



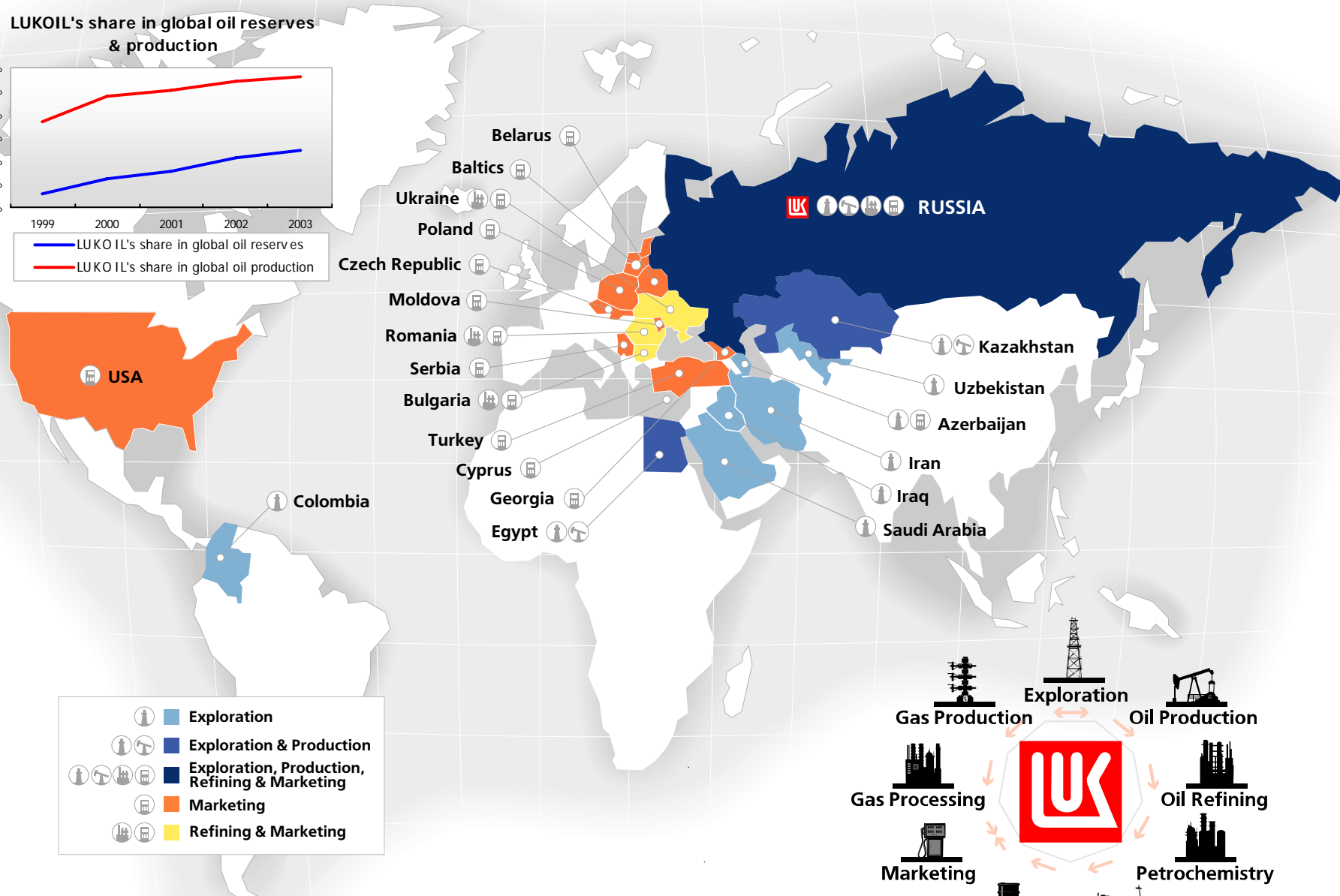
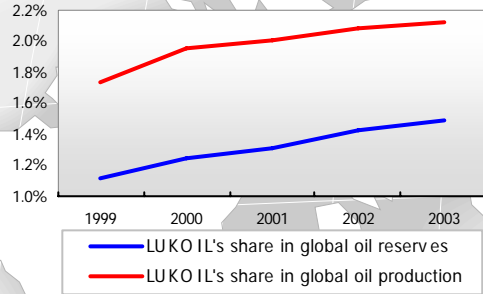
# **Transforming into a Global Energy Company**

March 2005



# Global Operations of LUKOIL, Running the Whole Cycle

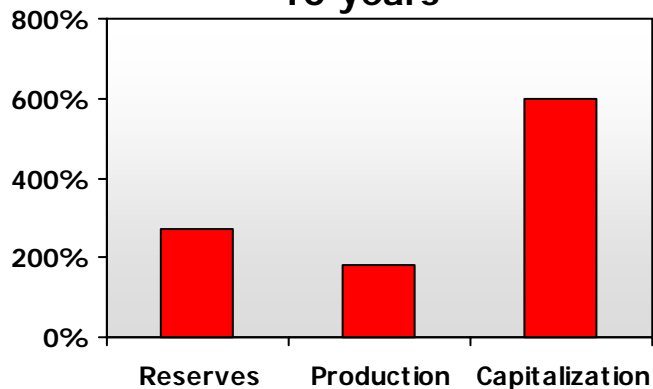
LUKOIL's share in global oil reserves & production



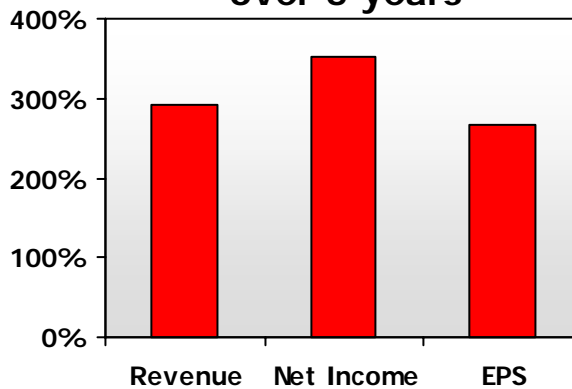


# LUKOIL: Success Story on Russian Market

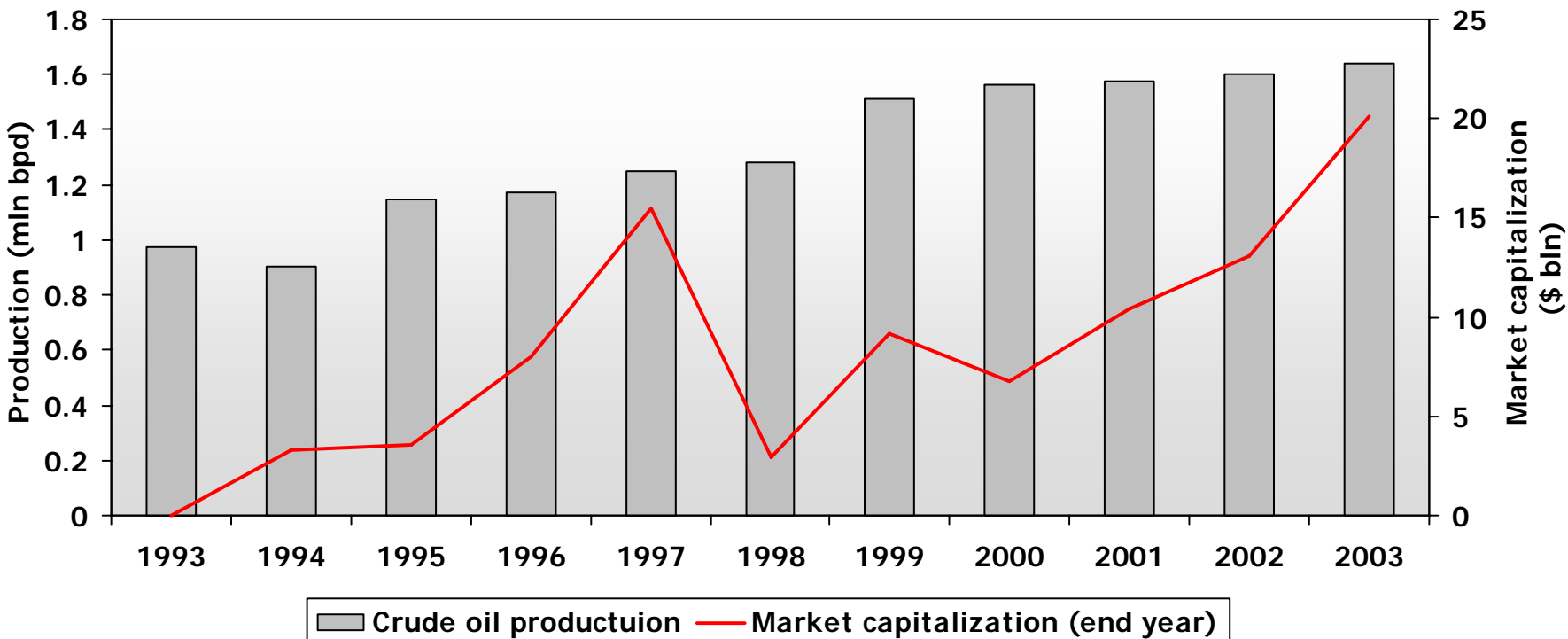
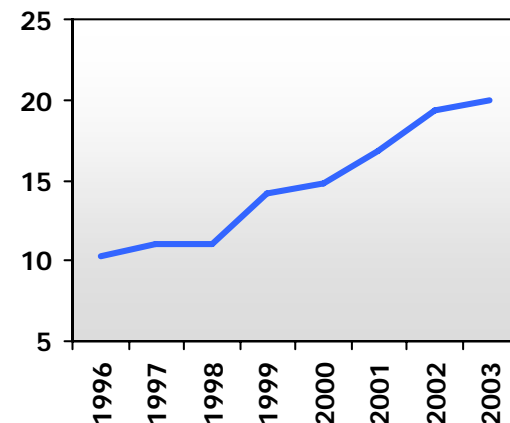
### Key indicators change over 10 years



### Key indicators change over 5 years



### Proven reserves (bln boe)





# Restructuring Program: Focus on Maximizing Shareholders' Value

## LUKOIL Restructuring Program

### Efficiency Improvements

Increase of high-margin operations

Export-to-output ratio increased to 55%

Faster commissioning of new fields

Every year 10-14 fields are commissioned

Closure of inefficient wells

About 7% of all operating oil wells were closed in 2003-2004

Raising oil production efficiency and average well productivity

Average flow rate of oil wells grew by 22% to 10.7 tons per day

Cost reduction

Production costs were reduced by 11% in nominal terms and by 30% in real terms (appreciation of the ruble) to \$2.57 per barrel

Optimizing and simplifying corporate structure

Number of entities in LUKOIL Group has been reduced from over 670 in 2001 to less than 470 in 2004

### Hands-on management of the asset portfolio

On 28 April 2003 LUKOIL completed sale of a 10% stake in the Azeri - Chirag - Gyuneshli project for \$1.3 bln. Net profit from the sale was \$1.1 bln. The deal marks the start of asset portfolio optimization and confirms Company's ability to commercialize reserves through sale.

