PRESS RELEASE
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LUKOIL RETAINS ITS PROMINENT STANDING

In 1998 LUKOIL reaffirmed its position as the leading Russian integrated oil company which produces 21% of the nationwide oil production.

1998 turned out to be challenging intensive for the Company as well as for the worldwide oil industry. An unprecedented fall in energy prices was at the top of concerns. Lost sales of LUKOIL as the result of depressed prices amounted to $ 1 billion. Other factor negatively impacting the national oil companies was the financial crisis in Russia. Under the circumstances the Company focused on maintaining acceptable levels of profitability in traditional areas through cost cutting measures.

Cost-cutting measures resulted in the reduction of annual oil and gas production costs from 306 rubles per ton of oil equivalent in 1997 to 275 in 1998. The devaluation of the ruble reduced costs from $ 7.5 to $ 3.9 per barrel of oil equivalent year-over-year.

Production of crude oil by LUKOIL subsidiaries and affiliates amounted to 64.2 million tons, including 1.2 million tons from international operations. Worldwide production of LUKOIL increased by 3% year-over-year. Positive operating results also included increases in gas production (+13%), exports of oil (+29%), improvements in the mix and quality of petroleum products, and higher depth of refining (79% versus 76% in 1997).

LUKOIL refineries maintained output of 11% of Russian produced motor gasoline and diesel oil, 15% of jet fuel and 35% of lubricants.

Pretax income of the Group amounted to 2,032 million rubles. Excluding net exchange losses, pretax income increased by 25%. Pretax income consisted of 5,032 million rubles of operating profit and 118 million rubles of interest and dividend income. The financial turmoil resulted in non-operating and non-recurring losses of 3,361 million rubles. Earnings from affiliated equity interests amounted to 309 million rubles.

The company incurred 1,914 million rubles (94% of pretax income) of income tax and similar taxes and duties. Undistributed profit of the Group (after foreign currencies exchange gains and losses) amounted to 118 million rubles (minority

interest excluded).

In 1998 LUKOIL spent 18,179 million rubles on capital expenditures, of which 10,583 million rubles was financed through borrowings. Allocation of investment by business segment was as follows: exploration and production in Russia and abroad - 10,218 million rubles, refining, supplies, marketing and transportation - 7,949 million rubles, and other businesses - 12 million rubles. Compared to 1997, the financing of investments increased by 71% (in rubles).

Increased indebtedness of LUKOL is explained by new loans and borrowings obtained additionally from Russian and foreign lenders to finance capital expenditures. Devaluation of the ruble contributed to the escalation of debt as well as its service. However, the portfolio of LUKOIL debt, reflecting a planned mix of currencies, interest rates and maturity periods allowed the Company to emerge from the crisis with minimal losses and to remain current on all of its debt obligations.

The liquidity of LUKOIL shares on stock markets reflect the strong operating and investment capabilities of LUKOIL. The Russian trading system reported $ 2 billion in annual turnover of LUKOIL shares (23% of total RTS volumes). Approximately 336,3 million common and preferred shares of LUKOIL were exchanged. The major shareholder of the Company remains the Russian government which controls 26.6% of the Company (29.9% of the voting rights). The list of LUKOIL shareholders exceeds 85,000 Russian and foreign individuals and institutions. Shares of LUKOIL are traded on the Moscow Inter-bank exchange, the Berlin and Frankfurt stock exchanges, and the over-the-counter market in the USA.