

***LITASCO experience of risk  
management on international markets***

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**Financial and Price Risk Management for Oil & Gas Producers and Consumers -  
V Annual international forum 25 - 26 September 2008, Moscow, Russia**

- LITASCO (LUKOIL International Trading and Supply Company) is the **international marketing and trading company** of the LUKOIL Group.
- LITASCO is one of the **world's major traders** of crude oil and refined petroleum products, present in **twelve different countries on five continents**. LITASCO deals with more than 2,000 suppliers and customers, including all of the world's major oil corporations.
- LITASCO is continuously and dynamically **hedging price risk exposure** by transacting a wide range of oil derivatives across different regional markets.
- LITASCO has a full scale dedicated **Risk management department** controlling physical and derivatives trading activity.

GLOBAL OIL TRADING COMPANY



**GLOBAL  
presence**

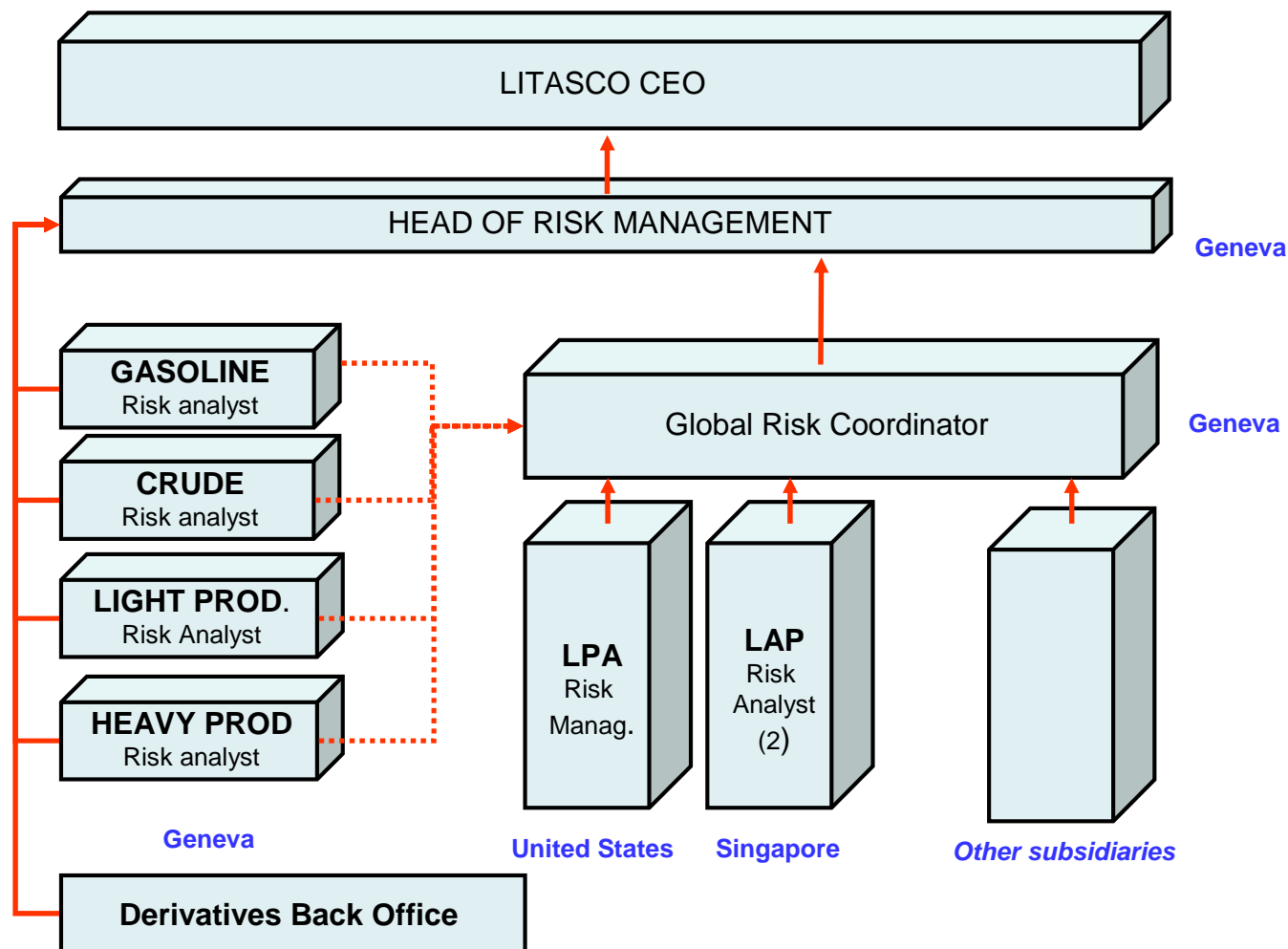


**GLOBAL  
BOOKS**



**GLOBAL  
Risk Management**

**RISK MANAGEMENT ORGANIZATION**



## RISK MANAGEMENT PILLARS

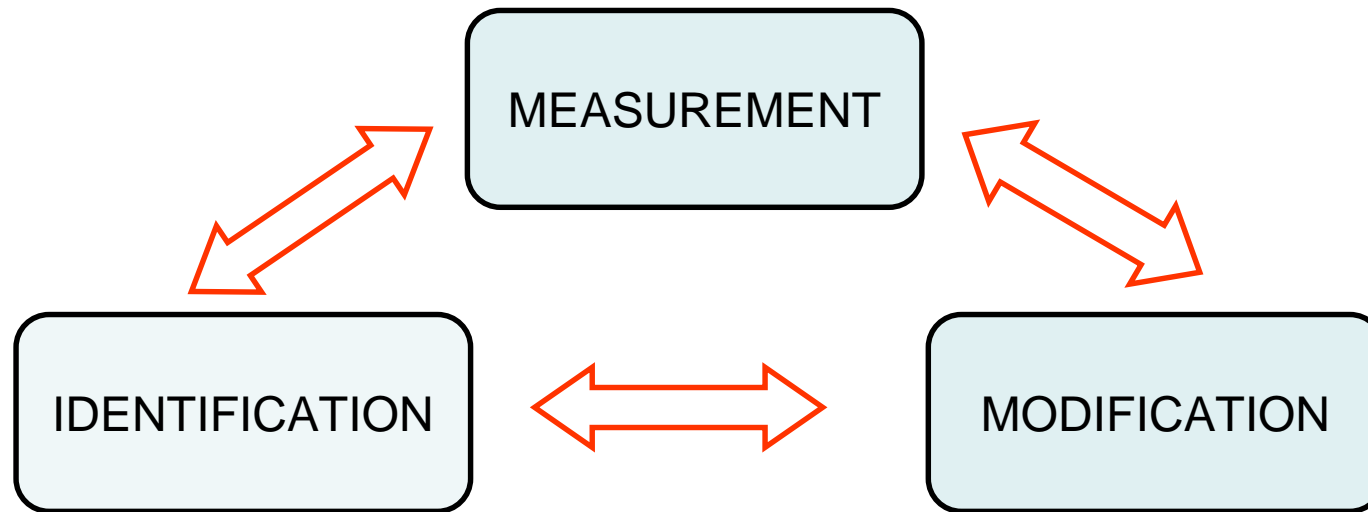
### Integrated Market Risk Management

- A full scale department dedicated to Risk management, with specialised risk analysts.
- Data are collected and aggregated daily, covering all subsidiaries and branch offices.
- Procedures are standardized all over the world.
- All physical and financial deals are controlled and included in the analysis.
- Rules and responsibilities are clearly set in a Risk Management Policy

### Control Activity

- Strong segregation of duties between Front, Middle and Back offices.
- Controls on quality and timeliness of data inputting in the system
- Controls of users' rights and access to information
- Monitoring of accuracy of prices and evaluation of positions
- Continuous cross-checking against external information
- Risk limits are in place and the respect is constantly monitored.

