



**LUKOIL**

**ALWAYS MOVING FORWARD**

# 2Q 2014 Financial Results (US GAAP)



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Moscow, August 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.
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## 2Q 2014 Financial Highlights



Y-o-Y

- **Net income – 2,389 million** **+14%**
- **Basic earnings per share – \$3.16** **+14%**
- **EBITDA – \$5,437 million** **+25%**
- **Hydrocarbon production – 2.313 million boe per day** **+5.5%**

**Free cash flow was \$168 million despite significant capex growth**



## 2Q 2014 Main Events



### **Liquid hydrocarbon production growth +7.2%**

Including West Qurna-2 project



### **Start of cost compensation in Iraq**

The first tanker with LUKOIL's compensation oil departed from Iraq in August



### **Construction of sea platforms in the Caspian**

The first sea platform was constructed for Filanovsky field

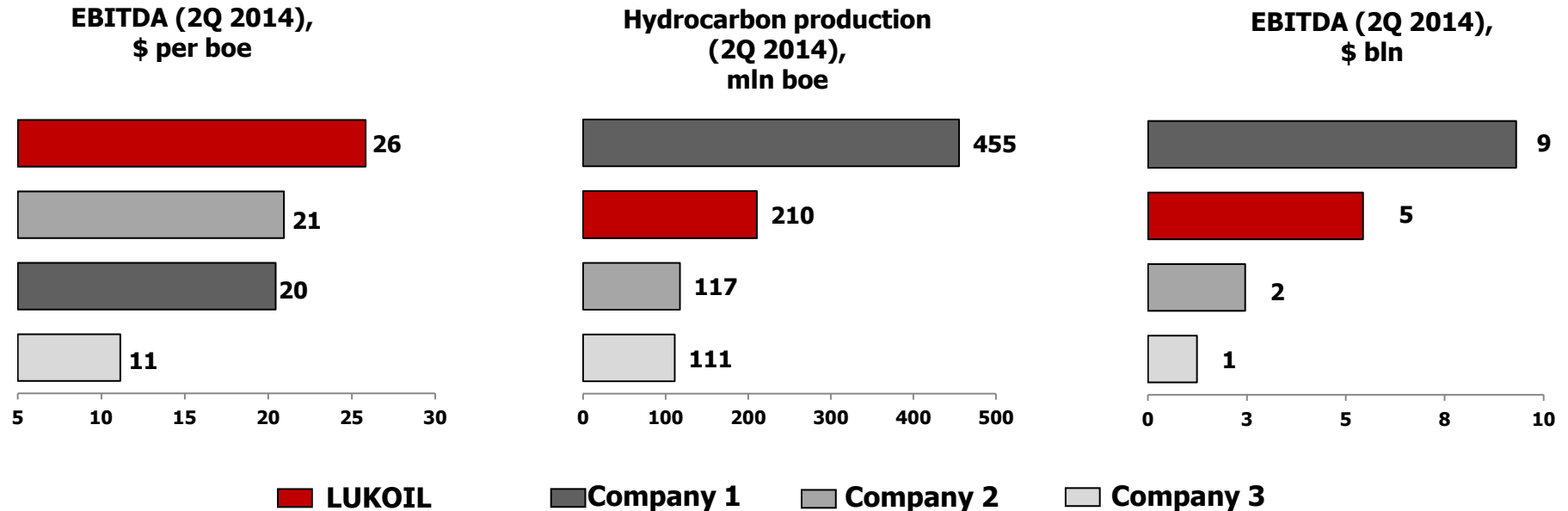


### **Start of diamonds production**

LUKOIL started development of the world largest new kimberlite pipe at Grib deposit. LUKOIL share in the world diamonds production may reach 4%.



