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PRESENTATION

Operator

Good day, and welcome to the NOVATEK Second Quarter 2018 Financial Results Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Mark Gyetvay. Please go ahead, sir.

Mark Anthony Gyetvay - *PAO NOVATEK - Deputy Chairman of the Management Board & CFO*

Thank you, Emma. Ladies and gentlemen, shareholders and colleagues, good evening, and welcome to our second quarter and first half 2018 earnings conference call. I would like to thank everyone for joining us this evening.

Before we begin with the specific conference call details, I would like you to refer to the disclaimer statement as is our normal practice. During this conference call, we may make reference to forward-looking statements by using words such as 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 the 31st of December, 2017, as well as any of our earnings press releases and documents throughout the past year for more descriptions of the risks that may influence our results.

We had an exceptionally strong second quarter and first half 2018 by any objective measure, aided by a strong macroenvironment, a long cold winter, and robust natural gas and liquids production. Collectively, these crucial factors positively influenced our financial results, as reported, and underscore the dynamics and leverage of our business operating model.

With the World Cup finally ended here in Moscow with France's 4:2 victory over Croatia, it is safe to say that it was a very successful event by the host nation, Russia. It was an extraordinary month of surprises and shocks that will go down in history as one of the best World Cups in recent memory.

We would also like to congratulate our long-standing partner, Total, for the championship. But it's also befitting to congratulate the Russian National Team and their valiant efforts and the rallying of a nation to raise their spirits in such a large global event.

Despite the positive sentiments following the World Cup, the realities of geopolitics continue to wear its ugly head. Geopolitics played a leading role throughout the first half of 2018 with heightened tension around level trade wars, the imposition of additional punitive sanctions, the reemergence of OPEC+ on production and pricing discussions as well as a myriad of other topics that create market tension and uncertainty. These geopolitical events, combined with a very cold end to winter and some untimely supply disruptions in Libya and Venezuela, led to higher carbon -- hydrocarbons demand and upward pressure on crude oil prices. These actions led many market commentators to forecast much stronger crude



oil prices throughout the remainder of the year, which precipitated a further call on OPEC+ to increase production to ease commodity prices to more sustainable, acceptable levels. It is safe to say that the macroenvironment was front and center during the reporting period.

Liquefied natural gas, or LNG, was also prominently spotlighted in the media as it's become quite evident that the so-called LNG glut has not materialized, and a renewed focus on much stronger demand has prompted calls for new projects to reach final investment decision, or FID.

We had stated many times on our private -- prior conference calls, during our recent Corporate Strategy Day as well as during many one-on-one investor meetings that we felt that the market would reassess upward demand for LNG by the end of the decade. Obviously, even our own market-demand assessment, although directionally correct, was too conservative, and we stand to correct ourselves that the stronger demand realization led by China and other emerging LNG-consuming nations is materializing as we speak. This bodes well for our LNG platform, which we will now discuss.

Global demand for LNG remained strong in the first half of 2018, increasing by approximately 8.5% to 159 million tons, led primarily by the continued growth in Chinese natural gas consumption.

China imported approximately 25 million tons of LNG during the period, representing a year-on-year increase of 49%. The global LNG market, besides China, also remained robust throughout the second quarter as more countries entered the market for the first time, most notably Panama and Bangladesh. And as a result, there are now 42 LNG-importing nations, and growing.

What was most notable this quarter was the strength in LNG prices in the Asian-Pacific region as we transitioned between the peak and trough seasons of traditional gas demand. Strong demand from China influenced purchasing decisions of Chinese companies to purchase more large spot volumes in the second quarter. Maintenance work at several LNG plants at roughly the same period in the United States, Malaysia and Nigeria as well as decreased LNG production forecasts in Australia, led to stronger LNG prices and a tightness of supplies.

With prices easing recently, this present situation supports the needs to undertake additional LNG projects to meet growing LNG demand as consumers transition from coal to natural gas as a predominant fuel for industrial, electrical and residential consumption globally.

Unfortunately, a large number of future LNG projects are not competitive because of their high cost. This point is also complicated by the fact that seasonal variation or fluctuation in LNG prices is not acceptable to many existing producers. We do not support a sharp increase in LNG prices. We believe that the current prices provide acceptable rates of return for our current LNG project, but more importantly, supports stable demand growth. We believe this point is crucial to make future FID decisions, and this we support, stable, steady growth in global LNG demand.

Longer-term, we believe our projects represent some of the most cost-competitive LNG projects globally. Thus, we will be able to secure acceptable LNG contracts for our output as well as sufficient partner interest to enter our future LNG projects.

In this regard, Yamal LNG has been a standout project in the LNG world, characterized by project delays and cost overruns. As of today, we remain on target to deliver this world-class facility on budget and actually ahead of schedule, something that very few, if any, of our global competitors can claim for a large greenfield LNG project.

Success, obviously, garners recognition, and both the media and the oil and gas industry has taken note of the Arctic zone in Russia as a cost-effective way to enter the next wave of LNG projects. This becomes crucial as we select potential partners for Arctic LNG 2 and build out the necessary logistical model and LNG construction center for our future LNG projects.

As of June 30, the overall construction progress at Yamal LNG was 94.3%, up from 92.5% at the end of the first quarter. More specifically, LNG train 2 is approximately 97% completed versus 93% completed in the end of the first quarter. And LNG train #3 is approximately 83% completed.

We are on target to meet our revised guidance on completing and launching LNG train #2 in the near term and LNG train #3 in early 2019. Moreover, we are still committed to deliver LNG train #4 based on our proprietary Arctic Cascade liquefaction progress by the end of 2019. Approximately 50% of the equipment for LNG train #4 has already been contracted. Although the output of this additional train will be less than 1 million tons



per annum, it has a low capital cost for liquefaction and will reduce the per unit cost of all of our Yamal LNG volumes. All modules for all 3 LNG trains are installed, and commissioning activities for the second and third trains are currently underway. Tests on both compressor stations for LNG train #2 have been completed and the integrated control and security system has been installed in the central control building. Moreover, first gas has been injected into the unit, and we anticipate first LNG output in early August, as announced at Mr. Mikhelson's recent press conference.

For LNG train #3, initial commissioning work on the first compressor has begun, and we are presently on track to launch this LNG train in early 2019, significantly ahead of its original schedule as well as its revised time frame.

NOVATEK has clearly demonstrated our ability to deliver large-scale strategic projects on time and on budget, creating sustainable shareholder value despite the complexity and remoteness of our projects.

