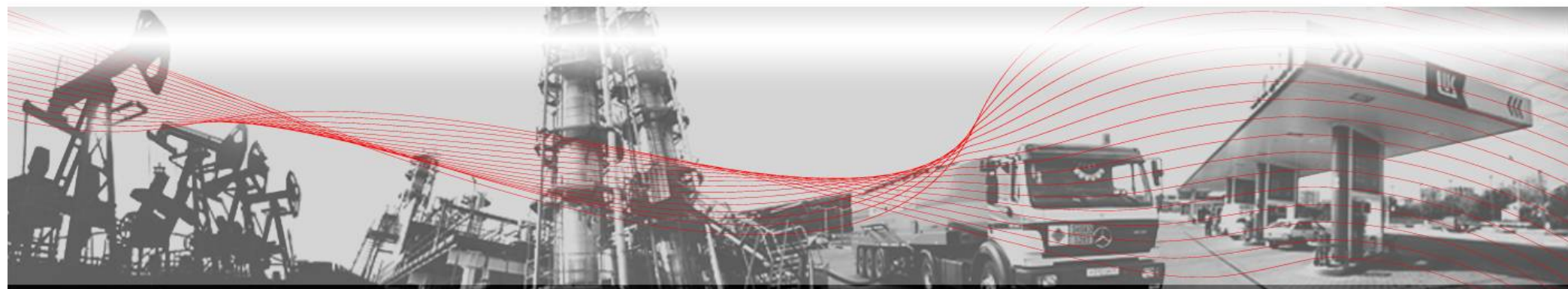




1H 2008 Financial Results

(US GAAP)

Leonid Fedun, Vice-President of LUKOIL



August 2008

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.

Executive Summary



- **Best ever** quarter and semi-annual financial results
- Significant **decrease in tax burden** – fast growth of the Company's cash flows
- Increase in refinery throughputs (**+7.4%**)
- Increase in marketable gas production (**+18%**), increase in marketable hydrocarbon production as part of international projects (**+18%**)
- Successful use of **M&A** opportunities in the R&M segment

1H 2008 Financial Highlights



- Sales – **\$56,890** million (**+59.0%** y-o-y)
- EBITDA – **\$ 11,082** million (**+74.5%**)
- Net income (excluding hedging and impairment losses) – **\$8,168** million (**+103.5%**)
- Reported net income – **\$7,293** million (**+91.1%**)
- Basic EPS – **\$8.70** per share (**+89.5%**)
- Reported net income per boe of production – **\$18.41** per boe (**+93.0%**)
- Free cash flow – **\$1,957** million (**+333.9%**)

Macroeconomic and Tax Environment



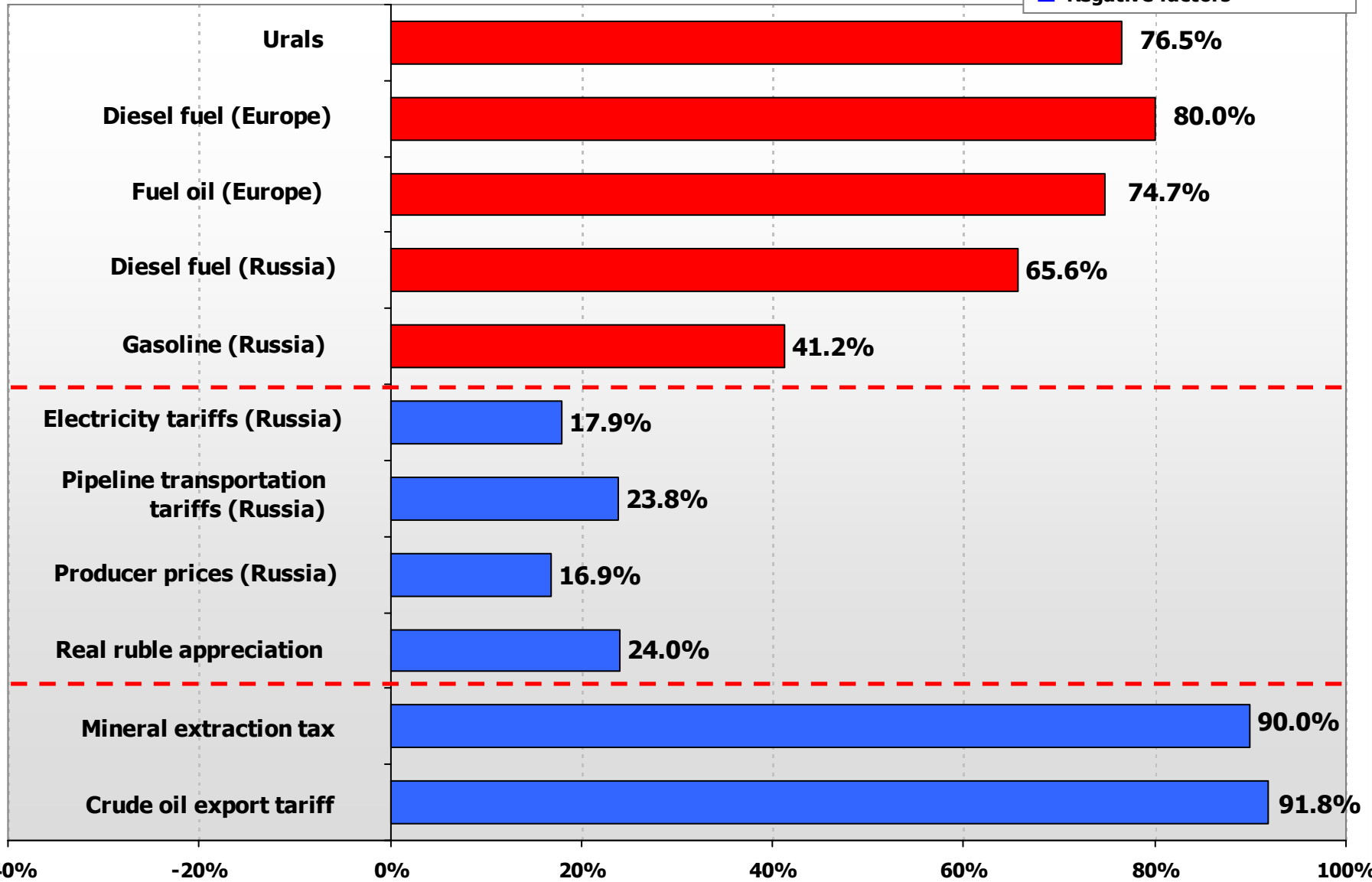
1H 2008 to 1H 2007

■ Positive factors
■ Negative factors

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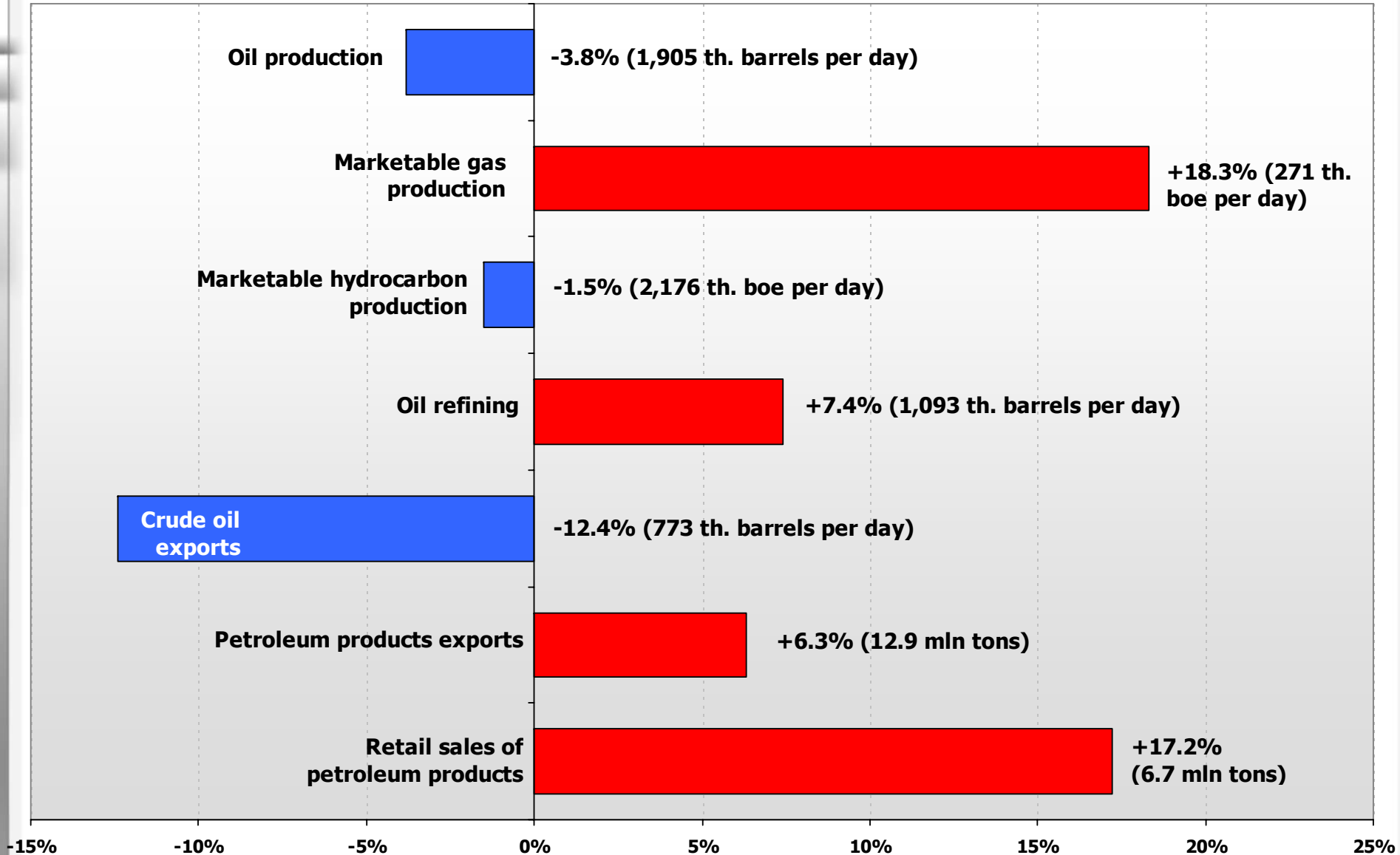
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Main Operating Results



