



# **Operational and Financial Performance 1<sup>st</sup> Half 2002**

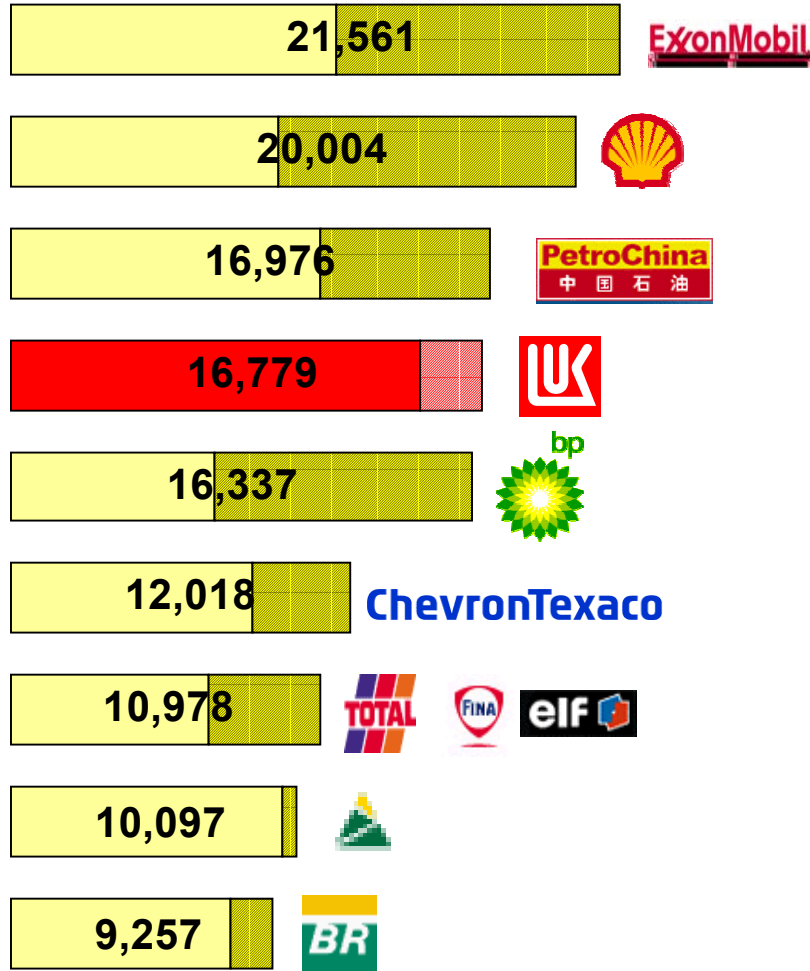
**Vagit Alekperov  
President and CEO LUKOIL**

**October 3, 2002**

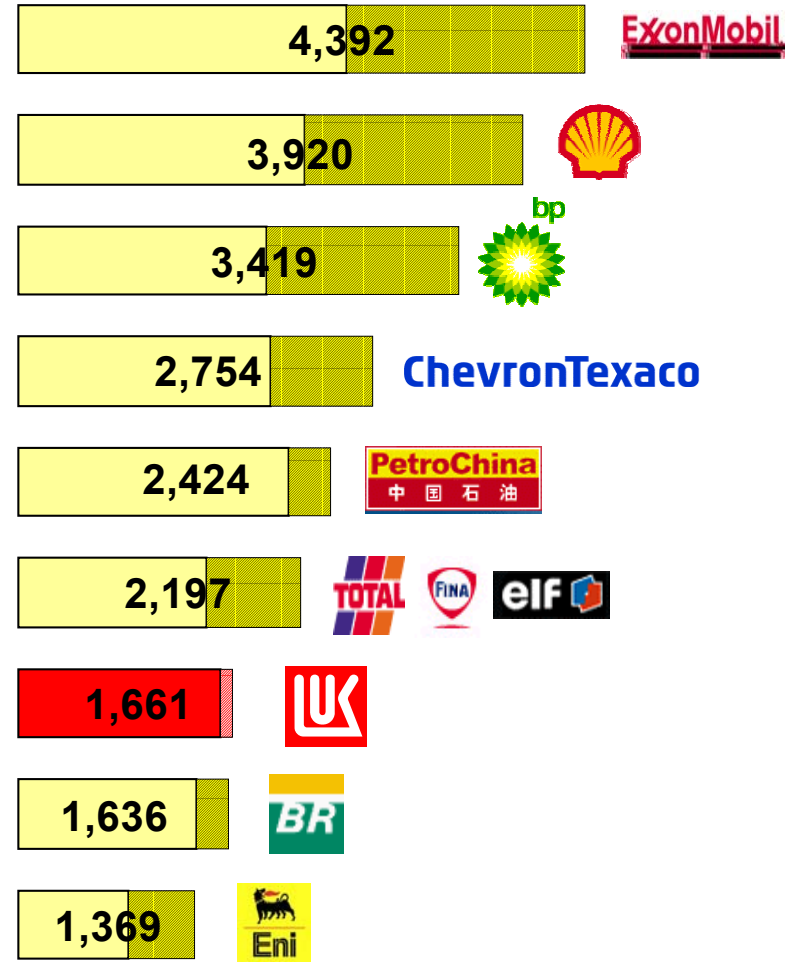


# Part of the world premier league

## 2001 Reserves (mln boe)\*,\*\*



## 2001 Production (thousand boe/d)\*



\* Source: Company reports

\*\* Proved internationally audited reserves

Oil Natural gas



# Main events of 2002

- Leadership in financial disclosure, transparency and corporate governance
  - Obtained LSE listing
  - Two independent members joined LUKOIL's BoD (Mark Mobius from Templeton and Richard Matzke, former Vice-Chairman Chevron)
  - regular publication of quarterly GAAP accounting
- Continuing restructuring program
- Started developing strategic partnership with Gazprom
- Reserves increased 12% YoY to 16.8 bn boe, according to Miller & Lents Reserve Report as of January 1, 2002

FINANCIAL TIMES THURSDAY SEPTEMBER 12 2002

## LONDON SHARE SERVICE

		OIL & GAS							
Notes	Price	+ or -	52 week high	low	Volume '000s	Yield	P/E		
BG .....	259	-3	319	227 <sup>1</sup> / <sub>2</sub>	12,524	1.2	22.7		
BP .....	482 <sup>1</sup> / <sub>2</sub>	+4 <sup>1</sup> / <sub>2</sub>	630	404	48,534	3.3	45.2		
ChevronTexacoUS\$ .....	£48 <sup>1</sup> / <sub>16</sub>	+3 <sup>3</sup> / <sub>4</sub>	£64	£42 <sup>1</sup> / <sub>8</sub>	-	3.7	-		
Exxon Mobil US\$ .....	£22 <sup>1</sup> / <sub>32</sub>	+7 <sup>1</sup> / <sub>16</sub>	£31 <sup>3</sup> / <sub>32</sub>	£19 <sup>9</sup> / <sub>32</sub>	-	2.6	22.3		
Fortune .....	11 <sup>1</sup> / <sub>2</sub>	.....	2 <sup>3</sup> / <sub>4</sub>	1	497	-	-		
Hunting .....	105	-1 <sup>1</sup> / <sub>2</sub>	214 <sup>1</sup> / <sub>2</sub>	98 <sup>1</sup> / <sub>2</sub>	140	4.8	11.0		
8 <sup>1</sup> / <sub>4</sub> pc Cnv Pref .....	119 <sup>3</sup> / <sub>4</sub>	-1 <sup>1</sup> / <sub>4</sub>	132	108	-	6.9	-		
Imperial Oil C\$ .....	£18 <sup>3</sup> / <sub>32</sub>	+1 <sup>8</sup> / <sub>16</sub>	£21 <sup>3</sup> / <sub>32</sub>	£15 <sup>9</sup> / <sub>16</sub>	-	1.9	-		
Ivanhoe Energy US\$ ...	52	-1 <sup>1</sup> / <sub>4</sub>	172	52	-	-	-		
JKX Oil & Gas .....	17 <sup>3</sup> / <sub>4</sub>	+1 <sup>1</sup> / <sub>2</sub>	27 <sup>3</sup> / <sub>4</sub>	15 <sup>1</sup> / <sub>4</sub>	541	-	6.2		
KBC Advanced Techs.▲	47 <sup>1</sup> / <sub>2</sub> xd	.....	145	45	1	8.6	10.6		
LASMO Ops .....	251 <sup>1</sup> / <sub>2</sub>	.....	41 <sup>1</sup> / <sub>2</sub>	251 <sup>1</sup> / <sub>2</sub>	4	41.2	-		
Melrose Resources...▲	1681 <sup>1</sup> / <sub>2</sub>	.....	222 <sup>1</sup> / <sub>2</sub>	157 <sup>1</sup> / <sub>2</sub>	-	-	66.6		
Norsk Hydro Nkr .....	£27 <sup>5</sup> / <sub>32</sub>	+1 <sup>1</sup> / <sub>2</sub>	£36 <sup>1</sup> / <sub>16</sub>	£24	-	3.1	-		

