

PRESS RELEASE  
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LUKOIL'S PERFORMANCE IN 1H99 PROVES ITS SUSTAINABLE POSITION

In 1H99 LUKOIL's financial and economic position was conditioned by improved situation on the domestic and international oil markets and general economic situation in Russia.

Improved operating and financial performance is attributable to strong international oil prices, increased demand for energy, lesser deficit of cash in settlements with customers. Combined with the national currency devaluation all these factors contributed to considerable growth of revenues generated in the core areas of the Company's business.

Meantime, the Company's income were negatively affected by an introduction of export duties on crude oil and refined products (some of them are prohibitive duties) and retail sales tax, an increase of excise tax on motor gasoline, heavier tax burden in general. 1H99 was also marked by growth of prices on consumed resources (raw materials, energy, materials, services) and all transportation tariffs, wages indexing, revaluation of capital assets, increased depreciation charges, higher costs of debt servicing.

Consequently, combined income before taxation of LUKOIL and its subsidiaries totaled 11,696m rubles (1,111m rubles in 1H98). It was mainly generated by the profit from sales of products and services worth 12,383m rubles. The loss from non-operating activities (687m rubles) was caused by forex losses, regional and local taxes, writing off bad receivables. Dividend income from participation in other companies' equity was 2.4 times higher and amounted to 238m rubles. Undistributed profit totaled 9,637m rubles (775m rubles in 1H98).

In 1H99 the structure and liquidity of the balance sheet improved. This resulted in growth of cash balances and short-term financial investments, substantial reduction of short-term borrowings, increase of shareholder's equity and sources of financing. An increase in long-term borrowings and credits is attributable to a credit with 3-year maturity provided by Sberbank of the Russian Federation (USD150m) and some other borrowings obtained for upgrade of LUKOIL's refineries in Russia.

As of June 30, 1999 current accounts receivable equaled 36,988m rubles, including 25,503m rubles owed to the Company by its customers. Accounts payable (113% covered by current accounts receivable) amounted 32,819m rubles, including

16,484m rubles owed to suppliers and contractors.

Over 6 months of 1999 LUKOIL's subsidiaries and affiliates increased production of oil (by 2%), gas (by 9%) and refining runs (by 2%) at own refineries in Russia. The Company's refineries increased production of motor gasoline (by 5%), diesel fuel (by 10%), lubricants (by 11%). Free export sales of crude oil was 11,660 thousand tons (95% of 1H98), including 11,076 thousand tons supplied to non-CIS countries. 234,000 tons were supplied to refineries in Kazakhstan under intergovernment agreements. The import of Kazakhi oil was 250,000 tons. Refined products export rose by 44% and amounted to 2,025 thousand tons. LUKOIL's main marketing subsidiaries shipped 2.2 million tons of refined products (81% more yoy).

The capital expenditure of main producing, refining and marketing subsidiaries reached 3bn rubles. The Company continued to channel investment to new regions and businesses - the construction of CPC (Caspian Pipeline Consortium), expansion of the Company's tanker fleet, development of oil and gas fields in Russia, Azerbaijan and Kazakhstan, development of downstream in CIS, Central and Eastern Europe.

In 1999 LUKOIL participated in a number of major acquisitions of assets, including controlling stakes in the Odessa refinery (Ukraine) and Saratovnefteorgsintez petrochemical plant in the Saratov region. The Company completed all preparatory work to acquire KomiTEK oil company through a share swap. This deal will be the first major project of this kind in Russia.

LUKOIL's improved financial and operating performance was reflected in a multifold appreciation of its stock price, its better liquidity and investment attractiveness.