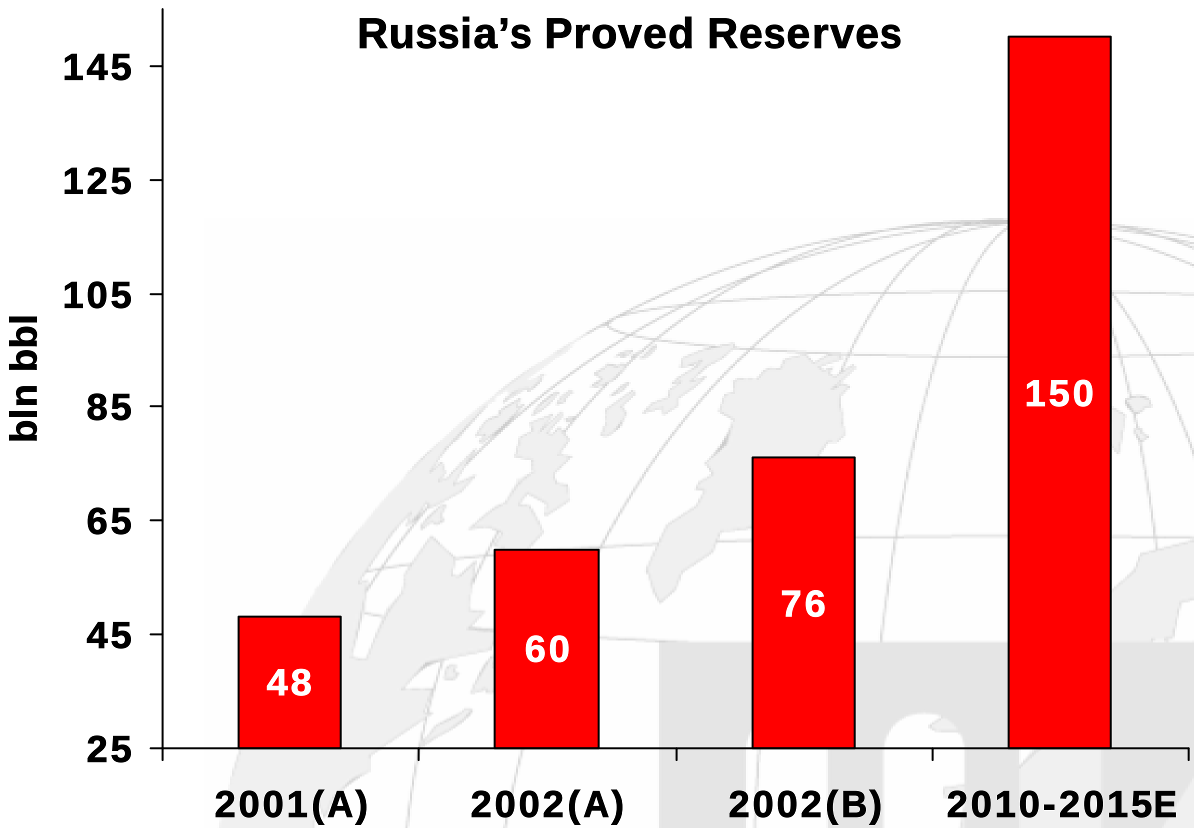
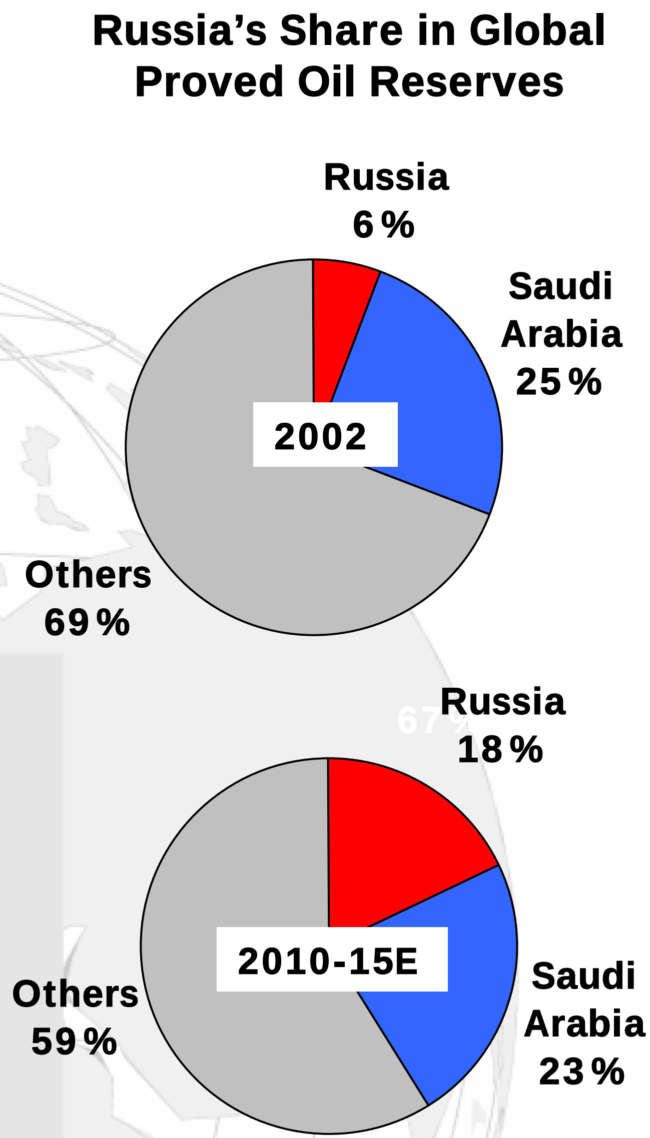
Russian Oil and Gas: Business Opportunities

The LUKOIL Vision

September 2003

Russia's Crude Oil Reserves Still Underestimated



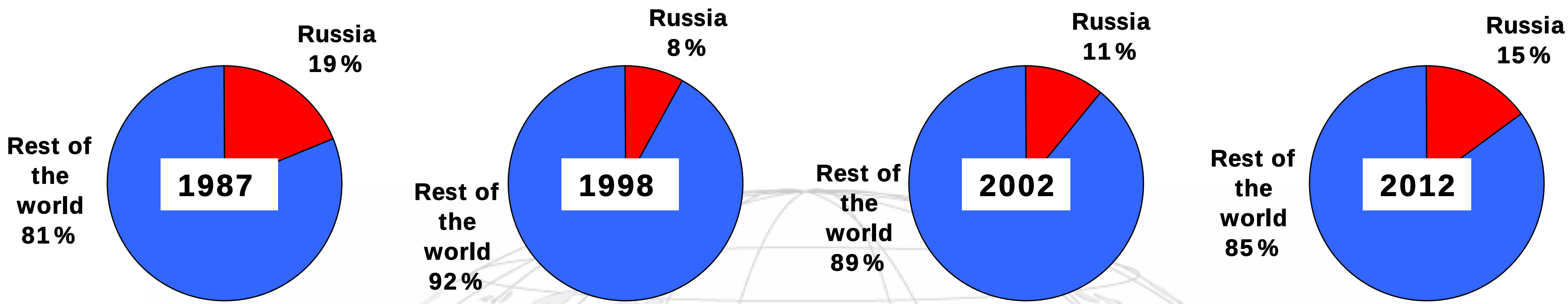


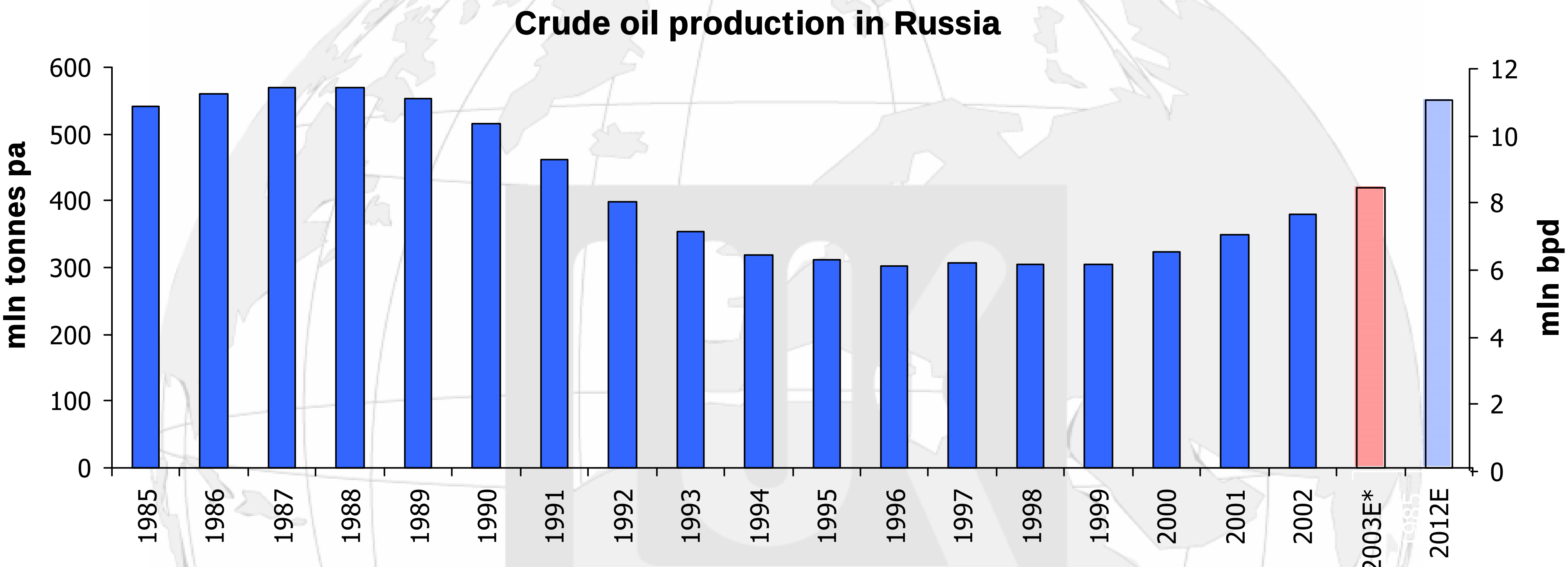
2002(A) – Western estimates of Russia's total proved oil reserves (Sources: BP Statistics)

2002(B) – Internationally audited oil reserves of Russia's ten leading oil and gas companies (Sources: Miller&Lents, DeGolyer and MacNaughton, Company data)

2010-15E – Expected increase in proved oil reserves due to development of new regions, including Timan-Pechora, Caspian Sea region, Eastern Siberia, Arctic shelf and Sakhalin

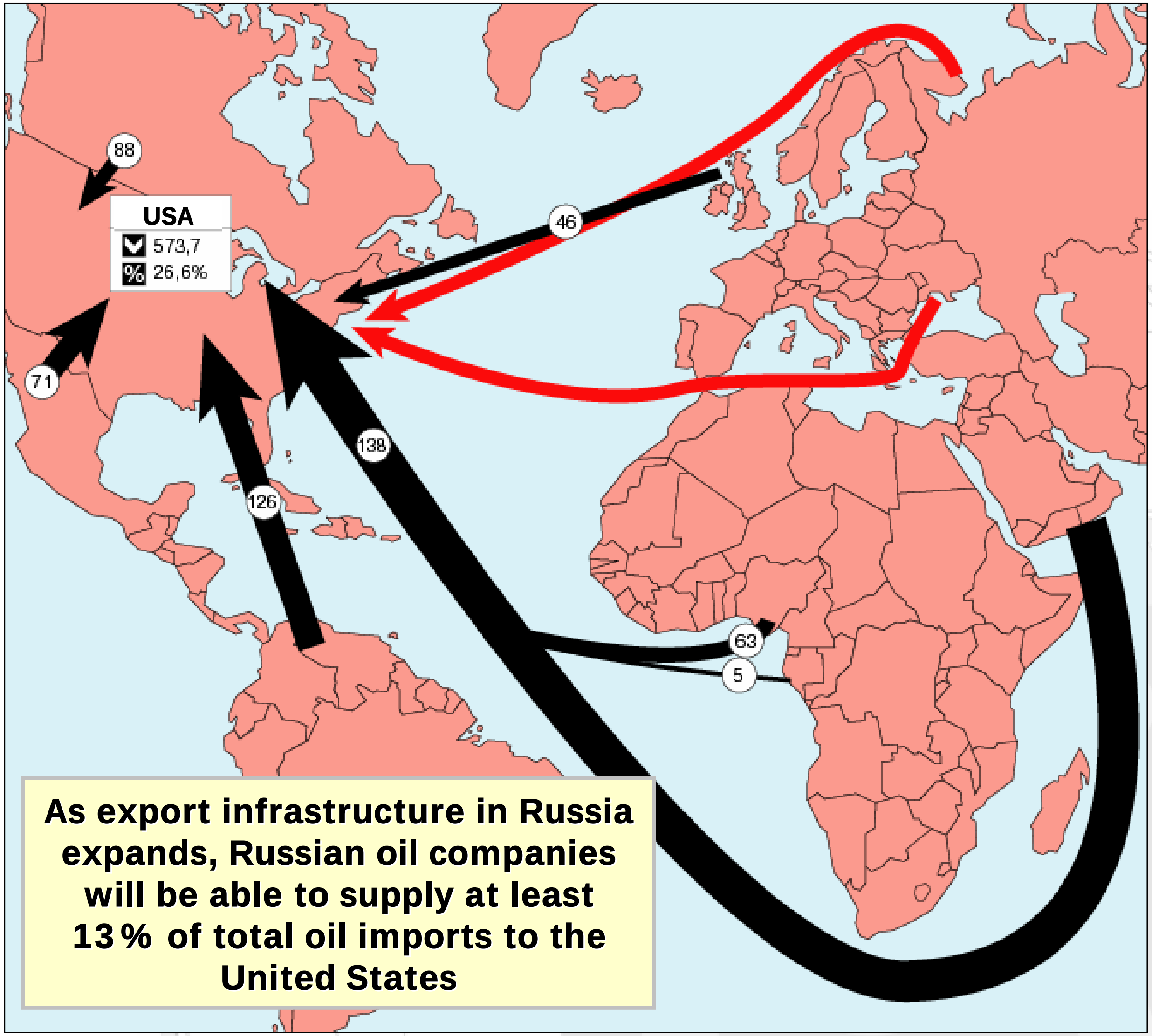
Just Getting Back the Historical Volumes



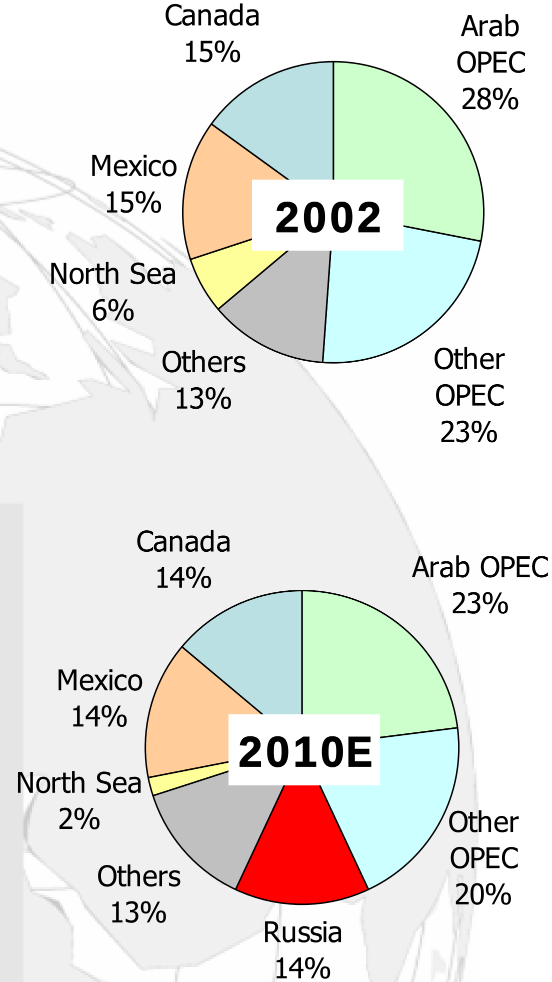


* On 8 month basis, annualized.

