



**LUKOIL**

**ALWAYS MOVING FORWARD**

# **1Q 2014 Financial Results (US GAAP)**



Vice-President  
**Andrey Gaidamaka**

Moscow, May 2014



## 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.



# 1Q 2014 Financial Highlights



- **Dividend per share, RUB** **110**  
(div. yield 6%\*)
- **Debt-to-capital** **13%**
- **Free cash flow, \$ mln** **179**

	Excluding write-offs	Including write-offs
• <b>Net income, \$ mln</b>	<b>2,253</b>	<b>1,733</b>
• <b>EBITDA, \$ mln</b>	<b>4,515</b>	<b>3,995</b>
• <b>Earnings per share, \$</b>	<b>3.0</b>	<b>2.3</b>

\*Dividend yield is calculated based on the recommendation of the Board of Directors to pay dividends of 110 rubles per share for 2013 and the average market price of Company shares on the MICEX Exchange during 2013.



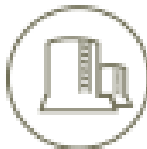
## Liquid hydrocarbon production growth **+1.8%**

The largest growth was in Volga, Urals and Timan-Pechora



## Start of production in Iraq

First commercial oil production from West Qurna-2 project  
220 Kbpd production rate reached in May

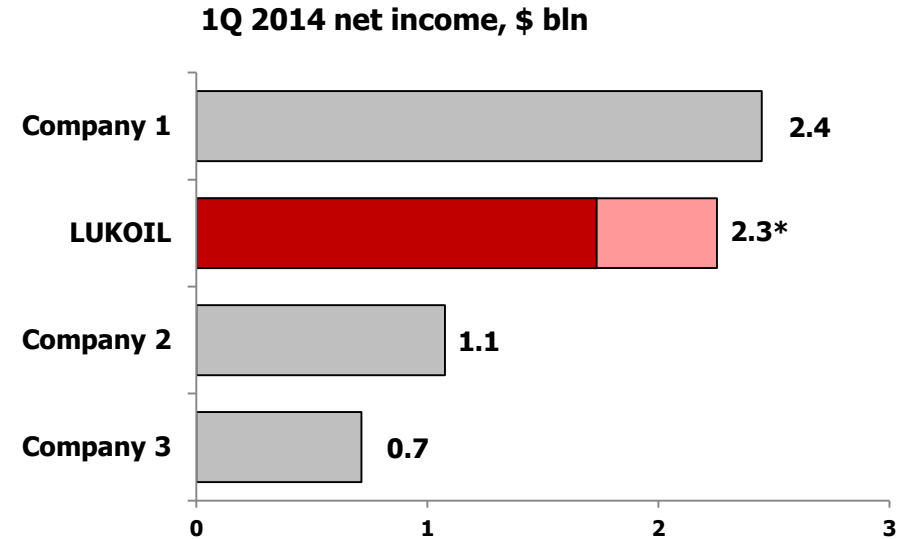
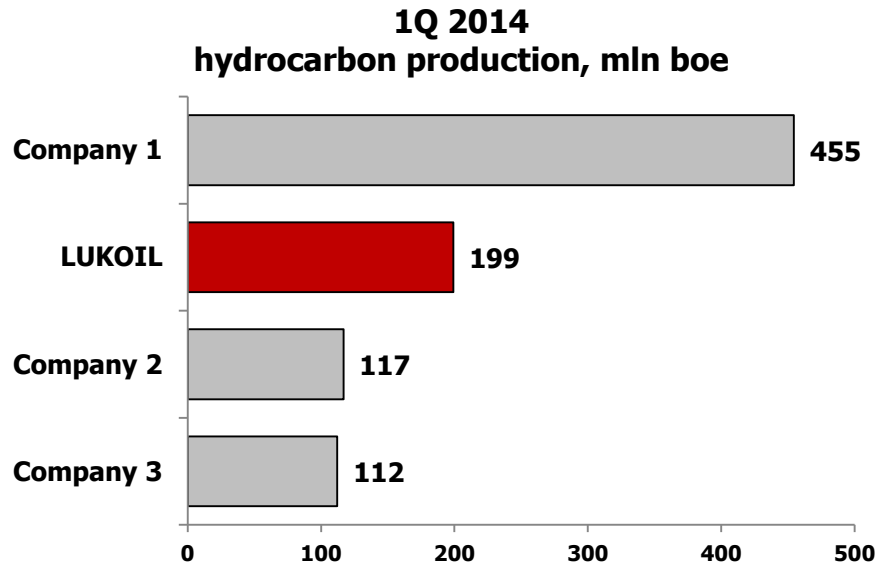


## Refineries modernization

VGO hydrocracking in Volgograd (3.5 mln t/year)  
Catalytic cracking in Nizhny Novgorod (2.0 mln t/year)  
Coking unit in Perm (2.1 mln t/year)



# LUKOIL Presents High Financial Efficiency



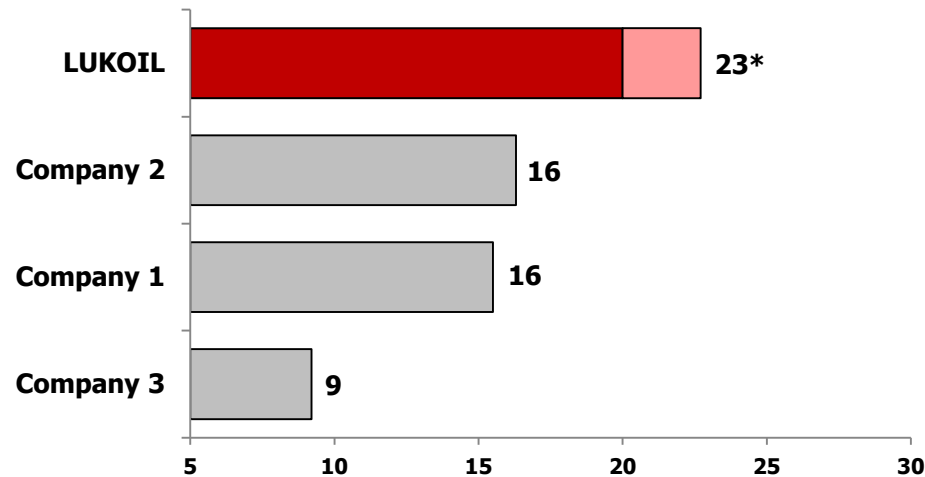
**LUKOIL maintains financial efficiency leadership in Russian oil and gas industry**



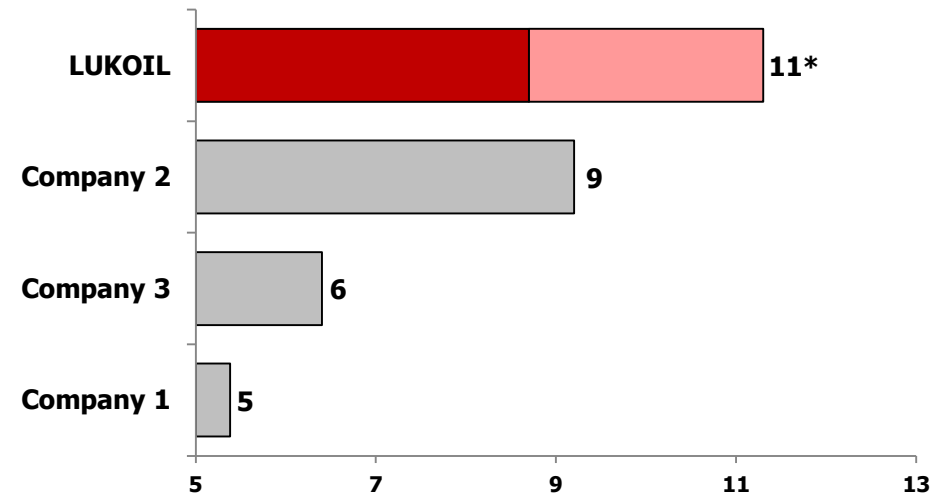
# LUKOIL Presents High Financial Efficiency



