

**ALWAYS MOVING FORWARD**



# **2Q and 1H 2016 IFRS Financial Results**

Moscow  
August 30, 2016



# Forward-Looking Statements



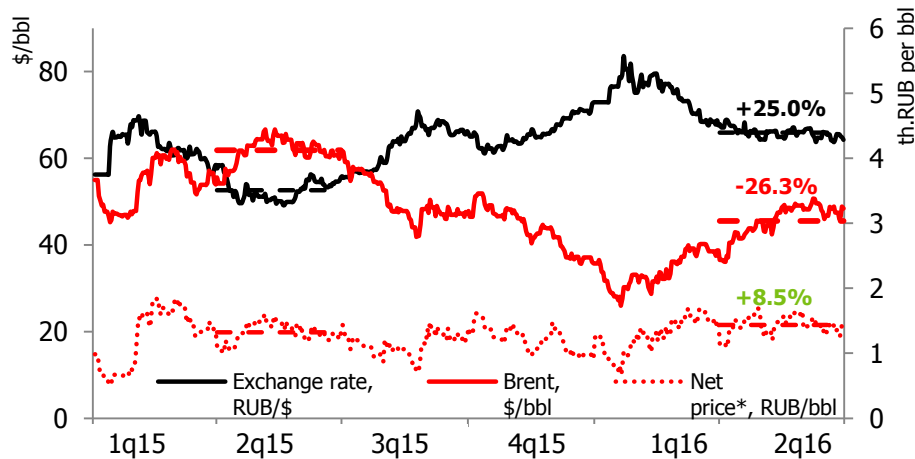
- Certain statements in this presentation are not historical facts and are “forward-looking”. Examples of such forward-looking statements include, but are not limited to:
  - projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other 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.
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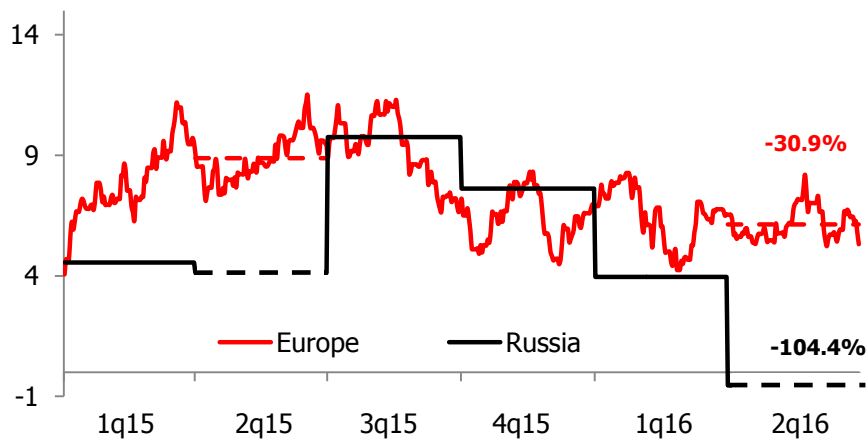
# Macroeconomic and Tax Environment



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



### Benchmark refining margin, \$/bbl



### Oil price and exchange rate

	2q16	2q15	%
Brent, \$/bbl	<b>45.6</b>	61.9	(26.3)
Urals, \$/bbl	<b>43.8</b>	61.7	(29.0)
RUB/\$	<b>65.9</b>	52.7	25.0

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

	2q16	2q15	%
Fuel oil 3.5%	<b>199.8</b>	323.5	(38.3)
Diesel fuel 0.01%	<b>411.3</b>	580.0	(29.1)
High-octane gasoline	<b>503.2</b>	671.0	(25.0)

### Oil products in Russia, RUB/t

	2q16	2q15	%
Fuel oil	<b>6,794</b>	7,415	(8.4)
Diesel fuel	<b>28,835</b>	28,901	(0.2)
Premium gasoline	<b>35,777</b>	33,016	8.4

### Oil and oil products taxes in Russia, RUB/t

	2q16	2q15	%
Export duty			
Crude oil	<b>4,425</b>	6,867	(35.6)
Gasoline	<b>2,694</b>	5,354	(49.7)
Diesel fuel	<b>1,768</b>	3,294	(46.3)
Fuel oil	<b>3,625</b>	5,217	(30.5)
Oil MET	<b>6,139</b>	7,073	(13.2)
Euro-5 gasoline excise	<b>10,130</b>	5,530	83.2
Diesel fuel excise	<b>5,293</b>	3,450	53.4

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

\* Net price = Urals - export duty - MET



# Summary Results



<b>Operational Results</b>	<b>2q16</b>	<b>1q16</b>	<b>%</b>	<b>2q15</b>	<b>%</b>
Hydrocarbon production, mln boe	197	214	(8.1)	216	(9.0)
of which crude oil and NGL, mln bbl	167	183	(8.5)	187	(10.7)
of which West Qurna-2, mln bbl	6	18	(65.0)	16	(61.3)
Hydrocarbon production ex. West Qurna-2, mln boe	191	196	(2.9)	200	(4.8)
Production of refined products, mln t	15.5	14.9	4.0	14.7	5.1
<b>Financial Results, RUB bln</b>					
Revenue	1,339	1,178	13.7	1,477	(9.3)
EBITDA	190	192	(1.3)	207	(8.3)
ex. West Qurna-2	183	170	7.1	171	6.8
Profit for the period	63	43	46.1	64	(1.9)
Profit for the period, ex. FX effect	86	79	8.3	87	(1.5)
Capital expenditures*	119	123	(3.0)	151	(21.1)
Free cash flow**	57	36	56.5	17	235.9
Net debt	518	589	(12.1)	567	(8.6)

\* Including non-cash transactions and prepayments

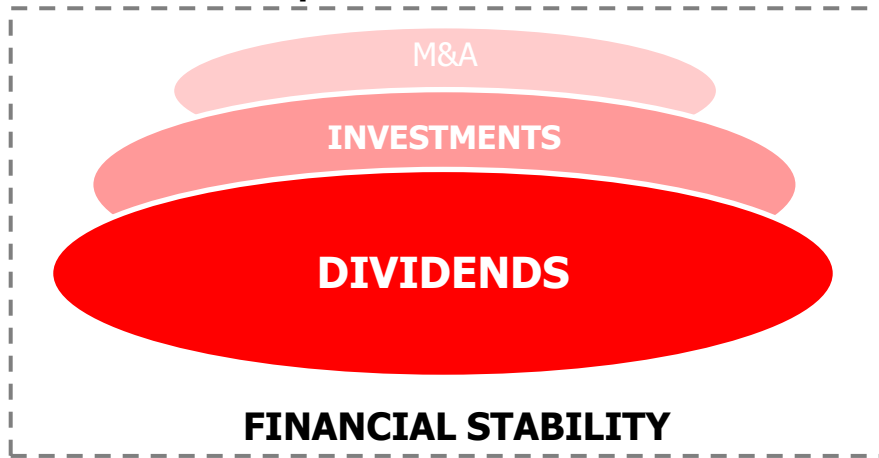
\*\* Net cash provided by operating activities less capital expenditures and acquisition of licenses



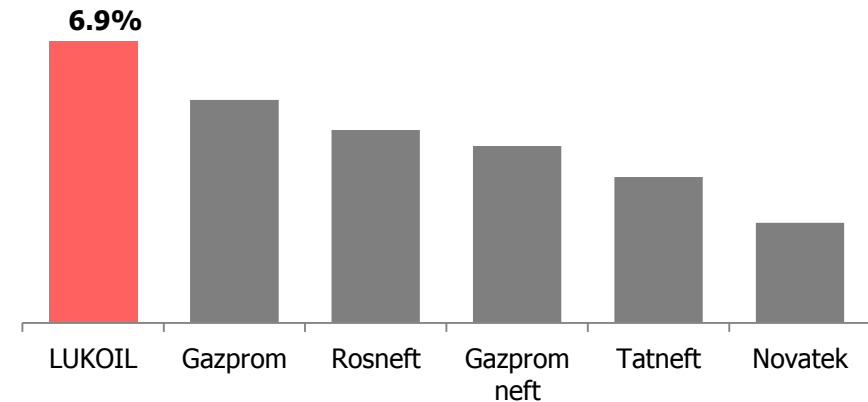
# Updated Dividend Policy



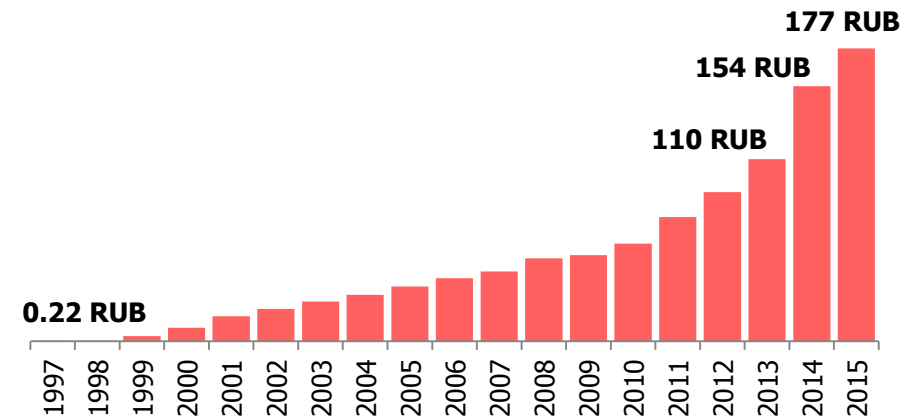
## Cash distribution priorities



## 2015 dividend yield



## Track record (+15% in 2015)



## Target

- At least ruble inflation (CPI) growth
- Not less than 25% of normalized IFRS net profit

