



LUKOIL

ALWAYS MOVING FORWARD

2Q 2015 Financial Results (US GAAP)



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Moscow, 28 August 2015



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- 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:
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 - statements of future economic performance; and
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Main Events in 2Q 2015



 Liquid hydrocarbon production growth **+ 5.2 %**

Russia oil production stabilization **+ 0.3 %**

 Executing plans for the project West Qurna-2

The amount of compensation in 6M 2015 was **\$1.5 bln**

 Start of production tests at facilities for Kandym early gas project in Uzbekistan

 Launch of large projects in oil & gas refining segment in Russia with total capacity of **7 mln t** of liquid hydrocarbons and **1 bcm** of APG

 August 2015. LUKOIL completed dividend payment based on 2014 financial performance (**154 RUR/share**)

 August 2015. LUKOIL closed a deal to sell its 50% share in Caspian Investments Resources Ltd. to China-based Sinopec. The sale price of the stake is **\$1,067 million**.
The payment is completed.



1H 2015 Financial Highlights



\$ mln

Net income

1,695

EBITDA

6,379

Free cash flow

588

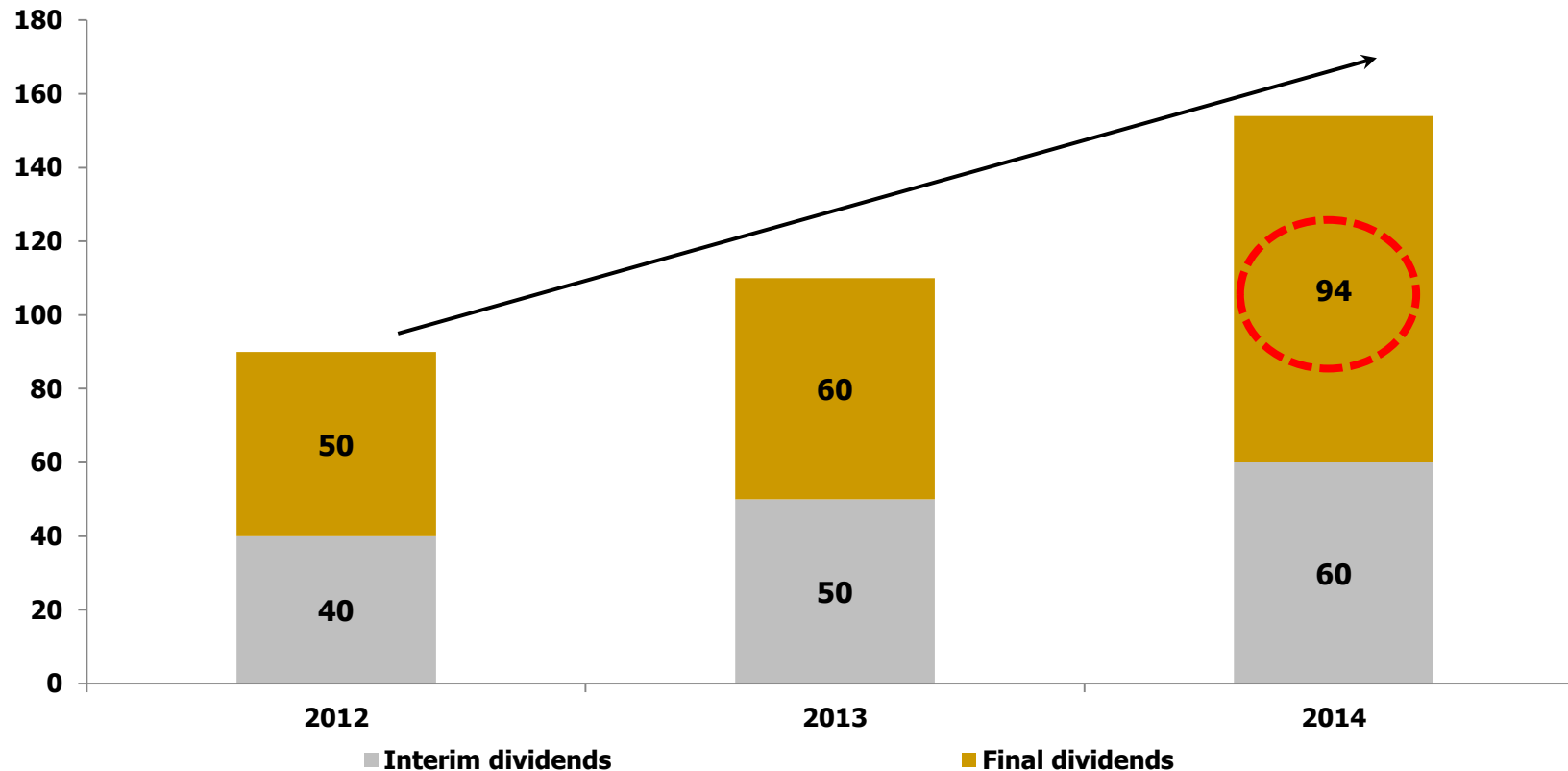
Net debt

10,287

Record Dividend Payment



Dividend per one common share of LUKOIL, RUB

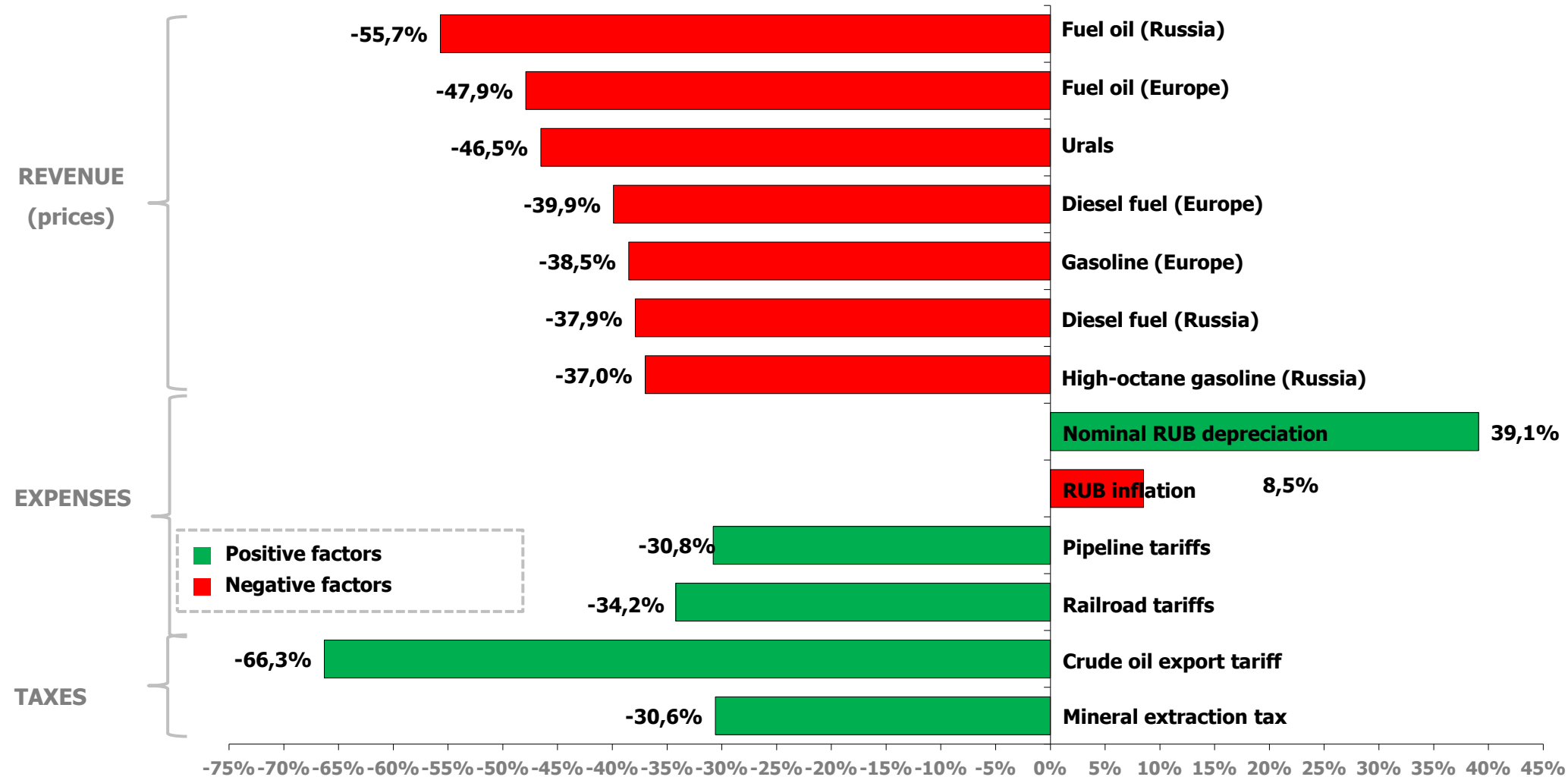


- In August 2015, LUKOIL completed dividend payment based on 2014 financial performance - 154 RUR/share, 40% increase y-o-y
- Which allowed to **maintain dollar dividend payment at the 2014 level** despite turbulence of oil price and ruble exchange rate

