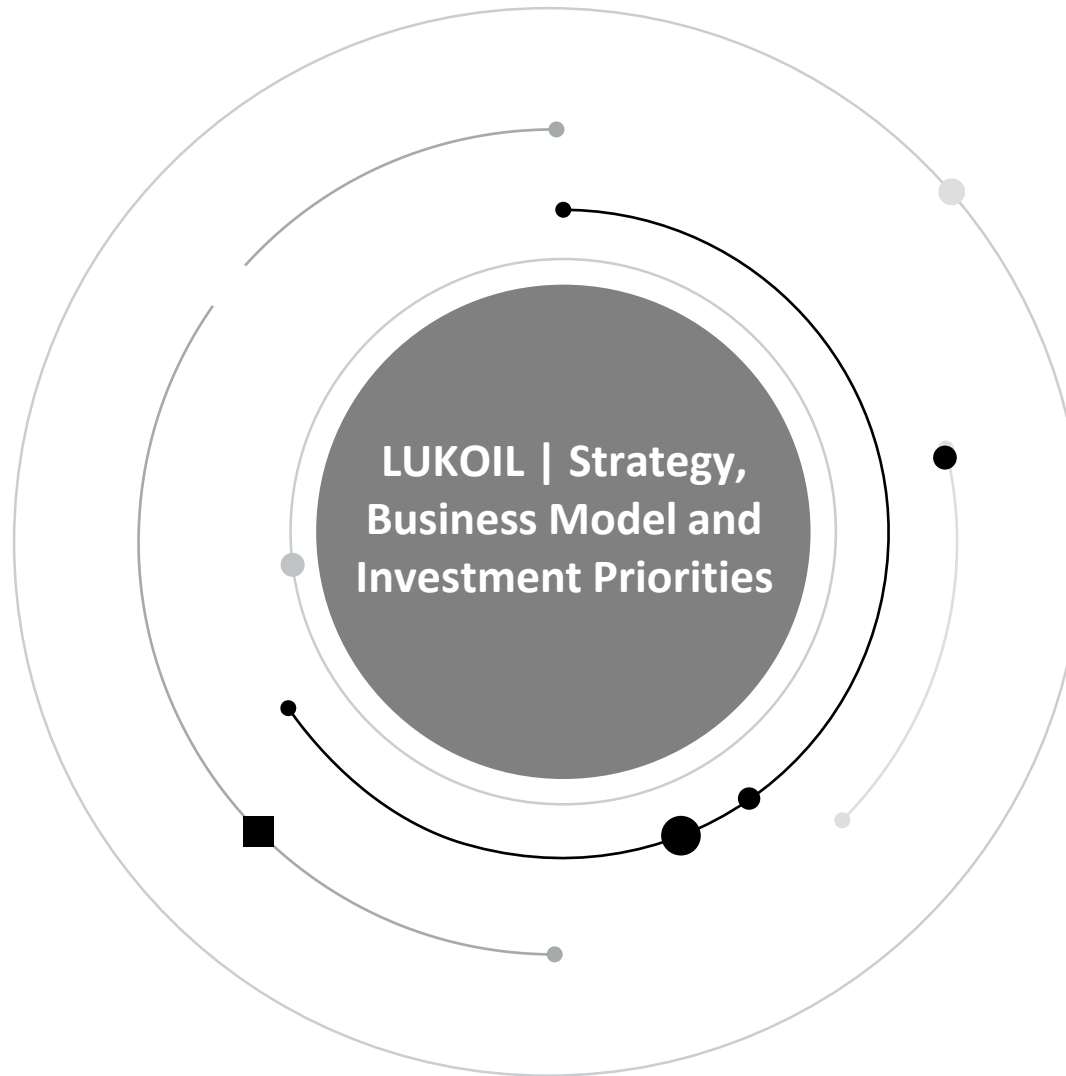
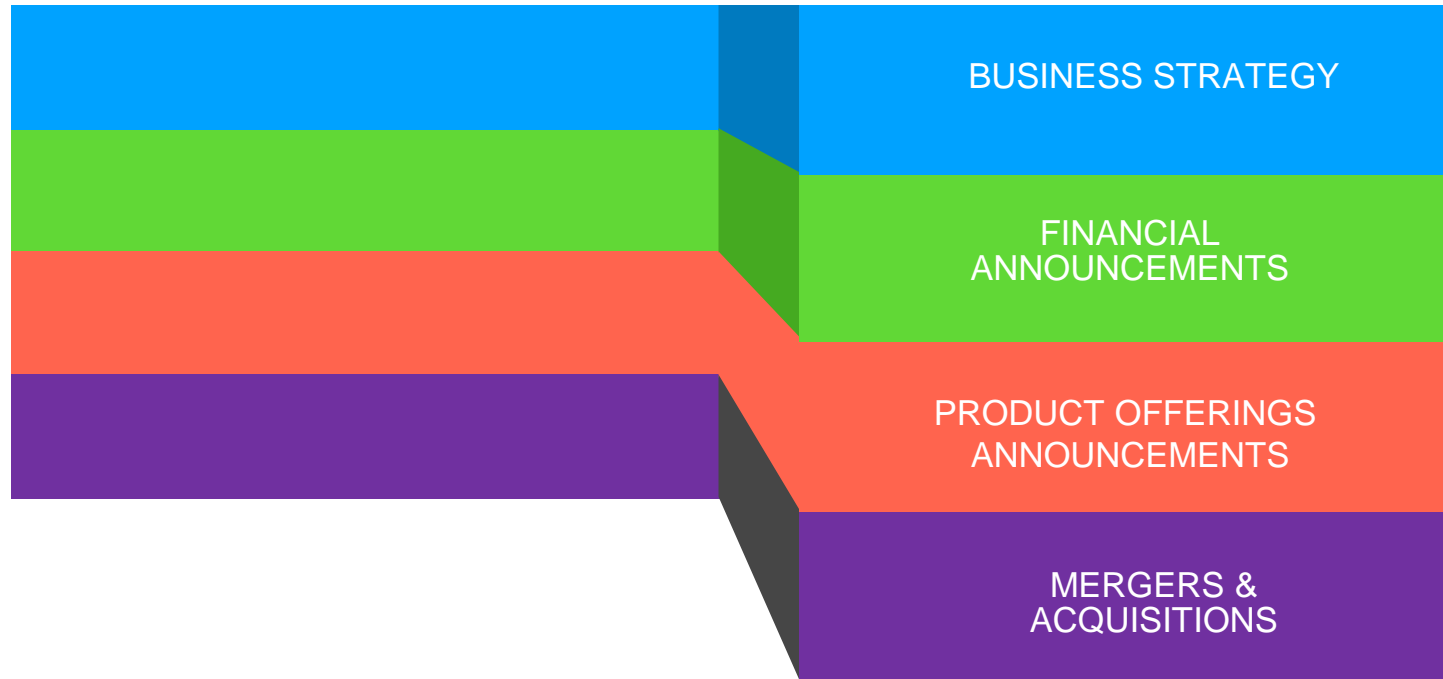