# LUKOIL Presents High Financial Efficiency

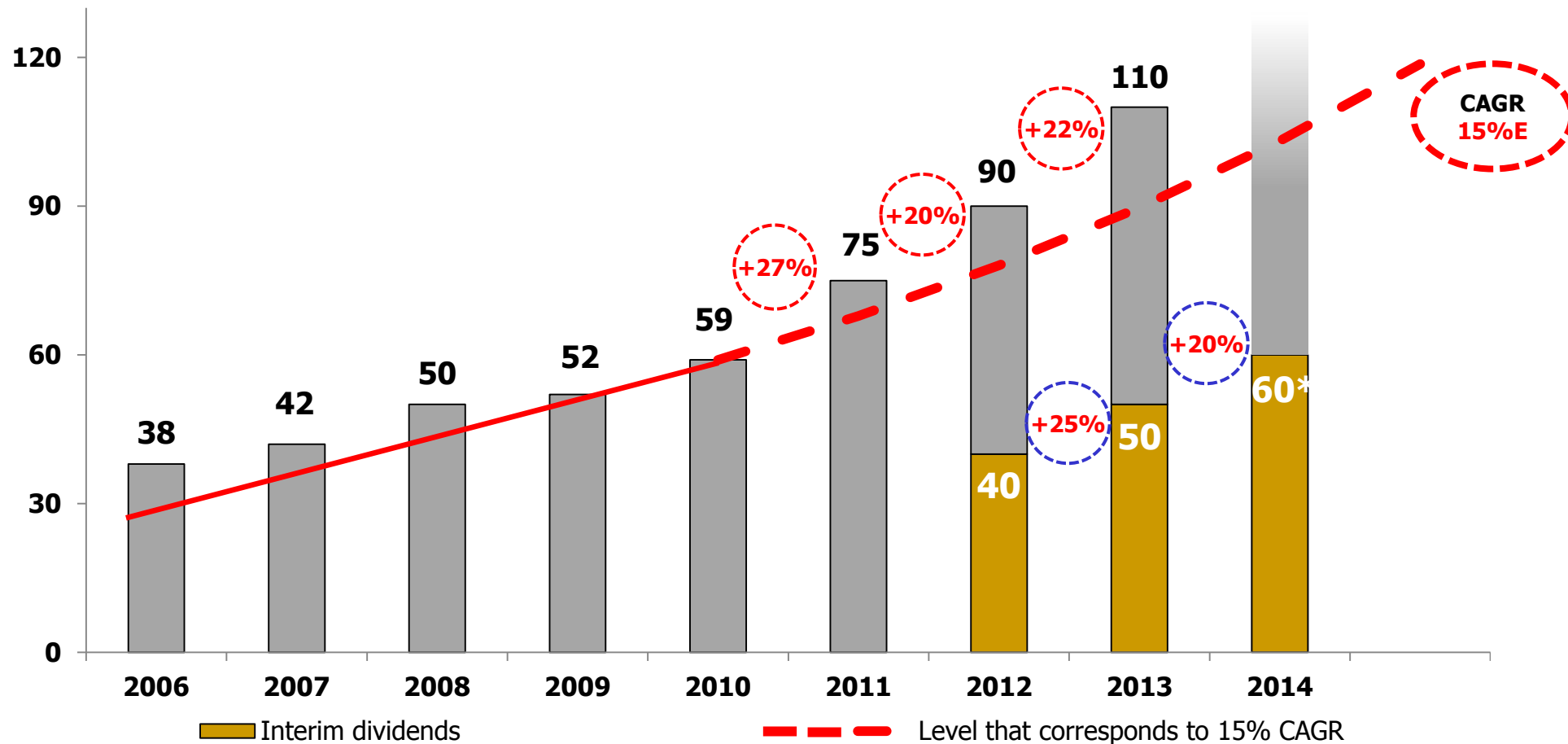


**LUKOIL maintains financial efficiency leadership in Russian oil and gas industry**

# Increasing Dividend Growth Rate



## Dividend per share, rub.

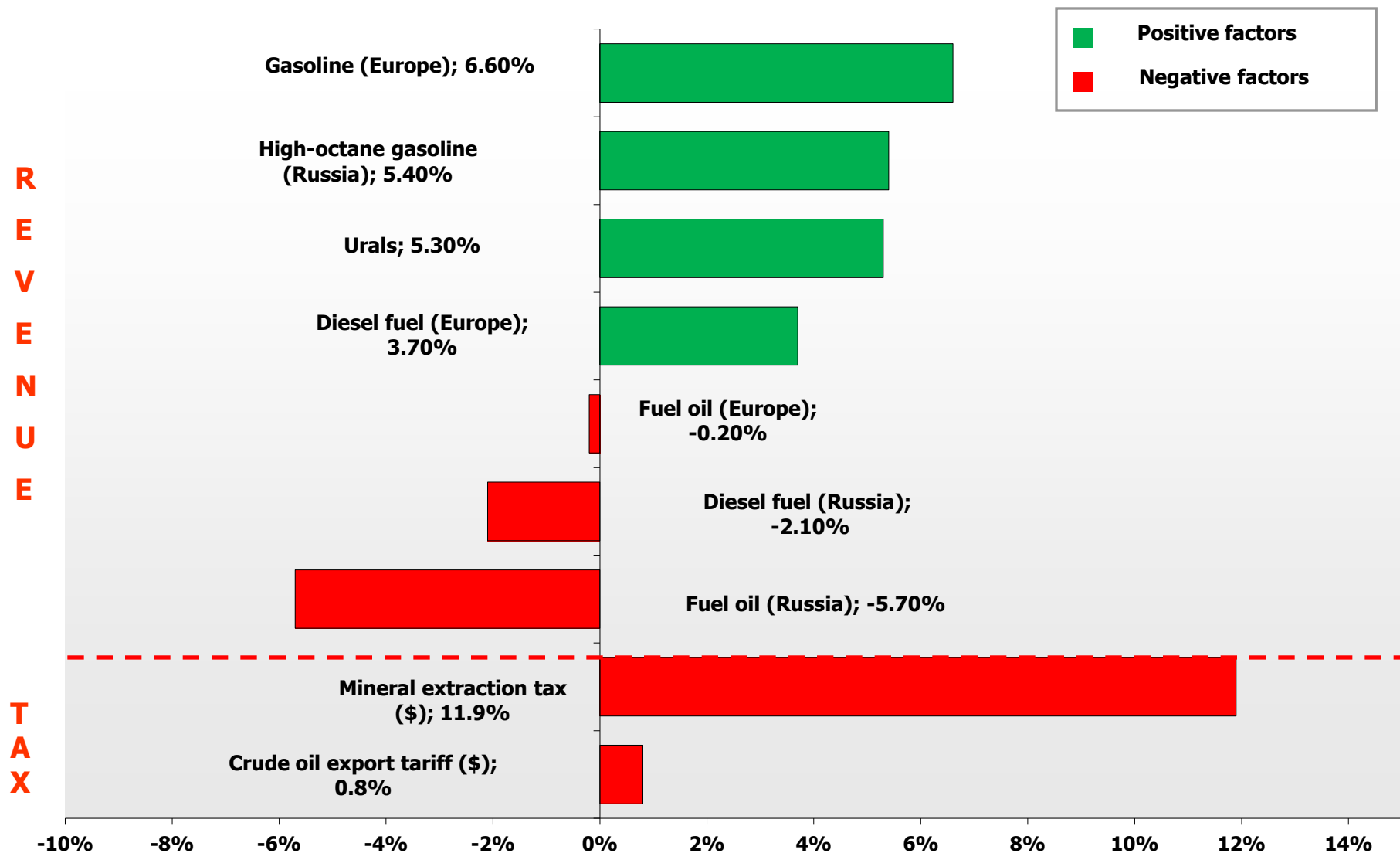


**LUKOIL finished payment of dividends for the second half of 2013 in the amount of RUB 60 per share**

# Macroeconomic and Tax Environment

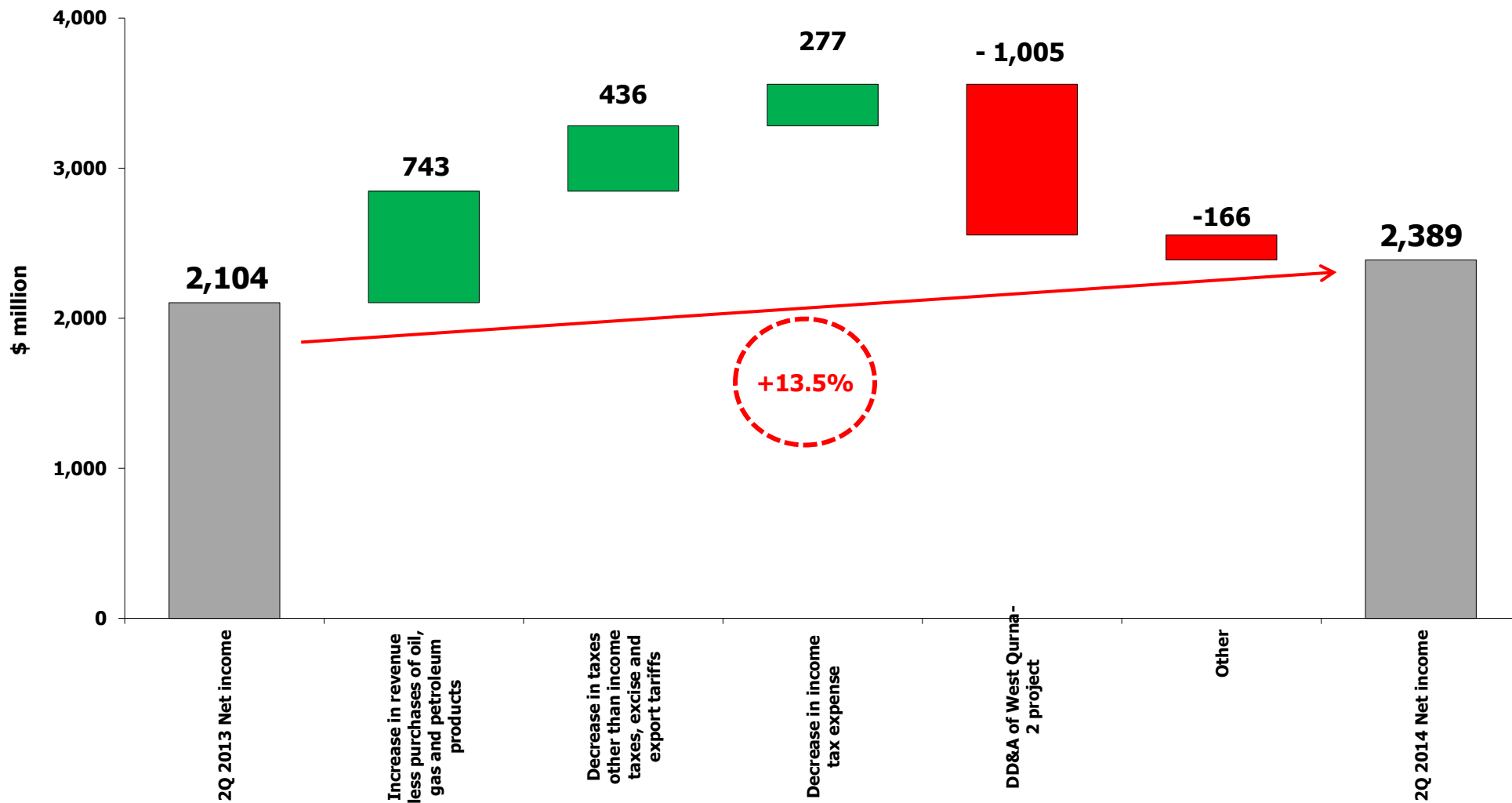


2Q 2014 to 2Q 2013





# 2Q 2014 Net Income Reconciliation

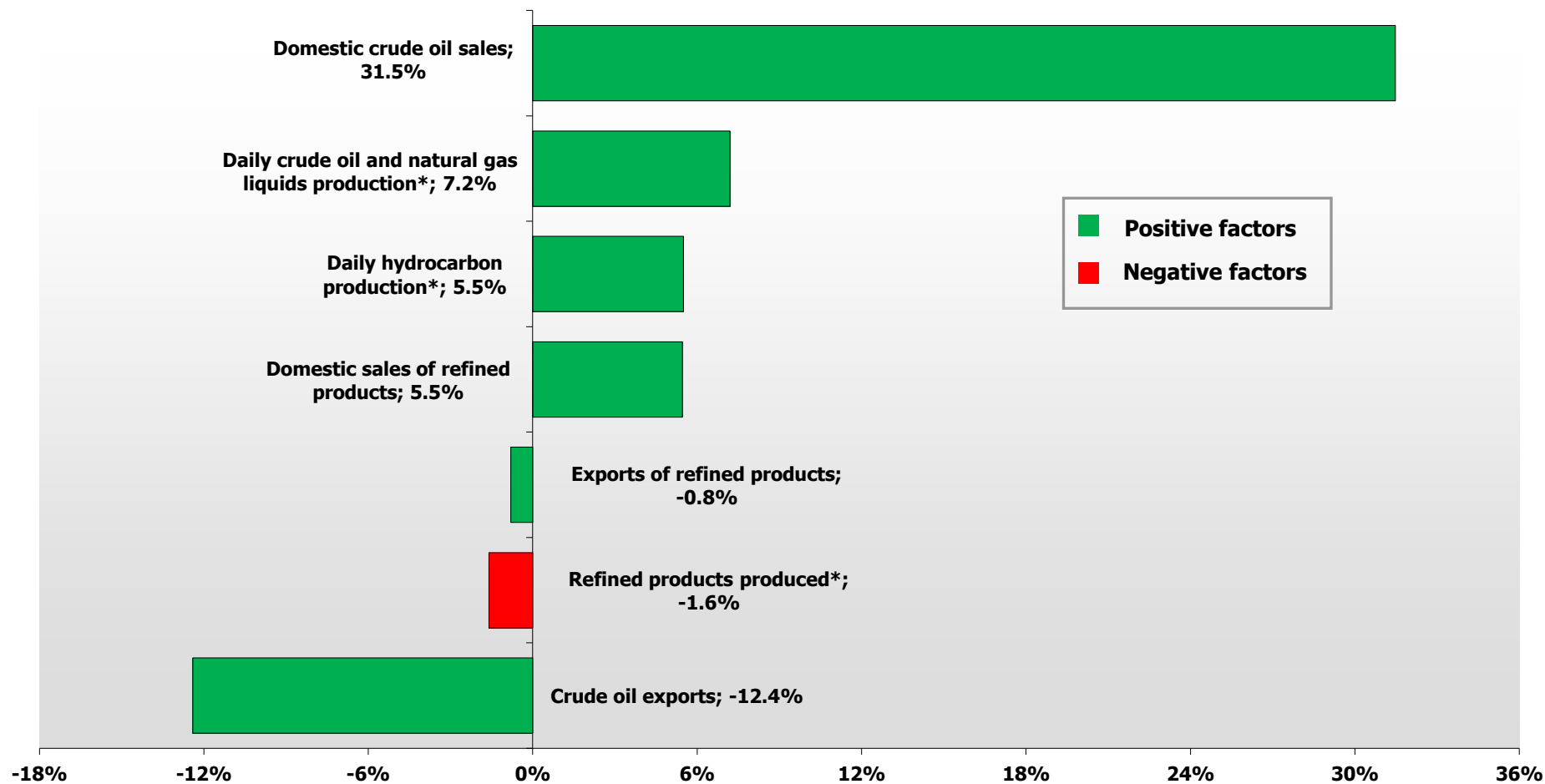




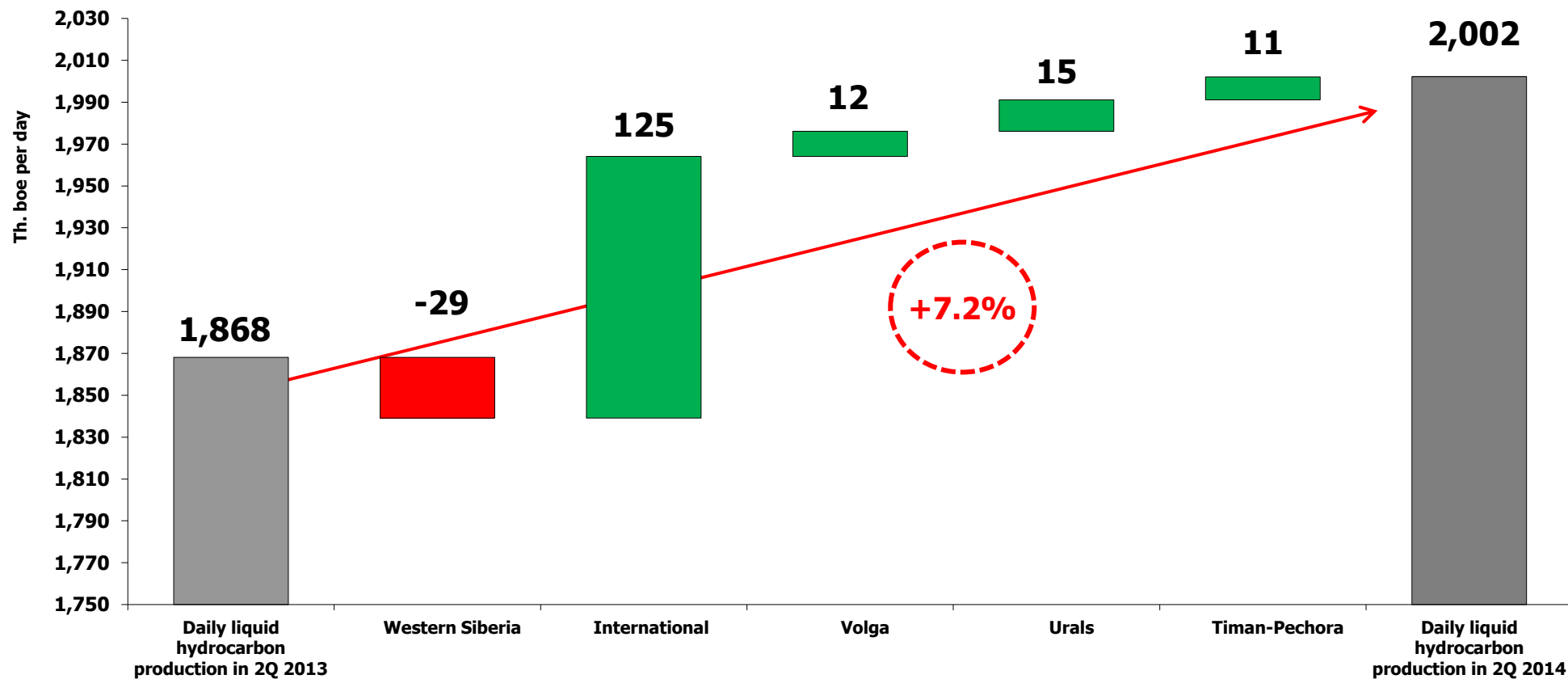
# Main Operating Results



## 2Q 2014 to 2Q 2013



# Daily Liquid Hydrocarbon Production





## Financial Results



2Q 2014	1Q 2014	Δ, %	\$ million	6M 2014	6M 2013	Δ, %
<b>38,205</b>	<b>35,681</b>	<b>7</b>	<b>Sales</b>	<b>73,886</b>	<b>68,823</b>	<b>7</b>
2,558	2,309	11	OPEX	4,867	4,966	-2
8,747	8,933	-2	Taxes other than income tax, excise and export tariffs	17,680	18,067	-2
