



LUKOIL

**2009-2010 SUSTAINABILITY REPORT
RUSSIAN FEDERATION**

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WELCOMING ADDRESS BY THE PRESIDENT OF LUKOIL



VAGIT ALEKPEROV

President of LUKOIL

This year our Company is marking its 20th anniversary. Since its foundation, LUKOIL has been developing as a corporate citizen. The Company adheres to the recognized international and Russian corporate citizenship standards by complying with the principles outlined in the United Nations Global Compact, and the Social Charter of Russian Business adopted by the Russian Union of Industrialists and Entrepreneurs.

Back in 2005 we joined the non-financial reporting process and in addition to our financial and annual reports we also issue sustainability reports. This is our fourth Report. The previous reports may be found in the Global Reporting Initiative (GRI) and UN Global Compact data bases and the National Register of Non-Financial Reports of the Russian Union of Industrialists and Entrepreneurs. We regard non-financial reporting as one of the most critical managerial processes that help boost our management performance. It is also a way for the Company to demonstrate its openness and express its views on sustainable development.

In the two years that have passed since our third non-financial report it became clear that irrespective of various assessments of the global macroeconomic environment by experts and analysts it still remains involved. Most nations had to employ austerity policies which brought about a decline in the demand for energy carriers, and the average annual oil prices fell short of the 2008 average.

In the aforementioned context our mid-term goal is to improve our performance and cut down on our costs, and

also increase production and refining volumes. LUKOIL has revised its strategic development program for the next decade. The decision to shift the focus of our strategy from production buildup to improved financial performance and increased shareholder income was made in view of raw stock demand variations and uncertainties existing in the financial and consumer markets.

The Company is still actively developing both in and outside of Russia. The first production in the Caspian region was a paramount event. In the last five years we invested 34 bln RUR into the project and pride ourselves on the fact that we are the first Russian company ever to create the required infrastructure that allows us to embark on this comprehensive Russian Caspian Sea development program. Our crowning achievement in exploration in 2010 was the discovery of an oil and gas field in the Gulf of Guinea. It is the first ever such discovery in the history of the Russian oil and gas industry.

None of such high-tech projects would be possible without state-of-the-art innovative technologies. The importance of innovation in the modern economy has grown considerably. We are fully supportive of the innovative economic development initiative proposed by the Russian President Dmitry Medvedev. Through our cooperation with the Skolkovo Foundation for Development of the Center of Research and Commercializing of New Technologies we expect to develop the Bazhenov suite reserves, which according to the most conservative estimates, total 50 bln barrels.

As of now the industry has made considerable headway in using innovative technologies. Back in my student times the exhaustibility of hydrocarbon raw stock was the subject of heated debate. Being at the head of a major energy company I can state that innovative developments make us confident about the future. The issues on top of the list include energy conservation, energy efficiency, energy safety and oil production stimulation through introduction of new technologies. The threat of depletion and appreciation of conventional energy carriers, obsolescence of certain traditional production regions and a need for considerable investments into exploration and production, all being today's reality, add to the value of a flexible innovative development strategy to be employed both in the Company and industrywide.

The Company's sustainable development top-priority goals include investments into future capabilities, includ-

ing without limitation new technologies for stage-by-stage reduction of the specific consumption of natural resources, materials and power, and provided that the maximum possible production volumes are maintained. The Company focuses its effort on search for and utilization of innovative technologies and regards such activities as one of the crucial preconditions for its further development and increased competitiveness.

Application of high-tech methods and materials, designed, without limitation, in conjunction with our own subsidiary i.e. Russian Innovative Fuel and Energy Company (RITEK), accounts for one quarter of the Company's total oil production. LUKOIL's partners also include the Russian Nanotechnology Corporation, various governmental organizations and small businesses. The Company continuously monitors and selects innovative technologies (including nanotechnologies) that it thinks may be promising for the oil and gas industry.

Our numerous developments are intended to increase the recoverability of oil at the existing fields. Our goal is within the next decade to increase the potential oil recovery factor of our fields to 40 percent. And yet the task we have to address is not only the one of making additions to the mineral reserves and preserving national natural resources for the generations to come. Energy conservation and improved energy efficiency are our priority areas of work that also relate to sustainable development. The key lines of work alongside with increasing oil recoverability and improving its refining efficiency include efficient utilization of associated petroleum gas, reduced consumption of natural gas; improved performance of power generation equipment and reduced power consumption in the power grid. Renewable sources of energy stand aside on this list of activities.

In developing other business segments we've also chosen the path of innovative development: an example here is elaboration of new oil refining and environmental technologies, e.g. upgrading of a refinery results in improved refining efficiency and new high-quality and environmentally friendly products are supplied to the market.

LUKOIL is gradually turning into an energy holding: we completed formation of our new energy business sector in the reporting period. The electric power business sector must become an important catalyst of the Company's performance growth and add to its shareholder value.

We will keep memories of the past year not only because of the oil industry's success and achievements, but also because of the lesson we have all been taught by BP's disastrous accident. The events taking place in the Gulf of Mexico have once again demonstrated the importance of a responsible approach to mineral extraction and management of sustainable development. We are dead serious about improving our occupational and

environmental safety and invest considerable monies into this line of work. We have an experience of successfully implementing oil spill response measures in the Komi Republic and ensure a high level of safety of our offshore sites. And yet, irrespective of its achievements in this field, LUKOIL seeks to continuously improve reliability of the measures and management systems being used. Following discussion of the effects of the Gulf of Mexico accident we undertook a number of important measures to prevent and eliminate spills of oil and petroleum products.

This year we are marking the Company's anniversary and to this end we plan to hold an international conference to summarize the development experience of LUKOIL and the entire Russian oil industry. I am hopeful that the event will give you an overview of the major outcomes of 20 years of the Company's work. Over the last years we have been seeking to solve one of the most important tasks to be addressed by the Company in the years to come i.e. maintain the balance between the business growth rates, financial performance and adherence to the principles of sustainable development.

The Company is engaged into an active dialogue with the stakeholders and is also open for feedback. Our corporate website has a «hotline» to discuss the quality of services provided to our customers at our filling stations. Visitors to the website may address their comments to the Company's business units, whose contact details are also available on the website. Being aware of the significance of social networks for a public company, this year we've launched our own official Internet blog. We welcome any your proposals and comments regarding this Report, which you may communicate via various communication channels as indicated in Section Reference Information.



VAGIT ALEKPEROV
President of LUKOIL

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ABOUT THE COMPANY



KEY CHANGES IN 2009-2010



LUKOIL is one of the biggest international vertically integrated energy companies operating in 37 countries (including) Russia, and conducting production activities in 16 of them (here belong exploration, production and refining of hydrocarbons and production of petrochemical products).



Neither the key areas of the Company's activities, nor its structure have undergone any substantial changes in the reporting period. Its diversified portfolio of energy sources, including oil, gas, power supply and individual renewables projects facilitate the Company's progressive development, ensure reliability of energy product supplies and contribute into the society's sustainable development.

In 2009-2010 LUKOIL continued to develop its hydrocarbons production in Russia by commissioning 19 new fields. The key developments taking place in the reporting period include commissioning of the first North Caspian field i.e. Yu. Korchagin in December 2009 and reach-

ing of 7 mln tn of oil production at South Khylochuy field in the Timan-Pechora Province commissioned in 2008.

Early 2011 saw conclusion of a contract, which stipulates that in 2012-2016 OAO LUKOIL must supply to OAO Gazprom natural gas from its Bolshekhetskaya Depression fields. Gas will be supplied to Gazprom's gas pipeline system in the proximity of the Yamburg compression station. The contract also defines the scope of supplies. In 2012 they are expected to reach 8.35 bln cu. m of gas. At the same time the volumes of such supplies may be adjusted and depend upon commissioning of the Bolshekhetskaya Depression fields and degree of utilization of Gazprom's gas pipeline system. The document stipulates that from the time of LUKOIL's first production of gas at its Northern Caspian fields OAO Gazprom will accept all of such gas into its gas pipeline system and will supply similar volumes to LUKOIL Group's enterprises under its substitution schemes. This contract is crucial given the Company's plans to construct in 2011 its own gas pipeline system

linking together its Bolshekhetskaya Depression fields and Vankor field. If successfully addressed, the issue of transportation of produced gas will further the growth of gas production as the demand for the product grows.



Our petrochemistry business received further development. A joint venture was set up based on the Kogalym Chemicals Plant (being a part of OOO LUKOIL-West Siberia) with Nalco Holding Company (US) to produce premium chemicals, which are also used to stimulate oil production. The partner's role boils down to upgrading of the production facilities, introducing cutting-edge technologies, developing a product range, and providing training to the enterprise's process personnel.



During the reporting period, much attention was paid to the Electric Power Generation Business Sector established in 2008. In the long run, the sector is expected to drive the growth of the Company's shareholder value. LUKOIL is going to cooperate with its partners that take interest in electric power development renewables-based projects and have experience implementing such projects. In 2010 the Company and the Italian company ERG Renew signed a Memorandum of Understanding on cooperation in the renewable energy area (and above all in the wind power generation). There are also plans to analyze the possibility of implementation of joint business projects in various Eastern European countries and in Russia.

The Company has launched a new (vs. the information contained in the previous Report on Sustainable Development) area of work i.e. ore mining. It has commenced active additional exploration and development of V. Grib diamond field in Arkhangelsk Oblast, — one of the biggest in Russia, to be developed by OAO Arkhangelskoe Geologodobychnoe Predpriyatie, one of LUKOIL's subsidiaries. Several wells have already been drilled in cooperation with FORACO (France). The estimated reserves total 4 mln carats.



This Report provides more details on entities representing the Company's transport business. Being in possession of its own transport infrastructure, the Company is capable of employing flexible approaches to managing supplies of various products. The Varandey Terminal is used on a year-round basis to export oil from the Timan-Pechora oil and gas province to global markets, and specifically to the United States. Starting 2005, the terminal in Vysotsk (Baltic Sea) has only been used to export petroleum products. The total annual amount of oil exported by the Company through its inhouse terminals in 2009 and 2010 was around 7.6 mln tn.

■ TODAY LUKOIL HAS A MARKET SHARE ¹

16.4 %	of oil reserves
17.9%	of oil production
1.1%	of gas reserves
2.6%	of gas production
2.2 %	of global oil production *
18.2%	of Russian oil refining
1.3%	of power generation **
24%	of the retail motor fuels market

LUKOIL is No.1 in Russia's production of aviation fuel and motor oils.

* EIG data

** June 2011 data by OAO System Operator of the Unified Energy System of Russia (www.so-ups.ru)

The Company's shareholders include over 50 ths individuals and entities worldwide. As of February 7, 2011 ConocoPhillips (US) fully withdrew membership from LUKOIL. It caused LUKOIL to launch one of the most large-scale share repurchase programs in the Russian market. The transaction amount exceeded 3.4 bln USD. That way the Company secured its shareholders against any savage downturns in the prices of its publicly traded shares. Consequently, in 2010 the net profits of the Company reached 11 USD per share, thus gaining 32.2% vs. 2009.

The major trading floors for the Company's shares in Russia are MICEX and RTS. Outside of Russia the Company's securities are traded on the London Stock Exchange, stock exchanges of Frankfurt, Munich, Stuttgart and on the US over-the-counter market.

¹ Information as of December 2010.

■ **KEY ECONOMIC OUTCOMES: ECONOMIC VALUE CREATED AND DIRECT ECONOMIC VALUE DISTRIBUTED, mln USD ²**

GRI: EC1	2006	2007	2008	2009	2010
Earnings	67,684	81,891	107,680	81,083	104,956
Return on financial investments	111	135	163	134	174
Return on assets	10,052	13,071	13,709	9,778	11,533
Operational expenditures	4,652	6,172	8,126	7,124	7,969
Capital provider fees	2,513	3,273	3,543	4,786	4,535
Payments to the state (taxes)	24,551	27,810	38,971	21,454	29,960
Community investments	137.6	245.5	277.1	196.5	262.7

Sources: consolidated financial statements in accordance with US GAAP.

Note: «Payments to the state» includes excise taxes and export duties, current profit tax and other taxes. «Capital provider fees» includes dividends attributable to the Company's shares, dividends to minority shareholders; satisfaction of long-term commitments and interest-related expenses. «Community investments» includes donations and costs incurred by the Russian organizations of LUKOIL Group to maintain social infrastructure (registered in their books or assigned to them under target financing agreements) with a view to providing social services to employees and retirees.

² The Table shows data on the entire LUKOIL Group (including its foreign assets).

HOW WE WORK

LUKOIL GROUP'S DEVELOPMENT STRATEGY



In 2009 the Board of Directors of OAO LUKOIL approved a new version of LUKOIL Group's 2010-2019 Strategic Development Program, adjusting the tasks set two years earlier. The need for such adjustments arose out of revised microeconomic and marketing forecasts that take account of the global financial and economic crunch. The key task currently faced by LUKOIL is to develop a new development strategy with a major focus on cash flow buildup, improved oil recovery, strict selection of investment projects, investment

development, preservation of strong competitive positions, improved profitability and capitalization of the Company. Competitive profitability levels are expected to be achieved through selection of the most efficient projects and overall performance improvement. The decision to shift the focus of our strategy from production buildup to free cash flow growth was made in view of raw stock demand variations and uncertainties existing in the financial and consumer markets.



Being still topical issues, mineral base development and growth of hydrocarbons production with replacement of 100% of reserves through reserves additions, and geographic diversification of production activities will cause the major effort to be focused on search for highly promising projects in and outside of Russia.

Not only will the Company invest into ways to increase its reserves and production volumes, but it will also invest into improved development of conventional hydrocarbons reserves by introducing oil production stimulation techniques at fields with low-extractability reserves. The factors accounting for such expected growth include development of new mineral reserves located both in the conventional and new regions and a broader application of new technologies. Investments also cover search for techniques to develop unconventional hydrocarbon resources, such as kerogen oil of the Bazhenov suite in West Siberia and Russian highly viscous oils.

Yet another set task includes monetization of gas reserves (including utilization of associated petroleum gas) and attainment of synergies with the electric power and petrochemical business segments.

The strategy provides for further upgrading of refining facilities, above all those located in Russia, to increase the output of light petroleum products and develop petrochemical production facilities.

The tasks to be accomplished include further development of the Company's sales networks in the priority areas of its operations, and improved performance in the regions of LUKOIL's traditional presence to be achieved through upgrading of assets and promotion of brand awareness.

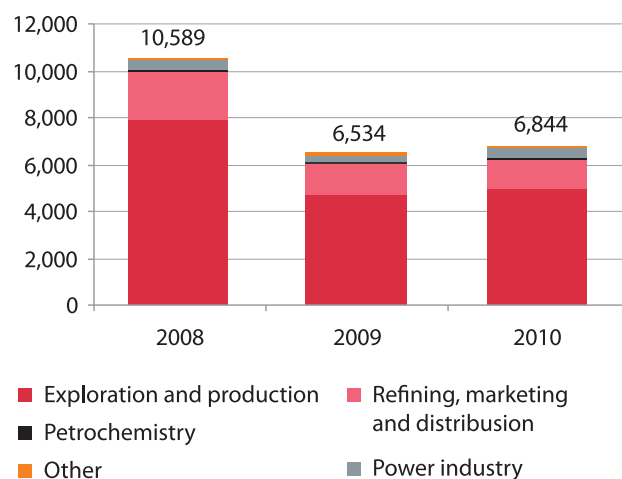
The primary goal of LUKOIL's energy investment program is improved performance of enterprises operating in this business sector, and above all of those engaged in production of electric power and heat. LUKOIL plans to increase the cumulative capacity of its power generation assets and decrease the specific consumption of fuel used to produce electric power.

The primary means of accomplishing the tasks set must be improved operating performance, better labor productivity, increased energy savings, investment discipline, leveraging of the potential of the Company's research and design complex, further implementation of measures intended to streamline the organizational structure and spinning-off of non-core activities.

The top-priority financial indicator used to assess the progress made in implementing the Company's strategy is still return on capital employed, which must be around those of the leading global oil companies. The Company intends to use its increased free cash flow to increase shareholder profits through dividend distribution and redemption of its shares.

Strategic goals are achieved through annual updating of LUKOIL Group's (three year) Midterm Plan, which specifies planned performance for each area of the Company's activities. Each year the Company approves its investment program which is based on the current economic conditions. For 2011-2013 the structure of investments is planned as follows: Upstream — up to 80%; Downstream — up to 20%. The diagram below shows the actual capital expenses incurred by LUKOIL Group in 2008-2010.

LUKOIL GROUP CAPITAL COSTS, mln USD



IMPROVING OUR MANAGEMENT SYSTEM

During the reporting period we launched a strategic project called Improving LUKOIL Group's Management System and Structure/Global ICS.³ Conversion to the target management system which is comparable to the global best practices is expected to boost the Company's operating efficiency and focus of LUKOIL's organizations on strategy implementation. The same approach underpins the quality management and continuous improvement system that is expected to be created following implementation of the project. The project covers the most critical aspects of corporate management, such as:

- organizational structure and organization of the key business processes;
- human resources management strategy;
- corporate culture;
- managing innovative activities.

The initial stage of the project included identification of the key principles governing organization of LUKOIL Group's management system, key objects and subjects of management, distribution of powers and responsibilities of executives, decision-making procedure, development of the corporate management system, strategy development principles, investment and corporate planning.

The employed general approach helped determine the key aspects of the management system in the Upstream Business Segment and formalize decisions made in local regulatory acts subject to the approval of the Managing Project Council. A pilot project was launched in OOO LUKOIL-West Siberia, which in 2010-2011 will evaluate the initial project outcomes, introduce the required changes and fine-tune the techniques of introduction at the other subsidiaries. The Managing Council also gave its approval for the draft Regulations on the Management System in the Downstream Business Segment.

The system of managing core, but inefficient assets has also been improved.

BUILDING THE TARGET ORGANIZATIONAL STRUCTURE

LUKOIL Group is continuously working on improvement of the organizational structures of OAO LUKOIL and its subsidiaries. Such activities are based on the following principles:

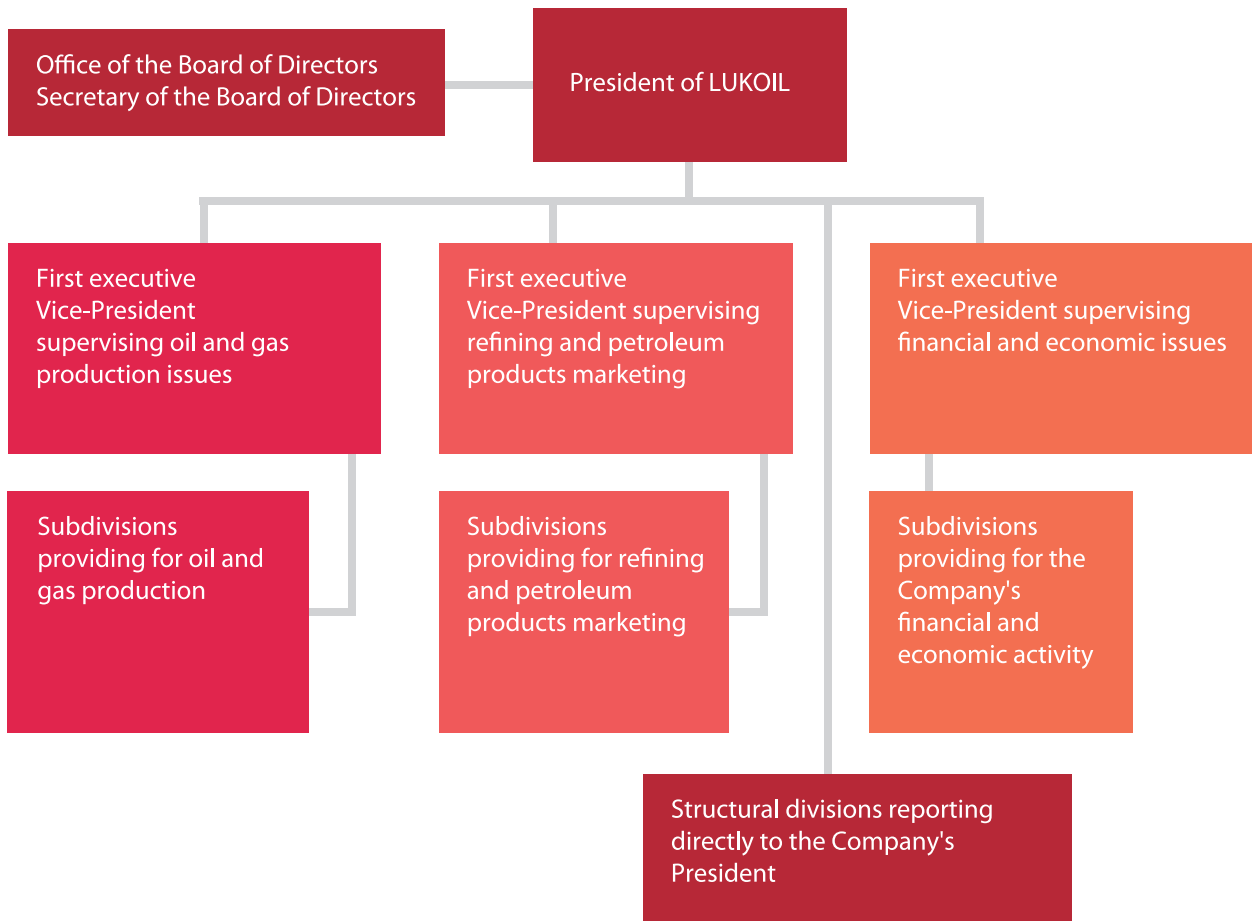
- clear-cut distribution of powers and responsibility between the Company and its subsidiaries;
- assignment of those responsible for each individual business process, elimination of overlapping functions and reduction in the number of levels of the management systems;
- reduction in the number of procedures and times needed for adoption and execution of managerial decisions.

The management structures are based on four types of resources: fixed assets; raw stock and materials; finances and human resources. The following are the common management principles that are currently being introduced. They allow to develop common criteria to assess the efficiency of management systems, such as:

- focus on the key activities;
- standardization of the model used to manage key activities based on the definition and dissemination of best practices;
- standardization of corporate functions and alignment of the organizational structure.

³ ICS — Integrated Management System.

LUKOIL'S ORGANIZATIONAL STRUCTURE



OAO LUKOIL is the core of the management system. The chart shows the Company's organizational structure.

A whole bunch of organizational projects are being implemented as of the date of this Report, as required by the new management model, which provides for creation of functional and specialized entities within LUKOIL Group. Major Russian and international holdings employ the practice of creating similar specialized entities, which is referred to as «insourcing» (provision of services by an entity within the Group).

CREATION OF A UNIFIED SERVICE ORGANIZATION TO MAINTAIN ACCOUNTING AND TAX RECORDS AND PREPARE REPORTS

In 2008 the accounts division of OAO LUKOIL came up with the initiative of restructuring the accounting processes. The goal behind such restructuring of the accounting departments was to improve their performance,

including without limitation reduced times of accounting reporting, reduced costs, arrangement and reduction of the information systems being used.

The concept of development of LUKOIL Group's accounting departments received the Management Committee's approval. The document provides for creation on the base of enterprises' accounting departments of unified service entities (regional accounting centers — RACs) and the general Accounting Center in Moscow, which will act as a parental company to its regional business units.

The following are the tasks accomplished in pursuance of the Convention and in accord with the decisions taken by OAO LUKOIL's Management Committee over the 2009-2010 period:

- centralize the accounting services of the Group's organizations: OOO LUKOIL-INFORM, OOO LLK-International, and OOO LUKOIL-West Siberia;
- create a fully owned subsidiary of LUKOIL and the first regional accounting center in Perm («pilot project»).

The restructuring process began with establishment of regional accounting centers, and in late 2009 resulted in creation of parental company OOO LUKOIL — Accounting Center in Moscow.

OOO LUKOIL — Perm Accounting Center began its work on March 1, 2010 and currently renders services to entities based in Perm Region i.e. OOO LUKOIL-PERM, OOO LUKOIL-Permnefteorgsintez, OOO LUKOIL-Permnefteprodukt, OOO Permneftegazpererabotka, and OOO LUKOIL-International.

2011 saw establishment of the Regional Accounting Center in Volgograd. The entire transition of LUKOIL Group's organizations to the services of regional accounting centers is expected to be completed within three years. Subsequently the accounting centers will be joined together to form a Global Accounting Service.

RESTRUCTURING THE LEGAL SUPPORT SYSTEM

The key objective behind restructuring of the legal departments is to introduce the best global corporate business restructuring practices with a view to boosting performance, improving quality and responsiveness

of the legal support departments of LUKOIL Group's organizations both in and outside of Russia.

At the current stage, the restructuring activities taking place in Russia made it possible to create a clearly defined top-down management structure and a direct legal channel of control over activities of LUKOIL Group's organizations:

- common and uniform procedure for interaction between restructured organizations developed and implemented;
- common law enforcement practices introduced;
- overlapping or similar functions eliminated, workflow considerably reduced;
- efficiency and responsiveness of legal support functions of the relevant organizations improved;
- human resources optimized, costs reduced (through HR optimization and overheads reduction). Formation of a mobile and highly skilled talent pool took place, capable of providing high quality services with regard to the current activities of relevant entities and solving unconventional and complex tasks.

As of January 2011 each major region of the Company's presence has legal departments that render legal support to all LUKOIL Group's organizations in Russia.



MANAGING INNOVATIVE ACTIVITIES

To achieve the level of technology of the leading global oil companies through innovation, the company has to considerably improve efficiency of technologies available to LUKOIL Group and of projects focusing upon their introduction.

Accomplishment of the foregoing task requires continuous improvement of the research and design complex intended to search for and introduce new advanced technologies, improve efficiency of design solutions, develop technical competences and create a common corporate data base. Given the existing breakdown into business sectors, the complex comprises two engineering centers: OOO LUKOIL-Engineering (Upstream) and OAO LUKOIL-Nizhegorodneenefteproekt (Downstream), including seven branches in the regions of the Company's presence.

OOO LUKOIL-Engineering, awarded the status of the integrated Corporate R&D Institute, was founded in 2010. LUKOIL-Engineering's business units are categorized in accordance with the primary areas of research: offshore field development; hydrogen sulfide disposal; development of heavy oil production technologies; development of technologies involving alternative energy sources; industrial safety and environment; energy saving; advanced training of personnel (it is planned to set up a corporate training center).

The Science and Engineering Council under the President and CEO of LUKOIL also plays a notable role acting as a deliberative body. The Council issues proposals and recommendations regarding strategic, scientific and technical development. [For more information please refer to Section Research and Design.](#)

MANAGING HUMAN RESOURCES

Human resources must become the Company's main value in the target management system. The corporate culture to be formed, and relations between LUKOIL Group's organizations and their personnel must become the key driver of the Company's success.

The updated HR management strategy requires that conditions be created under which the Company will be able to foster efficient and successful leaders capable of implementing LUKOIL's competitive advantages and push the business development envelope.

The key incentivization principles within the target management system must be involvement of employees in the changes taking place; reward for performance that fully meets the Company's business goals combined with professional development prospects.

The key focus will be on career planning and personnel's awareness of opportunities existing in the Company and implementation of rotation programs. Employees with the required leadership and professional skills can make a career as executives or specialists.

Another system to be developed will be the one of competences and knowledge management, which makes it possible to store, disseminate, supplement and efficiently utilize knowledge and best practices in business. LUKOIL Group's competences and knowledge management model system is designed to serve this purpose. [For more information please refer to Section Social Policy.](#)

RISK MANAGEMENT SYSTEM

The focus of corporate risk management practices is to mitigate the major risks, including the risk of damages, failure to achieve goals, and risk of emergence of other adverse factors.

The Auditing Committee of the Board of Directors is authorized to assess the risk management system currently in place, and issue recommendations on its improvement to the Board of Directors. Thus, the Company conducts regular assessment of risks, and all and any findings of such assessment are covered in annual reports submitted to the Board of Directors. The submitted data is then used by the Board of Directors to make relevant decisions, whereas managers are responsible for risk management.

To improve the risk management system's efficiency, in 2010 the Company defined the required areas of improvement and developed OAO LUKOIL's Risk Management Policy that took effect in 2011 following its approval by the Board of Directors.

The risk management objective of OAO LUKOIL is to provide a reasonable warranty of the Company's capability to achieve its goals under the existing uncertainties and adverse factors. The most critical risks impacting the business of LUKOIL Group's subsidiaries are grouped together.



The analysis reveals that in the near future the Company's activities will for the most part depend on six main risk groups (this Report covers three groups that are the most important in the light of the Group's sustainable development objectives). Should any one of such risks materialize, this could adversely impact the Company's activities and the amount of cash flow generated.

Considering the probabilistic and external (to the Company) nature of such risks, LUKOIL is unable to guarantee that the risk management activities would reduce their adverse impact to zero. By reporting on identified risks the Company at the same time advises the stakeholders of a number of circumstances affecting its business that can with a certain degree of probability adversely affect its performance.

OAO LUKOIL takes every possible measure to monitor and prevent such events from occurring, and, if such events do occur, the company is prepared to take prompt response measures making sure that it suffers the least damage possible.

■ STRATEGIC RISKS

Macroeconomic Risks

Any possible aggravation of the global macroeconomic conditions coupled with the delayed recovery of the global economy from the recession would adversely impact the Company's business and its ability to implement the planned capital investment programs.

In planning the Company's future activities, several macroeconomic development scenarios are considered. This helps us make informed decisions regarding capital distribution and development of the investment projects portfolio.

Country risks

LUKOIL operates in a number of countries including those with high political and economic risks, which, if materialized, may substantially complicate our activities in a specific region or even result in cessation of our operations.

To minimize such risks the Company seeks to diversify its operations geographically and, while continuing its operations in unstable regions, acquires assets in the European countries and US where country risks are considered minimal.

Qualified Personnel Shortage Risks

The growing global shortage of personnel, coupled with the ageing of oil and gas employees, force foreign companies to focus on the Russian labor market. This leads to a higher risk of increased demand and wage-push for such personnel in Russia. Potential effects may include increased remuneration costs or a need for a speedier upgrading of production sites with a view to cutting down on the number of service personnel.

To mitigate the adverse impact of this risk, LUKOIL places great emphasis on integrated development of its talent pool. The Company has created and seeks to continuously expand its talent pool that includes the most experienced and promising employees. We also seek to attract young professionals and university graduates.

Competition Risks

Risks Pertaining to Access to New Sources of Raw Stock

A need to compete against major Russian and transnational companies in terms of getting access to new sources of raw hydrocarbons may render the Company no longer able to access new more promising fields in the future. This risk may also lead to a reduction in LUKOIL's proven reserves, and, consequently, cause the Company's capitalization to go down.

This risk is considered in the Company's development strategy, whose key component is sustainable development through participation in strategic alliances, divestiture of low-profitability projects and assets, and new market penetration.

Risks Pertaining to Access to Transport Infrastructure

In transporting its products OAO LUKOIL primarily relies on the transportation capacities of such state-owned monopolies as: OAO AK Transneft, OAO

AK Transnefteprodukt, OAO RZHD and OAO Gazprom. The Company's dependence upon the state-owned monopolies in the field of transportation of the Company's products may entail major adverse consequences, including:

- damages from breakages, leaks and other disruptions in the operation of the pipeline systems and railways;
- unplanned cost escalation caused by an urgent need to promptly find alternative hydrocarbon delivery methods, in case of a limited access to the pipeline network, and, in the worst case scenario, inability to continue operations in certain regions;
- unplanned cost escalation caused by a dramatic increase in transportation rates.

The Company is seriously concerned with finding new ways of mitigating the foregoing risks, the most important of which are the following: enter into long-term transportation contracts with the operators of transportation facilities; diversify transportation routes and traffic flows; develop the Company's own freight storage and transshipment infrastructure.

Refining and Product Markets Risks

The market environment and competition existing in downstream markets may pose the following risks to the Company:

- decreased sales volumes and underutilization of production facilities;
- reduced retail and refining margin;
- further tightening of the environmental law and imposition of more stringent product quality requirements.

To minimize the foregoing risks the Company implements an array of measures, including:

- improve refining processes to meet the up-to-date environmental standards
- improve the products' quality, ensure transition to up-to-date motor fuel standards
- exercise continuous cost control to ensure that the refineries remain financially stable.

Risks Pertaining to the Market of Natural and Associated Petroleum Gas

The primary risk pertaining to the Gas Production Segment is the fact that OAO Gazprom is the market's sole purchaser of natural gas produced by independent oil companies and dry gas produced through processing of associated petroleum gas. The major risks for the Company in this segment may include:

- possible limitation by OAO Gazprom of quotas on gas purchased from independent producers, which may result in limited gas production by the Company or mothballing of numerous projects;
- establishment of a low monopoly purchase price on natural and associated petroleum gas offered by independent producers, which may adversely impact the business sector's current profitability.

The Company takes all possible measures to mitigate risks in this field and seeks to build partner relations with OAO Gazprom (please refer to Section About the Company).

■ GEOLOGICAL RISKS

Risks Pertaining to Exploration Drilling/Discovery of New Fields

In implementing new projects and performing exploratory drilling the Company may fail to discover any commercial extractable oil and gas reserves, and be forced to incur additional costs or cease its operations in a number of licensed areas.

Risks Pertaining to Changes in Subsoil Resources Law and Licensing Procedures

Two thousand and eight saw the introduction of amendments to Federal Law No. 2395-1 On Subsoil Resources dated 02/21/1992. These amendments introduced subsoil use restrictions for legal entities that have foreign interest in their charter capital, changed the procedure for issuance of licenses for use of subsoil blocks of federal significance, and established criteria for users of subsoil blocks on the continental shelf.

The Russian Government also introduced a bill on changes to the procedure for compensation of subsoil damages resulting from breaches of the subsoil law.

Such legislative initiatives may in the short term adversely affect the conditions of the Company's operations as well as its capabilities in terms of development of new fields in Russia.

■ ENVIRONMENTAL AND INDUSTRIAL SAFETY RISKS

Tightening of the carbon dioxide emission requirements and a need to respond to potential production disasters may have a considerable adverse impact on the Company's financial performance.

Besides, the risk of the Company's production sites failing to correspond to new environmental regulations in certain regions may lead to additional costs associated with upgrading of production sites. If process risks relating to process equipment failures materialize, the production facilities may be shut down and the company will fail to reach its production and financial targets.

The environmental safety programs are instrumental to planning the environmental protection management system of the Company. We are currently implementing our 2009-2013 Environmental Safety Program. The program focuses on improvement of the environmental management system and mitigation of the adverse environmental effect of production activities. [For more information please refer to Section Environmental Wellbeing.](#)

Also defined in all detail are the groups of financial, legal and production risks, and measures to mitigate them.

[For the full list of risks and their analysis please refer to the Company's regular reports submitted to the London Stock Exchange and the Russian stock exchange regulator \(Federal Financial Markets Service\).](#)

INSURANCE SYSTEM

As part of its hands-on risk management implementation, the Company adopted the Strategy and Policies of Insurance Coverage of OAO LUKOIL and its subsidiaries. This system will be underlain by efficient risk management (including quantitative risk assessment) and a range of dedicated cost effective procedures incorporated in corporate standards and regulations. This system is currently under development. We believe that the adoption of the said documents is timely and very important in the light of the 2010 accident in the Gulf of Mexico. Thus, the Company is prepared to take all the preventive measures required not only in the best interests of LUKOIL, but also in those of the society.

The System implies complete and timely reimbursement of any financial losses incurred as a result of accidents.

The reimbursement results from re-categorization of all and any contingency expenses, that are either unscheduled or differ to the amounts planned, for coverage of probable likely accidental damages into scheduled and cost efficient insurance payments. This means that budget planning (being the key economic mechanism for managing the production and development processes) covers management of risks that pose a threat to the Company's business, its personnel, property interests of the Company's shareholders and investors, and local communities and the environment. The Insurance System is designed to:

- restore the property of OAO LUKOIL and its subsidiaries to the pre-accident state;
- ensure complete reimbursement of civil liability for damage to the life, health or property of other persons or the environment;
- provide complete compensation for losses incurred as a result of interrupted production, accidents, natural disasters and other adverse occurrences;
- fully meet the requirements contained in OAO LUKOIL's Social Code regarding insurance of the personnel employed by the Company and its subsidiaries;
- position the insurance system in the overall corporate risk management system.

Insurance will be maintained through insurance contracts, that is to say that risks of potential major financial losses from man-caused events, natural disasters, emergence of civil liability, etc. will be borne by third party players in external insurance markets. The amount of the biggest financial risks is determined by LUKOIL's Management Committee. Risks are transferred to external insurance markets based on a competitive bidding basis.

At the same time the Company is developing a mechanism of self-insurance through reserve insurance funds of LUKOIL and its subsidiaries to cover losses associated with identified or forecasted risks. Such reserves will serve the purpose of covering damages and their amount will be determined by LUKOIL's Management Committee.

The Company's insurance costs will come as a separate line item in its annual budget.



AWARDS

During the reporting period LUKOIL won the following contests and nominations:

- ▶ the filling station category in the Trusted Brand 2009 research conducted in Russia by the Reader's Digest international publishing house;
- ▶ the Trusted Brand. Green Planet in the survey on trademarks considered the most environmentally friendly;
- ▶ nomination Best Corporate Governance Company in the annual Contest Russian Corporate Governance Leaders;
- ▶ Contest Best filling station 2009 (organized by magazine Sovremennaya AZS (Modern Filling Station));
- ▶ Grand prize of the All-Russian Contest Best Russian Enterprises. Dynamics, Efficiency, Responsibility in the nomination Social Responsibility (organized by the Russian Union of Industrialists and Entrepreneurs);
- ▶ nomination Consistency in Developing Non-Financial Reports in the All-Russian Contest Best Russian Enterprises. Dynamics, Efficiency, Responsibility 2009 in the Social Responsibility nomination (organized by the Russian Union of Industrialists and Entrepreneurs);
- ▶ nomination High-Quality Oil Products for Russian Consumers in the retail market research conducted by Info-Consult consulting company;
- ▶ three nominations in the 12th Annual Contest of Annual Reports (organized by RTS);
- ▶ two nominations in the 12th Annual Federal Contest of Annual Reports and Web-Sites, organized by magazine Rynok Tsennykh Bumag (Securities Market) and MICEX;
- ▶ best among Russian companies in the field of investor relations following the outcomes of research conducted by Institutional Investor;
- ▶ Contest Formula of the Future in the framework of the 2nd All-Russian Social Programs Festival;
- ▶ Corporate citizenship rating of Russian companies prepared by the Trud newspaper, Political and Economic Communications Agency and the Russian Anti-Crisis Forum.

CORPORATE GOVERNANCE

The Company shall follow the best corporate governance practices and standards and shall deem the observance thereof a required pre-condition for efficiency and success of its activities.

*Code of Business Conduct
OAO LUKOIL*

CORPORATE ETHICS AND CULTURE

LUKOIL sees itself as a leader in the global energy industry. Being an issuer of marketable instruments, for quite a number of years the Company has demonstrated its investment appeal for the Russian and foreign investors. However positive investment decisions depend largely on the quality of corporate governance, and therefore the Company seeks to continuously improve its level in accordance with the best global practices.

The key event in the reporting period was the adoption of LUKOIL's Code of Business Conduct (hereinafter referred to as the Code) by the Board of Directors in late 2010. The Code describes the standards and regulations of individual and collective conduct for LUKOIL Group's personnel working in all the lines of activities and countries of presence. The document was developed based on the ethical principles outlined in the Corporate Code of Conduct of the Federal Financial Markets Service and in the Social Charter of Russian Business of the Russian Union of Industrialists and Entrepreneurs. The contents of the Code were selected considering the many years of experience of such foreign and Russian companies as Exxon Mobil, ConocoPhillips, OAO Rosneft, OAO RZHD, OAO Tatneft, etc.

The Code serves as an underlying instrument for creating a sustainable corporate culture and uniform system of corporate values. Considering the Company's strategic plans, as well as the fact that LUKOIL Group organizations operate in countries with different legal environments and social conduct standards, the Code sets the direction that helps retain the unity and integrity of the Company in any operational environments.

In addition to the Code, the Company's Management Committee has also adopted Corporate Culture Regulations of LUKOIL Group's subsidiaries. The document defines the required employee competencies which are essential to adherence to the corporate values outlined in the Code: professionalism, innovation, loyalty, team work, responsibility and flexibility. It also describes the standards of employee conduct in relations with colleagues, and sets the rules of business and corporate etiquette.

To enable any employee to familiarize themselves with the corporate requirements and the Company's position and ask relevant questions, the Company, in pursuance of the decision by the Company's President and CEO, approved an Action Plan to introduce the Code of Business Conduct.

WE WERE PIONEERS...

Year 2002. LUKOIL became the first Russian company to adopt a Social Code. The aforementioned Code contained all corporate obligations with respect to economic, environmental and social activities. The performance of such obligations is considered instrumental to sustainable development of the Company and society as a whole.

Year 2005. OAO LUKOIL became the first Russian oil and gas company to issue a Sustainable Development Report that covered the relevant topics that are of interest to the public and described the Company's cooperation with its stakeholders.

The Plan includes the following measures:

- publish documents on the website;
- create videos and publications in the corporate Mass Media;
- amend regulatory documents as required;
- conduct annual employee surveys on observance of ethical standards and regulations;
- create an electronic bank of questions (frequently asked questions and answers to such questions).

A great role here belongs to trainings, especially those for young professionals and newly employed staff. Special emphasis is placed on training of managers, and middle managers specifically, since they are directly involved with people and, thus, need to act as the primary bearers of the corporate culture.

To supervise observance of the corporate culture, the Company, in pursuance of the order by the Company's President and CEO, set up a Business Conduct Commission comprised of the heads of its business units. This body is responsible for collecting and consolidating data on breaches of the adopted provisions. It provides personnel with the required clarifications on issues that may arise; develops recommendations on implementation of the best practices in the field of business conduct; monitors the effect of adopted business conduct documents on the psychological climate in work teams.

Once the Business Conduct Commission has received information on a breach of the Code's provisions and standards, it considers the received claim independently or in conjunction with the relevant business unit. The claim consideration procedure is prescribed by the Regulations on the Business Conduct Commission.

- *Additionally, the Company's mission was restated and its key values were identified (please go to http://www.lukoil.ru/static_6_5id_2106_.html).*

SHAREHOLDER RELATIONS POLICY

The reporting period saw adoption of a number of important documents governing relations existing between the Company's management, shareholders and investors.

In 2009 the Board of Directors approved OAO LUKOIL's shareholder relations policy, which secures the rights of

shareholders under the current Russian law and local regulatory acts of OAO LUKOIL, including without limitation the right to: get involved in managing the Company's operations through adoption of decisions on key issues; receive dividends; receive operating and accurate data. The Company shall preclude any fraud or encroachment on shareholder's rights that it may become aware of.

Pursuant to the Policy, the key principle of the Company is the equality of all shareholders of the Company, irrespective of such shareholders' location, percentage of securities owned or any other factors. The Shareholders are entitled to speak at meetings and ask questions; receive complete information on corporate actions being undertaken, including related party transactions. LUKOIL has a transparent procedure for elections to its corporate governance bodies and provides candidates with complete information. In its turn, the Company counts on its shareholders to have a constructive and interested attitude towards its activities.

The Shareholder Relations Office of the Investor Relations Department within the Main Division of Strategic Development and Investment Analysis is responsible for coordinating the activities to secure legitimate rights and interests of the shareholders. The Main Division annually reports on its activities to the Company's President.

For the first time ever, the Company has adopted a five-year Shareholder Relations Program that identifies key goals and objectives, and defines the format and methods of their accomplishment. The document provides for regular meetings with the shareholders residing in the Russian regions, and provides for a broader application of information technologies, electronic facilities and communication channels in order to raise the shareholders' awareness (please refer to Section Stakeholder Relations).

The Board of Directors approved the 2010-2012 Regulations on Long-Term Employee Incentivization of Personnel of OAO LUKOIL and its subsidiaries. According to the Provision, part of the shares will be distributed among the LUKOIL Group employees, who did not receive bonuses under the previous three-year program as a result of the 2008-2009 stock market collapse.

You can access the full version of OAO LUKOIL's shareholder relations policy on the Company's website at the following address: <http://www.lukoil.ru/static65id2230.html>. The main corporate governance documents are also available on the Company's website under the Corporate Governance heading.

DIVIDEND POLICY

The dividend policy of LUKOIL Group is based on the balance of the Company's and shareholders' interests, increasing the investment appeal of the Company and its shareholder value, respect for and strict observance of the shareholders' rights under the Russian law, Charter and internal documents of OAO LUKOIL.

As required by the Policy the Company created a transparent mechanism to determine the amount of dividends and the procedure for their distribution. In the long-term perspective the Company seeks to increase shareholders' income and the percentage of dividends in net profits.

This intention is supported by real life facts: the percentage of planned dividends in the 2009 net profits exceeded 20% despite a decrease in the net profits brought about by the economic downturn. In 2010 the percentage of planned dividends in the net profits exceeded 18%. The dividend yield in 2010 reached 3.5%.

BOARD OF DIRECTORS

The Company's Board of Directors includes the Chairperson, who acts as a non-executive director, the Company's President, first executive vice-president (executive directors), independent directors and one non-executive director.

Presence of independent directors in the supreme corporate governance body is a generally recognized way to increase decision-making reliability, strengthen the confidence of shareholders and investors in the company and secure the rights of minority shareholders.

LUKOIL's current Board of Directors consists of seven independent directors, which exceeds the number required by the Corporate Code of Business Conduct of the Federal Financial Markets Service by more than twofold. The said directors conduct regular assessments of the Board of Directors' activities, control implementation of recommendations issued and the accuracy of financial data, resolve corporate disputes, provide professional support and advice to top managers.