We have already drilled and completed 118 production wells, exceeding the number of wells required for both LNG trains #1 and #2 by 25 production wells. 118 production wells drilled, less 93 wells required. Overall, we need 124 production wells to successfully launch all 3 LNG trains, and the total well stock for the project remains at 208 production wells.

While on the topic of drilling, we commenced drilling of our first well, #172, targeting the deeper Jurassic layers at the South-Tambeyskoye field. As of today's call, we have reached the optimal horizon and anticipate that all drilling, fracking and well testing will be completed in the fourth quarter 2018. We will provide additional updates as the drilling and testing activities proceed.

So far, as of the end of the second quarter, Yamal LNG dispatched 38 LNG cargoes, representing more than 2.8 million tons of LNG, along with 15 cargoes of stable gas condensate, more than 250,000 tons since the commencement of the project in December 2017.

In the first half 2018, Yamal LNG produced approximately 2.6 million tons of LNG and 234,000 tons of stable gas condensate.

Despite the recent maintenance work at the facility in the second quarter, Yamal LNG produced approximately 1.3 million tons of LNG and continue to deliver cargoes to our customers without disruption. This was accomplished because we were able to load cargoes from our storage tanks as all 4 cryogenic LNG storage tanks were built and ready for operations.

One of the metrics we monitor is the annualized LNG capacity relative to each of the LNG train's nameplate capacity. Unfortunately, due to maintenance work at LNG train #1 in May, we felt it is better to run the facility for the full year during various seasonal temperature changes to get a better assessment of the plant's overall operating performance. Moreover, we believe it is not proper to extrapolate one period versus another as a proxy for overall plant performance. Thus, getting a full year operating performance history is a better indicator of the sustainable performance rather than taking isolated points of time.

We have operated LNG train #1 above its nameplate capacity of 5.5 million tons per annum on an annualized basis since it was commissioned in December 2017. This fact was noted as confirmed. This essentially means that the design and engineering process proposed and designed is operating as planned.

Liquefied natural gas, as I mentioned, was prominently displayed in the news these days. And now what I'd like to do is as we end Yamal LNG -- discussion on Yamal LNG, I think it's important that we look at what we're doing at Arctic LNG 2.

At Arctic LNG 2, we mentioned that we sold a 10% stake in the project to Total as of this past quarter.

Just one second please, as the paper was just shifted. I just need to get back as I -- just give me one second, please.

Okay. Sorry, about that. I want to go back to Yamal LNG. It's just that the order of the presentation was out of place, so I apologize for that.

So as I mentioned that we're operating above -- I left off as we're operating above our annualized basis, and this represents exceptional operating performance based on ambient temperatures of the Arctic region and supports our assertions that we maintain a competitive advantage over our



competitors vis-à-vis our global locations and colder ambient temperature. We believe these advantageous operating conditions support our future LNG projects on the Yamal and Gydan peninsulas, thus making our overall LNG platform extremely attractive for potential and existing partners based on favorable operating statistics, lower capital intensity per ton produced and optional transport routes to east and west consuming markets.

We would like to make a few brief comments on the present shipping environment as there appears to be much confusion in this area. There is presently a draft law in the State Duma that supports Russian -- the Russian shipbuilding yards. We have already executed signed agreements with Russian shipbuilders and we support this initiative, but it is crucial that ships are built and delivered on time.

Our Yamal LNG project is being realized with the current governmental decree, and the law passed regarding the flag of ship did not negatively impact our logistics and/or shipments.

Moreover, we believe this new law being proposed will not negatively impact our Arctic LNG 2 project from the vantage point of future LNG fleet and logistic. It is best that the Russian government focus on supporting the Russian ship building industry and less on the specific flag of the ship.

We would like to provide a few words on the current state of Yamal's LNG shipping fleet. In 2018, we will receive 4 more Arc7 ice-class tankers. And at the beginning of 2019, we will receive another tanker. All 15 Arc7 ice-class tankers will be ready for the -- by the time train #4 is launched. And in the meantime, we will also charter Arc4 LNG tankers to support our logistical model. We don't believe shipping and the number of tankers available will impede our progress. However, as reported, we did have some minor shipping delays when ice melt recirculated back in the old channel, which, for the sake of clarity, is a common occurrence. But this fact was negatively reported by the media.

The extreme cold weather experienced in the latter part of this past winter kept ice levels in the old bay at higher levels, right, for the past several years. This meant that we slightly delayed the use of the Northern Sea Route to deliver LNG cargoes eastbound to the Asian Pacific market. We recently announced, however, that 2 Arc7 class ice-class tankers, the Vladimir Rusanov and the Eduard Toll, successfully completed their maiden voyages to the Northern Sea Route and past the ice-covered portion of the route in just 9 days without any icebreaking support, thus confirming the outstanding icebreaking capabilities of the Arc7 ice-class tankers. This formally opened the navigational season eastbound. The 2 LNG tankers landed at their final destination at the Chinese port of Rudong on the 19th of July with a welcome celebration attended by Russian energy minister, Alexander Novak, and our CEO, Mr. Leonid Mikhelson. The total eastbound voyage through the Northern Sea Route was completed in just 19 days versus the 35 days it would have taken to navigate through the Suez Canal and the Strait of Malacca to the same final destination. Two-way transports through the Northern Sea Route will become a reality, and we are proud of our role to pioneer this navigational route, first, with gas condensate in 2010 and now with the first cargoes of Russian LNG produced from our Yamal LNG project.

This completes my update on Yamal LNG. And we would now like to briefly discuss our other LNG projects. We mentioned on our last earnings conference call that Arctic LNG 2 launched a series of tenders for long-lead items, such as gas turbines and refrigerating compressors, coil-wound heat exchangers, LNG pumps and LNG -- along other (inaudible) long-lead items. This process is more or less completed, and capital cost savings identified through our value engineering process are now confirmed. This essentially means that the design and engineering process proposed for the Arctic LNG 2 project based on the gravity-based structures, or GBS, will allow us to build a low-cost liquefaction platform with more than a 30% reduction in CapEx per ton of LNG produced as compared to our flagship Yamal LNG project. This confirmation supports our strategic premise that we'll be able to build an LNG model utilizing the GBS platform that is cost-competitive and that our strategic market objectives are delivering low-cost LNG to consuming nations is achievable.

The second round of tenders for the topside modules fabrication has been launched, allowing us to complete the final module fabrication strategy by the end of the FEED work. In conjunction, we also launched a tender for GBS fabrication in our NOVATEK-Murmansk yard, and we aim to complete this process and award the contract by the end of FEED when we intend to launch the detailed engineering work for the gravity-based structures.

