2012-2021 Strategic Development Program

Vice-President
Leonid Fedun
LUKOIL Mission and Strategic Goal

Our mission:
Our purpose is to harness natural energy resources for human benefit.

Strategic aim of LUKOIL is a dynamic sustainable development at the level of the best world efficiency and competitiveness.

Social responsibility consists of creating decent working conditions and remuneration of labor, ensuring environmental safety and preservation of cultural heritage.

In accordance with its social code LUKOIL contributes to the social and economic development of the regions where the Company operates.
- Dynamically growing transport sector in Asia Pacific will provide the main contribution to the growth of oil demand
- Growing demand is satisfied by production growth in OPEC countries and due to higher cost sources (high-viscosity oil, CTL, GTL, biofuels, oil shale)
- OPEC demonstrates its willingness to maintain prices at $100 per barrel and higher
• Europe's dependence on gas imports will increase
• In the next decade, most gas contracts remain binding to the oil price
• Significant increase in shale gas production in Europe is expected after 2020
• Export parity in Russia will be achieved not earlier than in 2017

* As an example of the Moscow region
Refining Margins in Russia will be Higher Than Those in Europe Under the Current Tax Regime

- Capacity utilization in Europe remain relatively low, which negatively affects the refining margin in the region
- Refining margins in Russia will remain high under the current tax scheme (“60-66”)
- There is a serious possibility of “55-70” tax scheme adoption

* Domestic market premium was not taken into account for Russian refineries
E&P Primary Targets

- Full replacement of reserves
- Hydrocarbon production CAGR > 3,5%
- ROACE on the level of the best peers
- Implementation of investment projects with IRR not below than approved reference rate
- Increase in share of international projects in the Group Free Cash Flow; and in total hydrocarbon production up to 20% by 2021 (including acquisitions)
- Sustainable growth of Free Cash Flow
• Full replacement of C1 reserves in the period 2012-2021, including 2012-2014 – 112%, 2012-2016 – 94%
• Finding costs – 1.2 $ per boe
2012-2021 Hydrocarbon Production – 10 bln boe

CAGR >3.5%

- 2011: 16%
- 2014: 19%
- 2016: 20%
- 2021: 27%

Liquid HC  Gas share

CAGR: Compound Annual Growth Rate
• 2012-2021 reserves development will amount to 136% of hydrocarbon production
## 2012-2021 Development of Reserves, bln boe

<table>
<thead>
<tr>
<th>Overseas</th>
<th>Russia</th>
<th>Increase in oil recovery factor in Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,5</td>
<td>7,5</td>
<td>3,6</td>
</tr>
</tbody>
</table>

### Major projects

<table>
<thead>
<tr>
<th>Producing fields</th>
<th>New projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karachaganak stage 3 2019</td>
<td>West Qurna – 2 2013</td>
</tr>
<tr>
<td>Shakh-Deniz stage 2 2016</td>
<td>Junin-6 2015</td>
</tr>
</tbody>
</table>

### Producing fields

<table>
<thead>
<tr>
<th>Russia</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y. Korchagin field</td>
<td>2013</td>
</tr>
<tr>
<td>Krasnoleninskoye</td>
<td>East Lambeyskoye 2012</td>
</tr>
<tr>
<td>Vat-Yeganskoye</td>
<td>V. Filanovsky 2015</td>
</tr>
<tr>
<td>Yaregskoye (Lyaelkaya area)</td>
<td>Pyakyakhinkoye 2016</td>
</tr>
<tr>
<td>Usinskoye (permocarbon)</td>
<td></td>
</tr>
</tbody>
</table>
2012 – 2021 E&P Capex – ~$125 bln

- Exploration in Russia and overseas, including development costs
- International projects
- International projects (PSA)
- New regions
- Traditional regions

~ $23 – 25 bln

~ $33 bln – PSA projects – guaranteed payback of investments

West Qurna-2: pays off in 2015, then – self-financing
E&P Free Cash Flow

Free Cash Flow, $ bln

- 2014
- 2016
- 2021
- 2012-2021

International projects: 24%
New regions in Russia: 6%
Traditional regions in Russia: 70%

~ $50 - 60 bln
R&M Strategy Evolution

**2007-2016**
**Accumulation of assets**
- Acquisition of new assets
  - Refineries: ISAB, Zeeland
  - Retail network: Balkans, Turkey
- Position development
  - Russian retail market
  - Air bunkering
  - Bunkering
  - Lubricant sales
- New business line
  - Power generation

**2010-2019**
**Optimization of assets**
- Economic efficiency of assets
  - Productivity
  - Profitability
- Projects for future flows
  - New products
  - Synergy of assets
  - Trade name development
- Investment portfolio optimization
  - Risk / returns

**2012-2021**
**Competitive development**
- Viable development of operational assets
  - Accelerated modernization
  - Weaknesses elimination
- Asset integration on the basis of
  - Own raw products
  - Brand-building
  - Own infrastructure
- High shareholder profitability
  - Growth of cash flow
Effective Implementation of Conversion Projects to Secure a Competitive Advantage in the Markets of Russia

