



# **Transforming into a Global Energy Company**

September 2004



**Uniting with  
a Global Brand**



# New Global Energy Market Challenges

- **Strategic factors favor consolidation of efforts in global oil industry**
  - Industry trend is increasingly shift to capital intensive production in difficult conditions
- **LUKOIL and ConocoPhillips — two major global oil companies — combine their efforts to respond to these challenges**
  - Accelerated development of Russian oil and gas reserves
  - Further bi-lateral energy development between US and Russia



Operations	• Over 40 countries	• Around 30 countries
Market Cap*	• \$56 bln	• \$27 bln
Revenues (1H 2004)	• \$62.1 bln	• \$14.6 bln
Net Income (1H 2004)	• \$3.7 bln	• \$1.7 bln
Net Margin (1H 2004)	• 5.9%	• 11.6%
Current P/E Ratio	• 11.8	• 7.3
Reserves (2003)	• 7.8 bln boe	• 20.1 bln boe
Production (1H 2004)	• 1.57 mln boe/day	• 1.82 mln boe/day
Refining	• Largest in the U.S.	• Largest Russian/East European refiner

World's largest private company in terms of liquid hydrocarbons reserves



# Strategic Alliance with ConocoPhillips

- **ConocoPhillips becomes strategic equity investor in LUKOIL**
  - First step taken with purchase of 7.6% of LUKOIL shares through government privatization process at \$30.76 per share, or \$1.988 bln
  - Near term ownership objective is 10%
    - Tender offer for up to 2.4% of LUKOIL stock at \$30.76 per share
  - ConocoPhillips is permitted to acquire up to 20% of LUKOIL pursuant to a comprehensive Shareholders Agreement
  - ConocoPhillips may acquire additional LUKOIL's equity capital at its own timing
  - Comprehensive shareholders agreement details governance
- **Joint Ventures to Develop World Class Reserves**
  - Northern Timan-Pechora (Nenets Okrug, Russia)
    - Includes participation in full value chain and access to international markets
  - Cooperate to pursue West Qurnah-2 PSA in Iraq
- **Supported by Russian and U.S. governments**



## Corporate governance principles:

- ConocoPhillips will have a proportional representation on LUKOIL's Board
  - Initial ConocoPhillips's Board member to be elected at the next shareholder meeting
  - ConocoPhillips's directors to be represented on all Board committees
- ConocoPhillips's aggregate equity stake of LUKOIL may not exceed 20%
- ConocoPhillips will hold LUKOIL's shares for at least 4 years
- LUKOIL will have a preemptive right to purchase its shares if ConocoPhillips sells them



Charter amendments will be proposed to enhance the status of the Board and to provide for unanimous Board approval of certain key decisions, including:

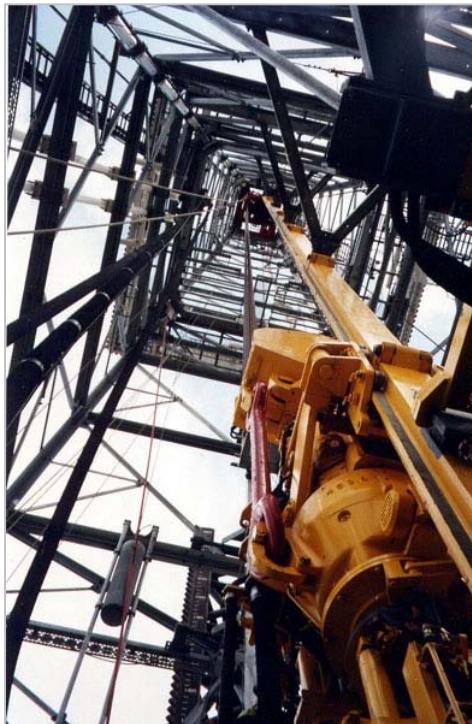
- Increase of the charter capital by an amount in excess of 10 percent within any 12-month period
- Payment of dividends in excess of the net profit of the Group
- Approval of transactions in the amount in excess of 7.5% of the Group assets which are not related to LUKOIL core activities
- Approval of major transactions of subsidiaries (except for reorganizations and intra-group transactions)
- Seeking approval of general meeting of proposals on reorganization or liquidation of LUKOIL or its significant subsidiaries
- Submission to shareholders of charter amendments altering the procedure of unanimous Board approval of decisions

**Shareholder interests better represented through the board**



# Management Exchange

- **ConocoPhillips and LUKOIL will exchange management and other employees through secondment**
  - 15-20 managers initially, starting Q1-2005
  - Long-term with involvement in the host company's processes



## Secondment Objectives:

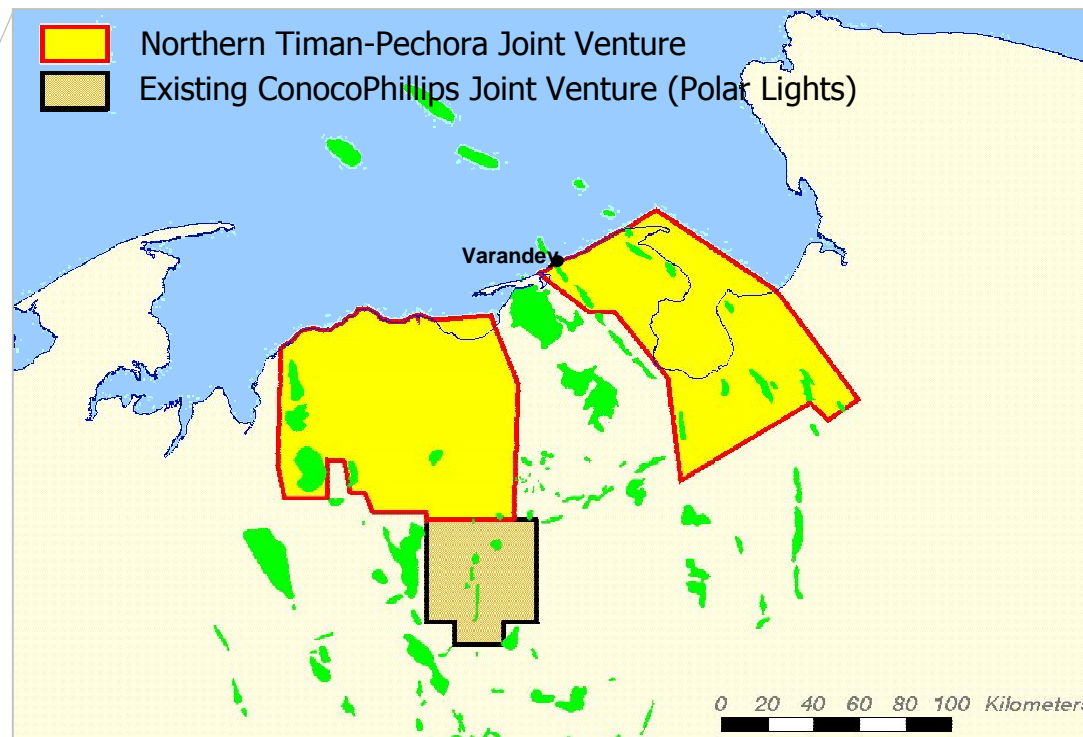
- Sharing of organizational and technological practices
- Development of cross-functional expertise
- Establishing closer ties between the two companies





# Overview of Timan-Pechora JV

- **ConocoPhillips joins LUKOIL in development of Timan-Pechora – its premier near-term growth region**
- **LUKOIL contributes 16 fields to JV**
- **16,289 sq. km (over 4 MM acres) AMI for further development opportunities**



## World-class oil assets

- Underdeveloped basin with significant discoveries
- New production from YK field expected to initiate in 2007
- Total JV production ramping up to ~200,000 bpd in 2008-2011



# Timan-Pechora JV



- Export through expanded terminal at Varandey, with capacity of 240,000 bpd
- ConocoPhillips to pay acquisition price consisting of\*:
  - \$374 million for a 30% interest
  - 30% share of working capital in the JV group companies and
  - 30% of LUKOIL's capital investments in the JV fields from January 1, 2004
  - 30% of capital investments to Varandey terminal expansion

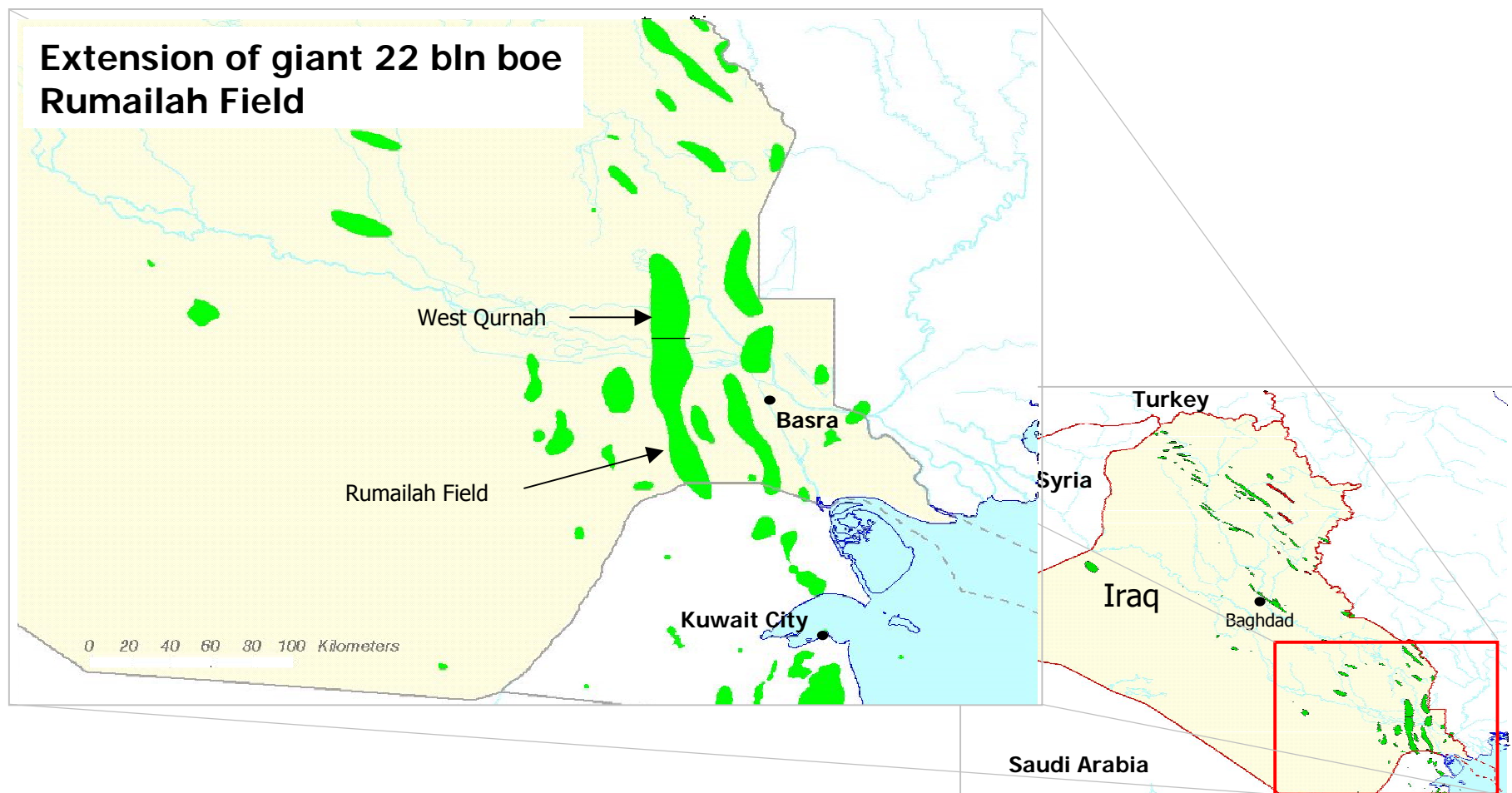
## Governance principles to maximize value

- Economic interest: LUKOIL 70% / ConocoPhillips 30%
- Management and decision making: 50 / 50
  - Equal representation and unanimous decision making by the JV Board
  - Equal appointment of Senior Executives of JV
  - Rotation of the General Director nominated by LUKOIL and ConocoPhillips every 5 years
  - Mandatory double signature for material contracts
- Joint staffing to facilitate sharing of best practices





# West Qurnah-2 PSA Cooperation



- LUKOIL and ConocoPhillips to jointly pursue West Qurnah-2 PSA in Iraq
- Subject to confirmation from the Iraqi government that PSA is still valid
- Assuming completion, interests would be: LUKOIL 51% (currently 68.5%), ConocoPhillips 17.5%, Iraq Government 25%, Other Russian companies 6.5%



# The Right Transaction for LUKOIL and Russia

## The Right Transaction for LUKOIL

- Strategic alliance with trusted long-term partner
- Management experience in the international energy business
- Affirmation of LUKOIL as Russia's leading international oil and gas company and a global energy player
- Enhancement to growth plans through exposure to global best practices and technology, including:
  - Arctic & offshore operations
  - Gas commercialization
  - Global supplies and refining
  - Information Systems and reporting
  - Acceleration of development of West Qurnah through joint efforts
- Increased resources for accelerated development of green-field projects both in Russia and internationally

## The Right Transaction for Russia






- Affirms government's openness to foreign investment in Russia
- Successfully concludes Russian government's privatization of LUKOIL
  - Russian government to receive \$1.9 billion in auction proceeds
- Enhances energy cooperation and economic and political ties with United States
- Potential for Russian crude oil and natural gas to supply U.S. markets
- Accelerates development of Russia's vast undeveloped resources:
  - Increased revenues, employment, & infrastructure development



# **LUKOIL's Strategy**



# Equal to World Majors Operationally, but Discounted Financially

					
P/E (2003)	16.0	16.1	12.4	9.5	<b>6.9</b>
Net margin (2003)	4.4	10.1	6.4	5.2	<b>16.7</b>
ROA (2003)	6.1	13.2	9.1	6,0	<b>15.2</b>
ROE (2003)	14.1	26.2	21.3	14.8	<b>23.5</b>
EV/EBITDA (2003)	7.5	8.4	6.3	6.1	<b>4.8</b>
Market Cap (\$ bln)	213.1	312.0	114.4	55.8	<b>26.8</b>
Reserves (2003, bln boe)	18,1	21.2	12.0	7.8	<b>20.1</b>
Market Cap/Reserves	11.8	14.7	9.5	7.2	<b>1.3</b>
Production (2003, mln boe/day)	3.6	4.2	2.5	1.6	<b>1.7</b>

Source: Bloomberg company profiles.

