



# **9M 2007 Financial Results (US GAAP)**

**December 2007**



# 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.

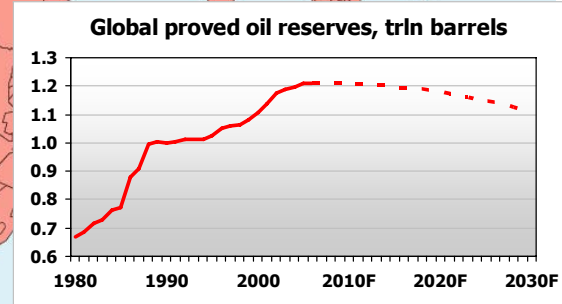
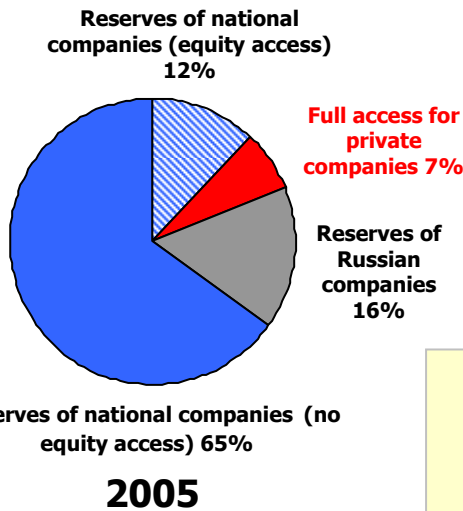
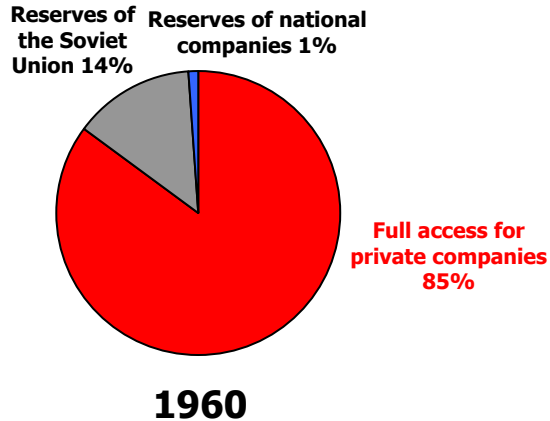
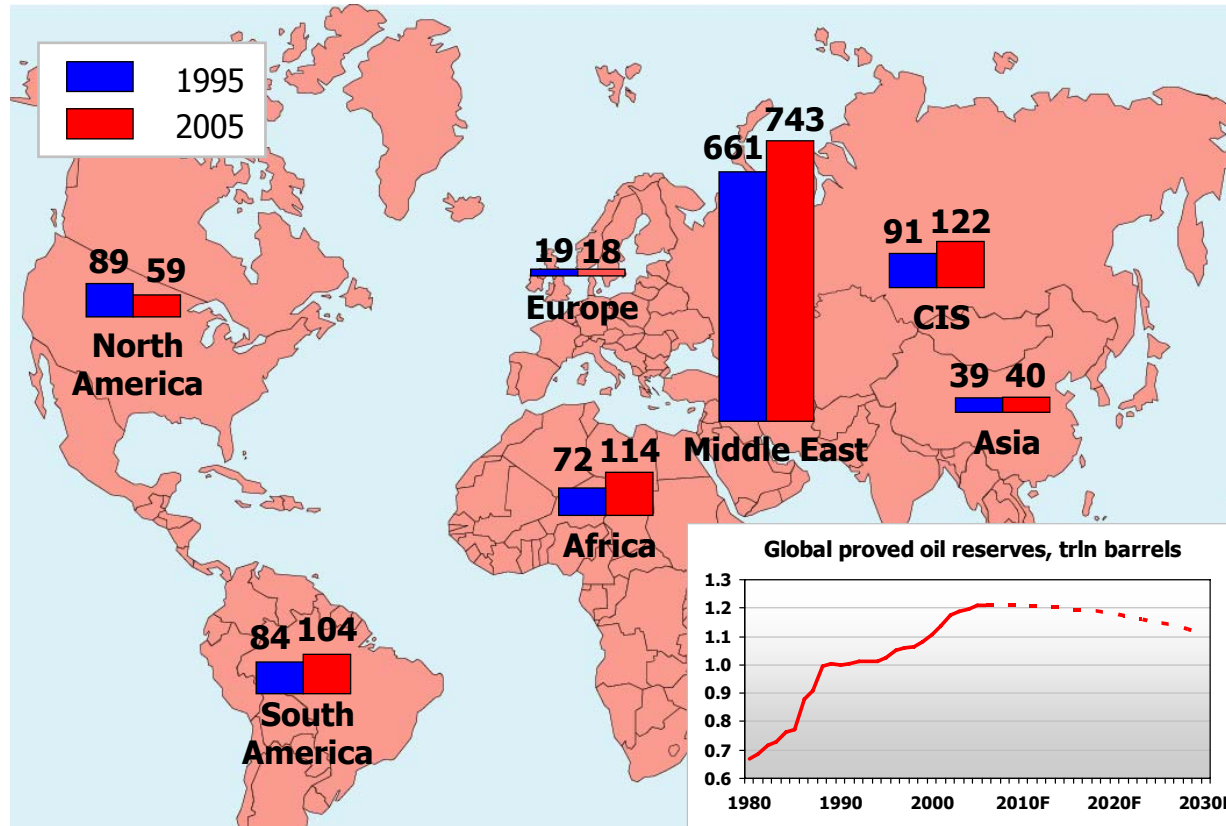


# **Company Strategy Overview: Meeting Challenges of Global Oil & Gas Market**



# Shrinking Global Access to Hydrocarbon Reserves: Minimum Level for the Last 100 Years

### Global proved oil reserves, bln barrels



**The share of world reserves available for private investors is constantly decreasing.**

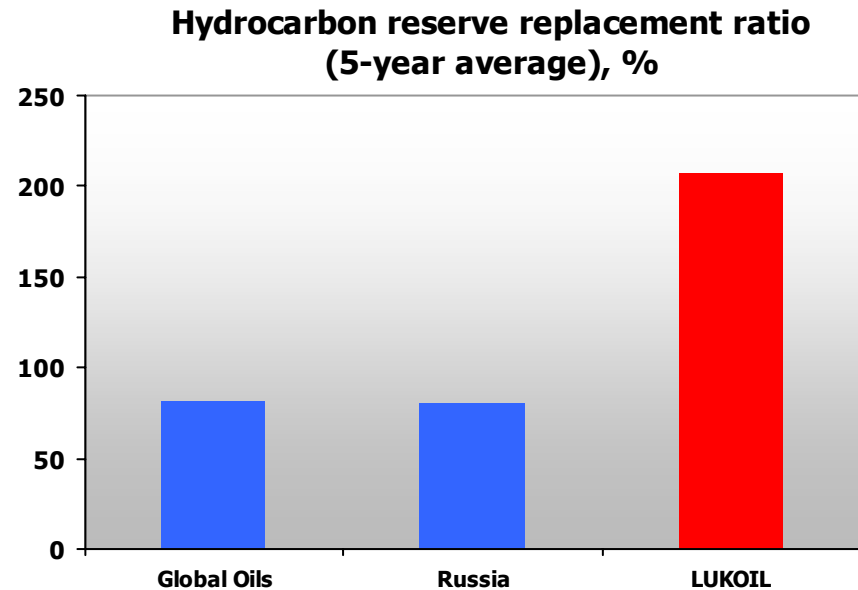
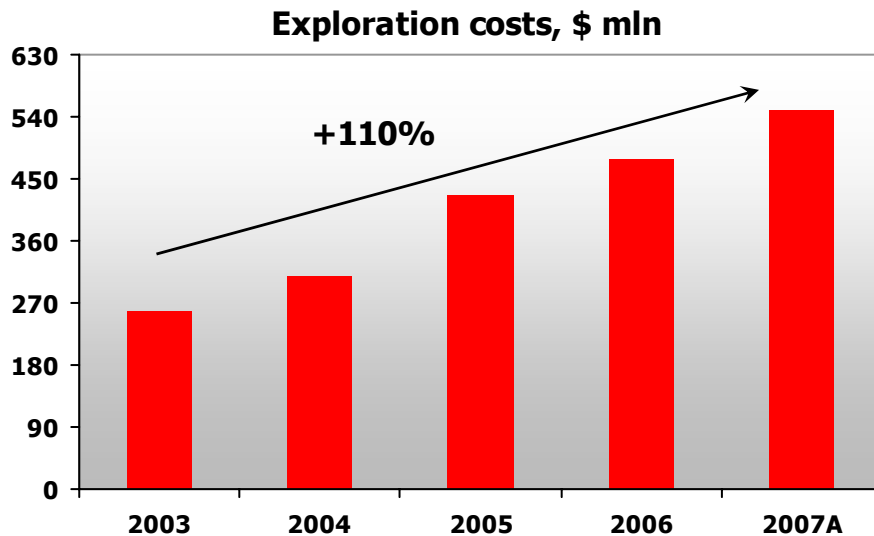
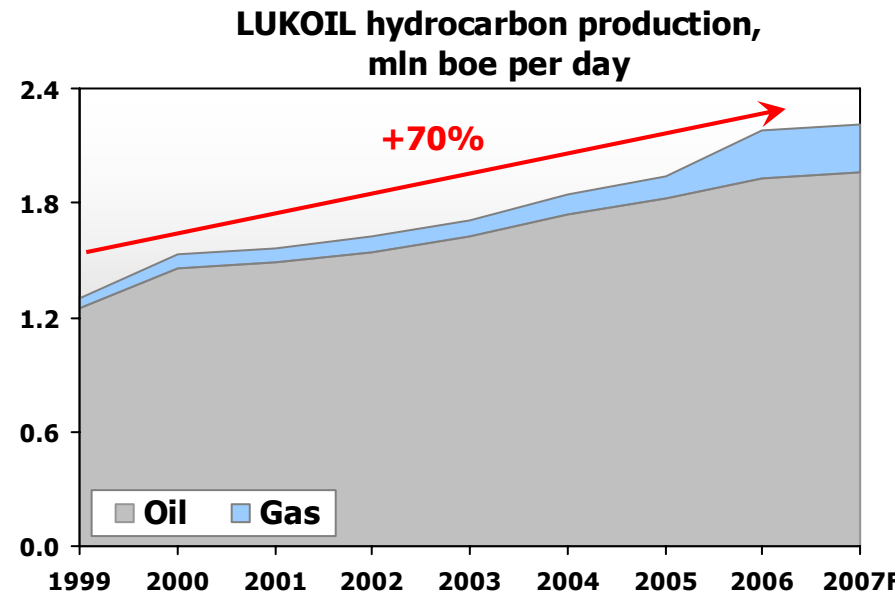
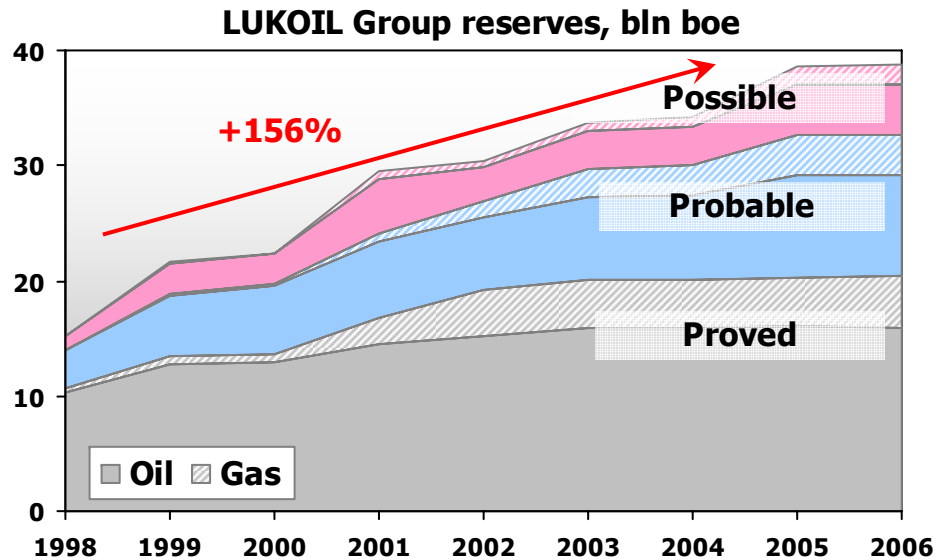
**Due to higher oil prices the process of nationalization in the world intensifies.**

World proved reserves have stopped rising, the number of large discoveries is decreasing in spite of the considerable growth of exploration costs.

Available oil reserves **are hard to recover** (deep water reserves, heavy oil reserves) and/or are concentrated in **regions of high instability** – South America, Africa, Middle East.

