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PRESENTATION

Operator

Good day, and welcome to the NOVATEK 12-Month 2019 Financial Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mark Gyetvay. Please go ahead, sir.

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

Thank you very much. Ladies and gentlemen, shareholders and colleagues, good evening, and welcome to our fourth quarter and full year 2019 earnings conference call. Joining me on tonight's conference call will be Mr. Leonid Mikhelson, Chairman of the Management Board. We will conduct tonight's question-and-answer session in the dual languages of English and Russia. Therefore, we request you consider this fact when asking your question.

There is ample time allotted this evening to address all questions. We would like to thank everyone for taking your valuable time to join us this evening.

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 risk and uncertainties and reflect our views as 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 description of the risks that may influence our results.

2019 was a fantastic year for NOVATEK as we delivered all of our key financial, operational goals and objectives. We operated our flagship Yamal LNG project at all 3 liquefaction trains above nameplate capacity by slightly more than 110%, totaling 18.4 million tons per annum output. This impressive figure, combined with our Cryogas-Vysotsk medium-scale LNG project in the Leningrad Region, achieved total LNG output of just under 19 million tons per annum, representing approximately 5% of the global LNG market. We also made a crucial final investment decision in September 2019 to commence our next major large-scale LNG project, Arctic LNG 2, as well as completed the sale of the remaining 30% participation stake to an excellent group of partners. Arctic LNG 2 comprise the joint venture, including NOVATEK at 60%, and Total, CNPC, CNOOC and a consortium of JOGMEC and Mitsui, with 10% interest each.

Estimated total capital expenditures for Arctic LNG 2 is the equivalent of $21.3 billion. We look forward with working constructively with our partners to deliver another exceptional LNG project commencing with the first LNG train in 2023. We also delivered solid operational results as they commenced initial production at our North-Russkoye field and offset our liquid declines at our mature fields by launching new crude oil production at the Yaro-Yakhinskoye field and targeting deeper liquid-rich lower zones of the Achimov horizon at Arcticgas.

Despite all of our successes over the past year, we now confront a market oversupplied with natural gas. This supply-demand imbalance is exasperated by the commissioning of new LNG complexes, a demand situation that has weakened with warmer-than-normal winter weather, high-storage balances in Europe and now growing global concerns over the coronavirus in China.

This combination of external factors has exerted significant downward pressure on global LNG spot prices. The coronavirus, for example, is a black swan event, unpredictable to forecast and difficult to gauge the extent and duration of this virus epidemic. Chinese demand has clearly been impacted, but this negative impact in demand has been felt across all business segments, not just the oil and gas industry. The present market imbalance does not represent a structural shift in our future gas demand forecast. We remain very optimistic that the strategy we have adopted to become a leader in delivering low-cost LNG to key consuming global markets is the right strategic decision.

Natural gas will play a key role in powering the energy transition and combating the negative effects on climate change. In fact, if we replace all coal in the market by 2050, with natural gas as part of this energy transition to cleaner-burning fuels, we will meet the stringent emission goals established by the Paris Climate accord, which was adopted and signed by Russia this past September.

We are certain that natural gas will remain a fuel of choice and our strategy to grow our market share internationally reflects this certainty. Our core competitive advantage has been and will remain our low-cost position vis-à-vis our global competitors. We are able to deliver one of the lowest landed LNG costs globally. And since commencement of LNG production from Yamal LNG, we have delivered our natural gas molecules to over 28 countries. The ability to effect such a quick market penetration demonstrates the attractiveness of delivering our LNG through both the Atlantic and Pacific basins cost competitively.

We have stated this point many times, low-cost producers like NOVATEK will find profitable markets for its products. This is exactly what we have done domestically and now internationally with our shift towards the global LNG markets. At year-end, we had all 15 Arc7 ice-class tankers in operation as promised. Many skeptics doubted that we will receive all the tankers with the sanctions on subsidiaries of COSCO Shipping, but we managed to meet all of our contractual commitments without disruptions.

We have begun the final shift in the marketing test to demonstrate, without question, that we will successfully operate the LNG plant, load all tankers and deliver LNG during the maximum ice period. Once these tests are completed and the DSU is released, we will increase our dividend payout.

