Open joint stock company “Oil Company “LUKOIL”.

Summary of 2009 performance results and main objectives for 2010

We are pleased to announce that the LUKOIL Group has achieved positive performance results in 2009, a challenging and unpredictable year that began at the peak of the global economic crisis with a significant reduction in demand for oil and petroleum products. In this difficult time, the Company successfully demonstrated its ability to withstand hardships, react adroitly to unfavourable economic conditions, ensure stable and progressive development of its business, and increase its value growth potential. In view of the rapid downturn in the economic environment, during the reporting year we focussed on reducing capital expenditures, tightening financial discipline, and shoring up the Company’s financial position. Through it all, we continued to finance key development projects in full. As a consequence, the Group was able to achieve good results and lay the foundation for continued growth.

Net profit of the LUKOIL Group in the reporting year equalled USD 7.011 billion, with an 11.8% return on capital employed. Free cash flows reached USD 2.360 billion, a lofty indicator considering the crisis in the economy. It should be noted that the year-on-year decrease in OAO “LUKOIL’s” net profit for 2009 was much lower than the decrease in the price of oil in percentage terms. Although the average annual price for Urals oil in 2009 fell by 35.5%, the Company’s net profit dropped by only 23.3%. The oil refining margin in Russia and the world also fell more sharply than OAO “LUKOIL’s” refining results. This was achieved through the Company’s efforts to improve operating efficiency, cut costs in all areas of business and grow oil production and refining volumes.

The Company confirms its commitment to a long-term policy aimed at increasing shareholder return. For example, the amount of dividend payments for 2009 will not be lower than in 2008, despite the reduction in net profit: on 20 April 2010 the Board of Directors recommended that the General Shareholders’ Meeting approve dividends for 2009 in the amount of RUB 52 per share (USD 1.72 at the exchange rate on 31 December 2009), which corresponds to the level of the previous year. The share of dividend payments will exceed 20% of net profits (in 2008 – 15%), and dividend yield will equal 3.6%.

By year end, we had achieved a better balance of our sources of financing. Specifically, the Group placed an issue of Eurobonds worth USD 1.5 billion. The yield on the issue was set at the pre-crisis level, an unprecedented step for a private Russian company.

Geological exploration, oil and gas reserves.

The greater part of oil and gas exploration work was concentrated in the regions of Western Siberia, Perm krai and the Timan-Pechora oil and gas province. The largest exploration projects include follow-up exploration at the Central Astrakhan gas condensate deposit, study of the geologic structure and the oil and gas potential of the Denisovsky basin in Timan-Pechora, and study of the oil and gas potential of assets under the Riyadh project (Block A) in Saudi Arabia.

One new field was discovered in 2009 (Timerovo in Tatarstan), as well as 17 oil accumulations at previously discovered fields. The main growth in liquid hydrocarbon reserves through geological survey work was seen in Western Siberia.

The Company’s proven hydrocarbon reserves based on the international SEC classification equalled 17.504 billion barrels of oil equivalent (BOE) as at 1 January 2010, including 13.696 billion barrels of oil and 22.850 trillion cubic feet of gas. The Company has decided to switch to assessing reserves using SEC standards, to ensure greater transparency of data on reserves and the comparability with the data of competitors.

Pursuant to SEC requirements, there must be an approved development plan for reserves to be recognised as proven undeveloped reserves. The plan should stipulate a development start date of these reserves within the next five years, unless specific circumstances justify a later development start date. In view of the changes in development plans and deadlines for commissioning of a number of fields, the Group has reclassified 1.8 billion BOE from proven reserves to low category reserves and equivalent resources (gas reserves were primarily reclassified, due to changes in the deadlines for commissioning of a number of Caspian projects). The Company believes that these reserves may be transferred back to proven reserves as the deadlines for their development approach.

The most important event of 2009 was the win by a consortium including the LUKOIL Group and Statoil (Norway) in the tender for the right to develop the Western Qurna-2 field in Iraq. Western Qurna-2 is currently one of the largest undeveloped fields in the world (with recoverable reserves of nearly 13 billion barrels). The effective term of the contract is 20 years, with the possibility for extension for another five years.

Oil and gas production.

The LUKOIL Group's production of marketable hydrocarbons increased by 0.8% in 2009, and equalled 807 million BOE. Average daily production equalled 2.212 million BOE/day.

The LUKOIL Group's oil production (with due account of its share in production performed by associates) equalled 97,615 thousand tonnes in 2009 (1,972 thousand bbl/day), which is 2.7% higher than in 2008. The main factors in the growth in production were the Yuzhno-Khylchuyu field, commissioned in mid-2008, and growth under international projects. The growth rate was negatively impacted by the decline in oil production at fields in Western Siberia. The decline was connected, first and foremost, with objective changes in the structure of recoverable reserves. The Company plans to mitigate the negative impact on the production process by using new enhanced oil recovery (EOR) technologies.

