



ОАО ЛУКОЙЛ

2005-2006

SUSTAINABILITY

REPORT

2005-2006

Contents

ADDRESS BY THE PRESIDENT OF OAO LUKOIL VAGIT Y. ALEKPEROV	2
THE SECOND SUSTAINABILITY REPORT PREPARATION PROCESS	4
OAO LUKOIL 2005-2006 ACTIVITIES	8
SOCIO-ECONOMIC PARTNERSHIP AND SUSTAINABLE DEVELOPMENT OF RUSSIA'S REGIONS	20
SOCIAL POLICY	50
ENVIRONMENTAL RESPONSIBILITY	74
Auditor Assurance Statement	86
Annex – GRI Indicators Used in the Report	92

**Address by President of OAO LUKOIL
Vagit Y. ALEKPEROV**



Two years have passed since OAO LUKOIL published its first Sustainability Report. Significant changes took place in the Oil and Gas industry since then. Business started to enlarge and integrate more rapidly. The share of natural gas has grown in the production structure. Russian companies started to actively acquire foreign assets. The same processes as in the rest of the world are taking place in our country: in face of global competition market players are seeking ways to strengthen their advantages. This contributes to a higher quality of the industry overall management and facilitates its entrance into the global competition. The LUKOIL oil company is also ready to take up new tasks: improving efficiency of the natural resources use in the areas of traditional production; developing new oil-and-gas territories within and outside the country; transforming from an exporter of

raw materials into a supplier of advanced processing products.

LUKOIL has been on the market for the last 15 years and within this short period it has managed to do what takes other companies several dozens of years. Since 1991 the hydrocarbons production has more than doubled reaching 2 m barrels of oil equivalent per day. The gas share has meanwhile reached 10 per cent. In 2006 LUKOIL became the leader among Russian oil companies in terms of gas production volumes. We aim at dynamic and sustainable development that will bring LUKOIL to the leading positions of the oil and gas industry worldwide. In the coming 10 years LUKOIL intends to achieve substantially higher production and financial indicators. The LUKOIL Group's achievements are integral for Russia's success.

One doesn't have to forget that Russia has taken up a great responsibility of providing secure supply of energy resources to other countries including half of Europe. It is not by chance that during the G8 Summit in St. Petersburg in 2006 ways were sought to reach co-operation and balance interests of various countries. The global energy security can be provided by means of secure investments in all the parts of the energy chain, increased efficiency of the energy use, production and conservation on the national and international levels.

The cornerstone of any modern company's high economic results is technology and people. Technology helps the company stay at the technological cutting edge, while people help make historical breakthroughs.

There are very few companies that are ready to invest significant resources into modernisation and production development and see Russia in the centre of their strategic success as they plan their activities for many years ahead. I am proud that LUKOIL is one of such companies. In 2006 our investment programme amounted to 8.6 billion dollars. It is the second largest investment programme in the country (after Gazprom's). 94 per cent out of this amount are the country's internal investments. Oil refineries modernisation in Volgograd, Perm and Nizhny Novgorod Oblast are among our projects. We are also active in terms of exploration in northern part of Tyumen Oblast, the Komi Republic, the Nenets Autonomous Okrug and Astrakhan Oblast. Besides, LUKOIL continues investments into modernisation and development of petrol stations.

It is not availability of inexpensive resources but rather intellectual and human potential that today can be considered an important competitive advantage. Maintaining and developing this advantage is the key to any company's welfare in the 21 century. We are attracting best experts in the corresponding fields. The motivation scheme is aimed at making every worker personally interested in increased efficiency of the enterprise.

LUKOIL pays a particular attention to environment safety and protection. We are highly interested in maximising utilisation of associated gas, applying zero-discharge technology while working offshore, decreasing hazardous emissions during oil refining and applying the European quality standards of fuels.

Our tasks require constant dialogue with society and the state. We are experienced in cooperating with the government, political and social organisations in Russia. We think that it is not enough to simply explain out activities; instead, we try to demonstrate the correlation between our achievements and Russia's global energy security, economic development and a higher quality of life.

Large corporations worldwide are facing an increased pressure to enhance social responsibility principles in their day-to-day business. The G8 Summit focused on this issue in June 2007 as the leaders of the states and governments signed the Declaration 'Growth and Responsibility in the World Economy.' LUKOIL shares the view on increasing corporate standards of operations that may influence the social and economic welfare. Our sustainability reporting is a good self-analysis tool and another step towards sustainable development.



President of OAO LUKOIL
Vagit Y. ALEKPEROV

Response to Proposal 9, 2005 Dialogue

Information Request: Support the report publications by organizing forums or conferences at independent premises with the Company enterprises participating .

The Company representatives have presented its first Sustainability Report at several conferences, forums and independent expert panels. The second report will also be presented to society and expert community.

"I'm pleased to make special mention of the Company's active social position confirming its responsibility towards one of the most important spheres of human activities. The company's involvement into the socio-economic development of the Komi Republic whose interests I'm representing at the Council of Federation of the Federal Assembly of the Russian Federation supports this conclusion."

*E.N. Trofimov,
member of the Council of Federation
of the Federal Assembly of the RF.*

"The Company Sustainability Report is an important milestone on the way to a new level of corporate governance. I have taken great pleasure in familiarizing myself with the Company key performance results, both qualitative and quantitative, for 2003-2004 on the territory of the Russian Federation and in particular in major regions such as Western Siberia, the Komi Republic, the Perm Krai, Povolzhye and Kaliningrad Oblast. Another positive aspect is that in fact for the first time in Russia's practice the report preparation methodology has been based on guidelines of the International AA 1000 Standards and the Global Reporting Initiative."

*V.V. Zhirinovsky,
Deputy Chairman of the State Duma
of the Federal Assembly of the RF.*

Second Sustainability Report Preparation Process

First Sustainability Report (2003-2004)

The first Sustainability Report (2003-2004) was published in 2005 in Russian and English languages. The report preparation process complied with the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines and AA1000 Framework.

- The Report has been published on the Company's website and presented in hard copies to participants of the first dialogue session in Moscow and to a wide circle of stakeholders selected as the Report target audience. The Report has been directed to the Company's subsidiaries and associated companies and is now used in their day-to-day activities. The complete e-version of the Report has been placed on the corporate website. (http://www.lukoil.ru/static_6_5id_2131.html).
- Over the first reporting cycle, stakeholder dialogue has been held providing the company with recommendations on information disclosure in future reports. Issues raised over the first dialogue have been addressed in the second Report: throughout the text there are special references to such information.
- o The Report has been listed in the GRI Register (<http://www.corporateregister.com/gri/>). As of today, LUKOIL is the only Russian oil and gas company featured in the Register. The GRI Secretariat has confirmed the adherence of the Report to GRI Guidelines (adherence level - 2002 CI, Context Index).
- The Report has also been included into the National Register of Non-financial Corporate Reports prepared and administered by the Russian Union of Industrialists and Entrepreneurs (Employers)(http://dsp.rspp.net/index.php?id=228&id_r=238).
- The Report has been recognized by international reviews and ratings. In particular, LUKOIL has been rated first among Russian oil companies in the Corporate Responsibility Rating developed by the Institute for Social and Ethic AccountAbility (Great Britain), CSRnetwork British Consulting Group and "Delovaya Kultura" International Project Office (Russia) and supported by PricewaterhouseCoopers International.
- The Report has been mentioned in the Reporting in Context. Global Corporate Responsibility Reporting Trends analysis for 2006 (http://www.econtext.co.uk/cover_scans/InContext2006.pdf) prepared by the global consultancy CONTEXT and presented at the World Economic Forum in Davos in 2006. The analysis has included LUKOIL on the Europe Top 100 list along with four other Russian companies and has profiled LUKOIL as the only Russian company that released a sustainability Report complying with all relevant criteria.

Joining the Social Charter of Russian Business

In 2006, LUKOIL joined the Social Charter of Russian Business - a voluntary strategic initiative put forward by the Russian Union of Industrialists and Entrepreneurs (Employers)*. LUKOIL shares basic principles of responsible business practice and complies with them in its daily operations. The company's non-financial reports demonstrate how the company puts these principles into practice.

Second Reporting Cycle (2005–2006)

In accordance with a decision taken in 2005, LUKOIL follows a two-year reporting scheme. The second Sustainability Report covers 2005-2006. LUKOIL reporting working group has decided not to change geographical scope: reported data primarily cover assets located on the territory of the Russian Federation. The Company facilities located in Nizhny Novgorod and Nizhny Novgorod Oblast have been added to the Volga Region. However, in some cases consolidated data on the company as a whole have been presented to reflect the full scale of the Company's operations. The decision has been based on the analysis of external and internal factors that impact the company's operations.

The report includes information on a new legal entity established over the reported period – OAO LLK-International. Also, the report mentions OOO Naryanmarneftegas established over the reported period.

Reporting Framework

The second Report has been prepared in accordance with disclosures of the Global Reporting Initiative's Sustainability

Reporting Guidelines v.3.0. (G3) and AA 1000 Framework.

Applying GRI's Reporting Guidelines

The Company's approach to applying GRI's Guidelines is as follows:

- LUKOIL shares key principles and approaches to reporting described in the GRI's Guidelines and finds that this reporting system is an effective tool for self-analysis and change planning;
- Some of GRI's standard disclosures and performance indicators are not suitable for the LUKOIL Group and applying them under Russian conditions is complex. The Company's position on these indicators is presented in a consolidated table enclosed to this Report;
- There are certain specific features of the Russian market that should be taken into consideration while preparing the report; partially, these features have been reflected in requests and recommendations expressed by dialogue participants. LUKOIL has included in this Report its responses to expressed requests.

Our Approach to Reporting

Approaches to management and reporting, as well as key activity programmes that have not changed since the release of the first Sustainability Report are not reflected in the present Report.



"The report provides a clear and concise account of key directions and results of LUKOIL's commercial, social and environmental activities. A comparative analysis of the Company's environmental performance and accident rate against average results in the Russian oil and gas industry is worth special attention."

The report gives another confirmation that the oil company LUKOIL is not only taking the lead of the Russian business in terms of high production output and outstanding financial performance but is also willing to align its operations with the highest corporate governance standards."

V.N. Pivnenko,
Head of the State Duma Committee on
Issues of the Russian North and Far East.

G3 Profile

The following standard disclosures have been applied:
1.1, 1.2
2.1-2.10
3.1-3.8, 3.10-3.13
4.1, 4.3, 4.4, 4.8, 4.12-4.14, 4.16, 4.17

G3 Management Approach

The following pages present management approach data:
Commercial activities – pp. 11-13
Social activities – pp. 21-22, 51-53, 58-61, 70-73
Environmental activities – pp. 75-79

G3 Performance Indicators and Sector Supplements

Applied:
EC1, EC3, EC4, EC8, EC9
EN1, EN2, EN8, EN10, EN20-EN22, EN26, EN29, EN30
LA1, LA4, LA5-LA7, LA9, LA11
HR 1, HR6-HR7
SO1, PR1, PR5

* Published on the website of the Russian Union of Industrialists and Entrepreneurs, see <http://rspp.ru/Default.aspx?CatalogId=1743>

"Please accept our gratitude for LUKOIL's Sustainability Report that was sent to UNESCO Director-General on 11 November 2005. We appreciate LUKOIL efforts aimed at advancing their environmentally sound operational principles and at promoting sustainability."

V. Erdelen,
UNESCO's Deputy Director-General
for Natural Sciences

"As it is generally known, the United Nations Educational, Scientific and Cultural Organization (UNESCO) is a leading United Nations agency promoting sustainable development principles. Thus, your report is a valuable proof of our country's commitment to sustainability."

A. Bilyalitinov,
Deputy Executive Secretary
of the Russian Federation
UNESCO Commission.

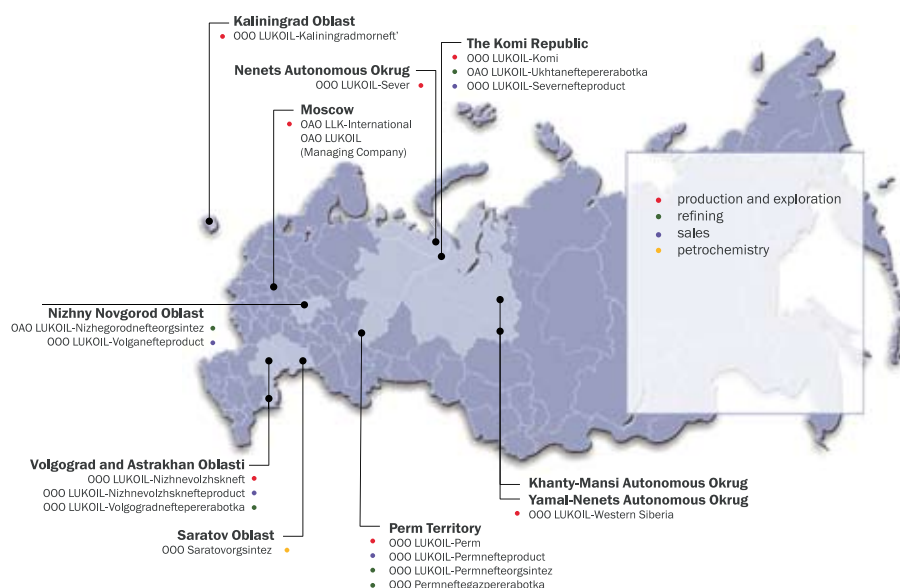
The second Sustainability Report presents the Company's responses to proposals expressed by the first dialogue participants in 2005 (marked across the Report by graphic and text elements):

- Responses to proposals 1 and 2 are incomplete. It includes those indicators alone that the Company deems important for the region's socio-economic situation. The analysis of risks and socio-economic stability indicators have not been included. The Company intends to continue working on these proposals;
- Responses to proposals 3–5 have been included;
- Response to proposal 6 will appear in our future reports because relevant legislative decisions with regards to the Kyoto Protocol were only taken at the federal level in May 2007. The same year the Company started working on the implementation of the Kyoto protocol provisions;
- Responses to proposals 7–12 have been included;

Responses to proposals expressed over 2007 dialogue are shown in a table on page 7 and throughout the Report.

GRI Adherence Level

The report corresponds to the adherence level C+ of the Sustainability Reporting Guidelines.



List of Entities covered in the second Sustainability Report.

External Audit

The Report has been verified by the independent company Bureau Veritas Certification Rus. The Assurance Statement has been published in the Report.

Internal Audit

The section of the Report "Company 2005-2006 Activities" has been verified by internal auditors.

Report Structure

According to the reporting working group decision, the second Report's structure corresponds to the one of the first Report: the Company activities have been analysed against the triple bottom line model describing the Company economic, social and environmental performance.

Response to Proposal 7, Dialogue 2005

Information Request: Engage public and state institutions in analyzing the Company's work during the social reporting process.

