

OIL PRODUCTION

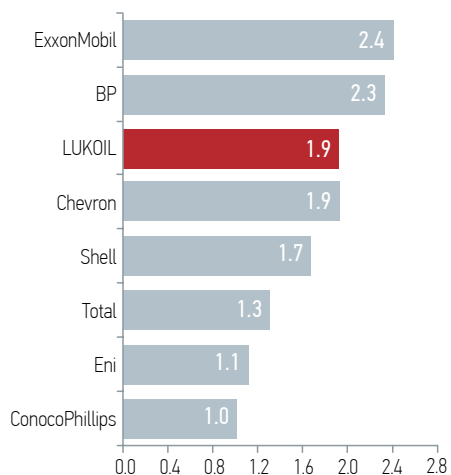
LUKOIL IS IN **3RD** PLACE BY OIL PRODUCTION AMONG MAJOR INTERNATIONAL PRIVATELY OWNED OIL & GAS COMPANIES

LUKOIL HAS ONE OF THE **HIGHEST** AVERAGE ANNUAL RATES OF OIL PRODUCTION GROWTH

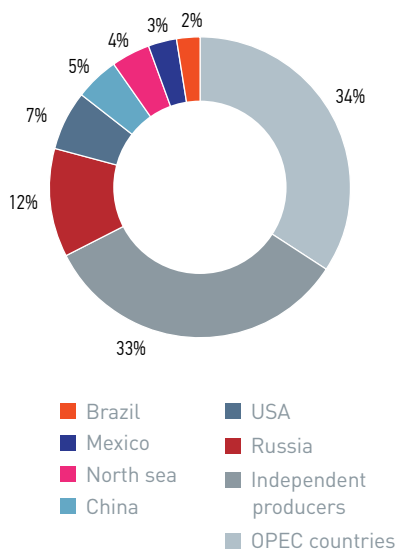
- LUKOIL produces oil in **5** countries;
- Oil production by LUKOIL Group in 2010 was **95.992** mln tons (**708** mln barrels);
- The share of LUKOIL Group in world oil production in 2010 was **2.2%***;
- Oil production by LUKOIL Group in 2010 decreased by **1.7%** which is mainly explained by depletion of reserves in Western Siberia;
- LUKOIL average annual rate of oil production for 5 years is **0.2%**.

* According to EIG

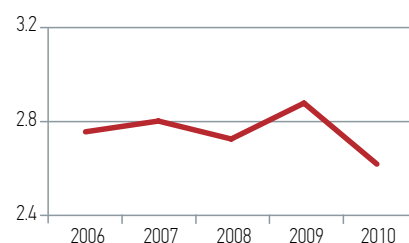
OIL PRODUCTION BY MAJOR INTERNATIONAL PRIVATELY (2010), mln barrels per day



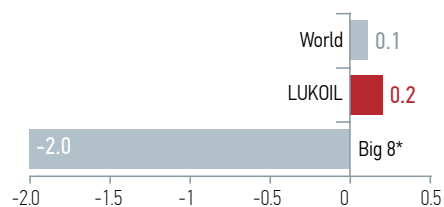
REGIONAL DISTRIBUTION OF GLOBAL OIL PRODUCTION (2010)



SHARE OF LUKOIL GROUP IN WORLD OIL PRODUCTION, %



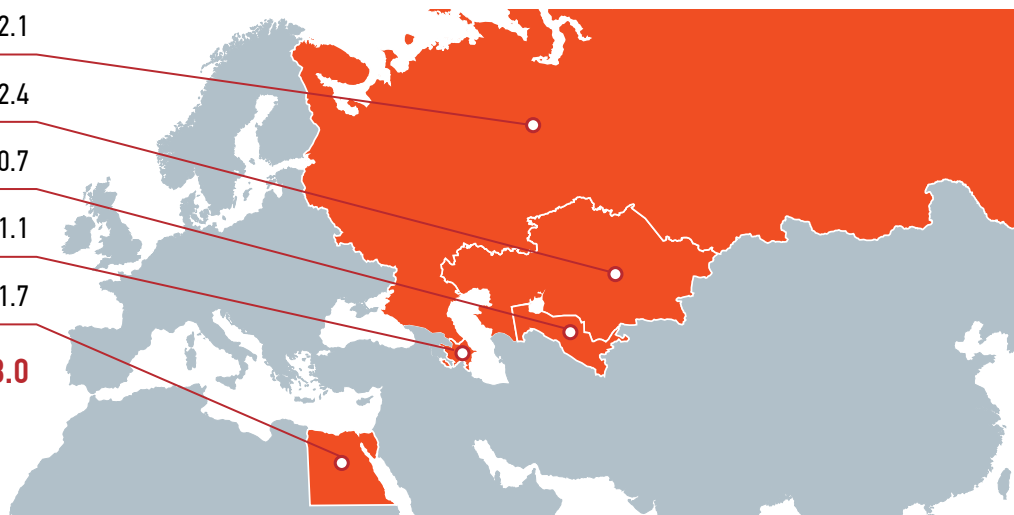
OIL PRODUCTION, COMPOUND ANNUAL GROWTH RATE (CAGR) IN 2006-2010, %



* 8 major international privately owned oil & gas companies.

