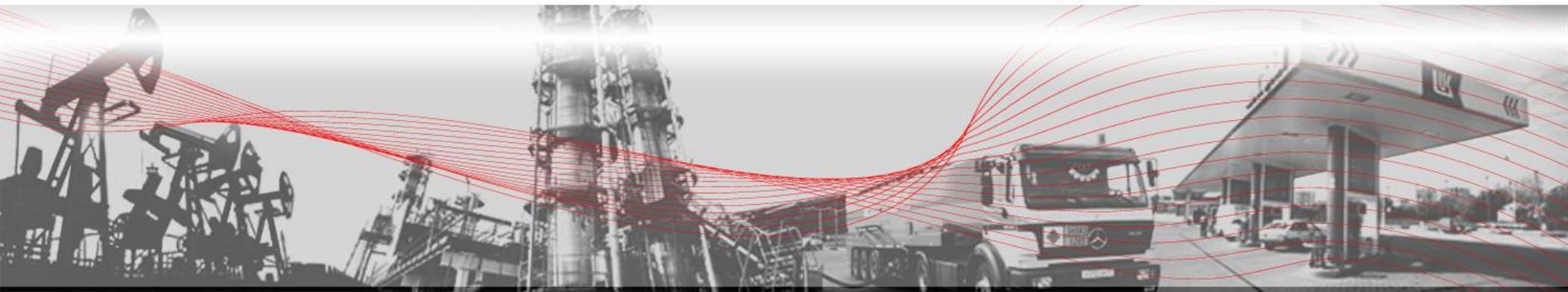




# **LUKOIL – Global Energy Company:** ***Focus on Value Growth***

**Vagit Alekperov, President of LUKOIL**



**April 2008**

# 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.

# Another Year of Record Financial Results



**Net Income – \$9,511 mln (+27.1%)**

**EBITDA – \$15,388 mln (+25.1%)**

**ROACE – 22.2%**

## And another year of operational success:



**Production of marketable hydrocarbons in 2007 – 2,178 th. boe per day (+1.5%):**

- **Oil – 1,953 th. barrels per day (+1.4%)**
- **Gas – 225 th. boe per day (+2.5%)**



**Refinery throughputs – 1,048\* th. barrels per day (+6.7%)**

**Retail sales of petroleum products – 12.76 mln tons (+14.3%)**

# Effect from "Growth CAPEX"



	2002	2006	2007	Growth 2002–2007, %	Growth 2002– 2007, absolute value
<b>Revenue, \$ mln</b>	<b>15,449</b>	<b>68,109</b>	<b>82,238</b>	<b>+432%</b>	<b>+66,789</b>
<b>Net income, \$ mln</b>	<b>1,843</b>	<b>7,484</b>	<b>9,511</b>	<b>+416%</b>	<b>+7,668</b>
<b>Free cash flow (before capital expenditures in new projects), \$ mln</b>	<b>942</b>	<b>3,696</b>	<b>5,432</b>	<b>+477%</b>	<b>+4,490</b>
Proved hydrocarbon reserves, bln boe	19.285	20.360	20.369	+6%	+1.084
Oil production, th. barrels per day	1,545	1,926	1,953	+26%	+408
Marketable gas production, th. boe per day	58	219	225	+288%	+167
Refining capacities, mln barrels per day *	1.13	1.17	1.17	+4%	+0.04
Refinery throughputs, th. barrels per day	827	982	1,048	+27%	+221
Retail network, filling stations	4,076	5,793	6,096	+50%	+2,020
Retail sales, mln tons	5.2	11.2	12.8	+146%	+7.6
Capacity of own export terminals, mln tons	3.0	21.5	32.0	+970%	+29.0

\* New capacities were commissioned at Nizhny Novgorod Refinery.

# Major Events of 2007 – beginning of 2008



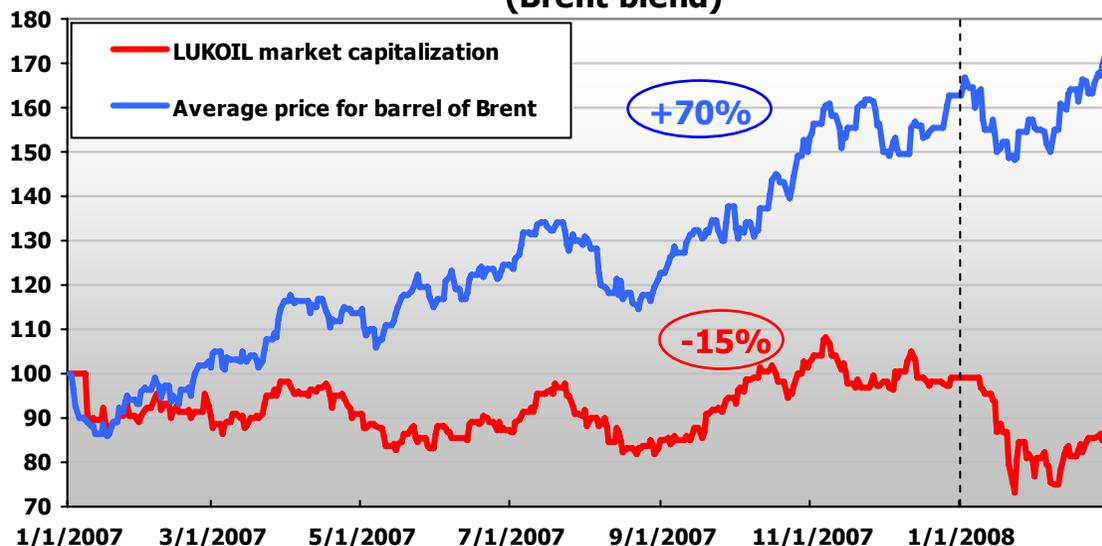
- **Uzbekistan** – start of gas production as part of Kandym – Khauzak – Shady project in November 2007. Estimated production for 2008 – **2.5 bcm**. The acquisition of SNG Holdings Ltd. (planned production level – **3 bcm**) increases total production under LUKOIL projects in Uzbekistan to **15 bcm**.
- **Discovery of Bayandyskoye field** in Timan-Pechora. The field is located close to Usinskoye field. Flow rate of exploration well was up to 4.9 th. barrels per day of crude oil. **3P** reserves are estimated at about **270 mln barrels** of crude oil as of the beginning of 2008 (potential **proved reserves** exceed **200 mln barrels**).
- **Expansion of refining capacities in Russia:**
  - 3** new isomerization units with total capacity of **840 th. tons per year** and **1** visbreaking unit with capacity of **800 th. tons per year**.
  - 2** visbreaking units and a hydrotreating unit are under construction. In the last two years the Group refining capacities increased by 2 mln tons per year.
- **Acquisition of retail networks:** entrance to new markets and increase in sales volume. Integration of the retail network bought from ConocoPhillips with overall retail sales of over **1.4 mln tons per year**. Purchase of Rostovneft and marketing assets of Russneft with overall retail sales of over **1.1 mln tons per year**.



