



 **LUKOIL**

2007–2008

SUSTAINABILITY REPORT
RUSSIAN FEDERATION

Our third Sustainability Report covers particularly the corporate Ecological Safety Program (2004 – 2008) outputs; activities related to global energy security issues; new projects addressed to our customers, and performance results of our enterprises in each federal okrug (district) where they operate.

GRI Application level

	C	C+	B	B+	A	A+
Self Declared						
Third Party Checked		✓				
GRI Checked						

Forward-looking statements

The forward-looking data in this report is based on the projections. The words 'believe', 'assume', 'suppose', 'expect', 'estimate', 'intend', 'plan' and related expressions indicate that the information is a projection. The specific feature of all the projections is that they imply risk and uncertainty. Actual results may vary significantly from the planning figures and the targets, expectations, estimates and intentions contained in the projection statements. Projection statements are only valid as of the date they are made. OAO LUKOIL does not represent, warrant or predict that the expected results of their activities contained in the projections will actually ever be achieved. Each time such statements are made they represent only one of the many possible development scenarios, thus, are not to be treated as the most likely or typical scenario.

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Speech by the OAO LUKOIL President

OIL FOR PEOPLE, RATHER THAN PEOPLE FOR OIL



Since our second sustainable development report two years ago, the world we live and work in has seen crucial changes. The energy sector has experienced a number of constraints that the oil industry is facing for the first time ever in its modern history. The reasons for, and the progress of, such crisis processes have already been analyzed a number of times. Our company's standpoint is that the crisis does not only create risks, but also new opportunities. Our goal is to see them at the right time, and be ready to grasp them. Our direction towards evolutionary development helps us a lot in this: we set realistic targets and weigh them against actual risks. We believe that it is this approach that can help LUKOIL develop in a sustainable way while bringing value to people, thus, helping achieve our sustainable development targets.

The Russian market is integrated into the global economy, and the oil industry is therefore directly connected with the conditions on the global market. In spite of the unfavourable economic situation at present, the Company continues to actively implement its sustainable development strategy relying on its accumulated production and investment potential. The crisis phenomena are most strongly felt in the virtual economy, rather than in the real sector, where actual products are produced. LUKOIL has never interrupted its regular investment cycle and continues to launch new projects to ensure both steady progressive development and higher shareholder value for the Company. Still, we did adjust our investment program, although the adjustments concern only those projects that are yet to start according to our plans. They do not affect the current production volumes or the stability

of our employees. What we did was simply postpone several promising projects. As soon as the conditions improve, we will be able to proceed with them as we will still continue our preparations to their implementation phase. Meanwhile, projects that already have had some success will be financed in full during the next two years.

There is no doubt that we depend on global oil prices. However, what we consider our top priority is not the price, but the existing infrastructure, contractors, suppliers and the prevalent taxation framework. We therefore have made an effort in this third report to structure the focus areas of our activities, wherein the interests of the energy company and those of society are obviously interconnected in the long term. Eventually, energy security refers to our common desire to live in a safe, illuminated, warm and comfortable world. The threat of depletion and the rise in the cost of conventional sources of fuel of utilities, the ageing of traditional hydrocarbon production regions and huge upstream investment requirements are urgent issues that increase the value of the flexible innovation development strategies of the Company and its partnerships with all stakeholders.

Due to a decrease in oil production in the Company's traditional region of Western Siberia, we are becoming increasingly focused on the development of production enhancement and oil production stimulation techniques and technologies. We do our best to also follow this path of innovation in the development of our other business segments. This also applies to the development of new oil refining and environmental

technologies. LUKOIL additionally places great emphasis on the development of new high-quality environmental products and their launch on the market.

Throughout our history we have always been establishing ourselves as a Company that is committed to the philosophy of sustainable development. The issues of energy efficiency, preventing an environmental impact and the impact on human life and health are of top priority for us. In 2008, we finished our five-year Environmental security program, and adopted a new one to be followed to 2013. Broad discussions of our results and plans for the next five years that were held at public hearings in all the constituent entities of Russia where we have operations proved that what we believe are our main achievements in this field were highly appreciated by the stakeholders. This openness for dialogue helps identify problem areas that society is concerned with, and it ensures that management can understand the standpoints of the stakeholders and plan overall Company activities. Starting in 2005, we have been making phased preparations to the application of Kyoto Protocol mechanisms to the UN Convention on Climate Change, and are now putting effort into a reduction of greenhouse emissions.

Despite the difficult situation in the global economy, the Company continues to perform its social obligations to our employees and the regions. Such obligations are formulated in the new agreement between the Company and OAO LUKOIL Trade Unions International for 2009-2011 that became effective in December 2008. In addition, we are making new Agreements for social and economic partnerships with the authorities of the constituent entities of Russia, as well as with local administrations. The goal of improving the performance

of social investments is now becoming increasingly urgent. At the same time, we are intent on preserving our priority areas of support: cultural heritage, healthcare, education, physical training and sports, as well as social support. This can be achieved through a fruitful relationship with all the stakeholders, including government authorities, local communities, shareholders, investors, employees, consumers, partners, and suppliers, since all the things done by the Company are interconnected. We therefore have done our best in this report to provide as much detail as possible about how we operate in the regions of Russia where we have key production, refining and marketing enterprises.

The Company is involved in international activities in the field of sustainable development and increasing corporate responsibility. In 2008, we joined a voluntary UN initiative – the Global Compact that sets 10 basic principles of responsible corporate behaviour. Sharing the principles established in the Global Compact the Company acknowledges its responsibility in the field of the protection of human rights, fighting corruption, and health, safety and the environment.

LUKOIL has developed, and is now implementing, an action plan to achieve operations excellence, improve supplier and contractor relations, reduce and optimize investment expenditure and operating expenses, and to improve financial discipline. A low loan debt burden and successful capital management policies ensure that the Company's financial position remains stable. We are positive that LUKOIL will overcome the global economic crisis with great confidence, will ensure sustainable development and will reach new achievements for the good of our country, our employees and shareholders.



Vagit Yusufovich Alekperov,
OAO LUKOIL President

LUKOIL in Russia



Mission

Our purpose is to harness natural energy resources for human benefit.

We aim to support long-term economic growth, social stability, prosperity and progress in the regions where we operate, as well as caring for the environment and ensuring sustainable use of natural resources.

We want to achieve consistent and long-term growth of our business, transforming LUKOIL into a leading global energy company. We want to be a reliable supplier of hydrocarbons on the international energy market.

About the Company

LUKOIL is one of the largest international oil and gas holdings in the world, which includes over 300 companies in 35 countries across the globe. The Company's key activities are in the exploration and production of oil and gas, refining petroleum products, the production of petrochemicals, power generation, and the marketing of the products produced.

Over the last five years we have demonstrated high performance on level terms with other major private oil and gas companies which has ensured steady competitiveness for our business. Over this period our Company's share in overall global oil reserves has slightly declined (from 1.32% in 2003 down to 1.15% in 2008), while the share of our proven gas reserves has increased (from 0.40% up to 0.45%, respectively). In overall global oil production the Company has demonstrated growth from 2.08% in 2003 up to 2.29% in 2008; over the same period, our share in gas production increased almost tripled (from 0.22% up to 0.63%). The overwhelming majority of our upstream projects are implemented in Russia (94%). We also have upstream operations abroad (in Kazakhstan, Uzbekistan, Azerbaijan, Saudi Arabia, Egypt, Columbia, Venezuela, Cote d'Ivoire, and Ghana). In this way we follow the principle of geographical diversity to ensure reliable hydrocarbon supplies.

Our downstream block includes refineries and petrochemical plants in Russia and Europe. The Company is among the world's top six by refining volume among private oil companies.

Our marketing network is present in 25 countries in the world and includes over 6 000 stations and facilities (including franchised ones). We also supply jet kerosene to more than 50 airports and are now planning to create a network of our own fuelling facilities across Russia and abroad.

In 2008, the Company's business saw a major expansion – we acquired a 95.53% share in the open Joint-Stock Company “Yuzhnaya Generating Company TGC-8” (OAO YGC TGC-8) with a view to diversifying sources of energy and to achieving synergies from the use of available hydrocarbon resources.

LUKOIL is a private Russian oil company with more than 50 thousand shareholders. The key Russian trade floors, where Company stock is traded, are MICEX and RTS. The Company's securities are listed abroad on the London Stock Exchange; the Frankfurt, Munich, and Stuttgart exchanges; and on the US over-the-counter market.



LUKOIL in Russia today¹ is as follows:

- 18.3%** of oil reserves
- 18.4%** of overall Russian oil production
- 18.7%** of oil refining
- 1.5%** of gas reserves
- 2.1%** of gas production

Marketing:

- 15%** of the wholesale motor fuel market
- 30.4%** share of the retail motor fuel market (in regions where LUKOIL is present)
- 25%** of total jet fuel supplies

Corporate Governance

The Company implemented a state-of-the-art corporate governance system. 5 out of 11 members of the Board of Directors elected at the Annual General Meeting on 6/26/08 are independent. For a number of years the Company has had Committees of the Board of Directors for strategy and investments, audit, human resources and compensation. [For more details please refer to the 2008 Annual Report.](#)

¹ As of December 2008.

Openness and transparency

We observe all the statutory requirements for mandatory disclosure and follow the principle of reasonable openness and transparency in respect to voluntary reporting. The following information is published and available through LUKOIL's corporate website:

- since 2001 financial accounts under US GAAP²;
- since 1999 – annual reports;
- since 2005 – sustainability reports (once every two years);
- since 2005 – analyst databook, as well as a number of other documents, containing data, information, figures and key facts about the Company.

Though each information product has its own purpose, in general, all the documents provide exhaustive information about the Company's results and strategic plans that may be of interest to various groups of stakeholders.

“The Report contains professional understandable information on the Company's versatile activities. As one reads the report and analyzes the figures provided therein, one becomes increasingly convinced that it is your Company who was not only able to become transnational, but also put great effort into ensuring that the oil industry can switch from being export-oriented to the industry of resource innovation development. Entering new markets with advanced refining products is not just a challenge for a producing company, but a development vector for the country's economy.”

V.S. Litvinenko,
Chancellor of Saint-Petersburg State University³



“Tackling the challenges that the transportation industry is facing requires a constant dialogue with the business community, including with companies that represent the fuel and energy industries. In this regard, the second LUKOIL's 2005-2006 Sustainability Report in Russia, which provides information on the key focus areas and the figures of production, social and environmental activities of the oil company is of great interest.”

A.S. Misharin,
Deputy Minister of Russian Transport⁴

² US Generally Accepted Accounting Principles (US GAAP).

³ From V.S. Litvinenko's letter, received after the review of the 2005-2006 Report.

⁴ From A.S. Misharin's letter, received after the review of the 2005-2006 Report.

Public Recognition

- In 2008, Institutional Investor magazine voted that LUKOIL is the best European oil and gas company in the field of investor relations (based on a survey that involved 500 companies).
- The Company is one of the leaders in the oil and gas industry by disclosure of sustainable development information – that can be assumed from the independent survey conducted by KLD Research&Analytics, Inc. and the Sustainable Investment Research Analyst Network, (SIRAN) in seven countries (Brazil, China, India, Russia, South Africa, South Korea, and Taiwan).
- LUKOIL claims a top 3 rating in the Russian version of Accountability Rating 2008. The rating is based on public information published by the companies and helps to form an opinion on the transparency of the managing social and environmental aspects of the companies, their openness to dialogue with the public. The key factors taken into account are the company's corporate strategy, its influence on the regions of its presence, as well as management performance and interfaces with various stakeholders.
- In 2008, LUKOIL was also listed among the world's top 100 companies by Accountability Rating™.
- LUKOIL was short listed for the Russian award for social accountability and advanced into the final in the contest entitled "The best social report / sustainable development report".
- LUKOIL has become a Russian charity leader by winning for the second time, the annual Contest entitled "Corporate Donor of Russia". The Company topped the rating of oil and gas companies by the amount of charity donations. The Company's programs were recognized as being best practice in the field of corporate charity.
- LUKOIL won the All-Russia contest entitled "Best Russian Enterprises. Dynamics, Efficiency, Accountability" that is held by the Russian Union of Industrialists and Entrepreneurs (RUIE), and was awarded the Grand Prix in the nomination of "Social Responsibility".

Key economic results:

created economic value and distributed direct economic value, USD mln⁵

GRI,EC1	2004	2005	2006	2007	2008
Revenues	33,845	55,774	67,684	81,891	107,680
Income on financial investment	180	96	111	135	163
Income on assets	6,034	9,388	10,477	13,071	13,709
Operating expenses	2,880	3,443	4,652	6,172	8,126
Payments to suppliers of capital	981	1,070	1,311	1,556	1,828
Payments to the state (taxes)	10,513	18,732	24,418	27,907	38,026
Investments into community	80.5	113.9	137.6	245.5	277.1

Source: 2008 Annual Report and Company Data

⁵ The table contains overall LUKOIL Group data.



Sustainability Report
Russian Federation
2007–2008



Sustainable Development: key focus areas

According to the triple-bottom approach, the sustainable development concept, we believe that our priorities are increasing competitiveness in all the Company's business segments, creating and maintaining the preconditions for efficient development and the use of human capital, as well as socially and environmentally responsible activities in the regions of our presence. The Company has been following the line of achieving a balance between the environment and the economy, as well as social stability.

Main aspects of sustainable development

1 Energy and Society	2 Social stability	3 Environmental wellbeing
QUALITY OF THE BUSINESS	QUALITY OF LIFE	QUALITY OF THE ENVIRONMENT
Energy security	Employees	Clean Air
Energy supplies	Steady development of enterprises in the regions where LUKOIL is present	Clean Water
Upgrading and innovations	New quality of services for the consumers	Clean land – waste recycling, land reclamation
Diversification		Climate
Rational use of resources		Energy supply
“Clean energy” and alternative energy solutions		Production safety culture, changing people’s attitude to the environment

Strategy

LUKOIL’s development strategy contains business targets to be achieved by the Company in the long-term. At the same time, the document provides for the goals that will help achieve sustainable development targets.

LUKOIL Group intensive growth strategy for 2008 – 2017 ⁶	Key focus areas of sustainable development
1. Increasing hydrocarbon reserves, stabilizing and gradually increasing hydrocarbon production	<ul style="list-style-type: none"> ■ energy security ■ rational use of resources ■ investment programs
2. Development of the gas business	<ul style="list-style-type: none"> ■ diversification of energy sources ■ rational utilization of resources
3. Producing value-added products	<ul style="list-style-type: none"> ■ increase in refining volumes ■ higher quality of fuels
4. Improving performance of petroleum product sales	<ul style="list-style-type: none"> ■ higher quality of products and services ■ better consumer relations
5. Improving management performance	<ul style="list-style-type: none"> ■ the use of state-of-the-art management techniques ■ in the field of human resources: creating a corporate HR management standard, preparing new type of managers and building a talent pool, implementing a continuous training system ■ R&D, studying promising technologies
6. Ensuring high HSE level	<ul style="list-style-type: none"> ■ constantly improving the HSE management system ■ openness of the environmental performance information

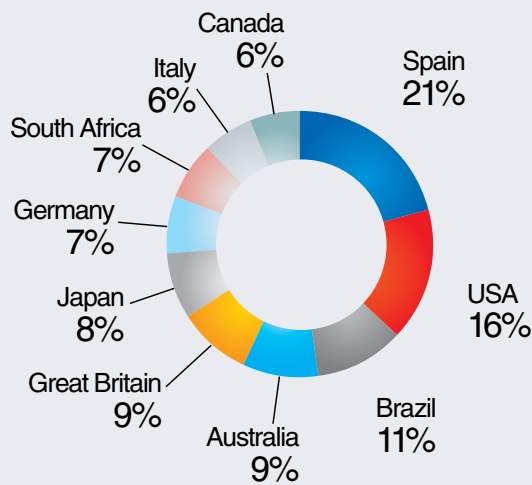
⁶ The document demonstrates consistency in respect to the goals the Company was aiming at in the previous period, in particular, it supersedes the LUKOIL Group strategic development program for 2005-2014.

In 2008, we entered the UN Global Compact – a voluntary initiative, whose purpose is to encourage sustainable development and increase corporate responsibility for decisions made and action taken. This was to confirm that the Company's management is committed to the ideas reflected in the document, and is always intent on improving operations in line with the principles set out in the Global Compact.

The following fact gives evidence to our practical use of the labour relationship principles established by the Global

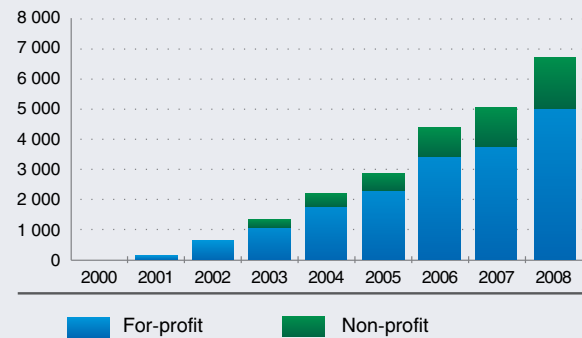
Compact. In 2007, a trilateral meeting of the leaders of Trade Unions International (TUI OAO LUKOIL) was held with the management of the OECD Program for regional development of the economy and employment, and the OECD Trade Union Advisory Committee. LUKOIL's innovation practices in the field of social policy and the pioneering activities of the company's TUI were recognized by the Program management as being "an unprecedented experience in the conditions of the transitional economy".

Sustainability reports are issued by the major companies worldwide. The breakdown of published sustainability reports by countries looks like the following:

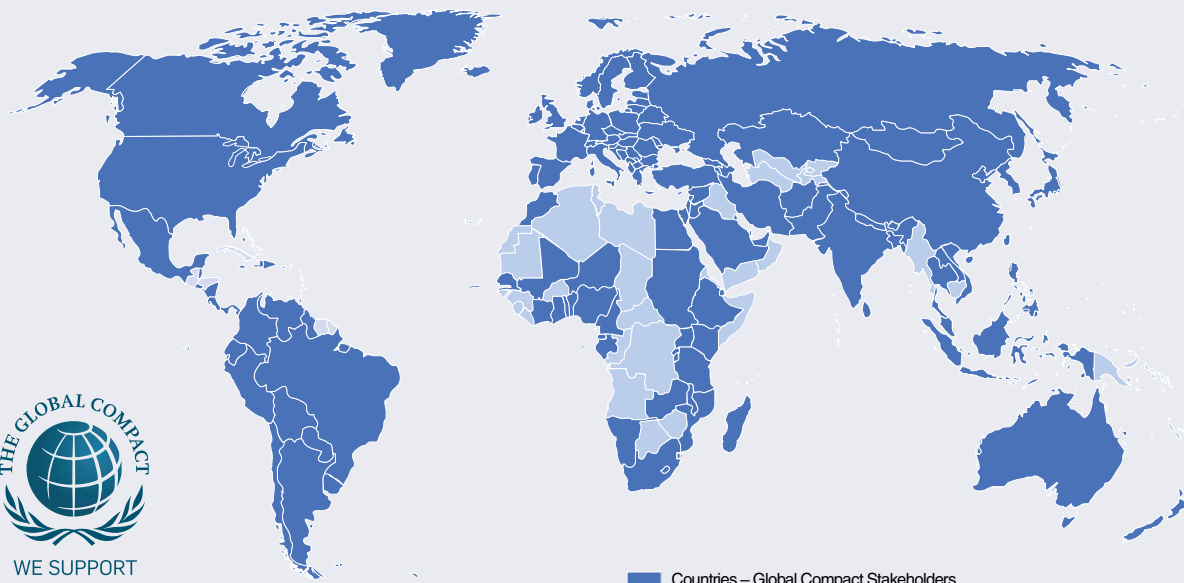


More than 6700 companies and organizations from 130 countries worldwide have joined the Global Compact. In Russian Federation the Global Compact Network consists of 30 organizations including companies and non-governmental organizations.

Total number of the Global Compact participants (including for-profit and non-profit ones)



Countries – Global Compact Stakeholders



Energy and Society

Being a global energy company, we are well aware of the fact that our operations may contribute to finding solutions to global issues. For us, such issues include energy security, rational use of resources, the production of energy and products with a minimal environmental impact (“clean energy”), and the utilization of innovative approaches in both technologies and business management systems.

Energy Security

The issue of energy security is urgent for both, the global community and for Russia. At its 2006 summit in Saint Petersburg, the G8 adopted a document entitled “Global Energy Security” and the related “Saint Petersburg Action Plan” that contains the tools the global community believe will be helpful in order to achieve interdependent strategic goals: those of energy security, economic growth and environmental wellbeing.

Reliable supplies

In the conditions of growing demand that is satisfied by limited energy resources, and stronger the interdependence between the importers and exporters, seeking a balance between supply, demand, and reliable supplies becomes a top priority. Traditionally, Russia has always played a leading role in ensuring a reliable supply of raw materials to the world market. Today, this goal is no less urgent. However, in addition to the above, there is another goal – that of investment into the development of refining and marketing facilities in energy consuming countries. This way we can maximize performance of utilizing the raw materials produced for the good of our consumers. In 2007-2008 LUKOIL fulfilled all its contractual obligations.

This was what OAO LUKOIL President V.Y. Alekperov spoke of in March 2009 at the European business summit in Brussels. In particular, in his speech the President stated that today’s energy market had not been operating as effectively as it should have been doing, since in recent years a fast growing number of transactions in financial instruments has resulted in oil price trends that no longer reflected the actual demand-supply balance. “I believe we should make use of the crisis to address system issues in our relations. This is necessary if we want Russia and the European Union to enter a new economic cycle, which will begin a few years from now, as strategic partners, including those in the field of energy,” Vagit Alekperov said⁸⁷.

The Saint Petersburg Action Plan

Major improvement areas for global energy security:

- increasing transparency, predictability and stability in global energy markets;
- improving the investment climate in the energy sector;
- improving energy efficiency and energy saving practices;
- diversification of energy types;
- improving the physical safety of the critical energy infrastructure;
- minimizing energy poverty;
- tackling climate change and ensuring sustainable development.

Partnership

Globalization processes increase the need for long-term partnerships between market players both in the downstream, and in the upstream segments.

LUKOIL has a strategic partnership with ConocoPhillips that holds a 20% interest in the Company. The key area of our partnership in Russia is that of the development of oil and gas fields utilizing cutting-edge technologies. In exchange, we swap downstream assets abroad. [For more information on cooperation with foreign national and state-owned companies, as well as with Russian companies in joint downstream projects outside Russia, please refer to the annual reports.](#)

LUKOIL has entered into a number of strategic partnership agreements with the likes of OAO Rosneft, and OAO Gazprom Neft, with whom the Company is going to have joint onshore and offshore hydrocarbon production projects, as well as projects in other links of the production chain. Especially, we value our strategic partnership in a number of projects with OAO Gazprom.

⁸⁷ The full speech of OAO LUKOIL President V.Y. Alekperov is available through the company’s website at www.lukoil.com.

Higher upstream costs

Need for investment

With the lack of new large hydrocarbon reserves in traditional production regions, we are facing the challenge of having to develop complex fields located in regions with unfavourable climate, deep-water fields and heavy oil fields. The capital requirements of such operations are constantly growing which increases the need for long-term investment. According to estimates by the Russian Ministry of Natural Resources, the required investment into exploration to ensure long-term additions of hydrocarbon reserves amount to at least USD 55 bln, out of which 52 bln is to be provided by the corporate sector. Russia will therefore have to enter the world contest for investors.

In 2007 and 2008 LUKOIL successfully implemented its investment program to create a foundation for sustainable business development in 2009 and in the years to come. However, the issue of raising investment is still on the agenda.

We value the confidence of our partners that continue to support us. Thus, in early 2009 OAO Gazprombank issued a EUR 1 bln unsecured loan to LUKOIL. In 2007, we signed a USD 300 mln loan agreement with the European Bank for Reconstruction and Development to finance our Environmental Safety Program. We are intent on maintaining our good standing of being a reliable partner and borrower by carefully performing the obligations to our investors and lenders.

LUKOIL investment policy

Considerable investment into new projects is one of the key factors that drives the Company's sustainable development and the regions of its presence. Even with Russia's current high taxes, every year LUKOIL invests USD 8 to 9 bln into its development.

The state stand towards the investment into the oil and gas industry

A number of government decisions and amendments in the laws that OAO LUKOIL and other oil and gas companies have long been talking about resulted in an improvement in the investment climate in the industry. Thus, the document entitled "Major Directions of Tax Policy to 2011" provides for a lower value-added tax and mineral extraction tax, as well as tax exemptions to companies with significant social expenditures.



On January 1, 2007 amendments to the Russian Tax Code became effective to establish a reduced rate of mineral extraction tax for the fields that are depleted by 80% or more. Additionally, to encourage the development of such fields the authorities introduced a zero mineral extraction tax rate looking to encourage production of ultra-viscous oil and the oil from subsurface areas in Eastern Siberia. OAO LUKOIL prepared seven fields where the company will be able to make use of such exemptions.

Starting January 1, 2009 tax holidays started to also apply to the development of fields located far north of the Arctic Circle (within territorial waters and territorial seas, and on the continental shelf of the Russian Federation), in the Azov Sea, the Caspian Sea, on the territory of the Nenets Autonomous Okrug, and on the Yamal peninsula.

Other improvements include the following:

- increasing the cut-off⁸ price when calculating the mineral extraction tax from 9 up to 15 US dollars per barrel;
- eliminating constraints in the application of exemptions for maturity and viscosity;
- increasing a depreciation bonus⁹ for new items of fixed assets groups 3-7 from 10% up to 30%;
- reducing the profit tax rate from 24% down to 20%;
- reducing the license value depreciation period by two years;
- reducing the calculation period for oil and petroleum product export dues from two down to one month.

The changes will help LUKOIL receive an additional 1.5 bln US dollars per year of investment sources (at Brent price of USD 50 per barrel).

⁸ The price that is subtracted from the world oil price when calculating the mineral extraction tax rate.

⁹ See clause 9, article 258, Russian Tax Code, volume II.

Our initiatives

Still, there are plenty of challenges in the industry that need to be tackled. We have come up with initiatives and have invited all stakeholders to get involved.

In 2006, the Committee for energy security¹⁰ was created in the Russian Union of Industrialists and Entrepreneurs, which was initiated by OAO LUKOIL President V. Alekperov. United under a common banner, the managers and experts that represent governmental institutions, domestic and foreign fuel and energy companies, and scientific research institutions that are all in the Committee take part in building a legal, economic and technological foundation for the Russian energy sector and in creating preconditions for access to foreign energy markets. The Committee also promotes international energy-related dialogue aimed at balancing the interests of energy producing countries, transit countries and consumers.

In 2007, the Committee started its efforts aimed at creating a public monitoring system for the implementation of the Saint Petersburg Action Plan entitled "Global Energy Safety". One of the priorities of all the effort in this area is to establish partnerships with international non-profit organizations, financial institutions, and scientific research institutes in the field of improving energy efficiency in the economy (creating a favourable investment climate, sharing best practices, as well as information and training support). As we know, the crucial target of Russia's economic development till 2020 is to reduce power intensity by 40%.

The Committee meetings pay no less attention to short-term issues that are urgent for Russian energy market players, for example, the need for steady supplies of resources despite depleting oil and gas reserves in traditionally utilised regions. The discussions involve representatives of key stakeholders – the Russian Government, the Russian Federal Assembly, companies, and expert institutions. A number of the Committee's proposals were adopted and formalized in the Russian regulations; and others are now being discussed by inter-departmental teams.

Some of our initiatives are connected with environmental goals and joint efforts aimed at remedying the consequences of emergencies and at the dissemination of best practices in the field of emergency responses. One such best practice is represented by the zero-emission technology that was first utilized by OAO LUKOIL and proposed today as a standard for other businesses in the Baltic region. Also, OAO LUKOIL initiated a number of joint exercises with other companies that have operations in the Russian North. [For more information please refer to the sub-section "North-Western Federal Okrug"](#).

Partnerships with stakeholders

We were directly involved in preparing the consolidated proposals of the business community, that were submitted by the Committee for energy policy and approved by the decisions of RUIE (non-exhaustive list):

- "About capturing the energy saving opportunities of the Russian economy"
- "About development of the Russian bio-fuel market"
- "Improvement of the law in the field of land use and state expert review of the projects of industrial facilities"
- "Creating a special tax environment to encourage hydrocarbon production in remote offshore regions (on the continental shelf)"
- "About improvement of environmental safety in actively developed areas"
- "Promoting innovation in the economy"
- "About the influence of natural monopoly tariffs on the competitive standing of Russian businesses."

Supplies of Resources

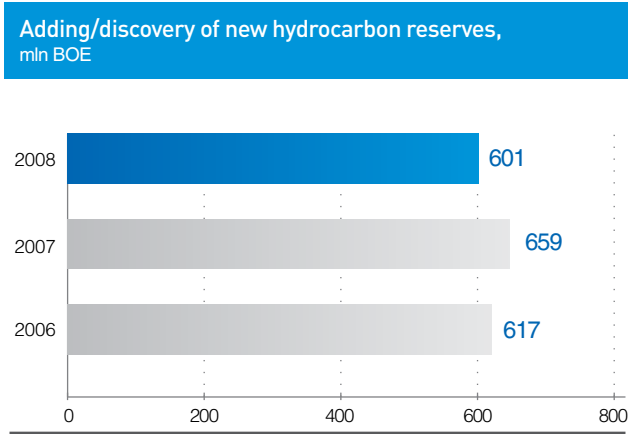
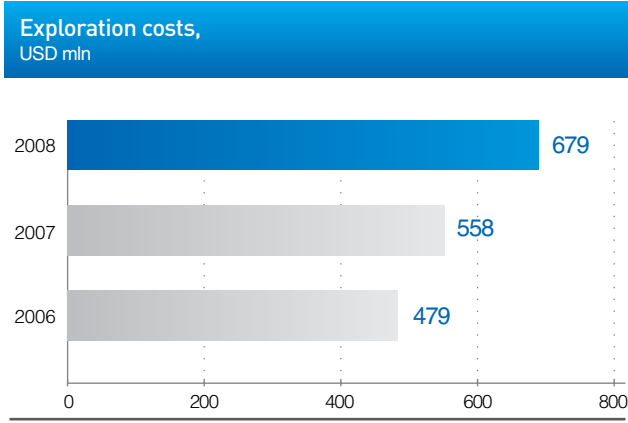
Supplying people with resources not only means uninterrupted oil and gas supplies, but also the production of new high-quality refining products that are in demand with a minimal use of raw materials.



Replenishment of reserves

In Russia, the energy security issue is of major importance primarily in view of the need to replenish oil reserves to make up for depletion, to rationalize the use of mature and new fields, and to ensure a pragmatic combination of various energy sources. For over some 30 years much of Russian oil and gas was produced in Western Siberia. Today, we are facing the need to look for a substitute to this region as a key resource base.

¹⁰ Later on renamed the Committee for energy policy.



LUKOIL has always considered the optimization of field development process flow diagrams as a top priority, which helps to extend their maximum productivity period. Meanwhile, we are active in exploring new fields, both by ourselves and in capturing partnership opportunities with Russian and foreign companies.

Geological exploration has resulted in LUKOIL Group adding 125 mln TCF¹¹ of extractable commercial hydrocarbon reserves across its Russian projects according to Russian classifications. At the same time, the increase in proven reserves according to international standards came to 601 mln BOE, resulting from geological exploration and the gaining of additional information during production drilling operations. In 2008, LUKOIL Group exploration costs came to USD 679 mln.

The main growth of liquid hydrocarbon reserves resulting from geological exploration was registered in the Caspian offshore region, in Western Siberia, in Timano-Pechora, and in the Perm Krai. In 2008, we discovered 8 new fields – Vinnikovskoye (Perm krai), Nirmalinskoye (Nenets Autonomous Okrug), Severo-Alexeevskoye and

Avilovskoye (Volgograd oblast), Zapadno-Rakushechnoye and Tsentralnoye (Caspian offshore region), Long-Yuganskoye (Yamal-Nents Autonomous Okrug), and Vostochno-Druzhbinskoye (Tatarstan). In addition, 18 new accumulations were identified at previously discovered fields. [For more information please refer to the annual reports and the Analyst Databook.](#)

2008 has proven to be an important development stage for the Company: we started commercial production in the north of the Timano-Pechora region and in Russia's Caspian Sea. Commercial commissioning of the Yuzhno-Khylchuyuskoye field in the Nenets Autonomous Okrug in cooperation with ConocoPhillips became one of the key milestones of the year. This field will supply oil to Europe and the US, which will be shipped from a unique offshore terminal located at the Varandey settlement on the Barents Sea coast. The start-up of terminal operations is a significant milestone in the development of Russian transportation infrastructure and is a sign of the diversification of energy supply routes which is an issue of major importance for both Russia and consumer countries. [For more information please refer to the sub-section "North-Western Federal Okrug".](#)

¹¹ tons of conventional fuel.

Distribution of proven oil and gas reserves across the regions of operations of the LUKOIL Group

	Oil, mln barrels	Gas, bln cu. ft	Share in total hydrocarbon reserves
Western Siberia	7,798	1,726	41.8%
Ural region	2,082	496	11.2%
Volga region	247	218	1.5%
Northern Caspian	376	6,060	7.2%
Timano-Pechora	2,912	631	15.6%
Bolshekhetskaya depression	219	13,138	12.4%
International projects	592	6,972	9.1%
Other	232	12	1.2%

Source: Annual report 2008

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The state stand on refining

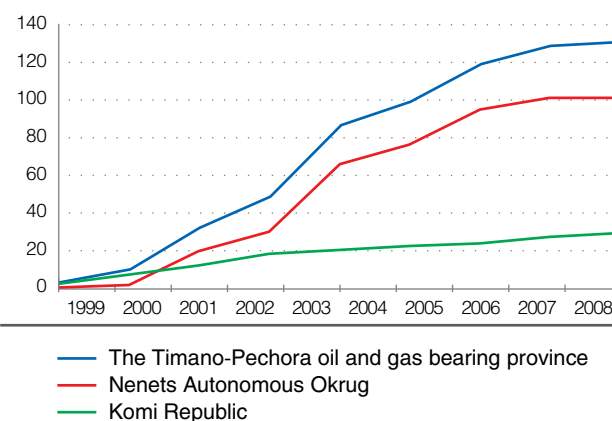
Improving industry to ensure world class oil refining operations is only possible with assistance from the state that may be in the form of reducing the rate of, or providing exemption from, profit tax, where the profits generated are utilized for the reconstruction of refineries; lowering import dues for refining equipment imported, catalysts and additives for the production of motor gasoline; and reducing excise tax for high-quality environmental motor fuels. The first positive changes are already there – the decision to differentiate the fuel excise tax depending on the qualitative properties has been passed and becomes effective in 2011.

Increasing refining volumes

The principle that we follow is that all the oil produced by the Company should be refined at company-owned refineries, which will ensure both economic benefits (producing value-added products) and social benefits (offering high-quality state-of-the-art products to consumers) as component of the Company's business.

It is these prospects that our investment program for upgrading refinery technologies is aimed at. We have already developed the basic outline of our master plan for development of refineries to 2017. Over the next 10 years, LUKOIL is planning to invest more than USD 6 mln into upgrading its refining facilities. Not only will the refineries switch to the production of petroleum products compliant with European standards, but they will also expand their refining capacities.

Addition of extractable oil reserves in the Timano-Pechora oil and gas bearing province, МЛН Т



Types of feedstock	2003	2007	2008	% of 2003
Petroleum gas and fat gas, mln cu. m	2,167.6	3,316.9	3,249	+49.9%
NGL ¹² , ths tn	360.4	881.7	866	+140.3%
Crude, mln tn	34.31	42,55	44,18	+28.8%
Feedstock for petrochemical enterprises ¹³ , ths th	1,316	1,384.4	1,568.2	+19.2%

Source: 2008 Analyst Databook and Company data

Upgrading and Innovations

In our opinion, the term “innovations” refers to a search for, and creation of, brand new unique products and technological solutions, including environmental and energy efficient ones. Most of our development activities are aimed at improving oil extractability at existing fields.

Just 2008 saw 23 mln tn of incremental oil production resulting from the application of new technologies, which is almost seven times as much than the figure of the annual oil production of the single large Timano-Pechora field.

Research and Development

Currently, the LUKOIL Group plans its research and development activities in 3 stages¹⁴:

- Long-term planning (10 years ahead) subject to the Program for strategic development of the LUKOIL Group;
- Mid-term planning (2 years ahead) based on the key performance indicators of the LUKOIL Group, its business segments, business sectors and investment projects portfolio.
- Annual planning based on the annual progress monitoring of the mid-term and long-term plans.

Thus, in 2009 for the first time the Company adopted the Mid-term targeted program for scientific and technical development of the LUKOIL Group for 2010-2011 that establishes the respective priorities. It is expected that the Program will receive RUR 7 bln financing, and that about 90% of the funds the Company is planning to invest into upstream projects. The annual R&D coordination program for 2009 was also approved.

In April 2009, Company specialists were awarded with a Diploma from the Federal Agency for intellectual property, patents and trademarks (Rospatent) in the nomination “Top 100 Russian Inventions”. The Diploma was awarded for the invention of a technique of “localized directed hydraulic fracturing for oil or gas fields”.

In 2007, the R&D received over USD 60 mln. In 2008, the figure was increased by 40% to make it over USD 95 mln. The 2008 effort resulted in 63 writs for the protection of intellectual property assets (inventions, utility models, industrial designs and computer software), while in 2007 the figure was only 23. As of the end of 2008 there were 599 intellectual property assets on the Company balance sheet. LUKOIL is one of the leaders among Russian and foreign companies in terms of its commercialization of intellectual property assets (around 40%).



