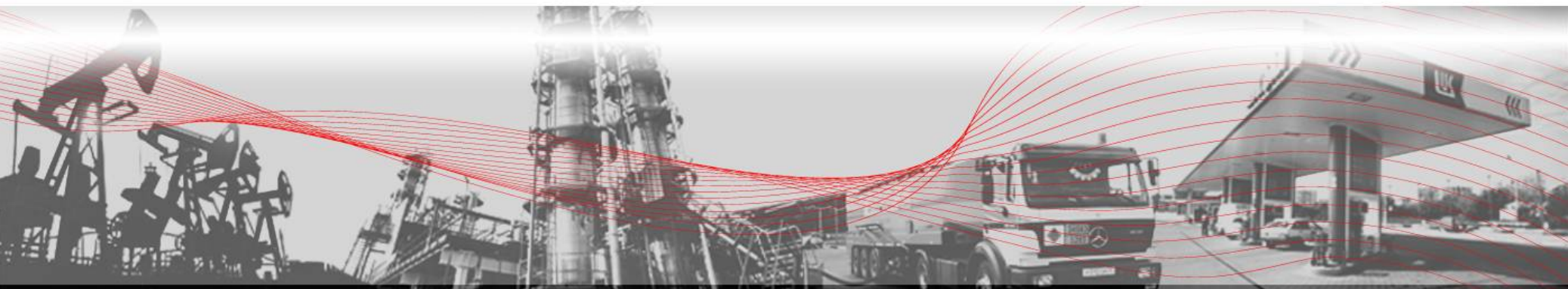




# 2009 Financial Results

(US GAAP)

**Leonid Fedun, Vice-President of LUKOIL**



March 2010

# 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.

# 2009 Financial Highlights



At the turn of its **20th anniversary**, the Company focuses on stable high-quality business development, solid financial performance and higher shareholders' return.

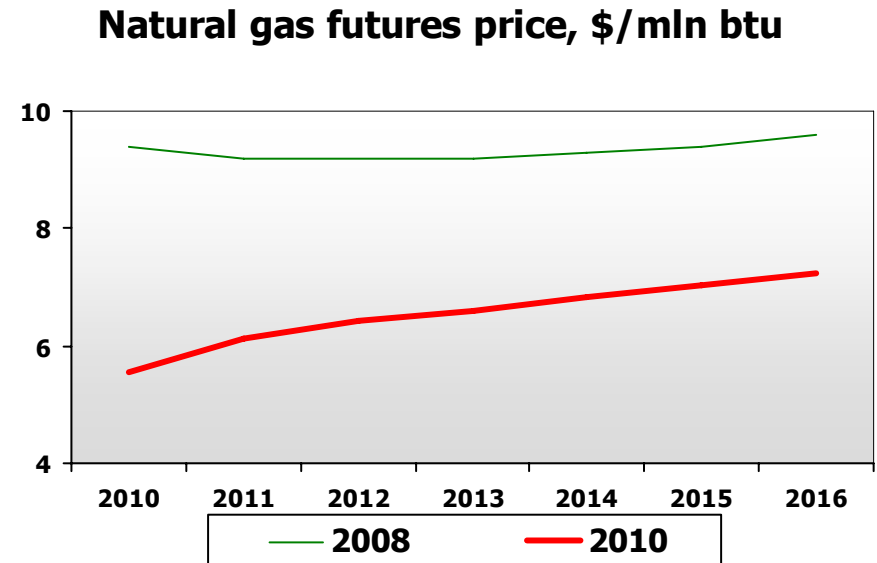
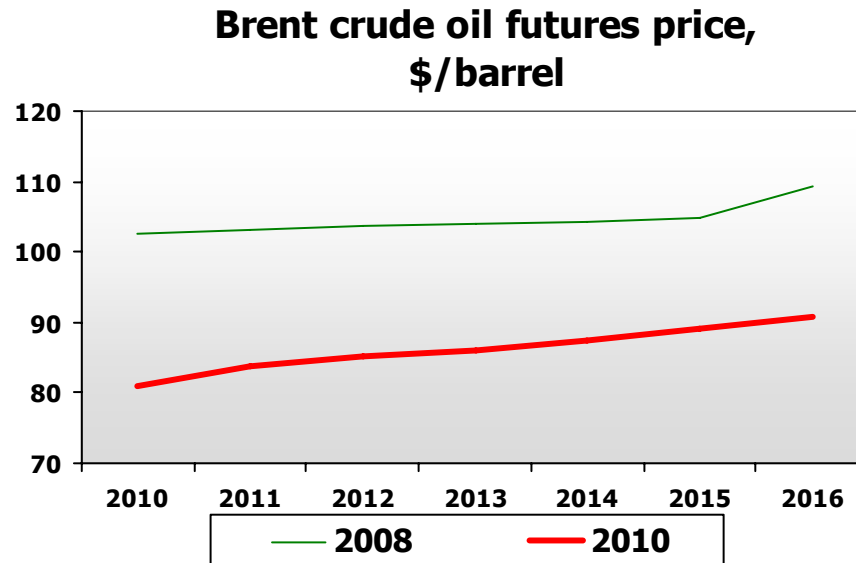
- **Urals price – \$61.2 per barrel (-35.5% to 2008)**
- **EBITDA – \$13,475 mln (-14.7%)**
- **Net income – \$7,011 mln (-23.3%)**
- **Net income before one-off impairment losses – \$7,352 mln (-22.4%)**
- **Net income per boe of production\* – \$9.1 per boe – the best among Russian peers**
- **Free cash flow – \$2,360 mln (\$3,775 mln in 2008), higher than most of the oil majors**

