

TRANSPORT



Development of the transport segment helps the Company to improve logistics management and control transport costs. LUKOIL delivers its oil and petroleum products via infrastructure of partner companies (Transneft, Gazprom, etc.) and its own infrastructure. The Company is continuing to develop its own export terminals, which significantly reduce transport spending and make transport arrangements more flexible.

Thanks to development of its own transport capacities and creation of a highly efficient and flexible logistics system, the Company has succeeded in the last 3 years in keeping growth of transport costs per barrel of production on a level with growth of tariffs for transport through pipelines of Transneft (the Russian pipeline monopolist). This is a significant achievement, since tariff increases for transport by alternative routes have been much greater than Transneft tariff increases, and transport volumes have grown more quickly than production due to increase of international trade.

Svetly

A terminal at the port of Svetly in Kaliningrad Region (20 km from Kaliningrad) was commissioned in 2000. The terminal is designed for transshipment of crude oil produced by LUKOIL-Kaliningradmorneft and of petroleum products. Initial annual capacity of 1.5 mln tons was increased thanks to work in 2003 and the terminal can now transship as much as 4 mln tons per year.

In 2004 the channel from the port entrance at Baltiysk was widened and deepened, making the terminal accessible for tankers with deadweight up to 20,000 tons (the previous limit was 12,000 tons). The effect is to increase annual capacity to 6 mln tons of oil and petroleum products. A system introduced at the terminal in 2005 increased shipment of base lubricants and diesel fuel.

The Svetly terminal transshipped 3.7 mln tons of crude oil, petroleum products and gas condensate (82% of the volume transshipped in 2007). Decrease in transshipment volume was due to a partial re-orientation of exports of diesel fuel with sulphur content of 10 ppm (about 0.5 mln tons) from the port of Svetly to the port of Vysotsk (Leningrad Region). Transportation costs were cut by \$13.6 mln as a result.

Varandey

This terminal with annual capacity of 1.5 mln tons, located 4 km from the village of Varandey on the Barents Sea, began operations in 2000. The terminal was connected to oil reservoirs on the coast by an underwater pipeline and could serve ice-breaking tankers with deadweight up to 20,000 tons.

The terminal was intended for all the year round export deliveries from the Timan-Pechora oil & gas province, particularly deliveries to the US market. Due to growth of production in the region and lack of developed transport infrastructure the decision was taken to build a new terminal with annual capacity of 12 mln tons of oil.

In 2008 LUKOIL Group fully completed construction work on the new oil loading terminal. In summer of 2008 the terminal began shipping oil and maintains shipments all year-round, despite severe climatic conditions. Crude oil for the terminal comes mainly from the Timan-Pechora oil & gas province, primarily from the Yuzhnaya Khylichuya field.

The work, which has been completed at Varandey, is as follows: building and commissioning of a stationary, ice-resistant loading terminal at sea, a shore side tank farm with a capacity of 325,000 cubic metres, two stretches of underwater pipeline, and also an oil accounting facility, auxiliary reservoirs, a pumping station, energy supply facilities, a housing estate for duty personnel, and other infrastructure. Capital expenditures during the whole pe-

riod of construction were \$1.1 bln, including \$163 mln in 2008.

The terminal operates as follows: ice-class shuttle tankers with deadweight tonnage of 70,000 tons transport oil to a floating reservoir in the ice-free waters off Murmansk, from where long-distance tankers with deadweight tonnage of 150,000 tons deliver the oil to Western Europe and the USA.

About 2 mln tons of crude oil were shipped out through the terminal in 2008.

Vysotsk

The Vysotsk terminal is located on the Baltic coast in the North-West of Russia. Construction began in June 2002 with the aim of increasing export capacities for crude oil and petroleum product exports and reducing transport costs. The first stage of the terminal, with capacity for 4.7 mln tons of oil and petroleum products, was launched in June 2004. In 2005 the second stage

