

**Open Joint Stock Company «Oil company «LUKOIL»**  
**Summary activity results of 2004 and major objectives for 2005**

**The Company** continued to develop its business in 2004 maintaining stable financial ground which allowed to meet obligations before shareholders, creditors and the state. In 2004 Company's strategy was continued to be implemented. It was aimed at qualitative growth, shareholder value maximization and profit growth on invested capital. 2004 saw favorable business environment on the oil and petroleum products market which along with the enhancement of operating efficiency allowed the Company to reach significant financial results.

During the accounting period the Company's efforts were aimed above all at enhancing operating efficiency in terms of geological exploration, production, refining and marketing; corporate structure was continued to be optimized and corporate governance was also continued to be improved.

2004 observed an important event: OAO «LUKOIL» and ConocoPhillips, an American oil producer, signed a partnership agreement. This agreement will help implement the Company's strategic objectives by way of exchanging experience and completing joint projects.

**Financial results excluding subsidiaries** Revenue from sales of goods, products, work and services (less VAT, excise taxes and similar compulsory payments) rose up to 365 bln. rubles (in 2003 this figure came to 262 bln. rubles), net profit was 78 bln. rubles (in 2003 it was 48 bln. rubles).

**Geological exploration and oil and gas reserves** In 2004 as well as in 2003 major geological exploration was concentrated in Timan-Pechora oil and gas province, in Bolshekhetsk Depression of Yamalo-Nenetsk autonomous district, in the water area of the Caspian sea and in Western Siberia.

As of January 1, 2005 proven hydrocarbon reserves of the LUKOIL Group according to international classification\* were estimated at 20,1 bln. barrels of oil equivalent, including oil reserves reaching 16,0 bln. barrels and gas reserves which came to 24,6 trillion cubic feet.

Over 2004 hydrocarbon reserves of the LUKOIL Group including production rose by 3,4% and by 0,1% excluding production. Replenishment of hydrocarbon production due to the increment of proven reserves was estimated at 102,3%. Major incremental reserves were received in Western Siberia. Replenishment of crude production due to the increment of proven reserves was estimated at 99,2%.

**Crude production** Crude production of the LUKOIL Group in 2004 came to 86,2\*\* mln. tons including subsidiaries which produced 82,4 mln. tons. 2004 daily production rate of the LUKOIL Group rose by 7,1% compared to 2003.

In 2004, while implementing OAO «LUKOIL»'s *Comprehensive program for optimization of development and production of oil in 2003-2005* 1 161 low debit and high-flooded oil wells were taken out of operation which along with the use of modern technologies designed to increase crude production rate and horizontal wells drilling allowed to increase average debit of oil wells by more than 10% up to 10,7 tons per day and to cut the water content of products.

**Gas Production** In 2004 gas production of the LUKOIL Group was estimated at 6,47 bln. m<sup>3</sup> including production at subsidiaries equal to 6,21 bln. m<sup>3</sup>. The Company's daily average production took a rise of 14% compared to 2003.

---

\* In 2004 Miller and Lents (USA) held an annual (tenth) technical and economic audit of the LUKOIL Group reserves in accordance with requirements of the American Society of Petroleum Engineers (US SPE).

\*\* In accordance with US GAAP methodology it includes production of subsidiaries and a share in the production of dependent organizations. In 2003 processing on outsourced refineries was estimated at 1,2 mln. tons, which in 2004 it came to 1,3 mln. tons.

The share of associated gas in the overall production was estimated at 71,8% which made 4,64 bln. m<sup>3</sup>. The share of natural gas came to 1,83 bln. m<sup>3</sup> and rose by 39,7% compared to 2003. The use of associated gas came to 80,5% which stands at the level of 2003.

**Crude refining** In 2004 crude refining volumes rose by 4% (45,3 mln. tons compared to 43,5 mln. tons in 2003, including processing at third-party refineries), production of high grade engine fuels saw a rise which resulted in the Company's refinery upgrading program.

In October of 2004 upgrading of Petrotel-LUKOIL refinery located in Romania was completed. 120,7 mln. dollars was invested in the reconstruction of the plant.