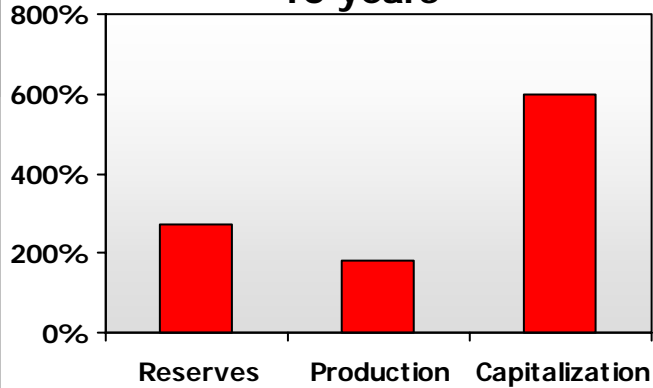
Through newly set up strategic partnership with ConocoPhillips LUKOIL aims to patch the gap in valuation with world oil majors

Conducting detailed, year-lasting due diligence ConocoPhillips confirms high quality of LUKOIL's management, corporate governance, assets and its high growth potential

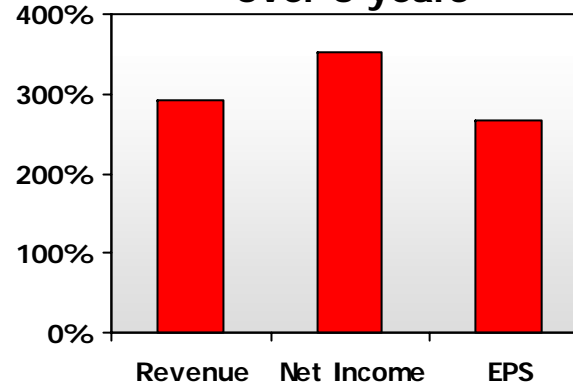


# LUKOIL: Story of Sustainable Growth

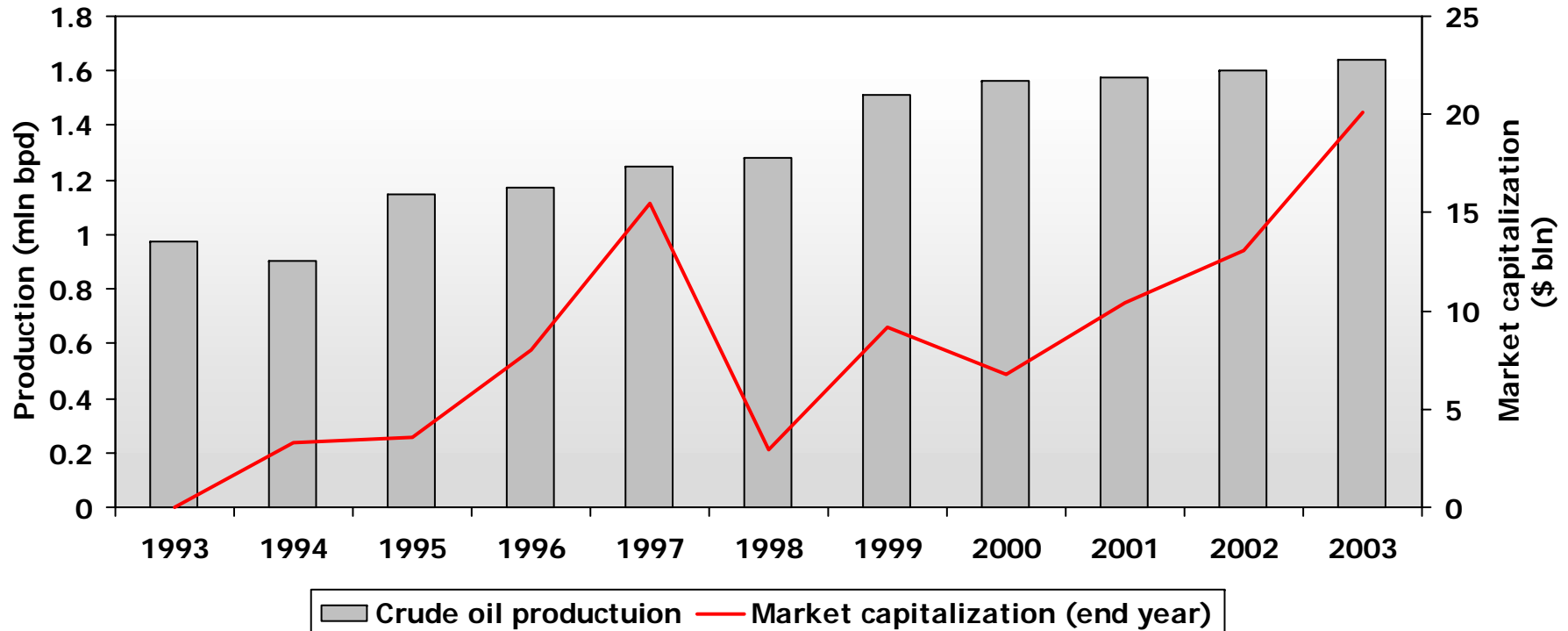
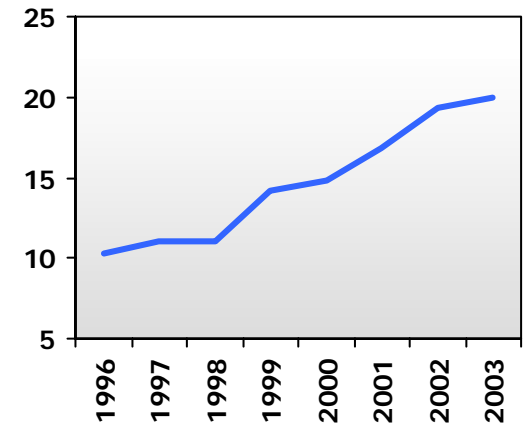
### Key indicators change over 10 years



### Key indicators change over 5 years



### Proven reserves (bln boe)





**Mark Mobius**  
Member of the  
Board of Directors,  
Managing Director  
of Templeton  
Asset  
Management Ltd.



**Richard H. Matzke**  
Member of the  
Board of Directors,  
Vice-Chairman of  
the Board of  
Directors of  
Chevron  
Corporation  
(2000-2002)



**Oleg Kutafin**  
Member of the  
Board of Directors,  
Rector of the  
Moscow State Law  
Academy

**Seeking to close the value gap through improved disclosure and corporate governance**

- Three independent directors work in the BoD for the third year
- The independent directors head the BoD committees (Strategy and Investment Committee, Personnel and Remuneration Committee and Audit Committee)



- Meeting full LSE disclosure requirements



- 4 years of full US GAAP accounts audited by KPMG – presenting US GAAP accounts on quarterly basis



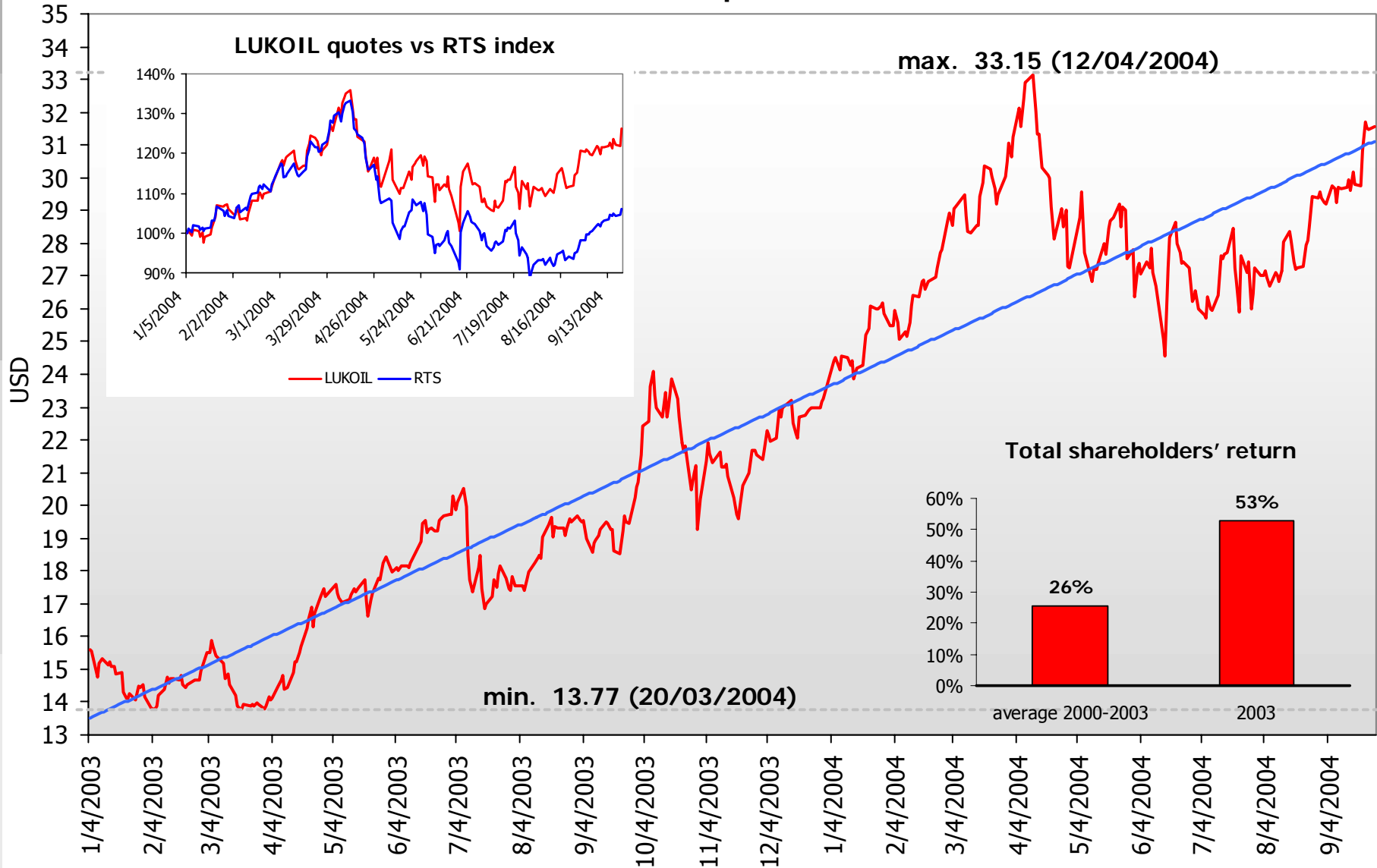
- 8 years of independent oil and gas reserves audits

**In 2003 Standard & Poor's raised LUKOIL's credit ranking from BB- to BB; Moody's Investors Service, assigned LUKOIL a long-term credit rating at Ba2 with stable outlook**



