

ALWAYS MOVING FORWARD



LUKOIL

ANNUAL  
REPORT

2013

LUKOIL is one of the largest oil & gas companies in the world. It accounts for more than 2% of world production of crude oil and about 1% of proved hydrocarbon reserves. Vertical integration gives LUKOIL a full production cycle and control of the entire production chain from oil & gas extraction to marketing of petroleum products

The fuels, electricity and heat energy, which we produce, are used every day by consumers in 39 countries to improve the quality of their lives. The LUKOIL workforce consists of 110,000 people who harness their efforts and talents to ensure that the Company maintains its leading positions in the market



## MISSION

Our mission is to harness natural energy resources for human benefit, developing our hydrocarbon fields efficiently and responsibly, ensuring growth of Company business and contributing to the well-being of our employees and of society



## CORPORATE VALUES

→ **Personnel and continuity.** Everything our Company does is done by and for people. We transmit the experience of generations of petroleum engineers, maintaining continuity through time

→ **Consideration for the environment.** As one of the world's largest users of natural resources, we adhere strictly to the highest international environmental standards. We are proud of the well-planned system of environmental management, which we have put in place throughout the LUKOIL chain of command

→ **Responsibility** for the lives of people and for the natural resources entrusted to us in the regions of our operations

→ **Openness and partnership** in collaboration with society and stakeholders

→ **Morality.** True to its mission, LUKOIL does business justly and honestly, with respect and decency



## STRENGTHS

→ **Competitiveness.** A diversified asset portfolio, strong resource base and growing business

→ **Efficiency.** LUKOIL is one of the most efficient companies in the Russian oil & gas sector

→ **Reliability.** LUKOIL has stable shareholder structure and high standards of corporate governance and responsibility

→ **Yield.** Stable financial position and strong financial results enable us to steadily increase our returns to shareholders. Dividends per share for 2013 may be as high as 110 rubles (+22.2% compared with 2012 ) offering 5.5% dividend yield

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6	8	9	10	12	13	15	17



## EXPLORATION & PRODUCTION

Reserves	Geological Exploration	Oil Field Development and Oil Production	Prospective Projects	LUKOIL-Komi	Technologies
23	25	28	33	38	40



## REFINING, PETROCHEMICALS, POWER GENERATION AND MARKETING

Oil Refining	Gas Processing	Petrochemicals	Power Generation	Sales of Oil & Gas	Petroleum Product Marketing
47	53	54	56	58	64



## CORPORATE RESPONSIBILITY

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70	72	74	77	82



## CORPORATE GOVERNANCE

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85	86	94	100	102	102



## APPENDICES

Risks	Company Financial Statements	Management Discussion and Analysis	Reference Information
109	115	163	197



# Letter to Shareholders

## DEAR SHAREHOLDERS!

LUKOIL achieved the objectives, which it set out to achieve in 2013, confirming the competitiveness, efficiency and reliability of its business, and boosting return on shares through growth of dividends to 110 rubles per share (+22% compared with 2012). Dividend yield for 2013 may reach 5.5%.

Net income in 2013 was \$7.8 billion. The bottom line was pulled down by negative impact of non-cash losses from impairment of assets.

The Company faced and successfully addressed a number of tough challenges in 2013.

↑ **1.5** %

### GROWTH OF DAILY OUTPUT OF HYDROCARBONS IN 2013

Company successes in Western Siberia are a particular source of pride. Although most fields in the region are in late stages of operation, we continued to stabilize oil production there by means of new technologies and increase of drilling work. We can also look forward to the development of a number of new fields in Western Siberia including the large Imilorsky area, where preparatory work has begun in 2013 and launch is scheduled for 2015.

The Company also has much to show for its work in the Caspian Sea, where we have significantly increased production of hydrocarbons from the Yu. Korchagin field and completed the first phase of construction at the V. Filanovsky field, which is the largest in the region.

The project for construction of the West Qurna-2 field in Iraq reached its final stage in 2013: many of the facilities are already in place. This allowed us to start commercial production on March 29, 2014.

Downstream business units in Russia also achieved notable successes in 2013, reflecting the favorable external environment but also due to their high levels of competitiveness. All of our refineries are currently undergoing comprehensive modernization. In 2013 we continued work on a coking unit at the Perm Refinery, a hydrocracking unit in Volgograd and catalytic cracking capacities in Nizhny Novgorod. Commissioning of these facilities will help to ensure growth of Company cash flows.

Our strategy seeks to increase long-term shareholder value and returns for shareholders. LUKOIL is now at the peak of its investment cycle, creating new and efficient points of growth for future sustainable development of its businesses. Investments in new projects will strengthen the resource base and modernization of the Company's refining facilities will increase business efficiency.

LUKOIL will continue working towards its strategic goals in the future, creating a highly profitable business capable of maximizing benefits in all market environments and providing superior returns to shareholders.

The Company's stable shareholder structure favors high standards of corporate governance and continuity, as evidenced by our high ratings for credit worthiness. In 2013 the international agencies Fitch and Standard & Poor's raised the LUKOIL credit rating to level BBB.

In more than 20 years of work, we have made best-possible use of the natural and human resources at our disposal, and this has been a major key to our success. LUKOIL is the sole Russian oil company operating offshore fields, where we strictly observe a principle of zero discharge to ensure that our activities cause no harm to the natural environment.

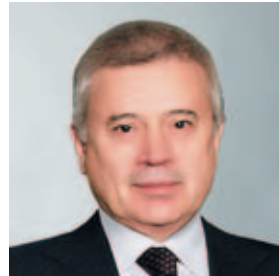
LUKOIL maintained its focus on issues of industrial health and safety and protection of the environment in regions of operation during 2013.

<sup>1</sup> Dividends recommended by the Board of Directors for 2013 year.



**Valery Grayfer**

Chairman of the LUKOIL Board of Directors



**Vagit Alekperov**

President of LUKOIL

## \$ 4 ABOUT BILLION

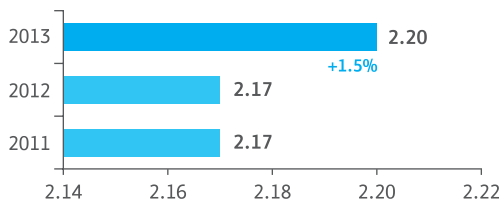
THE COMPANY HAS INVESTED IN PROTECTION OF THE ENVIRONMENT OVER THE LAST FIVE YEARS

The money has been spent on reduction of atmospheric pollution (mainly by increased utilization of associated petroleum gas) as well as prevention and elimination of the consequences of accidents.

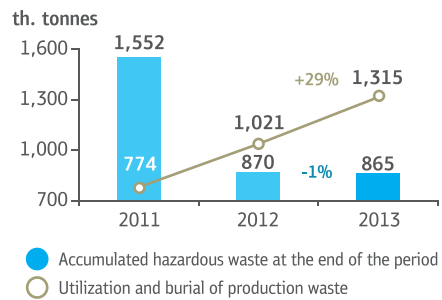
Committed as ever to principles of social responsibility, LUKOIL continued its sponsorship and charity activities in 2013, supporting educational, medical and sports facilities, and contributing to the preservation of cultural and historical heritage in its regions of presence.

Beyond any doubt, the key factor in the Company's success is the ability of all its staff to work as a team. Strong financial performance in 2013 enabled us to index the wages of our employees and to pay annual premiums. We are committed to creating conditions, in which every one of our employees can realize his or her potential to the full.

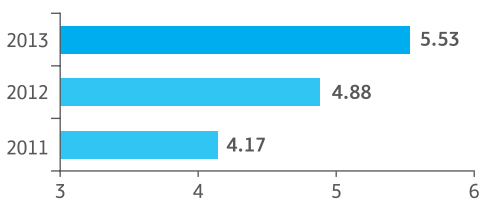
### Marketable hydrocarbon production, mln boe per day



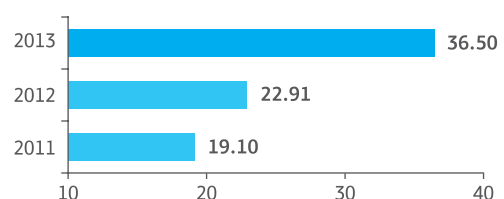
### Main environmental impact indicators



### Dividend yield<sup>1</sup>, %



### Dividend payout<sup>2</sup>, %



<sup>1</sup> Dividend yield is calculated based on the recommendation of the Board of Directors to pay dividends of 110 rubles per share for 2013 and the average market price of Company shares on the MICEX Exchange during 2013.

<sup>2</sup> The payout ratio is calculated based on the recommendation of the Board of Directors to pay dividends of 110 rubles per share for 2013, the ruble-dollar exchange rate at the end of the period, the total number of outstanding shares of LUKOIL and net income in the period.



# LUKOIL on the World Map

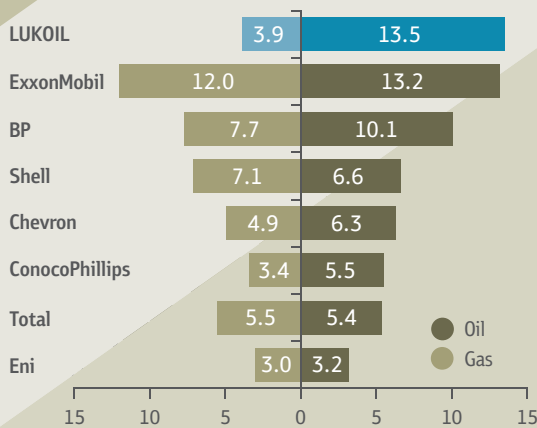
LUKOIL IS A GLOBAL COMPANY

WE DO BUSINESS

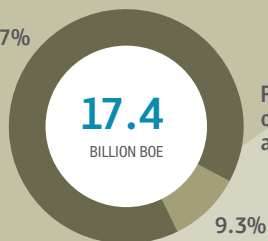
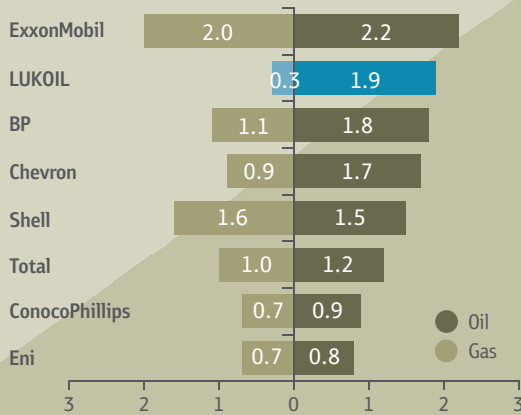
ON **4** CONTINENTS  
IN **39** COUNTRIES

MORE THAN **2%** OF WORLD PRODUCTION OF CRUDE OIL  
ABOUT **1%** OF THE WORLD'S PROVED OIL RESERVES

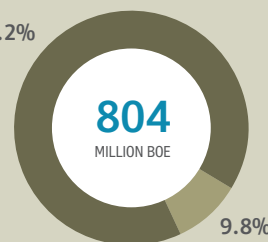
Proved hydrocarbon reserves of the largest international privately owned oil & gas companies (31.12.2013), billion boe



Marketable hydrocarbon production by the largest international privately owned oil & gas companies (2013), million boe per day



Proved reserves of hydrocarbons as of 31.12.2013



Production of marketable hydrocarbons

31.12.2013

● Russia ● International projects



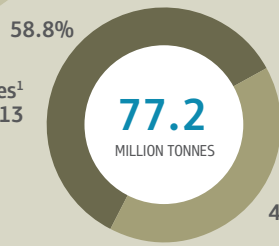
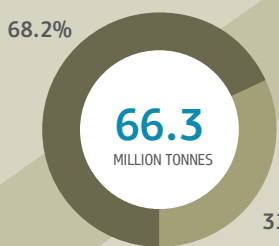
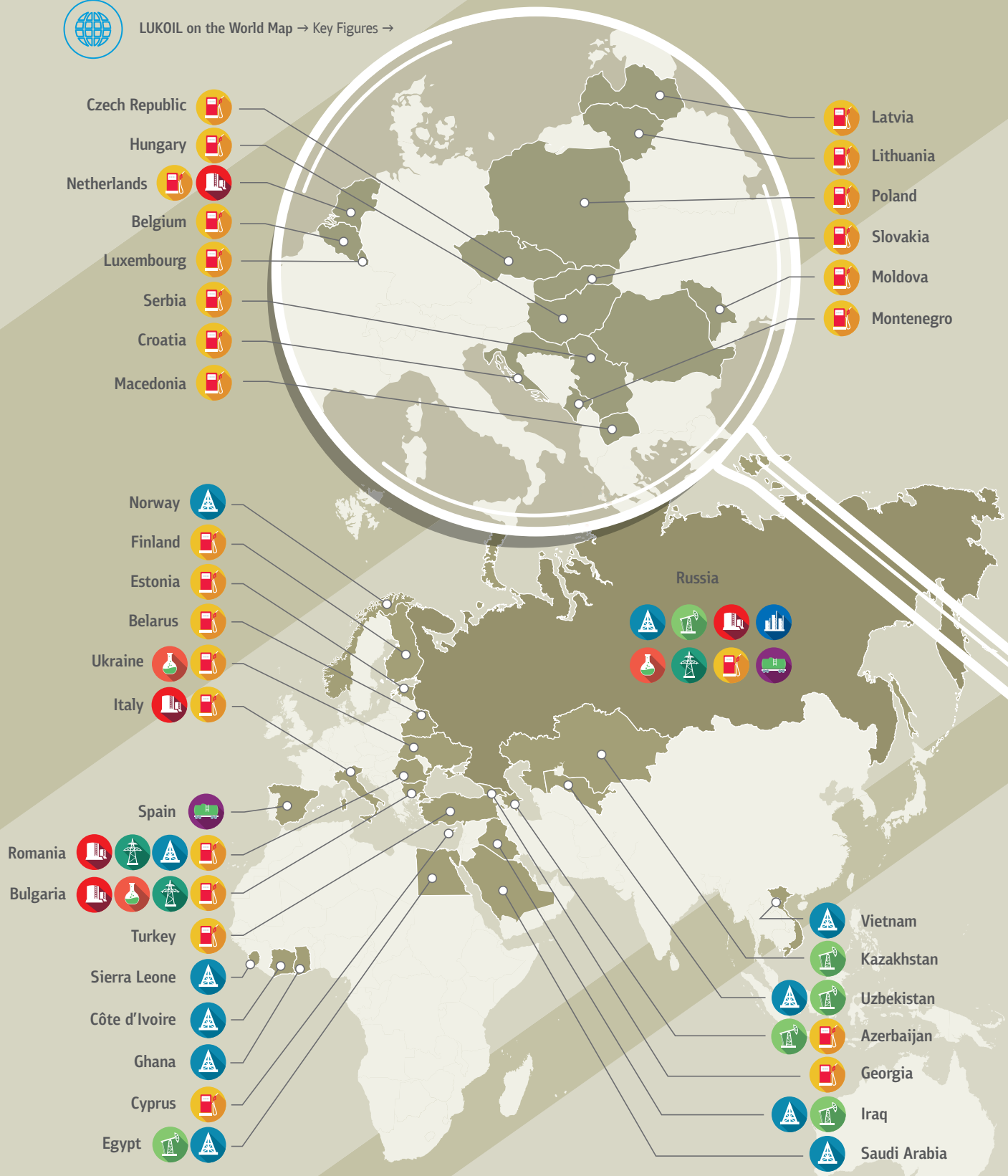
Production and preparation for production of crude oil, gas and condensate



Refining



Gas processing



● Russian refineries ● Foreign refineries

<sup>1</sup> Owned and affiliate refineries.

**GEOGRAPHICAL DIVERSIFICATION IS THE KEY TO SUSTAINABILITY AND EFFICIENCY OF COMPANY BUSINESS**



Petrochemicals



Power generation



Marketing



Transshipment of oil and petroleum products



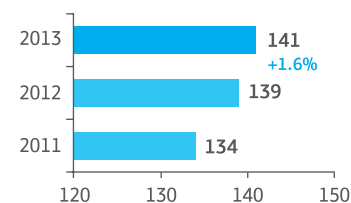
# Key Figures

Change 2013/2012		2013	2012	2011
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## STRONG FINANCIALS

1.6% ↑	Sales, \$ million	141,452	139,171	133,650
-11.9% ↓	EBITDA, \$ million	16,668	18,915	18,606
-28.8% ↓	Net income, \$ million	7,832	11,004	10,357
-28.3% ↓	Basic earnings per share, \$	10.38	14.47	13.30
30.2% ↑	Capital expenditures, \$ million	15,434	11,850	8,492
2.0% ↑	Share price on the MICEX, rubles	2,040	2,000	1,701
22.2% ↑	Dividend per share, rubles	110	90	75

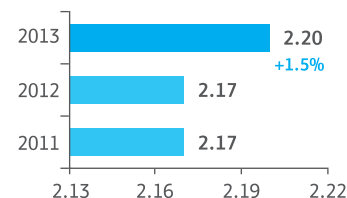
Revenue, \$ billion



## STRONG OPERATIONALS

0.6% ↑	Proved hydrocarbon reserves, million boe	17,401	17,296	17,269
1.5% ↑	Production of marketable hydrocarbons, thousand boe per day	2,202	2,170	2,166
0.4% ↑	Crude oil and petroleum product refining <sup>1</sup> , million tonnes	66.3	66.1	64.9
-8.4% ↓	Crude oil exports, million tonnes	31.8	34.7	34.7
4.1% ↑	Petroleum product exports, million tonnes	23.4	22.5	24.0
-1.0% ↓	Number of filling stations (owned, leased and franchises)	5,867	5,928	5,994

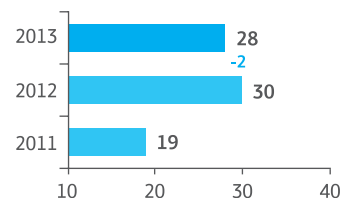
Marketable hydrocarbon production, mln boe per day



## CORPORATE RESPONSIBILITY

-25.9% ↓	Contaminated land, hectares	243	328	395
	Share of associated petroleum gas usefully employed, %	88.0	87.6	79.3
-6.7% ↓	Number of accidents	28	30	19
-2% ↓	Average number of employees, thousand	109.6	112.0	120.3

Number of fatal accidents



<sup>1</sup> At own refineries and at ISAB and Zeeland.



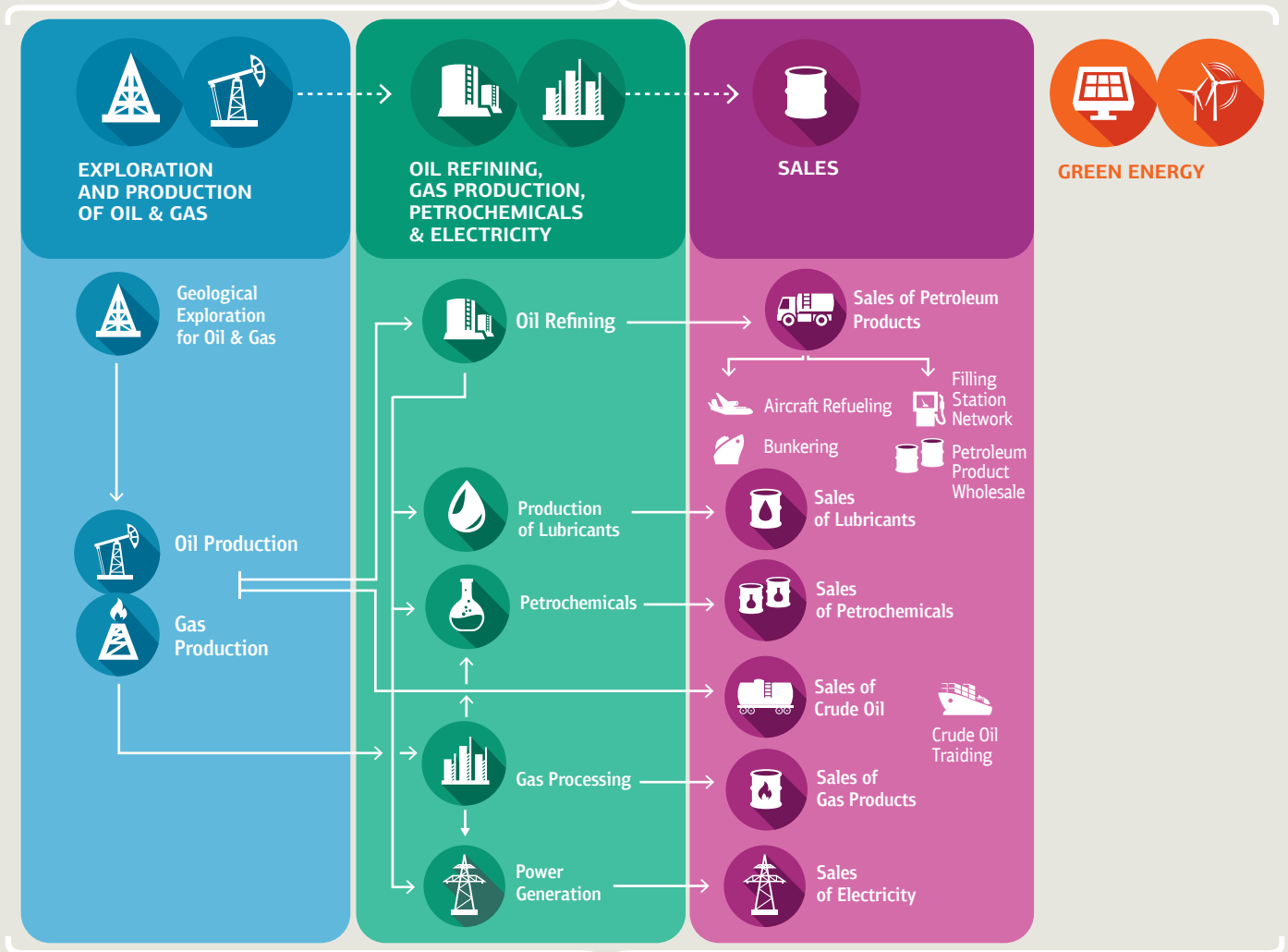


# Business Model

We control the entire production chain from extraction of hydrocarbons to sales to end-users, so we can ensure that all stages of our business are managed efficiently.

Vertical integration assists the growth of Company efficiency and lowers risks for end-users

## GLOBAL SCALE



## OWN TRANSPORT, POWER GENERATING AND SALES INFRASTRUCTURE

**550** AUDITED FIELDS

**27.6** BILLION BOE OF 3P RESERVES

**2.2** MILLION BOE DAILY PRODUCTION OF MARKETABLE HYDROCARBONS

- 6 refineries, 2 mini-refineries, 1 oil refining complex (refining in 2013 totaled 66.3 million tonnes)
- 4 gas processing plants (gas processing in 2013 totaled 3.1 billion m<sup>3</sup>)
- 3 petrochemical plants (total output in 2013 was 1 million tonnes)
- 6 power generating companies (electricity generation in 2013 totaled 15.7 billion kWh)

- 4 transshipment terminals (6.4 million tonnes of crude oil were exported through the terminals in 2013).
- About 5.9 thousand filling stations (average fuel sales per station in 2013 were 9.2 thousand tonnes)



## Events in 2013

### FIRST QUARTER

- **Signing of a further agreement to the contract for the West Qurna-2 field**

The additional agreement is for transfer from Norwegian Statoil to LUKOIL of an 18.75% interest in the project. The parties agreed to reduce the target production level from 1.8 million to 1.2 million barrels per day and also to extend the target production plateau from 13 to 19.5 years and the total duration of the contract from 20 to 25 years. These changes to parameters substantially reduce risks associated with project implementation.

- **Starting modernization of the Volgograd Refinery, construction of a deep processing unit for vacuum gas oil**

Total value of the contract is in excess of \$1.4 billion and completion is scheduled for 2016. Launch of the new unit will enable the Volgograd Refinery to increase Euro-5 diesel production by 1.8 million tonnes per year. The upgrading work includes the installation of mild hydrocracking of vacuum gas oil with capacity of 3.5 million tonnes per year with a conversion rate of 75%, representing one of the largest installations of its kind in the world, as well as a combined unit for production of sulphur and hydrogen.

- **Start of construction of a combined cycle generating unit as part of the new gas processing complex in the Northern Caspian**

The combined cycle gas turbine (CCGT) unit has output capacity of 135 MW of electricity and 58 Gcal per hour of heat. It will be powered by associated gas produced at fields in the Northern Caspian.

### SECOND QUARTER

- **Acquisition of Samara-Nafta**

LUKOIL signed an agreement to purchase 100% of the company Samara-Nafta for \$2.1 billion. The company produces about 2.5 million tonnes of crude oil per year in Samara and Ulyanovsk Regions. Most company fields are in initial stages of development and have potential for maintaining and increasing production levels. The presence of LUKOIL oil refining, petrochemical and transport capacities in the vicinity offers substantial synergies.

- **Acquisition of a 50% interest in Kama-Oil**

LUKOIL acquired a 50% interest in Kama-Oil for \$400 million, increasing the Group's stake in the company to 100%. Kama-Oil is engaged in the exploration and production of hydrocarbons in Perm Region of the Russian Federation.

- **Eurobond issue**

LUKOIL completed a \$3 billion Eurobond issue. The bonds are in two tranches of \$1.5 billion each with maturities of five years at 3.416% and 10 years at 4.563%.

- **Early oil project starts at the Imilorsko-Istochny license area**

LUKOIL created a governing council for the project and approved the implementation schedule. During 2013-2016 additional seismic work will be carried out, 15 previously drilled exploration wells will be retested and four new exploration wells will be built. Reserves will be recalculated using the data, which are obtained. Early oil should start to flow in 2015.

- **Commissioning of the main compressor station at the Nakhodkinskoye field**

LUKOIL commissioned the first phase of the main compressor station to carry gas from Company fields in the Bolshekhetskaya Depression to the Gazprom transportation system. The first phase of the station has capacity of 18 billion m<sup>3</sup> per year. Construction of the second phase with 9 billion m<sup>3</sup> annual capacity is planned in 2015-2016.

- **Expanding wind energy business**

The Company LUKERG Renew (a parity JV between LUKOIL-Ecoenergo and Italian ERG Renew) acquired two wind power stations with total capacity of 84 MW from the Danish company, Vestas. Clean electricity generating at the Gebeleizis and Khrabrovo windfarms will save 77 thousand tonnes of CO<sub>2</sub> emissions each year.

- **Acquisition of the European lubricants business of OMV**

LUKOIL acquired the OMV lubricant blending plant with annual capacity of 80 thousand tonnes located in the suburbs of Vienna (Austria), as well as sub-divisions of OMV, which distribute finished products in Europe. The transaction will provide



synergies with LLK-International plants in Romania and Finland, optimize the logistics of lubricant supply to strategic partners and reinforce LUKOIL's science and technology capacities for the development of new lubricants.

### THIRD QUARTER

- **Start of work on construction of an associated gas pipeline in Perm**

LUKOIL began construction of a pipeline to transport associated petroleum gas from the Kokuiskeye field to the LUKOIL Perm Gas-processing Plant. The pipeline will be 105 km long and have annual capacity of 1 billion m<sup>3</sup>. Commissioning is scheduled for 2014. Construction of the pipeline is part of LUKOIL's corporate program for utilization of associated gas.

- **Bashneft-Polyus starts production in the Trebs and Titov field development project**

The company Bashneft-Polyus, a joint venture between LUKOIL and OJSC Bashneft, began oil production in the project for development of the Trebs and Titov fields in Nenets Autonomous District. Production is in test mode. Commercial operation of the fields is scheduled to begin in 2016.

- **LUKOIL remains the most 'trusted brand'**

LUKOIL topped the filling station rankings once again in the 2013 round of 'Trusted Brand' research, organized in Russia by Reader's Digest international publishing house. LUKOIL filling stations were the choice of 36% of survey respondents. LUKOIL has kept its pole position in the survey from 2006 to 2012. LUKOIL also ranked highest in the 'Trusted Brand. Green Planet' nominations, where 37% of respondents awarded Company filling stations top marks for environmental protection.

- **Company executives ranked among best Russian managers in 2013**

The Association of Russian Managers and Kommersant publishing house presented the 14th annual ranking of the leading Russian managers. The President of LUKOIL, Vagit Alekperov, was placed among top Russian business leaders and a number of senior LUKOIL executives figured high in the Energy and Fuel Industry rankings.

### FOURTH QUARTER

- **Company shareholders approve payment of interim dividends**

Shareholders of LUKOIL decided to pay interim dividends for the first half of the 2013 financial year in the amount of 50 rubles per ordinary share.

- **Work starts to modernize mini-refinery in Kogalym**

The project envisages construction of an isomerization unit, reconstruction of the diesel hydrotreatment unit and construction of a gasoline blending unit. Following completion of the work in December 2014 the plant will start production of Euro-5 fuels.

- **First stage of V. Filanovsky field construction is completed**

LUKOIL completed the installation of substructures for the ice-resistant fixed platform, central processing platform, platform with living quarters and riser block at the V. Filanovsky field in the Caspian Sea. This means that all major construction work, which was scheduled at the field in 2013, was successfully completed. Construction of the platform upper sections and the start of drilling work will go ahead in 2014.



# Strategy and Achievements

The Company's strategic objective is growth of shareholder value and of income to shareholders

We take best corporate governance practices as our guide in order to achieve best possible results while adhering to a conservative financial policy.

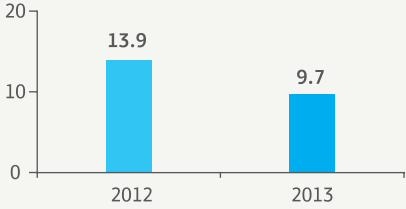
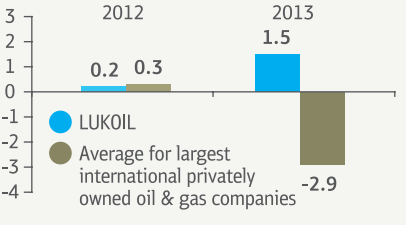
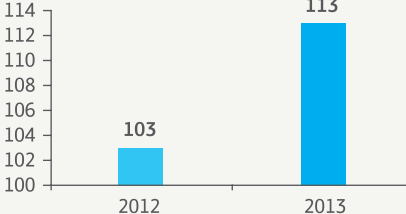
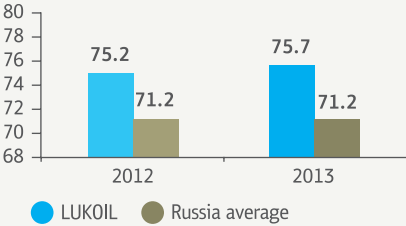
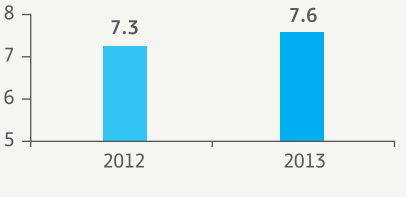
STRATEGIC OBJECTIVE	PRIORITIES	PROGRESS IN 2013	KEY PERFORMANCE INDICATOR	RISKS
<b>Strengthening industry position</b>	↑ Financial efficiency	Net income per barrel of hydrocarbon production increased by 12% over the previous five years thanks to cost control and best use of technology in business processes. Decline of the indicator in 2013 was due to non-cash write-downs of a non-recurring nature	Net income per boe of production	<b>Macroeconomic risks</b> , in particular the reduction of demand for and uncontrolled supply growth of hydrocarbons and petroleum products, currency fluctuations and inflation, deterioration of the tax regime, and political instability in the countries where the Company does business
	↑ Operating efficiency by segments:			
	Exploration and Production	We increased production of hydrocarbons in 2013 and achieved more than 100% reserve replacement	Growth of hydrocarbon production, RRR	
	Refining and Marketing	Ongoing modernization of production facilities increased the Nelson index to 7.6, and processing depth reached 75.7%	Nelson index, Refining depth	<b>Risks associated with obtaining access to new sources of hydrocarbons</b>
<b>Capital structure</b>	→ Maintaining financial sustainability	The Company is gradually increasing its leverage to match the investment peak, while maintaining financial independence and good access to capital markets	Net debt to equity, average-weighted interest rate on long-term loans and credits	<b>Macroeconomic factors</b> , such as a sharp deterioration of the investment climate and capital flight leading to <b>risk of changes in interest rates</b>
<b>Optimal balance in the allocation of cash flows</b>	↑ Increase of payments to shareholders	In 2013 we will increase payout to shareholders for 2013 to 36.5% of net income and dividend yield may be as high as 5.5%. Investments in priority projects, which will ensure long-term growth of the business, were also significantly increased	Dividend yield, share of dividends in net profit	<b>Macroeconomic risks</b> , such as changes in prices for hydrocarbons, exchange rate fluctuations and inflation, may have adverse effect on the Company's financial results
<b>High level of corporate responsibility</b>	↓ Minimizing environmental impact	In 2013, the Company continued to invest in environmental protection, including increased utilization of associated petroleum gas	Rate of utilization of associated gas	<b>Environmental risks</b> , such as oil/petroleum product leaks and spillages
	↑ Industrial safety, accidents at work			
	↓ at work	High standards of health and safety helped to reduce the number of work accidents at Group enterprises	Number of fatal accidents	

→ Key Performance Indicators, p. 13  
 → Risks, p. 109

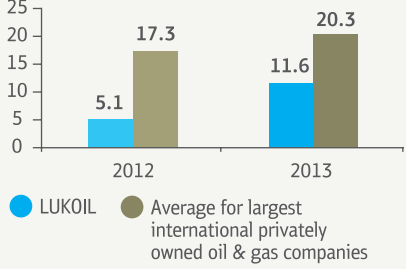
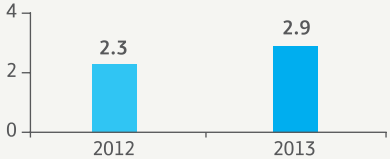
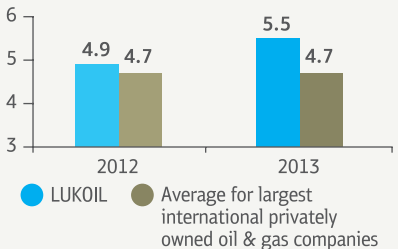
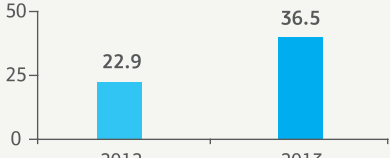
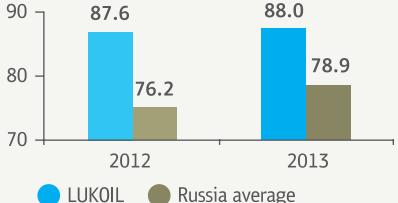
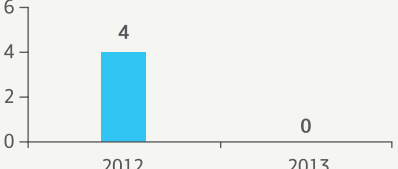


# Assessing Achievements: Key Performance Indicators (KPIs)

KPIs and employee incentives are intrinsically linked since KPIs provide an efficient system for motivating and stimulating best-possible performance by our personnel.

STRATEGIC OBJECTIVE	RELEVANCE	PROGRESS IN 2013
<p><b>Strengthening Company positions in the industry</b></p> <ul style="list-style-type: none"> <li>• Financial efficiency</li> <li>• Net income per boe of production, USD per boe</li> </ul> 	<p>Net income per barrel of hydrocarbon production reflects ability to generate income per unit of production</p>	<p>The indicator declined in 2013 in a context of growth of hydrocarbon production and lower net income due to non-cash write-downs of a non-recurring nature</p>
<ul style="list-style-type: none"> <li>• Operating efficiency</li> <li>• Exploration &amp; Production Rates of growth of hydrocarbon production, %</li> </ul> 	<p>Enables overall assessment of the success of Company strategy in Exploration &amp; Production</p>	<p>The company achieved 1.5% hydrocarbon production growth in 2013, which is the best result among the world's largest private oil and gas companies. We are also working intensively to develop promising projects, which will be launched in coming years</p>
<p><b>Reserve replacement ratio (RRR), %</b></p> 	<p>Reflects compensation of production by the discovery and acquisition of new fields and recounting of reserves</p>	<p>Replacement of reserves exceeded 100%, which is fully consistent with LUKOIL's stated strategy</p>
<p><b>Refining &amp; Marketing Refining depth, %</b></p> 	<p>Evaluates efficiency in use of inputs, reflecting the technical level of refinery equipment. Shows the share of products, with the exception of fuel oil and irretrievable losses in the refining process</p>	<p>The company is gradually increasing the depth of refining thanks to a program for modernization of refining facilities. In 2013 refining depth at LUKOIL facilities reached 75.7% compared with an average Russian figure of 71.2%</p>
<p><b>Nelson index</b></p> 	<p>An indicator of the technical level of refinery equipment. Evaluates the scale of secondary refining as compared with primary refining at a refinery. The higher the Nelson index, the more advanced the refinery and the higher the quality of its outputs</p>	<p>LUKOIL is gradually increasing its Nelson index thanks to the refining capacity modernization program. In 2013 the index reached 7.6</p>



STRATEGIC OBJECTIVE	RELEVANCE	PROGRESS IN 2013
<p><b>Optimal structure of capital</b></p> <ul style="list-style-type: none"> <li>• <b>Financial sustainability</b></li> </ul> <p><b>Net debt to equity, %</b></p>  <p><b>Average-weighted interest rate on long-term loans and credits, %</b></p> 	<p>Measures the Company's financial independence</p> <p>Reflects the cost of borrowing</p>	<p>The share of funds invested by external lenders reached a new low in 2012. This enabled our Company to begin gradually increasing the share of debt financing for future projects and to increase dividend payments</p> <p>Low cost of borrowing demonstrates easy access to capital markets, confirming the soundness of the Company</p>
<p><b>Optimal balance in cash flow allocation</b></p> <p><b>Dividend yield, %</b></p>  <p><b>Share of dividends in net profit (payout ratio), %</b></p> 	<p>Shows competitiveness of Company dividend policy</p> <p>Shows Company policy in distribution of profits</p>	<p>Dividend yield for 2013 could be as high as 5.5%, which is significantly more than average levels for the largest privately owned oil &amp; gas companies</p> <p>LUKOIL is systematically increasing the dividend payout ratio, which could be as high as 36.5% in 2013</p>
<p><b>High levels of corporate responsibility</b></p> <p><b>Utilization of associated gas, %</b></p>  <p><b>Number of fatal accidents</b></p> 	<p>Reducing environmental impact, particularly atmospheric emissions, is the key objective of the Company's environment policy</p> <p>Human life is the highest value, so we do everything we can to improve industrial safety</p>	<p>The Company increased its rate of utilization of associated gas to 88.0% in 2013, which is much higher than the average level in Russia</p> <p>The industrial industry rate was reduced in 2013 by ensuring safe and convenient working conditions. There were no fatal accidents at work in 2013</p>



# Risk Management System

The Company pays much attention to risk management in order to provide reasonable assurance of achieving its objectives despite uncertainties and the impact of negative factors.

LUKOIL is working to develop its risk management to the greatest possible extent and is currently focused on the creation of a Company-wide enterprise risk management (ERM) system, matching international best practice.

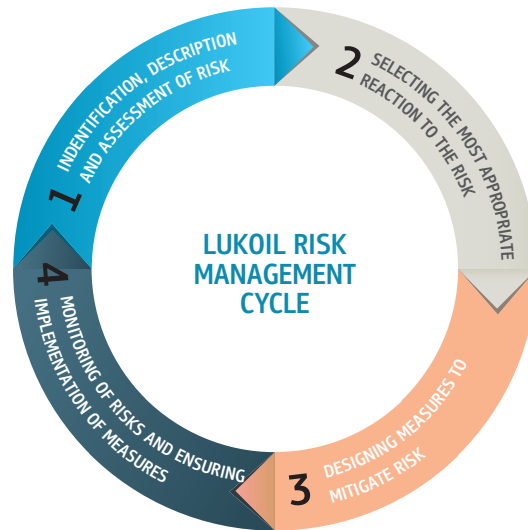
In 2011, the Company approved a risk management policy, which defines the basic goals, objectives and principles of risk management at LUKOIL.

## PROGRESS IN 2013

- The framework for risk management at Company business units was improved, as regards measures to minimize levels of risk, to ensure proper qualitative and quantitative assessment of residual risk, and to monitor risk
- Employee trainings on measures to reduce risks were provided
- Information in the general corporate register of risks was updated

## OBJECTIVES FOR 2014

- Improve the regulatory and methodological framework for risk management
- Improve the quality of information about risks through unification, typology and the issue of recommendations for description of typical risks
- Increase the accountability of Company officials for risk management results and the quality of risk management
- Detailed analysis and issue of recommendations on the management of principal risks
- Embed risk management in corporate practice by making underlying business processes 'risk-aware' and by appropriate management of those processes
- Reduce the cost and improve the quality of risk management, automate risk management to the greatest possible extent



Risk management is an integral part of the Company's corporate governance system and is applied at all levels of management.

[Risks, p. 109](#)

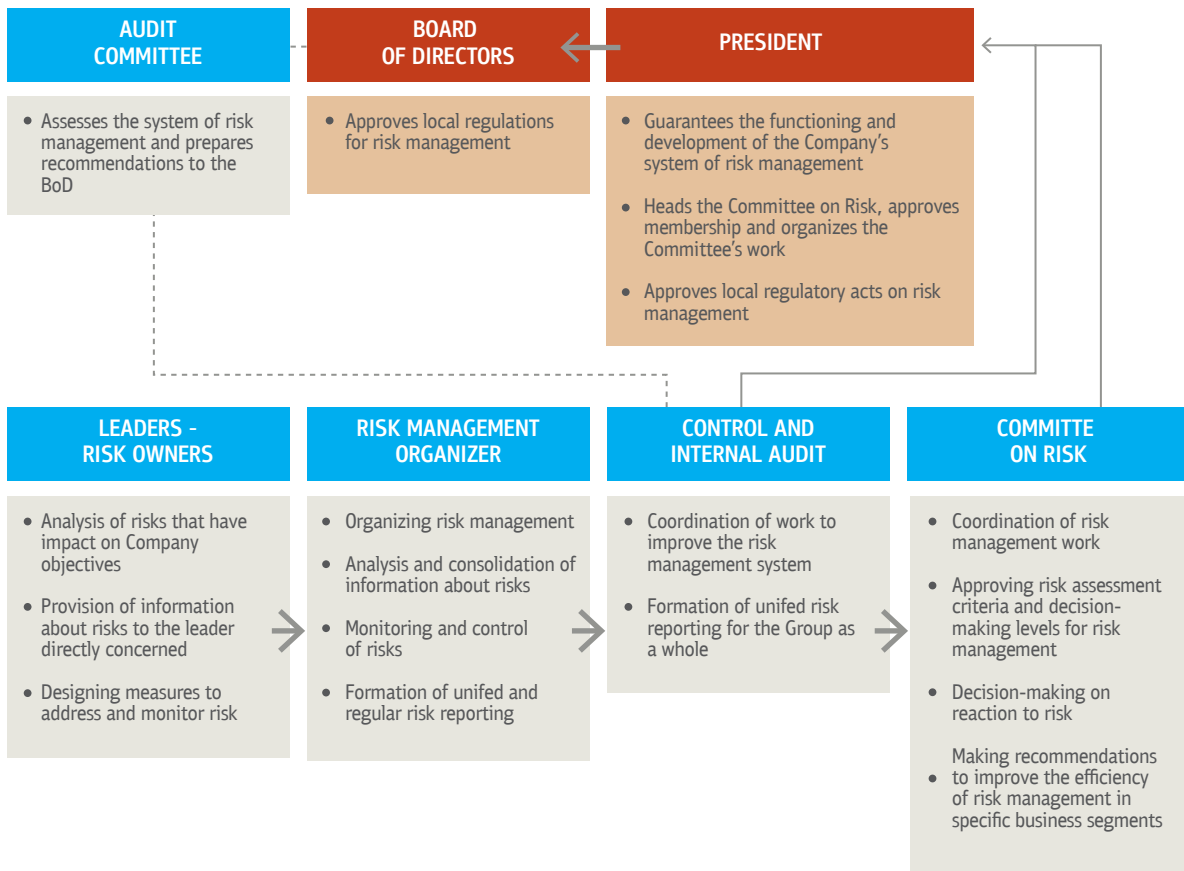


APPROACHES FOR ADDRESSING RISK

REACTION TO RISK	RISK TO BE ASSUMED:	RISK TO BE TRANSFERRED:	RISK TO BE REDUCED:	RISK TO BE AVOIDED:
CRITERIA FOR DECIDING ON HOW TO REACT	Effort and costs to reduce the risk exceed the level of possible losses	Possible consequences of the risk are to be reduced by sharing the consequences with other parties	Possible consequences of the risk are to be reduced to acceptable levels	It is impossible or inexpedient to reduce the negative consequences of the risk

Consequences are unacceptable		●	●	●
Substantial negative consequences	●	●	●	
No substantial negative consequences	●	●	●	

MAIN PARTICIPANTS OF THE RISK MANAGEMENT PROCESS







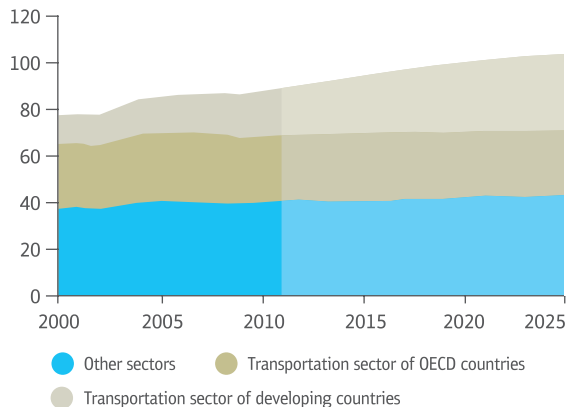
# Main Trends in Development of the Oil & Gas Industry up to 2025

## WORLD DEMAND FOR OIL WILL CONTINUE TO GROW IN THE COMING DECADE

Population growth, urbanization and the formation of a consumer class in Asia will contribute to the growth in world demand for oil. The main increase in consumption will come from the transport sector in developing countries.

Based on forecast growth of the world population by 1.1 billion people in 2010-2025, we expect world consumption of liquid hydrocarbons to grow at an average annual rate of 1.2% and to reach 105 million barrels per day by 2025.

### Liquid hydrocarbons consumption forecast, million barrels per day



Source: IEA, IHS CERA, LUKOIL estimates.

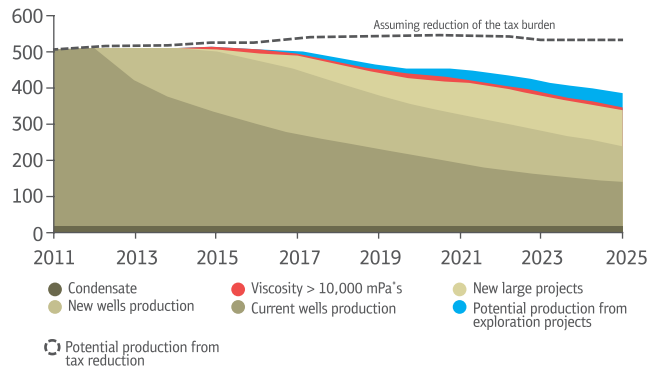
The share of crude oil in world consumption of hydrocarbons will gradually shrink due its substitution by other energy sources in such sectors as power generation and housing services.

More than 70% of supply growth of liquid hydrocarbons in 2010-2025 will be from the development of high-tech (enhanced recovery) techniques in oil production and use of alternative fuels, such as liquefied gas, GTL and biofuels.

## OIL PRODUCTION IN RUSSIA NEEDS NEW TECHNOLOGIES

90% of oil production in Russia is at fields, which were discovered before 1988, since most of the fields that have been discovered more recently are located in remote areas with harsh climatic conditions and other factors, which impede their development. So future trends in Russian production will depend on the ability of companies to bring new fields into operation in a timely fashion and on increased deployment of modern technology to maintain production levels at old fields. This strategy will require a large amount of investments.

## Forecast liquid hydrocarbon production in Russia, million tonnes



Source: CDU TEK, LUKOIL estimates.

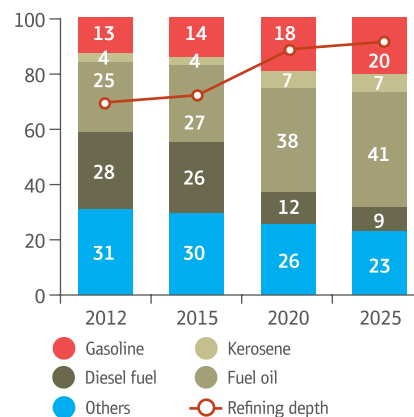
## THE REFINING CRISIS IN EUROPE WILL CONTINUE

Decline in demand for petroleum products in Europe in 2009 led to a decline in loading levels at European refineries. Also, the world's largest consumer of gasoline, the U.S., is increasing levels of domestic production and therefore reducing imports. This has led to a major crisis in the European refining industry. Commissioning of new capacities in Asia and the Middle East will lead to a redistribution of petroleum product flows, and will increase competition in the European market.

## RUSSIAN REFINERIES WILL UNDERGO LARGE-SCALE MODERNIZATION

A set of measures by the Russian government to encourage investment in refinery upgrades and growth of domestic vehicle fleets will encourage increase of light product yield and reduce production of fuel oil at Russian refineries.

### Structure of refinery production and refining depth in Russia, %



Source: Petromarket, LUKOIL estimates.



# EXPLORATION & PRODUCTION



RESERVES

23



GEOLOGICAL EXPLORATION

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OIL FIELD DEVELOPMENT  
AND OIL PRODUCTION

28



PROSPECTIVE PROJECTS

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LUKOIL-KOMI

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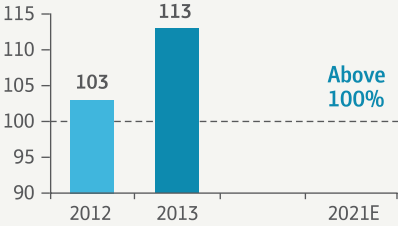
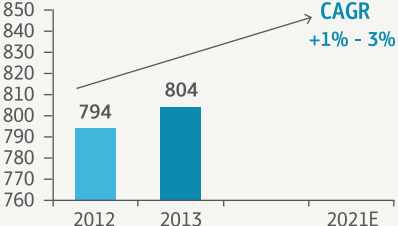
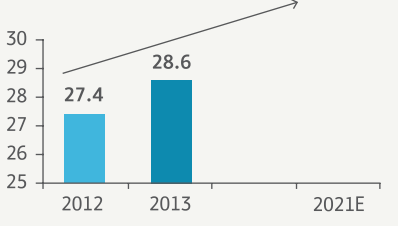


TECHNOLOGIES

40



# EXPLORATION & PRODUCTION

STRATEGIC TARGET		PROGRESS IN 2013	PRIORITIES IN 2014
<p><b>Reserve replacement</b></p>	<p><b>Reserves replacement ratio (RRR), %</b></p>  <p>→ Reserves, p. 23</p>	<p>The level of reserve replacement grew by 10 p.p. in 2013 to 113%</p>	<p>Further reserve replacement through increase of reserves</p>
<p><b>Operational growth</b></p>	<p><b>Hydrocarbon production, million boe</b></p>  <p>→ Oil Field Development and Oil Production, p. 28</p>	<p>Hydrocarbon production grew by 1.5% in 2013</p>	<p>Launch of new projects, development of promising regions, which will provide a basis for further growth</p>
<p><b>Increase output using enhanced oil recovery (EOR) techniques</b></p>	<p><b>Share of EOR output in total crude oil output in Russia, %</b></p>  <p>Technology, p. 40</p>	<p>Intensive use of EOR technologies in 2013 produced 24.4 million tonnes of crude oil, which is 6% more than in 2012</p>	<p>Development of high-viscosity oil in the Komi Republic, introduction of new highly efficient technologies for economically viable extraction of tight reserves (low permeability reservoirs, Bazhenov, Domanic, Abalak and Tyumen formations)</p>
<p><b>Develop new priority projects</b></p>	<p><b>Launch of projects to schedule</b></p> <p>→ Prospective projects, p. 33</p>	<p>We successfully completed:</p> <ul style="list-style-type: none"> <li>• The first stage of construction of the V. Filanovsky field</li> <li>• Preparation for production at the West Qurma-2 field</li> </ul>	<ul style="list-style-type: none"> <li>• Launch of the West Qurma-2 field.</li> <li>• Second stage of construction of the V. Filanovsky field</li> <li>• Development of fields in the Bolshekhetskaya Depression, Imilorsko-Istochny license area, Vinogradov field in Western Siberia and the Denisovskaya Depression in Timan-Pechora</li> <li>• Implementation of the early gas project at the Kandym field in Uzbekistan</li> </ul>

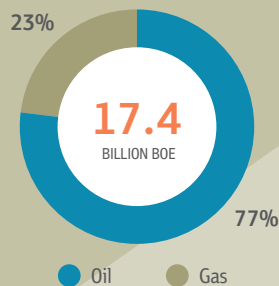


STRATEGIC TARGET		PROGRESS IN 2013	PRIORITIES IN 2014												
<p><b>Growth of investments in Exploration &amp; Production</b></p>	<p><b>Allocation of investments, %</b></p> <table border="1"> <caption>Allocation of investments, %</caption> <thead> <tr> <th>Year</th> <th>Refining, marketing and other (%)</th> <th>Exploration and production (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>28</td> <td>72</td> </tr> <tr> <td>2013</td> <td>22</td> <td>78</td> </tr> <tr> <td>2021E</td> <td>20</td> <td>80</td> </tr> </tbody> </table> <p> <a href="#">Financial Results in the Exploration &amp; Production Segment, p. 22</a> </p>	Year	Refining, marketing and other (%)	Exploration and production (%)	2012	28	72	2013	22	78	2021E	20	80	<p>We increased the share of investments in the E&amp;P segment to 78% of total investments in 2013, including capital expenditures on existing assets and investments for acquisitions in the Samara and Kama regions</p>	<p>Further increase of investments in the E&amp;P segment</p>
Year	Refining, marketing and other (%)	Exploration and production (%)													
2012	28	72													
2013	22	78													
2021E	20	80													
<p><b>Increase the share of production in international projects</b></p>	<p><b>Production in international projects as a share of total hydrocarbon production, %</b></p> <table border="1"> <caption>Production in international projects as a share of total hydrocarbon production, %</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>10.2</td> </tr> <tr> <td>2013</td> <td>9.8</td> </tr> <tr> <td>2021E</td> <td>15-20</td> </tr> </tbody> </table> <p> <a href="#">International Projects, p. 30, 32</a> </p>	Year	Share (%)	2012	10.2	2013	9.8	2021E	15-20	<p>We are developing a number of international projects to diversify our portfolio (in Iraq, Uzbekistan, etc.)</p>	<p>Further development of international projects Start of production at West Qurna-2</p>				
Year	Share (%)														
2012	10.2														
2013	9.8														
2021E	15-20														
<p><b>Increase the share of gas in total production</b></p>	<p><b>Share of gas in total production of hydrocarbons, %</b></p> <table border="1"> <caption>Share of gas in total production of hydrocarbons, %</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>14.8</td> </tr> <tr> <td>2013</td> <td>14.9</td> </tr> <tr> <td>2021E</td> <td>25-30</td> </tr> </tbody> </table> <p> <a href="#">Gas Field Development and Gas Production, p. 31</a>  <a href="#">Prospective Projects, p. 33</a> </p>	Year	Share (%)	2012	14.8	2013	14.9	2021E	25-30	<p>In 2013, the company continued to develop promising gas projects, in particular at the Bolshekhetskaya Depression and in Uzbekistan</p>	<p>Further development of gas fields in Russia and abroad</p>				
Year	Share (%)														
2012	14.8														
2013	14.9														
2021E	25-30														

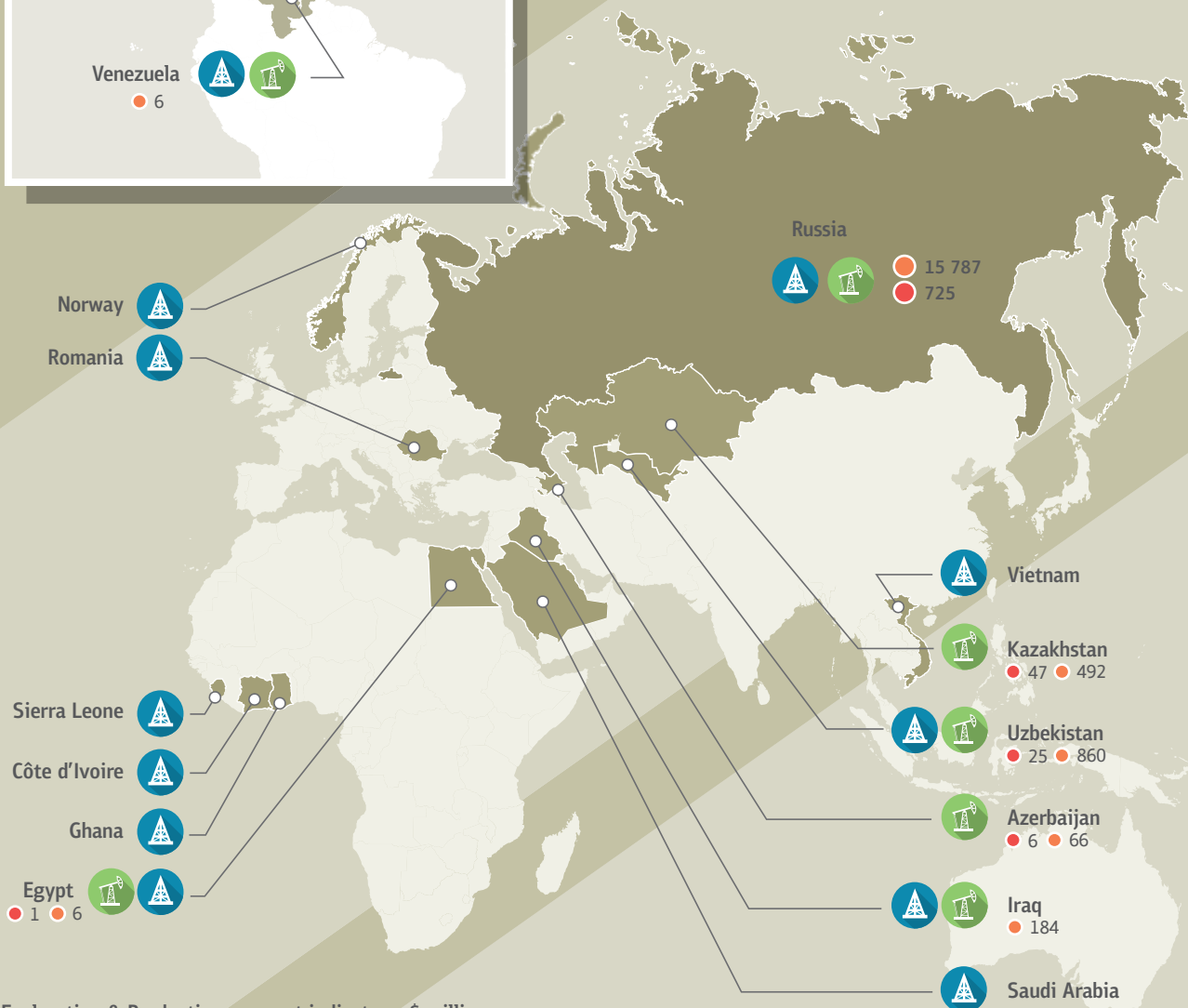
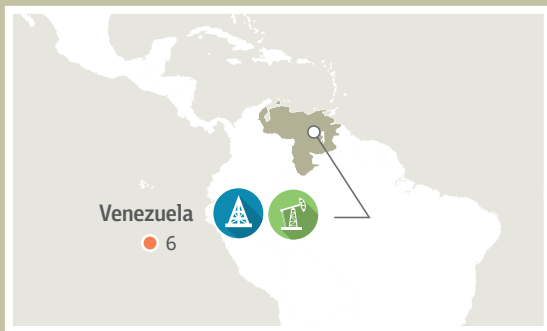
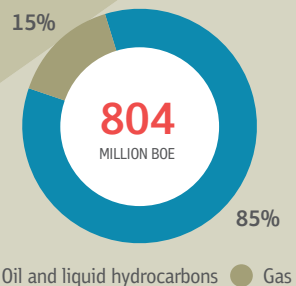


- Proved hydrocarbon reserves, million boe
- Marketable hydrocarbon production, million boe

Proved hydrocarbon reserves, 31.12.2013



Marketable hydrocarbon production



Exploration & Production segment indicators, \$ million

	2013	2012	Change, %
Revenue	46,455	47,469	-2.1
EBITDA	13,224	14,016	-5.7
Net income	7,528	8,447	-10.9
Capital expenditures	11,808	8,973	31.6

31.12.2013



Geological exploration



Production of crude oil and condensate, preparation for production



**PRICE ENVIRONMENT**

The average price of Brent crude fell by 2.7% in 2013 to \$108.7 per barrel and the average price of Urals crude fell by 2.3% to \$108.0 per barrel.