The Company applies the criteria of directors' independence set forth in the Corporate Code of Conduct recommended by the Federal Financial Markets Service of Russia on April 5th, 2002. The Board of Directors also approved the independence criteria that are specific for

the Company. The directors are considered independent, if such directors do not act as:

- and did not act as Company officials or employees during the last three years;
- officials of any other company, where any Company official is a member of the board of directors' committee for human resources and remuneration;
- affiliates of any Company official or the Company itself, or affiliates of such affiliates;
- parties to any arrangements with the Company whereunder they are authorized to acquire property (or receive funds), whose value constitutes 10 or more percent of the overall annual income of the said persons, other than remuneration for their service on the Company's Board of Directors;
- the Company's major counterparty with the overall amount of transactions consummated with the Company constituting 10 or more percent of the book value of the Company's assets;
- governmental representatives.

Once a member of the Company's Board of Directors has served as such for seven years, he or she can no longer be considered independent.

In 2010 the Board of Directors, as advised by the Committee for Human Resources and Remuneration, approved the criteria for assessment of its own activities and those of respective committees. Following the Board's performance in 2009-2010 its members were interviewed on the outcomes of their work. All the interviewees expressed positive opinions of the activities of the Board of Directors and its committees.

Changes in the Structure of LUKOIL's Charter Capital

Changes in the structure of LUKOIL's charter capital were brought about by ConocoPhillips' reduction of its interest in the Company. The provisions on the Company's obligations regarding approval of a number of transactions by the General Shareholder Meeting according to the procedure governing approval of major transactions, expansion of the scope of authority of the Company's Board of Directors as compared to the competencies established by Art. 65 of the Federal Law «On Joint-Stock Companies», as well as extension of the list of issues to be decided upon by a solid vote



by the Company's Board of Directors were excluded from OAO LUKOIL's Charter. The said obligations of OAO LUKOIL ceased effect. At the Annual General Shareholder Meeting of LUKOIL taking place on June 23d, 2011 the Company's shareholders resolved to remove the said provisions from the Company's Charter (these provisions were introduced back in 2005 at the suggestion of ConocoPhillips).

MANAGEMENT AND SHAREHOLDER RELATIONS SYSTEM

The Company's shareholders are motivated to receive profits, which, on the one hand, may be achieved by increasing performance, and on the other hand through convergence of the management and shareholders interests under long-term programs of monetary incentivization of executives and employees of the Group's subsidiaries. The incentivization programs are based on the interconnection existing between the outcomes of the management's activities and the actual achievement of key financial and performance indicators by the Company.

The members of the managerial bodies and the Company's management (including shareholders) have an advantage before other shareholders, since they can access the insider information that is capable of affecting the value of securities.

The Company adopted Regulations on Consummation of Securities Transactions by LUKOIL Group's subsidiaries, represented by Persons with Access to Insider Information. This document defines the concept and types of insider information, describes the procedure for making and maintaining a list of insiders, and lists the rights of the latter with respect to consummation of securities transactions.

Thus, the document helps control persons and employees that have access to insider information, and prevents unlawful use of such information to the benefit of such persons and employees. It also helps protect legitimate interests of shareholders and investors.

The Investor Relations Department places a special emphasis on building relations with minority shareholders (individuals that own a small number of the Company's shares). Such minority shareholders are provided with advice that helps them understand the trends pertaining to the Company's shares traded on the stock market and other information.

INTERNAL CONTROL AND AUDIT SYSTEM

The Company has an internal audit and control system in place that is used to protect the interests and rights of shareholders, secure assets and ensure observance of the procedures, guidelines and regulations

governing the business of LUKOIL Group's subsidiaries. The structure, tasks and functions of the system are defined in OAO LUKOIL's Internal Control and Audit Regulations, approved by the Board of Directors.

The internal control covers each and every area of the Company's activities, including compliance with the legal requirements of the countries where OAO LUKOIL and its subsidiaries operate; compliance with decisions of the Company's managerial bodies and local regulations; effective utilization of assets; accuracy of managerial and accounting reporting.

The existing control programs and mechanisms are quite efficient, but the Company is continuously working to improve them. For example, in the second half of 2010 new versions of the major documents governing internal control and audit practices employed by the Company were developed. Such new versions became effective in 2011 following their approval by the Board of Directors.

- The internal control and audit system, as well as preparation of consolidated financial reporting are described in more detail in the 2010 Corporate Governance Report. The report is accessible at http://www.lukoil.ru/static_6_5id_2293_.html.

MANAGING SUSTAINABLE DEVELOPMENT

Twice a year the Company's Board of Directors hears reports on environmental protection, energy conservation, health, safety, social policy and public cooperation. These issues are also covered in the Annual Report.

Performance in this areas of activity is planned on the basis of the key indicators outlined in LUKOIL Group's Mid-Term Three-Year Plan, in its Budget and annually approved Investment Program.

The outcomes of each previous year are presented to the Company's Management Committee in the Health, Safety, and Environment Report of OAO LUKOIL.

It was not once that the Board of Directors and the Strategy and Investment Committee promptly discussed issues directly or indirectly pertaining to the sustainable development goals. For example, in

November 2010 the Committee discussed the measures taken by the Company to ensure environmental protection and economic safety at offshore sites.

Besides, the Committee for Human Resources and Remuneration of OAO LUKOIL's Board of Directors regularly discusses matters associated with the personnel policies and policies governing remuneration of staff and members of the Company's managerial bodies and its Auditing Commission. For example, in 2009-2010 discussed were the recommendations on assessment of performance of the Company's Management and its Board of Directors, followed by a report on remuneration and employment of personnel amid the crisis, and on the measures taken by the Company's Management Committee to avoid social tensions in LUKOIL Group's organizations. Special consideration was given to matters relating to the activities of the Company's independent directors and adoption of LUKOIL's Code of Business Conduct.

STAKEHOLDER ENGAGEMENT

Considering the scope of OAO LUKOIL's activities and the number of stakeholder organizations and groups, we do not carry out centralized planning of stakeholder engagement on the Company level, since the issues of interest are group-specific. Instead, the planning and practical cooperation are carried out by business units in their specific lines of work (environment, consumers, personnel, etc.). Subsidiaries work on issues that are relevant for local communities in regions of their operations.

The key proposals by the stakeholders are reflected in various events, inclusion of new activities and individual projects into relevant programs; previously planned activities may also be subject to change. The top management is advised of stakeholder relations performance at the time of defense of their forward-looking programs by business units (functions).

The issues of interest to the stakeholders serve as a basis for developing the sustainable development report concept; the formats and outcomes of stakeholder relations are outlined in the relevant thematic sections. Drafting of reports also involves analysis of the stakeholders' interests, identification of organizations and groups of the parties that demonstrate the most interest in the Company or that are affected by the Company's activities in the reporting period.

The Code of Business Conduct also established the key stakeholder groups (shareholders, investors, representatives of governmental bodies, public representatives, business partners) and defined the rules of business conduct in relations with them as required by the ethical standards.

Generally, LUKOIL and the Group's subsidiaries prefer the following well-established forms of stakeholder relations.

■ INTERACTIVE FORMS OF STAKEHOLDER ENGAGEMENT («ONE ON ONE» AND VIA INTERNET)

Dialogues and Public Hearings

Within each reporting cycle LUKOIL holds dialogues that involve representatives of various organizations and governmental bodies. Such meetings were held in 2005, 2007 and 2011; their outcomes are outlined in the sustainable development reports. In March 2011, as part of the preparation of this Report, a stakeholder dialogue was held in Nizhniy Novgorod, whose outcomes are set out in Section Company and Society.

Apart from dialogues, OAO LUKOIL organizes public hearings and discussions on the Company's projects planned for implementation. For example, in 2009, discussed were the results of the previous and the contents of a new five-year Environmental Program (see the 2007-2008 Report). A number of meetings

and hearings were dedicated to commencement of oil production first in the Baltic, and later in the Caspian Seas (please refer to Section Sustainable Development of Russian Regions).

Corporate Blog

In 2011 OAO LUKOIL's Press Service started the Company's official Internet blog (<http://press.lukoil.ru>). The new communication tool serves not only as an additional channel of information, but also helps obtain online feedback from a broader audience.

«The launch of the Company's press service blog is not our attempt to follow the fashion, but rather a clear understanding of the value of social networks for a public company, whose activities, in one way or another, touch upon the interests of millions of people».

V. Alekperov, President of LUKOIL

Company Management's Community Meetings

Company's President V. Alekperov holds regular meetings with the audiences that are interested in



the future development of the oil and gas industry (in Russia and abroad) and in OAO LUKOIL's strategic plans. Such audiences include university students, journalists, and business community. For example, in 2009 V. Alekperov spoke at the European Business Summit in Brussels, and at the conferences of young LUKOIL Group's professionals in the Gubkin Russian State University of Oil and Gas. In 2010 the Company organized a meeting with the students of the Diplomatic Academy of the Russian Ministry of Foreign Affairs. The Company's management annually takes part in the St. Petersburg Economic Forum. Such meetings help formulate the Company's position on the issues material the future of society.

Shareholder Meetings

In 2010-2011, the Company organized field information meetings with its shareholders residing in Kaliningrad, Volgograd, Perm and Ufa held under LUKOIL's 2010-2014 Program of improving the mechanics of exercising shareholders' rights. These events were attended by over 1,600 shareholders. The Company intends to continue this initiative, since it has proven to be quite efficient.

From the Company's side the meetings were attended by representatives of the Department of Investor and Shareholder Relations. During the meeting, the attendees discussed matters associated with exercising the rights and obligations of shareholders, OAO LUKOIL's dividends policy and procedure for distribution thereof, title to inherited shares, specifics of distribution of inherited dividends, etc. The foregoing meetings have resulted in plans to establish branches and transfer agents in a number of the Russian subjects, like Ufa, to render services to our shareholders.

We also intend to use information technologies, electronic means of communication and communication channels to expand our ties with investors. For example, in 2011 the Company developed and began using its «Investment Calculator». It is also planned to create «Personal Shareholder Profile», «Electronic Simulator for Filling Out a Registered Party Application»; «Electronic Simulator for Voting», etc.

Participation in Events Organized by Stakeholders

We respond to invitations from various organizations that raise topics of public interest. We find such meetings useful, as they help us to better understand each other's stances. For example, in 2009 we took part in a business meeting of the World Wildlife Fund and Sea Mammals

Council, to discuss how to preserve walrus populations in the south-east of the Barents Sea in the context of the region's intensified economic development.

■ COMMUNICATIONS

The key role in communications with stakeholders belongs to the Public Relations Department and the Investor Relations Department: regular publications of press releases and updates of the corporate website and blog enable stakeholders to get the current Company information. The site is also used to post corporate information and analytical publications that help analyze current performance indicators and track their historic variations. The Company regularly publishes financial reports, securities issuer reports, annual reports, and sustainability reports. In 2010 it published its first corporate governance report. Strategic documents (like policies) are published under the corresponding website sections.

Our professionals make their reports at specialized conferences and round tables dedicated to the industry's challenges and corporate citizenship.

WE WERE PIONEERS...

Year 2007. LUKOIL became the first Russian company ever to begin to regularly publish the Analyst's Handbook and Key Facts. These publications contain comprehensive data on a large number of the Company's performance indicators. This practice was then picked up by some other oil and gas companies.

■ ENGAGEMENT IN ACTIVITIES OF SPECIALIZED ORGANIZATIONS

This cooperation format is used for the most part to agree on the interests and rules of play between the players of the markets where we operate, and our partners and competitors. One of the main platforms for such cooperation is the Russian Union of Industrialists and Entrepreneurs that is engaged in discussion of draft laws proposed by the Russian Government and issuance of counter-proposals and initiatives. Upon OAO LUKOIL's initiative, the Russian Union of Industria-

lists and Entrepreneurs (RUIE) created a Committee on Energy Safety that deals with the issues of future development of the Russian oil and gas industry. The Company's representatives are also actively involved in other RUIE committees that discuss labor relations, reforms of state and non-state social security systems, etc. In addition, the Company's representatives are participating in the Russian Managers Association.

taking part in the Global Compact Network in Russia. The Head of the Public Relations Department of LUKOIL is on the Steering Committee of the UN GC Network in Russia. We believe that participation in such initiatives helps us to be informed of the global best practices regarding implementation of the 10 principles outlined in the Global Compact and promotes development of best business practices in the field of sustainable development in Russia.

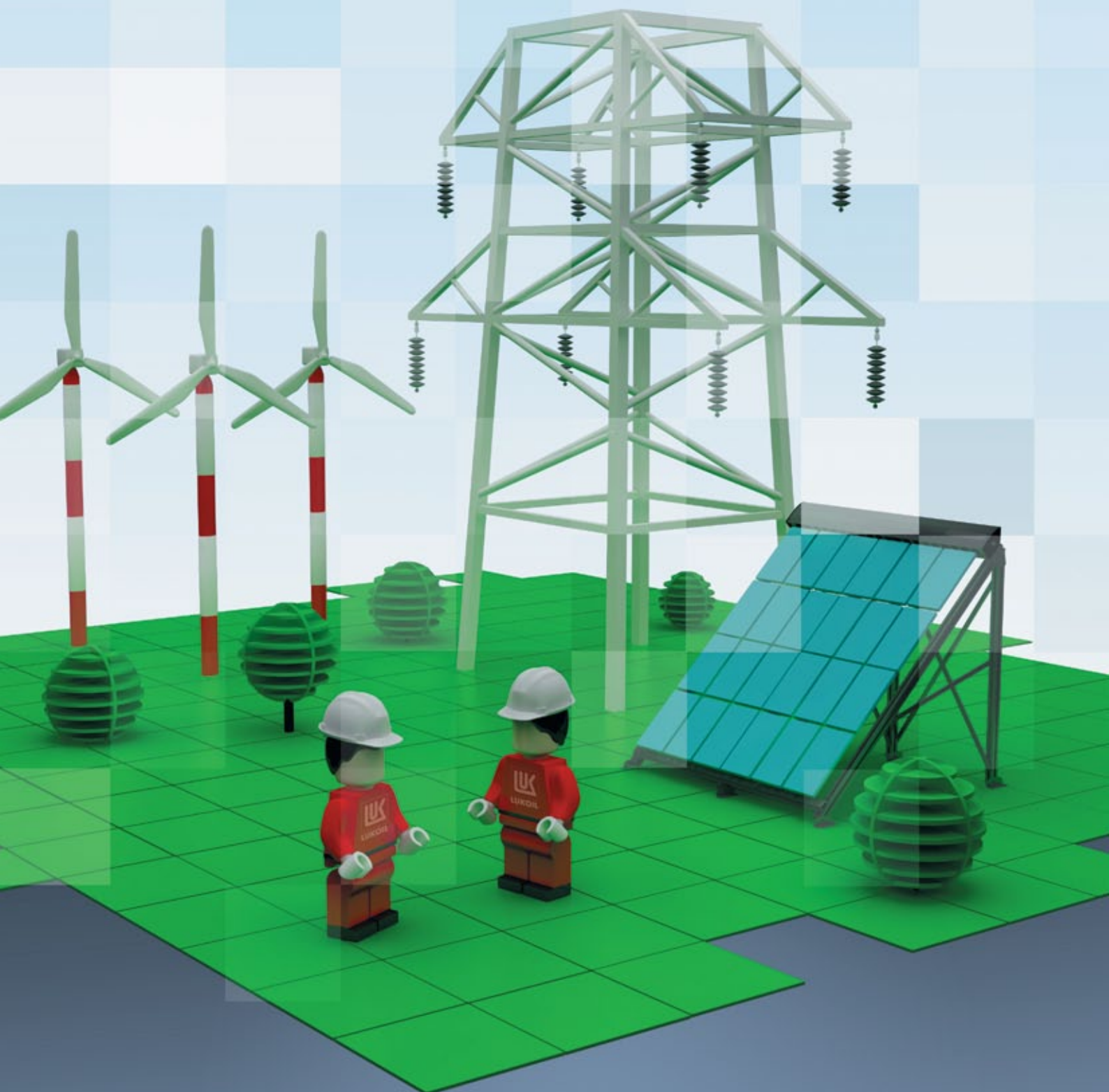


■ **PARTICIPATION IN CSR
CORPORATE CITIZENSHIP
OR SUSTAINABLE
DEVELOPMENT
INITIATIVES**

We consider such organizations and initiatives as specialized organizations with a special status, for they deal with a wide range of issues. As already mentioned above, LUKOIL signed the UN's Global Compact and is

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ENERGY AND SOCIETY





The economy of hydrocarbons is currently undergoing fundamental qualitative changes. The global economic crisis once again increased the topicality of debate on the prospects of the hydrocarbons economy and alternative energy sources.

The recent years' technological breakthrough, though making possible development of unconventional hydrocarbons, changed the views on midterm shortage of energy resources, which, in its turn, had a considerable impact on price expectations, strategies and preferences of market players. New technologies

provide access to previously inaccessible enormous reserves of hydrocarbons. Today's technology enables commercial production of crude at depths reaching 4 thousand meters, which is beyond the average great oceans depth, and enables development of almost two thirds of offshore territories. However the said technologies are costly, which will inevitably affect the oil price.

In the existing context it is both producers and consumers that will benefit from the strategy of development of hydrocarbons reserves that were previously beyond reach.

«Though our primary focus is on the development of the hydrocarbons-based energy industry, we must in no case abandon our search for new energy sources. Civilizations have always striven for creation of new types of energy. That's what makes me confident, that in the future, no matter how distant it might be, mankind will discover alternative, renewable and most importantly safe sources of energy».

V. Alekperov, President of LUKOIL

DIVERSIFICATION OF ENERGY RESOURCES

The development strategy of LUKOIL Group provides for diversification of its businesses, which helps reinforce the Company's competitive advantages considering the global trends. It is also crucial both for the country's economy, and the oil industry itself. By developing new business segments the Company is able to leverage its resources under the unstable market conditions.

LUKOIL focuses on several lines of work i.e. diversification of energy sources being a part of value-added use, including development of alternative energy sources; upgrading of fixed assets to increase utilization efficiency of raw stock and produce high-quality products, and penetration of external sales markets.

«The most recent trend in the development of energy companies is not only to focus on conventional, core activities, but also to extend the scope of activities to include electric power generation and unconventional energy».

Russian President D. Medvedev (speech at the meeting of the Committee for Modernization and Technological Development of the Russian Economy, taking place on March 23, 2010).

HYDROCARBON ENERGY SOURCES



And yet most of the Company's effort is focused on exploration and production of conventional hydrocarbon energy sources i.e. oil and natural gas.

Replacement of mineral reserves is the foundation of the Company's long-term development. To make additions to its reserves LUKOIL has been conducting exploration both in and outside of Russia, and monitoring new projects and assets to be acquired. The Company's proven hydrocarbons reserves make it one of the leaders both among Russian and international companies. The percentage of reserves being replaced as a result of additions to/discovery of new proven reserves has remained stable for the last several years (about 75%). In 2009, the Company increased its potential resources by acquiring entitlement to develop Iraq's West Qurna 2 jointly with Statoil (Norway). The fields' total recoverable reserves are estimated at 13 bln bl of oil equivalent. At present, however, the inclusion of the Company's share in the West Qurna 2's proven reserves did not substantially affect the overall level of the Company's reserves, for the adopted Preliminary

Development Program provides for inclusion solely of volumes that correspond to the first phase i.e. Early Oil. At the beginning of the next stage, provided that it continues drilling at the field, the Company expects to considerably increase the volumes of its reserves.

In 2009-2010 oil recovery volumes continued to grow. The growth in Russia was primarily accounted for by development of Yuzhno-Khylchuyu field (in the Timan-Pechora province). Commencement of production drilling activities at Yu. Korchagina field in the Caspian Sea was a landmark event both for LUKOIL and the entire country. An offshore ice-resistant fixed platform and a drilling complex were built there to enable drilling of wells with measured depths up to 7,400 m. The first oil was produced in 2Q 2010. The peak oil production is estimated to reach 2.4 mln tn of oil per year and 1 bln cu. m of gas per year. 3P (proved, probable, possible) hydrocarbons reserves of the field are estimated to exceed 250 mln boe. Development of this field is regarded as the primary catalyst of the Company's midterm production growth.

Given the public's particular concern about the Caspian Project, the activities were given maximum transparency for the stakeholders. For instance, development of drilling programs and feasibility studies of field development included 25 public hearings, at which any entity or individual had the right to ask their questions. The final version of design documents takes account of the requirements imposed by governmental environmental supervision authorities, research and independent environmental organizations.

Designing, construction and operation of field facilities are fully compliant with the requirements of the national and international occupational and environmental safety regulations.

All of LUKOIL's offshore projects use the «zero discharge» principle and follow a complete ban on associated gas flaring. LUKOIL has been conducting environmental research from the very start of its operations in the Caspian Sea. It arranged over 38 offshore expeditions, and starting 2008 the Company has been performing satellite monitoring of its drilling activities taking place in the Caspian Sea.

Irrespective of gradual natural depletion of mineral reserves, West Siberia accounts for over one half of the total oil produced in Russia during the reporting period. Application of cutting-edge technological solutions helps solve the problem to a greater extent. And yet numerous fields in the region are highly promising in terms of their production. Timan-Pechora oil and gas bearing province is the second largest contributor to the total production.

Production also started in Perm Krai at the Solikamsk Depression new group of fields underlying accumulations of potassium-magnesium salts that are being commercially developed. All activities taking place

are subject to stringent environmental limitations due to the proximity of nature reserves, areas of environmental protection and settlements. LUKOIL will construct wells that are unique for Perm Krai and continuously monitor the condition of the earth's surface.

- For more details and analytical data regarding exploration and production of hydrocarbons please refer to the annual reports, the Analyst's Handbook, and the Key Events collection.

■ OIL PRODUCTION, mln tn

	2006	2007	2008	2009	2010
Total production, LUKOIL Group	95.2	96.6	95.2	97.6	96.0
including Russia	89.6	91.1	89.9	91.9	89.8
West Siberia	59.8	60.0	56.2	53.0	50.9
Fore-Urals	10.9	11.3	11.6	12.0	12.5
Volga Region	3.2	3.2	3.3	3.1	3.1
Timan-Pechora	13.6	14.6	16.7	21.7	21.2
Other	2.1	2.1	2.2	2.1	2.0

Source: Analyst's Handbook 2010

LUKOIL's gas business also continues to develop, however gas production trends in Russia are affected by numerous factors, the most critical of which are demand for gas and OAO Gazprom's monopoly of the gas transportation infrastructure and the right to export commercial gas. In 2009 the Company's production dropped due to reduction in the amounts purchased by OAO Gazprom. Please note that production of associated petroleum gas (including

marketable petroleum gas) increased (please refer to Section Efficient Resource Management). In 2010, substantial growth of commercial gas was accounted for by increased amounts purchased by OAO Gazprom in the light of increased demand for gas from Europe and the 2009 low base effect. Most of the incremental production came from Nakhodkinskoye field in the Bolshekhtskaya Depression. This gas was fully sold to OAO Gazprom.

■ NATURAL GAS PRODUCTION AND COMMERCIAL GAS OUTPUT, mln cu. m

	2006	2007	2008	2009	2010
Total production, LUKOIL Group*	10,709	10,787	13,888	11,444	13,936
Commercial gas output	9,821	9,652	12,671	10,218	12,770
including Russia (subsidiaries)	8,816	8,161	8,711	6,341	8,532

* Includes gas to be sold, used for gas flooding, process losses and gas for in-house consumption.

Source: Analyst's Handbook 2010

ELECTRIC POWER GENERATION



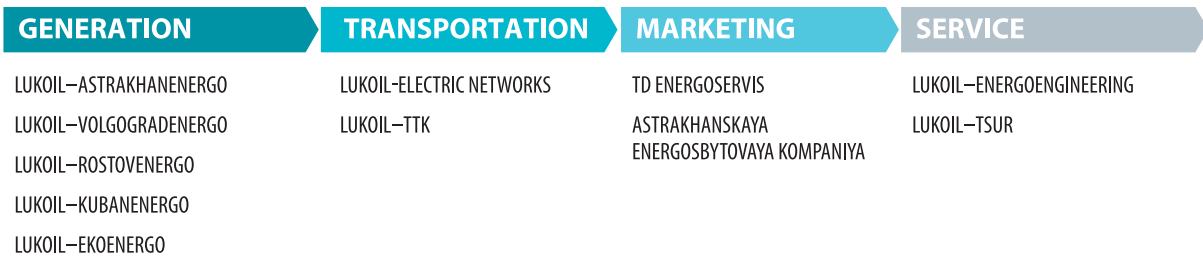
The Company's reviewed 2010-2019 strategy places a special emphasis on its Electric Power Generation Business Sector. It includes all of the power business areas from generation to transport and sales of heat and power. Its core assets are those of OAO YuGKTGK 8 acquired in 2008.

Restructuring of this new sector was completed in the reporting period. The total number of established companies was seven, five of which are power generating ones (OOO LUKOIL-Astrakhanenergo, OOO LUKOIL-Volgo-gradenergo, OOO LUKOIL-Kubanenergo, OOO LUKOIL-Rostovenergo and OOO LUKOIL-Ekoenergo). The objective of OOO LUKOIL-Ekoenergo is to implement projects based on renewable energy sources (RES).


We regard hydropower as one of the most promising and economically viable activities in Russia, for it enables one to use the energy of not only major, but of minor rivers as well. LUKOIL owns four hydropower plants (including two smaller ones). The Company is currently developing various options of upgrading of the existing minor hydropower plants and construction of new ones. [For more information please refer to Section Renewable Energy Sources.](#)



■ STRUCTURE OF THE ELECTRIC POWER GENERATION BUSINESS SECTOR IN RUSSIA



OWN POWER GENERATION

 According to experts, one of the current trends in the energy industry is transformation of power consumers into power producers, which changes the structure of power generation and consumption market. LUKOIL utilizes waste energy and uses smaller power generating facilities to supply power to its sites.

the total power consumed by its production facilities. In 2010 the Company's in-house power plants produced 1,409 mln kw-hr of electric power, or 9.9% of the total power consumed by its production facilities.

OOO LUKOIL-West Siberia put into operation two gas-turbine power plants i.e. a 72 MW power plant at Vatyeganskoye field and a 48 MW plant at Tevlinsk-Russkinsk field (TPP Kogalymneftegaz). This helped reduce TPP Kogalymneftegaz' shortage of electric power to 20 MW. June 2009 saw the commissioning of the gas-turbine power plant that supplies power to Pyakyakhinskoye field.

WE WERE PIONEERS...

LUKOL was one of the first Russian companies to use waste energy to satisfy the power requirements of its sites by commencing construction of gas-turbine power plants running on associated petroleum gas.

WE WERE PIONEERS...

Year 2008. The West Siberian oilmen constructed the first ever major in-house power generation facility in Yugra i.e. a 72 MW gas-turbine power plant that became the largest in-house power generation facility of OOO LUKOIL-West Siberia.

■ GAS-TURBINE POWER PLANTS

The in-house power generation development programs help LUKOIL's subsidiaries to solve two problems i.e. shortage of power supply in a number of Russian regions and a need to dispose of associated petroleum gas. Sites with the most acute shortage of power supply are selected for construction of power generation facilities.

Smaller Power Generation Facilities

In 2009, the Company's own power generation facilities produced 1,152 mln kw-hr of electric power, or 8.2% of

Other sites of OOO LUKOIL-West Siberia came up with other ways to address shortages of power supply. For instance, TPP Uraineftegaz commissioned a substation, which, being connected to the grid of Tuymenenergo, fully makes up for the existing power shortage. TPP Pokachevneftegaz commissioned two similar substations that turned out to be powerful enough for the production process, given the commissioning of the gas turbine power plant at Vatyeganskoye field.

There are also plans to commission one more gas-turbine power plant within Kamenny Licensed Block in the near future (TPP Uraineftegaz). It is a new production site purchased in 2006 from Marathon. Not only will the commissioning of the power plant allow to fully eliminate the shortage of power supply, but it will also increase the degree of utilization of associated petroleum gas within the block.

■ COGENERATION

Cogeneration is a promising area of power generation that has a huge potential in terms of energy conservation, for the overall efficiency of a co-generation system may reach 80-90%.

Plenty of the Company's sites have micro-turbine units in place, which are normally powered by associated petroleum gas. Such units were commissioned at OOO LUKOIL-Komi's and OOO Naryanmarneftegaz' sites. Another two micro-turbines were installed at OOO LUKOIL-Perm's sites during the reporting period. LUKOIL plans to continue introducing microturbines at its enterprises.



RENEWABLE ENERGY

SOURCES

WE WERE PIONEERS...

LUKOIL is the first Russian oil and gas company to have launched pilot projects in such fields as renewables and unconventional energy sources.

An important role in the Company's development strategy is played by environmental safety and reduction of environmental impact, and improved energy efficiency and application of energy conserving technologies. Utilization of renewables is one of the means of attaining the set goals.

In consideration of such criteria as potential, geography and strategy of the Company's business development; reliability of equipment and technology; strategy of renewable energy development in Russian and its economics, we identified four types of renewables that are actively developing and are of interest at the present stage.

SOLAR ENERGY

Russia has experience in using this type of energy and offers opportunities for such use (primarily in its southern regions). LUKOIL is considering the prospects of implementing projects providing for installation of photovoltaic power plants at its sites, which is expected to help cut down on electric power consumption and provide a source of «clean» energy. We've made several actual steps forward in this direction in the form of our pilot projects.

In 2009, we commissioned two filling stations in Serbia with photovoltaic power plants, 4 kW each. Both of the plants are expected to supply to the grid all of the electric power they produce, which will be chargeable at special rates.

The first ever in Russia filling station with a photovoltaic power plant equipped with Russian photovoltaic modules was put into operation in Krasnaya Polyana (Krasnodar Krai) in 2009. The solar 10 kW photovoltaic modules installed on top of the building cover 10% of the electric power consumption. All design, construction and assembly work was performed by a Russian contractor. Analysis of measurements that have been taken from the start of operation reveals that photovoltaic power plants are reliable and their performance meets the designed levels.

WIND ENERGY

Wind projects currently implemented in Russia are very sporadic. Experts believe that in the mid and long-term investments into wind energy in Russia will grow, which is due to a low level of risk pertaining to such projects, and their social and environmental advantages. That is why the Company has been considering various wind energy projects, both local ones (to supply electric power to industrial sites) and construction of major grid power plants. The priority regions include Krasnodar Krai, Kaliningrad, Astrakhan and Volgograd Oblasts, and the Varandey Peninsular. Kaliningrad Oblast is one of the prospective territories for construction of a pilot wind farm and it is currently subject to preliminary assessment as the venue for construction of a pilot wind farm.

«Our country has a powerful wind potential, and if appropriately promoted by the state, wind energy may be a great help to the oil industry, especially in hard-to-get-at locations with a shortage of centralized power supply».

V. Alekperov, President of LUKOIL

GEOHERMAL ENERGY

Geothermal energy is a big prospect for Russia, e.g. in the Southern Federal Okrug.

LUKOIL has been developing several projects focusing on utilization of low-potential sources of heat.⁴ The goal behind such projects is to ensure heat supply and enable air conditioning of the Company's production sites. For instance, application of heat pumps to recover such energy may result in substantial energy savings: the amount of heat produced in case of their application is 3-5 times higher than the amount consumed. Such low-potential sources may include soil, water and ambient air, which is why the scope of application of such equipment is almost boundless.

Pilot projects have been implemented at the petroleum products supply enterprises both in Russia and abroad. In 2010 in Nizhniy Novgorod Oblast OOO LUKOIL Baltiya R and OOO LUKOIL-Volganefteprodukt implemented their projects of power efficient filling stations, whose heating and air conditioning systems are based on heat pumps.

Similar projects are currently being developed at the filling stations of OOO LUKOIL-Yugnefteprodukt in Krasnodar Krai, OOO LUKOIL-Tsentrnefteprodukt in Moscow Oblast, etc.

⁴ From sources of heat with temperatures around +10°C.

RENEWABLE ENERGY

IN RUSSIA

Development and full implementation of RES in Russia, with the exception of hydropower, is hampered by the absence of the required conditions, including financial support from the state. According to the global experience, it is governmental incentives that are crucial for expansion of renewables application.

That is why renewable energy has so far been taking the form of pilot and minor projects intended to address the power supply of remote production facilities locally. In some cases it makes it possible to abandon construction of power lines and fully meet the requirements of such facilities out of local resources.

RESEARCH AND DESIGN

Being one of the leaders of the domestic fuel and energy complex, LUKOIL makes investments into generation of new ideas, search for and utilization of new technologies, design of new equipment and products that enable the oil and gas industry to go over to a qualitatively different level of its development. While generating demand for innovation, the Company at the same time facilitates innovative development of the entire Russian economy.

LUKOIL is one of two Russian oil and gas companies, which, according to experts, are major investors into research and design (R&D). An important feature of our approach is a complete cycle from generation of ideas to their materialization and commercialization. The profits from sales of products developed by LUKOIL's research and design organizations in the reporting period totaled around 1,275 mln RUR.

The strategic R&D goals depend on a number of factors that constitute the Company's advantage. Here belong developed infrastructure (research and design facilities); prospective planning of activities in the form of targeted programs; implementation of new and innovative projects, and international cooperation.

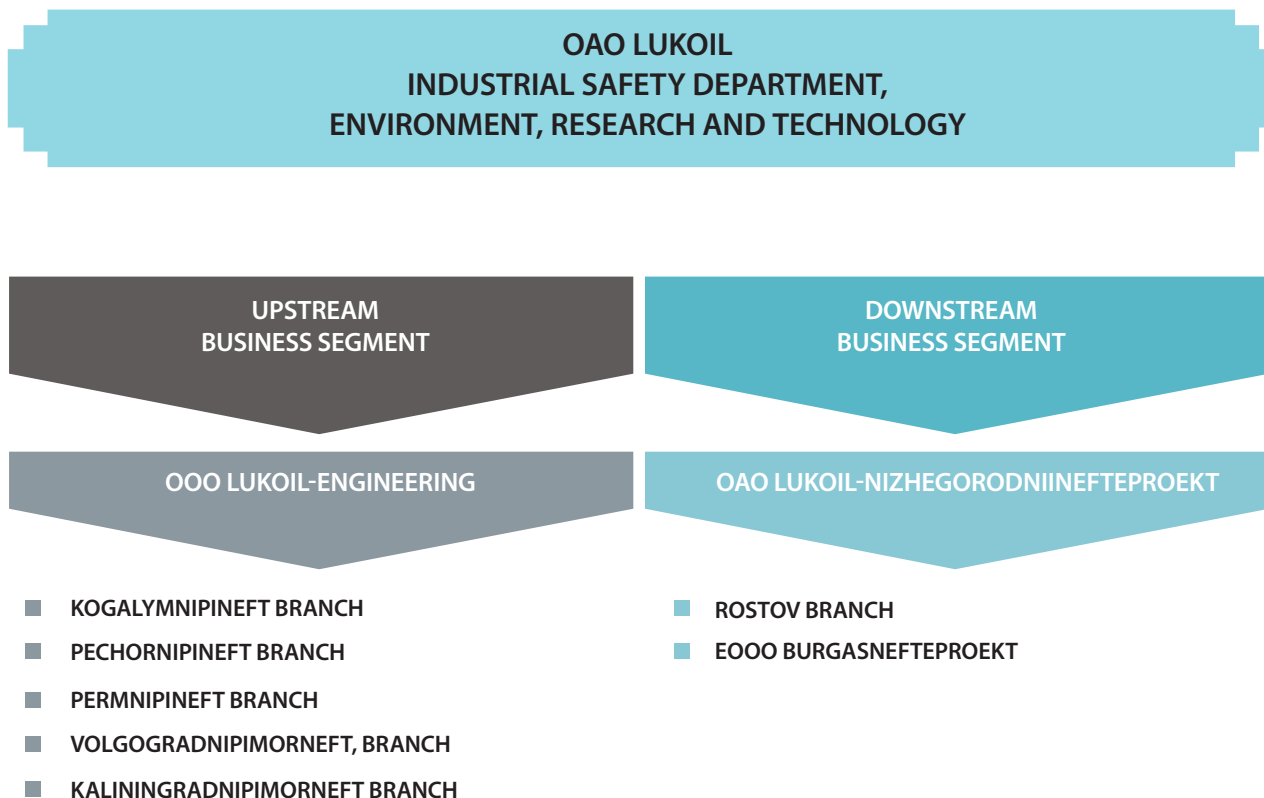
**LUKOIL GROUP'S RESEARCH
AND DESIGN COMPLEX
INCLUDES:**

**TWO UPSTREAM AND DOWNSTREAM
BUSINESS SEGMENTS HEAD
INSTITUTES**

**THAT INCLUDE SEVEN BRANCHES IN THE
REGIONS OF THE COMPANY'S
OPERATIONS**

**THE COMPLEX'S ORGANIZATIONS
EMPLOY ABOUT 4 THOUSAND
INDIVIDUALS**

■ LUKOIL GROUP’S RESEARCH AND DESIGN COMPLEX



**RESEARCH AND DESIGN
FACILITIES OF THE COMPANY**

Reorganization of Upstream Business Segment's research and design complex started in 2010. A new research center — OOO LUKOIL-Engineering was set up receiving the status of the integrated Corporate R&D Institute. In early 2011, the Corporate Center united four regional institutes thus forming a parental company and five branches. The reorganization resulted in formation of an efficient mechanism of use of innovation and common corporate database of the business segment.

LUKOIL-Engineering’s business units are categorized in accordance with the primary areas of research:

- offshore field development;
- hydrogen sulfide disposal;
- development of heavy oil production technologies;
- development of technologies involving alternative energy sources;
- occupational safety and environment;
- energy conservation;
- advanced training of personnel (there are plans to set up a corporate training center).

SCIENCE AND ENGINEERING COUNCIL

The Science and Engineering Council is a special deliberative body under the President and CEO of LUKOIL. Its members include qualified experts in research and technical support, production, economy and management.

The Council is responsible for addressing development issues that are pressing for LUKOIL Group's organizations, issues proposals and recommendations regarding strategic and scientific and technical development, improvement of the Company's production activities, improvement of performance and OPEX reduction, including without limitation through application of resources and energy efficient technologies in its production activities.

and Annual Coordination R&D Program. In 2010, the Annual Coordination Program included over 800 topics, whereas in 2011 the number of topics covered exceeded 950 and the amount of financing was more than 5 bln RUR. Most of the R&D areas and the largest number of activities are in some way or another related to Upstream and provision of R&D services.

The programs are developed on the basis of proposals issued by LUKOIL Group's subsidiaries and the Company's business units. Selection of topics and compilation of programs take place in several stages in accordance with the Regulations on the Procedure for Planning and Organizing Research and Design Activities in LUKOIL Group approved by OAO LUKOIL's Management Committee.

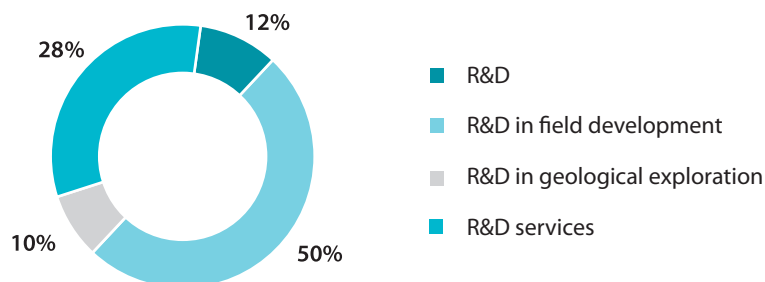
PLANNING: RESEARCH AND DEVELOPMENT PROGRAM

Planning and budgeting of research and design activities is done under the Midterm Targeted Program of Research and Design Development of LUKOIL Group

FINANCING OF RESEARCH AND DESIGN ACTIVITIES IN LUKOIL GROUP, mln RUR

2007	2008	2009	2010	% vs. 2007	2011 (plan)	% vs. 2010
1,708	2,384	2,545	3,632	▲ +112	5,116	▲ +40.8

FINANCING OF R&D AND OTHER RESEARCH



■ NEW PRODUCTION TECHNOLOGIES

LUKOIL's developments are in the first place intended to enable development of previously «uncalled-for» hydrocarbon reserves in Russia's primary oil and gas bearing regions. The «uncalled-for» reserves include reserves whose study or development is complicated or restricted for technological, geographical or economic reasons. R&D programs include projects promoting further development of:

- production enhancement and oil production stimulation techniques;
- engineering solutions intended to enable integrated recovery of heavy and highly viscous crudes that contain commercial concentrations of rare metals (vanadium, nickel, cobalt, molybdenum, etc.);
- solutions to begin development of oil reserves that are confined to reservoirs with complex structures;
- technologies to ensure environmentally safe conditions of field development taking place in areas of environmental protection, etc.

The solutions developed by LUKOIL's research and design organizations have been successfully implemented at a number of the Group's enterprises.

Due to introduction of sidetracking from existing wells and hydraulic fracturing, oil production in West Siberia grew from 100 ths tn a year to almost 1 mln tn, and the reserves increased almost threefold.

Drilling and safe operation of long-reach horizontal wells in Perm Krai enabled active development of previously inaccessible oil reserves underlying accumulations of potassium-magnesium salts of the unique Verkhnekamskoye field.

Thermogravitational drainage of formations used in developing fields with highly viscous crude in the Timan-Pechora oil and gas bearing province allowed to increase the reserves of recoverable oil and made a substantial contribution into the industrial and environmental safety of production activities.

MOBILE DRILLING RIG

In 2010 LUKOIL-Kaliningradmorneft, at its steel structures factory, built a unique mobile drilling rig Ermak designed for exploratory and production drilling. This is the first drilling rig ever built in Russia that is based on a special hydraulic walking system, which is capable of moving not only in a straight-line manner, but can also move sideways, and can also perform 360 deg. rotations on its axis. The project personnel used developments of Russian, German, American and Canadian manufacturers. The rig has a stand-alone power supply system and is adapted to operate under various climatic conditions (from +45 to -45 °C).

INNOVATION AND PARTNERSHIP: APPLICATION OF NANOTECHNOLOGIES

Search for and application of innovative technologies is one of the key preconditions for the Company's further development and improvement of its competitiveness. Russia is currently developing nanotechnologies,

which can have lots of applications in almost every field of LUKOIL's activities, including use of materials and coatings with enhanced properties (strength, wear resistance, corrosion resistance, fire protection, etc.) and use of nanocatalysts and nanosensors.

In 2009 LUKOIL made a General Strategic Partnership Agreement with the Russian Corporation of Nanotechnologies (reorganized into OAO RUSNANO in 2011) for commercialization of nanotechnologies.



The goal of this partnership is to produce and introduce materials and technologies developed by Russian research organizations in conjunction with OAO RUSNANO. Our personnel act as experts by formulating the requirements for innovation in the oil and gas industry. The cooperation mechanism covers the entire process from theoretic justification and creation of lab prototypes to construction of pilot plants. Coordination of activities is arranged through regular meetings of the Work Team, and determination of territories for pilot tests of prospecting technologies that are conducted at the Group's production sites.

Fine-tuning of technology commercialization projects, developed without limitation by LUKOIL's subsidiary OAO RITEK, is also under way.

The first such project was submitted in May 2010 to the Committee under the President of Russia for modernization and technological development of the Russian economy. The goal of the project is to create a technological complex for development of fields with unconventional oil-and-kerogen-bearing formations of the Bazhenov suite occurring within a huge territory in the West Siberian lowland (over 1 mln sq. km). If such activities result in elaboration of a fundamentally new thermogas technology of development of such fields, it will bring about a multiple increase in the degree of recoverability of oil at the Bazhenov suite fields and make additions to Russia's recoverable oil reserves. The aforementioned additions are bigger than the current geological in-place oil reserves of Russia. The outcomes of the project will be of crucial importance for the entire fuel and energy complex.

Another project provides for expansion of production of nano-structured oil-driving compositions RITIN-10, which allow to efficiently influence oil formations and drive oil out of them without affecting formations' permeability. In terms of its oil production stimulation

performance in water-encroached formations and stability of its physical and chemical properties RITIN-10 currently remains unmatched. The prospects of increased output and broader application of this nanochemical in the oil and gas complex both in Russia and abroad are bright indeed. [\(For more information please refer to Section Production Enhancement\).](#)

A third project will result in creation of a new enterprise for series production of thyatron motors for submersible pumps, which enable adjustment of the rotation speed yet retaining the high-repeatability torque and efficiency. This is going to boost production efficiency and reduce power consumption.

LUKOIL's enterprises also conduct tests and pilot tests of innovative materials (in particular nano-coatings for wearing parts of equipment operated in aggressive media). Experts are also developing a project to build a pilot plant capable of processing associated petroleum gas into liquid hydrocarbons using the technology called Mini-GTL (gas-to-liquids).

Mini-GTL has been the subject of thorough analysis during the last decade. Our project will use highly efficient nano-catalysts to facilitate a synthetic reaction between liquid hydrocarbons from synthesis gas, and efficient microchannel heater-exchanger reactors required to produce liquid from synthesis gas. Due to their small dimensions the microchannel reactors allow cost-effective utilization of associated petroleum gas (and yet offer high heat and mass transfer efficiency and low CAPEX).

The Company's experts expect that most of the projects that have already been launched will be viable enough to reach the commercial introduction stage and may be duplicated thus producing a considerable economic and environmental effect.

INTERNATIONAL EXPERIENCE AND COOPERATION

We are guided by the global experience, including without limitation that of international companies and yet adapt it to the Russian environment. In 2010 LUKOIL

and Emerson Process Management (US), being the biggest business unit of Emerson, signed a contract for upgrading of 13 refining and petrochemical enterprises of the Company in Russia and Eastern Europe. Our partner is responsible for provision of equipment, software and services.

EFFICIENT RESOURCE MANAGEMENT



ENERGY EFFICIENCY AND ENERGY SAVING

According to experts, Russia has a considerable energy saving potential which can be regarded as its strategic resource. Therefore, the government has set the task of

reducing by 2020 the power intensity of GDP by 40%, and the progress in this sphere is directly reported to the Russian President. In November 2009 Federal Law No. 261 «On Energy Saving and Energy Efficiency Improvement» came into force, and the State Energy Saving and Energy Efficiency Improvement Program was developed.

«We must also be mindful of the social responsibility of the national fuel and energy complex, and of its role in preservation of our country's natural wealth. The leading nations... work hard and consistently to preserve their national natural resources for the generations to come. And Russia must keep up with the current economic progress in this field».