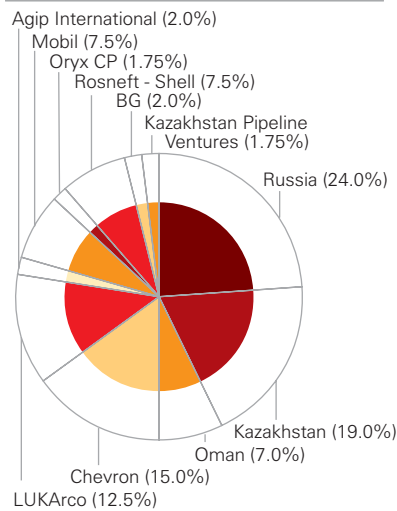
was built and launched, in 2006 – the third stage. Annual capacity at the end of 2007 was 12 mln tons. The harbour can accommodate ships with deadweight up to 80,000 tons, giving a substantial saving on transport costs. The terminal can handle crude oil, fuel oil, vacuum gas oil and diesel. Since 2005 only petroleum products have been exported via the terminal.

Petroleum products are supplied to the terminal by railway, and by sea-river tankers during navigation season. Technical characteristics of Vysotsk make it one of the most up-to-date terminals in the world. Vysotsk allows LUKOIL to export oil and petroleum products to Western Europe, the USA and South-East Asia.

In 2008 Vysotsk handled 4.2 mln tons of vacuum gas oil, 4.6 mln tons of diesel fuel and 3.8 mln tons of fuel oil. Total shipments were 12.6 mln tons in 2008 compared with 11.7 mln tons in 2007.

Caspian Pipeline Consortium (CPC)

Shareholders of Caspian Pipeline Consortium (12/31/2008)



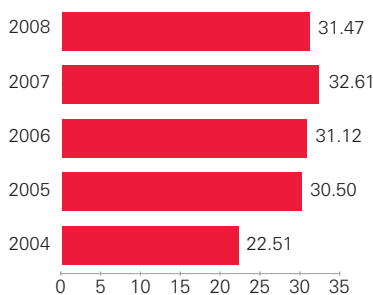
The Caspian Pipeline Consortium (CPC) is a 1,510 km pipeline connecting the Tengiz field with the Yuzhnaya Ozereyevka terminal near Novorossiysk. The first framework agreement on construction of the CPC was signed in mid-1992 between Kazakhstan, Oman and Russia. The first stage of the pipeline with annual capacity of 28.2 mln tons was put into operation at the end of 2001. It was decided in October 2004 to expand annual capacity of the CPC to 67 mln tons by 2008. The first tanker was loaded with CPC oil in October 2001.

Pumping of oil from the Kumkol field through the CPC began in October 2003 (the oil is carried by pipeline from the field to the town of Dzhusaly, and from there by rail to the CPC).

In May 2004 LUKOIL Group began to pump stable gas condensate from the Karachaganak field through the CPC system.

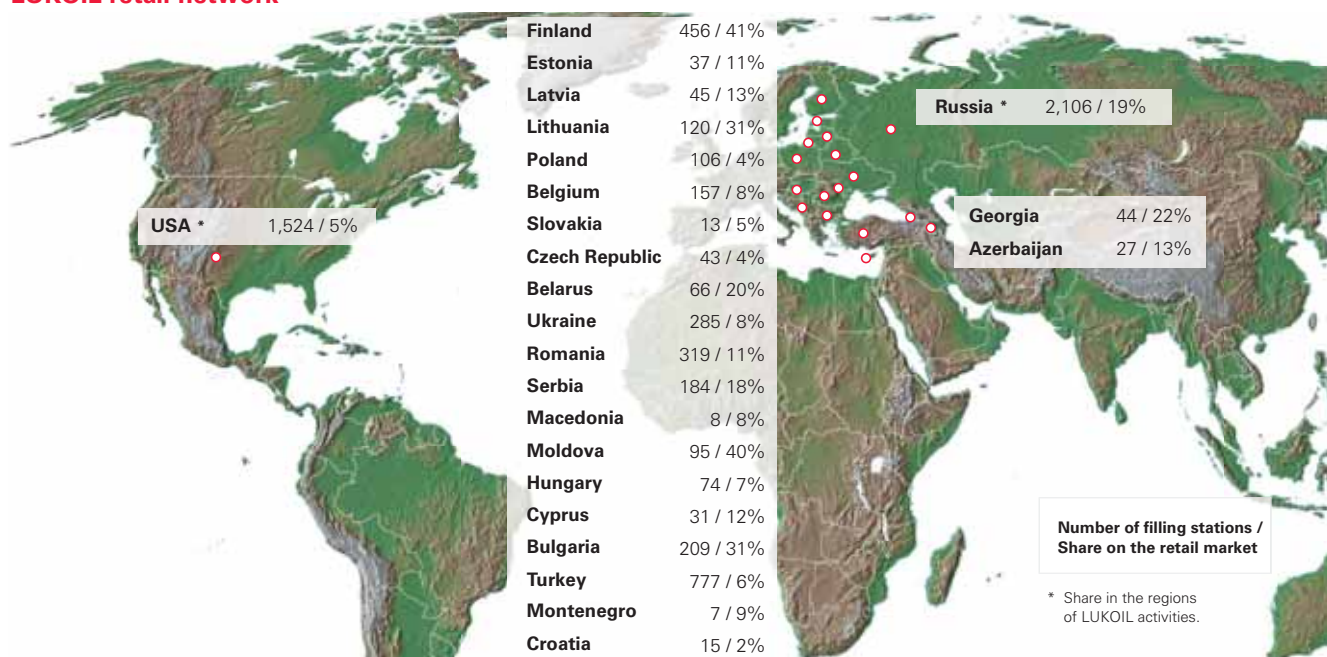
In November 2004 the CPC began to transport LUKOIL Group oil from the Volga region and Western Siberia.