LUKOIL
Strategy, Business Model and
Investment Priorities



FastTrack Insights



Business Overview

LUKOIL is one of the world's largest publicly traded, vertically integrated oil and gas companies in terms of total proved reserves and hydrocarbon production. LUKOIL employs over 100,000 people in Russia, Europe, Asia, Africa, and America (more than 30 countries in total). As a vertically integrated company, LUKOIL controls its entire chain of production – from oil and gas production to the marketing of a range of products supplied to industrial and retail consumers in various countries.

- **42% reduction** in the lost time injury frequency rate for 2013-2017
- **95%** associated petroleum gas utilization rate in Russia (increased from 88% in 2013)
- **100% industrial waste** utilization rate



- **Founded: 1991**
- **Location: Moscow, Russia**
- **Revenue: \$90.4 billion**
- **Market Value: \$36.8 billion**
- **Assets: over \$69 billion**
- **LUKOIL is committed to the principles of sustainable development** in its operations
- **Corporate standards** based on ISO 14001 and OHSAS 18001
- **Regular external audit** for compliance with standards
- **Delivery of targeted functional programs**

Trafigura (n.d.). LUKOIL Oil Company. Retrieved from <https://www.trafigura.com/media/1362/changing-face-oil-industry.pdf>

LUKOIL (2018). STRATEGY OF BALANCED DEVELOPMENT . UNLOCKING POTENTIAL, 2018. Retrieved from <http://www.lukoil.com/FileSystem/9/208117.pdf>



LUKOIL

LUKOIL is a major international vertically-integrated oil & gas company, accounting for 2.1% of global output of crude oil.

