

**ALWAYS MOVING FORWARD**



# 1Q 2016 IFRS Financial Results

Moscow, June 6, 2016



# Forward-Looking Statements



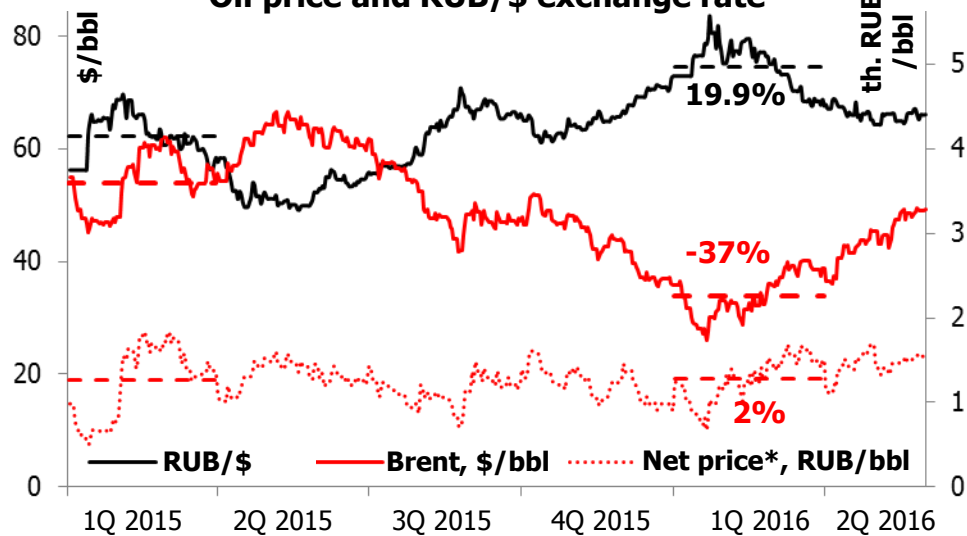
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  - projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
  - statements of our plans, objectives or goals, including those related to products or services;
  - statements of future economic performance; and
  - statements of assumptions underlying such statements.
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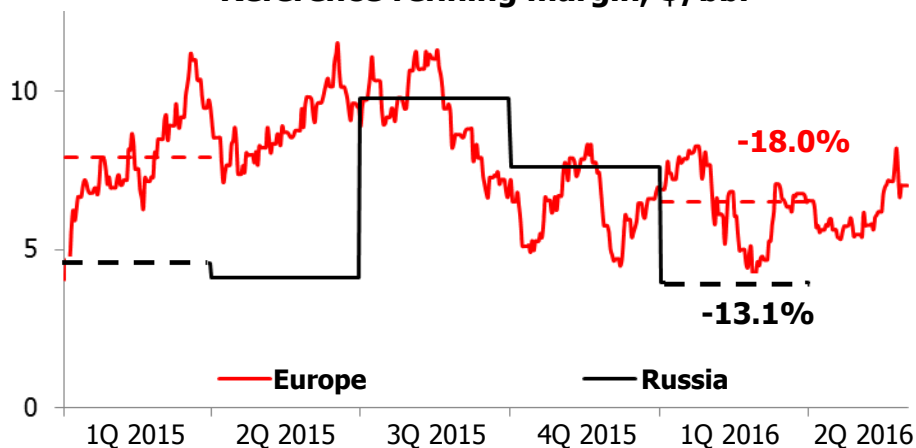
# Macro



### Oil price and RUB/\$ exchange rate



### Reference refining margin, \$/bbl



### Oil and exchange rate

	1Q 2016	1Q 2015	%
Brent, \$/bbl	<b>33.9</b>	53.9	(37.1)
Urals**, \$/bbl	<b>32.2</b>	52.9	(39.2)
RUB/\$	<b>74.6</b>	62.2	19.9

### Oil products (Europe – FOB Rotterdam), \$/t

Fuel oil 3.5%	<b>135.3</b>	276.3	(51.0)
Diesel fuel 0.01%	<b>312.6</b>	530.2	(41.0)
High-octane gasoline	<b>386.0</b>	548.8	(29.7)

### Oil products (Russia), RUB/t

Heating oil	<b>4,555</b>	6,384	(28.7)
Diesel fuel	<b>27,186</b>	28,337	(4.1)
Gasoline (Premium)	<b>33,497</b>	29,767	12.5

### Oil and oil products taxes in Russia

Export duty, %			
Crude oil	<b>42%</b>	42%	0.0
Gasoline***	<b>61%</b>	78%	(21.8)
Diesel fuel***	<b>40%</b>	48%	(16.7)
Fuel oil***	<b>82%</b>	76%	7.9
Oil MET base rate, RUB/t	<b>857</b>	766	11.9
Euro-5 gasoline excise, RUB/t	<b>7,530</b>	5,530	36.2
Diesel fuel excise, RUB/t	<b>4,150</b>	3,450	20.3

Source: Platts, Central bank of Russia, Company estimates, UBS

\* Net price = Urals - export duty - MET \*\* Average of CIF quotes in Mediterranean region and Rotterdam \*\*\* % of oil export duty



# Summary Results



<b>Operating Results</b>	<b>1Q 2016</b>	<b>1Q 2015</b>	<b>Δ</b>
Hydrocarbon production, mln boe	214	213	0.5%
of which crude oil and NGL, mln bbl	183	183	-0.2%
of which West Qurna-2, mln bbl	18	14	26.3%
Refined products produced, mln t	14.9	14.1	5.6%
<b>Financial Results, RUB bln</b>			
Sales	1,178	1,440	-18.2%
EBITDA	145	214	-32.1%
EBITDA, excluding FX effect	191	209	-8.5%
Profit for the period	43	104	-58.8%
Profit for the period, excluding FX effect	79	99	-20.5%
Capital expenditures*	123	154	-20.5%
Organic free cash flow**	36	63	-42.1%
Net debt	589	602	-2.2%