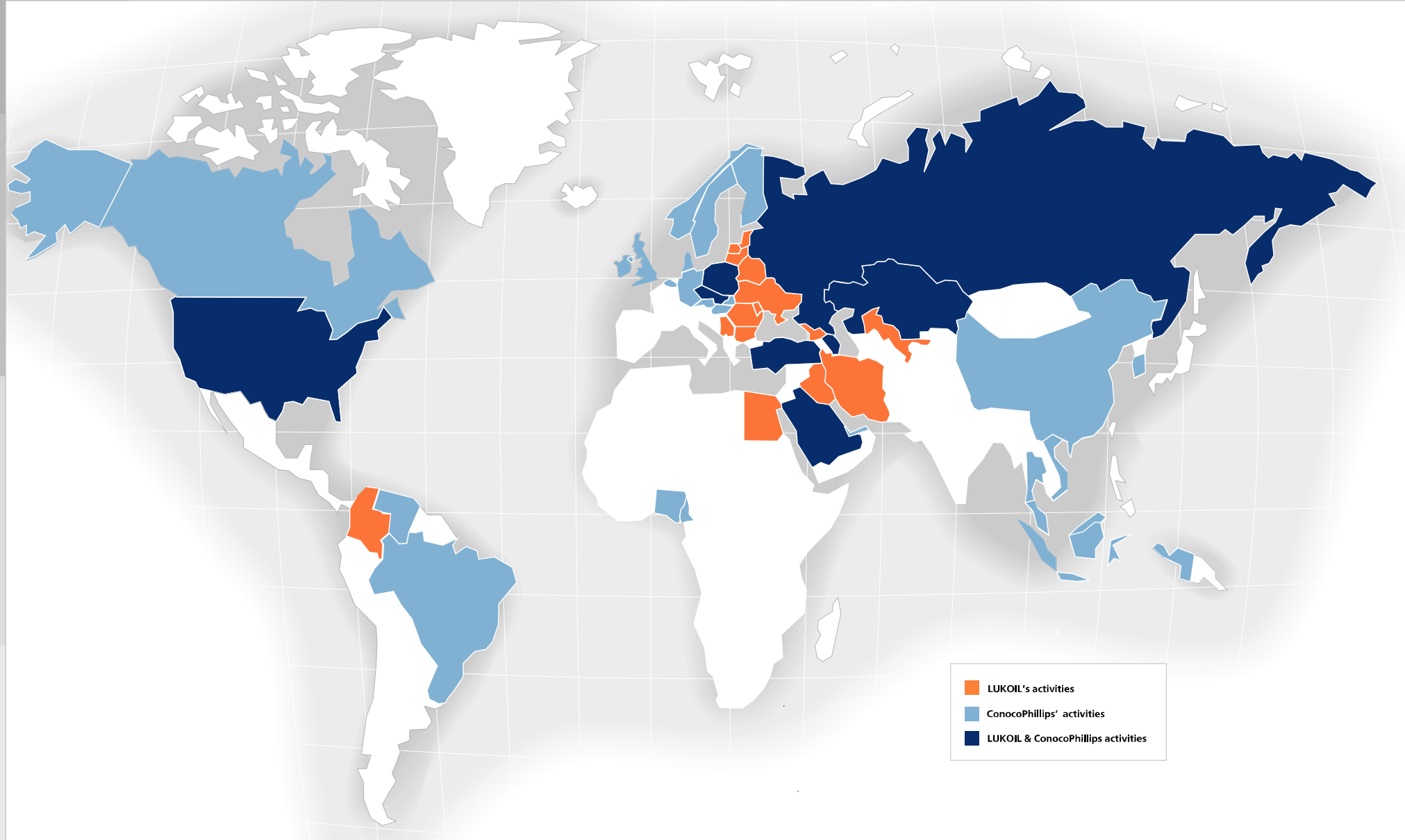
# Share Performance: Meeting Shareholders Expectations and Beating the Market

### LUKOIL stock quotes in 2003-2004





# The World Is Not Enough

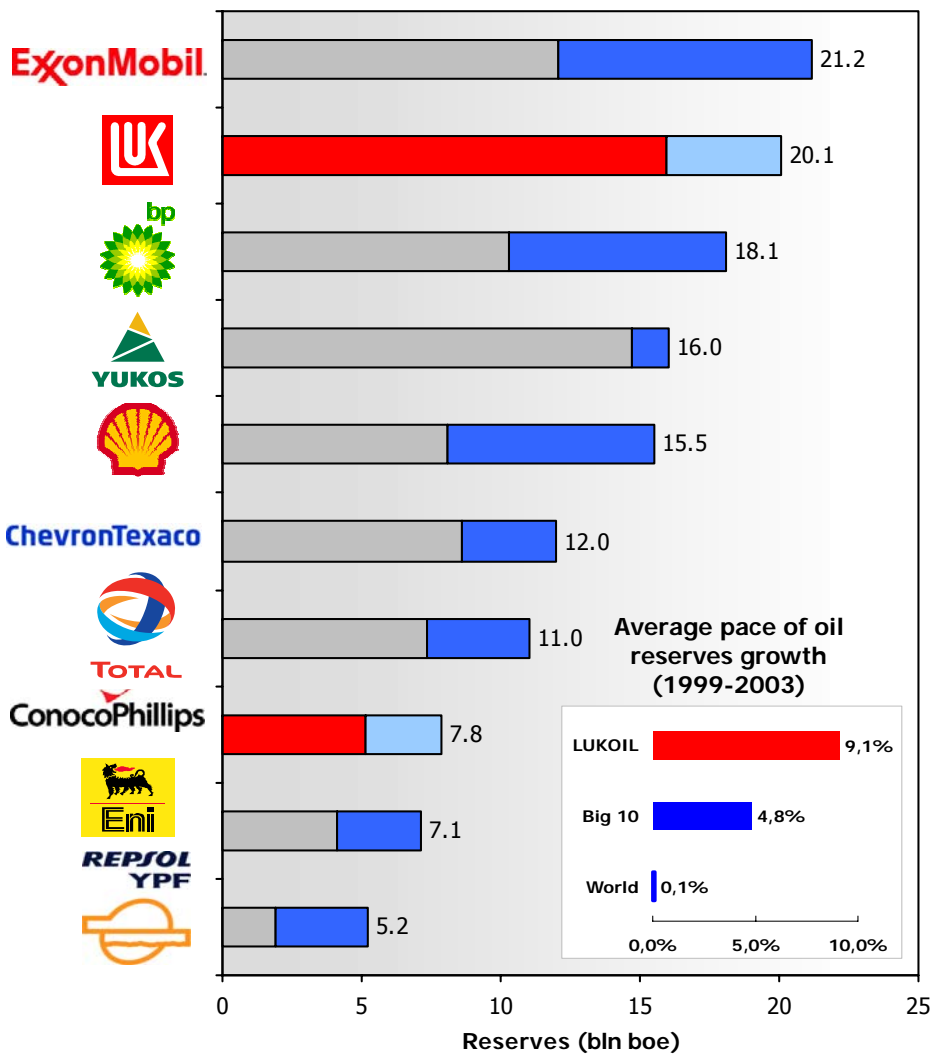




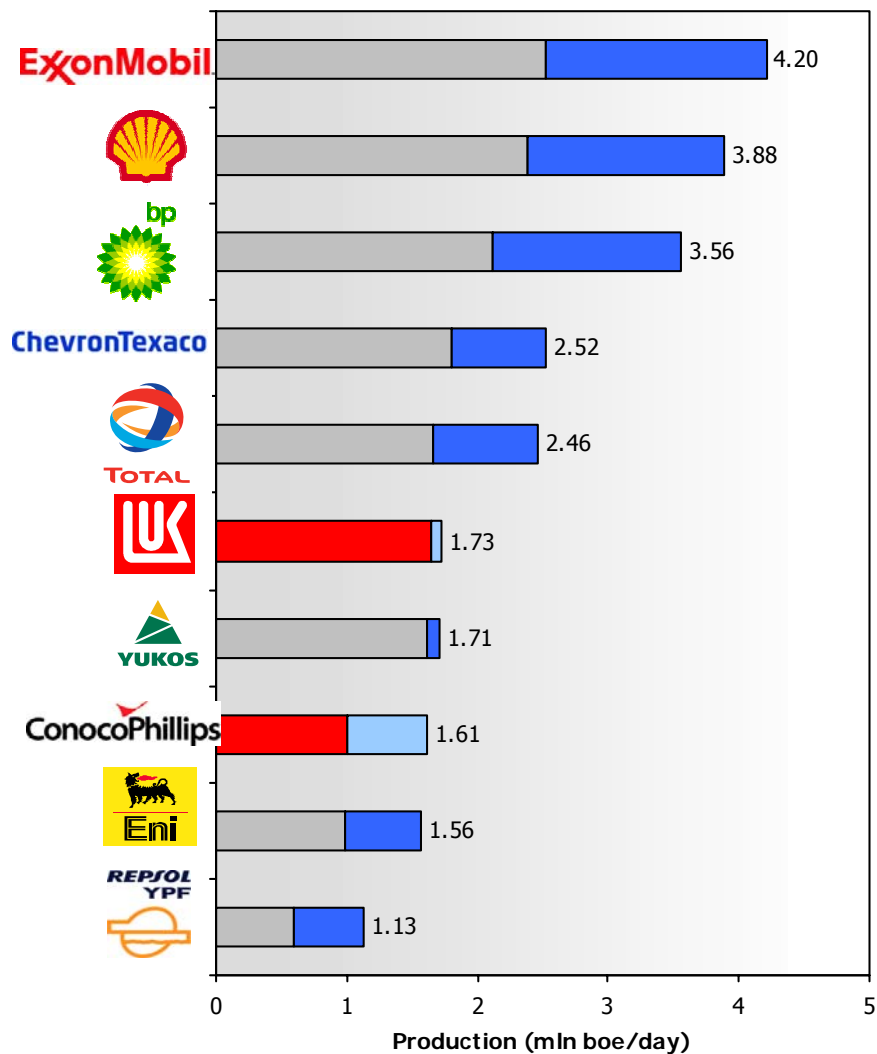


# Part of the World Premier League

## 2003 Reserves



## 2003 Production



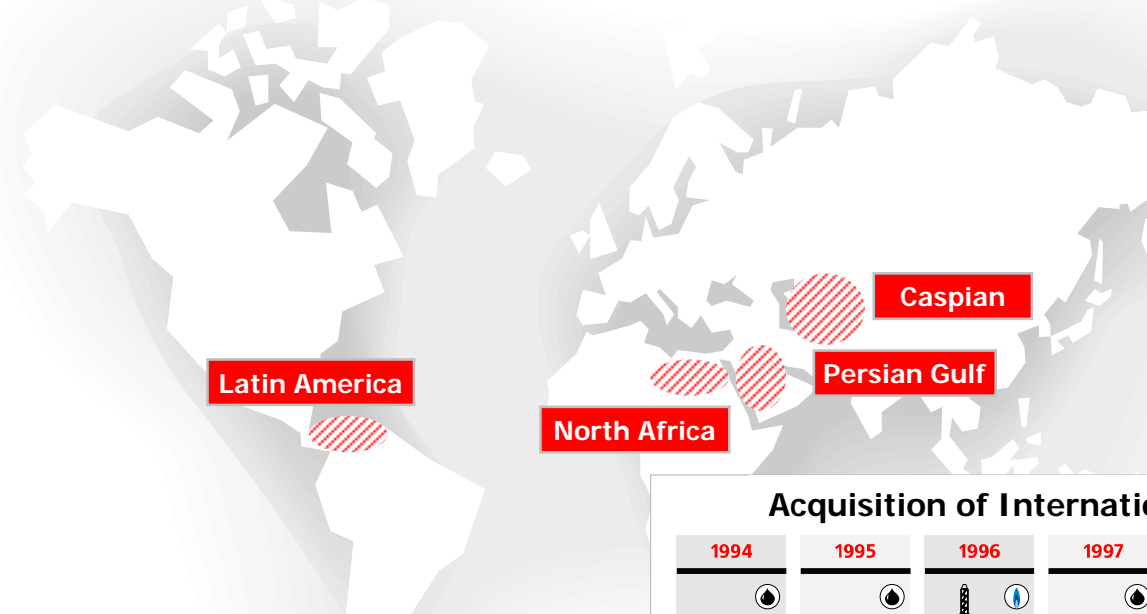
Source: annual reports.

