



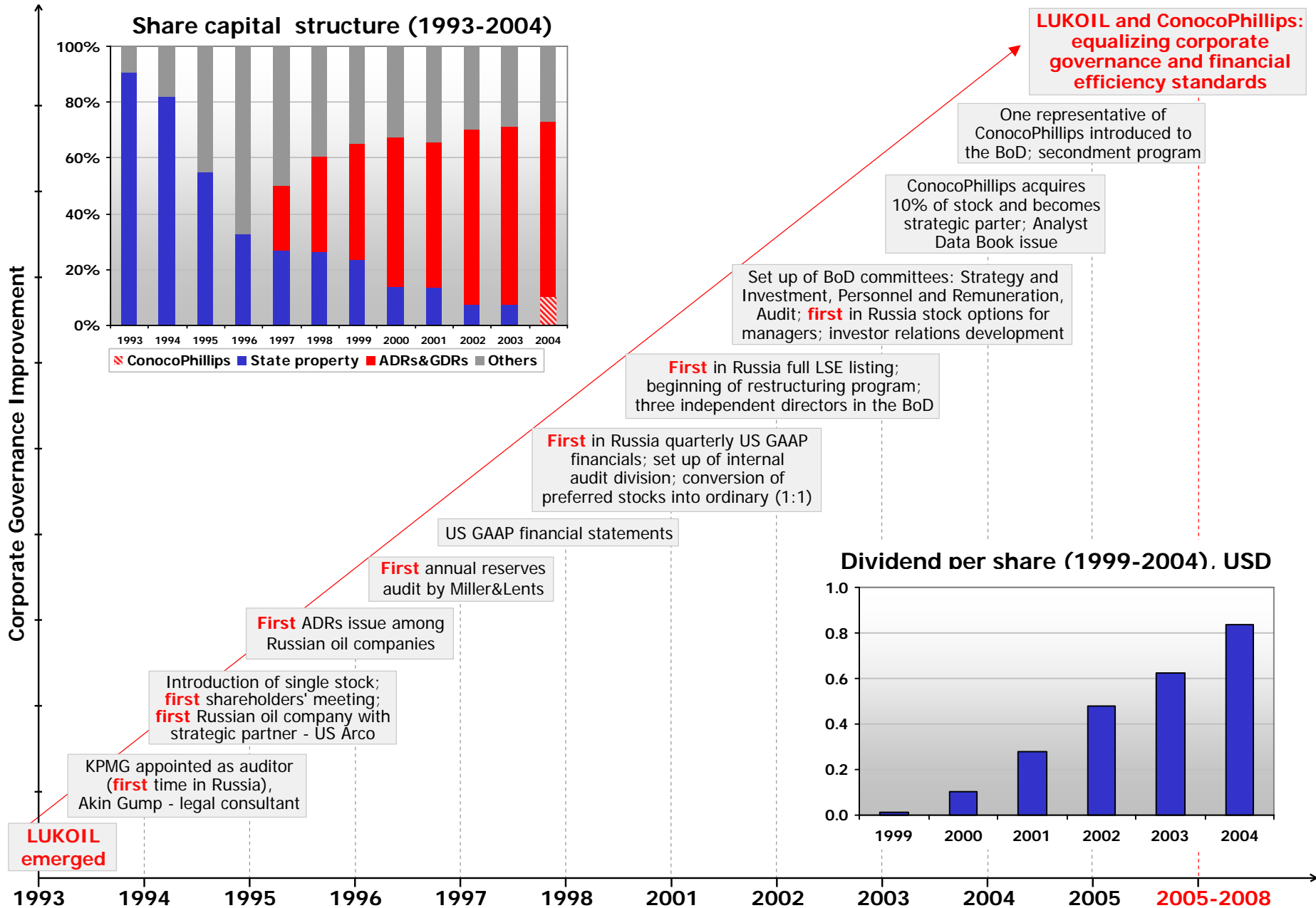
LUKOIL CASE:

Business Development & Corporate Governance Improvement

February 2005



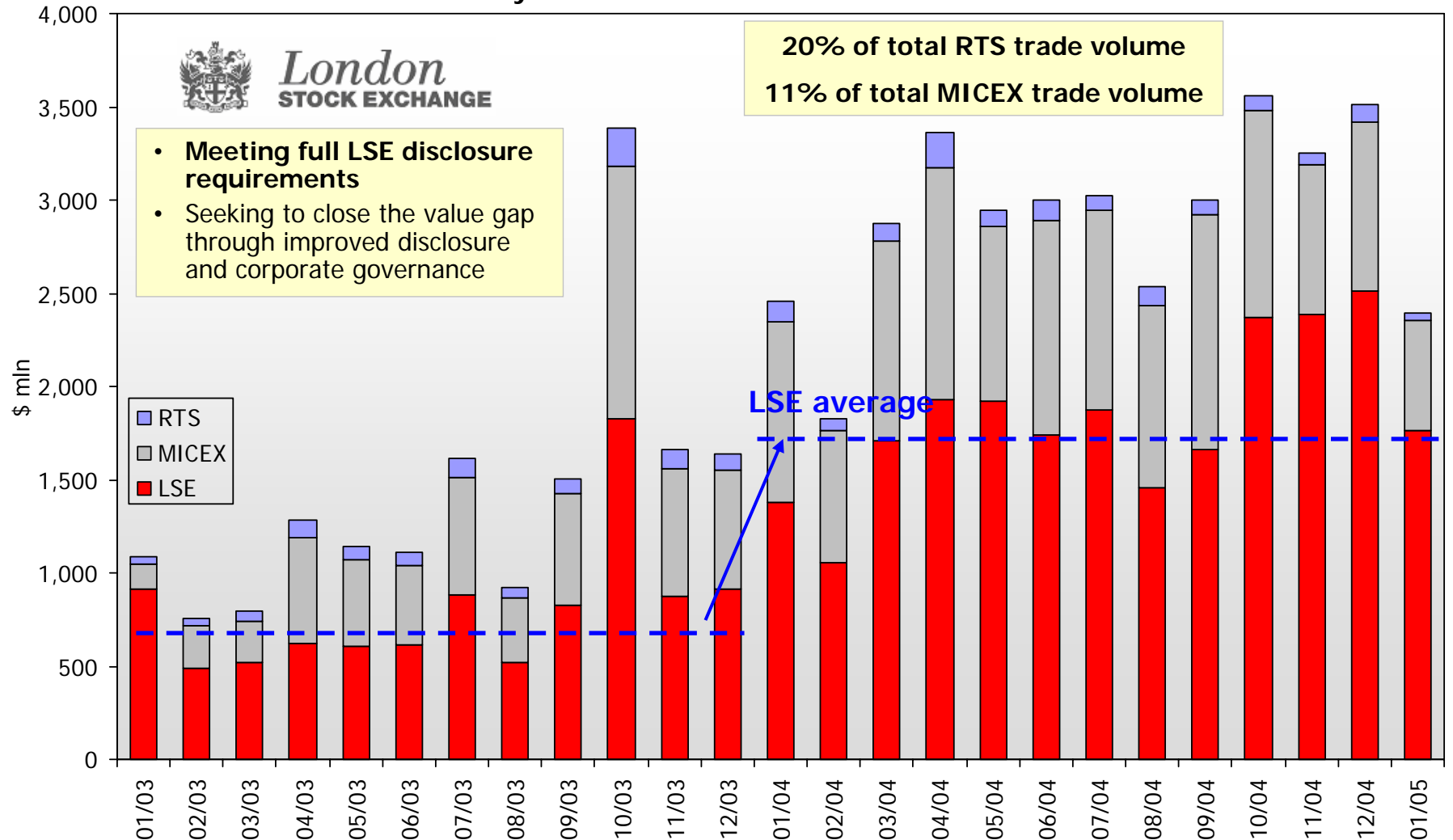
LUKOIL – Pioneer in Corporate Governance in Russia: Continuing Improvement





Rising Liquidity + Reducing Investment Risks = Growing Interest in LUKOIL's Shares

Monthly traded volumes of LUKOIL's shares



New level of information transparency and corporate governance fuelled liquidity of LUKOIL shares. LUKOIL shares are one of the most liquid securities in Russia.