Around 1/3 of LNG supplies globally are marketed at the current low spot prices. This week, spot price environment obviously makes for sensational new stories, but in reality, short or smart cargos accounted for around 116 million tons in 2019. We see these volumes, both spot and short-term, increasing as part of the LNG trade as this development supports market liquidity and meets buyers' expectations of flexible supplies. We are all learning to adapt to these changing market conditions.

Europe became the destination of last resort in 2019. Net imports into Europe aggregate roughly 87 million tons, driven mainly by the continent's established infrastructure, storage capacity and pipeline connectivity, but also due to buyers' shift in supply sources to take advantage of lower spot prices.

This past year, seasonal storage fill was earlier than normal due to low spot prices and the withdrawals levels are below historical norms due to warmer winter weather. Nonetheless, gas demand in Europe remains strong. The 3 largest LNG markets of Japan, South Korea and China still accounted for slightly more than 1/2 of all LNG imported in 2019. The global LNG market reached roughly 361 million tons or 12% higher than in 2018. In the fourth quarter, LNG volumes totaled 95 million tons or 7% higher than the fourth quarter of 2018. Although showing signs of slowing down, China demand still increased year-on-year by more than 12%. Europe, as a whole, imported a record 87 million tons of LNG or 35 million tons more than 2018. This record volume exceeding the previous high of roughly 66 million tons in 2011. Europe will remain a destination for LNG shipments in 2020 as the continent diversifies supply sources between LNG and pipeline imports to offset declining indigenous natural gas production and to meet decarbonization targets by displacing coal with cleaner burning natural gas.

Yamal LNG loaded and dispatched 253 cargos or 18.4 million tons of LNG during 2019 as well as 42 shipments of gas condensate totaling 1.2 million tons. The facility exceeded the nameplate capacity by 1.9 million tons or by 11.5%. In the fourth quarter, 65 shipments of LNG were dispatched totaling 4.7 million tons as well as 7 cargoes of gas condensate or approximately 300,000 tons. Since inception, the project has dispatched 369 cargoes for a total of 27 million tons of LNG,, along with 72 shipments of gas condensate for just under 2 million tons.

Long-term contracts represented 45% of all volumes sold, whereas spot represented the remaining 55% during 2019. The ratio between long-term contracts and spot sales related primarily to the early start-up volumes with initial volumes sold via spot sales. This ratio has changed as the year progressed. In the fourth quarter, long-term sales represented 64%, whereas spot sales represented the remaining 36%. In 2020, we expect spot sales will not exceed 25% of delivered LNG volumes due to the start of long-term contracts on Train 3.

For example, in January 2020, that preliminary ratio was roughly 80% long-term contracts and 20% spot sales. We have stated previously that LNG contractual terms are commercial secrets respected by all industry players and our counterparties. We do not disclose our price formula, but we can state that there is a move towards hybrid pricing due to increased liquidity and the diversification of suppliers and customers. Hybrid formulas consider gas pub linkages and/or partial crude oil linkages, or a combination of both. We believe the era of high gas prices linked to crude oil indices is decoupling, and this trend will continue as liquidity increases to support trading activities.

One question raised by investors and analysts and reported in the press is the question around price renegotiations. Another question more recently asked is the potential force majeure by Chinese offtakers due to the coronavirus. The commodity markets are cyclical. We see periods of high prices and low prices, and prices fluctuate due to the natural evolution of markets and as new consumers and players emerge. External events also influenced commodity prices that are generally beyond the control of management. The very nature of this price cyclicality does not mean price renegotiations are imminent. We thoroughly vetted every long-term contract signed by both parties, including testing the contracts under different price scenarios and macroeconomic parameters. We see no compelling justifications for price renegotiations. Therefore, we do not consider this a risk. Our contracts embed standard industry conditions on price predeterminations that are widely accepted. It's the same situation with the force majeure question. We have not received any force majeure notifications at this time.

As for our Arctic LNG 2 project, we would like to remind everyone tonight that our shareholders have committed to offtake their respective share of LNG. We already signed Heads of Agreements with all project shareholders with terms, FOB Murmansk and FOB Kamchatka, including agreed-upon pricing formulas. We expect first LNG produced from train #1 in 2023. We expect a more balanced LNG market after the slowdown of FIDs and the recent wave of project commissioning. Thus, we see limited impact from the current pricing environment on our marketing process with -- from Arctic LNG 2. We actively marketed in 2019, and this process is ongoing. We see no delays, although the current market environment is more competitive.