# Technologic Breakthrough Changed World Energy Map

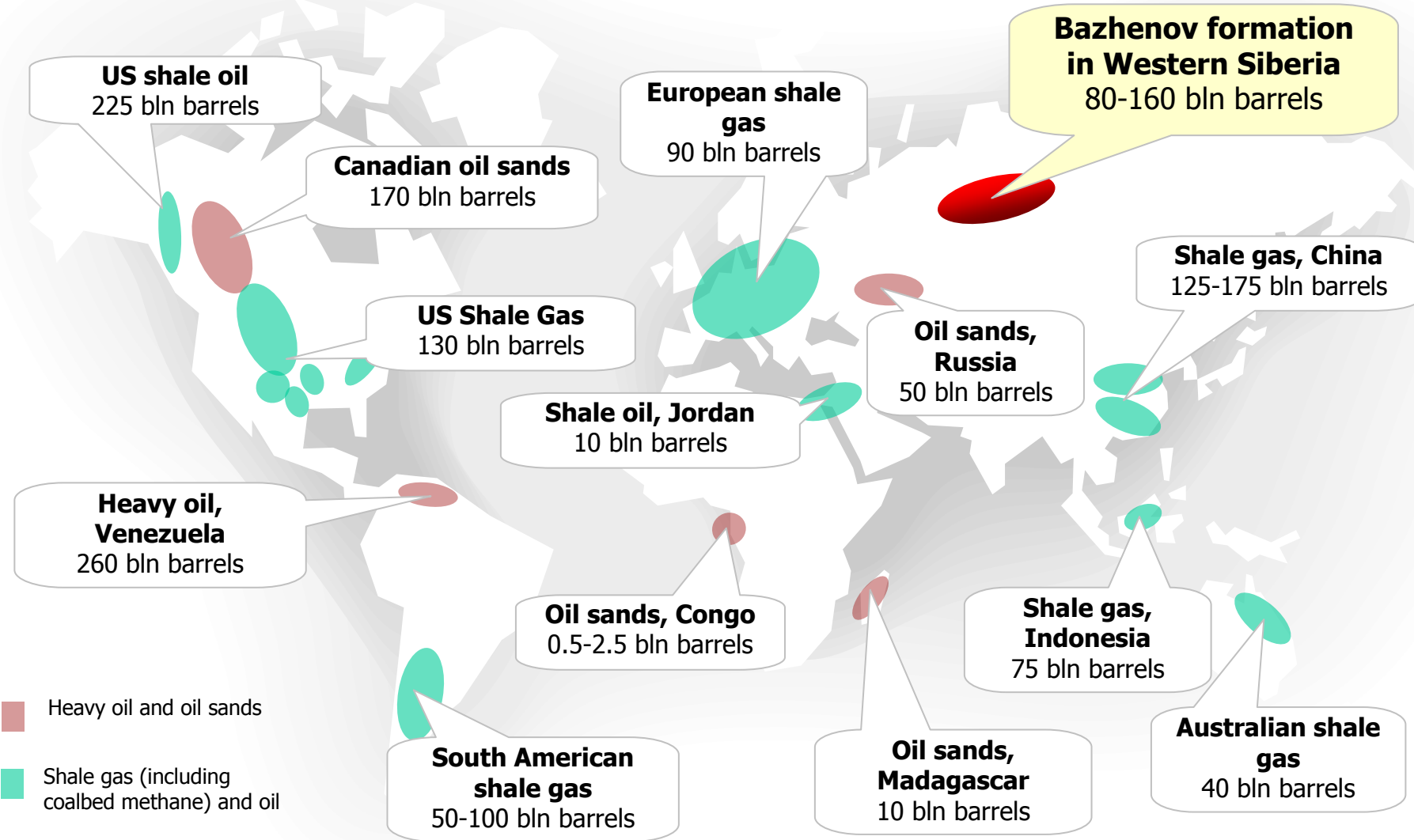


Technologic breakthrough which made **huge unconventional hydrocarbon reserves available** for development changed market's view on beginning of hydrocarbon shortage in the mid-term.

It has considerably affected price expectations in the market.



# New Technologies Enable to Develop Huge Previously Unavailable Resources



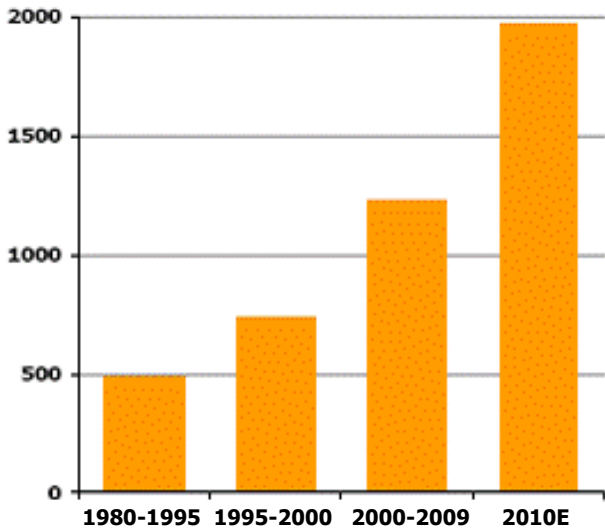
**About 1.5 trln boe of new recoverable reserves in total**

The map provides information on recoverable hydrocarbon reserves. Source: Financial Times.

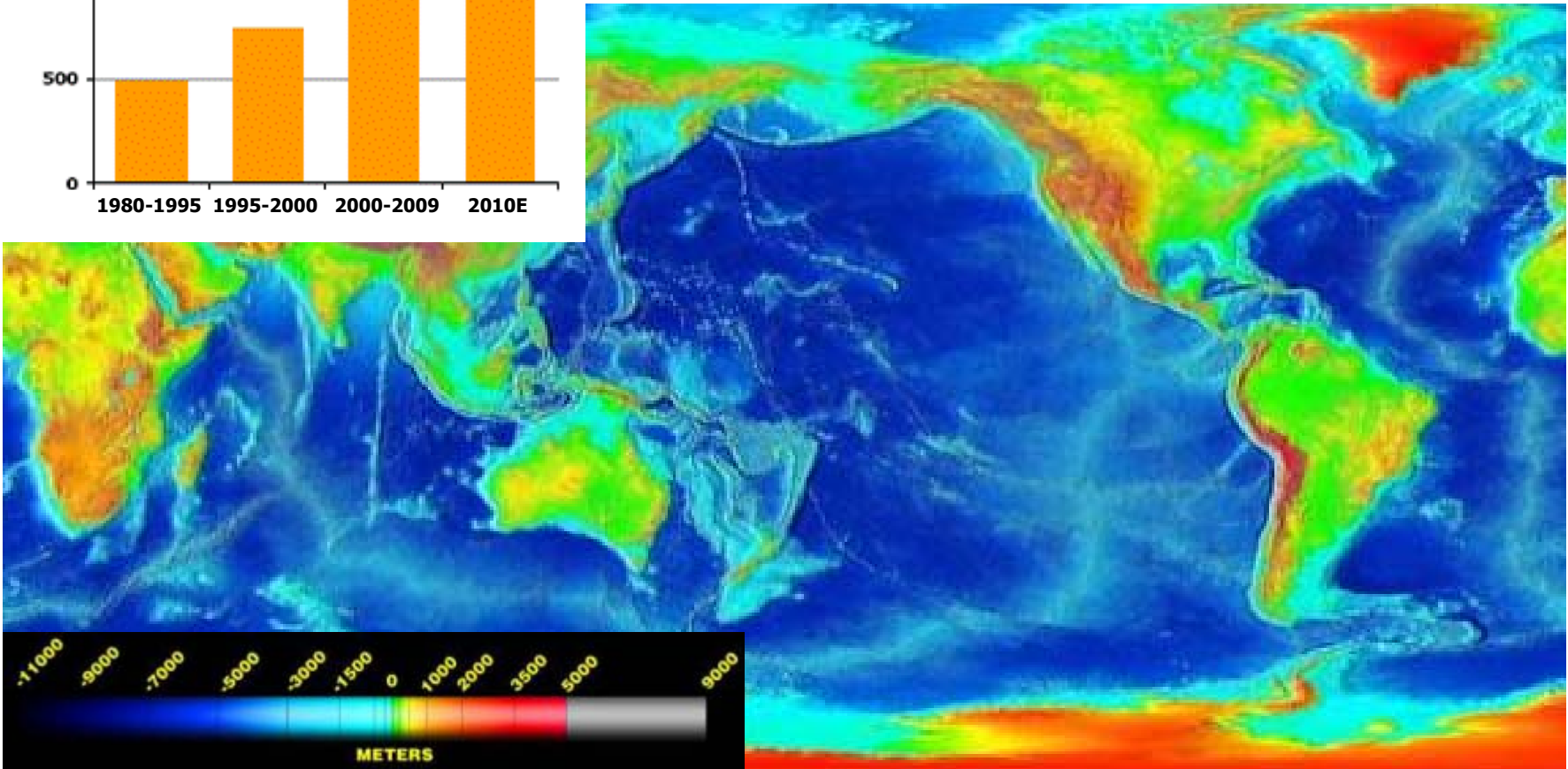
# Modern Technologies Make Most of Ocean Shelf Available for Development



Average depth of offshore oil production, m



- Modern technologies enable commercial oil production at a depth of **up to 4,000 m**
- It exceeds the average depth of the world ocean (3,700 m) and makes **2/3 of its shelf** available for development



# LUKOIL is the Only Russian Company Developing Offshore on its Own



## 1995

- **Start of exploration in the Caspian region**

## 2004

- **Launch of the Kravtsovskoye field on the Baltic shelf** (peak production of almost 0.9 mln tons per year)

## 2005

- **Discovery of the Filanovsky field, the largest discovery in the Russian Federation in the last 20 years.** 3P reserves amount to 1.5 bln boe.