2,909	2,655	10	Income from operating activities	5,564	6,234	-11
2,871	2,404	19	Income before income tax	5,275	6,217	-15
<b>2,389</b>	<b>1,733</b>	<b>38</b>	<b>Net income</b>	<b>4,122</b>	<b>4,685</b>	<b>-12</b>
3.16	2.30	37	Basic EPS, \$	5.46	6.21	-12
<b>5,437</b>	<b>3,995</b>	<b>36</b>	<b>EBITDA</b>	<b>9,432</b>	<b>9,134</b>	<b>3</b>



# Operating Expenses



2Q 2014	1Q 2014	Δ, %	\$ million	6M 2014	6M 2013	Δ, %
1,259	1,011	25	Hydrocarbon extraction	2,270	2,087	9
161	0	-	<i>including West Qurna-2 project</i>	161	0	-
518	480	8	Own refining	998	1,063	-6
52	64	-19	Refining at third parties and affiliated refineries*	116	251	-54
270	273	-1	Crude oil transportation to refineries	543	673	-19
171	190	-10	Power generation and distribution	361	364	-1
45	66	-32	Petrochemicals	111	152	-27
243	225	8	Other	468	376	24
<b>2,558</b>	<b>2,309</b>	<b>11</b>	<b>Total operating expenses</b>	<b>4,867</b>	<b>4,966</b>	<b>-2</b>
18,871	17,243	9	Cost of purchased crude oil, gas and products	36,114	31,565	14