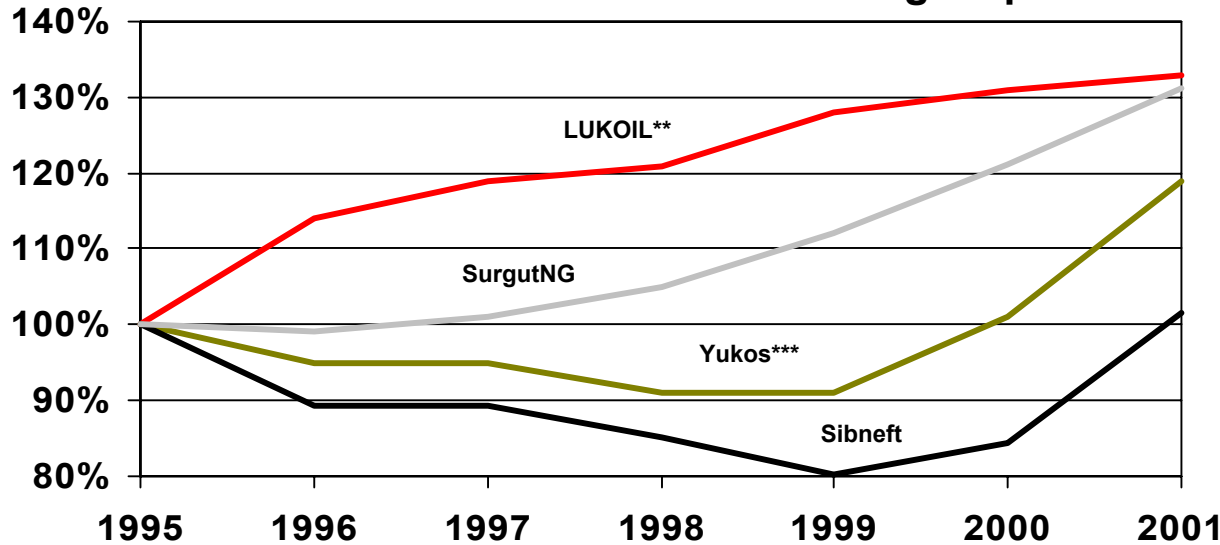
Lukoil US\$..... £1043<sup>1</sup>/<sub>2</sub> +27<sup>1</sup>/<sub>2</sub> 1043<sup>1</sup>/<sub>2</sub> 999<sup>1</sup>/<sub>4</sub>

