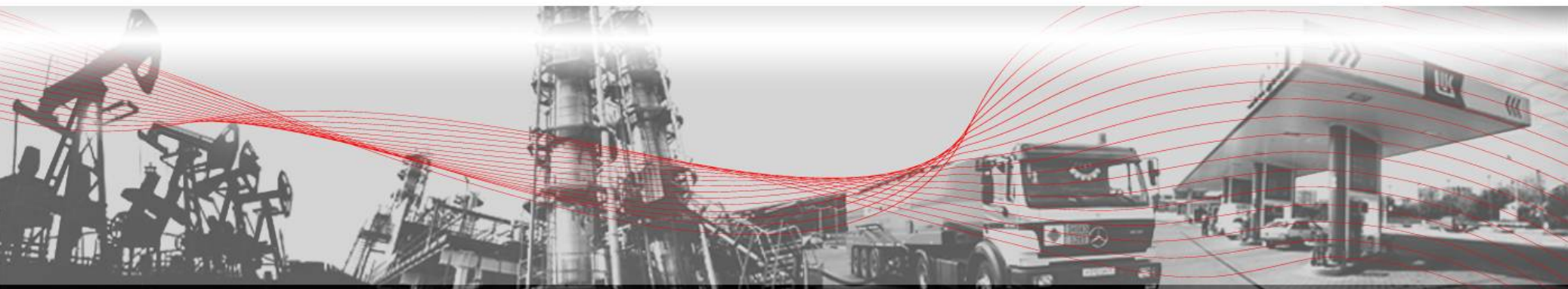




# **LUKOIL-Western Siberia**

**Azat Shamsuarov, Vice President of LUKOIL,  
General Director of LUKOIL-Western Siberia**



**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.



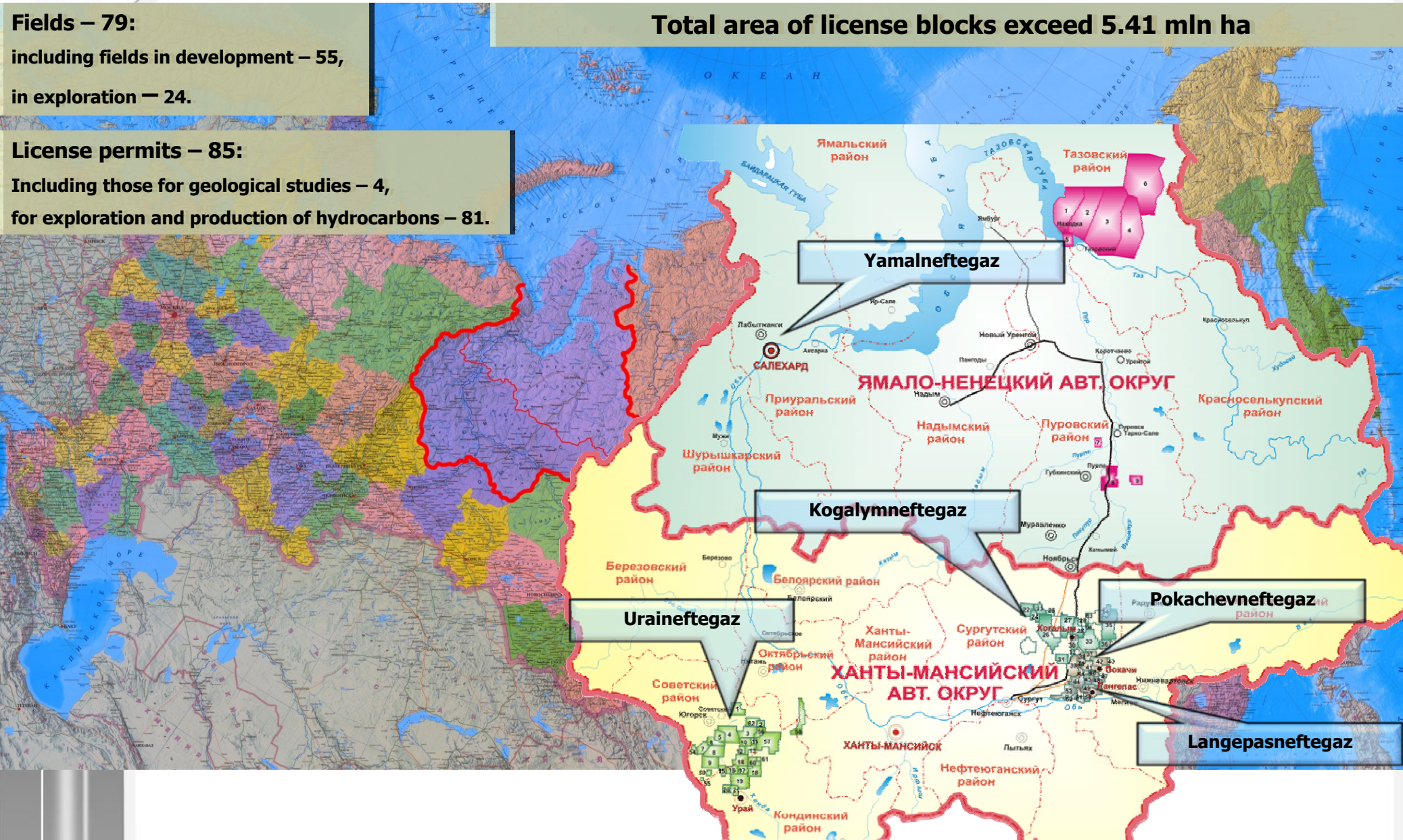
- **Our 3P reserve base in Western Siberia is over 16 bln boe**
- **Decline of recent years has slowed dramatically**
- **Technology will allow us to more efficiently develop the resources we have.**
- **Upstream investments in Western Siberia are positive NPV.**
- **Basic reorganization of activities is underway.**