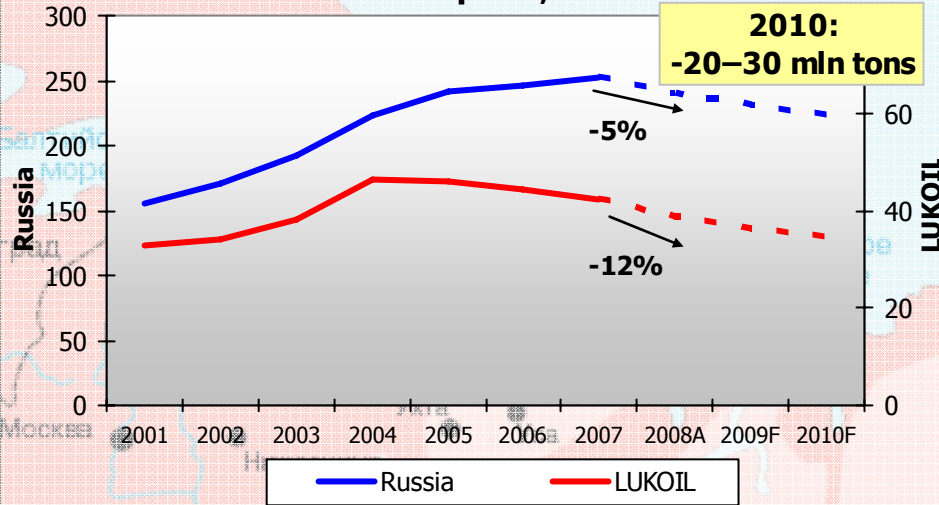
1H 2008 to 1H 2007 (1H 2008 actual level)



Russian Oil Export Market is Shrinking due to Increase in Domestic Demand and Petroleum Product Exports

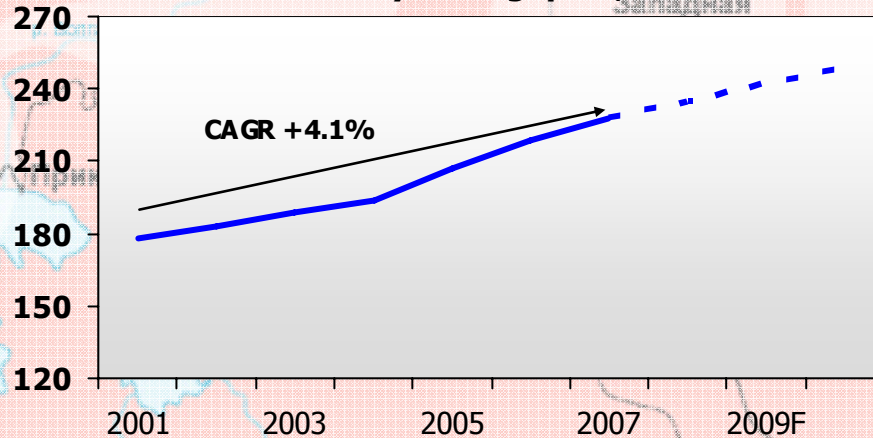


Crude oil exports from Russia and LUKOIL
crude oil exports, mln tons

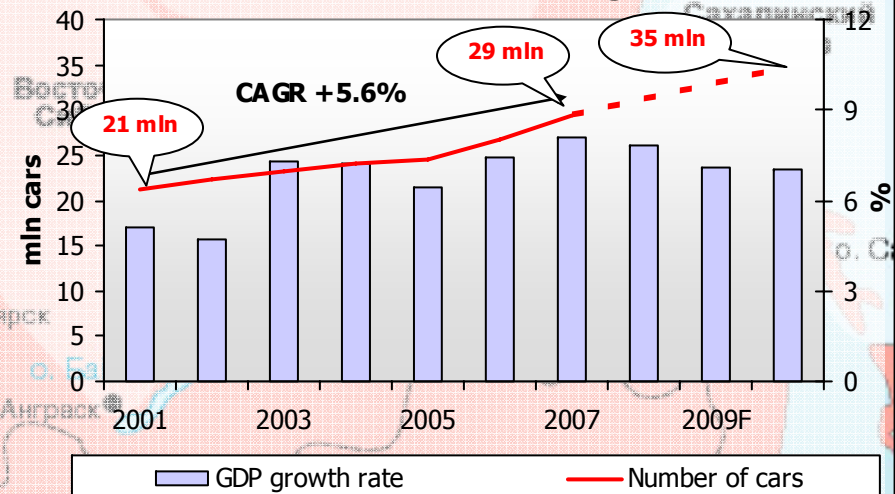


Russian supply of crude oil will decrease due to the high rates of growth of domestic demand for petroleum products and increase in petroleum product exports (the decrease could reach 20-30 mln tons)