### Consolidation of efficient assets

The Company made significant efforts to consolidate production assets, taking advantage of the favorable state of the market. Major stakes in external and affiliated companies were acquired. LUKOIL bought large stakes in Arkhangelskgeoldobycha, LUKOIL-Perm, Komineft, Tebukneft, Ukhtaneft, RKM-Oil, Bitran and Yaregskaya Nefte-Titanovaya Kompaniya. In these transactions reserves were bought for a price of \$1.0-1.1 per barrel and annual production of LUKOIL subsidiaries was increased by 2.5 mln tons.

### Withdrawal and sale of non-core assets

**Bank Petrocommerce**  
LUKOIL agreed to sell its stake (80%) to the companies of the Financial Group "IFD Kapital" for over \$200 mln.

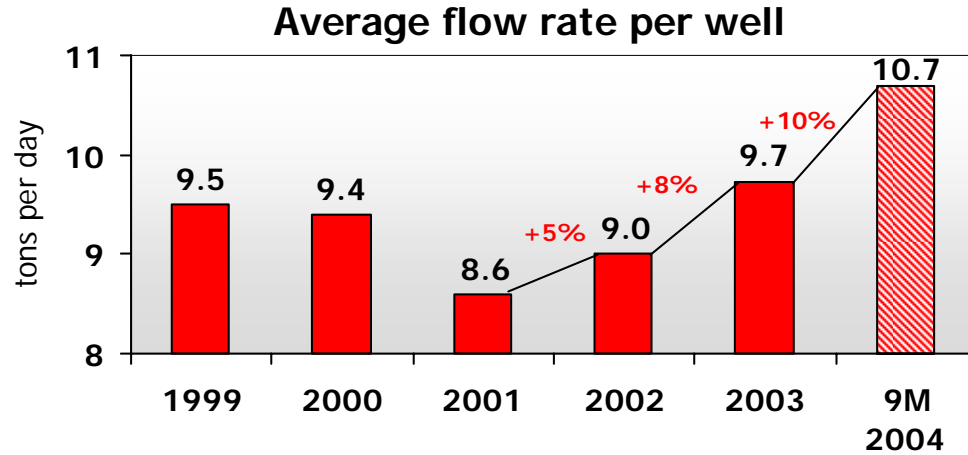
**LUKOIL-Neftegazstroy**  
LUKOIL agreed to sell its stake (38%) to the managers of LUKOIL-Neftegazstroy for \$66 mln.

**LUKOIL-Bureniye**  
LUKOIL agreed to sell its stake (100%) to Eurasia Drilling Company Ltd. for \$130 mln including obligations of more than \$60 mln to repay LUKOIL-Bureniye's debt.

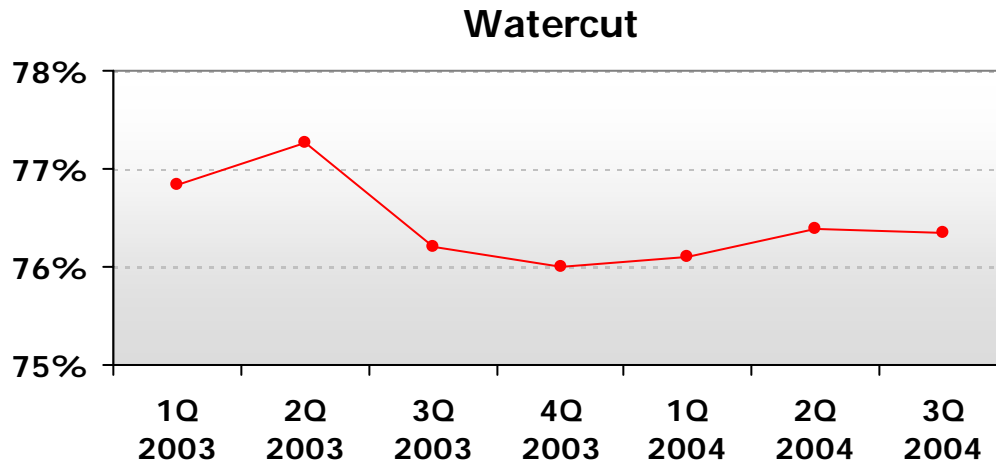
- 1 and 2 stages of restructuring program completed successfully
- Economic effect exceeded \$2.7 bln. Over \$1 bln from reducing lifting costs (including effect of RUR strengthening against USD). Asset base management and asset divestment brought around \$1.7 bln)
- LUKOIL privatization completed
- Strategic partnership with ConocoPhillips