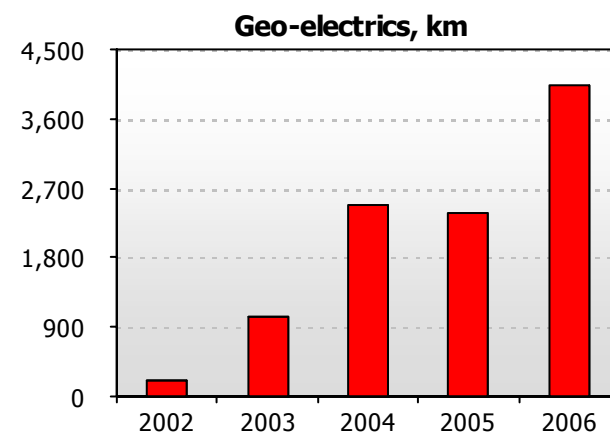
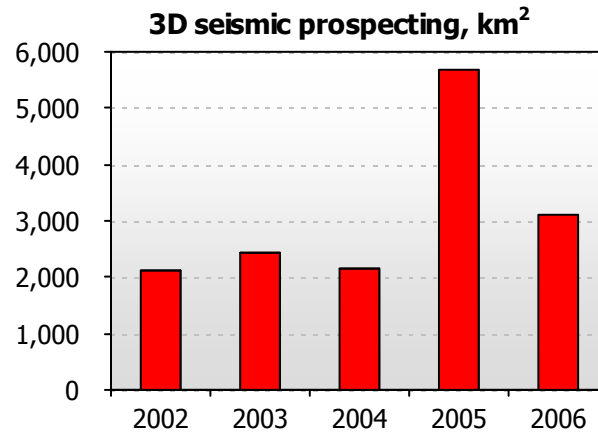
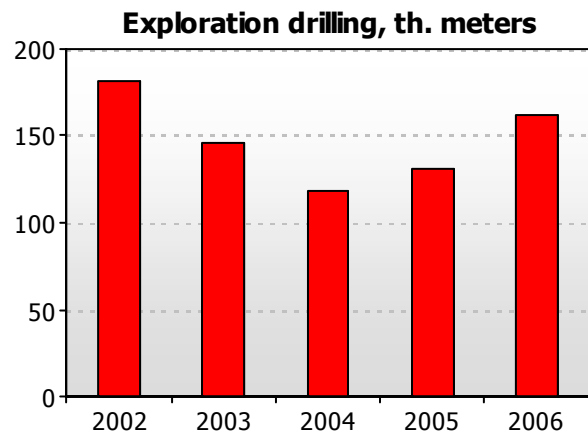
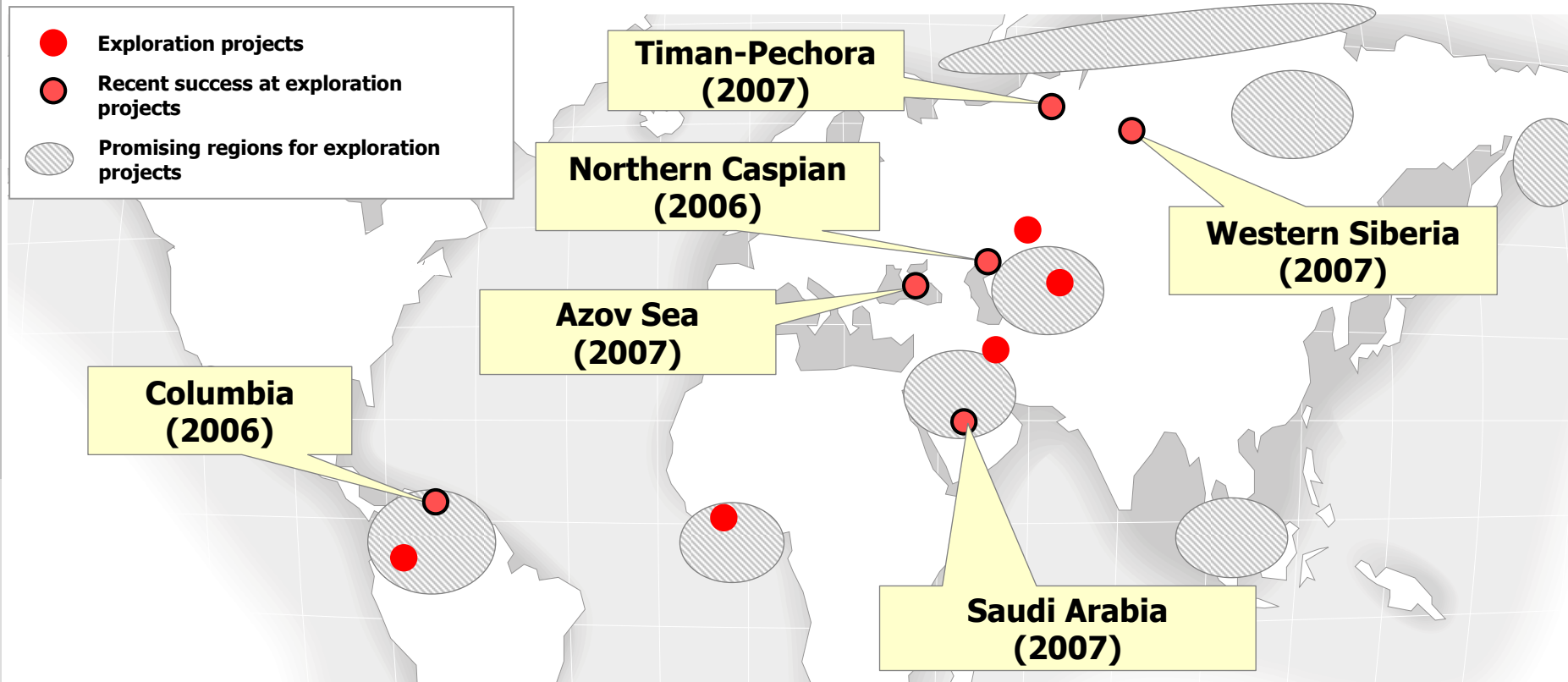


# Building Strong Reserve Base – LUKOIL's Way





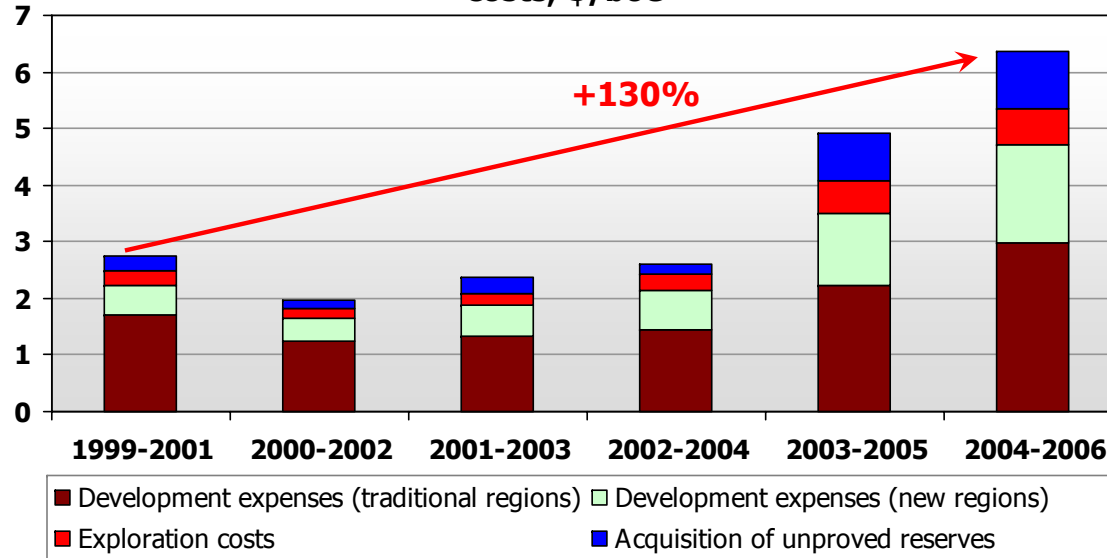
# Successful Exploration Projects All Over the World





# LUKOIL is Valued Lower Against Its International Peers on Reserve Base

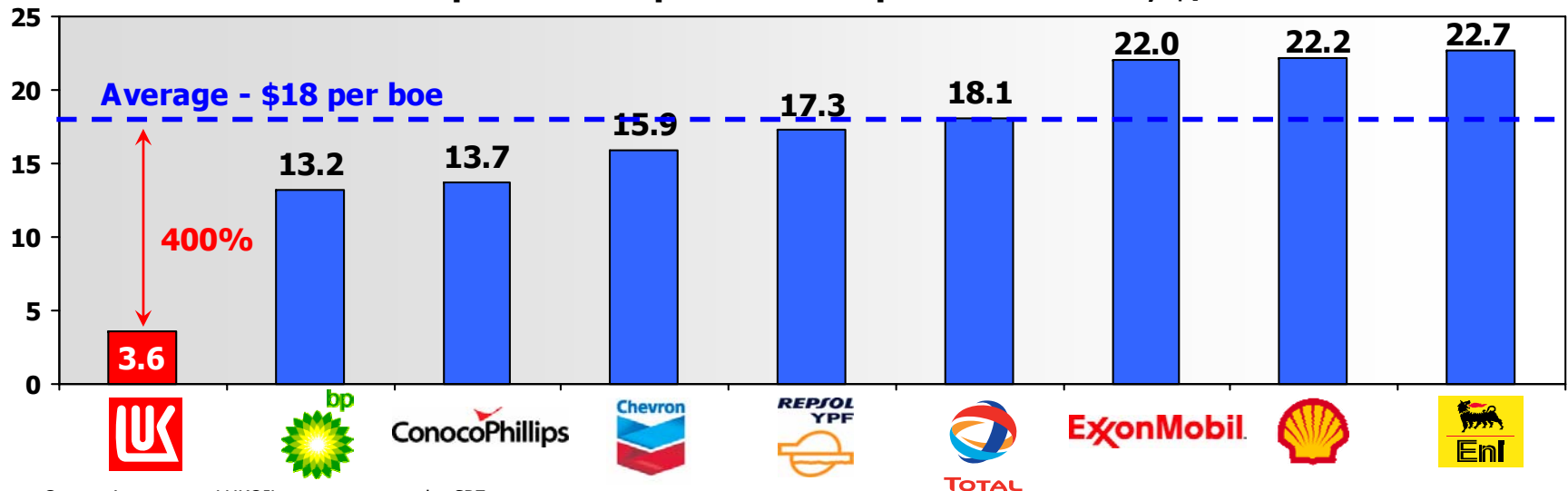
### LUKOIL subsidiaries finding and development (F&D) costs, \$/boe



F&D costs growth is mainly fuelled by increasing operations in new regions (including exploration and acquisition of reserves). This will allow to control F&D costs growth efficiently in the future.

F&D costs growth goes in pace with the real ruble appreciation, which was **over 120%** in 1999-2006.

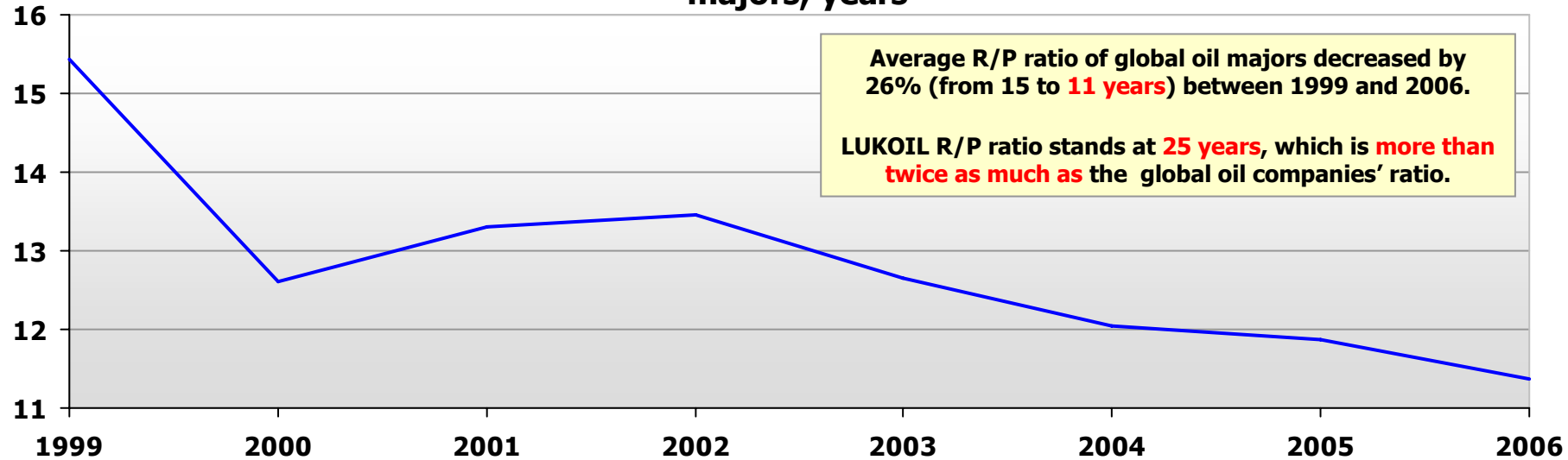
### Market capitalization per barrel of proved reserves, \$/boe