Russian refinery throughputs, mln tons



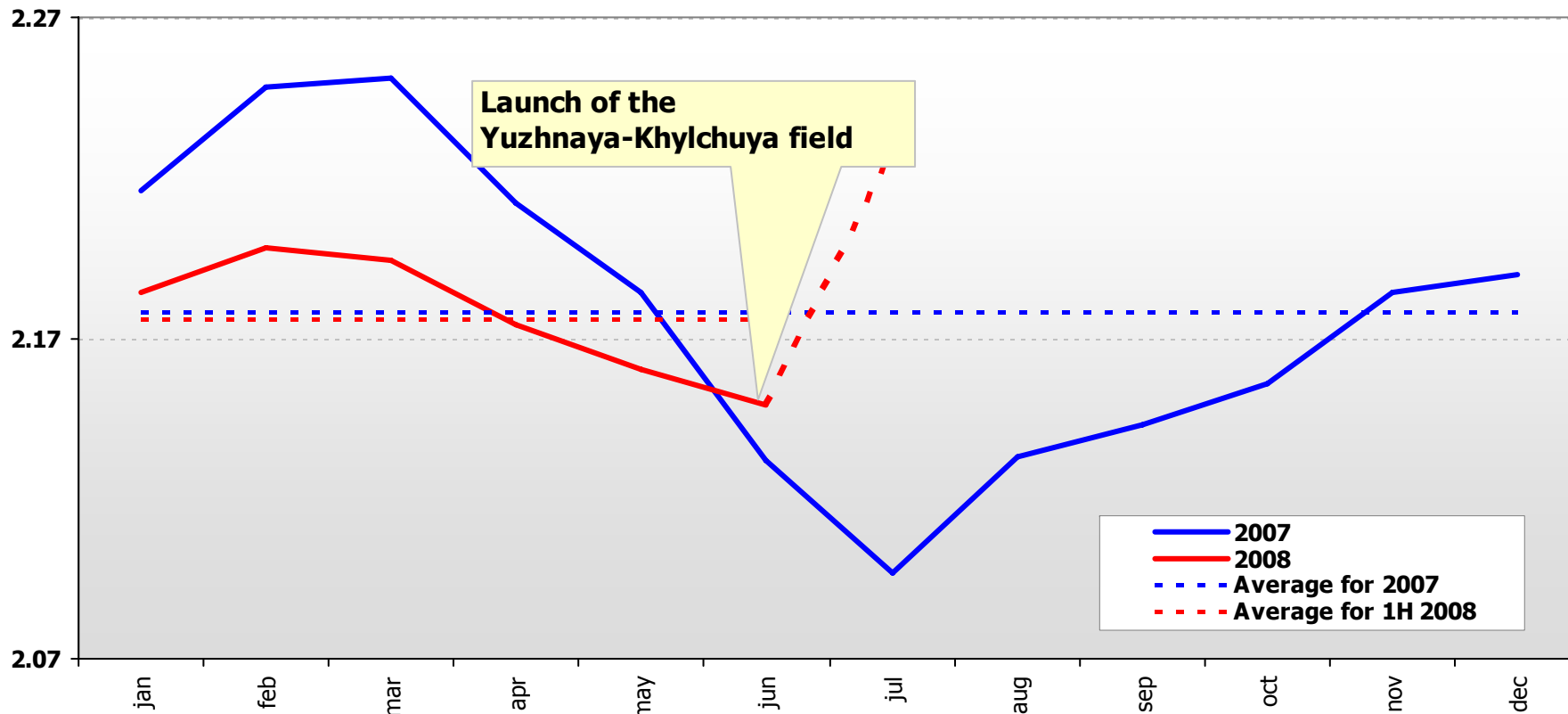
Russian car fleet and GDP growth



Marketable Hydrocarbon Production



Marketable hydrocarbon production, th. boe per day



LUKOIL Group marketable hydrocarbon production in 1H 2008 was 2.176 mln boe per day.

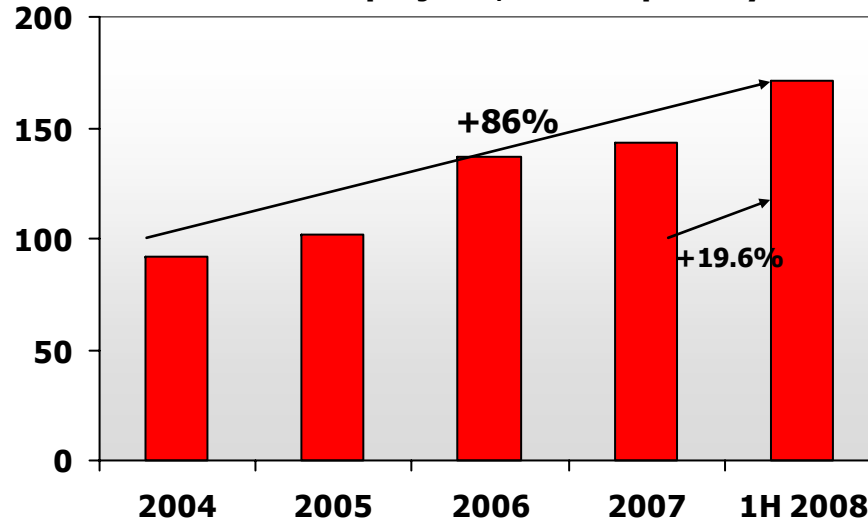
Crude oil production amounted to 346.7 mln barrels (47.0 mln tons).

Production of marketable gas increased **by 19.5%** to 8.4 bcm.

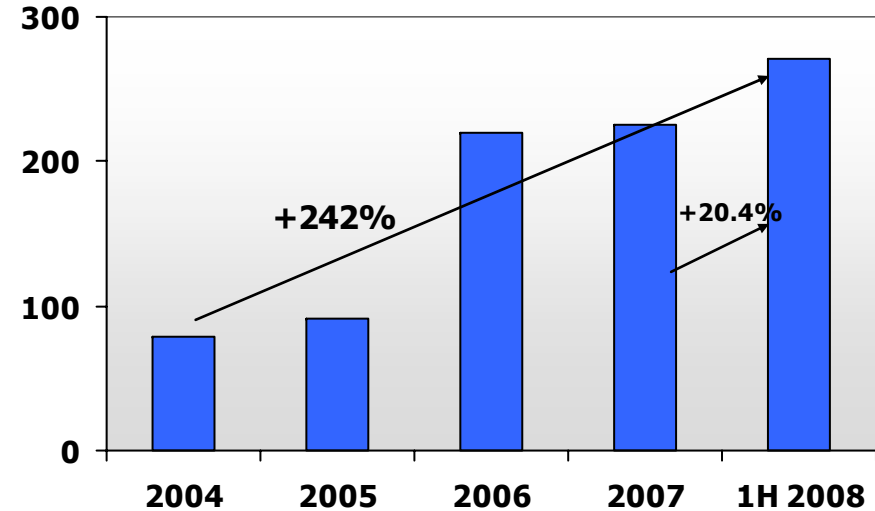
Focus on Accelerated Growth of Production in International Projects and Gas Production



Marketable hydrocarbon production as part of international projects, th. boe per day



Marketable gas production, th. boe per day



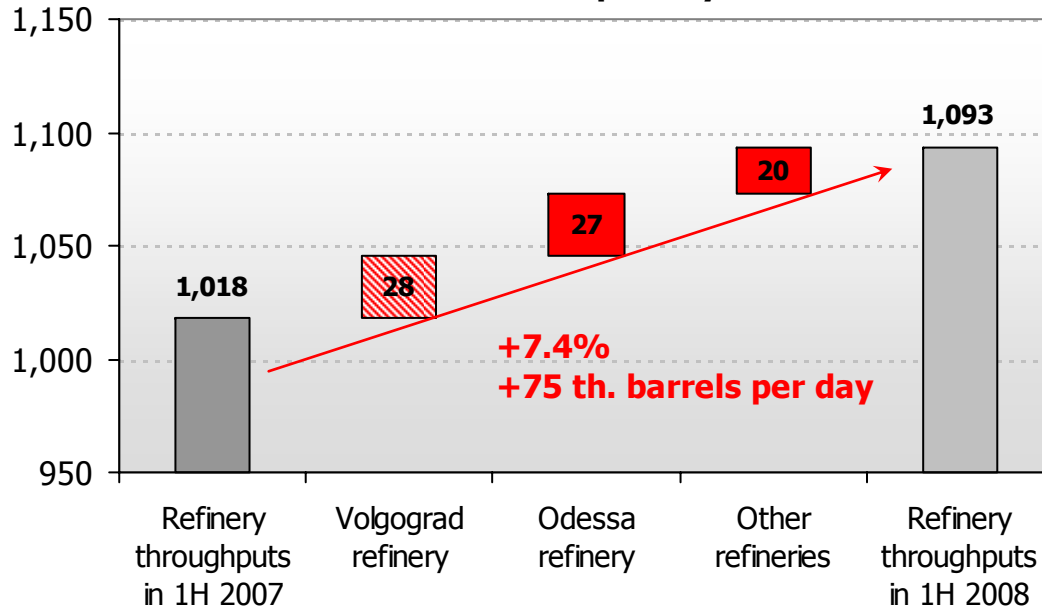
LUKOIL development strategy envisages accelerated growth of marketable hydrocarbon production as part of international projects and of marketable gas production.

Over the last 5 years marketable hydrocarbon production as part of international projects increased by 86%, marketable gas production – by 242%.

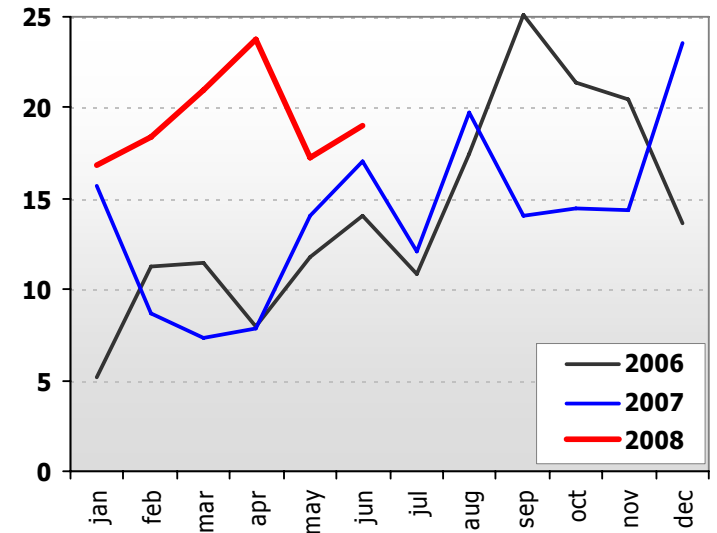
Crude Oil Refining



**Refinery throughputs reconciliation (y-o-y),
th. barrels per day**



**Refining margin of Russian cracking refinery,
\$ per barrel**



Odessa refinery was put back in operation in April 2008 after completion of a large-scale modernization which was begun in 2005.

In course of 3 years the Company rebuilt a distillation unit (increasing its annual capacity from 2.4 to 2.8 mln tons) and various other facilities, a visbreaking unit was installed. This unit will lower output of fuel oil and increase output of vacuum gas oil (from 4 to 25%) as well increase refining depth (from 56 to 78%).

