

ALWAYS MOVING FORWARD



LUKOIL

SUSTAINABILITY
REPORT
RUSSIAN
FEDERATION

2011-
2012



2011–2012 REPORT ON SUSTAINABLE DEVELOPMENT OF THE LUKOIL GROUP IN THE RUSSIAN FEDERATION

FORWARD-LOOKING STATEMENTS

Some statements in this Report do not represent actual facts, but only forward-looking statements. Words like “believes”, “supposes”, “expects”, “estimates”, “intends”, “plans” and similar expressions refer to forward-looking statements. Due to their specifics forward-looking statements are connected with risk and uncertainty. Actual outcomes may significantly differ from target planning and parameters, expected results, estimates and intentions contained in forward-looking statements.

Forward-looking statements are valid only as of the report publication date. LUKOIL does not represent, warrant or predict that the expected results of its business mentioned in the forward-looking statements will actually be achieved. In each case such statements represent one of numerous possible development scenarios, that is why they cannot be treated as the most probable or typical case.



LUKOIL IS A MEMBER OF THE UN'S GLOBAL COMPACT NETWORK IN RUSSIA AND SOCIAL
CHARTER OF RUSSIAN BUSINESS

Content

Address by the President and CEO of LUKOIL	2	Youth Policy	36
LUKOIL Group in 2011–2012	4	Health and Safety	37
Energy and Society: strategies and interaction	6	Remote and Other Types of Training	39
Diversification of Energy Resources	7	Incentives and Remuneration System	39
Research and Design Activities	9	Social Programs	40
Rational utilization of resources	10	Relations with Trade Unions	42
Energy Saving	11	Corporate Museum Network	44
Associated Petroleum Gas	12		
Implementing Kyoto Projects	13	4. COMPANY AND SOCIETY	46
1. HSE MANAGEMENT SYSTEM	14		
Environmental Wellbeing	16	Federal programs	49
Industrial Environmental Control	22	Contest among Social Projects	52
Industrial Safety	24	Dialogues Held by LUKOIL in the Russian Regions	52
		Charity and Sponsorship Programs	56
2. HIGH QUALITY PRODUCTS AND SERVICES	28	5. SUSTAINABLE DEVELOPMENT OF THE RUSSIAN REGIONS	60
Upgrading and Development of Oil Refining Operations	30	North-Western Federal Okrug	62
Quality of Motor Fuel	31	Volga Federal Okrug	68
Aviation Fuel	32	Urals Federal Okrug	76
Lubes	32	Southern and North-Caucasian Federal Okrugs	81
Improved Quality and More Services for Motorists	33	Central Federal Okrug	86
		Annex 1. About report and reporting process	88
3. PERSONNEL MANAGEMENT	34	Annex 2. Table of compliance with GRI, Global Compact and Social Charter	90
Changes in Personnel Structure	36		

Address by the President and CEO of LUKOIL

Dear readers, it is an honor for us to present you our fifth sustainable development report that will tell you about the goals we were trying to achieve in 2011 and 2012, the success we had with more than 100 thousand employees of our subsidiaries, and the new challenges we had to face.

The year of 2011 proved to be special for LUKOIL: we celebrated our 20th birthday. The history of our Company is the history of new Russia's oil industry. Together with our country, we have gone through difficult, but exciting times when we had to reestablish the economic links, raise the plants up from the ground and implement advanced technologies there, preserve scientific knowledge and technology and, finally, create brand new management models.

Our motto is "LUKOIL. Always moving forward!" It clearly describes the vector of our Company's development. Today it is the energy company that produces and refines hydrocarbons, trades in oil and petroleum products, generates heat and electricity. We also implement major projects that involve the use of renewable energy in the countries that passed the laws offering incentives to this business (wind farms and solar power plants in Bulgaria and Romania). This helps us to practice and improve the technologies that we will be able to utilize in Russia. In addition, we have implemented a number of pilot projects in Russia.

LUKOIL is one of Russia's largest national taxpayers and investors that places large-scale orders with entire industries of the national economy.

Over the last two years, we managed to tackle a range of important challenges. First of all, we stabilized oil production in Western Siberia. We are gradually moving towards 95% utilization

of associated petroleum gas (APG) at all our fields. This is being achieved by construction of new power engineering facilities and gas pipelines, signing agreements with prospective consumers of this type of energy, increasing our own gas processing capacity.

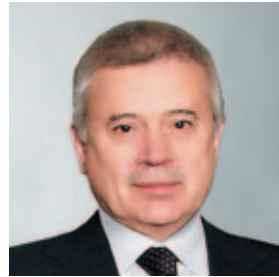
About a decade ago, we adopted a program for increasing natural gas production. Today, we already produce about 25 bln. cu. m of this fuel.

We still continue the development of our oil refining business by upgrading our refineries. Today, all our refineries produce EURO-5 compliant gasoline. In future, we are planning to increase the conversion rate even further while gradually cutting the production of dark petroleum products. We are going to construct pipelines that represent the safest, most cost-effective and eco-friendly mode of transportation for petroleum products.

Every year we expand the geography of our filling stations network in the Russian regions, improve customer service and offer various promotions for our customers.

LUKOIL's energy assets operate in the southern regions of Russia experiencing short supply of energy. We still continue the restructuring of this business and construct combined cycle plants that supply capacity to the wholesale electricity market.

Our Company operates in various regions, including those with severe living environment. We consider it to be our duty to pay our taxes in a timely manner, which helps the state to solve social challenges in the regions of our Company's presence. Our employees, wherever they may work, enjoy worthy labor conditions and social benefits according to LUKOIL's Social Code.



Vagit Alekperov

President and CEO of LUKOIL



We continue implementation of all our charity programs, both at the federal and regional levels. We aim to provide the people living in the regions of our presence as well as their children worthy living conditions.

While producing oil and gas, it is today that we must start thinking about the future generations, who will have to live without oil and gas. Excellence and competition will help us to feel this reality. I also think that all kinds of energy need to be developed just like all types of hydrocarbon reserves. We believe that the future energy sector will be based on brand new technologies supported by both conventional and new non-hydrocarbon sources.

I am frequently asked about my opinion of the shale revolution, and whether I see it as a threat to conventional oil and gas

production. I am confident that oil reserves will be sufficient for many years to come. The point here is not that we are facing a revolution, but that we need to implement cutting-edge technologies to be able to develop complex fields. This is why we need a system-based framework of market incentives to encourage high-tech projects in the oil and gas industry. Today, LUKOIL has to invest huge money into their development.

Over the next two decades, we will have to increasingly think and talk about integration for the sake of global energy security. Supporting competition and reasonable cost-efficiency of the industry at the domestic level will help Russia to successfully advance to the brand new energy level.

LUKOIL Group in 2011–2012

LUKOIL. Always moving forward!

The LUKOIL Group is one of major international vertically integrated energy companies operating in 60 regions of Russia and 38 countries all over the world (including Russia).

The Company's diversified portfolio of energy resources that includes oil, natural gas, power engineering, and renewables facilitates its gradual development, reliable supply of energy products and contribution into sustainable development of the society. LUKOIL actively develops its refining and petrochemicals business creating high-quality products for the Russian people and industrial enterprises. The Company has an extensive logistic and distribution network, including in-house offshore terminals. As of the beginning of 2012, LUKOIL Group's worldwide distribution network included 183 bulk plants and 5,928 filling stations including in-house, leased and franchised ones.¹

Most Company's operations are located in Russia, in six federal okrugs – Northwestern, Volga Region, Urals Region, North-Caucasian, Central and Southern.

There are more than 45 thousand Company's shareholders represented by individuals and legal entities all around the world.

The main marketplace for the Company's stock in Russia is the MICEX. Company's securities are traded abroad on the London Stock Exchange, Frankfurt, Munich, Stuttgart stock exchanges, and on the U.S. OTC market.



LUKOIL is a member of the Russian UN Global Compact network and Social Charter of Russian Business (initiative of the Russian Union of Industrialists and Entrepreneurs). LUKOIL's representatives take part in the events held under the auspices of both organizations, thus promoting ideas and positive practice of corporate responsibility and sustainable development in the Russian Federation.

LUKOIL in Russia today² is:

14.6 %
of oil reserves

2.7 %
of gas production

16.3 %
of oil production

48 %
of production
of lubricants

16.7 %
of oil refining

Source: Company's data.

¹ Including own, leased and franchising ones.

² Data as of the end of December 2012.

Key economic achievements – economic value created and direct economic value distributed, USD mln.¹

GRI Indicator EC1	2009	2010	2011	2012
Proceeds	81,083	104,956	133,650	139,171
Return on financial investments	134	174	211	257
Income generated from the use of assets	9,778	11,533	13,155	14,070
OPEX	7,340	8,298	9,055	9,359
Payments to suppliers of capital	4,786	4,535	4,354	6,364
Payments to the state (taxes)	21,454	29,960	38,813	39,240
Investments into community	197	263	184	160

¹ The table contains overall data for the LUKOIL Group (i. e. including international assets).

Note. Item **“Payments to the state”** includes excise taxes and export duties, current tax and other taxes. Item **“Payments to suppliers of capital”** includes dividends paid out on the Company’s stock, dividends paid out to minority shareholders, repayment of long-term debt obligations, interest payments.

Item **“Investments into community”** includes charity and expenses of Russian LUKOIL Group organizations related to maintenance of social infrastructure (on the balance sheet and under target financing agreements) to provide social services to current and retired employees.

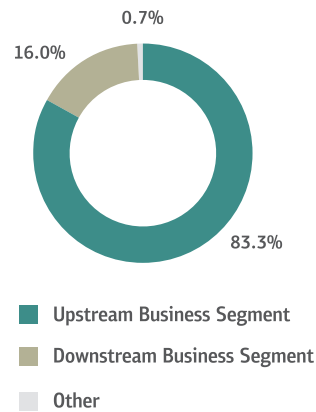
Energy and Society: strategies and interaction

LUKOIL's strategic goal – dynamic development at the level of global best practice in terms of operations excellence and competitiveness.

In 2012, LUKOIL's Board of Directors approved the new version of the LUKOIL Group's Strategic Development Program (SDP) for 2012-2021. The Company's key goal for the next decade will be to increase shareholder value: we plan to significantly increase payouts to shareholders. The following should be the tools used to achieve the goals the Company has set:

- improving operations excellence, labor productivity and energy efficiency;
- raising investment discipline;
- capturing the potential of the Company's R&D organization;
- taking further measures to simplify organizational pattern and spinning off the Company's non-core assets.

According to 2012-2021 SDP, the planning capital expenditures for all the business segments make up 150 USD bln.



For more details on LUKOIL strategy with breakdown by each business segment please refer to Annual Reports for 2011 and 2012. Quantitative indicators are available in 2011 and 2012 Analyst Databooks.

Production of raw hydrocarbons by LUKOIL Group's subsidiaries in Russia

Types of raw hydrocarbons	2011	2012
Hydrocarbons, total, mln. BOE	714	710
Oil production, mln. bbl	623	617
Production of natural gas liquids (NGL), mln. BOE	13	14
Production of commercial gas, mln. cu. m. ¹	13,174 ¹	13,554 ¹

Source: Company's data.

¹ Includes gas for sale, does not include gas to be injected into formation, in-process losses and gas for own consumption. In 2012, the LUKOIL Group began using a new methodology for calculation of hydrocarbons, according to which production of oil, liquid gas products and commercial gas are separated.

DIVERSIFICATION OF ENERGY RESOURCES

HYDROCARBON RESOURCES



The Company is planning to significantly increase investments into its upstream business to create the prerequisites for production growth in the next decade.

By 2021 we plan to increase production of hydrocarbons by 44% compared to the level of 2011.

Western Siberia still remains the Company's key resource base accounting for more than a half of proven hydrocarbon reserves and production. A major event in 2012 was the stabilization of oil production in this region, including through utilization of cutting-edge production technologies (hydrocarbon production increased by 0.8%).

LUKOIL Group's strategy includes further growth of production in this region (including due to development of the Pyakyakhinskoye and Imilorskoye fields, Bolshekhetskaya Depression). A major achievement in the reporting period was that the Group obtained access to federal subsoil areas – the Imilorskoye, West Imilorskoye and Istochnoye fields. LUKOIL became the first ever private company to obtain a permit like that.

The Company will continue increasing hydrocarbon production, mainly due to operations in the promising regions of Timano-Pechora province (oil), in the Northern Caspian Sea (oil and gas), and in Western Siberia (oil and gas). We plan to ensure production growth through the following:

- integration into new regions of operations;
- utilization of cutting-edge technologies at the areas with depleted resources and at the fields with hard to recover hydrocarbon reserves.

Five fields were discovered in 2011–2012 in the Komi Republic, Perm Krai, Western Siberia and Volgograd Oblast, as well as 20 new accumulations at the fields already under development. The Company began production of raw hydrocarbons at two new fields located in Perm Krai and Volgograd Oblast. A major development in expansion of the resource base was an agreement for LUKOIL's participation in development of R. Trebs and A. Titov fields (jointly with OAO ANK Bashneft, 25.1% LUKOIL's interest in the joint venture).

In 2014–2016, LUKOIL will begin active oil production in the Northern Caspian Sea and the Bolshekhetskaya Depression in the Yamalo-Nenets Autonomous Okrug (YNAO). In 2015, it will start

production at the Imilorskoye field in Khanty-Mansi Autonomous Okrug – Yugra (KMAO – Yugra), the development license for which was issued to the Company in 2012.

Plans of the LUKOIL Group include increasing the share of natural gas in its hydrocarbon production up to 27% by 2021.

The basis for LUKOIL Group's gas production is represented by the reserves of the Bolshekhetskaya Depression (YNAO). In 2017–2019, we plan to commission three more large fields – the Pyakyakhinskoye, Yuzhno-Messoyakhskoye and Khalmerpayutinskoye.

The Company has a Master Agreement for strategic partnership with Gazprom for 2005–2014 concerning gas supplies from the Bolshekhetskaya Depression and the Northern Caspian fields. Supply volumes may vary depending on commissioning of Bolshekhetskaya Depression fields, as well as on the rate of utilization of Gazprom's gas transportation system.

POWER ENGINEERING



Power Engineering business is assigned a major role in ensuring reliable supplies for both Company's in-house facilities and for external consumers of heat and electricity in the Southern Federal Okrug of the Russian Federation. Generation is the key business in this segment. We plan to invest significant funds into this business. At the legislative level investment return mechanisms were created for such projects. Such mechanisms are represented by capacity supply agreements.

The Company is planning to continue construction of combined cycle plants (CCP¹). The technology is based on the reuse of high-temperature discharge gas to generate additional electricity, which helps to reduce the specific fuel consumption twice, and improve environmental situation (for example, reducing nitrogen oxide emissions 2–3 times).

LUKOIL has commissioned CCP-410, a production facility of OOO LUKOIL-Kubanenergo. Also, a 110 MW CCP of OOO LUKOIL-Astrakhanenergo was commissioned. Construction of CCP-235 at the area of Tsentralnaya boiler house of LUKOIL-Astrakhanenergo will soon be completed. OOO LUKOIL-Stavropolenergo is currently implementing a major investment project for construction of a 135 MW CCP located in the Regional Industrial Park of Stavropol Krai, which is in close vicinity to OOO Stavrolen in Budennovsk. We plan to commission the power generation facility at V. Grib diamond field, and complete construction of the energy facility at the production area of OOO LUKOIL-Permnefteorgsintez.

¹ Combined-cycle plant is a power generating plant utilized for production of electricity. The difference from steam-power and gas turbine plants is in higher efficiency coefficient.

Renewable Energy Sources

The Company's strategy includes further development of energy projects based on renewable energy sources (renewables). LUKOIL's managers are confident that in future Russia is sure to face the challenge of wider use of renewable energy conditioned by the need to diversify the energy sector. In view of that, the Company is already implementing projects based on renewables both abroad and in Russia, which will help to gain the experience required and train the workforce.

The simplest and most effective way of utilization of solar energy is to use solar collectors (SC). In February 2012, OOO LUKOIL-Uralnefteprodukt implemented a project for the use of solar collectors at a filling station in Orenburg. The only one installed solar collector with the surface area of 2.84 sq. m. and 1,500W heating capacity proved to be enough to supply heat and hot water for the filling station. The filling station's staff will monitor operation of the heating system on a regular basis. At the same time, now we already can state that the use of the solar collector in the winter season, when the outer air temperature is below zero, for heating purposes is possible and efficient. Moreover, according to the preliminary efficiency estimates, the payback period of such systems may be as short as about three years, which is encouraging and offers prospects for their use at many other Company's facilities.

In October 2010, SC's were installed on the roof of the booster pumping station (BPS) building of OOO LUKOIL-Perm in Kueda settlement (Perm Krai), which were intended for hot water supply purposes. Their operation was monitored during 2011. The monitoring data not only suggests that such systems can function in the regions traditionally considered to be far from sunny, but also that they can be utilized in a highly efficient manner. A system of solar collectors helps to significantly reduce power consumption (by about 30% or possibly up to 50% per year). Moreover, during the summer season (about 3 months) they almost completely did without electric water heating in the building.

The LUKOIL Group enterprises have already accumulated positive experience in the use of low-potential sources of heat energy. For heat supply and conditioning purposes some production facilities use thermal pumps (TP). The geography of TP utilization is just about unlimited for as a source of low-potential heat we can use ground, water and ambient air, as well as secondary thermal resources generated in the course of human activity.

Heating systems based on such pumps are efficient, do not produce any pollutant emissions, demonstrate high safety and reliability with long service life (15–20 years), offer automatic control and do not involve huge operating expenses. The key effect from the

use of TP's is generation of 3 to 7 kW of heat energy per each kW of electricity consumed.

Filling stations have the best prospects among all other facilities to install such thermal pumps. Five projects have been implemented so far. The capacity of the TP's utilized in such projects is in the range of 10-30 kW. The results suggest that the use of TP's offers great prospects, and therefore we plan to utilize them in new projects at LUKOIL Group's filling stations and bulk plants.

WE USE SOLAR ENERGY

In 2009 LUKOIL constructed:

- two photovoltaic power plants (PVPP) in Serbia with the capacity of 4kW each;
- a 10 kW PVPP in Krasnaya Polyana settlement (Russia).

In 2000, OOO LUKOIL-Ekoenergo was established to deal with development of renewable energy projects. The priority areas of its activities include projects for utilization of hydro, wind, and solar energy.

In Russia OOO LUKOIL-Ekoenergo manages Belorechensk, Krasnaya Polyana, Maykop and Tsimlyansk hydropower plants with the total capacity of 297.8 MW. Currently, hydropower plants are being upgraded and operations are under way to improve their performance. In particular, ORU-110 (outdoor switchgear) was commissioned at Krasnaya Polyana hydropower plant being an Olympic facility, which helped significantly improve the quality and reliability of power supply for the region.

In 2011, the organization commissioned a PVPP with 1.25 MW installed capacity. The plant occupies 2.5 hectares of the area of LUKOIL Group's refinery near Bulgarian Burgas.

Renewable energy is one of the mechanisms to ensure environmental safety, reduce environmental impact, and save resources. In order to mitigate the Company's risks, and given the fact that this business is quite new for both the Company, and entire Russia, it is advisable to implement major projects jointly with a partner that has sufficient experience and competence in this field.

Today, LUKOIL's key partner in the field of renewable energy is ERG Renew (Italy), a company of ERG Group specializing in implementation of wind and solar energy projects.

In May 2010, LUKOIL and ERG Renew signed a memorandum of understanding concerning cooperation on the renewable energy market. The priority of joint activities lies in implementation of wind power projects. The joint team of LUKOIL and ERG Renew

developed cooperation options and prepared specific projects. Since we still have no clear decisions concerning support of renewables by the Russian Government, we plan to start implementation of projects abroad, in particular, in Bulgaria and Romania, where the state support to renewable energy is already in place. At the next stage of cooperation we are planning to consider implementation of wind power projects in Ukraine, as well as in Russia, provided that Russian legislative acts aimed at support to renewable energy are enacted.

In May 2011, LUKERG Renew joint venture agreement was signed. In June 2012, 40 MW wind farm Cherga was acquired in Bulgaria. It includes 20 wind turbines that were commissioned in 2009.

In late January 2013, LUKERG Renew acquired Romanian Land Power SRL, which holds a license for construction of a wind power plant, and the rights to a land plot with an area of around 500 hectares, located in Tulcea county in the southeastern part of Romania 50 km away from the Black Sea. In 2013, LUKERG Renew began construction of a wind farm here. Forty two wind turbines will be installed here with 84 MW of total installed capacity. The company plans to bring it into commercial operation in the first half of 2014.

RESEARCH AND DESIGN ACTIVITIES

In 2010, LUKOIL adopted a new concept for development and restructuring of its research and design function (R&D) in order to create a common structure to drive LUKOIL's leadership as an active participant of the process of country's and industry's innovation development.

LUKOIL's research and design organizations develop and implement cutting-edge technical, process-related and managerial solutions to promote interests of the Company and key stakeholders.

A mid-term target program for scientific and technical development of the LUKOIL Group in 2013–2014 (the Program) was approved, within the framework of which an annual

coordination program will be adopted every year. The Program sets priorities and areas of scientific and technical effort to achieve Company's strategic goals. Most part of the related expenses is planned to be within the Upstream Business Segment.

In 2010, a Steering Committee was created headed by LUKOIL's First Executive Vice President R. Maganov. The key organization coordinating LUKOIL's innovations activities is 000 LUKOIL-Engineering (<http://engineering.lukoil.ru/main/default.asp>). The company includes KogalymNIPIneft, PermNIPIneft, PechorNIPIneft, VolgogradNIPImorneft, and KaliningradNIPImorneft branches.

The task assigned to 000 LUKOIL-Engineering is to become a management center for all the innovation activities, from analysis of issues LUKOIL's subsidiaries are facing in their activities, to dissemination of successful innovations. Action plans were developed with breakdown by the areas of improvement in R&D activities taking into account state-by-stage reforms. Within the framework of activities under the Plan, the steps that were already taken include, inter alia:

- a list of business processes to be owned by the R&D function was developed, agreed, and approved;
- specialized centers for key areas of R&D activities were created;
- quality assurance system was implemented to control R&D activities (key performance indicators, system of incentives, expert institute);
- a knowledge management system was developed for the Upstream Business Segment; a system of evaluation and development of professional competences was implemented;
- a project-based approach to activities was implemented.

WIND POWER PILOT PROJECTS

In 2001, a 20 kW windmill generator (WVG) was mounted at filling station No. 42 Ud-Duvaney (Republic of Bashkortostan). It has a service life of 20 years.

In 2011-2012, initial surveys were conducted concerning possible areas for wind farm installation.

At the end of 2012, wind monitoring activities were completed at a land plot in Kaliningrad Oblast.

The project for construction of a wind farm in Kaliningrad Oblast is now at the stage of financiability study. We plan to install three wind turbines at this area with a total wind farm capacity of 10 MW.

The company began a financiability study for construction of wind-diesel power plants designed to supply power to remote production enterprises of the LUKOIL Group.

The priority R&D areas of the Upstream Business Segment in development and production fields are as follows:

- replenishment of resource base;
- on-site supervision over the field development projects;
- preparing measures aimed at management of development operations and improvement of their quality;
- follow-on support for production drilling operations;
- search for, and adaptation of, cutting-edge technologies.

It was decided to break up the developed areas of reserves into smaller ones in order to use the Company's resource base in a more efficient manner. Such breaking up should help differentiate the reserves, determine stages of their development, evaluate the rate of extraction of reserves and ensure a custom-tailored approach to development of each separated reserves area.

Each developed area of reserves was analyzed to determine whether the entire spectrum of geological and process-related solutions and utilized technologies is consistent with the current state and quality of residual extracted reserves, pilot experiments and pilot operations.

This effort helped to adapt the most current technologies that have not been previously utilized by the Company, to the structure and quality of the residual extracted reserves.

We understand that specialized science and engineering need to be developed to ensure development of the economy of oil and gas industry.

RATIONAL UTILIZATION OF RESOURCES

INCREASING OIL RECOVERY FACTOR

High-viscosity oil



Company's proven reserves include high-viscosity oil; that is why LUKOIL improves its development technologies for the fields containing this type of oil.

At the Yaregskoye field with almost 300 mln. BOE of proven reserves oil has been produced since 1935, mostly using a thermal mining method¹. In 2011, the company began pilot operations with a drilling rig (manufactured in Australia) that can drill up to 800m long underground holes, which is more than 2.5 fold exceeds the length of conventional underground holes. The use of new equipment will help to significantly cut the costs related to preparation to production operations and improve efficiency of operations.

Shale oil

The Bazhenovskaya suite with huge resource potential for production of shale oil is the most interesting and promising object of study. According to the available estimates, the sediments of the Bazhenovskaya suite occur in Russia across the area of more than 1 mln. sq. km. with up to 2 trillion tons of resources and up to 20 billion tons of recoverable reserves. Currently available technologies enable us to produce only a small part of them (2–4%). Thus, the conventional oil recovery enhancement methods are no solution to this challenge.

To start large-scale commercial production of the reserves contained in the Bazhenovskaya suite we will need a technological breakthrough that will probably be represented by the currently tested thermal gas treatment method and horizontal drilling with multi-stage fracturing. The thermal gas treatment method is one of the most technically complex methods of oil recovery enhancement. So far, we have not had any experience of using it in Russia. Therefore, OAO RITEK experiments² conducted in 2013 are unique ones and have exceptional value for the future of the Russian oil and gas industry.

¹ See Annex 3 "Supplemental Information and Abbreviations".

² In the LUKOIL Group the task of development and implementation of cutting-edge technologies was assigned to OAO Russian Innovation Fuel and Energy Company (RITEK).

Application of cutting-edge technologies and oil recovery enhancement methods

Technologies and methods	2009	2010	2011	2012
Number of horizontal wells commissioned	91	101	235	268
Number of side tracks drilled	264	224	241	377
Number of frac jobs	634	690	681	867

Source: Company's data.

Offshore production

The Company is increasing its offshore operations. Yu. Korchagin field in the Caspian Sea is being developed with the use of extra-long (more than 5 km) wells network, which is unique for Russia. The wells drilled in 2012 are the longest ones in the country (from 5,868 to 7,600 m), which helps to recover more reserves. Thus, the most part of the Company's incremental reserves were ensured in 2012 by additional exploration of fields in the Northern Caspian Sea.

Pipes made from new materials

LUKOIL became the world's first company to use a special type of aluminum pipes with high content of aggressive components – hydrogen sulfide and carbon dioxide. Such pipes were used in well construction at the Bayadynskoye oil field (Komi Republic).

LUKOIL's R&D organizations have found a type of aluminum alloy that is inert to acid gases. They also developed a special configuration of pipes and threads. The use of such pipes will help intensify the oil inflow.

ENERGY SAVING



High energy efficiency and energy saving are inherent part of the Company's strategic goal of increasing our product's competitiveness.

The key area of the 2011–2013 Energy saving program is represented by optimizing the operation of power units according to the production patterns. The program also includes projects that involve implementation of energy efficient technologies and equipment, energy saving during operations based on cogeneration plants.

Lower own consumption of energy will be achieved through the following:

- improvement of operational technologies;
- better structure of utilization of operational equipment;

- higher utilization efficiency of electricity distribution equipment and power grids.



In the oil refining sector the most acute challenge now is to increase the oil conversion rate, which requires additional energy inputs and, consequently, results in higher power intensity of operations. The energy saving measures help to slow down by 1-2% the growth rate of indicators describing consumption of fuel and energy resources per unit. The greatest energy saving amount is achieved due to the following:

- improvement of oil refining technologies and optimization of process equipment;
- use of frequency-controlled electric drive in the equipment;
- ensuring higher reliability of power supply units and replacement of physically outdated equipment, etc.



At petrochemical enterprises the energy saving goal is achieved mostly through reconstruction of process facilities and operational infrastructure, as well as through construction of new facilities.

Power suppliers implement investment programs and measures developed following the results of energy inspections and studies, including:

- major overhaul and technical re-equipment of power generating facilities;
- replacement of outdated equipment;
- reducing losses of fuel and energy.

Fuel, heat and electricity savings resulting from energy saving measures in 2011–2012

Period	Electricity mln. kW-h	Heat ths. Gcal	Boiler and furnace fuel ths. TOE
Oil and gas production in Russia			
2011	68,020	3,962	4,853
2012	69,632	2,038	1,830
Refining in Russia			
2011	7,526	194,905	40,720
2012	7,564	137,553	8,345
Marketing in Russia			
2011	1,629	250	12
2012	1,752	419	12

Source: Company's data.

ASSOCIATED PETROLEUM GAS



LUKOIL's activities aimed at reducing volumes of flared associated petroleum gas are of huge importance for environmental protection, cutting emissions of combustion products and resource saving. Every year the Company increases its utilization of APG.

The growth of this indicator is driven by construction of compressor stations, gas pipelines and CCP's at the fields. In 2012 alone as part of the LUKOIL's APG Efficient Utilization Program, RUR 9.7 bln. was invested into reconstruction of APG recycling facilities.

LUKOIL is planning to reach the target utilization of associated petroleum gas of 95% by the end of 2014. This target has already been achieved at the main LUKOIL Group's fields.

In 2012, the Company signed an agreement with OAO E.ON Russia for supply of APG to their facilities, which will help to largely solve the issue of APG utilization in Perm Krai.

APG utilization in Russia, mln. cu. m.

	2008	2009	2010	2011	2012
APG utilization ¹ , %	70.4	71.1	76.8 ²	79.3% ²	87.6% ²

¹ Note. APG utilization is specified taking into account the share of dependent organizations in its production.

² At main Company's fields in Western Siberia utilization of associated petroleum gas is 95%.

APG UTILIZATION IS INCREASING IN PERM KRAI

OOO LUKOIL-Permnefteorgsintez is currently implementing a major investment project aimed at increasing their APG processing volumes, which is part of the enterprise's mission.

Construction of the second APG processing line is a major development in the oil and gas industry of Perm Krai. The project involves upgrading of the existing and construction of new facilities – a 900 mln. cu. m./year gas processing plant, and a natural gas liquids (NGL) processing unit with the capacity of 700 ths. tn/year. Construction of a new compressor

station for APG compression is currently under way. A brand new development in the technology will be represented by recycling of combustion gas in exhaust-heat boilers, which will improve the facility's energy efficiency. The existing sulfur recovery unit will also be upgraded by way of dividing the feedstock flows.

