

TO ACT GLOBALLY



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Oil of Russia magazine talks to Sergey Chaplygin, LITASCO Group CEO



Q: It is ten years now since LITASCO was set up. Could you say a few words about the story behind the company's foundation?

A: In 2000, LUKOIL International Trading and Supply Company (LITASCO) is founded and registered in Geneva, Switzerland, as the "exclusive marketing and supply company, 100% subsidiary of the LUKOIL Group".

Switzerland is at the centre of Europe and the city of Geneva is located at the Western end of the country. Geneva is ideally located to communicate with the rest of the world: China in the morning and the USA in the afternoon. Geneva is a global city and a worldwide centre for diplomacy and international cooperation. Geneva is also described as the third European financial centre after London and Zurich.

Over the past decade, Geneva has become the Number 1 hub for commodities trading which is an improbable role for a city with neither seaport nor oil reserves of its own.

The concentration of major trade finance players, the contact with other Geneva-based oil traders and the proximity to the European market, all support opportunities for growing the business. Little by little, the city has become one of the trading centers of the world and LUKOIL's decision to regroup its trad-

ing offices in Geneva, as the headquarters of 10 offices around the world, has certainly contributed to this positive and innovative business environment.

The city now conducts 33 percent of world petroleum trading, crude oil and petroleum products, and arranges 22 percent of raw materials shipments worldwide.

LITASCO Group today is one of the world's major traders of crude oil and petroleum products on export markets and has established offices in ten countries, extending its reach around the world from the United States to Europe, the Middle East, Central Asia and Singapore.

Q: What is your company's role within the framework of the LUKOIL Group?

A: The LITASCO Group has been responsible for the international trading activities of the LUKOIL Group for the last 10 years.

LITASCO Group international offices and focus of operations



Source: LITASCO SA

We have three main missions: firstly, achieve the highest net-back on the parent company's equity production, secondly act as a supply chain guarantor for LUKOIL affiliates' needs and last but not least carry out entrepreneurial third party trading. Our core activities are divided in three business groups. Export volumes are handled in Geneva and consist of crude oil and petroleum product exports out of the Black Sea and Caspian regions, in the South, and out of the Baltic region in the North. LITASCO's customers are global, and the volumes exported out of Russia are sold worldwide in order to maximize the netbacks to the LUKOIL Group. LITASCO Group also handles transportation by ship, rail, and pipeline to supply LUKOIL's affiliates in the most competitive and reliable manner. This system supply optimization is handled in close cooperation between Geneva and Moscow. Over the years LITASCO has grown significantly its business in international markets with third party barrels.

From 2007, the business model was realigned by product group globally to synergize all offices of the Group and to take advantage of timely business opportunities worldwide. These purchases and sales include spot and term deals, as well as other arrangements such as physical swap deals. We have over 2000 customers and suppliers including all of the world's major oil corporations. This activity generates significant income for the company. LITASCO Group also expanded its influence, especially in Europe, after LUKOIL decided to extend their refining assets outside Russia, acquiring a 49% stake in ERG's ISAB refinery in Italy in December 2008, and a 45% share in TOTAL's Dutch TRN refinery in August 2009. In both cases, the LITASCO Group manages all commercial operations. It includes managing crude oil purchases (supply) on behalf of LUKOIL refining and marketing operations in Eastern Europe (LUKOIL's Romanian and Bulgarian refineries), as well as selling the production out of these assets.



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Geneva in focus

In 2010, over 400 trading companies operate out of Geneva – and their numbers continue to grow. One major reason for this success story is the network that has developed here between trading companies and the banks, services and organizations that support them. When the Egyptian cotton merchants moved their operations to Geneva in the 1950s, they attracted a full range of services: insurance companies, law firms, fiduciaries, forwarding companies, surveillance and security firms, shipbuilders, free ports and warehouses. Perhaps even more important, they stimulated Geneva's private banks and attracted banks specialized in trade finance instruments. Today, Geneva-based banks offer the trading sector a wide range of financial instruments. In the last five years, "low tax rates" and other incentives have transformed the second-largest Swiss city into a major hub of oil and commodity trading. Among other "incentives", Geneva's infrastructure, central location, quality of life and highly educated, multilingual and multinational people have also attracted since the fifties more than 125 multinational companies from many different sectors. While Geneva's banks suffered by the global financial crisis, its commodity and oil community still boomed, and trading houses and hedge funds continued to move there. Physical commodities traders, including majors amongst whom LITASCO SA, all now have offices in Geneva and European hedge fund firms have also opened offices here in recent months. Switzerland is also home to major oil-field services and offshore drilling companies, some of them listed on the Swiss SIX stock exchange.