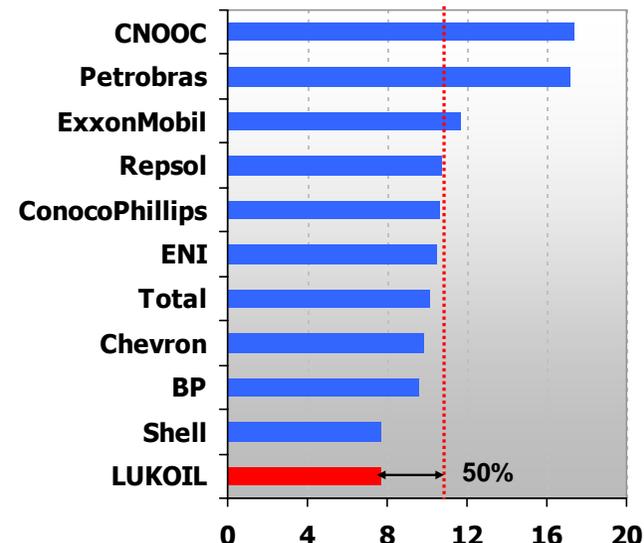
# LUKOIL Market Capitalization Does Not Reflect its Financial and Operating Results



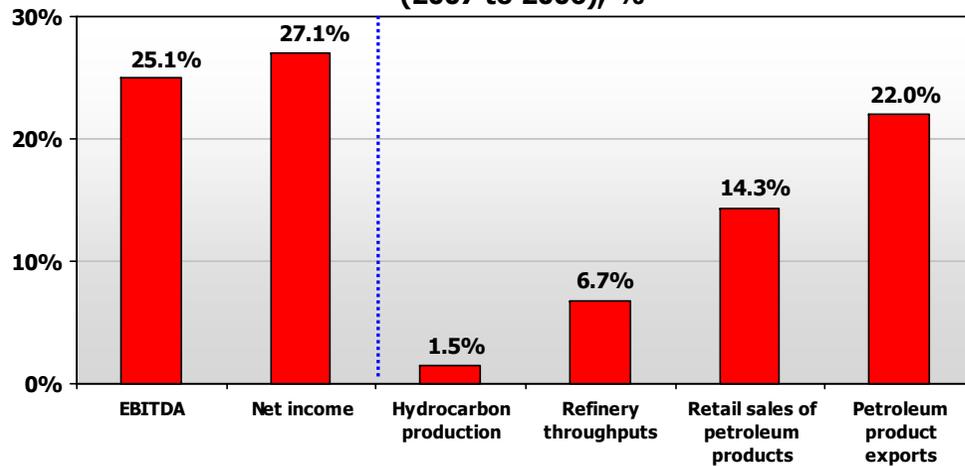
LUKOIL market capitalization vs crude oil price (Brent blend)



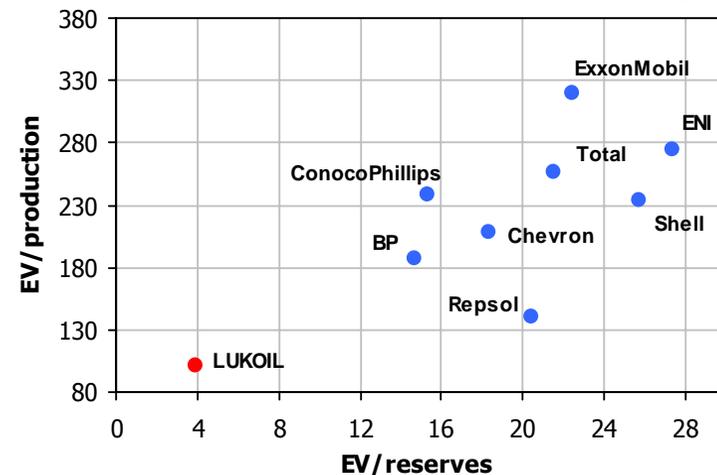
P/E (07.04.08)



Key financial and operating results (2007 to 2006), %



EV/reserves and EV/production (2007)



# Negative Clichés Regarding Investment Attractiveness of Russian Oil Companies



- ***Heavy tax burden does not allow to increase net income, rise in oil prices does not add to value. However LUKOIL experience shows that:***
  - **net income increases dynamically** and dividend payments rise correspondingly;
  - besides, Russian government suggests substantial decrease in tax burden, which will lead to an increase in free cash flow of Russian oil companies.
- ***Russian companies have low cash flows and unreasonably high capital expenditures, which does not contribute to increase in their long-term value. However in developing its business LUKOIL emphasizes:***
  - **accelerated development of gas production, refining and power energy** taking advantage of the high profitability and favorable tax environment of these sectors;
  - the Company effectively controls expenses as well as has the opportunity to manage value and secure high and rising profitability of its operations.

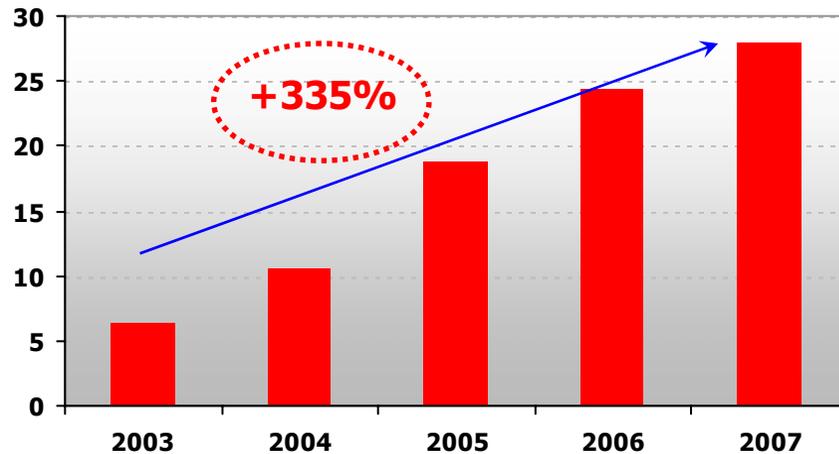
# LUKOIL Shows Strong Net Income Growth under Current Taxation and Macroeconomic Environment



