



# **2004 Financial Results**

## **(US GAAP)**

May 2005

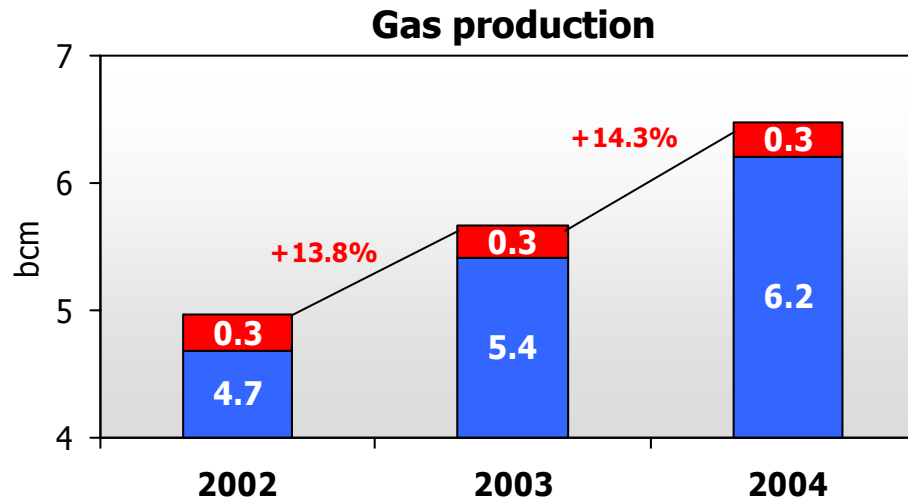
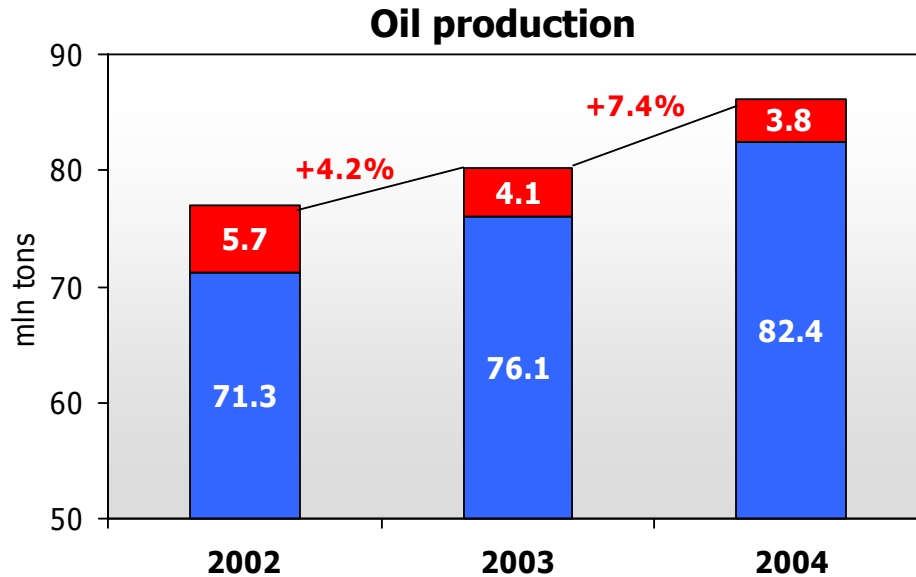


# Economic Environment

2004	2003	Economic Environment	4Q 2004	3Q 2004
<b><u>Domestic market</u></b>				
15.09	8.53	Realized oil (\$/bbl)	16.79	19.50
236.52	168.50	Realized petroleum products (\$/ton)	274.33	284.63
11.7	12.0	Inflation (%)	3.3	1.7
18.5	20.8	Ruble appreciation against USD (%)	8.8	1.0
8.2	9.3	Transportation expenses / sales (%)	7.3	7.2
25.9	24.5	Taxes other than income taxes / sales (%)	29.4	24.9
<b><u>International market</u></b>				
32.42	24.73	Realized oil (\$/bbl)	36.04	36.52
369.75	278.87	Realized petroleum products (\$/ton)	417.24	385.92



# Oil and Natural Gas Production



■ Share in affiliates' production  
■ Subsidiaries' production



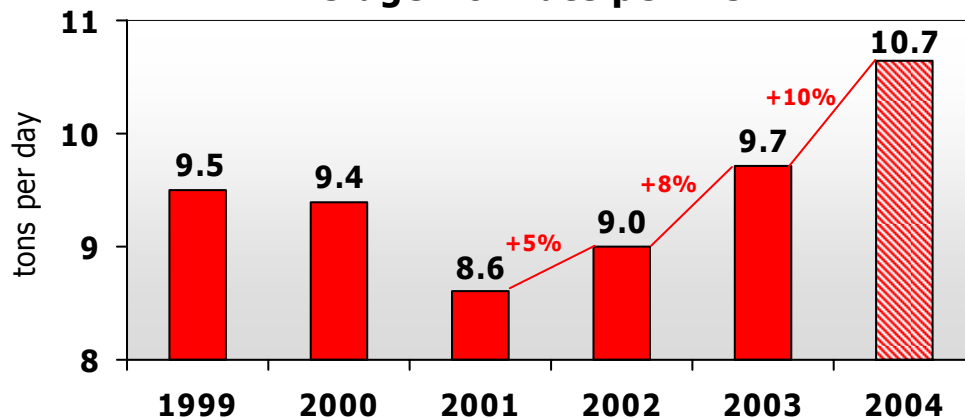
Crude oil output by LUKOIL Group (subsidiaries and LUKOIL's share in affiliates) totaled **86.2** mln tons in 2004 or increased by **7.4%** y-o-y. Natural gas output increased by **14.3%** y-o-y.