# LUKOIL-Western Siberia: Area of Operations

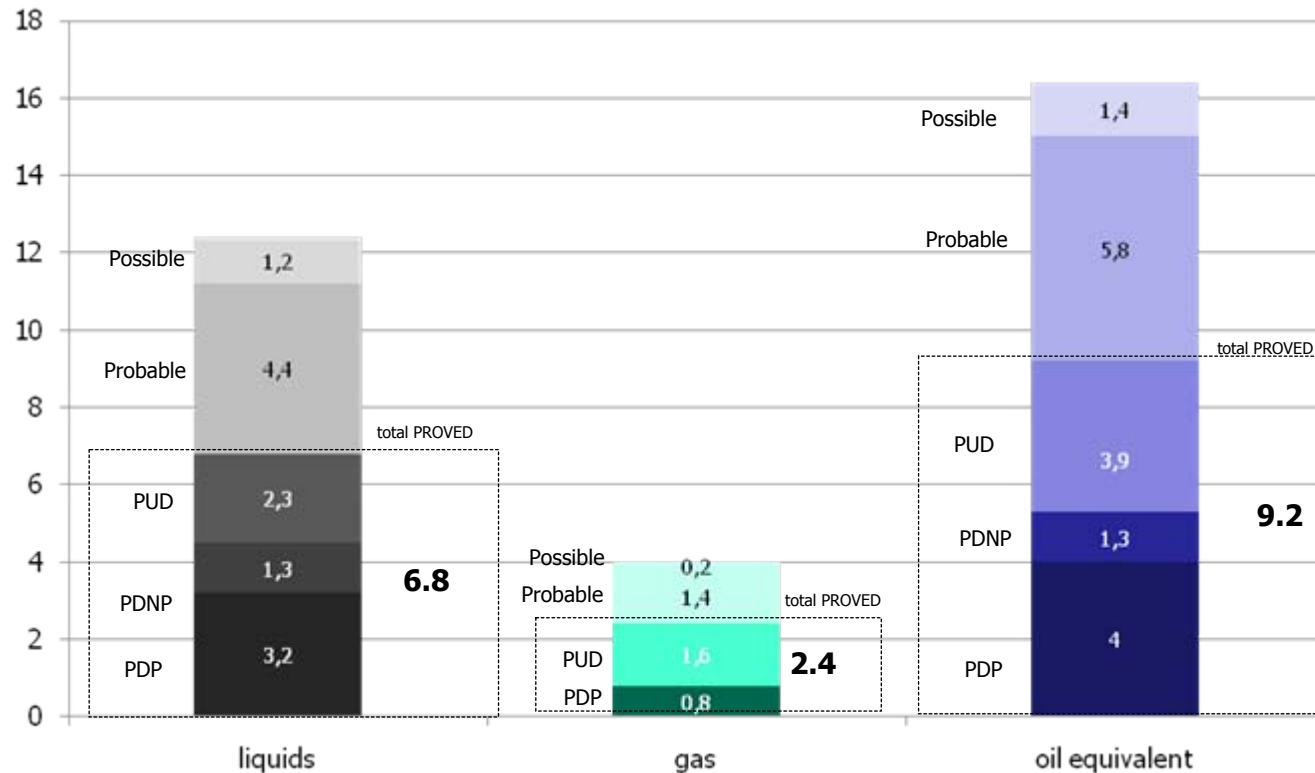
Fields – 79:  
including fields in development – 55,  
in exploration – 24.

License permits – 85:  
Including those for geological studies – 4,  
for exploration and production of hydrocarbons – 81.

