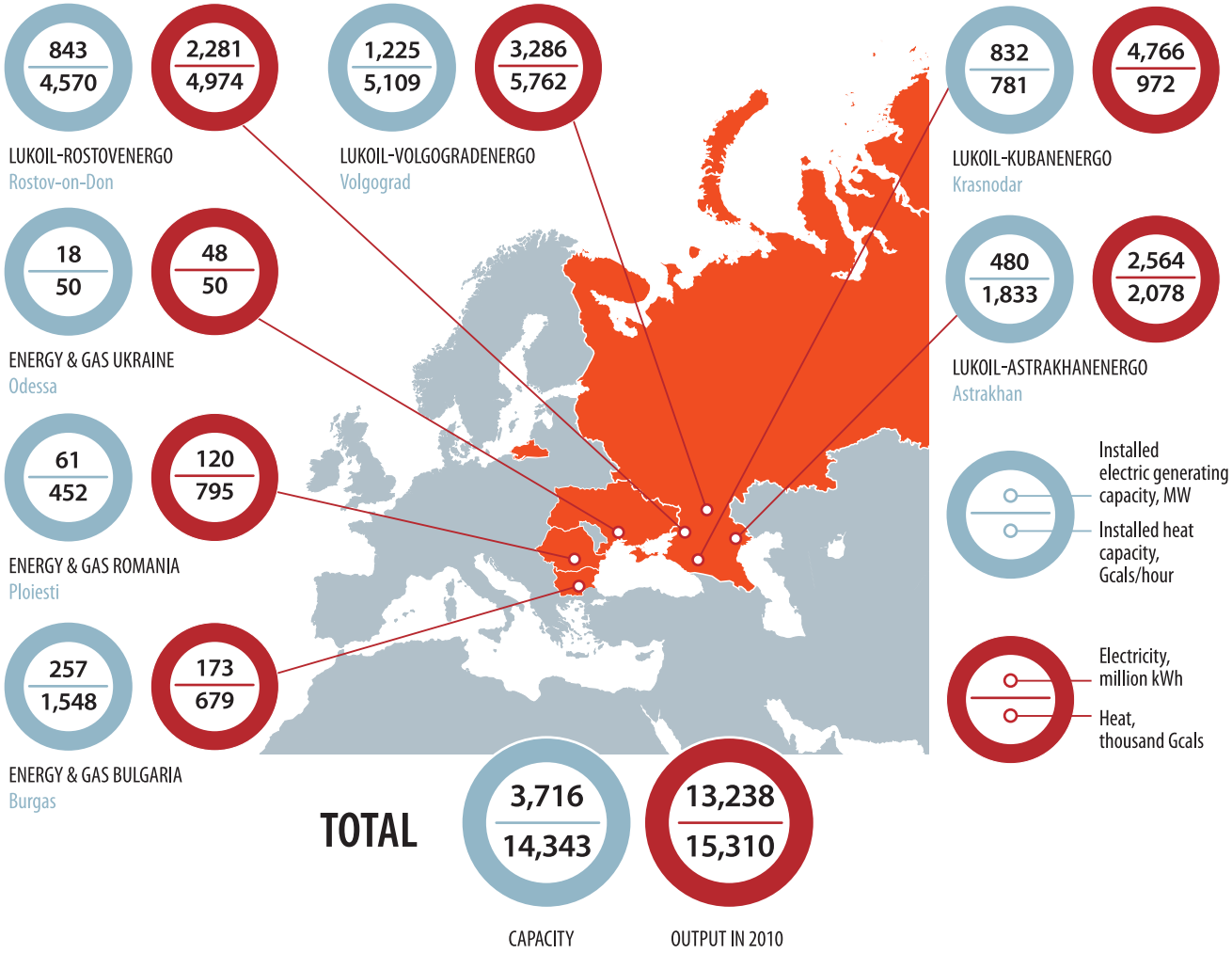
LUKOIL POWER GENERATING COMPANIES



LUKOIL's new business sector, Power Generation, was created in 2008 as part of the Group's Strategic Development Program, and the sector has a special role to play in the Group's updated Strategy for 2010-2019. Power Generation sector will be an important factor for growth of cash flow and shareholder value in the long term.

The new business comprises all aspects of power generation, including delivery and marketing of electrical energy and of heat produced at power plants. The nucleus of the segment is the Russian power generating company, UGK TGK-8, which was acquired by LUKOIL in 2008, but it also includes companies producing electricity and heat in Bulgaria, Romania, and Ukraine.

THE SECTOR PROVIDES ENERGY BOTH FOR THE COMPANY'S OWN NEEDS (IN THE EXPLORATION & PRODUCTION AND REFINING & MARKETING SEGMENTS) AND FOR EXTERNAL POWER AND HEAT CUSTOMERS IN THE SOUTHERN FEDERAL DISTRICT OF RUSSIA.

BUSINESS RESTRUCTURING

Reorganization of UGK-TGK-8 was completed in the reporting year. The company was renamed 'LUKOIL-Ecoenergo' and was united with the Company's hydroelectric facilities. LUKOIL-Ecoenergo will now focus specifically on renewable energy projects (wind power, hydroelectric and solar power).