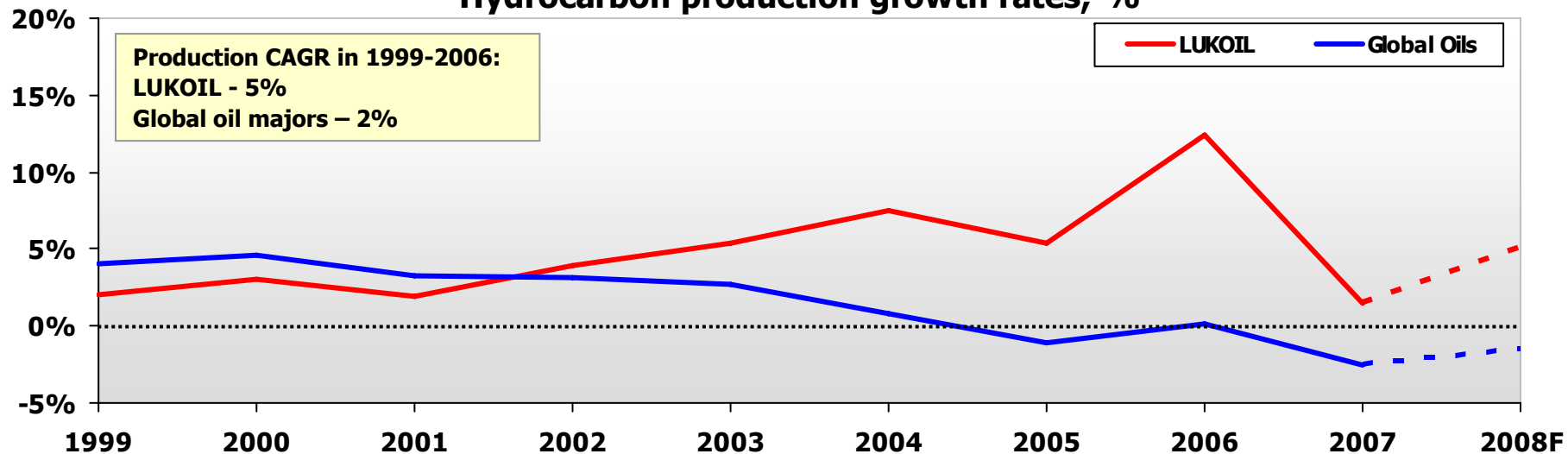


# LUKOIL's Resource Base Supports Long-Term Goal: Production Level – 3.5–4 Mln Boe per Day

### Average hydrocarbon reserves to production (R/P) ratio of global oil majors, years



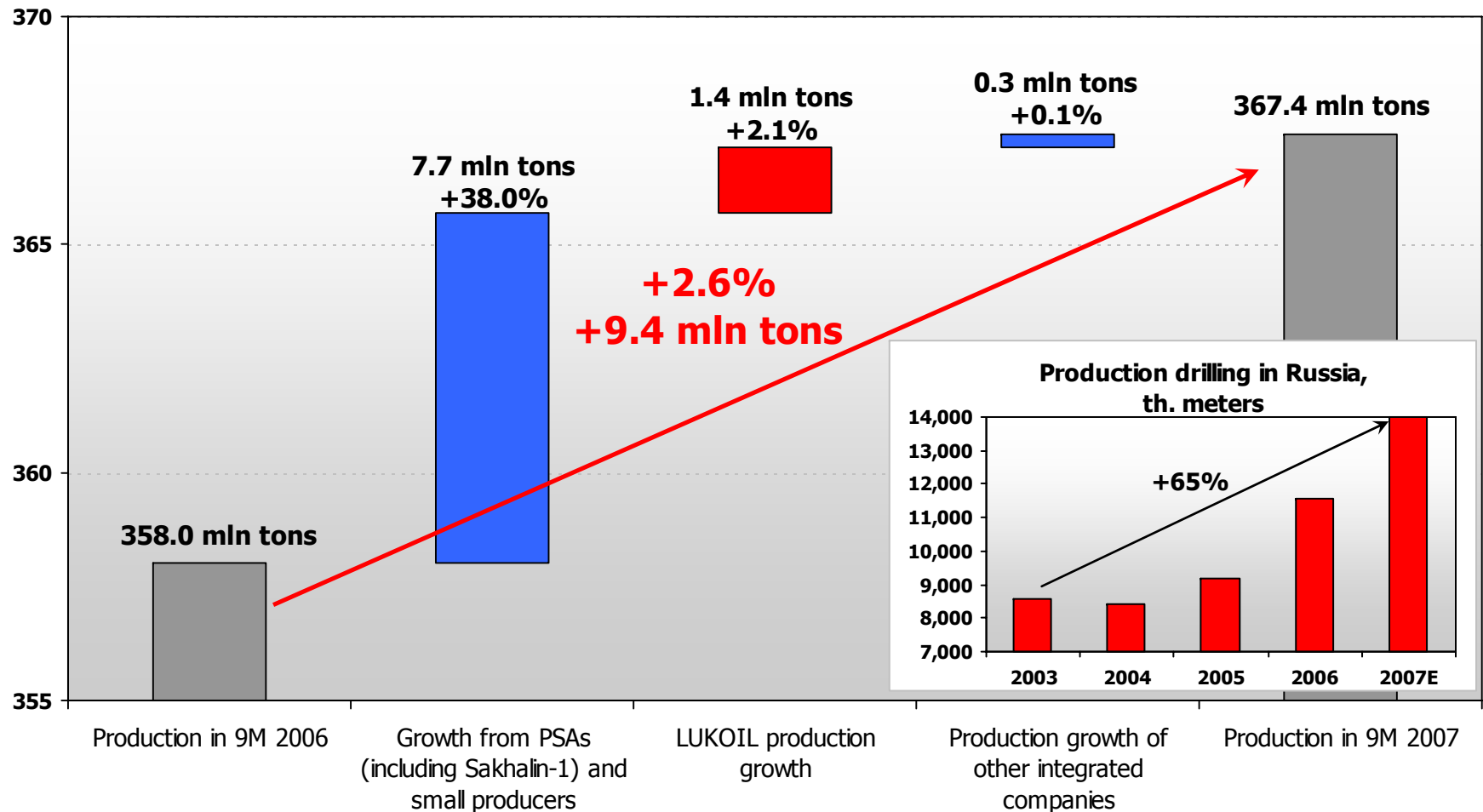
### Hydrocarbon production growth rates, %







# Projects with Special Tax Regime (PSAs) Make Up over 80% of Russia's Total Production Growth in 2007



**Oil production growth rate in Russia is declining. All integrated oil companies in Russia, except LUKOIL, Rosneft and Tatneft, show negative production growth rates. Overall growth was provided mostly by PSA projects (Sakhalin-1).**

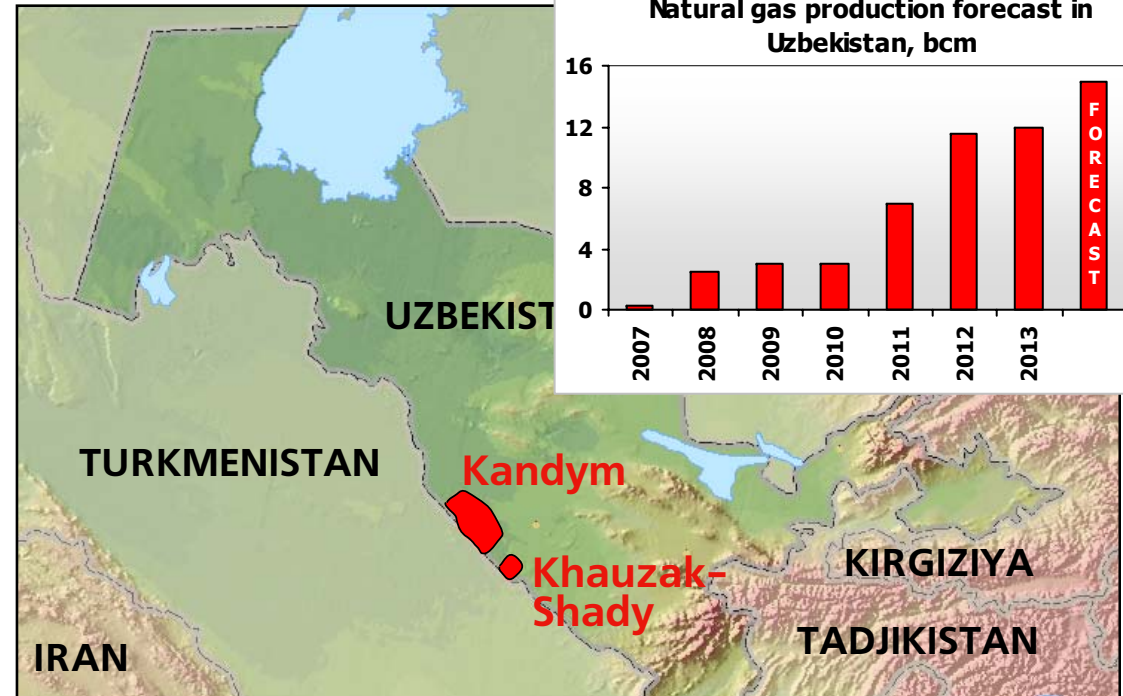
**High growth rates of production drilling along with rapidly decreasing production growth rates reflect the general problem for Russia's oil & gas industry – the lack of new efficient and easy to reach reserves.**



# Putting Pilot Kandym-Khausak-Shady PSA Project in Uzbekistan on Stream

- LUKOIL is the first Russian company to start development of a major international natural gas project
- Commercial natural gas production began in **November 2007**

- Gas is being sold at the export price of natural gas from Central Asia – up to **\$150 per 1,000 cm** in 2008



- The project includes development of Khausak and Shady blocks of the Dengizkulskeye field and the Kandym group of fields, as well as exploration works at the Kungradsky block
- LUKOIL share in proved reserves (as of 01.01.07) - **7.9 mln barrels** of oil and liquids and **2.76 tcf of gas**
- Maximum overall production - over **11 bcm per year**
- The project provides for **the construction of a gas processing plant** with capacity of 8 bcm (the first phase is scheduled for commissioning in 2010)



# Yuzhnaya-Khylchuya Field (YK): Start of Commercial Development of the Northern Timan-Pechora (2008)

- Uzhno-Khylchuyuskoye field – the Company **major field** in the North of Timan-Pechora. LUKOIL share – 70%, ConocoPhillips share – 30%
- Discovered in 1981. Production drilling began in 2006
- Proved oil reserves (as of 01.01.2007) – **more than 500 mln barrels**
- Uzhno-Khylchuyuskoye crude oil grade **quality** is superior to Russian export blend Urals: its density – 35.5 API (Urals– 32.0 API), sulphur content – 0.71% (Urals – 1.30%) – to be traded **with premium to Urals**
- The project suggests 90 wells to be drilled at the field
- The field plateau - **7.5 mln tons of crude oil per year (over 150 th. Barrels per day)**
- Crude oil transportation through **the Varandey terminal** – construction of oil pipeline «Uzhnoe Khylchuyu – Varandey»

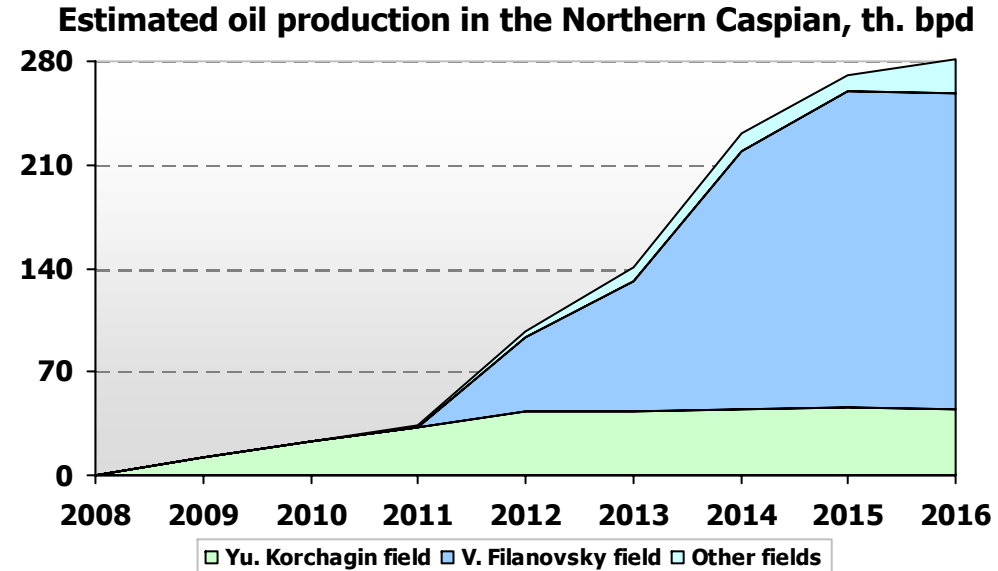


# Northern Caspian Fields: Major Event of 2009-2010

- As a result of exploration works conducted by the Company in the Russian sector of the Caspian Sea in 1995-2006, LUKOIL **discovered six major fields**: Khvalynskoye (2000), Yu.Korchagin (2000), 170 km (2001), Rakoushechnoye (2001), Sarmatskoye (2002) and V.Filanovsky (2005).
- Exploration drilling in the Northern Caspian region presents **100% SUCCESS RATE**
- The oil flows per well at V.Filanovsky field are unique – up to **6.2 th. bpd**
- **Proved, probable and possible crude oil reserves** at V.Filanovsky field are now estimated at **1.3 bln barrels**

**LUKOIL in the Northern Caspian:**  
Capital expenditures in 2001–2006 – **\$325 mln**

3P oil reserves as of January 1, 2007 – **1.87 bln barrels**,  
natural gas reserves – **17.1 tcf**

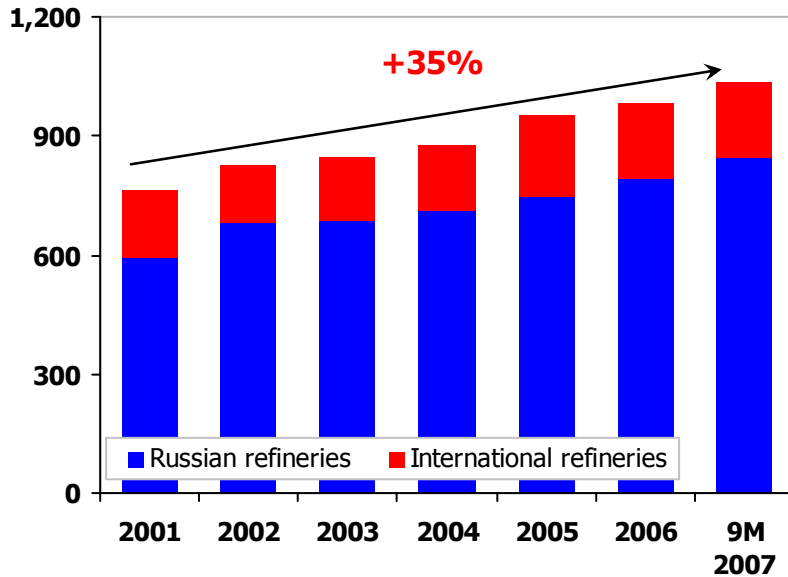


Construction of an offshore platform for Yu. Korchagin field development.