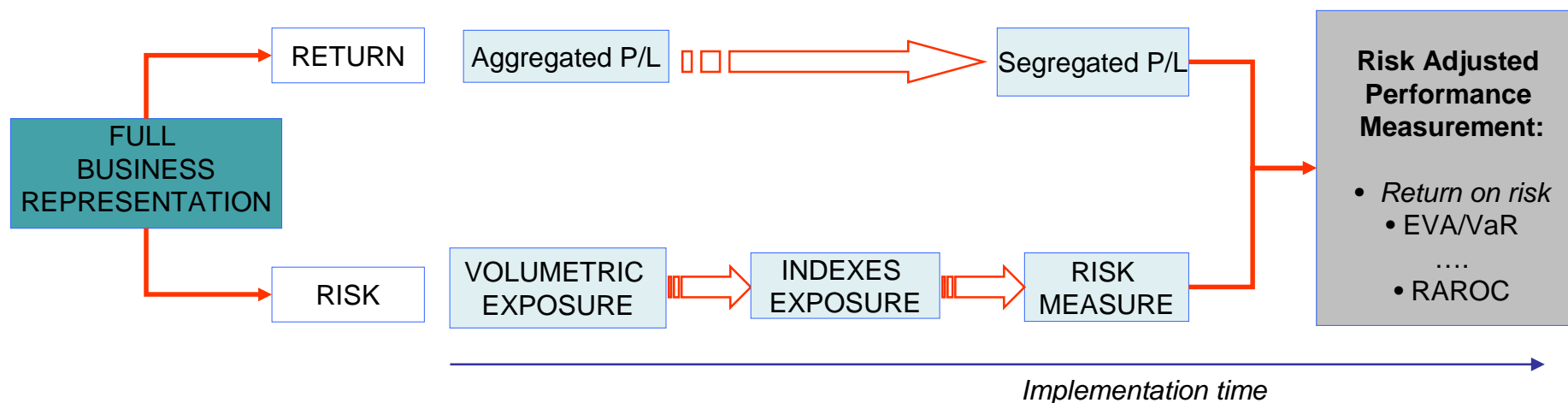
RISK MANAGEMENT PILLARS



- **IDENTIFICATION** : precisely **identify the sources of price risk** (risk factors), managed by Risk Management
- **MODIFICATION** : **trading physical and derivatives**, managed by Trading (Front Office)

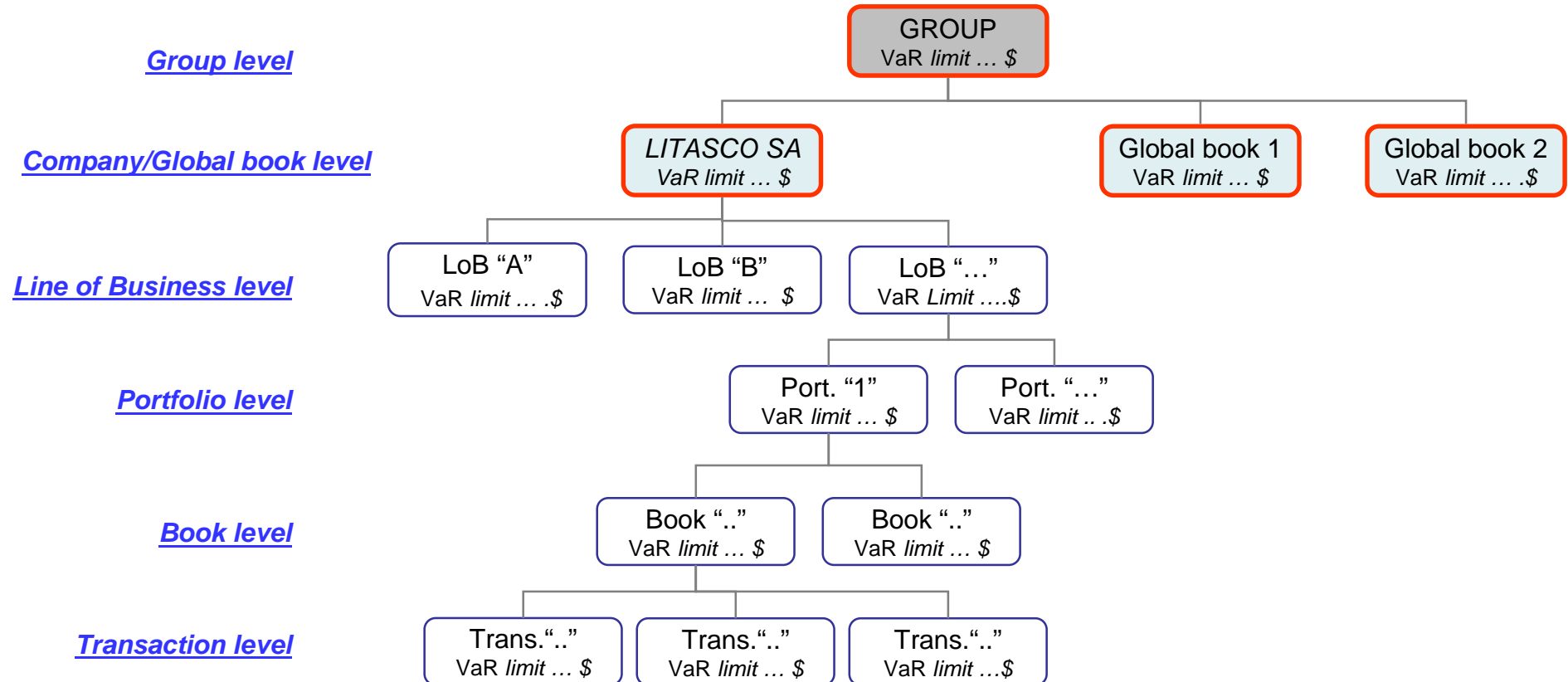
- **MEASUREMENT** : calculation of a **monetary measure of price risk (VaR)**, managed by Risk Management