Dialogues

Over the second reporting cycle, the stakeholder dialogue has been held in Kaliningrad. The decision to arrange a dialogue session in this region was taken by the working group upon the publication of the first Report because meetings on regional level enhance corporate culture, contribute to a better understanding of sustainability tasks that the Company is facing and constitute an optimal instrument for exchanging stakeholder management experience.

The meeting was held on 28 March 2007 in Kaliningrad. The region has not been selected at random. The decision to hold the meeting in this region of the company presence has been taken considering high interest of various stakeholders in the development of oil production project on the Baltic shelf. The Company role in supplying energy to the Kaliningrad Oblast and the D-6 Project development (the Kravtsovskoye oil deposit) were discussed over the dialogue.

The session was attended by representatives of the State Duma, the Council of Federation, the Government of the RF and the Kaliningrad Oblast's Duma, the Office of the Federal Service for Supervision of

Natural Resource Usage for the Kaliningrad Oblast, the Territorial Office of the Federal Service for Supervision of Consumers Protection and Welfare (Rospotrebnadzor) for Kaliningrad Oblast, the Federal Service for Supervision of Environment, Technology and Nuclear Management (Rostekhnadzor), the Baltic Fleet, heads of municipalities,

representatives of the Public Chamber of Kaliningrad Oblast and NGOs.

Representatives of the Agency for Social Information (ASI) facilitated the dialogue session. A representative of the audit company Bureau Certification Rus was present at the session.

Dialogue participants addressed the Company with the following proposals:

Expressed proposals

Company positions

Topic: Local Community Relations

1. Use innovative approaches not only in main business but also in philanthropic activities (for example, grant contests or open events upon result of financed projects implementation)

The Company intends to gradually step up its grant contest support in regions of its presence because this technique has already proved its effectiveness. However, it will be expanded gradually in line with willingness of the Company subsidiaries and partners to adopt it.

2. Continue providing direct charitable donations to local organizations, because targeted financial support is of extreme importance for them

LUKOIL is combining traditional and innovative techniques. This Report gives a detailed account of how LUKOIL is combining and implementing both approaches

Topic: Development of Territories

3. Support the appeal of municipalities to Kaliningrad Regional Duma with the request to leave a portion of the property tax revenues in the local budget

This proposal should be addressed to legislative bodies of the Kaliningrad Oblast, because they are better placed to solve this issue, which is beyond our sphere of responsibility

4. Local services in charge of elimination of accident effects should work in closer co-operation with LUKOIL relevant departments

The Company has always been willing to provide required support and intends to continue this practice in future. For example, the Company's emergency services are engaged in eliminating oil patches near the platform at the Kravtsovskoye oil deposit regardless of whose fault it has been. The Company is open for co-operation in this sphere

5. Promote more actively the Company's experience in developing partnerships and socio-economic co-operation in the regions

The present Report gives detailed information on this matter

Topic: International Relations Development

6. The Company shall be present at international, primarily European, organisations in a systematic manner

The Company believes that the government is better placed to be present at such organisations. The Company can participate solely in those initiatives that have been approved by the government

Topic: Environmental Protection

7. Continue the Company's engagement in the area of environmental education and ecological culture development. To support mass volunteering activities of local population especially school children

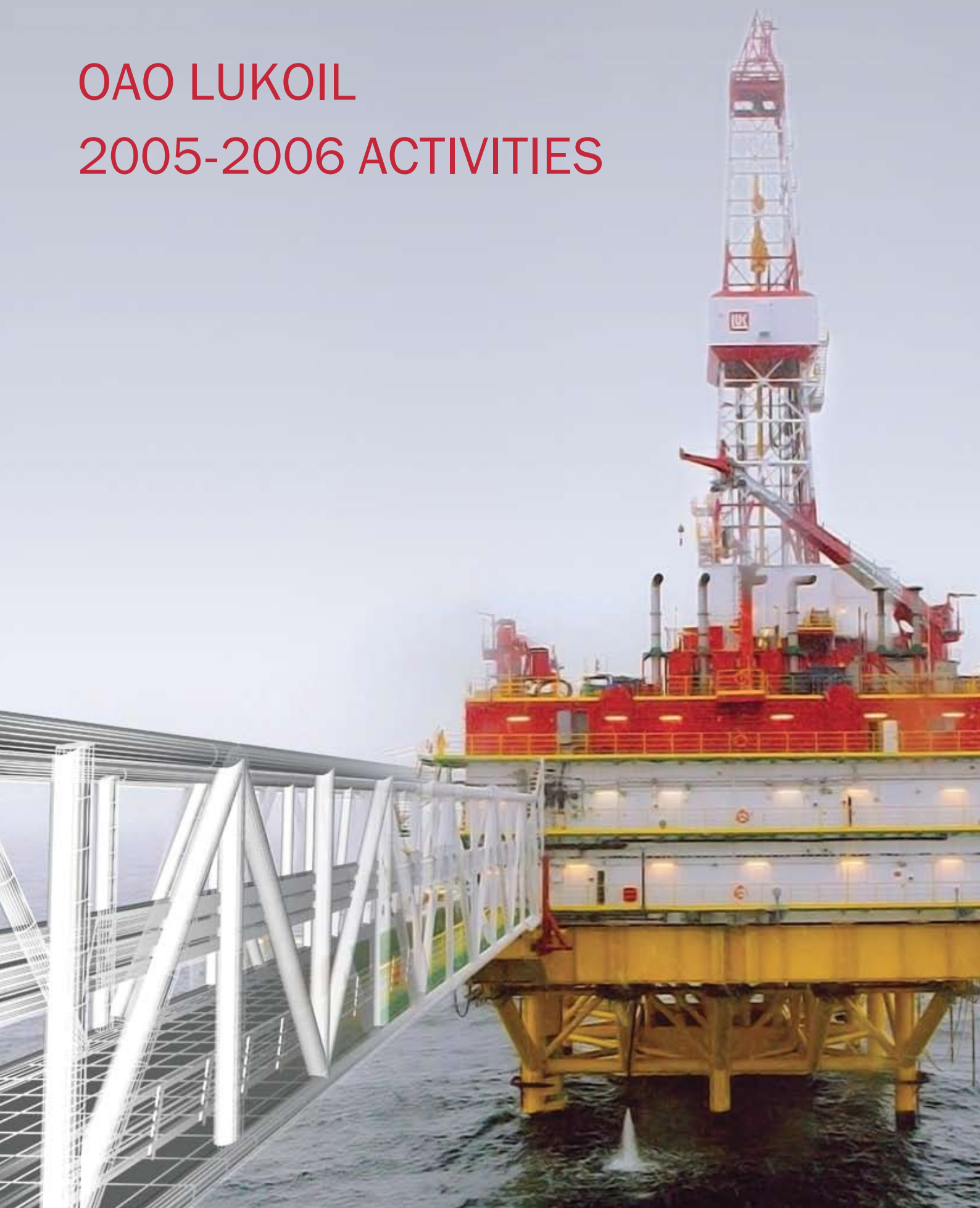
LUKOIL rates environmental projects carried out by public and municipal organisations in the regions very highly not only because they contribute to the improved ecological situation but also because they advance the local population's responsible behaviour. That is why the Social Project Contest that at present is being conducted in five constituent subjects of the Russian Federation has always had the Ecology category. The Company intends to further develop its activities in the area of environmental education and ecological culture development in future

Topic: Social policy

8. Carry out explanatory work on the Corporate Pension Fund among population because it has demonstrated good results and can guarantee social stability to retired employees

This Report provides comprehensive information on the corporate pension programme in general, as well as the report on explanatory work that has been conducted throughout the Company

ОАО LUKOIL 2005-2006 ACTIVITIES



Main Operation and Financial Results

In 2006, LUKOIL marked its 15 years. During this time, the Company has become one of the largest international vertically integrated oil and gas corporations, working in over 60 regions of Russia and 30 other countries around the world. It is the world's second largest private oil company in terms of proven hydrocarbons reserves. The company plays a key role in the Russian energy sector, it has over 20 per cent of oil deposits and 18.6 per cent of production. The company's annual turnover exceeds 60 billion dollars.

LUKOIL today:

Exploration
Oil and gas production

Oil and gas refining
Petrochemicals

Oil and petroleum products marketing and sales

Today LUKOIL is deservedly one of the leaders of the Russian industry, contributing to the overall development of economy. The reason for such a success is a well-thought strategy of the company. Thanks to that LUKOIL is a strong competitor on the world oil and petroleum product market. I am sure that the company's active and fruitful performance will further contribute to Russia's well-being and economic might.

Russian President Vladimir Putin

For the last two years that passed since the publishing of the first Sustainability Report, the company has been growing in accordance with the strategic plans and has reached goals set in the defined areas of activity.

The resource potential of the Group has grown significantly thanks to the rapid development of the geo-diversification of Exploration and Production. Years 2005-2006 were marked with launching extensive Exploration and Production projects abroad (the Caspian region, Middle East, North Africa and Latin America).

The other intensive area of activity is gas production: the volume of extracted gas has more than doubled.

The main Exploration and Production assets of LUKOIL are located in Russia. The largest volumes of oil and gas are extracted in Western Siberia. At the same time, the Company is active in developing its activity in new regions, namely Timano-Pechora and the Caspian Sea. The Timano-Pechora project managed in partnership with ConocoPhillips has entered its final stage.



The Company plans to put into operation one of the biggest field in the region, the Yuzhno-Khylchuyuksoye field.

The Refining and Marketing sector has undergone serious changes. The company owns four oil refineries and two mini oil refineries, as well as four gas conversion plants in Russia. Besides, the LUKOIL Group has two oil refining enterprises in Russia.

As a result of large-scale investments into oil refinery modernisation and the positive changes on the Russian oil product market, the Company set goals to improve quality of its products, increase the product range and improve ecological characteristics. According to the general scheme of the development of the Russian oil refining assets, the share of

fuels of new generation will increase in the total production volume.

LUKOIL markets its petroleum products on the territories of 60 subjects of the Russian Federation. Widening the retail network and spreading sales operation not only in Russia but also in the entire world, makes it more important for the Company to increase the quality of products and services while putting more emphasis on the consumer preferences.

LUKOIL shares are traded at the London Stock Exchange, Moscow Interbank Currency Exchange, and the Russian Trading System Stock Exchange as well as American off-the-board market.

LUKOIL in Russia

Operation and Production Volumes					
		2003	2004	2005	2006
Oil production	m tons	77,4	82,7	86,3	89,6
Gas production (total)	bn m ³	4,7	5,5	5,7	14,1
Oil refining	m tons	34,3	35,6	37,3	39,5
Gas conversion	bn m ³	2,2	2,3	2,4	2,6
Petroleum products production	m tons	0,96	0,97	1,08	0,95
Proven oil reserves*					
(as of 31/12/2006)		2003	2004	2005	2006
Russia	m barrels	15 506	15 485	15 500	15 319
International projects	m barrels	471	487	614	608
Total	m barrels	15 977	15 972	16 114	15 927
Extracted oil to deposit growth ratio	%	221	99	121	73
Sufficiency of the oil deposits	years	27,0	25,2	24,3	22,7
Proven gas reserves					
(as of 31/12/2006)		2003	2004	2005	2006
Russia	bn ft ³	22 167	21 382	21 453	22 155
International projects	bn ft ³	2 306	3 216	3 845	4 442
Total	bn ft ³	24 473	24 598	25 298	26 597
Extracted gas to deposit growth ratio	%	332	172	450	330
Sufficiency of the gas deposits	years	184,0	141,4	126,5	47,1
LUKOIL share in the Russian oil and gas industry					
		2005	2006		
Oil production	%	18,36	18,64		
Gas production	%	0,89	2,14		
Oil refining	%	18,05	18,05		

Source: Company data

* Deposits estimation is carried out under the international system using corresponding systems of units



Main Events of 2005-2006:

- Discovering the V.Filanovsky field off the Caspian shore – the largest discovered oil field for the last 20 years.
- Putting the Nakhodkinskoye gas deposit into operation.
- Acquiring production assets in Khanty-Mansiysk and Yamalo-Nenets Autonomous Okrug, as well as in the Republic of Kazakhstan.
- OOO Naryanmarneftegas joint venture with ConocoPhillips for joint development of the deposits of the Nenets Autonomous Okrug.
- Finalising the construction of the distributing and storage complex in Vysotsk.
- Launch of production of the new fuels (diesel fuel Euro-4 and petrol Euro-3, launched under the EKTO brand / ecological fuel). The Company has received the “Ecological label for the petrol stations in Moscow” that testifies the compliance of the motor fuel and the equipment of the petrol stations with the modern ecological requirements.
- The full elimination of the consequences of the ecological hazard in the Republic of Komi.
- Acquisition of the Finish Teboil company that controls 24 per cent of the motor fuel in Finland, as well as

ConocoPhillips petrol stations chain in Western Europe.

- Creation of LLK International working in oils and lubricants retail.

Development Strategy

In 2005, the company started to implement the new strategy (the LUKOIL Group Programme of Strategic Growth for 2005-2014), which aims at speedy growth and further geographic expansion of the Company in all business segments. The document demonstrates the continuity of the previous period's tasks. In 2006 the Company also developed and approved the following: Basic Principles of the LUKOIL Group Strategy of Intensive Growth for 2007-2016 and the LUKOIL Group Main Targets for Mid-term Plan for 2007-2008. In order to secure sustainability of the Company, the programme outlines tasks in all areas of activity.

In the Exploration and Production sector the Company expects that the growth of the hydrocarbons will exceed its production rate 1.3 times. The Comprehensive Programme of the Optimisation of the Oil Exploration and Production in 2006-2008 has been accepted to reach this goal.

As the Company started to exploit the resources of the Nakhodkinskoye field in 2005, it initiated a big gas programme in accordance with which the gas production

Since its establishment the LUKOIL Group has gone a way from a local vertically integrated company to a international corporation, ... that is on par with the world leaders.

OAO LUKOIL Chairman of the Board of Directors V.I. Grayfer, OAO LUKOIL President V.Y. Alekperov

Our mission:

We are created to turn the energy of natural resources in favour of progress and the men



	Units	2002	2003	2004	2005	2006
Volume of associated gas used at the Russian enterprises of the LUKOIL Group	%	73,8	81,0	80,5	79,0	75,1

Source: Company data.

	Units	2002	2003	2004	2005	2006
Advancement of oil refining at the Russian enterprises of the LUKOIL Group	%	72,7	73,5	75,4	77,5	76,2

Source: Company data.

will grow at an increased rate. By 2015, LUKOIL plans to increase gas production 5-fold.

The Company expects outstripping natural gas production growth – its share in the whole volume of hydrocarbons production will more than double. Therefore, the Board of Directors approved LUKOIL's Long Term Programme of Gas Sector as an integral part of the LUKOIL

Group Strategic Development Programme for 2005-2014. The Company's experts have also developed the strategy for the Group's gas projects, including supply of gas to the power plants.