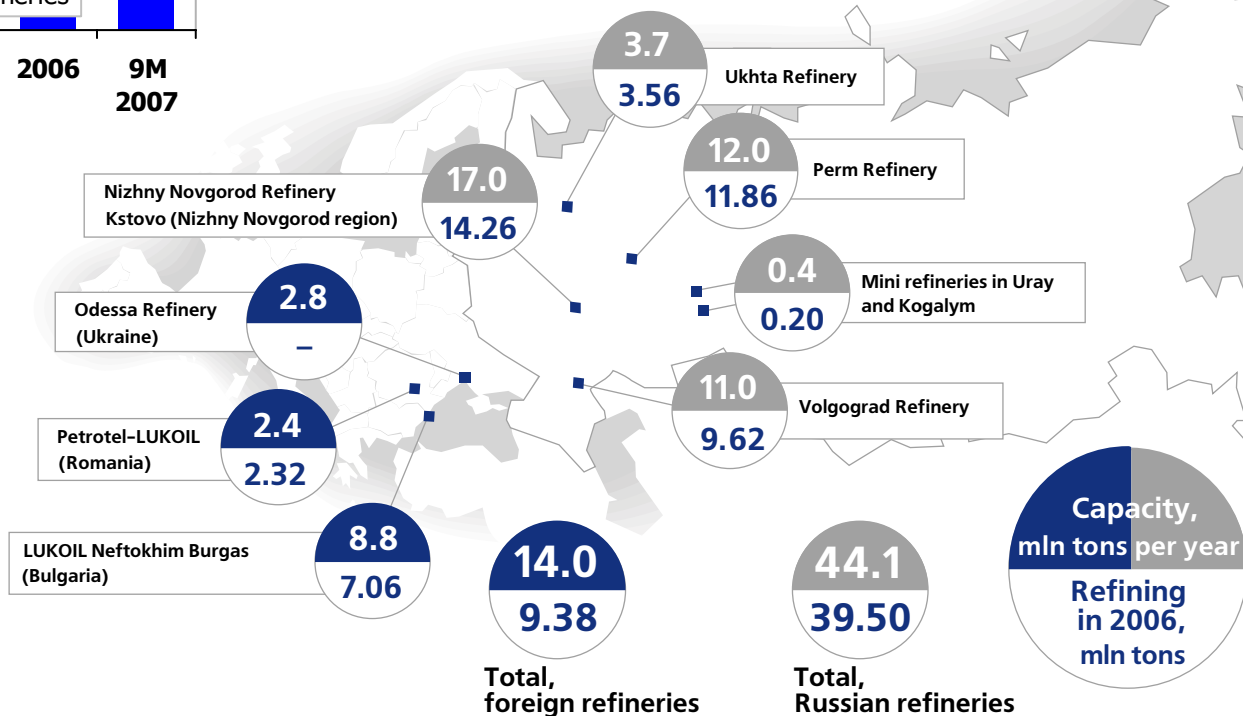
# Continuing Refineries Upgrade

Refinery throughputs, th. barrels per day



- High quality and developed refining portfolio
- Focus on further capacity expansion and quality improvement
  - Upgrade of existing refineries
  - EURO-4 diesel produced in Russia and exported to EU countries
  - EURO-3 gasoline produced in Russia and sold as a branded fuel

- Increasing upgrade spending – from \$260 mln in 2002 up to almost \$700 mln in 2006 (\$502 mln in 9M 2007)
- Best track in refining capacities growth – from 2 refineries in 1993 to 7 ones now





## Launch of New Units at Group Refineries in 2007-2008

- Construction of **isomerization units** for production of high-octane components of gasoline:
  - Perm refinery (capacity – 430,000 tons per year) – **put into operation;**
  - Volgograd refinery (capacity – 360,000 tons per year) – **put into operation;**
- Construction of **visbreaking units** in order to increase the depth of refining:
  - Nizhny Novgorod refinery (capacity – 2.4 mln tons per year);
  - Ukhta refinery (capacity – 0.8 mln tons per year) – **put into operation;**
  - Odessa refinery (capacity – 0.7 mln tons per year);
- Reconstruction of **catalytic cracking unit** at Burgas refinery (capacity extension up to 2 mln tons per year);
- Construction of **hydrotreating unit** at Burgas refinery in order to comply with Euro-5 standard for motor fuel (capacity – 1.7 mln tons per year);



# Upgrade of the Nizhny Novgorod Refinery: Product Quality Improvement – Major Project

**First stage (2006–2010): increase in output of motor gasoline, production of motor gasoline meeting Euro-4 standards**

**Catalytic cracking complex – investment - \$780 mln:**

- Vacuum gas oil **hydrotreating** with a capacity of 2.5 mln tons
- **Catalytic cracking unit** with a capacity of 2 mln tons
- **Alcylation unit** with a capacity of 360 th. tons
- **Hydrogen production unit** with a capacity of 50 th. tons
- **Propylene concentration unit** with a capacity of 150 th. tons
- **Sulphur production unit** with a capacity of 90 th. tons

	<b>2006</b>	<b>2010F</b>
Capacity, mln tons per year	17	17
Nelson Index	4.2	7.4
Light products yield, %	42	60
Share of high-octane gasoline, %	85	100

**Economic effect (EBITDA) – about \$240 mln per year**

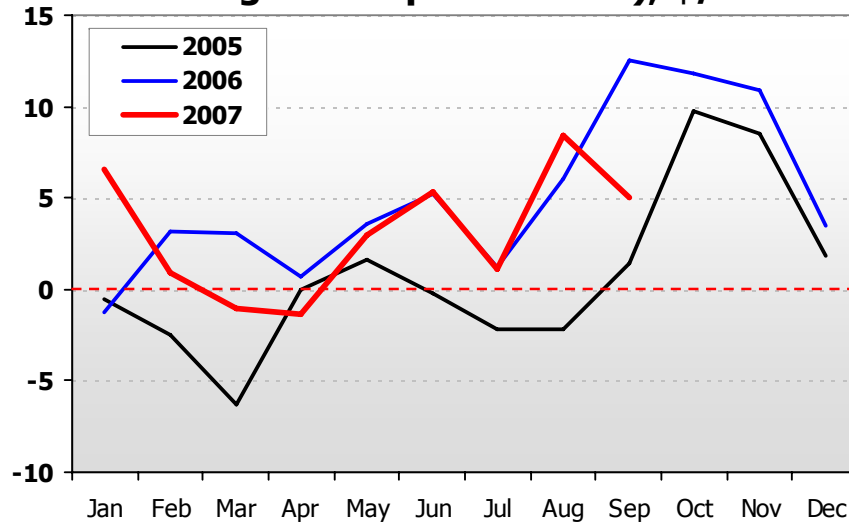
**Construction of a catalytic cracking complex at the Nizhny Novgorod refinery will allow to begin production of motor gasoline meeting Euro-4 standards (starting from 2006 the refinery produces motor gasoline meeting Euro-3 standards) while total motor fuel output will increase by 1.5 times.**





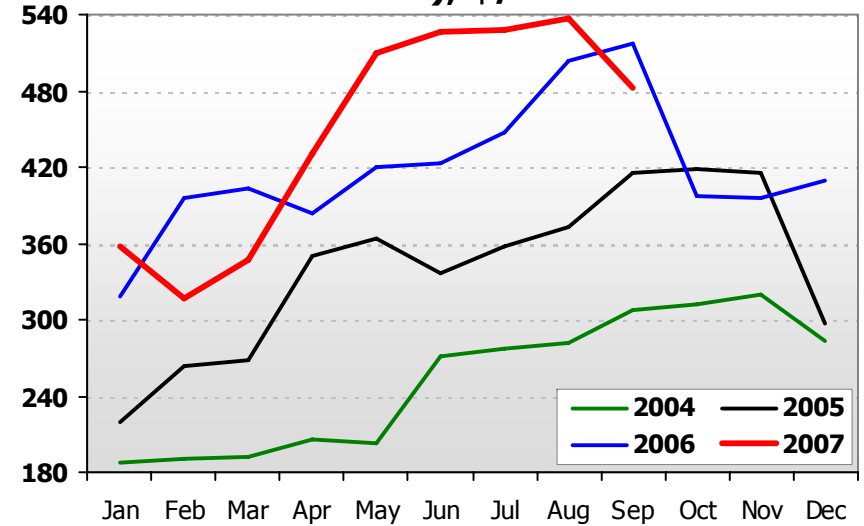
# Constantly High Attractiveness of the Russian Market

**Russian refining margin  
(average refinery without catalytic cracking in European Russia), \$/barrel**

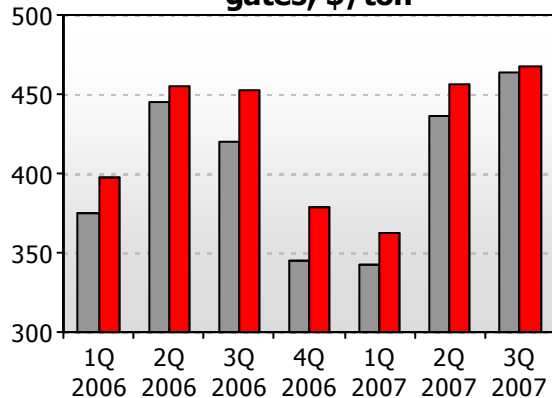


Source: LUKOIL.

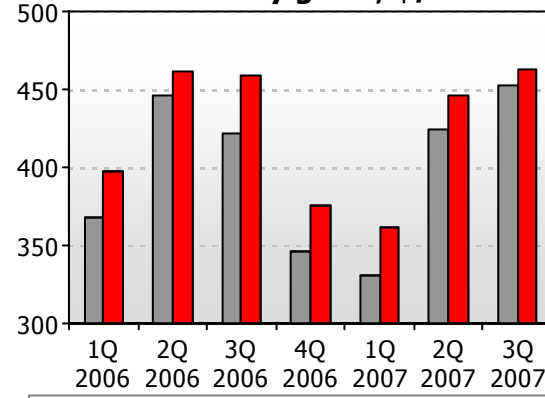
**Regular gasoline price at Nizhny Novgorod refinery gates (net of tax), \$/ton**



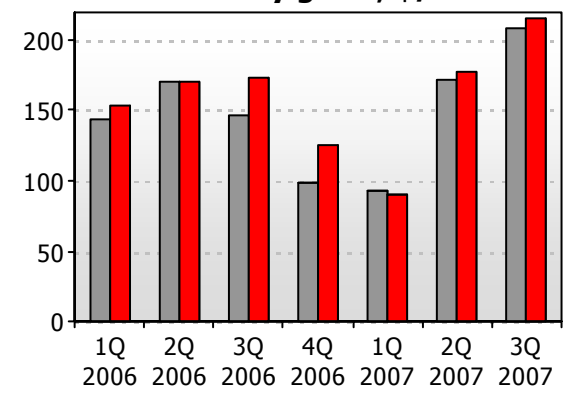
**Diesel price at Volgograd Refinery gates, \$/ton**



**Diesel price at Nizhny Novgorod Refinery gates, \$/ton**



**Fuel oil price at Nizhny Novgorod Refinery gates, \$/ton**



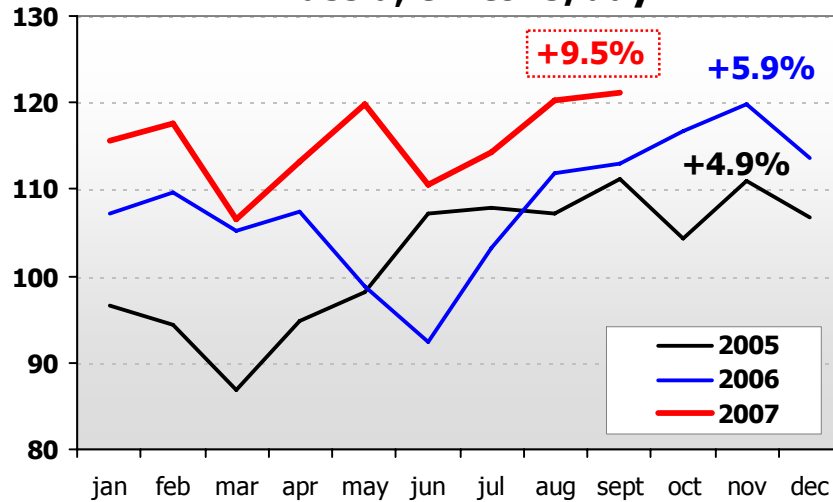
■ Exports    ■ Domestic sales



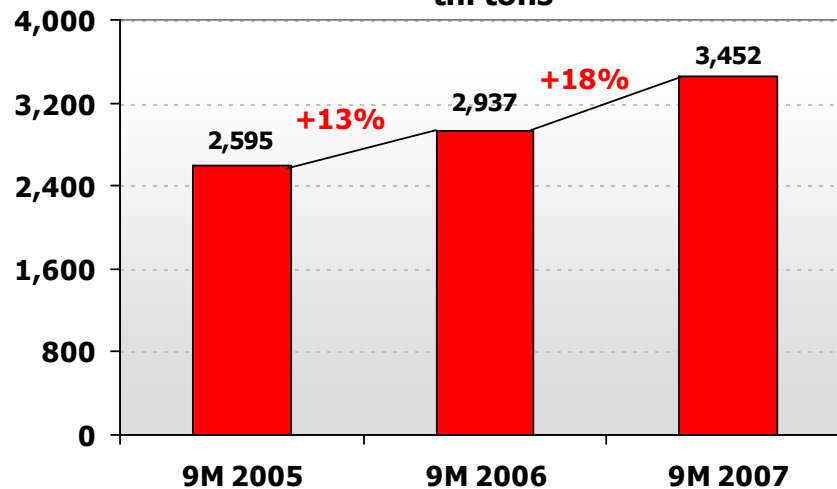


# Crude Refining in Russia and Retail Sales of Petroleum Products

### Throughputs at LUKOIL refineries in Russia, th. tons/day



### Retail sales of petroleum products in Russia, th. tons





## Building the Power Generation Segment – Important Contributor to Increase in LUKOIL Value

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- Development and expansion of power generating assets aims at:
  - Construction of the power-generating units at the fields in order to supply electricity to LUKOIL upstream facilities and utilize the associated petroleum gas
  - Construction of power-generating blocks at LUKOIL Group refineries
  - Access to end-consumer market and increase of guaranteed sales volumes of natural gas
- LUKOIL plans to participate in the investment projects in Russian power generation industry



- TGK-8 is created on the base of the assets of Astrakhan, Volgograd, Rostov and Krasnodar power-generating companies
- The assets of the company are situated in the key gas production region of LUKOIL – South federal district of Russia
- The acquisition of these assets will allow to create the main body of the new “power generation segment” and will contribute up to \$2 bln of shareholder value only by giving guarantees of gas deliveries at a very good price

### Main investment projects of TGK-8, MegaWatt

Krasnodarskaya TPP	410
Astrakhanskaya GRES	110
Astrakhanskaya TPP-2	410
Other (after 2012)	over 1,000

TGK-8, technical characteristics		2008	2012	2015 and further
Capacity	MegaWatt	3,600	4,500	over 5,000 MegaWatt
Gas consumption	bcm	7	8	over 8 bcm

### Purchase price forecast for gas of TGK-8, \$/1,000 cm

			2008	2009	2010	2011	2012	2013	2014	2015
With TGK	Price at the station	\$/1,000 cm	82	91	99	108	116	122	128	135
	Netback	\$/1,000 cm	68	76	83	91	98	104	110	116
Without TGK	Sales to Gazprom	\$/1,000 cm	43	43	43	43				

Russian Government forecast.



