LUKOIL
OIL COMPANY

LITASCO SA
LUKOIL INTERNATIONAL TRADING AND SUPPLY COMPANY

International Oil Market and Oil Trading

Gati Al-Jebouri, CEO LITASCO SA
Haute Ecole de Gestion, Geneva, September 19, 2008

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KEY DETAILS OF THE LITASCO GROUP

LITASCO Corporate structure

- 100% subsidiary of OAO LUKOIL (Moscow)
- Headquarters and company registration in Geneva
- Over 300 staff in 14 countries (~ 180 in Geneva)

2007 Results

- Total sales of USD 53.4 billion (about 60% of OAO LUKOIL turnover)
- Operating profit of USD 315 mln
- Crude oil sales of 44.8 million mt
- Product sales of 55.8 million mt

Source: LITASCO SA, LUKOIL

WHERE DOES LITASCO ADD VALUE?

LITASCO's mission as LUKOIL's trading arm, is to add value to LUKOIL's crude and products after they leave the export location point

Point of final sale

LITASCO value add area

Wellhead

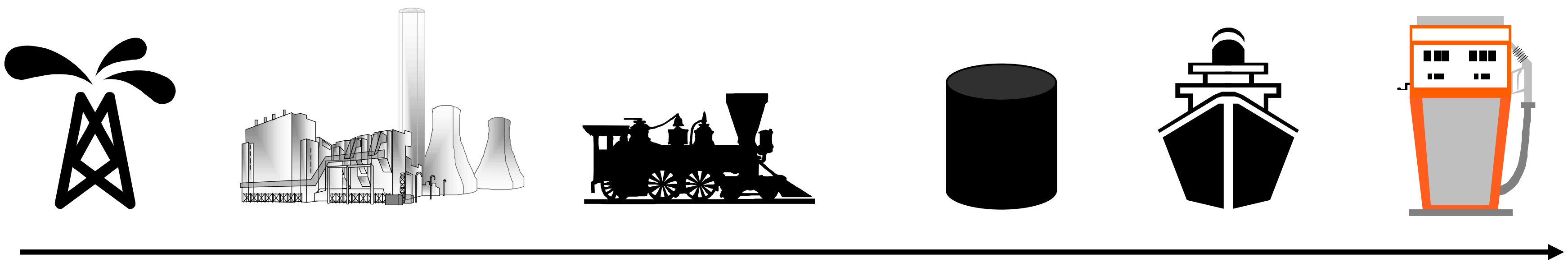
Refinery gate

Inland transportation

Shore tanks

Sea transport

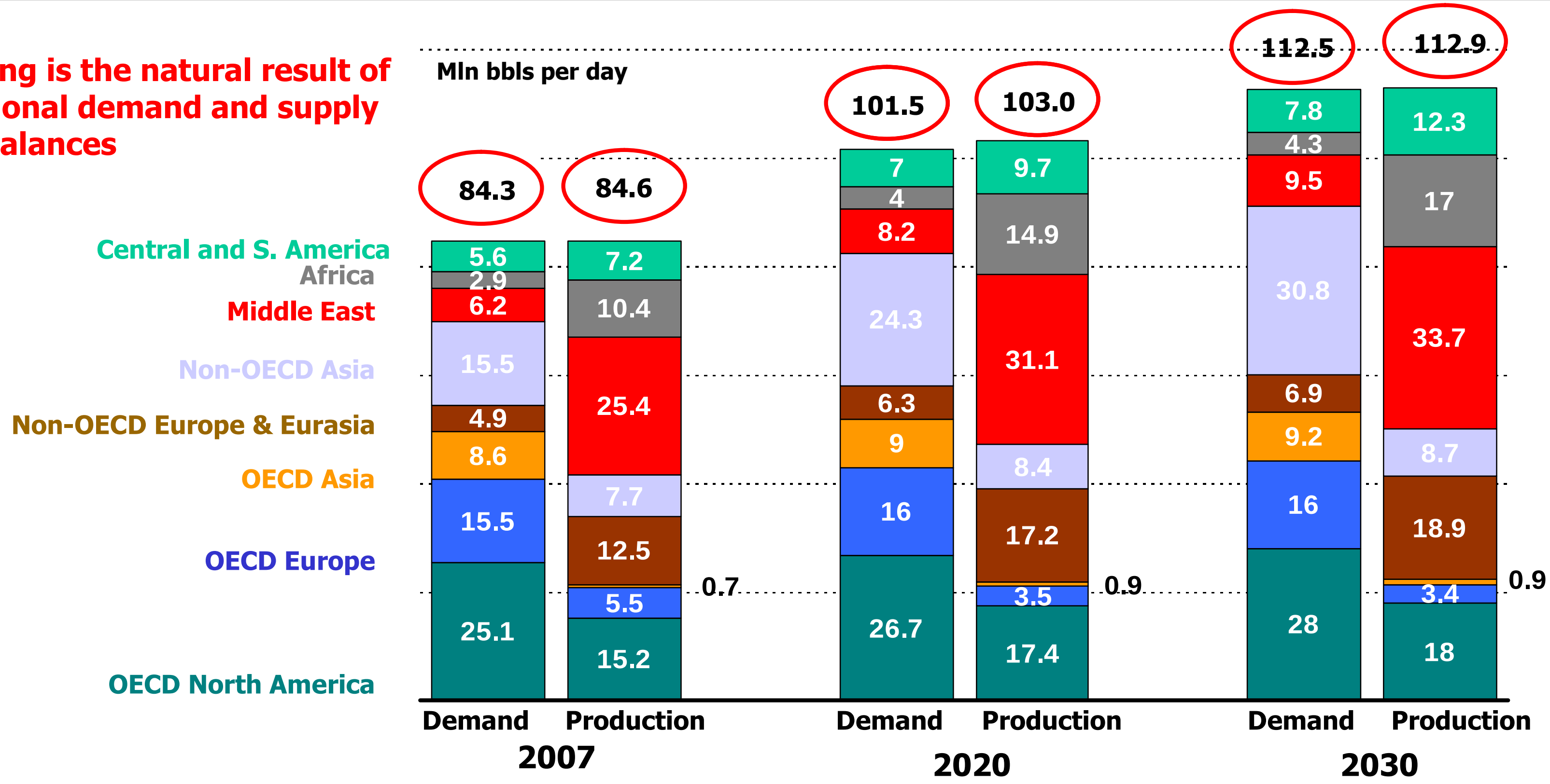
Delivered to end customer



Hydrocarbon flow - from wellhead to pump

GLOBAL OIL DEMAND VS PRODUCTION BY REGION THROUGH 2030

Trading is the natural result of regional demand and supply imbalances



- **World overall oil consumption is forecast to grow at 1.2% per year over the next 25 years**
- **OECD world oil demand is forecast to grow at 0.3% per year over the same period while non-OECD world oil demand is forecast to grow at 2.2% per year**
- **The fastest growing market will be China (+3.4% per year over the next 5 years)**
- **World oil production capacity is forecast to grow at 1.4% per year over the next 25 years**
- **Large oil producers are forecast to meet the increase in demand over the same period:**
  - **OPEC: +1.3% per year**
  - **Caspian area: +3.6% per year**
- **Large oil consumers will see their local production lag behind:**
  - **North America: +0.7% per year over the next 25 years**

Source: History: Energy Information Administration (EIA),Office of Energy Markets and End Use, 2008. Projections: EIA, Generate World Oil Balance Model (2008), International oil outlook 2008, Litasco SA analysis

WHAT DOES A TRADING COMPANY DO?