Transportation through CPC, mln tons



CRUDE OIL AND PETROLEUM PRODUCT MARKETING

LUKOIL retail network



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LUKOIL

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The marketing segment is crucially important to LUKOIL, because it provides guaranteed outlets for Company products. The key objective in this segment is to create additional value by selling to the final consumer at the maximum market price and ensuring reliable cash flows by reducing price volatility. LUKOIL sells crude oil, petroleum products, gas processing products and petrochemicals wholesale, and also carries out retail sales of petroleum products and petrochemicals. The Company's strategic aim is to increase the share of retail sales, generating extra income and competitive advantages.

LUKOIL sells most of its crude oil on the international market and much smaller volumes on the domestic market. About 80% of petroleum products are also sold abroad.

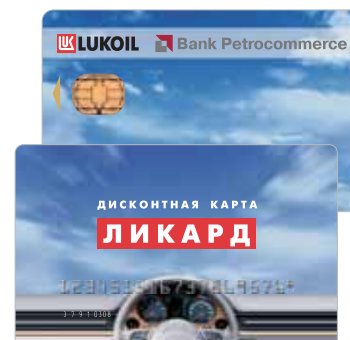
At the end of 2008 the Company's marketing network extends to 25 countries, including Russia, near-abroad and European countries (Azerbaijan, Belarus, Georgia, Moldova, Ukraine,

Bulgaria, Hungary, Finland, Estonia, Latvia, Lithuania, Poland, Serbia, Montenegro, Romania, Macedonia, Cyprus, Turkey, Belgium, Luxemburg, Czech Republic, Slovakia, Croatia), as well as the USA. The network includes 204 tank farms and 6,748 filling stations (including franchises). LUKOIL Group filling stations operate under three brands: LUKOIL, Teboil and Getty. The Company is optimizing its marketing portfolio by acquisition of highly efficient assets and disposal of less efficient ones. This has enabled a 16% increase of average sales per Company filling station over the last 5 years.