\* Including non-cash transactions and prepayments

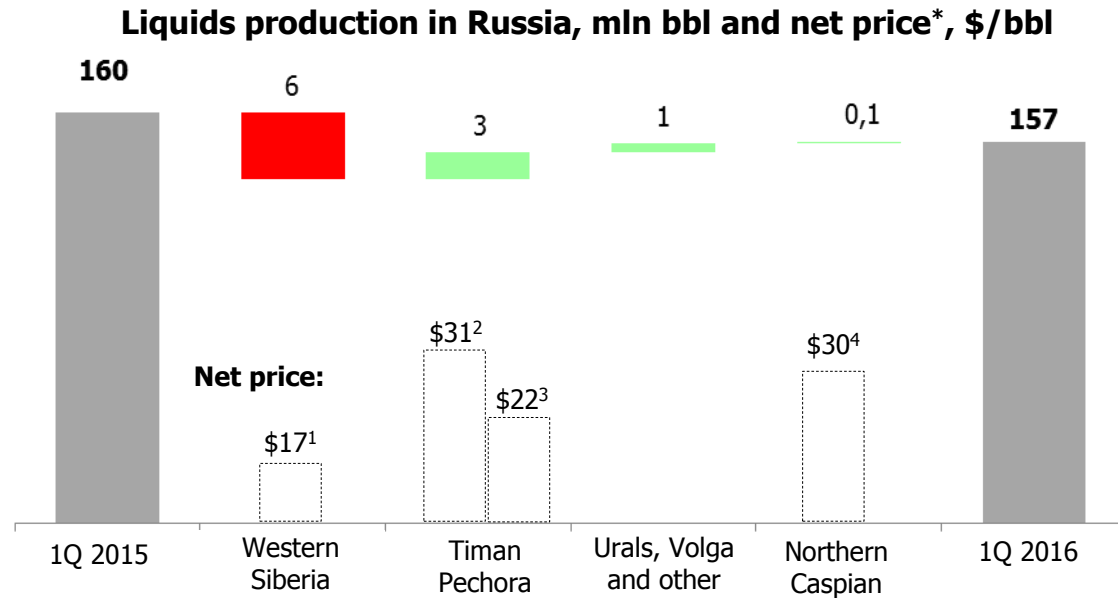
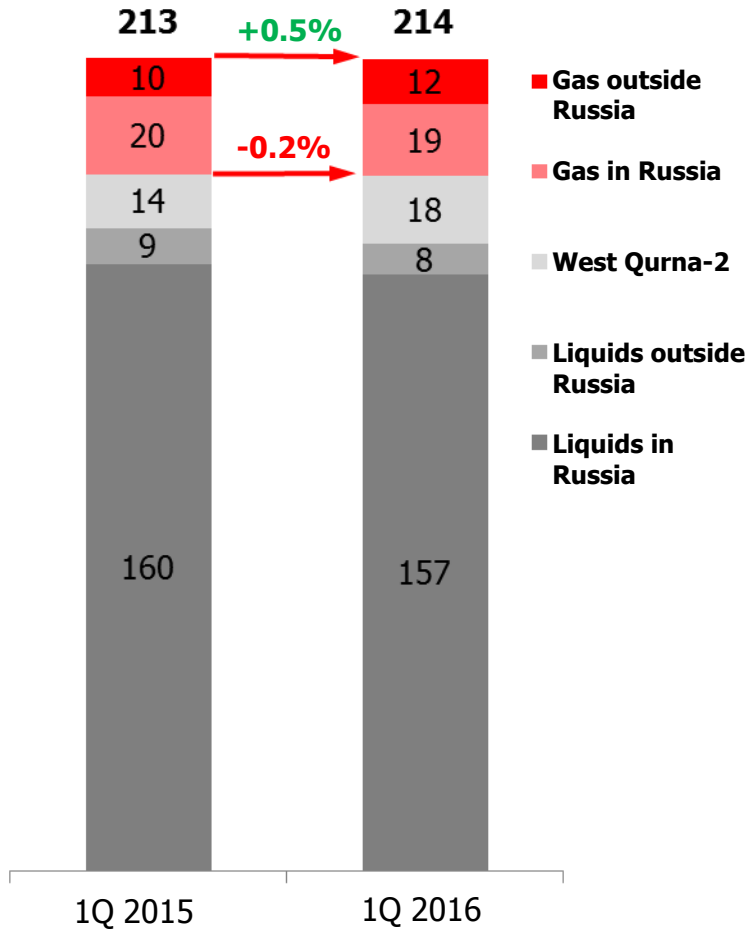
\*\* Net cash provided by operating activities less capital expenditures and acquisition of licenses



# Upstream: Focus on High Margin Barrels



Hydrocarbon production, mln boe



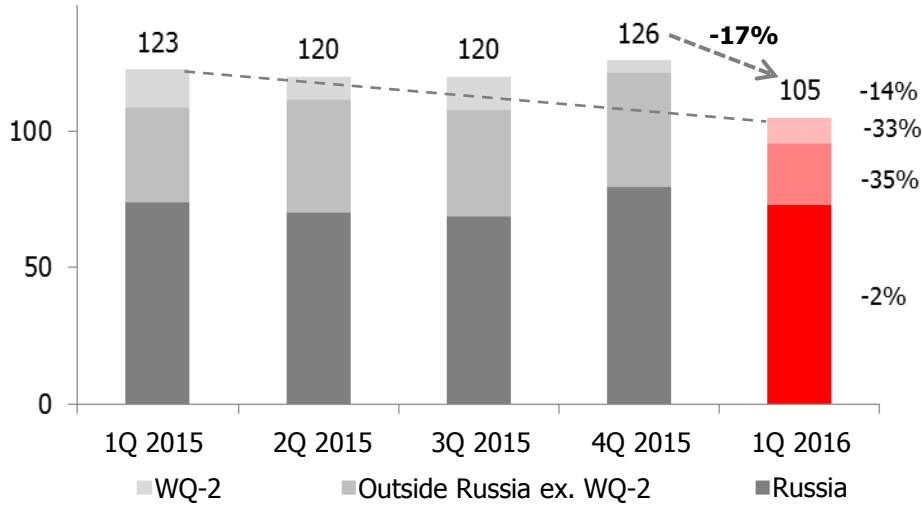
\* Net price= oil price – export duty – MET, based on 1Q 2016 average Urals oil price \$32.2/bbl  
 1. Standard taxation 2. Yaregskoe 3. Usinskoe 4. Korchagin