ELECTRICITY AND HEAT GENERATION

Companies in LUKOIL's Power Generation sector generated about 13.2 billion kWh of power in 2010. Total supplies of heat were 15.3 million Gcal, which is 9% less than in 2009. Lower heat production in the reporting year was due to a decline in demand from consumers in the Southern Federal District.

Work continued in 2010 under the Capacity Provision Agreement, to which LUKOIL committed during reorganization of RAO UES (the former Russian power sector monopoly). Steam turbine facilities are being built in Astrakhan Region (110 MW capacity) and Krasnodar Territory (410 MW), which should enter service in 2011. However, these two facilities, with combined capacity in excess of 500 MW are only the first stage of LUKOIL's ongoing work for modernization of Russian energy facilities and capacity expansion in energy-deficient regions. Other projects in the Southern District in fulfilment of the Capacity Provision Agreement are now at the design stage, and LUKOIL is committed to building 900 MW of generating capacity in total.

LUKOIL is also working consistently to optimize production costs of its generating assets and to maintain close control of anti-crisis program implementation in terms of reduction of non-production expenses.

STRUCTURE OF LUKOIL'S POWER GENERATION BUSINESS

GENERATION	TRANSPORT	MARKETING	SERVICE
LUKOIL-ASTRAKHANENERGO	LUKOIL-ELECTRIC NETWORKS	TD-ENERGOSERVICE	LUKOIL-ENERGO ENGINEERING
LUKOIL-VOLGOGRADENERGO	LUKOIL-TTK	ASTRAKHAN ENERGY SUPPLY COMPANY	LUKOIL-TSUR
LUKOIL-ROSTOVENERGO			
LUKOIL-KUBANENERGO			
LUKOIL-ECOENERGO			

INTERNATIONAL

LUKOIL ENERGY & GAS BULGARIA

LUKOIL ENERGY & GAS ROMANIA

LUKOIL ENERGY & GAS UKRAINE

SMALL-SCALE GENERATING

LUKOIL IS RAPIDLY DEVELOPING ITS OWN POWER GENERATING FACILITIES AT OIL & GAS FIELDS, ENABLING THE GROUP TO SUBSTANTIALLY REDUCE ELECTRICITY PURCHASES AND INCREASE THE RATE OF ASSOCIATED GAS USE BY TURNING IT INTO ELECTRICITY.

Installed capacity of small-scale generating facilities is 0.7 GW. The Group generated 1,409 million kWh of electricity at its own facilities in 2010, representing 9.9% of total consumption in production operations.

Electricity supply arrangements have been made more secure by use of the latest technologies in investment projects for construction and reconstruction of the Company's own generating facilities. Use of new technologies also enables the Company to limit spending on its electricity needs, through improvement of energy efficiency and use of the Company's own refined products as generating fuel.

ENERGY-SAVING TECHNOLOGIES

LUKOIL works constantly to improve reliability of its electricity supply arrangements and to reduce spending on energy. These efforts have been coordinated through corporate programs for energy saving and improvement of reliability of power supplies.

Spending on measures as part of the program for improving reliability of electricity supplies was over $149 million in 2010. Implementation of the program reduced power cuts and resulting underproduction of crude oil by nearly 30%. Also during the reporting year Petrotel LUKOIL S.A. brought a power and heat generating facility into test production using circulating fluidized-bed technology, in order to improve reliability and enable flexibility in power supplies.

An energy audit schedule for Group oil & gas production subsidiaries was approved during 2010. The purpose of the audit is to identify potential for energy saving and greater efficiency in use of electricity, and also to devise energy-saving measures. Energy audits were carried out in 2010 at LUKOIL-Western Siberia, LUKOIL-Perm, LUKOIL-Komi, LUKOIL-Volgogradneftepererabotka and LUKOIL-Nizhegorodnefteorgsintez.

A generating unit that meets the latest efficiency and ecology criteria was launched and put into commercial use in 2010 by LUKOIL Energy & Gas Ukraine. Visbreaking residues from refining operations in Ukraine can now be put to commercial use as main fuel inputs to the new generating unit.

Rational use of electricity considerably reduces Group spending on purchase of energy resources. An automated system for measurement of electricity use has been installed at all Company subsidiaries. The system makes it possible to take advantage of tariffs in force at different times of the day, to increase accuracy in measurement of electricity consumption, and to purchase electrical energy and generating capacity on the wholesale market.

RENEWABLE ENERGY

UGK-TGK-8, renamed 'LUKOIL-Ecoenergo' at the end of 2010, now brings together all of the hydroelectric generating facilities of LUKOIL. The main purpose of LUKOIL-Ecoenergo is to carry out renewable energy projects.

LUKOIL specialists are fully aware of the huge potential for resource and energy savings, which is offered by alternative sources of energy. Renewable energy projects are being considered, which would use hydro, wind, solar and geothermal energy. These activities are being pursued in partnership with international companies, which are also interested in development of renewables. In 2010 LUKOIL signed an agreement of mutual understanding with the Italian company, ERG Renew, on cooperation in the field of renewable energy. In accordance with the agreement, the partners will consider potential for combining their renewable energy businesses in Bulgaria, Romania, Serbia and Russia. The primary focus will be on wind power projects. ERG has extensive experience in construction and operation of renewable energy facilities.