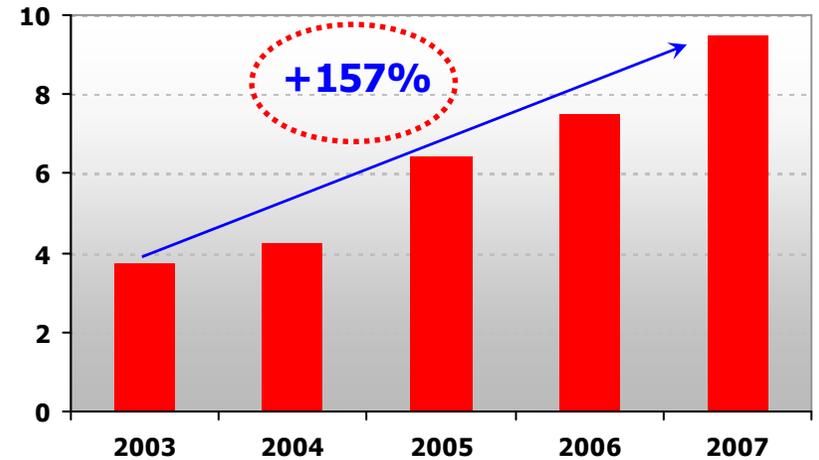
Urals price, \$ per barrel



Tax expense, \$ bln



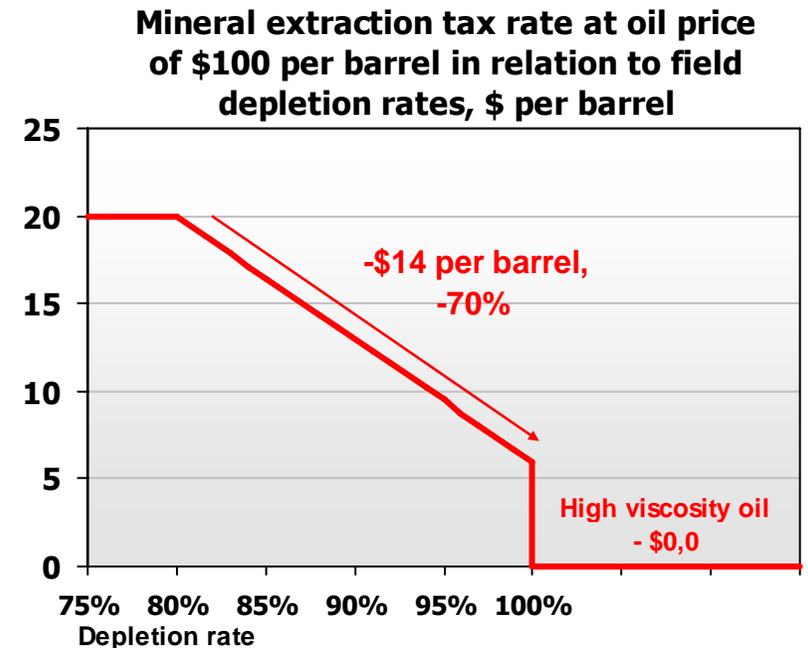
Net income, \$ bln



# Russia has Already Started Reduction of Tax Burden



- The new law on differentiation of mineral extraction tax rates for crude oil came into force on January 1, 2007.
- The law entails a zero tax rate for fields with high-viscosity oil and a diminishing rate for fields with depletion levels higher than 80%.
- The tax relieves can be obtained only if direct method of produced oil registration is used. It requires additional preparatory works at fields. Lack of application practice also causes certain difficulties.



In 2007 necessary preparatory works were completed at 7 fields with exhaustion rates higher than 80% (5 in Western Siberia and 2 in Volga region). Oil production at these fields amounted to about 2.9 mln tons in 2007. 1.4 mln tons of produced oil were subject to the relief as preparatory works were not completed in full at all the fields by the beginning of 2007.

**In 2008 tax relief could reach about \$100 mln  
By 2010 tax relief could amount up to \$500 mln**

**Ministry of Finance suggested clarification of produced oil registration method in order to ease application of the tax relieves in 2008.**

# Expected Amendments to Taxation System



- **Further development of tax relief scheme:**
  - for development of fields in new difficult to reach regions (Arctic shelf);
  - for development of new fields with hard to recover reserves in all regions, including Western Siberia and Timan-Pechora.
- **Adjustment of mineral extraction tax and export tariff formulas in accordance with macroeconomic environment.**
- **Introduction of ad valorem rate of mineral extraction tax which will enable to include transportation costs in the tax base and allow to:**
  - encourage development of new regions which lack transport infrastructure;
  - ensure government control over the rise in tariffs of transport monopolies.
- **In order to provide conditions for oil refining development it is necessary to:**
  - set by law the light products export tariff at 60% of oil export tariff;
  - reduce excise taxes on all types of fuel by 500–1,000 rubles per ton in order to prevent rise in domestic prices for petroleum products;
  - abolish import customs duty on refinery equipment not produced in Russia.