An offshore ice-resistant stationary platform with drilling facilities, housing and transportation infrastructure were built at the Korchagin field in 2009, and exploratory drilling was begun. The first oil was extracted at the field in the second quarter of 2010. This field is the first in a line of promising Caspian projects to be developed by the Company, and will guarantee long-term qualitative growth in production.

Commercial gas production in the reporting year (after own needs, injection into formation and transportation losses) equalled 14.898 billion m^3 (1,441 million cubic feet/day). Average daily production of commercial gas fell by 12.5% compared to 2008, including by 16.9% in Russia, due to the limited acceptance of gas by Gazprom.

Eight new fields were brought into development in 2009. Maximum annual production of liquid hydrocarbons at the fields brought into production in 2009 will reach nearly one million tonnes/year.

The Nakhodkinskoye field of the Bolshekhetskaya depression accounted for most natural gas production in Russia (more than 90%). In 2009, 6 billion m^3 of gas were produced here, which is almost a third less than in 2008, due to the curtailment of gas purchases by OAO Gazprom. Preliminary preparations for development continue at other fields of the Bolshekhetskaya depression. Pursuant to the approved investment programme, work on infrastructure development has begun at the Pyakyakhinsky field. One well has been put into operation, and production of natural gas for internal needs has started. Once planned production levels are reached at all fields of the Bolshekhetskaya depression, the Company's total production of natural gas in the region will equal 20 billion m^3.

Most of the research and development work in this business segment was related to the design of efficient geological survey complexes, improvement of reserve estimation methods (work continued on creating a method for estimating hydrocarbon reserves in complex reservoirs), development and improvement of enhanced oil recovery methods and optimisation of technical solutions for developing undrilled plots and occurrences. Close attention was paid to environmentally safe technologies for developing fields, especially offshore fields.

Oil refining.

The LUKOIL Group continued active work in 2009 to develop the oil refining segment by upgrading and expanding its refining capacity, and through participation in promising new projects.

The volume of the Company's oil refining operations, including processing at third-party refineries, increased by 7.6% year on year, to 66.48 million tonnes, 62.70 million tonnes of which were refined at the Group's refineries (with account of refining at the ISAB and TRN complexes) (11.4% more than in 2008).

The Company's main achievement in the refining sector was the conclusion of a transaction with TOTAL S.A. (France) on the acquisition of a 45% equity share in the TRN oil refinery (Netherlands) for around USD 700 million. The acquisition of the equity share in TRN fits in nicely with the Company's strategy to expand oil refining capacity in the immediate proximity of sales markets for finished products with high added value. TRN is located in the Vlissingen Oost port region in southwest Netherlands, in one of the largest world centres of trade in oil and petroleum products (Amsterdam-Rotterdam-Antwerp). The refinery is integrated with the nearby petrochemical production facilities, and connected by pipeline with one of the largest oil terminals in Europe (Maasvlakte Olie, Rotterdam), in which the refinery owns a 22% equity share. The refinery also owns its own port with several terminals for loading products onto sea and river vessels.

The Group's refineries performed active measures to cut costs and improve performance in 2009. During the reporting year 156 steps were taken to optimise production capacity and increase the workload of facilities, improve the energy efficiency and reliability of equipment, and increase the time between repairs, and optimise staffing numbers and rotation. These measures had an aggregate effect of around USD 88 million (net effect – USD 18 million), including optimisation of production capacity by USD 70 million. The most notable effect of these measures was seen at the Perm Refinery (USD 28 million).

Processing of raw materials at Group gas-refining companies.

In 2009 the Company's gas refineries processed 2,962 million m^3 of raw gas and 718 thousand tonnes of natural gas liquids, or 9% and 17% less than in 2008, respectively. This drop was caused by a fall in demand for refining products, as well as repair of the associated gas compressor at the Korobkovsky Gas Processing Plant (the repair was completed in November 2009). Output of Company refineries included 2,346 million m^3 of lean gas, 785 thousand tonnes of liquefied gases and 838 thousand tonnes of liquid hydrocarbons (stable natural gasoline, isopentane and hexane-heptane fractions, natural gas liquids).

Production of petrochemical products.

In 2009 the petrochemical plants of the LUKOIL Group manufactured 902 thousand tonnes of products, or 38% less than in 2008. This fall in production is the result of suspension of activities at OOO Karpatneftekhim for reconstruction in May 2008, and falling demand for petrochemical products.

As part of the strategy to develop the LUKOIL Group's petrochemical sector, measures were taken in 2009 to modernise existing facilities and create new facilities. The Company's capital expenditures in the petrochemical sector totalled USD 113 million.