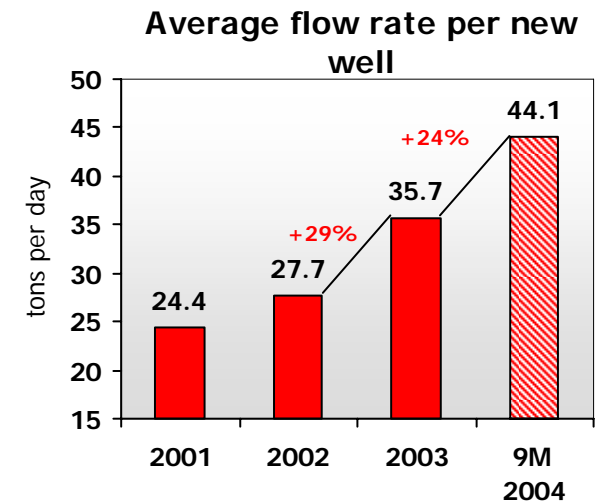
# Improving Efficiency of E&P



Since 2001 average flow rate per well has been steadily growing

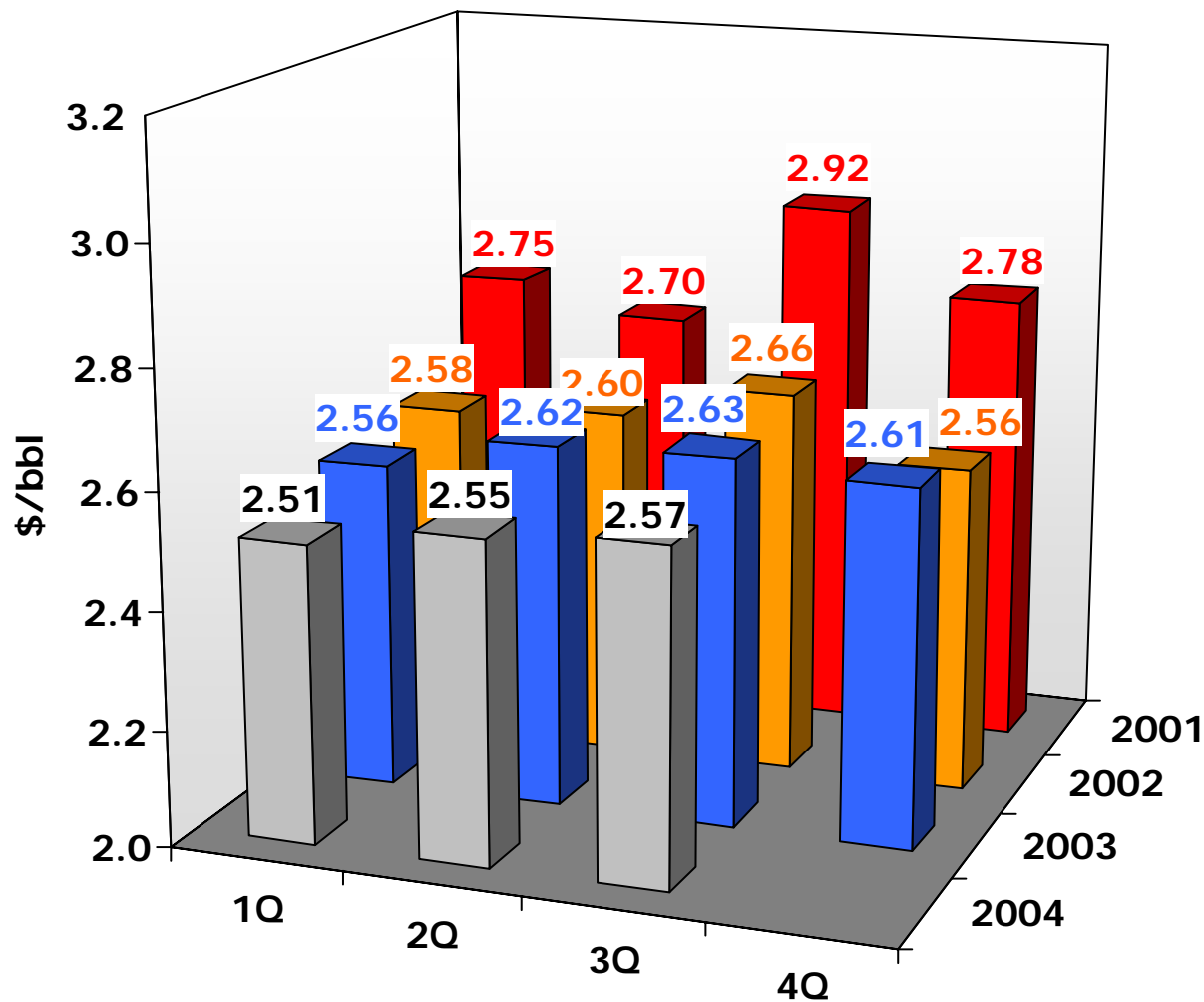


Watercut has been stabilized

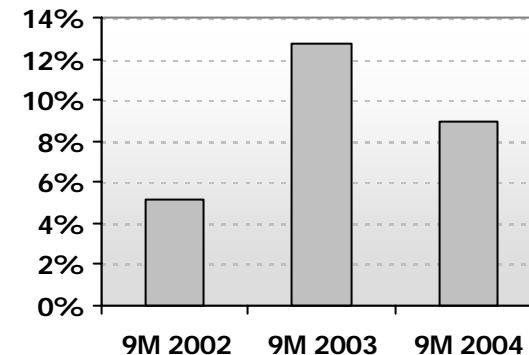




# Reducing Crude Production Costs\*, Mitigating Negative Macroeconomic Effect



Ruble appreciation



In 9M 2004 LUKOIL successfully reduced crude production costs by 2.4% (in USD)

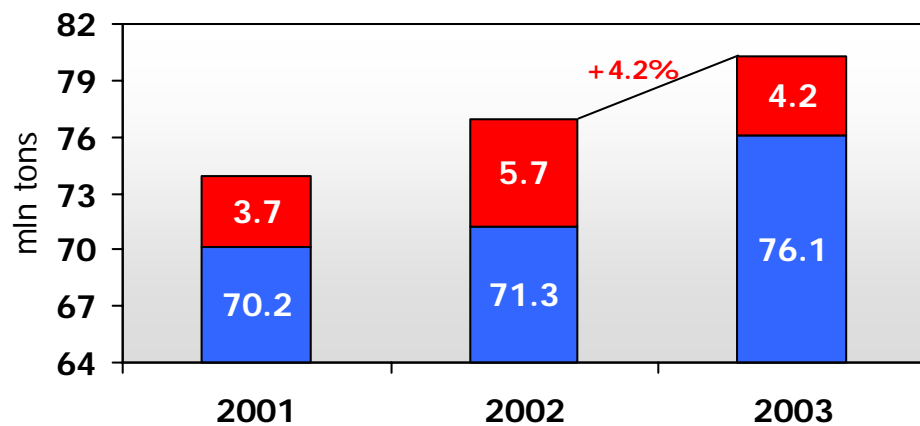
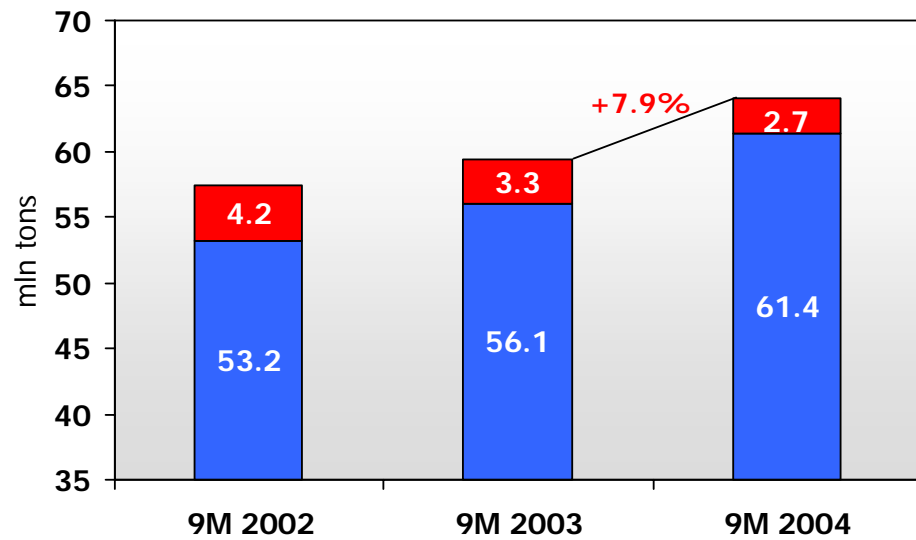
Ruble strengthened vs. US dollar by 8.9% y-o-y

**Cost reduction in real terms reached 11% 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.



# Crude Oil Output: Accelerating Growth Rates



■ Share in affiliates' output  
■ Subsidiaries' output



In 2004 LUKOIL posted output growth rates **double better** 2003 results

In 9M 2004 crude oil output of LUKOIL Group (subsidiaries and LUKOIL's share in affiliates) increased by **7.9 % y-o-y**, subsidiaries' output — by **9.5%**



## All Time Best Financial Results

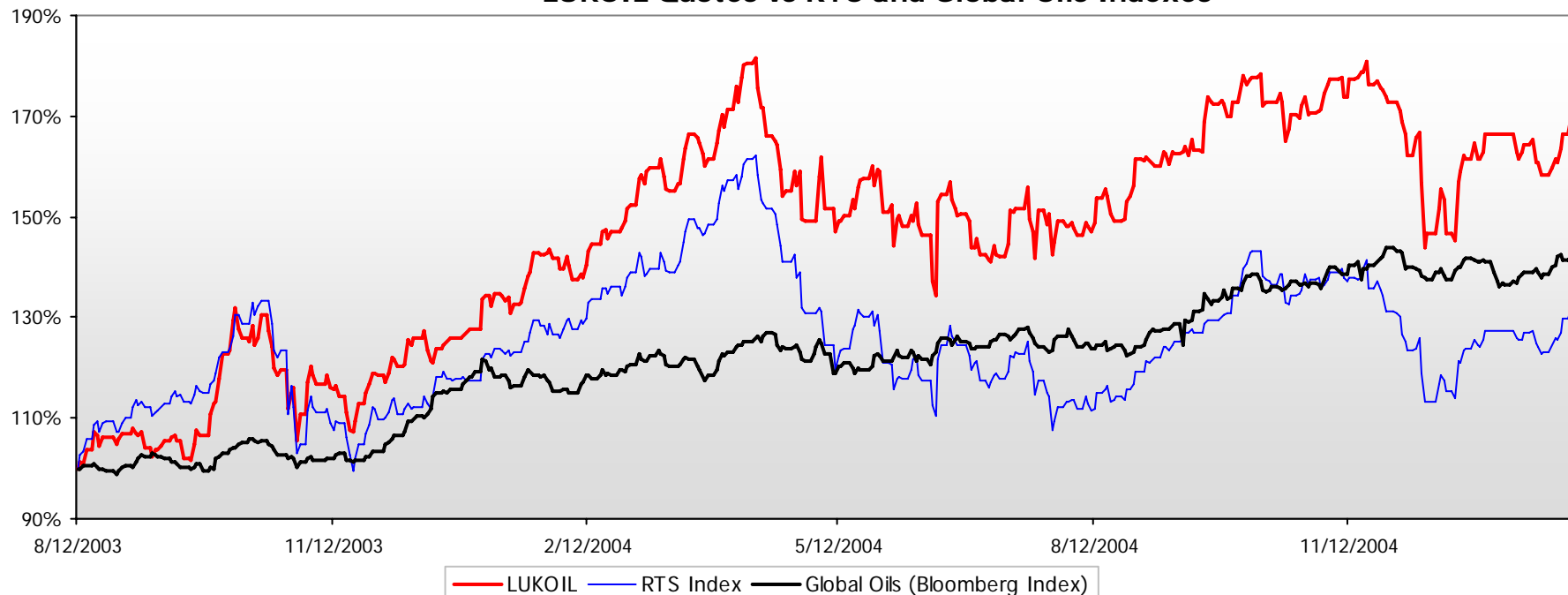
9M 2004	9M 2003	Financial results, mln USD	3Q 2004	2Q 2004
<b>24,431</b>	<b>16,274</b>	<b>Total revenue</b>	<b>9,822</b>	<b>8,027</b>
(2,101)	(2,054)	Operating expenses	(767)	(674)
(5,927)	(3,881)	Taxes other than income taxes (including excise and export tariffs)	(2,422)	(1,908)
4,444	3,626	Income from operating activities	1,979	1,390
4,339	3,634	Income before income taxes	1,932	1,269
3,095	3,065	Net Income	1,399	877
<b>3,095</b>	<b>1,803</b>	<b>Net Income before cumulative effect of change in accounting principle and excluding gain from sale of interest in ACG</b>	<b>1,399</b>	<b>877</b>
3.79	3.74	EPS (USD)	1.71	1.07
<b>5,220</b>	<b>4,434</b>	<b>EBITDA</b>	<b>2,255</b>	<b>1,553</b>