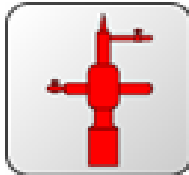
# **9M 2007 Financial Results (US GAAP)**



# Highlights



Net income – **\$2,482** mln in 3Q 2007  
(**+2.1%** y-o-y),  
**\$6,298** mln in 9M 2007



9M 2007 production of marketable hydrocarbons – **2,181** th. boe per day (**+2.0%**):

- Oil production – **1,967** th. barrels per day (**+2.3%**)
- Gas production – **214** th. boe per day (**-0.4%**)

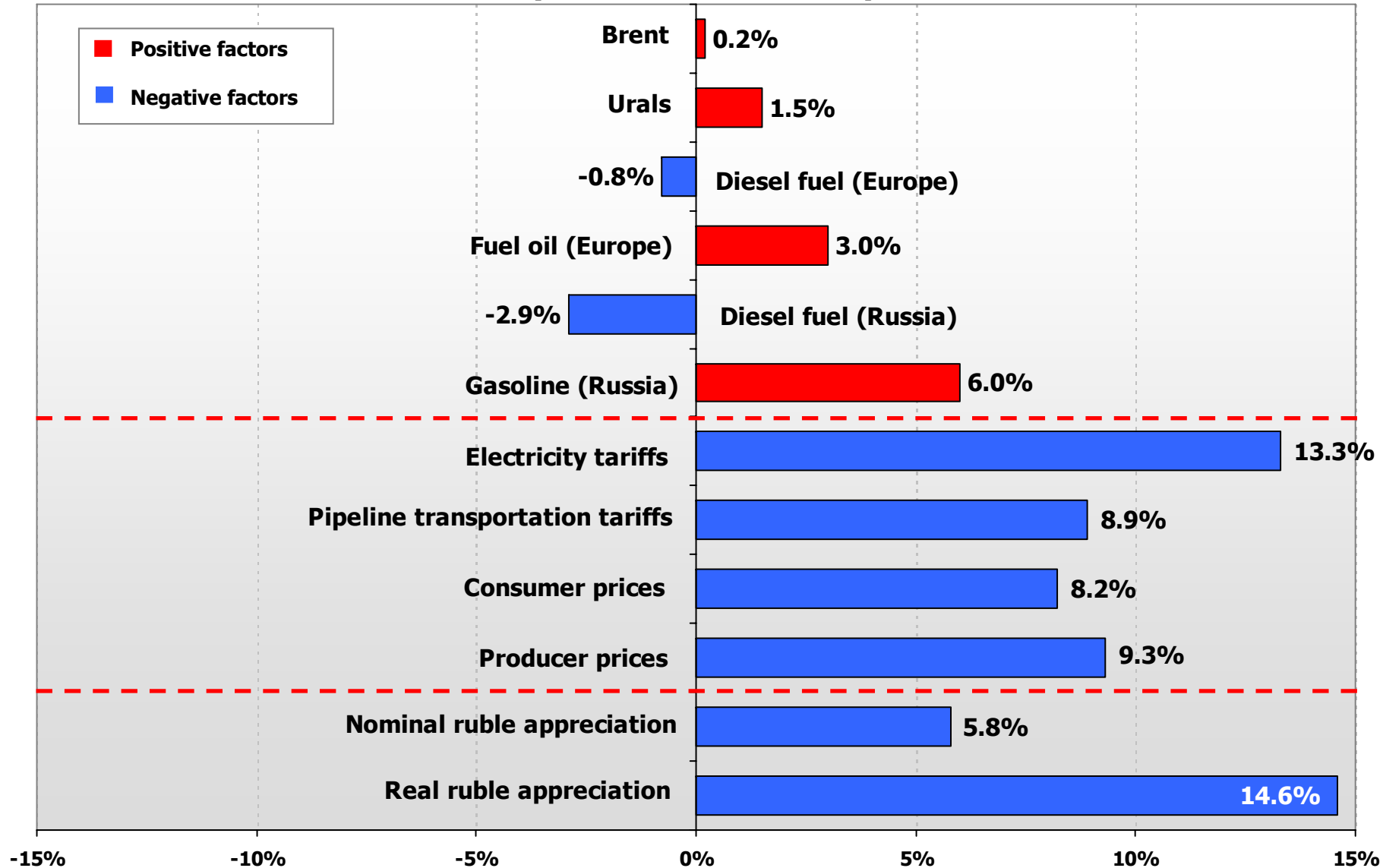


Refinery throughputs – **1,037\*** th. barrels per day  
(**+7.6%**)



# Macroeconomic Environment

## Macroeconomic environment (9M 2007 to 9M 2006)



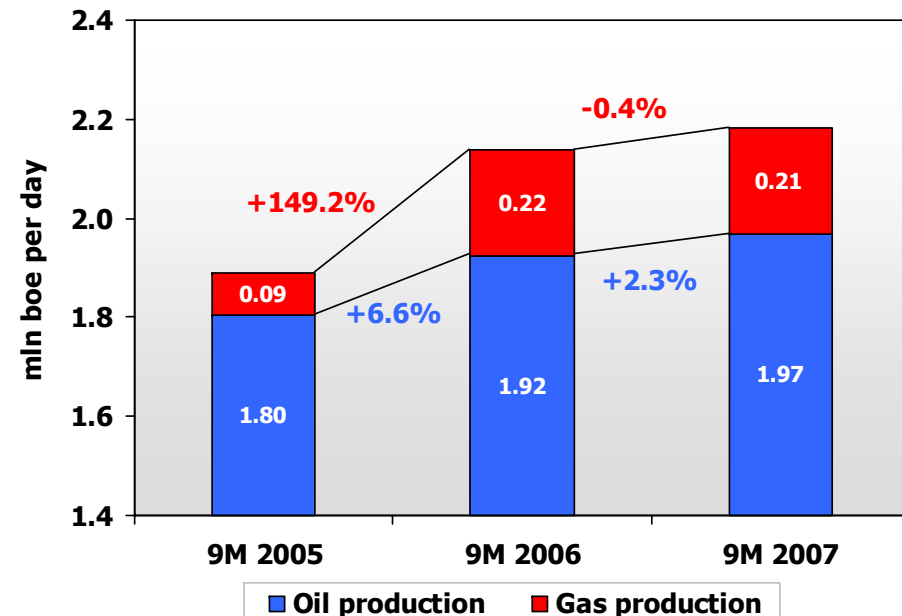
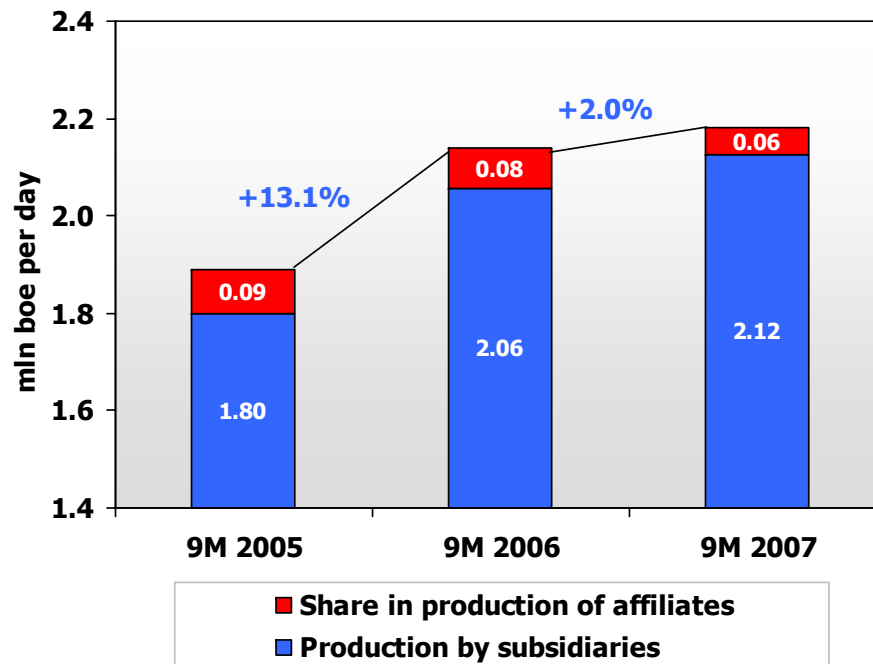


# Marketable Hydrocarbon Production

**LUKOIL Group production of marketable hydrocarbons rose by 2.0% y-o-y to 2.181 mln boe per day in 9M 2007.**

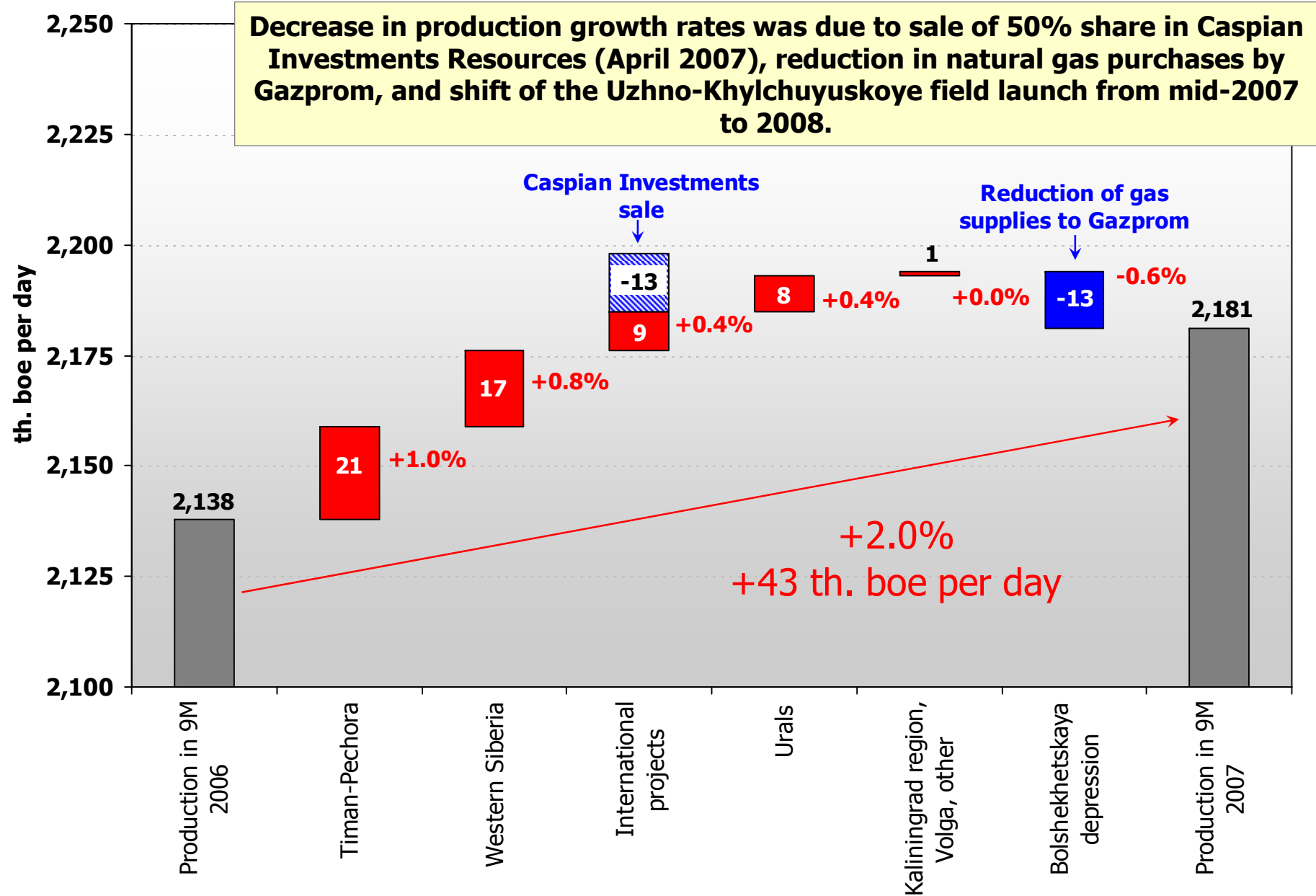
In 9M 2007 production of crude oil reached 537 mln barrels (72.7 mln tons), which is **2.3%** higher y-o-y.

Production of marketable natural and associated gas decreased by 0.4%, to 9.95 bcm because of reduction in natural gas purchases by Gazprom. LUKOIL aims to create end-users market of its natural gas and to guarantee sales of natural gas in the future using power generation assets.