As far as the Oil and Gas Refining sector is concerned, the Company plans to further modernise the oil refineries in Russia and abroad in order to increase the share of high-octane petrol and ensure high quality of motor fuels. LUKOIL gradually expands the oil refining prioritising European standards of quality in its production. The General Plan of the modernisation of the oil refineries will enable the Company to completely switch to Euro-4 and Euro-5 standard fuels in 2008-2017.

The company plans to develop its own petrol station network, while increasing the quality of services. The number of petrol stations will reach 1.7 thousand by 2008, which will result in increased sales volumes. The volumes of sales are also expected to increase owing to network optimisation efforts.

The investment programmes encompass innovation technologies and technical means, as well as events in line with Social Responsibility Policy of the Company. Necessary investment expenditures are provided from the own and other (proprietary and borrowed) sources, a number of investment programmes have already been approved.

The LUKOIL Group Energy-saving Programme for 2006-2010 is developed based on the energy audit of the subsidiaries. This programme is expected to give 1.6 bn kWh of conserved power. The amount of used thermal energy and boiler fuel are expected to decrease. The estimated economic effect of the programme will total 1.7 bn roubles.

The implementation of the Secure Production Programme finished in 2005. The new Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2006-2010 has been put in place.

In the area of social policy new programmes have been approved aimed at improving the business processes management, including the new Programme of Long-term Motivation of the Employees of OAO LUKOIL and its Subsidiaries for 2007-2009.

Certification within the framework of the Programme of ISO 14001 and OHSAS 18001 Certification for 2003-2007 for the Group's Subsidiaries was completed in 2006. The companies of the LUKOIL Group engaged

Investing into Oil Refining and Petrochemicals we have managed to provide the country with the high quality petrol and partly with the diesel fuel. Today we are facing another stage: increasing oil refining several times with the existing capacities and switching to production of high quality fuel.

OAO LUKOIL President V.Y. Alekperov



in production, transporting, storage of oil and gas, oil and gas processing, the production of oil products and other petrochemicals, as well as oil and petroleum product marketing were certified against ISO 14001:2004 standard and OHSAS 18001:1999 specification for the secure production, safety and environmental protection management systems.

Legislation Changes

Changes to the Tax Code (Chapter 26 of Part 2) of the Russian Federation were introduced in

2006. The amended version set zero rate for the Fossil Fuel Production Tax (NDPI) for the Eastern Siberia Deposits and deposits of high-viscosity oils, and a reduction factor of NDPI for 80 per cent wrought deposits. These changes will improve the situation with the production in the areas where the Company has traditionally produced fuel fossils: Western Siberia, the Perm Krai, Povolzhye and the Republic of Komi. They will also stimulate the high-viscosity oil production in Timano-Pechora.

NDPI Taxes, USD m .

2002	2003	2004	2005	2006
1 472	1 966	2 971	5 590	7 281

Source: Spravochnik analitika-06.

Generated economic value and distributed direct economic value, USD m.³

GRI Indicator EU1	2004	2005	2006
Returns		56 215	68 109
Income from financial investments	34 058	96	111
Income from assets use	180	9 338	10 477
Operational expenditures	6 034	3 487	4 657
Payments to capital owners	2 880	1 042	1 384
Payments to the state (taxes)	952	18 732	24 418
Social investments	10 513	113,9	137,6
	80,5		

Source: Company data

³ Data refers to the entire LUKOIL Group

Trends and Challenges

- Global energy and stable energy supply

The issues of energy supply reliability became the key issue for discussions between the leaders of the main industrial states in 2006. The Global Energy Security Summit took place under Russia's auspices in St. Petersburg. It was mentioned that "effective, reliable and ecologically sound energy supply at the prices that correspond to the fundamental principles of the market economy is a challenge for ... entire humanity". The Report presents an initiative of LUKOIL's President with respect to the mentioned challenge.

- Climate change

LUKOIL shares concerns of the international community in regard to the negative anthropogenic impact on the environment, and the problem of climate change in particular. In October 2005, the Company prepared draft Corporate Concept of Creating Innovative Mechanism of Attracting Investments to the OAO LUKOIL's Companies Using the Ecological and Economic Mechanisms of the Kyoto Protocol, as well as the OAO LUKOIL Comprehensive Action Plan for Embedding the Greenhouse Gases Management System in 2006-2007.

- Expanding offshore production and water transportation of the oil and petroleum products

A number of serious recent accidents in oil production and water transportation have increased the interest of the international community towards the safety and environmental protection during oil production and transportation by water. The present Report gives a detailed account of the measures LUKOIL takes using its Baltic project as an example where the Company carries out activities to ensure environmental protection in water.

- Innovation – the call of time

According to oil industry experts, innovations are required in all business areas, concerning the technical and managerial issues. The Company vigorously develops and applies new approaches in all its activities while gradually improving processes of management aiming at higher efficiency of investments into production, personnel and science.

The innovation potential of LUKOIL is a positive factor that influence the sustainability and competitiveness of the Company. The intellectual property commercialisation indicator (over 40%) reveals that LUKOIL leads among Russian and international oil companies. The main volume of R&D budget is spent on the development of new



methods of geologic and geophysical research, improving methods of deposit remains assessment (for example, the development of calculation methods of deposit remains for complex structure reservoirs continued), as well as developing and improving rate of yield, maximising production and optimisation of technological solution. During the last several years, OAO LUKOIL extracted over 20 per cent of the total production volumes using special technologies of oil tier stimulation. LUKOIL has also been paying special attention to environmentally sound technologies at the production sites, particularly offshore.

- Increased attention to environmental and social responsibility worldwide

The environmental and social responsibility issues are establishing themselves as the main principles of business conduct. In June 2007, the G8 leaders signed the Declaration Growth and Development in the World Economy, which explains the necessity of enhanced social responsibility of corporations. The Summit participants have stressed their “commitment to the active promotion of the internationally accepted standards of corporate social responsibility and labour standards... , high environmental standards”, and called upon “higher transparency of the social responsibility activities”, addressing the quoted companies with a suggestion that they “evaluate their compliance with the standards and principles of social responsibility in their annual reports”.

In its activities LUKOIL aims at finding a well balanced solution of social and economic issues and improving the environment. It analyses and reports the results in its sustainability reports.



Our goals

To be a reliable supplier of hydrocarbons on the global energy market.

According to the International Energy Agency, in order to satisfy the growing demand for hydrocarbons the international oil and gas sector should receive USD 6,2 trillion investments by 2030. The current investments run approximately 20% less than that.

Global Energy and Supply Security Issue

The global energy security system formed already in 1970s. The structure of supply and demand has changed since, oil is currently 'rivalled' by natural gas, deterioration of resource base in the areas of traditional production led to switching to the use of the new hard-to-reach, and thus more expensive resources.

The deficit of secondary processing facilities triggered by increased use of motor fuel and tighter ecological standards is an important factor of instability. The world is facing serious changes in the structure of energy sources. Therefore, providing global energy stability during the following years will entail much higher costs for producers and consumers than earlier.

Main Decisions of the G8 Global Energy Security Summit

Complicating international conditions have pushed the problem of the international energy security in the forefront of global issues. Energy sector is the key sector for the world economy. Although the competition for the access to the resources and markets heats up, there is a growing trend for co-operation and balancing interests on the global and regional level.

The solution of the situation lies in interaction and co-operation of all international community: producers, consumers and transporters of oil and gas. The mutual trust and high responsibility of the producing countries, transit countries and importing countries will facilitate the solution of interconnected goals: energy security, economic growth and environment protection.

The global energy security can be reached via efficient investments into all parts of the energy chain, growth of energy efficiency and energy conservation on the national and international level in developing and using resources, hazard consequences

elimination, anti-corruption measures. These are the principles that the Summit participants supported.

Interaction and Co-operation

While sharing the views of the Summit participants, in 2006 LUKOIL came forward with the initiative of creating an Energy Policy Committee within the structure of the Russian Union of Industrialists and Entrepreneurs (Employers); OAO LUKOIL President V.Y. Alekperov headed the Committee. The Committee's role is to consolidate the position of the state and business circles in regards to developing Russian energy and resource industry, and also in regards to Russia's involvement in ensuring global energy security.

The Energy Policy Committee set a number of priorities, including:

- Equal access to energy resources based on market regulation mechanisms, that doesn't infringe on the national strategies of countries that produce or import resources.
- Development and embedding of technologies that minimise environmental threats, conserve energy resources and develop renewable sources of energy.
- Provision of non-discriminative access of the market participants to pipelines.
- Search for new sources of energy that would replace traditional oil, gas, coal, nuclear and hydro energy industry.
- Encouraging mutual investments into energy sector, removing barriers for mutual trade, ensuring free exchange of assets, information and technologies.



Manufacture of Product with Improved Ecological Characteristics

Significant efforts of the Company are aimed at organising the production of fuel with improved ecological characteristics.

Diesel Fuel

In 2005, LUKOIL started to produce diesel fuel Euro-4. The diesel fuel that complies with the strictest ecological requirements (standards Euro-3, Euro-4 and Euro-5) accounts for 60 per cent of the total production volume, with the largest share of Euro-4 (sulphur content 0,005%). Until now the sulphur content of most fuels produced in Russia (0.2%) more than 10-fold exceeded the maximum concentration specified in the European requirements*.

LUKOIL's Euro-4 fuel is produced on Perm, Nizhny Novgorod and Ukhta oil refineries. The sulphur content in the fuel is 40 times lower than it is required by the Russian standard GOST 305-82. The use of LUKOIL's Euro-4 diesel fuel decreases the volume of emissions more than twice, extends the engine durability and saves fuel.

The environmental effect from using 'pure' fuel is hard to overestimate: for instance, low-sulphur diesel fuels produced in Perm will cut the automobile emissions of sulphur dioxide by 950 tons per year in the Perm Krai and by 2,700 tons across Russia. Owing to using the motor fuels with low benzol, aroma compound emissions will decrease significantly.

Automobile Petrol

The Company vigorously develops high-octane petrol (complying with Euro-2 and Euro-3 standards) production. Its share has reached more than 75 per cent of the total volume of petrol production.

In January 2005, all LUKOIL's Russian refineries began production of petrol that complies with Euro-2 standard, while in February 2006 the modernisation of the OAO LUKOIL-Nizhegorodnefteorgsintez oil

refinery (Kstovo, Nizhny Novgorod Oblast) allowed LUKOIL to start production of petrol that complies with the European Euro-3 standard. The production volume of Euro-3 petrol will reach 50 per cent of the refinery's petrol production capacities.

By 2010-2012, LUKOIL plans to switch to Euro-4 and in 2016 plans to produce only the high-octane petrol. All the production will comply with the Euro-5 standard. By the time the technology sophistication index will double, which will ensure twice as much motor fuels of the same volume of refined crude oil.

The oil products with improved ecological characteristics are directed first of all to LUKOIL's petroleum terminals and petrol stations.



* The EU switched to producing Euro-4 diesel fuel (sulphur content 50 ppm or 0,005%) in 2005.

**Share of environmentally purer fuels
in the total volume of petrol and diesel fuels**

Description	Units	2002	2003	2004	2005	2006
High-octane petrol to total volume of petrol produced	%	50,63	57,52	61,40	68,98	76,57
Low-sulphur content (0,05%) diesel fuel to total volume of diesel fuel	%	14,51	22,80	33,18	55,74	61,82

Source: Company data

The launch of production of the Euro-3 petrol is an important stage in the programme of LUKOIL's oil refinery modernisation aimed at the increased production of environmentally friendly automobile fuel that complies with the European Standards.

AO LUKOIL President
Vagit Alekperov.

In April 2006 in Moscow and Moscow Oblast LUKOIL started to retail automobile petrol with improved ecological characteristics under the brand EKTO (ecological fuel), namely EKTO-92 and EKTO-95. The EKTO petrol complies with the Euro-3 standards and exceeds the state requirements. This petrol ensures safer car operation owing to better fuel ignition, increased durability and lengths of engine usage, longer operation without motor oil change, lower engine noise and vibration, the prevention of carbonated residue formation on the injector, etc. The improved ecological qualities of EKTO petrol

provide less nitrogen, sulphur compounds, carcinogenic and other hazardous emissions.

Making the branded (company's own) fuels by mixing in additives at the petroleum terminals is a common practice in Western Europe. This technology is used by such companies as Shell, BP, Neste, Teboil and many others. LUKOIL has got the necessary permit for using its additives in Russia, a certificate of compliance for additives, a sanitary approval, as well as the material safety passport. The EKTO petrol tests have been conducted by ZAO Nami-Khim.

Main indicators	GOST R 51105-97	'Moscow standards'	GOST R 51866-2002	EKTO petrol
Sulphur content ppm (max)	500	150	Type 1 - 150 Type 2 - 50 Type 3 - 10	Type 1 - 150 Type 2 - 50 Type 3 - 10
Benzol content %.	5.0	3,0 1,0 (since 01.01.2007)	1.0	1.0
Aroma compound content %.	not specified	42,0	Type 1 - 42,0 Type 2 - 35,0 Type 3 - 35,0	Sort 1 - 42,0 Sort 2 - 35,0 Sort 3 - 35,0
Olefins content %.	not specified	18,0	21.0/18.0	18.0

Source: Company data



Motor Oils

One of the directions of the LUKOIL Group activities is production and sale of oils. Oils are produced in LUKOIL's Russian oil refineries in Perm, Volgograd and Nizhniy Novgorod. In 2006 the total production of oils in the LUKOIL Group reached 1,174,000 tons. The share of LUKOIL in the total Russian oil production exceeds 40 per cent. Marketing and sales cover over 20 countries.

LLK-International is in charge of production and sales of motor oils at the 6 production facilities of the Company in Russia and abroad. The Company was established as part of the LUKOIL Group late 2005. LUKOIL's share in the LLK-International is 100%. The company seeks to increase the efficiency of motor oil business of the LUKOIL Group.

LLK-International considers the interests of consumers and produce a wide range of base, industrial, motor and transmission oils that comply with international standards.

In 2006 the Company started producing base oils with improved properties, designed new oils, uniformed formulas for producing oils at all the Company's factories, decreased the use of other producers' additives. During the year, 78 new and re-formulated products were launched.

The LUKOIL motor oils comply with the international requirements set by the Society of Automotive Engineers (SAE), American Petroleum Institute (API), European Automobile Manufacturers Association (ACEA) and the Association of Automobile Engineers of Russia (AAE). They are designed up to the newest standards with additives produced by Shell Additives, Exxon, Lubrizol and Ethyl.

As the quality of the Company's oils increases, so does the demand. In 2006 Russian automobile companies VAZ, KAMAZ and MAZ for the first time started using oils produced by LUKOIL as the priming oils.

The Company is distinguished on the Russian market for its system of customer relation management. LUKOIL is one of the first companies in the sector that provides complete service ensuring full escort of the goods from the customer shipment order to the organisation of used oil treatment.

The system of partner relations illustrate the attention that the Company pays to quality. For instance, in 2006 OAO LUKOIL and OAO AVTOVAZ signed an Agreement on Co-operation for 2006-2009. According to the Agreement the companies will hold up to the integrated technical policy in the area of modernisation of fuels and lubricants with a view of making them compliant with the modern international standards. Aside from the provisions relating to product supply and use, the Company has assumed the obligation to plan, organise and finance the development and production launch of promising types of lubricants.