- Buy and sell physical and paper barrels
- Match supplier and consumer requirements through:
  - flexible pricing / financing
  - customized delivery patterns
  - price risk management

- **Trading companies take advantage of location or quality imbalances, shipping optimization and price structure. They rely on financial instruments to hedge or manage their price risk exposure**
- **By doing so, they ensure that customer's demand requirements are met while sourcing from prevailing, most commercially attractive supply region**

TRADING FOCUS OF LITASCO'S MAIN INTERNATIONAL OFFICES

	LUKOIL Pan Americas	LUKOIL Benelux	LITASCO Geneva	LUKOIL Hamburg	LITASCO Sweden	LUKOIL Asia Pacific
Focus of operations	Crude oil and all products	Local market fuel oil and marine fuels	Crude oil All products Petrochemicals	Naphtha Gasoil Gasoline	Local market gasoil sales	Marine fuels in Singapore Trading all products in Singapore and the Middle East
Main markets served	Transatlantic Caribbean US	Benelux coast Baltic-Benelux Benelux-Far East/US	Baltic - W Europe Black Sea – Mediterranean NW Russia - Europe	Africa-Western Europe	Intra-Scandinavian (Gothenburg-Copenhagen)	Persian Gulf–India–SE Asia
Volume traded 2007 million mt	10.3	4.7	85.8	3.1	0.7	6.2

MAIN CATEGORIES OF PARTICIPANTS IN THE INTERNATIONAL OIL MARKET

	Examples	Participation in the market
National Oil Companies (NOCs)	Saudi Aramco, INOC, PDVSA, KPC, etc	– NOCs mostly sell under term contracts (NOCs account for 70% of world production and for most of the OPEC production) – Limited number of term contracts prevent re-selling to third parties
International Oil Majors and Their Trading Arms	ExxonMobil, Total, Chevron, ConocoPhillips, BP, Shell, LUKOIL , etc	– Privately owned international majors are large vertically integrated companies that are present in all the activities along the supply chain (upstream exploration and production, refining, trading, downstream distribution and marketing through fuel distribution networks) – Majors do not trade all of their production, because an important part of it is devoted to the needs of their own supply chain system – Majors have a risk aversion corporate profile that discourages high levels of exposure to price risks and the resulting "speculation"
Independent Oil Trading Companies	Vitol, Glencore, Sempra, Trafigura, etc	– Trade energy and other commodities while holding few or no production assets – Actively trade in spot physical and derivatives markets
Financial houses and non industry speculators	Morgan Stanley, J. Aron, hedge funds, etc	– Trade a wide spectrum of commodities while offering other financial products and services – Have a controlled speculative exposure in oil derivatives markets, similar to other financial markets

OIL AND TOTAL ENERGY WORLD CONSUMPTION

The world's total energy consumption is over 460 quadrillion BTU. Along with electricity, natural gas and coal, petroleum plays a central role in satisfying the demand: its contribution is around 36% of total energy consumption

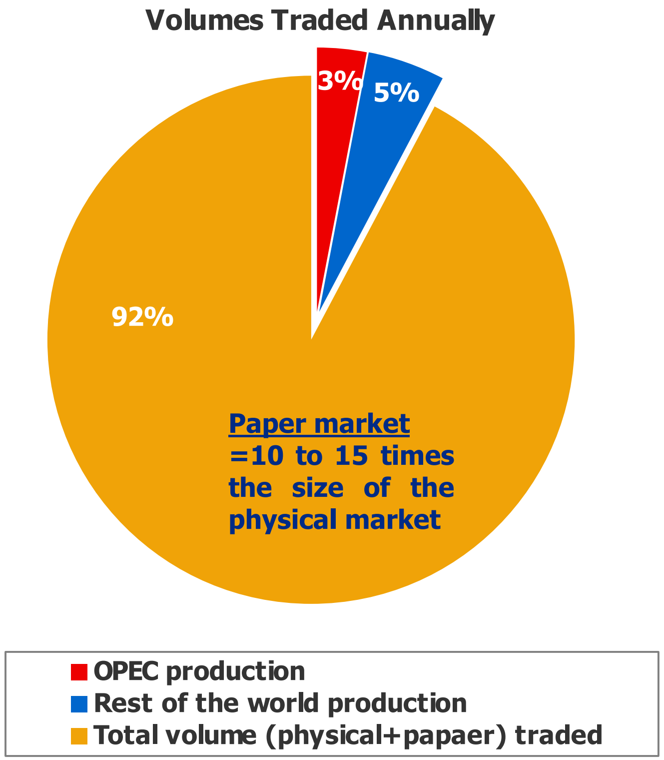
World share of petroleum consumption by sector*

