

PRESS RELEASE  
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LUKOIL BOARD OF DIRECTORS SUMS UP 1H99 RESULTS

LUKOIL Board of Directors gathered in Moscow to review results of the company's performance in 1H99 and objectives for further successful performance in 1999.

Over the first half of the year the company extracted 32.4 million tons of crude oil, 564,000 tons more yoy. The gas production amounted to 2 billion cubic meters, 7.5% more yoy.

Commercial oil reserves grew by 15.3 million tons. The number of producing wells increased by 1,456 wells.

In 1Q99, the two refineries owned by the company processed more than a half of the total oil produced over this period. Motor gasoline production increased by 5% due to further increase in refining depth. The share of premium gasolines in the total gasoline production rose from 38% to 47.7%. Diesel fuel production totaled 2.47 million tons, 10.2% more yoy. Lubricants production reached 360,000 tons, or 10% more yoy. All the gasoline produced was sold in the domestic market.

In 1H99, the Company invested 1.2bn rubles in the upgrade of its refineries. The capex per 1 ton of oil processed were 1.8 times higher than the average figure for the Russian oil industry.

LUKOIL supplied 3.4% more of oil to Russian refineries than it was envisaged by the ministry for fuel and energy of the Russian Federation. The company expanded its oil supplies to refineries in the Republic of Bashkortostan as well as to the Moscow, Kirishi, Saratov and Tuapse refineries.

In 1H99, LUKOIL exported 15.4 million tons of crude oil which is equal to 1H98 exports. The company also exported 2 million tons of refined products, or 0.2 million tons less the targeted figures.

The net profit of LUKOIL holding and 21 subsidiaries amounted to 9bn rubles.

It was stressed by the Board of Directors that in 1H99 the company managed to slow down the escalation of its debts receivable and payable. Nevertheless, the company's additional revenues boosted by the favorable oil prices do not yet have any marked impact on the operating and investment performance of LUKOIL since

the bulk of its revenues is used to repay duties to the federal budget and non-budget state funds as well as to repay debt. A substantial amount of funds is kept frozen as it is owed by the customers. Since the beginning of the year, the debt to the company for petroleum products shipped for the needs of agriculture has increased by 650m rubles and exceeded 1bn rubles.

The Board of Directors approved for the program of the petrochemical complex development until 2005. Over 6 months of 1999 the company produced 284,000 tons of petrochemicals, including 101,300 tons of polyethylene. The petrochemical production is expected to exceed 2 million tons in 2005. And the estimated annual petrochemical margin will reach some \$170m.

The Board of Directors also considered a program on reorganization and development of petroleum products marketing for the period 2000-2002. Under the government contracts the company supplied over 360,000 tons of petroleum products to 17 regions of Russia, 365,000 tons for the needs of railroads, 641,000 tons for energy facilities of the RAO UES (Unified Energy Systems).

The Board of Directors made a decision to complete the construction of the lubricant filling plant in the Republic of Adygeya.

It was pointed out that the company's priority task is to implement cost-cutting measures in the sphere of production and refining of oil and marketing of petroleum products.

The Board of Directors concluded that LUKOIL's positive operating performance create a ground for further production growth and improvement of financial results provided that taxes remain at the level of 1H99. Though a possible increase in taxes will undoubtedly have a negative impact upon the company's performance.