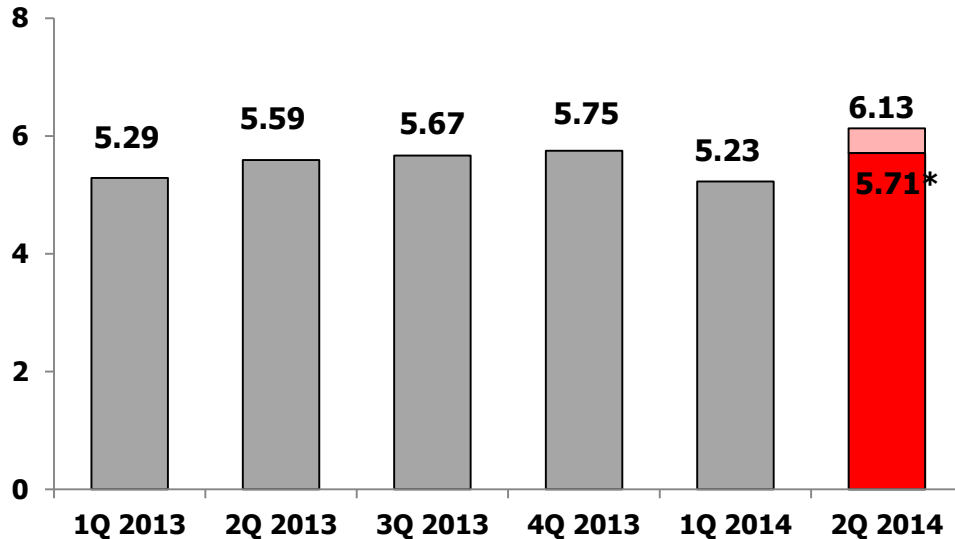
\* Including cost of processing operations at ISAB



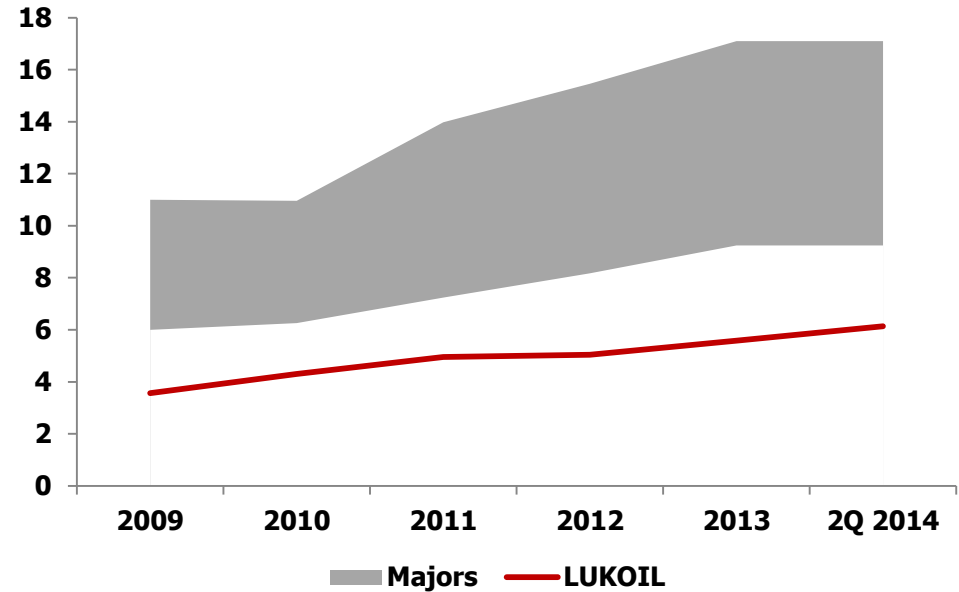
# High Efficiency In Cost Management



Lifting costs per boe, \$



Lifting costs per boe, \$



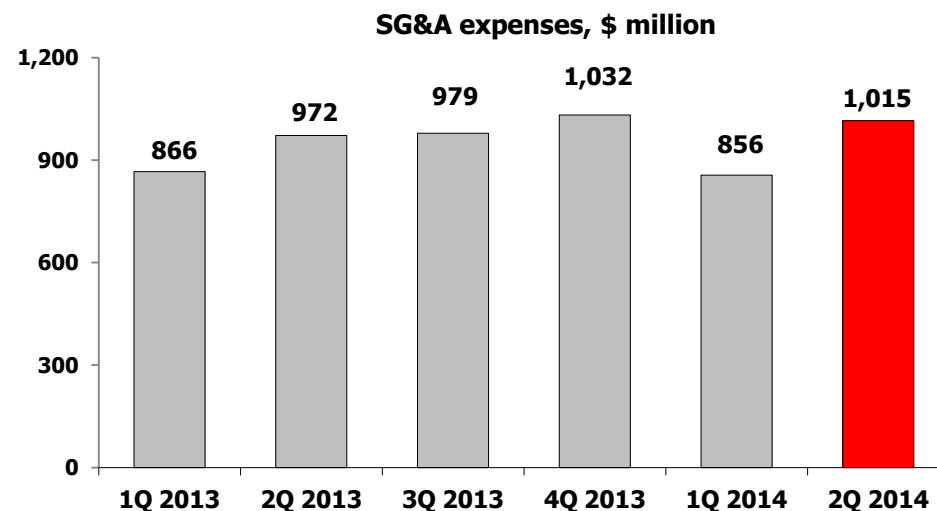
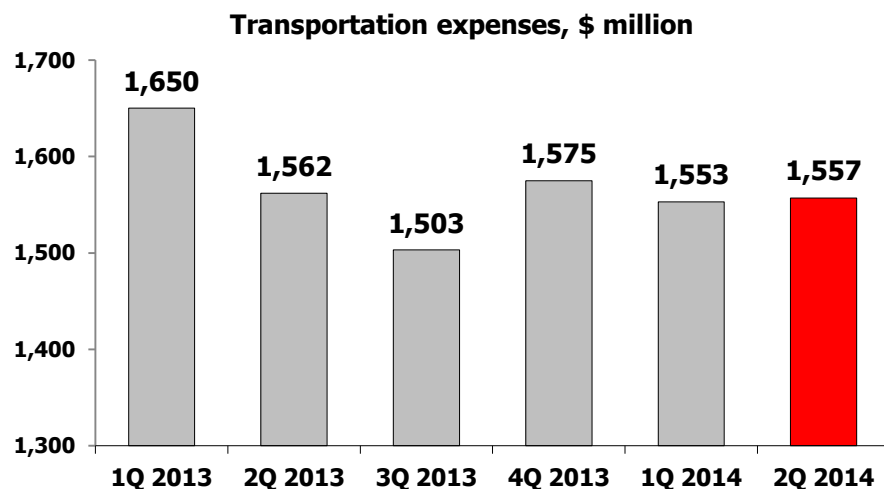
**An increase in lifting cost per boe was mainly due to the start of West Qurna-2 project cost accounting. The project lifting cost constituted 13% of total lifting cost in 2Q 2014.**

Source: Companies' financial statements.

O&G majors include: ExxonMobil, Royal Dutch Shell, Chevron, BP, ConocoPhillips, Total, Eni.

\*Excluding West Qurna-2 project.