1Q 2014 EBITDA, \$ per boe



1Q 2014 net income, \$ per boe

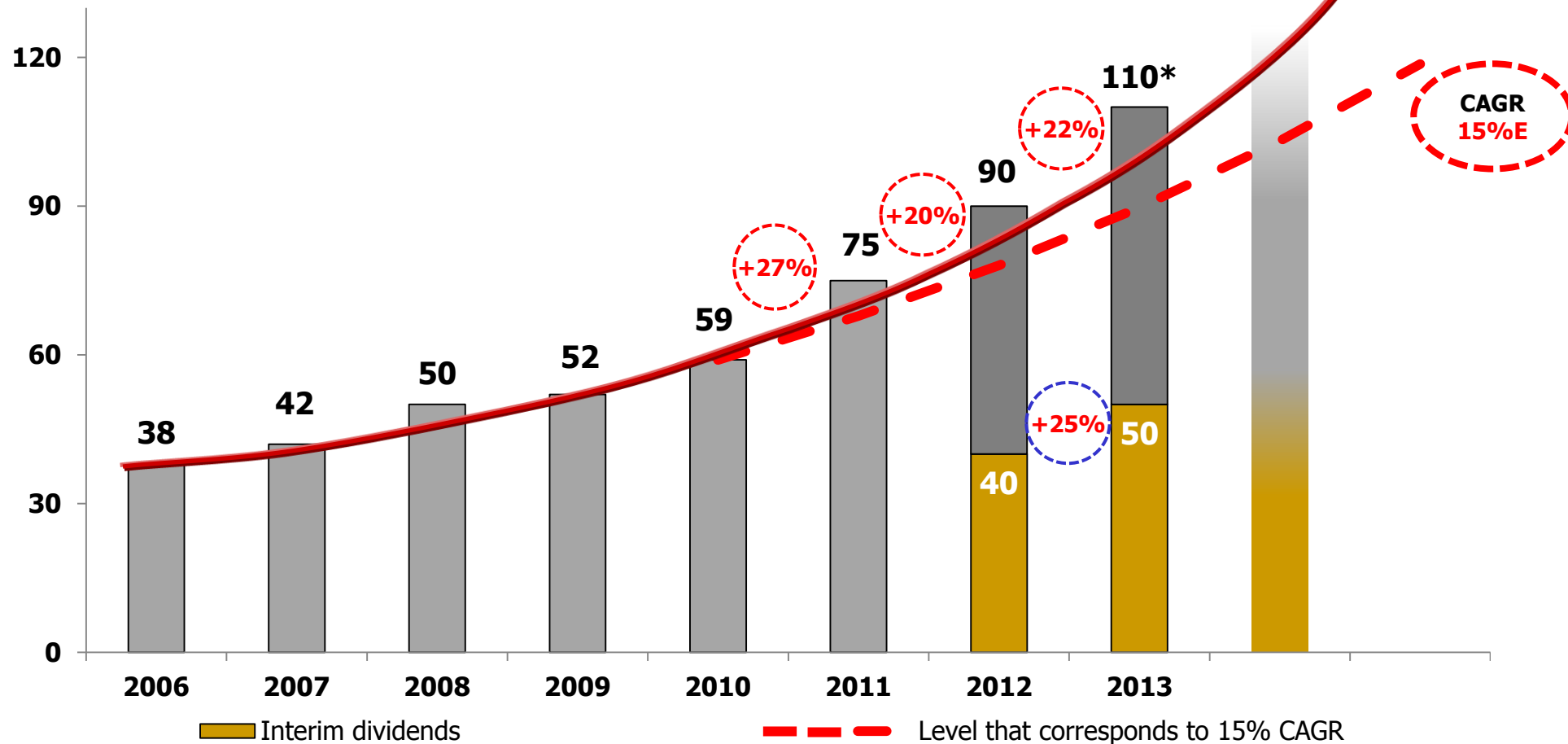


**LUKOIL maintains financial efficiency leadership in Russian oil and gas industry**

# Increasing Dividend Growth Rate



## Dividend per share, rub.

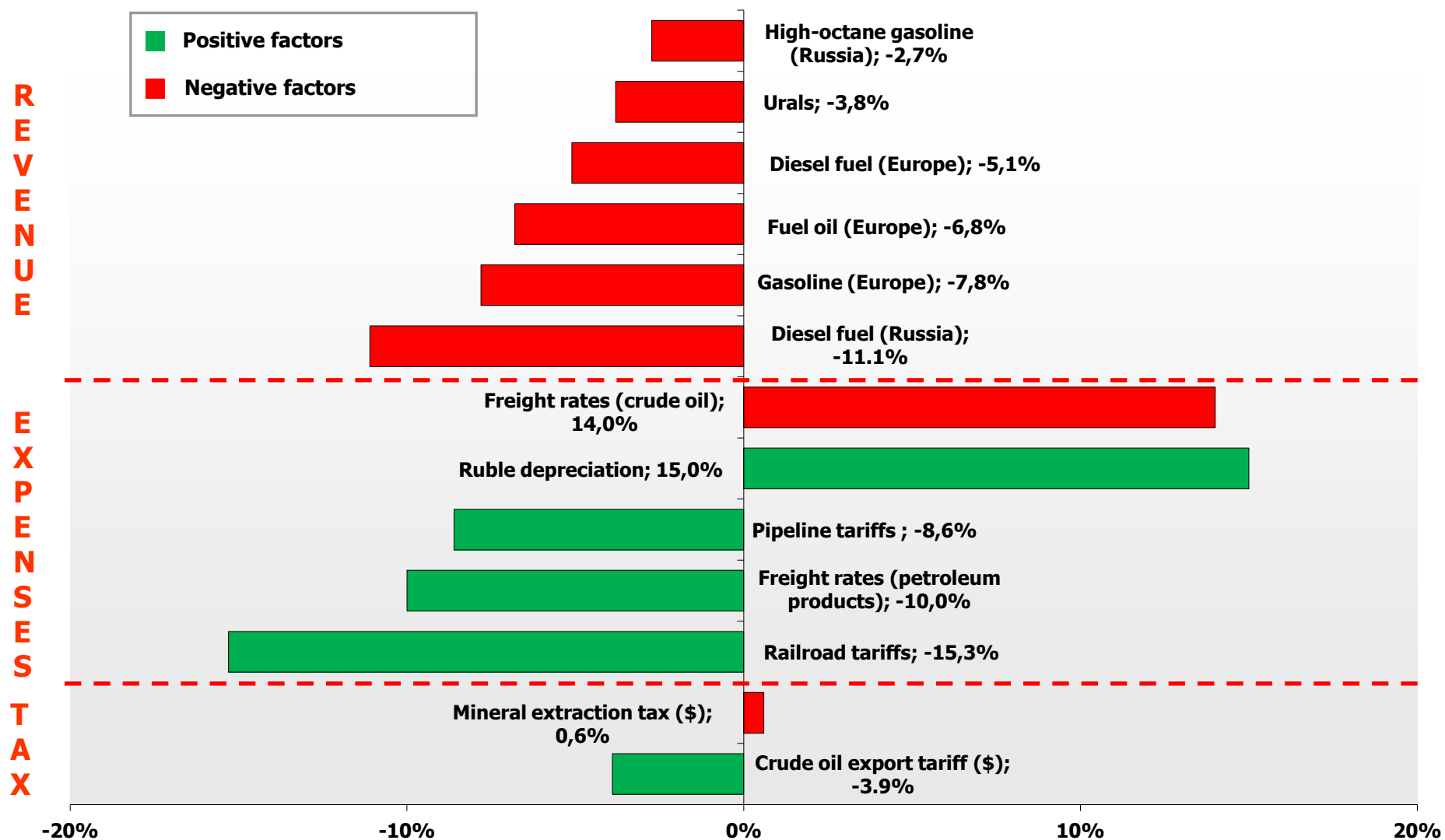


**LUKOIL is to increase dividend payout ratio to 30% in the mid-term**

# Macroeconomic and Tax Environment



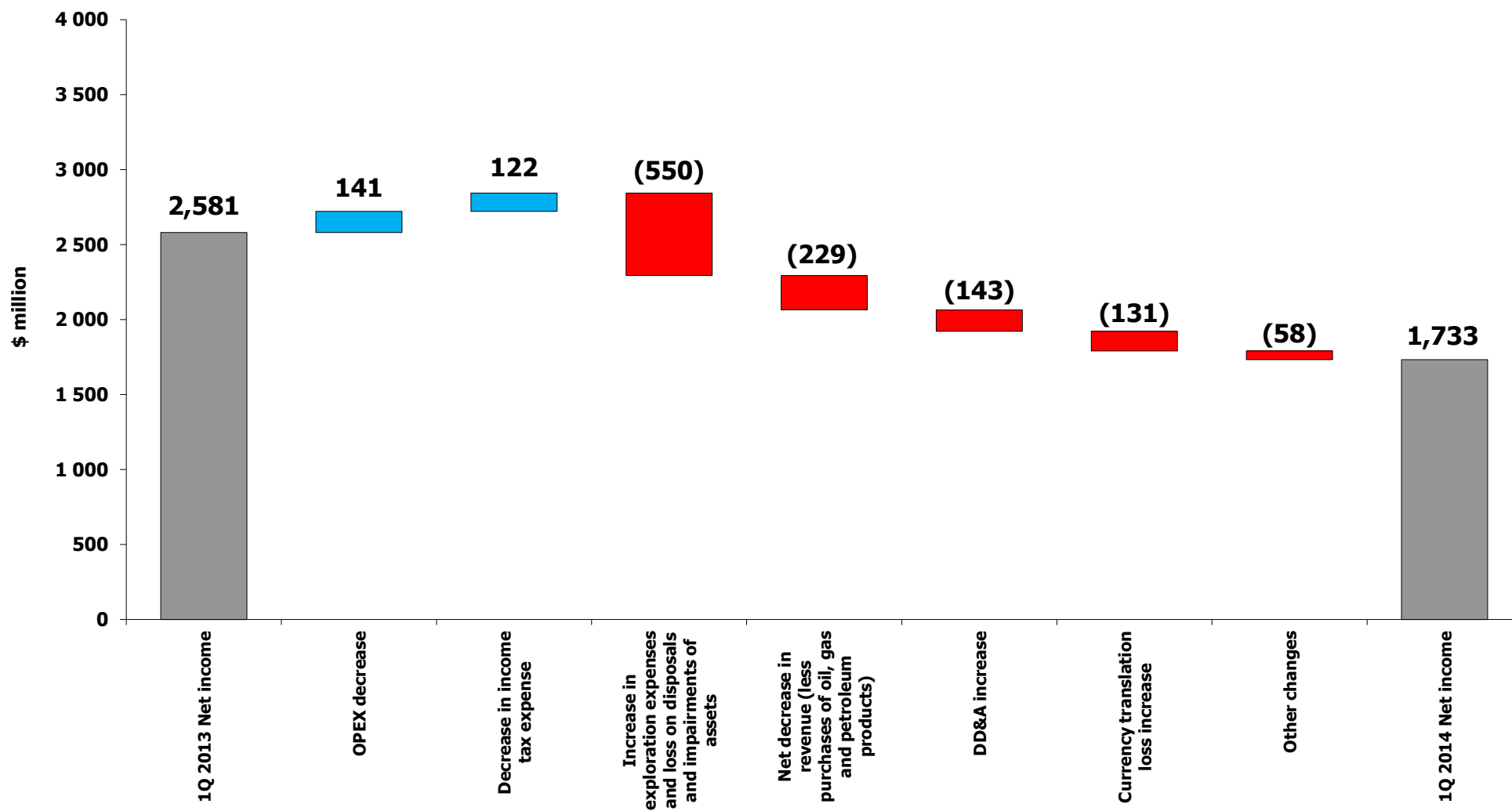
1Q 2014 to 1Q 2013






**LUKOIL**

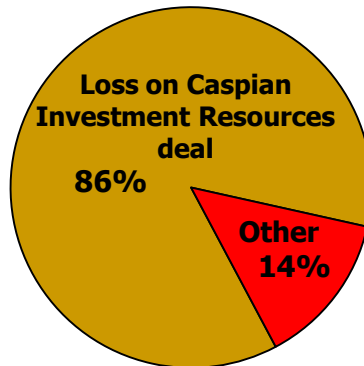
# 1Q 2014 Net Income Reconciliation



# Influence of Write-offs in 1Q 2014

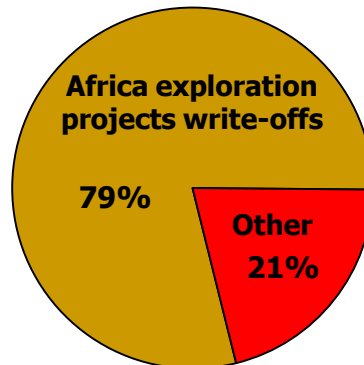


## Loss on disposals and impairments of assets in 1Q 2014



In 1Q 2014 LUKOIL recognized loss on expected disposal of its share in Caspian Investment Resources Ltd., and loss on Northern Africa exploration assets write-offs