The recent trend where sponsors or affiliates, procure LNG volumes without long-term contracts is quite different from historical norms. Traditionally, securing long-term contracts was required prior to making final investment decision. This recent trend has multiple benefits as faster investment decisions, flexible marketing terms and conditions and the ability to sell more volumes to less creditworthy buyers without covenant restrictions are all positive developments. It also means that we, or collectively, our sponsors, can postpone decisions to secure our long-term contracts in a weaker price environment as we see in the market today. Conversely, it has negative implications for other LNG sponsors needed to secure contracts prior to FID, and we are beginning to see the start of project fulfillments or delays in FIDs because of the lack of securing long-term contracts.

Arctic LNG 2 is proceeding along as planned. We forecast capital expenditures of roughly $4.6 billion in 2020, net of the VAT, and as of 2019, we spent approximately $2.3 billion, also net of VAT. We have already financed about 14% of the total project's capital program. We contracted more than 80% of total capital expenditures and approximately 90% of equipment. More than 3,000 construction workers are on-site with more than 90 construction vehicles.

Currently, we are constructing well panels, road infrastructure, water and energy infrastructure as well as contractors camp. 3 drilling rigs are on-site and started production drilling. We will mobilize another drilling rig and commence drilling shortly. The Utrenneye terminal has attained main governmental permission and the construction of the terminal and the planned dredging works are underway. The dredging works for 2019 were 100% completed, and we can now accommodate Arc4 vessels all season. We have already begun pouring concrete for the first GBS, and we'll shortly commence work on the second GBS.

We continue to make good progress on various aspects of the construction works at the Murmansk LNG construction yard. So, so far, we are on schedule with all related work activities with Arctic LNG 2.

Overall progress on Yamal LNG's Train #4 is 73% complete versus 61% at the 30th of September, with more than 1,700 working at the site. When designing liquefaction units using a modified version of our Cascade -- Arctic Cascade liquefaction technology for the Obskiy LNG, we decided to improve and enhance the technical solutions on Train 4. We will complete the construction and begin commissioning of Train 4 in the third quarter 2020.

As for Obskiy, we will provide more information over the course of the year. But briefly, it will be a project comprised of 2 liquefaction trains at 2.5 million tons each or 5 million tons in total. The [implication] of Obskiy LNG project and its final investment decision is not dependent on the timing and launch of Train 4 at Yamal LNG. We will provide additional information on this LNG project on future conference calls.

At Cryogas-Vysotsk, we produced 414,000 tons of LNG since the launch of the medium-scale LNG facility in the second quarter of 2019. We dispatched 92 shipments via tanker and another 240 shipments via trucks. The project aims to capture market share for bunker and fuels with the introduction of the new IMO 2020 standards, which reduces the maximum sulfur content permitted in marine bunker fuels from 3.5% to 0.5% globally.

Moreover, it allows for small LNG shipments to regions not connected to the pipeline grid. We believe this market has potential and will eventually link our LNG market strategy with the construction of the Rostock Terminal in Germany and the build-out of retail LNG stations in Poland and Germany. We have 3 retail stations in Poland and Germany, and we will launch our fourth retail station very shortly. NOVATEK Green Energy, formerly NOVATEK Polska, manages this business segment. Our exploration activities yielded very positive results in 2019.

Exploration drives future development activities, but it is also crucial to prove up a resource base on new license areas to support our future LNG projects as well as to ensure sufficient production capabilities to meet our domestic gas requirements. At year-end 2019, our total SEC proved reserves, including our proportionate share in joint ventures, increased by 3% to 16.3 billion barrels of oil equivalent, inclusive of 2.2 trillion cubic meters of natural gas and 193 million tons of liquid hydrocarbons. We achieved a reserve replacement rate of 181% during 2019. Our organic reserve replacement rate, excluding the effects of the acquisitions and disposals mainly related to the disposal of the 40% participation interest in Arctic LNG 2, amounted to 252%. Under the PRMS methodology, our total proved plus probable reserves, including our proportionate share in joint ventures, aggregated 28.7 billion barrels of oil equivalent, inclusive of 3.9 trillion cubic meters of natural gas and 373 million tons of liquid hydrocarbons. Our organic reserve replacement rate under the PRMS reporting methodology amounted to 200%.

