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NVTK.MZ - Q1 2019 Novatek PAO Earnings Call (IFRS)

EVENT DATE/TIME: APRIL 26, 2019 / 1:00PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Alex Robert John Comer *JP Morgan Chase & Co, Research Division - Research Analyst*

Alexander Burgansky *Renaissance Capital, Research Division - MD and Head of Oil & Gas Research*

Anna Kotelnikova *Sberbank CIB Investment Research - Junior Analyst*

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

Igor Kuzmin *Morgan Stanley, Research Division - Equity Analyst*

Ildar Khaziev *HSBC, Research Division - Analyst*

Karen Kostanian *BofA Merrill Lynch, Research Division - Head of EEMEA Energy Research & Head of the Russian Research Department*

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

Thomas Yoichi Adolff *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

PRESENTATION

Operator

Good day, and welcome to the NOVATEK First Quarter 2019 Financial Results Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mark Gyetvay. Please go ahead.

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

Thank you. Ladies and gentlemen, shareholders and colleagues, good evening and welcome to our first quarter 2019 earnings conference call. We'd like to thank everyone for taking their valuable time to join us this evening on tonight's conference call.

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 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 2018 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.

NOVATEK made tremendous progress over the past year, establishing us as a leading provider of competitively priced natural gas to the global markets. We successfully transitioned our core domestic business with a complementary LNG platform with the timely launches of all 3 LNG trains at Yamal LNG, thus accomplishing our strategic goal to be recognized as a major global gas player.

LNG produced from our flagship Yamal LNG project contribute meaningly to global LNG supplies and demonstrated, without question, that logistically, our Arctic LNG platform can deliver natural gas to both the Atlantic and Pacific markets. In our first year of operations, we accounted for approximately 17% of LNG entering the U.K. markets according to U.K. governmental statistics, a phenomenal achievement for our project start.

We are fulfilling our responsibilities to deliver clean-burning natural gas to the domestic and international markets. However, the first quarter clearly demonstrated the numerous uncertainties and volatilities of the global energy markets. Natural gas and crude oil prices were both negatively impacted as economics, slowdowns, trade wars, weaker seasonal demand and intensifying competition to export markets all contributed to commodity price weakness during the reporting period. However, this underlying commodity price weakness serves as a double-edged sword. On one edge of the sword, we may see a weaker reporting season for most oil and gas producers, largely driven by lower commodity prices. But on the other hand, and from our perspective, more important, we should view the present weakness in global LNG prices as a harbinger to future demand growth in consuming markets. We have seen this situation in the past. This scenario is somewhat akin to commodity price weaknesses in prior periods, whereby demand materialized in new consumer markets and coal switching was notable in key markets that are highly price-sensitive.

One of the core benefits of our low-cost operating platform is our ability to deliver natural gas to all markets profitably. This has been a hallmark of our success for many years and will most certainly define our success in the future. For example, at sub-$5 per MMBtu LNG prices, many of our global competitors are struggling to remain cash flow positive, and this value-destructive trend has prompted a wave of shareholder activism demanding cash returns in the form of dividends and/or share buybacks.

It is also quite interesting to note the current wave of analyst research reports that discuss the competitiveness of U.S. LNG arriving to the European markets at a range between $4.50 and $4.75 per MMBtu. This means the willingness of U.S. LNG exporters to supply LNG to markets as long as they are able to cover their operating costs, defined according to this logic as essentially 115% of Henry Hub plus transport. In my view, this logic is purely a loss-minimization scheme that ignores the cash cost of liquefaction, representing nothing more than an optical illusion. It is very similar to the sunk costs philosophy that was prompted to mask the cost overruns and project delays from some of the Australian LNG projects, representing a logic that is based on generating operating cash flows going forward, never mind the large impairment write-offs. No wonder the oil and gas industry is mirrored in shareholder activism demanding cash returns back from shareholders instead of promoting capital investments and growth.

We have consistently generated positive free cash flows. We have been free cash flow positive every year since 2010. We have also increased our absolute dividend payments as just announced at this week's AGM and periodically purchased our shares on the open market when warranted. We achieved these positive results by demonstrating capital discipline and investing capital into value-accretive projects like Yamal LNG and the Ust-Luga processing facility, to name a few. We take a long-term view of the gas markets and are confident that the strategic direction we have outlined in our corporate strategy to 2030 of expanding our LNG platform and transforming into a global gas company is correct considering our low-cost, abundant hydrocarbon resource base and successful project execution track record.

We have been asked about the resiliency of our LNG plans considering the current LNG price environment. Our answer is quite simple. We invest capital today to build a world-class LNG platform that spans decades of LNG production. Short-term price volatility, although important, does not guide our longer-term investment horizon. Our operations have historically been one of the lowest-cost producers in the global oil and gas industry and our position on this matter, both domestically and internationally, has been consistent. Low-cost producers will be able to sell their production profitably.

We are firm believers in the long-term story for natural gas and the specific role LNG will play in delivering natural gas to importing nations. We also believe natural gas will be a key contributor to global climate initiatives and underscores our sustainable development principles.