Petrol Station Services

LUKOIL not only increases the quality of oil products, it enhances the services it provides for car owners at its petrol stations. In 2005 LUKOIL enacted the Programme for Development of Retail of Non-fuel Goods and Services at the Russian Petrol Stations of the Company up to 2014. Within this programme, LUKOIL plans to embed new, more efficient station formats in cities, at highways and in the rural areas and provide a better choice in its shops and cafes.



SOCIO-ECONOMIC PARTNERSHIP AND SUSTAINABLE DEVELOPMENT OF RUSSIA'S REGIONS





The term 'sustainable development' can be defined as a socio-economic model when the needs of the present generation are met without compromising the ability of future generations to meet their own needs. LUKOIL understands sustainable development as increasing resource and production potential, delivering stronger financial results and providing for social stability and ecological safety. The Company operations in all regions of its presence are based on corporate responsibility principles. The Company operating principles aimed at sustainability are set in several documents.

Our Goals

Contribute to long-term economic growth, social stability, prosperity and progress in the regions of the Company's presence. Provide for environmental protection and rational usage of natural resources.

Among them are:

- The LUKOIL Group Strategic Development Programme for 2005–2014 (and relevant targeted programmes*),
- OAO LUKOIL Social Code** ,
- OAO LUKOIL Policy on Industrial Security, Labour Safety and Environmental Protection in the 21st Century and targeted programmes in the area of environmental protection, industrial security and labour safety.

The Company's Key Operational Principles in the Regions

According to OAO LUKOIL Social Code, the Company's operations in the regions of its presence are based on the following principles:

- Mutually beneficial co-operation with state and municipal authorities,
- Socially responsible decision-making in business activities, including towards employees of the LUKOIL Group companies and general population on the regions.

* See the section of the annual report "OAO LUKOIL Activities in 2005–2006".

** For more details on internal social programmes described in OAO LUKOIL Social Code see LUKOIL's First Sustainability Report for 2003–2004 years».



Priority directions of socially important activities are set at the OAO LUKOIL Social Code. Among them are:

- The improvement of living conditions in the regions where the company operates,
- Environmental protection,
- Development of science, education, technologies and innovations (financing research and development projects, as well as experimental and industrial works; providing financial support to specialized regional educational and R&D institutions, programmes and projects; rendering organizational and material support to post-graduate students and doctoral candidates working for the Group's organizations; material incentives for the youth studying in the specialized educational institutions of professional education).

Response to Proposals 1–2 Dialogue 2005 and Proposal 5 Dialogue 2007

Information Request: 1. To analyze the Company's socially responsible business in the context of current social and economic reforms 2. To report on the indicators of social stability, social risks, and the indicators of sustainable social development, and interrelation of ecological activities and environmental protection of the Company with economic component of the business. 3. To be more active in promoting the Company's experience the development of partnership and socio-economic co-operation in the regions.

Kaliningrad Oblast

OOO LUKOIL-Kaliningradmorneft' is a leading industrial company of the Kaliningrad Oblast. A special geo-political

situation of the region surrounded by the EU-countries conditions certain peculiarities of local economy and impacts the Company's operations. The remoteness from the rest of Russia's territory contributes to higher transportation and customs costs during conveying good as transit through Lithuania and Byelorussia. Furthermore, the Oblast's enclaved position requires that the company's production activities comply with Russian and European safety and quality standards and ecological norms. For a decade (from 1996 to 2006), the Federal Law on a Special Economic Zone has been valid in the Kaliningrad Oblast. It allowed the Company to renew capital assets and launch new production facilities with state-of-the-art equipment*. Regional specifics of that period have shaped the Company's decision to develop different types of activities in the Kaliningrad Oblast under the umbrella of LUKOIL-Kaliningradmorneft'.

The production structure of LUKOIL-KMN is diversified. In addition to the core business – oil production on the mainland and the Baltic Sea shelf - the company is also involved in:

- exploration works,
- oil and oil product transfer operations at a complex oil terminal,
- production of liquefied hydrocarbon mixtures,
- sale of oil products (through a network of petrol stations) and liquefied gas directly to end users,
- construction of complex metal structures for the oil industry,

The company's key performance results for 2005–2006

● Number of deposits	● Volume of oil and product transfers	● Volume of produced and sold liquefied gas	● Volume of petrol products sold through petrol stations
2006	2006	2005-2006	2006
25	5,3 m tons	53,000 tons	190,000 tons

Source: Company data

* As of 1 April 2006, the new Federal Law on Special Economic Zone in the Kaliningrad Oblast took effect, according to which oil and gas companies cannot be residents of the special economic zone.



- The company owns a technological fleet to secure works in the Baltic, Caspian and Barents Seas.

Share in Gross Regional Product

According to socio-economic results of the Kaliningrad Oblast for 2006*, main volume of hydrocarbon production in the regions falls upon the Kravtsovskoye oil field on the Baltic shelf. The share of oil industry presented in the region primarily by LUKOIL-KMN in the gross regional products accounts for around 5%.

Ensuring Stable Energy Supply of the Region

The main task of the region's fuel and energy industry is to ensure energy security and sound socio-economic development of the Kaliningrad Oblast to provide for higher living standards and better life quality of the population**. Energy consumption in the region is steadily increasing. At the same time, the Oblast's energy sources generate only 73,9% of energy consumed here. Natural gas is fully supplied from the main territory of the Russian Federation through a gas-main pipeline. Gas is consumed primarily by the population and the housing and utilities infrastructure (56%).

The company contributes to addressing the energy deficit issue in the region. Most of associated gas produced by LUKOIL-KMN goes to the region's gas distribution network.

Investments

Since 2001, the Company has invested over 20,5 billion roubles into production on the territory of the Kaliningrad Oblast, including over 8 billion roubles over the last two years.

2006–2007	Taxes, million roubles
Budget of all levels	19 910
The region's consolidated budget	4 746

Tax Payments

The share of LUKOIL-Kaliningradmorneft tax contributions in the Oblast's consolidated budget over the last two years has accounted for 15%, and in the regional budget – for 27%. The share of income tax in the Oblast's consolidated budget has accounted for 42,6%.

Creation of Work Places

The company employs around 4,000 people (around 1,5% of economically active population). In 2006, the company created additional 140 work places in connection with the construction a loading berth for the Varandey sky terminal.

Contribution to Affordable Medical Services, Pension Schemes and Housing

- Medical Insurance

In 2006, LUKOIL-KMN spent over 22 million roubles on voluntary medical insurance programmes. 16 million roubles were allocated in 2006 to treatment of employees in sanatoria and health resorts, as well as to health improvement of employees and their children, with employees paying only 20% of the total voucher cost. Children's vouchers were distributed free of charge.

- Housing

The implementation of the corporate housing programme forms an integral part of the company's social policy. Over the last two years, 300 employees have become participants of the corporate shared housing programme. In addition, 230 employees have received interest-free housing loans for a down payment at the total sum of 46 million roubles.

- Pension Schemes

In addition to corporate pension schemes financed totally by the company, employees can also participate in non-governmental pension system with shared participation of the employee and employer. 405 employees have already become part of the new pension system.



* See: <http://gov.kaliningrad.ru/index.php?idpage=271&PHPSESSID=f7ea15bb4fb29303027f6c118ef464f1>

** See: <http://gov.kaliningrad.ru/index.php?idpage=271&PHPSESSID=f7ea15bb4fb29303027f6c118ef464f1>

"LUKOIL-KMN wants each of its 4,000 employees feel that the company cares about them. Only in this case they will be working really hard. If employees see that the company cares about them and they have decent housing, a possibility to monitor and improve their health, to take a rest in a sanatorium and to send their children to a summer camp, that working conditions are fine, the salaries are competitive and a pension scheme is available, they will care more about their work."

Yu.S. Kadzhoyan,
General Director, OAO LUKOIL-KMN

Employee Remuneration

Remuneration remains a key factor influencing social well-being of people. In addition to paying decent salaries regularly indexed against the inflation, the company provides its employees with a competitive social package.

Overall budget of LUKOIL-Kaliningradmorneft on social support of employees and their families has almost doubled over 2005-2006.

Public Concerns: Ecology

Main public concerns in the region refer to damage that oil production and transportation by the Baltic Sea may cause to the environment changing a unique ecosystem.

The Company's response to public concerns

Environmental safety is an important priority for the LUKOIL Group companies secured through the introduction of new resource-saving technologies and state-of-the-art equipment. The Company is engaged in an active and open dialogue with Russian organizations and activists, as well as international scientific and ecological community.

As members of official government delegations of the Russian Federation, the Company representatives have taken an active part in several events related to the Baltic Marine Environment Protection Commission (HELCOM), UNESCO's World Heritage Committee, PACE's Commission on Ecology and Agriculture and the Arctic Council. The Company representatives participated in the joint Russian-Lithuanian Commission on Environmental Co-operation, as well as in working groups initiated by this Commission. The Company's engagement has contributed to a significant progress in working out an agreement between the Governments of the RF and Lithuania on co-operation in preventing the contamination of the Baltic Sea, a joint contingency plan in case of the Baltic Sea contamination and an environmental monitoring programme for Russian and Lithuanian parts of the Baltic Sea.

The development of the Kravtsovskoye oil field project (D-6) is a striking illustration that the Company considers its role in the region seriously and responsibly and applies every effort to ensure economic growth without compromising environmental safety.

Response to proposals 4–5 Dialogue 2005 and proposal 4 Dialogue 2007

Information Request: 1. Report on the Company's ecological safety policy in detail. To inform society through the Company's reports about major environmental problems successfully resolved through the co-operation between the state and the Company. 2. Disseminate the LUKOIL Company experience in eliminating accident consequences and communicate environmental management procedures 3. Develop co-operation between local accident elimination services and relevant services of the Company.

Information about the Development of D-6 Project "Purity of the Baltic Sea is a Matter of Honour for us!"

The Kravtsovskoye oil field is located on a Baltic Sea shelf at a distance of 22.5km from the coast of the Kaliningrad Oblast. In 2002–2003, a large-scale geo-ecological survey was conducted and consultations with stakeholders were arranged. The implementation of the Kravtsovskoye oil field development project is based on the principle of the minimized ecological damage. After a detailed scrutiny of project proposals and the agreement of the project with special authorized bodies, the Company launched the construction of the Kravtsovskoye development complex.

Key elements of the complex include an underwater pipeline, the offshore ice-resistant stationary platform D-6 and an underground pipeline.

When constructing the development complex, the specifics of the field's location were taken into account, the fulfilment of Russia's international obligations was guaranteed and the compliance with federal and regional legislation was ensured. Having considered all risk factors, the Company developed an ecological safety system, which is in line with



federal and regional legislation, Russia's international obligations and requirements of the Helsinki Convention on the Baltic Marine Environment Protection. The project is based on the principle of minimized environmental damage on all stages of development and exploitation ("zero discharge principle"). The Company management has taken a decision not to discharge any industrial waste and consumption residues into the sea. A special onshore drilling waste collection and management complex has been constructed and launched in the Kaliningrad Oblast; the drilling mud is recycled into reinforced technogeneous soil.

Prior to the project implementation, an integral environmental impact assessment was conducted and consultations with stakeholders were arranged. Information on the assessment outcomes and the launch of operations at the Kravtsovskoye oil field is presented in the Company's First Sustainability Report.

Environmental Safety System

The system of emergency oil spill prevention and elimination forms a part of the ecological safety system. The management of all main and auxiliary processes and an automatic control over them are designed to exclude a possibility of an accident evolving into a disaster. A modern blow-out preventing device for wellhead sealing allows to prevent blow-outs of contaminating substances. The mooring system ensures accident-free and safe bunkering and loading-unloading works by the platform (trawling, vessel anchoring), and also in case of a pipeline rupture. The pipeline reliability and durability during exploitation is ensured by the use of various protection systems and a considerably increased pipe wall thickness.

A plan for eliminating emergency oil spills at the field has been developed. All necessary equipment for offshore and onshore facilities has been purchased, trained personnel and a response system are in place. A specialized vessel is on permanent duty by the offshore ice-resistant stationary platform D-6 to ensure fire and ecological protection and ready for saving human lives. Over the period of the platform exploitation, eight trainings on emergency situation prevention and accident consequences elimination have been carried out.

According to the waste management system, all wastes from the platform are transferred to service ships to be transported to the shore, where the Company has the necessary waste treatment facilities installed.

After treatment, oil from the Kravtsovskoye offshore oil field goes to the Izhevsky oil terminal. The terminal ensures ecologically reliable operations both under day-to-day and emergency circumstances. Air emissions are considerably reduced owing to creating an inert atmosphere between oil products and the atmosphere (nitrogen buffer), gas equalizing lines, and also by using the vapour recovery unit Cool sorption.

The system of integrated treatment of industrial waste water and storm water, as well as domestic waste water satisfies the terminal's needs and accepts water from the platform for treatment.

The industrial and consumption waste treatment system is able to dispose wastes both from the terminal and the D-6 platform. Reliable systems of ground and surface water protection against contamination and oil spill prevention, as well as a response plan in case of emergency are in place at the terminal. In total, 26,810 tons of various wastes have been transported over the period of the platform exploitation.

The project implementation ecological costs amounted to over 300 million roubles.



LUKOIL is making substantial investments into safety solutions including ecological safety. Suffice it to say that over five years the Company has spent over 27 billion roubles on ecological activities and has repaired 6,200 km of oil pipelines. These impressive figures show that the Company is involved in safety issues not because it is forced to do so but because it finds it important."

*S.K. Shoigu, Minister of the RF for
Emergency Situations*

Management System Certification

A certified integrated management system is introduced at the Kravtsovskoye oil field complying with the requirements of ISO 14001 International Standard (ecological management) and OHSAS 18001 Specification (operational health and safety management). The quality management system has been certified against the requirements of ISO 9001 International Standard (quality management). Marine safety management system and environmental protection complies with the International Management Code for the Safe Operation of Ships and for Pollution Prevention.

Ecological Monitoring

Key tasks of the Baltic Sea ecological monitoring include the organization of oil spill control, identification of pollution sources and oil spill drift forecasts.

The monitoring system consists of four modules – satellite, offshore, on-shore and data processing modules. Satellite monitoring is conducted by ENVISAT and ERS-2 devices built by the European Space Agency and by RADARSAT of the Canadian Space Agency. Every season, observations in accordance with the local (12 stations) and regional (17 stations) monitoring programmes are conducted in the Russian sector of the Baltic Sea. 63 stations of geo-ecological monitoring are located in the coastal zone. The level of oil product content in sea water and beach deposits is traced, the coast pollution with oil and oil products is assessed, and ornithological observations are conducted. Naval research is carried out with ships of the Oceanology Institute of the Russian Science Academy, AtlantNIRO and LUKOIL-KMN participating.