We also maintained an active drilling -- development drilling program throughout 2019. We drilled and completed 150 production wells this year versus 105 production wells in the corresponding 2018 period, representing a 43% growth in drilling completions. Our focus remains on our North-Obskiy field, and accordingly, we commenced initial production in December 2019 as well as production from the lower producing horizons at our Arcticgas joint ventures. We plan to increase our natural gas production by 2% to 3%, and our liquid productions by 1% to 2% in 2020.

This growth is mainly attributable to production for the Russian domestic market as well as ensuring adequate liquid volumes delivered to our processing facilities to run at 100% of their respective operating capacities. It is important to note that we will maintain plateau levels at our processing capacities until such time as we expand both the Purovsky Processing Plant and the Ust-Luga Complex. We generated another good set of financial and operational results in the fourth quarter and full year 2019 despite the general weaknesses in the underlying commodity prices across our product range, including the big declines in global natural gas and the corresponding spot LNG prices. Brent crude oil declined by 10% year-on-year from an average of $71 per barrel to $64 per barrel. Whereas benchmark natural gas prices like NBP, the National Balancing Point in the U.K., and TTF, Title Transfer Facility in the Netherlands, declined by 44%, respectively, during 2019.

Spot prices improved in the fourth quarter, but this improvement was short-lived as ample supplies were available via inventory and spot sales and warmer-than-normal winter weather. Not all was negative on price in 2019, the Russian domestic gas tariffs increased over the past year, and this fact had a positive impact on our revenues received and netbacks achieved for gas sold domestically via the Unified Gas Supply System. The global growth in LNG demand continued unabated despite the apparent headwinds. We believe lower commodity prices will spur additional demand growth opportunities.

This provides the stimulus for key important countries to transition from coal to natural gas to meet the demand forecast supporting future growth in natural gas consumption. The coronavirus will affect demand to some extent in 2020, but the impact on this demand at this moment is uncertain. The consultancy firm Wood Mackenzie just published a report in February that attempts to quantify potential demand disruptions on best and prolonged case scenarios. They forecasted gas demand of 330 billion cubic meters in China to pre the coronavirus. Their recent report suggests potential demand reductions by 6 billion to 14 billion cubic meters, depending on the scenarios. Unfortunately, no one can predict with any degree of certainty at this point. It is crucial that we maintain our focus on developing our LNG platform to deliver cost-competitive LNG to consumer markets at one of the lowest landed cost. We believe LNG remains a key driver in future global gas demand growth and our cost-competitive LNG platform positions us to play a leading role in the energy transition.

Despite weaker natural gas prices in Europe and Asia, our results for the full year 2019 were strong as we increased natural gas revenues and netback sales by 11% and 14%, respectively.

Seasonal volume adjustments affected our quarter-on-quarter results. But overall, we were satisfied with our financial and operational results in the fourth quarter as gas revenues and netback sales increased 16% and 14%, respectively. We sold 18.1 billion cubic meters of natural gas on the Russian domestic market, and 2.7 billion cubic meters in equivalent LNG sales during the fourth quarter reporting period, accounting for a combined net quarter-on-quarter increase of 4.1 billion cubic meters or almost by 25%.

Our full year international LNG sales revenues increased year-on-year by RUB 32 billion or by 28% due to a significant increase in volumes sold of 12.8 billion cubic meters. Offsetting our volume growth, however, was a 40% decline in the average realized prices in Russian ruble terms. Our LNG revenues declined quarter-on-quarter by RUB 1.8 billion, which resulted mainly from a reduction in our offtakes from Yamal LNG as we shifted to more long-term contracts and, accordingly, reduced our offtake volumes from early startup.

Domestically, our sales volumes remained flat on an annual basis, but increased quarter-on-quarter by 4.5 billion cubic meters or 33%. Domestic gas revenues increased 3% annually and by 28% quarter-on-quarter. LNG sales on international markets represented 16% of our total natural gas volumes sold and accounted for 36% of our natural gas revenues in 2019. Our average net debt was 4x higher for LNG volumes sold internationally than netbacks received on the domestic market. This netback ratio remained relatively consistent each quarter in 2019. Even with weak spot prices, LNG volumes sold internationally contributed positively to our revenues and netbacks for natural gas. This fact, combined with our cash-generative domestic production, demonstrates the importance of expanding our LNG platform while remaining focused on our core domestic business.