**Daily hydrocarbon production increased by 7.5% y-o-y and exceeded 1.8 mln boe per day.**



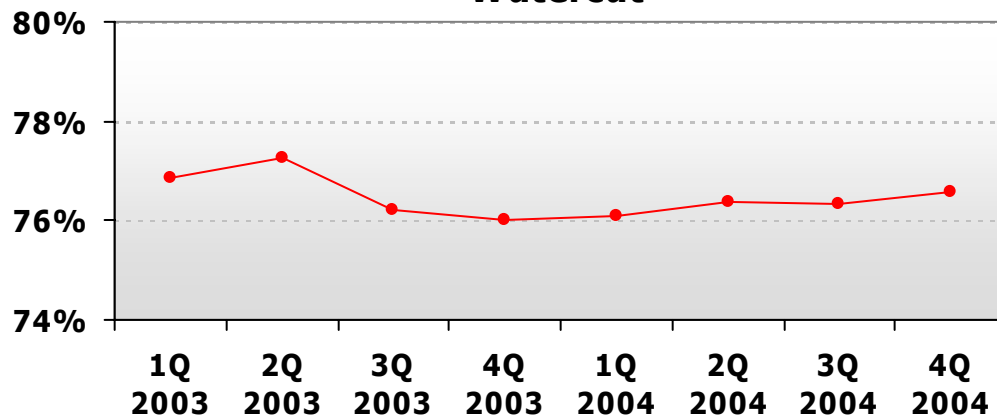
# Improving Efficiency of E&P

### Average flowrate per well



Since 2001 average flow rate per well has been steadily growing

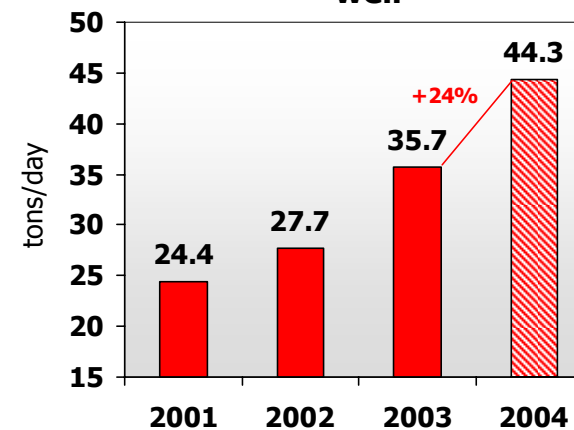
### Watercut



Watercut has been stabilized



### Average flowrate per new well



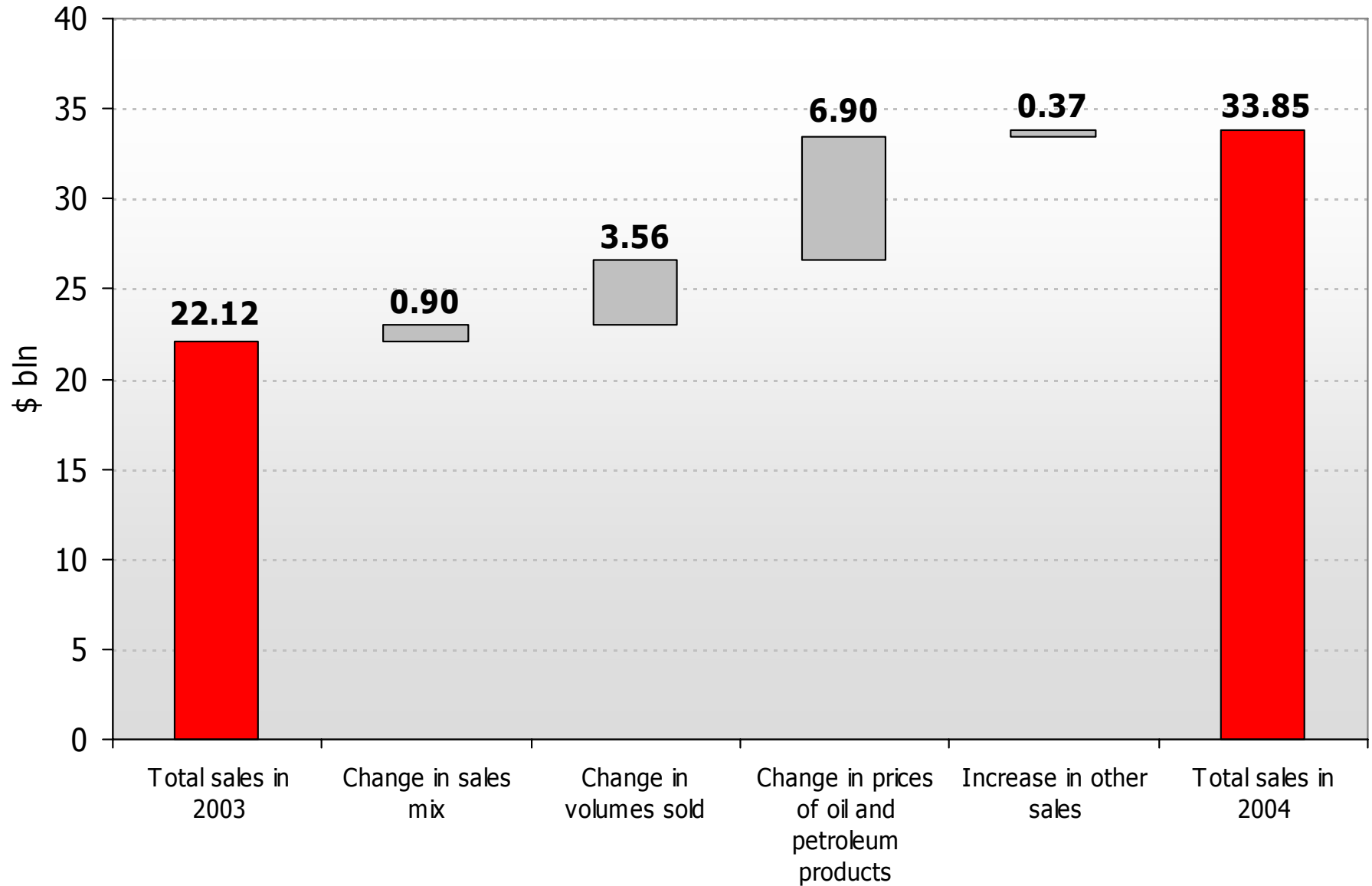


# Financial Results

2004	2003	Financial results, mln USD	4Q 2004	3Q 2004
<b>34,058</b>	<b>22,299</b>	<b>Total revenue</b>	<b>9,627</b>	<b>9,822</b>
(2,880)	(2,546)	Operating expenses	(779)	(767)
(8,753)	(5,410)	Taxes other than income taxes (including excise and export tariffs)	(2,826)	(2,422)
6,034	4,587	Income from operating activities	1,590	1,979
6,008	4,576	Income before income taxes	1,669	1,932
4,248	3,701	Net income	1,153	1,399
<b>4,248</b>	<b>2,439</b>	<b>Net income before cumulative change in accounting principle and excluding gain from sale of interest in ACG</b>	<b>1,153</b>	<b>1,399</b>
5.20	4.52	EPS (USD)	1.41	1.71
<b>7,203</b>	<b>5,630</b>	<b>EBITDA</b>	<b>1,983</b>	<b>2,255</b>



# Sales Reconciliation





# Sales Breakdown

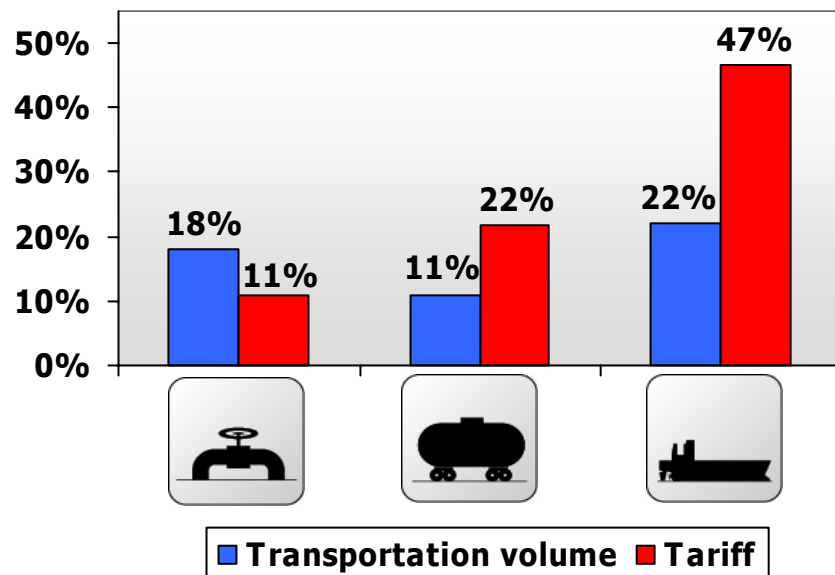
2004	2003	Sales breakdown	4Q 2004	3Q 2004
80.4	73.1	Export sales and sales on international markets to total volume of sales (%)	79.7	82.8
56.2	55.5	Petroleum products to total volume of sales (%)	59.2	56.6
47.4	47.4	Share of petroleum products in total export volumes and international sales (%)	50.4	48.8
56.2	55.8	Share of petroleum products in total export sales and international sales (%)	58.9	56.1