Russia — a Future Oil Supplier to the U.S.

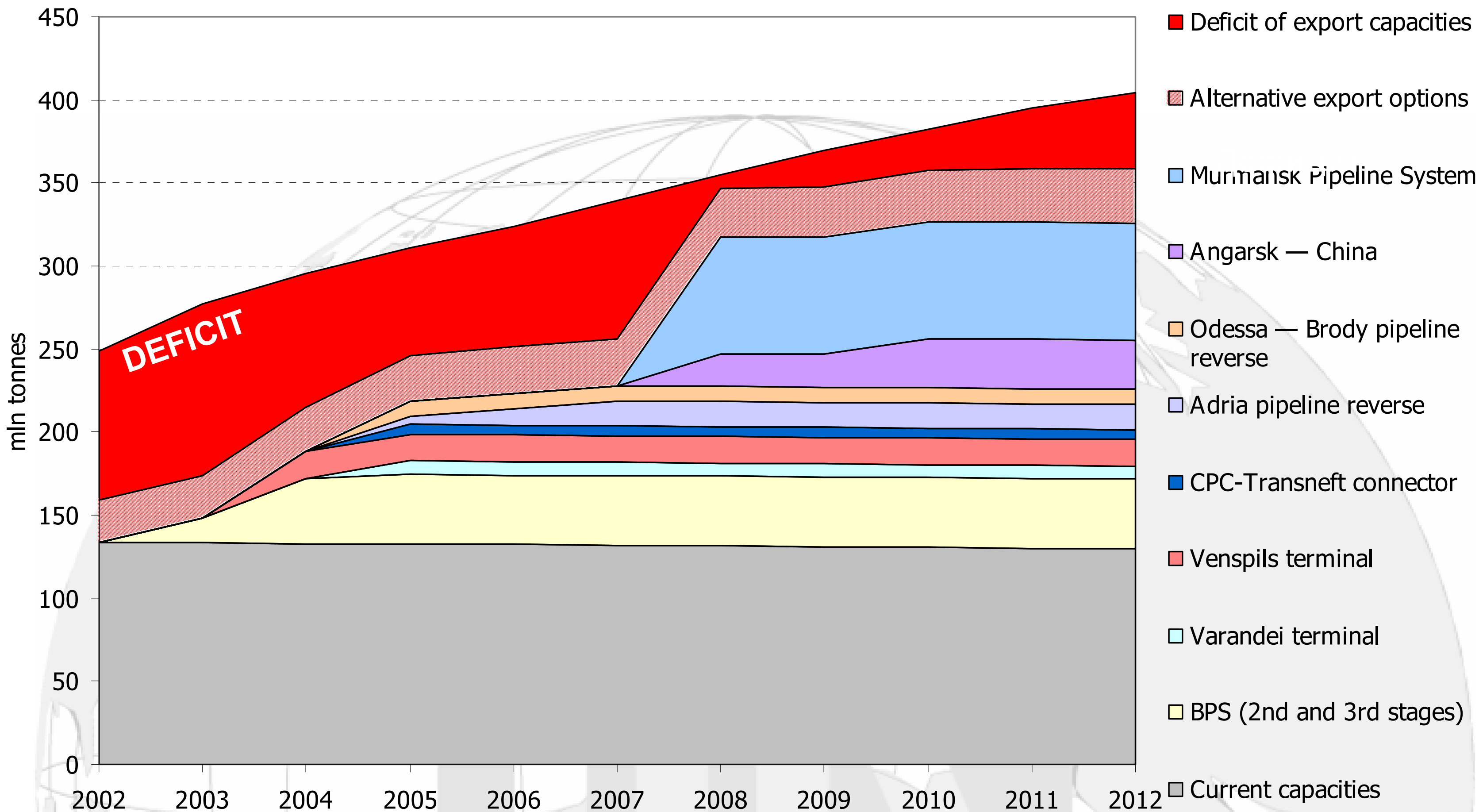


US crude oil suppliers



Source: US Energy Department, IEA, WOOD MACKENZIE, LUKOIL.

Pipelines Capacities Grow Slower Than Production



Alternative Export Options

Export alternatives to Transneft pipeline system are railroads, river transport and commercial pipelines

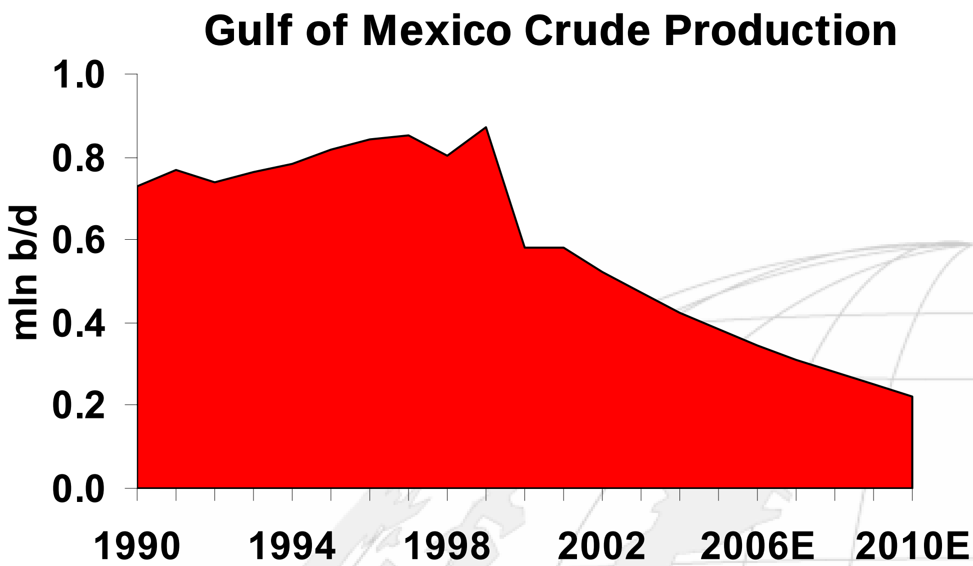
The companies have to boost their exports via railroads and river tankers that increase ecological risks

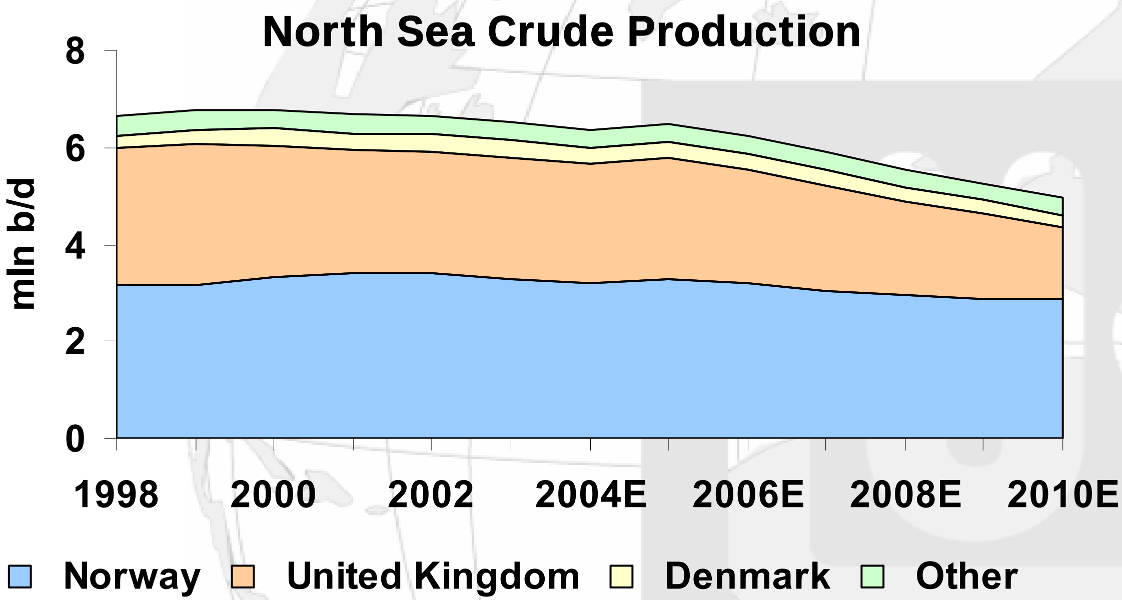
Fire on river tanker in Samara (September, 2003)

Export transportation costs for railroads and river transport are significantly higher comparing to pipelines:

- Transneft — $10-12/tonne
- Murmansk pipeline — $20-24/tonne
- River transport — $35-40/tonne
- Railroad — 45-60$/tonne

Russia — A New Source of Crude For the U.S.





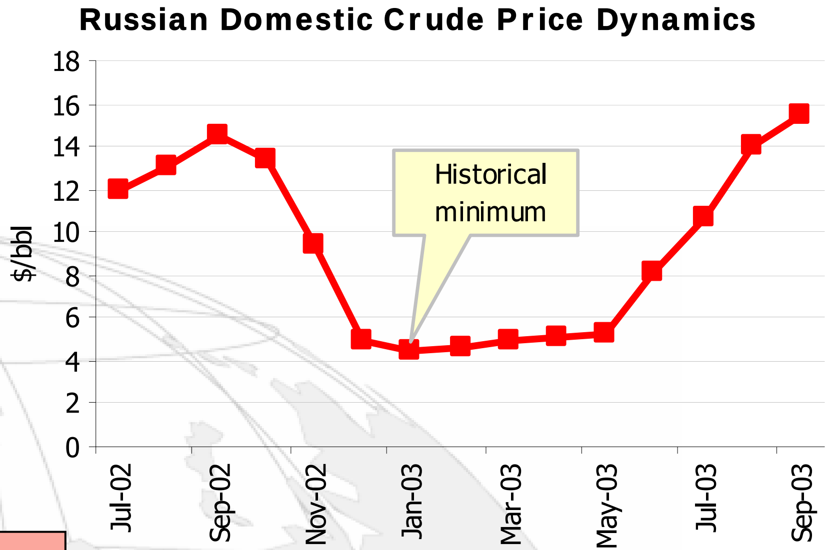
- Russia's oil industry is expected to grow at a 4-6% average annual rate over the next decade
- Russian crude oil production is projected to increase to 11 mbpd by 2010, a 45% increase from 2002
- Terminals capable of handling supertankers will open the US market to Russian crude oil
- As a new source of crude, Russia can help ensure US energy stability, replacing a portion of declining North Sea and Gulf of Mexico oil production

Source: WOOD MACKENZIE.

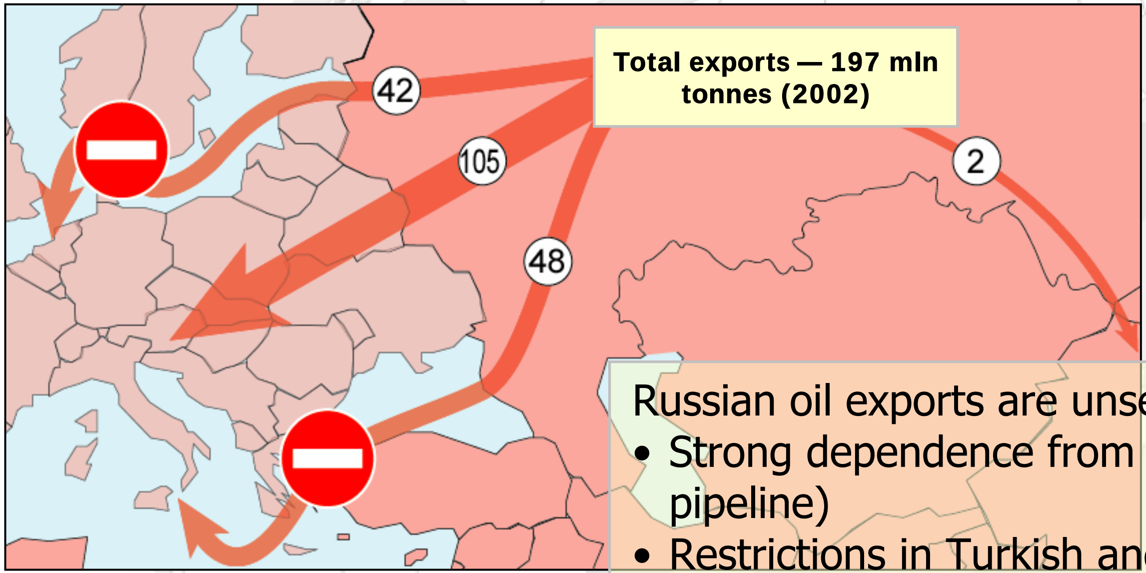
Russian Oil Exports — Unsecured

Storms in **the Black Sea** in December 2002 forced the terminal in **Novorossiysk** to stop the operations almost for a month

Gulf of Finland (the Baltic Sea) has been frozen in December, 2002 — January, 2003 resulting in 20% of working time loss



The problems with sea terminals in December, 2002 — January, 2003 caused the dramatic fall of domestic crude oil price

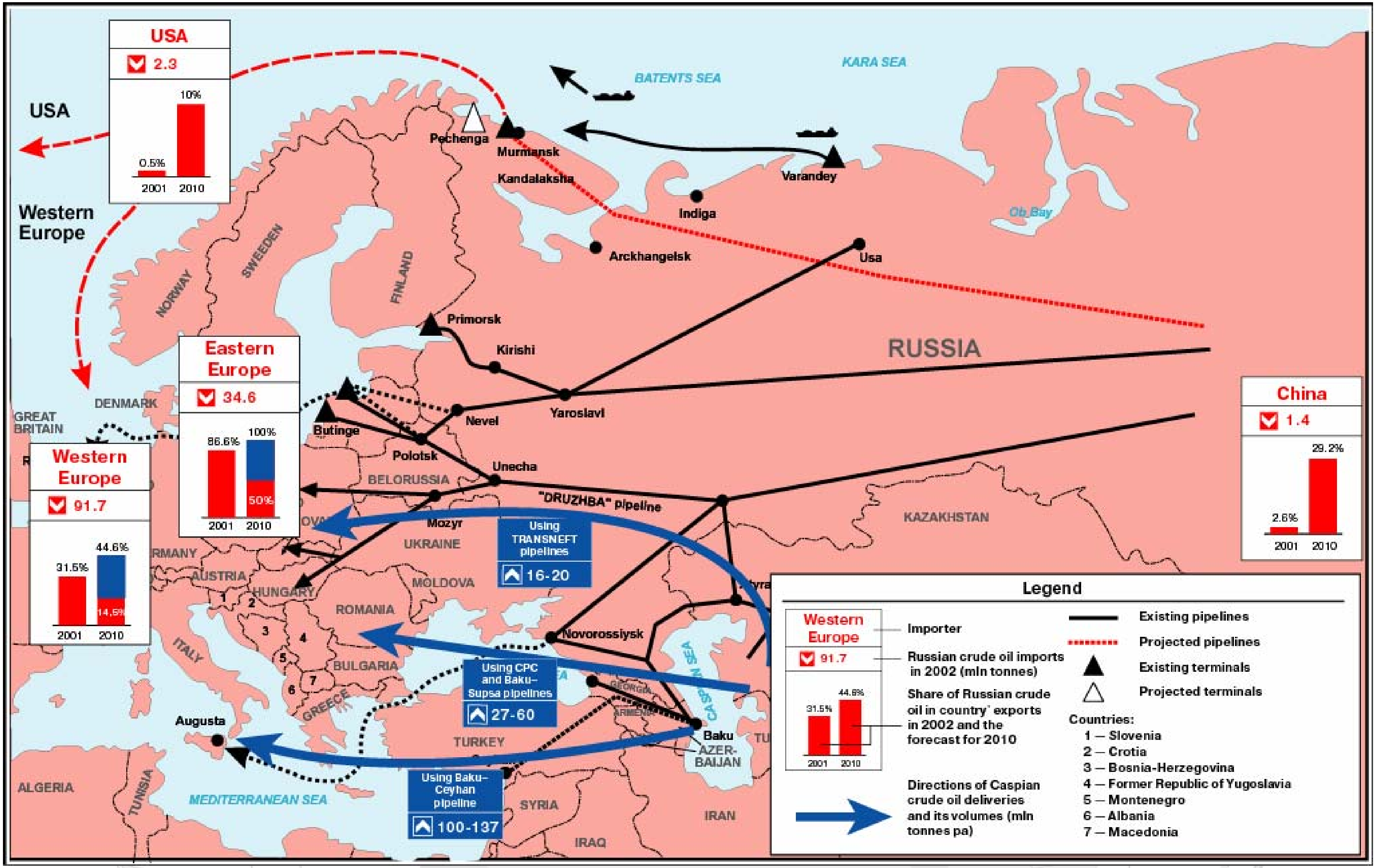


Russian oil exports are unsecured:

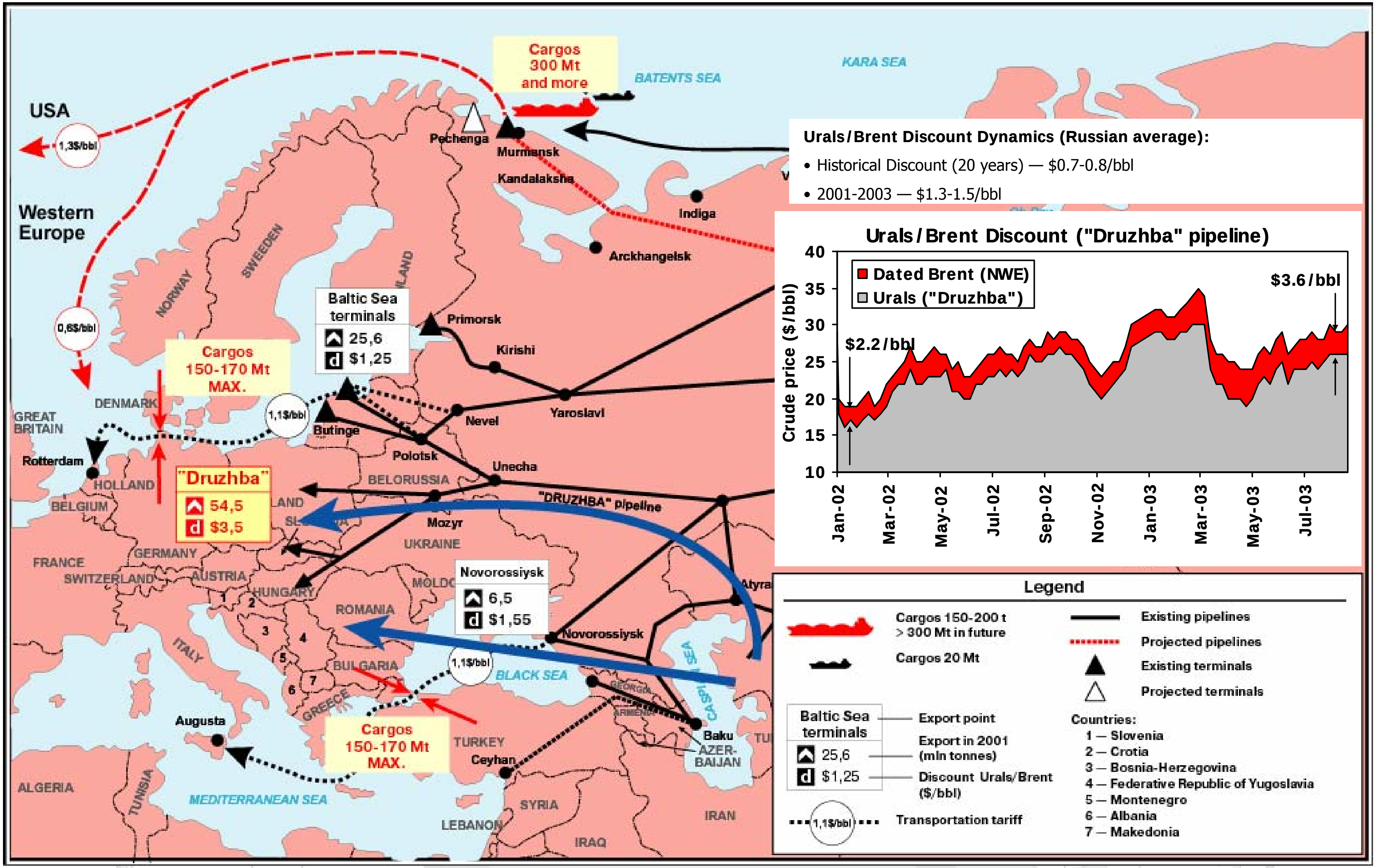
- Strong dependence from consumers in Eastern Europe ("Druzhba" pipeline)
- Restrictions in Turkish and Dutch straits limit growth of exports
- Russian sea terminals strongly depend on weather conditions

Source: Petroleum Agrus.

Caspian Oil Will Intensify Competition at the Traditional Markets for Russian Oil Companies

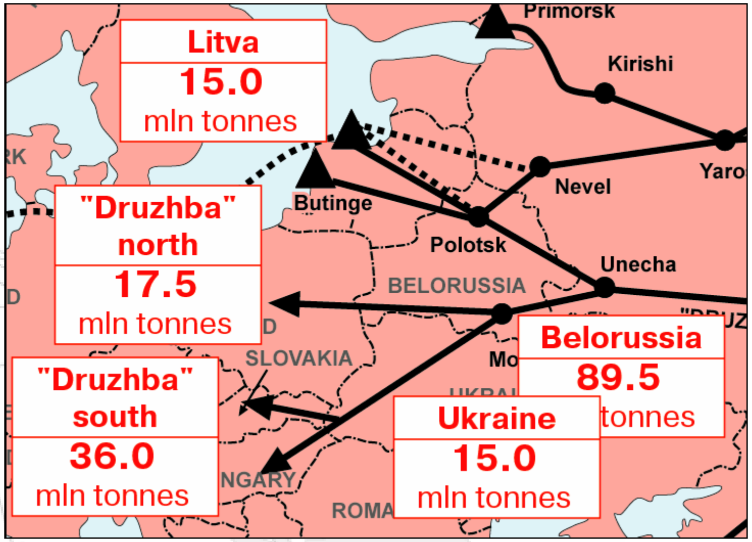


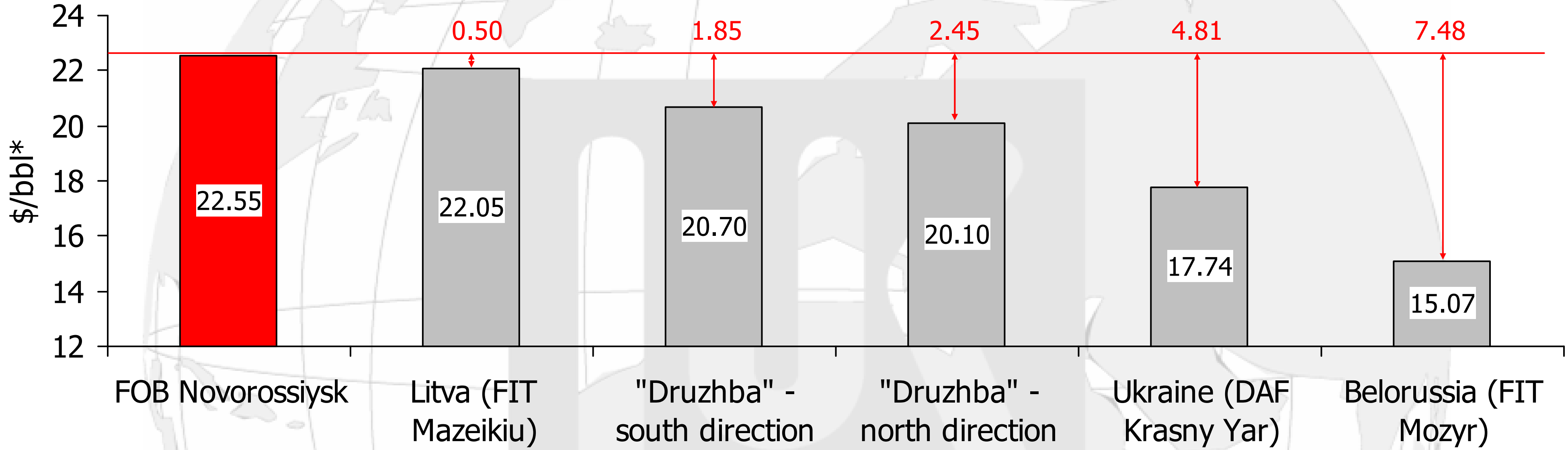
«Buyer's Market» in Eastern Europe Will Strengthen
(“Druzhba” Pipeline)



Low Diversification Causes Losses

Monopoly of “Druzhba” pipeline crude oil consumers and limitation of other export directions causes export revenues losses of up to $2.3 bln pa (comparing to export through Novorossiysk)





* Real prices in the middle of 2002.

Sources: Petroleum Argus, Ministry of Energy of Russia.

The Murmansk Project Gives an Opportunity to Export Oil to the USA

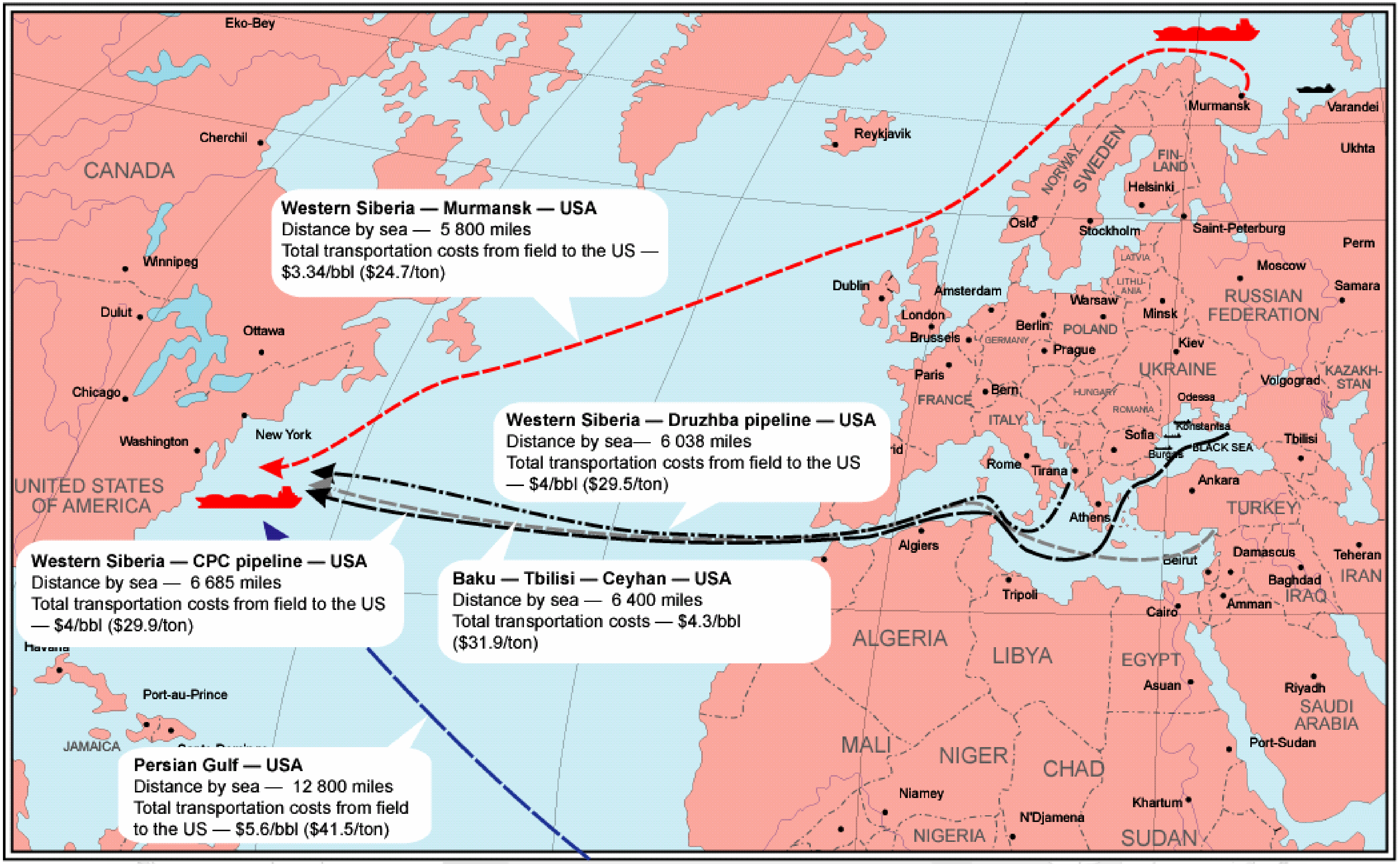
Exports of Russian oil to the USA has not been profitable so far

- Unavailability of deep-water export terminals has not allowed for 270 thousand tons (2 million barrels) and bigger shipments. In this case savings on freight makes it possible to reach efficiency comparable with traditional supplies to the European market.

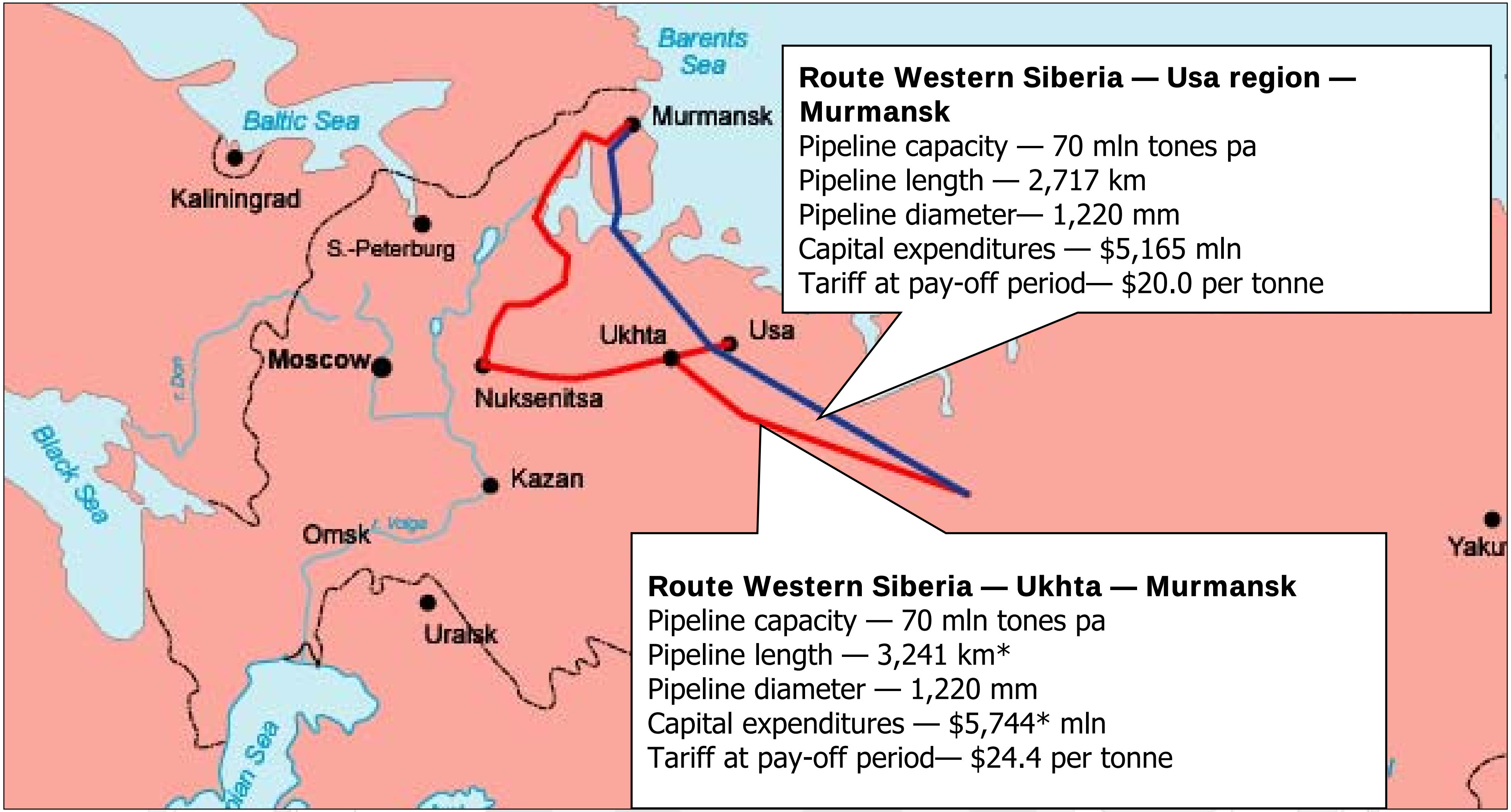
The Murmansk project provides for an opportunity to profitably export oil to the USA and has advantages over other routes

- Murmansk is the only ice-free Russian port with a closed deep-water harbor allowing a year-round shipments of oil in tankers having 300 thousand tons (2.2 million barrels) deadweight and bigger
- The project's costs match any other projects with regard to the total transportation costs to the customer
- The project is expected to cover all of forecasted export capacity deficit in Russia

Comparison of the Different Routes to Carry Oil to the U.S.