## 2015 fact (AGM decision as of 23 June 2016)

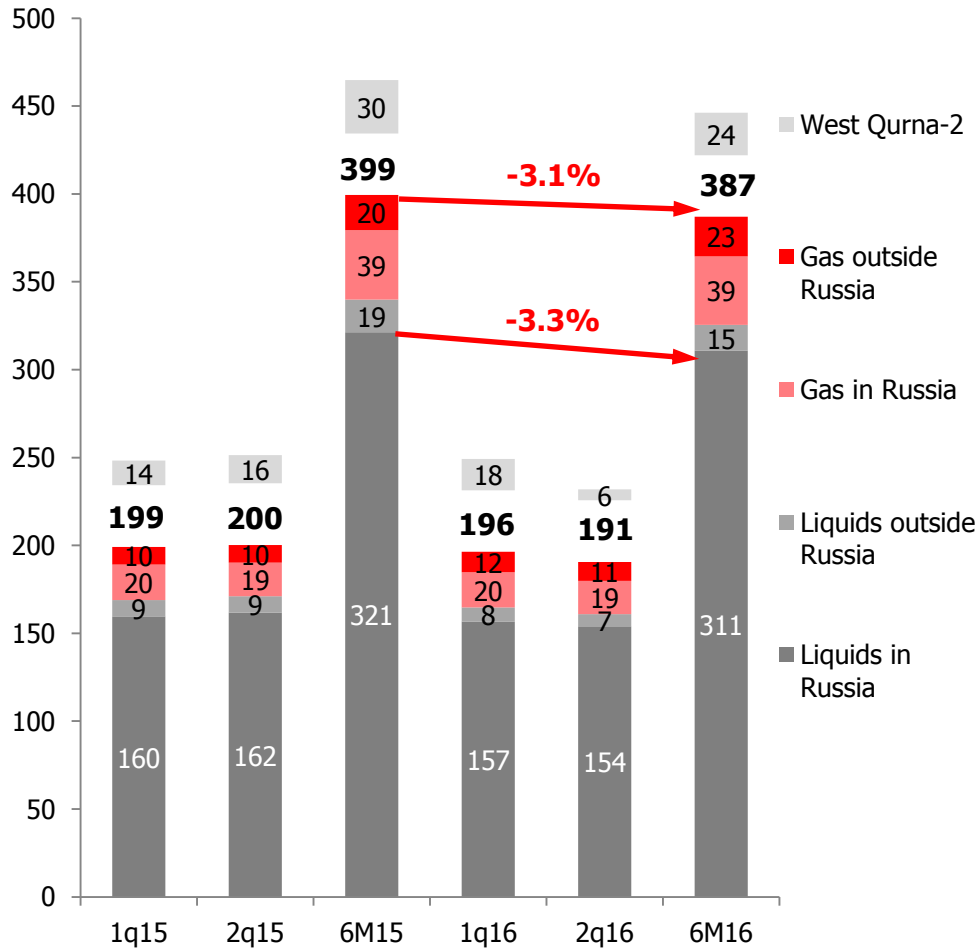
- 15% increase vs. 13% ruble CPI
- 28% payout based on normalized IFRS net profit (43% payout based on accounting IFRS net profit)



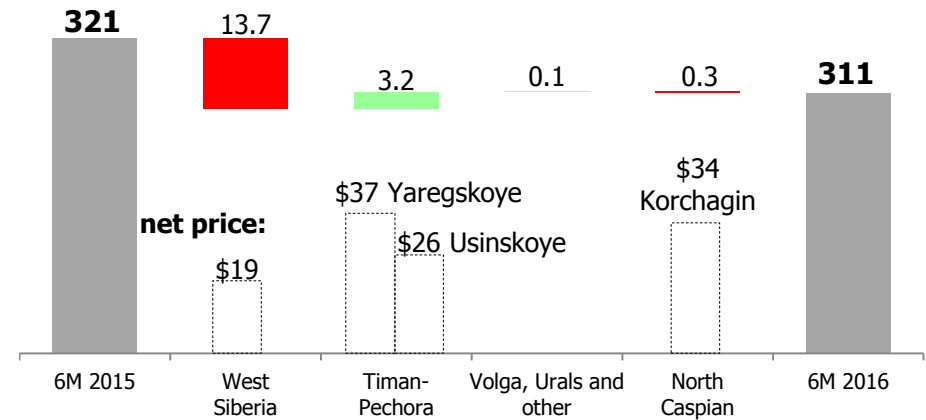
# Upstream: Focus on High Margin Barrels



Hydrocarbon production, mln boe

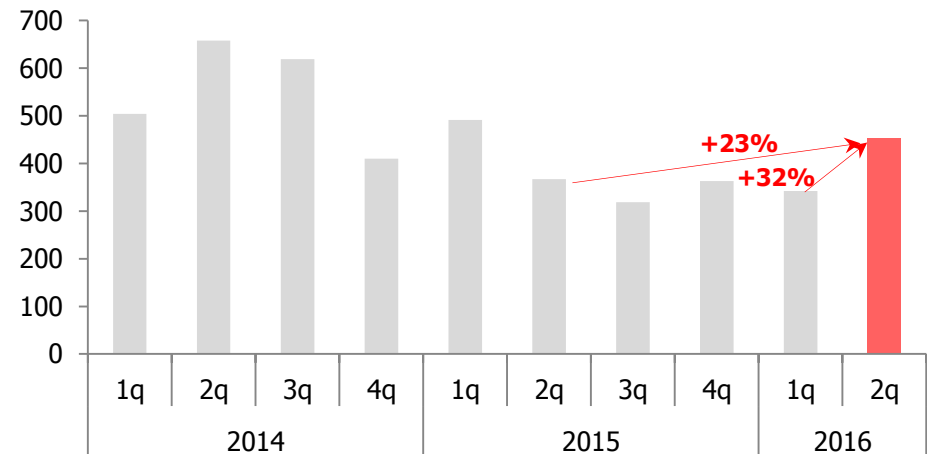


Liquids production in Russia (mln bbl) and net price\* (\$/bbl)



\* Net price= oil price less export duty and MET in 1H 2016

Production drilling in West Siberia, th. m





# North Caspian: V. Filanovskiy Field



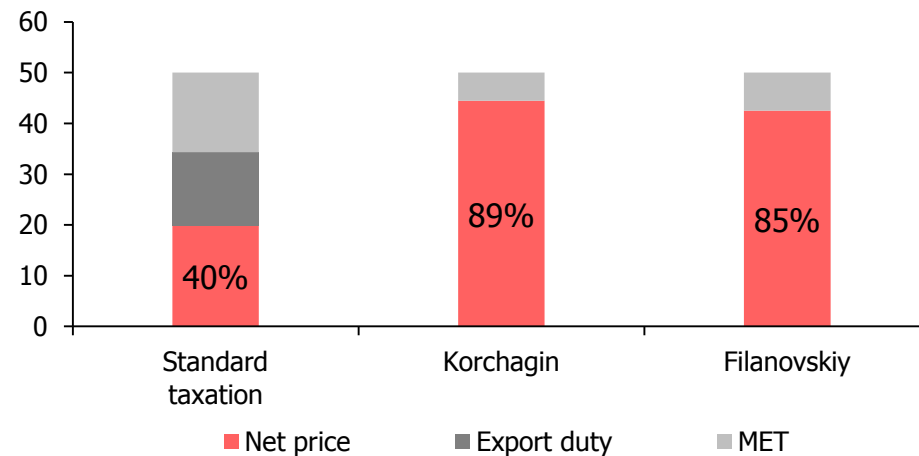
**First stage**  
June: start of production drilling



**Second stage**  
August: transportation of jackets

- **Oil production at the plateau - 120 kbpd**
- **Successful completion of the first well:**
  - drilling time – 55 days
  - length – 3.3 km
  - testing underway
- Drilling of the second well started on August, 3
- First stage facilities – final stage of construction and pre-commissioning
- Second stage facilities – transported to the sea, piling

**Net price, \$/bbl\***



\*Current tax environment at \$50/bbl





# West Siberia: Pyakyakhinskoye Field



- **Estimated production in 2017:**

- Liquids - **30** kbpd
- Gas - **3** bcm

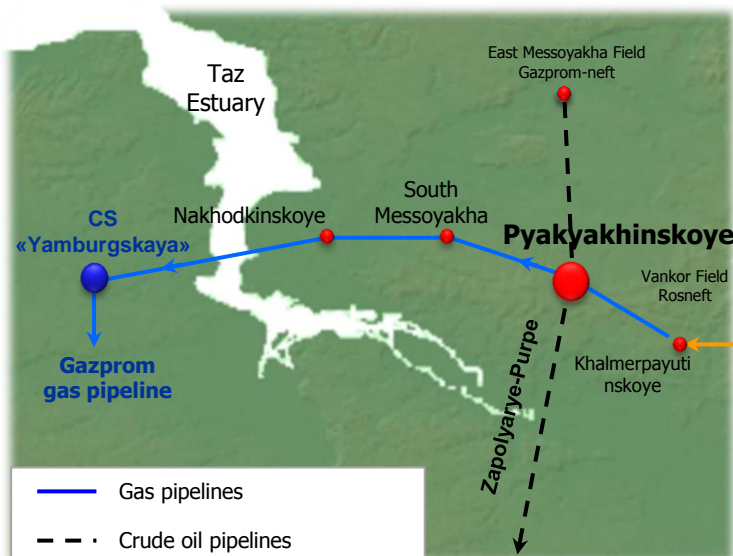
- **100** wells drilled and completed:

- **69** oil wells
- **31** gas wells

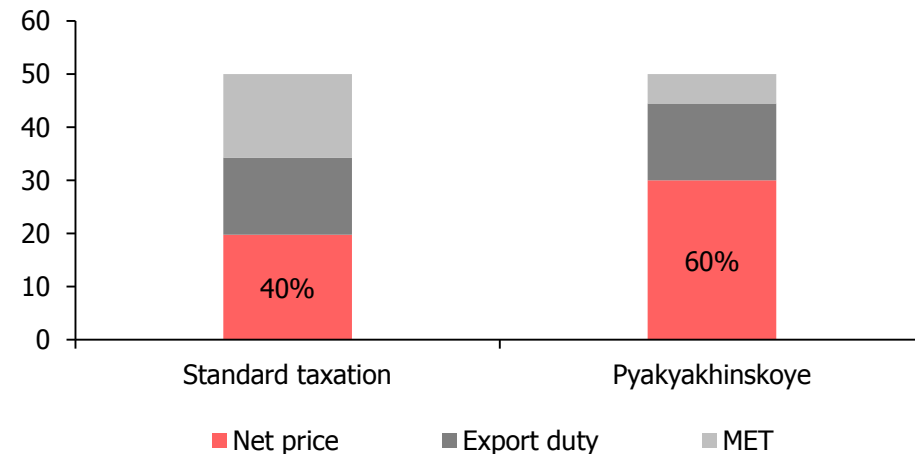
- Pressure maintenance system completed

- **Ready to start oil production**

- Gas production launch – **4Q 2016**



### Net price, \$/bbl\*



\* Current tax environment at \$50/bbl

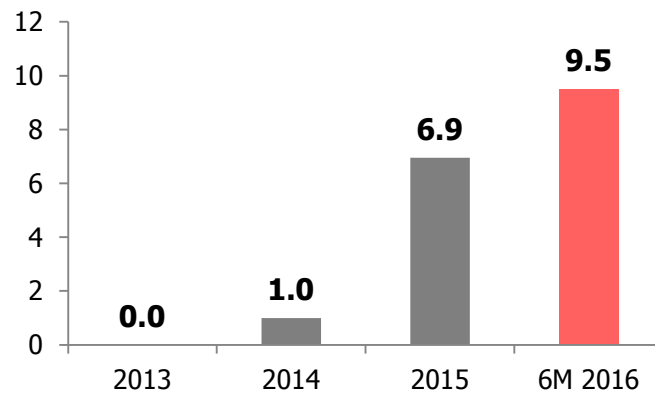




## Upstream: Other Growth Projects

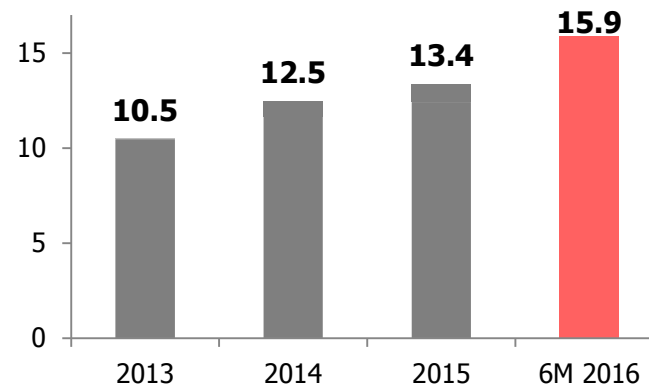


### Imilorskoye oil production, kbpd



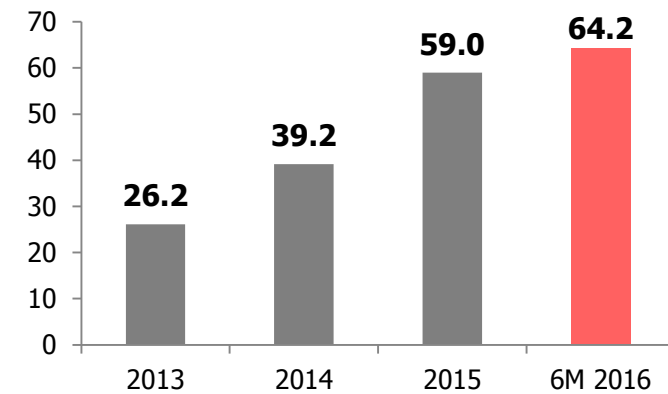
- Production growth in 1H16 **+67%** y-o-y
- Commissioning of 23 production wells

### Yaregskoye oil production, kbpd



- Production growth in 1H16 **+28%** y-o-y
- Commissioning of 4 production wells and 2 steam-generating units
- Export duty concession
- MET concession

### Denisovskaya Depression oil production, kbpd



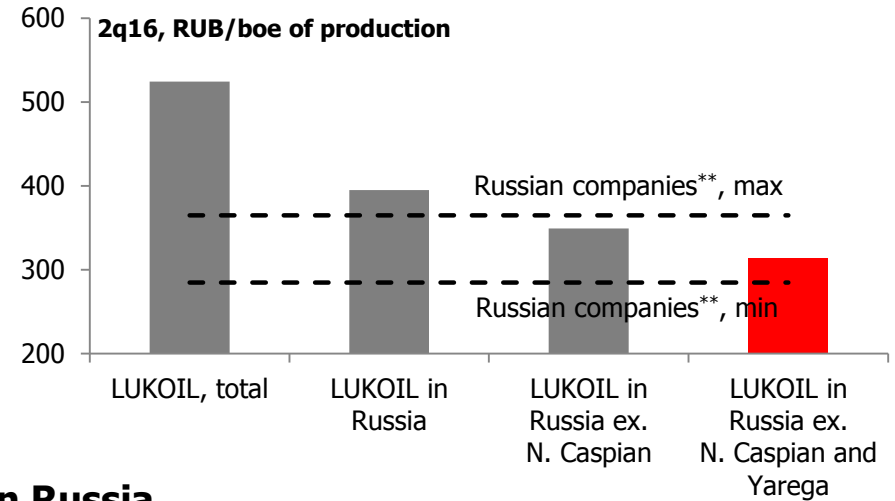
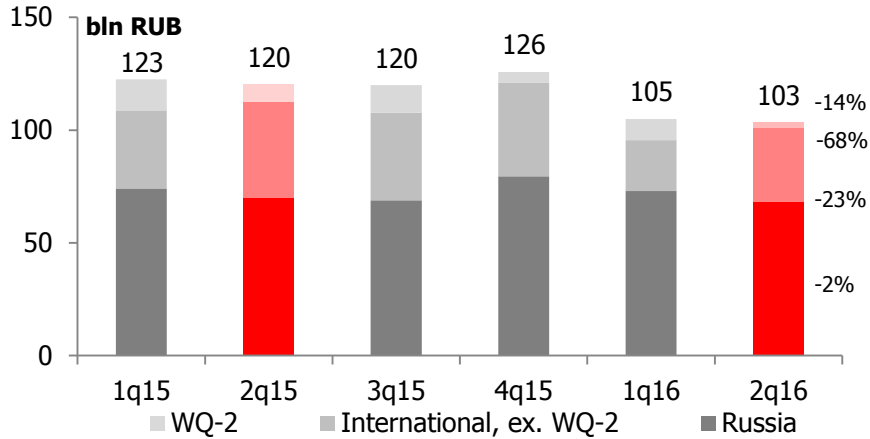
- Production growth in 1H16 **+21%** y-o-y
- Commissioning of 1 production well



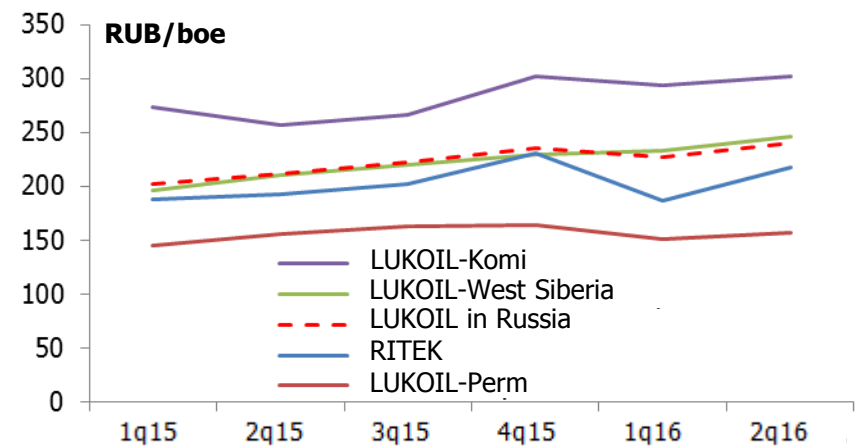
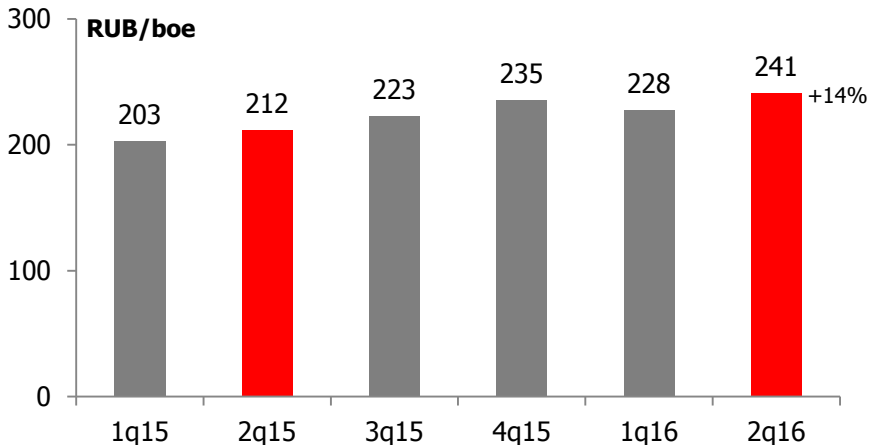
# Upstream: CAPEX & OPEX