LUKOIL utilizes production enhancement and oil production stimulation techniques that ensure a significant increase in oil production, and help commercially produce high-viscosity oil and resources whose production is problematic. It is planned that the fields with problematic reserves will utilize a water-gas treatment technology which is currently being piloted in Western Siberia. We also use hydraulic fracturing techniques, hydrodynamic, chemical, thermal, etc. [For more information please refer to the 2008 Annual Report.](#)

We are in constant search for cost-efficient technologies for the recycling oil remains and drilling cuttings, as the currently existing equipment is not capable to fully recycle the accumulated waste and to dispose of it.

¹² NGL – natural gas liquids (liquid hydrocarbons obtained from natural gas).

¹³ The data includes figures for OOO Saratovorgsintez and OOO Stavrolen only.

¹⁴ Pursuant to the Regulation on the procedure for planning and organizing research and development activities in the LUKOIL Group.



We put a lot of effort into research and development activities in the segment of producing oils and fuels, including research into additives using infrared spectroscopy, creating composition and quality control techniques, etc.; we have developed low-temperature systems for the recovery and recuperation of fuel vapour from gas station tanks.



New products

New product types are developed in response to ever-changing customer demand and due to the better capabilities of LUKOIL's petrochemical enterprises. Creating new oil refining and gas processing products in Russia offers the prospects for the country to enter global markets where it has previously never had any presence. The Company's new products include gasoline, oils, and petrochemicals - including those that have never been produced in Russia before.

For example, one of the latest developments in this field was the creation of a new oil, LUKOIL NAVIGO TREO 50/40. LUKOIL's marine oils have been successfully tested at the laboratories of the world's leading manufacturers of marine engines, and will be actively promoted on the world market. Until recently, the demand for such oils has almost fully been satisfied by imports. The use of high-quality Russian-made oil in the engines of Russian vessels replacing imports will reduce the dependence of the Russian fleet on supplies from other countries.

Another example would be the development of a new oil for diesel locomotive engines (in partnership with OAO Russian Railroads). The product was approved by General Motors.



New production facilities

The Company's long-term strategy provides for the creation of a powerful facility for the production, transportation and processing of hydrocarbons in the Caspian region. In particular, the Company is planning to construct a gas chemical production facility in Kalmykia.

Oil and gas production in Russia¹⁵

Indicators	2003	2007	2008	% of 2003
Oil production, ths tn	77,357	91,100	89,945	+16.3%
Gas production ¹⁶ , mln cu. m	4,713	13,689	14,200	+201.3%

Source: 2008 Analyst Databook; 2008 Annual Report

¹⁵ Includes the Company's share in independent organizations.

¹⁶ Includes gas sales and gas flooding, process loss and own consumption.

"Entering the world market for marine oils is not an easy challenge for any producer. This industry has no industry standards, because every company approves the use of a certain oil in its engines individually after comprehensive testing."

R. Telyashev,

the Deputy Director General for research and development of OOO LLK-International.

"The service performance characteristics of LUKOIL oils comply with the requirements to the oils used in marine engines."

Marcel Verlinde,

a senior specialist of Chevron's marine oil testing center

Diversification of Energy Sources

Energy saving and the diversification of energy sources is a significant contribution to energy security. The availability of diverse energy sources helps us to be flexible in our response to changes in demand and to avoid shortage in energy resources ensuring a balance between the regions.

Natural gas

In 2004, the Program for the development of LUKOIL's gas business was adopted to establish the goals of entering a new segment of the energy business. Starting 2005, gas production increased almost 2.5 times to make up for a slight decline in oil production. Currently, the largest reserves developed are those of the Bolshekhetskaya depression in Yamalo-Nenetsky Autonomous Area and abroad.

Given the specific features of the Russian market in respect to the transportation and sale of gas, we believe it is a promising idea reflected in our plans to create a gas marketing network in the south of Russia that is facing a shortage in gas supplies. The gas will be supplied to this region to cater for our own enterprises, OAO TGC-8 that we recently acquired, and to retail consumers. The Company adopted the Program for the development of a sales network and the marketing of liquefied and compressed gas. The first model liquefied gas-filling station was opened in Volgograd. In addition, several gas stations are now being upgraded to operate as multi-fuel filling stations (filling can be by gasoline, diesel, or LPG).

Electric Power Generation

Other possible options for making up for the losses from a decline in oil production rates include the development of new business segments related to other energy sources. Today, we believe that electric power engineering is one such segment to focus on.

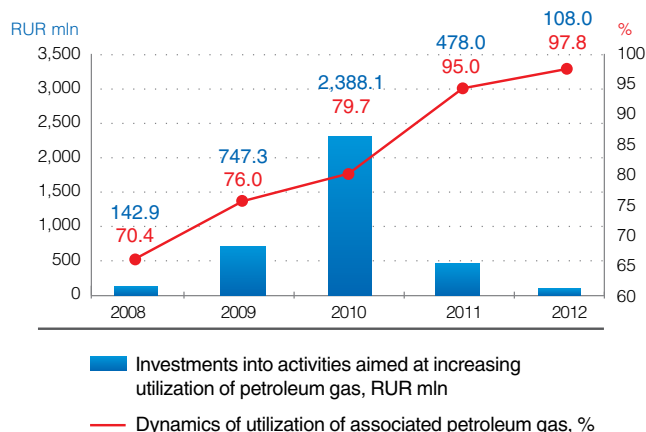
The operations in this segment will be based on the power plants on the Company's fields, and power units at the Company's refineries. Those will be in addition to the assets LUKOIL will acquire on the market. To start out with this, LUKOIL has acquired a controlling interest in OAO "TGC-8". OAO "TGC-8" is one of the major gas consumers in the Southern Federal Okrug (about 6 mln cu. m per year): it has power plants in the Astrakhan, Volgograd, and Rostov oblasts, in Krasnodar and the Stavropol Krajs, and in the Republic of Dagestan. These will receive natural gas from the Northern Caspian fields and those in the Astrakhan region.



Rational Use of Resources

Given the general trend for energy saving, it is obvious that we need to rationalize the use of extracted resources and to ensure their better processing. Losses will be increasingly heavier for companies and society in general.

Utilizing associated petroleum gas (APG)



Utilizing associated petroleum gas (APG)

In 2007-2008, OAO LUKOIL produced 10.8 bln cu. m of APG. APG utilization in 2007 was 69.0%, with 70.4% in 2008 (about 95% across key fields of Western Siberia). Compared to 2006 (72.2% utilization) the figure has slightly decreased due to the acquisition of new assets.

According to the Program for the utilization of APG by the LUKOIL Group organizations for 2008-2010, the group is planning to increase the utilization of petroleum gas by up to 95% at all the existing fields through creating a gas gathering system. For the newly launched projects the planning figure is 100%.

We first of all intend to utilize the associated gas in the production segment. In this regard the Program contains a provision for the construction of APG-fired power plants.

Gas engine generator power plants and gas-turbine power plants

We believe that the construction of power plants (over 400 MW¹⁷ of total capacity) is the right strategy to first of all satisfy the energy needs of our production facilities in remote regions of Russia which have an insufficient power supply. The largest projects will be implemented at Tevlinsko-Russinskoye and the Vatyeganskoye fields in KMAO¹⁸, and at the Yuzhno-Khylchuyuskoye field in NAO¹⁹. A 72 MW gas-turbine power plant has been commissioned at the Vatyeganskoye field. The plant's annual consumption will be 120 mln cu. m. of APG.

The plan also includes the construction of the company's own generating facilities in the Urals with a capacity of up to 70 MW. Meanwhile, it is expected that a common gas-energy facility will be created in SFO²⁰ which will include a new gas processing plant.

Oil refining depth, %

	2003	2007	2008	% of 2003
LUKOIL	73.5	74.0	76.0	+3.4%
Russia's average	69.9	71.4	71.5	+2.3%

Source: 2008 Analyst Databook; 2008 Annual Report

Increasing the depth of oil refining

Over the last five years the depth of oil refining has increased by 2.5% (at LUKOIL's Russian refineries).

The goal of increasing the depth of oil refining is not a new challenge for Russian refineries. The Russian average output figure is 16% of gasoline from a ton of oil, while the figure for American refineries is as high as 40-50%. In addition, the Russian demand growth is not just represented by the demand for fuel (which is connected with a significant increase in the motor car fleet), but the demand for quality fuel that is good enough for modern car engines.

For a number of years LUKOIL's strategic plans have included the goal of upgrading the company's refineries to be in line with today's requirements. Though investment into this business has a long payback period, the company never stopped allocating funds to upgrade the refineries. The investment program resulted in an increase in the oil refining depth, which has already been above the national industry average for a few years.

"Clean Energy"

Climate change

We share the global community's concerns over the climate change, and, starting in 2005, we have been making step-by-step preparations to the application of the mechanisms of the Kyoto Protocol to the UN Convention on Climate Change. The goal that we set for ourselves is to encourage LUKOIL Group organizations to reduce greenhouse emissions. So far, we have already prepared a number of joint projects. For more information please refer to the section "Environmental Wellbeing", subsection "Measures to Combat Climate Change".

Producing high-quality fuels

Construction and commissioning of new process units at Russian refineries has ensured a higher share of



¹⁷ MW – megawatt.

¹⁸ Khanty-Mansi Autonomous Okrug.

¹⁹ Nenets Autonomous Okrug.

²⁰ Southern Federal Okrug.



high-octane gasoline in the total production of motor fuels, which is also the case with the share of LUKOIL's low-sulphur diesel fuels. New fuels help to significantly reduce pollutant emissions, and influence the technical conditions of vehicles positively. Growing sales of new fuels (twice as much as in 2007) are an indication that our effort in promoting these products has been really helpful.

This was encouraged by our active position in communicating the information to consumers, which was assigned to our supply

organizations. [For a description of the promotions please refer to the section "Sustainable Development of Russian Regions"](#).

In 2008, sales of ECTO gasoline exceeded the 2007 figure by 62%, while ECTO-diesel sales increased 2.7 times. In 2008, the number of gas stations offering ECTO fuel increased by more than 2.5 times, and the incremental benefits from ECTO sales are now twice as great as they were in 2007. However, in 2008, the share of Russian made ECTO-92 and ECTO-95 in the total Company gasoline sales is still as low as 15.7%.

Production and sales of green products in Russia

	2003	2005	2006	2007	2008	2010 (plan)	2016 (plan)
Share of high-octane gasolines, including those with additives, %	57.4	69.0	76.6	83.5	87.0		
Share of 50 ppm and cleaner diesel, %	22.8	55.8	61.8	64.7	60.5		
New grades of motor gasolines			Euro-3 ECTO-92 ECTO-95			Euro-4	Euro-5 ECTO-98
New diesel grades		Euro-4	ECTO-diesel			Euro-5	
Number of gas stations offering new fuels, including:							
motor gasoline	–	120	158	433			
diesel fuel	–		220	286	737		
Sales of new fuel grades, including:							
Motor gasolines, ths tn	–		140.6	425.1	733.6		
Diesel fuel, ths tn	–		14.2	265.0	709.1		

Source: 2003, 2005-2008 Annual Reports, Company data



Motor fuels



БРЭНД ГОДА/EFIE 2007

Over the last five years the share of high-octane gasolines in the total gasoline production of the Company's Russian refineries has increased from 57.5% up to 87%. We launched some new fuel grades that Russia had never produced before: the first to appear were Euro-2 compliant fuels, then came those compliant with Euro-3. Euro-3 compliant gasoline is offered under the ECTO brand. A specific feature of this is that it contains special multifunctional additives that improve its cleaning and corrosion-resistant properties. The approach is widely used across the world by leading oil companies.

The Company started the production of ECTO fuels in 2006 at the Nizhniy Novgorod refinery, followed by the Perm and Volgograd refineries in the course of the next two years. The Company is now planning to launch ECTO-98.

Diesel fuel

The share of cleaner fuel in total Russian production of this type of fuel reached 60%. Diesel fuel is produced from fuel with a maximum sulphur content of 0.005% by also applying special additives with cleaning and corrosion-resistant properties.



EN-590 (Euro-4) compliant fuel was first produced in 2005 at the Perm, Nizhniy Novgorod and Ukhta refineries. That year the Company also started producing ECTO-diesel. In 2008 the share of ECTO-diesel made up 6% in the total volume of diesel fuels produced by Russian refineries.

This product has good performance characteristics: the density of the summer and winter diesel varies within a range that is the most optimal to minimize consumption while preserving maximum engine power.

Jet A-1 fuel

Another fuel produced at our refineries is the jet fuel used by aircraft. The production and delivery system for the jet fuel is compliant with the requirements of the International Air Transport Association (IATA) and GOST R 52050-03 "Jet A 1 fuel for gas-turbine engines".

Production and use of biofuel

Following a global trend, biofuel production as a source of energy is currently growing (the use of biofuel is a statutory obligation in a number of countries). LUKOIL is planning to start production of biofuel from vegetable oil. In 2007, the first process trains were installed at the Burgas refinery in Bulgaria. In addition, gas stations across the country are being fitted with biofuel filling equipment. We hope that this experience will be helpful to Russia.

Partnership

The quality of our fuel and oils is a definitive factor for our partnership with car manufacturers. We believe that such a partnership is important for us, because we view it as our contribution to improving the reliability image of Russian cars and cars manufactured in Russia for consumers. Today, LUKOIL has established partnerships with a number of Russian and foreign companies: Toyota Motor Manufacturing Russia, GAZ Group, VAZ, KAMAZ, the Belarusian MAZ, and Severstal-auto. Currently, LUKOIL supplies fuel and oil to fill up cars for the first time at the factory, provides advice in oil selection and develops new types of lubricants customized for certain partners.

Alternative energy solutions

Alternative power engineering is based on the utilization of environmentally friendly energy resources (the sun, wind, etc.), whose potential, as a rule, is inexhaustible.

It is no doubt that in the foreseeable future hydrocarbon fuel will continue to hold the key position in the energy balance all over the world. At the same time, the share of alternative energy is increasing every year. This is due to the need to utilize new energy sources because of the growth of energy consumption all across the world, the gradual depletion of traditional non-renewable fossil fuels and for other environmental reasons.

In spite of the fact that major alternative energy projects have long been implemented across the world, in Russia this area is yet to be fully developed for various reasons. The only exception is hydropower and geothermal energy where Russia does have significant achievements. The legal framework of government support to alternative power engineering that will provide both economic and administrative measures is now only at its early stages of development.

One of the key elements in LUKOIL strategy is in ensuring environmental safety, reducing environmental impact, and

the application of cutting-edge energy saving technology. In this regard the Company has created a specialized Administration for energy efficiency and alternative energy that monitors the development of various business lines in this field, both in Russia, and abroad. The Administration also develops project proposals.

Currently, hydropower, wind and solar energy are considered as priority business lines. The choice is first of all conditioned by the fact that the utilized technologies have a huge number of applications and are utilized in commercial projects, including those by the leading oil and gas companies and, more importantly, has been tested in Russian conditions.

Currently, the Company is in the process of constructing Russia's first gas station located in Krasnaya Polyana, which will also use solar energy to produce environmental electricity. The commissioning is scheduled for September 2009. Roof-mounted solar photovoltaic modules will cover up to a third of the electricity requirements.

Today, alternative energy development is at its very early stage, and what we are talking about now is only pilot projects. However, we can still be confident that there is a huge potential in such projects and the Company is committed to implementing them.

Use of alternative energy

As part of a series of alternative energy projects, the Company completed the construction of a new gas station in Serbia where they installed a photovoltaic unit utilizing solar energy to generate electricity. The Company is planning that the photovoltaic power plant will produce up to 20% of the electricity required for the gas station to operate. The commissioning of the gas station is scheduled for August 2009.





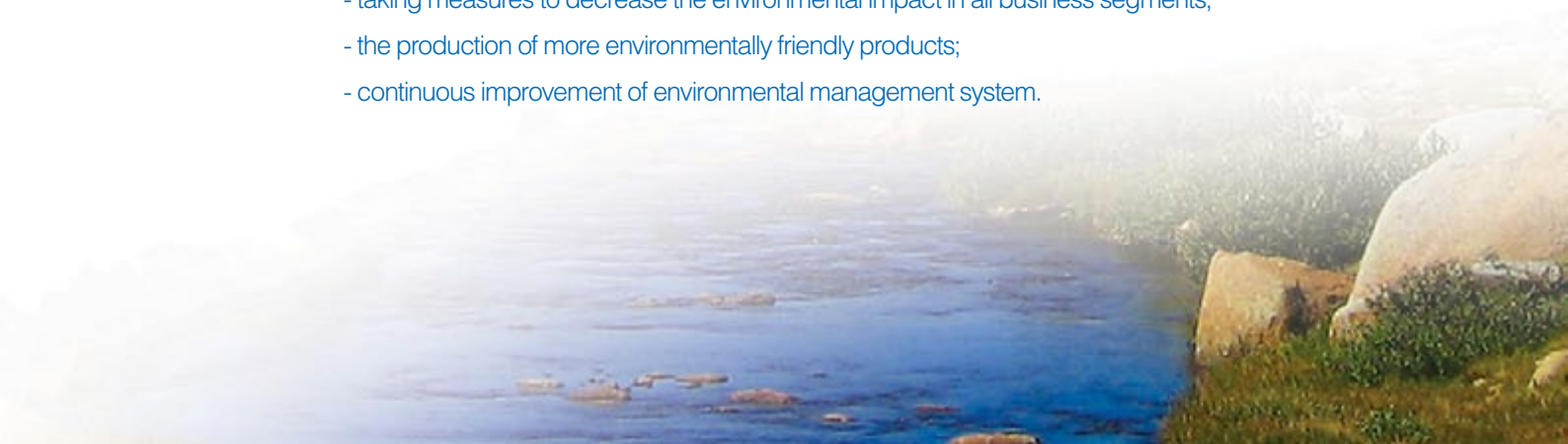
Sustainability Report
Russian Federation
2007–2008



Environmental Wellbeing

We have always placed due emphasis on environmental issues. Our contribution to environmental conservation includes:

- taking measures to decrease the environmental impact in all business segments;
- the production of more environmentally friendly products;
- continuous improvement of environmental management system.



Increased Focus on Environmental Consequences of Industrial Activities

Pursuant to the G-8 Summit Resolution, environmental control over facilities within the fuel and energy complex is being strengthened all around the world.

The intensification of regulatory activities in relation to consumers of natural resources is also observed in Russia. 2007-2008 saw the introduction of new Water, Forest and Town Planning Codes in the Russian Federation; new rules on water use agreements; Fire and Sanitary Regulations in Forests; Procedures on establishing waste generation standards and waste disposal limits. A new calculation method for environmental impact has been adopted. The climate change issue, that has long been present in the reports of global corporations and discussed by the global community, gained significance in Russia as well. The Ministry of Economic Development set the greenhouse emission targets for 2008-2012. Russia has also adopted a number of regulatory acts on implementing of Kyoto Protocol regulations. Besides, in 2008 the issue of the rational use of associated petroleum gas was discussed by the Russian Government at a meeting of the Government Commission for Fuel and Energy Complex and Reserve Replacement, with the resolution that by 2012 its use should reach 95% of the extractable volume.

Social responsibility and sustainable development are based on compliance with statutory standards. Our Company strictly follows the law and we take pride in having a profound environmental protection system throughout all the management hierarchy - from Headquarters to individual companies and facilities. Besides, there is a clear procedure in place to provide environmental support to all the projects from their planning to implementation stage. We view this as an opportunity for successful development in the future.

LUKOIL's environmental management system is subject to an annual supervisory audit, aimed at verifying its compliance with ISO 14001 standard.

LUKOIL's XXI Century Health, Safety and Environment Policy

Our priorities are established in the "XXI century Health, Safety and Environment Policy"²¹ (hereinafter referred to as Policy).

The document establishes the strategic goal of the Company, which is to ensure sustainable development through a balanced achievement of socio-economic objectives and the preservation of a favorable environment. Generally, the environmental protection approach is based on a constant improvement in environmental management. That is why the goals contained in the Policy are adopted for five years with a further review based on the obligations assumed.



The key provisions of the Policy that expired in 2008 dealt with the following issues:

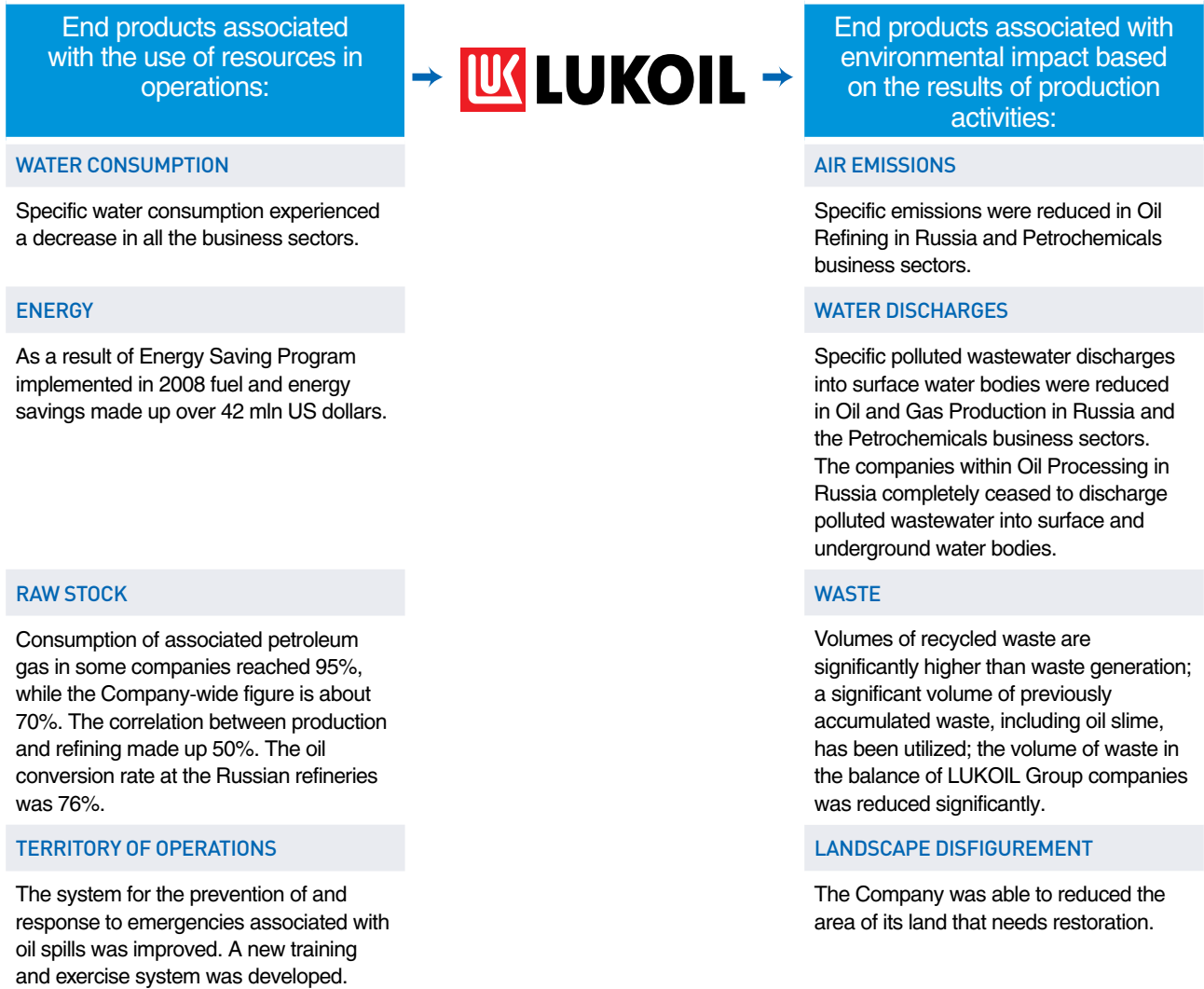
- the rational use of natural resources;
- decreasing the environmental impact; stabilization and further reduction of emissions, as well as lower toxicity of emissions, pollutant discharges and waste while increasing production volumes;
- shrinking oil and petroleum product losses and decreasing related emissions/discharges, the prevention of accidents and remedying their consequences;
- the improvement of the Safety and Environment at the Company's production facilities, achieving the appropriate level of today's scientific, technical and social development;
- increasing performance of production control over compliance with Safety regulations, and that of environmental monitoring at the Company's facilities;
- continuous uninterrupted improvement of the indicators and measures of impact of activities, products and services on the environment, employees and population, as well as those of the use of natural resources.

The results of the Company's environmental activities in the past five years show positive trends in achieving the objectives contained in the Policy. Most of the indicators for environmental impact experienced annual improvement, and as of the end of 2008 they lie within the limits and are below forecasted values. Specific environmental impact indicators for LUKOIL Group companies are significantly lower (1.5-2 times) than the industry average across the RF. This was achieved through large-scale activities in upgrading the company's enterprises, implementing cutting-edge scientific and technical developments, the improvement of environmental monitoring systems, as well as the control and prevention of oil spills.

Key indicators in the Company's operations in 2004-2008 are reflected on the material balance chart, which demonstrates that the Company puts comprehensive effort virtually into all the aspects where its operations may effect the environment, and, as a result, gains positive results.

²¹ The Policy is available through the corporate website at www.lukoil.com

Main end products of LUKOIL environmental activities in 2004-2008
in a materials balance system

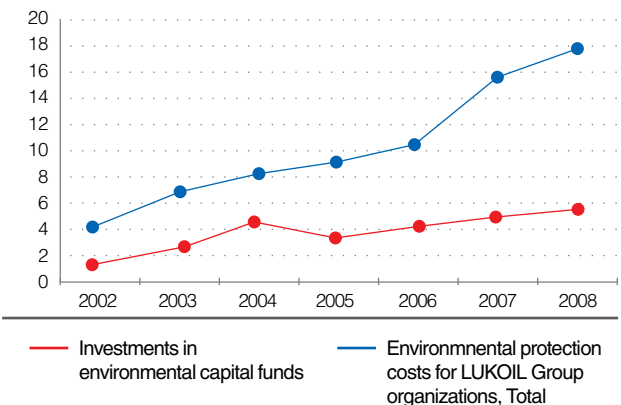


Source: Company data

2008 saw the adoption of a revised version of the Policy, which had outlined a number of new objectives and a more specific version of some of the long-term objectives, formulated earlier, including:

- raising the consumption of associate petroleum gas (APG);
- using the "zero discharge" principle when developing oil fields located in the surface area of water bodies;
- increasing production of environmental fuel compliant with European standards;
- implementing Kyoto Protocol regulations on reducing greenhouse emissions;
- further recycling accumulated and newly generated waste.

Environmental Protection Costs, bln. RUR



The objectives in the areas like efficient nature management, the improvement of the environmental management system, as well as the preparedness of LUKOIL Group's companies to respond to possible accidents, fires and emergencies, were also updated.

Penalty provisions associated with LUKOIL Group ecologically safety performance totaled 0,0006% of the Company's revenues.

Targeted Programs

Targeted programs serve as the major implementation mechanism of the Policy. The core developments in this reporting period were represented by the completion of the Environmental Safety Program for 2004-2008 (hereinafter the Program) and of the Program for Certification of LUKOIL Group companies.

Targeted Programs	Status
2004-2008 Environmental Safety Program for LUKOIL Group Companies	Completed Results are available in this report
2009-2013 Environmental Safety Program for LUKOIL Group Companies	Approved for implementation Public hearings held
2003-2007 Certification Programs on the Compliance of OAO LUKOIL Subsidiaries with ISO 14001:2004 and OHSAS 18001:1999	Completed The common environmental management system of OAO LUKOIL as well as 33 LUKOIL Group companies obtained certifications.
Mid-term targeted R&D development program of LUKOIL Group in 2010-2011	Approved for implementation
Year-long Coordination Program on Scientific and Technical Activities	Under way
2009 Energy Saving Program for LUKOIL Group Organizations ²²	Under way

Environmental Control and Monitoring System

Environmental control and voluntary environmental monitoring of particularly sensitive territories located near the Company's sites is a very important component of the environmental impact management system. For example, the condition of the Baltic Sea near the Kravtsovskoye oil field is monitored with the help of a satellite. Company experts also developed environmental sensitivity maps for landscapes within the areas of responsibility for major production facilities. Such measures help to comprehensively track the condition of the natural ecosystem around the industrial facilities. [For more information please refer to the subsection on the Kaliningrad and Leningrad Oblasts and Ural Federal Okrug.](#)

The Company also developed a new corporate standard entitled the "System of Environmental Production Control on LUKOIL facilities. Design Regulations". The standard is currently being piloted at four facilities.



Transparency

The Company introduced a system for information support of environmental activities, which is based on compulsory public disclosure. For example, every Environmental Safety Program of the Company is discussed through public hearings on environmental issues.

The presentation of the 2009-2013 Environmental Safety Program in Moscow, Khanty-Mansiysk, Perm, Syktyvkar and Volgograd (the major Federal Okrugs of LUKOIL intensive operations) became the biggest event in this reporting period. The hearings involved a total of 400 people (specialists, representatives of the legislative and executive authorities, public, and environmental organizations). 78 comments were obtained as feedback to the hearings.

²² Developed on the basis of documents that regulate energy saving activities of LUKOIL Group companies: the "Program for energy saving of oil and gas producing and gas processing subsidiaries of OAO LUKOIL for 2006 – 2010" and the "Program for energy saving in oil and refining and petroleum product marketing business of OAO LUKOIL for 2006 – 2010"



The Company also cooperated with environmental organizations by partaking in conferences and other activities. For example, in 2008 LUKOIL representatives attended a meeting of the Global Partnership²³, dedicated to reducing flared gas and air emissions. Company experts took great interest in sharing best practices at the industry-specific environmental conference held by I.M. Gubkin Research and Technology Association of Oil and Gas Industry Workers and OAO Tatneft.

Additionally, Company specialists partook in the annual international conference entitled “Arctic Frontiers” in Tromso, Norway, dedicated to addressing environmental, social and economic issues during the development of oil and gas fields in the Arctic region. Company experts also delivered a report on OAO LUKOIL Strategy for the development of the regions and the improvement of the economic and social living conditions of the local communities based on the example of the Company’s experience in the Komi Republic”.

2004-2008 Environmental Safety Program

Our experience is another proof of the significant environmental and social effect of the Environmental Safety Program. Industrial growth and a comfortable living environment are not possible without proper investment into environmental protection activities.

The objectives of the 2004-2008 Environmental Safety Program were formulated according to established Safety, Health and Environment Policies.

Recognition

Company projects won awards in two nominations of the contest held by the Russian Ministry of Environment and Natural Resources entitled “Year’s Best Environmental Project”

Participants of the hearings:

“LUKOIL operation is an example of the national approach of the business to conserving the areas of the company’s operations. A wide discussion of environmental programs demonstrated the company’s actual commitment to sustainable development and the conservation of nature for generations to come”.

“LUKOIL’s motto is “Dignity over Profit”. That is exactly what we need today! The Program stands up to modern standards. However, it should still be modified with a view to enhanced up-to-date ideology, based on preventive principles, assessment and the management of risks.”

“The Program should be as a self-developing document that is flexible and sensitive towards dynamic changes”.

²³ The Global Partnership against proliferation and related G-8 materials is an international initiative whose goal is to encourage better global security and stability.

32.3 bln rubles were invested in the Program over 5 years, with 375 events held. The Program consists of several subprograms: Clean Air, Clean Water, Waste, Reclamation, Prevention of and Response to Emergencies, R&D, Environmental Management, Environmental Monitoring. The Company has primarily focused on the prevention of and response to emergencies and the protecting the air.

Clean Air

Emissions into the atmosphere are one of the heaviest types of environmental impact from the fuel and energy complex in Russia. The companies representing oil production and refining industries account for 25% of the gross emissions from fixed sources. Growth is observed both in the absolute values of emissions, and in the industry's share in the gross emissions across the RF – from 9% (in 2000) to 22.5% (in 2007).

LUKOIL is constantly putting effort into achieving its objectives to reduce air emissions. Organizations that have been part of the Company for quite some time have already made some progress: at some companies gross emissions decreased by a third in the course of the Program. However, the issue is yet to be resolved at newly acquired assets.

The dynamics of the atmospheric gross emissions of the most significant substances for the past five years is characterized by a growth of virtually all the parameters, which is explained by the growth of the Company itself and the expansion of its operations. At the same time, the newly acquired assets often do not have the technology to minimize emissions at the time of their acquisition. That's why LUKOIL invests heavily into upgrading such assets, though changes to the better do take some time.

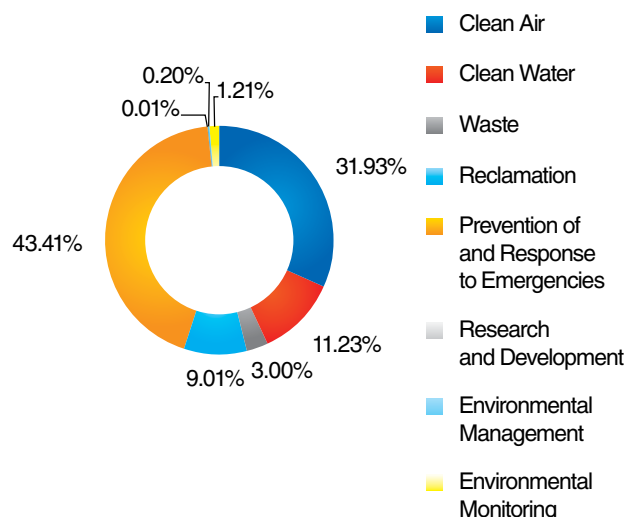
As for the overall volume of emissions, the oil production sector accounts for 92%, oil refining for 6%, while only 1% is contributed by petrochemicals and petroleum product supplies.

Emissions of NOx, SOx and Other significant Pollutants, ths tn

	2002	2003	2004	2005	2006	2007	2008
Emission of pollutants into the atmosphere (without CO ₂)	435	380	429	435.5	520.2	580.9	813.7
NOx emissions	9.38	8.03	9.93	10.00	11.60	14.4	16.4
SO ₂ emissions	22.07	21.68	24.42	19.50	19.90	20.7	30.5
Emissions of solid substances	18.55	14.15	17.89	19.90	27.90	31.6	51.6
CO emissions	167.08	136.64	165.52	181.30	248.70	294.7	458.7
Emissions of hydrocarbons, including methane emissions	227.52	196.26	207.30	200.00	207.30	216.2	256.0
	n/a	n/a	27.7	26.4	40.4	44.9	57.4

Source: Company data





Financing Structure of Project Activities



Between 2003 and 2008, specific emissions have shown a substantial growth. This is primarily due to an increase in production volumes and the acquisition of new assets with poor environmental safety levels and a low use of associated petroleum gas. However, even with that in mind, emissions figures in OAO LUKOIL's oil production sector are still lower than the Russian industry average.

Even with the growth of production and an increase in the oil conversion rate, the gross oil emissions in the course of the Program decreased by 24%, with specific emissions falling by as much as 42 %, all this is due to the upgrading of the refineries. A decrease was registered in all the oil refining companies. The figure for specific emissions at OOO LUKOIL-Permnefteorgsintez (0.7 kg/tn in 2008) is at Russia's lowest level. The average specific indicator for emissions at the Company's refineries is three times as low as the average figure across Russian refineries (3.3 kg/tn).

Specific Emissions by Business Sectors

Business-sector	2002	2003	2004	2005	2006	2007	2008
 kg/tn of hydrocarbons produced	4.65	3.79	4.17	4.11	4.56	4.84	7.07
 kg/tn of refined oil	2.17	1.94	1.64	1.49	1.33	1.20	1.14
 kg/tn of processed raw stock	4.90	4.78	4.86	4.51	4.37	4.28	4.40
 kg/tn of marketed petroleum products	0.44	0.32	0.53	0.58	0.47	0.51	0.63


Source: Company data



Production of Environmental Fuels

LUKOIL enhances the quality of fuel in order to decrease air emissions resulting from consumption of such fuel. The Company is thus trying to minimize its indirect environmental impact.

A decreased amount of sulfur, benzene and aromatics in gasoline and diesel fuel increases the degree of fuel combustion and reduces emissions of hazardous substances (carcinogens, products of incomplete combustion, sulfur compounds, solids, etc.).

LUKOIL diesel fuel contains a maximum of 0.005% sulfur, while the content of Polynuclear Aromatic Hydrocarbons (PAHJ) stands at 4-6%.

 About 2/3 of the overall water consumption is accounted for by oil and gas production companies which use most of the water consumed for the maintenance of reservoir pressure.

  Oil refining and petrochemical companies have been upgraded to cutting edge processes and now have recycling water supply systems in place. The volume of water that is utilized repeatedly without discharge into water bodies was also increased at such companies.

The implementation of a re-circulated water supply system and a repeatedly utilized water supply system is one of the most efficient methods for the prevention of the pollution of surface and ground water. The end products of the Program demonstrate a general trend towards increasing volumes of water so utilized in the overall water consumption by the Company.

Clean Water

Water Consumption

The total water consumption suffered an increase over the period of the Program, which can be explained by an increase in production operations and by the commissioning of new facilities. All the business-sectors experienced a decrease in specific water consumption. Water consumption for each water body used by LUKOIL lies within the intake limits for each specific intake point.







Water Consumption, mln. cu. m

	2002	2003	2004	2005	2006	2007	2008
Water consumption for LUKOIL Group organizations, total; incl.	128.3	134.6	132.9	128.3	129.7	141.3	141.6
Water consumption for production purposes (without consumption for reservoir pressure maintenance)	47.5	52.0	49.5	48.2	51.1	50.5	45.0
Water consumption for reservoir pressure maintenance	75.3	70.7	74.2	67.9	68.1	83.3	90.5

Source: Company data



Specific Water Consumption for the Company's Own Needs

Business-segment	2002	2003	2004	2005	2006	2007	2008
 cu. m/tn of hydrocarbons produced	1.15	1.12	1.02	0.94	0.84	0.90	0.97
 cu. m/tn of refined oil	0.51	0.55	0.57	0.51	0.52	0.49	0.43
 cu. m/tn of processed raw stock	20.70	19.80	19.50	19.20	20.20	17.50	14.60
 cu. m/tn of marketed petroleum products	0.07	0.04	0.04	0.05	0.05	0.04	0.04

Source: Company data


Re-circulated Water Supply and Repeatedly Utilized Water Volumes, mln. cu. m


	2004	2005	2006	2007	2008
Re-circulated Water Supply	689.40	731.58	710.60	783.80	769.00
Repeatedly utilized water	285.00	304.05	346.00	376.50	404.70


Source: Company data


Water Discharge

Over the period of the Program, polluted wastewater discharge tended to steadily decrease across all business sectors (newly acquired assets account for a slight increase in the petroleum products supply sector in 2008). The Program places a special emphasis on implementing the “zero discharge principle”, which eliminates water discharge.