Strategic Alliance with ConocoPhillips – Positive Changes in Corporate Governance

2004

ConocoPhillips acquired the last 7.6% state-owned stake of LUKOIL shares at the price \$1.99 bln



2005

In January ConocoPhillips ownership in LUKOIL share capital exceeds 10%

Extraordinary shareholders meeting makes amendments to LUKOIL's Charter

ConocoPhillips representative Kevin Mayer was elected as LUKOIL BoD member



Kevin Mayer
President on
Russia/Caspian
region for
ConocoPhillips





Confirming Shareholders' Rights through Corporate Governance Improvement – ConocoPhillips Factor

Enhancement of Shareholder Governance Rights; Increasing protection of the minority rights by substantially enhancing Board authorities

Unanimous Board approval of key decisions:

- **Equity issuance**
- **Reorganization**
- **Extraordinary Dividends**
- **Recommendation to change the Charter**
- **Major Transactions, involving significant subsidiaries**



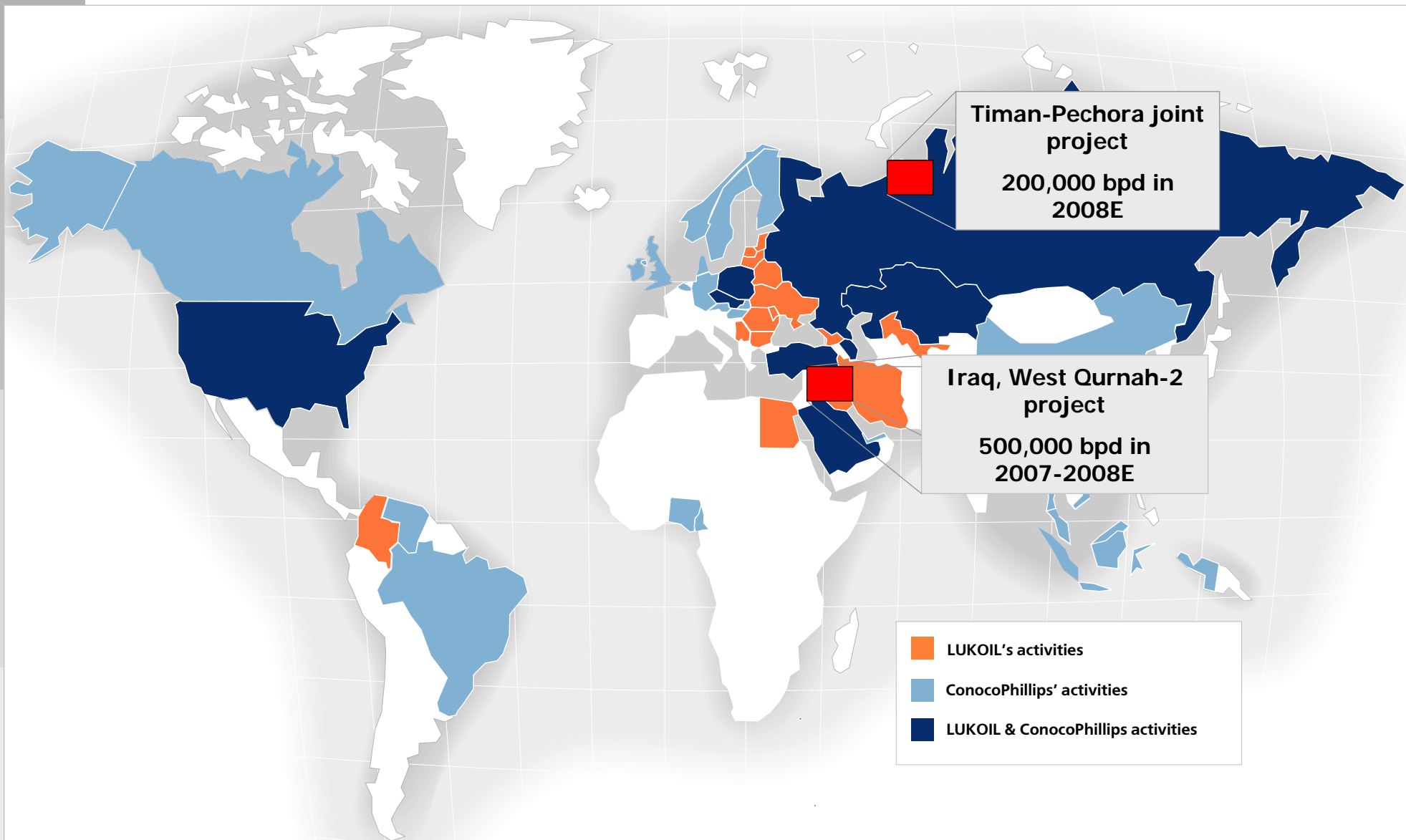
ConocoPhillips and LUKOIL secondment program:

- **Sharing of organizational and technological practices**
- **Development of cross-functional expertise**
- **Establishing closer ties between the two companies**





The World Is Not Enough





Info Transparency: the Best Company in the Sector

Standard & Poor's recognized LUKOIL as the leader in information transparency among Russia's oil & gas companies in 2004.

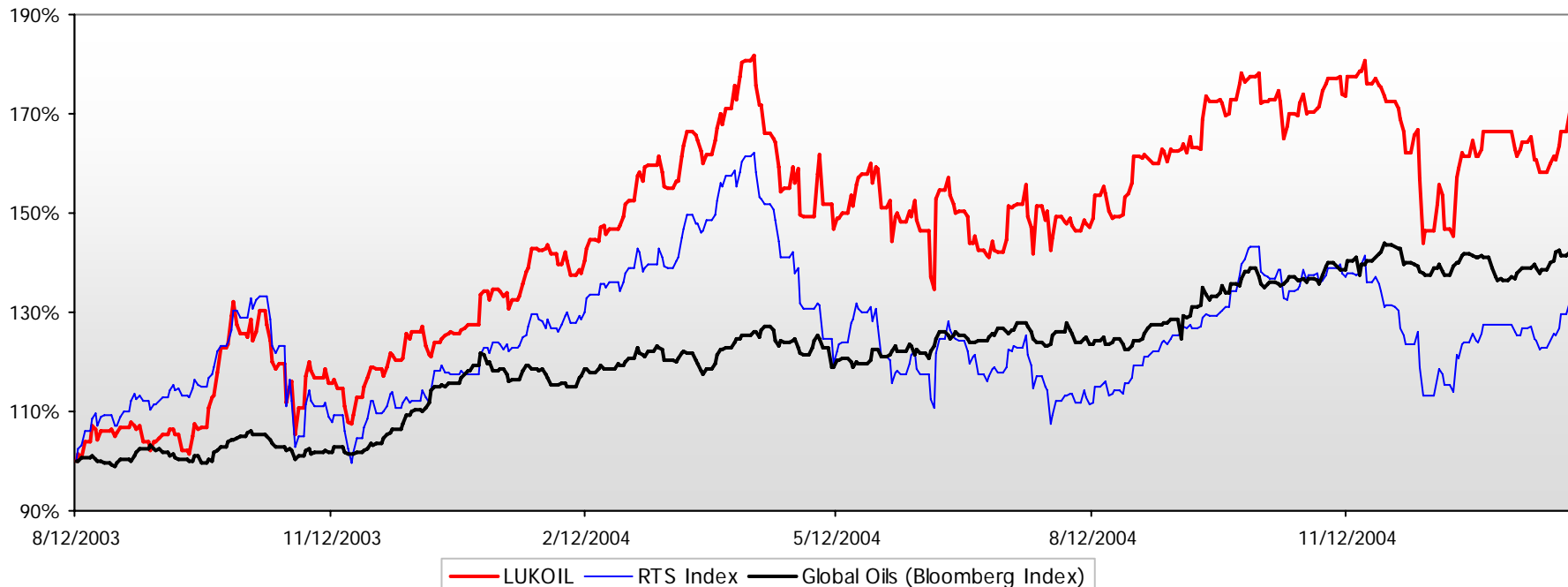
LUKOIL improved its rating in S&P survey by two positions reaching total transparency score 64% vs UK average 71%.