## Upstream capital expenditures



## Lifting costs in Russia



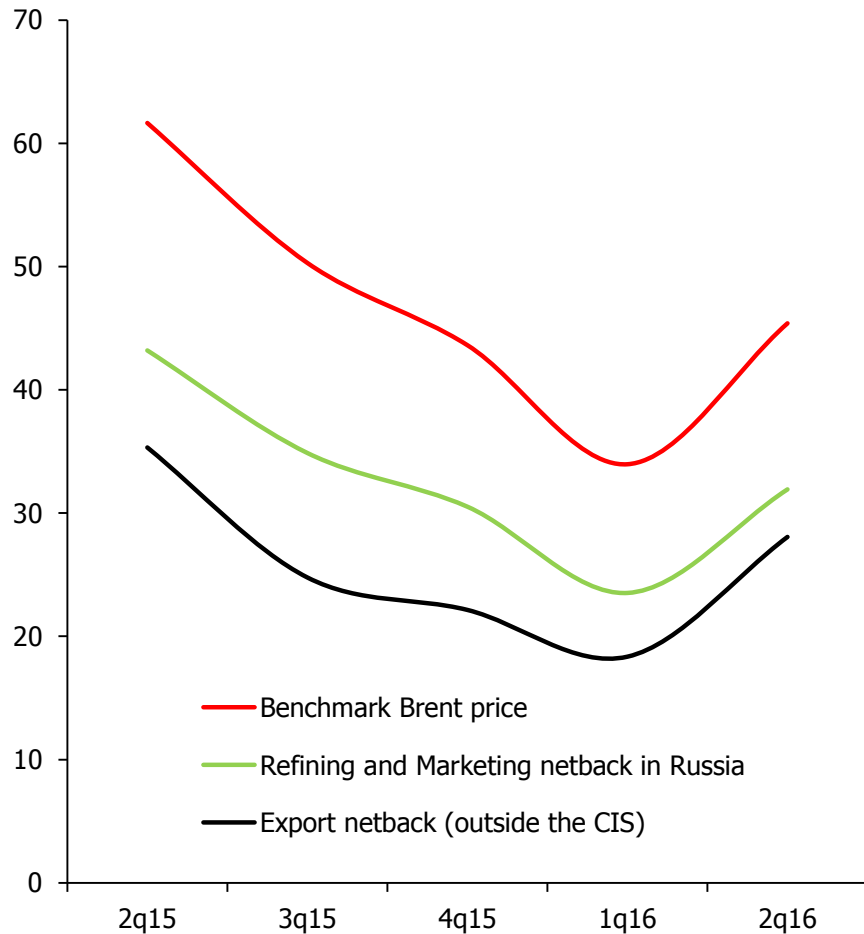
\* Including non-cash transactions and prepayments  
 \*\* Rosneft, Gazprom neft, Bashneft, 1Q2015