# LUKOIL Shares Outperform the Market

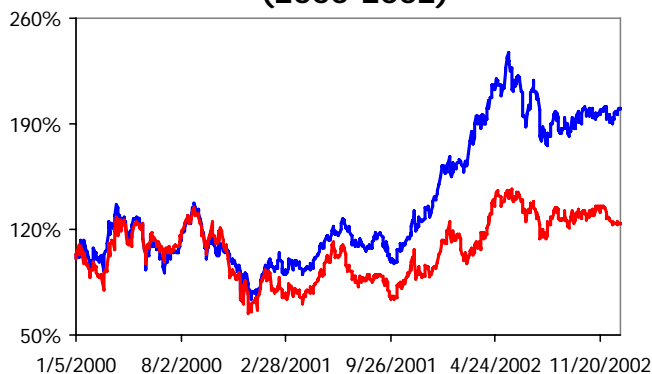
### LUKOIL Quotes vs RTS and Global Oils Indexes



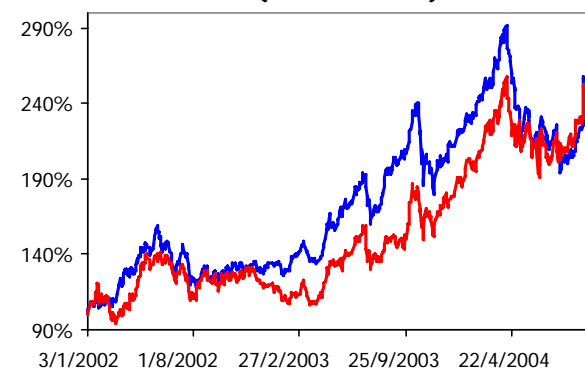
**In 2004 LUKOIL share price outperformed the market.**

**Within 2000-2002 it underperformed the market.**

### (2000-2002)



### (2002-2004)



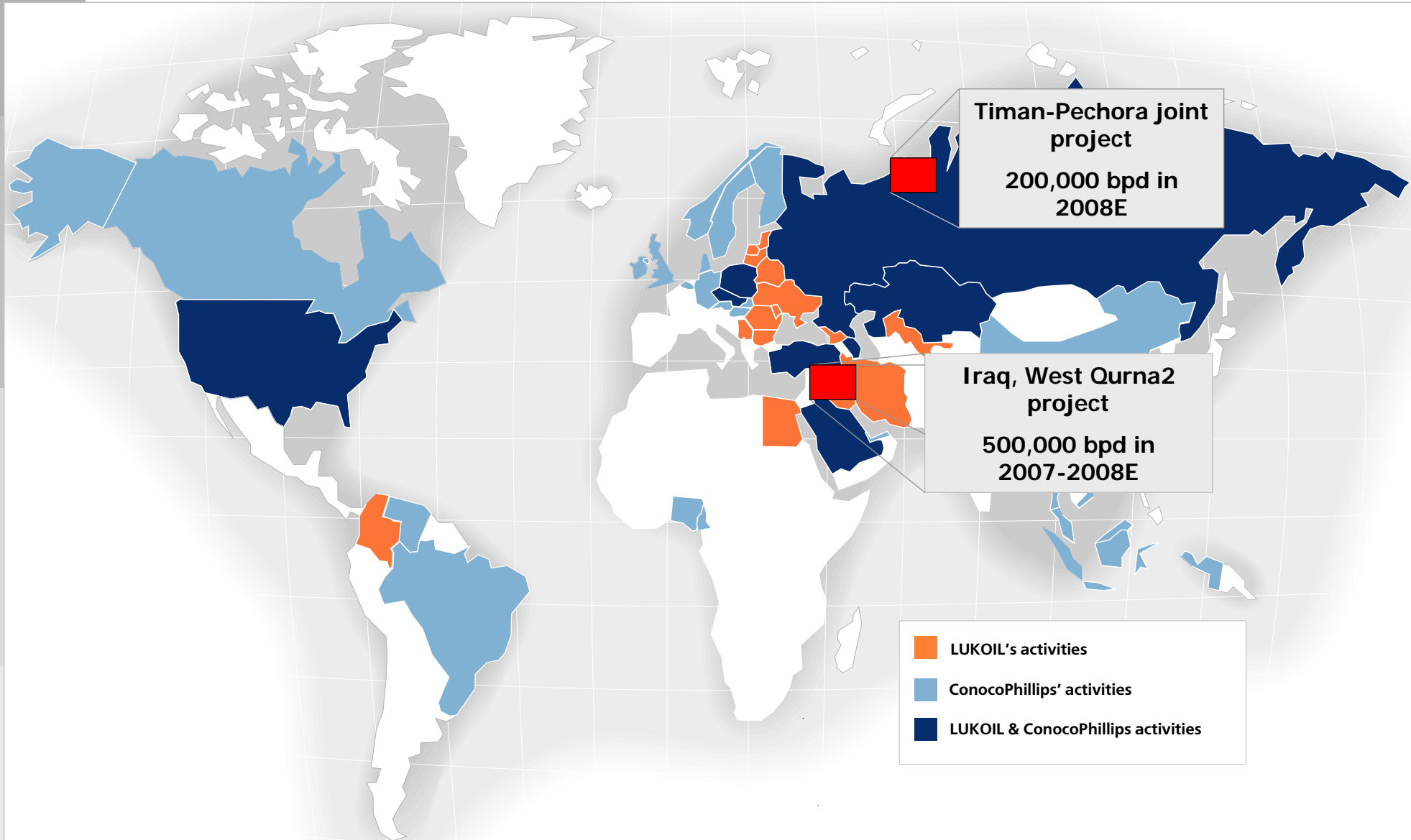


# Why Buy LUKOIL: Investment Summary

- **Strategic partnership with international partner – ConocoPhillips**
  - ✓ *equalizing metrics of efficiency (production & financials)*
  - ✓ *getting access to art-to-date technology/reservoir management – best practice*
- **Best hedged company against Russia's political risks**
  - ✓ *privatization completed/Russia's government publicly and directly sold its 7.6% stake to ConocoPhillips*
  - ✓ *LUKOIL's solid asset base in USA provides protection of US legal system*
- **Corporate governance – continuing improvement**
  - ✓ *best record/history among Russian pack*
  - ✓ *leader in information disclosure and information transparency/full listing at LSE*
- **Growing company**
  - ✓ *best growth rates in global oil industry/ focus on sustainable growth*
  - ✓ *prepared to become best growing company among Russian pack and global peers*
- **Value oriented company**
  - ✓ *changing valuation approach: from "given as a whole" based valuation to "sum of the parts" based valuation*
  - ✓ *using corporate DCF model for investment purposes/shaping investment program on project bases*



# The World Is Not Enough





# 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**



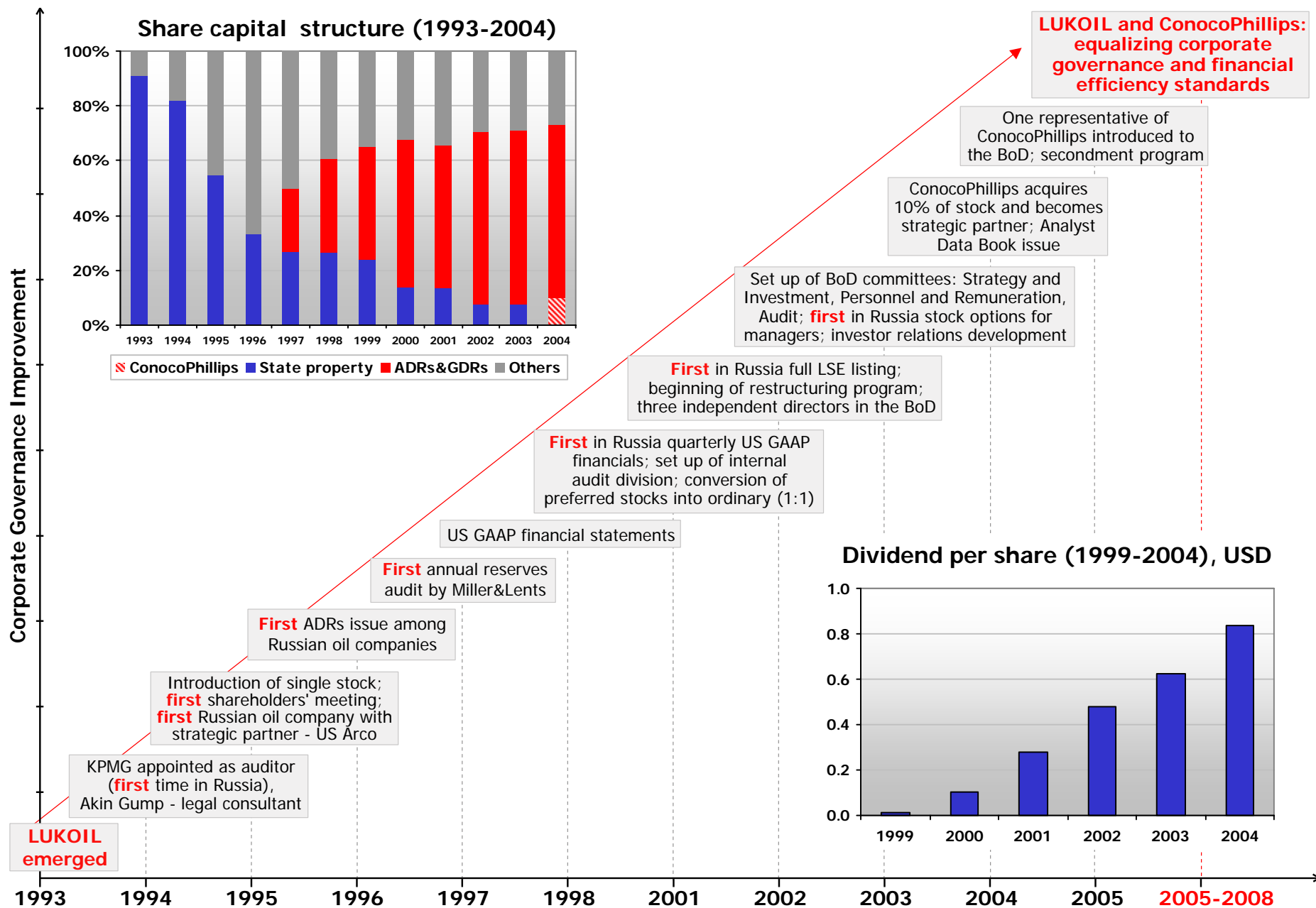
## **ConocoPhillips and LUKOIL secondment program:**