In summary, our FEED is progressing as planned, and all technical findings, engineering optimizations and market value tenders are confirming our stated goal of achieving a low-cost per ton liquefaction project. We anticipate a final investment decision in the second half of 2019. We will, obviously, keep everyone informed of this important development.



During the quarter, we announced the signing of a binding agreement with our partner Total for the purchase of a 10% equity stake in the Arctic LNG 2 project. The transaction will be closed no later than the 31 of March, 2019, and reflects the valuation commensurate with the project's economic parameters, the field's vast hydrocarbon resource base and the cost competitiveness of our proposed GBS liquefaction platform. The Arctic LNG 2 transaction now establishes a valuation threshold for potential partners to enter the project as NOVATEK plans to divest another 30% with at least the same terms and additions of the announced transaction.

We recently signed a memorandum of understanding, or MOU, with KOGAS, stipulating our mutual interest for KOGAS to enter into the Arctic LNG 2 project, the Kamchatka transshipment facility and possible LNG offtake contracts as well as developing cooperation in LNG trading and logistics optimization. This announcement is the latest of the series of expressed interest in NOVATEK's LNG platform.

The Arctic LNG 2 project has received strong expressions of interest from potential partners who are still quite active in the data room, finalizing their respective due diligence work. We are confident that the divestiture of the additional equity stakes in Arctic LNG 2 will unlock more economic value to NOVATEK and, hence, our shareholder.

It's hard to predict the exact timing of these sales, but we would like to have this process completed prior to making our FID decisions. Moreover, by selling these stakes in Arctic LNG 2, we will essentially cover all of our financing needs for the project.

We would also like to provide a brief update on our construction activities in Murmansk. As we previously mentioned, primary infrastructure and civil engineering work activities at the LNG construction center are progressing according to our project schedule. More than 6.5 million cubic meters of dirt and rock have been removed as part of our heavy earthwork activities. All contracts with construction contractors were executed, and we began the construction of building the workers rotating village. In addition, the initial cargo of goods and materials were delivered to the first existing berth of the project. We anticipate that we can begin the construction of the GBS platform fabrication around the summer of 2019 as per our plan.

We also made notable progress towards initial launch of our mid-scale Cyrogas-Vysotsk LNG project expected by the end of 2018 or sometime in the beginning of 2019. We will keep you apprised of the launch table on upcoming conference calls.

After the start of the first LNG train of roughly 600,000 tons, we will consider making another FID decision for the second LNG train with an LNG capacity ranging from 600,000 tons to 1 million tons of LNG output per annum. The LNG will be marketed for bunkers services as well as potential mid- to small-scale business consumers in European markets, such as those consuming markets off the main pipeline grid. We believe that bunker and services offer a good niche market and will be supported by the impending changes on the IMO regulations in 2020.

As of today, we completed the construction of the energy station, gas pipeline link and the LNG loading berth. Ongoing construction activities include work on the pipeline racks, the LNG plant modules and the LNG loading arms.

In other operational news, we significantly increased our exploration funding to support future development activities and get license areas ready for reserve appraisals. Our first half of the year activities provide a good assessment of our increased expenditures and the level of work performed as exploration activities tend to be longer in duration and span multiple reporting periods.

Three-dimensional seismic activities more than doubled at our subsidiary companies and increased by 38% at our joint ventures. We ran and processed a total of 2,634 square kilometers of 3D seismic as well as conducted 2,766 linear kilometers of 2-dimensional seismic during the first half of 2018. Most of our geological and geophysical works were performed on a recently acquired license acreage on the Yamal and Gydan peninsulas, which support future LNG projects as well as some of our domestic core areas of interest.

Exploration drilling also progressed during the first half of the year, but most of the increase was drilled during the second quarter and at our joint ventures. Exploration drilling totaled approximately 16,000 meters, with more than half of this drilling done at our joint ventures, namely the Samarskiy license area.



The combination of G&G activities and increased exploration drilling is a precursor for future development activities. We increased our exploration spending by threefold to RUB 3.7 billion during the first half of 2018. We stated previously that this was our strategic objective to significantly invest in exploration activities.

On the 20th of July, the drilling rig left the port of Yamburg, destined to drill the initial exploration well at the North-Obskiy license area in shallow waters of roughly 10 to 15 meters in depth, using a floating rig leased from Gaz Flot. We expect to spud the first exploration well at the North-Obskiy field any day now, and this license area along with other assets in the portfolio located on the Yamal and Gydan peninsulas will serve as one of the potential future LNG projects. The exploration well will have a projected vertical depth of 2,800 meters and will test all productive zones identified by the running and processing of 3D seismic. We believe the geological structure is quite similar to the SouthTambeyskoye field, and we anticipate that the drilling and testing will be completed during the fourth quarter.

In parallel, we also run 3D seismic at the northern portion of the license area, and based on the combined exploration drilling and seismic activities, we will be in a better position to assess the reserve potential of this license area, which we believe could be substantial.

Our core development drilling programs targeting fields within reach of the UGSS increased during the first 6 months of 2018. We drilled 45 production wells during the period versus 27 production wells in the comparable prior period, representing an increase in the total number of wells drilled by 67%. We drilled approximately 97,000 meters of new wells with most of the activities performed at NOVATEK-Tarkosaleneftegas subsidiary and our Arcticgas joint venture.

More specifically, in the second quarter, we completed a new record well at the Urengoyskoye field of Arcticgas at well #5003 in just 78 drilling days. The total length of this well is approximately 5,900 meters with a horizontal run of approximately 1,400 meters and a vertical depth of 3,500 meters. The well will be completed using an 8-stage hydro-fracking design at the Achimov producing reducing there. We expect considerable reserve additions thanks to this project.

At the -- at our West Yurkharovskoye field, there will be 3 drilling pads consisting of 6, 5 and 4 wells being drilled at each pad, respectively. We drilled the initial well #135 on the first drilling pad and well #147 on the third drilling pad. We commenced drilling of well #11 at the first drilling pad, and combined with the ongoing drilling of well #147, we will assess the results of the drilling program before commencing drilling activities at the second pad. We expect to make some definitive decisions sometime in October on the direction and timing of the overall development program at the field.

In July, we commenced initial test production at well 135 at the West Yurkharovskoye field, targeting the lower Jurassic layer.

Since many of these projects are ongoing and cross multiple reporting periods, we wanted to provide some exploration and production highlights that we felt were relevant to mention. Therefore, for the sake of brevity we didn't want to repeat some of the ongoing activities, but we will continue to discuss important progress throughout the remainder of the year on future earnings conference calls.

