

PRESS RELEASE
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OAO LUKOIL COMMENCES A RESTRUCTURING PROGRAM LASTING UP
TO 2010

OAO LUKOIL top management presented a restructuring program for the period up to 2010 in Moscow today. The main goals of the Program is profitability and shareholder value increase. In a short term, the stated goals will be achieved through cost reduction, raise of production efficiency and corporate governance rationalization.

In the medium and long-term periods the growth of OAO LUKOIL's investment appeal will be achieved through cost cutting, personnel reduction, capex efficiency increase, high growth rates for outside Russia refining and marketing .

In the coming years OAO LUKOIL is planning to significantly increase oil products export volumes. The goal is facilitated by limited domestic demand figures and growth of throughput at LUKOIL's upgraded refineries. At the present moment OAO LUKOIL has significant reserve for refined products export volumes increase. In 2001 LUKOIL exported 31% of its oil products, which is 25% less than Russian average. It is planned that oil export volumes will reach 41% of Company's production and 70% of its refining volumes. The goals will be achieved by the most through the launch of Kstovo-Yaroslavl-Kirishi and Volgograd-Novorossiisk oil products pipelines and a construction of export terminal at Visotsk (Leningrad Region).

To achieve cost reduction, OAO LUKOIL plans to reduce some 5000 low-margin wells through conservation (which is 24% of producing well stock). Economic benefit of taking the majority of such wells out of operation could amount to \$50-70 mln of annual net profit increase. If oil prices rise or special tax regime for wells with low flow rate is introduced, most of the idle wells can be put into operation again.

An important step of cost reduction program is moving a subsidiary drilling company "LUKOIL-Drilling" off the balance sheet. This will enable by 2003- 2004 to reduce operating costs in oil production by 15% company-wide and reduce per unit cost of services by 20% while considerably increasing service quality

One of the major competitive advantages of OAO LUKOIL which keeps low per barrel costs of oil production is that it has prepared resource base in new provinces.

With depletion of existing reserves base, per barrel production costs will increase from 3.2-3.3 \$/barr to 4.5-4.6 \$/barr (Russian average) while LUKOIL's figures are 3.4 to 3.7 \$/barr.

The Program is aimed at upstream capex efficiency at new oil provinces, with Timan-Pechora and Northern Caspian at the first place. It is notable that the total OAO LUKOIL upstream and exploration capex for 2001 amounted only to \$1.6 bln, while the total discounted value of acquired upstream assets reached \$ 7.54 bln.

The Company plans to produce 22-23 mln tons of oil at Timan-Pechora province and up to 16 mln tons of oil at Northern Caspian by 2010. By that moment the total production of OAO LUKOIL will reach 140 mln tons (pessimistic approach) to 160 mln tons of oil equivalent (optimistic approach). It is planned that most of these volumes will come from natural gas production, which will increase to 50–60 bln cubic meters in 2010 and to 80–100 bln cubic meters in 2020.

The strategic importance of capital investments in refining and marketing assets in Eastern Europe is due to LUKOIL's intentions to boost its activity on Balkan oil and oil products market. The primary goal of the Company is marketing network expansion, while refining facilities are considered only as a transportation cost reduction mechanism.

In general, the fulfillment of Restructuring Program will permit LUKOIL to compete with international oil majors in terms of production costs, refining volumes, corporate structure effectiveness and market capitalization.

"2002 is a very important year for the whole Russian oil industry - stressed Vagit Alekperov, - we see the conclusion of its structural formation and the beginning of tight competition period. The restructuring program launched by the Company will promote significant competitive advantages not only inside Russia, but also on the international markets"