 The total water discharge decreased by more than twice (although new assets were acquired). Three onshore oil producing enterprises do not discharge polluted wastewater into surface and ground water bodies.

 Total wastewater discharge decreased by 72%; polluted and insufficiently treated wastewater is not discharged into surface water bodies.

 Wastewater discharge decreased by 27% including insufficiently treated water discharge which decreased by 35%. OOO Saratovorgsintez accounts for about 90% of insufficiently treated wastewater discharge across all the LUKOIL Group organizations. Wastewater is discharged into the Volga River. Due to the high background concentration of pollutants in the river and rigid discharge standards, all water discharge is classified as insufficiently treated after they are treated at biological treatment facilities at the petrochemical plant. Being the largest water consumer, OOO Saratovorgsintez contributes a lot to the reduction of polluted wastewater discharge and optimizes the use of water resources and the arranging of water recycling.

 Wastewater discharge into surface water bodies and land water discharge decreased by 36%, while polluted and insufficiently treated wastewater discharge has almost been eliminated.







Dynamics of Wastewater Discharge, mln cu. m

	2004	2005	2006	2007	2008
Wastewater discharge into surface water bodies and land discharge	37.3	32.8	31.8	27.8	25.5
including					
clean water discharge according to standards	0.5	1.8	1.8	1.5	2.0
treated discharge according to standards	20.5	15.6	15.3	12.0	11.5
insufficiently treated	14.4	14.8	14.2	13.8	11.6
polluted (non-treated)	1.9	0.6	0.5	0.5	0.4

Source: Company data

Specific Discharge of Polluted Wastewater

Business segment	2002	2003	2004	2005	2006	2007	2008
 cu. m/tn of hydrocarbons produced	0.011	0.011	0.011	0.012	0.011	0.008	0.007
 cu. m/tn of refined oil	0.39	0.28	0.00	0.00	0.00	0.00	0.00
 cu. m/tn of processed raw stock	13.00	11.40	11.80	10.14	10.40	9.08	8.40
 cu. m/tn of marketed petroleum products	0.017	0.011	0.005	0.009	0.009	0.006	0.007

Source: Company data

Waste

In the course of the Program over 3.4 mln tn of waste²⁴ including 300 ths of oil remains and drilling cuttings was disposed of. The LUKOIL enterprises primarily generate hazard class 3 (medium hazard) and 4 (low-hazard) wastes. The waste generated is then neutralized and disposed of at special landfills and/or transferred to third party organizations to be further disposed. The Company is in constant search for cost-efficient disposal techniques for certain waste types (oil remains, drilling cuttings).

Oil remains is the most hazardous waste out of a great number of waste types generated by oil companies. Every year LUKOIL annually increases its oil remains recycling and now the recycled volume exceeds the volume of oil remains generated; both newly generated and previously accumulated oil remains is disposed of. This includes volumes that accumulated before LUKOIL was established. For instance, over the last few years OOO LUKOIL-Komi has been a leader among the Company's oil producing organizations in terms of

²⁴ Total waste recycled, neutralized, disposed of, and transferred to specialized organizations.

Waste Management

	2002	2003	2004	2005	2006	2007	2008
Hazardous waste generation, ths tn	378.3	519.5	567.1	504.9	500.8	766.1	779.9
Hazardous waste disposed of, recycled and neutralized using the Company's own resources, ths tn	236.8	260.4	253.6	221.3	178.7	266.1	251.2
Hazardous waste transferred to specialized organizations to be further disposed of (recycling and neutralization), ths th	222.3	2033.4	202.4	258.0	298.4	276.6	290.9
Waste registered as of the year end, ths tn	3,757.4	1,795.8	1,792.6	1,663.0	1,638.0	1,709.8	1,669.4

Source: company data

reducing waste on their balance: in 2008 their waste volume decreased by 20 ths tn. OOO LUKOIL-Permnefteorgsintez is constructing a waste disposal unit; the design documents and estimates are now under development for a similar unit at OOO LUKOIL-Nizhegorodnefteorgsintez.

In 2008, 305.3 ths tn of waste was disposed of at special Company-owned storage pits which represents a 15% increase compared to 2007. The increase was due to more drilling operations. It is drilling waste that is disposed of at storage pits (environmental hazard class 4 drilling cuttings). In an effort to reduce the environmental impact, the Company is now actively developing non pit drilling techniques. Another goal is to use drilling mud components of a lower hazard class.

- over 20 ths cu. m of oil remains was removed from collection pools;

- 557 wells were abandoned.

In 2008, the area of damaged and oil-polluted land that was reclaimed proved to be smaller than that in 2003, which is due to the fact that during the period of the Program the Company was able to reclaim the majority of previously damaged (in 1990s) areas and switched to cleaner field development technologies. This resulted in smaller land reclamation needs and was followed by a decrease in the annual reclamation rate of damaged land.

Land Reclamation

As is the case with any other oil company, LUKOIL's operations can damage natural landscapes. However, the Company places great emphasis on the reclamation and decontamination of damaged land.

In the course of the Program:

- 312 sludge pits were taken out of service;
- over 16.1 ths hectares of disturbed and polluted land was reclaimed, including 773 hectares of land contaminated with petroleum products;



Reclamation of Damaged Land and Land Polluted with Petroleum products, ha

	2002	2003	2004	2005	2006	2007	2008
Area of reclaimed land	3,661	4,213	4,232	2,890	3,471	2,696	2,838
including those polluted with petroleum products	292	298	287	192	130	97	67
Number of sludge pits taken out of service by the Company itself with no third parties involved	419	240	17	91	70	83	51

Source: Company data

Emergency Prevention

LUKOIL has operations in 35 countries and a huge pipeline network. The Company's critical goal is to keep those pipelines in proper working condition, monitor them to ensure reliable protection and safety for both people and the environment.

Over the five years of the Program:

- over 35 ths km of pipelines underwent technical diagnostics,
- over 2.6 ths km of pipelines were overhauled.

Furthermore, all the company's enterprises undertook a series of measures aimed at preventing and responding to emergency spills of oil and petroleum products. Over the course of the Program all LUKOIL organizations purchased materials and equipment to respond to emergency spills of oil and petroleum products.

We regularly carry out activities aimed at preventing potential accidents, which improves our units' ability to respond. The Company developed the Concept for Improving the System of Prevention of and Response to Emergencies Caused by Spills of Oil and Petroleum products, which was approved by the Russian Ministry for Emergencies. Numerous corporate documents regulate the technical requirements to activities aimed at preventing spills in emergency.

The Company has always been proactive in this field. The first Russian Corporate Centre for Training Personnel of Offshore Oil and Gas Facilities is now being set up at the Ilyinka settlement, in the Astrakhan Oblast. The Centre will be able to train about 2,500 people per year. Partnering in this project are OAO LUKOIL and Norway's Falck Nutech. The Centre will provide technical and psychological training, training in emergency survival training, and training for managers. The training program will include the use of simulators that imitate actual working conditions on offshore oil and gas facilities in regular, unscheduled and emergency situations. The Training Centre will be located near offshore production facilities in the Caspian Sea.



Inspections and exercises are performed at each terminal prior to the navigation period. Every year, LUKOIL Group organizations hold about 60 emergency response exercises and training sessions. For instance, June 2007 saw international integrated exercises on response to an oil spill caused by a tanker wreck near the oil terminal of OAO RPK-Vysotsk LUKOIL-II and table-top exercises to remedy the consequences of oil spills near the Varandey oil export terminal. In addition to the rescue service at OAO RPK-Vysotsk LUKOIL-II capabilities of the North Western Regional Centre of the Russian Ministry for Emergencies, the Federal Chief Administration "Marine State Rescue and Emergency Coordination Service of Russia", OAO AK Transneft, OAO Centre of Emergency and Rescue Environmental Activities, and specialized Finnish vessels were involved in the exercises. Inspectors for the regional environmental organizations also attended the exercises that were reported on by the mass media.

In addition to personnel training and assessment of terminal equipment, the exercises also addressed the goals of studying the specific nature of responses to emergency oil spills under various conditions. Such exercises will enable the Company to improve its system of preventing and responding to emergencies caused by oil and petroleum product spills. The main phase of international exercises entitled "Volgograd-Anti-Terror-2008" was held at the site of OOO LUKOIL-Volgogradneftepererabotka in September 2008. The exercises were held as part of the program adopted by the member states of Shanghai Organization on Cooperation against Terrorism, Separatism and Extremism. The mission of the training was to practice cooperation between the specialized services of Russia, Kazakhstan, Tajikistan, and Uzbekistan.

"The Emergency Prevention Department believes that this document²⁵ contains up-to-date information on emergency prevention...The Russian Ministry for Emergencies will utilize the information contained herein to carry out process safety activities".

M. I. Faleev,

Head of the Emergency Prevention Department, the Russian Ministry for Emergencies.²⁶

²⁵ Sustainability Report.

²⁶ An extract from M. I. Faleev's letter sent after the review of 2005-2006 Report (after publication the report was submitted to key stakeholders).

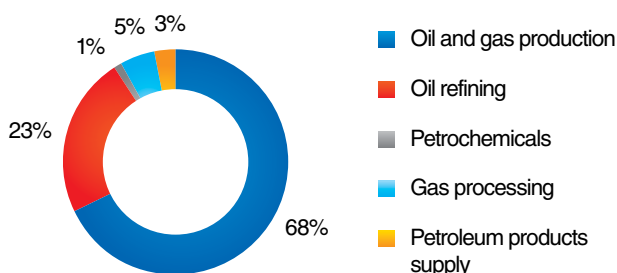
2009-2013 Environmental Safety Program

A new program is being developed while the national reforms are gradually implemented which aim at stricter liability on users of natural resources for their environmental impact and environmental safety. The Program extends the achievements of the previous Environmental Safety Program and sets new goals in line with the new Health, Safety and Environment Policy.

The Program includes 483 activities with a total investment of RUR 58.7 bln which is almost twice as much as the cost of the 2004-2008 Program.

Generally, the structure of subprograms is the same; however, more activities are planned under the Clean Air subprogram (70%) which is due to plans to utilize more associated petroleum gas. The Environmental Monitoring section was extended: in the new program the section was renamed to "Production and Environmental Monitoring" and now provides for design and implementation of the production and environmental control systems; as well as monitoring and forecasting changes in the environment caused by production operations.

Environmental Costs Structure of Activities under the Program



Expectations:

These are the expected end products of the Program:

- reducing air emissions by 277.2 ths tn;
- reducing water consumption by 4.1 mln cu. m;
- reducing wastewater discharge by 12 ths tn;
- waste disposal – 381.5 ths tn;
- 115 sludge pits to be taken out of service;
- 5.7 ths hectares of disturbed and polluted lands to be reclaimed.

Measures to Combat Climate Change

LUKOIL shares the global community's concern about climate change. Since 2005, LUKOIL has made gradual preparations for the application of the Kyoto Protocol mechanisms to the UN Convention on Climate Change. Measures aimed at preventing climate change were included into the corporate policy as a critical aspect of sustainable development.

We have set out two large practical goals to prevent climate change:

- reduce greenhouse emissions;
- generate profits from selling emission reduction units (ERU) on hydrocarbon markets.

The following is a list of regulations development to facilitate the application of the Kyoto Protocol regulations:

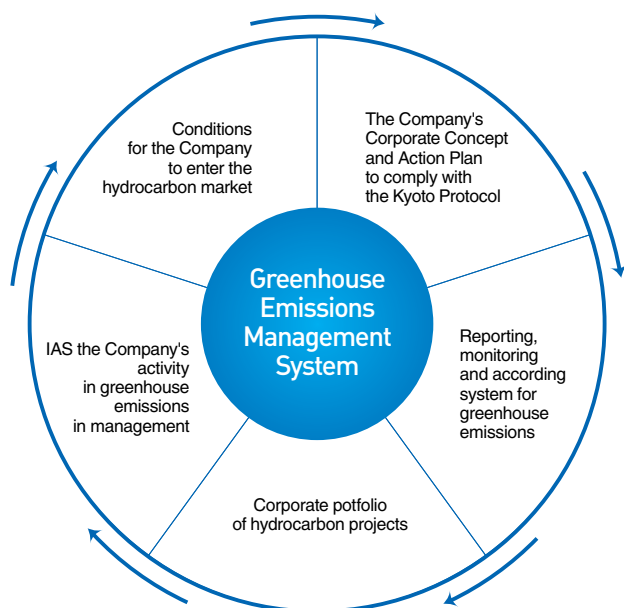
- Corporate Concept for Planning Operations of LUKOIL Group organizations Based on Kyoto Protocol targets.
- 2007-2008 Integrated Action Plan Aimed at Implementing The Corporate Concept of Planning Operations of LUKOIL Group organizations Based on Kyoto Protocol targets.
- Regulations on Inventory of Greenhouse Emissions in LUKOIL Group Organizations.
- Regulation on Preparing and Running the Projects for and application of Joint Implementation and Clean Development mechanisms.
- Order No. 153 of 09/17/07 About Kyoto Protocol Regulations Team in LUKOIL Group.

The Company also developed and introduced a system of greenhouse emissions management which is part of the environmental management system.

In 2008, LUKOIL organizations made an inventory of greenhouse emissions at their facilities to determine the related sources and volumes. The independent non-profit organization entitled "Environmental Innovations Centre", in cooperation with international experts, performed an independent expert review of LUKOIL Group's Report on its Inventory of Greenhouse Emissions.

The company's staff reviewed and developed carbon-oriented design documents for three high-priority projects aimed at reducing greenhouse emissions. The documents were then submitted for review to the independent auditing company "Bureau Veritas Certification Rus".

LUKOIL Greenhouse Emissions Management System



Reducing Greenhouse Emissions

The key focus areas of reducing greenhouse emissions are as follows:

- reduce greenhouse emissions caused by flaring associated petroleum gas (over 3 mln tn of CO₂ per year);
- reduce greenhouse emissions caused by process losses (over 3 mln tn CO₂ per year);
- reduce indirect emissions caused by purchasing heat and power (over 8 mln tn CO₂ per year).

Generating Profit From Selling Emission Reduction Units (ERU) on Hydrocarbon Markets

Joint Implementation Projects (JIP) are investment projects under Article 6, Kyoto Protocol, aimed at reducing greenhouse emissions. JIPs provide greenhouse emission reduction units which may be assigned to foreign LUKOIL Group organizations so that such organizations could perform their obligations on reducing greenhouse emissions or may be sold on the hydrocarbon market.

The Company's carbon-oriented project portfolio includes 10 projects aimed at reducing greenhouse emissions. Carbon-specific design documents have already been developed for three priority projects. The total emission reduction achieved through these three projects within the mandatory deadline established by the Kyoto Protocol comes to about 6.7 mln tn of CO₂ equivalent. The company is planning to sell this carbon asset on the hydrocarbon market at the current price of greenhouse emission reduction units.

One of the projects that LUKOIL is planning to implement under Article 6 of the Kyoto Protocol to the UN Convention on Climate Change is a project entitled "Collection and transportation of associated petroleum gas from oil fields in the Upper Kama region operated by OOO LUKOIL-PERM to be further processed at OOO Permneftegazpererabotka". The project's goal is to utilize associated petroleum gas from the fields in the Upper Kama region through implementing and commercial operation of the systems for the collection, transportation and processing of the associated petroleum gas. The associated petroleum gas will be collected from the oil fields in the Upper Kama region (Ozernoye, Gagarinskoye, and Magovskoye) to be further transported and processed at OOO Permneftegazpererabotka. After processing the company will have marketable products, i.e. process propane/butane mixture, stable natural gas gasoline and stripped gas. Calculations suggest that implementation of the project will help achieve an average decrease in greenhouse emissions by 339,530 tn CO₂/year or 1,015,580 CO₂ over a three-year period (2010–2012).

Other Environmental Impacts

Biodiversity

LUKOIL puts great effort into the conservation of natural ecosystems in the Company's regions of operations. Subsections on the North Western Federal Okrug and the Southern Federal Okrug contain examples of such projects.

Industrial Safety Culture

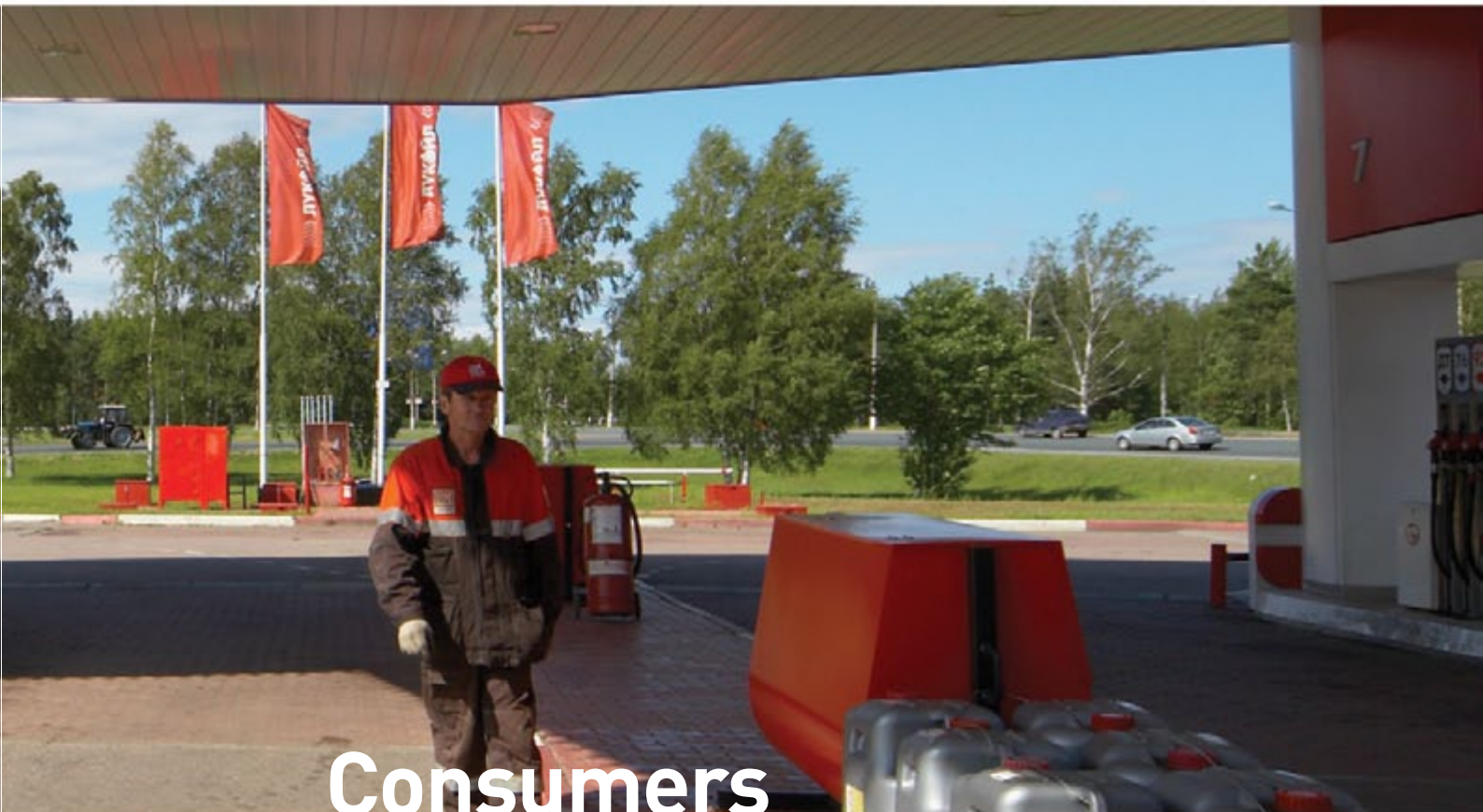
Improving the industrial safety culture is of crucial importance. For more information please refer to the Health and Safety Section.

Land Improvement, Planting, and Environmental Education

The Company supports and implements its own urban planting projects in all the federal okrugs. The Company also provides environmental education to youth as part of the contests within its social and cultural projects. For further information please refer to the Sustainable Development of Russian Regions.



Sustainability Report
Russian Federation
2007–2008

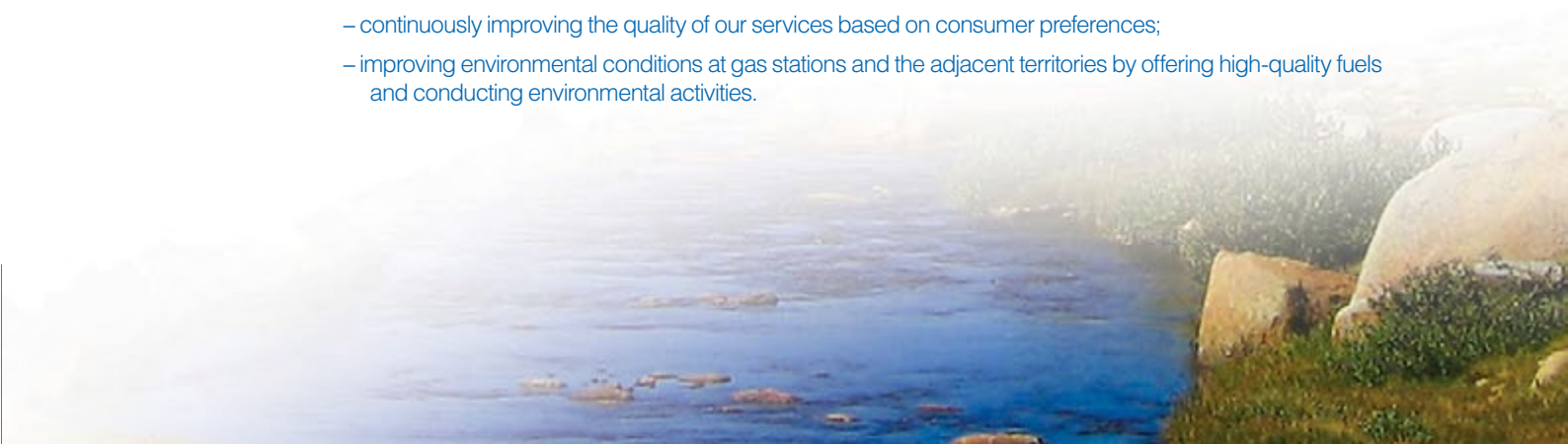


Consumers

It is in our interest that our Company's name be associated with high-quality products and work. The range of our products is extremely varied, but so is the range of our consumers. This report reflects our relations with mass consumers (drivers), who contact our petroleum product supply organizations directly.

Our quality-related tasks include the following:

- offering high-quality fuel to our consumers;
- continuously improving the quality of our services based on consumer preferences;
- improving environmental conditions at gas stations and the adjacent territories by offering high-quality fuels and conducting environmental activities.



High-quality Fuels and Materials

Fuel quality is dependant upon numerous factors that can surface at any stage of product movement from the producer to the consumer.

Quality Control System

LUKOIL's petroleum products supply organizations (PPSO) exercise quality control at all stages: the initial production of fuel at refineries, fuel storage at petroleum storage depots, transportation to gas stations, and at sales at gas stations.

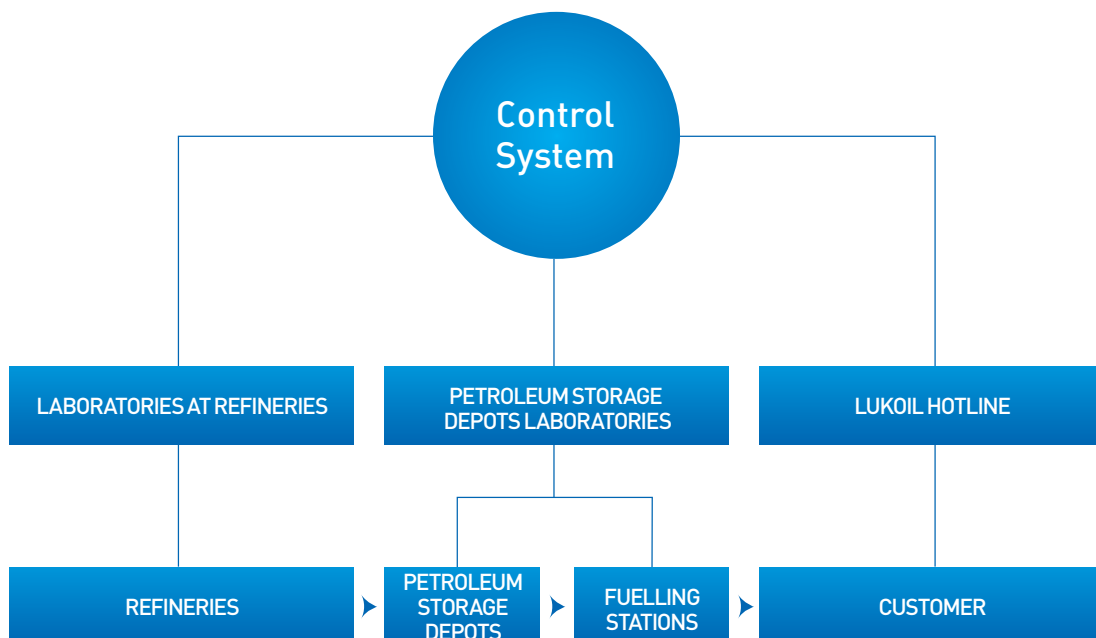
Quality control during production includes injection of special colouring agents into the fuel. The quality and authenticity of the product can then be verified based on the colour of the fuel and the result of a chemical reaction during marker studies of the fuel.

The Company conducts quality control through its own laboratories at PPSO's and through mobile laboratories that collect monthly samples at petroleum storage depots, road

tankers and gas station tanks, and perform express analysis. The results are then entered into a database and stored for two years. Despite the system's complexity, the related costs do not exceed 1 % of the prime cost of the fuel and do not significantly impact the retail price.

Mobile Laboratories

The Company's mobile multilevel technical control complex is further proof of its commitment to high technologies and customer care. The laboratory helps to obtain online data on the movement of petroleum products, to monitor and assess the quality, as well as the quantity of petroleum products in the depots, where they are stored, and at the marketing outlets. It also performs an environmental review of territories around the facilities. The laboratory's personnel provide advice and training to staff of the fuel stations and petroleum storage depots, including that on appropriate operation of the entire equipment set, as well as on the corporate standards and requirements.



One distinguishing feature about the laboratory is that it is equipped with an IROX-2000 device. This device is capable of precisely identifying the quality of fuel based on 30 parameters, including the fuel octane number, the actual gum content, the presence of water-soluble acids, alkali and lead compounds, etc. Additionally, the device can identify the fuel manufacturer based on a database stored in its memory..

Air Quality on the Territory Adjacent to Gas Stations

The quality of air is monitored using up-to-date techniques and equipment including the unique STKH-17 device.

Customer Requests

The laboratories can also check the quality of petroleum products at the customers' request. Checks can be attended by customers. If necessary, the customers may receive a qualified clarification to their request.

The system for monitoring customer satisfaction and preferences is one of the most important channels for feedback and building trusted customer relations.

A 24/7 toll-free hotline, the number of which is available through LUKOIL's website and the websites of PPSO's, also serves the purpose of allowing feedback. All the calls are entered into a database, where they are registered, classified and accompanied by the data on the ways of eliminating the issues raised.

PPSO's also monitor customer satisfaction and preferences, which enables the development of a holistic picture of customer expectations in each of the marketing regions. It also helps compare available data and develop an operations excellence plan.

Relations with Dealer Organizations

The LUKOIL strategy described in the first sustainability report called for a reduction in the number of franchised gas stations, as well as for the development of a network of branded stations so as not to allow the marketing of poor-quality products under LUKOIL's brand. Consequently, the number of franchised gas stations within the marketing network has dropped (from 101 in 2007 to 93 in 2008).

Oils

Not only self-produced fuels, but also lubricants are offered by LUKOIL to drivers. Our oils protect the engine against wear under any operating conditions, thus helping to save money on repairs and fuel consumption. For example, it was



OOO LUKOIL-Permnefteprodukt, for instance, holds such surveys twice a year. Each of the surveys involves interviewing 50 thousand people within a week. During the survey, held in 2008, 91% of the motorists graded LUKOIL gas stations as "good" or "excellent". Negative opinions on gas stations' operations (graded 1 or 2) were given by 1.2% of the interviewees. In a follow-up to previous surveys some gas stations were rebuilt, a number of them saw the replacement of outdated fuel-dispensers and the installation of additional new ones. LUKOIL also started offering new services and revised the timetable of technical breaks at its gas stations.

OOO LLK International joined the Technical Association of the European Lubricants Industry (ATIEL) and the International Council of Combustion Engines (CIMAC). We believe, that this step shows recognition of LUKOIL as a fully-fledged player on the European oil market which enables our Company to partake in the development of European quality standards for oil manufacturers as well as to cooperate with the producers of engines and industrial equipment.

experimentally proven that LUKOIL LUX oil decreases the engine friction factor by 20-25%, which leads to a decrease in fuel consumption by no less than 2.5%. Indirectly, it also effects the volume of emissions of harmful substances into the atmosphere.

One of the most important areas of our innovative activities is the development and production of new and better quality oils. For more detail please refer to the website of OOO LLK-International at www.lukoil-masla.ru.

As of today, LUKOIL offers a full range of oils and lubricants that can be used in both Russian machinery and in foreign engines (with over 120 oil grades). These include motor oils, gear oils for all types of transport, base oils²⁷ and industrial oils used in industrial equipment. LUKOIL's strategy focuses on increasing the production of finished oils and decreasing the exports of base oils. At the same time, the proportion of mineral oil (compliant with GOST) will gradually decrease, while that of the high-performance products capable of replacing imported analogues will see a gradual increase.

In 2007-2008, the Company was actively working in optimizing its processes at refining facilities, and on improving the quality of oils produced.

Counterfeit Protection – New Packaging of Oils

The problem of counterfeiting is just as big for oils as it is for fuels. Starting 2008, our oils, packaged into newly



designed 1.4 and 1.5 liter containers, are produced only at the OOO LUKOIL-Permnefteorgsintez plant that has a new production line in place.

The newly designed container is made of up-to-date materials and has several levels of counterfeit protection. The containers have three-layer walls with a fused-in label that has a laser code specifying the time and date of production and packaging. Also, for the first time in Russia and ain the world a bipolymer two-colour cambered lid was used in the production of the motor oil packaging. Such a lid eliminates the possibility of counterfeiting using primitive techniques.

Dealer Relations

The launch of new products on the consumer market is accompanied by presentations and workshops for the gas station and dealer organization personnel. The new container is offered at over 6 000 marketing outlets and at the majority of gas stations. Specialized workshops were held for the representatives of dealers and other business organizations (5 workshops at OOO LUKOIL-Permnefteorgsintez

Production of Improved and Entirely New Products (number of products)

(based on different viscosity classes)

2006	2007	2008
78	21	16

Source: Annual reports 2006, 2007, 2008

OOO LLK International²⁷ joined the Technical Association of the European Lubricants Industry (ATIEL²⁸) and the International Council of Combustion Engines (CIMAC²⁹). We believe, that this step shows recognition of LUKOIL as a fully-fledged player on the European oil market which enables our Company to partake in the development of European quality standards for oil manufacturers as well as to cooperate with the producers of engines and industrial equipment.

²⁷ Used as feedstock to produce oils, lubricants and additives

²⁸ LLK-International - OAO LUKOIL's fully-owned subsidiary, which was established in 2005 for the purpose of efficient management in the sphere of oil production and marketing.

²⁹ Association Technique de L'Industrie Europeene des Lubrifiants is a non-governmental organization of companies - producers and vendors of motor oils that operate in Europe. These include 16 major world oil producers such as BPCastrol, Chevron, ExxonMobile, Total, Shell and others.

³⁰ The International Council on Combustion Engines is a non-governmental organization of companies producing diesel engines, gas engines and turbo engines, as well as of organizations consuming such products – oil and gas companies, scientific institutes and certifying organizations from 20 countries.

and 102 workshops in 50 Russian cities). A total of over 1,000 people attended the workshops.

The launch of new products on the market has also enabled the first fully systematic monitoring of the dealer network (82 out of 85 organizations). The monitoring resulted in recommendations on improving the composition of the dealer network.

Pricing Policy

The fuel pricing structure includes 12 parameters, with over 50% of the cost accounted for by taxes (mineral extraction tax (MET) – 8.1%, profit tax – about 10%, value added tax – 15.3% and the biggest component – excise duty, accounting for 17.6% of the total cost). Process and transportation costs amount to less than 20% of the gasoline cost. The prime cost of oil in the pricing structure for gasoline amounts to 3%. Thus, a decrease in oil prices does not significantly influence gasoline prices. Nevertheless, the year 2008 saw LUKOIL PPSOs reduce their fuel retail and wholesale prices on several occasions.

Retail and Wholesale Price Reduction

Fuel prices in the Perm region, the Kirov and Sverdlovsk oblasts dropped 6 times over the course of one year (in August, September, October, November, December). Udmurtia experienced price decreases four times (in August, October and twice in November).

From September to November prices also decreased in the Central Federal Okrug. For instance, the price of ECTO diesel

fuel in Moscow and Moscow Oblast decreased by over 6%, that of Euro-95 (95 octane number gasoline) - by 3.9%, ECTO Ai-95 – by 3%, Euro-92 (92 octane number gasoline) – by 6.4%, ECTO-92 – by 5.2%, and Ai-80 (80 octane number gasoline) – by 7.8%. Similar activities were undertaken in the other regions of operations by LUKOIL's PPSOs.

Apart from the scheduled price decreases, the Company regularly launches campaigns, the participation in which allows customers to curtail their fuel costs. [For more information please refer to the section entitled “Sustainable Development of Russian Regions”.](#)

Improvement of Legislation

However, as of the start of 2009, LUKOIL is involved in about 70 lawsuits with the anti-monopoly authorities. Those lawsuits are associated with charges against the Company in that it abused its dominant position on the fuel market in the summer of 2008. A number of lawsuits were resolved by the petitioner's lifting charges against the Company, while the others are still being investigated.

Considering the position of the anti-monopoly authorities towards the pricing policies of oil companies, LUKOIL advocates a clarification of the terminology in the framework of the anti-monopoly legislation, because the existing laws do not provide a clear definition for such notions as “breaches of anti-monopoly legislation”, “conspiracy”, etc.

We are strongly convinced that a situation similar to the one observed in the autumn of 2008 is likely to take place again if clear legislation is not put in place.



Quality of Service

Our Company is committed to continuously improving the quality of its service at gas stations with a view to the needs of our customers and the market situation in each region of its operations.

Gas Stations of a New Format

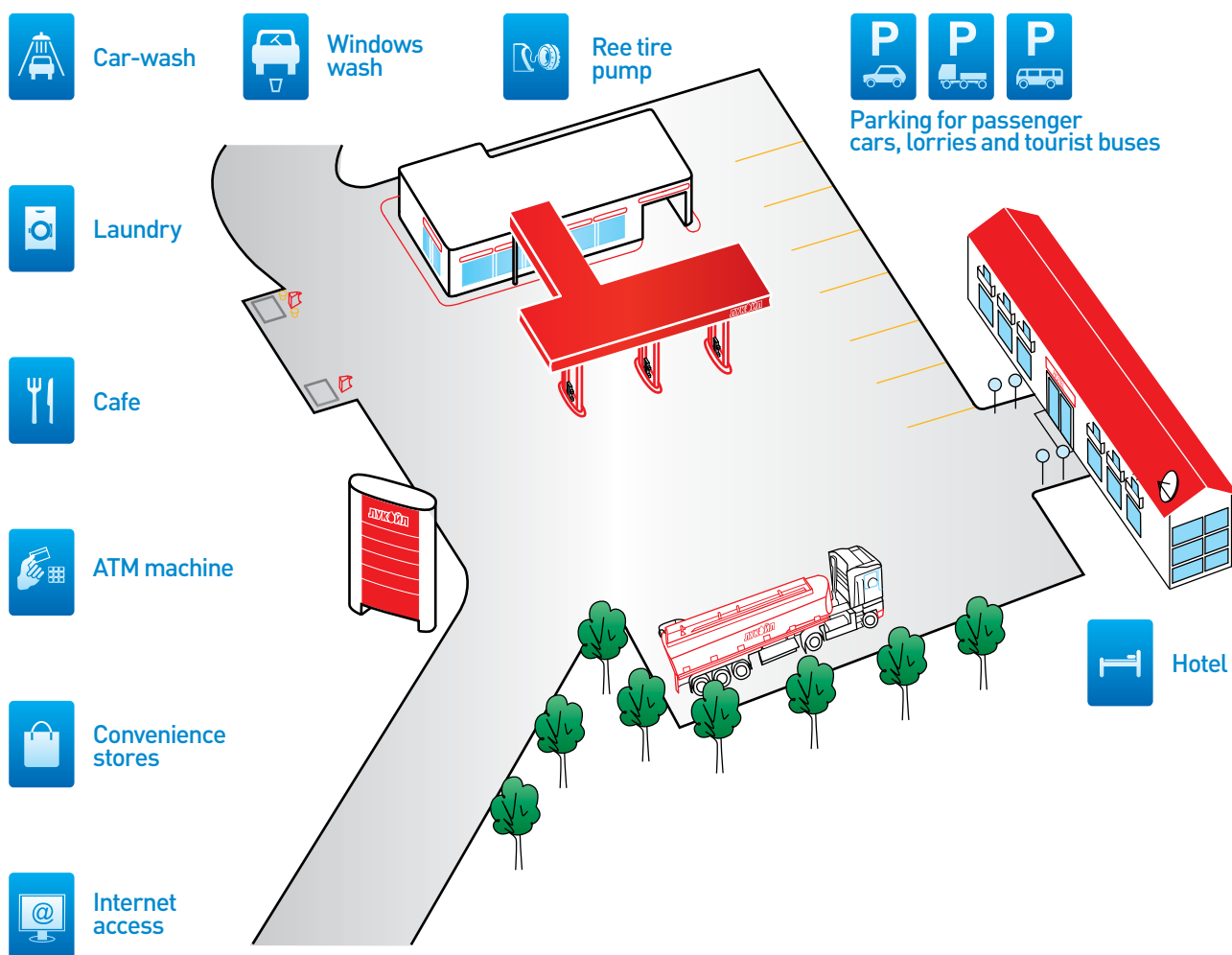
The Company commenced the construction of new gas stations in a number of regions. Such stations represent a new format in motorway service culture and are fully compliant with the requirements of international carriers. Our gas stations will be able to provide customers with the widest possible range of services.