We would like to reiterate our current production guidance for 2018 at 6 -- 5% to 6% growth in natural gas production and to sustain levels of output for liquids at 2017 levels. We believe we have accomplished many of the remedial activities and well stimulation works that was somewhat delayed while we focused on launching Yamal LNG as well as strategically complemented our current production portfolio with timely acquisitions in late 2017 and the ALROSA acquisition in the first quarter of 2018.

We managed to achieve positive production dynamics for liquids year-on-year recently, and this fact supports our assertion to stabilize liquids production as quickly as possible.

At the Bergovoye field, we reassessed the prior development model and will make some fundamental changes to the development plan to boost production output.

In the third quarter, we plan to install a booster compressor station at the field and perform some remedial measures that will allow us to upgrade our production guidance from this field in 2019 by about 6% to approximately 1.7 billion cubic meters of natural gas per annum. We will connect

the field to our existing condensate infrastructure to monetize gas condensate through our liquids value chain, thus achieving synergies to boost liquid revenues.

We plan to commence the crude oil program at the Yaro-Yakhinshoye field of the Arcticgas joint venture in the fourth quarter as we are currently testing the oil pipeline link to the field. Moreover, we will start production as planned at our North-Russkoye cluster in 2019, which -- we'll provide more information on this later in the year, which will help us restore the production output within the UGGS (sic) [UGSS] area.

During the second quarter, we spent approximately RUB 22 billion on total capital costs, comprised of costs attributable for exploration and production projects and some minor costs relating to mineral licenses and right-of-use assets, mainly leased tankers. Approximately 42% of our capital program was spent on the Arctic LNG project and infrastructure for future LNG projects, while approximately RUB 9.5 billion or about 43% was spent on the North-Russkoye license area, the Yurkharovskoye and West Yurkhavorskoye, the Yarudeyskiy license area and the East-Tarkosalinskoye oil program. The remaining 15% was spent on a variety of other capital-related activities.

Our capital program represents a significant increase year-on-year by roughly RUB 13 billion or by 135% and higher quarter-on-quarter by RUB 11 billion or by 106%. The increase in our quarter-on-quarter capital expenditures reflect a step-up in development drilling activities and was largely driven by expenditures at the North-Russkoye license area and the East-Tazovskoye field, as well as significant quarterly changes in capital spent on the Arctic LNG 2 project and related LNG infrastructure.

As noted in our capital spending distribution, we have increased our capital program to reflect the next wave of growth for NOVATEK. This organic growth will ensure sustainable domestic natural gas production to offset our more mature fields, combined with increased liquid production to ensure our processing facilities are fully loaded and operating at 100% throughput capacity. Equally important, is a capital spent on preparing for the next wave of LNG projects and the building of the LNG construction yard to achieve our strategic goals of becoming one of the largest LNG producers in the world. All of these aims are consistent with our long-term strategy. We would like, again, to confirm our 2008 (sic) [2018] capital exposure guidance at RUB 90 billion.

The financial and operational results were quite strong year-on-year, but weaker operationally quarter-on-quarter due to the traditional seasonal fluctuation in our domestic natural gas demand between the first and second quarters. The quarterly seasonality impact was somewhat mitigated by LNG sales and strong liquid commodity prices as well as the positive revenue affect from the realization of liquid volumes in transit. The macroenvironment was also supportive this quarter as liquid prices were strong across all product categories year-on-year and quarter-on-quarter, reflecting higher underlying benchmark crude oil prices during the current reporting period.

Our total oil and gas revenues in the second quarter 2018 were relatively strong against both year-on-year and quarter-on-quarter comparatives. We increased our oil and gas revenues year-over-year by 52% and quarter-on-quarter by 9%, mainly by increases in our domestic natural gas sales volumes year-on-year due to the launch of LNG sales at our Yamal LNG project and stronger commodity prices for fluids -- for liquids fluids.

Our natural gas sales volumes were down by more than 5 bcm or roughly 25% quarter-on-quarter, reflecting the seasonal variations in consumption despite a longer winter period. Moreover, in the second quarter, we had lower LNG sales attributable to our equity interest as compared to the first quarter 2018. This fact was fully anticipated as we moved from spot sales based on our equity interest to long-term contractual sales.

Significant inventory movements between the comparative periods also supported our oil and gas revenues as we realized prior period goods in transit for liquids as well as variations in injections and withdrawals of natural gas. Movements in inventory value impact each period as the subsequent realization of these volumes generally depend on the date of dispatch and the final destination for liquids and the seasonality of demand for natural gas. Our liquid revenues accounted for 65% of our total revenues versus 57% year-on-year and 50% quarter-on-quarter. The large disparity between the reporting periods is reflective of the strong liquid prices realized in both Russian rubles and U.S. dollars due to positive crude dynamics.

We sold approximately 15.2 billion cubic meters of natural gas in the reporting period versus 14.4 bcm year-on-year and 20.3 bcm quarter-on-quarter, representing an increase of 5.3% year-on-year and a seasonal decline of 25.2% quarter-on-quarter, respectively. Our combined natural gas netbacks



were strong in the reporting period, reflecting the blending of domestic and international gas sales during the quarter. However, the comparability of information with the prior year period is difficult because of the start-up of LNG sales in late 2017.

Our sales volumes don't quite compare to those in the first quarter 2017 as there were no LNG volume sold, which will impact period netbacks. Moreover, the difference between the realization of ramp-up volumes in the first quarter 2018 prior to contractual sales does not easily compare to LNG volumes sold in the current reporting period, which is a mix of some spot sales and contractual volumes. This disparity will continue through the respective ramp-ups of LNG trains #2 and #3 as we will market a combination of ramp-up volumes at our equity interest as well as direct contractual sales via NOVATEK Gas & Power as an offtaker. The net impact, however, should be -- positively support our revenues.

Weather also played a major role in our natural gas sales volumes as this impacts injections and withdrawals from underground storage facilities. During the current reporting period, we increased our injections of natural gas in storage by approximately 1.2 bcm versus 481 million cubic meters in the prior year. The quarter-on-quarter impact was much more dramatic as we had a complete reversal of withdrawals in the first quarter of 954 million cubic meters versus the injection of 1.2 billion cubic meters in the current reporting period as this usually reflects the general nature of seasonal patterns. Underground storage is used to balance production and sales as well as ensure we have access to natural gas in certain geographical regions during the peak season to meet contractual sales commitments.

Since the commissioning of Yamal LNG in December 2017, there have been 38 LNG shipments from the plant, representing more than 2.8 million tons of LNG. We just announced the shipment of the 41st cargo this week and the new milestone achieved of 3 million tons of LNG produced from LNG train #1. The ramp up of LNG train #1 has gone according to our expectations and, we believe, silenced some of the skeptics who felt that this may represent a potential risk area for the company.

