



LUKOIL

ALWAYS MOVING FORWARD

9M 2012 Financial Results (US GAAP)

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Strategic development

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November 2012

Forward-Looking Statements



- Certain statements in this presentation are not historical facts and are “forward-looking”. Examples of such forward-looking statements include, but are not limited to:
 - projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
 - statements of our plans, objectives or goals, including those related to products or services;
 - statements of future economic performance; and
 - statements of assumptions underlying such statements.
- Words such as “believes,” “anticipates,” “expects,” “estimates”, “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.
- By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements, including our ability to execute our restructuring and cost reduction program.
- When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.



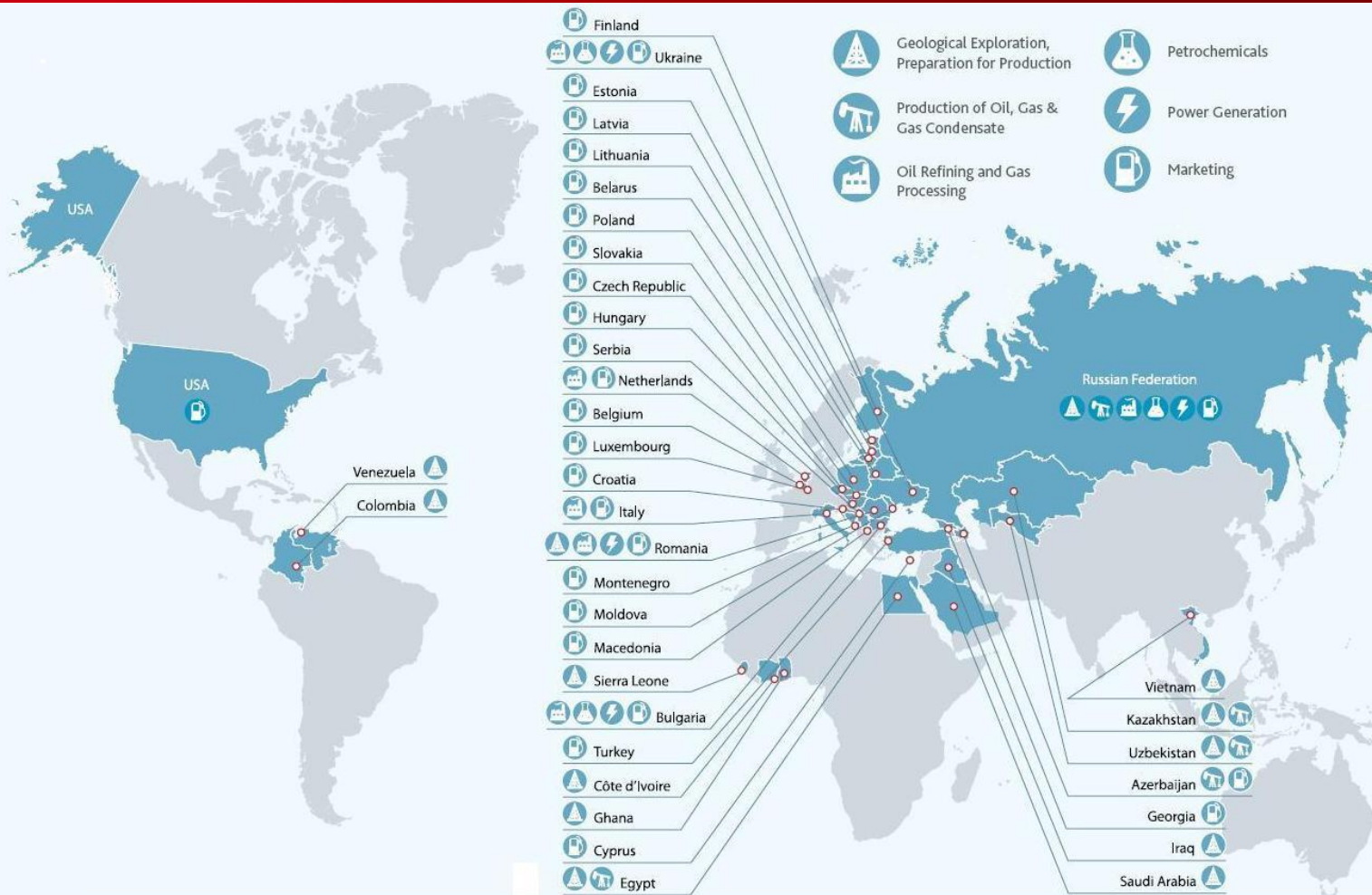
LUKOIL – Going Global



Full Energy Cycle



Vertical Integration



LUKOIL operates in 38 countries



LUKOIL Overview



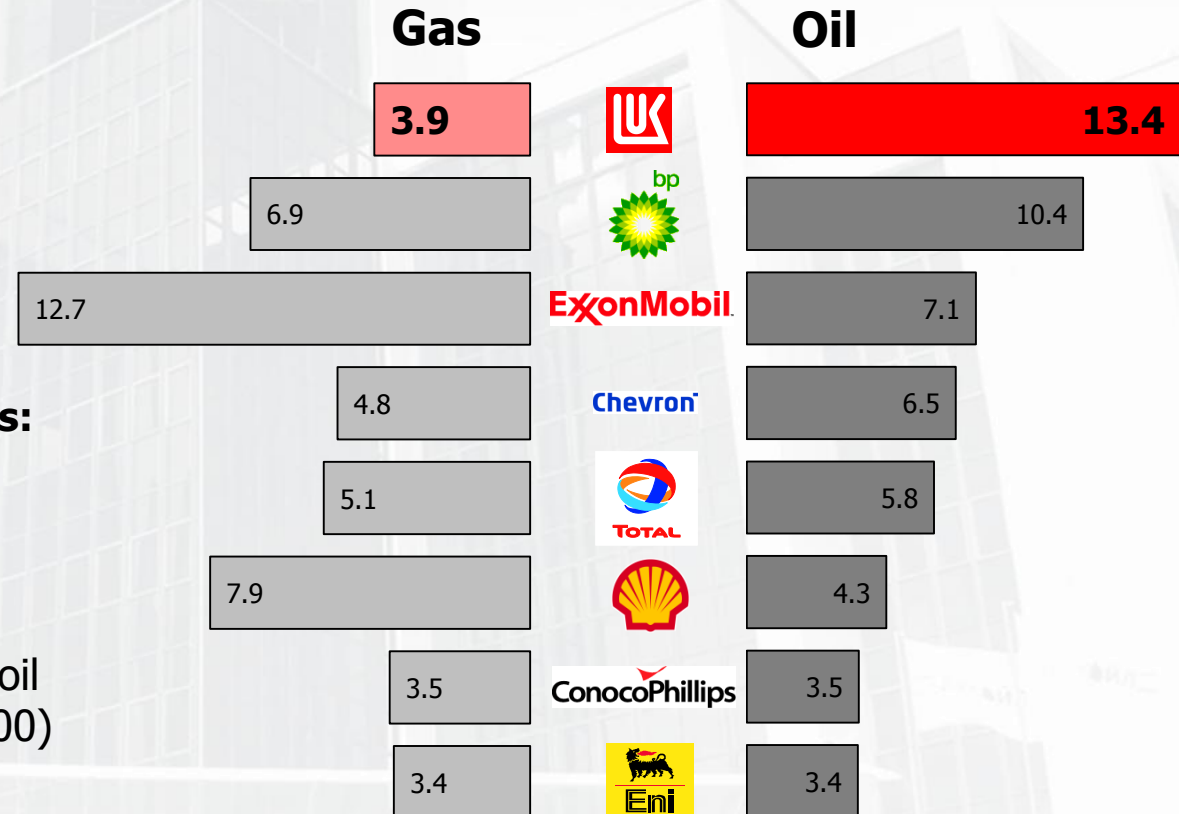
LUKOIL in the world:

- 2.2%** of oil production
- 1.8%** of oil refining
- 1.6%** of oil trade
- 1.0%** of proved oil reserves

LUKOIL in the world corporate ratings:

- №10** among 250 biggest energy companies (Platt's)
- №8** among publicly traded integrated oil companies (The Fortune Global-500)
- №71** among 2,000 largest companies worldwide (The Forbes 2000)

Proved reserves of hydrocarbons, bln boe



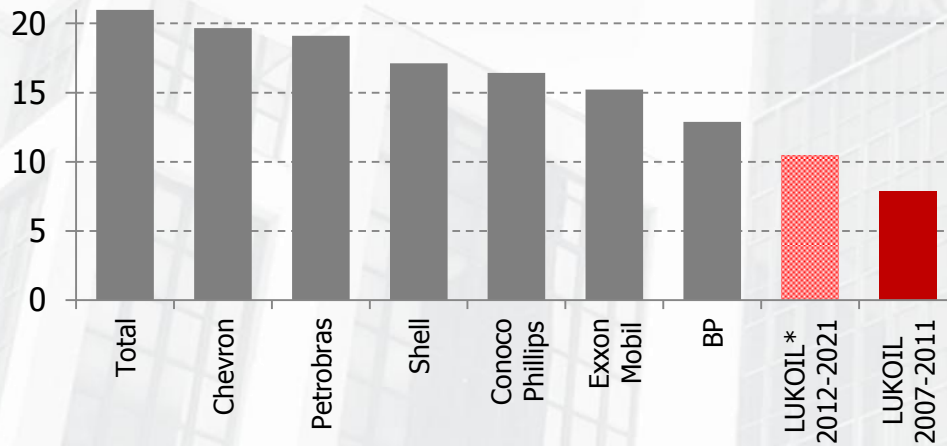
LUKOIL is the world leader in proved oil reserves among private publicly traded companies



Robust Competitive Position in the Industry Globally

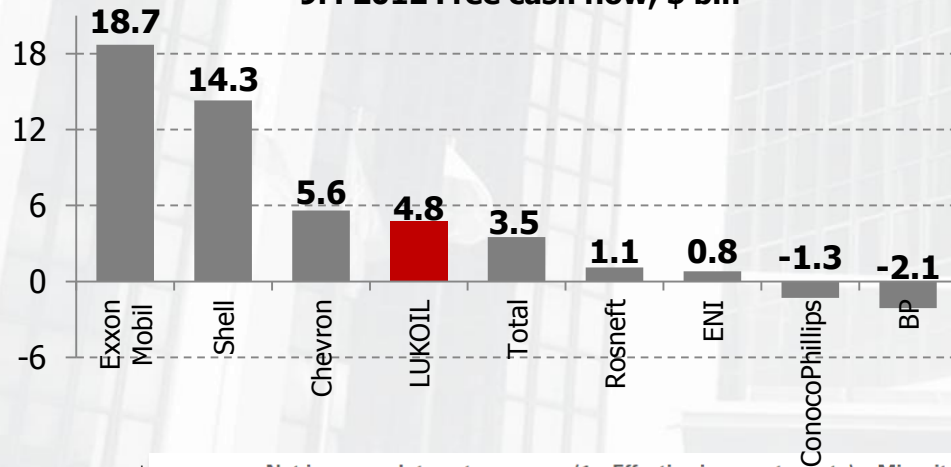


E&P Capital expenditures in 2007-2011, \$ per boe



* Not including self-financing investments in Iraq

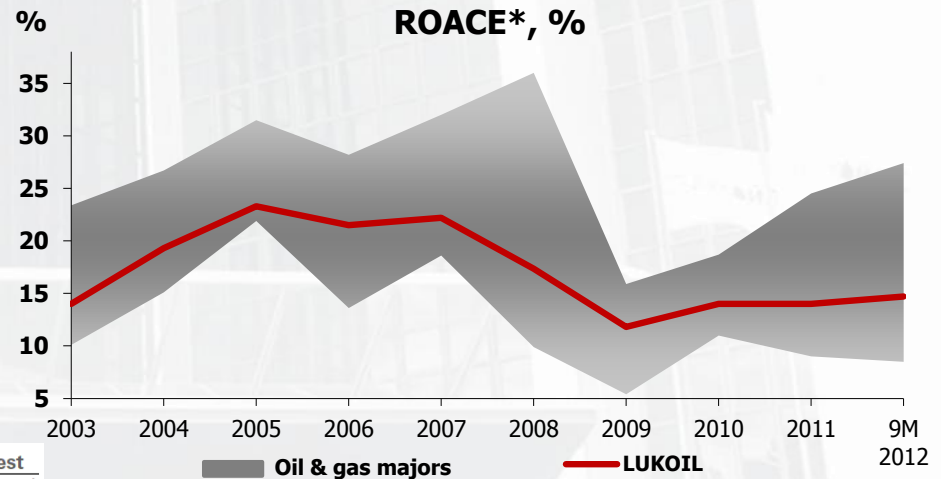
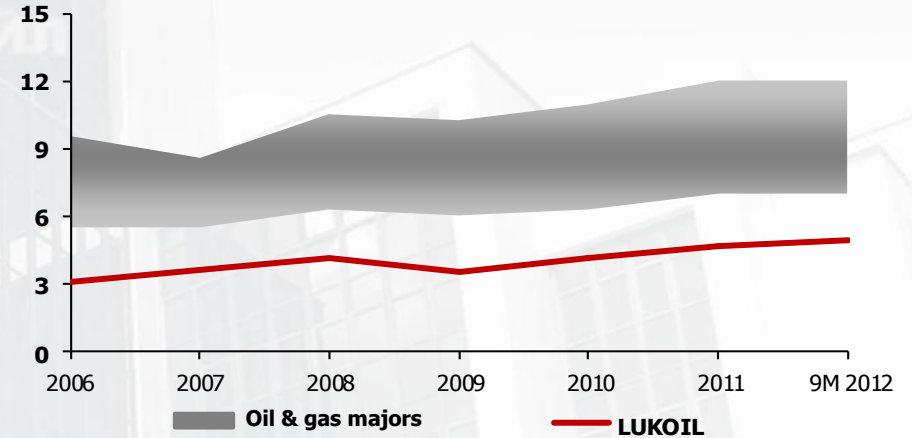
9M 2012 Free cash flow, \$ bln