RISK, RETURN and R.A.P.M.

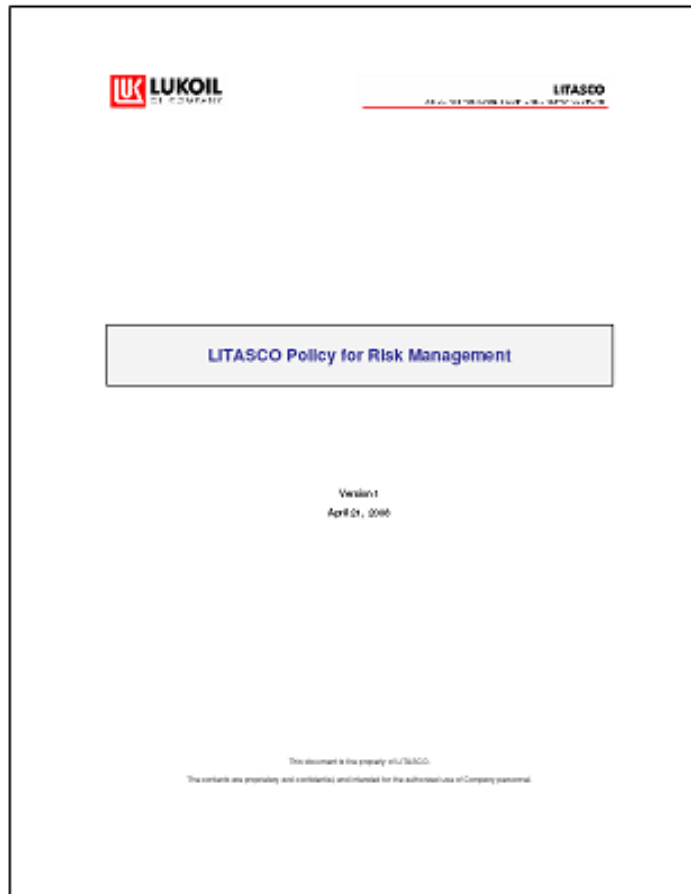


- After improving index exposure calculation, a **Value-at-Risk risk measurement** model has been implemented.
- **Segregated PL** (calculated at different levels : transaction/ .../portfolio/ company/ group), is needed in order to better **highlight different contributors to earnings and risk** (market prices, logistics, cost of capital, etc.)
- Final step is **R.A.P.M.** : forecasted and actual earnings will be adjusted according to price risk that is/was bore in order to get those earnings, the foundation for “**value and risk based management**”.