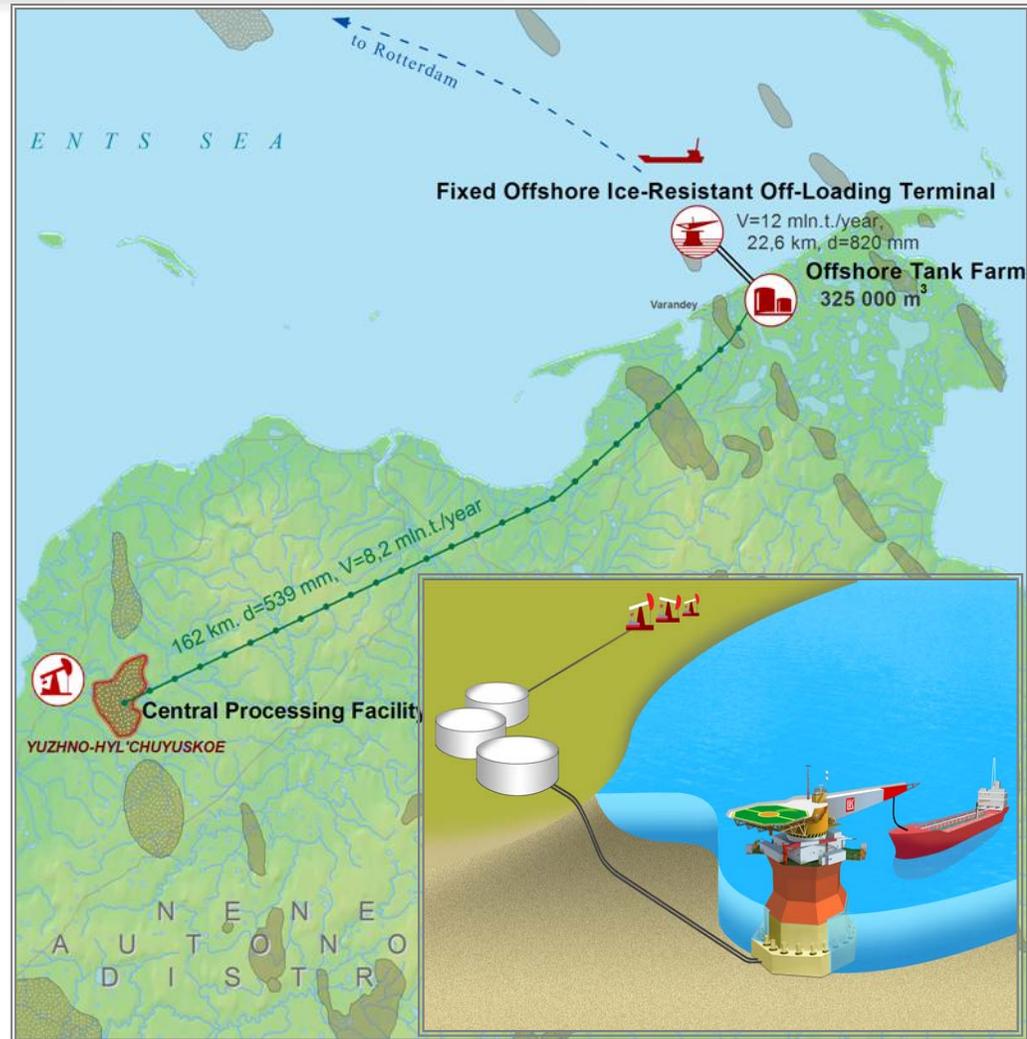
**In the end of March 2008 Russian government made a proposal to change mineral extraction tax scale which will allow to reduce mineral extraction tax burden by \$1.3 per barrel. As a result LUKOIL tax expense will decrease by \$870 mln per year**

**Annual economic effect from approved and expected tax amendments can exceed \$1.5 bln**

# Future Starts Today: Launch of the Largest Field in Timan-Pechora in 2008



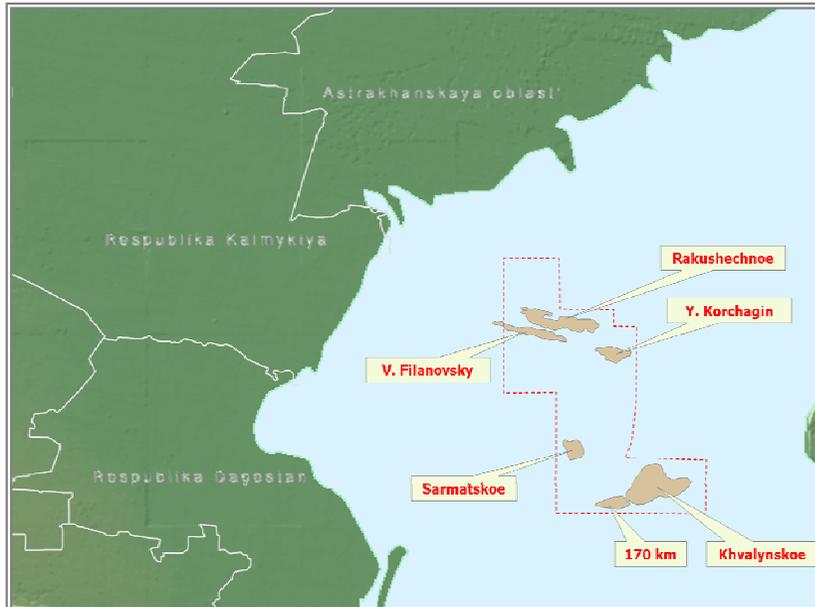
- Yuzhnaya Khylichuya field – the Company **major field** in the North of Timan-Pechora. LUKOIL share – 70%, ConocoPhillips share – 30%
- Discovered in 1981. Production drilling began in 2006
- Proved oil reserves (as of 01.01.2008) – **more than 500 mln barrels**
- Oil **quality** is superior to that of Russian export blend Urals: its density – 35.5 API (Urals– 32.0 API), sulphur content – 0.71% (Urals – 1.30%) – the oil will be sold at the international market **with premium to Urals**
- The field will be developed with 64 wells (average flow rate up to 4.5 th. barrels of oil per day)
- Planned production level - **7.5 mln tons of crude oil per year (more than 150 th. barrels per day)**
- Transportation via **Varandey terminal** which allows year-round oil shipment to Western Europe and the USA from the fields in the Northern Timan-Pechora. The capacity of the terminal is 12 tons per year



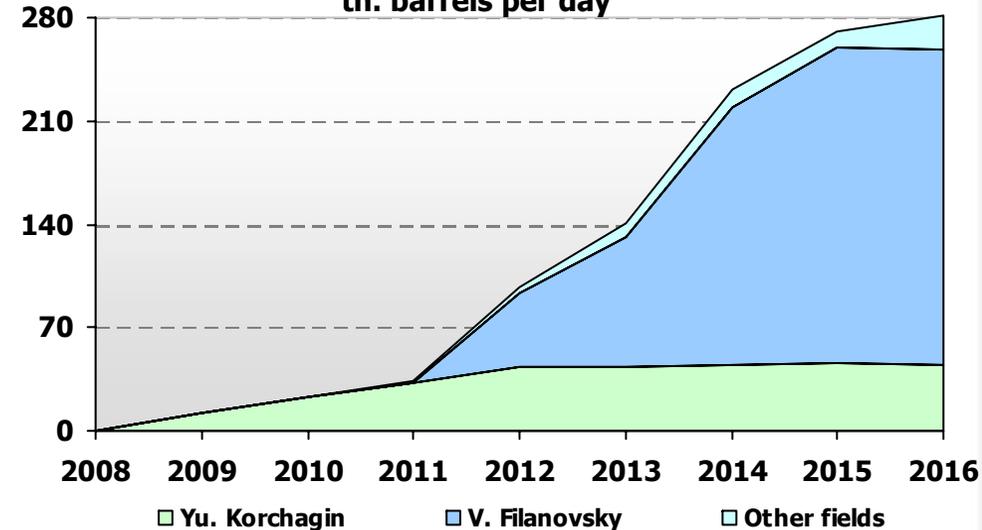
# Launch of the Northern Caspian Fields : Major Event of 2009–2010