Macroeconomic and Tax Environment



1H 2015/1H 2014

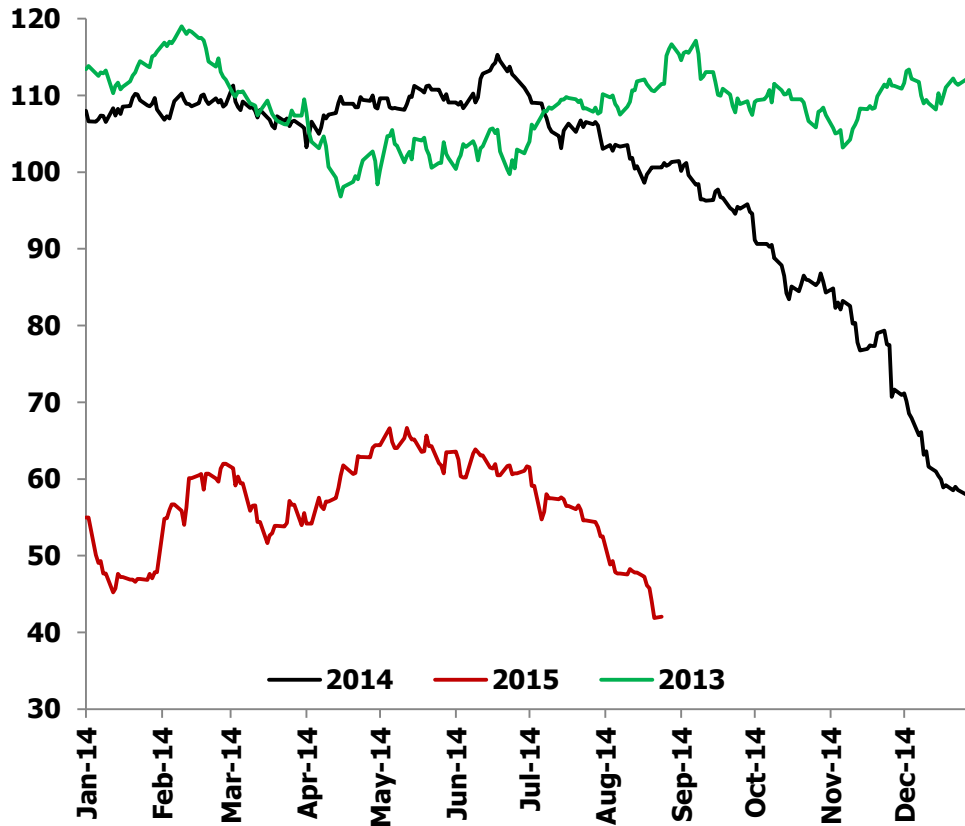




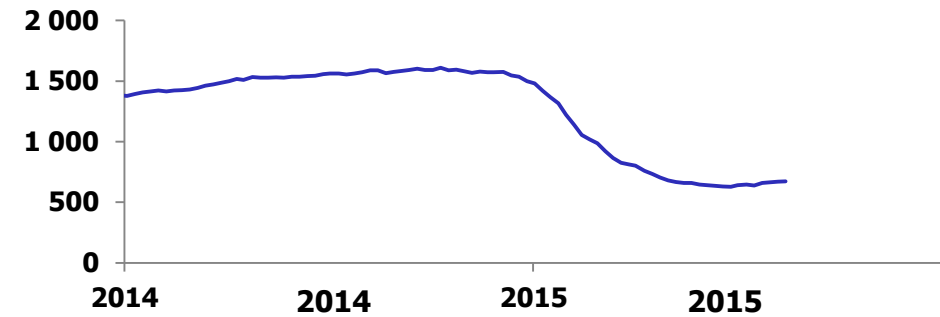
The «price war» between OPEC and US producers has reached a critical phase



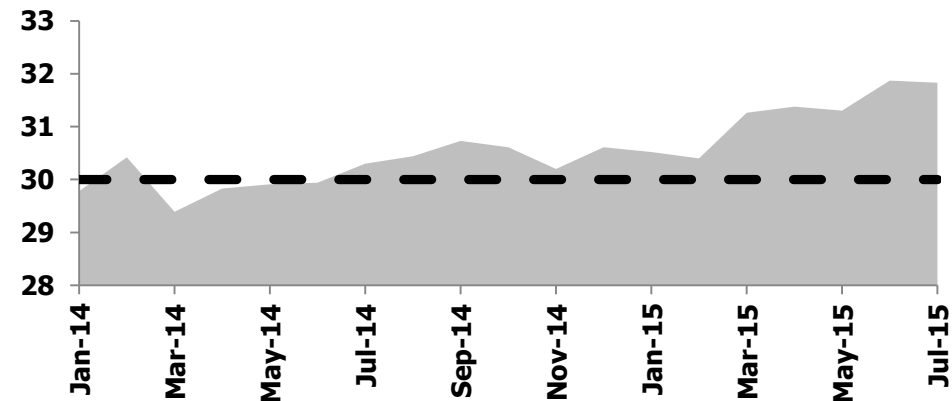
Brent price history, \$/bbl



US oil rig count



OPEC crude oil production vs quota, MMb/d



- OPEC has attained a record level of production – 31,8 MMb/d
- US crude oil production proved to be resilient in the current low price environment due to 15-20% E&P companies cost reduction and using of hedging instruments

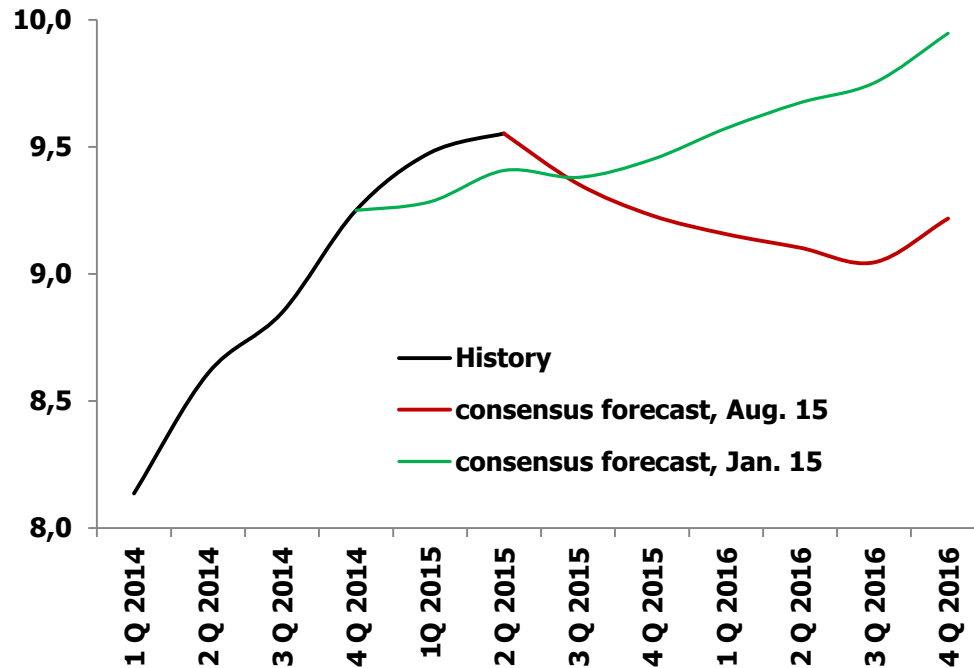


LUKOIL

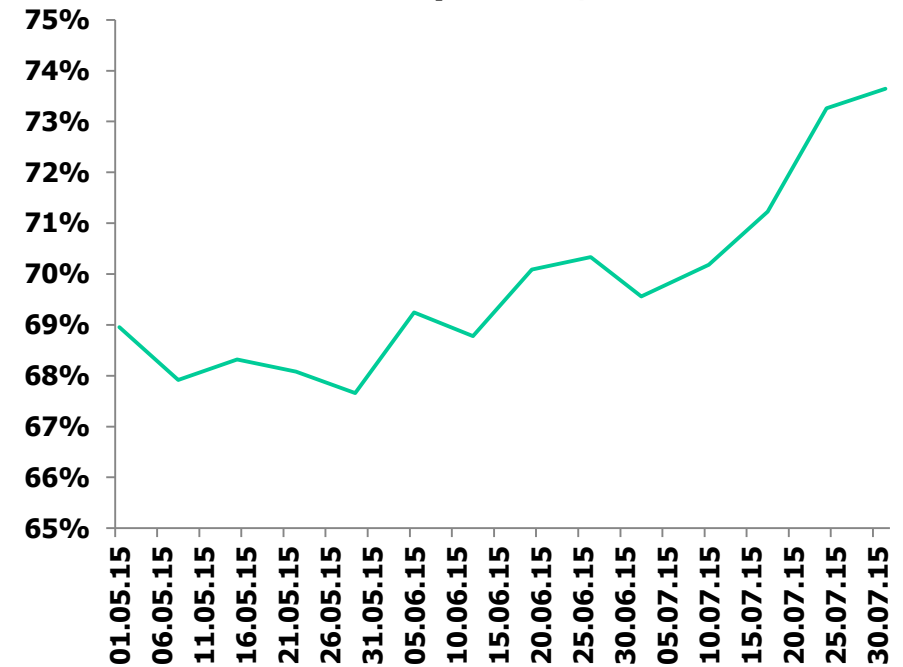
Low oil prices will help to rebalance the market



US oil production forecasts, MMb/d



Share of horizontal rigs, contracted by shale companies*, %



- After the oil price drop in July-August US production forecasts are subject to revision
- 2/3 of US tight oil is produced by small E&P companies
- In low oil price environment hedging is less effective
- **Access to capital markets is becoming more challenging. In October reserve-based lending (RBL) renegotiations are expected**

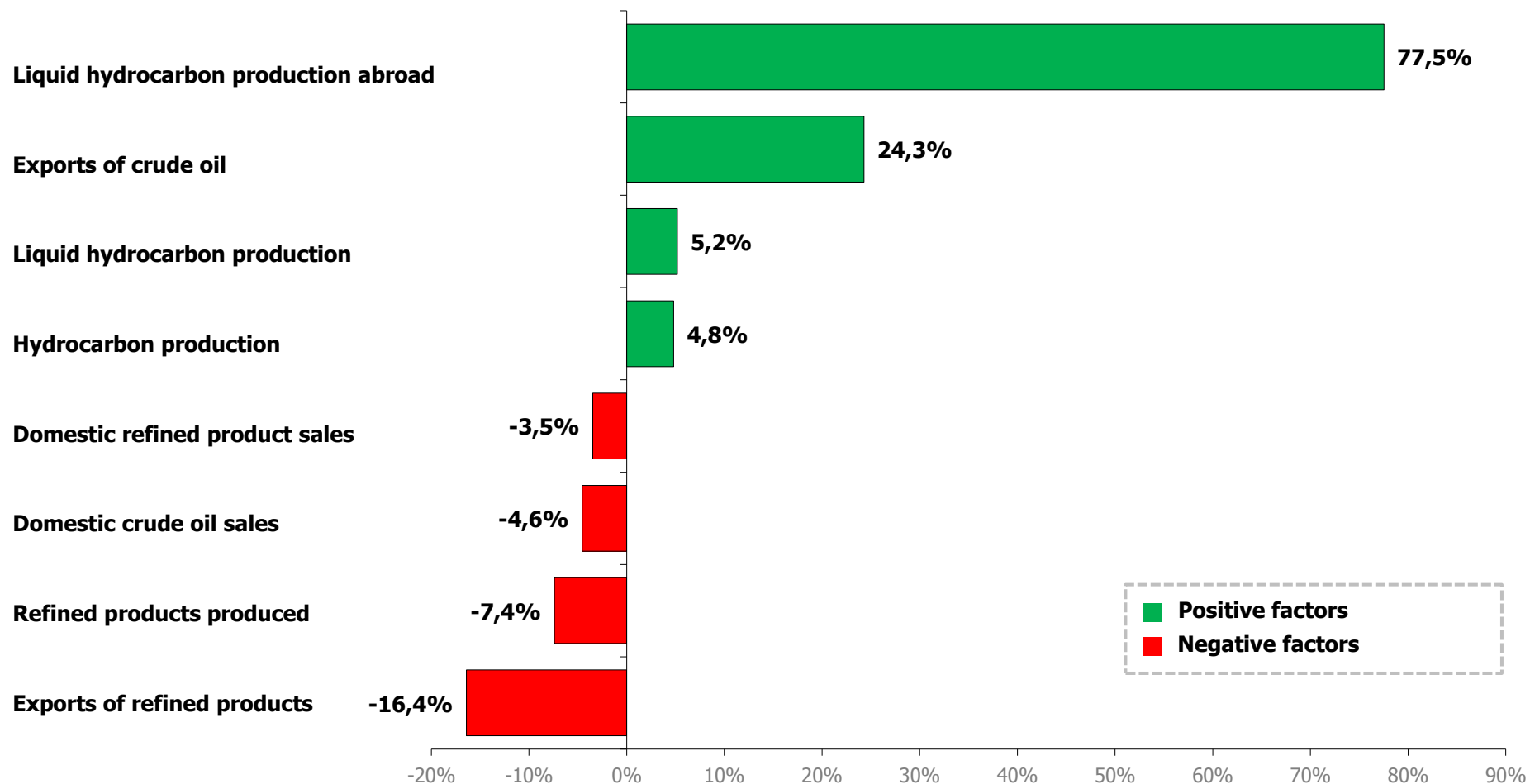
*companies focused on US tight oil production

