

Crude Oil Deliveries

Total crude oil deliveries by the Company in 2009 were 115 million tonnes, which is 13% more than in 2008. Oil exports from Russia grew substantially in the reporting year (by 7%) due to supplies of oil from the Yuzhnaya Khylnaya field via the Varandey terminal. Oil refinery throughputs inside Russia remained high (capacity utilization was close to 100%).

The Company sold 3.0 million tonnes of crude oil in **Russia** during the year, which is 42% more than in 2008. LUKOIL used mechanisms of substitution in deliveries of Company crude to refineries at Yaroslavl and Ryazan. This enabled logistics savings compared with the alternative of exporting oil via the port of Primorsk.

The Company **bought** 606,000 tonnes of oil in **Russia** during 2009, compared with 236,000 tonnes bought in 2008.

Refining at the Company's own refineries inside Russia was 44.46 million tonnes, which is 0.6% more than in 2008. Work was carried out to optimize deliveries to Company refineries. Direct contracts were made between LUKOIL-Komi and the Ukhta refinery, and between LUKOIL-Volgogradneftegaz and the Volgograd Refinery (crude oil, which was previously supplied to the Caspian Pipeline Consortium system was supplied instead to the refineries, with positive economic effect). The Company also delivered 2.05 million tonnes of crude oil for processing to third-party refineries in Russia in order to obtain additional profit. An important event was signing in August 2009 of an agreement for supplies of crude oil to refineries in Bashkortostan. This contract gives LUKOIL a guaranteed market for crude oil inside the country on export terms.

Crude oil exports from Russia by LUKOIL subsidiaries (including oil purchased from other producers) grew by 6.9% in comparison with 2008 to 42.02 million tonnes thanks to large deliveries via the Varandey terminal. The Company exported 33.66 million tonnes to the far-abroad countries and 8.36 million tonnes to the near-abroad countries. The

Company managed its export deliveries efficiently in 2009, selecting the most profitable export routes.

Most export in 2009 was via the Transneft pipeline system. Deliveries via Transneft were 33.00 million tonnes (8.5% less than in 2008) and their share in overall exports was 79%. The volume of export deliveries by-passing the Transneft system almost doubled in 2009 to 9.02 million tonnes of crude oil, due to commissioning of the Company's Varandey terminal in 2008. Deliveries through Varandey were valued on the basis of actual quality of the crude oil, at a premium to the Urals price. (There is no oil quality bank in the Transneft system, so crude oil of any quality supplied through this system is sold at the price for Urals blend crude, making Urals blend the Company's main export commodity).

The Company exported 8.7 million tonnes of crude oil via its own transport terminals in 2009 compared with 2.8 million tonnes in 2008. Use of the Company's own terminals reduces transportation costs and makes transport arrangements more flexible.

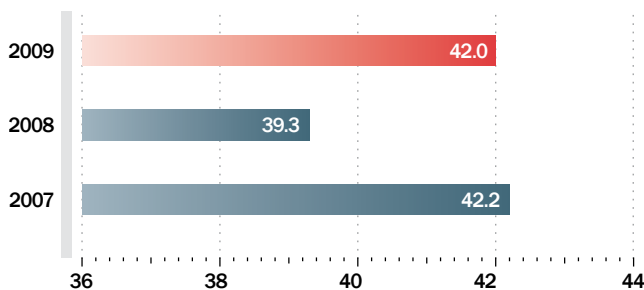
An important achievement in 2009 was design and implementation of a new logistics scheme for deliveries of oil by the company RITEK via the northern sea route. Lowering of freight prices and demurrage rates enabled a more financially attractive export scheme for RITEK using LUKOIL Group infrastructure (direct deliveries to Europe and use of LITASCO buffer storage facility in Murmansk).

The Company continued to apply a new approach to price formation as part of work to improve efficiency of crude oil deliveries in 2009. The new approach takes account of developments on the international

VARANDEY OIL TERMINAL



CRUDE OIL EXPORTS, MILLION TONNES



market for purposes of oil sales in Russia and the near-abroad countries. This has positive impact on quality of commercial decisions, which are better founded, since financial outcomes are more predictable at the time when deliveries are planned.

Feedstock deliveries to foreign refineries of LUKOIL Group and to the ISAB and TRN refining complexes were 18.24 million tonnes, representing a record 50.7% increase compared with 2008. This was achieved thanks to acquisition of stakes in Western European refineries. The Company also delivered oil for processing to third-party refineries (Naftan and the Mozyr refinery in Belarus and the Panchevo refinery in Serbia). Volumes of these deliveries in the accounting year were 1.73 million tonnes, which is nearly 25% less than in 2008.

LUKOIL sold 46.98 million tonnes of crude oil on the international market in 2009, including 5.33 million tonnes in the near-abroad countries and 41.65 million tonnes in countries of the far-abroad.

In 2008 LUKOIL Group commissioned the Varandey oil loading terminal with crude oil throughput capacity of up to 12 million tonnes per year (240,000 barrels per day). Crude oil deliveries to the terminal are mainly from the Timan-Pechora oil & gas province, primarily from the Yuzhnaya Khylichuya field, which was brought into operation in the summer of 2008.

Facilities built and commissioned at Varandey include a stationary, ice-resistant loading terminal at sea, a shore tank farm with 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 shift camp for duty personnel and other infrastructure. Capital expenditures during the whole period of construction were \$1.1 billion.

The terminal operates as follows: ice-class shuttle tankers with deadweight tonnage of 70,000 tonnes transport oil to a floating reservoir in the ice-free waters off Murmansk, then long-distance tankers with deadweight tonnage of 150,000 tonnes deliver the oil to Western Europe and the USA. About 7.7 million tonnes of crude oil were shipped through the terminal in 2009.