



ALWAYS MOVING FORWARD

2012-2021 Strategic Development Program



Vice-President
Leonid Fedun



LUKOIL Mission and Strategic Goal



Our mission:

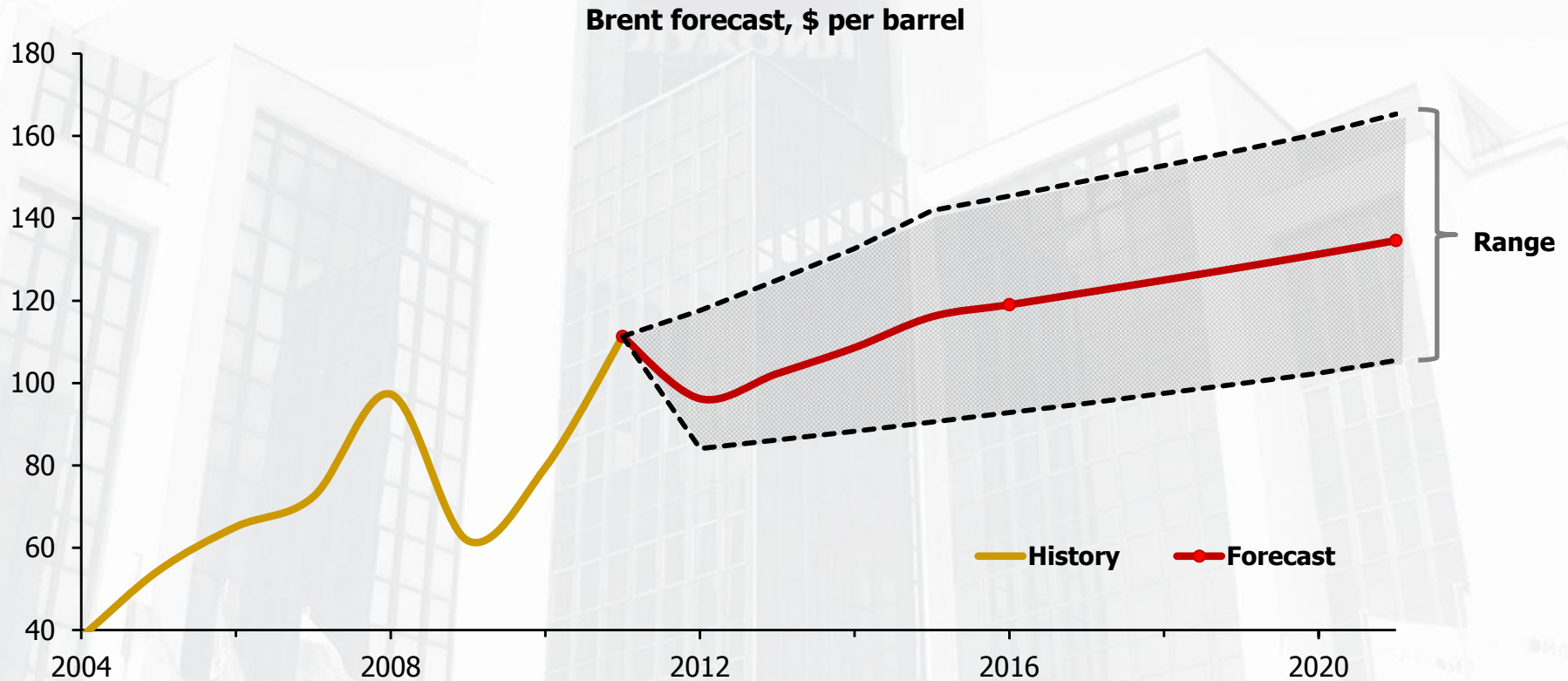
Our purpose is to harness natural energy resources for human benefit

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

Oil Demand and Prices

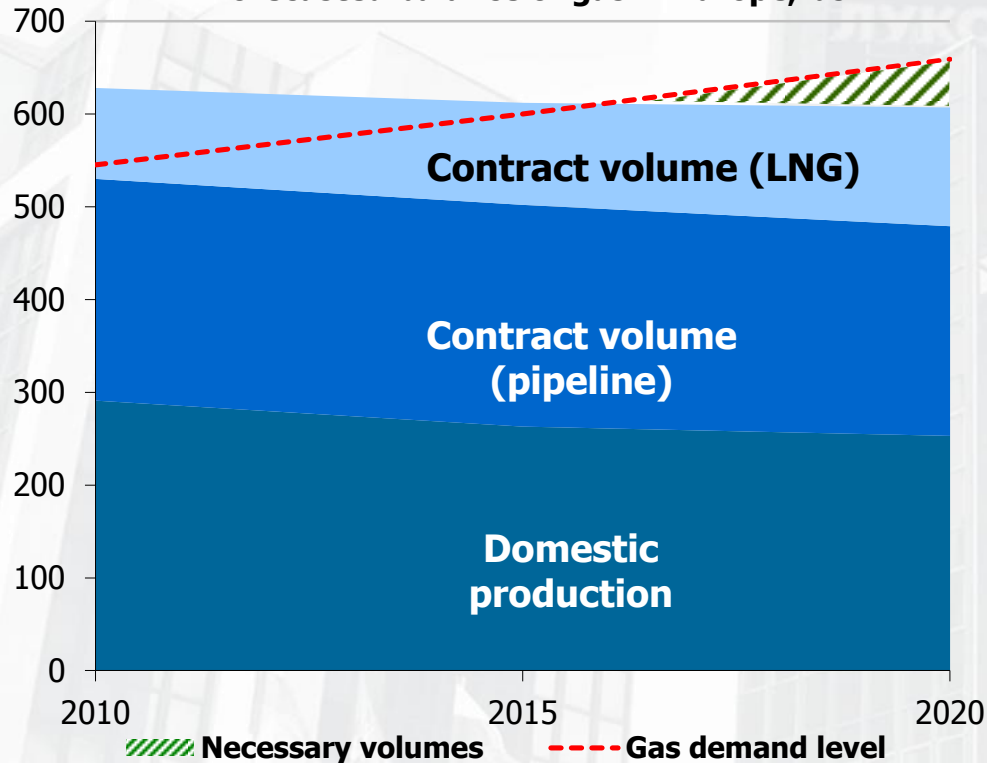


- Dynamically growing transport sector in Asia Pacific will provide the main contribution to the growth of oil demand
- Growing demand is satisfied by production growth in OPEC countries and due to higher cost sources (high-viscosity oil, CTL, GTL, biofuels, oil shale)
- OPEC demonstrates its willingness to maintain prices at \$100 per barrel and higher