NOVATEK sold 16 cargoes of LNG during the first half of the year, including 6 cargoes in the second quarter. The decrease quarter-on-quarter was partially due to the maintenance work on LNG train #1 during the month of May, but primarily due to the start of LNG sales under long-term contracts. In the second quarter of 2018, 8 cargoes under long-term contracts were delivered, including 1 under long-term contract with NOVATEK Gas & Power, which represented the first shipment of LNG to Spain and represented a new milestone for Russian gas deliveries to this country where there is no pipeline connection. We sold approximately 653 million cubic meters of natural gas by the end of the quarter as compared to 958 million cubic meters in the first quarter. The primary difference in volumes sold relates directly to our proportionate share in equity volumes during the ramp-up phase relative to our contractual offtake volumes.

We anticipate the number of cargoes sold under long-term contracts will increase in the upcoming third quarter, which will be partially supported by the early ramp-up volumes from the launch of LNG train #2. This same combination pattern of ramp up or spot sales and long-term contractual volumes will incur when we launch train #3 and will persist until all 3 LNG trains are operating at full capacity.

We sold 4.3 million tons of liquids, representing a 5% increase over the prior year and a 13% increase relative to the first quarter 2018. We exported 60% of our total liquid volumes, which was consistent year-on-year but higher by approximately 5% quarter-on-quarter. The average price received in dollar terms was higher across our product range, except for small volumes of domestic oil product sales, because of the significant increase in the international commodity reference prices, which was partially offset by a weaker Russian ruble as well as a mix between higher and lower export duties. Despite the partial offsets, our overall netbacks increased in the second quarter for the majority of our product sold.

Our second quarter liquids sales were also positively impacted by the realization of inventory balances classified as goods in transit. We realized through revenues approximately 296,000 tons of liquids, representing a year-on-year and quarter-on-quarter increase of 160% and 311%, respectively. We had 196,000 tons of liquids in transit at quarter-end, and these volumes will be realized in the subsequent reporting periods. This compares to 92,000 tons at the end of the second quarter 2017 and 400,000 tons at the end of the first quarter.

At the end of the second quarter 2018, we had 806,000 tons of liquids in various stages of inventory and 1.3 billion cubic meters of natural gas in underground storage, both of which will be ultimately realized during the year. Our financial and operational results will always be impacted year-on-year and quarter-on-quarter by relative inventory movements and the ultimate timing event to realize these balances as revenues.



Our operating expenses increased by 44% year-on-year and roughly 4% quarter-on-quarter in the reporting period as compared to prior periods, which reflects the growing and evolving nature of our business activities. Our purchases of hydrocarbons increased substantially year-on-year, largely due to the commencement of LNG purchased from Yamal LNG as well as purchasing liquids from our new joint venture at higher commodity prices. Our purchases increased by RUB 33 billion and RUB 1.8 billion year-on-year and quarter-on-quarter, respectively, which were impacted by higher unit costs for both liquids and natural gas.

Hydrocarbon purchases, as a percent of our total operating expenses, has essentially changed the dynamics of our cost structure, mainly due to the volatility of the underlying cost basis, example, the movement in crude oil prices. Besides purchases, the most significant cost component of our operating expenses are both transportation and taxes other than income as has traditionally been the case. Otherwise, our cost trends have been reasonably consistent over the past several years as our operating expenses support our business operations as well as fluctuate periodically due to increases in personnel, such as new hires as we expand or through the recent acquisitions, the accruals of bonus payments and the corresponding adjustments to salary indexation and social payments.

Our balance sheet and liquidity position is extremely strong, and this strength has clearly been reflected over many quarters as we generate sufficient operating cash flow to fund our business operations, internally finance our capital program and service us all of our liabilities and debt obligations as they become due.

In the current reporting period, we generated robust free cash flows of roughly RUB 40 billion in a traditionally slower seasonal period, which was roughly 29% and 4% higher year-on-year and quarter-on-quarter, respectively, despite higher capital spent in the current reporting period.

Our total free cash flows for the 6-month ended the 30th of June was slightly more than RUB 78 billion or about 4% higher than the comparable prior period.

Moreover, we achieved an EBITDA of RUB 101 billion, which were 81% higher than the prior year and 33% relative to the first quarter 2018.

Our operating cash flows exceeded our cash used to finance capital expenditures by almost 3x, despite the fact that we significantly increased our cash spent on our capital program year-on-year by 173%. This also applies quarter-on-quarter as we increased capital spend by 128% but were able to fund this entire capital program through internally generated cash flows. We improved all of our credit metrics during the period, and again demonstrated a solid balance sheet to support our international and domestic credit ratings.

Our transformation into a world-class global gas company has begun. The first half of 2018 represented a pivotal move for NOVATEK into the global gas arena as we demonstrated the operational and commercial success of Yamal LNG's train #1 as well as our ability to bring to market a large-scale LNG project on time and on budget.

With the imminent launch of LNG train #2 forthcoming in early August, we once again have demonstrated our capabilities to bring forth a major phase of a very complex project ahead of schedule. This fact is unprecedented in today's environment of project delays and massive cost overruns that has characterized many of the LNG projects from our global competitors.

Furthermore, we again reconfirm to our shareholders that LNG train #3 is on schedule for launch in early 2019, a time window which we will narrow down over the next several months. There should be no more doubters, skeptics or critics as we exceeded all expectations and have overcome all obstacles and challenges, but we understand that there will remain those who will continue to scrutinize and criticize each and every one of our moves.

Our next LNG project, Arctic LNG 2, will also be a global LNG game-changer. We are in the process of developing a new technological LNG platform based on gravity-based structures that will reduce liquefaction cost per ton of LNG produced and unlock our massive low-cost, long-life resource base on the Yamal and Gydan peninsulas. The geographical zone where we -- where our LNG platform will emerge is endowed with an enormous resource potential that is cost-effective to exploit and provides the long-life natural gas feedstock necessary to build scalable LNG projects to meet growing LNG demand. This fact, combined with our ability to monetize the liquid component of our wet gas reserves, represents a massive competitive advantage to us vis-à-vis our global competitors.

As mentioned earlier today and in Mr. Mikhelson's interview yesterday, we are about to commence exploratory drilling at the North-Obskiy license area, representing one of the next potential LNG projects to emerge from our asset portfolio alongside the Gydansky license area and the Shtromovoye field. Our strategic target is to produce between 55 million to 60 million tons of LNG by 2030, as outlined on our Corporate Strategy Day in December.