The main deterrent to growth of hydrocarbon prices was growth of supply from independent producers, which outpaced growth of consumption. Expectations of an end to the quantitative easing program in the U.S. contributed to capital outflows from commodity markets.

**TAX ENVIRONMENT**

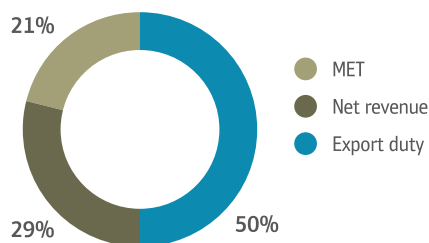
Since over 70% of the revenue of a Russian oil exporter is taken by taxes and export duties, the Company’s operating income is heavily dependent on changes in rates of taxes and duties, as well as the application of preferences.

Main tax and export duty payments by the Company other than income tax were virtually unchanged in 2013 and stood at \$30.6 billion (-2.0% to 2012).

Increase of the rate of mineral extraction tax (MET) by 2.7% in dollar terms and production growth in Russia were offset by increase of preferences (reduced MET rate for highly depleted fields and a zero rate for new fields and fields with high-viscosity oil).

Export duty payments decreased by 4.4% due to lowering of rates (following decline in the average annual oil price), reduction of oil exports and the application of preferences (reduced duty rates for new fields and fields with heavy-viscosity oil).

Revenue structure of a Russian oil exporter in 2013



**FINANCIAL RESULTS IN THE EXPLORATION & PRODUCTION SEGMENT**

Revenue in Exploration & Production decreased slightly in 2013, following the decline in oil prices, and amounted to \$46.5 billion.

Capital expenditures in the segment rose by 31.6% in 2013, reflecting the peak of investment activity, due particularly to successful implementation of the large-scale West Qurna-2 project in Iraq. That project should start to provide return on investments in 2014.

Net income in the Exploration & Production segment in 2013 was \$7.5 billion. Main negative impact on net income was from the write-down of non-cash impairment. The biggest share of write-downs in the segment related to the Yuzho-Khylchuyuskoye field due to significant reduction of reserves.

[Consolidated Financial Statements, p. 149](#)



## Reserves

# 27.6 BILLION BOE

### OF 3P HYDROCARBON RESERVES

LUKOIL is among the leading Russian and international companies by amounts of proved hydrocarbon reserves. Oil reserves are sufficient for 20 years of current production and gas reserves are sufficient for 26 years.

## HYDROCARBON RESERVES ARE SUFFICIENT FOR 21 YEARS AT CURRENT PRODUCTION RATES

LUKOIL has a well diversified portfolio of assets in Russia and abroad. More than half of proved reserves are in Western Siberia and the Bolshekhetskaya Depression, while about 10% are in international projects. Some 55% of the Company's proved reserves (including 61% for oil and 32% for gas) are in development. This reserve structure reflects high potential for production increase in the medium term, particularly with respect to gas.

LUKOIL has substantial contingent resources (12.2 billion boe at the end of 2013). The Company is carrying out extensive geological exploration work and applying innovative technologies to speed up the transfer of resources to reserves as deadlines for their development draw closer.

Most of the Group's proved reserves are traditional. Only 4.5% of proved hydrocarbon reserves (3.9% of 3P reserves) consist of high-viscosity oil. Some 5.5% of proved reserves (7.4% of 3P reserves) are at offshore fields. This reserve structure means that the Company can control development costs efficiently and commission new fields more quickly.

The Company is making every effort to exploit its impressive resource potential and to transfer it into proved reserves for subsequent development. This approach enabled more than 100% replacement of production by new reserves in 2013.

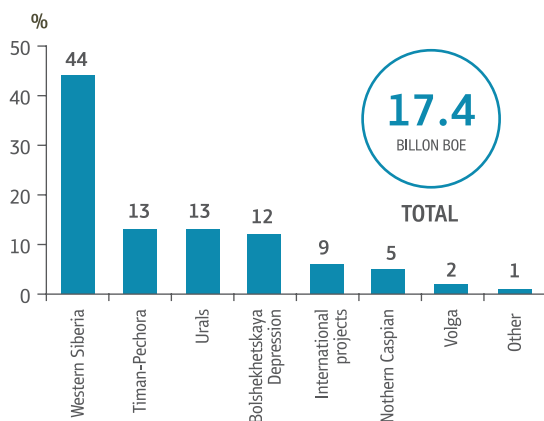
→ Proved reserves grew by 822 million boe in 2013 thanks to exploration work in traditional regions, rapid development of fields discovered in 2013 and asset acquisitions.

Organic reserve growth in 2013 was 634 million boe, which replaced 76% of production during the year. Most of the organic growth was in Russia (64% in Western Siberia and 12% in Timan-Pechora). Most of the organic growth of natural gas reserves was in the Caspian, at the Yu. S. Kuvykin field.

→ Revision of previous reserve estimates gave an overall increase by 116 million boe. This was possible due to improvement of development technologies at existing fields, as well as accounting of tax preferences provided by the Russian government for tight reserves and shelf reserves.

 [Analyst Databook, p. 7](#)  
[Fact Book, p. 12, 13](#)

Proved hydrocarbon reserves as of 31.12.2013



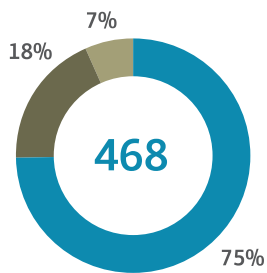


**LICENSING**

LUKOIL continued work in 2013 to obtain new licenses for mineral use and to optimize its license portfolio in order to improve the overall quality of its mineral resource base. The Company obtained 42 new licenses for mineral use in 2013 as a result of participation in five auctions, and also as a result of discoveries and acquisitions. The new licenses included rights to the Imilorsky area. The total number of licenses owned by LUKOIL Group organizations had increased to 468 by the end of 2013.

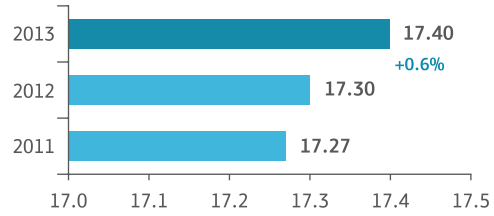
LUKOIL also secured the reissue of 57 licenses in 2013 as well as 31 additions to licensing agreements (including extensions), surrendered five licenses and registered 22 additions to licenses for mineral use to extend their period of validity.

Licenses as of 31.12.2013

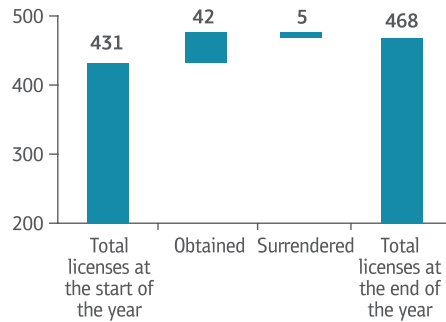


- Exploration & production
- Prospecting and assessment
- Geological study, exploration & production

Proved hydrocarbon reserves as of 31.12.2013, billion boe



Change of license numbers in 2013







# Geological Exploration

LUKOIL CARRIES OUT GEOLOGICAL EXPLORATION WORK IN **12** COUNTRIES

### RESULTS IN 2013

- 9 fields and 43 hydrocarbon pools were discovered
- Organic growth of reserves was 634 million boe
- Reserve replacement was 113%
- The Company entered a new region: the Norwegian sector of the Barents Sea

### PRIORITIES IN 2014

- At least 100% replacement of production with new reserves
- Prospecting work at the Khazri structure in the Caspian Sea
- Further exploration work at the Denisovskaya Depression in the Komi Republic
- Increase of drilling work in Samara and Ulyanovsk Regions
- Further development work at the Bolshekhetskaya Depression
- Additional exploration and study of the Imilorsko-Istochny license area

By investing in prospective regions both in Russian and abroad LUKOIL has built a well-balanced portfolio of assets, which promise rapid growth of production in the future.

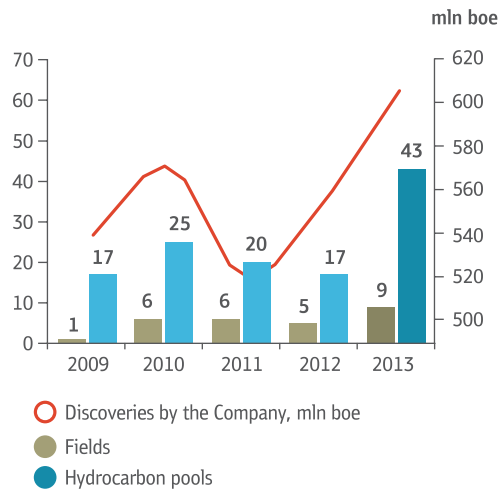
The Company entered a new prospective region in 2013: the Norwegian sector of the Barents Sea, which has high potential for development.

In its exploration work LUKOIL makes best use of innovative technologies that can significantly improve the efficiency of exploration. The success rate of prospecting and exploration drilling by LUKOIL in 2013 was 73%.

The Company continued to increase volumes of 3D seismic exploration in 2013 (+19.7% to 2012 ) in order to identify and detail structures and to prepare for drilling of exploratory wells at prospective sites.

Vertical seismic profiling, which details geological structure around a previously drilled well, was performed at 11 well sites in 2013. Total exploration drilling in 2013 was 215 thousand meters, which is 7% more than in 2012.

### Discoveries by the Company

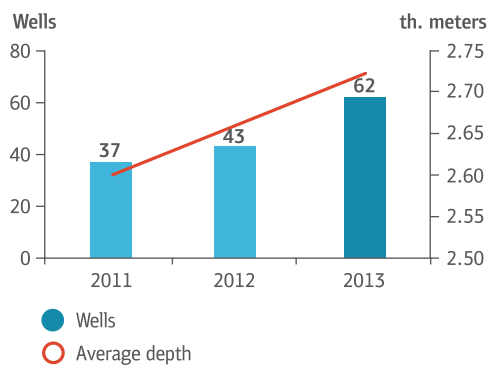




**Geological exploration work by LUKOIL was particularly successful in 2013: a total of nine fields and 43 hydrocarbon pools were discovered, which is the best result in the last five years**

The biggest field discovery in 2013 was the Rostovitskoye field in Perm Region (Kama-Oil). The Company also made rapid progress at its newly acquired asset in Samara Region: five fields were discovered, two of which have already been registered, while the other three will be added to the state register in 2014.

**Number and average depth of exploration wells drilled in Russia**



Analyst Databook, p. 5  
Fact Book, p. 24

**MAIN PROSPECTING PROJECTS IN 2013**

**Offshore Caspian**

The North Caspian is a strategically important region, since it will be the main guarantor of Company production growth in the medium term. LUKOIL is therefore paying special attention to the development of resource potential in the Caspian Sea. Preferential taxation for projects in the region offer favorable conditions for further investment in exploration work. LUKOIL's proved reserves to international standards in the Caspian Sea increased by 51 million boe in 2013 thanks to exploration work.

Total exploration drilling in the region during 2013 was 3.6 thousand meters. Two structural wells were completed, including Zapadno-Sarmatskaya Well № 2, which confirmed the presence of gas condensate reservoirs. Testing of strata gave flows of gas at 679,000 m<sup>3</sup> and condensate at 208 m<sup>3</sup> per day. Success of exploration drilling was 100%.

Results from the prospecting wells enabled construction of a geological model linking both the Yu.S. Kuvykin field and Zapadno-Sarmatskaya structure to Tithonian sediments.

The KalmTatneft joint venture (between LUKOIL-Nizhnevoldzhsk and Tatneft) began construction of Vostochno-Biryuzakskaya exploratory well № 1 at the Tsikertinsky license area to assess hydrocarbon potential in Neftekumsk sediments.

**Komi Republic**

The Komi Republic is an established and well-explored oil region, but it still has significant potential thanks to the development of prospective sites in the Denisovskaya Depression. A number of commercially promising fields have been discovered and brought into development there in recent years, as have some prospective structures as part of the Kurino-Patrankovsky project.

About 12% of organic growth of Company reserves in 2013 were in the Komi Republic. Total exploration drilling there in 2013 was 37.9 thousand meters.

A daily flow of 410 m<sup>3</sup> of oil was obtained using a 15 mm choke at well № 5 at the Vostochno-Lambeishorskoye field.

At the Yuzhno-Bayandyskaya area a 432 m<sup>3</sup> daily flow of light oil was obtained using a 20.6 mm choke. Geological modeling and a reserve count will be completed at the newly discovered field in 2014.

**The Baltic Sea**

The Company carried out exploration work in 2013 on the coast and at offshore sites in the Russian sector of the Baltic Sea. Exploration drilling totaled 2 thousand meters. Work and studies were carried out at three wells to assess prospects for development of shale gas and oil in Kaliningrad Region. Well logging has identified intervals with high bitumen content with a view to shale oil production. Acid fracturing operations were carried out at Yuzhno-Volodarovskaya well № 1, and work is continuing to bring the well into production.



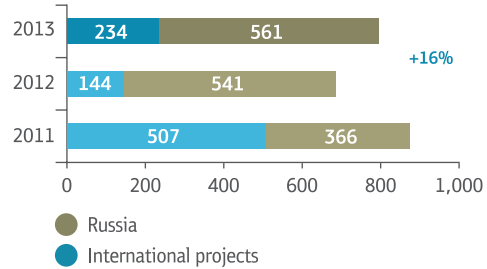
### Samara and Ulyanovsk Regions

LUKOIL increased its exploration drilling in these Regions to 14.6 thousand meters following the acquisition of Samara-Nafta. These efforts led to the discovery of new fields at the Bulatovsky and Bolsheglushitsky license areas in Samara Region. Fields were also discovered at the Novomalyklinsky and Labitovsky license areas in Ulyanovsk Region. Estimation of reserves at the new fields is scheduled for completion in 2014.

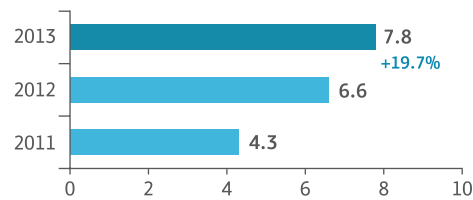
### Uzbekistan

Most of LUKOIL's exploration work in international projects during 2013, including seismic and exploration drilling, was focused at the Kandym project in Uzbekistan. Well Parsankul-11 was completed and gave a gushing commercial flow of gas at a rate of 124.1 thousand m<sup>3</sup> per day.

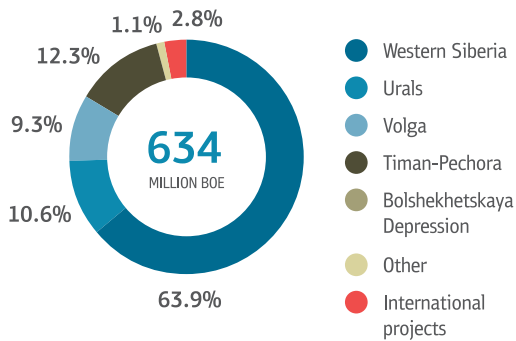
### Spending on geological exploration, \$ million



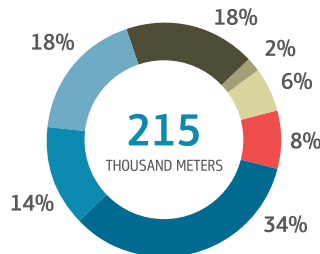
### 3D seismic, thousand km<sup>2</sup>



### Organic growth of hydrocarbon reserves



### Exploration drilling by regions in 2013





# Oil Field Development and Oil Production

## PROGRESS IN 2013

- Increase of marketable hydrocarbon production by 1.5%
- Expansion of business geography by the acquisition of new production assets
- Stabilization of production in Western Siberia
- Preparation for production at West Qurna-2
- Completion of the first phase of construction at the V. Filanovsky field

## PRIORITIES FOR 2014

- Start of production at West Qurna-2
- Start of the second phase of construction at the V. Filanovsky field
- Further work to stabilize production in Western Siberia
- Commissioning of new fields in Komi and Perm
- Construction of fields in the Bolshekhetskaya Depression
- Development of projects in Uzbekistan

## OIL FIELD DEVELOPMENT AND OIL PRODUCTION

The Group increased its average daily oil production by 1.3% in 2013 through acquisitions and organic growth in the Caspian, the Komi Republic and Perm. Reduction of rates of production decline at mature fields in Western Siberia, which are in final development stages, represents a major achievement. LUKOIL is using innovative technologies, increasing volumes of drilling in Western Siberia to control and stabilize production levels. The Company is also focusing on preparations to commission new fields, which will provide growth of production in the medium term.

### UPSTREAM ACQUISITIONS IN 2013

The Company carried out a number of acquisitions in Russia during 2013 as part of its strategy to strengthen the resource base:

#### Acquisition of 100% of Samara-Nafta

Group interest at the end of 2013, %	100
Acquisition price, \$ billion	2.1
3P Reserves at the end of 2013, million boe	249
Production in 2013, thousand barrels/day	52
Field discoveries in 2013	5

Most of Samara-Nafta's fields are in the initial stages of development and have potential for production increases. LUKOIL Group has oil refining, petrochemical and transport capacities in the nearby Volga region, promising substantial synergies.

#### Acquisition of 50% of the shares of Kama-Oil

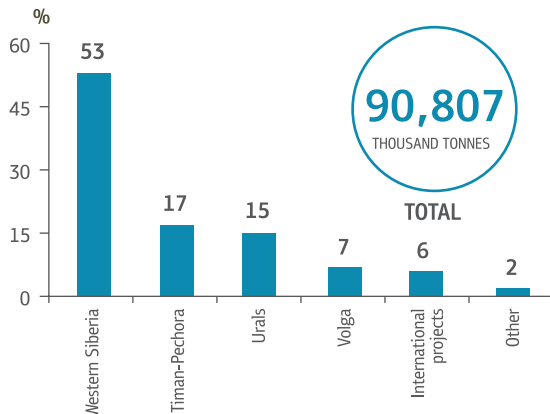
Group interest at the end of 2013, %	100
Price of 50% interest, \$ billion	400
3P Reserves at the end of 2013, million boe	133
Total production in 2013, thousand barrels per day	3.2
Field discoveries in 2013	1

In 2013 LUKOIL consolidated 100% of the company Kama-Oil, which carries out exploration and production of hydrocarbons in Perm Region.

↑ **1.8** MILLION BOE

### DAILY CRUDE OIL PRODUCTION

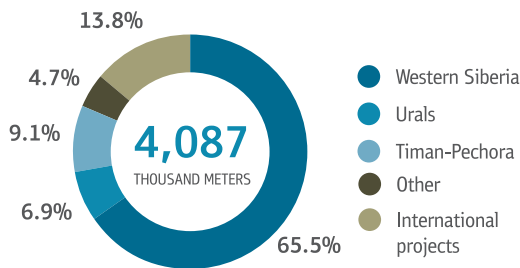
LUKOIL oil production by regions in 2013





The Company had 32.8 thousand production wells at the end of 2013 (of which 28.5 thousand in production) and 12.3 thousand injection wells (of which 9.6 thousand were under pressure). The number of production wells increased by 3.8% compared with 2012, while the number of injection wells rose by 6.7%. The share of idle production wells was virtually unchanged from the end of 2012 at 13%. Average daily output from oil wells in projects with Group participation was 95 barrels (13 tonnes).

**LUKOIL oil drilling by regions in 2013**

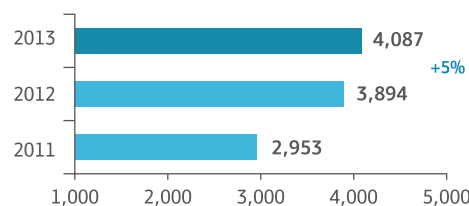


The company continues to increase the scale of its production drilling, achieving 5% growth in 2013 to 4,087 thousand meters. A total of 1.4 thousand new production wells were brought into operation during the year (+10% to 2012) with average production rate of 220 barrels per day. Special efforts are being made to build more horizontal wells, as their average production is more than 50% greater than from standard wells. Horizontal wells represent about 20% of new oil wells in total. LUKOIL commissioned 284 horizontal wells in 2013 and their average output was 360 barrels per day.

Increase of recovery rates by the use of innovative technologies is a priority of LUKOIL's production operations, since it will enable best use of the available resource base in the future.

[Analyst Databook, p. 16](#)  
[Fact Book, p. 14](#)

**Production drilling, thousand meters**

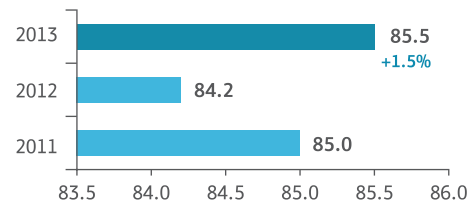


**RUSSIA**

Russia accounts for 94% of the Company's oil production, so we are constantly focused on strengthening the Russian resource base and improving operational efficiency of existing assets.

**We achieved production growth in Russia by 1.5% in 2013 thanks to acquisitions and increased production in the Caspian, the Urals and the Komi Republic (Timan-Pechora).**

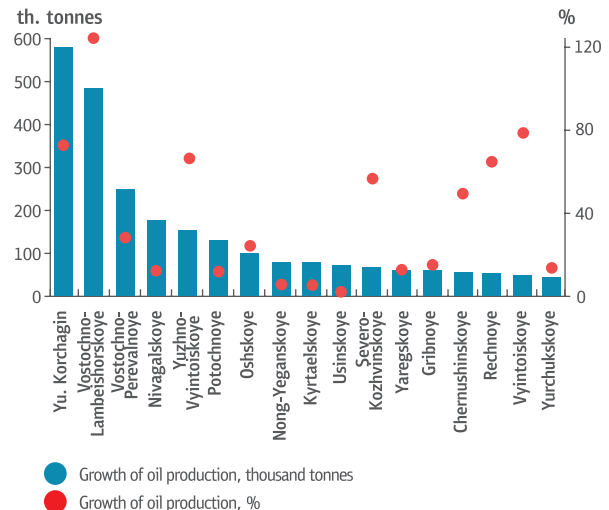
**Oil production in Russia, million tonnes**



LUKOIL subsidiaries and affiliates carried out hydrocarbon production at 512 fields in Russia during 2013.

The Company is working intensively to commission new fields. Production of hydrocarbons began at nine new fields in Russia during 2013 (excluding acquisition of Samara-Nafta). More than 16 Company fields in Russia increased oil production by over 50 thousand tonnes compared with 2012.

**Fields providing organic growth of oil production in Russia (2013/2012)**





**ENHANCED OIL RECOVERY**

About 30% of LUKOIL's oil production in Russia in 2013 made use of enhanced oil recovery (EOR) techniques.

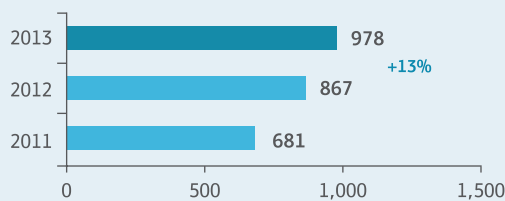
**Drilling of horizontal wells with multi-zone fracturing is a key technology, since it offers production rates more than three times greater than the average for the Company**

A total of 96 wells using the technology were commissioned in Western Siberia, Komi and the Urals region in 2013 and gave average daily oil production of 308 barrels. High efficiency of horizontal wells with multi-zone fracturing is achieved by carrying out numerous hydraulic fracturing operations along the borehole.

The Company also carried out extensive sidetrack drilling at idle wells to extract residual oil. A total of 470 sidetracks were drilled in 2013 (+25% to 2012).

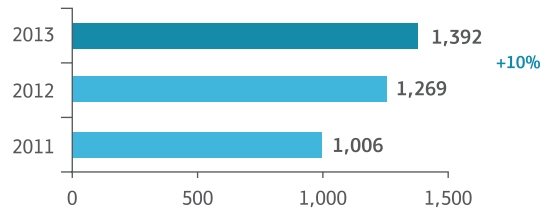
Technologies, p. 40

**Hydrofracturing operations**



Particularly large output increments were achieved from expansion of production drilling at the following fields: Yu. Korchagin (578 thousand tonnes), Vostochno-Lambeishorskoye (Komi, 482 thousand tonnes) and Vostochno-Perevalnoye (Western Siberia, 249 thousand tonnes).

**Commissioning of new oil wells**



Analyst Databook, p. 16  
Fact Book, p. 23

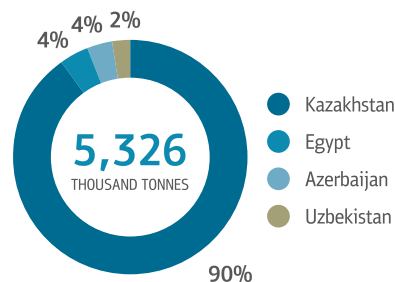
**INTERNATIONAL PROJECTS**

**In 2013 the Company completed main construction work on the oil preparation installation at West Qurna-2 and started commercial production at the field on March 29, 2014**

Crude oil production abroad amounted to 5.3 million tonnes in 2013. The largest production gains were in Kazakhstan where oil output in the Tengiz project increased by 12% to 1.3 million tonnes. Company efforts to develop international projects were focused on Iraq, where construction work at West Qurna-2 continued. Production at the field started in 2014.

LUKOIL was also active in Uzbekistan in preparation for early production at Kandym. Commissioning of the Khauzak booster compression station is scheduled for 2014.

**Oil production in international projects**





Overall production drilling in international projects increased by 12.1% compared with 2012 to 563 thousand meters. The number of oil production wells grew by 8.1% to 2.2 thousand, of which 1.9 thousand were in production.

A total of 261 new production wells were brought into operation during 2013 as part of international projects.

 Analyst Databook, p. 16  
Fact Book, p. 36

### GAS FIELD DEVELOPMENT AND GAS PRODUCTION

**LUKOIL's gas program aims to achieve rapid increase of gas production both in Russia and abroad in order to raise the share of gas to a third of total hydrocarbon production by the Group**

**↑ 25.9 BILLION M<sup>3</sup>**  
OF GAS PRODUCED IN 2013

Total gas production by LUKOIL Group in 2013 (including the Group share of production by affiliates) increased by 5.1%. Output of marketable gas (net of own consumption, injection and transport losses) was 20.4 billion m<sup>3</sup> (120 million boe), which is 2.3% more than in 2012. Marketable gas production in Russia grew by 2.7% and outside Russia by 1.4%. Most of the growth was at gas fields in the Bolshekhetskaya Depression and Timan-Pechora.

Output of liquid hydrocarbons at the Group's gas-processing plants in Western Siberia, the Urals and the Volga region was 13.7 million boe in 2013 compared with 13.6 million boe in 2012.




### UTILIZATION OF ASSOCIATED GAS


LUKOIL understands its responsibility for minimizing atmospheric emissions and is therefore implementing a series of programs to use associated petroleum gas (APG) in ways that do not harm the environment. As a result of these programs, the rate of utilization of APG in Western Siberia rose above 95% in 2013.

APG is now used for injection into reservoirs to maintain pressure and is sent to processing plants for refining.

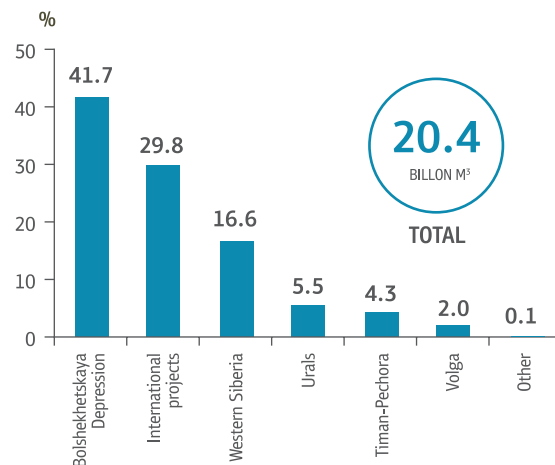
APG is also used at gas power plants, which are being built adjacent to fields, reducing energy costs and thus reducing the cost of oil production.

 Protecting the Environment, p. 72

Total production of natural gas increased by 1.7% to 15.9 billion m<sup>3</sup>. Total production of associated petroleum gas grew by 11.0% to 10 billion m<sup>3</sup>. The number of gas production wells increased by 1% in 2013 to 412 wells, of which 314 were in production. The increase in gas well numbers was due to rapid development of fields in the Bolshekhetskaya Depression.

 Analyst Databook, p. 25  
Fact Book, p. 24

### Marketable gas production by LUKOIL Group by regions





**RUSSIA**

Marketable gas production in Russia in 2013 totaled 14.0 billion m<sup>3</sup>. LUKOIL had 276 gas production wells in Russia at the end of 2013, of which 218 were producing. The greater part of natural gas production in Russia (about 95%) was at the Nakhodkinskoye field in the Bolshekhetskaya depression, where 8.4 billion m<sup>3</sup> of natural gas were produced in 2013. The Bolshekhetskaya Depression is a priority region for Company development as part of its overall strategy to expand the share of natural gas projects in its business.

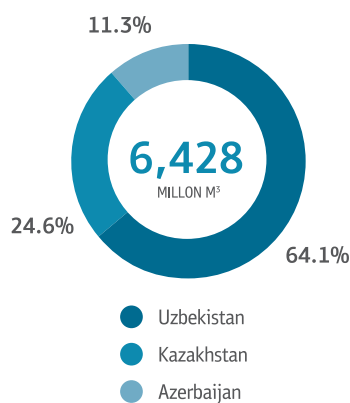
**INTERNATIONAL PROJECTS**

Production of marketable gas outside Russia rose by 1.4% to 6.4 billion m<sup>3</sup> in 2013, mainly due to higher levels of production in two projects: Tengiz (Kazakhstan) and Shakh Deniz (Azerbaijan).

LUKOIL had 136 gas production wells in foreign projects at the end of 2013, representing an increase of 18% from a year earlier, and 96 of the wells were in production.



Production of marketable gas in international projects







## Prospective Projects

MORE THAN **17%**

OF HYDROCARBON PRODUCTION WILL COME FROM PROSPECTIVE REGIONS (IRAQ, NORTH CASPIAN AND UZBEKISTAN) IN THE MEDIUM TERM

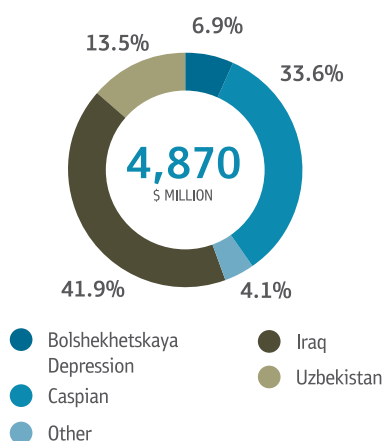
The Company is now at the peak of its investment cycle, investing in new projects and prospective regions, laying a firm foundation for growth of hydrocarbon production in the future. LUKOIL is doing all it can to make best use of its vast resource potential through the implementation of a two-pronged strategy:

→ Entering new regions, acquiring licenses in Russia and abroad

→ Using innovative technologies at depleted areas and in regions with tight oil reserves

More than 40% (\$4.9 billion) of total capital costs in Exploration & Production in 2013 were in new projects, and the greater part of this spending (about \$4.3 billion) was for construction of the West Qurna-2 field in Iraq, North Caspian fields and projects in Uzbekistan.

### Capex in prospective regions in 2013



### NEW PROJECTS IN RUSSIA

#### WESTERN SIBERIA

Western Siberia is the Company's traditional hydrocarbon production region, so most of its oil fields there are highly depleted. Prospects for increase of hydrocarbon production in the region depend on the acquisition of new licenses and well interventions. The development of gas fields in the region should also boost overall production efficiency.

A total of 17 multilateral wells were drilled in Western Siberia in 2013 in order to improve development efficiency, and they gave average daily output rates of about 600 barrels, exceeding the average flow rate of horizontal wells at adjacent areas by 2-2.5 times.

Analyst Databook, p. 26  
Fact Book, p. 25

#### → Imilorsky area

*The Imilorsky area has considerable potential, and development time and costs at the area will be reduced by the presence nearby of developed infrastructure under LUKOIL's control. Proved oil reserves at the area where test production is to be carried were 14.9 million barrels as at the end of 2013. First production from the field is expected in 2015.*

*Tax regime: standard. However, LUKOIL is working with the Russian government to prepare experimental application of the excess profits tax at the Imilorsky area.*

### EXCESS PROFITS TAX

The concept of a excess profits tax in the oil industry was first considered by the State Duma in 1997.

#### Main principles of the tax:

- The tax base is the financial outcome of a project. Operating income less capital expenditures is used as the tax base to calculate excess profits tax in a specific project (Base for the excess profits tax = operating profit of the project minus capital cost of the project)
- Redistribution of the tax burden. If excess profits tax is levied, the tax burden on revenue is reduced
- Separate calculation. Calculation of expenditures for purposes of the excess profits tax is carried out separately for each license area



**In February 2014** production drilling started ahead of schedule (start of drilling had been planned for September 2014).

**Progress in 2013:** project documentation was prepared and 23 km of pipelines, 42 km of roads and a 74 meter bridge across the River Entl-Imiyagun were built. Four well pads are under construction and 3D seismic surveys are being carried out on an area in excess of 1.5 thousand km<sup>2</sup>.

**Plans for 2014:** the first phase of test operation ('early oil'), construction and commissioning of new wells, construction of power generating facilities.

→ **Vinogradov field (low-permeability reservoirs)**

*Located within the boundaries of two license areas (Bolshoy and Olkhovskiy). Initial recoverable oil reserves are about 560 million barrels (Russian classification).*

*Tax preferences: MET at 20% of the standard rate.*

**Progress in 2013:** drilling of two wells with multi-stage hydrofracturing gave output of 360-500 barrels per day (that compares with average daily debit of 22-60 barrels from slanted wells with hydrofracturing).

**Plans for 2014:** to drill and commission 33 production wells.

→ **Bolshekhetskaya Depression**

*Fields in the Bolshekhetskaya Depression are the mainstay of Company gas production in Russia, and target production at the fields is 20 billion m<sup>3</sup>. Proved gas reserves in the region at the end of 2013 were 11.2 trillion cubic feet, and production of marketable gas during the year was 8.3 billion m<sup>3</sup>.*

**Progress in 2013:** construction of a 190 km gas pipeline was completed, and the first stage of the gas transport system was completed, enabling annual delivery of up to 18 billion m<sup>3</sup> of natural gas into Gazprom transport pipelines. Work began on construction of a booster compressor station at the Nakhodkinskoye field with annual capacity of 8.4 billion m<sup>3</sup> as well as construction of the Pyakyakhinskoye field. The transport system will also be capable of transporting gas from Rosneft's Vankor field.


**Plans for 2014:** completion of the booster compressor station at the Nakhodkinskoye field and of units at the principal facility area.

Major gas fields scheduled for launch in the future are Pyakyakhinskoye (2016), Yuzhno-Messoyakhskoye (2018) and Khalmerpayutinskoye (2019).



**TIMAN-PECHORA**

The Timan-Pechora oil & gas province has significant potential for production growth, particularly associated with development of the Denisovskaya Depression and high-viscosity oil fields. Heavy oil accounts for about 4.5% of the Company's total proved reserves, and most of it is located at the Yaregskoye and Usinsk fields. Development of the Trebs and Titov fields in a joint venture also holds out prospects for increase of hydrocarbon production in the region.

 Analyst Databook, p. 30  
Fact Book, p. 29

## → Denisovskaya Depression

*The Denisovskaya Depression includes the Vostochno-Lambeishorskoye field and the Bayandyskaya group of fields. Proved oil reserves at Vostochno-Lambeishorskoye at the end of 2013 were 94 million barrels and production during the year was 870 thousand tonnes. The annual production target at the field is 1.3 million tonnes (9.5 million barrels).*

**Progress in 2013:** oil production at the Vostochno-Lambeishorskoye field increased by 125% in 2013. An inflow of oil was obtained at well № 27 at the Bayandyskoye field. Construction work was completed on the 1st stage of the Bayandyskaya oil treatment unit with 1.2 million tonnes annual capacity and comprehensive testing of the unit began. Work on assembly of the first stage of the APG preparation facilities also began. The facilities will have annual capacity of 300 million m<sup>3</sup>. Construction work also started on the Vostochno-Lambeishorskoye oil preparation unit and external electricity supply equipment.

**Plans for 2014:** completion of work on the gas treatment units, commissioning of the Bayandyskaya oil preparation unit, completion of electricity supply equipment and of the Vostochno-Lambeishorskoye oil preparation unit.

## → Yaregskoye field (high viscosity oil)

*The Yaregskoye field is the Company's largest field with high-viscosity oil. Proved oil reserves at the end of 2013 were 321 million barrels and extraction during the year was 582 thousand tonnes.*

*Tax preferences: zero rate MET.*

*Export duty preferences: 10% of the standard rate.*

**Progress in 2013:** continuation of pilot production; preparatory work for production, preparation, transportation and sale of crude oil once volumes have been ramped up.

**Plans for 2014:** commissioning of the 1st stage of the Yarega Ukhta pipeline (38 km) and of a combined cycle generating plant with capacity of 50 tonnes per hour. Mining work is to be increased from 5.2 to 7.0 thousand meters and underground well drilling work should increase from 75 thousand meters in 2013 to 93 thousand meters in 2016. The Yarega electricity generating center with 100 MW capacity will also be built.

## → Usinsk field (high-viscosity oil)

*The Permian-Carboniferous pool at the Usinsk field is the Company's second largest source of high-viscosity oil. Proved oil reserves there at the end of 2013 were 562 million barrels and production during the year was 2,506 thousand tonnes*

*Tax preferences: zero rate MET.*

**Progress in 2013:** an experimental development plot with crossed layout of production and injection wells was brought into operation. Work on horizontal injection wells and slanted production wells with completions above the natural screen was continued. Work is underway on construction of an energy center, which will generate electricity and steam for injection operations in the future.

**Plans for 2014:** application of technology for the injection of water with controlled physical-chemical parameters using titanium coagulant to enhance the efficiency of strata flooding. Further work on construction of the Usa energy center with 125 MW capacity.

## → Trebs and Titov fields

*In 2011 LUKOIL and JSC Bashneft created a joint venture to develop the Trebs and Titov oil fields. LUKOIL has 25.1%*



interest in the venture. Proved oil reserves at the end of 2013 as measured for purposes of test production were 21.3 million barrels. Oil production in 2013 was 291 thousand tonnes.


The project is targeting peak annual production of 4.8 million tonnes (35.2 million barrels).

**Progress in 2013:** production began in August 2013. During the year 15 single wells were completed and launched, as well as oil gathering pipelines, power lines, a LACT unit, a pressure pipeline to the Trebs central gathering point at the Varandey terminal, and a field base.

**Plans for 2014:** construction of a booster pump station, power facilities, well pads, facilities for APG preparation and compression, continuation of geological and seismic exploration work, and of exploration drilling.

**NORTHERN CASPIAN**

The Northern Caspian is a one of the key regions for growth of oil & gas production by LUKOIL in the medium term. Proved reserves in the region to international standards have increased by 35% over a period of five years thank to successful exploration drilling.

 [Analyst Databook, p. 33](#)  
[Fact Book, p. 33](#)



**THE ZERO DISCHARGE RULE**

Preventing any pollution of the Baltic Sea and the Caspian Sea is a matter of principle for the Company, so all offshore projects by LUKOIL are guided by the Zero Discharge rule, which prohibits any discharge of waste into the marine environment. Waste from production is collected in closed containers and transported to the shore for disposal and recycling. The zero discharge rule is strictly observed during exploration drilling, production drilling and during commercial production of hydrocarbons, ensuring that seawater around LUKOIL's offshore projects remains clean

→ **Yu. Korchagin field**

LUKOIL's first production in the Russian sector of the Caspian Sea was in 2010 at the Yu. Korchagin field. Proved hydrocarbon reserves at the field at the end of 2013 were 121 million boe and production during the year was 1,372 thousand tonnes.

Tax preferences: zero rate MET.

Export duty preferences: about 50% of the standard rate.

**Results in 2013:** oil production at the Yu. Korchagin field increased by 73% in 2013. Four new wells were launched, one of which has unique construction parameters: total borehole length is 7.6 thousand meters and the horizontal bore is 4.3 thousand meters. Bottom-hole zones at several wells were treated with oil-water emulsions and foam systems.

**Plans for 2014:** further drilling work at the field accordance with the approved schedule, pilot production work applying smart systems for well completion and new technologies.

→ **V. Filanovsky field**

The second field to be launched by LUKOIL in the Caspian will be the V. Filanovsky field, where proved hydrocarbon reserves at the end of 2013 were 487 million boe. Start of production at the V. Filanovsky field is scheduled at the end of 2015 and target output of 6.1 million tonnes per year should be achieved in 2016.

Tax preferences: special procedure for MET calculation at a rate of 15% of the value of extracted hydrocarbons.

Export duty preferences: zero rate.

**Results in 2013:** support blocks for the 1st stage offshore platforms were completed. The blocks have been towed into position and secured with piles. Work has begun on construction of main shore facilities for receipt of oil and its transfer to the CPC pipeline system.



**Plans for 2014:** completion of the ice-resistant fixed platform, the accommodation platform, the central processing platform, riser block and offshore inter-field pipelines. Metal constructions for the supports and upper sections of the ice-resistant platform and accommodation platform will be manufactured. Work will start on construction of a pipeline from the landfall point to the main coastal structures, and on line-sections of gas pipelines.

### PROSPECTIVE REGIONS OUTSIDE RUSSIA

Prospects for increasing hydrocarbon production in foreign projects are mainly related to the development of existing assets in Uzbekistan and Iraq.

#### UZBEKISTAN

LUKOIL's main gas projects outside Russia are in Uzbekistan.

The Khauzak-Shady and Southwest Gissar projects are both at the production stage and one other major project, Kandym, is scheduled for launch in the next few years. The projects are on attractive financial terms for the Company with support from the government of Uzbekistan.

*Proved hydrocarbon reserves at fields in Uzbekistan at the end of 2013 were 860 million boe and production during the year was 25 million boe. The target annual production level at projects in Uzbekistan is 18 billion m<sup>3</sup> of gas.*

 [Analyst Databook, p. 38](#)  
[Fact Book, p. 45](#)

**Progress in 2013:** Well Parsankul-11 was completed at the Kandym area and gave a gushing commercial gas inflow at 163 thousand m<sup>3</sup> per day.

Main contracts were signed for 'Kandym early gas'. Construction and assembly work started on gas pipelines. Construction of temporary buildings and structures was completed.

**Plans for 2014:** Commissioning of the Khauzak booster compression station and development of the Kuvachi-Alat field as part of the 'Kandym early gas' project.

#### IRAQ

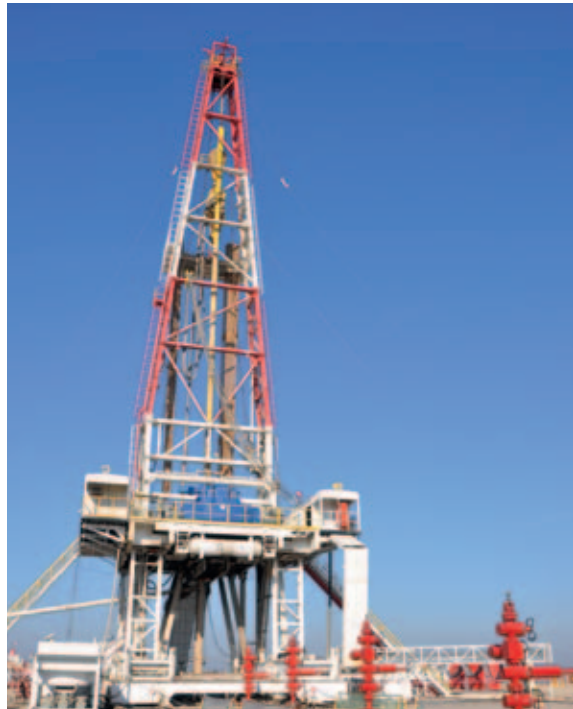
The largest of LUKOIL's projects to ensure future growth of production is West Qurna-2, located in Iraq.

*Proved oil reserves (Group share) at the end of 2013 were 184 million barrels.*

*Production started in 2014. Total duration of the contract is 25 years. The target level for oil production is 1.2 million barrels per day, to be maintained for a period of 19.5 years.*

**Progress in 2013:** the oil preparation unit (150 thousand barrels daily capacity, consisting of three lines with 50 thousand barrels capacity), collection system, five well pads, temporary CCGT power plant (24.9 MW), 103 km export pipeline, Tuba tank farm, field camp for 3,235 people, water intake and conduit from the River Euphrates were completed.

**Plans for 2014:** commercial oil production at a rate of 120 thousand barrels per day should be achieved in the first half of the year.





## LUKOIL-Komi

LUKOIL-Komi is the largest mineral resource user in the North West of Russia and operates in the Timan-Pechora oil & gas province, which extends over the territory of the two administrative regions of the Russian Federation: the Komi Republic and Nenets Autonomous District. LUKOIL-Komi employs more than 6,500 people.

### ASSETS OF LUKOIL-KOMI:

- 87 license areas
- 3.2 billion barrels of 3P hydrocarbon reserves to SEC standards (93% of Company reserves in Timan-Pechora)
- The Usinsk gas-processing plant with capacity of 504 million m<sup>3</sup>

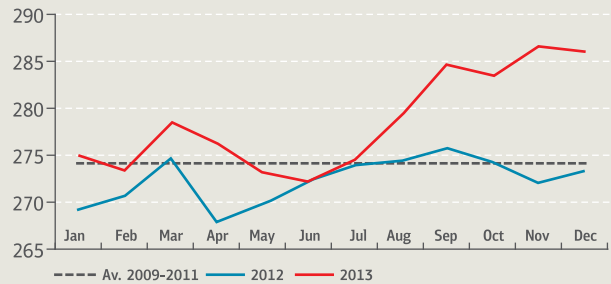
**Development strategy:** to substantially increase oil production in the next 10 years by the application of extensive methods (development and production drilling to tap new reserves) and also by intensive techniques. A total of 11 oil fields are to be brought into operation and large-scale exploration work will be carried out at the recently discovered Bayandyskoye and Vostochno-Lambeishorskoye fields.

**History of Company operations in the region:** LUKOIL acquired 100% of KomiTEK in 1999.

### PROGRESS IN 2013

- Average daily production grew by 2.3% thanks to significant increase of production drilling (by 73%)
- The Company is also increasing its exploration drilling, which totaled 37.9 thousand meters in 2013 (+62.2% to 2012). 2D seismic work in the region amounted to 350 km and 3D work was 1,463 km<sup>2</sup>. There were 11 well completions in the year and 9 of the wells were productive
- Work started at the Usinsk Gas-processing Plant on reconstruction of the input compression station and installation of a gas desulphurization unit

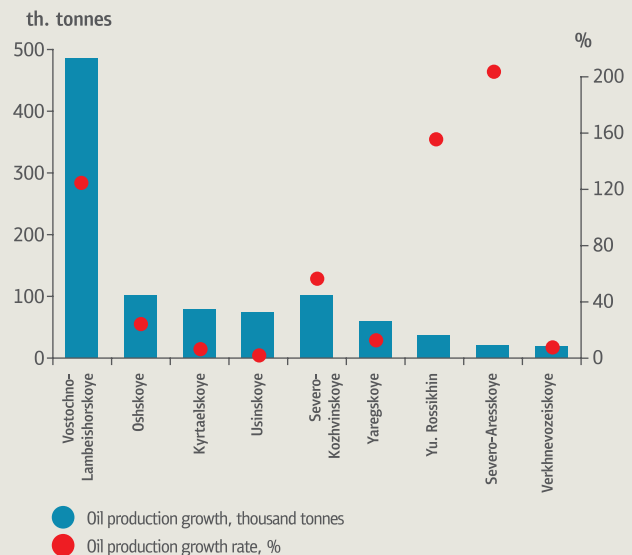
### LUKOIL-Komi oil production, thousand barrels per day



### PLANS FOR 2014

- Further development of prospective sites. The Oshskoye and Vostochno-Lambeishorskoye fields should make the largest contributions to growth of LUKOIL's crude production in Russia in 2014
- Work will continue on reconstruction of the input compression station and construction of the gas desulphurization unit

### Oil production growth at main fields in Komi (2013/2012)



### KEY FACTS ABOUT THE TIMAN-PECHORA OIL & GAS PROVINCE

- The province extends over the vast territory of the Komi Republic and Nenets Autonomous District (part of Arkhangelsk Region), occupying an area of about 600 thousand km<sup>2</sup>
- Harsh climate  
the climate is Arctic and sub-Arctic, with temperatures dropping

as low as -45°C in Nenets District. The terrain is mostly tundra, taiga and forest

- Sparsely populated  
population density is 2.09 people/km<sup>2</sup>, with total population of 872 thousand in the Komi Republic, and just 0.24 people/km<sup>2</sup> with total population of 43 thousand in Nenets District

- Ethnic groups  
Russian, Komi and Nenets



## Company operations in the region prove the efficacy of EOR techniques at mineral areas under development and at fields with non-conventional reserves

The Company's main asset in Komi in the medium term will remain the Usinsk field, which has a Permo-Carbonaceous reservoir with high-viscosity heavy oil. Residual reserves there are more than 560 million barrels. The field is one of the oldest in the region: it has been in development since the 1970s.

The share of high-viscosity oil in total production at Usinsk is about 80%, so substantial amounts of pilot production work have been carried out in order to improve oil recovery.



### TECHNOLOGIES

Testing and use by LUKOIL of innovative technologies have been focused in Timan-Pechora, since most of the Company's high-viscosity oil fields are concentrated there

- **Steam-assisted gravity drainage (SAGD).** LUKOIL was the first company in the world to use SAGD technology in a system of horizontal wells. The work was carried out at the Lyaelskaya area of the Yaregskoye field and will enable more than 117 million barrels of oil reserves to be brought into production in the medium term. Five well pairs with horizontal borehole length of 1000 meters were drilled into the productive part of the reservoir in 2013. Distance between each two wells is 5-10 meters and distance between well pairs is 70 meters
- **Mineshaft extraction.** LUKOIL is targeting an increase of production by four times over 10 years at the Yaregskoye field, mainly by more intensive use of mineshaft extraction methods. The Company drilled its first strictly directional well at the field with length of 800 meters (such wells will enable significant reduction in the amount of underground mining work)

Technologies, p. 40



### WORKING WITH SOCIETY

LUKOIL is keenly aware of its responsibility to society and is implementing a range of social and charitable programs in the Komi Republic

- **Working with indigenous peoples**  
Ensuring access to health care for nomadic populations in remote Polar regions
- **Social projects competition**  
Supporting the initiatives of local communities and indigenous people to address urgent problems in their regions
- **Support for educational institutions**  
Cooperation with Ukhta State Technical University
- **Support and development for culture and sport**  
The Company supports a number of ethnic-culture and sports events
- **Providing charity**  
Support for low-income families
- **Holidays with LUKOIL**  
Organization of holidays for schoolchildren in Russia and the CIS



### ENVIRONMENT

The Company has a number of initiatives underway to protect the natural environment in the region:

- **Reducing atmospheric emissions by increasing rates of APG utilization**  
Work has started on modernization of the Usinsk Gas-processing Plant in order to increase preparation and refining of APG from 200 to 600 million m<sup>3</sup>, including 100 million m<sup>3</sup> of sulphur dioxide from the Usinsk field. The project will also help to secure energy supplies to industrial and social facilities in Usinsk District
- **Restoring biodiversity in rivers**  
More than 750 thousand whitefish and grayling fry have been released into the Pechora river basin over the past five years to increase populations of valuable fish species and help to restore biodiversity

#### → Industry and infrastructure

main industries are oil & gas production, food processing and forestry. Rivers are an important part of the developing regional transport infrastructure

#### → Reindeer and livestock herding

these are the main forms of agriculture in the region

#### → Mineral resource base

the province is rich in fuels and non-metallic minerals (oil, gas, coal,

shale oil, peat, rock and potassium salts, quartz, rock crystal) as well as metallic ores (ferrous, nonferrous and rare earths). The main precious metal ore in the province is gold, and silver and platinum are also found. Diamond finds have been reported

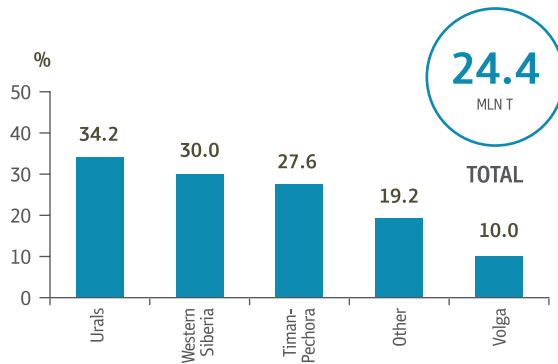
#### → Hydrocarbon production

the geology of Timan-Pechora has been well studied, and production of fuels in the region dates back as far as 1746. There are more than 100 hydrocarbon fields in the province. Most explored and prospective reserves are at relatively shallow depths (800-3,300 meters)



## Technologies

### Additional production from use of EOR as a share of total production in the region



### LUKOIL leads the Russian oil & gas industry in efficient application of new technologies

LUKOIL is constantly testing and applying new and highly efficient technologies in order to meet its strategic objective of replacing production with new reserves despite the deteriorating resource base. The Company is achieving stabilization and, in some regions, is increasing the production rate at wells despite the fact that reserves in these established regions have been in development for a long period of time. These results reflect the use of innovative technologies and improvement in the quality of geological and hydrodynamic models.

THE NUMBER OF OPERATIONS EMPLOYING NEW TECHNOLOGIES HAS GROWN BY **8** TIMES SINCE 2009

#### APPLICATION OF NEW TECHNOLOGIES

- **Steam assisted gravitational drainage (SAGD).** This technology provides maximum contact with the reservoir in drilling of horizontal wells and sidetracks. LUKOIL was the first company in the world to apply SAGD in a system of horizontal wells at the Lyaelskaya area of the Yaregskoye field.

- **Horizontal wells with extra long horizontal sections.** One of the four new wells commissioned in 2013 at the Yu. Korchagin field has unique construction parameters: its horizontal section is 4,292 meters long, while total borehole length is 7,600 meters, making it one of the most challenging wells in the world in terms of construction engineering.
- **Well completion with multi zone fracturing (MZF).** A total of 96 wells with MZF were commissioned in Western Siberia the Urals and Komi during 2013. Average daily oil production from these wells was 300 barrels, which is three times greater than the Company average. Use of the methods gave excellent results in 2013 at the Vinogradov field, where two MZF wells gave steady daily flows of about 360-500 barrels of oil.
- **Lower completion technologies.** Wells at the Yu. Korchagin field were equipped with passive flow regulation systems (ResFlow) to prevent gas breakthroughs.

#### ENHANCED OIL RECOVERY (EOR)

These methods enable substantial increase of reserve recovery and production rates, making it possible to work with high-viscosity oil, reservoirs with low permeability and tight reserves at fields in late development stages. The Company uses physical, chemical, hydrodynamic and thermal methods to stimulate productive formations.

**29%**  
OF COMPANY OIL IN RUSSIA IS PRODUCED USING VARIOUS EOR TECHNOLOGIES

In 2013, the Group carried out 6.6 thousand EOR operations, which is 19% more than in the previous year. Most of the additional output from EOR (over 16 million tonnes) was obtained using physical methods.

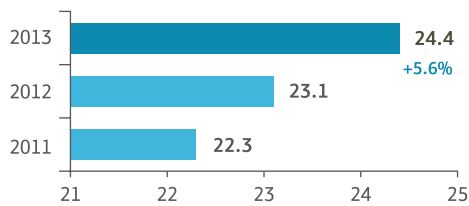
Drilling of sidetracks at existing wells is a highly efficient means of EOR, and LUKOIL continued to make much use



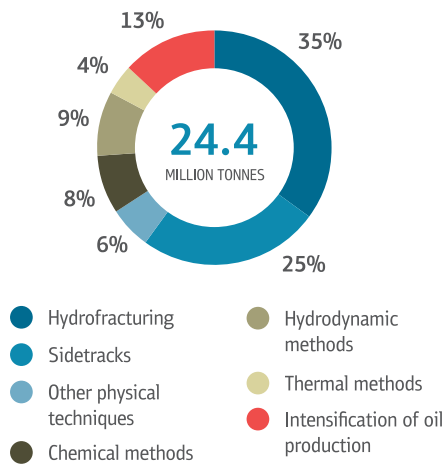


of this technique in the reporting year. A total of 470 sidetracks were drilled at Company fields in 2013 and they had average efficiency of 90 barrels per day. Such high efficiency is primarily due to reliance on scientifically organized mini-projects using hydrodynamic modeling and more accurate forecasting of geology and reserve structure in zones where sidetracks are drilled. Sidetrack drilling is mainly used at idle wells in order to recover residual oil.