Satellite monitoring carried out since the launch of production at the field is the main information source on the Baltic Sea pollution. Photos taken by the European Space Agency satellites are received in Norway and then forwarded on line to the monitoring centre. In an hour or an hour and a half after the satellite overflight, the centre will have decoded and interpreted information that can be used as a basis for management decisions. From 2004 to 2006, 418 radar images have been received, processed and analysed and 480 oil spills have been detected. Over the whole period, no oil spills originated from the offshore ice-resistant stationary platform D-6 have been identified. It has been revealed that the main source of pollution are ships that illegally discharge oil-containing water into the sea. At the same time, the Company promptly reacts on pollution within the radius of 30 kilometres of the ice-resistant platform even if the pollution is not caused by its devices.

The local monitoring has been carried out near the offshore ice-resistant stationary platform and the regional monitoring covers eastern section of the Russian special economic zone in the south-eastern part of the Baltic Sea. Ecological photo shooting has been taken in the open sea. Special attention has been paid to the sea area between the platform and the Kurshskaya Spit. In addition to the monitoring programme, ecological sensitivity of natural complexes has been assessed here and maps of ecological sensitivity to oil pollution has been drawn.





Monitoring Outcomes

The following data have been identified as a result of monitoring:

Oil product content in bottom sediments has stayed on the background level ($< 5\text{mg/kg}$), in sea water it has also remained on the level of natural background (does not exceed maximal allowable concentration equal to $0,05\text{ mg/l}$), and near the platform this indicator has been $0,012\text{ mg/l}$. Bottom pollutions have been local in character. A problematic situation occurred in 2005 near the Rybnoe village (due to treatment facilities shutdown in the Zaostrovye village) on the western coast of Sambia.

The content of controlled chemical elements in bottom sediments has stayed within the limits of natural changeability. The content of synthetic surface-active agents has not exceeded $0,1\text{ mg/l}$, in other words has been below the maximal allowable concentration. The content of polyaromatic hydrocarbons (PAHs) in surface and bottom sea layers has varied widely. Among identified PAHs, Acenaphthylene, Chrysene, Fluoranthene, Pyrene, Benzantracene, Benzofluoranthene have been prevalent.

Fish surveys have shown that sprat and cod numbers have declined, however, it has been concluded that it is caused by natural species fluctuation. On early stages of development fish are most sensitive to anthropogenic impact, therefore, a statistical analysis of morphometric indices with fish eggs and hutchlings of indicator species has been conducted. The analysis has detected no deviations.

The state of bird habitats on the controlled part of the Baltic Sea water area has been satisfactory. As a component of marine and coastal eco-systems, birds have not suffered from visible negative impacts of oil production at the Kravtsovskoye oil field.

Ecological monitoring results confirm that the Kravtsovskoye field operations apply all cutting edge methods of preventing and reducing negative impact on the Baltic Sea eco-system.

All projects implemented by the Company in the Kaliningrad Oblast correspond to the most up-to-date requirements.

Dialogue participant

The fact that the Company is capable of handling negative factors even under conditions of unfair competition and gaps in legislation is a demonstration of its sustainability and ability to play a role of the region's development agent.

Dialogue participant





The Company's Participation in the Region's Life

In line with priorities stated in LUKOIL's Social Code, the Company carries out philanthropic activities and social partnership programmes. The implementation of social and philanthropic programmes contributes to effective co-operation with state authorities, local government bodies, business community and society as a whole.

Jubilee Dates

During the celebration of Kaliningrad's 750th anniversary (in 2005), the Company was the general sponsor of anniversary activities. It formed a considerable contribution to the successful organization of this important regional event visited by President V.V. Putin and leaders of France and Germany. Funds allocated by the Company were directed to the city's decoration, stages equipment and other activities.

In 2006, several projects related to the celebration of the 60th anniversary of the Kaliningrad Region were financed. Thus, LUKOIL-KMN constructed and donated to Kaliningrad the basis for triumphal column which is now standing at the city's main square.

Infrastructure Development and Town Improvement

Considerable funds are spent on the improvement of the region's municipalities. For example, a ground area prepared for the construction of an apartment building has been donated to the Guryevsky district administration at the Bolshoye Isakovo village.

Education and Culture

Considerable financial support is provided to health institutions, scientific and educational organizations of the Kaliningrad Oblast; among them are the Ocean Museum, the Amber Museum, the Historic and Artistic Museum and the Regional Philharmonic Society.

Supporting Veterans

War veterans and people with disabilities enjoy special care and attention of the Company. The main goal of this support is to make veterans feel needed by society. As part of the 60th anniversary of the victory in the Great Patriotic War, LUKOIL-KMN allocated 2 million roubles as material support to veteran organizations and war participants.

Topical Projects – Ecological Education and Enlightenment

LUKOIL-KMN pays great attention to ecological education of children, the youth and the region's population. Such work is carried out in partnership with local public and educational organizations – the ecological union Right to Life, the Kaliningrad Oblast Children Centre for Ecological Education and Tourism and the Rybachy village secondary school.

Since 2004, the children's ecological summer camp initiated by teachers of the Rybachy village school has worked on the Kurshskaya spit. Several dozens of schoolchildren from the Oblast's different schools come to the camp to carry out research and field projects in the area of environmental protection. For example, in summer 2006 the project participants were examining the state of water bodies of the Kurshskaya spit. Thanks to LUKOIL-KMN financial support, the camp has well equipped bedrooms, a canteen, bathrooms and a computer class with the Internet access seating 14.

A volunteering ecological programme is carried out on the camp's basis. The programme participants - local teenagers and the youth from the LUKOIL site – on annual basis clean sandy beaches and the Kurshskaya spit national park. The projects enjoys great popularity among the youth and local residents.



Western Siberia (Khanty-Mansi and Yamal-Nenets Autonomous Okrugs (Areas)

Western Siberia is OAO LUKOIL's historic homeland. The holding operates on the territory of two major northern energy regions of Russia – Khanty-Mansi Autonomous Okrug - Yugra and Yamal-Nenets Autonomous Okrug.

OOO LUKOIL-Western Siberia is the Company's main subsidiary producing over 60% of the LUKOIL Group oil. The company consists of five territorial production units: Langepasneftegas, Urayneftegas, Kogalymneftegas, Pokachevneftegas and Yamalneftegas. The Company employs over 36,000 people. For three past years, LUKOIL-Western Siberia has been recognized the best oil and gas producing company within the LUKOIL family. There are 54 fields on the company's books. Industrial reserves amount to over 1 billion tons of oil.

In 2005, the holding commissioned the Nakhodkinskoye gas field – the Company's first gas field in the Yamal-Nenets Autonomous Okrug. This fact marked the LUKOIL Group transformation into an oil and gas company. Over 2006, the company has produced over 53 million tons of oil and over 11 billion cubic metres of gas.

OOO LUKOIL-Western Siberia is the 'Company of the Year of the Khanty-Mansi Autonomous Okrug-Yugra' and the 'Business Leader of Yugra.' The company's operations have been estimated this way for high production, technical and economic and social performance. The Company's Western Siberian subsidiary is the only company in the Khanty-Mansi Autonomous Okrug-Yugra that is certified against three standards: ISO 9001:2000 for quality control, ISO 14001 for environmental protection and OHSAS 18001:1999 for industrial security and occupational health.

In 2005, the company was awarded the title 'The Best Industrial Company of Russia' for successful co-operation and respect for the rights of indigenous ethnic minorities. The same year the holding was recognized as 'Russian Organization of High Social

Effectiveness.' The contest was conducted under the auspices of the government of the RF. In addition, in 2005-2006 the company became the winner in the category 'For Co-operation with Indigenous Peoples' of the contest 'Yugra's Black Gold' held by the government of the Khanty-Mansi Autonomous Okrug-Yugra among the Okrug's companies.

Over 2005–2006, 1.94 billion roubles have been spent on the implementation of philanthropic and social programmes including those agreed with the local administration.

The Company's Participation in the Okrug's Life

OOO LUKOIL-Western Siberia follows the principles of corporate social responsibility and takes an active part in social initiatives together with regional governments. The project implementation aims at the development of northern regions and territories where the company operates.

Infrastructure Development and Town Improvement

Gas supply to the Mulymyi village of the Kondinsky district is among the projects of the highest socio-economic importance for local residents. The Company intends to build and reconstruct dwelling houses, medical, educational and sports institutions and housing and communal facilities.

Housing

A housing programme is implemented in Kogalym and Langepas towns.

Education

In 2006, a modern educational and industrial complex was created on the basis of Tyumen' State Oil and Gas University including a drilling rig, oil and gas production equipment, as well as auxiliary equipment for training future oil and gas specialists.

The company supports the establishment of an industrial park in Tyumen' specializing in innovation in the oil and gas sector. When the park is launched, Tyumen' will have become a major decision-making centre for the oil and gas industry.



«Социальное партнерство между Компанией и округом с каждым годом становится более динамичным и объемным. А это значит, что в результате нашей совместной работы улучшается жизнь людей, она становится более комфортной, хорошеют города Югры».

А.В. Филиппенко, губернатор,
председатель правительства
ХМАО-Югры

«Компания зарекомендовала себя как надежный партнер. Выполняет все свои обязательства, понимает, что людям нужны не только нефть и газ, но и социальные программы. Очень хорошие отношения с руководителями муниципальных образований, с руководством округа».

Ю.В. Неелов, губернатор ЯНАО



The elementary school No. 3 at Pokachi that has turned into a preschool institution has been reconstructed. The territory of school No. 4 has been improved.

Public Health

The Company has reconstructed the following health institutions: a maternity hospital and a children's clinic with a paediatric department at Uray, Langepas town hospital and in-patient department of the children's hospital at Kogalym. Funds have been allocated to finance the 'Overcoming' programmes of Uray rehabilitation department aimed at health improvement, recreation and occupation of children with disabilities.

Culture and Spiritual Revival

In Langepas, OOO LUKOIL-Western Siberia has supported the establishment of the Kayukovsky museum park on the excavation territory of the ancient settlement Langepas 1. The museum will feature reconstructed ancient dwellings and fortifications and will recreate handicrafts of native population. Financial support for purchasing information and technical equipment has been rendered to the Tazovsky local history museum that preserves cultural heritage of northern Nenets people.

The company supports annual contests of journalism skills inspiring journalists to develop their creativity and enhance their expertise in covering operations of fuel and energy industry and related industries. Among supported projects there is the international TV-festival 'Golden Tambourine' in Khanty-Mansiysk.

The company has participated in financing the International Film Festival 'Spirit of Fire,' the Regional TV-Festival 'Golden Tape' held annually in Kogalym, the 6th International Music Festival 'Yugra,' the Annual Theatre Festival 'Seagull,' as well as the Okrug Ecological Festival 'Save and Preserve.' The intercity contest 'Oil Worker Dynasties are a Matter of Pride for OAO LUKOIL' has become a unique event. Working dynasties of OOO LUKOIL-Western Siberia have participated in the contest.

Sports

In 2005, OOO LUKOIL-Western Siberia provided financial support to the World Biathlon Championship and the World Chess Cup. In 2006, the support of the company helped the traditional Uray judo tournament held in commemoration of Western-Siberian oil discoverer Semen Urussov gain an international status.

Ecology

The company sets the highest standards of production culture. The cutting edge technologies based on accurate scientific calculations are introduced. The programme of environmental safety has been developed in the company, which ensures a series of technological and environmental measures agreed with controlling authorities of Khanty-Mansi and Yamal-Nenets Autonomous Okrugs. The programme implementation expenses are growing annually. In 2006, these expenses exceeded 4 billion roubles.

In 2006, at the second All-Russian Ecological Conference the company was awarded the title "Leader of Environmental Protection in Russia – 2006" for its achievements in environmental protection and for implementing sound environmental solutions.

Northern People's Support

OOO LUKOIL-Western Siberia carries out its activities on 72 licensed blocks encompassing over 28,000 km² and located in the Surgutsky, Nizhnevartovsky, Kondinsky and Sovetsky districts of the Khanty-Mansi Autonomous Okrug-Yugra and 9 licensed blocks with the total area of over 25,000 km² located in the Yamal-Nenets Autonomous Okrug.

To preserve, protect and develop traditional lifestyle of the Khantys, Mansis, Nenets and Selkups, the company concludes agreements on socio-economic development of territories occupied by indigenous ethnic minorities. The improvement of relationship between the company and indigenous population is discussed at meeting of OOO LUKOIL-Western Siberia top management



with representatives of the Assembly of Indigenous Minorities of the North, heads of municipalities and representatives of minorities. The company is actively co-operating with public organizations. Co-operation agreements are concluded with the “Salvation of Yugra” organization and the Association “Yamal – to Descendants!”

It is worth a special mention that when an agreement is prepared, it is discussed personally with each family member. It facilitates an effective co-operation with indigenous population inhabiting the licensed block territories. According to agreements, local people are provided with monetary allowances, transportation means – boats and boat engines, ‘Buran’ snowmobiles, fuels and lubricants, building materials, working clothing, petrol-powered saws, communication facilities and mobile power stations. Housing is constructed for indigenous people in settlements and on territories of their traditional residence. They are provided with comfortable apartments in towns where LUKOIL-Western Siberia operates. Indigenous people are prioritized during recruiting to structural units of Western-Siberian holding; the company covers their educational expenses.

Due attention is paid to health of northern minorities: they are provided with free medical services and vouchers to sanatoria and health resorts.

An important task is to preserve the distinctiveness of indigenous people, as well as their language and culture. In co-operation with local authorities, educational institutions are built in local settlements and mass worship places are arranged. Support is rendered annually to organization of local festivals and events such as the Day of Reindeer Breeder, the Crow Day, the children’s ethnographic expedition Khanty Clan Meeting, conventions of reindeer breeders from Khanty-Mansi Autonomous Okrug-Yugra and others.



In 2005, agreements with 139 indigenous families numbering 535 people and in 2006 agreements with 143 families numbering 559 people were concluded. The funds spent in 2005 on contracts and agreements with district administrations on mutual co-operation with regards to socio-economic developments and on economic agreements with heads of clans exceeded 169,153,000 roubles and in 2006 - 194,835,000 roubles.



Volgograd and Astrakhan Oblasts

In the Low Volga region LUKOIL covers the whole oil and gas production cycle – from oil production to oil product sales. The enterprises present here are OOO LUKOIL-Nizhnevolzhskneft, OOO LUKOIL-Volgogradneftepererabotka and OOO LUKOIL-Nizhnevolzhsknefteproduct.

LUKOIL is the major tax payer in the Volgograd Oblast. Every fifth rouble in the regional budget comes from taxes of the Company's Volgograd enterprises.

OOO LUKOIL-Nizhnevolzhskneft has a status of a single oil and gas operator in the Company's structure on the territory of the Southern Federal District. It has around 100 oil fields on its books. The company's prospects in the region are related to the development of deposits on the shelf of the Northern Caspian Sea, where in 2009 the production of hydrocarbon materials will be launched.