■ Crude oil and natural gas liquids ■ Natural gas



# International Upstream Activities

LUKOIL aims to create several international production centers

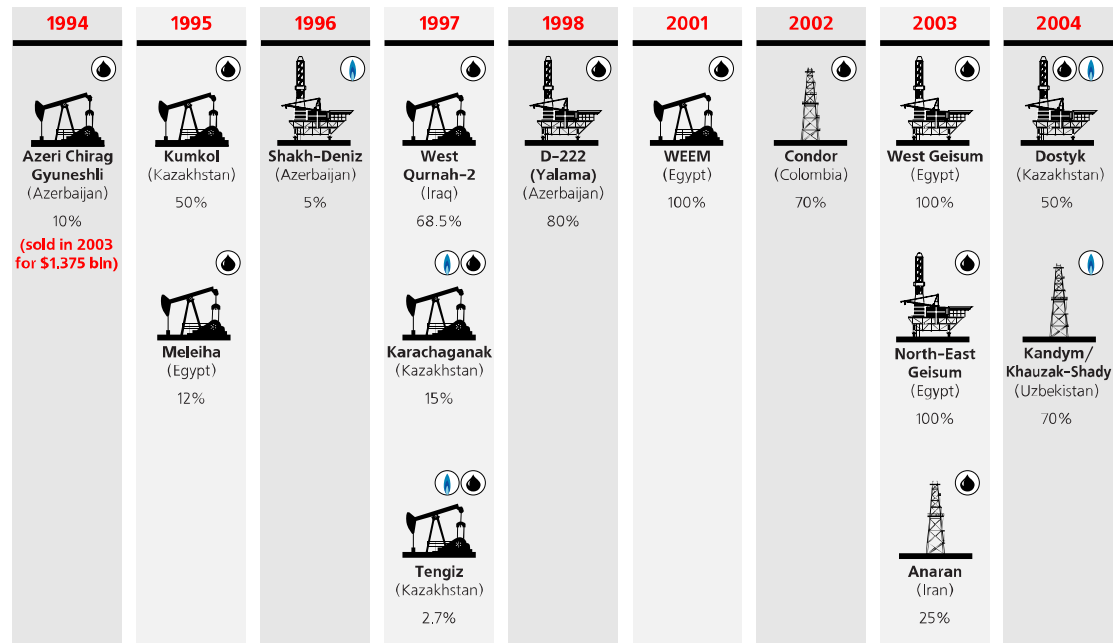


Today LUKOIL carries out geological exploration in 9 countries and produces hydrocarbons in 3 countries

**International Strategy:**

- proximity to consumer markets
- low-cost production
- favorable taxation

## Acquisition of International Upstream Projects by LUKOIL



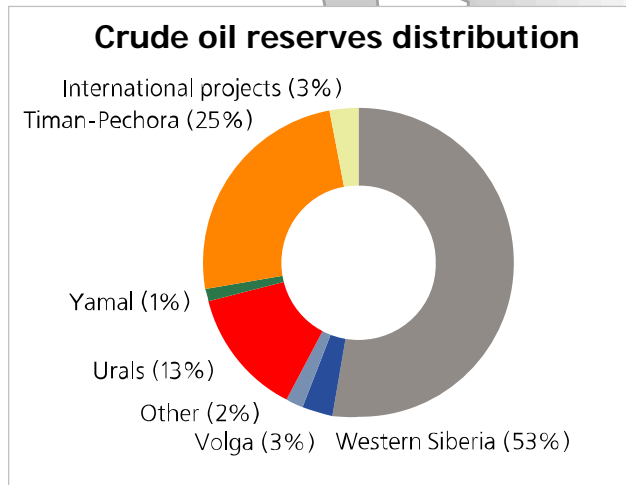
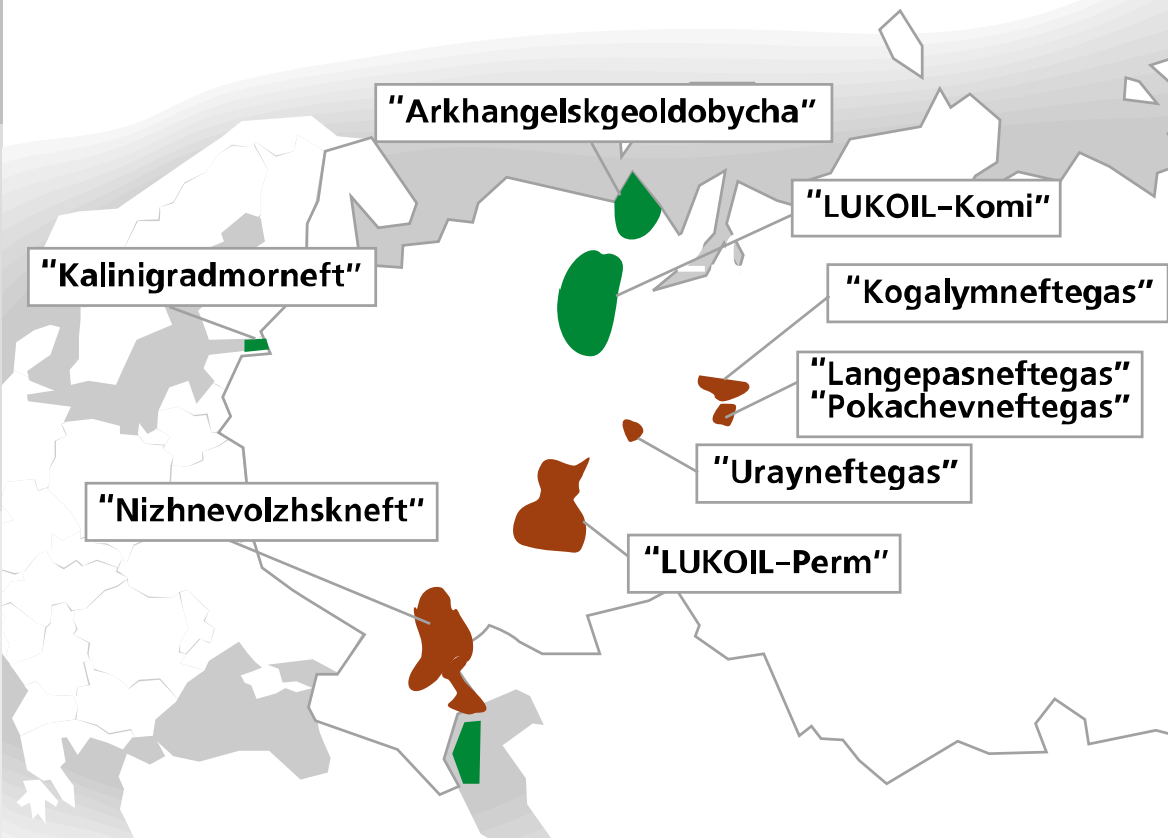
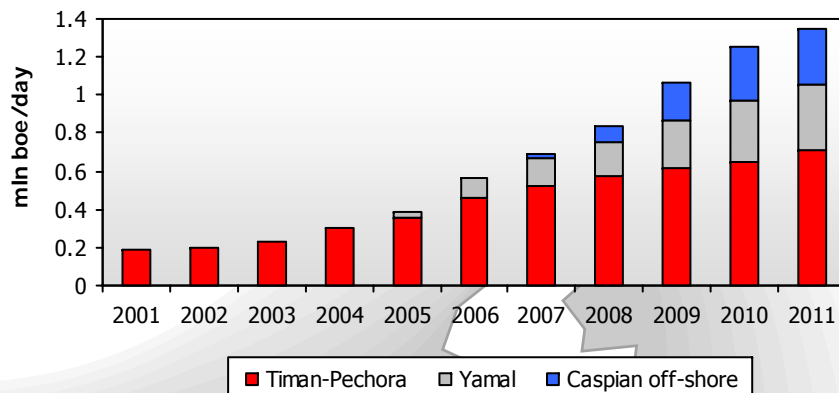
	CIS (Central Asia, Caspian region)	North Africa	Middle East	Latin America
Current projects	Kazakhstan, Azerbaijan	Egypt	Iran, Iraq, Saudi Arabia	Colombia
Promising regions	Uzbekistan, Turkmenistan	Algeria, Libya	Qatar, UAE, Oman, Yemen	Ecuador, Venezuela



# Domestic Upstream Activities

Capital expenditures, mIn USD	1H 2004	1H 2003	Growth
Traditional regions	534	491	+9%
New regions	415	250	+66%
<i>Yamal</i>	205	19	+979%
<i>Timan-Pechora (AGD)</i>	183	148	+24%
<i>Caspian</i>	27	83	-67%
<b>Russia total</b>	<b>949</b>	<b>741</b>	<b>+28%</b>

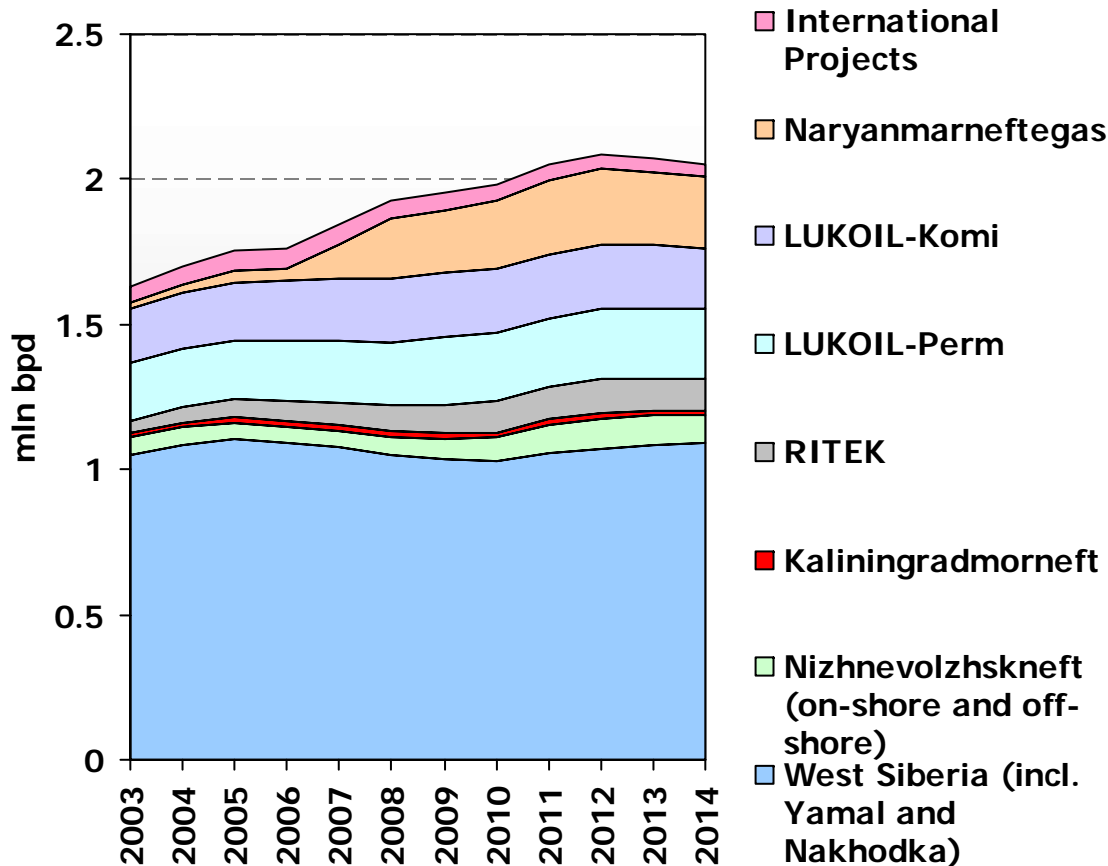
Hydrocarbon production at LUKOIL green fields



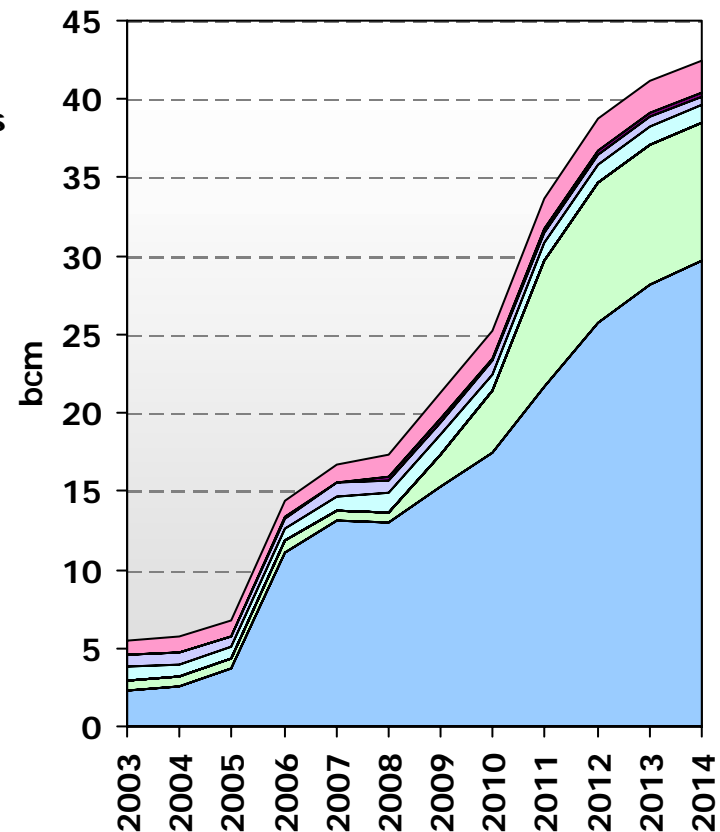


# Hydrocarbon Production Forecast\*

## Oil Production



## Gas Production



Production diversification assumes a significant increase of overseas production: 4.0% of total production in 2004 and 10.0% in 2013

- Gas production is to increase from 5.7 bcm in 2004 to 40.6 bcm in 2013
- Basic regions for gas production growth are Yamal and Caspian

\* Production based on existing reserves without any exploration.