Total area of license blocks exceed 5.41 mln ha

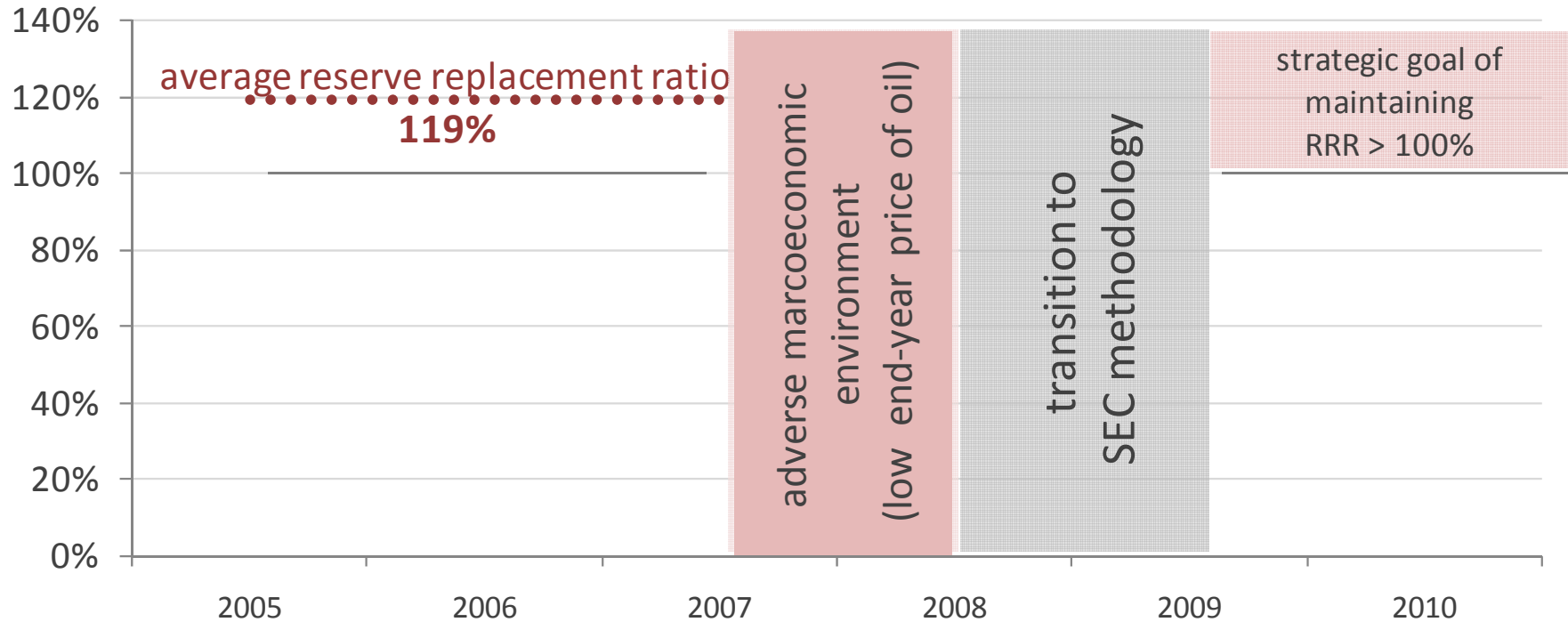


# SEC Hydrocarbon Reserves: 9.2 bln boe Proved



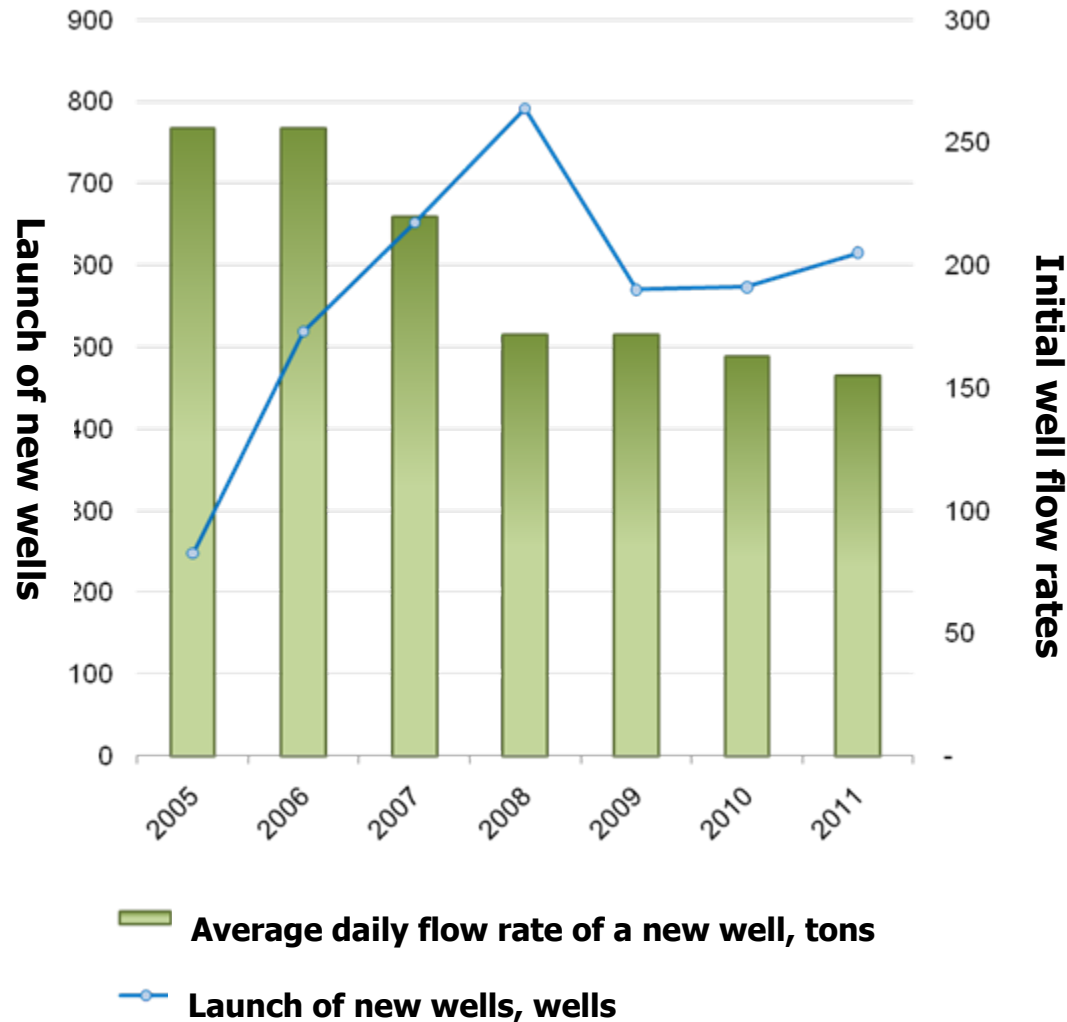
- When Probable and Possible reserves are included, the total audited resource base of LUKOIL-Western Siberia amounts to 16.4 billion barrels of oil equivalent.
- In addition, there are approximately 2.5 billion boe in reserves that are not currently recoverable, but which could be under a different tax regime or with specific technological developments.

