PRESS RELEASE
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LUKOIL PRESIDENT VAGIT ALEKPEROV SPOKE AT ENERGY SECURITY CONFERENCE

Today LUKOIL President Vagit Alekperov spoke at the International Conference on Energy Security held in Moscow.

Among other things, he noted that the conference topic is closely tied with Russian membership in the G-8 since the issue of global energy security was raised immediately after Russia gained full membership rights at Denver summit in the summer of 1997.

Vagit Alekperov also noted that Russia is presently presiding over the G-8, and energy security ranks highest on the agenda of G-8 leaders for the summit, which will be held in July 2006 in Saint-Petersburg.

LUKOIL President emphasized that Russia had a very unique energy potential. Proven oil and gas reserves richly concentrated on its vast lands constitute almost four times the reserves of other G-8 members. Russia is constantly strengthening its positions in the world energy market. Over the past six years Russian oil export has increased by 1.5 up to 5 mln barrels per day, gas export has grown by 20% to reach 206 bln cu m. At the same time Russia remains one of the largest hydrocarbon consumers.

Head of LUKOIL also said that Russia's interests in the energy sector were inseparable from the interests of other G-8 members, including efficient development of the existing resource base, creating reliable producer-to-consumer resource transporting channels, increasing production output of environmentally friendly motor fuel and energy saving.

Mr. Alekperov believes that the term energy security has lost nationality in the modern world. It is the same for both the producers and the consumers: continuous supply and efficient environmental protection. One of the key tasks which needs to be tackled today is changing hydrocarbon supply and demand structure. There used to be three major centers of hydrocarbon consumption (USA, Europe, Japan), now there is a fourth one, which is China. Over the last 10 years oil and gas consumption in this country has doubled, while on the international scale on average it has grown by 16%.

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At the same time oil, a global energy product, gained a very powerful competitor, which is natural gas. Development of technologies in refining and transportation, along with power supply consumption has increased the value of gas for investors and consumers. Hydrocarbon supply structure is also changing. The resource base in traditional production regions beyond the Middle East, such as in the USA, the North Sea, Western Siberia, is ageing. Companies spend billions of dollars to stabilize production at running fields. However, this is only a stopgap measure. To satisfy growing demand for hydrocarbons, new oil and gas provinces must be developed. Keeping in mind that the Middle East is almost completely closed for private investors, the only thing for them to do is to develop producing capacities in the deepwater self and in the Arctic region, with costs several times higher than in other regions.

Companies realize the necessity of such expenses because they understand that development of new oil and gas provinces is very important for preventing raw material deficit. The partnership of LUKOIL and ConocoPhillips is a great example of joint efforts of two G-8 members, Russia and the USA, for the sake of global energy security.

LUKOIL President also thinks that an important factor of market instability is deficit of secondary refining capacities triggered by the increase of motor fuel consumption and environmental standards tightening. The problem is especially urgent for the USA and Russia. The United States import over 10% of consumed petroleum products. Tomorrow the same scenario may be the case in Russia.

To summarize, Vagit Alekperov considers that the world is facing serious changes in the structure of energy source structure. This means that providing global energy stability in the coming years will be much more expensive both for producers and consumers. Forecasts of the International Energy Agency suggests that in order to satisfy growing demand for hydrocarbons before 2030, over 200 bln USD must be invested into the international oil and gas industry. Besides, current investments are about 20% lower. Companies are ready to increase investments, however they face serious hurdles on the way, including unstable tax legislation and political hindrances of the host countries.

According to LUKOIL President, the efforts of political leaders must be aimed at encouraging mutual investments in the energy sector, removal of obstacles for international trade, free asset, information and technology exchange.