# Marketable Hydrocarbon Output Reconciliation (y-o-y)





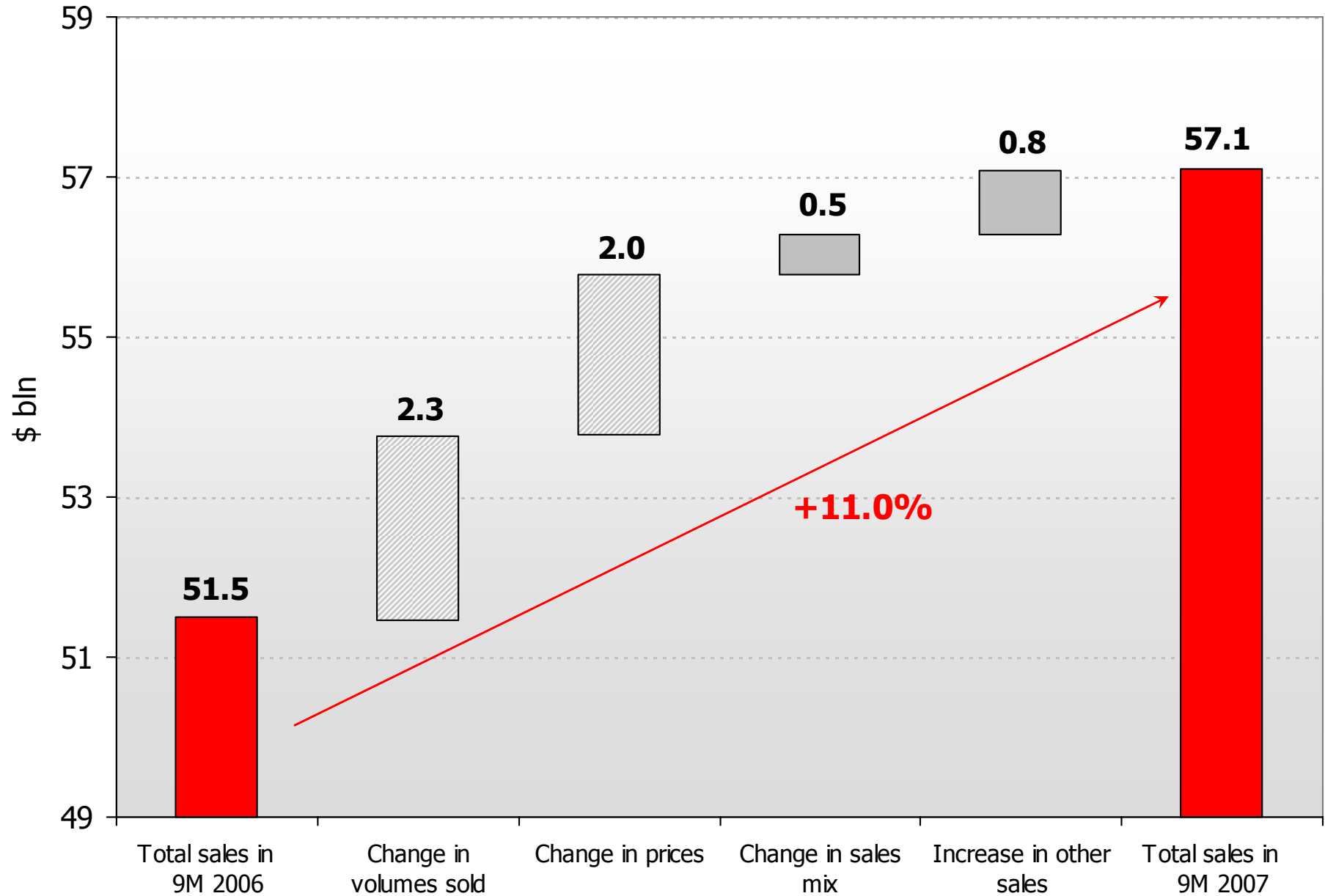


# Financial Results

3Q 2007	2Q 2007	Δ, %	\$ mln	9M 2007	9M 2006	Δ, %
<b>21,415</b>	<b>20,196</b>	<b>+6.0</b>	<b>Total revenue</b>	<b>57,347</b>	<b>51,803</b>	<b>+10.7</b>
(1,555)	(1,471)	+5.7	Operating expenses	(4,469)	(3,338)	+33.9
(6,440)	(5,615)	+14.7	Taxes other than income taxes (including excise and export tariffs)	(17,152)	(15,842)	+8.3
3,504	3,448	+1.6	Income from operating activities	8,828	8,863	-0.4
3,394	3,306	+2.7	Income before income taxes	8,537	8,720	-2.1
<b>2,482</b>	<b>2,517</b>	<b>-1.4</b>	<b>Net income</b>	<b>6,298</b>	<b>6,442</b>	<b>-2.2</b>
3.01	3.03	-0.7	Basic EPS, \$	7.60	7.79	-2.5
<b>4,021</b>	<b>3,917</b>	<b>+2.7</b>	<b>EBITDA</b>	<b>10,370</b>	<b>10,178</b>	<b>+1.9</b>

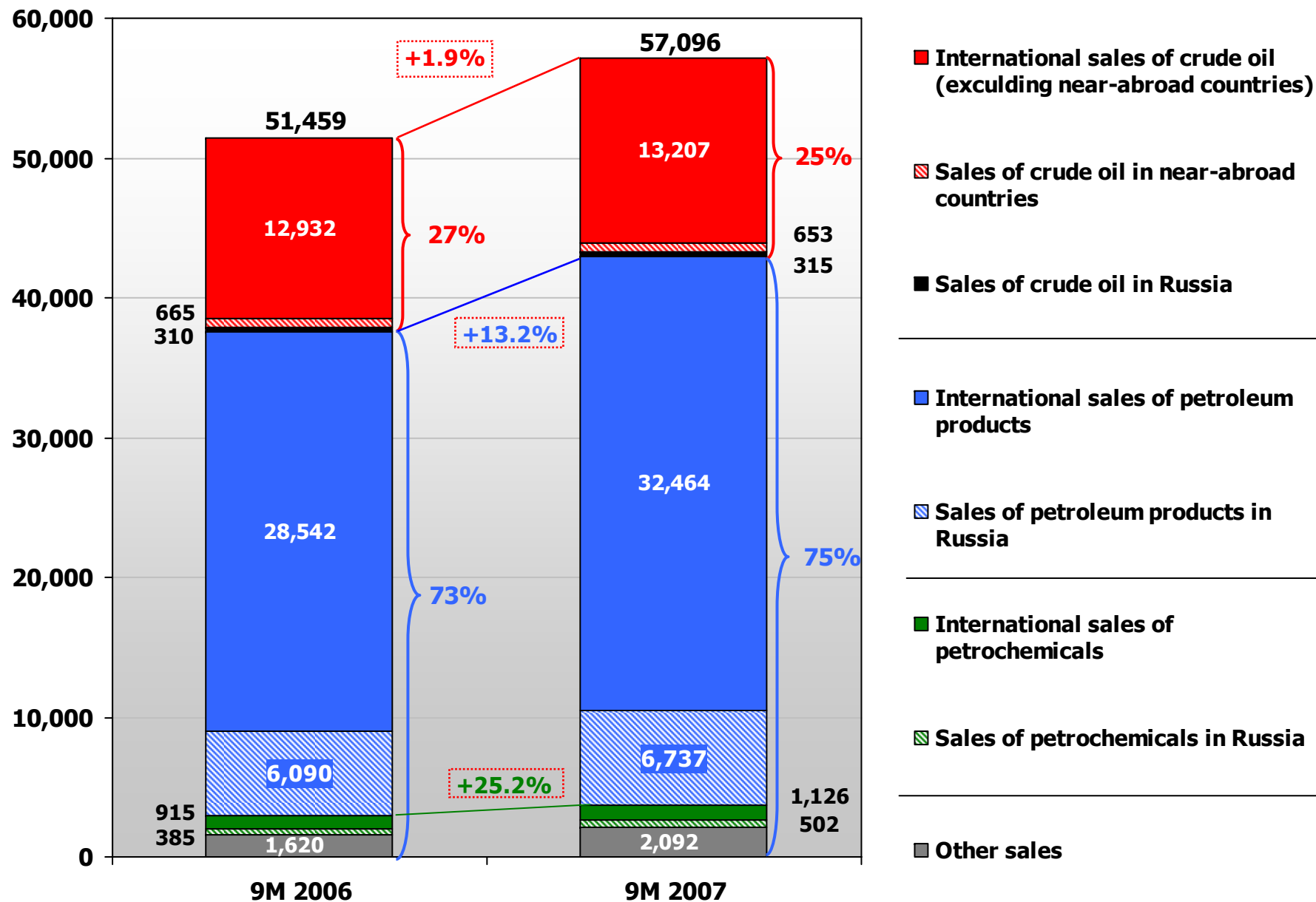


# Sales Reconciliation



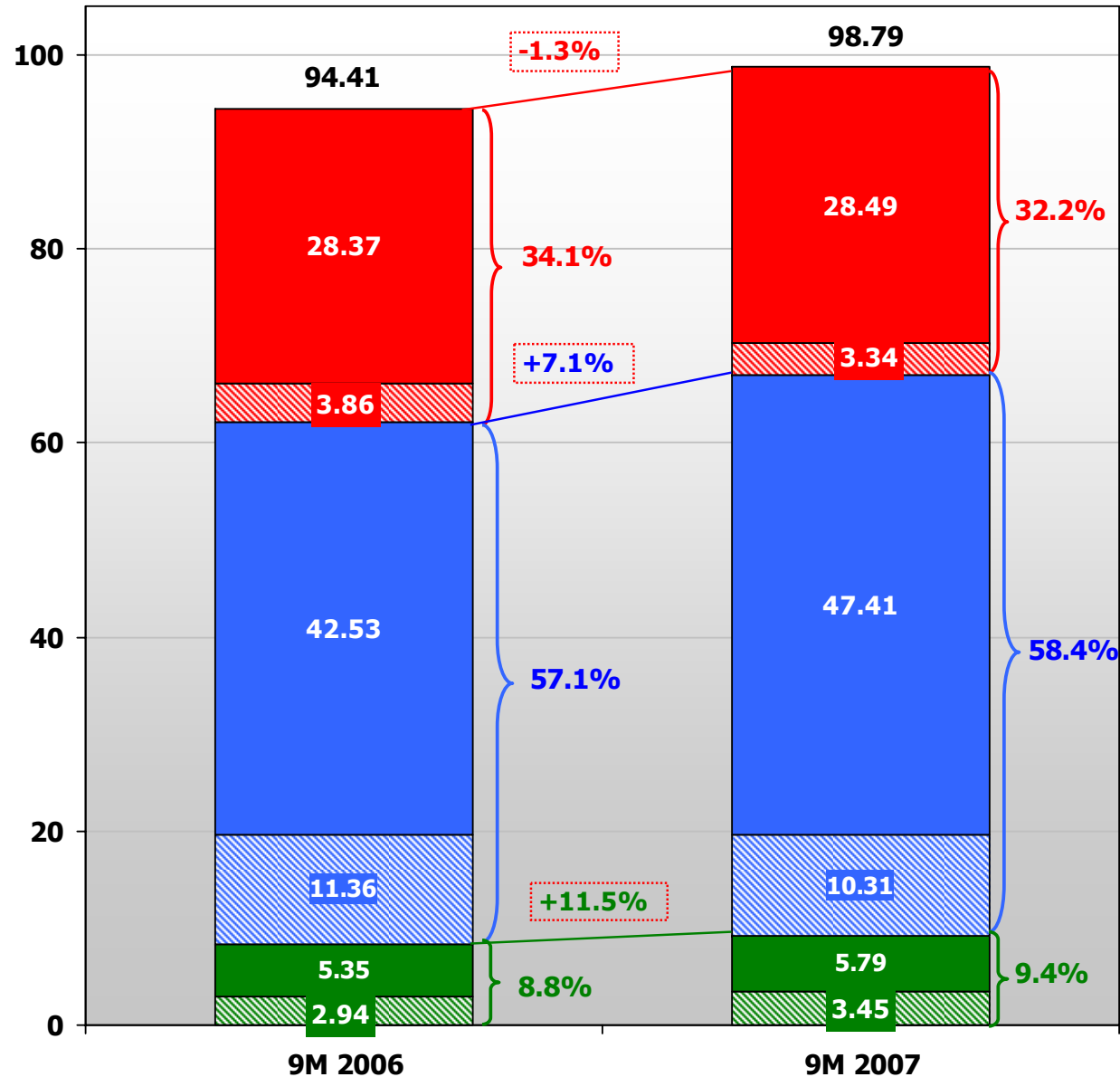


# Sales Breakdown, \$ mln





# Sales Volumes Breakdown, mln tons



■ International sales of crude oil (excluding near-abroad countries)

▨ Sales of crude oil in Russia and near-abroad countries

■ International wholesale sales of petroleum products

▨ Wholesale sales of petroleum products in Russia

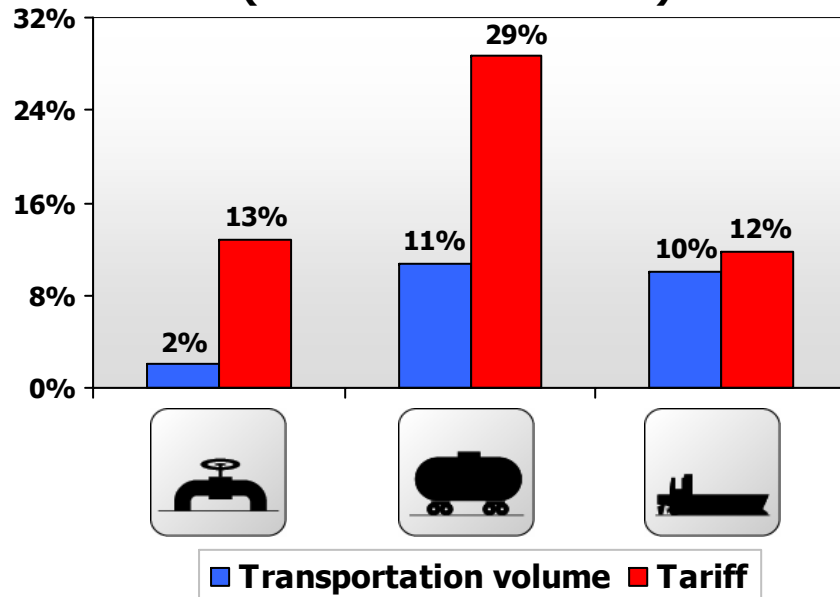
■ International retail sales of petroleum products