- As a result of exploration works conducted by the Company in the Russian sector of the Caspian Sea in 1995–2006, LUKOIL **discovered six major fields**: Khvalynskoye (2000), Yu. Korchagin (2000), 170 km (2001), Rakoushechnoye (2001), Sarmatskoye (2002) and V. Filanovsky (2005)
- Exploration drilling in the Northern Caspian region presents **100% SUCCESS RATE**
- The flow rates per well at the V. Filanovsky field are unique – up to **6.2 th. barrels per day**
- Proved, probable and possible **crude oil reserves** at the V. Filanovsky field are now estimated at **1.6 bln barrels**



Estimated oil production in the Northern Caspian, th. barrels per day

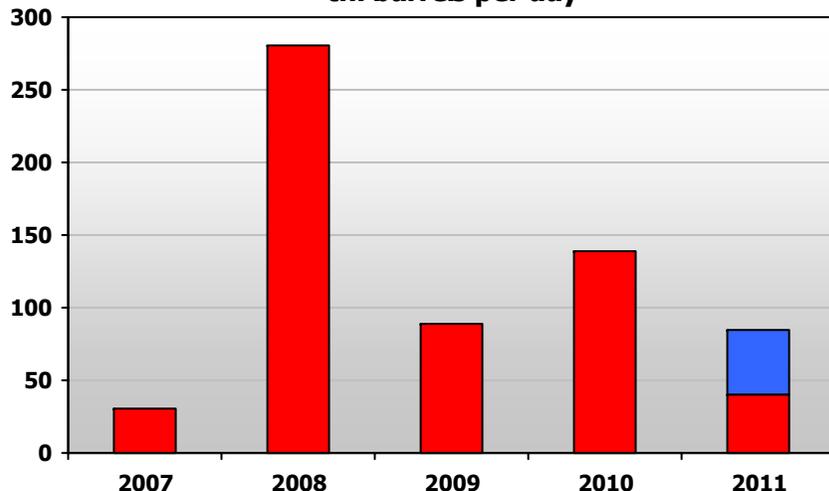


Construction of an offshore platform to develop Yu. Korchagin field.

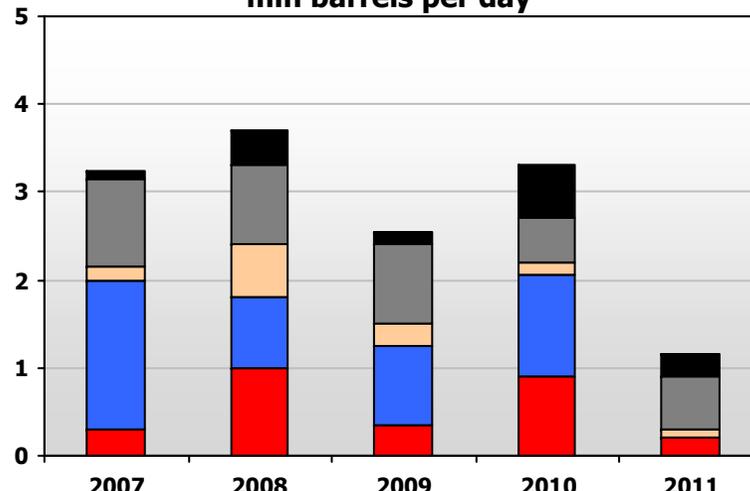
# The Company Develops Effectively its Existing Reserve Base and Controls Costs



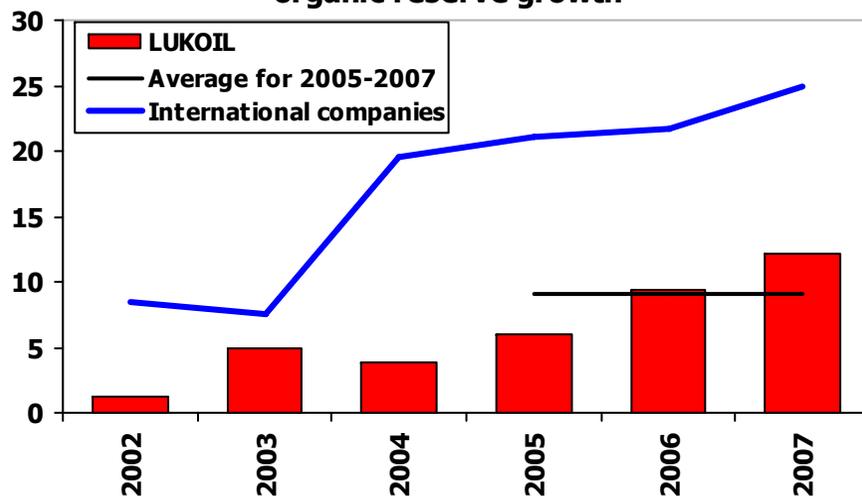
New producing capacities of LUKOIL Group, th. barrels per day



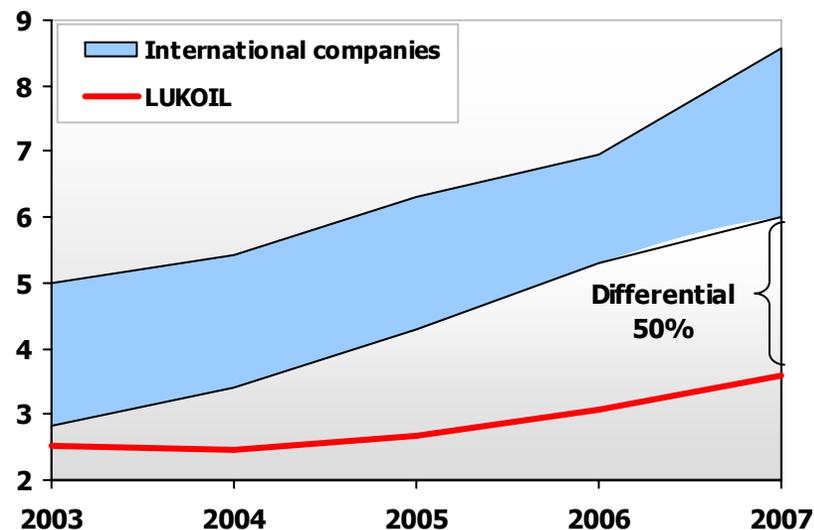
New producing capacities outside OPEC, mln barrels per day\*



Finding and development costs, \$ per barrel of organic reserve growth



Average lifting costs, \$ per barrel



\* Source: CERA.