Construction of 66 such gas stations at the North-South and West-East international transportation corridors, on federal highways, as well as on commercial and tourist routes is scheduled for 2009-2013. The Russian Ministry of Transportation has expressed its willingness to sign a

Cooperation Agreement with the Company in order to assist in the Program on Construction of Motorway Gas Stations.

2007 saw the commencement of the program on the introduction of multi-fuel gas stations (MFGSs): those are the next generation of gas stations offering both petroleum products and gas fuels. MFGSs are connected both to LPG stations, not only providing high-quality liquefied hydrocarbon gas to the MFGSs, but also for the population. Thus, the services of our MFGSs are available to a greater number of drivers, and also to people who do not have a car. As of the end of 2008, the network of Group's multi-fuel gas stations and LPG filling stations in Russia came to 96 stations.

In 2008 the Company prepared the first Russian "water-shore" double-purpose gas station for commissioning. This gas station is located in Saint-Petersburg on the Vyborg embankment and provides fuel for cars as well as for small navigation vessels on the Neva River. Construction of a second "water-shore" double-purpose gas station in Saint-Petersburg is scheduled for 2009.



Convenience Goods

The development of non-fuel business is an important factor in the positioning of the LUKOIL Group as a customer-oriented European Company. The reporting period also saw continued implementation of the Program for the Promotion of Retail and Non-Fuel Products and Services of the Russian LUKOIL Group petroleum product supply organizations to 2014.

As of the end of 2008, around 2,000 of the Company's gas stations had sales premises. The level of customer service at our gas stations is constantly improving and the range of goods and services represented is expanding:

We offer food and non-food products, packaged petroleum products and technical chemical products. We are also planning to introduce additional services (car-wash, cafes, vending-machines, coffee-machines, tire pump stations, oil replacement service, etc.), as well as additional services provided for free (service station attendants, cleaning car windows and headlights, a bathroom, etc.).



Service Charges

In order to make payment for fuels and services more convenient, more and more gas stations have been recently introducing a plastic-card based payment system. 2007-2008 saw the introduction of several new card products:

- for legal entities – a common international fuel card (CIFC), which can be used for payment when purchasing petroleum products and other goods and services within the network of Company's gas stations, for receiving VAT compensation in the countries where such compensation is available under the legislation, as well as for receiving full reports on all the transactions in any form convenient for the customer. CIFC can already be used within the gas stations network on the territory of Russia and Belarus. By 2010, the card will be available at all foreign gas stations of LUKOIL (except for USA);
- for individuals – a loyalty card, which can be used to accumulate bonus points when purchasing products at OAO LUKOIL gas stations, as well as to enjoy the benefit of discounts at the facilities of Company's partners. By 2010, the card will be available in Russia and Belarus as well as at all LUKOIL foreign gas stations (except for in the USA).

The LUKOIL-Inter-Card (Licard) system of payment for petroleum products at gas stations has continued to develop in 2008. The network of gas stations using this kind of card expanded by 11 % to reach 2,787 stations, 1, 791 of which belong to the LUKOIL Group.



Sustainability Report
Russian Federation
2007–2008



Social Policy

The economic performance of any modern company does not only depend on its technological potential, but also on its human resources. An effective social policy is one of the most important aspects of the Company's strategic development. Priorities and prospective objectives of the social policy are described in the Social Code of OAO LUKOIL³¹ and in major strategic documents. This once again proves the ongoing attention given to the issue by the management of the Company, its subsidiaries and corresponding departments. The main areas include: Health and Safety, social assistance, opportunities for increasing competencies, and the formation of a common corporate culture.

³¹ Available through the Company's website at www.lukoil.com

Starting 2008, the Company within the Russian Union of Industrialists and Entrepreneurs (RUIE) has been partaking in the process of improving social and labor relations on the federal level. LUKOIL is represented at the highest body of the social partnership – the Russian Trilateral Commission on Social and Labor Relations, which consists of representatives from the All-Russian trade union associations, All-Russian Employer Associations and the Russian Government. Company experts assess the laws and regulations in the sphere of labor relations at the stage of their development, participate in discussions of state programs on socio-economic development, and submit proposals on the development of social partnerships.

The overall figure for employee turnover at LUKOIL Group organizations has stabilized and is tending to decrease. The situation remains unstable within PPSOs and Other activities only.

Employer's Profile

As of 01/01/2009 the total headcount in the Russian organizations of LUKOIL Group had reached 126.9 thousand people. Compared to the same figure in 2006³² (129.4 thousand people) the headcount has decreased by 1.9%, which is a result of the company's disposal of non-core low-performance assets in the framework of its long-term development program. At the same time, due to the acquisition of new assets, as well as due to the active development of the gas stations network, the reporting period involved the creation and addition of new jobs.

The overall figure for employee turnover at LUKOIL Group organizations has stabilized and is tending to decrease. The situation remains unstable within PPSOs and Other activities only.

Health and Safety

We consider Health and Safety (HS) to be our most significant responsibility to the public. We believe that the preservation of the health of our personnel, as well as that of the residents of the areas where our operations are located is just as important a task as to ensure the economic health of our Company.

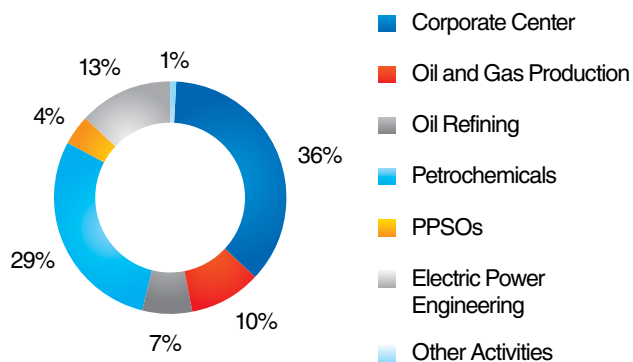
Management System

The existing corporate HS management system is subject to an annual supervisory audit confirming its compliance with OHSAS 18001 requirements.

HS is maintained in accordance with the provisions contained in OAO LUKOIL's XXI century Health, Safety and Environment Policy (hereinafter referred to as the Policy). The Policy is mandatory for all the Company's personnel and contractor organizations.

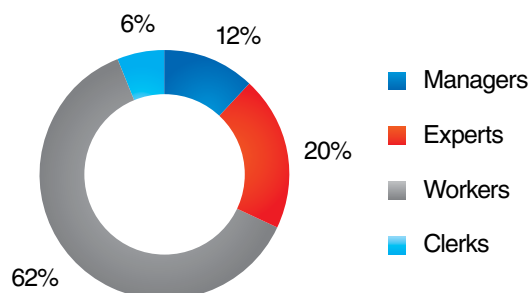
³² Domain of the previous report on sustainable development activities.

Distribution of Headcount by Business Segments (01/01/2009)



Source: Human Resources Management Annual Report 2008

Headcount Structure by Categories



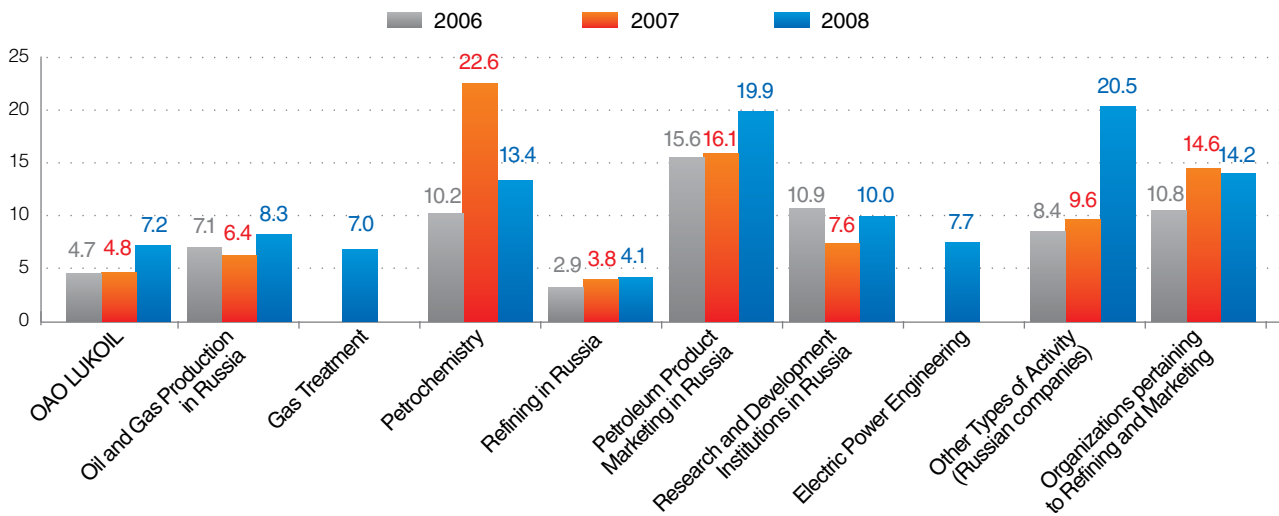
Specific ratio for male and female employees is 63.16% and 36.84% respectively.

Specific ratio for male and female managers is 76.8% and 23.2% respectively.

Source: Human Resources Management Annual Report 2008



Employee turnover (%), 2006-2008



The goals, stipulated in the Policy, are achieved through implementing goal-oriented programs. 2007-2008 saw continued implementation of the Program on Safety, Improvement of Working Conditions, Prevention and Management of Emergencies in OAO LUKOIL and Other Organizations of the LUKOIL Group for 2006-2010 (hereinafter referred to as Program). The Company provided financial support for such activities. The table below contains relevant finance data.

The main goals and objectives of the Program include:

- ensuring that Health and Safety issues are addressed on an up-to-date scientific and technical level;
- developing a culture of safety among employees, to train, educate and advance training to employees in HS issues;
- equipping workplaces in compliance with regulatory requirements;
- providing employees with personal protective equipment and ensure appropriate sanitary, living, treatment and prevention conditions;
- organizing healthcare for employees in compliance with state and corporate standards;

- improving Health, Safety and Fire management; providing legal and organizational support;
- ensuring appropriate emergency prevention and emergency responses;
- developing a common system of corporate control over compliance with Health and Safety requirements for the employees of the companies contracted by the Company and working at the Company's sites.

Health

Primarily due to the efficient HS management system, the injury rate of LUKOIL Group organizations has for a number of years been on level terms with that of the leading Russian oil and gas companies. Within the last three years the Company's injury frequency rate remains almost unchanged.

Systematic effort on ensuring HS at the facilities of the LUKOIL Group has resulted in a decrease in the number of injuries. Such a result was achieved even despite the fact that new organizations with different HS levels joined the Company within the period.

At the same time, similar success has not yet been registered in the fatal accident rate. Virtually all the fatal accidents registered

Program Costs, RUR mln³³

2002	2003	2004	2005	2006	2007	2008
5,120	6,013	6,256	6,045	5,533	4,912	4,909

Source: Company data

³³ A slight decrease in financing is explained by the fact all the equipment and special materials have already been purchased and thus do not require further investment

in 2008 resulted from direct breaches of job descriptions, standards, rules and regulations by the foremen, shift supervisors, section foremen, and production managers.

Safety of Employees

Recognizing its responsibility in creating safe working conditions and maintaining the health of its employees, as well as in an attempt to conduct its operations based on best practices, the LUKOIL Group organizations record and prevent injuries, micro-traumas and occupational diseases.

The Company worked hard on previously revealed factors, like machinery ageing and insufficient attention to Health issues³⁴ by asset managers. Thanks to the implementation of the Investment Program, the machinery at most of the

plants in all the business sectors has experienced significant upgrading. The responsibility for the condition of HS is included in the job description of asset managers, foremen, shift supervisors, section foremen and production managers, and is established by the Regulation on Health and Safety Management System.

However, violation of safety rules and breaches of production discipline by the employees of the Company themselves, as well as by the contractors of the Company remains one of the most complicated issues that requires constant effort. Different techniques are used in improving the attitude of employees towards their duties: control system; training, skill maintaining, testing; cooperation with trade union activists; the organization of contests between the employees, etc. A number of corporate regulations, aimed at ensuring HS, have been introduced in LUKOIL organizations.

Dynamics of Injury Rates and Injury Frequency Rates in Russian Organizations of the LUKOIL Group

	2002	2003	2004	2005	2006	2007	2008
Injury rate	143	102	77	58	52	62	51
Injury frequency rate	1.08	0.78	0.73	0.52	0.43	0.51	0.46

Source: Company data

Primary Objectives in the Sphere of Labor Protection and Industrial Safety

To ensure appropriate working conditions and health protection for employees of the Company and residents of the Company's areas of operations	
GOALS	ACTIVITIES, 2007-2008
Constantly improve Health & Safety conditions, to ensure performance of obligations	PRODUCTION: <ol style="list-style-type: none"> 1. Construction of new, and the reconstruction of old processing facilities; 2. Equipping plants with automated management systems and emergency control systems
Maintain a high level of working conditions for employees in accordance with Russian law and corporate standards	
Increase performance of production control over compliance with Safety regulations	EMPLOYEES: <ol style="list-style-type: none"> 1. Certification of workplaces by working conditions; 2. Provision of personal protective equipment; 3. Training and testing in the sphere of Health & Safety; 4. Organizing training sessions
Develop efficient procedures for the preparation and implementation of programs in the sphere of Health and Safety	MANAGEMENT SYSTEM: <ol style="list-style-type: none"> 1. Developing a "safety" culture; 2. Increasing responsibility of managers in the sphere of Health and Safety

³⁴ Please refer to the Company's 2003-2004 Report on Sustainable Development in Russia.

Workplace Certification

2007-2008 saw continued effort on the certification of workplaces and bringing them up to sanitary standards. The Company is conducting this kind of work on a permanent basis, since the level of workplace certification at the newly acquired assets is, as a rule, lower than desired. As of the end of 2008, about 40% of personnel were employed at certified workplaces. The working conditions of over 6.4 thousand employees were improved. The number of Company staff that have obtained a safety certificate is now up to 22 thousand people.

Personal Protective Equipment

Due to an improvement of production discipline and the introduction of modern personal protective equipment, the number of micro-traumas suffered by employees in 2008 has seen a significant decrease (from 92 to 66 emergencies, or by 28%), while the number of occupational diseases registered in 2008 has fallen to as few as 2 (8 cases in 2007).

In an effort to establish unified approaches to providing employees with overalls and personal protective equipment, the Company adopted regulations that help to do the following:

- identify technical requirements to personal protective equipment;
- identify the procedure for the provision and monitoring of personal protective equipment;
- supplement the model range with a collection of LUKOIL corporate overalls for the offshore oil and gas production facilities;
- create a common supplier registry.

Implementation of modern technologies and materials in the production of overalls and other personal protective equipment allows for increased comfort, convenience and the level of employees' protection from harmful factors, which in its turn has a positive effect on the figures of occupational diseases and injury rates.

Employee Training

In 2008 the number of the Company's personnel employed at hazardous production facilities, reached over 50 thousand people. The number of employees who have received HS training and obtained HS certification for the same year amounted to 30 thousand people.



The Company has also continued working on the creation of corporate supervision units at LUKOIL Group organizations: the employees of the Corporate Supervision Unit were trained in compliance with ISO 17020 requirements.

In the framework of the Action Plan of the Commission for Certification of Emergency Units and Lifeguards for LUKOIL Group Organizations:

- 2008 saw the certification of a special emergency unit of the RITEK Khanty-Mansiyskneft Oil and Gas Production Division; periodic certification was conducted for the Gas Rescue Battalion of OOO LUKOIL-Ukhtaneftepererabotka.
- 92 lifeguards were certified.

Preventing and Minimizing the Environmental Impact of Accidents

No fires, radiation incidents and oil spills, which qualified as emergencies, were registered at LUKOIL Group organizations in 2007-2008.

Risk Assessment

Pursuant to OHSAS 18001 requirements, the Company conducts risk assessment based on the "Guidelines for Identification and Assessment of Operational and Occupational Risks at LUKOIL Group organizations". The identification and assessment effort resulted in the development of an annually updated Operational and Occupational Risks Register, aimed at monitoring and adopting efficient solutions, as well as at decreasing and maintaining identified risks at an appropriate (allowable) level.

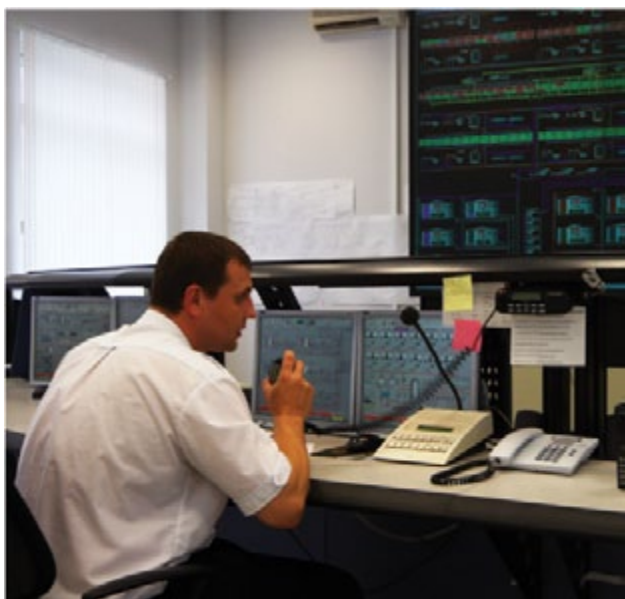


Table-Top Exercises

The most probable emergencies that can take place at the Company's facilities are spills of oil and petroleum products, which is why the ability to respond by the Company's management, capacity and tools was evaluated primarily during the exercises on the emergency response to spills of oil and petroleum products. For more information please refer to the section entitled "Environmental Wellbeing", subsection "2004-2008 Environmental Safety Program", fragment "Emergency Prevention".

Improvement of Management Systems

Increasing Efficiency of Control

The corporate supervision system is one of the most effective mechanisms within the Health and Safety system. Special complex inspections involving trained auditors (Company's employees), experts and trade union representatives are conducted for monitoring purposes.

The large number of HS breaches identified is a result of the highly professional work by the corporate supervision.

Cooperation with Trade Unions

Both, TUI and the Company place great emphasis on LUKOIL Group organizations taking comprehensive measures aimed at the protection of life and health of the employees and decreasing the occupational injury rate. As a result, the last three years have seen a significant decrease in the overall occupational injury rate figures and risk of emergencies or injuries.

The Committee of OAO LUKOIL TUI Council on Safety, Health and Environment, TUI technical inspection and over 3.5 thousand authorized trade union representatives on Health organize planned preventive activities and conducted public control over employees' compliance with the requirements on Safety and production standards. It is the authorized representatives of the trade unions who, by working hand in hand with the employees, have the opportunity to establish direct human contact with the employees and persuade them to act according to the rules. The most energetic public activists win the Health and Safety Contest entitled "Best Authorized Trade Union Representative on Health". A significant role in resolving problematic issues also belongs to 240 enterprise-based joint commissions on Health.

In 2007-2008, the companies' administration and Company's TUI focused on improving the quality of training for trade union activists and authorized Health representatives. This period also witnessed a 60% increase in the number of regional

Results of Complex Inspections on Health and Safety Conditions

	2003	2004	2005	2006	2007	2008
Number of complex inspections	12	8	9	10	10	10
Number of breaches identified in HS	217	219	216	252	274	397
Number of breaches identified per inspection	18.1	27.4	24	25.2	27.4	39.7

Source: Company data

(territorial) workshops and the wide implementation of the method for the correct application of personal and collective protective equipment. This led to an increase in the levels of employee HS expertise.

Actively assisted by TUI, the Company developed its “Model Regulation on Primary Health Care at LUKOIL Group organizations”, aimed at protecting employee health. Over the period from 2005 to 2008, the Company opened 40 new and upgraded 38 old medical stations, including those for the most remote oil fields, enabling more efficient medical care and significantly decreasing the risk of post-injury medical complications and complications in the initial stages of acute diseases.

The trade unions were even more actively involved in the development of preventive, societal and educational activities, aimed at decreasing the number of occupational diseases.

In order to improve the organization of voluntary health insurance (VHI) and the quality of medical services, technical inspections by the representatives of the social services, trade unions and Kapital Insurance were conducted in 2008 in each region of the Company’s operations. The results of such inspections were used as the basis for the development of specific requirements for the Insurance Company and for creating a plan of activities on improving VHI-related activities.

Compliance with the requirements is monitored by the OAO LUKOIL administration and the Council of OAO LUKOIL TUI.

Human Resources Management

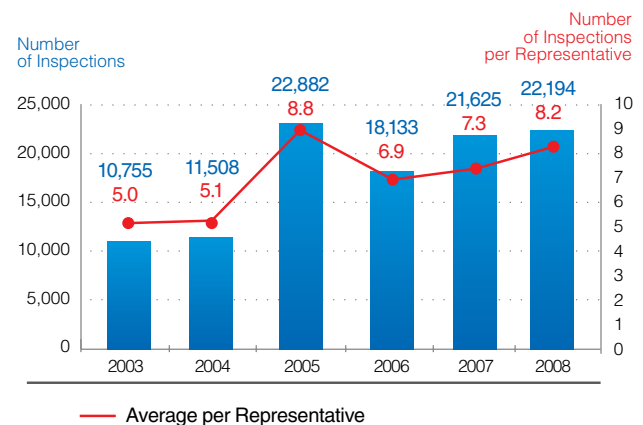
Management System

Basic principles of the LUKOIL Group Intensive Growth Strategy for 2007-2016 were established in 2006 and include the following:

- Develop a corporate standard for the human resources management system;
- Train new type managers;
- Develop a personnel reserve;
- Implement a system for the continuous training of employees, including distance learning.



Development of Public Control in the Sphere of Health and Safety at LUKOIL Group organizations





According to the objectives established, the Company developed and approved the Functional Strategy for Human Resources Management in LUKOIL Group for 2008-2017 (hereinafter referred to as the Strategy).

Plans for 2009

Human Resource will have the following goals:

- maintain and build the Company's talent pool through the improvement of the long-term incentives system, the professional development of key managers and highly qualified employees;
- transfer human resources operations to subsidiaries;
- develop a new attitude in managers, especially those of the middle level, who should treat their reports as a strategic Company resource;
- prepare a new generation of management to organize efficient work in the economic growth period;
- audit the existing human resources management system, and develop new technologies in this sphere;



- continue the development of a corporate standard of human resources management system as well as the development of methodological procedures;
- continue implementation of the "Personnel" Corporate ICS project;
- develop and implement practices on the rotation of executive officers.

Improving performance at all levels

2007-2008 saw continued improvement of the Human Resources Management system in all areas.

Performance assessment

Pursuant to OAO LUKOIL Human Resources Policy, starting in 2007 the Company's employee performance is assessed in order to more objectively evaluate the degree to which they have achieved their established goals and objectives. Such assessment is conducted based on the Regulation on the Assessment of OAO LUKOIL Employee Performance, established by Order of OAO LUKOIL No. 191 of November 22nd, 2007.

The assessment system is implemented in Personal ICS based on SAP and uses internationally recognized techniques and methods customized to the needs and specific nature of the Company. Apart from tracking the performance of each employee, the assessment also addresses corporate competencies and a demonstration of the commitment to corporate values. Such a methodological solution helps HR managers obtain a more detailed picture of HR management.

Over 70% of employees have undergone assessment within the reporting period. Overall results affected the coefficient of the professional level, which, in its turn, influences the annual bonus payments.

Each employee received recommendations based on assessment results. In the end, proposals on the professional training of employees, as well as on their inclusion into the talent pool were formulated.

Assessment also helped develop proposals on improving the recruitment evaluation system, defining the corporate selection criteria, as well as identifying and developing professional assessment techniques. The Company has also developed new techniques in its assessment procedure including, for example, on-line testing.

The pilot project on the application of a "Knowledge Management" system in the framework of implementing best practices in Human Resources Management in Oil Refining in Russia was a success. The project resulted in the development of a mechanism for the quick and efficient implementation of best practices.

Compensation System, Social Benefits and Guarantees

The system of compensation, as well as social benefits and guarantees, is one of the most effective motivational factors in raising the efficiency of employee work.

The Company uses an efficiency management system aimed at achieving the business objectives of the Company. The System suggests a differentiated approach to motivating employees based on their contribution to achieving key indicators, the assessment of their work, and achievement of assigned objectives.

In order to maintain the compensation of employees on a competitive level, the Company conducts regular monitoring of salaries within the appropriate segments of the labor market in the regions of its operation including those made by participating in salary and compensation reviews.

Apart from the financial and moral incentivization of its personnel, LUKOIL also creates a social package containing:

- health protection and medical care for employees, including voluntary health insurance;
- opportunities for recreation and the health improvement of personnel and their family members, together with the organization of sports and fitness events;
- assistance to employees in acquiring their own housing;
- social assistance to women and families with children;
- social support of young professionals;
- non-state pensions.

Youth Policy

Our youth policy has a system of priorities and measures, aimed at attracting youth, creating conditions and opportunities for their successful and efficient self-expression as young employees, and for the development of their professional potential.

As of 01/01/2009 the overall number of youth under 30 years of age amounted to 37,574 people. The year 2008 saw the employment of 16,240 young professionals, which is 17% more than that for the previous reporting period.



Work with youth starts at the stage when young people are still at school or in higher education institutes. LUKOIL's subsidiaries partake in career guidance for school and higher education institute students by organizing special tours to production facilities and the holding of In-house Days. We also cooperate with a number of universities, which we view as our strategic partners, carry out participation in tuition reimbursement programs for perspective students, offer a system of internships, provide opportunities for practical training at the Group's organizations. The Company has also been successful in establishing and developing teaching institutions, including those for young professionals who joined LUKOIL Group organizations upon graduation from their higher education institutes.

The Company has also organized "Best Young Professional of the Year" contests for the purpose of revealing the creative and professional potential of young professionals. The contest involved 235 contestants in 14 nominations, with 90 people selected as winners.

Young professionals also partook in the Contest for the Best Scientific and Technical Project on Fuel and Energy Complex – 2008, organized by the "National System for Development of Scientific, Creative and Innovative Activities of the Russian Youths "Integraciya" (Integration) and the Ministry of Energy of Russia. 47 proposals were submitted for the Contest, with 31 people awarded a prize.

The facilities have also organized successfully functioning councils of young professionals, whose responsibilities include providing assistance to young professionals in their adaptation to new working conditions, mastering their specialty and developing a responsible attitude towards work. At their regular Council meetings, young professionals and personnel of different organizations discuss existing issues, exchange their experiences, and develop joint projects. For example, the Councils of the young professionals of LUKOIL Group organizations together with the Veteran Council are actively involved in organizing and holding such events as Victory Day,

Senior Citizens Day and the Generations Meeting. An enlarged session with the attendance of representatives of the Council of young professionals of LUKOIL Group organizations, as well as students, took place in April 2008. The attendees of the Council of Young Professionals' enlarged session were given the opportunity of participating in the workshop on career management by young professionals organized by the State University – The Higher School of Economics. The youth also welcomed a meeting with the Company's management with great interest.

Indicators on Developing Work With Youth, people

	2008
Number of students studying on contracts with LUKOIL Group organizations	689
Number of students educated based on participation in tuition reimbursement programs	Over 500
Number of students who interned with LUKOIL Group organizations	Over 1,000
Number of young professionals who interned with LUKOIL Group organizations	203

Source: Company's data

The Company annually organizes a "Young Professional's Day". In 2008, for example, the program involved a team-building training session attended by 65 people in the Headquarters alone. Similar events were organized in many other organizations in accordance with the LUKOIL Group Complex Target-oriented Program on Working with Young Employees and Young Professionals in 2008-2017.

One of the important elements of the corporate culture is the assistance in organizing the leisure time of young professionals and employees. Young employees are actively involved in the company's sports events: "LUKOIL Ski Track", "Dad, Mom and Me – a Sports Family". A special role also belongs to volunteer work with orphanages. [For more details please refer to the Chapter on "Sustainable Development of Russian Regions"](#) .

Systems. Being a Vice-President of RUIE, Fedun coordinates work on developing proposals and positions of the Union regarding the creation of a legal basis for developing an insurance pension plan system that would contain mechanisms for motivation and responsibility of both the employer and the personnel in terms of pension plans, along with an increase in the supervisory and regulatory functions of the state.

Since the development of the system in 1994, LUKOIL has never suspended it. The system serves the purpose of establishing a balance between the economic interests of the Company and the social interests of its employees. The pension plan is subject to annual actuarial evaluation³⁵, with the last one having been held on February 27th, 2009.

Corporate Retirement System

We view our corporate non-state pension system as a manifestation of our social responsibility. Because the state pension is rather small, the corporate retirement program proves our willingness to be involved in the lives of our personnel even after they are through with working with us.

Being one of the largest employers in Russia, LUKOIL places great emphasis on the improvement of the pension system. Starting in 2006, L.A. Fedun, VP of OAO LUKOIL, became the head of the RUIE Team for the Development of Pension



³⁵ Actuarial evaluation is a performance analysis of the Corporate Retirement Plan and Non-Governmental Pension Fund and is aimed at identifying the extent to which the assumed obligations to the participants can be performed.

The company uses three kinds of assistance for retired employees:

- financial assistance to veterans who retired from LUKOIL Group organizations;
- financing non-state pensions from employer's funds (the pension fund system before 2004);
- a participatory pension system (currently in place).

The earlier obligations of the Company on non-state pension provision at the employer's expense were established as of December 31, 2003 and are preserved as a future pension of employees. These obligations are gradually delivered as the employees reach their retirement age.

Pension Plan

Regulations on generating and obtaining a pension in the framework of the corporate participatory pension system have remained unchanged for the employees as compared to those established in the previous report³⁶.

The major component of the pension plan is a system of fixed contributions enabling employees to contribute part of their pay to the pension fund. At the same time, the Company also contributes the same amount, as contributed by the employee. The amount of contribution is unlimited. The employer's contribution covers the amount of the employee's contribution of up to 7% of his/her salary.

System Participants

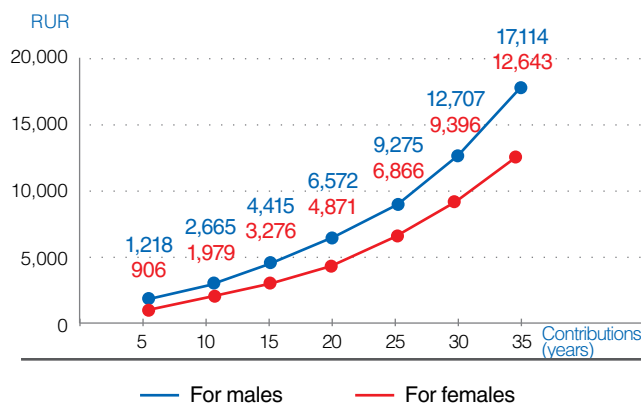
As of the end of 2008, 79,746 employees were actively participating in the corporate decreed pension plan, and 58,199 were involved in the corporate Shared Pension Plan.

Pension Funds

The average non-state pension, as of 2008, amounts to RUR 1,453. If compared to the basic component of the old-age work pension (RUR 1,794 as of August, 2008), the corporate non-state pension amounted to 81%. The following graph can be used to evaluate future non-state pension in the participatory corporate system.

The Company's participation will enable an increase in the pension of up to 60-80% of the employee's pay, if the employee has worked with the Company for 25-30 years.

Lifetime Non-Governmental Pension (at the monthly contribution of an employee of RUR 1,000)



Source: it's prepared on the basis of the Methodology for the implementation of the actuarial computations

Delivery of the Company's Pension Obligations

Pursuant to Item 7.16 of the Agreement between the Employer and OAO LUKOIL TUI for 2003-2008, the Company shall together with the Non-state Pension Fund LUKOIL-GARANT Non-for-profit Organizations ensure the application of a single non-state retirement system for all of its employees. The employer shall for this purpose ensure the timely accumulation of pension funds sufficient for the payment of non-state pensions to all the former employees of the Company and those of the appropriately entitled controlled entities, as well as provide all the employees with the practical opportunity of improving their non-state pensions by individual or share participation in the accumulation of pension funds.

As established by the Agreement, the Company shall deliver its pension obligations through the LUKOIL-GARANT non-state pension fund (hereinafter referred to as the Fund).

Non-state pension programs can, apart from the personnel of the Company, also involve other employees - subsidiaries and branch offices of the Fund currently operate in over 50 Russian cities, including almost all the regions of the LUKOIL Group organizations' operations.

Thanks to its investment strategy, the Fund has never violated its obligation to clients and has never suspended non-state pension payments. The overall volume of funds, distributed by the Fund in 2008 totaled RUR 534 million.

³⁶ Please see the Report on the Company's Sustainable Development in Russia for 2005-2006, p. 67.

Securing Fund's Obligations

At the end of 2008, RA Expert rating agency awarded the Fund with an A++ reliability index. The assessment of the Fund's reliability and its quality of service was based on the analysis of Fund's performance indicators: financial sustainability, pension savings and reserves, capability to be liable to investors. The Fund demonstrates a high level of protection for their clients' pension savings.

The property of the Fund, used to cover its liabilities, exceeds 37 billion rubles, which is 2.5 times higher than the cumulative pension obligations of the Fund.

Financial Sustainability and Investment Strategy

The Fund follows a conservative investment strategy, according to which funds are allocated into reliable instruments with stable

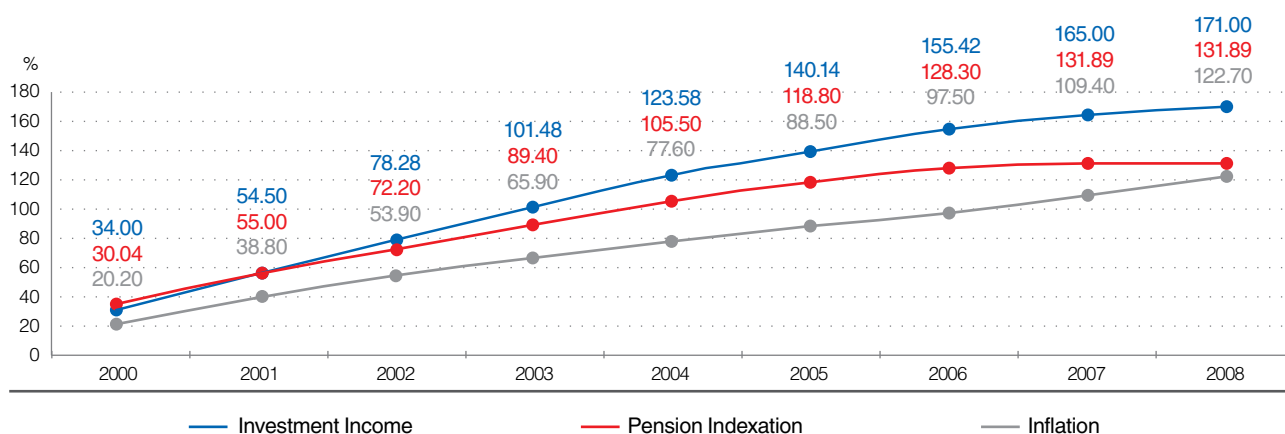
income. The Fund has never had super-high income indicators, which is why significant losses were avoided even in the time of the economic recession. In 2008, the Fund credited the accounts of participants with 6% per annum income.

The average annual profitability of allocating the pension reserve assets of the Fund in 2005-2008 reached 11.86%, which is higher than in Russian Pension Funds, and fully covers the average annual inflation for the same period.

The Fund also managed to protect its clients' assets from losses, preventing negative profitability in the sector of obligatory retirement insurance agreements.

The world economic crisis has undoubtedly had its effect on the sphere of retirement assets management. However, considering the recurring nature of financial market development and the long-term nature of pension assets, the Fund sees its primary objective in obtaining a stable income at the minimum investment risk for the middle and long term perspective.

Dynamics of accumulated Investment Income and Pension Indexation Compared to Inflation



Source: The Council of the non-state Pension Fund LUKOIL-GARANT

Year	Inflation (%)	Investment Income (%)			Pension Fund of the Russian Federation
		LUKOIL-GARANT Non-state Pension Fund		Accumulative Component of Obligatory Retirement Insurance	
		Non-state Retirement Insurance Pension Indexing	Income to Accounts		
2004	11.7	16.1	22.1	—	—
2005	10.9	13.3	16.56	12.07	8.71
2006	9.0	9.5	15.28	15.18	4.67
2007	11.9	3.59	9.59	9.53	4.99
2008	13.3	0.0	6.0	0.0	0.0

Source: The Council of the non-state Pension Fund LUKOIL-GARANT

Personnel Training and Development System

The level of personnel qualifications significantly affects the quality of management and business performance, which is exactly why investment into personnel training is just as important for the Company as are investments in other areas. The volume of investment in training and development is increasing each year.