**We are already here**



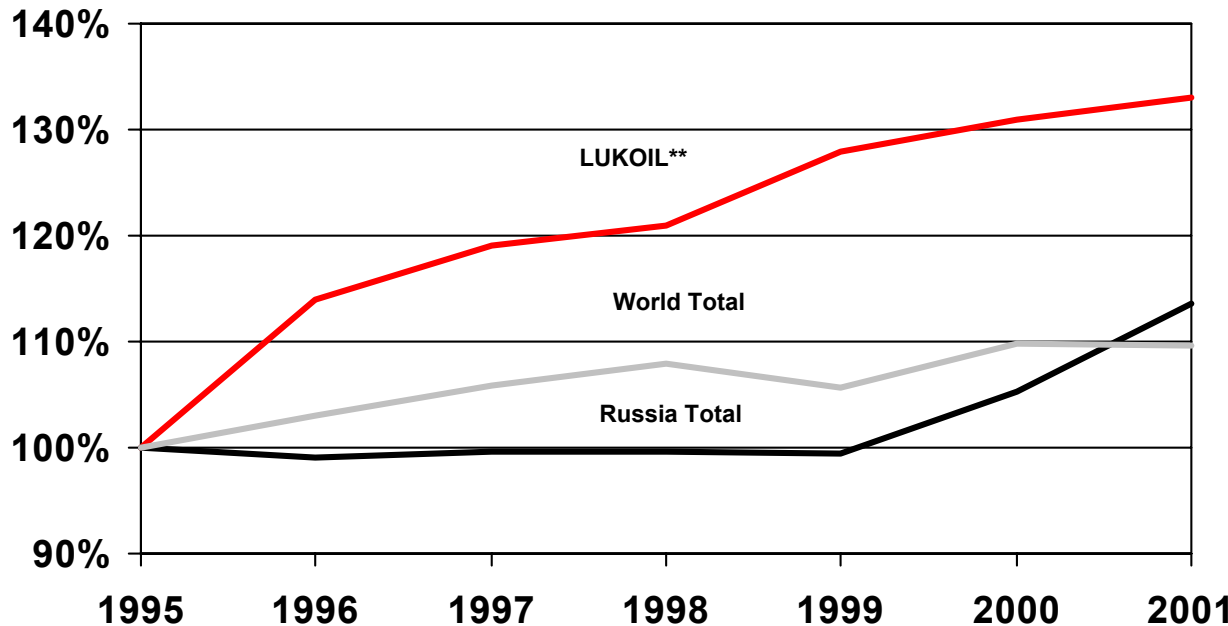
# The fastest growing Russian company

Production as restated for 1995 including acquisitions\*



- Since 1995 LUKOIL has been continually growing

- LUKOIL has maintained its leading position in Russia's oil & gas industry

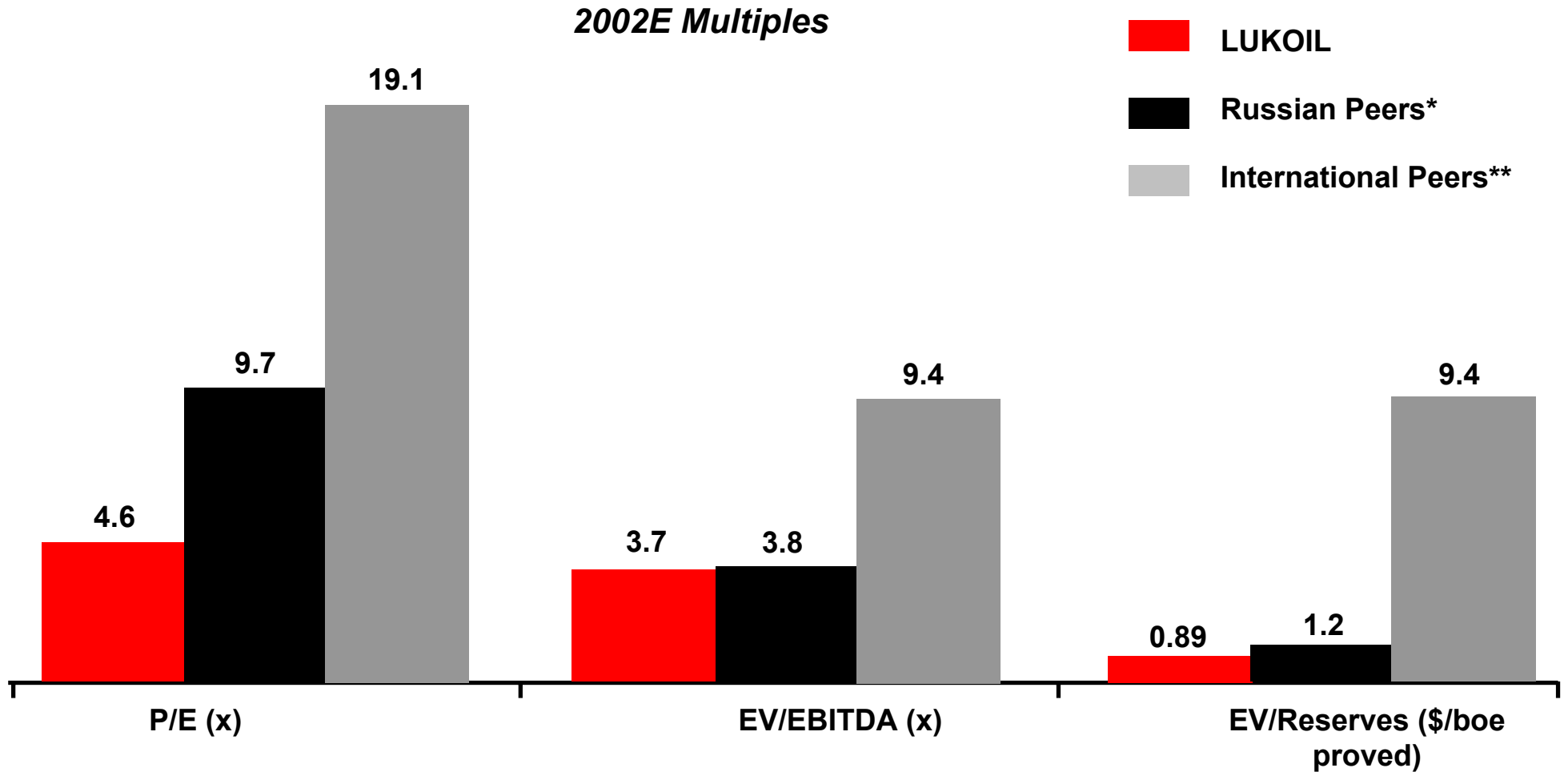


- LUKOIL has one of the best production growth rates worldwide

\*1995 as 100%  
\*\*LUKOIL includes KomiTEK's output since 1995 (assumption)  
\*\*\* YUKOS includes the Eastern Oil Company's output since 1995 (assumption)



# Compelling valuation



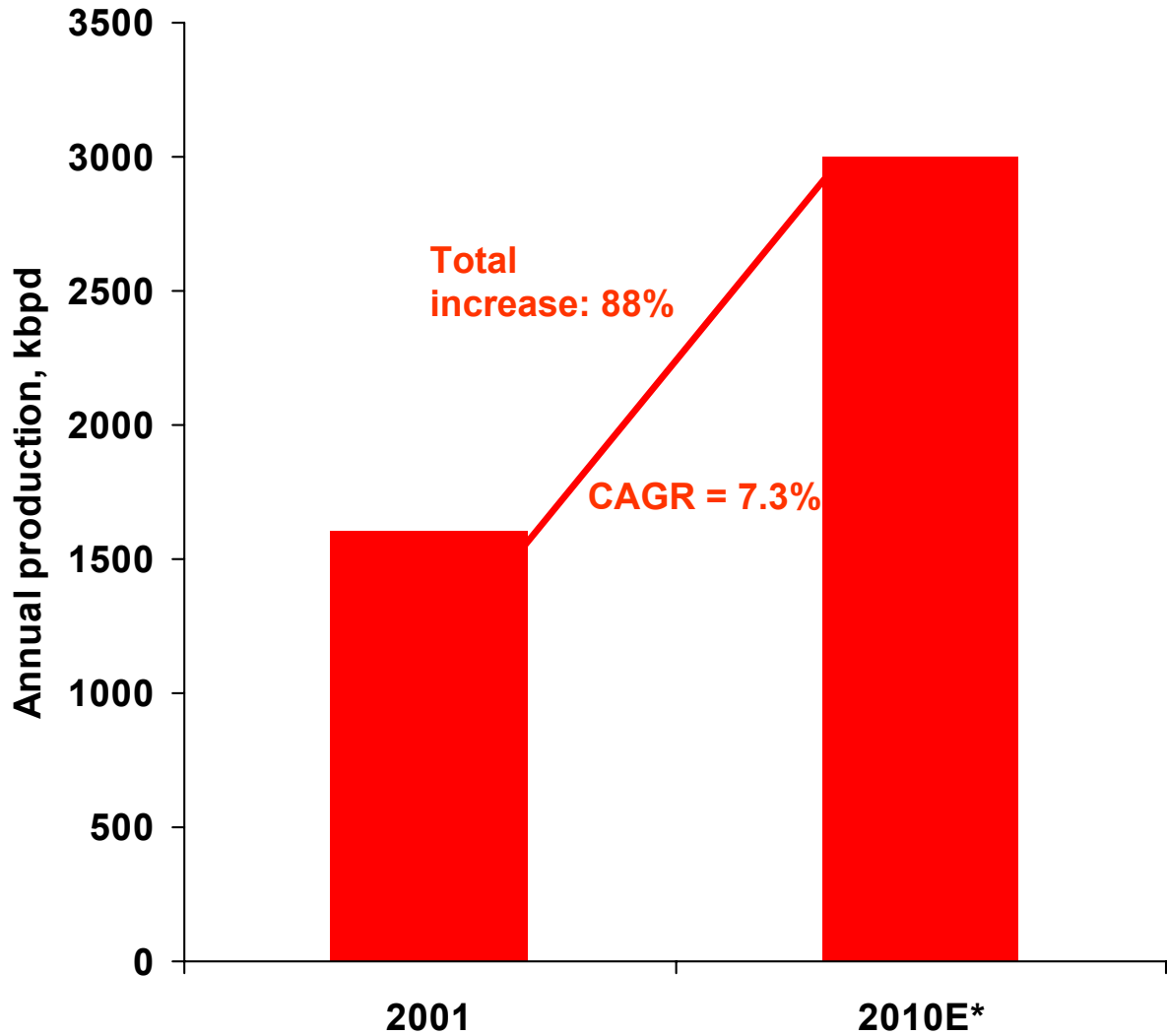
\* Peers include: SurgutNG, Gazprom, YUKOS, Sibneft (market cap. weighted)

\*\* Peers include: ExxonMobil, BP Amoco, Royal Dutch, ChevronTexaco, TFE (market cap. weighted)

Source: IBES estimates as of late September 2002



# Well positioned for faster growth



- Aiming to achieve highest production growth rate in Russia's oil industry after 2005

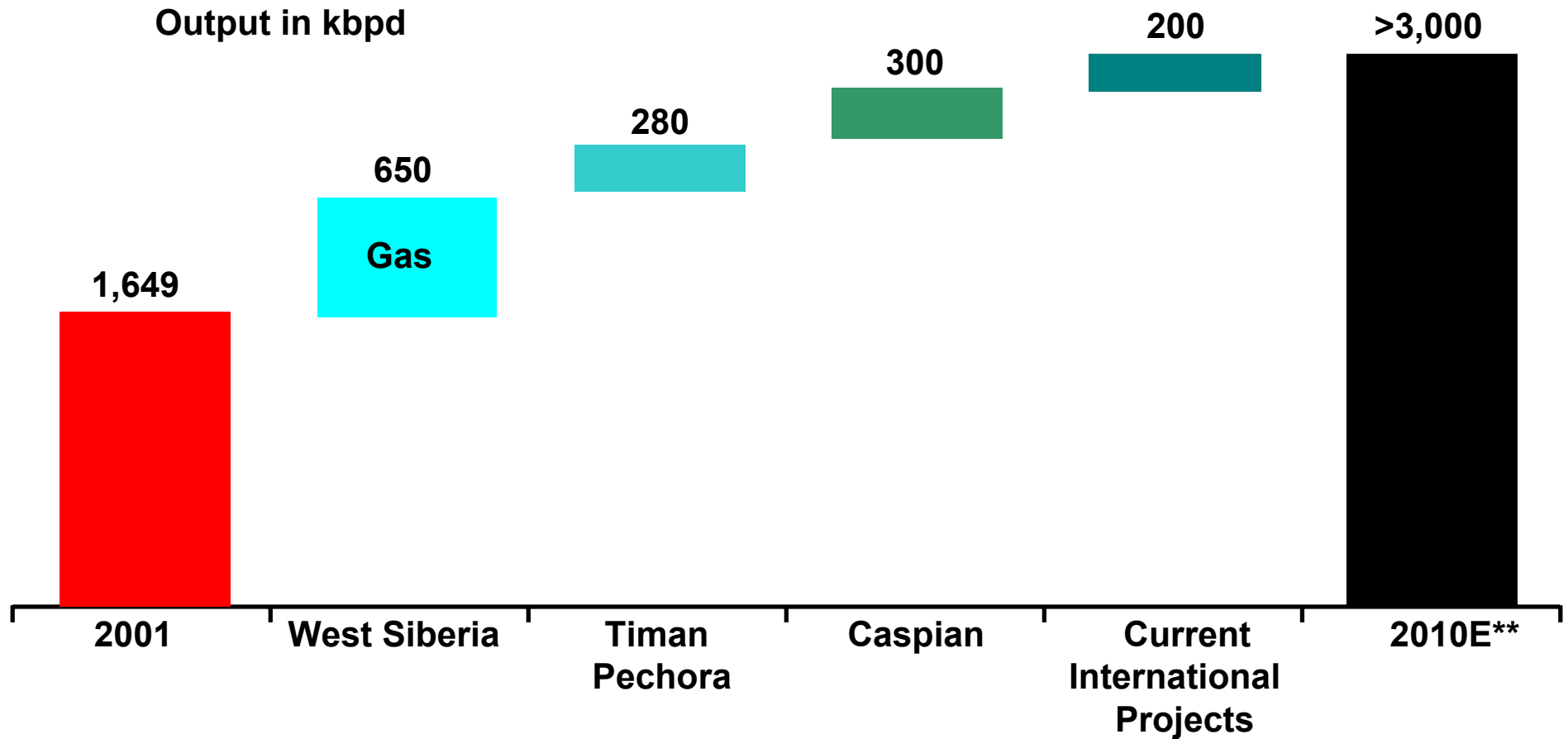
- Targeting production of approximately one-third of Russia's total crude output by 2010

- Targeting over 3% of the world's total crude output by 2010

\*Production forecasts reflect current strategy and economic considerations, including oil prices and anticipated development and production costs.