# Reserves replacement healthy, with exception of 2008



The resource base and continued successful reserves replacement will support stable cash flow in the future.

# Siberian Production Decline — Electricity an Important Factor



- In 2007 we came up against an unexpected limit on access to electricity.

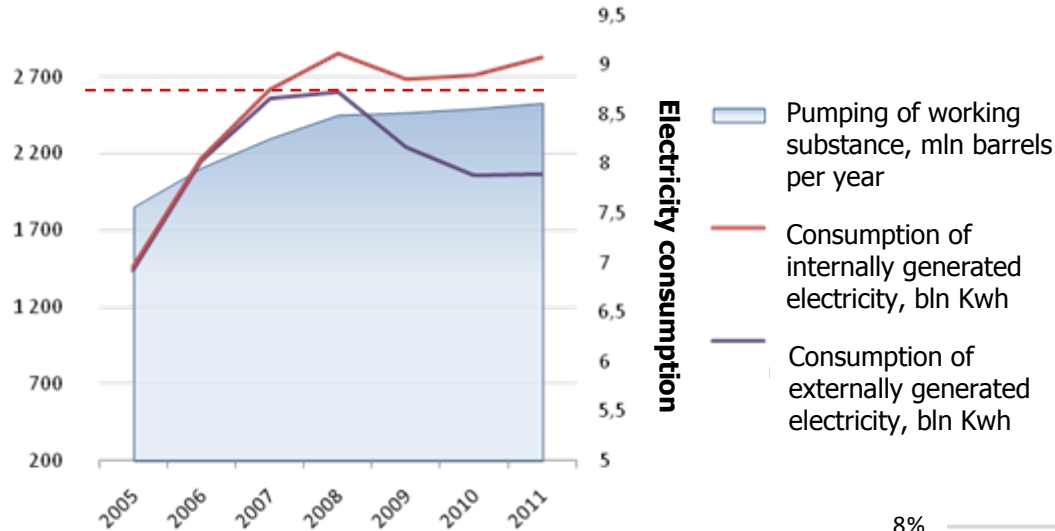
- The lack of electricity made it impossible to pump sufficient volumes of water into a number of reservoirs, and pressure declined.

- Initial well flow rates declined by 26% between 2005 and 2008.

# LUKOIL Increasingly Uses its Own Electricity



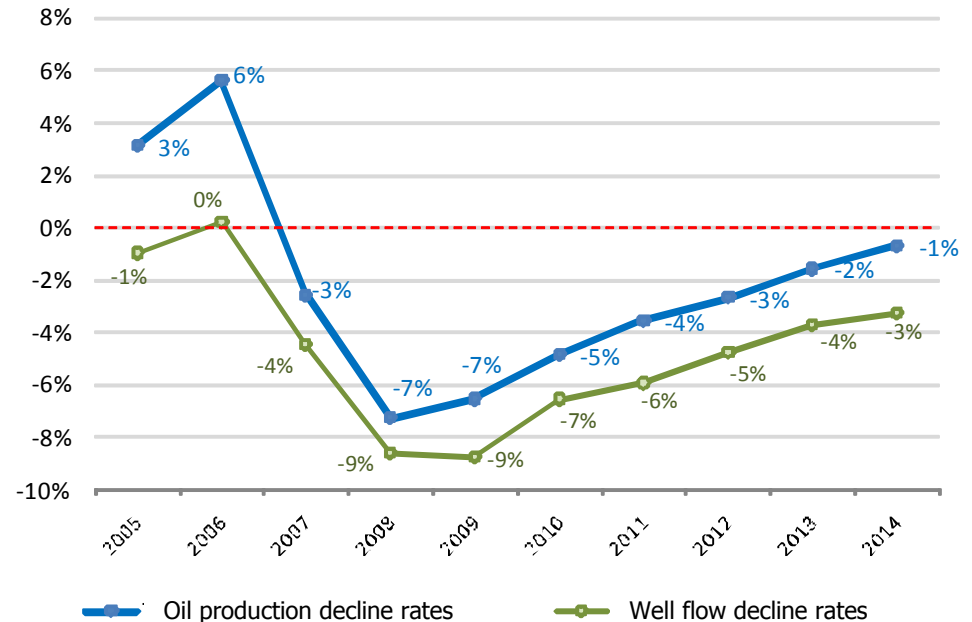
Pumping



In response to the constraint on electricity access, by 2009 we built 201 MW of new electricity generation capacity, using associated natural gas.