**Petrochemistry products output** In 2004 the Company's petrochemical plants in Russia and the Ukraine produced more than 1,89 mln. tons of products, which is 7% above the level reached in 2003. Besides, the output at Lukoil Neftokhim Burgas came to 350 tons of petrochemical products.

**Refining of raw material at the Company's gas processing plants** In 2004 gas processing plants of the LUKOIL Group refined 2 566 mln. m<sup>3</sup> of gas raw material and 379 thousand tons of wide fraction light hydrocarbons. The output came to 2 091 mln. m<sup>3</sup> of gas products, 482 thousand tons of liquefied gases and 125 thousand tons of liquid hydrocarbons (stable natural gasoline, isopentane and hexane heptane fractions).

**Crude export** In 2004 crude export of the LUKOIL Group (export of subsidiaries and associated companies of the Group from their own crude resources) from Russia rose by 21,3% compared to the same year period of the previous year and came to 45,7 mln. tons (55,3% of overall production).

**Petroleum products sales** In 2004 petroleum products under the LUKOIL brand mark were marketed at more than 5 000 filling stations in Russia, CIS countries, Europe, the Baltic states and in the USA.

In 2004 OAO «LUKOIL»'s **Strategic development program** continued to be **implemented**. The program is aimed at enhancing operating efficiency and increasing the Company's shareholder value:

- **Geological exploration and production sector:** In 2004 new geological exploration technologies were continued to be introduced, which was aimed at increasing operating efficiency. To enhance oil production efficiency modern technologies developed to increase crude production rate were applied.
- **Crude refining sector** Load was increased at the Company's Russian refineries which processed 35,5 mln. tons of crude; production capacity utilization was almost 85% (as compared to 83,2% in 2003). After a three-year upgrading process Petrotel-LUKOIL in Romania was put into operation.
- **Sale of non-core assets** In May of 2004 78% of the LUKOIL Group's share worth 169 mln. dollars was sold to OAO Petrokommerz bank. The rest 17% is to be sold in the second quarter of 2005. In December of 2004 100% of the LUKOIL Group's share worth 69 mln. dollars was sold to OOO LUKOIL-Burenie.

**OAO «LUKOIL» shares are among the most liquid stock market instruments.** In the reporting year the Company's shares were traded at Russian stock markets, including OAO RTS Stock Exchange, RTS Stock Exchange, a non-commercial partnership, Moscow Central Stock Exchange, Saint Petersburg Stock Exchange. There are a little less than 70 thousand Russian and foreign individuals and organizations among OAO «LUKOIL»'s

shareholders. During 2004 American and global depositary receipt programs continued to run for the Company's shares which were traded on London, Berlin, Frankfurt, Munich, Stuttgart, Düsseldorf stock exchanges as well as on the OTC market in the USA.

In the accounting year the Company's share value rose faster than Russian stock indexes in general which suggests that OAO «LUKOIL» investment attractiveness experienced a significant upturn. In the end of 2004 OAO «LUKOIL»'s share quotes rose by 30,54% as compared to 50,78% in the end of 2003, RTS index growth was estimated at 8,26% (57,98% in 2003).

**The Company's major objectives for 2005** In 2005 the Company will exert its best efforts to provide stable and successful operations on the market to increase shareholder value. The previous year showed it was possible to balance out the Company's long-term and short-term objectives in order to reach the desired economic effect.

The Company's major objectives for 2005 are:

- Continue to increase operating activity in all sectors by using modern technologies, optimizing corporate structure and controlling costs.
- Keep the daily average hydrocarbon production rate at 6%.

Among basic measures aimed at increasing the Company's market capitalization is meticulous abidance by the principles of the Strategic development program before 2014 regarding operating costs reduction, efficient distribution of oil reserves, optimization of the assets portfolio and improvement of corporate governance. These objectives, when implemented, will allow to meet the obligations given to shareholders and investors to increase the Company's value and shareholder profits.

**OAO «LUKOIL» Board of Directors**