# Portfolio for long-term growth



- LUKOIL outperforms global majors on key operational metrics
  - Average lifting cost of \$3.14 per barrel in 2001 vs. \$3.78 per barrel for international majors)\*

\* Broker estimates, company reports

\*\*Production forecasts reflect current strategy and economic considerations, including oil prices and anticipated development and production costs.



# Short-term (2002-2003) restructuring program

## SHORT-TERM RESTRUCTURING (2002-03)

- **Revenue enhancement**
  - Increase exports
  - Accelerate development of new fields
- **Cost reduction**
  - Shut down marginal wells
  - Reduce headcount
  - Apply enhanced oil recovery technologies
- **Corporate structure**
  - Consolidate subsidiaries
  - Divest non-core assets
  - Centralize treasury and risk management
  - Establish investment committee

## LONG-TERM STRATEGY

- Develop new provinces
- Gas program
- International expansion





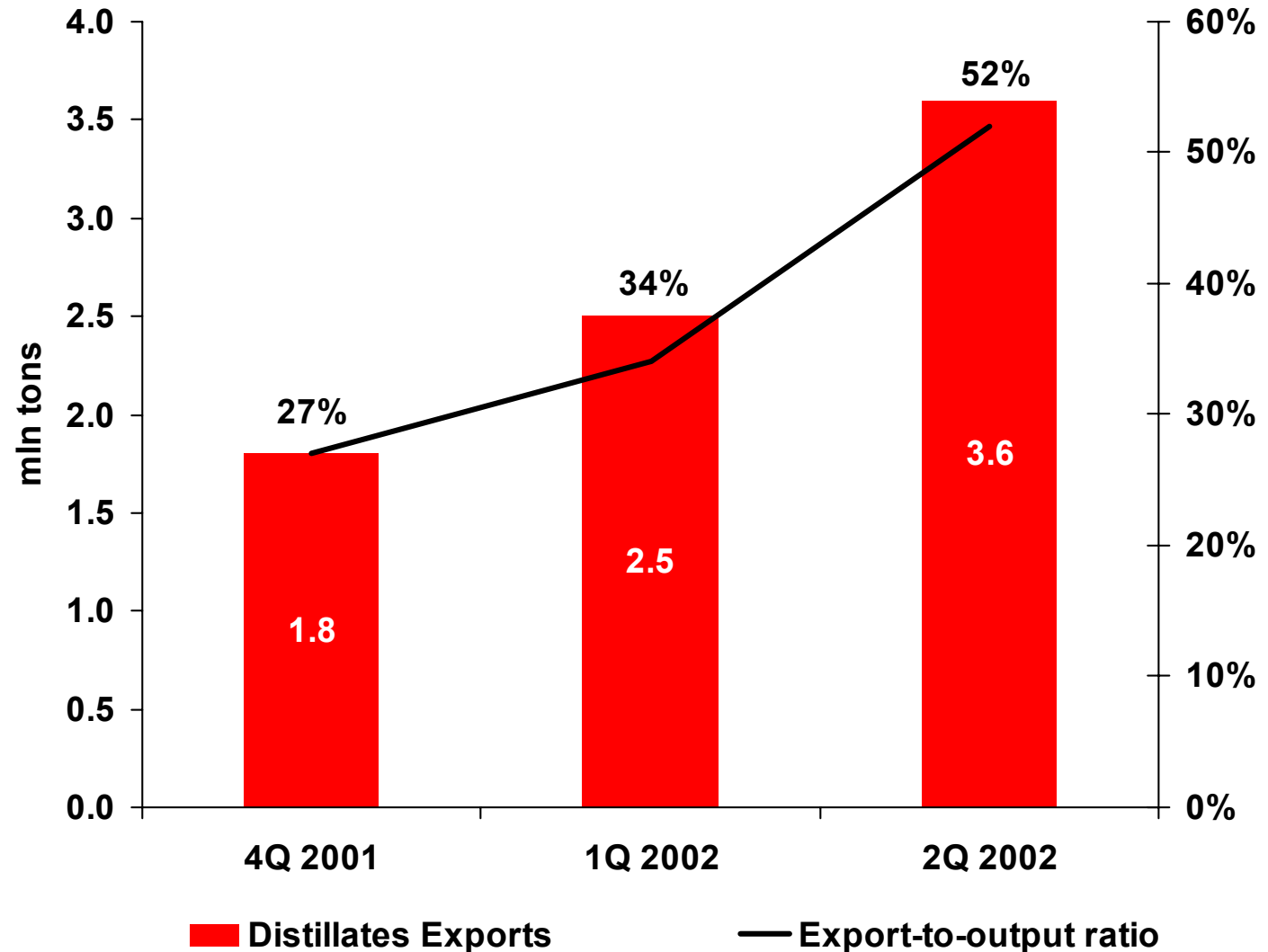
# Flexible export/domestic supply policy

- **Why increase distillate exports:**

- Capture higher margins
- Protect against crude export cuts
- Counter sluggish domestic demand
- Take advantage of high Global fuel oil prices

- **Why decrease distillate exports:**

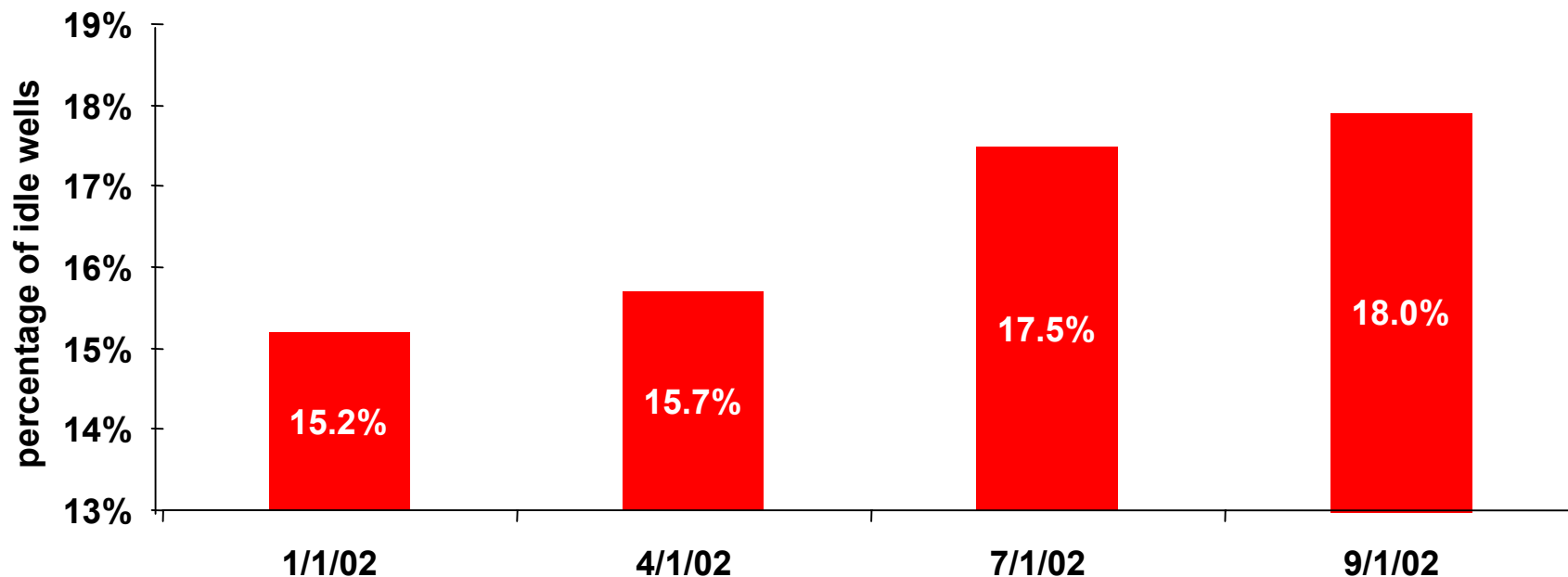
- Seek better margins with the increase of domestic prices