Our asset based, combined with Gazprom's assets and nonallocated license areas on the Yamal and Gydan peninsulas, allows for the production of approximately 130 million tons to 140 million tons of LNG, or about 1.5x the LNG volume produced by Qatar. This makes the Arctic region of Russia generally, and NOVATEK specifically, a serious contender in the global LNG arena.

The cost competitiveness of our LNG platform will attract potential partners to our future projects as they realize the enormity of our resource base, the commerciality of our GBS platforms and the optionally to deliver LNG to both the Atlantic and Pacific basins.

Besides LNG news, we have offset some of the declining productions at our more mature fields with the recent acquisitions and the ongoing remedial work activities we implemented. The North-Russkoye and the East-Tazovskoye license areas represent the next wave of domestic development activities for the company, and accordingly, receive the largest share of development drilling funding. We expect the commencement of the initial phase of natural gas production from the North-Russkoye cluster in 2019, with full-scale ramp up by the cluster around 2021. We are absolutely confident that we will have sufficient gas production to our subsidiaries and joint ventures to meet our contractual obligations as well as produce sufficient quantities of gas condensate to fully load our processing facilities at Purovsky and Ust-Luga.

Our liquid business remains a significant contributor of operating cash flows and bottom line profitability. We also believe the current discussions on changing the tax regime for oil and gas producers will not negatively impact our business.

There has been substantial negative global news post the Helsinki Summit between President Trump and President Putin despite the positive statements made by the respective Presidents on improving relationships between Russia and the United States. We have said many times in the past that we are not interested in dealing with geopolitics, but rather focus on what we do best, and that is delivering cost-competitive, clean-burning natural gas consuming markets.

Our prior focus was mainly on the Russian domestic market, but now we have a broader agenda of delivering the most competitively priced LNG to key consuming importing nations. Our Yamal LNG project began this process, and we have successfully begun marketing LNG through our wholly owned trading entities.

But the Yamal LNG project is only the beginning, our next step is Arctic LNG 2. With the recent announcement by Total to acquire a 10% stake in this key project, we have established a credible market valuation for our project, which is commensurate to other global LNG projects. Ironically, it is somewhat surprising to read that many analysts questioned the validity of this valuation, yet at the same time, they see nothing unusual about the high market valuations paid to enter the Mozambique LNG project or similarly related non-Russian projects. We have changed this calculus and now have established the threshold for potential partners to enter this important project as well as our future LNG projects. We will not sell our valuable energy projects at ridiculously low Russian market valuations. We have earned the right to stand alongside our global oil and gas peers, and the value we receive for our LNG projects will be commensurate with the projects' economics, not some arbitrary country risk discount.

We mentioned on our last earnings conference call that the global markets welcome the emergence of multiple sources of supplies as a means of ensuring security of supplies for many years to come. Our core hydrocarbon asset base in the Yamal and Gydan peninsulas provides affordable, secure and sustainable supplies of natural gas to meet the growing future gas needs of consuming nations.

The recent announcements by the global super majors to focus on their natural gas assets, particularly in the form of LNG, confirms our belief that the market is growing at a much more robust rate than originally forecasted and will be revised upwards. The cornerstone of our LNG success will depend on delivering affordable energy to key consuming markets, on developing our long-life resource base to bring security of supplies to those markets and our ability to help consuming nations transition from coal to clean-burning natural gas to facilitate climate change initiatives and sustainability agendas. Our LNG asset portfolio sufficiently addresses these 3 core themes in the affirmative.



It's ironic that all the positive new flows emanating from our company, the successful launch and ramp-up LNG train #1, the imminent early launch of LNG train #2, the reconfirmation of our commitment to launch LNG train #3 in early 2019, the strong macroenvironment, our consistently strong financial and operational results and the early sales of a 10% stake in Arctic LNG 2 project at an attractive valuation, and now Mr. Mikhelson's positive comments in yesterday's interview that our share price is still highly volatile based on speculative comments in the market and rumors. NOVATEK continues to represent one of the most compelling and unique investment cases in the global oil and gas industry with limited value-accretive investment options. When you compare our investment case as a growth story with strong free cash flow generation and a value-accretive asset portfolio second to none, you truly understand our ability to massively unlock valuation upside to create sustainable shareholder value. We are a great success under any objective criteria.

Ladies and gentlemen, dear shareholders, we would like to thank everyone for attending tonight's conference call and your continued support for NOVATEK. We would encourage you to read Mr. Mikhelson's extensive interview in yesterday's edition of Kommersant as it covers a substantial range of topics that are extremely relevant to our business and investment case.

Thank you very much. We will now open tonight's call to questions-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Ron Smith from Citi.

Ronald Paul Smith - Citigroup Inc, Research Division - Director and Senior Russian Oil and Gas Analyst

I got a few questions. I'll ask a couple, and we can circle back around later potentially. On LNG, did I read correctly in the interview with Mr. Mikhelson that you're looking at potentially doing year-round deliveries via the Northern Route in addition to potentially speeding up the speed of the tankers. That's one. Second, on train 4, you've mentioned that you're looking to get -- have quite competitive unit costs. Do you have a number for that? I mean, it'll be a lot -- is it \$1,000, \$700, something in between in terms of dollars per ton?

Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

So on the answer to your first question, as Mr. Mikhelson discussed yesterday, honestly, it's important for us to work with Atomflot, Gazprom Flot, et cetera, Sovcomflot, to try to see if we can use the Northern Sea Route for a full year. If you look at the way the model is built today, we -- and we roughly use about 5 to 7 month of a year on the Northern Sea Route, and it depends on, obviously, the weather and our ability to enter just as we -- just now -- just recently. Longer-term, we would like to move that up to 9 and, eventually, up to 12 month. But that requires other people, such as nuclear icebreakers, et cetera, the leader icebreaker, et cetera, to come into commission. But that's the end game is essentially to come in and eventually be able to utilize the Northern Ship Route (sic) [Northern Sea Route] on a full year basis. And this -- that alone -- that question alone will, obviously, make it much more competitive to be able to deliver all these volumes to the Asian Pacific market. Because if you look forward, I think the projection on Arctic LNG 2 is to basically go in -- to have about the majority -- I think greater than 80% of the volume is earmarked future to the Asian Pacific market, and that's really where we see the demand.

So our ability to utilize the Northern Sea Route on 12 months will actually facilitate this process and also help with the overall cost. Because if you look at the days, et cetera, to what we do, I think in our strategy presentation, we said it was about an \$0.80 per MMBtu difference by going through the Suez Canal and Strait of Malacca versus going directly across the Northern Sea Route. So I think this is an important development. But it's, obviously, not in our control at this particular point in time.