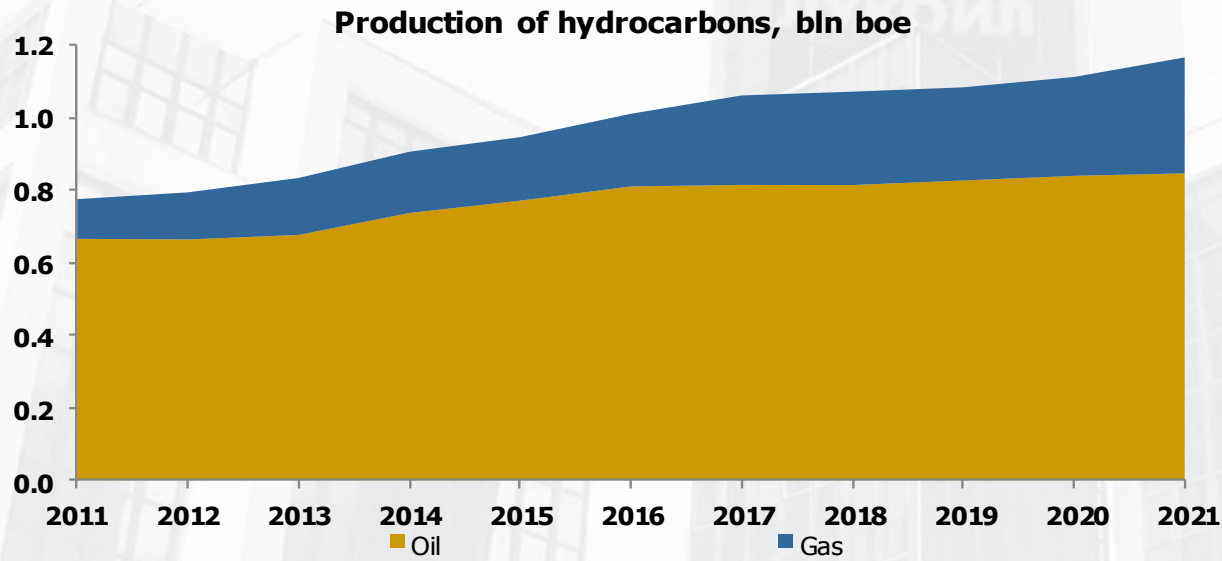
* ROACE = $\frac{\text{Net income} + \text{Interest expense} \times (1 - \text{Effective income tax rate}) + \text{Minority interest}}{\text{Average for the year (Equity} + \text{Long-term debt} + \text{Short-term debt} + \text{Minority interest})}$

Oil & Gas majors include ExxonMobil, Chevron, Royal Dutch Shell, BP, ConocoPhillips, Total, Eni
Source: Companies' financial statements.

Lifting costs per boe, \$



Production of Hydrocarbons Will Grow Due to New Projects and Stabilization of the Old Ones

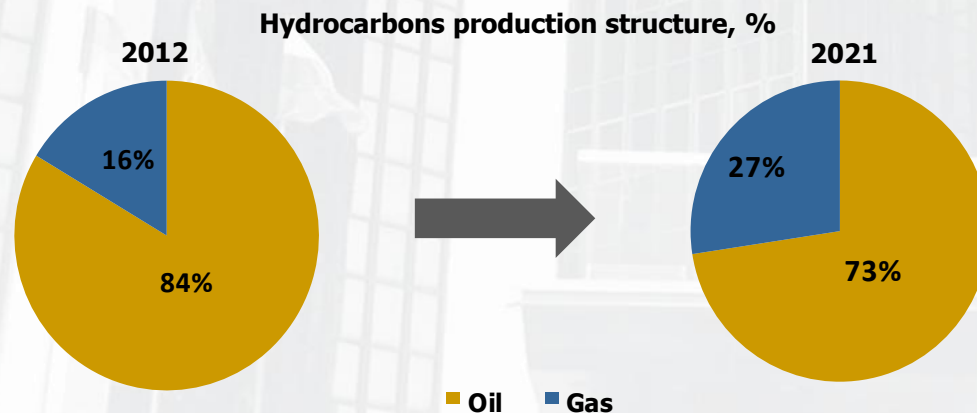


CAGR 2011-2021:

- Hydrocarbons > **3.5%**
- Liquid HC > **2.3%**
- Gas > **10%**

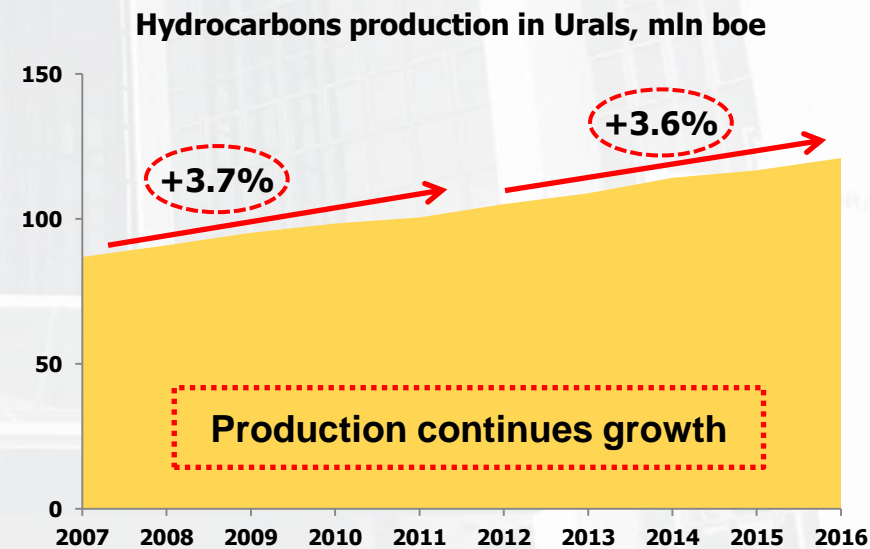
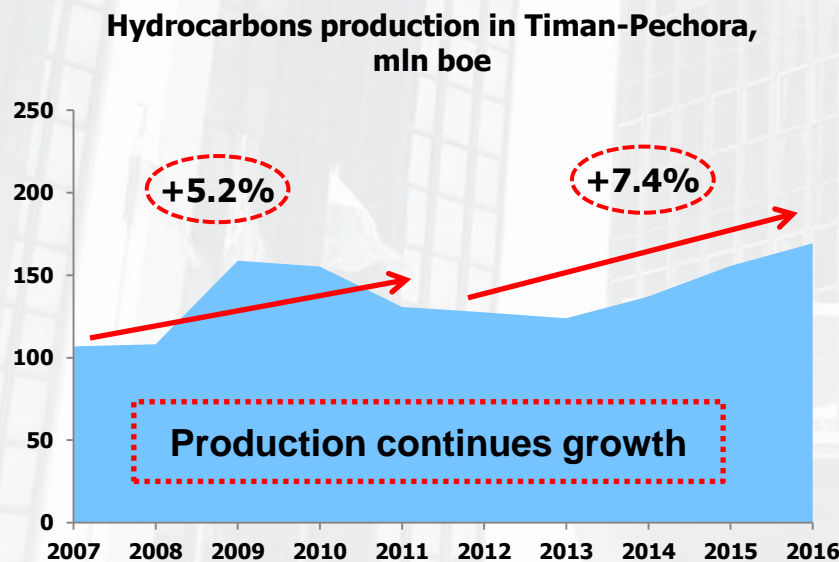
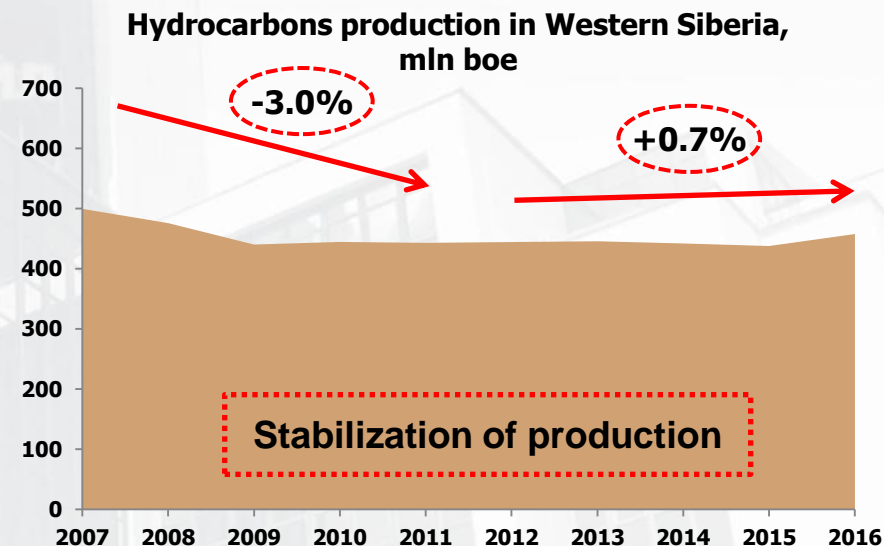
➤ In 2021 new projects will account for about **40%** of the Company hydrocarbons production

➤ In 2012-2021 over **200** new projects with **IRR > 15%** will be launched





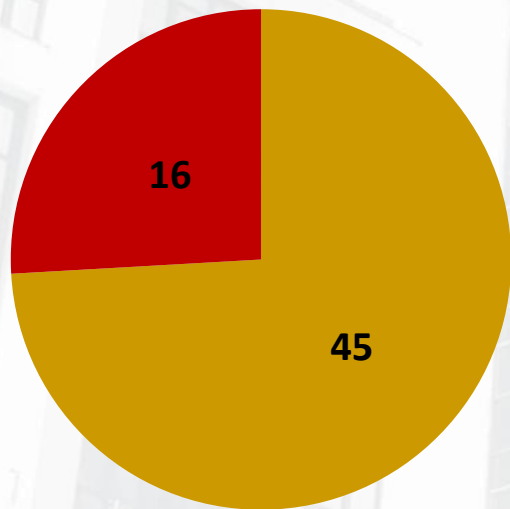
Traditional Regions in Russia



CAPEX Program in 2012-2021



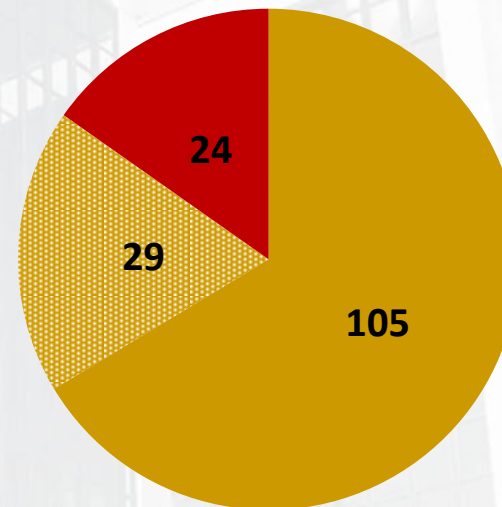
CAPEX in 2002-2011,
\$ bln



■ E&P

■ R&M

Planned investments in 2012-2021, \$ bln



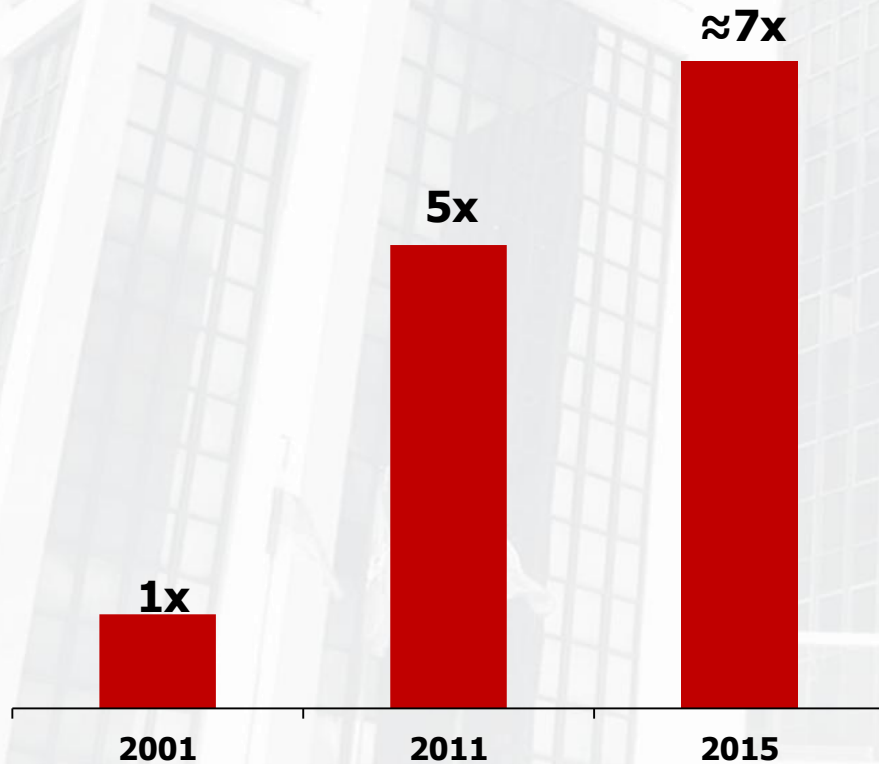
■ Self-financing investments in Iraq

More than **\$29 bln (20%)** of E&P CAPEX in 2012-2021 will be self-financed according to contract (West Qurna-2)