## 2008

- **Launch of the Varandey oil terminal with capacity of 12 mln tons per year, the northmost Arctic terminal in the world**
- **LUKOIL and Gazprom discover a field at the Tsentralnaya structure in the Caspian** (the Company's share in 3P reserves are 0.6 bln boe)

## 2010

- **Launch of the Korchagin field in the Caspian:** peak oil and gas condensate production - 2.5 mln tons per year, gas - 1 bcm per year
- **LUKOIL, VANCO and GNPC make a discovery offshore Ghana**

## 2015

- **Launch of the Filanovsky field in the Caspian**

# Iraq – New Pricing Factor



**As a result of 2009 oil auctions Iraq awarded contracts to develop the world's last easy-to-access oil reserves.**

**In the future, total production in Iraq may exceed 10 mln barrels per day.**

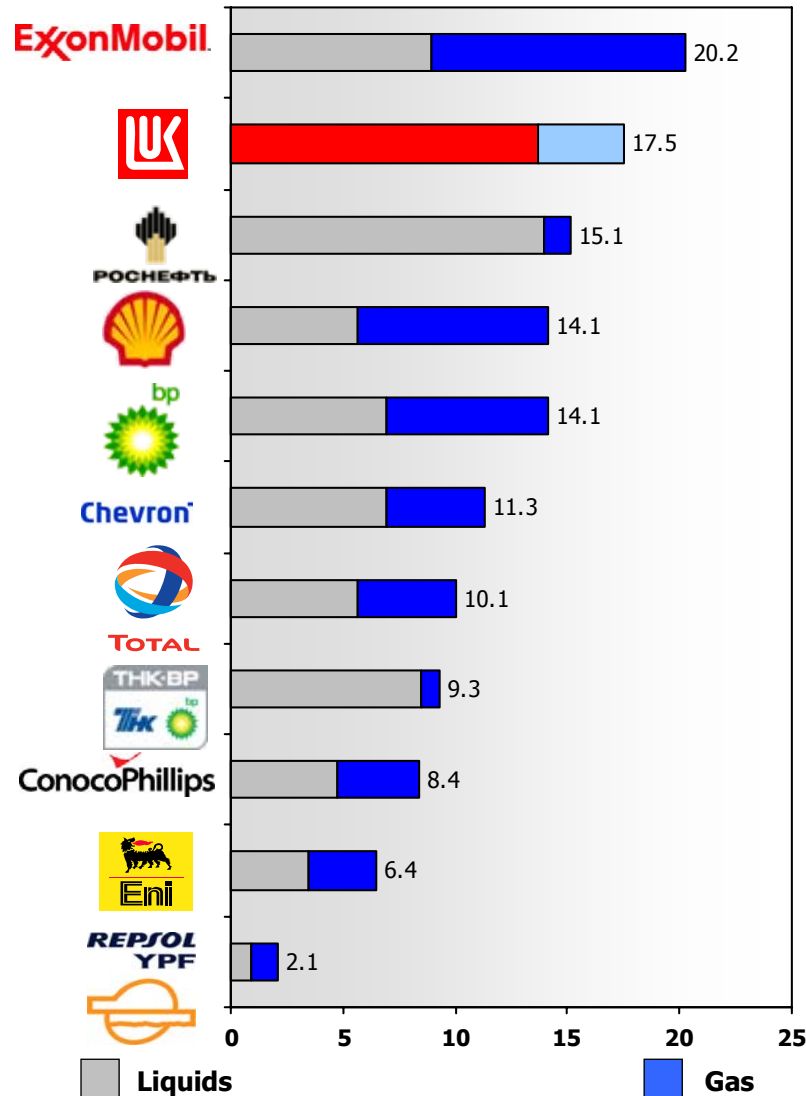
Oil field (reserves forecast)	Winners	Remuneration fee	Production, mln barrels per day	Capex, \$ bln
Rumaila (17 bln barrels)	BP (38%), CNPC (37%)	2 \$/barrel	2.85	15
<b>West Qurna-2 (12.9 bln barrels)</b>	<b>LUKOIL (56.25%), Statoil (18.75%)</b>	<b>1.15 \$/barrel</b>	<b>1.8</b>	
West Qurna-1 (8.6 bln barrels)	ExxonMobil (60%), Shell (15%)	1.9 \$/barrel	2.25	25
Majnoon (12.6 bln barrels)	Shell (45%), Petronas (30%)	1.39 \$/barrel	1.8	
Zubair (4 bln barrels)	Eni, Occidental Petroleum, Kogas (25% each)	2 \$/barrel	1.13	10
Badrah (2 bln barrels)	Gazprom Neft (30%), Kogas (22.5%), Petronas (15%), TPAO (7.5%)	5.5 \$/barrel	0.17	
<b>Total:</b>			<b>10 mln barrels per day</b>	



# LUKOIL Remains One of the Global Leaders in Hydrocarbon Reserves



Proved reserves of hydrocarbons, bln boe

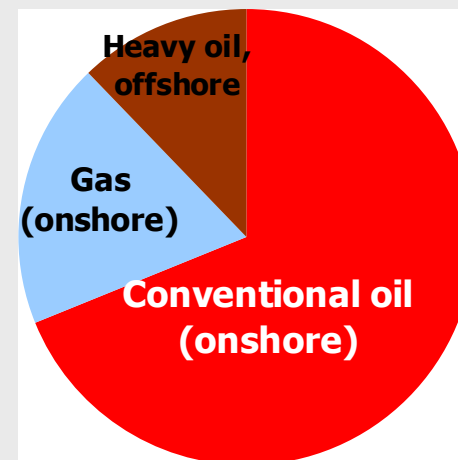


In 2009 the Group's reserves were estimated in accordance with the SEC rules. There has to be an approved development plan as a requirement to book undeveloped reserves as proved. This plan must set the start of field operations within a five-year period. Considering the changes introduced into development plans and their commissioning dates, **the Company transferred 1.8 bln boe from the category of proved reserves into lower reserve categories and into resources.**

**The Company expects that these volumes will be returned into the proved reserves category as their development start date draws nearer.**

**3P hydrocarbon reserves –  
32.4 bln boe**

Proved hydrocarbon reserves structure



Unlike the majority of peer companies **almost 90% of LUKOIL reserves are conventional**, which allows to control development costs and quickly launch new fields.