The second question, when you talk about train #4, as we showed in the strategy presentation, we were looking at roughly about \$350 million, \$450 million per ton of LNG capacity added. So when we combine that into the total project, it looks like we're -- we can probably reduce the cost by about 3% to 4% of the -- of all LNG for your modeling, just about 3% to 4%.

Ronald Paul Smith - *Citigroup Inc, Research Division - Director and Senior Russian Oil and Gas Analyst*

Okay. But it's \$300 million to \$400 million for the small train #4 as I understand that.

Mark Anthony Gyetvay - *PAO NOVATEK - Deputy Chairman of the Management Board & CFO*

\$350 million to \$450 million is the target we're shooting for, and that's -- and there's a slide on our strategy presentation that shows that mission into at the Arctic Cascades line.

Operator

Our next question today comes from (inaudible) from -- Smith from Bank of America.

Unidentified Analyst

I have a couple of questions. The first one is related to the earlier comment by Mr. Mikhelson that cash flow from Yamal LNG will start already in 2019. Does it mean that Yamal may start paying dividends to shareholders along with repayment of shareholder loans? And if yes, what's the expected split? And generally, how Yamal will use additional cash flow from an early start-up of the second and third trains? Is it possible that the project will not draw its external credit lines in full? And my second question is on dividends. At this point of time, do you have an understanding by how much you will be able to increase dividends? Is it 5% increase, similar to your previous amendments to the dividend policy? Or we may see a 10%, 20% rise in line with the industry trend?

Mark Anthony Gyetvay - *PAO NOVATEK - Deputy Chairman of the Management Board & CFO*

On your first question, you had two parts. I didn't quite get the second part of your question. Could you repeat that? I know you talked about the cash flow and the third part. What was the second part of your question again, please?

Unidentified Analyst

Yes, the second part is, is it possible that -- I mean, do you plan to draw your external credit lines in full? Or it's possible that some of your initial investments, for example, train 4 will be financed from your own funds, given early start-up of first and second trains?

Mark Anthony Gyetvay - *PAO NOVATEK - Deputy Chairman of the Management Board & CFO*

Okay. It's -- as to the first part of your question, the cash flow, I would say that it's probably a little premature at this point to discuss the cash flow. I mean, obviously, we should start receiving interest payments back, et cetera, off of Yamal LNG for repayment of debt that starts in 2019. But I think that we need to see the timing of each of these trains before we can make the assessment. So I think it's better -- let's wait a little bit for the answer to your first question on expected cash flow.

The second part is, which I think if we do anything on finance and related, I think we may not -- we would probably look at the most expensive finance in set portion of it, and that's the financing coming from China, and we probably will not need it. And we probably will not draw down on that particular financing part.

On the other question, again, if one of these -- it's hard to say exactly what the dividends will change. Let me just go back because I think it's going to be an important question for everybody to know because Mr. Mikhelson talked about dividends, and I think this has been an interesting topic for many people over this past year. Some of the companies decided to raise their dividend payouts or dividend policy to 50%, et cetera. So let's just take it from our perspective, okay? Most importantly for us, we need to see the full ramp up of Yamal LNG, all the trains in 2019, including we need to see a confirmation of the operations, the complete operations across the full value chain, shipment, logistics, et ceteras. That needs to be confirmed, right? Then we need to look at -- on top of that, we then need to look at taking the FID decision on Arctic LNG 2, which we expect in -- sometime in the second half of 2019. And maybe by -- from the end of 2019, we will be in a better position to make a decision on increasing our dividend, right?

So there's factors that need to be taken into consideration first before we make that decision, and it largely relates to make sure -- we want to be absolutely certain that the full ramp up of Yamal LNG, the logistical models, all that's confirmed across the whole value chain, as well as our ability to sell the interest in the Arctic LNG 2 projects as well as making the FID decision. And then at that time, we'll consider probably towards the latter part of 2019 or sometime in early 2020, okay? That's one part of the answer I'd like to give, right?

The second part of the answer is, our dividend policy, as it's written today, says that we can issue dividends at least 30% of our adjusted net profit. And I want to make that absolutely clear. It doesn't say at most, which restricts our dividend to only 30%, it says at least 30%. So it's not a question of do we have to change the policy per se, it's more of a question that when we make this decision based on these factors around Yamal LNG and its -- and the review of the whole value chain and the Arctic LNG 2 FID decisions, et cetera. We have the capability through the policy, as it's written, to raise payout, and that is our intention. We never had the intention of building up this big cash war chest on our balance sheet. But the idea is, let us finish these steps that are actually critical to the future development, and these projects are also critical for us to generate all this cash flow, so we need to finish that first. And then only at that point in time, then we can make this decision. But I don't want to speculate it's going to be 5% or 10% or something else. I think that's kind of foolish to even think about that because the policy, as written, gives us the flexibility to raise the payout above 30%. If you'd say at most 30%, which limited that 30%, then I think you have a valid argument to talk about this. Then I think it's -- then it would be upon ourselves to change the policy to increase the actual dividend. But we're already pretty set at, at least 30%. So I think right now, let us finish this. The goal of the group is to increase our -- eventually increase our dividend payout. And let us finish this stuff by the end of 2019, we'll be in a better position to make that decision. And at that point in time, obviously, we'll let everybody know.

We know it's an important element of total shareholder returns. We know that the -- in Russian market, the analysts have been promoting the idea of increased dividend payouts. We can see it. We talk to investors all the time. We read all the analyst reports, talking about dividend payments, and we know it's important. And we will address this question after these events have been settled for us because those are what we could call critical events to ensure that we have enough cash generating to make this commitment. I hope -- I mean, it's a longer answer, but I hope you all understand tonight that there's these issues that we need to address. And I think we will not be in a position until the latter part of 2019 to make that decision on the dividend payouts.

Operator

We will now go to our next question from Nikita Blokhin from JPMorgan.

Nikita Blokhin - JP Morgan Chase & Co, Research Division - Analyst

My question refers to the sale of 10% stake in Arctic LNG 2 to Total. The project was valued at \$25.5 billion. So the 10% stake should be worth \$2.55 billion, respectively. My question is, will this amount be paid in cash in one go, or over a period of time? If you could kindly collaborate on that, we would be grateful.



Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

Well, first of all, I'm -- we're appreciative that you acknowledge the valuation and what it represents for the 10%. But quite frankly, we don't disclose the confidential nature of these transactions. And so you'll see it when it's finally reported into the financial statements. But we're not going to disclose the terms until this transaction is formally closed by the 31st of March, 2019.

Operator

Our next question comes from Henri Patricot from UBS.