2004	2003	Sales, mln USD	4Q 2004	3Q 2004
10,338	6,411	International sales of crude oil (non-CIS)	2,695	3,073
602	433	Sales of crude oil within CIS	127	177
181	374	Sales of crude oil within Russia	42	38
15,317	9,480	International sales of petroleum products	4,530	4,464
4,665	3,450	Sales of petroleum products within Russia	1,413	1,322
1,021	671	International sales of petrochemicals	333	237
332	251	Sales of petrochemicals within Russia	92	86
1,389	1,048	Other sales	396	343
<b>33,845</b>	<b>22,118</b>	<b>Total sales</b>	<b>9,628</b>	<b>9,740</b>

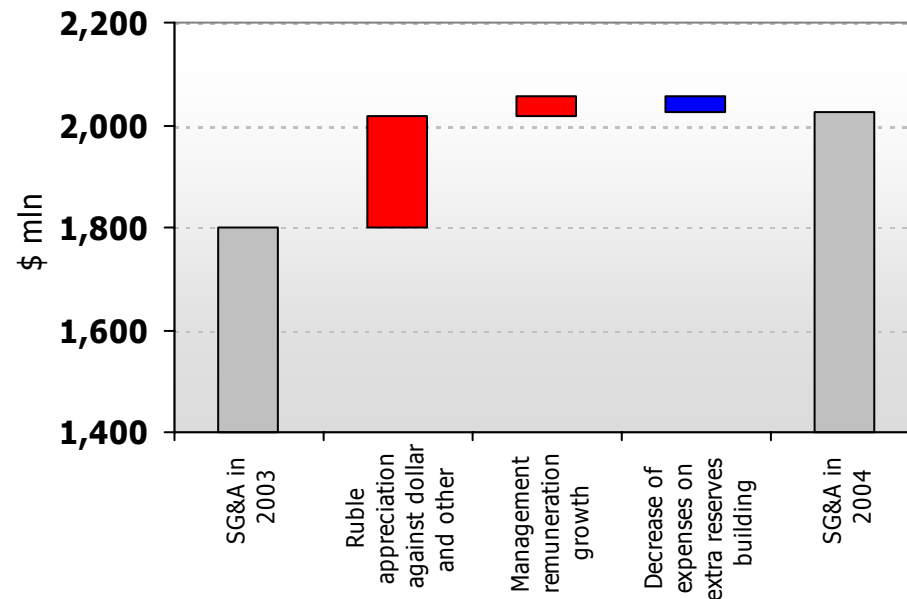


# SG&A and Transportation Expenses

**Transportation Expenses Change Factors (2004 to 2003)**



**SG&A reconciliation**



2004	2003	Transportation expenses and SG&A, mln USD	4Q 2004	3Q 2004
2,784	2,052	Transportation expenses	704	697
2,024	1,800	Other selling, general and administrative expenses	579	523
<b>4,808</b>	<b>3,852</b>	<b>Total</b>	<b>1,283</b>	<b>1,220</b>



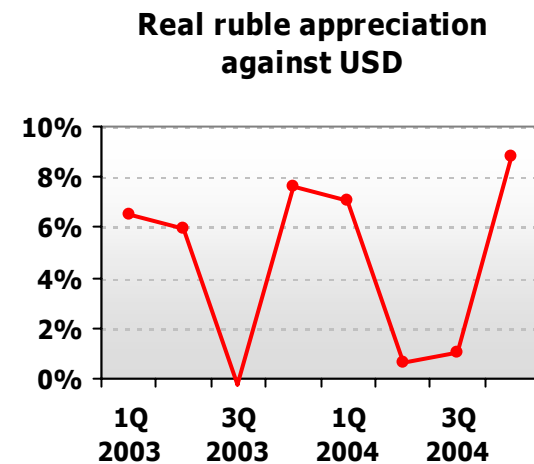
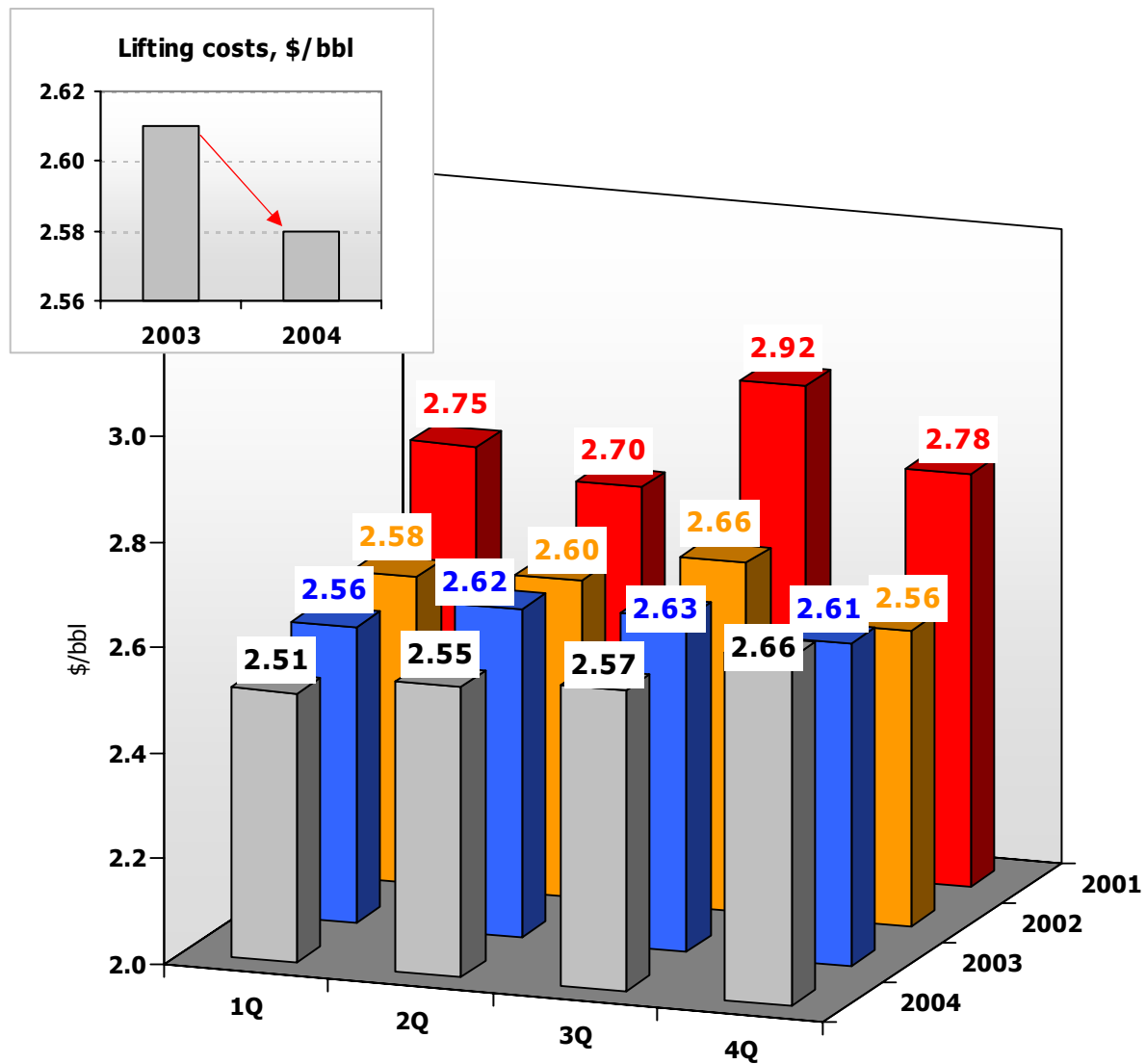