Our first quarter 2019 operation and financial results were relatively strong despite weakening global commodity prices. Brent crude oil averaged $63 per barrel in the first quarter of 2019 versus $67 per barrel in the prior year but experienced an 8% decline from $69 per barrel between the first quarter 2019 and the fourth quarter 2018. Brent crude oil prices have since recovered and are fluctuating between $72 and $74 per barrel post the end of the first quarter. We expect commodity prices to remain volatile for the foreseeable future as we experience short-term demand imbalances, technical corrections as well as increase in geopolitical tensions.

Global demand for LNG during the first quarter remained strong and increased by slightly more than 12% to roughly 90 million tons, led again by the strong growth in Chinese natural gas consumption despite a warmer than usual winter season. China imported roughly 16 million tons during the reporting period, increasing imports year-on-year by approximately 23%. China remains the destination of choice for LNG suppliers. However, weaker seasonal winter demand, coupled with new LNG supplies entering the market led to margin erosions in the Asia-Pacific region and a shift to cargoes sent to the European markets. We expect that the current low LNG price will persist throughout the upcoming summer season, potentially limiting spot price increases in the third and fourth quarter of 2019. Currently, there are high natural gas inventory levels in both Europe and Asia, and this situation combined with new project commissions expected to come online during the year could further exasperate the current spot weaknesses in the market.

The biggest corporate news in the first quarter was the closing of the 10% participation interest in Arctic LNG sold to a wholly owned subsidiary of Total S.A. The transaction, as disclosed, was consistent with the $25 billion valuation as originally announced. So hopefully, it dispels all of the analysts who constantly questioned our valuation. We understand that you may have your own views on this valuation, but what is reported on our financial statements is a valuation agreed by the respective parties. All transactions related to Arctic LNG 2 will be based off of this initial transaction.

So disclosed yesterday, CNOCC (sic) [CNOOC] and CNODC, a wholly owned subsidiary of CNPC have each purchased a 10% participation interest in Arctic LNG 2 on terms and conditions consistent with the transaction with Total. We hope this statement is absolutely clear tonight to everyone. We expect the remaining 10% participation interest will be concluded in the near term consistent with our expectations to announce our final investment decision in the early part of the second half of 2019. This represents fantastic news for us and further demonstrates the unlocking of additional economic value to our shareholders. Equally important, we have tremendous hidden value on our balance sheet with our LNG platform that we will eventually unlock with LNG projects beyond Arctic LNG 2.

We recently announced some offtake deals at the LNG2019 event in Shanghai from our LNG portfolio, including future LNG output from the Arctic LNG 2 project. Each deal represents offtake volumes of 1 million tons of LNG for a term of 15 years with pricing based on benchmark references. Consistent with our commercial policy, we do not disclose the specific terms of these offtake arrangements, but they represent some of the premarketing success NOVATEK achieved for the Arctic LNG 2 project as well as the market's confidence in our ability to deliver cost-competitive LNG from this area. We are confident that the market is willing to secure mid- to long-term contracts as well as spot cargoes from this project and our future LNG projects. We will actively market LNG from the project, including tenders for long-term supplies as well as direct negotiations with potential buyers. And we will announce additional offtakes as is customary with our disclosure policy once they are concluded. It is important to reiterate that we do not need to sell 100% of the LNG output to make our final investment decision.

As of today, we are accelerating our procurement plans for the Arctic LNG 2 project and will shortly award 12 new equipment contracts as well as prepare more than 80 purchases by the end of May 2019. This essentially means that we have contracted more than 75% of the equipment for the project. We will continue with the contracting process over the next several months but all tenders are currently in process. Detailed design of the topside modules and the GBS platform is progressing well, with all contractual terms and work schedules compliant with our towing objectives for GBS #1 in the summer of 2022.

We are still within the capital cost range of $20 billion to $21 billion for the 19.8 million tons per annum of LNG produced, and any uncertainties regarding costs are further reduced with the increasing numbers of tenders concluded.

The LNG construction center in Murmansk is also progressing according to construction schedule. The first concrete batch plant is completing its commissioning phase and is already producing concrete. We are completing the installation of equipment on the second concrete batch plant and commissioning works have begun. We expect by the end of June all 4 concrete batch plants will be operational.

The commissioning of the first rebar fabrication line is completed, and we plan to start testing the rebar production. In addition, the backfilling for berth #1, which is the receiving cargoes for GBS construction, is being completed with work underway to build the berth's upper structures. We are presently working on dry dock #1 and plan to commence GBS #1 fabrication in July.

The tenders for fabrication work on LNG plant modules for GBS #1 in Asia are in final rounds and contractual works are expected by the end of the month, maybe early May. Tenders for GBS #2 and #3 to be fabricated at our Murmansk facility have already been launched. Currently, there are approximately 3,000 people working on the site along with 500 construction vehicles.

Arctic LNG 2 attracted strong interest from potential partners. In addition, our premarketing roadshow has yielded good initial results. Our LNG projects from the Yamal and Gydan peninsulas are also attractive to potential partners relative to competing global LNG options. Therefore, we are formulating plans to expedite future LNG projects to increase our LNG output from 57 million tons per annum by 2030 to approximately 70 million tons per annum. We will keep everyone informed once our new strategic plans are finalized.