**Additional production from use of EOR in Russia, million tonnes**



**Structure of additional production, obtained by use of EOR technology**





**HIGH-VISCOSITY OIL AND NON-CONVENTIONAL RESERVES**

The Company is working hard to develop and apply new technologies for the extraction of high-viscosity oil.

**The Russian government is encouraging production of high-viscosity oil, making it more cost-effective by the provision of tax preferences and special-rate export duties**

Most work with high-viscosity oil in Russia is in the Komi Republic, where the Group is developing the Yaregskoye and Usinsk fields. Thermal EOR methods are used at both fields and more than 3 million tonnes of oil (22 million barrels) were extracted in 2013.

→ **The Permo-Carbonaceous accumulation at the Usinsk field** is being developed using extensive steam-heat and cyclic-steam stimulation. Pilot production work is continuing as part of the program for construction of horizontal injection wells and slanted production wells in the south-eastern part of the field.

→ **The Yaregskoye field** is being developed with the use of thermal mineshaft technology. Tunnelling machines have been successfully deployed in preparation for development of sloped mine blocks, significantly reducing construction costs.

→ **The Bazhenov formation.** LUKOIL intensified prospecting and research work in 2013 to bring non-conventional resources in Bazhenov formations in Western Siberia into production. Thermal gas treatment (injection of a water and air mix into the reservoir) is being used to assist production. Horizontal well № 100G, completed using MZF, was commissioned in December 2013 at the Nazym field

and gave a daily flow of 600 barrels of oil. Pilot work for drilling of horizontal wells with MZF is continuing. The success of experimental work at the Sredne-Nazymskoye field and the development of new technologies will improve the recovery rates at Bazhenov oil pools in the future.

**GEOLOGICAL-HYDRODYNAMIC MODELING**

Computer-assisted modeling of geological and hydrodynamic structure enables monitoring of the development process, selection of the most suitable development technologies, and efficiency of well interventions for the recovery of reserves. Modelling raises the oil recovery factor and reduces spending on field development.

The use of models provides a detailed, three-dimensional representation of heterogeneity in the structure of hydrocarbon pools, establishes the structure of current oil reserves, localizes areas with high density of reserves, and enables multiple-variant calculations of the technological and economic parameters associated with various well interventions.

**Progress in 2013:**

- A supplement to the Nakhodkinskoye field development scheme was prepared using the Pipe Sim software package, taking account of the model of the gas collection network.
- A total of 315 geological-hydrodynamic models were prepared, and they identified more than 400 wells, at which drilling of sidetracks could be effective.
- Geological-hydrodynamic models have been prepared for all field development sites in Western Siberia (100% of development targets are now covered by geological-hydrodynamic models).



### SCIENCE AND TECHNOLOGY PROGRAM IN 2014

NEARLY

\$ **160** MILLION







16%	34%	13%	14%	23%
R&D	SCIENCE AND TECHNOLOGY WORK FOR FIELD DEVELOPMENT	SCIENCE AND TECHNOLOGY WORK FOR GEOLOGICAL EXPLORATION	SCIENCE AND TECHNOLOGY WORK FOR RESERVE ESTIMATION	FUNCTIONAL SCIENCE AND TECHNOLOGY WORK AND SERVICES

**Objective:** To provide science and technology support for main production operations

The approved science and technology program includes work on technologies for the development of Bazhenov formations and for bringing low-permeability reservoirs into production. Efforts at the Company's processing plants will focus on greater refining depth and modernization of facilities. The program also calls for continued cooperation with universities that serve the oil industry


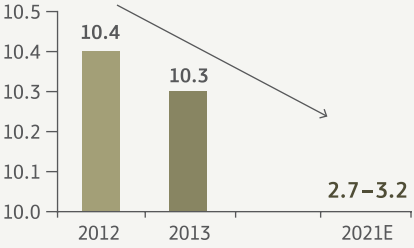

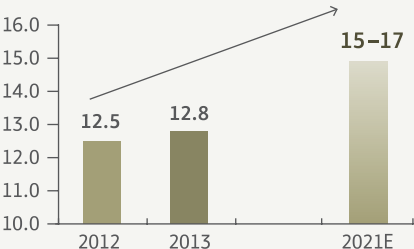




# REFINING, PETROCHEMICALS, POWER GENERATION AND MARKETING

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# REFINING, PETROCHEMICALS, POWER GENERATION AND MARKETING

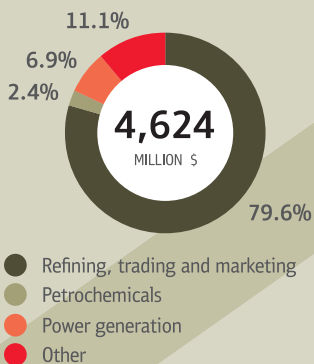
STRATEGIC OBJECTIVE		PROGRESS IN 2013	PRIORITIES IN 2014
<p><b>Raising the efficiency of refineries</b></p> 	<p><b>Fuel oil production at Company refineries in Russia, million tonnes</b></p>  <p>Oil refining, p. 47</p>	<p>Ongoing modernization has raised refining depth at Russian refineries to 75.7%, production of fuel oil declined by 1% in 2013 and the share of high-octane gasoline in total gasoline output rose to 99.9%</p>	<p>Continued modernization of refineries to increase production of light products</p> <p>Managing large construction projects of new secondary oil refining units. Launching them on budget and on time</p>
<p><b>Raising efficiency of filling stations</b></p> 	<p><b>Average daily sales per owned filling station in Russia, tonnes</b></p>  <p>Retail Sales of Petroleum Products, p. 66</p>	<p>Average daily sales per station in Russia rose to 12.8 tonnes thanks to the opening of new, highly efficient stations, optimization of unprofitable stations and renovation of old stations, as well as the implementation of customer loyalty programs (LICARD). Non-fuel sales grew by 6%</p>	<p>Opening highly efficient filling stations and reconstruction of stations in promising regions</p> <p>Further optimization of inefficient stations</p>
<p><b>Diversification of markets</b></p> 		<p><b>Crude oil sales:</b> entering the Asia-Pacific market</p> <p>Sales of Oil &amp; Gas, p. 58</p> <p><b>Lubricants:</b> entering markets in Sweden and Denmark</p> <p>Lubricants Production, p. 51</p> <p><b>Retail network:</b> expansion in promising regions of Russia and the Benelux countries</p> <p>Retail Sales of Petroleum Products, p. 66</p>	<p>Further work on efficient management of crude oil and petroleum product flows to export and domestic markets</p>
<p><b>Optimizing transport costs</b></p> 		<p>Increase in sales via the Company's own transport infrastructure. More than 70% growth of transshipment through Varandey</p> <p>Sales of Oil &amp; Gas, p. 58</p>	



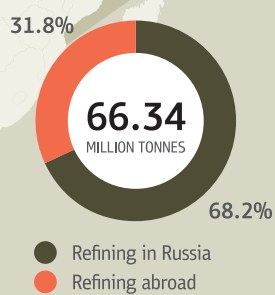
**REFINING, PETROCHEMICALS, POWER GENERATION AND MARKETING**



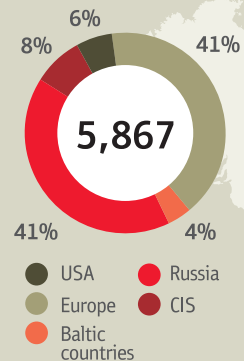
**Capex and investments in refining, petrochemicals, power generation and marketing<sup>1</sup>**



**Refining by regions**



**Filling station network**



<sup>1</sup> Including ownership stakes.



## Oil Refining

### PROGRESS IN 2013

- The share of high-octane gasoline in total output of automotive gasoline rose to 99.9%
- Refining depth at Russian refineries reached 75.7%
- Fuel oil production declined by 1%
- **Perm Refinery:** reconstruction of the diesel hydrotreatment unit was completed, work began on construction of a coking unit
- **Nizhny Novgorod Refinery:** crude oil and product storage reservoirs were enlarged
- **Ukhta Refinery:** the atmospheric-vacuum distillation unit was recommissioned after reconstruction, annual capacity of the vacuum block was increased to 2 million tonnes
- **Ploiesti Refinery (Romania):** large-scale reconstruction was completed, including replacement of the catalytic cracking reactor shell, cyclones and air distributor, restoration of furnace linings at main units and replacement of the catalytic system

### PRICE ENVIRONMENT

Refining margins on the developed markets of Europe and the United States declined in 2013, due to overcapacity and increased competition in a context of stagnating demand. Average European prices for fuel oil (FOB Rotterdam) fell by 6.3% and prices for high-octane gasoline by 4.8%.

In Russia, prices for heating oil rose by 6.6% and prices for AI-95 gasoline by 3.2%.

### PRIORITIES IN 2014

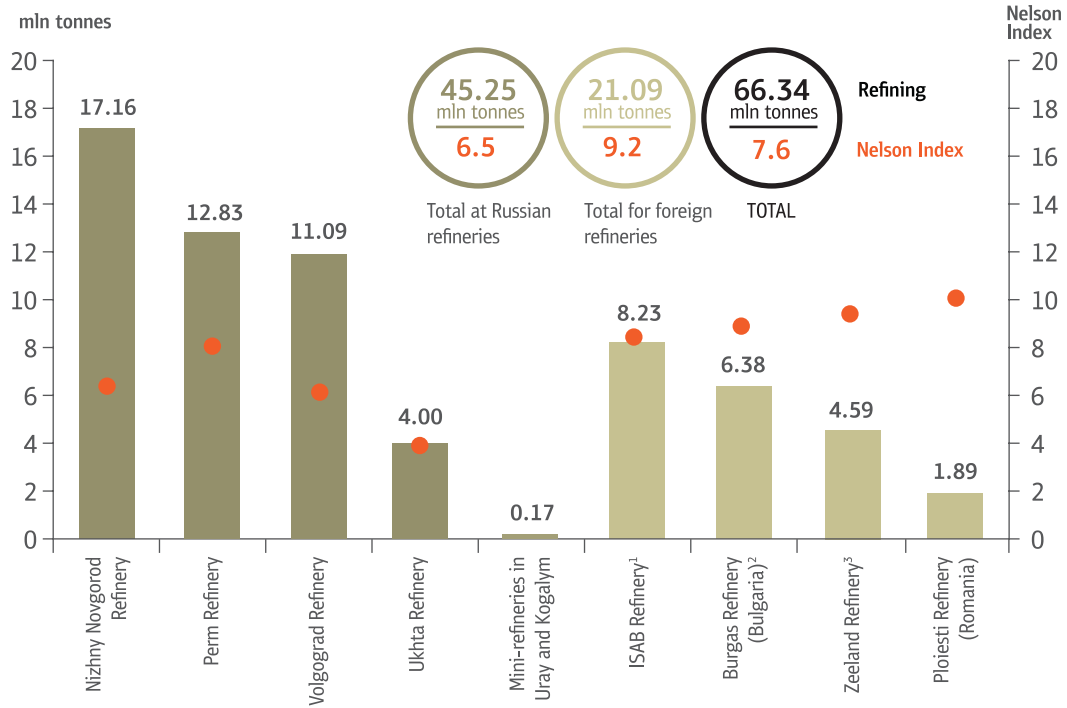
Further modernization and reconstruction work:

- **at the Perm Refinery:** the oil residue refining complex
- **at the Nizhny Novgorod Refinery:** a second complex for catalytic cracking of vacuum gas oil, a vacuum block
- **at the Volgograd Refinery:** the complex for deep refining of vacuum gas oil, the atmospheric-vacuum distillation unit
- **at the Burgas Refinery:** the heavy residue refining complex
- **at the ISAB Refining Complex:** reconstruction of the catalytic cracking unit





LUKOIL refinery performance in 2013



<sup>1</sup> Refining at ISAB (oil and fuel oil), based on the Company share in 2013 (80%).

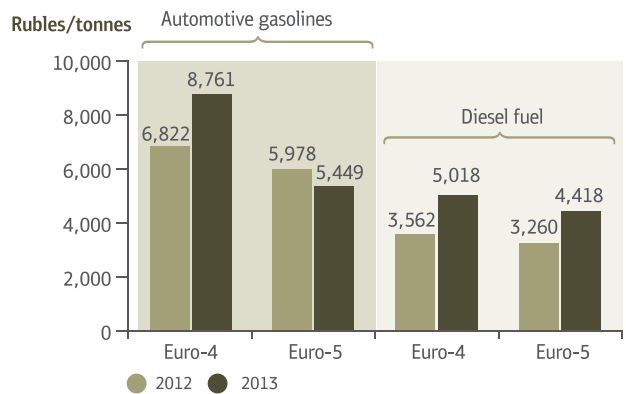
<sup>2</sup> Including refining of 0.79 million tonnes of fuel oil in 2013.

<sup>3</sup> Refining at the Zeeland Refinery, based on the Company share (45%). Including 2.1 million tonnes of other oil inputs, which were also refined in 2013.

TAX ENVIRONMENT

The main taxes in the segment are export duties and excise taxes on petroleum products. Changes in tax legislation are designed to encourage Russian producers of high-quality products by reduction of excise tax on Euro-5 gasoline and diesel fuel. In 2013 excise rates for Euro-5 gasoline were reduced by 8.8%, while excise rates for Euro-4, -3 and lower grade gasolines were raised by 27-28%. LUKOIL Group has produced only Euro-5 gasoline since 2012. This has had significant positive financial impact and has helped to pay back investments in refinery upgrades.

Excise tax on petroleum products







### FINANCIAL RESULTS IN THE REFINING, TRADE AND MARKETING SEGMENT

Net income in the refining, trade and marketing segment in 2013 was \$1.2 billion. Main negative impact on net income was from the write-down of non-cash impairment of goodwill for the ISAB Refinery, caused by lower refining margins in Europe.



Consolidated Financial Statements, p. 149

We pursued rapid development of our refining, marketing and distribution business in 2013, focusing efforts on greater operating efficiency and raising the share of light products in outputs. Improvements to Russian legislation now encourage the production of premium, environmentally friendly fuels. Efforts by the Company in the refining, trade and marketing segment are therefore particularly focused on modernization of Russian refineries.

### LUKOIL is well in advance of the deadlines set out in the government's Technical Regulations for production of engine fuels that meet Euro-5 criteria

Current modernization of the Perm Refinery, installation of catalytic cracking at the Nizhny Novgorod Refinery, of a complex for deep conversion of vacuum gas oil at the Volgograd Refinery and of a residue conversion complex at Burgas will significantly expand the Group's financial results in the refining segment. All LUKOIL refineries in Russia switched to production of Euro-5 compliant automotive gasoline as early as 2012.

↑ **99.9** %

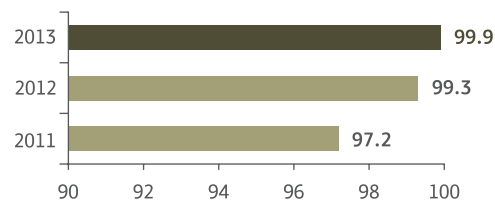
OF LUKOIL'S AUTOMOTIVE GASOLINE IS HIGH-OCTANE

The share of diesel fuel with sulphur content below 50 ppm in total diesel fuel production at LUKOIL refineries (excluding mini-refineries, ISAB and Zeeland) was 93.7% in 2013.

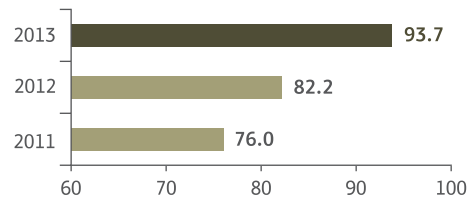


Analyst Databook, p. 39  
Fact book, p. 54

### Share of high-octane gasolines in total production of automotive gasolines<sup>1</sup>, %



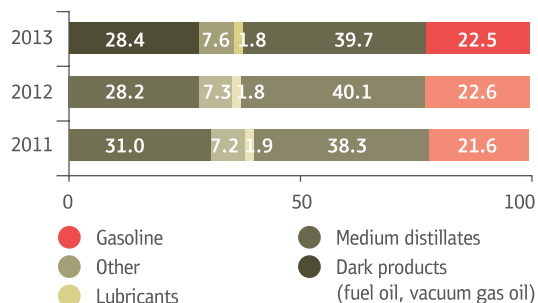
### Share of diesel fuel with sulphur content below 50 ppm in total output of diesel fuel<sup>1</sup>, %



<sup>1</sup> Excluding mini-refineries, ISAB and Zeeland.



**Structure of petroleum product outputs at LUKOIL Group refineries<sup>1</sup>, %**



<sup>1</sup> Including refining at ISAB since December 2008 and at Zeeland since September 2009 (by the Company share).

**RUSSIAN REFINERIES**

Refining volumes at Russian refineries grew by 1.8% in 2013 to 45.2 million tonnes, due to the removal of infrastructure constraints on oil pipeline transportation and shipment of petroleum products, and also due to increase of operations at the Nizhny Novgorod Refinery after reconstruction of atmospheric vacuum distillation unit № 5 in 2012.

The share of high-octane gasoline in total output of gasoline at Group refineries in Russia (not including mini-refineries) increased to 99.9% in 2013 from 99.1% in 2012. Refining depth is gradually increasing as modernization progresses. In 2013, refining depth reached 75.7%, compared with 75.2% in 2012. The share of light products in total outputs (not including mini-refineries) was 54.2%.

All refineries continued to reduce the level of irretrievable losses in the refining process during 2013. The level of such losses at Company refineries in Russia in 2013 was 0.47%, compared with the industry average of 0.72%.

Capital expenditures at Russian refineries totaled \$1,393 million in 2013 (\$988 million in 2012). Growth of capital expenditures was due to the installation of a unit for deep processing of vacuum gas oil at the Volgograd Refinery and of a catalytic cracking unit at the Nizhny Novgorod Refinery.

Analyst Databook, p. 42  
Fact book, p. 57

**FOREIGN REFINERIES**

Refining volumes at LUKOIL Group’s foreign refineries decreased by 2.5% in 2013 to 21.09 million tonnes due to lower production levels in Romania, Bulgaria and Italy in a context of low refining margins in Europe. The Company sold the Odessa Refinery as part of restructuring of foreign refining assets and due to the unfavorable economic situation in Ukraine.

Irretrievable losses during refining in 2013 at refineries outside Russia (excluding ISAB and Zeeland) were 0.54% (down from 0.56% in 2012). Refining depth (excluding ISAB and Zeeland) was 79.6% (82.0% in 2012). The share of light products in total output in 2013 (excluding ISAB and Zeeland) was 68.7% (69.8% in 2012).

Capital expenditures at LUKOIL refineries abroad in 2013 were \$791 million (\$418 million in 2012). The growth of capital expenditures was due to spending on the construction of a heavy residue processing complex at the Burgas Refinery.

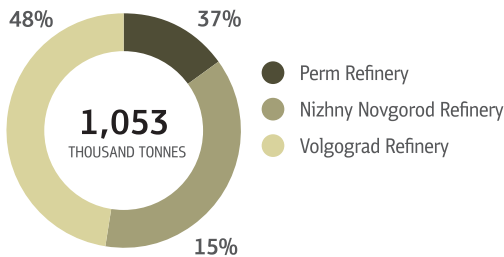
Analyst Databook, p. 47  
Fact book, p. 65



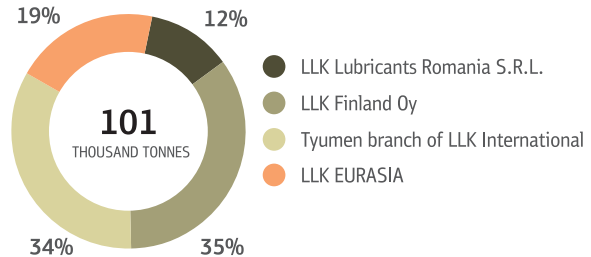
# Lubricant production

## Lubricant production at LUKOIL refineries

### Full-cycle lubricant production



### Production of lubricants from ready-made components



### PROGRESS IN 2013

- 25 new products created, 85 new approvals obtained
- Signing of strategic cooperation agreements with UZ DAEWOO and Sollers Group
- First-fill of foreign-made cars (Hyundai, KIA and Geely)
- The number of authorized service stations, to which LUKOIL supplies lubricants, rose to more than 600
- Contracts for lubricant supplies to the Moscow public transport operator, Mosgortrans (Europe’s largest vehicle operator), and to Magnit retail chain
- A new brand, LUKOIL GENESIS, was launched in Russia
- Acquisition of Austrian OMV with capacity of up to 80 thousand tonnes
- Start of work on an oil blending plant in Kazakhstan with annual capacity of 100 thousand tonnes

**As of today LUKOIL is the only Russian company with contracts for first-fill of foreign-made cars in Russia, and is also the first-fill supplier to all leading Russian car assembly plants**

The Company sells lubricants in 103 countries. Lubricant production volumes declined slightly in 2013 to 1,153 thousand tonnes, due mainly to reduction in consumption of oils classed by Russian certification and extension of intervals between oil changes as the Russian vehicle fleet was renewed. Demand for high-tech oils is on the increase: sales of advanced oils produced in Russia increased by 19% to 24 thousand tonnes.

LUKOIL MAKES ABOUT

# 48%

OF ALL LUBRICANTS PRODUCED IN RUSSIA

### PRIORITIES IN 2014

- Continuation of work with vehicle assembly plants to develop new products and further cooperation with the Russian Association of Brake Equipment Manufacturers
- Expanding sales of industrial lubricants as part of an import-substitution program

### RENEWAL OF THE PRODUCT RANGE

Development of new lubricant types is a constant process and LUKOIL now offers more than 600 products in total. LUKOIL lubricants have more than 350 current official approvals from manufacturers of machinery and equipment.



Continuous improvement of the structure of the product range is a key objective for the Company. Sales of high-performance lubricants for industry increased by 47% in 2013. The structure of export deliveries also changed substantially in 2013 due to rapid growth in the share of premium oils, Lux and Vanguard, in total exports (by 18% and 13%, respectively).

In the industrial segment, the use of LUKOIL lubricants guarantees smooth operation of machinery and economic benefits. Leading Russian industrial companies that use our lubricants include the steel maker Severstal, oil company Surgutneftegaz and the non-ferrous giant, Norilsk Nickel. Supplies began in 2013 to Russian Grids, which is the largest electricity supply company in Russia.

**PRODUCTION OF ADDITIVES**

Special attention was paid in 2013 to the development of additive production technology at LLK NAFTAN (a joint venture between LUKOIL Group and the Naftan Refinery in Belarus). The reactor block at the sulphonate additive shop was rebuilt, and a research laboratory was commissioned to enable use of the latest international methods for testing of marine lubricants. Output of additives for the production of marine lubricants grew by 20%.

**THE INTERNATIONAL MARKET FOR MARINE LUBRICANTS**

LUKOIL lubricants for ship engines are produced at 22 plants and supplied to 700 ports in more than 64 countries. LUKOIL NAVIGO lubricants have become the new standard for the most advanced and powerful marine engines. The standard became mandatory for all producers of marine oils from 2013.

ABOUT

**4 %**

LUKOIL SHARE OF THE INTERNATIONAL MARKET FOR MARINE LUBRICANTS

An agreement was signed in 2013 with the world's largest cruise ship owner, the American company Carnival Group, for delivery of LUKOIL marine oils to the entire company fleet, including the flagship and the world's best-known cruise ship – the Queen Mary 2. LUKOIL lubricants are used by the Russian Navy's helicopter carrier, the Vladivostok (Mistral class), which was transferred to Russia in October 2013.

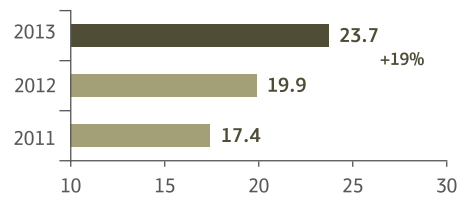


**LUKOIL MARINE LUBRICANTS ACCLAIMED AMONG THE BEST COMPANIES FOR TECHNICAL INNOVATION**

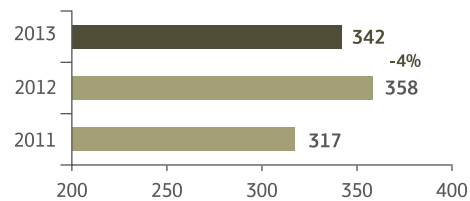
In 2013, one of the oldest newspapers in London, Lloyd's List, and the company Sea Trade, which produces international publications on marine and cruise business, acclaimed LUKOIL Marine Lubricants as one of the top five companies in the Middle East and India in the 'technical innovation' category

Analyst Databook, p. 41, 63  
Annual Report, p. 57

Sales of advanced lubricants made in Russia, thousand tonnes



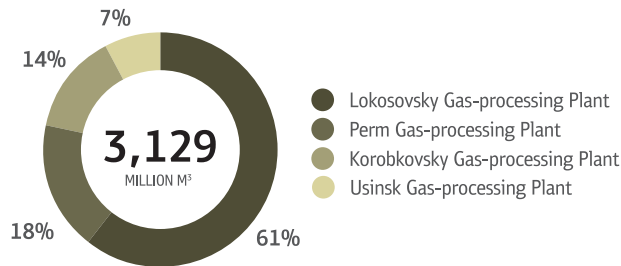
Sales of branded lubricants, thousand tonnes



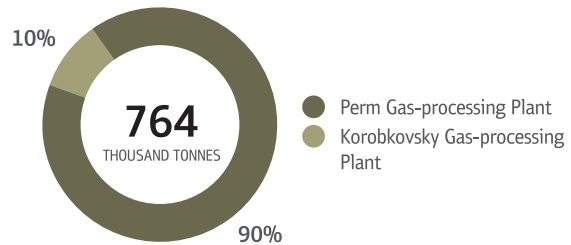


## Gas Processing

Gas processing at gas plants, million m<sup>3</sup>



Refining of liquid hydrocarbons at gas plants, thousand tonnes



### PROGRESS IN 2013

- The Usinsk Gas-processing Plant in Komi continued reconstruction of its input compressor station and assembly of a gas desulphurization unit
- The project draft for reconstruction of the Lokosovsky Gas-processing Plant and installation of a tank farm with loading rack was assessed
- The Perm Gas-processing Plant completed construction of a complex for liquefied gases

### PRIORITIES IN 2014

- Further upgrading of the Usinsk Gas-processing Plant to increase preparation and processing of APG from 200 to 600 million m<sup>3</sup> per year, including 100 million m<sup>3</sup> of sulphur dioxide from the Usinsk field
- The Perm Gas-processing Plant is scheduled to complete construction of its second APG processing line



### THE LOKOSOVSKY GAS-PROCESSING PLANT IS THE LARGEST COMPANY FACILITY FOR APG PROCESSING

More than 95% of the APG extracted in Western Siberia is now utilized. The Lokosovsky Plant has annual capacity for up to 2.14 billion m<sup>3</sup> of gas inputs. The APG is processed to produce dry stripped gas, natural gas liquids, stable natural gasoline and technical propane

Commissioning of a tank farm and loading rack at Lokosovsky Plant has enabled products to be shipped by rail to LUKOIL petrochemical plants and to industrial customers outside the Group

LUKOIL Group's gas-processing plants process associated petroleum gas (APG) extracted in Russia into marketable gas (fed into the national pipeline system of Gazprom) and liquid hydrocarbons.

In 2013, the Company's gas processing plants processed 3,129 million m<sup>3</sup> of gas feedstocks and 764 thousand tonnes of liquid hydrocarbons.

Company plants produced more than 2,368 million m<sup>3</sup> of stripped gas, 905 thousand tonnes of liquefied gases, over 644 thousand tonnes of natural gas liquids and 164 thousand tonnes of liquid hydrocarbons (stable natural gasoline and isopentane fraction) in 2013.



Analyst Databook, p. 51  
Fact book, p. 72



## Petrochemicals

PETROCHEMICAL COMPANIES		
Saratovorgsintez	Saratov (Russia)	Acrylonitrile, sodium cyanide and other organic synthesis products
Stavrolen	Budennovsk (Stavropol Territory, Russia)	Polyethylene, polypropylene and other products
Karpatneftekhim	Kalush (Ukraine)	Polyethylene, polyvinylchloride, caustic soda and other products
OIL REFINERIES WITH PETROCHEMICAL FACILITIES		
Neftokhim Burgas	Burgas (Bulgaria)	Polymers

### PROGRESS IN 2013

- **Stavrolen:** Further work on construction of a gas processing unit (GPU) for gas from Northern Caspian fields
- **Saratovorgsintez:** Reconstruction of acrylonitrile production

### PRIORITIES IN 2014

- Further capacity modernization.
- Construction of a GPU-1 at the Stavrolen plant



### STAVROLEN GPU MEETS THE HIGH STANDARDS OF THE RUSSIAN SOCIETY FOR NATURE CONSERVATION

LUKOIL has received a certificate from the Russian Society for Nature Conservation confirming environmental safety of the gas processing unit, which is now under construction at the Stavrolen plant (Budennovsk)

Commissioning of GPU-1 and modernization of other facilities at Stavrolen will reduce atmospheric pollution at the site by nearly 300 tonnes per year. APG, which will be supplied to the GPU-1 from LUKOIL's Caspian fields, does not contain hydrogen sulphide compounds and its use as fuel will not therefore be harmful to the environment in the region

### LUKOIL's strategy in the petrochemical sector is to obtain value added from synergies with gas production and refining

Outputs of Company plants in Russia, Ukraine, Bulgaria include products of pyrolysis and organic synthesis, fuel fractions and polymer materials. The Company meets a substantial part of domestic demand for various chemicals and is also a major exporter of chemical products to more

than 30 countries. Production volumes at petrochemical plants of LUKOIL Group increased by 10.2% in 2013 to 985 thousand tonnes, reflecting a low base effect in 2012 due to the suspension of production at Karpatneftekhim (Ukraine) and at Stavrolen.



Analyst Databook, p. 57  
Fact book, p. 74



### PETROCHEMICALS FOR EVERYDAY PRODUCTS

Petrochemical processes convert hydrocarbons produced by the Company into products, which are used to make many types of consumer goods:



#### Polyethylene

- pipes with high barrier properties for water and sewerage
- household appliances
- packaging films and containers



#### Polyvinylchloride

- cables and artificial leather
- packaging materials



#### Sodium cyanide

- used in gold mining to separate precious metals from ore material



#### Benzol

- medicines
- plastics
- synthetic rubber



#### Vinyl acetate

- paints
- various adhesives

Various measures were carried out in 2013 as part of LUKOIL's strategy to develop and improve the efficiency of its petrochemical enterprises.

**Stavrolen:** a gas processing unit GPU-1 is being built to utilize up to 2.2 billion m<sup>3</sup> of APG produced at North Caspian fields. Completion is scheduled in late 2015. Natural gas liquids from GPU-1 will be used as feedstock for ethylene production, and ethane and stripped gas will be fed into the Gazprom gas transportation system.

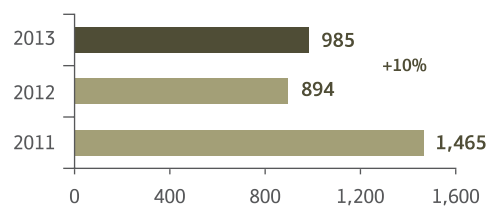
Work began in 2013 on a combined cycle power plant, with 135 MW of electric capacity and heat capacity of 58 Gcal per hour, to serve the new GPU. Associated gas produced at North Caspian fields will be used to fuel the plant, which will have an energy efficiency rating above 51%, matching the best international standards. Operation of the plant will lower per unit fuel consumption for electricity generation by 1.5 times and will reduce harmful atmospheric emissions by 2-3 times.

 Fact book, p. 76

**Saratovorgsintez:** work continued in 2013 on the project to expand annual production of sodium cyanide to 30 thousand tonnes and to raise acrylonitrile production to 190 thousand tonnes. Equipment was delivered for the new facilities and work was carried out to build a warehouse for storage of sodium cyanide. The engineering project for acrylonitrile production is at the design stage.

 Fact book, p. 78

#### Petrochemical production, thousand tonnes





## Power Generation

### LUKOIL is a major player in Russia's electricity generating business

#### PROGRESS IN 2013

- **Ongoing modernization:** Launch of a 235-MW CCGT at the Tsentralnaya Boiler Facility (Astrakhanenergo); installation of six gas-piston units with total capacity of 10.5 MW at Rostovenergo and Stavropolenergo
- **Start of construction work** on a 135 MW CCGT at Stavrolen
- **Renewable energy:** start of work on photovoltaic and wind generating facilities in Romania

#### PRIORITIES IN 2014

- Construction of a gas turbine and cogeneration plant at the Perm Refinery (the first stage with 100 MW capacity will be brought into operation in 2014)
- Certification of compliance with ISO international standards
- Construction of energy centers with 100 and 125 MW capacity at the Yaregskoye and Usinsk fields
- Completion of construction work on a 135 MW CCGT at Stavrolen

LUKOIL's main capacities for heat and electricity generation are located in southern Russia, and also in Bulgaria and Romania.

LUKOIL's generating assets provide for the Company's own needs (small-scale generating facilities) and also serve external heat and electricity customers in the Southern Federal District of Russia. So strategy in the power generation segment is geared both to commercial generating and to local generation for the needs of LUKOIL's production and refining facilities.

Total electricity production by the Company in 2013 was 15.7 billion kWh. Total heat generation was 13.6 million Gcal, of which 12.5 million Gcal in Russia. Volume of heat and power production was dependent on conditions in the electricity market.



Analyst Databook, p. 54  
Fact book, p. 78



#### ENERGY-SAVING TECHNOLOGIES

LUKOIL is working to improve energy efficiency at its production facilities. Economic benefit from implementation of the energy-saving program in 2013 was \$28 million

#### Certification to ISO standards

Pokachevneftegaz (Western Siberia) and LUKOIL-Kubanenergo became the first group LUKOIL business units to obtain certificates of compliance with the ISO 50001:2011 international standard (Energy management systems – Requirements with guidance for use)

This system is scheduled for introduction throughout the Group by 2015 Group with granting of ISO certification



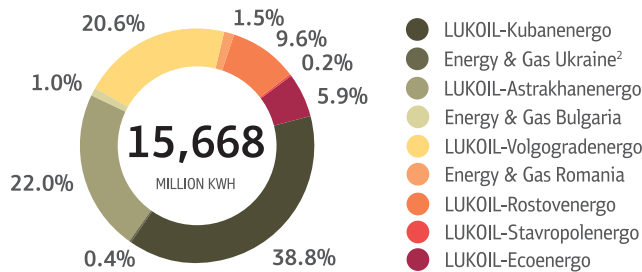
#### Trigeneration technology

A pilot project is being implemented using a 110 MW CCGT in Astrakhan. Use of waste heat and heat extraction to power refrigeration processes makes it possible to lift restrictions on capacity use and generation of electricity during the summer period and to increase the heat extraction rate, thereby improving efficiency indicators at power indicators. Refrigeration is carried out using lithium-bromide absorption equipment

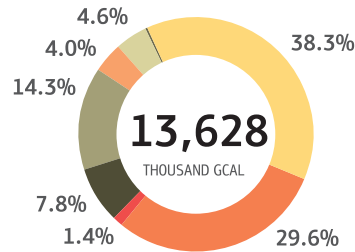




Electricity generation<sup>1</sup>



Heat production<sup>1</sup>



<sup>1</sup> Excluding small-scale generation.

<sup>2</sup> Sold in 2013.

### Renewable energy

LUKOIL is working hard to develop renewable energy in Russia and abroad through the company LUKOIL-Ecoenergo. In Russia LUKOIL-Ecoenergo operated four hydroelectric power stations with total capacity of 297.8 MW at the end of 2013. Electricity generation by the stations in 2013 totaled 928 million kWh.

The Company is also developing solar and wind energy projects outside Russia. Total capacity of Company wind farms at the end of 2013 was 124 MW and they produced 277.7 million kWh during the year.

### RUSSIA

LUKOIL implemented a number of renewable energy projects in 2013 to provide for the Group's own energy needs. Solar collectors were installed to heat water as well as heat pumps for air conditioning and heating at LUKOIL filling stations. Plans were made and studies carried out for future construction of photovoltaic power and wind power plants, including wind-and-diesel systems at fields.

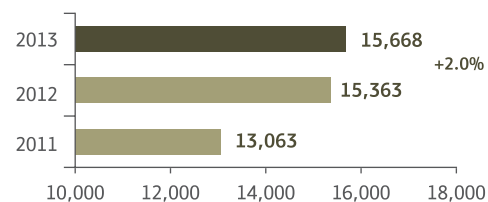
### INTERNATIONAL PROJECTS

The joint venture LUKERG Renew made two acquisitions in Eastern Europe during 2013, with total generating capacity of 84 MW. The acquired assets are the Gebeleisis wind power plant in Romania (70 MW) and the Hrabrovo plant in Bulgaria (14 MW).

In Romania we have begun construction of the 84 MW Inergia wind power plant, where 42 wind turbines, will be installed, with 2 MW capacity each. Completion is scheduled in 1H 2014.

In 2013 the LUKOIL business unit Energy & Gas Romania began a project to build a 9 MW photovoltaic generating plant at zones of the Ploiesti refinery, which are not used for production purposes.

Electricity generation<sup>1</sup>, million kWh



<sup>1</sup> Excluding small-scale generation.



## Sales of Oil & Gas

### PROGRESS IN 2013

- LUKOIL entered the Asia-Pacific market
- Exports via the Company's own terminals increased by 50%
- Growth of export sales benefiting from customs duty preferences (oil from the Caspian and the Yaregskoye field)

### PRIORITIES IN 2014

- Diversifying sales markets
- Increasing the share of transportation that uses the Company's own infrastructure



### SALES OF OIL

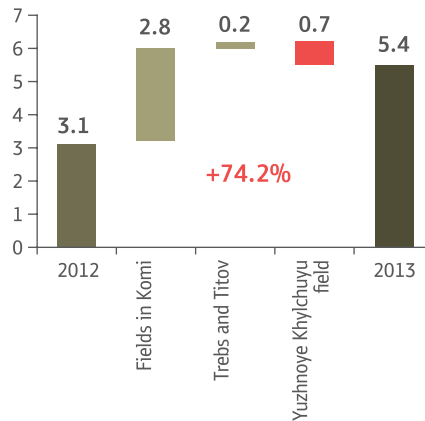
The total volume of crude oil sales by the Company in 2013, including supplies for refining at owned and affiliate refineries, was 105 million tonnes. Higher efficiency of oil supplies to the domestic market compared with most destinations outside the CIS countries meant that substantial volumes of oil were reallocated from inefficient export markets to Company refineries or were sold on the domestic market.

Optimal allocation of export and domestic market flows based on market conditions to maximize the Company profits is a priority task in the oil sales segment.

**Exports through LUKOIL's own terminals increased by 50% to 6.4 million tonnes of oil**

Most of this growth was achieved by increase of supplies from fields in the Komi Republic through the new Kharyaga – Yuzhnoye Khylichuyu pipeline and the start of deliveries from the Trebs and Titov field to the Varandey terminal, through which 5.4 million tonnes were exported. The level of exports through the port of Svetly remained unchanged at 1.0 million tonnes.

**Dynamics of deliveries to the Varandey terminal, million tonnes**





### ENTERING THE ASIA-PACIFIC MARKET

The company entered the fast-growing Asia-Pacific market in 2013 with the objective of improving business efficiency through market diversification

A new export route, via the Eastern Siberia-Pacific Ocean (ESPO) pipeline system and the port of Kozmino, has been in operation since July 2013, enabling transportation and sale of light crude produced by the Company without its mixing with inferior grades and achieving greater efficiency than could be achieved by traditional exports in a western direction

### Oil deliveries to refineries

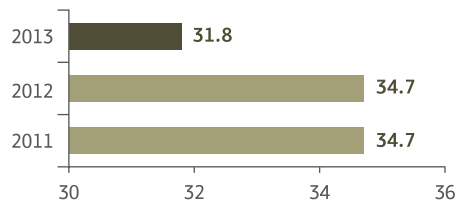
Processing at Russian refineries remained the most efficient way of using oil produced by the Company in 2013. The volume of oil supplies to refineries in Russia during the year was 45.2 million tonnes.

Total supplies of oil to owned and affiliate refineries outside Russia were 21.1 million tonnes in 2013. Oil supplies for processing at third-party refineries were 1.54 million tonnes. Decline of the last figure compared with 2012 was due to reduction of deliveries to refineries in Belarus.

### Sales on the domestic market

Total 8.5 million tonnes of oil were sold on the domestic market in 2013, which is 87.1% more than in 2012. The increase was due to lowering of oil exports by 2.9 million tonnes and reallocation of these volumes to the more profitable domestic market.

### Oil export from Russia, million tonnes



### Structure of oil sales, %



<sup>1</sup> Including petroleum products delivered to ISAB and Zeeland.

### Oil exports

Redistribution of oil supplies in 2013 led to reduction of exports by 8.4% to 31.8 million tonnes. The share of LUKOIL export supplies via the Transneft transport system decreased from 87.7% to 79.5%, while the share dispatched via the Company's own transportation infrastructure increased due to launch of the Kharyaga – Yuzhnoye Khylychuyu pipeline.

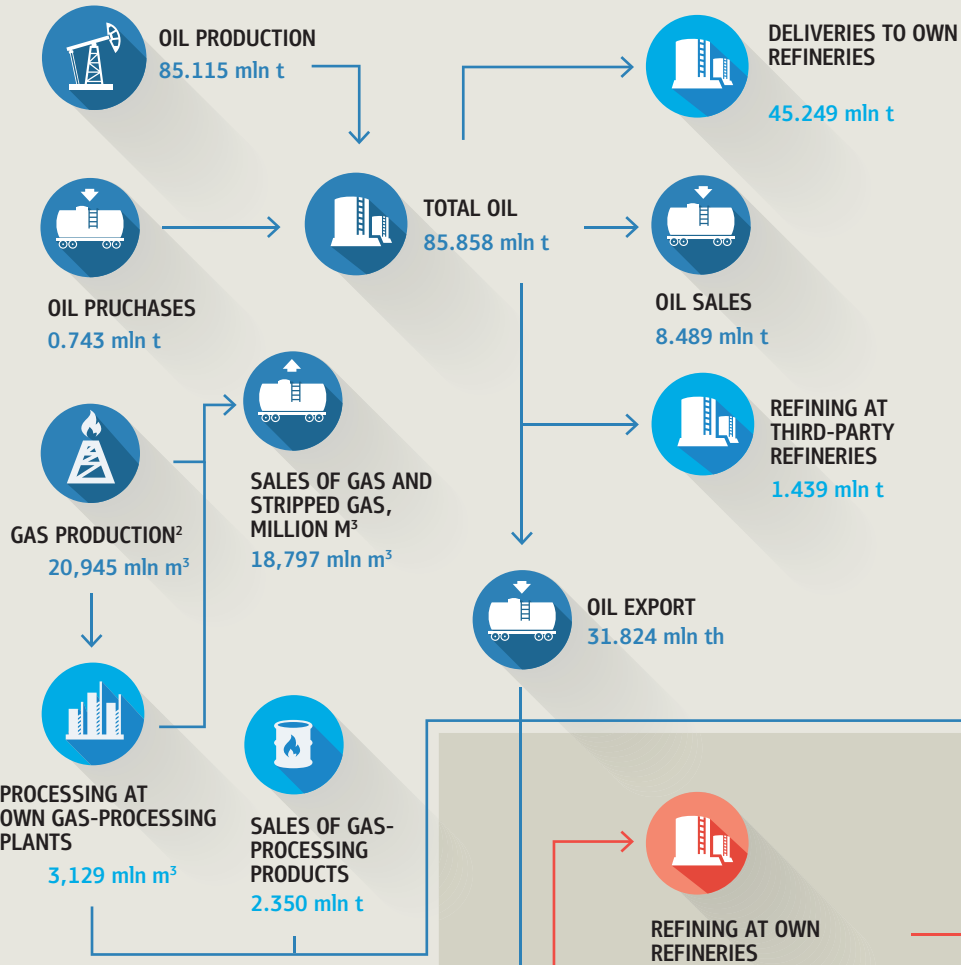
Analyst Databook, p. 62  
Fact book, p. 84



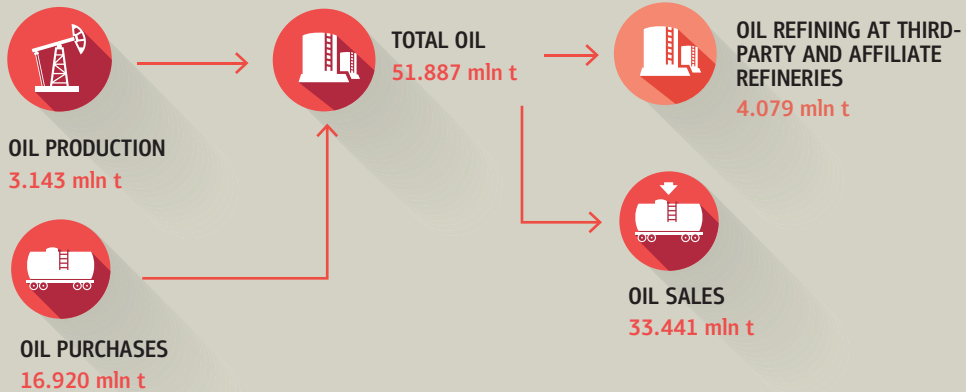
# Oil & Gas Production and Supply Structure <sup>1</sup>

## Subsidiary companies of LUKOIL

### → RUSSIA

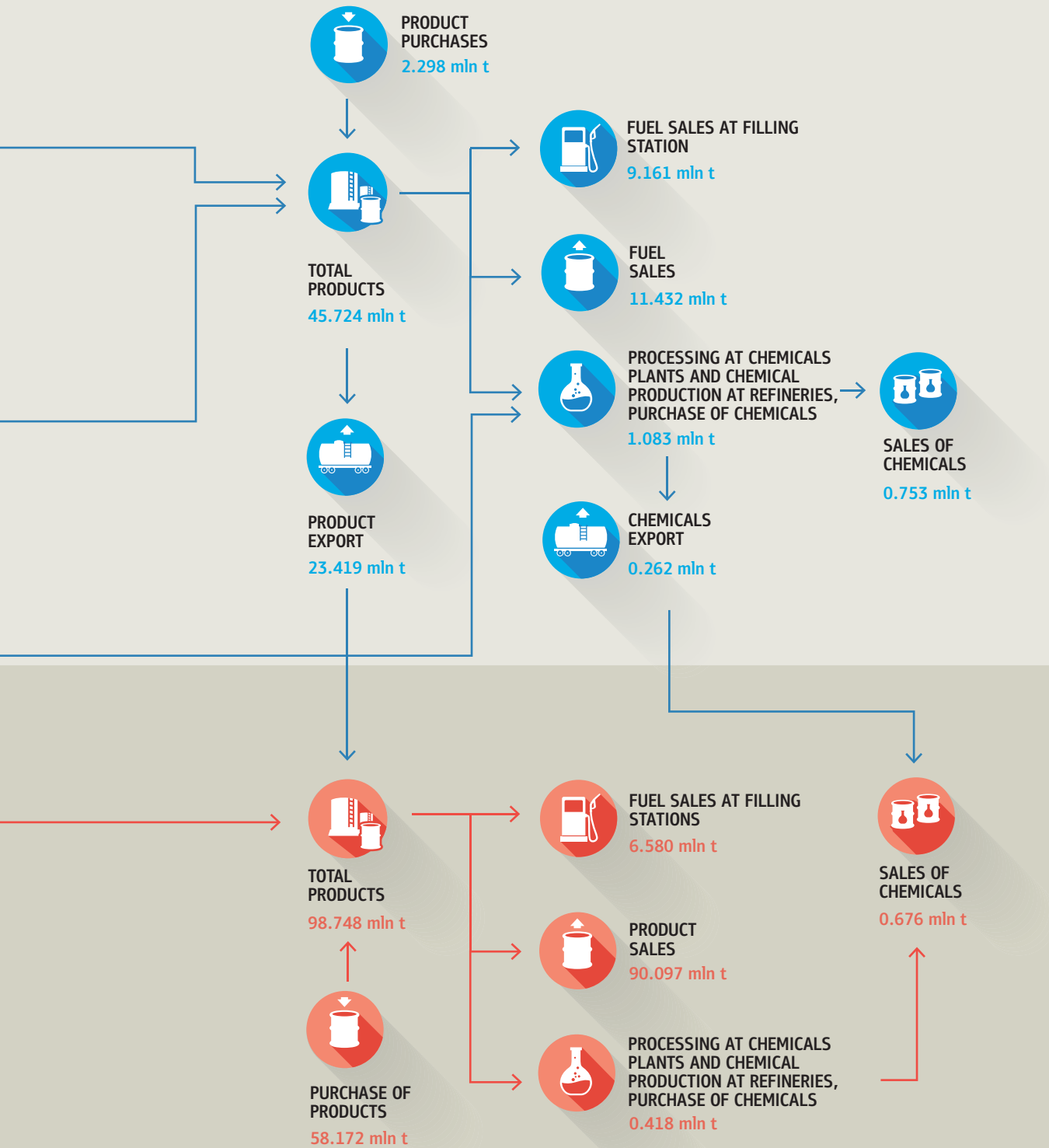


### → INTERNATIONAL



<sup>1</sup> Excluding losses on refineries, transportation losses, own consumption and petrochemicals and gas products produced on refineries.

<sup>2</sup> Marketable gas including associated gas processed into natural gas liquids at own gas processing plants.





## Sales of gas

LUKOIL Group sales of natural gas, associated petroleum gas (APG) and stripped dry gas totaled 20.4 billion m<sup>3</sup> in 2013, which is 2.3% more than in 2012. The figure includes 9.7 billion m<sup>3</sup> of gas sold to Gazprom and its affiliates (including about 8.3 billion m<sup>3</sup> of natural gas from the Company's Nakhodkinskoye field) and 4.9 billion m<sup>3</sup> of gas sold to other consumers (including deliveries to the Group's gas-processing plants).

Growth in the share of gas sold with high economic efficiency to end-users and price increases in such sales led to growth of the average-weighted sale price of Company gas by 16% compared with 2012 to about 1,937 rubles per thousand m<sup>3</sup> (1,818 rubles in sales to Gazprom and 2,217 rubles in sales to end-users).

Changes were made in principles of tariff formation for transportation of gas belonging to independent producers through the Gazprom transport system, making it possible to deliver gas efficiently over longer distances.

### DELIVERIES OF APG

The sales volume of marketable associated gas by LUKOIL Group in 2013, including deliveries to the Company's own gas-processing plants, was 6.6 billion m<sup>3</sup>, which is 3.5% more than in 2012.

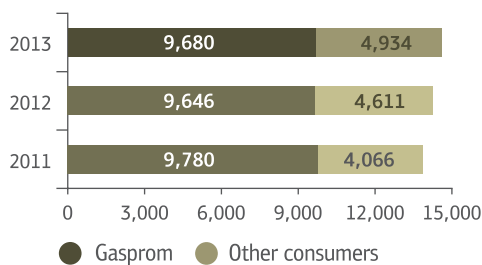


### NEW PIPELINE WILL INCREASE THE LEVEL OF APG UTILIZATION IN PERM TERRITORY

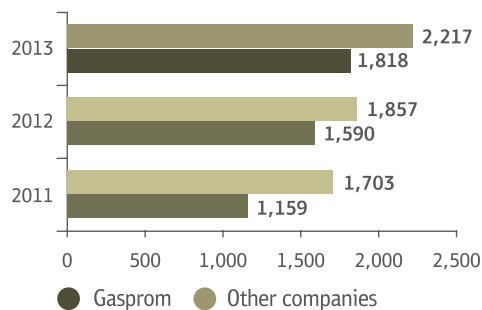
A new gas pipeline was brought into operation in May 2013 in Perm Territory. The pipeline with capacity of 240 million m<sup>3</sup> will enable all associated gas from the Unvinskoye, Ozernoye and Gagarinskoye fields to be delivered for use at the Yaivinskaya thermal power station, owned by the energy concern E.ON Russia. This will substantially increase the level of APG utilization by LUKOIL in Perm Territory. Capacity of the pipeline may be increased in the future

More than twofold reduction of environmentally harmful coal burning at the Yaivinskaya power station and its replacement by environmentally friendly gas will also have major impact in reducing atmospheric emissions

Company gas sales in Russia, including deliveries to Company gas-processing plants, million m<sup>3</sup>



LUKOIL sales price, rubles/thousand m<sup>3</sup>



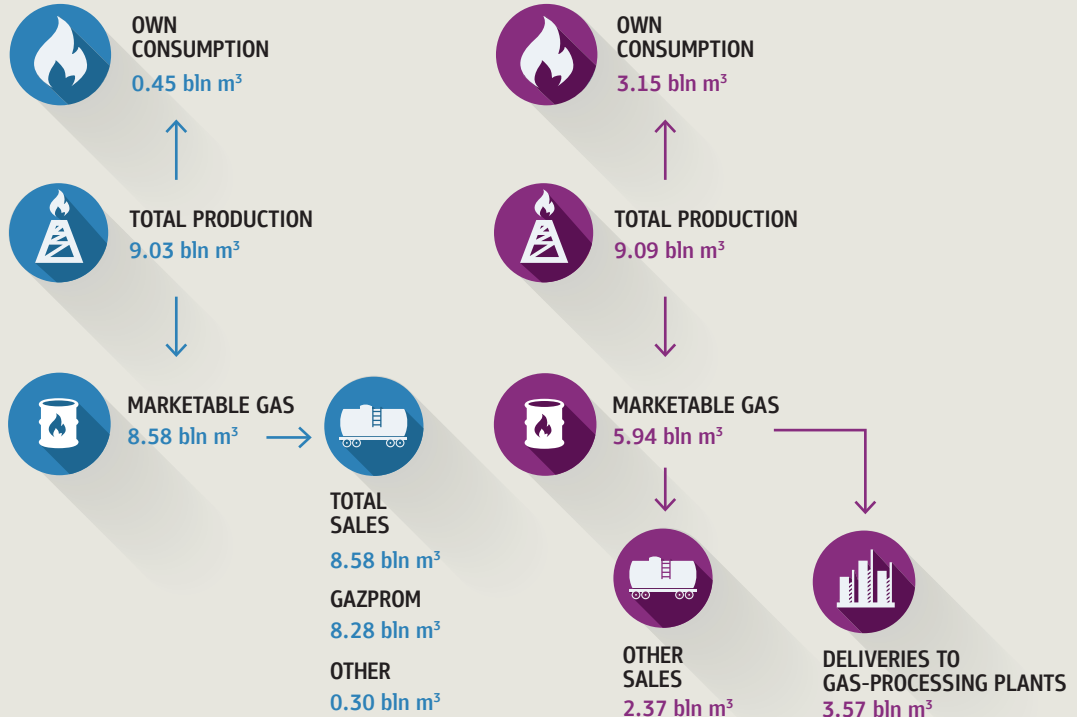


# Gas Production and Supply Structure

## RUSSIA

→ Natural gas

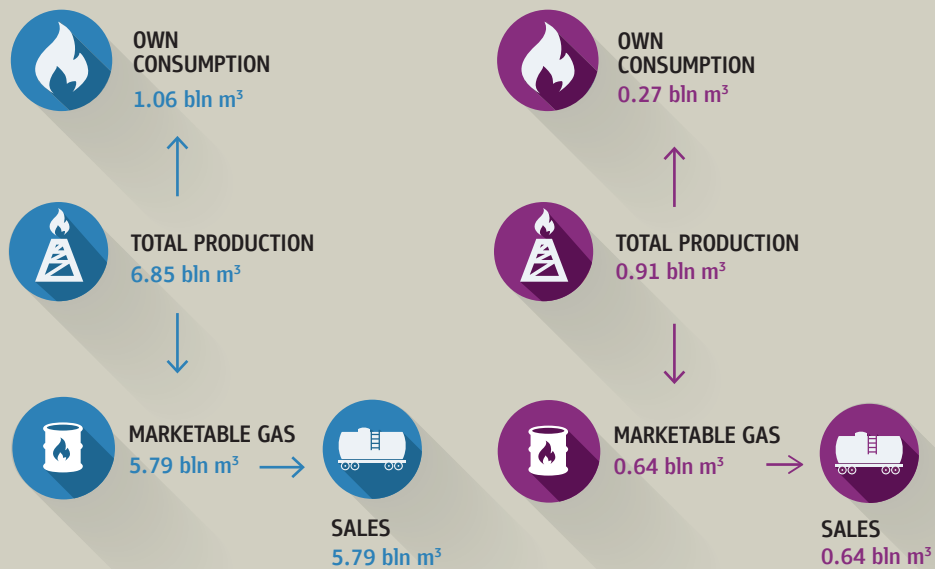
→ APG



## INTERNATIONAL

→ Natural gas

→ APG





# Petroleum Product Marketing

## PROGRESS IN 2013

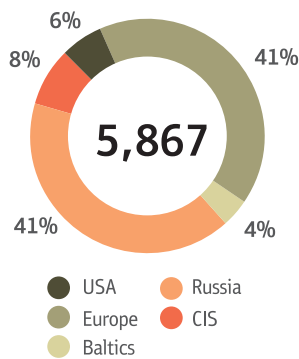
Efficiency gains in the marketing network:

- Average daily sales at filling stations rose to 12.8 tonnes in Russia and to 9.2 tonnes for the Group as a whole thanks to the opening of highly efficient filling stations and the reconstruction of existing stations, as well as implementation of customer loyalty programs (LICARD)
- Cost optimization through the withdrawal of unprofitable and inefficient stations, outsourcing of ancillary works, and development of a network of automatic filling stations (37 automatic station projects were implemented in 2013)
- Growth in sales of non-fuel products was 6%
- Expansion on markets (expansion of the sales network in promising regions)

## PRIORITIES IN 2014

- Diversification on markets and market entry in promising regions. Sale of oil produced at West Qurna-2
- Further improvement of operating efficiency of the marketing network through improvement of the cost management system, and greater customer-orientation
- Increase in sales of non-core products

LUKOIL filling station network as of 31.12.2013



## WHOLESALE TRADING OF PETROLEUM PRODUCTS AND PETROCHEMICALS

A total 11.4 million tonnes of petroleum products were sold to wholesale buyers on the domestic market in 2013, which is 1.8% less than in 2012.