## Exploration expenses

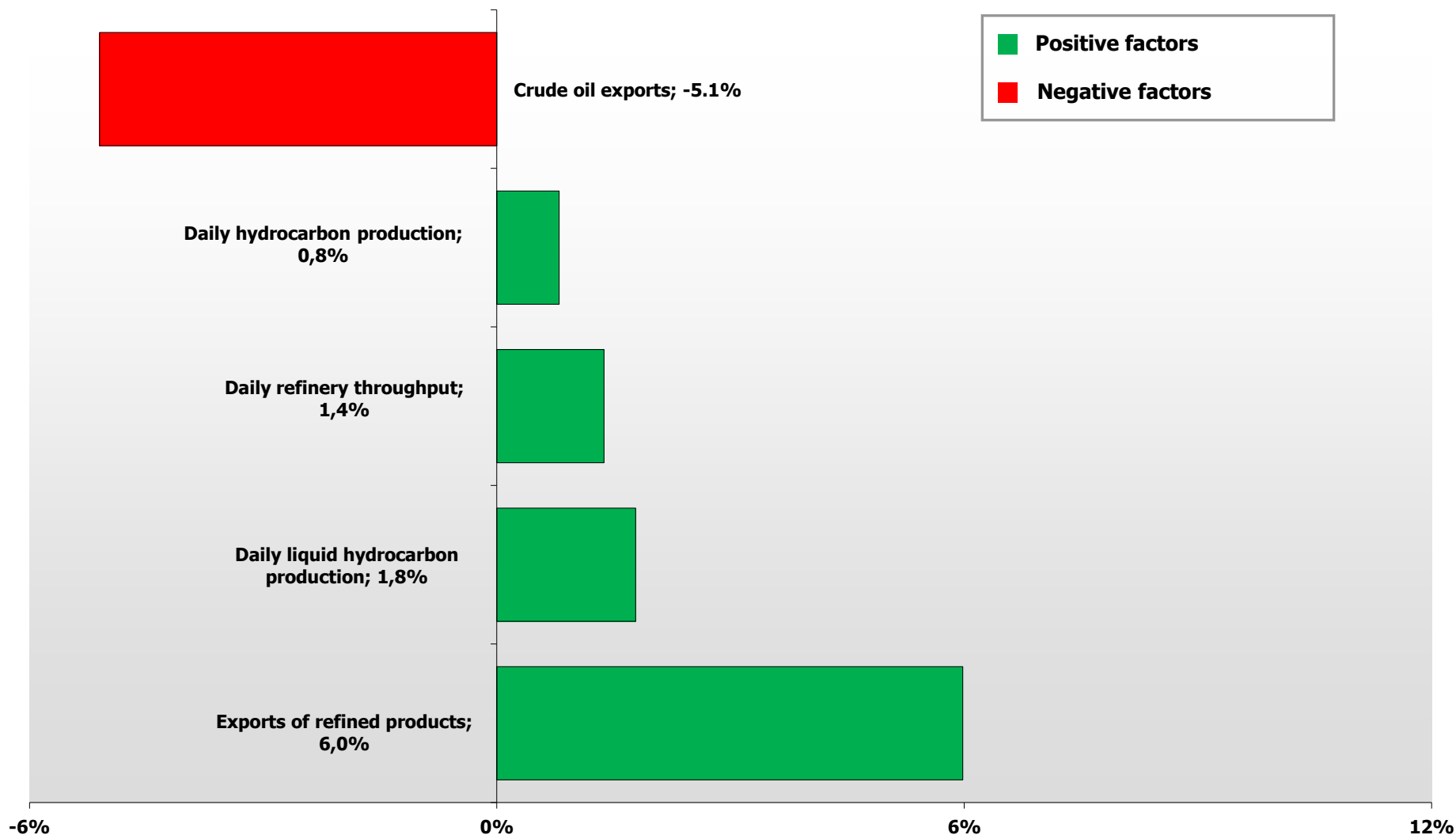


Negative effect	\$ mln
Loss on expected disposal of Caspian Investment Resources Ltd.	358
Northern Africa exploration assets write-offs	162
Currency translation loss	270
<b>Total</b>	<b>790</b>

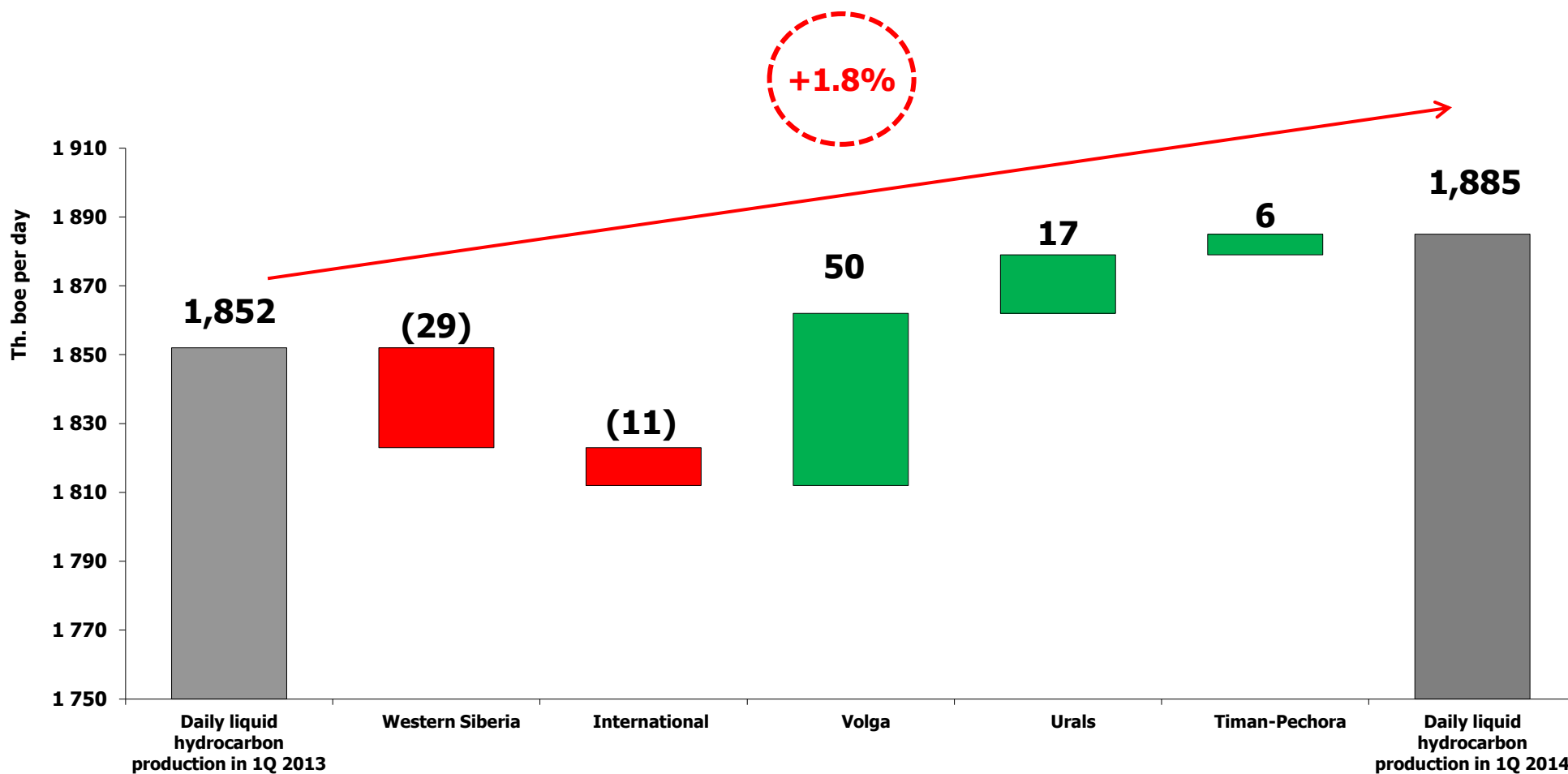
# Main Operating Results



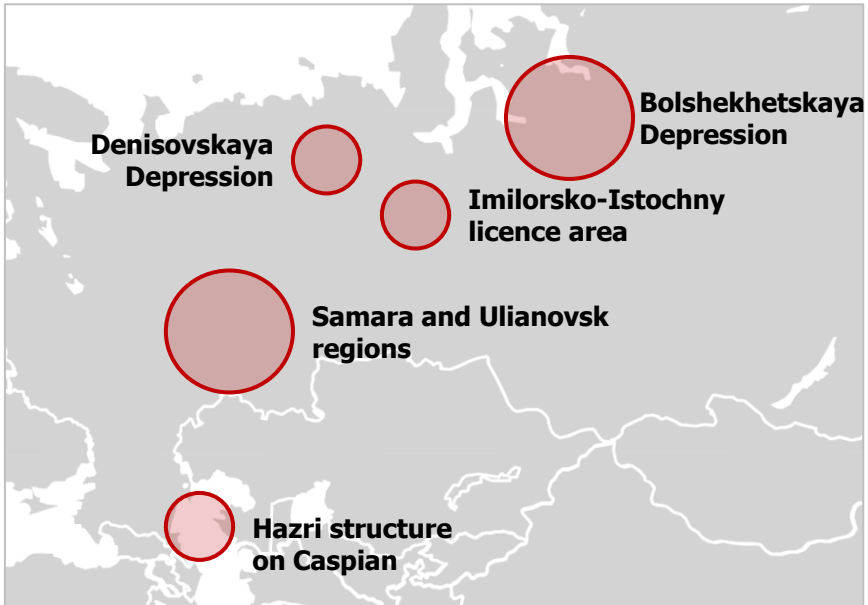
1Q 2014 to 1Q 2013



# Daily Liquid Hydrocarbon Production



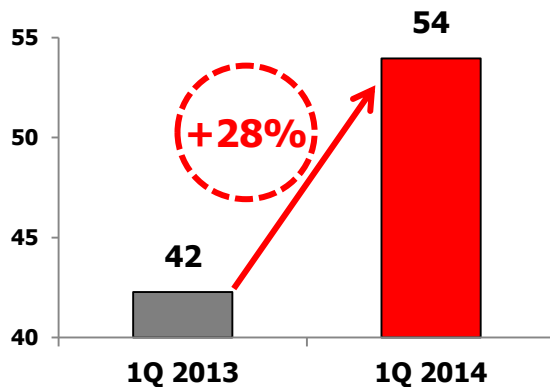
# LUKOIL Increases Exploration Activities



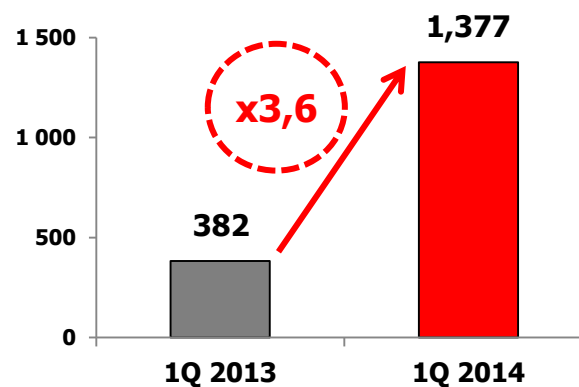
## 2014 priorities:

- Prospecting works on Hazri structure on **Caspian**
- Detailed exploration and studying of **Imilorsko-Istochny** area
- **Denisovskaya Depression** in Komi region
- **Bolshekhetskaya Depression** in Western Siberia
- Increase in drilling in **Samara** and **Ulianovsk** regions
- JV Vostok NAO (LUKOIL 50%, Bashneft 50%) was created for exploration and production in Nenets Autonomous District