LUKOIL-Western Siberia now provides 8% of its own electricity, up from 0% in 2006. The cost of this electricity is 15% less than that purchased from the grid.

Oil production increase/decline rates, y-o-y





# Electricity Generation Assets in Western Siberia

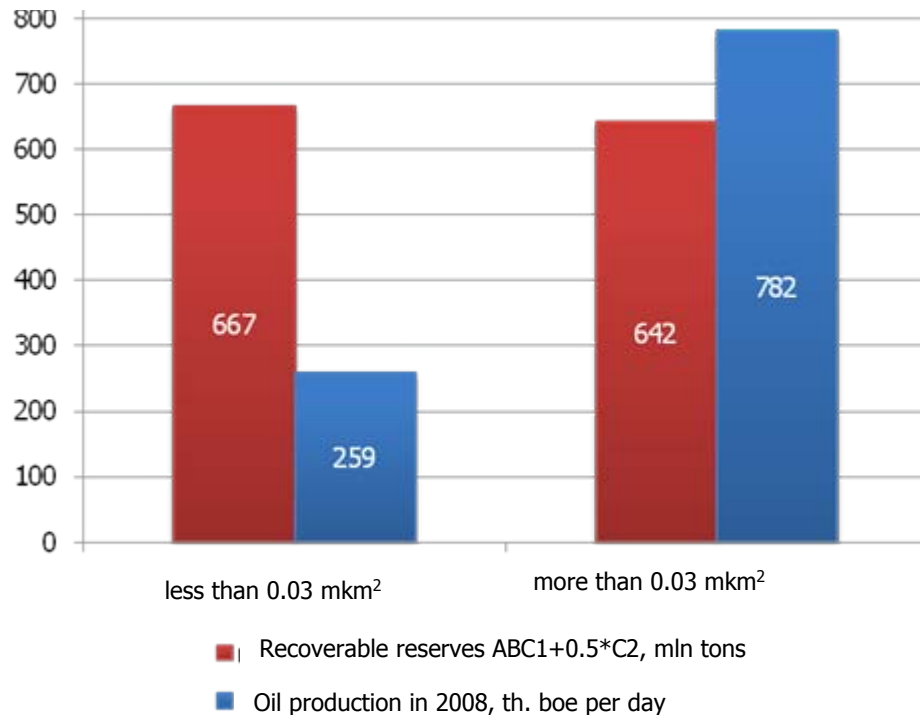


	Capacity, MWt	Year of launch
<b><u>Existing power plants</u></b>		
<b>Gas piston power plants</b>		
• Vostochno-Tolumskoe field	6 MWt	2004
• Severo-Danilovskoe field	32 MWt	2005
• Nakhodkinskoe field power plant complex	5.4 MWt	2004
<b>Gas turbine power plants</b>		
• Severo-Gubkinskoe field	14 MWt	2007
• Vateganskoe fields	72 MWt	2008
• Tevlinsko-Ruskinskoe field	48 MWt	2009
• Pyakyahinskoe field	24 MWt	2009
<b>Total existing</b>	<b>201.4 MWt</b>	
<b><u>Planned power plants</u></b>		
• Kamenny license area	36 MWt	2011
• Pokachevskoe field	48 MWt	2012
• Povkhovskoe field	48 MWt	2012
<b>Total planned</b>	<b>132 MWt</b>	
<b>Total</b>	<b>333.4 MWt</b>	

# Tight Formations Require a Different Technological Approach

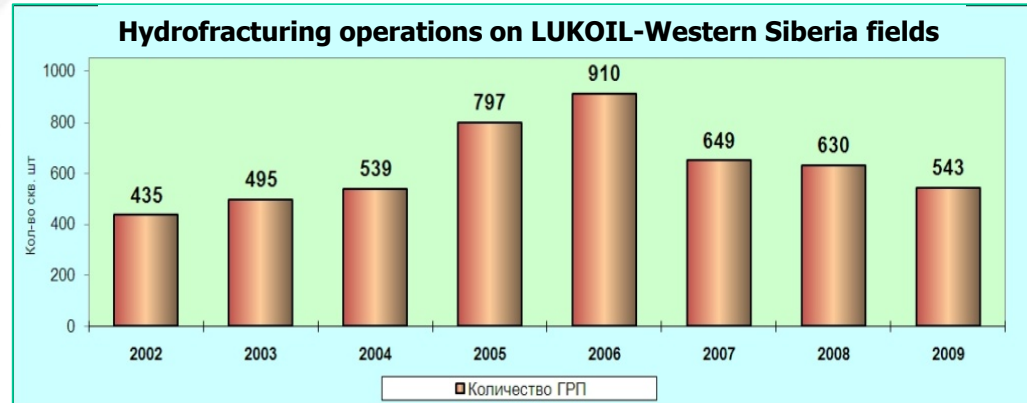


**Assessment of oil reserves and production based on bed permeability criterion**



- Low permeability reservoirs represent 51% of reserves in Western Siberia.
- In recent years the company has increased its use of horizontal drilling, side tracks, and hydro-fracturing on such formations.
- At our largest oilfield, Tevlinsko-Russkinskoye, 94% of wells drilled in 2009-2011 will be fraced. We are also working with the latest interval hydro-fraccing techniques with oilfield services firm Schlumberger.