We also formally commissioned our Cryogas-Vysotsk LNG plant on the 24th of April at a launch ceremony attended by President Putin. Cryogas-Vysotsk, located on the Baltic Sea port of Vysotsk, markets LNG from -- to customers in northwest Europe, Scandinavia and Baltic region as well as provides bunker and fuel to meet the region's requirements. Cryogas-Vysotsk represents a successful -- second successful LNG project launch and reached its full design capacity of 660,000 tons per annum on the 5th of April. We have dispatched 7 tankers, representing approximately 68,000 tons of LNG and 3 trucks to market to the Baltic region since commencement of test production at the facility up to the 16th of April. We have a long-term sales contract for up to 50% of the LNG output to Gasum as well as offtake obligations from our wholly-owned trading subsidiary, NOVATEK Gas and Power Asia. We will pay close attention to the market situation for vessel bunkering and trucks using LNG as a primary fuel and decide on our next steps like potentially expanding the plant's capacity by 1.1 million tons per annum.

Now let's discuss Yamal LNG. Yamal LNG is currently operating at full capacity and is considered an overall great success for NOVATEK and our partners. During the first quarter 2019, Yamal LNG made 61 LNG shipments, representing 4.42 million tons, combined with 14 shipments or more than 319,000 tons of stable gas condensate. As of the 31st of March, the total cumulative number of LNG shipments reached 177 for a total volume of 13 million tons of LNG as well as 44 shipments of stable gas condensate, representing more than 1.036 million tons.

Specifically, NOVATEK sold 34 LNG cargoes in the first quarter 2019, including 6 cargoes under long-term contracts, representing approximately 2.34 million tons of LNG. As comparison, during the fourth quarter, we sold 25 cargoes, including 3 under long-term contract or roughly 1.73 million tons. We managed to increase our LNG volumes sold quarter-on-quarter as we ramped up to full capacity.

In the first quarter 2019, we used the Norwegian ship-to-ship transfers to optimize our transshipments operations near the port of Honningsvag in Northern Norway. Norway transshipments are a temporary solution, but they are actively used throughout the period. We completed 54 ship-to-ship transshipments, 77 since commencement from 3 separate locations. We plan to ultimately move these operations to the Murmansk region. This temporary approach allows us to optimize our transport costs by decreasing the voyage time of the Arc7 ice-class tankers and to ensure the timely and consistent offloading of LNG from Yamal LNG. Our Arc7 plate has not changed since we last reported but another Arc7 tanker has just left South Korea and is heading towards the Sabetta area.

By the end of 2019, we expect to receive the remaining 5 Arc7 ice-class tankers for the full complement of 15 Arc7 ice-class tankers.

At quarter-end, overall construction progress for train #4, using the Arctic Cascade liquefaction technology was about 38% versus 27% at the 31st of December, with approximately 850 people on site. Some of the equipment units have already been installed while other work activities are ongoing, such as the gas treatment unit, gas liquefaction unit and the expansion of the gas-gathering network and inlet facilities, to name a few. About half of the production wells needed for the fourth train launch have already been drilled. We anticipate that LNG train #4 will be ready by the end of 2019 but no later than the first quarter 2020. With the launch of train #4, we will additionally improve the project economics by 3% to 4%.

We increased our exploration activities consistent with our announcements to get our license areas readied for future development. Specifically, we ran 2,676 square kilometers of 3-dimension seismic, representing a more than fivefold increase over the corresponding period, which we plan to process for the upcoming year. Much of this activity is centered in the Yamal and Gydan peninsulas with increased geophysical works to prepare for eventual exploration drilling operations. Notably, during the reporting period, we tested well #1 at the Nyakhartinskoye field where 4 layers were discovered and tested. One gas layer from the Cenomanian dry gas formation and 3 layers from the gas and gas condensation layers from the Valanginian formation. We will drill another exploration well in 2019 at this field and correspondingly, submit reserves appraisal to the state commission, DeGolyer and MacNaughton, as well as begin to prepare a development plan for this field which is in close proximity to our Yurkharovskoye infrastructure.

The Utrenneye field providing feedstock gas to the Arctic LNG project is comprised of 3 domes: northern, central and southern as well as an undiscovered, unexplored section that straddles onshore and into the Ob River. We drilled our first production well in the northern dome with well #1601, which flowed more than 1 million cubic meters of natural gas per day at the target zone for approximately a 30-day test period. This flow rate was higher than initially planned, and we will drill another well, well #1602 in the near term. The production from the first well will be used for energy during the construction period.

We plan to run 3D seismic on the undiscovered portion, both onshore during the winter months and offshore in the summer months, and we will also begin mobilizing drilling rigs for the central dome, the largest of the field's 3 domes.

There are no additional comments regarding our exploration activities for tonight's call, but we will give you more information over the course of the year.

We drilled and completed 27 production wells between our subsidiaries and joint ventures versus 22 production wells in the prior period. At the North-Russkoye field, everything is going according to schedule with our plan to commence initial production by the end of 2019. We already completed 12 out of the 17 production wells needed to reach the field's production plateau, and we are currently constructing the gas separation unit, a gas de-ethanization unit as well as living camps for personnel. In addition, the pipeline links for both natural gas and gas condensate are currently under construction.

Investing capital is an important element to grow our business and sustain our core legacy assets. Historically, we prudently invested capital to grow production, build processing capacity to expand margins and more recently, invest in our transformative LNG platform. The combination of growth and sustainability, from our strategic perspective was clearly outlined in our corporate strategy to 2030. But things do not remain static, and we will access market opportunities as they arise or tweak the nature and scope of our capital spending when warranted.