# Operating Expenses

<b>2004</b>	<b>2003</b>	<b>Operating expenses, mln USD</b>	<b>4Q 2004</b>	<b>3Q 2004</b>
1,556	1,458	Extraction expenses	411	393
551	479	Refinery expenses	165	133
188	149	Petrochemical expenses	56	43
585	460	Other operating expenses	147	198
<b>2,880</b>	<b>2,546</b>	<b>Total</b>	<b>779</b>	<b>767</b>
<b>10,124</b>	<b>5,909</b>	<b>Cost of purchased oil, petroleum and chemical products</b>	<b>2,789</b>	<b>3,007</b>



# Reducing Crude Production Costs\*, Mitigating Negative Macroeconomic Effect



**In 2004 LUKOIL successfully reduced lifting costs (nominated in USD) by 1.1% y-o-y.**

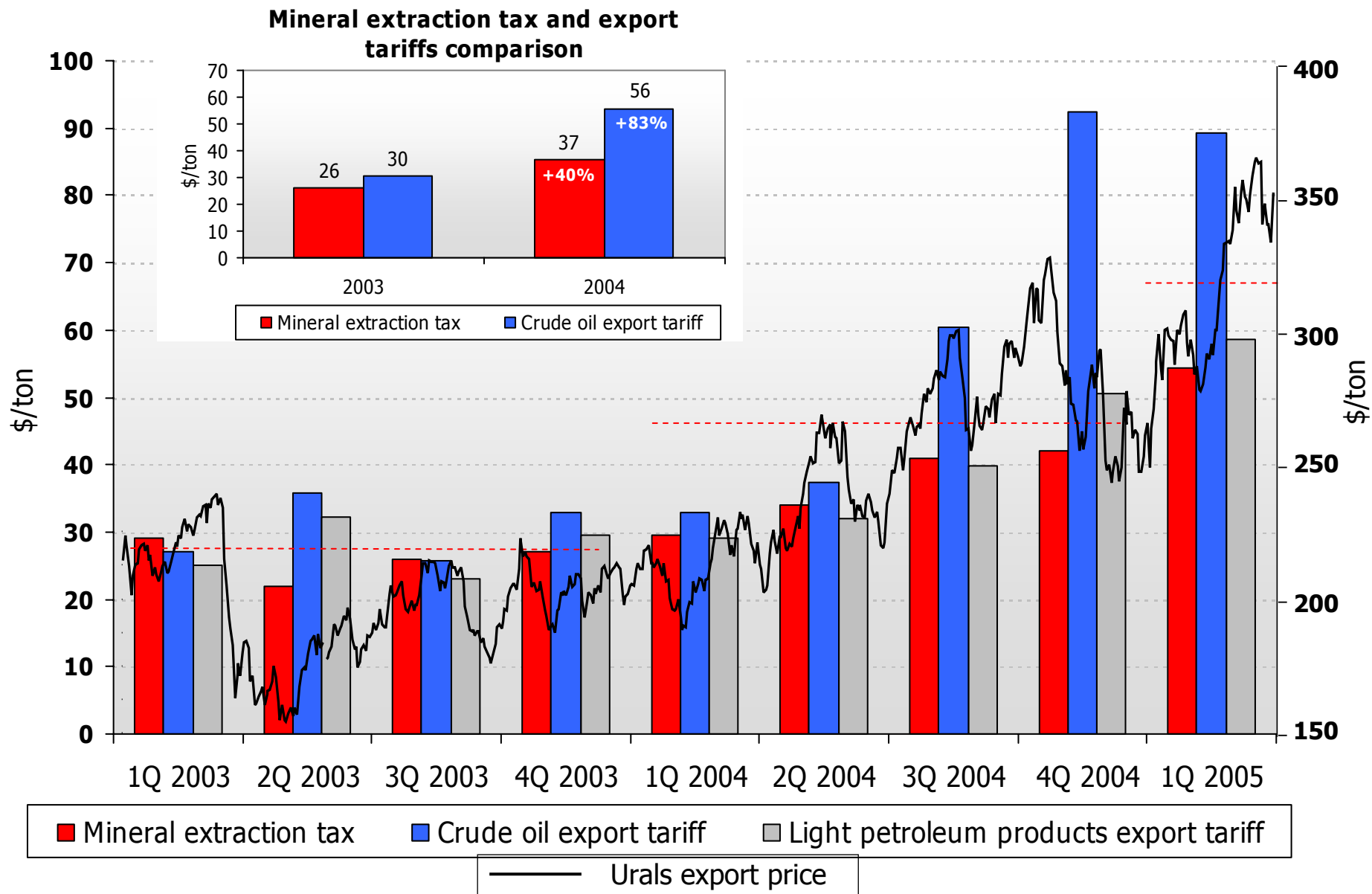
**Ruble strengthened against USD by 18.5%.**

**Cost reduction in real terms was about 20% y-o-y.**

\* 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.