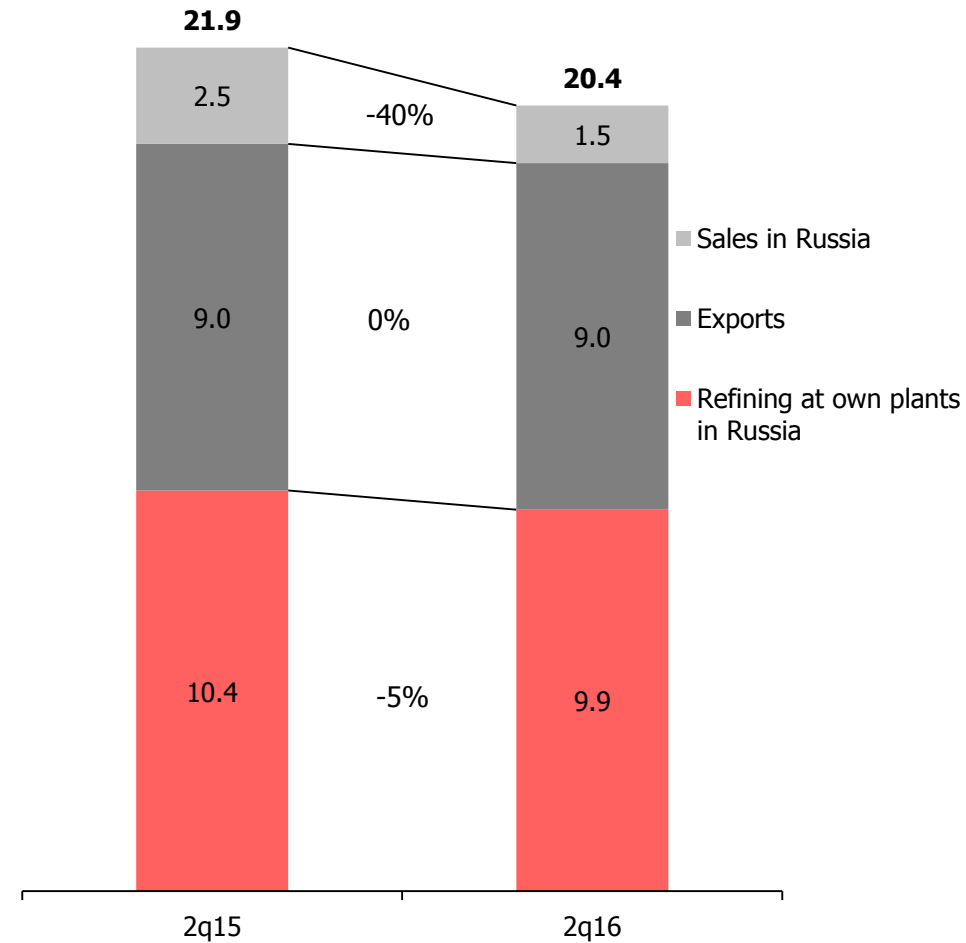
# Downstream: Efficient Oil Allocation



**Oil allocation price, \$/bbl**



**Own oil allocation volumes, mln t**

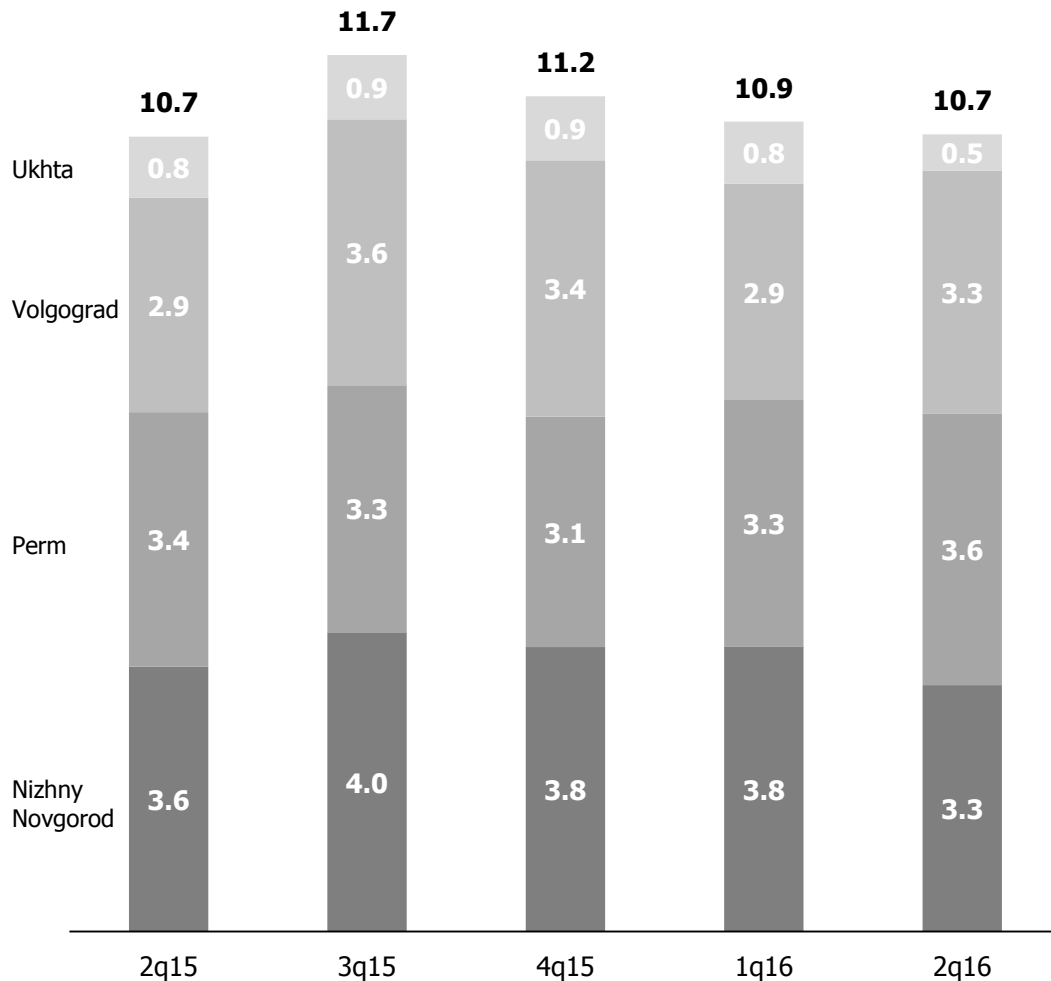




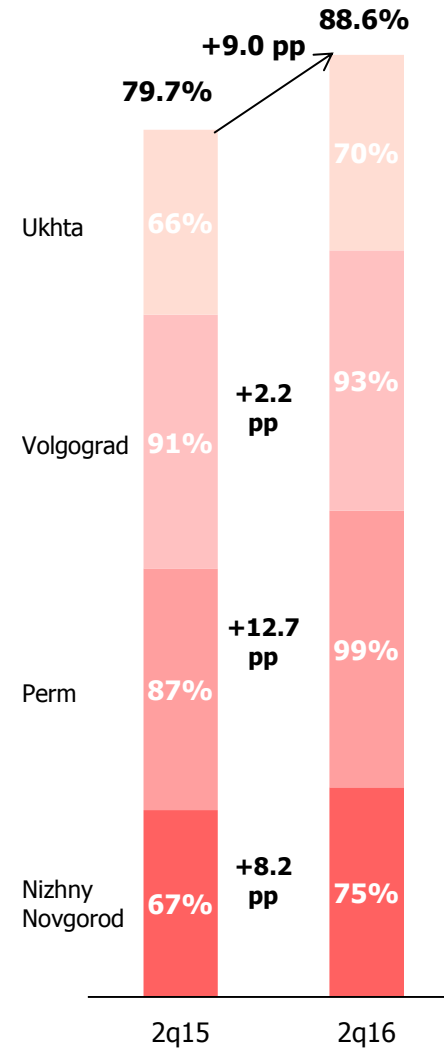
# Downstream: Russian Refining KPIs



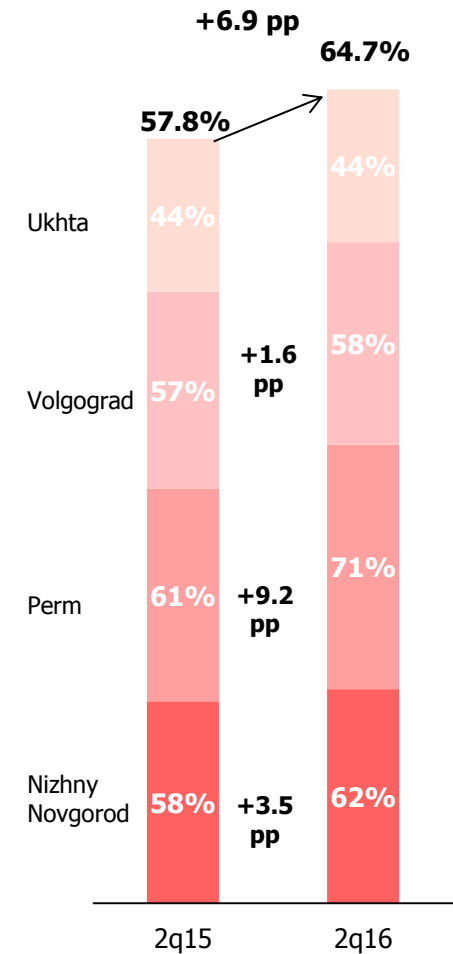
**Throughput volume**  
(including crude oil and other hydrocarbons), mln t



**Refining depth, %**



**Light products yield, %**





# Completion of Russian Refineries Upgrade Program

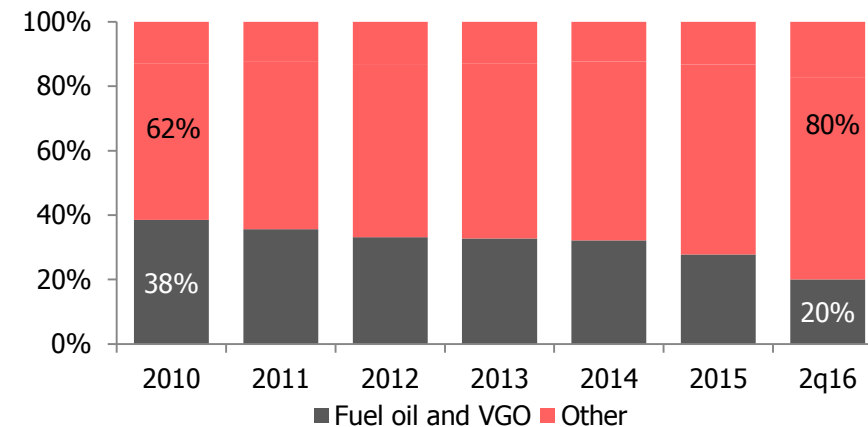


● Nizhny Novgorod ● Perm ● Volgograd

Hydrocracking								●
Catalytic cracking		●						●
Hydrotreatment		● reconstruction				●		●
Alkylation			●					
Coking			●					●
Crude distillation unit								●
<b>year</b>	<b>'10</b>	<b>'11</b>	<b>'12</b>	<b>'13</b>	<b>'14</b>	<b>'15</b>	<b>2q 16</b>	

Capacity, mln t	45	45	45	45	45	50	50
Light products yield, %	49	52	54	54	56	59	65
Refining depth, %	75	74	75	76	77	80	89
Nelson complexity index	6.2	6.3	6.5	6.5	6.6	7.0	7.0

Product slate, %



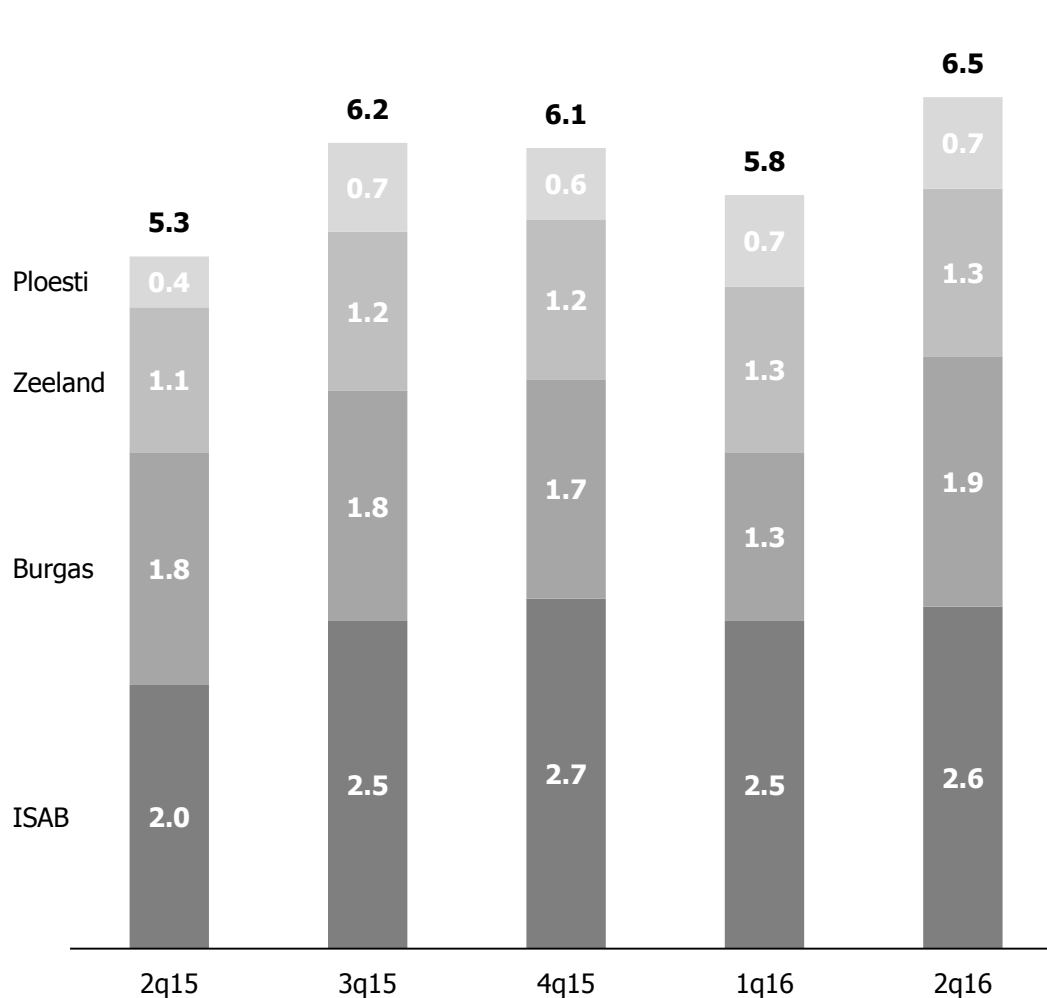
- Upgrade program completed on time and on budget
- One of the best refining segments among Russian companies:
  - Margins higher than Russian average
  - Substantial contribution to EBITDA per barrel of production



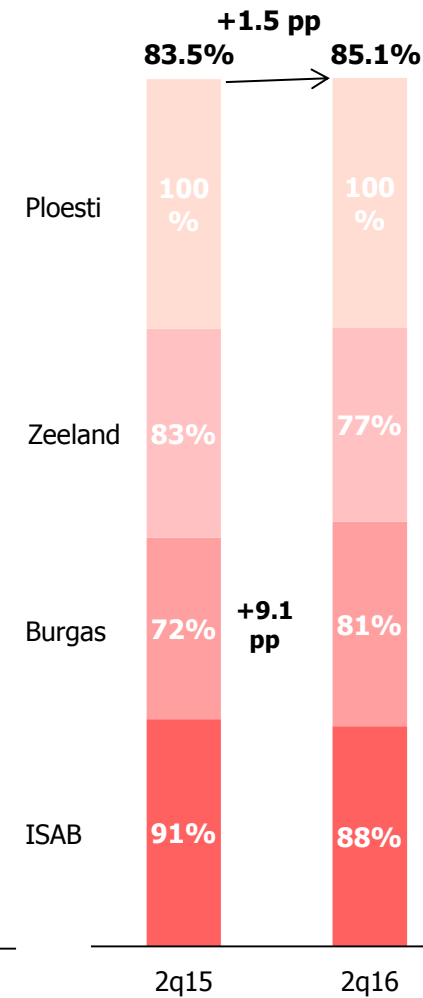
# Downstream: International Refining KPIs