Russian President D. Medvedev (speech at the meeting of the Committee for Modernization and Technological Development of the Russian Economy, taking place on March 23, 2010).

Recovery and processing of hydrocarbon raw stock are very power-intensive. In the cost structure of oil production the share of the energy carriers costs accounts for about 25%, and in that of refining — for about 36%, therefore energy efficiency is quite a topical issue.

The Program's mandatory component is the assessment of efficiency of energy consumption at LUKOIL's organizations, including without limitation through engagement of independent energy auditing companies.

The Company's 2010-2019 Strategic Development Program defines energy efficiency improvement task as a strategic one — within the next 10 years we plan to reduce the specific power consumption of the Company's enterprises by 20%.

By efficient use of energy resources we mean achievement of an economically justified level of efficiency given the existing level of technological development and provided that the environmental requirements are satisfied.

The foregoing goal may be achieved due to:

- technical re-equipment and introduction of energy efficient processes and process equipment;
- application of innovative solutions;
- reduction of losses and inefficient resource management.

Given the considerable capital intensity of the said measures, the state can further energy saving effort by rendering its support for innovation in this field.

ENERGY SAVING PROGRAM

The Energy Saving Program (hereinafter referred to as the Program) has been developed on the basis of the Group's energy and resources conservation measures. Such measures are developed in line with the state policy in this field and LUKOIL's development strategy.

The 2010 program covered 48 entities engaged in production and processing of hydrocarbons both in and outside of Russia, petrochemistry, petroleum products supplies both in and outside of Russia, and electric power generation and transportation. The hydrocarbons production and processing enterprises covered by the Program produce over 94% of the entire oil produced by LUKOIL Group and refine around 82% of oil supplied to its refining facilities. Thus, the measures contemplated in the Program will produce a noticeable effect company wide.

Various mechanisms to promote and monitor performance of plans are being put into practice. For example, the Management Committee of OAO LUKOIL approved energy efficiency indicators for LUKOIL Group's enterprises and the operability of this system is currently being tested. The incentives are planned for introduction at every enterprise in each business sector and will be used in distribution of bonuses.

Starting 2010 investment projects have been subject to expert reviews to assess the energy efficiency of engineering solutions being implemented and equipment being selected.



MEASURES AND OUTCOMES

The following are the tasks set before LUKOIL in the reporting period:

- introduce new technologies and cutting-edge equipment, including LUKOIL's own developments;
- implement energy saving measures, whose efficiency has been proven empirically;
- reduce the share of energy costs in the cost of products produced by oil refining and gas processing enterprises.

According to the Program's outcomes, the biggest contributors into the overall power conservation performance are Upstream enterprises (180% of the 2009 planned performance) for which deceleration of power intensity growth (per one ton of produced liquid) is a very pressing issue. A substantial reduction of power consumption was possible primarily due to improvement of production technologies, replacement/upgrading of equipment and reduction of volumes of associated water.

A reduction in the consumption of heat and boiler and furnace fuels (see the Tables below) occurred due to utilization of waste fuel, upgrading of boiler houses, improved thermal shielding of buildings and structures, and replacement of the heat insulation of pipelines.

One of the ways to improve oil production performance is to optimize the production mode by adjusting the frequency of rotation of submersible pumps, whenever it is possible to use a cyclical mode of operation and operate at reduced engine speeds. To make it possible the Company has developed a valve electric drive.

Replacement of conventional electric motors with thyatron motors helps substantially reduce the amount of power being consumed. Energy savings at various wells varied from 10 to 60% (with the average annual amount of energy saved per well being about 65 ths kW-hr annually).

This equipment is currently used at almost 900 wells operated by LUKOIL (around 3% of the total number of producers). The scope of application of valve electric drives will be extended.

The project to reconstruct pumps of the formation pressure maintenance system is the most important part of OOO LUKOIL-West Siberia's energy efficiency program, for operation of this equipment accounts for about 35% of the total power consumed in the course of production activities.

OOO LUKOIL-West Siberia launched its pilot projects to upgrade the pumping equipment used at its Vatyeganskoye and Pokachevskoye fields. Estimates indicate that reconstruction of the pumps will lead to a 10-15% reduction in power consumption on average. It will also cause the number of chemicals being used to decrease, and the overhaul life will be substantially longer.

Completion of the pilot projects is scheduled for late 2011. The economic benefits will amount to 180 mln RUR.



Massive consumption of heat and boiler and furnace fuels is typical of oil refining. Increased output of petroleum products will affect the degree of utilization and process parameters of equipment, and consequently lead to increased consumption of electric power. The top-priority measures in this area aim at optimizing the process equipment and processes. The most heat was saved due to heat-transfer agent replacement (conversion from steam to hot water) and construction of condensate collection systems, and the largest quantities of furnace fuel were saved due to re-equipment of furnaces of process units, replacement of burners and adjustment of burning modes in furnaces.

Despite a relatively small share of petroleum products supply enterprises in the total consumption of power, they are also implementing energy saving measures, primarily, in the form of optimization of power consumed for electric lighting of filling stations and petroleum storage depots, and reduction of inefficient consumption.

The strategic goal of the electric power segment is a considerable reduction of consumption of fuel and energy in generation and transmission of electric power and heat.

We believe that energy saving measures in the electric power sector must be implemented in two main fields i.e. reduction of specific fuel consumption and reduction of line losses on the grid. To do this, the Company:

- installs metering equipment to ensure accurate and objective analysis of power supply and consumption;

- improves performance of its power generating equipment and performs upgrading of its grid facilities.

The Company also plans to:

- introduce innovative technologies, including a new generation of «smart» backbone and distribution networks, and DC lines;
- restore the industry's system of specific fuel consumption control;
- exercise control of specific fuel consumption inside the power generating companies.

The key measures taken during the reporting period at LUKOIL's electric power assets include:

- upgrading of the existing cogeneration plants i.e. introduction of highly efficient combined cycle plants;
- conversion to cogeneration (combined generation of electric power and heat from primary energy sources);
- upgrading of distribution grids.

In 2009, the Company invested 1.6 bln RUR in this business sector, and 2.32 bln RUR in 2010.

■ FUEL, HEAT AND POWER SAVED AS A RESULT OF ENERGY SAVING MEASURES

Period		Power generation	Heat	Boiler and furnace fuels
		mln kW-hr	ths Gcal	ths TOE
1	2009 targets of LUKOIL Group's subsidiaries	800	504	148
2	subsidiaries operating in Russia	758	191	97
3	Actual	1,324	273	164
4	subsidiaries operating in Russia	1,264	155	100
5	2010 targets of LUKOIL Group's subsidiaries	695	258	51
6	subsidiaries operating in Russia	667	146	48
7	Actual	788	371	83
8	subsidiaries operating in Russia	765	271	80
9	2010-2012 targets	2,360	970	214

Source: Company data



FUEL, HEAT AND POWER SAVED AS A RESULT OF ENERGY SAVING MEASURES TAKEN IN 2009 AND 2010 (by Business Sectors)

	Power generation	Heat	Boiler and furnace fuels
	mln kW-hr	ths Gcal	ths TOE
UPSTREAM in Russia			
2009 targets	627.0	3.5	4.3
Actual	1,173.8	3.7	6.8
2010 targets	621.9	4.21	11.7
Actual	727.6	4.1	24.9
GAS PROCESSING in Russia			
2009 targets	21.7	3.8	0.4
Actual	6.9	0.8	0.4
2010 targets	7.9	0.12	0.66
Actual	0.3	0.12	0.66
OIL REFINING in Russia			
2009 targets	13.5	163.2	57.5
Actual	13.4	130.8	27.3
2010 targets	5.5	98.0	8.0
Actual	12.1	239.6	24.8
PETROLEUM PRODUCTS MARKETING in Russia			
2009 targets	3.4	0.7	1.3
Actual	3.1	0.6	1.4
2010 targets	2.2	0.81	0.089
Actual	1.9	0.87	0.089
PETROCHEMISTRY			
2009 targets	4.4	19.9	7.2
Actual	3.4	18.9	6.3
2010 targets	13.5	19.7	8.8
Actual	7.5	3.6	4.9
ELECTRIC POWER GENERATION			
2009 targets	99.6	0	30.3
Actual	100.8	0	61.2
2010 targets	13.7	23.3	15.5
Actual	15.8	23.3	24.2
TRANSPORTATION			
2010 targets	2.3	0	0.51
Actual	0.3	0	0.13

Note on the data: failure to meet the targets (adjustment of targeted performance) in Downstream was caused by changes in the enterprise's investment program and re-scheduling of measures (2009). Planning of measures and setting of targets in Transportation Sector began in 2010.

Source: Company data

PRODUCTION ENHANCEMENT

The primary goal of the oil industry today is to enhance production and stimulate oil recovery. It helps substantially increase recoverable reserves and oil production, and start development of highly viscous oil, reserves of low-permeability reservoirs and low-extractability reserves of mature fields. LUKOIL has been widely using new engineering solutions to overcome the ageing of fields in its traditional development regions.

Radial drilling is under way in the Fore-Urals region. Being relatively low-cost, radial drilling in the existing wells helps enhance production and start development of low-extractability reserves. Application of the radial drilling technology in other oil producing regions is currently being considered.

Another technology being applied is that of horizontal drilling, which helps to increase well deliverability by 1.5 times. LUKOIL has been widely using geological and hydrodynamic simulation of fields, for it enables it to increase oil recovery and cut down on field development costs.

LUKOIL's subsidiary, OAO RITEK, specializes in production enhancement technologies and equipment and development of methods of efficient development of low-extractability reserves. The Company's specialists have developed and have been successfully applying thermogas, steam-gas and water-gas production enhancement technologies. Commercial production of RITIN, a polymer-gel nano-chemical, was launched and is currently expanding. The overall number of wells in which the chemical was used during the pilot testing period (2000-2008) was 1,002 wells at 50 fields operated not only by LUKOIL, but by other Companies as well. The resultant incremental oil production totaled 1,299 ths tn (or 1,296 tn per well). OAO RITEK's specialists are currently testing a technology that allows to recover oil from the Bazhenov suit fields. Application of conventional deposit development techniques would result in recovery of only 5% of oil reserves.

■ INCREMENTAL ULTIMATE RECOVERY RESULTING FROM APPLICATION OF PRODUCTION ENHANCEMENT TECHNIQUES IN RUSSIA, mln tn

2005	2006	2007	2008	2009	2010
22.07	24.19	23.75	22.95	23.04	22.0

Source: Analyst's Handbook 2010

UTILIZATION OF ASSOCIATED PETROLEUM GAS

The quantities of associated petroleum gas (APG) produced in the reporting period continued to grow, which is due to increased production of oil and development of gas utilization systems (construction of compressor stations and gas pipelines). Implementation of the APG Utilization Program caused this indicator to grow from

71% in 2008 to 77% in 2010. According to the Company's plans the percentage of APG utilization will have reached 95% by 2012. The West Siberia-based enterprises (other than TPP Uraineftegaz of OOO LUKOIL-West Siberia) and those operating in Volgograd Oblast have already reached this level. In 2011 investments into the program will triple.

Geographically, utilization projects have moved from West Siberia to the Timan-Pechora province and the Fore-Urals, where up to 80% of gas produced by LUKOIL

Group's enterprises at their new fields fails to be utilized. New technologies are used to increase the rational level of APG utilization.⁵

APG is processed at LUKOIL's gas processing plants and the resulting commercial gas is supplied to OAO Gazprom's gas distribution system. APG is also used to develop smaller energy facilities, which enables one to reduce amounts of gas being flared.

A long-term agreement was made with SIBUR petrochemical holding, providing for increased supplies of APG. Over a period of 2011-2015 it is planned to supply over 2.5 bln cu. m of gas, which will also help reach the 95% APG utilization level.

■ PRODUCTION AND UTILIZATION OF APG IN RUSSIA, mln cu. m

	2005	2006	2007	2008	2009	2010
APG production	3,497	3,576	4,079	4,084	4,295	5,067
APG utilization degree*, %	79.1	72.2	69.0	70.4	71.1	76.8**

* The shown APG utilization levels take account of its share in the total production of the Company's affiliates.

** The level of associated gas utilization for the Company's key West Siberian fields exceeds 95%.

Source: Analyst's Handbook 2010

CLIMATE CHANGE

WE WERE PIONEERS...

Despite certain uncertainties inherent in the Russian law, starting 2005 LUKOIL began to implement the Kyoto provisions to make sure that its corporate policies include measures of combating climate change being a part of sustainable development.

We believe that trading in green gas emissions quotas is an efficient tool of providing economic benefits to investors willing to invest in this field. Additional revenue from sales of emissions reduction units may be used to upgrade production facilities and solve environmental issues.

Back in 2007 the Company approved the Concept of Planning the Activities of LUKOIL Group's Organizations, which is based on the Kyoto provisions and the Integrated Plan of its Implementation, developed local

regulations, set up a Work Team headed by the First Executive Vice President of OAO LUKOIL R. Maganov and held training workshops for the Company's personnel.

As of the time of drafting of this Report four projects made it through the competitive selection of Sberbank of Russia and were approved by orders of the Russian Ministry of Economy and Development as projects implemented under Article 6 of the Kyoto Protocol. These are:

⁶ Please refer to Section Sustainable Development of Russian Regions: North-Western FO, Kaliningrad Oblast).



- three projects of OAO RITEK focusing on utilization of APG in the West Siberian fields. The designed reduction of emissions under the foregoing projects is about 800 ths tn of CO₂ equivalent over a period of 2008-2012;
- project «Upgrading of Process Tube Furnaces of OOO LUKOIL-Permnefteorgsintez». The designed reduction of emissions under the project is about 833 ths tn of CO₂ equivalent over a period of 2008-2012.

The overall reduction of APG emissions under LUKOIL Group's projects that are currently under way is estimated to total 3,356 ths tn of CO₂ equivalent.

Simultaneously the Company is engaged in development of project design documents under another six projects being implemented at the Company's oil producing and power generating sites.

3

HSE MANAGEMENT SYSTEM



LUKOIL's HSE Management System operates on the basis of the Russian legislation and in line with the best Russian and foreign practices.

The management vertical stretches from the headquarters (OAO LUKOIL) to the subsidiaries and individual facilities. The system is certified for compliance with ISO 14001 and OHSAS 18001 standards.

HSE ISSUES MANAGEMENT

INVOLVEMENT OF THE COMPANY'S SENIOR MANAGEMENT:

the Management Committee of LUKOIL annually reviews and approves the report on the HSE status, which serves as the analysis procedure approved by the Company's management. In view of the results of its consideration decisions are made on corrective and preventive measures; the submitted data are also taken into consideration when adopting the development Strategy of the LUKOIL Group and respective investment programs.

KEY CORPORATE DOCUMENTS:

there is effective HSE Policy for the 21st century; internal LUKOIL standards are developed, i.e., the HSE management system, which regulate functioning of the HSE management system, including the processes of tracing risks and taking response measures.

POLICY IMPLEMENTATION MECHANISM:

five-year programs for ensuring environmental and industrial safety, improvement of labor conditions and occupational safety, emergency prevention and response.

AUDIT:

Internal audits of the management system state are conducted annually in the subdivisions and subsidiaries of LUKOIL Group; external supervisory and recertification audits are also conducted regularly by the specialists of the auditing firm. The recertification audit for 2010 traced no cases of significant noncompliance for the first time.

EFFICIENCY ASSESSMENT OF THE MANAGEMENT SYSTEM AND CORRECTIVE MEASURES:

is made within the framework of recertification audits. Key performance indicators in the HSE sphere are determined for all management levels.

ENVIRONMENTAL WELLBEING

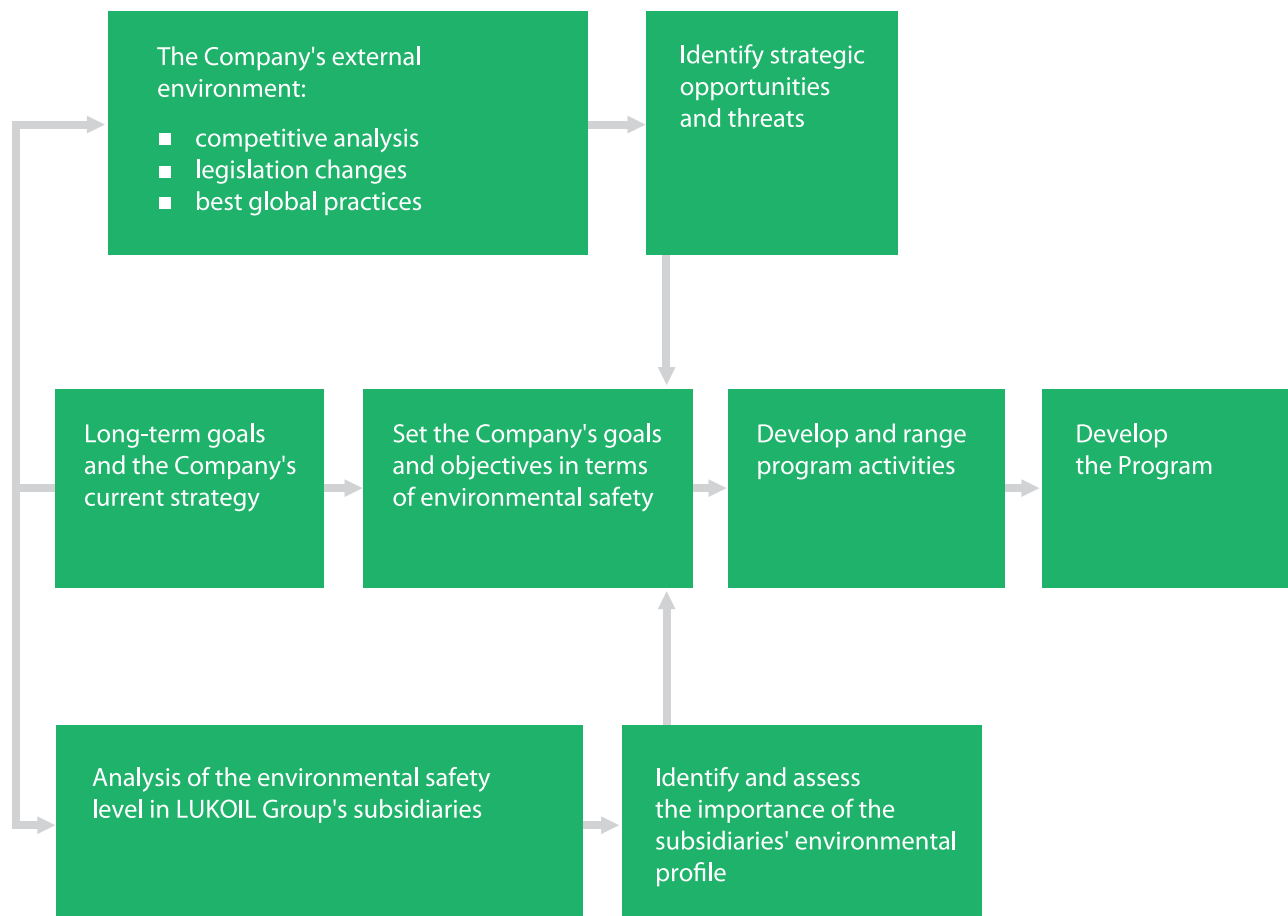
WE WERE PIONEERS...

Year 1999. LUKOIL is the first Russian company which developed and uses the «zero discharge» technology on the shelf, which involves collection of all industrial and domestic waste and its transportation onshore for subsequent disposal.

Year 2002. LUKOIL became the first Russian oil and gas company to adopt an HSE Policy.

Year 2003. The company was the first to continuously use a satellite monitoring system.

The Company's environmental activities are based on the environmental safety programs of the LUKOIL Group, whose formation mechanism involves consideration of the most important aspects (see figure).





Nowadays, the Company considers the following three trends in the environmental safety sphere to be priorities in view of the strategic objective for achieving the level of the best global oil and gas companies, as well as the scheduled changes in the Russian legislation:

- utilization of accumulated and newly generated waste;
- bringing the level of associated petroleum gas utilization to 95% by 2012, including through increased recycling, as well as participation in the mechanisms of the Kyoto Protocol;
- increase in the production of environmentally friendly fuel that meets EURO-4 and EURO-5 European standards.

The investment areas allowing to achieve the said objectives comprise:

- modernization of the enterprises accompanied by introduction of low-waste technologies; equipping the enterprises with units allowing to process the accumulated and newly generated waste;
- construction of gas pipelines, gas compressor stations allowing to transmit gas to processing facilities, construction of new processing facilities, etc. The Company is implementing 12 projects aimed at reducing greenhouse gas emissions in accordance with Article 6 of the Kyoto Protocol;

- modernization of the oil-processing assets to increase production of environmentally friendly fuel.

■ KEY ENVIRONMENTAL ACTIVITIES



The main activities in the organizations of the Oil and Gas Production in Russia and Gas Processing Business Sectors conducted in 2009-2010 included troubleshooting and capital repair/renovation of pipelines, modernization and construction of facilities allowing to increase the level of associated petroleum gas utilization, construction of wastewater treatment facilities, etc.



In the Refining in Russia Business Sector modernization of the Group refineries continued aimed at increasing the oil processing depth and improvement of the environmental properties of the products. Activities were conducted aimed at efficient use of water resources and prevention of water bodies pollution, in particular, reconstruction and modernization of sewage treatment plants of LUKOIL-Permnefteorgsintez and LUKOIL-Volgograd-neftepererabotka were completed, as well as measures were taken to reduce pollutant emissions into the atmosphere.



The organizations of the electric power sector continue implementation of investment projects aimed at construction of combined-cycle plants in Krasnodar and Astrakhan, whose commissioning will allow not only to increase the generation volumes of electric and thermal power, but also to improve the environmental indexes, particularly, to considerably reduce pollutant emissions.

In 2009-2010 the share of expenses on accident preventive measures in the total volume of the expenses on environmental protection increased; however, in absolute terms, the expenses on environmental protection comply with the scheduled ones.

■ ENVIRONMENTAL ACTIVITIES EXPENDITURES, bln RUR

Types of expenditures	2009	2010
Expenses on environmental safety measures:	13	20.1
including capital investments into the environmental protection capital stock	3.0	7.9

Source: Company data

■ DESCRIPTION OF KEY EFFECTS

The basic environmental protection state indicators of the LUKOIL Group in the reporting period (net of the enterprises of the Electric Power Generation Business Sector, which is new for the Group) have been improved as compared to 2008: specific atmospheric emissions of pollutants have been considerably reduced at oil and gas production enterprises, the volume of polluted and insufficiently treated wastewater has been considerably reduced, as well as the volume of the waste on the Company's balance.

Implementation of measures for 2009-2010 allowed to achieve the following results (comparison of the results of 2008 and 2010 net of the figures of the Electric Power Generation Business Sector):

- utilization of associated petroleum gas has increased from 71% to 77%;
- atmospheric emissions of pollutants have been reduced from 820 ths to 776 ths tons; at that the specific emissions per unit of produced/processed products in the oil and gas production sphere have been reduced by 7%, oil processing — by 6%, petrochemistry — by 16% ;

- discharges of polluted (to a greater extent, insufficiently purified)⁷ wastewater have been reduced from 11.6 to 4.8 mln cu. m. Discharges of polluted wastewater in the Petrochemistry Business Sector have been stopped;
- the share of above norm payments in the total payments for negative environmental impact has been reduced from 23.8% to 17.2%.

Since 2010 the impact indicators of the organizations of the Electric Power Generation Business Sector, which are key users of natural resources, have been included into the consolidated statements of the LUKOIL Group. This resulted in growth of a number of indicators, particularly, water consumption and water disposal rate⁸.

All enterprises of the LUKOIL Group belonging to the electric power sector were subject to corporate audits, environmental aspects were identified, particular measures to control these aspects were developed and included into the Environmental Safety Program of the LUKOIL Group organizations.

⁷ Two types of waste waters are considered polluted: those, which were not treated or treated but not compliant with the set standards.

⁸ The activities of hydraulic power stations (HPS) are characterized by water consumption without withdrawal of water resources, as in this case the water is used as a driving force for rotation of HPS turbines. Hydraulic power stations also withdraw water for various technological needs (cooling of hydroelectric units, etc.).

CLEAN AIR

■ ATMOSPHERIC EMISSIONS OF NO_x, SO₂ AND OTHER MAJOR POLLUTANTS, ths tons

	2004	2005	2006	2007	2008	2009	2010 ⁹
Total atmospheric emissions of pollutants (net of CO ₂)	429	435.5	520.2	580.9	813.7	754.7	795.0/17.3
including:							
NO ₂ emissions	9.93	10.00	11.60	14.4	16.4	16.0	31.3/16.3
SO ₂ emissions	24.42	19.50	19.90	20.7	30.5	45.6	49.1/0.4
emissions of solid substances	17.89	19.90	27.90	31.6	51.6	42.2	46.7/0.05
CO emissions	165.52	181.30	248.70	294.7	458.7	392	429.1/2.7
hydrocarbon emissions, including	207.30	200.00	207.30	216.2	256.0	254.6	236.5
methane emissions	27.7	26.4	40.4	44.9	57.4	52.3	44.6

Source: Company data







The growth of total emissions in 2008-2010 is due to bringing the Yuzhno-Khylchuyuskoye field to the peak production rate. Two-fold increase in the NO_x emissions

is due to inclusion of the indicators of the Electric Power Generation Business Sector (combustion product growth) into the consolidated data.



⁹ Integral and fractional numbers of the Electric Power Generation Business Sector are displayed hereinafter.

SPECIFIC EMISSIONS PER BUSINESS SECTORS

Business segment	2004	2005	2006	2007	2008	2009	2010
 kg/tn of unit weight of produced raw materials	4.17	4.11	4.56	4.84	7.07	6.4	6.6
 kg/tn of processed oil	1.64	1.49	1.33	1.20	1.14	1.1	1.1
 kg/tn of processed raw materials	4.86	4.51	4.37	4.28	4.4	4.8	3.7
 kg/tn of sold petroleum products	0.53	0.58	0.47	0.51	0.63	0.78	0.69
 kg/tn of transported oil and petroleum products						0.33	0.32
 kg/tn of consumed fuel						3.19	3.14

Source: Company data



CLEAN WATERS

Discharges of polluted waste water have been considerably reduced during the reporting period. This is due to the activities aimed at efficiency enhancement of sewage treatment plants at Saratovorgsintez.

In addition, in 2010, LUKOIL-Permnefteorgsintez completed reconstruction and modernization of sewage treatment plants, commissioned the collector draining the treated wastewater to the Kama River, which allowed to considerably increase the return of the treated water for reuse and, consequently, reduce the expenses on consumption of the river water and cleanup costs. How-

ever, following the results of the first period of work the treated wastewater of LUKOIL-Permnefteorgsintez have been referred to the category of insufficiently treated waters due to separate ingredients. LUKOIL-Permnefteorgsintez has developed and agreed upon the four-year staged fishery MAC achievement plan with all controlling bodies.

In addition, increase in the amount of works at the Yaregskoye field of LUKOIL-Komi led to increase in the discharges of insufficiently treated wastewater, as well as to increase in the water consumption rate needed for steam generation.







■ WASTEWATER DISCHARGES TREND, mln cu. m

	2004	2005	2006	2007	2008	2009	2010
Wastewater discharges to surface water bodies and to the ground	37.3	32.8	31.8	27.8	25.5	25.5	354.9/321.1
including standard compliant as clean	0.5	1.8	1.8	1.5	2.0	5.4	326.1/319.2
standard compliant as purified	20.5	15.6	15.3	12.0	11.5	11.0	23.8/0.9
insufficiently purified	14.4	14.8	14.2	13.8	11.6	8.7	4.0/0
polluted (no treatment)	1.9	0.6	0.5	0.5	0.43	0.33	0.88/0.8

Source: Company data



■ SPECIFIC DISCHARGES OF POLLUTED WASTE WATER

Business segment	2004	2005	2006	2007	2008	2009	2010
 cu. m / tn of unit weight of produced raw materials	0.011	0.012	0.011	0.008	0.007	0.007	0.01
 cu. m / tn of processed oil	0.00	0.00	0.00	0.00	0.00	0.00	0.06
 cu. m / tn of processed raw materials	11.80	10.14	10.40	9.08	8.4	7.8	0
 cu. m / tn of sold petroleum products	0.005	0.009	0.009	0.006	0.007	0.007	0.005
 cu. m/tn of transported oil, petroleum products						0.006	0.007
 cu. m / tn of consumed fuel						0.10	0.12

Source: Company data

WATER CONSUMPTION

As noted above, the growth of water consumption rate is due to inclusion of the indicators of the enterprises of the Electric Power Generation Business Sector into the







consolidated statement of 2010, i.e., the water is used for cooling of process equipment and generation of electric power by hydraulic power plants.

■ WATER CONSUMPTION, mln cu. m

	2004	2005	2006	2007	2008	2009	2010
Internal needs of the LUKOIL Group enterprises	132.9	128.3	129.7	141.3	141.6	150.0	512.3/372.6
Operational needs (net of the consumption to maintain the formation pressure)	49.5	48.2	51.1	50.5	45.0	42.7	402.4/357.1
For the purpose of formation pressure maintenance	74.2	67.9	68.1	83.3	90.5	100.0	100.6

Source: Company data

■ UNIT WATER CONSUMPTION FOR INTERNAL NEEDS OF SUBSIDIARIES

Business segment	2004	2005	2006	2007	2008	2009	2010
 cu. m / tn of unit weight of produced raw materials	1.02	0.94	0.84	0.90	0.97	1.08	1.0
 cu. m / tn of processed oil	0.57	0.51	0.52	0.49	0.43	0.40	0.41
 cu. m / tn of processed raw materials	19.5	19.2	20.2	17.5	14.6	15.5	14.5
 cu. m / tn of sold petroleum products	0.04	0.05	0.05	0.04	0.04	0.04	0.04
 cu. m/tn of transported oil, petroleum products						0.03	0.03
 cu. m / tn of consumed fuel						60.47	62.03

Source: Company data

■ VOLUMES OF REVERSE WATER SUPPLY AND REUSED WATER, mln cu. m

	2004	2005	2006	2007	2008	2009	2010
Volume of reverse water supply	689.4	731.58	710.6	783.8	769.0	701.4	1,962.0/1,262
Volume of successively reused water	285	304.05	346	376.5	404.7	401.1	1,008.9/435.8

Source: Company data

WASTE MANAGEMENT AND LAND REHABILITATION

LUKOIL invests means in a system-based manner into the measures aimed at waste utilization, implementing a principle of producer's responsibility for the entire lifecycle of products and introducing the best available techniques. Thus, the Company anticipates the decision by the RF Government on introduction of new requirements to this type of environmental effects.

The volume of hazardous production waste on the balance of the LUKOIL Group organizations reduced by

56 thousand tons. The decrease mainly took place at the enterprises of Oil and Gas Production in Russia Business Sector (LUKOIL-Komi, RITEK), at the Volgograd Refinery and in the Electric Power Generation Segment due to implementation of measures aimed at recycling of old slags.

LUKOIL-Volgogradneftepererabotka continues works aimed at utilization of accumulated viscous waste, while LUKOIL-Permnefteorgsintez conducts construction of the processing complex for oily waste, i.e., phase one of the complex was commissioned in 2009.



■ WASTE MANAGEMENT

	2004	2005	2006	2007	2008	2009	2010
Generation volume of hazardous waste, ths tn.	567.1	504.9	500.8	766.1	779.9	771.3	848.0/17.1
Amount of the hazardous waste utilized (used and disposed of) using own resources, ths tn.	253.6	221.3	178.7	266.1	251.2	291.7	298.2/0.7
Amount of hazardous waste sent for utilization (usage and disposal) by special enterprises, ths tn.	202.4	258	298.4	276.6	290.9	278.0	232.6/24.6
Amount of waste as of the year end, ths tn.	1,792.6	1663	1638	1,709,8	1,669.4	1,591.1	1,662.4/118

Source: Company data

■ REHABILITATION OF LANDS CONTAMINATED WITH PETROCHEMICALS

	2004	2005	2006	2007	2008	2009	2010
Area of rehabilitated lands, ha	4,232	2,890	3,471	2,696	2,838	2,600	2,764
including those contaminated with petroleum products, ha	287	192	130	97	67	62	59
Liquidation of sludge pits using own resources, pcs.	17	91	70	83	51	109	86

Source: Company data



INDUSTRIAL SAFETY



LESSONS LEARNED FROM THE GULF OF MEXICO

«Today we all learn from the bitter experience of our colleagues. But we know that BP is one of the strongest high-tech companies. We strongly believe that it will cope with this disaster and eliminate the damage caused by the accident. However, the experience it has acquired, is of value to all of us. And today we must invest means to ensure safety of works, especially of those conducted offshore».

V. Alekperov, President of LUKOIL

We understand that it is impossible to completely exclude a possibility of oil penetration into the environment. However, we are in a position to minimize this possibility and quickly respond to it.

If the Russian government makes decisions on the tax regime when developing the offshore fields, the strategic plans of the Company shall cover not only the marine but also the oceanic shelf. The outlooks for performing activities on the oceanic shelf impose even more stringent requirements to reliability of the technologies and engineering systems used at offshore facilities, preparedness of personnel to act efficiently in emergency conditions, which was proved by the events in the Gulf of Mexico.

LUKOIL is the only Russian company possessing diverse experience in implementation of offshore projects. The offshore ice-resistant fixed platform at the Kravtsovskoye

WE WERE PIONEERS...

LUKOIL was the first Russian oil and gas company, which began commercial production of hydrocarbons at offshore fields.

LUKOIL built Russia's first private offshore Varandey oil export terminal at the coast of the Barents Sea.

(D-6) field located in the Baltic Sea, the fixed offshore ice-resistant shipping terminal, which is part of the Varandey oil export terminal located in the Barents Sea, the offshore ice-resistant fixed platform at Yuri Korchagin field located in the Caspian Sea are among the most significant ones. All offshore facilities of LUKOIL

are equipped with a three-level system of emergency protection. The offshore field development projects envisage reserve means for ensuring environmental safety in the amount of 15% of the total investment volume.

After the disaster in the Gulf of Mexico its course and consequences were discussed at meetings of the Commission for Prevention and Emergency Response and Fire Safety and the Strategy and Investment Committee of LUKOIL Board of Directors. Following the discussion, the Plan for ensuring design, construction and maintenance safety of the facilities of the LUKOIL Group organizations in offshore zones was approved.

In addition, under the auspices of the Committee for Energy Policy of the RUIE, elaboration of draft regulatory documents governing the issues of prevention and containment of oil and petroleum products spills, including those during offshore production, was continued in cooperation with the leading Russian oil and gas companies. The current Russian regulatory base in the said sphere needs to be adjusted in view of the lessons and conclusions of the tragedy in the Gulf of Mexico, since it does not take into consideration the actual working conditions of oil and gas companies. We believe that it is necessary to use the approaches to oil and petroleum product spill prevention different from those currently used. The attitude of LUKOIL and the leading Russian companies is reflected in the draft regulations on planning and implementation of measures to prevent and contain oil and petroleum product spills.

The previous sustainability reports contain¹⁰ detailed information on offshore project management (including relations with the general public), as well as the overall industrial safety management system in the LUKOIL Group.

And yet, irrespective of the achieved high level of industrial safety at the offshore facilities, LUKOIL seeks to continuously improve reliability of the measures and management systems being used. In 2009, a new structure, namely, the Offshore fields development management block was established under the auspices of LUKOIL-Kaliningradmorneft, responsible for implementation of all offshore projects of the Company at any geographic location of the Earth. The staff comprises about one hundred specialists, who simultaneously work in two cities, namely, Kaliningrad and Astrakhan. Establishment of the above structure allows to engage the most qualified employees in the projects and ensures uniformity of the approaches to the facility management.

Acquisition of the authorities by the LUKOIL Sectoral Commission to certify rescue teams and rescue workers and to issue relevant licenses to conduct rescue operations became a significant event. Currently, besides LUKOIL, only OAO «Gazprom» Attestation Commission has such functions.

The satellite monitoring system operates at the offshore facilities, industrial environmental monitoring is conducted and regular trainings aimed at offshore emergency response and oil and petroleum product spill containment are arranged.



The Kravtsovskoye field is located at a 22.5 km distance from the coast of the Kaliningrad region. Production drilling of offshore wells began in February, 2004. The Kravtsovskoye field produced its first ton of oil in 2004. During the whole period of the production activities there were no cases of pollution by the LUKOIL offshore platform registered at the facility.

¹⁰ The sustainability reports (from 2003-2004, 2005-2006, 2007-2008) are published on LUKOIL's website (http://www.lukoil.ru/static_6_5id_2131_.html).

In June 2010 there was the second anniversary of the first tanker loading at the Varandey oil export terminal located at the coast of the Barents Sea. 73 tankers were loaded with oil during this period. The terminal is served by three ice class tankers with the deadweight of 70 thousand tons specially built by Sovkomflot to work in the said region.

In April 2010, LUKOIL produced the first oil at Yu. Korchagin field located in the Russian sector of the Caspian Sea. Satellite monitoring of the northern Caspian Sea was conducted in the course of field development. During the whole period of studies there were no cases of oil pollution registered within the license areas of the Company.

The complex maneuvers arranged in different areas of Company's presence show good results. Thus, in the vicinity of the cargo terminal LUKOIL-Integrated Oil Terminal (Kaliningrad region) maneuvers were arranged named Containment and Elimination of Oil Spill in the Waters of the the Kaliningrad Sea Canal, which proved high degree of preparedness for emergency situations. In November 2009, LUKOIL arranged maneuvers aimed at uncontrolled oil spill containment during construction of prospecting/appraisal wells in the Caspian Sea. The maneuvers took place on the on the self-elevating floating drilling rig Astra in the vicinity of the Rakushechnoy field and Iskusstvenny island. The teams and engineering groups of LUKOIL-Nizhnevolzhskneft, LUKOIL-Avia, EMERCOM of the Russian Federation, FSUE North Caspian Division for Emergency Rescue and Subsea Engineering Operations and the Center for Emergency Rescue and Environmental Operations participated in the maneuvers. According to the maneuver results LUKOIL has enough forces and means to prevent and contain oil spills in the course of construction of exploratory wells in the Caspian Sea.

In June 2010 LUKOIL took part in international maneuvers aimed at mitigation of the consequences of offshore accidents and oil spills in the northern Caspian Sea. The increased amount of oil exploration, production and transportation in the northern Caspian Sea, commissioning of the plan for prevention and containment of oil and petroleum product spills for Yu. Korchagin field, as well as implementation of the Provisions of the Framework Convention for the Protection of the Marine Environment of the Caspian Sea for 2003 served as a ground for the maneuvers. According to the maneuver results LUKOIL has enough forces and means to contain emergency oil spills in the course of maintenance of the floating oil storage unit of the said field in the Russian sector of the Caspian Sea.¹¹

In October 2010, under the corporate plan, LUKOIL held a command and staff training on oil and gas fountain response in the course of well drilling and operation at Yu. Korchagin field in Astrakhan at the fixed offshore ice-resistant platform. As part of the training, particular tactics were practiced, namely, evacuation of the platform personnel, maneuvers of the Company's special firefighting fleet, assembly of floating booms to contain oil spills, as well as measures aimed at the assembly of new check valves, well sealing and fountain liquidation.

¹¹ For more details please refer to http://www.lukoil.ru/back/gallery__image__list_6_5did_2108_.html.

MONITORING SYSTEMS

Continuous satellite monitoring is conducted in the Baltic and Caspian Seas, in the regions of hydrocarbon extraction by the LUKOIL enterprises.

The results of industrial environmental monitoring of the state at the Kravtsovskoye field (D-6 project) are published annually. Due to the fact that in recent years no new wells were drilled there the monitoring scope has been somewhat reduced; however, local monitoring in the vicinity of the platform and subsea pipeline is conducted practically on the same scale.

Intact monitoring was conducted in the coastal zone of the Curonian Spit — the Russian-Lithuanian natural and cultural object from the UNESCO — World Heritage List.¹² Satellite monitoring of sea surface pollution with oil was continued based on the analysis of radar images. Monthly ship observations were carried in the immediate vicinity of the platform and in coastal locations. The results obtained from the autonomous bottom station, installed near the platform, automatic hydrometeorological station installed on the platform, four autonomous seismic stations installed on the sea bed and onshore, were constantly analyzed. Radar measurements of surface flows were conducted in the point, where the subsea pipeline goes from the sea bed to the surface. Experimental studies of the bottom vegetation were conducted in the coastal zone, the content of petroleum products in water and on the nearby beaches was monitored.

The monitoring results suggest no negative effects from offshore oil production operations on the ecosystem of the southeastern part of the Baltic Sea and sufficiency of LUKOIL's environmental activities.

- The full overview of the results of environmental monitoring is available at the following website http://www.lukoil.ru/static_6_Sid_2135_.html.

In 2010, the results of the first year of commercial operation of the automated monitoring system (hereafter — AMS) for the platform located at Yu. Korchagin field in the Caspian Sea were summed up. The AMS complex comprises remote monitoring of well drilling and completion, operational dispatch control, environmental monitoring, leak detection system and the detection system of fluid balance in the pipeline, the system of equipment technological service and repair,

as well as a 3D visualization center located in LUKOIL-Nizhnevolzhskneft.

In case of emergency or pre-emergency situations, as well as deviations from equipment operating modes the system signals the need for taking prompt measures. Over 20 thousand parameters are monitored in real-time mode, which are transferred to the office of LUKOIL-Nizhnevolzhskneft via a protected satellite channel.

The results of the first year prove that due to commissioning of the AMS the quality and safety of the operations have increased, extra control mechanisms over the activities of contractor organizations have been introduced.

ENVIRONMENTAL MONITORING SYSTEM

The implementation of Industrial Environmental Monitoring at the production facilities is required by the Russian law, but these requirements are fragmented. To ensure a uniform approach to IEM conduct in LUKOIL the corporate standard The Industrial Environmental Monitoring System. Design Rules was developed and approved, which received a favorable conclusion by the State Environmental Expertise Committee and was recommended for use by other companies of the oil and gas sector.

The main IEM directions (inter alia) comprise control over compliance with the rules and regulations for atmospheric air, water, subsoil, soil protection, waste management; monitoring of the environment state in emergency situations; control over harmful effects by industrial facilities.

The information technologies integrated with automated control systems of industrial facilities are used for creation of IEM systems. Commissioning of IEM systems is a staged process, which should result in establishment of a uniform vertically integrated system.

The vertically integrated IEM system will allow to enhance the efficiency of managerial decision-making, reduce the number of emergency situations, which complies with the LUKOIL strategic plan and is considered practical fulfillment of the RF obligations within the framework of the Arctic Council and HELCOM.

¹² The notion of «intact» in relation to monitoring is used in the course of analyzing the environmental components of specially protected areas, wildlife preserves, so-called intact, «virgin» areas.

CORPORATE SUPERVISION

Corporate supervision ensuring unbiased and independent control over compliance with the industrial safety requirements is one of implementation methods of the HSE Policy.

A pilot project was launched in the reporting period aimed at establishment of a corporate supervision vertical in the Perm region; a Corporate supervision block was established under the auspices of LUKOIL-PERM, in-house documentation was elaborated in addition to the requirements of the applicable corporate documents regulating the activities and relations of newly established subdivisions.

A Corporate supervision service was established under the Industrial Safety Department, Environment, Research and Technology of the Company's headquarters.

INDUSTRIAL AND OCCUPATIONAL SAFETY PROGRAM ¹³

Development, as well as implementation of corporate programs, is the only way of industrial risk management in the LUKOIL Group organizations. The Program of industrial safety, improvement of working conditions and occupational safety, emergency prevention and response is an effective tool for achievement of goals and fulfillment of the obligations under the HSE Policy for the 21 century, which is approved by the decision of the LUKOIL Management Committee.

The year 2010 saw implementation completion of the Program of industrial safety, improvement of working conditions and occupational safety, emergency prevention and response response in LUKOIL and other organizations of the LUKOIL Group — for 2006-2010.

The Program, whose implementation required investing 26.3 bln RUR, was implemented in full. In 2009-2010, the amount of financing made up 11 bln RUR (4.8 bln RUR in 2009 and 6.2 bln RUR in 2010).

Decline in the level of occupational accidents and the number of fires at hazardous production facilities of the Company during the said period became one of the key results of implementation of technical measures within the framework of the Program for 2006-2010.



¹³ The implementation results of the Occupational safety program and relevant figures are presented in Section Social Policy of this Report.

■ EXPENDITURE PATTERN OF THE PROGRAM OF INDUSTRIAL SAFETY, IMPROVEMENT OF WORKING CONDITIONS AND OCCUPATIONAL SAFETY, EMERGENCY PREVENTION AND RESPONSE AT LUKOIL ENTERPRISES FOR 2006-2011, %

Measures	
Fire safety, emergency prevention and response	48.3
Technical improvement of the production process, introduction of new equipment, inspection tools, automation and computerization means of ensuring industrial, fire, radiation safety, improvement of working conditions and employee's occupational safety enhancement	18.3
Provision of employees with personal protective equipment, improvement of sanitary conditions and acquisition of health-care equipment	16.3
Ensuring compliance of working places with the regulatory requirements	9.5
Improvement of regulatory and organizational support of industrial and fire safety, occupational safety system, ensuring compliance of the normative documentation with OHSAS 18001 international standard	5.3
Quality enhancement of training, preparation and advanced training of the employees in the sphere of industrial and occupational safety	2.3



The Program implementation resulted in improvement of the industrial safety state, risk reduction in the following areas.

1 Fire safety

Positive dynamics of fire number reduction has been achieved, i.e., there were 13 cases of fires and fire catching at the LUKOIL facilities registered in 2009 and 11 cases — in 2010. The Company is a participant of the Federal target program «Fire safety in the Russian Federation until 2012». In accordance with the requirements of the Federal Law «Technical Regulations on Fire Safety Requirements» over 2.5 thousand statements on fire safety have been duly elaborated and registered at the LUKOIL facilities.