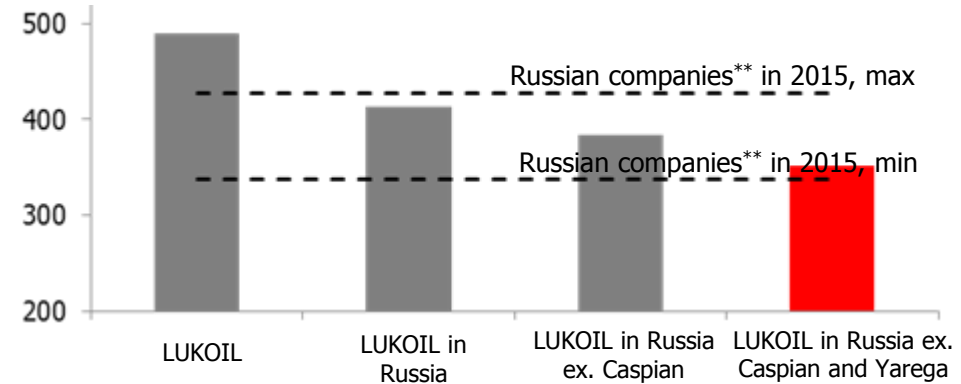
# Upstream: Capex & Opex



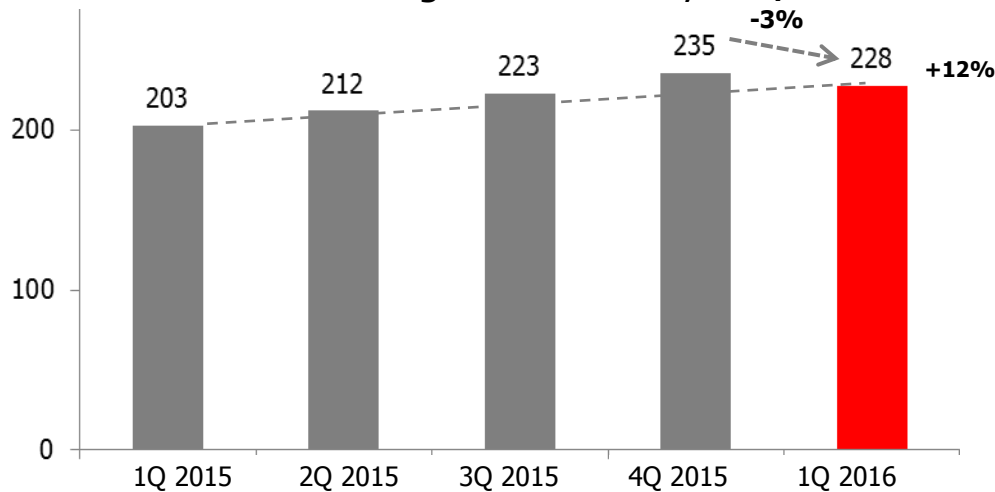
Capital expenditures\*, RUB bln



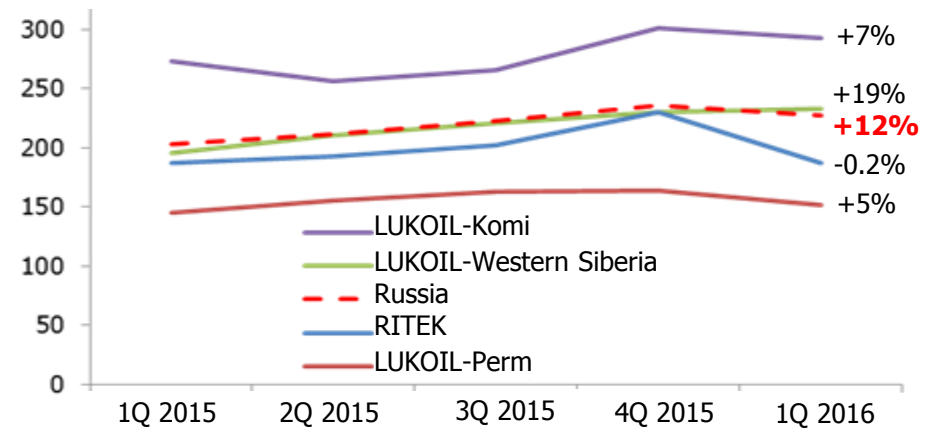
Upstream capital expenditures per boe, RUB



LUKOIL lifting costs in Russia, RUB/boe



Lifting costs, RUB/boe



\* Including non-cash transactions and prepayments \*\* Rosneft, Gazprom Neft, Bashneft



# Upstream: Projects Update



## New projects



### Filanovsky field

- 1<sup>st</sup> stage facilities completion: IRP-1 – **85%**, CPP – **83%**, RB – **98%**
- Launch: 3Q 2016

### Pyakyakhinskoe field

- Facilities completion: CGTU – **70%**, DAP – **80%**
- Launch: 4Q 2016

IRP – ice-resistant stationary platform, CPP – central processing platform, RB – riser block, CGTU – Complex gas treatment unit, DAP – Delivery and acceptance point

## Current projects



### Korchagin field

- Start of wellhead platform construction
- MET tax holidays extended to **2021** or **15** mln t of production

### Yaregskoe field

- 100 t/hour steam generation unit launched
- **+22%** y-o-y oil production in 1Q 2016

### Imilor field

- Pilot development works are underway
- **+80%** y-o-y oil production in 1Q 2016

### Denisovskaya depression fields

- Drilling of prospecting-exploration and production wells
- **+39%** y-o-y oil production in 1Q 2016

### Uzbekistan

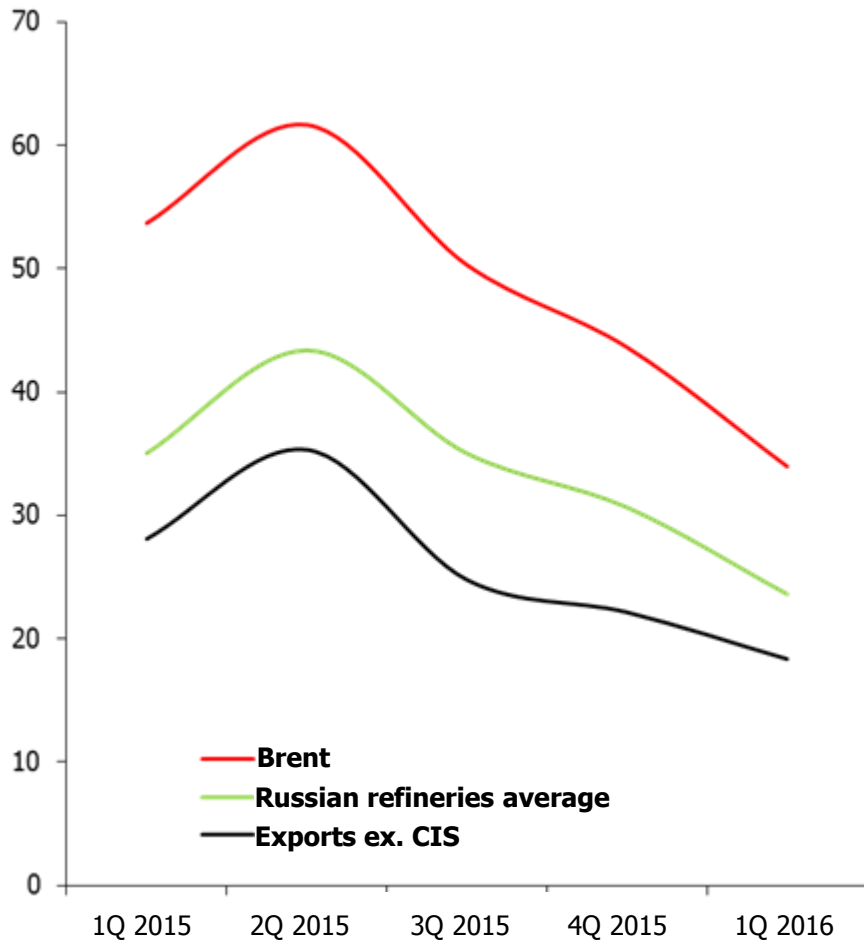
- April 2016 – gas processing complex construction started
- May 2016 – **amendments to PSA** on Kandym group (improved economics)