Introduction of the new flow distribution pattern will ensure an increase in the volumes of processed gas feedstock from 560 to 1,460 mln. cu. m. per year, while the increase for liquefied hydrocarbons will be from 1,000 to 1,700 ths. tn. per year.

IMPLEMENTING KYOTO PROJECTS

The Kyoto Protocol to the UN Framework Convention on Climate Change (the Kyoto Protocol) signed in 1997 and ratified by the Russian Federation in 2004 was a new milestone in the history of harmonizing the relations between people and nature. Efficient system-based tools were created within its framework to regulate the impact produced on climate and environment by greenhouse emissions including those generated by operations of oil and gas companies.

As a socially responsible company, LUKOIL admits the importance of activities aimed at prevention of global climate change. Eco-economic mechanisms of the Kyoto Protocol provide an opportunity to book the reduction of greenhouse emissions (emission reduction units –ERUs) achieved in the course of operations and sell them on the international carbon market.

Starting from 2005 the Company has been actively involved in management of greenhouse emissions. In fact, such Company's activities were voluntary. The urgency of this effort is conditioned by the fact that in the course of its principal operations the Company generates significant greenhouse emissions, while conventional emission reduction mechanisms are quite cost-intensive.

To develop in this area the Company approved the Concept for planning LUKOIL Group operations on the basis of the provisions

of the Kyoto Protocol and the Comprehensive action plan for implementation of this Concept. Following the inventory of greenhouse emissions, evaluation of carbon potential, preparation and determination of carbon design documents, the Company developed a portfolio of projects for reduction of greenhouse emissions in the LUKOIL Group.

The LUKOIL Group's carbon portfolio includes 14 Russian projects whose implementation helped reduce emissions by 32 mln. tn during the first stage of the Kyoto Protocol obligations from 2008 to 2012.

As of 02.01.2013 out of all the secured emission reduction units the Company was able to sell 919 ths. tn which generated the total of EUR 2.3 mln. revenues.

After the Russian Federation made a decision not to join the obligations in the second Kyoto period we actually lost the only effective mechanism of providing economic incentives for environmental protection activities. We now have some unsold ERUs generated by already approved projects. Company's six largest projects have been rejected by the Russian Ministry of Economic Development, which prevented from selling 26 mln. ERUs under the agreements signed with the prospective buyer.

ENVIRONMENTAL
WELLBEING

16

INDUSTRIAL
ENVIRONMENTAL CONTROL

22

INDUSTRIAL
SAFETY

24

1

HSE MANAGEMENT SYSTEM





LUKOIL's health, safety and environment (HSE) management system is based on the requirements of the Russian law while being consistent with the best domestic and international practice.

The management chain goes from the administration (LUKOIL) to enterprises and individual facilities. The system was certified for compliance with ISO 14001 and OHSAS 18001 standards.

HSE MANAGEMENT

Involvement of the Company's top management: every year LUKOIL's Management Committee reviews and approves an HSE report that represents an established form of analysis of activities in this field by the Company's management. Following its review decisions are made concerning areas of further development, remedial actions and preventive measures.

The data submitted in the report are also taken into account in the LUKOIL Group's Development Strategy and investment programs.

Basic corporate documents. The Company has a Health, Safety and Environment Policy for XXI century in place. Also, LUKOIL's corporate standards entitled Health, Safety and Environment Management System have been developed to regulate operation of the HSE Management System including identification of risks and related response activities.

Policy implementation mechanism: five-year programs aimed at ensuring environmental and industrial safety, better health and labor conditions, prevention of emergencies and emergency response.

Audit: every year the Company performs internal audits of the management system in structural subdivisions and LUKOIL Group Organizations; also external supervisory audits are performed by audit firms on a regular basis.

Assessment of management system performance is conducted following the results of the monitoring that includes audits, production control, corporate supervision, as well as in the course of HSE contests. HSE key performance indicators are in place for all the levels of managers.



In 2012, LUKOIL joined the Green Office project handled by the Russian division of Greenpeace. The Company assumed voluntary obligations aimed at office ecology improvement. Involvement in this project is the Company's contribution into reduction of energy consumption and greenhouse emissions.

ENVIRONMENTAL WELLBEING

In 2011, as part of development of LUKOIL Group's Strategy for 2012–2021, a functional program for development in the field of environmental protection was prepared. The program takes into account risks and prospects of changes in the environmental law. The following strategic benchmarks of ensuring LUKOIL Group's environmental safety were determined:

- achieve 95% utilization of associated petroleum gas;
- reduce discharges of contaminated waste water into water bodies;

- reduce greenhouse emissions and generate extra income from implementation of mechanisms per Article 6 of the Kyoto Protocol;
- fully clean up the "past environmental damage";
- establish the situation, in which the generated to recycled waste ratio should not exceed 1;
- reduce pipeline failures and rehabilitate the land contaminated after such failures.

LUKOIL follows the highest safety, health and environment standards in its operations. Company's activities are based on the environmental safety programs, whose mechanism includes taking into account the most significant aspects (*see the diagram on page 17*). Starting from 2011 all the significant activities in Power Engineering business are included into the corporate environmental safety program.

KEY RISKS

The key HSE risks are connected with imposition of new requirements in this field in the Russian law.

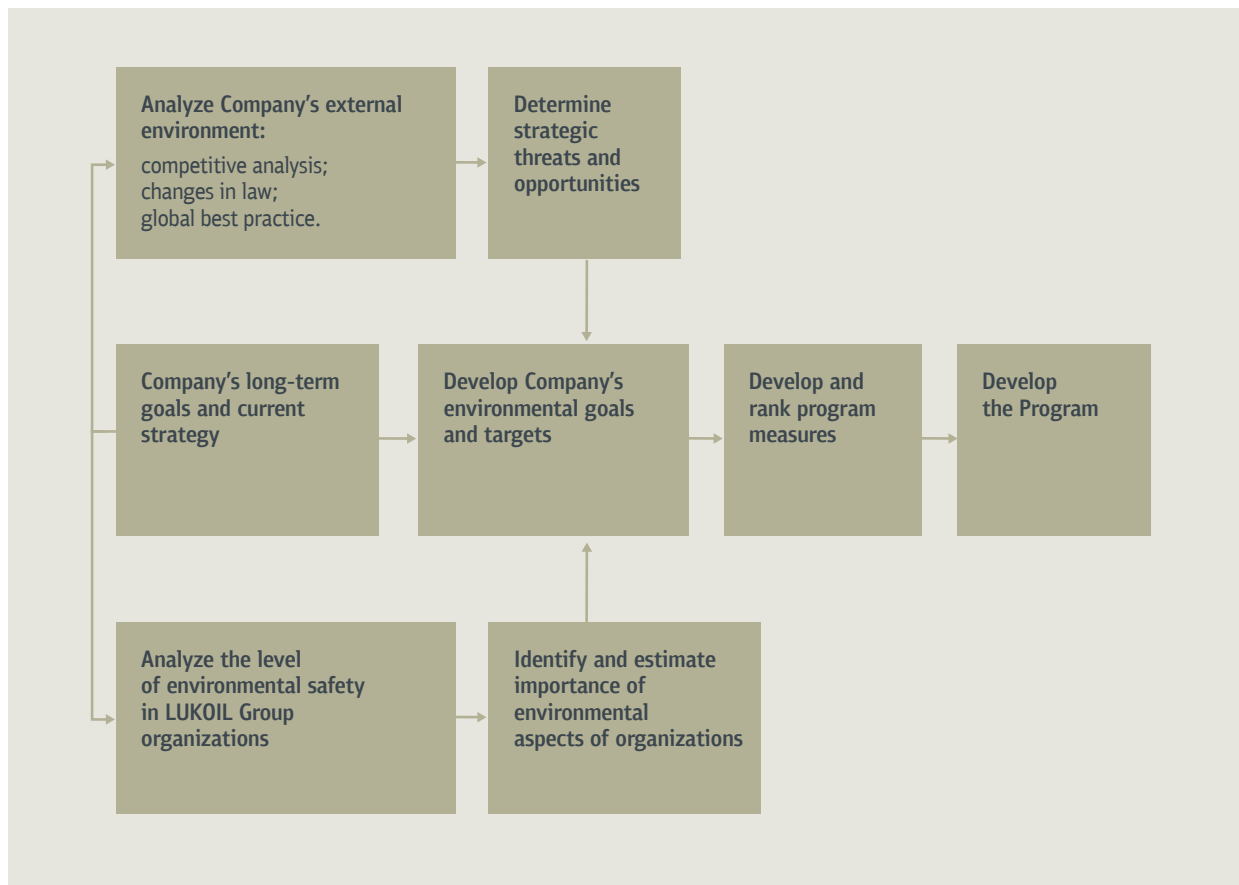
The risk of non-compliance of the operations with environmental standards in some regions of the Company's presence may require additional expenses associated with upgrading the operations. Realization of process-related risks

connected with operational equipment outages may result in downtimes and failure to achieve the production and financial targets.

The risk management system, one of whose components is represented by management of health, safety and environmental risks of the LUKOIL Group, helps reduce the possibility of occurrence of risk events.

The following are the areas, in which major investment measures are taken helping to achieve the goals:

- upgrading enterprises, which involves implementation of low-waste technologies; provision of the facilities to recycle the accumulated and newly generated waste to the enterprises;
- construction of gas pipelines, gas compressor stations, new processing plants;
- upgrading refinery assets to increase production of clean fuel.



KEY ENVIRONMENTAL MEASURES

Currently, the Company is implementing the fourth target functional Program for Environmental Safety in the LUKOIL Group Organizations for 2009–2013 aimed at prevention,

reduction and elimination of environmental impact with the total funding of RUR 90 bln.

Area	Key measures in 2012
Rational utilization of water resources, preventing contamination of water bodies	<ul style="list-style-type: none"> • diagnostics and major overhaul of pipeline transportation facilities, and inhibitor protection; • construction of systems for initial separation and disposal of formation water; • revision of pipeline passages through water bodies; • treatment of contaminated ground water from drainage systems; • upgrading the existing and construction of new water treatment facilities.
Reduction of pollutant air emissions	<ul style="list-style-type: none"> • upgrading and construction of facilities that increase APG utilization; • upgrading and construction of new CCPs with high efficiency coefficient at power engineering facilities; • replacement and upgrading of equipment (rope packing, process furnaces, pumping equipment) aimed at reduction of pollutant emissions; • optimization of utilized technologies – timely adjustment of combustion patterns in furnaces, boilers, etc.
Recycling of accumulated oil waste	<ul style="list-style-type: none"> • increasing the scope of waste neutralization activities; • construction of an oil waste recycling facility; • construction of industrial waste disposal sites.
Prevention of contamination and rational use of land resources	<ul style="list-style-type: none"> • rehabilitation of disturbed and oil-contaminated land; • diagnostics and major overhaul of pipeline transportation facilities, and inhibitor protection.
Preserving biodiversity	<ul style="list-style-type: none"> • funding compensation activities for reproduction of fish resources; • performing target monitoring of environmental components.

Expenses associated with environmental protection measures, RUR bln

Types of expenses	2009	2010	2011	2012
Expenses associated with ensuring environmental safety	13	20.1	22.2	23.4
including capital investments into basic environmental protection assets	3.0	7.9	3.3	4.7

Source: Company's data.

DESCRIPTION OF KEY ENVIRONMENTAL EFFECTS

All the Company's business sectors except for Petrochemicals and Power Engineering demonstrated reduction of their specific environmental impact indicators in the reporting period.

The growth of some specific indicators in Petrochemicals in 2012 was conditioned by reduction of operations at OOO Stavrolen resulting from repair and restoration activities connected with eliminating the consequences of the fire outbreak at the ethylene production unit. The incident occurred in December 2011. Production of ethylene and propylene was resumed in September 2012.

CLEAN AIR

Reduction of pollutant air emissions was mainly due to the measures implemented within the framework of the target corporate program for increasing APG utilization. The fact that the gross NOx emissions indicator increased compared to 2010 is conditioned by inclusion of the Power Engineering indicators into the consolidated data (increase in the volume of combustion products).

Air emissions of NOx, SOx and other material pollutants, ths. tn

Indicators	2008	2009	2010 ¹	2011	2012
Pollutant air emissions, total (without CO ₂)	813.7	754.7	795.0/17.3	842.3	725.8
including:					
NOx emissions	16.4	16.0	31.3/16.3	30.4	39.0
SO ₂ emissions	30.5	45.6	49.1/0.4	103.4	83.8
emissions of solids	51.6	42.2	46.7/0.05	42.5	32.5
CO emissions	458.7	392	429.1/2.7	420.7	331.2
hydrocarbon emissions, including methane emissions	256.0	254.6	236.5	238.3	229.5
	57.4	52.3	44.6	52	60.4

Source: Company's data.

¹ Here and after, separated by a slash, are indicators related to business sector "Power Engineering".

Specific emissions with breakdown by business sectors

Indicators	2008	2009	2010	2011	2012
kg/tn of produced HC raw stock	7.07	6.4	6.6	7.5	6.3
kg/tn of refined oil	1.14	1.1	1.1	1.0	1.0
kg/tn of processed raw stock	4.4	4.8	3.7	2.8	4.1
kg/tn of sold petroleum products	0.63	0.78	0.69	0.63	0.63
kg/tn of transported oil and petroleum products	–	0.33	0.32	0.2	0.2
kg/tn of consumed fuel	–	3.19	3.14	3.31	3.06

Source: Company's data.

CLEAN WATER

Over the reporting period the actual discharges of contaminated waste water were within the set planning targets for reduction of impact on water bodies. The slight increase in this indicator was conditioned by the fact that the process water from purging of

the water-cooling towers of one of 000 LUKOIL-Astrakhanenergo facilities was discharged to an ash dump that is to undergo reconstruction in 2013, in particular, water treatment facilities will be installed there.

Dynamics of waste water discharges, mln. cu. m

Indicators	2008	2009	2010	2011	2012
Waste water discharges into surface water bodies and to terrain	25.5	25.5	354.9/321.1	329.3	334.6
including: clean per standards	2.0	5.4	326.1/319.2	296.7	302.2
treated per standards	11.5	11.0	23.8/0.9	31.0	30.2
under-treated	11.6	8.7	4.0/0	0.9	0.9
contaminated (untreated)	0.43	0.33	0.88/0.8	0.8	1.4

Source: Company's data.

Specific discharges of contaminated waste water

Indicators	2008	2009	2010	2011	2012
cu. m./ per ton of produced HC raw stock	0.007	0.007	0.01	0.006	0.006
cu. m./ per ton of refined oil	–	–	0.06	–	–
cu. m/ per ton of processed raw stock	8.4	7.8	–	–	–
cu. m/ per ton of petroleum products sold	0.007	0.007	0.005	0.002	0.001
cu. m/ per ton of transported oil and petroleum products	–	0.006	0.007	0.01	0.01
cu. m/ per ton of consumed fuel	–	0.10	0.12	0.14	0.20

Source: Company's data.

Water Consumption

The increase in water consumption figures is connected with inclusion of indicators of Power Engineering enterprises into the consolidated reports starting from 2010. The water is

utilized there to cool down process equipment and to generate electricity at hydropower plants. The 2011–2012 data suggest reduction in consumption of water resources by the LUKOIL Group Organizations.

Water consumption, mln. cu. m

Indicators	2008	2009	2010	2011	2012
Own needs of LUKOIL Group enterprises	141.6	150.0	512.3/372.6	474.7	467.5
Production needs (without taking into account the consumption to maintain formation pressure)	45.0	42.7	402.6/357.1	369.3	370.0
For formation pressure maintenance	90.5	100.0	100.6	82.2	70.7

Source: Company's data.

Specific water consumption for own needs of enterprises

Indicators	2008	2009	2010	2011	2012
cu. m./ per ton of produced HC raw stock	0.97	1.08	1.0	0.95	0.95
cu. m./ per ton of refined oil	0.43	0.40	0.41	0.41	0.4
cu. m/ per ton of processed raw stock	14.6	15.5	14.5	14.0	25.3
cu. m/ per ton of petroleum products sold	0.04	0.04	0.04	0.036	0.034
cu. m/ per ton of transported oil and petroleum products	N/A	0.03	0.03	0.036	0.032
cu. m/ per ton of consumed fuel	N/A	60.47	62.03	60.3	50.5

Source: Company's data.

Reverse water supply and reused water, mln. cu. m

Indicators	2008	2009	2010	2011	2012
Reverse water supply	769.0	701.4	1,962.0/1,262	1,788.7	467.5
Recycled and reused water	404.7	401.1	1,008.9/435.8	844.6	826.5

Source: Company's data.

WASTE MANAGEMENT AND REHABILITATION OF LAND

LUKOIL has been systematically investing into waste recycling activities, thus implementing the responsibility principle throughout the entire product's life cycle, and introducing the best available technologies. This way the Company anticipates the decisions of the Russian government concerning introduction of a new environmental regulation system.



Significant reduction in the accumulated waste was due to operations performed at OOO Saratovorgsintez. Recycling of the accumulated viscous waste continues at LUKOIL-Volgogradneftepererabotka, as well as construction of a new oil-contaminated waste recycling facility at OOO LUKOIL-Permnefteorgsintez.



The increase in generated industrial waste is largely conditioned by a larger scope of well construction operations (drilling cuttings). The growth rate of waste recycling outpaced that of its generation. In addition, in 2012 the accumulated waste volume reduced almost twice.

Waste Management

Indicators	2008	2009	2010	2011	2012
Hazardous waste generated, ths. tn	779.9	771.3	848.0/ 17.1	752.9	981.1
Hazardous waste recycled (utilized or neutralized) using in-house resources, ths. tn	251.2	291.7	298.2/ 0.7	258.0	273.1
Hazardous waste transferred for recycling (utilization or neutralization) to specialized enterprises, ths. tn	290.9	278.0	232.6/ 24.6	244.8	290.2
Waste remaining as of the year end, ths. tn	1,669.4	1,591.1	1,662.4/ 118	1,552.4	870.3

Source: Company's data.

Rehabilitation of disturbed and oil-contaminated land

Indicators	2008	2009	2010	2011	2012
Area of land rehabilitated, hectares	2,838	2,600	2,764	2,200	2,464
including oil-contaminated land, hectares	67	62	59	86	159
Sludge pits eliminated using in-house resources	51	109	86	23	50

Source: Company's data.

ENVIRONMENTAL PAYMENTS AND FINES

The increase in the environmental impact fees (from RUR 206.2 mln. to RUR 799.9 mln.) was conditioned by enactment of regulation No. 7 of 01.08.2009 "About Measures to Encourage Reduction of Air Pollution with Combustion Products Generated by Flaring of Associated Petroleum Gas" by the Russian Government, according to which starting from 01.01.2012 the fee rates were increased for pollutant emissions generated by flaring more than 5% of the produced APG. In case of a failure to achieve 95% APG utilization, the emissions from flares are considered excessive (surcharge rates apply). Organizations representing the "Oil Production in Russia" business sector paid RUR 543 mln. of excessive payments for the failure to utilize the APG.

Note that LUKOIL is planning to reach the target utilization of associated petroleum gas of 95% by the end of 2014. Today, all the Company's oil and gas production facilities have APG metering systems in place according to the Government regulation's requirements.

INDUSTRIAL ENVIRONMENTAL CONTROL

The industrial environmental control (monitoring) system at offshore facilities in the Baltic and Caspian Seas is a great example of comprehensive innovative approach to ensuring environmental safety and rational use of natural resources in the LUKOIL Group.

LUKOIL has years of experience in development of offshore fields based on cutting-edge environmental safety technologies. The cost estimates of offshore field construction projects include a reserve fund of 15% of the total capital investments to ensure environmental safety and compensate the damage caused to environment.

ZERO DISCHARGE PRINCIPLE

The Zero Discharge is the LUKOIL's key principle as regards offshore operations. It means that discharges into water are completely banned and all the waste is transported to the shore for disposal.

Company's experience in the Baltic Sea was taken into account by HELCOM (Helsinki Commission) during preparation of the Action plan for protection of environment from operations of oil platforms in the Baltic Sea. The document officially established the need to follow the "zero discharge" principle for all the countries that have operations in this region.

IEC SYSTEM


The industrial environmental control (IEC) system implemented at the offshore facilities helps to estimate their environmental impact in a timely manner. The novelty of the IEC system lies in the comprehensive observation of all the natural and natural-anthropogenic environments. IEC is conducted at all the stages of the business, including the pre-construction phase. The scope of observation activities is well appreciated by specialized research organizations. Pilot operations are performed in addition to observations.

Prior to the start of field construction, all the available data are analyzed and processed. For instance, hydrodynamic survey data, near-bottom current and bottom sediment measurements as well as the data obtained from other surveys performed in the last 20 years by the Atlantic Division of P.P. Shirshov Institute of Oceanology of the Russian Academy of Sciences, Kaliningrad State University, S.N. Winogradsky Institute of Microbiology of the Russian Academy of Sciences and other research organizations were studied before the construction of the field in the Baltic Sea.

The industrial environmental control system includes two key functional subsystems – information measurement network (IMN) and information management subsystem (IMSS). The IMN obtains, collects, and performs primary processing of measurements regarding the parameters of controlled sources of impact and natural components. The network includes measurement equipment and control stations, both the own ones and those of contracted third parties.

To perform environmental monitoring in the Baltic Sea specially equipped vessels Professor Stockman, AtlantNIRO, Atlantida and Cambriy are utilized. The information about environmental condition is also collected by two bottom observatories, a hydrogeophysical station, two hydrometeorological stations, and three meteorological stations installed right on the offshore platform, on the

Curonian Spit, in Klaipeda, Baltiysk, and Pionersky. The Company installed the region's first standalone underwater seismic station.

 The complete version of the environmental monitoring report can be found at the following URL:
http://www.lukoil.ru/static_6_Sid_2135_.html

The two key external factors affecting the condition of marine ecosystems and bio-resources are the anthropogenic influence and climate change in all their forms. The IEC goal is to analyze cause-and-effect relations between the observed changes and these two factors. This involves a range of contact measurements of key geophysical, chemical, and biological parameters. The obtained data are used to select measurement check points for each type of monitoring activities.

IMSS manages IMN operations, collects, processes, stores, distributes, and provides to users the information about sources and levels of contamination of environmental components, and controls compliance with the requirements of regulations in the field of environmental protection and rational use of natural resources.

Years of observations of marine biological species demonstrate that LUKOIL's field development operations produce no impact on the ecosystems.

PRESERVING BIODIVERSITY

Fixed environmental monitoring systems with the use of near-bottom stations are now being developed at Yu. Korchagin field in the Northern Caspian Sea jointly with P.P. Shirshov Institute

of Oceanology of the Russian Academy of Sciences. The goal of this effort is to elaborate a method for integral assessment of compliance of the man-caused impact on the marine environment and biota produced by the field infrastructure with the permissible standards.

In the course of this work the scientists determine the composition of species within the biomass, their sizes and weights, as well as the density of distribution of hydrocoles. They also identify the hydrocoles as belonging to specific ecological and nutritional groups and complexes, evaluate accumulation of toxicants in the organisms, perform bio-testing, calculate biological parameters (for example, abundance and condition of phytoplankton, zooplankton, ichthyoplankton, fish biomass, etc.).

Satellite monitoring of the marine surface helps control the oil spills, identify pollution sources and forecast the drift of oil slicks in real time.

The scope of the Company's biotic monitoring effort in the Northern Caspian Sea was noticed by the UN Development Program in Russia, whose specialists proposed to include the operations in question into a joint project conducted by the UN Development Program and Global Environment Facility entitled "Tasks of Preserving Biodiversity in the Development Policy and Programs of the Russian Energy Sector".

000 LUKOIL-Nizhnevolzhskneft summarized the data obtained in the course of the first satellite monitoring stage of the northern part of the Caspian Sea in 2011. No cases of oil contamination connected with operations at Yu. Korchagin field facilities were registered at the Severny License Area.

Most of the registered contamination events were caused by discharges of oil-contaminated water from vessels. The biggest oil spill of 69 sq. km was found in the Russian sector of the sea 115 km south of LUKOIL's license areas.

From February 1 to August 1, 2012, 103 real-time sessions of satellite radar mapping of the water body in the Northern Caspian Sea were performed. Fifty seven images from RADARSAT-1 satellite (spatial resolution 50 m), and 46 images from ENVISAT satellite (150 m) and other devices were accepted and processed. SKANEKS, the monitoring center located in Moscow, accepts and processes radar images on a round-the-clock basis, which enables to notify the customer of any oil contamination detected in very short time.



INDUSTRIAL SAFETY

It is widely admitted by the specialists that it is impossible to completely prevent oil getting into environment when it is produced or transported. However, the achievable goal is to significantly mitigate this risk and ensure excellence in locating and eliminating possible spills of oil and petroleum products.

HEALTH AND SAFETY PROGRAM

The key way to manage industrial and occupational risks in LUKOIL Group Organizations is to develop and implement respective corporate programs. LUKOIL's Management Committee approved the Program for Industrial Safety, Labor Conditions Improvement and Protection and Emergency Response for 2011–2015. The total Program funding will be RUR 40.1 bln. (2006–2010 program expenses made up RUR 26.3 bln.). In 2011, RUR 8.69 bln. was utilized for the Program, while in 2012 the figure was RUR 9.31 bln.

Key areas of Program activities:

- provide training and advanced training to the employees of LUKOIL Group Organizations;
- bring the workplaces in LUKOIL Group organizations in compliance with regulatory requirements;
- provide personal protective equipment and appropriate sanitary-household and general health conditions for the employees;
- organize health care for the employees of LUKOIL Group Organizations in compliance with the national and corporate standards;
- improve industrial and fire safety and health management. Regulatory and organizational support;
- ensure emergency prevention and response;
- bring the facilities of the LUKOIL Group organizations in compliance with regulatory industrial and fire safety and health requirements;
- ensure that the challenges are resolved using cutting-edge scientific and technical solutions.

The Norwegian Ministry of Oil and Energy decided to grant a license to LUKOIL to operate at Norwegian continental shelf. The decision was made on the basis of the reports prepared by the Oil Department and the Agency for supervision of safety of the Norwegian oil and gas operations, as well as on-site

visits to production facilities of Yu. Korchagin field and to the Corporate Training Center.

LUKOIL can now join hydrocarbon exploration and production projects at Norwegian offshore fields.

PREVENTION AND READINESS TO SPILLS OF OIL AND PETROLEUM PRODUCTS

LUKOIL's Commission for emergency prevention and response and fire safety held a meeting in October 2012. It was dedicated to mitigation of risks of oil and petroleum product spills and improving readiness of LUKOIL Group Organizations to respond to such situations in a timely manner. It was decided to step up to a brand new level of protection of the Company's facilities from possible spills.

Today, the LUKOIL Group Organizations have the most streamlined specialized systems and equipment to fight oil and petroleum product spills.

The major component of this system is having well-trained specialists that can quickly and efficiently respond to emergencies. A commission for certification of emergency rescue teams (ERT) and rescuers was established in the Company. The certification commission is headed by First Executive Vice President R. Maganov. Currently 39 out-of-staff ERT's are available at the Company's facilities with the total headcount of 2,223 people.

Employees (including managers of enterprises) are trained in specialized training institutions and in the Corporate Training Center (CTC) located in Ilyinka settlement of the Astrakhan Oblast. Employees receive training and advanced training at the CTC under 90 programs. The CTC has simulators where the trainees practice their emergency response activities in realistic conditions. In the reporting period the CTC was expanded: not only employees from offshore oil and gas facilities are now trained here, but also those from other LUKOIL organizations.

The Company is involved in development of federal regulations concerning prevention of emergencies. Under the auspices of the Energy Policy Committee of the Russian Union of Industrialists and Entrepreneurs the Company took part in the following:

- discussion of Federal Law No. 287-FZ "About amendments to the Federal Law "On Continental Shelf of the Russian Federation" and the Federal Law "Inland Sea Waters, Territorial Sea of the Russian Federation and Its Adjacent Area", that was passed by the State Duma of the Russian Federation on December 30, 2012;





- development of draft regulation of the Russian Government "On Approval of the Rules for Planning and Implementation of Measures Aimed at Prevention and Elimination of Oil and Petroleum Product Spills in the Russian Federation, on the Continental Shelf and in Exclusive Economic Zone of the Russian Federation".

LUKOIL is one of the few Russian companies that has a record of more than ten years of accident-free offshore operations (offshore terminals, oil and gas production platforms, subsea pipelines and similar infrastructure).

ICE RESISTANT PLATFORM IN THE BALTIC SEA

No cases of pollutions due to operation of the marine platform in the Baltic Sea have been registered throughout the entire life-cycle of operations. Despite the high safety level already achieved at this facility, OOO LUKOIL-Kaliningradmorneft always seeks to improve reliability of their management systems.

Every year the Company takes part in international training exercises in the Baltic Sea along with other teams representing Poland, Lithuania and Kaliningrad Oblast.

In 2014, OOO LUKOIL-Kaliningradmorneft is planning to drill some wildcats on the Baltic shelf. This is why the 2013 plans include tactical and special exercises, while in 2014 comprehensive exercises will be taken up, involving the management bodies and emergency oil spill response teams.

PRODUCTION FACILITIES IN THE CASPIAN SEA

Yu. Korchagin field infrastructure facilities are represented by the fixed offshore ice-resistant platform (FOIRP), offshore transshipment facility (including a single-buoy mooring), a 28 ths. tn. deadweight storage tanker, and a 325 mm subsea pipeline. Oil is exported to Makhachkala port by shuttle tankers. Across the entire perimeter of premises the platform is equipped with fire and gas detection sensors that activate the automatic emergency shutdown system.

There is a Center for remote monitoring of drilling operations and processes in OOO LUKOIL-Nizhnevolzhskneft office that monitors the progress of operations, and controls oil leaks in real time. Vessels with professional emergency rescue teams and emergency oil spill elimination (EOSE) equipment on board are on duty near the FOIRP on a round-the-clock basis. They can also assist in rescue and temporary accommodation for the platform staff.

OOO LUKOIL-Nizhnevolzhskneft employees take part in the exercises on a regular basis, also attended by representatives of the ministries of emergencies of Russia, Kazakhstan, Azerbaijan, Russian Ministry of Transport, Federal Service for Supervision of Natural Resources, border services and other agencies. Following the results of 2010–2012 exercises, the subsidiary's EOSE teams and equipment were recognized sufficient for location and elimination of possible spills of oil and petroleum products.