LUKOIL is Dedicated to the Cash Flows Growth



EBITDA



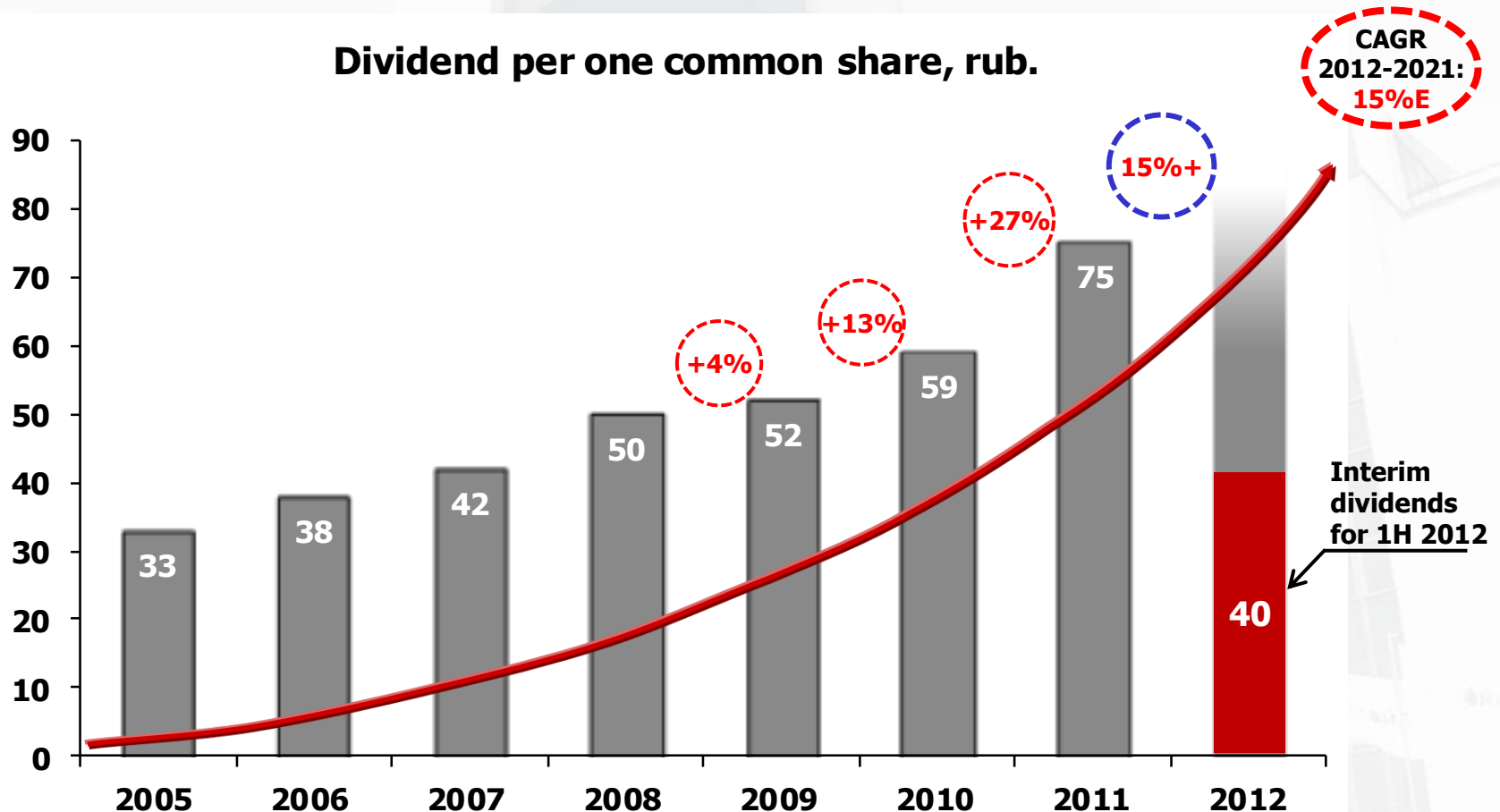
New strategy is dedicated to increase in:

- ✓ High financial effectiveness of all projects (IRR > 15%)
- ✓ Significant production growth (CAGR 2011-2021 > 3.5%)
- ✓ Company financial sustainability (Debt/total capital ≤ 0.2)
- ✓ Investment program flexibility under conditions of changing macroeconomic environment

Increasing Dividend Growth Rate



Dividend per one common share, rub.



- In the mid-term LUKOIL is going to increase dividend payout ratio to **30%**
- Company's goal: dividend payments increase not less than by **15% y-o-y**

9M 2012 Financial Highlights



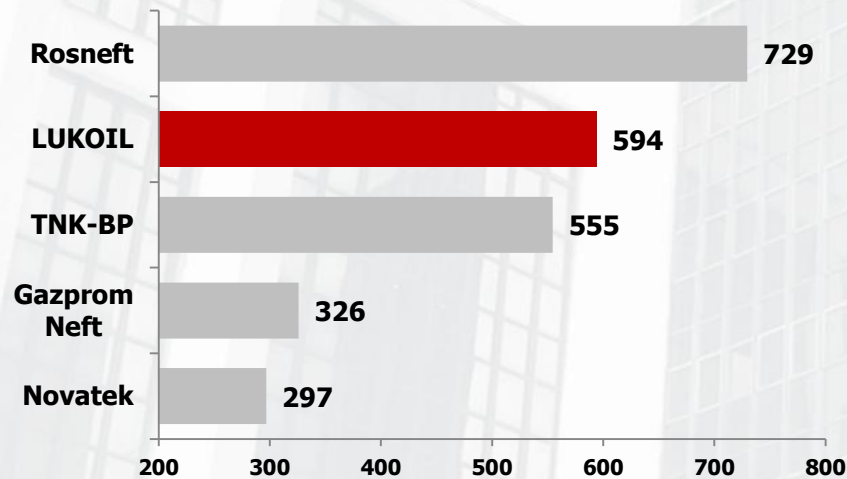
- **Net income – \$ 8,316 million**
- **Basic earnings per share – \$ 10.9**
- **Free cash flow – \$4,761 million**
- **EBITDA – \$14,249 million**
- **Net Debt – \$4,054 million**



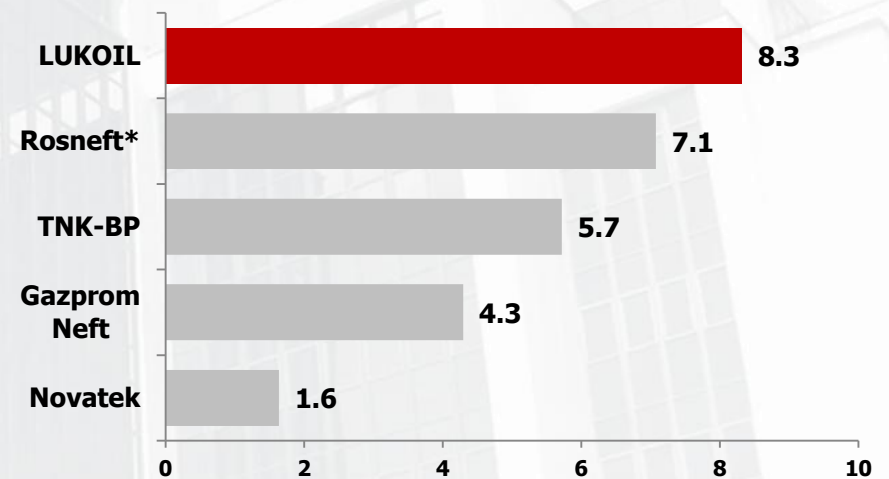
LUKOIL Presents High Financial Efficiency Among Russian Peers



9M 2012 Hydrocarbon production, mln boe



9M 2012 Net income, \$ bln



* Not including one-off non-cash gain of \$2.1 bln from the acquisition of 51% in Itera in 3Q 2012

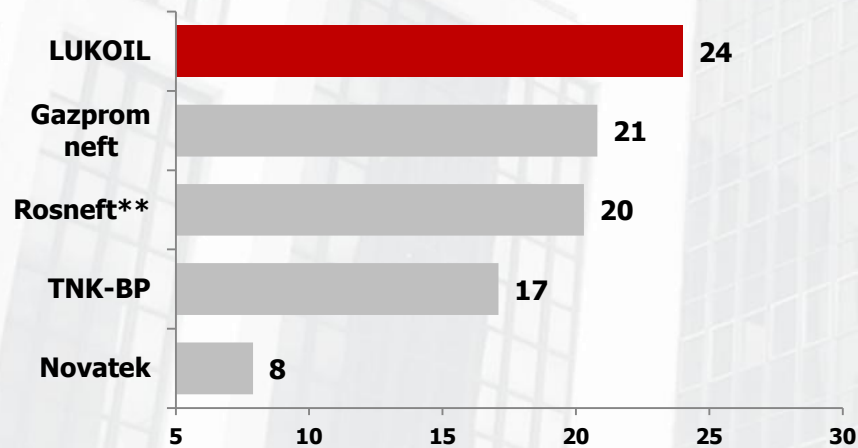
LUKOIL maintains leadership in financial performance in Russian oil and gas industry



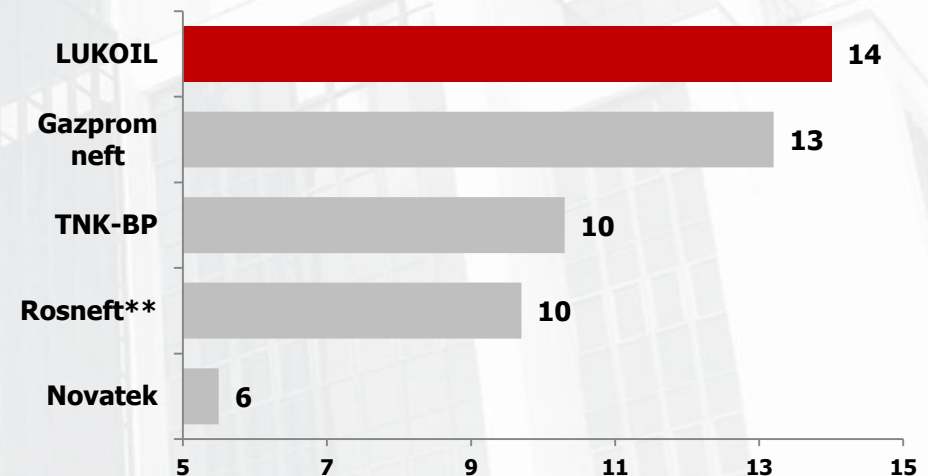
LUKOIL Presents High Financial Efficiency Among Russian Peers



9M 2012 EBITDA*, \$ per boe



9M 2012 Net income, \$ per boe



LUKOIL is the leader in financial performance in Russian oil and gas industry

* EBITDA = Net income + Income tax expense + Depreciation, depletion and amortization + Interest expense – Interest and dividend income