# Company's Key Projects



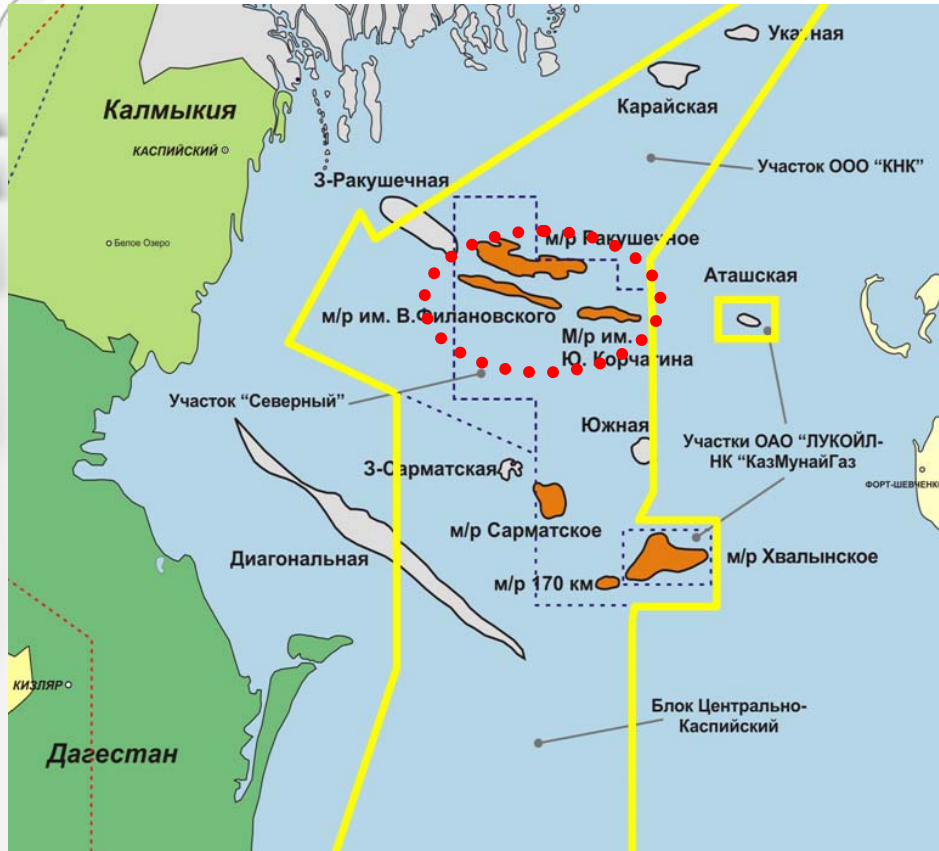
**LUKOIL focuses on:**

- 1. Production stabilization in Western Siberia**
- 2. Dynamic development of growth projects – Caspian region, Uzbekistan**
- 3. Active development of new projects – Iraq, Western Africa**



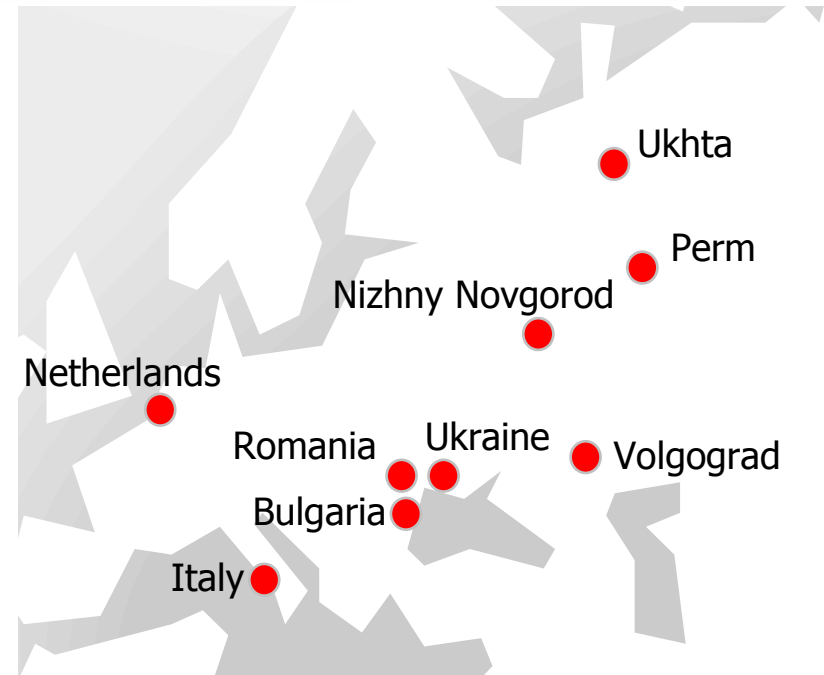
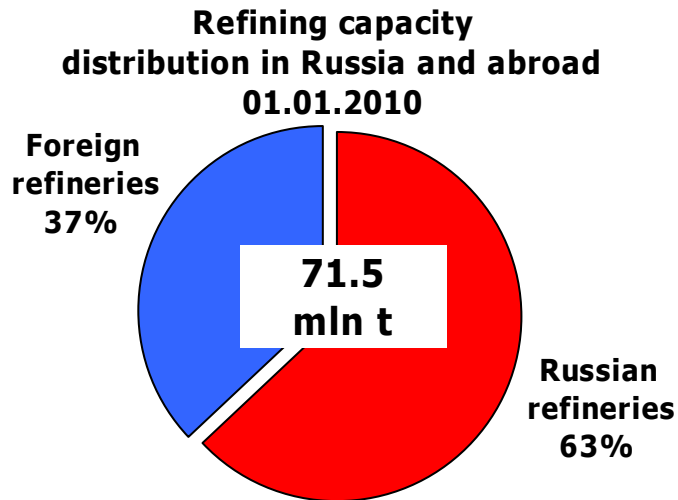
**The average IRR for LUKOIL new upstream projects is 18%**

# Commercial production in Caspian region – 2Q 2010

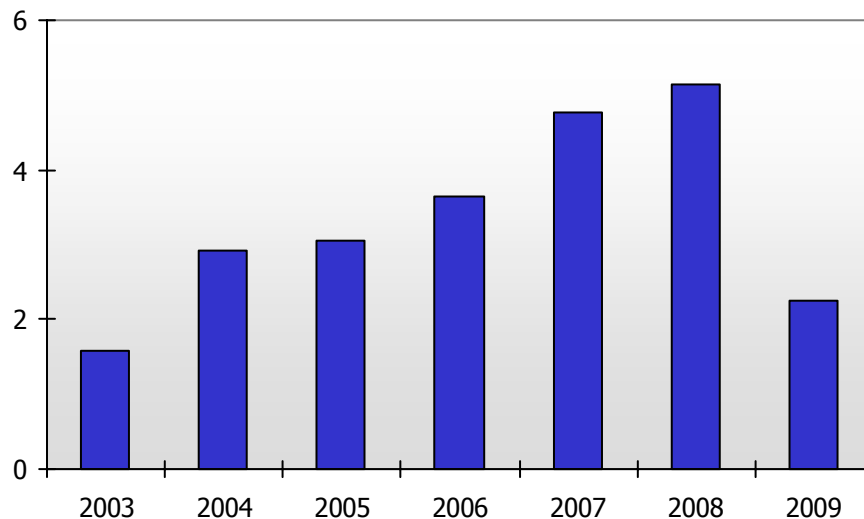


- Launch of the Yu. Korchagin field is planned in **2Q 2010**
- **3P field reserves** are estimated **570 mln boe**
- **Peak oil and gas liquids production – 2.5 mln tons per year, gas – 1 bcm per year**
- **Sea depth in the field area is 10–13 m**