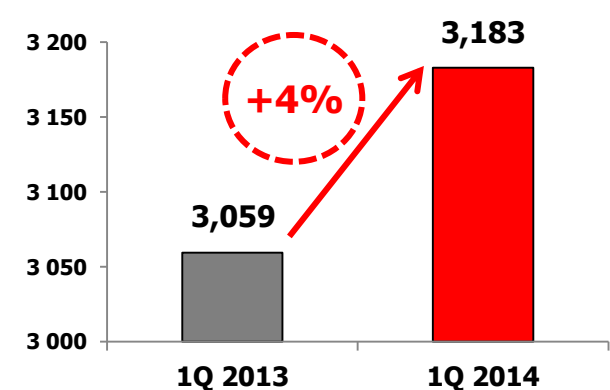
Exploration drilling, km



2D seismics, km



3D seismics, km<sup>2</sup>

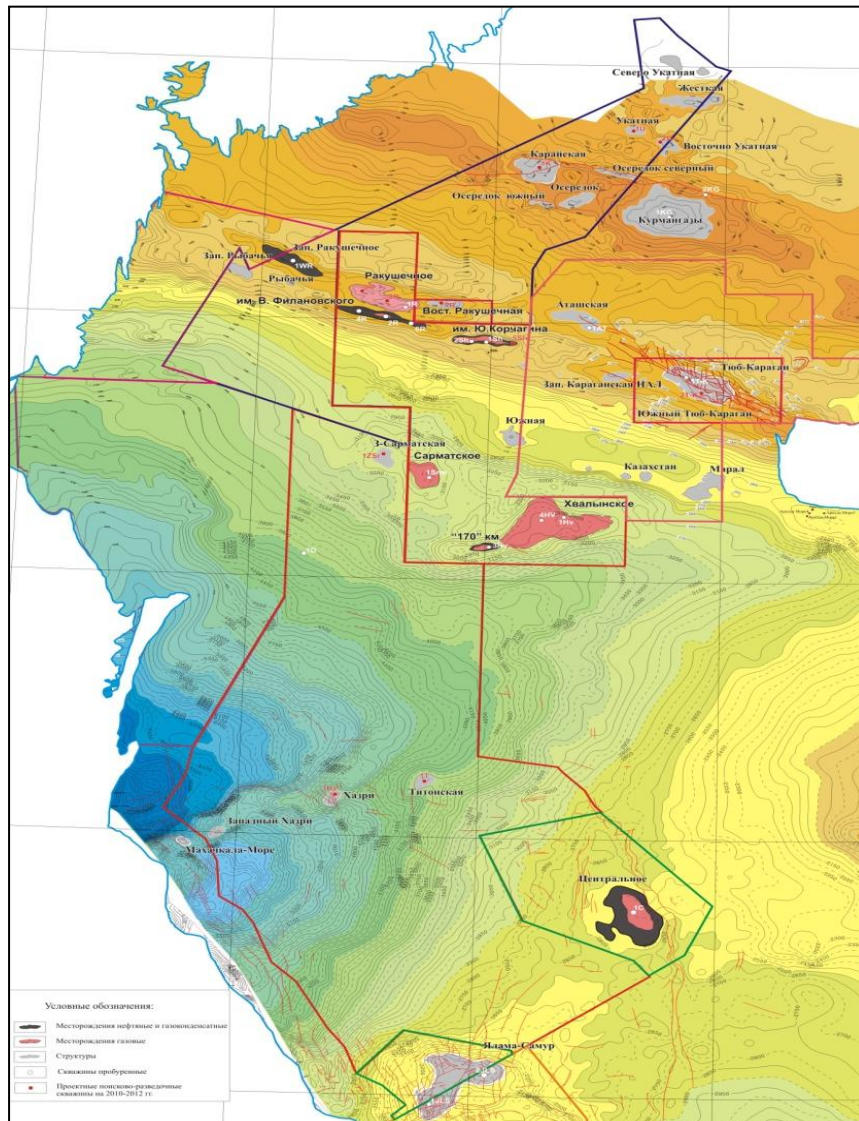


# Results of Exploration in Caspian Sea



## LUKOIL performed large complex geological and geophysical study of Russian part of Caspian sea

- Seismics: 2D – 30 th. km, 3D – 3 th. km<sup>2</sup>
- Geo-electrics (5,182 km), gravity exploration, magnetic exploration and heat exploration (1,600 km)
- Aeromagnetic mapping (40 th. km<sup>2</sup>)
- Regional geochemical survey at 1:1,000,000 and 1:500,000 scale on 60 th km<sup>2</sup>
- 23 wells drilled totaling 57.1 th m
- 11 structures were prospected with drilling: Khvalynskaya, 170-km, Shirotnaya, Im. Y. Kuvikina (Sarmatskaya), West Sarmatskaya, Rakushechnaya, Diagonalnaya, South Rakushechnaya, West Rakushechnaya, Tsentralnaya, Ukatnaya
- 14 prospective structures with resources 0.81 bln tonnes of reference fuel were prepared for drilling
- 8 multi-layer fields with C1+C2 reserves 1.19 bln tonnes of reference fuel were discovered in Russian part of Caspian sea







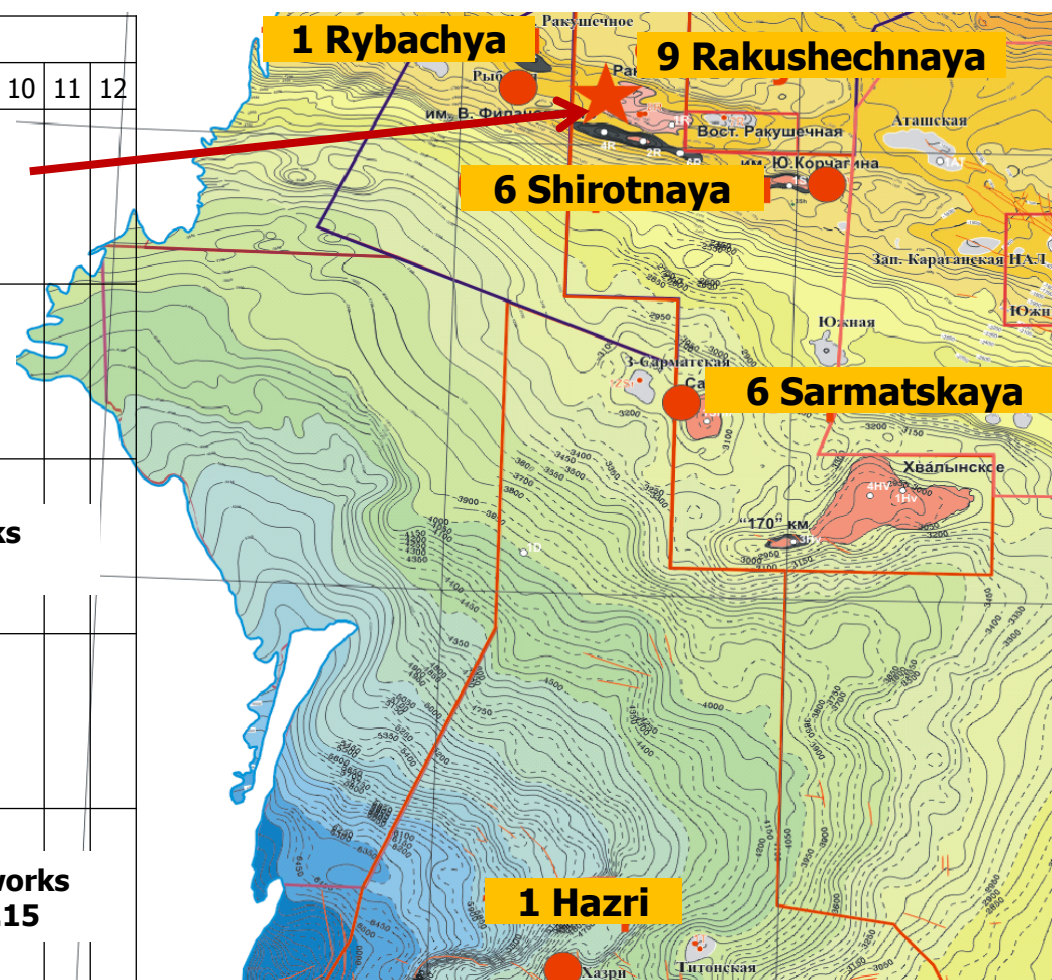
# Exploration Plans



## Exploration drilling plan

	2014												2015												
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	
9 Rakushechnaya (Ordered by LUKOIL-NVN)																									<b>End of works 15.06.14</b> <b>The well has been drilled</b>
1 Rybachya (Ordered by KNK)																									<b>End of works 28.08.14</b>
6 Shirotnaya (Ordered by LUKOIL-NVN)																									<b>End of works 01.12.14</b>
6 Sarmatskaya (Ordered by LUKOIL-NVN)																									<b>End of works 15.09.15</b>
1 Hazri (Ordered by LUKOIL-NVN)																									<b>End of works 14.03.15</b>

## Exploration drilling location





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## Caspian Exploration Success: Rakushechnoe Field

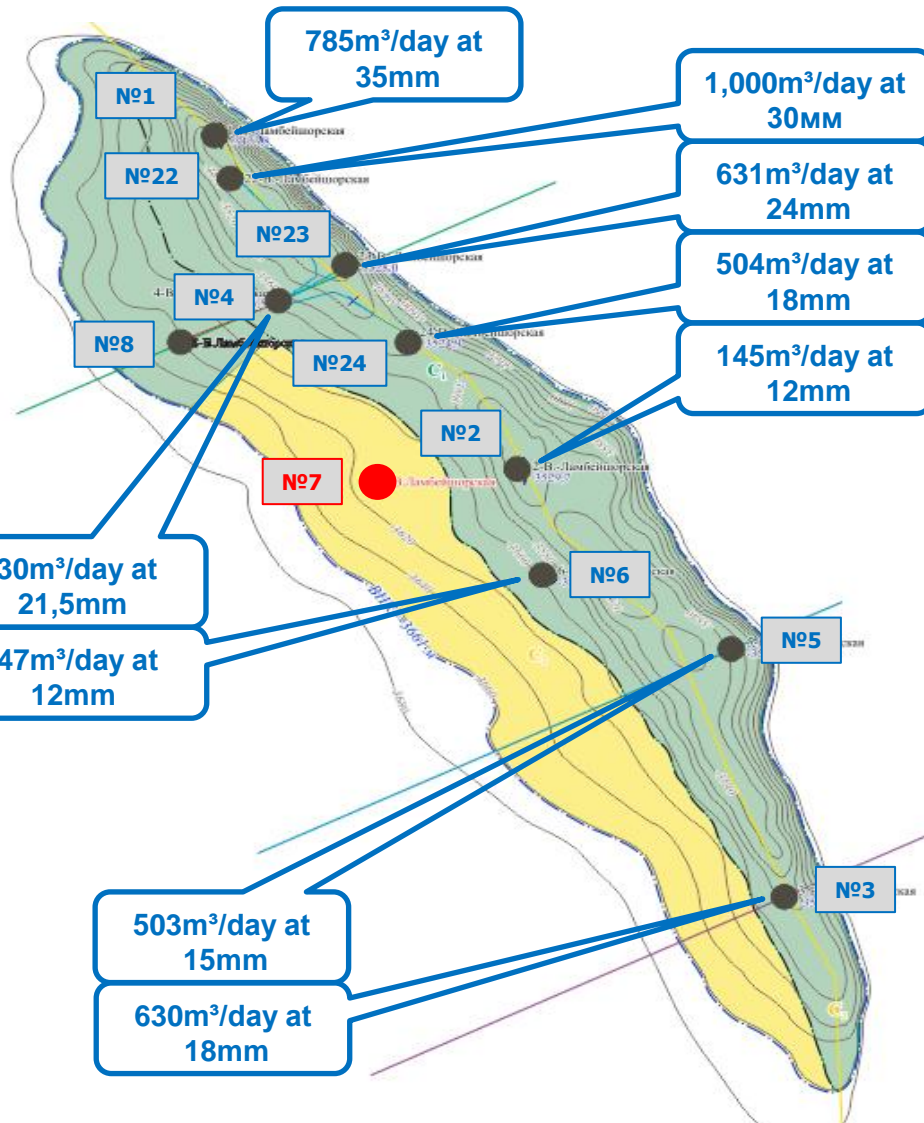


### Discoveries due to drilling of №9-Rakushechnaya well:

- Neocomian oil stratum
- Oil fringe on Aptian stratum
- Total estimated discovered C1+C2 recoverable reserves: about **250 mln bbl**



## Exploration success in Komi: East Lambeyshorskoye field



**Discovered in 2011 in Denisovskaya Depression. Recoverable reserves as of the end of 2013 were estimated at 300 mln bbl**

**10 wells** were drilled:

- 8 exploration
- 2 production

**Well flows are 7,500 bbl per day**



# Financial Results



1Q 2014	4Q 2013	Δ, %	\$ million	1Q 2014	1Q 2013	Δ, %
35,681	35,892	(1)	<b>Sales</b>	35,681	33,770	6
(2,309)	(2,606)	(11)	OPEX	(2,309)	(2,450)	(6)
(8,933)	(8,815)	1	Taxes other than income tax (including excise and export tariffs)	(8,933)	(8,884)	1
2,655	356	646	Income from operating activities	2,655	3,378	(21)
2,404	388	520	Income before income tax	2,404	3,374	(29)
<b>1,733</b>	<b>42</b>	-	<b>Net income</b>	<b>1,733</b>	<b>2,581</b>	<b>(33)</b>
2.30	0.06	-	Basic EPS, \$	2.30	3.42	(33)
<b>3,995</b>	2,062	94	<b>EBITDA</b>	<b>3,995</b>	<b>4,775</b>	<b>(16)</b>