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





# LUKOIL – Pioneer in Corporate Governance in Russia: Continuing Improvement



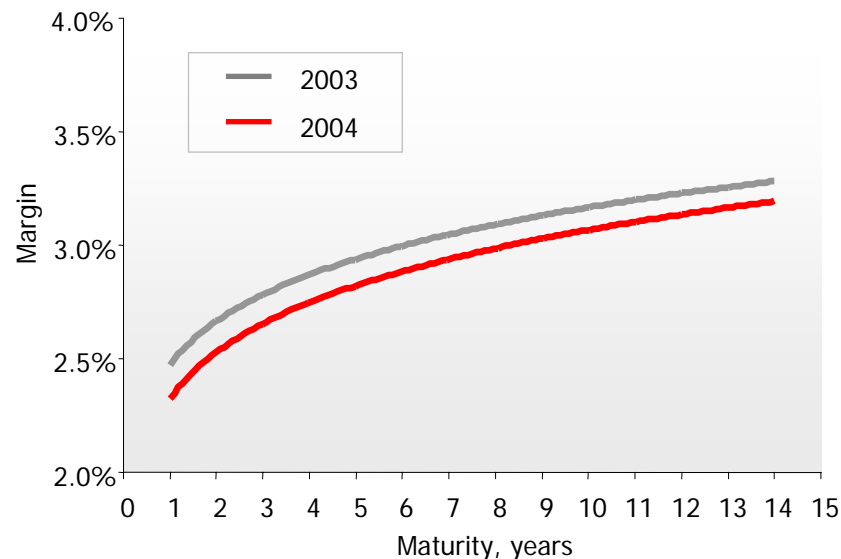


# Improvement in Corporate Governance Translates into Better Access to Capital

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	<b>LUKOIL</b>	Ba2	<b>LUKOIL</b> Sibneft ↓ TNK ↑
	BB-	YUKOS ↓ Gazprom	Ba3	Rosneft
	B+	Sibneft ↑	B1	
	B	RAO "UES" ↑ Rosneft ↓	B2	
	B-		B3	

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

LUKOIL loans margin and maturity



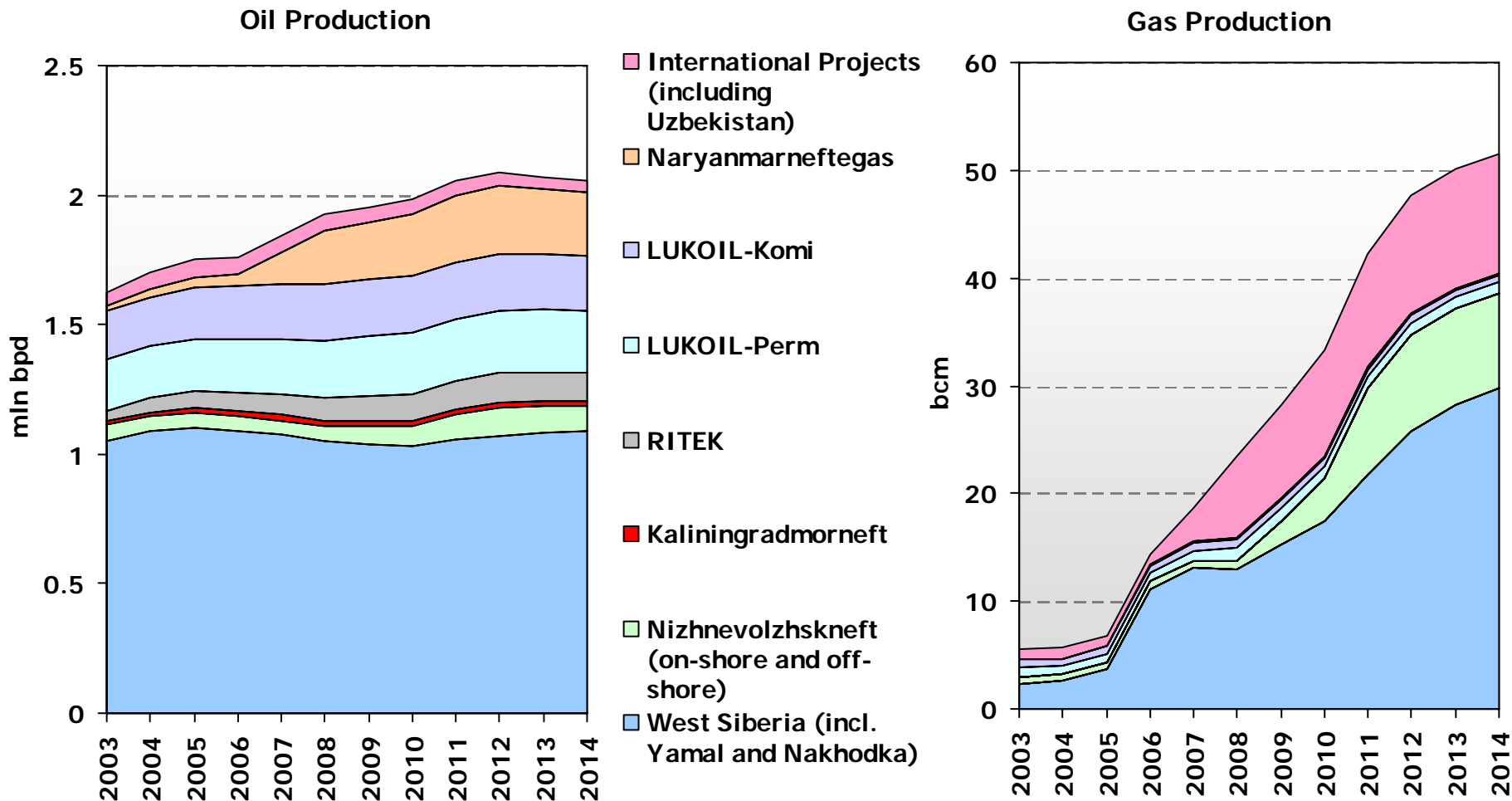
**Debt restructuring program effected in 2004 allowed LUKOIL to decrease loan margins and thus to save over \$50 mln on debt service.**

In November 2004 LUKOIL issued 5-year ruble bonds for the total value of 6 bln rubles at 7.38% which is the lowest yield on the Russian bond market.

**LUKOIL loan margins are the lowest among Russian borrowers.**



# Hydrocarbon Production Forecast\*



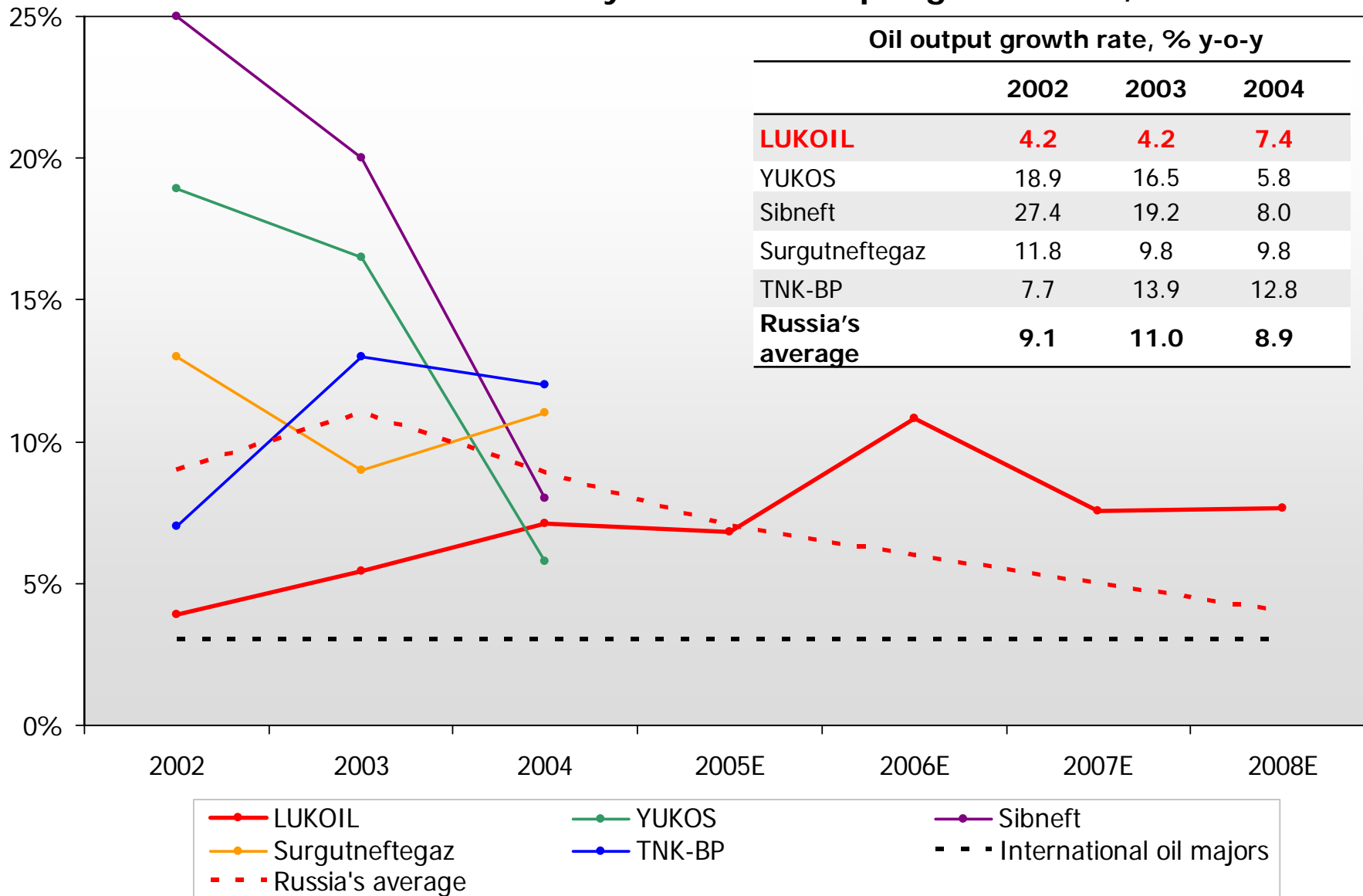
Production diversification assumes a significant increase of overseas production: 4.0% of total production in 2004 and 10.0% in 2013.