** Not including the gain of \$2.1 bln from the acquisition of 51% in Itera in Q3 2012

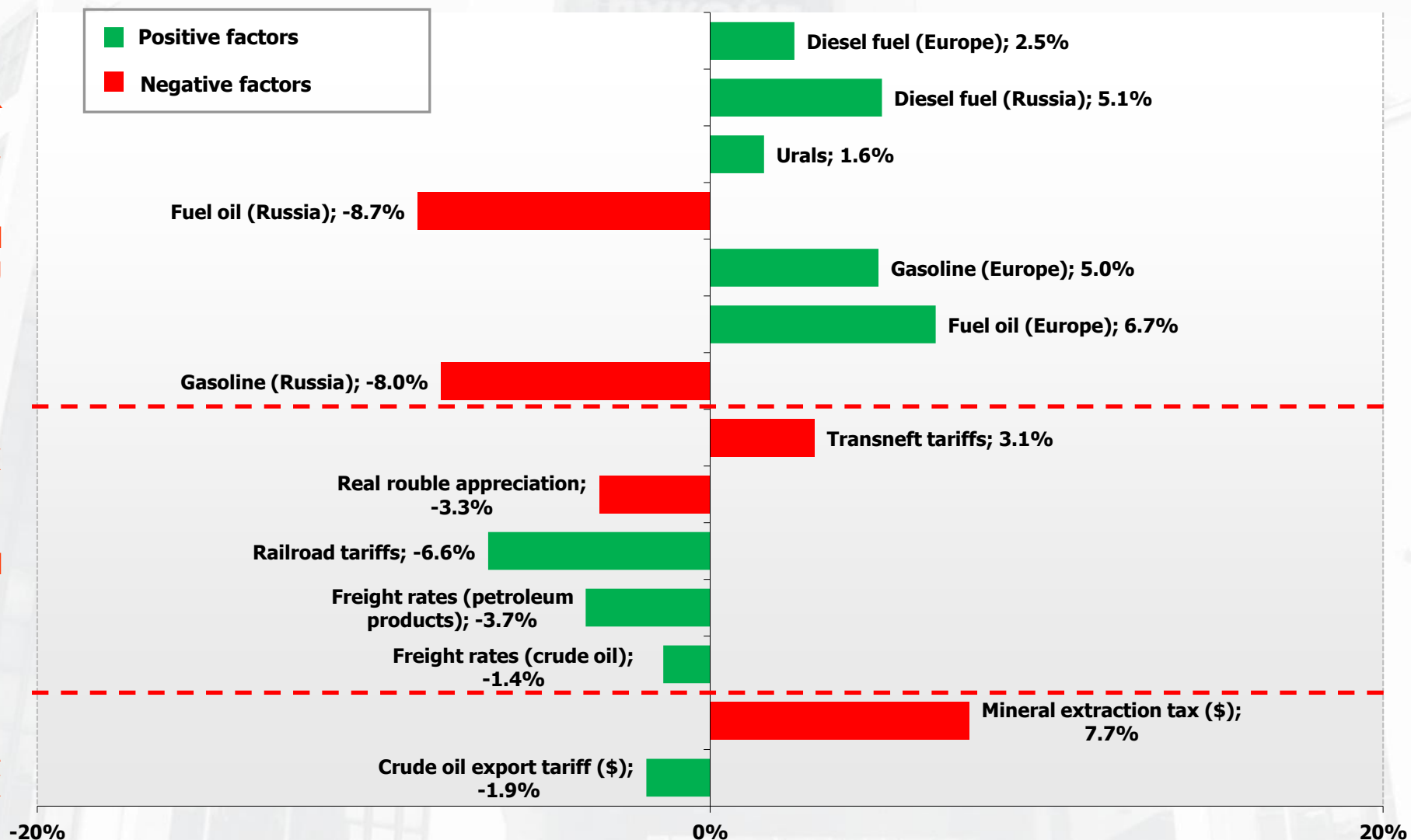
Macroeconomic and Tax Environment



9M 2012 to 9M 2011

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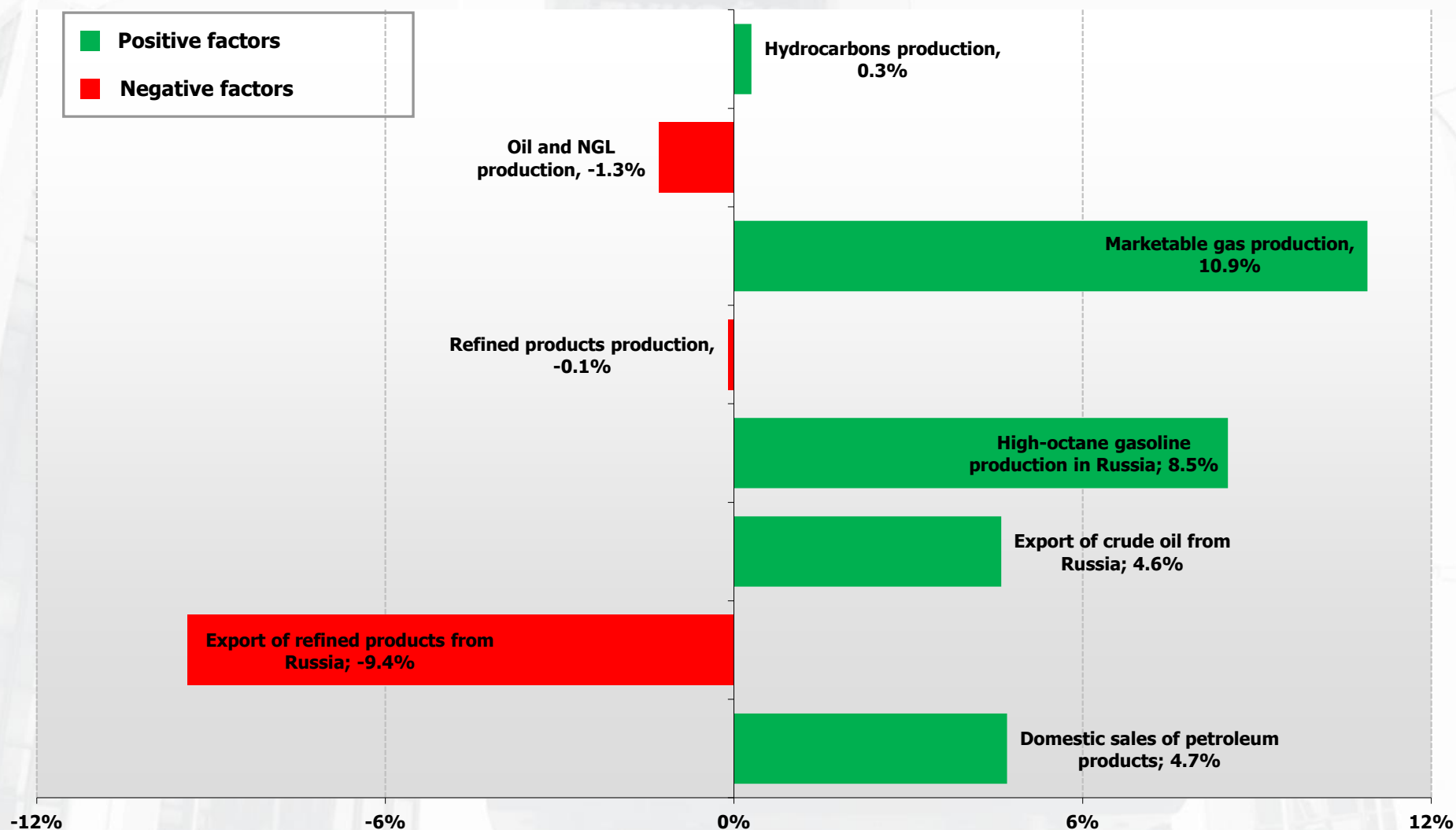
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Main Operating Results



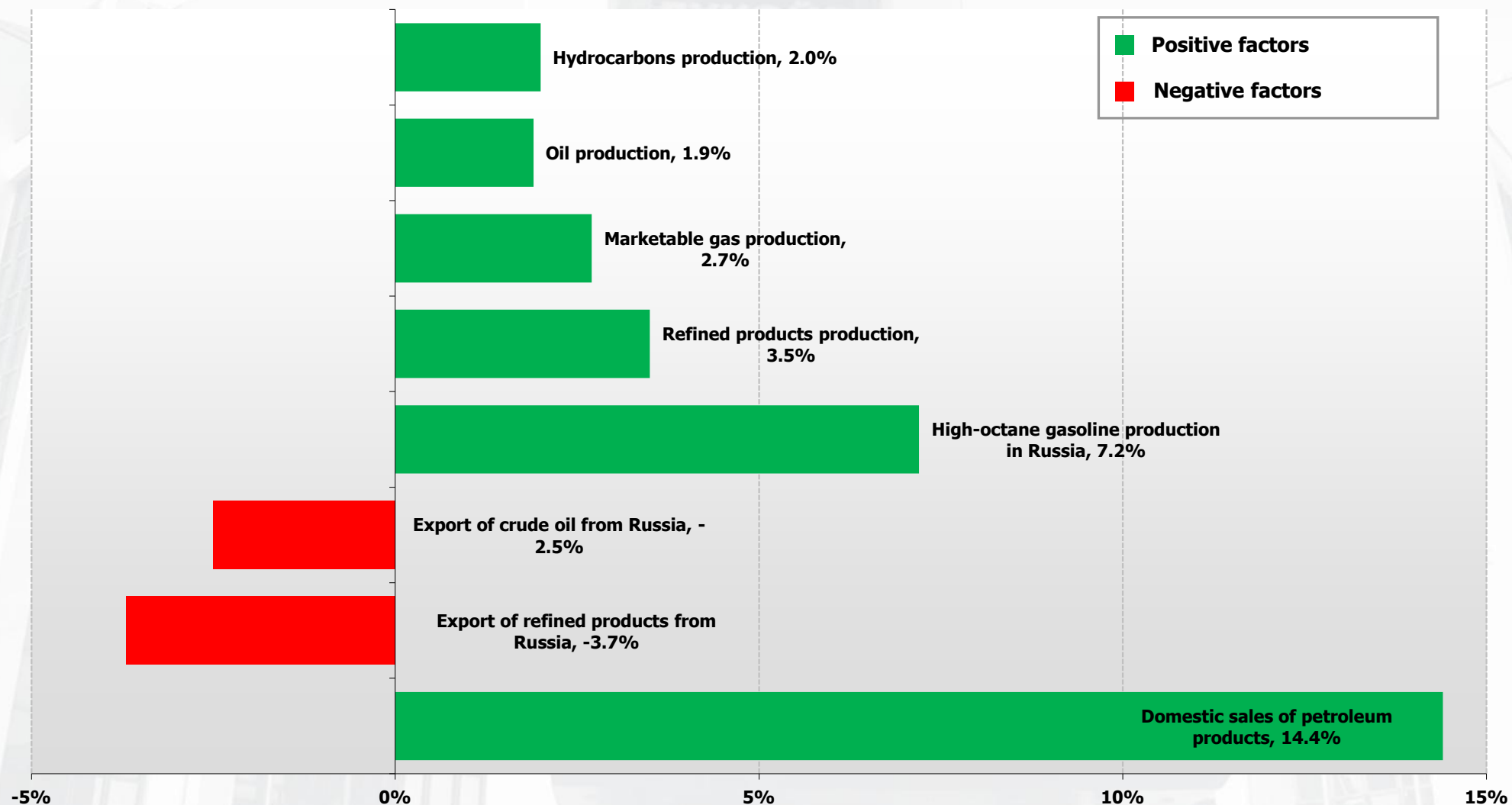
9M 2012 to 9M 2011, %



Main Operating Results



3Q 2012 to 2Q 2012, %





Financial Results



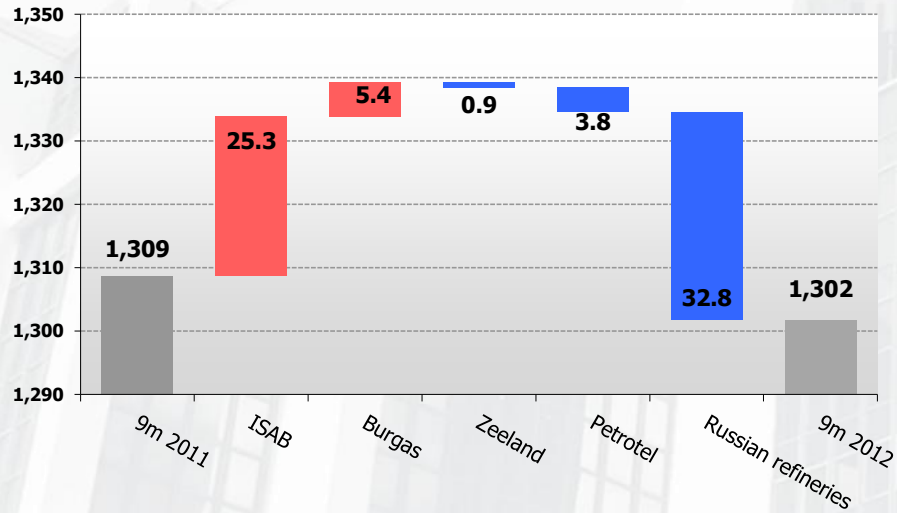
3Q 2012	2Q 2012	Δ, %	\$ million	9M 2012	9M 2011	Δ, %
35,494	32,397	10	Sales	103,152	99,101	4
(2,349)	(2,327)	1	OPEX	(6,891)	(6,858)	0
(8,900)	(9,551)	(7)	Taxes other than income tax (including excise and export tariffs)	(27,506)	(26,330)	4
4,085	2,568	59	Income from operating activities	10,695	11,508	(7)
4,046	2,282	77	Income before income tax	10,348	11,605	(11)
3,509	1,018	245	Net income	8,316	9,012	(8)
4.65	1.34	247	Basic EPS, \$	10.91	11.55	(6)
5,441	3,462	57	EBITDA	14,249	15,316	(7)