Murmansk Pipeline Will Improve Russia' Export Exposure



* Taking into account distance and capital expenditures for Usa — Ukhta pipeline construction.

Murmansk Pipeline System Implementation Plan

PROJECT PARTICIPANTS

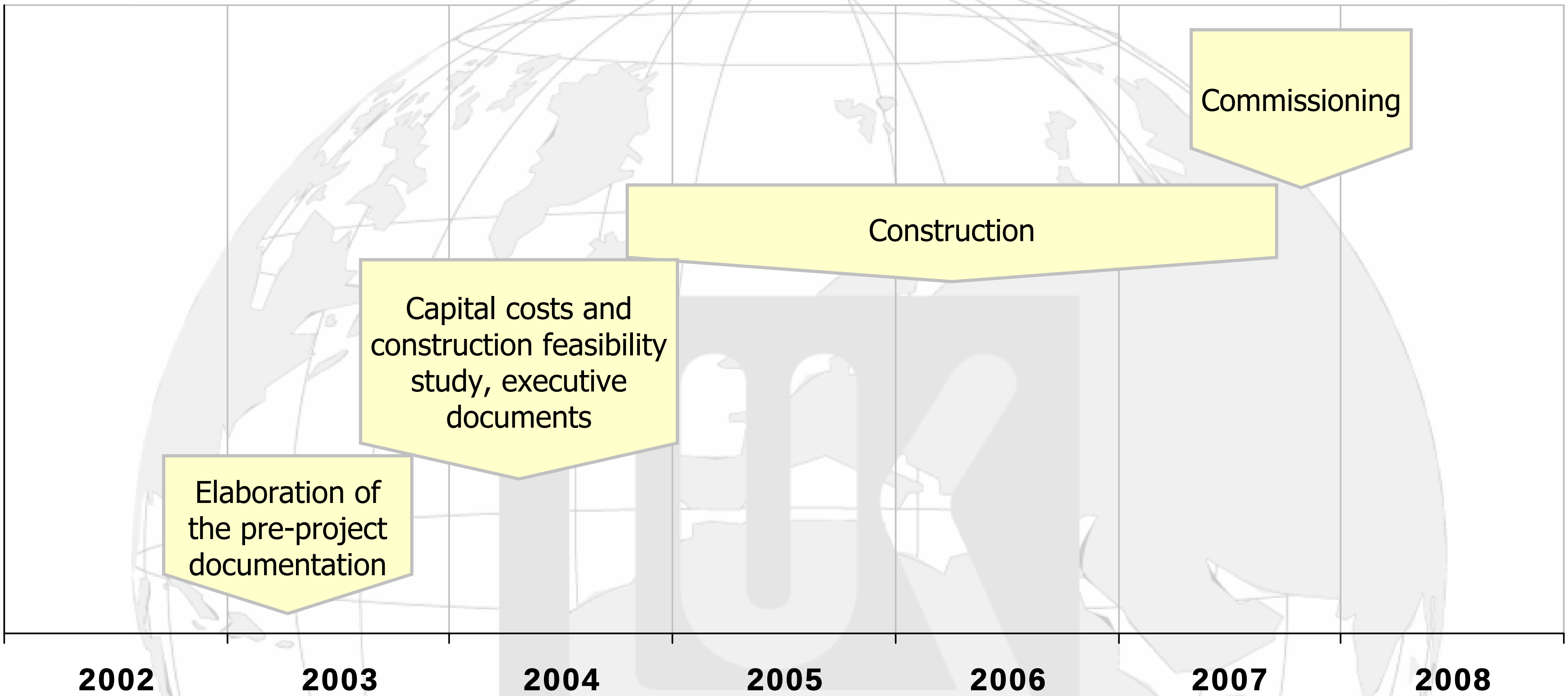
LUKOIL OIL COMPANY

YUKOS

sibneft

TYUMEN OIL COMPANY

PROJECT SCHEDULE



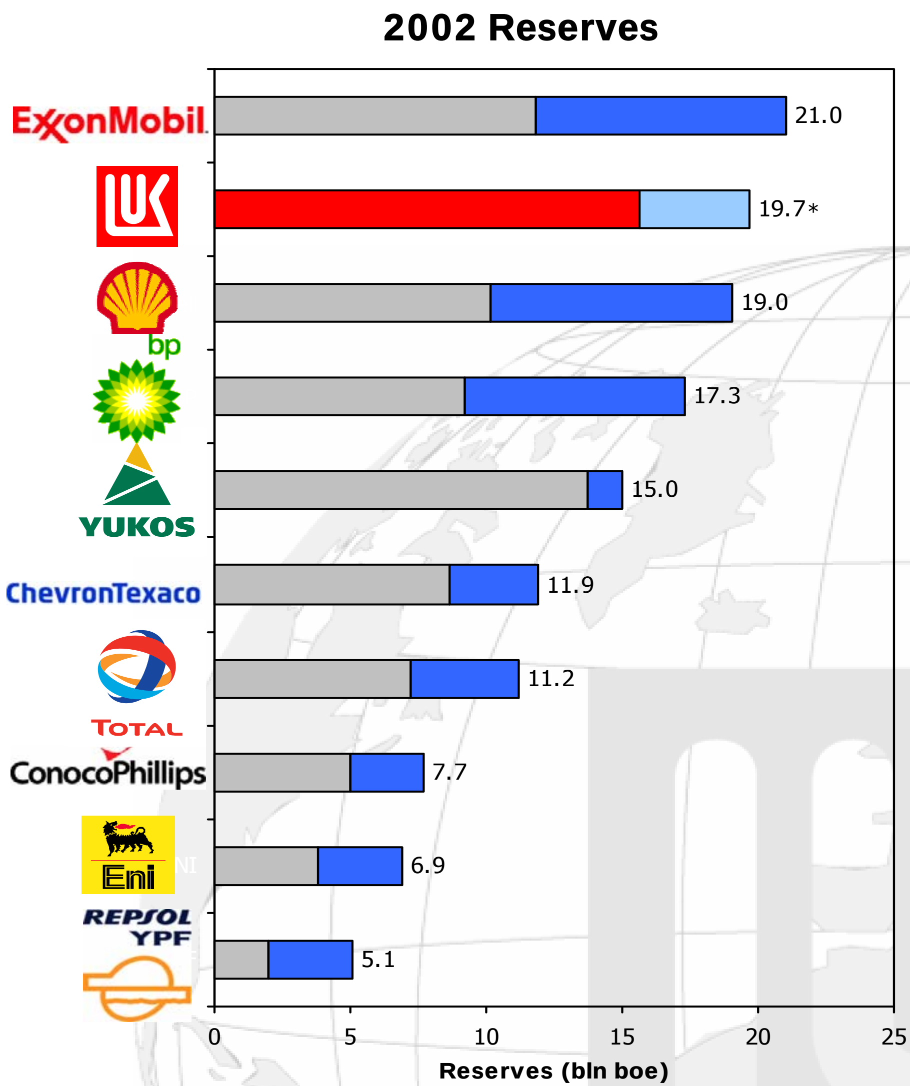
LUKOIL Today

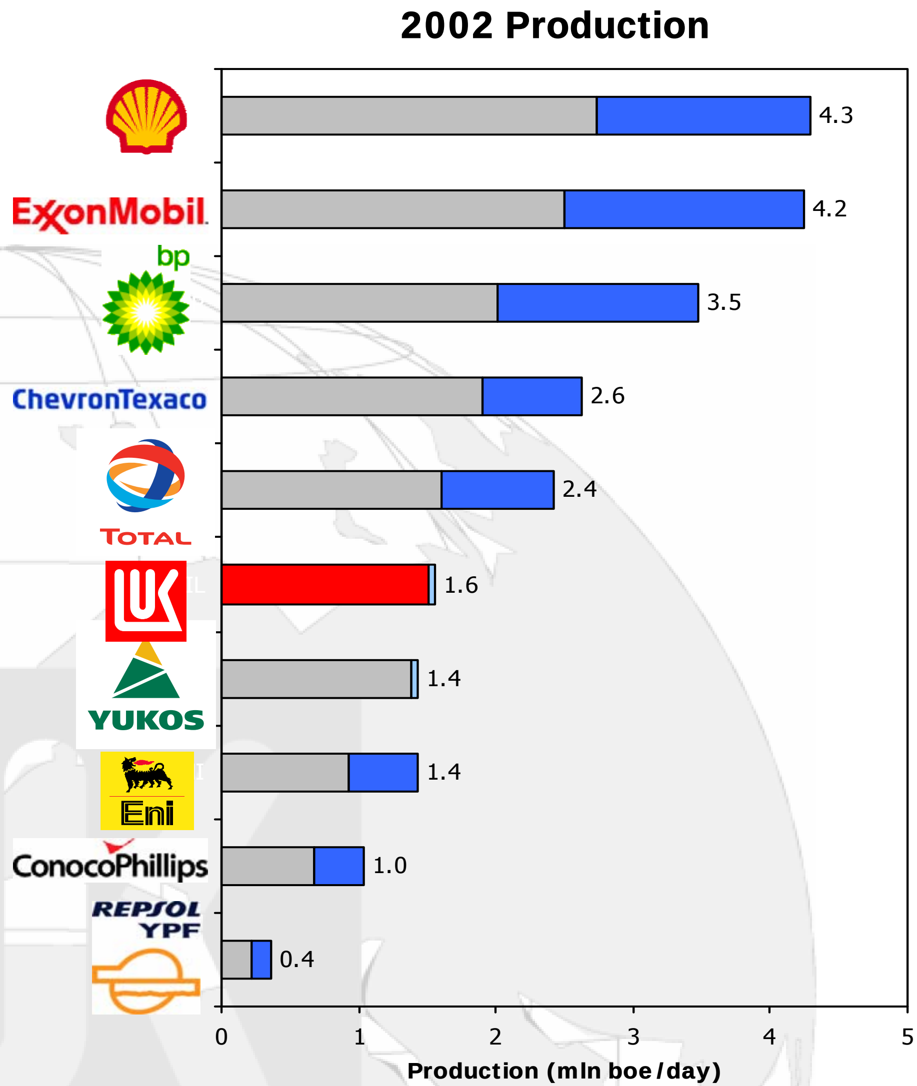
Today LUKOIL is:

- 1.3% of global oil reserves and 2% of global oil production.
- 20% of total Russian oil production and 18% of total Russian oil refining.
- The only private Russian oil company whose share capital is dominated by minority stakeholders
- The 2nd largest private oil company worldwide by proven reserves.
- The 6th largest private oil company worldwide by production.
- The leading Russian oil business group with annual turnover of over $15 bln.
- The most liquid among Central and Eastern European stocks on the London Stock Exchange (LSE).
- The most liquid oil stock and second most liquid stock overall on the Russian Trading System (RTS).
- A leader among Russian oil companies for openness and transparency. The first Russian company to be listed on the London Stock Exchange.

Sources:
Energy Intelligence Group, Petroleum Intelligence Weekly, International Energy Agency, OPEC, US Energy Department, Russian Ministry of Energy, RTS, LSE, LUKOIL.