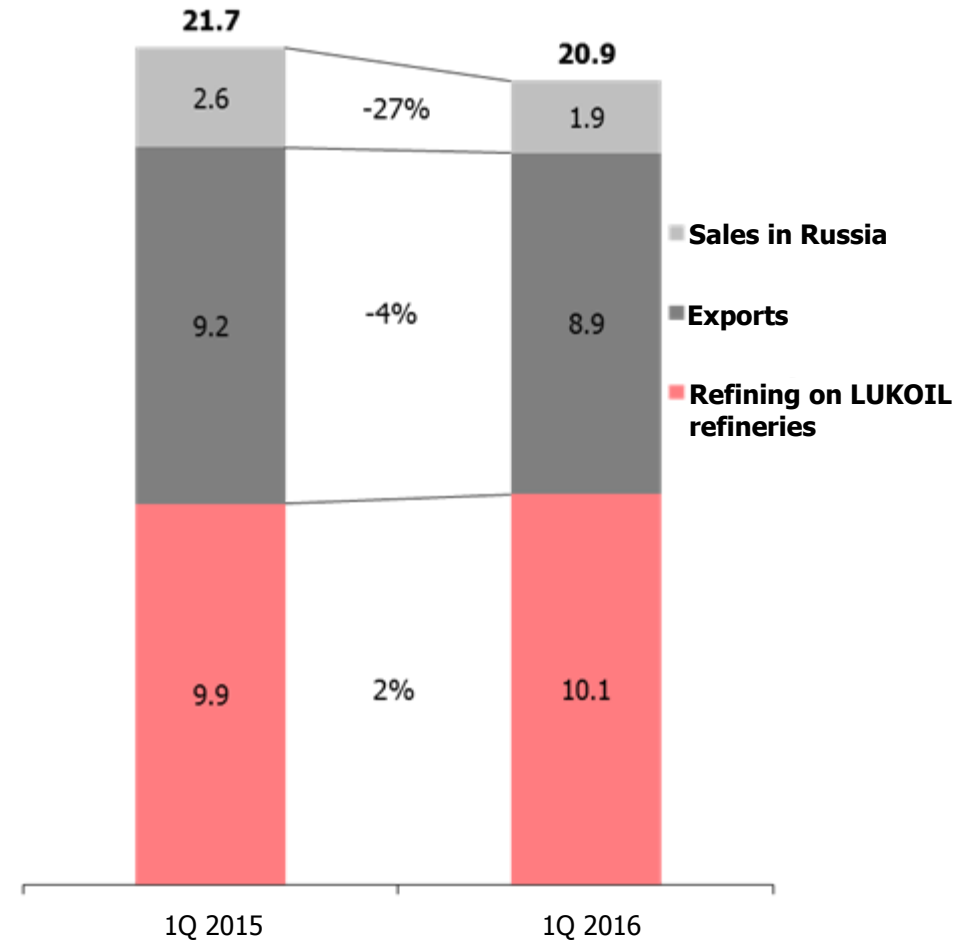
# Downstream: Efficient Oil Allocation



Oil allocation price, \$/bbl



Oil balance Russia, mln t

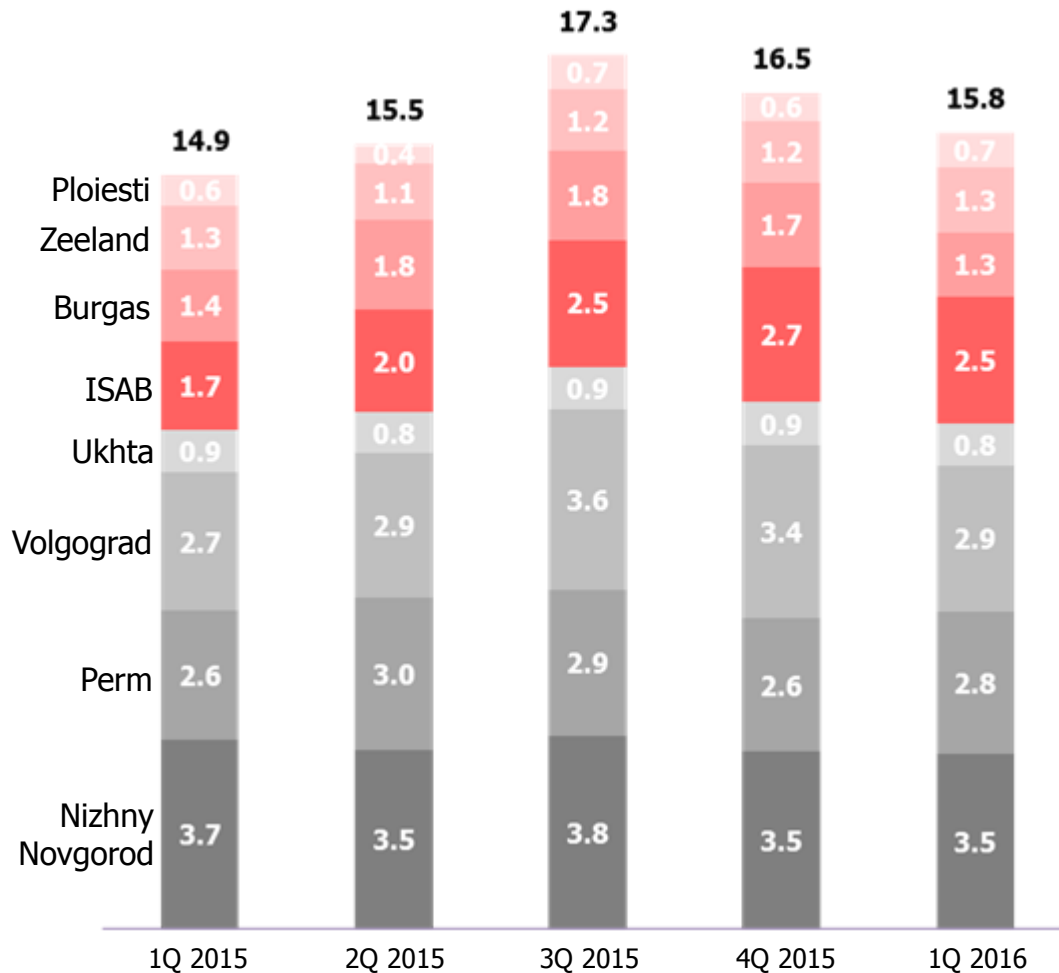




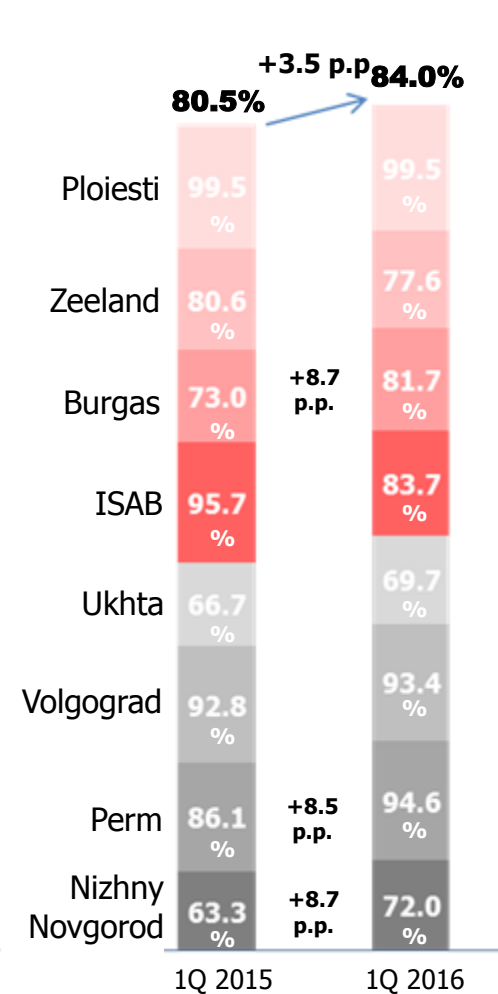
# Downstream: Refining KPIs



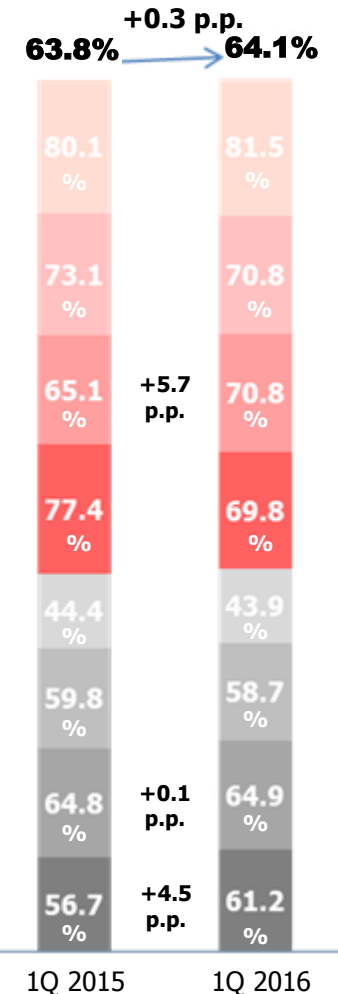
### Refining volume\*, mln t



### Refining depth, %



### Light products yield, %



\* Including refining of other oil and gas feedstock



## Downstream: Premium Sales Channels



### Filling stations



**Stable sales volumes despite domestic market stagnation**

- **39%** increase in ECTO fuels sales in Russia
- **12%** increase in ECTO fuels sales abroad
- **17%** increase in gross profit from non-fuel sales on domestic market

### Aviation



**Stable share on declining domestic market**

- Start of aircraft refueling in Sheremetievo airport
- Start of aircraft refueling in Rostov-on-Don airport
- **9%** increase in into-plane sales in Bulgarian airports

### Lubricants



**A 36% increase in premium motor and industrial lubricants sales**

- The first Russian company, to obtain ISO automobile international standard certification for all plants
- **80%** increase in sales on authorized service stations of world leading brands