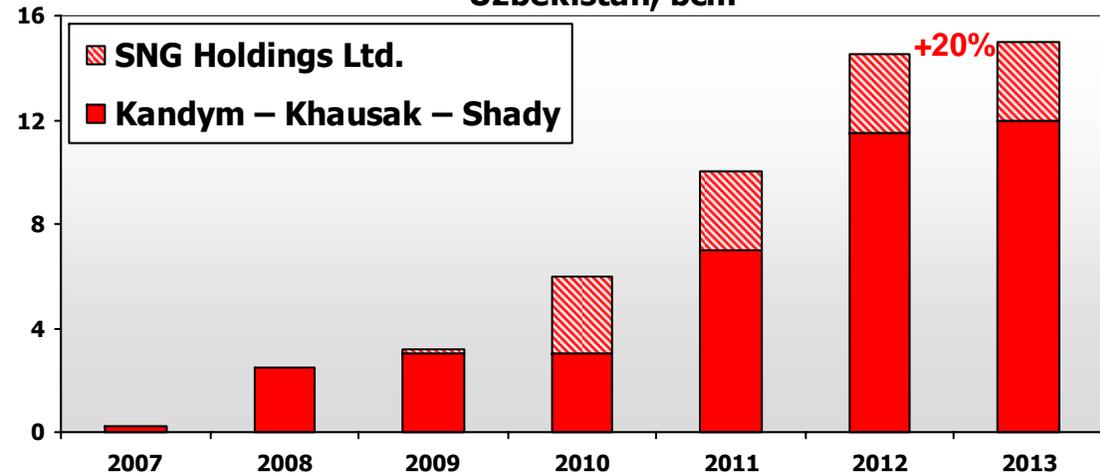
# LUKOIL is the First Russian Company to Launch Major Gas Project Abroad



Exploration 
 Gas production 
 Gas processing



Estimated total gas production at Group projects in Uzbekistan, bcm



- LUKOIL is the first Russian company to start development of a major gas field abroad
- Commercial production of gas under Kandym – Khauzak – Shady project began in **November 2007**
- Maximum gas production under the projects in Uzbekistan – about **15 bcm per year**

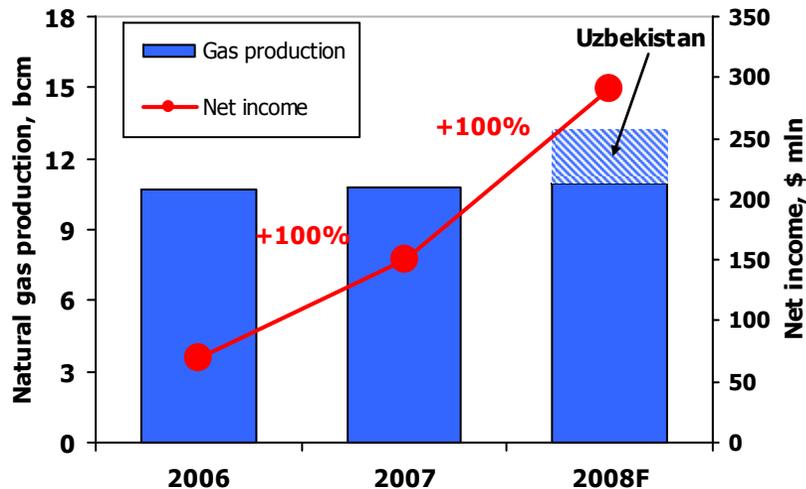
- The gas produced at the project is sold at the export price for Central Asian gas:
- Up to \$130 per 1,000 cubic meters in January 2008
- Up to \$160 per 1,000 cubic meters in mid-2008
- Up to \$210 per 1,000 cubic meters in January 2009