Source: Geneva Economic Development Office

In 2009, the LITASCO Group traded a total of 115 million tons, including 47 million tons of crude oil and 68 million tons of petroleum products, a 20% growth compared to 2008. System volumes accounted for 49.4% of total trades.

LITASCO Group generated more than US\$ 52 billion of revenue in 2009 (64% of JSC LUKOIL's total revenue).

Q: Human resources are the main asset of any company. Are there any specifics in the HR policy pursued by LITASCO?

A: LITASCO Group today represents over 400 staff in 10 countries. In Geneva we currently have 225 staff and 29 nationalities.

In Geneva office Swiss national's represents around thirty-five percent of LITASCO staff. It can be considered as a "local" multinational Geneva company. But the Russian spirit in LITASCO is undeniable. Our mother company is Russian and a great part of our business is generated by Russia.

Human resources have developed a significant set of HR policies which enhance and improve our retention practice.

Why retention is important for us?

LITASCO HR policies aim at securing our investments in human resources.

In the very competitive and aggressive local labor market faced in Geneva there are two main reasons for that:

Firstly, building internal "talents" is a key strategy to fill crucial skill gaps versus hiring new people.

We focus on developing and harnessing employees' potential and skills to achieve of our business goals. This approach is also a clear source of motivation and benefits both the employee and the company.

Secondly, an essential response for retention of high potential employees and avoid any skill shortage, is to develop technical and business knowledge within the company. Intercompany transfers and networking are also key features of our HR policies as it supports the establishment of a strong corporate culture.

History and activities of LITASCO Group companies



- In March 2000, LITASCO SA is founded in Switzerland as the "exclusive marketing and supply company of the LUKOIL Group".

It is the biggest company in the LITASCO Group, and has also corporate and holding functions.

- In May 2000, Representative Office of the company LITASCO SA was established in Moscow.

Its activity concentrates on export logistics on behalf of LITASCO SA on third party barrels from FSU countries.

- At the end of 2001 LUKOIL Benelux BV was established. The company concentrates on the physical bunker deliveries to sea-going vessels.

- In December 2001, LITASCO SA Filial, Sweden was established.

- In November 2009, K&S TANKER AB became LUKOIL Sweden AB and LITASCO SA Filial Sweden's activities were transferred to this company as per January 2010.

The company predominantly trades gas oil as well as diesel and jet fuel that is supplied

throughout Scandinavia. The company is the biggest supplier of Russian gas oil in Scandinavia and handles all related shipping activities.

- In February 2002, LUKOIL Pan Americas, LLC was established.

The company trades fuel oil, naphtha, intermediate feedstock and other petroleum products in North America, South America and the Caribbean.

- In July 2002, LUKOIL Hamburg GmbH was established.

The company is one of the leading international trading Companies in the naphtha and condensate market.

- In September 2004, LITASCO Middle East DMCC was established.

The company trades finished petroleum products, intermediate feedstock, blend components and crude oil in the Middle East and in Africa.

- LUKOIL Asia Pacific PTE LTD established in 1999 as a LUKOIL subsidiary, joined the LITASCO Group in 2004.

The company specializes in petroleum products, lubricant, marine fuels and chemicals trading in South East Asia and the Far East.

- In February 2005, LITASCO SA Beijing Representative Office was established.

Its activity consists in representing LITASCO SA in China in order to market fuel oil and feedstock, crude oil, petrochemicals, lubricants.

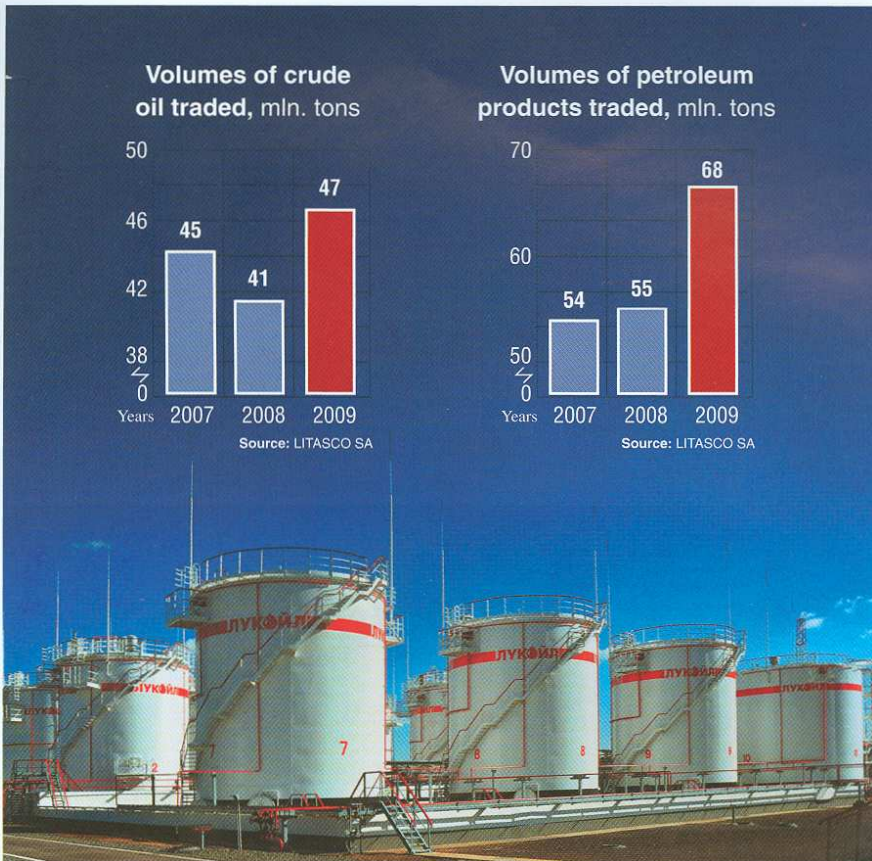
- In 2007, EIGER SHIPPING SA a wholly owned subsidiary of LITASCO SA was established in Switzerland.