We sold 4.3 million tons of liquids in a reporting period, representing a year-on-year and quarter-on-quarter increase of 11% and 6%, respectively, and we increased our liquids sold by more than 3% to 16.4 million tons.

We exported 59% of our total liquid volumes throughout the year. Our operating expenses during the reporting period were consistent with our expectations, with overall cost increasing on an annual basis by 6% and by 19% quarter-on-quarter. Purchases were the most significant expense item. Most of the remaining operating expenses, including G&A, was consistent with our expectations for the reporting periods and seasonal adjustments. We spent RUB 163 billion in cash on our capital program, representing an increase of RUB 68.5 billion or 73% in 2019 versus 2018. In the fourth quarter, our capital program totaled RUB 50 billion, representing a 40% increase quarter-on-quarter. The majority of our capital program related to works on future LNG projects and capital spend on the North-Russkoye license area. These projects accounted for roughly RUB 97 billion or 59% of the total capital expenditures. We allocated the remaining capital spend over a range of development projects across our portfolio.

For 2020, we estimate our capital expenditures to be approximately RUB 250 billion, of which more than 60% will be spent on future LNG projects. Our capital expenditures for projects connected to the UGSS and liquids to our processing facilities will remain consistent with that spent in 2019. Our normalized EBITDA totaled RUB 461 billion for the 12 months ended the 31st of December 2019, increasing by 11% over the prior year, led by strong contributions from our joint ventures.

Normalized EBITDA was also very strong quarter-on-quarter, increasing by 18%. Our operating cash flows exceeded our cash used to finance capital expenditures by 1.9x despite the fact that we have increased our cash spent on capital program year-on-year by 73%. We generated sufficient operating cash flows to fund our capital program, service any debt payments and liabilities as they become due and disburse semiannual dividends to shareholders. Our balance sheet remained very strong during 2019. We again approved all of our credit metrics during the year and demonstrated, without question, an exceptionally strong balance sheet to support our international and domestic credit ratings.

In closing, we delivered another set of very good financial and operational results in 2019, including the fourth quarter. We understand that the focus presently is on the oversupplied gas market, the impact of this oversupply has caused on spot prices and the potential negative impact of a prolonged period of concerns and disruption caused by the coronavirus. We have confronted significant price volatility before, in 2008 and 2009, and the negative impact of the global recession in 2014. We actually did better than most of our global peers as our business model clearly demonstrated the resiliency and profitability of being one of the lowest-cost producers in the global oil and gas industry. We still produce and deliver a significant volume of natural gas on the domestic market. Actually, 84% of our sales volumes, or 66 billion cubic meters, were sold, were not impacted by the decrease in global spot prices. We believe many investors and analysts overlook this important fact and focus solely on our LNG business.

Yes, our global LNG business is important, but our Russian domestic business is equally important and remains highly profitable and generates solid operating cash flows. As global natural gas declined by 44% year-on-year in key gas hubs, the overall natural gas tariff domestically increased by almost 4% in 2019. We see limited downside risk in our overall gas business as our lifting cost remains one of the lowest relative to our peers. It was $0.59 per barrel of oil equivalent or $0.10 per mmbtu in 2019. Moreover, our associated liquids production also strongly supports our operating cash flows from both our subsidiaries and our joint ventures as well as the gas condensate produced and sold from Yamal LNG. 2019 was a record year for final investment decisions for liquefaction projects, reaching 70 million tons of new capacity. We expect FIDs to remain strong in 2020, but we are seeing initial signs of potential project delays. The LNG investment wave of 2019 and 2020 is sufficient to meet expected demand in mid-2020, but the energy transition as well as forecasted demand growth will absolutely require additional LNG projects. Our LNG model is scalable to bring to market low-cost LNG when needed.