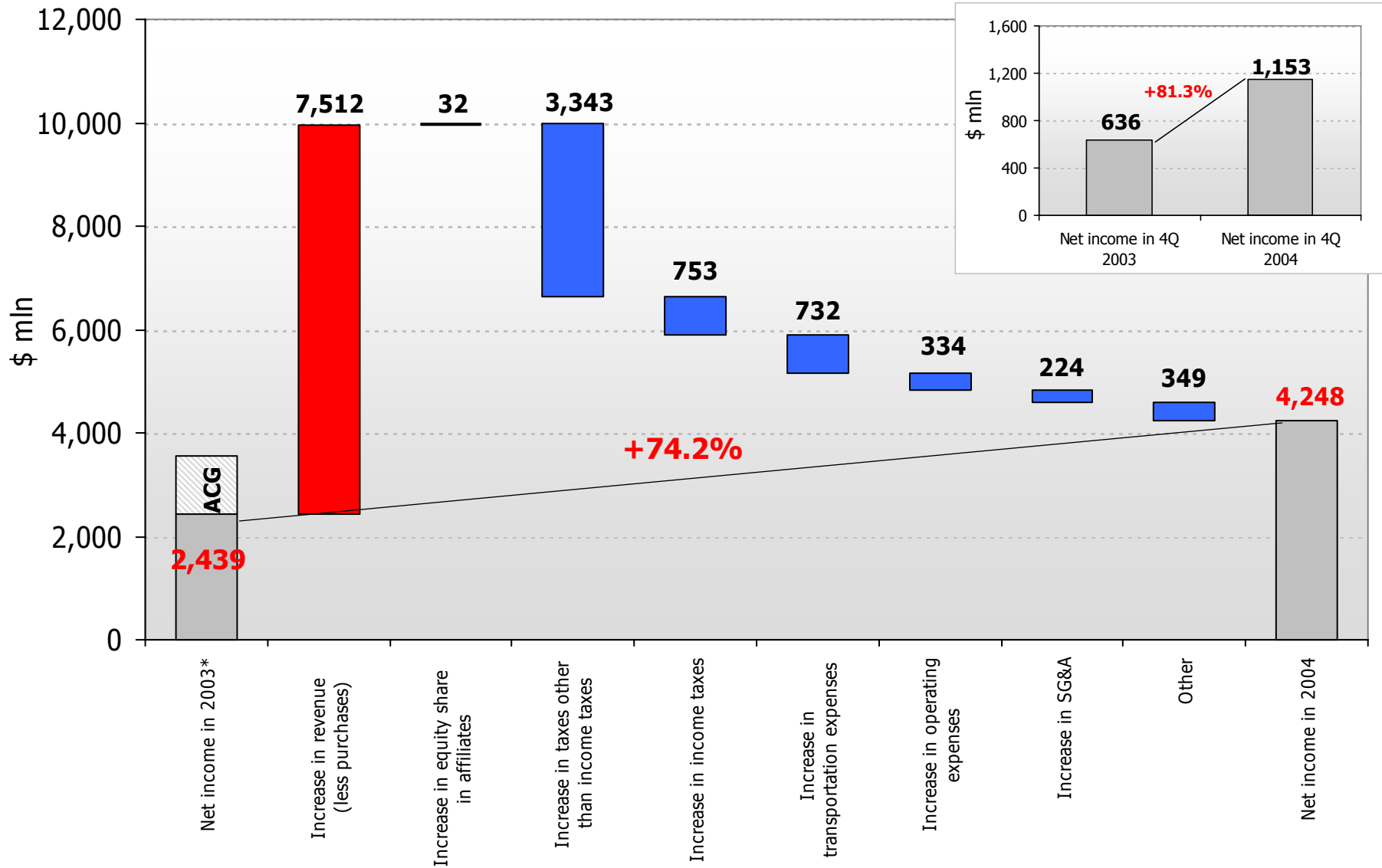


# Growth of Tax Burden





# Net Income Reconciliation



\* Net Income excluding gain from sale of interest in ACG and before cumulative effect of change in accounting principle.



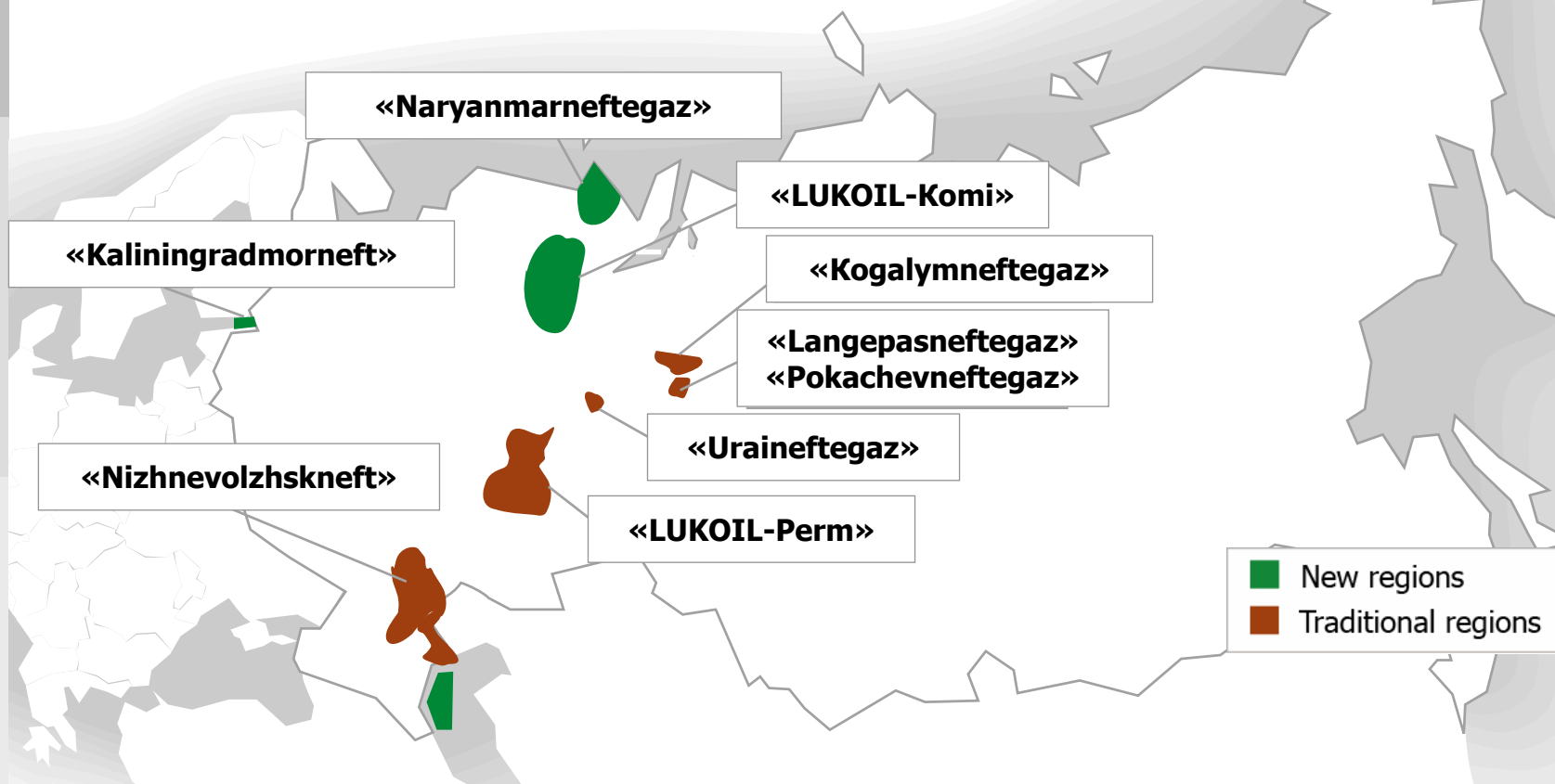
## Capex Breakdown

2004	2003	Capital expenditures, \$ mln	4Q 2004	3Q 2004
<b>2,289</b>	<b>1,784</b>	<b>Exploration and production</b>	<b>828</b>	<b>440</b>
<i>2,100</i>	<i>1,537</i>	<i>Russia:</i>	<i>726</i>	<i>425</i>
<i>379</i>	<i>363</i>	Timan-Pechora (Naryanmarneftegaz)	<i>120</i>	<i>76</i>
<i>325</i>	<i>116</i>	Yamal	<i>39</i>	<i>82</i>
<i>77</i>	<i>118</i>	Caspian (including international projects)	<i>48</i>	<i>2</i>
<i>189</i>	<i>247</i>	<i>International</i>	<i>102</i>	<i>15</i>
<b>1,158</b>	<b>1,234</b>	<b>Refining, Marketing and Distribution</b>	<b>318</b>	<b>265</b>
<i>749</i>	<i>960</i>	<i>Russia</i>	<i>168</i>	<i>212</i>
<i>409</i>	<i>274</i>	<i>International</i>	<i>150</i>	<i>53</i>
<b>3,447</b>	<b>3,018</b>	<b>Total (cash and non-cash)</b>	<b>1,146</b>	<b>705</b>