In May 2008 operations at the Karpatneftekhim plant were suspended in order to carry out large-scale reconstruction. In particular, in 2009 work was completed at the plant to build a unit to produce chlorine and caustic soda by membrane electrolysis, with an annual capacity of 182 thousand tonnes of gaseous chlorine and 200 thousand tonnes of caustic soda. The implementation of this project will allow the plant to begin the production of caustic soda that meets world quality standards and also fully supply internal needs for chlorine. The commissioning of the unit is planned for mid-2010. Construction continues on a unit to produce PVC suspension with a capacity of 300 thousand tonnes per year. The integration of this unit with the PVC unit will allow for a significant increase in overall production efficiency. The commissioning of the unit is planned for the end of 2010.

OOO Saratovorgsintez performed scheduled repair work in the reporting year. The sodium cyanide unit, created in 2008, was brought up to its designed capacity (15 thousand tonnes/year), achieving savings of raw materials and energy.

With the aim of increasing the output and volume of processing of gas stock from 200 thousand to 400 thousand tonnes per year, the liquefied hydrocarbon gas storage facility at OOO Stavrolen was rebuilt in 2009. The commissioning of the unit is planned for 2010. In the fourth quarter of 2009 designed capacity was achieved in the production of polypropylene (360 tonnes/day) and new high-index grades with high added value began to be produced. A new polyethylene compounding line was put into operation in the reporting year. In addition, energy savings were achieved in the production of polyethylene and polypropylene, as was a reduction in natural gas use in the production of olefins.

Power generation.

A new business sector was created in 2008, as part of the Strategic Development Program for 2008–2017: Power Generation. The new business segment received special attention in the Company’s updated strategy for 2010-2019. In the long-term perspective, the Power Generation sector will become an important factor in increasing the Company’s cash flow and shareholder value.

The new sector brings together all areas of the energy business, starting with generation and ending with the transportation and distribution of heat and electrical power. This is required to provide reliable supplies to meet the Company’s own needs for heat and electricity, as well as those of external consumers. Besides OAO YuGK TGK-8, acquired in 2008, and the company’s power stations at fields in Russia, the Power Generation business sector also includes enterprises generating electrical and heat energy in Bulgaria, Romania and Ukraine.

The organisations in the Power Generation business sector produced a total of 14.7 billion kWh of electrical power in 2009. Total output of heat energy was 16.9 million Gcal.

The drop in the output of heat energy was due to a reduction in demand, as well as a delay in the start of the heating season due to warm weather in the Southern Federal District.

Oil and gas shipments.

Total oil shipments by the Company in 2009 reached 116.5 million tonnes, which is 15% higher that the 2008 level. In the reporting year, the volume of oil exports from Russia grew substantially (by 7%) thanks to supplies of oil from the Yuzhno-Khylchuyu field via the Varandei terminal. At the same time, the volume of oil refining within the country remained high (facilities were operating at 100% capacity).

A total of 3.0 million tonnes of oil were sold in Russia in 2009, which is 42% higher than in 2008. Substitution arrangements were implemented for the delivery of LUKOIL Group resources to the Yaroslavl and Ryazan refineries, which made it possible to save logistics costs compared to the alternative of exporting through the Primorsk port. A total of 606 thousand tonnes of oil was purchased in Russia during the reporting year, compared with 236 thousand tonnes in 2008.

Oil exports from Russia by OAO “LUKOIL” subsidiaries (taking into account oil purchased from third-party producers) were 42.02 million tonnes, or 6.9% higher than in 2008, as a result of substantial deliveries through the Varandei terminal. Of this amount, 33.66 million tonnes were exported to countries outside the former Soviet Union, and 8.36 million tonnes to other countries of the former Soviet Union. In 2009 the Company managed export deliveries efficiently, selecting the most profitable routes.

In 2009 sales of natural gas, associated petroleum gas, lean gas and dry gas by Russian Group companies were 10.947 billion m^3, which is 15.6% less than in 2008. Of this, the Group sold 7.584 billion m^3 to OAO Gazprom (including almost 6 billion m^3 of natural gas from the Company's Nakhodkinskoye field) and 3.363 billion m^3 to other consumers. The reduction in the volume of gas sales was caused by a drop in global demand for gas and the corresponding restrictions on the ability of OAO Gazprom to accept gas (supplies to other consumers dropped by only 2.5%).

Retail sale of oil products.

At the end of 2009, the LUKOIL Group retail network covered 26 countries and included 199 tank-farm facilities, with a total reservoir capacity of 3.13 million m^3, and 6,620 filling stations (including those operating as franchises).

The Company's retail sales of oil products remained virtually unchanged in the reporting year: company-owned filling stations sold 14.08 million tonnes of oil products, 0.6% less than in 2008. Group average sales per filling station (company-owned and leased) equalled 7.8 tonnes per day, compared to 7.3 tonnes per day in 2008. The increase in average daily sales was due to the optimisation of the Group's retail network and a reduction in the number of low-performing filling stations (specifically in the USA).