Source: EIA, IHS Energy, Wood Mackenzie, Bloomberg

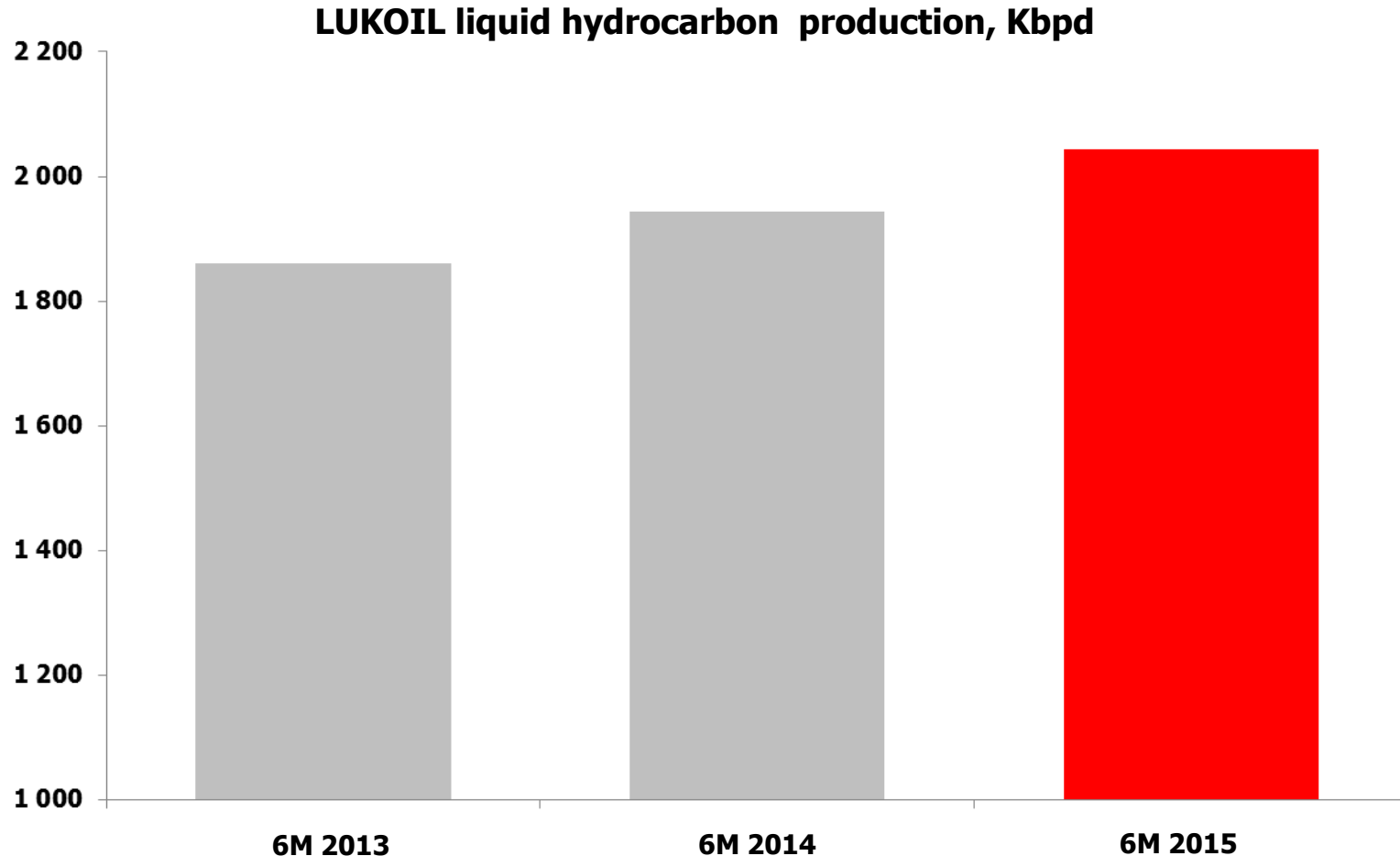
Main Operating Results



1H 2015/1H 2014

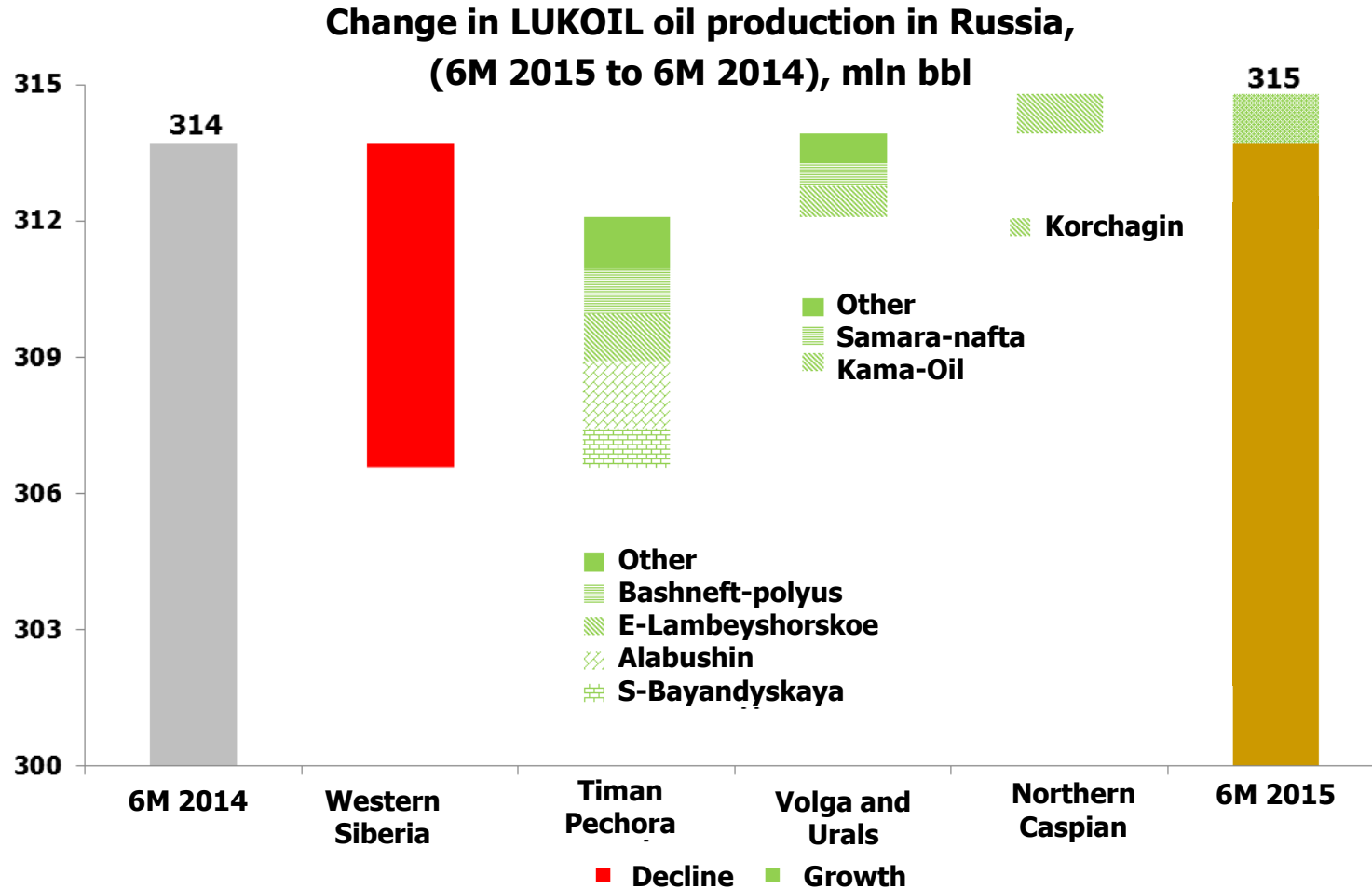


Sustainable production growth



LUKOIL continues to demonstrate oil production growth driven by both international projects including WQ-2 (+150% y-o-y) and projects in Russia (+0,3% y-o-y)

Stable Oil Production in Russia

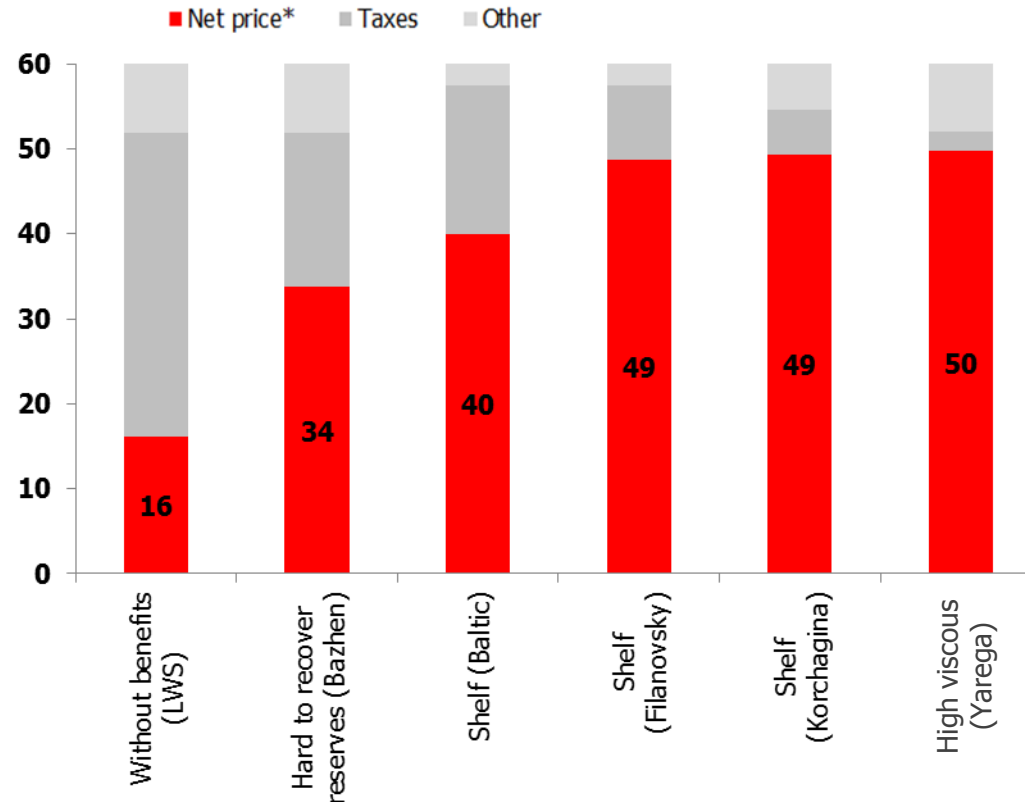


Natural oil **production decline** in Western Siberia is **compensated** by introduction of **new capacities and prospective fields in traditional** (Urals, Timan Pechora) **and new regions of Russia** (Northern Caspian)