It is important to note that during the summer drought the Company managed to prevent spreading of forest and steppe fires to the industrial facilities. Moreover, LUKOIL rendered assistance to the executive bodies of the RF constituent entities providing fire equipment, personnel and resources needed to extinguish complicated fires in the Nizhny Novgorod and Volgograd regions.

2 Technical improvement of the production process

Modern automated and distribution control systems of processing facilities, vibration monitoring systems of rotating equipment were introduced; centralized monitoring of technological processes is being introduced in refineries and petrochemical organizations.

3 Improvement of the regulatory and organizational support

Accreditations of laboratories have been conducted, statements on hazardous industrial facilities have been prepared, examination reviews of design and technological documentation have been conducted, safety data sheets for potentially hazardous facilities have been prepared, the system of corporate standards setting uniform requirements to industrial and occupational safety has been introduced, etc.

4 Training in the sphere of industrial and occupational safety

The quality of training and preparation, as well as qualification level of the employees have been improved; the training and knowledge assessment systems have been improved, measures of disciplinary responsibility have been introduced, occupational safety seminars, conferences and exhibitions have been held.

Regular maneuvers and trainings held at offshore and river terminals and other facilities ensure a high level of staff and protective equipment preparedness. 86 trainings and maneuvers were arranged in 2009 and over 90 trainings and maneuvers were arranged in 2010 to target oil and petroleum product spill response. Arrangement of maneuvers prior to offshore facility commissioning or immediately after it has become LUKOIL's tradition. The maneuvers — aimed at liquidation of oil and gas fountains in the course of well drilling and operation at Yu. Korchagin field, the maneuvers aimed at aimed at uncontrolled oil spill containment during construction of



wells in the Caspian Sea, as well as the maneuvers aimed at deactivation of the explosive device and mitigation of the terroristic act consequences at the oil plant are among the most large scale measures.

■ NEW TRAINING CENTER

The center is located in Astrakhan, in the immediate vicinity of the base servicing the offshore production facilities in the Caspian Sea. The training quality and its compliance with the modern requirements are ensured by cooperation with the Norwegian company Falck Nutec, the leader in the field of training in emergency response, rescue and survival at the offshore oil and gas facilities.

The training program comprises theoretical and practical training of the employees with the use of the training devices, which simulate real conditions in extraordinary and emergency situations. The total number of trainees per year will be around 2,500 people. It is planned that the employees, who completed the course, will obtain international certificates.

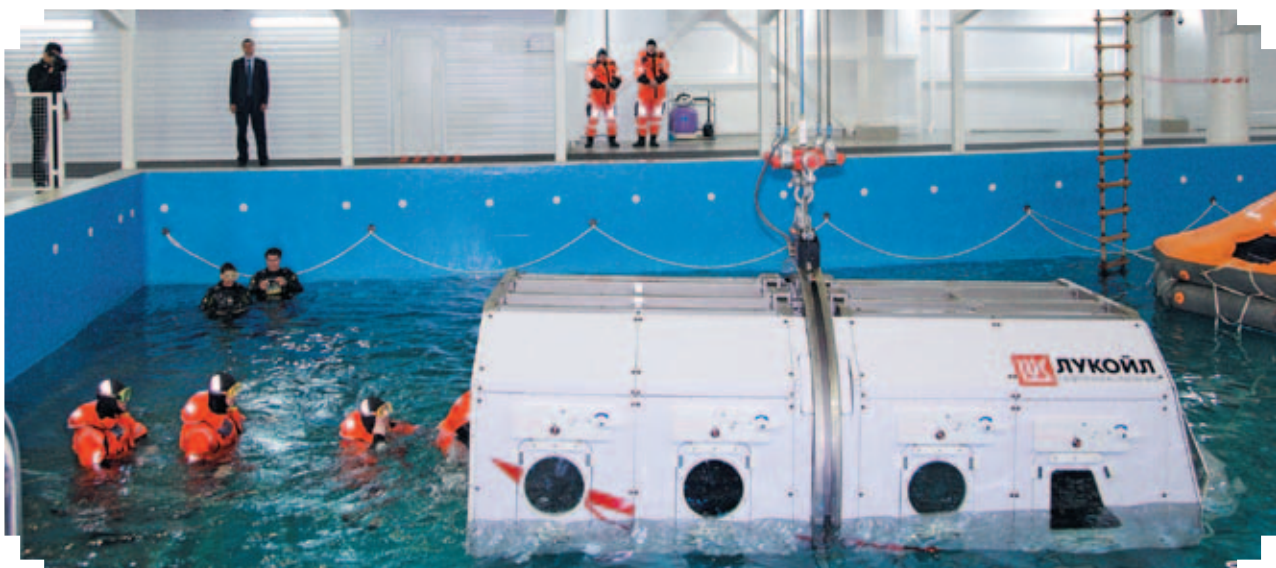
WE WERE PIONEERS...

Year 2010. The first corporate training center was established in Russia to provide training to employees to work at offshore oil and gas facilities.

OIL AND PETROLEUM PRODUCT SPILLS

Due to the measures implemented within the framework of the Program there were no incidents registered in the LUKOIL organizations, which could be referred to as emergency situations in 2009-2010.

However, there were several cases of oil and petroleum product spills registered in Komi Republic (at the Kyrtael-Chikshino pipeline and the Severo-Savinovskoye field, as well as penetration of the petroleum products into the Bezymyanny stream), which attracted the attention of the general public, mass media and law enforcement bodies. Pipeline ruptures were the main cause of the spills. LUKOIL-Komi shall not disclaim responsibility for the incidents and took measures to respond to them and to prevent similar situations in future. Works were performed aimed at cleaning and rehabilitation of the oil contaminated territories and cleaning the water surface (the expenses on the works — came to 37.5 mln RUR in 2009-2010); besides, equipment and devices for oil spill prevention and containment have been purchased, works are conducted aimed at inspection, as well as timely replacement and repair of the pipelines.



4

HIGH-QUALITY PRODUCTS
AND SERVICES



The top priority of our refineries and petrochemical plants is to produce high-quality products in line with the applicable environmental requirements and specifications based on efficient technologies and to improve quality of refining operations in order to achieve higher recovery of useful components from raw materials.

Unfortunately, Russia demonstrates quite a low demand for high-quality petroleum products which is

characteristic of the consumption culture and the age of equipment in our country. Latest petroleum excise taxation decisions adopted by the Russian Government also fail to encourage further upgrading of the refining industry. However, we believe that today's efforts underpin successful refining development in the future. Therefore, LUKOIL is going to continue upgrading and commissioning new facilities.

MODERNIZATION AND DEVELOPMENT OF REFINING

In two years capital investments into upgrading of LUKOIL Group's oil refining companies made up 34.2 bln RUR (17.2 bln RUR in 2009 and 17 bln RUR in 2010)¹⁴.

Recent few years saw stable refining figures at LUKOIL's refineries despite a decline in demand during the crisis period. In 2009 refining volume was 44.5 mln tons; in 2010 it was 45.21 mln tons. The 2010 figure was a 2.3% increase compared to that of 2008 (44.2 mln tons).

During the crisis the Company was actively reducing its costs and improving performance of its refineries. The utilization of capacity of Russian refineries reached 99.5%, which is the Company's historical maximum.

The LUKOIL Group 2010-2019 Strategic Development Program provides for a number of investment projects focused on improving performance of the refining business by doing the following:

¹⁴ VAT not included.

- commissioning of a catalytic cracking facility in 2010 (OOO LUKOIL-Nizhegorodnefteorgsintez);
- construction of a deeper oil conversion facility by 2015 (OOO LUKOIL-Volgogradneftepererabotka);
- construction of a catalytic cracking facility by 2017 (OOO LUKOIL-Permnefteorgsintez);
- completion of the vacuum unit reconstruction project by 2013 (OOO LUKOIL-Ukhtaneftepererabotka).

These projects will enable the Company to reach or even exceed at some facilities the oil industry strategic development targets set in the Russian Energy Strategy till 2030.



■ REFINING OPERATIONS DEVELOPMENT TARGETS ¹⁵

	OOO LUKOIL-Nizhegorodnefteorgsintez	OOO LUKOIL-Ukhtaneftepererabotka	OOO LUKOIL-Volgogradneftepererabotka	OOO LUKOIL-Permnefteorgsintez
Years	2011	2013	2015	2018
Light petroleum products yield, %	54		85	75
Nelson Complexity Index ¹⁶	6.60	3.24	10.70	10.37

Source: Company data

Note: The Energy Strategy of Russia provides for the following targets to be reached by 2015 by Russian refineries: 64% yield of light petroleum products and 6.0 Nelson Complexity Index.

¹⁵ LUKOIL Group Strategic Development Program for 2010-2019.

¹⁶ Nelson Complexity Index is one of important indicators characterizing the equipment available at a refinery (refinery complexity).

GASOLINE AND DIESEL FUEL

January 1, 2009 saw enactment of new technical regulations On the Requirements for Motor and Aviation Gasoline, Diesel, Marine Fuel, Jet Engine Fuel and Fuel Oil. The regulations set mandatory fuel requirements corresponding to EURO-3 instead of former GOST R51105-97 that contained EURO-2 requirements. The new standard restricts the content of benzene and olefin hydrocarbons (maximum 42%) and forbids any metal-containing fuel dopes in gasoline.

All gasolines sold through LUKOIL Group's retail network are compliant with EURO-3 environmental requirements while diesel is in line with EURO-4 standard, thus, exceeding the requirements of the Technical Regulation. Better environmental properties (first of all, low content of sulfur and benzene hydrocarbons) substantially reduce emissions of combustion products.



Independent tests carried out by Avtorevue magazine that is popular among motorists proved LUKOIL's gasoline quality: «If it had not been for a share of benzene hydrocarbons that is just a little in excess of the permitted value (35.2% as compared to permissible 35.0%), we would have declared that AI-95 sold at LUKOIL's filling stations in Tula Oblast was in line with EURO-4; well, it means it is in line with EURO-3 only. It contained practically no sulphur just like LUKOIL's gasoline sold in the Ukraine (Avtorevue, 2009, No. 12).

According to the targets announced in the previous report, 2010 saw the first production of motor gasoline compliant with EURO-4 requirements (ECTO Plus 95 and ECTO Sport 98); in 2011 the first EURO-5 compliant motor gasoline and diesel were produced (EURO Diesel and ECTO Diesel).

Nizhny Novgorod refinery started producing such motor gasolines. The content of benzene hydrocarbons in Euro-5 gasoline is within 35%; while the maximum sulfur content is 10 mg/kg. Such gasoline ensures the so-called clean exhaust, i.e. minimizes the content of sulfur oxides and products of partial combustion of benzene hydrocarbons including carcinogenic and mutagenic benzopyrene.

High quality improved performance characteristics of ECTO Plus 95 and ECTO Sport 98 were tested in the laboratories of British independent testing center Tickford Power Train Test Ltd. New motor gasolines are now offered at LUKOIL's filling stations in 29 regions of Russia.

WE WERE PIONEERS...

LUKOIL developed and launched to the Russian market motor fuels with improved performance and environmental properties (ECTO-92, ECTO Plus (95 octane) fuels, ECTO Sport (98 octane), and ECTO diesel).

We were the first to start working with biofuel.

Russia's first double purpose water-shore fueling station in St. Petersburg. It allows fueling onshore vehicles (on an unattended basis) and small vessels during the navigation period.

■ PRODUCTION AND SALES OF IMPROVED PERFORMANCE PRODUCTS IN RUSSIA

Indicators	2006	2007	2008	2009	2010
Share of high octane gasolines, including gasoline with additives, %	76.6	83.5	87	89.7	91.5
Share of diesel with the maximum 50 ppm sulfur content, %	61.8	64.7	60.5	67.2	70.5
Number of filling stations selling new fuels including:					
gasolines	120	158	433	695	815
diesel fuel	220	286	737	927	887
Sales of new types of gasoline, including:					
gasolines, ths tn	140.6	425.1	733.6	1,300	1,600
diesel fuel, ths t	14.2	265	709.1	869	1,080

Source: Annual Reports, Analyst's Handbooks 2009/2010 Fact Books and questionnaires of companies

■ SERVICE QUALITY MANAGEMENT SYSTEM

The Company's service quality management system implemented at LUKOIL's filling stations provides for a range of activities focused on improving customer service as follows:

- basic customer service rules were adopted as a corporate standard and put into practice by the Company's subsidiaries dealing with petroleum product supplies;
- training programs for managers, experts and customer service personnel are being developed and implemented in order to ensure that such rules are observed. For instance, in 2010, OOO LUKOIL-Volganefteprodukt introduced training programs entitled 21st Century Salesperson (for managers and sales force that deal with non-fuel goods) and Sales of Non-Fuel Goods and Services at Filling Stations (for staff of filling stations);
- the Company's website offers a hot line that annually deals with over 3 thousands inquiries and complaints. All inquiries and complaints are reviewed. If the information proves to be true liable officers face disciplinary penalties including dismissal;
- multidiscipline teams of authorized employees of LUKOIL's divisions perform on-site inspections of activities of the filling stations. In 2009-2011 inspections took place at filling stations operated by subsidiaries in Moscow and Moscow Oblast, St. Petersburg and Leningrad Oblast, Chelyabinsk and Chelyabinsk Oblast, Volgograd and Volgograd Oblast (the total of about 500 filling stations). This resulted in the action plan aimed at bringing filling stations in compliance with the corporate style requirements and improving the level of customer service;
- the Company performs monitoring of satisfaction and preferences of filling stations customers. For instance, in 2010 over 100 thousand customers participated in the annual opinion poll conducted by OOO LUKOIL-Permnefteprodukt. In 2010 the profile and customer satisfaction were also studied in OAO LUKOIL-Inter-Card. Eighty questionnaire forms completed by customers in Northwestern and Central Regions of OAO LUKOIL-Inter-Card revealed the level of customer satisfaction with the information that is available concerning LUKOIL fuel card and the card-related customer service.

LICARD FUEL CARDS

LICARD electronic plastic cards are offered to motorists at LUKOIL's filling stations along with other services. Operations with such cards are controlled by OAO LUKOIL-Inter-Card. The Company offers a number of products targeted both at corporate clients and individuals. Electronic card can help our customers optimize the process of filling up their tanks while individual clients can reduce fueling costs.

LUKOIL fuel card (FC) enables corporate customers that have their own vehicle fleet to fill up their vehicles without cash or report sheets. This simplifies the accounting of the funds spent on petroleum products. Such cards are accepted by over 3.5 ths LUKOIL's filling stations located in 62 regions of Russia as well as in Belarus, Lithuania, Latvia, Estonia, Ukraine, Azerbaijan, Poland and Moldova. LICARD system is under development in Bulgaria, Hungary, Serbia, Czech Republic, Turkey and Finland.

In 2010, the Company shifted its focused towards the products for individual motorists. Before July 1, 2010 they could use LICARD discount cards that provided a fixed discount per each fuel purchase. On July 1, 2010 the Company replaced such cards with loyalty cards that customers can receive on a contractual basis. Such shift to new cards was under LUKOIL Customer Award Program containing more flexible approaches based on the Company's experience with discount cards. The LICARD Discount Card project was closed in a manner to ensure maximum comfort for the customers. Currently, the Program is under way in the Northwestern, Volga, Urals, South-Russian, Nizhnevolzhsky and Perm regions as well as in Turkey and Ukraine. In 2010, the Program recorded the figure of over 1 mln customer registrations across Russia.

According to the Program a discount is offered to card holders for products purchased at LUKOIL's filling stations. Card holders can also score and accumulate points that can be exchanged for certain privileges.

Also joint programs are developed with other companies. For instance, in 2010 OOO LUKOIL-Permnefteprodukt and private pension fund LUKOIL-GARANT jointly with OAO Bank Petrocommerce developed a Pension Savings program in the Republic of Udmurtia. Upon signing a mandatory pension insurance contract with private pension fund LUKOIL-GARANT participants can allocate discounts on petroleum products and goods sold at LUKOIL's filling stations offered through

the card jointly issued by the Bank and the Company to occupational pension savings account in the Russian Federation Pension Fund.

Upon signing such contract program participants submit their personal information and entitle the Company to perform statistical and analytical processing of such data. LUKOIL guarantees protection and safety of personal information.

Personal identification of customers allows to reveal events of dishonest use of cards. OOO LUKOIL-Inter-Card has a number of methods in place to promptly detect card fraud and prevent violations.

In 2010 OAO LUKOIL-Inter-Card questioned corporate customers in the Northwestern and Central regions in order to assess their level of satisfaction. Client demonstrated a high level of satisfaction with Company's customer service: the average satisfaction index was 4.34 points based on five-point scale (or 87%). Customers pointed out advantages offered by LUKOIL fuel cards which included the following: a wide network of filling stations (26%); cashless payments (20%), high-quality fuel (19%), fuel discounts (6%). Areas of improvement include too much time required to credit funds to cards (13%) and delayed report generation (9%). Respondents also wished that online access be provided through a personal account to the fuel card management system, analytical reports be improved and additional services be introduced for such cards. The Company will make use of the customers' proposals to improve quality of services. In particular, the Company is planning to upgrade its website at www.licard.ru and to perform more in-depth survey with third party survey agencies involved.



Generally, services offered through plastic cards demonstrate high quality and performance as proven by statistical data (see the table below).

		2004	2005	2006	2007	2008	2009	2010
Number of cards currently used (psc)	Fuel cards, ths pcs	205	274	314	381	504	574	634
	Loyalty cards, ths pcs	90	350	890	1,415	1,530	2,657	3,782*
Number of fuel stations (accrued method)		1,890	2,263	2,540	2,944	3,334	3,468	3,537
Marketing via fuel cards, tons	Fuel cards	538,533	737,745	894,614	1,124,755	1,447,987	1,337,379	1,428,250
	All types of cards	681,333	1,113,542	1,646,128	2,356,921	3,255,804	3,293,976	3,651,810

* Discount cards were canceled starting from July 1, 2010. Discount cards were replaced with cards offered as part of LUKOIL Customer Award Program during 2Q 2010.

NEW GASOLINE TYPES: MOTOR BIOFUEL

Today, practically all large oil companies distribute first generation biofuels produced from food raw stock and agricultural crops. Some companies sponsor the development of the efficient technology of producing second generation biofuels from non-food raw stock.

LUKOIL was Russia's first company to work with biofuels at its refineries and filling stations located in Europe. This was required by the law of the countries of its presence (for example, Romania, Bulgaria and some other European states impose requirements concerning the content of biological additives in motor fuel). Over the past few years we acquired substantial experience in biofuel mixing, storage and sales. LUKOIL is planning to continue its effort in this area.



AVIATION FUEL

LUKOIL supplies aviation fuel to a great number of airlines. Therefore, it is aware of the responsibility for its contribution into safety of air traffic and guarantees 100% reliability of aviation fuel supplied to its customers.

WE WERE PIONEERS...

LUKOIL was the first Russian company to produce Jet A-1 jet fuel compliant with international standards.

LUKOIL-AERO supplies aviation fuel to more than 50 airports in Russia and abroad through its network of subsidiaries or under contracts signed with third party fueling companies. LUKOIL-AERO provides services to more than 100 Russian and foreign airlines. The company's share in the overall supply of aviation fuel to the Russian market is about 26%.

The strategy pursued by LUKOIL-AERO includes minimizing the process chain (composed of the aviation fuel producer, vendor, fueling site and consumer). Therefore, the company acts as a producer and refueler at the same time. As there are no intermediaries between the aviation fuel producer and consumer, the company can optimize supplies and guarantee product quality which is critical for aviation safety. The strategy of integrated consumer services is reasonable and efficient given the recent upward trend in production of aviation kerosene by refineries operated by large oil companies and ever-increasing competition on the aviation fuel market.

In 2008 LUKOIL-AERO implemented a quality management system to be able to address all the needs of its customers. In 2009 the company obtained certification for compliance with new requirements of ISO 9001. Consumer polls also yielded positive outcomes as their results are now used to improve customer satisfaction among counterparties. In 2011 the company is planning to pass certification check and confirm the certification it obtained concerning compliance with quality management systems requirements.

Quality of fuel supplied by LUKOIL-AERO is controlled at all stages of the service (acceptance, storage, and preparation to fueling) in accordance with the Technical Regulation and other additional governmental requirements. The delivery process includes a mandatory check of supporting documents including a compliance certificate the a manufacturer's product certificate. When accepting the shipment at the destination point the consumer/personnel perform incoming control of aviation fuel quality (density, solids, water) and decide whether to accept or reject the products.

Today the quality of aviation fuel produced by LUKOIL Group's refineries is in line with international requirements.

Over 2009-2010 only 130 claims were filed to LUKOIL-AERO. Out of those 103 claims are connected with fines imposed against refineries for empty tanks standing idle through the fault of aviation fuel buyers. No fuel quality claims were filed.



BUNKERING¹⁷

LUKOIL-BUNKER supplies marine fuel oil, distillates and marine oils of all required grades. High quality of petroleum products is the key factor of the Company's success on the market given the ever-growing needs concerning fueling of various vessels and rigid fuel quality requirements.

There are a number of specifications of marine fuels whose quality is strictly regulated by national and international standards.

LUKOIL's refineries produce main types of bunker fuel in line with ISO 8217 requirements. Ukhta refinery is the basic producer and supplier of low-sulfur marine

fuels. As petroleum products are produced, processed, transported, stored, and shipped by one and the same company with no intermediaries, LUKOIL-BUNKER can guarantee high quality of its fuel at any stage of product delivery to end consumers.

The sales network of LUKOIL-BUNKER is so organized that the company can deliver services to its customers practically in all Russian sea ports and territorial waters. The Company has its own bunkering fleet and leases some up-to-date tankers. To this end, the Company can regularly arrange personnel training events, monitor availability of equipment, control fuel quality and timeliness of deliveries

The main international document regulating marine fuel quality is the International Convention for the Prevention of Pollution from Ships (1973) as amended in 1978 (MARPOL 73/78). Currently, of great importance for the global bunkering industry is Attachment IV as it establishes marine basins and SECA regions where limitations apply concerning sulfur oxide content in marine fuel¹⁸.

On July 1, 2010 the revised Attachment IV MARPOL came in effect. It establishes the maximum sulfur content of 1% (instead of 1.5%) in marine fuel. It is planned to strengthen the requirements and establish the a 0.1% limitation on the sulfur content in marine fuel starting from 2015.

PRICING POLICY AND ANTI-TRUST LAW COMPLIANCE

In the last years Russian oil companies found themselves under constant pressure from the Federal Anti-Monopoly Service which is connected with groundless fuel overpricing claims. Since 2008 the Federal Anti-Monopoly Service has initiated three «waves» of cases against oil companies including LUKOIL and its subsidiaries. Public opinion is not in favor of oil companies as well.

During the reporting period governmental agencies filed claims against the Company concerning two issues: groundless fuel overpricing and failure to provide to refuelers a non-discriminative access to infrastructure of Russian airports (market monopoly).

In our previous report we described the Company's standpoint according to which a substantial share

¹⁷ Bunkering refers to refueling ships in ports and wholesale marine fuel supplies.

¹⁸ SECA refers to SOx Emission Control Areas.

in gasoline prices is represented by taxes. In addition, we should also mention the fact that in 2009-2010 considerable increases were registered in the tariffs for electricity (25%), heat power (62%), railway transportation (about 40%), and crude oil prices.

The anti-trust law provides no solution to these issues including pricing indicators to be used to avoid biased

assessments. However, for the time being no consensus has been reached with the Federal Anti-Monopoly Service.

Before 2010 the Company successfully challenged FAS penalties in court. However, in May 2010 the Superior Arbitration Court created a precedent by upholding the fine imposed by the FAS against TNK-BP.

LUBRICANTS

LLK-International is primarily focused on consumer preferences. It produces a wide range of oils whose performance properties are in line with the requirements of both Russian and foreign equipment manufacturers. The company manages operations that produce over 40% of all oils in Russia and sells oils in more than 20 countries.

The company produces a wide range of basic, industrial, motor and gear box oils compliant with the current international standards.

WE WERE PIONEERS...

The company was the first in Russia to use a two-color biopolymer embossed cover preventing imitations.

Since 2007, LLK-International has been a member of the Technical Association of European Lubricants Industry (ATIEL) and the International Council on Combustion Engines (CIMAC). Membership in international associations promotes cooperation with global equipment manufacturers and helps obtain the latest information concerning possible changes in specifications and requirements.

All the operations obtained certificates of compliance with ISO 9001, ISO 14001, and OHSAS 1800. This ensures high quality of products for the customers.

LLK-International pays great attention to the development of advanced oil and additive production

technologies. The company has created a research and technology department whose main functions include development of technologies and formulations for production of new high-quality lubricants required in up-to-date equipment. The company's employees closely cooperated with leading research centers in Russia, CIS and non-CIS states.

R&D investments of LLK-International help them improve quality of their products and promote consumers' demand for those products.



5

SOCIAL POLICY



The Human Resources Management System in the LUKOIL Group is based on the Human Resources Management Policy, the Social Code, as well as the Functional Strategy for Human Resources Management.

During the reporting period significant changes were initiated aimed at improvement of social policy in line with corporate strategy and the target management system.

ESTABLISHMENT OF CORPORATE CULTURE



Under the Code of Business Conduct, human resources are one of key corporate values. We realize that the Company's success depends on the people working in it, whose activities contribute to increase in its shareholder value. The employees of the LUKOIL Group work in different countries and regions, possess multifacet experience and may be guided by different values. Nevertheless, a single team united by common goals has always been the strong point of LUKOIL.

At the new stage our task is to establish a common corporate culture, which would contribute to creation of required conditions for training efficient and successful leaders able to ensure further development of the Company. Every employee gets an opportunity to fully realize his/her potential, providing professional knowledge for the benefit of the Company and at the same time taking personal responsibility for achievement of the common goal.

The Code establishes commitment of the Company to ensure observance of the human rights, equal opportunities, as well as the rights of employees to participate in professional associations.

«The company respects and ensures observance of the rights of any employee, no matter which nation, religion or culture he belongs to. We respect individual freedom, human rights, provide equal opportunities and eliminate any discrimination based on gender, age, race or nationality, religion, political convictions, etc. ..

The employees of the Company fully enjoy their right to establish trade unions and join them. The company shall not exercise influence upon employee's decision to join the trade union.»

Code of Business Conduct of LUKOIL

Along with the Code the Management Committee approved the Rules of the corporate culture of the LUKOIL Group organizations based, on the one hand, on

the existing corporate traditions and the best practice and, on the other hand, setting new tasks, which are of current interest at the the present stage, in the system of relations between the employer and employees. The document defines the competencies, which will ensure achievement of strategic objectives and implementation of corporate values, i.e., professionalism, innovativeness, loyalty, teamwork, responsibility and adaptability. It is these competencies of all employees, regardless of the nature of their work and position that we regard as the main driving force of further development of the Company. The employees capable of adapting to changing conditions and at the same time interested in the success of the Company, will be the basis for introduction of innovation in all spheres of its activities.

Thus, the system of mutual obligations and guarantees, previously set in the Social Code of LUKOIL has been further developed. The strategic tasks to be solved by the Company in the near future comprise the following:

- promotion of personnel training system: we welcome the willingness of the employees to master new knowledge, shall develop their ability to make innovative decisions, adopt innovative ideas, projects and developments;

- improvement of the motivation system and the evaluation system of employees' performance and competencies; we believe that the remuneration system should be proportionate to the contribution of each employee to achievement of common strategic objectives;
- maintenance and development of the social safety system.

To implement the strategic objectives the Personnel Corporate ICS project was launched. It is an integrated Human Resources Management System that standardizes and organizes the information flows in user-friendly formats, enhancing the quality of the made staff-related managerial decisions. The Personnel ICS software product allows to automate the processes of staffing and organizational planning, labor remuneration arrangement, settlements with employees, arrangement of state and non-state pension coverage, actuarial valuation. Project implementation is based on SAP R / 3 and BOSS-Kadrovik. By 2011, the project has been implemented in 24 organizations of the LUKOIL Group.

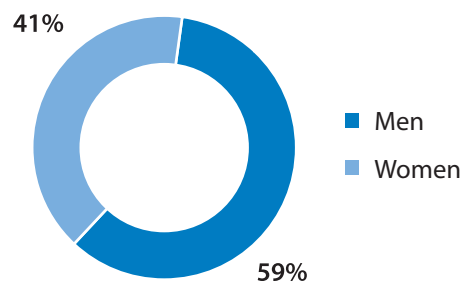
The process of change will be accompanied by obligatory involvement and notification of the employees who must realize the set tasks.

■ CHANGES IN PERSONNEL STRUCTURE

Due to the changes in management schemes and business processes, as well as sales of certain assets the total average registered number of the employees of the Russian organizations of the LUKOIL Group declined from 123,700 to 101,700 people for the period of 2008-2010. The reduction can be also accounted for by outsourcing of some of the functions, i.e., proposals were made to the employees to move to the established service organizations; however, not all of them accepted these proposals.

Nevertheless, the LUKOIL Group organizations prevented mass layoffs both during the economic crisis and the subsequent stabilization period.

■ THE WOMEN-TO-MEN RATIO IN THE RUSSIAN ORGANIZATIONS OF THE LUKOIL GROUP





The Company witnesses the tendency towards rejuvenation of the labor collectives, i.e., the share of the employees under 30 is annually increasing. (In 2010 alone, 11,444 young workers were employed.) At the time of the Report preparation, young employees make

up almost a quarter of all staff (31,850 persons). This result proves the efficiency of the LUKOIL youth policy¹⁹ and serves as a basis for future innovative development of the Company.

The youth policy is implemented through the LUKOIL Group Complex Target-oriented Program on Working with Young Employees and Young Professionals in 2008-2017. The Council on working with young employees of the LUKOIL Group chaired by the First Vice President of the Company was established in 2010. The Council approves the Consolidated program for working with young workers and young professionals of the LUKOIL Group and the Budget for implementation of the LUKOIL Group Complex Target-oriented Program on Working with Young Employees and Young Professionals. Following the results of the first six months of working the Council has developed long-term recruitment plans of young employees in view of the needs of Company's organizations and the state of the labor market, as well as replacement plans of part of retiring employees with the young ones. In addition, the amendments to the Complex Target-oriented Program were proposed, as well as the supplements to the Agreement between the Employer and the Association of Trade Union Organizations of LUKOIL.

In addition to the incentive methods typical of the Company, additional target-oriented measures are taken to attract and retain the youth possessing high level of professional skills. The Young Professional's Day is one of them. For example, in 2010, the program involved a team-building training session attended by 60 young workers in the Moscow region. The employees can realize their professional and creative potential participating in the corporate contest Best Young Professional of the Year. Our young employees also participated in the contest for the best youth research and technology development related to the issues of the fuel and energy complex, namely, TEC-2010: 39 persons became winners. Councils of young professionals act at some enterprises, as well as at the regional level, which help young employees adapt to new working conditions.

¹⁹ The system of working with youth (School. Higher educational Institution. Company) was described in detail in previous sustainability reports.

CORPORATE KNOWLEDGE MANAGEMENT SYSTEM



A great number of international companies use acquired knowledge and experience as the internal resource and intangible asset. LUKOIL has launched the project of a corporate knowledge management system establishment, which is aimed at efficiency improvement of the production and management process, search for innovative approaches, cutting the time needed for decision making.

The project involves over 4 thousand specialists: network (working) groups perform their activities in the

Downstream and Upstream Business Segments, as well as in the human resources management field; the best practices and success stories are placed at the portal to be used by other subdivisions of the Company.

We believe that the knowledge management system is one of the mechanisms, which help launch innovative processes.

In December, 2010, LUKOIL and the Foundation for Development of the Skolkovo Center of Research and Commercializing of New Technologies signed a Memorandum of Understanding, which envisages cooperative work in several spheres of current interest for the power industry (energy efficiency, conventional energy, «pure energy», alternative energy, energy preservation techniques, etc.).

Starting from 2014, LUKOIL intends to establish a Center for Innovations on the territory of the Skolkovo Center, which would manage the activities of the Company in the R&D sphere, and to place research orders at the partner universities of Skolkovo or at Skolkovo Institute of Technology.

PERSONNEL ASSESSMENT AND DEVELOPMENT SYSTEM

In 2009-2010, the main lines of activity in this area comprised creation of models of competencies for executive positions, which would serve as a basis for talent pool creation; introduction of cutting-edge methods of personnel assessment; development of corporate training programs, development of a Distance Learning System and cooperation system with universities.

MODELS OF COMPETENCIES FOR MANAGERS

Nowadays the ability of personnel to be efficient, display high level of competencies and to solve the tasks characterized by ever increasing complexity plays a significant role. Availability of efficient leaders in the company is one of the factors of successful competition on the market. In this connection particular attention is paid to the issues of management personnel competencies and qualifications (including those of top managers) required for business strategy implementation.

2009-2010 saw development models of competencies for executive positions (for deputy general directors) and the talent pool selection criteria for executive positions; corporate training standards for managers are expected to be adopted. Activities are also continued to develop vocational and technical competencies and methods for their evaluation in such Business Sectors as Refining in Russia and Oil and Gas Production in Russia.

A talent pool for executive positions was created during the two-year period, which comprises over 1,500 best employees of the Company. Individual training plans comprising all forms of education, from training to MBA programs, were developed for each of them. Over one hundred employees completed MBA programs in 2010.

ASSESSMENT OF PERFORMANCE AND COMPETENCIES

Assessment of employees' activities has been made since 2007 in order to determine their contribution to achievement of the Company's objectives in a more

objective way. The evaluation system is implemented in the Personnel ICS and is based on the methods and approaches adjusted to the needs and peculiarities of the Company. The assessment is made in view of the results achieved by the employee, the competencies and commitment to the corporate values.

The assessment results influence the career promotion management of the employee and thematerial remuneration, i.e. the proficiency ratio is calculated, which, in its turn, influences the amount of the annual bonus payments. Proposals for professional training, as well as for inclusion into the talent pool, are made.

In 2010, improvement proposals for the system of competencies evaluation when hiring were made, corporate selection criteria were determined, proficiency assessment methods were developed. New mechanisms of on-line assessment procedure are used.

DISTANCE AND OTHER TYPES OF LEARNING

As of the end of 2010, 41 organizations of the LUKOIL Group were connected to the Distance Learning System; over 56 thousand users were registered in it. 106 training courses are available for the employees. In addition, in 2009-2010, the employees of the Company elaborated over 120 learning mini-courses taking into consideration the characteristic features of key business processes. The achievements of the Company in the sphere distance learning were noted at the 6th International Exhibition, namely, eLearn-Expo, which was held in 2009 at the World Trade Center (Moscow), as well as at the 7th International Exhibition and Conference on e-learning in Russia, namely, eLearnExpo (2010); the special prize «For support of e-learning in Russia» was awarded to LUKOIL in view of its results.

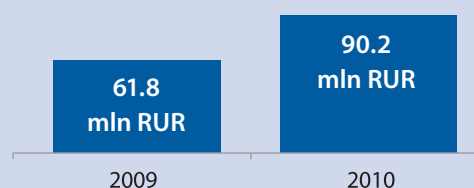
In general, over 60 thousand employees (about 45% of the total personnel number) are trained annually in various advanced training programs, over 300 people — in supplement programs to higher education.

COOPERATION WITH HIGHER EDUCATIONAL INSTITUTIONS

We regard cooperation with higher educational institutions as an important component in the overall system of work with personnel. The business relations established between the Company and higher educational institutions allow to promptly solve personnel training related problems. At the same time we regard our cooperation as a modernization factor of the Russian higher educational system in field-specific disciplines. Areas of cooperation comprise externship and pre-diploma practice of students, practical training of teachers in LUKOIL organizations; participation of the Company's representatives in job fairs; participation of students and professors in research-and-technology contests and conferences of the Company's young specialists, etc.

Talent pool representatives are trained at I.M. Gubkin Russian State University of Oil and Gas. It is the only target-oriented program for specialists training in the oil and gas sphere in Russia. In 2010, 17 managers and specialists of LUKOIL became the first ones to get the diploma of further vocational education (supplement to higher education) with awarding a degree of «Master of Business Administration» specializing in «Management of oil and gas business». Cooperation is promoted with Tyumen State Oil and Gas University, Perm and Ukhta State Technical Universities, Finance Academy under the Government of the Russian Federation and other higher educational institutions. For 8-9 years of cooperative work the resource and training base of specialized universities have been significantly consolidated, new learning materials have been published, grants are awarded annually to talented students and teachers. Owing to cooperation with LUKOIL Perm State Technical University became the winner of the contest held by the RF Ministry of Education and Science and was awarded the status of the National research university.

■ THE TOTAL AMOUNT OF FUNDS ALLOCATED TO SUPPORT OF HIGHER EDUCATIONAL INSTITUTIONS CAME TO:



Future plans for cooperation comprise several lines. The established base chair of innovation management under Gubkin State University of Oil and Gas will allow to involve the Company's specialists in the training process, for them to act as research advisors in the process of preparation of course and graduation papers by the students. We intend to continue development of professional standards for the techniques developed by the RUIE, which will serve as a basis for revision of the educational programs for the students of oil and gas universities. We consider a possibility of establishing joint research and development centers, laboratories and small enterprises to introduce and promote innovative activities of the students, i.e., the future employees of the Company.

■ INCENTIVES AND COMPENSATION SYSTEM

The motivation system is designed to promote cooperation in achieving the general corporate objectives and linked to the system of key performance indicators. Increased value of the assets of the LUKOIL Group and continuous performance improvement are considered key aspects.

In 2009, the Board of Directors of LUKOIL approved the Provisions on long-term incentives system for employees of LUKOIL and its subsidiaries in 2010-2012. The long-term incentives program was developed to maintain continuous and sustained motivation of employees, ensuring their interest in increasing the value of the Company's shares and its market capitalization.

In general, the compensation policy is based on the principles of wage unity, transparency, fairness and

competitiveness, its regular indexation based on the consumer price index and occasional increase due to increased productivity.

Constant monitoring of labor market allows to promptly respond to wage changes in the areas of presence in order to ensure the competitive level of salaries for the Company's employees. Regular analysis of inflation level and changes in wage purchasing power is conducted; based on its results appropriate decisions are made. While in 2009, in the conditions of the economic crisis efforts were focused on maintaining the achieved level of wage, 2010 saw wage indexation at a rate of 10%. The minimum monthly wage rate of category 1 worker is set at the minimum subsistence level of the working age population.

■ SOCIAL PROGRAMS

The long-term social programs, which present the greatest value to the employees and are aimed at attraction and retaining highly qualified personnel in the Company, serve as a basis for social policy implementation.

First of all, we are talking about such social programs as health protection (including voluntary medical insurance of employees), recreation and recovery organization of workers and their families, rendering assistance to the employees in acquiring their own housing, social support for women and families with children, non-state pension coverage.

In 2010, social programs expenditures for the employees of LUKOIL's Russian subsidiaries, their family members and pensioners amounted to 7,156 bln RUR, compared to 6,794 bln RUR in 2009.

The social policy is implemented in accordance with the applicable legislation and within the framework of fulfillment of the social commitments defined in LUKOIL Social Code and set in the Agreement between the Employer and the Association of Trade Union Organizations of LUKOIL for 2009-2011, the Agreement between LUKOIL and International Association of Trade Union Organizations of LUKOIL for overseas organizations for 2009-2010, the Agreement between LUKOIL, the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), the Russian Oil, Gas and Construction Workers' Union and the International Association of Trade Union Organizations of LUKOIL, as well as in the regulatory documents of the LUKOIL Group organizations.

OCCUPATIONAL SAFETY AND HEALTH PROTECTION

LUKOIL pays special attention to creating safe working conditions and health protection of its employees. We are guided by the best international experience and achievements gained by the Company's organizations.

Management system

The working principles are defined in the HSE Policy for the 21st century, which declares the priority of employee's life and health protection over the the outcomes of production activities.

Occupational safety and health protection is a subsystem of the HSE management system certified in terms of compliance with the requirements of OHSAS 18001; annual audit is carried out confirming its compliance with the set requirements. Specific measures are taken within the framework of the five-year program and are scheduled based on the actual labor conditions at enterprises.

The main activity lines comprise:

- control over industrial and occupational risks through their tracking, assessment of working places;
- provision of employees with modern personal protective equipment, sanitary and health-care equipment;
- promotion of occupational safety culture, education, preparation and advance training of employees;
- creation of the integrated system of corporate control over compliance with the industrial and occupational safety requirements on the part of the employees of the contractors attracted to LUKOIL facilities.

The content of the measures within the framework of the program complies with the basic objective, i.e. ensuring the industrial and occupational safety level compliant with the current state of science, technology and society, the regulatory requirements set by the applicable international and Russian legislation.

Industrial injuries

Program implementation resulted in steady decrease in the number and frequency of accidents, which also testifies to the efficiency of the management system, despite of the fact that the Company comprises new enterprises characterized by different level of occupational and industrial safety state.

According to the investigation results over half of the injured persons were injured due to minor accidents (51% of the total number of the injured). The main causes of severe and fatal injuries are road traffic accidents and other non-production accidents, as well as poor production engineering.

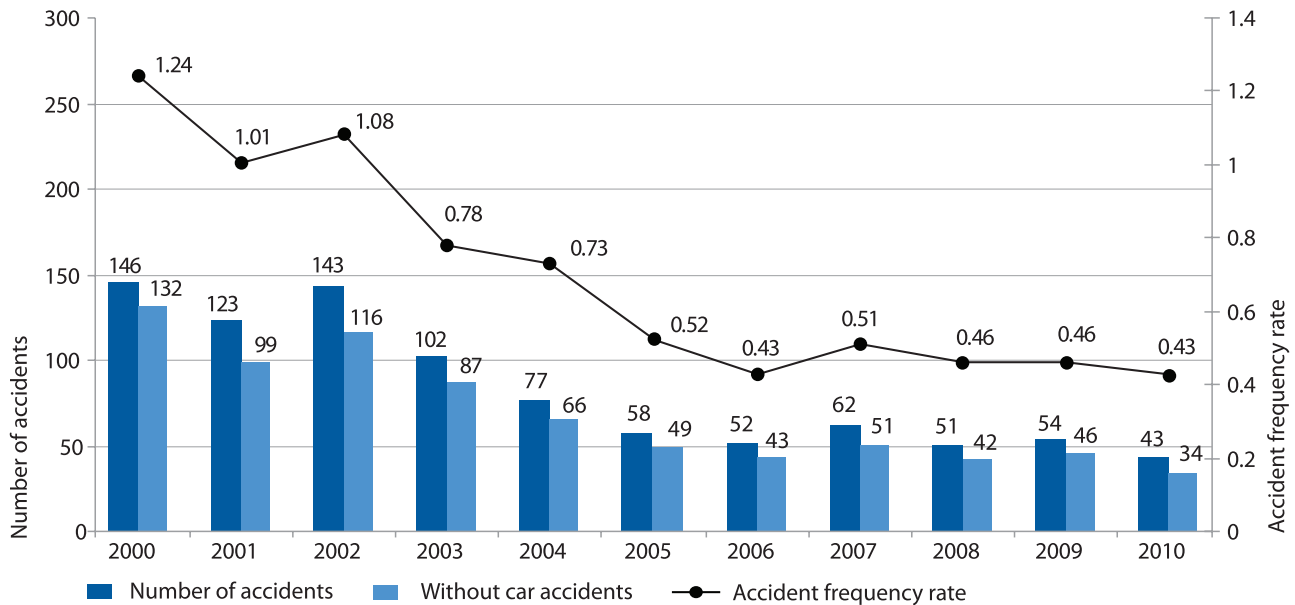
The company has conducted a great deal of work addressing the previously traced injury factors, such as aging of equipment and insufficient attention paid by heads of enterprises to the issues of occupational safety. Due to implementation of the Investment program equipment was modernized at the greatest part of the enterprises in all business segments.

But the factor manifesting itself in violation of safety rules and labor discipline on the part of the employees of the Company and contractor organizations still remains the most complicated one and requires taking constant efforts. To solve this problem different approaches are used, i.e., the system of monitoring; training, support and testing of skills, cooperation with trade union organizations; contests held among labor collectives, etc. The corporate regulatory acts were introduced; requirements to the employees of contract organizations were elaborated.

LUKOIL conducts assessment of working places, provides its employees with vouchers for spa treatment, acquires certified personal protective equipment (PPE), improves the sanitary conditions of the works performed, arranges medical examinations of employees, all the above serving as preventive measures.

As of the end of 2010, 30,054 employees occupied the assessed working places characterized by optimum and permissive labor conditions, while 58,157 employees occupied the working places characterized by harmful labor conditions. There were no working places characterized by hazardous (extreme) labor conditions traced. During 2009-2010, the labor conditions were improved at the working places of 17, 856 employees.

■ NUMBER OF ACCIDENTS AND THE FREQUENCY RATE (FR) OF ACCIDENTS TRENDS IN THE RUSSIAN SUBSIDIARIES OF LUKOIL GROUP



Source: Company data

Improvement of Labor Discipline

Conduct of complex and target-oriented audits in the LUKOIL Group organizations, including those by LUKOIL specialists, are considered traditional form of monitoring of industrial and occupational risks. Trained auditors (Company's employees), specialists, representatives of the International Association of Trade Union Organizations of LUKOIL participate annually in these audits. The audits by LUKOIL commissions conducted in 2010 traced 912 cases of violation of the legislative requirements in the sphere of industrial, fire, environmental safety, labor protection, emergency prevention and response, the requirements of LUKOIL local regulatory acts, which regulate functioning of the HSE management system, as well as the requirements of ISO 14001 and OHSAS 18001 international standards.

The corporate monitoring system is one of the most efficient mechanisms of ensuring industrial and occupational safety. In 2010, the subdivisions of the LUKOIL Group performing the functions of corporate monitoring conducted 4,439 audits in the sphere of industrial, fire, environmental, occupational safety, prevention and preparedness for emergency response. As compared to 2009 there was an increase both in the number of the audits conducted and the number of the violations traced by the subdivisions of the corporate monitoring (by 12%).