# E&P Capex

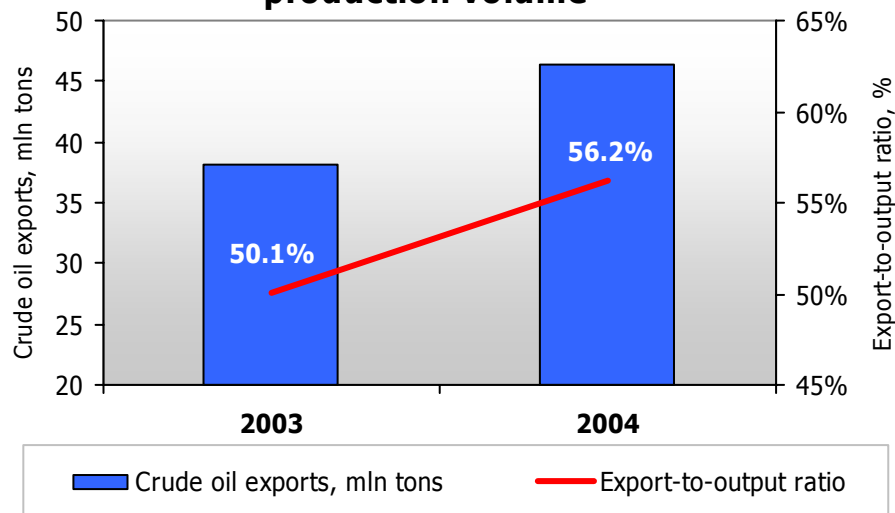
Capital expenditures, \$ mln	2004	2003	Growth
<b>Traditional regions</b>	<b>1,319</b>	<b>940</b>	<b>+40.3%</b>
<b>New regions</b>	<b>781</b>	<b>597</b>	<b>+30.8%</b>
<i>Yamal</i>	<i>325</i>	<i>116</i>	<i>+180.2%</i>
<i>Timan-Pechora (Naryanmarneftegaz)</i>	<i>379</i>	<i>363</i>	<i>+4.4%</i>
<i>Caspian (incl. international projects)</i>	<i>77</i>	<i>118</i>	<i>-34.7%</i>
<b>Total in Russia</b>	<b>2,100</b>	<b>1,537</b>	<b>+36.6%</b>





# LUKOIL Develops Highly Efficient Operations

### Crude oil exports and its share in production volume\*

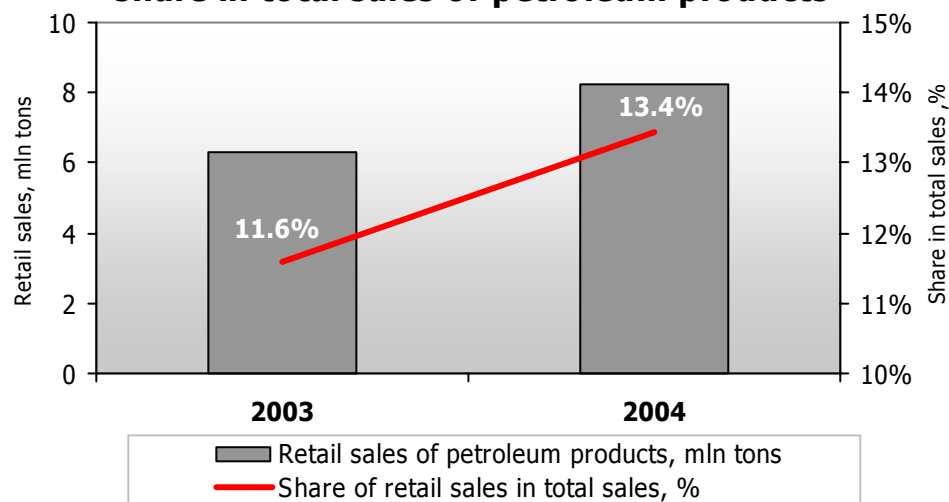


**LUKOIL crude exports outpace crude production.**

**In 2004 LUKOIL subsidiaries exported 46.3 mln tons of oil, which is 21.4% more than in 2003. Crude production by subsidiaries in Russia increased by 8.1%.**

\* Crude oil exports from Russia by LUKOIL subsidiaries including purchased oil. Crude oil production by LUKOIL subsidiaries in Russia.

### Retail sales of petroleum products and its share in total sales of petroleum products

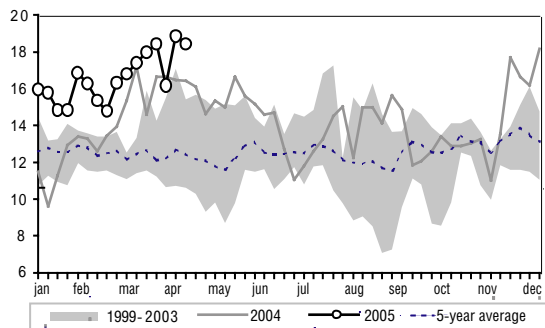


**Share of petroleum products retail sales grows constantly. In 2004 LUKOIL retail sales were 8.2 mln tons, which is 30.4% more than in 2003. Total sales of petroleum products increased by 12.3%.**