▨ Retail sales of petroleum products in Russia

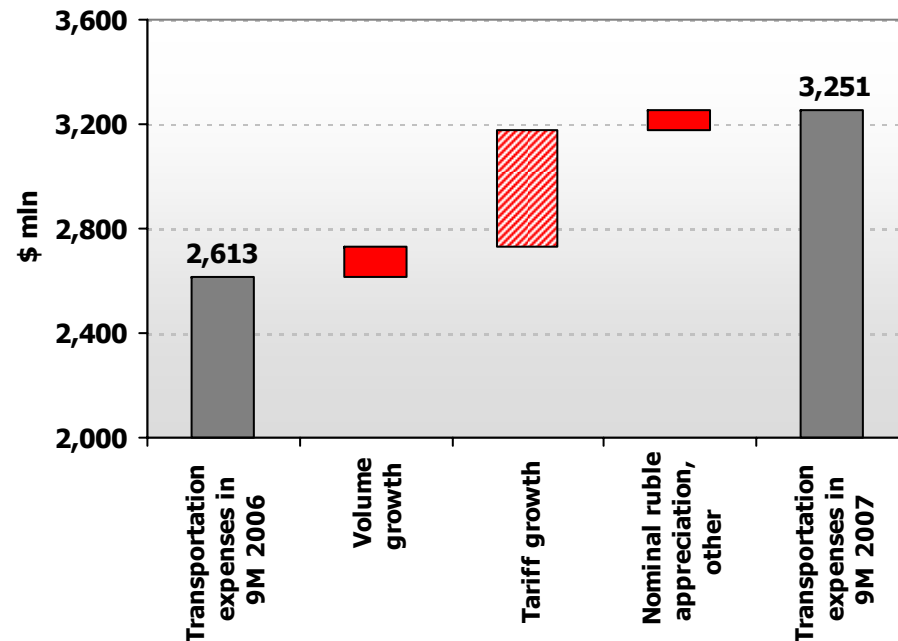


# SG&A and Transportation Expenses

### Transportation expenses (9M 2007 to 9M 2006)



### Transportation expenses reconciliation



3Q 2007	2Q 2007	Δ, %	\$ mln	9M 2007	9M 2006	Δ, %
1,116	1,148	-2.8	Transportation expenses	3,251	2,613	+24.4
796	800	-0.5	Other selling, general and administrative expenses	2,259	2,140	+5.6
<b>1,912</b>	<b>1,948</b>	<b>-1.8</b>	<b>Total</b>	<b>5,510</b>	<b>4,753</b>	<b>+15.9</b>

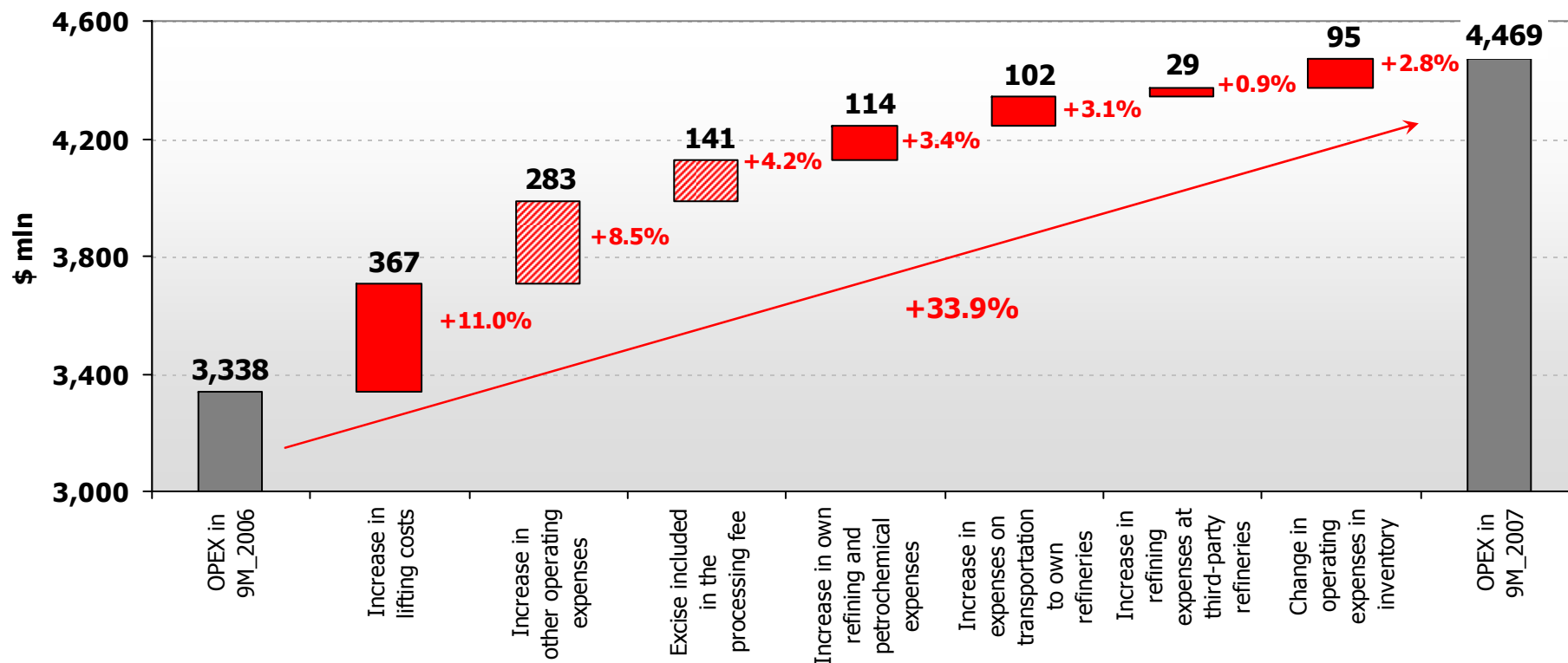


# Operating Expenses

3Q 2007	2Q 2007	Δ, %	\$ mln	9M 2007	9M 2006	Δ, %
699	699	+0.0	Hydrocarbon lifting costs	2,049	1,682	+21.8
221	218	+1.4	Own refining expenses	631	528	+19.5
48	55	-12.7	Refining expenses at third-party refineries	169	140	+20.7
45	48	-6.3	Excise included in processing fee paid to third-party refineries	141	–	–
64	70	-8.6	Petrochemical expenses	198	187	+5.9
196	222	-11.7	Crude oil transportation to own refineries	607	505	+20.2
361	299	+20.7	Other operating expenses	877	594	+47.6
(79)	(140)	-43.6	Change in operating expenses in crude oil and refined products inventory originated within the Group	(203)	(298)	-31.9
<b>1,555</b>	<b>1,471</b>	<b>+5.7</b>	<b>Total</b>	<b>4,469</b>	<b>3,338</b>	<b>+33.9</b>
<b>7,384</b>	<b>7,070</b>	<b>+4.4</b>	<b>Cost of purchased crude oil, gas and products</b>	<b>19,504</b>	<b>17,514</b>	<b>+11.4</b>



# Operating Expenses Reconciliation

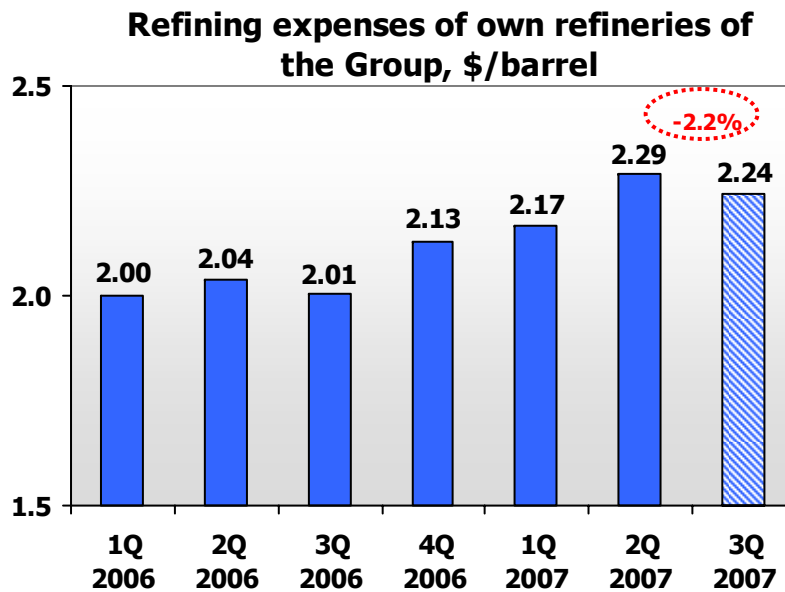
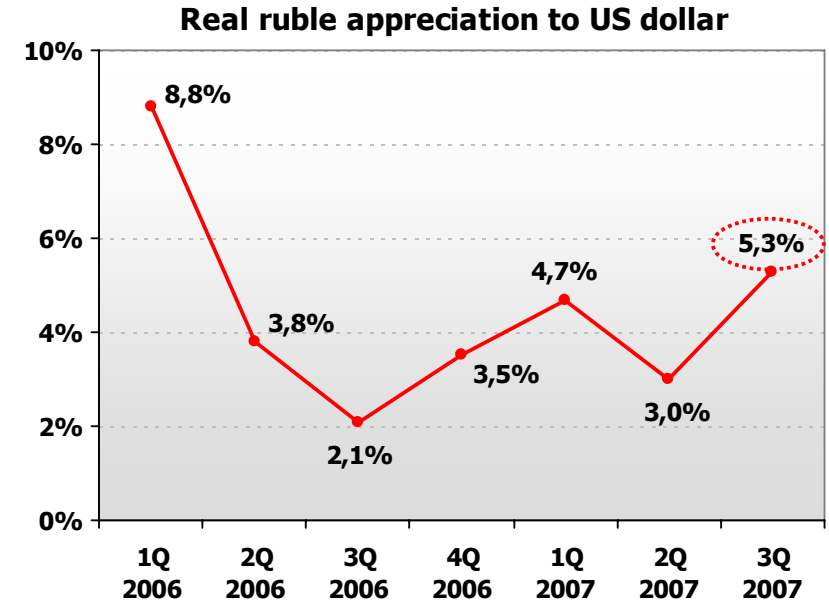
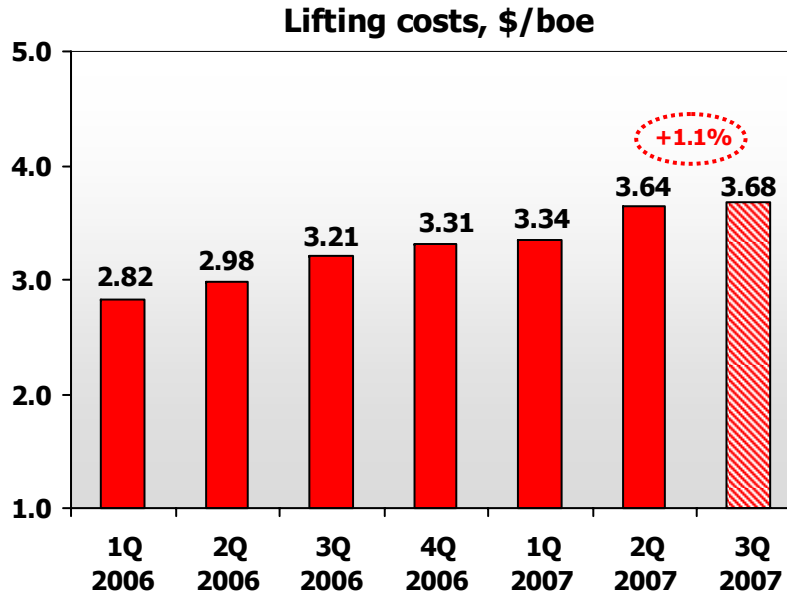


## The substantial growth of operating expenses y-o-y was caused by the following factors :

- **real ruble appreciation**, which reached 14.6% y-o-y in 9M 2007 and affected all operating expense items
- **increase in refining expenses at third-party refineries due to amendments to Russian legislation** (excise for petroleum products is now included in processing fee paid to third-party refineries)
- increase in other operating expenses due to increased amount of transportation and other services provided by the Group in the international segment
- **increase in lifting costs** which was caused by production growth, new assets acquisition and other factors
- increase in transportation expenses due to increase in refinery throughputs and tariffs escalation