The audits traced the tendency to «accumulate» the violations of regulatory requirements, which is a result of corporate monitoring quality enhancement. In 2009, the LUKOIL Management Committee made a decision to order the LUKOIL Group organizations to develop action plans for elimination of all traced violations for 2010-2014.

■ RESULTS OF COMPLEX AUDITS OF OCCUPATIONAL AND INDUSTRIAL SAFETY

Indicators	2006	2007	2008	2009	2010
Number of complex audits	10	10	10	10	13
Number of traced violations in the sphere of industrial and occupational safety	252	274	397	423	912
Average number of violations traced per audit	25.2	27.4	39.7	42.3	70.2



Health protection

Focus on a healthy lifestyle is one of our corporate values. Promotion of the idea of personal health value and personal responsibility for it underlies the corporate sports programs and activities, which have already become a tradition at the key enterprises of the Company.

Voluntary Health Insurance (VHI) is part of the health protection system and gives the employees an opportunity to make use of additional services as compared with the programs of compulsory health insurance (CHI), undergo high-tech medical examinations, as well as to enjoy a higher quality medical aid. At that the program pays special attention to medical aid quality and availability enhancement.

To create a more flexible insurance coverage mechanism the regulations for employees' voluntary participation interest in the corporate VHI system were brought into effect in 2010, which allows an employee to expand the existing program at his own expense ensuring satisfaction of his personal needs. The VHI programs cover over 90% of the employees.

We use the potential of VHI and CHI combining them with efficiency improvement of the medical services, whose work is maintained in the Company in accordance with the RF legislation: there is a system of primary

health care functioning at enterprises represented by over 100 first aid rooms and health posts having necessary equipment and medicine. Additional health survey is aimed on early detection of employees' health deviations — the employees can take treatment under CHI and VHI programs based on its results. In distant areas target-oriented examinations of employees are conducted by visiting medical teams. In addition, lectures dedicated to prevention of the most common diseases are organized for the employees. Vaccinations against flu, tick-borne encephalitis and other dangerous diseases are made annually (for instance, over 54 ths employees in 2010).

The Commission for Public Control of Meal Stations functions in the Company on a permanent basis, which studies the feedback from the employees concerning the quality of servicing at meal stations and the food quality, elaborates proposals to improve their work and submits them to the management, informs the employees of the measures taken in response to their applications, claims and complaints. Based on the results of the Commission's activities meetings with LUKOIL administration representatives, the primary trade union organization of the LUKOIL headquarters and the organization providing public catering services are held on an annual basis. The meetings are dedicated to discussion of the drawbacks traced in the course of the audits, as well as complaints and requests by the Company's employees.

In 2010, LUKOIL established the Quality Inspection Commission, consisting of the Company's employees, who wish to participate in quality inspection of the served dishes on a voluntary basis. This is the way the public control over the food quality at enterprises is exercised. In general, the results of the audits conducted in 2009-2010 confirmed satisfactory performance of the meal stations.

Along with the health and medicine-related activities sports contests are held in collectives, which are traditionally supported and welcomed by the employees over the 20-year history of the Company. We promote health and fitness activities among the Company's employees and their families, develop mass sports. One of the largest-scale activities focusing on promotion of physical training and popular sports are LUKOIL's International Spartakiades.²⁰

WE WERE PIONEERS...

Our company was one the first companies, which revived the Spartakiade movement in the country.

There is a longstanding tradition of sports events existing in our collectives. IATUO annually arranges sports holidays LUKOIL Ski Track, Dad, Mom and Me — a Sports Family, corporate tournaments in different sports (futsal, volleyball, streetball, kettlebell lifting, arm-wrestling, track-and-field athletics, swimming, chess, tug of war and ping-pong). LUKOIL President's Cup dedicated to the 65th anniversary of the Victory Day was held in 2010, which was attended by 300 athletes from 10 teams formed on an area basis.

HOUSING PROGRAM

The measures aimed at providing housing support to the employees were implemented in 2009-2010 in accordance with the Basic principles of the Housing Policy of the LUKOIL Group (personnel and social components). The expenses on implementation of the personnel component of the housing policy are formed in view of the need for providing housing to the production personnel (external and young professionals). New principles of rendering assistance

to the employees in acquiring their own housing, i.e., — subsidization of the housing mortgage loans interest rate, are being introduced in the social component of the housing policy according to the plan.

PENSION COVERAGE

The Company concentrates its efforts on creation of the pension capital of the employees making use of all the opportunities provided by the applicable legislation and local regulatory acts, namely.

- effective management of the funded component of the retirement pension;
- participation in the program of state co-financing of pension accruals generation;
- participation in the corporate system of non-state pension coverage.

As of the end of 2010, 84 thousand employees accumulate the funded component of their retirement pension in the NPF LUKOIL-GARANT (hereinafter — the Fund). During the six-year period the cumulative return rate of the funded component of the retirement pension came to 69.7% (as compared to 31.0% raised by the state management company).

When the state co-financing program came into effect in 2009, the employees got an opportunity to increase their future retirement pension. In view of the limited duration of the program (10 years for each insured person) the employees of the Company and the Fund have expanded the explanatory and information activities in the LUKOIL Group organizations.

The corporate pension scheme is described in detail in the previous Sustainability Report; no fundamental changes occurred in the reporting period. Based on the results of 2010, over 65,596 persons are active participants of the corporate Decretive pension scheme (about 50% of the average registered number), while 41,434 persons are active participants of the Participatory — pension scheme. The average amount of the non-state pension paid by the end of 2010 came to 1,589 RUR. In 2005-2010, the Fund's average annual return rate of pension reserves placement exceeded the figures of the Russia's Pension Fund and completely covered the average annual inflation over the same period.

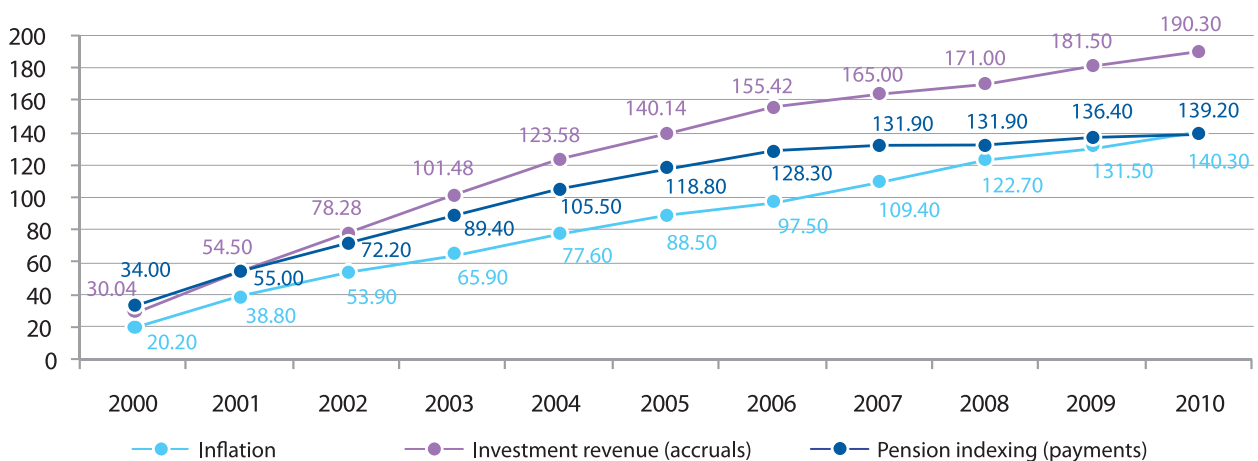
²⁰ For further information see Section Federal Projects and Programs



Owing to the investment strategy the Non-state Pension Fund «LUKOIL-GARANT» has neither failed to fulfill its obligations to the customers, nor suspended payments of non-state pensions. The total amount of means paid by the Fund in 2010 in the form of pensions came to

842 mln RUR. The Fund demonstrates a high protection degree of pension accruals of its customers. The volume of the own property of the Fund used as a performance guarantee comes to almost 57 bln RUR.

■ INVESTMENT REVENUE AND PENSION INDEXING CURVES COMPARED TO INFLATION



Source: Council of NO NPF LUKOIL-GARANT

SOCIAL INFRASTRUCTURE

LUKOIL recognizes the importance of social and economic development of the regions, in which it performs its

production activities; for this reason the LUKOIL Group organizations continue to fulfill their obligations for construction and support of social infrastructure. In 2010, the expenses on support of the social infrastructure of the Russian organizations of the LUKOIL Group came to 3,046 mln RUR (in 2009 — 2,700 mln RUR).



EFFICIENCY ENHANCEMENT OF SOCIAL PROGRAMS

We seek to enhance the efficiency of the implementation mechanisms of the social programs to maintain the achieved standard of social protection. To do this, the Company:

- places a priority on the programs, which produce actual influence on the level of social protection of the employees (health protection, non-state pension coverage, housing program, etc.);
- increases the «targeting» of social support;

- creates conditions to make the best use of the principle of co-financing (equity participation of employees) in implementation of social programs;
- actively uses the potential of social partnership in the sphere of work (practical cooperation with trade unions, governmental bodies and local communities is consolidated).

Since 2008, LUKOIL, acting as an official representative of the RUE, has been the member of the Russian tripartite commission for regulation of social and labor relations, the supreme body for social partnership, acting in accordance with the RF Labor Code. This allows to make proposals to the draft legal acts in the labor sphere at the stage of their development.

COOPERATION WITH TRADE UNIONS



The LUKOIL oil company established civilized legal relations between the employer and employees; this fact is confirmed by the activities of the International Association of Trade Union Organizations of LUKOIL. As of December 31, 2010, LUKOIL IATUO comprises 28 united and 27 primary trade union organizations, which unite over 152 thousand members of trade unions, which is 87% of the total number of LUKOIL employees (over 135 thousand members — in the Russian organizations).

Based on the Agreement between the Employer and the Association of Trade Union Organizations for 2009-2011 there are 66 collective agreements effective in the organizations belonging to the Association of Trade Union Organizations of LUKOIL. A system of social partnership at the enterprises of the new Electric Power Generation Business Segment is developing.

Both the Agreement and collective agreements comply with the principle of combining the interests of the production process accompanied by providing the employees with decent wages and safe working conditions. The trade union association conducts

monitoring of the social and economic indicators in the regions of the Company's presence and elaborates proposals to ensure stability in labor collectives on its basis.

Among the whole list of social guarantees the wage issues are the most important ones, as the growth of the actual wage — is still the most important factor determining the process of solving many social problems. Under the obligations set forth in the Agreement, in 2009-2010 measures were taken to improve the incentives system for the employees of the LUKOIL Group ([please refer to Section Incentives and compensation system](#))

Meetings of heads of enterprises and leaders of trade unions with the representatives of labor collectives, explanatory work, constant dialogue between the trade union committees and the management of the companies, anticipatory response to complicated situations are the main forms of cooperation. Special attention was paid to the Company's activities aimed at restructuring and spin-off of non-core functions. The parties have made efforts to keep the effect of

the previously concluded collective agreements in the outsourcing organizations and the existing level of guarantees and compensations to the employees.

The Global framework cooperation agreement between LUKOIL, the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) and the Russian Oil, Gas and Construction Workers' Union is annually extended. The Agreement was also signed by LUKOIL IATUO as the fourth party in 2010.

In 2009, meetings of the LUKOIL IATUO Management with national and regional leaders of four major Italian trade union centers were held. In 2010, the representatives of the Organization for Economic Cooperation and Development (OECD), the European Social and Economic Committee, the European Institute of Political, Economic and Social Studies, a number of national trade unions of Italy visited the regions of LUKOIL presence, i.e., Perm, Kogalym, Pokachi, while a meeting of the delegation members with V. Alekperov, President of LUKOIL, was held in Moscow. During the visit to Kogalym an international round table conference named Corporate social responsibility and regional development in the crisis conditions, was held, in the course of which the delegates shared the European experience in representing the employees' interests at all levels.

The first Agreement between LUKOIL and LUKOIL International Association of Trade Union Organizations for 2009-2011 for overseas enterprises, which is a conceptually new agreement in the international collective-contractual practice, was signed in 2009 in Belgrade.

Industrial safety, occupational safety and environmental protection are among the most important lines of joint activities of the Company's Management and LUKOIL IATUO. 245 commissions and over 3.4 thousand

authorized representatives for occupational safety conducted over 10 thousand audits in LUKOIL Group's organizations in 2010. Based on the results of the review competition the Presidium of the Association of trade unions awarded the title Best Authorized Representative of the Trade Union for Occupational Safety to 30 employees of the LUKOIL Group subsidiaries.

In 2009-2010, the Association of trade union organizations of LUKOIL arranged the following company-wide events: the Contest Best Employees and Organizations of LUKOIL Group, review competitions for occupational safety and environmental protection, the Contest Best Young Professional of the Year. The 5th contest among the employees of the LUKOIL Group for professional skills — Best in Profession, became the show of the talent pool of the Company.

Tourist gatherings, the festival of creative teams and performers of the LUKOIL Group subsidiaries, the Golden Autumn Festival, Clubs for Lightheaded and Quick-witted, exhibitions of paintings and photographs, and other events were arranged under the auspices of the trade union organizations. In 2009, the children's and youth amateur artistic groups, supported by the LUKOIL oil company participated in the Festival of Festivals We are United, we are Russia demonstrating their original performances. In addition, sports festivals and contests are held for the Company's employees on an annual basis (for further information please refer to Sections Health protection and Federal Programs and Projects).

The Company's employees can get information on the activities of the LUKOIL IATUO, ongoing events, trade union life at the following site <http://mopo.lukoil.com>. The All-Russia magazine Social Partnership, which has been published since 2000 and covers the issues of business social responsibility, is also one of the important communication channels.

6

COMPANY AND SOCIETY



GENERAL PRINCIPLES AND APPROACHES



We follow the principles of sustainable development and take them into account when setting goals and objectives for our business, which helps achieve social stability in the regions of the Company's presence and creates preconditions for future development.

When we mention Company's contribution into development of the Russian regions we refer to assistance in finding solutions to a number of crucial challenges, including:

- improving performance of our enterprises through investments into fixed assets and efficient managerial decisions;
- reducing environmental impact;
- creating state-of-the-art, user friendly green products;
- keeping human resources in the regions and improving their quality;

- developing related industries, which includes creation and utilization of innovation products.

The Company's public relations policy is determined by the Social Code. LUKOIL utilizes various approaches to implementing the policy updating them as new professional forms of such activities appear and our partners show they are ready to accept them. We use the term «social investment» (see table below) with respect to a number of long-term programs. Our understanding of this term is that it is an innovation-based managerial approach that includes maximizing efficiency of utilizing the funds allocated for improvement of quality of life in the regions of our presence by joining the effort of the business, governmental authorities, non-profit, municipal and other organizations.

LUKOIL's portfolio includes charity and sponsorship projects and programs that are still demand. For example, Company's support to sports and culture facilities helps preserve best practice and human resources, while sometimes it brings our operations to the new professional level.



We use the following methods to evaluate performance of utilized approaches:

- open public dialogues in the regions of our presence;
- surveys conducted by independent organizations;
- employee questionnaires.

This report provides the results of a dialogue held in February 2011 in Nizhny Novgorod and the results of evaluation of a few programs.

Social investment and charity programs are implemented through the use of various mechanisms including:

- social and economic partnership agreements with subjects of the Russian Federation. In some regions the partnership principle based on agreements also applies to municipal formations and individual municipal organizations;
- support to initiatives of local communities representatives (Contest of Social and Cultural Projects);
- targeted corporate programs;
- corporate volunteering (direct involvement of Company's employees in tackling urgent public challenges) and personal charity of employees;
- socially significant events.

WE WERE PIONEERS...

Year 1993. LUKOIL's corporate charity fund became the first ever specialized organization created by the Russian company to perform structured charity activities.

Year 2002. LUKOIL became the first company to use a project financing mechanism in charity activities when it announced the Russia's first ever Contest of Social and Cultural Projects in Perm that has been held since then every year in more and more regions of the Russian Federation.

■ KEY FOCUS AREAS OF SOCIALLY SIGNIFICANT ACTIVITIES AND STRUCTURE OF EXPENSES, mln RUR

Type	Form	Programs and Projects	2009	2010
Social Investment	Regional Projects	Activities under social and economic partnership agreements:		
		- with subjects of the Russian Federation	2,695.3	3,039.2
		- with municipal formations	164,8	174,2
	Federal Projects and Programs	Support for Orphanages and Educational Establishments for Children	40,2	45,4
		Education Programs*	167,7	134,3
		Support for Medical Institutions*	24,3	59,8
Contest of Social and Cultural Projects		39,2	59,7	
Regional Projects	Support for the Far North Nations	111,0	145,3	
Sponsorship and Charity	Federal Projects and Programs	Preservation of Historical and Cultural Heritage**	104,6	90,7
		Targeted Assistance	87,4	143,2
		Sports**	931,9	715,6
TOTAL			4,366.4	4,607.4

* Support for medical and educational institutions is also provided under agreements with subjects of the Russian Federation and municipal formations. In 2009, a total of 227.1 mln RUR was allocated through this mechanism for development of education and another 171.1 mln RUR for support to medical institutions.

** The above figures include sponsorship support of 172 mln RUR in 2009 and 188.2 mln RUR in 2010.

SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

We consistently follow the principle of social partnership in the areas of our presence and consider the leaders of subjects of the Russian Federation and municipal formations our key partners in finding solutions to social and economic challenges at the local level. This approach represents a mandatory principle of social investment.

The Company has had cooperation with the regions of the Russian Federation for 15 years. In 2009, 2,860 mln RUR was allocated for the programs implemented under the agreements, while the 2010 figure was 3,213 mln RUR.

The results of such activities are summarized in the course of personal meetings of the Company managers and those of its subsidiaries with the leaders of the regions and municipal formations dedicated to extension of agreements and signing memorandums of cooperation. For instance, every year the Company signs agreement fulfillment memorandums in KMAO, YNA, NAO, Perm Krai, Komi Republic, Volgograd, Saratov Oblast and Saint-Petersburg.

CONTEST OF SOCIAL AND CULTURAL PROJECTS

In our opinion, the most stable mechanism of social investment is represented by our long-term project that is now implemented in nine subject of the Russian Federation — Contest of Social and Cultural Projects (hereinafter the Contest). This is the most appropriate mechanism for Company's involvement in the life of local communities, since it is the lack of funds that most social organizations mentioned as a key factor preventing efficient activities in social sphere.

The primary task of the Contest therefore is to increase the number of active individuals capable of addressing both their own problems and those of their community. The Contest's target audience is represented by local communities, education and cultural institutions, non-profit organizations, public associations, and mass media.

A contest regulation has been developed that is now consistently used across all the regions. It provides for formation of local contest commissions (that include experts, representatives of the public and local authorities), open announcement of the beginning

of the contest, procedure for review of submitted applications, selection of winners and announcement of results. The contesting projects are subject to the same requirements which include targeted nature of assistance, system-based methodology, openness in making and fulfillment of decisions, and reporting with respect to the targeted utilization of funds.

Project results evaluation criteria have been developed. The contest winners utilize them when making their final reports. Also there are performance assessment criteria that are used as a basis when the Company engages a third party to perform project monitoring and evaluation.

Evaluation of the financed projects is a decentralized process (decisions to evaluate projects are made by subsidiaries that are in charge of the contest in a certain region). The evaluation is performed by independent organizations with experience and competencies in the field of project evaluation. Selection of such organizations is a targeted process. Such evaluation activities are conducted in Perm Krai, Kaliningrad, Nizhniy Novgorod and Volgograd Oblasts. This report outlines the results of the evaluation activities already performed [please find in this Section paragraph Evaluating Results of Contest-based Financing](#)).

During nine years of the contest 8,642 applications were submitted, and 1,757 projects implemented with project funds totaling 297 mln RUR.

In general, projects financed within the framework of the Contest help the following:

- development of social infrastructure, offering new services to the population;
- creating and maintaining new jobs, preventing outflow of professionals from the regions;
- improving professional competence of employees of public and municipal organizations, spreading best practice operational technologies;
- higher investment appeal of the regions' social sphere as well as stronger ability of the regions to compete for the funds from the federal budget.

The Contest also assists development of project culture in the regions and better stability of regional organizations, provides for them better opportunities

to attract funds to the regions that will be utilized to tackle social challenges.

For instance, in Perm Krai, where the Contest has already been held for nine consecutive years, according to LUKOIL-Perm estimates, a few hundred stable public organizations and jobs were created. In 2010, the contest-based mechanism was further developed in Perm Krai. Another separate contest (social and cultural youth projects contest) will be held. Separating the youth as an independent target group is in line with the Company's priorities in the field of social investment.

■ EVALUATING RESULTS OF CONTEST-BASED FINANCING

In 2010, such evaluation of the projects that received funds within the Contest was conducted in Perm Krai, Kaliningrad, Nizhniy Novgorod and Volgograd Oblasts. The evaluation revealed that 70% of projects achieved the results as planned within the planning timelines. Regular project monitoring and evaluation helps update both general and specific results of the projects, encourages development of project thinking, self-assessment skills and the skills for assessing both the entire project and individual processes within the project (for example, efficiency of project management, efficiency of information management and the techniques that were utilized to obtain resources, etc.) among employees of non-profit organizations.



According to expert opinion, the cumulative social benefits from activities of grant beneficiaries in Kaliningrad Oblast helped achieve significant progress

in environmental awareness, development of children's sports, new teaching aids for museum-based teaching techniques, provision of new equipment for education, culture and healthcare institutions, different forms of support to physically challenged people. Experts stated that one of the components of the Contest's social benefits is that it stimulates institutionalization of public authorities.

According to expert estimates, the projects implemented in Perm Krai assist the change in social and economic spheres:

- 41% of projects support and develop civil activity of the individuals;
- 56% of projects improve the level of education and culture;
- 32% of projects help harmonization of relations in the society;
- 30% of projects provide jobs to people.

The regional contest helped create new physical training and health improvement facilities, swimming pools, sports playgrounds, stadiums, family clubs, public gardens, parks, museums, creative communities. Interest clubs were created, sporting and cultural events are held and national traditions are preserved.

Some projects were so successful and demanded that over the time they grew up to become regional or inter-regional events. Those include Kama festival of honey Honey Spas, interregional festivals Selenitic Box and Yelovskaya Rybka. In 2010, the Contest helped launch a new Krai-wide festival Bread Spas.

Results of monitoring projects in Nizhniy Novgorod Oblast suggest that the projects are successful, urgent for the area where they are implemented and are in demand among the target groups. The implemented projects assisted tackling challenges connected with social rehabilitation of physically challenged people, professional orientation of the youth, legal education of senior schoolchildren, prevention of law infringements by teenagers, improving the culture of road traffic. Also, the projects helped achieve a positive trend in the field of rehabilitation of children with impairments, environmental awareness and more attention to environmental problems. Some of the projects involve cutting-edge technologies, creative interaction and inter-cultural cooperation. However, the expert also stated that representatives of non-profit organizations taking part in the Contest should improve their



competencies in the design of social projects. By the way, that is largely assisted by introductory seminars held by contest organizers. In addition, experts noticed difficulties connected with informational support of the projects in mass media conditioned by no interest among them to social problems.

The evaluation of project results in Volgograd Oblast demonstrated that most projects target wide audience and are designed for long life with long-term social benefits.

■ FINANCING TRENDS AND VOLUMES OF PROJECTS — WINNERS OF THE CONTEST OF SOCIAL AND CULTURAL PROJECTS, ths RUR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Perm Krai	2,000	5,000	1,887	25,350	48,666	27,620	28,450	14,000	14,000	180,973
Volgograd Oblast			1,442	1,682	2,251	2,915	2,731	4,969	7,000	22,990
Astrakhan Oblast				1,450	3,064	3,045	3,117	3,200	4,350	18,226
Komi Republic				1,100	933	1,460	1,500	1,000	2,865	8,858
West Siberia				1,500	2,500	2,500	2,500	3,500	3,500	11,500
Nizhny Novgorod Oblast						1,996	8,185	7,500	8,319	26,000
Kaliningrad Oblast							2,000	3,850	4,000	9,850
Republic of Kalmykia							1,883	1,200	650	3,733
Republic of Tatarstan									15,000	15,000
Total	2,000	5,000	17,329	31,082	57,414	39,536	50,366	39,219	59,684	297,130

TARGETED CORPORATE PROGRAMS

For many years LUKOIL and LUKOIL Charity Fund have had programs focused on higher quality of education and healthcare in the regions of presence, as well on creation of favorable conditions for harmonious development of children and teenagers. [For more detail please refer to Section Federal Projects and Programs.](#)

LUKOIL Group companies visit establishments for orphans and physically challenged people and give out New Year presents. In addition, within the framework of a New Year event creative master classes were delivered to inmates of Osinsk orphanage in cooperation in cooperation with Perm artists. Children from Dobryanka orphanage in Perm Krai had a meeting with war veterans and those who worked at the enterprises to provide logistical support to the army during the war.

In summer 2010, when many Russian regions were on fire, our young employees created volunteer groups,



CORPORATE VOLUNTEERING AND EMPLOYEE CHARITY

We believe that it is our main goal to encourage involvement of employees in the company's charitable activities. Until recently the main form of such involvement was represented by the effort of the Councils of young professionals at the enterprises. Their members initiated and held social events (such as visits to orphanages and rehabilitation centers, holiday greetings to patronized orphans and physically challenged children, cleaning the area of establishments for the children, etc.).

In Perm our veterans (pensioners) also became volunteers. They took part in the event devoted to planting trees on the territory of an orphanage. Traditionally, on the New Year eve employees of Perm

helped extinguishing the fires and collecting articles of prime necessity for the people who suffered from fire in Melenki raion of Vladimir Oblast and Vyksa raion of Nizhniy Novgorod Oblast.

In 2010, LUKOIL started a new corporate volunteering program entitled Donor's Day.

Every year about 1.5 million Russians need donor's blood. To provide enough blood for everyone Russia should have at least 26 donors per each thousand of population. However, the today's figure is only 14 per thousand.

The goal of our donor event is to contribute into tackling an urgent social challenge represented by the lack of donor's blood and consolidate the effort of volunteers among the company's employees who wish to give their blood for free. Donor events are held in cooperation with the Hematological Research Center under the Russian Academy of Medical Sciences with whom the Company has cooperated for many years. Donor's Days are held in Moscow, Perm, Astrakhan, Kaliningrad and Kstov.

In 2010, we continued developing our practices of personal charity. In particular, a charitable trade fair was organized for LUKOIL's employees dedicated to the Day of Oil and Gas Industry Professionals, where they could buy children's pictures and handmade articles created by inmates of patronized orphanages. The funds collected during the event were provided to support orphanages.

The Company has a program of employees' personal donations for charity programs. In 2009-2010, around 36 mln RUR was transferred to the settlement account of LUKOIL Charity Fund.

■ SOCIALLY SIGNIFICANT EVENTS

Our filling stations hold events aimed at higher quality of service and loyalty of motorists that draw everybody's attention to social problems (thus, an event in Nizhniy Novgorod Oblast entitled Conscientious Driver was aimed at prevention of road traffic violations). Subsidiaries organize social and sporting events. [For more detail please refer to Section Sustainable Development of Russian Regions.](#)

On February 25, 2010 a car accident involving a company car of LUKOIL Vice-President Anatoly Barkov, who was in the vehicle at the time of the crash, took place in Moscow. Both the driver and the passenger of the second car died from injuries sustained during the road traffic incident. The investigation suggested that A. Barkov's company car driver did not violate traffic rules, and the second car's driver was to blame for the accident due to her failure to handle the vehicle. A. Barkov resolved to support the two-year-old child whose mother was killed as a result of the accident. The child was insured at LUKOIL-Garant (a non-state pension fund) that will make monthly payments to the account of its custodian until the child comes of age. In addition to that, the child is insured until December 31, 2024 against a number of health risks. At the end of the insurance period the insured person will receive the lump sum of the accrued amount.

At the request of the child's relatives that they communicated in an interview with the Novie Izvestiya correspondent (issue as of February 8, 2011) we are not disclosing the payment amounts.

■ STAKEHOLDER ENGAGEMENT: DIALOGUE IN NIZHNIY NOVGOROD

In the course of preparation of this report the Company organized a dialogue with 29 people and representatives of LUKOIL and Group subsidiaries (LUKOIL-Volganefteprodukt and LUKOIL-Nizhegorodnefteorgsintez). Representatives of State

Duma, Authorized Representative of the Russian President in the Volga Federal Okrug, representatives of the government and Legislative Assembly of Nizhniy Novgorod Oblast, municipal and public organizations were invited for the dialogue. The dialogue was led by

the representatives of the Social Information Agency. The goal of the dialogue was to discuss the content and forms of the Company's socially significant activities in the region and receive related development proposals from the participants.

In the course of the dialogue the participants discussed several topics they proposed.

Topic 1.

LUKOIL's fuel pricing policy: who determines it in the Company and how it is determined.

Company's representatives reported that LUKOIL's internal market pricing policy is managed by the Main Division of Supplies and Sales. The Company's understanding of this matter is described in Section High-Quality Products and Services of this Report.

Topic 2.

Relations with consumers: consumers' complaints may often be caused by behavior of some employees of a filling station rather than by quality of fuel.

Representative of a public organization came up with a proposal to establish cooperation in the form of people's control.

Company's representatives reported that within the framework of the existing service quality management system the Company performs a range of activities focusing on higher performance of interaction with consumers. *The information on this matter is described in Section High-Quality Products and Services of this Report.*

Topic 3.

Expanding the Contest of Social and Cultural Projects in Nizhniy Novgorod Oblast and increasing availability of information for the population concerning Company's socially significant activities.

In particular, the participants asked questions about the following:

1. key factors influencing the size of funding provided within the Contest in Nizhniy Novgorod Oblast;
2. possible increase in the number of Contest nominations;
3. making more information available to the population of Nizhniy Novgorod Oblast concerning Company's socially significant programs;

The Company believes that similar questions may be asked by public organizations in other regions. Therefore, it gives quite detailed answers.

Representatives of LUKOIL subsidiaries calculated that over the last four years public and governmental organizations from Nizhniy Novgorod submitted more than 300 applications for the Contest. More than 100 of them received funding (with the total budget of around RUR 26 mln). Since holding the first Contest in 2007 the number of applications increased almost three times (from 40 to 106), while the number of projects that received funding increased four times (from 10 to 40).

However, to expand the contest mechanism in the Oblast local public and municipal organizations should seek to increase quality of the applications submitted for the Contest and to improve their project development skills. Because of low quality of the applications many urgent interesting projects that could receive funding get dropped out at the very first stage of the contest due to formal reasons. Non-profit organizations should pay more attention to the project development stage. This will largely determine whether the applicant can obtain a grant and what the Contest's next year budget will be. In addition, it is very important that organizations who already received funding submit detailed reports containing project results, assess performance of their activities and track the dynamics of the problem they are addressing.

Contest nominations are the same for all the regions: Environment; Charity; Culture and Arts; Physical Training, Sports and Tourism; and Homeland. Company's commitment to the selected problem areas ensures that every year the existing problem is addressed consistently and visible improvements are achieved in tackling the challenge.

At the same time, nominations may be supplemented by the topics urgent for a given area or conditioned by the priorities of the state in the field of social activities. Thus, in 2008, being the year of the family, such an additional category was called Family Values. Two thousand nine saw the introduction of a special category marking the Year of Youth. The year of 2010 was dedicated to the 65th anniversary of the Victory in the Great Patriotic War. In two thousand eleven the Company is celebrating its 20th anniversary. Therefore focus will be on the projects in this area.

To inform the population of its socially significant activities the Company utilizes all the channels available including its annual and sustainability reports,

website, ratings, contests, collections of best practice, etc. Company's social responsibility programs are openly available through the library of corporate best practice at the official website of the Russian Union of Industrialists and Entrepreneurs, and Association of Managers. The Company issues press releases, Company's representatives take part in conferences, round tables and other activities dedicated to corporate social responsibility.

Also participants came up with a proposal to hold events for schoolchildren, journalists, ecologists, managers of projects that won the Contest of Social and Cultural Projects (for instance, excursions to the Company's enterprises).

Such excursions are a regular practice so the Company is open to consider any such proposals.

Topic 4.

Increasing quality of training provided to professionals for petrochemical operations by organizing a training resource center co-financed with state educational programs.

Representatives of LUKOIL subsidiaries welcomed the proposal. They stated that opening a resource center is one of the projects that would add great value for both the Company and local authorities. The Company is facing shortage in qualified workers and engineers, while the Ministry of Education would like the graduates to receive professions that are in demand, which will reduce unemployment in future.

The reporters stated that the Ministry of Education of Nizhny Novgorod Oblast is a long-standing partner of LUKOIL. So far the interaction has been a success due to a sensible and efficient approach: social investment into the region is based on joint activities and joint responsibility for the results.

Currently the authorities are considering integration of Kstovo Petroleum Vocational School with Nizhny Novgorod State Technical University named after R. A. Alexeyev on the basis of which a resource center may be created.

Also the participants set out a proposal to involve public organizations in joint projects the Company implements in cooperation with governmental education agencies.

An example of cooperation between the business, authorities and public organizations that in addition to education involves many other spheres is represented by the Company's Contest of Social and Cultural

Projects. It is a really efficient mechanism of inter-sectoral cooperation. In particular, with LUKOIL's support and in close cooperation with the Ministry of Ecology non-profit organization Dront launched a large-scale air cleaning project in kindergartens, foundation Good Power used the Company's funds to implement initiatives of the Main Internal Affairs Directorate of Nizhny Novgorod Oblast for reducing the number of children's deaths on the roads and preventing crimes committed by teenagers, public organizations constantly implement LUKOIL-funded programs supporting children from orphanages located in the region.

Topic 5.

Eliminating the lack of kindergartens in the area (Kstovo) based on innovative solutions (kindergarten and housing for the teacher in the same house).

The problem of preschool education is urgent not only in Kstovo, but in other raions of the Oblast as well, including the city of Nizhny Novgorod. The Company believes that this problem should be addressed fully.

LUKOIL came up with the initiative to repair empty kindergarten buildings. Since municipalities have insufficient funds to solve the problem fully, a part of expenses will be covered by Nizhny Novgorod Oblast. The first benefits of the cooperation were felt in 2010 when a few buildings were repaired in Kstovo raion.

As of the date of this Report following the initiative by the director general of LUKOIL-Volganefteprodukt deputy of the legislative Assembly of Nizhny Novgorod Oblast Andrey Spirin and upon instruction of the Oblast governor several Oblast-wide targeted programs are being developed, including programs for repair of empty buildings and rooms. It is expected that in the next three years two new kindergartens will open in Kstovo, while in 2011 there will be 300 additional beds in 15 kindergartens.

Topic 6.

Company's development strategy in the region.

Given the today's importance of oil production and refining operations for the economy of the Volga Federal Okrug as well as the fact that LUKOIL enterprises account for 20% of production and 15% of refining in the region, the participants showed their interest to Company's proposals concerning a reform of social and economic development of the okrug till 2012.

In 2010, the Company signed a social and economic cooperation agreement with two subjects of the Russian Federation representing Volga Federal



Okrug. According to the Agreement between LUKOIL and Nizhniy Novgorod Oblast, they are planning to cooperate in hydrocarbon refining, transportation and sales of refining products and petrochemicals, manufacturing of oil field equipment for the Company's needs, mechanical engineering and shipbuilding industry products, scientific and technical support to R&D activities and technologies as well as training qualified staff and tackling unemployment challenges.

Pursuant to the Agreement between LUKOIL and Perm Krai, the parties will cooperate in the field of providing favorable conditions for development of the mineral resource base, geological exploration, utilizing cutting-edge technologies to improve oil recovery, exploration of hydrocarbons, production, treatment and transportation of oil and gas as well as processing hydrocarbons and transportation of finished products. It is also planned to develop and implement a program for supply of gas to the region's settlements which includes construction of inter-settlement gas pipelines that will be funded by the Company and its subsidiaries, while construction of distribution gas pipelines in the settlements and changing municipal boilers to gas-fired operations will be funded from Krai and local budgets.

Thus we operate in the regions of the Volga Federal Okrug within the framework of agreements that determine the Company's contribution into social and economic development of the Okrug. [For more detail](#)

[please refer to the appropriate Subsection of Section Sustainable Development of Russian Regions.](#)

Topic 7.

Tax privileges for the Company in Nizhniy Novgorod Oblast.

The participants proposed to sign an agreement with the Oblast government that would provide for returning a certain part of tax privileges to the Oblast through implementation of targeted programs.

The effective social and economic cooperation agreement between the Company and the government of Nizhniy Novgorod Oblast provides for LUKOIL-Nizhegorodnefteorgsintez obligation to allocate at least 2.25% of its 2010 profit tax base for charity. In particular, 1.2% of the profit tax base will be allocated for development of grass roots sports in Kstovo raion. In addition, the plant will also support children's and youth sports, elite sport and hold large-scale sporting events in Nizhniy Novgorod Oblast.

The Company acting through its refining subsidiaries undertakes to ensure the most efficient utilization of its production capacity and continue capital investments into production facilities and programs of LUKOIL-Nizhegorodnefteorgsintez.

FEDERAL PROGRAMS AND PROJECTS

We believe that the development of human capital assets is one of social investment goals. We seek to develop a well-balanced approach in order to ensure financial and engineering support and promote the potential of people at which our programs are targeted. The top-priority area of the Company's activity is to take care of young generations and train young professionals for the Russian oil industry.



SUPPORT FOR ORPHANAGES AND EDUCATIONAL ESTABLISHMENTS FOR CHILDREN

The Company has been supporting 60 orphanages located in the West Siberia, Komi Republic, Volgograd, Astrakhan, Leningrad (St. Petersburg), Kirov, Vologda, Saratov, and Kaliningrad Oblasts, Perm Krai and other regions for almost 20 years. This program was developed by the Company jointly with its subsidiaries and LUKOIL Charity Fund.

We believe that our task is to ensure a good life starting point for children supported by us so that they become successful. Therefore, we help them to get education and profession according to their talents, improve their

health and adapt for the social environment where they will live after leaving the orphanage. The Company also helps improving living conditions in children's care centers.

As part of this task, LUKOIL gives scholarships and educational grants to children brought up in orphanages and foster homes so that such children get education in vocational schools and institutions of higher education. Today, the Company pays about 80 scholarships.

In 2008, the Company jointly with LUKOIL Group's organizations set about implementing the project to train young professionals from children raised in orphanages and poor families on a regional level. A large regional business project being implemented revealed the acute shortage of engineering professionals. In order to address this problem, the most talented children raised in orphanages and poor families study at Astrakhan Polytechnic College and the Volga-Caspian Marine Fishery College. LUKOIL Charity Fund undertook to cover their educational and living costs.

In Nizhniy Novgorod Oblast the Company supports Kstovo Petroleum Vocational School which provides training to patronized orphanage residents. Students studying in this Vocational School regularly attend the Company's refinery i.e. OOO LUKOIL-Nizhegorodnefteorgsintez where they get to know its production specifics and acquire hands-on expertise and skills. This demonstrates how an integrated program help children deprived of parental care to adapt for their future social life.

In 2010, LUKOIL Charity Fund launched two new projects in Nizhniy Novgorod Oblast. These projects are focused on socializing orphanage residents and helping them to find their life missions. The project called «We've Found Talents» targets artistically gifted children aged 13-16. Such children will be trained in three areas (drawing, painting, and design). They will gain insight into various artistic professions, history and the theory of fine arts. The other project is being implemented as part of the Living Word journalistic festival annually held in Boldino. In 2010, inmates of orphanages participated in it for the first time: each winner received a certificate for a free training session in TV-journalism at the Praktika center.

This program is also a «training ground» to elaborate best practices of socializing children deprived of parental care. Last reports described A. A. Katolikov Agricultural Foster Home (Komi Republic) where children acquire agricultural skills and expertise. Such training has found wider use. Now this method is employed by Veliky Ustyug Orphanage. Family care methods are widely used in the West Siberia. Rehabilitation Center Anastasia in Langepas was awarded the status of a regional research ground for innovations in the area of development of physically challenged children and teenagers.

Each year the Company arranges summer vacations at the seashore and educational tours around the country combined with educational and challenging studies that help children to discover the world and broaden their perspective. Past reports described educational activities and tours arranged in relation to mobile exhibitions of Moscow Kremlin Museums.

Program's Outcomes

Managers of orphanages help us keeping an eye on the orphanage graduates. Their professional and life achievements make us glad and happy as they prove that our efforts were not in vain.

In 2009, 18 graduates from patronized orphanages and foster homes (22 in the aggregate) entered vocational schools, and 4 orphanage graduates entered the universities. In 2010, almost all orphanage graduates were enrolled into educational establishments (52 of 55 orphanage graduates).

Children are trained to various professions. For instance, in Astrakhan Oblast children study in Astrakhan Polytechnic College and the Volga-Caspian Fishery College; in Nizhniy Novgorod Oblast Kstov Petroleum Vocational School provides training to children in the fields of oil and gas production. Some orphanage graduates study in Teachers Universities in Surgut, Cherepovets, and Perm. One young man has already graduated from the university; for the time being, he is engaged in the construction of Olympic facilities in Sochi.

Some guys (earlier graduates) do their post-graduate studies. For example, a guy from Orphanage No. 31 (St. Petersburg) does his post-graduate studies in one of London universities; a girl that was raised in Nadezhda Foster Home (Kirov) continues her education in Italy after graduating from M. I. Glinka Conservatory in Nizhniy Novgorod.

Child care establishments monitor child health improvement activities and their efficiency. According to such establishments, 2009 saw 20% decrease in ARVI in Osa Orphanage (Perm Krai) after summer vacations arranged for children in Anapa; 2010 saw two-fold decrease in this indicator. Other diseases demonstrate similar trends. This proves a positive effect of annual sea trips. Children also study better. Perm Sanatorium Foster Home for orphans and children deprived of parental care also demonstrates positive trends. There was a 40% decrease in the sickness rate in winter after summer vacations arranged at the seashore.

Support of Physically Challenged Children

Over the past few years, the project called A Book for Every Blind Child has been implemented as part of the larger program entitled Illustrated Books for Little Blind Children. According to medical professionals, embossed books play an important role in making children familiar with the surrounding world and promote harmonious personal development. In 2009-2010, LUKOIL Charity Fund gave 159 illustrated book packages to foster homes and orphanages in Rostov-On-Don and Perm and sponsored the publication of a unique tactile ABC book for blind children.

EDUCATIONAL PROGRAMS

The top-priority area of the Company's activity is to take care of young generations and, in particular, train young professionals for the Russian oil industry. We do our best to harmonize the research and production activities within the scope of our competence. Over many years the Company's has been implementing the Program called School — University — Company in the regions where the Company operates.

For the time being, 200 students receive corporate LUKOIL scholarships in various Russian cities and 90 young lecturers and professors in leading national universities receive grants from the Company. In 2009-2010, the grant/scholarship program's budget made up about 27 mln RUR.

Improved educational and engineering resources ensure cutting-edge training. In 2009-2010, the Company allocated 125 mln RUR to the infrastructure improvements in universities.

The Company's education policy yields tangible outcomes. LUKOIL Group companies have over 40 employees holding the PhD title and about 300 Candidates of

Sciences. Many of them occupy top management positions. The Company annually employs over 800 young professionals. Today, its intelligent potential is one of the most substantial in the Russian oil industry.

SUPPORT OF MEDICAL INSTITUTIONS

LUKOIL supports a number of largest specialized medical research centers such as: Academician V. I. Kulakov Research Centre of Obstetrics, Gynecology, and Perinatology, Hematological Research Centre, Russian Cardiological Research and Production Centre, Central Research X-Ray Radiological Institute, and the Research Institute of Emergency Children Surgery.

Thus, in 2009-2010 the Company purchased unique equipment for the Lyman Central District Hospital (Astrakhan Oblast), Astrakhan Children's Municipal Clinical Hospital No.1, Professor I. N. Alamdarov Regional Clinical Hospital No. 2 (Astrakhan), Saratov 1st Municipal Clinical Hospital named after Yu. A. Gordeev, Novoburassk Central District Hospital (Saratov Oblast), Bolshoye Murashkino Central District Hospital (Nizhniy Novgorod Oblast), Children's Municipal Hospital No.1 in St. Petersburg, and Moscow Maternity Hospital No. 4.

Assessment of Outcomes

Eleven medical institutions supported by the Company in purchasing equipment, primarily, for children and newborn departments, surgical, and post surgical wings assessed the sponsorship results. Medical practitioners provide qualified assistance in emergencies; there is a considerable decrease in the newborn death rate, new treatment and rehabilitation methods are in place; greater number of patients underwent required operations.²¹

For example, surgeons working in St. Petersburg Children's Municipal Hospital No. 1 used the purchased

package of bone-cutting instruments to perform surgical operations on 258 children including children with compound fractures; now they manage to apply less aggressive surgical modalities. Medical practitioners provide efficient medical assistance to newborn children with low and extremely low birth weight using the human vital function monitor at the Astrakhan Children's Clinical Hospital No.1: 36% of such patients recovered fully; 56% of patients demonstrated health improvements.

SAVING CULTURAL AND HISTORICAL HERITAGE

We provide an integrated support in saving cultural and historical heritage including sponsorship and charity, i.e. training and educational activities and aesthetic education of young generations. Such an approach helps saving cultural heritage and promotes cultural values.

Support of Museums and Folk Groups

LUKOIL supports largest national museums including: Tretyakov Gallery, Moscow Kremlin Museums, Pushkin State Museum of Fine Arts, the State Russian Museum, V. M. and A. M. Vasnetsov Museum of Fine Arts in Vyatka. Since 2006, LUKOIL and Moscow Kremlin Museums have been holding exhibitions at foreign sites in order to promote Russian art and history. Two thousand and nine saw the exhibition called Tsars and East: Turkish and Iranian Gifts from Moscow Kremlin Museums' Collections patronized by the Russian President Dmitry Medvedev that took place in the Arts Gallery of Smithsonian Institution (Washington). In 2010, the Company supported the exhibition entitled Ottoman Sultans' Treasures that was held at Moscow Kremlin Museums. Another foreign project provides for exhibitions of paintings by Russian artists held in Finland that are arranged in cooperation with Tretyakov Gallery.