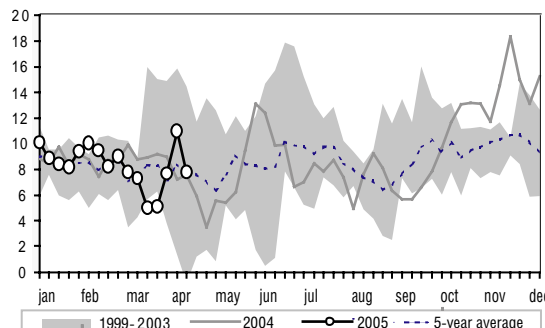
# LUKOIL Boosts Retail Sales

### European retail margin, \$/bbl



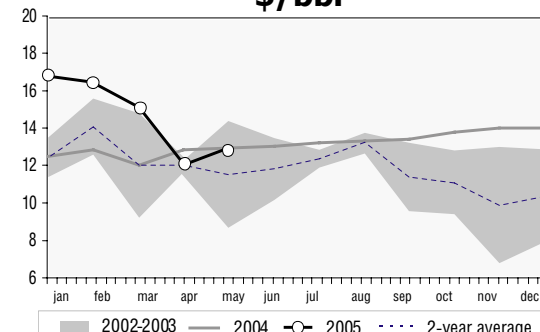
Source: independent survey

### US retail margin, \$/bbl



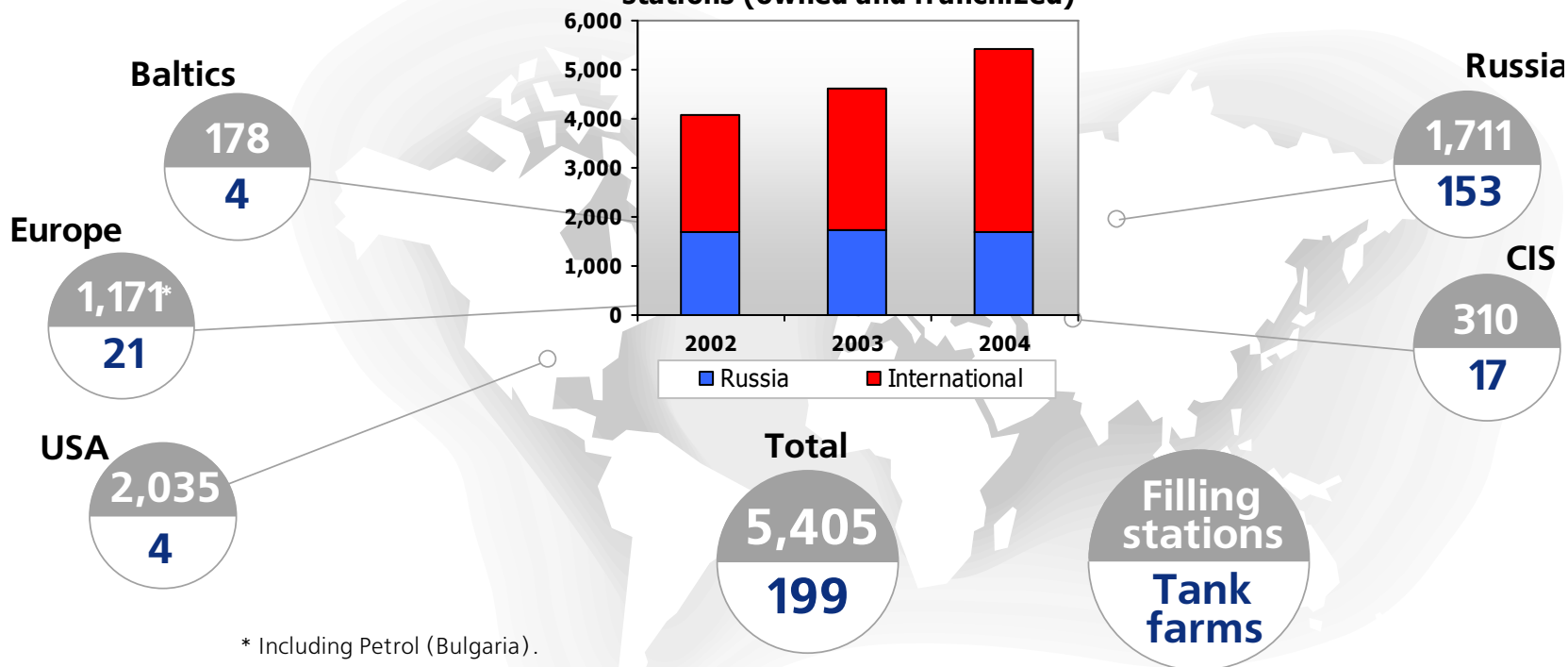
Source: independent survey

### Retail margin in Russia, \$/bbl



Source: LUKOIL

### LUKOIL retail network, filling stations (owned and franchized)



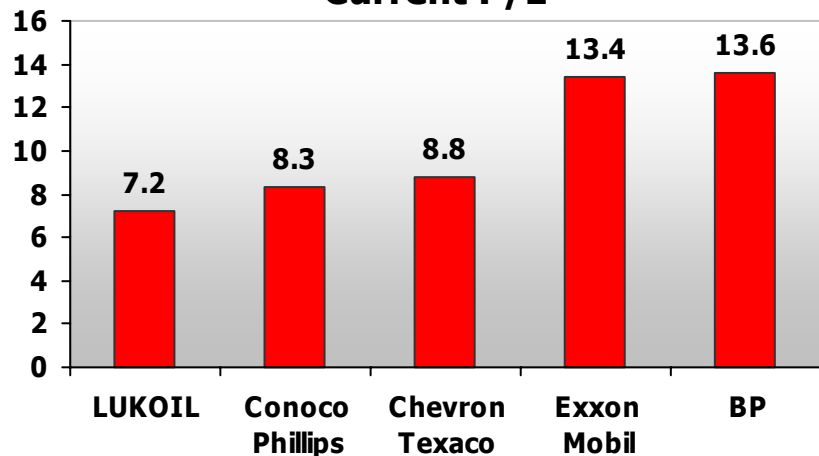
\* Including Petrol (Bulgaria).





# LUKOIL is Hedged Against Oil Price Decreases

### Current P/E



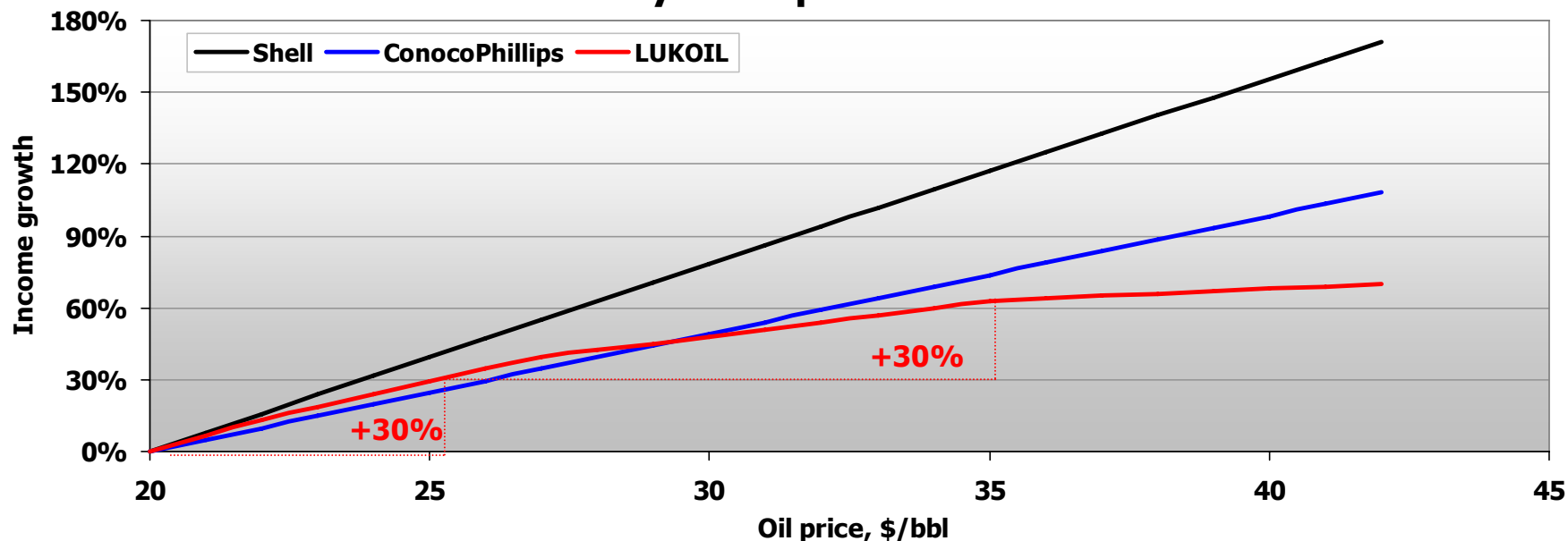
Source: Bloomberg, 05/17/2005

### Influence of Russian tax system on oil company profitability, \$/bbl

<b>Urals CIF</b>	<b>25.0</b>	<b>37.4</b>	<b>40.1</b>
Urals FOB	22.9	35.3	38.0
Operating and transportation expenses*	9.6	9.6	9.6
Mineral extraction tax	3.5	6.2	6.8
Export tariffs	4.0	12.0	13.8
Income before income taxes	5.9	7.5	7.8
Income taxes (24%)	1.4	1.8	1.9
Taxes, total	8.9	20.0	22.5
<b>Net income</b>	<b>4.5</b>	<b>5.7</b>	<b>5.9</b>
<b>Net margin</b>	<b>19%</b>	<b>16%</b>	<b>16%</b>