Source: LUKOIL



# Shutting down marginal wells – cutting costs

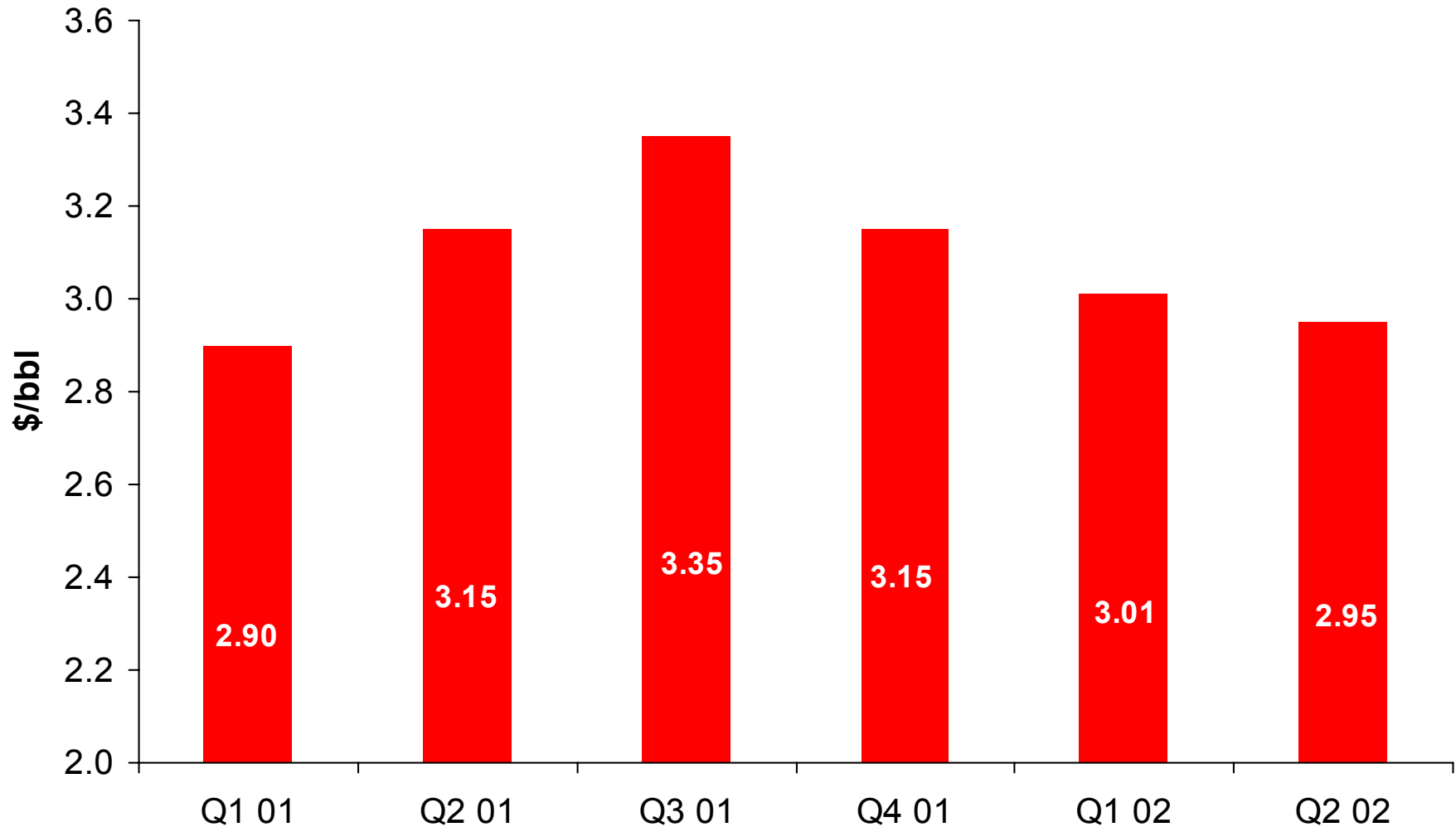


	1/1/02	4/1/02	7/1/02	9/1/02
Development wells	28,464	28,507	28,713	28,816
Producing wells	24,126	24,020	23,680	23,643
Idle wells	4,338	4,487	5,033	5,173

Shutting down wells with low flow rates is a part of our strategy to cut production costs



# Crude production costs\*

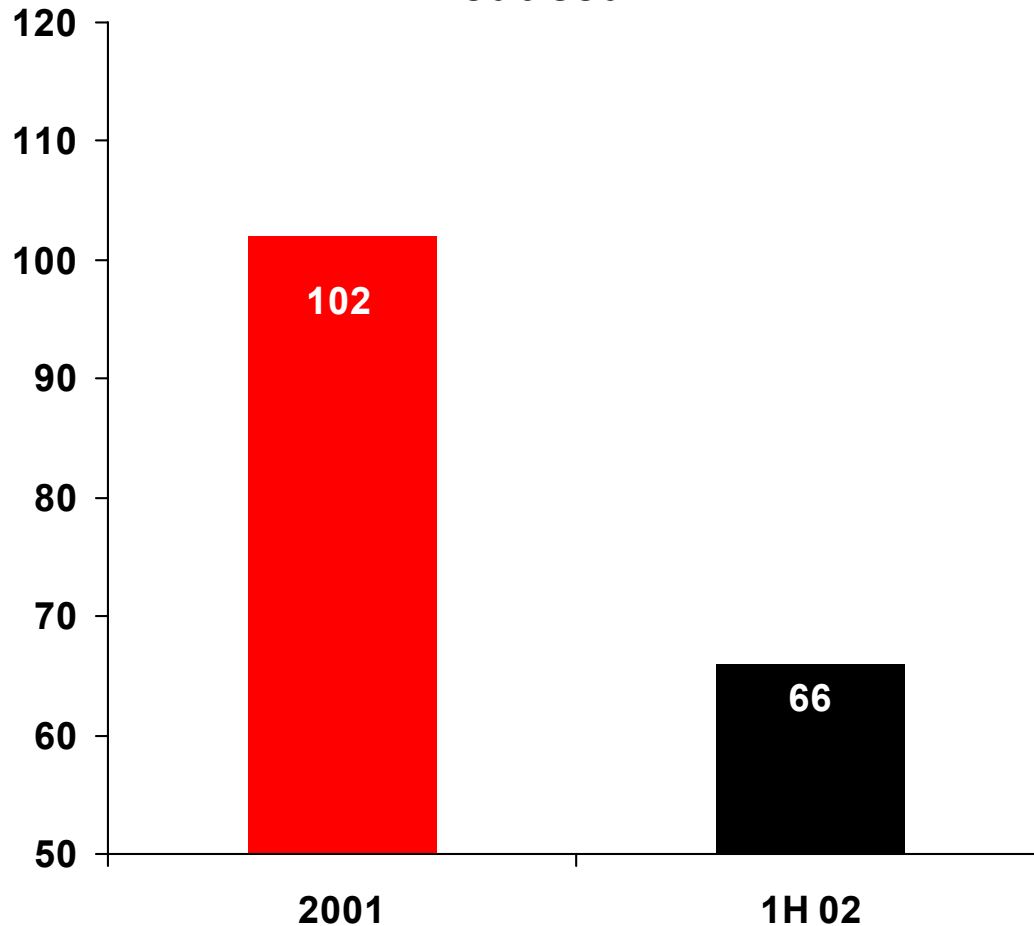


\* Exploration and production costs, including lifting costs, maintenance and repairs of expensed wells, insurance and other costs; excluding taxes and depreciation. Calculated in accordance with US GAAP data



# Restructuring has begun

Number of entities\* merged & reduced



- Improving management efficiency
- Simplifying corporate structure
- Spinning off non-core assets
- Centralizing treasury and risk management
- Establishing investment committee and guidelines

\* Including all subsidiaries and affiliated companies



# Reserves additions

	<u>2001 reserve additions, bn boe</u>	<u>NPV*, bn \$</u>
Proved	3.61	<b>\$4.35</b>
Probable	3.25	\$1.44
<b>Total</b>	<b>6.86</b>	<b>\$5.79</b>