- Growing domestic demand for gasoline ensures high return on conversion projects at Russian refineries
- Focus on the production of premium gasoline
- Level of integration - 100% of motor gasoline sales in the Russian domestic market
- Position strengthening in the Moscow region (market share up to 20%)

**2011-2021 gasoline consumption forecast, mln t**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2014</th>
<th>2017</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>33.2</td>
<td>39.1</td>
<td>43.2</td>
<td>42.5</td>
</tr>
</tbody>
</table>

**CAGR 2010-2021**

- Max 4.6%
- Probable 3.4%
- Min 2.3%

**Gasoline producer #1 in Russia, mln t**

- Option 11.0
- Dark 5.5
More than 70% of investments goes to improving of conversion and production of premium quality petroleum products in Russia
• Refineries in Europe - maintaining and optimizing the existing assets
Reliable Supplier of High-Quality Products – Potential of Worldwide Consumer Market Coverage

Major line of development:

- ‘LUKOIL’ brand promotion
- Growth of sales through the channels of guaranteed distribution
- Geography widening of product deliveries (more than 80 countries)
- Additional value from the own infrastructure of storage, transshipment and petroleum product deliveries

* Average for 2012-2021
R&M Free Cash Flow

Free Cash Flow, $ bln

~ $50 - 57 bln

- Transport
- Power
- Petrochemistry
- Marketing, including international trading
- Refining

2012-2021: 62%
2014: ~ 5 bln
2016: ~ 3 bln
2021: ~ 12 bln

~ $50 - 57 bln
R&M Capex

Capital expenditures, $ bln

2012-2021 – $24 bln

- Refining
- Marketing
- Petrochemistry
- Power
- Transport


$ Capital expenditures, $ bln
Value Chain

Oil production, refining and marketing in Russia

- **Natural gas/APG**: 5.4 bcm
- **Oil**: 94 mln t per year
- **Petroleum products**: 46 mln t per annum
- **Marketable gas**: 4.3 bcm
- **EITDA 2012, $/t**: 141

Production, refining and sales of Caspian gas

- **Stavrolen pyrolysis**
  - Ethane – 290 th. t per annum
  - LPG – 590 th. t per annum
- **CHP Stavrolen**
  - Stripped gas 0.3 bcm
- **Gas sales**
- **Marketable gas**: 4.3 bcm
- **EITDA 2012, $/tcm**: 638

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LUKOIL Gas Strategy in Russia

- 6.5-fold EBITDA increase by 2021
- In 2011 LUKOIL signed a 5-year contract (2012-2016) with Gazprom to supply up to 12 bcm per year of natural gas from the Bolshekhetskaya Depression
- High return on projects is guaranteed by binding of gas price to the FST tariff for the Yamal-Nenets Autonomous District
LUKOIL Financials

Capital expenditures, $ bln

Free Cash Flow, $ bln

Structure of strategic portfolio

- **Upstream**: 61% (2007-2010) vs 83% (2012-2021)
- **Downstream and other**: 39% (2007-2010) vs 17% (2012-2021)

- **Free Cash Flow stable growth**
- **Maintaining ROACE at a competitive level**
- **Debt-to-equity ratio not above 20%**
• LUKOIL plans to increase the dividend payments every year
• Dividend payout will be not less than 30% in the long-term as a result of dividend increase
LUKOIL Strategy Risks

Political risks
• Risk decrease after presidential election in Russia
• High geopolitical risks in the world

Tax risks
• Favourable forecast. We expect decrease in tax burden in oil sector
• LUKOIL projects on Russian refineries reconstruction are resistant to the increase in taxes in refining sector under “55-70” tax scheme
• Tax risks in international upstream projects

Price risks
• We consider oil prices are not likely to decrease by more than 20% from the current level. However in case of significant decrease in prices the Company has a procedure of investment program balanced adjustment.

Geological risks
• LUKOIL implements an ambitious $5.5 bln exploration program in the new regions. In case of geological risk realization our losses can be compensated by additional increase in oil recovery factor in the traditional regions.

Investment risks
• Unprecedented plans of reserves development (13,6 bln boe) are subject to risk of project launching delay. Risk is compensated by fact, that a significant share of funds is invested into PSA projects with guaranteed rapid payback.
2012-2021 LUKOIL Strategic Aims

LUKOIL Group
- Stable growth of shareholder value
- Ecological, industrial, social and personal safety

Exploration and Production
- Full replacement of reserves
- Hydrocarbon production CAGR >3,5%
- ROACE on the level of the best peers
- Implementation of investment projects with IRR not below than approved reference level
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Refining and Marketing
- Covering the demand for light petroleum products on strategic markets of LUKOIL Group
- Gradual switching to fuel oil free production. Gradual approaching of refineries configuration to the best peers level
- ROACE on the level of the best peers
- Implementation of investment projects with IRR not below than approved reference rate
- Company value maximizing due to usage of integration capabilities
Thank you for your attention!