# Taking Advantages of Joint Operations in Timan-Pechora

**ConocoPhillips**

- Management expertise
- Advanced technologies

+

**LUKOIL**  
OIL COMPANY

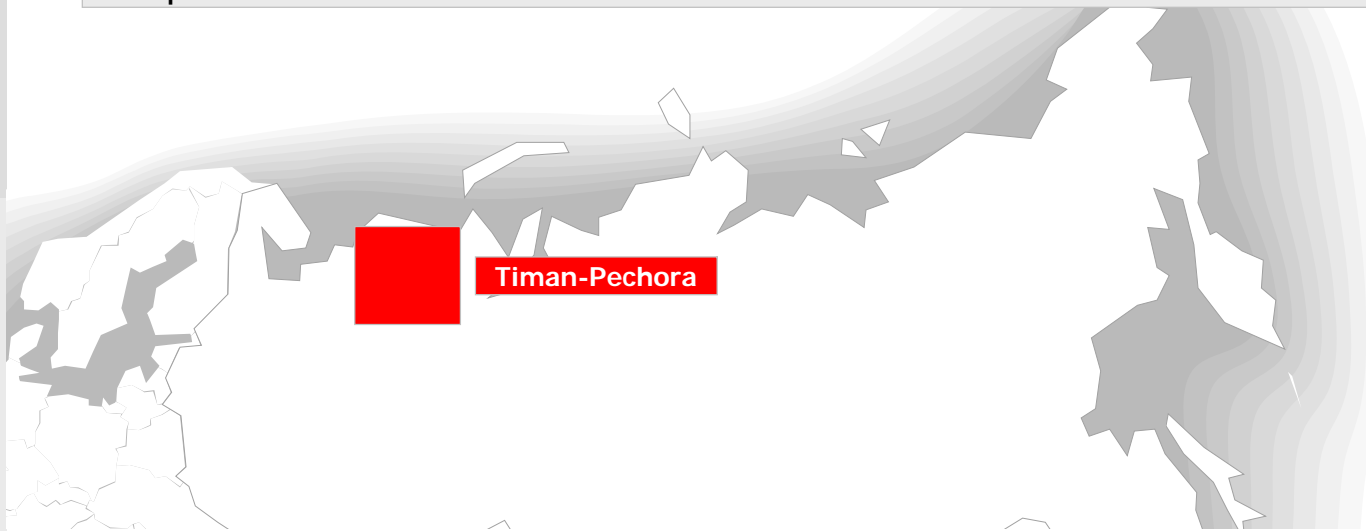
- Knowledge of the region
- Low costs development of the fields in the region

=

**OPERATIONAL  
EXCELLENCE**

**The start of joint operations of ConocoPhillips and LUKOIL in Timan-Pechora will give the impulse to the development of the province**

- ConocoPhillips will invest over \$400 mln in 2004 to Timan-Pechora JV through LUKOIL with 30% of capex requirement thereafter
- ConocoPhillips will help LUKOIL to expand the Varandey terminal for export of the oil produced in the province



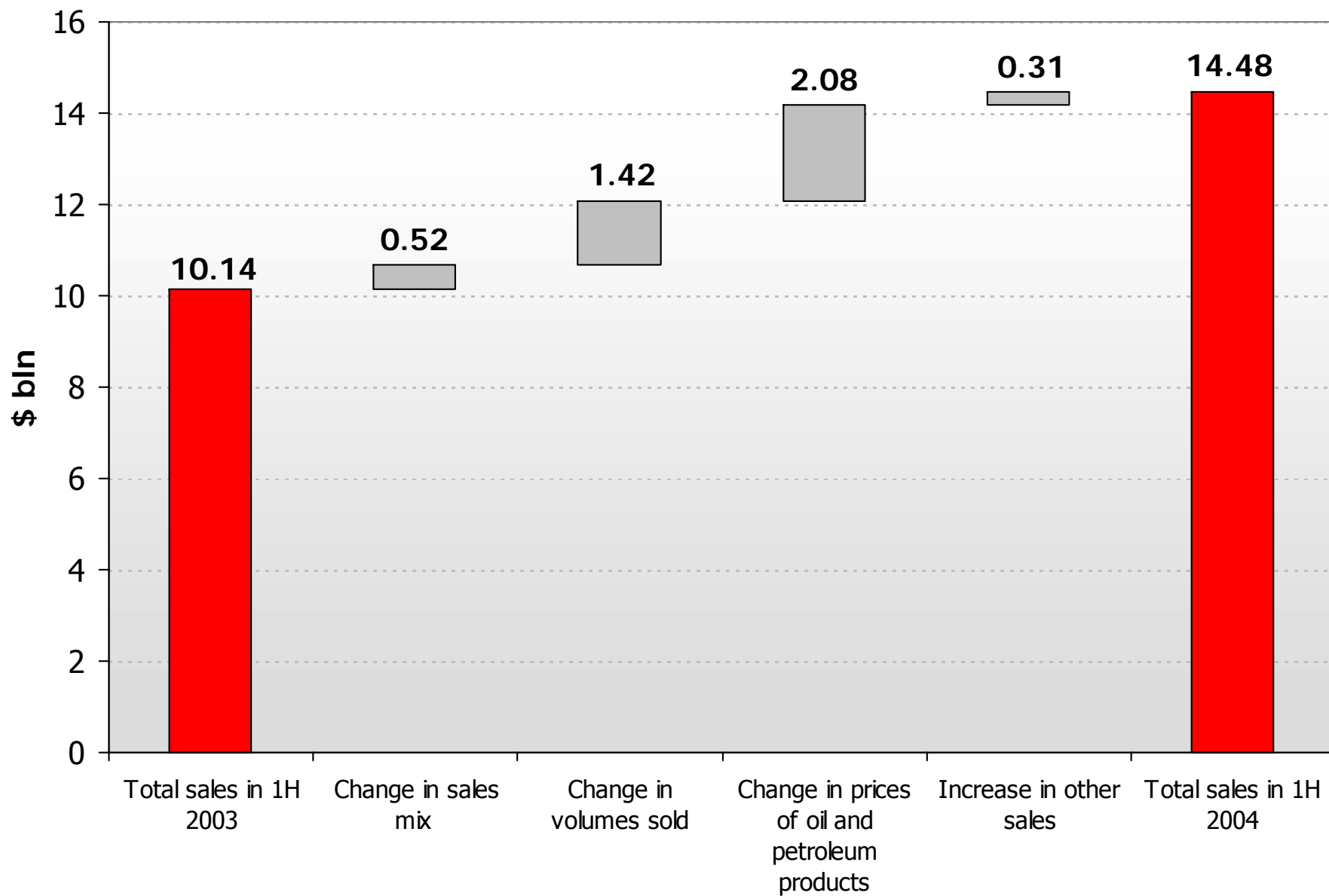


# Financial Results

1H 2004	1H 2003	Financial results, mln USD	2Q 2004	1Q 2004
14,609	10,233	Total revenue	8,027	6,582
(1,334)	(1,361)	Operating expenses	(674)	(660)
(3,505)	(2,469)	Taxes other than income taxes (including excise and export tariffs)	(1,908)	(1,597)
2,465	2,594	Income from operating activities	1,390	1,075
2,407	2,646	Income before income taxes	1,269	1,138
1,696	2,364	Net Income	877	819
1,696	2,232	<i>Net Income before cumulative effect of change in accounting principle</i>	877	819
2.07	2.89	EPS (USD)	1.07	1.00
2,965	3,178	EBITDA	1,553	1,412

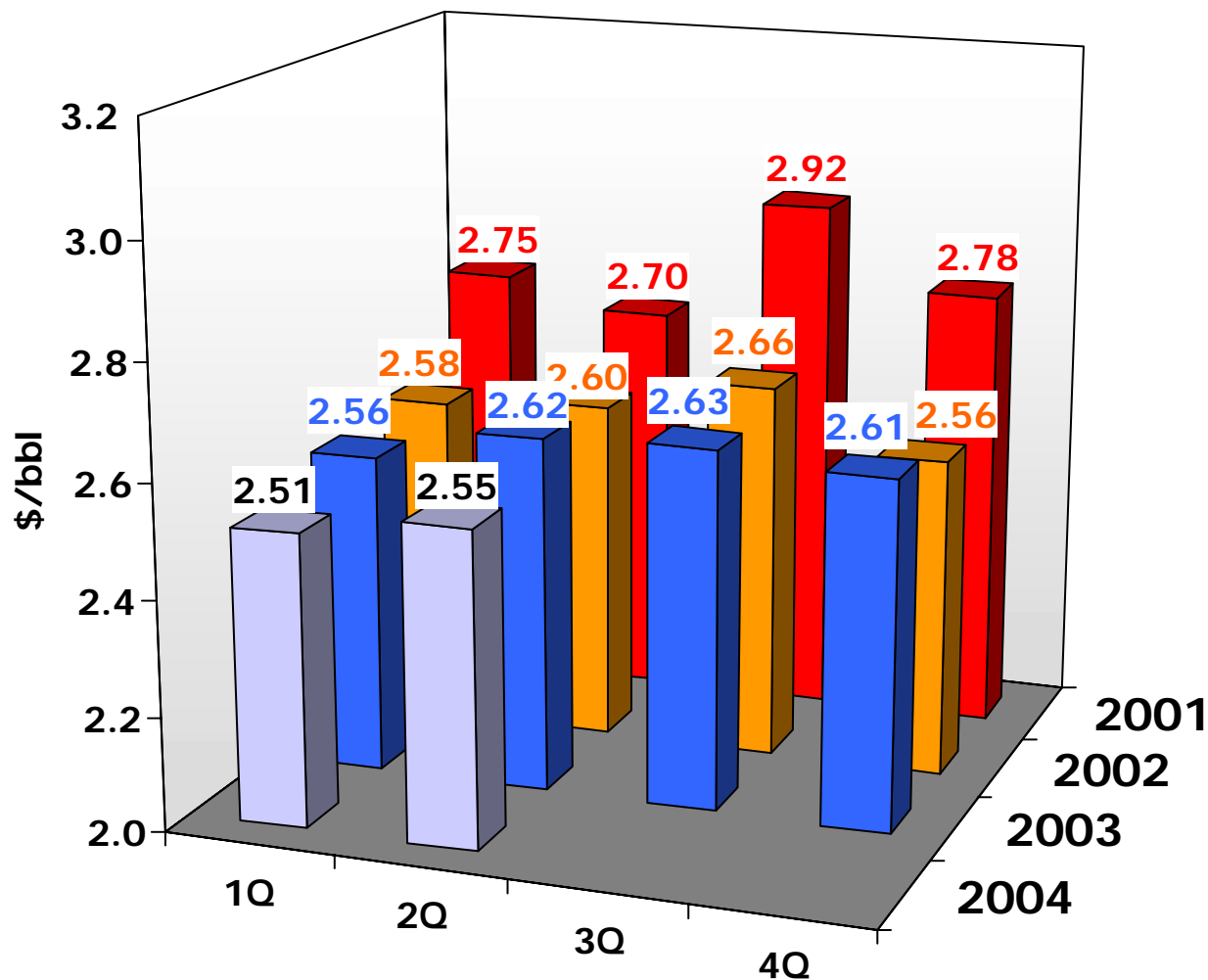


# Sales Reconciliation

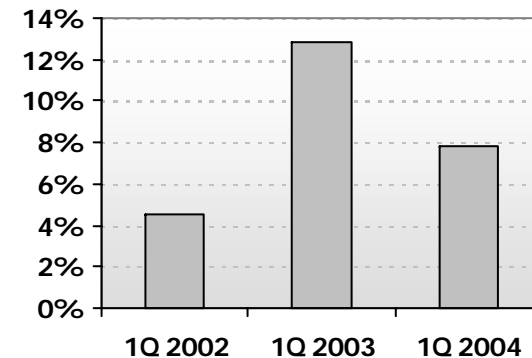




# Reducing Crude Production Costs\*, Mitigating Negative Macroeconomic Effect



### Ruble appreciation



In 1H 2004 LUKOIL successfully reduced crude production costs by 2.3% (in USD)

Rouble strengthened vs. US dollar by 7.8% y-o-y

**Cost reduction in real terms reached 10% y-o-y**

\* 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.