LUKOIL cooperates with Tyumen State Oil and Gas University, Ukhta State Technical University, Ufa State Oil Technical University, Perm State Technical University, Diplomatic Academy under the Russian Ministry of Foreign Affairs, I. M. Gubkin Russian State University of Oil and Gas, Academy of Finance under the Russian Government, Volzhsky Branch of Moscow Energy Institute, Kstovo Petroleum Vocational School and other educational establishments.

²¹ Recent 10 years demonstrated decrease in the infant mortality rate from 18 to 7.8 per 10 thousands of births in Astrakhan Oblast.

We seek to implement our projects so that they have a great educational effect and promote the national cultural heritage among various groups of people. The exhibition entitled Great Russian Victories on Medals and Engravings in Honor of 300th anniversary of the Battle of Poltava took place at A. S. Pushkin State Museum. The State Central Museum of Contemporary History of Russia arranged the exhibition called Nobel Dynasty in Russia demonstrating unique showpieces describing the contribution of Nobel Dynasty into the development of the Russian oil industry; it also held the exhibition called From Russian State Electrification Plan to 21st Century's Innovations.

Our long-term partner A. S. Pushkin State Museum of Fine Arts created the multimedia web site describing numismatics masterpieces; restored a unique archeological Antique monument; published the catalogue for the exhibition called European Graphics Masterpieces from Collection of V. N. and N. V. Basnins; held the exhibition called «Unknown Famous Things» in relation to the publication of the full science catalogue «Collection of Paintings. Germany, Austria, Switzerland in XV-XX Centuries. Denmark, Iceland, Norway, Sweden, Finland in XVII-XX Centuries».

The Company supported a number of museum projects. The State Russian Museum arranges the regular exhibition of the annual International Festival «Russian Emperor Gardens» and the exhibition called «Smolyanky by Dmitry Levitsky. In Honor of 250th Anniversary of the Artist's Birth». Tretyakov Gallery restored the picture Fair at Arkhangelsk Pier by famous Russian artists Konstantin Korovin and well-known pictures Golden Autumn and At Slough by I. I. Levitan that were exhibited at the show held in honor of 150th anniversary of his birth.

LUKOL maintains long-lasting cooperation with Tchaikovsky Great Symphony Orchestra conducted by V. Fedoseev and Perm State Opera and Ballet Theatre. Over some years the Company sponsors the program called Family to Symphony Hall implemented by Kaliningrad Regional Philharmonic Hall and Astrakhan State Philharmonic Hall; the Company also supports the Ural Academic Philharmonic Orchestra.

Over recent three years LUKOIL supports the military orchestra musical festival called «Spass Tower» traditionally held in Moscow. Russia holds its own unique parade of military orchestras whose scale is inferior only to the Victory Day Parade held on May 9. This festival gathers best folk and musical groups from various countries.

■ PUBLICATION PROJECTS

Over a number of years the Company publishes the LUKOIL's Regions illustrated photo chronicle describing the regions of LUKOIL's presence. For the time being, this photo chronicle includes 13 volumes; recently published volumes describe St. Petersburg and Komi Republic.

■ LUKOIL' MUSEUMS AND CORPORATE MUSEUM COMMUNITY

The Company's museum community includes LUKOIL's Museum founded in 2005 and over 20 museums created by the Group's organizations in various Russian regions, Bulgaria, Romania, and Ukraine. These museums are important corporate cultural and educational centers.

Exhibitions occupy a significant area of the corporate museum community's activities. LUKOIL's Museum held around 30 mobile exhibitions including the following: Motherland's Faithful Son (tribute to the 80th anniversary of V. I. Graifer who holds the title of Honorable Oil Man and Honored Oil and Gas Worker; LUKOIL Leads Stock Market, Corporate Youth Policy, LUKOIL's Caspian Project, 80th Anniversary of Perm Oil, 60th Anniversary of Volgograd Oil Commercial Production, Nobel Dynasty in Oil Industry (in honor of the 130th anniversary of Nobel Brothers Oil Production Partnership), First Russian Engineer V. G. Shukhov, D. I. Mendeleev and Russian Oil Industry, LUKOIL in Africa, 80th Anniversary of I. M. Gubkin Russian State University of Oil and Gas, Company's Charity, 65th Anniversary of Great Victory, When We were Young, and 5th Anniversary of LLK-International.

These exhibitions were held at the Company's headquarters, State Central Museum of Contemporary History of Russia, Russian Academy of Science, I. M. Gubkin Russian State University of Oil and Gas, Tyumen Technology Park. The exhibition describing LUKOIL today and in the past was arranged at the European Business Summit held in Brussels.

In addition to that, the corporate museum arranged its sections at the exhibitions called We are Russian Future and From Russian State Electrification Plan to 21st Century's Innovations held in the State Central Museum of Contemporary History of Russia.

Exhibitions were actively arranged by museums created by LUKOIL-Nizhegorodnefteorgsintez, LUKOIL-Permnefteorgsintez, LUKOIL-Kaliningradmorneft,

LUKOIL Neftochim Burgas AD, Perm Oil History Museum of LUKOIL-Perm, and the Museum of Oil Production History in the Lower Volga Region arranged by RITEK.

According to numerous experts, the Company's Museum Fund including over 3 thousands of show-pieces is one of the most important field-specific collections in the country. It documents the development of the national oil industry and describes the history and current status of one of the largest oil and gas companies in contemporary Russia. Show-pieces of LUKOIL's museums were often used to illustrate tutorials, historical chronicles, books and magazine articles. LUKOIL's museum workers provide assistance to art groups to shoot documentaries, feature films, and TV broadcasts.

LUKOIL's Museum Council contributes a lot into developing a uniform corporate museum policy. Meetings involving competent representatives of state museums are held to address urgent museum business issues, develop the corporate collection, and create new museums and temporary exhibitions.

The Corporate Museum Community continuously develops its relations with peers; they held seminars and workshops involving members of the Association of Sci-Tech Museums of the Russian Committee of the International Museum Council and representatives of other corporate museums.

The Company's museums are well equipped and fitted; that's why they are often used as educational centers to arrange training for employees and students. For instance, over a few recent years LUKOIL Museum is used to hold training for students of I. M. Gubkin Russian State University of Oil and Gas so that they learn the history of the Russian oil industry and the corporate culture.

Company's museum workers arrange exhibitions as cognitive, educational and world conception environment. This obviously promotes the development of oil worker personality. Today, many museums re-arrange and expand their exhibitions and equip them with additional facilities, thus enriching their information content and making museums more attractive for visitors. The Company's museum community demonstrates continuous growth. In 2009-2010, museums were arranged in LUKOIL Neftokhim Burgas AD (Bulgaria), LUKOIL-Perm, LUKOIL-Kaliningradmorneft; today LUKOIL-Komi is about to finish arranging its museum.

SPORTS

Support of the Russian sports has been one of the most important areas of LUKOIL's social policy for years. Today, the Company's high-priority areas include:

- offer assistance to professional sport teams in Russia, national federations and the national Olympic movement.
- promote sports and health among the Company's employees and their families; promote grassroots sports;
- promote development of children's sports in Russia.



RUSSIAN NATIONAL CHARITY PROGRAM HAVE FAITH IN YOURSELF!

In 2009, LUKOIL's sports club together with the leading Russian athletes, sports veterans and professional sports clubs implemented the Russian National Charity Program Have Faith in Yourself! devoted to the Year of Youth in Russia. The primary goal pursued by the project was to actively promote healthy lifestyles and focus on physical training of students and schoolchildren in our country. The Have Faith in Yourself! project covered Moscow, Vladimir, Tomsk, Kaliningrad Oblasts, Perm Krai and Komi Republic. The program included cross-country skiing, football, volleyball, carting and mini soccer events and assisted regional children's and youth sports schools in purchasing sports equipment. The number of young people participating in the

events under the Have Faith in Yourself program exceeded 8 thousand. The program's official web site is accessible at: <http://www.povervsebya.info/>.

■ CHILDREN'S SOCCER LEAGUE

LUKOIL sponsors one of Russia's largest children's sports organizations — Children's Soccer League. Sporting events held by the League each year gather about 3 thousand participating teams and 55 thousand young soccer players from almost all of Russia. Since 2002, the Children's Soccer League has been holding its traditional tournament entitled Children's International Champions League of LUKOIL. In 2009, the Children's Soccer League launched a new project called Anniversary Children's Football League Open patronized by the League's best players. The idea of holding these competitions found support of the Russian Soccer Union, authorities of subject of the Russian Federation, and regional football federations. Championship stages were held in Moscow, Noginsk, Volgograd, Samara, Vladikavkaz, Naberezhnye Chelny, Tambov, Barnaul, Tolyatti, and Sary Oskol. The League's official web site is accessible at: <http://dff.org.ru/>.

■ LUKOIL PRESIDENT'S CUP

Competitions under LUKOIL President's Cup took place in Kaliningrad, Astrakhan, Volgograd, and Moscow Oblasts, Krasnodar Krai and Komi Republic in 2010. Volleyball, handball, soccer, cross-country skiing, water polo, carting tournaments gathered about 15 thousands of young sportsmen. The Company jointly with its supported sports clubs and organizations arranged children's competitions devoted to the 65th anniversary of the Victory in the Great Patriotic War.

■ SPARTAKIADE

LUKOIL has always been concerned about the health of its people, and that is why every Russian region of the Company's presence hosts sporting events in various summer and winter sports.

One of the largest-scale activities focusing on promotion of physical training and popular sports are LUKOIL's International Spartakiades. The Company was the first to revive the spartakiade movement; it regularly holds competitions together with LUKOIL Trade Unions. The first spartakiade took place in Astrakhan in 2001. This year Perm hosted the fifth spartakiade devoted to the Company's 20th anniversary.

The Company held corporate competitions under LUKOIL President's Cup devoted to the 65th anniversary of the Victory in the Great Patriotic War. They gathered about 300 sportsmen representing 10 clubs from various regions of the Company's presence.

■ PROFESSIONAL SPORTS SUPPORT

The Company provides assistance to leading Russian sports teams in order to promote the professional sports development. Such teams include FC Spartak Moscow, Astrakhan Handball Club Zarya Kaspiya, Volgograd water polo team Spartak, Kaliningrad volleyball team Dynamo-Yantar, hockey clubs Dynamo Moscow and Torpedo Nizhniy Novgorod.

Over many years LUKOIL is the primary sponsor of the national cross-country skiing team and the partner of the Russian Cross-Country Skiing Federation. Company's sponsorship is focused on training the Russian national team and developing skiing sports in the country. In addition to that, in supporting the Olympic movement the Company cooperates with the Russian Olympic Athletes Support Foundation which provides targeted assistance to sportsmen from Russian national Olympic teams.

The Company believes that sports are not only the area of sponsorship but the proving ground for its own products under extreme conditions. For example, LUKOIL Racing Team which is a national motor sports leader proves the high efficiency of corporate oils and fuels with its own victories and success. Impressive achievements in 2009 include the second place won by Sergey Afanasyev in International Formula Masters and the third place won by Mikhail Aleshin in Formula Two Championship.



8

SUSTAINABLE DEVELOPMENT
OF RUSSIAN REGIONS

NORTHWESTERN FEDERAL OKRUG

Republic of Karelia, Komi Republic, Nenets Autonomous Okrug, Volgograd Oblast, Kaliningrad Oblast, Arkhangelsk Oblast, Novgorod Oblast, Pskov Oblast, Leningrad Oblast and Saint-Petersburg



KOMI REPUBLIC, NENETS AUTONOMOUS OKRUG (NAO)

- OOO LUKOIL-Ukhtaneftepererabotka
- OAO Varandey Terminal
- OOO LUKOIL-Severo-Zapadnefteprodukt
- OOO LUKOIL-Komi
- OOO Naryanmarneftegas

Indicators	Total	
	2009	2010
Taxes paid (total), mln RUR, including:	86,983	108,378
- RF budget	75,544	93,214
- budgets of RF subjects	10,988	14,812
- local budgets (cumulative figure)	451	352
Investments into fixed assets, mln RUR.	32,956	31,414

Indicators:	2007	2008	2009	2010
OOO LUKOIL-Komi and OOO Naryanmarneftegaz				
Fields currently under development	55	59	54	53
Fields commissioned for development	0	0	1	1
Oil production, mln tn	14.6	16.7	21.7	21.1
Gas production, mln cu. m	863,128	966,016	1,051,292	1,109,830

■ ECONOMIC ROLE AND INVESTMENTS



First stage of UPN Usa — Heavy Oil unit was launched. This was the largest asset that OOO LUKOIL-Komi has launched in the region over the last few years. More than ten local contractors were involved in construction operations. Commissioning of the new unit completed the process of dividing light and heavy oil gathering and treatment systems. In addition, three old units were decommissioned. One of the key developments was the launch of year-round operations at Yuzhno-Yuryakhinskoye field. A compressor station was launched at Kyrtalskoye field, which helped increase utilization of associated petroleum gas from 50% up to almost 100%. Also, an APG-fired gas turbine power plant was commissioned in 2010 at Tedinskoye field.

OOO Naryanmarneftegaz completed construction of elemental sulfur production and granulation unit. They recover sulfur from the acid gas generated as a by-product when separating the produced gas from hydrogen sulfide. Now they can produce commercial sulfur for sale to consumers. Also, this helped significantly reduce emissions into atmosphere.



An isomerization unit was commissioned at LUKOIL-Ukhtaneftpererabotka, which helped the company start production of Euro-3 and Euro-4 compliant fuels.

Indicators: OOO LUKOIL-Ukhtaneftpererabotka	2007	2008	2009	2010
Refining volume, mln tn	4.1	3.8	4.2	4.1
Number of product types	30	24	23	23
Number of new products	7	1	0	0

Source: Analyst's Handbook — 2010, RSD²² 2007-2008, subsidiaries data

Indicators: OAO Varandey Terminal	2007	2008	2009	2010
Transshipment of petroleum products, mln tn	0.8	1.9	7.7	7.5

Sources: RSD 2007-2008, subsidiaries data

²² Hereinafter RSD shall mean Report on Sustainable Development.

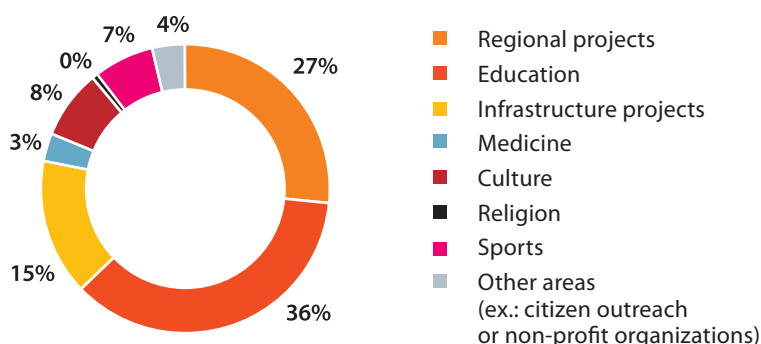
SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

Currently the Company has an agreement with NAO. Also the Company cooperates at the level of municipalities (between OOO LUKOIL-Ukhtaneftepererabotka and administration of municipal formation of municipal okrug Ukhta; between Naryanmarneftegaz and administrations of municipal raion Zapolyarnyi and municipal okrug Rabochiy Poselok Iskateli and with three more municipalities on a one-time basis; between OOO LUKOIL-Komi and seven municipal formations of Komi Republic and NAO). Also the Company makes agreements with municipal organizations.

All the obligations assumed by the Company represented by its subsidiaries have been performed. The most significant projects that add value for the population of towns and villages include supply of clean safe drinking water to urban settlement Schebolyazh, beginning of construction of surgical department at the Ust-Tsilemsk central district hospital, purchasing classrooms for village schools of Ust-Tsilemsk raion, repairing community centers in settlements Nizhniy Odes and Yarega and purchasing up-to-date cinema equipment for the latter.

Community centers were repaired in all the municipal okrugs, schools were constructed, churches restored, hospitals received vehicles and new medical equipment.

SOCIAL INVESTING AS PART OF IMPLEMENTING COOPERATION AGREEMENTS WITH REGIONAL ADMINISTRATIONS



SOCIAL INVESTMENTS AND CHARITY

Contest of Social and Cultural Projects

Since 2005, the Contest of Social and Cultural Projects has been held in Komi Republic. Over the last years 179 projects joined the Contest. Thirty nine of them received grants to implement their ideas.

In 2009-2010, eighty-two contestants came up with their projects, and 16 of them received grants. The contest helped perform area improvement activities in the settlements and forest zones, create electronic

data bank containing information on local history and activities in Yarega settlement, organize thematic exhibitions and excursions aimed at learning local history, create a series of TV programs devoted to the research of children’s creative work. Also, teams of volunteers were created that deal with involving the youth in research and exploration activities. Within the framework of the project entitled World on the Fingertips tactile books are created for visually impaired kids. Such books are provided to special establishments. Also, there is a creative laboratory that teaches all the volunteers how to create tactile toy books.

Contest of Social and Cultural Projects	2007	2008	2009	2010
Number of applications received	35	15	45	37
Number of projects financed	6	6	6	10

Cleanest Community Contest

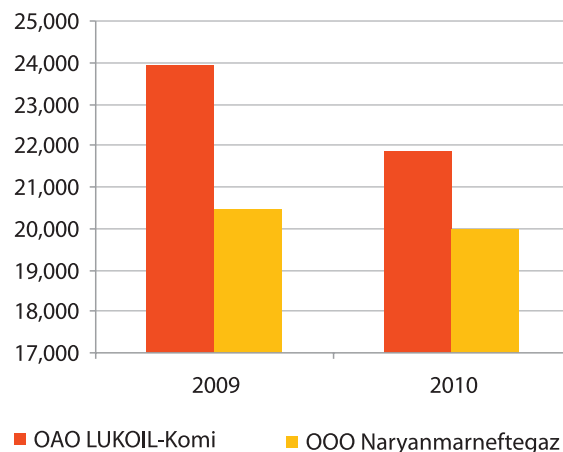
For the first time ever the Cleanest Community Contest was held in the republic. The Contest was won by Nizhniy Odes settlement of Sosnogorsk raion. Experts highly valued the overall condition of the area and quality of drinking water. The grant was utilized for major repair and upgrading of the settlement's sports playground. Next year's Contest was won by Khabarikha rural settlement of Ust-Tsilemsk raion. The decisive factors were cleanliness of streets, yards and rest zones, amount of greenery and the fact that the local school performs constant activities to increase environmental awareness of the children, events are held to clean the Pechora banks. The winner utilized the prize money to construct a sports playground. The other five contest finalists utilized their grants to improve the area of their communities.

Support to Peoples of the North

Cooperation with indigenous small nations of the North was expanded. For example, OOO LUKOIL-Komi followed the effort of OOO Naryanmarneftegaz and made agreements with three reindeer breeding cooperatives. Dwellings were constructed for reindeer breeders; snowmobiles, fuel and food purchased; reindeer were vaccinated, emergency and rescue equipment acquired. The Company's assistance to reindeer breeders included provision of helicopters and payment for the flights, etc. OAO Varandey Terminal helped indigenous people by organizing air transportation.

OOO LUKOIL-Komi continued implementing Red Rawhide project partnering with administration of Zapolyarnyi raion of the NAO and Total. The goal of the project is to improve health of nomads living in Bolshezemelskaya tundra. Reindeer breeders and their families living in the basic settlements of reindeer breeding farms Put Illyicha and Rassvet Severa were inspected by doctors and received treatment. A number of illnesses were identified that are common for a large number of people living in those settlements. Measures were taken to reduce illness rate (for example, a mobile dental surgery was provided). Representatives of Doctors of the World association taught the local people how to provide first aid and use personal first aid kits.

SPONSORING SUPPORT PROGRAMS FOR INDIGENOUS AND SCANTY ETHNICITIES OF THE NORTH (ths RUR)



■ **STRUCTURE OF CHARITY EXPENSES, (%)**



OOO LUKOIL-Komi helped association of Nenets people Yasavey to hold national winter games Kanin Mebeta (Kanin Strongmen) and a conference dedicated to its 20th anniversary.

■ **BIODIVERSITY AND ENVIRONMENTAL INITIATIVES/ACTIVITIES**

Over five years OOO LUKOIL-Komi has been implementing a project for restoration of biological resources of northern rivers (the Pechora, the Kolva and the Synya — republican ichthyological wildlife preserve). Over this time the total of 650 thousand of young fishes of grayling and pollan were released into water bodies. The release of artificially bred young fishes is of great importance for restoration of the river ecosystem.



«Artificial fish seeding helps maintain the appropriate natural balance and preserve traditional industry of the local people in future».

V. Ivanov, Head of OOO LUKOIL-Komi Environmental Protection Team

«The key positive aspect of these activities — is restoration of pollan reserves, i.e. partial restoration of its population. Around 20 percent of the total number of young fishes will go on to grow up. This will take about six years. Given the fact that over the last decade the Pechora river saw reduction of many fish populations tens or even hundreds of times, even a percentage as low as that is of great importance for the population».

S. Shalayev, Deputy Head of Ust-Tsilemsk Department of Federal State Establishment Komirybvod

■ LAND REHABILITATION AND WASTE MANAGEMENT

Over 2009-2010 OOO LUKOIL-Komi rehabilitated 76.8 hectares of formerly contaminated land, while 72.9 hectares of such land was accepted by the republican land management commission.

All the oil slime recycling activities were performed as planned. A total of 75,098.8 cu. m. of oil slime was recycled during the two-year period.

Improving Reliability of Pipelines

The Company acts to improve reliability of its oil transportation system. The measures include repair of pipelines and process equipment, inhibitor protection, corrosion monitoring, diagnostics and inspection of equipment and pipelines. Also, an information and analytical system for operation of field pipelines is being implemented.

Starting from 2000 LUKOIL-Komi replaced more than 1570 km of different diameter pipelines.

In compliance with high corporate standards every year the Company performs preventive maintenance of 200 km of pipelines and inspects all the river pipe subways, up to 3 tns of corrosion inhibitors of different brands is pumped into oil gathering and formation pressure maintenance system, which helps protect more than a thousand of kilometers of pipelines from corrosion.

■ STAKEHOLDER RELATIONS

Upon an initiative by I. Fedorov, Head of NAO Administration subsoil users deliver their presentations where they report the results of their companies activities and prospects, while the public have an opportunity to ask questions. LUKOIL joined the initiative.

OOO LUKOIL-Ukhtaneftepererabotka cooperates on a regular basis with public organization Pechora Saving Committee (Ukhta division) whose goal is to stop pollution of the Ukta river basin. Participants of environmental forums discuss the results of research activities conducted both within the plant area and in other locations across the town and the raion, where oil field and production facilities were previously located. The enterprise reports its environmental activities, while specialized organizations provide the

data obtained from the research conducted upon its assignment. Future plans for observation activities and elimination of pollution sources are thus coordinated.

Within the framework of international workshop entitled Oil Spills — Risk Assessment and Support to Decision Making held on September 23-27, 2009 (Syktyvkar and Usinsk) a foreign delegation representing research organizations of eight NATO member states visited OOO LUKOIL-Komi sites. They had an opportunity to watch training exercises in oil spill emergency response operations, after which they highly valued the readiness of OOO LUKOIL-Komi staff and equipment to possible incidents.

■ PUBLIC RECOGNITION

OOO LUKOIL-Komi won the Contest Russian Company of High Social Performance in the nomination For Involvement in Solving Social Issues of the Regions and Development of Corporate Charity. The Russian State Duma's Federal Assembly Council for issues of sustainable development in Russia awarded OOO LUKOIL-Komi with an honorable diploma For Environmental Education in the Russian Federation.

OOO LUKOIL-Ukhtaneftepererabotka won the contest entitled Best Collective Bargaining Agreement 2009 in the nomination Non Budget Funded Organizations.

OOO Naryanmarneftegaz was listed as a nominee for Elite of National Economy. The list of nominees is created every year by the Foundation for Support to Business Development. The steering committee of the national contest entitled Leaders of Russian Economy recognized the Company as Russia's Best Company — 2010 in Health, Safety, Environment nomination.



KALININGRAD AND LENINGRAD OBLASTS

- OOO LUKOIL-Kaliningradmorneft (LUKOIL-KMN)
- OAO RPK-Vysotsk LUKOIL-II
- OOO LUKOIL-Severo-Zapadnefteprodukt (LUKOIL-SZNP)
- OOO LUKOIL-Integrated Oil Terminal (part of OOO LUKOIL-Trans)

■ ECONOMIC ROLE AND INVESTMENTS



In 2008-2009, an oil-bearing structure was discovered on the Baltic shelf where in 2010 OOO LUKOIL-KMN performed preliminary operations to begin exploration drilling. A unique legged drilling rig Yermak was presented at OOO LUKOIL-KMN's steelwork producing plant.²³ An associated petroleum gas treatment unit was commissioned at the oil gathering station in Romanovo settlement. Thanks to the unit OOO LUKOIL-KMN now can utilize the gas of different pressure, composition and separation stage. The unit represents a green facility that does not emit pollutants or heat. It is characterized by high fire safety for it operates on the basis of water.

WE WERE PIONEERS...

LUKOIL was one of the first companies in the Northwestern Federal Okrug to start selling Euro-4 compliant diesel and gasolines that are fully compliant with EURO-3.

LUKOIL was the first Russian oil trader who opened automatic filling stations in Saint-Petersburg and Petrozavodsk (Republic of Karelia).

²³ For more detail please refer to Section entitled New Production Technologies.



One of the achievements of OAO RPK-Vysotsk LUKOIL II is that it can load different light petroleum products. A special process line was created to avoid their mixing and impurity. In 2010, the pipeline was upgraded and now one of the discharge jetties provides a possibility to transship straight-run gasoline, which is a new type of product for the terminal.

Within the framework of the corporate Program for construction of road-side filling stations in 2010 the

first stage of the filling station at the ring road around Saint-Petersburg began its operations. This was a key milestone for the Company since it was the first ever road-side filling station in the region.



In 2010, retail sales of fuel by OOO LUKOIL-Severo-Zapadnefteproduct achieved a 1 mln tn mark.

Indicators	Total	
OOO LUKOIL-KMN, OOO LUKOIL-SZNP, OAO RPK-Vysotsk LUKOIL II, OOO LUKOIL-Integrated Oil Terminal	2009	2010
Taxes paid (total), mln RUR, including:	4,683 ²⁴	6,884
- RF budget	2,687	3,918
- budgets of RF subjects	1,878	2,862
- local budgets (cumulative figure)	117.6	104
Investments into fixed assets, mln RUR.	2,166	1,461

Source: subsidiaries data

Indicators: OAO RPK-Vysotsk LUKOIL II, OOO LUKOIL-Integrated Oil Terminal	2009	2010
Transshipment of petroleum products, mln tn	14.01	16.1

Source: subsidiaries data

Indicators: OOO LUKOIL-Kaliningradmorneft	2007	2008	2009	2010
Number of fields	27	26	26	26
Oil production, mln tn	1.4	1.4	1.3	1.2
Gas production, mln cu. m	15,346	16,339	16,477	18,915

Source: subsidiaries data

■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

In 2009, LUKOIL and administration of Saint-Petersburg signed minutes to the Social and Economic

Cooperation Agreement for 2008-2012 that sets out key areas of cooperation between the parties.

²⁴ Without export duties of OOO LUKOIL-KMN.

■ SOCIAL INVESTMENTS AND CHARITY

Contest of Social and Cultural Projects

Contest of Social and Cultural Projects has been held in Kaliningrad Oblast since 2008. Over these years the amount of funds available for grants increased five times. Over three years the number of participants doubled. The geography of the Contest expanded: the number of projects from raions of Kaliningrad Oblast doubled. Contestants received educational seminars and consultations concerning requirements to their applications, accounting procedures and preparation of financial statements. For the first time ever performance of the financed projects was evaluated (please refer to Section Company and Society).

Company’s support to volunteer movement has been a success. Within the framework of the contest volunteers implemented a project for restoration of a monument of Soviet soldier A. M. Shevelev Also, children’s volunteer network was created that deals with restoration of monuments and memorials in Kaliningrad Oblast.

For a few consecutive years the All-Russian Society of the Deaf has been using Company’s grants to implement a

project for social adaptation of hard-of-hearing people into everyday life through sports and physical training. Support is provided to promising disabled sportsmen. The Company helps them take part in various international championships and Paralympics where they make it on the podium.

Within the framework of the Contest over 2009-2010 a series of TV programs devoted to environmental issues were broadcast on local TV channels, which was a unique media project. The authors appealed to the public with such issues as pollution of water bodies in Kaliningrad and its Oblast, protection of the seashore, waste recycling, etc. The program entitled Environmental Monitoring drew attention of Kaliningrad population and resulted in a heavy debate among the deputies of the municipal Council.

Within the framework of one of the projects supported by the Contest an educational environmental booklet Your Home was published for kids aged 6-9. This was the first game problem book that provides basic environmental knowledge. The booklet will be used for group lessons at schools, in kindergartens and in the museum of history and arts on the basis of the permanent exposition Natural Treasures of Kaliningrad Oblast.

Contest of Social and Cultural Projects	2008	2009	2010
Number of applications received	52	85	73
Number of projects financed	12	16	19

Sources: RSD 2007-2008, subsidiaries data

■ STRUCTURE OF CHARITY EXPENSES, %



■ ENVIRONMENTAL INITIATIVES/ ACTIVITIES

In November 2010 the Company published the results of continuous satellite monitoring of Kravtsovskoye (D-6) offshore field located in Kaliningrad Oblast. The available data suggests no negative effects from offshore oil production operations on the ecosystem of the southeastern part of the Baltic Sea and sufficiency of LUKOIL's environmental activities.²⁵

- The full overview of the results of environmental monitoring is available on the following websites http://www.lukoil.ru/static_6_5id_2135_.html; http://www.lukoil-kmn.com/monitoring_2009.phtml.

■ SOCIAL AND MARKETING EVENTS

OOO LUKOIL SZNP continued its Holiday Sale promotion (on weekends and national holidays a liter of any fuel costs 50 kopecks cheaper) as well as other promotions (for example, offering a free lunch to motorists at one of the filling stations located on the ring road). Also promotion events were held jointly with a number of trade companies, with a yacht and powerboat center and Audi club.

■ STAKEHOLDER RELATIONS

A briefing with shareholders was held on November 23, 2010 in Kaliningrad.

In the course of environmental monitoring of its operations OOO LUKOIL-KMN closely cooperates with scientific organizations. In particular, environmental monitoring of Kravtsovskoye (D-6) offshore oil field since 2003 has been performed jointly with OOO Morskoye Venchurnoye Byuro, Atlantic department of the P. P. Shirov Institute of Oceanology of the Russian Academy of Sciences (RAN), I. Kant Russian State University (Kaliningrad), Institute of Global Climate and Ecology of the Russian Hydrometeorology and Environmental Monitoring Agency of RAN (Moscow), Vinogradskiy Institute of Microbiology (Moscow), Central Research Institute named after academician Krylov (Saint-Petersburg) and A.P. Karpinsky Russian Geological Research Institute (Saint-Petersburg). OOO SLIK was contracted to perform certain operations within the framework of satellite monitoring of the

the Baltic Sea water area. The monitoring operations related to geological exploration of subsoil in the Baltic Sea (seismic operations) within the license blocks are conducted jointly with AtlantNIRO institute.

WE WERE PIONEERS...

OOO LUKOIL-Severo-Zapadnefteprodukt was the first oil trader in Saint Petersburg to purchase a mobile quality control laboratory.

Consumer Relations

In 2009, the second mobile quality control laboratory of OOO LUKOIL-Severo-Zapadnefteprodukt began its operations. It was presented to the region's oil traders at the workshop held by Petersburg Oil Club.

■ PUBLIC RECOGNITION

Following the results of 2009, LUKOIL was again announced one of the best taxpayers in Saint Petersburg.

OOO LUKOIL-KMN was announced number one enterprise in Russia and Kazakhstan in terms of environmental, energy saving and economic performance. The certificate of public recognition of business performance was awarded by the Independent Environmental Rating Agency (Moscow) and the Center for Sustainable Development and Consumption (Almaty).

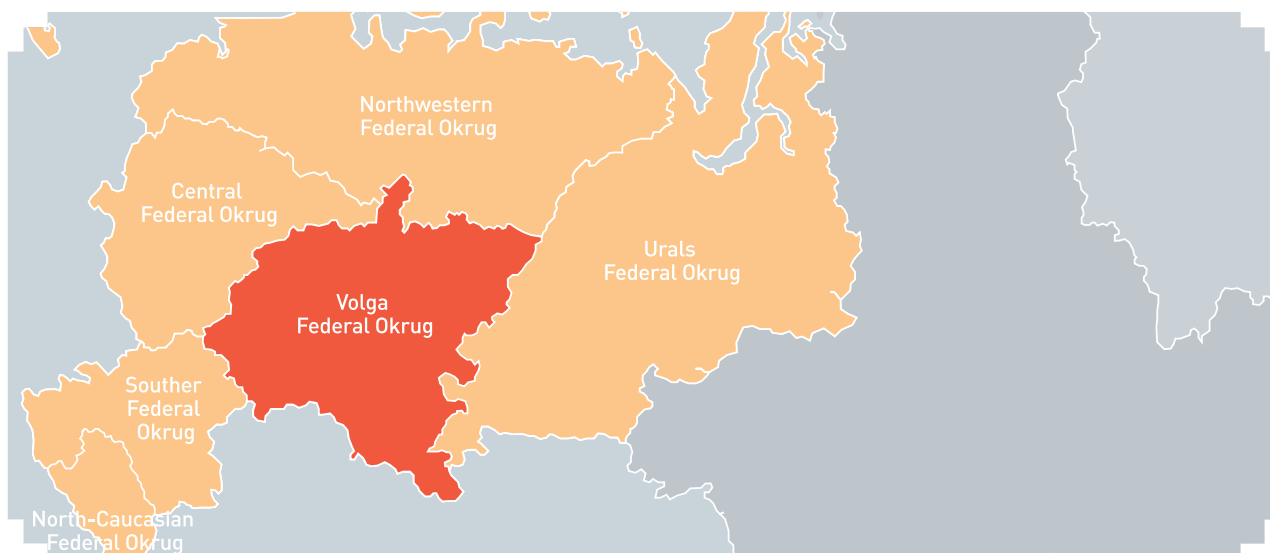
LUKOIL won the Best Filling Station 2009 Contest for implementing an innovative project involving construction of a double purpose water/shore fueling station.

OAO RPK-Vysotsk LUKOIL-II was awarded a diploma of the regional section of the all-Russian contest entitled Russian Corporate Entity of High Social Performance in the nomination For Development of Talent Pool.

²⁵ For more detail please refer to Subsection Industrial Safety .

VOLGA FEDERAL OKRUG


Perm Krai, Nizhniy Novgorod, Kirov, Orenburg, Penza and Saratov Oblasts, Republics of Tatarstan, Bashkortostan, Mari El, Udmurtiya and Chuvashia.



- OOO LUKOIL-Perm
- OGPD TatRITEKneft (including OAO RITEK)
- OOO LUKOIL-Permnefteorgsintez
- OOO Permneftegazpererabotka
- OOO LUKOIL-Permnefteprodukt
- OOO LUKOIL-Nizhegorodnefteorgsintez
- OOO LUKOIL-Volganefteprodukt
- OOO Saratovorgsintez
- OOO LUKOIL-Uralnefteprodukt
- OOO LUKOIL-Nizhnevolzhsknefteprodukt

PERM KRAI

ECONOMIC ROLE AND INVESTMENTS

 OOO LUKOIL-PERM is the largest oil and gas producing enterprise in Perm Krai. It is in top three among LUKOIL Group companies by the key operational indicator (annual oil production). Over the last years OOO LUKOIL-PERM's oil production has been growing steadily. From 2003 till 2009 it grew by 22%. Its annual increase was more than 12 mln tn on average representing 3% per annum.

In the reporting period, the Company continued its effort aimed at increasing oil and gas production. This was accomplished by the use of cutting edge technologies. Some of them were commercialized. Those include radial drilling and casing perforation (please refer to Section How We Work).

One of the key goals of OOO LUKOIL-PERM is to maintain a raw materials base to compensate oil production through the use of new technologies. The Company is continuing to increase its hydrocarbon

reserves by performing exploration operations at 16 license blocks. Following the results of 2010 the increment of reserves fully compensated hydrocarbon production. Further company's development prospects are connected with Visherskoye, Sharapovskoye, Novo-Orlovskoye and other promising blocks. Careful use of subsoil and long-term oil production plans for the Kama region became the basis for development of the exploration and prospecting program. If this program proves to be a success, by 2020 incremental reserves will make up around 160 mln tn and oil production will be compensated every year.

Despite the maturity and structure of the field (68% of reserves are classified as problematic for production), high performance is achieved by numerous innovations. Only in 2010 the use of production enhancement techniques ensured incremental oil production of 3.74 mln tn.

In 2010, OOO LUKOIL-PERM began drilling slim holes. This economical technology will help expand the range of wells drilled at the fields where regular wells show low performance. In addition, it will provide an opportunity to drill small hole wells within existing cluster areas. The technology of simultaneous and separate production of liquid is now being implemented at two operations sites. It is expected to help increase hydrocarbon recovery and reduce field development period by developing two formations simultaneously. It is expected that by 2014 the share of oil production through the use of cutting-edge production enhancement techniques given the carry-over effect will exceed 25% of the total company's production.

In 2010, a 1 bln cu. m mark was achieved for the first time in gas production.

Indicators	Total	
	2009	2010
OOO LUKOIL-PERM, OOO LUKOIL-PNOS, OOO Permneftegazpererabotka, OOO LUKOIL-Permnefteprodukt		
Taxes paid (total), mln RUR, including:		
- RF budget	48,712	62,906
- budgets of RF subjects*	40,430	52,909
- local budgets (cumulative figure)	7,442	9,121
- local budgets (cumulative figure)	840	876
Investments into fixed assets, mln RUR.	14,372	17,242

* In addition to Perm Krai the figure concerning budgets of RF subjects includes other subjects of the Russian Federation.

Source: subsidiaries data

Indicators: OOO LUKOIL-PERM	2007	2008	2009	2010
Number of fields	135	139	134	
Fields commissioned for development			3	3
Oil production, mln tn	11.3	11.6	12	12.5
Gas production, mln cu. m	998.582	968.715	999.682	1,016.590
Stable condensate, ths tn			2.0	3.0

Sources: RSD 2007-2008, subsidiaries data

Indicators: OOO LUKOIL-Permnefteorgsintez	2007	2008	2009	2010
Oil refining, mln tn	11.9	12.5	12.7	13.0

Sources: RSD 2007-2008, subsidiaries data

Indicators: OOO Permneftegazpererabotka	2007	2008	2009	2010
Number of products:	13	13	12	12
Number of new types of products	0	0	1	0
Production of liquefied gas, liquid hydrocarbons, ths tn	822	803	692	1,296

Sources: RSD 2007-2008, subsidiaries data

■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

Since 2005, Perm Krai and OAO LUKOIL have made five-year social and economic cooperation agreements. Over these years joint effort of Krai authorities and the Company was aimed at stronger social sphere in the Kama region and utilization of operational potential of the Company's enterprises. Every year minutes are signed for fulfillment of agreements, teams consisting of representatives of the Company and Krai administration work on industry-specific issues and summarize the results of joint work.

In 2010, a new agreement was signed that provides for development and implementation of a program for supply of gas to the region's settlements: construction of inter-settlement gas pipelines will be funded by the Company and its subsidiaries, while construction of distribution gas pipelines in the settlements and changing municipal boilers to gas-fired operations will be funded from Krai and local budgets.

The tax concession currently existing in the region helps the Company release some funds and keep them in Perm Krai. Such funds are allocated to finance socially important facilities and economic development of its operational assets. Over the last five years as a result of application of a reduced tax rate LUKOIL Group was able to co-finance the construction and reconstruction of a number of social facilities. Region's experience of using a tax concession was highly valued at the federal level.

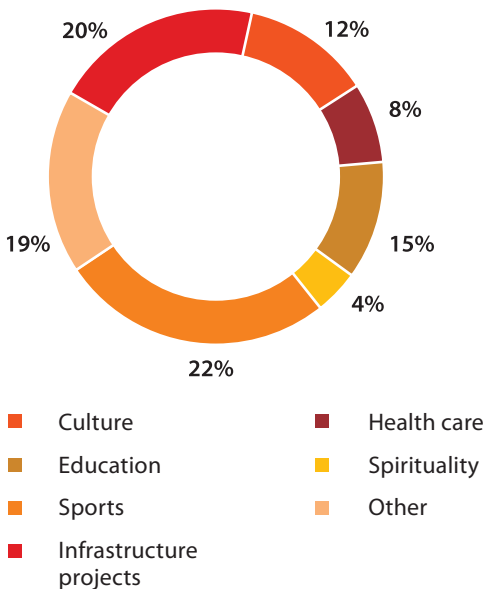
■ TOTAL NUMBER OF FACILITIES OVER 2006-2010 BY AREAS:

SPORTS	24
INFRASTRUCTURE	125
EDUCATION	63
CULTURE	51
HEALTHCARE	26
SPIRITUALITY	25

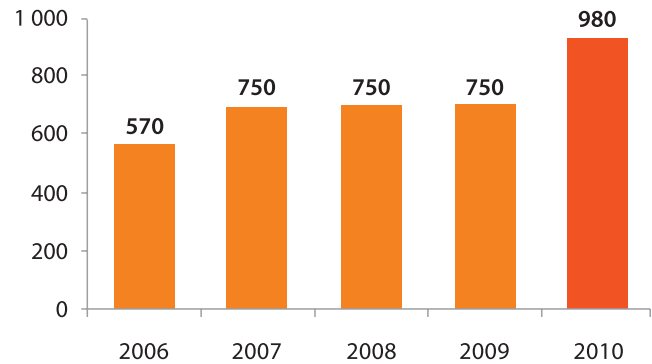
Some activities within the framework of agreements are aimed at increasing investment appeal of Perm Krai, including V Economic Forum entitled Competitive Development Area and IV International Festival entitled Dyagelev Seasons: Perm — Petersburg — Paris, improving customer service in Perm airport.

Italian specialists studied OOO LUKOIL-PERM's experience in the field of social cooperation and highly valued what they saw.

■ COST STRUCTURE OF LUKOIL GROUP'S SUBSIDIARIES IN PERM KRAI AS PART OF 2006-2010 AGREEMENT



■ FUNDS OF LUKOIL GROUP COMPANIES IN PERM KRAI WITHIN THE FRAMEWORK OF SOCIAL INVESTMENT ACTIVITIES IN 2006-2010 — 3,800 mln RUR



■ PRESERVING BIODIVERSITY, ENVIRONMENTAL INITIATIVES/ ACTIVITIES

Region's enterprises make significant contribution into rational utilization of water resources, lower consumption of fresh water, preventing contamination of water bodies.

In 2009, OOO LUKOIL-PERM saved 1 mln cu. m of fresh water from rivers and water bodies of the Kama region which was due to changing the formation pressure maintenance system to utilization of formation water as well as reducing fresh water loss during transportation due to line ruptures.

«LUKOIL is a model of operations excellence in oil industry».

M. Ricceri, General Secretary of the European Institute of Political, Economic, and Social Studies (EURISPES)

«We are planning to change three more fields to utilization of produced water. This will save at least 600 ths cu. m, which will ensure major environmental benefits».

O. Tretyakov, First Deputy General Director-Chief Engineer of OOO LUKOIL-Perm

OOO LUKOIL-Permnefteorgsintez completed reconstruction of water treatment facilities. In 2010 a new discharge header was commissioned to discharge wastewater treated per standards into the Kama river.

Another important issue in the region is the need to recycle the accumulated oily waste. In this connection the construction of oily waste treatment facility is under way in OOO LUKOIL-Permnefteorgsintez. In 2009 its first stage was commissioned.



OOO LUKOIL-PERM completely liquidated temporary storage areas for solid oily waste. This is evidenced by the fact that no such waste remained on the Company's balance sheet in 2009-2010.

Operations near Protected Natural Areas

OOO LUKOIL-PERM operates a number of fields located in the areas adjacent to the natural areas of preferential protection (Nizhnevisherskiy and Kuedinskiy wildlife preserves, areas with potassium salts). To monitor the impact of operations on the components of nature the Company conducts a series of geo-ecological surveys. Within such surveys specialists of OOO PermNIPneft and KGU Analytical Center evaluate the condition of the key elements of nature.

Condition of surface and ground water in Nizhnevisherskiy and Kuedinskiy wildlife preserves is monitored with the highest frequency — seven times a year. Based on the survey results the company develops measures to identify pollution sources as well as a related localization and elimination program.

Departmental biomonitoring (geobotanical survey and soil quality control) activities are performed across the area of all the wildlife preserves (Nizhnevisherskiy, Kuedinskiy, Bereznikovskiy, Sarashevskiy Dubrav) located within the area of license blocks of OOO LUKOIL-PERM oil fields.

Results of the industrial environmental monitoring of the atmospheric air, hydrosphere and soils over the last 2-3 years suggest that no change of biodiversity of ecosystems was driven by oilfield operations, ecosystems are stable, impact on the natural systems is minimal. The content of controlled components in the air, ground and surface water streams and soil is way below the effective maximum permissible concentrations, which indicates stability of the environment.

Environmental Initiatives

Joint events Children and LUKOIL for the Environment and Oil Worker's City — City of Flowers held for many years by OOO LUKOIL-PERM, Krai Employment Agency and administrations of 17 municipalities of the Kama region have become a tradition. In 2009, two hundred thousand flowers, trees and bushes were planted, almost 1 thousand new flowerbeds were laid out, 60 children's and sports playgrounds were built, 28 parks and public garden as well as water bodies were cleared of litter. In 2010, more than one thousand teenagers aged 14-18 were employed within the framework of the program. During the two reporting years the total of more than 7.5 thousand Perm Krai citizens took part in environmental events.