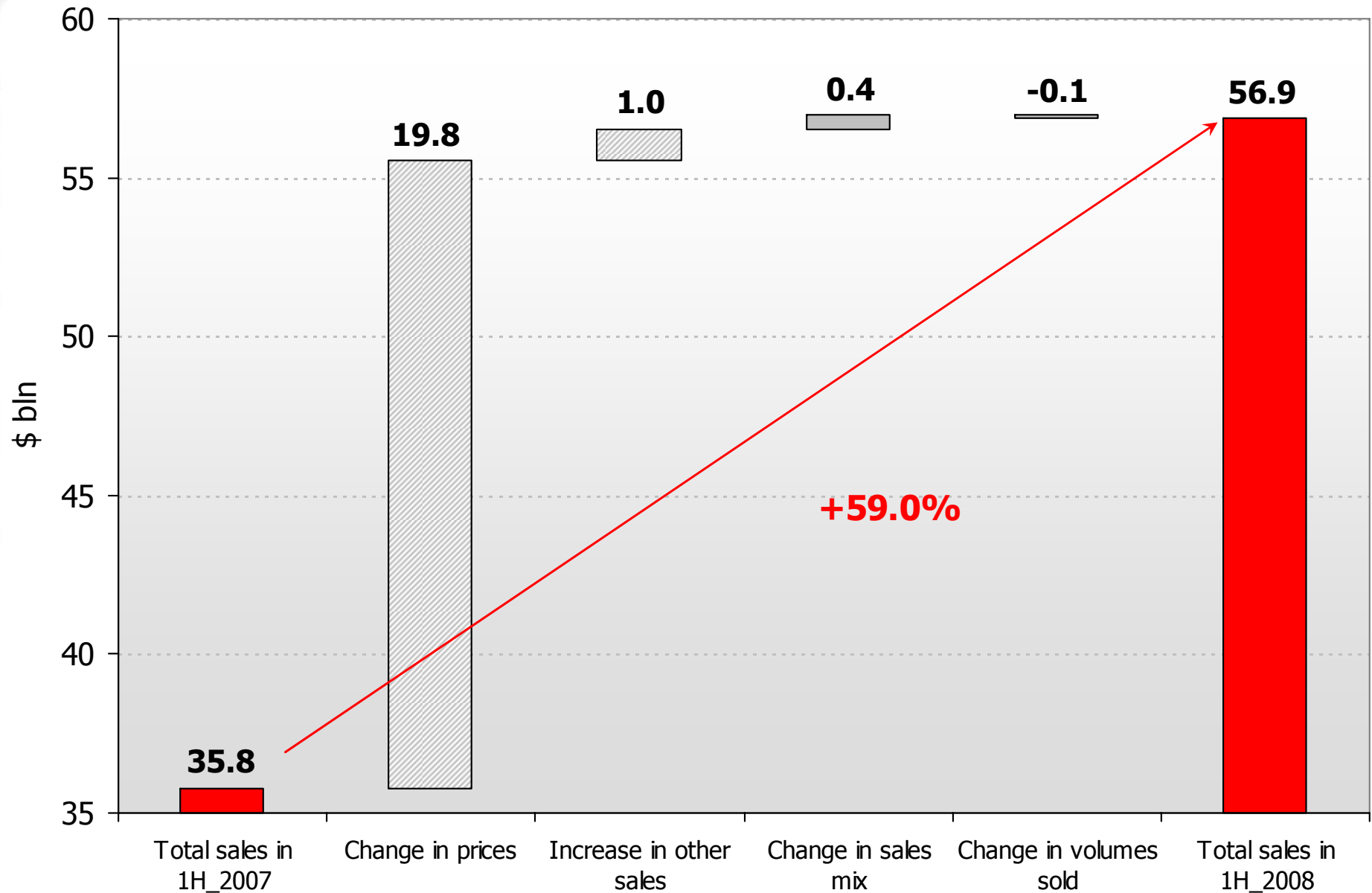
At present the Refinery can produce automotive gasoline to Euro-3 standards, diesel fuel to Euro-4 standards, jet fuel, petroleum bitumen and liquefied gas.

Financial Results

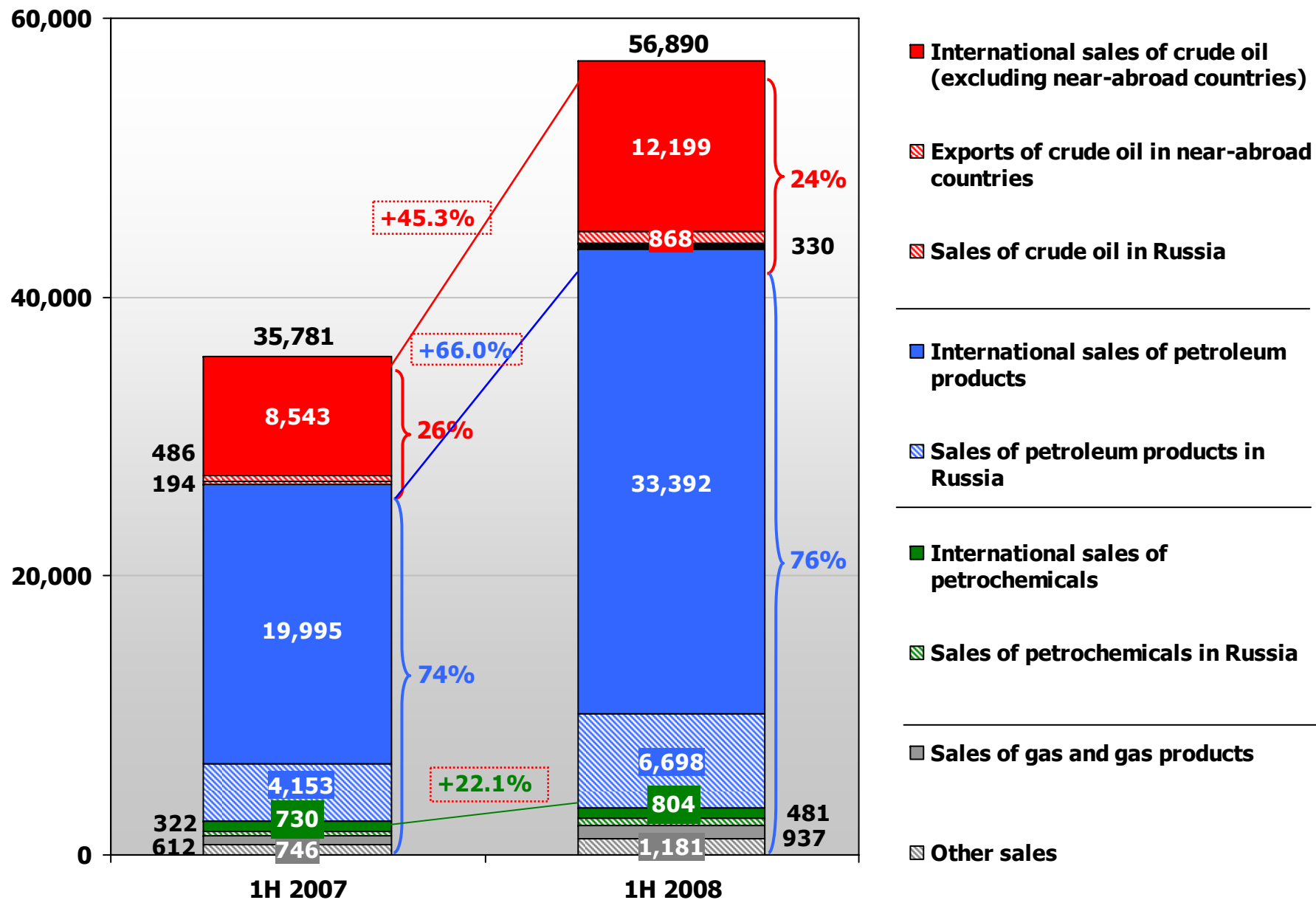


2Q 2008	2Q 2007	Δ, %	\$ million	1H 2008	1H 2007	Δ, %
32,088	20,196	+58.9	Total revenue	57,172	35,932	+59.1
(1,770)	(1,471)	+20.3	Operating expenses	(3,678)	(2,914)	+26.2
(8,814)	(5,615)	+57.0	Taxes other than income tax (including excise and export duties)	(16,528)	(10,712)	+54.3
5,700	3,448	+65.3	Income from operating activities	9,900	5,324	+86.0
5,490	3,306	+66.1	Income before income tax	9,665	5,143	+87.9
4,907	2,562	+91.5	Net income excluding hedging and impairment losses	8,168	4,014	+103.5
4,130	2,517	+64.1	Reported net income	7,293	3,816	+91.1
4.92	3.03	+62.4	Basic EPS, \$	8.70	4.59	+89.5
6,236	3,917	+59.2	EBITDA	11,082	6,349	+74.5