The Company commenced the development of its "Petroleum Products Production" Standard in order to assist industry-specific educational institutions in improving the quality of specialist training (by modifying outdated educational standards and bringing education closer to real business processes). The Standard is based on the model proposed by RUIE.

In 2008, over 77 thousand employees received further vocational training, including:

- Extended higher education training programs – 273 individuals;
- refining-sector personnel - "Petroleum Products and Refining Processes", "Refining Economics and Management" workshops held by IFP Training and attended by 40 individuals;
- 32 employees of LUKOIL Overseas Holding Ltd. took the course "Country Studies – Columbia, Venezuela, Cote d'Ivoire, and Saudi Arabia" at the Diplomatic Academy of Russian MFA.



Key results for 2007-2008:

- The project for the development of a model of competencies for LUKOIL's executive positions and the formation of a talent pool is currently in progress.
- The most experienced and highly qualified managers (the best of the best) have been selected, and they will be used to develop the corporate competencies model.
- Please note that the development of personnel assessment techniques is also taking place.
- The integrated review and the developed competencies model were used to implement a pilot project on forming refineries' "mobile personnel" reserve.
- There is ongoing implementation of a project for the development of a system of assessment of professional and technical competencies of refining specialists in accordance with qualification levels established in the "Petroleum Products Production" Occupational Standard.
- Implementation of the distance learning system for employees based on cutting-edge computer technologies is also continuing.
- There is ongoing preparation of long-term specialists training "orders" for higher educational institutions which contains not only a list of areas of concentration, but also descriptions of key competencies required for future employees.

Personnel exchanges between the two companies within the Program of Strategic Partnership between LUKOIL and ConocoPhillips saw continuous development. Starting in 2005, 43 employees were interned with ConocoPhillips in different specialties. The fourth expert team (26 employees) is now undergoing an internship in the US. Two ConocoPhillips advisors are currently working for LUKOIL under a personnel exchange program.

Distance Learning

As of the end of 2008, 4,100 users are registered in the Distance Learning System. Starting 2008, the DLS portal offers 58 courses and 40 mini-courses, developed by LUKOIL's leading experts following the lead of the Main Division for Human Resources and OOO LUKOIL-INFORM.

15 LUKOIL Group's organizations and 9 major branches of OOO LUKOIL-INFORM are currently connected to the Distance Learning System, which enables an expansion of the knowledge management system base, the dissemination of corporate culture elements and the creation of a single information space.



Talent Pool Formation

Continuous selection of the most qualified, proactive personnel with high leadership-potential helps form the talent pool, and thus provides for the continuity of the Company's management.

In 2007 and 2008, 433 employees received training including 87 employees categorized as the "Talent Pool" who received training under MBA programs.

Number of Employees, Participating in Distance Learning, Individuals

2006	2008	Total
873	1,349	2,222

Source: Company data

Cooperation with Higher Education Institutions

The Company continued to actively cooperate with Russian higher education institutions. The following are the numbers of employees receiving training in 2008:

- 50 employees – MBA Program "Financial Management" at the Finance Academy under the Government of the Russian Federation;
- 27 employees – MBA program "Refining Businesses Management" at the Gubkin Russian State University of Petroleum Engineering;

- 92 employees – "Oil and Gas Business" program at the "Petroleum Business Institute" educational, information and research center. Our employees undergo annual preliminary training sessions at the Petroleum Business Institute, including country studies courses (the cultural of the U.S.), and take intensive English language courses, prior to their internship in the U.S. as part of personnel exchange programs between OAO LUKOIL and ConocoPhillips.

In 2008, 689 youths received education at higher education institutes under contracts made with LUKOIL Group organizations. Over 1,400 students and professors received training and underwent internship at the Company's process facilities.

The Company also continued to support students and young professors with financial grants. 170 students received a monthly allowance from LUKOIL, while 68 young professors from seven higher education institutes received grants. 71.9 million rubles was granted for the development of material and technical bases of higher education institutes and the improvement of the learning process.

The development and implementation of innovative educational programs under the "Education" national project, as well as the development of the scientific potential of higher education institutions also became one of the most important areas of cooperation. We grant our support to innovative projects, specifically to the one implemented by the Gubkin Russian State University of Petroleum Engineering "Virtual Oil and Gas Business". The partial financial assistance of the Company helped to create a virtual oil and gas processing facility – a training and scientific site of oil and gas equipment, with 5 wells, major equipment, a work-over simulator and an enhanced oil recovery laboratory in place. The training site is currently used for holding classes for students.



Cooperation with the Trade Union Association

Corporate social programs are implemented based on the principles set forth in the Company's Social Code and under terms governing social cooperation between the Company and the International Association of Trade Union Organizations (the IATUO or Trade Union Association) of OAO LUKOIL including LUKOIL Group organizations and their trade unions. This social cooperation system is based on a balance of the parties' interests.

Trade Union Association Trademarks

The IATUO currently numbers over 180 thousand people including members of trade unions of those companies that become non-affiliated as a result of reorganization (drilling and service companies), students and retirees. The IATUO trade unions operate in 34 subjects of Russia and in 6 countries: Azerbaijan, Bulgaria, Moldova, Romania, Serbia, and Ukraine.

During the 15 years of IATUO work, the employees' social and labor interests have been the focus of the Company's management and the IATUO Council which is key to successfully addressing production and social issues.

Social Cooperation Tools

Since 1995, this cooperation has resulted in 6 contracts entered into by the Employer and the IATUO which serve as a basis for making collective agreements. These contracts are governed by Russian labor law, the Social Code and industry agreements; they define the mutual obligations of the Company and its employees as pertaining to social and labor issues. Collective agreements should provide for guarantees and compensation no less than those set forth in contracts. These contracts and collective agreements are the basic cooperation tools.

In compliance with established practices, each new contract providing for social cooperation within LUKOIL contemplates obligations exceeding the level of social security of the employees regulated by applicable Russian law. Furthermore, terms and conditions of each new contract are more favorable than those contained in the previous one. In particular, it is manifested by an increasing number of employer's obligations: the 2000-2002 Contract contained slightly more than one hundred such obligations, while the contract signed for 2003-2008 provided for over two hundred obligations.

In 2007-2008, the fifth Contract was still in effect (validity period: 2003-2008). This document was signed in 2002 and further revised and extended in 2005. The Employer's obligations were amended while the Company was having hard times i.e. was going through a period of inflation surges. Yet, despite this, the obligation amendments tended to be positive.

Pursuant to its obligations under the contracts, the IATUO seeks to care for employees' social interests and concurrently form an up-to-date labor motivation and responsibility for its goals.



Current Situation

Given the economic instability taking place in the country and around the world at the present time, there is demand for new forms of cooperation between the employer and the IATUO. Lessons learned have become particularly important. For instance, in the 1998 default year the impact of the crisis was minimized due to joint effort undertaken by the Company and the IATUO. The parties were focused on ways of overcoming the crisis rather than on confrontation. Employees retained confidence in their future though there was a partial reduction in the planned volume of investment. After several years, the lessons learned were again taken into account.

In 2007, the IATUO Council initiated a round-table “On the Nature of the Current Situation and Social Policy Challenges” attended by the Vice Presidents and Heads of the Main Divisions and members of the IATUO Council. The joint review of the situation resulted in outlining ways of responding to the existing economic situation. Thus, social cooperation practices acquired new starting points, which were taken into account while preparing the sixth 2009-2011 Agreement which was brought into effect on September 17, 2008. The contents of the document are generally better than those of the previous one.

Some Cooperation Results

LUKOL's total costs relating to the implementation of social programs have more than doubled as compared with those in 2003.

Labor compensation showed a positive growth. In 2006-2007, the minimum wage rate applicable to first class employees corresponded to the minimum wage rate set out in the Industry Agreement.

The wage rate component as part of the wage amount was 60% and exceeded the requirements established by the Industry Agreement by 20%.

Every year the growth of the average wage within LUKOIL Group outran that of consumer prices. As compared to 2004, in 2008 the average wage rate increase was 1.8 times whereas consumer prices grew 1.5 times over the same period.

Please note the development of collective agreement practices: subsidiaries entered into 20 collective agreements in 1995-1997, into 32 collective agreements in 2000-2002 and into 42 agreements in 2003-2008.

Feedback

An integral component of the social cooperation system is the feedback that is implemented through quarterly meetings held by the IATUO Council and attended by executives of the Company and the LUKOIL Group organizations, meetings held by trade union committees and by annual conferences of employees. Open discussion of moot points and problems, collective critical view on the implementation of planned activities strengthen cooperation and help develop corporate potential. Conscious social responsibility manifests itself in this way at all levels.

Conferences held by employees, especially in single-industry cities, discussing the performance of collective agreements are normally attended by the heads of the local authorities.

International Context

The IATUO's operations are international in nature. The IATUO cooperates with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) encompassing 467 industry trade unions and 132 countries i.e. 20 million workers around the world. IATUO work is regulated by the Cooperation Agreement signed in 2004 by ICEM, Oil, Gas and Construction Workers' Union of the Russian Federation (OGCWU RF) and LUKOIL. This agreement is the only example of such cooperation in Eastern Europe. This presupposes that international labor, industrial and social standards will be further adopted. The

practice of applying the Agreement attracted the attention of experts from the International Institute for Labor Studies, International Labor Organization (Geneva, Switzerland) concerning Global Framework Agreements and Codes of Conduct in Transnational Corporations Established in non-EU Countries: Management Incentives and Constraints.

The following are the most important meetings and discussions taking place during the reporting period at the level of the Organization for Economic Cooperation and Development (OECD): the conference held in Trento (Italy) focusing on corporate social responsibility and local development, and the International Round-Table Conference on Corporate Social Responsibility at the Current Stage of Societal Development held in Moscow in December 2008. For more information please refer to Section 1, Sustainable Development: Key Focus Areas.

The joint effort undertaken by the Company and the IATUO is internationally approved of. For instance, at the ICEM forum held in Istanbul in 2008, LUKOIL was rated highly for developing its network of gas stations in South-Eastern Europe and for creating more jobs. This is particularly important in the light of the global crisis. Manfred Warda, ICEM General Secretary, expressed appreciation of the cooperation between the Company's management and the IATUO.

Corporate Culture and Sports

The Company and the IATUO successfully co-work on improving the level of cultural and physical personnel development.

The following are sports events which have taken place over the last five years: four sports contests, two folk festivals,

one tourist meeting, and the international contests entitled "Dad, mom and me - we are a sports family!" dedicated to the Year of the Family.

Please note the importance of such events as: ceremonial meetings with the presentation of government and department awards, the Company's Image parties, the meetings of long-service employees and young professionals.

One of the IATUO's initiatives is to hold professional skill contests and award the Best in Profession title. These contests enhance the prestige of blue collar jobs, create favorable morale and a positive psychological climate for personnel, drives up the introduction of the best labor practices and techniques, and eventually increase productivity. The fourth corporate professional skill contest was held in 2007 involving the employees of 10 oil and gas production companies, 10 refineries and petrochemical companies, and 18 petroleum product supply organizations. The overall number of key blue collars taking part in the contest (during its different stages) totaled 6,500.

Experience Sharing and Communication

All trade union development and social cooperation activities are described in the Social Cooperation Journal that has been published by the IATUO for a decade already. This Journal was regularly acknowledged and awarded at various contests. Thanks to this journal the IATUO has unique information and an analytical base related to national and business economics, workers' social security, and personnel teams under current conditions. This helps the IATUO define strategically verified steps and carry out up-to-date organizational activities..

OAO LUKOIL's Museum



Not only trade union activities but other Company's activities also focus on corporate cultural development. Such other activities include setting up museums.

In 2008, OAO LUKOIL established its Museum Council which marked a new stage in the development of the Company's museum-related activities. The task of the Council is to develop an integrated corporate museum policy. The Council includes representatives and structural units, heads of museums of the Company's subsidiaries and national museum specialists.

OAO LUKOIL's Museum (hereinafter referred to as the Museum) is an essential component of the corporate culture and is constantly improving the techniques and forms of customer services i.e. it regularly holds ceremonies dedicated to the acceptance of new employees to OAO LUKOIL's family, retirement send-offs, awarding ceremonies, and jubilee celebrations. Employees and guests express great interest in theme parties on Russian Oil Industry Legends: such parties have been attended by G. K. Petrov, a famous drilling foreman, descendants of the engineer V. G. Shukhov,

the scientist V. N. Shelkachev, and V. Yu. Filanovsky, the person behind the entire USSR oil industry.

The Museum's exhibition activities are abundant. Generally, the Museum's mobile exhibitions are dedicated to notable dates in the history of the national oil industry, anniversary celebrations of LUKOIL Group organizations and outstanding personalities in the industry. The inauguration of the memorial to V.G. Shukhov presented by the Company to the city of Moscow in 2008 was accompanied by the exhibition entitled "The First Russian Engineer" dedicated to the life and work of this outstanding Russian engineer. It was held in OAO LUKOIL headquarters and was further shown at the National Central Museum for Contemporary History of Russia. The attendees of POSTCARDEXPO-2008 international exhibition expressed vivid interest in the collection of the Museum's securities, historical documents, envelopes and post-cards. The Museum received an honorable award for this exposition.

The committed acquisition of museum assets helps describe the Company's history and that of the entire industry and



shows the continuity of best traditions and reveals the nature of the oil-man's job. Comprehensive study of museum exhibits involving historians, writers, journalists, and students puts such exhibits into a wider scientific circulation and allows the use of collected information for the writing of books, articles, and tutorials, creating movies, TV programs and excursion routes.

The Museum is expanding its cooperation with other cultural institutions i.e. Moscow Kremlin museums, the National Museum of History, Polytechnic Museum, the museums at oil industry universities, libraries, and archives. Cooperation with the National Central Museum of Contemporary History of Russia plays a special role. It hosts a permanent exposition on OAO LUKOIL, holds exhibitions featuring the Museum's holdings and implements joint cultural projects.

The Museum uses its base to hold trainings and workshops involving members of the Association of Science and Technology Museums of the Russian Committee of the International Council of Museums and colleagues from

various corporate museums located in the capital and other Russian cities. The Museum provides the opportunity to conduct studies on the history of the Russian oil business by strengthening ties with Moscow's higher educational institutions.

One of the key tasks is to use museums in the areas of the Company's operations to objectively represent the nature of its activities. LUKOIL organizations provide them with exhibits and materials and offer corporate assistance. Given the importance the Company places on museum activities its subsidiaries go on expanding the corporate museum network that currently comes to over 20 museums, regularly upgrades museum complexes, and equips them with modern multimedia facilities.

Expositions held by museums of OOO LUKOIL-Permnefteorgsintez and OOO LUKOIL-Nizhegorodnefteorgsintez" were reconstructed in 2008. Currently, OOO LUKOIL-Kaliningradmorneft and OOO LUKOIL-PERM have almost completed their own museums.



Sustainability Report
Russian Federation
2007–2008



Sustainable Development of Russian Regions

Our objective regarding the sustainable development of the Russian regions that are areas of operations of the Company's subsidiaries operate and social development is to achieve social stability and create the premises for further growth.



Company and Society

Our objective regarding the sustainable development of the Russian regions that are areas of operations of the Company's subsidiaries operate and social development is to achieve social stability and create the premises for further growth.

We seek to help heads the subjects of Russia to implement social, social and cultural, and environmental policies that locally and concurrently address the issues of LUKOIL's business development. Our contribution to social welfare includes projects and programs implemented by LUKOIL, its local subsidiaries and LUKOIL's Charity Fund which turns 15 in 2008.

Stance Taken with Regard to Social Investment

Some years ago, LUKOIL made the strategic decision to shift from non-systematic charity activities and partnership to integrated social investment. In our opinion, social investment means implementing a committed long-term policy aimed at addressing socially important issues. Such a policy provides for mutual investment of resources by all stakeholders and the mutual benefits for them. This accounts for the great attention given herein to the areas with LUKOIL companies' presence. We consider this approach to be efficient as it changes the planning horizon and scope and also allows the expectation that all stakeholders obtain visible and significant results.

Like all other types of investment, social investment requires professional skill. We try to go ahead, look for new opportunities

and pay attention to successful solutions developed by our colleagues, subsidiaries and regional authorities.

Our medium-term objective is to improve the efficiency of social investment. We wish to achieve that by maintaining high-priority areas of support (cultural heritage, health care, education, physical education and sports, and social support) and tools that ensure the most visible results such as contests of social and cultural projects and agreements of social and economic cooperation.

Tools Used to Implement Social Investments

LUKOIL continued actively develop relations with Russian regions in 2008. Agreements of social and economic cooperation were signed in all the subjects of Russia where key production facilities are located. [For more information please refer to 2008 Annual Report, page 73.](#)

Contests of social and cultural projects are held in 10 subjects of Russia. In 7 years the number of applications submitted neared 6,000; more than 1,000 social projects were implemented with their overall cost exceeding 200 mln RUR. In 2008 there was a 25 fold increase in the Contest budget as compared to 2002, and more than 300 projects selected from 1,600 proposals received grants. The Contest budget is formed at cost of LUKOIL's Charity Fund, its subsidiaries and grant applicants.

LUKOIL, its subsidiaries and the Charity Fund continue supporting programs for sponsoring orphanages, leading museums, and Russian cultural centers and implementing sports and publishing projects.

Budgets of the Social and Cultural Projects Contest, RUR mln

	2002	2003	2004	2005	2006	2007	2008	Итого
Perm Krai	2.0	5.0	15.9	25.4	48.7	27.6	28.5	153.1
Volgograd Oblast			1.4	1.7	2.3	2.9	2.7	11.0
Astrakhan Oblast				1.4	3.0	3.0	3.1	10.5
Republic of Kalmykia							1.9	1.9
Komi Republic				1.1	0.9	1.5	1.5	5.0
Western Siberia				1.5	2.5	2.5	2.5	9.0
Nizhny Novgorod Oblast						2.0	8.2	10.2
Kaliningrad Oblast							2.0	2.0
Total	2.0	5.0	17.3	31.1	57.4	39.5	50.4	202.7

Source: corporate data

Northwestern Federal Okrug

(Komi Republic, Nenets Autonomous Okrug, Kaliningrad, Arkhangelsk, and Leningrad Oblasts, and St. Petersburg)



The following are LUKOIL's major enterprises operating in the Northwestern Federal Okrug (NWFO):

Nenets Autonomous Okrug (NAO)

OOO Naryanmarneftegaz³⁷ is the Company's key production asset in NAO. The greatest field (Yuzhno-Khylchuyuskoye) has been developed by LUKOIL jointly with ConocoPhillips since 2008.

OAO Varandeyevsky Terminal. The company's key production activities include oil intake, storage and year-round tanker loading. The terminal's production facilities include onshore tank farm facilities, 2 subsea pipelines and a fixed offshore ice-resistant offloading terminal. The offloading terminal is a unique manned facility which allows year-round oil exports from the fields located in Timan-Pechora oil and gas province at Arctic high latitudes. The terminal is located on the coast of the Barents Sea.

Komi Republic

OOO LUKOIL-Komi operates in the Timan-Pechora oil and gas province (that encompasses Komi Republic and Nenets Autonomous Okrug) and has the largest resource potential of hydrocarbons in North-Western Russia. Some fields under development are beyond the Arctic Circle. The company's activities include field exploration, construction and development. The company also includes Usinsk gas processing plant and a service company. In 2007 OOO LUKOIL-Komi was delegated the responsibilities to manage and supervise production and business activities in the Komi Republic and NAO.

OOO LUKOIL-Ukhtaneftepererabotka is one of the industry's oldest and the most northern oil refinery in the country. 1934 saw its first products. The refinery is going to celebrate its 75th anniversary in 2009.

³⁷ 50% of the company is owned by OAO LUKOIL.

³⁸ The company's name is hereinafter contracted as OOO LUKOIL-KMN.



fuels at gas stations and petroleum storage depots located in four subjects of Russia (Komi Republic, Arkhangelsk Oblast, Nenets and Yamalo-Nenets Autonomous Okrugs).

St. Petersburg and Leningrad Oblast

OOO LUKOIL-Severo-Zapadnefteprodukt is the largest of the LUKOIL Group organizations in North-Western Russia that sells various types of fuels and oils produced at the Company's refineries through a retail and small wholesale network. The company operates in 7 NWFO subjects of Russia i.e. St. Petersburg, Leningrad, Murmansk, Novgorod, Pskov, and Kaliningrad Oblasts and the Republic of Karelia.

As a result of a reorganization in December 2008 **OOO LUKOIL-Severo-Zapadnefteprodukt** became the legal successor to OOO LUKOIL-Severnefteprodukt. Areas where OOO LUKOIL-Severnefteprodukt used to operate (Komi Republic, Arkhangelsk Oblast, NAO and YNAO) and are currently serviced by the Northern Branch of OOO LUKOIL-LUKOIL-Severo-Zapadnefteprodukt).

OAO RPK-Vysotsk "LUKOIL-II" is a distribution and transshipment facility designed to transport oil and petroleum products to Europe and the USA. This is the largest facility of such a kind in Europe.

Kaliningrad Oblast

OOO LUKOIL-Kaliningradmorneft³⁸ is one of the leading industrial companies in the Kaliningrad Oblast. In addition to its key activity (oil production) the company performs ocean towing, oil transshipment, produces mobile drilling rigs and constructs complex steel structures (D-6 offshore ice-resistant

platform, Varandey fixed offshore ice-resistant offloading terminal, etc.). Since 2008, the Company has been managing projects for construction of hydrocarbon offshore fields operated by LUKOIL Group organizations.

Komi Republic and Nenets Autonomous Okrug

Economic Role

OAO LUKOIL puts great emphasis on its operations in the Timan-Pechora oil and gas province and addresses the urgent regional development issues.

Share of taxes in consolidated budget revenues, %	Komi	NAO
LUKOIL-Komi	20	22
Naryanmarneftegaz		28,5



LUKOIL has the largest production volume in the region. The commercial operation of the Yuzho-Khylchuyu field began in 2008. It took the Company 2.5 years to construct a facility that is unique both in terms of the construction period and in its size and includes a central oil gathering facility, a power park and oil pipeline leading to the Barents coast.

Experts forecast a prospective increase in the share of low-extractability reserves in this region which will require the use of up-to-date and expensive technologies which are already being used by LUKOIL in Western Siberia and in the Volga Region.

Production: LUKOIL-Komi and Naryanmarneftegaz	2007	2008
Number of fields	55	59
including:		
Komi	43	46
NAO	12	13
Oil production, mln tn	14,6	16,7
including:		
Komi	6,4	7,6
NAO	8,2	9,1
Gas production, mln cu. m	863,1	966,0



The Ukhta refinery is fully capable of satisfying the demand for petroleum products in the Republic and supplies them to adjacent regions. The refinery commissioned its visbreaking unit³⁹ that will increase vacuum gasoil output by

reducing black oil production and contribute into improvement of the refinery's environmental safety levels.

Refining: OAO LUKOIL-Ukhtaneftepererabotka	2007	2008
Number of product types	30	24
Number of new product types	7	1



June 2008, saw the first bulk shipment of oil into a reinforced ice class tanker taking place at the Varandey Terminal. This was the completion of a large-scale transport channel construction project. It gives the opportunity of exporting oil with minimal costs through the shortest seaway to the European and North American markets and to preserve its quality.

Environment was specifically focused upon during terminal construction – its environmental safety system includes 3 levels of environmental protection.

Transport: Varandey Terminal	2007	2008
Petroleum products transshipment, mln tn	0.8	1.9

Source: enterprises data

Investments

The reporting period saw a high level of investments which favorably influenced the taxable base of the regions. Two development projects (Kartaelskoye and Usinskoye fields) are listed as High-Priority Investment Projects in the Komi Republic. Both projects are innovative in nature for the fields have complex geology.

Taxes to regional and local budgets, RUR mln	2007	2008
NAO	1,403.17	12,316.2
Komi Republic	3,627.8	31,431

Source: enterprises data

Sustainable Development – Public Recognition

OOO LUKOIL-Komi was the third place winner of the “Company of the Year” annual contest. The jury believed that despite the global financial crisis LUKOIL was the most stable company which is accounted for by the development of inland refining.

³⁹ Visbreaking is a process where tar oil (oil vacuum residues) is thermally processed and converted into gasoline and heating oil.

KEY CHALLENGES FACED BY THE OIL INDUSTRY IN THE REGION	LUKOIL'S STRATEGY AND PERFORMANCE
<p>Use production enhancement techniques</p>	<p>Annual increases in volumes of recovered hydrocarbons.</p> <p>Use of new production techniques.</p>
<p>Increase the associated gas utilization levels</p>	<p>The goal is to increase the associated gas utilization level to 95%.</p>
<p>Develop transportation</p>	<p>The project for the construction of the first Russian private offshore oil terminal in Varandey on the Barents coast.</p>
<p>Increase hydrocarbon refining volumes in the region</p>	<p>The Ukhta refinery was upgraded and consequently the conversion ratio reached 82.6%. The Company plans to double the refinery's capacity and increase the conversion rate to 95%.</p>

The results of the "Well-Doer of the Year" republican contest show that for two consecutive years OOO LUKOIL-Komi has been one of the leaders in Social Partner category.

Company's Involvement in the Life of the Regions

Three-Level System of Social and Economic Cooperation

A three-level social cooperation system is a distinctive feature of our activities in Northern Russia. This is the model of governmental interfaces tested by OOO LUKOIL-Komi⁴⁰. This model is quite popular. The local authorities propose other companies operating in the Komi Republic to apply a similar approach.

In 2007, OOO LUKOIL-Komi was delegated the social responsibilities at NAO where it started to use this three-level system. Agreements define both individual sites that require the Company's support and other areas of cooperation. For instance, agricultural support is a priority in Izhma and Ust-Tsilma municipalities.

Support to Peoples of the North

As OOO LUKOIL-Komi operates in NAO it is responsible for preserving the lifestyle, cultural and spiritual heritage of native minorities living in the Far North. The reporting period saw performance OOO LUKOIL-Komi's obligations to five reindeer farms that signed mutual cooperation agreements with the company.

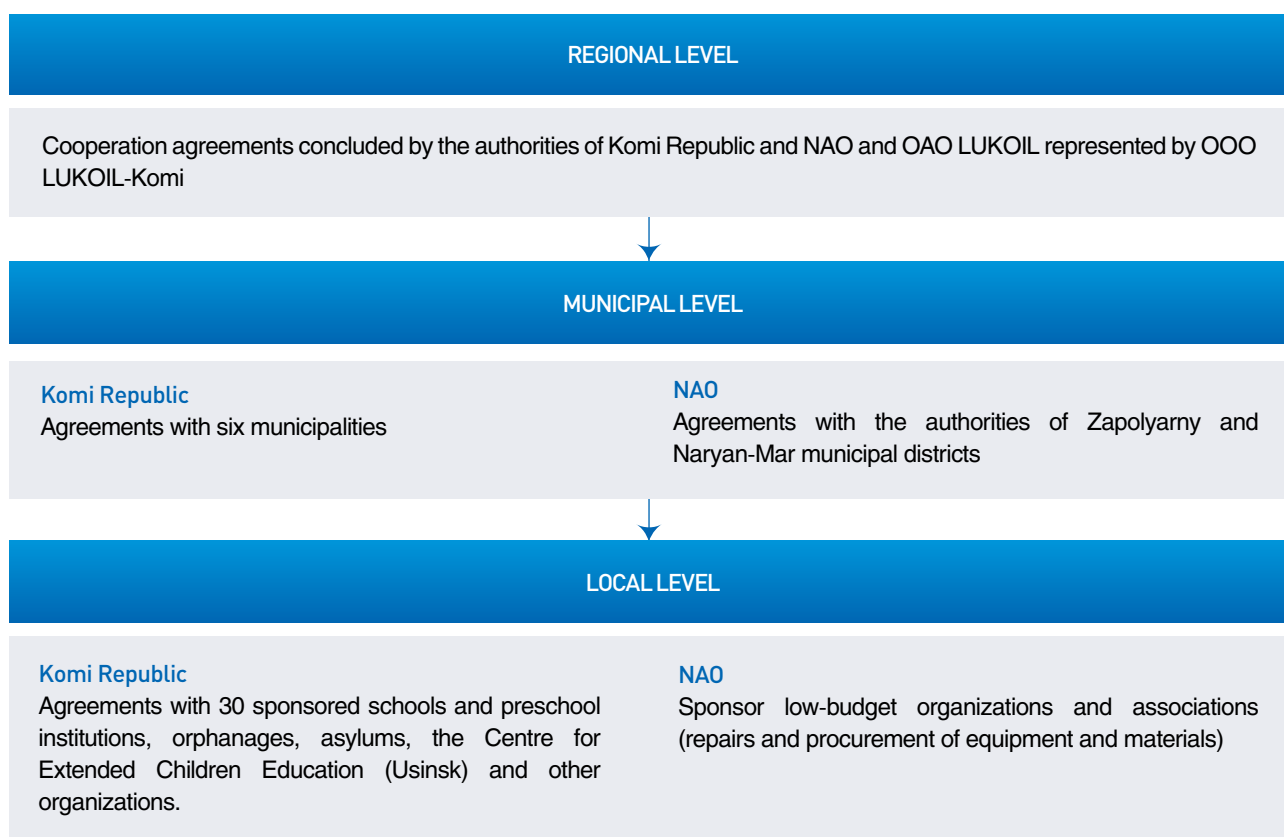
"The Company has created a unique, unparalleled anywhere in the world offshore system for transporting oil beyond the polar circle".

V. Alekperov,
CEO and President of LUKOIL



⁴⁰ The model was introduced in 2005; its contents are described in the first and second Sustainable Development Reports.

Three-Level Cooperation Model



Red Rawhide Tent Project

OOO LUKOIL-Komi in cooperation with the authorities of NAO's Zapolyarny district and Total PPP implemented the 1 stage of Red Rawhide Tent joint project aimed at improving the health of nomads living in Bolshezemelskaya tundra. Project contributors included medics that were transported by helicopters to carry out general medical checkups and laboratory tests. Out of 110 individuals examined 69 individuals were detected to have disease symptoms. They all received treatment and additional examination recommendations and were given the necessary medicines. First aid kits were given to each reindeer farm team whose employees underwent the aforementioned checkups.

dealt with the patriotic and environmental education of teenagers, environmental culture development, preservation and promotion of cultural values, and creation of information resources. For further information please visit the Company's web-site http://www.lukoil.ru/static_6_5id_263_.html

Contest of Social and Cultural Projects	2007	2008
Number of proposals submitted	32	15
Number of financed projects	6	6

Source: enterprises data

Support of Organizations and Initiatives

A key issue of our 2007-2008 activities was to document and control implementation of social and charity programs not included into three-level system agreements.

Social Project Contest

The fourth and the fifth contests were held in 2007-2008. The scope of the contest was extended to include NAO organizations and institutions. Each contest had six winning projects. These projects were submitted by the departments of municipal authorities, folk associations and hobby clubs, secondary schools and public organizations. The most interesting projects

Environmental Protection

The key obligation taken by LUKOIL while operating in the northern regions is the one of environmental protection and efficient nature management. The issues that are urgent for the Komi Republic and NAO include the reduction of atmospheric pollution (including associated gas utilization), development of an up-to-date system of industrial and domestic waste collection, its recycling and disposal.

Over a number of years we made every effort to properly respond to a huge oil spill. Most work has been done, however there are certain operations going on in individual areas. In 2007 more than 52 hectares of oil-polluted lands were reclaimed in Usinsk

district. In four years (2004-2007) we managed to reduce pipeline depressurization level exiting in Usinsk district. Only in 2007 the Company overhauled 38 km of pipelines at its sites and reconstructed 33 km of its oil pipelines.

OOO LUKOIL-Komi undertook to utilize 95% of associated gas, reconstruct the gas processing plant equipped with sulphur removal units and construct gas pipe lines from Yuzhno-Shapkino, Bayandyskoye, Sevro-Kozhva and Yuzhno-Kyrtaelskoye fields by 2011. A waste collection and disposal site will be constructed at Inzyreyskoye field (NAO); sludge storage sites will be constructed at two other fields. The total oil sludge recycling capacity will be 35 ths tn per year. 117.5 hectares of oil-polluted lands and 1,416 hectares of disturbed lands will be rehabilitated.

Biodiversity

OOO LUKOIL-Komi has adopted a program intended to increase fish stock in the northern Usa and Kolva rivers in order to maintain the biological balance and conventional fishing of the locals. This program has been implemented in cooperation with the Institute of Komi Biology at the Research Centre of the Urals Department of the Russian Academy of Science. The initial project stage was that in Usinsk district local fishermen and employees of a fish-rearing company collected grayling spawners in the Usa and Kolva. The spawn collected was delivered to Sosnogorsk fish nursery for further incubation and the breeding of young fish. The young fish that were bred can feed in a natural environment on their own and it was planned that they be released to rivers annually. 200,000 young fish were released in 2007-2008.



Stakeholder Interfaces

Design and development of oil production facilities include public hearings. We appreciate opinions expressed by specialists, representatives of governmental authorities, environmentalists and public organizations while searching for balanced solutions of environmental and economic problems. In 2008 OOO Naryanmarneftegaz held three public hearings (on hazardous waste management system; offshore seismic prospecting; environmental and process safety of the project aimed at constructing wells at Yareyuskoye field).

Environmental Culture and Urban Improvement

Mokhcha secondary school was awarded a grant for its participation in the Social and Cultural Projects Contest. It developed and implemented an integrated innovative education program entitled "We are Izhma Residents". One of the program's areas includes the Green Path club activities contributing into children's environmental education and preservation of the unique greenwood "Pron Ivan".

Holidays with OAO LUKOIL

More than 200 gifted students, including the winners of school and municipal academic competitions, and arts and sports contests held in Izhma, Pechory, Sosnogorsk, Ust-Tsilema districts and in Ukhta and Usinsk went to Moscow during their summer holidays and to St. Petersburg during the winter break. These tours were organized by OOO LUKOIL-Komi.

Event for Orphans

On New Year's eve, the Council of Young Professionals, OOO Naryanmarneftegz, set up an event aiming to collect money and gifts for Naryan-Mar orphans. The company's employees brought gifts to the Baby Orphanage, a forest-resort school, a Preschool Orphanage and to a boarding school (developmental games and toys). Such events become a corporate tradition and they are held during the year.

Come Together! Art Group Festival

This Festival was held under the auspices of OOO LUKOIL-Komi in cooperation with municipal authorities. It promoted development of local art groups and experience sharing. It also attracted the attention of local residents and opened various opportunities to get involved into cultural life. The

festival's first stage included selection contests held at palaces of culture and municipal clubs; then winning teams took part in gala concerts held in Usinsk. The final stage of the event included sending the teams on tour to various cities and districts of the Republic.

Handicapped Children and Large Family Projects

OOO LUKOIL-Komi provided targeted assistance to such families in Komi Republic and NAO taking account of the needs of each handicapped child and each large family.

“Live a Sporty Life” All-Russian Charity Event

Dedicated to 10th Anniversary of LUKOIL's Sports Club

The event's goal was to develop children and youth sports. Professional ski equipment was given to the inmates of the Katolikov Orphanage in Syktyvkar. Furthermore, children had an opportunity to communicate with L. Egorova, sixfold champion in ski racing.

Nikolay Pankratov and Olga Rochea, active sportsmen, were granted certificates entitling them to purchase 2 tns of gasoline.

In addition to this campaign the Republican Ski Federation, the Sports Agency of Komi Republic and OOO LUKOIL-Komi signed a cooperation agreement under which the oil company allocated RUR 1 mln for the development of ski sports in Komi.



Kaliningrad and Leningrad Oblasts

Economic Role

Our activities in the NWFO, being the largest transit centre which connects Russia and Europe as well as other countries, are totally in line the the strategy for the development of North Western Russia.



The key producing site in North Western Russia is the Kravtsovskoye field. Following the first production at the field, the production volume in September 2008 reached 3 mln tn.

Production: OOO LUKOIL-Kaliningradmorneft	2007	2008
Number of fields, pcs	27	26
Oil production, mln tn	1.4	1.4
Gas production, mln cu. m	15.3	16.3

Source: enterprises data



In 2008, 3705.2 ths tn of oil and petroleum products were transhipped at LUKOIL's integrated oil terminal located in Izhevskoye settlement. 870 ths tn of oil owned by OOO LUKOIL-KMN were transhipped.

Developing a transportation hub ensuring transshipment of oil cargoes through RPK-Vysotsk meets the goal of security of petroleum products supplied to foreign consumers and helps address economic issues given the fact that oil production is gradually shifting to new areas – primarily to the north of the country. The use of this terminal allows to reduce the transport component of the product price, and yet calls for solving of environmental and social problems.



Transport: RPK-Vysotsk LUKOIL-II	2007	2008
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Transshipment of petroleum product, mln tn	11.7	12.6
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Source: Company data



LUKOIL-II petroleum product distribution and transshipment complex located on Vysotsky Island is among the world's most up-to-date terminals in terms of its equipment and environmental safety. Petroleum products are generally transported to the distribution and transshipment complex by rail (a minor part is delivered by sea during summer navigation). LUKOIL-II distribution and transshipment complex is the largest facility among Europe's other sites using a similar scheme in their operations. The terminal includes three railway discharge racks (two of them are heated ones) servicing 216 cars at a time. The offshore part includes three process docks (one is used to service river/sea vessels). 25 reservoirs are used to receive and store cargoes.

LUKOIL's network of gas stations is the largest in North Western Russia; most of these stations operate in St. Petersburg. The network is expanding to adjacent regions thus bringing new services and improved business quality to them. The first unmanned gas station was built in the Republic of Karelia. It is an environmentally sound facility. There are plans to build new-format gas stations along federal highways.

All of the gas stations sell only high-quality fuels (Euro-3 gasoline and Euro-4 diesel). OOO LUKOIL-Severo-Zapadnefteprodukt is actively developing the network of its own petroleum storage depots.