# Operating Expenses

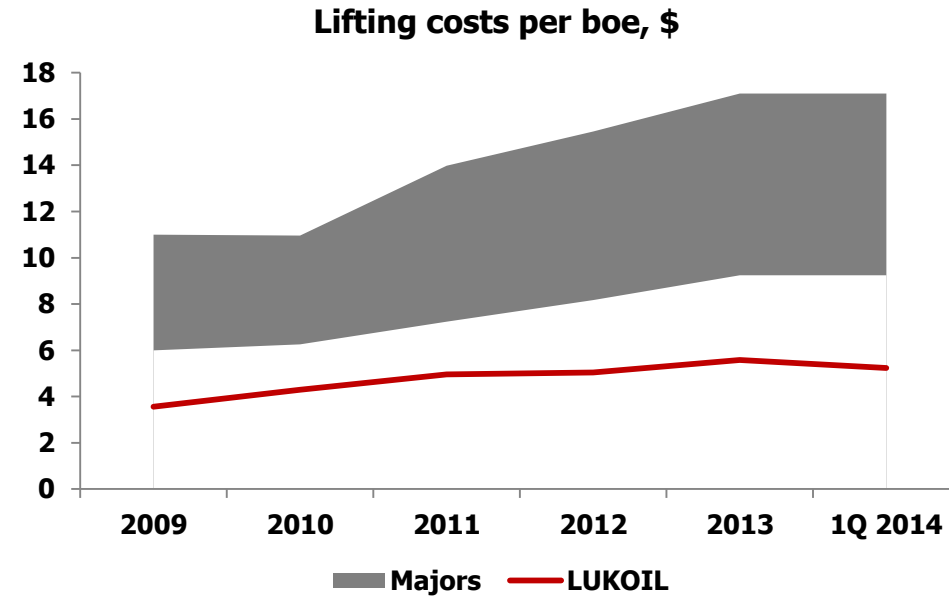
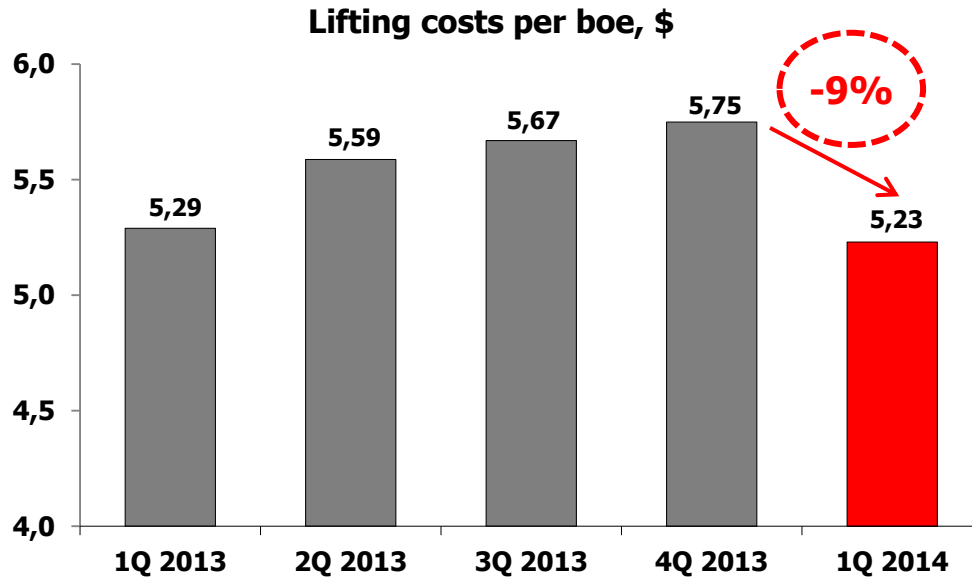


1Q 2014	4Q 2013	Δ, %	\$ million	1Q 2014	1Q 2013	Δ, %
1,011	1,145	(12)	Hydrocarbon extraction expenses	1,011	1,009	0
480	567	(15)	Own refining expenses	480	508	(6)
64	107	(40)	Refining expenses at third parties and affiliated refineries*	64	121	(47)
273	285	(4)	Expenses for crude oil transportation to refineries	273	338	(19)
190	193	(2)	Power generation and distribution expenses	190	192	(1)
66	89	(26)	Petrochemical expenses	66	79	(16)
225	220	2	Other operating expenses	225	203	11
<b>2,309</b>	<b>2,606</b>	<b>(11)</b>	<b>Total</b>	<b>2,309</b>	<b>2,450</b>	<b>(6)</b>
<b>17,243</b>	<b>17,183</b>	<b>0</b>	<b>Cost of purchased crude oil, gas and products</b>	<b>17,243</b>	<b>15,103</b>	<b>14</b>

\* Including cost of processing operations at ISAB



# High Efficiency In Cost Management

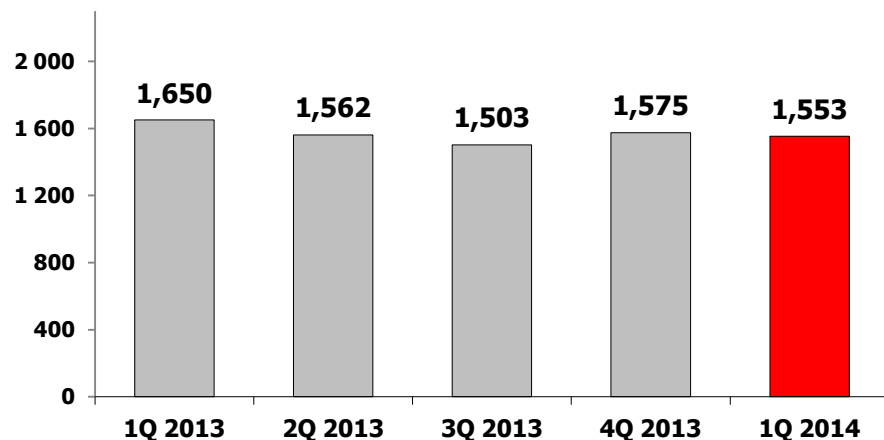


**Due to US dollar appreciation and high efficiency in cost management lifting costs decreased by 9%**

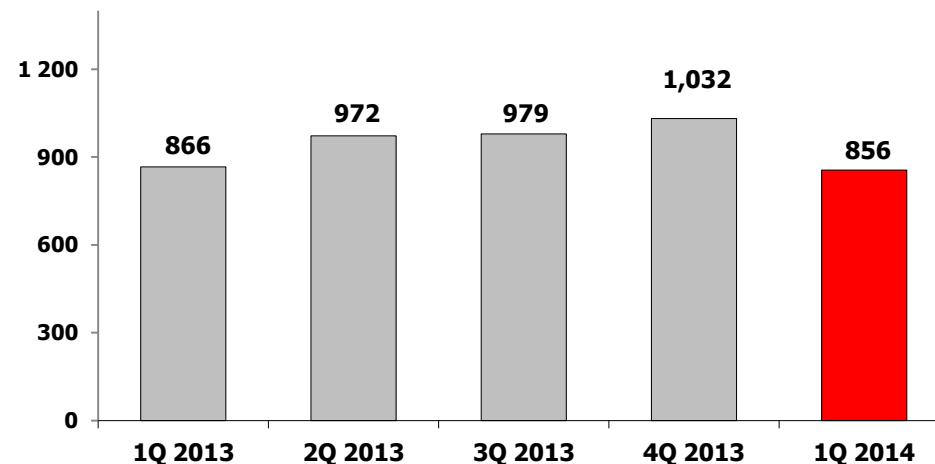
# SG&A and Transportation Expenses



Transportation expenses, \$ million



SG&A expenses, \$ million



1Q 2014	4Q 2013	Δ, %	\$ million	1Q 2014	1Q 2013	Δ, %
1,553	1,575	(1)	Transportation expenses	1,553	1,650	(6)
856	1,032	(17)	Selling, general and administrative expenses	856	866	(1)
<b>2,409</b>	<b>2,607</b>	<b>(8)</b>	<b>Total</b>	<b>2,409</b>	<b>2,516</b>	<b>(4)</b>

# Transport Infrastructure in Russia Reduces the Cost Inflation



Savings*, \$ mln	2012	2013
Vysotsk terminal	198	175
River terminals of refineries in Russia	149	175
Varandey Terminal	61	225
Oil products pipeline «Perm–Andreevka»	228	250
<b>Total</b>	<b>636</b>	<b>825</b>

+30%

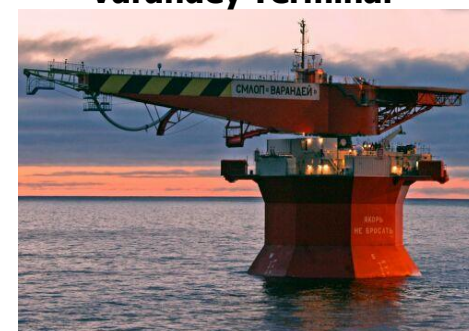
### Svetly terminal



### Vysotsk terminal



### Varandey Terminal

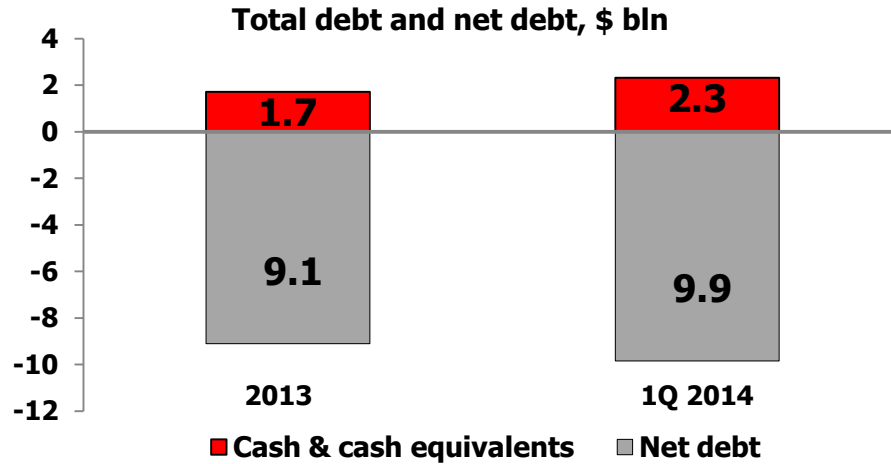


\*Effect of the use of the transport and logistics facilities of LUKOIL in 2012 for the transportation of Russian oil and oil products for export compared to alternative supply routes in current market conditions



