PRESS RELEASE
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PRESIDENT OF LUKOIL ADDRESSES THE CAMBRIDGE ENERGY RESEARCH ASSOCIATES CONFERENCE

On February 15th, 2005, Vagit Alekperov, President of LUKOIL, spoke on the subject of Russian-American cooperation in the energy sector at the Cambridge Energy Research Associates Conference in Houston.

“The development of the Russian-American energy cooperation has become particularly important against the background of the global competition between the major consumers of hydrocarbons, i.e. the United States and the countries of the Asian region,” Vagit Alekperov said.

This competition in the sphere of oil can be seen in the growth of world production and refining capacities utilization. Last summer OPEC’s idle production capacity fell to its lowest level in the recent decade. The market lost its flexibility and its ability to respond quickly to deficits. In the absence of any real shortage of raw materials, we saw a dramatic rise in oil prices.

The first signs of global competition are beginning to appear on the natural gas market. In the future, the universal spread of liquefied gas production and transportation techniques will make this market more flexible and will help producers change supply directions and volumes quickly.

Within ten years, provided the transportation infrastructure is adequately developed, oil production in Russia might grow from 9 to 13 million barrels a day and gas production may grow from 22 to 27 trillion cubic feet a year.

Vagit Alekperov believes that there’s a clear understanding in Russia that Europe shouldn’t be viewed as the sole consumer any longer. Russian companies have been making pilot deliveries of crude oil to the USA and the Asian region for a few years now. In 2004, Russia exported 145 thousand barrels a day to the USA and 216 thousand barrels a day to China. However, the companies will make their final choice only when it becomes clear which of these two directions is better developed from the angle of the pipeline and port infrastructure.

The importance of this choice for the world market is not only conditioned by the volume of additional supply but also by the quality of the crude oil to be exported. In this case it will be the Siberian Light which is a lighter brand, with a lower sulfur

content, than the traditional Urals export mixture. The appearance of Russian oil on the global market might change the balance of demand and supply in both the Atlantic and Pacific regions, depending on which receives most of the crude oil.

The same can be said about the export of natural gas. At present, Russia exports more than 7 trillion cubic feet of gas a day. In 10 years time, provided new gas fields are developed, this figure may reach 11 trillion cubic feet.

The growth of exports will be accompanied by a change in their structure. Today, Russian gas is delivered to Europe by pipeline. In the future, our country is planning to employ gas liquefaction techniques to deliver gas to the global market.

Mr. Alekperov noted that the Company is working more actively on the project for deliveries to the Pacific region. A decision has been made to start laying the Taishet-Nakhodka pipeline, branching off to China, and contracts have been concluded for liquefied gas deliveries within the framework of the Sakhalin-II project. At the same time, the prospects for building a new export infrastructure in the North-West of Russia are still vague.

Only one project envisaging oil deliveries to the USA has been implemented so far: the construction of the Vysotsk trans-shipment terminal, with a flow capacity of 240 thousand barrels a day. Together with LUKOIL, the American engineering company Fluor Corporation has taken part in the project, as has the US Government agency for the insurance of private investments abroad (OPIC). The terminal in Vysotsk is the most up-to-date project of its kind in Russia. It will not, however, solve the problem of large-scale oil deliveries to the USA.

Last year, LUKOIL and ConocoPhillips entered into a strategic alliance aimed, in particular, at organizing a joint venture for developing the Northern part of Timano-Pechorskaya oil and gas province. The proven oil reserves in the region where the joint venture operates exceed 3 billion barrels. Prospective reserves may reach 10 billion barrels. By the beginning of the next decade, about 200 thousand barrels per day will be produced and the first shipment of Timano-Pechorsk crude oil may reach American refineries in 2007. LUKOIL is now considering the possibility of exporting crude oil through the Varandeisky oil terminal, with a planned increase in capacity up to 240 barrels per day. Deliveries could be much more efficient, however, if a pipeline was built in the direction of Murmansk. According to LUKOIL's estimates, the transportation costs of oil delivered by this route to the East coast of the USA would be half those of oil delivered by the Middle East - Mexican Gulf route.

Another project of interest to both LUKOIL and ConocoPhillips is construction of natural gas liquefaction facilities on the Yamal peninsular. LUKOIL plans to put its

first field in Yamal into operation early in April. Within 10 years, gas production on LUKOIL's licensed sites will reach 1 trillion cubic feet. And the Company is interested in delivering this gas to the United States of America.

“By joining the scientific and industrial potential of Russia with the technological and financial potential of the United States, we could achieve impressive results. So far, this scenario has been being implemented solely on the level of individual companies. It is in our common interests to do so on the intergovernmental level,” Vagit Alekperov said at the Cambridge Energy Research Associates Conference in Houston.