[Moscow, Moscow City, Russian Federation](#)

Categories	Government, Natural Resources, Oil and Gas
Founded Date	1991
Operating Status	Active
Funding Status	IPO
Number of Employees	10001+

IPO Status	Public
Stock Symbol	MCX:LKOH 

Lukoil. Retrieved from : www.crunchbase.com

Efficient and sustainable business model with significant potential

> Vertically integrated business

- >30 countries
- 16 bln boe proved reserves
- 39 bln boe reserves and resources (3P+3C)
- 2.2 Mboepd production
- 1.4 Mboepd refinery throughput




> 2017 financial results:

- EBITDA \$14.2 bln
- FCF \$4.2 bln



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Market Ratios & Competition. Sekking Alpha (2019). Lukoil: Undervalued Fundamentally And A Good Investment In 2019. Retrieved from <https://seekingalpha.com/article/4262222-lukoil-undervalued-fundamentally-good-investment-2019>

Source: Seeking alpha TTM - trailing twelve months FWD - forward	 LUKOIL OIL COMPANY	 ROSNEFT	 GAZPROM	 eni	 Chevron	 PetroChina	 bp
P/E RATIO (TTM)	6.92	10.76	6.17	27.11	15.33	1,572.11	95.08
P/E RATIO (FWD)	7.36	7.40	5.77	27.13	17.05	199.98	81.16
EV/EBITDA	3.70	4.51	https://static.seekingalpha.com/uploads/2019/5/7/49971558-15572273573992853_origin.jpg			4.95	6.61
MARKET CAPITALIZATION (in billions \$)	59.36	71.3	54.63	64.35	227.55	198.31	150.61
DIVIDEND YIELD	4.02%	4.11%	4.74%	5.48%	3.96%	2.12%	5.51%

Lukoil looks undervalued in comparison with competitors in spite of its impressive past performance. Rosneft and Gazprom are underpriced too but they don't have low net debt/EBITDA, and good solvency ratios. Lukoil can offer greater possible growth. Its EV/EBITDA is the smallest in contrast with competitors, and meanwhile, its p/e ratios are 520 times less than Chevron (NYSE:CVX), BP, and PetroChina.

Sekking Alpha (2019). Lukoil: Undervalued Fundamentally And A Good Investment In 2019. Retrieved from <https://seekingalpha.com/article/4262222-lukoil-undervalued-fundamentally-good-investment-2019>

Global Challenges to Lukoil's Performance

1. Demand, depletion, and the political situation are key risk factors that influence world prices.
2. In spite of these circumstances, U.S./European legislators have implemented technological and business limitations on Russian industry. As a result, sales of European oil equipment aren't allowed. However, Lukoil has succeeded in replacing most non-Russian equipment and materials. The portion of domestically produced facilities increased to 70% over the last five years.
3. The company has adapted to working with new business realities after 2014. Lukoil doesn't carry out projects in countries with a high level of geopolitical conflicts (Venezuela, Syria, Sudan and others).
4. Regarding exploration and depletion, Lukoil possesses about 1% of proven world hydrocarbon reserves, 11% of national oil reserves, and 15% of Russian oil production and refining. Lukoil values its reserve base at 19 years. In other words, Lukoil can extract oil from its current oilfields for 19 years vs. 12 years for its competitors.
5. Therefore, the reduction of prices is the only serious threat for Lukoil. Forecast oil prices fluctuate within the range of ~\$65-\$68 per barrel. Venezuela, Libya, and Iran can give strength to an uptrend. Lukoil recognized this situation and scheduled ordinary operations at \$50 per barrel. These threats might slow down the company's long-term growth, but the company manages risk well.

These risks are classic issues for the oil and gas industry, but neither political action nor downward oil will affect Lukoil significantly in 2019.