Part of the World Premier League

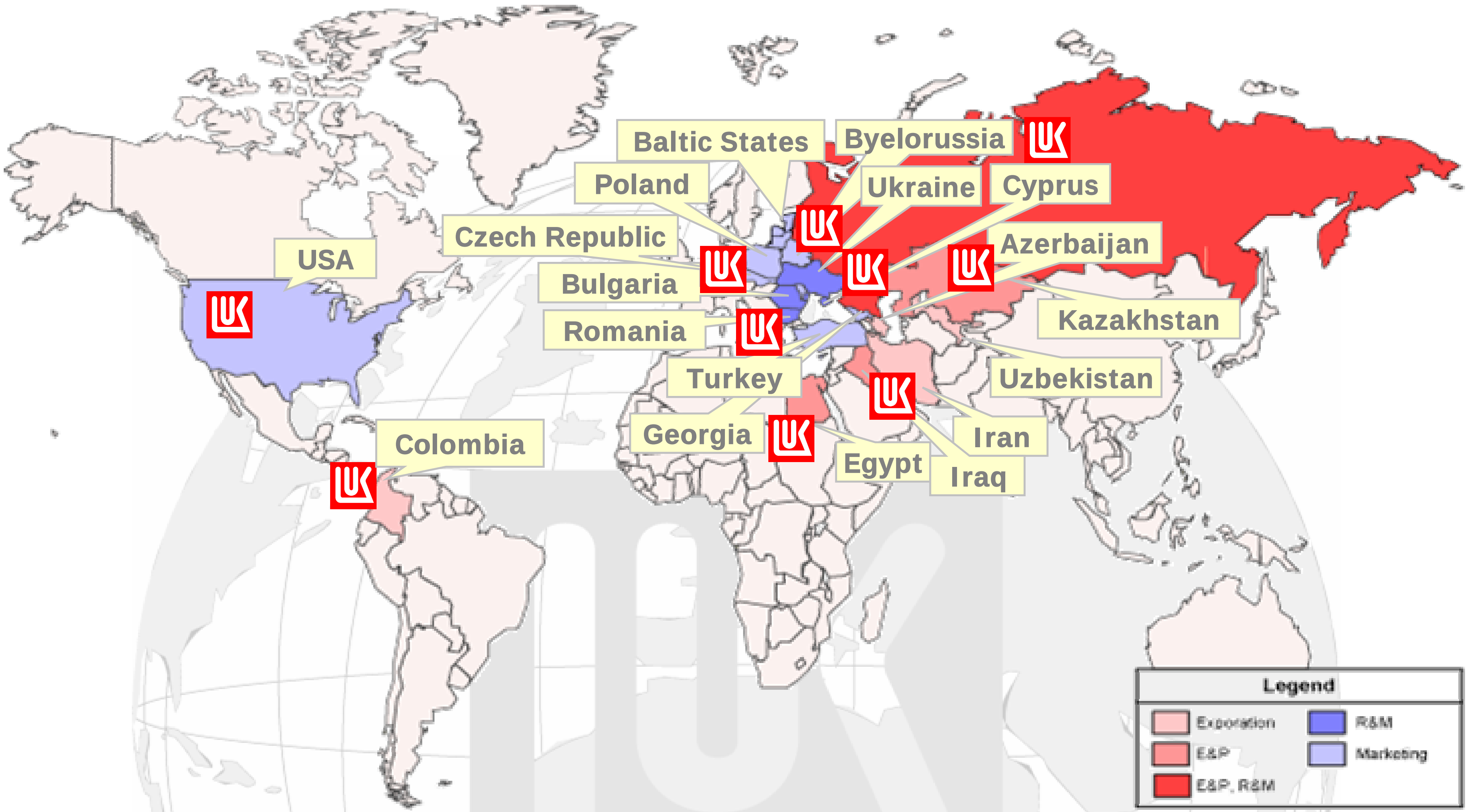




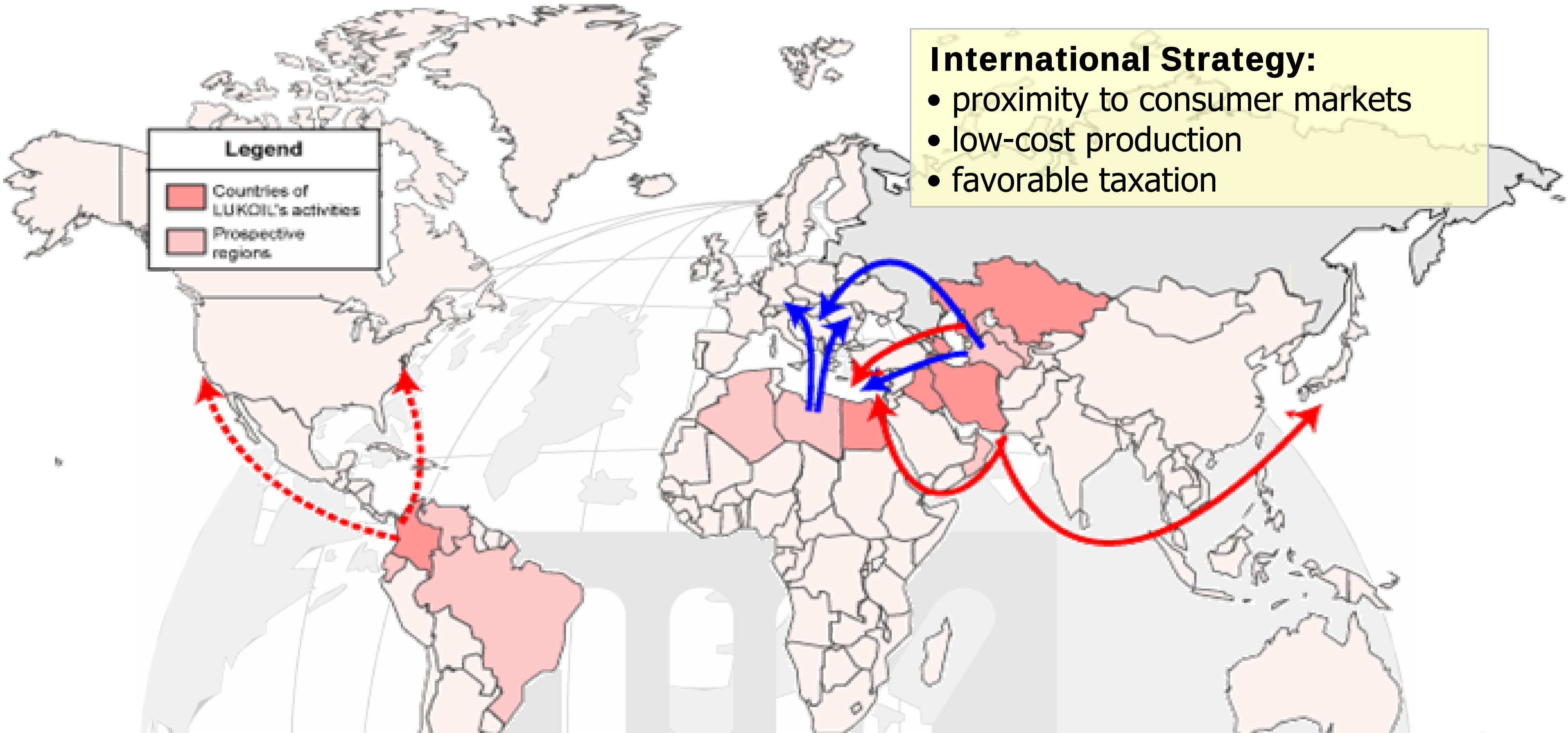
Crude oil and natural gas liquids
Natural gas

* Taking into account acquisitions in early 2003.
Source: company's annual reports

LUKOIL's Global Operations



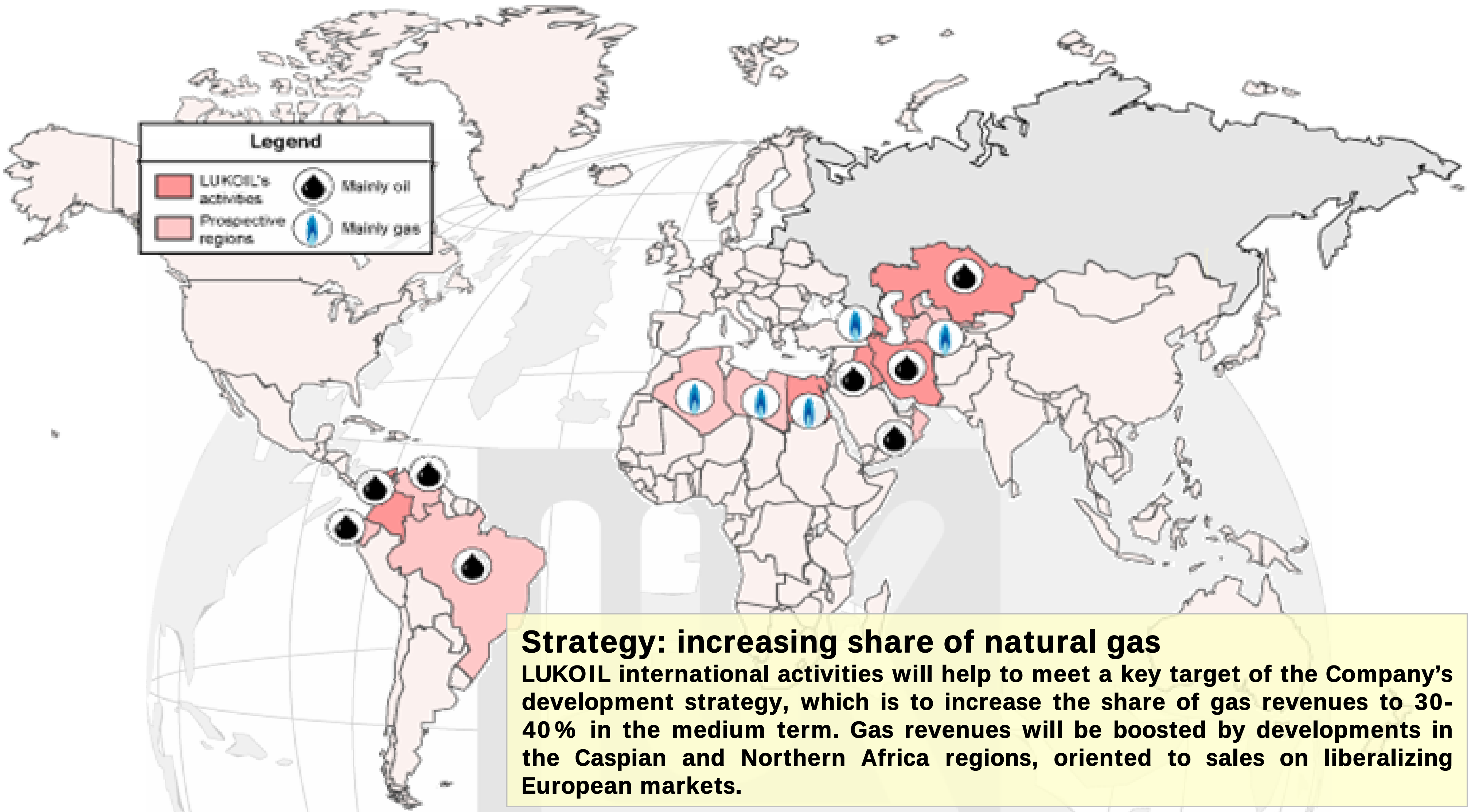
International Upstream Activities



International Strategy:
- proximity to consumer markets
- low-cost production
- favorable taxation

Region Status	**CIS** (Caspian region)	Middle East	Latin America
Under development, new opportunities	**Kazakhstan, Azerbaijan**	**Egypt, Iran, Iraq**	**Colombia**
New opportunities	**Uzbekistan, Turkmenistan**	**Algeria, Libya, Kuwait, UAE, Oman**	**Ecuador, Brazil, Venezuela**

International Upstream Activities



Strategy: increasing share of natural gas

LUKOIL international activities will help to meet a key target of the Company's development strategy, which is to increase the share of gas revenues to 30-40% in the medium term. Gas revenues will be boosted by developments in the Caspian and Northern Africa regions, oriented to sales on liberalizing European markets.

Rich Upstream Project' Portfolio – Strong Competitive Advantage

Management Report – 1st Stage of Restructuring Program

In April 2002 LUKOIL launched a restructuring program to increase its efficiency

Restructuring program: implemented measures

Revenue enhancement

- Increase exports
- Accelerate development of new fields

Cost reduction

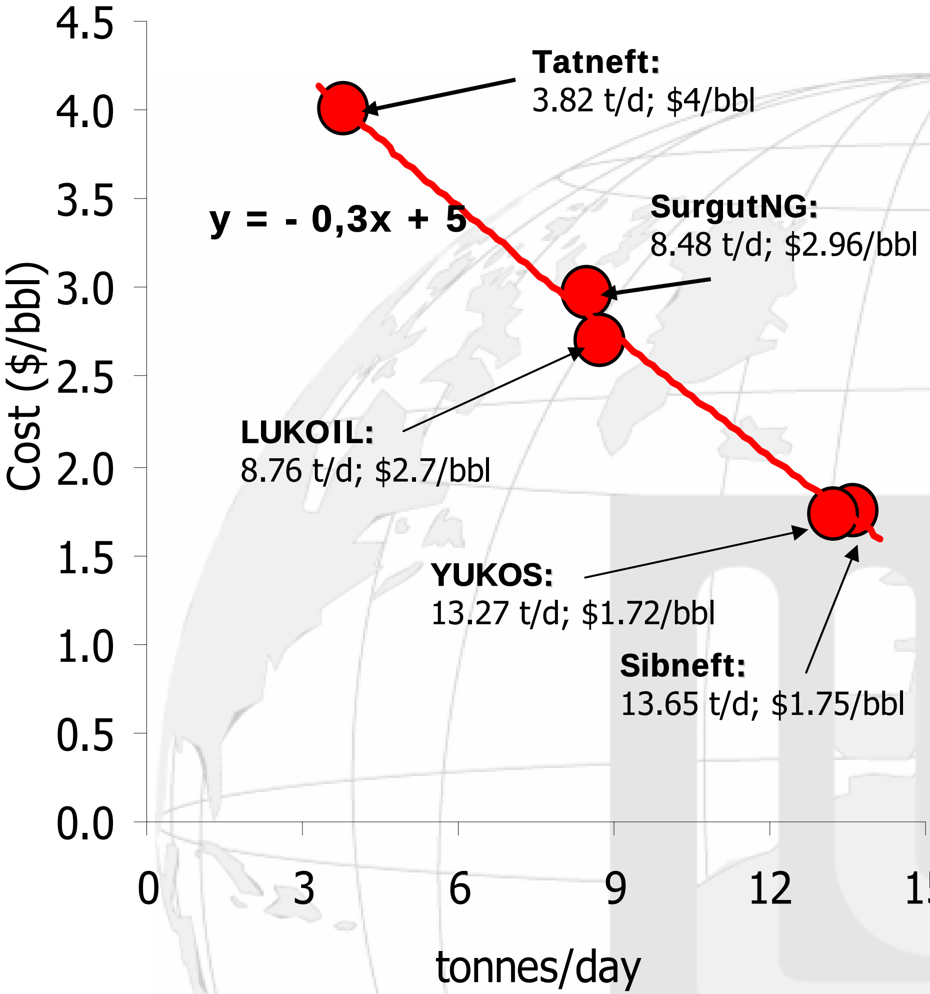
- Shut down marginal wells
- Cost control

Corporate structure

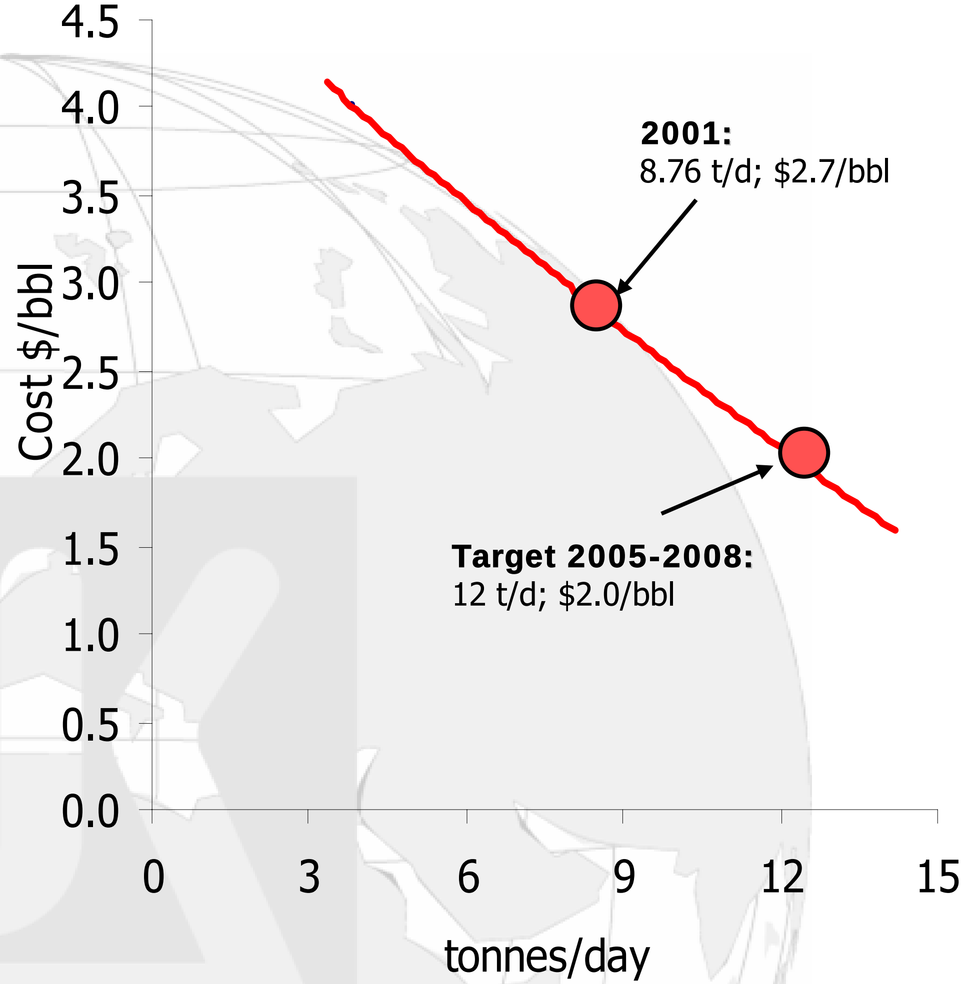
- Consolidate subsidiaries
- Divest non-core assets
- Centralize treasury and risk management
- Establish investment committee