# LUKOIL Successfully Controls Production and Refining Expenses



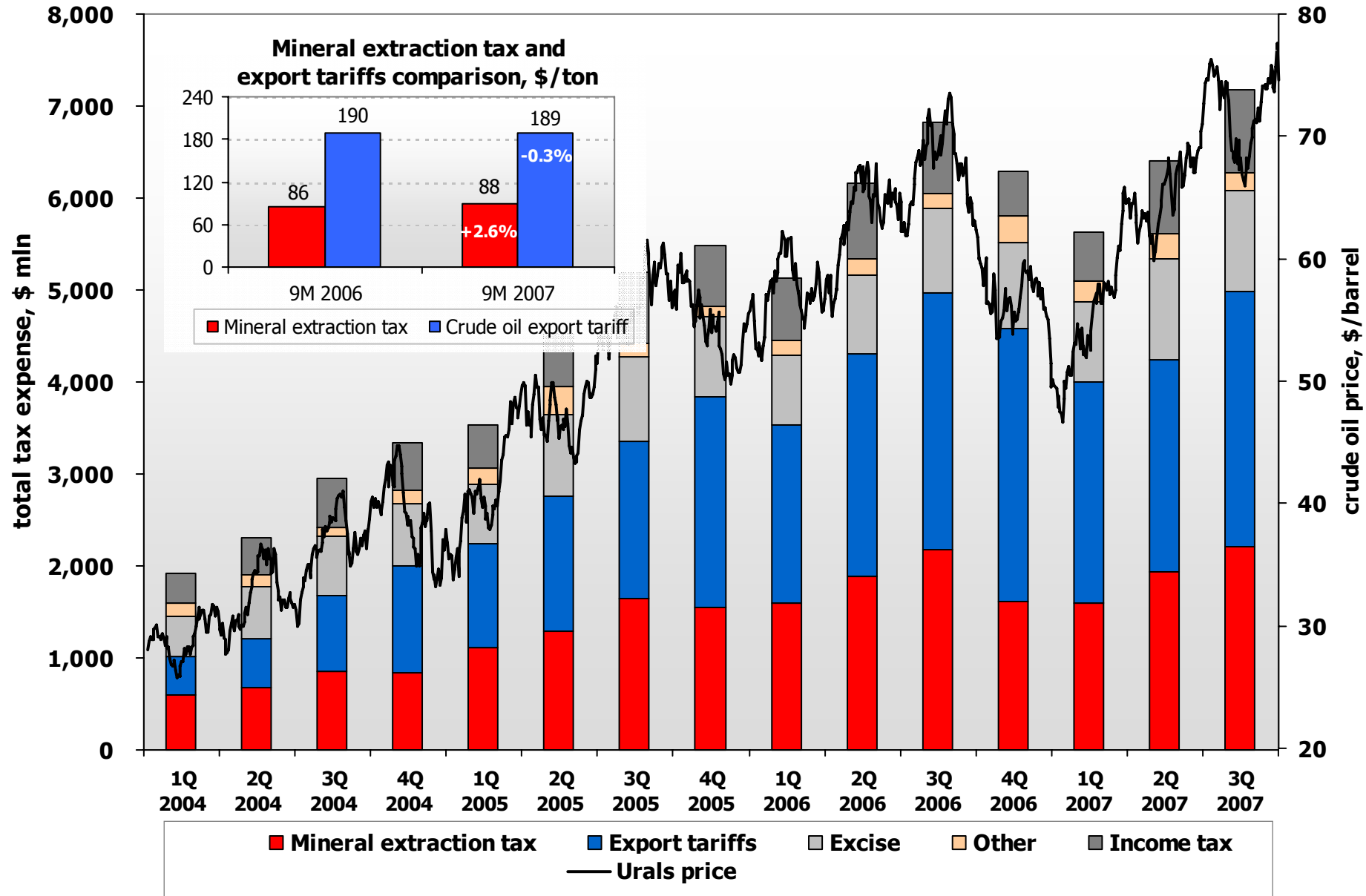
**In spite of the high rates of real ruble appreciation, LUKOIL has successfully controlled hydrocarbon lifting costs and refining expenses at own refineries of the Group.**





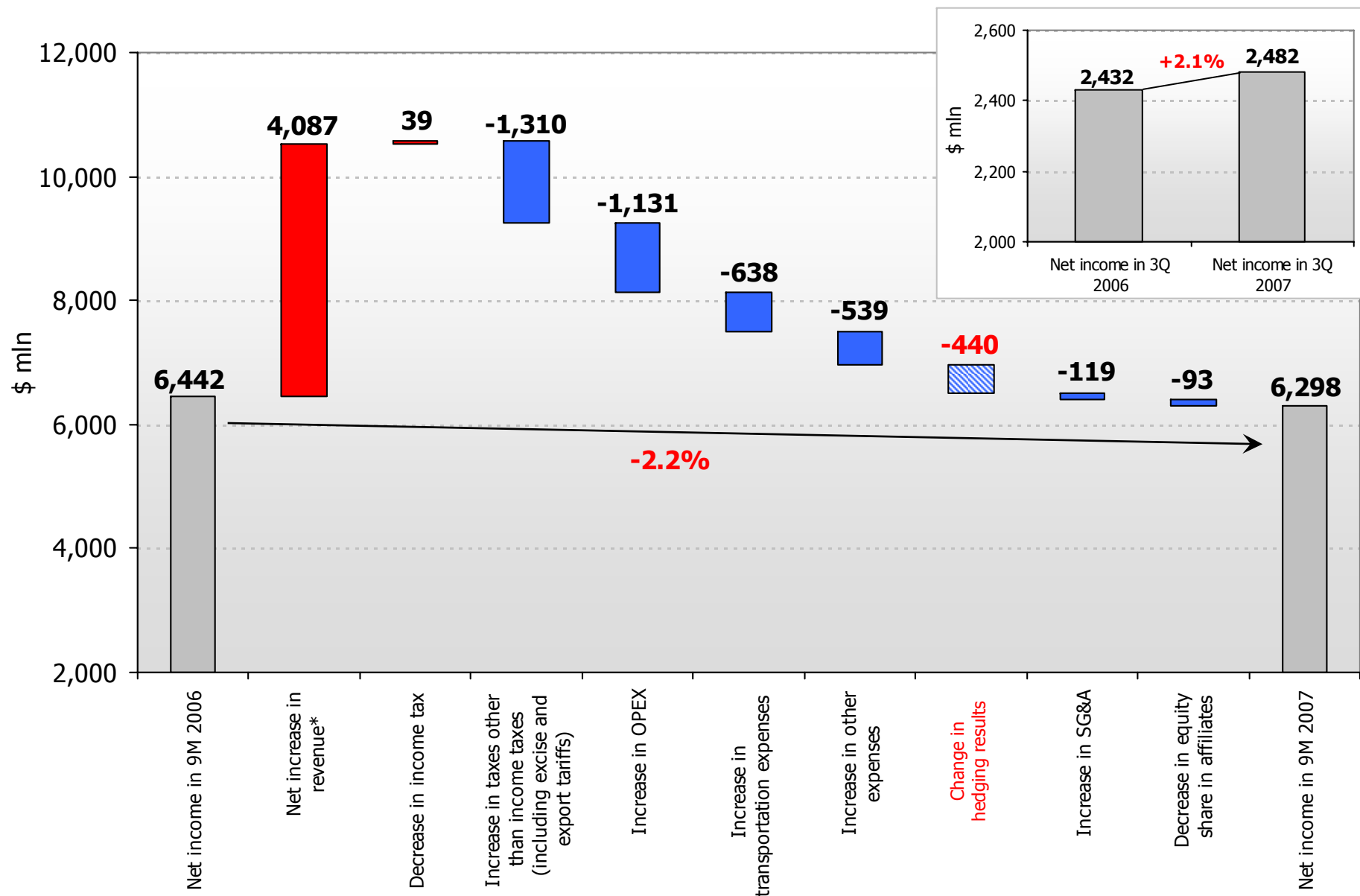
# Tax Burden

## Tax expenses of LUKOIL Group and crude oil price





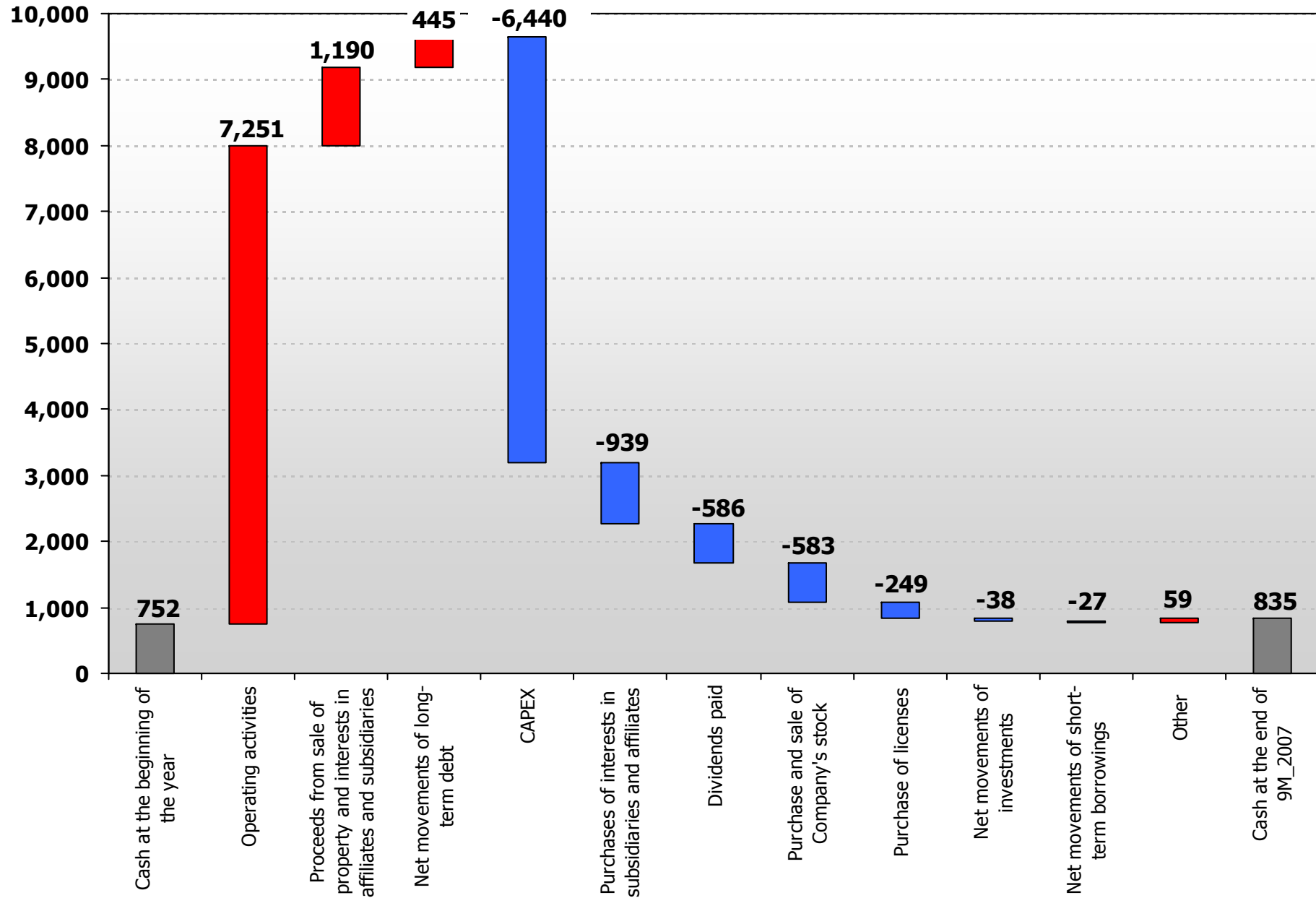
# Net Income Reconciliation



\* Increase in revenue less purchases of oil and petroleum products.



# 9M 2007 Cash Flow Reconciliation, \$ mln





# CAPEX Breakdown

3Q 2007	2Q 2007	Δ, %	\$ mln	9M 2007	9M 2006	Δ, %
<b>1,873</b>	<b>1,669</b>	<b>+12.2</b>	<b>Exploration and production</b>	<b>5,258</b>	<b>3,382</b>	<b>+55.5</b>
<i>1,659</i>	<i>1,475</i>	<i>+12.5</i>	<i>Russia</i>	<i>4,699</i>	<i>2,887</i>	<i>+62.8</i>
<i>138</i>	<i>104</i>	<i>+32.7</i>	<i>Including ConocoPhillips spending in Naryanmarneftegaz</i>	<i>366</i>	<i>190</i>	<i>+92.6</i>
<i>214</i>	<i>194</i>	<i>+10.3</i>	<i>International</i>	<i>559</i>	<i>495</i>	<i>+12.9</i>
<b>502</b>	<b>390</b>	<b>+28.7</b>	<b>Refining and marketing</b>	<b>1,169</b>	<b>961</b>	<b>+21.6</b>
<i>333</i>	<i>261</i>	<i>+27.6</i>	<i>Russia</i>	<i>743</i>	<i>632</i>	<i>+17.6</i>
<i>169</i>	<i>129</i>	<i>+31.0</i>	<i>International</i>	<i>426</i>	<i>329</i>	<i>+29.5</i>
<b>30</b>	<b>45</b>	<b>-33.3</b>	<b>Petrochemicals</b>	<b>119</b>	<b>126</b>	<b>-5.6</b>
<i>5</i>	<i>37</i>	<i>-86.5</i>	<i>Russia</i>	<i>60</i>	<i>88</i>	<i>-31.8</i>
<i>25</i>	<i>8</i>	<i>+212.5</i>	<i>International</i>	<i>59</i>	<i>38</i>	<i>+55.3</i>
<b>22</b>	<b>9</b>	<b>+144.4</b>	<b>Other</b>	<b>56</b>	<b>53</b>	<b>+5.7</b>
<b>2,427</b>	<b>2,113</b>	<b>+14.9</b>	<b>Total (cash and non-cash)</b>	<b>6,602</b>	<b>4,522</b>	<b>+46.0</b>



# LUKOIL Long-term Strategy Realization: 2005–2007 Results

Goals	Execution
Annual production growth rate <b>at least 5%</b>	Average annual production growth rate – <b>6.5%</b>
<b>Accelerated growth</b> of gas production	Average annual gas production growth rate – <b>over 50%</b>
<b>100%</b> reserves replacement ratio	<b>Over 100%</b> reserves replacement ratio
Increase of average flow rate per well to <b>12 tons per day</b>	Average flow rate per well increased <b>from 9.0 to 11.3 tons per day</b>
Maintaining corporate ROACE at the level of <b>at least 15%</b>	ROACE <b>over 20%</b>
<b>Control</b> over lifting costs	Lifting costs adjusted by real ruble appreciation are <b>almost steady</b>
Divesting non-core assets	Most of the non-core assets have been divested
<b>Decreasing</b> the number of companies in the Group	The total number of companies in the Group <b>decreased by 1.5 times</b> to slightly over 300