OFFSHORE TERMINALS



The Company has three offshore terminals in the Russian Federation. Those are RPK-Vysotsk LUKOIL-II, OOO LUKOIL-Integrated Oil Terminal, and OAO Varandey Terminal¹. About 20 mln. tn. of oil and petroleum products is shipped every year from these terminals, with more than 115 tankers involved in the operations.

Teams of offshore terminals take part in comprehensive exercises, including international ones. In 2011, the employees of OAO RPK-Vysotsk LUKOIL-II practiced the emergency response operations in case of fuel oil spill as a result of a leak from a hole in a tanker. Also, they had exercises in fire-fighting, emergency evacuation of injured persons and first aid to them, cleaning the coastal strip from pollutants.

In 2012, exercises were held in the Barents Sea, near fixed offshore ice-resistant shipping platform OAO Varandey Terminal, and in the water body of the Kaliningrad Sea Channel near the loading berth of OOO LUKOIL-Integrated Oil Terminal.

The results demonstrated that LUKOIL has sufficient capabilities to prevent and eliminate consequences of oil spills near its oil terminals. The Company's accident-free record of offshore operations suggests that it utilizes a proper approach to all the measures aimed at prevention of oil and petroleum product spills and readiness to efficiently respond to possible incidents.

¹ On the balance of OOO LUKOIL-Trans.

UPGRADING AND
DEVELOPMENT OF OIL
REFINING OPERATIONS

30

QUALITY
OF MOTOR FUEL

31

AVIATION
FUEL

32

LUBES

32

IMPROVED QUALITY
AND MORE SERVICES
FOR MOTORISTS

33

2

HIGH QUALITY PRODUCTS AND SERVICES





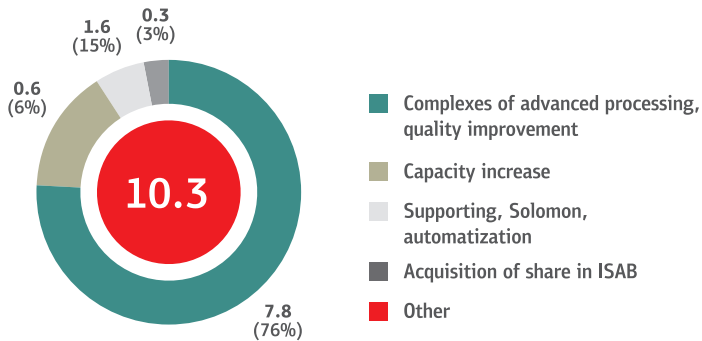
Hydrocarbons refining and marketing are important segments for LUKOIL Group's business segment. After twenty years of vertical integration the group now has an optimal structure of refining and marketing assets. Performance of LUKOIL's subsidiaries is crucial for the interests of our consumers. Therefore we pay great attention to implementation of the investment program in the sector of Oil Refining in Russia, and to our products' quality management.

In 2011–2012, LUKOIL invested into further activities within the program for upgrading of refineries, expansion of sales network and better customer service at filling stations.

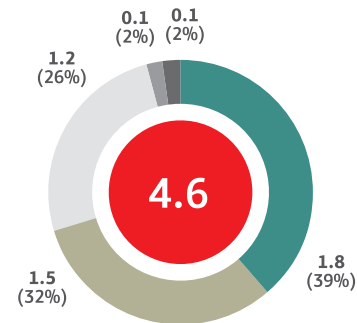
LUKOIL is the Russia's only company that invested around USD 18 bln. into refining over the last 20 years.

2012–2021 Oil Refining Investments

Investments in Russia, \$ bln



Investments internationally, \$ bln



- More than 70% of investments goes to improving of conversion and production of premium quality petroleum products in Russia
- Refineries in Europe – maintaining and optimizing the existing assets

UPGRADING AND DEVELOPMENT OF OIL REFINING OPERATIONS

PLANS AND INVESTMENTS

According to the updated LUKOIL Group's strategy, over the next 10 years the Company will significantly increase the output of light petroleum products and reduce production of dark ones at Russian refineries, commission new secondary oil refining units, and increase gasoline production. The plan is to upgrade all our refineries by 2021, which will ensure almost 95% oil conversion rate. The current quality of products produced by Company's refineries is in line with the European standards. Most investments into oil refining will concentrate in Russia.

LUKOIL is planning to construct a new facility at LUKOIL-Volgogradneftepererabotka that will specialize in petrochemicals. The refinery's capacity will increase by 2 mln. tn. of oil per year. In 2011–2012, coking operations were upgraded at the refinery (delayed coking unit commissioned).

Catalytic cracking unit will be constructed at OOO LUKOIL-Permnefteorgsintez, as well as new facilities at OOO LUKOIL-Ukhtaneftepererabotka. The reactor block of diesel hydrotreater was upgraded at the Ukhta refinery, and the atmospheric vacuum oil distillation unit was reconstructed. We plan to construct an oil residue treatment facility at OOO LUKOIL-Permnefteorgsintez to increase the conversion rate up to 98%.

STRATEGIC GOALS AND INVESTMENTS

LUKOIL is planning to continue investments into upgrading its refineries in Russia. As a result, by 2021 the Company will

have state-of-the-art refineries compliant with the European standard.

Refining Operations Development Parameters¹

Indicators	000 LUKOIL- Nizhegorodnefte- orgsintez	000 LUKOIL- Volgogradnefte- pererabotka	000 LUKOIL- Permnefte- orgsintez	000 LUKOIL- Ukhtanefte- pererabotka
Output of light petroleum products, %				
2011	49	55	58	39
2012	53	56	58	39
Nelson complexity index ²				
2011	6.3	5.4	7.9	3.2
2012	6.3	6.1	7.9	3.7

Source: Company's data.

CUTTING PRODUCTION OF DARK PETROLEUM PRODUCTS

The major challenge Russian oil industry is now facing is to significantly cut production of fuel oil. LUKOIL is planning to achieve mazut-free production by 2018, after completing construction of new coking units, oil residue treatment facilities and hydrocracking units. These programs require investments and state support (first of all, stable regulation and tax treatment).

The Company came up with a proposal to codify in a federal law the system of export duties for oil and petroleum products, as well as a schedule for further amendments. Also, LUKOIL thinks it advisable to differentiate the export duties for fuel oil and other dark petroleum products given their consumer properties, and pass a regulation to establish a period during which a 90% duty for gasolines will be applicable.

LUKOIL supports the initiative of the Federal Antimonopoly Service (FAS) to switch to floating excise rates for motor fuels depending on global oil and petroleum product prices. The Company also came up with a proposal to revise the fuel supply price preferences to agricultural producers by replacing them with target budgetary subsidies to the agrarian sector.

QUALITY OF MOTOR FUEL

According to the governmental technical regulation "On Requirements to Motor and Aviation Gasoline, Diesel and Marine Fuel, Jet Fuel and Fuel Oil", production of Euro-3

gasoline shall be discontinued starting from January 1, 2015, while that of Euro-4 gasoline – from January 1, 2016.



Gasoline classes are first of all indicative of fuel's environmental properties. The period to switch to cleaner fuels was extended several times because some Russian companies were not ready to do it. Differentiation of excise rates made the difference.

According to the data of the Russian Ministry of Natural Resources and Environment, harmful exhaust emissions from motor vehicles in large Russian cities account for as much as 80% of the total pollution load. The country's average figure for this parameter is 42%. Given the fact that every fifth liter of gasoline in Russia is produced at the Company's refineries, the air in Russian cities and along the motor roads will soon become much cleaner.

LUKOIL has anticipated the requirements of the technical regulation and its own plans for beginning of EURO-5 motor fuel production. This was achieved four years ahead of the schedule.

The maximum content of aromatic hydrocarbons in the new gasoline is 35%, the sulfur content is within 10 mg/kg. Such gasoline minimizes concentration of sulfur oxide and the products of incomplete combustion of aromatic hydrocarbons, including the most carcinogenic substances in exhaust gas.

¹ According to LUKOIL Group's Strategic Development Program for 2010–2019.

² The Nelson complexity index describes complexity of refinery processes.

In 2012, 99.3% of all the gasoline produced by LUKOIL refineries was Euro-3, Euro-4, and Euro-5 compliant.

From July 1, 2012 all the Company's Russian refineries began producing Euro-5 compliant gasoline. Euro-4 gasoline is no longer produced at most enterprises.

Production of products with improved environmental properties in Russia

Indicator	2008	2009	2010	2011	2012
Share of high-octane gasolines, including those with additives, %	87	89.7	91.5	96.2	99.1
Share of diesel fuel with 50 ppm maximum sulfur content, %	60.5	67.2	70.5	76.0	82.2

Source: Company's data.

AVIATION FUEL

OOO LUKOIL-AERO supplies fuel to aircrafts in more than 30 airports in Russia and abroad. Customers are represented by almost all major Russian and international airlines. OOO LUKOIL-AERO aims to meet the airlines' needs for quality fuel as much as possible for this is the factor that directly determines safety of the air traffic.

Fuel is supplied to more than 20 airports in Russia and 10 airports abroad. In 2011–2012, the aviation fuel supply geography expanded both in Russia (Surgut, Stavropol, Rostov-on-Don, Kazan, Krasnoyarsk) and abroad. The Company significantly increased its into-plane fueling sales in the airports of Moscow air hub.

Within the framework of cooperation with the International Air Transport Association (IATA) OOO LUKOIL-AERO, in particular, took part in the practical training session dedicated to international requirements to aviation fuel acceptance, storage and fueling procedures.

We seek to ensure into-plane fueling. The total sales of aviation fuel sold into plane by LUKOIL-AERO and its Russian subsidiaries in 2011 made up 1.1 mln. tn., while in 2012 the figure was 1.3 mln.

LUBES

LUKOIL is Russia's largest producer of lubricants. LUKOIL's Russian refineries produce more than 40% of all the country's lubes. Establishment of OOO LLC-International completed the LUKOIL's

structural reform for creation of a common center of responsibility and concentration of all the resources ensuring an efficient system of management and development of the lubricants business. In 2012, the Company produced 1.13 mln. tn of lubes with the supply geography of more than 40 countries.

In 2011–2012, OOO LLC-International developed 39 new products, including motor, gear, and industrial oils. New products include motor oil for first filling used at General Motors (LUKOIL GENESIS FE) and Renault (LUKOIL LUX Synthetic API SN¹) that became the first Russian product licensed under the highest specification of the American Petroleum Institute (API SN). LUKOIL began production of oil for rolling mills at OAO Severstal, power-efficient motor oil for OAO RZD, oil for gas pumping units of marine gas turbines for OAO Gazprom, etc.

LUKOIL's marine oils have been approved for use by the leading global manufacturers of marine engines, and are now produced in 17 countries and supplied for the vessels in 521 ports of 54 countries. A three-year contract was signed with Sovkomflot for supply of marine lubricants and technical services under the applicable international standards.

Great attention has been paid in the reporting period to the development of customer support service. OOO LLC-International received more than 200 opinions from major consumers and dealers from Russia and CSI states about their positive experience with LUKOIL branded products, and more than 400 approval letters issued by manufacturers of machines and assemblies. To improve the competence of dealers and quality of customer service, the subsidiary delivers training seminars. In particular, in 2012 they held 250 seminars attended by more than 5,000 dealer representatives.

¹ Motor oils compliant with SN service category of the American Petroleum Institute (API).

The subsidiary's management processes are certified for compliance with ISO 9001, ISO 14001:2004. In 2013, we plan to introduce the management system compliant with OHSAS 18001:2007.

IMPROVED QUALITY AND MORE SERVICES FOR MOTORISTS

DEVELOPMENT OF FILLING STATIONS NETWORK



LUKOIL's subsidiaries sell petroleum and gas products to retail customers through both their own filling stations, and those operating under a franchise.

Company's prospective plans till 2021 include a 27% average daily sales increase at filling stations in Russia. This will be achieved by improving performance of the existing sales assets and expanding the sales network (including by construction of new stations in the regions).

The Company continues reorganization of its "Petroleum Products Supply in Russia" Business Segment to optimize its structure. Changes will apply to OOO LUKOIL-Tsentrnefteprodukt and OOO LUKOIL-Nizhnevolzhsknefteprodukt, some of whose filling stations will be assigned to newly created organizations. This will help to efficiently develop the sales business in the regions of Central and Southern Russia.

Guaranteed dealer relations practice is being implemented in Russia for the first time ever. In 2010, LUKOIL has launched a pilot stage of the program for assignment of management at some of its filling stations to dealers. Dealers are invited to take part in a bidding process, following the results of which they will take up the management of filling stations, whose average daily sales are below the region's average, as well as gas stations operating in remote locations. Dealers may be represented by organizations or individuals with experience in the business and good knowledge of regional specifics. At the same time, filling stations will still be the Company's property. Dealers receive a fee for fuel sales, while the Company also assumes the costs associated with banking services and a range of other expenses.

This way LUKOIL, while consolidating its distribution business, promotes development of small and family business in Russian regions.

In 2011, LUKOIL constructed 34 new and reconstructed 35 existing filling stations in Russia. In 2012, 2,368 LUKOIL branded filling stations operated in Russia (2,336 in 2011).

CUSTOMER FEEDBACK

Steady quality of motor fuels and good customer service offered at filling stations are no less important for the consumer than fuel availability. Company's organizations constantly improve their customer service aiming to meet the needs and suggestions of their customers. For this purpose they use various feedback channels.

- Customers can call the hot line (available in all the regions). In 2011, 2,370 customers called the hot line of OOO LUKOIL-Tsentrnefteprodukt. All the issues were resolved in the regular course of business.
- Address directly at the filling station. The filling stations employees do their best to quickly process all the complaints and addresses and solve the issues jointly with the customers. As it turns out only about 30% of addresses are really well-grounded. The requirements contained in such well-grounded addresses are always satisfied.
- Customer satisfaction surveys. Organizations of petroleum products supply business conduct monitoring of satisfaction and preferences of filling stations customers. For example, OOO LUKOIL-Permnefteprodukt has already conducted such a survey for a few years, which helps to identify the trends. The results suggest significant increase in positive opinions concerning the quality of customer service by station employees, fuel quality, Company's pricing policy and promotions offered for motorists.

LICARD ELECTRONIC CARDS

To improve comfort for the customers of LUKOIL's filling stations the Company has introduced LUKOIL fuel cards accepted at most Company's stations. As it turns out, cards are in high demand among the motorists, which demonstrates that this service is highly customer-oriented. Gasoline cards offer a range of advantages for their holders, including the following:

- save money and control fuel expenses. The customer can check the details of all the transactions through its personal account, and can plan the costs and get discounts;
- make secure fuel purchase transactions without using any cash.

Starting from 2011 you can not only buy fuel using LUKOIL cards, but also pay for car wash and tire fitting services in Moscow. A partner network of car washes and tire fitting shops offers a wide range of high-quality inexpensive services, including several wash programs for different types of vehicles and mobile tire fitting services. The Company's customer incentives program now offers common conditions for all the Russian regions.

CHANGES IN
PERSONNEL
STRUCTURE

36

YOUTH
POLICY

36

HEALTH
AND
SAFETY

37

REMOTE AND
OTHER TYPES
OF TRAINING

39

INCENTIVES AND
REMUNERATION
SYSTEM

39

SOCIAL
PROGRAMS

40

RELATIONS
WITH TRADE
UNIONS

42

CORPORATE
MUSEUM
NETWORK

44

3

PERSONNEL MANAGEMENT





LUKOIL employs dozens of thousands of people. They have different experience, level of professional training and cultural aspirations. Employees are a key value for the Company. Everything that LUKOIL does, is done by the people and for the people. The quality of personnel, ability to reveal the talent and use it for the good of both the Company and the employee represent an indisputable precondition of LUKOIL Group's success in many fields. The Company's social policy is aimed at the following:

- observance of fundamental labor principles and rights;
- compliance with the labor law of the Russian Federation and the countries of presence;
- creating favorable conditions for social protection of employees and their stable position as part of workforce.

PERSONNEL MANAGEMENT SYSTEM

The LUKOIL Group's personnel management system is determined by the Personnel Management Policy, Social Code, and by the Functional Strategy for Personnel Management.

In 2012, the Company completed IMS "Personnel" corporate-wide project. Its goal was to create a system ensuring support to elaboration of managerial decisions. The project was implemented in 47 LUKOIL Group Organizations involving 84 thousand of employees. In 2013, the Company launched another project called "Development of Typical Solution for IMS "Personnel".

STAKEHOLDER RELATIONS

Since 2008 LUKOIL, officially representing the Russian Union of Industrialists and Entrepreneurs (RUIE), has been a member of the Russian trilateral commission for regulation of social and labor relations, a top social partnership body acting according to the Russian Labor Code. This enables us to come up with proposals to be included into draft labor regulations at the stage of their elaboration, thus getting involved in the development of a social dialogue.

At the end of 2012 LUKOIL signed a Partnership Agreement with the International Labor Organization (ILO), which provides for activities in three focus areas – youth employment, sharing of experience and training, which involves further expansion of the scope of interaction.

LUKOIL-ILO cooperation is a key element of international dialogue aimed at overcoming the youth unemployment crisis, as well as at better performance of the youth employment policy and programs in CIS member-states.

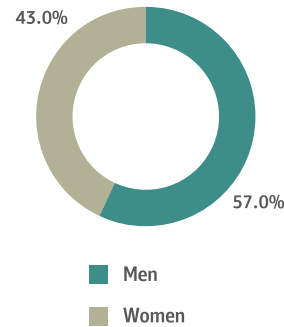
Overcoming the youth unemployment crisis is becoming a matter of global concern. LUKOIL's cooperation with ILO will facilitate implementation in the region of the 2013 Resolution of International Labor Organization "The Youth Unemployment Crisis: Time for Action".

CHANGES IN PERSONNEL STRUCTURE

Due to the changes in the management flow diagrams and business processes, as well as the sale of several assets, over 2011–2012 the Company's headcount reduced from 121,076 to 112,014 people¹. The reduction is also connected with outsourcing of some functions. Employees were offered to move to newly created service organizations.

Nevertheless, LUKOIL Group Organizations managed to avoid mass termination of employment during both economic crisis, and over 2011–2012.

Female to male ratio in Russian LUKOIL Group Organizations¹



¹ End of December 2012.

At the same time, the Company has demonstrated a steady trend towards employment of younger workforce. In 2012, 11,155 employees aged under 30 were employed. As of the date of preparation of this report, the youth account for almost a quarter of all the Company's personnel. This suggests high performance of LUKOIL's youth policy and represents a basis for the Company's future innovative development.

YOUTH POLICY

Company's youth policy is aimed at employment of young workforce, creating preconditions and opportunities for their success and efficient self-fulfillment, development of their work-related potential.

Relations with the youth begin from school. Company's subsidiaries organize on-site excursions and open days for students and schoolchildren. We have established cooperation with a number of higher educational establishments, and view them as our strategic partners. Promising students receive grants to pay for their education under the share interest program. Students receive in-depth and on-the-job training at the enterprises. Company's effort in creation and development of the mentoring institution has proven to be a success.

¹ Data for the LUKOIL Group.

Inflow of young employees¹ to LUKOIL Group enterprises

Indicators	2011	2012
Total headcount of young specialists (aged under 30)	29,127	27,670
Number of young specialists	1,903	1,972
Number of young employees hired	11,729	11,155
Including young specialists	701	894
Number of students who study under the agreements from LUKOIL Group Organizations	536	637
Number of students who received on-the-job training at LUKOIL Group enterprises	2,800	3,000

Source: Company's data.

Results of Young Specialist of the Year contests

	VII contest, 2011	VIII contest, 2012
Number of contestants	113	121
Number of winners	51	56

Young specialists get the opportunity to capture their creative and scientific potential. In 2011, 000 LUKOIL-West Siberia held the 2nd Forum for young employees of LUKOIL Group Organizations dedicated to the Company's 20th anniversary, where the results of LUKOIL's 10th contest for the best scientific R&D work were announced.

Special attention is paid to adaptation of new employees at the Company's enterprises. The Company holds training sessions entitled "Young Specialist's School" that is integral part of the training system. These are aimed at reducing the young employee's adaption period and increasing their professional performance.

There are Councils of Young Specialists (CYC) at the enterprises. Their goal is to assist young employees in adaptation to new labor conditions, develop and implement various social projects. For instance, the Victory Day, the Old Man's Day, the Generation Meeting and other events were held in cooperation with the LUKOIL Veterans Council. CYC holds visiting meetings (for example, in 2012 such meetings were held in Astrakhan and Nizhny Novgorod).

Every year the Company holds an event called Young Specialist's Day. In 2012, the event program included a team building training session with 150 young employees from Moscow region organizations involved.

In September 2011, the 2nd Forum of young employees of LUKOIL Group enterprises was held in Kogalym. The forum was dedicated to the Company's 20th anniversary. Around 200 young employees of LUKOIL Group enterprises from Russia, CIS and other countries took part in the event. The key topics discussed at the forum included methods for implementing youth ideas, scientific R&D works and social projects.

HEALTH AND SAFETY

Protection of employees' lives and health is a key challenge for LUKOIL. Within the framework of the existing Health, Safety and Environment Management System the Company regularly puts in some effort to improve labor conditions at the workplaces.

APPROVAL OF WORKPLACES

The key tool to evaluate the labor conditions and their management is represented by the procedure regulated for these purposes by the Russian law – approval of workplaces by labor conditions. The results of the workplaces approval procedure are taken into account for the purposes of calculating the compensations paid out to employees for harmful labor conditions.

As of January 1, 2013 45,352 workplaces were registered in LUKOIL Group Organizations with 82,571 persons working

¹ Young specialists are employees aged under 30 with diplomas of higher or secondary vocational education. The status of a young specialist is valid for three years after conclusion of a labor contract with the employer, but will anyway cease as soon as the employee becomes 30 years of age.

at them (including 34,244 women). Most workplaces (91.2% of the total number) were subject to the approval procedure in terms of labor conditions. There are no workplaces with dangerous (extreme) labor conditions in the Company.

In the reporting period labor conditions at workplaces were improved for 5,952 employees.

The year of 2012 saw significant reduction in the number of recorded occupational diseases – 7 cases vs. 19 in 2011.

Indicators	2011	2012
Employees working at approved workplaces with optimal and permissible labor conditions	30,986	33,027
Percentage of employees with optimal and permissible labor conditions out of all the employees covered by the workplaces approval procedure	37%	42.3%
Employees working at workplaces with harmful labor conditions	52,734	45,040

SOCIAL INSURANCE FUND

Efficiency of the LUKOIL Group's health and safety policy was confirmed by the evaluation of the Russian Social Insurance Fund. Regulation of the Russian Government No. 524 of 05.30.2012 provides for discounts and markups of up to 40% of the insurance rate amount depending on the injury rate parameters calculated using the regulatory methods (payouts, coefficients of frequency and severity of injuries) compared to the average figures recorded for respective business activities. In 2012, insurance rate discounts were granted to OAO RITEK (40%), OOO LUKOIL-Permneftegazopererabotka (40%), OOO LUKOIL-Volgogradneftepererabotka (31%), and OOO RPK-Vysotsk LUKOIL-II. Markups to the insurance rate were imposed against OOO LUKOIL-Komi (40%).

In 2012, 34 LUKOIL Group Organizations utilized the total of RUR 33.6 mln. from the Russian Social Insurance Fund to finance preventive activities, including:

- approval of workplaces;
- purchasing certified individual protective equipment;

- purchasing vacation packages for treatment at health resorts for employees engaged in harmful operations;
- medical inspections of employees.

In 2012, Russian LUKOIL Group Organizations spent the total of RUR 3.3 bln. on health and safety, while in 2011 the figure was RUR 2.4 bln.

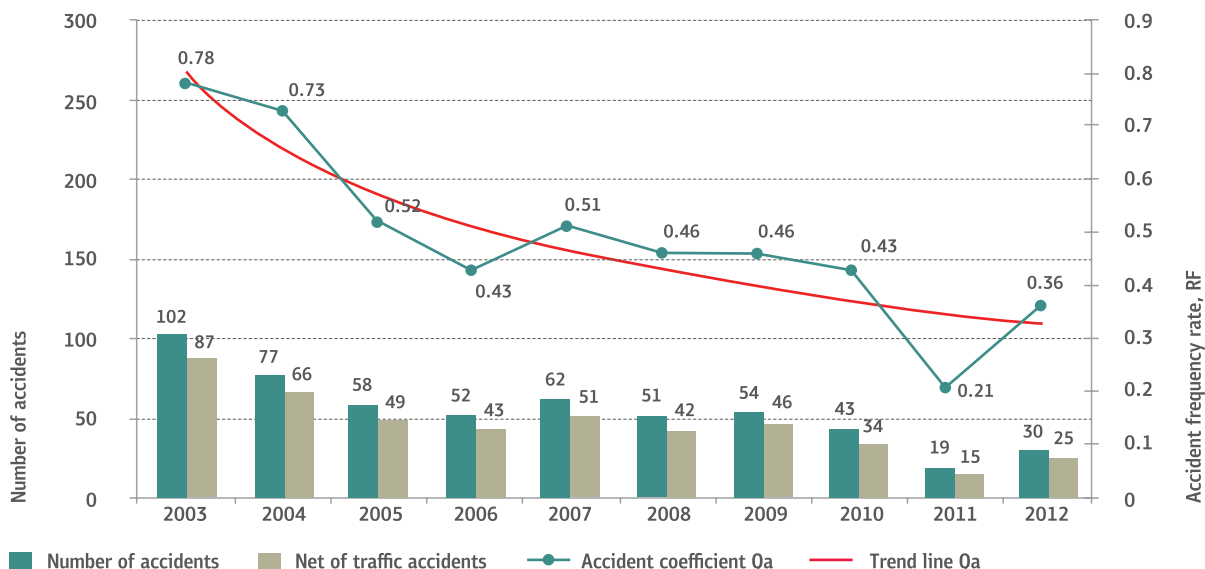
INJURY RATE INDICATORS

In 2012, key injury rate parameters of the LUKOIL Group Organizations became slightly worse compared to those recorded in the previous year. However, the overall dynamics of reducing the number of injuries was preserved.

In 2012, 30 accidents were registered (19 in 2011), in which 36 employees were injured (25 in 2011), including 5¹ deaths (no deaths in 2011).

¹ Including a car accident in OOO LUKOIL-PERM (1 person died) and a plane crash in OOO LUKOIL-Engineering (2 persons died).

Dynamics of the number of all the accidents and the same figure without car accidents in Russian LUKOIL Group organizations



PARTICIPATION IN LAW-MAKING

The Company is proactive in the law-making process. It was involved in preparation of Order of the Russian Labor Ministry¹ that introduces material changes in the procedure of workplace approval in terms of labor conditions. In particular, the updated Procedure for approval of workplaces abolished the mandatory approval of a range of workplaces, which will enable the employer to focus on improvement of labor conditions for the employee categories facing a top priority need for such improvement.

The Company is now involved in a committee for preparation of a draft law "On Special Evaluation of Labor Conditions" currently developed by the Russian Labor Ministry within the framework of the pension law reform.

REMOTE AND OTHER TYPES OF TRAINING

In 2012, 59 LUKOIL Group Organizations were connected to the remote training system with more than 85 thousand registered users. The portal offers 220 learning courses available for public access.

Every year over 60 thousand employees (49.9% of all the headcount) receive training under various advanced training programs, and more than 300 people – under the programs of additional training to higher education.

The important focus area here is to train the management talent pool for the Upstream Business Segment. Jointly with LUKOIL Overseas Holding Ltd. and Skolkovo Moscow School of Management the Company elaborated a training program to form a group of leaders who will manage major upstream oil and gas projects (equivalent to Executive MBA in oil and gas industry).

INCENTIVES AND REMUNERATION SYSTEM

The system of incentives for the employees is aimed at achievement of corporate goals, connected with the system of key performance indicators, and acts as additional encouragement for the employees to improve their overall performance.

The key aspects in this field are increasing the value of LUKOIL Group's assets and steady performance improvement. Individual indicators were developed to assess performance of managers in the LUKOIL Group Organizations, which help to establish a performance-based remuneration system.

In 2011-2012, the Company used a Regulation on long-term incentives for employees. LUKOIL's Board of Directors approved a new document for the next five years (2013-2017).

The Company's remuneration policy is based on the principles of common approach, transparency, adequacy and competitiveness of salaries, their regular adjustment for consumer price index and periodical raising that accompanies the labor productivity growth.

¹ Dated 12.12.2012 No. 590 "On Amendments to the Procedure for Approval of Workplaces by Labor Conditions" approved by order of the Russian Ministry of Healthcare and Social Development No. 342n of April 26, 2011.



Regular monitoring of labor markets enables the Company to promptly respond to the changes in salaries in the regions of presence so as to ensure that its salaries are competitive. We analyze inflation and changes in the purchasing power of remuneration on a regular basis, and make decisions following such analysis. In 2011, salaries were adjusted by 5%, in 2012 – by 6.9%.

The minimum monthly salary rate of a first grade worker was RUR 6,827 in 2011–2012 (at the level of the minimum living wage for capable population as of January 1, 2012). The wage index was in excess of the consumer price index in almost all Business Segments.

SOCIAL PROGRAMS

The basis for implementation of the social policy is represented by long-term social programs that are of the highest value for employees and aimed at recruiting and retaining highly qualified personnel for the Company. The key social programs are those in the following areas:

- healthcare (including voluntary medical insurance of employees);

- assistance to employees in purchasing their own dwellings;
- social support to women and families with kids;
- non-state pension programs.

In 2012, expenses associated with implementation of social programs for the employees of the Company's Russian organizations, their families and non-working pensioners made up RUR 7.98 bln., in 2011 – RUR 7.6 bln.

Social policy is pursued in line with the applicable law and within the framework of commitments announced in the LUKOIL's Social Code and recorded in the following documents:

- Agreement between the employer and LUKOIL's International Association of Trade Union Organizations (IATUO) for 2009–2014.
- Agreement between LUKOIL and LUKOIL's IATUO for organizations abroad;

- Agreement between LUKOIL, IndustriALL Global Union, Russian Oil, Gas, and Construction Workers' Union, and LUKOIL's IATUO;
- regulations of LUKOIL Group organizations.

Health Care

In 2011–2012, the following programs were used and the following measures taken in the Company:

- voluntary medical insurance of employees;
- allowances for temporary incapacity for work, pregnancy and childbirth;
- health improvement and recreation for employees;
- first aid at organizations' aid posts;
- preventive measures.