Increasing Daily Output per Well – Reducing Costs

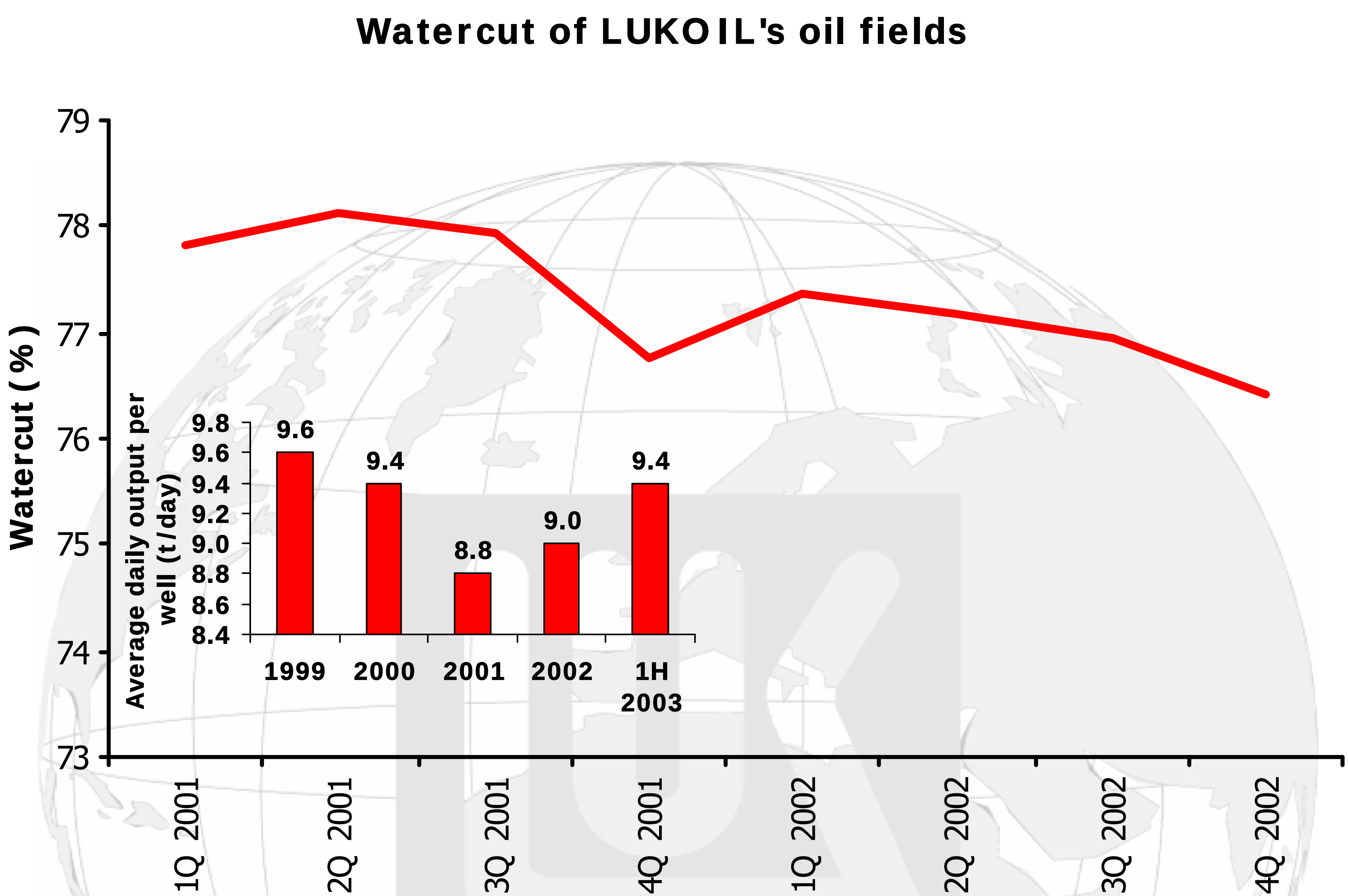
Crude oil production cost dependence on daily output per well



Targeted daily output per well Targeted production cost

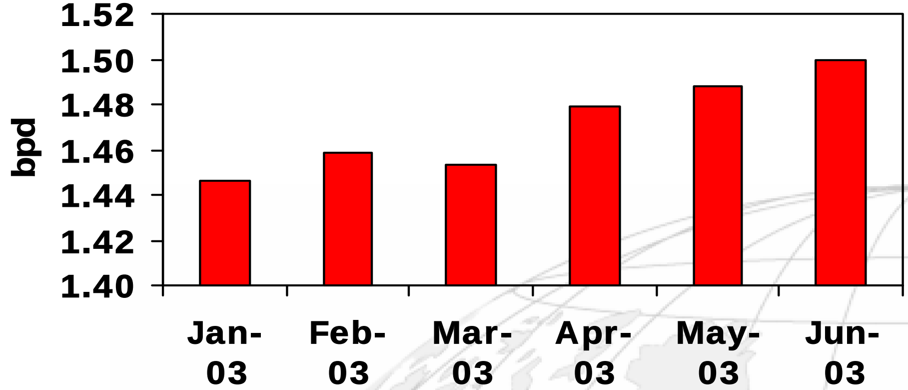


Rising Efficiency of Upstream Operations



Crude Production Growth

Daily crude production

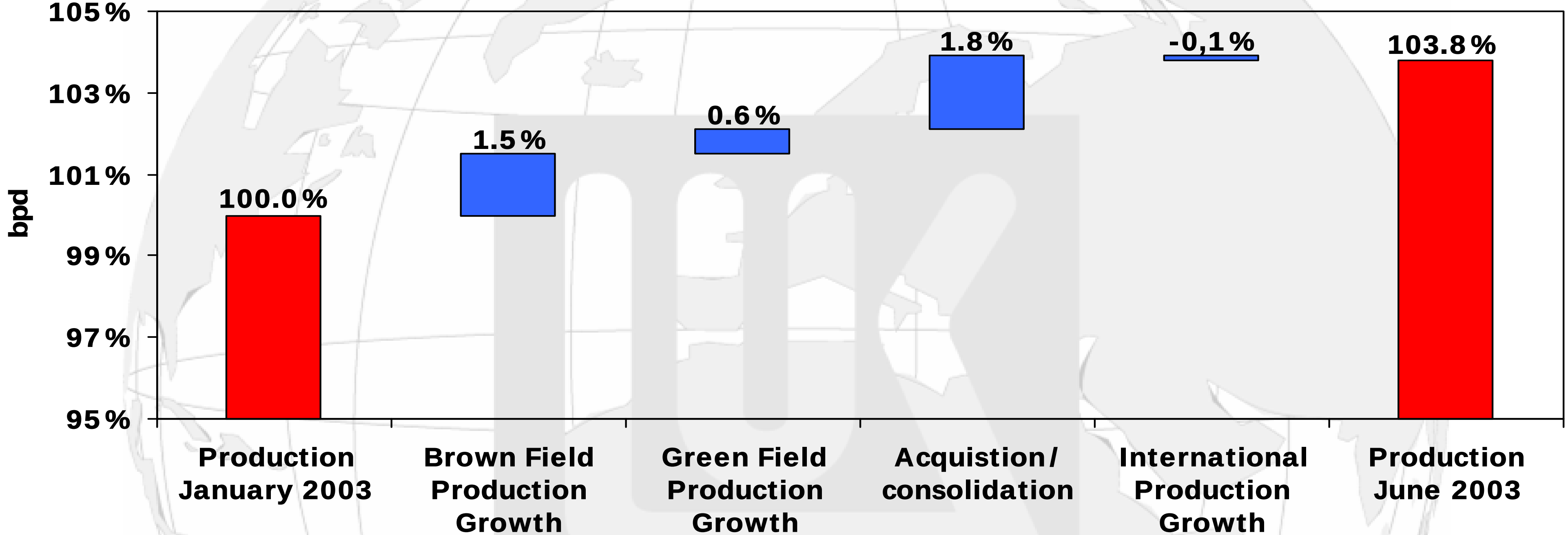


6M 2003 production:

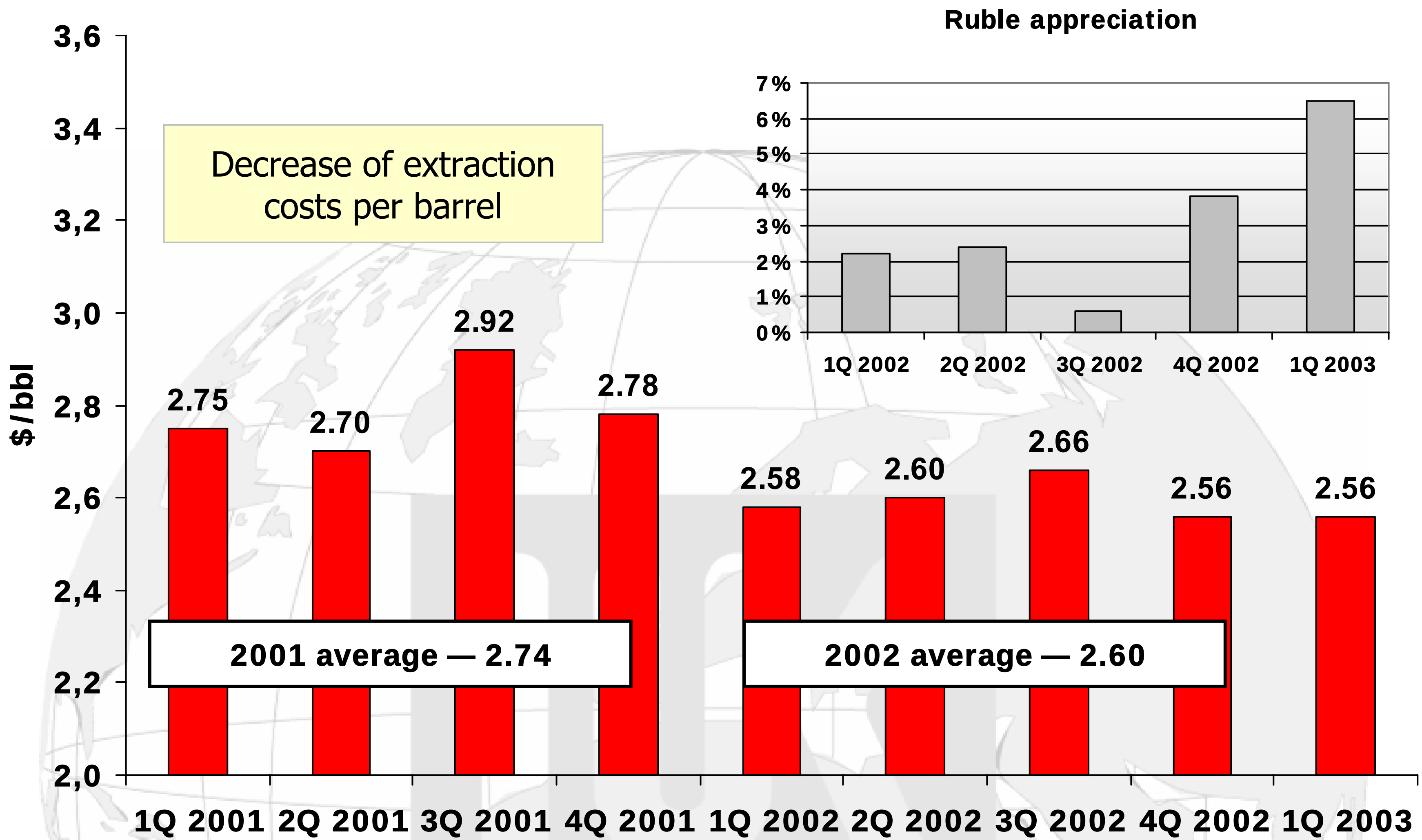
+4% comparing to January 2003

+3% comparing to 6M 2002

Crude production recconsilation



Reducing Crude Production Costs*
in Spite of Ruble Appreciation



* Exploration and production costs, including lifting costs, maintenance and repair of expensed wells, insurance and other costs; excluding taxes and depreciation. Calculated in accordance with US GAAP data.

Restructuring: 1st Stage Results – 2002

- **The economic effect of marketing subsidiaries runs up to over $50 mln provided by:**
  - Group's income increase due to divesting the companies with low or negative profitability and return on investments;
  - Decrease of administrative expenditures.
- **Economic effect of shutting down marginal wells accounts to about $110 mln in 2002.**
- **Increasing refinery throughput and reducing domestic crude oil sales allowed LUKOIL to get economic effect of about $240 mln in 2002.**

- **TOTAL ECONOMIC EFFECT FROM 1st STAGE OF RESTRUCTURING PROGRAM REACHED OVER $400 mln**

Restructuring Program Objectives for 2003-2004

Restructuring LUKOIL's service subsidiaries

LUKOIL has over 35 service subsidiaries employing about 15,000 people (10% of Group's personnel)

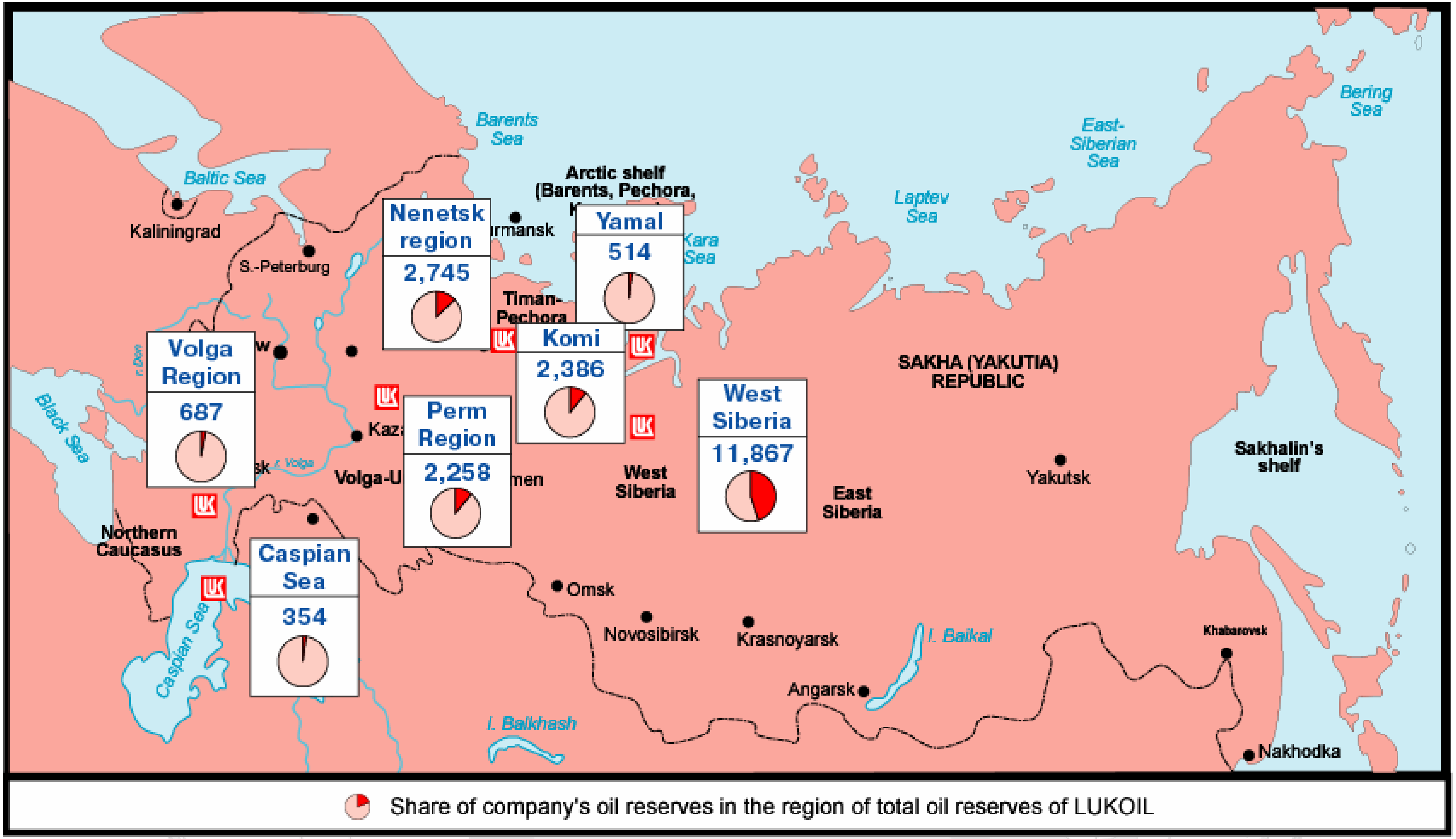
Financial sector	Engineering companies	Transport companies
		

Within 3rd stage of restructuring the Group will divest unprofitable, non-core companies and rely on outsourcing