Exports of petroleum products increased by 3.9% in 2013 to 23.4 million tonnes. The structure of exports was unchanged in the reporting year. Company exports from Russia consisted mainly of diesel, fuel oil and gas oil (about 88.9% of total petroleum product exports). The structure of exports by the Company corresponds mainly to the structure of overall Russian petroleum product exports.

## Transportation of petroleum products

Most exports by the Group of petroleum products in 2013 were by railway: about 70% of petroleum products were sent for export via rail. These deliveries included transportation of petroleum products by rail to the export terminal in Vysotsk. A total of 11.0 million tonnes of petroleum products were shipped through the terminal in 2013, including 0.03 million tonnes of vacuum gas oil, 2.5 million tonnes of diesel fuel and 6.7 million tonnes of fuel oil.

LUKOIL petroleum products are also exported via river and sea (16%) and by pipeline (14%).

Pipeline exports are faster and more economically efficient, so the Company uses every opportunity to make greater use of them. The share of product exports via the Transneft pipeline system increased to 14% in 2013 from 10% in 2012 thanks to reverse use of the Andreyevka-Cherkassy pipeline, which enabled diesel fuel from the Perm Refinery to be fed into the system.

## International trade

The Company is working hard to develop its international trade in petroleum products, increasing the scale and geographical diversification of this business.

## LUKOIL HAS TRADE OPERATIONS IN 95 COUNTRIES WORLDWIDE

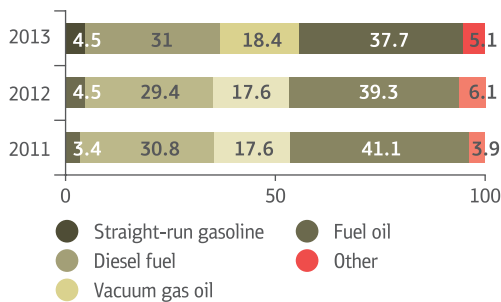




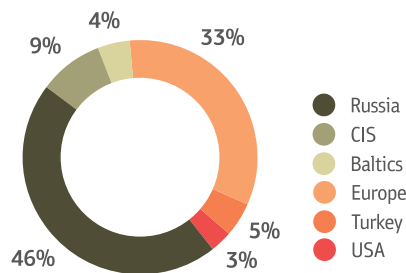
North-West Europe, the Black Sea countries and the Mediterranean region are the traditional key markets for the Company's international trade. LUKOIL is also expanding its presence in the oil-producing regions of western, sub-equatorial and southern Africa, as well as developing projects in Central America. One of the main tasks for the near future is marketing of oil produced at the West Qurna-2 field. The company is building long-term relationships with large refineries in South East Asia, the United States and other countries in order to achieve the most efficient allocation of these resources.

Analyst Databook, p. 63  
Fact book, p. 84

### Structure of petroleum product exports, %



### Structure of sales by the Company of its own petroleum products in 2013 (wholesale and retail)



### BUNKERING

THE GROUP CONTROLS ABOUT

# 27%

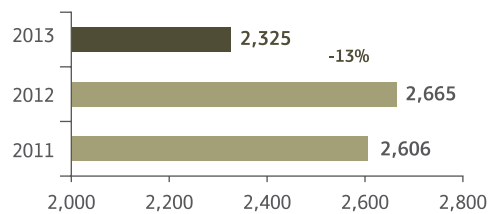
OF THE RUSSIAN BUNKERAGE FUEL MARKET IN VOLUME TERMS

LUKOIL is now is one of the biggest suppliers of bunker fuel at sea and river ports in Russia.

The Company carried out bunkering operations at ports in five Russian regions in 2013. The LUKOIL bunkering fleet operates mainly at ports on the Baltic Sea, Barents Sea and Black Sea, and also on Russia's inland waterways.

Fact book, p. 85

### Bunker fuel sales, thousand tonnes



### AIRCRAFT REFUELING

THE GROUP ACCOUNTS FOR ABOUT

# ↑ 27%

OF OVERALL SUPPLIES OF AVIATION FUEL TO THE RUSSIAN MARKET

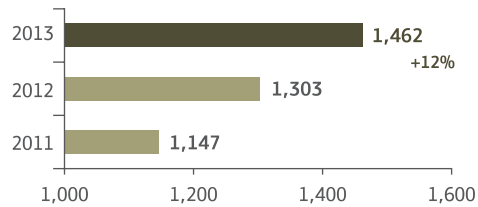
LUKOIL makes sales of aviation fuel, produced at its own refineries or purchased, mainly on an 'into-wing' basis at airports in Russia and abroad through its own subsidiaries or under agreements with third-party refueling companies. Into-wing refueling grew substantially in 2013 to a level of 1.5 million tonnes.

The main customers for aviation fuel sold by the Company are traditionally the largest Russian airlines and civil aviation companies.

**In 2013 LUKOIL began to supply aviation fuel and other fuels and lubricants to 17 aerodromes of the Russian Ministry of Defense.**



Into-wing sales of aviation fuel, thousand tonnes



LUKOIL holds monthly commodity-exchange trading in aviation fuel in compliance with the recommendations of the Russian Federal Antimonopoly Service. A total of 379 thousand tonnes of aviation fuel were sold on exchanges in 2013, representing more than 15% of total production by LUKOIL.

Fact book, p. 86



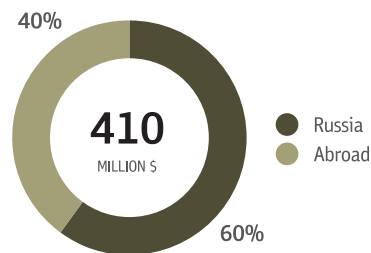
RETAIL SALES OF PETROLEUM PRODUCTS

LUKOIL sells its own fuels on the retail market via a well-diversified distribution network consisting of more than 5,867 filling stations and 166 oil depots in 27 countries. The Company increased its total sales of petroleum products by 2.1% in 2013, and most of the growth was focused on the Russian market (+3.4% compared with 2012) where demand for high-quality fuel is rapidly increasing.

LUKOIL continued to develop its network for marketing and sales of liquefied and compressed gases in 2013, increasing volumes in this segment to 846 thousand tonnes.

Analyst Databook, p. 88  
Fact book, p. 63

Capital expenditures on the LUKOIL marketing network, \$ million



LUKOIL FILLING STATIONS WIN APPROVAL FROM THE RUSSIAN SOCIETY FOR NATURE CONSERVATION

LUKOIL became the first Russian oil company to pass a test confirming that the quality of its automotive fuels meet the requirements of the current government-approved Technical Regulations on fuel quality

The results of studies at a specialized research laboratory showed that all fuel samples fully match the Euro-5 standard. This means that they easily satisfy the Russian Technical Regulations, which require that all automotive fuel distributed and sold in Russia must meet Euro-3 standards from 1 January 2013



Optimization of the marketing network

The Company pursued efforts to optimize its marketing network in 2013 with the objectives of reducing costs and improving efficiency. A total of 156 filling stations and two product depots in Europe and the CIS were optimized: 75 filling stations were put under management, 71 were sold, 10 were closed down and 2 product depots were sold. In Russia, 47 filling stations and 12 product depots were optimized: 28 filling stations were sold and 19 leased, while 11 depots were sold and one was leased.

The Company will take steps in the future to optimize filling stations with daily sales volumes inferior to 3 tonnes.



### Non-cash payment for fuels

By the end of 2013 a total of 2,417 filling stations in Russia (including 2,029 LUKOIL stations) were equipped to accept LUKOIL fuel cards as a means of payment. The number of cards in circulation in Russia exceeds 3.8 million (active from the beginning of the year). The total number of active cards increased by 121% in comparison with 2012.

A total of 5.7 million tonnes of petroleum products with value in excess of \$6.9 billion were sold in 2013 through the LICARD system, including about 5.1 million tonnes of fuel with value in excess of \$6.0 billion in Russia.

### Customer loyalty

The Company has been implementing the LUKOIL Customer Loyalty Program since mid-2010. The total number of active participants in the Program in Russia rose above 3 million by the end of 2013, including 800 thousand customers who were brought into the Program during 2013. Total fuel sales using loyalty cards in 2013 were 2.5 million tonnes with value in excess of \$2.8 billion. Regular actions have been organized to bring more customers into the scheme and boost sales using loyalty cards. Joint projects with the insurance company Rosgosstrakh and a co-branding project with Uralsib Bank have been launched as part of the Program.

### Non-fuel sales

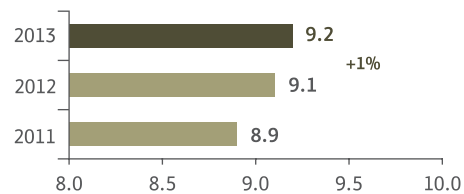
During 2013 LUKOIL's petroleum product business units continued implementation of the program for development of retail sales of non-fuel goods and services as part of the overall strategy of the Refining & Marketing business segment. Trading profit from the sale of non-fuel products and services in Russia reached \$59 million. Turnover from the sale of non-fuel goods and services at filling stations in Europe and the CIS in 2013 amounted to \$482 million, which is 6% more than in 2012. The company plans to increase these revenues by optimizing the range of goods and services, improving fast-food amenities at filling stations, active marketing activities and additional services, cooperation with major suppliers, use of best trading practices and improvement of customer service.

### EKTO fuels

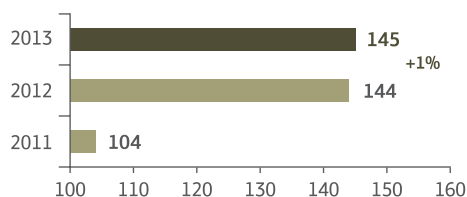
There was a steady increase in sales of engine fuels under the EKTO brand in 2013 and geography of the EKTO project expanded. The number of filling stations in Company operating regions selling products under the EKTO brand in 2013 were 1,248 for gasoline and 1,457 for diesel fuel, i.e. more than half of LUKOIL filling stations in Russia offer EKTO fuel. EKTO sales volumes in Russia in 2013 were 3.7 million tonnes, which is 19% more than in 2012, and the share of EKTO fuels in total retail sales of engine fuels in Russia were 41% (up from 35% in 2012). Some 71% of EKTO sales were diesel fuel and the share of gasoline was 25%.

Efforts continued during the year to promote the sale of EKTO branded fuels abroad. The volume of EKTO fuels sold through retail outside Russia in 2013 was 1.1 million tonnes.

Average fuel sales per filling station in the Group, tonnes per day



Launch of new filling stations




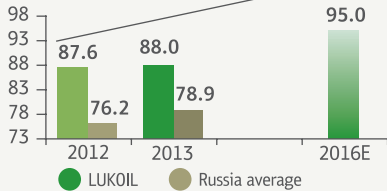
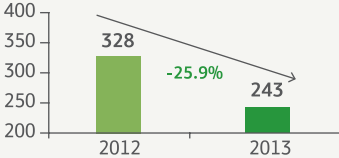
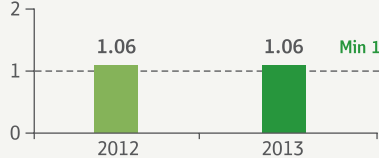

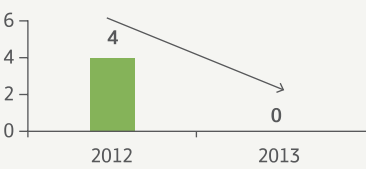

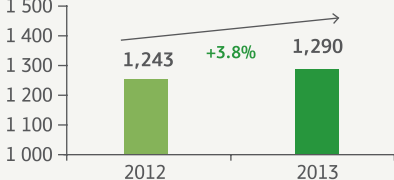

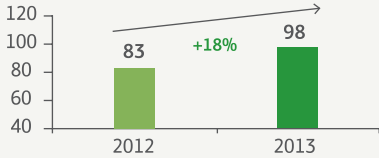


# CORPORATE RESPONSIBILITY

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	COOPERATION WITH STAKEHOLDERS	82



# CORPORATE RESPONSIBILITY

STRATEGIC OBJECTIVE		PROGRESS IN 2013	PRIORITIES IN 2014																								
<p><b>Minimizing environmental impact</b></p> 	<p><b>Utilization of APG, %</b></p>  <table border="1"> <caption>Utilization of APG, %</caption> <thead> <tr> <th>Year</th> <th>LUKOIL</th> <th>Russia average</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>87.6</td> <td>76.2</td> </tr> <tr> <td>2013</td> <td>88.0</td> <td>78.9</td> </tr> <tr> <td>2016E</td> <td>95.0</td> <td>-</td> </tr> </tbody> </table> <p><b>Area of contaminated land, hectares</b></p>  <table border="1"> <caption>Area of contaminated land, hectares</caption> <thead> <tr> <th>Year</th> <th>Area (ha)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>328</td> </tr> <tr> <td>2013</td> <td>243 (-25.9%)</td> </tr> </tbody> </table> <p><b>Ratio of waste recycling to waste generation</b></p>  <table border="1"> <caption>Ratio of waste recycling to waste generation</caption> <thead> <tr> <th>Year</th> <th>Ratio</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>1.06</td> </tr> <tr> <td>2013</td> <td>1.06 (Min 1)</td> </tr> </tbody> </table>	Year	LUKOIL	Russia average	2012	87.6	76.2	2013	88.0	78.9	2016E	95.0	-	Year	Area (ha)	2012	328	2013	243 (-25.9%)	Year	Ratio	2012	1.06	2013	1.06 (Min 1)	<p>The Company continued to invest in environmental protection during 2013, when the rate of APG utilization rose to 88.0%, recycling of waste from previous periods amounted to 237.3 thousand tonnes, the area of contaminated land decreased by 25.9% and the ratio of waste recycling to waste generation was consistently higher than 1</p> <p><a href="#">Utilization of APG, p. 72</a></p>	<p>Further modernization of production facilities, reconstruction and construction of gas treatment units, reconstruction of gas-processing plants, implementation of projects for rational use of APG at new Company assets, repair of pipelines</p>
Year	LUKOIL	Russia average																									
2012	87.6	76.2																									
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2013	1.06 (Min 1)																										
<p><b>Industrial safety at all Company sites</b></p> 	<p><b>Number of fatal accidents</b></p>  <table border="1"> <caption>Number of fatal accidents</caption> <thead> <tr> <th>Year</th> <th>Number</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>4</td> </tr> <tr> <td>2013</td> <td>0</td> </tr> </tbody> </table>	Year	Number	2012	4	2013	0	<p>High standards of health and safety helped to reduce the number of accidents at Group enterprises. Training exercises and scheduled preventative measures also contributed to lower incidence of occupational injury</p> <p><a href="#">Health and Safety, p. 72</a></p>	<ul style="list-style-type: none"> <li>• Improvement of working conditions</li> <li>• Conduct of trainings and exercises</li> <li>• Implementation of scheduled preventative measures</li> </ul>																		
Year	Number																										
2012	4																										
2013	0																										
<p><b>Personnel</b></p> 	<p><b>Revenue per employee, \$ thousand</b></p>  <table border="1"> <caption>Revenue per employee, \$ thousand</caption> <thead> <tr> <th>Year</th> <th>Revenue</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>1,243</td> </tr> <tr> <td>2013</td> <td>1,290 (+3.8%)</td> </tr> </tbody> </table>	Year	Revenue	2012	1,243	2013	1,290 (+3.8%)	<p>Vertical integration of process management and optimization of personnel numbers led to improvement of performance indicators: revenue per employee increased by 3.8% to \$1.29 million</p> <p>A standardized employee development and assessment methodology was designed in 2013 in order to maximize achievement by employees of their potential</p> <p><a href="#">Personnel, p.74</a></p>	<ul style="list-style-type: none"> <li>• Optimize the system of management on the basis of functions unification and standardization of organisational structures</li> <li>• Ensure that the Company has suitable qualified personnel to implement priority projects</li> <li>• Improve the system of remuneration</li> <li>• Create a unified system for planning of personnel needs</li> <li>• Improve the system of personnel training</li> </ul>																		
Year	Revenue																										
2012	1,243																										
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<p><b>Responsibility in operating regions</b></p> 	<p><b>Sponsorship and charity investments, \$ million</b></p>  <table border="1"> <caption>Sponsorship and charity investments, \$ million</caption> <thead> <tr> <th>Year</th> <th>Investment</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>83</td> </tr> <tr> <td>2013</td> <td>98 (+18%)</td> </tr> </tbody> </table>	Year	Investment	2012	83	2013	98 (+18%)	<p>The Company actively supports socially important projects in the regions where it operates, increasing investment in sponsorship and charity activities year by year. Social investments in 2013 totaled \$98 million, which is 18% more than in 2012</p> <p><a href="#">Working with Communities, p. 77</a></p>	<p>Socio-economic development in regions and favorable living conditions for local people</p>																		
Year	Investment																										
2012	83																										
2013	98 (+18%)																										



## Protecting the Environment

### PROGRESS IN 2013

- A new environmental safety program for 2014-2018 was designed
- Growth of APG utilization to 88.0% for the Group as a whole
- Reduction of wastewater discharge
- Reduction in the area of contaminated land
- Reduction of the number of pipeline failures by 3%

### PRIORITIES IN 2014

- Increase of APG utilization
- Reduction of environmental impact
- Reduction of water consumption
- Ensuring that the ratio of waste recycling to waste generation is less than 1

LUKOIL appreciates the scale of its responsibility to society for the rational use of natural resources and the preservation of favorable environmental conditions. The Company therefore adheres to the highest standards of environmental protection and industrial safety.

OVER

↑ \$ **1.3** BILLION

SPENT ON ENVIRONMENTAL SECURITY



Analyst Databook, p. 65

### ENVIRONMENTAL SECURITY PROGRAM IN 2014-2018

In 2013, LUKOIL developed a new program of environmental safety for the period 2014-2018. LUKOIL's latest environmental program is the fifth in succession, and will ensure continuity of the Company's efforts to ensure that the requirements of environmental protection are met.

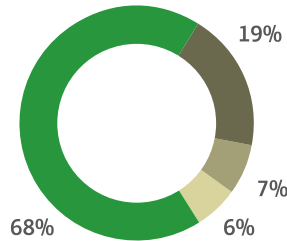
THE ENVIRONMENT PROGRAM FOR 2014-2018 ENVISAGES OVER

**600** ACTIONS

WITH TOTAL COST OF MORE THAN

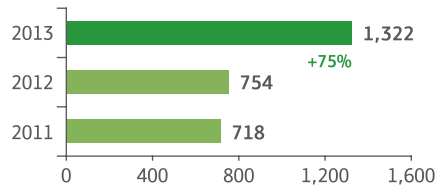
\$ **4** BILLION

Structure of spending on environmental protection in 2013



- Reduction of air pollution
- Reverting and dealing with accidents
- Recycling of production waste
- Other

Spending on protection of the environment, \$ million





Sphere	Main activities in 2013												
<p><b>Rational use of water resources, preventing water pollution</b></p> <p>Wasterwater discharge, mln m<sup>3</sup></p> <table border="1"> <tr><th>Year</th><th>Wasterwater discharge, mln m<sup>3</sup></th></tr> <tr><td>2013</td><td>2.20</td></tr> <tr><td>2012</td><td>2.23</td></tr> <tr><td>2011</td><td>2.20</td></tr> </table>	Year	Wasterwater discharge, mln m <sup>3</sup>	2013	2.20	2012	2.23	2011	2.20	<ul style="list-style-type: none"> <li>• Building water-separation systems and systems for utilization of formation water</li> <li>• Upgrading of pipeline crossings over rivers</li> <li>• Purification of ground water that has been contaminated by drainage systems</li> <li>• Modernization of existing purification facilities and installation of new facilities</li> </ul>				
Year	Wasterwater discharge, mln m <sup>3</sup>												
2013	2.20												
2012	2.23												
2011	2.20												
<p><b>Reduction of atmospheric pollutant emissions</b></p> <p>Atmospheric emissions, thousand tonnes</p> <table border="1"> <tr><th>Year</th><th>Atmospheric emissions, thousand tonnes</th></tr> <tr><td>2013</td><td>729 (+0,4%)</td></tr> <tr><td>2012</td><td>726</td></tr> <tr><td>2011</td><td>842</td></tr> </table> <p>A slight increase of atmospheric emissions was due to commissioning of new fields with a high gas factor in the Komi Republic. Launch of facilities for APG utilization at the fields is planned in 2014-2015 and atmospheric emissions will decline as a result</p>	Year	Atmospheric emissions, thousand tonnes	2013	729 (+0,4%)	2012	726	2011	842	<ul style="list-style-type: none"> <li>• Modernization and construction of facilities to increase the rate of utilization of APG</li> <li>• Modernization and construction of new, more efficient combined-cycle turbines at generating facilities</li> <li>• Replacement of equipment for the reduction of pollutant emissions: replacement of lateral seals, modernization and replacement of furnaces, replacement of pumping equipment</li> <li>• Better use of technologies: timely regulation of combustion in furnaces, boilers</li> </ul>				
Year	Atmospheric emissions, thousand tonnes												
2013	729 (+0,4%)												
2012	726												
2011	842												
<p><b>Recycling of accumulated waste</b></p> <p>Utilization and burial of production waste</p> <p>th. tonnes</p> <table border="1"> <tr><th>Year</th><th>Accumulated hazardous waste at the end of the period (th. tonnes)</th><th>Utilization and burial of production waste (th. tonnes)</th></tr> <tr><td>2011</td><td>774</td><td>1,552</td></tr> <tr><td>2012</td><td>870</td><td>1,021 (+29%)</td></tr> <tr><td>2013</td><td>865 (-1%)</td><td>1,315</td></tr> </table> <p>● Accumulated hazardous waste at the end of the period ○ Utilization and burial of production waste</p>	Year	Accumulated hazardous waste at the end of the period (th. tonnes)	Utilization and burial of production waste (th. tonnes)	2011	774	1,552	2012	870	1,021 (+29%)	2013	865 (-1%)	1,315	<ul style="list-style-type: none"> <li>• Increase of sub-contractor works to neutralize waste</li> <li>• Construction of a complex for processing of waste containing oil</li> <li>• Construction of specialized zones for utilization of production waste</li> </ul>
Year	Accumulated hazardous waste at the end of the period (th. tonnes)	Utilization and burial of production waste (th. tonnes)											
2011	774	1,552											
2012	870	1,021 (+29%)											
2013	865 (-1%)	1,315											
<p><b>Preventing contamination and ensuring rational use of land</b></p> <p>Area of contaminated land, hectares</p> <table border="1"> <tr><th>Year</th><th>Area of contaminated land, hectares</th></tr> <tr><td>2013</td><td>243 (-25.9%)</td></tr> <tr><td>2012</td><td>328</td></tr> <tr><td>2011</td><td>395</td></tr> </table>	Year	Area of contaminated land, hectares	2013	243 (-25.9%)	2012	328	2011	395	<ul style="list-style-type: none"> <li>• Reduce the area of contaminated land by 26% to 243 hectares</li> <li>• Reclaim disturbed land and land contaminated by crude oil</li> <li>• Scheduled work to reduce the risk of pipeline failure: such failures were reduced by 3% in 2013             <ul style="list-style-type: none"> <li>○ the rate of pipeline replacement rose to 2.5% in 2013 (measured as a share of total length of pipelines)</li> <li>○ diagnostics and major repairs to pipelines, and the application of corrosion inhibitors</li> </ul> </li> </ul>				
Year	Area of contaminated land, hectares												
2013	243 (-25.9%)												
2012	328												
2011	395												
<p><b>Preserving biodiversity</b></p>	<ul style="list-style-type: none"> <li>• Financing of work to replenish fish stocks</li> <li>• Monitoring of environmental components</li> </ul>												



**UTILIZATION OF APG**

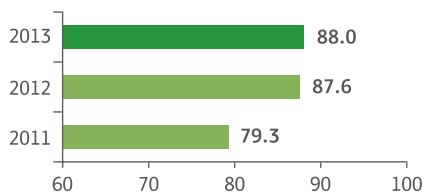
**Progress in 2013:** the Company has been increasing levels of utilization of APG year by year. LUKOIL put 88.0% of the APG, which it extracted, to productive use in 2013, which is well above the Russian national average of 78.9%. Utilization rates at fields in Western Siberia, the lower Volga, Northern Caspian and the Baltic are in excess of 95%. Recent acquisition of new assets with low utilization rates has slowed down increase of the utilization rate at the Company.

LUKOIL is building gas-fired power stations at fields as part of its small-scale generating program. This both reduces gas flaring and cuts energy costs, lowering the overall cost of oil production.

**Plans for 2014:** the program for rational use of APG in 2014-2016 envisages spending of \$1.5 billion in order to achieve 95% APG utilization by 2016. Measures scheduled in 2014 are as follows:

- construction of a system for external transportation of gas from fields in the North Caspian
- construction of a gas desulphurization unit at the Vostochno-Lambeishorskoye and Bayandyskoye fields
- reconstruction of the Usinsk Gas-processing Plant
- construction of pipeline sections of the gas safety system at the Kokuiskoye field
- implementation of projects for the rational use of APG at RITEK-Samara-Nafta

APG utilization by LUKOIL Group, %



**Health and Safety**

**We do all we can to ensure safe and comfortable working conditions for our employees**

LUKOIL Group improved its figures for injuries at work in 2013. Loss of work time, the accident rate and the number of employees suffering injury were all reduced in comparison with the previous year. There were no instances of fatal injury in 2013 (four instances in 2012).

**PROGRESS IN 2013**

- Lowering of the industrial injury rate

**PRIORITIES IN 2014**

- Improve the working conditions of personnel
- Carry out exercises and trainings
- Carry out scheduled preventative measures





### EXERCISES TO PREPARE FOR EMERGENCY SITUATIONS

LUKOIL carried out exercises in 2013 for prevention of and reaction to emergency situations at the Vysotsk marine export terminal in the Gulf of Finland

The exercises rehearsed procedures to extinguish a fire on the petroleum product loading jetty, guide a tanker to the port roads, find and collect petroleum products from the water surface, as well as rescue measures by sea and land

The exercise involved 47 fire and rescue equipment units, a K-52 helicopter, 137 personnel from the Vyborg Fire Service, as well as the mobile command post of the Russian Emergency Ministry for Leningrad Region, the Vyborg Rescue Service and relevant employees at the Vysotsk Terminal

The Russian Minister for Emergencies, Vladimir Puchkov, directed the exercise in real time via video link

LUKOIL continued its efforts to improve working conditions at Group organizations during 2013. Working conditions were improved for nearly 6.5 thousand employees in 4.5 thousand work places.

A total of 83 exercises and staff drills and trainings were held in 2013, as well as 61 complex exercises and 100 special-tactical exercises, of which 57 were to address possible oil spills.

Thanks to the implementation of scheduled preventative measures, there were no emergencies at LUKOIL facilities in 2013. Regular conduct of exercises and trainings at sea and river terminals, production, processing and storage sites ensured that personnel and equipment at LUKOIL Group organizations were in a high state of readiness to respond to any spillages of oil and petroleum products.

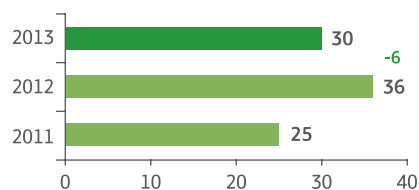


Analyst Databook, p. 65

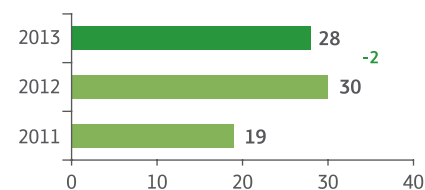
### Structure of spending on health and safety in 2013

Events	%
New technology	0.1
Training and further training	2.0
Ensuring that work places meet criteria established by law	3.4
Protective equipment and ensuring sanitary and safety conditions	10.4
Health and safety provisions for employees in accordance with government and corporate standards	4.4
Improving health, safety and fire-risk management. Legal and organizational support	6.6
Preventing and dealing with emergency situations	29.6
Ensuring that Company facilities comply with internal LUKOIL requirements for health, safety and fire-risk management	43.5

### Number of employees injured in accidents



### Number of accidents at work





# Personnel

## PROGRESS IN 2013

- Vertical integration of HR process management
- Work to ensure the availability of suitably qualified staff for priority projects
- Development of a standardized methodology for the assessment and development of personnel
- Further work with the International Labour Organization (ILO) for the promotion of youth employment

## PRIORITIES IN 2014

- Optimize management system on the basis of functions unification and standardization of organizational structures
- Work to ensure the availability of suitably qualified staff for priority projects
- Improve the system of staff remuneration
- Create a unified system for planning of staff requirements
- Improve the training system

## KEY PRINCIPLES OF THE PERSONNEL MANAGEMENT SYSTEM

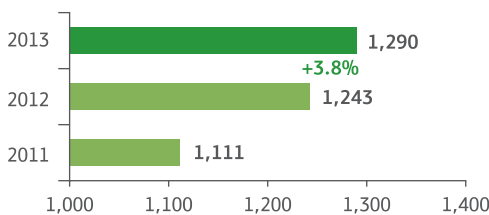
- Consistency – the creation of a unified personnel management system, based on a functional chain of command
- Goal-oriented approach to ensure the achievement of business goals
- Responsibility of leaders at all levels for work with personnel
- Efficiency – achieving the best results at minimum cost
- Encouraging the best specialists to take employment at the Company
- Prioritizing internal over external candidates for vacant posts
- Competitive remuneration system
- Taking account of best international practice in personnel management
- Objective assessment when selecting and appointing project teams
- Continuity – work with reserve personnel and lowering the average age of work teams

## AVERAGE HEAD COUNT IS ABOUT

↓ **110** THOUSAND EMPLOYEES

Group social policy is designed to increase labor efficiency, realize the full potential of employees and ensure their social welfare. We take the interests and needs of our employees seriously and try to ensure that everyone who works for LUKOIL is committed to achieving the best results for the Company.

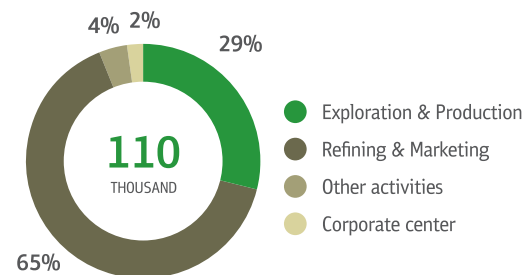
### Revenue per employee, \$ thousand



## Meeting best international standards

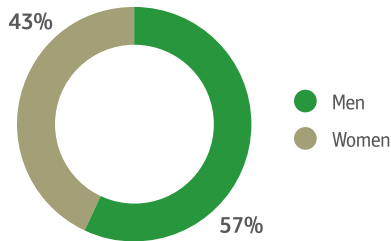
LUKOIL strives to ensure that its system of personnel management meets the best international standards. In 2012, the Company completed the optimization of organizational structures, eliminating duplication of functions and inefficient management links, and centralizing the Company's accounting services. The number of employees declined by 2% in 2013, while productivity and specific performance indicators improved: revenue per employee rose by 4% in 2013.

## Number of employees by segments in 2013

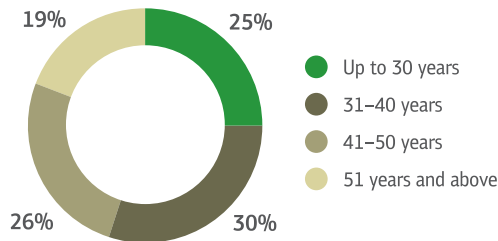




### Breakdown of personnel by gender in 2013



### Breakdown of personnel by age in 2013

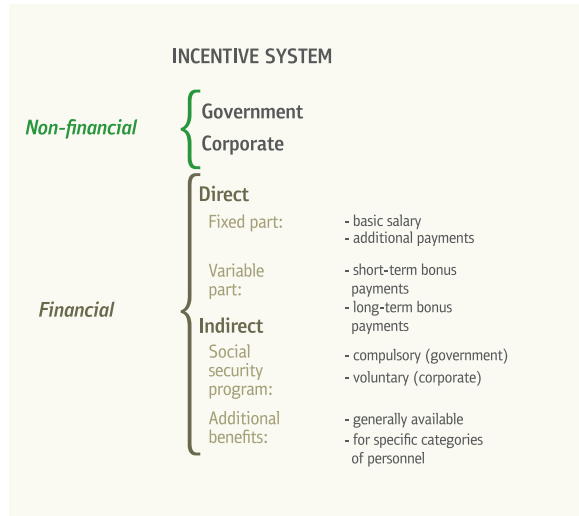


### Social partnership

The Company makes full use of social partnership in the labour sphere, expanding and strengthening cooperation with its trade union, and also with government bodies and local communities. Since 2008 LUKOIL has been the official representative of the Russian Union of Industrialists and Entrepreneurs in the Tripartite Commission for Regulation of Social and Labour Relations, which is the most senior social partnership organization acting under the Labour Code of the Russian Federation. In 2013 the Company took part in 11 sessions of the Commission, at which 86 issues were considered.

### SYSTEM OF MOTIVATION

The system of motivation is a key component in the management system of any organization, since it promotes more efficient work by staff and the achievement of strategic goals. LUKOIL's system of motivation is comprehensive and includes both financial and non-financial incentives.



### Financial incentives

**Direct financial incentives** consist of fixed and variable components.

→ LUKOIL is attentive to ensuring that the fixed part of remuneration, consisting of base salary, is set at an appropriate level. In order to maintain a competitive level of base salary the Company regularly monitors salaries in respective segments of the labor market. Salaries are reviewed annually taking account of inflation and individual performance.

Despite reduction of the average headcount by 2%, payroll grew by 10% in 2013 compared with 2012. Indexation of wages at the Group's Russian companies in 2013 was 6%.

→ The variable part of remuneration consists of short-term and long-term incentives. The Company is committed to ensuring that the variable part of remuneration is properly aligned with business strategy, making it more closely dependent on the Company's financial results.

*Short-term incentives* consist of performance premiums for the year. The annual premium is contingent on the achievement of performance indicators, which are set by the organization, department, or by the employee. The company strives to achieve an optimal combination of performance indicators, finding a balance between short- and long-term performance indicators, assessment of the contribution of individual employees to Company performance as a whole, and financial and operating indicators.



The Company has adopted a new *long-term incentive program* to ensure that employees do their utmost for income growth, increase of capitalization and increase of the Company's investment attractiveness, and in order to attract and retain highly skilled workers.

**Non-financial incentives** consist of social protection programs and other employee benefits.

An efficient system of social guarantees helps to attract highly-qualified specialists to the Company, reduce employee turnover rates, strengthen corporate morale and is of fundamental importance for the success of LUKOIL's operations.

The refore, the Company offers a broad range of programs and opportunities to its employees as part of the LUKOIL social package. These include:

- leisure and recreation provisions for employees and their families, organization of sport and fitness events
- health care and medical treatment for Company employees, including voluntary health insurance
- help to employees in acquiring housing
- social support to women and families with children
- social support to young specialists
- non-state pension provision for employees, which has operated since 2004 on a principle of shared funding of non-state pensions by employee and employer. By the end of 2013 more than 38 thousand employees at LUKOIL organizations in Russia had entered the shared funding system, and the sum of their contributions during the year was over \$12.7 million. The Company's total contributions under non-state programs of pension provision in Russia and abroad for the reporting period were in excess of \$32 million.

MORE THAN

↑ \$ **400** MILLION

SPENT ON SOCIAL PROGRAMS AND SOCIAL INFRASTRUCTURE

**Non-financial incentives**

Non-financial incentives, in the form of recognition and awards to employees who achieve outstanding results, are another valuable means of encouraging best possible performance by LUKOIL personnel.

Special events were held at all Group companies in 2013 at which workers and groups of workers received national awards, sectoral marks of distinction, and special recognition from the Company itself.

There were 18 winners of national awards among LUKOIL employees in 2012, while sectoral distinctions were earned by 492 workers and the Company's own awards were conferred on 1,573 employees and 22 groups of employees. Also, two Company employees and one Company organization were prize winners in national competitions, and 382 LUKOIL employees were awarded prizes by local government in the regions where they work.

There were 45 individual winners and 6 winners among Group organizations in the regular competition to find the 'Best Employees and Organizations of LUKOIL Group' r in 2012. A competition of professional skills was also held, in which LUKOIL employees competed to be the 'Best in the Profession'.

**Young specialists**

Committees of young specialists operate at Company enterprises, and their functions include support to young specialists in adjustment to new working conditions, helping them to acquire and improve their skills, and work to encourage commitment to corporate values and corporate culture.

The Company held its eighth competition in 2013 to find the Best Young Specialist of the Year, as a result of which the title was awarded to 55 of the Company's young specialists. Further trainings were organized and held as part of the Young Specialist's School, helping to reduce the amount of time needed for adaptation of new employees to the corporate environment and to raise their professional efficiency.

The 10th conference of young scientists and specialists of LUKOIL Group organizations in Ukhta was held in 2013 at Ukhta State Technical University. More than 150 young professionals from Group organizations take part each year in a sector R&D competition for youth employees at enterprises



and organizations of the Russian fuel and energy industry. Also nearly all of the young professionals at the Company participate every year in various corporate and scientific competitions and conferences.

The tradition of offering work experience to students of leading Russian universities was continued in 2013, when 3000 students took up temporary work placements at LUKOIL. Cooperation also continued between the Company and Russian oil & gas universities in the framework of the 'Start into the Future' project, which aims to select and encourage the most outstanding students.

#### Personnel training

LUKOIL has a strong focus on raising levels of qualification among its employees. The Group has a system of continuous training, which is designed to ensure that LUKOIL employees

acquire the knowledge and skills, which they need for their jobs. LUKOIL uses the whole spectrum of modern training aids: workshops, seminars away from the work place, special training programs, work placements abroad, trainings, courses for improvement of qualifications, professional training days, distance learning and MBA programs. The Corporate Study Centre which was opened in 2010 in the city of Astrakhan trains workers for operations on offshore oil & gas platforms and at river and sea terminals, as well as teaching employees how to deal with emergency situations and ensuring that they are familiar with industrial fire safety procedures.

Work continued in 2013 to forge an executive reserve for senior management positions at LUKOIL and its subsidiary organizations (a corporate management reserve) and also to shape a new generation of middle managers.



## Working with Communities

MORE THAN

↑ \$ **98** MILLION

SPENT ON SPONSORSHIP, CHARITY AND SOCIAL INVESTMENTS

Social and charity programs are among the Company's most important strategic tasks, since they help to ensure constructive partnership with central and local government and with local communities. These initiatives by LUKOIL help to improve the social and economic situation in regions, where the Company has operations.

#### PROGRESS IN 2013

The company gave active to social projects in its regions of operation, spending 18.5% more than in 2012 on sponsorship and charity activities

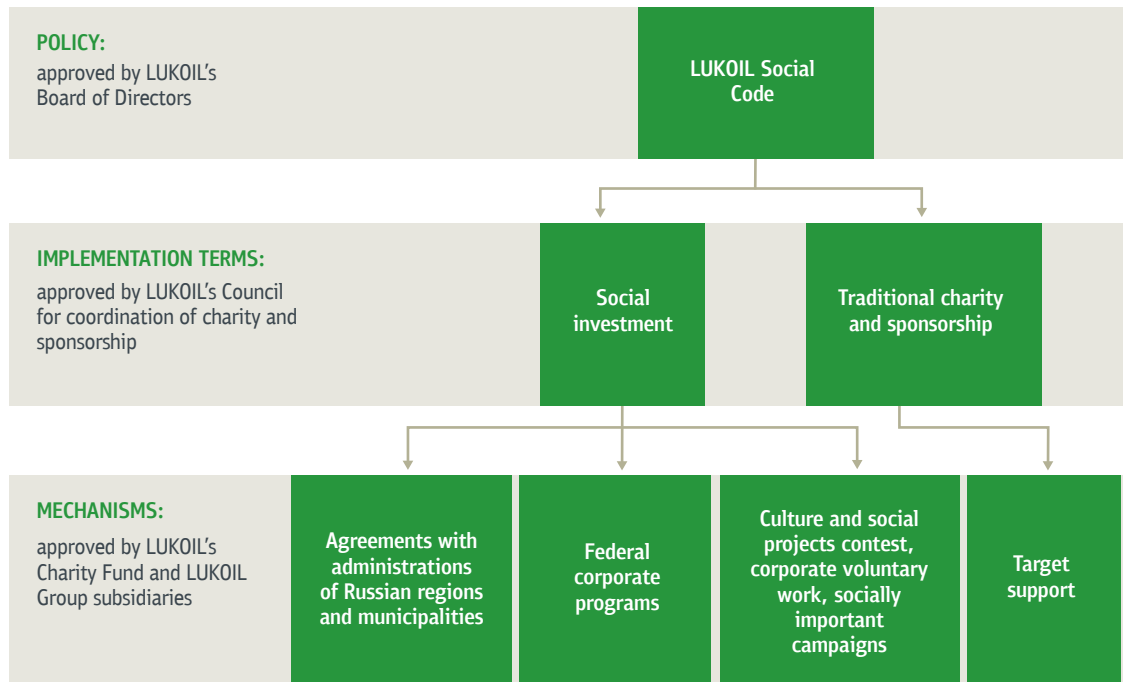
#### PRIORITIES IN 2014

- Continued support for social facilities and projects in the regions of operation
- Supporting socio-economic development in operating regions and improving the standards of living of the local population



SOCIAL INVESTMENT PROGRAMS

Social investment management system



Support for children’s homes and schools

LUKOIL gives priority in its charity work to helping children. The Company strives to achieve a balanced approach, providing support both to children, who by virtue of their family circumstances or health find themselves in a worse situation than their peers, and to children with favourable family backgrounds by helping them to develop their natural abilities and talents. LUKOIL helps children from children’s homes to obtain an education, remain in good health, acquire a profession and find their place in life. Individual stipends were awarded to 36 children who had been brought up in children’s homes in 2013. The Company is also implementing a project to recruit and train young executives with backgrounds in children’s homes and disadvantaged families.

Education programs

**Concern for the young generation and the preparation of qualified young specialists for the Russian oil industry is essential for meeting human resource challenges in the future**

ABOUT

**\$ 130 THOUSAND**

SPENT ON STIPENDS

MORE THAN

**\$ 240 THOUSAND**

SPENT ON GRANTS



LUKOIL gives its support to 15 universities and 4 technical colleges, paying personal stipends and grants, and providing material and technical assistance.

We do all we can to help education, science and industry to meet each other's needs. In 2013 LUKOIL grants were awarded to 200 students and 80 gifted young teachers received personal stipends. The Company's stipend payments have risen significantly in the last five years (by 58.1%) and grant payments have increased by 26.0%.

LUKOIL supports more than 15 universities and 4 technical colleges, paying individual stipends and grants and helping to provide learning resources.



#### COOPERATION WITH MOSCOW STATE UNIVERSITY

In 2013 LUKOIL signed an agreement on cooperation between Company R&D divisions and Moscow State University

The Parties will carry out joint research into acoustic methods of reservoir stimulation, strata imaging, studying the structure of pore space and creating mathematical models of filtration. Company specialists will take part in work by the University Center for prospecting, exploration and development of hydrocarbon deposits

LUKOIL also intends to establish grants for research and teaching staff and teams at Moscow University, as well as scholarships for University students

#### Support to medical institutions

LUKOIL provides assistance to a number of major medical research centers (the Russian Cardiological Scientific and Production Complex and the A.V. Vishnevsky Institute of Surgery) as well as supporting the development of medical services in its regions of presence.

#### Social project competitions

LUKOIL's social project competitions, which are held annually in 15 of Russia's administrative regions, are among the most efficient mechanisms for implementation of socially important programs. More than 11,000 applications have

been received in the 11 years since the competitions began and over 2,500 social projects have been carried out. The budget for social project competitions in 2013 was about \$2.4 million.

#### SPONSORSHIP AND CHARITY PROGRAMS

##### Preserving cultural and historical heritage

The Company gives support every year to a number of leading Russian museums and arts groups, financing new exhibitions and productions, as well as contributing to the revival of religious traditions and spiritual culture. Several programs for the support of folk arts and crafts in the Kama region (near the city of Perm) have benefited from LUKOIL's assistance over a number of years.

LUKOIL was the partner of a number of exhibitions in 2013, including: 'Mikhail Nesterov, 150th Birthday' at the Tretyakov Gallery; 'The Romanovs. Portrait of a Dynasty' at the State Historical Museum; 'Alexander Golovin, 150th Birthday' at the Russian Museum; 'The Art of Saving Art. Restoration in the Moscow Kremlin Museums' at the Moscow Kremlin Museums; and M.V. Nesterov 150th Birthday' at the Vyatka Regional Museum of Art.

The Company also financed the restoration in 2013 of a 19th century wood-built house in Kirov Region, which is classed as a national heritage building.

##### Targeted assistance

LUKOIL provides special payments each year to veterans of the Great Patriotic War (World War II) who have worked in the oil industry and also to labor veterans. The Company also provides assistance to the families of members of the armed forces, who have lost their lives in more recent armed conflicts.

##### Working with peoples of the Russian Far North

The Company develops and implements special programs for work with the owners of kinship lands. LUKOIL makes agreements for socio-economic development of districts and locations inhabited by small indigenous people in order to preserve and develop the traditional way of life of the Khanti, Mansi, Nenets and Selkup peoples. Financing is made available for construction and repairs to housing in villages and areas traditionally populated by indigenous peoples, and apartments are provided for local people in nearby towns. The Company also contributes to ensuring that healthcare services are available to nomadic peoples



who live in inaccessible regions beyond the Arctic Circle, including health checks and medical treatment for reindeer herders and their families.

LUKOIL views preservation of the lifestyle, language and culture of indigenous peoples as an important goal. The Company therefore works with local administrations in the Far North, helping to finance the construction of educational facilities, maintenance of places of worship, and holding of national festivals.

**Sport**



**THE LUKOIL-SPONSORED RACING DRIVER IVAN MULLER WON THE 2013 FIA WORLD TOURING CAR CHAMPIONSHIP**

LUKOIL Racing Team is the Russian motorsport leader. The Team's successes and victories at circuit and rally courses in Russia and abroad testify to the efficiency of LUKOIL branded lubricants and fuels. During 17 years of competition the Team drivers have won more than 50 championships and Russian Cup competitions, and over 500 races in Russia and abroad. With LUKOIL's support the Team drivers have become strong contenders in European and world road racing championships.

Sponsorship of various sports and the promotion of healthy life styles have been an important part of LUKOIL's social policy for many years. The Company contributes to the health and fitness of its employees and their families by organizing international 'Spartakiada' amateur sports competitions and by leasing sports facilities.

**LUKOIL provides sponsorship to leading Russian sports teams, including Moscow Spartak football club, the Caspian Dawn handball club in Astrakhan, the Volgograd Spartak water polo club, Torpedo ice hockey**

**club in Nizhny Novgorod, the Dynamo-Krasnodar women's volleyball team and the Dynamo-Yantar volleyball club**

For many years the Company has been the general sponsor of the national ski-racing team and partner of the Russian Ski-Racing Federation. LUKOIL assists both in training of the national team and development of amateur ski sport in Russia.

The Company is also the official sponsor of the VTB League, which is the largest basketball championship in the post-Soviet countries.

As part of its support to the Russian Olympic Movement the Company is cooperating with the Russian Olympic Support Foundation, which provides targeted support to sportsmen in Russian national teams practising Olympic sports.

The Company has provided support for more than 13 years to one of the biggest children's sport organizations in Russia, the Children's Football League. About 3,000 teams and more than 50,000 young football players from all parts of Russia – from Vladivostok to Kaliningrad – take part in League competitions each year.

The League tournament in 2013, which coincided with the 15th anniversary of the LUKOIL sports club, was organized in a new way for the first time: the competition involved some of Europe's finest football schools, took place in six different European countries, and was presided over by distinguished footballers.

**Donor actions**

Blood donation is an important type of corporate voluntary action and LUKOIL has carried out such actions since 2010. Over 80 liters of blood were collected in 2013. Blood donation is a valuable form of corporate voluntary action, which both helps society and helps to strengthen corporate culture by bringing members of staff together and forging links between them.





### LUKOIL corporate museums

MORE THAN

# 25 MUSEUMS

IN RUSSIA AND ABROAD

LUKOIL's corporate museums make an important contribution to corporate culture and provide a universal center for communication. They keep the best traditions of the oil industry alive and provide continuity between successive generations of oil workers.

LUKOIL's network of corporate museums includes the main LUKOIL Museum and more than 25 museums at Group organizations in various regions of Russia, as well

as in Ukraine, Bulgaria and Romania. As well as hosting exhibitions, our museums are also used for special ceremonies to greet newly-hired professionals, to celebrate anniversaries, to congratulate retiring employees, to award corporate prizes, and for evenings devoted to specific themes. The LUKOIL Museum holds regular sessions with students of the Gubkin Oil & Gas State University to study the history of the Russian oil industry and issues of corporate culture.

The LUKOIL Museum organized 19 traveling exhibitions in 2013 both inside and outside the Company, including: '20 Years of the LUKOIL Charity Foundation'; '20 years of the LUKOIL International Association of Trade Unions'; '20 years of LUKOIL-INFORM'; '10 years of the Oil Courier newspaper'; 'LUKOIL Power Generation'; 'Company Youth Policy'; and others.

 [Sustainability Report](#)



### WORKING WITH COMMUNITIES IN IRAQ

#### → Employment for local people

LUKOIL is hiring local people to work on construction of the West Qurna-2 field in Iraq. More than 11 thousand workers were employed when construction of facilities was at its height, and more than two thirds of them were local people, working for both Iraqi and local companies (more than 10 major Iraqi sub-contractors took part in the project)

#### → Education and training for local people

LUKOIL provides training and retraining for local-hire staff at a specially designed training center, with capacity for up to 350 students. All of the students are residents of nearby communities in Basra province. After completion of their training, the specialists take up jobs at various infrastructure facilities serving the West Qurna-2 field,

working on the launch of project facilities and their subsequent exploitation under the guidance of experienced engineering staff

#### → Sponsorship and charity activity

LUKOIL is making significant efforts to improve the welfare of the local population. Special attention has been given to social issues since the outset of the West Qurna-2 project, even though social initiatives are not obligatory under the field contract. This work is being carried out in close association with local authorities and the leaders of tribes, which inhabit the contract territory




Objectives of the extensive social program, which LUKOIL has been implementing for several years as part of the West Qurna-2 project, include the development of a resource base for educational, medical and sports facilities



## Cooperation with Stakeholders

STAKEHOLDERS	TASKS	STEPS TAKEN
<p><b>Shareholders and investors</b></p> 	<ul style="list-style-type: none"> <li>→ Protect the legitimate rights of shareholders and their equal access to information</li> <li>→ Improve relations with shareholders and investors</li> <li>→ Increase the openness and transparency of the Company's operations and prepare and provide to investors all information, which may have material impact on the value of Company securities</li> <li>→ Assist in the formation of a truthful image of the Company in the investment community</li> </ul>	<p>The company organizes investor and analyst days each year, and organizes trips to regions to meet minority shareholders. The Company also organizes trips for investors to production facilities in priority regions. Company managers take part in conferences and other events for institutional investors and analysts</p> <p>Key tools for interaction with shareholders and the investment community include the Company's official website and a hotline at the Company's Stock and Consulting Center</p>
<p><b>Personnel and trade unions</b></p> 	<ul style="list-style-type: none"> <li>→ Respecting and safeguarding the rights of every employee as well as their equality and non-discrimination</li> <li>→ Creating the conditions for the exchange of best practices and for their dissemination, and also for the dissemination of new knowledge, innovative ideas, projects and developments</li> <li>→ Maintaining an effective system of social protection, health and safety, and security for employees, ensuring safe and comfortable working conditions</li> </ul>	<p>The company has various mechanisms for interaction with its personnel:</p> <ul style="list-style-type: none"> <li>• Internal corporate portal</li> <li>• Helpline</li> <li>• Information provision through corporate media</li> </ul> <p>Meetings and seminars with the representatives of trade unions are organized as and when needed</p>
<p><b>Local communities</b></p> 	<ul style="list-style-type: none"> <li>→ Building and maintaining a stable and constructive relationship with local administrations</li> <li>→ Adherence to standards of behavior, respect for the traditions and customs of local populations where the Company has operations</li> <li>→ Relationships are founded on the key principles of responsibility, integrity, professionalism, partnership, mutual trust, respect and inviolability of obligations</li> </ul>	<p>The Company is committed to an ongoing dialogue with local communities in its operating regions. The outcome of meetings with community representatives shows the extent to which the Company's activities in the regions corresponds to their socio-economic development priorities, and indicates the effectiveness of corporate social investment programs</p> <p>Also, experts from environmental organizations carry out regular inspections in areas where LUKOIL has operations, enabling an impartial picture of the Company's activities there and of the real impact of these activities on the environment</p>



STAKEHOLDERS	TASKS	STEPS TAKEN
<p><b>Government bodies</b></p> 	<ul style="list-style-type: none"> <li>→ Building and maintaining a stable and constructive relationship with the public authorities</li> <li>→ Organization of activities in strict compliance with the laws and regulations of the Russian Federation and of the countries where the Company does business</li> </ul>	<p>LUKOIL participates in the legislative process with regional and municipal administrations on the basis of agreements on social and economic cooperation aimed at sustainable development of Russian territories</p> <p>Since 2008 LUKOIL has been the official representative of the Russian Union of Industrialists and Entrepreneurs in the Tripartite Commission for Regulation of Social and Labour Relations, which is the most senior social partnership organization acting under the Labour Code of the Russian Federation. This enables the Company to make proposals for inclusion in drafts of new labor legislation during its preparation, which gives the Company a role in the development of social dialogue</p>
<p><b>Customers</b></p> 	<ul style="list-style-type: none"> <li>→ Adherence to principles of mutual respect, mutual advantage, honesty, integrity and strict fulfilment of mutual obligations</li> </ul>	<p>The Company is developing feedback channels with end-users through the creation of 'hotlines' in each region where it has operations. Customer satisfaction surveys are also conducted to measure levels of satisfaction among the customers of Company filling stations</p>
<p><b>Suppliers</b></p> 	<ul style="list-style-type: none"> <li>→ Building long-term mutually beneficial relationships with customers and suppliers, who have high business reputations</li> <li>→ Creating an image as a reliable business partner</li> <li>→ Adherence to principles of mutual respect, mutual advantage, honesty, integrity and strict fulfilment of mutual obligations</li> </ul>	<p>Equal and timely access to information on tenders is provided through the Company's official website. LUKOIL is open to cooperation with professional, reliable and responsible suppliers of works and services</p>



# CORPORATE GOVERNANCE

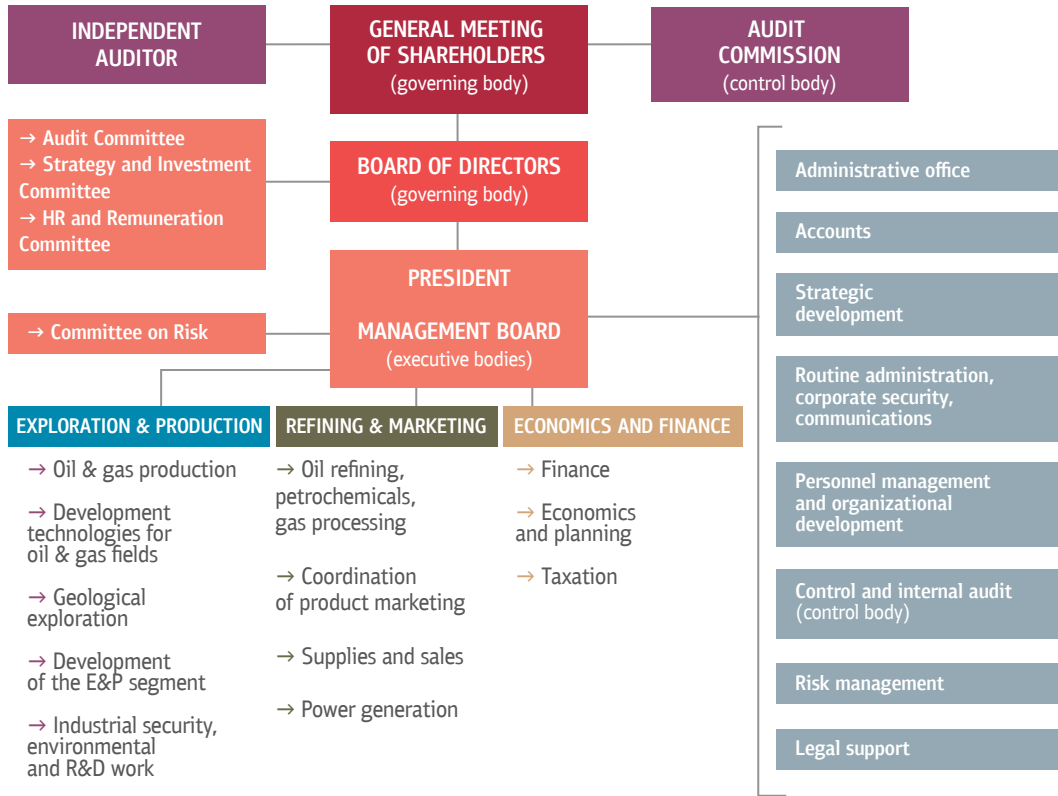
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# CORPORATE GOVERNANCE



## Management Structure



**LUKOIL'S SYSTEM OF CORPORATE GOVERNANCE HAS BEEN RECOGNIZED BY REPRESENTATIVES OF THE INVESTMENT COMMUNITY OVER MANY YEARS AS AN EFFECTIVE TOOL FOR PROTECTING THE RIGHTS AND INTERESTS OF COMPANY SHAREHOLDERS**

Efficient corporate governance lowers the weighted average cost of capital and reduces investment risks, making investments in LUKOIL more attractive and, as a consequence, raising shareholder value of the Company. LUKOIL's corporate governance system attaches special importance to protecting the rights of minority shareholders.

As a company registered in Russia, LUKOIL is guided in its business by the Code of Corporate Conduct ('the Code'), which was recommended in 2002 by the Russian Federal Securities Commission. The Company complies in full with main requirements of the Code. Shares of LUKOIL as well as its ruble bonds are included in the top (A1) listing at the MICEX stock exchange (Russia's main stock exchange).

The Company does all it can to apply the best international practice by exceeding the Code requirements. In recent years more than a half of members of the LUKOIL Board of Directors have been independents.