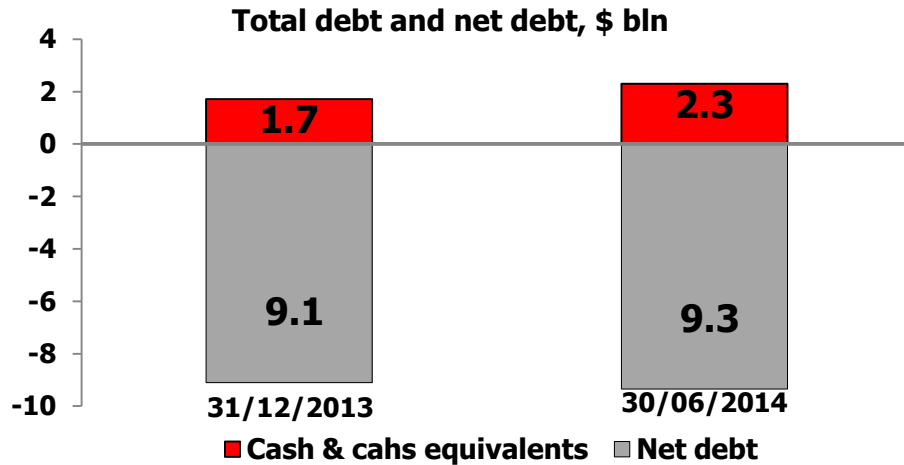
# SG&A and Transportation Expenses



<b>2Q 2014</b>	<b>1Q 2014</b>	<b>Δ, %</b>	<b>\$ million</b>	<b>6M 2014</b>	<b>6M 2013</b>	<b>Δ, %</b>
1,557	1,553	0	Transportation expenses	3,110	3,212	-3
1,015	856	19	Selling, general and administrative expenses	1,871	1,838	2
<b>2,572</b>	<b>2,409</b>	<b>7</b>	<b>Total</b>	<b>4,981</b>	<b>5,050</b>	<b>-1</b>

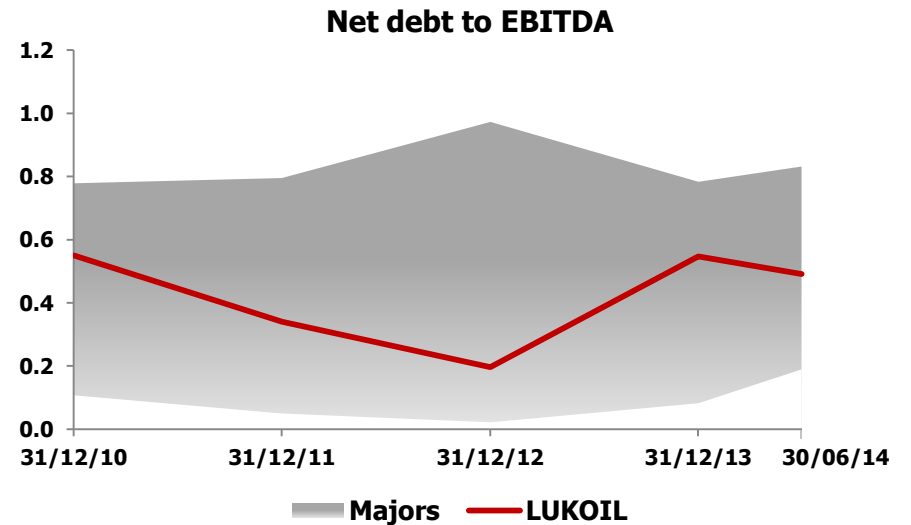
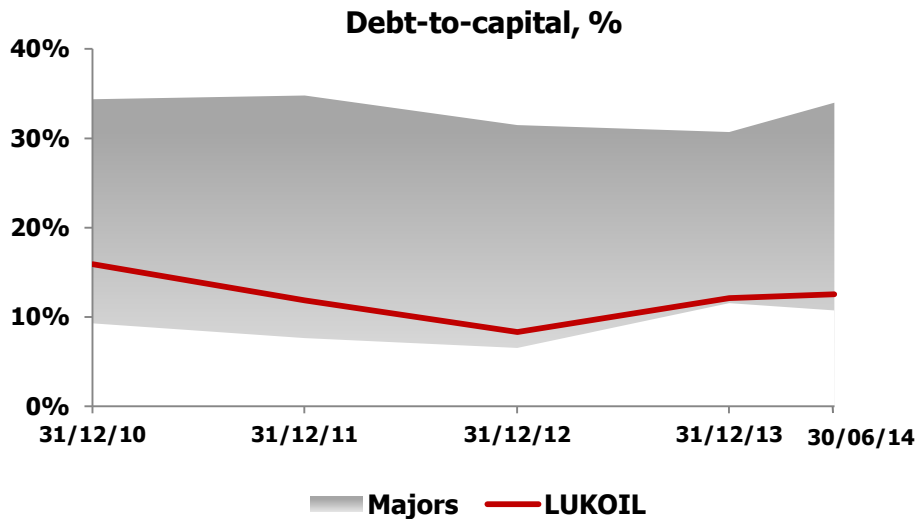


# Robust Financial Position



## LUKOIL net debt remains low

Debt-to-capital amounted to **13%** at the end of 1H 2014



Source: Companies' financial statements. O&G majors include: ExxonMobil, Royal Dutch Shell, Chevron, BP, ConocoPhillips, Total, Eni.



## CAPEX Structure



2Q 2014	1Q 2014	Δ, %	\$ million	6M 2014	6M 2013	Δ, %
<b>3,445</b>	<b>2,725</b>	<b>26</b>	<b>Exploration and production</b>	<b>6,170</b>	<b>5,455</b>	<b>13</b>
2,467	1,973	25	Russia	4,440	3,919	13
978	752	30	International	1,730	1,536	13
<b>892</b>	<b>447</b>	<b>100</b>	<b>Refining and marketing</b>	<b>1,339</b>	<b>1,119</b>	<b>20</b>
681	227	200	Russia	908	794	14
211	220	-4	International	431	325	33
<b>48</b>	<b>32</b>	<b>50</b>	<b>Chemicals</b>	<b>80</b>	<b>35</b>	<b>129</b>
48	32	50	Russia	80	34	135
0	0	-	International	0	1	-100
<b>70</b>	<b>8</b>	<b>775</b>	<b>Power generation</b>	<b>78</b>	<b>115</b>	<b>-32</b>
<b>35</b>	<b>20</b>	<b>75</b>	<b>Other</b>	<b>55</b>	<b>249</b>	<b>-78</b>
<b>4,490</b>	<b>3,232</b>	<b>39</b>	<b>Total (including non-cash)</b>	<b>7,722</b>	<b>6,973</b>	<b>11</b>

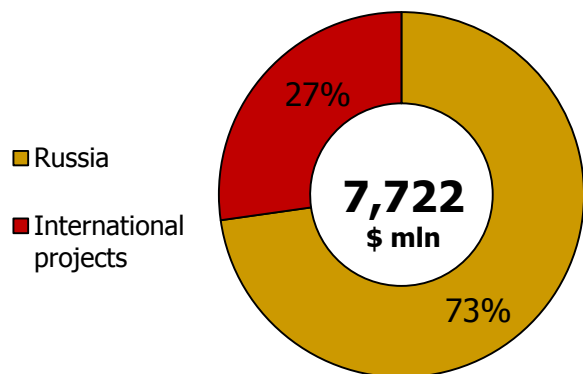




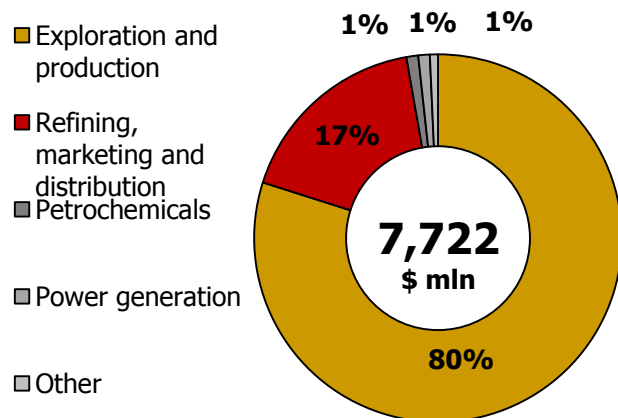
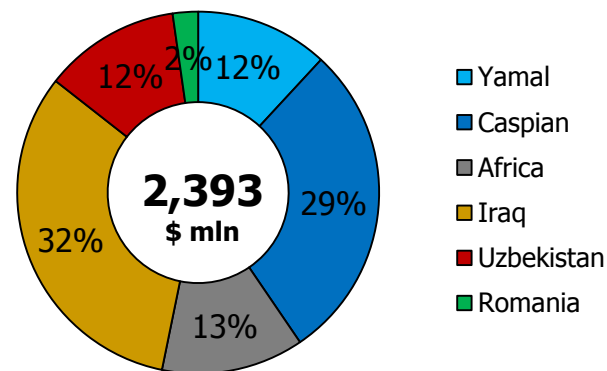
# Capital Expenditures