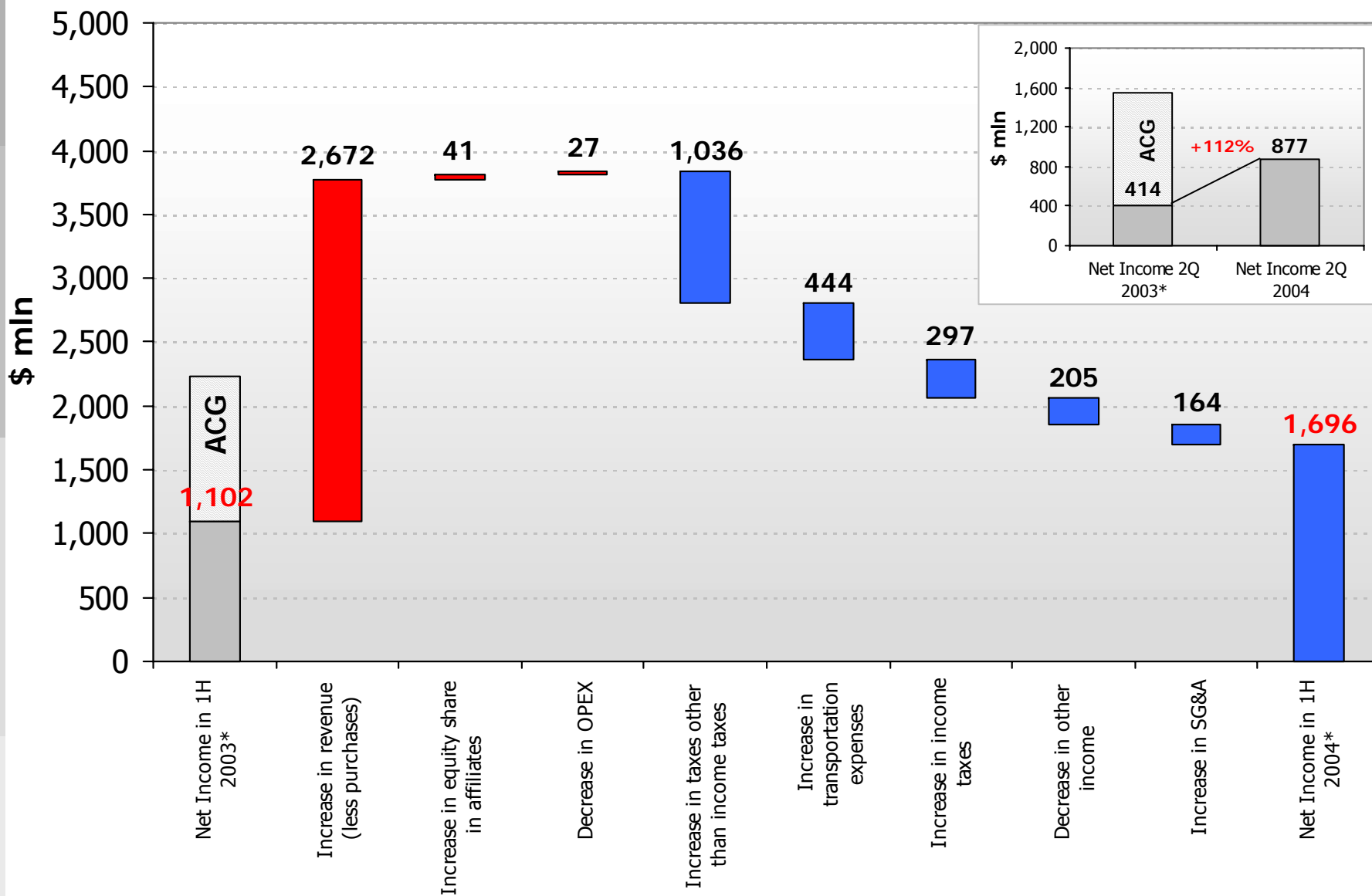


# Operating Expenses

1H 2004	1H 2003	Operating expenses, mln USD	2Q 2004	1Q 2004
752	694	Extraction expenses	381	371
253	237	Refinery expenses	123	130
89	68	Petrochemical expenses	44	45
240	362	Other operating expenses	126	114
<b>1,334</b>	<b>1,361</b>	<b>Total</b>	<b>674</b>	<b>660</b>
<b>4,328</b>	<b>2,665</b>	<b>Cost of purchased crude oil, petroleum and chemical products</b>	<b>2,501</b>	<b>1,827</b>



# Net Income Reconciliation

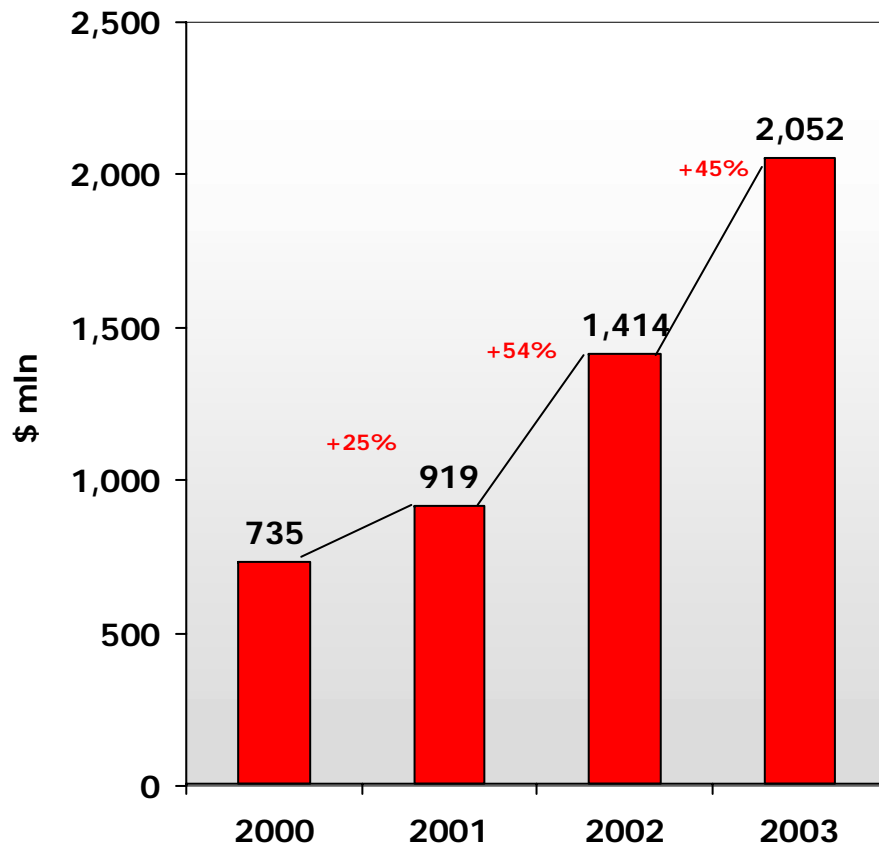


\* Net Income excluding gain from sale of interest in ACG and before cumulative effect of change in accounting principle.



# Transportation Expenses Growth

## Transportation Expenses



Over the last 3 years LUKOIL's transportation expenses increased by 2.8 times while transportation volumes raised only by 40%

## LUKOIL's transportation volumes and tariffs in 2003 comparing to 2002



**Pipeline:**  
volumes transported: +13%  
tariff: +19%

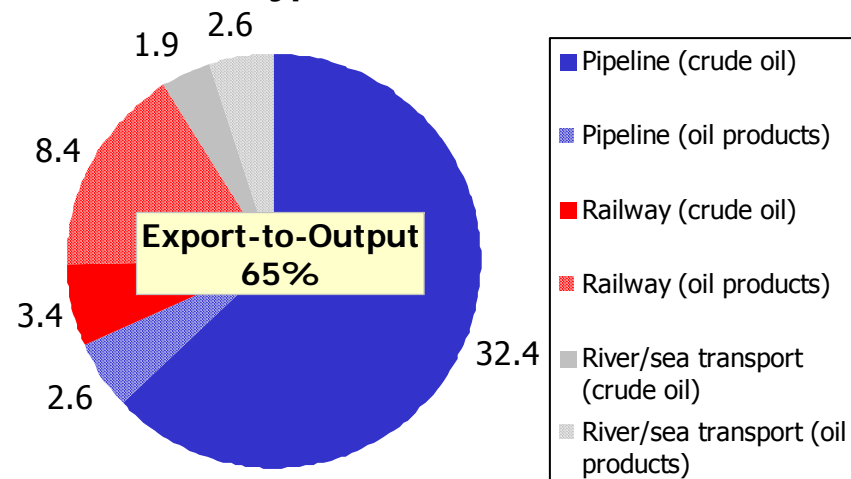


**Railroad:**  
volumes transported: +10%  
tariff: +20.2%



**Sea transport:**  
volumes transported: -3%  
tariff: +50.5%

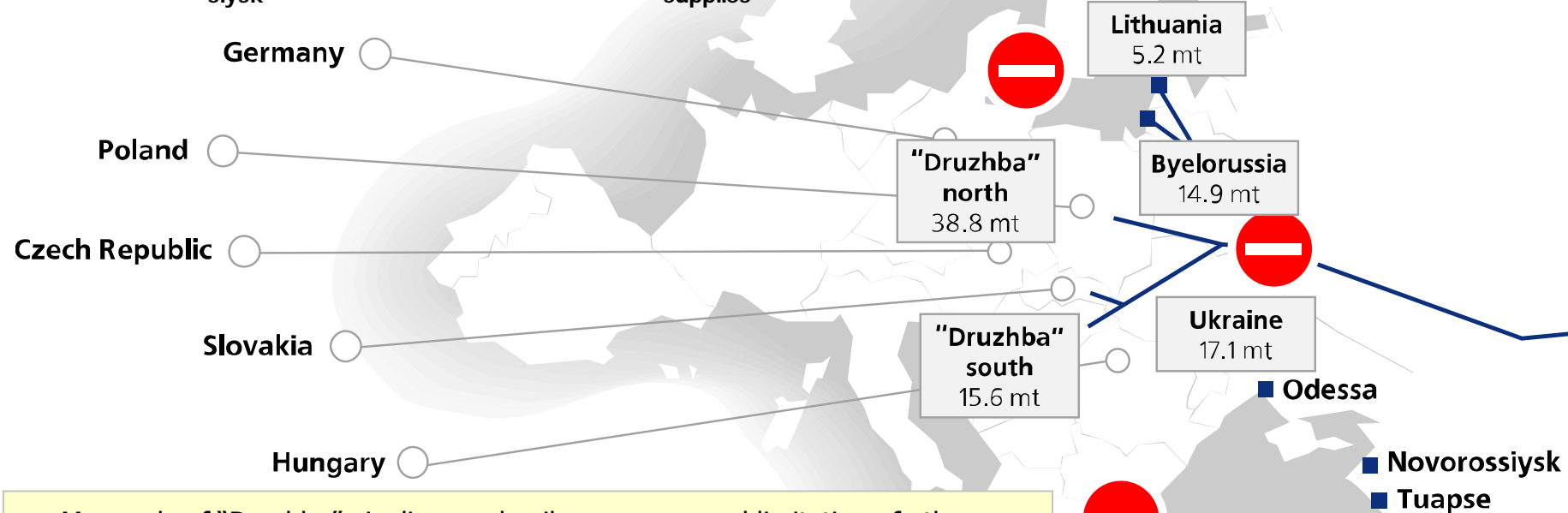
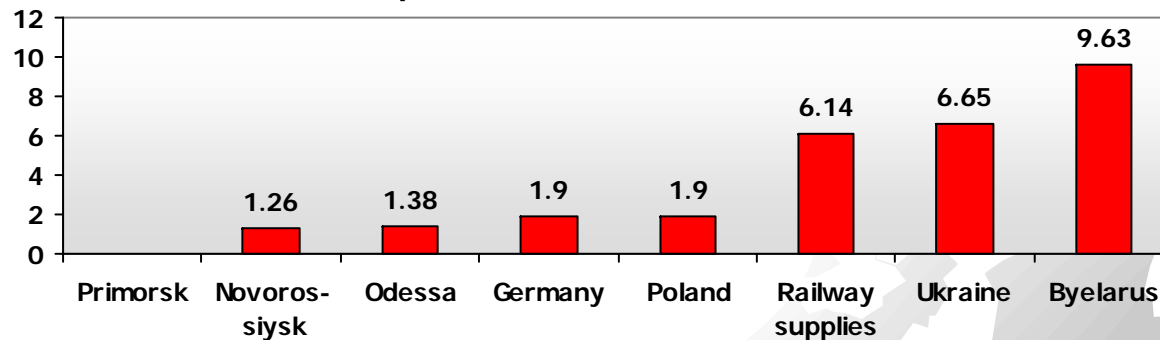
## LUKOIL's export by transportation type in 2003 (mln tons)





# Russia is Strictly Linked to the European Markets

Discount to Urals price for different directions in 2003 (USD)