Sekking Alpha (2019). Lukoil: Undervalued Fundamentally And A Good Investment In 2019. Retrieved from <https://seekingalpha.com/article/4262222-lukoil-undervalued-fundamentally-good-investment-2019>



Projects Portfolio

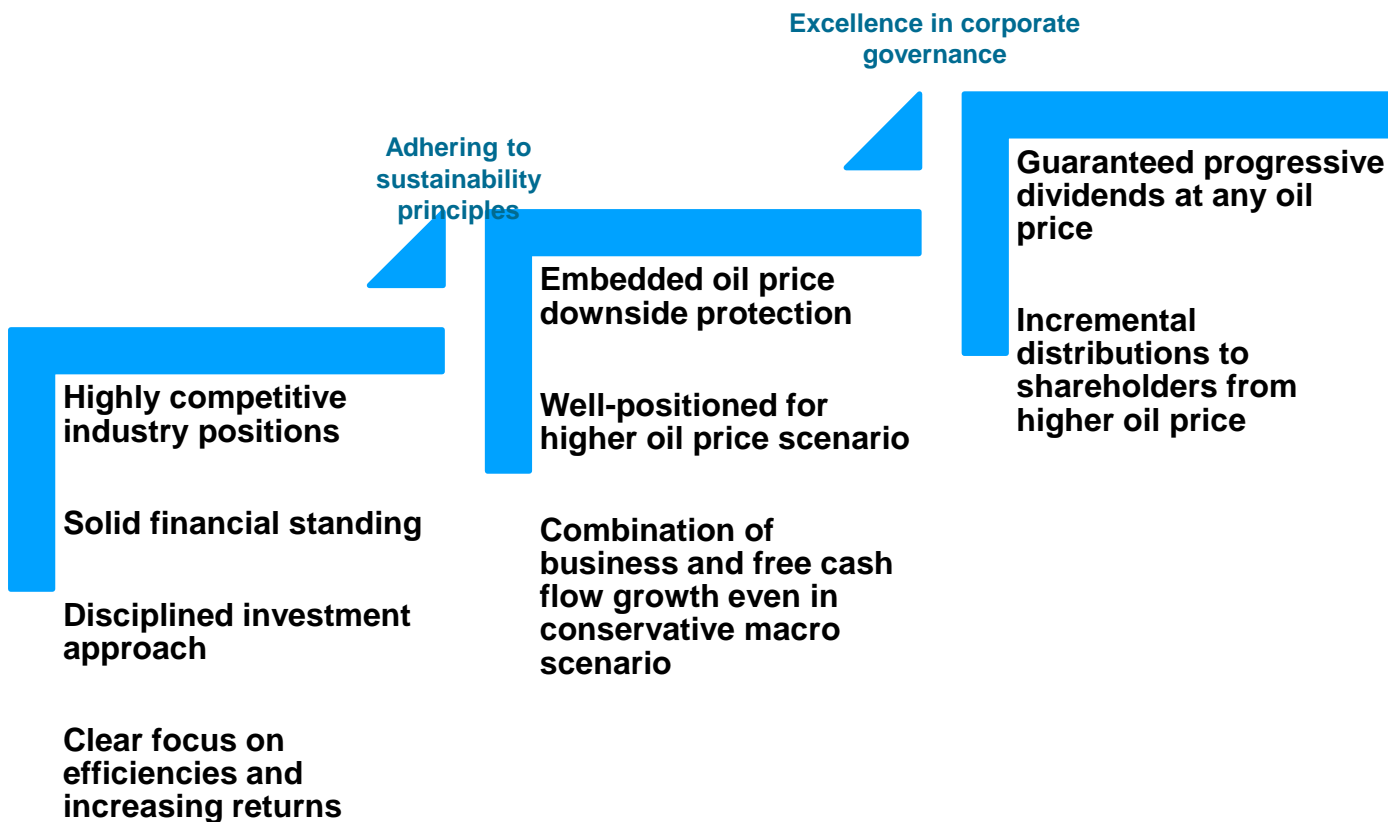
Advanced competencies in megaprojects

- Standardization and scaling
- Using existing infrastructure
- New projects before and after Final Investment Decision (FID)