Plans

The Company plans to build a bottled liquefied gas plant in the Leningrad Oblast. Its also plans include the fourth phase construction of the Vysotsk exports terminal.

Sustainable Development – Public Recognition

At the end of 2007, the St. Petersburg's authorities awarded OOO LUKOIL-Severo-Zapadnefteprodukt "The Best Taxpayer" title.

Company's Involvement in the Life of the Regions

Key areas of cooperation with the St. Petersburg authorities include supplies of high-quality petroleum products and sales thereof by LUKOIL, the construction of new environmentally friendly gas stations in the city, implementation of joint social and economic programs including urban infrastructure development and employment projects.

The agreement between the Company and the St. Petersburg authorities provides for the increase in the efficiency of the fuel and power industry of Leningrad Oblast, sustainable deliveries of fuels and lubricants to companies, institutions and individuals, and improved environmental quality. Cooperation will also cover railway infrastructure near LUKOIL-II distribution and transshipment complex at Vysotsk to maximize freight traffic.

Sports

OOO LUKOIL-KMN supports professional and amateur sports teams, finances competitions, takes care of older sportsmen, and supports outstanding sportsmen.

An essential part of the corporate social projects includes programs aimed at promoting healthy lifestyles and physical culture among the company's employees and their families: they can attend a sports club and take part in sports competitions.

"LUKOIL has been actively cooperating with the St. Petersburg authorities for more than 10 years... During the foregoing period the parties have fully performed their obligations. I am sure that a new program of cooperation until 2012 will also be successfully implemented to the benefit of the Northern Capital's people and the Company's shareholders".

V. Alekperov,
CEO and President of LUKOIL

"The presence of a globally famous company in the region has a positive influence both on the Oblast's image and helps resolve social issues".

V. Serdyukov,
Governor of Leningrad Oblast



The company maintains its own tradition i.e. supports new sports types that are popular with youth and promotes sports with Kaliningrad residents e.g. Kaliningrad beach football team (footballer Evgeny Kets was awarded the Discovery of the Year title).

OOO LUKOIL-Severo-Zapadneferprodukt supported SKA-St. Petersburg hockey club.

Science and Culture

The Company's subsidiaries operate in the regional finance science and cultural institutions. For instance, in 2007 the World Ocean Museum located in Kaliningrad Oblast hosted an exhibition dedicated to oil production in Kaliningrad Oblast. Oil production equipment, core samples, and documents were transferred to the museum holdings. In 2008 a beam-pumping unit was presented on the occasion of Oil Worker's Day. In 2007 OOO LUKOIL-KMN provided charitable assistance to Kaliningrad Museum of History and Arts which is the Oblast's oldest and principal museum, and the Gallery of Arts. Furthermore, the Company constantly supports the International Chamber Singing Competition entitled "Amber Nightingale"⁴¹. The competition program includes chamber vocal songs only. Over the years of its existence the competition became known to musical community.

OOO LUKOIL-Severo-Zapadneferprodukt's initiatives are approved by the Company's top management. In 2007, V.Yu. Alekperov, CEO and President of OAO LUKOIL, personally gave a Steinway piano to the city's cathedral.

Social Projects

Our companies traditionally support child-care institutions. Some St. Petersburg organizations constantly receive targeted assistance from OOO LUKOIL-Severo-Zapadneferprodukt. They include Mehta social hotel, K. Grot boarding school No.1 for blind and visually challenged children, the Association of Under-Age War Veterans of the Last War Draft, and Orphanage No. 31.

The company provided assistance to the war veteran hospital and Kaliningrad Navy Officers' Club in the Kaliningrad Oblast. The company transferred money to Red Cross organization to implement Home Care program, to the Baltic Navy Principal Hospital, the Regional Blood Transfusion Station and the Association of Handicapped People of Baltic District in the town of Svetly to provide emergency assistance for handicapped people in great need.



⁴¹ The Competition was founded by The Ministry of Culture and Mass Communications of Russia, the International Association of Musicians, the Russian Copyright Association; the Russian Composers' Association; Kaliningrad Major Council, and Valery Aliev's drama school.

Supporting Organizations and Initiatives

Contest of Social and Cultural Projects

In 2008, the first LUKOIL's contest of social and cultural projects was held in Kaliningrad Oblast. This event made true the wishes expressed by the participants of Public Dialogue in 2007. The Company took account of submitted proposals: they were contained in the contest categories and used as criteria to select winners.

Contest procedures take account of the lessons learned in other regions where LUKOIL contests are held. At the first stage the Experts Council reviewed submitted proposals and gave its written opinion on each proposal based on the project's conformity to the contest terms, its public importance, and the expertise of the author. 12 participants received grants based on the contest results. The implementation of these projects in the Oblast resulted in environmental activities, as well as activities aimed at developing children's youth football and children's yachting while reconstructing sports grounds and facilities. Using the grant the Central Municipal Hospital acquired facilities used to train joints and required for patient rehabilitation. [For further information visit the Company's site http://www.lukoil.ru/static_6_5id_263_.html](http://www.lukoil.ru/static_6_5id_263_.html).

Contest of Social and Cultural Projects

Number of proposals submitted	52
Number of financed projects	12

Source: enterprises data

Environmental Performance

Kravtsovskoye Field (D-6 Project)

The reporting period's landmark event was the adoption of the Environmental Protection Plan for the Baltic Sea (adopted at the meeting of HELCOM heads of delegations held in Krakow on November 15, 2007). Actually, the plan included zero discharge technology applied by LUKOIL that should be viewed as a benchmark by other industrial companies operating in the Baltic Sea. This document is binding upon all the member states of Helsinki Convention: companies producing oil on the Baltic shelf should start to apply the zero discharge technology in, or prior to, 2010.

The Kravtsovskoye oil field is located 22.5 km off the Kaliningrad Oblast coast. The sea depth within the field is 25-30 m. An offshore fixed ice-resistant platform is used for the drilling and oil production. The offshore platform uses only those production processes that are based on the zero-discharge principle i.e. all industrial and domestic waste is transported onshore for further recycling and disposal. There is a 47.3 m underwater pipeline going from the platform to

the coast. It transports a blend of crude, associated gas and water to the Romanovo oil gathering station where the crude is processed into stock-tank oil. The stock-tank oil is fed through onshore underground pipeline to the integrated oil terminal located in Izhevskoye settlement wherefrom it is transported to consumers.

In compliance with its sustainable development concept OOO LUKOIL-KMN continues monitoring the whole South Eastern Baltic Region and primarily the Kurshskaya Spit which is a natural site. Review of the monitoring data involves the use of three categories: offshore, onshore and satellite monitoring. The Company's offshore monitoring operations are conducted using the vessels of the Ocean Science Institute and the Atlantic Research Institute for Fisheries and Oceanography. 2008 saw the installation of two ocean-bottom stations (near D-6 Platform and along the pipeline route). European and Canadian space agencies deliver satellite data on-line. The data is processed in Norway. Images show all oil spills in the areas of environmentalist concerns. Onshore studies are predominantly performed on the Kurshskaya Spit. This integrated monitoring performed since 2004 shows that oil production at D-6 does not adversely impact the Baltic Sea environment. [Visit the Company's site http://www.lukoil-kmn.com](http://www.lukoil-kmn.com) for full 2003-2007 monitoring data.

The Kurshskaya Spit environment is a constant issue of concern for international governmental and supranational organizations such as UNESCO to where LUKOIL sends its annual reports.

Environmental Culture and Urban Improvement

Young people living in Kaliningrad and the Kaliningrad Oblast annually take part in voluntary land improvement and decontamination activities intended to preserve the Kurshskaya Spit national park. In 2008 10 working environmental teams made up of approximately one hundred of people took part in such activities. LUKOIL's team was the biggest one. The Council of OOO LUKOIL-KMN's Young Professionals was awarded a respective diploma of the event.



Another example of volunteering activities of the company's personnel is the cooperation of experienced geologists with the Young Geologist School of the Kaliningrad Regional Department of the Geological Association of Russia.

Two winning applications among those submitted for the contest of environmental social and cultural projects were as follows:

Protection of the Kaliningrad Oblast's Minor Rivers against Pollution and Depletion and Landscaping with a View to Arranging Recreation Areas: Motyl Stream (developed by Sosnovaya Usadba (Pine Estate) rest home for elderly and disabled people).

Project participants cleaned up the stream bed, reinforced its slopes, built a walking path, and planted ornamental bushes and river plants. They also held research-to-practice and educational conferences, a photo contest named "Streams of Our Region", as well as an artists' contest named "Drawing the Motherland Nature", etc.

Active Dunes of Kurshskaya Spit is a Natural Geological Landmark (developed by Kaliningrad Regional Department of RosGeo Public Organization).

Project participants studied and prepared documents based

on which active dunes of Kurshskaya spit can be awarded the status of a natural geological landmark that will become an extra tool in protecting this unique site.

Social and Marketing Events

Victory Day

OOO LUKOIL-KMN annually congratulates veterans of the Great Patriotic War and assists in the organization of the Victory Day events. In 2007, the company organized a St. George's Ribbon event during which the company's personnel transferred money to war veteran care institutions. The company also held a festival and concert of the Baltic Navy Song and Dance Group dedicated to Victory Day. It also assisted in reconstruction of the monument to those fallen in the Battle of Friedland and in June 2007 it organized festive events to commemorate the 200th anniversary of the Battle.

Day-Off Discounts

OOO LUKOIL-Severo-Zapadnefteprodukt uses its gas stations located in various regions to hold a marketing campaign - as of January 2009 the campaign involves 115 gas stations.



Social and Marketing Events in the Central Federal Okrug

Joint Campaign by OOO LUKOIL-Centrnefteprodukt and PEPSI

The campaign took place in 2007 and covered such cities as Moscow (at 36 gas stations), Kursk, Smolensk, Lipetsk, Tula, and Tver (at 41 gas stations). Under the terms of the campaign each motorist that bought fuel got a small prize and a participation coupon. The campaign also included awards for the best cashiers at gas stations.

TEBOIL Promotional Campaign

As the Company acquired a new brand i.e. Teboil oil in April 2007 - May 2007 customers that bought any oil of that trademark got small presents i.e. LUKOIL car care wipes. Also, customers that bought TEBOIL oil became participants in an art contest with the grand prize being a year's supply of ECTO fuel (200 liters).

Joint Campaign by OOO LUKOIL-Centrnefteprodukt and OAO LUKOIL-Inter-Card – "Winter Fun in Gridlocks"

Motorists that bought at least 30 liters of fuel got LICARD discount cards and could take part in a creativity contest. The 10 participants that got the biggest number of scores were invited to the prize-awarding ceremony. Vadim Antsiforov, IT-Director of a private company in Khimky, got the grand prize i.e. Peugeot 307. The silver prize (2008 liters of ECTO fuel) was given to Alexandr Petrov, driver; the bronze prize was given to Ekaterina Bulycheva, Marketing Expert at the International Linguistic School Network. Six more people won the campaign (for their names go to the Company's site). They got football balls signed by Spartak footballers (Moscow).

"Honestly, I was surprised. I didn't believe in my luck to the bitter end. Now, driving a new Peugeot 307 I am pleased with a rich set of equipment for the car that was presented by the contest organizers. I will take part in the Company's contests again"

Vadim Antsiforov

The Contest Named "Join the LUKOIL Team! Win a Trip to Beijing!"

The contest was held in 2008 in Moscow and the Moscow Oblast. Over 45 thousand people took part in the contest. 5 of the most active participants that fueled up with 305 liters and created the best Olympic songs got 2 tickets for a trip to Summer Olympic Games in Beijing.

Joint Campaign by OOO LUKOIL-Centrnefteprodukt and AvtoMir Journal Dedicated to the Magazine's 10th anniversary

The campaign was held at the most popular gas station located at Olympiysky Avenue in February 2008. Over 100 motorists fuelled their cars free-of-charge during this campaign. Anniversary journal issues signed by the chief editor and editorial staff were presented to all customers of the gas station. Furthermore, each reader of the anniversary issue had an opportunity to win 100 subscriptions to the journal and 100 car TV-sets. The grand prize was a 10 year subscription to AvtoMir Journal!

National holidays

Several times a year OOO LUKOIL-Centrnefteprodukt uses its gas stations to organize events dedicated to national holidays. For instance, customers get St. George's ribbons on Victory Day; flowers and small gifts are given to female motorists on International Women's Day celebrated on March 8; and souvenirs are given to male motorists on the Defender of the Motherland Day celebrated on February 23.

Improving Service Quality

Initiated by OOO LUKOIL-Volganefteprodukt's management, the Best LUKOIL Gas Station Competition is quarterly held in the Vladimir Oblast. First the sales managers and then a competition committee evaluate the work of the gas station's personnel. The findings of the gas station inspections that were conducted during the quarter are also taken into account.

Urals Federal Okrug

(Sverdlovsk and Tyumen Oblasts, Khanty-Mansi and Yamal-Nenets Autonomous Okrugs)



The following are LUKOIL's major enterprises operating in the Urals Federal Okrug:

OOO "LUKOIL-Zapadnaya Sibir" is the Company's key oil producing enterprise engaged in the exploration and production of hydrocarbons, gas processing and oil refining.

OAO "RITEK" (Russian Innovative Fuel and Energy Company). The key focus of the company's operations is on development of oil deposits in Western Siberia and the Republic of Tatarstan, production of oil using innovative production enhancement techniques, comprehensive techniques facilitating the efficient development of low-extractability reserves; the development, production and introduction of technologies and chemicals, up-to-date equipment and machinery. The company uses over 60 innovative technologies and development systems that were developed both by its own personnel and by external organizations.



Economic Role



The region belongs to the category of regions that have a long development history. Currently, most oil reserves are structurally very complex, and therefore further maintenance of the existing production levels entails increased financial spending and power consumption. LUKOIL uses cutting-edge technologies and develops electric power generation business sector to address these issues.

Innovations

OAO RITEK is implementing innovative projects being an effective alternative to standard oil field development and oil production techniques that call for substantial investment. New technologies and up-to-date equipment developed and produced by OAO RITEK's engineering subdivisions

	OOO LUKOIL-Zapadnaya Sibir		OAO RITEK	
	2007	2008	2007	2008
Oil production, mln tn				
Khanty-Mansi AO			0.9	1.1
Yamalo-Nenets AO	53.2	50.7	1.1	1.0
Gas production, bln cu.m:				
natural gas	7,824	8,442	85,261	94,498
associated gas	3,018	2,882		

Source: enterprises data

contribute into higher reliability and environmental safety of oil and gas production and allow to more efficiently and safely develop complex fields and reduce the adverse environmental impact. In 2007 the volume of oil production underlain by the application of the innovative component totaled almost 60% of the overall production volume.

Percentage of tax payments to consolidated budgets of the subjects of Russia	2007	2008
OOO LUKOIL-Zapadnaya Sibir	12.60	11.98

Source: enterprises data

Electric Power Generation

72 MWt is the capacity of the LUKOIL's largest in-house power generation plant i.e. the Vatyegan gas-turbine power plant. The power plant's designed capacity will suffice in satisfying more than 50% of the electric power demand from the Vatyegan field. Another 48 MWt gas-turbine power plant was put into commercial operation at the Tevlisnk-Russkinsk field thus eliminating the power shortage existing at this large and rapidly developing field. Gas-turbine power plants run by associated petroleum gas. Therefore not only is the Company implementing its strategic plants but it's also performing efficient resource management obligations.

Gas Production

Development the Bolshekhetskaya depression's gas deposits has been a major contributor to hydrocarbon production growth in the last two years. The Yamalo-Nenets AO's gas fields will be a key contributor to production growth in the Urals Federal Okrug.

Utilization of Associated Petroleum Gas

A gas-compressor station has been commissioned at the Severodanilivsoye field which will enable us to utilize over 500 mln cu. km of associated petroleum gas from the Talnikovoye, Severdanilovskoye and Danilovskoye fields.

There is a gas compressor station operating at the Severo-Pokochev field. Reaching the station's designed capacity will help to fully solve the issue of utilizing associated petroleum gas from all of TPP Pokachevneftegaz' fields. The station's capacity exceeds 300 thousand cu.m of gas per day. The annual pumping volume will come to a total of approximately 115 mln cu.m of hydrocarbon raw stock. Thus, the field's associated gas utilization rate has reached its peak of 98%.

Moreover, a gas-compressor station was put into operation at the Severo-Gubkin gas-condensate field. 1 bln cu.m of gas gathered at the site is fed to OAO Gazprom's gas pipeline system. In 2004 at the time of acquisition of OAO Geolbent's assets (that also included Severo-Gubkin field) by OOO LUKOIL-Zapadnaya Sibir, the associated petroleum gas rate was 4%, whereas the current ratio is 96%.



Company's Involvement in the Life of the Region

Following the principles of the Company OOO LUKOIL-Zapadnaya Sibir is involved alongside the authorities of the subjects of Russia and the municipalities in the implementation of social initiatives based on provisions contained in the Cooperation Agreements.

Major Projects

OOO LUKOIL-Zapadnaya Sibir has performed its obligations under 2007-2008 agreements:

- Construction of a 9-storeyed apartment complex in Kogalym, the commencement of construction of two 3-storeyed apartment complexes, reconstruction of the Neftyanik (Oil Man) club, major repairs of cable lines in the airport and planning of capital repairs operations to be carried out in the air terminal buildings.



- Completed construction of a 72 apartment complex, construction of a municipal hospital and reconstruction of an outpatients' clinic is almost over, capital repairs of secondary school No. 4, commissioning of the Delfin (Dolphin) aquatic sports complex.
- An apartment complex built and another one designed for construction in the Pokachi settlement.
- Construction of a children's polyclinic continued in Urai, the commencement of the reconstruction aimed at converting school No. 8 into a kindergarten, as well as the provision of financial assistance to ensure the safety of flights at OAO Aeroport Urai.
- Construction of a dental clinic in the Mezhdurechenskiy settlement, Kondinsk District, reconstruction of water intake facility No. 1, commissioning of a solid domestic waste disposal landfill, construction of a power transmission line in the Ushya settlement lying within the range of Mulymya, Chantyrva and Nazarovo settlements, together with performance of road construction work.

- Opening a municipal stadium in Sovetskiy.
- Two apartment complexes for the indigenous population in the Agan settlement, Nizhnevartovsk District, have been constructed and people have moved in.



- Completed construction of power transmission lines and a transformer substation in the Krasnoleninskiy-Urmaniy settlement, Khanty-Mansi district, reconstruction of power lines and a substation in the Kedrovyy settlement.
- Construction of four apartment complex in the Nakhadka settlement, Tazov District.
- Construction of a modular boiler house in the Samburg settlement of the Purov district, completed repairs of a bakery.

OOO RITEK's priorities include other projects focusing on assistance to war veterans and disabled war veterans, medical care institutions, children's and cultural facilities: repairs and re-equipment of comprehensive and vocational educational establishments and kindergartens in Tyumen and Nadym; the purchase of medical equipment and pharmaceuticals for outpatient's clinics and hospitals. Another emerging tradition is the giving of gifts to children in orphanages.

Handover of Community Facilities

On a free of charge basis, OOO LUKOIL-Zapadnaya Sibir transferred the ownership of the facilities previously owned by it (a hotel, bus terminal, cultural and sports complexes as well as a culture center) to Yugra's municipal and regional authorities. Still, we have retained the obligation to support the aforementioned facilities until 2010. After 2010, all financial liabilities will be assumed by the local budget. One of the provisions contained in the agreement stipulates that the municipal authorities continue employment of the facilities' personnel.

Support to Peoples of the North

We are continuing to perform our agreements made with tribal communities⁴². Another form of support for national traditions is to hold social and cultural project contests. The following projects have been supported during the reporting period:

- "National Cultures Festival": the residents of Kogalym were made familiar with a variety of national crafts and trades of nationalities populating the town; exhibitions and workshops were also held.
- "Yugra – Land of the North": An ethnographic center was created in Langepas offering workshops on applied and decorative arts of the Khanty people, and extra-curricular classes in regional ethnography.
- Pokachi's Youth Creativity Center set up a hobby group engaged in the development and manufacture of khanty-styled souvenirs.
- Langepas' school No. 5 started an ethnographic museum "Yugra – Land of the North".



OAo RITEK also enters into mutual cooperation agreements with the authorities of Khanty-Mansi AO – Yugra and Yamal-Nenets Autonomous Okrug providing for social and economic development of the areas and places of residence of the indigenous population. Agreements made with owners of tribal lands provide for financial compensation for the use of those land lots, the acquisition of cross-country vehicles, fuels and lubricants, coveralls, construction materials, and payment for medical services at the Company's expense.

Support of Organizations and Initiatives

Social and cultural projects contest

Over four years, the number of organizations taking part in the contest has exceeded 300. The allocated grants are used to finance environmental culture, environmental protection measures and organize leisure time for youth, elderly and handicapped individuals. The contest money is used to develop children's and youth sports and promote healthy living. For further details please go to the Company's web-site: http://www.lukoil.ru/static_6_5id_263_.html.

Social and cultural projects contest	2007	2008
Number of applications received	73	61
Number of applications financed	16	17

Source: enterprises data

Environmental Performance

Biodiversity: the model of reduced environmental load exploitation of the oil field located in the "Kondinskiye ozera" (Kondinskiye lakes) nature park

The "Kondinskiye ozera" nature park is one of the most conspicuous attractions that Khanty-Mansi AO has to offer. The park comprises a system of lakes located alongside the Konda river's left bank. 50.5% of its territory is marshland. The park is a habitat of wild plants and numerous animal species including those that are only found in the taiga (reindeer, Central Asiatic beaver, wolverine) and bird species (willow ptarmigan, bean goose). The overall number of registered species is 37 mammal species, 178 bird species, 11 fish species, 3 amphibia species and 2 reptile species. Five bird species living in the park are endangered (the red-breasted goose, the osprey, the golden eagle, the peregrine, and the white-tailed eagle). Please note rare birds (the black-throated diver, the red-throated diver, the whooper swan, the eagle-owl, the honey buzzard, the hen harrier, etc.) are also present.

The area of the Talnikovskoye field constitutes 0.6% of the park's area (the overall area of the park is 43.9 ths ha). The natural park status (unlike the nature park and nature preserve) allows limited nature management. The Regulations on the "Kondinskiye ozera" nature park include specific provisions on performance of operations that OAO LUKOIL complies with: it uses nature conservation technologies, e.g. flareless oil production, sumless drilling and removal of drilling cuttings outside the nature park. Nonetheless, the search for

⁴² The provisions contained in the agreements are discussed in more detail in the first two Sustainable Development Reports.

an environmentally sound model of use in such areas is the current task faced both by environmentalists and by industrial companies.

The foundation of the aforementioned model has been laid due to aligned actions by the park's personnel and the oil producing enterprise. Starting 1999 the park's personnel in conjunction with experts of the Tyumen State University have been conducting comprehensive monitoring. The monitoring network includes three stations to monitor the hydrological regime of the lakes and rivers, three hydrological wells to monitor sub-water conditions, as well as six sites to assess the physical properties and quality of soils. The monitoring results are reviewed by the park's and petroleum industry's personnel, and design solutions are adjusted in the pre-project approval of the field development operations.

A particularly important task in the view of the park's and the Company's personnel is to create an information environment

required to develop their environmental strategy, including changes in people's way of thinking, for it is impossible to achieve any sustainably positive results without making each of the Company's personnel and local residents aware of their own responsibility.

Performance in the Federal Okrug as a Whole

OOO LUKOIL-Zapadnaya Sibir's territorial and production enterprises successfully tackle the issue of associated petroleum gas utilization. The utilization ratio reaches 97% in the areas of their key operations. Newly acquired assets reduced the overall percentage to 79.3% by increasing volumes of atmospheric emissions. The enterprise has developed a program under which the associated petroleum gas utilization in the years to come is going to reach 95%. A considerable increase in the volumes of generated waste has resulted from a increased scope of drilling and higher volumes of drilling cuttings, as well as from the acquisition of new assets.

Indicator	Urals Federal Okrug*		LUKOIL Group's organizations**		Contribution by LUKOIL Group's organizations;	
	%	2007	2003	2007	2003	2007
Harmful atmospheric emissions, ths tn	3,349	4,002	171.85	231.20	5.1	6.7
Wastewater discharge, mln cu.m	70.2	933.0	–	–	–	–
Generation of waste, ths tn	1,724	2,390	116.9	200.6	6.8	13.2

Source: Company data

Note:

* – Data on federal okrug are presented on basis of the State report "On the state and environment protection in RF in 2007". As of the date this Report was ready the State report "On the state and environment protection in RF in 2008" has not been published..

** – The table shows data on all the Company's enterprises operating in the federal okrug.

The same data source and LUKOIL data aggregation was used in other subsections representing the environmental performance results of LUKOIL enterprises operating in other okrugs.

Environmental Culture and Urban Improvement

A specific feature of the Social and Cultural Projects Contest in the the Khanty-Mansi AO and the Yamal-Nenets AO is the great number of environmental projects i.e. ones that are intended to raise awareness and promote environmental protection.

"Environmental Crossroads" – Urai hosts a city-based summer recreational camp for mentally and physically disabled children. The acquisition of recreation room equipment, and an oxygen cocktail maker was also done.

Urban environmental movement "Children to Yugra" in Kogalym holds regular community work days, organizes

environmental events, children make botanical collections and maintain a web-site.

A local environmental theater in the Tazovskiy settlement has put on mini-performances devoted to environmental protection and prepared numerous informative programs.

Urai's school No. 12 has set up an environmental lab, and Spektr+ local broadcasting company achieved its "Neighborhoods Environment" project. The objective behind it is to make everyone feel personally responsible for what their city or neighborhood looks like.

Volga Federal Okrug

(Perm Krai, Nizhniy Novgorod and Saratov Oblasts)



The following are LUKOIL's major enterprises operating in the Volga Federal Okrug:

Perm Krai

OOO "LUKOIL-PERM" is the largest oil and gas producing enterprise in the Perm Krai that is one of the top tree hydrocarbon producers among OAO LUKOIL's enterprises. In 2007 and 2008, it was awarded the "best enterprise" title as part of the contest involving LUKOIL Group's subsidiaries operating in the "Oil and Gas Production" sector. The area of its and its subsidiaries' oil and gas production operations includes 26 administrative regions of the Kama Region.

OOO LUKOIL-Permnefteorgsintez⁴³ is one of Russia's most technologically advanced refineries. It is one of the top ten most environmentally successful enterprises in Russia. The refinery exports about 45% of its output.

OOO "Permneftegazpererabotka" is the largest in terms of its output OAO LUKOIL's refinery; its task is to receive, transport and process associated petroleum gas. It produces around fifteen gas processing products. Until 2008, OOO Permenftegazpererabotka was a part of OOO LUKOIL-Perm.

OOO "LUKOIL-Permnefteprodukt" distributes petroleum products in the Volga (Perm Krai, Kirov Oblast, Udmurt Republic and Republic of Bashkortostan) and the Urals (Sverdlovsk Oblast) Federal Okrugs.

Nizhniy Novgorod Oblast

OOO "LUKOIL-Nizhegorodnefteorgsintez" is one of Russia's largest refineries that produces automotive, jet and diesel fuels, lubricating oils, petroleum bitumens and alkanes. In 2007, the refinery turned 50.

Key okrug-level tasks:

- stabilize and increase production volume, upgrade production facilities;
- associated gas utilization ratio at up to 95%;
- develop the multi-fuel gas station network and expand the range of roadside services, take part in road infrastructure upgrading activities;
- environmental protection;
- maintain employment levels and facilitate social development.

OOO "LUKOIL-Volganefteprodukt" is one of LUKOIL's largest petroleum products supplies enterprises distributing fuels in the Volga (Nizhniy Novgorod Oblast, Mariy El Republic, Chuvashia and Mordovia), Central (Ivanovo, Kostroma, Yaroslavl and Vladimir Oblasts) and North-Western (Volgograd Oblast) Federal Okrugs.

Saratov Oblast

OOO "Saratovorgsintez" is Russia's only producer of acrylonitrile i.e. a raw stock in the production of synthetic fibers and threads that exports over 80% of its output. In capacity terms it's one of Europe's four largest enterprises.

⁴³ Hereinafter referred to as OOO LUKOIL-PNOS

Perm Krai

Economic Role

LUKOIL is a leader in the development of Perm Krai's fuel and energy complex. Our enterprises employ 11.5 thousand people (about 0.8% of the Krai's economically active population⁴⁴) who account for around 20% of the gross regional product there.

In our opinion, we can contribute into the Krai's sustainable development by:

- systematically increasing oil production levels,
- increasing the associated petroleum gas utilization ratio,
- actively developing an up-to-date gas station network.

These plans mean an increase in taxes paid to the budget, a reduced environmental (and specifically atmospheric) impact, and creation of new jobs for local residents.



Despite the fields' advanced age, oil production rates are steadily increasing due to application of the state-of-the-art technologies. Efficiency of exploration is achieved through development of new prospective areas in the Krai.

Associated Gas and Gas Processing

OOO LUKOIL-PERM has developed and approved measures aimed at increasing the associated petroleum gas utilization ratio at its enterprises from 77.5% in 2008 to 95% in 2012. There is financing available for implementation of such plans.

Given the prospective associated gas utilization task, there are plans to build an associated petroleum gas transportation system, as well as gas transportation systems to ensure the supplies of natural gas to the Perm Krai's consumers.



Starting in 2005, the Perm refinery has been producing Euro-5 and Euro-4 diesel fuel (its share in the overall diesel fuel output currently comes to 91.3%; and if necessary, this figure may be increased to 100%). The share of high-octane gasoline in the output of automotive fuels is 87.4%. The use of "environmental" fuels is going to contribute to a reduction in gas contamination on the Krai's roads and in its cities.

One of the refinery's major products is high-quality modified bitumen with polymer additives used in road construction. This is how the Company contributes to a better quality of the road surface and consequently to a reduction in the number of road accidents.

Production: OOO LUKOIL-Perm		
	2007	2008
Number of fields, pcs	135	139
Oil production, mln tn	11.3	11.6
Gas production, mln cu.m	999	969
out of which associated petroleum gas, mln cu.m	627	631

Source: enterprises data

Oil refining: OOO LUKOIL-Permnefteorgsintez		
	2007	2008
Oil refining, mln tn	11.9	12.5

Source: 2007, 2008 annual report

Gas processing: Permneftegazpererabotka		
	2007	2008
Number of products:	13	13
Volume of liquefied gas, liquid hydrocarbons, ths tn	822	803

Source: 2007, 2008 annual report

	2007	2008
Taxes paid to the regional and local budgets of Perm Krai, mln RUR	7,111.1	15,150.0
Taxes paid to all level budgets, mln RUR	51,381	77,710

Source: 2007, 2008 annual report



⁴⁴ Data on the number of personnel as of the end of 2008 as compared to the data by Perm Krai's Occupation Agency as of the end of 2008.

A landmark event in 2008 was commissioning of the second stage of the packaged oils terminal. For the time being the enterprise has the largest oils packaging capacity in Russia.



2008 saw construction of the first LPG outlets at the Company's multi-fuels gas stations located in the Perm Krai. The gas stations in Perm Krai and Kirov Oblast started selling EKTO diesel fuel and gasolines.

Taxes

Tax payments are generally higher with most of them being made to the federal budget. In 2007-2008, the payments to the regional and local budgets doubled.

Investment



Our investment program is one of the most extensive programs implemented in the region. It focuses on:

- improvement of exploration and production techniques, and the performance of exploration operations,

construction of gas pipelines including those used to satisfy peoples' needs;

- reconstruction of production facilities, purchase of new equipment and technologies used to produce new products and to reduce any adverse environmental impact;
- improvement of services and reduction of man-caused environmental load.

Jobs

Under the provisions contained in the Cooperation Agreement made with Perm Krai the Company is assisting in construction of a gel powder plant in Elovo settlement which is going to create 80 jobs for the settlement's residents. This plant is economically very important for agricultural Elovo district that so far has not had any industrial enterprises.

Sustainable Development – Public Recognition

In January 2009, OOO LUKOIL-PERM was rated first and OOO LUKOIL-PNOS was rated second in terms of the



corporate social responsibility rating developed by the local expert channel UralPolit.Ru. It has had an immediate effect of the Company's transparency policies. Experts rated the companies' levels of responsibility to their personnel, local community (charity) and their contribution to the promotion of physical training and sports activities.

In 2007, OOO LUKOIL-PERM was awarded a "Russian Socially Responsible Organization" title for winning the contest held under the auspices of the Russian Government. The company owes this award to the implementation of corporate social policies with regard to its personnel.

In 2007, OOO LUKOIL-PNOS won the third All-Russian contest "Leader of Environmental Protection in Russia – 2007". Twice in 2007 and 2008, the company was a prize-winner of the All-Russian contest "Golden Medal "European Quality" in the category of "Russia's Top 100 Organizations. Environment and Environmental Management".

Company's Involvement in the Life of the Regions

Further proof of successful cooperation between LUKOIL and the Perm Krai is the Company's performance of all of its obligations under the Economic and Social Cooperation Agreement. The Social Investment Program contemplated in the Agreement is annually approved by the governor of Perm Krai and the CEO of LUKOIL.

In 2007, the Program was rolled out in 22 municipal districts of Perm Krai (including the city of Perm) and included 29 events as well as providing financing for 76 sites, the respective 2008 figures include 32 events and 94 sites.

While attending the 4th Economic Forum, held in 2008, representatives of OOO LUKOIL-PERM offered new prospects of cooperation between the authorities and business community, that may result in the emergence of drivers for the areas' sustainable development, such as the development of service enterprises that belong to strategic industries in the Krai's municipalities.

Sports

In 2008, the top priority of all social issues was sports. A new health and sports complex was built in Krasnokamsk that has already hosted the finals of krai-level boxing and karate tournaments and the All-Russian sambo finals. This new sports complex has thousands of visitors each day.

Another site built is the Norton-Junior motor track (city of Perm) which hosted the third (final) leg of the individual and team motocross championship in August. 2008 saw the completion of the construction of Neftyanik (Oil Man) Ice Arena in Perm.

Support of Education, Health and Culture

The key activities in this are include the opening of a new 104 student school in Gozhan settlement (Kuedino District), continued construction of new educational establishments in Uinskoye, Osa and the Bikbai settlements (Oktaybrskiy District). About one thousand children will have learning environments that are fully consistent with the up-to-date standards. Shortage of vacant seats in kindergartens in Kuedy settlement may be eliminated through construction of a kindergarten for 170 children that began back in 2008. Please note commencement of capital repairs of the Chastino and Kuedino central district hospitals.

Infrastructure

The company built and reconstructed infrastructure in the Krai's 25 localities and installed gas in hundreds of households in the Gamitsy and Permyakovo settlements (Osino district). A kindergarten and a school located in Michura settlement (Elovsk district) were connected to a gas-powered boiler house. The Zuyata settlement (Kungursk district) has a modular gas-powered boiler house supplying heat to the kindergarten, school, culture center, administrative buildings and apartment complexes. There are water pipelines operating in Romanovo settlement (Usolsk District), and a water pipeline connecting Kiryany and Dolbily villages (Kungursk District).

Petroleum Products Supplies

OOO LUKOIL-Permnefteprodukt continues its involvement in the federal and oblast-level programs which are providing for supplies of petroleum products to socially important consumer categories (rural utility enterprises, transportation and road service organizations, municipal emergency response and medical emergency services).

Law Enforcement Service Vehicles

32 UAZ-469 vehicles and other equipment required for efficient service was given by the Company to the Kama region's police. The service vehicles were delivered to various services of the regional Internal Affairs departments for introduction into their vehicle fleets.

Environmental Performance

Over the reporting period OOO LUKOIL-Perm increased its environmental costs as part of the Company's environmental safety Program, which is also due to implementation of the project "Utilization and Sales of Associated Petroleum Gas Produced in the Upper Kama Region".

2008 saw the completion of the Environmental Safety Program implemented by LUKOIL Group in 2004-2008. The Program resulted in a considerable reduction of environmental impact:

- elimination of excessive discharge to water bodies;
- elimination of excessive atmospheric emissions;
- 7.7% reduction in atmospheric emissions;
- 83.7% reduction in discharge to water bodies;
- 86% reduction in the number of equipment failures entailing environmental damage;
- disposal of oily waste in the enterprises' balance – 53.6%;
- elimination of temporary oily waste storage sites within the enterprises' areas.

- construction of new process furnaces and upgrading of the existing ones, decommissioning of obsolete equipment;
- construction of a C5-C6 isomerization plant equipped with a hydrotreatment unit with a view to producing Euro-3 and Euro-4 gasoline;
- reconstruction of facilities ensuring mechano-chemical and bio-chemical treatment of the enterprise's sewage water and the achievement of the standard quality of sewage treatment;
- construction of liquid and oily waste treatment plant.

Environmental Culture and Urban Improvement

We continue with the long-term projects which are aimed at increasing people's environmental culture. These include a series of events attended by youth, people living in urban areas and in the countryside, as well as the Company's personnel. Environment-oriented projects also receive support as part of the social and cultural projects contests held by OOO LUKOIL-Perm.

Environmental protection and radiation safety costs*, mln RUR	Total
2007	2,397
2008	4,428

* data for OAO LUKOIL's enterprises in Perm Krai

Please note that the improvement of the atmospheric conditions resulted from the construction of the gas pipeline connecting Sershnevka BCS and Unva BCS supplying 18.8 cu.m/year of associated petroleum gas to processing sites. The resultant annual reduction in atmospheric emissions constitutes 14.2 ths tn. There are also various Downstream programs under way focusing on upgrading of process furnaces and reconstruction of tanks.

There is an ongoing liquidation of waste disposal sites accompanied by the purchase of equipment to process hard-to-dispose oily waste. Starting in 2013, the Company plans to neutralize 100% of oily waste generated in Perm Krai and fully liquidate its temporary storage sites.