\*NPV calculated according to the U.S. SEC's methodology

Finding and acquisition costs for proved reserves , \$/bbl	Finding and acquisition costs, global average**, \$/bbl
0.20	5.00

\*\* Source: Oil & Gas Journal

## Reserve additions include:

- 2001 - Discoveries on the Caspian, acquisitions of gas reserves at the Yamal peninsula (Bolshekhetskaya depression) and reserves of recently acquired AGD

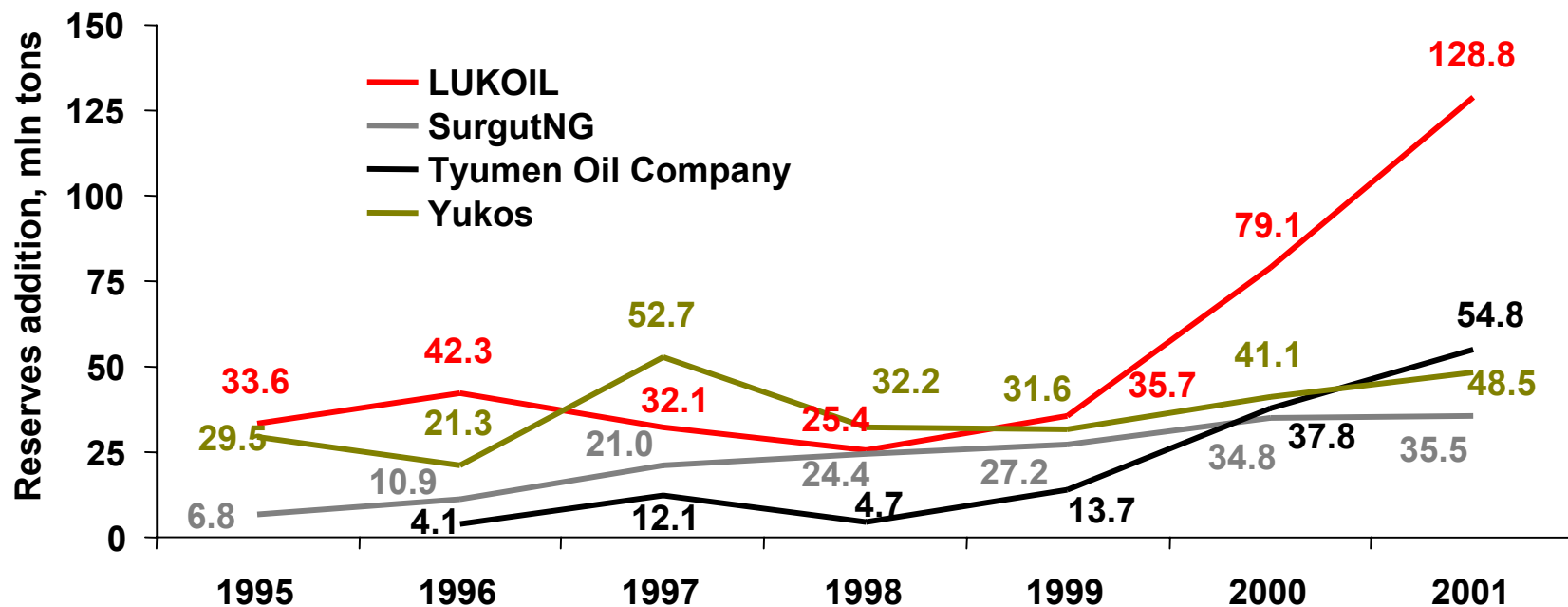
## New Opportunities:

- Development of a market for oilfield licenses in Russia creates new opportunities for monetizing reserves



# Leading position in exploratory drilling in Russia

## Reserves addition from exploration (ABC1)



- LUKOIL contributed 22% of Russia's total exploration drilling in 2001
- LUKOIL accounted for around 40% of Russia's total reserve additions in 2001
- LUKOIL is the only Russian oil company successfully replacing barrels produced



# Operating highlights

		<u>1H 2001</u>	<u>1H 2002</u>	<u>YoY</u>
Crude production	mdbl	255.7	258.2*	+ 1%
Crude sales domestic	mdbl	63.3	37.3	- 41%
Crude sales international	mdbl	84.8	100.7	+ 19%
Product sales domestic	mIn tn	9.2	9.3	+ 1%
Product sales international	mIn tn	9.7	12.3	+ 27%

\*Under GAAP standards, including only subsidiaries output, not including affiliates' output



# Financial highlights 2Q/1Q 02

\$ m	<u>1Q 2002</u>	<u>2Q 2002</u>	<u>YoY</u>
Revenues	2,867	3,809	+ 33%
Operating profit	371	792	+ 113%
EBT	317	810	+ 156%
Net Profit	243	598	+ 146%
EBITDA	630	1,036	+ 64%
EPS (\$)	0.30	0.73	+ 143%





# Long-term strategy

## SHORT-TERM RESTRUCTURING (2002-03)

- **Revenue enhancement**
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- **Corporate structure**
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## LONG-TERM STRATEGY

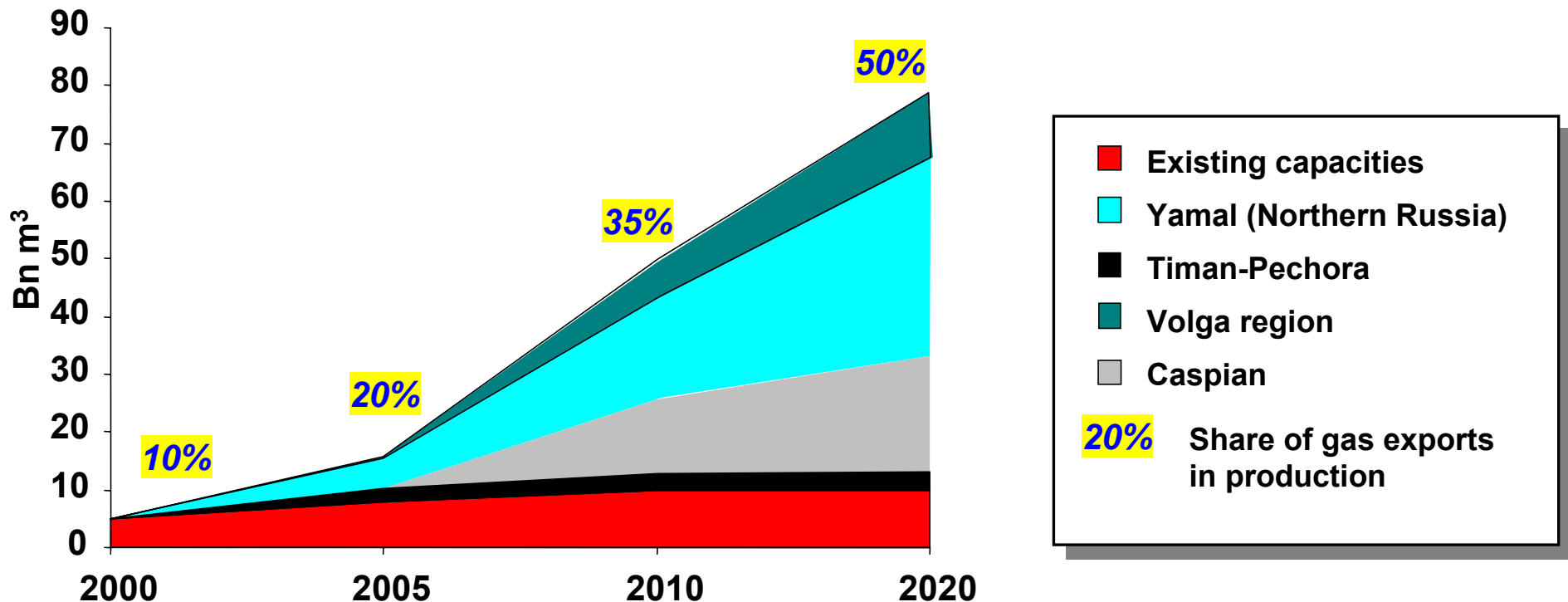
- **Develop new provinces**
- **Gas program**
- **International expansion**



# Natural gas program

- LUKOIL expects significant growth in natural gas production at its fields
- Revenue should grow through developing projects in the CIS and export quotas
- There are opportunities to find additional sources of natural gas
- LUKOIL and Gazprom are studying opportunities to jointly develop natural gas fields in the Yamal and Caspian regions