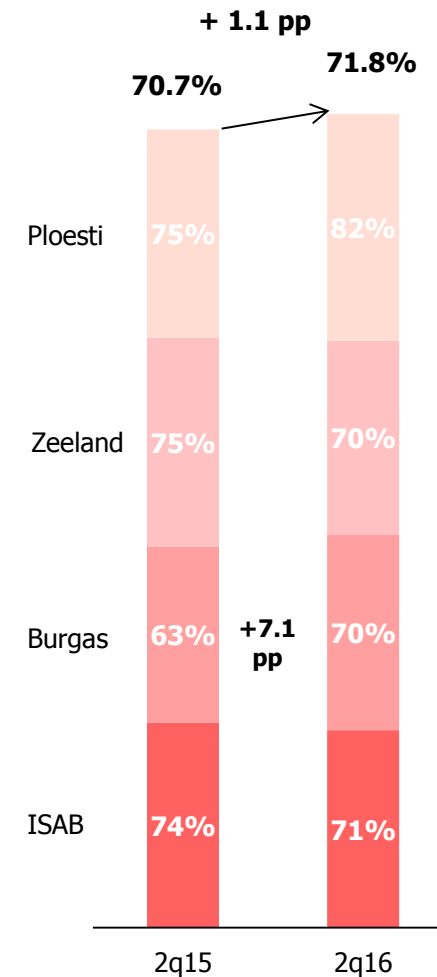
**Throughput volume  
(including crude oil and other hydrocarbons), mln t**



**Refining depth, %**



**Light products yield, %**





# Marketing: High-Priority Channels



**Filling stations:** stable sales volumes on stagnating domestic market



- EKTO fuels sales:
  - +**32%** in Russia
  - +**12%** International\*
- Non-fuel sales:
  - +**17%** in Russia
  - +**19%** International\*

**Jet:** stable share on declining domestic market



- Into-plane jet fuel sales:
- +**19%** in Moscow air hub
  - +**22%** in Bulgaria

**Lubricants:** a 32% increase in premium motor and industrial lubricants sales



- **2x** sales at authorized service stations
- **100 th. tonnes** plant construction in Kazakhstan