Sector	% of total consumption
Transportation	51%
Industrial	33%
Electric power generation	7%
Residential	6%
Commercial	3%

- **The transportation and the industrial sectors are the main consumers of petroleum**
- **The consumption of these two sectors is projected to continue to grow in the future, while consumption of the other sectors will stay stable**
- **Transportation consumes petroleum products, such as gasoline and gasoil (motor vehicles), bunker fuel oil (marine transportation), jet fuel / kerosene (aviation)**
- **The industrial sector is composed by the chemical and the petrochemical industries that use products, such as LPG and naphtha as feedstock**

* Source: EIA – International Energy Outlook 2007

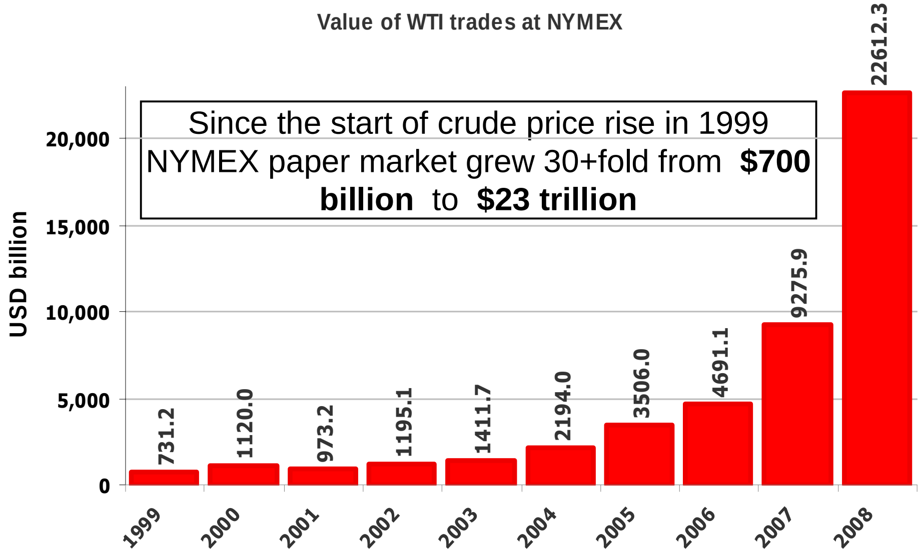
Evolution of oil trading - Physical commodity markets, derivatives markets and price determination