We spent RUB 43 billion in cash on our capital program, representing an increase of RUB 33 billion or 337% over the prior quarter. The significant increase year-on-year was again primarily confined to 3 main projects: Arctic LNG 2, the LNG construction yard in Murmansk and the North-Russkoye license area. These 3 projects in aggregate accounted for RUB 32 billion or 74% of our capital expenditures in the current reporting period. We also increased capital spending across our whole project portfolio such as East-Tarkosalinskoye oil program, development drilling at the Beregovoye field, the Ust-Luga hydrocracker upgrade, and our new office complex in Moscow and Novy Urengoy to highlight just a few. We spent roughly RUB 39 billion in the fourth quarter 2018 or roughly 11% higher quarter-on-quarter.

As noted on our recent full year conference call, we expect our capital program in 2019 to remain higher than historical levels as we expedite works at our LNG construction yard in Murmansk and continue spending capital on Arctic LNG 2 in the North-Russkoye cluster amongst other development projects. Our capital expenditure program for 2019 is projected to reach approximately RUB 185 billion or a twofold increase year-on-year. There are no revisions on this estimate as of tonight's call.

We have consistently delivered good financial and operational results, and the first quarter 2019 was no exception despite a volatile market macro environment. Relatively speaking, our financial and operational results were quite strong for the quarter as expected, aided by increasing sales volumes, including LNG sales from Yamal LNG and stable gas condensate refined products. Our total oil and gas revenues were approximately RUB 231 billion or 30% higher than the first quarter 2018. Natural gas represented 54% of our total oil and gas revenues, whereas liquids accounted for the remaining 46%, and these percentages were roughly equivalent quarter-on-quarter.

We produced 147 million barrels of oil equivalent in the first quarter 2019 or approximately 1.63 million barrels of oil equivalent per day. This represented a daily production increase of 11% year-on-year and 2.5% quarter-on-quarter. Our quarter-on-quarter oil and gas revenues decreased by 1.4% primarily through a combination of weaker spot prices for LNG as well as some of our liquid products like stable gas condensate and LPG. Higher volumes sold in the period offset some of the weaker liquid contractual sales prices.

Our international LNG sales revenues increased year-on-year by RUB 36 billion or 231%, largely attributable to an increase in volume sold by 2.5 billion cubic meters with the launch of Yamal LNG's train #2 and #3, which was slightly offset by a 7.5% decrease in the average realized prices in Russian ruble terms.

Domestically, our natural gas sales volumes decreased by 532 million cubic meters or by about 3%, which were offset by a 3.7% increase in our average price per mcm. We sold 96% of our domestic gas to end consumers and 4% to ex-field traders. We sold 18.8 billion cubic meters of natural gas on the Russian domestic market and 3.4 billion cubic meters in equivalent LNG sales during the first quarter of 2019, accounting for a year-on-year increase of 1.9 billion cubic meters or 9.5%. Our combined average natural gas price was RUB 5,631 per mcm, which increased by about 29%, reflecting a higher mix of LNG sales in our gas portfolio.

Natural gas netbacks, both domestic and internationally, increased by 46% year-on-year but declined 7% quarter-on-quarter. The decrease in the quarter-on-quarter netbacks was mainly due to decline in spot LNG prices between periods as we sold approximately 28 cargoes on the spot sales from early start-up volumes. LNG sales accounted for roughly 15% of our natural gas sales volumes during the current quarter and represented 41% of our total combined revenues.

Our percentage of LNG sales to total gas sold was consistent quarter-on-quarter, although the equivalent volumes sold was 794 billion cubic meters higher, but our average price per mcm sold was 27% lower, reflecting weaker LNG spot prices between the fourth quarter 2018 and the first quarter 2019. We are now selling more contractual volumes from LNG trains #1 and #2 and expect that all 3 LNG trains will be selling contract volumes linked to benchmark oil prices by early 2020.

We withdrew natural gas in storage by approximately 1.4 billion cubic meters versus 954 million cubic meters in the prior year and 154 million cubic meters in the fourth quarter. We now have approximately 813 million cubic meters of natural gas in underground storage or LNG tankers in transit at the end of the reporting period versus 2.3 billion cubic meters at year-end.

We sold slightly less than 4 million tons of liquids in the reporting period, representing an increase of 5.3% year-on-year and 3.6% quarter-on-quarter. We exported approximately 59% of our total liquid volumes, which is higher year-on-year by over 4% and quarter-on-quarter by 2%. Our average prices received were generally mixed throughout our whole product range due to weakening underlying contract prices but were positively impacted by reductions in export duties.

Our operating expenses increased by 34% as compared to prior year period, which were largely attributable to the significant increases in hydrocarbon purchases. Purchases accounted for approximately 75% of the comparative increase and were largely driven by purchase of both LNG and gas condensate, reflecting a higher unit cost paid to our joint ventures for these products as well as increased volumes. We purchased hydrocarbons primarily from our joint ventures rather than third parties.

Purchases increased substantially over the past several quarters with the successful launch of Yamal LNG and our ability to purchase LNG at our equity position during the ramp-up phase and before the start of contractual volumes.

