

**Opinion  
of the Audit Commission  
based on a review of the financial and business activity  
of OAO “LUKOIL” in 2009**

**Moscow**

**28 April 2010**

In accordance with the legislation of the Russian Federation, the Charter of OAO “LUKOIL” (hereinafter also the “Company”), the *Regulations on the Audit Commission*, and on the basis of the audit opinion of the Audit Firm ZAO KPMG, the Audit Commission performed a review of the Company’s financial and business activity in 2009.

No requests for extraordinary reviews and audits were received during the year by the Audit Commission from shareholders or the Board of Directors.

In accordance with the Work Plan (Appendix No. 1 to the Minutes of the Audit Commission meeting of 3 July 2009), the Audit Commission performed a review of:

1. Compliance of the procedure for keeping accounts of business operations with the accounting policy of OAO “LUKOIL” and the regulatory legal acts of the Russian Federation;

2. Compliance with the procedure for performing stocktakes of assets and financial liabilities and documenting their results for the preparation of annual financial statements;

3. Compliance with the *OAO “LUKOIL” Regulations for the calculation and payment of dividends, the assessment and payment of taxes on income in the form of dividends to shareholders of OAO “LUKOIL”, and the calculation and payment of funds to parties claiming the receipt of dividends as an inheritance;*

4. Timeliness of preparation and provision of financial statements to interested users;

5. Reliability of the data contained in the annual financial statements and Annual Report of OAO “LUKOIL” for 2009.

In addition, the main indicators characterising the financial and business activity of OAO "LUKOIL" in 2009 were assessed.

During the review it was established that:

1. OAO "LUKOIL" (the "Company") keeps its accounts on the basis of the *Regulations on the Accounting Policy for 2009*, approved by OAO "LUKOIL" Order No. 232 of 31 December 2008 and prepared in accordance with Federal Law No. 129-FZ *On Accounting*, the accounting regulations and other regulatory acts governing accounting issues, and the Tax Accounting Policy (OAO "LUKOIL" order No. 233 of 31 December 2008) prepared in accordance with the requirements of tax legislation.

2. For the purposes of ensuring the reliability of the data in the accounting and reporting before the preparation of the annual financial statements, a stocktake of the Company's assets and liabilities was performed on the basis of OAO "LUKOIL" order No. 190 of 25 September 2009.

The stocktake of the assets and financial liabilities was performed at the Company by the established deadlines and in accordance with the requirements of the *Methodological Recommendations on Stocktakes of Assets and Financial Liabilities* approved by RF Ministry of Finance Order No. 49 of 13 June 1995, and the *Methodological Recommendations on Stocktakes of Assets and Financial Liabilities of OAO "LUKOIL"*, approved by Order No. 167/1 of 13 September 2006, as amended by Order No. 217 of 29 October 2009.

The performance of the stocktake was documented and the results were presented in the accounts using the unified forms approved by Resolution No. 88 of the RF State Statistics Committee of 18 August 1998 and the forms approved by order No. 167/1.

The stocktake of assets was performed by working commissions at facilities that are subordinate to the Company's accountable officers, with the preparation of inventory sheets. All inventory sheets are signed by members of the stocktake commissions and the accountable officers.

The stocktake of all types of settlements, financial investments, provisions, etc. was performed on the basis of source and supporting documents, with the preparation of Stocktake Reports.

All Reports on the stocktake of assets and liabilities were signed by the members of the working audit commissions.

The results of the stocktake of assets and financial liabilities were documented in minutes of the working stocktake commissions, which were sent to the Company's Main Stocktake Commission.

The results of the stocktake were recorded in the minutes of the Main Stocktake Commission and approved by OAO "LUKOIL" Order No. 270 of 31 December 2009.

3. The Company's structural divisions comply with the procedure established by the *Regulations for interactions in the calculation and payment of dividends, the assessment and payment of taxes on income in the form of dividends, and the remittance of funds to parties claiming the receipt of dividends as an inheritance.*

Annual dividends for 2008 were paid by the Company during the established period from July to December 2009 to individuals and legal entities registered in the Company's shareholder register as at 8 May 2009. In the reporting period annual dividends for 2008 were accrued in the amount of RUB 42,528,163 thousand.

Over the period July to December 2009 dividends were paid by bank transfer in the amount of RUB 37,172,004 thousand, and by postal transfer in the amount of RUB 100,544 thousand; the return of dividends was RUB 75,808 thousand, and the balance of unpaid dividends for 2008 as at 31 December 2009 was RUB 124,094 thousand. Taxes on the income of Company shareholders in the form of dividends for 2008 were paid to the budget in the amount of RUB 5,207,328 thousand.

As at 31 December 2009, the Company had debt on the payment of dividends in the amount of RUB 391,802 thousand, including dividends for 2002–2005 totalling RUB 154,015 thousand and for 2006–2007 in the amount of RUB 113,693 thousand. This debt was formed in connection with the return of funds due to the fact that certain parties (legal entities and individuals) registered as OAO "LUKOIL" shareholders have not informed the registrar of changes to their particulars (address, banking and mailing details).

The results of the stocktake of settlements with founders on the payment of income as at 1 October 2009 were recorded in a Stocktake Report and the minutes of a meeting of the stocktake commission, which support the balance of accounts payable on dividends.

4. The Audit Commission confirms that the financial statements were prepared by the deadlines set by the Company's document-flow regulations and were provided on time to interested users.

5. The data contained in the forms of the annual financial statements correspond to the data presented in the accounting registers. The Company's financial statements include data on assets, liabilities, income and expenses provided by trustees. The explanatory note contains information that must be disclosed in accordance with the requirements of accounting regulations.