Source: Ministry of Finance \* - average for the industry

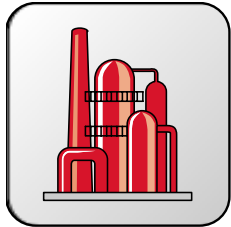
### Sensitivity to oil price fluctuations



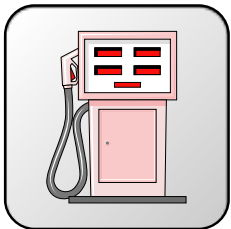


# LUKOIL Reduces Its Sensitivity to Oil Price Fluctuations

**LUKOIL hedges its price risks by:**



- **Upgrading its refineries to increase output of products with high value added**



- **Developing and expanding its distribution network and thus increasing retail sales of petroleum products as retail sales are more profitable than wholesale**



- **Increasing natural gas sector weight in LUKOIL total production as gas price is more stable and will grow in the mid-term**



# Upgrading Refineries: 2004 Progress

## Odessa Refinery



**Isomerization unit —  
120,000 tons per year**

**Extra revenue —  
\$30 mln per year**

The start-up of the unit will allow the refinery to comply with EN-228:2000 European standards regulating aromatic hydrocarbons, benzene and sulfur content in the produced gasoline.

The share of high octane types of gasoline, which nowadays fully meet EURO-3 requirements, will exceed 96% of total gasoline production volume.

## Nizhny Novgorod Refinery



**Catalytic reformer with  
continuous catalyst  
regeneration —  
1 mln tons per year**

**Extra revenue —  
\$40 mln per year**

The only catalytic reforming unit of 4<sup>th</sup> generation in Russia.

- The start-up of the unit will allow:
- to produce extra 400,000 tons of high-octane gasoline per year
  - raise the high-octane gasoline share in total gasoline production up to 90%
  - produce most of the gasoline meeting EURO-3 requirements

## Perm Refinery



**T-Star hydrocracking unit —  
3.5 mln tons per year**

**Extra revenue —  
\$130 mln per year**

- Russia's first, and the world's seventh facility of the kind.
- The unit is designed for production of ultra low-sulfur and low-aromatics diesel fuel and also naphta needed for high octane gasoline production.
- The introduction of the complex will result in extra production of 1mln tons of motor fuels meeting European standards.



# Making Natural Gas Business Turns out to Be More Profitable

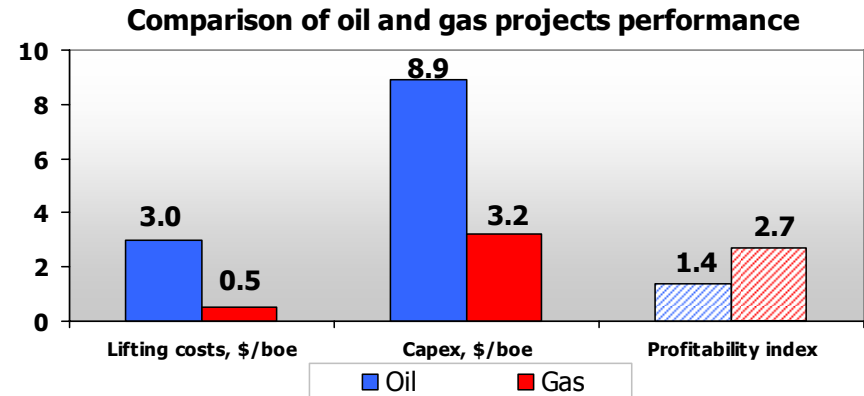
**Natural gas producing companies are being traded with a discount to oil producing companies (on base of EV-to-Reserves ratio).**

EV/ reserves <u>oil</u> , \$/ boe		EV/ reserves <u>gas</u> , \$/ boe	
LUKOIL	1.5	Gazprom	0.6
Sibneft	2.6	Novatek	0.8
TNK	1.8	Average gas	0.7
RITEK	1.7		
Average oil	1.9		

Source: URALSIB, RTS, LUKOIL estimates

**Lifting costs and CAPEX per barrel of production in oil sector are higher in times than in natural gas sector.**

**Even with the current low level of natural gas prices in Russia the efficiency of natural gas projects is higher than that of oil projects.**

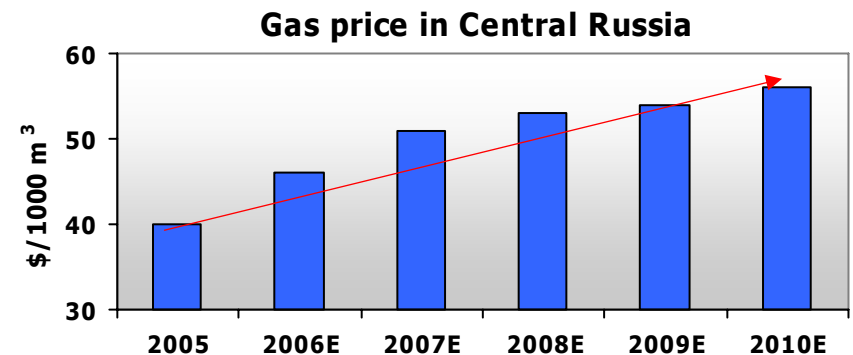


Source: FTA, Petroleum Argus, LUKOIL estimates; estimated development of oil fields in Nenets Autonomous District and gas fields of Bolshekhetskaya depression (2005-2014)

**The regulated gas price for industrial consumers in central Russia has reached \$40/1000 m<sup>3</sup> and will continue rising.**

**Gas price in the "free market" is 30% higher than the price of Federal Tariffs Agency (FTA) and amounts to \$55/1000 m<sup>3</sup>.**

**According to the WTO requirements gas price in Russia should reach \$37-42/1000 m<sup>3</sup> by 2006 and \$49-57 /1000 m<sup>3</sup> by 2010.**



Source: FTA, LUKOIL estimates, Interregional Exchange of Oil and Gas Complex



# Company's Strategy



- **Increase revenues**

- increase volume of oil extracted
- increase volume of refined products
- increase export of crude oil and refined products



- **Decrease expenses**

- shut-in inefficient (low-producing) wells
- put into operation new high-producing wells
- use effective and efficient service companies



- **Increase efficiency of investments**

- development of export infrastructure
- purchase new oil and gas reserves at the lowest possible price
- increase number of high-producing wells
- divesting of non-core assets



# 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.