Our balance sheet and liquidity position remained extremely strong. We generate robust operating cash flows to fund our business operations, internally finance our capital program and service all our liabilities and debt obligations as they become due. During the first quarter 2019, we generated positive free cash flows of RUB 19 billion, which was 50% lower than the prior period but reflects a significantly higher capital spent in the current reporting period as we invested capital into our future LNG platform, prepare the next large domestic oil and gas condensate field as well as ongoing development and exploration projects.

We achieved a normalized EBITDA of RUB 118 billion, which were 55% higher than the prior period and slightly more than 1% lower relative to the fourth quarter of 2018. Our operating cash flows exceeded our cash used to finance capital expenditures by 1.5x, despite the fact that we significantly increased our cash spent on our capital program year-on-year by 337%. We improved all of our credit metrics during the period and again, demonstrated a solid balance sheet to easily support our international and domestic credit ratings. Our net debt to normalized EBITDA stood at 0.24x.

In conclusion, our financial and operational results were very good in the first quarter 2019. Yamal LNG represented our pivotal move into the international gas markets, and the impact on our results is positive. We are now positioned to move forward with our Arctic LNG 2. It is important that we don't rest on our past successes. We must also look beyond Arctic LNG 2 and begin prepping a series of value-accretive LNG projects that comprise our current asset portfolio. Arctic LNG 2 is just one in a series of future LNG projects that we will introduce in the upcoming years, as outlined in our corporate strategy. This week's successful launch of Cryogas-Vysotsk represents our belief that the bunkering market for LNG will be strong in the Baltic Sea region as well as our commitment to supply LNG to our future transshipment terminal at the Port of Rostock in Germany.

Transport fuels are transitioning towards cleaner burning natural gas, and we believe we can capture a niche market in this particular area. We are growing LNG ambitions. NOVATEK will emerge as a portfolio player, and as such, we are developing our plans to penetrate the whole natural gas value chain and market LNG to the fast-growing Asian-Pacific region. We will develop the necessary infrastructure and core capabilities to achieve these marketing and commercial objectives.

We are closer to beginning our next large-scale LNG project Arctic LNG 2. Our transaction with Total established a crucial benchmark for this project, and now we have executed binding agreements with CNOOC and CNODC to each purchase a 10% participation interest in Arctic LNG at a market valuation consistent with the Total transaction. This was a very eventful week for the company.

We have reiterated many times that the interest in Arctic LNG 2 as well as our broader LNG platform on the Yamal and Gydan peninsulas is very attractive to potential investors as our ability to deliver cost-competitive LNG to all major consumer nations is without doubt. Our actual results prove that we are one of the lowest cost LNG providers in the market today, generating positive margins and free cash flows even at today's lower spot prices. Many of the current LNG projects today or those still on the drawing board can't make that affirmative statement at current prices. We can.

A sustained period of lower LNG prices creates market demand, and we are optimistic that future LNG demand will be stronger than current estimates. As noted in our annual financial results, NOVATEK has one of the lowest lifting cost in the global oil and gas industry. Thanks to some of the new technology that will be deployed at Arctic LNG 2, we believe we will achieve some of the lowest liquefaction costs in the industry. Moreover, optimizing our logistical model with the proposed transshipment terminals in Murmansk and Kamchatka will further decrease our transport costs to key importing nations.

NOVATEK remains competitive in the Asian, Latin American and the European markets. Low LNG prices will stimulate LNG demand. It is already evident in the energy strategies of many countries. They are switching their energy mix to clean-burning natural gas. LNG prices will eventually rebound, but we do not believe LNG prices will revert back to the $15 per MMBtu levels as previously seen. This means future LNG projects must be cost-competitive to achieve sufficient profitability to justify investment decisions.

Arctic LNG 2 will be an industry game-changer. Our strategic vision is to be a leader in the global LNG markets, not a follower. We have an enormous opportunity with our large, low-cost conventional hydrocarbon resource base to redefine the global LNG landscape and establish the Russian Arctic zone as one of the main LNG-producing centers. The Yamal and Gydan peninsulas hydrocarbon resources have the potential to produce up to 140 million tons per annum of LNG. We outlined our strategy of reaching 57 million tons per annum by 2030, but this was based on conservative estimates of future gas demand and our role within the global gas market. We will revise our goal to reach 70 million tons per annum by 2030 in the near future, and this underscores the transformation of NOVATEK into one of the largest natural gas companies in the world.

Ladies and gentlemen, dear shareholders, we would like to thank everyone for attending tonight's conference call and for your continued support of NOVATEK. Last year was an exciting year in our corporate history, especially with the full launch of Yamal LNG. We had a very successful year in terms of total shareholder returns. Our total shareholder return in 2018 was 45% in U.S. dollar terms and represented the highest total shareholder returns amongst our global oil and gas peers. 2019 will be another exciting year as we launch our first new major gas field in quite some time, the North Russkoye field and begin construction of the first GBS unit at Arctic LNG 2.

We stated before that many key events will converge in 2019 that will unlock shareholder value. We are closer to finalizing the shareholder structure of Arctic LNG 2, and this week's announcements were very important steps in that direction.

Thank you. I'm ready for your questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Karen Kostanian from Bank of America.