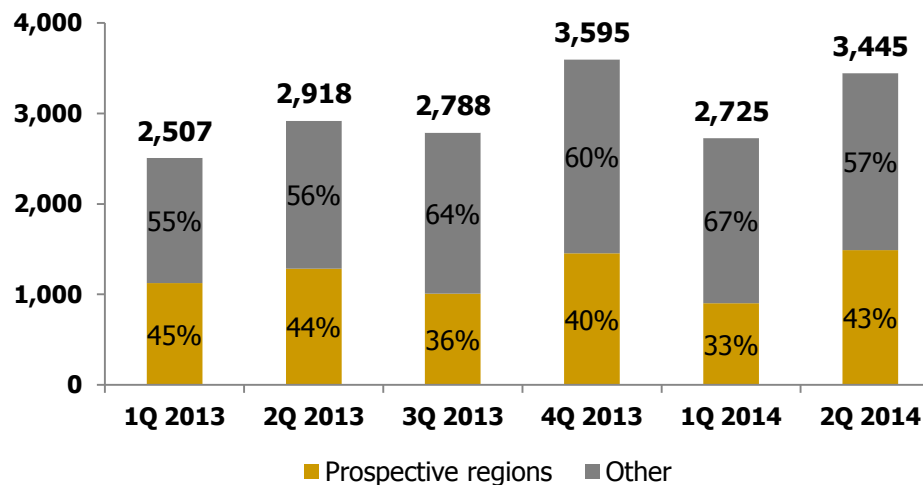
Capital expenditures in 1H 2014



Prospective regions in Exploration and production segment (1H 2014):



Exploration and production capital expenditures, \$ mln



# International Projects: West Qurna-2 (Iraq)



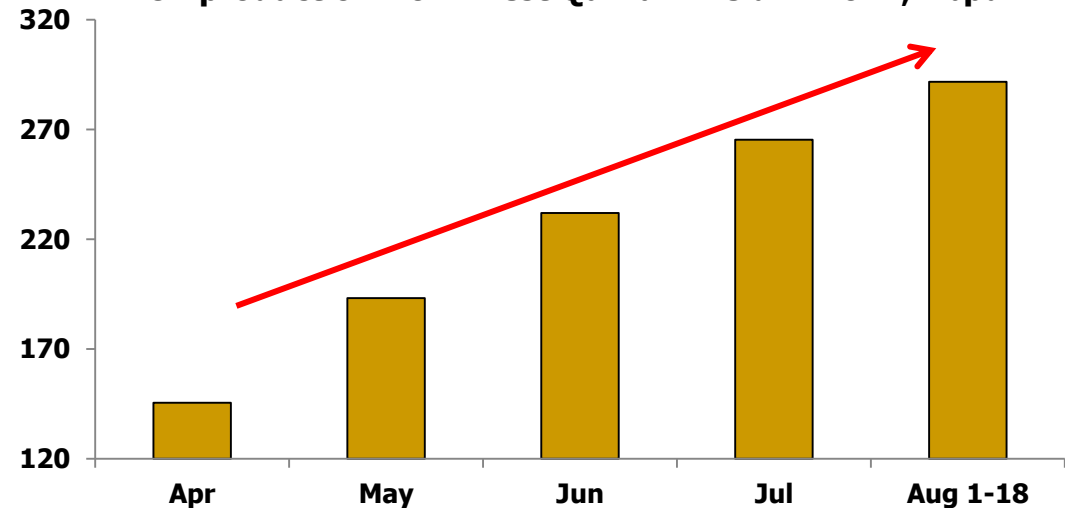
## Vertical integration



- Production reached **330 Kbpd**
- Tanker Sea Triumph departed from Iraq with **1 mln barrels** of the first compensation oil
- The oil to be transported for refining to the Company's ISAB refinery



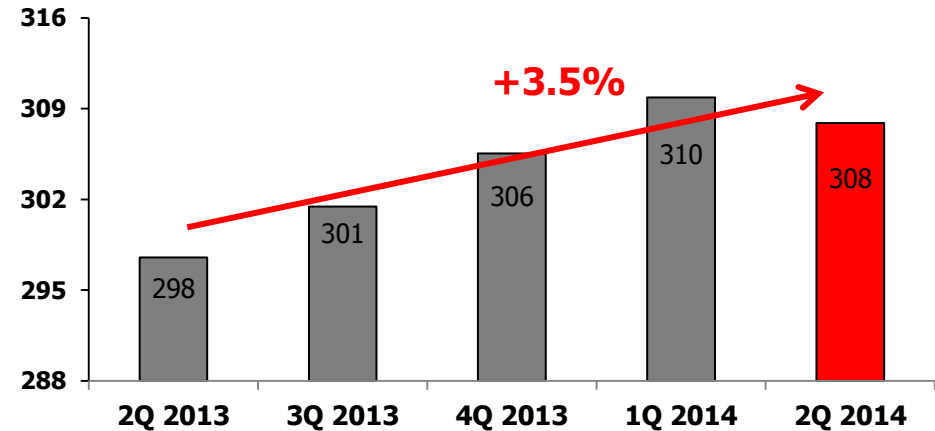
## Oil production from West Qurna-2 field in 2014, Kbpd



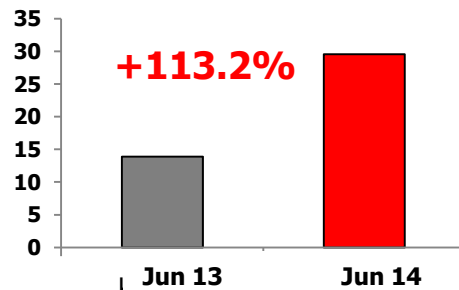


- New oil wells put into operation in 1H 2014 increased for **28%**
- Production drilling increased for **74%**

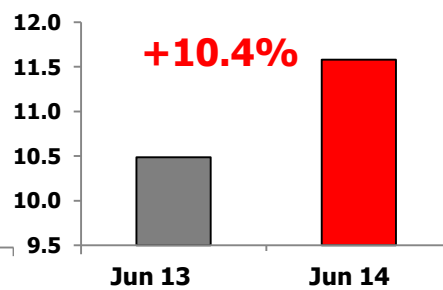
Timan-Pechora oil production, Kbpd



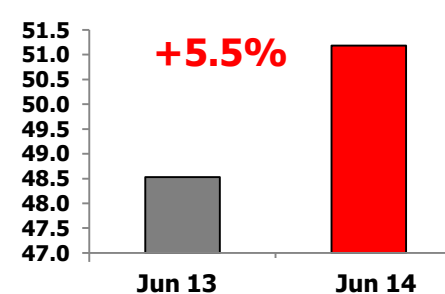
East-Lambeyshorskoye field oil production, Kbpd