LUKOIL (2018). STRATEGY OF BALANCED DEVELOPMENT . UNLOCKING POTENTIAL, 2018. Retrieved from <http://www.lukoil.com/FileSystem/9/208117.pdf>

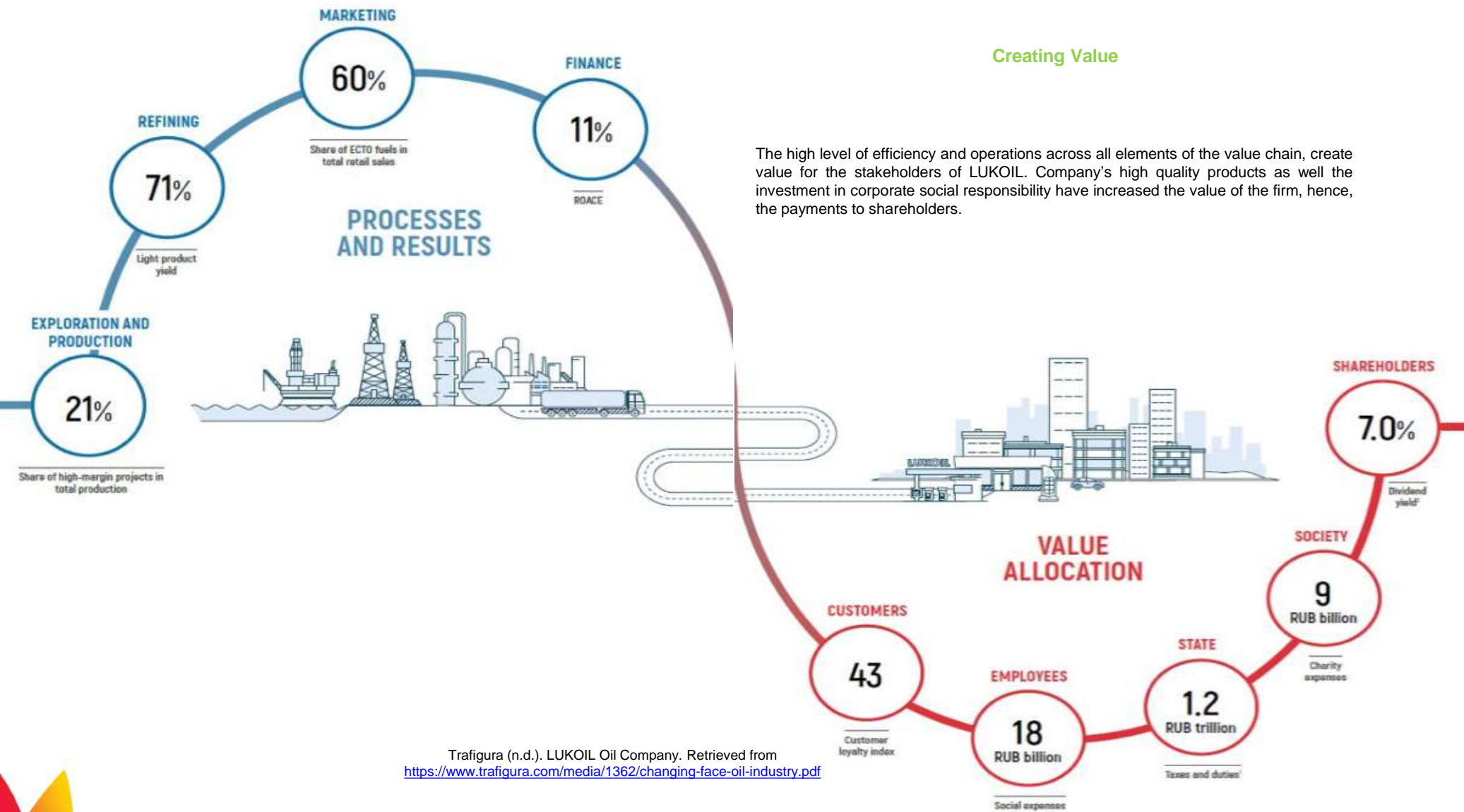
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Investment Proposition – Creating Value