- Annual report has received 3d prize for information transparency from NAUFOR (best Russia's in oil&gas sector)
- WEB-site has received 2d prize for information transparency from NAUFOR (best in Russia's oil&gas sector)
- Management Discussion&Analysis (regular, on annual and quarterly base)
- GAAP financial statements (regular, on annual and quarterly base)
- Full listing at LSE, meeting all info requirements
- 6 years of independent oil&gas reserve audits by Miller & Lents
- Five independent directors in BoD of total eleven (two of them – native Americans)
- 2004 – introducing Analyst Modeling Data Book (regular, on annual base)



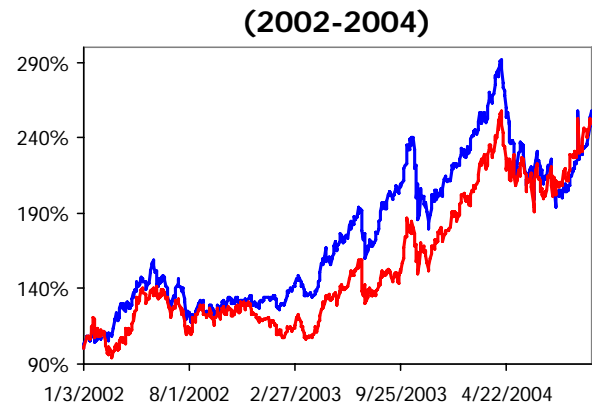
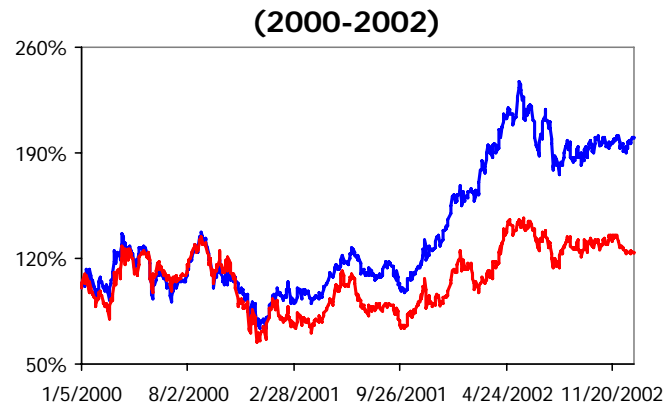
LUKOIL Shares Outperform the Market

LUKOIL Quotes vs RTS and Global Oils Indexes



In 2004 LUKOIL shares performed better than the market.

Within 2000-2002 it performed worse than the market.