# Production and refining balance is reached



**Net income in R&M segment, \$ bln**



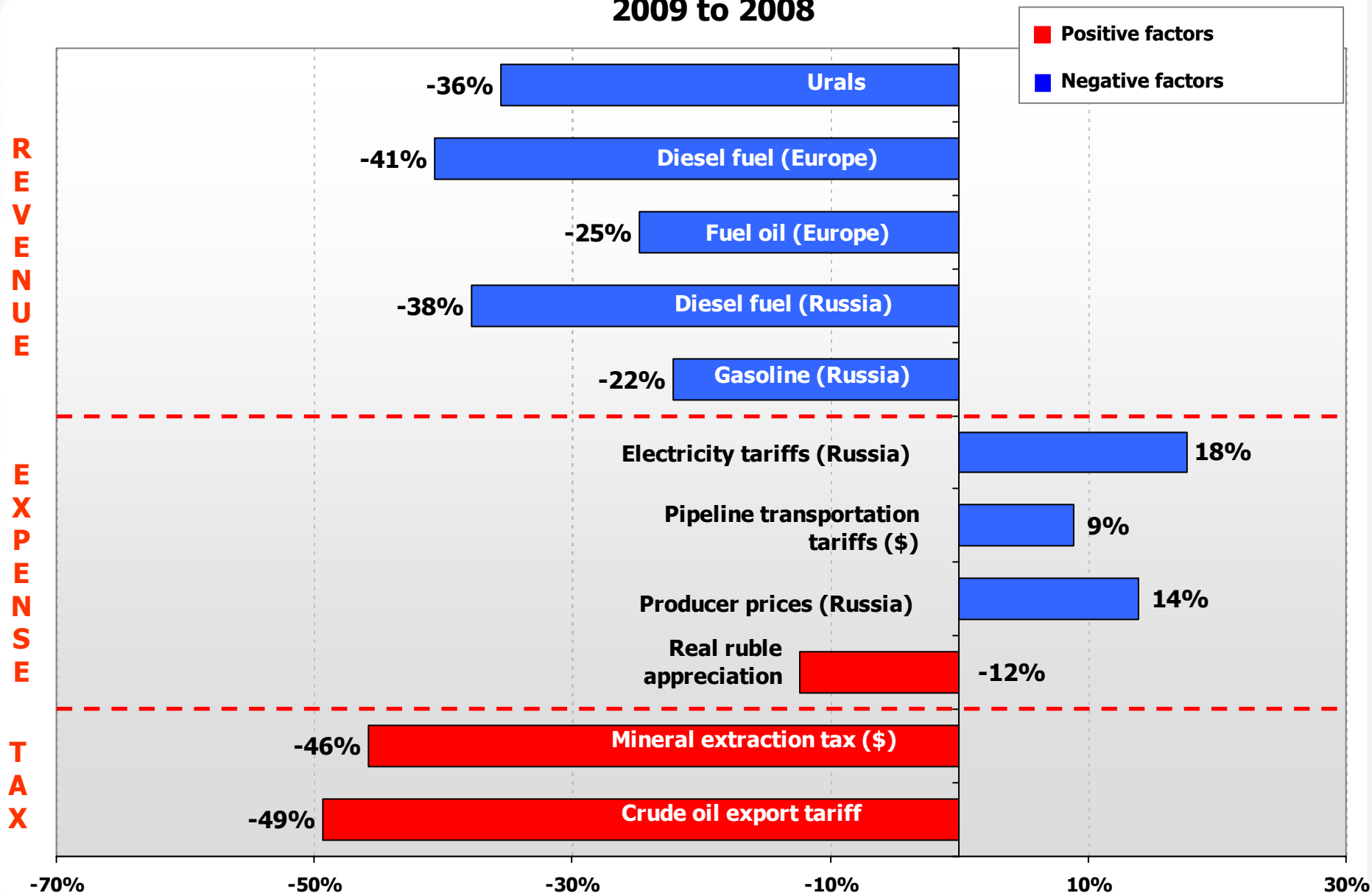
By present time refining capacity to production ratio has reached an **optimum level of 75%.**