The reliability of the financial statements for 2009 was confirmed by an auditor's report issued by audit firm ZAO KPMG.

**The Company's financial and business operations in 2009 are characterised by the following indicators:**

**Sales revenue** for 2009 equalled RUB 536,708,067 thousand, which is RUB 87,271,508 thousand, or 14%, lower than the 2008 level. The main factors behind the change in revenue growth year on year are:

- a fall in the volume of sales by 13.7 million tonnes, or 14.8%, compared to 2008 (including the transition of LUKOIL-Komi from oil purchase and sale agreements to commission arrangements in the amount of 2.68 million tonnes);

- an increase in selling prices led to a revenue growth of 0.8%.

During the reporting period the **production cost** of goods, products, work and services sold equalled RUB 429,194,256 thousand, which is RUB 82,834,347 thousand, or 16.2%, less than in 2008. The main reasons for the fall in total production cost is the fall in the volume of oil sales and the change in the price of oil.

The Company's **selling expenses** were RUB 49,899,368 thousand, an increase of RUB 1,831,130 thousand, or 3.8%, over 2008. The growth in selling expenses was

connected with an increase in expenses on pipeline transport, which make up 91% of selling expenses. The share of selling expenses in sales revenue increased from 8 to 9%.

**Management expenses** increased by RUB 961,639 thousand, or 8.2%, year on year in 2009, and equalled RUB 12,706,698 thousand. The increase in management expenses was connected with a growth in expenses on the services of third-party organisations.

Taking into account the changes in gross profit, selling and management expenses, the amount of profit on sales fell by RUB 7,229,930 thousand roubles, or 13.9%, and equalled RUB 44,907,745 thousand. However, the profit margin on sales remained at the previous level of 8.4%.

The positive difference between interest received on loans to subsidiaries and interest paid equalled RUB 4,871,115 thousand.

The Company's interest expenses paid in 2009 equalled RUB 32,886,068 thousand, compared with RUB 4,520,565 thousand in 2008 (including on bank credits and loans from subsidiaries in the amount of RUB 29,088,974 thousand).

Income received from participation in other organisations equalled RUB 12,613,614 thousand in 2009, which is RUB 1,052,836 thousand more than in 2008.

**Other income** in 2009 equalled RUB 6,554,294 thousand, which is RUB 7,262,913 thousand less than in 2008. **Other expenses**, on the other hand, increased by RUB 4,009,243 thousand, and equalled RUB 14,984,322 thousand.

Considerable changes were seen in the following items included in **other income and expenses**:

- **Exchange differences** – in 2009 there was an expense of RUB 9,717,281 thousand, as foreign-exchange losses exceeded foreign-exchange gains, while in 2008 there was a net income from exchange differences of RUB 7,880,622 thousand;
- Income from the purchase and sale of foreign currency in 2009 equalled RUB 3,157,756 thousand, compared to RUB 685,619 thousand in 2008;
- The difference in the market value estimate of financial investments – the income received in 2009 due to the revaluation of the shares in OAO RITEK and OAO YuGK TGK-8 – equalled RUB 2,224,688 thousand, while in 2008 there was a revaluation expense of RUB 7,714,521 thousand;
- Income on the impairment provisions for financial investments decreased in 2009 by RUB 3,250,522 thousand year on year, and equalled RUB 1,067,148 thousand;
- Expenses related to banking services equalled RUB 2,139,926 thousand in 2009, compared to RUB 53,874 in 2008.

As a result, profit before taxes fell by 38.9% in 2009 compared to 2008, and equalled RUB 53,962,446 thousand (against RUB 88,314,695 thousand).

**Corporate profits tax** fell by 57% (from RUB 22,781 million in 2008 to RUB 9,884 million in 2009). This was due to a reduction in the tax rate from 24% to 20% from 1 January 2009 (a reduction of RUB 1,972.2 million) and a reduction in the tax base (as a result of a fall in sales revenue and an increase in other expenses).

The reduction in the tax burden had a positive effect on the amount of **net profit** of the reporting year, which only fell by 32.82% year on year and equalled RUB 45,147,922 thousand.

The increase in the Company's net assets compared to the previous period equalled 8%, with their total amount reaching RUB 330,801,217 thousand.

### **Annual Report of OAO "LUKOIL"**

The OAO "LUKOIL" Annual Report contains reliable information on the Company's operations, as well as its priority areas of activity and growth prospects.

The OAO "LUKOIL" Annual Report was signed by Acting President of OAO "LUKOIL" R.U. Maganov and Chief Accountant I.A. Kozyrev.

The OAO "LUKOIL" Annual Report was prepared in accordance with the requirements of RF FCSM Resolution No. 17/ps of 31 May 2002 (point 3.6).

### **Conclusions**

OAO "LUKOIL" keeps accounts based on the Accounting Policy for 2009, approved by Order of OAO "LUKOIL" No. 232 of 31 December 2008 and drafted in accordance with Federal Law No. 129-FZ *On Accounting*, the accounting regulations and other regulatory acts governing accounting issues, and the Tax Accounting Policy (order of OAO "LUKOIL" No. 233 of 31 December 2008) drafted in accordance with the requirements of tax legislation.

The Audit Commission did not disclose any instances of violations of the accounting and reporting procedure established by the legislative acts of the Russian Federation and the Company's accounting and reporting policy that would be capable of materially affecting the reliability of the financial statements of OAO "LUKOIL".

The Audit Commission confirms the reliability of the data contained in the Annual Report of OAO "LUKOIL" and the annual financial statements for 2009.

Chairman of the Audit  
Commission

V.N. Nikitenko

Members of the Audit Commission:

P.G. Kondratiev

L.G. Ivanova