VALUE-AT-RISK calculation and limits

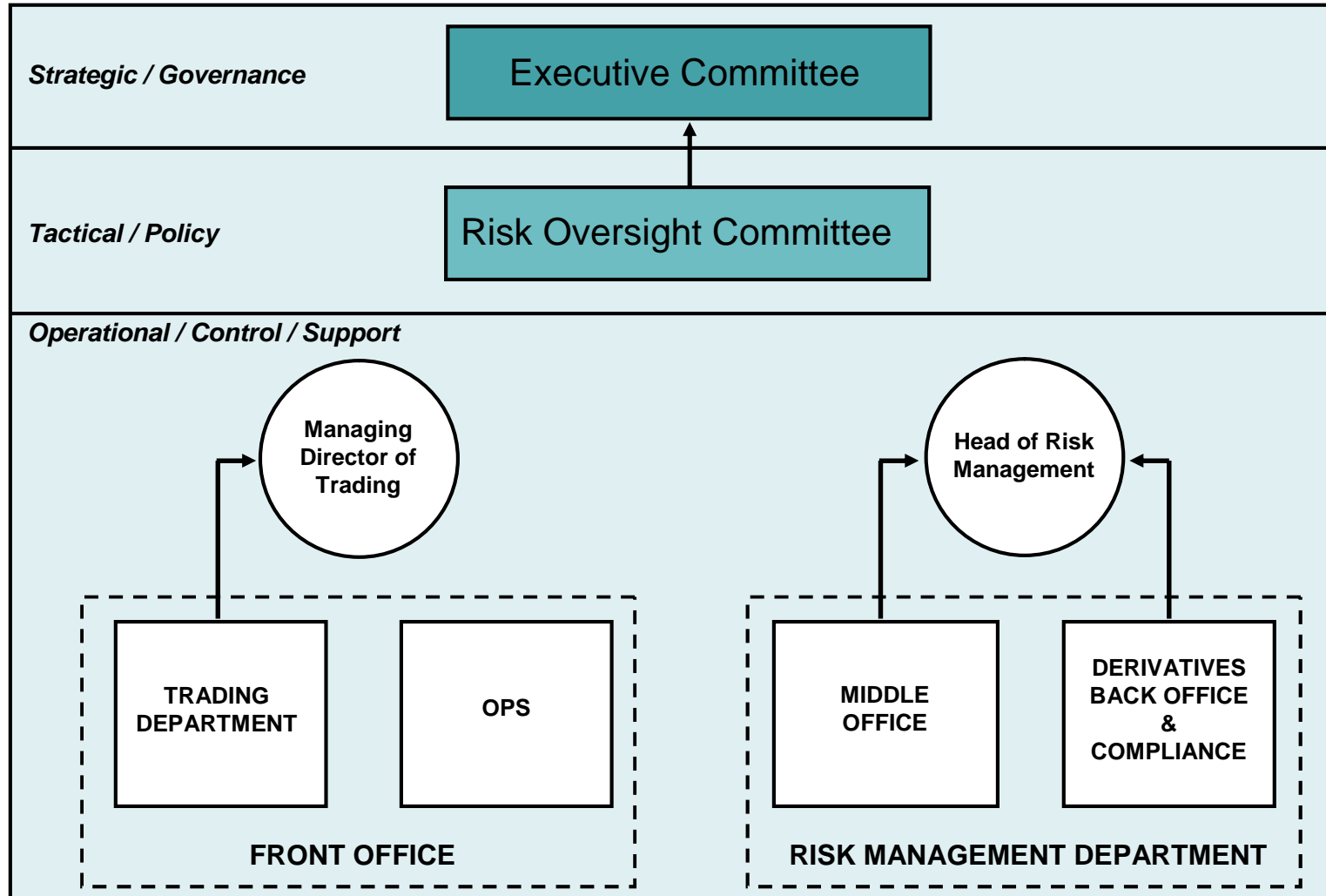


**POLICY FOR RISK MANAGEMENT**



- Clarification of the **need for a risk management policy**.
- Identification of **core responsibilities** within the organization and “vertical” allocation to the Board of Directors, the ROC, the HRM and risk management function.
- Distinction between **Front, Middle and Back Office** and “horizontal” allocation of duties.
- General overview of the **deal life cycle** with further identification and allocation of responsibilities.
- Clear definition of the different steps which together constitute the **risk management process** (identification, estimation, treatment)
- Specific paragraph about the crucial topic of **Mark-to-market methodology**.
- A comprehensive **list of definitions**, in order to clarify terms used in the policy and foster the inception of risk terminology standardization within the Company.

**POLICY FOR RISK MANAGEMENT**



IT SYSTEMS

LITASCO Trading and Risk Management activities are completely supported by “**Bulldog**”, a specialized IT software system capable to :