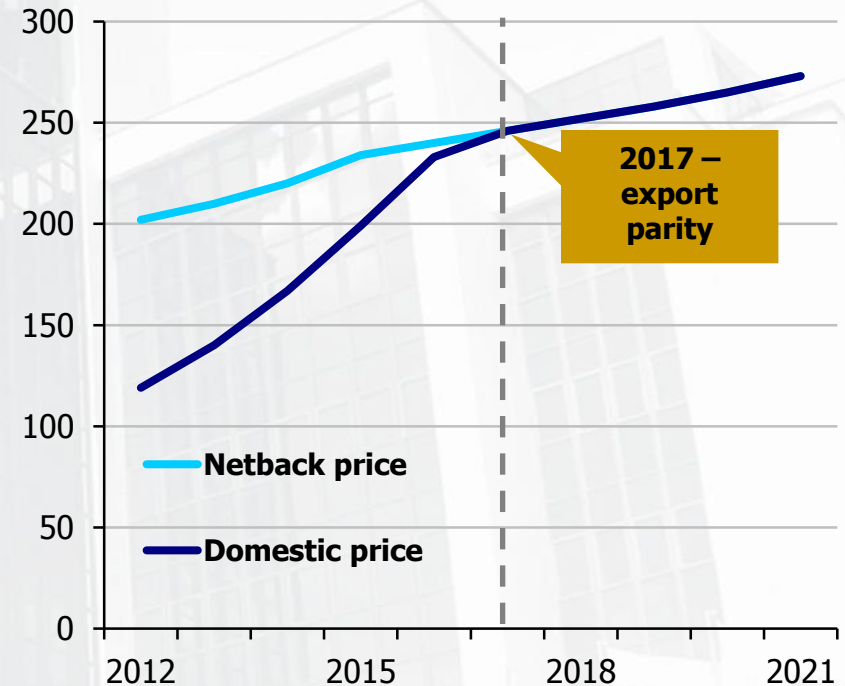
Long-term Level of Gas Prices



Forecasted balance of gas in Europe, bcm



Natural gas price in Russia*, \$ per tcm

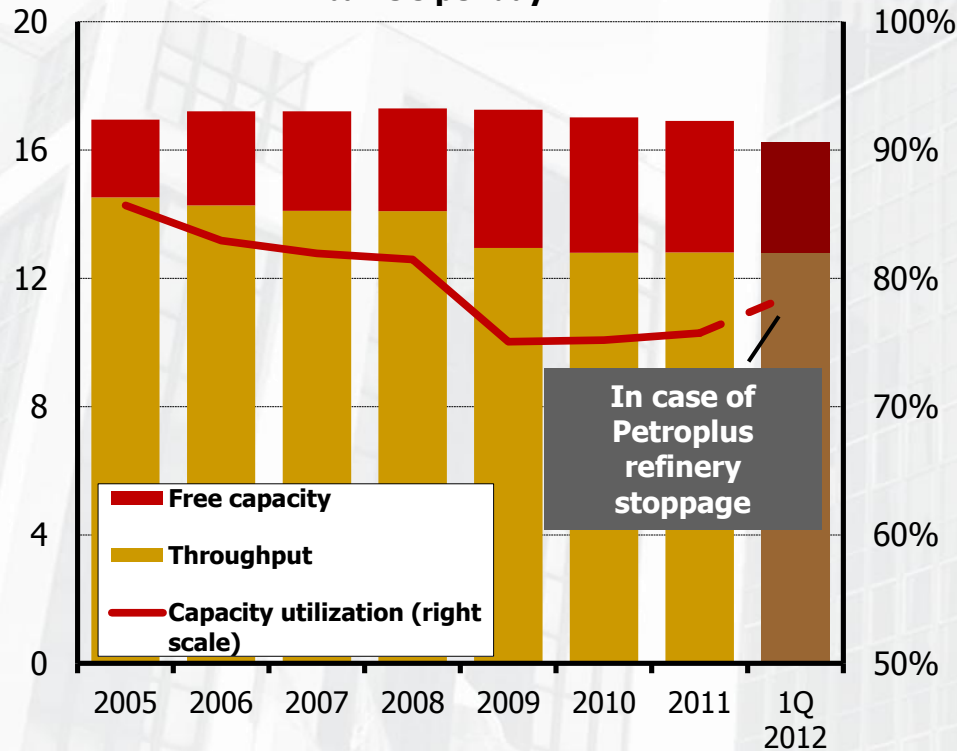


- Europe's dependence on gas imports will increase
- In the next decade, most gas contracts remain binding to the oil price
- Significant increase in shale gas production in Europe is expected after 2020
- Export parity in Russia will be achieved not earlier than in 2017

Refining Margins in Russia will be Higher Than Those in Europe Under the Current Tax Regime

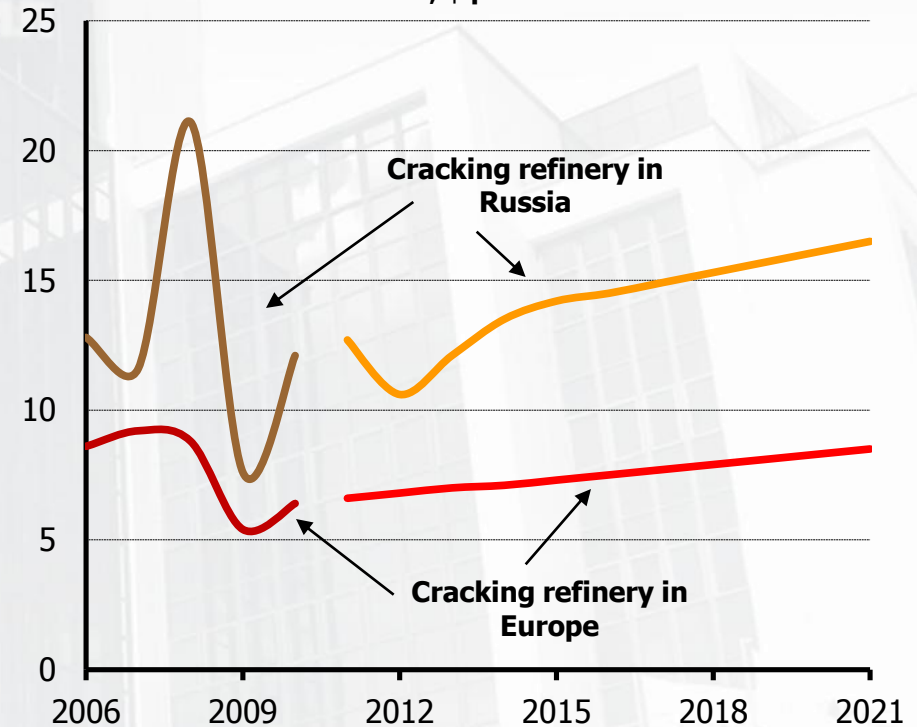


Refinery capacity utilization in Europe, mln barrels per day



Source: Purvin&Gertz

Gross refining margin forecast in Europe and in Russia*, \$ per barrel



- 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

E&P Primary Targets



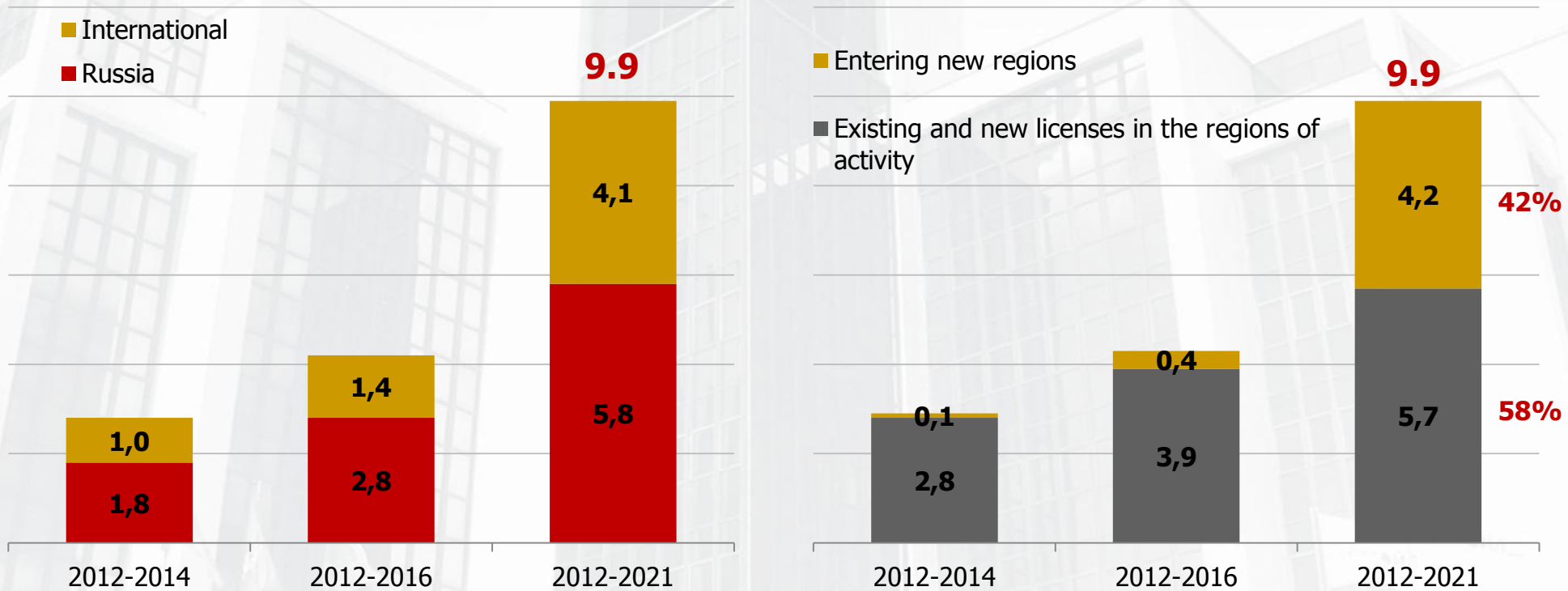
- Full replacement of reserves
- Hydrocarbon production CAGR > 3,5%
- ROACE on the level of the best peers
- Implementation of investment projects with IRR not below than approved reference rate
- Increase in share of international projects in the Group Free Cash Flow; and in total hydrocarbon production up to 20% by 2021 (including acquisitions)
- Sustainable growth of Free Cash Flow