Voluntary medical insurance (VMI) is a part of the health-care system ensuring that the employees can receive services in addition to those included into the mandatory medical insurance programs (MMI), undergo high-tech medical inspection, and receive medical care of higher quality. In addition, this program pays special attention to improved quality and availability of medical care.

To provide a more flexible insurance coverage mechanism the employees have an opportunity to increase the VMI programs available to them at their own expense, thus meeting their personal needs. VMI programs now cover more than 90% of the employees.

As regards the health improvement issues, just like any other areas, social services of the organizations work closely with local, federal authorities and trade unions. They jointly study positive experience and opportunities for health improvement, propose various options to organize summer vacations, consider different measures to optimize the related costs.

One of the corporate values is commitment to healthy lifestyle. Promoting the value of own health and personal responsibility for it acts as a basis for corporate sporting programs and events that have already become a tradition at key Company's enterprises – mass athletic games, regional and oblast-wide competitions and tournaments, touristic camps and excursions for employees, their families and veterans.

First aid was provided in LUKOIL Group Organizations at more than 100 first-aid posts, pre-shift inspection rooms, and

first-aid stations. New first aid posts were opened in OOO LUKOIL-Rostovenergo and OAO RITEK. At remote sites the personnel is inspected during target on-site visits of medical teams. In addition, lectures are delivered to employees concerning prevention of the most widespread diseases and illnesses. Every year employees are vaccinated against flue, tick-borne encephalitis and other dangerous illnesses (in 2012, around 43 thousand employees were vaccinated).

Housing Program

In 2011–2012, the Company's activities aimed at housing support for the employees were according to the Fundamental Principles of the LUKOIL Group's Housing Policy (within HR and social focus areas). Costs associated with implementation of the HR activities of the housing policy are based on the need to provide housing to the operational personnel (newly hired and young specialists). The Company has introduced some new forms of assistance to its employees in purchasing their own dwellings, for example, provision of subsidies to cover mortgage interest payments.

Social Infrastructure

The LUKOIL Group Organizations continue performing the assumed obligations concerning construction and maintenance of social infrastructure in the regions of presence. In 2012, the related infrastructure maintenance costs made up RUR 2.3 bln.

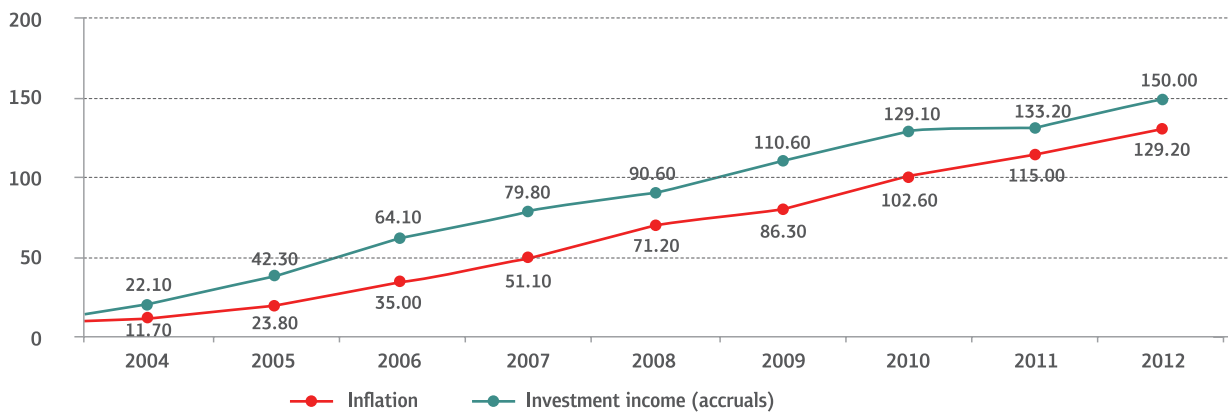
Pension System

According to the corporate pension standard, in the reporting period the Company's effort was aimed at accumulation of pension capital for the employees using all the opportunities available according to the applicable law and local regulations, including:

- efficient management of the accumulative part of the labor pension;
- participation in the state program for co-financing to accumulate pension funds;
- participation in the corporate system of non-state pension programs.

As of the end of 2012, 66,958 employees contributed to the accumulated part of the labor pension in Non-state Pension Fund LUKOIL-GARANT (the Fund). Over eight years the accumulated profitability of the funds of accumulated part of labor pension made up 105.2% (compared to 69.5% in the state-owned management company), which fully covers the accumulated inflation over the same period. The total of 26,202 employees participate in the state program for co-financing of the accumulated part of labor pension. Given the limited life of this

Dynamics of accumulated investment income under pension reserves vs. accumulated inflation



Source: Council of Non-state Pension Fund LUKOIL-GARANT.

program (10 years for each insured person), Company's and Fund's employees put in some explanatory effort in the LUKOIL Group Organizations.

Following the results of 2012, 53,623 persons (about 56% of the headcount) became active participants of the corporate Decree pension program, and 40,646 – of Shared pension program, which is more than 42% of headcount. The average amount of non-state pension in 2012 made up RUR 1,850. The average profitability of funds deposited to pensions reserves managed by the Fund in 2005–2012 fully covered the average annual inflation registered in the same period.

The balanced investment strategy helped the Fund to fulfill its obligations towards its clients. The Fund never stopped paying out non-state pensions. The total pensions the Fund paid out in 2012 made up RUR 1.3 bln. The Fund demonstrates high degree of protection for the pension capitals of its clients. The Fund's own capital, with which it is liable under its obligations, is more than RUR 136 bln.

RELATIONS WITH TRADE UNIONS

The LUKOIL IATUO structure consists of 29 integrated and 26 primary trade union organizations comprising 179,799 working trade union members.

In 2011, the Agreement between the employer and trade union was extended by three years. This way the Company was able to preserve the achieved high level of social and labor-related benefits and guarantees. At the same time the document took into account the amendments in the law, as well as provisions of the Master agreement between All-Russian trade union associations, all-Russian associations of employers and the Russian Government for 2011–2013, and those of the Industry-wide agreement of organizations operating in the oil and gas industry, construction of oil and gas infrastructure in the Russian Federation for 2011–2013.

Seventy one collective bargaining agreements are now in effect at the Company's enterprises. The obligations established in the agreements have been performed on a steady basis. The effort of bilateral commissions for regulation of social-labor relations has been really constructive. The commissions control performance of obligations contained in the agreements, as well as amendments thereto. The social benefits guaranteed by collective bargaining agreements represent some of the industry's best benefits available of today.

Social protection of employees is a key concern and duty of trade union organizations. The goal of the Company's trade union is to timely respond to the employees' needs, and balance the interests of the parties to the social partnership. The issues of importance for the employees are discussed at the meetings of the IATUO Council and trade union committees with mandatory involvement of Company's representatives.



The trade union also takes part in creation of safe and healthy labor conditions at the Company's production facilities. Joint commissions (committees) of trade union organizations and more than 3.5 thousand trade union's authorized representatives are constantly active in regular preventive activities aimed at ensuring that the employees comply with the industrial safety requirements. The employees receive health and safety training: in the reporting period 2.5 thousand checks and inspections were conducted, and more than 180 different directives issued. In September 2012, the IATUO Council meeting decided to increase responsibility for performance of contractual obligations by service companies and contractors operating at the Company's operations sites.

In 2011-2012, international cooperation of LUKOIL's IATUO with leading global organizations, trade union federations and expert centers was further improved. In 2012, due to the creation of a new global trade union federation (IndustriALL Global Union) that was joined by the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), a Global Master Agreement was made between the IndustriALL Global Union, Russian Oil, Gas, and Construction Workers' Union, LUKOIL, and LUKOIL's IATUO. The document is aimed at development of state-of-the-art approaches to interaction between employers and employees in LUKOIL Group Organizations operating in different countries.

LUKOIL cares about the health of its employees; for this reason competitions in different sports are held in all the Company's regions of presence. The largest of them are the LUKOIL's International Spartakiada Games. The fifth Spartakiada Games dedicated to the Company's 20th anniversary were held in summer 2011 in Perm. More than 600 sportsmen took part in the games, which is a record high number of participants in the Company's history of sporting movement. For the fifth consecutive time the Games were won by team Perm, while teams West Siberia and Urals claimed silver and bronze. LUKOIL's skiing challenge is held at the beginning of each year. In 2012, the Company organized a Smoking-free Day.

In 2011, sporting club LUKOIL with assistance of the LUKOIL Group enterprises and the Veterans Council organized a series of competitions in football, skiing, artistic gymnastics, paintball, bowling, volleyball, and handball in Kaliningrad, Astrakhan, Volgograd, Rostov, Moscow, Tyumen Oblasts and Krasnodar Krai. The competitions were held under the "Win with Us" slogan and were dedicated to the Company's 20th anniversary and to the people who made a great contribution into development of the country's oil industry.

LUKOIL's IATUO always seeks to improve its informational work, which is an important tool of solving the tasks included into the programs of trade union organizations. The Social Partnership magazine has proven to be a popular information delivery medium.



CORPORATE MUSEUM NETWORK

The Company's museum network includes the LUKOIL Museum founded in 2005, and more than 25 museums of Group organizations in the regions of Russia, as well as in Bulgaria, Romania, and Ukraine.

As a major part of the corporate culture and universal communications centers, LUKOIL's museums preserve the best traditions of the oil and gas industry, ensuring continuity of oilmen generations. According to the Rules of corporate culture they regularly organize official ceremonies dedicated to acceptance of new employees, seeing off the retiring pensioners, awards, and anniversaries, hold excursions, thematic meetings and other events. Students of I.M. Gubkin Russian State University of Oil and Gas regularly have classes in the Company's Museum to study the history of the Russian oil and gas industry and basics of the corporate culture.

The LUKOIL Council for Museums is a big contributor to elaboration of common museum policies. Its meetings often attended by distinguished representatives of the state museums regularly address pressing issues such as improvement of museum affairs, acquisition of items for the corporate collection, foundation of new museums and temporary displays.

Museum exhibition activities are an important focus area for the museums network. In 2011-2012 about 30 traveling exhibitions were organized – "Creator's Way (dedicated to 100th birthday of N.K. Baybakov)", "LUKOIL's 20th Anniversary", "Company's Offshore Projects", "I.M. Gubkin's 140th Birthday", "LUKOIL's Petroleum Product Supply Business", "LUKOIL's Power Engineering Business", "Company's Social Projects in Perm Krai", "20th Anniversary of OAO RITEK", "15th Anniversary of LUKOIL Overseas", "LUKOIL's IATUO Achievements", "Activities of the Council of Young Specialists", "LUKOIL's IATUO Achievements", "LUKOIL – to Children", "Children's Drawing Contest", "HC Dinamo – Gagarin Cup Winner", "LUKOIL's Innovations", "Company's Social Policy", and other exhibitions.

Exhibitions were displayed in the Company's main office, in the Russian Ministry of Energy, Russian Ministry of Environment and Natural resources, State Kremlin Palace, House of Unions, State Central Museum of Contemporary History of Russia, Skolkovo Industrial Park, I.M. Gubkin Russian State University of Oil and Gas, State Marine Academy (Saint-Petersburg), Crocus Expo exhibition center, International Trade Center, and abroad – in Belgium, Switzerland, Netherlands, and Qatar.

Corporate museum's staff created sections of projects of the State Central Museum of Contemporary History of Russia

“Space Era”, and “P.A. Stolypin – Life for the Motherland”, and assisted in development of such museum displays as “Golden Age of Italian Lace”, and “The Loyal Sons of Russia. For the 200th Anniversary of 1812 Patriotic War”.

The museum provided its oil industry related displays for the exhibition entitled “Caucasian dictionary – land and people” organized in Tsaritsyno nature reserve museum. The Museum also joined the project “Going Out to the City” initiated by the Department of Cultural heritage of Moscow and All-Russian Society for Protection of Monuments of History and Culture.

The museums of OOO LUKOIL-Nizhegorodnefteorgzintez,
OOO LUKOIL-Permnefteorgsintez, OOO LUKOIL-PERM,

OOO LUKOIL-Kaliningradmorneft, LUKOIL Neftochim Burgas AD, and other LUKOIL Group companies were also active in their exhibition activities.

According to many specialists, the Company’s museum fund with over 3,500 items is one of the country’s most significant specialized collections. The Company’s museum network is constantly growing. In 2011–2012, museums were created in OOO LUKOIL-Komi, OOO LUKOIL-URC Perm, and OOO Stavrolen. In the next years one of the key goals will be to create a second order of the corporate museum that is going to be accessible for the general public.

FEDERAL
PROGRAMS

49

CONTEST
AMONG SOCIAL
PROJECTS

52

DIALOGUES HELD
BY LUKOIL IN THE
RUSSIAN REGIONS

52

CHARITY AND
SPONSORSHIP
PROGRAMS

56

4

COMPANY AND SOCIETY

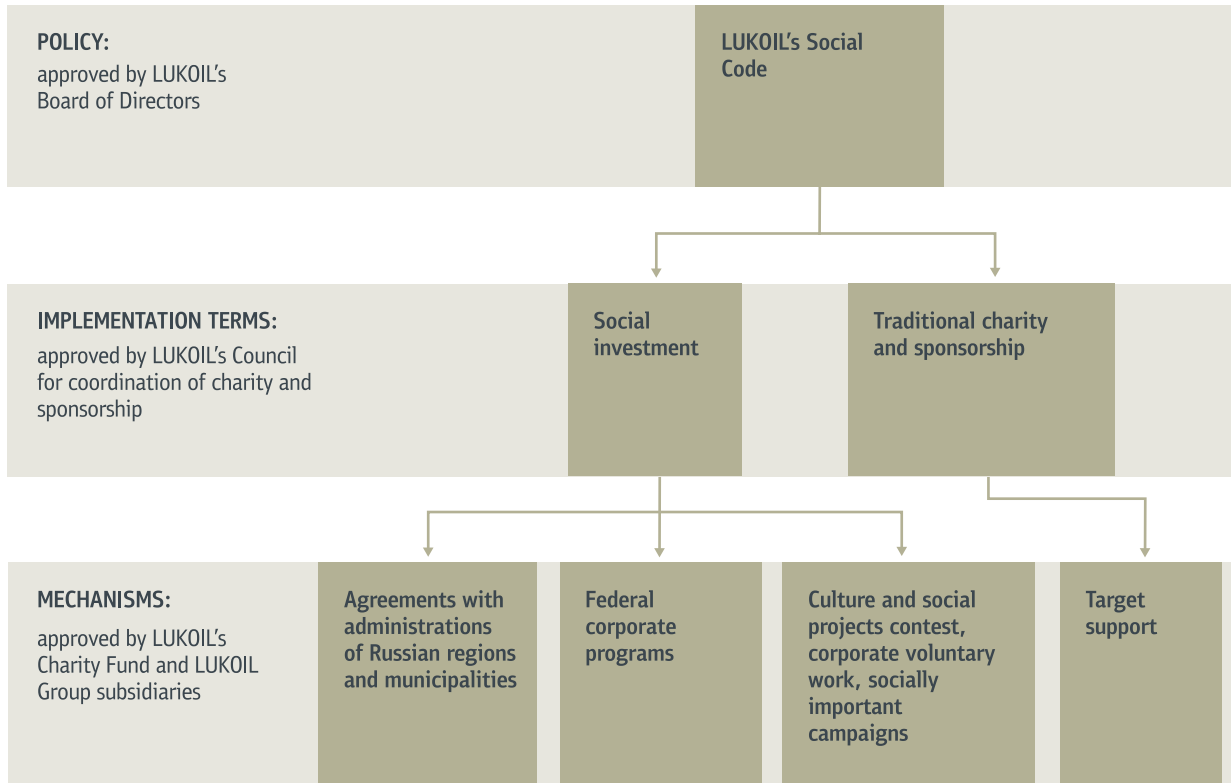




The Company's policy in the field of interaction with the society is determined in the LUKOIL's Social Code (the Code). The Company utilized various obligation performance mechanisms documented in the Code, upgrading them as new professional forms for such activities appear and as our partners get ready to use them.

LUKOIL follows the principles of social partnerships in the regions of presence and considers administrations of Russian subjects and municipalities to be the key partners in solving social and economic challenges. This approach is an integral principle that lies behind social investments.

Social Investments Management System



PROGRAM PERFORMANCE ASSESSMENT (MECHANISMS FOR STAKEHOLDER RELATIONS):

- annual dialogues with the public in the regions of presence;
- surveys conducted by independent organizations;
- coordination of effort with subsidiaries;
- personal meetings with heads of regions and municipalities

Key focus areas of social activities and structure of expenses, RUR mln.

Type	Kind	Kinds of programs and projects	2009	2010	2011	2012
Social investments	Regional projects	Activities within the framework of social and economic partnership agreements: - with Russian subjects	2,695	3,039	1,284	1,662
		- with municipalities	165	174	269	311
	Federal projects and programs	Support of orphanages and children's educational establishments	40	45	40	85 ¹
		Educational programs	168	134	123	171
		Support of medical institutions	24	60	66	57
	Social and Cultural Projects Contest	39	60	75	84	
Charity and sponsorship	Regional projects	Support to Far North nations	111	145	147	155
	Federal projects and programs	Preserving cultural and historical heritage	105	91	206	273
		Target assistance	87	143	104	95
		Sports	932	716	832	706
TOTAL			4,366	4,607	3,146	3,599

Source: Company data.

¹ Note. The increase in financing is connected with implementation of a number of nursery school construction and repair projects.

FEDERAL PROGRAMS

Social and charity programs are a component of the Company's corporate strategy and a mechanism for fruitful cooperation with the state, business, and society. Corporate programs are targeted and based on the professional experience and human potential available in the regions.

Support of orphanages and children's educational establishments

The Company believes that assistance to children is a top priority issue. It is included into all the Company's programs – charity, sponsorship, development of children's and youth sports and culture. Today social investments into the human capital appear to be the most reasonable ones. The Company seeks to achieve a balanced approach supporting both children who found themselves in a worse position compared to their adolescents due to unfavorable family environment, and those from well-to-do families helping them to develop their natural abilities and talents.

As part of this program children from orphanages and boarding schools receive assistance from the Company, its subsidiaries and LUKOIL Charity Fund. The Company assists the young men who finished these institutions to get education, improve their health, get a profession and settle in their lives.

Every year LUKOIL's Charity Fund organizes summer vacations at the Black Sea coast for the children from the sponsored orphanages in Kirov, Kstovo, Ishim, Nizhny Novgorod, Leningrad Oblast, Perm Krai, Astrakhan Oblast, and Volgograd Oblast. In addition, children from orphanages take educational tours across the country.

Since 2006 LUKOIL's Charity Fund has been paying out LUKOIL's personal scholarships to the leavers of Company-sponsored orphanages who entered higher and secondary educational institutions. In 2011, scholarships were paid to 45 orphanage leavers, while in 2012 the figure was 51.

Starting from 2008, jointly with the Company's enterprises in Astrakhan Oblast LUKOIL's Charity Fund has been implementing the program to train young human resources out of orphanage leavers and children from poor families. Given the lack of technical specialists in the region, the program aims to resolve both economic and social challenges: the best orphanage leavers and children from poor families study at universities, institutes and technical colleges. For instance, 20 persons study at Astrakhan polytechnic college and Volga-Caspian marine fishing industry college. The Fund has assumed expenses related to their education and accommodation. After graduation some of them are planning to work at LUKOIL's subsidiaries in the region. Thus, one of the 2012 graduates has already joined a Company's enterprise.

In the Nizhny Novgorod Oblast the Company supports Kstovo professional oil industry college, where graduates of the Company-sponsored orphanages study. The college's students regularly visit OOO LUKOIL-Nizhegorodnefteorgzintez where they become familiar with the enterprise's operations and obtain professional skills and knowledge.

The Company pays special attention to the children who need medical assistance. During several years of the Program "Illustrated books for little blind kids" the Company has been implementing the project named "Book as a present for each blind kid". In 2011-2012, such publications were provided to specialized children's institutions in Kazan and the Komi Republic.

For a number of years LUKOIL's Charity Fund and Nizhny Novgorod art museum have been implementing the art and educational project named "We found talents". The project's goal is to reveal talents among gifted pupils of orphanages aged 13 to 16. The children got the primary knowledge in drawing, painting, and composition disciplines, and became familiar with the basics and history of arts. The final exhibition of children's paintings and drawings organized in 2011 in Nizhny Novgorod museum of arts proved to be the memorable emotional event for the project participants. The exhibition was visited by LUKOIL's President V. Alekperov and the Governor of Nizhny Novgorod Oblast V. Shantsev. The brightest and most successful children's paintings were utilized for OOO LUKOIL-Volganefteprodukt's corporate calendar. A similar project called "World in children's eyes" is being implemented in 2012 in Perm.



Educational Programs

A priority focus area in the Company's activities is to take care of the growing generation and train young qualified specialists for the Russian oil industry.

LUKOIL supports a number of higher educational institutions that train oil and gas specialists	LUKOIL provides financing support to higher educational institutions of the Company's non-core specializations	LUKOIL also provides financial support to secondary educational institutions
<ul style="list-style-type: none"> I.M. Gubkin Russian State University of Oil and Gas Perm State Technical University Ukhta State Technical University Tyumen State University of Oil and Gas Ufa State Petroleum Technological University Volgograd State Technical University Astrakhan State Technical University D.M. Mendeleev University of Chemical Technology of Russia Moscow Institute of Physics and Technology National Mineral resources University "Gorny" 	<ul style="list-style-type: none"> Diplomatic Academy of the Russian Ministry for Foreign Affairs National Research University Higher School of Economics Finance University under the Government of the Russian Federation Branch of Moscow Power Engineering Institute in Volzhsky Rostov State University of Railway Communications Moscow State Social Humanitarian Institute Kazan Suvorov Military School <p>As well as</p> <ul style="list-style-type: none"> Azerbaijan State Oil Academy 	<ul style="list-style-type: none"> Kstovo Professional Oil Industry College Budennovsk Regional Polytechnic College Sary Oskol Mineral Exploration College Moscow Gymnasium No. 45

Scholarship Programs

Starting from 2000 the Company awards personal scholarships to the most gifted students of oil industry and polytechnic institutes and universities. In 2011, almost 200 students from different regions of the country were awarded LUKOIL's scholarships of 2,500 or 3,000 rubles a month.

Investments under scholarship programs, RUR mln.

2009	2010	2011	2012
3.5	5.1	5.1	5.7

As part of the grant program for young teachers and lecturers about 80 young gifted teachers from leading oil industry and other higher educational institutions receive personal grants.

Investments under teachers' grants, RUR mln.

2009	2010	2011	2012
4.3	11.3	7.7	9.6

Support to higher educational institutions in development of their base of teaching aids and improvement of financial position helps to keep the teaching process at the state-of-the-art level. The Company assists them in purchasing scientific laboratory equipment. In particular, in 2008–2012 significant funds were allocated to development of material and technical base and repair of premises at Tyumen State University of Oil and Gas, Ukhta State Technical University, Ufa State Petroleum Technological University, Perm State Technical University, I.M. Gubkin Russian State University of Oil and Gas, Astrakhan State Technical University, and Diplomatic Academy of the Russian Ministry of Foreign Affairs.

Support of Medical Institutions

LUKOIL supports a number of major specialized medical research centers – Hematological Scientific Center of the Russian Academy of Medical Sciences, Russian Cardiology Scientific and Production Complex, A.V. Vishnevsky Institute of Surgery.

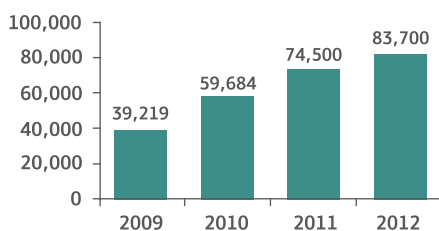
The Company facilitates the development of medical services system in the regions of its presence. In particular, in 2008–2012 it purchased expensive equipment for Liman (Astrakhan Oblast) central district hospital, Astrakhan city clinical hospital for children No. 1, Bolshoye Murashkino (Nizhny Novgorod Oblast) central district hospital, maternity hospital No. 4 in Moscow, and Kstovo central district hospital.

CONTEST AMONG SOCIAL PROJECTS

One of the most powerful social programs implementation tool is the Contest among Social and Cultural Projects (hereinafter referred to as the Contest) annually held by the Company's subsidiaries in cooperation with the LUKOIL Charity Fund. LUKOIL was one of the first Russian privately owned companies to implement a social and cultural project like this: the Contest was launched in 2002 in Perm Krai. Today the grant support of projects and initiatives that various organizations come up with has become widespread in Russia and gained recognition from both the public and the state.

From 2002 the Contest has been growing more geographically diverse, with more and more subsidiaries from the regions of the Company's operations joining the pool of companies financing the projects. In 2012 the Contest was held in 13 Russian constituent entities, and its budget increased more than 40-fold as compared to 2002. Over the Contest's existence LUKOIL spent around half a billion rubles to support social projects.

Financing of Projects Winning the Contest for Social and Cultural Projects, RUR ths.



The goal of the Contest is to support projects and initiatives of local communities aimed at addressing the pressing problems of territories, and make the charitable assistance rendered by the Company more effective. The nominations are common for all

territories and include "Environment", "Charity", "Culture and Arts", "Physical Fitness, Sports and Tourism", and "Homeland". However these can be supplemented with categories that are viewed as hot for the Company or a specific territory, or those that meet governmental social priorities. E.g. in 2011 an additional nomination was introduced to mark the 20th anniversary of the Company, and 2012 saw introduction of the "Historic Legacy" nomination to mark the Year of the Russian History.¹

Over years the Contest has grown into a unique venue facilitating development of social initiatives. According to independent experts the mechanics of the contest itself includes a great deal of focus on motivation, thus promoting initiatives from below. In a number of regions over 50% of all annually filed applications are from new contestants. Such mechanics contributes into development of organizations and gradual accomplishment of their goals.

DIALOGUES HELD BY LUKOIL IN THE RUSSIAN REGIONS

In making each report LUKOIL holds dialogues (personal meetings) in the Russian regions. The Company views such meetings as an important live feedback from stakeholders in the Russian regions. The issues covered by such meetings are reflective of the degree to which the Company's activities in the regions meet the social and economic development priorities set for such territories, efficiency of corporate programs of social investments, and affect the contents of sustainable development reports with regard to the selection of topics covered in them.

Astrakhan Dialogue

On February 22, 2013 a dialogue was held in Astrakhan between the representatives of LUKOIL and its subsidiaries operating in Astrakhan Region (LUKOIL-Nizhnevolzhskneft, LUKOIL-Astrakhanenergo) and those of the region's executive and legislative authorities, heads of municipalities and districts, research, municipal organizations and NGOs (21 persons altogether). The dialogue was hosted by representatives of the Social Information Agency. The attendees discussed the role and contents of LUKOIL's social activities in the region and proposed the Company potential further development approaches.

At the outset of the meeting the representatives of LUKOIL-Nizhnevolzhskneft and LUKOIL-Astrakhanenergo made their reports and presented the key lines of the Company's activities in the region. Then other attendees took the floor. They expressed their attitude toward what they had heard and made proposals to enhance social partnership between the Company and Astrakhan Oblast.

¹For new regional level nominations please refer to the section "Sustainable Development of the Russian Regions".

All of the speakers unanimously made a point of a substantial favorable effect that LUKOIL's operations have on the region, including increase in the budget revenues of the Russian subject and its contribution into a higher GDP. The speakers also repeatedly emphasized the role played by the Company in economy, social life and environment-related issues. They noted that for a number of lines of activities LUKOIL was and still is the only company that voluntarily invests substantial amounts into the region's prosperity and applies cutting-edge operating techniques, i.e. follows the "zero discharge" principle, supports research, sponsors the fellowship program for students at the local universities, etc. A special emphasis was placed on the attention to the region paid personally by Dr. V. Alekperov, President and CEO of LUKOIL, who is a frequent visitor to Astrakhan Oblast.

To further develop the positive practices of social partnership the dialogue participants offered the Company a number of focus areas.

Focus Area 1. Company's HR Policy

The speakers noted a great deal of positive effort made by the Company to develop the system of education and training of oil and gas specialists. The LUKOIL scholarships began to be awarded long before the Company commenced its operations in the region. The Oil and Gas Institute of the Astrakhan State Technical University is training competent specialists, employed by the leading Russian companies.

One of the proposals was to spur employment of scholarship-holders and best university graduates by LUKOIL, and to disseminate information about the prospective human resources requirements of the Company, and competences graduates should have to get their employment with the Company. It was also proposed to improve the institute's material and technical base.

In their response the representatives of LUKOIL-Nizhnevolzhskneft stated that the Company has already employed 82 graduates of the Institute. From 2013 and on it will actively seek and recruit professionals (around 80 individuals this year, and around 70 next year). The Company welcomes competent human resources with a good professional background.

The representatives of LUKOIL's subsidiaries draw the attendee's attention to how thoroughly candidates to fill in the existing vacancies are selected. Working on offshore platforms is a very strenuous job and requires a lot of responsibility. LUKOIL has been doing its best to minimize the effect of a human error on the stability and safety of facilities and equipment. That is why the candidates have to undergo a thorough and profound testing process. As it turns out only about 60% of candidates satisfy the

existing corporate requirements. These are mostly workers and university-educated specialists capable of operating high-tech equipment.

The representatives of LUKOIL-Astrakhanenergo also announced that graduates of the Astrakhan State Technical University could get their employment with the company. The subsidiary currently employs about 120 recent graduates, 150 out of which hold managerial positions.

Focus Area 2. Use of Contractor Labor Force in the Oblast

One of the proposals was that the percentage of personnel from other regions paying their taxes in the Oblast should be raised.

LUKOIL's representatives informed of the fact that numerous projects being implemented in Astrakhan Oblast are now entering their active development stage. E.g. four offshore rigs were being built at the time of the dialogue. All of the local qualified personnel have been employed; however they still fail to fully satisfy the existing labor force demand. That is the reason why specialists from other regions are invited.

LUKOIL believes that the existing situation contributes into social and economic development of the oblast, for people working here purchase stuff from the local shops, pay for water consumption, go on trips, buy gas, etc. thus contributing into sales revenues of the regional and local budgets.

Focus Area 3. Engagement of Local Entities to Fulfill Works/ Services Orders

The speakers proposed the Company to more fully realize the potential of the companies and entities in the region that are capable of fulfilling works/services orders. To do so, one should, according to the speakers, keep the locals informed of the Company's plans to hold biddings.