OOO LUKOIL-Volgogradneftepererabotka is involved in oil refining and fuel and lubricants production in the Volgograd Oblast. The company produces over 100 categories of high quality oil products and stably refines 9,8 million tons of low-sulphur oil from Volgograd and Western Siberian oil deposits. The enterprise produces automobile petrol, raw materials for ethylene production, kerosene oils, fuels for jet engines, various types of diesel fuel, coke and lubricating oils.

OOO LUKOIL-Nizhnevolzhsknefteproduct is the company's main enterprise producing oil products in the south of Russia. Today, it includes over 20 petroleum storage depots, a distribution and storage terminal, a liquefied gas loading and discharge station and over 250 petrol stations. The company operations expand over the territories of Volgograd, Astrakhan, Voronezh, Rostov, Saratov and Penza Oblast. The company is not only involved in oil products storage and sales but also in ship bunkering with fuel and lubricants in the Volga-Don, Azov and Caspian basins (the ports of Astrakhan, Volgograd, Rostov-on-Don and Azov). In

addition, the company provides services in oil and petroleum product transfer by sea, rail and motor transport.

The Company's Participation in the Region's Life

For many years, providing help to city administrations in the regions where the Company operates in developing social infrastructure and improving the quality of social services through targeted support to educational, health and cultural institutions has been considered by the Company as priority directions of external social programmes. The Company considers promoting healthy lifestyle and supporting sports clubs and societies as one of key directions of its social activities. Many partnership programmes in the regions are aimed at supporting children, which the Company finds very important. In addition to target aid programmes such as supporting orphanages and helping their inmates in finding their life journey, many structural projects of the Company directly or indirectly help children have better starting conditions in life.

Today, these activities correspond both to the Company's priorities and the goals of nation-wide projects implemented in the regions where the company operates. Over the reported period the Company's enterprises in Volgograd and Astrakhan Oblasts have allocated over 196 million roubles to charitable and social projects.

Infrastructure Development and Town Improvement

To celebrate the company's 15th anniversary (2005), which concurred with the 40th birthday of the district centre Kotovo, the Company carried out large-scale works to improve the town. Major repairs of the House of Culture were conducted, town streets, parks and avenues were cleaned up, a stadium and health improvement centres were built.

In Liman District of the Astrakhan Oblast, the Company marked its 15th anniversary by reconstructing the Veteran's Park. Also, 100-metre long swimming pool with an artificial





beach was restored, the greenery was put in order and the Glory Alley and the Peace Park were improved.

Public Health

OOO LUKOIL-Nizhnevolzhskneft has donated money to the Volgograd Regional Cardiology Centre for purchasing equipment that is needed to operate newly born babies and infants suffering from congenital health failure. Over the reported period, the Volgograd municipal hospital No. 16 has been renovated. Support provided to the Volgograd region health institutions contributed to better health of its population.

LUKOIL is our long-standing and reliable partner. Its activities deserve the highest estimates. The oil company is just getting ready to implement large-scale projects on our territory and is not receiving any profit yet but it is already investing substantial amounts into development of our region. This is a striking example of socially responsible business and social responsibility is LUKOIL's key operational principle.

A.A.Zhilkin,
Astrakhan Region Governor

From a letter of Chief Doctor of Volgograd Clinical Hospital of Infectious Diseases No. 21

In 2007, the state health institution Volgograd Regional Children Clinical Hospital of Infectious Diseases celebrates its 50th anniversary. Major repairs of admission and diagnostics building carried out by LUKOIL enterprises will allow us to celebrate our anniversary in a proper manner. What it means:

- stay conditions of children and work conditions of personnel in this building are unprecedented among children's hospitals of infectious diseases in the Volgograd region and contribute to children's instant recovery. Average stay of children for treatment in this building is by 1,7 days shorter than in other hospital units,
- no cases of hospital-acquired infections that normally constitute a serious problem for children's hospitals have been registered in units located in the renovated building. Previously, cross-infections had been registered with every 15th patient,
- the building reconstruction has increased the capacity of resuscitation bed almost two-fold
- lethality rate – an important integrative indicator of a hospital performance – has declined 1,5-fold over 2005–2006.





Education

In accordance with the Volgograd regional programme of computerization of rural educational organisations, schools of the region's oil districts have been equipped with modern computer classes. Ten graduates of Astrakhan schools have received grants to continue their education in the Astrakhan State Technical University.

Culture and Spiritual Revival

The LUKOIL Group enterprises are constantly providing support in construction and restoration of religious shrines and cultural monuments. Among them are the memorial historical complex Astrakhan Kremlin, the mosque at the village Tri Protoka (Three Canals) in the Astrakhan Oblast and the Church of All Saints on the Mamaev Barrow. Reconstruction and repairs of the Volgograd Theatre of Young Spectators have been conducted.

Ecology

Operating residual reserves of oil and gas, LUKOIL enterprises from Low Volga apply the cutting edge methods that allow them to maintain stable production level and take good care of the Earth's Interior.

While working in the Caspian Sea, the Company introduced the zero discharge technology for the first time in the Russian Federation. Zero discharge principle that has become a basis for the Company's environmental safety system in the offshore production is also used in the Baltic Sea. Before commissioning an oilfield, large-scale integral ecological studies are carried out. After prospect drilling commences, ecological studies are conducted within the framework of production ecological monitoring.

During prospect drilling before the construction of every well, LUKOIL has compensated for possible damage that according to calculation results drilling could cause to fish resources. Over the reported period, the implementation of sturgeon fish reproduction project in the Caspian Sea has continued.

OOO LUKOIL-Nizhnevolzhsknefteprodukt pays great attention to environmental protection. The company has developed an ecological programme. In particular, the programme stipulates dismantling of old production facilities and, first of all, residual fuel oil storage facilities.

In March 2006, A. Guzhvin's Astrakhan Regional Ecological Foundation in co-operation with the Company carried out an ecological activity "For the Clean Province!" and cleaned up of litter 20 hectares of coastal territories. The same year, a contest of essays "I live in the Caspian Region" was organized in Astrakhan region's schools with assistance of the ecological foundation and the LUKOIL Group. The activity's main goal has been to draw the attention of the youth to the necessity of treating nature with care.

High standards of ecological safety of OOO LUKOIL-Nizhnevolzhskneft have been recognized at the state level. In 2006, the Company was awarded the title "Leader of Russia's Environmental Protection" by the Ministry of Natural Resources.

Supporting organizations

For several years OOO LUKOIL-Nizhnevolzhskneft has been acting as a patron of quite a few children's organizations. In the Astrakhan Oblast, these are an orphanage for retarded children, an orphanage in the Raznochinovskiy village, Narimanov district. Major repairs and reconstruction have been conducted there, rooms have been equipped with modern equipment and toys, clothing and shoes have been purchased.

Other beneficiaries include a school of the Yandyki village, a shelter in the Solodcha village of the Olkhovsky District, orphanages in the Vetyutnev hamlet of the Frolovsky District and in the towns of Zhirnovsk and Kotovo. OOO LUKOIL-Volgogradneftepererabotka is a patron of the boarding school No. 11 for orphans and children without parental care. Support is also rendered to the Astrakhan Regional Public Organization of Veterans.



Nizhny Novgorod Oblast

Nizhny Novgorod Oblast is one of the Company's priority regions

TherefineryOAO LUKOIL-Nizhegorodnefteorgsintez and petroleum product sales company OOO LUKOIL-Volganefteproduct operate on the region's territory.

LUKOIL-Nizhegorodnefteorgsintez is a leading refining company in Russia, a major producer and supplier of high-quality engine fuels, lubricants and special petroleum products to many regions of Russia and abroad.

LUKOIL-Volganefteproduct operates in nine central regions of Russia – the Mari El Republic, Chuvashia, Mordovia, as well as Nizhny Novgorod, Vladimir, Ivanovo, Vologda, Kostroma and Yaroslavl Oblasts. The company sells petroleum products on the internal market via the wholesale-retail network.

The Company's Participation in the Region's Life

The Company's co-operation with local state bodies is regulated by the Agreement on Economic and Social Partnership between OAO LUKOIL and the Nizhny Novgorod Oblast administration, which has been in force since 2005.

In 2006, the implementation of the project "LUKOIL: business and state power – sharing experience in the regions" started. The Company has initiated a visit of Nizhny Novgorod deputies to the Volgograd Oblast. During the visit, lawmakers exchanged practical solutions on developing and implementing normative acts in the regions. According to Nizhny Novgorod deputies, the visit has helped them "share experience with Volgograd colleagues, discuss vitally important issues for the region and define new directions of law-making activities."

Over 2006, the Company has invested over 5 billion roubles into the Nizhny Novgorod Oblast. Taxes paid by the LUKOIL Group enterprises to the region in 2005 accounted for around 15% of the regional budget.

Since November 2005, OOO LUKOIL-Volganefteproduct has granted substantial discounts on fuels to state enterprises. Prices for diesel fuel offered to agricultural producers during winter preparatory works and spring field operations in 2005-2006 were reduced. During 2005-2006 winter heating period, residual fuel oil was supplied to the regional administration and to the departments of education and public health at privileged prices.

Infrastructure Development and Town Improvement

One of goals of OAO LUKOIL social policy is the development of Kstovo District, Nizhny Novgorod Oblast, where employees of the Company's subsidiaries live and work. In 2005, on the eve of 60th anniversary of the Victory in the Great Patriotic a memorial complex was installed on the Kstovo main square – Square of Peace. Major repairs and decoration of the town children clinic were completed. The town children park – a traditional family and children recreation area – has opened after the reconstruction. New park amusements have been launched, paths have been paved with stone blocks, the administration building has been refurbished and landscape has been improved. Children sports grounds have been in almost every district of the town.

In 2006, Peace Boulevard in Kstovo was renovated and renamed into Boulevard of Petroleum Processors.

In 2006, the joint project of supplying gas to the 19th district of Kstovo was implemented by OAO LUKOIL-Nizhegorodnefteorgsintez, OOO LUKOIL-Volganefteproduct and Kstovo municipal district administration.

Housing

A co-operation agreement has been concluded between LUKOIL-Nizhegorodnefteorgsintez and Kstovo district administration aimed at the implementation of the target programme "Affordable and Comfortable Housing to Russia's Citizens" on the territory of Kstovo municipal district.



"The agreement implementation in the Nizhny Novgorod Oblast ensures environmental protection, public health and budget revenues."

V.P. Shantsev, Governor of the Nizhny Novgorod Oblast



Public Health

Over the reported period, substantial funds have been allocated to public health organizations of Nizhny Novgorod and Kstovo for purchasing medical equipment and post-graduate training of specialists.

Sports

LUKOIL-Volganefteproduct is a partner of the automobile racing team LUKOIL-Nizhegorodets, which has become the champion of Russia for 18 times and has won the Cup of Russia for several times both in the individual and team event.

Ecology

LUKOIL-Volganefteproduct and LUKOIL-Nizhegorodnefteorgsintez operate in compliance with the LUKOIL Policy on Industrial Security, Labour Safety and Environmental Protection. The Company is certified against international ecological standard ISO 14001 and industrial security standard OHSAS 18001.

In November 2006, LUKOIL-Volganefteproduct and LUKOIL-Nizhegorodnefteorgsintez were awarded with the medal "Leader of Russia's Environmental Protection – 2006" at the 2nd All-Russian Ecological Conference "New Priorities of National Ecological Policy in Actual Economy Sector."

Komi Republic and Nenets Autonomous Okrug

OOO LUKOIL-Komi – a subsidiary of OAO LUKOIL – operates in the Timano-Pechora oil and gas area (territories of the Komi Republic and the Nenets Autonomous Okrug) bearing the largest hydrocarbon reserves in the North-West of Russia. Some of developed fields are located behind the Arctic Circle.

Main activities include exploration, construction of field facilities and development of hydrocarbon reserves. Over half of Timano-Pechora reserves can be categorized as hard-to-extract characterised by high viscosity, which requires the use of special expensive production techniques.

Over 2005 – 2006, the company has directed over 657 million roubles to philanthropic and social programmes. In particular, over 165 million roubles have been allocated to the implementation of agreements with municipalities, nearly 119 million roubles have been donated to medical organizations, 56 million roubles – to cultural institutions and 29 million roubles – to town improvement.

Partnership between the State and Private Business

At present, partnerships between the state and private businesses are formed in the Komi republic through bilateral and multilateral co-operation agreements between state authorities or local self-government bodies and commercial companies operating on the territory.

National Projects

The company supports the development of agriculture: the purchase of equipment for dairy and meat product processing has been financed. Now, agricultural enterprises in several districts where the company operates can accept higher volumes of products from population than before. Considering the burning nature of unemployment in rural areas, the higher level of agriculture development provides an incentives for local population to develop





small private holdings contributing to their families' better welfare.

Education

The issue of insufficient supply of equipment, furniture and various tools is especially burning for rural schools and kindergartens. In 2006, the company financed the purchase of new refrigerators, washing machines, electrical stoves, boilers and furniture. In addition, in 2005 equipment for seven computer classes was purchased for the republic's schools. A school in the Gaz-Sale village, Nenets Autonomous Okrug, has been reconstructed.

Public Health

Deficient funding from the Federal and republican budgets has resulted in very poor conditions of local health institutions: most medical equipment has become unusable and buildings have fallen into decay. In fact, LUKOIL has assumed the restoration of medical potential in the regions where its enterprises operate. Over 2005–2006, polyclinics in the Yarega village, Ukhty District, have been renovated and major refurbishment of the gynaecological centre in the Pechory District has been carried out. New medical equipment has been purchased for polyclinics of the towns of Sosnogorsk, Ukhty, Pechory and villages of Yarega and Kozhva as well as for the Izhma District. Moreover, over the reported period the renovation of the polyclinic building in the Nizhny Odes, Sosnogorsk District, has been started and a new X-ray device and other equipment have been purchased.

Culture and Spiritual Revival

The company contributes to the preservation of cultural heritage and supports creative teams throughout the region. Thus, in 2006 the first republican festival of oil workers "We are together!" was organized. Also, major repairs of the Houses of Culture in the town of Usinsk and the villages of Nizhny Odes, Sosnogorsk District, and Yarega, Ukhty District, have been completed.

The company has supported the restoration

of the Izhma village church, Izhma District, and Pechorsky Bogoroditsky Convent, as well as the construction of the Church of Resurrection in Usinsk.

Ecology

LUKOIL has fully completed the "Corporate programme on Ecological Rehabilitation of Polluted Territories and on Prevention of Accidental Oil Spills in the Komi Republic for 2000-2005." The programme's main goal has been to eliminate 'inherited' by the company consequences of the 1994 accident that was registered in the Guinness Book of Records due to its scale and to get the status of an ecological disaster zone removed from several territories of the republic's Usinsk District. Over this period, LUKOIL has allocated over 4,6 billion roubles to environmental protection.