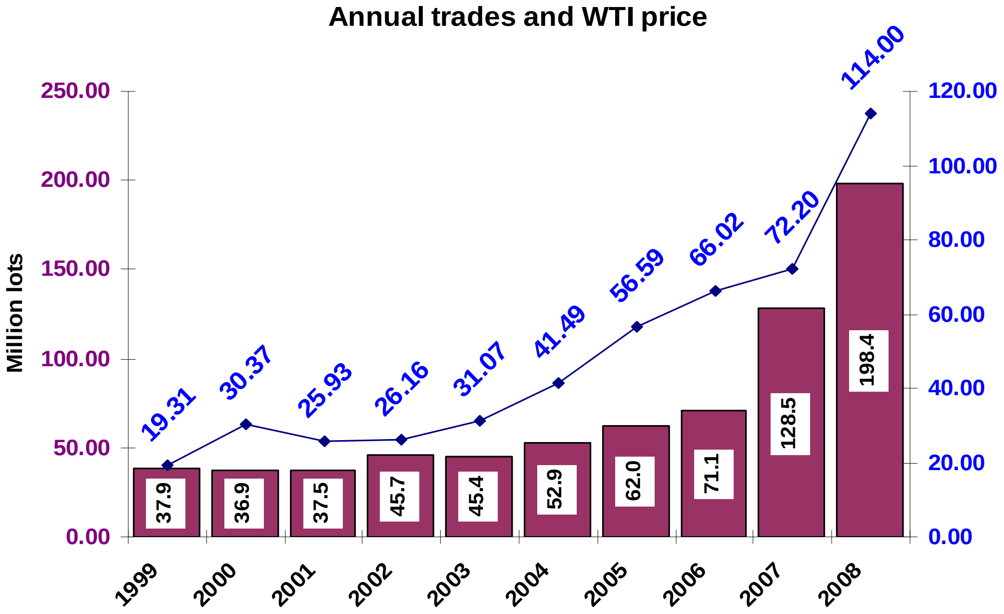


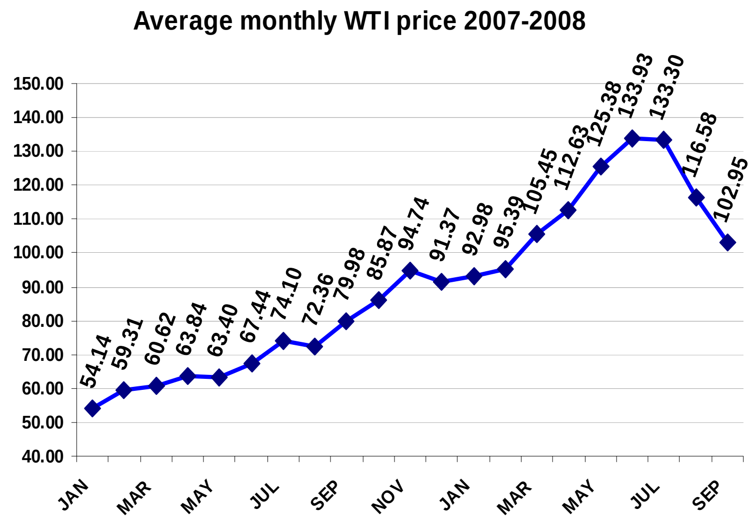
- Crude oil and all major refined petroleum products trade on international markets
- Liquid and transparent futures markets allow participants to « hedge » their spot and term supply contracts prices in the forward months
- Appropriate financial instruments enable industry participants to manage their price risk exposure and offer additional profit opportunities
- The main price indexes known to the general public today are futures
  - WTI: traded on the NYMEX
  - Brent: traded on the ICE in London

- In the modern oil markets, far greater volumes are traded on the derivatives (paper) markets than on physical markets
- Because of the vast liquidity and transparency of the futures contracts, physical oil prices are driven by the paper market
- Financial players and "speculators" such as hedge funds trade on these markets in addition to traditional industry participants (producers, refiners, end users)

Paper market growth – what does it mean in US$ terms?