The LUKOIL Group's representatives replied by pointing it out to the dialogue participants that the Company is very actively using the production capacities available in the region. Manufacture orders for the first rigs enabled full utilization of the leading production enterprises' capacities (Krasnye Barrikady, Lotos). The said orders e.g. revitalized Lotos, for they helped restore the plant, property and equipment, and caused specialists who had previously gone to work to other regions to come back. Further increase in the order volume is limited to the enterprises' capabilities. That is why engagement of contractors from other regions is often a forced option.

Order placement takes place through biddings, information about which is published at LUKOIL's website and those of its

subsidiaries'. All manufacturers concerned can access such information on an equal basis and in a timely manner. The Company is open to cooperation with professional, reliable and responsible providers of works and services.

LUKOIL-Nizhnevoldzhskneft's representatives assured the attendees that the Company will continue to expand its business in the region. The prospective plans e.g. include development of Downstream, which may turn out to be a good application of the local organizations' resources.

However, please note that providers have to meet very stringent requirements. The Company is particularly mindful of the environmental impact and safety of its facilities, however offshore rig operations require a higher level of responsibility both from the Company and the contractors.

Focus Area 4. Utility Services in the Municipalities

The speakers draw LUKOIL-Astrakhanenergo's attention to the outsourcing of boiler house maintenance services gaining momentum in the municipalities. LUKOIL-Astrakhanenergo's representatives responded by saying that the services of this kind are outsourced to third party contractors: for this reason they are unable to provide such services to consumers.

Another issue was related to supply of clean potable water to the residents of Ilyinka settlement. LUKOIL promised to address it.

Focus Area 5. Environmental Safety of the Caspian

Representatives of research organizations turned the attendees' attention to the fact that the "zero discharge" principle followed by LUKOIL at its offshore facilities is not prescribed by any regulations or statutory acts. For 15 years there's been ongoing discussion in the region to adopt environmental requirements for fisheries, which are supposed to serve as one of the prerequisites for economic activities in the Caspian Sea. Such issues must be addressed at the global level i.e. with involvement of other countries operating in their sections of the water body (above all Azerbaijan and Kazakhstan). Assumption of mutual obligations, their unconditional performance and independent monitoring in every section will help keep the Caspian clean and preserve its biological resources.

The proposal to LUKOIL was to raise these issues at the highest level, and initiate and facilitate an international forum dealing with the aforesaid issues.

The speakers also noted that a large volume of data had been accumulated over the period of production environmental monitoring of the Caspian, which is required due to launching of hydrocarbons exploration and production projects. These were

used as the basis for elaboration of new methods and techniques of assessment and diagnostics of the marine environment. Such developments may also be used to create a new system of environmental monitoring, regulation and environmental assessment, which will be a cutting-edge system in Russia.

In furtherance of the subject, the speakers noted that from the 1990s the Caspian ecosystem has been subject to a number of factors, including those that have nothing to do with LUKOIL's operations (e.g. emergence of a comb-jelly, a new organism, as well as considerable poaching growth). Given this fact the proposal to LUKOIL was to continue to interact with the public in the region and disseminate more information amongst the locals about the impact that the Company's facilities have on the Caspian ecosystem. One of the recommendations was to enhance compensatory measures being a part of LUKOIL's environmental program to restore the numbers of fish (e.g. sturgeons and ordinary fish).

Focus Area 6. Strategic Approach to Support Social and Cultural Projects Significant for the Region

The representatives of some NGOs and municipal organizations shared their experience of taking part in LUKOIL's Contest of Social and Cultural Projects. They pinpointed the outcomes that are useful for Astrakhan Oblast, which became achievable due to the grant support offered to projects or current activities, including promotion of patriotism among the young, culture, education, science and sports.

To make such outcomes sustainable, the attendees proposed the Company to consider the possibility of long-term support of the projects that are particularly significant for the entire region or a specific municipality.

Such proposals are not a rare thing in the dialogues held by LUKOIL. The Company has been repeatedly pointing out that the Contest of Social and Cultural Projects is held in accordance with the rules and procedures that are common for all Russian subjects, including:

- common nominations ("Environment", "Charity", "Culture and Arts", "Physical Fitness, Sports and Tourism", and "Homeland");
- rules of admission of projects submitted by corporate applicants to the contest;
- rules of consideration and selection of applications for funding in each region;
- algorithm for making of project financing decisions.

The unchanging nature of the rules and procedures contributes into objective assessment of projects. Involvement of representatives of the Russian regions in the decision making process is a guarantee of the fact that the regional specifics, requirements existing within a particular territory, governmental policies and other important criteria are all taken into account. Please note that the nominations may be supplemented with categories that are hot and pressing in a particular territory or required in view of the social priorities of the state.

For an organization to be able to count on further financing, it is essential that it provides complete reports on the outcomes of projects, assesses their efficiency, tracks changes in the problematic situations it is facing.

Focus Area 7. Support of Popular and Children's Sports

Considering the Company's substantial support to sports in Russia generally, the speakers proposed to place a special focus on development of popular and children's sports. Regular work with children and youth leads to promotion of healthy lifestyles among the younger generation and raise worthy athletes to replace the today's professionals.

The Company's representatives replied by saying that in 2011 Astrakhan hosted the All-Russian Rhythmic Gymnastics Championships, being a part of the "Believe in Yourself!" Event organized by LUKOIL's Sports Club to commemorate Mr. Yuri Korchagin, a prominent Russian oil and gas professional. The competitors included around 200 female gymnasts, representing 13 teams from the Russian regions. The winners and medalists received a welcome from the governor of Astrakhan Oblast Mr. A. Zhilkin and President and CEO of OAO LUKOIL Dr. V. Alekperov.

Focus Area 8. Communicate Information about the Company's Social Activities in Astrakhan Oblast to the Locals

The attendees drew LUKOIL's attention to the necessity to communicate more information about the Company's social activities in Astrakhan Oblast to the locals.

LUKOIL have repeatedly stated that they are using all accessible forms to disseminate information. The Company has been publishing its annual reports and every other year its sustainable development reports; the corporate website is continuously updated. Descriptions of the Company's programs are publicly accessible in the best corporate practices libraries available at the websites of RUIE and the Manager Association. The Company has been issuing its press releases; its representatives attend conferences and round tables on corporate citizenship.

LUKOIL is fully supportive of the proposal voiced during the dialogue that grantees should themselves more actively promote the outcomes of their projects in their districts and at local level events.

ACTIONS TAKEN BASED ON THE OUTCOMES THE NIZHNY NOVGOROD DIALOGUE (HELD IN 2010)

1. Question: What are the steps to be taken by NGOs to increase the budget of the Social Projects Contest? Will there be more Contest nominations added?

Company's reply. The budget of the Contest depends not only on the Company's capabilities, but also on the commitment of the organizations operating in the regions hosting the contest. We believe that the non-business sector is growing more and more active. E.g. over the last five years the number of projects submitted to the Contest increased almost 7-fold from 39 in 2007 to 264 in 2012. Over half of them were submitted by applicants from Nizhny Novgorod Obast (145). As the geography of the Contest expands and the number of properly elaborated projects grows, so does its budget. From 2007 to 2012 the total project financing grew almost six-fold from almost RUR 2 mln. to RUR 12.4 mln.

For the details of the contests held in 2011 and 2012 please refer to the section on the Volga Federal Okrug (including the nominations list).

2. Proposal. On a co-financing basis set up a training center for petrochemical personnel.

Company's reply. LUKOIL-Volganefteprodukt has made a HR training agreement with the Kstovo Oil Technical School and extended the existing agreements with Lobachevsky State University in Nizhny Novgorod and the Nizhny Novgorod State Technical University.

3. Proposal. Begin to cooperate with the motorists' NGO to improve the quality of services rendered at the Company's gas stations in the region.

Company's reply. LUKOIL-Volganefteprodukt has joined the civic movement "For Fair Business Practices" and entered into an agreement with Automovement organization to jointly implement its program entitled "Secret Customer".

CHARITY AND SPONSORSHIP PROGRAMS

SUPPORT OF CULTURE

Support of culture is an area of sponsorship and charity that major Russian companies traditionally enter. The peculiarity of partnerships with cultural institutions boils down to the comprehensive nature of cooperation between us i.e. it is not mere sponsorship (financing of new performances, exhibitions, etc.), it is also charity. LUKOIL's primary focus is to support classic art.

Museum support

LUKOIL has been offering assistance to a number of Russian museums, including the State Tretyakov Gallery, Moscow Kremlin Museums, Pushkin State Museum of Fine Arts, State Historical Museum, State Russian Museum, Vyatka Vasnetsovs' Museum of Fine Arts. In 2011–2012 the Company sponsored and organized the following cultural events:

- the Tretyakov State Gallery – art exhibition “What is the truth? Commemorating the 180th anniversary of Nikolai Ge's birth” and “Konstantin Korovin. Paintings. Theater. Commemorating the 150th anniversary of Konstantin Korovin's birth”;
- State Historical Museum – exhibition “Catherine the 2nd: Way to the Throne”;
- Russian Museum – exhibitions “Author Unknown” and “Commemorating the 150th anniversary of Konstantin Korovin”;
- Moscow Kremlin Museums – exhibitions “Poiré – the Fashion King” and “Kremlin of 1812. War and Peace” (marking the 200th anniversary of Russia's victory in the 1812 War).

LUKOIL Council for Museums is a big contributor to elaboration of common museum policies. Its meetings often attended by distinguished representatives of the state museums regularly address pressing issues such as improvement of museum affairs, acquisition of items for the corporate collection, foundation of new museums and temporary displays.

As part of its educational project jointly implemented in Kazan with the Moscow Kremlin Museums the Company set up a traveling exhibition “Kremlin from Moscovia to the Last Coronation”. Traditionally, the inmates of orphanages had an opportunity to attend lectures and tours with the Museum's personnel and take part in the children drawing contest. Over the last eight years the cities hosting such exhibitions

included Perm, Nizhny Novgorod and Volgograd.

The Pushkin State Museum of Fine Arts was allocated funds to set up a multimedia complex at the Center for Aesthetic Education of Children and Youth “Museyon”, a multimedia website on a collection of antiques, and publish the album “Antique Masterpieces from the Collection of the Pushkin State Museum of Fine Arts”. The Vyatka Vasnetsovs' Museum of Fine Arts also purchased PCs, multimedia equipment and software to set up an educational classroom for children and teenagers.

Support of Ensembles and Festivals

The cooperation between LUKOIL and the Tchaikovsky Symphony Orchestra conducted by V. Fedoseev has been going on for years. In 2011 the Orchestra performed in Brussels, Geneva, Zagreb, Nizhny Novgorod and Kstovo, marking the Company's 20th anniversary.

The Company is also continuously offering support to the Tchaikovsky Opera and Ballet Theater in Perm, Kaliningrad Oblast Philharmonia and its program “Get your Entire Family to the Concert Hall!” and to the Ural Academic Philharmonic Orchestra.

The Company is the official sponsor of the traditional festival of military bands “Spasskaya Tower” taking place on the Red Square. In 2011–2012 we also sponsored:

- festival of Caucasian arts in the Perm Krai “Big Caucasus”;
- 2nd International Musical Charity Project “Golden Harp”;
- “Crescendo” musical festival;
- 2nd International M. Magomaev Vocal Competition.

The Company bought a concert grand piano to be placed in the new building of the Astrakhan State Opera and Ballet Theater, whose construction was also sponsored by it. The first ever concert on the new instrument was given by the Russian pianist Denis Matsuev, accompanied by the Tchaikovsky Symphony Orchestra conducted by V. Fedoseev.

Revival of Folk Crafts

LUKOIL-PERM has been supporting preservation of folk crafts in the Kama region. Perm Krai is currently one of the few Russian regions that offer a vast diversity of crafts most of which date back to the days of yore. The best examples are each year displayed at the interregional fair, whose primary sponsor is LUKOIL-PERM.

Grants awarded following the Contest of Social and Cultural Projects held by LUKOIL-PERM in 2011–2012 were used to hold cultural events promoting folk crafts.

- Krasnovishersky Rayon hosted the “Govorlivskoye Open Arcade” festival that provided an impetus for revival of the ethnic culture.
- In Usolsk Rayon they set up an experimental atelier, where teenagers are taught how to process sylvinitite, which is natural material.
- And in Bardym Rayon “Tartar Log Cabin”, a unique museum that is a part of the tourist route, was opened. The museum offers workshops on how to make national souvenirs, and has a collection of embroidered old-time towels on display.
- “Countryside Store”, a log cabin which is one of the centerpieces of the peasant life exhibition at the ethnographic and historic part of the Chusovaya River, has been renovated.

The festivals “Savior of the Honey Feast Day”, “Elovsk Fish”, “Savior of the Bread Feast Day”, “Barda-zien”, “Sabantuy”, and open children’s folk crafts festival “Selenite Jewel Box” were started with the direct involvement of OOO LUKOIL-PERM and are now fully independent.

SUPPORT OF RELIGIOUS DENOMINATIONS

An inherent part of the Company’s charitable activities is the direct involvement of the Company and its subsidiaries in restoration of religious traditions and spiritual culture. In doing so LUKOIL is particularly focused on offering support to the institutions whose activities also incorporate community services.

The Company traditionally participates in the restoration of the Vvedensky monastery in Optina Pustyn. Funds have been allocated to equip classrooms for Church-wide post-graduate studentship and doctoral programs named after equal-to-the-apostles St. Cyril and Methodius, as well as for the upkeep of the Church of the Resurrection in Kadashy and the Cathedral of St. Nikolas in Naro-Fominsk. A bus has been bought for the Novodevichi Convent.

LUKOIL’s enterprises also actively contribute to reviving and developing ecclesiastical and spiritual centers across the country and abroad.

DEALING WITH NATIVE MINORITIES

The peculiarity of the Company’s operations in Siberia and in the Far North is that its enterprises are capable of impacting

the lifestyles of native minorities. Any changes in the traditional lifestyle may entail social or economic problems for the indigenous population. LUKOIL, in particular, has been developing and implementing dedicated programs focusing on work with the owners of communal family lands.

Peoples of Siberia

To preserve and promote the traditional lifestyles of the Khanty, Mansi, Nenets and Selkups OOO LUKOIL-West Siberia has been entering into agreements for social and economic development of the areas populated by such ethnicities. The Company’s management meets representatives of the Assembly of Native Minorities of the North, heads of municipalities and the locals themselves to address significant issues. The enterprise has been a partner of “Spaseniye Yugry” (Yugra Deliverance) and “Yamal – potomkam” (Yamal for the descendants) NGOs.

The enterprise has been operating on 37 territories of Yugra, with 176 families (over 700 locals). They are entitled to welfare assistance per each family member, receive a supply of gas, building materials, snowmobiles and other necessities or means. The oil men have been financing construction and repairs of dwellings in national settlements and in traditional points of residence, provided apartments in towns and cities.

OAo RITEK is a partner under 60 agreements made with the owners of communal family lands establishing the conditions for use of land plots representing traditional residential lands.

Kar-Tokhi, a children’s ethnic camp for the younger representatives of the local minorities is currently under construction not far off the village of Russinskaya. Kids from the local boarding school can get here hands-on experience in hunting, deer breeding, fishing, etc.

LUKOIL views the primary goal as preservation of the identity, language and culture of the indigenous population. Jointly with the municipalities it has been financing the construction of educational institutions, arrangement of sites of worship and national holidays.

Peoples of the Far North

Recipients of assistance in the Nenets Autonomous Okrug under the Cooperation Agreement by and between the Okrug’s administration and LUKOIL include the clans of “Ilelbs”, “Neruta”, “Tabseda”, “Opseda”, “Vark”, “Vy Tu”, “Yalumd, and the Nenets People’s Association “Yasavey”.

It’s been over four years of implementation of the “Nyaryana Mya” (“Red Rawhide”) project sponsored by OOO LUKOIL-Komi. Its goal is to make medical assistance accessible to nomadic population in remote Polar regions. About 3 000 individuals



underwent medical examinations over five years. Moreover, the project enables the doctors to collect unique data for research and development of ethnic and polar medicine. It is crucial not only for the indigenous population, but also for the personnel who come here from other regions to recover resources of the Polar region.

TARGET ASSISTANCE

Veterans who are former oil and gas employees, II World War veterans and labor veterans receive particular attention from and are cared for by the Company. Each year on the Victory Day the Company renders them monetary assistance and gives presents. The Company also supports families of military men who died in local conflicts.

By rendering assistance to the disabled individuals and veterans, not only does the Company support them financially, but it also helps them solve their financial problems on their own and makes them feel needed by the society.

PROMOTION OF PHYSICAL TRAINING AND SPORTS

Support of sports in Russia has been one of the most important aspects of LUKOIL's social policy for years. The Company's key priorities in promotion of physical training and sports include:

- promote development of children's and youth sports in Russia;
- promote sports and healthy lifestyles amongst the Company's employees and their families, as well as promote popular sports¹;
- offer assistance to professional sport teams in Russia, national federations and the national Olympic movement.

Starting from 2001 LUKOIL has been supporting one of the Russia's biggest children's sports organizations Children's Football League (the CFL), an associate of the Russian Football Union. Every year about 3,000 teams and more than 50,000 young football players aged 9 to 13 representing 80 Russian subjects as well as European and Asian countries take part in CFL tournaments. Since 2002, together with Sporting Club LUKOIL, CFL has held large-scale international tournaments called LUKOIL Children's International Champions League. In 2011–2012, the events were held in Bulgaria, Latvia, Ukraine, Uzbekistan and Turkey with children's teams from 18 countries taking part in the tournament.

LUKOIL has been the primary sponsor of the national cross country skiing team and a partner of the Russian Cross Country Skiing Federation. The Company's sponsorship is focused on

¹ For more details please refer to the "Trade Unions" section.

preparation of the Russian national team and mass promotion of cross-country skiing in the country. In 2012 the national men's cross country skiing team for the first time ever in its history won the World Cup.

With the promotion of professional sports being one of its goals, LUKOIL has been rendering support to the leading Russian teams i. e., the Moscow soccer club "Spartak", Astrakhan handball club "Zarya Kaspia", Volgograd water polo team "Spartak", Nizhny Novgorod ice hockey club "Torpedo", women's volleyball team "Dinamo-Krasnodar", volleyball club "Dinamo-Yantar", and ice hockey club "Dinamo-Moskva".

The Company is an official sponsor of the largest basketball tournament in the former USSR countries i. e., the VTB Common Basketball League Tournament.

Being a company that supports the Olympic movement, LUKOIL has been cooperating with the "Fund for Support of Olympians in Russia" that offers target assistance to athletes from the Russian national teams of Olympic sports.

The Company not only views sports as support provided to sport teams, it also treats sports as testing grounds where it can test its own products under extreme conditions. "LUKOIL Racing Team" is the leader of the national racing sport. With its success and victories in the race and rally circuits of the prestigious Russian and international racing series the team carries on to prove how effective LUKOIL's brand oils and fuels are.

DONOR INITIATIVES

To develop one of the forms of corporate volunteering, from 2010 LUKOIL has been holding donor events (Donor Day). According to the doctors, donor blood can save hundreds of lives, especially in situations when a blood transfusion is urgently required. Meanwhile some regions have been experiencing a drop in the numbers of donors, while the requirement for blood keeps growing.

From 2010 on the number of LUKOIL's employees taking part in the event has reached almost 400 persons from the Company's headquarters and they jointly donate around 150 liters of blood. In 2012 on the Donor Day doctors drew blood from 361 employees. Donor events are also held at the Company's enterprises, e.g. in Perm Krai and Astrakhan Oblast.

The Company's Headquarters have been sponsoring the Haematological Research Center, one of Russia's leading institutions in hematology, transfusiology and intensive therapy.

Donor events are not only a practical contribution by the Company's personnel into solution of a pressing social problem, but also a driver of the corporate culture, cohesion and unity of the team. It is also a good way to mind one's health and immediately receive information on its state.

NORTH-WESTERN
FEDERAL
OKRUG

62

VOLGA
FEDERAL
OKRUG

68

URALS
FEDERAL
OKRUG

76

SOUTHERN AND
NORTH-CAUCASIAN
FEDERAL OKRUGS

81

CENTRAL
FEDERAL
OKRUG

86

5

SUSTAINABLE DEVELOPMENT OF THE RUSSIAN REGIONS





LUKOIL Group enterprises operate in seven Russian federal okrugs making a great contribution into their social and economic development.

In some of the okrugs the Company's presence includes different businesses: oil production, oil refining, petroleum product supply, as well as transportation of oil and petroleum products (offshore terminals), petrochemicals and power engineering. At the same time, in some of them the Company is represented by petroleum product supply enterprises only.

Today, LUKOIL Group enterprises produce more than half of their oil and gas resources in the northern energy regions – Chanty-Mansi (Yugra) and Yamal-Nenets autonomous okrugs. The towns of Kogalym, Uray, Langepas and Pokachi represent the historical center, where it all began for the Company. Its employees and their family members represent a significant share (up to 40%) in the total population of these towns. Urals federal okrug receives more than 50% of the Company's total capital investments intended for the development of the upstream business, and better use of the resources contained in the old wells.

Northwestern and Southern federal okrugs are the regions of offshore oil production operations. Our enterprises operate offshore facilities in the waters of the Baltic and Caspian Seas sticking to the most environmentally friendly principle of "zero-discharge" operations. Southern is the only okrug where LUKOIL has power engineering enterprises, due to which it is the leader in terms of the number of the Company's enterprises operating in any other okrug.

Volga federal okrug is the second to Southern okrug by the number of the Company's enterprises. Those include oil production organizations utilizing state-of-the-art technologies, refineries and petrochemical plants. Most investments in this okrug are allocated into innovations in oil production operations and refinery upgrade.

In all of the federal okrugs LUKOIL Group enterprises play an important role in creating jobs for the population and in being a source of stable tax revenues for regional and local budgets.

North-Western Federal Okrug

Komi Republic, Nenetsk Autonomous Okrug (NAO), Republic of Karelia, Arkhangelsk Oblast, Kaliningrad Oblast, Leningrad Oblast, St. Petersburg, Vologda Oblast, Murmansk Oblast, Novgorod Oblast, Pskov Oblast



- 📍
000 LUKOIL-Komi
 (including OAO Usinsky GPZ and from 2012 – 000 Naryanmarneftegaz). The thousandth hectare of clean land handed over, the 1994 oil spill effects fully eliminated.
- 📍
000 LUKOIL-Ukhtaneftepererabotka (LUKOIL-UNP)
 Atmospheric-vacuum oil treatment unit that had been in operation for 60 years is currently being upgraded. Gross atmospheric emissions considerably reduced.
- 📍
OAO Varandey Terminal
- 📍
000 Arkhangelskgeoldobycha
- 📍
000 LUKOIL-Kaliningradmorneft (LUKOIL-KMN)
- 📍
000 LUKOIL-Kompleksny Neftyanoy Terminal (Complex Oil Terminal) (LUKOIL-KNT)
 The terminal's design capacity is 120 ship entries per annum, and its cargo turnover is up to 1.8 mln. tn of petroleum products. The construction of the terminal is the largest investment project implemented in the region.
- 📍
OAO RPK-Vysotsk-LUKOIL-II
- 📍
000 LUKOIL-Bunker
 The Aginskoye and Lilaste refueling ships upgraded.
- 📍
000 LUKOIL-Severo-Zapadnefteprodukt (LUKOIL-SZNP)
 The project of upgrading and expanding the filling stations network launched.

Economic role of the Company in the region

Indicators	2009	2010	2011 ¹	2012 ¹
Taxes paid (total), RUR mln., including:	86,983	108,378	85,319	73,605
RF budget	75,544	93,214	73,677	66,595
budgets of the RF constituent entities	10,988	14,812	11,343	6,714
local budgets (jointly)	451	352	299	296
Investments into plant, property and equipment, RUR mln.	32,956	31,414	35,103	39,276

¹ Note. Lower indicators have to do with reduced production at the sites of OOO Naryanmarneftegaz.

ECONOMIC ROLE AND INVESTMENTS

In 2012, OOO LUKOIL-Komi commissioned the Vostochno-Lambeyshorskoye field, explored back in 2011. At its existing fields the company first used a method that enables one to extract oil from wells with various formation properties and the multi-zone fracturing technique, which increased production, including that of difficult resources. A steam plant was commissioned thus contributing into better recovery of heavy crude.

LUKOIL's enterprises annually increase the percentage of APG utilization. The Lekkerskoye field is currently a subject to a comprehensive upgrading (OOO LUKOIL-Komi). The facilities built here include a pipe section up to the gas main and a power transmission line, there's a gas turbine power plant project in place. The new power supply system made it possible to abandon diesel generators at the Yuzhno-Yuryakhinskoye field.

The volumes of APG supplied from the Kyrtalskoye field to the Pechora State District Power Plant will be considerably increased due to the recently commissioned loop line¹ that runs along the main gas pipe line. Preparation for APG transportation from the southern group fields to the Sosnogorskaya CHP plant has been completed. APG is also used at the Perevozhnoye field (OOO Naryanmarneftegaz) to run power plants (they have shifted to two fuels i. e., gas and diesel fuel) and is also supplied to the boiler house of OAO Varandey terminal.

There's ongoing active work to re-equip the Usinsk gas processing plant.

The Company's investments help achieve a better utilization of energy resources and reduce atmospheric emissions of greenhouse gases and pollutants.



In 2011 OOO LUKOIL-UNP reached the peak of oil processing for years. It set up production of unleaded gasoline Regular-92 (GOST R 51105-97) and diesel fuel with a sulfur content of 500 ppm and a wear-prevention additive.



An additional tank car discharge line was commissioned at the offshore terminal RPK-Vysotsk, which increased oil transshipment (by 25%). Given intense development of the Russian ports in the Gulf of Finland, the fleet of OOO LUKOIL-Bunker now includes a tanker that will supply petroleum products to the ports of Vysotsk, Primorsk, St. Petersburg and Ust-Luga.

OAO Arkhangel'skgeoldobycha continues with the construction of infrastructure of the mining and processing complex at the V. Grib diamond deposit in Mezensk Rayon, Arkhangel'sk Oblast. Production startup and the first diamonds are expected in 2013. Upon reaching its design capacity, the enterprise will create over 1,200 new jobs for the region and its annual payments in taxes will exceed 1.5 bln.



OOO LUKOIL-Severozapadnefteprodukt has been actively developing its network of filling stations. The company includes over 300 filling stations in 11 Russian constituent entities. Almost all of the filling stations accept LICARD electronic cards, and around 70% have shopping floor space. According to researchers, every fifth motorist in the region goes to LUKOIL filling stations to fill up.

There are ongoing supplies of fuels for brand new cars of numerous manufacturers in St. Petersburg (General Motors, Toyota, Ford, Hyundai, MAN Truck & Bus).

¹ The loop line is a pipeline section that runs in parallel with the main pipeline.

000 LUKOIL-KMN, 000 LUKOIL-Komi, 000 Naryanmarneftegaz	2009	2010	2011	2012
Oil production, mln. tn.	23.0	22.3	18.6	16.6

000 LUKOIL-KMN, 000 LUKOIL-Komi, 000 Naryanmarneftegaz	2009	2010	2011	2012
Gas production, bln. cu.m	1.067	1.129	2.233	1.176

000 LUKOIL-Ukhtaneftepererabotka	2009	2010	2011	2012
Oil refining, mln. tn	4.2	4.1	4.5	3.7
Commercial output, mln. tn	4.07	3.95	4.35	3.6

Usinsk GPP (part of 000 LUKOIL-Komi)	2009	2010	2011	2012
Petroleum gas processing, mln. cu.m	198.2	195.3	191.3	220.7

000 LUKOIL-KMN, 000 LUKOIL-Komi	2009	2010	2011	2012
Number of fields under development	81	80	81	81
Number of fields brought into development	1	1	–	1

SOCIAL AND ECONOMIC PARTNERSHIP AGREEMENTS

Under the new 2012 agreement made with the Government of Leningrad Oblast the Company undertook to build a petroleum products pipeline from the port of Primorsk to the offshore oil terminal in Vysotsk, 12 filling stations and a bitumen storage. The project will help stabilize the bitumen prices and increase the scope of road construction in the region.

The Company has been a partner of the local administrations in the Republic of Komi and NAO to ensure more efficient development of natural resources. Implementation of joint energy efficiency and environmental control programs is an important area of cooperation in the regions.

LUKOIL-KOMI'S ENVIRONMENTAL SAFETY PROGRAM

Every year 000 LUKOIL-Komi elaborates its Environmental Safety Program (hereinafter referred to as ESP), that is submitted for approval to the Ministry of Natural Resources of the Republic of Komi and Division of Rosprirodnadzor for the Republic of Komi. The ESP outlines the key areas (sections) of the activities undertaken by the territorial enterprises i.e., "Clean Water", "Clean Air", "Waste", "Reclamation Activities", "Environmental Safety of Pipeline Systems", "Emergency Response", and "Environmental Developments".

Land Restoration and Waste Handling

In 2012 the Interdepartmental Republican Committee for Acceptance of Restored Land in conjunction with a number of agencies accepted 46 hectares of land submitted for acceptance that had been previously disturbed as a result of oil spills. Over the previous two years (2010–2011) 61 hectares of land were accepted.

000 LUKOIL-Komi	2009	2010	2011	2012
Reclaimed land, ha	41.3	31.6	30.0	46.2

In 2011–2012 the company itself and the contractor engaged by it collected 42 ths. cu.m of liquid slimes and oil-containing liquid into the Usinkoye oilfield system. 22.7 ths. cu. m. of solid oil slimes were processed at the Vozeykoye field.

To prevent oil spills worn out pipelines are gradually replaced with new ones. The pipes being used include the ones with corrosion-resistant coating and up-to-date polymer-reinforced pipes whose service life can be up to 60 years. Since 2000 the enterprise has replaced almost half of the pipes.

PRESERVING BIODIVERSITY OF NORTHERN TERRITORIES

Volunteer Initiatives

The personnel of OOO LUKOIL-Komi took part in the volunteer event “River Band 2012”. They cleared up the banks of the Usa, Kolva, Pechora, Lyzha, Chernaya Rivers and Komanyur Lake in the Usinsky Rayon in the Republic of Komi.