Growth of Reserves

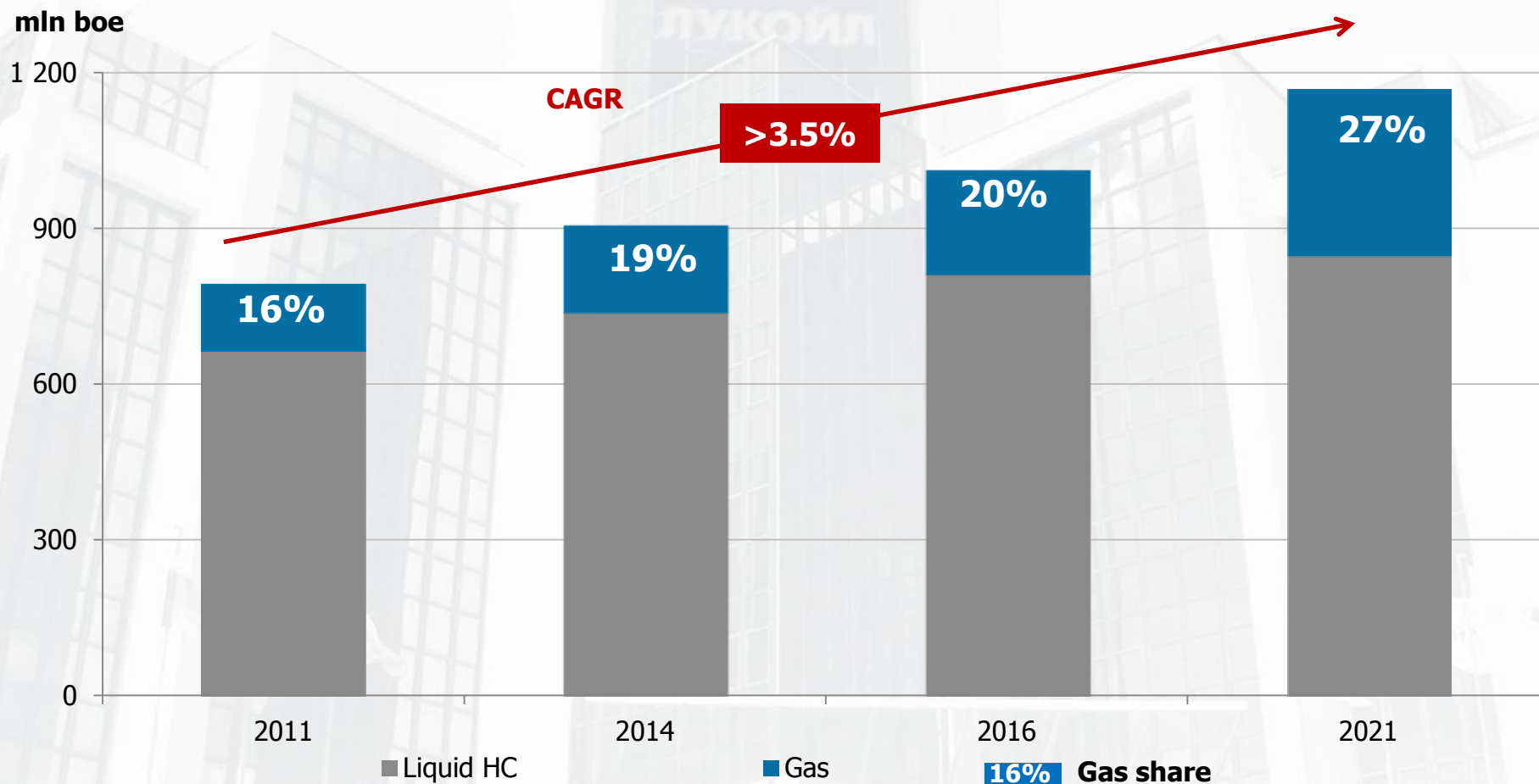


Accumulated growth of C1 reserves , bln boe

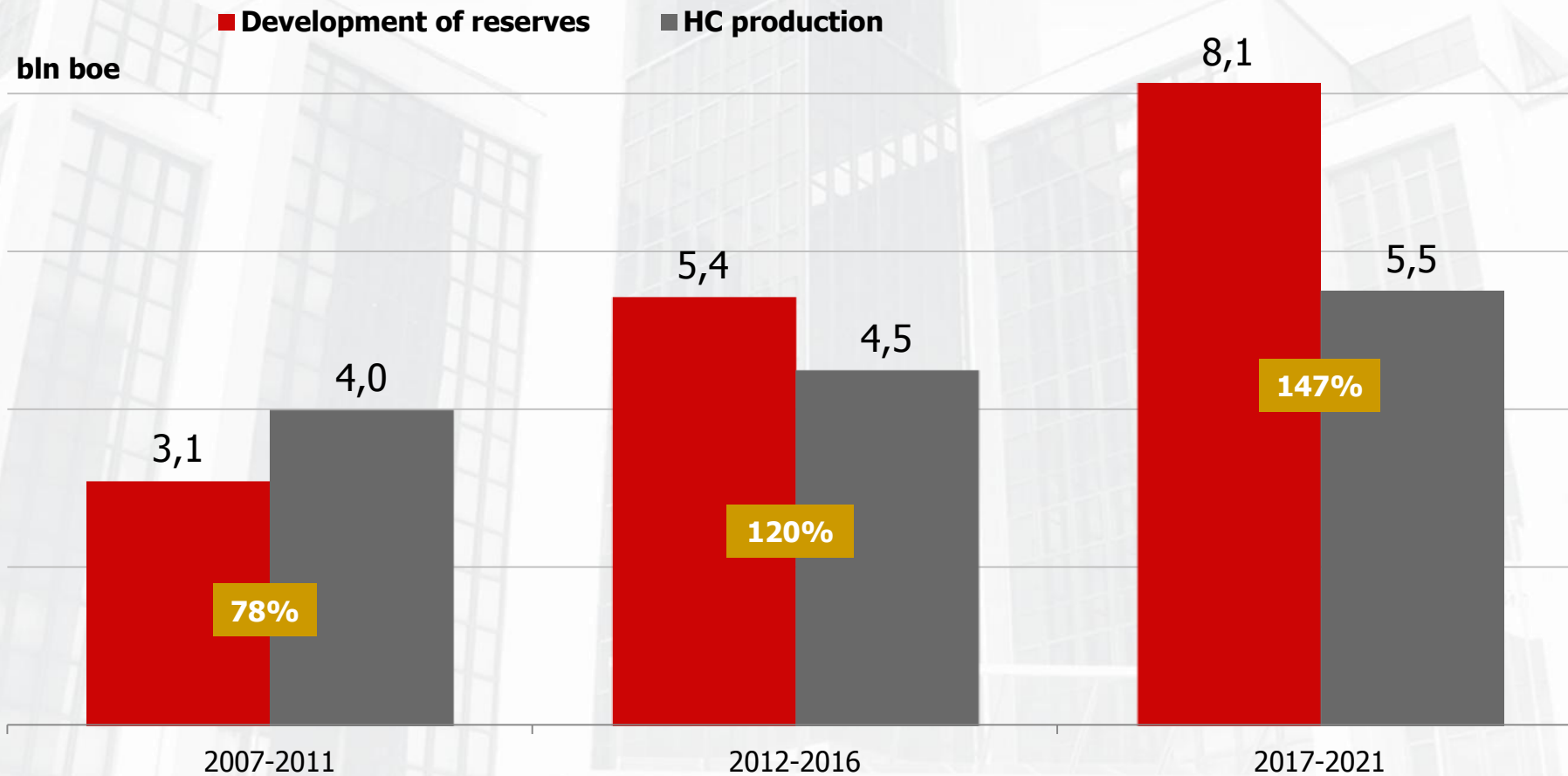


- Full replacement of C1 reserves in the period 2012-2021, including 2012-2014 – 112%, 2012-2016 – 94%
- Finding costs – 1.2 \$ per boe

2012-2021 Hydrocarbon Production – 10 bln boe



2012-2021 Development of Reserves – 13,6 bln boe



- **2012-2021 reserves development will amount to 136% of hydrocarbon production**

2012-2021 Development of Reserves, bln boe


13.6
Overseas
2,5
Major projects
Producing fields
New projects
Kandym-Khauzak-Shady Kandym 2014
Gissar 29.12.2011
"Early gas"

Karachaganak stage 3 2019

West Qurna – 2 2013

Shakh-Deniz stage 2 2016

Junin-6 2015

Russia
7,5
Producing fields
New projects
Yu. Korchagin field
Trebs and Tittov 2013