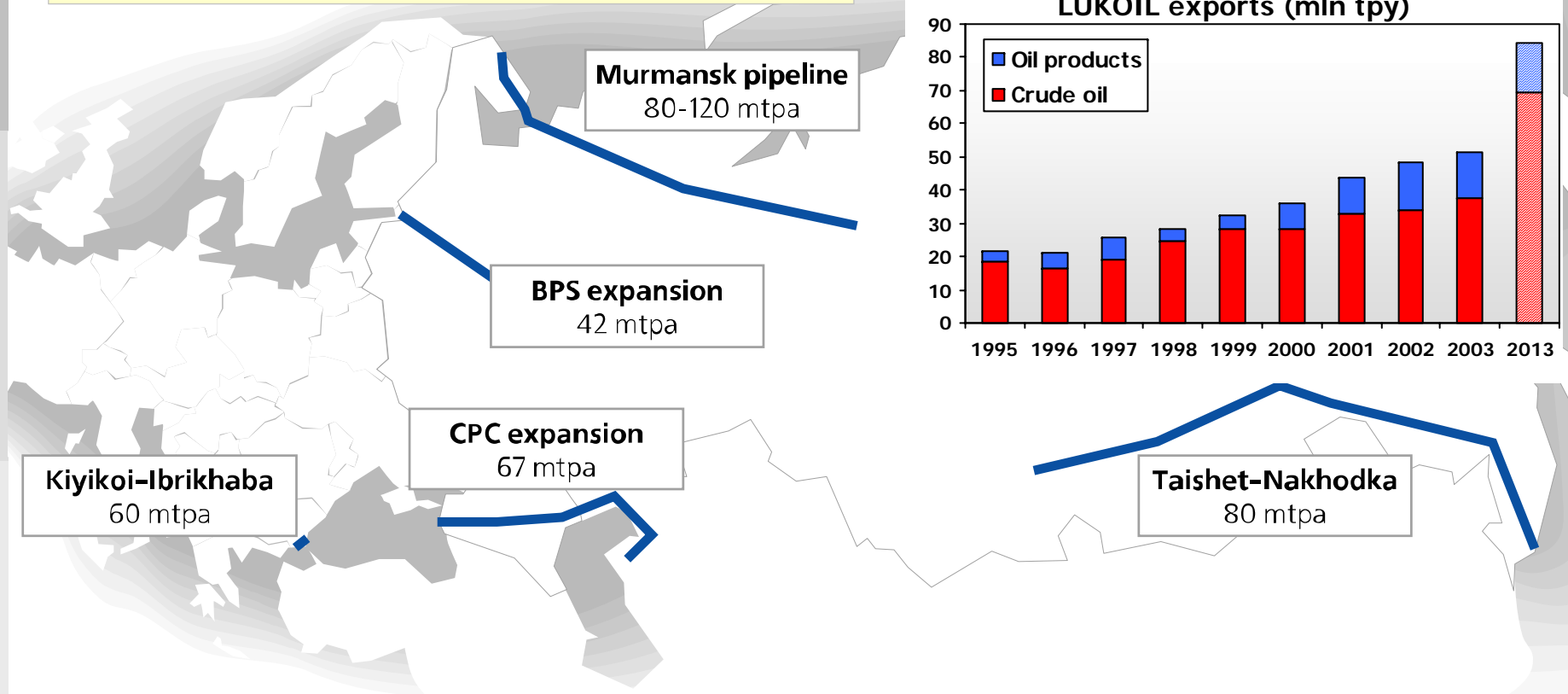


- Monopoly of "Druzhba" pipeline crude oil consumers and limitation of other export directions causes export revenues losses of up to \$2.8 bln pa
- Export of petroleum products comparing to crude oil export causes sales decrease of about \$2 bln pa due to the higher transportation costs for petroleum products and lower price for them (comparing to crude oil)
- Total losses of oil industry amount to over \$8-10 bln pa, losses of the state budget – about \$4 bln pa

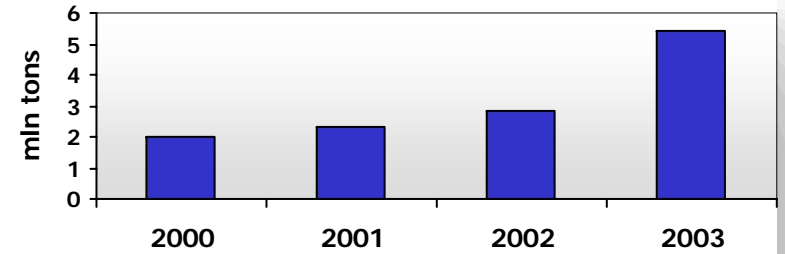


# New Export Infrastructure Projects Are to Bring Russian Oil to New Markets

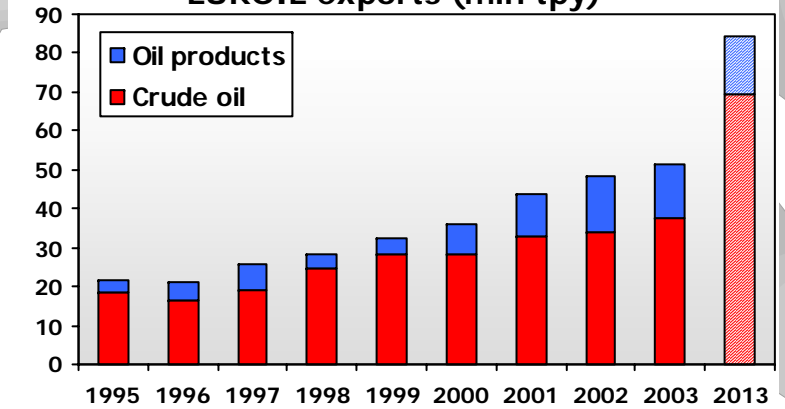
- While the European oil market is nearly saturated, Russia has to diversify its exports.
- The new prospecting markets for Russian oil are USA and China.
- To bring the oil to these markets Russia has to built new pipelines.



LUKOIL's crude oil exports by alternative routes



LUKOIL exports (mln tpy)





# Upgrading Refining Sector – Another Way to Get More Profit

## Economic efficiency of crude oil export and refining

### Oil products domestic sales — refinery with average Russian complexity

	\$/ton
<b>Average retail price</b>	<b>197.90</b>
Production costs	19.50
Mineral resources production tax	31.81
Transportation costs	35.00
Refining costs	12.50
Excise	38.10
Storage costs	2.35
Marketing expenses	5.00
<b>Netback Value</b>	<b>53.64</b>

### Oil products domestic sales — refinery with average European complexity

	\$/ton
<b>Average retail price</b>	<b>231.10</b>
Production costs	19.50
Mineral resources production tax	31.81
Transportation costs	35.00
Refining costs	16.50
Excise	43.00
Storage costs	2.35
Marketing expenses	5.00
<b>Netback Value</b>	<b>77.94</b>

### Crude oil exports

	\$/ton
<b>Export price (Western Europe)</b>	<b>225.00</b>
Production costs	19.50
Mineral resources production tax	31.81
Transportation costs, by railway (Baltic states, Finland)	66.00
Export duty	37.31
<b>Netback Value</b>	<b>70.38</b>

Increase of crude oil refining efficiency by using new technology and raising output of light oil products is able to improve the profitability of refining sector at all





# Upgrading Refineries: 2004 Progress

## Odessa Refinery



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

**Economic effect —  
\$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**

**Economic effect —  
\$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**

**Economic effect —  
\$130 mln per year**

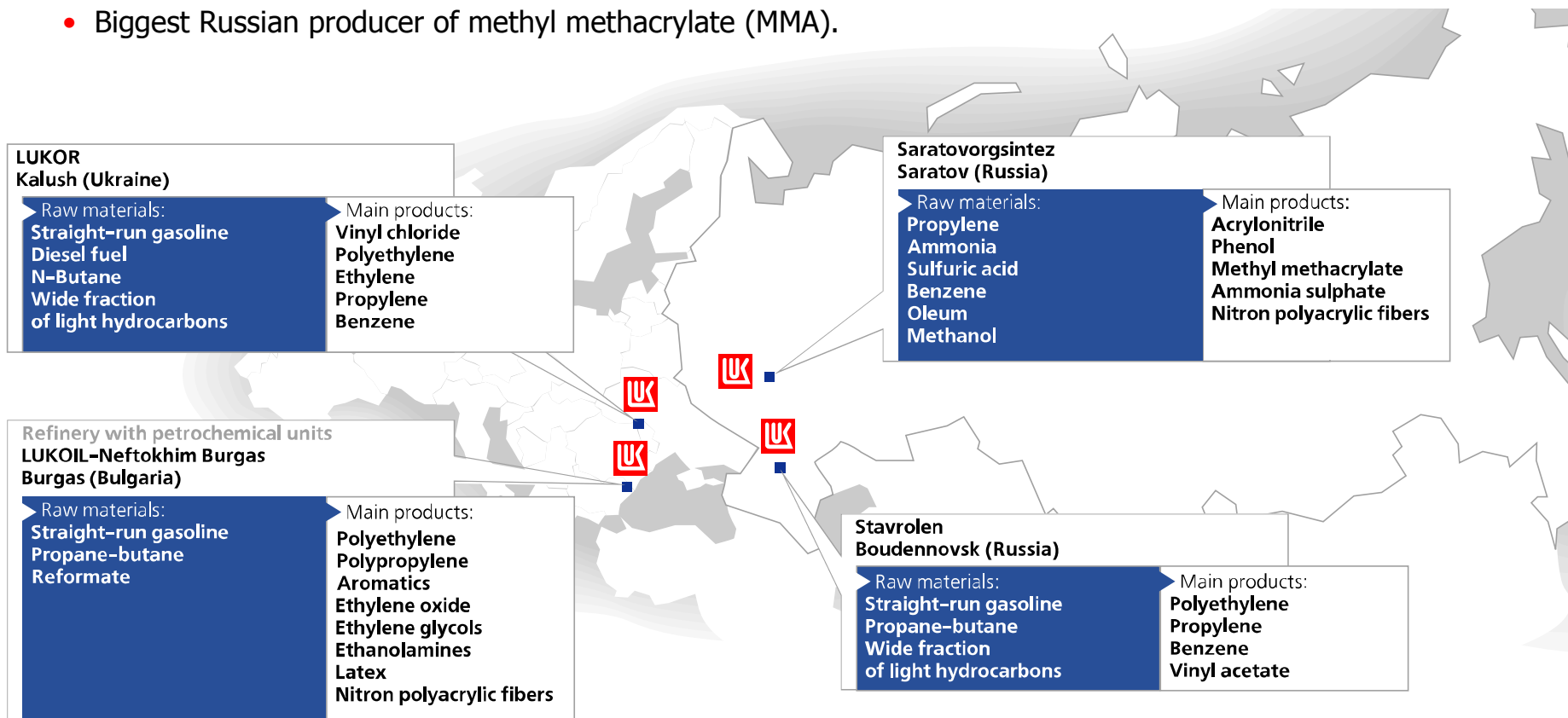
- Russia's first, and the world's seventh facility of the kind.
- The unit is designed for production of ultra low-sulfur and low-aromatics diesel fuel and also naphta needed for high octane gasoline production.
- The introduction of the complex will result in extra production of 1mln tons of motor fuels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



# Leading the Petrochemical Sector

**LUKOIL is now the Russian, CIS and East European leader in the petrochemicals sector. Its leading positions are as follows:**

- Biggest East European producer of olefins (total annual capacity over 1 million tons).
- Biggest East European producer of polyethylene (total annual capacity over 480,000 tons).
- Biggest producer in East Europe, fourth biggest in Europe and sole producer in Russia of acrylonitrile, which is used in production of synthetic fibers.
- Owner of Europe's largest vinyl chloride-monomer plant with annual capacity of 370,000 tons.
- Only Russian producer of nitron polyacrylic fibers.
- Biggest Russian producer of methyl methacrylate (MMA).

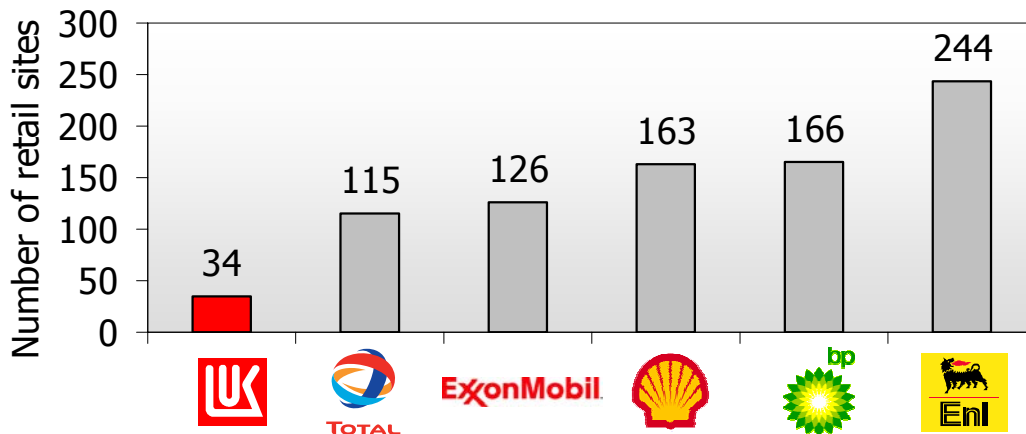






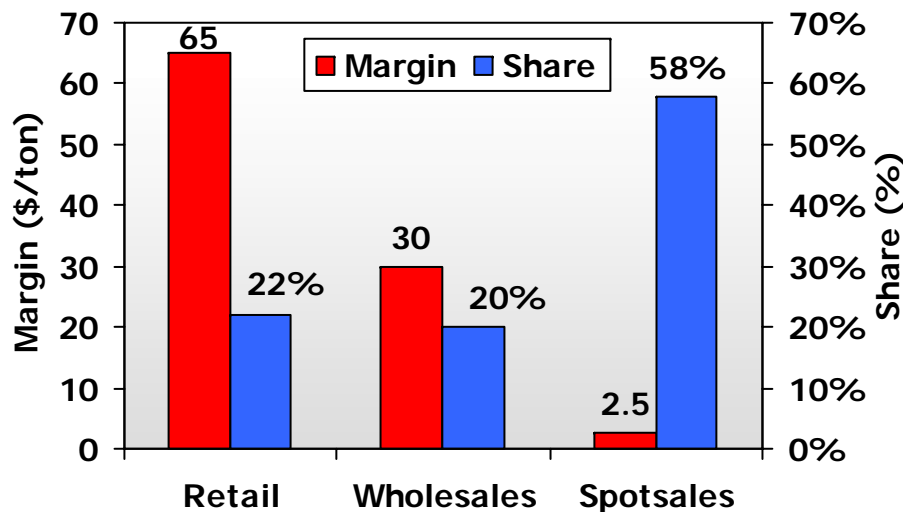
# Marketing Strategy — Expansion of Retail Network