**No further capacity expansion in Europe is planned.**

# Macroeconomic and Tax Environment



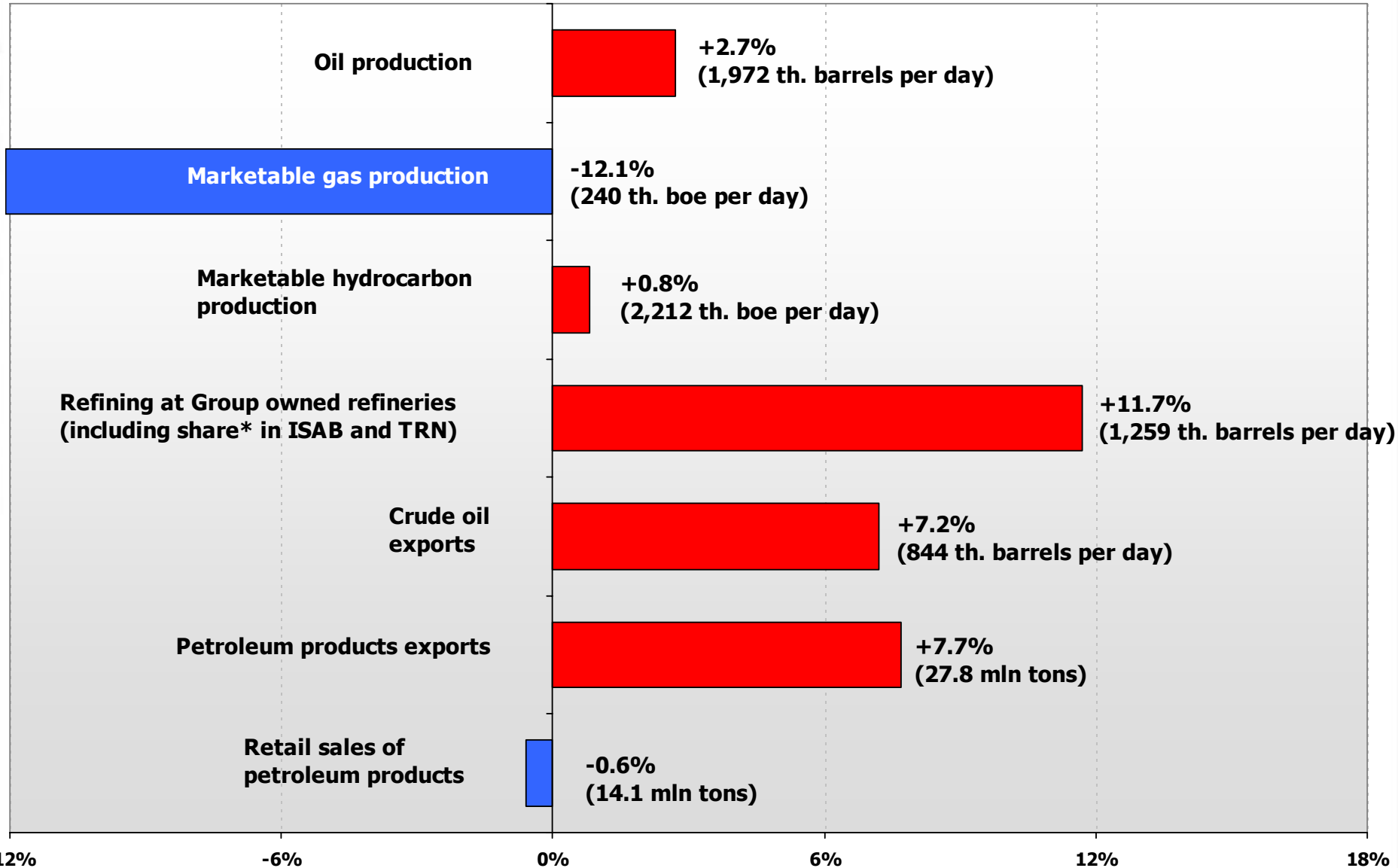
2009 to 2008



# Main Operating Results



2009 to 2008 (2009 actual level)



-12%

-6%

0%

6%

12%

18%

\* Share in oil and petroleum products throughputs.

# Financial Results



4Q 2009	4Q 2008	Δ, %	\$ million	2009	2008	Δ, %
<b>24,281</b>	<b>18,415</b>	<b>+31.9</b>	<b>Sales</b>	<b>81,083</b>	<b>107,680</b>	<b>-24.7</b>
(2,109)	(2,244)	-6.0	Operating expenses	(7,124)	(8,126)	-12.3
(5,787)	(7,338)	-21.1	Taxes other than income tax (including excise and export duties)	(19,532)	(34,804)	-43.9
2,377	(791)	—	Income (loss) from operating activities	9,778	13,709	-28.7
2,090	(1,842)	—	Income (loss) before income tax	9,063	12,694	-28.6
<b>1,726</b>	<b>(1,621)</b>	—	<b>Net income (loss)</b>	<b>7,011</b>	<b>9,144</b>	<b>-23.3</b>
<b>2,067</b>	<b>(1,450)</b>	—	<b>Net income (loss) before one-off impairment losses</b>	<b>7,352</b>	<b>9,471</b>	<b>-22.4</b>
2.04	(1.91)	—	Basic EPS, \$	8.28	10.88	-23.9
<b>3,238</b>	<b>(906)</b>	—	<b>EBITDA</b>	<b>13,475</b>	<b>15,797</b>	<b>-14.7</b>

# Operating Expenses



4Q 2009	4Q 2008	Δ ,%	\$ million	2009	2008	Δ ,%
798	787	+1.4	Hydrocarbon lifting costs	2,787	3,208	-13.1
253	266	-4.9	Own refining expenses	923	1,115	-17.2
220	142	+54.9	Refining expenses at third-party refineries, ISAB and TRN	713	439	+62.4
10	26	-61.5	Excise included in processing fee paid to third-party refineries	54	116	-53.4
37	48	-22.9	Petrochemical expenses	127	235	-46.0
246	249	-1.2	Crude oil transportation to own refineries	955	1,072	-10.9
496	347	+42.9	Other operating expenses	1,781	1,691	+5.3
49	379	-87.1	Change in operating expenses in crude oil and refined products inventory originated within the Group	(216)	250	—
<b>2,109</b>	<b>2,244</b>	<b>-6.0</b>	<b>Total</b>	<b>7,124</b>	<b>8,126</b>	<b>-12.3</b>
<b>10,502</b>	<b>5,895</b>	<b>+78.2</b>	<b>Cost of purchased crude oil, gas and products</b>	<b>31,977</b>	<b>37,851</b>	<b>-15.5</b>



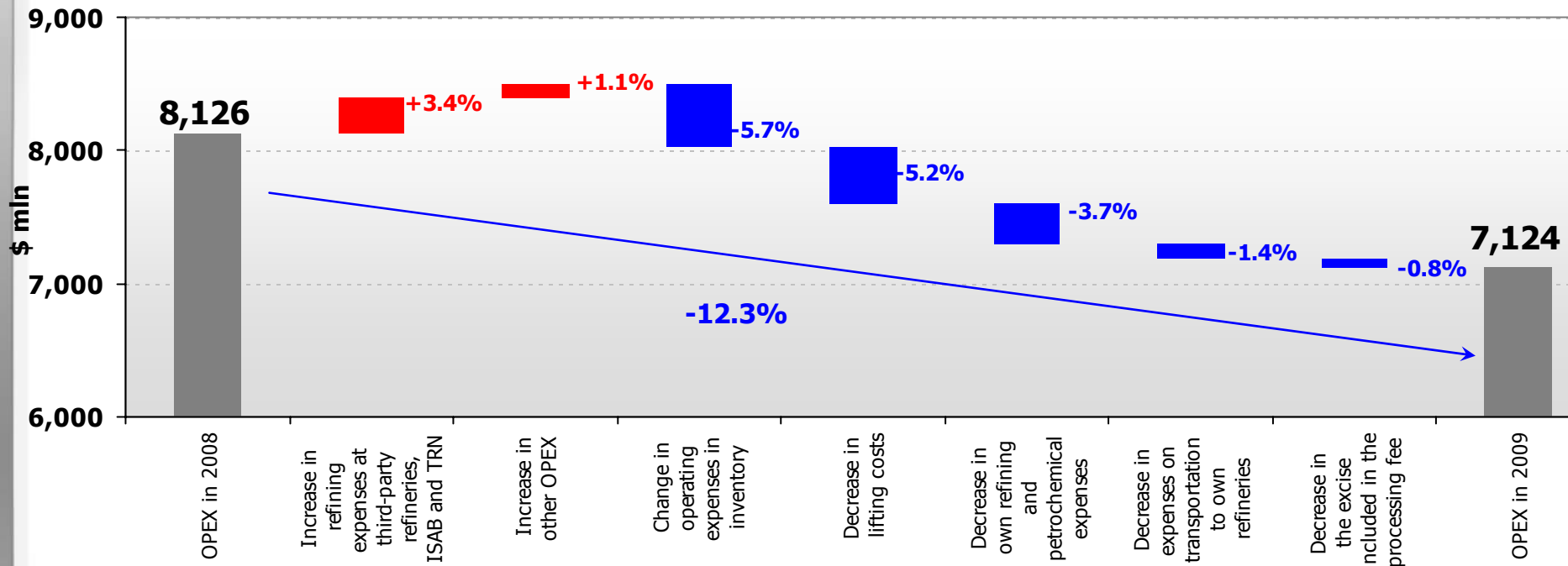
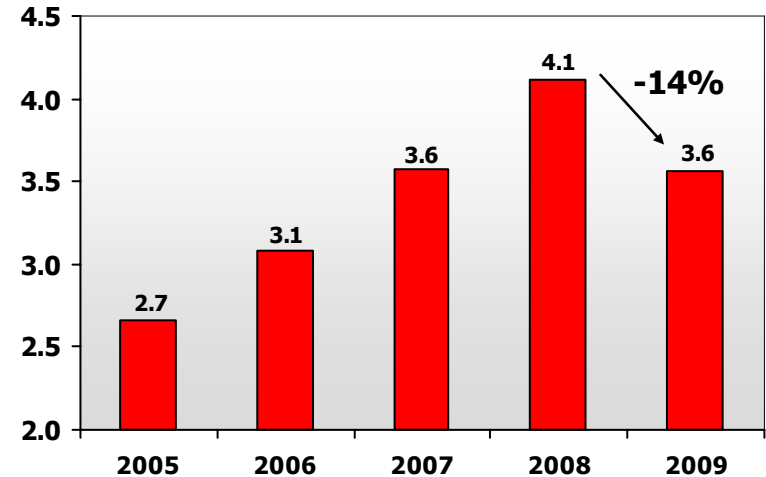
# LUKOIL Successfully Controls Operating Expenses