### Bunkering



**A 3% increase in sales in stagnating market**

- Market share in Baltics area increased from **22** to **29%**
- Market share in Black Sea area (Novorossiysk port) increased from **10** to **20%**
- **15%** increase in sales of a unique premium product "Eco-friendly marine fuel"



# Downstream: Completion of Refining Investment Cycle



## Caspian gas and petrochemical cluster



### Launch:

- Gas pipeline from North Caspian fields
- Gas pipeline for dry gas delivery to Gazprom network
- **135 MW** power generation facility
- **2.2 bcm/year** gas processing unit

### Effects:

- Monetization of gas from Northern Caspian (substitution of third party NGL for Stavrolen, dry gas delivery to Gazprom network and own power generation)
- **95%** APG utilization rate

## Vacuum gasoil deep hydrocracking complex in Volgograd



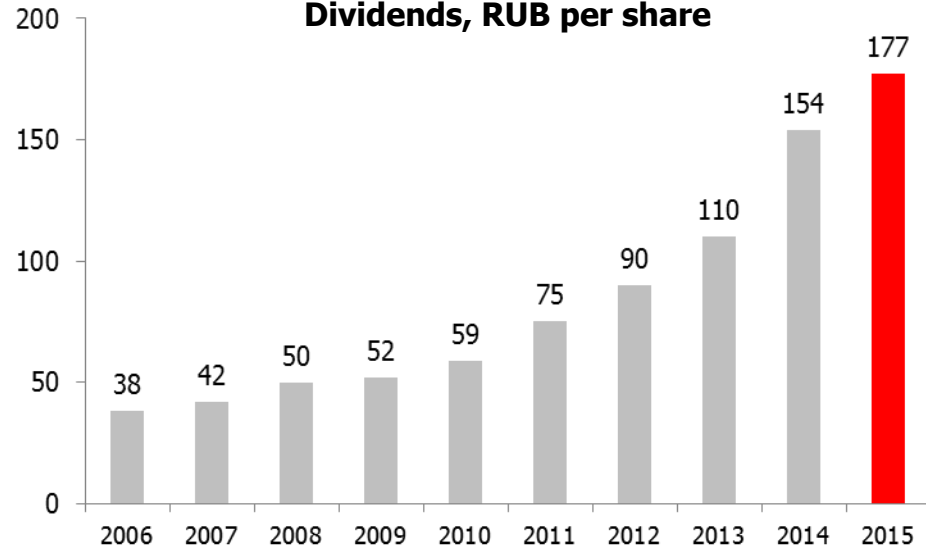
- **3.5 mln t/year** soft hydrocracking unit is **the largest in Russia**
- EURO-5 diesel fuel output increased by **1.8 mln t/year**
- Motor gasoline components output increased by **0.6 mln t/year**
- LPG output increased by **0.1 mln t/year**
- Launch on **May 31, 2016**