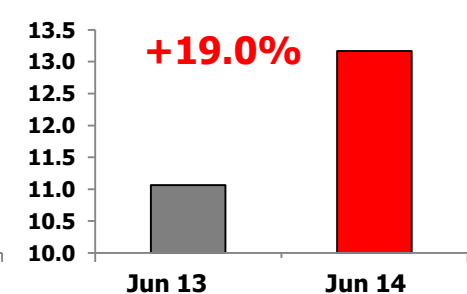
Oshskoye field oil production, Kbpd



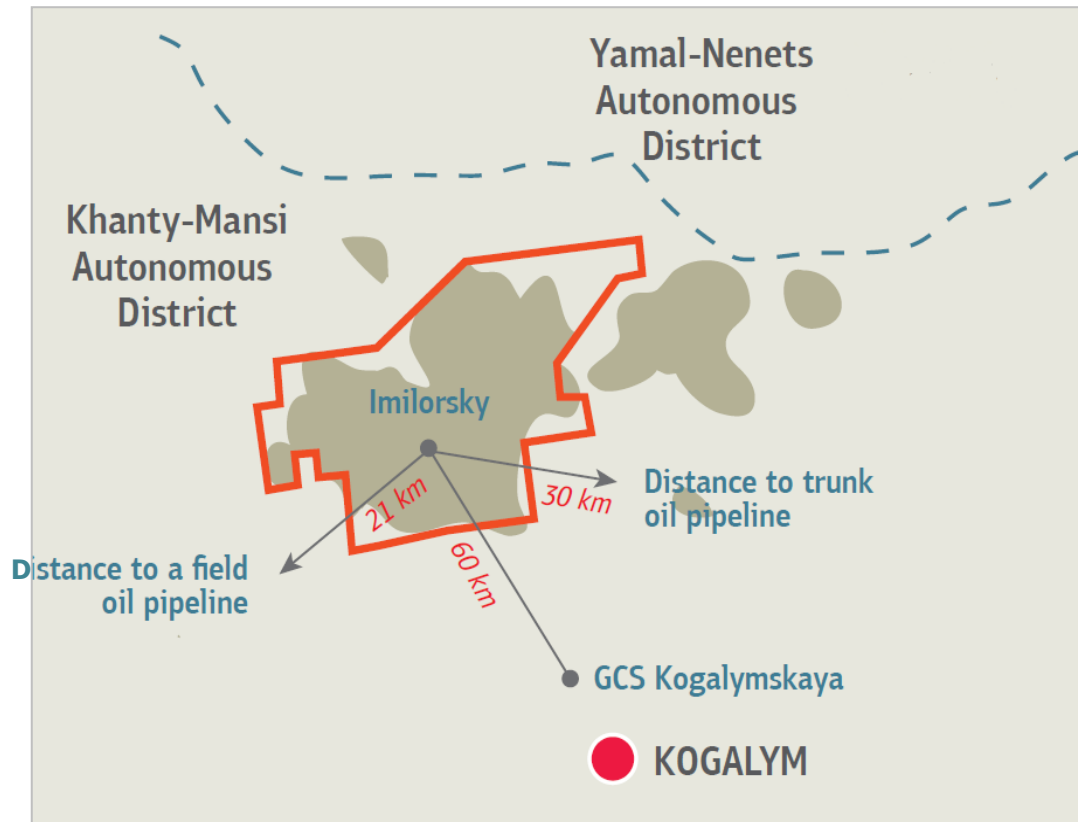
Usinskoye field oil production, Kbpd



Yaregskoye field oil production, Kbpd



# Imilorskoe Field (Western Siberia)



## Production drilling started in February, 2014.

LUKOIL is **8 month** ahead of schedule

### Current activities

- 3D seismic data is collected for an area exceeding 1.5 th. sq. km.
- 23 km of oil pipelines, 42 km of roads have been constructed
- 4 well pads have been equipped
- Compressor station start-up operations are in progress

### Taxation

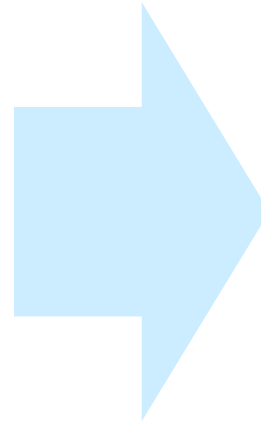
- LUKOIL suggested the Russian Government to implement Excess-Profits Tax pilot program at Imilorskoe field

# Northern Caspian: Filanovsky field



## Works in 2Q 2014:

- Transportation and installation at the sea of the first of the platforms upper structures – CPP\*.
- Construction of upper structures of the remaining three platforms entered the final stage



## Plans for 2014:

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

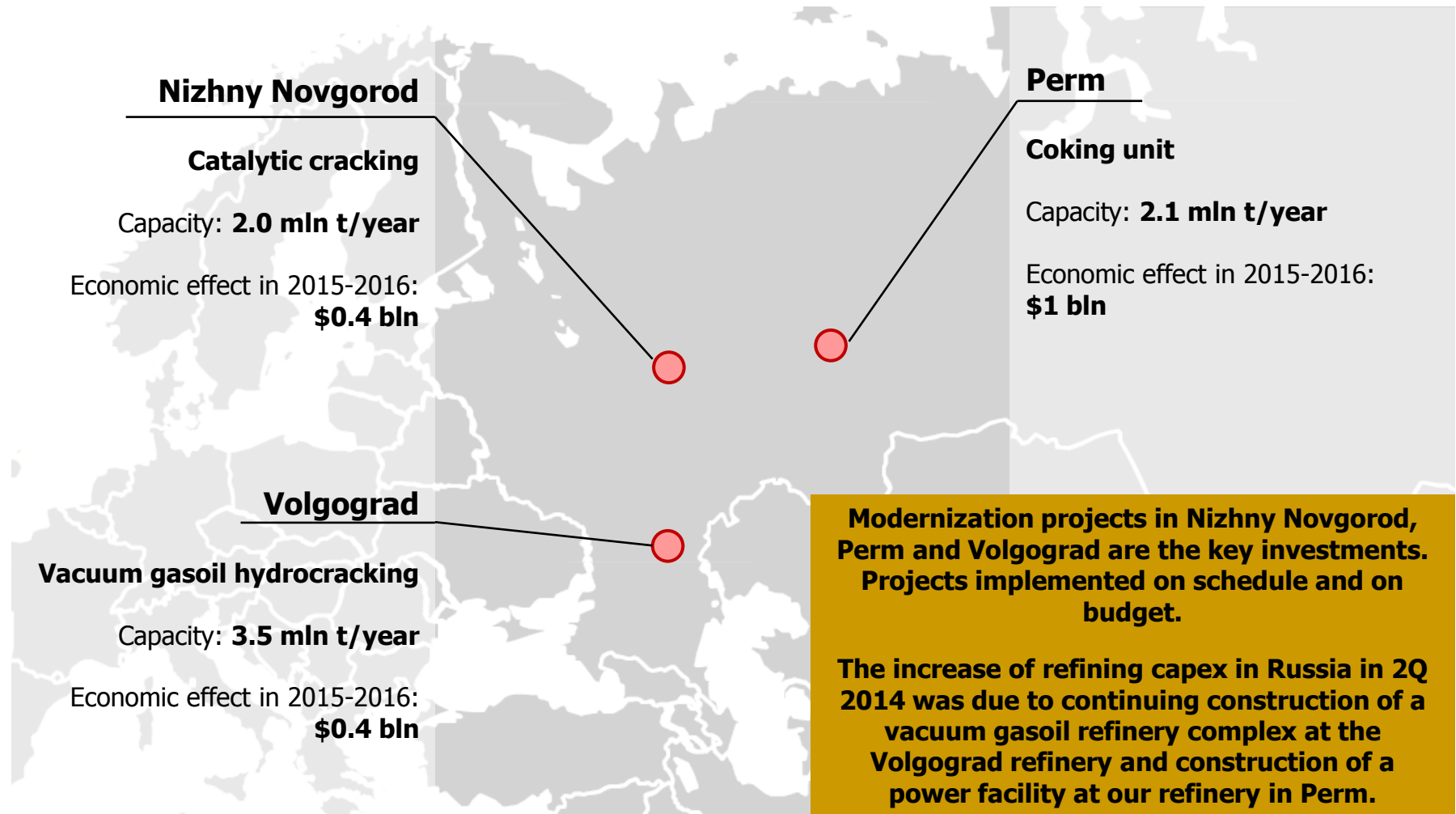


## Plans for 2014-2015:

- 2014 - launch of gas booster station Khauzak 15 MW capacity
- Completion of 25 wells, launch of gas treatment units Kuvachy Alat and Northern Shady, pipelines and other infrastructure construction
- 2015 – start of gas production at Northern Shady

CNPC and Uzbekneftgas signed an agreement to build the fourth string of the Uzbekistan part of the Central Asia – China gas pipeline increasing its capacity to 85 bcm per annum

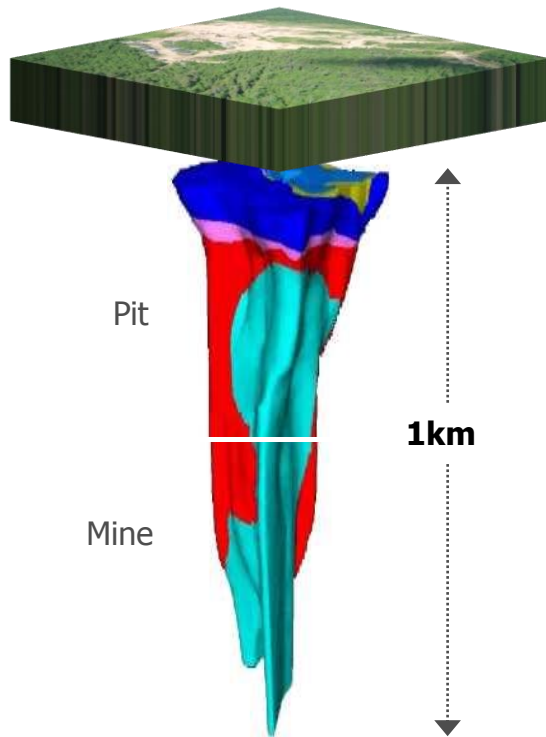
# Refining Facilities Modernization



# LUKOIL Begins Recovery Of Diamonds at The V.Grib Deposit



- The recovery peak is expected to reach **4.5** million carats per year
- Spot market auction to take place online, on September 23<sup>rd</sup>



## Location

130 km to the North-East of Arkhangelsk

## Reserves \*

98.5 mln car.