Specially Protected Areas

Framework agreements for cooperation in sustainable development have been made between the UNDP/GEF APP¹ project in the Republic of Komi and OOO LUKOIL-Komi on the one hand, and the Yugyd-va and Pechora-Ilych Reserve² on the other hand. In 2013 the company plans to develop specially protected areas, preserve biodiversity of the forests, in particular those in Komi (they are the first Russian site to be put on the UNESCO World Heritage List back in 1995).

Restoration of Numbers of Fish in Northern Rivers

LUKOIL's enterprises have assisted to restore the biological resources of the northern rivers for several years. During the reporting period 100 ths. baby whitefish were artificially bred in a fish nursery and released into the Pechora River. As part of a similar project involving OOO Naryanmarneftegaz another 115 ths. baby fish were released in 2012 into the Izhma River (a tributary of the Pechora).

“OOO LUKOIL-Komi's management does a lot to restore biological resources. It would be great if such initiatives were put to life not only for the Northern rivers, but in other Komi regions as well”.

Alexander Popov, Head of the Rosprirodnadzor Division for the Republic of Komi

“It was OOO LUKOIL-Komi that five years ago became the first commercial sponsor of the fish stocking initiative, thus setting a perfect example to other companies”.

Marina Gubnova, Deputy Head of the Department of Governmental Control, Supervision and Protection of Aquatic Bioresources in the Republic of Komi

ENVIRONMENTAL MONITORING OF THE BALTIC SEA

In 2011 and 2012 the company released its regular reports highlighting the outcomes of environmental monitoring of Kravtsovskoye offshore oil field (D6). For the complete reports please go to the official website of OOO LUKOIL-KMN (<http://www.lukoil-kmn.com/ecology/monitoring2011>). The monitoring was carried out jointly with OOO LUKOIL-KMN, OOO Morskoye Venchurnoye Byuro and Shirshov's Oceanology Institute of the Russian Academy of Sciences. The monitoring revealed that the oil production does not produce any impact upon the ecosystem of the Baltic. Sea vessels are still a major source of oil pollution of the sea surface. As required by the existing license agreements, the subsurface areas at 13 oil facilities were also subject to environmental monitoring.

2012 saw the publication of the second volume “Sea” of the multi-author monograph named “Oil and Environment”, based on the offshore environmental monitoring data gathered for many years by OOO LUKOIL-KMN in the Baltic. The book is a good tool for addressing environmental issues while developing new offshore fields and may be interesting not only to oil specialists or environmentalists, but also to a broad range of researchers of the Baltic.

SUPPORT OF THE PEOPLES OF THE FAR NORTH

In addition to the permanent forms of support provided to the peoples of the Far North, OOO LUKOIL-Komi also helps to organize Buran-Dei, an annual sports holiday that involves snowmobile and reindeer racing. In 2012 in the village of Lasta they held a traditional festival of Izhemsk hunters, where one of the first ever Komi hunting grounds was set up more than 70 years ago. OOO LUKOIL-Komi was also one of the co-founders of the conference “Commercial Exploitation of the North and Topical Ethnoecological Issues” taking place in Syktyvkar and helped organize the congress of reindeer breeders of the Komi Republic in Usinsk.

PUBLIC RELATIONS

Environmental and industrial safety is the primary concern of the general public in the North-Western region. Following the transparency and stakeholder relations principles, the Company's enterprises have been maintaining relations with the environmentally minded public. Experts representing environmental organizations have been examining the territories covered by LUKOIL's activities. E.g. in 2012 OOO LUKOIL-Komi was visited by Greenpeace Russia. Representatives of NGOs always sit on committees dealing with floods and acceptance of lands restored after pollution.

¹ United Nations Development Program/Global Environmental Fund of Areas of Preferential Protection.

² For more information about the projects please go to: http://www.undp-komi.org/index.php?option=com_content&view=section&layout=blog&id=17&Itemid=106

OOO LUKOIL-Komi and OOO Naryanmarneftegaz held public hearings on environmental and technical safety of their projects. In 2010–2012 62 oil production sites were subject to examination and environmental reviews.

In 2012 OOO LUKOIL-KMN held consultations with the general public on the environmental impact assessment (EIA) of drilling of prospective and appraisal wells at two sites.

In 2011 the enterprise took part in the “Baltic Sea Day” (St. Petersburg), which is a major annual forum, where representatives of international organizations, businesses, government, environmentally-minded public and other stakeholders discuss the condition of the Baltic marine environment.

SOCIAL INVESTMENTS AND CHARITY

Social and Cultural Projects Contest

Contest operator	Number of projects submitted for the contests	Number of winning projects	Territories, where the projects were implemented
OOO LUKOIL-Komi LUKOIL Charity Fund (LUKOIL CF)	2011 – 78	14	Republic of Komi and NAO
	2012 – 94	14	
OOO LUKOIL-KMN LUKOIL CF	2011 – 78	15	Kaliningrad Oblast
	2012 – 130	20	

Examples of projects financed

Support for disabled individuals – projects *“Talking Books for Visually Impaired”*, *“Care for People”* (Republic of Komi) and *“Hand in Hand”* (Kaliningrad).

Disabled individuals need editions specifically printed for them. Such books are not always to be found in remote regions. The L. Braille library in Syktyvkar has a special studio for visually impaired, where they record “talking books” for the blind. Such books are sought-after in the region, for out of one and a half thousand residents that are visually challenged, only around 50 people can read the Braille. Now the “talking books” are accessible through a subscription system and a network of specialized literature library points to the residents of Vorkuta, Ukhta, Usinsk, Inta, Pechora, Sosnogorsk, Ust-Vymsky, Kortkerossky, Priluzsky Rayons in the Republic of Komi.

The “Care for People” project helped preserve the production and rehabilitation enterprise “Master” that employs visually impaired individuals. It is not just an opportunity to be part of the social life, but also a source of income. New equipment was purchased for the enterprise, the personnel was taught to operate it, and its sales channels were developed. Further on, as the level of income grows, one may increase the number of jobs at the enterprise to be taken up by the disabled.

The “Hand in Hand” project implemented in Kaliningrad helps promote inclusive (joint) education techniques in Russia. In 2011 alone, the amateur film “Joint Education - Useful and Lawful”, shot with the help of volunteers, teachers and parents of disabled children, was seen by over 1000 Kaliningrad residents. The Association of Young Disabled Individuals of Russia “Apparel”, initiating the project, held a series of educational meetings with school students. Thus, we are creating conditions to prepare children for future co-education.

Introduction to the nature: projects *“Environmental hobby group for kids”* (NAO), *“School Garden”*, and *“Curonian Spit: from A to Z”* (Kaliningrad).

The state natural reserve “Nenetsky” has started an environmental hobby group for 50 children from the village of Iskatel. It is where they get to study, hands-on, the Pechora’s nature i. e., take part in environmental events, conduct their own research and present the outcomes at the exploratory conference “LUKOIL and NAO’s Younger Generation. Let’s Join Together and Preserve the Nature of Our Homeland!” The local authorities showed their interest in the project and decided to set up similar hobby groups at all schools in Naryan-Mar and Iskatel village with support of the Education and Youth Policy Department of NAO.

One of the acute problems faced by Kalinigrad and Kalinigrad Oblast is preservation of gardens that have been gradually cut down as the territories are developed. School No.28 in Kalinigrad used its grant money to plant an orchard and set up a "Green Environmental Classroom". The project participants included 600 children, 100 parents, residents of the microdistrict, teachers from partner schools and local authorities.

The project "Curonian Spit: from A to Z" resulted in the creation of a film about this unique natural territory that will be used to educate the locals and as a multimedia aid at schools.

CONSUMER INITIATIVES

In 2011–2012 OOO LUKOIL-SZNP held over 15 marketing events. Their participants got different recognition gifts i.e., fuel discounts and bonus points; opportunity to purchase ECTO fuel at the cost of Premium EURO-95 gas and a brand new 1st series BMW. Two events were also of social significance.

In 2011 at filling stations in St. Petersburg and Leningrad Oblast they held a charity event "LUKOIL's Preparing Champions", which stipulated that 10 kopecks out of each liter of ECTO fuel sold were spent on promotion of children's sports. The proceeds were handed over to SKA-St. Petersburg ice hockey school. OOO LUKOIL-SZNP used the event to expand the number of those taking part in charity, enabling every customer at LUKOIL filling stations to contribute into support and promotion of children's ice hockey in St. Petersburg.

In the winter months, every weekend OOO LUKOIL-SZNP held "Snow Rides" jointly with the Audi Club "Peter" and the "Orange-drive" extreme driving school. The motorists got an opportunity to improve their driving skills on slippery surfaces; there are plans to make the "Rides" a tradition. OOO LUKOIL-SZNP is the annual primary sponsor of the "Petersburg Motor Spring" festival attended by over 100 Russian motor clubs and over five thousand motorists. Such events contribute to road safety.

PUBLIC RECOGNITION

OOO LUKOIL-UNP's products (road bitumens and unleaded gasolines) have received the certificates of the regional competition "Best Products and Services of the Republic of Komi", and "Top 100 Russian Products" (2011).

OOO "Naryanmarneftegaz" was one of the award winners of the competition entitled "Top 100 Best Russian Organizations. Environment and Environmental Management" held in 2012.

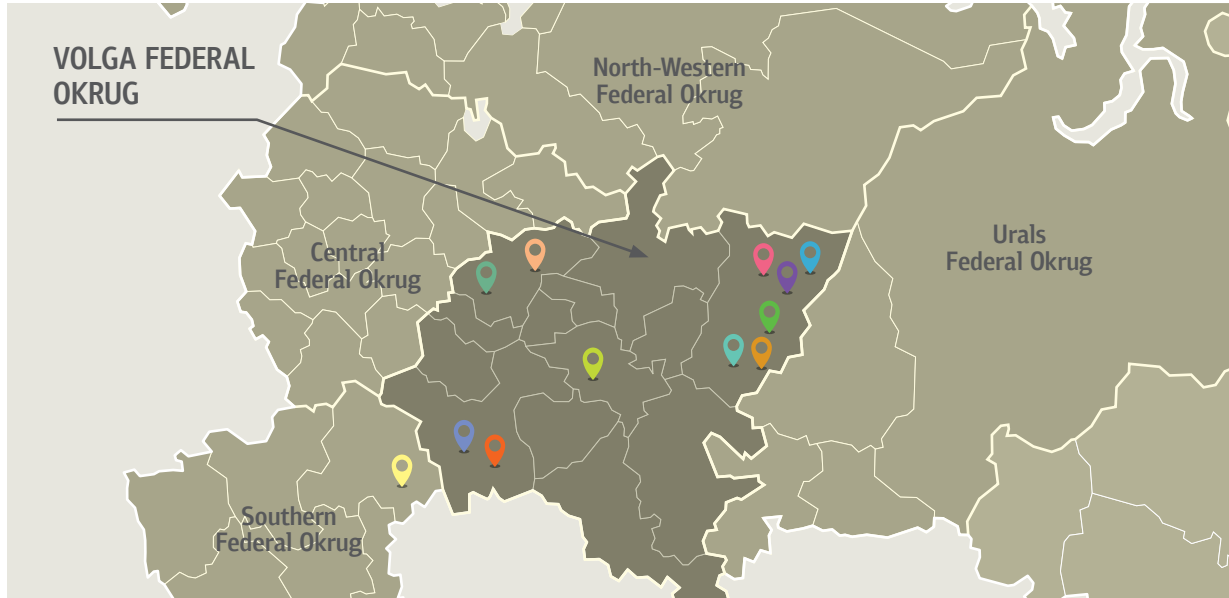
OOO LUKOIL-UNP won the first prize in the Republican competition "Organization of High Social Efficiency" (2011) for "Development of the Talent Pool" and in the competition "Best 2011 Bargain Agreement" held amongst the organizations operating in the Republic of Komi.

OAO RPK-Vysotsk-LUKOIL-II was recognized as one of the leaders of the Russian economy (2011). The Company was ranked 6th in the business rating (<http://business-rating.net/>), listing 650 thousand Russian businesses.

OOO LUKOIL-KMN became the winner of the regional stage of the All-Russian contest "Russian Organization of High Social Efficiency" (2012). The company won in such categories as "Development of Social Partnership in Production Organizations" and "Contribution to Solution of Social Problems of the Territories and Promotion of Corporate Charity".

Volga Federal Okrug

Perm Krai, Saratov Oblast, Republic of Tatarstan, Nizhny Novgorod Oblast, Republic of Udmurtia, Kirov Oblast, Samara Oblast, Orenburg Oblast, Penza Oblast, Republic of Bashkortostan, Republic of Mariy El, Chuvash Republic



- 📍 **000 LUKOIL-PERM**
 Nikulinskoye oil field discovered, two new fields brought into development.
 6 fields have the highest APG utilization rate.
 2012 saw discovery of two new oil and gas fields:
 - V.P. Sukharev field, with the initial C1 reserves in place being 3.947 mln. tn., C2 - 9.130 mln. tn., political division wise located on the territory under the jurisdiction of the town of Berezniki, Perm Krai
 - Provorovskoye field, with the initial C1 reserves in place being 0.624 mln. tn., C2 - 0.106 mln. tn., administrative division wise located in the jurisdiction of the town of Berezniki, Solikamsk Rayon, Perm Krai
- 📍 **000 LUKOIL-Permneftegazpererabotka (LUKOIL-PNGP)**
- 📍 **000 LUKOIL-Permnefteorgsintez (LUKOIL-PNOS)**
 The 100 millionth canister with motor oil produced. The old capacities would require at least 10 years to do so. An oil residue treatment facility was commissioned thus allowing to increase the conversion rate to 98%.
- 📍 **000 Saratovorgsintez**
- 📍 **000 LUKOIL-Trans**
- 📍 **NGDU TatRITEKneft, TPP RITEK-Uraloil (part of OAO RITEK)**
- 📍 **000 Nizhegorodnefteorgsintez (LUKOIL-NNOS)**
 The first AI-98 Euro - 5 gasoline, unleaded Regular Euro-92 gasoline and new gear oil batches produced.
- 📍 **000 LUKOIL-Kamarskaya Bulk Plant**
- 📍 **000 LUKOIL-Permnefteprodukt (LUKOIL-PermNP)**
- 📍 **000 LUKOIL-Uralnefteprodukt (LUKOIL-UraINP)**
- 📍 **000 LUKOIL-Volganefteprodukt (LUKOIL-VolgaNP)**
- 📍 **000 LUKOIL-Nizhnevolzhsknefteprodukt (LUKOIL-NVNP)**

Economic role played by the Company in the region

Indicators	2009	2010	2011	2012
Taxes paid (total), RUR mln., including:	48,712	62,906	107,756	130,975
RF budget	40,430	52,909	92,660	116,467
budgets of the RF constituent entities	7,442	9,121	15,202	13,935
local budgets (jointly)	840	876	1,005	573
Investments into plant, property and equipment, RUR mln.	14,372	17,242	22,468	36,521

ECONOMIC ROLE AND INVESTMENTS

LUKOIL continues to be the oil and gas leader of Perm Krai. One of the largest companies in the Western Urals, OOO LUKOIL-PERM proposed to increase oil production, thus completing the task set by the Board of Directors of LUKOIL to fully make up for hydrocarbons production by reserves additions and maximize the reserves brought into development.



In 2011 the production offset totaled 103%, with the hydrocarbons reserves additions exceeding 13 mln. tn. Over the last 10 years the production grew up by 28%.

In 2012 OOO LUKOIL-PERM's production offset exceeded 100%, with the hydrocarbons reserves additions reaching 13.9 mln. tn.

In 2012 the company continued to create an intellectual well cluster based on SRP Geizer hydraulic drives. The main goal of the project it to create a fundamentally new oil production complex that enables monitoring and remote operation of the process in real time, minimizing involvement of the service personnel i. e., remotely control operations of the hydraulic drive and the well (take dynamometer readings, dynamic fluid level,

annular pressure, linear pressure, visual inspections of the well and indirect calculations of the fluid rate based on the dynamometer readings), and manage the drive's operating parameters (number of swings, length of stroke). The remote control and operation functions were available not only from the control panel, but also from the walker's cell phone. To this end, in the areas with no reliable cellular connection they have provided broadband wireless WI-FI access.

OOO LUKOIL-PERM has been consistently reducing its energy costs in the following areas, as provided by the Energy Efficiency Program: reduced capacity of production equipment in line with the work load, and introduction of energy saving equipment and technologies. In 2012 the company saved up 21.027 mln. kW of power, thus reducing its costs by RUR 53.3 mln.

Its facilities, in particular, are fitted out with 362 energy saving bulbs and 127 outside lighting control and process facility heating control devices. Measures taken to optimize capacities of the process equipment (introduction of variable speed drives, frequency steering stations, slow speed engines, reduction in the engine capacity of drives used in oil wells) resulted in replacement of pump units at 148 wells,

PROSPECTIVE TECHNOLOGIES BEING INTRODUCED

1. Small hole drilling. The technology is used at the fields where conventional hole drilling is inefficient. Small hole drilling does not call for allocation of any additional land and may take place on the existing cluster pad, which helps reduce costs and contributes into preservation of land resources.

2. Well drilling using a hybrid drilling rig. The technology helps reduce the well construction cycle.

3. Completion of wells with StageFRAC. The technology helps boost the productivity of horizontal wells by increasing the formation's drainage area.

4. Multilateral well drilling. The technique helps reduce the environmental impact, cover larger areas for hydrocarbons production purposes, thus increasing the productivity index, flow rate and reservoir recovery.

replacement of electric motors on beam units, and installation of 57 frequency steering stations.

In 2012, following design completion of the gas transportation system, OOO LUKOIL-PERM, even ahead of schedule, began construction of gas pipelines and major repairs of the utility lines.

OOO LUKOIL-PNGP pilot tested a new product type. As a result on April 1, 2012 the subsidiary put into effect a new standard named "Fuel for Internal Combustion Engine. Liquefied Petroleum Gas (LPG). Requirements and Testing Techniques". The enterprise will produce fuel that is compliant with the European standards.

An investment project is currently underway to construct a second APG processing line. 2011 saw construction completion of a gas pipeline to supply APG to OAO Uralkaliy, and pilot testing of the gas pipeline "Booster Compressor Station Dorokhovka – main compression station Kurbaty".

Gas treatment and sulfur removal systems intended to mitigate the atmospheric effect of the enterprises are currently being upgraded.



In 2011–2012 LUKOIL's annual investments into Tatarstan's oil industry almost totaled RUR 1.5 bln. OAO RITEK was incorporated in 2012 in the Republic and commissioned a more than a 3.5 km long oil pipeline linking together Timerovskoye and Menzelinskoye fields. The pipeline was laid at a 13 m depth under the Kamskoye water basin using the directional horizontal drilling technique. It is the first every facility of the kind in Tatarstan.

In 2012 the company entered into an agreement with the Resource-Holding fuel and energy association (Naberezhniye Chelny) to set up a joint venture to produce electronic motors. The new generation of oil producing complexes will help considerably reduce the oil production prime costs: depending on the production technique and crude properties the savings may vary between 20% and 60%. Over 400 such units have been successfully operated at LUKOIL's fields, and a whole lot of oil producers have shown interest in such innovative equipment.



OOO LUKOIL-NNOS is continuing with its upgrading program. It has already commissioned its catalytic cracking complex, a second line that is scheduled to be commissioned in 2015 is currently under construction.



An automated petroleum depot was launched in Kstovo Rayon, Nizhny Novgorod Oblast with only 37 persons servicing it, which is four times as little as at the previously mothballed Kydminsk petroleum depot. In constructing the depot they used solutions and equipment that is useful in terms of improving the environmental situation in the region, i. e., gasoline vapor recovery unit.

In 2011 a 20 kW RU-Wind-20000 wind mill was put up at LUKOIL-UralNP's gas station in the village of Udelyny Duvaney (Blagoveshchensky Rayon) in Bashkortostan. The wind mill makes it possible to save up to 53% of the daily power, which is also confirmed by the monitoring data. And that is the only wind mill in the north of Bashkortostan.



OOO LUKOIL-PERM, OAO RITEK (TPP RITEK-Uraloil)	2009	2010	2011	2012
Oil production, mln. tn	14.1	14.5	14.8	13.8
Gas production, bln. cu. m	0.999	0.969	1.032	1.197
Gas condensate production, ths. tn	2.0	3.0	1.6	–
Number of fields under development	134	136	154	133
Number of fields brought into development	3	3	2	–

OOO LUKOIL-PNOS, OOO LUKOIL-NNOS, OOO Saratovorgsintez	2009	2010	2011	2012
Raw stock refining volumes, mln. tn	29.03	30.2	30,1	29.5
Commercial output, mln. tn	27.64	28.91	28.31	28.8

OOO LUKOIL-PNGP	2009	2010	2011	2012
Petroleum gas and wet gas processing, mln. cu. m.	539.6	556.9	548.5	582.3
NGL processing, ths. tn	647.9	684.0	669.6	742.0

SOCIAL AND ECONOMIC PARTNERSHIP AGREEMENTS

Over the last 7 years that the Cooperation Agreement between LUKOIL and Perm Krai has been in effect, the Company invested almost RUR 6 bln. into the region's social development. Here belong construction and reconstruction of around 100 schools and kindergartens, more than 140 infrastructure facilities, over 30 medical institutions, 36 sports facilities, 60 cultural facilities, dozens of churches and mosques throughout the Kama region.

In 2012 LUKOIL spent RUR 1.1 bln. to reinforce the social facilities in the region. Inter alia, the Company financed construction of distribution gas pipelines in Bardymy, Usinsky, and Usolsky Rayons, kindergartens in Kungursky, Kuedinsky, Oktyabrsky Rayons, a skating-ring in Elovo and an ice hockey ring in Chernushka, and renovated the region's main children's clinical hospital.

LUKOIL, Perm Krai's administration and the Regional and Social Programs Fund "Our Future" have made an agreement to construct a kindergarten in Perm scheduled for commissioning in 2014.

LUKOIL is also sponsoring construction of a kindergarten in Saratov to accommodate 300 children. The territory of the institution is designed to have a playground, sports ground, and almost 5000 square meters of green planted land.

LUKOIL also supports development of the master plan for the Perm (Bolshoye Savino) international airport.

SOCIAL INVESTMENTS AND CHARITY

SOCIAL AND CULTURAL PROJECTS CONTEST

In 2012 for the first time ever the contestants included 917 grant seekers from 30 districts of the Perm Krai and the Republic of Bashkortostan. Thus the 2012 Contest set the all-time high mark in terms of the number of applications and the number of territories sending their contestants. The overall number of grants awarded to the best projects was 194, which is by 50 exceeds that of the last year. In 2012 a total of RUR 24 mln. was awarded as grants. It exceeds the last year figure by RUR 10 mln.

The 11th Contest had three new categories, two of which ("Time to Innovations" and "All the Best for Our Children") were added at the last year winners' request. Another category named "Historic Heritage" was introduced to mark the Year of Russian History. It turned out to be the most popular one, with 43 project owners being declared the winners. Out of three largest categories in terms of the numbers of submitted projects two are "Culture and Morality", "Health and Sports". Most grants were awarded to Usolsky, Chernushinsky and Usinsky Rayons.

To mark the completion of their project nominated under the "Historic Heritage" category, the residents of the Krasnovishersky Rayon made a 70 kg bilberry pie, of which an entry was made into the Russian book of records. The winner under the Selenite category named "Project – Discovery of the Year" was an 11-grader from the Chusovsky Rayon. She came up with

the initiative to set up a sidewalk leading from the school. Other winning initiatives include support for a unique ensemble “Old Men Originals” from the Yusvinsky Rayon. The average age of the ensemble members is 75 years. It was due to one of the award winners that a village in the Bardymy Rayon got an up-to-date skate park.

In 2012 OOO LUKOIL-PERM launched a forum at its website intended for those taking part in the social and cultural projects contest. Its goal is to help the project owners share their experience, receive feedback from the contest organizers and enable online registration of applications.

The contests arranged in the Republic of Tatarstan received a great deal of public response: the officials taking part in the awards ceremony included the President of Tatarstan R. Minnikhanov, State Councilor of Tatarstan M. Shaimiev, Prime-Minister of Tatarstan I. Khalikov and President and CEO of LUKOIL Dr. V. Alekperov.

In 2012 OOO LUKOIL-VolgaNP expanded the contest’s geography by accepting projects from five new Russian regions (*see the Table*).

Contest operator	Number of projects submitted for the contest	Number of winning projects	Territories, where the projects were implemented
OOO LUKOIL-PERM	2011 – 650	145	Perm Krai and Republic of Bashkortostan
	2012 – 917	194	
OAO RITEK LUKOIL CF	2011 – 500	113	Republic of Tatarstan
	2012 – 750	133	
OOO LUKOIL-Volganefteprodukt LUKOIL CF	2011 – 109	41	Nizhny Novgorod Oblast, Vologda Oblast, Vladimir Oblast, Republic of Mariy El, Republic of Chuvashia, Republic of Mordovia
	2012 – 230	68	

Examples of projects financed

Support of disabled people (Perm Krai, Nizhny Novgorod Oblast, Republic of Tatarstan).

Hippotherapy¹ is thought to be effective to maintain the health of the disabled and help them develop. It’s been used by several organizations to improve the health of children with disorders.

In the Nizhny Novgorod Oblast the “Young Nizhny Novgorod Resident” Oblast Center has been offering rehabilitation to kids using hippotherapy. It has provided its services to more than 500 people. Another 60 children underwent rehabilitation under the project sponsored by five partner organizations. They held 10 workshops for the parents, each of whom was given individual recommendations regarding development of their children. 180 children can do hippotherapy on a year-round basis.

The contest winning projects in Tatarstan were the ones to teach elderly Kazan residents (members of the regional department of the Russian Retiree Council) computer literacy and the project “Children and Puppets”, by the regional charity organization “L.S. Vygotsky Children Aid Society”. What makes the latter project unique, is that children that were believed to be

unteachable, develop their intellectual capabilities and acquire everyday skills through “creative therapy”.

Environmental Projects (Perm Krai, Nizhny Novgorod Oblast).

The “Clean Homeland” project has been going on in four districts in Perm Krai for six years. Volunteers taking part in it landscape the villages in the north of Perm Krai. More than 300 local school students regularly clean up the floodplains of ponds and rivers, and clean up litter.

The Dront EcoCenter (Nizhny Novgorod) sets phytoncidic plants² in the urban kindergartens of the Nizhny Novgorod Oblast. The project started out as an experiment in 2007 in 3 kindergartens, and in 2012 it already covered 24 pre-school institutions; it is supported by sponsors and governmental organizations. A model health improvement project aimed at children in pre-school institutions has been elaborated and it can be expanded to include other cities as well.

The Nature Protection Society in Nizhny Novgorod used the grant money to examine and partially improve five springs in Pavlovsky Rayon. It is important for the locals of the town of Gorbatovo of the Nizhny Novgorod Oblast, for the only source of potable and

¹ Hippotherapy is rehabilitation through horse riding. According to specialists this ancillary treatment is useful first of all for individuals with musculoskeletal disorders.

² These are natural plants that release biologically active substances that kill or suppress reproduction of bacteria, microscopic fungi and other protozoa.

household as well as process water supply available to them is groundwater from wells and springs.

The project included a bike ride to commemorate the 400th anniversary of the deed committed back in 1612 by the Nizhny Novgorod militia. The cyclists of all ages (over 500 people) rode onto the streets of Kstovo under the mottos “We choose clean towns! Let’s make the world greener!” and “We are not blocking traffic – we are part of it!” The goal of the project is to remind the locals of the fact that the bicycle is the most environmentally friendly urban means of transport and that measures must be taken to make roads a safer place for cyclists.

Support of orphans: project named “Your vocation is your choice” (Nizhny Novgorod Oblast)

For several years the Praktika center has been organizing a multimedia festival “Vivid Word” in the village of Bolshoye Boldino, Nizhny Novgorod Oblast, that inter alia facilitates occupational guidance and socialization of orphanage inmates. Around 50 children from Nizhny Novgorod and Kirov Oblasts have taken part in the festival for the two year period. Upon the festival completion the children receive certificates to undergo training in the Praktika’s school of young reporter, video cameras, a course book, and a free pass to their future profession.

CHARITY

LUKOIL’s enterprises in the Volga Federal Okrug annually prepare New Year gifts for the kids from the institutions sponsored by them. In particular, in late 2011 OAO RITEK organized eight theatrical performances attended by 1,700 elementary school students from Novosheshmink, Naberezhniye Chelny, Nurlat, Argyz, and the village of Aksubaev. The personnel of TPP TatRITEKneft brought gifts to orphan asylums “Mechta” (Aksubaevsky Rayon), “Tepliy Dom” (Chistopolsky Rayon), “Kamskie Zori” (Mendeleevsky Rayon) and to the Nurlat special boarding school. Several dozens of gifts were handed out to the members of the Nurlat organization of the All-Russia Association of the Blind.

In its charitable activities OAO RITEK focuses on target assistance to children, support and promotion of cultural and spiritual traditions, sports, children’s creativity, civil initiative, restoration of religious shrines. As part of the Memorandum of LUKOIL’s involvement in restoration of historic and cultural monuments, in 2012 OAO RITEK allocated RUR 45 mln. to restoration of the Church of the equal-to-the-apostles St. Constantine and Helen on the island-town of Sviyazhsk in Tatarstan. Being actively involved in the life of Tatarstan, OAO RITEK continues to provide social mortgage funds.

OAO RITEK has been rendering support to medical, educational, sports institutions, non-governmental organizations and religious denominations.

VOLUNTEER INITIATIVES

In 2012, as a new school year was approaching, LUKOIL’s filling stations in Nizhny Novgorod Oblast jointly with the regional Traffic Police Division held a volunteer event “Attention! Children!” OOO LUKOIL-Volganefteprodukt’s young professionals together with the volunteers of the Svetlyachok movement handed out light-reflecting slap wrap bracelets that ensure high visibility of kids in the hours of darkness.

ENVIRONMENTAL INITIATIVES

The environmental safety programs implemented by the LUKOIL Group Organizations yield substantial results for the regions.

The production facilities of OOO LUKOIL-PERM are fully waste-free. Reconstruction of the water treatment system at the “Krivoye” water intake facility (Chusovsky Bay of the Kamskoye water basin) made it possible to fully discontinue discharges of pollutants into surface water bodies. Introduction of new equipment also helps boost environmental performance. For instance, the initial formation water separation unit in oil and gas production workshop No.3 made it possible to reduce fresh water consumption required to maintain the formation pressure by 1 mln. cu. m per year.