Krasnoleninskoye
East Lambeyshorskoe 2012

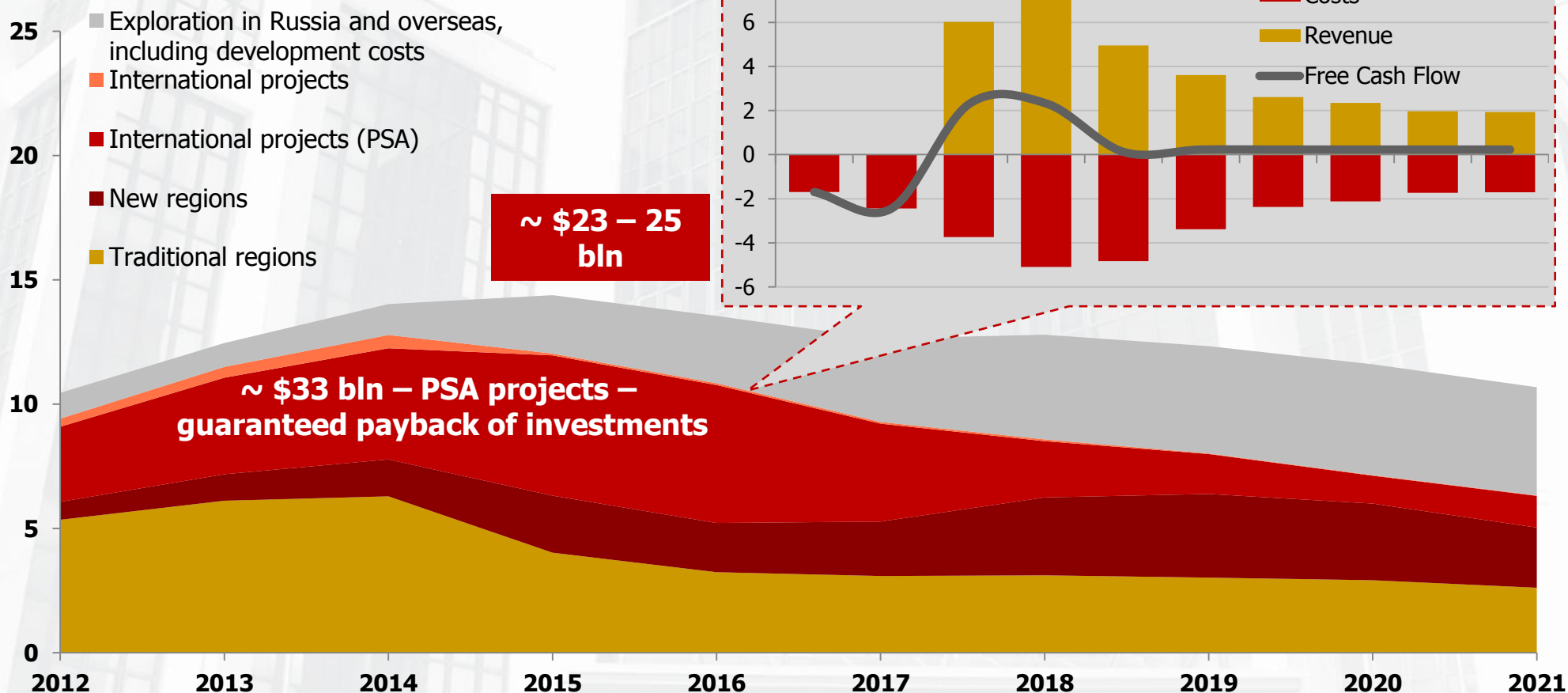
Vat-Yeganskoye
V. Filanovsky 2015

Yaregskoye (Lyaelskaya area)
Pyakyakhinkoye 2016

Usinskoye (permo-carbon)
**Increase in
oil recovery
factor in
Russia**
3,6



2012 – 2021 E&P Capex – ~\$125 bln

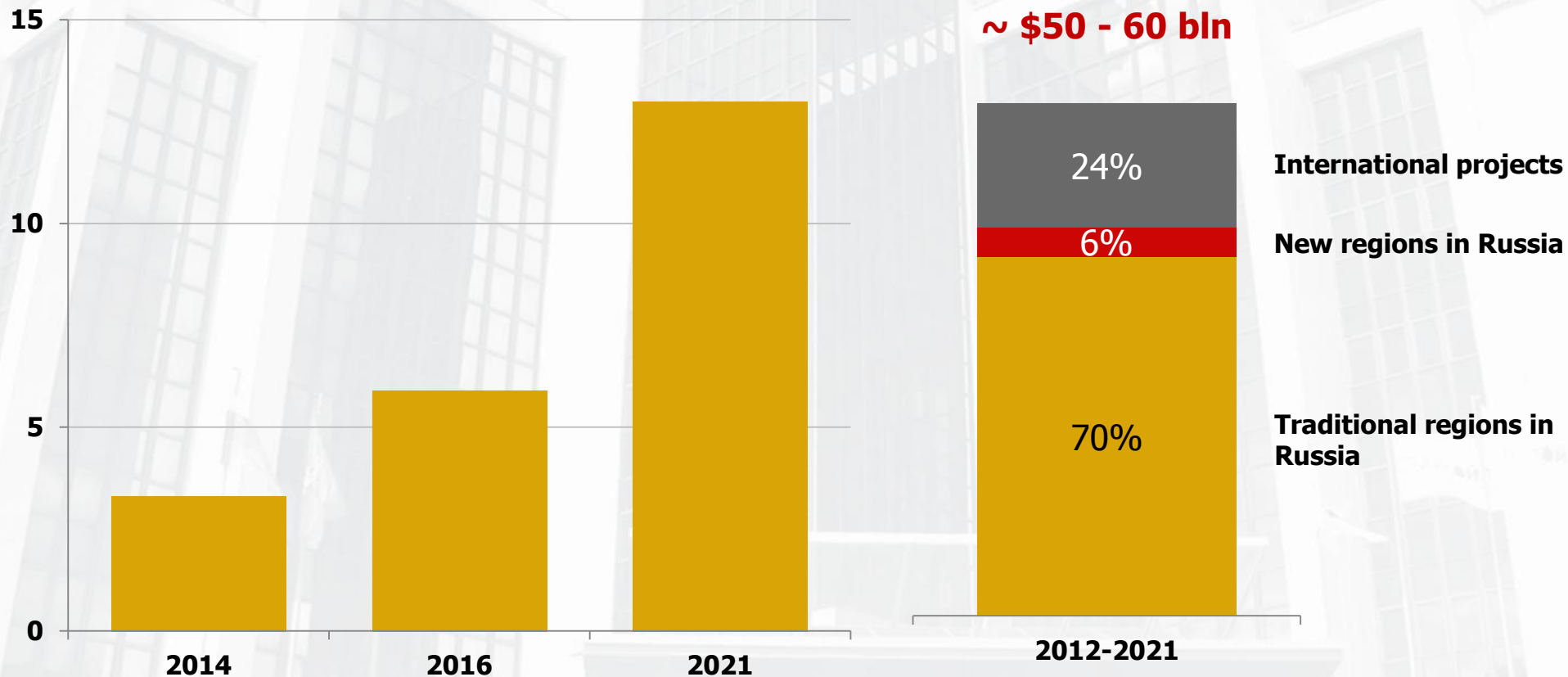




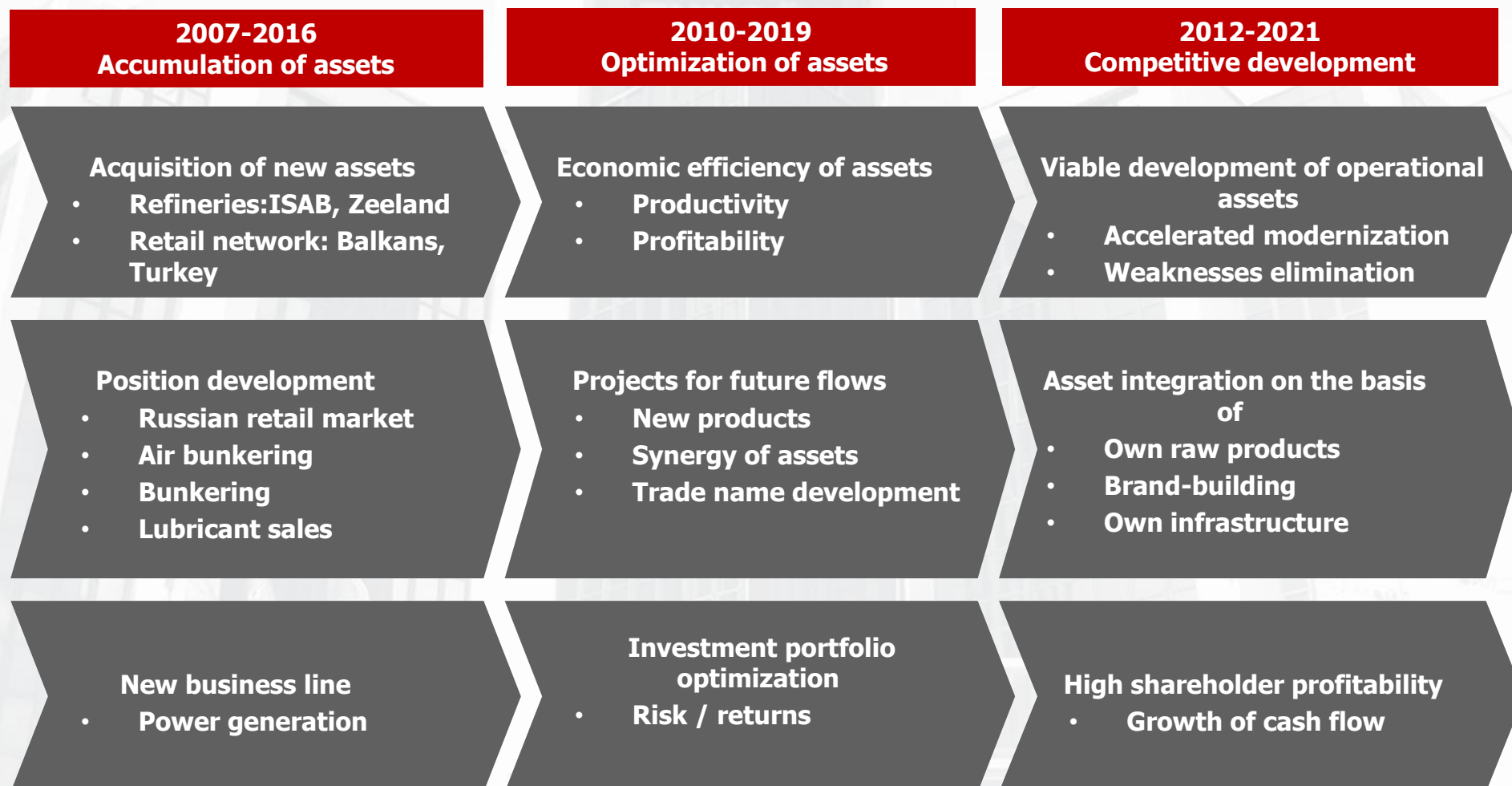
E&P Free Cash Flow



Free Cash Flow, \$ bln



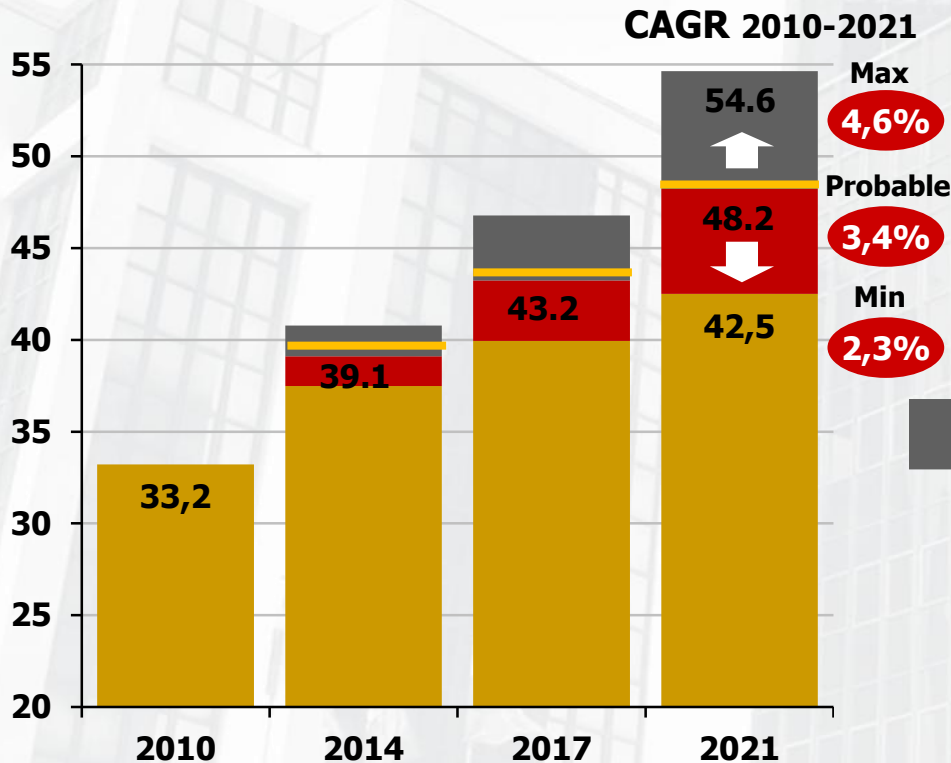