# Dividends



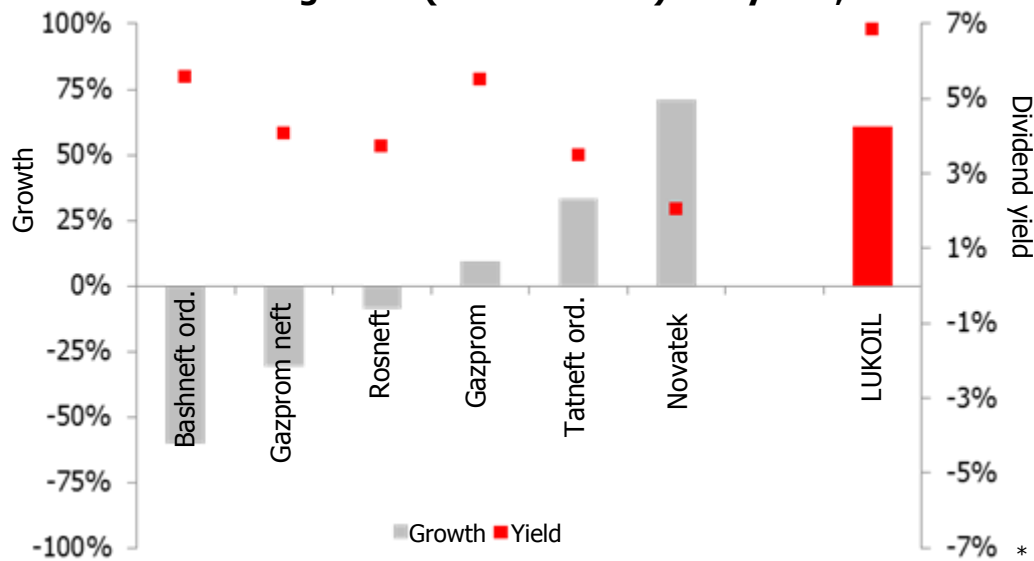
### Dividends, RUB per share



- **RUB 177** per share (+**15%** y-o-y) BoD dividend recommendation for 2015 (to be approved by AGM in June)

- DPS increased by **61%** since 2013

### Dividend growth (2015 to 2013) and yield\*, %



- Highest dividend yield among Russian peers

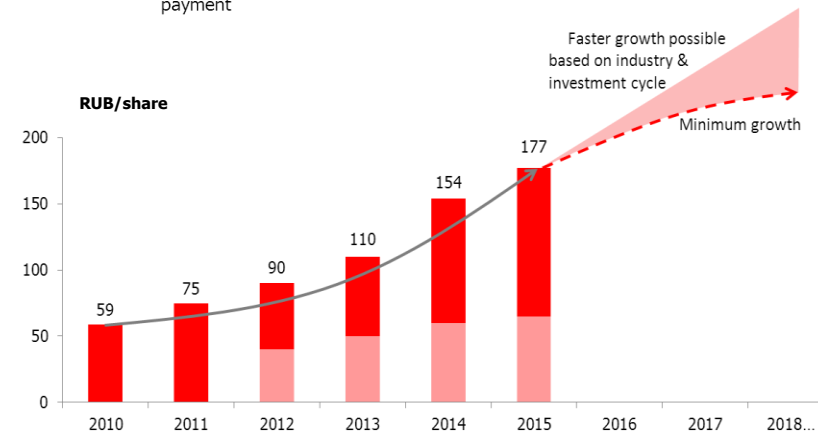
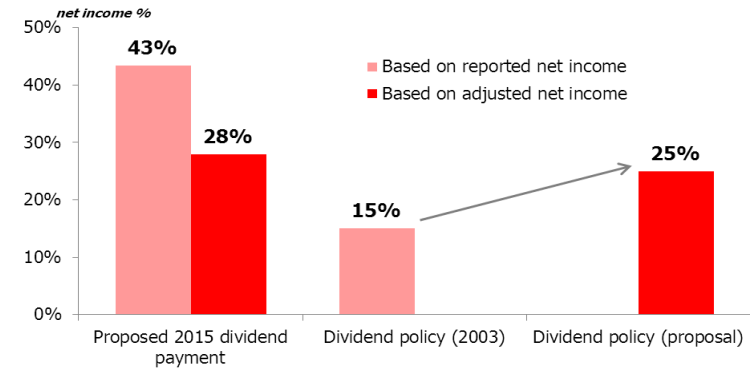
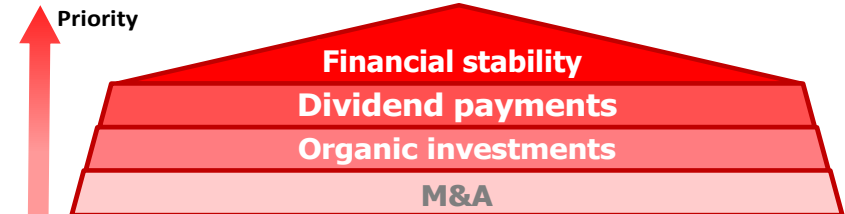
\* Dividend yield = dividends for 2015 / share price on MICEX as of 03.06.2016