In 2012 OOO LUKOIL-PERM joined the Green Office project, administered by Greenpeace Russia, and voluntarily undertook to make its office premises greener.

It is also continuing with its projects involving the public, aimed at promoting the environmental culture and improving neighborhoods. In 2011 OOO LUKOIL-PERM for the fifth time held its annual events “Children and LUKOIL for the Environment” and “City of Oil Men is the City of Flowers”, that beat the previous records. In the region they planted almost 300 thousand flowers, 1,800 trees and shrubs, made over 2,000 flower beds, cleaned up the territories of 100 children’s and school grounds, cleaned up 80 mini-parks and parks, cleared up the banks of 40 water bodies, and arranged over 200 environmental education events. The participating schools got new lawn mowers, trimmers, easy-to-operate wheelbarrows, and irrigation machines.

“Perm – Workshop of the Future”, a contest of schoolchildren’s environmental projects initiated by OOO LUKOIL-Permnefteorgsintez in 2007, was held for the fifth time. The contestants could attend a workshop dedicated to social design and went on tour around the enterprise.

For the last 10 years OOO LUKOIL-Nizhegorodnefteorgsintez reduced its specific atmospheric emissions almost thrice, cut down on its specific consumption of fresh water almost fivefold, and more than 3.5-fold decreased the specific quantities of produced wastewater. According to the official data of the Territorial Environmental Pollution Monitoring Center, in 2011 the integral atmospheric pollution in Kstovo was 1.6 times lower than in Nizhny Novgorod.

PUBLIC RELATIONS

OOO LUKOIL-Permnefteorgsintez and OOO LUKOIL-Nizhegorodnefteorgsintez organized tours to their facilities for the locals. Responding to the wishes voiced during the 2010 dialogue in Kstovo, they invited reporters to the plant allowing them to talk to the management and personnel. It is where they also held an on-site meeting of the Legislative Assembly of the Nizhny Novgorod Oblast, addressing such issues as environmental protection and development of the region, as well as meetings of the District Council and the City Duma.

A report on environmental safety at the Nizhny Novgorod enterprise was presented at the ECOTECHNO-2011 forum. The Zemlyaki, a regional Kstovo newspaper, published a series of articles by the enterprise's specialists that deal with environmental programs.

CUSTOMER PROMOTION CAMPAIGNS

Not only do our marketing events pursue promotional goals, but they are also held to familiarize motorists with environmental matters, and they have social effects.

Promotion of ECTO, Euro-4 and Euro-5 fuels



“Live the EURO Way” (OOO LUKOIL-Volganefteprodukt): the contestants were faced with the task of collecting five stickers in a contestant's booklet, and complete a creative task

named “What I have done to make our planet better”. This first event involving creative approach got a widespread response, with over 1,200 works being submitted. The contestants submitted their proposals as to environmental improvement, and voiced their concerns about the environmental state of our planet. The awards given by the enterprise included laptops, mountain bikes, GPS navigators and more than 50 recognition gifts.

Social Initiatives

All regional filling stations traditionally offered fuel discounts (from 4% to 6% percent).

On March 8, on the central street in Rostov-on-Don, the traffic police pulled over cars driven by young women, and jointly with a representative of Avtoradio gave them flowers and RUR 500 fuel cards (initiative of OOO LUKOIL-Nizhnevolzhsknefteprodukt).

In 2011 OOO LUKOIL-Permnefteprodukt organized 18 events. The traditional event “Fill up with High-Quality Fuel!” taking place in Perm Krai, Sverdlovsk and Kirov Oblasts enjoyed the greatest popularity. Its main prize was a Volkswagen Golf. There were also 19 special awards.

PUBLIC RECOGNITION

Two LUKOIL's enterprises located in Perm Krai won awards from a regional occupational safety contest. OOO LUKOIL-PERM was the first prize winner, whereas LUKOIL-Permnefteorgsintez won the third prize. The total number of contestants in 2011 was 49.

OOO LUKOIL-Permnefteorgsintez won the 1st degree national environmental award "Ekomir" for implementing such programs as "Upgrading of Pipe Furnaces", "Upgrading of Treatment Facilities", and "In Harmony with Nature".

The Association of Western Ural Power Engineers in conjunction with the Ministry of Industry, Innovation and Science of Perm Krai declared OOO LUKOIL-PERM the "Most Energy Efficient Company of Perm Krai in 2011".

OOO LUKOIL-Nizhegorodnefteorgsintez was declared the winner of the All-Russian contest "Best Russian Enterprises.

Dynamics, Efficiency, Responsibility – 2011" (organized by RUIE).

OOO LUKOIL-Nizhegorodnefteorgsintez received a certificate and a commemorative token the "Best Refinery in Russia and CIS". In 2011 the refinery was recognized the best innovative industrial enterprise in Nizhny Novgorod Oblast. Moreover, the enterprise was awarded Nizhny Novgorod Oblast's I.P. Kulibin prize in the category "Best Invention in Chemistry and Metallurgy in Nizhny Novgorod Oblast". Two patents of the enterprise received awards.

OOO LUKOIL-Volganefteprodukt won the All-Russian Contest of the Russian Government named "Russian Organization of High Social Efficiency". The company has become a repeated winner on a regional scale, and in 2011 it became the best Russian enterprise winning in the category named "Participation in Solution of Social Problems Faced by the Territories and Promotion of Corporate Charity".

Urals Federal Okrug

Tyumen oblast (including Khanty-Mansi Autonomous Okrug (KMAO) and Yamalo-Nenets Autonomous Okrug (YNAO), Sverdlovsk Oblast, Chelyabinsk Oblast



000 LUKOIL-West Siberia

000 LUKOIL-Uralnefteprodukt (LUKOIL-UralNP)

0AO RITEK

000 LUKOIL-Permnefteprodukt (LUKOIL-PermNP)

Economic role played by the Company in the region

Indicators	2009	2010	2011	2012
Taxes paid (total), RUR mln., including:	147,644	202,367	249,599	272,284
RF budget	127,415	180,793	230,658	243,241
budgets of the RF constituent entities	14,720	19,948	18,577	27,134
local budgets (jointly)	5,509	1,626	364	1,909
Investments into plant, property and equipment, RUR mln.	57,535	57,419	83,916	51,261

ECONOMIC ROLE AND INVESTMENTS

More than half of LUKOIL's production of hydrocarbons is in Western Siberia. 000 LUKOIL-West Siberia is one of the largest oil companies developing fields in the Khanty-Mansi and Yamalo-Nenets Autonomous Okrugs. KMAO accounts for most of oil recovery, whereas gas is produced on Yamal.

LUKOIL continues to invest into the region. For instance, 000 LUKOIL-West Siberia is looking for opportunities to more efficiently operate mature fields and explore the new ones. In the reporting period 000 LUKOIL-West Siberia discovered the Yuzhno-Eityanskoye field located on the territories operated by TPP Urayneftegaz, and the test completed revealed a commercial oil inflow. In addressing its reserves additions issue, the company

purchased five new license blocks in KMAO, where it conducted seismic surveys. A wildcat was drilled at the North-Vatyegan block.

For the first time ever OOO LUKOIL-West Siberia won the bidding for the federal level subsoil use, covering such fields as the Imilorskoye, Zapadno-Imilorskoye, and Istochnoye ones located in KMAO.

OOO LUKOIL-West Siberia has been maintaining its oil production levels not only through development or drilling at new sites, but also through application of up-to-date oil production stimulation techniques. It has been actively using horizontal drilling with multi-zone hydrofracturing.

The degree of APG recovery by all OOO LUKOIL-West Siberia enterprises has reached 95%. The quantities emitted as a result of APG flaring over the last two years went down by 25%. TPP Urayneftegaz has also increased its performance. The enterprise received license blocks that used to have no gas gathering system in place, it took a record-breaking time to construct gas-compressor stations at the Lovinskoye and Severno-Danilovskoye fields, gas engine generator plants in East Tolum and North Danilovka, a gas turbine power plant at the Krasnoleninsky field, and to lay gas pipelines. As a result, the APG recovery reached 95%.

LUKOIL increases the natural gas share in its balance above all by developing the Bolshekhetskaya Depression fields in YNAO. In the short-term the major contributors into gas production gain are the Nakhodkinskoye, Pyakyakhinskoye, Yuzhno-Messoyakhskoye and Khalmerpayutinskoye fields. There are plans to construct a pipeline system to link together the fields under development into a common system. The two sections of the gas main from the Pyakyakhinskoye and Khalmerpayutinskoye to Nakhodka are currently under construction, and in 2011-2012 the company laid around 190 km of gas pipelines. Construction of a main compressor station (MCS) is under way at the Nakhodkinskoye field. The first stage of MCS, with an annual capacity of 18 bln. cu. m has already been commissioned. Upon commissioning of the entire process chain, the capacity of MCS will be 27 bln. cu. m per year.

2014-2019 PLANS OF OOO LUKOIL-WEST SIBERIA

- commence production drilling at the Imilorskoye field
- produce first oil at the Imilorskoye field
- commission the Pyakyakhinskoye field
- commission the Khalmerpayutinskoye field

OOO LUKOIL-West Siberia	2009	2010	2011	2012
Oil production, mln. tn	48.0	46.0	44.2	44.2
Gas production, bln. cu. m	9.5	12.3	12.4	12.6
Oil refining, mln. tn.	0.49	0.48	0.47	0.48
Gas processing, bln. cu. m (Lokosovo GPP being a part of OOO LUKOIL-West Siberia)	1.860	1.977	2.010	2.107
Number of fields under development	55	57	59	63
Number of fields brought into development	2	3	–	6

SOCIAL AND ECONOMIC PARTNERSHIP AGREEMENTS

The agreements made with the KMAO and YNAO authorities provide for the Company's investments into regional social projects, charity and sponsorship.

In Kogalym, Langepas and Urai (KMAO) OOO LUKOIL-West Siberia financed construction and improvement of social infrastructure (residential dwellings, sports centers, culture and health institutions). An art center capable of accommodating 700 children was opened in Pokachi (KMAO), with the company being one of its sponsors. Under one of its agreements the company has been providing support to Synsko-Voikarsky natural park in YNAO.

Besides, LUKOIL, KMAO's administration and the Regional and Social Program Fund "Our Future" have made a trilateral agreement to construct a kindergarten in Kogalym to accommodate 260 children. It is scheduled for commissioning in 2014.

OOO LUKOIL-West Siberia has also made agreements with seven municipalities, i. e., Tazovsky and Purovsky Rayons in YNAO, Beloyarsky, Kondinsky, Sovetsky, Nizhnevartovsky and Surgutsky Rayons in KMAO. The municipal administration of the Surgutsky Rayon and OAO RITEK have concluded an agreement as well.

SOCIAL INVESTMENTS AND CHARITY

SOCIAL AND CULTURAL PROJECTS CONTEST

OOO LUKOIL-West Siberia held the 7th and 8th "Success Strategy" contests in the Khanty-Mansi and Yamalo-Nenets Autonomous Okrugs.

Examples of projects financed

Support of disabled people

The grant money was used by the social services center "Impuls" in Urai to purchase Soundbeam-2, a musical beam system that

makes it possible to utilize innovative methods of correction and social adaptation of disabled children.

In Langepas they implemented several projects to help disabled children and their parents to improve their children's health and develop their creative talents.

The Pokachi central municipal hospital used the grant money to purchase equipment for rehabilitation of the patients who had suffered heart attacks.

The Salekhard Center for Social Services to the Elderly, that annually provides services to 400-600 individuals, including disabled children, purchased specialized equipment (salt chamber). A new drug-free method was introduced, thus reducing the aftercare and recuperation period of the Center's patients.

Environmental Projects

A "school forestry" was started in Langepas, where senior high school students get to do research, take part in the planting of greenery, landscape forests, protect conifer underwood, and educate the locals. The grant money was used to purchase a mini-express-lab that is used by secondary school No.5 for teaching purposes and in the extracurricular time for hobby group activities. Around 200 students have been monitoring natural sites and reviewing the data of such monitoring.

Another project was launched enabling 200 school students to conduct research of the region's nature. A school environmental lab was set up to this end, whose goal is to enhance the kids' interest in the professions of biologist and environmentalist. The lab is used for teaching, and during school vacations as a place for leisure activities.

Two environmental clubs were launched in Pokachi.

Contest operator	Number of projects submitted for the contest	Number of winning projects	Territories, where the projects were implemented
OOO LUKOIL-West Siberia	2011 – 112	26	KMAO, YNAO
	2012 – 106	25	

CULTURE AND SPORTS PROJECTS

The company sponsored the international vocal contest “Golden Note” held in Kogalym, and helped set up a Young Mother’s Minipark.

Under the municipal social project “Treasure” they opened a cenacle museum to promote the national family traditions. In Urai they have been starting a museum of Eastern Mansi.

The cities of Pokachi, Kogalym, Urai, and Langepas hosted the sports acrobatics festival “Strength, Health, Beauty” dedicated to the 2014 Sochi Olympics. The attendees numbered around 200 children from sports schools, kindergartens and grammar schools. The festival boosted further development of children’s and youth sports in the region.

ENVIRONMENTAL INITIATIVES

OOO LUKOIL-West Siberia has been implementing its long-term 2009–2013 Environmental Safety Program. The crucial measures provided by the program include construction of facilities to mitigate the adverse environmental impact of the enterprise’s operations; waste management; land reclamation; and reliability enhancement of pipeline systems.

WASTE

Efficient waste handling is one of the key environmental priorities of OOO LUKOIL-West Siberia. The major part of the waste generated by the enterprise is made up by drilling cuttings and oil slime that are specific to oil and gas enterprises and present the most severe disposal problems. Every territorial enterprise has dedicated landfills for placement and processing of production waste. Today there are no undedicated slurry ponds for oil waste on the license blocks.

In 2008 a decision was passed to make it mandatory to install oil slime processing equipment at all landfills of the subsidiary. The oil slime supplied to the landfills is subject to thermal processing using a reclamation facility for oil-contaminated ground (UZG-1m). The drilling cuttings formed in the course of simple drilling in water protection zones are also subject to processing at the fields of territorial and production enterprises Uraineftegaz and Pokachevneftegaz.

In 2012 TPE Kogalymneftegaz built a production waste landfill at the Tevlinsko-Russkiskoye field. TPE Uraineftegaz also purchased four waste neutralization units “Forsazh-1”.

ACCIDENT PREVENTION

Prevention of pipeline accidents is one of the top priorities finalized in the environmental safety program of OOO LUKOIL-West Siberia. The company has been introducing German technologies utilizing cement inner corrosion-resistant coatings that extend the service life and the working efficiency of pipelines. Technical inspections of pipelines and vessels, as well as overhaul and reconstruction of oil pipelines and water conduits are made on an annual basis. It all leads to a steady decline in the number of failures of pipeline systems causing environmental damage. E.g. in 2011 one recorded 44 failures (vs. 73 in 2010), whereas in 2012 their number dropped to 24.

Pipeline failures are promptly responded to in accordance with the emergency oil spill response plans. It takes between 2 and 4 hours to isolate a defective pipeline section, the unscheduled examination data are used to decide on whether overhaul or reconstruction of the pipeline is required. As much of pollutant as possible is gathered at the incident site, that is then subject to reclamation until the contaminated territories are fully restored.

OOO LUKOIL-West Siberia’s structural subdivisions have been holding tactical and special exercises to respond to onshore emergency oil spills and to those reaching water bodies. The emergency response plans have been subject to adjustments.

LAND RECLAMATION

OOO LUKOIL-West Siberia annually restores around 100 ha of land that is in need of reclamation. It is the average performance indicator for the operations that have become part of the subsidiary’s 2010-2011 environmental safety program. The lessons learned were presented at the conference “Industrial Safety: APG Recovery and Oil Pollution Elimination Techniques”, as part of the exhibition named “Surgut. Oil. Gas – 2012”.

In the Tazovsky Rayon (YNAO) LUKOIL is collecting the garbage that has accumulated there for the decades of Arctic development. For a one-year period alone they took out two barges full of metal scrap and other waste.

PUBLIC RELATIONS

Development of the Bolshekhetskaya Depression fields requires construction of an up-to-date, highly efficient, high-tech production and transportation complex in accordance with the industry-specific and international standards and rules, without causing any environmental damage. Prior to embarking on designing a pipeline system to link together the fields being developed into a single complex, the Western Siberian oil company held public hearings. Given the fact that liquid hydrocarbons are expected to be transported across traditional nature management territories, the company had to win support of the indigenous population. Yamal's locals expressed their approval of the gas transportation system project.

INDIGENOUS MINORITIES

OOO LUKOIL-West Siberia financed construction and reconstruction of social facilities in Yugra's five rayons (Beloyarsky, Kondinsky, Sovetsky, Nizhnevartovsky and Surgutsky). The oil enterprise sponsored construction of community centers (in the villages of Lykhma, Mulymya, and Pionersky), kindergartens (in the settlements and villages of Nazarovo, Izluchinsk, Lokosovo, Mulymya, Bolshiye Leushi) and an outpatient clinic (in the village of Agan). The construction of houses for the indigenous minorities of the North in the village of Trom Agan is now completed. The constructed facilities include gas pipelines and treatment facilities.

The ongoing programs in the Tazovsky Rayon in YNAO include target programs "Culture, Language and Traditional Lifestyles of the Indigenous Minorities of the North", and "Agroindustrial Complex Development" for 2011–2013.

For a number of years OAO RITEK has been implementing dedicated programs to deal with the chiefs of communal family lands that belong to the indigenous minorities of the North. The locals are financially reimbursed for the enterprise use of the land plots; the enterprise purchases snowmobiles, fuels and lubricants, coveralls, construction materials for them, compensates the chiefs of the communal family lands and their family members any costs incurred by them while undergoing treatment in health institutions or spa resorts.

CUSTOMER PROMOTION CAMPAIGNS

OOO LUKOIL-Uralnefteprodukt regularly holds events targeting motorists. The following are the projects implemented jointly with OAO LUKOIL-Inter-Card – "Tank up at Discount", "We're Exchanging Discounts for Smiles", "Points for Free", "Even Points Come in Pairs", "Double Holiday", "Double Joy". Instantaneous discounts were offered to every filling station customer as part of the "Hot Weekend" event. 3% instantaneous discounts were also offered during the Pre-New Year season, on the Defender of the Motherland Day, St. Valentine's Day, and on the Women's day celebrated on March, 8.

PUBLIC RECOGNITION

OOO LUKOIL-West Siberia won in the category "Social Responsibility Makes for Success" and was awarded the Okrug's 2011 Recognition prize.

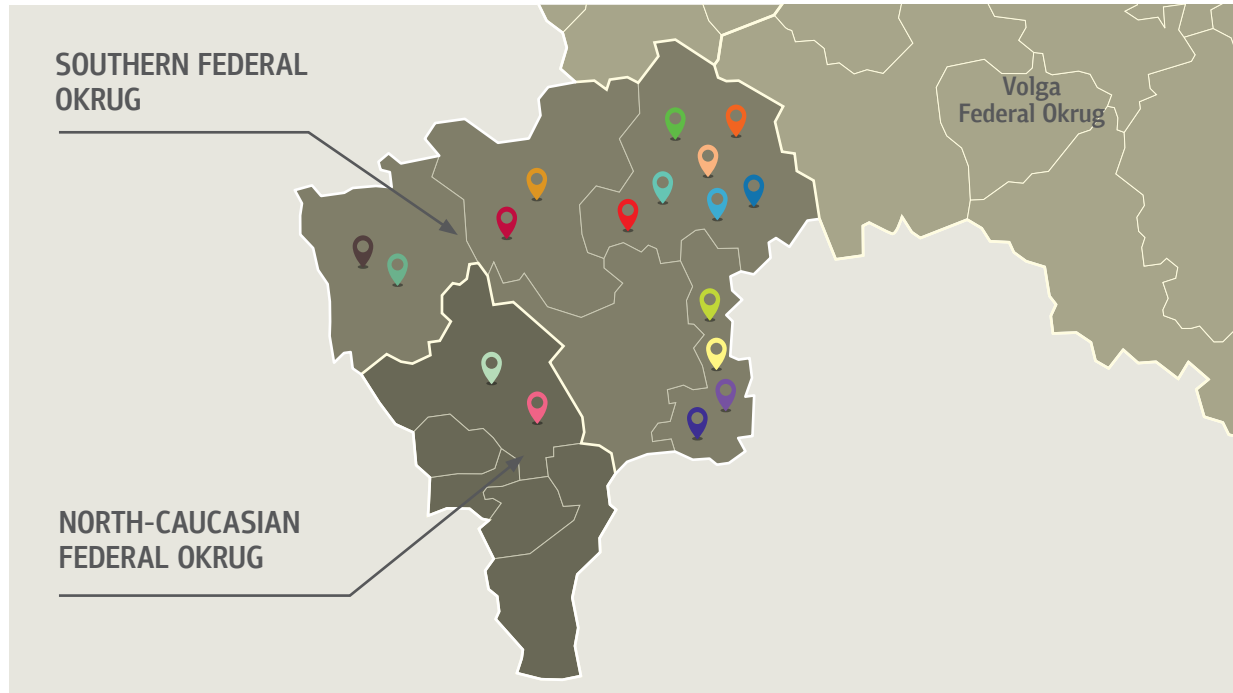
It is for the seventh time that the enterprise won in the category "Cooperation with the Indigenous Population" in 2011, as part of the contest "Yugra's Black Gold" organized by the KMAO government amongst the enterprises of the Ural Federal Okrug.

OOO LUKOIL-West Siberia was declared one of the best importers in the Okrug based on the outcomes of the "Customs Olympus" contest held by the RF Federal Customs Service in 2012.

The enterprise was honored with a letter of gratitude by the Deputy Head of Yugra for long-standing cooperation and support of the international environmental initiative "Save and Protect".

Southern and North-Caucasian Federal Okrugs

Volgograd Oblast, Astrakhan Oblast, Rostov Oblast, Stavropol Krai, Krasnodar Krai, Republic of Kalmykia



- 📍 **000 LUKOIL-Nizhnevolzhskneft**
 Operations commenced at V. Filanovsky field to develop the field's infrastructure
- 📍 **PP Volgogradneftegaz (part of OAO RITEK)**
 Trial production operations started at the Yuryevskoye field
- 📍 **000 LUKOIL-Volgogradneftepererabotka**
 Upgrading program continued
- 📍 **000 LUKOIL-Korobkovsky gas processing plant**
- 📍 **000 Stavrolen**
 Construction of gas chemical facility began
- 📍 **000 LUKOIL-Yugnefteprodukt**
- 📍 **000 LUKOIL-Nizhnevolzhsknefteprodukt (000 LUKOIL-NVNP)**
- 📍 **000 LUKOIL-Trans**
- 📍 **000 LUKOIL-Astrakhanenergo**
 New 110 MW combined-cycle plant was commissioned
- 📍 **000 LUKOIL-Stavropolenergo**
- 📍 **000 LUKOIL-Rostovenergo**
- 📍 **000 LUKOIL-Ekoenergo**
- 📍 **000 LUKOIL-Kubanenergo**
 Construction of a new 410 MW combined-cycle plant was completed
- 📍 **000 LUKOIL-Volgogradenergo**
- 📍 **OAO Astrakhan Power Supply Company**
- 📍 **000 LUKOIL-ENERGOSETI**
- 📍 **000 LUKOIL Heating Transport Company**

Economic role played by the Company in the region

Indicators	2009	2010	2011	2012
Taxes paid (total), RUR mln., including:	23,985	17,324	22,542	23,452
RF budget	9,907	2,117	4,009	3,248
budgets of the RF constituent entities	13,087	16,704	18,320	19,938
local budgets (jointly)	329	340	213	266
Investments into plant, property and equipment, RUR mln.	26,384	18,373	26,273	33,743

ECONOMIC ROLE AND INVESTMENTS

Development of the Northern Caspian fields is one of the priority focus areas in LUKOIL's hydrocarbon production business for the coming decade. According to the available estimates, the total resources of the Russian Caspian sector make up 4.5 bln. TOE.

In the reporting period LUKOIL began implementing its core project in the Caspian Sea – construction of facilities at V. Filanovsky field, Russia's largest field discovered during the last 25 years. Due to its scope, this project may change the whole industrial pattern of the South of Russia, first of all that in the Astrakhan Oblast. This project will create orders for industrial facilities and new major taxpayers for the Oblast budget, while people will get jobs.

The Company has already placed some orders for construction of offshore facilities at V. Filanovsky field. The offshore platforms whose installation was planned for 2013–2014 are already being constructed at the Krasnye Barrikady shipyard in Astrakhan. OAO United Shipbuilding Corporation began construction of ice-resistant stationary platform No. 1 (IRP-1) designed for drilling and operation of wells, while OAO Globalstroy Engineering is already constructing the central processing platform for treatment and onshore transportation of oil and associated gas.

The infrastructure development project for V. Filanovsky field includes more than 330 kilometers of subsea and 350 kilometers of onshore pipelines. Several contracts were signed with third parties for construction of subsea pipelines. The plan also includes construction of onshore oil intake facilities in the Republic of Kalmykia.

It is expected that oil production at V. Filanovsky field will start at the end of 2015 – beginning of 2016.

Three horizontal wells penetrating accumulations of Volgian and Neocomian stages with the footage of 12,150 m were drilled and commissioned at Yu. Korchagin field. In 2012, a world record was set at the field in terms of the footage drilled per hour of equipment operation.

In the Volgograd Oblast OAO RITEC discovered and began pilot operations at the Yuryevskoye field.

The Volgograd refinery continued large-scale upgrading, due to which by 2017 it is going to become the most state-of-the-art refinery in Southern Russia. A delayed coking unit was commissioned with the capacity of 1 mln. tn of feedstock per year. This enabled the refinery to decommission two technologically outdated units, and increase the annual oil coke production by 100 ths. tn, and production of motor fuel components by 150 ths. tn. A diesel fuel hydraulic treatment unit with the capacity of 3 million tons per year was launched. Due to operation of this unit all the diesel fuel produced by the Volgograd refinery will be Euro-5 compliant.

Construction of a gas chemical facility (GCF) began at the industrial site of OOO Stavrolen. The facility is going to be Russia's largest polymer production center. The associated gas from LUKOIL's Caspian fields will be used as the main feedstock. Commissioning of the first GCF stage is scheduled for 2015, that of the second stage – for 2017.

In 2011, as part of obligations fulfillment under the Capacity Supply Agreement to the wholesale market, LUKOIL commissioned a new 110 MW combined-cycle plant (CCP-110). It utilizes natural gas as its basic and reserve fuel. The electric efficiency coefficient of CCP-110 (51%) complies with world's highest standards. The technology utilized at the plant enables a two-fold reduction in the specific fuel consumption required for power generation. The company began construction of two other CCPs with the total capacity of 235 MW as well. Their commissioning is scheduled for 2013. Construction of a new 410 MW CCP has been completed at the Krasnodar cogeneration plant. The unit can cover up to 10-15% of the region's demand for electricity. This improves power supply reliability in the Krasnodar Krai, which is a matter of special urgency with the Olympics in Sochi coming up soon.

000 LUKOIL-Nizhnevolzhskneft, TPP Volgogradneftegaz (RITEK)	2009	2010	2011	2012
Oil production, mln. tn	2.8	3.0	3.2	3.5
Gas production, bln. cu. m	0.4	0.6	1.2	1.4
Number of fields under development	59	59	81	53
Number of fields brought into development	–	1	1	1

000 LUKOIL-Volgogradneftepererabotka	2009	2010	2011	2012
Oil refining, mln. tn	11.26	10.97	10.98	11.4
Commercial output, mln. tn	10.69	10.39	10.43	10.9

000 LUKOIL-Korobkovsky gas processing plant	2009	2010	2011	2012
Gas processing, mln. tn				
Petroleum and natural gas, mln. cu. m	363.4	449.2	449.5	438.7
NGL, ths. tn	70.2	76.0	72.5	72.7

000 Stavrolen	2009	2010	2011	2012
Feed stock	778.2	918.5	902.3	301.1
Commercial output	581.5	684.0	675.8	223.5

SOCIAL AND ECONOMIC PARTNERSHIP AGREEMENTS

In the reporting period LUKOIL had agreements with the authorities of four regions of Southern Russia – Volgograd and Astrakhan Oblasts, Krasnodar and Stavropol Krajs.

Project financing agreements to construct kindergartens in Astrakhan (245 beds) and Volgograd Oblasts (in Kotov for 100 beds and Nikolaevsk for 80 beds) were signed with the regional authorities. Construction of a kindergarten in Astrakhan

is already under way. In addition, within the framework of the existing agreements OAO RITEK supports the landscaping activities in Volgograd and the cities of the Volgograd Oblast. In particular, the enterprise has financed the capital repair of Kolobok, the only kindergarten at Vetyuneevo farmstead of the Frolovo district, the Volgograd Oblast.

Besides, the enterprise provides assistance with landscaping activities in Volgograd and Kotovo, as well as with settlement of socially important issues in the Kotovo district.

SOCIAL INVESTMENTS AND CHARITY

SOCIAL AND CULTURAL PROJECTS CONTEST

Examples of projects financed

Support of disabled people

A summer tent camp was set up for physically challenged children and children from poor families in Liman settlement (Astrakhan Oblast) under the auspices of the local equestrian club. Also, a folk art school called Renaissance was created, and equipment was purchased for studio pottery classes. The granted funds were used to purchase gym equipment in Astrakhan, organize sports groups and hold competitions among the veterans of the war in Afghanistan. A playground was set up in the Astrakhan city hospital for children No. 2 for physical therapy exercises and leisure of the in-patient children.

One of the contest winning projects in the Volgograd Oblast called "No-obstacle environment for visually handicapped people" helped to create the conditions so that blind and visually impaired people can visit the regional library for the blind. Another initiative supported by the contest was the project called "Unlimited Opportunities". In line with this initiative OAO RITEK financed purchasing of equipment for amateur arts in the Volgograd division of the All-Russian Society of the Deaf.

Environmental Projects

Following the contest, support was provided to the environmental project within the framework of which children were saving young fishes in 23 water bodies in the Krasny Yar settlement of the Astrakhan Oblast, released hundreds of baby fishes to clean water and cleaned up the litter at the shores.