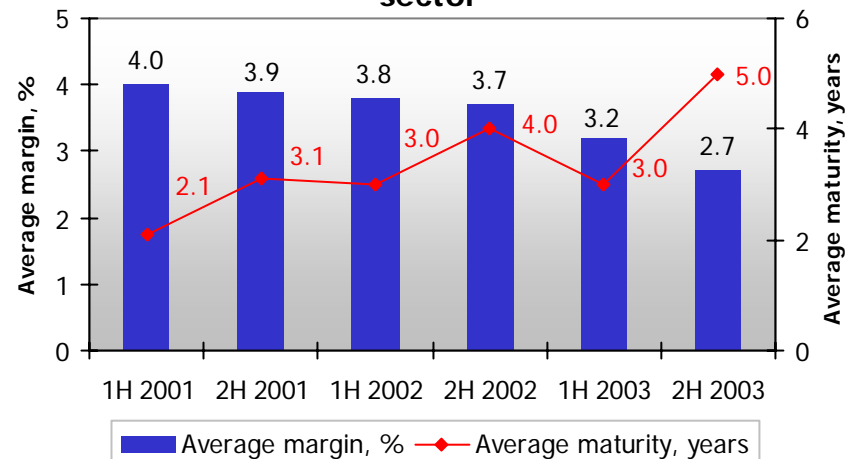


Improvement in Corporate Governance Translates into Better Access to Capital

| Investment category | Standard & Poor's | | Moody's | |
|----------------------|-------------------|--------------------------|---------|-------------------------------------|
| | AAA | | Aaa | |
| AA | | Aa | | |
| A | | A | | |
| BBB+ | | Baa1 | | |
| BBB | | Baa2 | | |
| BBB- | Russia | Baa3 | Russia | |
| Speculative category | BB+ | Transneft | Ba1 | YUKOS ↓ |
| | BB | LUKOIL | Ba2 | LUKOIL Sibneft ↓ TNK ↑ |
| | BB- | YUKOS ↓ Gazprom | Ba3 | Rosneft |
| | B+ | Sibneft ↑ | B1 | |
| | B | RAO "UES" ↑ Rosneft ↓ | B2 | |
| | B- | | B3 | |

↑ - rating forecast «positive»
↓ - rating forecast «negative»

Average margin and maturity in oil&gas sector



\$765 mln pre-export term loan was arranged jointly by ABN AMRO and Citybank in 2003

This deal set a new benchmark for Russian Syndicated loan market. The loan of \$300 mln was granted for 7-years period at LIBOR+2.5% and the loan of \$465 mln – for 5-years period at LIBOR+2.0%