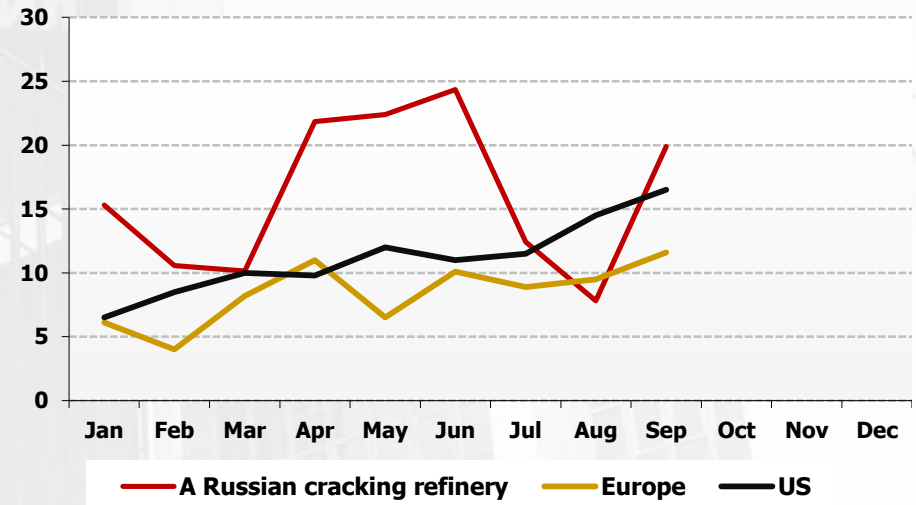
LUKOIL Increases Production of High-Octane Gasoline In Russia



Refinery throughputs reconciliation, Kbpd

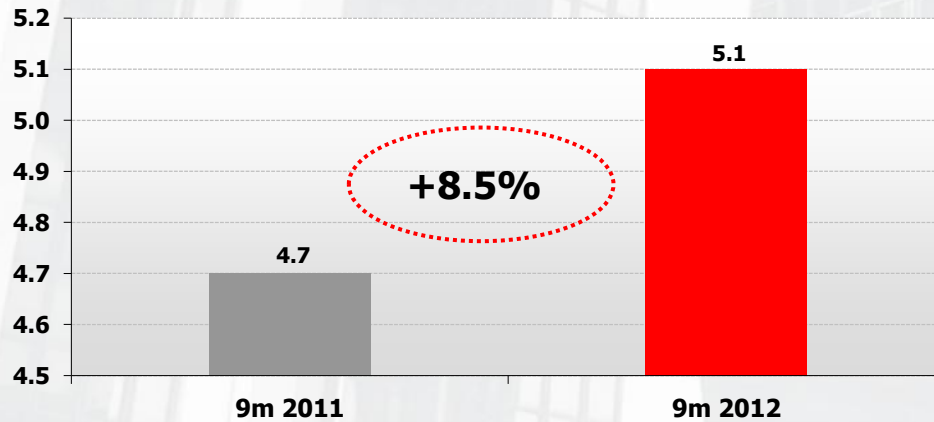


Refining margin, \$ per barrel



Sources: Bloomberg, Reuters, Argus

Production of high-octane gasoline in Russia, mln tons



Production volumes of LUKOIL international refineries increased by 6.9% due to increase in ISAB stake to 80%

Operating Expenses



3Q 2012	2Q 2012	Δ, %	\$ million	9M 2012	9M 2011	Δ, %
971	944	3	Hydrocarbon extraction expenses	2,821	2,842	(1)
446	363	23	Own refining expenses	1,124	1,048	7
194	263	(26)	Refining expenses at third parties and affiliated refineries	720	655	10
325	302	8	Expenses for crude oil transportation to refineries	914	807	13
146	139	5	Power generation and distribution expenses	463	477	(3)
72	84	(14)	Petrochemical expenses	230	250	(8)
195	232	(16)	Other operating expenses	619	779	(21)
2,349	2,327	1	Total	6,891	6,858	0
16,343	14,416	14	Cost of purchased crude oil, gas and products	47,127	43,058	9

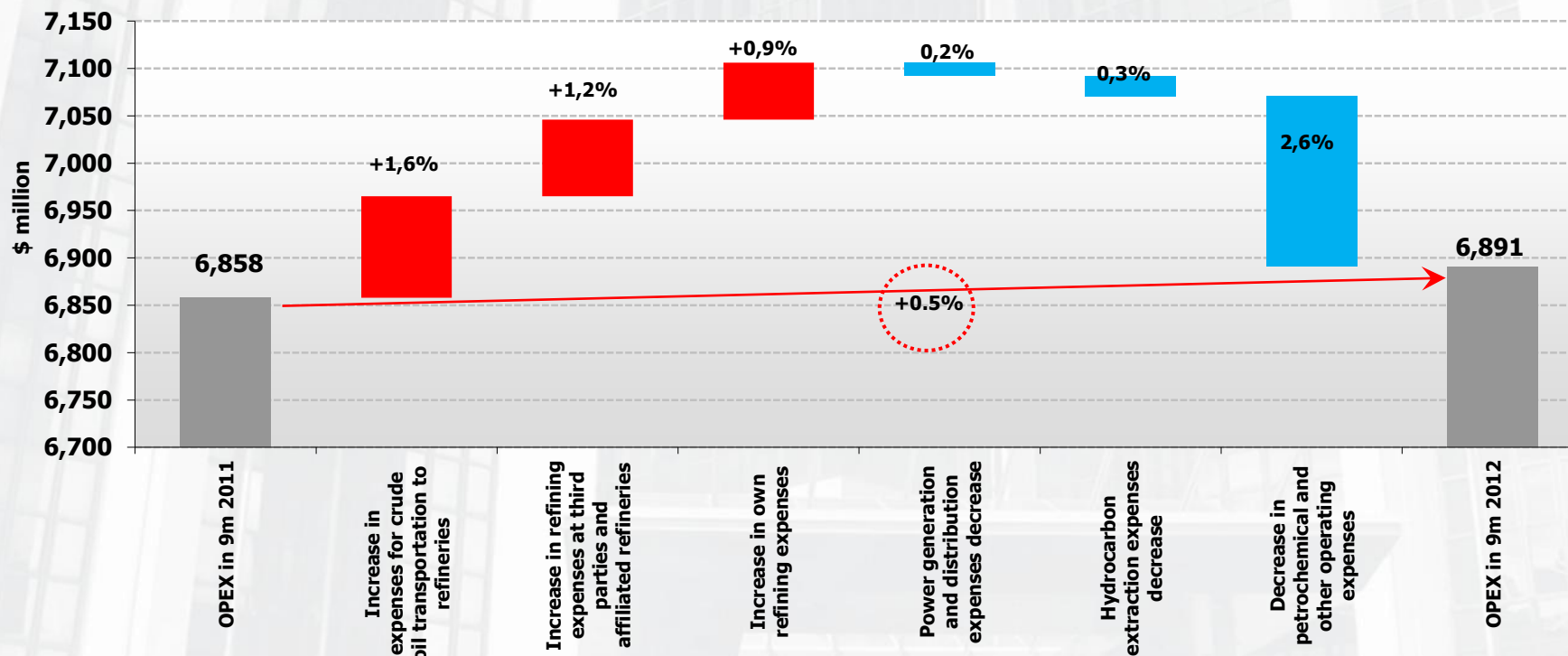
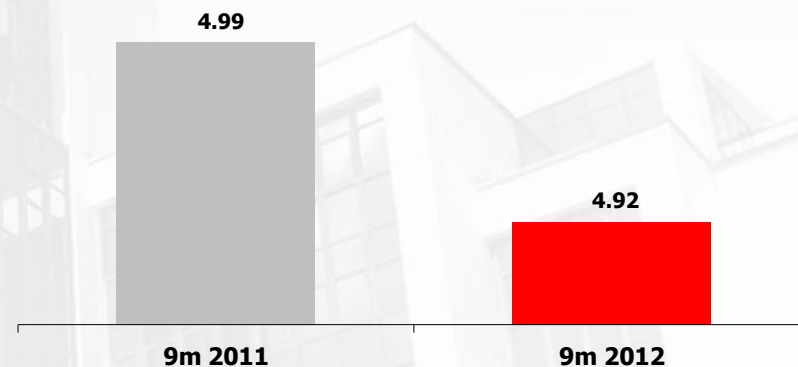


Operating Expenses

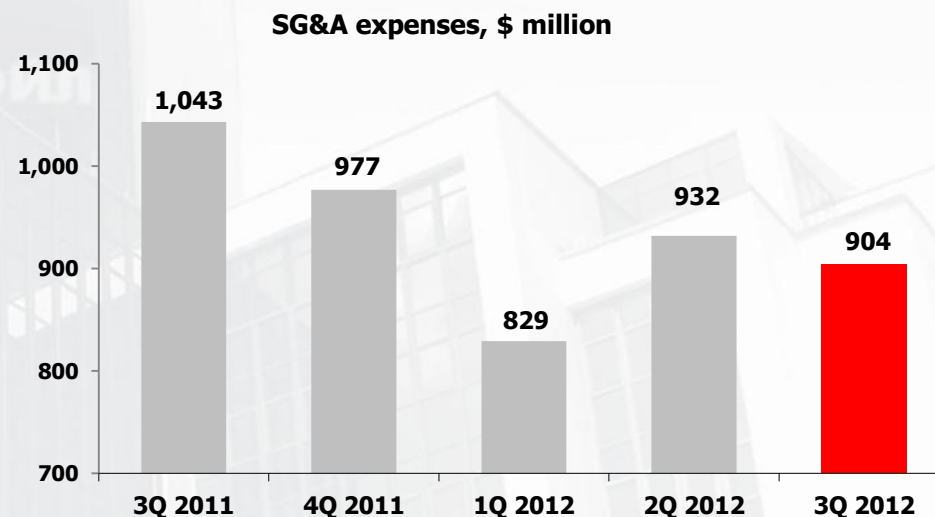
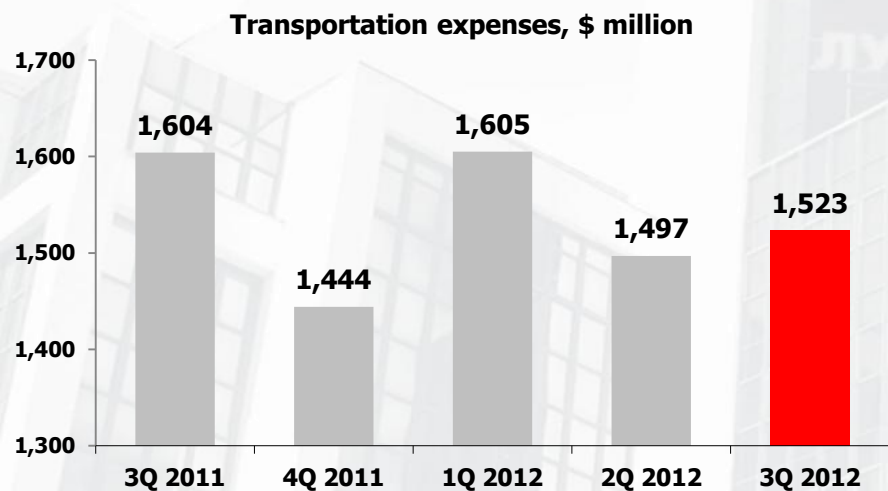


Lifting cost per boe of hydrocarbons production in 9M of 2012 decreased by 1.4% to \$4.92