Hydrocarbon production is expected to grow from 1.8 mln boe per day in 2004 to 2.8-2.9 mln boe per day in 2014.



# LUKOIL Takes Position to Generate Best Industry Growth Rates in Output

Actual and forecasted hydrocarbon output growth rate, %

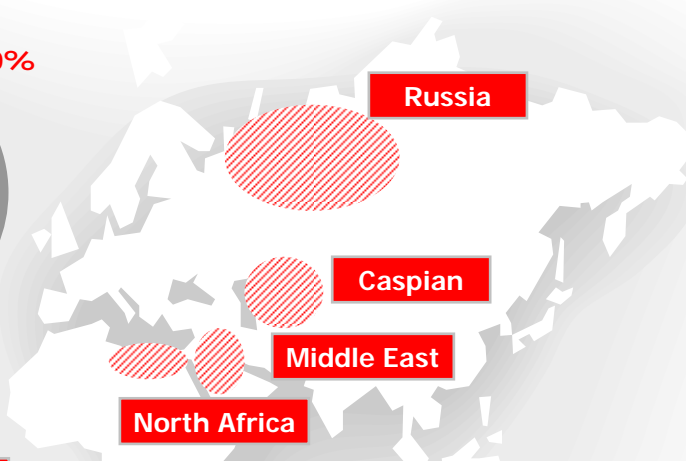
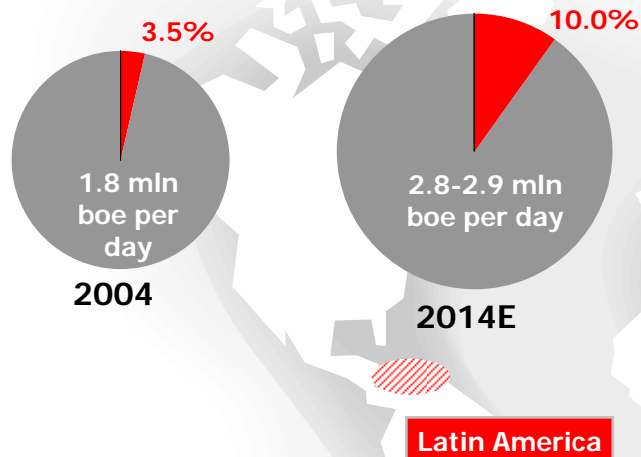






# Upstream Activities all Over the World

Share of overseas' projects in LUKOIL total output

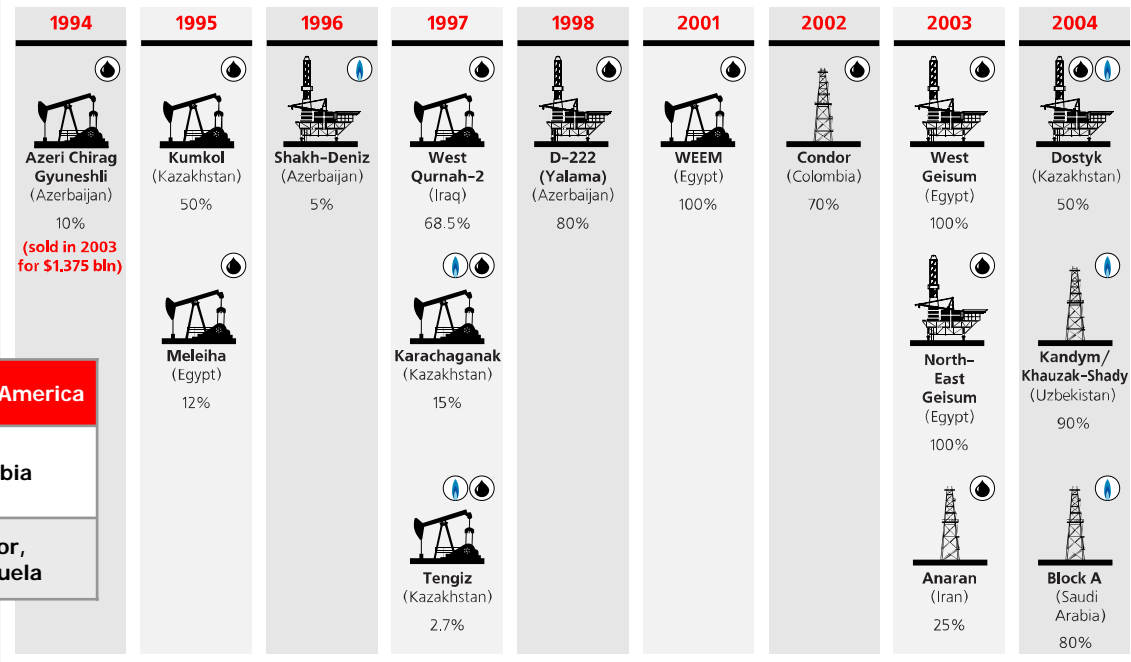


LUKOIL aims to set up several international production centers diversifying its upstream portfolio

## International Upstream Strategy:

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

## Acquisition of International Upstream Projects by LUKOIL

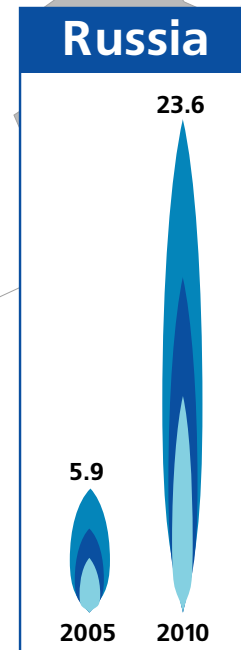
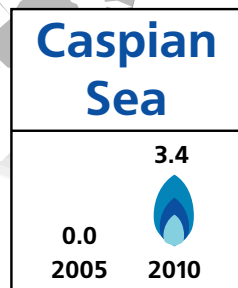
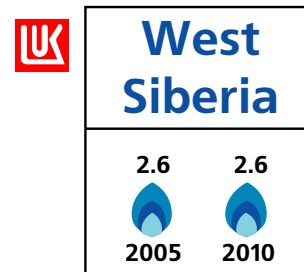
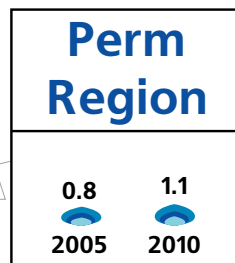
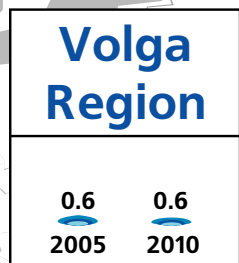
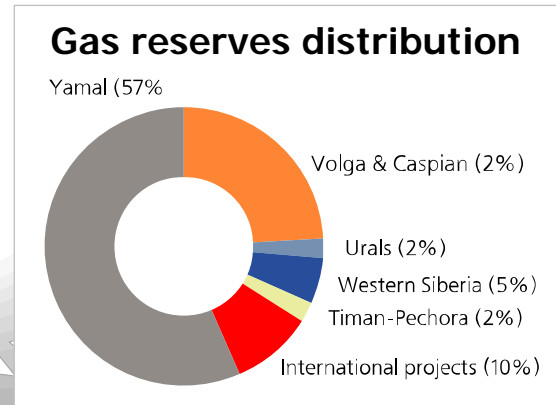
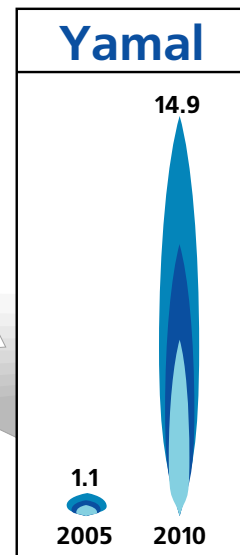
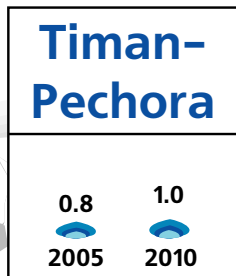


	CIS (Central Asia, Caspian region)	North Africa	Middle East	Latin America
Current projects	Uzbekistan, Kazakhstan, Azerbaijan	Egypt	Iran, Iraq, Saudi Arabia	Colombia
Promising regions	Turkmenistan	Algeria, Libya	Qatar, UAE, Oman, Yemen	Ecuador, Venezuela