# Successful history of hydro-fracs in Western Siberia



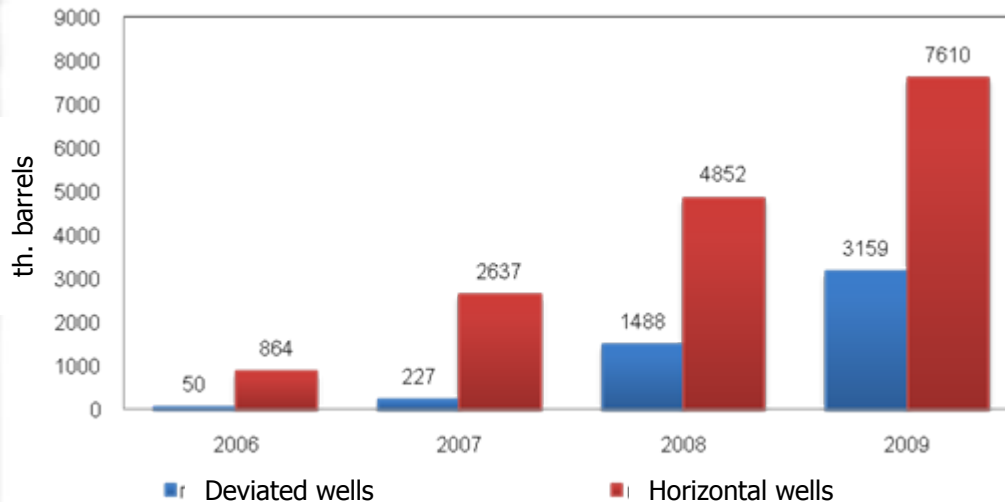
**In addition, we receive technological advice from ConocoPhillips and NSI Technologies.**

- LUKOIL has been using hydro-frac technology on its fields since 1993.
- We are currently using more than 20 different types of new fracing technology.
- We use OFS firms Schlumberger, Trican Well Service, and Weatherford.

# Case study: Kechimovskoye oilfield (I)



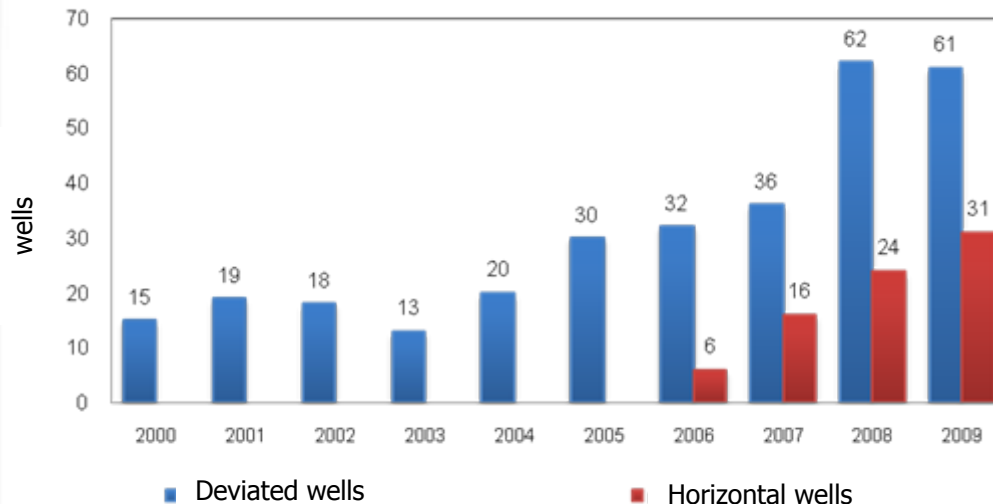
## Accumulated oil production from wells drilled in 2006-2009



- These charts show new well indicators from the YuV1 layer in the Kechimovskoye field.

- Horizontal drilling allows LUKOIL both to reduce operating costs for a given barrel of oil, and to better control the decline rate from the field.

## Production wells in use



- This technology will increasingly be applied to other low-permeability reservoirs in Western Siberia.