Karen Kostanian - *BofA Merrill Lynch, Research Division - Head of EEMEA Energy Research & Head of the Russian Research Department*

Thank you very much for the presentation, and congratulations on all the exciting news that you guys got this week. I have 2 questions. My first question will be when do you expect that the closing of the transaction with CNPC and CNOOC approximately? And whether bringing forward of these closings will actually revise the time line for your FID? That's my first question. And my second question, regarding the new 70 million tons, when do we expect the plans for these new LNG projects to be disclosed to the market or at least go to on a drawing board?

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

Thank you, Karen. On your first question, we expect to close within 2 months, possibly maximum 3 months as we stated yesterday. Will this revise the FID decision? I don't believe so. I think it will be taken in the first half or the second half of the year as we originally noted. So I don't think we'll see any revisions on that. In terms of coming out with the updated strategy, we're presently working on that. And we'll let everybody know as soon as we have a date. I suspect that it'll be some time, probably second half of next year. Not in 2019, but more likely second half of 2020. Thank you.

Operator

The next question comes from Thomas Adolff from Crédit Suisse.

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

Just 3 questions from me, please. Just in regards to the future projects, the third and the fourth. Do you plan to have a similar structure in place whereby you sell about 40% of the project? And do the agreements with the Chinese you signed yesterday also include an option for the Chinese to buy into these future projects similar to the deal signed with Total? And secondly, I may have missed your comments earlier on but I wondered whether you can confirm that the Chinese deal you signed were on similar terms as the Total deal? And if so, I wonder why, considering the project have been somewhat more derisked since Total's deal was announced first in May 2018. And then I guess, finally, if you don't mind, just on the third project, because you've talked about we have to look beyond Arctic LNG 2 now. Can you perhaps share some initial thoughts on potential time line of FID and start-up of the project?

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

Okay. Thomas, on your first question, the structures on future projects, I would say right now they're probably going to be similar, but I would not hold us to that. I think the 60-40 structure is actually quite ideal for us at this particular point in time. But I would not say that that's holding in concrete stone or something. We may change that as time moves on. Your second question, yes, I can confirm that the terms are consistent and similar with Total. And we felt that at that particular time that CNPC was a partner with us in Yamal LNG. And we said before that. They represent a big market. And we have no plans on changing the terms with them. And this has been discussed from the very beginning that their entrance in a project will be similar to Total's deal. Your third question...

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

Can I go back to the first question? Does the Chinese deal you signed yesterday also include an option for them to buy into the third and the fourth train -- project, similar to Total? I mean, Total board into the project 10% but they also have an agreement if you take FID on the third and fourth project, that they can also take an equity stake. Does the Chinese agreement also have this clause?

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

On the option thing, the option thing was related to Total because Total has -- wanted to maintain their relative position inside of NOVATEK. So that's why the option was given to them, but they have a direct and indirect stake. There was no option given to -- in my understanding, given to the Chinese in their deal. It was just purely an additional term given to Total so that they can maintain a certain percentage that they wanted to achieve based on their direct and indirect interest inside of NOVATEK. And your third one, you're saying is -- your third question is in relation to what we use our technology or...

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

No, I mean...

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

Could you repeat your third question?

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

Yes. The last question was just related to the third project. What are your latest thoughts on time line, in particular, targeted FID? Is it 2 or 3 years from now or is it a bit later than that?

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

That's why we're going to come out with the revised strategy, and we'll advise you on that. But I think what we're talking about previously, it could be just around the same time as the launch of Arctic LNG 2. But that will be based on using the Arctic Cascade technology, not based on the GBS platform. But we'll redefine that when we come up with the revised strategy to give you a time line on some of the projects.

Now what you see in the 2030 strategy, that's not really changing much. I think what we're actually trying to do is just implement another project in front that was probably going to be post-2030 because we believe that Arctic Cascade will give us a competitive advantage once the pilot program is launched, the train #4, and that we can actually expedite one of the smaller satellite fields rather than wait to just do all 3 of the major big ones like we talked about. We have Arctic 2 -- we have 1, 2 and 3 that we're going to do. So I would just wait on the time line to see how it changes, but nothing really drastically changes on the 2030 strategy other than we'll probably plan to implement another project around the same time as potentially Arctic LNG 2 start.

Operator

The next question comes from Ron Smith from Citi.

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

Congratulations. Looks like a very busy and successful 1 week or 2. I have a question going back to Yamal LNG. If you remember last year you told us that you're going to test on train #1 in the middle of February, if memory serves. In the capacity test, it came out like 109% of nameplate. Now that you have more than a year of running that unit, can you give us an idea of what the actual capacity, year-round capacity is of the unit relative to the 5.5 mpta nameplate capacity?

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

It's hard to give you just on a train-by-train basis. I mean I think we wanted a way to see all 3 trains running all through the season because obviously there would be some maintenance work done at certain parts of the year that may alter that number. But I think to give you a reasonable number, we're looking about 105% range over nameplate capacity. That's what we're budgeting for this year.

Operator

The next question comes from Alex Comer from JPMorgan.

Alex Robert John Comer - *JP Morgan Chase & Co, Research Division - Research Analyst*

A couple of questions really. Firstly, you gave some valuations in the release with regard to your -- based on the DCF of Arctic LNG 2. With reference to the previous question, in those models, what utilization rate do you assume that your project runs at? This is Arctic 2. And for what period of time do you assume that, that runs in your estimates? And that's the first question. And then just as an ask, I was wondering if going forward you might consider just publishing the revenues and EBITDA from Yamal LNG as that's now quite a bit closer for you and it looks like that it would achieve that on a quarterly basis?