Sales Reconciliation



Sales Breakdown, \$ million



Operating Expenses



2Q 2008	2Q 2007	Δ, %	\$ million	1H 2008	1H 2007	Δ, %
823	699	+17.7	Hydrocarbon lifting costs	1,571	1,350	+16.4
287	218	+31.7	Own refining expenses	555	410	+35.4
107	55	+94.5	Refining expenses at third-party refineries	176	121	+45.5
31	48	-35.4	Excise included in processing fee paid to third-party refineries	64	96	-33.3
61	70	-12.9	Petrochemical expenses	141	134	+5.2
275	222	+23.9	Crude oil transportation to own refineries	537	411	+30.7
448	299	+49.8	Other operating expenses	832	516	+61.2
(262)	(140)	+87.1	Change in operating expenses in crude oil and refined products inventory originated within the Group	(198)	(124)	+59.7
1,770	1,471	+20.3	Total	3,678	2,914	+26.2
12,511	7,070	+77.0	Cost of purchased crude oil, gas and products	21,119	12,120	+74.2

OPEX Growth Drivers

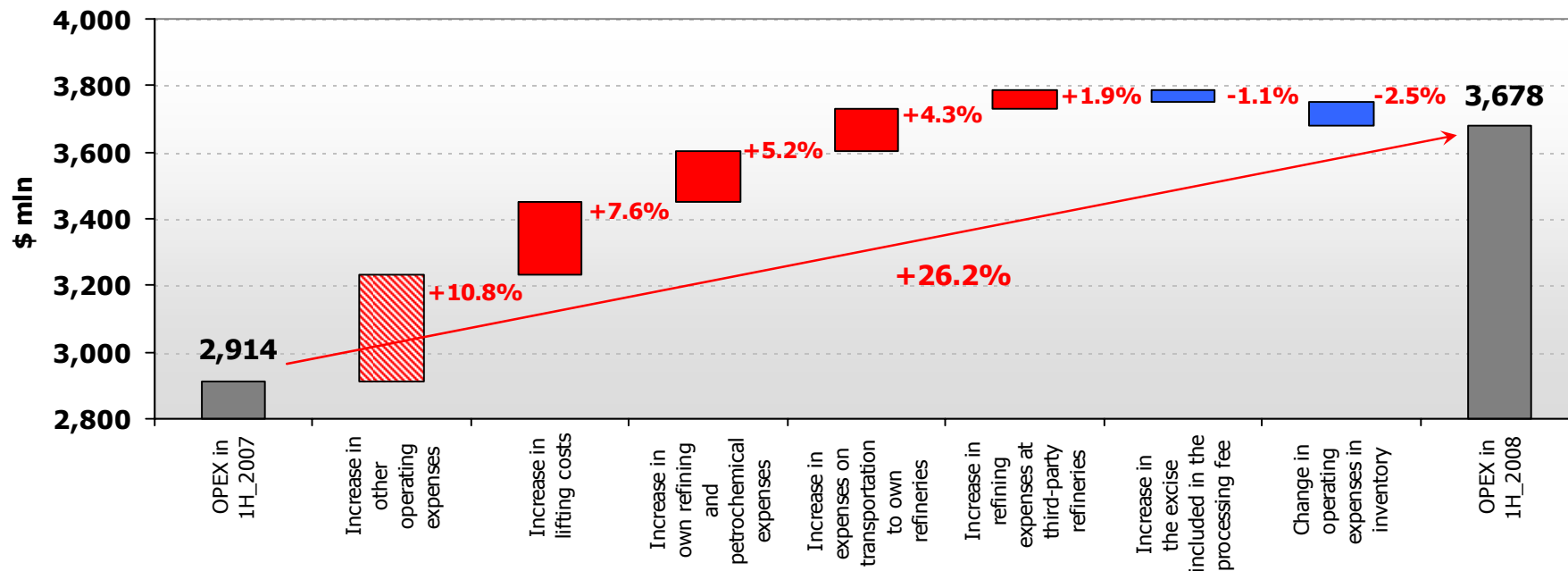
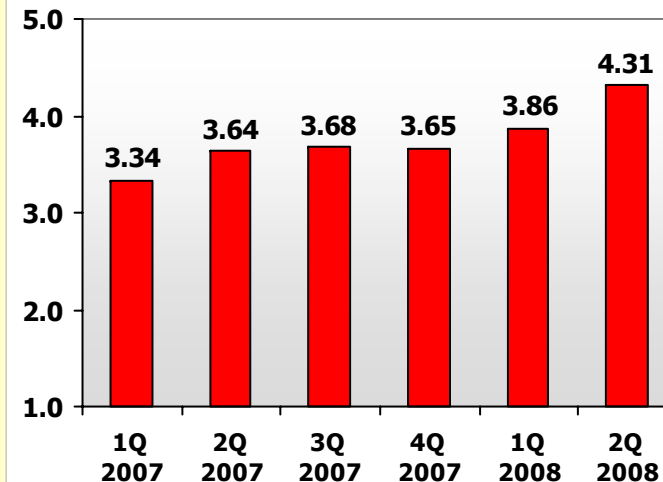


The substantial growth of operating expenses y-o-y was caused by the following factors:

- **real ruble appreciation**, which reached **24%** (1H 2008 to 1H 2007) and affected all operating expense items
- increase in other OPEX which comes from changes in LUKOIL structure (acquisition of TGK-8), rise in transportation volumes and other services rendered by LUKOIL abroad
- increase in lifting costs which was caused by increase in energy costs and other factors
- increase in transportation expenses due to increase in refinery throughputs and tariffs escalation

LUKOIL successfully controls hydrocarbon lifting costs and refinery expenses.

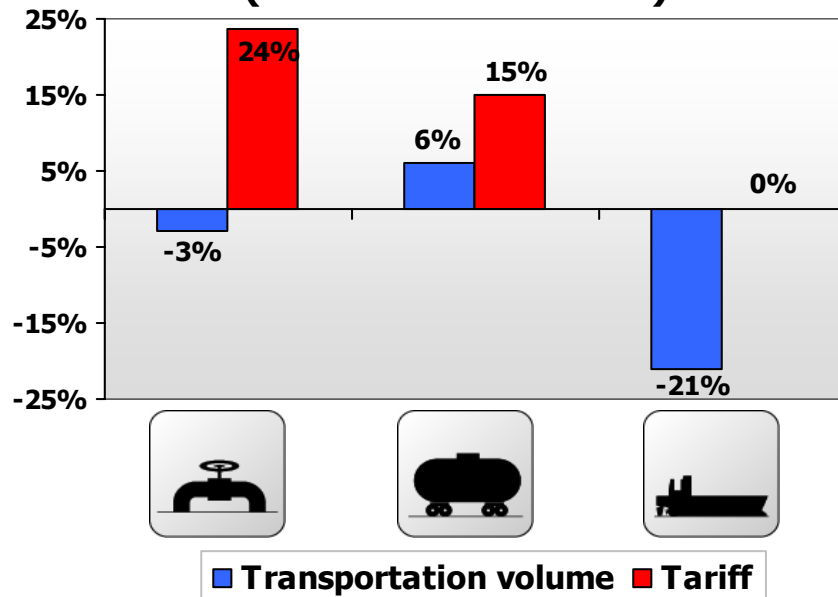
Lifting costs, \$/boe



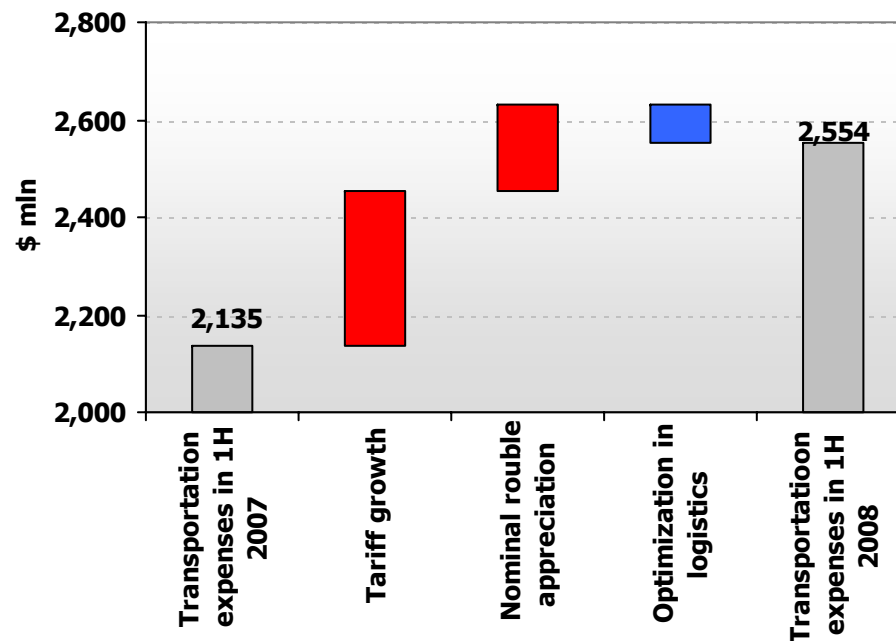
SG&A and Transportation Expenses



Transportation expenses (1H 2008 to 1H 2007)