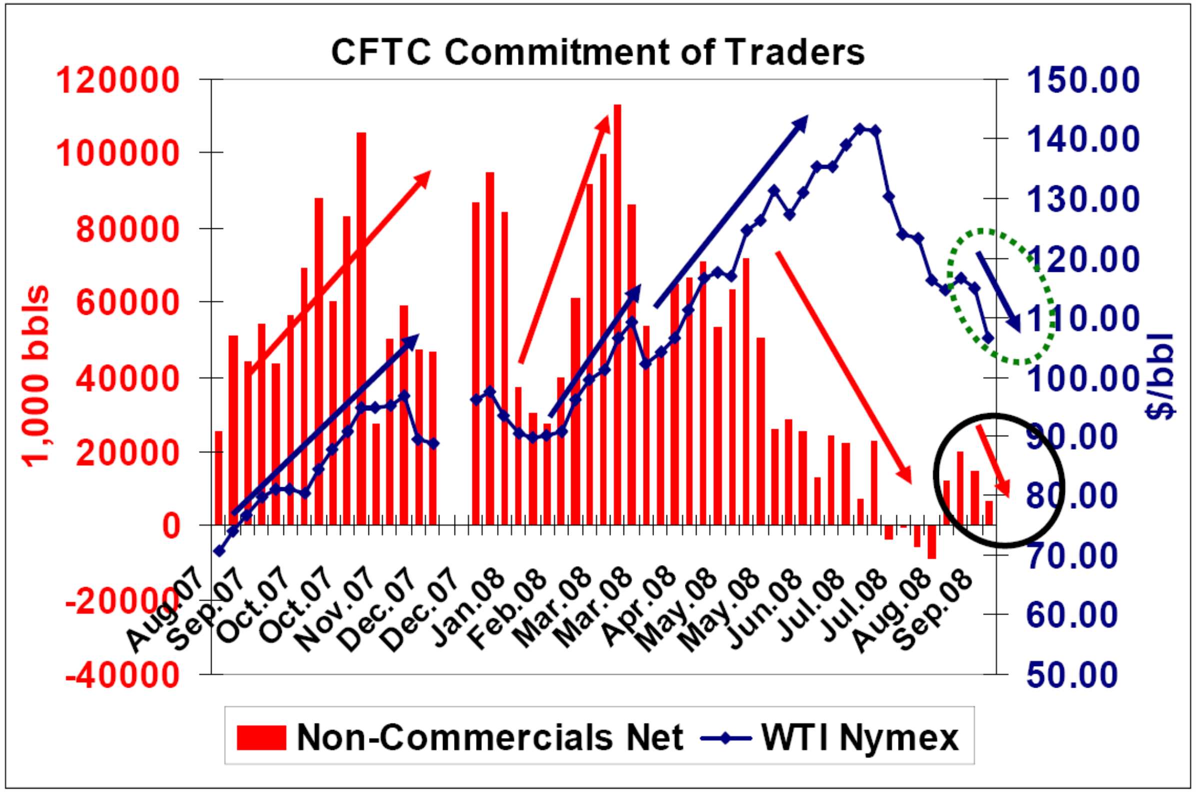






Source: Nymex, Litasco * 2008 Extrapolated from Jan-Sept 2008 results

Paper market influence over oil prices



- Non commercial players (hedge funds, investors and entities with no direct involvement in oil) drive the market prices according to their global investment positions
- When building up long net positions oil prices rise…
- …Conversely when those long positions are unwound or when they initiate short positions first oil prices decline
- As traded paper barrels outnumber physical barrels (about: x10 times) oil producers have limited leverage to drive prices

Source: CFTC / LITASCO

*Net position: “Longs” minus “Shorts”