 [LUKOIL Corporate Governance Report](#)  
Fact book, p. 90



## Board of Directors

### PROGRESS IN 2013

- 8 meetings in person and 20 meetings in absentia
- Leonid Fedun was elected to the Board of Directors
- It was decided that the Management Board should consist of 14 members
- Adoption of a number of important documents, including the Regulation on Remuneration and Incentives to Executives, Post-audit Methodology for Investment Projects, Regulation on Internal Audit, Regulation on Risk Management, Internal Control Procedures

Each year the BoD reviews the business results of the previous year, prepares general meetings of shareholders, carries out studies of specific business segments, and outlines concrete steps for their development

The Board of Directors (BoD) plays a crucial role in LUKOIL's system of corporate governance, exercising overall control of Company activities in the interests of investors and shareholders. In accordance with Russian legislation and the LUKOIL Charter, the BoD defines priorities for Company development and ensures efficient functioning of the Company's executive bodies.

The BoD of LUKOIL includes independent directors, whose presence enables the Board to formulate an objective opinion on matters discussed and therefore to strengthen confidence in the Company on the part of investors and shareholders. At the end of 2013 there were 6 independent members of the Board, out of total 11 Board members.

 [Regulation on the Board of Directors of LUKOIL](#)

### PRIORITIES FOR 2014

Carrying out the BoD's principal and additional responsibilities as defined by the Company Charter and the Federal Law on Joint-Stock Companies

### Responsibilities of the Board of Directors

<b>MAIN RESPONSIBILITIES</b>	Carrying out the functions specified by the Company Charter and the Federal Law on Joint-stock Companies
<b>ADDITIONAL RESPONSIBILITIES</b>	<ul style="list-style-type: none"> <li>→ Defining the Company's business priorities</li> <li>→ Strategic, medium-term and annual planning</li> <li>→ Reviewing the results of Company business</li> <li>→ Preparing Annual General Meetings of Shareholders</li> <li>→ Appointing the Company's collegial executive body, the Management Committee</li> <li>→ Approval of transactions in compliance with current legislation and the Company Charter</li> <li>→ Exercising corporate governance at LUKOIL</li> </ul>



### CHANGES TO BOD MEMBERSHIP IN 2013

Leonid Fedun was elected to serve on the BoD in 2013. He is the Vice-President for Strategic Development of LUKOIL and a member of the LUKOIL BoD Strategy and Investment Committee.

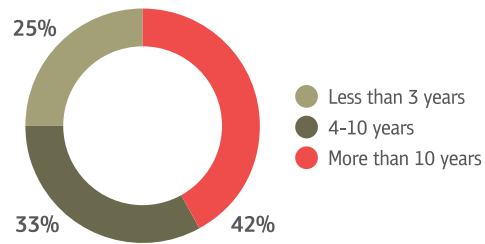
### ASSESSING EFFICIENCY OF THE BOARD OF DIRECTORS

An annual survey of members of the Board of Directors provided an assessment of work by the Board and identified issues that require particular attention:

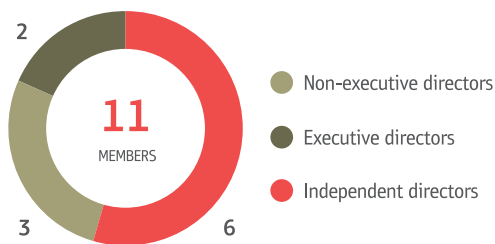
- interaction with shareholders and investors
- monitoring of the innovation work
- assessment of executive bodies

The Board of Directors gave a positive assessment of its own activity in 2013, based on the amount of work carried out and evaluations of the work.

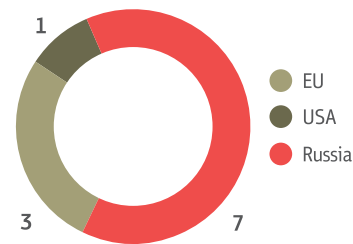
#### Length of service as a member of the Board of Directors



#### Membership of the Board of Directors



#### Permanent residence of the Board of Directors



#### Participation by BoD members at in-person meetings of the Board in 2013<sup>1</sup>

	BoD meetings	Strategy and Investment Committee	Audit Committee	HR and Remuneration Committee
Valery Grayfer	7/8 (chairman)			
Vagit Alekperov	8/8			
Viktor Blazheev	8/8		5/5 (chairman)	
Igor Ivanov	7/8	2/3 (chairman)		
Ravil Maganov	5/8	3/3		
Richard Matzke	8/8	1/1 <sup>2</sup>		3/3 <sup>3</sup>
Sergei Mikhailov	8/8		5/5	5/5
Mark Mobius	5/8	2/3		3/5 (chairman)
Guglielmo Moscato	8/8	3/3		
Ivan Pictet	7/8		1/5	
Leonid Fedun <sup>3</sup>	4/5	1/2		
Alexander Shokhin <sup>2</sup>	2/3			2/2 (chairman)

<sup>1</sup> The presence in person of a member of the Board of Directors was previously a necessary condition for that member to be considered to have taken part in a meeting of the LUKOIL Board of Directors and of BoD committees in the form of joint presence. This was the case until 29.09.2013 for BoD meetings and until 23.10.2013 for BoD committee meetings. However, in accordance with amendments to the Regulation on the Board of Directors of LUKOIL, which were approved by the Extraordinary General Shareholders Meeting of 30.09.2013, and amendments to the Regulation on BoD Committees of LUKOIL, approved by the Board of Directors of LUKOIL on 24.10.2013, participation by telephone or via video-conference in meetings held in the form of joint presence has been made equivalent to presence in person at the meeting.

<sup>2</sup> Until 27.06.2013.

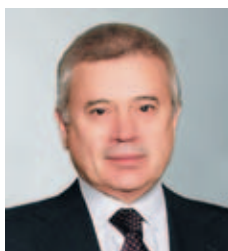
<sup>3</sup> From 27.06.2013.



## Members of the Board of Directors of LUKOIL



Valery Grayfer



Vagit Alekperov



Viktor Blazheev

Position at LUKOIL (on 31.12.13)		
Chairman of the LUKOIL Board of Directors	President of LUKOIL Member of the LUKOIL Board of Directors Chairman of the LUKOIL Management Committee	Independent Member of the LUKOIL Board of Directors <sup>1</sup> Chairman of the LUKOIL BoD Audit Committee
Length of service on the Board of Directors (on 31.12.13)		
18 years	21 years	5 years
Membership of the management bodies of other organizations (on 31.12.13)		
Chairman of the Board of Directors of RITEK		Rector of the Kutafin Moscow State Academy of Law
Education and work experience		
<p>Graduated in 1952 from the Gubkin Moscow Oil Institute. Doctoral Candidate in Technical Sciences. Awarded six orders, four medals, and a Diploma of the Supreme Soviet of the Tatar ASSR.</p> <p>Awarded a Diploma of the President of the Russian Federation in 2009</p> <p>From 1985: Deputy to the USSR Oil Industry Minister, Head of the Tyumen Main Office for the Oil &amp; Gas Industry. (1992–12.01.2010): CEO of RITEK. From 2010: Chairman of the Board of Directors of RITEK.</p> <p>From 2000: Chairman of the Board of Directors of LUKOIL. Professor of the Gubkin Russian State Oil &amp; Gas University. Lenin Prize Winner and Russian Government Prize Winner.</p>	<p>Graduated in 1974 from the Azizbekov Institute of Oil and Chemistry in Azerbaijan. Doctor of Economics, current Member of the Russian Academy of Natural Sciences. Awarded five orders, eight medals, a Diploma and two Letters of Acknowledgement from the President of the Russian Federation. Winner of two Russian Government Prizes.</p> <p>From 1968: Worked in the oil industry in Azerbaijan and Western Siberia.</p> <p>1987–1990: CEO of Kogalymneftegaz (oil production company), a division of Glavtyumenneftegaz within the Ministry of the Oil &amp; Gas Industry of the USSR.</p> <p>1990–1991: Deputy, then First Deputy to the USSR Oil &amp; Gas Industry Minister.</p> <p>1992–1993: President of Langepasuraykogalymneft (oil production group).</p> <p>1993–2000: Chairman of the Board of Directors of LUKOIL.</p> <p>From 1993: President of LUKOIL.</p>	<p>Graduated from the All-Union Correspondence-Study Law Institute (ACLI) in 1987; completed a post-graduate program at ACLI/Moscow Law Institute in the Civil Litigation Faculty in 1990.</p> <p>From 1994: combined work as a lecturer with various administrative posts at the Moscow State Academy of Law.</p> <p>1999–2001: Dean of the Full-time Department of the Moscow State Academy of Law.</p> <p>2001–2002: Vice-Rector of Moscow State Academy of Law in charge of academic agenda.</p> <p>2002–2007: First Vice-Rector of Moscow State Academy of Law in charge of academic agenda.</p> <p>2007: Rector of Kutafin Moscow State Academy of Law.</p>
Share in charter capital of the Company (on 31.12.13)		
0.01%	22.23% <sup>2</sup>	

<sup>1</sup> In accordance with the provisions of the Code of Corporate Conduct, which was recommended for application by the Decree №421 of the Russian Federal Commission for the Securities Market, dated 04.04.2002.

<sup>2</sup> Including beneficial ownership.





Igor Ivanov



Ravil Maganov



Richard Matzke

**Position at LUKOIL (on 31.12.13)**

Independent Member of the LUKOIL Board of Directors<sup>1</sup>  
Chairman of the LUKOIL BoD Strategy and Investment Committee

Member of the LUKOIL Board of Directors  
Member of the LUKOIL Management Board  
First Executive Vice-President of LUKOIL (Exploration & Production)  
Member of the LUKOIL BoD Strategy and Investment Committee

Independent Member of the LUKOIL Board of Directors<sup>1</sup>  
Member of the LUKOIL BoD Strategy and Investment Committee

**Length of service on the Board of Directors (on 31.12.13)**

5 years

21 years

11 years

**Membership of the management bodies of other organizations (on 31.12.13)**

President of the Russian Council for International Relations

**Education and work experience**

Graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1969. Doctor of Historical Science. Professor. Awarded Russian and foreign orders and medals.  
1993–1998: First Deputy Minister of Foreign Affairs of the Russian Federation.  
1998–2004: Minister of Foreign Affairs of the Russian Federation.  
2004–2007: Secretary of the Security Council of the Russian Federation.

Graduated in 1977 from Moscow Gubkin Petrochemical & Gas Institute. Honored Employee of the Oil & Gas Industry of the Russian Federation. Awarded three orders and three medals and a Letter of Acknowledgement from the Government of the Russian Federation. Winner of three Russian Government Prizes in science and technology.  
1988–1993: Chief Engineer, Deputy CEO, CEO of Langepasneftegaz (oil production company).  
1993–1994: Vice-President of LUKOIL.  
1994–2006: First Vice-President of LUKOIL (Exploration & Production).  
From 2006: First Executive Vice-President of LUKOIL (Exploration & Production).

Graduated from Iowa State University (1959), Pennsylvania State University (1961), and St. Mary's College in California (1977). Masters in Geology, MBA.  
1989–1999: President of Chevron Overseas Petroleum and Member of the Board of Directors of Chevron Corporation.  
2000–2002: Vice-Chairman of Chevron and Chevron-Texaco Corporation.  
2010–2013: Member of the BoD of Eurasia Drilling Company.  
2006: Awarded a non-Government (sectoral) medal 'For Development of the Russian Oil & Gas Industry' in 2006; winner of the national prize 'Director of the Year, 2006' (Russia) in the 'Independent Directors' nomination, organized by the Association of Independent Directors and PricewaterhouseCoopers.

**Share in charter capital of the Company (on 31.12.13)**

0.38%

0.0003%<sup>2</sup>

<sup>1</sup> In accordance with the provisions of the Code of Corporate Conduct, which was recommended for application by the Decree №421 of the Russian Federal Commission for the Securities Market, dated 04.04.2002.

<sup>2</sup> Including beneficial ownership.



Sergei Mikhailov



Mark Mobius



Guglielmo Antonio Claudio Moscato

Position at LUKOIL (on 31.12.13)		
Member of the LUKOIL Board of Directors Member of the LUKOIL BoD Audit Committee Member of the LUKOIL BoD HR and Remuneration Committee	Independent Member of the Board of Directors of LUKOIL <sup>1</sup> Chairman of the HR and Remuneration Committee of the Board of Directors of LUKOIL Member of the Strategy and Investment Committee of the Board of Directors of LUKOIL	Independent Member of the Board of Directors of LUKOIL <sup>1</sup> Member of the LUKOIL BoD Strategy and Investment Committee
Length of service on the Board of Directors (on 31.12.13)		
11 years	7 years	3 years
Membership of the management bodies of other organizations (on 31.12.13)		
Chairman of the Board of Directors of Kapital Asset Management Group	Executive President of Templeton Emerging Markets Group	Chairman of the Board and CEO of GasMediterraneo & Petrolio
Education and work experience		
<p>Graduated in 1979 from Dzerzhinsky Military Academy, in 1981 from the Moscow Aviation Institute (Further Qualification Faculty), and in 1998 from the Plekhanov Russian Economics Academy. Doctoral Candidate in Technical Sciences, Doctor of Economics, Professor. Awarded four medals.</p> <p>1974–1992: Service in the armed forces.</p> <p>1992–1996: Head of Section, Deputy Chairman of the Russian Federal Property Fund.</p> <p>1996–1997: Head of the Restructuring and Investment Department of the Ministry of Industry.</p> <p>1997–2003: CEO of Management-Center (management company).</p> <p>2001–2011: CEO of Management-Consulting.</p> <p>From 2004: Chairman of the BoD of Russian Mediagroup, Capital Unit Investment Funds (Management Company); member of the BoD of Spartak-Moscow Football Club, Petrocommerce Commercial Bank. From 2005: Member of the BoDs of IFD Capital, Izvestiya newspaper Editorial Board. From 2008: Chairman of the BoD of Capital Investment Group; Member of the BoD of Capital Management Company.</p> <p>From 2011: Deputy CEO of Capital Management Company.</p>	<p>Graduated from the Massachusetts Institute of Technology (USA) in 1964. Doctor of Economic and Political Science. BA and Masters Degree from Boston University (USA).</p> <p>Until August 2010: Executive President of Templeton Asset Management Ltd.</p> <p>From August 2010: Executive President of Templeton Emerging Markets Group. Has worked at Franklin Templeton Investments since 1987.</p>	<p>Graduated in 1961 from Milan Polytechnical University.</p> <p>Chairman of the Board and CEO of GasMediterraneo &amp; Petrolio. Previously held positions as BoD Chairman of ENI SpA, BoD Chairman and CEO of AGIP SpA.</p>
Share in charter capital of the Company (on 31.12.13)		
0.06%		0.00006% <sup>2</sup>

<sup>1</sup> In accordance with the provisions of the Code of Corporate Conduct, which was recommended for application by the Decree №421 of the Russian Federal Commission for the Securities Market, dated 04.04.2002.

<sup>2</sup> Including beneficial ownership.



Ivan Pictet



Leonid Fedun



Alexander Shokhin

**Position at LUKOIL (on 31.12.13)**

Independent Member of the Board of Directors of LUKOIL<sup>1</sup>  
Member of the Audit Committee of the Board of Directors of LUKOIL

Member of the LUKOIL Board of Directors (since 06.2013)  
Vice-President for Strategic Development of LUKOIL  
Member of the LUKOIL BoD Strategy and Investment Committee

Member of the LUKOIL Board of Directors (until 06.2013)

**Length of service on the Board of Directors (on 31.12.13)**

2 years

1 year

8 years

**Membership of the management bodies of other organizations (on 31.12.13)**

Member of UN Pension Fund Investment Committee  
Member of the BoD of Symbiotics  
President of the Fondation pour Genève  
Chairman of the Fondation Pictet pour le développement  
Chairman of the Board of Directors of PSA International SA

President of the Russian Union of Industrialists and Entrepreneurs  
President of the National Research University – Higher School of Economics. Head of the Faculty for Theory and Practice of Interaction between Business and Government

**Education and work experience**

Masters in Economics at the University of St Gallen (1970).  
Mr Pictet took up a position at the Bank Pictet & Cie in 1972.  
1981–2005: Managing Partner of Pictet & Cie.  
1991–1995: President of the Geneva Chamber of Trade & Industry.  
2005–2010: Senior Managing Partner of Pictet & Cie.  
2000–2010: President of Genève Place Financière. Mr Pictet has been member of the Investment Committee of the Management Board of the United Pension Fund for UN Personnel since 2005; a member of the International Consultative Council of Blackstone Group International Limited since 1995; a member of the AEA European Advisory Board since 2010; a member of the AEA Investors LP Global Advisory Board (New York) since 2011; and a member of the Board of Directors of Symbiotics since 2011. Mr Pictet has also been the President of the Fondation pour Genève and Chairman of the Fondation Pictet pour le développement since 2009.  
In 2012 Mr Pictet was appointed Chairman of the Board of Directors of PSA International SA.

Graduated in 1977 from Rostov Nedelin Higher Military School. Doctoral Candidate in Philosophy. Awarded two orders and seven medals.  
1993–1994: CEO of LUKOIL Consulting.  
1994–2012: Vice-President and Head of the Main Division of Strategic Development and Investment Analysis of LUKOIL.  
From 2012: Vice-President for Strategic Development of LUKOIL.

Graduated from the Economics Faculty of Lomonosov Moscow State University in 1974, Doctor of Economics, Professor. Awarded an order for 'Services to Russia' (3rd and 4th grade) and a medal of the Russian Security Council for 'Services to National Security'. Began working career in 1969.  
1991–1994: Deputy Chairman of the Government of the Russian Federation, Minister of the Economy, Minister for Labour and Employment.  
1994–2002: Deputy in three elected State Dumas of the Russian Federation.  
1996–1997: First Deputy Chairman of the State Duma of the Russian Federation.  
1997–1998: Chairman of Duma Fraction 'Our Home is Russia'.  
1998: Deputy Chairman of the Russian Government.  
2002–2006: Deputy Chairman of the Russian Government.  
2005–2009: Member of the Civic Chamber of the Russian Federation.  
From 2005 to the present: President of the Russian Union of Industrialists and Entrepreneurs.  
Member of the Russian Presidential Commission for Formation and Preparation of the Executive Managers' Reserve, of the Competitiveness and Enterprise Council of the Prime Minister of Russia, and of Government Commissions for Administrative Reform, for Drafting of Legislation, for High-Technology and Innovation, for Transport and Communications, and for Development of Small and Medium-sized Business.

**Share in charter capital of the Company (on 31.12.13)**

0.007%<sup>2</sup>

9.73%<sup>2</sup>

<sup>1</sup> In accordance with the provisions of the Code of Corporate Conduct, which was recommended for application by the Decree №421 of the Russian Federal Commission for the Securities Market, dated 04.04.2002.

<sup>2</sup> Including beneficial ownership.



COMMITTEES OF THE BOARD OF DIRECTORS

**BoD Committees have been set up to ensure efficient functioning of the Board of Directors, as follows: for Strategy and Investments; for Audit; and for HR and Remuneration**

The committees carry out preliminary examination of matters of importance and prepare recommendations on these matters to the Board of Directors.

<p><b>Committee for Strategy and Investments</b></p> <p><b>Functions</b></p> <p>Preparation of proposals to the Company BoD for the definition of priority business areas and the design of development strategies, and also for the amount of dividends and use of Company income</p> <p>Improving the performance of the Company in the long term and increasing its assets, profitability and investment attractiveness</p> <p><b>Tasks in 2014</b></p> <ul style="list-style-type: none"> <li>→ Analysis of concepts, programs and plans for strategic development of the Company</li> <li>→ Setting the amount of dividends on shares and the procedure for dividend payment</li> <li>→ Defining the procedure for distribution of Company income and losses for the financial year</li> <li>→ Company policy with respect to its own securities</li> <li>→ Conduct of major transactions involving assets worth between 25% and 50% of the book value of Company assets</li> <li>→ Use of Company reserves and non-core assets</li> </ul>	<p><b>Committee members: I. Ivanov (Chairman) R. Maganov, M. Mobius, G. Moscato, L. Fedun (from 27.06.2013)</b></p> <p><b>Activities in 2013</b></p> <p><b>3 meetings in person, 1 vote in absentia</b></p> <ul style="list-style-type: none"> <li>→ Analysis of the Company’s strategic development concepts, programs and plans</li> <li>→ Recommendations to the BoD on the distribution of Company income from business in the financial year and the amount of dividends and procedure for their payment</li> <li>→ Review of progress in the West Qurna-2 project, and of exploration and production in Iraq, West Africa and Central Asia.</li> <li>→ Review of work to find new strategic exploration and development assets abroad</li> <li>→ Study of the presented analysis of audit of proved reserves at the end of 2012</li> <li>→ Approval of changes to investment spending limits for LUKOIL Group in 2013</li> <li>→ Adoption of a report on the Committee’s activities in 2012-2013</li> <li>→ Assessment of Company policy with respect to investors and shareholders</li> <li>→ The procedure for distribution of income and losses for the financial year</li> </ul>
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<p><b>Audit Committee</b></p> <p><b>Functions</b></p> <p>Analysis of the effectiveness of the Company’s external auditor, its selection and analysis of financial statements of the Company and proposals to the Board for decision-making on these issues</p> <p><b>Tasks in 2014</b></p> <ul style="list-style-type: none"> <li>→ Candidacy for the role of external auditor of the Company</li> <li>→ Supervision of selection of the Company auditor</li> <li>→ Assessment of the auditor’s opinion</li> <li>→ Assessment of the efficiency of internal control procedures at the Company</li> <li>→ Assessment of the level of objectivity and independence of the Company auditor</li> <li>→ Assessment of the risk management system setting the maximum amount of remuneration to the Company auditor</li> </ul>	<p><b>Committee members: S. Blazhev (Chairman) S. Mikhailov, I. Pictet</b></p> <p><b>Activities in 2013</b></p> <p><b>5 meetings in person, 2 votes in absentia</b></p> <ul style="list-style-type: none"> <li>→ Reviewing the choice of ZAO KPMG as the independent auditor of the Company’s annual financial statements</li> <li>→ Review of techniques for post-audit of investment projects at LUKOIL Group, recommendations to the BoD to approve the method for post-audit of investment projects in the Exploration &amp; Production segment</li> <li>→ Review of activities by the control and internal audit unit</li> <li>→ Approval of the report to the BoD on Committee activities in 2012-2013 and discussion of the results of assessment of the Committee’s activities</li> <li>→ Preparing recommendations on the maximum amount of remuneration to the Company auditor</li> <li>→ Recommendations to the BoD to approve the Regulation on Internal Audit regarding consulting provision</li> <li>→ Recommendations to the BoD to approve the Regulation on Risk Management at LUKOIL</li> </ul>
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### HR and Remuneration Committee

Committee members: M. Mobius (Chairman)  
R. Matzke (since 27.06.2013), S. Mikhailov

#### Functions

Preliminary review and preparation of recommendations to the BoD for decision-making on issues of personnel, and on Company policy and standards for the selection of candidates to management posts

#### Tasks in 2014

- Defining criteria for the choice of candidates to the BoD, Management Committee and the post of Company President
- Preliminary assessment of candidates to the Management Committee and post of Company President
- Preparing recommendations to the BoD for decisions on HR issues and issues of remuneration to members of Company management bodies and of the Audit Commission
- Substantial terms of contracts with members of the Management Committee and the Company President

#### Activities in 2013

##### 5 meetings in person, 2 votes in absentia

- Deciding on the independence of BoD candidates
- Recommendations on long-term incentive schemes for employees of LUKOIL and its subsidiaries
- Review of the early termination of the authorities of Management Board member, Leonid Fedun
- Approval of the Report on work by the Committee in 2012-2013
- Making recommendations to the BoD on the composition of the Management Board
- Acquaintance with the analysis of best practice in long-term incentive schemes among Russian and foreign companies
- Review of progress in preparation of a succession plan for senior executives

- Regulation on the Strategy and Investments Committee
- Regulation on the Audit Committee
- Regulation on the HR and Remuneration Committee

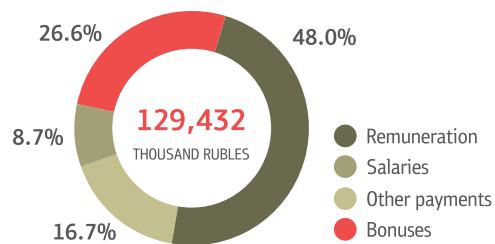
### REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS

The amount of remuneration and compensation paid to members of the Board of Directors is set by the General Meeting of Shareholders. The Company envisages the following types of remuneration for BoD members:

- Remuneration for serving as a member of the BoD (paid to each member of the BoD)
- Remuneration for performing the functions of Chairman of the BoD
- Remuneration for performing the functions of Chairman of a BoD Committee
- Remuneration for personal presence at a meeting of the BoD Committee
- Remuneration for personal presence at a meeting of the BoD or BoD Committee involving transcontinental travel

- Remuneration for participation by a BoD member in conferences and other activities on the written instructions of the Chairman of the BoD

Payments to BoD members<sup>1</sup> in 2013, thousand rubles



<sup>1</sup> Including remuneration for tasks related to BoD membership made to BoD members, who were simultaneously members of the Management Board.



## Executive Bodies

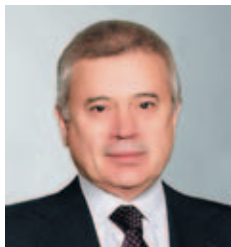
## Members of the Management Board of LUKOIL

### PRESIDENT

The President is appointed by the General Meeting of Shareholders for five years and is also the Chairman of the Management Board. The President carries out operational management of the Company and acts within his competence as established by the LUKOIL Charter. The Annual General Meeting of Shareholders in 2011 appointed Vagit Alekperov as President of the Company.

### MANAGEMENT BOARD

The Management Board, which is supervised by the Chairman of the Management Board, is a collective executive body of the Company and carries out day-to-day management activities. The Management Board is appointed annually by the Board of Directors.



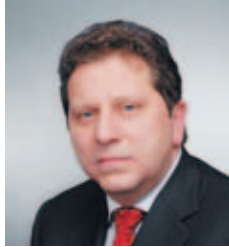
Vagit Alekperov



Anatoly Barkov

Position at LUKOIL (on 31.12.13)	
President of LUKOIL Member of the LUKOIL Board of Directors Chairman of the LUKOIL Management Committee	Member of the LUKOIL Management Board (until 23.07.2013) Advisor to the President of LUKOIL
Length of service on the Management Board (on 31.12.13)	
21 years	21 years
Education and work experience	
<p>Graduated in 1974 from the Azizbekov Institute of Oil and Chemistry in Azerbaijan. Doctor of Economics, current Member of the Russian Academy of Natural Sciences. Awarded five orders, eight medals, a Diploma and two Letters of Acknowledgement from the President of the Russian Federation. Winner of two Russian Government Prizes.</p> <p>From 1968: Worked in the oil industry in Azerbaijan and Western Siberia.</p> <p>1987–1990: CEO of Kogalymneftegaz (oil production company), a division of Glavtyumenneftegaz within the Ministry of the Oil &amp; Gas Industry of the USSR.</p> <p>1990–1991: Deputy, then First Deputy to the USSR Oil &amp; Gas Industry Minister.</p> <p>1992–1993: President of Langepasuraykogalymneft (oil production group).</p> <p>1993–2000: Chairman of the Board of Directors of LUKOIL.</p> <p>From 1993: President of LUKOIL.</p>	<p>Graduated in 1992 from Ufa Oil Institute. Doctoral Candidate in Economic Science. Honored Employee of the Oil &amp; Gas Industry of the Russian Federation. Awarded an order and 10 medals.</p> <p>1987–1992: Head of Operations, Head of Oil &amp; Gas Production, Senior Engineer at Kogalymneftegaz.</p> <p>1992–1993: Executive Director, then Director of the Department of Foreign Projects at Langepasuraykogalymneft.</p> <p>1993–2012: Vice-President, Head of the Main Division of General Affairs, Corporate Security and Communications of LUKOIL.</p> <p>2012–2013: Vice-President for General Affairs, Corporate Security and Communications of LUKOIL.</p> <p>From September 2013: Advisor to the President of LUKOIL.</p>
Share in charter capital of the Company (on 31.12.13)	
22.23% <sup>1</sup>	

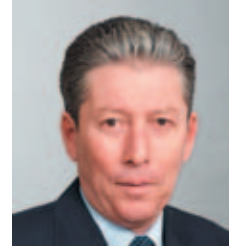
<sup>1</sup> Including beneficial ownership.



Vadim Vorobyov



Sergei Kukura



Ravil Maganov

**Position at LUKOIL (on 31.12.13)**

Member of the LUKOIL Management Board

Vice-President for Coordination of Petroleum Products Sales of LUKOIL

Member of the LUKOIL Management Board

First Vice-President of LUKOIL (Economics and Finance)

Member of the LUKOIL Board of Directors

Member of the LUKOIL Management Committee

First Executive Vice-President of LUKOIL (Exploration & Production)

Member of the LUKOIL BoD Strategy and Investment Committee

**Length of service on the Management Board (on 31.12.13)**

9 years

21 years

21 years

**Education and work experience**

Graduated in 1983 from Gorky State University, in 1998 from Nizhny Novgorod State University. Doctoral Candidate in Economics. Awarded medals 'For service to Russia' (1st and 2nd grade).

1981–1992: Komsomol and Communist Party work.

1992–1998: Management positions in insurance and bank structures in Nizhny Novgorod.

1998–2002: Vice-President, President of NORSI-OIL.

2002–2005: CEO of LUKOIL-Volganefteprodukt.

2005–2009: Vice-President of LUKOIL and Head of the Main Department for Coordination of Petroleum Product Sales in Russia.

2009–2012: Vice-President of LUKOIL and Head of the Main Department for Coordination of Petroleum Product Sales.

From 2012: Vice-President for Coordination of Petroleum Product Sales of LUKOIL.

Graduated in 1979 from the Ivano-Frankovsk Institute of Oil & Gas. Doctor of Economics. Honored Economist of the Russian Federation. Awarded two orders and five medals, and a Letter of Acknowledgement from the President of the Russian Federation. Winner of a Russian Government Prize for Science and Technology.

1992–1993: Vice-President of Langepasuraykogalymneft.

From 1993: First Vice-President of LUKOIL.

Graduated in 1977 from Moscow Gubkin Petrochemical & Gas Institute. Honored Employee of the Oil & Gas Industry of the Russian Federation. Awarded three orders and three medals and a Letter of Acknowledgement from the Government of the Russian Federation. Winner of three Russian Government Prizes in science and technology.

1988–1993: Chief Engineer, Deputy CEO, CEO of Langepasneftegaz (oil production company).

1993–1994: Vice-President of LUKOIL.

1994–2006: First Vice-President of LUKOIL (Exploration & Production).

From 2006: First Executive Vice-President of LUKOIL (Exploration & Production).

**Share in charter capital of the Company (on 31.12.13)**

0.01%

0.39%

0.38%



Sergei Malyukov



Ivan Masliaev



Alexander Matytsyn

Position at LUKOIL (on 31.12.13)		
Member of the LUKOIL Management Board Vice-President for Internal Control and Audit of LUKOIL	Member of the LUKOIL Management Committee Vice-President, General Counsel of LUKOIL	Member of the LUKOIL Management Board Senior Vice-President for Finance of LUKOIL
Length of service on the Management Board (on 31.12.13)		
2 years	14 years	17 years
Education and work experience		
<p>Graduated in 1977 from Dzerzhinsky Military Academy and in 1997 from the Higher School of Economics. Doctoral Candidate in Philosophy. Awarded five medals.</p> <p>1972–1995: Service in the armed forces.</p> <p>1995–2010: Head of Section, Head of Division, Head of Department of the Main Division for Strategic Development and Securities Investment Analysis of LUKOIL.</p> <p>2010–2012: Head of the Main Division for Control, Internal Audit and Risk Management.</p> <p>From 2012: Vice-President for Internal Control and Audit of LUKOIL.</p>	<p>Graduated in 1980 from Lomonosov Moscow State University. Doctoral Candidate in Law. Honored Lawyer of the Russian Federation. Awarded three medals.</p> <p>1992–1993: Head of the Legal Department of Langepasuraykogalymneft.</p> <p>1994–1999: Head of the Legal Department at LUKOIL.</p> <p>2000–2012: Head of the Main Division for Legal Support at LUKOIL.</p> <p>From 2012: Vice-President, General Counsel of LUKOIL.</p>	<p>Graduated in 1984 from Lomonosov Moscow State University. Doctoral Candidate in Economics. MBA from Bristol University (1997). Honored Economist of the Russian Federation. Awarded a medal, 'For services to Russia' (2nd grade).</p> <p>1994–1997: Director and CEO of international auditing firm KPMG.</p> <p>1997–2012: Vice-President, Head of the Main Division of Treasury and Corporate Finance of LUKOIL.</p> <p>2012–2013: Vice-President for Finance of LUKOIL.</p> <p>From 2013: Senior Vice-President for Finance of LUKOIL.</p>
Share in charter capital of the Company (on 31.12.13)		
0.04%	0.03%	0.30%

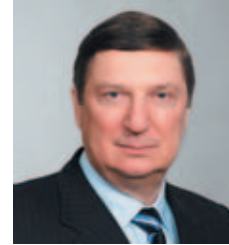




Anatoly Moskalenko



Vladimir Mulyak



Vladimir Nekrasov

**Position at LUKOIL (on 31.12.13)**

Member of the LUKOIL Management Board

Vice-President of LUKOIL for Human Resource Management and Development of Corporate Structure

Member of the LUKOIL Management Board (until 26.02.2013)

Vice-President of LUKOIL for Science and Technology in the Exploration & Production segment; CEO of LUKOIL Engineering

Member of the LUKOIL Management Board

First Vice-President of LUKOIL (Refining & Marketing)

**Length of service on the Management Board (on 31.12.13)**

11 years

7 years

15 years

**Education and work experience**

Graduated in 1980 from Moscow Higher School of the Armed Forces, from the Military-Diplomatic Academy in 1987, and from the Russian Presidential Civil Service Academy in 2005. Doctoral Candidate in Economics. Awarded five orders and 20 medals.

1976–2001: Service in the Armed Forces.

2001–2003: Head of the Human Resources Department of LUKOIL.

2003–2012: Head of the Main Division for Human Resources at LUKOIL.

From 2012: Vice-President of LUKOIL for Human Resource Management and Development of Corporate Structure.

Graduated from Moscow Gubkin Petrochemical & Gas Institute in 1977. Doctoral Candidate in Geological and Mineral Sciences. Awarded a medal of the order 'For services to Russia' (2nd grade). Winner of a Russian Government Prize for Science and Technology.

1990–1996: Chief Engineer, Head of Lasyeganeft oil & gas production unit of LUKoil-Langepasneftegaz.

1996–2001: First Deputy CEO for Production, CEO of Belarusneft.

2001: First Vice-President for Production of KomiTEK.

2002–2007: Chief Engineer, First Deputy CEO, CEO of LUKOIL-Komi.

2007–2012: Vice-President, Head of the Main Division of Oil & Gas Production of LUKOIL.

2012–2013: Vice-President for Technologies and Development of Oil & Gas Fields of LUKOIL.

From January 2013: Vice-President of LUKOIL for Science and Technology in the Exploration & Production segment; CEO of LUKOIL Engineering.

Graduated in 1978 from Tyumen Industrial Institute. Doctoral Candidate in Technical Science, Member of the Academy of Mining Sciences. Awarded two orders and three medals. Winner of a Russian Government Prize.

1992–1999: Chief Engineer, CEO of Kogalymneftegaz (part of LUKOIL-Western Siberia).

1999–2005: Vice-President of LUKOIL and CEO of LUKOIL-Western Siberia.

From 2005: First Vice-President of LUKOIL.

**Share in charter capital of the Company (on 31.12.13)**

0.02%

0.04%



Valery Subbotin



Gennady Fedotov



Leonid Fedun

Position at LUKOIL (on 31.12.13)		
Member of the LUKOIL Management Board Vice-President for Supplies and Sales of LUKOIL	Member of the LUKOIL Management Board Vice-President for Economics and Planning of LUKOIL	Member of the LUKOIL Board of Directors Member of the LUKOIL Management Board (until 24.05.2013) Vice-President for Strategic Development of LUKOIL Member of the LUKOIL BoD Strategy and Investment Committee
Length of service on the Management Board (on 31.12.13)		
7 years	7 years	20 years
Education and work experience		
<p>Graduated from Tyumen State University in 1996. Awarded a medal of the order 'For Services to Russia' (2nd grade).</p> <p>1998–2003: Worked at LUKOIL-Prague, LUKOIL-Bulgaria, and the Moscow Representative Office of the company LITASCO.</p> <p>2003–2005: First Deputy Head of the Office of the Board of Directors of LUKOIL.</p> <p>2005–2007: Vice-President, Head of the Main Division of Supplies and Sales of LUKOIL.</p> <p>2007–2012: Vice-President, Head of the Main Division of Supplies and Sales of LUKOIL.</p> <p>From 2012: Vice-President for Supplies and Sales of LUKOIL.</p>	<p>Graduated from the Moscow Physics and Technology Institute in 1993. Awarded a medal of the order 'For Services to Russia' (2nd grade).</p> <p>1994–2002: Worked at the companies Halliburton and Shell.</p> <p>2002–2007: Head of Section, Deputy Head, Head of the Main Division for Corporate Budget and Economic Planning of LUKOIL.</p> <p>2007–2012: Vice-President, Head of the Main Division for Economics and Planning of LUKOIL.</p> <p>From 2012: Vice-President for Economics and Planning of LUKOIL.</p>	<p>Graduated in 1977 from Rostov Nedelin Higher Military School. Doctoral Candidate in Philosophy. Awarded two orders and seven medals.</p> <p>1993–1994: CEO of LUKOIL Consulting.</p> <p>1994–2012: Vice-President and Head of the Main Division of Strategic Development and Investment Analysis of LUKOIL.</p> <p>From 2012: Vice-President for Strategic Development of LUKOIL.</p>
Share in charter capital of the Company (on 31.12.13)		
0.01%	0.005%	9.73% <sup>1</sup>

<sup>1</sup> Including beneficial ownership.



Evgeny Khavkin



Lyubov Khoba



Azat Shamsuarov

Position at LUKOIL (on 31.12.13)		
Member of the LUKOIL Management Board Vice-President, Head of the BoD Office of LUKOIL	Member of the LUKOIL Management Board Vice-President, Chief Accountant of LUKOIL	Member of the Management Board of LUKOIL Senior Vice-President for Production of Oil & Gas
Length of service on the Management Board (on 31.12.13)		
2 years	14 years	1 year
Education and work experience		
<p>Graduated in 2003 from the Moscow Institute of Economy, Management and Law. Awarded two medals.</p> <p>From 1988: Worked at oil companies in Western Siberia.</p> <p>1997–2003: Deputy Head, then First Deputy Head of the BoD Office of LUKOIL.</p> <p>2003–2012: BoD Secretary, Head of the BoD Office of LUKOIL.</p> <p>From 2012: Vice-President, Head of the BoD Office of LUKOIL.</p>	<p>Graduated in 1992 from Sverdlovsk Institute of National Economy. Doctoral Candidate in Economic Science. Honored Economist of the Russian Federation. Awarded two medals and an order.</p> <p>1991–1993: Chief Accountant at Kogalymneftegaz.</p> <p>1993–2000: Chief Accountant at LUKOIL.</p> <p>2000–2003: Vice-President of LUKOIL, Head of Financial Accounting.</p> <p>2003–2004: Chief Accountant and Vice-President of LUKOIL.</p> <p>2004–2012: Chief Accountant of LUKOIL.</p> <p>From 2012: Vice-President, Chief Accountant of LUKOIL.</p>	<p>Graduated in 1986 from the Ufa Oil Institute. Doctoral Candidate of Technical Sciences. Awarded a medal 'For Service to Russia' (2nd grade). Distinguished Employee of the Oil and Gas Industry of Khanty-Mansi Autonomous District (Yugra).</p> <p>1997–2000: Chief Engineer of Pokachevneft Oil &amp; Gas Production Enterprise, Deputy CEO for Production at Langepasneftegaz, Head of Pokachevneft Oil &amp; Gas Production Enterprise, CEO of Urayneftegaz.</p> <p>2000–2001: President of Orenburg Joint-Stock Oil Company (ONAKO).</p> <p>2001–2008: Vice-President, Senior Vice President LUKOIL Overseas Holding Ltd.</p> <p>In 2008–2012 : Vice-President of LUKOIL, CEO of LUKOIL- Western Siberia.</p> <p>From 2012: Vice-President for Oil &amp; Gas Production of LUKOIL.</p> <p>From 2013: Senior Vice President for Oil &amp; Gas Production of LUKOIL.</p>
Share in charter capital of the Company (on 31.12.13)		
0.01%	0.35%	0.003%



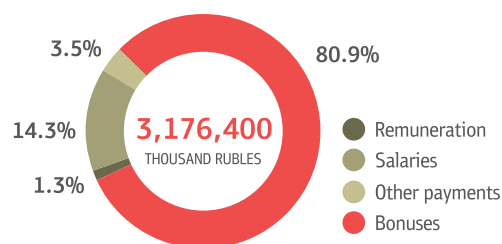
## Remuneration to Members of the Management Committee

In the reporting year members of the Management Committee were paid remuneration equal to their monthly salary in their principle job. These payments were made in accordance with the main terms of contracts, drawn up with members of the Management Committee, subject to the achievement of key performance indicators by the Company during the reporting period. Members of the Management Committee also received an annual base salary, annual bonus payments based on results of their work during the year, long-term bonus payments and additional compensations of a social nature.

The Company's three-year long-term incentive program (2010–2013) came to an end in 2013. Bonuses were paid in two parts:

- In the form of dividends paid annually on shares notionally assigned to the employee.
- In the form of bonuses, the amount of which is determined by multiplying the difference between the share price at the beginning and end of the program by the number of shares assigned to the employee.

Payments to members of the Management Board in 2013, thousand rubles



## Control Bodies

### AUDIT COMMISSION

Three-person membership of the Audit Commission is elected each year at the Annual General Meeting of Shareholders (AGM) for the period until the next AGM.

#### COMPOSITION IN 2013:

- **Vladimir Nikitenko** (President of PETROCOMMERCE Bank), Chairman of the Audit Commission
- **Alexander Surkov** (CEO of LUKOIL-Volgograd Regional Accounting Center)
- **Mikhail Maximov** (CEO of LUKOIL-Perm Regional Accounting Center)

**Functions:** Checking the accuracy of financial statements under Russian law, overall control over financial and economic activity.

**Results in 2013:** Accuracy of the Company's financial statements was confirmed.

**Remuneration:** Approved by the general meeting of shareholders.

### CONTROL AND INTERNAL AUDIT

**Functions:** Provide objective and independent control over systems of corporate governance, internal control and risk management in order to increase the efficiency of Company operations and protect the interests of its shareholders and investors.

#### Progress in 2013:

- **Inspections**

The Service for Control and Internal Audit and specialized control and internal audit units at LUKOIL Group organizations carried out 579 inspections and 12 unscheduled inspections on the instruction of heads of the respective Group organizations. These inspections involved analysis of the efficiency of internal control and risk management, checks of Company compliance with applicable laws and evaluation of the reliability of management and financial accounting in order to detect any significant risks in the Company's operations.

In addition to these inspections, 23 draft minutes of meetings of the LUKOIL tendering committee were reviewed to ensure compliance with established tendering procedures.



Audits of financial and economic activities were carried out at 56 Group organizations. Two unscheduled audits were also carried out.

- **Improving the methodological basis**

The Board of Directors approved:

- A new version of the Rules for organization and conduct of control and audit and of the Regulation on Internal Audit
- Rules for conduct of internal audit for provision of consulting

Also six new internal control procedures and new versions of two internal control procedures were approved in order to enhance the quality of control and audit inspections. Approval was also given for the approbation in 2014 of 11 new temporary internal control procedures.

- **Professional development of employees**

A number of events were held at the Company in 2014 in association with the Institute of Internal Auditors, the Association of Specialists in Investigation of Corporate Theft, and ZAO KPMG, as follows:

- Conference for employees of internal control and audit organizations of LUKOIL Group
- A seminar-workshop for heads of internal control and audit units on ways of improving the quality of internal audit at LUKOIL
- Two web conferences with representatives of the Association of Specialists in Investigation of Corporate Theft

#### Plans for 2014:

- Conduct of scheduled inspections.
- Improving audit methodology and support
- Automation of processes for risk management, internal control and internal audit
- Completion of measures to reform internal control and audit units in order to optimize their operations by consolidating small and dispersed units and the creation of regional control and audit divisions

## External Auditor

The external auditor is selected on the basis of recommendations by the BoD Audit Committee and the selection is confirmed by the General Meeting of Shareholders. The financial accounts of LUKOIL and its main subsidiaries are currently audited by ZAO KPMG.

Requirements for auditor independence are defined by international and Russian standards and rules, and also by the internal requirements and policy of the auditor itself. In particular, these standards and rules call for regular rotation of the chief partner in audit tasks, in order to exclude an excessively close relationship and personal interest. The auditor must therefore be changed at least once every seven years.

#### Functions:

- Audit of the financial statements of LUKOIL to Russian accounting standards
- Audit of the consolidated financial statements of LUKOIL and its subsidiaries to US GAAP standards
- Audit of financial statements of the Group's major subsidiaries to Russian and local accounting standards
- Review of interim consolidated financial accounts of LUKOIL and its subsidiaries in accordance with US GAAP

#### Progress in 2013:

- Audits were completed and opinions were issued with respect to the consolidated financial statements of LUKOIL and its subsidiaries for 2013 in accordance with US GAAP and with respect to the Group's main subsidiaries in accordance with Russian Accounting Standards
- The financial accounts of the Group's main foreign subsidiaries for 2013 were audited in accordance with local accounting standards
- Audit reviews in accordance with US GAAP were carried out and opinions were issued with respect to the interim consolidated financial accounts of LUKOIL and its subsidiaries for the first, second and third quarters of 2013



## Business Ethics

The Company is guided in conduct of its business by corporate values, which ensure that business is carried out in accordance with the highest ethical standards.

### SOCIAL CODE

The Company has its own Social Code: a set of principles and standards for socially responsible behavior with respect to all parties, whose interests are affected by our operations.

### CODE OF BUSINESS ETHICS

The Company also has its own Code of Business Ethics, to which it strictly adheres. The Code sets out the most important rules governing conduct of the Company and its employees, ethical norms for intra-corporate relations, social responsibility and other priority matters relating to business ethics.

The Code of Conduct is based on generally accepted norms of business ethics, and on officially approved Russian and foreign documents that define best corporate governance practices. The Code is an important part of LUKOIL's corporate governance system, helping to avoid unnecessary risks, maintain long-term growth and achieve the further development and globalization of Group business.

### COMMISSION ON BUSINESS ETHICS

The Company also has a Commission on Business Ethics. Its responsibilities include the implementation of rules and standards set out in the Code, checks on their proper implementation, the development of recommendations concerning business ethics, and monitoring the impact of the Code on the performance of Company employees.



## Information for Shareholders and Investors

### CHARTER CAPITAL

Charter capital of the Company consists of 850,563,255 ordinary shares, each with par value of 2.5 kopeks (0.025 rubles).

### ABOUT

**100** THOUSAND

INDIVIDUALS AND LEGAL ENTITIES AROUND THE WORLD ARE SHAREHOLDERS OF THE COMPANY

### Main shareholders of LUKOIL<sup>1</sup> (> 1% of ordinary shares)

	% of total shares on 31.12.2013	% of total shares on 31.12.2012
ING Bank (Eurasia)		77.69
National Clearing Depository	92.04	11.80
SDK Garant	2.90	3.95
OJSC URALSIB	1.48	1.44
J.P. Morgan Bank International LLC		1.42

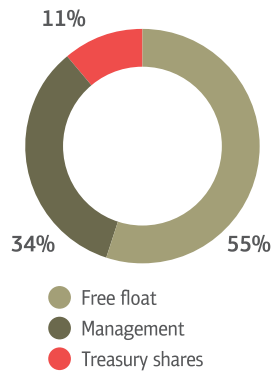
<sup>1</sup> Nominal owner.



### MANAGEMENT HAS THE SUPPORT OF SHAREHOLDERS

Despite the large number of minority shareholders among all shareholders of the Company, unanimity was achieved on all items at the Annual General Meeting of Shareholders in June 2013. The Company's Annual Report was approved by 99.9% of participating votes. Proposed membership of the Board of Directors and the Audit Commission was approved by 99.7% of votes. Proposed payments to members of the Board of Directors were approved by 99.9% of votes and payments to the Audit Commission by 99.9% of votes. The proposed candidate for the role of external auditor of LUKOIL was approved by 98.7% of votes

Structure of LUKOIL share capital (on 31.12.2013)



### SECURITIES

#### Company shares are among the most liquid instruments on the Russian stock market

#### Trading codes of LUKOIL ordinary shares and ADRs

Code	Trading floor	Description
LKOH	MICEX (Moscow Stock Exchange)	Ordinary shares are traded in list A1 on the MICEX (Moscow Stock Exchange), and are among the most liquid financial instruments on the Russian stock market
LKOD	London Stock Exchange <sup>1</sup>	Company ADRs are traded on the London Stock Exchange and are among the most liquid instruments of issuers from countries in Eastern Europe. The greater part of trading in LUKOIL shares takes part on the LSE
LUK	Frankfurt Stock Exchange <sup>1</sup>	The Company's depository receipts are also traded on exchanges in Frankfurt, Munich and Stuttgart and over the counter in the USA
LUKOY	US over-the-counter market <sup>1</sup>	

<sup>1</sup> ADRs on LUKOIL shares.

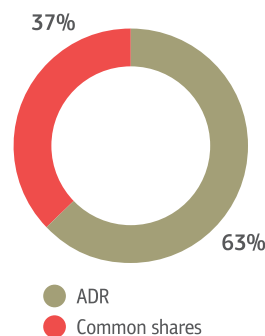


Indices which include LUKOIL shares

Index	Weight of LUKOIL shares and ADRs in the index as of 31.12.2013
MSCI Russia	13.7%
Bloomberg Oils	1.5%
FTSE Russia IOB	15.2%
MICEX	13.7% <sup>1</sup>

<sup>1</sup> Weight as of 28.02.2014.

Distribution of LUKOIL shares and ADRs (31.12.2013)



SHARE PRICE TRENDS

**Company shares offer significant growth potential, high dividend yield and liquidity, making them an attractive tool for investment**

Russian stock indices were under pressure in 2013 due to instability in commodity markets, and trading was in a fairly narrow range. There was also a significant outflow of capital from emerging markets towards developed markets in the course of the year.

The MICEX Index rose by 2.0% over 12 months and LUKOIL shares exactly matched the Index, also gaining 2.0%.

MAJOR INVESTMENT BANKS WITH TOTAL ASSETS IN EXCESS OF

**\$ 9 TRILLION**

UNDER MANAGEMENT GIVE A 'BUY' RECOMMENDATION FOR LUKOIL SHARES

Recommendations by analysts of leading investment banks<sup>1</sup> for Company shares in 2013

	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter
Buy	92%	100%	92%	100%
Hold	8%	0%	8%	0%
Sell	0%	0%	0%	0%

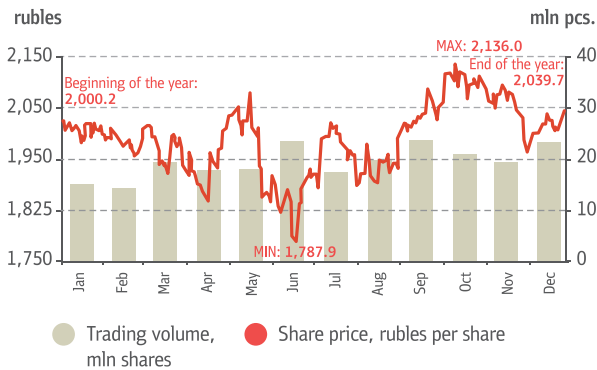
<sup>1</sup> Bank of America-Merrill Lynch, UBS, JPMorgan, Citi, Deutsche Bank, Goldman Sachs, Morgan Stanley, HSBC, Sberbank CIB, Uralsib, Renaissance, VTB.

 Analyst Databook, p. 66





### LUKOIL share price on the MICEX exchange in 2013



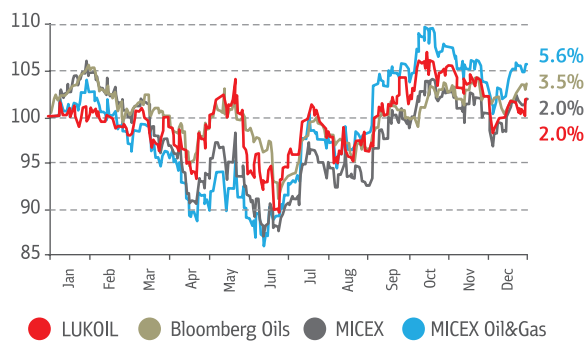
**Progress in 2013:** Since its foundation the Company has steadily increased the size of dividends per share and offers one of the highest dividend yields in the industry. Dividends for 2013 may be as high as 110 rubles per ordinary share<sup>1</sup>, offering dividend yield of 5.5%, which is significantly higher than the average for the world's largest privately owned oil & gas companies.

**Plans for 2014:** Payment of competitive dividends to LUKOIL shareholders.

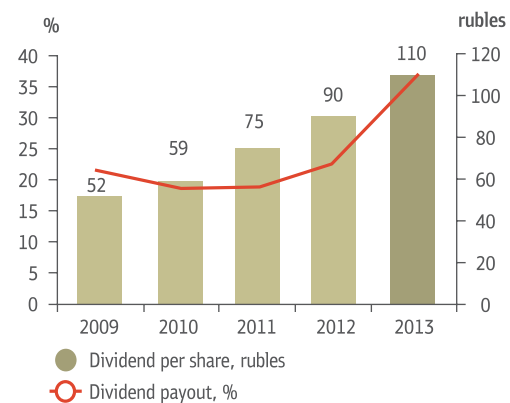
<sup>1</sup> Recommended by Board of Directors dividends for 2013.

Regulation on LUKOIL Dividend Policy  
Analyst Databook, p. 68

### LUKOIL share price compared with MICEX Index, Bloomberg Oils Index and MICEX Oil&Gas Index in 2013



### LUKOIL dividend per share and dividend payout<sup>2</sup>



<sup>2</sup> The payout ratio is calculated based on the recommendation of the Board of Directors to pay dividends of 110 rubles per share for 2013, the ruble-dollar exchange rate at the end of the period, the total number of outstanding shares of LUKOIL and net income in the period.

## DIVIDENDS

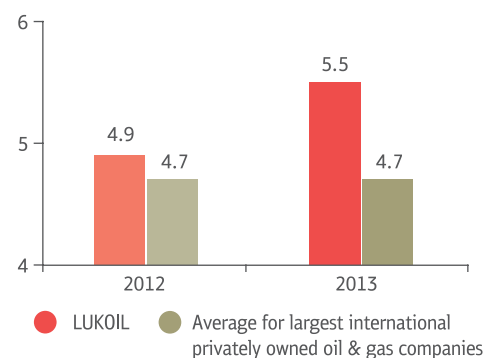
↑ **36.5%**

OF CONSOLIDATED NET INCOME PAID AS DIVIDENDS<sup>2</sup>

### Principles

The criteria, which govern the dividend policy of LUKOIL Group, are as follows: balance of interests between the Company and its shareholders; increasing the investment attractiveness of the Company and its capitalization; respect for and strict observance of the rights of shareholders, as set out in the current legislation of the Russian Federation; and the LUKOIL Charter and internal documents.

### Dividend yield<sup>3</sup>, %



<sup>3</sup> Dividend yield is calculated based on the recommendation of the Board of Directors to pay dividends of 110 rubles per share for 2013 and the average market price per ordinary share on the MICEX in the respective period.



**Taxation**

Dividends paid in the course of 2013 were subject to personal and corporate income tax at rates of 9% and 15%.

The procedure for taxation of dividends has been changed since 01.01.2014. Dividend payments for 2013 made after 01.01.2014 are taxed at the following rates:

	Tax residents		Non-tax residents	
	Standard	International agreement on avoidance of dual taxation	International agreement on avoidance of dual taxation	No international agreement on avoidance of dual taxation
Legal entities	9%	As specified in the agreement	As specified in the agreement	15%
Individuals	9%	As specified in the agreement	As specified in the agreement	15%
Legal entities and individuals (owners of ADRs) depending on disclosure /non-disclosure of information under the Russian Tax Code	9%/30%	As specified in the agreement/30%	As specified in the agreement/30%	15%/30%



**DEBT PORTFOLIO**

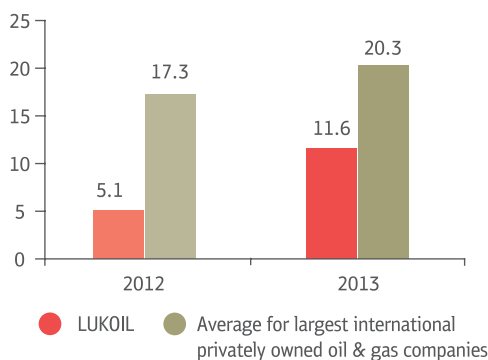
Strict financial discipline makes the Company credit worthy and keeps down debt levels, ensuring easy access to capital markets.

Thanks to further improvement of LUKOIL's system for management of cash flows

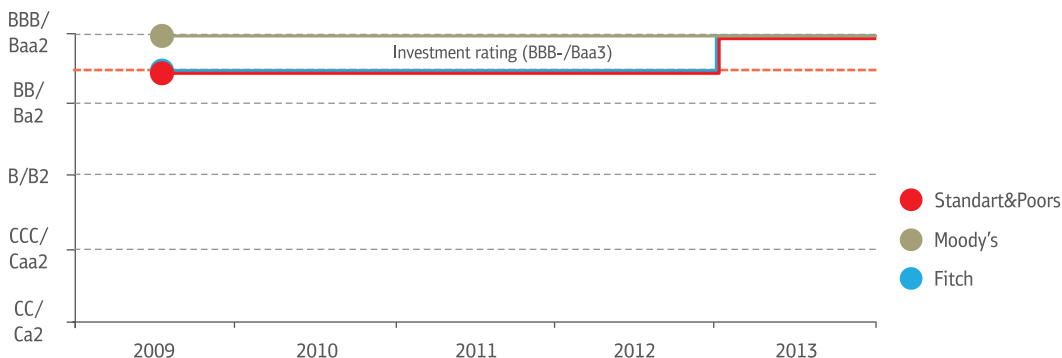
**Fitch and Standard & Poor's rating agencies raised their rating for the Company to BBB in 2013**

LUKOIL Group financed its expenditures in full and to schedule in 2013 to a total amount of \$20.6 billion, consisting of capital expenditures, investments, acquisitions and increased payments to shareholders, including interim dividends.