R&M Strategy Evolution



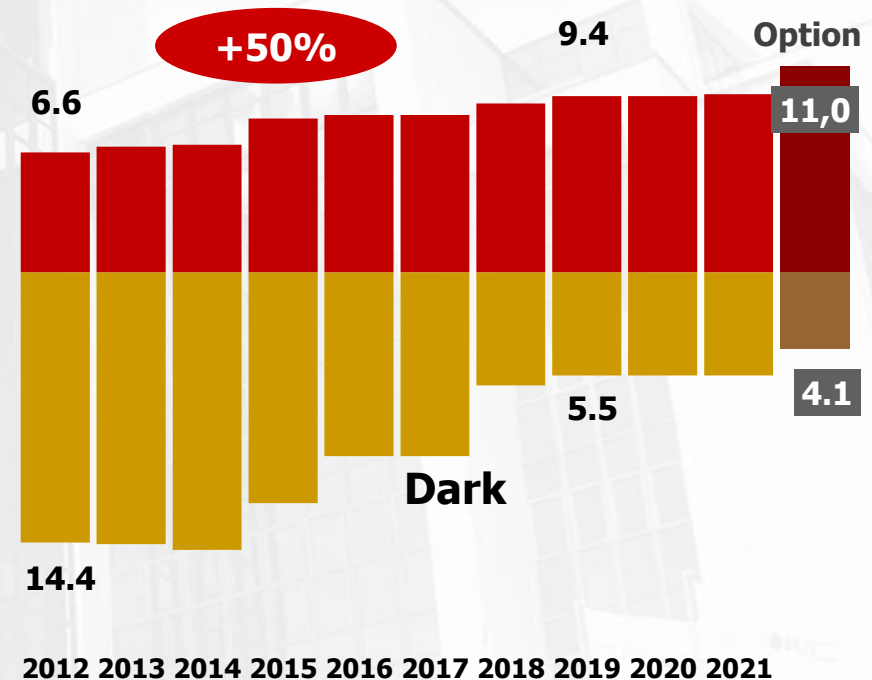
Effective Implementation of Conversion Projects to Secure a Competitive Advantage in the Markets of Russia



2011-2021 gasoline consumption forecast, mln t



Gasoline producer #1 in Russia, mln t



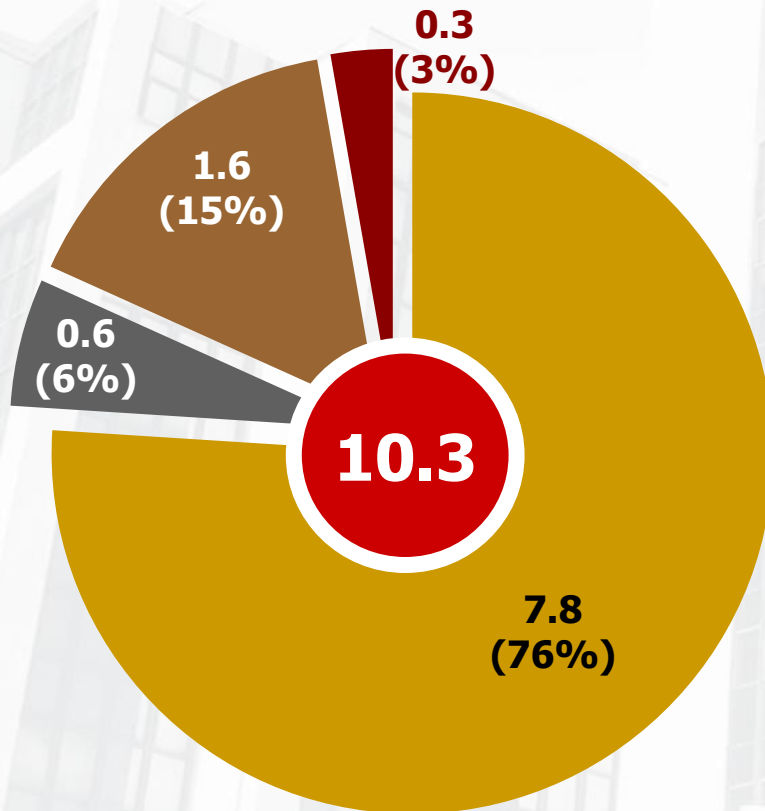
- Growing domestic demand for gasoline ensures high return on conversion projects at Russian refineries

- 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%)