**Acquisition of SNG Holdings Ltd. increases maximum gas production in Uzbekistan by 3 bcm.**

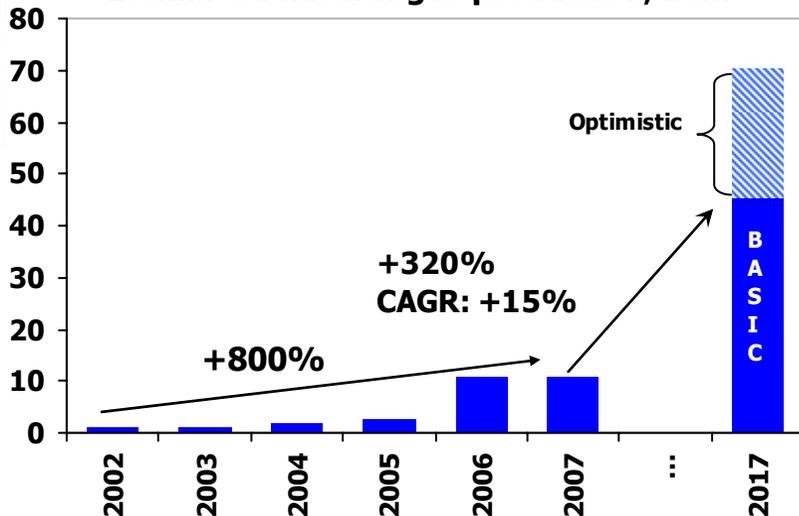
# LUKOIL Gas Strategy: Natural Gas



### Natural gas production and net income



### Estimated natural gas production, bcm

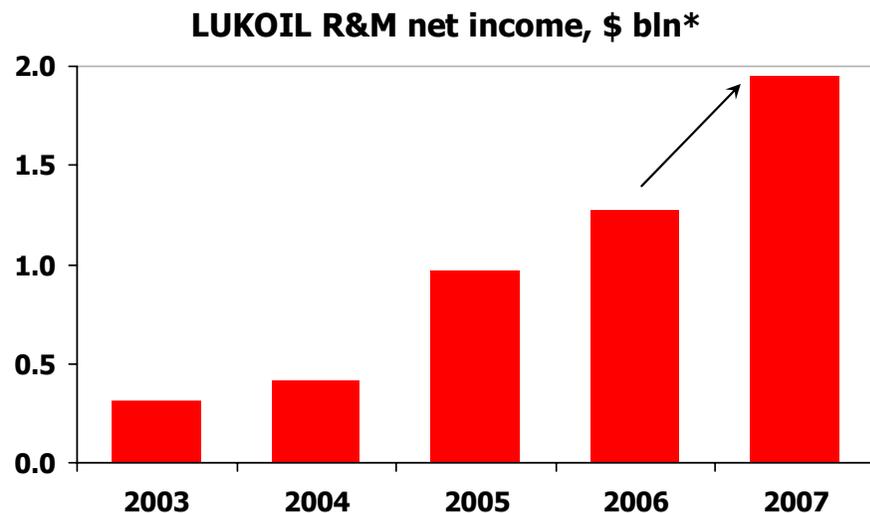
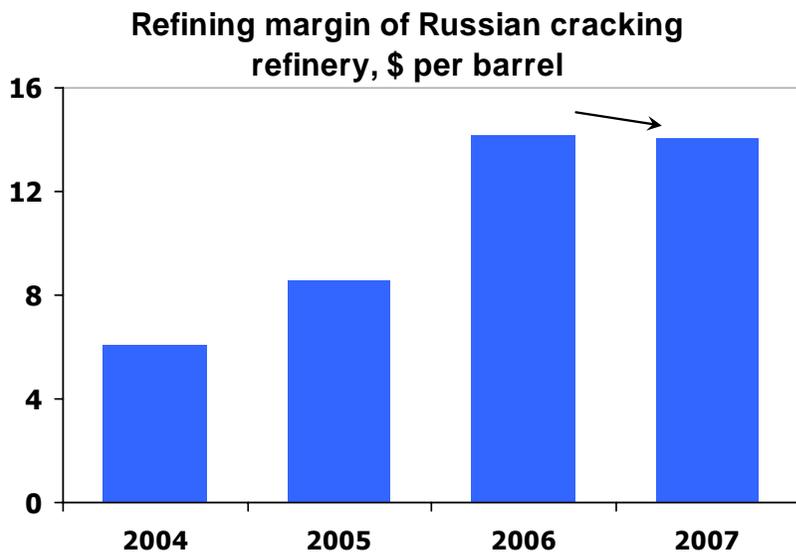
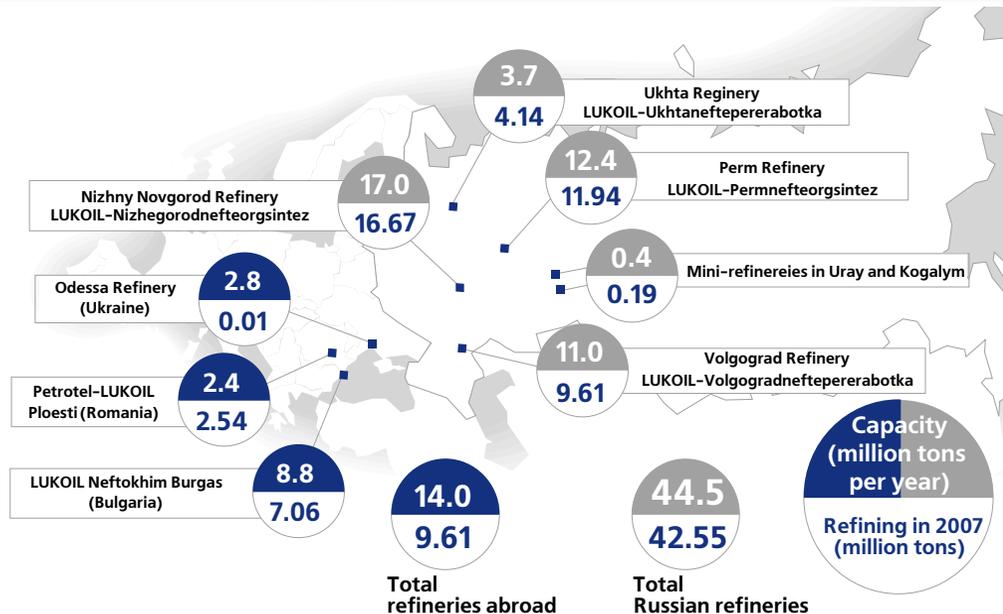
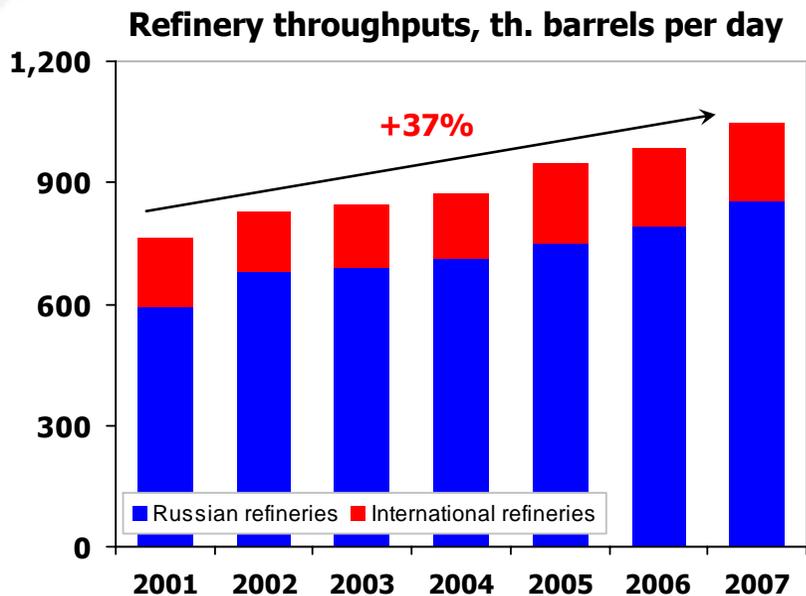


### LUKOIL gas projects



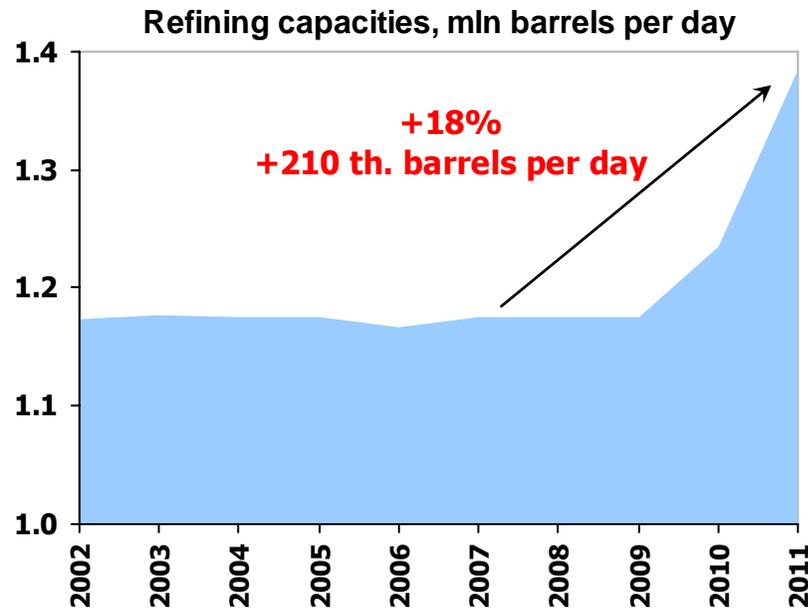
Effect from development of gas business: growth of annual EBITDA by \$2 bln (in 2007 prices).

# Accelerated Growth of Refinery Throughputs Thanks to High Margin



\* Including petrochemicals, excluding net income of the holding company (which partly includes income of Refining & Marketing segment).