Western Siberia Production Decline Will be Offset by High-Return Projects



Net price including benefits (Brent \$60) , \$ per bbl

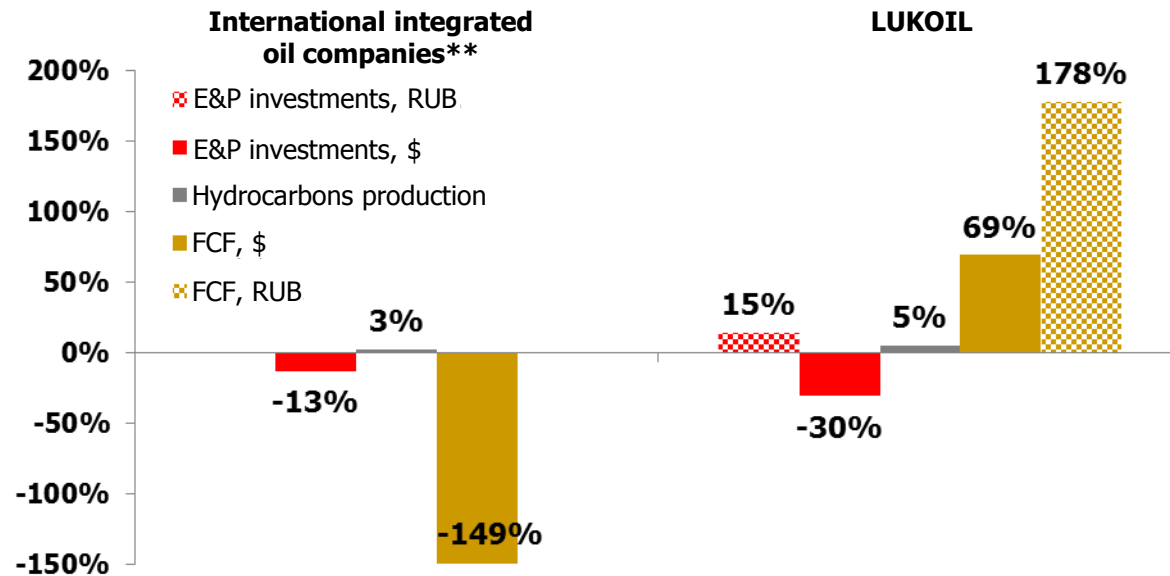


Western Siberia production decline is **offset** among other by oil volumes from **high-return** projects due to effective **logistics** and **tax benefits**

Optimization of Capex Allowed to Increase FCF



Change in E&P investments, FCF* and hydrocarbons production (6M 2015 to 6M 2014)



- **Optimization of E&P capex** allowed **LUKOIL to increase FCF, retain dividends** at an acceptable level and **support a “safety cushion”** in the turbulent oil prices conditions
- On the background of a significant (compared to competitors) **decrease in LUKOIL E&P capex** (in US dollars) for 6M 2015, LUKOIL **hydrocarbons production** was **growing at a competitive rate**

* FCF = Operating cash flow - CAPEX

** Data from the reports

Operating Expenses



2Q 2015	q-o-q	\$ mln		1H 2015	y-o-y
2,063	14%		Total operating expenses	3,871	-20%
1,003	14%		Hydrocarbon extraction expenses	1,884	-17%
385	16%		Own refining expenses	717	-28%
48	-4%		Refining expenses at third parties and affiliated refineries	98	-16%
181	7%		Expenses for crude oil transportation to refineries	350	-36%
176	11%		Power generation and distribution expenses	334	-7%
46	21%		Petrochemicals expenses	84	-24%
224	24%		Other operating expenses	404	-14%
14,864	32%		Cost of purchased crude oil, gas and products	26,102	-28%

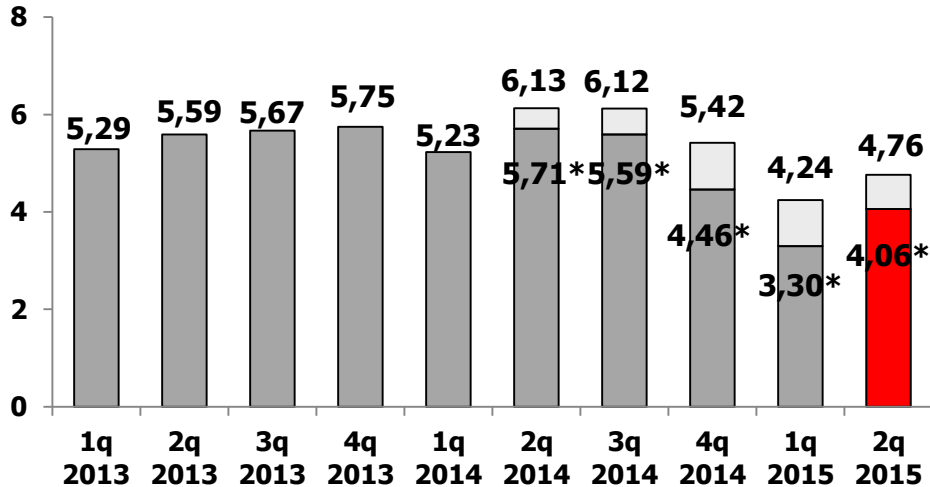


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Effective Cost Control

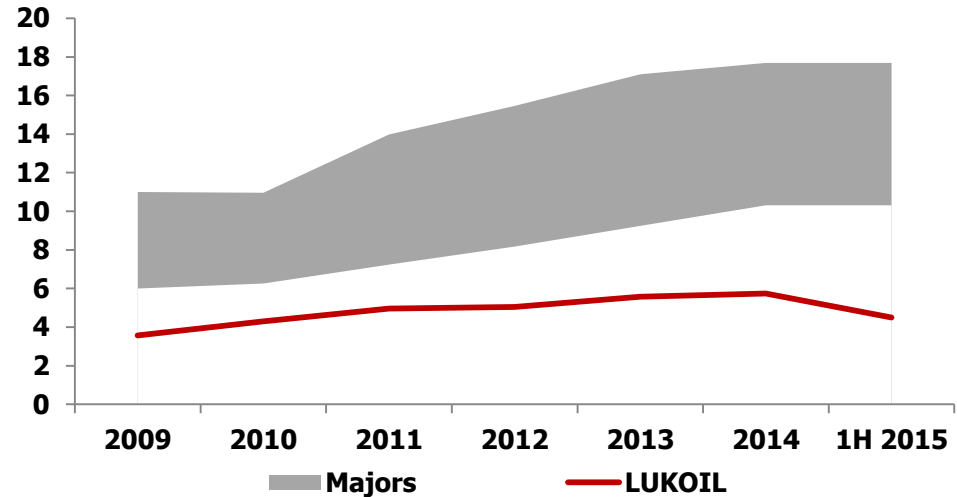


Lifting costs per boe, \$



*Excluding West Qurna-2 project.

Lifting costs per boe, \$

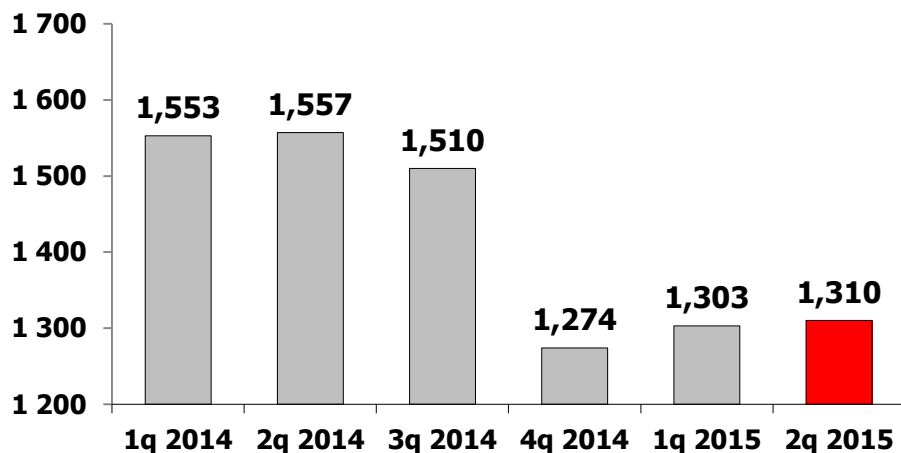


Ruble depreciation significantly reduced lifting costs in Russia: in 1H 2015 lifting costs decreased by **34%** along with 39% drop in RUB/USD exchange rate

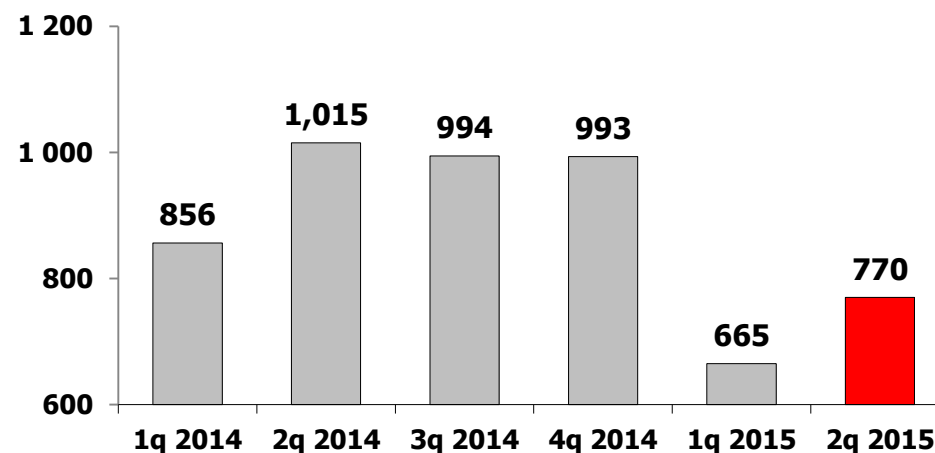
SG&A and Transportation Expenses



Transportation expenses, \$ mln



SG&A expenses, \$ mln



2Q 2015

q-o-q \$ mln

1H 2015

y-o-y

2Q 2015	q-o-q	\$ mln	1H 2015	y-o-y
1,310	1%	Transportation expenses	2,613	-16%
770	16%	Selling, general and administrative expenses	1,435	-23%
2,080	6%	Total	4,048	-19%