Lifting costs, \$ per boe

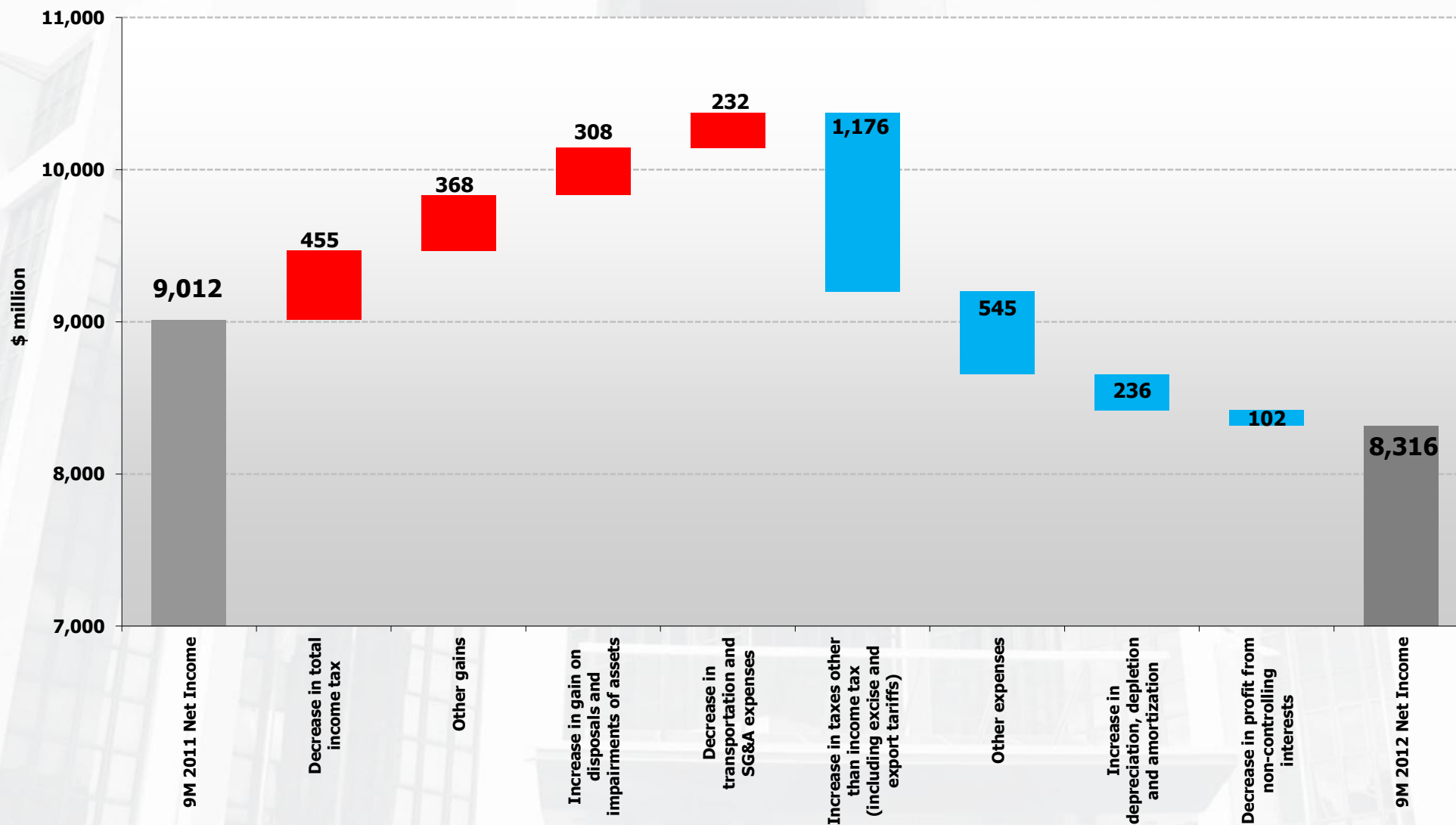


SG&A and Transportation expenses

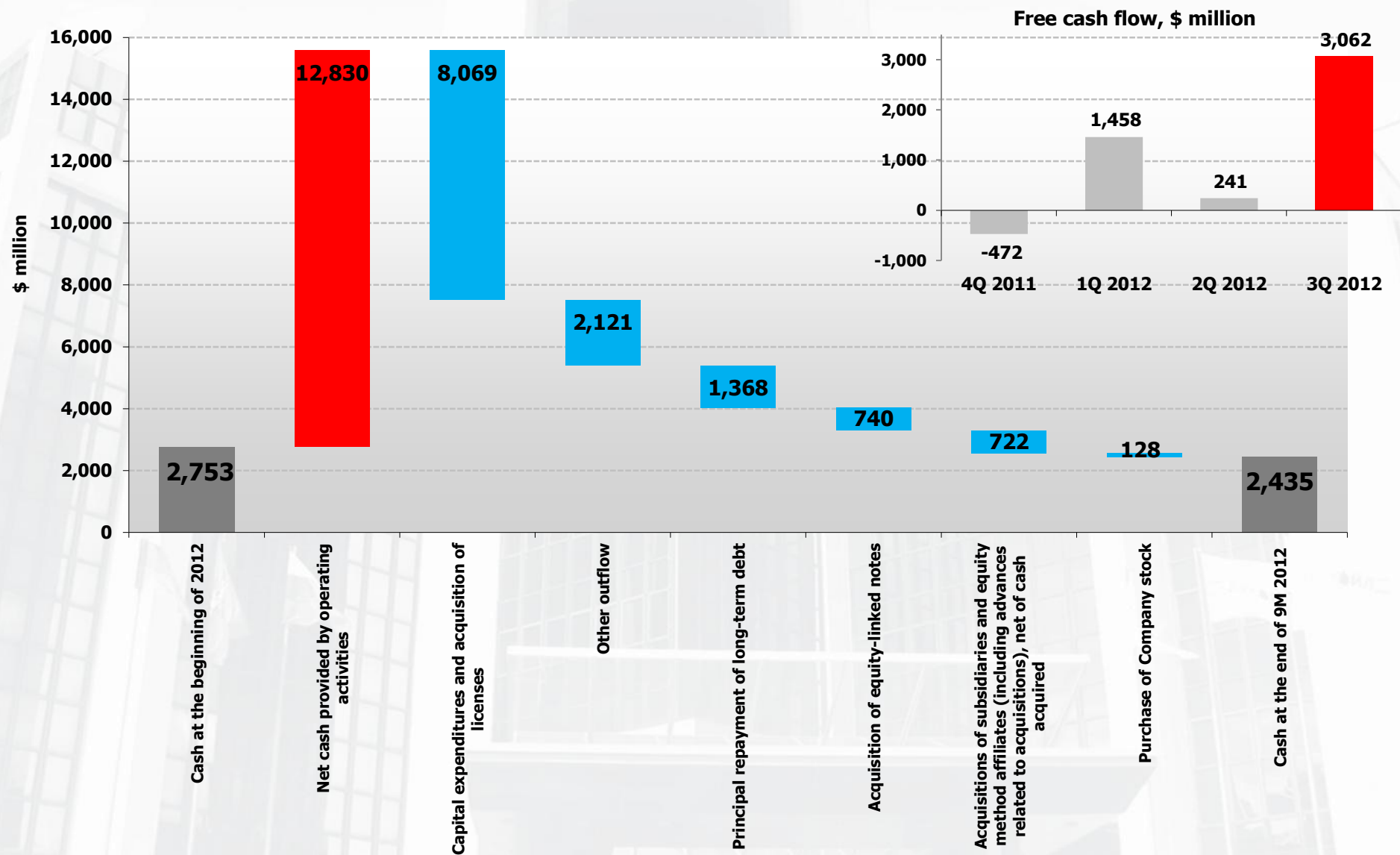


3Q 2012	2Q 2012	Δ, %	\$ million	9M 2012	9M 2011	Δ, %
1,523	1,497	2	Transportation expenses	4,625	4,677	(1)
904	932	(3)	Selling, general and administrative expenses	2,665	2,845	(6)
2,427	2,429	0	Total	7,290	7,522	(3)

9M 2012 Net Income Reconciliation

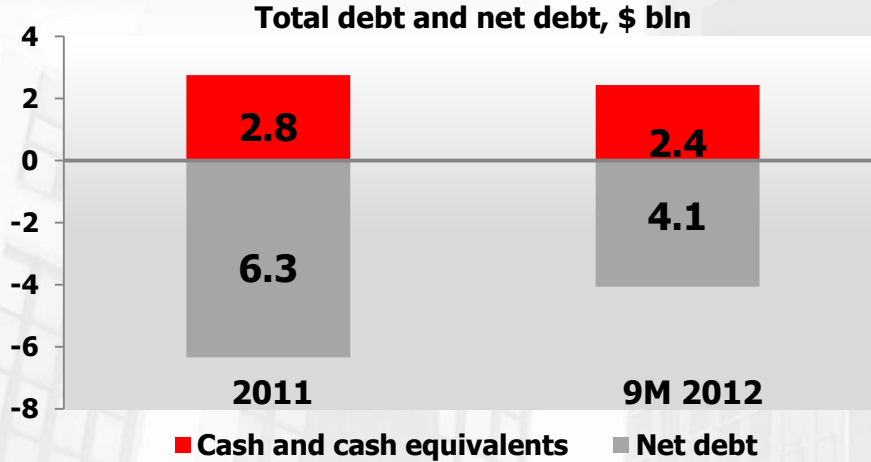


9M 2012 Cash Flow Reconciliation

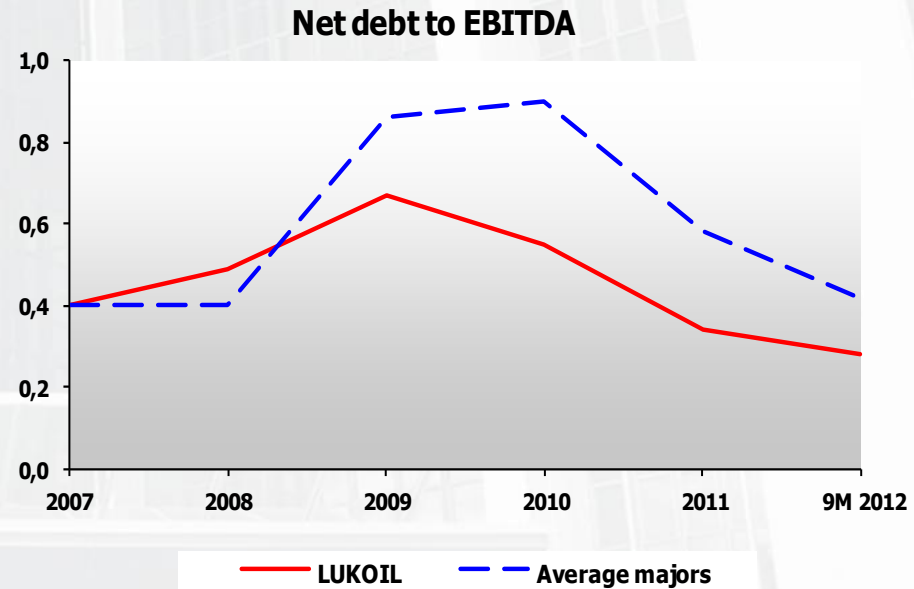
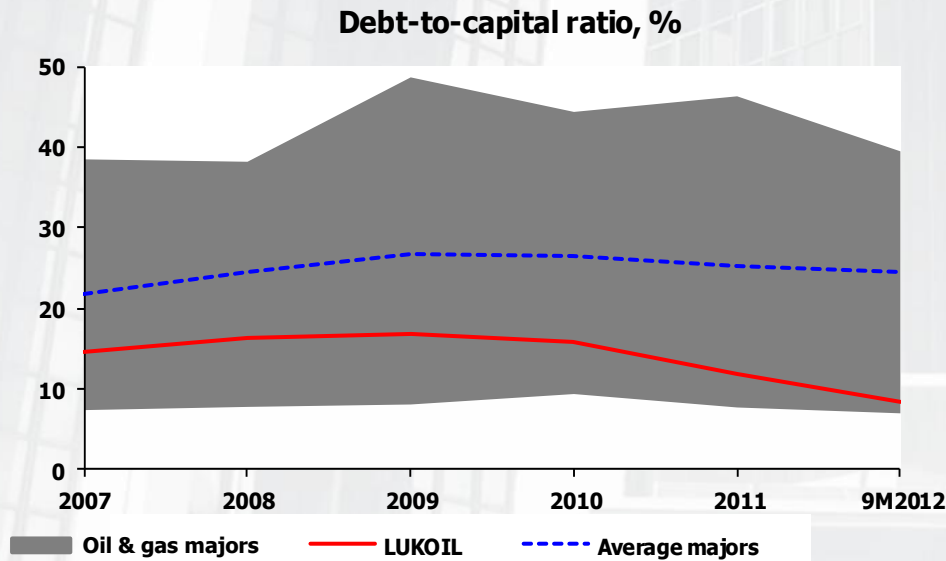




Robust Financial Position



**LUKOIL net debt decreased
by \$2.3 bln (-36%)
for 9M 2012**



Oil & Gas Majors include: ExxonMobil, Royal Dutch Shell, BP, ConocoPhillips, Total, Eni, Chevron.
Source: Companies' financial statements.