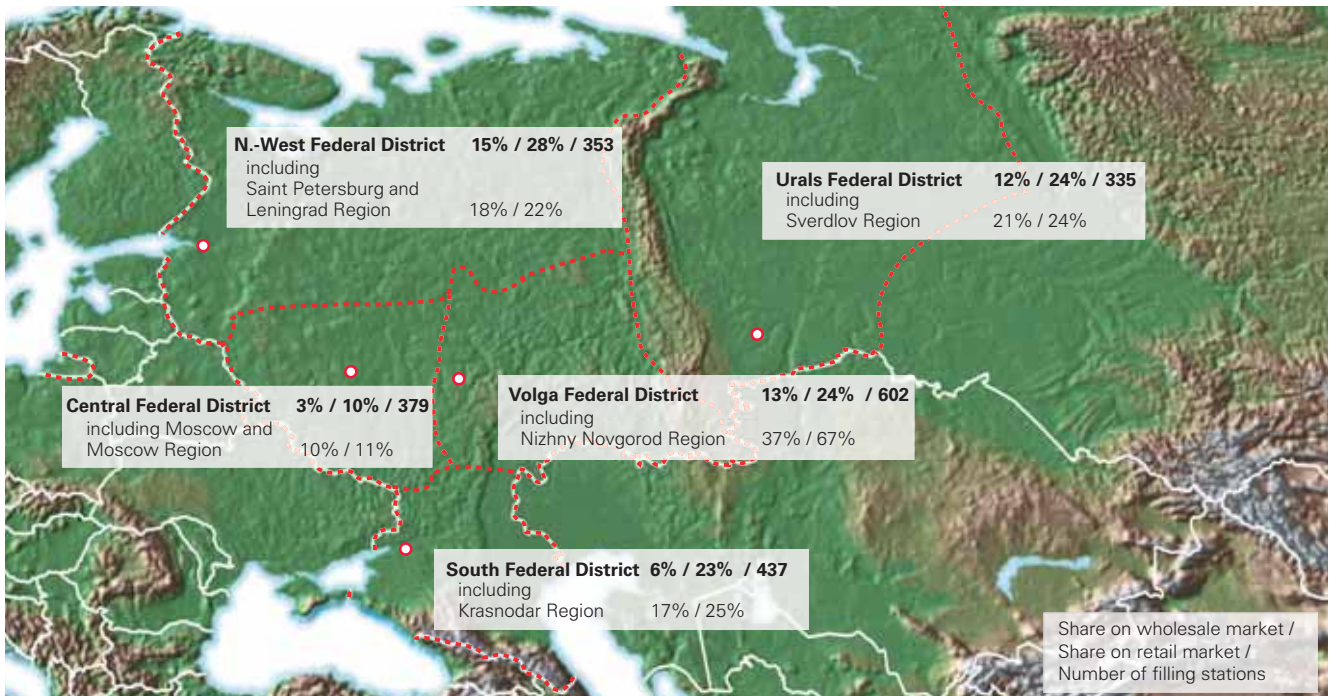
LUKOIL is rapidly expanding its filling station network by new acquisitions. In 2008 LUKOIL acquired Turkish company, Akpet, which operates 689 filling stations. The retail network has grown by 25% in the last 5 years (including franchises). Entry to new markets is made easier by high quality of Company products, high quality service at Company filling stations, and by application of promotion and discount card schemes.

LICard is a system of non-cash payment for fuel and other products and services at LUKOIL filling stations. The system was originally designed to serve LUKOIL fuel cards, used by legal entities. It was later extended to personal bonus and discount cards, cards of international payment systems and fuel cards issued by other companies.

As of January 1, 2009, LICard was in operation at almost 3,500 filling stations in 60 regions of Russia, as well as in Ukraine, Azerbaijan, Belarus and Poland, and the number of LICard fuel cards in circulation had risen to 2.12 mln. 3.10 mln tons of fuel were sold using the cards in 2008 (over 30% more than in 2007).



LUKOIL Group's position on the Russian petroleum product market



International trade is another distinct business within LUKOIL. It enables the Company to sell its own products efficiently and to obtain extra profit from sales of third-party production.

LITASCO (LUKOIL International Trading and Supply Company) has been the sole agent for the Company's international trading operations since 2000, carrying out all LUKOIL Group deliveries and trading operations outside Russia. Transfer of all export operations to a single Company simplified export arrangements, optimized export flows and assured transparency of LUKOIL's oil and petroleum product exports. LITASCO is consistently

increasing margins on trade operations by optimizing management of LUKOIL's delivery channels and by increasing the volume of trade with third parties.

LITASCO has offices in 9 countries and its main trading offices are in Switzerland, the USA, Germany, the Netherlands, Sweden, UAE and Singapore. Expansion by LITASCO to new markets in Central America, China, and the Middle East has helped to make LUKOIL into one of the leading oil companies in the world.

Main routes of LUKOIL international oil and petroleum product trade