Transportation expenses reconciliation

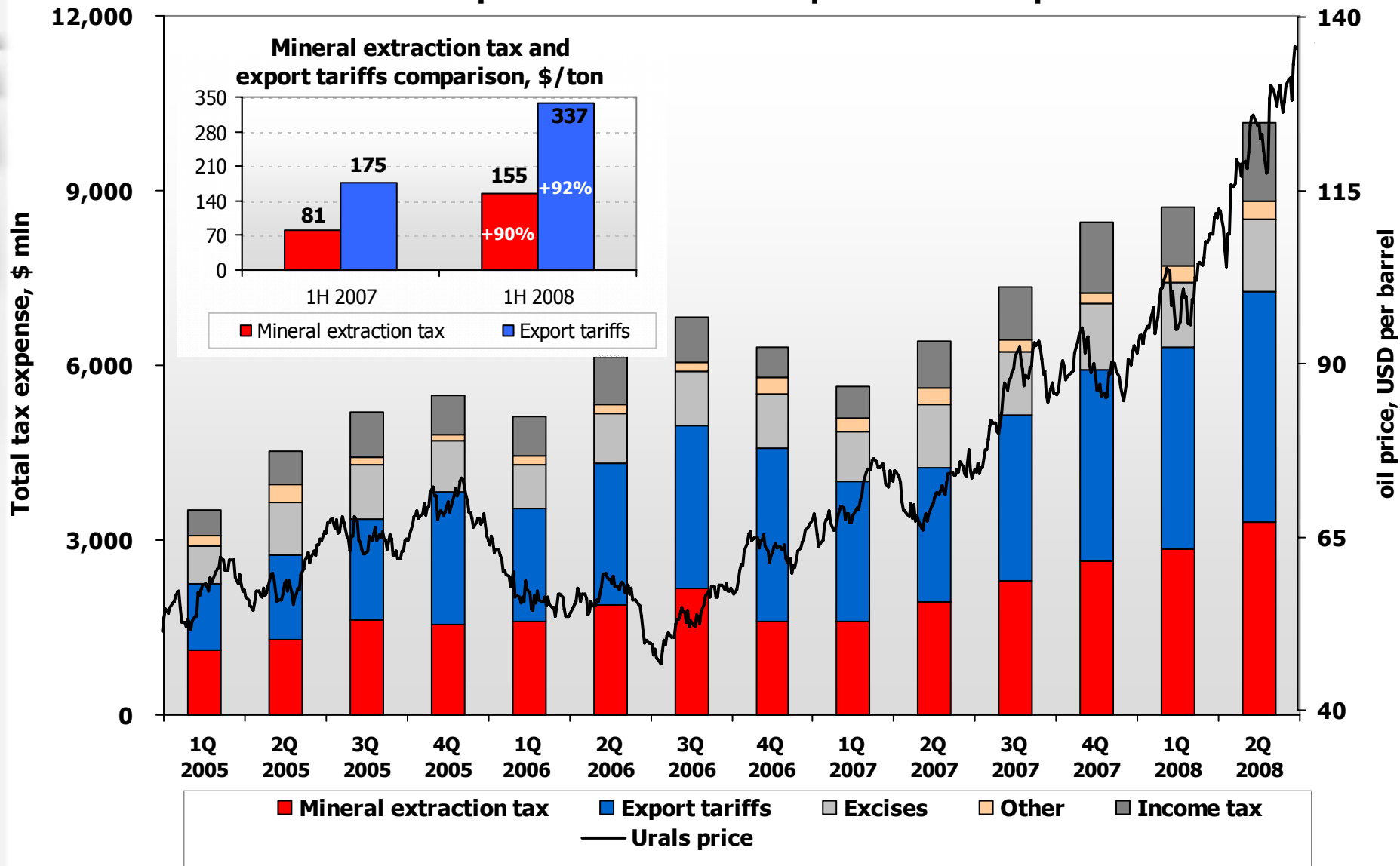


2Q 2008	2Q 2007	Δ, %	\$ million	1H 2008	1H 2007	Δ, %
1,359	1,148	+18.4	Transportation expenses	2,554	2,135	+19.6
994	800	+24.3	Other selling, general and administrative expenses	1,790	1,463	+22.4
2,353	1,948	+20.8	Total	4,344	3,598	+20.7