CAPEX Breakdown

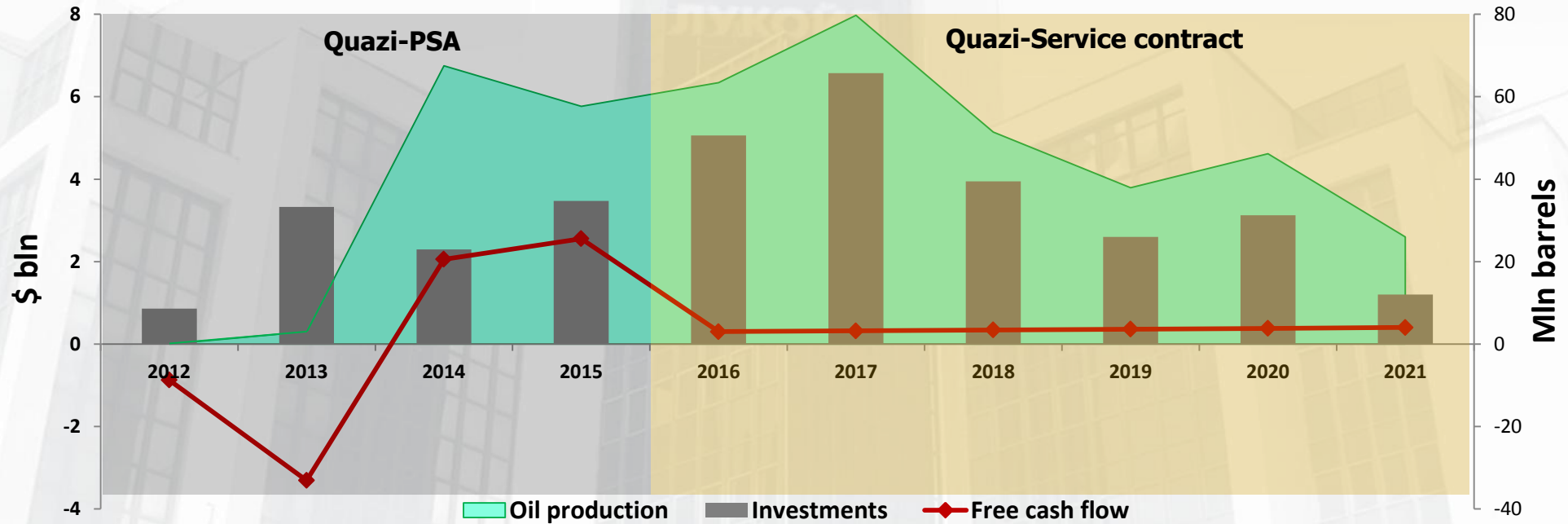


3Q 2012	2Q 2012	Δ, %	\$ million	9M 2012	9M 2011	Δ, %
2,024	2,313	(12)	Exploration and production	6,339	4,489	41
1,581	1,890	(16)	Russia	5,100	3,581	42
443	423	5	International	1,239	908	36
506	390	30	Refining and marketing	1,247	852	46
411	274	50	Russia	857	667	28
95	116	(18)	International	390	185	111
29	24	21	Chemicals	63	49	29
24	17	41	Russia	47	33	42
5	7	(29)	International	16	16	0
88	167	(47)	Power generation	312	117	167
80	57	40	Other	179	141	27
2,727	2,951	(8)	Total (cash and non-cash)	8,140	5,648	44

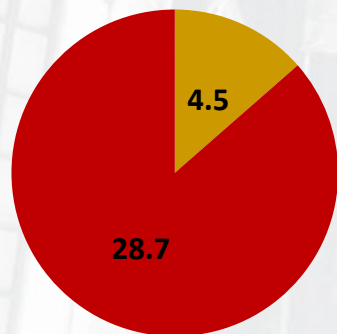
Optimization of investment portfolio: West Qurna-2



Oil production, investments and free cash flow (contractor share)



Investments, \$ bln



■ Risky investments
(2011-2013)

■ Self-financing
investments (starting
from 2014)

Profile, contractor share

2012-2021

Number of new wells

400-500

Capital expenditures, \$ bln

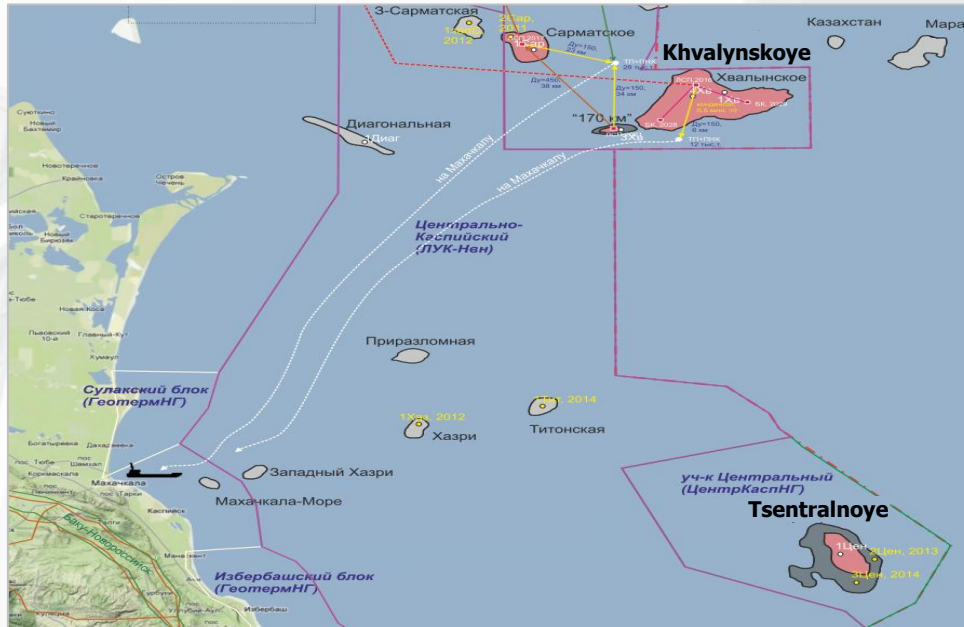
33

IRR

>15%

**Risk investments (2011-2013)
decreased by \$1.3 bln (-20%)**

Consolidating Position in Caspian



Tsentralnoye field

JV: LUKOIL (25%), Gazprom (25%)
Kazmunaigaz (50%)

Recoverable reserves:

- Condensate: **18** mln bbl
- Oil: **667** mln bbl
- Gas: **245** mln boe

Khvalynskoye field

JV: LUKOIL (50%), Kazmunaigaz (50%),

Recoverable reserves:

- Condensate: **82** mln bbl
- Oil: **266** mln bbl
- Gas: **1.9** bln boe

Negotiations with the consortium participants and Russian and Kazakhstan governments are successful. We expect to sign PSA in the middle of 2013.

Caspian: Exploration Success



Korchagin field

Company expects significant increase in recoverable crude reserves due to recent exploration operations up to around **360 mln bbl** (**50%** up)

Kuvykin field

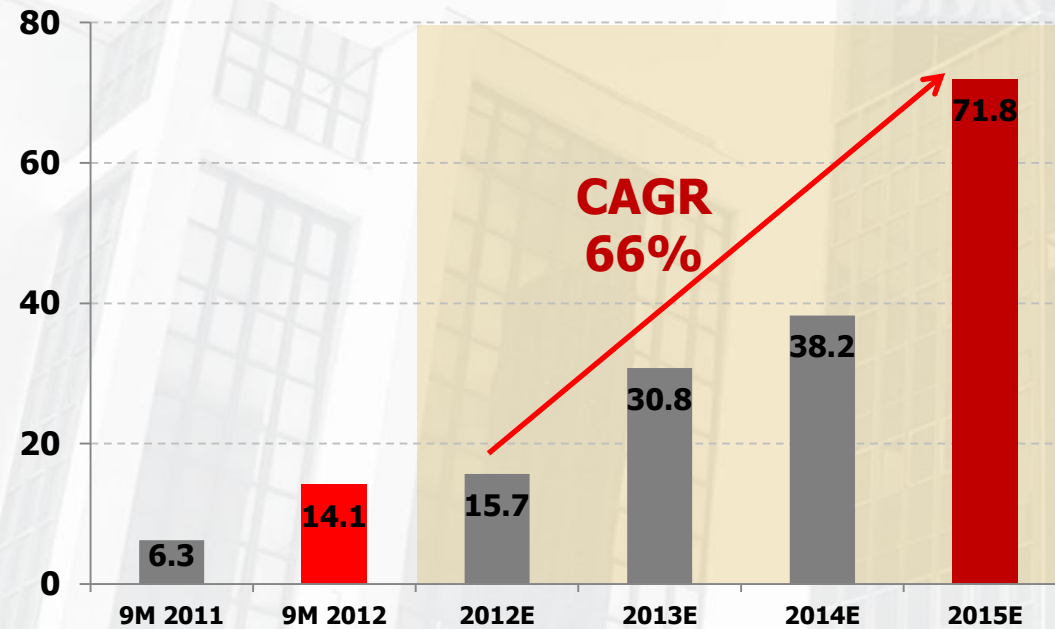
(Sarmatskoye and West Sarmatskoye)

Recoverable gas and liquid hydrocarbons reserves increased by **224 mln boe** and totaled **1.2 bln boe**

Value Growth Driver: Caspian

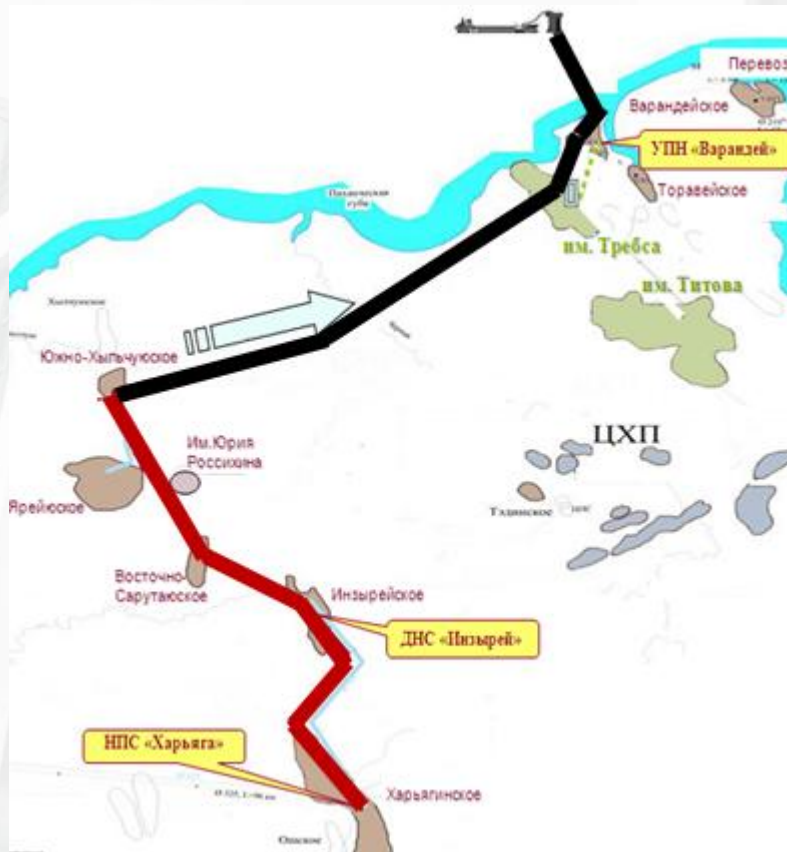


Oil production in Caspian, Kbpd



Expected growth of EBITDA due to Caspian tax breaks from the 2012 level is approximately **\$1.7 bln** in 2013-2015, including **\$0.3 bln** in 2013

Value Growth Driver: Logistics Optimization



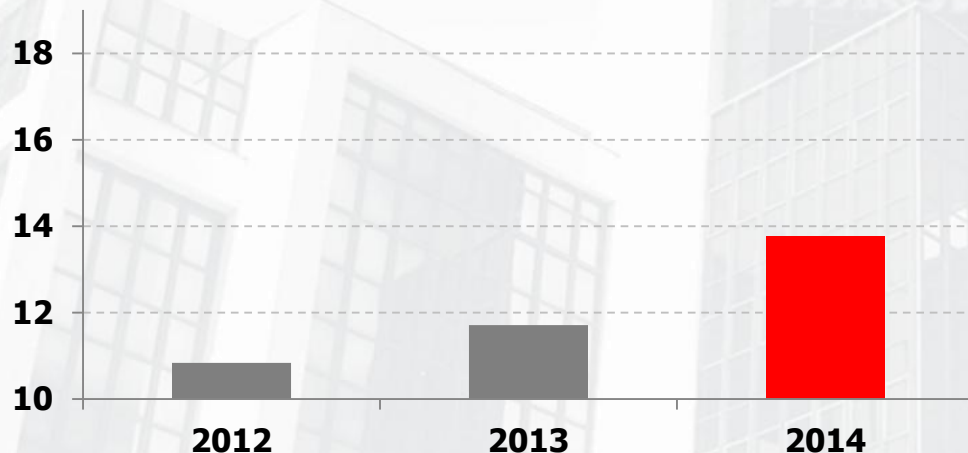
- Oil pipeline Kharyaga – Yuzhnoye Khylychuyu has been launched
- Capital expenditures were about **\$230 mln**
- Due to difference in tariffs annual EBITDA should increase by **\$200 mln**
- After performing oil quality stabilization arrangements total annual EBITDA increase due to difference in tariffs, increase in oil quality and lightness should amount to about **\$400 mln**