CAPEX Structure



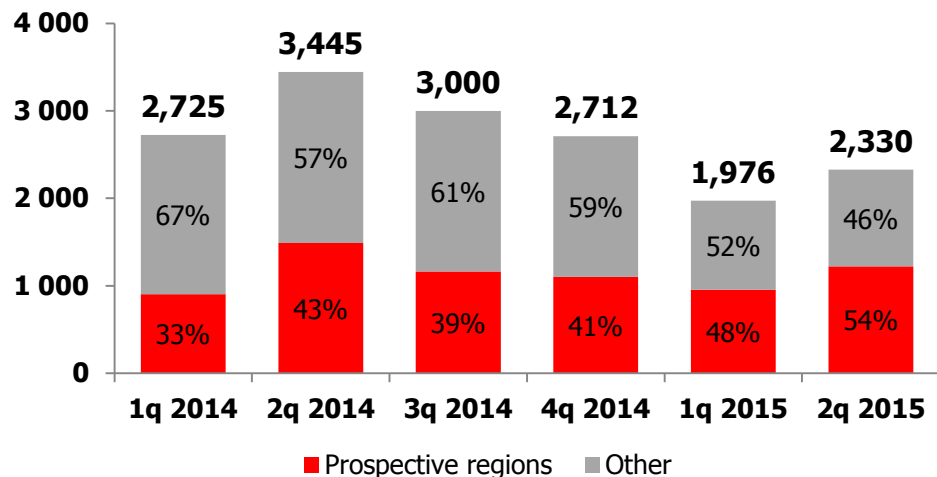
2Q 2015	q-o-q	\$ mln	1H 2015	y-o-y
2,890	19%	Total capital expenditures	5,320	-31%
2,330	18%	Exploration and production	4,306	-30%
1,352	15%	Russia	2,523	-43%
978	21%	International	1,783	3%
474	18%	Refining and marketing	875	-35%
359	23%	Russia	651	-28%
115	6%	International	224	-48%
27	-7%	Chemicals	56	-30%
27	-7%	Russia	56	-30%
0	-	International	0	-
41	413%	Power generation	49	-37%
18	13%	Other	34	-38%



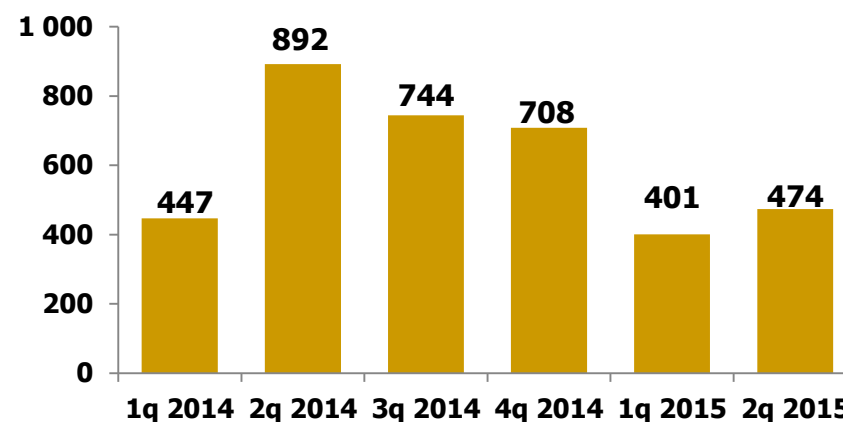
Capital Expenditures



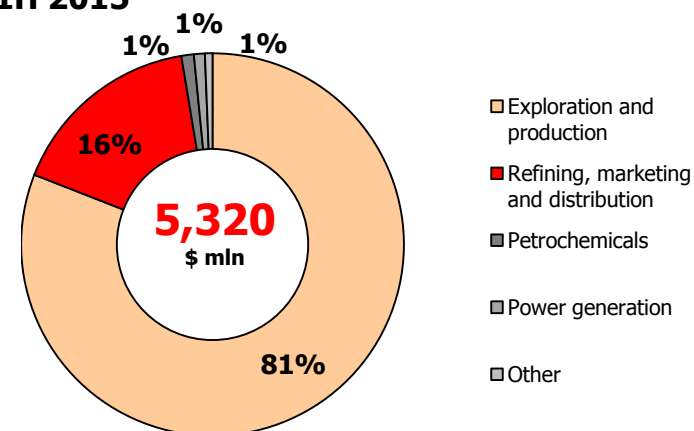
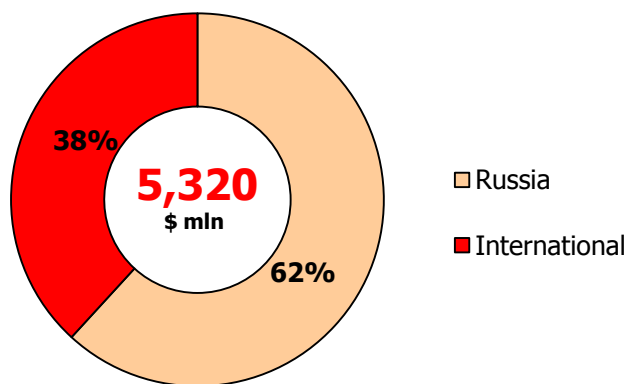
Exploration and production, \$ mln



Refining, marketing and distribution, \$ mln



Capital expenditures structure in 1H 2015





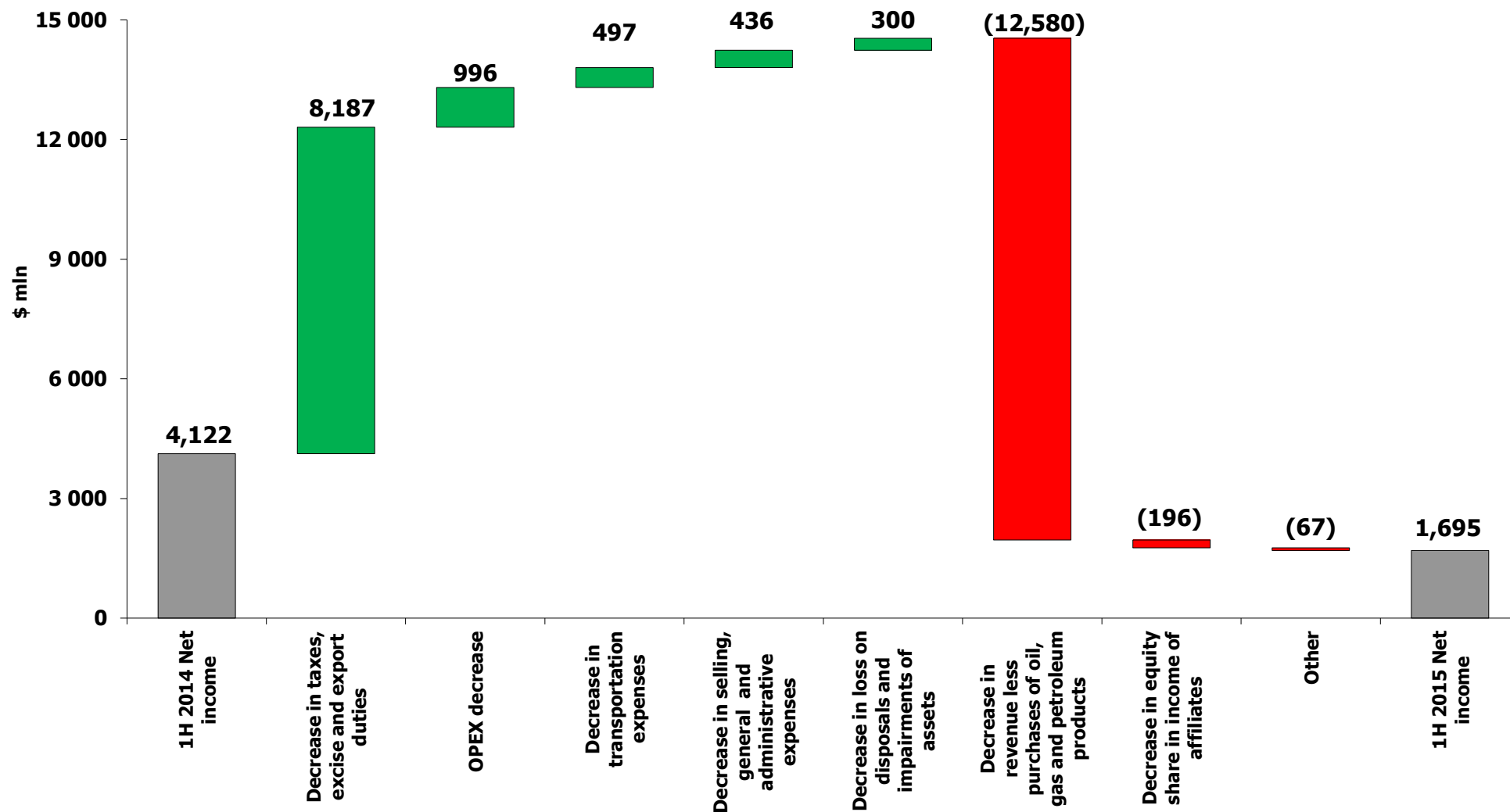
Financial Results



2Q 2015	q-o-q	\$ mln	1H 2015	y-o-y
28,104	21%	Sales	51,294	-31%
2,063	14%	OPEX	3,871	-20%
4,973	-4%	Taxes other than income tax, excise, export tariffs	10,145	-43%
1,598	56%	Income from operating activities	2,621	-53%
1,283	40%	Income before income tax	2,199	-58%
340	110%	Exploration expenses and loss on disposals and impairments of assets	502	-27%
1,005	46%	Net income	1,695	-59%
1,249	62%	Adjusted* net income	2,019	-57%
1.33	46%	Basic EPS, \$	2.25	-59%
3,563	27%	EBITDA	6,379	-32%
3,807	31%	Adjusted* EBITDA	6,703	-33%