# Aiming to Be Gas Producer #2 in Russia

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



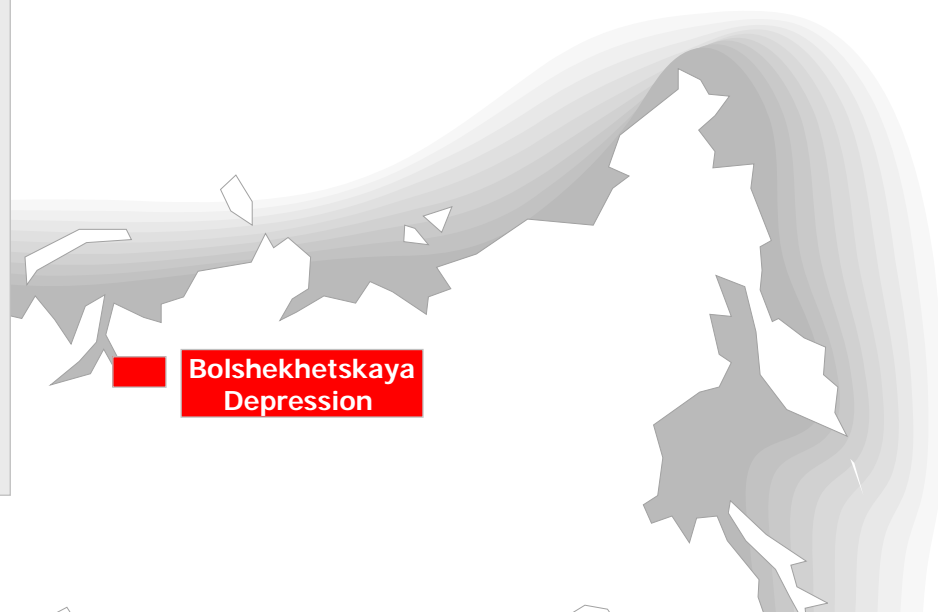
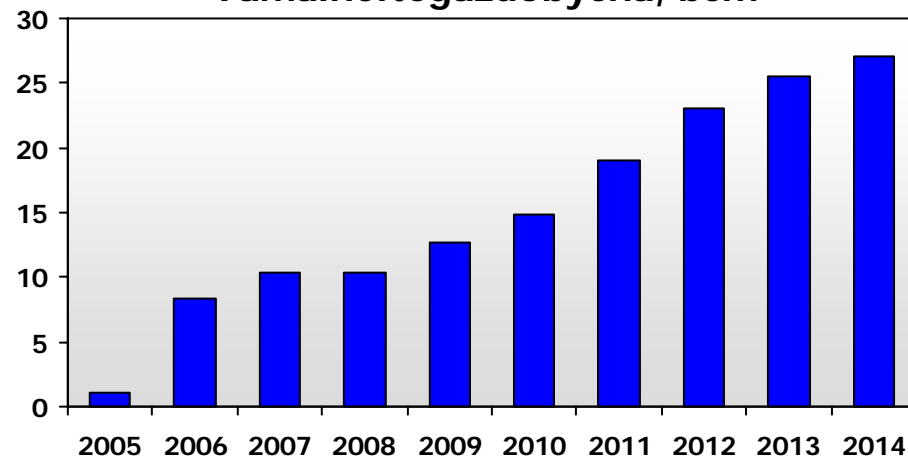
**Gas production (bcm)**  
including natural and associated gas



# Bolshekhetskaya Depression: Beginning of LUKOIL Natural Gas Story

- 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 to start in 2005
- Investment schedule for 2005 — \$300 mln
- Planned production at the final stage amounts to **25 bcm/year** of gas, 2 mln tons/year of oil, and 2 mln tons/year of gas condensate
- 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

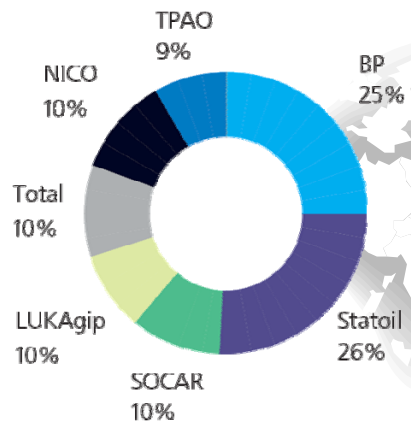
Forecast of natural gas production by Yamalneftegazdobycha, bcm



## Shakh-Deniz Project (Kazakhstan)

- A **gas and condensate** field of world level, Shakh-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 Shakh-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 Shakh-Deniz in the third quarter of 2006.

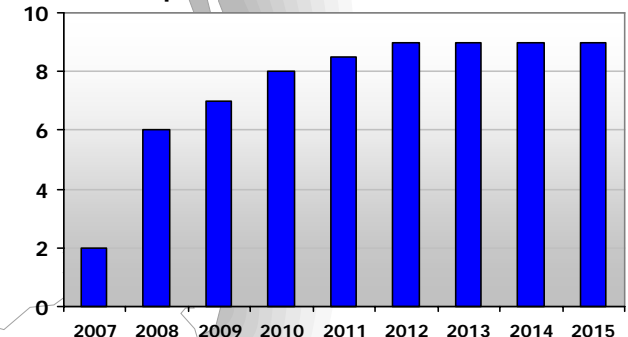
### Shakh-Deniz consortium members



## Kandym-Khausak-Shady PSA (Uzbekistan)

- In July, 2004 the PSA for production of **natural gas** in the Bukhara-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 gas production forecast, bcm

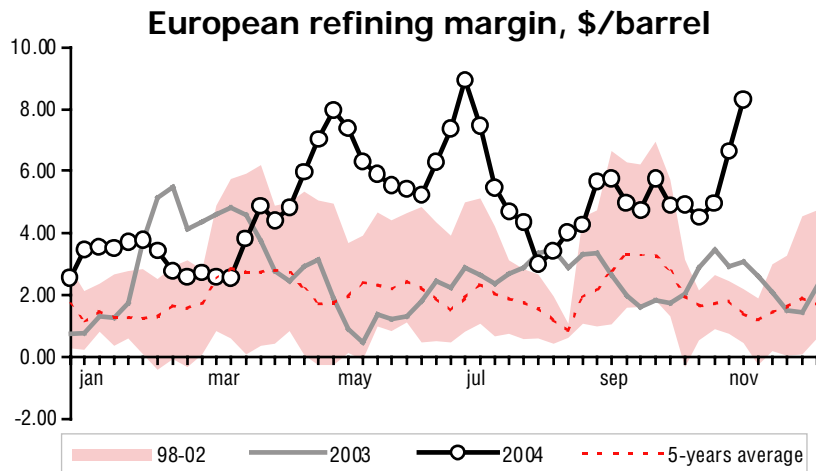


Shakh-Deniz

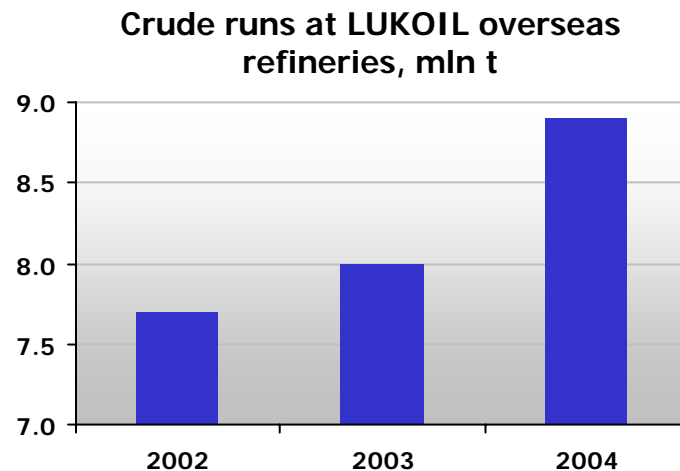
Kandym-Khausak-Shady



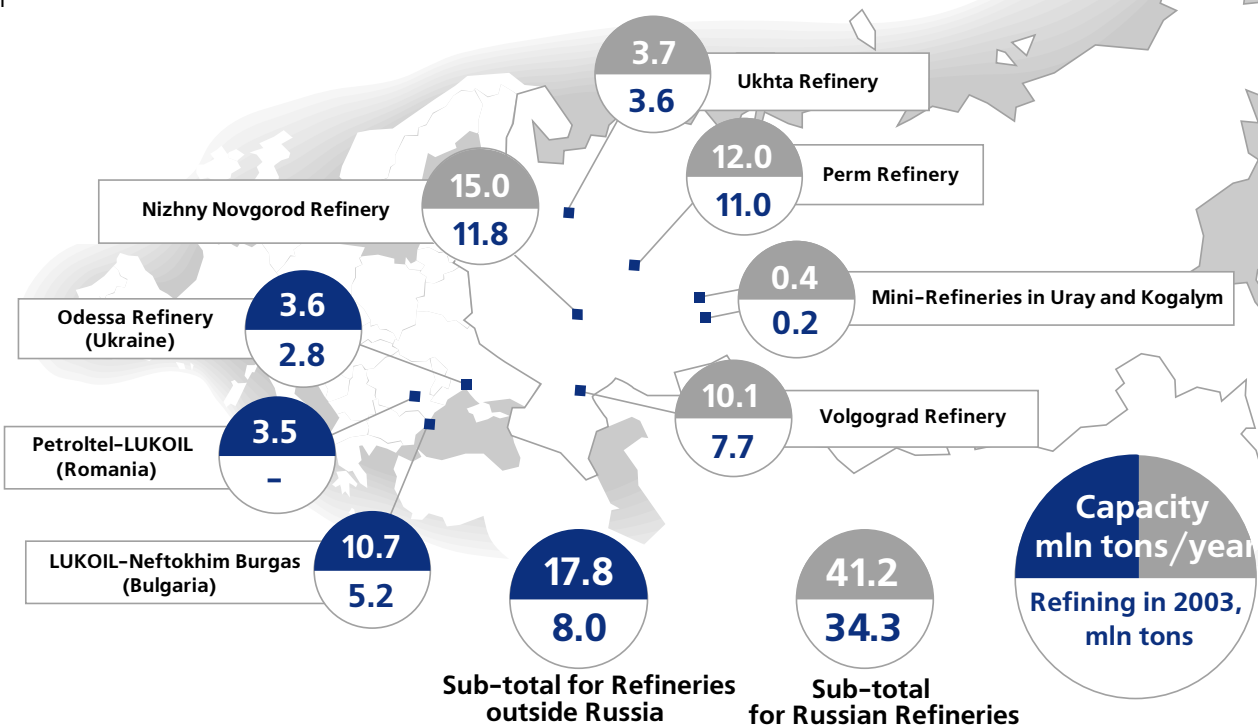
# Just LUKOIL Among Russian Pack Runs Geographically Diversified Downstream Asset Base