LUKOIL managed to **decrease hydrocarbon lifting costs by 14%** (in 2009 to 2008) to **\$3.56/boe** thanks to :

- **Rouble depreciation**: the real rouble depreciation to the US dollar was 12% (2009 to 2008)
- **Cost cutting program**, effective cooperation with suppliers and subcontractors

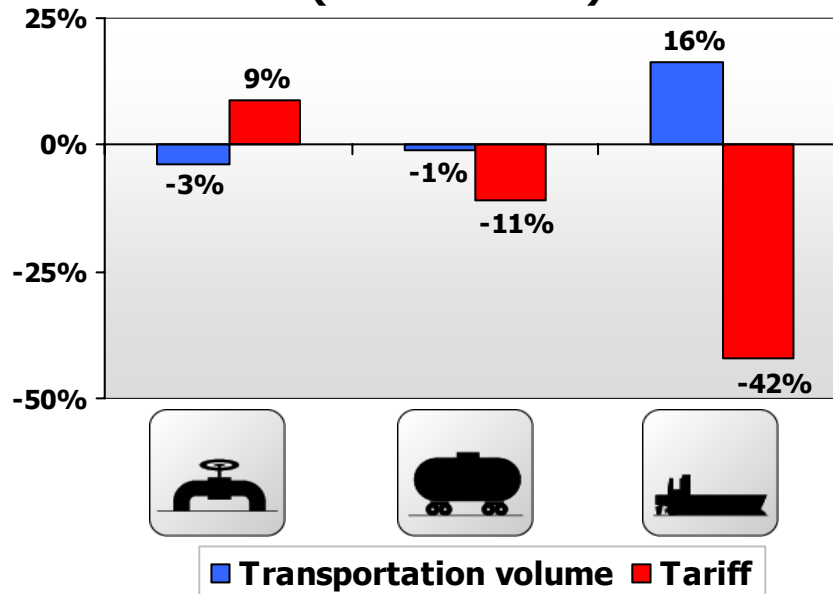
Lifting costs, \$/boe



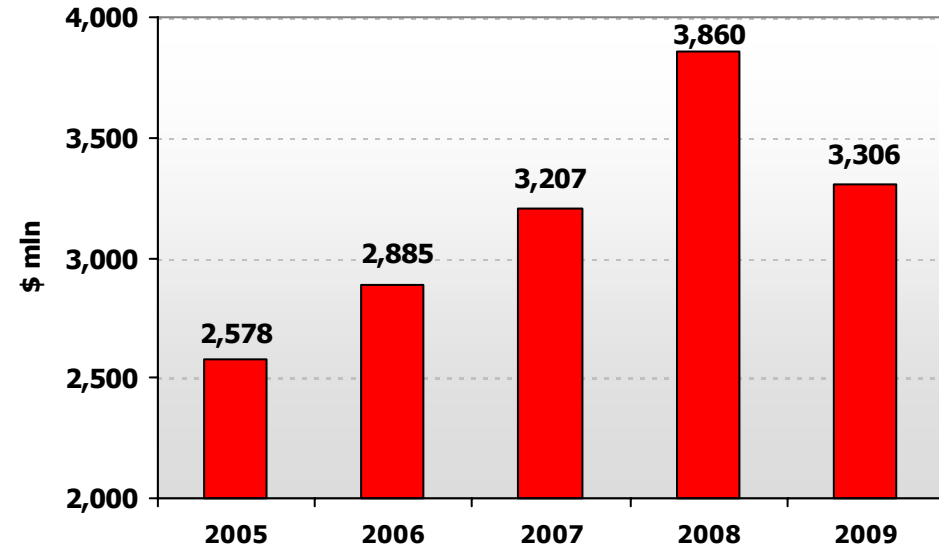
# SG&A and Transportation Expenses



### Transportation expenses (2009 to 2008)

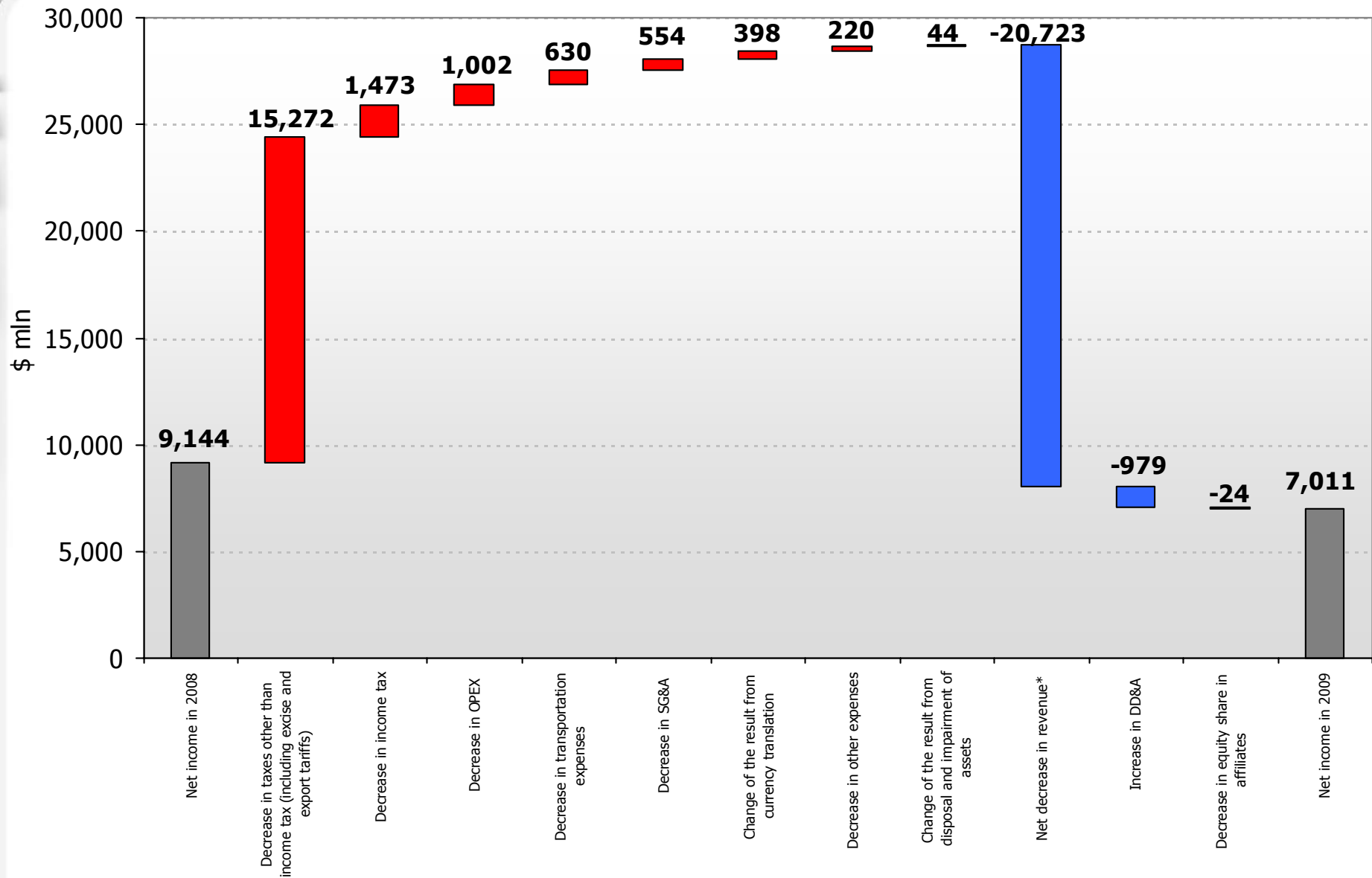


### SG&A expenses



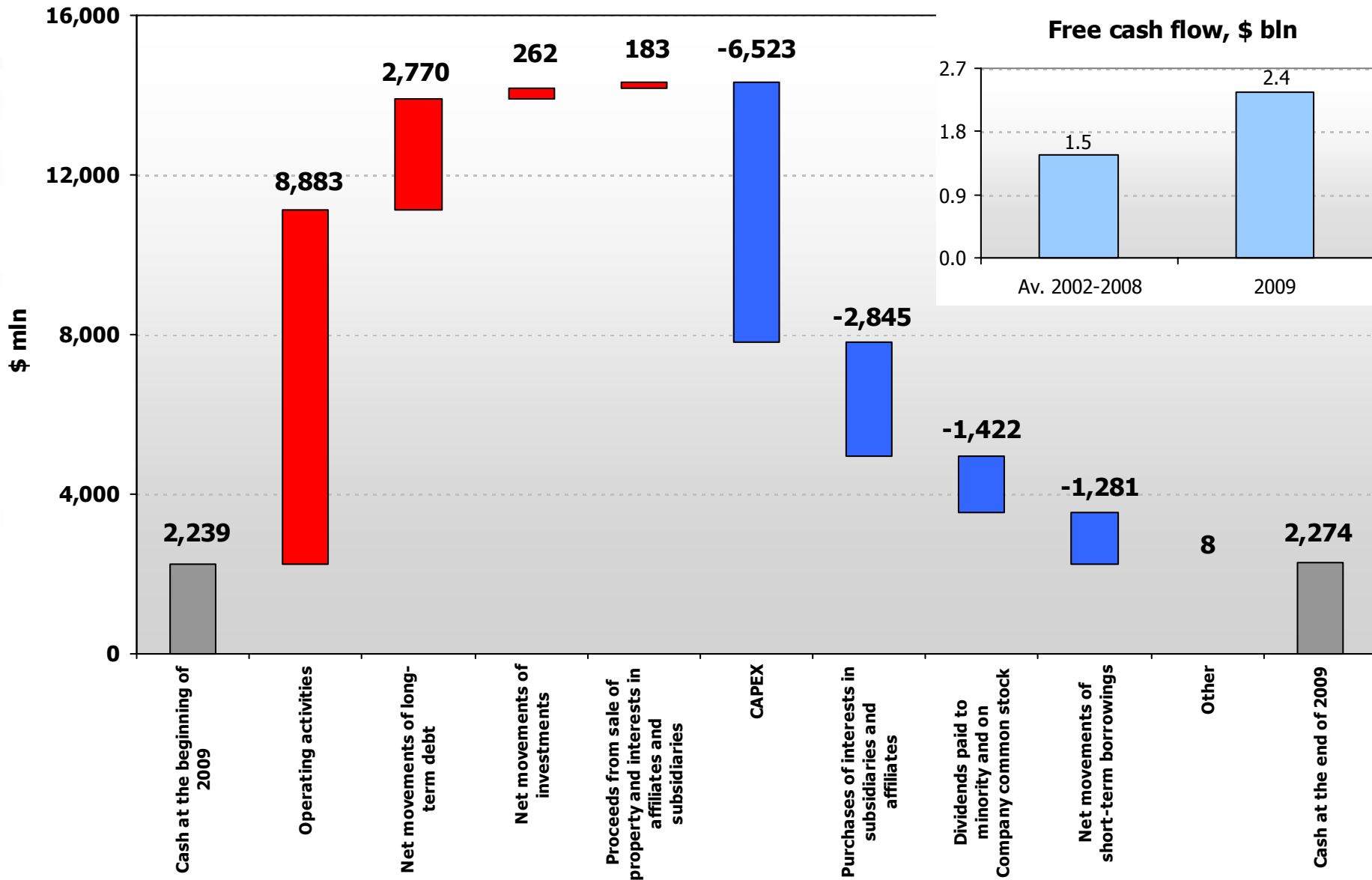
4Q 2009	4Q 2008	Δ, %	\$ million	2009	2008	Δ, %
1,236	1,412	-12.5	Transportation expenses	4,830	5,460	-11.5
908	1,028	-11.7	Other selling, general and administrative expenses	3,306	3,860	-14.4
<b>2,144</b>	<b>2,440</b>	<b>-12.1</b>	<b>Total</b>	<b>8,136</b>	<b>9,320</b>	<b>-12.7</b>

# Net Income Reconciliation



\* Change in revenue less cost of purchased crude oil, gas and products.

# 2009 Cash Flow Reconciliation



# CAPEX Breakdown



4Q 2009	4Q 2008	Δ, %	\$ million	2009	2008	Δ, %