**Bunkering:** a 14% increase in sales on stagnating market



- Gain of market share in Baltics and Black Sea





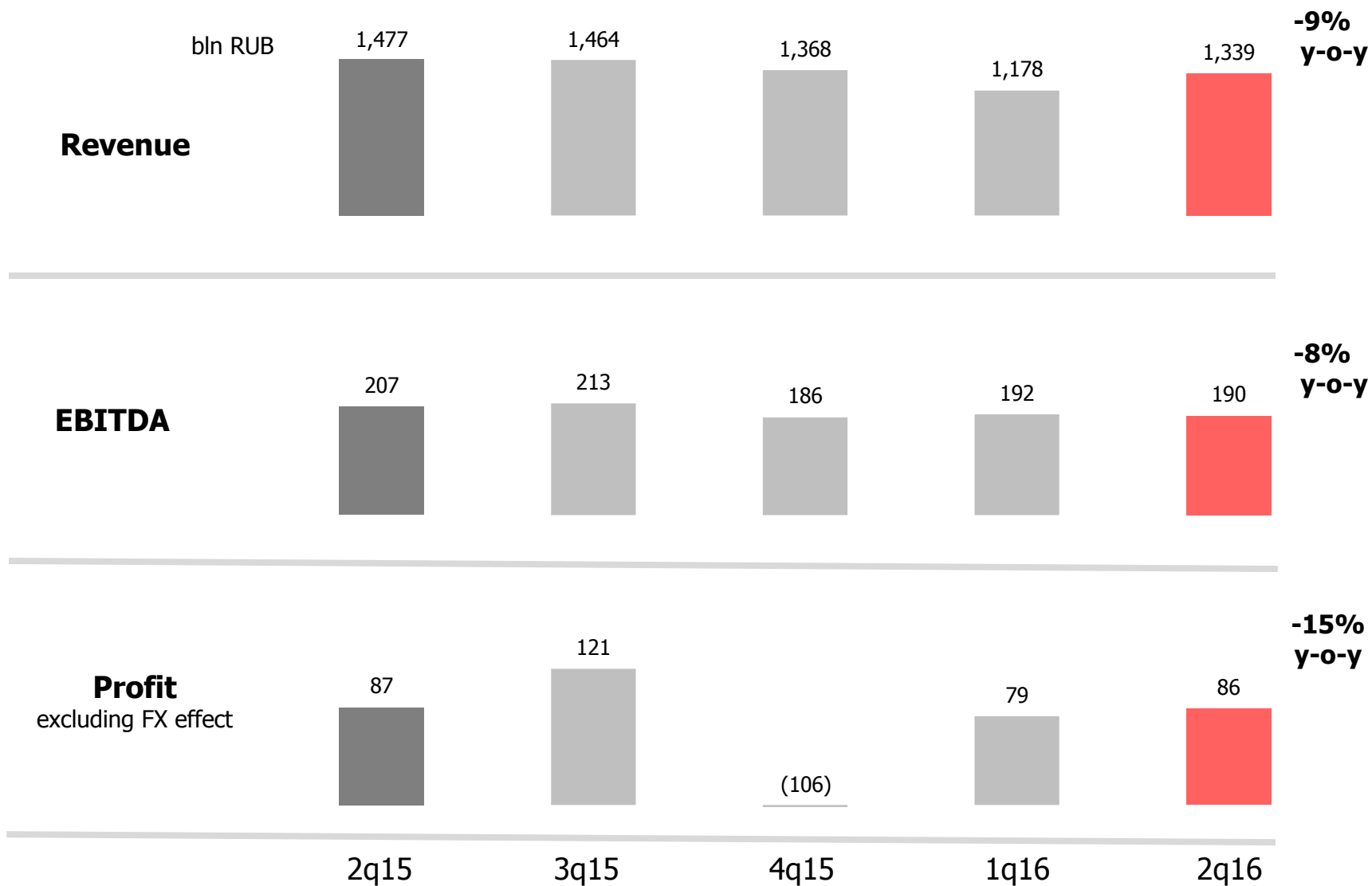
# Q&A



# APPENDIX



# Financial Results

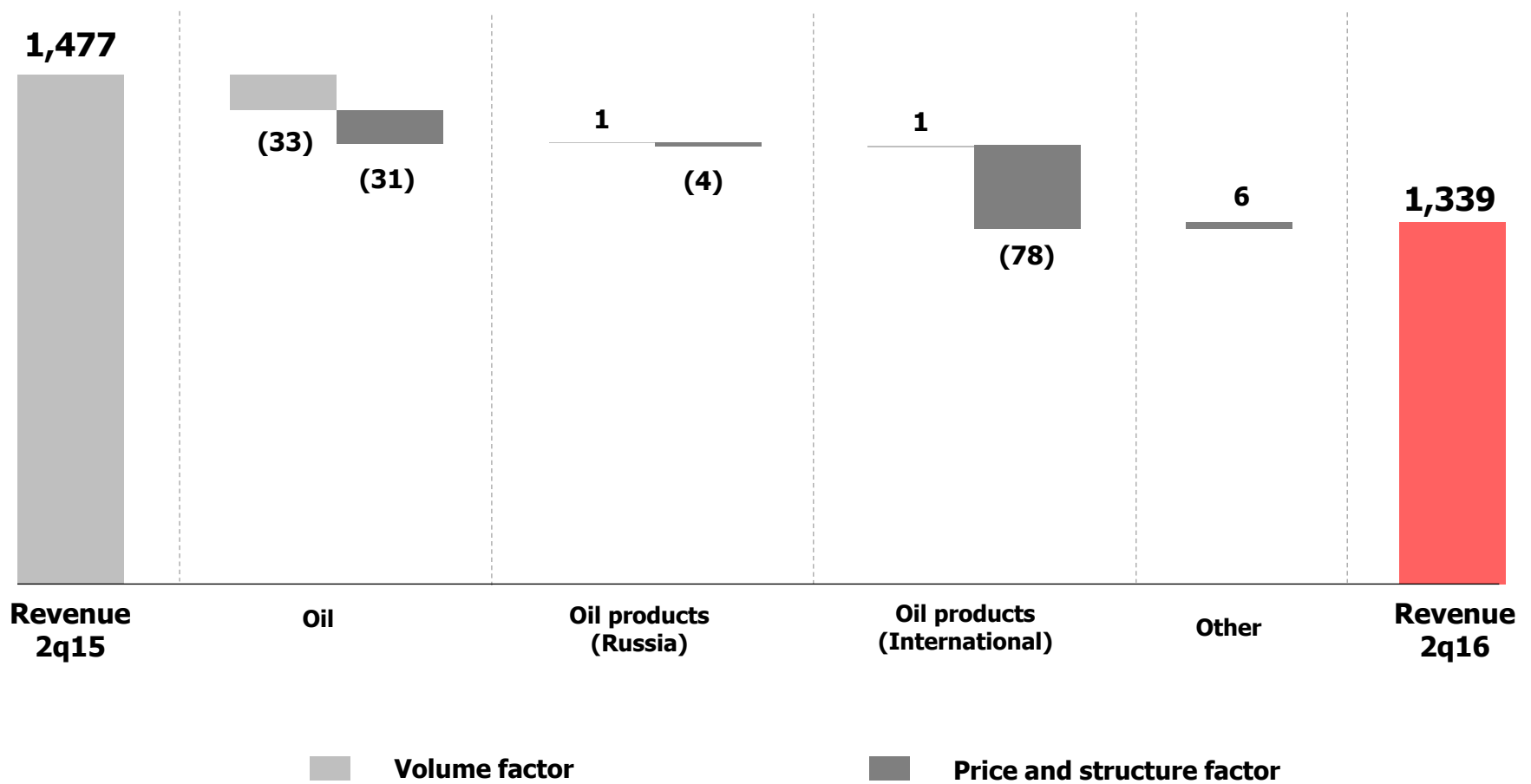




# Revenue Reconciliation



bln RUB

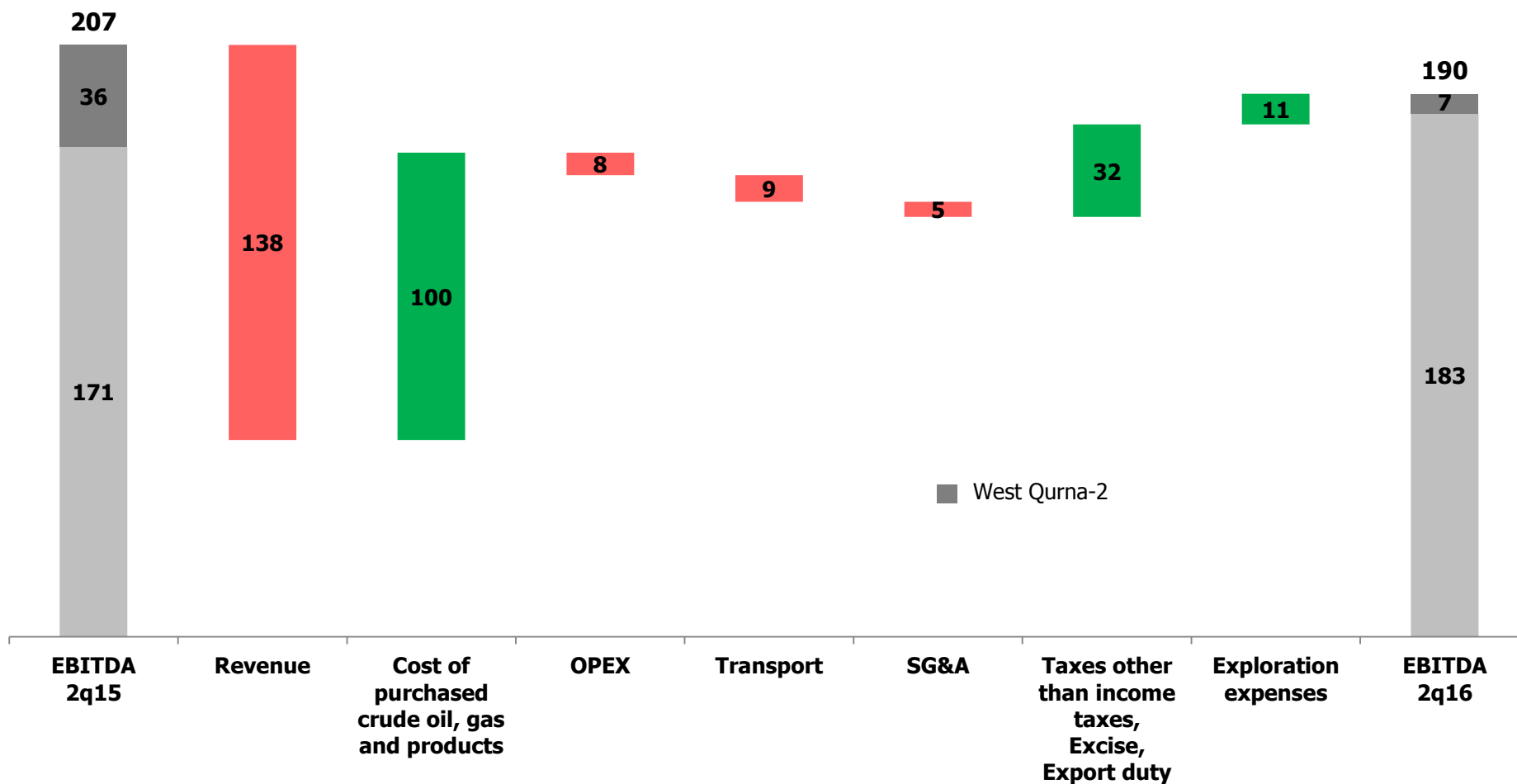




# EBITDA Reconciliation



bln RUB





## Operating Expenses, mln RUB



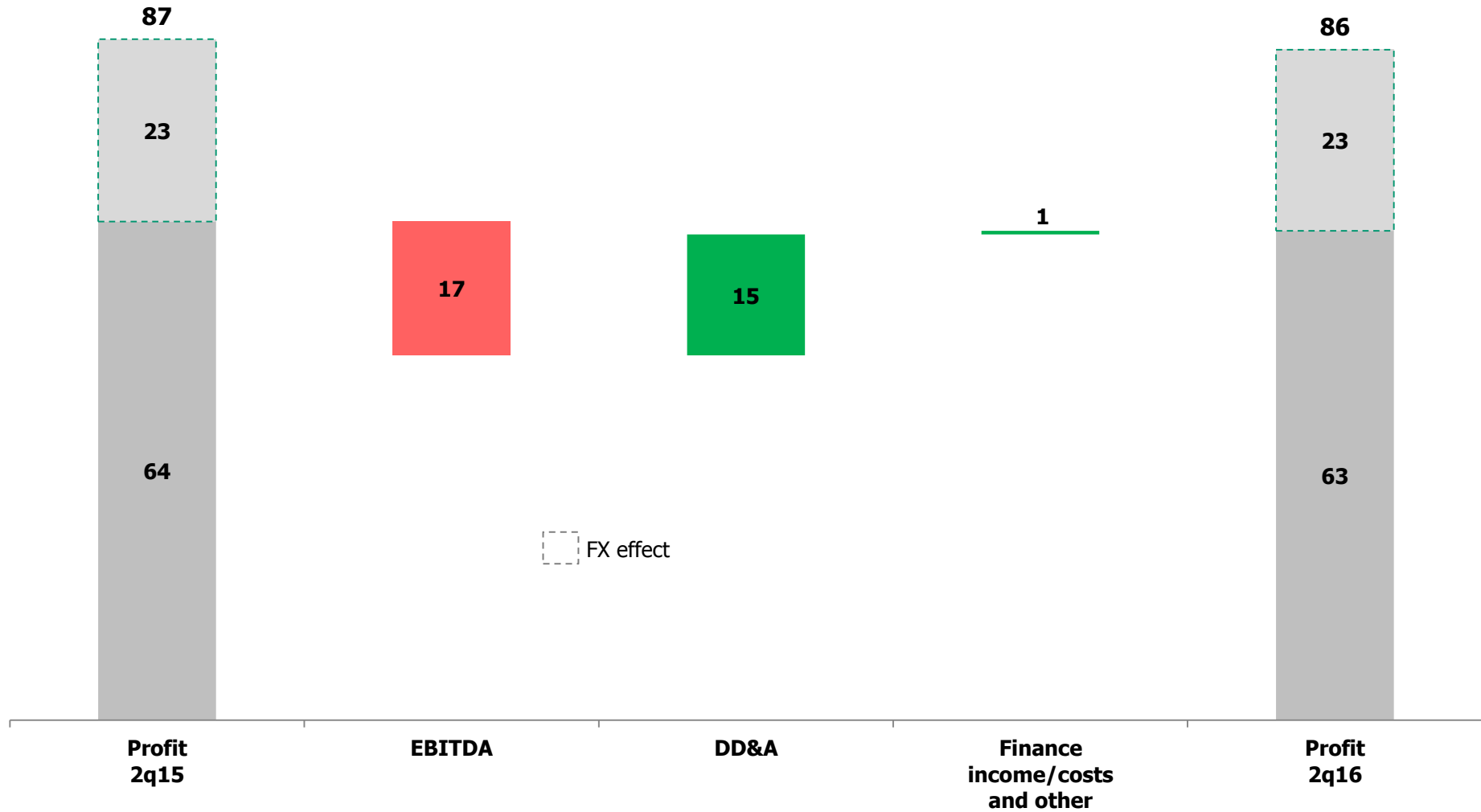
2q16	2q15	%		1H16	1H15	%
<b>113,709</b>	<b>105,828</b>	7.4	<b>Operating expenses, total</b>	<b>226,953</b>	<b>211,509</b>	7.3
45,187	40,771	10.8	hydrocarbon extraction expenses	89,061	80,042	11.3
8,407	11,373	(26.1)	extraction expenses at the West Qurna-2 field	18,610	23,936	(22.3)
22,804	21,004	8.6	own refining expenses	45,254	43,172	4.8
173	525	(67.0)	refining expenses at third parties refineries	421	1,078	(60.9)
10,917	9,612	13.6	expenses for crude oil transportation to refineries	23,228	20,120	15.4
8,618	9,566	(9.9)	power generation and distribution expenses	18,889	18,633	1.4
3,289	2,410	36.5	petrochemical expenses	6,602	4,793	37.7
14,314	10,567	35.5	other operating expenses	24,888	19,735	26 .1