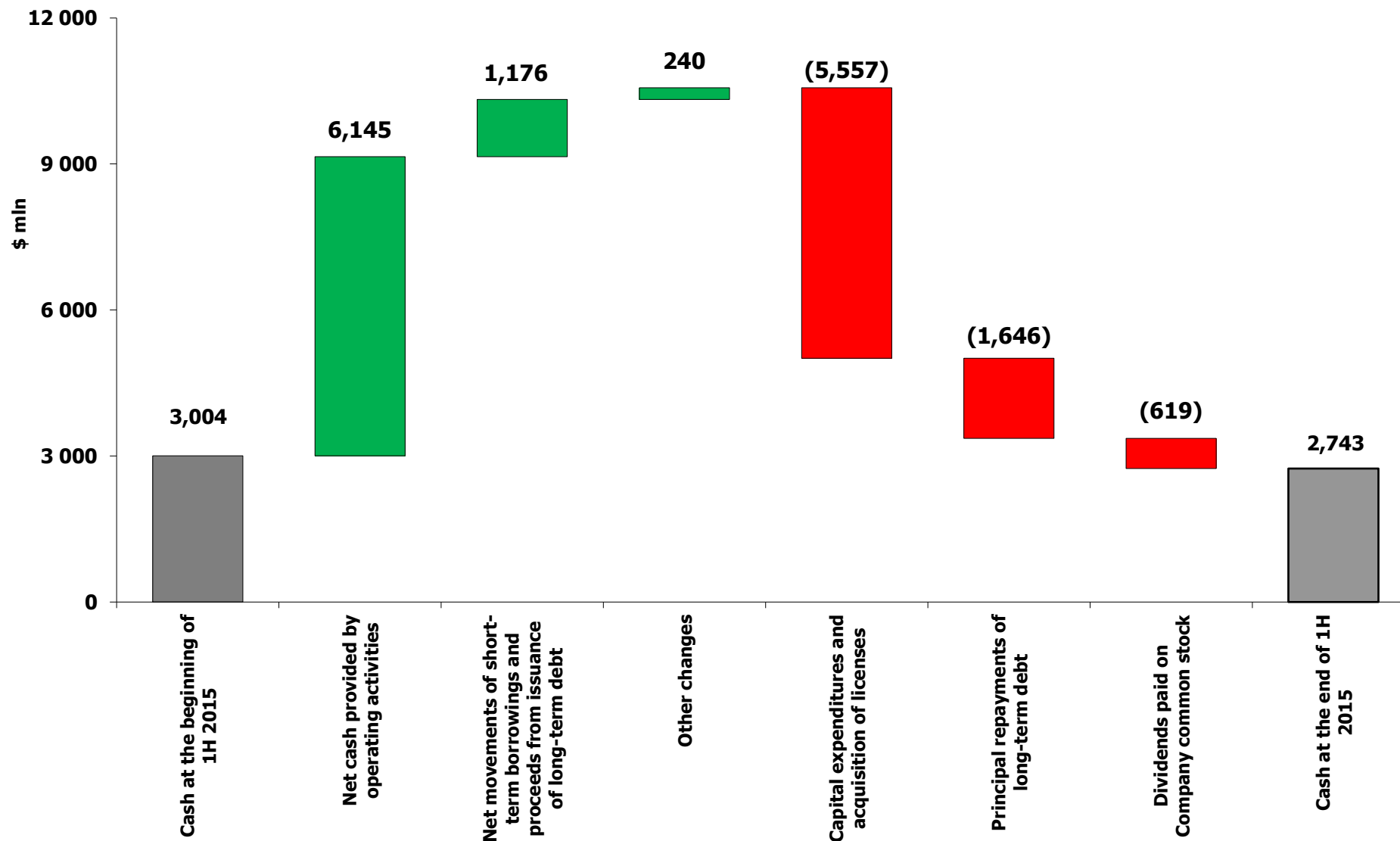
* Adjusted for loss on disposal of assets and dry hole write-offs

1H 2015 Net Income Reconciliation




LUKOIL

1H 2015 Cash Flow Reconciliation

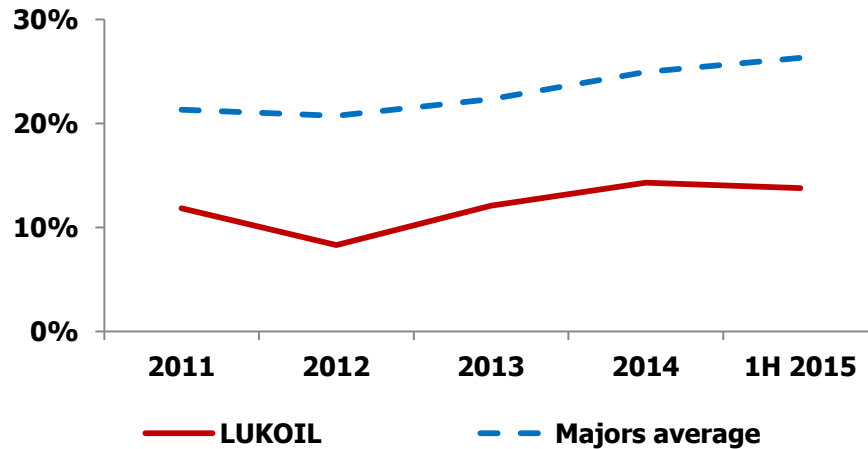




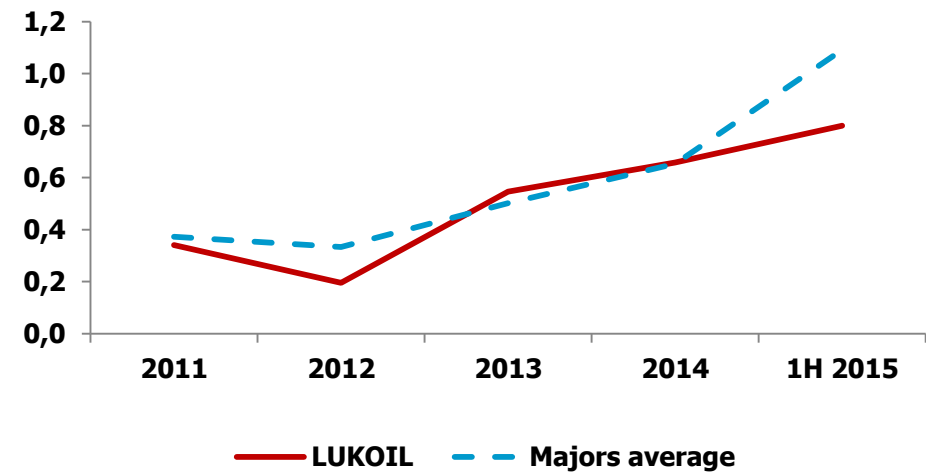
Robust Financial Position



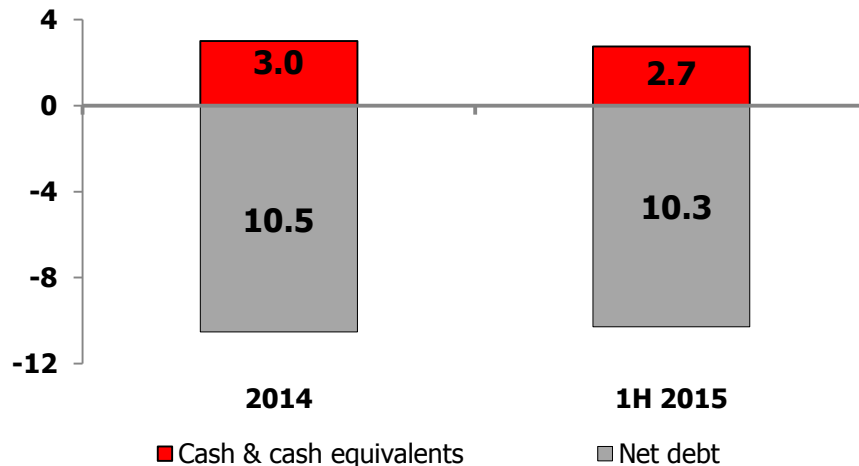
Debt-to-capital



Net debt to EBITDA



Total debt and net debt, \$ bln



- LUKOIL effectively manages liquidity under limited access to capital markets
- In 2q 2015 LUKOIL redeemed \$1.5 bln convertible bonds

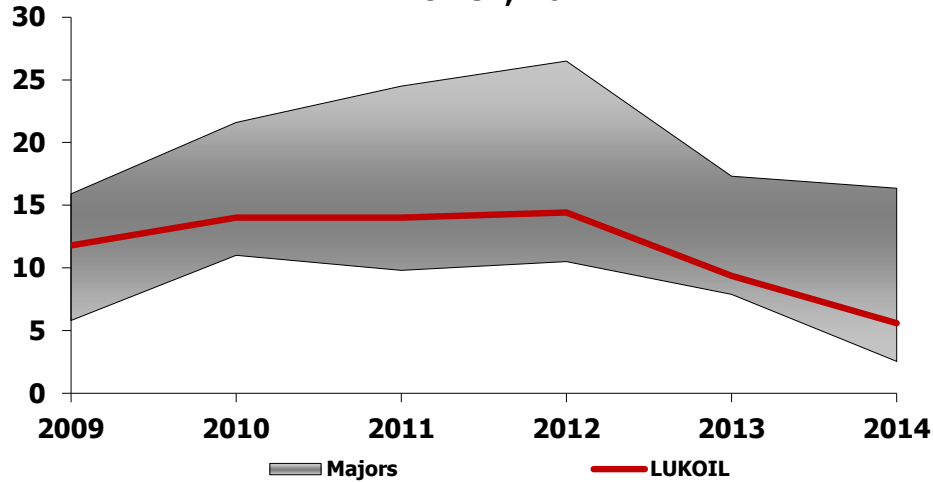


LUKOIL

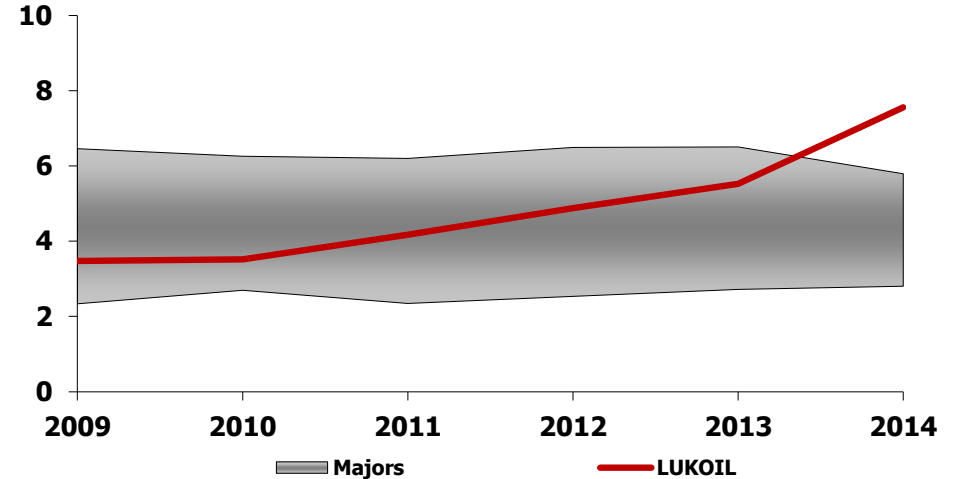
Robust Competitive Position in the Global Industry