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

Okay. The run rate, I would assume it's flat at 100% of the nameplate capacity until such time as we run these things and see if Arctic LNG 2 will be different than what we experienced at Yamal LNG. So I would just assume, when we talk about 19.8 million tons per annum that's the one you should use at this particular point in time. In terms of...

Alex Robert John Comer - *JP Morgan Chase & Co, Research Division - Research Analyst*

So you assume in your model, the plan is 100%?

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

Yes, absolutely. Yes. Okay, and -- well, I mean, obviously, there are going to be some maintenance periods throughout that time, but the run rate should be pretty consistent at its nameplate capacity. Whether or not we'll disclose the information, I mean we appreciate the question, but Yamal issued its own set of financial statements and highly unlikely that it will alter and add any additional disclosures in our current financial statements based on Yamal activity.

Operator

(Operator Instructions) The next question comes from Igor Kuzmin from Morgan Stanley.

Igor Kuzmin - *Morgan Stanley, Research Division - Equity Analyst*

Mark, thanks again for all the details around the economics of the Arctic LNG 2 in the financial statements and MD&A. I would like to follow up on this area as well. And one particular question that I had in mind that I had is about the prices, realized prices for LNG volumes from Arctic LNG 2 that you had in mind when you are compiling the DCF valuation of the project and putting this into the financials.

Operator

Ladies and gentlemen, please stand by. We are just experiencing a momentary interruption in today's conference call.

(technical difficulty)

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

Hello. Sorry, we got cut off on the call. So we can continue with the Q&A.

Operator

Mr. Kuzmin from Morgan Stanley, your line is open.

Igor Kuzmin - *Morgan Stanley, Research Division - Equity Analyst*

Sorry, did you -- Mark, did you hear my question or shall I repeat that?

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

No. You need to repeat it, Igor, because we got cut off the line.

Igor Kuzmin - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Yes, sure. I was -- my question was in regards to the Arctic LNG 2. So the valuation and the numbers you put out into the MD&A and IFRS accounts. And by the way, thanks for that because this was very helpful. But one particular question I had in my mind is the level of realized prices for the project which you assume as part of your modeling exercise.

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

Igor, we don't disclose -- or unfortunately, we're not going to disclose all our details that we use in our assumptions and models. I mean, you folks have all done your own modeling work and have all come up with your own individual valuation, which is not consistent with ours. And we basically have outlined to you what the numbers was and what has been agreed to with our partners. But we're not going to provide with the specific details of pricing, CapEx, et cetera, et cetera. So I think we're just not going to disclose that information.

Operator

The next question comes from Alexander Burgansky from Renaissance Capital.

Alexander Burgansky - *Renaissance Capital, Research Division - MD and Head of Oil & Gas Research*

Mark, thank you for the presentation. I have 2 questions, if I may. First one, the details of the Total deal included an $800 million payment that will be contingent on the oil price reaching a certain level. I was wondering if you can disclose a bit more information on that. What is the level of the oil price that you have in the mind here and whether that will be a one payment or a series of payments? And the second question is that you have announced -- you've made a loan to Yamal LNG. It's a relatively small loan, I believe, around $17 million or so for the construction of the fourth train. So what are the terms of this loan? And also I was wondering that the size of it appears to be quite small, so whether we should expect another payment in the second quarter.

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

Okay. Just as we mentioned in the -- to Igor Kuzmin from Morgan Stanley, we're not going to provide the details of the model, really. I think we should just all cut questions off in relation to that particular point. We're not going to provide the model input. As to your second one, yes, we have provided financing. And in this particular case, we had about RUB 57 billion in financing, which was essentially a loan that we had on our books. And I don't believe we'll see any more financing at this particular point in time, but we'll see what it looks like in the second quarter.

Operator

The 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 just have one question left? Given the overall Total transaction that was announced yesterday, with them taking a stake in the construction in Murmansk stake, should we expect details about this to take a few more stakes in the projects? I mean, you got to confirm 60-40 stake, just like for Arctic LNG 2?

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

That was a comment that Patrick made at one of the meetings he had here in Russia recently. We'll give everybody the opportunity to enter into the Murmansk and Kamchatka facilities based on our respective interest. But until we make such announcements directly from NOVATEK, saying that, that is indeed the case, I think we shouldn't assume anything at this particular point in time.

Operator

The next question comes from Anna Kotelnikova from Sberbank.

Anna Kotelnikova - *Sberbank CIB Investment Research - Junior Analyst*

Congratulations on the agreement with new partners. I just have 3 questions. The first one is maybe you have -- can make some comments on what could be potential candidates for the 10% stake that remains on sale in Arctic LNG 2. And my second question is that we saw in disclosure that Arcticgas made a dividend on NOVATEK of RUB 600 million. So is this the only payment that we should expect this year? Or can we expect more payments? And maybe you could give some guidance on the dividend flow to -- from your JVs, including for this year and next, including from the Yamal LNG that comes in the form of loan repayments.

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

On the first question, I mean, I guess, we have -- just as a standard, we're not going to really disclose. You already know the general range of companies that have been looking at the particular project, so we're not going to really disclose where we stand in negotiations with any one particular candidate. But we are in the process of final negotiations for that 10% stake. And as soon as we're done with it, we'll make announcements as we did yesterday. In terms of your questions on dividends related to Arcticgas, you're referring at -- after the balance sheet date?