The growth in retail sales was mainly achieved by increasing sales on the Russian market, as well as improvements to the operating efficiency of the business segment. Retail sales on the foreign market fell by 4.1% as a result of a drop in solvent demand and lower volumes of carriage. In accordance with the new development strategy, the Company plans to focus on optimising the existing retail network, while lessening its activity on the asset acquisition market. In the reporting year, the Company acquired 21 filling stations in Russia and 12 filling stations abroad.

Stock market.

2009 was a year of growth in the market capitalisation of OAO "LUKOIL" after a significant drop the year before, caused by the global financial crisis. At the end of the year, the market capitalisation of OAO "LUKOIL" was USD 47.8 billion, compared to USD 27.2 billion at the end of 2008. However, during the reporting year there was high volatility in the Company's share price, which followed global and Russian trends.

Over the reporting period, the price of OAO "LUKOIL" shares rose by 75.6% (based on results on the RTS stock exchange), equalling USD 56.20 per share at the end of 2009. The growth in the Company's share price in 2009 lagged somewhat behind the Russian stock market as a whole (the RTS index rose by 128.6%, while the MICEX index rose by 121%). Thus, the current undervalued state of the shares creates potential for their substantial growth in the future.

Despite the difficult situation on the stock market and the economy as a whole, OAO "LUKOIL" shares were one of the most liquid securities of any Russian issuer in 2009, both in Russia and abroad. OAO "LUKOIL" shares accounted for 6.5% and 5.3% of the total volume of trading on the major MICEX and RTS stock exchanges, respectively.

The programme of American depositary receipts for Company shares continued in the reporting year; these were traded on the over-the-counter market in the USA, and on the London, Frankfurt, Munich, Stuttgart and other exchanges. At year end 2009 the total number of ADRs issued for ordinary shares was equivalent to 581 million shares (68.3% of the Company's charter capital). ADRs issued for OAO "LUKOIL" shares held second place in 2009 in the volume of trading among the ADRs of foreign companies listed on the London Stock exchange in the IOB system (18.7% of the total monthly volume of trading in the system).

LUKOIL Group organisations issued Eurobonds in the fall of 2009. The first tranche (for USD 900 million maturing in 2014) was offered at 6.375%; the second (for USD 600 million maturing in 2019) was offered at 7.250%. The bonds maturing in 2014 were offered at a price equal to 99.474% of their nominal value, as a result of which their return to maturity will be 6.500%, while the bonds maturing in 2019 were issued at a price equal to 99.127% of their nominal value, as a result of which their return to maturity will be 7.375%. This issue of Eurobonds was the first by a Russian private company since the middle of 2008, and demand for these bonds significantly exceeded supply. During 2009 OAO “LUKOIL” made 10 issues of exchange-traded bonds totalling RUB 50 billion, with a maturity of 1–3 years.

LUKOIL exerted maximum effort during the reporting year to maintain and grow shareholder value. Operating indicators were improved, efficient new assets were acquired, and a strict policy of restraining capital expenditures and growing free cash flows was followed. This allowed the Company to maintain its investment appeal despite the instability of the global financial system. In 2009 LUKOIL developed and approved a ten-year strategic development programme, which emphasised growth in free cash flows and shareholder return. Achieving the goals set in this programme will underpin future growth in share price and resolve the Company’s current undervaluation.

Optimisation of corporate structure.

During the reporting year, the Group consolidated a 100% interest in OAO RITEK (about 25% of the shares were bought out during the year). RITEK produces oil in European Russia and Western Siberia, and is also actively engaged in research and innovation.

In order to optimise the organisational structure of LUKOIL-Western Siberia as part of efforts to divest non-core assets from the Group, 10 service enterprises were disposed of, which made it possible to reduce costs and staff numbers.

Substantial restructuring was also performed in the Power Generation business sector. Interests in OAO YuGK TGK-8 were increased to 100% (from 95.53% at the start of the year) by buying out the shares of minority shareholders, and YuGK TGK-8 was transformed from an open joint stock company (OAO) into a limited liability company (OOO). In addition, interests that had been held by other Group organisations were consolidated at the parent company OAO “LUKOIL”.

Main objectives of the Company for 2010. The Company will make every effort in 2010 to ensure stable and successful operations under market conditions, with the aim of increasing its share capitalisation.

The Company’s main objectives for 2010 are:

- to maintain the proper balance between business growth and high financial efficiency
- to implement high-return projects in the Exploration and Production business segment
- to strengthen the Company’s financial position and ensure positive cash flow despite the instability of the global economy
- to increase shareholder return.

Board of Directors of OAO “LUKOIL”