# Dynamic Expansion of Refining Capacities in 2008–2010



**As a result of new distillation units construction and reconstruction of the old ones, Group refining capacities will increase by 210 th. barrels per day, capacity expansion in Russia will account for 185 th. barrels per day**

**Effect from capacity expansion (EBITDA growth under 2007 macroeconomic conditions) will reach about \$600 mln per year**

**Investment in capacity expansion is estimated at \$1 bln**

**Moreover, effect from investment in product quality will amount to about \$2.4 bln per year**

**Capacity expansion schedule (capacity as of the end of year, th. barrels per day)**

	2007	2008	2009	2010	2011
Volgograd Refinery	221	221	221	221	261
Perm Refinery	249	249	249	249	249
Ukhta Refinery	74	74	74	135	135
Nizhny Novgorod Refinery	341	341	341	341	426
Odessa Refinery	56	56	56	56	56
Burgas Refinery	177	177	177	177	201
Petrotel Refinery	48	48	48	48	48
Mini-refineries	8	8	8	8	8
<b>Total</b>	<b>1,175</b>	<b>1,175</b>	<b>1,175</b>	<b>1,235</b>	<b>1,384</b>

# TGK-8: Base of Energy Sector



## Creation of power energy business – increase in Company's value:

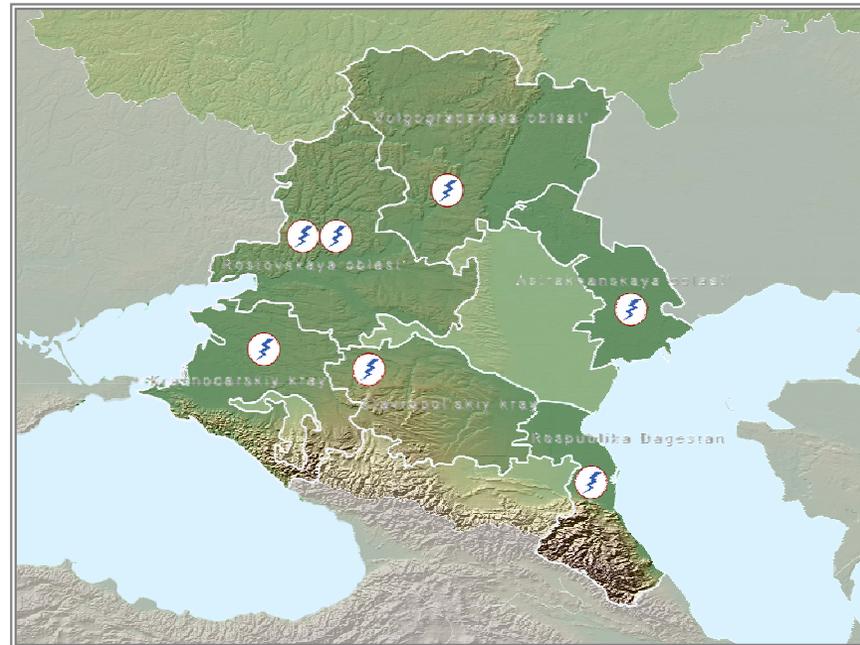
- Construction of power stations at fields to supply energy to Group production assets and to increase utilization rate of associated gas
- Construction of power stations at the Company refineries
- Increase in guaranteed volumes of natural gas sales at market prices
- Creation of additional value by getting access to the end consumer market
- Business diversification

## TGK-8:

### • Base of the Company power energy sector

- Purchase at a favorable price – **\$640–660 per KWh of capacity (15% lower than the market value: Fortum paid \$760–770 per KWh for TGK-10, E.On paid \$753 per KWh for OGK-4)**

- Substantial synergies through supplies from LUKOIL gas fields in Northern Caspian and Volga region – about **\$2 bln**
- Annual gas consumption by TGK-8 amounts to about 7 bcm and will increase with the expansion of capacities



## Main investment projects of TGK-8, MegaWatt

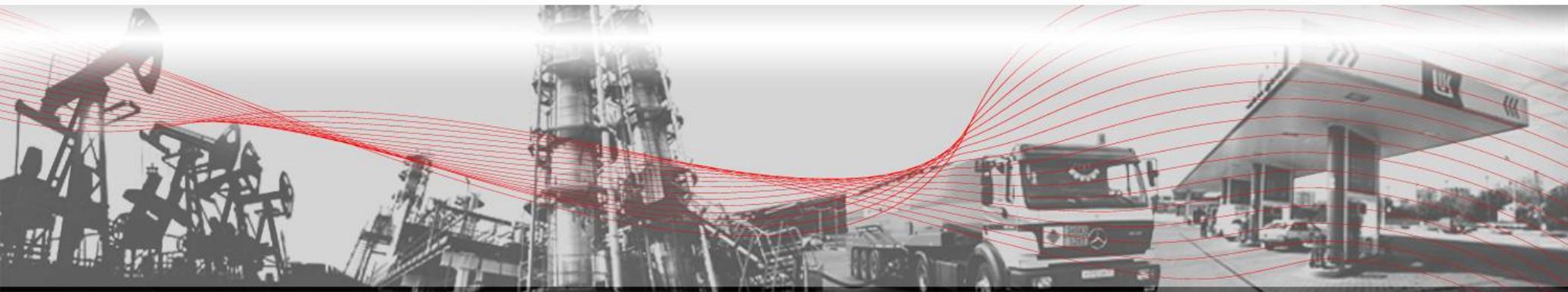
Krasnodarskaya power station	410
Astrakhanskaya power station	110
Astrakhanskaya power station	410
Other (after 2011)	1,353

TGK-8, technical characteristics		2008	2012	2015
Capacity	MegaWatt	3,566	4,514	5,429
Gas consumption	bcm	6.760	7.647	8.371



# Conclusions

**Vagit Alekperov, President of LUKOIL**



# Growth CAPEX Creates Additional Shareholder Value



- New oil producing projects of high efficiency – expansion of the Company’s main activity: the Yuzhnaya Khylichuya field in Timan-Pechora, Northern Caspian fields.



- Development of gas business: increase in natural gas production in Russia and abroad (projects in Uzbekistan, fields of the Bolshekhetskaya depression, Northern Caspian fields, the Tsentralno-Astrakhanskoye field), absence of price volatility, high potential of future price growth.



- Expansion of existing refining capacities – increase in refinery throughputs and improvement of product quality, lowering dependence on oil price: Nelson Index increase to 8.2, refining capacities expansion by more than 200 th. barrels per day.



- Development of power energy sector – regular supply of energy to own plants, high gas selling price (synergies of about \$2 bln), absence of price volatility.



- Changes to Russian law: amendments to mineral extraction tax and excises.



**Thank you for your attention!**