# New Dividend Policy



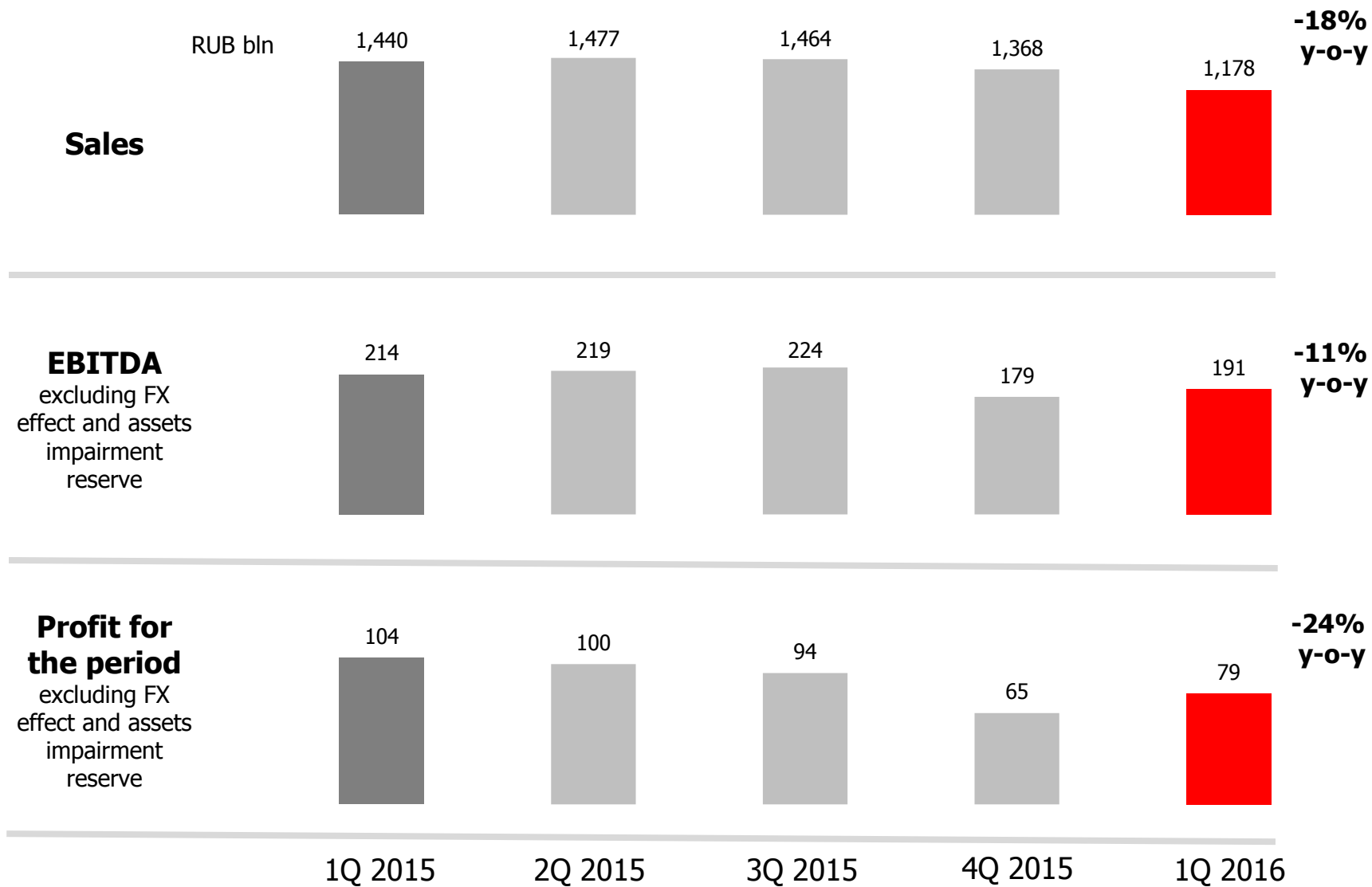
- Priority of dividend payments**  
 Dividends as a top priority in cash allocation
- Dividend payout ratio, % of net income**  
 Total dividend payments no less than **25%** of IFRS net income that may be adjusted for extraordinary items
- Dividend per share, RUB**  
 Growth target for ruble-denominated dividend – at least in line with ruble inflation