Supporting Organizations

LUKOIL-Komi is providing support to 35 orphanages, schools and kindergartens, eight councils of veterans of the Great Patriotic War and six societies of people with disabilities. Another important aspect of the company's social policy is the support provided to Usinsk families with many children. Since 2004, the company has acted as a patron of four large families of Usinsk that have received quarterly financial support in the amount of 2,000 roubles for each child.

Supporting Northern Minorities

The company OOO LUKOIL-Komi operates on the territory of the Bolshezemelskaya tundra of the Nenets Autonomous Okrug, in particular, the territories of three reindeer farms – agricultural and industrial cooperatives 'Druzhba Narodov' (People's Friendship), "Kolkhoz 'Izhemsky Olenevod'" (collective farm 'Izhemsk 'Reindeer Farmer') and cooperative "Erv." Respecting traditions and customs of indigenous minorities and recognizing the necessity of their living style preservation, the Company takes an active part in programmes for social protection of the Nentsy and Komi residing on these territories.





Annually, the Company concludes agreements with four reindeer farms on mutual co-operation in the area of socio-economic development of northern minorities. Agreements provide for material reimbursement for the usage of land, as well as for purchases of cross-country vehicles, fuels and lubricants, building materials etc. For example, in 2006 the Company purchased six wooden houses for reindeer farmers of the Druzhba Narodov cooperative and a KAMAZ truck, 10 snowmobiles, walkie-talkies for reindeer farmers, sawn wood, food products and household goods for Izhemsky Olenevod.

The Company is also utilizing more up-to-date forms of co-operation and support. The Association Yasawey has received financial support of their several projects via a small grant contest in the categories "Preservation and Development of Spiritual, Historical and Cultural Values," "Development of Family and Clan Communities of Indigenous Northern Minorities of the Nenets Autonomous Okrug," "Supporting Socially Underprivileged Groups within Northern Minorities of the Nenets Autonomous Okrug.

Perm Krai (Territory)

OOO LUKOIL-Perm runs 133 oil and gas fields and produces hydrocarbons in 23 regions of the Perm Krai.

OOO LUKOIL-Permnefteorgsintez refines hydrocarbons and produces over 80 categories of high-quality petroleum products delivered to nearly 50 regions of Russia. Over 30% of products are exported to CIS countries and Europe.

OOO LUKOIL-Permnefteproduct is a major cross-regional distributor of OAO LUKOIL selling the Company's products on the territory of Urals, Western and Eastern Siberia.

The Company's Participation in the Region's Life

The Company carries out its economic and social activities in line with the Agreement

on Economic and Social Co-operation between the Perm Krai and OAO LUKOIL signed in December 2005.

Infrastructure Development and Town Improvement

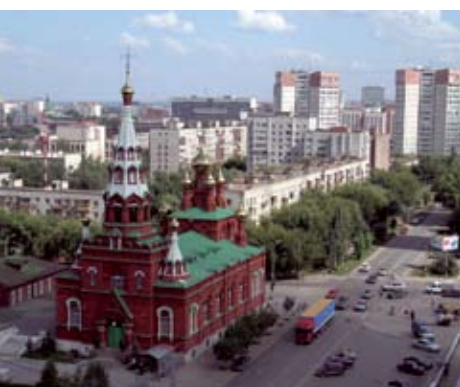
The Agreement provides for the implementation of a large-scale project – gas supplies to Chernushinsky and Kuedinsky districts and the town of Krasnovishersk. It is planned to direct natural gas of the Kokuyskoe reserve to Chernushinsky and Kuedinsky districts while residents of Krasnovishersk will be able to use gas from two fields that are being developed by LUKOIL-Perm – Magovskoye and Tsepelskoye reserves. Gas supplies are in line with the Company ecological policy. If previously associated petroleum gas was flared, it is now directed to power stations of residential areas and brings heat and light to people.

Perm subsidiaries of OAO LUKOIL co-operate with state and municipal authorities of the Kama region. Water supply system has been built in the Oktyabrsky village. Funds have been allocated to the development of water supply system in the Ilyinsky District. A stabilizing stock of fuels and lubricants for the Perm Krai strategic goals have been formed. 18 million roubles have been allocated to the reconstruction of power stations in the Kuedinsky district villages. The construction of gel powder plant – the largest production facility of the Yelovsky district – will continue in 2007.

Overall, the 2006 social investment programme covered 64 socially important objects in 4 towns and 16 districts of the Perm Krai. In 2006 alone, the size of the Company's Perm subsidiaries social investments amounted to 570 million roubles.

Education

OOO LUKOIL-Perm provides a regular philanthropic support to various educational institutions of the Perm Krai. Funds are distributed through both the social investment programme (in 2006,





the Company financed the construction of a school in the Kalinino village of the Kungursky district, a boarding school in the Foki village of the Tchaikovsky district and other facilities) and the corporate contest of social and cultural projects. The Company's grants pay for computer classes, summer recreation for children and implementation of interesting educational ideas.

OOO LUKOIL-Perm provides targeted support to teachers and students, as well as educational organizations of the Perm Krai. During 2004–2006, 18,7 million roubles have been spent on targeted support to such institutions in Perm and the Perm' Krai. In 2006, support was provided to the school of Bolshebukorskoye rural settlement of the Tchaikovsky district, Perm Orthodox Classical School, Perm State Technical University and other organizations.

Public Health

Social investment activities of the Company's Perm subsidiaries are also aimed at public health improvement. Over the reported period the Company has donated 50,7 million roubles to the Kama region medical organizations. The following medical organizations have already welcomed their first patients: the Berezniki rehabilitation centre for disabled children, the medical station in the Dobryansky region, the in-patient hospital in the Bardymy region and the ambulance station in the Oktyabrsky region. In 2006, LUKOIL allocated 4,325,000 roubles for purchase of 15 medical cars for district hospitals. New cars were passed to medical organizations during the celebration of the 15th anniversary of the Company.

Culture and Spiritual Revival

LUKOIL companies in the Perm Krai are paying great attention to the preservation of rich cultural traditions and spiritual revival of the Kama region. The territory of one of the most significant tourist attractions of the Krai – the Kungurskaya glacial cave – is being improved. The restoration of the Usolye architectural complex and the Ilyinsky local history museum is underway. Financial support has been provided to the Perm

State Academic Theatre of Opera and Ballet named after P. Tchaikovsky, the Theatre of Young Spectators and the State Art Gallery.

The Company is supporting 30 churches and monasteries, two mosques, an orthodox gymnasium and a religious school. The Company's donations help restore sacred places, install church domes, cast bells and maintain buildings in due conditions.

Thus, the Perm branch of the LUKOIL Philanthropic Foundation is providing permanent support to the Belogorsky Convent and the Bogoyavlensky Monastery.

OOO LUKOIL-Permnefteorgsintez is financing the restoration of the St. Trinity Church in the Nizhnie Mully village of the Perm district. The building's foundation has been reinforced and the heating system has been assembled and launched. The new iconostasis has been under construction since 2005 and new church utensils have been ordered.

OOO LUKOIL-Perm is providing targeted support to spiritual organizations of the Perm Krai – St. Trinity Church of the Osa town and the church of SS. Peter and Paul in the Yelovo settlement, St. Trinity Church of the Polazna settlement, a convent in Usolye etc.

Supporting Organizations

Since 2005, LUKOIL-Permnefteproduct has organized an activity called "Good Works." Within its framework, veterans' apartments in Solikamsk have been refurbished, monuments and memorials in Perm, Yekaterinburg and Kirov have been erected.

OOO LUKOIL-Permnefteproduct is providing aid to orphanages and boarding schools. In addition to its own financial support, the Company raises its clients' donations at Perm petroleum stations. Also, the Company pays the great attention to promoting road safety aimed at reduced injury rate among children. Thus, in 2005 LUKOIL-Permnefteproduct financed the children festival "Attention! There are Children on the Road!" on the city esplanade timed to the Day of Knowledge with contests and entertainment for little pedestrians.



Creating conditions for preserving national and cultural traditions, OOO LUKOIL-Perm has conducted a regional festival of the Kama region historical towns for six years in a row. The festival is held once a year in one of 18 historical settlements of the region. Chemroz, Dobryanka, Ilyinsky, Solikamsk, Usolye have already hosted the festival. Thus, after the festival had been held in Chemroz, the town was included into a major federal programme, which allowed to raise additional 120,000,000 roubles. As a result of the festival in Solikamsk, the town regained the most revered icon of St. Nicholas the Wonderworker that had remained under restoration in one of Moscow museums for many years.

Response to Proposal 3, Dialogue 2005, and Proposals 1 and 7, Dialogue 2007

Information Request: 1. Assess the effectiveness of the Company's socially significant programmes. 2. Use innovative technologies not only for main business but for philanthropy as well. 3. Continue the Company's initiatives in the sphere of ecological education and dissemination of ecological culture.

Social Projects Contests

The contest of social projects conducted on annual basis by the LUKOIL Philanthropic Foundation and the Company subsidiaries has become one of the most effective techniques for implementing socially important programmes. In addition to one-off charitable activities, the distribution of funds through a contest based on principles of competitiveness, transparency and openness has been introduced. The contest aims at supporting projects and initiatives of the local community in addressing burning issues of the territory and improving the effectiveness and efficiency of the Company's philanthropic activities.

History of the Contest

In 2002, the Company's main production subsidiary in the Perm Krai OOO LUKOIL-Perm for the first time in Russia initiated a corporate contest of cultural and social projects. For two year the Company was analyzing if the contest technique corresponded to the Company's corporate culture and strategy and to what degree this form of co-operation could meet expectations of contest participants. In 2004, the decision was taken to roll out the contest technique to other territories of the Company operations. Then, the LUKOIL Philanthropic Foundation and OOO LUKOIL-Nizhnevolzhskneft conducted the first contest of social projects of the territory of the Volgograd and Astrakhan Oblasts. In 2005, the contest's geographical scope expanded: first grant contests were carried out in the Komi Republic and in Western Siberia.

Regions where corporate contest of social and cultural projects are held

Region	2002	2003	2004	2005	2006
Perm Krai	○	○	○	○	○
Volgograd Oblast			○	○	○
Astrakhan Oblast				○	○
Komi republic				○	○
Western Siberia				○	○

Participants and winners of the corporate contest of social and cultural projects

Region	2002	2003	2004		2005		2006	
	Won	Won	Applied	Won	Applied	Won	Applied	Won
Perm Krai *	37	57	213	84	468	111	600	112
Volgograd Oblast			42	11	29	9	100	14
Astrakhan Oblast					38	6	80	12
Komi republic						5	25	5
Western Siberia					46	9	100	17
Total	37	57	255	95	581	140	905	160

Source: Company data

* Corporate contest alone

Contest Mechanism

Guided by the OAO LUKOIL Social Code, the Company has defined main directions and categories of the contest in line with its corporate goals on the territory of its presence, on the one hand, and the needs of the region, on the other hand. The contest allows to put into practice several provisions of the Code:

- Creating conditions for preserving national and cultural uniqueness,
- Supporting initiative in the sphere of public health and environmental protection,
- Financing social organizations,
- Contributing to the restoration of national religious sacred places,
- Supporting public organizations of veterans and disabled people,
- Supporting public organizations aimed at the development of children's sports,
- Creating conditions for preserving local handicrafts.

The contest is held annually in each region in several categories. Themes for categories are unified, that is Ecology, Charity, Culture and Art, Physical Culture, Sports and Tourism and Native Land. Nevertheless, the contest organizers can modify or add a category topical for a specific region. Winners in the 'Native Land' category receive substantial grant for implementing projects aimed at solving social problems, improving residential areas, restoring architectural and historical monuments. An obligatory condition for receiving a grant is the applicant's own contribution in the size not less than 30% of the requested amount. Winners are selected by the contest panel with representatives of municipality heads, public and municipal organizations and deputies of local legislation bodies participating.

The contest in Perm has got a more complex structure. It consists of three separate parts:

- Contest of projects presented by local self-governance heads,
- corporate contest,
- municipal contests.

Each contest is organized in accordance with its own regulation but a unified system of entry registration, winners selection, monitoring and summarizing results of project implementation is used.

Contest of projects presented by local self-governance heads

Over a relatively short period of time, OOO LUKOIL-Perm has managed to build a new type of relationship with local administration heads. Before 2002, the relationship had been based on the "beggar-giver" scheme. District heads are still receiving charitable support from the Company but donations are distributed through the contest. There are clear criteria for a positive decision such as the project's social importance, financial sustainability, long-term effect and alignment with the territory development plans.

Corporate contest

The corporate contest has the widest scope in terms of the number of applications and supported projects. While selecting the contest winners, the Company takes into account the long-term financing plans, sustainability of results and the involvement of the maximal number of participants into the project implementation. Such approach allows to solve one of the most important social tasks that is to develop an indifference of local population to their home land and form their active social position and responsibility.

Municipal contest

Not numerous but vitally important for municipalities projects are supported during municipal contests.

Over the past four years the contest has become an important part of the regional public life. The scope of the event has grown from 37 projects supported in 2002 to 161 projects in 2006. Over these years, more than 120,000,000 roubles have been distributed through the contest. The contest's grant pool has risen from 2,000,000 roubles in 2002 to 25,000,000 in 2006. Hundreds of organizations have participated in the contest over five year.



Distribution of winners against contest categories

Financing sphere	2004 ¹¹	2005	2006
Creating conditions for preserving national and cultural uniqueness	27	26	29
Supporting initiatives in public health and environmental protection	13	12	23
Financial support to social organizations	6	19	20
Contribution to the restoration of national religious sacred places	5	13	7
Supporting public organizations of veterans and disabled people	15	11	13
Supporting public organizations aimed at the development of children's sports	9	26	25
Creating conditions for preserving local handicrafts	9	9	9
Total:	84	116	126

Source: Company data

Assessment of Contest Outcomes

The assessment of the contest outcomes against certain indicators allows us to conclude that this technique is an effective way of fund distribution aimed at an improved socio-economic situation in the regions where the Company operates.

• Application Dynamics

The success of the contest scheme to a large degree depends on the competition level of applying projects. If the panel considers only few applications, they may select not the strongest project as the contest winner. A large number of applications demonstrates that the contest enjoys popularity and its categories reflect topical social problems of a specific area. Over the last three years, the number of applications has nearly doubled annually.

• Number of Financed Projects

Over five years, the number of projects supported through the contest grew four-fold. This fact demonstrates that the project culture is improving among municipal and public organizations, as well as their ability to substantiate their projects and present their content and medium-term prospects in a clear and convincing manner. Thus, a more responsible approach of applicants to their activities and expected outcomes is being formed, which contributes to better sustainability of both their projects and organizations, improved competitiveness and higher level of services, if a project is related to service provision. The panel of judges have noted a growing professionalism of contest participants. The availability of professional organizations that adhere to the idea of the population's active social position and are experienced in contest participation can be considered as one of the most important contest outcomes. This is the most sustainable intangible asset.