<b>1,219</b>	<b>1,738</b>	<b>-29.9</b>	<b>Exploration and production</b>	<b>4,687</b>	<b>7,889</b>	<b>-40.6</b>
977	1,374	-28.9	<i>Russia</i>	3,916	6,813	-42.5
242	364	-33.5	<i>International</i>	771	1,076	-28.3
<b>432</b>	<b>711</b>	<b>-39.2</b>	<b>Refining and marketing</b>	<b>1,391</b>	<b>2,150</b>	<b>-35.3</b>
257	463	-44.5	<i>Russia</i>	832	1,377	-39.6
175	248	-29.4	<i>International</i>	559	773	-27.7
<b>24</b>	<b>28</b>	<b>-14.3</b>	<b>Petrochemicals</b>	<b>113</b>	<b>121</b>	<b>-6.6</b>
4	7	-42.9	<i>Russia</i>	13	23	-43.5
20	21	-4.8	<i>International</i>	100	98	+2.0
<b>176</b>	<b>342</b>	<b>-48.5</b>	<b>Other</b>	<b>343</b>	<b>429</b>	<b>-20.0</b>
<b>1,851</b>	<b>2,819</b>	<b>-34.3</b>	<b>Total (cash and non-cash)</b>	<b>6,534</b>	<b>10,589</b>	<b>-38.3</b>

# Conclusion



- To maintain the proper **balance between the growth rate** of the Company business and high financial **efficiency**
- **Highly profitable E&P projects development**
- **Good financial position, high cash flows**
- Increase in **shareholders' returns**