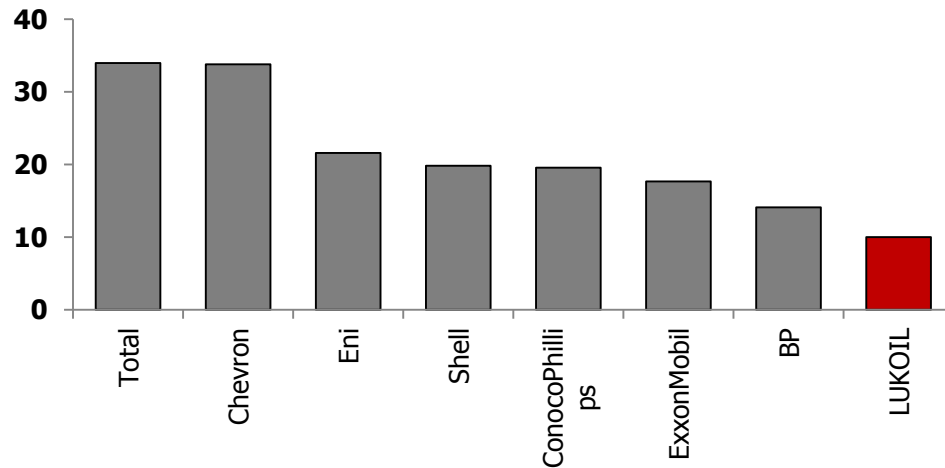
ROACE, %



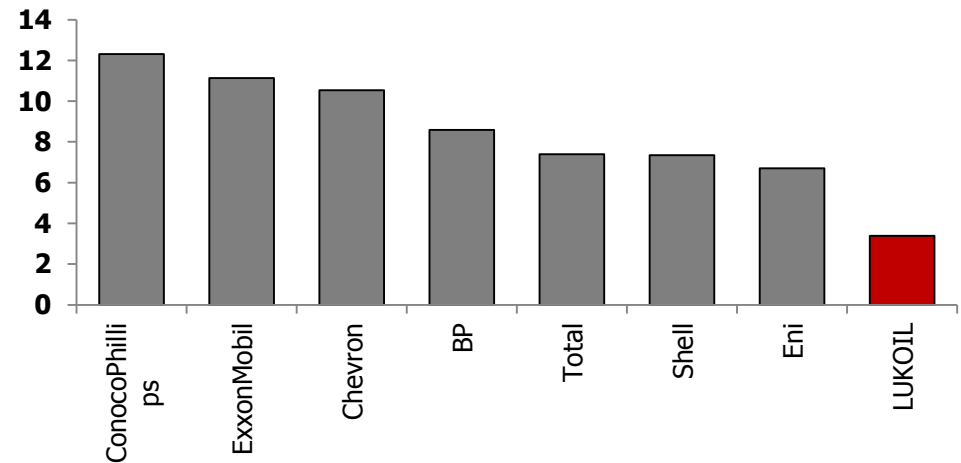
Dividend yield, %



E&P capital expenditures in 1H 2015, \$ per boe



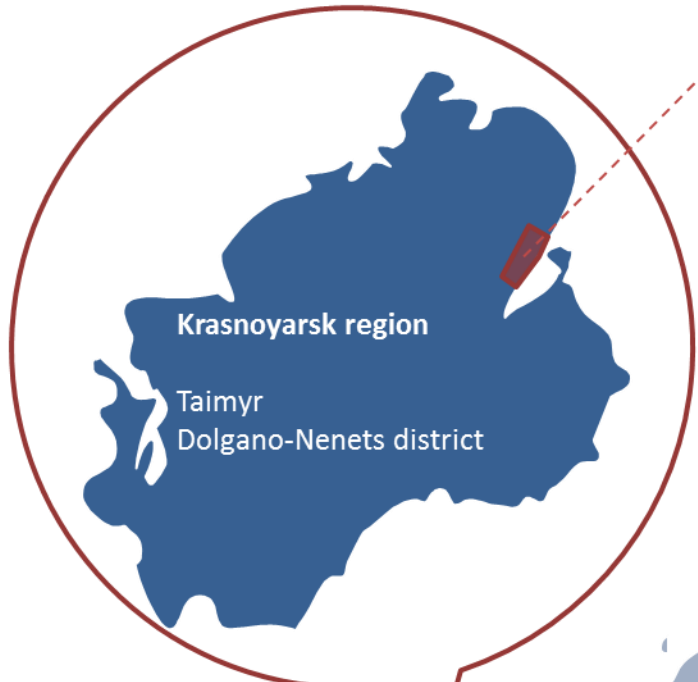
EV / DACF



Acquisition of new perspective resources



Vostochno-Taimyrsky block



- LUKOIL has been awarded the rights to develop the Vostochno-Taimyrsky block, which is located in the Taimyr Dolgano-Nenets district of the Krasnoyarsk region.
- OOO LUKOIL-West Siberia, a fully-owned subsidiary of PJSC LUKOIL, will operate the block.
- The area of the Vostochno-Taimyrsky block is 13,800 square kilometers.
- The concession period is 27 years.



West Qurna-2 Development



- **In 1H 2015** we shipped **22** tankers with **34.1** mln bbl of compensation oil
- Compensation volume in 1H 2015 was **\$1.5 bln**
- **Production in June 2015** reached **400 Kbpd**.
- By the end of the current year LUKOIL **plans to finish compensation of historical costs**
- LUKOIL will strive to further **develop** the project **with self financing**, without attracting Group's additional cash

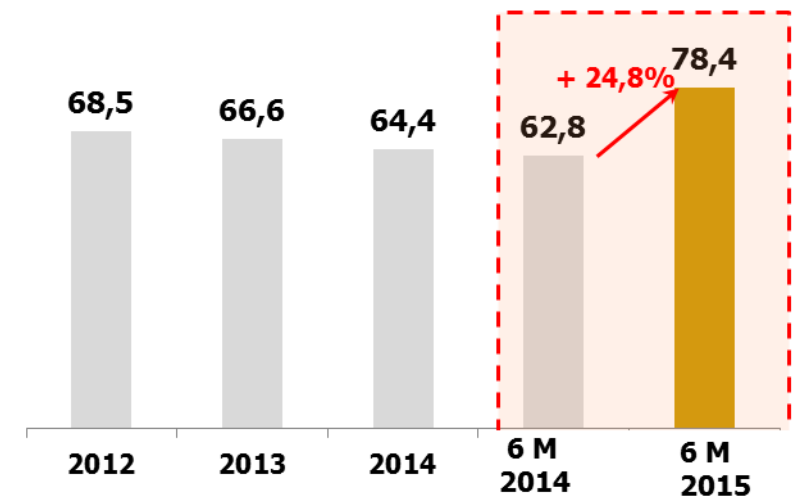
Kandym Project



Project stages:

- **May 2015** – Start of production tests at facilities for Kandym early gas project in Uzbekistan. Launch of two preliminary gas treatment units, which will take gas from 34 wells
- **June 2015** – The decision is made to move the “Kandym Full Development” project to the “Realization” stage

Natural gas production in Uzbekistan, Kbpd





In 2015 LUKOIL Will Complete Large Oil and Gas Refining Projects



Nizhny Novgorod

Catalytic cracking - 2

Capacity: **2.0 mln t/year**

Pre-started

Budennovsk

gas processing unit
(processing of gas from the Northern Caspian)

Capacity: **2.2 bln m³/year**

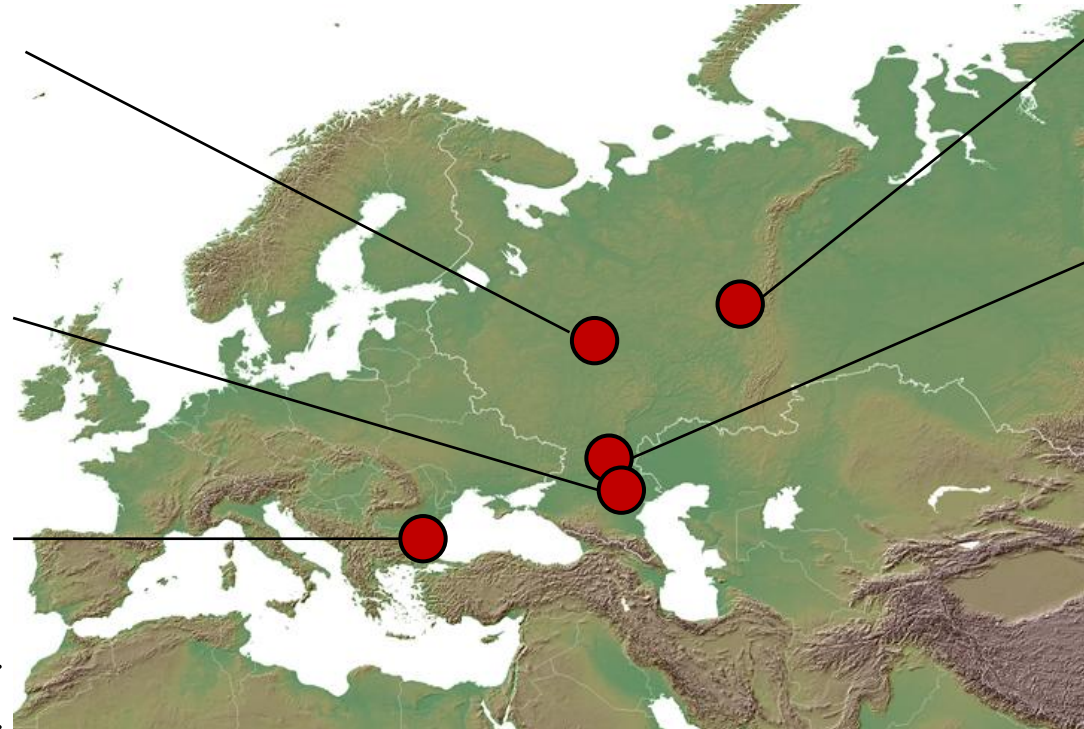
Launch: **3Q 2015**

Burgas

Residue hydrocracking

Capacity: **2.5 mln t/year**

LAUNCH



Perm

Coker

Capacity: **2.1 mln t/year**

Launch: **4Q 2015**

2-nd line of LTCR unit

Capacity: **0.7 mln t/year (NGL)**
0.9 bcm/year (APG)

LAUNCH

Volgograd

Vacuum gas oil
hydrocracking

Capacity: **3.5 mln t/year**

Launch: **2016**

CDU

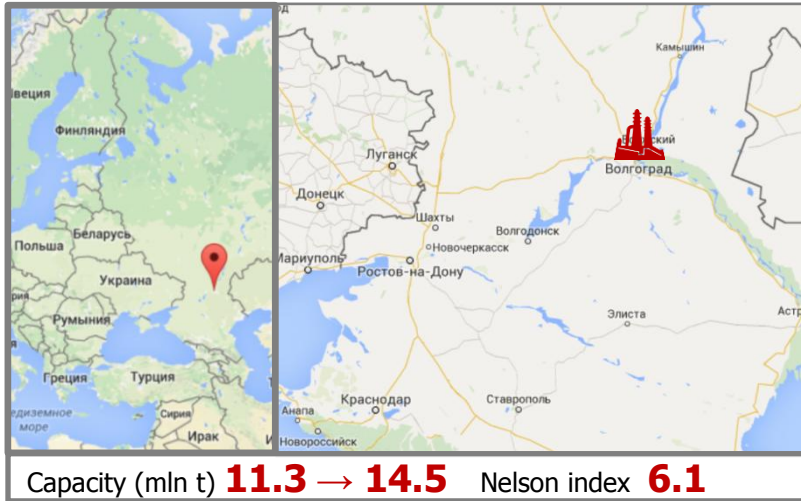
Capacity: **6.0 mln t/year**

LAUNCH

Launched facilities were built on time and on budget

The projects **IRR > 15%**

Volgograd Refinery



Primary oil refining complex AVT-1 was launched in June 2015

- ELOU-AVT-1 unit **6.0 mln t**
- Utilities and infrastructure (modernization)