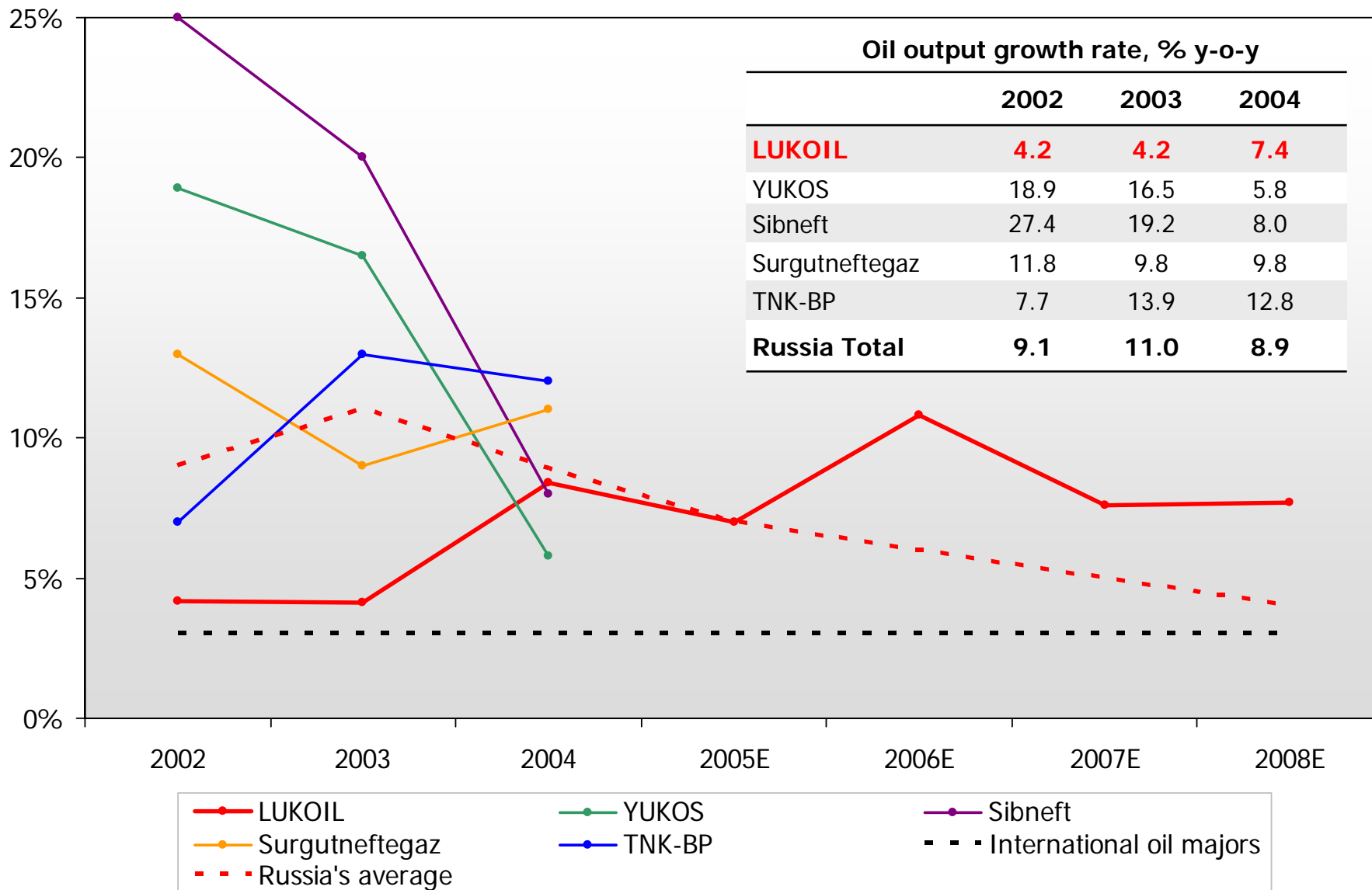
The loan was awarded the IFR "EEMEA Emerging Market Loan of 2003" and EuroWeek "Best Russian Loan 2003"

For the past 2 years short-term debt rates were reduced by 1.6% and long-term debt rates – by 0.4-0.5%



LUKOIL Takes Position to Generate Best Industry Growth Rates in Output

Actual and forecasted hydrocarbon output growth rate, %





Optimizing Investment Process – a Key to Increase Free Cash Flow, Valuation and Market Capitalization



**Changing valuation approach:
from “given as a whole” based
valuation to “sum of the parts”
based valuation**

- **Classifying LUKOIL’s entities into different strategic business units (SBU)**
- **Identifying KPI for different SBU in different sectors**
- **Constantly monitoring SBU performance on KPI based valuation**
- **Using corporate DCF model for investment purposes**
- **Shaping investment program on project bases**
- **Introducing remuneration system for management based on KPI performance**



Strategic Objectives



- Main objective — maintaining corporate ROACE at the set level (15-17%)



- Increasing basic financials by 2-2.5 times from the current level by 2013-2014



- Reaching dividend payout ratio up to 40%



- Aiming to maintain output growth rate above 5%; keeping organic replacement ratio at the level of 130%



- Reaching and keeping production cost at the level of \$2.5-3/bbl



- Reaching average daily output per well at 12 t/d (88 bpd)



- Targeting over 3% of the world's total output by 2014 (up to 2.8-2.9) mbpd



- To be natural gas producer #2, control 5% of Russia's total gas output



Forward Looking Statements

- Certain statements in this presentation are not historical facts and are “forward-looking.” Examples of such forward-looking statements include, but are not limited to:
 - projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
 - statements of our plans, objectives or goals, including those related to products or services;
 - statements of future economic performance; and
 - statements of assumptions underlying such statements.
- 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, including our ability to execute our restructuring and cost reduction program.
- 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 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.