Henri Jerome Dieudonne Marie Patricot - UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst

I have a question on the liquids business. And I was wondering if you can give us an update on the progress of the upgrade project, that'd be (inaudible). And what are your latest expectations in terms of the potential margin and return for this project?

Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

We're -- I mean, we are at the contracting stage right now. So that's why -- that's all I can really provide at this point or I would've addressed it, Henri, tonight on the call with a little more detail, right? I think we'll address that question a little later in the year. But presently, right now, we're in the contracting stage. So I think it's best to wait, and then we'll get back on that question.

Henri Jerome Dieudonne Marie Patricot - UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst

Okay. Any indication perhaps on the likely start-up date, best estimate?

Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

Sometime in 2019 I think. It was scheduled towards the fourth quarter, roughly, in 2019, I think as we predicted it. But we'll provide more information on this at a later date because we know -- let us finish the contracting stage. Get it in. Start the construction phase. Once the construction phase begins, then we can get a better assessment on the status. And we'll report that, as we do everything else, and give you an update when the actual launch is expected.

Operator

We have a question now from Igor Kuzmin from Morgan Stanley.

Igor Kuzmin - Morgan Stanley, Research Division - Equity Analyst

I have a couple of questions here for you. One is in regards to the Arctic LNG 2. So probably, you have started already engaging into the discussions of the potential contracts with the offtakers or interested parties of the volumes that potentially come from that project. If possible, is there -- maybe can you comment on what sort of contractual terms that the offtakers are looking for? Are we talking about -- what I'm particularly referring to is the length of each of the contracts, just trying to understand whether we are talking, again, about 15-, 20-year contracts? Or the longevity is now more like 5 to 10? Or it's too early to talk about it? And the second question I've got is more on Yamal LNG. So prices that -- or the formulas that have been used to sort of sell the volumes from Yamal LNG, I'm assuming there is some sort of formula behind it. And if it's, for example, an S-curve or some other mechanism, is that fair to say that there is still upside left at the current level of oil prices. And let's assume if oil price is going higher, is there some upside still left, for example, it's an S-curve? Or there is a bit of a full-stop level. So just to understand the sensitivity of the pricing of Yamal LNG contracts in the current oil price environment.



Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

Igor, how do I address the first -- I think it's -- on the first question, we know that the industry is changing in terms of its contractual relationships. But that the same time, we also seeing other LNG producers execute long-term contracts. So we're kind of in this mixed bag of a situation where we know that given some of the major consuming nations, some of the buyers, some of the portfolio buyers want to see more flexibility in terms of tenure, destination, pricing, et cetera, volumes, the quantity. It's really too early to discuss this. I mean, it's really, really too early to discuss this at this point in time. Because as I mentioned, we know, directionally, where people are talking that the market is moving, but just recently, we're seeing China sign 20-, 25-year contracts, which contradicts the trend. Whether or not that's as symbolic of the fact that there's strong demand at this particular point in time, they want to lock up contracts. But we see whether some of the Mozambique or the projects that are out there, I mean, people are tendent to look at maybe the 15-year tenure. And then the other question is, we don't know at that particular point in time when Yamal -- when Arctic LNG is finally up and running, what the level of spot trading will be, et cetera. So at this junction right now, if we get -- if we had that announcement, we'll make that announcement, like we did on Yamal that we have contracts, et cetera. So I think right -- at this point, it's too early to discuss.

Your second question, again, is also what is -- where we have commercials and confidential agreements with our off takers. I mean, it's we've already disclosed prior discussions that, yes, we have -- in Asia basis, which is basically JCC Index. And we know we have a European market, which is Brent indexed and northern border price, et cetera, and then we have spot sales. And so it's a combination. So again, I mean -- and then you know we have an S curve because that's the index part. And we've already indicated that the S-curve implies a floor and a ceiling, projecting the seller on the floor and the buyer on the ceiling. And so -- but this -- these are things we just don't disclose. Nobody discloses it in any particular detail. And so I understand that it's of interest to you to understand that, but these are all confidential commercial trading secrets and stuff, and we just don't disclose that, I'm sorry.

Operator

(Operator Instructions) We will take our next question today from Ron Smith from Citi.

Ronald Paul Smith - Citigroup Inc, Research Division - Director and Senior Russian Oil and Gas Analyst

One last quick question. On train 3 from Yamal LNG, at one point, you seem to indicate that it could be launched as early as January or even December of this year. Is that still potentially possible? It seemed on the call you were really talking more again about first quarter of next year.

Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

No, I think I said as we reconfirm that it could be end of year or the first quarter. Or actually -- I actually, to be honest, I said early 2019. So I guess it's almost probably the same way when people interpret what does it mean by imminent, but early 2019, could be January. But I think -- again, on this particular point on -- we'll let people know, the investors know through the conference call what the progress is as we go at least to our next conference call, okay?

But I think the most important thing is the signal that we've been able to not only increase it from the original term, but we're able to subsequently expedite the launch of these, even from our revised schedules, and this is completely unheard of. And I hope that everybody listening on the call tonight understands the magnitude of that accomplishment. Because to be able to deliver this not only on time was a challenge for most people, but to expedite -- to say you can expedite and then able to deliver them even quicker is an enormous accomplishment to NOVATEK and our partners. And I just hope everybody on this conference call understands that.

Operator

Thank you. As we have no further questions at this time, I'd like to turn the conference back over to you, Mr. Mark Gyetvay, for any additional or closing remarks.

Mark Anthony Gyetvay - PAO NOVATEK - Deputy Chairman of the Management Board & CFO

First, I'd just like to apologize for the slip-up early on with the mixed page. Again, I -- it's the first time that's happened, and I apologize for the confusion on that. But I think more importantly, I think the upcoming summer months in the remainder of the summer, going in to the third quarter, there's a lot of activity coming out of NOVATEK. We've been extremely busy. I think Mr. Mikhelson's interview yesterday with Kommersant was pretty instructive about what the level of activities we're dealing with today across a whole spectrum of questions. And so I think it's -- you'll hear a little bit more about those as they begin to materialize, and we can discuss them in a little more detail. And I also think it's important to say that Artic LNG 2, as I mentioned, is a game-changer. And we believe that this will establish a completely new benchmark of projects in the Yamal/Gydan peninsula that will undoubtedly unlock massive economic value to NOVATEK and our shareholders. So I think it's important that we focus on this. And we'll be absolutely advising everybody of the status of this project as well as the status of any of the additional partner selections.

So I wish everybody a good remainder of the summer months, wherever you are on your holidays, and we look forward to addressing everyone again in October, towards the end of October for the 9 months third quarter results. Again, thank you very much for attending tonight's call.

Operator

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

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