OOO LUKOIL-PNOS' Environmental Performance

The overall costs incurred by OOO LUKOIL-PNOS in performance of environmental activities in 2007-2008 as part of LUKOIL Group's Environmental Safety Program and OOO LUKOIL-PNOS' Environmental Safety Enhancement Program totaled 3835 mln RUR. The following are the major environmental activities leading to a reduction in adverse environmental impact in 2007-2008:

- supply of common liquid fuel for process furnaces of the plants with its sulphur content not exceeding 0.5% ppm;
- the equipment of low boiling hydrocarbons tanks with pontoons;

In 2007-2008, there were over 40 projects declared winners in the "My city is my home" and "Let's Preserve the Kama Region's Nature" categories. Their authors and participants developed over 15 public gardens and parks, which include a public garden located in Kungur's historical center which is a part of the preferential protection zone of the Kungur historical, architectural and artistic culture preserve. The awarded grant enabled the Head of Osinsk District to complete the construction of the Neftyanik (Oil Man) public garden.

It is for the third consecutive year that OOO LUKOIL-PNOS in conjunction with the authorities of Perm's Industrialniy District have successfully held an open environmental projects contest "Perm – Workshop of the Future". In 2007-2008, 33 projects were implemented in the Krai, with over one thousand participants taking part in them.

Supported by the Environmental Protection Division of the Ministry of Natural Resources for Perm Krai, in 2008, OOO LUKOIL-PNOS held its "Green Window" journalistic contest intended to identify the best environmentally themed work. The contest was covered by most of Perm's mass media.

Environmental Events

"Children and OAO LUKOIL for Environment"

For more than two months teenagers from the Krai's 17 districts had been tidying up children's playgrounds, areas adjacent to monuments and churches, planting trees and flowers. The event was organized by OOO LUKOIL-PERM, Perm Krai's Employment Service and authorities of the municipal districts. Each of the districts developed its own



mini-project taking account of the local area: “Waterfall Valley”, “Flower Symphony”, “Church's Green Necklace”, “Blooming Town”, and “Young Hearing – Golden Hands”.

Consequently, it took two months to develop various areas in Pyskorsk Monastery (Usolsk District) and the Monastery of the Savior and Transfiguration, and the Sylvensk Church of Nativity (Kungur District). Best contributors to the “Children and OAO LUKOIL for the Environment” received letters of commendation and prizes.

“Don't be Shy to Clean Up”

It is an annual event that started at OOO LUKOIL-Permnefteprodukt's initiative and has been held since then. Members of the students association of the Kama Region go out on the streets to collect litter from the city's esplanade.

Support of Organizations and Initiatives

Social and cultural projects contest⁴⁵

2008 saw an increase in the number of participants to the contest's social and cultural projects. 27 of Perm Krai's districts sent their participants to the contest⁴⁶. 2008 was the first year when bonus grants were awarded. These were awarded to the heads of the districts that developed best projects following their realization in 2007.

Implementation of the projects supported by the Company resulted in the development of a number of public gardens and parks, the establishment of an international volunteer camp, as well as the creation of health and sports facilities for the whole family. Numerous projects focus upon preservation and revival of national traditions, trades, dissemination of the ideas of spiritual unity and interethnic concord. With the year 2008 being the year of family in Russia, 60 projects (with their overall cost exceeding 8 mln RUR) were intended to support and reinforce family values and traditions.

⁴⁵ For detailed description and mechanics of managing the contest funds please refer to the 2005 – 2006 Report on Sustainable Development in Russia, or go to OAO LUKOIL's or OOO LUKOIL-PERM's web-site.

⁴⁶ The Contest held in Perm Krai includes 3 stages.

“Social and cultural projects contest” represents unity of powers, resources, will and kindness required to implement projects aimed at doing good to the people living in these areas”.

N.Devyatkin,

Head of the Legislative Assembly of Perm Krai

The initiative jointly implemented by the authorities, business community and public at large in Perm Krai does not only preserve the existing traditions, but also brings forth new ones.

V.Sukhikh,

Head of the Perm Krai Government

Further details are accessible through the Company's website (http://www.lukoil.ru/static_6_5id_263_.html) and that of OOO LUKOIL-PERM under the section “Social Policies” (<http://www.lukoil-perm.ru/#>), as well as at http://www.lukoil-perm.ru/press.asp?div_id=1&id=1363&year=2008.

OOO LUKOIL-PERM alongside with the Krai's and municipal authorities co-financed a number of major regional activities.

Charity

OOO LUKOIL-PERM offers target assistance by providing funds for educational, research, health, physical training and sports institutions, and is also involved in implementation of the regional charity program of LUKOIL Group's enterprises located in Perm Krai via the Perm branch of OAO LUKOIL's Charity Fund. Such target assistance is a way for schools, higher educational establishments, medical institutions, cultural centers, theaters and museums to improve their material and technical bases. These are normally not major construction and reconstruction projects implemented under the Social and Economic Partnership Agreement, but more local ones, intended to satisfy specific needs of individual organizations and their customers.

Charity events intended to maintain family values

The events were timed to the fourth international competition amongst the organizations of the LUKOIL Group "Dad, mom and me - we are a sport's family!" held in Perm. The following are the institutions that received 10 Gazel vehicles from OAO LUKOIL: Ashapsk, Solikamsk, Krasnokams, Yugo-Kamsk, Dobryansk and Kalininks orphanages, correctional boarding schools in Perm and Bereznikov, Perm correctional orphanage No. 2, and children's boarding school No. 3 in Perm. 25 large families were given laptops.

VII Festival of the Kama Region's Historical Towns "Osa - a Chief Town of Uezd (District)"

The major events of the festival included a presentation of a new museum collection "Osa – a Chief Town of Uezd", unveiling of a high relief devoted to the Kalyzhenins brothers, the founders of Osa, and a historical reconstruction of the assault upon the Osa fortress.

Creativity TV contest for young hopefuls "Formula of Success"

The contest was organized by Perm's authorities, the Ministry of Culture and Mass Communications of the Perm Krai's Government, Perm's Tchaikovsky Academic Opera and Ballet Theater for children and teenagers aged from 5 up to 14. There were three win categories: instrumental performance, vocals, and artistic activities.

"Safety Area" (has been held starting 2004)

The objective behind the event is to reduce the number of road accidents involving children in the city. First graders are taught safety classes at which they answer questions, accomplish non-complicated tasks, and memorize useful advice regarding what should be done in specific situations on the road. To make their knowledge more profound, all first graders get sets of bright bookmarks, copy-books and pens. And colorful posters that in the form of play teach the traffic rules stay in the school's classrooms and corridors.

Donor's Day

In 2008, OOO LUKOIL-Permenfteprodukt's personnel first took part in a donor event. The collected preparation was sent to the Cardiac Institute, krai clinical hospital, children's oncological and haematological center, hemodialysis center and others.

Journalistic contest "Doing Good" (has been held since 2005).

The contest has been held in cooperation with the Perm, Sverdlovsk and Kirov regional branches of the Russian Journalist Union⁴⁷. The winner of the contest becomes the best socially-oriented journalistic report.

Economic Role


In the sustainable development context we deem it important to continue with refinery upgrading, thus ensuring more efficient raw stock use and better petroleum products conversion rate as well as production of new types of products or those products that are in demand. Improving the economic efficiency of refining and petrochemical companies is also of great importance.

Developing the network of up-to-date gas stations in both Oblasts and in some nearby oblasts contributes to road infrastructure upgrading.

In 2007-2008 OAO LUKOIL organizations accounted for about 30% of the Gross Regional Product of Nizhny Novgorod Oblast.

Oil refining and petrochemical industry: OOO LUKOIL-Nizhegorodnefteorgsintez Saratovorgsintez	2007	2008
Number of product types	93	92
Number of new types of products	5	3

Source: 2007, 2008 annual report

 The Nizhny Novgorod refinery was the second among all Russian oil refining enterprises in terms of its refining throughput in 2007 and took the first place among LUKOIL's companies (16.67 mln tn in 2007; 16.98 mln tn in 2008). Refining throughput has been restored i.e. the capacity utilization rate is now 100%.

The catalytic cracking unit reconstruction project implemented at the Nizhny Novgorod Refinery⁴⁸ is on the list of high-priority investment projects in the Nizhny Novgorod Oblast and is included in the regional development strategy to 2020. Seven new oil refining technologies that have not yet been applied in Russia will be introduced at five critical process facilities.

Environmentally, this project is also important. Commissioning the unit will enable the refinery to produce EURO-4 motor fuel. Fuels that do not comply with EKTO standard have not been produced since 2007, while almost all produced gasoline conforms to EURO-3 requirements. Given the ongoing car boom, one of the ways to reduce harmful atmospheric emissions and preserve clean air in cities is to produce environmentally friendly fuels.


Production automation and labor management are critical in terms of improving economic performance. In particular, a new system of equipment reliability management is being introduced. For these purposes the refinery has established an Industry Competence Centre.

⁴⁷ For a detailed description of the contents of the events please go to OOO LUKOIL-Permenfteprodukt's web-site: <http://www.lukoilnnp.ru/main/index.html?id=107>


⁴⁸ Catalytic cracking is one of the most critical processes ensuring deep oil conversion.



As part of its development program in 2007 the refinery started to produce a new product i.e. sodium cyanide. This substance is used in the gold-mining industry. The demand for this substance used to be satisfied by imports. New production will help fully eliminate dependency on imports and satisfy the demand both in Russia and other CIS countries. Moreover, this production contributes into efficient management of resources as it allows recycling of the by-product i.e. hydrocyanic acid which used to be burnt thus additionally impacting the environment.

 This project creates a bulk of orders for local manufacturers and service providers: 22 construction and assembly companies operating in the Volga Federal Okrug work at the facilities; the Okrug's companies received orders for equipment manufacturing worth about RUR 2 bln.

OOO Saratovorgsintez is still being restructured to ensure the breakeven nature of its operations and long-term development of the enterprise.

 Multi-fuel gas stations and a new petroleum storage depots that will service more than half of Nizhny Novgorod gas stations are under construction.

There was an evident increase in the sales of environmentally friendly fuels (up by 84%)⁴⁹ which is in line with the policy adopted by Nizhny Novgorod Oblast authorities aimed at restricting the use of fuels whose quality fails to reach that established under the EURO-3 requirements.

Share of taxes in consolidated budget revenues, %	2007	2008
Nizhny Novgorod Oblast	11.6	18.3

Source: enterprises data

Sustainable Development – Public Recognition

OOO LUKOIL-Volganefteprodukt was among those who won the Synergy Competition. It was awarded for the Contest of Social and Cultural Projects held by OAO LUKOIL in Nizhny Novgorod Oblast in 2007. Public organizations i.e. the Centre for Communications and Social Technologies "The Fifth Wind" and the Centre for Development of Public Initiatives "Service") in cooperation with Nizhny Novgorod authorities arranged the contest.

OAO LUKOIL-Nizhegorodnefteorgsintez was awarded the Flag of Honor of the Governor of Nizhny Novgorod Oblast for its great contribution to the development of the Oblast's industrial potential, adoption of best practices, increase in output of competitive products and implementation of the Oblast's social and economic development plans. The Government and the Board of Federal Tax Service of Russia for Nizhny Novgorod Oblast expressed gratitude to the company for its contribution to the regional economics.

Company's Involvement in the Life of the Regions

Countermeasures to Combat Counterfeit Product Sales

One of the key challenges addressed in cooperation with the regional authorities of the Volga Federal Okrug is the development of countermeasures to combat the sale of counterfeit products (oils and fuels). Some solutions include joint inspections conducted by officers of OAO LUKOIL's Division of Corporate Security in cooperation with the law enforcement agencies.

Sports

Sports development is a priority under the agreement made with the authorities of Nizhny Novgorod Oblast. LUKOIL-Volganefteprodukt places special emphasis on the development of racing sports: the company provided assistance to the LUKOIL-Nizhegorodets (LUKOIL-Nizhny Novgorod Resident) car racing team. In 2008, the team's drivers took all medal places at the third stage of the winter track racing in the category of Volga cars.

Supplies of Petroleum Products

OOO LUKOIL-Volganefteprodukt offers preferential terms to state enterprises of Nizhny Novgorod Oblast and educational and health institutions, social organizations, housing and

⁴⁹ EURO fuel retail sales accounted for 35% of the total sales in 2007 and 84% of the total sales in 2008.

public utilities, and agricultural companies on which they can purchase petroleum products.

Under the Agreement signed by the Vologda Oblast and OAO LUKOIL, agricultural companies also purchase diesel at a discount price.

Road Quality

In 3 years the company supplied over 50 thousand tons of road asphalt for road construction in the Chuvash Republic and the Mari Republic.

Supporting Educational, Health, Cultural and Religious Institutions

OAO LUKOIL-Volganefteprodukt, Lobachevsky State University of Nizhny Novgorod and Alekseev State Technical University of Nizhny Novgorod signed Master Cooperation Agreements. These Agreements provide for training of specialists, performance of research activities, and creation of the material and technical base.

Under the auspices of OAO Saratovorgsintez, lecturers at the Mendeleev Russian University of Chemistry and Technology (Moscow) teach a pre-university training course at school No.59. School competitions in chemistry and math are annually held, too. According to these competition results, forty winners were admitted to the Mendeleev Russian University of Chemistry and Technology. After

university, the new graduates will be invited to work at this company.

Year of Youth

2007 was declared the Year of Youth in the Volga Federal Okrug. LUKOIL organizations supported some projects that were in line with the regional youth policy. One of the projects was implemented in School No. 6 (Kstovo) and included presentation of the Information Handbook named "Become a Higher Education Student – 2007" which should help school students to choose their future careers. The company financed some projects as part of the Contest of Social and Cultural Projects (see below).

Environmental Protection

The Kama Region is an old oil producing region. Therefore, the most urgent issue is to shut down old sludge storage tanks. One of the goals of the new LUKOIL's Environmental Program is to reorganize sludge storage tanks.

It is for the atmospheric air improvement purposes that OAO LUKOIL-Nizhegorodnefteorgsintez put obsolete semi-underground tanks out of service and constructed new tanks. As a result, specific emissions decreased by 1.5-1.2 kg/tn with the oil refining growth making up 20%.



The chemical industry has been developing in Saratov for 50 years already which definitely tells upon the environment. Currently, OOO Saratovorgsintez emissions are in line with Maximum Permissible Concentration standards. There was 50% decrease in clean water consumption for in-house needs (though the Company does not control this indicator on its own as there are third party consumers in adjacent areas). All the enterprises' workshops produce toxic waste. However, there was more than 90% decrease in waste volumes.

Company's Contribution to Environmental Quality in the Federal Okrug

Generally, in 2007 there was a five-fold decrease in polluted wastewater discharge as compared to those in 2003 and less waste was produced in the Volga Federal Okrug. An increase in pollutant emissions is caused by the commissioning of new fields. The project named "Utilization of Associated Petroleum Gas Produced at Fields Located in the Upper Kama Region" is to ensure the utilization of the associated gas.

Indicator	the Volga Federal Okrug ⁵⁰		LUKOIL Group's organizations		Share of LUKOIL Group's organizations, %	
	2003	2007	2003	2007	2003	2007
Harmful atmospheric emissions, ths tn	1,267.5	966	89.3	104.1	7.0	10.8
Wastewater discharges, mln cu. m	1,644.9	4,732	25.1	12.6	1.5	0.3
Generation of waste, ths tn	42,700.0	54,140	212.0	163.3	0.5	0.3

Source: Company data

Environmental Culture and Urban Improvement

With its focus on cooperation and partnership in the areas of its operations LUKOIL, local Social Fund "Good Force" and BAT-Russia implemented in Kstovo a joint project entitled "Lilac Lane". One of the pedestrian areas along Pobeda (Victory) avenue was separated from adjacent highways by lilac bushes. This lane has livened up the town while the project encouraged its residents to keep the town clean and take care of the lilac bushes. Further funding of the project may be out of the budget. Furthermore, the Company improved the 40th Anniversary of October Revolution street on the occasion of the 50th Kstovo anniversary.

Grant projects enable school students of Nizhny Novgorod Oblast to build ecological paths. All residents now have an opportunity to get to know their nature better without impacting the environment. Ecological paths prevent soil loss. They can be used to arrange tourist routes and to promote tourism.

Supporting Organizations and Initiatives

Social Project Contest

The first Contest of Social and Cultural Projects was held for organizations operating in Nizhny Novgorod Oblast in 2007. The Experts' Council was made up of the representatives of legislative and executive authorities, LUKOIL's companies and public representatives.

The outcomes of implemented projects revealed a considerable potential of local organizations. In 2008, there

was a four-fold increase of funding while the number of winning projects doubled. The Contest format was slightly changed: it included another two categories dedicated to the Year of the Family ("Each Family is Russia's Golden Fund) and to the 50th refinery anniversary ("My Native Area is Kstovo). For more information visit the Company's site (http://www.lukoil.ru/static_6_5id_263_.html) and that of LUKOIL-Volganefteprodukt (http://www.lukoil-volga.ru/main/static.asp?art_id=1779).

Contest of Social and Cultural Projects	2007	2008
Number of proposals submitted	40	90
Number of financed projects	10	30

Source: enterprises data



⁵⁰ The Federal Okrug indicators are based on the data contained in the State Report on Environmental Quality and Protection in Russia in 2007. The State Report on Environmental Quality and Protection in Russia in 2008 has not been published at the time of publishing of this Report.

Delinquency Prevention

Juvenile delinquency is an issue of great concern in the Nizhny Novgorod Oblast. Some projects financed through LUKOIL's grants contributed to solving this problem: some TV-shows dealing with the rights and responsibilities of senior students were made; a colorful "Criminal Comics" was published in cooperation with the Main Internal Affairs Directorate (this project evoked a wide response in Russia).

Children

LUKOIL traditionally provides assistance to orphanage children. One of the grants enabled the children of two orphanages in Nizhny Novgorod Oblast to make a parachute jump. Children at the social shelter "Crimson Sail" arranged parties for retirement home members.

Youth

The company implemented some projects focusing on Kstovo's young people. For instance, the company set up a training camp intended to ensure experience sharing among youth organizations of the Volga Federal Okrug.

Other Social Projects

Some projects dealt with local problems: for instance, delivery of phytoncide plants to kindergartens; development of leisure

"Currently, one of the most critical goals is to harmonize the stances taken by the authorities, business and public. I like the fundamental idea of the Contest of Social Projects a lot. This form of charitable assistance helps address those problems that appear critical to non-profit organizations. We recommend that all the deputies study LUKOIL work practices".

V. Lunin,

Chairman of the Legislative Assembly of Nizhny Novgorod Oblast

plans for elderly people living in Sarov; adaptive riding courses for handicapped children; art programs for talented orphans. A sensory room was created in one of Dzerzhinsk compensatory kindergartens in Nizhny Novgorod Oblast.

The TV for Deaf Project was the most costly and the most interesting one - the project's developers acquired necessary equipment and created a series of TV programs for handicapped children. The project receives active support from the authorities of Nizhny Novgorod Oblast.



Charity

In addition to its regular charity program OOO LUKOIL-Volganefteprodukt in conjunction with OAO LUKOIL-Nizhegorodnefteorgsintez held the Season of Social Contest on the occasion of the refinery's 50th anniversary. Valuable gifts were given to twenty young local residents who won the contest "There is a large refinery in my town"; 10 children of Kstovo orphanages were awarded for their participation in the drawing contest "I Promise to Take Care of Nature". Three journalists who won the Contest "Golden Pen: For the Sake of Kstovo Future" received laptops.

LUKOIL-Volganefteprodukt provided funds for the education of children of officers of the Ministry of Internal Affairs that had been killed on duty. The company allocated funds to support the implementation of this project while Petrocommerce Bank paid individual income tax. The children of the officers of the Ministry of Internal Affairs who had been killed on duty were awarded certificates entitling them to obtain money upon their coming of age.

The company proceeded with the program for supporting visually impaired children in Nizhny Novgorod Oblast – they received tactile books. The event was supported by LUKOIL's Charity Fund, the United Russia party and the Communications Department of the Governor's Office and the Authorities of Nizhny Novgorod Oblast.

Social and Marketing Events

Win a Trip to Formula 1 Grand Prix

Aleksey Kuzichev became the winner of the event held in Nizhny Novgorod. The Company gave him two tickets to the Spanish Grand Prix, Formula One World Championship.

Fill the Tank – Root for Our Team!

The event dedicated to Euro-2008 European Football Championship was held in the Chuvash Republic, the Mari El Republic, Nizhny Novgorod, Vladimir and Vologda Oblasts. 5 OAO LUKOIL customers (including 1 woman) were awarded grand prizes i.e. two trip tickets to group tournament matches involving the Russian national team held in Austria⁵¹.



April Boomerang

Motorists that fueled their cars for the overall amount of RUR 1,500 at LUKOIL gas stations located in Nizhny Novgorod Oblast took part in prize drawing.

Stake!

Valuable prizes and gifts were given to those participants who collected receipts for 500 l of fuel; 1 person was awarded the Grand Prize of Volga-31105 car provided by GAZ Group, OOO TD Russkie Mashiny.

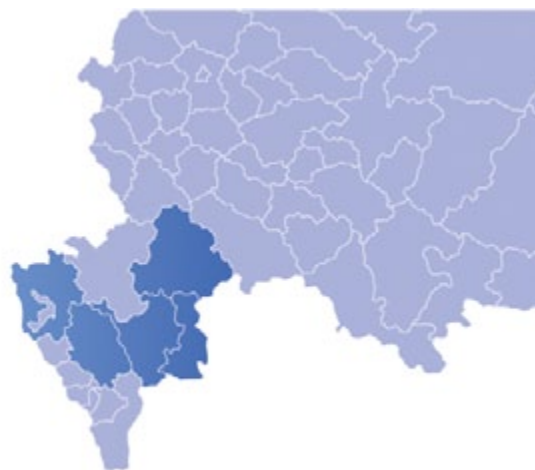
LUKOIL's Summer in Cooperation with Volkswagen

The event took place under conventional terms i.e. participants were to fuel over 30 liters and fill in the participation form. Those customers who collected receipts for 400 liters of fuel went through to the finals. A festive event involving local TV-stars as show masters traditionally finished the event. The winners received souvenirs, LUKOIL oil and flight tickets to Europe. The Grand Prize was Volkswagen Polo.

⁵¹ For the names of the winners please visit http://www.lukoil-volga.ru/main/content.asp?art_id=4901.

Southern Federal Okrug

(Volgograd and Astrakhan Oblasts, Kalmyk Republic, Krasnodar and Stavropol Krajs)



The following are LUKOIL's major enterprises operating in the Southern Federal Okrug:

Volgograd and Astrakhan Oblasts

OOO LUKOIL-Nizhnevolzhskneft is engaged in implementation of offshore oil and gas projects in the Southern Federal Okrug (Caspian and Azov shelves)

OOO LUKOIL-Volgogradneftegaz carries out prospecting, exploration and development of oil, gas and gas-condensate fields, as well as oil and gas production in Volgograd and Astrakhan Oblasts and Kalmyk Republic.

OOO LUKOIL-Nizhnevolzhskprodukt is a parent enterprise conducting sales of petroleum products and LPG in southern Russia (Volgograd, Rostov, Astrakhan, Saratov, Penza, Tambov and Voronezh Oblasts, and Kalmyk Republic).

OOO LUKOIL-Volgogradneftepererabotka, the largest oil producing enterprise engaged in production of fuels and lubricants in the Southern Federal Okrug with its share in the refining sector being 60%, celebrated its 50th anniversary in 2007.

Stavropol Krai

OOO Stavrolen is one of Russia's largest producers of polyethylene, polypropylene and other petrochemicals.

Krasnodar Krai

OOO LUKOIL-Yugnefteprodukt is the Company's subsidiary distributor of petroleum products operating in southern Russia (Krasnodar and Stavropol Krajs, Republic of Adygei and Kabardino-Balkaria).

Number of fields	2007	2008
Volgograd Oblast	55	50
Astrakhan Oblast	3	2

Oil production, ths tn	2007	2008
Volgograd Oblast	2,961	2,990
Astrakhan Oblast	56.8	50.7

Gas production, mln cu.m	2007	2008
Volgograd Oblast	565.8	570.8
Astrakhan Oblast	4.2	4.75

Note: oil and gas production data including the subsidiaries, but excluding affiliates

Total share of tax payments in the revenue of the Oblast's budget, %	2007	2008
Volgograd Oblast	19.55	22.65
Astrakhan Oblast	1.07	1.40
Stavropol Krai	0.4	1.0

Combined share of LUKOIL Group's organizations in the gross regional product, %	2007	2008
Volgograd Oblast	43.12	43.70
Astrakhan Oblast	2.3	2.6

Economic Role

LUKOIL's investments into the Southern Federal Okrug's economy are the largest and cover the entire production cycle from the production of hydrocarbons to the output of motor fuels, chemicals and the generation of power.

Large volumes of hydrocarbons are produced in Volgograd



Oblast: 60 years of production have resulted in a considerable depletion of reserves and the Company's primary task is to maintain the existing production levels. To this end the Company is continuing its exploration operations and compensates for hydrocarbons production by discovering new fields. The oil recovery levels are also increasing: for the present, 15% of the Oblast's oil is produced using the cutting-edge oil production stimulation techniques.

The Southern Federal Okrug's new areas of hydrocarbons production include the Caspian and Azov Seas. State-owned Gazprom and Rosneft are partners of LUKOIL in development of the Russian Caspian Sea. Raw stock supplies from the Caspian offshore fields are going to substantially affect the Okrug's economy. In fact already today we see the laying of the foundations for sustainable economic development of the Okrug's numerous subjects (Astrakhan and Volgograd Oblasts, Kalmyk Republic, Dagestan and Stavropol Krai).

Natural gas production is a key area of LUKOIL's operations in Southern Russia which is going to develop alongside the development of the Caspian and Azov fields (the occurrence of light crude with a large gas content in wells at Novoye field).

	OOO LUKOIL-Volgogradneftepererabotka		OOO Stavrolen	
	2007	2008	2007	2008
Number of products	120	120	11	12
Number of new products	2	8	0	1

Source: enterprises data



The Volgograd refinery has its refining capacity and the enterprise's capacity utilization rate is currently 100%. Further increases in the refining volumes are dependent upon the capacity of transport arteries (pipeline and railway). The refinery started production of Euro-3 automotive gasoline. Over five years the share of high-octane gasoline in the overall gasoline output has increased from 45.2% (in 2003) to 84.1% in 2008.



OOO Stavrolen has commissioned its polypropylene unit. As compared to other polypropylene production techniques, the utilized process is very environmentally friendly for it does not include the key sources of harmful atmospheric emissions. Use of the aforementioned technology will enable the company to produce products for medicine and agriculture, production of fiber, threads, pipes, technical equipment and consumer goods. The new unit will fully satisfy the demand for up-to-date polypropylene grades existing in the Russian market.



LUKOIL is the first company in Russia to have plans of building a new generation solar energy powered gas station to be located in the proximity of Krasnaya Polyana.

In advance of the upcoming 2014 Olympics the region has started a project of creating a network comprising 100 new highway gas stations that are in line with the requirements imposed by international motor carriers to be located in the

international transportation corridors North-South and West – East and regional routes leading to Sochi. According to their location LUKOIL's highway complexes will include parking areas, car-washes both for passenger vehicles and trucks, hotels and supermarkets.

The multi-fuel gas station network is also developing: 30 of LUKOIL's gas stations in the city of Volgograd and Volgograd Oblast started selling LPG containers.

The Company is actively implementing its LPG Marketing Program. In 2005-2007 the overall sales volume increased by 2.7 times.

Electric Power

The Company has plans to build its Krasnaya Polyana hydro power plant of reduced environmental impact i.e. without a water body in place.

Environmental Protection

The primary task addressed by oil producing enterprises operating in the Southern Federal Okrug for a long period of time is the liquidation of obsolete slurry collectors and reduction of new waste generation.

The other pressing issue is the commencement of hydrocarbons production in the Caspian Sea. Numerous environmentalists voiced their concerns regarding commencement of crude production in the Caspian, thinking that potential damage resulting from oil contamination and spills may go way beyond the profits from operation of the fields. In its operations in the Caspian Sea LUKOIL uses the "zero discharge" principle that turned out to be totally workable in terms of the Company's expectations regarding the mitigation of adverse environmental impacts during offshore oil production (refer to the section hereof on Kaliningrad Oblast). Given the positive outcome of the monitoring of the Baltic Sea and Kurshskaya Spit which followed the first production at Kravtsovskoye field, we can confidently state that production operations conducted in the Caspian Sea will pose a similarly insignificant threat to the environment.

"Environmental issues have always been of particular concern to LUKOIL during implementation of its projects in the Southern Federal District. Unique natural environments are among Southern Russia's major resources. It is no less important to conserve them than to ensure development of the region's industrial potential".

V. Alekperov,
President and CEO of LUKOIL

Indicator	Southern Federal Okrug		LUKOIL Group's organizations		Contribution by LUKOIL Group's organizations;	
	%	2007	2003	2007	2003	2007
Harmful atmospheric emissions, ths tn	531.2	568.0	27.88	21.2	5.20	3.7
Wastewater discharges, mln cu.m	1,747.0	6,134.0	3.10	0.0	0.18	0.0
Generation of waste, ths tn	8,072.0	11,273.0	13.32	103.7	0.20	0.9

Source: Company data

Biodiversity

One of the problems faced by the region is a considerable reduction in the number of sturgeons in the Volga-Caspian basin populated by over 90% of the world's fishstock, which is the immediate consequence of poaching and natural deaths of young

fish. LUKOIL took notice of the issue a long time before it actively embarked on its Caspian projects. It's been almost a decade since LUKOIL started offering assistance in implementing its project for reproduction of young sturgeon fish. The focus of the project is also on improvement of the biotechnology of artificial reproduction of sturgeon and on increasing the young fish's



survival rates. The project's success will facilitate the further adoption of the technique at the Oblast's fisheries.

2008 saw experimental release of grown baby fish into the wild as part of the natural fish-stock replenishment project. It was a batch of the biggest young fish raised as part of the project i.e. 10 thousand 200-gram sturgeon with their total biomass coming to 2 tons.

The Company has also assisted in publication of the book entitled "The Catalogue of Aquatic Bioresources Found in the Caspian Basin" by the Caspian Fish Research Institute.

Performance in the Southern Federal Okrug

In four years LUKOIL Group's organizations have fully discontinued discharges of polluted sewage into local bodies of water and cut down on their harmful atmospheric emissions. Increased waste volumes are related to the inclusion of data on Soviet-time oil-remains in the Company's reporting documents.

Environmental Culture and Urban Improvement

Preparatory activities preceding the celebration of the 450th anniversary of Astrakhan Oblast included large-scale development of Astrakhan's neighborhoods. With its unique natural peculiarities Lebedinoye Lake became the most beautiful leisure area of the local residents; its banks are covered up in granite, it has nice stairways, up-to-date illumination and an illuminated musical fountain. The park behind the planetarium has got new alleys, trees, street-lamps and benches. The park adjacent to the Iranian Consulate offers an unusually shaped illuminated musical fountain. There is a Peter the 1st monument installed on Governor A.P. Guzhvin Avenue.

Company Involvement in the Life of the Regions

Social and Cultural Projects Contest

The third contest was held in 10 districts of Volgograd Oblast, 5 districts of Astrakhan Oblast, in Volgograd and Astrakhan cities. Kalmykian organizations took part in the Contest in 2008.

Past years saw implementation of numerous projects promoting public environmental education, ecotourism development and highlighting environmental issues. Please note unique cultural heritage preservation projects. For further information please visit the Company's site (http://www.lukoil.ru/static_6_5id_263_.html) and that of LUKOIL-Nizhnevolzhskneft (http://www.nvn.lukoil.com/main/static.asp?art_id=746).

"Today once again I've seen for myself that anything done by the oil giant is of high quality. I am confident that all of the urban development activities will be accomplished within the shortest time possible and Lebedinoye Lake will turn into a unique site comparable only to those that I saw in Europe".

A.Zhilkin,
Governor of Astrakhan Oblast

Social and Cultural Projects Contest	2007	2008
Number of applications submitted	79	109
Number of projects financed	16	20

Source: enterprises data



Charity

Children

OA LUKOIL has sponsored child care social institutions in the towns of Kotovo and Zhirnovsk, Vetyutnev farm in Frolovo district, Solodcha village in Olkhovka district, and retarded children orphanage in Raznochinovskiy settlement in Astrakhan Oblast. In 2008 LUKOIL Group organizations operating in Volgograd Oblast implemented a project that enabled inmates of the above institutions to participate in the program named "Our Pictures of Kremlin" (as part of the exhibition called "Moscow Kremlin in Volgograd").

The program was an integrated one. Firstly, children attended an introductory class named "Moscow Kremlin - the Residence of Russian Sovereigns", then partook in an interactive tour using the exhibited items and finally using their easels painted their

impressions of the Moscow Kremlin. Authors of the best pictures were awarded a trip to Moscow. Upon finishing the program easels and materials were handed over to the Volgograd Children Art Gallery. The overall number of children taking part in the program was 111.

Furthermore, in the summer of 2008 inmates of Kotovo "Golden Drop" orphanage received 10 vouchers to a camp located on the Black Sea coast.

The company purchased interactive blackboards for three schools in Frolovo and Nikolaevo districts, Volgograd Oblast.

The company provided school supplies for children from economically disadvantaged families in Liman district, Astrakhan Oblast.

OOO Stavrolen primarily provides charitable assistance to inmates of Budennovsk orphanage: the company arranges the Black Sea rest for the inmates and assists in maintaining the orphanage building, equipping it with modern facilities and creating a cozy and comfortable atmosphere.

Since 2008 LUKOIL Group's organizations operating in Astrakhan Oblast have been implementing the project on education of young personnel out of inmates and children from economically disadvantaged families in the Oblast. A large business project started in the region proved a desperate lack of technical specialists. To solve this problem the project enabled 30 best orphanage inmates and children from poor families to learn at community colleges and higher education institutions. All education and living costs are borne by the Company.

Medicine

The Company purchased lung ventilators for Astrakhan Municipal Hospital No.1 and Liman District Hospital. This equipment enabled doctors to operate on newborns with various abnormalities. Oil companies sponsored the overhaul of the main building of Kotovo district hospital: please note

replacement of utility lines, windows and doors and acquisition of x-ray, surgery equipment, diagnostics and medical devices. Up-to-date construction materials were used to finish hospital wards and offices.

Sports

LUKOIL Group's organizations sponsor the construction of the Water Sports Centre in Volgograd. This is a unique sports centre of over 6 ths sq. m in area. The Centre includes 50x25 m main swimming pool, 650 sq. m sports game hall, a spacious gym, a conference hall and stands designed to accommodate 1,500 people.

LUKOIL Group's organizations operating in Volgograd are constantly sponsoring Russian Motocross Championship annually held in Frolovo.

Social and Marketing Events

LUKOIL Group's marketing companies implement various programs and set up events intended to improve customer services and motorist loyalty. Though such events include a significant marketing component they are also socially important as they enable the customer to optimize their fuel costs and get unexpected gifts.

Check the Quality of Your Fuel

This event was held in Rostov-on-Don, Saratov, and Astrakhan. Motorists had an opportunity to check the quality of gas and diesel in their tanks for free. The Company delivered a mobile lab to perform quick tests of petroleum products and determine fuel chemical composition and specifications.

December 2008 saw a New Year event held at all gas stations owned by OOO LUKOIL-Nizhnevolzhsknefteprodukt. A 5% discount was offered for any fuel grade.

Federal Projects and Programs

Orphanage Support

Orphanage support is among OAO LUKOIL's key charity activities. The Company, its subsidiaries, and LUKOIL's Charity Fund have been sponsoring over 50 orphanages and boarding schools in Western Siberian towns, Perm, Astrakhan, Volgograd, Kaliningrad, Nizhny Novgorod, and Moscow Oblasts as well as in Kirov, Usinsk, Saratov, Syktyvkar, and St. Petersburg for many years. The Company supports new professional approaches to solving orphan problems developed by sponsored organizations.

The reporting period saw implementation of numerous developmental projects for orphanage inmates.

“My Pictures of Kremlin” Competition. A picture competition was held for inmates of Volgograd Oblast orphanages. The Competition Committee of the Moscow Kremlin Museums assessed children's pictures. 20 inmates who painted the best pictures were awarded a trip to Moscow on the occasion of the Children's Protection Day in 2007. Children's pictures were exhibited in the Armory Chamber hall. Furthermore, children took part in a site tour and a motor ship trip, visited the Tretyakov Gallery, the Pushkin museum apartment, Kuskovo, the dolphinarium, and the circus located at Vernadsky Avenue.

2007-2008 saw educational trips to Moscow arranged for inmates of Kirov, Perm, Langepas, St. Petersburg, and Sasykol (Astrakhan Oblast) orphanages.

Publishing Program

OAO LUKOIL sponsored the publication of the multi-author monograph entitled “Oil and Russia's Safety”. The monograph focuses on the role of oil and petroleum products in the national safety during various historical periods.

This book convincingly proves long-term partnership of OAO LUKOIL and the Ministry of Defense of Russia. The Ministry and the Company has been cooperating for more than 5 years to improve the army facilities and supply the Armed Forces with petroleum products. OAO LUKOIL also tackles numerous social issues concerning servicemen.

Cooperation with Museums

The company traditionally supports some largest national museums including the Puskin State Museum of Fine Arts,

Moscow Kremlin Museums, National Russian Museum, Tretyakov Gallery, and the Kirov Museum of Fine Arts. In 2007-2008 the Company financially assisted the State Tretyakov Gallery in restoring pictures by Nikolay Ge and Carl Brullov, famous Russian artists. On the occasion of the 150th anniversary of Tretyakov Gallery the Company acquired and donated to the Museum the bas-relief made by Mikhail Kozlovsky, famous Russian artist and sculptor. In 2008 the Company supported the arrangement of the Magic Landscapes Exhibition in Finland presenting world-famous Russian art masterpieces.