Net debt to equity, %



**Development of LUKOIL credit ratings**





## INFORMATION TRANSPARENCY

LUKOIL has successfully operated a system of corporate disclosure to the investment community for more than 10 years, and the Company's system has become a benchmark for the Russian stock market. The Company provides regular disclosure with equal regard for all stakeholders in accordance with Russian legislation and with the requirements of the Moscow and London Stock Exchanges.

### Dialogue with shareholders

LUKOIL is one of the few Russian companies, which have a large number of minority shareholders. This makes us particularly aware of the importance of communicating with our shareholders and investors. The Company uses all available means of communication in order to achieve this: audio and video broadcasting of financial statements, presentations, investor trips to Group production facilities, investor days, print and electronic publication of information products, addresses by senior managers at conferences, direct meetings and communication.

#### Progress in 2013:

- Participation in 12 international conferences organized by investment banks in the US and UK
- Road show in the Asia-Pacific region
- Investor trip to Perm
- More than 500 meetings with large institutional investors
- Informational meetings with minority shareholders in Kogalym and Volgograd
- Publication of information products (Report on Business, Analyst Databook, Main Facts, Sustainable Development Report and Corporate Governance Report)

#### Plans for 2014:

- Improve information support for investors and shareholders through earlier publication of financial reporting and Companies information products
- Diversification and expansion of the shareholder and investor base

### Financial calendar 2014

#### Announcement of financial results:

FY 2013	February, 19
Q1 2014	May
Q2 2014	August
3Q 2014	November

#### Company dividends for the 2013 financial year

Board of Directors recommendation	April, 24
Dividend record date	July, 15 <sup>1</sup>

#### General Meeting of Shareholders

Annual General Meeting of Shareholders	June, 26
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<sup>1</sup> Dividend record date recommended by the Board of Directors.





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	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND CONSOLIDATED	162
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## Risks

### MACROECONOMIC RISKS

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>Changes in macroeconomic factors such as decline of world prices for hydrocarbons, reduction of refining margins, changes regarding mineral extraction tax (MET), export duties on oil and petroleum products and excise taxes, debt problems of individual EU member states, intensification of the budget crisis in the U.S., slowdown of economic growth in developing countries, exchange rate fluctuations, inflation, and increase of the tax burden may adversely affect the Company's financial results and its ability to implement the planned program of capital expenditures.</p>	<p>The Company uses a scenario approach to the forecasting of macroeconomic indicators, enabling comprehensive analysis of the impact of macroeconomic risks on the business of LUKOIL Group.</p> <p>This approach allows us to identify assets and investment projects, which are particularly sensitive to any change in macroeconomic parameters, and to take the necessary management decisions, including decisions to optimize the portfolio of Company investment projects.</p>

### COUNTRY RISKS

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>Most of the Company's assets are located in the Russian Federation, where political risks are assessed as moderate. However, LUKOIL has operations in several countries with high levels of political and economic risk, occurrence of which could severely complicate the Company's operations in a particular region or even lead to their termination. (In particular, the Company has a number of projects in countries such as Iraq, Venezuela, Cote d'Ivoire, Ghana and Egypt, where levels of political risk are assessed as high, and Company assets and personnel are subject to the threat of terrorism.)</p>	<p>The company seeks to diversify its operations, implementing projects in Europe and the USA, where country and political risks are assessed as minimal, in parallel with its business in unstable regions.</p>

### INDUSTRY RISKS

#### RISKS ASSOCIATED WITH ACCESS TO NEW SOURCES OF RAW MATERIALS

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>Competition with major Russian and transnational companies for access to new sources of raw materials may lead to a situation where, in the future, the Company will not be able to access new and most prospective hydrocarbon fields. The consequence of this risk may be to reduce the volume of LUKOIL's proved reserves and, consequently, to lower the Company's capitalization. LUKOIL competes in the exploration &amp; production segment with both Russian and with leading international oil &amp; gas companies.</p>	<p>This risk is taken into account in the Company's development strategy, an important element of which is to ensure sustainable development through participation in strategic alliances, rejection of low-margin projects and assets, and access to new markets.</p>

### LOGISTICS RISKS

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The Company depends for transportation of its products on the transport capacities of state monopolies, such as Transneft, Transnefteprodukt, Russian Railways and on Gazprom for transportation of volumes of gas, which it produces. The Company's dependence on state monopolies in this sphere may lead to very significant negative consequences. For example:</p> <ul style="list-style-type: none"> <li>→ Losses due to breakdowns, leaks and other failures in the operation of pipeline systems or railways</li> <li>→ Unplanned increase in costs associated with urgent need to find alternative means of delivering hydrocarbons in case of restrictions on access to the pipeline system, and, at worst, the inability to continue its operations in some regions</li> <li>→ Unplanned increase in costs associated with the sharp increase of transportation tariffs</li> </ul>	<p>The Company seeks to build relationships of partnership with state monopolies and government, to make long-term contracts with customers, and to retain an optimal share of petroleum product markets based on the Group's goals and objectives.</p> <p>Agreements of product supply were made in the recent period with such companies as Gazprom, Sibur, GAZ Group and Sovcomflot. Cooperation agreements were also made with such companies as Rosneft, Rosatom, Siemens AG and Enel.</p> <p>In addition, the company plans to expand refining capacity in the gas-chemicals sector, which will help to lower logistics risks and competition risks. In particular, there are plans to build a gas-processing plant in Budennovsk.</p>



**RISKS ON THE PETROLEUM PRODUCT MARKET**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The market environment and competition on refining markets entail the following risks for the Company:</p> <ul style="list-style-type: none"> <li>→ Lower sales volumes and incomplete utilization of production capacities</li> <li>→ Reduction of refining margin</li> <li>→ Reduction of retail margin</li> <li>→ Tightening of environmental legislation, stricter requirements for product quality</li> </ul> <p>These risks could result in loss of revenue or increase of the Company's costs, which would ultimately have negative impact on cash flow in this business segment.</p>	<p>The Company seeks to build relationships of partnership with state monopolies and government, to make long-term contracts with customers, and to retain an optimal share of petroleum product markets based on the Group's goals and objectives.</p>

**RISKS ON THE MARKET FOR NATURAL GAS AND ASSOCIATED PETROLEUM GAS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The principal risk factor in the Russian gas production segment is the monopoly position of Gazprom as the largest buyer of natural gas produced by independent oil companies, and also of dry gas, which is the product of refining of associated petroleum gas. The main risks for the Company in this segment may be:</p> <ul style="list-style-type: none"> <li>→ the reduction by Gazprom of its quotas for gas purchases from independent producers, which could lead to a restriction of gas production by the Company or the suspension of a number of projects</li> <li>→ the setting of a monopolistic low purchase price for natural and associated gas from independent producers</li> </ul>	<p>The Company takes all possible measures to reduce these risks. In particular, it seeks to build relations of partnership with state monopolies, to make long-term contracts with customers, and to retain an optimal share of petroleum product markets based on the goals and objectives of LUKOIL Group.</p>

**FINANCIAL RISKS**

**PRICE RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>Fluctuations in hydrocarbon prices may have material effect on financial performance and Company value. LUKOIL does not exclude increase in the volatility of exchange prices for energy in the short term due to unstable balance of supply and demand on the global market, the difficult political situation in the Middle East, uncertain economic prospects of the Eurozone countries, as well as the influence of other macroeconomic factors.</p>	<p>LUKOIL conducts continuous monitoring of markets for oil and petroleum products to obtain a comprehensive picture of the state of the markets and to provide a reliable basis for predicting market trends. The main ways of reducing short-term price risks are management of the balance between inventory and value (including reorientation of volumes of crude oil and petroleum products from less efficient to more efficient markets), the use of efficient price formulas in sale contracts and the rejection of fixed-price contracts, so far as possible.</p>

**INFLATION RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The Company is exposed to the risk of inflationary increase of its costs in the short and medium term. This risk is greatest with respect to capital costs: the successful execution of a number of investment projects may be threatened.</p>	<p>LUKOIL pays much attention to the control of cost growth, and also to the assessment of this risk in the development of investment projects and when making investment decisions.</p>

**RISKS OF INTEREST RATE CHANGES**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The Company is exposed to significant risk of changes in interest rates in both the short and long term. In particular, it is sensitive to changes in interest rates in European countries. Change of these rates may have an effect on the cost of borrowing by the Company and the scale of its cash flows.</p>	<p>To reduce the effect of this risk, the Company permanently monitors the market situation and works to improve the structure of its debt through an optimal ratio between fixed and floating interest rates, as well as monitoring needs for additional financing and refinancing of existing debt, and increase of debt maturity.</p>

**LIQUIDITY RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The scale of LUKOIL's cash flows is vulnerable to the following risk factors:</p> <ul style="list-style-type: none"> <li>→ Sharp fluctuations in energy prices</li> <li>→ The level of demand for energy</li> <li>→ The amount of taxes, duties and customs payments</li> <li>→ The Company's credit ratings</li> <li>→ Increase of costs</li> </ul> <p>Declining cash flows could lead to a risk of limited access to financing on capital markets.</p>	<p>LUKOIL Group's liquidity management is centralized. A global system of liquidity management has been installed and functions efficiently, including an automated system for concentration and redistribution of cash, corporate dealing, and sliding cash flow projections. Liquidity indicators are permanently monitored.</p> <p>At the end of 2013 LUKOIL has an investment grade rating from all three rating agencies: S&amp;P (rating BBB) (forecast – Stable); Moody's (rating Baa2) (forecast - stable); and Fitch (rating BBB) (forecast – stable). The Company's financial performance is monitored regularly to ensure compliance with the requirements of the rating agencies. No changes in the ratings is expected in the short term.</p>

**CURRENCY RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The Company is exposed to risks of unfavourable changes in exchange rates in the short and medium term, since it operates in many countries. The greatest impact on business results is from the exchange rate of the Russian ruble against the U.S. dollar, as export revenues of the Company are denominated in dollars, while the bulk of the Company costs are incurred in rubles in Russia.</p>	<p>Overall risks associated with adverse changes in exchange rates are accounted for in a consolidated manner by the corporate center as part of LUKOIL's centralized approach to managing liquidity and treasury operations. In some cases, foreign currency risk at trading centers are minimized through operations with derivative financial instruments, carried out as part of corporate dealing. Also, loans are issued to LUKOIL Group organizations in local currencies as part of intra-group financing in order to reduce currency risks.</p>

**CREDIT RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The most significant credit risks for the Company are:</p> <ul style="list-style-type: none"> <li>→ Risks associated with counterparty default in payment for delivered products</li> <li>→ Risks associated with the activities of bank counterparties and possible reduction of their financial stability</li> </ul>	<p>To reduce these risks, the Company is oriented to cooperation with counterparties having high credit ratings, using letters of credit and guarantees of first-class banks. In some cases the Company requires pre-payment for products supplied, and it also uses tools to limit the concentration of credit risks relating to a single counterparty.</p> <p>The Company has centralized treasury operations, including operations to borrow and place cash, foreign exchange operations and operations with derivative financial instruments. The Company constantly monitors the credit rating of bank counterparties and is oriented to cooperation with first-class banks that have a high credit rating.</p>

**LEGAL RISKS****TAX RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>In November 2013, complying with legislation on taxes and duties, the Company submitted a notification of related-party transactions to the tax authorities for the first time. In view of the large number of ambiguities and uncertainties in Section V.1 of the Tax Code and the lack of precedent law in this matter, there are risks that:</p> <ul style="list-style-type: none"> <li>→ The Russian Federal Tax Service may challenge the methods used by the Company to determine prices for tax purposes</li> <li>→ Modalities for special checks of pricing, including the composition and level of detail of requested documents and information</li> </ul> <p>These factors indicate a likelihood of objections, which may lead to additional income tax charged with respect to income (expenses) arising in connection with the related-party transactions, which have been carried out.</p>	<p>The company has taken the following measures to reduce the risk of challenges by tax authorities with respect to methods used to calculated prices that corresponding to fair market levels:</p> <ul style="list-style-type: none"> <li>→ Retaining external consultants, which are international consulting companies with international expertise in the application of transfer pricing legislation</li> <li>→ Launching commercial operation of the Register of Related-Party Transactions (a corporate information system)</li> <li>→ Work on agreements with the Russian Federal Tax Service on transactions pricing in 2013</li> </ul>



**RISKS IN RESPECT OF CURRENCY AND EXPORT REGULATION**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The Company is involved in foreign trade and a part of the assets and liabilities of LUKOIL is denominated in foreign currency, so changes in currency and export regulations may affect Company business.</p> <p>Despite the fact that government policy in recent years has been aimed at liberalization of currency legislation, LUKOIL does not exclude the possibility that foreign exchange and export legislation may be tightened in the context of the global economic crisis.</p>	<p>The Company continuously monitors changes in the current legislation of the Russian Federation, conducts systematic work to analyze and evaluate legislative initiatives and takes them into account in its business, which helps to minimize risks associated with possible changes to legislation.</p>

**RISKS CONCERNING CUSTOMS REGULATION**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>LUKOIL does not exclude the risk of tightening of rules concerning customs control and customs duties. In particular, the issue of changes in the procedure for calculation of export duties on oil and petroleum products is periodically brought for consideration by public authorities (the Russian government, the Russian State Duma). Also, the Federal Law of 23.07.2013 № 213-FZ, 'On amendments to Chapters 25 and 26 of the Tax Code of the Russian Federation and to Article 3.1 of the Law "On Customs Tariffs"' has supplemented the list of situations, in which the Russian government has the right to establish special formulas for calculating the rates of export customs duties on crude oil.</p> <p>However, planned preferences in respect of crude oil and petroleum products, including preferences in respect of oil produced at offshore fields and production of tight reserves, may have positive impact on the Company.</p>	<p>The Company continuously monitors changes in the current legislation of the Russian Federation and takes them into account in its business, which helps to minimize risks associated with these changes.</p>

**RISKS ASSOCIATED WITH CHANGES TO RUSSIAN LEGISLATION CONCERNING JOINT-STOCK COMPANIES AND THE SECURITIES MARKET**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>Possible changes in Russian legislation on joint-stock companies and the securities market, including the structure and competence of management bodies, may require changes in the structure and procedures of Company management, which may adversely affect the decision-making processes and business results.</p>	<p>The Company constantly monitors changes in legislation in this sphere and takes part in preliminary discussion of the proposed changes by the professional community to respond in a timely manner to these risks.</p>

**RISKS ASSOCIATED WITH THE CIRCULATION OF COMPANY SECURITIES**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The Company's securities are traded on regulated markets in Russia and abroad. Changes to the requirements for issuers on the part of securities regulators and stock exchanges, as well as changes in listing structure may require the Company to change its corporate governance procedures and to assume additional commitments with respect to disclosure and communication with shareholders and investors. If the Company is unable to ensure timely compliance with these requirements and to implement the necessary commitments, this may lead to the Company's securities being transferred to lower listing segments or to their delisting, which could adversely affect the liquidity and value of such securities.</p>	<p>The company monitors changes in the listing rules of stock exchanges and other requirements of stock exchanges and regulators in respect of the issuers of traded securities. Company representatives participate in working meetings and other events for issuers, which are held by stock exchanges and by other organizations that provide consulting and educational services to issuers of securities traded on regulated markets. The Company also strives to adhere to international best practices of corporate governance and shareholder relations.</p>



**GEOLOGICAL RISKS****RISKS IN RESPECT OF PROSPECTING DRILLING AND THE DISCOVERY OF NEW FIELDS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>Company business involves the risk that the implementation of new projects and prospecting drilling may not discover productive and commercially viable reserves of oil &amp; gas and/or the risk that discovered reserves may be less than originally planned. In this regard, the Company may be forced to incur additional expenses or to halt work at a number of license areas.</p>	<p>LUKOIL takes steps to manage this risk in a way that enables it to be controlled. In particular, the Company carries out additional seismic and geological exploration, seismic data processing and works to improve methods in 3D field seismic observations.</p>

**RISKS ASSOCIATED WITH MINERAL USE AND LICENSING**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The provisions of current Russian legislation on mineral use and licensing of exploration and production of minerals and the application of this legislation create a number of risks for oil companies, particularly:</p> <ul style="list-style-type: none"> <li>→ The risk of refusal to grant mineral usage rights to the legal entity, which discovered a field with federal significance or a field at an area having federal significance</li> <li>→ The risk of refusal to accept tender documents submitted by mineral-use organizations within LUKOIL Group for participation in competitions/auctions</li> <li>→ The risk that much time may be required for the approval of project design and cost estimate documents for the construction of prospecting and exploration wells</li> <li>→ The risk circumstances may arise, which prevent or significantly impede the implementation of licensing agreements</li> </ul>	<p>The company constantly monitors changes in legislation on mineral use and licensing, and makes proposals for updating of the existing legislative framework. Company oil &amp; gas production units maintain a list of unallocated mineral sites that are of interest to LUKOIL in order to ensure timely decisions on LUKOIL's involvement in competitions/auctions for mineral use. Permanent working groups have been set up to prepare application materials for participation in competitions/auctions and to prepare applications for renewal of licenses. The Company also operates a Mineral-Use Information System, which enables monitoring of the current situation with respect to mineral use and to generate reports and analysis. The Company maintains close information links with regulatory authorities in order to convey timely information on potential problems associated with changes in legislation as well as to obtain timely information for decision-making related to the use of mineral resources.</p>

**ENVIRONMENTAL RISKS AND INDUSTRIAL SAFETY RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>There is a risk of failure of technical equipment at hazardous production facilities, which could lead to accidents, halt of production, releases of hazardous products, environmental damage, fires and accidents, including such occurrences during the development of offshore oil &amp; gas fields.</p> <p>Company activities are also subject to the risk of accidents that may befall tankers carrying oil cargos of LUKOIL Group organizations or performing loading operations at the Company's oil terminals.</p> <p>Such risks may arise due to the unsatisfactory technical condition of tankers and terminal infrastructure, and also as a result of human factors in cargo operations at Company oil terminals.</p>	<p>In order to minimize the likelihood of this risk occurring, the Company has created and successfully operates a system of industrial safety, which ensures continuous monitoring of the state of technical installations and the conduct of measures to prevent accidents at production facilities. The LUKOIL system of industrial safety has been certified compliant with the ISO 14001 and OHSAS 18001 international standards of industrial safety.</p> <p>A system of vetting control has been operated by the Company since 2006, reducing the risk of tanker accidents to a minimum..</p>

**CONSTRUCTION RISKS**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>When implementing investment projects, the Company is exposed to the risk of delayed commissioning of production facilities. The key factors influencing this risk are planning errors, actions by contractors, and risks associated with the state of infrastructure.</p>	<p>LUKOIL pays maximum attention to managing this risk by careful preparation of projects, selection of reliable suppliers and contractors, by obtaining performance guarantees for contractors, and by building partnerships with the operators of infrastructure facilities (state-owned monopolies and government authorities in Russian regions).</p>

**RISK OF SHORTAGES OF QUALIFIED PERSONNEL**

DESCRIPTION OF THE RISK	RISK MANAGEMENT
<p>The growing global shortage of specialists and aging of personnel in the oil &amp; gas industry are forcing foreign companies to turn their attention to the Russian labor market. This increases the risk of higher demand for such specialists in Russia and growth of their wages. Possible consequences include the growth of labor costs or the need to modernize production in order to reduce manpower needs, and such developments could have negative impact on the Company's financial results.</p>	<p>In order to reduce the negative effect of this risk LUKOIL pays great attention to comprehensive development of human resources. The Company has created and is expanding a personnel reserve consisting of the most experienced and prospective employees, and much attention to encouraging young professionals and university graduates to come and work at the Company.</p>





# **OAO LUKOIL CONSOLIDATED FINANCIAL STATEMENTS**

(prepared in accordance  
with US GAAP)

As of December 31, 2013  
and 2012 and for each  
of the years in the three-year  
period ended December 31, 2013



ZAO «KPMG»  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123317

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Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## Auditors' Report

To the Board of Directors  
OAO LUKOIL

We have audited the accompanying consolidated financial statements of OAO LUKOIL and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the consolidated statements of comprehensive income, stockholders' equity and cash flows for 2013, 2012 and 2011, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Open Joint Stock Company "Oil company "LUKOIL"

Registered by Moscow Registration Chamber on 22 of April 1993,  
Registration No. 024020.

Entered in the Unified State Register of Legal Entities on 17 July  
2002 by Department of Ministry of Taxes and Duties, Registration  
No. 1027700035769, Certificate series 77 No 007892347

11, Sretensky Boulevard, Moscow, Russia, 101000

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration  
No. 011.585.

Included in the Unified State Register of Legal Entities on 13 August 2002 by the  
Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties  
of the Russian Federation, Registration No. 1027700125628, Certificate series  
77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia".  
The Principal Registration Number of the Entry in the State Register of Auditors  
and Audit Organisations: No.10301000804.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for 2013, 2012 and 2011 in accordance with U.S. generally accepted accounting principles.

**Other Matter**

U.S. generally accepted accounting principles require that the Supplementary Information on Oil and Gas Exploration and Production Activities on pages 40 through 46 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Sloutsky E.A.  
Director, power of attorney No. 86/13 dated October 1, 2013  
ZAO KPMG

February 17, 2014  
Moscow, Russian Federation

**OAo LUKOIL Consolidated Balance Sheets**  
**As of December 31, 2013 and 2012**  
 (Millions of US dollars, unless otherwise noted)

	Note	2013	2012
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	1,712	2,914
Short-term investments		363	286
Accounts receivable, net	5	7,943	8,667
Inventories	6	8,801	8,098
Prepaid taxes and other expenses		3,801	3,541
Other current assets		775	767
<b>Total current assets</b>		<b>23,395</b>	<b>24,273</b>
Investments	7	4,255	4,124
Property, plant and equipment	8, 9	78,466	66,883
Deferred income tax assets	13	684	569
Goodwill and other intangible assets	10	1,300	1,964
Other non-current assets		1,339	1,148
<b>Total assets</b>		<b>109,439</b>	<b>98,961</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable		7,335	7,263
Short-term borrowings and current portion of long-term debt	11	1,338	658
Taxes payable		2,501	2,802
Other current liabilities		1,923	1,730
<b>Total current liabilities</b>		<b>13,097</b>	<b>12,453</b>
Long-term debt	12, 16	9,483	5,963
Deferred income tax liabilities	13	4,724	3,651
Asset retirement obligations	8	2,764	2,195
Other long-term liabilities		516	511
<b>Total liabilities</b>		<b>30,584</b>	<b>24,773</b>
<b>Equity</b>	<b>15</b>		
<b>OAo LUKOIL stockholders' equity</b>			
Common stock		15	15
Treasury stock, at cost		(5,189)	(5,189)
Equity-linked notes		(2,500)	(2,500)
Additional paid-in capital		4,574	4,734
Retained earnings		81,733	76,216
Accumulated other comprehensive loss		(55)	(69)
<b>Total OAo LUKOIL stockholders' equity</b>		<b>78,578</b>	<b>73,207</b>
Non-controlling interests		277	981
<b>Total equity</b>		<b>78,855</b>	<b>74,188</b>
<b>Total liabilities and equity</b>		<b>109,439</b>	<b>98,961</b>

President of OAo LUKOIL

Alekperov V.Y.

Vice-president –  
Chief accountant of OAo LUKOIL

Khoba L.N.

The accompanying notes are an integral part of these consolidated financial statements.

**OAo LUKOIL Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2013, 2012 and 2011**  
(Millions of US dollars, unless otherwise noted)

	Note	2013	2012	2011
<b>Revenues</b>				
Sales (including excise and export tariffs)	21	141,452	139,171	133,650
<b>Costs and other deductions</b>				
Operating expenses		(10,086)	(9,359)	(9,055)
Cost of purchased crude oil, gas and products		(65,924)	(64,148)	(59,694)
Transportation expenses		(6,290)	(6,171)	(6,121)
Selling, general and administrative expenses		(3,849)	(3,755)	(3,822)
Depreciation, depletion and amortization		(5,756)	(4,832)	(4,473)
Taxes other than income taxes	13	(13,803)	(13,666)	(12,918)
Excise and export tariffs		(22,334)	(22,836)	(22,217)
Exploration expenses		(602)	(364)	(532)
(Loss) gain on disposals and impairments of assets		(2,561)	30	(1,663)
<b>Income from operating activities</b>		<b>10,247</b>	<b>14,070</b>	<b>13,155</b>
Interest expense		(488)	(538)	(694)
Interest and dividend income		239	257	211
Equity share in income of affiliates	7	575	518	690
Currency translation loss		(443)	(512)	(301)
Other non-operating income (expense)		328	(72)	58
<b>Income before income taxes</b>		<b>10,458</b>	<b>13,723</b>	<b>13,119</b>
Current income taxes		(2,051)	(2,738)	(2,678)
Deferred income taxes		(780)	(60)	(615)
<b>Total income tax expense</b>	<b>13</b>	<b>(2,831)</b>	<b>(2,798)</b>	<b>(3,293)</b>
<b>Net income</b>		<b>7,627</b>	<b>10,925</b>	<b>9,826</b>
Net loss attributable to non-controlling interests		205	79	531
<b>Net income attributable to OAo LUKOIL</b>		<b>7,832</b>	<b>11,004</b>	<b>10,357</b>
<b>Earnings per share of common stock attributable to OAo LUKOIL (US dollars):</b>				
	15			
Basic		10.38	14.47	13.30
Diluted		10.18	14.17	13.04
<b>Other comprehensive income, net of tax:</b>				
Defined benefit pension plan:				
Prior service cost arising during the period		8	-	22
Actuarial gain (loss)		6	(15)	(9)
<b>Other comprehensive income (loss)</b>		<b>14</b>	<b>(15)</b>	<b>13</b>
<b>Comprehensive income</b>		<b>7,641</b>	<b>10,910</b>	<b>9,839</b>
Comprehensive loss attributable to non-controlling interests		205	79	531
<b>Comprehensive income attributable to OAo LUKOIL</b>		<b>7,846</b>	<b>10,989</b>	<b>10,370</b>

The accompanying notes are an integral part of these consolidated financial statements.

**OAo LUKOIL Consolidated Statements of Stockholders' Equity**  
**For the years ended December 31, 2013, 2012 and 2011**  
(Millions of US dollars, unless otherwise noted)

	2013		2012		2011	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
<b>Common stock</b>						
Balance as of January 1	15		15		15	
<b>Balance as of December 31</b>	<b>15</b>		<b>15</b>		<b>15</b>	
<b>Treasury stock</b>						
Balance as of January 1	(5,189)		(4,081)		(3,683)	
Stock purchased	-		(128)		(398)	
Equity-linked notes conversion	-		(980)		-	
<b>Balance as of December 31</b>	<b>(5,189)</b>		<b>(5,189)</b>		<b>(4,081)</b>	
<b>Equity-linked notes</b>						
Balance as of January 1	(2,500)		(980)		(980)	
Equity-linked notes purchased	-		(2,500)		-	
Equity-linked notes conversion	-		980		-	
<b>Balance as of December 31</b>	<b>(2,500)</b>		<b>(2,500)</b>		<b>(980)</b>	
<b>Additional paid-in capital</b>						
Balance as of January 1	4,734		4,798		4,700	
Effect of stock compensation plan	-		(197)		98	
Changes in non-controlling interests	(160)		133		-	
<b>Balance as of December 31</b>	<b>4,574</b>		<b>4,734</b>		<b>4,798</b>	
<b>Retained earnings</b>						
Balance as of January 1	76,216		67,940		59,212	
Net income	7,832	7,832	11,004	11,004	10,357	10,357
Dividends on common stock	(2,315)		(2,728)		(1,629)	
<b>Balance as of December 31</b>	<b>81,733</b>		<b>76,216</b>		<b>67,940</b>	
<b>Accumulated other comprehensive loss, net of tax</b>						
Balance as of January 1	(69)		(54)		(67)	
Pension benefits:						
Prior service cost	8	8	-	-	22	22
Actuarial gain (loss)	6	6	(15)	(15)	(9)	(9)
<b>Balance as of December 31</b>	<b>(55)</b>		<b>(69)</b>		<b>(54)</b>	
Total comprehensive income		7,846		10,989		10,370
<b>Total OAO LUKOIL stockholders' equity as of December 31</b>	<b>78,578</b>		<b>73,207</b>		<b>67,638</b>	
<b>Non-controlling interests</b>						
Balance as of January 1	981		(172)		411	
Net loss attributable to non-controlling interests	(205)		(79)		(531)	
Changes in non-controlling interests	(499)		1,232		(52)	
<b>Balance as of December 31</b>	<b>277</b>		<b>981</b>		<b>(172)</b>	
<b>Total equity as of December 31</b>	<b>78,855</b>		<b>74,188</b>		<b>67,466</b>	

The accompanying notes are an integral part of these consolidated financial statements.



**ОАО LUKOIL Consolidated Statements of Stockholders' Equity**  
**For the years ended December 31, 2013, 2012 and 2011**  
(Millions of US dollars, unless otherwise noted)

	Share activity		
	2013	2012	2011
	(thousands of shares)	(thousands of shares)	(thousands of shares)
<b>Common stock, issued</b>			
Balance as of January 1	850,563	850,563	850,563
<b>Balance as of December 31</b>	<b>850,563</b>	<b>850,563</b>	<b>850,563</b>
<b>Treasury stock</b>			
Balance as of January 1	(95,697)	(76,101)	(69,208)
Purchase of treasury stock	-	(2,096)	(6,893)
Equity-linked notes conversion	-	(17,500)	-
<b>Balance as of December 31</b>	<b>(95,697)</b>	<b>(95,697)</b>	<b>(76,101)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**OAo LUKOIL Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2013, 2012 and 2011**  
(Millions of US dollars)

	Note	2013	2012	2011
<b>Cash flows from operating activities</b>				
<b>Net income attributable to OAo LUKOIL</b>		<b>7,832</b>	<b>11,004</b>	<b>10,357</b>
Adjustments for non-cash items:				
Depreciation, depletion and amortization		5,756	4,832	4,473
Equity share in income of affiliates, net of dividends received		(20)	102	185
Dry hole write-offs		314	127	417
Loss (gain) on disposals and impairments of assets		2,561	(30)	1,663
Deferred income taxes		780	60	615
Non-cash currency translation (gain) loss		(207)	293	(214)
Non-cash investing activities		(5)	(18)	(6)
All other items – net		501	334	(210)
Changes in operating assets and liabilities:				
Trade accounts receivable		816	641	(758)
Inventories		(1,105)	(126)	(1,420)
Accounts payable		(366)	820	648
Taxes payable		(313)	468	177
Other current assets and liabilities		(95)	490	(413)
<b>Net cash provided by operating activities</b>		<b>16,449</b>	<b>18,997</b>	<b>15,514</b>
<b>Cash flows from investing activities</b>				
Acquisition of licenses		(849)	(921)	(25)
Capital expenditures		(14,957)	(11,647)	(8,249)
Proceeds from sale of property, plant and equipment		99	412	156
Purchases of investments		(559)	(453)	(101)
Proceeds from sale of investments		315	252	79
Sale of subsidiaries and equity method affiliates, net of cash disposed		97	27	227
Acquisitions of subsidiaries and equity method affiliates, net of cash acquired		(2,785)	(886)	(1,100)
<b>Net cash used in investing activities</b>		<b>(18,639)</b>	<b>(13,216)</b>	<b>(9,013)</b>
<b>Cash flows from financing activities</b>				
Net movements of short-term borrowings		25	(32)	(633)
Proceeds from issuance of long-term debt		5,049	597	1
Principal repayments of long-term debt		(949)	(1,831)	(1,372)
Dividends paid on Company common stock		(2,383)	(2,800)	(1,714)
Dividends paid to non-controlling interest stockholders		(126)	(113)	(116)
Financing received from non-controlling interest stockholders		2	2	3
Purchases of Company's stock		–	(128)	(398)
Purchases of equity-linked notes		–	(740)	(1,760)
Purchases of non-controlling interest		(589)	(635)	(34)
<b>Net cash provided by (used in) financing activities</b>		<b>1,029</b>	<b>(5,680)</b>	<b>(6,023)</b>
Effect of exchange rate changes on cash and cash equivalents		(41)	60	(93)
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(1,202)</b>	<b>161</b>	<b>385</b>
Cash and cash equivalents at beginning of year		2,914	2,753	2,368
<b>Cash and cash equivalents at end of year</b>	<b>3</b>	<b>1,712</b>	<b>2,914</b>	<b>2,753</b>
Supplemental disclosures of cash flow information				
Interest paid		405	497	683
Income taxes paid		2,452	1,585	2,508

The accompanying notes are an integral part of these consolidated financial statements.

→ NOTE 1.

**ORGANIZATION AND ENVIRONMENT**

The primary activities of OA O LUKOIL (the “Company”) and its subsidiaries (together, the “Group”) are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

***Business and economic environment***

The accompanying consolidated financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management’s assessment.

***Basis of preparation***

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

→ NOTE 2.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of consolidation***

These consolidated financial statements include the financial position and results of the Company, controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless non-controlling stockholders have substantive participating rights, and variable interest entities where the Group is determined to be the primary beneficiary. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in companies of which the Company directly or indirectly owns more than 50% of the voting interest but where non-controlling stockholders have substantive participating rights are also accounted for using the equity method of accounting.

Undivided interests in oil and gas joint ventures are accounted for using the proportionate consolidation method. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in “Investments” in the consolidated balance sheet.

***Use of estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties and other property, plant and equipment, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

***Revenues***

Revenues are recognized when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products’ sales and duties on export sales of crude oil and petroleum products.

Revenues from non-cash sales are recognized at the fair value of the crude oil and petroleum products sold.

***Foreign currency translation***

The Company maintains its accounting records in Russian rubles. The Company’s functional currency is the US dollar and the Group’s reporting currency is the US dollar.

For the majority of operations in the Russian Federation and outside the Russian Federation, the US dollar is the functional currency. Where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in profit or loss.

For certain other operations, where the US dollar is not the functional currency and the economy is not highly inflationary, assets and liabilities are translated into US dollars at period-end exchange rates and revenues and expenses are translated at average exchange rates for the period. Resulting translation adjustments are reflected as a separate component of other comprehensive income.

In all cases, foreign currency transaction gains and losses are included in profit or loss.

As of December 31, 2013, 2012 and 2011, exchange rates of 32.73, 30.37 and 32.20 Russian rubles to the US dollar, respectively, have been used for translation purposes.

#### **Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

#### **Cash with restrictions on immediate use**

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

#### **Accounts receivable**

Accounts receivable are recorded at their transaction amounts less provisions for doubtful debts. Provisions for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be collected. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

#### **Inventories**

The cost of finished goods and purchased products is determined using the first-in, first-out cost method (FIFO). The cost of all other inventory categories is determined using the "average cost" method.

#### **Investments**

Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity.

Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities in which a Group company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in profit or loss. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividends and interest income are recognized in profit or loss when earned.

A permanent decline in the market value of any available-for-sale or held-to-maturity security below cost is accounted for as a reduction in the carrying amount to fair value. The impairment is charged to profit or loss and a new cost base for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method and such amortization and accretion is recorded in profit or loss.

#### **Property, plant and equipment**

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes and the Group's share of operators' expenses during the development stage of production sharing and risk service contracts), and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

The Group continues to capitalize costs of exploratory wells and exploratory-type stratigraphic wells for more than one year after the completion of drilling if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress towards assessing the reserves and the economic and operating viability of the project. If these conditions are not met or if information that raises substantial doubt about the economic or operational viability of the project is obtained, the well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense.

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Production and related overhead costs are expensed as incurred.

Depreciation of assets not directly associated with oil production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	5 – 20 years

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalized only to the extent that they are expected to result in future economic benefits to the Group. If capitalized, they are depreciated over their estimated economic lives.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

#### ***Asset retirement obligations***

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the unit-of-production method.

#### ***Goodwill and other intangible assets***

Goodwill represents the excess of the cost of an acquired entity over the fair value of net assets acquired. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires assessing qualitative factors and then, if it is necessary, estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

#### ***Impairment of long-lived assets***

Long lived assets, such as oil and gas properties (other than unproved properties), other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

#### ***Income taxes***

Deferred income tax assets and liabilities are recognized in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in profit or loss in the reporting period which includes the enactment date.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to income tax in income tax expense.

#### ***Interest-bearing borrowings***

Interest-bearing borrowings from third parties (except convertible notes) are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in profit or loss and the carrying amounts are adjusted as amortization accumulates.

For borrowings from related parties (except convertible notes) issued with an interest rate lower than the market interest rate, the Group determines book value using a market interest rate at the moment the borrowing is made. The resulting difference is allocated to additional paid-in capital and is amortized at a constant rate over the term of the borrowings. Amortization is included in profit or loss each period and the carrying amounts are adjusted as amortization accumulates.

For convertible notes issued with a cash conversion option, the Group allocates the proceeds from issuance between a liability component and an equity component. The Group records

the equity component at an amount equal to the difference between the proceeds received and the fair value of the liability component, measured as the fair value of a similar liability that does not have an associated equity component. The Group recognizes the interest cost in subsequent periods at its borrowing rate for non-convertible debt.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in profit or loss in the period in which the repurchase or settlement occurs.

#### ***Pension benefits***

The expected costs in respect of pension obligations of Group companies are determined by management based on the amount of pension obligations for the previous financial year calculated by an independent actuary. Obligations in respect of each employee are accrued over the periods during which the employee renders service in the Group.

#### ***Treasury stock***

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Shares shown as Authorized and Issued include treasury stock. Shares shown as Outstanding do not include treasury stock.

#### ***Earnings per share***

Basic earnings per share is computed by dividing net income available for distribution to common stockholders of the Company by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share is presented.

#### ***Contingencies***

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

If a Group company's assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to profit or loss. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be reasonably estimated, then

the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote or related to unasserted claims are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

#### ***Environmental expenditures***

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

#### ***Use of derivative instruments***

The Group's derivative activity is limited to certain petroleum products' marketing and trading operations and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in profit or loss on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

#### ***Share-based payments***

The Group accounts for liability classified share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

#### ***Comparative amounts***

Certain prior period amounts have been reclassified to conform with the current period's presentation.

#### ***Changes in accounting policy***

In February 2013, the FASB issued ASU No. 2013-02, "*Comprehensive Income (Topic 220)*," that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement

where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. ASU No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The Group adopted the requirements of ASU No. 2013-02 starting from the first quarter of 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2013, the FASB issued ASU No. 2013-01 *"Balance Sheet (Topic 20). Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities."* This ASU clarifies that scope of ASU No. 2011-11 *"Disclosures about Offsetting Assets and Liabilities"* applies to derivatives accounted for in accordance with Topic 815 *"Derivatives and Hedging,"* including derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The purpose of ASU No. 2013-01 and ASU No. 2011-11 is to require entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The Group adopted the requirements of ASU No. 2013-01 and ASU No. 2011-11 starting from the first quarter of 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

#### **Recent accounting pronouncements**

In July 2013, the FASB issued ASU No. 2013-11, *"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,"* which clarifies Topic 740 of the Codification. This ASU states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively. The Group is evaluating the effect of the adoption of ASU No. 2013-11 and does not expect any material impact on its results of operations, financial position or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, *"Foreign Currency Matters (Topic 830),"* that requires entities to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity

ceases to have financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon occurrence of those events. ASU No. 2013-05 is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods, and should be applied prospectively. The Group is evaluating the effect of the adoption of ASU No. 2013-05 and does not expect any material impact on its results of operations, financial position or cash flows.

→ NOTE 3.

CASH AND CASH EQUIVALENTS

	As of December 31, 2013	As of December 31, 2012
Cash held in Russian rubles	260	571
Cash held in US dollars	1,120	1,816
Cash held in other currencies	241	403
Cash held in related party banks in Russian rubles	78	117
Cash held in related party banks in other currencies	13	7
<b>Total cash and cash equivalents</b>	<b>1,712</b>	<b>2,914</b>

→ NOTE 4.

NON-CASH TRANSACTIONS

The consolidated statement of cash flows excludes the effect of non-cash transactions, which are described in the following table.

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Non-cash investing activity	5	18	6
<b>Total non-cash transactions</b>	<b>5</b>	<b>18</b>	<b>6</b>

The following table shows the effect of non-cash transactions on investing activity.

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net cash used in investing activity	18,639	13,216	9,013
Non-cash investing activity	5	18	6
<b>Total investing activity</b>	<b>18,644</b>	<b>13,234</b>	<b>9,019</b>

→ NOTE 5.

ACCOUNTS RECEIVABLE, NET

	As of December 31, 2013	As of December 31, 2012
Trade accounts receivable (net of provisions of \$217 million and \$247 million as of December 31, 2013 and 2012, respectively)	6,030	6,431
Current VAT and excise recoverable	1,518	1,862
Other current accounts receivable (net of provisions of \$53 million and \$57 million as of December 31, 2013 and 2012, respectively)	395	374
<b>Total accounts receivable, net</b>	<b>7,943</b>	<b>8,667</b>



→ NOTE 6.  
INVENTORIES

	As of December 31, 2013	As of December 31, 2012
Crude oil and petroleum products	7,461	6,765
Materials for extraction and drilling	411	387
Materials and supplies for refining	110	93
Other goods, materials and supplies	819	853
<b>Total inventories</b>	<b>8,801</b>	<b>8,098</b>

→ NOTE 7.  
INVESTMENTS

	As of December 31, 2013	As of December 31, 2012
Investments in equity method affiliates and joint ventures	2,872	2,794
Long-term loans to equity method affiliates and joint ventures	1,369	1,312
Other long-term investments	14	18
<b>Total long-term investments</b>	<b>4,255</b>	<b>4,124</b>

*Investments in equity method affiliates and corporate joint ventures*

The summarized financial information below is in respect of equity method affiliates and corporate joint ventures. The companies are

primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan, and refining operations in Europe.

	Year ended December 31, 2013		Year ended December 31, 2012		Year ended December 31, 2011	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	29,821	3,011	29,618	4,160	32,770	4,777
Income before income taxes	13,572	848	13,617	945	13,832	1,005
Less income taxes	(4,414)	(273)	(5,387)	(427)	(4,241)	(315)
<b>Net income</b>	<b>9,158</b>	<b>575</b>	<b>8,230</b>	<b>518</b>	<b>9,591</b>	<b>690</b>

**ОАО LUKOIL Notes to Consolidated Financial Statements**  
(Millions of US dollars, except as indicated)

	As of December 31, 2013		As of December 31, 2012	
	Total	Group's share	Total	Group's share
Current assets	6,352	924	6,399	983
Property, plant and equipment	21,105	4,260	18,738	4,015
Other non-current assets	572	169	523	167
<b>Итого активы</b>	<b>28,029</b>	<b>5,353</b>	<b>25,660</b>	<b>5,165</b>
Short-term debt	1,241	334	1,182	277
Other current liabilities	3,525	454	3,409	496
Long-term debt	7,949	1,409	7,717	1,256
Other non-current liabilities	1,574	284	1,406	342
<b>Net assets</b>	<b>13,740</b>	<b>2,872</b>	<b>11,946</b>	<b>2,794</b>

In April 2011, the Company and ОАО ANK Bashneft signed an agreement to establish a joint venture and to develop two oil fields named after R.Trebs and A.Titov, located in the Nenets Autonomous District of Russia. According to the agreement, the mineral rights for the development of the fields were re-issued by ОАО ANK Bashneft in favor of its 100% subsidiary OOO Bashneft-Polus. In December 2011, the Company acquired 25.1% of OOO Bashneft-Polus for \$153 million, and OOO Bashneft-Polus acquired 29 exploration wells located on these fields from a Group company for \$60 million. The parties agreed to transport oil extracted from the fields via the Group's

transportation infrastructure and to consider the exploitation of certain other nearby infrastructure owned by the Group. In May 2012, state authorities cancelled the order to transfer the mineral rights for the development of the fields named after R.Trebs and A.Titov to the joint venture and the license was returned to ОАО ANK Bashneft. Management does not believe that this matter will have a material adverse effect on the Group's financial condition. The Company and ОАО ANK Bashneft are continuing cooperation within the project and are carrying out actions for re-issuance of the mineral rights by the state authorities in favor of OOO Bashneft-Polus.

→ NOTE 8.

PROPERTY, PLANT AND EQUIPMENT AND ASSET RETIREMENT OBLIGATIONS

	At cost		Net	
	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
Exploration and Production:				
Russia	72,944	61,541	47,957	39,391
International	12,770	9,700	10,052	7,487
<b>Total</b>	<b>85,714</b>	<b>71,241</b>	<b>58,009</b>	<b>46,878</b>
Refining, Marketing, Distribution and Chemicals:				
Russia	14,684	13,182	8,631	7,841
International	10,577	10,297	7,274	7,375
<b>Total</b>	<b>25,261</b>	<b>23,479</b>	<b>15,905</b>	<b>15,216</b>
Power generation and other:				
Russia	5,655	5,621	4,285	4,501
International	411	429	267	288
<b>Total</b>	<b>6,066</b>	<b>6,050</b>	<b>4,552</b>	<b>4,789</b>
<b>Total property, plant and equipment</b>	<b>117,041</b>	<b>100,770</b>	<b>78,466</b>	<b>66,883</b>

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually. The fair value of tested assets is determined using the present value of the expected cash flows. Fair value measurements models used in the impairment tests were Level 3 (unobservable inputs) fair value measurements.

As a result of the test, during the year ended December 31, 2013, the Company recognized an impairment loss for its exploration and production assets in the amount of \$941, including \$510 million related to the Yuzhnoye Khylychuyu oil field in the Timan-Pechora region of the Russian Federation, due to a revision of geological models.

An impairment loss of \$178 million was recognized in the refining, marketing and distribution segment due to unfavorable market conditions.

The Company recognized an impairment loss for assets of OOO Karpatnaftochim, a petrochemical plant in Ukraine, in the amount of \$411 million due to unfavorable economic conditions.

The Company also recognized an impairment loss for assets of OOO LUKOIL-Ecoenergo, a power generating company in European Russia, in the amount of \$270 million due to unfavorable market conditions in the energy sector in Southern Russia.

During the year ended December 31, 2011, the Company recognized an impairment loss for exploration and production assets on the Yuzhnoye Khylychuyu oil field in the amount of \$1,175 million, as well as an impairment loss of \$175 million for assets related to the international refining, marketing and distribution segment.

The following table sets out values of property, plant and equipment measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

	Fair value	Level 3 fair value measurements	Before-tax loss
<b>Year ended December 31, 2013</b>			
Property, plant and equipment	374	374	1,800
<b>Year ended December 31, 2012</b>			
Property, plant and equipment	-	-	-
<b>Year ended December 31, 2011</b>			
Property, plant and equipment	1,195	1,195	1,350

As of December 31, 2013 and 2012, the asset retirement obligations amounted to \$2,769 million and \$2,200 million, respectively, of which \$5 million was included in

"Other current liabilities" in the consolidated balance sheets as of each balance sheet date.

During 2013 and 2012, asset retirement obligations changed as follows:

	2013	2012
Asset retirement obligations as of January 1	2,200	2,126
Accretion expense	181	172
New obligations	814	147
Changes in estimates of existing obligations	(270)	(263)
Spending on existing obligations	(4)	(5)
Property dispositions	(2)	(10)
Foreign currency translation and other adjustments	(150)	33
<b>Asset retirement obligations as of December 31</b>	<b>2,769</b>	<b>2,200</b>

The asset retirement obligations incurred during 2013 and 2012 were Level 3 (unobservable inputs) fair value measurements.

→ NOTE 9.

SUSPENDED WELLS

Net changes in capitalized exploratory suspended well costs during 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Balance as of January 1	524	542	478
Additions pending the determination of proved reserves	62	25	97
Charged to expenses	(92)	-	-
Reclassification to proved properties	(24)	(43)	(33)
<b>Balance as of December 31</b>	<b>470</b>	<b>524</b>	<b>542</b>

Aging of capitalized suspended exploratory well costs were as follows:

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
<b>Exploratory well costs capitalized</b>			
for a period of one year or less	56	21	78
for two years	11	66	144
for three years	66	133	72
for four years	41	67	82
for five years or more	296	237	166
for a period of greater than one year	414	503	464
<b>Total exploratory well costs capitalized</b>	<b>470</b>	<b>524</b>	<b>542</b>
Number of projects that have exploratory well costs capitalized for a period greater than one year	7	8	14

Aging of the exploratory wells that have been capitalized for more than one year since completion of drilling as of December 31, 2013:

Project name (field name)	Location	As of December 31, 2013	Years wells drilled
Block A	Saudi Arabia	255	2007-2010
Centralno-Astrakhanskoe	European Russia	73	2007-2009
Independence	Cote d'Ivoire	66	2011
Aral	Uzbekistan	9	2010-2012
Yuzho-Volodarskaya ploschad	European Russia	5	2012
Dzherskoe	European Russia	3	2012
Lyaelskaya ploschad	European Russia	3	2007
<b>Total of 7 projects</b>		<b>414</b>	

Capitalized exploratory well costs of \$255 million that are related to two fields in the "Block A" area in Saudi Arabia are represented by four wells drilled in 2007-2010. The wells were suspended pending final assessment of the operational and economic viability of the project. During 2011, the Group engaged an international engineering survey company to evaluate recompletion options for the wells, to prove the commercialization potential of the appraisal area and to optimize the stimulation technology for its development. During 2012, the Group and its project partner, Saudi Arabian Oil Company, agreed the approach to reserves estimation, products yield as well as pricing and marketing matters and possible ways of project cost efficiency improvement. During 2013, the Group held a meeting with the representatives of the Ministry of Petroleum and Mineral Resources of Saudi Arabia. Based on the meeting results, the Group management decided to proceed further with the project and commence preparatory works for the first stage of field evaluation.

Capitalized exploratory well costs of \$73 million that are related to the Centralno-Astrakhanskoe gas field in the European part of Russia are represented by one exploratory well. Seismic and geophysical works, as well as drilling of structural wells are planned on the field during 2014-2015 in order to determine the position of future exploratory wells.

Capitalized exploratory well costs of \$66 million that are related to block "CI-401" in Cote d'Ivoire are represented by one exploratory well. During 2012, the Group, together with other participants, began appraisal activities. One appraisal well was drilled in 2013, and the presence of reserves within the block and its complex field structure was confirmed. Management plans to drill a second appraisal well in 2014.

The Company is evaluating the development plans for the other projects.

→ NOTE 10.

**GOODWILL AND OTHER INTANGIBLE ASSETS**

The carrying value of goodwill and other intangible assets as of December 31, 2013 and 2012 was as follows.

	As of December 31, 2013	As of December 31, 2012
Amortized intangible assets		
Software	382	419
Licenses and other assets	311	276
Goodwill	607	1,269
<b>Total goodwill and other intangible assets</b>	<b>1,300</b>	<b>1,964</b>

All goodwill relates to the refining, marketing and distribution segment. In December 2013, the Group recognized an impairment loss of \$646 million relating to goodwill on the acquisition of the ISAB refining complex due to changes in the economic environment. There were other minor changes in goodwill relating

to the international refining, marketing and distribution segment in the amount of \$16 million. The fair value of ISAB and other tested assets was determined using the present value of the expected cash flows.

→ NOTE 11.

**SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM DEBT**

	As of December 31, 2013	As of December 31, 2012
Short-term borrowings from third parties	124	113
Short-term borrowings from related parties	32	13
Current portion of long-term debt	1,182	532
<b>Total short-term borrowings and current portion of long-term debt</b>	<b>1,338</b>	<b>658</b>

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of \$66 million and \$54 million, amounts repayable in euros of \$9 million and \$11 million and amounts repayable in other currencies of

\$49 million and \$48 million as of December 31, 2013 and 2012, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.71% and 5.75% per annum as of December 31, 2013 and 2012, respectively.

→ NOTE 12.

LONG-TERM DEBT

	As of December 31, 2013	As of December 31, 2012
Long-term loans and borrowings from third parties (including loans from banks in the amount of \$2,660 million and \$885 million as of December 31, 2013 and 2012, respectively)	2,662	1,287
7.40% Russian ruble bonds, maturing 2013	–	198
6.375% non-convertible US dollar bonds, maturing 2014	899	898
2.625% convertible US dollar bonds, maturing 2015	1,462	1,436
6.356% non-convertible US dollar bonds, maturing 2017	500	500
3.416% non-convertible US dollar bonds, maturing 2018	1,500	–
7.250% non-convertible US dollar bonds, maturing 2019	597	596
6.125% non-convertible US dollar bonds, maturing 2020	998	998
6.656% non-convertible US dollar bonds, maturing 2022	500	500
4.563% non-convertible US dollar bonds, maturing 2023	1,500	–
Capital lease obligations	47	82
<b>Total long-term debt</b>	<b>10,665</b>	<b>6,495</b>
Current portion of long-term debt	(1,182)	(532)
<b>Total non-current portion of long-term debt</b>	<b>9,483</b>	<b>5,963</b>

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of \$2,121 million and \$1,037 million, amounts repayable in euros of \$521 million and \$230 million and amounts repayable in other currencies of \$20 million and \$20 million as of December 31, 2013 and 2012, respectively. This debt has maturity dates from 2014 through 2024. The weighted-average interest rate on long-term loans and borrowings from third parties was 2.94% and 2.28% per annum as of December 31, 2013 and 2012, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 21% of total long-term loans and borrowings from third parties are secured by export sales and property, plant and equipment.

The Company has an unsecured loan agreement with Sberbank with an outstanding amount of \$1,500 million as of December 31, 2013, maturing up to 2018. Borrowings under this agreement bear interest at twelve month LIBOR plus 2.50% per annum.

The Company has an unsecured loan agreement with ING Bank, a branch of ING-DIBA AG, Societe Generale, UniCredit Bank Austria AG, UniCredit S.p.A. and BNP Paribas Fortis SA/NV with an outstanding amount of \$337 million as of December 31, 2013, maturing up to 2023. Borrowings under this agreement bear interest at six month EURIBOR plus 2.50% per annum.

A Group company has a secured loan agreement with Asian Development bank, BNP Paribas (Suisse), Credit Agricole Corporate and Investment bank, the Korea Development bank and Islamic Development bank with an outstanding amount of \$289 million as of December 31, 2013, maturing up to 2017. Borrowings under this agreement, depending on the tranche, bear interest at a floating rate of three month LIBOR plus 3.00%, three month LIBOR plus 4.50% or fixed rate of 6.08% per annum.

A Group company has a secured loan agreement with Bank of China Limited, Industrial and Commercial Bank of China (London) and Sumitomo Mitsui Banking Corporation with an outstanding amount of \$100 million as of December 31, 2013, maturing up to 2018. Borrowings under this agreement bear interest at three month LIBOR plus 3.00% per annum.

As of December 31, 2013, the Group has a number of other loan agreements with fixed rates with a number of banks and other organizations totaling \$5 million, maturing up to 2023. The weighted average interest rate under these loans was 2.92% per annum.

As of December 31, 2013, the Group has a number of other floating rate loan agreements with a number of banks and other organizations totaling \$431 million, maturing up to 2024. The weighted average interest rate under these loans was 1.66% per annum.

### **US dollar convertible bonds**

In December 2010, a Group company issued unsecured convertible bonds totaling \$1.5 billion with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds are convertible into LUKOIL ADRs (each representing one ordinary share of the Company) and as of December 31, 2013 had a conversion price of \$69.39 per ADR. Bondholders have the right to convert the bonds into LUKOIL ADRs during the period starting from 40 days after the issue date and ending 6 dealing days before the maturity date. The issuer has the right to redeem the bonds after December 31, 2013.

### **US dollar non-convertible bonds**

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion. The first tranche totaling \$1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion with a coupon yield of 6.125% and maturity in 2020. The first tranche totaling \$800 million was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling \$1.5 billion. The first tranche totaling \$900 million with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling \$600 million with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling \$1 billion. \$500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

### **Russian ruble bonds**

In December 2006, the Company issued 6 million non-convertible bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 7 years and a coupon

yield of 7.40% per annum. The bonds had a half year coupon period. In December 2013, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

### **Maturities of long-term debt**

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are \$1,182 million in 2014, \$1,708 million in 2015, \$218 million in 2016, \$638 million in 2017, \$3,090 million in 2018 and \$3,829 million thereafter.

### **→ NOTE 13. TAXES**

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The total cost of taxation to the Group is reported in the consolidated statements of comprehensive income as "Total income tax expense" for income taxes, as "Excise and export tariffs" for excise taxes, export tariffs and petroleum products sales taxes and as "Taxes other than income taxes" for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

As of January 1, 2013 and 2012, and during 2013, 2012 and 2011, the Group did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were accrued.

The Company and its Russian subsidiaries file income tax returns in Russia. With a few exceptions, income tax returns in Russia are open to examination by the Russian tax authorities for tax years beginning in 2011. Tax losses may be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss. Until January 1, 2012, there were no provisions in the tax legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits.

Starting from January 1, 2012, if certain conditions are met, taxpayers are able to pay income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses



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generated by certain participants of a CTG against taxable profits of other participants of the CTG. Certain Group companies met the legislative requirements and paid income tax as a CTG starting from the first quarter of 2012.

Losses generated by a taxpayer before joining a CTG are not available for offset against taxable profits of other participants of the CTG. However, if a taxpayer leaves a CTG, such losses again

become available for offset against future profits generated by the same taxpayer. The expiration period of the losses is extended to take account of any time spent within a CTG when the losses were unavailable for use.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Domestic	11,387	12,458	12,561
Foreign	(929)	1,265	558
<b>Income before income taxes</b>	<b>10,458</b>	<b>13,723</b>	<b>13,119</b>

Domestic and foreign components of income taxes were:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Current			
Domestic	1,608	2,178	2,159
Foreign	443	560	519
Current income tax expense	2,051	2,738	2,678
Deferred			
Domestic	804	131	581
Foreign	(24)	(71)	34
Deferred income tax expense	780	60	615
<b>Total income tax expense</b>	<b>2,831</b>	<b>2,798</b>	<b>3,293</b>

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to income before income taxes to total income taxes:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Income before income taxes	10 458	13 723	13 119
Notional income tax at the Russian statutory rate	2,091	2,745	2,624
Increase (reduction) in income tax due to:			
Non-deductible items, net	900	227	693
Foreign rate differences	(67)	(60)	169
Domestic regional rate differences	(242)	(311)	(328)
Change in valuation allowance	149	197	135
<b>Total income tax expense</b>	<b>2,831</b>	<b>2,798</b>	<b>3,293</b>

Taxes other than income taxes were:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Mineral extraction tax	12,410	12,354	11,594
Social taxes and contributions	640	604	587
Property tax	571	535	573
Other taxes and contributions	182	173	164
<b>Taxes other than income taxes</b>	<b>13,803</b>	<b>13,666</b>	<b>12,918</b>

Deferred income taxes are included in the consolidated balance sheets as follows:

	As of December 31, 2013	As of December 31, 2012
Other current assets	71	153
Deferred income tax assets – non-current	684	569
Other current liabilities	(325)	(284)
Deferred income tax liabilities – non-current	(4,724)	(3,651)
<b>Net deferred income tax liability</b>	<b>(4,294)</b>	<b>(3,213)</b>

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

	As of December 31, 2013	As of December 31, 2012
Accounts receivable	4	5
Long-term liabilities	539	399
Inventories	9	6
Property, plant and equipment	311	344
Accounts payable	4	9
Operating loss carry forwards	1,003	758
Other	128	195
<b>Total gross deferred income tax assets</b>	<b>1,998</b>	<b>1,716</b>
Less valuation allowance	(899)	(750)
<b>Deferred income tax assets</b>	<b>1,099</b>	<b>966</b>
Property, plant and equipment	(4,911)	(3,751)
Accounts payable	(24)	(12)
Accounts receivable	(5)	(2)
Long-term liabilities	(33)	(39)
Inventories	(107)	(103)
Investments	(53)	(38)
Other	(260)	(234)
<b>Deferred income tax liabilities</b>	<b>(5,393)</b>	<b>(4,179)</b>
<b>Net deferred income tax liability</b>	<b>(4,294)</b>	<b>(3,213)</b>

As a result of acquisitions during 2013 the Group recognized a net deferred tax liability of \$466 million.