Through vessel and cargo optimization, EIGER SHIPPING ensures secure and cost efficient transportation of all LITASCO Group's cargoes worldwide. EIGER SHIPPING's staff works closely with the trading departments of the LITASCO Group by securing the appropriate tonnage in order to meet their requirements.

- In May 2010, LITASCO SA Central Asia Branch Office, in Astana, Kazakhstan starts its activity.

The business consists in purchasing crude on the local market, its refining as well as local wholesale sales. Other activities will be export and/or import of crude oil/petroleum products to and from Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and Afghanistan.

- In July 2010 LITASCO SA London Representative Office was established.



A: We have several key areas for development.

First, we have entered or grown our presence in new product and market segments. For instance we developed significantly our business in different commodities flows (e.g. petrochemical products). We have also expanded our presence in the LPG, bio fuels and blending components markets. In 2010, we started emissions trading activity (CO₂ allowances), with the aim to become the Group's optimization center. We will continue to concentrate on developing our financial trading to match our expansive physical trading activities while monitoring both with robust risk management controls. "Intellectual" or proprietary trading activity will continue to increase particularly where information from our physical flows can be appropriately leveraged. And finally, an emphasis has been put on developing proprietary storage positions. The extension of the STR terminal started in 2006. Entirely dedicated to our fuel oil business, this JV terminal is currently

Q: How does social partnership fit in the company's activities?

A: We have always focused on becoming active members of very important local industry associations or business networks. LITASCO SA Top Management has for example been one of the founders of the Geneva Trading & Shipping Association (GTSA).

With GTSA, LITASCO SA is highly involved in newly created Oil Industry Educational Programs and Partnerships provided by Geneva Institutions. As an example, the Geneva University, with the Master of Arts in International Trading, Commodity Finance and Shipping and the Diploma of advanced studies in Commodity Trading or the HES-HEG Geneva Business School providing with the Commodities Trading Program.

LITASCO SA top management intervenes on a regular basis as lecturers in those programs.

Those programs are direct providers of human resources in the local very competitive environment.

We are also member of the Groupement des Entreprises Multinationales (GEM), which is a high level network for HR professionals working in multinational companies creating and maintaining re-

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lationships with different stakeholders, including local authorities as well as the Geneva Trade Chamber (Chambre de commerce, d'industrie et des services de Geneve CCIG), which is a private association grouping more than 2000 companies of all sizes with the mission of representing member companies interests.

Since 2000, LITASCO SA has been a partner of the Geneva Chamber Orchestra (OCG) and supports this unique ensemble in its further growth and development.

The Geneva Chamber Orchestra is of the highest caliber, unique in the Lemman basin for its original baroque repertoire, personal sound and historical interpretation.

Together we have created several top musical events such as the now well established Christmas Concerts.

Q: What are the plans for development of LITASCO over the next few years?

undergoing significant developments, which will make it a "state of the art" commercial tool for our blending and bunkering activities. This strategic position allows us to be one of the prominent players in one of the world's most competitive market: the Amsterdam Rotterdam Antwerp area.

On July 29, 2010, in line with the LITASCO Group strategy to develop its commercial activities globally and increase its presence in key oil markets, we established a joint venture with Barcelona based oil company Meroil S.A. in Spain for the extension of the existing Meroil terminal in the Port of Barcelona. This new capacity will further reinforce the LUKOIL Group's trading and supply infrastructure in the Mediterranean region.

All petroleum grades as well as biofuels will be handled at the terminal, received by vessels of up to 150 kt, and will be re-exported or dispatched in Spain, on trucks or via Spain's CLH pipeline system. ■