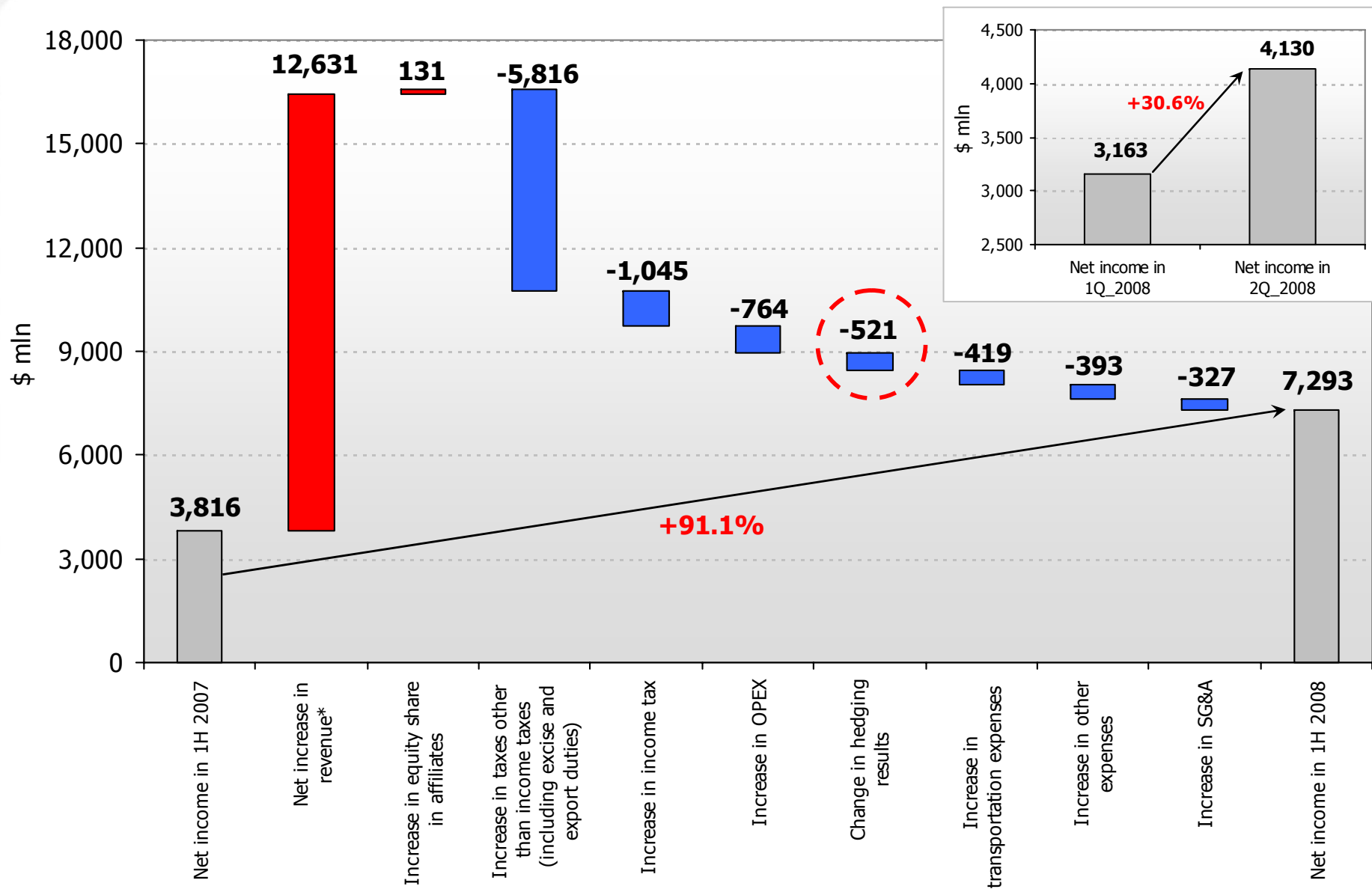
Tax Burden



Tax expenses of LUKOIL Group and crude oil price

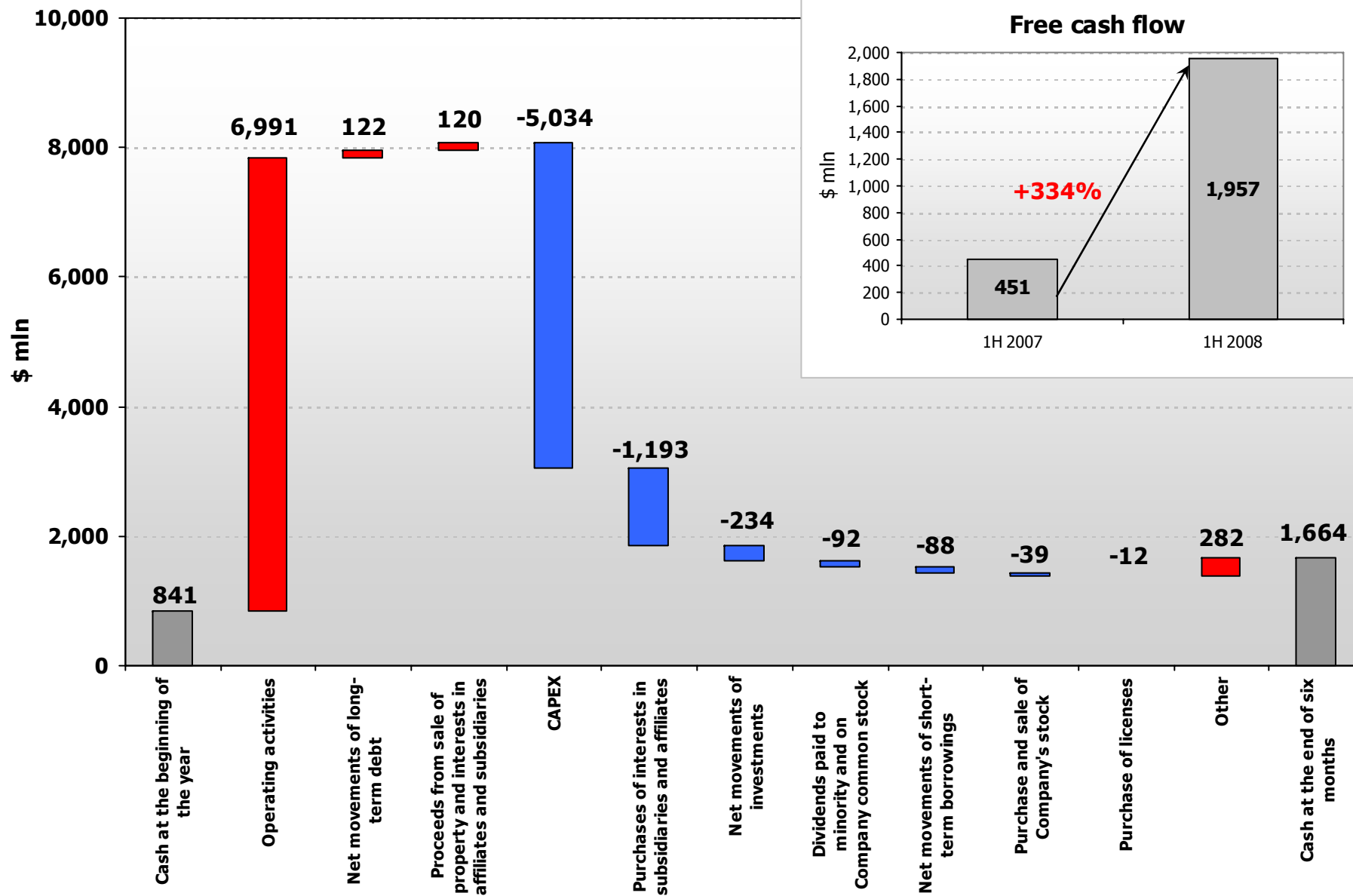


Net Income Reconciliation



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

1H 2008 Cash Flow Reconciliation



CAPEX Breakdown



2Q 2008	2Q 2007	Δ, %	\$ million	1H 2008	1H 2007	Δ, %
2,112	1,669	+26.5	Exploration and production	4,093	3,385	+20.9
<i>1,900</i>	<i>1,475</i>	<i>+28.8</i>	<i>Russia</i>	<i>3,679</i>	<i>3,040</i>	<i>+21.0</i>
<i>96</i>	<i>105</i>	<i>-8.6</i>	<i>Including ConocoPhillips spending in Naryanmarneftegaz</i>	<i>247</i>	<i>228</i>	<i>+8.3</i>
<i>212</i>	<i>194</i>	<i>+9.3</i>	<i>International</i>	<i>414</i>	<i>345</i>	<i>+20.0</i>
533	390	+36.7	Refining and marketing	889	667	+33.3
<i>321</i>	<i>261</i>	<i>+23.0</i>	<i>Russia</i>	<i>550</i>	<i>410</i>	<i>+34.1</i>
<i>212</i>	<i>129</i>	<i>+64.3</i>	<i>International</i>	<i>339</i>	<i>257</i>	<i>+31.9</i>
18	45	-60.0	Petrochemicals	45	89	-49.4
<i>5</i>	<i>37</i>	<i>-86.5</i>	<i>Russia</i>	<i>10</i>	<i>55</i>	<i>-81.8</i>
<i>13</i>	<i>8</i>	<i>+62.5</i>	<i>International</i>	<i>35</i>	<i>34</i>	<i>+2.9</i>
–	9	–	Other	48	34	+41.2
2,663	2,113	+26.0	Total (cash and non-cash)	5,075	4,175	+21.6

Tax Reduction



On July 22, 2008 Russia's President Dmitry Medvedev signed Amendments to the Tax Code effective from January 1, 2009:

- **Change in the base oil price** in the mineral extraction tax formula
- **Introduction of tax holidays** in a number of regions of the Company's presence
- Usage of **indirect method of produced oil registration** (mandatory requirement to use **direct method** was abolished) in order to obtain tax relieves for fields with high-viscosity oil and with depletion levels higher than 80%

**The effect from the above listed tax relieves (additional income before taxation) for LUKOIL is estimated at
\$24–27 bln in 2009–2017
(2009 – \$2.6–2.9 bln; 2010 – \$2.4–2.7 bln)**

Change in the Base Oil Price



$$\text{MET} = \frac{\text{Base tax rate} \times (\text{Oil price} - \text{Base oil price}) \times \text{Reserve exhaustion rate}}{\text{Base exchange rate (RUR/USD)} \times \text{Base oil price}}$$

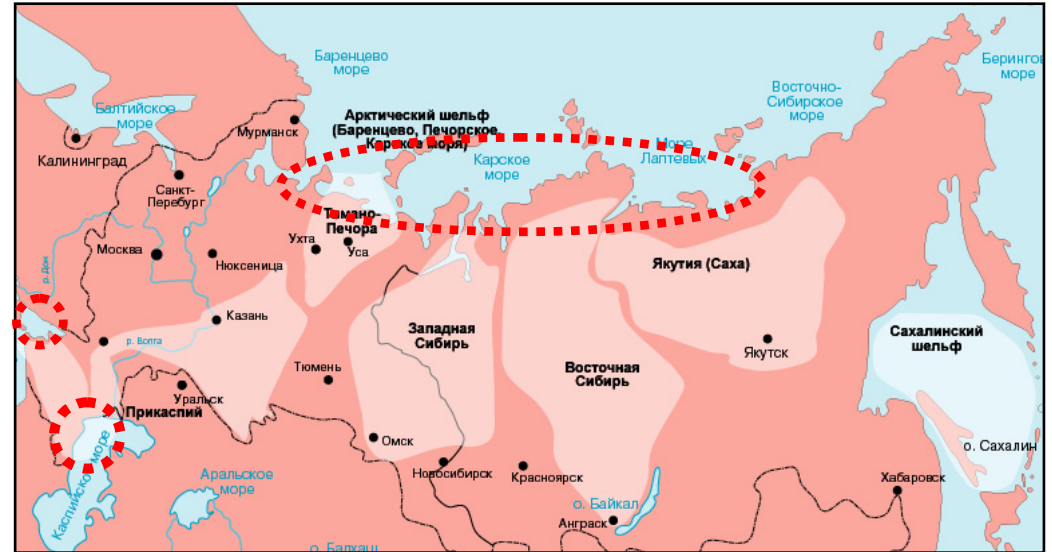
- **Base oil price** is increased from \$9 to \$15/barrel:
 - **419 x (monthly average Urals price in the Mediterranean and Rotterdam markets – 15)**
x average US dollar exchange rate/261

The tax burden will decrease by about \$9.6 per ton as a result.
The cumulative effect from the increase in base oil price is estimated
at \$8.4 bln in 2009–2017
(2009 – \$890 mln; 2010 – \$880 mln).

