

buy-back program in 2007, spending \$712 million in the course of the year.

2008

Authorized and issued share capital remained unchanged and consisted of 850.563 mln shares. Purchase of treasury stock amounted to \$219 mln. Besides, treasury stock was used as payment for 95.53% of UGK TGK-8.

»» TAX ENVIRONMENT

LUKOIL's business is subject to taxation inside and outside Russia. The scale of the Company's business inside Russia means that its situation as a taxpayer is mainly defined by taxes, payable in that country. In 2009 taxes paid in Russia represented 81% of all tax payments by LUKOIL. The main taxes paid by the Group in Russia are listed below.

Corporate income tax

Date introduced: 1992

Object: income received by an organization, reduced by incurred costs, defined in accordance with Russian tax law

Tax payers: Russian and foreign organizations, which carry out business or have a source of income in the Russian Federation

Tax rate: Maximum income tax rate is 20% effective from January 1, 2009.

Impact on Company business: payment of income tax by the Company decreased by 42.5% in 2009 compared with 2008 and totalled \$1,994 mln. The effective income tax rate in 2009 was 22.0%, which is higher than the maximum statutory rate of 20%. This is attributable to the fact that some costs incurred in the current period were not tax deductible or only deductible to a certain limit.

Corporate property tax

Date introduced: 1992

Object: real estate and other property of organizations, which is classed on the balance sheet as fixed assets

Tax payers: Russian and foreign organizations, carrying out business and/or having property in Russia

Tax rate: set by regional parliaments; the maximum rate is 2.2%

2009

In November 2009 the Group carried out an issue of Eurobonds totalling \$1.5 billion. The first tranche of \$900 million with redemption date in 2014 was placed at 6.375% and the second tranche of \$600 million with redemption date in 2019 was placed at 7.250%. This was the first Eurobond placement by a Russian issuer for more than a year and the placement terms were highly favourable for the Company thanks to strong demand from investors

Impact on Company business: Company spending on property tax in 2009 was \$470 mln, which is \$65 mln more than in 2008

Unified social tax

Date introduced: 2001

Object: wages and other disbursements paid to individuals under employment and other civil law contracts (except those paid to individual entrepreneurs)

Tax payers: entities, which make the above payments and disbursements to individuals (employees)

Tax rate: regressive scale (maximum rate – 26%, on taxable annual wages and disbursements per employee up to a level of 280,000 roubles, calculated cumulatively from the start of the year)

The unified social tax is paid to the federal budget, to the social insurance fund and to medical insurance fund

Impact on Company business: Company spending in 2009 on social taxes and charges was \$399 mln, which is 22.1% less than in 2008

Mineral extraction tax (oil)

Date introduced: 2002

The mineral extraction tax replaced three forms of payment for use of mineral resources, which existed previously – sub-soil resource tax, payments to finance replacement of mineral resources, and excise payments on oil and gas condensate.

Object: mineral resources, extracted on territory under Russian jurisdiction

Tax payers: organizations and individual entrepreneurs, who qualify as extractors of minerals under Russian law

Amendments to the mineral extraction tax were approved in 2008 and came into force from 2009. The amendments change the untaxed minimum oil price from \$9 to \$15 per barrel and make it no longer necessary to use direct accounting for oil production volumes in order to obtain tax remissions at fields with high-viscosity oil. The amendments also offer mineral extraction tax holidays to companies, which explore and produce hydrocarbons at offshore fields. (The tax holidays last 10 years for companies, which only produce hydrocarbons, and 15 years for companies involved in both exploration and production). The tax holiday ends when cumulative production reaches 35 mln tons. In addition, the amendments envisage seven-year tax holidays for companies, which carry out hydrocarbon exploration and production on the Yamal Peninsula and in Timan-Pechora.