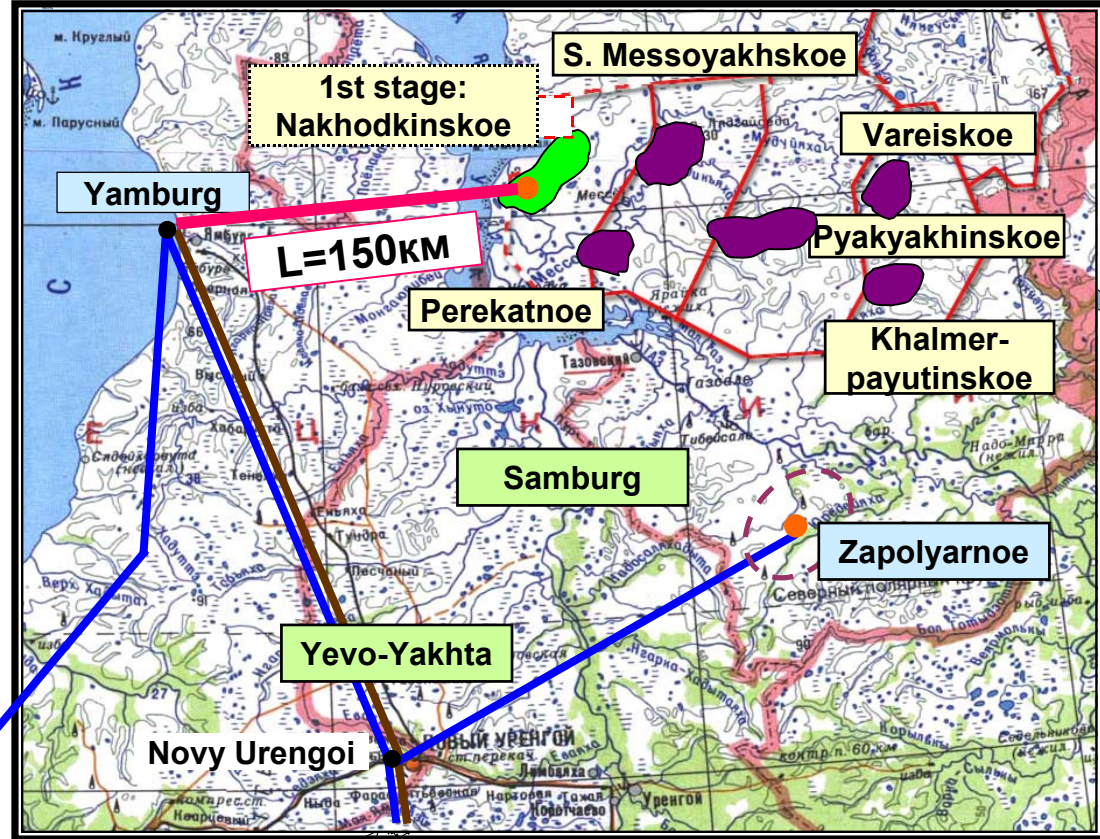
Gas production and exports from LUKOIL fields\*



\* These are forward looking statements and such results may not be achieved



# Bolshekhetskaya depression gas reserves



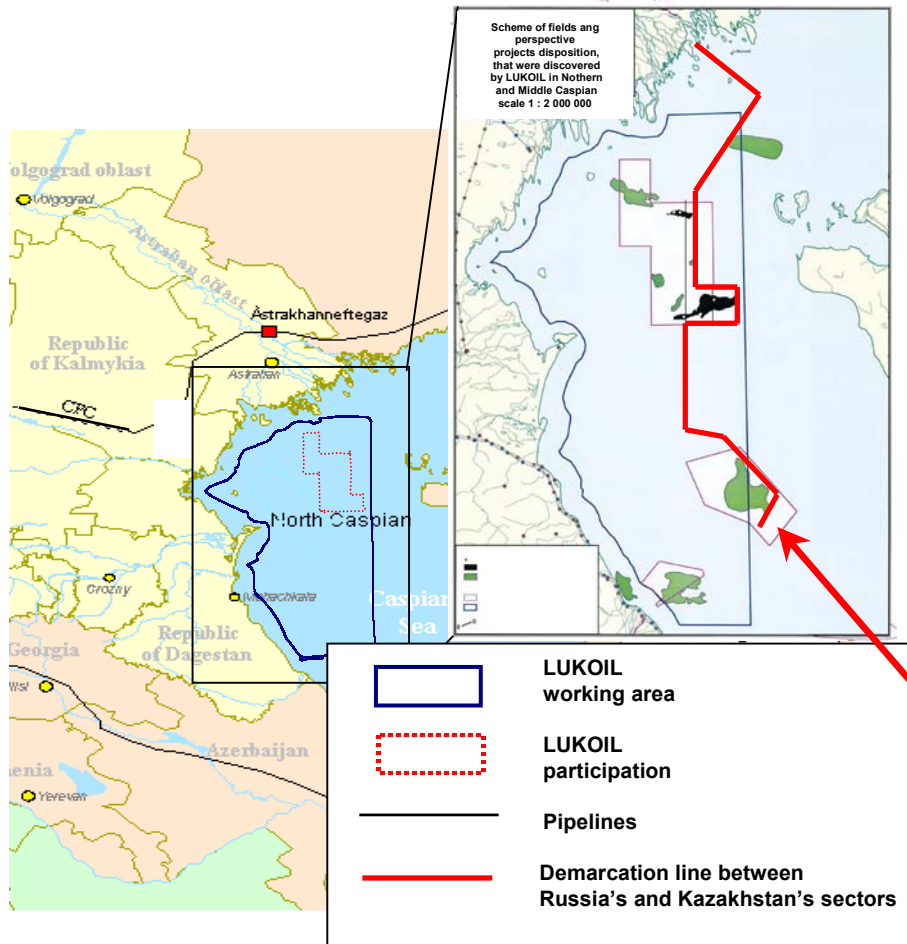
Pipelines		Fields	
	Existing gas		Perekatnoe LUKOIL
	Existing condensate		Yamburg Gazprom
	Projected		Samburg Arctic Gas