# Case study: Kechimovskoye oilfield (II)



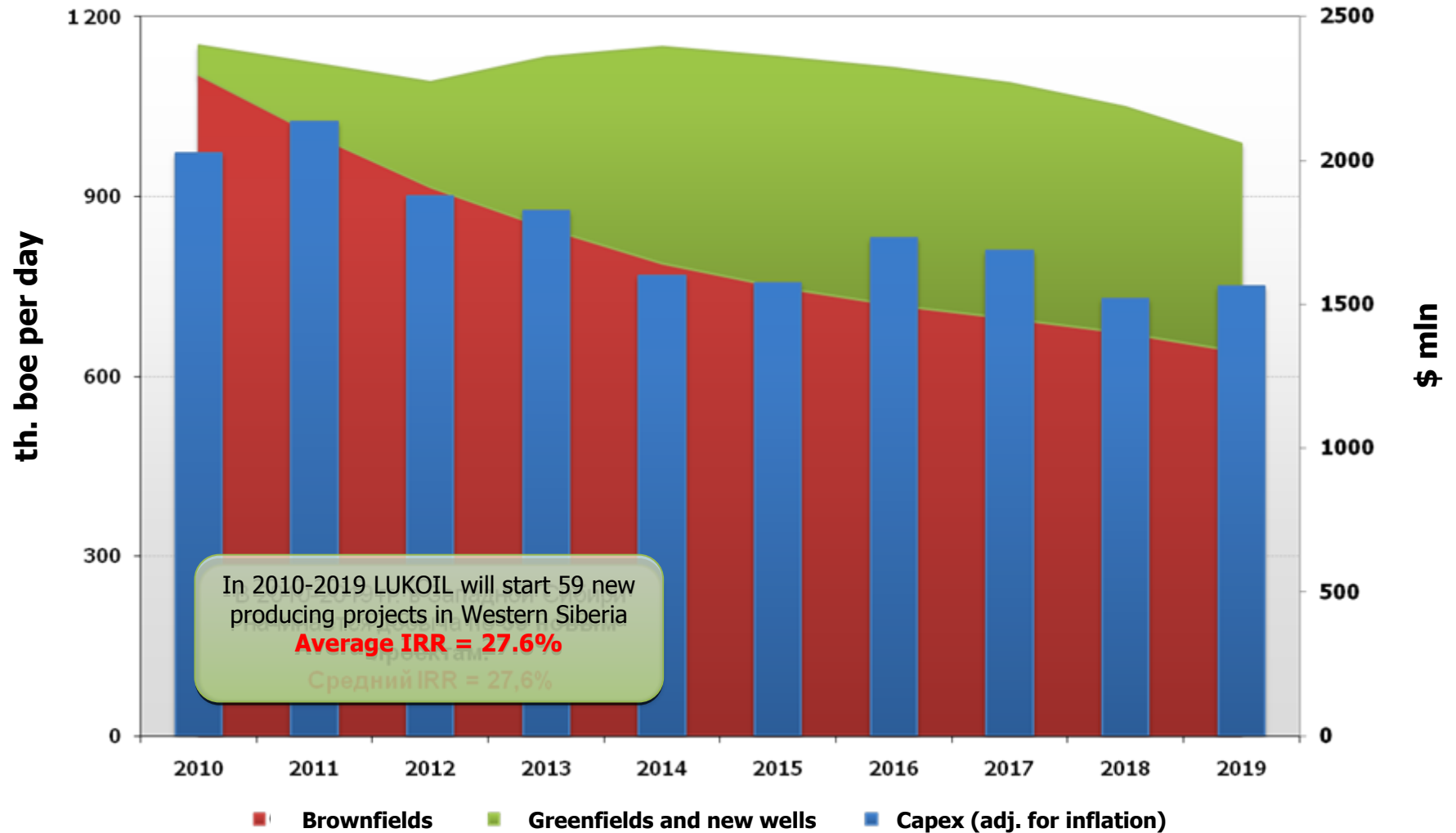
## Key performance indicators:

		Previous	Actual	Δ
<b>Oil production</b>	th. barrels	<b>185,792</b>	<b>180,398</b>	<b>-5,394</b>
<b>Petroleum gas production</b>	Mcf	<b>49,469</b>	<b>54,978</b>	<b>5,509</b>
<b>OPEX</b>	\$ mln	<b>4,625</b>	<b>1,950</b>	<b>-2,675</b>
<b>CAPEX</b>	\$ mln	<b>2,479</b>	<b>1,081</b>	<b>-1,398</b>
<b>NPV</b>	<b>\$ mln</b>	<b>-531.403</b>	<b>8.890</b>	<b>540.293</b>
<b>IRR</b>	<b>%</b>	<b>-</b>	<b>15.7</b>	<b>15.7</b>
<b>Drilling</b>	Th. meters	<b>2,536</b>	<b>1,395</b>	<b>-1,141</b>
<b>Wells launch</b>	wells	<b>1,021</b>	<b>512</b>	<b>-509</b>