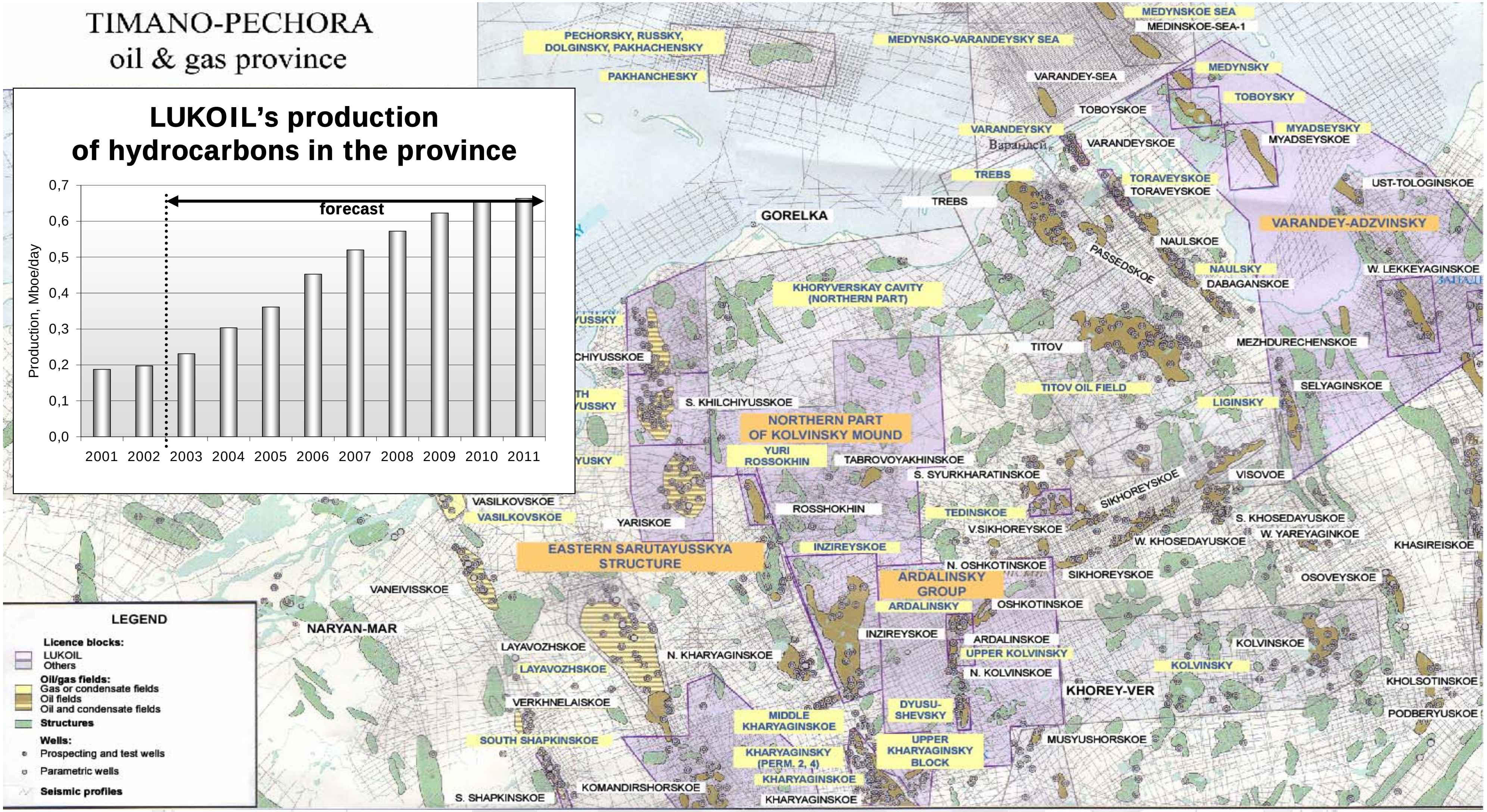
LUKOIL's Development Strategy

- **Short-term strategy (2003-2005)**
  - 4% average annual production growth
  - To improve technology and systems of oil extraction, well-stream gathering, transportation and treatment
  - To accelerate development of new oil reserves
- **Medium-term strategy (2005-2008)**
  - 5% average annual production growth
  - 17-20% weighted-average ROCE in upstream
  - Technology and equipment renovation in the Company's core oil producing regions
  - Completion of preparatory stage and launch of commercial production in Northern sector of the Caspian Sea
- **Long-term strategy (2008-2010)**
  - To increase output: min (oil – 2.2 mln b/d, natural gas – 0.5 mln boe/d), max (oil – 2.8 mln b/d, natural gas – 0.65 mln boe/d)
  - To control lifting costs (in constant 2002 prices and at $/RR exchange rate for 2002): oil – 2.0-2.5 $/bbl, gas – 0.10 $/1000 cf
  - To increase output from international operations to 15% of total production

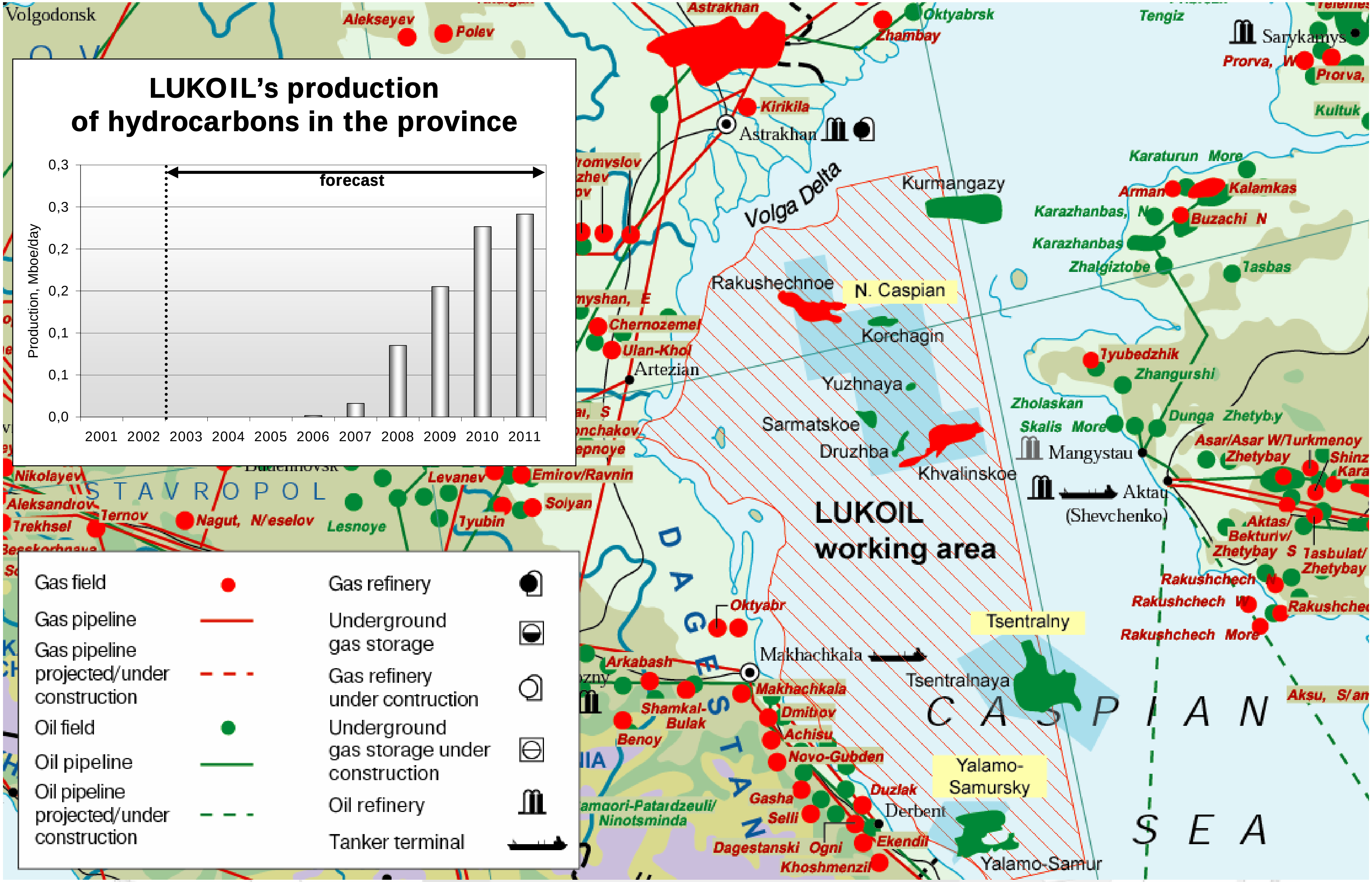
LUKOIL's Oil Reserves in Russia (PP, mln bbl)



LUKOIL in Timano-Pechora



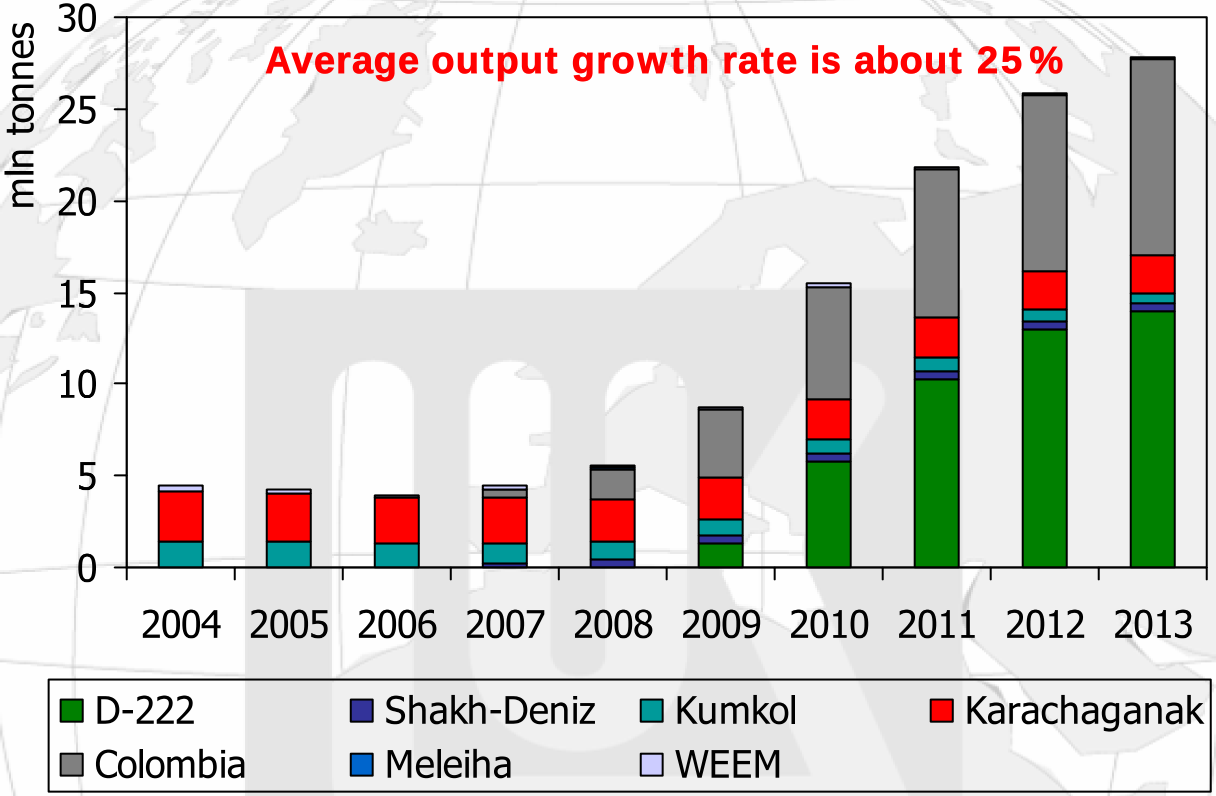
LUKOIL in North Caspian



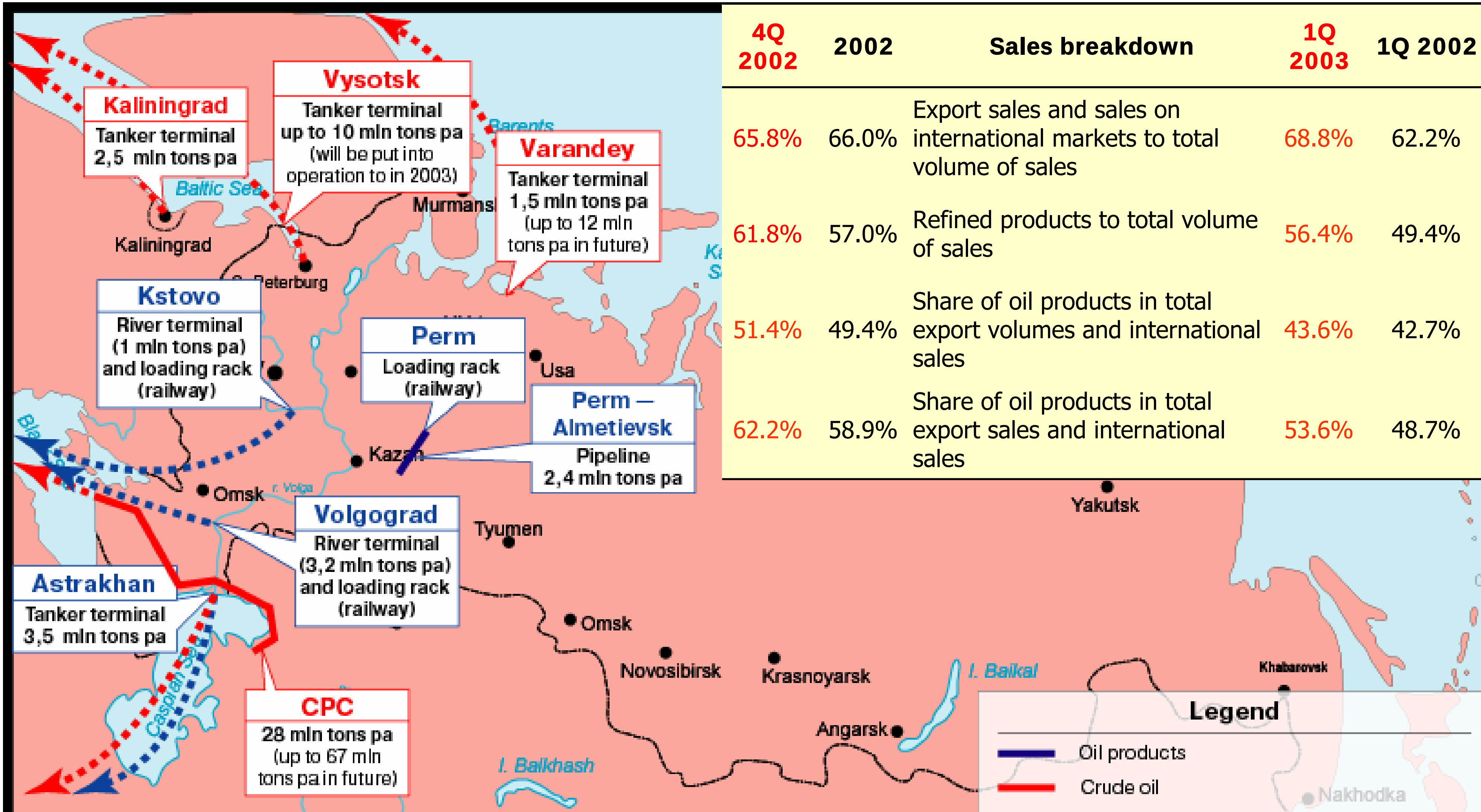
Upstream Sector Outside Russia – Strong Efficient Growth

International diversification of upstream:

- Geographical diversification
- Strong natural growth of production
- Low lifting costs
- Attractive taxation environment