- 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



# Northern Caspian – a province with potential

In 2001 LUKOIL successfully continued development in the Northern Caspian

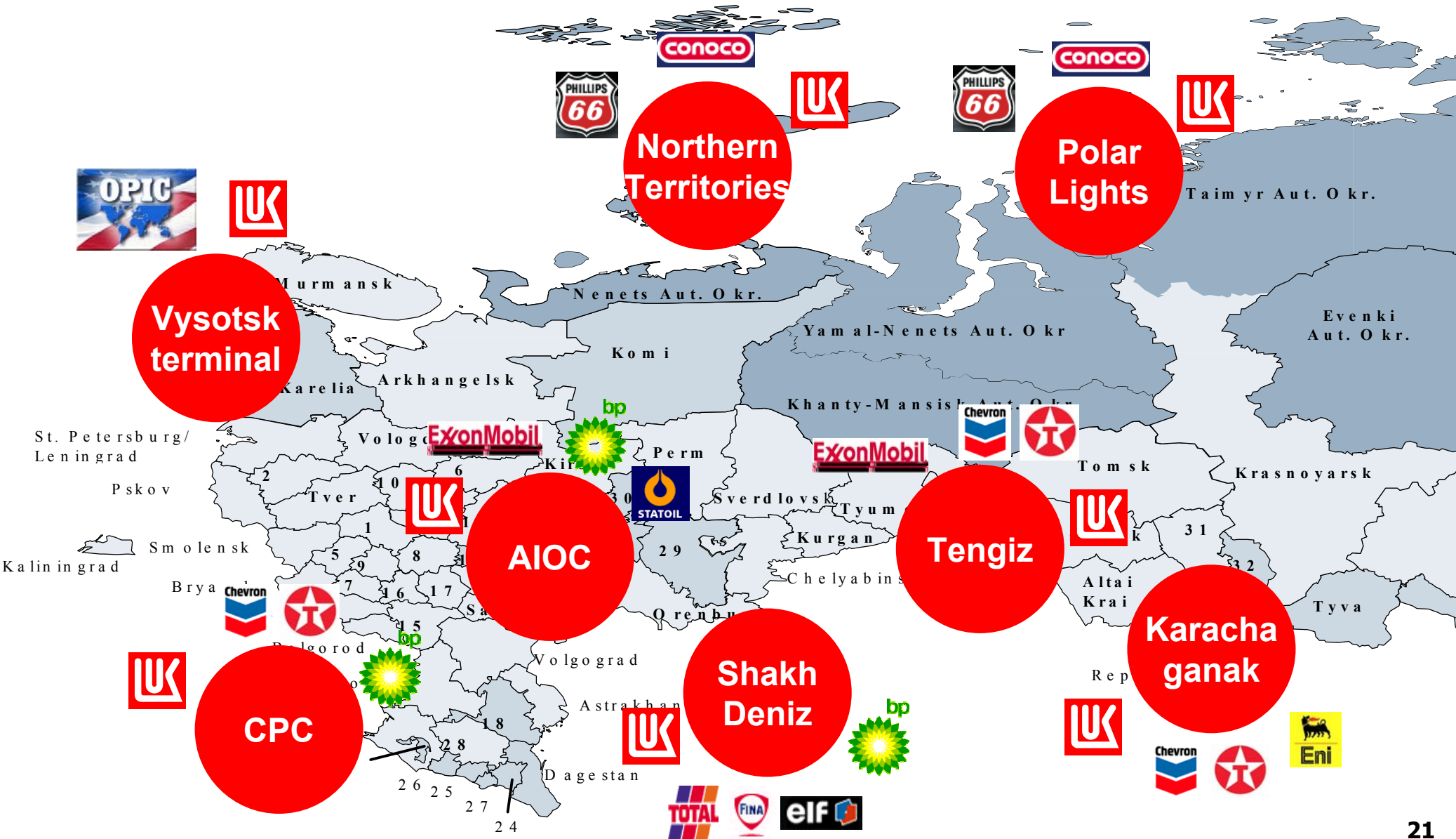


- Three large oil and gas condensate fields discovered: Khvalynskoe, Korchagina and Rakushechnoe
- Drilled 6 exploration wells in 2000-2002, all floating
- Discovered over 3.3 bn boe of recoverable reserves with potential for significant increases
- Set up infrastructure
  - Astra jack-up rig
  - Fleet of support vessels
  - On-shore infrastructure
- Participation in the CPC gives LUKOIL access to easy crude exports
- LUKOIL and Gazprom plan to jointly develop the Tsentralnaya structure

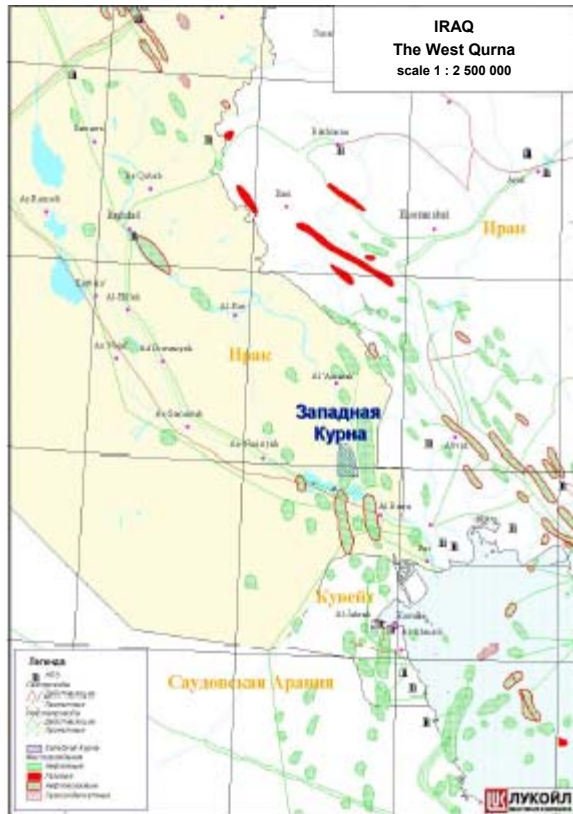
LUKOIL is the leading Russian oil major with outstanding E&P and transport assets in the Caspian



# Major projects with global partners



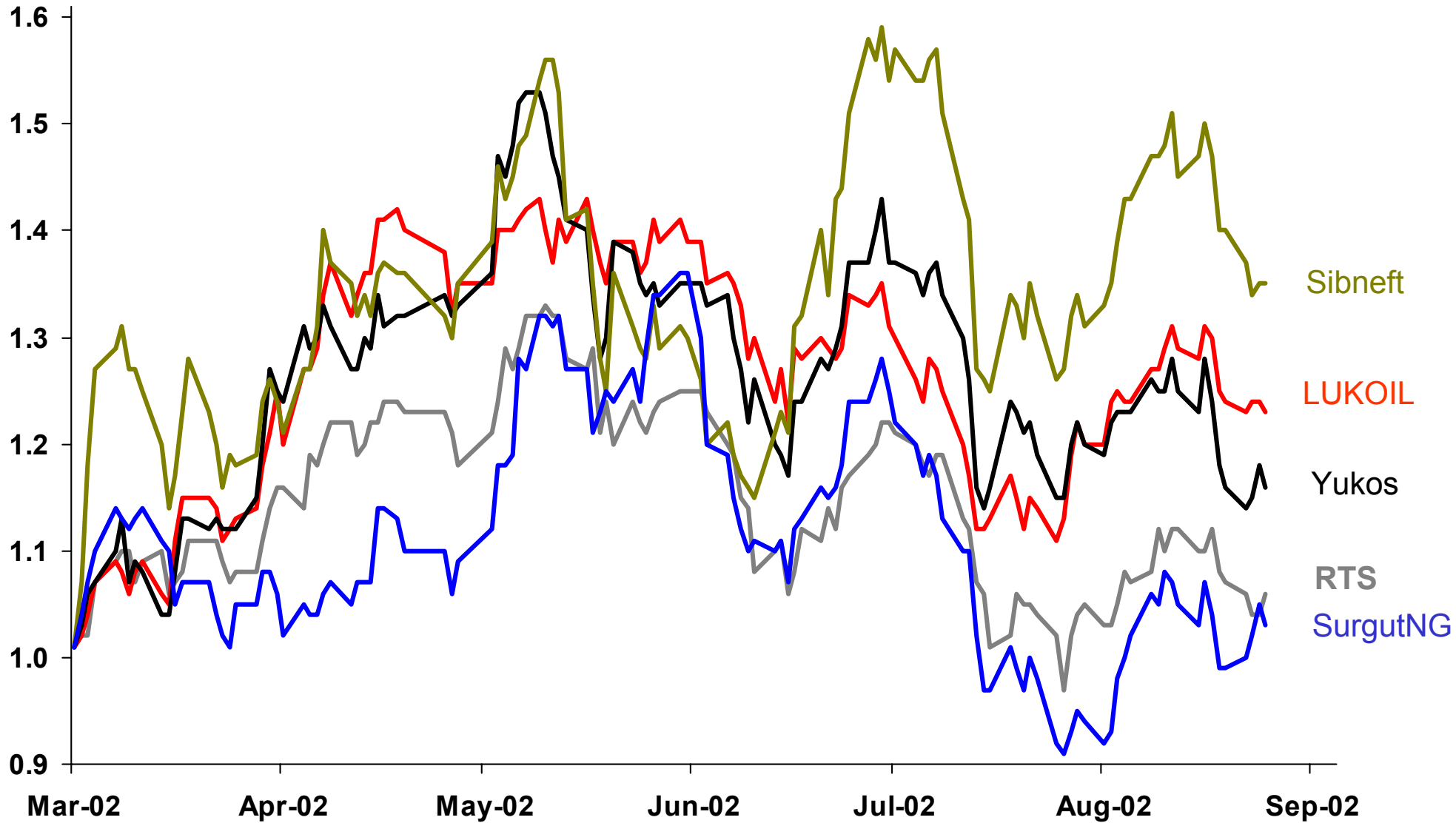




- The West Qurna deal was signed in Baghdad on March 21, 1997
- A LUKOIL-led consortium signed an agreement for a US\$4 bn development of the West Qurna oil field in Southern Iraq
- The 23-year contract is split between LUKOIL (68.5%), Zarubezhneft (3.25%), Mashinoimport (3.25%) and the Iraqi State Committee on Oil Projects (25%)
- The West Qurna field holds around 44 bn bbl of crude reserves, of which 7.3 bn bbl are recoverable
- During the life of the project production will total approximately 5.1 bn bbl, or approximately \$70 bn in estimated revenues
- In the first 10 years production is forecasted at 0,66 mbpd, (LUKOIL's share – 0.45 mbpd)
- The project is currently frozen, and will be reactivated only after UN sanctions are lifted



# LUKOIL vs. RTS and domestic peers





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