As of December 31, 2013, retained earnings of foreign subsidiaries included \$19,413 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be indefinitely invested. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

In accordance with Topic 830, *"Foreign currency matters"* of the Codification and Topic 740, *"Income Taxes"* of the Codification deferred tax assets and liabilities are not recognized for the changes in exchange rate effects resulting from the translation of transactions and balances from the Russian ruble to the US dollar using historical exchange rates. Also, in accordance with Topic 740 of the Codification, no deferred tax assets or

liabilities are recognized for the effects of the related statutory indexation of property, plant and equipment.

Based upon the levels of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2013 and 2012.

As of December 31, 2013, the Group had operating loss carry forwards of \$1,905 million of which \$90 million expire during 2014, \$84 million expire during 2015, \$106 million expire during 2016, \$88 million expire during 2017, \$58 million expire during 2018, \$57 million expire during 2019, \$57 million expire during 2020, \$1 million expire during 2021, \$1 million expire during 2022, \$1 million expire during 2023, \$24 million expire during 2036 and \$1,338 million have an indefinite carry forward.

→ NOTE 14.

**PENSION BENEFITS**

The Group sponsors a postretirement defined benefit pension program that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on the salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4%

of the annual salary of the employee). Plan assets and pensions payoffs are managed by a non-state pension fund, LUKOIL-GARANT. The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age and invalidity.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2013 and 2012.

The following table provides information about the benefit obligations and plan assets as of December 31, 2013 and 2012. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2013	2012
<b>Benefit obligations</b>		
Benefit obligations as of January 1	294	260
Effect of exchange rate changes	(21)	17
Service cost	18	14
Interest cost	21	19
Plan amendments	5	12
Actuarial loss	(12)	18
Benefits paid	(40)	(45)
Curtailement gain	(3)	(1)
Other	32	-
<b>Benefit obligations as of December 31</b>	<b>294</b>	<b>294</b>
<b>Plan assets</b>		
Fair value of plan assets as of January 1	120	105
Effect of exchange rate changes	(9)	7
Return on plan assets	6	8
Employer contributions	43	45
Benefits paid	(40)	(45)
<b>Fair value of plan assets as of December 31</b>	<b>120</b>	<b>120</b>
Funded status	(174)	(174)
<b>Amounts recognized in the consolidated balance sheet as of December 31, 2013 and 2012</b>		
Accrued benefit liabilities included in "Other long-term liabilities"	(157)	(158)
Accrued benefit liabilities included in "Other current liabilities"	(17)	(16)

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Weighted average assumptions used to determine benefit obligations as of December 31, 2013 and 2012.

	2013	2012
Discount rate	7.70%	7.10%
Rate of compensation increase	7.12%	7.10%

Weighted average assumptions used to determine net periodic benefit costs for the year ended December 31, 2013 and 2012:

	2013	2012
Discount rate	7.10%	7.80%
Rate of compensation increase	7.10%	7.30%
Expected rate of return on plan assets	8.14%	8.63%

Included in accumulated other comprehensive loss as of December 31, 2013 and 2012, are the following before-tax amounts that have not yet been recognized in net periodic benefit cost:

	2013	2012
Prior service cost	51	59
Net loss	15	21
<b>Total costs</b>	<b>66</b>	<b>80</b>

Amounts recognized in other comprehensive loss during the year ended December 31, 2013 and 2012:

	2013	2012
Additional (gain) loss arising during the period	(6)	15
Additional prior service cost from plan amendment	4	10
Re-classified prior service cost amortization	(12)	(10)
<b>Net amount recognized for the period</b>	<b>(14)</b>	<b>15</b>

The real returns on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

In addition to the plan assets, LUKOIL-GARANT holds assets in the form of an insurance reserve. The purpose of this insurance reserve is to satisfy pension obligations should the plan assets not be sufficient to meet pension obligations. The Group's contributions

to the pension plan are determined without considering the assets in the insurance reserve.

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients was as follows:

Type of assets	As of December 31, 2013	As of December 31, 2012
Eurobonds	7%	8%
Russian corporate bonds	25%	4%
Bank deposits	54%	74%
Shares in investment funds	12%	11%
Cash	1%	1%
Other assets	1%	2%
	100%	100%

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing the principal amount invested. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of investments: bank deposits and securities with fixed yield. The securities with fixed yield include mainly high yield corporate bonds with low and medium risk ratings. Maturities range from one to three years.

Components of net periodic benefit cost were as follows:

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
Service cost	18	14	15
Interest cost	21	19	22
Less expected return on plan assets	(9)	(9)	(10)
Amortization of prior service cost	15	13	17
Curtailed gain	(2)	-	(2)
<b>Total net periodic benefit cost</b>	<b>43</b>	<b>37</b>	<b>42</b>

Total employer contributions for 2014 are expected to be \$33 million. An amount of \$17 million before-tax is included in other comprehensive income and expected to be recognized in the net periodic benefit cost in 2014.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2014	2015	2016	2017	2018	5-year period 2014-2018	5-year period 2019-2023
Pension benefits	25	16	16	16	16	89	72
Other long-term employee benefits	17	15	14	13	13	72	55
<b>Total expected benefits to be paid</b>	<b>42</b>	<b>31</b>	<b>30</b>	<b>29</b>	<b>29</b>	<b>161</b>	<b>127</b>

→ NOTE 15.

STOCKHOLDERS' EQUITY

*Common stock*

	As of December 31, 2013 (thousands of shares)	As of December 31, 2012 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Treasury stock	(95,697)	(95,697)
<b>Outstanding common stock</b>	<b>754,866</b>	<b>754,866</b>

*Dividends and dividend limitations*

Profits available for distribution to common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the net profits of the reporting year as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

The Company's net profits were 209,871 million Russian rubles, 217,807 million Russian rubles and 271,934 million Russian rubles respectively for 2013, 2012 and 2011, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2013, 2012 and 2011, amounted to \$6,412 million, \$7,171 million and \$8,446 million, respectively.

At the extraordinary stockholders' meeting on September 30, 2013, interim dividends for the first half of 2013 were declared in

the amount of 50.00 Russian rubles per common share, which at the date of the meeting was equivalent to \$1.55. Dividends payable of \$10 million and \$12 million are included in "Other current liabilities" in the consolidated balance sheets as of December 31, 2013 and 2012, respectively.

At the annual stockholders' meeting on June 27, 2013, dividends for 2012 were declared in the amount of 50.00 Russian rubles per common share, which at the date of the meeting was equivalent to \$1.52. At the extraordinary stockholders' meeting on December 18, 2012, interim dividends for 2012 were declared in the amount of 40.00 Russian rubles per common share, which at the date of the meeting was equivalent to \$1.30. Total dividends for 2012 were declared in the amount of 90.00 Russian rubles per common share, which was equivalent to \$2.82.

At the annual stockholders' meeting on June 27, 2012, dividends for 2011 were declared in the amount of 75.00 Russian rubles per common share, which at the date of the meeting was equivalent to \$2.26.

*Earnings per share*

The calculation of basic and diluted earnings per share for these years was as follows:

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
Net income	7,832	11,004	10,357
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	65	64	63
<b>Total diluted net income</b>	<b>7,897</b>	<b>11,068</b>	<b>10,420</b>
Weighted average number of outstanding common shares (thousands of shares)	754,866	760,588	778,964
Add back treasury shares held in respect of convertible debt (thousands of shares)	21,189	20,509	20,383
Weighted average number of outstanding common shares, assuming dilution (thousands of shares)	776,055	781,097	799,347
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):			
Basic	10.38	14.47	13.30
Diluted	10.18	14.17	13.04

→ NOTE 16.

FINANCIAL AND DERIVATIVE INSTRUMENTS

*Fair value*

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated financial statements. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements.

The fair value of long-term debt (Level 3) differs from the carrying amount in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2013 and 2012 was \$11,077 million and \$7,035 million, respectively, determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. During the year ended December 31, 2013, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

*Derivative instruments*

The Group uses financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices, or to exploit market opportunities. Since the Group is not currently using hedge accounting, defined by Topic 815, "*Derivative and hedging*," of the Codification, all gains and losses, realized or unrealized, from derivative contracts have been recognized in profit or loss.

Topic 815 of the Codification requires purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) to be recorded on the balance sheet as derivatives unless the contracts are for quantities the Group expects to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). The Group does apply the normal purchases and normal sales exception to certain long-term contracts to sell oil products. This normal purchases and normal sales exception is applied to eligible crude oil and refined product commodity purchase and sales contracts. However, the Group may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of a purchase or sales contract but hedge accounting will not be applied; in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

The fair value hierarchy for the Group's derivative assets and liabilities accounted for at fair value on a recurring basis was:

	As of December 31, 2013				As of December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Commodity derivatives	-	645	-	645	-	417	-	417
<b>Total assets</b>	-	645	-	645	-	417	-	417
<b>Liabilities</b>								
Commodity derivatives	-	(761)	-	(761)	-	(459)	-	(459)
<b>Total liabilities</b>	-	(761)	-	(761)	-	(459)	-	(459)
<b>Net liabilities</b>	-	(116)	-	(116)	-	(42)	-	(42)



The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by Topic 820, "Fair Value Measurements and Disclosures," of the Codification. Therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

Commodity derivatives are valued using quotations provided by brokers and price index developers. These quotes are corroborated with market data and are classified as Level 2 fair value measurements. Commodity derivatives are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures.

The fair value of commodity derivative assets and liabilities was:

	As of December 31, 2013	As of December 31, 2012
<b>Assets</b>		
Accounts receivable	645	417
<b>Liabilities</b>		
Accounts payable	(761)	(459)

Hedge accounting has not been used for items in the table.

As required under Topic 815 of the Codification the amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist). Derivative assets and liabilities resulting from eligible commodity contracts have been netted in the consolidated balance sheet and are recorded as accounts receivable in the amount of \$6 million and accounts payable in the amount of \$122 million.

Financial results from commodity derivatives were included in the consolidated statements of comprehensive income in "Cost of purchased crude oil, gas and products" and during the year ended December 31, 2013 and 2012 amounted to net loss of \$200 million (of which realized loss was \$132 million and unrealized loss was \$68 million) and net loss of \$321 million (of which realized loss was \$300 million and unrealized loss was \$21 million), respectively.

#### **Commodity derivative contracts**

The Group operates in the worldwide crude oil, refined product, natural gas and natural gas liquids markets and is exposed to fluctuations in the prices for these commodities. These fluctuations can affect the Group's revenues as well as the cost of operating, investing and financing activities. Generally, the Group's policy is to remain exposed to the market prices of commodities. However, the Group uses futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do an immaterial amount of trading not directly related to the Group's physical business. These activities may move the Group's profile away from market average prices.

For each Group trading company there is a limit (being a combination of quantity and value-at-risk) to the amount of unhedged fixed-price commodity positions permissible. The Group's net commodity position is reviewed daily.

Financial and commodity-based derivative contracts are subject to fluctuations in value. These fluctuations are generally offset by the value of the underlying exposures being hedged. Future changes in the market values of certain financial instruments may result in off-balance-sheet risk in excess of the amounts currently recognized in the consolidated balance sheets.

#### **Currency exchange rate derivative contracts**

The Group has foreign currency exchange rate risk resulting from its international operations. The Group does not comprehensively hedge the exposure to currency rate changes, although the Group selectively hedges certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivative assets and liabilities open as of December 31, 2013 was not significant.

The impact from foreign currency derivatives during the year ended December 31, 2013 on the consolidated statement of comprehensive income was not significant. The net position of outstanding foreign currency swap contracts as of December 31, 2013 also was not significant.

#### **Credit risk**

The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter derivative contracts and trade receivables. Cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the Intercontinental Exchange (ICE Futures).

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group's credit rating falls below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit the Group to post letters of credit as collateral.

There were no derivative instruments with such credit-risk-related contingent features that were in a liability position as of December 31, 2013. The Group posted \$3 million in collateral in the normal course of business for the over-the-counter derivatives. If the Group's credit rating were lowered one level from its "BBB" rating (per Standard and Poors) as of December 31, 2013, and it would be below investment grade, the Group would be required to post additional collateral of \$5 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be \$25 million in total.

→ **NOTE 17.**

#### **BUSINESS COMBINATIONS**

In December 2013, after approval by European regulatory authorities, the Group acquired the remaining 20% interest in the joint venture which operates the ISAB refining complex (Priolo, Italy) for €426 million (approximately \$583 million) after final adjustments increasing its stake in the joint venture from 80% to 100%. This transaction was exercised in line with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor – ERG S.p.A. a step-by-step put option to sell its share in the joint venture to the Group. The Group obtained control over this joint venture in September 2012, when within this agreement it acquired a 20% interest in the joint venture for €494 million (approximately \$621 million) and increased its stake to 80%. The Group allocated \$646 million to goodwill, \$2,914 million to property, plant and equipment, \$747 million to deferred tax liability, \$1,024 million to current assets and \$444 million to current liabilities. The value of property, plant and equipment was determined by an independent appraiser.

In April 2013, after approval by the Federal Anti-monopoly Service, in line with the strategy to increase crude oil production in Russia the Company purchased 100% of the shares of ZAO Samara-Nafta for \$2.1 billion after final adjustments. ZAO Samara-Nafta is an exploration and production company operating in the Samara and Uljanovsk regions of the Russian Federation. The Group preliminarily allocated \$2,384 million to property, plant and equipment, \$183 million to current assets, \$311 million to deferred tax liability and \$142 million to current liabilities.

In April-May 2013, Group companies acquired the remaining 50% of the shares of ZAO Kama-oil for \$400 million increasing the Group's ownership up to 100%. As a result of this acquisition the Group obtained control and consolidated ZAO Kama-oil, an exploration and production company operating in the Perm region of the Russian Federation.

→ **NOTE 18.**

#### **COMMITMENTS AND CONTINGENCIES**

##### ***Capital expenditure, exploration and investment programs***

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain obligations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

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In February 2013, the Group started to construct a vacuum gasoil refinery complex at 000 LUKOIL-Volgogradneftepererabotka. Completion is expected at the end of 2015. As of December 31, 2013, the amount of capital commitment related to this construction is evaluated as \$1,328 million.

In 2012, a construction agreement for a heavy-residue hydrocracking complex at LUKOIL Neftochim Bourgas AD in Bulgaria was signed. Commissioning of the complex is expected in 2015. As of December 31, 2013, the amount of capital commitment related to this construction is evaluated as \$518 million.

Group companies have commitments for capital expenditure contributions in the amount of \$318 million related to various production sharing agreements over the next 24 years.

The Company has signed a three-year agreement for the years 2013-2015 for drilling services with EDC Group Advisory Company Limited. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2013, the amount of capital commitment under this agreement for 2014 is evaluated as \$1,482 million.

The Company has signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2013, the amount of capital commitment under this agreement for 2014 is evaluated as \$215 million.

The Group has signed a number of agreements for the years 2013-2015 for construction of offshore platforms in the Caspian region. As of December 31, 2013, the amount of this capital commitment is evaluated as \$1,371 million.

The Group has a commitment to execute the capital construction program of its power generation segment and under the terms of this program power plants with a total capacity of 890 MW should be constructed. As of December 31, 2013, the amount of this commitment is evaluated as \$87 million.

***Operating lease obligations***

Group companies have commitments of \$453 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were \$295 million, \$218 million and \$175 million during the years ended December 31, 2013, 2012 and 2011, respectively. Commitments for minimum rentals under these leases as of December 31, 2013 are as follows:

	As of December 31, 2013
2014	154
2015	82
2016	57
2017	43
2018	37
beyond	80

***Insurance***

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

***Environmental liabilities***

Group companies and their predecessor entities have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are recognized in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

***Social assets***

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport

services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalized (only to the extent that they are expected to result in future economic benefits to the Group) or expensed as incurred.

#### **Taxation environment**

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

The tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues. The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

#### **Litigation and claims**

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against OA O Arkhangelskgeoldobycha ("AGD"), a Group company,

and the Company (together the "Defendants"). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of \$1.2 billion and punitive damages of \$3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. However, on November 21, 2005, due to a procedural error, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals and the Colorado Court of Appeals remanded the case to the District Court. On October 20, 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. On August 23, 2012, the Colorado Court of Appeals affirmed this decision. On July 1, 2013, the Colorado Supreme Court denied ADC's Petition for Writ of Certiorari. The case in the state court is therefore over.

On January 6, 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC's appeal of the state court's decision. In a Federal Court case, the Company has filed a Motion to Dismiss and discovery has been stayed pending further action. ADC has appealed the decision to stay discovery to the US District Court. The court hearing took place on November 19, 2013. The ruling of the judge is expected to be issued soon. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

#### **→ NOTE 19.**

#### **RELATED PARTY TRANSACTIONS**

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and

purchases of oil and oil products were primarily to and from affiliated companies. Related party processing services were provided by affiliated refineries.

Below are related party transactions not disclosed elsewhere in the consolidated financial statements. Refer also to Notes 3, 7, 11 and 20 for other transactions with related parties.

Sales of oil and oil products to related parties were \$487 million, \$1,038 million and \$1,298 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Other sales to related parties were \$62 million, \$50 million and \$54 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Purchases of oil and oil products from related parties were \$1,426 million, \$1,368 million and \$1,022 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Purchases of processing services from related parties were \$228 million, \$702 million and \$901 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Other purchases from related parties were \$195 million, \$92 million and \$73 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Amounts receivable from related parties, including short-term loans and advances, were \$470 million and \$496 million as of December 31, 2013 and 2012, respectively. Amounts payable to related parties were \$176 million and \$159 million as of December 31, 2013 and 2012, respectively.

#### → NOTE 20. COMPENSATION PLAN

During the period from 2010 to 2012, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts.

The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses were contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company's common stock appreciation from 2010 to 2012, with rights vested in December 2012. The number of assigned shares for this compensation plan was approximately 17.3 million shares.

For the first part of the share plan the Group recognized a liability based on expected dividends and number of assigned shares. The second part of the share plan originally was classified as equity settled. In 2012, this compensation plan was amended in relation to all participants, which resulted in reclassification of the plan as a liability settled. Liability for this part of the share plan was settled in January-April 2013.

In late December 2012, the Company introduced a new compensation plan to certain members of management for the period from 2013 to 2017. Its conditions are similar to the conditions of the previous compensation plan after modification. The number of assigned shares is approximately 19 million shares.

For the first part of the new share plan the Group recognized a liability based on expected dividends and number of assigned shares.

The second part of the new share plan was classified as liability settled. The grant date and reporting date fair value of this part of the plan was estimated at \$249 million and \$229 million, respectively, using the Black-Scholes-Merton option-pricing model. The reporting date fair value was estimated assuming a risk-free interest rate of 7.0% per annum, an expected dividend yield of 4.67% per annum, an expected time to maturity of four years and a volatility factor of 16.8%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous seven year period up to January 2013.

Related to these plans the Group recorded \$109 million, \$182 million and \$137 million of compensation expense during the years ended December 31, 2013, 2012 and 2011, respectively, of which \$98 million was recognized as an increase in additional paid-in capital during the year ended December 31, 2011. As of December 31, 2013 and 2012, \$52 million and \$380 million related to these plans are included in "Other current liabilities" of the consolidated balance sheets, respectively.

As of December 31, 2013, there was \$183 million of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2017.

#### → NOTE 21. SEGMENT INFORMATION

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2013, 2012 and 2011, in accordance with Topic 280, "Segment reporting," of the Codification.

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(Millions of US dollars, except as indicated)

The Group has the following operating segments – exploration and production; refining, marketing and distribution; chemicals; power generation and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products and purchases, sells and transports crude

oil and refined petroleum products. The chemicals segment refines and sells chemical products. The power generation segment produces steam and electricity, distributes them and provides related services. The activities of the other business operating segment include businesses beyond the Group’s traditional operations.

Geographical segments are based on the area of operations and include two segments: Russia and International.

**Operating segments**

2013	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	2,900	135,189	1,681	1,573	109	–	141,452
Inter-segment	43,555	1,686	302	1,779	3,205	(50,527)	–
<b>Total sales</b>	<b>46,455</b>	<b>136,875</b>	<b>1,983</b>	<b>3,352</b>	<b>3,314</b>	<b>(50,527)</b>	<b>141,452</b>
Operating expenses	5,759	3,718	784	2,156	2,730	(5,061)	10,086
Depreciation, depletion and amortization	3,698	1,545	66	362	118	(33)	5,756
Interest expense	719	527	46	103	712	(1,619)	488
Income tax expense	1,640	1,146	35	(60)	(5)	75	2,831
Net income (net loss)	7,528	1,166	(501)	(415)	(224)	278	7,832
Total assets	80,182	71,883	665	4,098	20,744	(68,133)	109,439
Capital expenditures	11,808	2,715	113	285	513	–	15,434

**OAQ LUKOIL Notes to Consolidated Financial Statements**  
(Millions of US dollars, except as indicated)

2012	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,471	132,798	1,362	1,411	129	-	139,171
Inter-segment	43,998	1,845	307	1,557	2,926	(50,633)	-
<b>Total sales</b>	<b>47,469</b>	<b>134,643</b>	<b>1,669</b>	<b>2,968</b>	<b>3,055</b>	<b>(50,633)</b>	<b>139,171</b>
Operating expenses	5,245	3,579	568	1,867	2,299	(4,199)	9,359
Depreciation, depletion and amortization	3,085	1,347	65	248	124	(37)	4,832
Interest expense	854	698	47	73	557	(1,691)	538
Income tax expense	1,935	696	57	34	52	24	2,798
Net income	8,447	3,518	(279)	(278)	(363)	(41)	11,004
Total assets	68,058	69,769	1,166	4,530	20,512	(65,074)	98,961
Capital expenditures	8,973	2,007	90	503	277	-	11,850

2011	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,801	126,313	1,944	1,472	120	-	133,650
Inter-segment	41,416	1,910	500	1,520	2,467	(47,813)	-
<b>Total sales</b>	<b>45,217</b>	<b>128,223</b>	<b>2,444</b>	<b>2,992</b>	<b>2,587</b>	<b>(47,813)</b>	<b>133,650</b>
Operating expenses	4,377	3,920	459	2,098	2,029	(3,828)	9,055
Depreciation, depletion and amortization	2,896	1,217	63	224	129	(56)	4,473
Interest expense	741	711	20	47	505	(1,330)	694
Income tax expense	2,109	1,057	43	(5)	10	79	3,293
Net income	6,742	3,610	(27)	(127)	(370)	529	10,357
Total assets	60,838	61,792	1,488	4,220	21,201	(58,347)	91,192
Capital expenditures	6,677	1,306	89	196	224	-	8,492

*Geographical segments*

	2013	2012	2011
Sales of crude oil within Russia	3,071	1,634	1,571
Export of crude oil and sales of crude oil by foreign subsidiaries	24,270	26,036	32,522
Sales of refined products within Russia	17,476	16,803	15,242
Export of refined products and sales of refined products by foreign subsidiaries	87,796	86,604	76,335
Sales of chemicals within Russia	886	418	914
Export of chemicals and sales of chemicals by foreign subsidiaries	936	992	1,095
Other sales within Russia	3,475	3,281	3,213
Other export sales and other sales by foreign subsidiaries	3,542	3,403	2,758
<b>Total sales</b>	<b>141,452</b>	<b>139,171</b>	<b>133,650</b>

2013	Russia	International	Elimination	Consolidated
Sales				
Third parties	26,552	114,900	–	141,452
Inter-segment	39,193	151	(39,344)	–
<b>Total sales</b>	<b>65,745</b>	<b>115,051</b>	<b>(39,344)</b>	<b>141,452</b>
Operating expenses	8,117	2,048	(79)	10,086
Depletion, depreciation and amortization	4,607	1,149	–	5,756
Interest expense	34	547	(93)	488
Income tax expense	2,390	419	22	2,831
Net income (net loss)	8,724	(1,234)	342	7,832
Total assets	87,469	37,176	(15,206)	109,439
Capital expenditures	10,859	4,575	–	15,434

2012	Russia	International	Elimination	Consolidated
Sales				
Third parties	25,370	113,801	–	139,171
Inter-segment	39,355	200	(39,555)	–
<b>Total sales</b>	<b>64,725</b>	<b>114,001</b>	<b>(39,555)</b>	<b>139,171</b>
Operating expenses	7,333	2,113	(87)	9,359
Depletion, depreciation and amortization	3,834	998	–	4,832
Interest expense	194	504	(160)	538
Income tax expense	2,316	489	(7)	2,798
Net income	10,238	776	(10)	11,004
Total assets	78,515	36,108	(15,662)	98,961
Capital expenditures	9,343	2,507	–	11,850



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2011	Russia	International	Elimination	Consolidated
<b>Sales</b>				
Third parties	24,674	108,976	-	133,650
Inter-segment	39,567	143	(39,710)	-
<b>Total sales</b>	<b>64,241</b>	<b>109,119</b>	<b>(39,710)</b>	<b>133,650</b>
Operating expenses	6,999	2,094	(38)	9,055
Depletion, depreciation and amortization	3,692	781	-	4,473
Interest expense	338	477	(121)	694
Income tax expense	2,715	554	24	3,293
Net income (net loss)	9,769	4	584	10,357
Total assets	73,150	34,384	(16,342)	91,192
Capital expenditures	6,516	1,976	-	8,492

The Group's international sales to third parties include sales in Switzerland of \$66,070 million, \$67,057 million and \$66,884 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Group's international sales to third parties include sales in the USA of \$12,865 million, \$12,649 million and \$9,496 million for the years ended December 31, 2013, 2012 and 2011, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

→ **NOTE 22.**  
**SUBSEQUENT EVENTS**

In accordance with the requirements of Topic 855, "*Subsequent events,*" of the Codification, the Group evaluated subsequent events through the date the consolidated financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to February 17, 2014.

OA0 LUKOIL Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)  
(Millions of US dollars, except as indicated)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with Topic 932, "Disclosures About Oil and Gas Producing Activities," of the Codification in six separate tables:

- I. Capitalized costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
- IV. Reserve quantity information.
- V. Standardized measure of discounted future net cash flows.
- VI. Principal sources of changes in the standardized measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

→ I. CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

As of December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	1,450	3,441	4,891	635
Proved oil and gas properties	11,320	69,341	80,661	2,493
Accumulated depreciation, depletion, and amortization	(2,718)	(24,923)	(27,641)	(973)
Net capitalized costs	10,052	47,859	57,911	2,155

As of December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	1,145	2,393	3,538	551
Proved oil and gas properties	8,555	59,054	67,609	2,436
Accumulated depreciation, depletion, and amortization	(2,213)	(22,150)	(24,363)	(838)
Net capitalized costs	7,487	39,297	46,784	2,149

As of December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	659	1,192	1,851	166
Proved oil and gas properties	7,479	52,891	60,370	2,315
Accumulated depreciation, depletion, and amortization	(1,762)	(19,656)	(21,418)	(718)
Net capitalized costs	6,376	34,427	40,803	1,763

→ II. COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	–	2,200	2,200	–
Acquisition of properties – unproved	15	1,914	1,929	10
Exploration costs	234	543	777	18
Development costs	3,234	7,782	11,016	162
<b>Total costs incurred</b>	<b>3,483</b>	<b>12,439</b>	<b>15,922</b>	<b>190</b>

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	97	–	97	–
Acquisition of properties – unproved	37	937	974	–
Exploration costs	144	525	669	16
Development costs	1,621	6,560	8,181	490
<b>Total costs incurred</b>	<b>1,899</b>	<b>8,022</b>	<b>9,921</b>	<b>506</b>

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	–	41	41	–
Acquisition of properties – unproved	70	164	234	–
Exploration costs	507	358	865	8
Development costs	968	4,774	5,742	123
<b>Total costs incurred</b>	<b>1,545</b>	<b>5,337</b>	<b>6,882</b>	<b>131</b>

OA O LUKOIL Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)  
(Millions of US dollars, except as indicated)

→ III. RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

The Group's results of operations for oil and gas producing activities are presented below. In accordance with Topic 932 of the Codification, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,722	22,233	24,955	1,632
Transfers	–	17,776	17,776	49
<b>Total revenues</b>	<b>2,722</b>	<b>40,009</b>	<b>42,731</b>	<b>1,681</b>
Production costs (excluding production taxes)	(314)	(4,021)	(4,335)	(141)
Exploration expense	(384)	(218)	(602)	(3)
Depreciation, depletion, and amortization, and valuation provision	(544)	(3,150)	(3,694)	(140)
Taxes other than income taxes	(352)	(23,092)	(23,444)	(527)
Related income taxes	(278)	(1,717)	(1,995)	(355)
<b>Total results of operations for producing activities</b>	<b>850</b>	<b>7,811</b>	<b>8,661</b>	<b>515</b>

Year ended December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,910	23,011	25,921	1,728
Transfers	–	17,165	17,165	34
<b>Total revenues</b>	<b>2,910</b>	<b>40,176</b>	<b>43,086</b>	<b>1,762</b>
Production costs (excluding production taxes)	(299)	(3,562)	(3,861)	(126)
Exploration expense	(159)	(205)	(364)	(6)
Depreciation, depletion, and amortization, and valuation provision	(500)	(2,568)	(3,068)	(126)
Taxes other than income taxes	(399)	(24,247)	(24,646)	(564)
Related income taxes	(428)	(1,618)	(2,046)	(423)
<b>Total results of operations for producing activities</b>	<b>1,125</b>	<b>7,976</b>	<b>9,101</b>	<b>517</b>

**OA O LUKOIL Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**  
(Millions of US dollars, except as indicated)

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,656	25,373	28,029	1,924
Transfers	–	14,107	14,107	14
Total revenues	2,656	39,480	42,136	1,938
Production costs (excluding production taxes)	(242)	(3,529)	(3,771)	(93)
Exploration expense	(439)	(93)	(532)	(2)
Depreciation, depletion, and amortization, and valuation provision	(324)	(2,542)	(2,866)	(125)
Taxes other than income taxes	(460)	(23,817)	(24,277)	(640)
Related income taxes	(531)	(1,824)	(2,355)	(407)
Total results of operations for producing activities	660	7,675	8,335	671

→ **IV. RESERVE QUANTITY INFORMATION**

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. In accordance with Topic 932 of the Codification existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies both to newly issued and old licenses and the Group has currently renewed more than 50% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

OA O LUKOIL Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)  
(Millions of US dollars, except as indicated)

Estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2013, 2012 and 2011, are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
<b>Crude oil</b>				
January 1, 2011	371	12,654	13,025	294
Revisions of previous estimates	(12)	246	234	7
Purchase of hydrocarbons in place	-	7	7	-
Extensions and discoveries	4	515	519	1
Production	(26)	(636)	(662)	(22)
December 31, 2011	337	12,786	13,123	280
Revisions of previous estimates	(1)	67	66	(1)
Purchase of hydrocarbons in place	42	-	42	-
Extensions and discoveries	40	511	551	2
Production	(25)	(631)	(656)	(21)
Sales of reserves	(2)	(3)	(5)	-
December 31, 2012	391	12,730	13,121	260
Revisions of previous estimates	11	(38)	(27)	(2)
Purchase of hydrocarbons in place <sup>1</sup>	-	194	194	(7)
Extensions and discoveries	14	585	599	7
Production	(24)	(640)	(664)	(20)
<b>December 31, 2013</b>	<b>392</b>	<b>12,831</b>	<b>13,223</b>	<b>238</b>
<b>Proved developed reserves</b>				
December 31, 2011	197	8,397	8,594	178
December 31, 2012	136	8,241	8,377	160
<b>December 31, 2013</b>	<b>129</b>	<b>7,972</b>	<b>8,101</b>	<b>136</b>

<sup>1</sup> Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The non-controlling interest share included in the above total proved reserves was 74 million barrels, 71 million barrels and 163 million barrels as of December 31, 2013, 2012 and 2011, respectively.

The non-controlling interest share included in the above proved developed reserves was 40 million barrels, 43 million barrels and 96 million barrels as of December 31, 2013, 2012 and 2011, respectively. Substantially all non-controlling interests relate to the reserves in the Russian Federation.

OAo LUKOIL Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)  
(Millions of US dollars, except as indicated)

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
<b>Natural gas</b>				
January 1, 2011	6,507	16,833	23,340	275
Revisions of previous estimates	(487)	253	(234)	25
Purchase of hydrocarbons in place	-	1	1	-
Extensions and discoveries	240	309	549	1
Production	(189)	(545)	(734)	(27)
December 31, 2011	6,071	16,851	22,922	274
Revisions of previous estimates	(155)	602	447	12
Purchase of hydrocarbons in place	1	-	1	-
Extensions and discoveries	93	595	688	5
Production	(248)	(571)	(819)	(26)
Sales of reserves	(17)	-	(17)	-
December 31, 2012	5,745	17,477	23,222	265
Revisions of previous estimates	325	529	854	17
Purchase of hydrocarbons in place <sup>1</sup>	-	9	9	(2)
Extensions and discoveries	-	168	168	3
Production	(247)	(618)	(865)	(29)
<b>December 31, 2013</b>	<b>5,823</b>	<b>17,565</b>	<b>23,388</b>	<b>254</b>
Proved developed reserves:				
December 31, 2011	3,250	6,065	9,315	163
December 31, 2012	2,505	6,066	8,571	156
<b>December 31, 2013</b>	<b>1,476</b>	<b>5,942</b>	<b>7,418</b>	<b>129</b>

<sup>1</sup> Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The non-controlling interest share included in the above total proved reserves was 26 billion cubic feet, 23 billion cubic feet and 31 billion cubic feet as of December 31, 2013, 2012 and 2011, respectively. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet,

14 billion cubic feet and 21 billion cubic feet as of December 31, 2013, 2012 and 2011, respectively. Substantially all non-controlling interests relate to the reserves in the Russian Federation.

→ V. STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The standardized measure of discounted future net cash flows, related to the above oil and gas reserves, is calculated in accordance with the requirements of Topic 932 of the Codification. Estimated future cash inflows from production are computed by applying the 12-months average price for oil and gas to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future

net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation, prescribed under Topic 932 of the Codification, requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

As of December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	62,620	676,195	738,815	22,027
Future production and development costs	(38,292)	(461,998)	(500,290)	(11,947)
Future income tax expenses	(3,239)	(37,321)	(40,560)	(2,154)
Future net cash flows	21,089	176,876	197,965	7,926
Discount for estimated timing of cash flows (10% p.a.)	(9,669)	(105,503)	(115,172)	(4,196)
Discounted future net cash flows	11,420	71,373	82,793	3,730
Non-controlling share in discounted future net cash flows	–	383	383	–



**OA O LUKOIL Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**  
(Millions of US dollars, except as indicated)

<b>As of December 31, 2012</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Future cash inflows	58,747	619,743	678,490	24,279
Future production and development costs	(36,468)	(424,260)	(460,728)	(12,469)
Future income tax expenses	(4,156)	(34,573)	(38,729)	(2,592)
Future net cash flows	18,123	160,910	179,033	9,218
Discount for estimated timing of cash flows (10% p.a.)	(9,964)	(96,015)	(105,979)	(4,723)
Discounted future net cash flows	8,159	64,895	73,054	4,495
Non-controlling share in discounted future net cash flows	-	397	397	-

<b>As of December 31, 2011</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Future cash inflows	51,665	616,290	667,955	25,773
Future production and development costs	(26,242)	(416,403)	(442,645)	(12,897)
Future income tax expenses	(6,056)	(35,768)	(41,824)	(2,896)
Future net cash flows	19,367	164,119	183,486	9,980
Discount for estimated timing of cash flows (10% p.a.)	(10,930)	(97,394)	(108,324)	(5,145)
Discounted future net cash flows	8,437	66,725	75,162	4,835
Non-controlling share in discounted future net cash flows	-	937	937	-

→ VI. PRINCIPAL SOURCES OF CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

Consolidated companies	2013	2012	2011
Discounted present value as at January 1	73,054	75,162	43,637
Net changes due to purchases and sales of minerals in place	1,266	256	39
Sales and transfers of oil and gas produced, net of production costs	(14,350)	(14,215)	(13,515)
Net changes in prices and production costs estimates	21,515	(8,480)	69,089
Net changes in mineral extraction taxes	(15,355)	627	(32,678)
Extensions and discoveries, less related costs	4,677	3,174	3,492
Previously estimated development cost incurred during the period	4,003	7,241	6,182
Revisions of previous quantity estimates	975	377	620
Net change in income taxes	(999)	1,337	(7,467)
Other changes	(138)	(735)	224
Accretion of discount	8,145	8,310	5,539
<b>Discounted present value at December 31</b>	<b>82,793</b>	<b>73,054</b>	<b>75,162</b>

Group's share in equity companies	2013	2012	2011
Discounted present value as at January 1	4,495	4,835	3,363
Net changes due to purchases and sales of minerals in place	(29)	-	-
Sales and transfers of oil and gas produced, net of production costs	(1,010)	(1,066)	(1,203)
Net changes in prices and production costs estimates	(487)	(101)	3,820
Net changes in mineral extraction taxes	77	(7)	(1,720)
Extensions and discoveries, less related costs	109	20	8
Previously estimated development cost incurred during the period	132	88	66
Revisions of previous quantity estimates	(80)	(3)	179
Net change in income taxes	200	139	(365)
Other changes	(207)	17	267
Accretion of discount	530	573	420
<b>Discounted present value at December 31</b>	<b>3,730</b>	<b>4,495</b>	<b>4,835</b>



# **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The following report contains a discussion and analysis of the financial position of OAO LUKOIL as of December 31, 2013 and the results of its operations for each of the years ended December 31, 2013, 2012 and 2011, as well as significant factors that may affect its future performance. It should be read in conjunction with our US GAAP consolidated financial statements, including notes and supplementary information on oil and gas exploration and production activities.

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to OAO LUKOIL and its subsidiaries and equity affiliates. All dollar amounts are in millions of US dollars, unless otherwise indicated. Tonnes of crude oil and natural gas liquids produced are translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields

and the actual density of liquids produced at our gas processing plants. Tonnes of crude oil purchased as well as other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet – at the rate of 6 thousand cubic feet per BOE.

*This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statement" on page 82 for a discussion of some factors that could cause actual results to differ materially.*

## → KEY FINANCIAL AND OPERATIONAL RESULTS

	2013	Change to 2012, %	2012	Change to 2011, %	2011
Sales (millions of US dollars)	141,452	1.6	139,171	4.1	133,650
Net income attributable to OAO LUKOIL (millions of US dollars)	7,832	(28.8)	11,004	6.2	10,357
Adjusted net income attributable to OAO LUKOIL (millions of US dollars) <sup>(1)</sup>	10,281	(6.6)	11,004	(2.7)	11,312
EBITDA (millions of US dollars)	16,668	(11.9)	18,915	1.7	18,606
Adjusted EBITDA (millions of US dollars) <sup>(1)</sup>	19,255	1.8	18,915	(2.9)	19,489
Taxes other than income taxes, excise and export tariffs (millions of US dollars)	(36,137)	(1.0)	(36,502)	3.9	(35,135)
Earning per share of common stock attributable to OAO LUKOIL (US dollars):					
Basic	10.38	(28.3)	14.47	8.8	13.30
Diluted	10.18	(28.2)	14.17	8.7	13.04
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	803,825	1.2	794,332	0.5	790,674
Daily hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	2,202	1.5	2,170	0.2	2,166
Crude oil and natural gas liquids produced by the Group including our share in equity affiliates (thousands of barrels)	683,822	1.0	677,023	(1.1)	684,522
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	20,391	2.3	19,934	10.5	18,038
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes)	64,196	0.7	63,773	1.8	62,667
Hydrocarbon proved reserves including our share in equity affiliates (millions of BOE)	17,401	0.6	17,296	0.2	17,269

<sup>(1)</sup> Adjusted for the impairment losses and dry hole write-offs (for details see page 74).

In 2013, net income attributable to OAO LUKOIL amounted to \$7,832 million, a decrease of 28.8% from 2012. As a result of impairment test, the Group booked an impairment loss related to some upstream, downstream and power generating assets both in Russia and abroad in the total amount of \$2.1 billion (net of tax and non-controlling interests). We also wrote off the cost of dry exploratory wells and related costs, in the total amount of \$312 million. Thus, the total effect of non-recurring losses and write-offs on net income attributable to OAO LUKOIL in 2013 amounted to \$2,449 million. Our adjusted EBITDA reached \$19,255 million, which was 1.8% higher than in the prior year. The Company has broken the three-year trend of crude oil production decline and increased daily hydrocarbon production by 1.5%. Depreciation, depletion and amortization increased by 19.1%, which was a result of acquisition of subsidiaries and general increase in value of depreciable assets. Compared to 2012, our capital expenditures increased by 28.4%. At the same time, despite significant capital investments, such as the development of our key upstream projects and modernization of refineries, the Company gained free cash flow of \$643 million.

#### → BUSINESS OVERVIEW

The primary activities of OAO LUKOIL and its subsidiaries are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of a vertically integrated group of companies.

OAO LUKOIL was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 39 countries on four continents.

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves that amounted to 17.4 billion BOE as of January 1, 2014 and comprised of 13.5 billion barrels of crude oil and 23.6 trillion cubic feet of gas.

Our operations are divided into four main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, Romania, the Middle East, South America, Northern and Western Africa, South-East Asia and Northern Europe.
- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.
- **Chemicals** – which includes processing and trading of petrochemical products.
- **Power generation** – which includes generation, transportation and sales of electricity, heat and related services.

Each of our four main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the *“Domestic crude oil and refined products prices”* section on page 59, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each in **Note 21 “Segment information”** to the consolidated financial statements.

## → RECENT DEVELOPMENTS AND OUTLOOK

The following has been achieved in 2013:

### Exploration and production

- 9 new oil and gas fields were brought into production (2012 – 8 oil and gas fields).
- The trend of crude oil production decline was broken and daily liquids production volumes increased by 1.2% as a result of new acquisition, growth of drilling footage and reservoir stimulation.
- Our daily gas production increased by 2.8% compared to 2012.
- In Iraq, the Company approached the final stage of development of the West Qurnah-2 oilfield.

### Refining

- In December, we increased the Group's ownership stake in the joint venture operating the ISAB refining complex ("ISAB") from 80% to 100%.
- The Company continued the construction of a vacuum gasoil refinery complex at the Volgograd refinery and a catalytic cracking unit at the Nizhny Novgorod refinery.

### Marketing

- In July, in line with market diversification strategy, the Company commenced supplies of its light crude oil through the Eastern Siberia – Pacific Ocean pipeline. This allows us to preserve the premium quality of crude oil and thus increases the efficiency of export, compared to export to traditional Western markets.

### Power generation

- In July-October, two combined cycle gas turbines with a combined capacity of 235 MW were put into operation in Astrakhan, Russia.

### Corporate center

- In April, a Group company issued two tranches of non-convertible bonds totaling \$3 billion. The first tranche totaling \$1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

These and other achievements in 2013 are described in detail further in this report.

## → CHANGES IN THE GROUP STRUCTURE

In December 2013, after approval by European regulatory authorities, the Group acquired the remaining 20% interest in the joint venture which operates the ISAB for €426 million (approximately \$583 million) after final adjustments, increasing its stake in the joint venture from 80% to 100%. This transaction was exercised in line with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor, ERG S.p.A., a step-by-step put option to sell its share in the joint venture to the Group. The Group obtained control over this joint venture in September 2012, when within this agreement, it acquired a 20% interest in the joint venture for €494 million (approximately \$621 million) and increased its stake to 80%.

In April 2013, after approval by the Federal Anti-monopoly Service, in line with the strategy to increase crude oil production in Russia the Company purchased 100% of the shares of ZAO Samara-Nafta for \$2.1 billion after final adjustments. ZAO Samara-Nafta is an exploration and production company operating in the Samara and Uljanovsk regions of the Russian Federation.

In April-May 2013, Group companies acquired the remaining 50% of the shares of ZAO Kama-oil, an exploration and production company operating in the Perm region of the Russian Federation, for \$400 million increasing the Group's ownership to 100%. As a result of this acquisition, the Group obtained control over ZAO Kama-oil and consolidated it.

## → RESOURCE BASE

The table below summarizes the net proved reserves of consolidated subsidiaries and our share in equity affiliates under SEC standards (until the economic limit of commercial production is reached) that have been derived or extracted from our reserve reports audited by Miller and Lents, Ltd., our independent reservoir engineers, as of January 1, 2014 and 2013.

Changes in 2013					
(millions of BOE)	January 1, 2014	Production <sup>(1)</sup>	Extensions, discoveries and changes in structure	Revision of previous estimates	January 1, 2013 <sup>(2)</sup>
Western Siberia	9,747	(441)	414	62	9,712
Timan-Pechora	2,320	(118)	78	(108)	2,468
Ural region	2,286	(116)	79	106	2,217
Volga region	1,238	(57)	223	9	1,063
Other in Russia	196	(14)	9	(15)	216
Outside Russia	1,614	(87)	19	62	1,620
<b>Proved oil and gas reserves</b>	<b>17,401</b>	<b>(833)</b>	<b>822</b>	<b>116</b>	<b>17,296</b>
<b>Probable oil and gas reserves</b>	<b>6,613</b>				<b>7,723</b>
<b>Possible oil and gas reserves</b>	<b>3,596</b>				<b>4,272</b>

<sup>(1)</sup> Gas production shown before own consumption.

<sup>(2)</sup> Excluding reserves related to the Imilorskoye, West Imilorskoye and Istochnoye fields.

The Company's proved reserves as of January 1, 2014 amount to 17,401 million BOE and comprise of 13,461 million barrels of crude oil and 23,642 billion cubic feet of gas. The incremental replacement of production by additional proved reserves in 2013 exceeded 100%.

The increase in proved reserves related to geological exploration, production drilling and acquisitions totaled 822 million BOE as a result of the exploration operations in the traditional regions of the Company's operations, accelerated commissioning of the fields discovered in 2013, and the acquisition of assets. According to initial estimations, proved reserves of acquired assets

(ZAO Samara-Nafta and the Imilorsko-Istochniy license area) totaled 178 million BOE, unproved reserves and contingent resources amounted to 991 million BOE. Management expects a sizeable increase in the proved reserves related to these assets, as progress in the development of the respective oilfields is made.

Management expects the oil and gas volumes classified as contingent resources to be transferred to reserves as their commissioning date approaches, a program to enhance volumes of gas utilization is implemented and new advanced technologies are applied, which makes it possible to develop the hard-to-recover reserves in a cost-effective way.

## → OPERATIONAL HIGHLIGHTS

### → HYDROCARBON PRODUCTION

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-Perm. Exploration and production outside of Russia is performed by our 100%

subsidiary LUKOIL-Overseas Holding GmbH. This has stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Iraq, Saudi Arabia, Egypt, Ghana, Cote d'Ivoire, Vietnam, Venezuela, Sierra Leone and Norway.

The table below summarizes the results of our exploration and production activities.

	2013	2012	2011
	(thousand BOE per day)		
<b>Crude oil and natural gas liquids production<sup>(1)</sup></b>			
Consolidated subsidiaries			
Western Siberia	996	1,014	1,014
Timan-Pechora	302	309	348
Ural region	297	286	272
Volga region	120	77	69
Other in Russia	38	38	40
Total in Russia	1,753	1,724	1,743
Total outside Russia	65	69	71
<b>Total consolidated subsidiaries</b>	<b>1,818</b>	<b>1,793</b>	<b>1,814</b>
Our share in equity affiliates			
in Russia	8	8	7
outside Russia	47	49	54
<b>Total share in equity affiliates</b>	<b>55</b>	<b>57</b>	<b>61</b>
<b>Total crude oil and natural gas liquids</b>	<b>1,873</b>	<b>1,850</b>	<b>1,875</b>
<b>Natural gas production available for sale<sup>(2)</sup></b>			
Consolidated subsidiaries			
Western Siberia	187	183	182
Timan-Pechora	14	12	9
Ural region	17	15	14
Volga region	6	7	7
Total in Russia	224	217	212
Total outside Russia	95	94	68
<b>Total consolidated subsidiaries</b>	<b>319</b>	<b>311</b>	<b>280</b>
Share in equity affiliates			
in Russia	1	1	1
outside Russia	9	8	10
<b>Total share in production of equity affiliates</b>	<b>10</b>	<b>9</b>	<b>11</b>
<b>Total natural gas available for sale</b>	<b>329</b>	<b>320</b>	<b>291</b>
<b>Total daily hydrocarbon production</b>	<b>2,202</b>	<b>2,170</b>	<b>2,166</b>
	(US dollar per BOE)		
<b>Hydrocarbon extraction expenses</b>	5.58	5.04	4.96
in Russia	5.59	5.03	4.97
outside Russia	5.43	5.07	4.85
	(millions of US dollars)		
<b>Hydrocarbon extraction expenses</b>	4,335	3,861	3,771
in Russia	4,021	3,562	3,529
outside Russia	314	299	242
<b>Exploration expenses</b>	602	364	532
in Russia	218	205	93
outside Russia	384	159	439
<b>Mineral extraction tax</b>	12,410	12,354	11,594
in Russia	12,333	12,261	11,502
outside Russia	77	93	92

<sup>(1)</sup> Natural gas liquids produced at the Group gas processing plants.

<sup>(2)</sup> Gas available for sale (excluding gas produced for our own consumption and including petroleum gas sold to third parties).

**Crude oil production.** In 2013, our daily crude oil production increased by 1.3%, compared to 2012. We produced (including the Company's share in equity affiliates) 90.8 million tonnes, or 670.1

million barrels of crude oil. The main oil producing region for the Company is Western Siberia where we produced 54.6% of our crude oil in 2013 (56.4% in 2012).



The following table represents our crude oil production in 2013 and 2012 by major regions.

(thousands of tonnes)	Change to 2012				
	2013	Total, %	Change in structure	Organic change	2012
Western Siberia	48,208	(2.0)	–	(1,006)	49,214
Timan-Pechora	15,232	(2.6)	–	(402)	15,634
Ural region	13,971	3.5	126	347	13,498
Volga region	5,801	61.0	1,820	378	3,603
Other in Russia	1,903	0.2	–	4	1,899
Crude oil produced in Russia	85,115	1.5	1,946	(679)	83,848
Crude oil produced internationally	3,143	(6.0)	(75)	(124)	3,342
<b>Total crude oil produced by consolidated subsidiaries</b>	<b>88,258</b>	<b>1.2</b>	<b>1,871</b>	<b>(803)</b>	<b>87,190</b>
<b>Our share in crude oil produced by equity affiliates:</b>					
in Russia	366	(5.2)	(63)	43	386
outside Russia	2,183	(4.3)	–	(97)	2,280
<b>Total crude oil produced</b>	<b>90,807</b>	<b>1.1</b>	<b>(1,808)</b>	<b>(857)</b>	<b>89,856</b>

The decrease in oil production in Western Siberia was due to natural depletion of reserves and an increase in water cut. The increasing water cut was also the reason for the decline of the production from the Yuzhnoye Khylychuy oilfield in Timan-Pechora. Nevertheless, this was compensated for by the acquisitions of new upstream properties. The organic growth of our production in Russia was a result of the development the Yu. Korchagin greenfield in the Caspian Sea and greenfields in Timan-Pechora, successful employment of new technologies and an increase in drilling footage in traditional regions. As a result, our daily domestic crude oil and natural gas liquids production volumes increased by 1.7%, compared to 2012.

The structural increase in our domestic production was a result of the acquisition of a 100.0% share of ZAO Samara-Nafta and an increase in the Group's ownership in ZAO Kama-oil from 50.0%

to 100.0% during the second quarter of 2013. At the same time, the transfer of ZAO Kama-oil from affiliates to subsidiaries led to some structural decrease in the affiliates' production in Russia. The structural decrease of our international production was a result of the sale at the end of the second quarter of 2012 of 1.5% (10.0% of our share) in Karachaganak Petroleum Operating consortium (KPO), an upstream project in Kazakhstan, to a state-owned company, KazMunayGaz.

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased in international markets is normally used for trading activities, for supplying our international refineries or for processing at third party refineries.

	2013		2012		2011	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Purchases in Russia	5,447	743	1,994	272	4,010	547
Purchases for trading internationally	48,416	6,605	28,170	3,843	56,683	7,733
Purchases for refining internationally	75,607	10,315	91,713	12,512	95,070	12,970
<b>Total crude oil purchased</b>	<b>129,470</b>	<b>17,663</b>	<b>121,877</b>	<b>16,627</b>	<b>155,763</b>	<b>21,250</b>

A significant part of our crude oil purchases is for processing. Compared to 2012, our purchases for processing at international refineries decreased by 17.6%, largely, as a result of the increase in volumes of our own crude oil supplies and lower throughput at our refineries outside of Russia. At the same time, our purchases for trading increased by 71.9% to compensate for the decrease of crude oil export from Russia.

**Production of gas and natural gas liquids.** In 2013, we produced 20,391 million cubic meters (120 million BOE) of gas available for sale (including our share in equity affiliates), that is 2.3% more than in 2012.

Our major gas production field is the Nakhodkinskoe field, where we produced 8,272 million cubic meters of natural gas in 2013 (8,041 million cubic meters in 2012). Our international gas production increased by 1.4%, compared to 2012.

In 2013, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volgograd regions of Russia was 13.7 million BOE, compared to 13.6 million BOE in 2012.

#### → REFINING, MARKETING AND TRADING

**Refining.** We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Romania and Italy. Moreover, we have a 45% interest in the Zeeland Refinery in the Netherlands.

In December 2013, the Group obtained full control over ISAB after acquisition of the remaining 20% share. Initially, in December 2008, the Group acquired a 49% interest in ISAB, then increased

its interest to 60% in April 2011 and to 80% in September 2012, when the control over the refinery was obtained and ISAB became our consolidated subsidiary, rather than equity affiliate.

Compared to 2012, the total volume of refined products produced by the Group (including our share in equity affiliates' production) increased by 0.7%. Production volumes at our Russian refineries increased by 2.3% against the background of low refining volumes at our refinery in Nizhny Novgorod in 2012 as a consequence of repair works. Production at our international refineries decreased by 2.5%. The increase of our share in the ISAB production was offset by the effect of decreased production at this refinery due to an overhaul carried out in 2013. Moreover, the volumes of production at our refinery in Romania decreased by 14.1%, compared to 2012, as a result of changes in market conditions and stoppage for maintenance.

We invested, and continue to invest, significant resources in our refineries aiming at taking the leading position in Russia in producing ecological fuel of high quality standards. Starting from July 1, 2012, all the gasoline and the most of diesel fuel produced by the Group in Russia comply with Euro-5 standards.

Along with our own production of refined products we can refine crude oil at third party refineries depending on market conditions and other factors. In the periods considered, we processed our crude oil at third party refineries in Belarus (from January 2012 until August 2013, inclusive) and Kazakhstan.

The following table summarizes key figures for our refining activities.

	2013	2012	2011
	(millions of US dollars)		
Refining expenses at the Group refineries	2,170	1,669	1,418
- in Russia	1,156	1,141	1,112
- outside Russia	1,014	528	306
Refining expenses at affiliated refineries <sup>(1)</sup>	228	702	890
Refining expenses at third party refineries	58	96	7
Capital expenditures	2,184	1,406	783
- in Russia	1,393	988	586
- outside Russia	791	418	197
	(thousand barrels per day)		
Refinery throughput at the Group refineries	1,240	1,128	1,073
- in Russia	909	890	909
- outside Russia <sup>(2)</sup>	331	238	164
Refinery throughput at affiliated refineries <sup>(1) (2)</sup>	92	195	230
Refinery throughput at third party refineries	31	53	5
<b>Total refinery throughput</b>	<b>1,363</b>	<b>1,376</b>	<b>1,308</b>
	(thousands of tonnes)		
Refined products produced at the Group refineries	43,426	42,468	43,248
Production of the Group refineries outside Russia	16,170	11,541	7,807
Production of affiliated refineries outside of Russia <sup>(1)</sup>	4,600	9,764	11,612
<b>Refined products produced by the Group including our share in equity affiliates</b>	<b>64,196</b>	<b>63,773</b>	<b>62,667</b>
Refined products produced at third party refineries	1,439	2,472	256
<b>Total refined products produced</b>	<b>65,635</b>	<b>66,245</b>	<b>62,923</b>

<sup>(1)</sup> Including the amounts for Zeeland (45% share) and ISAB (49% share until April 2011, 60% share from April 2011 till September 2012).

<sup>(2)</sup> Including refined product processed.

**Marketing and trading.** Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia, Central America and retail operations in the USA, Central and Eastern Europe, the Baltic States and other regions. In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

The Group retails its refined products in 27 countries through nearly 5.6 thousand petrol stations (including franchisees). Most of the stations operate under the LUKOIL brand.

The table below summarizes figures for our trading activities.

	2013	2012	2011
	(thousands of tonnes)		
Retail sales	15,741	15,424	15,249
Wholesale sales	101,529	97,558	87,337
<b>Total refined products sales</b>	<b>117,270</b>	<b>112,982</b>	<b>102,586</b>
Refined products purchased in Russia	2,298	1,772	2,026
Refined products purchased internationally	58,172	52,761	45,655
<b>Total refined products purchased</b>	<b>60,470</b>	<b>54,533</b>	<b>47,681</b>

**Exports of crude oil and refined products from Russia.** The volumes of crude oil and refined products exported from Russia by our subsidiaries are summarized as follows:

	2013		2012		2011	
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil using Transneft export routes	185,500	25,307	223,185	30,448	215,605	29,414
Exports of crude oil bypassing Transneft	47,770	6,517	31,418	4,286	38,739	5,285
<b>Total crude oil exports</b>	<b>233,270</b>	<b>31,824</b>	<b>254,603</b>	<b>34,734</b>	<b>254,344</b>	<b>34,699</b>
<b>Exports of refined products</b>		<b>23,419</b>		<b>22,537</b>		<b>24,029</b>

In 2013, the volume of our crude oil export from Russia decreased by 8.4%, compared to 2012, and we exported 37.4% of our total domestic crude oil production (41.4% – in 2012). The decrease of crude oil export was a result of higher sales in Russia and increased throughput at our domestic refineries.