The Environmental Policy Center of the Republic of Kalmykia called "Saving Birds Is Our Duty" conducted a field inspection of 6-10 kW power lines posing danger to birds. The two most dangerous sections were fitted out with bird protection devices

using the granted funds. Further observations demonstrated efficiency of the project: no further bird deaths were registered at the protected sections. The project also familiarized the general public with new achievements and experience in protection of birds from power facilities encouraging active involvement in this challenge.

Culture

The Activities of the Charity Fund "Revival of Astrakhan Organ" are well known in the Astrakhan Oblast. For a decade it has been popularizing classical music (first of all organ music). The grant helped the fund organize charity concerts for handicapped people, orphans, pensioners and poor families. Also, the granted funds were used to organize master classes delivered by famous teachers and musicians to gifted young performers from the Astrakhan Oblast. The fund's website went online.

ENVIRONMENTAL INITIATIVES

ENVIRONMENTAL MONITORING IN THE NORTHERN CASPIAN SEA

OOO LUKOIL-Nizhnevolzhskneft regularly conducts comprehensive environmental monitoring of ecosystem parameters in the Northern Caspian Sea (the total of about 300 parameters), including biotesting and toxicological sampling of the sea water.

The situation was externally checked by the Caspian Scientific Research Institute of Fish Industry that preformed a comprehensive environmental assessment of the ecosystem condition at the license areas. The survey demonstrated that the company's operations produced no impact on the ecosystems and bioresources. The marine fauna enjoys comparatively favorable living environment, while the food reserves at these areas are absolutely similar to those available in the main sections of the Northern and Middle Caspian Sea. The fish concentration remains unchanged. In addition, satellite monitoring of the sea conditions in the vicinity of Yu. Korchagin field is conducted. The monitoring services were ordered by OOO LUKOIL-Nizhnevolzhskneft.

Social and Cultural Projects Contest

Contest operator	Number of projects submitted for the contest	Number of winning projects	Territories, where the projects were implemented
OOO LUKOIL-Nizhnevolzhskneft LUKOIL-CF OOO LUKOIL Heating Transport Company (LUKOIL-TTK) and OOO LUKOIL-Astrakhanenergo	2011 – 109 2012 – 140	43 46	Astrakhan Oblast, Republic of Kalmykia
OAO RITEK	2012	8	Volgograd Oblast ¹

¹ In 2012, the contest in the Volgograd Oblast was held by OOO LUKOIL-Nizhnevolzhsknefteprodukt.

No cases of oil contamination were registered due to the operations at the production facilities.

LUKOIL's specialists presented their experience in state-of-the-art techniques of geological exploration, preparation of oil and gas fields for commercial development and improvement of industrial and environmental safety at the 3rd International Scientific and Practical Conference named "Cutting-edge hydrocarbon field development technologies and ensuring safety of ecosystems in the Caspian Sea" held in 2012 in Astrakhan.

POST-ACCIDENT CLEAN-UP AT OOO STAVROLEN

On December 15, 2011 there was a fire outbreak and an explosion registered at OOO Stavrolen in Budennovsk. As part of the post-accident clean-up measures, the air in the enterprise vicinity is constantly monitored. The air was checked for harmful impurities at the industrial site, on the border of the sanitary protection zone, and in the residential areas of Budennovsk and Chkalovsky settlement. Alongside with that, the air condition was monitored by the laboratories of the Russian Federal Service for Supervision of Natural Resource Usage. No pollutant concentrations affecting human health were registered there. After implementation of the post-accident clean-up measures the environmental impact was assessed, and the Company paid a compensation to the regional budget that was agreed upon with the administration of the Russian Federal Service for Supervision of Natural Resource Usage in Stavropol Krai. The repair and maintenance operations at Stavrolen were completed in autumn 2012.

BIODIVERSITY

In 2012, LUKOIL-Nizhnevolzhskneft joined the UNDP/GEF project named "Biodiversity Preservation as part of the Development Policy and Programs of the Russian Energy Sector". The 2013 plan includes a range of events to familiarize the project participants with the Company's environmental programs.

In 2011, LUKOIL-Nizhnevolzhskneft financed the activities of young fish artificial breeding. As a result 250 thousand European carps and 10 thousand Russian sturgeons were released into the Volga-Caspian basin.

In cooperation with A.P. Guzhvin Public Environmental Fund the enterprise holds the "Clear Glance" contest of environmental paintings for the schoolchildren from the Astrakhan Oblast. The contest promotes care of the unique ecosystem of the Lower Volga and the Northern Caspian Sea. OOO LUKOIL-Nizhnevolzhskneft provides annual financial support to the Astrakhan festival of fishermen "Vobla". The Festival aims at promotion of careful attitude to nature and has proved to be the favorite mass holiday for Astrakhan people.

PUBLIC RELATIONS

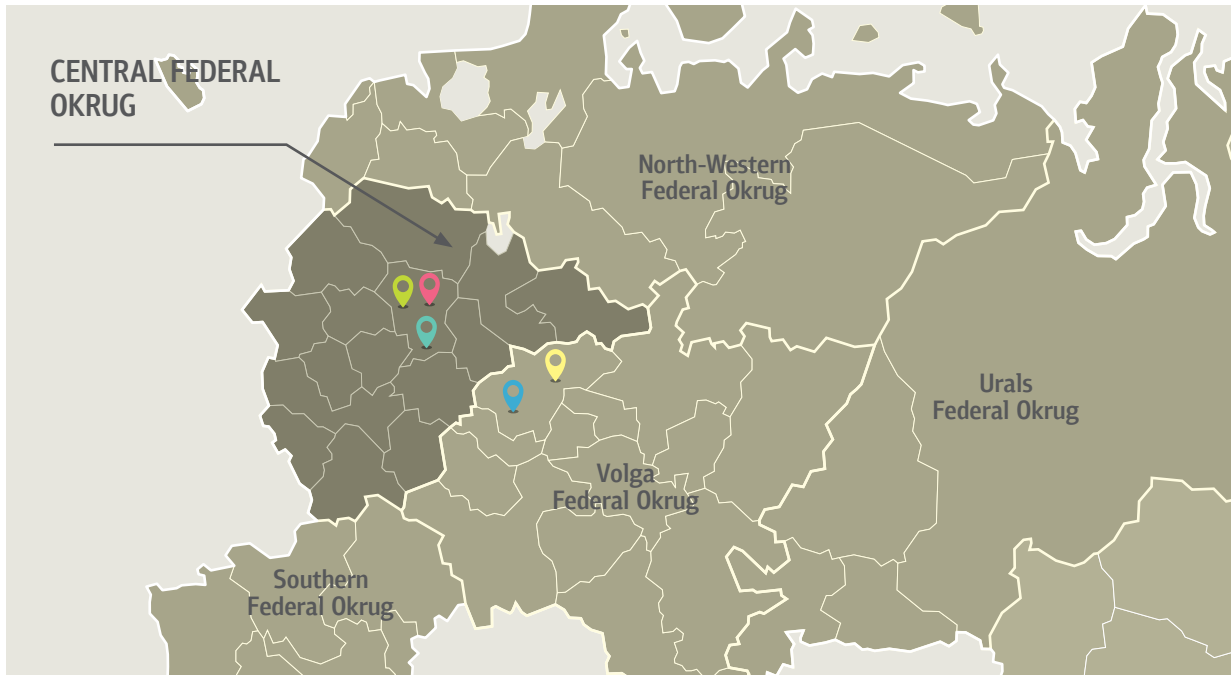
Nearly all the Group organizations operating in the Southern Federal Okrug actively cooperate with scientific, academic and public environmental organizations.

OOO LUKOIL-Nizhnevolzhskneft partners with the Caspian Scientific and Research Institute of Fish Industry, Caspian Marine Scientific Research Center of the Russian Federal Service for Hydrometeorology and Environmental Monitoring, the Caspian Branch of the Russian Academy of Sciences, P.P. Shirshov Institute of Oceanology of the Russian Academy of Sciences. The enterprise supports a number of national parks with whom they launch joint projects (in particular, in 2012 they jointly implemented a project for prevention of fire outbreaks in the delta of the Volga river).

OOO Stavrolen is planning to rehabilitate evaporation ponds. The target sanitary project zone of the enterprise was designed with involvement of the specialists from the Institute of Environmental Medicine and Health Risk Assessment (St. Petersburg) and the research and production company Biosfera (Yessentuki). It was discussed with the Stavropol Krai government, administration of Budennovsk and Budennovsk district, representatives of the Russian Federal Service for Supervision of Natural Resource Usage and the Russian Federal Service for Supervision of Consumer Rights Protection and Human Well-Being, as well as with environmental organizations. Public hearings were held twice – concerning the design of a gas processing unit and following the environmental impact assessment performed as part of the project for rehabilitation of OOO Stavrolen evaporation ponds.

Central Federal Okrug


Moscow, Moscow Oblast, Tver Oblast, Smolensk Oblast, Bryansk Oblast, Lipetsk Oblast, Tula Oblast, Kaluga Oblast, Belgorod Oblast, Vladimir Oblast, Voronezh Oblast, Yaroslavl Oblast, Ryazan Oblast



 LUKOIL

 OAO RITEK

 000 LUKOIL-Tsentrnefteprodukt

 000 LUKOIL-Nizhnevolzhsknefteprodukt

 000 LUKOIL-Volganefteprodukt

ECONOMIC ROLE AND INVESTMENTS

In 2012, 000 LUKOIL-Tsentrnefteprodukt that consolidates LUKOIL's marketing assets in nine regions of the Central Russia exceeded the 2011 sales of petroleum products by more than 11%. The total 2012 petroleum product sales made up 1,765.4 ths. tn. The 2012 growth of sales was due to optimization of the sales network and commissioning of new filling stations.

Unique software is being implemented at the stations: dispatchers can now control in real-time mode the fuel tank level at all the filling stations in all regions and manage the through traffic of petroleum products from the producing refinery to

the sales outlet. This helps preserve the product quality up to the point when it is sold to customers.

The laboratory of Vladimir regional administration of 000 LUKOIL-Volganefteprodukt performs acceptance and check tests of petroleum products to ensure compliance of their quality parameters with the regulatory requirements. The laboratory analyzes motor gasolines, petroleum solvents, kerosenes, diesel fuels, domestic stove fuels, fuel oils, and lubes.

The company completed the change in grades of all types of gasolines, and the region's filling stations now sell only Euro-5 fuel.



The LUKOIL Group companies promote scientific cooperation in the federal okrug. In 2011, OAO RITEK signed a governmental contract for the project named “Creation and implementation of innovative technologies for production of hard-to-recover and unconventional raw hydrocarbons (kerogen, tar sands, high-viscosity oil)”. OAO RITEK established a special subsidiary (OOO RITEK-ITC) that was assigned a status of a Skolkovo Fund member.

In 2011, LUKOIL signed a cooperation agreement with the Rostec (Rostekhnologii) corporation, which, in particular, provides for implementation of Rostec developments and products for oil and gas field development and power generation based on associated gas.

SOCIAL INVESTMENTS AND CHARITY

SOCIAL EVENTS

The LUKOIL Group enterprises located in the Moscow region held a volunteer charity event for the children from the Orekhovo-Zuevo orphanage, which involved provision of stationery, books, toys and other presents for everyday life, art and studies for the new school year.

OAO RITEK has also been rendering support to medical, educational, sports institutions, non-governmental organizations and religious denominations. For instance, target support was provided to state-funded Gymnasium No. 45, the Church of Transfiguration of God in Staroye Belyaev, the Russian Orthodox Church (all located in Moscow).

ENVIRONMENTAL INITIATIVES

As agreed with the Department of Natural Resources Management and Environmental Protection of Moscow city, OOO LUKOIL-Tsentrnefteprodukt purchased a bus for the Regional Environmental Public Fund “Stolitsa”. The bus is used for the fund’s environmental activities.

In addition, the enterprise joined the event called “Clean Roads” held by the state company Avtodor with support from the Russian Ministry of Transport and the Federal Road Agency. The project is aimed at improvement of the environmental situation across Russia’s highways.

CUSTOMER PROMOTION CAMPAIGNS

A promotion campaign was held at the OOO LUKOIL-Tsentrnefteprodukt filling stations, that provided for a 50-copeck reduction of the retail prices for all motor fuels on weekends.

In addition, some special promo campaigns were dedicated to public holidays. On the Defender of Fatherland Day all the fuels offered at the LUKOIL-Tsentrnefteprodukt filling stations were sold at 23 rubles, while on the International Women’s Day the prices were lowered by 8%, and on the Victory Day – by 9%.

Annex 1. About report and reporting process

REPORTING PERIOD

The fifth Sustainable Development Report (the Report) was prepared for the 2011–2012 period. The previous Report was published in autumn 2011. The next Report will be prepared for the 2013–2014 period.

REPORTING BOUNDARIES

The reporting geography has not changed compared to the previous Report. The number of the Power Engineering business organizations mentioned in the Report has been extended. The changes in the organizational pattern that resulted from restructuring of business segments were taken into account.

In particular, within the Power Engineering Business Segment 000 Dagestanenergo was spun off from 000 LUKOIL-Rostovenergo. In 2011, operations commenced at 000 LUKOIL-Stavropolenergo that was also spun off from 000 LUKOIL-Rostovenergo, thus forming an independent structure. 000 LUKOIL-Ekoenergo commenced independent operations. 000 LUKOIL-Komi acquired the right to perform the function of a sole executive body of 000 Naryanmarneftegaz.

The Report contains information about the subsidiaries, in which LUKOIL's stake exceeds 75%. The organizations are included into the reporting documents in view of the extent to which their business influences the overall economic, social, and environmental performance results of the LUKOIL Group.

Business Segments and Business Sectors	Organizations
Corporate Center	LUKOIL
Upstream Business Segment	
Oil and Gas Production in Russia Business Sector	000 LUKOIL-Komi, 000 LUKOIL-Kaliningradmorneft, 000 LUKOIL-West Siberia, 000 LUKOIL-PERM, 000 LUKOIL-Nizhnevolzhskneft, OAO RITEK
Downstream Business Segment	
Business Sectors	
Oil Refining in Russia	000 LUKOIL-Ukhtaneftepererabotka, 000 LUKOIL-Nizhegorodnefteorgzintez, 000 LUKOIL-Permnefteorgsintez, 000 LUKOIL-Volgogradneftepererabotka
Gas Processing	000 Permneftegazpererabotka, 000 LUKOIL-Korobkovsky gas processing plant
Petrochemicals	000 Saratovorgsintez, 000 Stavrolen
Petroleum Products Supply in Russia	000 LUKOIL-Severo-Zapadnefteprodukt, 000 LUKOIL-Uralnefteprodukt, 000 LUKOIL-Permnefteprodukt, 000 LUKOIL-Volganefteprodukt, 000 LUKOIL-Nizhnevolzhsknefteprodukt, 000 LUKOIL-Yugnefteprodukt, 000 LUKOIL-Tsentnefteprodukt
Power Engineering	000 LUKOIL-Astrakhanenergo, 000 LUKOIL-Rostovenergo, 000 LUKOIL-Volgogradenergo, 000 LUKOIL-Kubanenergo, 000 LUKOIL-Stavropolenergo, 000 LUKOIL-Ekoenergo, OAO Astrakhan Power Supply Company, LUKOIL-Energoseti, 000 LUKOIL Heating Transport Company.
Transportation	OAO Varandey terminal, RPK-Vysotsk LUKOIL-II, 000 LUKOIL-Integrated Oil Terminal (part of 000 LUKOIL-Trans), 000 Kamarskaya Bulk Plant
Other Activities Business Segment	
	000 LUKOIL-BUNKER, 000 LUKOIL-AERO, 000 LLC-International, 000 Arkhangelskgeoldobycha

REPORT: SCOPE LIMITS

The Report does not include information on the LUKOIL Group Organizations operating outside Russia or organizations with less than 75% Company's interest. We are not planning to include those organizations into further reports.

EC1 indicator refers to the data of the entire LUKOIL Group (including international assets).

USE OF NON-FINANCIAL REPORTING SYSTEMS

The Report was prepared using the Sustainability Reporting Guidelines of the Global Reporting Initiative GRI version 3.0 AA 1000 (1999), of the Global Compact and Social Charter of Russian Business.

The Company estimates its compliance with GRI as level B.

DETERMINATION OF MATERIAL ISSUES AND STAKEHOLDER COVERAGE

The techniques for determination of significant Report topics include the following:

- interview of the heads of LUKOIL's key structural subdivisions as regards report structure and contents;
- content of the dialogue;
- analysis of publications about the Company and reports of other energy companies with similar scope of business;
- analysis of significant events in the industry.

SUSTAINABILITY REPORTING APPROACH

The reporting process was managed by the Reporting Team, whose members represent the following Company's structural subdivisions: Public Relations Department, Human Resources

and Organizational Development Block, Department of Industrial Safety, Environment and R&D, as well as International Association of Trade Union Organizations (IATUO).

REPORT QUALITY ASSURANCE PRINCIPLES

Balance. The Report mentions both achievement and problem areas.

Comparability. The report contains key indicators (economic, environmental, social) in dynamics over a few years. Topics covered in previous reports were continued.

Accuracy. The Report contains Company's officially recognized data. The accuracy of the information contained in the Report is ensured by availability of consolidated data in LUKOIL. The Report has been checked within the framework of internal data verification procedures.


Timeliness. The data available in the Report was provided in a timely manner, i. e. in connection with the suggestions of stakeholders and as soon as it was ready.

Clarity. Generally, the Report does not contain any professional language and provides no information that requires any special knowledge.

Reliability. Respective departments and subsidiaries have checked the data contained in the Report.

The Report has been checked externally by the Corporate Social Responsibility Center of the Russian Union of Industrialists and Entrepreneurs (the opinion is attached hereto).

Annex 2. Table of compliance with GRI, Global Compact and Social Charter

	C	C+	B	B+	A	A+
Self declaration						
Third party verification						
GRI check						
Aspects	Reporting elements and GRI indicators	Global Compact principles	Indicators of the Social Charter of Russian Business	In Report / Other data sources		
Address by the Head	1.1			Address by the President and CEO of LUKOIL		
Description of key impacts, risks, and opportunities	1.2		1.1	LUKOIL Group in 2011–2012 LUKOIL's annual statements and financial reports, Analyst Databook, and Fact Book (http://www.lukoil.ru/realms/investor/default_6_.html)		
Organization's description and strategy	2.1 – 2.10		1.2, 1.3, 1.6, 1.7	LUKOIL Group in 2011–2012 Energy and Society: strategies and interaction LUKOIL's annual statements and financial reports, Analyst Databook, and Fact Book (http://www.lukoil.ru/realms/investor/default_6_.html)		
Report data	3.1 – 3.13			Annex 1. About report and reporting process		
Organizational Management and Stakeholder Relations	4.1 – 4.17		1.1	Detailed description of the corporate management system is available in annual reports as well as at the corporate website at http://www.lukoil.ru/static_6_5id_2116_.html Stakeholder relations – sections Company and Society, and Sustainable Development of the Russian Regions		
Economic Performance Indicators	EC1 (partially)		1.2, 1.3, 1.6, 1.7	LUKOIL Group in 2011–2012		
	EC3		1.8	Personnel Management		
	EC7			The indicator is irrelevant for the Company		
	EC8, EC9		1.5	Sustainable Development of the Russian Regions		

Aspects	Reporting elements and GRI indicators	Global Compact principles	Indicators of the Social Charter of Russian Business	In Report / Other data sources
Environmental Performance Indicators				
Energy	EN3 – EN7	Principles 8 and 9	2.2	Energy and Society: strategies and interaction
Water	EN8, EN10	Principle 8	2.3, 2.4, 2.3.1	HSE Management System, Sustainable Development of the Russian Regions
Biodiversity	EN12	Principle 8		Sustainable Development of the Russian Regions
Emissions, discharges, and waste	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	HSE Management System, Sustainable Development of the Russian Regions EN19 indicator is irrelevant for the Company
Products and Services	EN26	Principles 7, 8, 9	2.11	Quality Products and Services
Total expenses	EN30	Principles 7, 8, 9	2.12	HSE Management System
Social Performance Indicators				
Employment rate	LA1 LA3	Principle 6	3.1.1 (partially)	See section Social Policy
Labor relations	LA4, LA5	Principle 3	3.2.1	According to the Russian Labor Code and collective bargaining agreements No labor disputes have been registered in the reporting period
Health and safety at workplace	LA7 (partially), LA9	Principle 1	3.1.5, 3.1.9	Personnel Management LA9 – unchanged vs. previous Report
Personnel training and development	LA11	Principles 1, 6		Personnel Management
Human Rights Human rights and investment contracts	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 native minorities. See section Sustainable Development of the Russian Regions
Non-discrimination, exclusion of children's and forced labor, right to associations and collective disputes	HR4 – HR7	Principles 1, 2, 6	3.2.2	No such cases were recorded in the reporting period
Society Obstacles to competition Preventing corruption	S01 (partially) S07 (partially)		3.3.1, 3.3.2, 3.3.3, 3.3.4, 3.3.5	Company and Society, Sustainable Development of the Russian Regions Quality Products and Services
Relations with authorities				Sustainable Development of the Russian Regions Energy and Society: strategies and interaction
Products Consumer health and safety Product labeling	PR2, PR4, PR5	Principle 1	3.4.2	PR2, PR4 – no such cases were recorded in the reporting period Quality Products and Services
Marketing communications	PR7	Principle 1		No such cases were recorded in the reporting period



Conclusion of the RUIE Council for Non-Financial Reporting on the results of consideration of LUKOIL's 2011–2012 Report on Sustainable Development in Russia for the purpose of public verification

The Council for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (hereinafter – the Council), established in accordance with decision of the Management Committee (Decree of June 28, 2007), reviewed the 2011–2012 Report on Sustainable Development in Russia (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 8 to July 26, 2013 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 takes into account the fact that the Report contains information about the Company's sustainable development operations in Russia.

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.

FINDINGS

LUKOIL's 2011–2012 Report on Sustainable Development in Russia contains valuable information, covers the key areas of responsible business practices in accordance with the principles of the Social Charter of Russian Business, and is reflective of the Company's performance in such fields.

The recommendations issued by RUIE following public verification of the Company's previous 2009–2010 report were reflected in the 2011–2012 Report in terms of the coverage of issues and

approaches to addressing them, presentation of the outcomes of dialogues held during the making of the Report and discussing the subjects of top priority to the stakeholders.

The Company's 2011-2012 report contains the information that is relevant to the following aspects of responsible business practices in Russia:

Economic Freedom and Responsibility: The report highlights the key areas, structure and geography of LUKOIL's operations, its production and business performance over the reporting period, includes references to the Company's Annual Report that elaborates on the achieved results. It also highlights the prospective businesses developed by LUKOIL in the context of global energy market trends, including development of Power Engineering using environmentally friendly power generation techniques. Innovation and research are highlighted in the context of boosting the Company's competitiveness by improving its production performance, as well as efficient resource management and products and services quality improvement projects based on cutting-edge technologies. It says inter alia that all Russian refineries of the Company shifted to production of Euro-5 gasolines. It also outlines the role played by LUKOIL organizations in the national economy and in five federal okrugs, and the Company's contribution into the industry's innovative development. The Report informs about approval of a new version of the LUKOIL Group's 2012–2021 Strategic Development Program.

Business Partnership: The report contains vast information about relations between the Company and stakeholders. It highlights its relations with the federal authorities, including without limitation the Company's engagement in the law making process, regional and municipal administrations under social and economic partnership agreements, intended to contribute into sustainable development of the Russian territories. It includes information about relations with a vast number of Russian and foreign entities regarding joint development of fields, introduction of new technologies, cooperation with research and non-governmental organizations on health, safety and environment. A great deal of attention is paid to personnel relations, the report details measures undertaken in this regard, including the issues of encouragement and social security, occupational safety, professional development, and social partnership, as well as international cooperation on the foregoing matters. The report also highlights a system of relations with suppliers and contractors based on transparent bidding and control procedures governing performance of contractual obligations assumed by servicing organizations and contractors operating at the Company's sites to create healthy and safe working environments. It also includes information

about customer relations, feedback promotion, including "hot lines" existing in every region, assessment of the filling station customers' satisfaction, etc. There's information about the Company's involvement in various international projects.

Human Rights: The reports provides details of labor rights protection. According to it, the practices in this area are based on the fundamental principles of the Russian and international law, as well as corporate documents elaborated under them, including the Social Code, HR Management Policy, agreements between the employer and trade union organizations that are incorporated into the collective bargaining agreements of the Group's enterprises. The Reports also outlines the approaches and practices used by the Company with regard to protection of rights and preservation of lifestyles of the national minorities in the territories of Siberia and Far North, where the Company operates.

Environmental protection: The report dwells on the Company's systemic management of health, safety and environment issues, mitigation of environmental risks, including prevention of oil spills. The Report suggests that performance in this area is annually reviewed by the Company's Management Committee and is taken into account while adopting LUKOIL's Development Strategy and Investment Programs. It has been reported that the HSE management system was certified under ISO 14001 and OHSAS 18001. Efficient management of natural resources is linked to improved performance of production processes, which is based on application of new field development, and energy carrier production and processing technologies. The Report outlines the Energy Efficiency Program adopted by the Company. It lists the key environmental measures broken down into the top priority areas, and also presents performance indicators and investments into environmental programs. The environmental impact indicators with a breakdown into business segments cover a period of 2008-2012. The Report contains detailed information about reduction of flaring and utilization of associated petroleum gas (APG). The Report focuses on management of greenhouse gas emissions and projects voluntarily launched by the Company to reduce them. Active engagement of the Company in environmental protection is exemplified by LUKOIL's cooperation with Russian and international organizations, included into the Project.

Participation in local community development: The Report contains information about the Company's involvement in development of the Russian regions of its presence, and discloses information about the Company's contribution into their economy and social life. According to the Report, there's ongoing work under the Company's Social Code that defines the key areas, forms and mechanisms of such activities.

The Social Investments and Charity Management System is also outlined. There are data describing changes in the structure of the costs incurred in priority areas. There's also an indication of programs jointly implemented with the local and federal authorities. As it follows from the Report, while implementing its social projects, the Company has been closely cooperating with the local communities, and different NGOs. It also presents the dialogues held with stakeholders in the regions of the Company's presence, the Company's stance on the issues raised, and whether the issues discussed in such dialogues were successfully addressed.

FINAL PROVISIONS

In general, the information presented in the Report gives a fairly complete idea of the Company's consistent efforts aimed at introducing the principles of responsible business conduct into business practices. The Report reflects important subjects that are relevant for the stakeholders. It also provides a general outline of the key areas of operations, including economy and social life. A wide range of specific indicators that stand for the Company's achievements are also in place. The Report reflects the Company's active stance on reduction of the adverse environmental impact caused by its production activities.

It is the fifth Report as part of the biannual reporting cycle which reveals reporting consistency and adherence of the Company to the principles of transparency and openness. In making this Report, as well as before, the Company used the recognized international and global recommendations on corporate and non-financial reporting (GRI G3, AA 1000, Global UN Agreement, Social Charter of the Russian Business), which contributes into a better succession and comparability of the information from various reporting cycles.

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 Council also notes that the recommendations issued following the review of the previous 2009-2010 report, are still relevant and may be used in the Company's further reporting.

The information about the Company's performance in the reporting period will be more complete due to comparison of actual vs. planned data, thus making it possible to see whether

what was achieved corresponds to what had been planned. Incorporation of information on the tasks and activities planned for the next reporting cycle in the key business areas, as well as components of sustainable development, may enhance the information value of the Report, which will give one an idea of the implementation of the adopted LUKOIL's Strategy for 2012–2021.

It is recommended to further expand the range of the used indicators in view of the importance of the disclosed data to the stakeholders. The Report should include more details about HR management, environmental impact by business sectors and key regions, social investments in the regions, etc.

The Report includes limited information about corporate management, as well as financial and business performance of the Company, and relevant references to the Annual Report, in which such information was provided in a more detailed form. Recognizing the appropriateness of such an approach generally, the recommendation is to incorporate the information about sustainable development matters addressed by the Board of Directors into non-financial reports, since the subject is material to the stakeholders. It would be helpful to complement the report with information about management of non-financial risks.

The Report provides a general outline of the Company's strategic areas of operations and focuses on environmental and technological development matters. Without prejudice to the relevance of such matters to an oil company, it is advisable that one should pay more attention to the social aspects of sustainable development in future.

In future, it would be useful to include the principles and 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 and practices. More details about relations with shareholders, investors or consumers regarding sustainable development matters or responsibility in the supply chain will add informational value to the Report (including data of customer satisfaction assessment).

The Council hereby stresses that it would be helpful to use ISO 26000:2010 (GOST R ISO 26000:2012) "Corporate Citizenship Guidelines" and issues a recommendation to check whether the information about the Company's operations meets them during the next reporting cycle. It would be useful to apply RUIE's recommendations to in-house assessment of the Company's performance in this field and include its outcomes in the reports.

By giving a positive assessment to the Report, in support of the Company's adherence to the principles of responsible business practices and noting its consistency, the RUIE Council for Non-

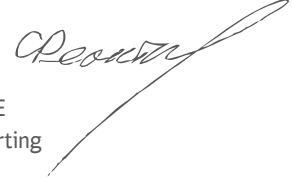
F.T. Prokopov



Chairman of the RUIE Council for
Non-Financial Reporting

Financial Reporting confirms that LUKOIL's 2011–2012 Report on Sustainable Development in Russia passed the public verification procedure.

E.N. Feoktistova



Deputy Chairwoman of the RUIE
Council for Non-Financial Reporting

Supplemental Information

The Report has been published on the Company's website at www.lukoil.ru (Russian language) and at www.lukoil.com (English language).

Should you have any questions or want to discuss any topic of this Report that is of interest to you, feel free to contact the Company at the following email address: socotchet@lukoil.com

REGISTERED ADDRESS AND HEADQUARTERS:

Russia, 101000, Moscow, Sretensky blvd., 11

CENTRAL SERVICE DESK:

Tel.: +7 (495) 627-44-44, 628-98-41

Fax: +7 (495) 625-70-16

PRESS SERVICE:

Tel.: +7 (495) 627-16-77

Fax: +7 (495) 627-16-53

E-mail: media@lukoil.com

TERMS AND DEFINITIONS USED HEREIN

Names and words "OAO LUKOIL", "LUKOIL Group", "Group", "LUKOIL", "Company", "LUKOIL company", "LUKOIL oil company", "we", and "our" used herein shall have the same meaning and refer to the LUKOIL Group of companies, LUKOIL and/or its subsidiaries, as the context requires.