Upon the initiative of OOO LUKOIL-Permnefteorgsintez starting from 2007 children's environmental projects contest Perm — Workshop of the Future has been



held in Industrial raion of Perm supported by the Environmental Department of the Ministry of Natural Resources of Perm Krai and administration of Industrial raion of Perm. Schoolchildren who took part in the contest proposed their ideas. The jury selected the best of them and awarded grants. The implemented projects concerned organization of expeditions into natural areas of preferential protection of the Kama region, cleaning water bodies, improvement of areas of schools and kindergartens, etc.

■ SOCIAL INVESTMENTS AND CHARITY

Contest of Social and Cultural Projects

In 2011, OOO LUKOIL-PERM Contest of Social and Cultural Projects in the Kama region is celebrating its tenth anniversary. Over this period around 2 thousand projects were implemented with the total funding of 200 mln RUR allocated as grants. In addition, much more money was raised from external sources. Over the years of the Contest its geography expanded from 13 to 28 raions, while the amount of funds available for grants increased fourteen times.

Regular financing helped create and maintain around 2 thousand jobs. On average each project involves from 100 to 500 people who become beneficiaries of social services provided free of charge. In 2009-2010, more than 50 thousand people became Contest beneficiaries. A special nomination entitled Teacher of the 21st Century

and dedicated to the Teacher's Year was introduced in the 2010 contest. Ten grants were awarded in this nomination. Twenty two grants were dedicated to the 65th anniversary of the Victory in the Great Patriotic War.

LUKOIL for Children program

In the year of 2009, OOO LUKOIL-PERM just like the entire Russia celebrated the Year of Youth announced by the Russian President. To support this idea the enterprise organized a large-scale project entitled LUKOIL for Children! The project was implemented during the whole year with breakdown by four focus areas to maximize involvement of the children from different social groups. Its key objective was to provide support to the growing generation, assist them in developing their personality and creative skills, attracting attention to socially important issues.

The first focus area is environmental: seventeen raions of the Kama region held environmental events Children and LUKOIL for the Environment and Oil Worker's City — City of Flowers (see above).

Within the framework of celebrating 80th anniversary of first oil production in Perm Krai 12 school buses were provided to educational establishments of the raions of company's operations.

As part of the initiative Drive Cautiously — Children Around!, thousands of Perm Krai's first-graders received

such presents as schoolbags, the ABCs of traffic regulations, baseball caps and other school supplies from the oil professionals.

Finally, the fourth component (New Year present) was represented by a joint event held by OOO LUKOIL-PERM and LUKOIL's Charity Fund. During the event presents were received by more than 1.5 thousand people, including inmates of children's homes and physically challenged children. The event was actively supported by folk groups, people of arts, municipal and raion authorities of the Krai, and the general public. In 2009-2010 the tradition of creative presents was continued. In addition to sweets inmates of children's homes received big figurines of the characters from New Year fairy tales for coloring.

■ SOCIAL INITIATIVES

In 2009, within the framework of annual New year celebration events OOO LUKOIL-PERM in cooperation with LUKOIL's Charity Fund delivered a creative lesson entitled Perm Artists for Children. Professional artists delivered master classes in Osinsk boarding school where they taught the inmates of a children's home to draw with acrylic paints.

In 2009, OOO LUKOIL-PERM supported a social project entitled Safe Ways of the Childhood initiated by the Perm regional department of the Russian public organization Support of President's Programs Concerning Issues of Physically Challenged People. Remedial schools of Perm received stands with information on traffic regulations and guidelines for prevention of injuries on the road.

In 2010, the foundation stone of Friendship Lane was laid during the event supported by LUKOIL Charity

Fund with participation of veterans of labor of LUKOIL's Perm enterprises.

Excursions to the museum of history of OOO LUKOIL-Permnefteorgsintez were organized for inmates of Dobryanka children's home. During the excursions boys and girls had meetings with veterans of the Great Patriotic War.

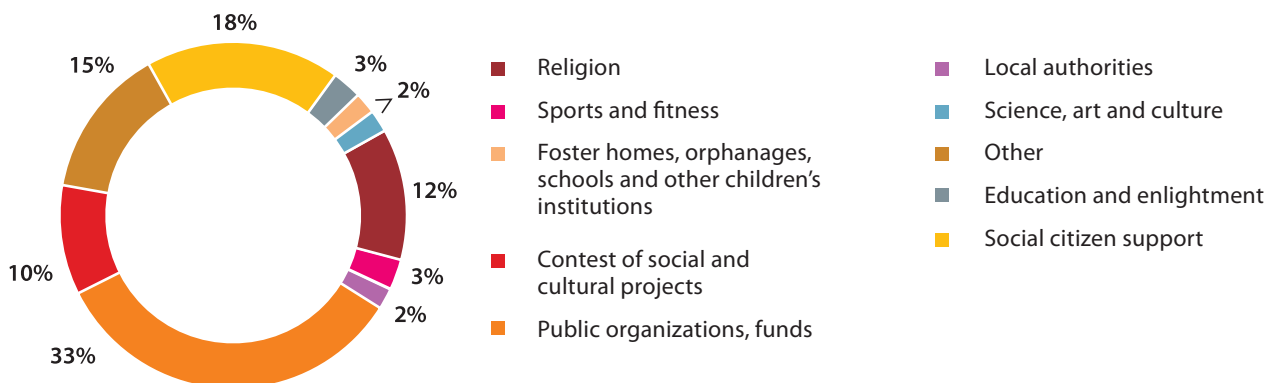
OOO LUKOIL-Perm jointly with Perm's municipal authorities, the Ministry of Culture and Mass Communications of the Government of Perm Krai, and Perm's P.I. Tchaikovsky Academic Opera and Ballet Theater held reporting period a Krai-wide TV creativity contest Success Formula. Children aged 5 to 14 took part in the contest. The youngsters' best numbers were included into a gala concert broadcast on local television.

■ MARKETING EVENTS

OOO LUKOIL-Permnefteprodukt held over 20 marketing events for consumers of its fuel and services. The biggest event (Fill up and Win!) was held in 2009 across all the LUKOIL's filling stations in Perm Krai and Kirov Oblast. During the period of the event retail sales (despite market decline and higher retail prices) made up 9340 tons. More than 370 thousand motorists took part in the event.

In 2010, twelve consumer events were held. The brightest of those were Fill up the Quality and Win; GAZEL for Gas! Buy from Us. LUKOIL; and LUKOIL Gives Warmth. An event entitled Let's Go was held in cooperation with partners (Visa, car sales centers Soyuz and Asmoto Slavia, radio stations Russian Radio, Pilot, Autoradio, and Autodrive newspaper). The main prize of the event was 3 tons of LUKOIL fuel and a car. Also,

■ STRUCTURE OF CHARITY EXPENSES, %



joint events were held with multistore network Il de Bote and network of hypermarkets Karusel. Prizes in the form of energy drinks (Adrenalin Rush, Red Bull, tea or coffee) were given out at the filling stations in Perm Krai and Sverdlovsk Oblast.

■ CONSUMER RELATIONS

Another customer satisfaction survey was conducted among consumers of filling stations. The average score of the Company's filling stations grew in 2009 to make up 4.23 points compared to the 4.18 points recorded during the previous survey. The number of clients who gave top score increased from 31.6% in 2008 to 35.2% in 2009. Motorists specified quality of service and fuel quality as strengths of our filling stations. Most complaints of our clients concerned high prices, non-availability of equipment, external appearance and organization of public services and amenities at the filling stations. Respondents gave lower scores to old design filling stations, while new design stations received higher scores.

Mobile laboratories now operate in Perm Krai to perform real-time quality control of the fuel right at the filling station. Such labs became an additional tier of the fuel quality control system. A mobile lab may come to any site without prior notification. Each LUKOIL filling station is controlled at least once a month. Continuous quality control activities help guarantee that only high-quality fuel is filled to the tank.

Every year a conference and a workshop entitled LUKOIL Fuel Quality: Cooperation Environment is held. Its goal is to improve customer relations and provide detailed information about Company's products. Participants of the workshop represented by existing and prospective clients such as small wholesale

companies and retailers as well as journalists are offered an excursion to the Company's refinery with participation of OOO LUKOIL-Permnefteprodukt, LUKOIL-Permnefteorgsintez, OOO LLK-International and OAO LUKOIL-Inter-Card (LICARD).

■ PUBLIC RECOGNITION

In 2009-2010, OOO LUKOIL-PERM was the winner of the following:

- fifth and sixth All-Russian contest entitled Best Department of Human Resources;
- all-Russian contest Best Russian Enterprises. Dynamics, Performance and Responsibility — 2009 in the nomination For Implementing Energy Saving Technologies and Power-Efficient Operations.

OOO LUKOIL-PERM's collective bargaining agreement won the contest of collective bargaining agreements held by the Trade Union of Russian Oil, Gas and Construction Industries Professionals. The biggest achievement in 2010 is that for the fourth consecutive year the enterprise team was announced the best among all the oil and gas producing LUKOIL Group companies.

In 2009, LUKOIL-Permnefteorgsintez became a prize-winner of the national environmental award EcoMir for its project entitled Perm — Workshop of the Future, while following the results of 2010 it won the all-Russian contest Best Russian Enterprises. Dynamics, Performance and Responsibility in the nomination Environmentally Responsible Business.



NIZHNIY NOVGOROD, SARATOV OBLASTS, REPUBLIC OF BASHKORTOSTAN

■ ECONOMIC ROLE AND INVESTMENTS



LUKOIL enterprises are actively involved in the life of Nizhniy Novgorod Oblast, which was stated in particular by the parties of a dialog held in Nizhniy Novgorod as part of the reporting process (please refer to Section Company and Society). Company's effort is first of all aimed at upgrading its refining and petrochemical operations and development of a petroleum products distribution network.

OOO LUKOIL-Nizhegorodnefteorgsintez is one of the Russia's largest producers of high quality motor fuel, lubricants and hydrocarbon feedstock for petrochemical synthesis. At the end of 2010, the refinery completed one of the major investment projects not only for the Company but also in terms of Russia in general. The project involved construction of a catalytic cracking facility, whose commissioning helped begin production of EURO-4 and EURO-5 compliant gasolines. Chairman of the Russian Government V. Putin attended the facility opening event.

WE WERE PIONEERS...

OOO LUKOIL-Nizhegorodnefteorgsintez constructed and commissioned Russia's first ever reforming unit with continuous generation of catalyst whose purpose is to produce the component for 100 octane gasolines.

Since 2008, the refinery has produced only EURO-3 compliant motor car gasolines, while all the diesel fuel is compliant with EURO-5.

Today the refinery is among the country's leaders by production of high quality paraffin that is widely used in food and automotive industries.

The company completed construction of a unit for gathering, storage and shipping of liquefied hydrocarbon gases and and commissioned it. LUKOIL is planning to invest a lot of money into increasing the depth of oil refining.

In 2010, an absorbing gas fractionating unit was commissioned that is unparalleled for oil and gas industry. Its key purpose is to recover valuable components from process gases to produce motor car fuel and liquefied propane and butane representing a raw material to produce pure hydrogen and alkylate.

During the reporting period the enterprise developed process documentation and launched production of thirteen new types of petroleum products, including liquefied hydrocarbon fuel gases utilized as fuel by households and industrial enterprises, granulated sulfur, propane-propylene and butane-butylene fraction, three types of motor fuels, new types of gasolines, etc.



Nizhniy Novgorod Oblast first ever multifuel filling facility was commissioned in Kstov.²⁶ It is an up-to-date filling station designed in

LUKOIL corporate style that is in line with the highest requirements and standards concerning equipment and HSE norms. Equipment available at the filling station is comparable to that used at the best practice filling stations of the region. A new service station was constructed near rural settlement Gavrilovka on M7 road in Nizhniy Novgorod Oblast. The facility consists of two road-side filling stations located across the road from each other, where they offer a unique for the Oblast range of services: they have a car wash for trucks, a café, tire pumping units, vacuum cleaner, etc. (for example, you can iron your clothes). Plans include opening a tire fitting shop for trucks.

The company completed construction of a fully automated petroleum storage depot in Kstov. It has a system of geothermic pumps and a vapor recovery system.

OOO LUKOIL-Volganefteprodukt began retail sales of EURO-5 compliant diesel in all the regions of its operations.

Indicators	Total	
	2009	2010
Taxes paid (total)	13,933	15,112
including:		
- RF budget	10,306	9 308
- budgets of RF subjects	3,359	5,677
- local budgets (cumulative figure)	268	127
Investments into fixed assets	135,848	11,320

Indicators	OOO LUKOIL-Nizhegorodnefteorgsintez		OOO Saratovorgsintez	
	2009	2010	2009	2010
Oil refining, mln tn	16.1	16.9		
Processed raw materials, ths tn			258.1	235.4
Number of new products	4	9	0	0
Total product types	94	75	3	3

Source: subsidiaries data

²⁶ Please, refer to: LUKOIL's first service station constructed in Nizhniy Novgorod Oblast from scratch over the last five years.

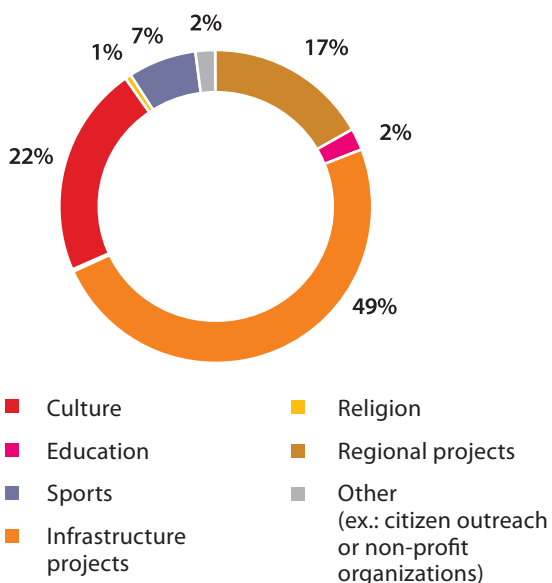
■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

In 2010, LUKOIL signed an agreement with Nizhniy Novgorod Oblast. In particular, the document provides for cooperation in the fields of processing hydrocarbon raw materials, sales of refining products and petrochemicals, manufacturing equipment for the Company's needs in the Oblast, training human resources and involvement in solving employment issues. In autumn-winter season LUKOIL is planning to supply petroleum products to social enterprises and utilities, as well as to entities involved in agricultural production providing a deferred payment scheme against budget guarantees and other liquid security.

To provide quality green fuel for passenger transport in Nizhniy Novgorod Oblast the Company will consider supplying petroleum products at a discount through LUKOIL network of filling stations.

Also, the Company will assist the government in implementing motor road development program by supplying petroleum products and bitumen.

■ SOCIAL INVESTING AS PART OF IMPLEMENTING COOPERATION AGREEMENTS WITH REGIONAL ADMINISTRATIONS



■ ENVIRONMENTAL INITIATIVES/ ACTIVITIES

OOO LUKOIL-Nizhegorodnefteorgsintez continues developing pilot projects focused on industrial environmental monitoring systems that are governed by the requirements set forth in LUKOIL's corporate standards. Construction of an industrial wastewater treatment unit is currently under way. Over the last five years the enterprise has not disposed to landfills its waste, including that containing oil.

Starting from 2010, OOO Saratovorgsintez has had cooperation with Environmental organization OOO Ecoros that includes recycling of waste generated at the enterprise by the currently mothballed operations.

One of the bright developments of high social value was the continuation of environmental project City Colors that is implemented by OOO LUKOIL-Volganefteprodukt in partnership with BAT Russia, this time in the town of Dzerzhinsk. Within the framework of the project greenery was planted in front of the railway terminal with decorative bushes, benches and litterbins.

Another environmental project was implemented in Kstovo by social foundation Good Power with support from LUKOIL-Volganefteprodukt and BAT Russia. The project entitled Green Streets for the City involved planting decorative bushes along the avenue on 40th October Anniversary boulevard and setting up a stone carved monument depicting the emblem of the raion. That was a present for Kstov people when the 80th anniversary of raion was being celebrated. It is expected to contribute into the campaign for planting and restoration of the town's natural environmental balance currently implemented by raion administration in cooperation with LUKOIL Group companies.

■ SOCIAL INVESTMENTS AND CHARITY

Contest of Social and Cultural Projects

Since 2007, Contest of Social and Cultural Projects has been held in Nizhniy Novgorod Oblast. In 2010, the number of applicant companies increased 2.5 times compared to the first year of the contest, while the number of winners was increased four times. The amount of funds available for grants also increased four times. The 2009 contest was held in cooperation with the Administration of the Authorized Representative of the Russian President in Volga Federal Okrug, Oblast Government and Legislative Assembly.

OOO LUKOIL-Volganefteprodukt helps contest participants create more competitive projects. In 2009 the Company supported a workshop for public organizations of Nizhniy Novgorod Oblast entitled Relations with Non-profit Making Organizations and Mass Media when Implementing Projects Involving Grants.

One of the key social projects that has received grants of the contest since 2007 is the project entitled Green Light Road. Over three years the number of its participants increased significantly — by the end of 2010 the project involved three thousand children aged 7-15. The project is focused on drawing public attention to safety on the roads, encouraging participants of road traffic (vehicle owners and pedestrians) to behave in a responsible way while on the road, and at reducing the number of traffic accidents. The project was approved by the Administration of the Authorized Representative of the Russian President in Volga Federal Okrug and by the Legislative Assembly of Nizhniy Novgorod Oblast. As part of expanding project scope in 2010 a traffic regulations learning children's playground was opened in children's summer camp Yunyi Nizhegorodets, and the first episode of animated series Little Traffic Light's Academy was created. The series is dedicated to the road traffic regulations. Later on the series will be available for download from the official website of the State Traffic Safety Inspectorate.

■ SOCIAL EVENTS

Targeted assistance: 2010 summer forest fires

In 2010 a large number of settlements in Nizhniy Novgorod Oblast suffered from forest fires. OOO LUKOIL-Volganefteprodukt helped mitigate the consequences. The funds were allocated to purchase

chainsaws, food for those who were involved in fire fighting, tents etc. Besides, the employees of the subdivision raised money to buy essentials for the residents of the devastated areas.

Helping Volunteer Movement

As part of the charity festival entitled Kind Nizhniy LUKOIL-Volganefteprodukt in cooperation with children from volunteer team Children's Project provided charitable assistance to four children's homes of Nizhniy Novgorod Oblast.

■ MARKETING EVENTS

Petroleum products supply companies held more than thirty marketing events across two Oblasts. The largest events of 2009 were Choose LUKOIL and FIAT is Yours!; Autumn Marathon; Hot New Year. A number of events were held in the company branches. Those included Lucky Monday, Auto Lady LUKOIL and Clean Wintering in Mari branch, Love Your Town — Fill at LUKOIL in Chuvash branch. During the May holidays the company had a draw with expensive prizes available, such as cars and vacation trips to Africa. In 2010, during the May holidays, all the types of fuel sold at OOO LUKOIL-Volganefteprodukt filling stations were offered at a discount price. Following the results of the event First to Get to Berlin that was held at the filling stations of the Vladimir branch motorists received fuel cards. In cooperation with Petrocommerce bank the company held in Nizhniy Novgorod an event entitled Let the Spring In. The main prize of the event was a car, while secondary prizes included GPS navigators and LUKOIL branded fuel.

In the regions there is a customer award program under which clients receive discounts and additional privi-

■ STRUCTURE OF CHARITY EXPENSES, %



leges by scoring points that are taken into account when they pay at filling stations. In the course of the events award program participants score additional points. Events were held in cooperation with such partners as Sollers, Coca-Cola, Sberbank, Rosgosstrakh etc.

OOO LUKOIL-Uralnefteprodukt held a number of events focused on promotion of LUKOIL products and granting discounts to the customers. Those included Excellent Discount; Holiday Discount; Fill up Cheaper at Night. Joint events were held with Rosgosstrakh (upon purchasing a Rosgosstrakh insurance policy the client also received LUKOIL's Award Program card as a bonus), hypermarket Karusel (when purchasing goods at the stores of the network the client received a flyer for free fuel at the filling stations). In addition, as a 2010 New Year present motorists received souvenirs, while in December a social marathon was held during which 1% of the amount paid for the purchase of company branded EURO or ECTO fuel was allocated to children who needed urgent medical treatment.

■ STAKEHOLDER RELATIONS

In connection with commissioning of a catalytic cracking facility OOO LUKOIL-Nizhegorodnefteorgsintez held public hearings. The Company obtained all the permits as required per environmental law.

Russian Agency for Health and Consumer Rights Rospotrebnadzor for Nizhniy Novgorod Oblast issued a sanitary and epidemiological opinion confirming that the facility's impact on air, soil, surface and ground water bodies was within permitted limits.

■ PUBLIC RECOGNITION

Following the results of 2008, 2009 and 2010 OOO LUKOIL-Nizhegorodnefteorgsintez was announced a winner of the Energy Cooperation Contest in the nomination Major Industrial Enterprises.

Following the results of the second stage of LUKOIL's contest entitled Environmental Protection, OOO LUKOIL-Nizhegorodnefteorgsintez was announced the winner in the nomination Oil Refining Enterprises.

OOO LUKOIL-Nizhegorodnefteorgsintez was second in the 2009 Oblast-wide labor safety contest among industry, transport, communications and construction companies.

In 2009, OOO LUKOIL-Nizhegorodnefteorgsintez was awarded a Commendation for Weighty Contribution to Economy of Nizhniy Novgorod Oblast and Russia, Timely Payment of Taxes, Dues and Other Duties to Budgets of All the Levels.



Following the results of 2009 LUKOIL-Nizhegorodnefteorgsintez was announced the winner of the contest entitled Best LUKOIL Group Company in Oil and Gas Refining and Petrochemicals Business.

The government of Nizhny Novgorod Oblast and the ministry of social policy awarded a letter of commendation to LUKOIL-Nizhegorodnefteorgsintez for its great effort in creating safe occupational environment and for participation in the 2009 Oblast-wide contest for the best enterprise in the field of occupational safety.

LUKOIL-Nizhegorodnefteorgsintez won the contest Region's Innovation — 2010 in the Industry nomination for its project Construction of Catalytic Cracking Facility.

In 2009, LUKOIL-Volganefteprodukt was awarded a special prize For Stability and Creative Approach to

Development of Charity Traditions at the event entitled Nizhny Novgorod Charity Seasons — 2008. This diploma was awarded to LUKOIL for its systemic approach to development of contest-based mechanisms used to distribute funding for social projects.


In 2010 LUKOIL-Volganefteprodukt won the Nizhny Novgorod regional stage of the annual contest entitled Russian Company of High Social Performance in the nomination For Involvement in Solving Social Challenges of the Regions and Development of Corporate Charity.

Also, the company was awarded a diploma issued by the governor of Nizhny Novgorod Oblast V. P. Shantsev and won the nomination Best Company — Organizer of Teenager Labor Teams in the Oblast-wide contest entitled Best Teenage Labor Team — 2010.



REPUBLIC OF TATARSTAN

■ ECONOMIC ROLE AND INVESTMENTS

 In the Republic of Tatarstan the Company has a subsidiary OAO RITEK — TatRITEKneft oil and gas production department. OAO RITEK also acts as subsoil user in the Republic of Tatarstan developing mature and new oil fields.

At the end of 2009, using cutting-edge seismic and geophysical prospecting technologies the LUKOIL's

subsidiary achieved a new level of knowledge of the Kama region in the Republic of Tatarstan — Timerovskoye field was discovered. In 2010 the company discovered Olginskoye field. The total area of the license block where TatRITEKneft OGPD has operations is around 5 ths sq. km covering 12 administrative raions of the Republic of Tatarstan (Aksubayevo, Novoshemshinsk, Cheremshan, Tukayevo, Agryz, Mendeleyevsk, Menzelinsk, Aktanysh, Muslyumovo, Sarmanovo, Mamadysh and Chistopol raions).

In the reporting period construction of an underwater oil pipeline was completed using a directional drilling technique. The pipeline crosses Kama water storage basin that connects Timerovskoye and Menzelinskoye fields. The new oil pipeline will help operate rich Timerovskoye field on a year-round basis rather than only during a navigation season as it was the case before.

Company's success in Tatarstan is largely conditioned by its innovation component. Today the experience and practice of OAO RITEK help them tackle the most difficult process-related challenges. One of the key challenges is to recover high-viscosity oil that is in abundance in Tatarstan.

OAO RITEK specialists developed a unique method — treatment of formation with steam and gas — which won the 2007 contest held by the Federal Agency for Science and Innovations.

A three-year program resulted in development of a downhole steam-gas generator fired by monopropellant that has already passed acceptance tests performed by state supervisory agencies. In 2010, equipment was upgraded. The results achieved by the company are currently unprecedented in the global practice and are highly valued by the leaders of the Republic of Tatarstan and Federal Agency for Science and Innovations.

Since the beginning of OGPD TatRITEKneft operations in the Republic of Tatarstan more than 7 mln tn of oil

was produced. In 2010 only, oil production made up 815 ths tn. In 2009-2010, the production based on innovation techniques accounted for more than 50% in total OAO RITEK production.

The company is a major taxpayer to both the federal budget and the budgets of subjects of the Russian Federation. Over the reporting period, OAO RITEK daily tax payments increased from 19.3 mln RUR in 2009 to 61.9 mln RUR in 2010. (Significant increase of the Company's figures and expansion of its geographical presence were due to reorganization of OAO RITEK through accession of OAO LUKOIL-Volgohradneftegaz).

■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

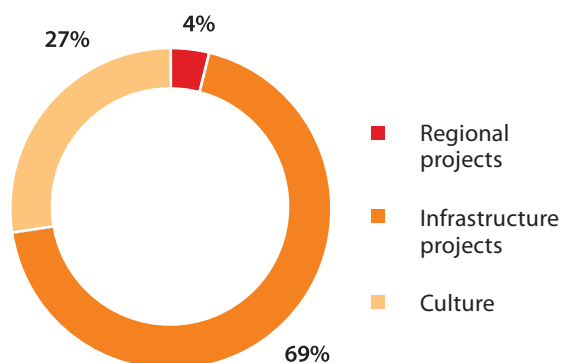
In 2010 LUKOIL and the Government of the Tatarstan Republic entered into an agreement. In line with the document, the parties will cooperate in geological exploration, hydrocarbon production and processing, petroleum products marketing system development, and industrial and social infrastructure development. Among other things, the Agreement provides for the supply to wholesale and retail markets of the Tatarstan Republic by LUKOIL's subsidiaries, as well as the construction of new and reconstruction of the operating fuel stations. TATNEFT is acting for the Government of Tatarstan, while RITEK is representing LUKOIL to implement the Agreement.

Indicators: OGPD TatRITEKneft OAO RITEK	2009	2010
Fields currently under development	12	14
Fields commissioned for development	0	2
Oil production, including gas condensate, mln tn	0.814	0.815
Gas production, mln cu. m	3,367	6,452

Indicators: OGPD TatRITEKneft	2009	2010
Taxes paid (total), mln RUR, including:	2,029	2,720
- RF budget	1,730	2,505
- budget of RF subject (Republic of Tatarstan)	292	207
- local budgets	7	8
Investments into fixed assets, mln RUR.	1,198.7	1,236.9

Source: enterprise data

■ SOCIAL INVESTING AS PART OF IMPLEMENTING COOPERATION AGREEMENTS WITH REGIONAL ADMINISTRATIONS



■ SOCIAL INVESTMENTS AND CHARITY

Contest of Social and Cultural Projects

In 2010, the first Contest of Social and Cultural Projects was held in the Republic of Tatarstan. The initiative raised great interest and obtained support among the local community. It proved to be a key milestone in the professional activities of the companies that took part in the contest. Implementing urgent social projects in the region, including provision of grants to civil initiatives, has always been and still is a priority for OAO RITEK. The total of more than 600 projects joined the contest. As a result 57 of them received funding from 300 to 500 ths RUR.

The grants were used by the non profit making organizations to hold events dedicated to the 65th anniversary of the Victory in the Great Patriotic War contributing into patriotic education and glorifying the feat of arms of the Great Patriotic War veterans. A center of military patriotic education was created on the basis of Kazan military boarding school No. 6. The goal of the center is to develop a system for interaction between local self-government authorities and public organizations to promote young people's civic awareness and patriotism and prepare them to serve in the army. In addition, medical establishments of the republic now have an opportunity to optimize their activities in the field of early comprehensive aid and social adaptation of handicapped children and physically challenged people. Social service establishments were able to implement their projects aimed at improving physical, social and psychological wellbeing of elderly and lone people, developing the out patient treatment system.

In 2010, the company signed a Memorandum of Understanding whereby LUKOIL agreed to partake in socially important projects focused on restoration of monuments of history and culture of the old town of Bulgar and the town island of Sviyazhsk in the Republic of Tatarstan. The project period is three years with the total donation amount of 45 mln RUR.

While being actively involved in the life of the republic, OAO RITEK addressed such an important program as social mortgages. Last year the Company provided 65 mln RUR to implement this program, while the plan for 2011 is to allocate another 70 mln RUR.

URALS FEDERAL OKRUG

Sverdlovsk, Tyumen and Chelyabinsk Oblasts, Khanty-Mansi and Yamal-Nenets Autonomous Okrugs



- OOO LUKOIL-West Siberia
- OAO RITEK
- OOO LUKOIL-Uralnefteprodukt
- OOO LUKOIL-Permnefteprodukt
- OOO LUKOIL-Severo-Zapadnefteprodukt

ECONOMIC ROLE AND INVESTMENTS

A OOO LUKOIL-West Siberia — is the largest subsidiary of the Oil Company «LUKOIL» and one of the biggest oil and gas producing enterprises in the Khanty-Mansi and Yamal-Nenets Autonomous Okrugs. The Company’s activities include a whole range of oil businesses from exploration to marketing of finished products.

OOO LUKOIL-West Siberia completed construction of its internal power generation facilities at Tevlinsk-Russinsk field, and a compressor station and a 13 km long gas pipeline at Severo-Pokachev field. Commissioning of these sites will result in an annual reduction in atmospheric emissions of 7.4 ths tn a year.

WE WERE PIONEERS...

OOO LUKOIL-West Siberia was one of the first in Russia to be awarded a certificate of conformity in mine-surveying.

The first ever private Core and Formation Fluid Research Center was built in West Siberia.

OAo RITEK is the key innovation center implementing new technologies in production enhancement and oil production stimulation, utilization of associated petroleum gas, and development of new materials (please refer to Section How We Work). The Company has been successfully addressing economic issues that are important in terms of the Russian regions' sustainable development. Here belong restoration of the idling well stock at oil fields, production of oil using innovative oil production stimulation techniques; development of low-extractability reserves; designing, production and introduction of new technologies and chemicals, up-to-date oil production machinery and equipment. In 2009-2010, the innovative production accounted for over 65% of OAO RITEK's overall production.

A telemechanics system of Serginsk Licensed Block was launched in the reporting period, enabling real-time management and monitoring of producers and formation pressure maintenance system; another launched item was the automated management system for merchantable oil delivery and acceptance points with an up-to-date degree of automation that meets the safety requirements for trunk oil pipelines of OAO AK Transneft.

The most progress during the reporting period was made by OAO RITEK in utilization of associated

petroleum gas: it launched a unique system of measurements of associated petroleum gas, and created a facility to separate gas from dropping fluid.

■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

The Company has entered into agreements with the authorities of the Yamal-Nenets Autonomous Okrug, Khanty-Mansi Autonomous Okrug and the government of Sverdlovsk Oblast. For the time being there are seven subsoil use and economic development agreements currently in effect made by and between OOO LUKOIL-West Siberia and six districts of the Khanty-Mansi Autonomous Okrug and two districts of the Yamal-Nenets Autonomous Okrug.

Pursuant to the aforementioned agreements the Company allocated funds for construction and renovation of a number of community and housing facilities in Tazovsky and Purovsky raions, in particular, constructed a four-apartment complex in the settlement of Nakhodka, houses for indigenous population, and a administrative and amenity building in Purovsky state farm.

Indicators	Total	
	2009	2010
OOO LUKOIL-West Siberia, OAO RITEK		
Taxes paid (total), mln RUR, including:	147,644	202,367
- RF budget	127,415	180,793
- budgets of RF subjects	14,720	19,948
- local budgets (cumulative figure)	5,509	1,626
Investments into fixed assets	57,535	57,419

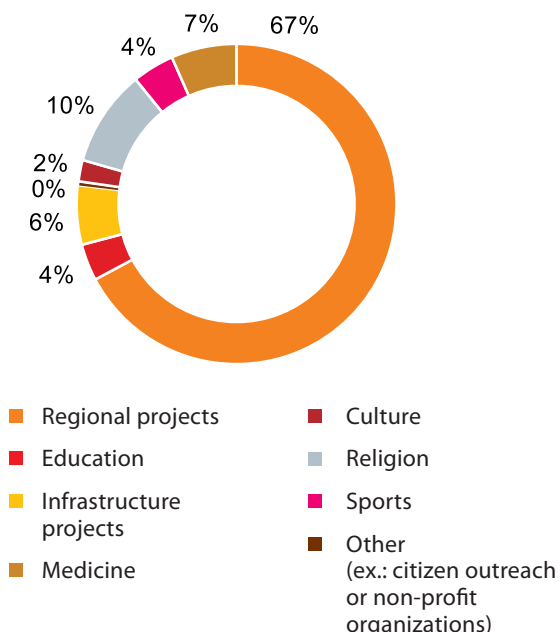
Source: subsidiaries data

Indicators	OOO LUKOIL-West Siberia		OAO RITEK	
	2009	2010	2009	2010
Number of fields	55	57	25	77
Number of new fields brought into development	2	3	1	1
Oil production, ²⁷ mln tn	48	46	2.1	2.0
Gas production, mln cu. m	9,456.689	12,259.799	122.962	109.221

Source: subsidiaries data

²⁷ Including gas condensate.

SOCIAL INVESTING AS PART OF IMPLEMENTING COOPERATION AGREEMENTS WITH REGIONAL ADMINISTRATIONS



of cultural and historic legacy of the Russian people, more active promotion of sports amongst the younger generation and veterans.

For instance, one of the last year’s most topical projects was the Teenager — Youth Business Incubator Craftsmanship Firm intended to teach teenagers the basics of entrepreneurship (Langepas). Another project Harmony of Soul (Langepas) was about teaching physically challenged children from the Anastasia rehabilitation center how to cultivate garden, horticultural and indoor plants and make souvenirs out of them, using an innovative teaching method. A greenhouse was specifically built to this end and kids are able to freely enter it and work in it in their wheelchairs. A sewing workshop opened in Urai where disabled individuals may adapt themselves to the up-to-date market conditions through professional training and employment. The grant will also be spent on the family theaters festival (Kogalym) and nenets kin festival (Tazovsky settlement, Yamal-Nenets Autonomous Okrug).

SOCIAL INVESTMENTS AND CHARITY

Social Project Contest

Starting 2005, LUKOIL-West Siberia has been holding its Social Project Contest Strategy of Success. The overall number of applications filed over the six years of the contest’s existence approximates to 500, and over 100 projects received funding and were successfully implemented. The number of applications being filed grew twice vs. the first year, and the number of projects funded increased 2.5 times. The grant fund grew 2.5 times.

Winning projects focus on social adaptation of disabled individuals, promote family values, access to national traditions, due regard for the nature, preservation

Support of Indigenous and Scanty Ethnicities of the North

OOO LUKOIL-West Siberia has entered into 151 economic agreements with indigenous northern nations in 34 territories of traditional nature management in the Khanty-Mansi AO — Yugra; the overall number of individuals covered by the foregoing agreements is 656, out of which 228 are

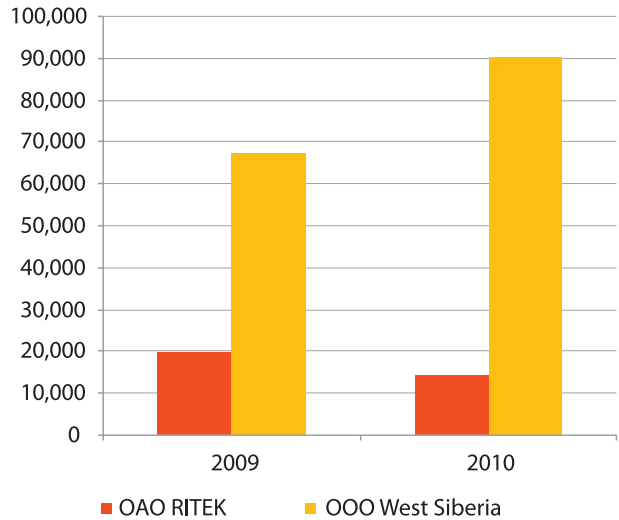
Contest of Social and Cultural Projects	2007	2008	2009	2010
Number of applications received	73	61	99	89
Number of projects financed	16	17	22	23

Source: subsidiaries data

children. In conjunction with the district authorities the Company constructs educational establishments in nomad camps, purchases the required equipment and all-terrain vehicles, fuels, lubes and construction materials, coveralls, tools, communication equipment and mobile power plants. Improvement of relations between the Company and the indigenous populations are on the agenda of meetings between its management and representatives of the Assembly of Indigenous and Scanty Northern Nations, heads of municipalities and the indigenous residents themselves.

Over the reporting period the Company rendered assistance in holding such national festivities as the Crow's Day and the Reindeer Breeder's Day in Trom-Agan, Tazovsky settlements, Russkinskaya village and Kogalym. The Company entered into a cooperation agreement with the organization Salvation of Yugra, and the Association Yamal for Descendants.

SPONSORING SUPPORT PROGRAMS FOR INDIGENOUS AND SCANTY ETHNICITIES OF THE NORTH (ths RUR)



STRUCTURE OF CHARITY EXPENSES, %



Note: Including the Republic of Tatarstan ²⁸

OAO RITEK has been also implementing its target tribal land owner programs. To preserve and promote the traditional lifestyles of the Khanty, Mansi, and Nenets it entered into cooperation agreements with the authorities in the areas of its production activities. The Company also entered into 60 agreements with tribal land owners that define the terms and conditions whereupon areas of traditional nature management activities must be used and establish compensation for restrictions of economic activities that the natives may be subject to. The foregoing agreements provide for financial reimbursement of tribal land owners for use of their land lots, and acquisition of all-terrain

vehicles, fuels, coveralls, construction materials and tools, communication equipment and mobile power plants, payments for medical services, etc, at the cost of the Company.

ENVIRONMENTAL INITIATIVES/ACTIVITIES

Considering the fact that West Siberia is one of the oldest oil producing regions, mitigation of the environmental load is not only a matter of social concern, but is also of economic importance. Key measures include

²⁸ Because consolidated charity data are available for OAO RITEK.



atmospheric protection, waste disposal, reclamation of oil-contaminated land and promotion of measures that render pipeline failures less probable.

One of the most critical water protection goals achieved by OOO LUKOIL-West Siberia is reduction of water consumption from natural sources, while some enterprises have given up on it completely.

Another important task is to reduce atmospheric emissions. The key area of investments i.e. upgrading and construction of facilities that increase the degree of utilization of associated petroleum gas (please refer to Section Energy and Society). It is only in 2009, that OOO LUKOIL-West Siberia managed to reduce its emissions by 40%.

There is ongoing construction and reconstruction of waste placement sites for subsequent processing of waste, the landfill within the Severo-Danilovsky Licensed Block is being expanded, construction of an industrial waste landfill at Vatyegan field has begun. Contaminated areas have been shrinking: over the two years 17.2 ha of remediated land was handed over to the state committee (in 2009).

■ STAKEHOLDER RELATIONS

In 2009, representatives of OOO LUKOIL-West Siberia held public hearings on the Yamal peninsula. Indigenous population of Yamal was involved in discussion of OOO LUKOIL-West Siberia's pipeline system project that provides for transportation of liquid hydrocarbons

and gas from the Bolshekhetskaya Depression fields. The project received the approval of the indigenous population.

■ PUBLIC RECOGNITION

OOO LUKOIL-West Siberia's 2009-2013 Environmental Safety Program won the first place prize in the Best Environmental Program category of the contest organized by Rostekhnadzor's Interregional Territorial Division of Technological and Environmental Supervision in the Urals Federal Okrug.

In 2009, OOO LUKOIL-West Siberia was announced the winner of the All-Okrug contest Environmentally Friendliest Enterprise of the Khanty-Mansi Autonomous Okrug — Yugra.

It is not once that the enterprise became the winner of the youth relations contest and the Okrug-wide contest Yugra's Business Leader. For its corporate website OOO LUKOIL-West Siberia was awarded the grand prize of the national corporate media resources contest Silver Threads.

The collective bargaining agreement of the West Siberian oil industry workers was for a number of times recognized the best amongst the Russian oil and gas enterprises.


CENTRAL FEDERAL OKRUG

Moscow, Tver, Smolensk, Bryansk, Lipetsk, Tula, Kaluga, Belgorod, Vladimir, Voronezh, Yaroslavl and Ryazan Oblasts



- OOO LUKOIL-Tsentrnefteprodukt
- OAO RITEK
- OOO LUKOIL-Nizhnevolzhsknefteprodukt
- OOO LUKOIL-Volganefteprodukt

ECONOMIC ROLE AND INVESTMENTS

 OOO LUKOIL-Tsentrnefteprodukt established back in 2002, combines the sales assets of OAO LUKOIL operating in Moscow and Moscow, Tver, Smolensk, Bryansk, Lipetsk, Tula, Kaluga and Ryazan Oblasts.

In 2009-2010 OOO LUKOIL-Tsentrnefteprodukt continued to implement its highway filling station network development program. New filling stations were put into operation on the busiest roads of federal significance offering the maximum possible range of services to motorists. The overall number of new filling stations put into operation in 2009-2010 totaled 16, and 50 filling stations were upgraded. The Company expanded its network of filling stations that offer improved quality gasolines and diesel fuel. It has introduced and has been successfully operating its

integrated information system covering all petroleum storage depots and the entire retail network of the Company.

ENVIRONMENTAL INITIATIVES

The Company launched a system of bottom loading of tank trucks with petroleum products at its petroleum storage depot in the town of Sfrino (Moscow Oblast). Utilization of this new technology rules out any possibility of ignition, spill or contamination of fuel, and substantially improves the environment surrounding the depot. The filler cap remains closed at the time of tank truck loading, all hydrocarbonate vapor being displaced is diverted into special tanks where it is subsequently disposed of, which enables one to reduce harmful atmospheric emissions by 95%.

«OOO LUKOIL-Tsentrnefteprodukt has been introducing state-of-the-art technologies to ensure the appropriate quality of petroleum products and reduce the adverse environmental impact of its operations. A system of bottom loading of tank trucks similar to that operated at the petroleum storage depot in Sofrino, will be put into operation in 2011 at the Company's petroleum product depot in Solnechnogorsk».

I. Fomin, Director General of OOO LUKOIL-Tsentrnefteprodukt

The automated loading system makes it possible to get real-time information on the volumes of fuel being loaded, and sensors installed inside tank trucks rule out a possibility of the tank truck's overfilling. Application of the aforementioned system is mandatory in the US and in a number of European countries.

In November 2010, in the town of Sofrino, Moscow Oblast, LUKOIL conducted training exercises on bomb disposal and response to terrorist attacks on petroleum storage depots (conditional spill of petroleum products and a threat of their inflammation). The exercises revealed that LUKOIL and all relevant law enforcement, rescue and emergency units and services have sufficient capabilities to prevent and eliminate the effects of terrorist attacks on petroleum products supply facilities.

■ SOCIAL AND MARKETING EVENTS

In 2009-2010, OOO LUKOIL-Tsentrnefteprodukt had regular Lucky Weekend promotional offers: each weekend all of the Company's filling stations offered special retail prices for all types of fuel (50 kopecks

cheaper than on weekdays). There were some other promotional events offering discounts to motorists on various conditions, particularly the Victory Day offer running on May 9, 2009 and 2010, under which all types of petroleum products were 9% off vs. the retail price existing as of the date of sale.

In 2009-2010, OOO LUKOIL-Tsentrnefteprodukt took part in promotional events held by the leading automobile media and Moscow's largest automobile dealers. Such joint events were attended by representatives of Land Rover, Volkswagen, Avtomir and Za rulem magazines and others.

■ PUBLIC RECOGNITION

Filling station No. 443 of OOO LUKOIL-Tsentrnefteprodukt located on the 150th kilometer of the Moscow — St. Petersburg highway in Emmaus settlement was awarded the Tver Oblast's Best filling station title.

The Department of Nature Management and Environmental Protection recognized the efficiency of the system of double motor fuel quality checks used by the Company.








■ STRUCTURE OF CHARITY EXPENSES, %



SOUTHER FEDERAL OKRUG

Volgograd, Astrakhan, Rostov Oblasts, Krasnodar and Stavropol Krai,²⁹ and the Republic of Kalmykia



-  OOO LUKOIL-Nizhnevolzhskneft
-  OOO LUKOIL-Volgogradneftepererabotka
-  OOO Stavrolen
-  OOO LUKOIL-Korobkovsky GPZ
-  OOO LUKOIL-Nizhnevolzhsknefteprodukt
-  OOO LUKOIL-Yugnefteprodukt
-  TPP Vogogradneftegaz and OAO RITEK

ECONOMIC ROLE AND INVESTMENTS

LUKOIL is the largest investor into the Southern Federal Okrug's economy. The Company is expected to invest about 3 bln USD within next five years. The funding will be allocated for further exploration in the left-bank raions of Volgograd Oblast, complete upgrading and construction of the Volgograd refinery, which will make it possible by 2015 to turn it into Russia's top performer. The enterprise will be capable of refining 12 mln tn of crude a year, and its conversion efficiency will exceed 93%, while power consumption will be reduced by

20% and the quality of motor fuels will meet the EURO-5 requirements. Expected upgrading of the power generation facilities will make it possible to reduce the cost of heat, including for individuals, and will ensure uninterrupted supply of heat to the locals.