Therefore, we are optimistic that our target to deliver up to 70 million tons by 2030 is realistic. The coronavirus is an event that no one was able to predict. No one is certain of the duration, but we can say with absolute certainty, this event will pass. It is important to reiterate that China will remain a market of choice for LNG for many years. Economic growth in developing economies, the energy transition from coal to clean-burning natural gas, decarbonization agendas and the focus on climate change solutions all bode very well for natural gas as an affordable, secure and sustainable energy source for many decades ahead. NOVATEK has positioned itself as one of the leaders in the energy transition movement.

2020 will be a tough year for the oil and gas industry, but the negative impact is not consistent across all companies. We are different. We reported a strong financial results and operating cash flows. We reported positive free cash flows. We sold a larger share of our LNG volumes under long-term contracts, not spot sales.

This represents an important evolution in Yamal LNG's marketing activities. Our domestic gas business is highly profitable and cash-generative. We generated slightly more than USD 2.3 billion in free cash flows from our core domestic business, consistent with what we stated in our corporate strategy. We demonstrated strong production growth, arrested the declines in liquids and replaced our proved reserve by 181%. These are all very positive developments in 2019.

Unfortunately, the sentiment towards our stock is negative. Investors overreacted to the negative global gas news and oversold our stock. Too much focus has been placed on current spot prices and projecting this negative outlook to our future LNG projects. We reject this notion and believe gas prices will strengthen to support project developments. We believe that the investment community does not properly value the future optionality of our liquid business. For example, we have seen limited comments on the gas condensate produced and sold from the Yamal LNG project. We sold 1.2 million tons in 2019 and 300,000 tons in the fourth quarter of strong netbacks.

This, alone, significantly compensates the project with additional cash flows, which is unique relative to most LNG projects around the world. In fact, the stable gas condensate sold, excluding transport at Yamal LNG, covered more than 100% of the plant's operating costs in 2019. We estimate that Arctic LNG will produce around 1.5 million tons of condensate, and this will, like Yamal LNG, cover a large portion of the project operating expenses or generate additional project revenues and cash flows. We understand very well the present market situation. We are facing headwinds in 2020. LNG is fast becoming a global commodity business. Even in this low price environment, NOVATEK remains profitable and competitive in all global markets. Our LNG projects span economic life of more than 30-plus years, so we cannot make economic decisions based on short-term price volatility. We fully anticipate that our LNG projects, present and in the future, will be through all price commodity cycles. The best antidote to stress-case scenarios is a low-cost business model, and we are one of the lowest cost providers of clean-burning natural gas in the global energy industry.

We successfully transformed NOVATEK into a global gas player in 2019. Natural gas remains the fuel of choice in the energy transition and the core part of our business strategy. As a large gas producer, we understand our role in the climate change debate. We have one of the lowest carbon emissions in the global oil and gas industry. We are exploring clean gas initiatives such as hydrogen as one way to reduce our carbon emissions. We are building our first hydrogen production capacity at Ust-Luga for our own consumptions, but we see good future process in hydrocarbons, in -- hydrogen, excuse me, due to our low-cost operations. We are also studying various options to reduce our carbon footprint like wind turbines to provide additional sources of renewable energy to our facilities as well as increasing our use of solar power along our internal pipeline network. NOVATEK fully supports ongoing ESG initiatives and actively engage with investors on this topic. Last year, we published our 12th Sustainability Report, which is available on our website for review.

We encourage our investors to read this report as it reflects our ongoing efforts to promote social and economic development in the regions where we operate as well as our responsible stewardship of our hydrocarbon resources. We have embedded sustainability principles on our strategic framework, and we aim to provide our carbon emission targets in the near term. We have a tremendous future ahead of us at NOVATEK. We have an exciting portfolio of assets, second to none in the industry. The present disruption in the gas market is not structural. Long-term demand forecast for natural gas remains intact. We will profitably capture an increasing share of this market space with our future LNG projects as well as remaining commitment to providing clean-burning natural gas to the Russian domestic market.

We would like to thank everyone again for attending tonight's conference call and your continued support of NOVATEK. We are now ready to open tonight's session to questions and answers. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We'll now take our first question Henri Patricot from UBS.

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

Mark, two questions for me. The first one, if you could just comment on some of your next LNG project, Obskiy LNG and Arctic LNG 1. Where are you in your thinking around partners? Would you go at 100% in Obskiy LNG, maybe 100% with Arctic LNG 1? Would you be looking to bringing partners like you've done with previous projects?