Number of retail sites for 1 ton of refined oil



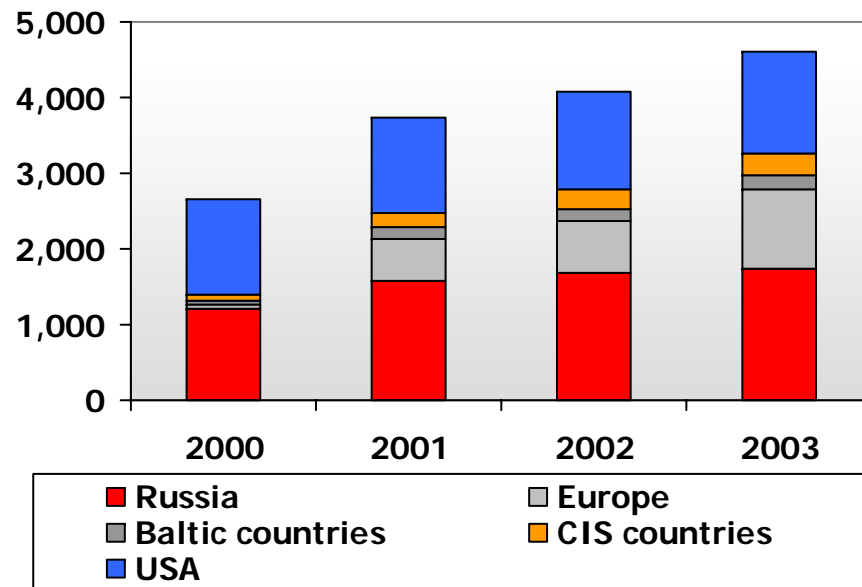
LUKOIL plans to increase share of retail sales from the current 15% of total finished products sold to 30% by the year 2013

Marketing margin and share in LUKOIL's sales



Retail sales are the most profitable

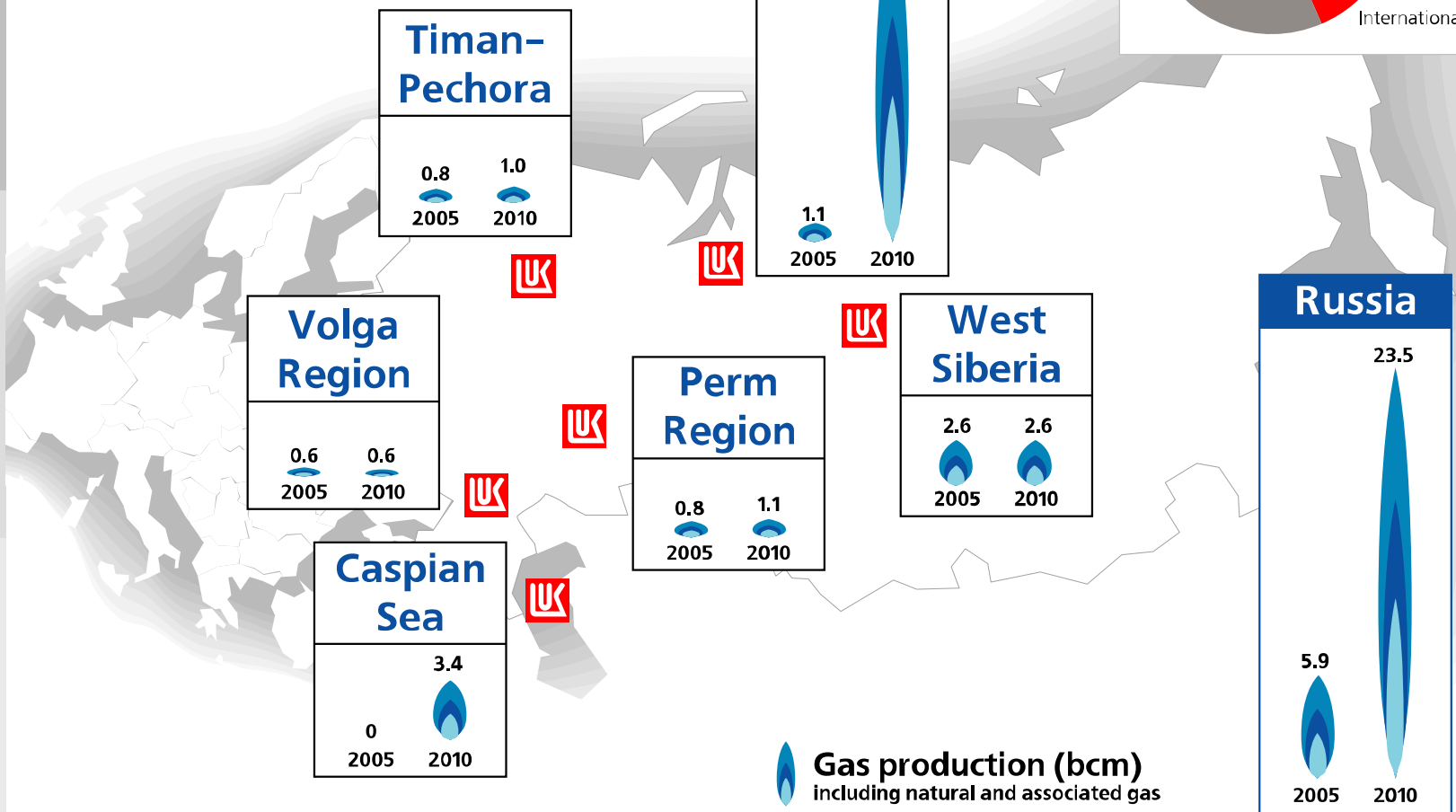
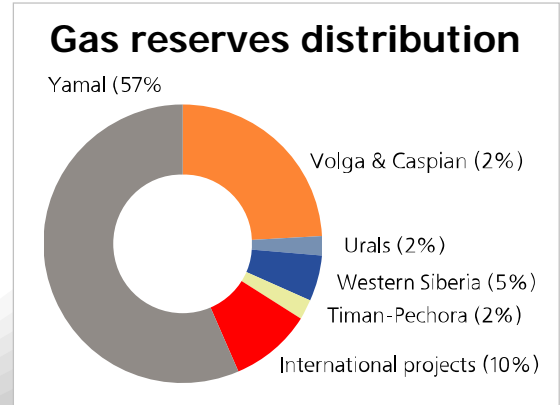
LUKOIL retail network





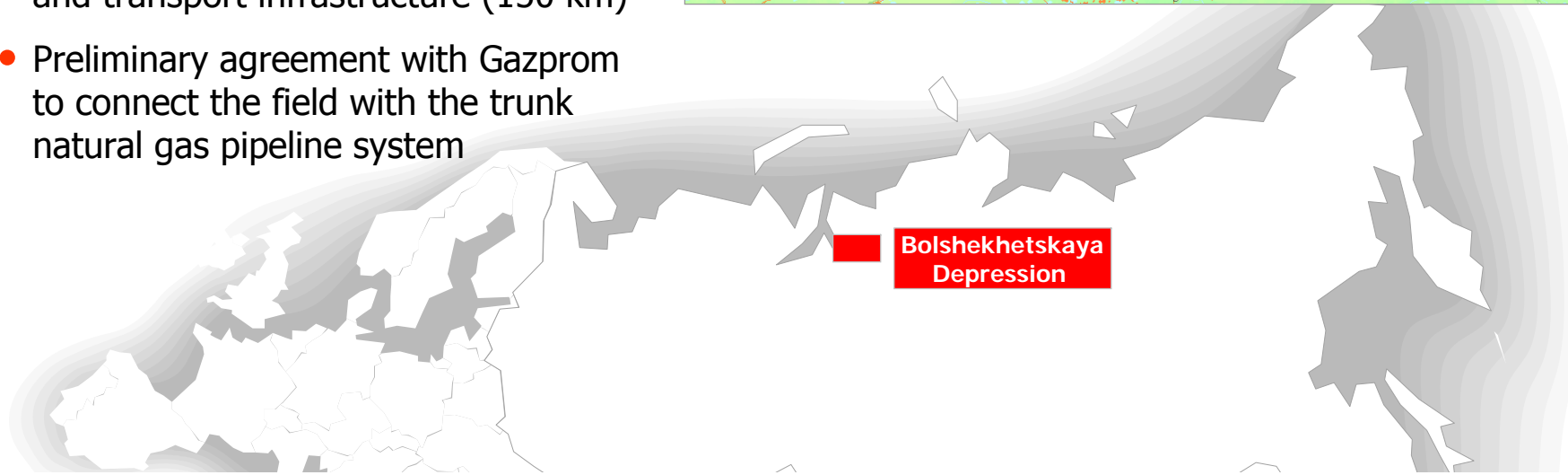
# Aiming to Be Gas Producer #2 in Russia

Natural and associated gas	bcm
Total reserves (PP)	1,208



# Bolshekhetskaya Depression Gas Reserves

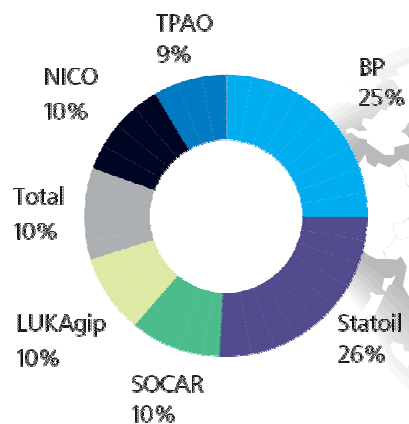
- In 2001 LUKOIL acquired Yamalneftegazdobycha, which holds licenses for significant reserves in the Bolshekhetskaya depression
- 16.9 tcf of total PP reserves (as of January, 1 2004)
- Production is expected to start in 2005
- First stage – Nakhodkinskoe field
- Expected payback period 5-10 years
- 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



## Shakh-Deniz Project (Kazakhstan)

- A **gas and condensate** field of world level, Shah-Deniz is located approximately 100 km to the south of Baku, Azerbaijan, on the Caspian Sea shelf at a depth of 600 m.
- Overall recoverable reserves for Shah-Deniz reach 625 bcm of gas and more than 100 mln tons of condensate.
- In February 2003, the consortium participants sanctioned the start of the first stage of the project. For this period, the amount of proposed investment has totaled \$3.2 bln and produced 178 bcm of gas and 34 mln tons of condensate.
- Turkey shall be the first recipient of gas from Shah-Deniz in the third quarter of 2006.

**Shakh-Deniz consortium members**

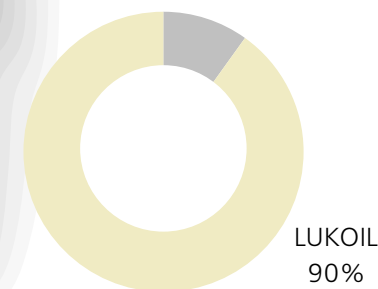


## Kandym-Khausak-Shady PSA (Uzbekistan)

- In July, 2004 the PSA for production of **natural gas** in the Bukharo-Khivinsky Region in the south-west of Uzbekistan has been signed.
- The PSA is for 35 years, with estimated capital expenditures of \$1 bln.
- Recoverable reserves of natural gas amount to 283 bcm. The largest of the fields, Kandym, contains over 150 bcm of gas.
- The first commercial production of natural gas is expected to begin in 2007. Annual gas production is expected to peak at around 9 bcm, while cumulative production of natural gas under the project may reach 207 bcm.
- The project provides for the construction of a modern gas-chemical complex with 6 bcm capacity, the first phase of which is scheduled for commissioning in 2010. Additionally, it is planned to drill 240 production wells, lay 1,500 km of pipelines.
- Gas will be distributed through OAO Gazprom trunk pipelines.

**Kandym-Khausak-Shady PSA**

Uzbek-  
neftegaz  
10%



Shakh-Deniz

Kandym-Khausak-Shady

# Getting the Key to LNG Technology

- In the future, natural gas could overtake oil in terms of its contribution to world energy. Much of this demand will be met in the form of LNG.
- Being in alliance with ConocoPhillips LUKOIL gets the access to its LNG technologies and experience
- ConocoPhillips has its own proprietary LNG technology and nearly 35 years of experience through the operation of a plant in Kenai, Alaska, that supplies LNG to utility customers in Japan.



- In 2003, ConocoPhillips announced its intention to become involved in major LNG projects in Qatar, Nigeria, and Venezuela. The company already has a large project under way in the Timor Sea to supply LNG to Japan beginning in 2006.
- ConocoPhillips is also developing plans to build several LNG receiving and regasification terminals in North America to help meet the growing demand for natural gas in the United States.



# Strategic Objectives



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



- Aiming to maintain output growth rate above 5% after 2005



- Export-to-output ratio – above 70%



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



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



- Targeting one fourth of Russia's total crude output by 2010



- Targeting over 3% of the world's total output by 2010  
(up to 2.6-2.7) 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.