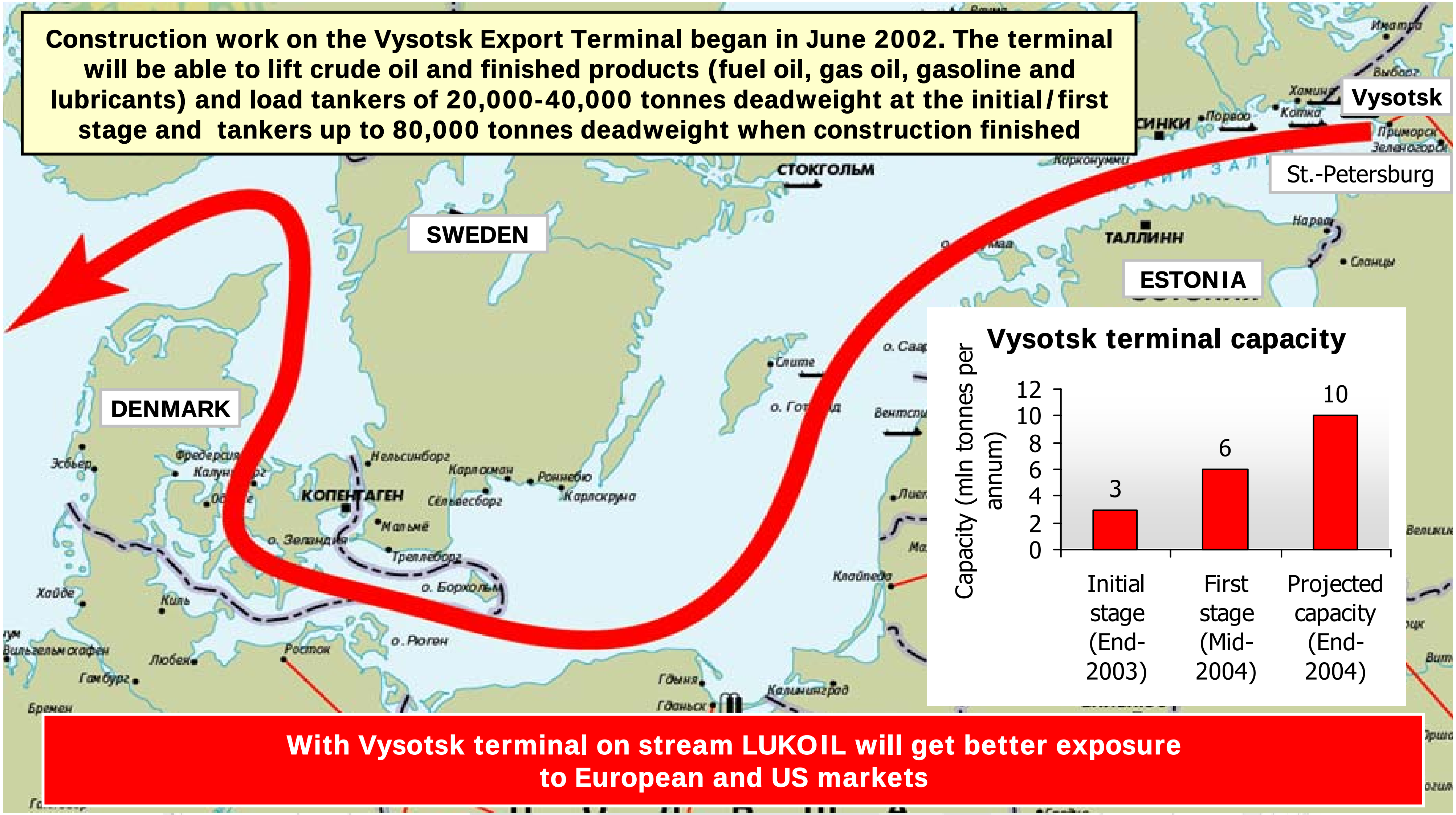
LUKOIL's Export Infrastructure and Expanding Export Operations



4Q 2002	2002	Sales breakdown	1Q 2003	1Q 2002
65.8%	66.0%	Export sales and sales on international markets to total volume of sales	68.8%	62.2%
61.8%	57.0%	Refined products to total volume of sales	56.4%	49.4%
51.4%	49.4%	Share of oil products in total export volumes and international sales	43.6%	42.7%
62.2%	58.9%	Share of oil products in total export sales and international sales	53.6%	48.7%

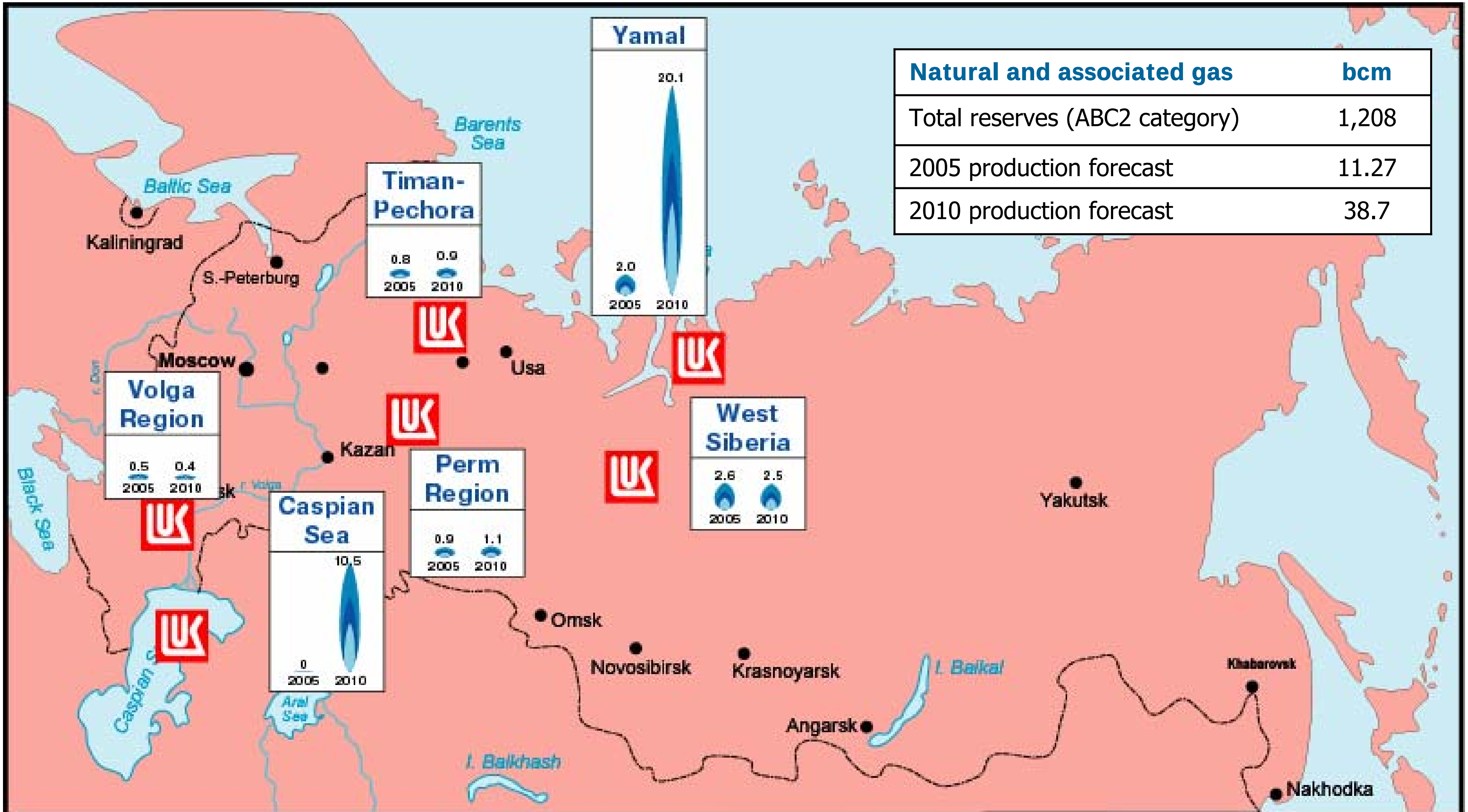
Vysotsk — New Export Outlet

Construction work on the Vysotsk Export Terminal began in June 2002. The terminal will be able to lift crude oil and finished products (fuel oil, gas oil, gasoline and lubricants) and load tankers of 20,000-40,000 tonnes deadweight at the initial/first stage and tankers up to 80,000 tonnes deadweight when construction finished



With Vysotsk terminal on stream LUKOIL will get better exposure to European and US markets

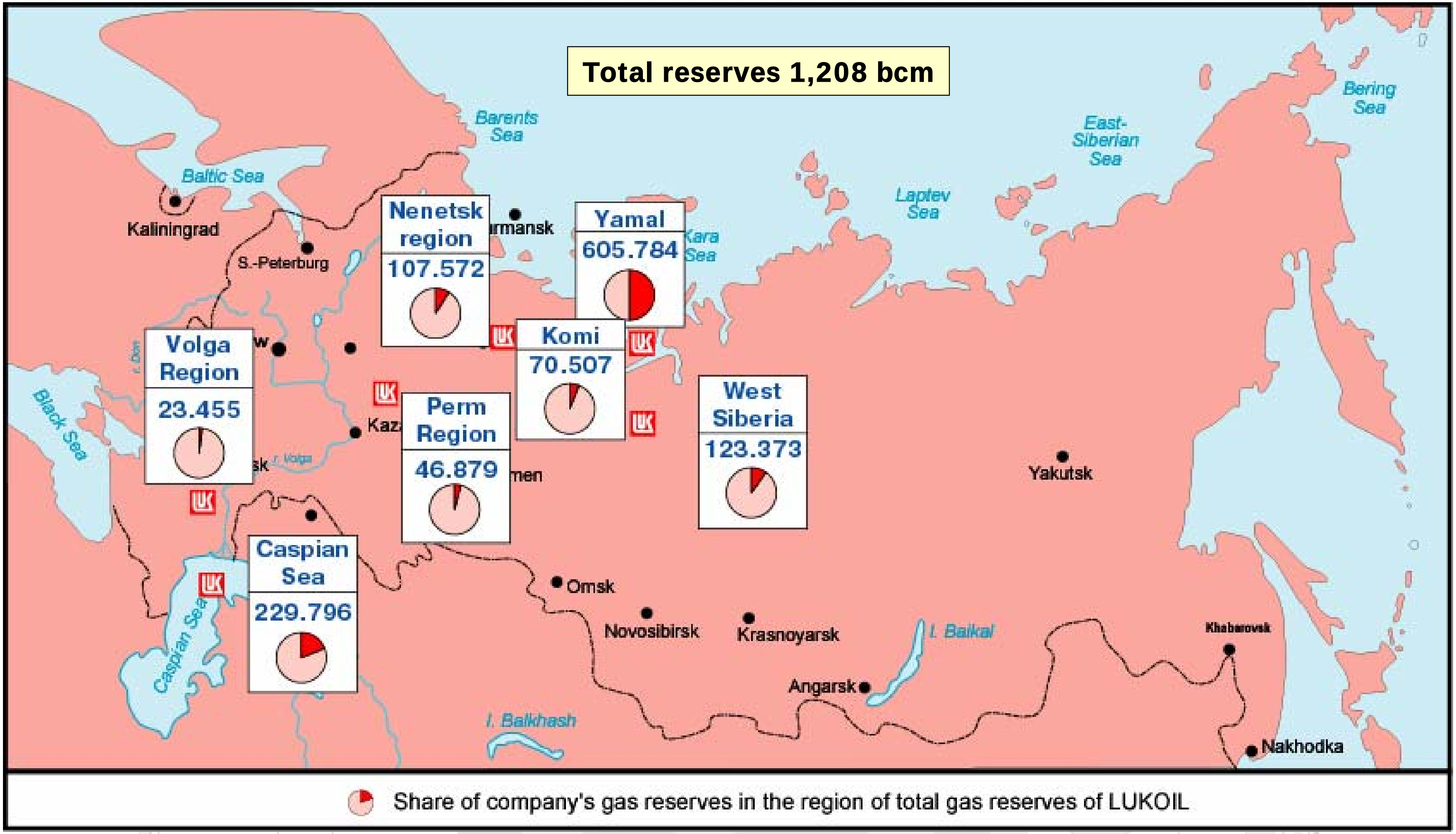
Aiming to Be Gas Producer #2 in Russia



Natural and associated gas	bcm
Total reserves (ABC2 category)	1,208
2005 production forecast	11.27
2010 production forecast	38.7

Gas production (bcm), including natural and associated gas

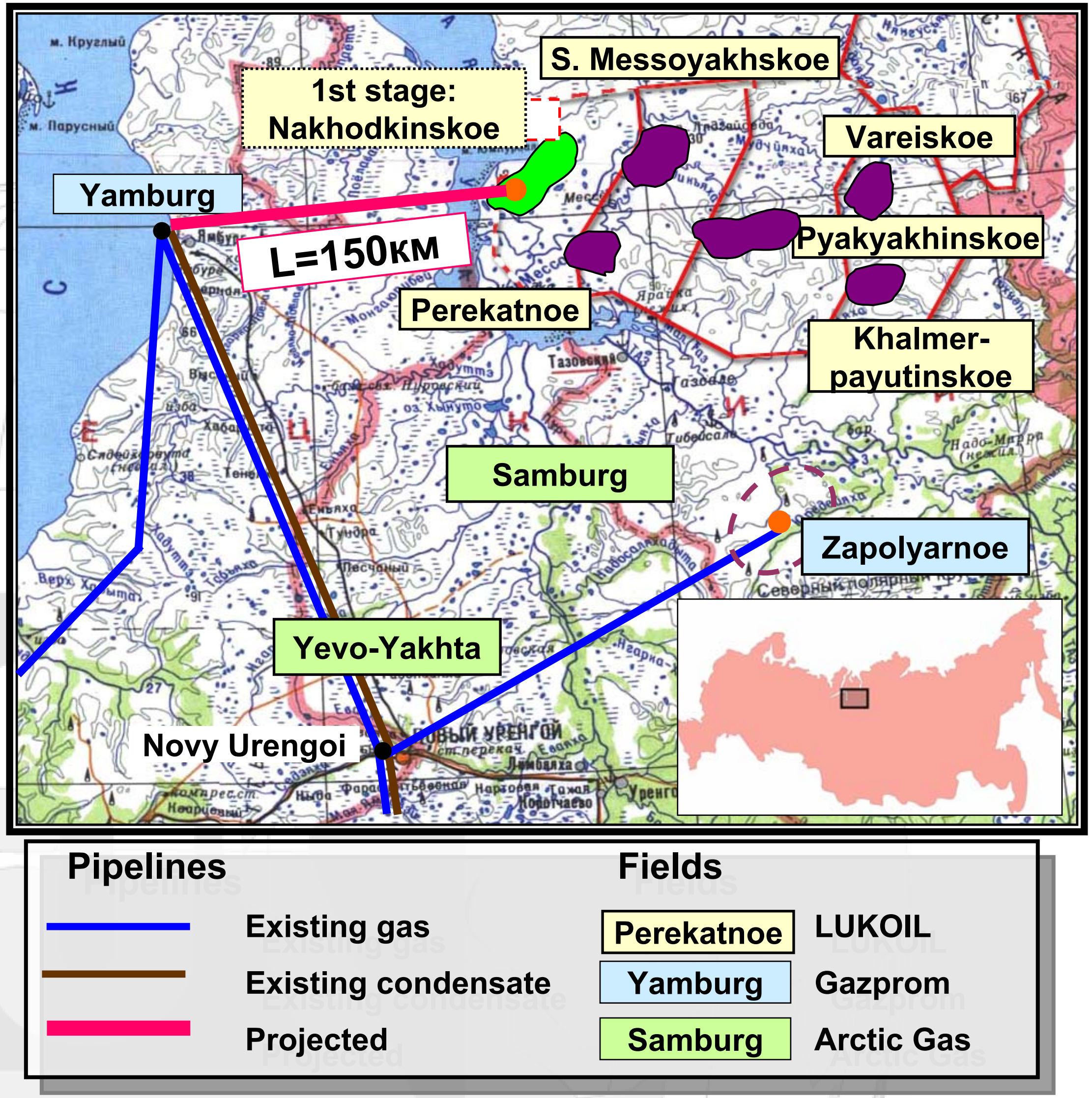
LUKOIL's Gas Reserves in Russia (PP, bcm)*



* Including natural gas and associated gas; Russian classification of reserves (ABC2 category).

Bolshekhetskaya Depression Gas Reserves

- In 2001 LUKOIL acquired Yamalneftegazdobycha, which holds licenses for significant reserves in the Bolshekhetskaya depression
- 290 bcm of total P1+P2 reserves; management estimates total reserves of 1 tcm (including C1-C2 categories)
- Production is expected to start in 2005
  - First stage – Nakhodkinskoe field
- Expected payback period 5-10 years
- Close proximity to Gazprom's fields and transport infrastructure (150 km)
- Preliminary agreement with Gazprom to connect the field with the trunk natural gas pipeline system
- At the advanced stage of development program at Yamal peninsula the partners plan to set up a 200 kbpd LNG plant



Strategic Objectives

- **Main objective — maintaining ROACE at the set level**
- **Aiming to maintain output growth rate above 5% after 2005**
- **Export-to-output ratio – 70%**
- **Reaching and keeping production cost at $2.0-2.5/bbl**
- **Reaching average daily output per well at 12 t/d (88 bbl/d)**
- **Targeting one fourth of Russia's total crude output by 2010**
- **Targeting over 3% of the world's total output by 2010**
- **To be natural gas producer #2, control 5% of Russia's total gas output**