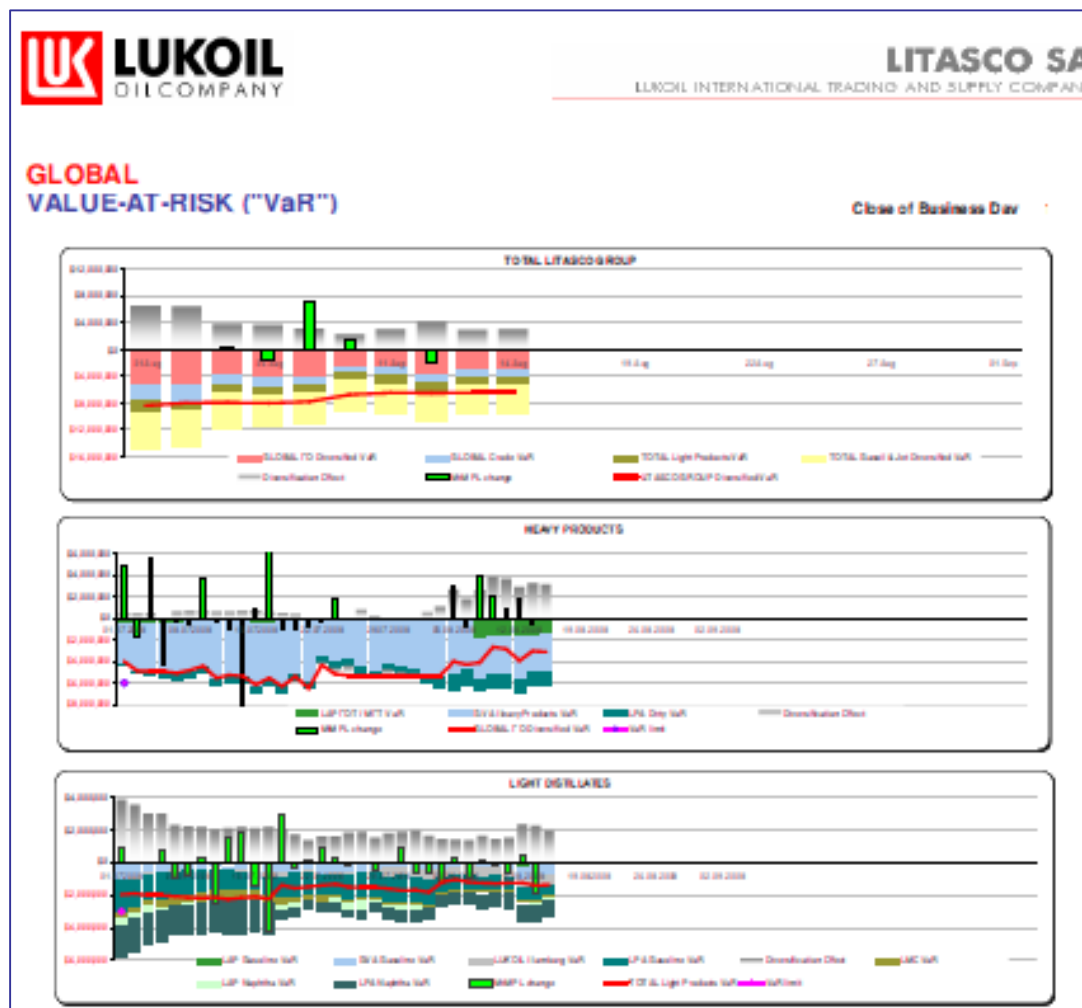
- Fully capture and represent **Physical and Financial deals** in every oil market and every location where LITASCO is trading, **including specific issues** as escalations, conversion factors, storage management.
- Consistently manage the **entire deal life cycle**, from negotiation phase to the final payment, keeping track of estimated figures as well as actual ones.
- Unique **central company database (including subsidiaries)** for transactions, enabling inputs and modifications but also allowing audit trails and a privileges structure (different rights for different employees).
- Real time calculation of crucial metrics for a trading company such as **PL, Mark-to-market values, Volumetric index exposures, Pricing forecast, Value-at-Risk**, at different levels of deals aggregation.
- Fully integrated with **prices market sources** such as Platt’s, Argus, PVM, etc.



GLOBAL REPORTING

- Recalculation of **Profit & Losses (P&L)** based on standardized procedures and public prices.
- Monitoring of **PL changes** and investigation of change drivers
  
- Calculation of **Volumetric exposures** for the unrealised (i.e. risky) part of the P&L.
- Reporting where the P&L is vulnerable in terms of markets, indexes and future maturities.
  
- **Value-at-Risk:** assessing the possible monetary impact of prices changes on the P&L because of volatility in prices.
- Giving advice to traders about how risk can be reduced.

GLOBAL REPORTING Value-At-Risk



***Thanks !***

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