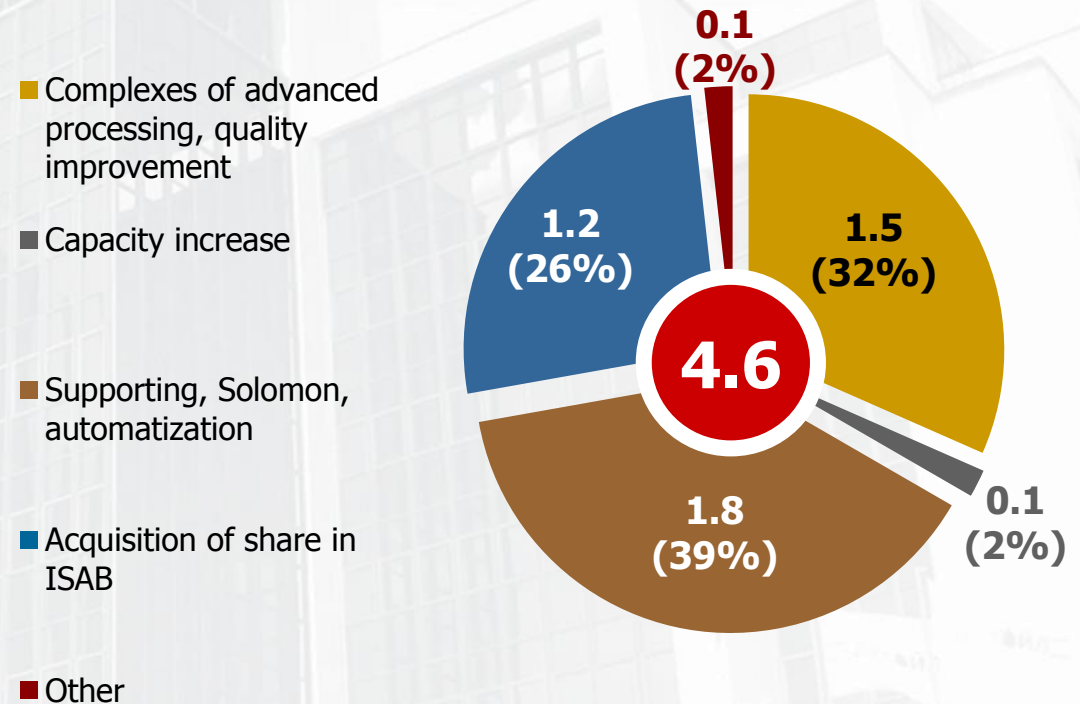
2012-2021 Oil Refining Investments



Investments in Russia, \$ bln



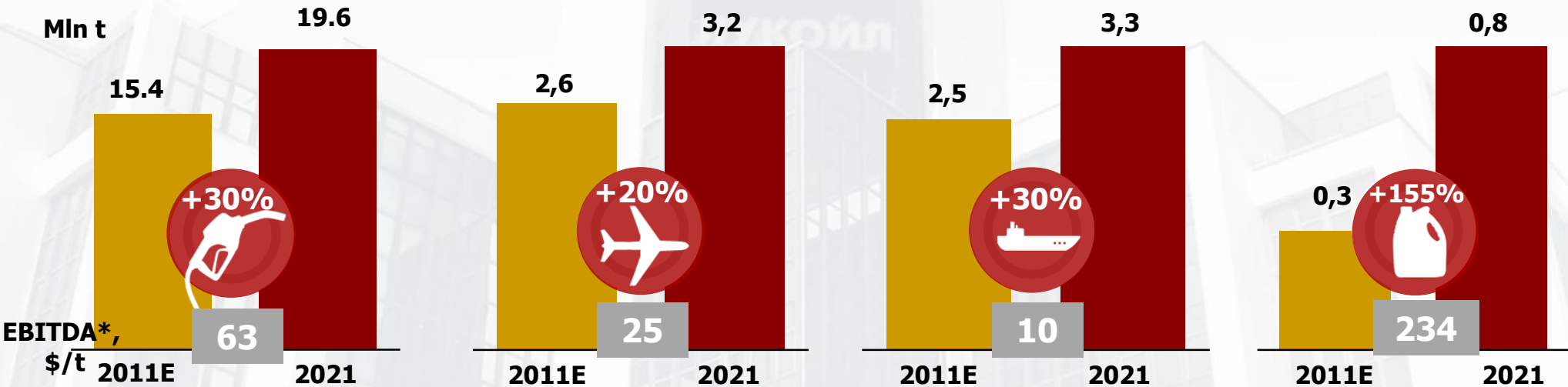
Investments internationally, \$ bln



- 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

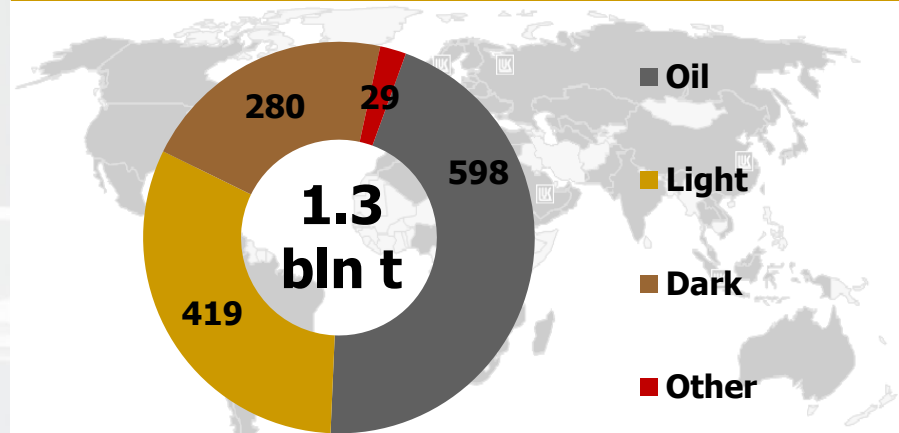


Major line of development:

- '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

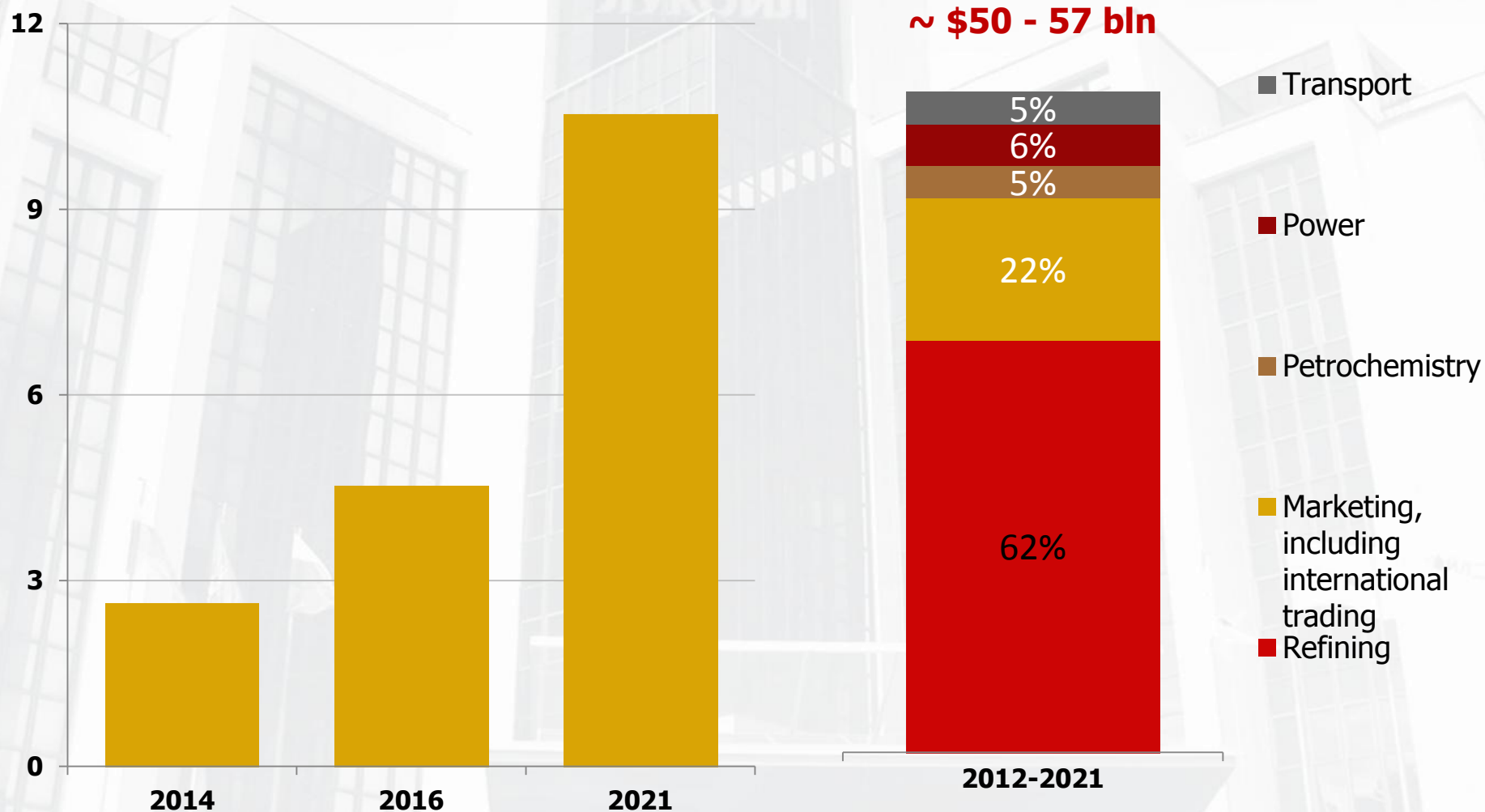
LITASCO – 10-year export deliveries



R&M Free Cash Flow



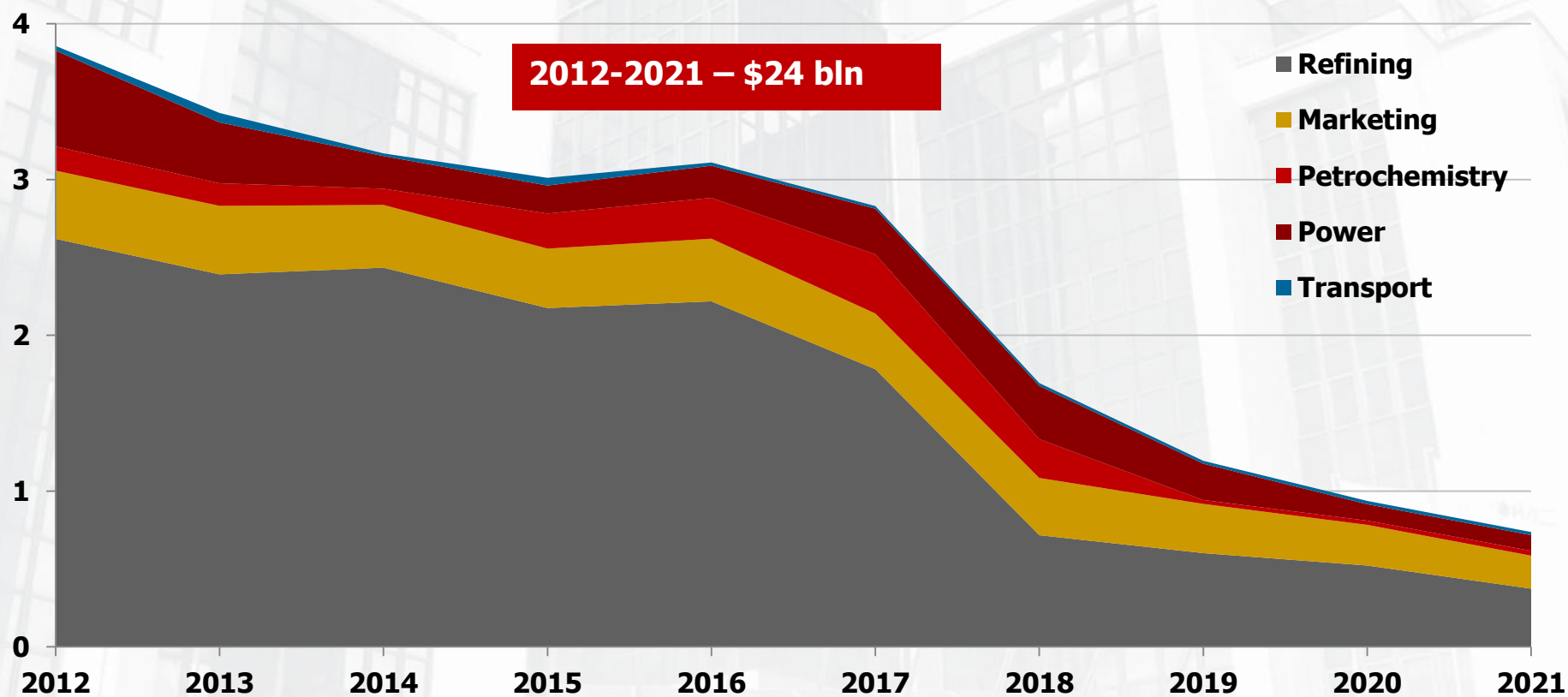
Free Cash Flow, \$ bln



R&M Capex



Capital expenditures, \$ bln

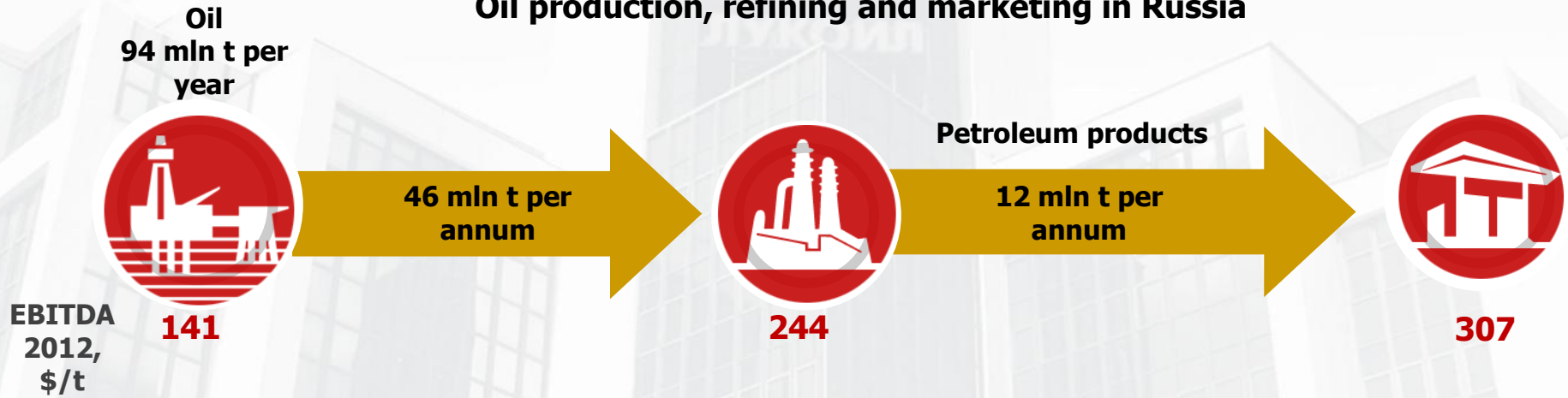




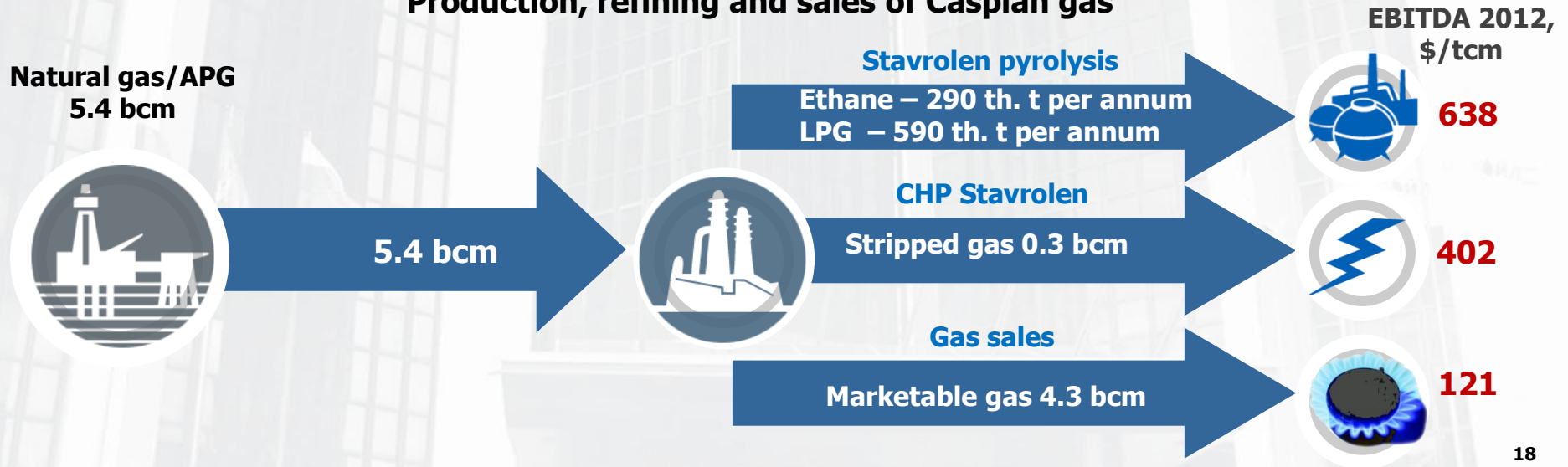
Value Chain



Oil production, refining and marketing in Russia



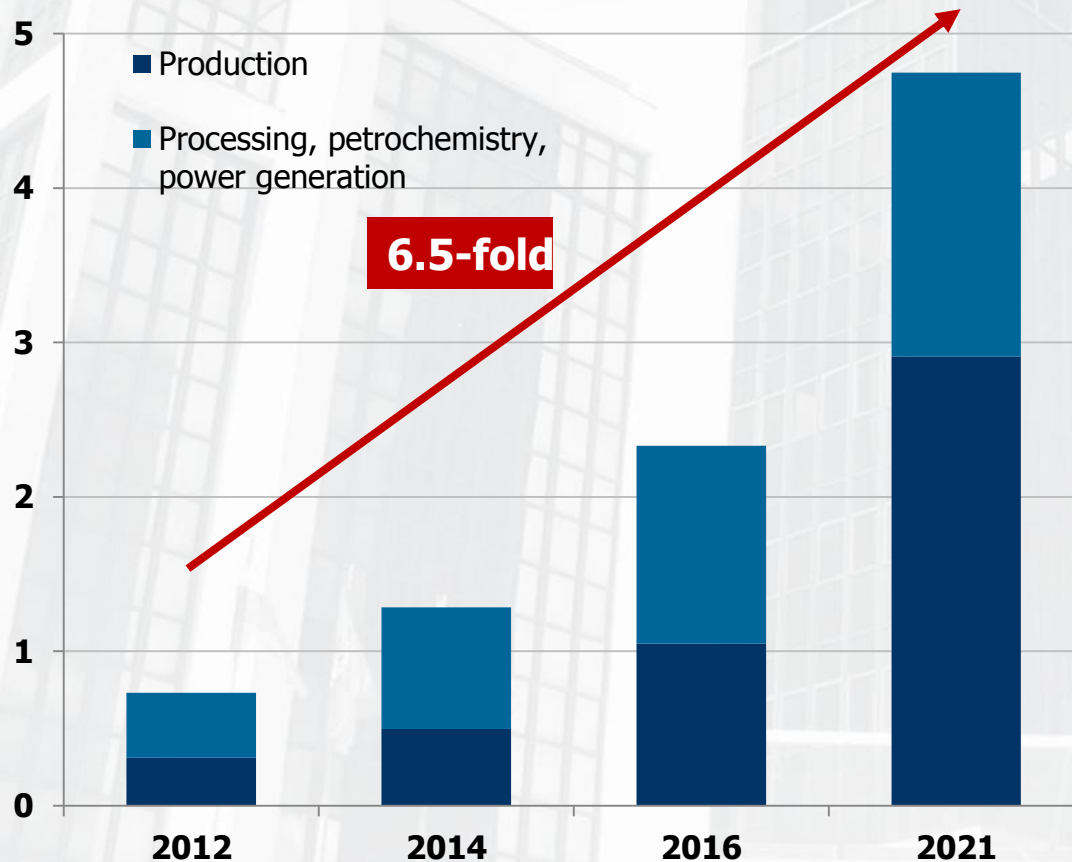
Production, refining and sales of Caspian gas