Source: Eurostat, Independent research



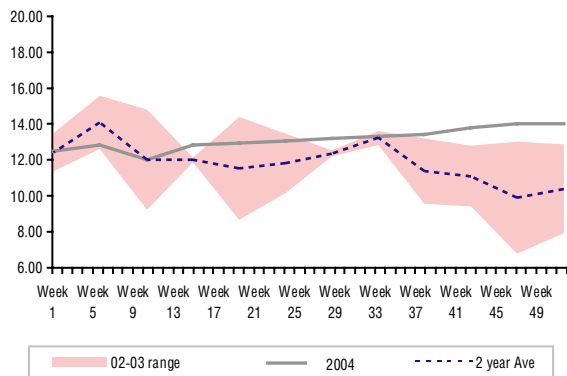
**Solid overseas refining assets hedge LUKOIL against international oil prices fluctuations**





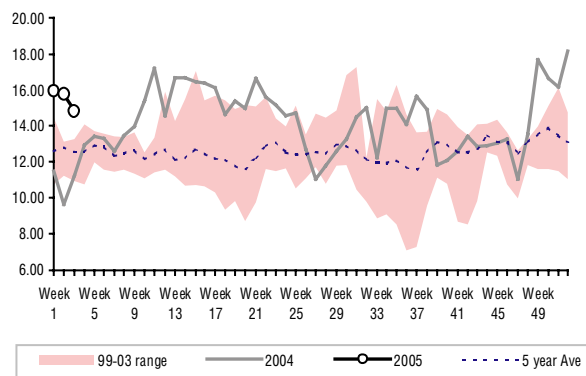
# Just LUKOIL Among Russian Pack Runs Geographically Diversified Downstream Asset Base: Marketing

Russian Marketing Margins USD per barrel



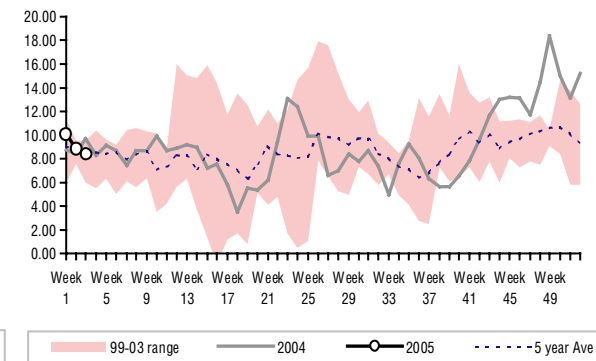
Source: Internal Company data

European Marketing Margins USD per barrel



Source: Eurostat, Independent research

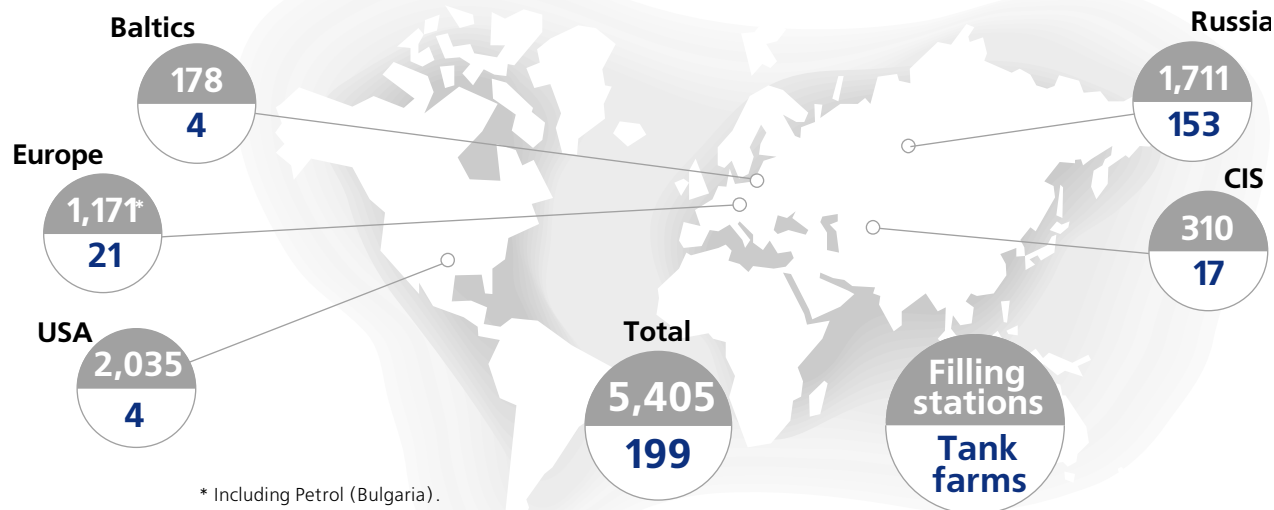
US Marketing Margins USD per barrel



Source: DOE, Independent research

## LUKOIL marketing network (01.01.2005)

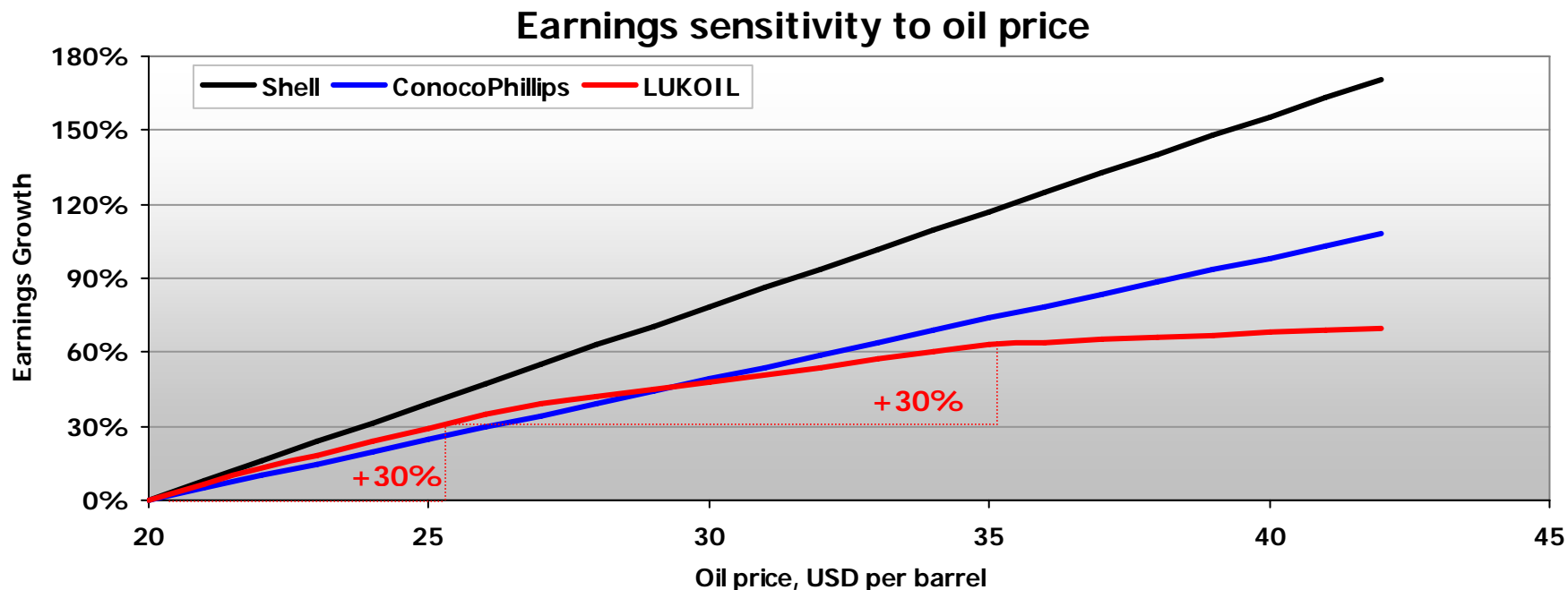
Development of international marketing activities allows LUKOIL to get extra-profit from high oil prices and marketing margins



\* Including Petrol (Bulgaria).



# Increasing Oil Prices Give Minor Positive Effect on Russian Oil Company Earnings and vice versa



## Impact of the Current Tax Regime on Profitability of a Russian Oil Company, USD per barrel

<b>Urals CIF</b>	<b>25.0</b>	<b>37.4</b>	<b>40.1</b>
Urals FOB	22.9	35.3	38.0
Production and Transportation Costs*	9.6	9.6	9.6
Production Tax	3.5	6.2	6.8
Export Tariff	4.0	12.0	13.8
Pre-tax Profit	5.9	7.5	7.8
Profit Tax (24%)	1.4	1.8	1.9
Total Tax Burden	8.9	20.0	22.5
<b>Net Profit</b>	<b>4.5</b>	<b>5.7</b>	<b>5.9</b>
<b>Net Profit Margin</b>	<b>19%</b>	<b>16%</b>	<b>16%</b>

Source: Russian Finance Ministry Note: \* - assumed industry average costs



# 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.