All the volume of crude oil exported that bypassed Transneft in the periods considered was routed through our own export infrastructure.

In 2013, the volume of our export of refined products from Russia increased to 23.4 thousand tonnes, or by 3.9%, compared to 2012. Primarily, we export from Russia diesel fuel, fuel oil and gasoil. These products accounted for approximately 88.9% of our refined products export volumes.

In 2013, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to \$22,885 million and \$17,309 million, respectively (\$25,174 million for crude oil and \$16,779 million for refined products in 2012).

#### → POWER GENERATION

In 2013, we continued to develop the power generation sector of our business as part of our strategic development program. This new sector encompasses all aspects of the power generation business, from generation to transmission and sale of heat and electrical power. Our power generation business sector now includes 000 LUKOIL-Volgogradenergo, 000 LUKOIL-Kubanenergo, 000 LUKOIL-Astrakhanenergo, 000 LUKOIL-Rostovenergo, 000 LUKOIL-Stavropolenergo, 000 LUKOIL-TTK, 000 LUKOIL-Ecoenergo, our own power generating facilities at our oil and gas fields in Russia and power generators in Bulgaria and Romania. Our total output of electrical energy was 15.7 billion kW-h in 2013 (15.4 billion kW-h in 2012 and 13.1 billion kW-h in 2011). In 2013, our total output of heat energy was approximately 13.6 million Gcal (14.7 million Gcal in 2012 and 15.5 million Gcal in 2011).

In 2013, we put into operation two combined cycle gas turbine (CCGT) units in Astrakhan with a combined capacity of 235 MW.

## → MAIN MACROECONOMIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

### → CHANGES IN THE PRICE OF CRUDE OIL AND REFINED PRODUCTS

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. In 2013, the Brent crude oil price fluctuated between \$96 and \$119 per barrel and reached its peak of \$119.03 in February. During the fourth quarter of 2013, the average price of the Brent crude oil was 1.0% lower than in the third quarter of 2013.

Substantially all the crude oil the Group exports is Urals blend. The following table shows the average crude oil and refined product prices in the periods considered.

	2013	Change to 2012, %	2012	Change to 2011, %	2011
(in US dollars per barrel, except for figures in percent)					
Brent crude	108.66	(2.7)	111.67	0.4	111.26
Urals crude (CIF Mediterranean) <sup>(1)</sup>	108.03	(2.3)	110.55	1.3	109.10
Urals crude (CIF Rotterdam) <sup>(1)</sup>	107.38	(2.6)	110.19	1.0	109.08
(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	591.43	(6.3)	631.08	3.5	609.51
Diesel fuel 10 ppm (FOB Rotterdam)	938.66	(4.2)	980.00	2.2	958.73
High-octane gasoline (FOB Rotterdam)	986.86	(4.8)	1,036.14	5.3	984.12

Source: Platts.

<sup>(1)</sup> The Company sells crude oil on foreign markets on various delivery terms. Thus, our average realized sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern Europe markets.

### → DOMESTIC CRUDE OIL AND REFINED PRODUCTS PRICES

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-

by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Domestic prices for refined products are determined to some extent by world market prices, but they are also directly affected by local demand and competition.

The table below represents average domestic wholesale prices of refined products in 2013, 2012 and 2011.

	2013	Change to 2012, %	2012	Change to 2011, %	2011
(in US dollars per metric tonne, except for figures in percent)					
Fuel oil	341.32	6.6	320.29	0.4	318.99
Diesel fuel	850.78	2.2	832.71	9.5	760.53
High-octane gasoline (Regular)	829.69	1.9	813.94	(5.1)	857.70
High-octane gasoline (Premium)	897.10	3.2	869.33	(3.2)	897.81

Source: InfoTEK (excluding VAT).

### → CHANGES IN THE US DOLLAR-RUBLE EXCHANGE RATE AND INFLATION

A substantial part of our revenue is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, the appreciation of the ruble against the US dollar

generally causes our costs to increase in US dollar terms, and vice versa. The devaluation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 4.2% in 2013, compared to 2012.

The following table gives data on inflation in Russia and the change in the ruble-dollar exchange rate.

	2013	2012	2011
Ruble inflation (CPI), %	6.5	6.6	6.1
Average exchange rate for the period (ruble to US dollar)	31.85	31.09	29.39
Exchange rate at the end of the period (ruble to US dollar)	32.73	30.37	32.20

### → TAX BURDEN

Given the relative size of our activities in Russia, our tax profile is largely determined by the taxes payable in Russia (based on records maintained under Russian legislation – not US GAAP). In 2013, 2012 and 2011, the tax charge on the operations in Russia was approximately 88% of our total tax charge.

Apart of income tax, fundamental taxes specific to the oil industry in Russia are mineral extraction tax, excise and export tariffs. In addition to above mentioned taxes, we are subject to a number of other taxes in Russia, including social taxes, property tax, VAT and other local and regional taxes.

The effective rates of total taxes and tariffs (total taxes, including income taxes, taxes other than on income and excise and export tariffs, divided by income before taxes and tariffs) for 2013, 2012

and 2011, respectively, were 84%, 78% and 80%. In 2013, tax expenses in Russia were about 52% of the domestic and export sales revenue of Russian companies of the Group.

The measures that we use for tax planning and management strategies have been based on our understanding of tax legislation existing at the time of implementation of these measures. We are subject to tax authority audits on an ongoing basis, as is normal in the Russian environment, and, at times, the authorities have attempted to impose significant additional taxes on us. We believe that we have adequately met and provided for tax liabilities based on our interpretation of existing tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

The following table represents average enacted rates for taxes specific to the oil industry in Russia for the respective periods:

		2013 <sup>(1)</sup>	Change to 2012, %	2012 <sup>(1)</sup>	Change to 2011, %	2011 <sup>(1)</sup>
Export tariffs on crude oil	\$/tonne	392.14	(3.0)	404.15	(1.2)	409.19
Export tariffs on refined products						
Middle distillates (jet fuel), diesel fuel and gasoils	\$/tonne	258.78	(3.0)	266.70	(2.8)	274.27
Light distillates						
gasoline	\$/tonne	352.91	(3.0)	363.72	6.4	341.94
straight-run gasoline	\$/tonne	352.91	(3.0)	363.72	9.2	333.08
Liquid fuels (fuel oil)	\$/tonne	258.78	(3.0)	266.70	27.9	208.46
Mineral extraction tax						
Crude oil	RUR/tonne	5,329.58	5.2	5,065.95	13.7	4,456.54
Natural gas	RUR/1,000 m <sup>3</sup>	333.50	32.9	251.00	5.9	237.00

<sup>(1)</sup> Average values.

Tax rates set in rubles and translated at the average exchange rates are as follows:

		2013 <sup>(1)</sup>	Change to 2012, %	2012 <sup>(1)</sup>	Change to 2011, %	2011 <sup>(1)</sup>
Mineral extraction tax						
Crude oil	\$/tonne	167.34	2.7	162.93	7.4	151.65
Natural gas	\$/1,000 m <sup>3</sup>	10.47	29.7	8.07	0.1	8.06

<sup>(1)</sup> Average values.

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

**Crude oil extraction tax rate** is determined by adjusting the base rate depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to \$15.00 per barrel. Each \$1.00 per barrel increase in the international Urals blend price over the threshold (\$15.00 per barrel) results in an increase of the tax rate by \$1.80 per tonne extracted (or \$0.25 per barrel extracted using a conversion factor of 7.33) above the base rate.

In 2013, the base rate was 470 rubles per metric tonne extracted (446 rubles in 2012). For 2014, the base rate is set at 493 rubles per metric tonne extracted.

The crude oil extraction tax rate varies depending on the development and depletion of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea and the Nenetsky Autonomous District, depending on the period and volume of production.

The Group produces crude oil in the Caspian Sea and benefits from the application of a zero extraction tax rate.

**Natural gas extraction tax rate.** The mineral extraction tax on natural gas produced by independent producers in Russia is calculated using a flat rate. Since July 2013, the rate was set at 402 rubles per thousand cubic meters. In the first half of 2013, the rate was 265 rubles per thousand cubic meters, while in 2012 the rate amounted to 251 rubles. For 2014, the rate is set at 474 rubles per thousand cubic meters.

**Crude oil export duty rate** is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately \$15.00 per barrel (\$109.50 per metric tonne). If the Urals blend price is between \$15.00 and \$20.00 per barrel (\$146.00 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$15.00 results in an increase of the crude oil export duty rate by \$0.35 per barrel exported. If the Urals blend price is between \$20.00 and \$25.00 per barrel (\$182.50 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$20.00 results in an increase of the crude oil export duty rate by \$0.45 per barrel exported. Each \$1.00 per barrel increase in the Urals blend price over \$25.00 per barrel results in an increase of the crude oil export duty rate no more than by \$0.65 per barrel exported. Starting from October 1, 2011, the maximum increase of export duty rate is \$0.60 per barrel for each \$1.00 per barrel increase in the Urals blend price.

The crude oil export duty rate is revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. The list of the oilfields where the reduced rate applies includes our Yu. Korchagin and V. Filanovsky oilfields located in the Caspian Sea.

**Export duty rates on refined products** prior to 2011 were set by the Russian government. The rate of export duty depended on internal demand for refined products and international crude oil market conditions. Starting from 2011, export duty rates on refined products are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

Multiplier for:

Light distillates (except for gasolines), middle distillates (jet fuel), diesel fuel, gasoils, liquid fuels (fuel oil), motor and other oils, other products	0.660
Gasolines	0.900

**Crude oil and refined products exported to the member countries of the Custom Union** – Belarus and Kazakhstan, are not subject to export duties.

In other countries where the Group operates, excises are paid either by producers or retailers depending on the local legislation.

**Excise on refined products.** The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). Only domestic sales volumes are subject to excises.

Excise rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for 2013, 2012 and 2011 are listed below:

		2013	Change to 2012, %	2012	Change to 2011, %	2011
Gasoline						
Below Euro-3	RUR/tonne	10,100.00	26.6	7,976.37	33.1	5,995.00
Euro-3	RUR/tonne	9,750.00	27.7	7,633.37	34.6	5,672.00
Euro-4	RUR/tonne	8,761.64	28.4	6,822.00	32.6	5,143.00
Euro-5	RUR/tonne	5,448.99	(8.8)	5,977.91	16.2	5,143.00
Diesel fuel						
Below Euro-3	RUR/tonne	5,860.00	39.5	4,199.55	52.5	2,753.00
Euro-3	RUR/tonne	5,860.00	44.4	4,058.33	63.3	2,485.00
Euro-4	RUR/tonne	5,017.68	40.9	3,562.00	58.5	2,247.00
Euro-5	RUR/tonne	4,417.68	35.5	3,260.36	45.1	2,247.00
Motor oils	RUR/tonne	7,509.00	23.7	6,072.00	29.7	4,681.00
Straight-run gasoline	RUR/tonne	10,229.00	30.7	7,824.00	28.5	6,089.00



		2013	Change to 2012, %	2012	Change to 2011, %	2011
Gasoline						
Below Euro-3	\$/tonne	317.13	23.6	256.53	25.8	204.00
Euro-3	\$/tonne	306.14	24.7	245.50	27.2	193.01
Euro-4	\$/tonne	275.11	25.4	219.41	25.4	175.01
Euro-5	\$/tonne	171.09	(11.0)	192.26	9.9	175.01
Diesel fuel						
Below Euro-3	\$/tonne	184.00	36.2	135.06	44.2	93.68
Euro-3	\$/tonne	184.00	41.0	130.52	54.4	84.56
Euro-4	\$/tonne	157.55	37.5	114.56	49.8	76.46
Euro-5	\$/tonne	138.71	32.3	104.86	37.1	76.46
Motor oils	\$/tonne	235.78	20.7	195.29	22.6	159.29
Straight-run gasoline	\$/tonne	321.18	27.6	251.63	21.4	207.20

**Income tax.** The federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Until January 1, 2012, there were no provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits. Tax losses could be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss.

Starting from January 1, 2012, if certain conditions are met, taxpayers are able to pay income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG. Certain Group companies met the legislative requirements and pay income tax as a CTG starting from the first quarter of 2012.

Losses generated by a taxpayer before joining a CTG are not available for offset against taxable profits of other participants of the CTG. However, if a taxpayer leaves a CTG, such losses again become available for offset against future profits generated by the same taxpayer. The expiration period of the losses is extended to take account of any time spent within a CTG when the losses were unavailable for use.

#### → TRANSPORTATION OF CRUDE OIL AND REFINED PRODUCTS IN RUSSIA

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, access by crude oil production companies to the markets is dependent on the extent of diversification of the transport infrastructure and access to it. As a result, transportation cost is an important macroeconomic factor affecting our net income.

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of the state-owned company, OAO AK Transneft, or by railway transport.

Transportation of refined products in Russia is performed by railway transport and the pipeline system of OAO AK Transnefteproduct. The Russian railway infrastructure is owned and operated by OAO Russian Railways. Both these companies are state-owned. We transport the major part of our refined products by railway transport.

In Russia, gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System ("UGSS"). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by OAO Gazprom ("Gazprom"). The Federal Service for Tariffs of the Russian Federation regulates natural gas transportation tariffs. We are not able to sell our gas other than through UGSS.

→ YEAR ENDED DECEMBER 31, 2013, COMPARED TO YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011

The table below sets forth data from our consolidated statements of comprehensive income for the periods indicated.

	2013	2012	2011
	(millions of US dollars)		
<b>Revenues</b>			
Sales (including excise and export tariffs)	141,452	139,171	133,650
<b>Costs and other deductions</b>			
Operating expenses	(10,086)	(9,359)	(9,055)
Cost of purchased crude oil, gas and products	(65,924)	(64,148)	(59,694)
Transportation expenses	(6,290)	(6,171)	(6,121)
Selling, general and administrative expenses	(3,849)	(3,755)	(3,822)
Depreciation, depletion and amortization	(5,756)	(4,832)	(4,473)
Taxes other than income taxes	(13,803)	(13,666)	(12,918)
Excise and export tariffs	(22,334)	(22,836)	(22,217)
Exploration expense	(602)	(364)	(532)
(Loss) gain on disposals and impairments of assets	(2,561)	30	(1,663)
<b>Income from operating activities</b>	<b>10,247</b>	<b>14,070</b>	<b>13,155</b>
Interest expense	(488)	(538)	(694)
Interest and dividend income	239	257	211
Equity share in income of affiliates	575	518	690
Currency translation loss	(443)	(512)	(301)
Other non-operating income (expense)	328	(72)	58
<b>Income before income taxes</b>	<b>10,458</b>	<b>13,723</b>	<b>13,119</b>
Current income taxes	(2,051)	(2,738)	(2,678)
Deferred income taxes	(780)	(60)	(615)
<b>Total income tax expense</b>	<b>(2,831)</b>	<b>(2,798)</b>	<b>(3,293)</b>
<b>Net income</b>	<b>7,627</b>	<b>10,925</b>	<b>9,826</b>
Net loss attributable to non-controlling interests	205	79	531
<b>Net income attributable to OAO LUKOIL</b>	<b>7,832</b>	<b>11,004</b>	<b>10,357</b>
Earning per share of common stock attributable to OAO LUKOIL (in US dollars):			
Basic	10.38	14.47	13.30
Diluted	10.18	14.17	13.04

The analysis of the main financial indicators of the financial statements is provided below.

→ SALES REVENUES

Sales breakdown	2013	2012	2011
	(millions of US dollars)		
Crude oil			
Export and sales on international markets other than CIS	22,350	24,414	30,132
Export and sales to CIS	1,920	1,622	2,390
Domestic sales	3,071	1,634	1,571
	<b>27,341</b>	<b>27,670</b>	<b>34,093</b>
Refined products			
Export and sales on international markets			
Wholesale	76,966	75,880	65,060
Retail	10,830	10,724	11,275
Domestic sales			
Wholesale	8,053	8,113	7,349
Retail	9,423	8,690	7,893
	<b>105,272</b>	<b>103,407</b>	<b>91,577</b>
Petrochemicals			
Export and sales on international markets	936	992	1,095
Domestic sales	886	418	914
	<b>1,822</b>	<b>1,410</b>	<b>2,009</b>
Gas and gas products			
Export and sales on international markets	2,295	2,385	1,878
Domestic sales	1,153	1,092	1,001
	<b>3,448</b>	<b>3,477</b>	<b>2,879</b>
Sales of energy and related services	1,575	1,394	1,472
Other			
Sales on international markets	1,178	962	880
Domestic sales	816	851	740
	<b>1,994</b>	<b>1,813</b>	<b>1,620</b>
<b>Total sales</b>	<b>141,452</b>	<b>139,171</b>	<b>133,650</b>

Sales volumes	2013	2012	2011
	(thousands of barrels)		
Crude oil			
Export and sales on international markets other than CIS	207,021	222,466	275,696
Export and sales to CIS	37,881	31,622	45,329
Domestic sales	62,224	33,264	32,699
	<b>307,126</b>	<b>287,352</b>	<b>353,724</b>
	(thousands of tonnes)		
Crude oil			
Export and sales on international markets other than CIS	28,243	30,350	37 612
Export and sales to CIS	5,168	4,314	6 184
Domestic sales	8,489	4,538	4 461
	<b>41,900</b>	<b>39,202</b>	<b>48 257</b>
	(thousands of tonnes)		
Refined products			
Export and sales on international markets			
Wholesale	90,097	85,917	76,313
Retail	6,580	6,568	6,945
Domestic sales			
Wholesale	11,432	11,641	11,024
Retail	9,161	8,856	8,304
	<b>117,270</b>	<b>112,982</b>	<b>102,586</b>
<b>Total sales volume of crude oil and refined products</b>	<b>159,170</b>	<b>152,184</b>	<b>150,843</b>

Realized average sales prices		2013	2012	2011
Average realized price international				
Oil (excluding CIS)	(\$/barrel)	107.96	109.74	109.30
Oil (CIS)	(\$/barrel)	50.70	51.31	52.71
Refined products				
Wholesale	(\$/tonne)	854.26	883.18	852.55
Retail	(\$/tonne)	1,645.94	1,632.81	1,623.53
Average realized price within Russia				
Oil	(\$/barrel)	49.35	49.12	48.06
Refined products				
Wholesale	(\$/tonne)	704.48	696.91	666.62
Retail	(\$/tonne)	1,028.58	981.21	950.51

In 2013, our revenues increased by \$2,281 million, or by 1.6%, compared to 2012 (in 2012 our revenues increased by \$5,521 million, or by 4.1%, compared to 2011). Our revenues from crude oil sales decreased by \$329 million, or by 1.2% (in 2012, revenues from crude oil sales decreased by \$6,423 million, or by 18.8%). Our revenues from sales of refined products increased by \$1,865 million, or by 1.8% (in 2012, revenues from sales of refined products increased by \$11,830 million, or by 12.9%).

### Sales of crude oil

#### → 2013 VS. 2012

Compared to 2012, our international sales volumes decreased by 1,253 thousand tonnes, or by 3.6%, due to decreased export from Russia together with the increased supplies of own crude oil to our overseas refineries. Along with the decrease in crude oil prices, this led to the decrease in our international sales revenue by 6.8%, or by \$1,766 million. At the same time, domestic sales volumes increased nearly two-fold, compared to 2012, due to significant increase of domestic demand and increase of crude oil production in Russia. As a result, in 2013, our domestic sales revenue increased by 87.9%, or by \$1,437 million.

In 2013, our revenue from crude oil export from Russia both to the Group companies and third parties amounted to \$22,885 million.

#### → 2012 VS. 2011

Compared to 2011, our total crude oil sales revenues decreased by \$6,423 million, or by 18.8%, in 2012 as a result of the decrease in sales volumes by 18.8%, or by 9,055 thousand tonnes, due to lower scale of trading operations, increase in refinery throughput and decrease in production.

In 2012, our revenue from crude oil export from Russia both to the Group companies and third parties amounted to \$25,174 million.

### Sales of refined products

#### → 2013 VS. 2012

Compared to 2012, our revenue from the wholesale of refined products outside of Russia increased by \$1,086 million, or by 1.4%. The main reason for this was the increase in sales volumes by 4.9%, as a result of higher volumes of refined products trading. At the same time, our realized wholesale prices decreased by 3.3%, compared to 2012.

Compared to 2012, neither our retail volumes nor retail prices outside of Russia changed significantly, therefore, our international retail sales revenue remained on the level of 2012.

In 2013, our revenue from the wholesale of refined products on the domestic market did not change significantly. Decrease in sales volumes by 209 thousand tonnes, or by 1.8%, was compensated by the increase in sales price by 1.1%.

Our revenue from retail sales in Russia increased by \$733 million, or by 8.4%, in 2013. Retail sales volumes increased by 3.4%, as a result of the increase in domestic demand for motor fuels. Average retail prices in Russia increased by 4.8%, compared to 2012.

In 2013, our revenue from export of refined products from Russia both to Group companies and third parties amounted to \$17,309 million.

#### → 2012 VS. 2011

Compared to 2011, our revenue from the wholesale of refined products outside of Russia increased by \$10,820 million, or by 16.6%, as a result of an increase in sales volumes by 12.6% and prices by 3.6%.

In 2012, our revenue from international retail sales decreased by \$551 million, or by 4.9%. Average prices increased by 0.6% while sales volumes decreased by 5.4%, or by 377 thousand tonnes, mainly as a result of restructuring of our retail network in the USA.

In 2012, our revenue from the wholesale of refined products on the domestic market increased by

\$764 million, or by 10.4%. Our average realized price increased by 4.5% and our sales volumes – by 5.6%.

Our revenue from retail sales in Russia increased by \$797 million, or by 10.1%, in 2012. Domestic retail sales volumes increased by 6.6% resulting from the increase in domestic demand for motor fuels. Average retail prices in Russia increased by 3.2%, compared to 2011.

In 2012, our revenue from export of refined products from Russia both to Group companies and third parties amounted to \$16,779 million.

### Sales of petrochemical products

#### → 2013 VS. 2012

Our revenue from sales of petrochemical products increased by \$412 million, or by 29.2%, in 2013. Domestic sales volumes increased by 413 thousand tonnes, or by 121.5%, after resuming of the production at our petrochemical plant in the Stavropol region of Russia at the end of the third quarter of 2012. At the same time, in 2013, our international sales volumes

decreased by 18.1%, due to a temporary shutdown of our petrochemical plant Karpatnaftochim Ltd. in Ukraine, which resulted from unfavorable economic conditions.

→ [2012 VS. 2011](#)

In 2012, our revenue from sales of petrochemical products decreased by \$599 million, or by 29.8%, mainly as a consequence of a fire at our petrochemical plant in the Stavropol region of Russia in December 2011. Domestic sales volumes dropped by 55.0% compared to 2011. International sales volumes also decreased by 8.2%.

#### Sales of gas and gas products

→ [2013 VS. 2012](#)

Sales of gas and gas refined products decreased by \$29 million, or by 0.8%, in 2013, compared to 2012.

Gas products wholesales revenue decreased by \$146 million, or by 11.0%, in 2013. Average realized wholesale prices decreased by 2.0% and gas products wholesale volumes decreased by 9.2% as a result of planned overhauls performed at our gas processing plants in the Ural region and Western Siberia in 2013.

In 2013, retail gas products revenue increased by \$12 million, or by 2.0%, compared to 2012.

Natural gas sales revenue increased by \$105 million, or by 6.8%, in 2013 as a result of the increase in natural gas sales price in Russia, compared to 2012.

→ [2012 VS. 2011](#)

Sales of gas and gas refined products increased by \$598 million, or by 20.8%, in 2012.

Gas products wholesales revenue increased by \$129 million, or by 10.8%, in 2012. Average realized wholesale prices for gas products decreased by 2.4%, while sales volumes increased by 13.6%.

Retail gas products revenue remained on the level of 2011.

Natural gas sales revenue increased by \$422 million, or by 48.8%, in 2012. This revenue increased both domestically and internationally. In the domestic market, this was mainly a result of the increase in the selling price to Gazprom by 37.0%. The main reason for the rise of revenue outside of Russia was the increase of both sales volumes and prices in Uzbekistan.

#### Sales of energy and related services

→ [2013 VS. 2012](#)

Our revenue from sales of electricity, heat and related services increased by \$181 million, or by 13.0%, in 2013, due to commissioning of a CCGT unit with a capacity of 410 MW in Krasnodar, Russia in late 2012 and another two CCGT units with a combined capacity of 235 MW in Astrakhan, Russia in mid-2013, and consequent increase in volumes of power and capacity generation in 2013.

→ [2012 VS. 2011](#)

In 2012, our revenue from sales of electricity, heat and related services decreased by \$78 million, or by 5.3%. Compared to 2011, the revenue of our power generating subsidiaries increased, among other factors, as a result of commencement of sales of energy to third parties in Ukraine and Bulgaria. At the same time, the volume of resale operations decreased.

#### Sales of other products

Other sales include non-petroleum sales through our retail network, transportation services, rental revenue, crude oil extraction services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

→ [2013 VS. 2012](#)

In 2013, other sales increased by \$181 million, or by 10.0%.

Since obtaining control over the ISAB in September 2012, other sales also include revenue from processing services, rendered by this refinery complex. In 2013, the amount of this revenue totaled \$218 million.

→ [2012 VS. 2011](#)

In 2012, other sales increased by \$193 million, or by 11.9%. This increase includes \$85 million of revenue from processing operations at ISAB during September-December 2012.

## → OPERATING EXPENSES

Operating expenses include the following:

	2013	2012	2011
	(millions of US dollars)		
Hydrocarbon extraction expenses	4,335	3,861	3,771
Own refining expenses	2,170	1,669	1,418
Refining expenses at third parties and affiliated refineries	286	798	897
Cost of processing operations at ISAB	185	64	–
Expenses for crude oil transportation to refineries	1,265	1,241	1,060
Power generation and distribution expenses	717	619	617
Petrochemical expenses	320	303	343
Other operating expenses	808	804	949
<b>Total operating expenses</b>	<b>10,086</b>	<b>9,359</b>	<b>9,055</b>

The method of allocation of operating expenses above differs from the approach used in preparing the data for [Note 21 “Segment information”](#) to our consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Our operating expenses increased by \$727 million, or by 7.8%, compared to 2012.

### Hydrocarbon extraction expenses

Our extraction expenses include expenditures related to repairs of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, cost of extraction of natural gas liquids, property insurance of extraction equipment and other similar costs.

#### → 2013 VS. 2012

In 2013, our extraction expenses increased by \$474 million, or by 12.3%, as a result of the increase in energy costs triggered by the tariffs growth, repairs, artificial stimulation of reservoirs and maintenance costs. In 2013, \$68 million of the extraction expenses growth refer to ZAO Samara-Nafta, acquired in April 2013. Our average hydrocarbon extraction cost increased from \$5.04 per BOE to \$5.58 per BOE, or by 10.7%, in 2013.

#### → 2012 VS. 2011

In 2012, our extraction expenses increased by \$90 million, or by 2.4%. Increase in costs of artificial stimulation of reservoirs, power supply, repairs and maintenance and labor costs was largely compensated by devaluation of ruble against the US dollar.

Our average hydrocarbon extraction cost increased from \$4.96 per BOE in 2011 to \$5.04 per BOE in 2012.

### Own refining expense

#### → 2013 VS. 2012

Our own refining expenses increased by \$501 million, or by 30.0%, compared to 2012.

In 2013, refining expenses at our domestic refineries increased by 1.3%, or by \$15 million. The growth of expense related to higher volumes of production and increased energy costs was partially offset by decreased consumption and cost of additives.

Refining expenses at our international refineries increased by 92.0%, or by \$486 million. The increase was mainly due to obtaining control over ISAB in September 2012 ([see Refining, marketing and trading section for details](#)).

#### → 2012 VS. 2011

Our own refining expenses increased by \$251 million, or by 17.7%, in 2012.

Refining expenses at our domestic refineries increased by 2.6%, or by \$29 million, compared to 2011. The increase of expenses due to higher consumption and cost of additives and overhauls was partially offset by the ruble devaluation.

Refining expenses at our international refineries increased by 72.5%, or by \$222 million, compared to 2011. The increase was mainly due to obtaining control over ISAB in September 2012 ([see Refining, marketing and trading section for details](#)).

### Refining expenses at third party and affiliated refineries

Along with our own production of refined products we refine crude oil at third party and affiliated refineries both in Russia and abroad.

→ 2013 VS. 2012

In 2013, refining expenses at third party and affiliated refineries decreased by 64.2%, or by \$512 million, as a result of obtaining control over ISAB in September 2012 (*see Refining, marketing and trading section for details*) and ceasing of crude oil processing at third party refineries in Belarus since September 2013.

→ 2012 VS. 2011

In 2012, refining expenses at third party and affiliated refineries decreased by 11.0%, or by \$99 million. The decrease to 2011 was due to obtaining control over ISAB in September 2012 (*see Refining, marketing and trading section for details*). This was partially offset by commencement of crude oil processing at third party refineries in Belarus in the beginning of 2012.

### Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to delivery of the Group's own crude oil to refineries for further processing.

→ 2013 VS. 2012

In 2013, our expenses for crude oil transportation to refineries increased by \$24 million, or by 1.9%. The increase in volume of supplies of crude oil produced by the Group in Russia to our refineries outside the Custom Union, compared to 2012, was partially offset by ceasing of crude oil processing at third party refineries in Belarus since September 2013.

→ 2012 VS. 2011

In 2012, expenses for crude oil transportation to refineries increased by \$181 million, or by 17.1%. The increase was largely due to supplies of our crude oil to the refineries in Belarus, where we commenced crude oil processing in the first quarter of 2012.

### Petrochemical expenses

→ 2013 VS. 2012

In 2013, operating expenses of our petrochemical plants increased by \$17 million, or by 5.6%, compared to 2012. The increase of expenses in Russia related largely to resuming production at our petrochemical plant in the Stavropol region of Russia at the end

of the third quarter of 2012 was partially compensated by the decrease of expenses at our petrochemical plant Karpatnaftochim Ltd. in Ukraine as a result of its temporary shutdown due to unfavorable economic conditions.

→ 2012 VS. 2011.

In 2012, operating expenses of our petrochemical plants decreased by \$40 million, or by 11.7%, compared to 2011. Despite the sharp decrease in production as a result of the fire that destroyed the ethylene production unit at our plant in the Stavropol region of Russia, operating expenses of the plant didn't decrease significantly due to overhauls at other plant units. The effect of the decreased production at the Group's other petrochemical plants and the devaluation of local currencies against the US dollar also contributed to the decrease of expenses, but were partially offset by the effect of obtaining control over ISAB, which has some petrochemical production lines, in September 2012.

### Power generation and distribution expenses

→ 2013 VS. 2012

In 2013, power generation and distribution expenses increased by \$98 million, or by 15.8%, due to commissioning of a CCGT unit with a capacity of 410 MW in Krasnodar, Russia in late 2012 and two CCGT units with a combined capacity of 235 MW in Astrakhan, Russia in mid-2013, and consequent increase in volumes of power generation in 2013.

→ 2012 VS. 2011.

In 2012, power generation and distribution expenses increased by \$2 million, or by 0.3%.

### Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely rendering of transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

→ 2013 VS. 2012

Other operating expenses increased by \$4 million, or by 0.5%, in 2013.

→ 2012 VS. 2011

In 2012, other operating expenses decreased by \$145 million, or by 15.3%, driven largely by movements of the fair value of liabilities related to asset retirement obligations.



#### → COST OF PURCHASED CRUDE OIL, GAS AND PRODUCTS

Cost of purchased crude oil, gas and products includes the cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of crude oil and refined products sales.

#### → 2013 VS. 2012

Cost of purchased crude oil, gas and products increased by \$1,776 million, or by 2.8%, in 2013. The increase in the refined products trading volumes was partially offset by the decrease in international crude oil prices.

In 2013, we recognized a \$200 million net loss from hedging, compared to a \$321 million net loss in 2012.

#### → 2012 VS. 2011

Cost of purchased crude oil, gas and products increased by \$4,454 million in 2012, or by 7.5%, compared to 2011, mainly driven by the movements in refined products trading volumes.

In 2012, we recognized a \$321 million net loss from hedging, compared to a \$657 million net loss in 2011.

#### → TRANSPORTATION EXPENSES

#### → 2013 VS. 2012

Our transportation expenses increased by \$119 million, or by 1.9%, compared to 2012. The increase in transportation expenses was due to a change in sales structure. In 2013, we increased export of refined products from Russia and decreased export of crude oil together with an increase in domestic sales. The higher level of transportation tariffs for refined products, compared to those for crude oil, resulted in the increase of transportation expenses.

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed to 2012 as follows: crude oil pipeline tariffs decreased by 2.3%, railway tariffs for refined products transportation increased by 4.8%, crude oil freight rates decreased by 5.4%, and refined products freight rates decreased by 13.1%.

#### → 2012 VS. 2011

Our transportation expenses did not change significantly compared to 2011.

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed to 2011 as follows: crude oil pipeline tariffs increased by 2.8%, railway tariffs for refined products

transportation decreased by 3.6%, crude oil freight rates increased by 10.6%, and refined products freight rates increased by 6.2%.

#### → DEPRECIATION, DEPLETION AND AMORTIZATION

#### → 2013 VS. 2012

Our depreciation, depletion and amortization expenses increased by \$924 million, or by 19.1%, compared to 2012. This was a result of the Company's capital expenditures and the corresponding increase in value of depreciable assets. Moreover, the acquisition of ZAO Samara-Nafta, the increase of production from the Yu. Korchagin field in the Caspian Sea and the effect of obtaining control over ISAB in September 2012 contributed to this increase.

#### → 2012 VS. 2011

Our depreciation, depletion and amortization expenses increased by \$359 million, or by 8.0%, compared to 2011.

#### → EQUITY SHARE IN INCOME OF AFFILIATES

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan and refining operations in Europe. Our largest affiliates are Turgai Petroleum and Tengizchevroil, exploration and production companies operating in Kazakhstan, and Zeeland Refinery. Starting from September 2012, we do not include the results of ISAB in equity share in income of affiliates (*see Refining, marketing and trading section for details*).

#### → 2013 VS. 2012

Our share in income of affiliates increased by \$57 million, or by 11.0%, compared to 2012. The main reason for this was a sharp increase in income of Turgai Petroleum against the background of low net income due to the additional excess profit tax for prior periods accrued by Turgai Petroleum in 2012.

#### → Сравнение 2012 и 2011 гг.

Compared to 2011, our share in income of affiliates decreased by \$172 million, or by 24.9%. The main reasons for this were a decrease of crude oil production by our Kazakhstani affiliates as well as the provision for additional excess profit tax for prior periods accrued by Turgai Petroleum.

→ TAXES OTHER THAN INCOME TAXES

	2013	2012	2011
	(millions of US dollars)		
<b>In Russia</b>			
Mineral extraction taxes	12,333	12,261	11,502
Social security taxes and contributions	517	493	480
Property tax	539	511	538
Other taxes	107	82	77
<b>Total in Russia</b>	<b>13,496</b>	<b>13,347</b>	<b>12,597</b>
<b>International</b>			
Mineral extraction taxes	77	93	92
Social security taxes and contributions	123	111	107
Property tax	32	24	35
Other taxes	75	91	87
<b>Total internationally</b>	<b>307</b>	<b>319</b>	<b>321</b>
<b>Total</b>	<b>13,803</b>	<b>13,666</b>	<b>12,918</b>

→ 2013 VS. 2012

In 2013, taxes other than income taxes increased by 1.0%, or by \$137 million, compared to 2012. Our mineral extraction tax expenses did not change significantly compared to 2012. The effects of growth of mineral extraction tax rate and the increase in domestic crude oil production were offset by the increase in the amount of mineral extraction tax incentive.

In 2013, application of the reduced rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to \$1,921 million mineral extraction tax reduction (\$1,490 million in 2012). Of this amount, \$229 million in 2013 refer to the production from the Yu. Korchagin field in the Caspian Sea (\$129 million in 2012).

→ 2012 VS. 2011

Taxes other than income taxes increased by 5.8%, or by \$748 million, compared to 2011. This was mainly due to the growth of mineral extraction tax expenses in Russia driven by the increase in tax rate.

In 2012, application of decreased rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to \$1,490 million tax reduction (\$1,161 million in 2011). Of this amount, \$129 million refer to production from the Yu. Korchagin field on the Caspian seashore.

## → EXCISE AND EXPORT TARIFFS

	2013	2012	2011
(millions of US dollars)			
<b>In Russia</b>			
Excise tax on refined products	1,950	1,922	1,710
Crude oil export tariffs	10,030	11,315	11,714
Refined products export tariffs	6,263	5,561	5,028
<b>Total in Russia</b>	<b>18,243</b>	<b>18,798</b>	<b>18,452</b>
<b>International</b>			
Excise tax on refined products	3,598	3,355	3,445
Crude oil export tariffs	251	274	319
Refined products export tariffs	242	409	1
<b>Total internationally</b>	<b>4,091</b>	<b>4,038</b>	<b>3,765</b>
<b>Total</b>	<b>22,334</b>	<b>22,836</b>	<b>22,217</b>

### → 2013 VS. 2012

Following the decrease of export duty rate and export volumes in 2013, our crude oil export tariffs decreased by \$773 million, or by 4.4%. Export tariff savings on crude oil produced from the Yu. Korchagin field in the Caspian Sea amounted to \$275 million in 2013. At the same time, compared to 2012, our refined products export tariffs increased as a result of the increase of volumes of refined products exported outside of the Customs Union.

The increase in excise tax expense outside of Russia, compared to 2012, was a result of higher volume of sales subject to excises.

Although the excise rates for motor fuels except for Euro-5 gasoline increased, compared to 2012, the increase of the share of Euro-5 motor fuels in our production in Russia let us secure our excise expenses in 2013, compared to 2012. In 2013, all the gasoline produced by the Group in Russia complied with Euro-5 ecological class, while in 2012 the share of Euro-5 gasoline was lower.

### → 2012 vs. 2011

Export tariffs increased by \$497 million, or by 2.9%, compared to 2011. In Russia, export tariffs for refined products increased by 10.6% despite the decrease of refined products export volumes by 6.2% as a result of a sharp increase in the export duty rate for fuel oil (by 27.9%). The share of fuel oil in the Group export structure in 2012 was approximately 40%. This increase was partially offset by the decrease of crude oil export tariffs, largely, due to a higher share of crude oil export to Belarus. Moreover, export tariff savings

on crude oil produced from the Yu. Korchagin field in the Caspian Sea amounted to

\$150 million in 2012. Expenses for refined products export tariffs outside of Russia refer to export from Belarus, where we commenced crude oil processing in the beginning of 2012.

In Russia, the increase of excise expense to 2011 was driven mainly by the growth of excise rates. Although the excise rates for motor fuels increased significantly compared to 2011, the increase of share of Euro-5 motor fuels in our production let us avoid sharp increase of excise expenses in Russia. In the second half of 2012, all the gasoline produced by the Group in Russia was compliant with Euro-5 ecological class, while in 2011 the share of Euro-5 gasoline was relatively insignificant.

The decrease in excise tax expense outside of Russia to 2011 was a result of lower volume of sales subject to excises as well as of the devaluation of euro and local currencies against the US dollar.

## → EXPLORATION EXPENSES

### → 2013 VS. 2012

Our exploration expenses increased up to \$238 million, or by 65.4%. Dry hole costs amounted to \$314 million in 2013 and \$127 million in 2012.

In 2013, we charged to expense the costs of exploratory wells in Ghana in the amount of \$92 million, in Cote d'Ivoire in the amount

of \$89 million, in Sierra Leone in the amount of \$81 million and in Vietnam in the amount of \$15 million. The costs of signing bonuses, in the total amount of \$35 million, which was also written off in 2013, relate to the projects in Sierra Leone and Vietnam. This was included in Other non-operating income (expense). In Russia, dry hole cost amounted to \$36 million and related mostly to the results of exploratory drilling in the Volga region.

→ 2012 VS. 2011

Our exploration expenses decreased by \$168 million, or by 31.6%, during 2012. Dry hole costs amounted to \$127 million in 2012 and \$417 million in 2011. At the same time, we significantly increased the amount of seismic work in Russia.

In the fourth quarter of 2012, we charged to expense the cost of an exploratory well in Sierra Leone in the amount of \$26 million. In the second quarter, we charged to expense the cost of an exploratory well in Volga region of Russia in the amount of \$50 million.

→ (LOSS) GAIN ON DISPOSALS AND IMPAIRMENTS OF ASSETS

→ 2013 VS. 2012

In 2013, the Company recognized an impairment loss in the total amount of \$2,466 million.

The Company recognized an impairment loss for its exploration and production assets in the amount of \$941 million, including \$510 million related to the Yuzhnoye Khylychuyu oil field in the Timan-Pechora region of the Russian Federation, due to a revision of geological models.

Also, the Company recognized an impairment loss for the assets of Karpatnaftochim Ltd., a petrochemical plant in Ukraine, in the amount of \$411 million due to economic instability and unfavorable economic conditions.

The Company recognized an impairment loss of assets of OOO LUKOIL-Ecoenergo, a power generating company in European Russia, in the amount of \$270 million due to unfavorable market conditions in the energy sector in Southern Russia.

An impairment loss in the amount of \$198 million was recognized in the refining, marketing and distribution segment due to unfavorable market conditions.

The Group recognized an impairment loss in the amount of \$646 million related to goodwill on the acquisition of ISAB due to changes in the economic environment.

In 2013, the cumulative impact of the above mentioned impairment losses on net income attributable to OAO LUKOIL totaled \$2.1 billion and impact on our EBITDA totaled \$2.3 billion.

→ 2012 VS. 2011

In the second quarter of 2012, the Group recognized a gain of \$178 million from sale of 1.5% (10% of our share) in KPO to a state-owned KazMunayGaz. The tax effect of the deal amounted to \$148 million of the income tax expense.

In 2011, as a result of respective analysis the Company recognized an impairment loss for exploration and production assets related to the Yuzhnoye Khylychuyu oilfield in the amount of \$1,261 million. An impact on net income attributable to OAO LUKOIL amounted to \$955 million and an impact on our EBITDA amounted to \$883 million.

→ OTHER NON-OPERATING INCOME (EXPENSE)

→ 2013 VS. 2012

In 2013, we recognized income of \$199 million related to the revaluation to fair value of the Group's 50% interest in ZAO Kama-oil as at the date of acquisition of the remaining 50% interest.

→ 2012 VS. 2011

Other non-operating expense of 2012 represented amounts of individually insignificant gains and losses. In 2011, other non-operating income included the effect of the recalculation of the extraction tax incentive by certain Group companies for prior periods in the total amount of \$433 million.

→ INCOME TAXES

The maximum statutory rate in Russia is 20%. Nevertheless, the actual effective income tax rate may be higher due to non-deductible expenses or lower due to certain non-taxable gains. Moreover, quarterly deviations of the effective income tax rates from the maximum statutory rate may happen due to currency translation losses and gains reported by Russian subsidiaries, that decrease or increase taxable income in the respective periods.

→ 2013 VS. 2012

Our total income tax expense increased by \$33 million, or by 1.2%, compared to 2012. At the same time, our income before income tax decreased by \$3,265 million, or by 23.8%.

In 2013, our effective income tax rate was 27.1%, compared to 20.4% in 2012. The high level of the effective income tax rate in 2013 was mostly due to non-deductible impairment losses (for details see page 22). Moreover, in 2012, our effective income tax rate was supported by tax deductible currency translation losses reported by Russian subsidiaries, whereas in 2013 currency translation gain had the opposite impact and increased our income tax expense.

→ 2012 VS. 2011.

Our total income tax expense decreased by \$495 million, or by 15.0%, compared to 2011. At the same time, our income before income tax increased by \$604 million, or by 4.6%.

In 2012, our effective income tax rate was 20.4%, compared to 25.1% in 2011. The high level of the effective income tax rate in 2011 was mostly due to the impairment loss related to the Yuzhnoye Khylychuyu oilfield.

#### → RECONCILIATION OF NET INCOME TO EBITDA (EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION)

	2013	2012	2011
	(millions of US dollars)		
<b>Net income</b>	<b>7,832</b>	<b>11,004</b>	<b>10,357</b>
Add back:			
Income tax expense	2,831	2,798	3,293
Depreciation and amortization	5,756	4,832	4,473
Interest expense	488	538	694
Interest and dividend income	(239)	(257)	(211)
<b>EBITDA</b>	<b>16,668</b>	<b>18,915</b>	<b>18,606</b>
Adjustment for impairment loss and dry-hole write offs <sup>(1)</sup>	2,587	–	883
<b>Adjusted EBITDA</b>	<b>19,255</b>	<b>18,915</b>	<b>19,489</b>

<sup>(1)</sup> For details see page 76.

EBITDA is a non-US GAAP financial measure. EBITDA is defined as net income before interest, taxes and depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered as operating costs under US GAAP, these expenses primarily represent the non-cash current period

allocation of costs associated with long-lived assets acquired or constructed in prior periods. The EBITDA calculation is commonly used as a basis for some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP. EBITDA does not include our need to replace our capital equipment over time.

→ LIQUIDITY AND CAPITAL RESOURCES

	2013	2012	2011
	(millions of US dollars)		
Net cash provided by operating activities	16,449	18,997	15,514
Net cash used in investing activities	(18,639)	(13,216)	(9,013)
Net cash provided by (used in) financing activities	1,029	(5,680)	(6,023)

→ OPERATING ACTIVITIES

Our primary source of cash flow is funds generated from our operations. In 2013, cash generated from operations decreased by 13.4%, compared to the prior year, and amounted to \$16,449 million. During 2013, the adverse impact of the increase of working capital on our cash flow from operating activity totaled \$1,063 million. At the same time, during 2012, our cash flow from operating activity was supported by a decrease of working capital by \$2,293 million.

→ INVESTING ACTIVITIES

The increase in cash used in investing activities by 41.0%, compared to 2012, mainly resulted from increases in capital expenditures and the acquisition of licenses, as well as acquisitions of subsidiaries.

Our capital expenditures, including non-cash transactions, amounted to \$15,434 million, which was 30.2% higher than in 2012.

	2013	2012	2011
	(millions of US dollars)		
<b>Capital expenditures <sup>(1)</sup></b>			
Exploration and production			
Russia	8,325	7,085	5,132
International	3,483	1,888	1,545
Total exploration and production	11,808	8,973	6,677
Refining, marketing and distribution			
Russia	1,736	1,439	982
International	979	568	324
Total refining, marketing and distribution	2,715	2,007	1,306
Chemicals			
Russia	105	62	55
International	8	28	34
Total chemicals	113	90	89
Power generation and distribution	285	503	196
Other	513	277	224
<b>Total capital expenditures</b>	<b>15,434</b>	<b>11,850</b>	<b>8,492</b>

<sup>(1)</sup> Including non-cash transactions and prepayments.

Capital expenditures in exploration and production segment increased by \$2,835 million, or by 31.6%, compared to 2012. In Russia, the increase was mostly due to higher volumes and the cost of production drilling in the Ural region, the Komi Republic and Western Siberia. Internationally, the increase was largely related to investments in our West Qurnah-2 project in Iraq.

The increase in our refining, marketing and distribution capital expenditures in Russia refers to construction of a vacuum gasoil refinery complex at our refinery in Volgograd and construction of a catalytic cracking unit at the Nizhny Novgorod refinery. Outside

of Russia, the increase in our refining, marketing and distribution capital expenditures was mainly due to continued construction of a heavy residue processing complex at the Bulgarian refinery.

Other capital expenditures refer to investments of OAO Arkhangelskgeoldobycha, a Group company, involved in diamond deposits development in the Arkhangelsk region of Russia.

The high level of capital expenditures in power generation sector in 2012 was a result of fulfillment of our investment program, namely construction of 235 MW combined cycle gas turbine in Astrakhan.

The table below shows our exploration and production capital expenditures in promising new production regions.

	2013	2012	2011
	(millions of US dollars)		
Yamal	338	476	372
Caspian region <sup>(1)</sup>	1,635	1,425	555
Ghana	20	13	216
Cote d'Ivoire	180	44	227
Iraq	2,040	924	203
Uzbekistan	657	477	480
<b>Total</b>	<b>4,870</b>	<b>3,359</b>	<b>2,053</b>

<sup>(1)</sup>Russian and international projects.

Also, in 2013, a Group company paid \$835 million as a second 50% installment for the acquisition of the subsoil rights for the site that includes the Imilorskoye, West Imilorskoye and Istochnoye fields

in Western Siberia. The first 50% payment was made in December 2012.

	2013	2012	2011
	(millions of US dollars)		
<b>Acquisitions of subsidiaries and associates <sup>(1)</sup></b>			
Exploration and production			
Russia	2,397	200	252
International	–	22	500
Total exploration and production	2,397	222	752
Refining, marketing and distribution			
Russia	333	25	10
International	46	658	342
Total refining, marketing and distribution	379	683	352
Power generation and distribution	30	–	–
Less cash acquired	(21)	(19)	(4)
<b>Total acquisitions</b>	<b>2,785</b>	<b>886</b>	<b>1,100</b>

<sup>(1)</sup> Including prepayments related to acquisitions and non-cash transactions.

In 2013, the Company spent \$2.1 billion for the acquisition of 100% of the shares of ZAO Samara-Nafta and \$266 million for the acquisition of the remaining 50% of the shares of ZAO Kama-oil.

In 2012, the Group acquired an additional 20% share in ISAB for \$609 million.

#### → FINANCING ACTIVITIES

In 2013, net movements of short-term and long-term debt generated an inflow of \$4,125 million, compared to an outflow of \$1,266 million in 2012.

In the fourth quarter of 2013, the Company received a loan from OAO Sberbank in the amount of \$1.5 billion, maturing up to 2018. Borrowings under this agreement bear interest at twelve month LIBOR plus 2.50% per annum.

In the second quarter of 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion. The first tranche totaling \$1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche

totaling \$1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In December 2013, the Company paid \$583 million for the remaining 20% interest in ISAB.

In 2012, we purchased Company's stock worth \$128 million and spent \$740 million for purchase of equity-linked notes.

#### → CREDIT RATING

Standard & Poor's Ratings Services increased its long-term corporate credit rating and all debt ratings on the Company to BBB with stable outlook.

Moody's affirmed the Company's long-term corporate family rating and long-term issuer rating of Baa2 with stable outlook.

Fitch Ratings increased the Company's long-term issuer default rating to BBB with stable outlook.



→ **CONTRACTUAL OBLIGATIONS, OTHER CONTINGENCIES  
AND OFF BALANCE SHEET ARRANGEMENTS**

→ **CAPITAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain obligations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

In February 2013, the Group started to construct a vacuum gasoil refinery complex at OOO LUKOIL-Volgogradneftepererabotka. Completion is expected at the end of 2015. As of December 31, 2013, the amount of capital commitment related to this construction is evaluated as \$1,328 million.

In 2012, a construction agreement for a heavy-residue hydrocracking complex at LUKOIL Neftochim Bourgas AD in Bulgaria was signed. Commissioning of the complex is expected in 2015. As of December 31, 2013, the amount of capital commitment related to this construction is evaluated as \$518 million.

Group companies have commitments for capital expenditure contributions in the amount of \$318 million related to various production sharing agreements over the next 24 years.

The Company has signed a three-year agreement for the years 2013-2015 for drilling services with EDC Group Advisory Company Limited. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2013, the amount of capital commitment under this agreement for 2014 is evaluated as \$1,482 million.

The Company has signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2013, the amount of capital commitment under this agreement for 2014 is evaluated as \$215 million.

The Group has signed a number of agreements for the years 2013-2015 for construction of offshore platforms in the Caspian region. As of December 31, 2013, the amount of this capital commitment is evaluated as \$1,371 million.

The Group has a commitment to execute the capital construction program of its power generation segment and under the terms of this program power plants with a total capacity of 890 MW should be constructed. As of December 31, 2013, the amount of this commitment is evaluated as \$87 million.

The following table displays our total contractual obligations and other commitments:

(millions of US dollars)	Total	2014	2015	2016	2017	2018	After
<b>On balance sheet</b>							
Short term debt	156	156	-	-	-	-	-
Long-term bank loans and borrowings	2,660	249	234	217	138	1,590	232
Long-term non-bank loans and borrowings	2	-	-	-	-	-	2
6.375% Non-convertible US dollar bonds, maturing 2014	899	899	-	-	-	-	-
2.625% Convertible US dollar bonds, maturing 2015	1,462	-	1 462	-	-	-	-
6.356% Non-convertible US dollar bonds, maturing 2017	500	-	-	-	500	-	-
3.416% Non-convertible US dollar bonds, maturing 2018	1,500	-	-	-	-	1 500	-
7.250% Non-convertible US dollar bonds, maturing 2019	597	-	-	-	-	-	597
6.125% Non-convertible US dollar bonds, maturing 2020	998	-	-	-	-	-	998
6.656% Non-convertible US dollar bonds, maturing 2022	500	-	-	-	-	-	500
4.563% Non-convertible US dollar bonds, maturing 2023	1,500	-	-	-	-	-	1 500
Capital lease obligation	47	34	12	1	-	-	-
<b>TOTAL</b>	<b>10,821</b>	<b>1,338</b>	<b>1,708</b>	<b>218</b>	<b>638</b>	<b>3,090</b>	<b>3,829</b>
<b>Off balance sheet</b>							
Operating lease obligations	453	154	82	57	43	37	80
Capital commitments in PSAs	318	151	18	18	18	6	107
Capital commitments of power generating segment	87	85	2	-	-	-	-
Capital commitments under contract with EDC Group Advisory Company Limited	1,482	1,482	-	-	-	-	-
Capital commitments of LUKOIL Neftochim Bourgas AD	518	505	13	-	-	-	-
Capital commitments of Volgograd Refinery	1,328	560	750	18	-	-	-
Obligation under contract with ZAO Globalstroy-Engineering	223	215	8	-	-	-	-
Obligation under contracts for the development of the V. Filanovsky oilfield	1,371	595	776 <sup>(1)</sup>	-	-	-	-

<sup>(1)</sup> Amount for 2015 and 2016.

## → LITIGATION AND CLAIMS

On November 27, 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against OAO Arkhangelskgeoldobycha (“AGD”), a Group company, and the Company (together the “Defendants”). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of \$1.2 billion and punitive damages of \$3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. However, on November 21, 2005, due to a procedural error, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals and the Colorado Court of Appeals remanded the case to the District Court. On October 20, 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. On August 23, 2012, the Colorado Court of Appeals affirmed this decision. On July 1, 2013, the Colorado Supreme Court denied ADC’s Petition for Writ of Certiorari. The case in the state court is therefore over.

## → CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with US GAAP requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. [See Note 2 “Summary of significant accounting policies”](#) to our consolidated financial statements for descriptions of the Company’s major

On January 6, 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC’s appeal of the state court’s decision. In a Federal Court case, the Company has filed a Motion to Dismiss and discovery has been stayed pending further action. ADC has appealed the decision to stay discovery to the US District Court. The court hearing took place on November 19, 2013. The ruling of the judge is expected to be issued soon. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group’s financial condition.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group’s operating results or financial condition.

accounting policies. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used.

## → FORWARD-LOOKING STATEMENTS

Certain statements in this document are not historical facts and are “forward-looking.” We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. 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.

These factors include:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations

- the effects of changes in laws, regulations, taxation or accounting standards or practices
- our ability to increase market share for our products and control expenses
- acquisitions or divestitures
- technological changes
- our success at managing the risks of the aforementioned factors.

*This list of important factors is not exhaustive. 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, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, 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.*



# Reference Information

The most complete and up-to-date information about LUKOIL can always be found on the Company's website: [www.lukoil.ru](http://www.lukoil.ru) (Russian) or [www.lukoil.com](http://www.lukoil.com) (English).

The site also provides information about main aspects and results of LUKOIL's business, as well as accurate and up-to-date information about events concerning the Company and the whole spectrum of LUKOIL activities, including details of the Company's social and environmental policies.

The Investor and Shareholder Center on the site presents the company's financial and industrial results, dividend history, share prices, an investor calculator, individual shareholder page, presentations for investors, and Company reports.

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## → PUBLISHED REPORTS

Electronic versions of the following reports are available on the Company web site:

1. Report on Company Business
2. Consolidated Financial Accounts
3. Quarterly Consolidated Financial Accounts
4. Management Discussion and Analysis of the Company's Financial Situation and Results of Operations
5. Analyst Databook
6. Fact Book
7. Sustainability Report
8. Corporate Governance Report
9. Global Trends in Oil & Gas Markets to 2025

## → CONCEPTS AND ABBREVIATIONS USED IN THE REPORT

Mentions of 'OJSC LUKOIL', 'LUKOIL Group', 'the Group', 'LUKOIL', 'the Company', 'we' and 'our' are equivalent for the purposes of this Report and refer to LUKOIL Group of companies, to LUKOIL and/or its subsidiary enterprises, depending upon the context in which the terms are used.

Phrases and words 'business segment' and 'segment' are interchangeable and refer to the division of the Company's operating segments.

Use of the word 'thousand' instead of digits to express numbers (for example '2 thousand' instead of 2,000) indicates that the number is rounded to the nearest thousand and is not exact.

The average ruble/dollar exchange rate for 2013 (31.9 rubles/dollar) is used in conversion of ruble figures for expression in dollars, unless otherwise indicated.

Figures for reserves and production of oil include oil, gas condensate and gas liquids.

Percentage changes in operating results for 2013 presented in million tonnes and calculated using respective indicators in thousand tonnes.

The largest privately owned oil & gas companies in the world are: Shell, Eni, Total, ConocoPhillips, Chevron, BP and ExxonMobil.

## → ABBREVIATIONS USED IN THE REPORT

**boe** – barrels of oil equivalent  
**VGO** – vacuum gasoil  
**ESPO** – oil pipeline Eastern Siberia – Pacific Ocean  
**\$** – US dollars  
**CPC** – Caspian Pipeline Consortium  
**MET** – mineral extraction tax  
**GAAP** – generally accepted accounting principles  
**JV** – joint venture  
**CDU TEK** - Federal State Unitary Enterprise "Central Dispatching Department of Fuel Energy Complex"  
**EBITDA** – earnings before Interest, taxation, depreciation & amortisation  
**ERM** – enterprise risk management  
**IEA** – International energy agency  
**UN** – United Nations

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[www.lukoil.com](http://www.lukoil.com)

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