MET (Royalty) Tax Holidays



- The Law envisages tax holidays* in a number of regions:
 - to the north of **Polar Circle**, entirely or partly within inland sea waters and on the continental shelf of **Russia**
 - in the offshore **Azov and Caspian seas**
 - situated entirely or partly in the territory of **Nenets autonomous district**, the **Yamal Peninsula** in the Yamal-Nenets autonomous district



- At present LUKOIL has licenses for fields which are subject to the relieves in the offshore Azov and Caspian seas as well as in the Nenets autonomous district

In 2009–2015 LUKOIL crude oil output which is subject to the relieves in the Caspian region will amount to 10.9 mln tons, in Nenets autonomous district – 33.9 mln tons.

Thus, total remissions for the period will reach \$6.6–7.8 bln.

* Tax holidays are over once the cumulative production at the fields in the Caspian region exceeds 10 mln tons and at the fields of the Nenets autonomous district – 15 mln tons; or after 7 years (exploration and production; for licenses issued before 01.01.09) and 12 years (finding, exploration and production).

Tax Relieves for Fields with High Depletion Levels



LUKOIL output subject to the relieves (mln tons) and the amount of remissions (\$ mln)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Output, mln tons	8.8	8.2	8.5	12.1	12.0	11.4	11.4	10.6	9.9	92.9
Remission, \$ mln	250-300	280-330	310-360	360-430	410-490	510-610	590-710	670-790	720-860	4,100-4,900

- **The Tax Code now envisages usage of indirect method of produced oil registration (along with the direct method) which enables application of the relieves to the highly depleted fields without necessity to carry out capital-intensive preparatory works for introduction of the direct method.**
- **At present LUKOIL is developing 54 fields which are more than 80% depleted. The number of highly depleted fields will exceed 100 by 2017.**

Tax Relieves for Fields with High-Viscosity Oil



LUKOIL output subject to the relieves (mln tons) and the amount of remissions (\$ mln)

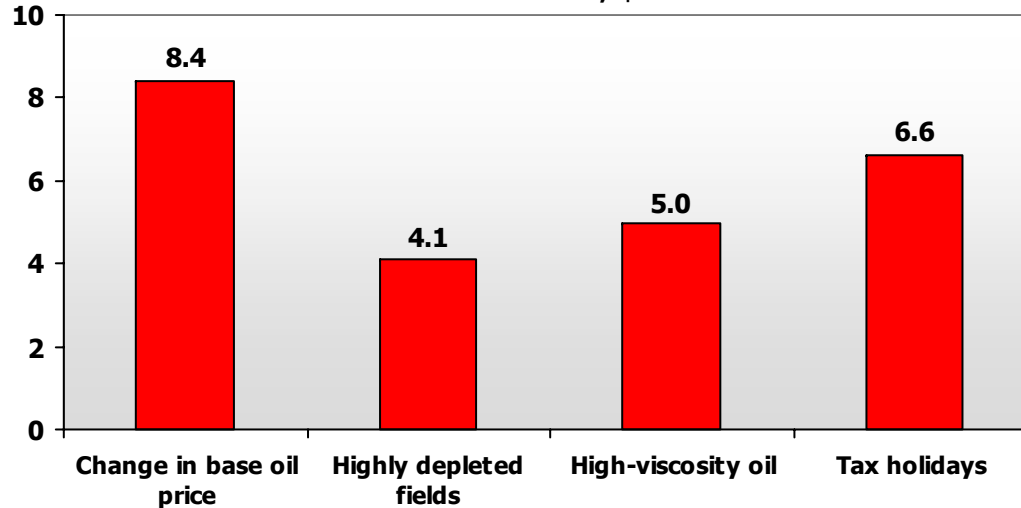
	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Output, mln tons	2.3	2.3	2.5	3.0	4.1	4.6	4.6	4.5	4.5	32.4
Remission, \$ mln	310-370	320-380	350-410	430-510	610-730	710-840	730-870	750-890	770-920	5,000-5,900

- LUKOIL produces high-viscosity oil at two fields – **the Yaregskoye field and the Usinskoye field (permocarbon deposit)** with total 3P reserves of 1.1–1.4 bln boe
- Tax relieves for fields with high-viscosity oil were introduced by the previous wording of the law
- Introduction of indirect method of produced oil registration significantly simplifies application of the tax relieves for fields with high-viscosity oil

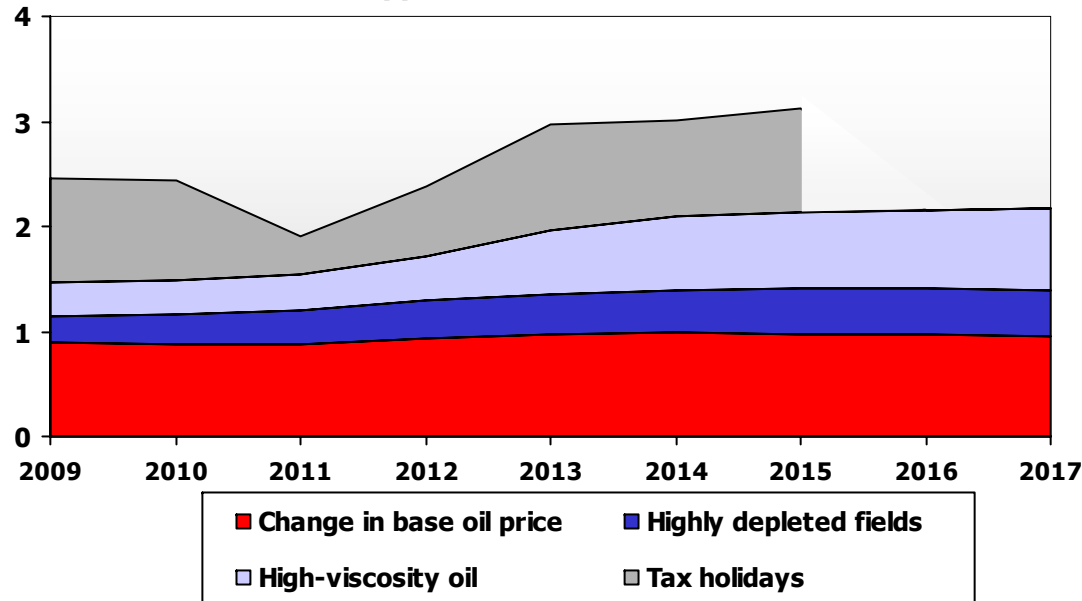
Total Tax Relieves Effect



Cumulative effect from application of the tax relieves in 2009–2017, \$ bln



Effect from application of the tax relieves, \$ bln



The effect from application of the tax relieves for LUKOIL is estimated at **\$24–27 bln** in 2009–2017

Decrease in tax burden together with increase in cash flows contribute to the **rise of LUKOIL value by 20–22%** (discount rate – 10%)

Further Steps to Decrease Tax Burden in Russia (under consideration)



- **Increase in base oil price in the export tariff formula from \$15 to \$25 per barrel**
- **Single export tariff rate for light and dark petroleum products**
- **Change in structure and rates of excises for petroleum products**

Launch of the Major Project in Timan-Pechora



- In June 2008 LUKOIL started first stage production at the Yuzhnaya-Khylchuya field, the biggest field in the Nenets autonomous district, in test regime (commercial production began in August 2008).

Launch of the second stage of the field is scheduled for December 2008.

- Proved oil reserves (as of 01.01.2008) – more than 500 mln barrels
- Yuzhnaya-Khylchuya 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 field is to be developed with 64 wells (average daily output up to 4,500 barrels)
- Planned production level – **7.5 mln tons of crude oil per year (over 150 th. barrels per day)**
- Transportation via **Varandey terminal** which allows year-round oil shipment to Western Europe and the USA from the fields in the Northern Timan-Pechora. The capacity of the terminal is 12 tons per year



Expanding Overseas R&M Capacities



Strategic location of ISAB:

- larger crude and products trading position in the Mediterranean market
- access to a pricing center in the Mediterranean basin
- opportunity to supply petroleum products to almost **3,000 filling stations of the Group**
- larger arbitrage opportunities based on Black sea – Mediterranean differentials
- acquisition of ISAB refinery opens new, more profitable, ways of allocating crude oil

Given the expected level of refining margin the deal will **increase the Group's income by around 1%** (including financing expenses)

Additional **synergy** from the transaction is estimated at **about \$400 million**

ISAB – 160 th. barrels per day (Group's share)

Odessa Refinery (57 th. barrels per day)

Petrotel LUKOIL (49 th. barrels per day)

Burgas refinery (178 th. barrels per day)

crude oil to the region

Acquisition of Akpet network in Turkey - 693 filling stations/5% of the Turkish market

Conclusions



The Company plans to develop dynamically exceeding market expectations thanks to:

- Tax burden decrease
- Accelerated refinery throughputs growth
- Gas production and processing expanding
- Cooperation with state companies
- Accelerated development of international E&P and R&M segments