Anna Kotelnikova - *Sberbank CIB Investment Research - Junior Analyst*

Yes.

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

We disclosed that -- yes, so we disclosed that. We received about RUB 38.5 billion. So what do you want to know about that? I mean, are we expecting more? Is that your question?

Anna Kotelnikova - *Sberbank CIB Investment Research - Junior Analyst*

Yes.

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

Well, of course. I mean as Arctic LNG -- excuse me, as Arcticgas continues its operation, of course, there'll be more dividends paid. I mean, we're at that state now, I think we said before -- yes, we said before that there is a point in time where we should be receiving dividends back from our joint ventures. And then your other question is a little confusing on Yamal LNG. I wasn't quite sure what you're trying to get at with your question on the last one, your third question.

Anna Kotelnikova - *Sberbank CIB Investment Research - Junior Analyst*

So my question is basically how much can we expect in dividends from JV for this year?

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

Yamal JV for this year, I think we're basically looking to get -- start the repayment of debt and interest. And I think once we announce that we will receive dividends from them, we'll disclose that. But I think this year, for us, it's mainly cash flow coming in from interest and potentially starting the dividend -- not the dividend, the debt repayment, excuse me.

Anna Kotelnikova - *Sberbank CIB Investment Research - Junior Analyst*

So how much can we expect in terms of cash flow?

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

I don't have that number in front of me right now to be able to give that to you. We just finished the first quarter. We just finished a busy week of all these transactions. And I don't have what's going to happen at the end of the year from Arcticgas or Yamal LNG paying back. So when it comes in and we have the exact number, we'll report it in that particular quarter.

Operator

(Operator Instructions) The next question comes from Ildar Khaziev from HSBC.

Ildar Khaziev - *HSBC, Research Division - Analyst*

Mark, one question about Arctic -- the disposal of 10% Arctic LNG 2. So one of the thought basically, payment, which Total is supposed to pay, which is capital contribution, it has a range of -- a pretty wide range in the footnotes. Could you explain, if you can, of course, what explains such a wide range? Because my understanding was that you kind of have a good idea about the project CapEx by now. That's my first question. And the second question is about the possible disposal of stake in Kamchatka hub, again, if you can, of course. How should we think about economics of those assets basically, if we decide to value -- to kind of include this in our models?

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

I mean, again, it's -- we gave you the capital contribution. We gave you the number, and we said that the range would be between $20 billion and $21 billion. And that's where we are right now. And I tried to give you a reasonable update tonight on where we stand in terms of the number of tenders and contracts. And I said, we're at 75% already of the items, and I said if we -- the more tenders we get out and close, the more likely we're going to be able to finalize that number and get closer to the $20 billion to $21 billion as we outlined. So I don't have it. That's just a range that we put in based on our assessment of various capital expenditures. But I'm not going to go into the specifics of that.

The Murmansk or Kamchatka project, as you mentioned, we're just waiting. If we have some good proposals, we're going to consider them. I mean, that's where we stand right now, just like anything else. We have a asset that has economic value, that, as you can see already, people have an interest in being part of, whether it's Murmansk going to the European markets or Kamchatka going to the Far East, Asian Pacific market. And we're just going to assess proposals that are going to be submitted to us by our partners and their interest in entering that particular project. But right now, like I said, it's too premature. We've already heard Total's interest stated by Patrick Pouyanné. But right now, I think we'll just wait until we actually tell you via a press release, which is our customary practice, where we stand on that particular question. Okay?

Operator

There are no further questions from the phone. (Operator Instructions) As there are no further questions, I'll now turn the call back to your host for any additional or closing remarks.

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

Okay. Thank you very much. And again, we apologize, we were cut off for a couple of minutes, and we had a hard time getting back into the line. So I hope it wasn't too disruptive to everybody. As I said, it's been an extremely, extremely busy week for us this week, with the AGM, the launch of Cryogas-Vysotsk, the announcements of the 2 sales to -- the 10% stake to the both Chinese entities and as well as getting ready for the first quarter results in this conference call. We just hope that everybody was happy that we've finally been able to confirm the $25 billion. And as I mentioned before, I know everybody has their own models, and that we view this as being the entrance cost to get into the particular project. How you want to value the project on a standalone project within your models, I mean that is up to you to decide. We know that the discussions that we had with each of our partners, they accept the valuation that's been presented to them. And the deals that were closed yesterday are consistent with that $25 billion valuation. And I believe they will be consistent when we sell the last 10%. So I'm going to say that it's been a very, very busy important week for the company in terms of getting everything done. And we're very happy from our perspective. And obviously, the share price has reacted positively to this particular news. So I think it's -- again, thank you very much for your patience. I know it's been -- everybody is really waiting to see the numbers that are coming out so they can confirm it. And hopefully, although I know it from the call that we may have some disagreements about what that number is, that is the number that our partners agreed to, to enter this particular project.

So with that said, we look forward to addressing you again on the second quarter conference call. And hopefully, by that time, we'll have the final sale completed and some information related closer to the FID decision. Again, thank you very much. And for all my Russian colleagues, have a happy May holidays coming up. And we will address everybody again in the second quarter conference call. Thank you.

Operator

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