**High dividend yield + guaranteed dividend growth  
= unique investor proposition**

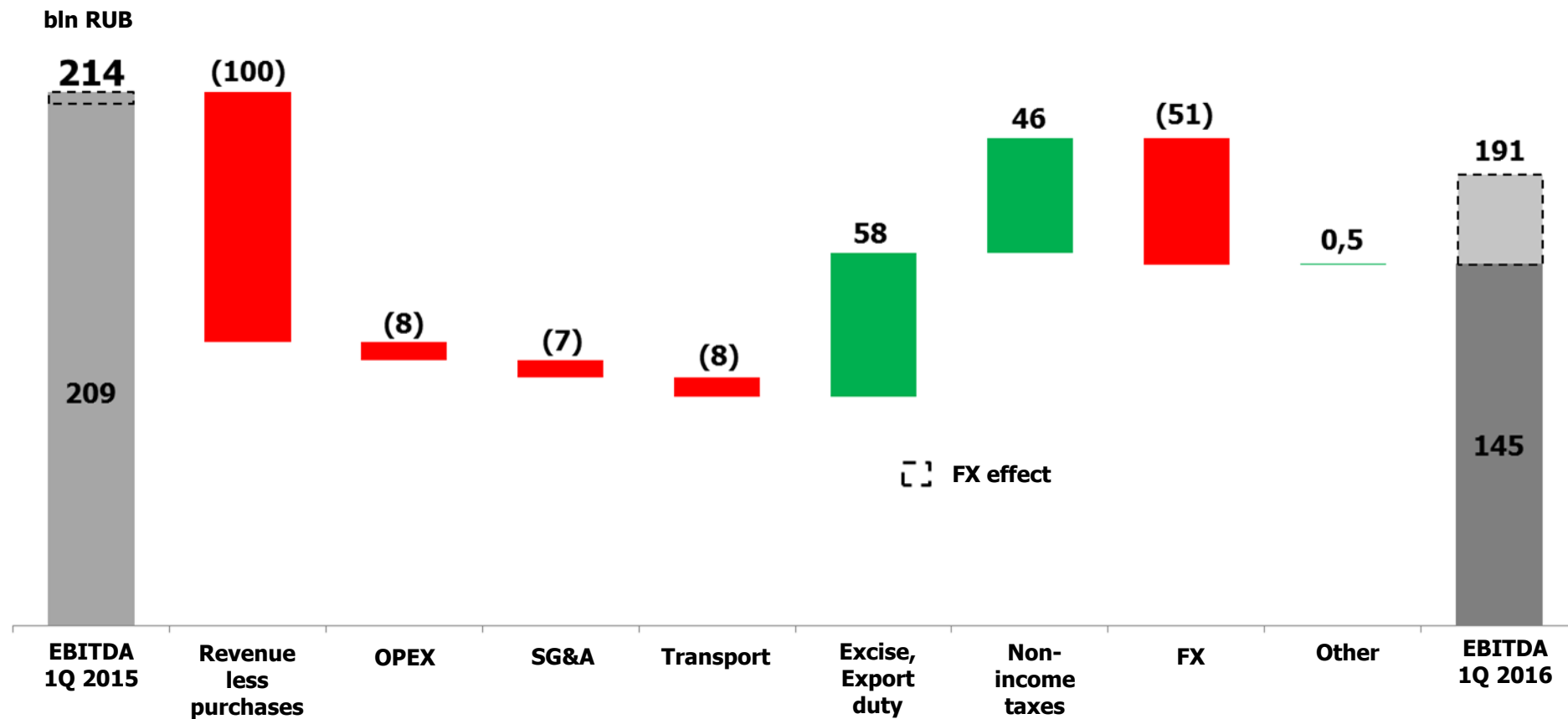


# Financial Results



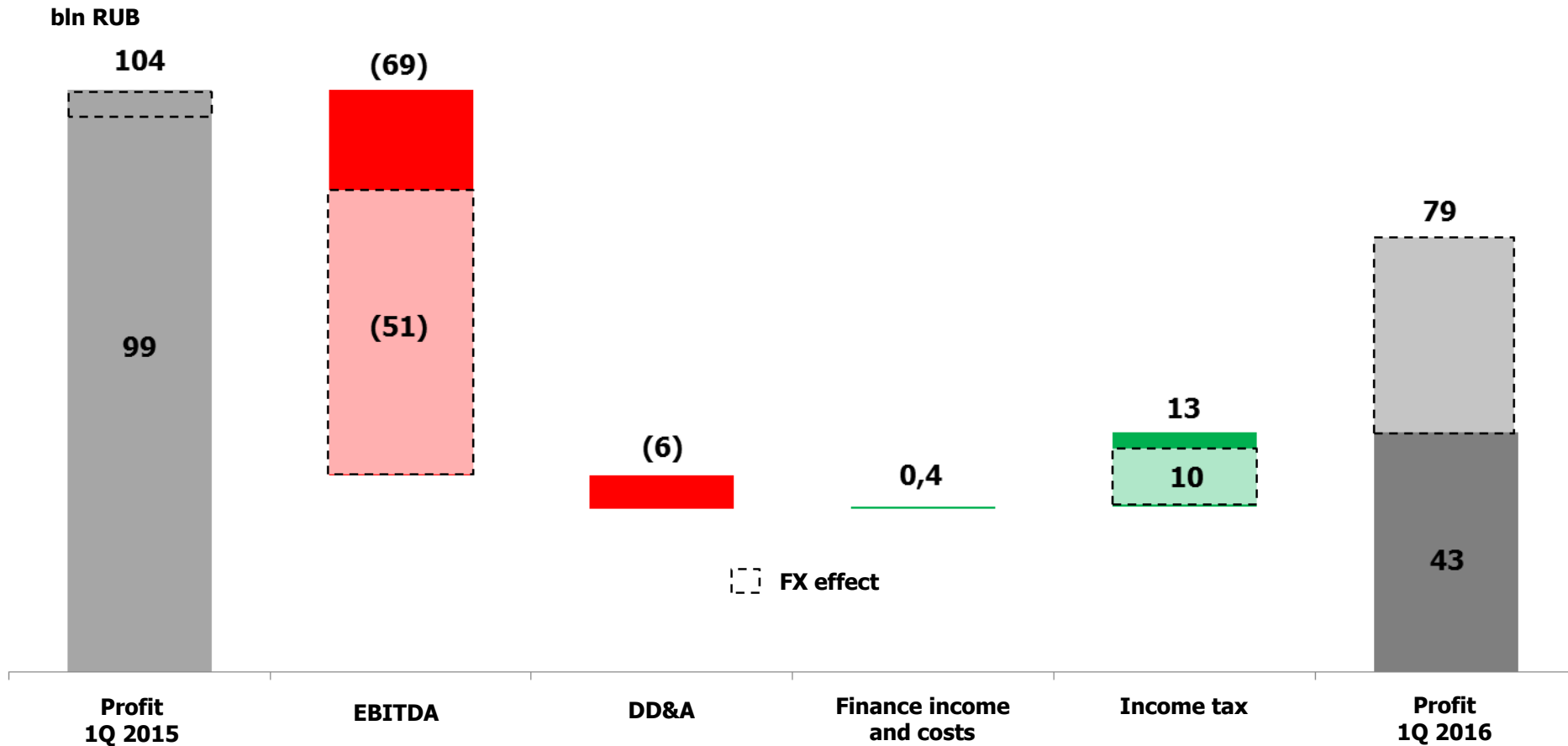


# EBITDA Reconciliation





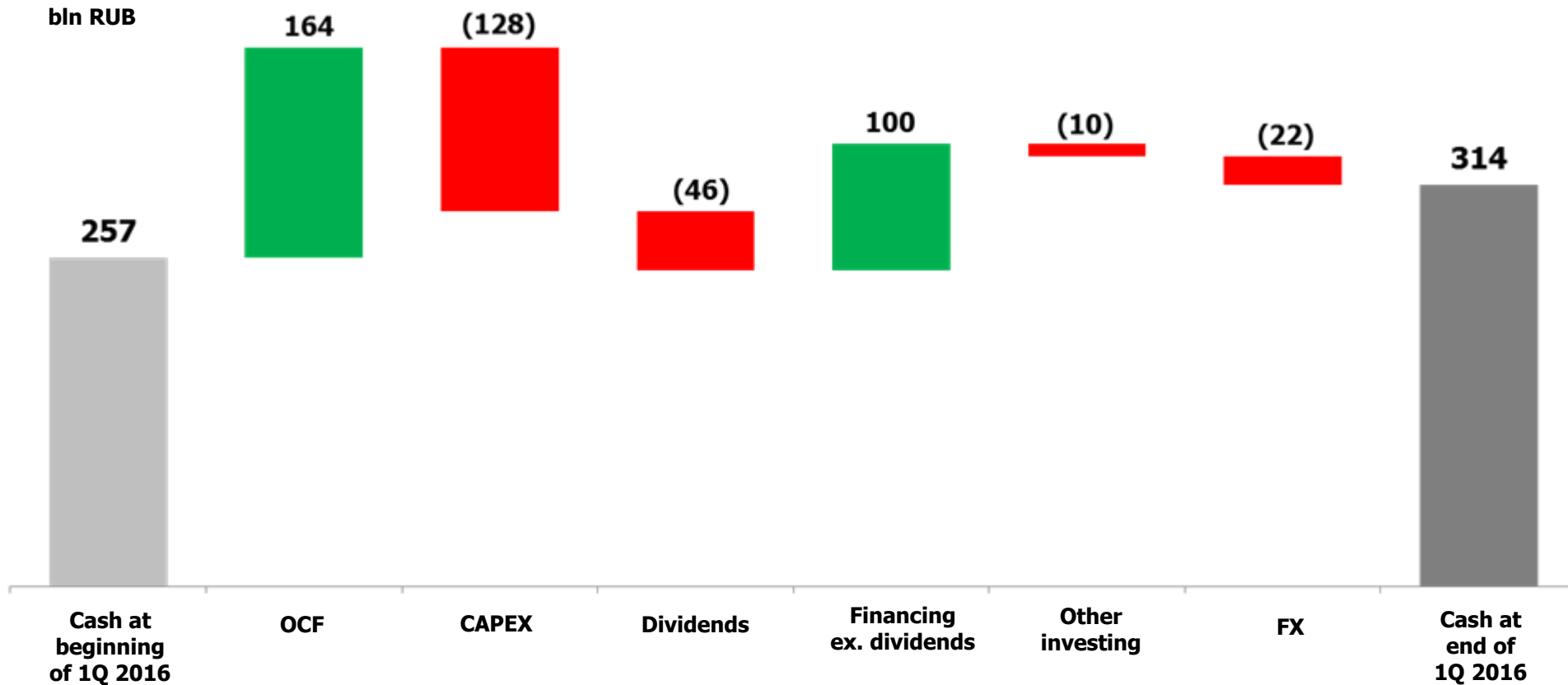
# Profit Reconciliation







# Cash Flow Reconciliation





# Q&A