COUNTRIES WHERE LUKOIL PRODUCES OIL, mln barrels

Russia	662.1
Kazakhstan	42.4
Uzbekistan	0.7
Azerbaijan	1.1
Egypt	1.7
Total	708.0



NEW ACQUISITIONS AND OPTIMIZATION OF THE ASSET PORTFOLIO

The Company is also expanding its reserves through acquisition and consolidation of assets. The Company continued increase of its production capacities in 2010 through acquisition of highly efficient assets. A consortium of LUKOIL and the US company Vanco won a tender for exploration and development rights at the Est Rapsodia and Trident blocks in the Romanian sector of the Black Sea. The blocks cover an areas of 2,000 km², with water depth of 90–1,000 meters. LUKOIL has an 80% stake in the project, and the remaining 20% is held by Vanco.

LUKOIL places much emphasis on quality of its assets. The Group restructuring program was launched in 2002 in order to increase efficiency in all business segments. As part of the strategy for withdrawal of non-core assets the Group disposed of 13 service companies in 2010, which enabled to make cost savings and reduce the headcount.

OIL & GAS PRODUCTION

High rates of hydrocarbon production growth are a strategic goal for LUKOIL Group, achievement of which will raise shareholder value of the Company and secure competitive advantages that increase income to shareholders. Compound annual growth (CAGR) of marketable hydrocarbon production has grown on average by about 1.1% in the last five years. LUKOIL strives to maximize efficiency and profitability of its operations in the oil & gas production segment by improvement of production indicators, careful choice of new projects and scrupulous control of production costs.

LUKOIL makes extensive use of the latest technologies in order to increase efficiency. The Company is setting up a multi-level system for monitoring of field development using high-tech geological models. In 2003 LUKOIL created a completely new and fully up-to-date Center for Geological and Hydrodynamic Modelling. The Center creates models using spatial visualization, which provides detailed data on structure of Company fields, making it easier to choose the best geological and technical approaches for their development and to maximize development efficiency. LUKOIL Overseas Holding, operator of the Company's foreign projects, has a similar center. LUKOIL is currently setting up modelling centers at its subsidiaries in Russia (primarily in Western Siberia) and abroad. High-quality techniques for baring of productive formations, original approaches to study of drill logs, and application of technologies to increase flow rates ensure high oil & gas production levels from reservoirs with complex collector features. The Company uses a variety of enhanced oil recovery methods (EOR), increasing recoverable reserves and production, and allowing commercial production of high-viscosity oil, development of reserves in collectors with low permeability, and extraction

of reserves at late stages of field development. Each year the Company carries out more than 5,000 EOR operations on producing formations, using physical, chemical, hydrodynamic and heat techniques to increase extraction rates. Additional oil production thanks to these operations in 2005–2010 was 116 mln tons.

LUKOIL also uses other technologies to increase efficiency: systems for maintaining reservoir pressure, systems for use of associated petroleum gas, systems for oil collection, preparation and transportation, energy- and resource-saving technologies and IT solutions.

LUKOIL is placing special emphasis on development of its gas business. The Company is rapidly increasing output of natural gas, transforming itself from an oil company into an oil & gas company. In 2001 LUKOIL acquired the company Yamalneftegazdobycha, which owns licenses for development of gas fields in the Bolshekhetskaya Depression (currently the main area for expansion of LUKOIL gas production).

Major growth in LUKOIL Group gas production was achieved due to international projects. In 2009 LUKOIL raised the Company's share in LUKARCO B.V. to 100%. LUKARCO B.V. owns a 5% share in TengizChevroil (TCO) which is developing the Tengiz and Korolevskoye fields in Kazakhstan. Gas production at the fields increased by 110% in 2010.

Development of fields in the Northern Caspian will also significantly increase gas production. LUKOIL plans to increase the share of gas in overall hydrocarbon production to 33% in the medium term. The main objective of this strategy is to raise Company value by commercialization of gas reserves and to reduce the Company's dependence on the highly volatile crude oil market. Greater utilization of associated petroleum gas is an important part of the Company's gas business strategy. This will reduce levels of gas flaring and thus reduce negative environmental impacts.

More associated petroleum gas can be used for generation of electricity to power oil production operations, offering cost savings. The Company is implementing a program, approved in 2009 for the years of 2009-2011, which aims to increase the rate of associated petroleum gas utilization by organizations in the Group. the program target is to raise the utilization rate to 95% by 2012. Gas utilization rate reached 76.8% in 2010 compared to 71.1% in 2009.