Base tax rate (2005–2009): 419 roubles per ton (applicable tax rate is calculated each month using a coefficient which reflects changes in world prices for oil)

Average rate in 2009: 2,302.9 roubles per ton

Impact on Company business: the mineral extraction tax, together with export duties, is the most significant part of the tax burden on oil companies. In 2009 LUKOIL paid \$5.40 bln as mineral extraction tax (25.3% of total tax payment by the Company)

Mineral extraction tax (gas)

Date introduced: 2002

Object: gas produced on territory under Russian jurisdiction

Tax payers: organizations and individual entrepreneurs, who qualify as extractors of minerals under Russian law

Tax rate (2009): 147 roubles per th. cm for natural gas and 0 roubles per th. cm for associated petroleum gas

VAT

Date introduced: 1992

Object: sale and transfer of goods, services and property rights inside Russia as well as construction and assembly work for the Company's own consumption and import of goods across the Russian customs area

Tax payers: organizations, individual entrepreneurs

Tax rate: 18%; a lower rate of 10% is applicable for taxation of basic food goods, medical goods, goods for children, printed periodicals and books related to education, science and culture; 0% rate is applicable to export operations

Excise (petroleum products)

Date introduced: 1992

Object: sale of products liable to excise in Russia

Products liable to the tax: automobile gasoline; diesel fuel; motor oils for diesel and (or) carburettor (injection) engines; naphtha

Payers: organizations and individual entrepreneurs (since January 1, 2007 – refineries, but not organizations selling petroleum products as in 2003–2006)

Rate: excise rates for petroleum products are reviewed annually by the Russian Government. However, the Government has kept rates unchanged in 2009 in order to limit domestic price rises for gasoline

Petroleum products excise (2005–2009), roubles per ton

High-octane gasoline	3,629
Low-octane gasoline	2,657
Naphtha	2,657
Motor oils	2,951
Diesel fuel	1,080

Impact on Company business: excises paid by LUKOIL on sale of petroleum products in Russia totalled \$0.76 bln in 2009. Besides, \$3.52 bln were paid abroad

Export duties (oil)

Date introduced: 1992

Object: oil and gas condensate transported beyond the borders of Russia

Payers: organizations exporting oil and gas condensate from Russia

Rate: see the insert below

Average rate in 2009: \$179.9 per ton

Impact on Company business: total duties paid on exports of oil and petroleum products in 2009 were \$8.77 bln (40.7% of total tax paid by the Company), which is an decrease of 46.5% compared to 2008

Export duties (petroleum products)

Date introduced: 1992

Object: petroleum products transported beyond the borders of Russia

Payers: organizations exporting petroleum products from Russia

Rate: different rates apply for different petroleum products types (light and dark), and rates are subject to change by the Russian Government depending on changes in prices for oil
Average rate in 2009: \$133.5 per ton for light products and \$71.9 per ton for dark products

Export duties (gas)

Date introduced: 1992

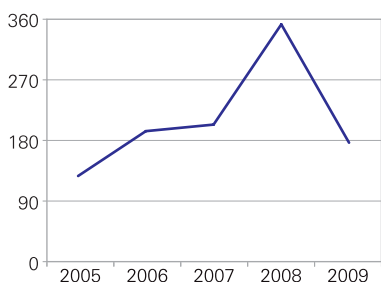
Object: gas transported beyond the borders of Russia

Payers: organizations exporting gas from Russia

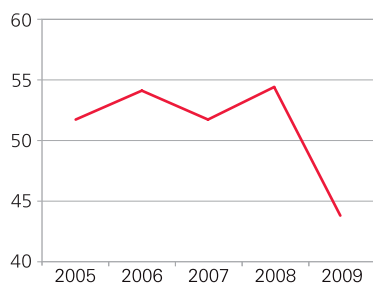
Rate: natural gas in a gaseous state is liable to export duty at 30% of its value for customs purposes; a zero rate for customs duties on export of liquefied natural gas was introduced in 2006 (previously 40 euros per ton)

The Russian Government decided to change over to a new system for calculating the oil export tariff from December 1, 2008. The new system sets a new level of tariffs each month based on monitoring of prices from the 15th day of each calendar month to the 14th day of the next month, inclusive. Rates are set from the 1st day of each calendar month after the end of the monitoring period. So the tariff in December is calculated using the average price for Russian oil from October 15th until November 14th. (Previously export tariffs were reviewed once every two months based on two-monthly monitoring of Russian Urals crude prices on the international market).