## The mining and concentration complex

- a washing facility - 4.5 mln tons of ore per year
- 26-MW energy package, a rotation camp for 700 people
- a lab complex, a bank of core samples and other infrastructure





# The V.Grib Deposit is the Biggest New Pipe Under Development



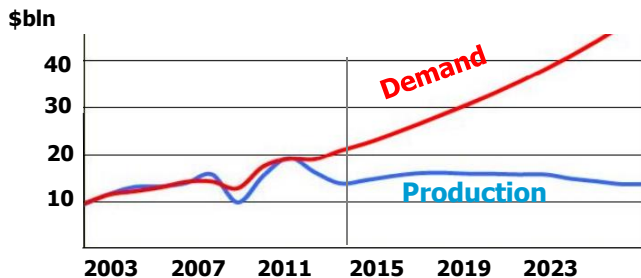
## Major Players in 2013 / mln car.

De Beers (\$7 bln)	47	} ~ 88% Market
Alosa	37	
Rio Tinto	16	
Endiama	8	

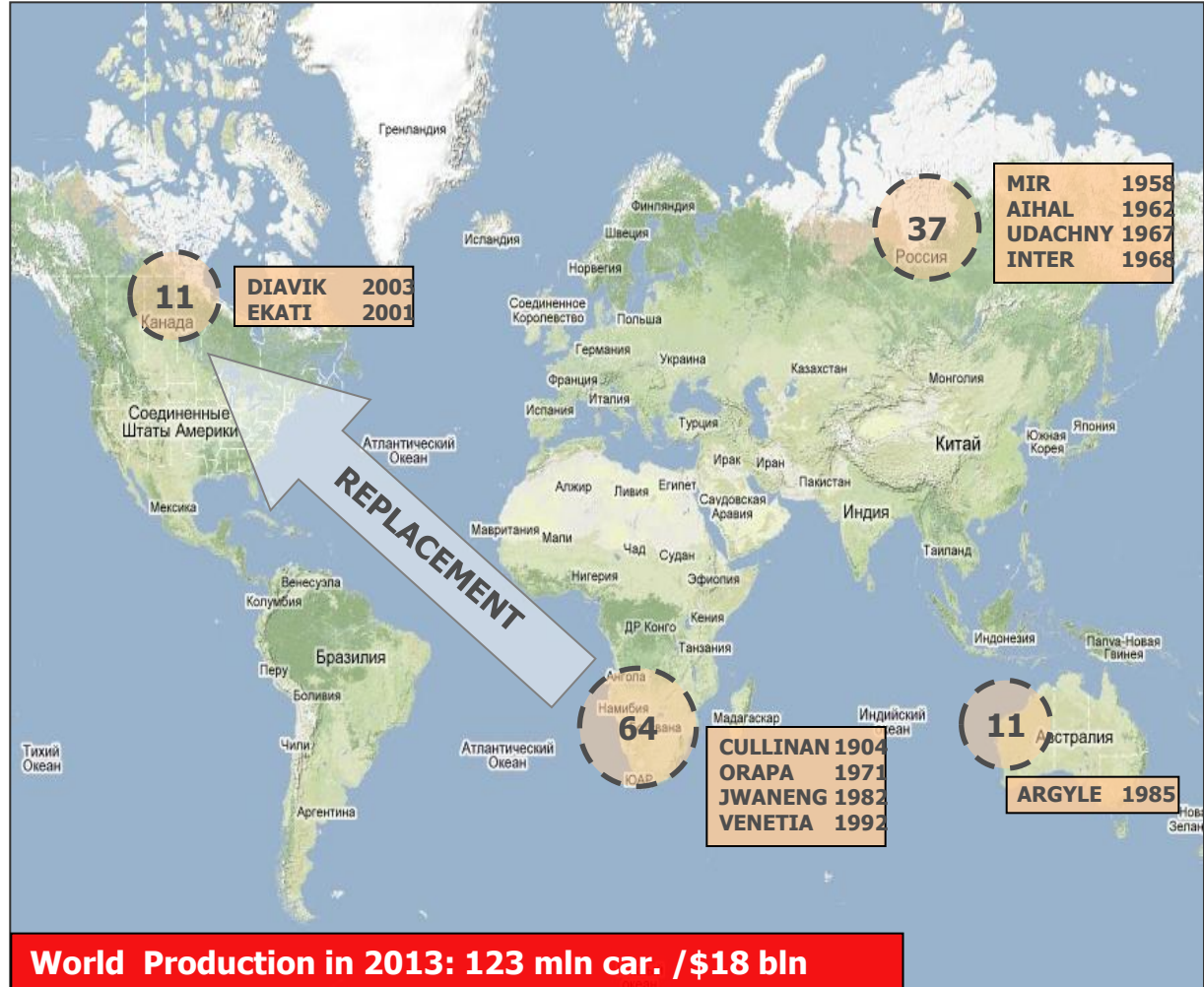
## New pipes under development

Grib (LUKOIL)	4 mln car./ 2014 /RUSSIA
Gaicho kue (De beers)	3 mln car./ 2013 /Canada
Renard (Stornoway)	1 mln car./ 2013 /Canada
Star (Shore gold)	2 mln car./ 2013 /Canada
Ak6 (De beers)	1 mln car./ 2013/Canada

## Diamond market /forecast



## Main Existing Kimberlite Provinces, mln car.



**World Production in 2013: 123 mln car. /\$18 bln**

# Environmental Safety is Our Priority



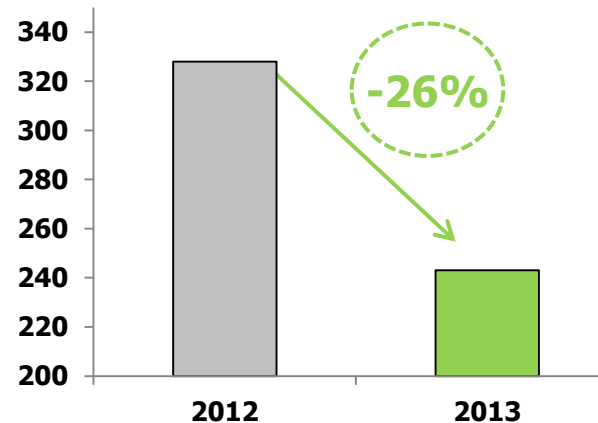
LUKOIL has received a highest international award, “Environmental Tree”, for **cutting the negative impact of its fuel-and-energy facilities on the environment**



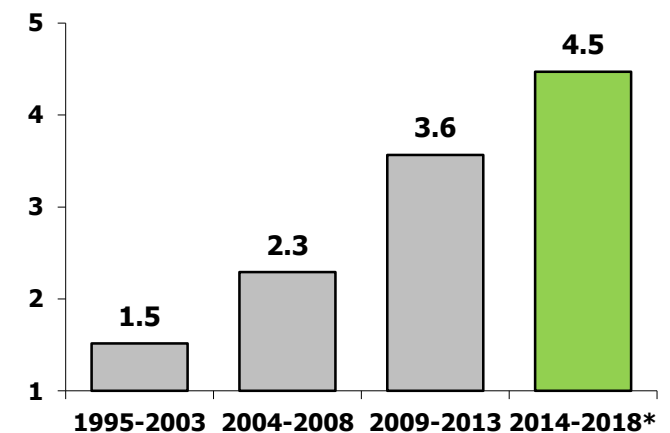
Waste water discharge, million cubic meters



Area of contaminated lands, ha



Environmental spending, \$ bln





## 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**