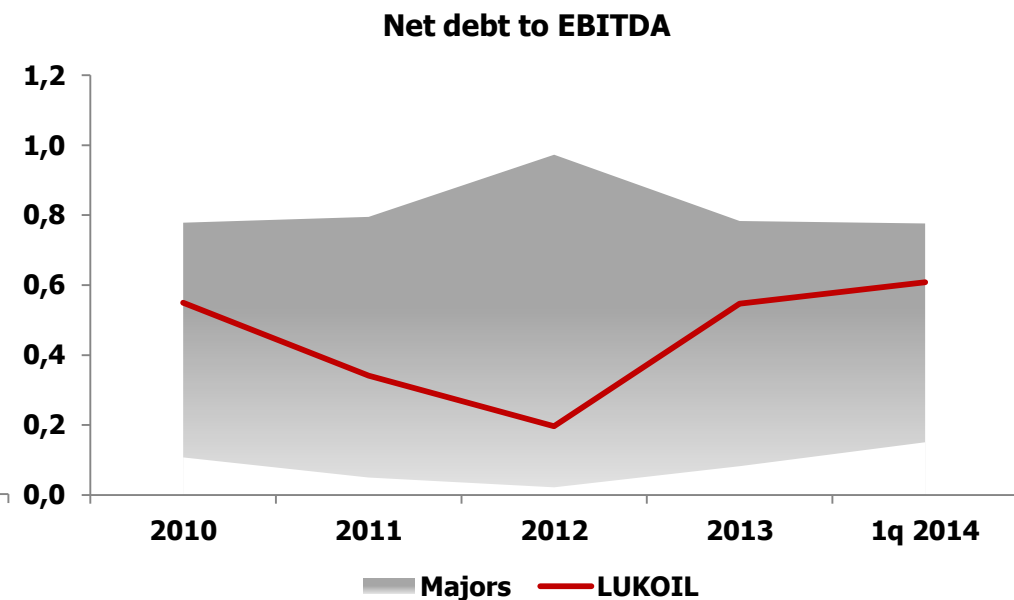
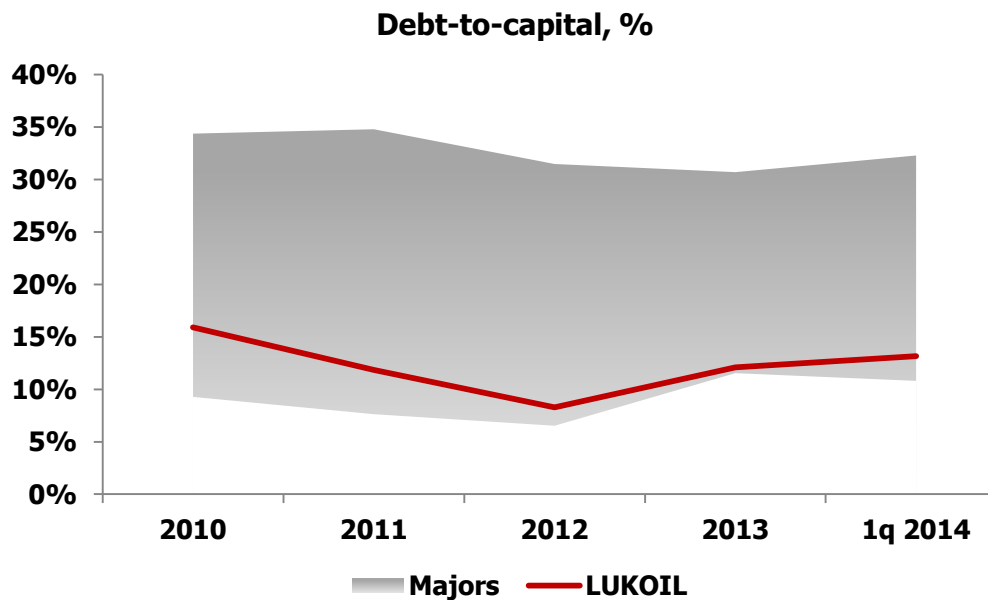
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## Robust Financial Position



### LUKOIL net debt remains low.

LUKOIL increases the **share of cheap debt capital**. Debt-to-capital amounted to **13%** at the end of 1Q 2014





## CAPEX Structure



1Q 2014	4Q 2013	Δ, %	\$ million	1Q 2014	1Q 2013	Δ, %
<b>2,725</b>	<b>3,565</b>	(24)	<b>Exploration and production</b>	<b>2,725</b>	<b>2,537</b>	7
1,973	2,459	(20)	Russia	1,973	1,874	5
752	1,106	(32)	International	752	663	13
<b>447</b>	<b>830</b>	(46)	<b>Refining and marketing</b>	<b>447</b>	<b>630</b>	(29)
227	455	(50)	Russia	227	471	(52)
220	375	(41)	International	220	159	38
<b>32</b>	<b>59</b>	(46)	<b>Chemicals</b>	<b>32</b>	<b>3</b>	<b>967</b>
32	53	(40)	Russia	32	3	967
0	6	(100)	International	0	0	-
<b>8</b>	<b>84</b>	(90)	<b>Power generation</b>	<b>8</b>	<b>21</b>	(62)
<b>20</b>	<b>168</b>	(88)	<b>Other</b>	<b>20</b>	<b>155</b>	(87)
<b>3,232</b>	<b>4,706</b>	(31)	<b>Total (cash and non-cash)</b>	<b>3,232</b>	<b>3,346</b>	(3)

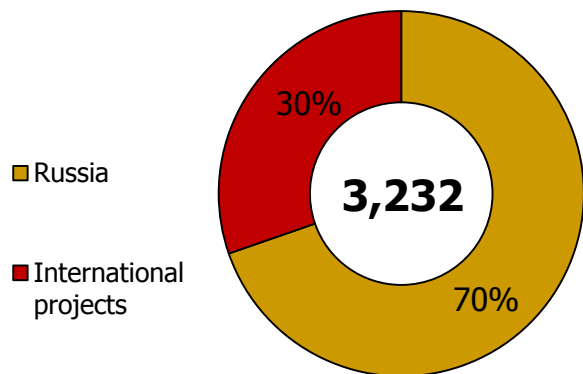




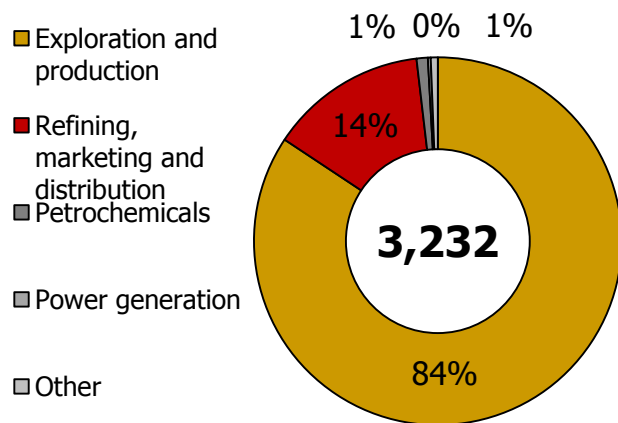
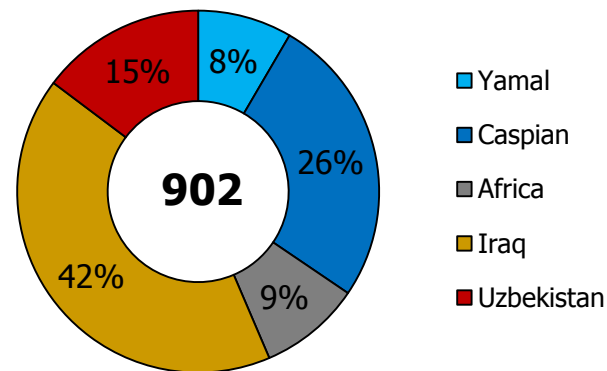
# CAPEX



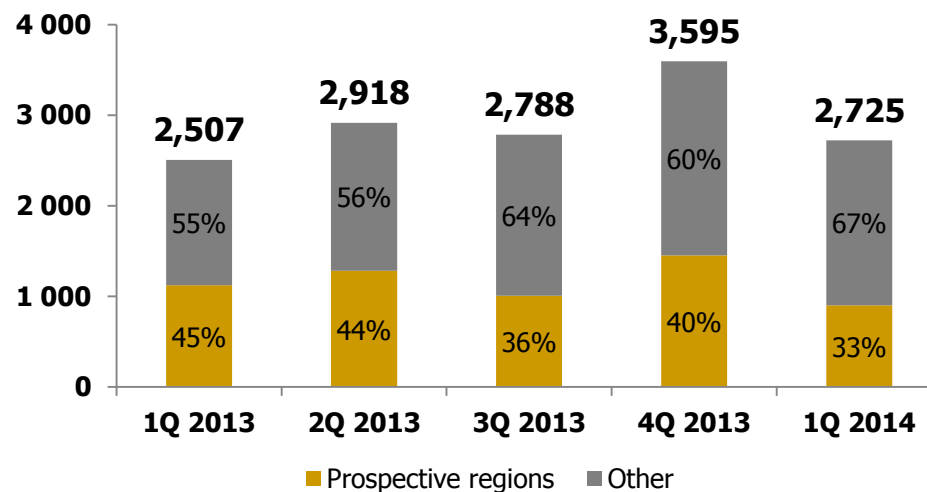
Capital expenditures in 1Q 2014, \$ mln



Exploration and production prospective regions: \$902 mln



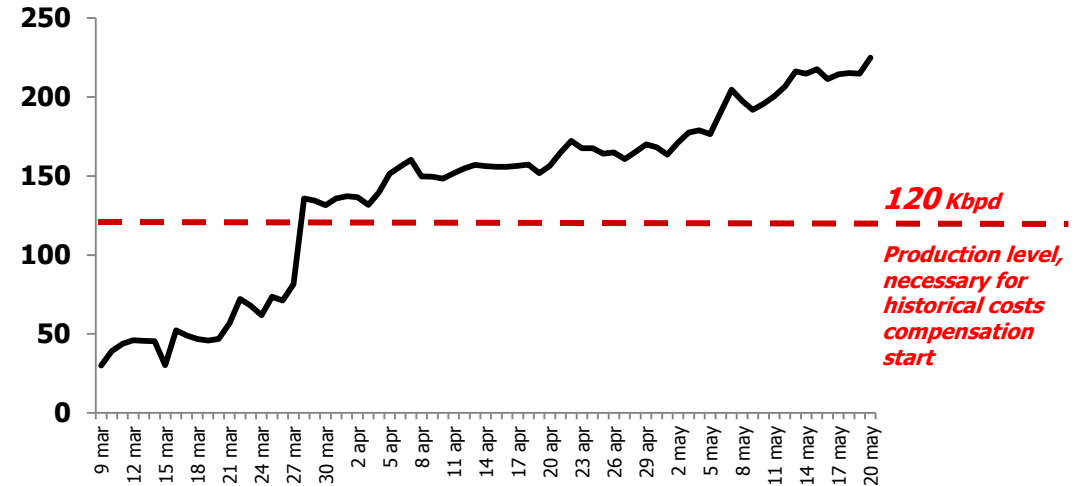
Exploration and production capital expenditures, \$ mln



## International Projects: West Qurna-2 (Iraq)



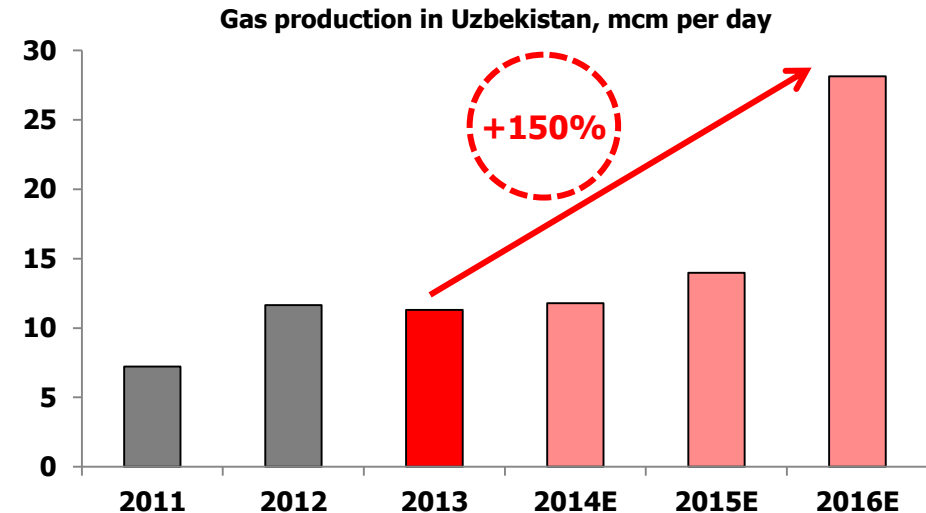
Daily oil production from West Qurna-2 field in 2014, Kbpd