# Forecast hydrocarbon production and investment



## Hydrocarbon production in Western Siberia, th. boe per day



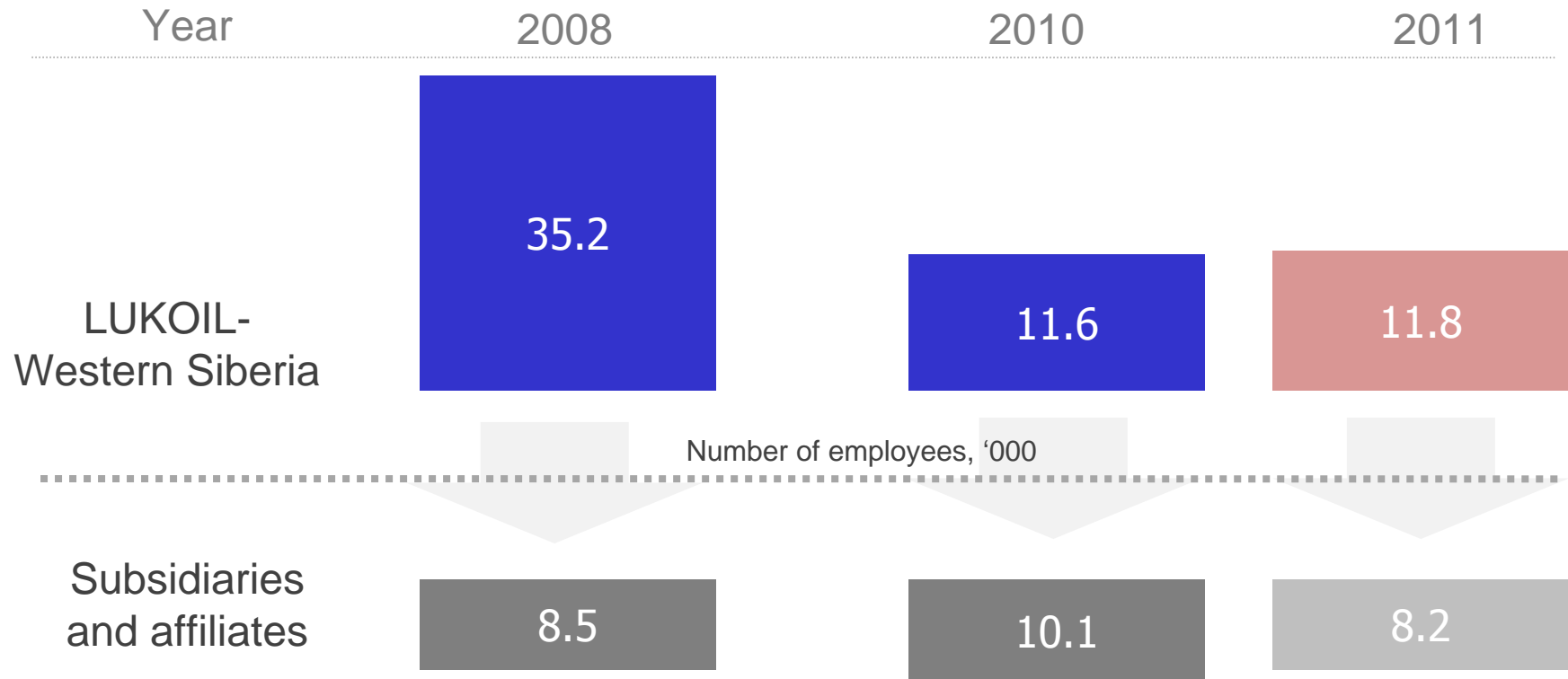
# Typical well economics in Western Siberia



PRODUCTION CALCULATION	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Days of well operation	160	325	325	325	325	325	325	325	325	325
Flow rate decrease rate	15%	14%	14%	13%	12%	12%	11%	10%	10%	9%
Flow rate, tons per day	171.6	145.8	125.0	108.1	94.2	82.7	73.1	65.0	58.2	52.4
Oil production, th. tons	27.4	47.4	40.6	35.1	30.6	26.9	23.8	21.1	18.9	17.0
ECONOMICS*										
Sales, \$ th.	920	1,589	1,362	1,178	1,026	901	796	709	634	571
OPEX, \$ th.	123	143	137	131	127	123	120	117	115	113
CAPEX, \$ th.	1,407	-	-	-	-	-	-	-	-	-
MET, \$ th.	343	593	508	439	383	336	297	264	237	213
Property tax, \$ th.	44	41	38	35	32	29	26	23	20	17
SG&A expense, \$ th.	28	42	37	34	31	28	26	24	23	21
DD&A expense, \$ th.	132	132	132	132	132	132	132	132	132	132
Income before income tax, \$ th.	249.5	638.1	510.4	406.9	322.4	253.0	195.5	147.8	107.8	74.3
Income tax, \$ th.	44.9	114.9	91.9	73.2	58.0	45.5	35.2	26.6	19.4	13.4
Net income, \$ th.	204.6	523.3	418.5	333.7	264.4	207.4	160.3	121.2	88.4	60.9
Operating cash flow, \$ th.	336.5	655.1	550.4	465.5	396.3	339.3	292.2	253.0	220.3	192.8
Maintenance capex (disposal value)	0.0	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7
<b>Free cash flow, \$ th.</b>	<b>-1,632.9</b>	<b>622.5</b>	<b>517.8</b>	<b>432.9</b>	<b>363.6</b>	<b>306.6</b>	<b>259.5</b>	<b>220.4</b>	<b>187.6</b>	<b>160.2</b>
<b>NPV 15% for 15 years, \$ th.</b>	<b>349</b>									
<b>IRR for 16 years</b>	<b>21.8%</b>									

\* In constant prices.

# Restructuring of LUKOIL-Western Siberia is underway



We are optimizing the structure of our operations in Western Siberia and reducing the number of employees. A number of functions currently performed within the company will be outsourced.