# Profit Reconciliation



bln RUB



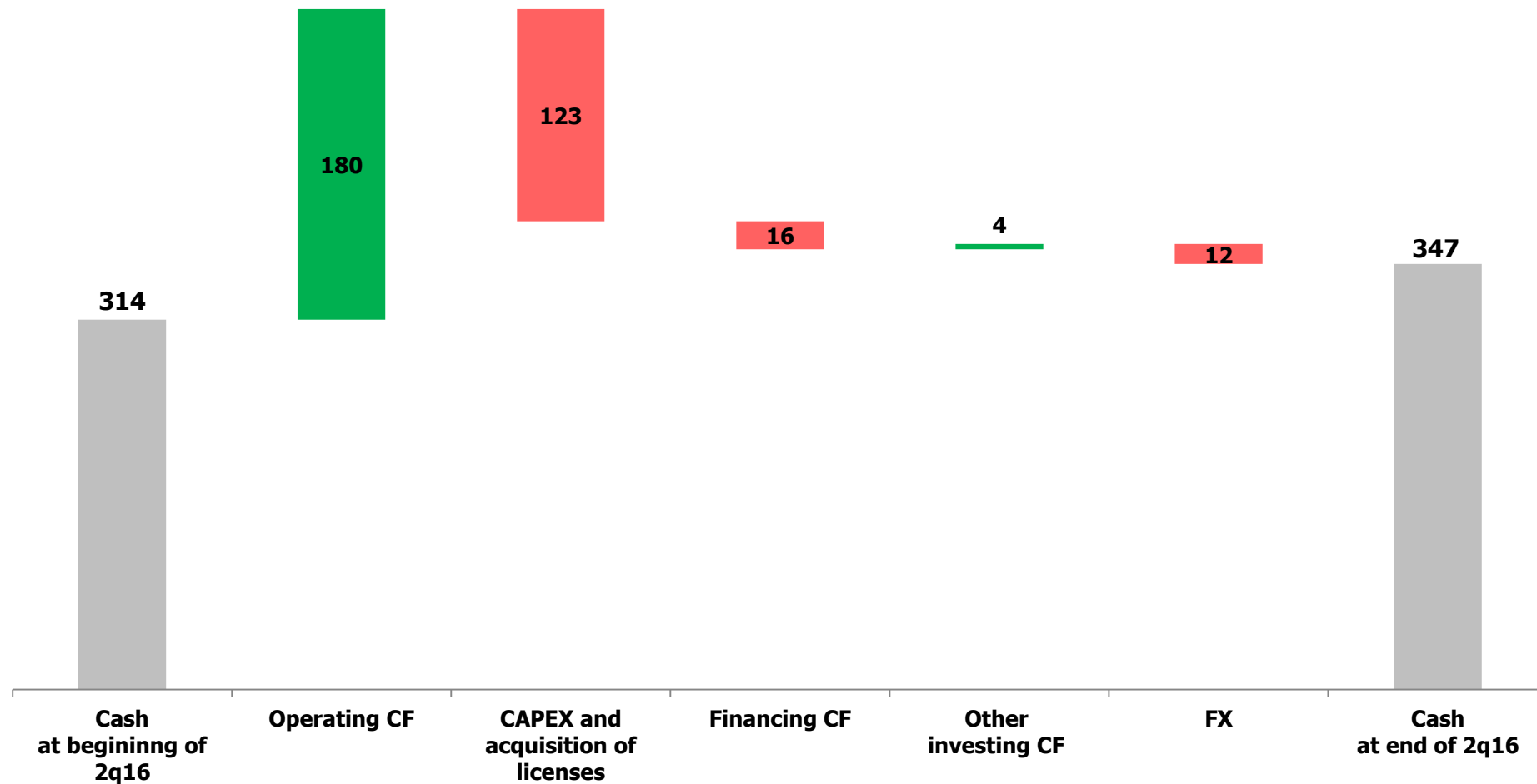




# Cash Flow Reconciliation



bln RUB





# Capital Expenditures, mln RUB



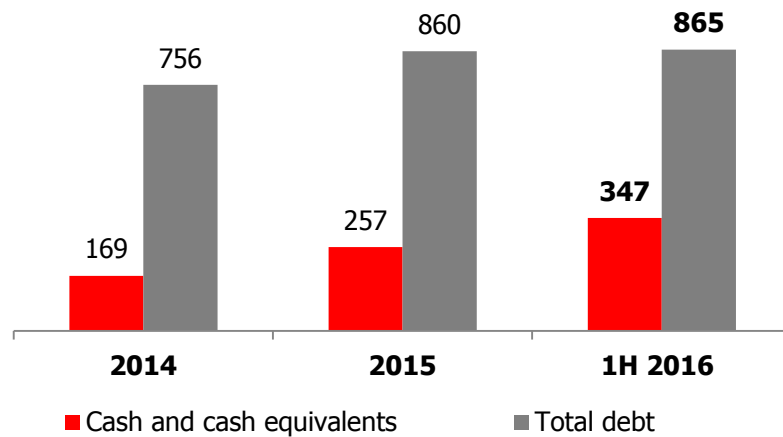
2q16	2q15	%		1H16	1H15	%
<b>118,886</b>	<b>150,773</b>	(21.1)	<b>Capital expenditures, total</b>	<b>241,447</b>	<b>304,844</b>	(20.8)
<b>103,258</b>	<b>120,055</b>	(14.0)	<b>Exploration and production</b>	<b>208,144</b>	<b>242,607</b>	(14.2)
68,372	70,072	(2.4)	Russia	141,281	144,125	(2.0)
34,886	49,983	(30.2)	International	66,863	98,482	(32.1)
<b>14,996</b>	<b>29,399</b>	(49.0)	<b>Refining, marketing and distribution</b>	<b>32,174</b>	<b>59,497</b>	(45.9)
11,852	22,366	(47.0)	Russia	24,639	43,533	(43.4)
3,144	7,033	(55.3)	International	7,535	15,964	(52.8)
<b>632</b>	<b>1,319</b>	(52.1)	<b>Corporate and other</b>	<b>1,129</b>	<b>2,740</b>	(58.8)
442	846	(47.8)	Russia	692	1,497	(53.8)
190	473	(59.8)	International	437	1,243	(64.8)



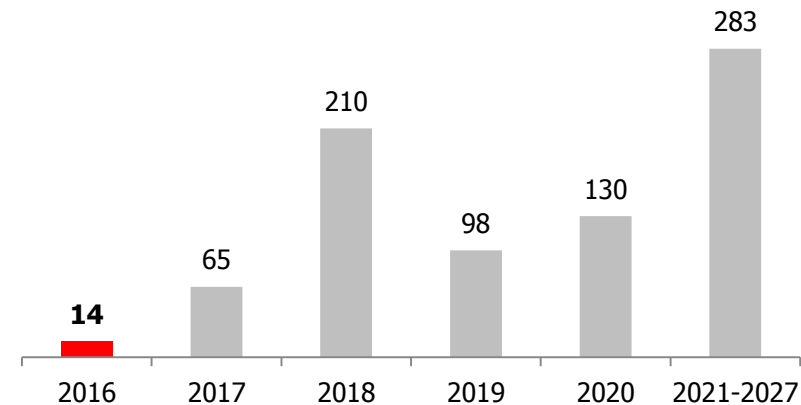
# Robust Financial Position



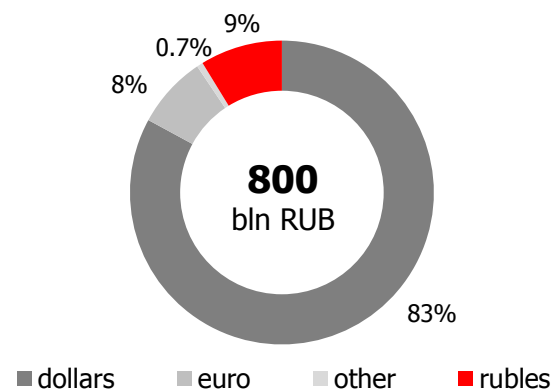
### Cash and total debt, bln RUB



### Long-term debt maturity profile, bln RUB



### Currency structure of long-term debt\*



### LUKOIL credit ratings

S&P	BBB-
Fitch	BBB-
Moody's	Ba1

\*Including current portion of long-term debt



# Summary Results



## Operating Results

	1H16	1H15	%
Hydrocarbon production, mln boe	411	430	(4.3)
of which crude oil and NGL, mln bbl	350	370	(5.5)
of which West Qurna-2, mln bbl	24	30	(20.4)
Hydrocarbon production ex. West Qurna-2, mln boe	387	399	(3.1)
Refined products produced, mln t	30.3	28.8	5.3

## Financial Results, RUB bln

Revenue	2,517	2,917	(13.7)
EBITDA	382	417	(8.6)
ex. West Qurna-2	353	355	(0.4)
Profit for the period	105	168	(37.2)
Profit for the period, excluding FX effect	165	187	(11.6)
Capital expenditures*	241	305	(20.8)
Free cash flow**	93	80	16.9
Net debt	518	567	(8.6)

\* Including non-cash transactions and prepayments

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



# Consolidated Statement of Profit or Loss

(in mln USD, at the average exchange rate for the period)



2q16	2q15		1H16	1H15
		<b>Revenue</b>		
20,318	28,026	Sales (including excise and export tariffs)	35,798	50,824
		<b>Costs and other deductions</b>		
(1,725)	(2,008)	Operating expenses	(3,228)	(3,685)
(10,278)	(14,756)	Cost of purchased crude oil, gas and products	(17,283)	(25,744)
(1,179)	(1,297)	Transportation expenses	(2,338)	(2,564)
(687)	(760)	Selling, general and administrative expenses	(1,325)	(1,415)
(1,087)	(1,652)	Depreciation, depletion and amortization	(2,218)	(2,884)
(1,802)	(2,680)	Taxes other than income taxes	(2,877)	(4,722)
(1,727)	(2,346)	Excise and export tariffs	(3,254)	(5,165)
(44)	(258)	Exploration expenses	(65)	(258)
1,790	2,270	<b>Profit from operating activities</b>	3,209	4,388
53	77	Finance income	104	149
(168)	(209)	Finance costs	(305)	(392)
52	45	Equity share in income of affiliates	82	113
(439)	(553)	Foreign exchange loss	(1,057)	(409)
(64)	(53)	Other expenses	(107)	(149)
1,224	1,576	<b>Profit before income taxes</b>	1,926	3,700
(261)	(368)	Current income taxes	(393)	(738)
(12)	11	Deferred income taxes	(29)	(24)
(272)	(357)	<b>Total income tax expense</b>	(423)	(761)
951	1,219	<b>Profit for the period</b>	1,503	2,939
(2)	(10)	Profit for the period attributable to non-controlling interests	(4)	(16)
949	1,210	<b>Profit for the period attributable to PJSC LUKOIL shareholders</b>	1,499	2,923