### Plans for 2014:

- Approval of the final development plan
- Signing contracts with contractors on delivery of compressors for the Complex Gas Treatment Unit
- Signing contracts with contractors on drilling for Mishrif Full Development project
- Signing contract on FEED for Yamama Full Development project
- Completion of security infrastructure construction

# International Projects: Uzbekistan



## Plans for 2014-2015:

### Gissar

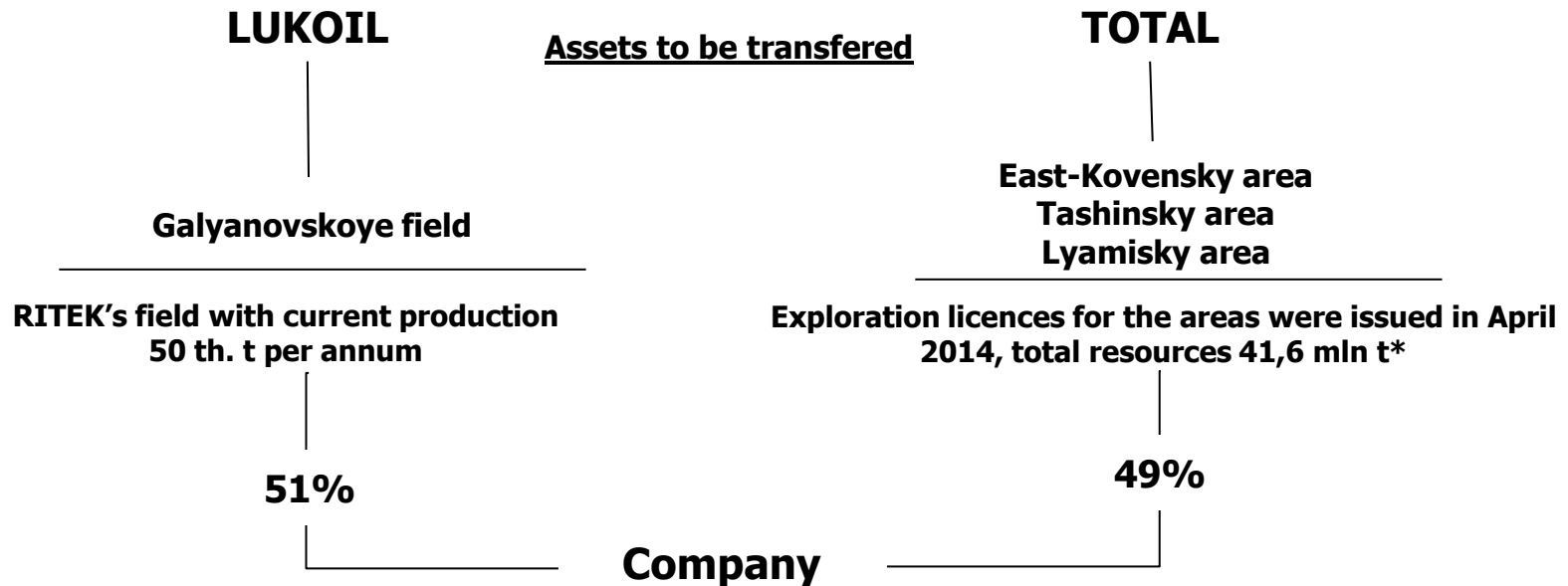
- Completion of 41 wells, launch of gas treatment units Jambulak and Adamtash, completion of electrical substations and pipelines, roads and export gas and stable condensate pipeline

### Kandym-Khauzak-Shady

- 2014 - launch of gas booster station Khauzak
- Early Gas Kandym. Completion of 25 wells, launch of gas treatment units Kuvachy Alat and Northern Shady, pipelines and other infrastructure construction



# LUKOIL and TOTAL Partnership in Development of Hard-to-Recover Reserves of Bazhen Formation



- The agreement were signed during the SPIEF on May 23, 2014
- LUKOIL transfers Galyanovskoye field licence, but 100% of current production, reserves and related cash flows are retained by LUKOIL
- A pilot stage should start the partnership – drilling of 3 exploration wells (areas will be identified latter). 67% of the pilot stage costs is covered by TOTAL, 33% - by LUKOIL
- Attraction of TOTAL, which has significant hard-to-recover reserves and experience, to the project should provide substantial synergies

\* According to official documents of the Ministry for Mineral Resources

# Cooperation with Rosneft regarding Gas Transportation

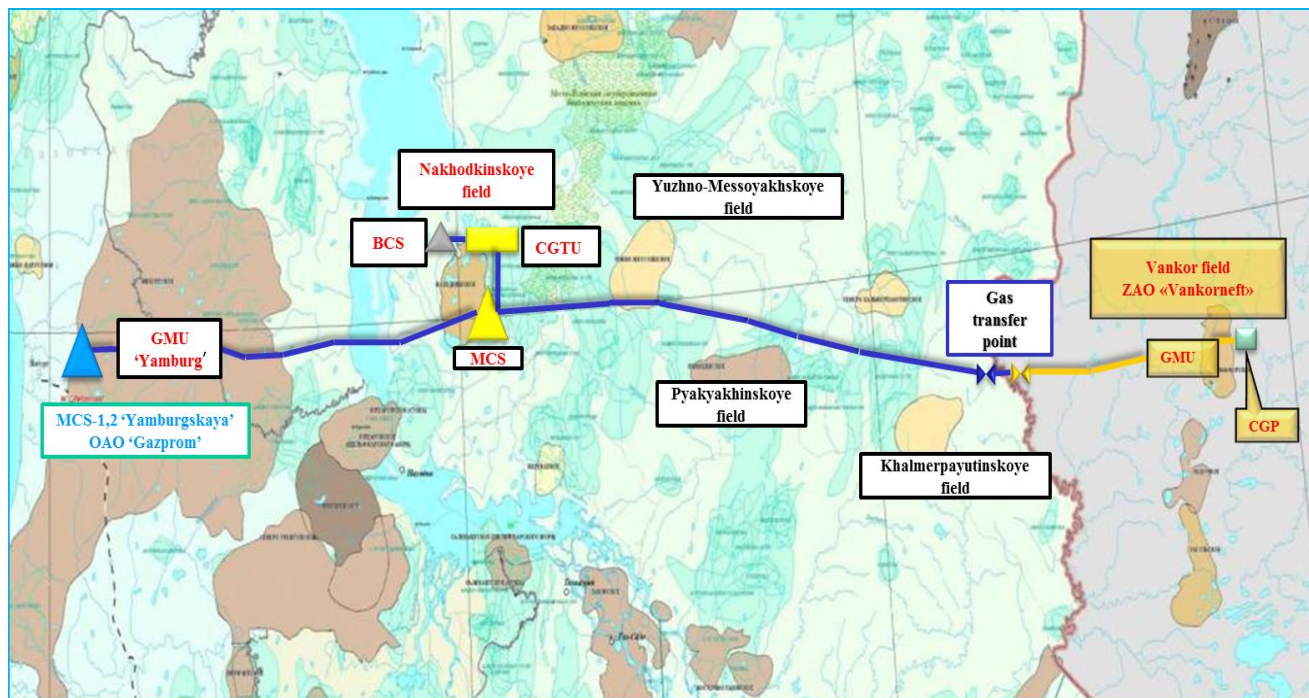


**On April 21, 2011 LUKOIL and Rosneft signed an Agreement on long-term cooperation between companies.**

According to contract with ZAO 'Vankor', OOO «LUKOIL-Western Siberia» delivers services associated with gas transportation and gas deliveries to Gazprom system

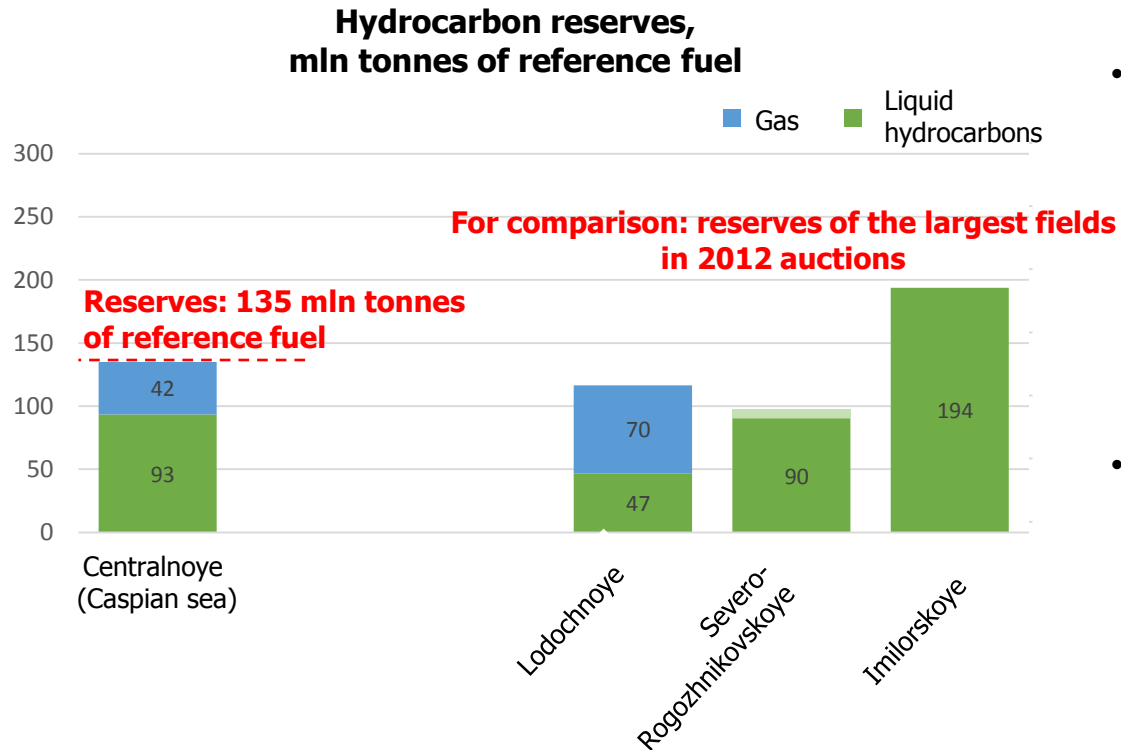
The contract is concluded for the period up to 2030 and intended for pumping of 94 bcm of gas from the Vankor field with following delivery to unified gas supply system (UGSS) at gas-measuring unit 'Yamburg'. Maximum annual volumes of gas transportation will be 5.6 bcm (starting from 2015). The total length of the employed gas transmission network of 'LUKOIL-Western Siberia' is 274 km.

In April, 2014, LUKOIL started to deliver gas transportation services from ZAO "Vankor" and received the first prepayment in the amount of 18.9 bln rubles (incl. VAT).