Effect

- Increasing refinery capacity **+3.2 mln t**
- Increasing oil refining efficiency due to shut down of obsolescent primary refining units
- EBITDA **+ over \$100 mln**

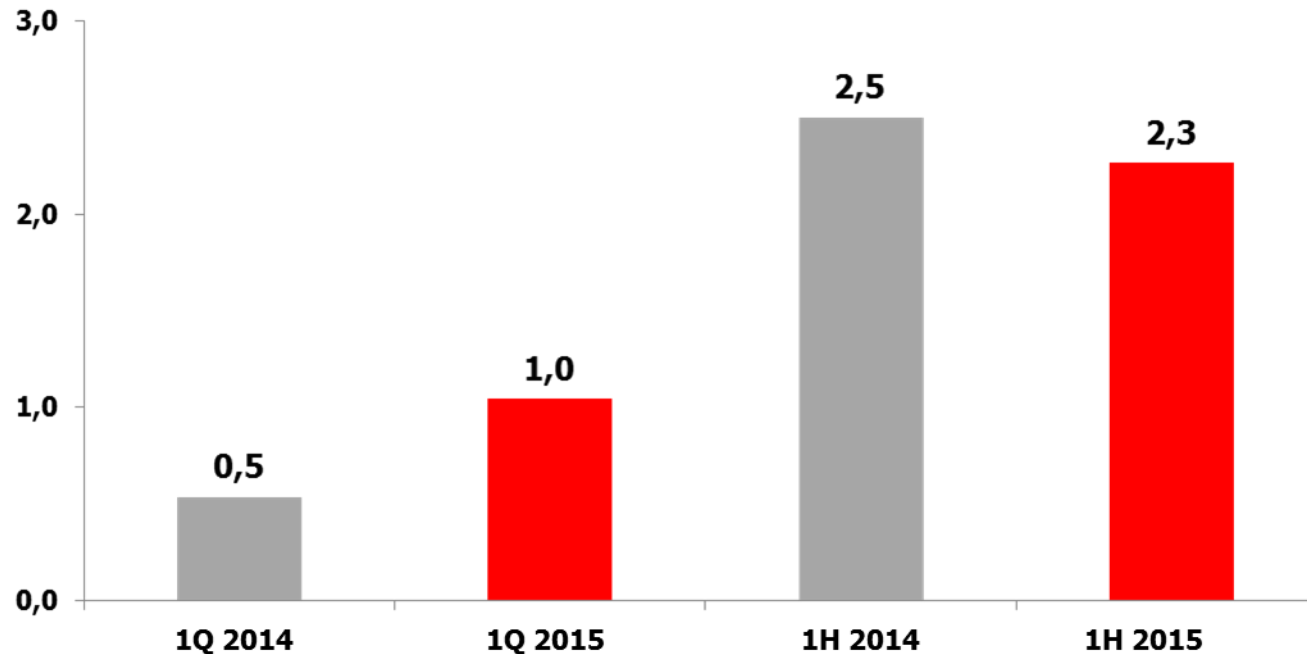




Downstream Segment Demonstrates Stable Operating Income in 2015



Operating Income * of Downstream**, \$ bln



- Despite almost twofold decrease in oil prices in 1H 2015, Downstream business segment demonstrated stable operating income
- Launch of new facilities at Russian refineries will increase the income of the segment

* Operating Income is calculated as net income plus income tax, interest expense and depreciation

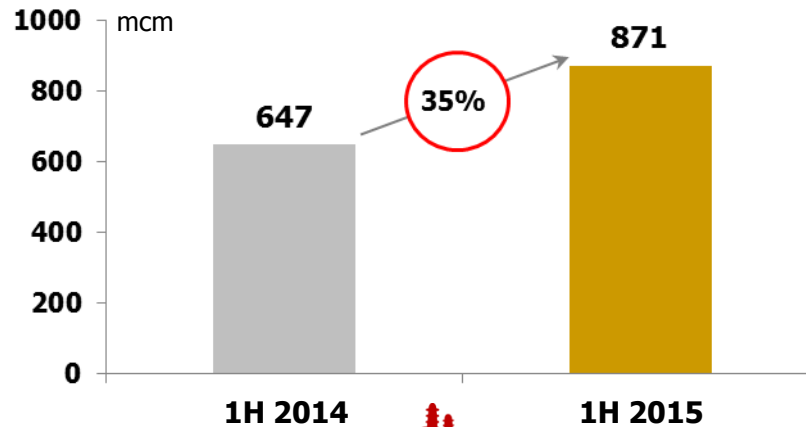
** Calculated using US GAAP report data, "Refining, marketing and distribution" and "Petrochemicals" segments



Integrated Project for Gas Production, Gas Processing and Energy in the Perm Region



LUKOIL-Perm production of natural gas and APG



Perm GPP

Facilities (**LAUNCHED**)

- Gas fractionation unit-2
- Low-temperature condensation and rectification unit-2
- Gas supply systems

Effects

- Increased capacity of APG processing by 0.9 bcm
- Increased NGL** capacity by 0.7 mln t
- Increased APG utilization level up to 95%

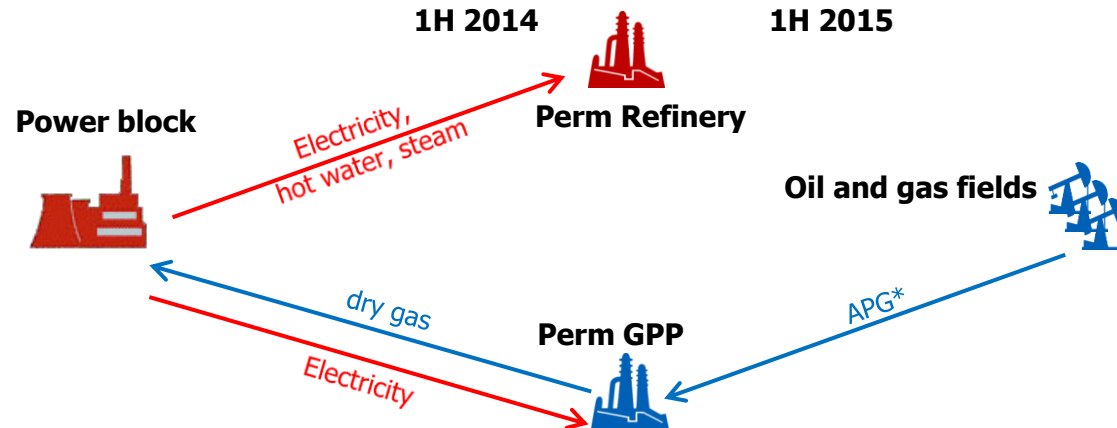
Power block

Facilities (1st start-up complex **LAUNCHED**, 2nd start-up complex – 3Q 2015)

- 1st start-up complex 100 MWt
- 2nd start-up complex 100 MWt

Effects

- Independence from the tariff policy
- Synergy with the production of own gas
- Reduced electricity and heat costs at the Refinery and GPP



LUKOIL launched the second production line of low-temperature APG condensation and rectification unit (**LTCR-2**) and power block. Launch of the facilities will increase production and gas processing in the Perm region by **0.9 bcm per year**, ensuring **maximum profitability of the projects** through the benefits of vertical integration

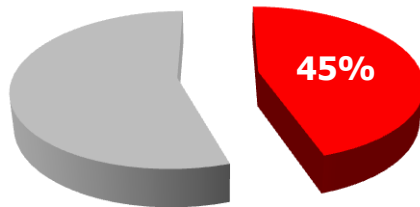


Premium Segment: Lubricants



- Up to \$100 mln – EBITDA of the segment
- Products are presented in more than 100 countries
- 7 blending and packaging plants
- Production of additives JV with "Naftan"
- Production of lubricants JV with "RZHD"

LUKOIL share in lubricants production in Russia



Main events in 1H 2015

- Start of ship oil supply to Mediterranean Shipping Company – one of the largest shipping companies in the world
- The beginning of Austrian lubricant plant modernization
- Austrian plant has received the certificate of the Association of the German Automotive Industry
- Start of lubricant supplies to MAN plant and service centers in Russia
- Agreement with the Russian automotive partnership to supply lubricants to inspection stations





Environmental Safety is LUKOIL Priority



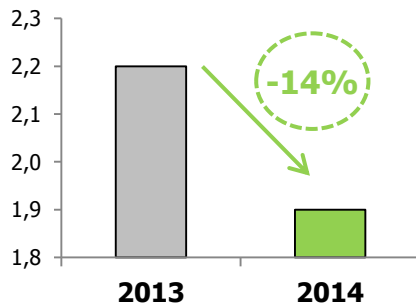
In April 2015 LUKOIL and World Wide Fund for Nature (WWF) signed a cooperation agreement



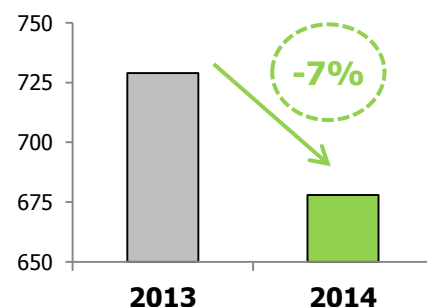
The agreement provides for bilateral consultations, working meetings, exchange of information and data regarding implementation of environmental protection projects and nature conservation in Russia



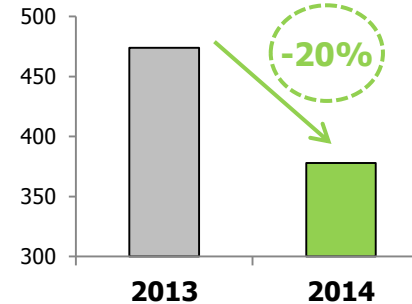
Dirty discharge, mcm



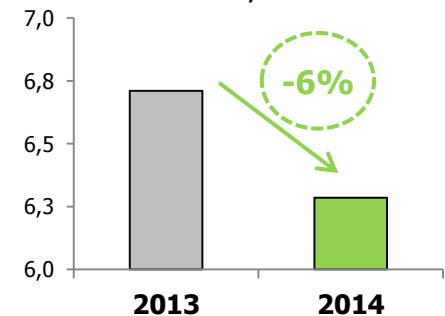
Atmospheric pollutant emission, th. t



Water consumption for own needs, mcm



Total amount of pipeline failures, th.





Conclusions



- Keeping a high level of **dividend payments**
- **Growth** of LUKOIL production, **stabilization** of production in Russia
- **Realization** of incurred cost compensation plan on **West Qurna-2 project**
- Running **efficient projects** in oil and gas refinery sector **on time and on budget**
- Strong **financial position**