- ✓ Focus on delivering long-term shareholder value through growing FCF and distributions

LUKOIL (2018). STRATEGY OF BALANCED DEVELOPMENT . UNLOCKING POTENTIAL, 2018. Retrieved from <http://www.lukoil.com/FileSystem/9/208117.pdf>



Trafigura (n.d.). LUKOIL Oil Company. Retrieved from <https://www.trafigura.com/media/1362/changing-face-oil-industry.pdf>

CAPEX 2018-27
at \$50/bbl oil price

Downstream: 15%



Upstream: 85%

Investment Program and Discipline

- ✓ **Investment planning**
 - Focus on low-risk projects in Russia and high-margin barrels
 - Focus on projects with short payback period
 - 15% – minimum target return
- ✓ **CAPEX management**
 - Large projects budget optimization
 - Phase-gate project management approach with staged investment decisions
 - Control over maintenance CAPEX

LUKOIL (2018). STRATEGY OF BALANCED DEVELOPMENT . UNLOCKING POTENTIAL, 2018. Retrieved from <http://www.lukoil.com/FileSystem/9/208117.pdf>

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Product offerings announcements: Brands

Trafigura (n.d.). LUKOIL Oil Company. Retrieved from <https://www.trafigura.com/media/1362/changing-face-oil-industry.pdf>



LUKOIL GENESIS are unique synthetic oils designed using innovative molecular technologies. Each oil has its specialization and enhanced properties provided due to unique molecular compounds. New technology used in LUKOIL GENESIS oils provides a molecular stability guaranteeing the protection of engines.

A program of engine field tests to evidence the conformance with the requirements by API, ACEA, and automakers was conducted in order to obtain international approvals and certify the stated properties. The tests were made by the leading laboratories of the USA and Europe, which confirmed the highest quality level of LUKOIL GENESIS oils.



As a result of a refinery upgrade, LUKOIL has started to manufacture engine fuels with improved environmental properties before it became a requirement of the Russian Government, ahead of the industry.

Since June 2012, all Russian refineries of the LUKOIL Group have started to manufacture Euro-5 compliant gasolines (environmental class 5) which is the compulsory fuel quality standard in Europe.

Such fuel has a low content of polycyclic aromatic hydrocarbons and sulfur. This helps reduce the concentration of harmful environmental emissions. Gasoline of this class can reduce soot and nitrogen oxide emissions from gasoline-powered vehicles by 25 percent. Euro-5 compliant diesel fuel helps reduce soot emissions by 80 percent and nitrogen oxide emissions by 20 percent.



ECTO is a product line of innovative fuels compliant with the European quality level. ECTO has become the first Russian fuel with improved performance and environmental properties. It is compliant with EURO-5 standard.

Balanced additives packages included into the fuel formula help protect the engine and reduce the concentration of harmful substances in the exhaust gases.

- Injector cleaning
- Corrosion protection
- Less scaling
- Protection against emulsification
- Friction modifier
- Excellent diffusion
- Reduced foaming

Product offerings announcements
Product Innovation
LUKOIL Marine Lubricants

LUKOIL Marine Lubricants received two awards in the category of innovation. The first was the Technology/Innovation Award at the Fifth Annual Maritime Standard Awards, for developing and enhancing the iCOLube unit; the second received at Dubai Maritime Summit, the Dubai Maritime Innovation Award, for their pioneering efforts to advance creativity and innovation in the local maritime sector.

LUKOIL Marine Lubricants was the first lubricant supplier in the market to realize and react to a new concern of engine manufacturers that the 40 BN lubricants available in the market did not seem to provide sufficient detergency to handle 0.1 and 0.5% fuels. Offering a solution to this problem for the years leading up to 2020 and beyond, LUKOIL Marine Lubricants launched NAVIGO MCL Extra in May 2017, a 40 BN marine cylinder oil for distillate, ultra-low Sulphur fuel oil (<0.1%S) and very low Sulphur heavy fuel oil applications.



PES (2018). LUKOIL Marine Lubricants celebrates a double Award Win for Innovation, 2018. Perceived from <http://www.pes.eu.com/renewable-news/lukoil-marine-lubricants-celebrates-a-double-award-win-for-innovation/>

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