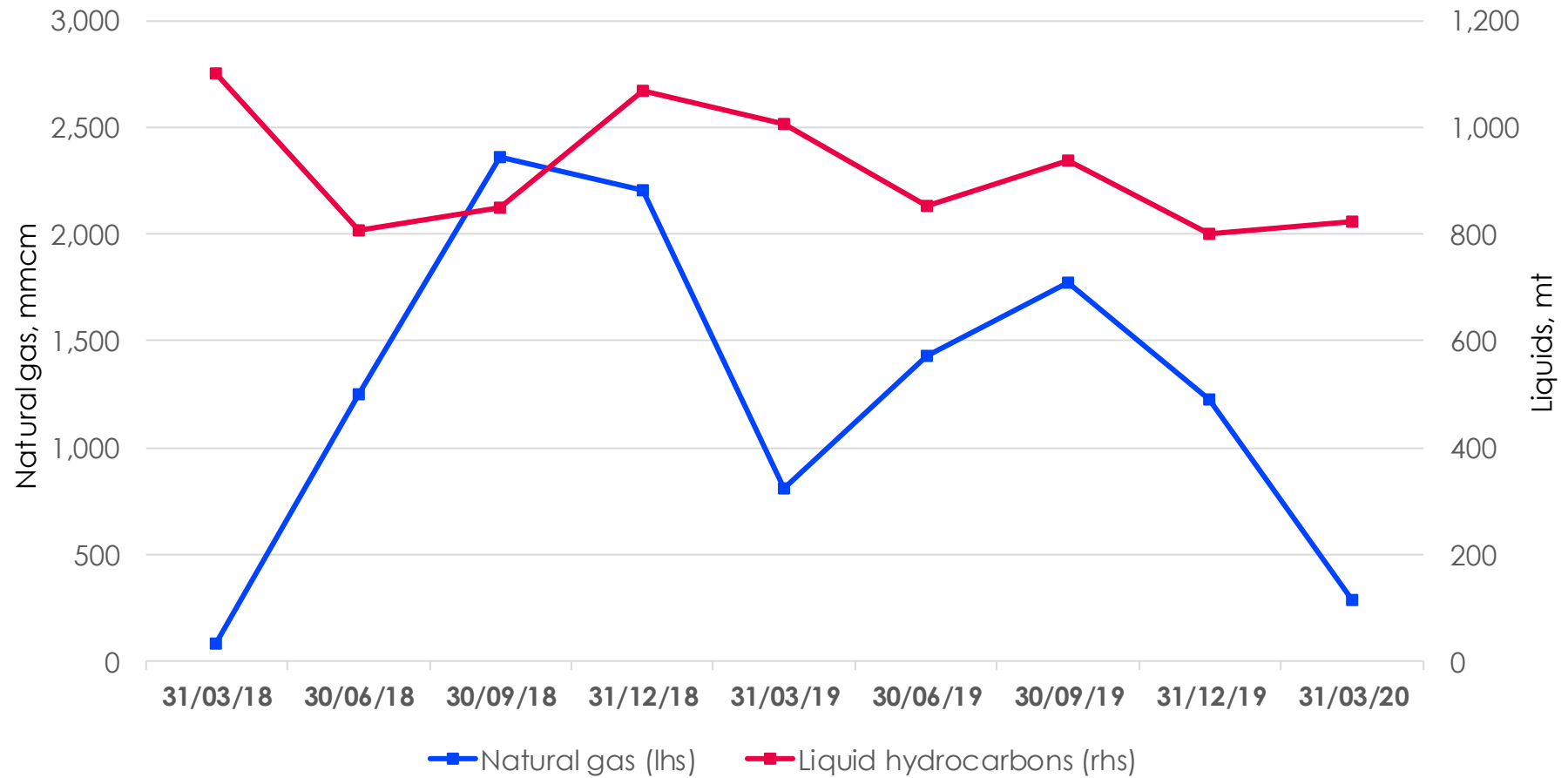
**“Goods in transit”**  
**31.12.2019**  
 ~ 171 thousand tons



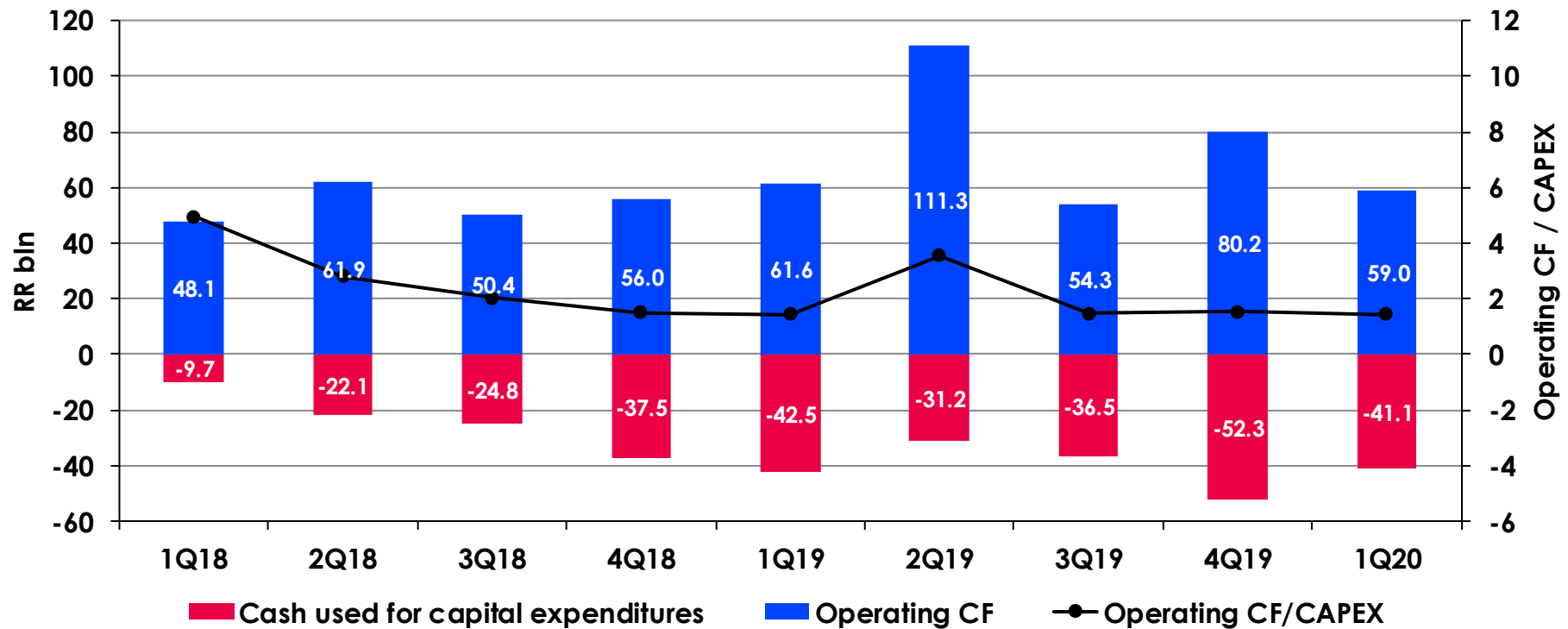
**“Goods in transit”**  
**31.03.2020**  
 ~ 127 thousand tons



# Change in Inventories



# Internally Funded Investment Program



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

# Questions and Answers