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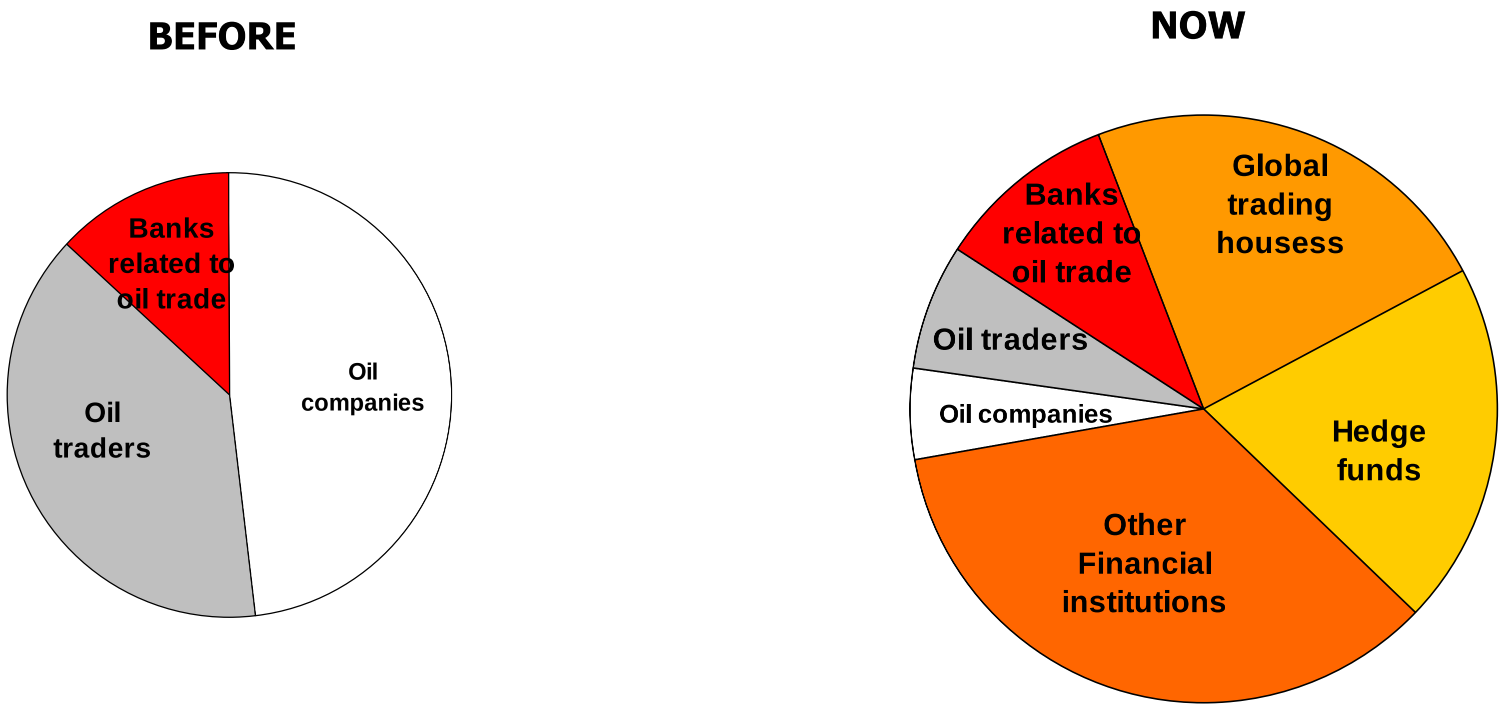
THE OIL MARKET EVOLUTION

	Before	Today
Price	▪ Stable	▪ Volatile
Participants	▪ Limited	▪ Numerous
Market Forces	▪ Fundamentals	▪ Fundamentals and Sentiments
Trade	▪ Regional	▪ Global
Type of Business	▪ Physical Only	▪ Paper (Derivatives = 10/15x Physical Volumes)

NEW OIL MARKET PARTICIPANTS CHANGE MARKET NATURE



The market today features a radically different set of players with varied agendas and targets as well as the capability of playing various commodity markets against each other and against stock market or money market

Key elements affecting prices and price trends

2004 to mid 2006	2007	2008
▪ Near term demand-supply tightness – Stronger than expected economic and oil demand growth – Less non-OPEC supply growth. Less OPEC spare capacity – Refining capacity near maximum utilisation	▪ Near term outlook – Warm weather. Fears of a hard USA economic landing – Non-OPEC growth – Despite OPEC cuts spare capacity concerns remain – More Bio fuels capacity	▪ Near term outlook – Spread of US banking crisis and global demand deterioration – Non-OPEC growth lower than expected, OPEC keep sustained production. Low inventories – New capacity added – Bio fuels
▪ Medium/ L-T supply-demand tightness – Projected L-T demand growth – Slower growth/peaking non-OPEC – Lack of increases in OPEC capacity	▪ Medium term outlook – Bio-fuels/CO_2 – Slower growth/peaking non-OPEC – Lack of increases in OPEC capacity	▪ Medium term outlook – Lower demand due to global economy downturn – Slower growth in both OPEC and non-OPEC – Lack of increases in OPEC capacity
▪ Concerns over supply disruptions – Geopolitical risks, hurricanes	▪ Concerns over supply disruptions – Same risks	▪ Concerns over supply disruptions – Same risks
▪ Greater investors' interest in commodities	▪ Investors keep on buying commodities	▪ Too high prices affect demand and prices fall

Source: IMF, EIA, PIRA, LITASCO

THANK YOU!

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www.lukoil.com

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