And then secondly, I just wanted to follow up on the comments that you made around the hydrogen just now. Do you see what kind of opportunities you see for NOVATEK in the longer term? And is that a bit of a threat to longer-term gas

demand?

Leonid Viktorovich Mikhelson - *PAO NOVATEK - CEO, Chairman of the Management Board, General Director & Executive Director*

(foreign language)

Unidentified Company Representative

[Interpreted] So with the automation, Mr. Mikhelson will answer to this question because Mark spoke at length and he covered almost all of the topics. And so in view of this particular delivery, I hope that there won't be too many questions.

So answering the first part of your question, which is about Obskiy LNG, we are moving according to the plan. We haven't yet made the final investment decision, and this is purely a procedural situation. And as far as the legal preparation for it is concerned, because it requires entering amendments into the current legislation, which regulates LNG exports. And so currently, the government is looking into this issue as well as the Russian Parliament is having it. And so shortly, we expect that these amendments are going to be brought into effect. Following which, we will do our official final investment decision. The Obskiy LNG is going to be based upon our proprietary improved technology and is currently undergoing review at the Russian Patent Office so as to be fully patented.

And I would like to underscore that, at this point in time, we do not plan to bring any new partners into this particular project. Now with respect to Arctic LNG 1, which is the next project which will flow out of our, so to speak, conveyor belt, it will be similar to the Arctic LNG 2 technology. We are currently preparing the resource space which would support this project, and I believe that you could see it in our report. Because last year, we spent about RUB 16 billion for the exploration program related to this project. This year, this spending will near something like RUB 30 billion. And so in 2021 and 2022, we will have the design in place for the development of the resource. And this is quite a major project into which we do plan to bring partners.

Leonid Viktorovich Mikhelson - *PAO NOVATEK - CEO, Chairman of the Management Board, General Director & Executive Director*

(foreign language)

Unidentified Company Representative

[Interpreted] And as far as the second part of your question is concerned, NOVATEK already is one of the cleanest companies in terms of the carbon footprint that it produces. And currently, it is 290 grams of CO_2 per 1 barrel of oil equivalent, which is, by a big margin, which is about 15% below the average global mark, which is the 352 kilos. And this is one of the best results amongst all of the global oil and gas companies. But of course, we're not staying complacent, and we are preparing respective solutions to reduce our carbon footprint in line with, like Mark mentioned, the application of the renewables at our core operations. We think that our gas is the cleanest one on the planet. And the NOVATEK's production during the launching of the Arctic LNG 2 in the amount of 20 million tons may very strongly displace in the global balance quite an amount of coal, and this way, reduce the overall CO_2 emissions on the planet by 60 million tons. And like Mark also mentioned, we are already producing hydrogen, but you can't describe it as a large scale because we produce it only for our own needs, for hydrocracking and for various technological processes, which we're currently considering the most economically viable hydrogen production volumes industrially being aware that, in the future global energy balance, hydrogen will be playing a crucial role. Thank you.

Operator

(Operator Instructions)

It appears there are no further telephone questions. So I'd like to hand the call back to our hosts for any additional or closing remarks.

Leonid Viktorovich Mikhelson - *PAO NOVATEK - CEO, Chairman of the Management Board, General Director & Executive Director*

(foreign language)

Unidentified Company Representative

[Interpreted] And in conclusion, Mr. Mikhelson would like to say great many thanks to Mark for such a detailed and elaborate presentation.

With -- as a consequence, no questions being raised. But it is true that, basically, all the issues have been covered in this presentation. And in conclusion, I would like to, nevertheless, draw your attention to one particular aspect, which was touched upon, but in passing. At present, most people are interested in our LNG projects, which effectively represent our future growth. But at the same time, I do see, the least important, exactly like we've planned in the strategy, which we published in December 2017. And we do ascertain that we are fully compliant with the performance in this plan. And I specifically mean our presence in the Russian domestic gas market where, today, we account for about 20% of the domestic gas market.

And in a similar token, we are able to maintain 100% capacity load in terms of the gas condensate that we produce. And we do foresee this platform until 2030 that capacities are going to 100% loaded, which generates stable cash flow to us. So we can be very confident in terms of this particular segment to plan the same kind of revenue streams that we have been able to demonstrate to you over the past 2 years. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]