The most notable event taking place in the Southern Federal Okrug during the reporting period was the commissioning of the first hydrocarbon field in the Russian Caspian sector. The

²⁹ Since 2010 Stavropol Krai is the part of The North Caucasus Federal Okrug

ceremony to mark the first production of Russian Caspian crude taking place at Yu. Korchagina field was attended by the Russian Prime Minister V. Putin. October 2010 saw the first offshore loading of crude from the floater to the tanker that delivered it to Makhachkala. Further on the first pipeline run was delivered to the port of Novorossiysk through OAO Transneft's pipeline system. Thus, the Caspian oil process chain closed up i.e. all of the Yu. Korchagina facilities are now a part of the production process.

«In the light of the existing economic situation the Company ... is hopeful that the state will render its support to projects that provide for creation of new jobs. Such projects, in particular, include development of the Northern Caspian fields, which will create more than 7 ths jobs».

V. Alekperov, President of LUKOIL

In 2009, OOO LUKOIL-Nizhnevolzhskneft drilled its exploratory and appraisal well Rakushechnaya No.5 at Filanovsky field which confirmed the presence of hydrocarbons accumulations.³⁰ Testing of the exploratory and appraisal well Astrakhanskaya No. 2 located within the Poimenny Licensed Block also turned out to be a success. The well produced commercial gas and condensate into the well bore and was subsequently abandoned.

OOO LUKOIL-Korobkovsky Gazopererabatyvayushchiy zavod (Korobkovsky Gas Processing Plant) (LUKOIL-KGPZ) was spun off as part of the organizational restructuring taking place during the reporting period. The plant is designed to process petroleum gas from the fields located in Zhirnovsky, Kotovsky and Frolovsky raions of Volgograd Oblast and natural gas liquids (NGL) from its own production facilities, as well as gas supplied by TPP Volgogradneftegaz, OAO RITEK (former OOO LUKOIL-Volgogradneftegaz) and OOO LUKOIL-West Siberia. The plant outputs three types of high quality products (liquefied gases, stable gas condensate and stripped dry gas) that have a vast number of applications.



In 2010, the plant did a great deal of work to register its natural stable gasoline for conformance to the requirements of REACH governing circulation of chemicals in the European Union. The plant continued to implement its 2006-2010 KGPZ Technical Re-equipment Program.

In 2010, OAO RITEK was subject to reorganization and merged with OOO LUKOIL-Volgogradneftegaz. In September 2010, TPP Volgogradneftegaz, being a branch of OAO RITEK, was set up in Volgograd. One of the primary goals of reorganization is to expand the scope of application of OAO RITEK's innovation techniques in the region. Considering the fact that oil has been produced in Volgograd Oblast for half a century, to maintain the oil production balance of the oblast and expand it, one needs to ensure a broad application of innovative field development and construction techniques, which are expected to cause OAO RITEK to expand the scope of its operations to include Volgograd Oblast.



The key event taking place at OOO Stavrolen was the output of new polypropylene brands. OOO LUKOIL-Volgogradneftepererabotka, having commissioned its new production facilities, also began the production of 12 new products.



³⁰ V. Filanovsky field (discovered in 2005) is the largest field discovered in Russia over the last 25 years. According to the Company's plans its development project will span the years 2011 to 2015.

Indicators: OOO LUKOIL-Nizhnevolzhskneft, OOO LUKOIL-Volgogradneftegaz, *OOO LUKOIL-Volgogradneftepererabotka, OOO Stavrolen, OOO LUKOIL-Korobkovsky GPZ, OOO LUKOIL-Nizhnevolzhsknefteprodukt, OOO LUKOIL-Yugnefteprodukt	2009*	2010
Taxes paid (total), mln RUR	23,985	17,324
including:		
- RF budget	9907	2117
- budgets of RF subjects	13,087	16,704
- local budgets (cumulative figure)	329	340
Investments into fixed assets, mln RUR.	26,384	18,373

Source: subsidiaries data

* 2009 data include data on OOO LUKOIL-Volgogradneftegaz.

Indicators	OOO LUKOIL- Nizhnevolzhskneft		OOO LUKOIL- Volgogradneftegaz (TPP Volgogradneftegaz)	
	2009	2010	2009	2010
Number of fields	0	1	59	58
Number of new fields brought into development	0	1	0	0
Oil production, mln tn (Associated and natural)	0	0.055	2.8	2.9
gas production, mln cu. m	0	8.272	447.247	625.053

Source: subsidiaries data

Indicators	OOO LUKOIL-Volgogradneftepererabotka	
	2009	2010
Oil refining, mln tn	11.3	11.0
Output of motor gasolines, ths tn	1,482.4	1,437.2
Output of LHCG, ths tn	151	136,1
Number of products:	129	146
Number of new products	6	6

Source: subsidiaries data

Indicators	OOO Stavrolen	
	2009	2010
Processed raw materials, ths tn	778.2	918.5
Gasoline processing, ths tn	461.6	526
LHCG processing, ths tn	306.7	377
Number of products:	9	11
Number of new products	2	0

Source: subsidiaries data

■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

In 2010, OAO LUKOIL signed an Agreement with Volgograd Oblast. The Volgograd-based Aquatics Center is one of the largest facilities built under the agreement that was effective in 2009-2010. OOO LUKOIL-Volgogradneftepererabotka acted as the sole investor. Funding was provided out of profit tax and property tax benefits granted to the company by the Volgograd Oblast's authorities. The cost of the facility totaled 850 mln RUR. The construction period spanned two years. The new Center became one of the most up-to-date and equipped centers not only in Russia, but in the entire Europe.

The new agreement is more comprehensive vs. the previous one: in addition to social aspects it covers development of fuel and energy enterprises operating in the region.

In 2010, OAO LUKOIL made an Agreement with the government of Astrakhan Oblast. The key areas of cooperation include further prospecting and production of hydrocarbons in the Oblast and the Caspian Sea. The important aspects of such cooperation also include environmental safety and efficient nature management, development of the electric power generation center and supply of heat, motor fuels and lubes to consumers. LUKOIL is also actively engaged in financing of construction of environmental sites, replacement of offshore and onshore bioresources, and also provides assistance in organizing an integrated bioresources monitoring system in Astrakhan Oblast, including satellite monitoring of the North Caspian Sea.

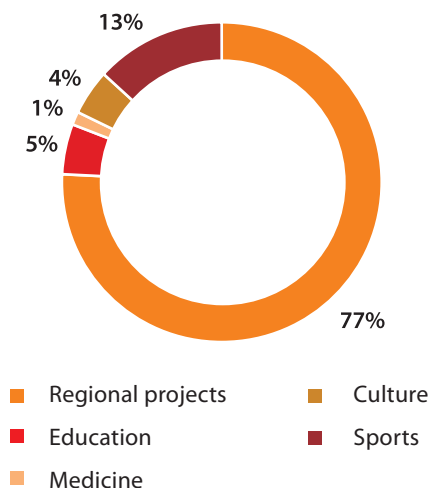
The relations existing between the authorities of the city of Budenovsk and OOO Stavrolen are also those of partners: the parties have agreed to join their efforts to solve social and economic problems of Budenovsk and its sustainable development.

OOO LUKOIL-Nizhnevolzhsknefteprodukt has entered into agreements with six regions where its filling stations and petroleum storage depots operate

«We will continue our constructive cooperation, because tax proceeds from the operations of the Company's enterprises, which account for the most part of the Oblast's budget, will cause the region to develop dynamically and move forward. Our meeting with investor No.1 was very businesslike and constructive».

A. Brovko, head of the Volgograd Oblast administration

■ SOCIAL INVESTING AS PART OF IMPLEMENTING COOPERATION AGREEMENTS WITH REGIONAL ADMINISTRATIONS



■ BIODIVERSITY AND ENVIRONMENTAL INITIATIVES/ACTIVITIES

During the last two years OOO LUKOIL-Nizhnevolzhskneft sponsored the work on adaptation of sturgeon fingerlings (over 500 ths individual fish) to their natural habitats. In furtherance of the foregoing initiative in 2010 OOO LUKOIL-Volgogradneftepererabotka assisted in releasing herbivorous fish underyearlings into the water bodies of the Volgo-Donsky navigable canal in Volgograd Oblast (48,440 individual fish).

OOO LUKOIL-Volgogradneftepererabotka has been engaged in reclamation of a solid industrial waste landfill that is currently out of operation, conducted reclamation of areas adjacent to water treatment facilities and sludge pits, and handed over such land lots to the remediated land acceptance committee.

To ensure real-time monitoring of atmospheric pollution of the enterprise's sanitary protection zone and the city's dwelling zone, in 2009-2010 OOO Stavrolen purchased laboratory equipment intended to improve

the accuracy of measurements of concentrations and the range of substances being identified.

In 2009, OOO LUKOIL-Nizhnevolzhskneft did biological monitoring in the areas adjacent to V. Filanovsky facilities, which failed to reveal any quantitative or qualitative changes of hydrocoles.

OOO LUKOIL-Nizhnevolzhskneft sponsors the annual Astrakhan fishermen festival Vobla (Caspian Roach) held to promote care for nature. The festival has become the favorite festivity of the locals and visitors to the city of Astrakhan. It also holds an annual contest for the best environmentally themed poster prepared by school students of Astrakhan Oblast entitled Clear Look.

In October 2009, LUKOIL Group's enterprises in conjunction with the Caspian Fishery Research Institute held their third international conference on Problems of the Caspian Ecosystem Preservation in the Context of Oil and Gas Field Development. All of the scientific developments and conclusions drawn by participants of the conference were included into the collection of materials of the 3rd International Academic and Research Conference.

■ SOCIAL INVESTMENTS AND CHARITY

Contest of Social and Cultural Projects

The Volga Region's first Contest of Social and Cultural Projects was held in 2004 in Volgograd Oblast. In the subsequent year the contestants included non-profit organizations operating in Astrakhan Oblast, and starting 2008 the contest mechanism has been applied in the Republic of Kalmykia. The overall number of applications filed over these years has exceeded 1,200 more than 260 out of which received project grants. Both the number of winners, and the grant fund have increased by fourfold.

The allocated grants were used to finance events to mark the 65th anniversary of the Victory in the Great Patriotic War, taking place in Astrakhan and Volgograd Oblasts; there are projects under way that are

Contest of Social and Cultural Projects	2009	2010
Number of applications received	256	297
Number of projects financed	55	74

intended to support creative groups and educational establishments. An infirmary for wild animals opened in the Bogdinsko-Baskunchak nature reserve in Astrakhan Oblast, and in Krasny Yar settlement youths go on environmental patrol. The Volgograd region has taken measures to rehabilitate infants, including without limitation through introduction of unique technologies of treating children with cerebral spastic infantile paralysis. The project Up to the Surdo-Olympic Summit helps the regional branch of the All-Russian Deaf Association to engage in social adaptation and integration of audibly challenged individuals in every day life through physical training and sports. By implementing its project Change Your Life for the Better the Volgograd Oblast's Environmental Organization plants greenery on school grounds, upgrades the environmental and educational facilities of children's institutions, clears up springs and improves areas adjacent to them.

In 2009, OAO LUKOIL-Volgogradneftegaz came up with the initiative of implementing a charity project «Happy Parents», to promote healthy lifestyles amongst young married couples.³¹ The project was launched in collaboration with representatives of governmental and municipal health institutions. The outcomes of the project include seminars for young married couples and pregnant women, publication and dissemination of printed products in 10 social and medical institutions located in the oil and gas producing regions of Volgo-

grad Oblast, creation of the website www.dvoeplus.ru, which features information about the project; outcomes of focus group discussions, leaflet Happy Parents, legal information; selection of articles that contain useful information for future parents and married couples with kids.



■ STRUCTURE OF CHARITY EXPENSES, %



³¹ For more details please go to <http://www.dvoeplus.ru/>

■ CORPORATE VOLUNTEERSHIP

Starting 2009, the Council of young professionals of OOO LUKOIL-Nizhnevolzhskneft has held donor days ensuring participation of all of the company's personnel. The event takes place at the Astrakhan Oblast blood transfusion center. The Council of young professionals holds regular events raising funds for orphans and disabled children donated by the company's personnel.

■ SOCIAL EVENTS

Targeted assistance: 2010 summer forest fires

In the summer 2010 Volgograd Oblast was severely affected by steppe fires. Oil men and drillers employed at the Company's enterprises took an active part in putting out the fires, and assisted in eliminating their aftereffects. Substantial funds were provided to help the afflicted. The Company allocated 40 mln RUR to construct a kindergarten in the village of Aleksandrovka in Zhirnovsky raion.

■ MARKETING EVENTS

The overall number of marketing events taking place at the filling stations located in SFO in 2009-2010 exceeded 10. These include Free Prompt Analysis of Your Fuel, 10 Complimentary Liters of Fuel, Ribbon of St. George, Day of Knowledge, Need Gas? — We've Got it in Carousel!, and New Year Fuel Discounts.

The Free Prompt Analysis of Your Fuel enjoyed much popularity with motorists. It was held in May 2010 at Belgorod's filling stations, which had a mobile lab in place: samples of gasoline and diesel fuel were subject to free prompt analysis in the presence of customers.

■ STAKEHOLDER RELATIONS

OOO LUKOIL-Volgogradneftepererabotka maintains constant feedback with Volgograd's non-governmental environmental organizations i.e. it holds annual public hearings, attended by the locals, deputies, representatives of governmental environmental and

supervisory bodies, non-governmental environmental organizations and municipalities. In October 2010 the city of Elist (Kalmyk Republic) hosted public hearings on the V.Filanovsky construction project. Volgograd and Svetloyarsky Municipality in Volgograd Oblast were chosen as the venues for public hearings to assess the environmental impact of projects that provide for reconstruction of the solid industrial waste landfill, reclamation and abandonment of the gathering pond, sludge collectors and water treatment facilities of the enterprise. The planned measures, discussed in the hearings and contemplated in the foregoing projects, received an approval of the locals, municipal authorities and non-governmental organizations in Volgograd and Volgograd Oblast.

OOO Stavrolen jointly with the authorities of Budenovsk held public hearings on environmental impact assessment data and materials constituting the Environmental Protection section of the project entitled Reconstruction of the Storage Facility of Liquefied Hydrocarbon Gases (LHCG) to Increase its Drainage and Processing Capacity.

In 2009, OOO Saratorgsintez took part in the round table held by BAT Rossiya to discuss possible measures to reduce production noise levels and emissions. The enterprise also provided support to the All-Russian Environmental Society to mark the organization's anniversary — it held an academic and research conference, organized themed classes at schools and environmental events.

In October 2010, Volgograd became the venue of a shareholder meeting, attended by representatives of OOO Registrator NIKoil, a company responsible for maintaining the register of holders of the Company's registered securities. The meeting was attended by about 400 shareholders.³²

³² For more details please refer to Section About the Company of this Report.

ELECTRIC POWER GENERATION BUSINESS SEGMENT

POWER GENERATION COMPANIES IN SFO

- OOO LUKOIL-Astrakhanenergo
- OOO LUKOIL-Kubanenergo
- OOO LUKOIL-Volgogradenergo
- OOO LUKOIL-Rostovenergo

COMPANY INFORMATION

Restructuring of OAO YuGK TGK-8 was completed in 2009 and resulted in formation of the following new power generating companies: OOO LUKOIL-Astrakhanenergo, OOO LUKOIL-Kubanenergo, OOO LUKOIL-Bolgogradenergo, and OAO LUKOIL-Rostovenergo. All of the companies produce heat and electric power and mainly operate on gas, whereas black oil is used as backup fuel.

OOO LUKOIL-Astrakhanenergo operates in the left-bank part of Astrakhan, and it is also where two major power plants are located i.e. Astrakhan Cogeneration Plant No.2 and the Astrakhan State District Power Plant. The Company also operates 30 boiler houses.

OOO LUKOIL-Volgogradenergo comprises five cogeneration plants i.e. the Volga State District Power Plant, Volgograd Cogeneration Plant No.2, Volga Cogeneration Plant No.2, Kamyshino Cogeneration Plant and Volgograd Cogeneration Plant No.3 (leased to OAO Kaustik).

OOO LUKOIL-Kubanenergo includes the Krasnodar Cogeneration Plant, Belorechensk Hydropower Plant, Maikop Hydropower Plant and Krasnaya Polyana Hydropower Plant.

The energy generation facilities operated by OOO LUKOIL-Rostovenergo are located in Makhachkala, Kaspijsk (both in Dagestan), Rostov-on-Don, Volgodonsk, Kamensk-Shakhtinsky (all in Rostov Oblast) and Kislodovsk (Stavropol Krai).

ECONOMIC ROLE AND INVESTMENTS



The four aforementioned generation companies are major producers of heat and electric power in a region that suffers from power shortages, and therefore their primary economic goal is to continue upgrading of their facilities and implement industry reforms.

The most large-scale area of YuGK TGK-8 upgrading was the construction of combined cycle plants at numerous power plants, which makes it possible to substantially cut down on specific fuel consumption. At the same time obsolete steam power plants with small efficiency will be decommissioned.

The companies seek to secure the reliability of power and heat supply, improve energy efficiency and saving of resources being used, and be a part of the regional development process.

OOO LUKOIL-Volgogradenergo, for example, in conjunction with the Volgograd Oblast authorities intends to create zones of advanced economic development to be located in the proximity of the energy generation facilities, which is to be achieved through creation of new and upgrading of the existing production facilities. The company seeks to become a backbone factor driving implementation of industrial policies in the Oblast and contributing into formation of industry clusters. Numerous energy programs that are important for the region have been developed. Here belong the Concept of Volgograd's Heat Supply

Systems Development until 2025, Concept of the Investment Program of Upgrading and Re-Equipment of Cogeneration Plants Operated by OOO LUKOIL-Volgogradenergo. There are also plans to develop in 2011 the Heat Supply Scheme of Volgograd until 2025.

The key area of OOO LUKOIL-Astrakhanenergo's development is construction of new generating facilities in Astrakhan Oblast. For example, a combined cycle plant was commissioned at the Astrakhan State District Power Plant (operated by OOO LUKOIL-Astrakhanenergo) which caused the plant's capacity to increase by 10 MW. There exist plans to construct in 2012-2013 a power plant with the same equipment and processes in place, however with a higher capacity. OOO LUKOIL-Kubanenergo's major investment project is the construction of a 410 MW combined-cycle energy block PGU-410. Replacement of obsolete, not cost-effective equipment of small boiler houses or their shutdown and conversion to efficient sources of heat is also under way.

To improve the reliability of electric power and heat supply all of the companies performed repairs and reconstruction of their equipment, which resulted in improved efficiency and reduced consumption of energy resources.

■ SOCIAL AND ECONOMIC COOPERATION AGREEMENTS

The cooperation agreement made by and between OAO LUKOIL and the authorities of Rostov Oblast provides for implementation of comprehensive programs of the region's energy development, including

without limitation construction of generating facilities that are powered by renewable sources of energy.

The agreement stipulates that LUKOIL must assist in developing the area's industrial and research potential, and hold competitive biddings to mainly contract Oblast-based entities. The Company is also considering the possibility of its engagement in social and charity projects.

■ INDUSTRIAL SAFETY AND ENVIRONMENT

Given the differences in HSE management systems that existed at the power generating companies before they entered LUKOIL Group, the main objective in the reporting period was to bring these management systems to the same standards and rules accepted in LUKOIL. Presently all of the companies are governed by LUKOIL's corporate standards and guidelines and their own local documents, many of which were developed during the reporting period. Please note the adoption of management systems improvement plans and corrective measures plans by the energy companies.

■ SOCIAL POLICY

Despite substantial organizational change that the companies were subject to, they still for the most part maintain their social policy approaches.

Each company has collective bargaining agreements that provide for special benefits for employees and continuation of social and training programs offered in excess of compulsory training (in certain organizations).

Indicators: OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-Astrakhanenergo and OOO LUKOIL-Kubanenergo

	2009	2010
Taxes paid (total), mln RUR, including	641	1,246
- RF budget	571	616
- budget of RF subject	49	370
- local budgets	21	69

Source: subsidiaries data

Indicators: OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-Astrakhanenergo and OOO LUKOIL-Kubanenergo

	2009	2010
Power generation, mln kw-hr	13,137	12,897

Source: Analyst's Handbook 2010

The following are the programs and workshops intended to help new employees adapt themselves to new working environments of OOO LUKOIL-Volgogradenergo: I Work At LUKOIL, OAO LUKOIL's HSE Management System, Developing a System for Adaptation of New Personnel in LUKOIL Group's Organizations, etc.

The construction of a new Japanese PGU-430 combined cycle plant necessitated implementation of a dedicated program for selection and training of personnel to operate this plant. The program includes both mandatory courses (e.g. on occupational safety), and equipment handling courses, and internships at the manufacturer's facilities.

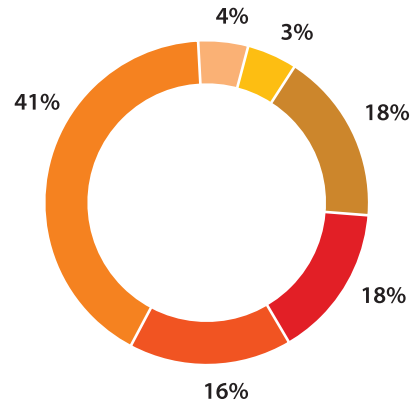
■ SOCIAL EVENTS AND CHARITY

In 2010, OAO LUKOIL-Rostovenergo organized tours for the inmates of Rostov-on-Don and Volgodonsk orphanages to its energy generating facilities.

■ STAKEHOLDER RELATIONS

The approval process for the project of Krasnodar Cogeneration Plant Expansion and Construction of PGU-410 included public hearings On Assessment of the Environmental Impact of Expansion of the Krasnodar Cogeneration Plant Through Construction of PGU-410 held in Krasnodar's Karasunsky District.

■ COMPOSITION OF AGGREGATE SOCIAL INVESTMENT AND CHARITY COSTS INCURRED BY THE COMPANIES IN 2010, %



- Education and enlightenment
- Foster homes, orphanages, schools and other children's
- Religion
- Sports and fitness
- Local authorities
- Public organizations, funds

REPORT AND REPORTING PROCESS

REPORTING PERIOD

The Fourth Sustainability Report (hereinafter the Report) covers the period of 2009-2010. The last report was published in autumn 2009. The next report will cover the period of 2011-2012.

REPORT SCOPE AND LIMITS

The geographical reporting limits have not changed compared to the last report.

This report has a wider scope of reporting as regards activities and number of companies. For the first

time the Report contains data on Electric Power Generation Business Sector and provides more detail on Transportation and Petroleum Products Marketing in Russia. The Report takes into account organizational changes that occurred over 2009-2010 resulting from company restructuring.

It also provides data on the Russian subsidiaries in the above business segments and sectors where LUKOIL holds more than a 75% interest (see table below). The companies were included into the scope of reporting on the basis of the degree of influence of their operations on the overall economic, social and environmental results of LUKOIL Group.

Business Segments and Business Sectors	Company Name
Corporate Center	OAO LUKOIL
Upstream Business Segment	
Oil and Gas Production Business Sector in Russia	OOO LUKOIL-Komi, OOO LUKOIL-Kaliningradmorneft, OOO Naryanmarneftegaz, OOO LUKOIL-West Siberia, OOO LUKOIL-PERM, OOO LUKOIL-Nizhnevolzhskneft, OAO RITEK
Downstream Business Segment	
Business Sectors	
Refining in Russia	OOO LUKOIL-Ukhtaneftepererabotka, OOO LUKOIL-Nizhegorodnefteorgsintez, OOO LUKOIL-Permnefteorgsintez, OOO LUKOIL-Volgogradneftepererabotka
Gas Processing	OOO Permneftegazpererabotka, OOO LUKOIL-Corobiovskiy GPP
Petrochemistry	OOO Saratovorgsintez, OOO Stavrolen
Petroleum Products Marketing in Russia	OOO LUKOIL-Severo-Zapadnefteprodukt, OOO LUKOIL-Uralnefteprodukt, OOO LUKOIL-Permnefteprodukt, OOO Volganefteprodukt, OOO LUKOIL-Nizhnevolzhsknefteprodukt, OOO LUKOIL-Yugnefteprodukt, OOO LUKOIL-Tsentrnefteprodukt
Electric Power Generation	OOO LUKOIL-Astrakhanenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Kubanenergo
Transportation	OAO Varandey Terminal, OAO RPK-Vysotsk LUKOIL II, OOO Integrated Oil Terminal (part of OOO LUKOIL-Trans) OOO LUKOIL-BUNKER, OOO LUKOIL-AERO, OOO LLK-International, OOO LUKOIL-Reservnefteprodukt, OAO LUKOIL-Inter-Card
Other Operations Business Segment	
	OOO Trade House LUKOIL, OAO Arkhangelskgeoldobycha

■ REPORT SCOPE LIMITS

The Report does not include any information about the new business sector — Mining.

The Report does not cover LUKOIL Group companies outside Russia. Neither does it provide any information about companies where LUKOIL hold less than a 75% interest. We are not planning to include information on such companies into our future reports.

As far as the EC1 parameter is concerned, the data is provided for the entire LUKOIL Group (including foreign assets).

■ NON-FINANCIAL REPORTING SYSTEMS

Guidance on Sustainable Development Reports of the Global Reporting Initiative (version 3.1), AA 1000 (1999), Global Compact and Social Charter of Russian Business were used for the preparation of the Report.

The Company sets GRI compliance at B+ level.

■ DETERMINATION OF SIGNIFICANT TOPICS AND COVERAGE OF STAKEHOLDERS

The techniques used to determine significant topics for the report have not changed (for details please refer to 2007-2008 report). At the beginning of the reporting period heads of main LUKOIL business units were questioned about the structure and content of the Report. In particular, they were asked if the Report should still contain detailed information about LUKOIL Group activities in the Russian regions. All the respondents supported this approach since the Company's wellbeing depends on the quality of business development and the relations with local communities in the regions where main production facilities are located.

■ SUSTAINABILITY REPORTING PROCESS

The reporting process was managed by the Reporting Team that included the following Company's units: Public Relations Department, Main Division of Human Resources, Main Technical Division and International, Association of Trade Union Organizations (IATUO).

■ REPORT QUALITY ASSURANCE PRINCIPLES

Balance. We did our best to include into this Report both achievements and problem areas.

Comparability. The Report provides key parameters (economic, environmental and social) in dynamics as they were changing over the years. We continued the topics that were highlighted in previous reports.

Accuracy. The Report contains official data that was recognized by the Company. The correctness of information provided in the Report is ensured by the fact that LUKOIL has consolidated data. Also the Report has passed internal information checking procedures.

Timeliness. The data contained in the Report is provided in good time, that is as requested by the stakeholders and ready for presentation.

Clarity. Generally, the Report does not contain any professionalisms or provide any data that requires specialized knowledge.

Reliability. The Report passed independent assessment by the Non-financing Reporting Council of the Russian Union of Industrialists and Entrepreneurs (*see the opinion attached*).

9

GRI, GLOBAL COMPACT AND SOCIAL CHARTER COMPLIANCE TABLE

■ GRI COMPLIANCE LEVEL

	C	C+	B	B+	A	A+
Self-Declaration						
Third Party Check				√		
GRI check-up						

Aspects	GRI parameters and reporting items	Global Compact principles	Indicators of Social Charter of Russian Business	In Report / Other sources
Statement by the lead manager	1.1			Report's opening statement
Description of key factors, risks and opportunities	1.2		1.1	Please refer to Sections How We Work, HSE Management System, Sustainable Development of Russian Regions
Strategy and Company Description	2.1 – 2.10		1.2, 1.3, 1.6, 1.7	2.1 – LUKOIL Group 2.2 – please refer to Section High-Quality Products and Services 2.3. – please refer to Attachment Report and Reporting Process 2.4 – please refer to Reference Information 2.5, 2.10 – please refer to Sections About the Company and How We Work 2.6 – 2.9 – changes over the reporting period Please also refer to corporate website at www.lukoil.ru
Information About the Report	3.1 - 3.13			3.1 – 3.8, 3.12, 3.13. Please refer to Attachment Report and Reporting Process 3.9 – 3.10 The main changes concern inclusion into consolidated parameters the information on Electric Power Generation Business Sector. References to changes are available in the report
Organizational Management and Stakeholder Interfaces	4.1 – 4.17			4.1 – 4.13, 4.14 – 4.16 Please refer to Sections How We Work, Corporate Governance (contains new information and changes compared to previous reports), and website at http://www.lukoil.ru/static_6_5id_2116_.html 4.17 – please refer to Sections Company and Society; Sustainable Development of Russian Regions.

Aspects	GRI parameters and reporting items	Global Compact principles	Indicators of Social Charter of Russian Business	In Report / Other sources																					
Economic Performance Indicators	EC1 (частично)		1.2, 1.3, 1.6, 1.7	Please refer to Section About the Company 1.3 (Russian Union of Industrialists and Entrepreneurs) — taxes paid																					
	EC3		1.8	Please refer to Section Social Policy																					
	EC7			Not applicable to the Company																					
	EC8, EC9		1.5	Please refer to Section Sustainable Development of Russian Regions																					
Environmental Performance Indicators Materials	EN1	Principle 8		The following materials were purchased: <table border="1"> <thead> <tr> <th>Materials</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Total, ths tn, including:</td> <td>190.7</td> <td>320.3</td> </tr> <tr> <td>chemicals and reagents</td> <td>21.5</td> <td>80.3</td> </tr> <tr> <td>cement</td> <td>68.1</td> <td>75.9</td> </tr> <tr> <td>gel powder</td> <td>3.4</td> <td>1.0</td> </tr> <tr> <td>Inert materials</td> <td>90.5</td> <td>159.5</td> </tr> <tr> <td>Oil, lubricants, additives</td> <td>7.2</td> <td>3.6</td> </tr> </tbody> </table>	Materials	2009	2010	Total, ths tn, including:	190.7	320.3	chemicals and reagents	21.5	80.3	cement	68.1	75.9	gel powder	3.4	1.0	Inert materials	90.5	159.5	Oil, lubricants, additives	7.2	3.6
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Energy	EN3 – EN7	Principles 8 и 9	2.2	Please refer to Sections Efficient Resource Management and Diversification of Energy Resources																					
Water	EN8, EN10	Principle 8	2.3, 2.4 2.3.1	Please refer to Section Description of Key Effects																					
Biodiversity	EN12	Principle 8		Please refer to Sections Sustainable Development of Russian Regions, Subsections Northwestern Federal Okrug, Urals Federal Okrug and Southern Federal Okrug																					
Emissions, discharges and waste disposal	EN16 EN19 – EN23	Principles 7, 8, 9	2.5, 2.6, 2.7, 2.8, 2.9 2.6.1, 2.7.1, 2.7.2, 2.8.1	Please refer to Section Description of Key Effects EN19 is not applicable to the Company																					
Products and Services	EN26	Principles 7, 8, 9	2.11	Please refer to Section High-Quality Products and Services																					
Total costs	EN30	Principles 7, 8, 9	2.12	Please refer to Section HSE Management System																					
Social Performance Indicators Employment	LA1, LA3	Principle 6	3.1.1 (partially)	Please refer to Section Social Policy																					

Aspects	GRI parameters and reporting items	Global Compact principles	Indicators of Social Charter of Russian Business	In Report / Other sources
Labor Relations	LA4, LA5	Principle 3	3.2.1	According to the RF Labor Code and collective bargaining agreements No labor disputes were registered in the reporting period
Occupational health and safety	LA7 (partially), LA9	Principles 1	3.1.5, 3.1.9	Please refer to Section Social Policy LA9 — no changes compared to previous report
Training and development of personnel	LA11	Principles 1, 6		Please refer to Section Social Policy
Human Rights Human rights and investment agreements	HR1	Principles 1, 2, 3		HR1 — The indicator is relevant for social and economic partnership agreements signed in federal okrugs where there are settlements of indigenous and minor nations. Please refer to Section Sustainable Development of Russian Regions
Preventing discrimination, children's and forced labor, right to associations and collective disputes	HR4–HR7	Principles 1, 2, 6	3.2.2	No such cases were registered in the reporting period
Society Obstacles to competition Fighting corruption Relations with authorities	SO1 (partially) SO7 (partially)		3.3.1, 3.3.2, 3.3.3 3.3.4, 3.3.5	Please refer to Sections Company and Society; Sustainable Development of Russian Regions Please refer to Section High-Quality Products and Services Please refer to Section Sustainable Development of Russian Regions Please refer to Section How We Work
Products Consumer health and safety Product labeling	PR2, PR4 PR5	Principles 1	3.4.2	PR2, PR4 — no such cases were registered in the reporting period Please refer to Section High-Quality Products and Services
Marketing Communications	PR7	Principles 1		No such cases were registered in the reporting period

Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs

Conclusion of the RUIE Non-Financial Reporting Council on the results of consideration for the purpose of public verification of LUKOIL's Report on Sustainable Development 2009-2010

The Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs (here in after — the Council), established in accordance with decision of the Management Committee (Decree of June 28, 2007), considered the Report on Sustainable Development in Russia 2009-2010 (hereinafter — the Report) at LUKOIL's initiative (hereinafter — the Company, LUKOIL).

The company applied to the Russian Union of Industrialists and Entrepreneurs requesting for public verification by the Council, which forms a conclusion of completeness and relevance of the information contained in the Company's Sustainability Report from the perspective of the Social Charter of Russian Business, containing the principles of business practice responsibility.

The Council studied the contents of the Report submitted by the Company from July 14 to July 29, 2011 and prepared this Conclusion in accordance with the Regulations for public verification of the corporate non-financial statements approved by the Council. The Council members have the necessary competences in the field of corporate responsibility, sustainable development and non-financial reporting, comply with the ethical requirements to the independent and unprejudiced assessment, express their personal expert opinion, rather than the opinion of the organizations they represent.

The Council took into consideration the fact that the Report covered the activities of LUKOIL subsidiaries operating on the territory of the Russian Federation, in which the Company's share is at least 75%.

The Report was estimated in view of the following criteria for the completeness and relevance of the information contained in it:

The information is regarded as relevant, since it reflects the Company's activities aimed at implementation of the principles of responsible business practices disclosed in the Social Charter of Russian Business (www.rspp.ru).

Completeness implies that the Company comprehensively reflects its activities, values and strategic guidelines underlying these activities, management systems and structures, achievements and key performance indicators, the system of relations with stakeholders in its Report.

Application of the International Reporting System by the Company is taken into consideration as part of the procedure for public verification of the Report. However, confirmation of the Report's compliance with the international reporting systems is beyond the scope of this Conclusion.

The Company shall bear responsibility for the information and statements contained in the Report. The reliability of the actual data contained in the Report is not subject to public verification.

This Conclusion is prepared for the Company, which can use it both for in-house purposes and for communication purposes with stakeholders by publishing it as is.

[Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs](#)

FINDINGS

Based on the analysis of the Report, the public information placed at the official corporate website of the Company, as well as the collective discussion of the outcomes of the independent Report evaluation carried out by the members of the RUIE Non-Financial Reporting Council, the Council confirms the following:

LUKOIL 's Sustainability Report 2009-2010 (in Russia) contains substantial information, covers the key areas of responsible business practices in accordance with the principles of the Social Charter of Russian Business. The Report discloses the information of the Company's activities in these areas with a sufficient degree of completeness.

Economic Freedom and Responsibility: The Report contains detailed information on the economic activities of the Company in the context of sustainable development. It contains information on strategic priorities and key business lines in the segments traditional for the Company and newly established ones (electric power, etc.), basic performance indicators, the Company's contribution into sustainable economic development of the regions of its presence. The Company's stance on the domestic and global hydrocarbon production and processing market is described. The Report provides information on the ongoing efforts aimed at the Company's efficiency and competitiveness enhancement through introduction of advanced technologies into production and management processes, diversification of business and energy resources, efficient use of resources. It is reported that the Company seeks to find and use innovative technologies, to expand the use of renewable energy sources, ensure efficient use of energy and resources; examples of actual initiatives and achieved results are made. The Report contains the information on achievements in quality improvement of the main types of products and services, introducing new products complying with the international standards and environmental safety requirements to the market. The Report contains links to the corporate documents governing the Company's sustainable development strategy in terms of its major businesses. The approaches to management in this area are described via the corporate governance, functional management and risk management systems. The Report informs of the introduction of an integrated management system in LUKOIL within the reporting period, which is aimed at improvement of all business processes and reinforcement of the corporate culture.

Partnership in business: B The Report describes the practices of business partnership and the Company's relations with basic groups of stakeholders. It states that the list and the rules of relations based on the ethical standards are defined in the Code of Business Conduct adopted in 2010. In order to put it into practice and ensure that the respective Action Plan was developed and the Commission for Ethical Issues was established. The Report informs of the adoption of a five-year Shareholder Outreach Program, which establishes equal treatment of all shareholders and describes the measures ensuring observance of their rights, including access to information and decision-making, decent dividends, etc. It specifies the corporate strategy for the Company's profitability and capitalization growth in view of the shareholders' interests and regulates the issues of limited use of insider information.

Great attention is paid to interaction with the staff, management quality improvement in this area as a key factor of the Company's success. The Report informs of approval of the Corporate Culture Rules, which are developed in addition to the Code of Business Conduct. The information on implementation of measures aimed at ensuring industrial and industrial safety, health protection at the working place is described in detail. It contains the information on the policy and measures in the field of employees' motivation and the corporate social programs, youth policy, as well as the corporate knowledge management system implemented in the Company. The data on relations with trade unions, including those at the international level, are provided. It describes the measures aimed at efficiency enhancement of relations with consumers

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within the framework of development of the service quality management system at filling stations. There is information on promotion of partnership relations with local and international organizations in the sphere of production modernization and use of nanotechnologies. The approaches to organization and performance results of the Company and its subsidiaries are presented in the sphere of interaction with regional and municipal regulatory bodies based on the social and economic cooperation agreements.

Human Rights: The information contained in the Report reflects the Company's desire to carry on business, while ensuring that the human rights are observed. The Company confirmed its intention in this sphere by joining the UN Global Compact and the Social Charter of Russian Business. The corporate documents mentioned in the Report, which govern various aspects of business practice and collaboration with stakeholders, comprise the norms relating to the observance of human rights. The respective obligations of the Company are fixed in such documents as the Code of Business Conduct, Social Code of LUKOIL, the HSE Policy for the XXI century, etc. The topic of observance of employees' human rights in a wide range of issues is traditionally described in a most comprehensive way. As reported, the collective agreements and the Agreement between the Employer and the Association of Trade Union Organizations of LUKOIL for 2009-2011 are the key tools in this area.

Environmental protection: The issues of environmental and industrial safety, environmental protection and efficient use of natural resources are considered priorities under the Company's sustainable development strategy. It is reported that the management system in this area is certified for compliance with 180 14001 and OH8A8 18001 international standards. The Report highlights the implementation results of the corporate Program of Improving the Industrial Safety, Working Conditions and Occupational Safety for 2006-2010. The Company took additional measures to ensure safety of its facilities in offshore zones in view of the experience acquired due to the accident in the Gulf of Mexico. The Report provides information on launching of the fourth corporate Environmental safety program in the following basic areas: waste utilization, increased level of associated petroleum gas use, increased production of environmentally friendly fuel. There is information on activities in the sphere of energy efficiency. There is also information on the projects aimed at reducing greenhouse gas emissions. The Report shows the dynamics of absolute and specific indexes typical of the main types of impact, including pollutant emissions into the air, wastewater discharges, water use and recycling; it considers the issues of waste management and land rehabilitation.

Participation in local community development: The Report provides a great amount of information on the Company's activities in local communities, describes the most important social projects. It reflects priorities and development principles of social programs. It presents the information on management of social investments and program implementation mechanisms, including such elements as competitive selection of projects, stakeholders advisory, current internal monitoring and independent external assessment of social investment projects. There are examples of successful programs implemented by subsidiaries. The Report also contains information on federal projects implemented with support of the LUKOIL Charity Fund (promotion of opportunities of providing vocational education to children from orphanages, support of museums and art groups, youth and professional sports, etc.). It provides detailed information on the Company's input in terms of ensuring sustainable development in the regions of its presence in five federal okrugs.

In general, the information presented in the Report gives a fairly clear idea of the areas of responsibility of the Company, reflects its consistent efforts aimed at introducing the principles of responsible business conduct into business practices. The Report proves that the issues of sustainable development are of strategic importance to the Company and are taken to heart by the Company's top management. Practical implementation of the principles of sustainable development and social responsibility is supported by the system of corporate regulatory documents.

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The Council would like to note that the information value of the Report for the stakeholders interacting with the Company in the regions of its presence is increased due to the fact that the comprehensive information on the Company's influence upon sustainable development of the said regions was incorporated in the Report.

The Company has submitted the fourth Report with a biennial reporting cycle, it ensures continuity of information disclosure and consistency of the reporting process development. It provides a significant amount of specific indicators that reflect the results achieved in the economic, social and environmental areas. The recognized international and domestic recommendations in the sphere of non-financial reporting (OK1, RUIE Basic Indicators) were used to prepare the Report, which ensures comparability of the information with that provided by the other companies of the branch both domestically and abroad.

RECOMMENDATIONS

Noting the advantages of the Report, the Council would like to draw LUKOIL's attention to a number of aspects important to stakeholders concerning information relevance and completeness and recommends to consider them in the next reporting cycle.

The information on the tasks implementation in 2010 would be more persuasive if compared to the target reference points, which help make a judgement on the compliance of the achievements with the set tasks. It is of use not only to present the dynamics of the economic, environmental and social performance indicators but also to compare them to measurable targets, which allows to make a more accurate assessment of the performance indicators.

Incorporation of information on the tasks and activities planned for the next reporting cycle in the key business lines, as well as components of sustainable development, will enhance the information value of the Report. It is also recommended to combine this information with specification of measurable parameters, which will facilitate progress assessment and enhance transparency of the Company's activities in future.

The Company steadily expands the reporting boundaries, which complies with the best practices in the field of non-financial reporting. In future it is recommended to seek to ensure comprehensive disclosure of information within the process development framework and, along with the overall indicators of the Company, to include the data on those performance indicators for key production facilities, which are significant to the external community. First of all, it pertains to the indicators of industrial, environmental and occupational safety, personnel management, etc. It is also recommended to consider the possibility of a gradual incorporation into report boundaries of the Company's assets with the share of at least 75%.

The report is intended to show the stakeholders that the Company knows of the existing problems and takes efforts to solve them. In this connection and for the purpose of ensuring consistent compliance with the principles of relevance and harmony of the information disclosed in the Report, in future more attention should be paid to coverage of the problems faced by the Company in performing its activities and approaches to their solution. In particular, we speak about such issues as oil spills and land contamination. It is also recommended to expand the range of the used indicators in view of the importance of the disclosed data to the stakeholders. For instance, the data on wages amount (in business sectors and key regions), gross energy consumption, plans to reduce it, etc. require more comprehensive disclosure in reports.

The Report pays attention to the relations with stakeholders with regard to individual groups and the activities of the Company's subdivisions at the local level. In future it would be useful to include the principles and

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approaches to relations with stakeholders, common for the Company, into the report and to reflect the whole system of interaction in a more comprehensive way rather than its separate aspects. It is also recommended to expand the coverage of substantive aspects of relations with end users of the products and the actual results of these relations, to reflect in a more comprehensive way the channels and mechanisms of relations with the internal stakeholders in the sphere of internal corporate communications, with the organizations of the civil society when solving crucial social, economic and environmental problems.

In view of the Company's adherence to the principles of social responsibility declared in the Report in future it would be expedient to state the Company's attitude to responsibility within the supply chain in a more accurate way, to disclose approaches to relations with suppliers and contractors in view of the business conduct standards (issues of business ethics, compliance with the standards of industrial, environmental and occupational safety, etc.).

It is recommended to carry on and develop the existing practice of the Company's cooperation with stakeholders in the process of Report preparation and submission, to make better use of the opportunities of conducting dialogues and arranging public hearings, to expand the range of the issues to be discussed. It will allow to select priority topics and the issues of current importance to be disclosed in the report, to convincingly submit information on the forms and nature of relations. These public discussions contribute to consolidation of the reputation of a responsible company open to a dialogue with a wide range of stakeholders.

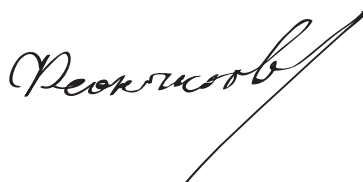
By giving a positive assessment to the Report, in support of LUKOIL's adherence to the principles of responsible business practices and noting its consistency, the RUIE Non-Financial Reporting Council confirms that LUKOIL's Report on Sustainable Development in Russia 2009-2010 passed the public verification procedure.

Chairman of the RUIE Non-Financial
Reporting Council



F. T. Prokopov

Deputy Chairman of the RUIE
Non-Financial Reporting Council
Executive Secretary



E. N. Feoktistova

FORWARD-LOOKING STATEMENTS

Information contained herein refers to the future and is based on forward-looking data. Such words as «believe», «suppose», «expect», «estimate», «intend», «plan» and other expressions with a similar meaning are an indication of forward-looking statements. Given the specific nature of forward-looking statements there may be some risks or uncertainties pertaining to them. The actual results may be substantially different to the planned or target performance, expectations, evaluations or intents

expressed in forward-looking statements. Forward-looking statements should be relied upon only on the day they are made. OAO LUKOIL neither represents, nor warrants, nor forecasts that the expected performance described in forward-looking statements will be achieved in reality. In any case such statements are only one of a number of possible scenarios and therefore should not be viewed as the most probable or model scenario.

■ REFERENCE INFORMATION

This Report is available through the Company's website at www.lukoil.ru (Russian) and www.lukoil.com (English).

Should you be willing to ask a question or discuss a topic covered in this report, please, feel free to contact the Company at the following e-mail address: socotchet@lukoil.com

Если вы захотите задать вопрос или обсудить заинтересовавшую вас тему данного Отчета, обращайтесь в Компанию по следующему электронному адресу: socotchet@lukoil.com

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■ TERMS AND DEFINITIONS USED IN THE DOCUMENT

The names and words: LUKOIL Group, Group, LUKOIL, Company, LUKOIL Company, LUKOIL oil company, «we» and «our», contained in this report shall be treated as interchangeable and shall, as the context requires, be attributed to LUKOIL Group companies as a whole, OAO LUKOIL and/or its subsidiaries.



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