The Company acquired the painting Evening Cafe by Hermenegildo Anglada Camarasa, famous Spanish impressionist, and donated it to the Pushkin State Museum of Fine Arts. The world's largest museums and European and US private collections have paintings created by this artist. His paintings stand out at Christie's and Sotheby's auctions. Only the Hermitage has exhibited one of his paintings in Russia so far. The Company also supported the restoration work carried out at the Gallery of European and American Arts in XIX-XX centuries and the acquisition of a unique multi-volumed catalogue of Western European graphics required for research carried out by the museum's staff.

“This painting acquired and donated by OAO LUKOIL to the Pushkin State Museum of Fine Arts made good the gap in the exhibition of the Gallery of European and American Art of XIX-XX centuries”.

I. Antonova,
General Manager of the Museum

OAO LUKOIL and the Moscow Kremlin Museums have been closely cooperating for over a decade. Following the mobile exhibition tradition starting from 2004 the Company supported the exhibition entitled “Moscow Kremlin in Volgograd. Russian

History Relics” held in Volgograd in 2007-2008. Lecturers and excursions including performance elements were arranged for children as part of the exhibition. The Kremlin museums provided unique multimedia educational products i.e. “Tsar and Emperor’s Hunt”, “We build the Kremlin”, and “In the Kremlin’s Chambers”. A child picture competition finished the exhibition. Winning pictures were exhibited in the Armory Chamber of the Moscow Kremlin.

Artistic Teams

OAO LUKOIL also grants its assistance to theatres and artistic teams. The Company has long-established ties with the Tchaikovsky State Academic Major Symphony Orchestra directed by Vladimir Fedoseev. It also supports Perm’s Tchaikovsky State Opera and Ballet Theater, the Volgograd Theatre for Young Audiences and other artistic teams in the areas of the Company’s operations. Besides, the Company also provides assistance to the Bolshoi Theatre of Russia, with OAO LUKOIL’s personnel being present on in the Theater’s Board of Trustees.

Sports

Russian sports have been the focus of OAO LUKOIL’s social policy for many years now. Our priorities include:

- support of professional sports teams, national federations and the Olympic movement,
- support of youths sports,
- development of grassroot sports, sports and fitness events for employees and their family members.

Support of Professional Sports Teams

The Volgograd water polo team Spartak is one of the strongest teams in the Russian Superleague. LUKOIL assisted in the establishment of the club back in 1994. Spartak is a multiple-time champion of Russia, the owner of the National Cup and a participant at European tournaments.

The Astrakhan handball club Zarya Kaspiya (Dawn of the Caspian) is one of the most successful sports teams with quite an impressive history of victories. The team made its way from the first league debutant to the USSR Champion. Starting in 1997, OAO LUKOIL has been acting in the capacity of a primary team sponsor. Zarya Kaspiya is a champion and multiple-time prize winner at Russian championships.

Starting in 2000, OAO LUKOIL has also been financially supporting **the Moscow soccer club Spartak**, which is one of the leaders in Russian soccer. The team is a 12-times champion of the USSR and a 9-times champion of Russia.

The team has won the Cup of Russia and came second in the Russian championships three times each.



Spartak is the only club of the former USSR that has qualified to the semi-finals of all the three European cups: Champions League (1991), the now abolished European Cup Winners Cup (ECWC) (1993) and the UEFA Cup (1998).

Motocross traditionally continues to remain the most popular type of motorcycle racing. A cross-country race through water barriers, sharp turns and boggy “traps” – motocross is a truly spectacular sport. OAO LUKOIL also sponsors **the Penza racing team Sura**, which was established in 1996.

In 1997, OAO LUKOIL decided to establish **the motor racing team LUKOIL Racing** for participation in national championships. This team was quite successful with over 300 podiums, 165 racing victories and 61 top honors in the Russian and European championships. None of the national teams in the entire history of the USSR and Russia managed to achieve such results. Starting in 2003, the team implemented a unique in Russia motor sports program of support for young drivers. So, LUKOIL Racing team members partook in six international championships, three of which resulted in their victory in team classification. Four championship titles were won by the drivers competing as individuals in championships and cups.



As of today, LUKOIL Racing is the leading racing team in Russia that is professionally managed and has its own driver school. The Company provides sport and legal support for racers’ careers and has its own engineering complex, were

racing cars can be developed, constructed, tested and prepared for races. This technical approach helps the team maintain the status of the highest awarded leading team in Russian motor sports and renders it capable of winning Russian and international tournaments.

OAO LUKOIL also provides financial support to the professional **volleyball club Dinamo-Yantar in Kaliningrad**. This club also organizes volleyball teams for children and arranges international contests. The Kaliningrad team competes in the Russian Super League.



In 2008-2009, OAO LUKOIL provided assistance to **the Torpedo hockey club in Nizhny Novgorod**. The team was established in 1946. Torpedo was the first non-Moscow team to have won medals in a USSR championship (silver in 1961) and to advance to the finals of the National Cup (1961).

LUKOIL also sponsored **the Russian parachuting team Chornaya Koshka (Black Cat)**. It was established following the initiative of Russian athletes – representatives of the world's former strongest team – and by Russian airborne forces team.



Due to the implementation of a clearly defined development strategy, along with high professionalism and new training methods, the Russian parachute team quickly became of the best teams in the entire world.

Medals and cups, won by Russian athletes, are a true pride of the Russian parachuting sport. The team set a world record in relative work, and according to the National Skydiving league (USA) the Russian team has been at the top of the world's parachuting teams rating for a couple of years now.

Given the importance of grassroots sports development in Russia, OAO LUKOIL also grants its support to the Student Basketball Support Club. In 2008, the first student basketball championship in Russia was organized under the aegis of the organization. The championship involved 100 teams made up of students from national higher education establishments.

Russia is traditionally considered one of the strongest countries in terms of ski sports. Russian skiers won a great number of awards at European and world championships and Olympiads. OAO LUKOIL has supported **the national ski team** for a number of years. It is in many aspects thanks to the Company that the Russian skiers performed well during the Winter Olympics in Nagano, Salt-Lake-City and in Turin. Starting in 2006, the Company has been acting as the primary sponsor of **the national team and Federation of Ski Racing in Russia**. By sponsoring the team and the Federation OAO LUKOIL significantly supports not only the Russian team, but also the development of grassroots ski sports, and, certainly, the preparation for the 2014 Winter Olympics in Sochi.



OAO LUKOIL has been an official partner of the **Russian Olympic Committee** for many years now. The Company took an active part in the training of Russian athletes for the summer Olympics of 2004 in Athens. In 2005, OAO LUKOIL became one of the co-founders of the **Russian Olympians Foundation**. The Foundation provides targeted assistance to athletes of the Russian national Olympic sports teams, which helps the latter to spend more time training for the Olympics and to achieve better results.

Support of Children Sports

1998, saw the establishment of the OAO LUKOIL Sports Club, which had the primary objective of assisting in the development of physical culture and sports in Russia. The Club has been doing sports programs and cooperating with professional teams and federations on children sports development in all the regions of the Company's operation for over 10 years.



Starting in 2001, OAO LUKOIL has supported the Teenage Football League, which is one of the biggest children's organizations in Russia. The goal of the cooperation was to revive and develop youth soccer in Russia, as well as to cultivate patriotism, love of sports and the best qualities in Russian athletes. TFL closely cooperates with the Russian Soccer Union and Professional Soccer League. The League has helped thousands of young boys to find success in soccer. The contests organized by the League involve over 250 teams and over 5 thousand young soccer players from all the regions of Russia each year.



The International Children's Champion's League is the most famous and successful TFL project in post-soviet countries. These tournaments regularly involve children's soccer teams from CIS countries, Poland, Bulgaria, Romania and China. For example, the final tournaments of the Children's Champion's League-2007, held in Moscow, were rated highly by FIFA representatives.

The Company has also sponsored the construction of three sports grounds and acquired hockey uniforms for 8 children's teams in the Kirov oblast .

Special Projects

In 2008, the LUKOIL Sports Club together with leading Russian athletes and sports veterans implemented the All-Russian Charity Program "Live a Sports Life" within the framework of supporting children's educational establishments. The goal of the program was to promote a healthy way of life and to create the conditions for regular sports exercises by youth.

The program took place in the Perm Krai, Astrakhan, Volgograd and Cheliabinsk Oblasts and the Komi Republic. Meetings and workshops with leading Russian athletes and sports veterans were organized in 11 educational institutions providing education for over 3,000 children of 4-14 years of age. The Company also presented the children with up-to-date sport products and equipment. The event was attended by famous athletes and sports veterans, including: Lubov Egorova, Raisa Smetanina, Elena Vyalbe, Aleksandr Zavyalov, Olga Rocheva, Olga Danilova, Nikolai Pankratov, and Valerii Tsyganov.

In 2009, the OAO LUKOIL Sports Club, together with the Federation of Ski Racing in Russia, the Teenage Football League, public sports associations and legendary athletes organized an All-Russian Charity Program "Believe in



Yourself", which is dedicated to the Year of Youth in Russia. The goal of the project is not only to support sports events in terms of their organization and to form a prize fund (modern sporting equipment), but also to let children participating in the



contests see legendary Russian athletes with their own eyes, communicate with them, ask them questions and to receive autographs. The Program will be taking place all year round across all the regions of Company's operations.



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Verification Statement



Independent certification sustainable development reports

To OAO LUKOIL:

Since 2003, Veritas Certification Rus Bureau has provided auditing services in independent certification of the sustainable development reports to OAO LUKOIL.

This audit certification concerns the third Company's sustainable development report entitled "2007-2008 Report on Sustainable Development Activities of OAO LUKOIL in Russia" (the Report). The report was prepared by OAO LUKOIL, which is responsible for the collection and provision of all the information in the Report. Veritas Certification Rus Bureau shall be accountable for the results of the certification of the Report before OAO LUKOIL and shall not be liable to any party for the decisions that are based on, or postponed, due to this certification.

Scope and criteria of certification

1. assess the manner and degree of the Company's compliance with the reporting principles of Inclusivity, Materiality, and Responsiveness established under the AA1000 Accountability Principles Standard 2008.
2. assess if the sustainable development performance figures provided in the Report are reliable;
3. apply a "reasonable" level of certification, as established by the International Standard On Assurance Engagement ISAE-3000;
4. check compliance of the Report with C+ level (company self-evaluation) pursuant to the Global Reporting Initiative Sustainability Reporting Guidelines, Version G3 2006.

The Report verification took into account the information available through the company's corporate website at www.lukoil.ru (Russian version), www.lukoil.com (English version), the data from the 2007 Activity Report, the 2008 Activity Report, the Company's data for the State Report of the Ministry of Natural Resources of the Russian Federation "On environmental conditions in the Russian Federation 2008",

the Analyst Databook 2008, and findings from public hearings of the Environmental Safety Program of the LUKOIL Group Companies for 2004-2008 and from the supervisory audit of the Integrated HSE management system in 22 selected regions of the company presence performed in 2009 by Veritas Certification Rus Bureau.

Methodology

- Interviews with OAO LUKOIL top managers in order to develop an integral understanding of the material economic, social and environmental aspects of the Company's business, intentions, commitments, priorities and goals in the field of sustainable development, tools for this, and the progress in achieving such goals.
- Interviews with managers responsible for stakeholder relations and studying the selection of documents that give evidence of such relations in 2007-2008.
- Analysis of the results of the supervisory audits of OAO LUKOIL Integrated HSE management system performed in 2007-2008 by ZAO Veritas Certification Rus Bureau.
- Verification of the data collection, processing, documenting, transfer, analysis, selection and consolidation processes of OAO LUKOIL to be included into the Report.
- Analysis of data from the mass media and published statements of third parties that describe OAO LUKOIL's commitment to the mission and values of sustainable development as a reference to checking the validity of the statements in the Report.
- Verification of the standard GRI reporting elements included in the Report.
- Checking the performance of the established feedback mechanisms in respect of accounts.

Domain of certification

- The certification did not deal with performance figures that are outside the time range of the current 2007–2008 reporting period.
- The certification did not take into account statements that express opinions, persuasions or OAO LUKOIL intentions to take certain measures in future.
- At the operational level, the certification was limited to visiting the departments of the Company's headquarters in Moscow and 22 LUKOIL Group subsidiaries within the framework of the second supervisory audit of OAO LUKOIL Integrated HSE management system performed in 2009 by ZAO Veritas Certification Rus Bureau.
- Dialogues with stakeholders included interviews with representatives from the Company management and its employees.

Level of certification and Basis for our decision

The selective verification of the data performed within the “medium” level certification ensures fewer guarantees for the certification than full checking of all the data (“top” level). The work was based on supporting information provided by OAO LUKOIL management and its departments as well as by representatives of the stakeholders, as well as data from available sources, together with analytical confirmation techniques. In respect of the figures included in the Report, the work performed is insufficient to identify all the possibly incorrect data.

The data we were able to collect is a sufficient basis for reaching our conclusions at a “medium” level of certification in respect to the manner and degree of the Company's compliance with the reporting principles of Inclusivity, Materiality, and Responsiveness as established under the AA1000 Accountability Principles Standard 2008.

Our opinion

1. In general, the report adequately reflects OAO LUKOIL performance indicators according to corporate reporting on sustainable development.
2. The report uses clear and understandable language, and provides correct, unbiased and informative data.

3. OAO LUKOIL has efficient management systems that help to identify major economic, the social and environmental aspects of the business, plan, to implement and improve the related processes, as well as to determine the stakeholder expectations in respect of such aspects and the responses to them.
4. The sustainable development reporting control systems of the corporate management are fully supported by the Company Mission, Policies and resources, as well as by the company's business complying with the principles of the UN Global Compact, and also the Social Charter of Russian Business.

Report compliance with the three AA1000 APS principles

Principle 1. Inclusivity

- OAO LUKOIL has relations with a huge number of stakeholders. Major stakeholders include shareholders, investors, employees and their families, trade unions, the consumers of the products and services, government authorities, suppliers and business partners, the mass media, public organizations, citizens of the regions of operations, as well as independent environmental organizations, among others. The processes of stakeholder relations utilized in the course of the report preparation are aligned to the scope and domain of the report.
- The key ways utilized to communicate information to the stakeholders and those of stakeholder relations include reports, including this Report, press releases, public hearings, publications in the mass media, the corporate website, consulting, negotiations, opinion polls, setting up special teams and permanent committees, etc.
- Stakeholders provide their opinions through the course of dialogues. The key dialogue form was to hold public hearings on the results of the Environmental Safety Program of LUKOIL Group companies for 2004-2008 (Moscow, Khanty-Mansiysk, Perm, Syktyvkar, and Volgograd) and presenting the new one for 2008-2014. The major focus of the Report is to communicate this information to its target audience.
- The information contained in the Report and reasonable and indirect evidence demonstrate that during the preparation of the report, the expectations and needs of the stakeholders in respect of the Company were taken into account.

Principle 2. Materiality

- The report provides a balanced and reasonable description of the socio-economic and environmental aspects of the business that condition the sustainable development performance of OAO LUKOIL, and are of interest to the stakeholders.
- The Company determined their approach to identifying important issues to be highlighted in the Report based on the inclusivity principle, and with the help of this principle of openness in making critical corporate decisions. Pursuant to the OAO LUKOIL Disclosure Procedure, all the material information, which includes key facts, including those of the transactions with Company assets, as well as quarterly and annual issuer reports shall be published on the corporate Internet website.
- The Report contains information on managing major types of Company risks: operational, financial, strategic and reputation risks as a component of the above risk categories.
- The Report covers a significant number of GRI performance figures applicable to the Company.
- The unavailability of some GRI performance figures in the Report is due to the fact that the respective issues are of little interest to the stakeholders and their contribution can be ignored if compared to overall Company business.
- Based on the analysis of the data from the Report and the interviews held, there are no material aspects of sustainable development out of those identified by the company that the company management missed in the report or unreasonably excluded from the accounts.
- The information contained in the Report, the Annual reports and available through the corporate website is of great interest for the stakeholders as it may influence their future decisions and relationships with the company.
- The Report provides sufficient information on the company's compliance with Russian law, regulations and industry standards for all the announced business segments of the Company, international standards and corporate strategies for the relevant accountable businesses.

Principle 3. Responsiveness

- We are currently not aware of any issues that should have been disclosed in the Report but were not, where the Company would not have been able to respond to reasonable requests from the stakeholders.

- The opinions and expectations of the shareholders are taken into account by utilizing the principles of OAO LUKOIL corporate governance, including the annual general shareholder meetings.
- The Company's response to the needs of the regions is represented by integrated social investments within the framework of OAO LUKOIL's social and economic partnership agreements with the regional administrations. Furthermore, the Report contains a common register of corporate investment projects in 2007-2008.
- The right of the people to a favourable environment is supported by the scheduled environmental activities of the Company, which are in line with its policy for an environmental management system. Implementing a series of measures has helped achieve a reduction in major environmental load indicators. The Company is also implementing greenhouse emission projects.
- Consumer needs are satisfied by scheduled supplies of products of guaranteed quality, by a high level of business, and by the communication of information to the clients, which is implemented through the integrated HSE management system which complies with SO 9001:2000, ISO14001:2007 and OHSAS 18001:2007 standards, certified by Veritas Certification Rus Bureau.
- The opinions and expectations of the Company staff were taken into account in the annual collective bargaining agreements on the basis of the Agreement between the employees of OAO LUKOIL for 2003-2008.

Compliance of the Report with GRI guidelines

The report uses the recommendations of the GRI Guideline for sustainable development reporting, and contains information on reporting elements and GRI performance indicators that qualify for C+ reporting level.

Guidelines for the development of corporate management of sustainable development reporting.

- Develop indicators and report on the extent, to which the company was able to achieve its strategic targets and sustainable development goals, which are crucial for both the Company, and the stakeholders. Submit progress reports.
- Further formalize the process of consulting various stakeholder groups in order to better identify issues crucial for the stakeholders.

- Provide balanced information in the report on both positive and negative trends in achieving the scheduled goals of sustainable development.
- Perform an internal audit of the social reporting process.
- The share Company's experience in the field of sustainable development and the social responsibility of the business with the developers of the Industry-specific attachment to the GRI Guideline for the petrochemical enterprises.

Veritas Certification Rus Bureau statement of independence, impartiality and competence

Veritas Certification Rus Bureau is an independent professional international company that specializes in accredited certification of various management systems (in particular, quality management systems, HSE management systems, social responsibility management systems, etc.).

Veritas Certification Rus Bureau hereby represents that this Certification is an independent third party auditor assessment. Veritas Certification Rus Bureau has no commercial interest in OAO LUKOIL's business, except in connection with the certification services provided.

Veritas Certification Rus Bureau
July 13, 2009



Vera Skitina
Technical Director, PH.D in Chemistry



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Attachment 1. About the Report

Sustainability Reporting Management

The reporting process was managed by a Reporting Team which was made up of representatives from the Company's following structural units: the Public Relations Department, the Main Division of Human Resources, the Main Technical Division and the International Association of Trade Union Organizations (MOPO). While developing the Sustainability Report (hereinafter referred to as the Report) the Reporting Team held three meetings with their resolutions being documented in the respective minutes.

Reporting Period

The third report covers 2007 and 2008.

Boundary of the Report

1. Geography

The Report highlights the Company's sustainability performance in Russia. The Section entitled "Sustainable Development of the Russian Regions" is structured so as to discuss each federal okrug (region) individually:

Federal Okrug	Information contained in the report	Note
North-Western	✓	
Urals	✓	
Volga	✓	
Southern	✓	
Central	✓	The data contained is only partial in nature and covers marketing events and the production of lubricants.
Siberian		No data included, refer to the section "Limitations of the Boundary of the Report"
Far Eastern		No data included since the Company does not conduct any operations in this Okrug

Like the first two sustainability reports, this Report uses the primary area selection principle: i.e. it focuses on the areas where the Company operates in all the business sectors (see below), where it has enterprises that materially impact at least one sustainable development aspect (business, environment, or social). The only exception is the Urals Federal Okrug that does not have oil refining or petrochemical enterprises and yet is historically important for the Company (refer to the 2003-2004 Sustainability Report).

It sets out certain facts regarding projects that have not been implemented in Russia but are important in terms of the selection of material sustainability issues (e.g., the production of bio-fuels and the construction of a new solar-powered gas station in Serbia).

The "About the Company" section contains information on entire the LUKOIL Group so as to highlight the overall scope of the Company's operations and to enable the reader to compare the scope thereof with that of the Company's operations. Certain data contained in other parts of the Report also pertain to the entire LUKOIL Group (as specified in respective footnotes) which is due to the fact that no data has been specifically obtained for Russia.

2. Activities and Organizations

The following are the business segments and business sectors described in the Report:

Structural Units	Sustainability Aspects described in the Report:		
	Business	Social	Environmental
OAO LUKOIL	✓	✓	✓
UPSTREAM			
Business Sector "Oil and Gas Production in Russia"	✓	✓	✓
DOWNSTREAM			
"Gas Processing" Business Sector	✓	✓	✓
"Petrochemistry" Business Sector	✓	✓	✓
Business Sector "Oil Refining in Russia"	✓	✓	✓
Business Sector "Petroleum Products Supplies in Russia"	✓	✓	✓
"Electric Power" Business Sector	✓		
"Mid-stream" Business Sector	✓		
Other Activities		✓	

The foregoing business sectors include OAO LUKOIL's fully owned subsidiaries, as well as numerous companies in which OAO LUKOIL has smaller shares (refer to the "Limitations of the Boundary of the Report" section). The grounds for the

inclusion of organizations into the scope will be the extent to which their operations impact the LUKOIL Group business, social and environmental performance, as well as their expected economic contribution in the future.

North-Western FO	Urals FO	Volga FO	Southern FO	Central FO
OAO LUKOIL				
UPSTREAM				
Oil and Gas Production in Russia				
OOO LUKOIL-Komi OOO LUKOIL-Kaliningradmoneft	OOO LUKOIL-Zapadnaya Sibir	OOO LUKOIL-Perm	OOO LUKOIL-Nizhnevolzhskneft OOO LUKOIL-Volgogradneftegaz	
DOWNSTREAM				OOO LLK-International
Oil Refining in Russia				
OOO LUKOIL-Ukhtaneftepererabotka		OOO LUKOIL-Nizhegorodnefteorgsintez OOO LUKOIL-Permnefteorgsintez	OOO LUKOIL-Volgogradneftepererabotka	
Gas Processing				
OOO Permneftegazpererabotka				
Petrochemistry				
OOO Saratovorgsintez			OOO Stavrolen	
Petroleum Products Supplies in Russia				
OOO LUKOIL-Severo-Zapadnefteprodukt	OOO LUKOIL-Uralnefteprodukt*	OOO LUKOIL-Permnefteprodukt OOO LUKOIL-Volganefteprodukt	OOO LUKOIL-Nizhnevolzhsknefteprodukt OOO LUKOIL-Yugnefteprodukt*	OOO LUKOIL-Tsentrnefteprodukt*
Transport				
OAO RPK-Vysotsk LUKOIL-II				

Note: The asterisk «*» shows that the Report includes solely quantitative information on an organization's performance (as part of the consolidated data describing LUKOIL performance in Russia) and fails to present qualitative information (an organization's involvement in the life of the region, in social and charity programs, etc.).

Limitations of the Boundary of the Report

1. Geography

The report provides no data on the Siberian FO for it is not an area of the Company's operations that can materially impact the environment, economic and social life of the Okrug.

There is only limited information on the Central Federal Okrug contained in this Report. The organizations operating in the area include OOO LUKOIL-Tsentrnefteprodukt (with social and marketing events), OOO LLK-International (production and marketing of lubricants) and OAO LUKOIL (as part of the consolidated data and charity and sponsorship programs and projects).

2. Activities and Organizations

There is only limited data available for the "Mid-stream" and "Electric Power" business sectors, i.e.

- Mid-stream – only major sites (offshore terminals such as Varandey and RPK-Vysotsk LUKOIL-II) and their economic contribution in the respective Russian regions;
- Electric Power – only information regarding the acquisition of the first assets and general strategic plants, as the sector started developing in 2008;
- The Report contains only one indicator as to the performance of the "Other Activities" sector (personnel turnover) which is due to the fact that such data is important at the Company level. Refer to the text of the Report for the respective clarification.

The Report describes organizations partially owned by OAO LUKOIL in the following degree of detail:

LUKOIL Group's companies	Sustainable development areas described in the report
OOO "Naryanmarneftegaz"	Business, environmental and social data (only quantitative performance) Qualitative information regarding socially-oriented activities will be collected and analyzed in the next report
OAO RITEK	Business data (innovative solutions) Environmental and social performance needs to be further analyzed, the inclusion of such data will be decided upon while preparing the next report

The quantitative data on the performance of OOO LUKOIL-Tsentrnefteprodukt, OOO LUKOIL-Yugnefteprodukt and OOO LUKOIL-Uralnefteprodukt contained herein comes as part of the consolidated data on the "Petroleum Products Supplies in Russia". Qualitative data is available only for OOO LUKOIL-Tsentrnefteprodukt (social and marketing events).

Projects, programs and their importance for respective regions will be more thoroughly analyzed in the next report.

The Report does not describe LUKOIL Group's organizations operating outside Russia. There are currently no plans to include such organizations into the report boundary.

The Reporting Systems

This Report has been developed using the "Sustainability Reporting Guidelines" developed by the Global Reporting Initiative (GRI, version 3.0), AA 1000 (1999), Global Compact and Social Charter of Russian Business.

The GRI compliance level, as determined by the Company, is C+.

Identification of Material Issues

The methods of identifying material issues to be included in the Report involved three stages.

1. The first stage identified the key issues describing the role of the oil and gas industry at the current phase of societal development. The references used included:

- sustainability reports of Russian and international oil and gas companies;
- analytical and other publications focusing on the state of the Russian oil and gas industry available on the Internet and in the press;
- the contents of discussions taking place at international conferences on sustainable development and reporting focusing on the oil and gas industry.

2. The second stage involved prioritizing topics that most closely relate to LUKOIL operations taking account of the Company's development strategy and key stakeholder groups views. The references used included:

- the Company internal and public strategic documents;
- LUKOIL-related publications available on the Internet and in the press;
- stakeholders' statements presented in dialogues and at public hearings.

3. The third stage involved identification of the topics already addressed in the first two reports but requiring further detail.

The following are the items included into the resultant Report Concept:

- issues that are topical for the oil and gas industry and widely discussed in Russia and abroad (see the "Energy and Public" section),
- this is the first time that the Company has stated what measures are implemented in combating climate change, and presented its environmental performance by the federal okrugs (this is the first time such information has been provided in the report, see sections Environmental Wellbeing and Sustainable Development of Russian Regions);
- further detail of consumer-oriented activities (see the "Consumers" section);
- social policy aspects that in the view of the Company are most important for the mid-term (see the Social Policies section);
- structured information on the social, business and environmental performance of the LUKOIL Group's organizations, specified herein, for each federal okrug where they are present.

Thus, the Report includes both global and Russia-specific issues.

Stakeholder Engagement

Given our focus on the Environmental Safety Program, the primary form of personal interaction used by us during the reporting period was at public hearings where the attendees were familiarized with the progress of the 2004-2008 Environmental Safety Program and learned about the New (2009-2013) program.

We also reviewed fulfillment of all requests voiced with regard to LUKOIL performance during the dialogues held in 2005 and 2007. The overall number of requests amounted to 20. Please find the results of the analysis below that reveal that 90% of the requests were either fulfilled or are being fulfilled. 10% (2 requests) have not been fulfilled in exactly the same form as made by the stakeholders – please refer to Table wishes 7 and 8 and make yourself familiar with our stance.

2007

- | | |
|---|---|
| 1. Make sure that innovative technologies are used not only in key business activities, but also with regard to charity | The Social and Cultural Projects Contest is being held in 11 subjects of the Russian Federation, as well as public presentation of the contest's results. The contest's results are published on the subsidiaries' web-sites and in specialized publications; the integrated results are published in the sustainability and annual reports. |
| 2. Do not change the existing practices of donating funds to local organizations | The Company regularly donates funds to local organizations in all areas of its operations. |
| 3. Actively disseminate the Company's experience in promoting partnerships and social and economic cooperation in the regions | We use various events attended by federal and regional authorities, non-profit organizations and the business community to present social partnership programs. Moreover, each year the Company takes part in the Donor Forum Contest "Russia's Corporate Donor" and in projects implemented by other organizations (e.g. numerous programs are highlighted in the "Best Corporate Practices Handbook" developed by RUIE in 2008). The Company's subsidiaries are involved in similar activities at a regional level. |
| 4. There is a need for the Company to be systemically represented in international institutions, especially in European ones. | In 2008 OAO LUKOIL joined the UN Global Compact. LUKOIL Group's organizations and OAO LUKOIL are also members of industry-specific associations and organizations ⁵² . |
| 5. Continue with initiatives related to environmental promotion, the support and dissemination of an environmental culture. Support mass volunteer events involving local people. | Such activities receive support as part of the Social and Cultural Projects Contest. For information on numerous projects implemented in 2007-2008, please refer to the section on sustainable development in the Russian regions.

In addition, the Company published a monograph entitled "Oil and Environment of Kaliningrad Oblast", a health demography atlas of Kaliningrad Oblast, and an album entitled "Kurshskaya Spit. The Cultural Environment". All the publications are disseminated at schools, colleges, and libraries of Kaliningrad and Kaliningrad Oblast, as well as at scientific conferences. |
| 6. Provide people with clarification regarding the operations of the corporate pension fund given its efficient performance. | In 2007-2008, the personnel of NPF LUKOIL-GARANT held over one thousand informative meetings for business, budget and municipal enterprises and organizations. Federal, regional and the local mass media published over 300 pension-related reports, and the number of times the fund's representatives took part in TV and radio shows, where they mentioned how to get a good pension under current conditions, neared 100. The results are highlighted herein. |

⁵² CFor LUK-International's membership in international organizations refer to the "Consumers" section of this Report.

2005 [requests partially highlighted in previous reports]

7. Analyze the Company's socially-oriented activities in the context of the current social and economic reforms	We intend to highlight our socially responsible performance in the context of regional problems and not in connection with implemented reforms as we deem such an approach to be more productive. This Report is structured so as to include information on the LUKOIL Group's performance in the federal okrugs. We will improve the analytic approach in our next reports.
8. Make sure that social stability indicators, social risks and sustainable development indicators are included in the report	This wish has not been fulfilled with regard to the social stability indicators and social risks due to the fact that the analysis of the foregoing factors has not yet been completed. We use GRI indicators for measuring our sustainability impact. This Report also includes certain indicators that in our view are important for regional development. Review of our operations with regard to how they impact the Russian regions' sustainable development will only be possible after sustainability indicators are adopted for the federal okrugs and oblasts (krais).
9. Make sure that the Report shows the connection between environmental protection activities and the economic component following the signing of the Kyoto protocol.	The data is contained herein.

Principles for Ensuring the Report Quality

Balanced Nature. We have done our best to include both our success stories and problems in the Report.

Comparability. The Report shows numerous indicators varying over the period of several years. It also continues to discuss the issues highlighted in the first two reports.

Accuracy. The Report contains data which has been officially recognized by the Company.

Timeliness. Data contained in the Report has been produced on a timely basis i.e. in connection with the requests made by stakeholders and as soon as it became available.

Clarity. The Report largely avoids using profession jargon and does not include information that requires specialized knowledge.

Reliability. The report was verified by Bureau Veritas Certification. The auditor's opinion is published herein.

Attachment 2.

GRI, Global Compact and Social Charter Compliance Table

Aspects	Standard Disclosures and GRI indicators	Global Compact principles	Social Charter Indicators	Comments
The organization's strategy and profile	1.1 First person's address			Opens the report
The organization's profile including: key products, functional structure, nature of ownership, markets, size of organization, and awards	1.2		1.1	Key risks and opportunities are partially discussed – refer to the section "Energy and Public".
	2.1–2.2, 2.4–2.6, 2.9–2.10		1.2, 1.3, 1.6, 1.7	Refer to the section "About the Company". Location of the head office (standard disclosure GRI 2.4) - refer to the section "Reference Information". On the standard disclosure 2.10 also refer to the section "Sustainable Development of Russian Regions".
Report parameters	3.1–3.8 3.10–3.13			Refer to Attachment No. 1 "About the Report". Contact information (standard disclosure GRI 3.4) - refer to "Reference Information". Standard disclosure GRI 3.10 – no re-statements were used in the Report. Standard disclosure GRI 3.10 – refer to Attachment No. 2 "GRI, Global Compact and Social Charter Compliance Table"
Governance	4.1, 4.3			Refer to the "About the Company" section.
Externally developed initiatives	4.12		3.3.4 3.3.5	Refer to the section "Sustainable Development: Key Focus Areas". Refer to the section "Consumers".
Stakeholder engagement	4.14–4.17			Data contained in all of the Report's sections and Attachment No. 1.
Economic performance	EC1 (partial)			Refer to the section "About the Company".
	EC3			Refer to the section "Social Policy", and the subsection "Corporate Retirement Program"
	EC7			Irrelevant for the Company.
	EC8, EC9			Refer to the section "Sustainable Development in the Russian Regions".
Environmental performance				
Materials	EN1 (partial)	Principle 8		Refer to the section "Energy and Society", and the subsection "Supplies of Resources", as well as the paragraph titled "Increasing refining volumes".
Energy	EN6	Principles 8 and 9		Refer to the section "Energy and Society", and the subsection "Clean Energy", the extracts "Producing high-quality fuels" and "Alternative Energy Solutions".
Water	EN8, EN10	Principle 8		Refer to the section "Environmental Wellbeing", the subsection "2004-2008 Environmental Safety Program", and the paragraph entitled "Clean Water".
Biodiversity	EN11 EN13–EN14			Refer to the section "Sustainable Development of Russian Regions", the subsection "Urals FO", and the paragraph titled "Environmental Performance". Refer to the section "Sustainable Development of Russian Regions", the subsections "North-Western FO", "Urals FO", and "Southern FO".
Emissions, discharge and waste	EN16 EN18 EN19 EN20–EN22	Principles 7, 8, 9	2.5–2.8	Refer to the section "Environmental Wellbeing", and the subsection "2004-2008 Environmental Safety Program". Refer to the section "Environmental Wellbeing", and the subsection "Measures to Combat Climate Change". EN19 is irrelevant for the Company. Refer to the section "Environmental Wellbeing", and the subsection "2004-2008 Environmental Safety Program".

Aspects	Standard Disclosures and GRI indicators	Global Compact principles	Social Charter Indicators	Comments
Products and services	EN26	Principles 7, 8, 9	2.11	Refer to the section "Environmental Wellbeing", the subsection "2004-2008 Environmental Safety Program", and the paragraph entitled "Clean Air".
	EN28			Refer to the section "Environmental Wellbeing", and the subsection "Environmental Management System".
General	EN30	Principles 7, 8, 9		Refer to the section "Environmental Wellbeing", and the subsection "2004-2008 Environmental Safety Program".
Social performance				
Employment	LA1 – LA2 (partial) LA3	Principle 6	3.1.1 (partial) 3.1.2	Refer to the "Social Policy" section.
Relations between management and personnel	LA5	Principle 3		Consistent with the Labor Code of Russia and collective agreements
Occupational health and safety	LA6 LA7 (partial), LA9	Principle 1	3.1.5, 3.1.9	LA6 - 2%. Refer to the section "Social Policy", and the subsection "Health and Safety"
Education and training	LA11			Refer to the section "Social Policy", and the subsection "Personnel Training and Development System"
Diversity and equal opportunities	LA13 (partial)	Principles 1, 6	3.1.12	Refer to the "Social Policy" section, and the paragraph entitled "Employer's Profile".
Human Rights				
Investment and purchasing practices	HR1	Principles 1, 2, 3		HR1 is relevant for social and economic cooperation agreements made in the federal okrugs that have settlements of indigenous and minority peoples. Refer to the section "Sustainable Development of Russian Regions".
Discrimination	HR4	Principles 1, 2, 6	3.2.2	No cases of discrimination were reported during the reporting period.
Freedom of association	HR5	Principles 1, 3		No infringement of the right of freedom of association and collective negotiations were reported during the reporting period.
Child labor, forced and compulsory labor	HR6–HR7	Principles 1, 2, 4, 5		None of the aforementioned types of labor were reported to the Company during the reporting period. The Company operates in compliance with the provisions of the Russian Labor Code. There is no substantial risk of failure to comply with the Labor Code with regard to the foregoing types of labor in Russia
Indigenous and scanty peoples	HR9	Principles 1, 2	3.2.3	Refer to the section "Sustainable Development of Russian Regions".
Society				
Community Anti-Competitive Behavior Cooperation with the authorities in addressing socially important issues		SO1 SO7	3.3.2 3.1.5, 3.3.3	Refer to the section "Sustainable Development of Russian Regions". Refer to the section "Consumers", subsection "Pricing Policy". Refer to the section "Sustainable Development of Russian Regions".
Products				
Customer Health and Safety Labeling Products quality assurance	PR1 PR5	Principle 1	3.4.2	Refer to the section "Consumers", and the subsection "Producing high-quality fuels".
Marketing communications Customer privacy	PR7 PR8	Principle 1		Irrelevant for the Company.

Reference information

The Report is published at the Company's website www.lukoil.ru (Rus. ver.) and www.lukoil.com (Eng. Ver.).

You are welcome to address your questions or discuss one of the issues. Please, write to us at socotchet@lukoil.com.

Legal address and headquarters:

Sretenskiy blvd. 11,
Moscow, 101000, Russia.

Central hotline:

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

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

Press office:

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

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

Terms and definitions

Names and words OAO LUKOIL, the LUKOIL Group, LUKOIL, the Company, the LUKOIL Company, NK LUKOIL, 'we,' 'our' used in this Report are synonymous and refer to the organisations of the LUKOIL Group, OAO LUKOIL, and/or to its subsidiaries, depending on the context.