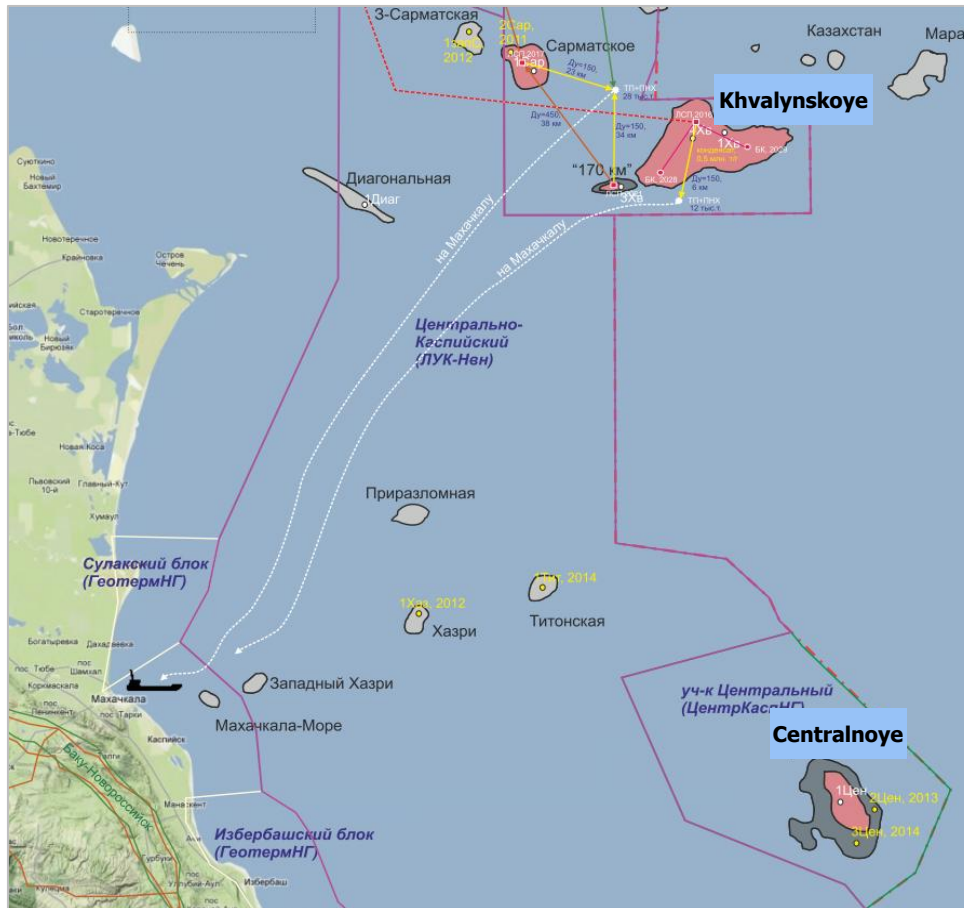
-  - Gas booster station of Nakhodkinskoye field
-  - Main compressor station of gas-transport system from the Bolshekhetskaya depression fields
-  - gas-compressor station of the gas transport system of OAO 'Gazprom'
-  - Active gas pipeline of ZAO 'Vankorneft'
-  - Active gas pipelines of OOO «LUKOIL-Western-Siberia»
-  - Complex gas treatment unit at Hakhodkinskoye field

# Agreement with Gazprom Implementation of Common E&P Projects



- Agreement implies implementation of common projects concerning Centralnoye field on the Caspian shelf (JV with OAO 'Gazprom'), subsoil areas and fields within the boundaries of the Nenets and Yamalo-Nenets Autonomous Districts
- In addition, the parties are planning to jointly explore and develop projects in the Russian continental shelf, East Siberia, Far East and abroad





## Centralnoye field

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

Recoverable reserves:

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

## Khvalynskoye field

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

Recoverable reserves:

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



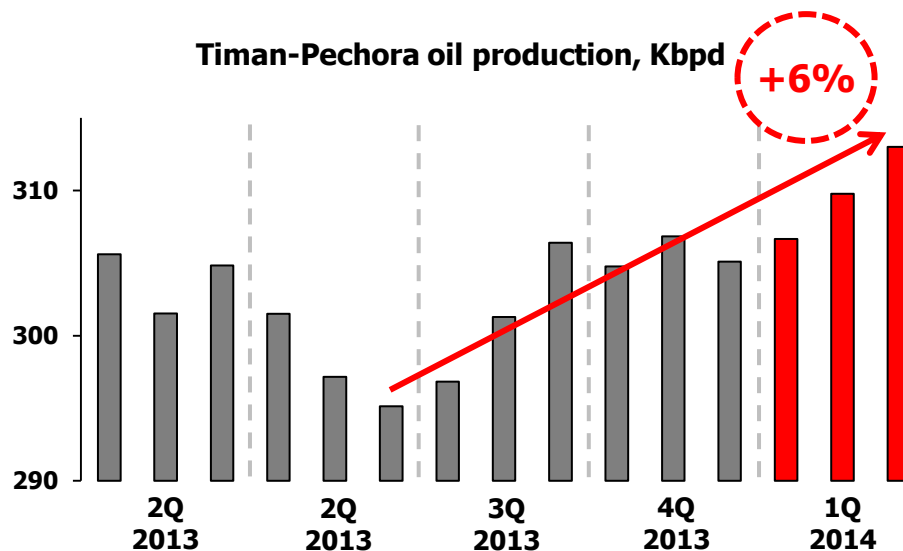


## LUKOIL-Komi (Timan-Pechora)



- **Timan-Pechora proved oil reserves – 2.2 bln bbl, out of which 46% are from 4 fields:**
- **Yaregskoe and Usinskoe** – LUKOIL's major super and high viscosity oil fields subject to tax benefits
- **Oshskoe and East-Lambeyshorskoe** – two significant contributors of LUKOIL oil production growth

Timan-Pechora oil production, Kbpd



**In 1Q 2014 LUKOIL consolidated all Timan-Pechora production assets in a single subsidiary – LUKOIL-Komi**

# Northern Caspian: Filanovsky field



## Works in 1Q 2013:

Preparation works on mobilization of resources and organization of transportation of the platforms upper structures to the installation point at the sea



## Plans for 2014:

- Finishing construction of IRP-1, LQP-1, CPP, RB, offshore oil pipeline and onshore gas pipeline
- Starting construction of IRP-2, LQP-2 and onshore oil pipeline

# Titov and Trebs Fields



- On May 23, 2014 the license for Titov and Trebs fields development was transferred from Bashneft to Bashneft-Polyus. This fact allowe to include the production from the fields to LUKOIL production
- Currently LUKOIL share in oil production: **4.0 Kbpd**
- 3P oil reserves: **82 mln bbl**

  
 Федеральное агентство по недропользованию  
(наименование органа, выдавшего лицензию)

**ЛИЦЕНЗИЯ**  
**на пользование недрами**

серия **Н Р М**      номер **1 5 7 2 9**      вид лицензии **Н Р**

Выдана Обществу с ограниченной ответственностью  
(субъект предпринимательской деятельности, получивший  
Башнефть-Полюс  
данную лицензию)

в лице генерального директора  
(ф.и.о. лица, представляющего субъект предпринимательской деятельности)  
Нестеренко Владимира Михайловича

с целевым назначением и видами работ геологическое изучение, разведка и добыча  
углеводородного сырья в пределах участка недр федерального значения, включающего  
нефтяное месторождение им. Романа Требса и нефтяное месторождение им. Анатолия Титова

Участок недр расположен в северо-восточной части Хорейверской впадины  
(наименование государственного участка,  
Немецкого автономного округа  
района, области, края, республики)

Описание границ участка недр, координаты угловых точек, копии  
 топопланов, разрезов и др. приводятся в приложении 1, 3

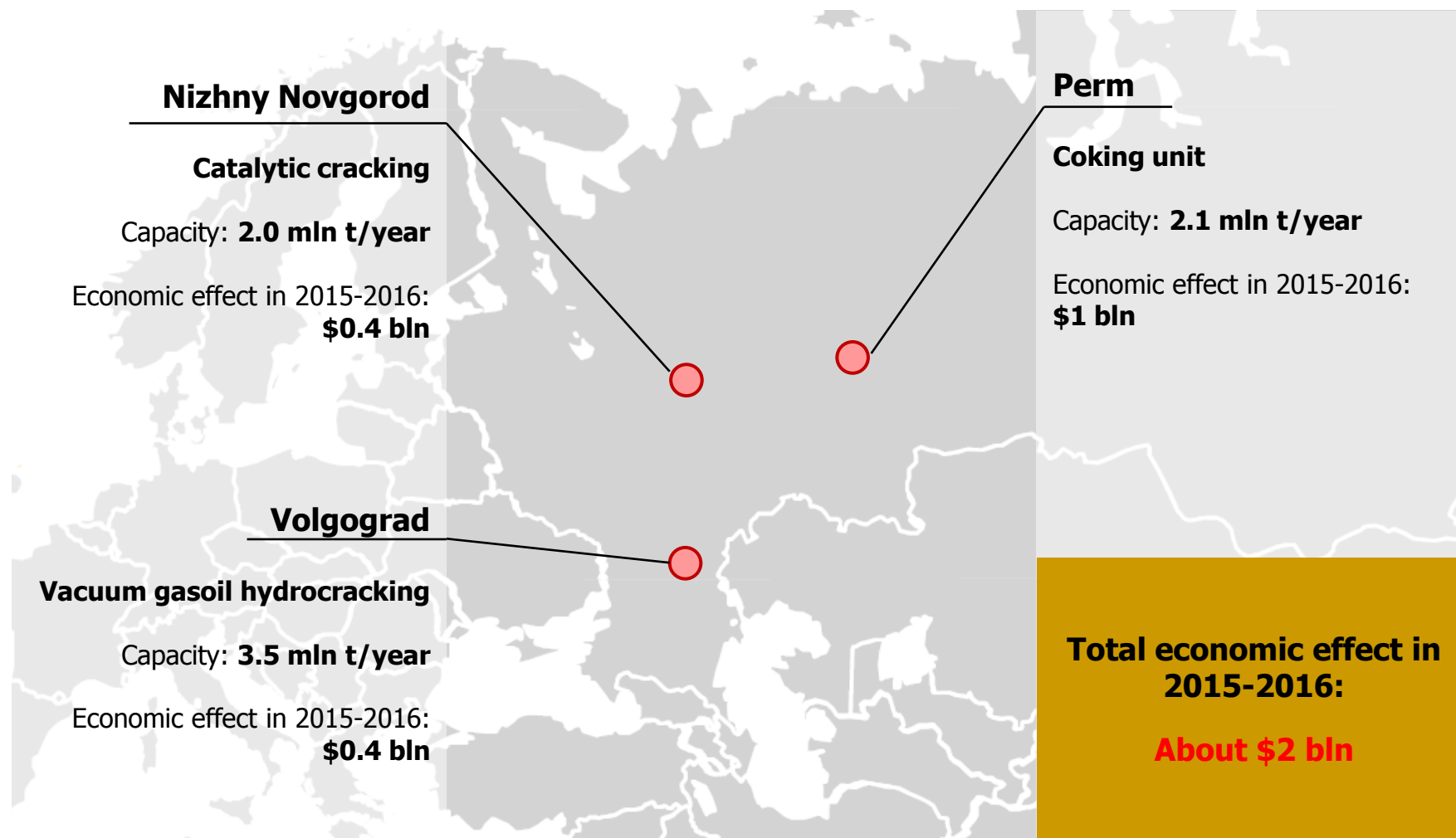
Участок недр имеет статус геологического и горного отводов (№ прилож.)  
(геологического или горного отвода)

Дата окончания действия лицензии 11 февраля 2036 года  
(число, месяц, год)

Место штампа  
 государственной регистрации



# Refining Facilities Modernization





## Conclusion



- Value creation and **accelerating growth of dividends**
- **Increasing efficiency** of operating activities
- Cost control, and **OPEX optimization**
- Maintaining **conservative financial policy**
- Maintaining **strong financial discipline**