Oil grade	API gravity	Sulfur content	Tones to barrels coefficient
Kharyaginskoye	39	0.3%	7.6
Brent	39	0.4%	7.6
Urals	31	1.2%	7.2

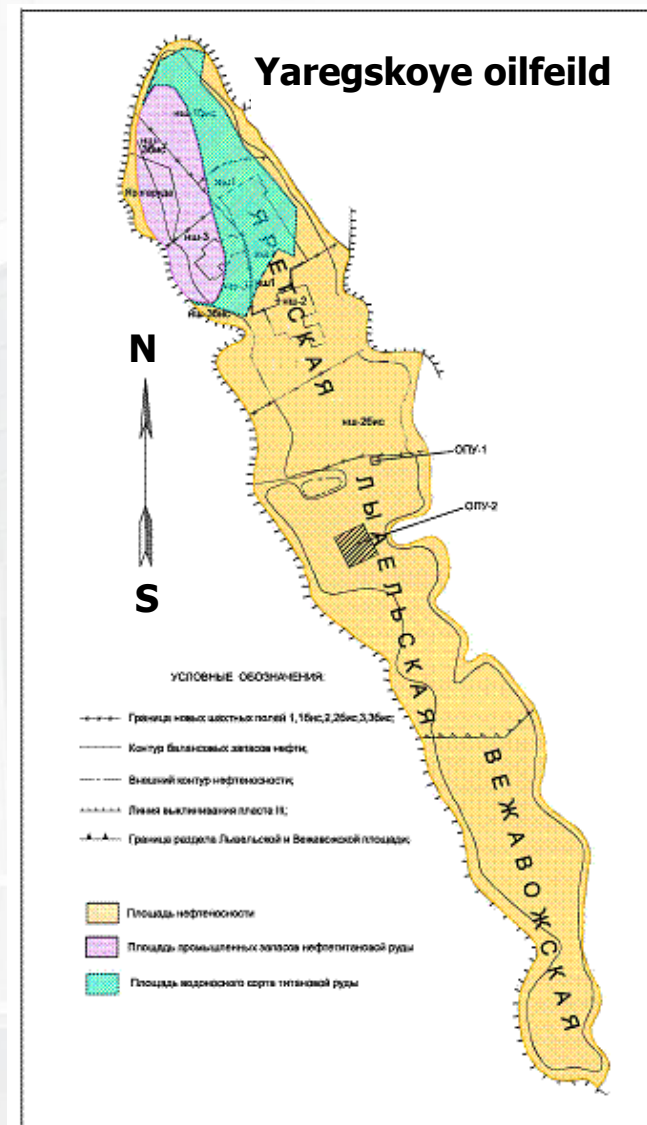
Value Growth Driver: High Viscosity Oil Production



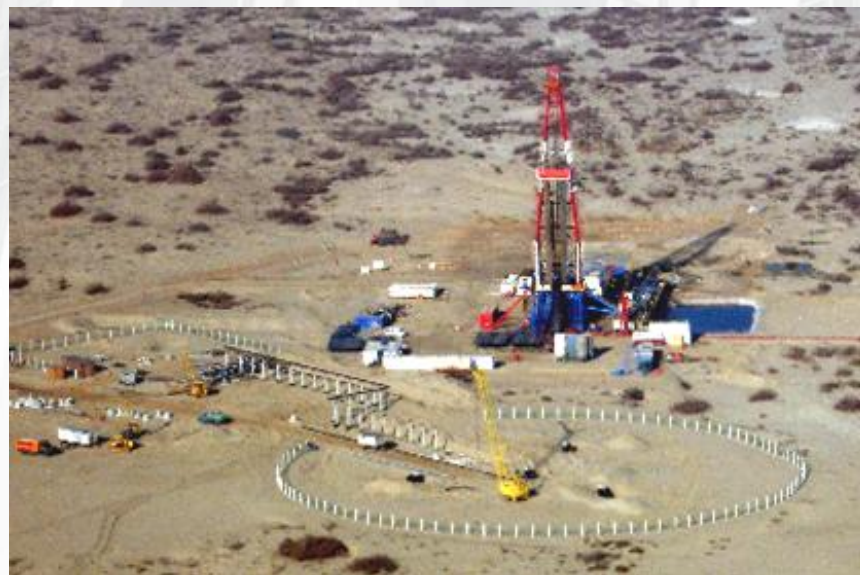
Yaregskoye oilfield oil production forecast, Kbpd



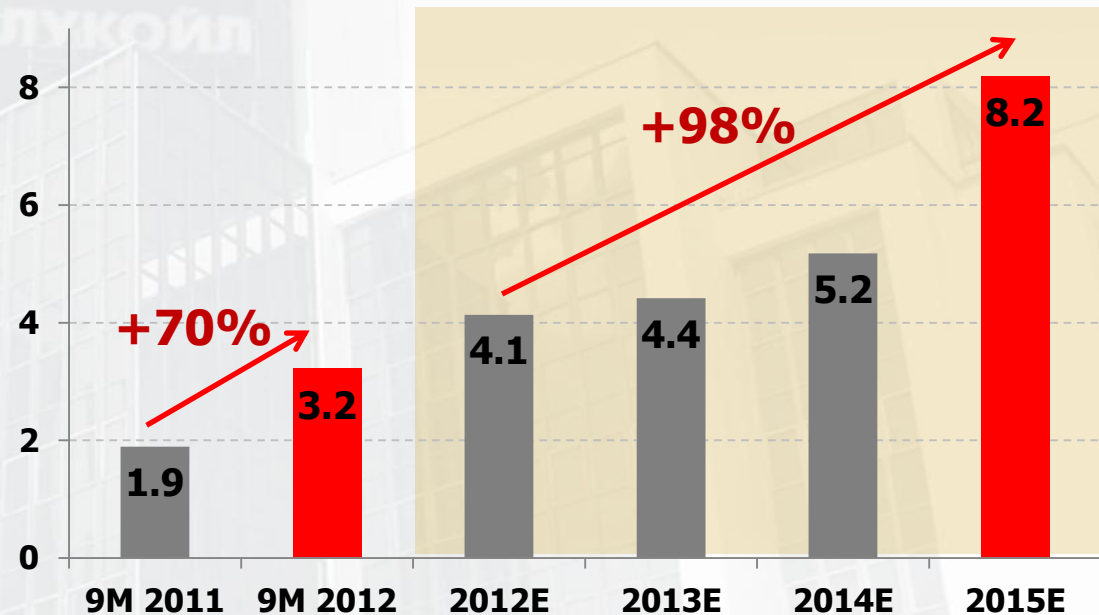
Expected growth of EBITDA on Yaregskoye oilfield due to tax breaks ("10-10-10" and mineral extraction tax) from the 2012 level is about **\$1 bln in 2013-2015, including **\$250 mln** in 2013**



Value Growth Driver: Uzbekistan



Natural gas production in Uzbekistan, bcm



- Natural gas production increased by **73%** y-o-y in 3Q 2012
- Expected growth of EBITDA due to production growth of Uzbekistan projects from the 2012 level is about **\$0.8 bln** in 2013-2015

Value Growth Driver: Refineries Upgrade



Total effect on EBITDA from new units launch in 2013-2015 is **\$1.3 bln**

Total excise savings* from transition to Euro-5 in 2013-2015 is **\$1.9 bln**

2013: Ukhta

- Diesel fuel hydrodewaxing (unit upgrade)
- Vacuum block at the atmospheric-vacuum distillation unit (technical re-equipment)

2015

Perm

- Coking complex
- Modernization of low-temperature condensation and distillation unit

Nizhny Novgorod

- Vacuum block

Burgas

- Heavy residues processing complex

Volgograd

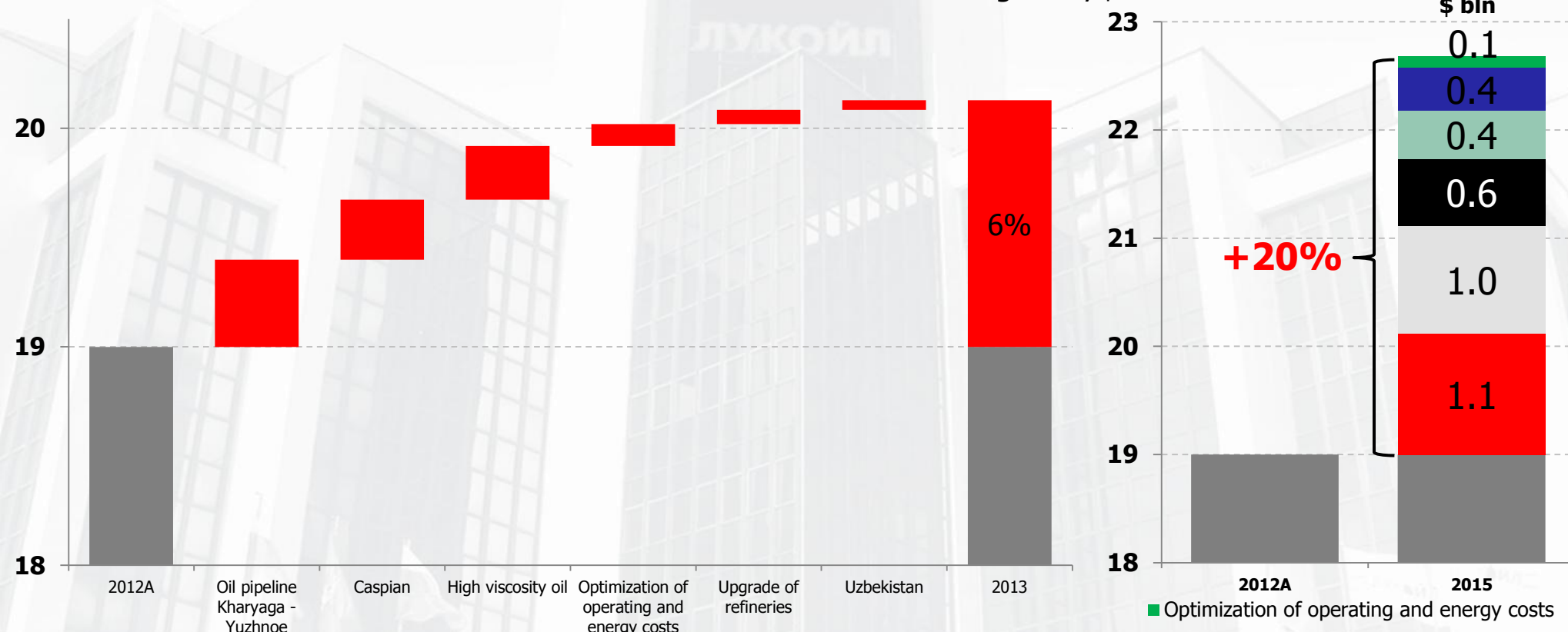
- Atmospheric-vacuum distillation unit



2013 – Growth of Financial Efficiency

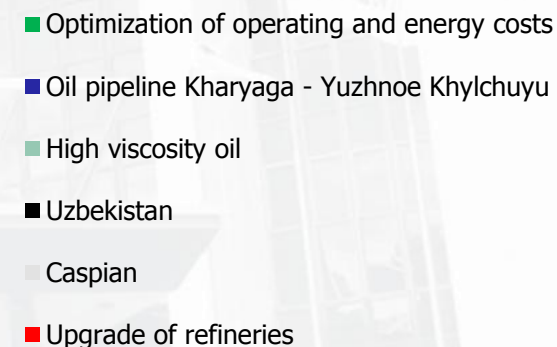


Non-market factors of EBITDA growth, \$ bln



Additional EBITDA from the 2012 level:

- 2013 ≈ \$1.1 bln
- 2015 ≈ \$3.7 bln
- 2013-2015 > **\$6 bln**



Conclusion



- The third quarter results confirm LUKOIL commitment to improvement of financial efficiency, value creation and accelerating **dividend growth**
- **Increasing efficiency** of operating activities, cost control, and **OPEX optimization**
- **Maintaining conservative financial policy**
- **Maintaining strong financial discipline**