

PRESS RELEASE
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LUKOIL BOARD OF DIRECTORS APPROVED A PROGRAM TO DEVELOP
OIL IN RUSSIAN NORTH

LUKOIL Board of Directors meeting which considered a program to develop oil in Russian North has been held in Usinsk today.

This document was designed within the framework of the special federal Program on Complex Development of Oil and Gas Resources of the Timan Pechora Province throughout 2005 and in after years. The program was launched by order of the Ministry for Fuel and Energy of the Russian Federation.

The Board of Directors has marked in particular that the development of oil and gas reserves of the Timan Pechora province is a priority for the Company.

The LUKOIL program is based on:

- Acquisition of 227.5 million tons of oil reserves, 15.3 billion cubic meters of associated gas reserves over the period of 2001-2010;
- Maintaining oil production at the level of 22.5 million tons by 2005 and 27.3 by 2010, including 9.6 and 10.0 million tons in the Republic of Komi and 12.9 and 17.3 million tons in the Nenets region by 2005 and 2010 respectively;
- Creation of a regional oil transportation system by sea through a terminal near Varandey on the Pechora sea coast as well as development of the existing southern pipeline transportation route, including upgrade and construction of new pipelines and sea terminals in Primorsk;
- Acceleration of signing Production Sharing Agreements (PSA) for the Northern Territories and the Permocarbon deposit of the Usinsk field, preparation of proposals to develop the Kharyaga field under PSA terms and resumption of the Timan Pechora Company activities;
- Utilization of associated gas as a raw material and fuel for the region's gasification;
- Deep refining of crude oil extracted at local oil fields to secure supplies of oil products to consumers in the northern region and expansion of oil product sales, including export sales; upgrade of the Ukhta refinery and increase of refining depth

from 42.4% in 1999 to 55.7% in 2005 and to 73.3% in 2010; expansion of oil products production to 3.35 million tons, including light oil products - to 1.63 million tons in 2005;

- Securing social stability and daily needs of the Company employees and local community;
- Securing environmental safety and maintenance of ecological equilibrium in the region.

Throughout 2001-2010 LUKOIL plans to invest RUB134.2bn, including RUB89.4bn in oil production, RUB13.5bn in exploration, RUB7.1bn in oil refining, RUB1.6bn in oil products marketing, RUB15.8bn in development of the transportation system, RUB4.4bn in development of associated gas utilization system, RUB2.4bn in construction of social facilities.

Apart from direct costs aimed at improving environmental safety in the region, LUKOIL program to develop the Timan Pechora oil and gas province envisages implementation of environmental safety procedures in the process of design and construction of oil field facilities, refining and oil products marketing entities. In total, environmental safety procedures, including direct costs, will consume up to 30% of the total capital expenditures.

Over the period of the program implementation in 2001-2010, the total amount of revenues to the budgets of all levels may reach RUB417.9bn.

"The program to develop the Timan Pechora oil and gas province is a program of state significance," stressed LUKOIL President Vagit Alekperov. "That is why the maximum state involvement (not only through allocation of funds from the federal budget but also through a flexible approach towards taxation of companies operating in the region) is needed for successful implementation of the program. Large-scale joint investment by private companies of the Russian oil and gas sector and interested foreign investors is also required. The development of the Timan Pechora region may become feasible only with support of the government of the Russian Federation, administration of the Republic of Komi and Nenets autonomous region and administration of the city of Arkhangelsk," said Vagit Alekperov.