LUKOIL Gas Strategy in Russia



Gas projected EBITDA in Russia, \$ bln



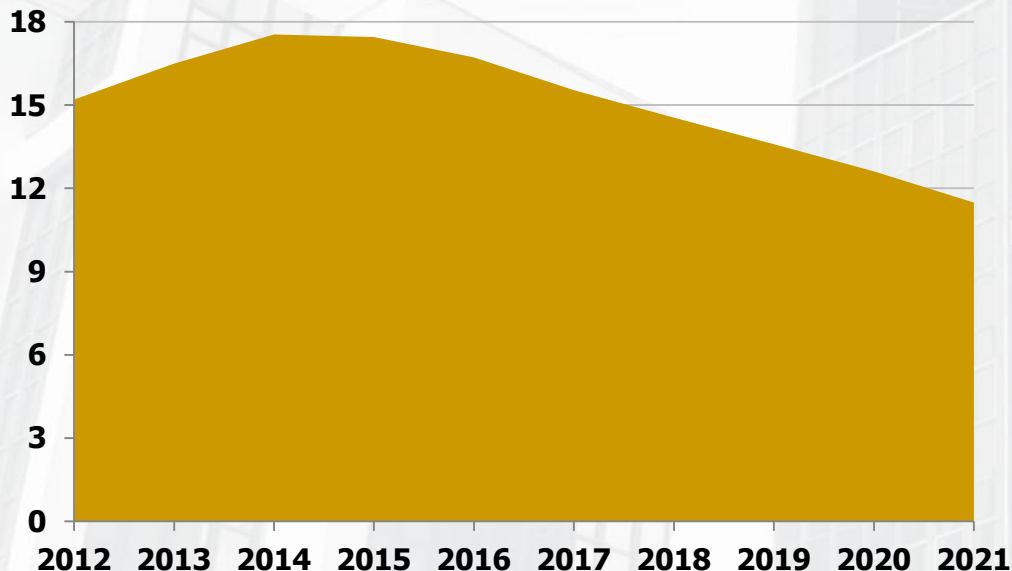
- **6.5-fold EBITDA increase by 2021**
- **In 2011 LUKOIL signed a 5-year contract (2012-2016) with Gazprom to supply up to 12 bcm per year of natural gas from the Bolshekhetskaya Depression**
- **High return on projects is guaranteed by binding of gas price to the FST tariff for the Yamal-Nenets Autonomous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



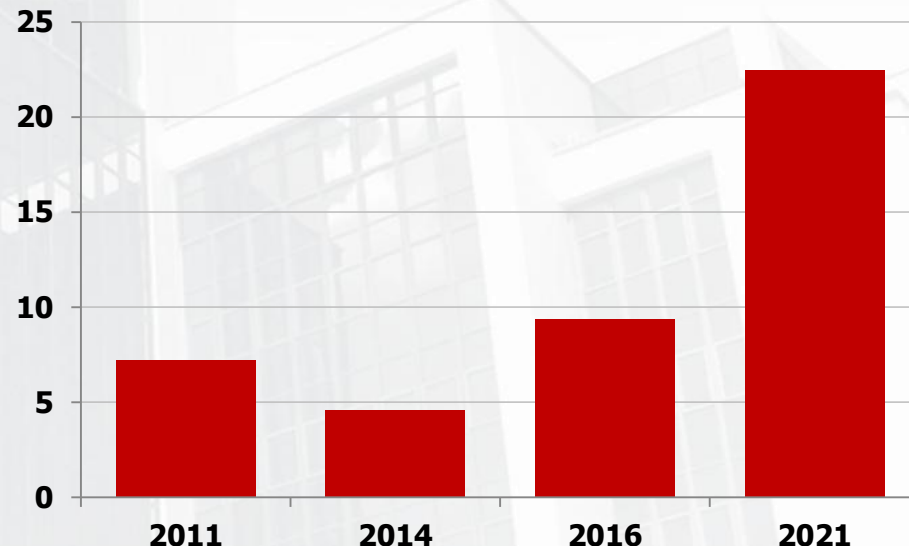
LUKOIL Financials



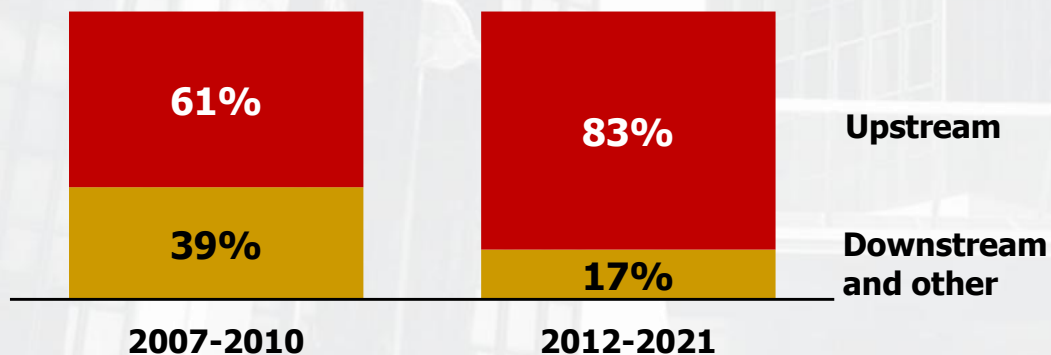
Capital expenditures, \$ bln



Free Cash Flow, \$ bln



Structure of strategic portfolio

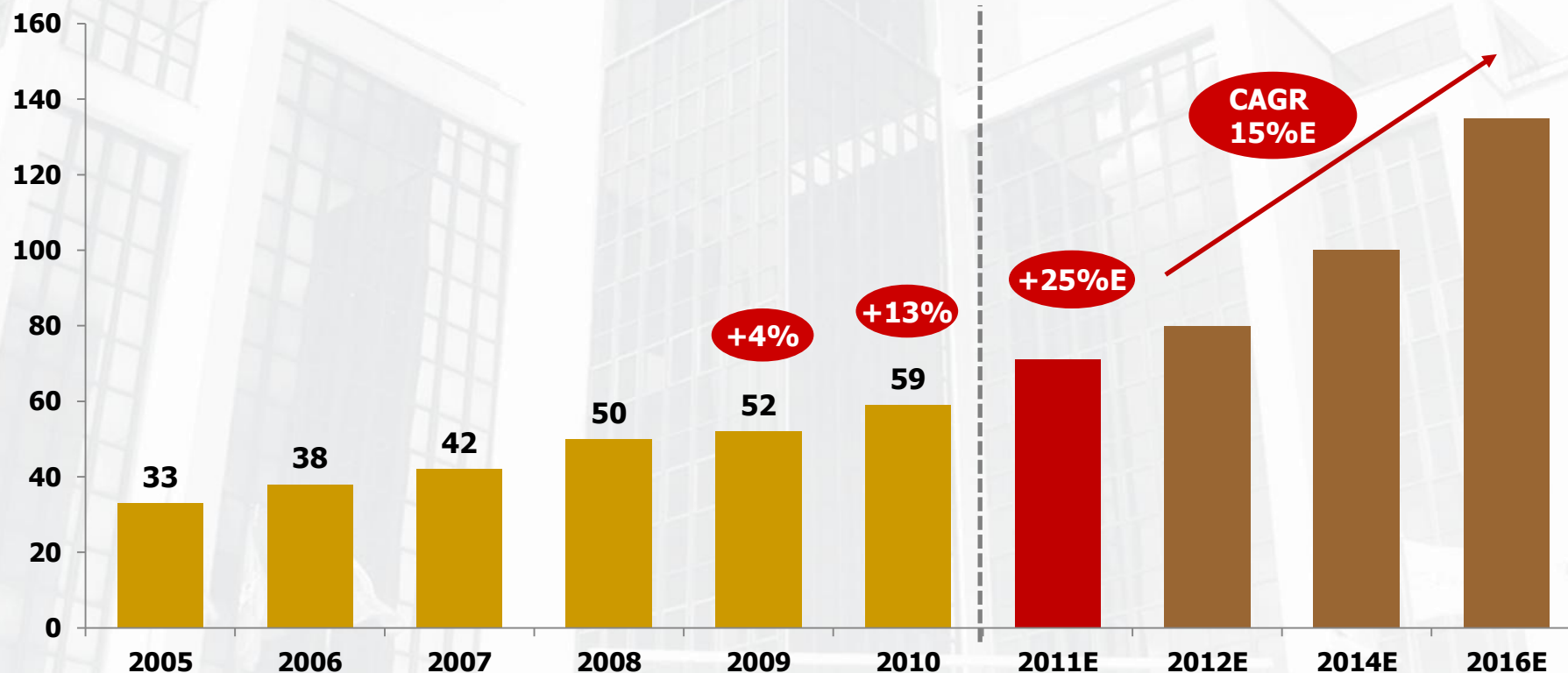


- Free Cash Flow stable growth
- Maintaining ROACE at a competitive level
- Debt-to-equity ratio not above 20%

Increase in Shareholder Value



Dividend per share (not less), RUB



- 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



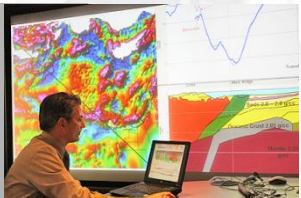
Tax risks

- 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. 22

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**
- **Increase in share of international projects in the Group Free Cash Flow; and in total hydrocarbon production up to 20% by 2021 (including acquisitions)**

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**



LUKOIL

ALWAYS MOVING FORWARD

**Thank you for
your attention!**