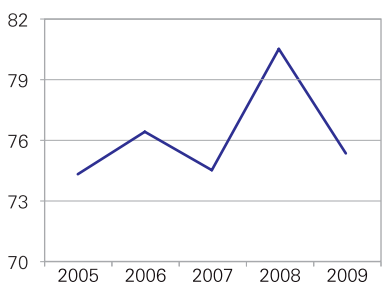
Average crude oil export tariff, \$ per ton



Share of taxes, excises and export tariffs in sales after cost of purchased crude oil and petroleum products, %



Share of taxes, excises and export tariffs in income before their payment, %


Mineral extraction tax (MET), \$ per ton

$$\text{MET} = \frac{\text{Base tax rate} \times (\text{Oil price} - \text{Base oil price}) \times \text{Reserve exhaustion rate}^*}{261}$$

2004 2005–2008 2009–2010

		Urals oil price		
Oil price	\$ per barrel			
Base oil price	\$ per barrel	8	9	15
Base tax rate	roubles per ton	347	419	419
Base rouble/\$ exchange rate	rouble/\$	31.5	29.0	29.0

* From January 1, 2007.

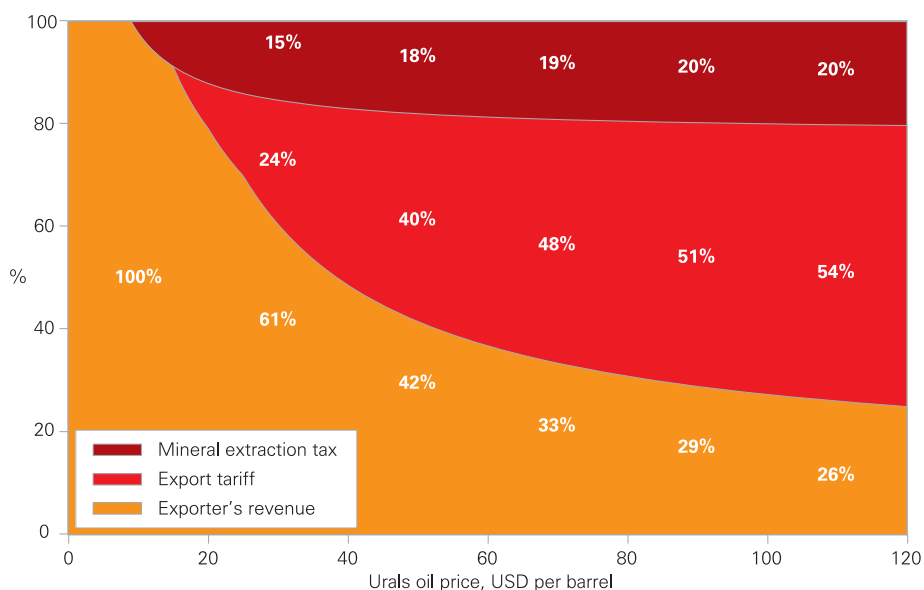
The rate of the mineral extraction tax changes each month. For example, the tax rate for June is calculated in July based on the average international market price for Urals crude in June.

Crude oil export tariff, \$ per barrel

Tariff rate, \$ per barrel

Oil price (P), \$ per barrel	before June 2004	after June 2004
$P < 15$	0	0
$15 < P < 20$	$(P - 15) \times 35\%$	$(P - 15) \times 35\%$
$20 < P < 25$	$(P - 15) \times 35\%$	$1.75 + (P - 20) \times 45\%$
$P > 25$	$3.5 + (P - 25) \times 40\%$	$4.0 + (P - 25) \times 65\%$

The export tariff rate on crude oil is revised each month. For example, the export tariff rate for April is calculated in March based on the average price of Urals oil on the international market from February, 15th to March, 14th, inclusive.

Dependence of crude oil export tariff rate and mineral extraction tax rate on oil prices (model applied in 2006–2009), \$ per barrel


»»» FORWARD-LOOKING STATEMENTS

Certain statements in this document are not historical facts and are "forward-looking". We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate and exchange rate fluctuations;
- the price of oil;
- the effects of, and changes in, Russian government policy;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- technological changes; and
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.