• Ratio of the Company Financing, the Applicants' Own Contribution and Raised Funds

The Company's financing of the projects forms a stimulus for contest participants to raise additional funds by finding organizations that are willing to support projects and interested in their outcomes. This is not an easy task that cannot be solved at once: as a rule, co-investors agree to participate in the project financing only when they find its level high enough. As the practice shows, it normally happens after two-three years of the Company's financial support. If we take the Perm contest as an example, we will see that the ratio of the Company financing, the applicants' own contribution (including the labour of volunteers and project participants) and funds raised from other sources over the last three years has remained 2:1:1, which means that the Company support and co-investing of winning projects from local sources has been equal. Actual volume of funds spent in 2005 accounted to nearly 60 million roubles and in 2006 – to around 70 million.



¹¹ 2004 data apply only to Perm contest outcomes

During the second contest in Volgograd, the winners did not manage to raise additional funds (the implementation of winning projects had been carried out for a year by that time), however, the sum of co-investing by project participants accounted to 2/3 of the grant budget provided by the Company. This is a good illustration that the contest participants understand their objective to achieve sustainability of their projects and do not count entirely on the Company's support.

- **Number of Participants Involved into Project Implementation**

The assessment of participant involvement demonstrates that at least seven people participate in the implementation of one project and its impact may extend up to 13 districts of a region.

Cumulative outcomes of the contest winners activities can be well presented by example of the category "Physical Culture and Sports Development" in the Perm Krai. As a result of the project implementation, over 29 small and large sports facilities have been established in the Perm Krai towns and settlements. Among them are large sports

complexes, pools, stadiums, sports mini-complexes, open-air sports ground, sports and fitness clubs offering all necessary equipment for sports exercises of the entire family. 11 large sports facilities have been built or reconstructed. Open-air sports grounds (including children's grounds) and sports mini-complexes have been constructed in 15 towns and settlements. Seven family sports clubs for children and their parents have been established. The project implementation has involved at least 3,000 people into regular sports exercises.

"Today, we can say that the corporate contest of OOO LUKOIL-Perm is a modern and well functioning model of corporate social responsibility, which has a synergy effect due to joined efforts of business, state authorities and society. Perm practice of philanthropic funds distribution through a contest scheme has been highly estimated by the Company as an innovative and efficient tool of corporate social responsibility. The Perm model of LUKOIL social project contests has been rolled out to Volgograd, Astrakhan and Nizhny Novgorod Oblasts. LUKOIL companies in Western Siberia and the Komi Republic have demonstrated great interest in contest scheme."

A.V. Leyfried,
OOO LUKOIL-Perm General Director

Sources of project financing (by example of Perm and Volgograd contests)

Perm

	Sources and volume of financing, thousand of roubles								
	Grant budget of OOO LUKOIL-Perm			Applicants' own contribution			Funds raised by applicants		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Contest of projects presented by local self-governance heads	6 135,5	7 510,0	7 706	–	4 406,8	2 600	–	3 917,9	2 960
Corporate contest of social and cultural projects	8 712,8	15 578,5	16 823,4	6 642,8	12 152,2	7 600	6 364,9	9 787,4	5 430
Municipal contests of social and cultural projects	1 039,4	2 261,8	24 136,4	1 011,6	1 804,3	885	726,5	820,9	912
Total:	15 887,7	25 350,3	48 666,8	7 654,4	18 363,3	11 085	7 091,4	15 526,2	9 302

Volgograd, 2005

Source: Company data

Grant budget, thousand of roubles	Applicants' own contribution, thousand of roubles	Funds raised by applicants, thousand of roubles
3 131,4	1 924,4	0

Source: Company data

Examples of Financed Projects

Volgograd region

- The analysis of socio-economic situation in the town of Zhirnovsk have been carried out. Trainings on effective employment and entrepreneurship have been organised, seven workshops have been conducted and three consultation centres for training participants have been set up. Upon results of the project, a booklet “Jobs? Jobs! Guidelines for the temporary unemployed” has been published.
- The editorial board of the magazine “Health and Ecology” in co-operation with leading specialists in ecology and pedagogy have established in the magazine a children section on ecology “Ecoloshka.” The section presents ecological materials in a simple and interesting form with bright colourful illustrations. LUKOIL is positioning itself as a company that cares about ecological education of the youth. The section has become permanent and has been approved by the local administration’s committee on education and the regional ecological centre.
- A round table “Public Health and Environment” has been held in the town of Volzhsky; an cross-regional conference “Forest and People” have been conducted; a regional ecological contest for inmates of orphanages and boarding schools “Our good care – to Earth, Water and Sky” has been organized (four articles on the contest have been published in mass media).

The Komi Republic

- A mobile tourist camp “Krokhal” for teenagers with deviant behaviour has been organized. Teenagers have been taught basic tourist skills and survival in natural environment and difficult life situations etc. Most active and interested participants can continue their studies in tourism and mountaineering club “Ukhta.”
- One of most burning ecological issues of the Pechora Region is the contamination of water resources. During the project “River Band – 2006,” mass voluntary activities have been organized aimed at cleaning up the Pechora River banks within the city boundaries, as well as banks of small rivers of the Pechora region in the towns of Ukhta, Inta, Sosnogorsk, Usinsk and the Izhma settlement. Town residents including schoolchildren have taken part in activities. Project outcomes have been presented at a closing conference with representatives of ecological organizations and the youth of the Pechora region towns and settlements participating.



Corporate Museum as part of Corporate Culture Shaping and Improvement

ОАО LUKOIL Museum founded in June 2005 plays an important role in shaping the Company’s corporate culture. It has been established as a methodology and coordination centre of enlightenment and educational work with employees, veterans and Company guests.

The museum exposition not only gives its visitors an opportunity to familiarize themselves with ОА LUKOIL present but also allows them to travel back in time into its past. Multimedia technologies make it possible to view old video narratives, get acquainted with biographies of Russia’s outstanding oil workers and the Company veterans in touch-screen booths, as well as learn the history of the LUKOIL Group and the industry as a whole.

The museum is regularly introducing new forms and methods of work. Official ceremonies of welcoming new members to the LUKOIL family have become a good tradition. Employees who have successfully passed their probation period receive corporate certificates and badges in a festive atmosphere. Then, after taking a team photo, an excursion is arranged for new employees. The Company veterans hold regular sessions of their Council, celebrate people’s jubilees and organize meetings with legendary oil workers here.

In February 2007, the museum was admitted to the Association of Scientific and Technical Museums of the International Museum Council’s Russian Committee, which has become an evidence of the museum’s recognition among its colleagues.



The exhibition project “Russia’s Oil – Traditions and Modern Times” timed to the 15th anniversary of LUKOIL has become a significant cultural event. Over a six month period, a unique exposition dedicated to the history of the oil industry in Russia was displayed to numerous visitors in Hanty-Mansiysk, Tyumen, Moscow, St. Petersburg, Nizhny Novgorod and Perm. Over 30 project participants such as major federal museums and museums of federal subjects of the Russian Federation, institutes and universities preparing oil specialists, antique shops, private collectors, legendary oil workers and their heirs have passed rare artefacts to the exhibition, which have allowed to visually present the industry history and highlight the place and role of the oil worker profession in the modern world. Top officials of the Federal Assembly of the Russian Federation, permanent presidential envoys in Federal Districts, governors and mayors, the industry specialists and veterans, students and schoolchildren – all in all thousands of Russia’s residents and guests - have visited the exhibition.

An important direction of the museum activities is the expansion of the museum business to the LUKOIL Group companies and the development of a unified corporate museum policy. At present, around 20 museums operate across the Company. They see their task in examining and preserving the history of OAO LUKOIL and demonstrating its impact on the economy and the development of Russia’s oil, gas and petrochemical industry. As the practice has demonstrated, an active museum work is also contributing to the shaping of the Company’s corporate culture and strengthening of corporate team spirit.

Travelling Exhibitions of the Kremlin Museums – a Cultural and Social project

In 2004, LUKOIL and the Moscow Kremlin Museums started the implementation of a joint enlightenment programme aimed at organizing travelling exhibition to Russia’s regions. The first such exhibition “Tsar and Emperor Hunting of the 17-18th centuries”

was held in Perm in 2004-2005 and the second – in Nizhny Novgorod in 2006.

Within the exhibition’s framework, lectures and excursions for children with elements of theatre performance have been organized, an interactive zone have been set up, which allowed the Moscow Kremlin Museums to present a multimedia educational product “Tsar and Emperor Hunting.” The exhibitions have been concluded by art contests among inmates of orphanages and boarding schools that are under LUKOIL’s patronage. The contest winners visited Moscow and participated in the contest final stages that were held in the Armoury halls.

The organization of enlightenment exhibitions is a new form of activity for the Company, a combination of cultural and socially important projects.

Supporting Inmates of Orphanages

For many years, the Company, its subsidiaries and the LUKOIL Philanthropic Foundation have been supporting over 50 orphanages and boarding schools in towns of Western Siberia, Astrakhan, Volgograd, Kaliningrad, Nizhny Novgorod and Moscow Oblasts, the Perm Krai, as well as in Kirov, Usinsk, Saratov, Syktyvkar and St. Petersburg. The Company helps graduates get education, improve their health and find a profession and a place in life. Annually, LUKOIL organizes summer recreation for children on the Black Sea shore, as well as educational tours.

Since 2006, the Company has provided orphanage inmates with educational grant to help them get education in vocational schools and universities. 18 people have received such support. Through this new form of activity, LUKOIL helps orphanage graduates acquire equal opportunities with their peers from problem-free families. The range of professions selected by graduates is quite wide: two people intend to become doctors, another two want to work in banks, four graduates prefer to become teachers, one graduate would like to be a lawyer and another one wants to work in a municipal



"We appreciate support that the LUKOIL Company is rendering to numerous projects of the Russian Orthodox Church in restoring and reconstructing what was destroyed in the past when our historical memory was eradicated."

*Patriarch of Moscow and All Russia
Alexii II*



administration. A graduate of the Ishim orphanage has entered the faculty of applied mathematics of the Tyumen State University. Other graduates have decided to become salespeople, accountants and motor mechanics.

Orphanages are supported not only by the Company itself but by its employees as well. Thus, in 2006, employees took part in cleaning days (subbotniks) initiated by the Council of Young Specialists of LUKOIL central apparatus and the LUKOIL Philanthropic Foundation to improve territories of several orphanages located in the vicinities of Moscow and donated money for their inmates.

Targeted Philanthropic and Sponsorship Programmes

Supporting Museums and Creative Teams

LUKOIL is supporting several major Russian museums including Pushkin's State Museum of Fine Arts, the Moscow Kremlin Museums, the State Russian Museum, and the Tretyakov gallery. For example, to celebrate the Tretyakov gallery's 150th anniversary, the Company purchased a bas-relief by the famous Russian artist and sculpture M. Kozlovsky and passed it to the gallery as a gift.

Over 2005–2006, the Company participated in the establishment of the Centre for Aesthetic Education of Children and the Youth associated with the Pushkin's State Museum of Fine Arts, financed the exhibitions of V. Serov and A. Savrasov in the State Russian Museum and restoration works in the Gallery of Arts of Europe and America of the 19-20th centuries (the Fine Arts Museum).

The Company is also supporting regional museums including the Astrakhan Kremlin, Sholokhov's House Museum in the Volgograd Oblast and the Kirov Arts Museum.

In 2006, the Company financed the reconstruction of the Memorial in Kishinev dedicated to the Soviet Army soldiers deceased during the Great Patriotic War.

Many years of co-operation connect LUKOIL with the Grand Symphony Orchestra named after P. Tchaikovsky conducted by V. Fedoseev. Within the framework of the Company's 15th anniversary, the tours of the orchestra to Bulgaria, Serbia and Montenegro, Finland and the USA were organized. The Company has sponsored the tour of the State Academic Bolshoi Theatre to London and provided support to the construction of a new concert hall of the Mariinsky Theatre. The Company representatives are members of the Board of Trustees of the State Academic Bolshoi Theatre of Russia and the Moscow State Conservatoire named after Tchaikovsky.

LUKOIL pays a great attention to creative teams in the regions where it operates, for example, the Perm State Theatre of Opera and Ballet and Volgograd Theatre of Young Spectators.

Supporting the Russian Orthodox Church

In 2005–2006, the Company continued supporting restoration works in the Monastery of the Presentation of the Mother of God Optina Pustyn'. Financial support has been provided to the building of the Church of the Grand Duke Vladimir in Sochi, St. Michael Cathedral in Izhevsk and the Moscow residence of the Assumption Pukhtitsky Convent and St. Vladimir Church in Korenovsk, Krasnodar Krai.

The Company's subsidiaries also take an active part in restoration and development of religious and spiritual centres of Russia.

The Company provides support to establishments of the Russian Orthodox Church located abroad. For example, in Odessa LUKOIL participated in the restoration of the Cathedral of the Saviour and Transfiguration, in Baku – in the restoration of the Maritime Cathedral and the reconstruction of the Church of the Myrrh-bearers. Also, LUKOIL has helped in reconstructing the Kupriyanovsky Monastery in Moldova, St. Nicolas Cathedral in New-York, St. Nicolas Cathedral in Vienna, the Cathedral of St. Nicolas the Miracle Worker in Bobruysk.

Supporting Sports

The Company's key priorities in the sphere of physical culture and sports development:

- Physical culture development and health improvement of the Company employees and members of their families; promotion of mass sports,
- Support to Russia's professional sports teams performing under the Company's logo, national sports federations and Olympic movement,
- Contribution to the children's sports development

Sport Contests

OA O LUKOIL's International Sport Contests are most large-scale events aimed at the promotion of physical culture and mass sports. The first one took place in 2001 in Astrakhan and the second one in 2003 in Perm. In June 2005, the third corporate sport contest was held in Kaliningrad with 25,000 employees of the Company participating from all regions where it operates. The contest programme included competition in football, mini football, volleyball, swimming, track-and-field athletics, chess, billiard, arm-wrestling, tennis, table tennis, weight lifting and tug-of-war. The Company's sports movement has been supported by Russia's Olympic Committee and the Federal Agency for Physical Culture and Sports of the RF.

Cross-country skiing

For many years, LUKOIL has supported the national cross-country skiing team. Owing to this support, the team showed good results during Winter Olympics in Nagano and Salt-Lake City. On the threshold of Olympic Games in Turin, the Company decided to resume the team financing. Since 2006, LUKOIL has been the general sponsor of the national team. At the World Championship in 2006, the national team won the bronze medals and during the Olympics in Turin became the winner in the team event.

Olympic Movement

For a few years LUKOIL has been an official partner of the Russian Olympic Committee.

The Company took an active part in helping Russian athletes prepare to the Summer Olympics in Athens in 2004. In 2005, the Company decided to support the Russian Olympians Foundation and became one of its founders. The dedicated assistance that LUKOIL provides to the participants of Russia's national Olympic teams help them direct all their resources to the preparation to the Olympic Games and reach high results.

Spartak Soccer Club, Moscow

OA O LUKOIL is a primary sponsor of the Spartak Soccer Club (Moscow), one of the leaders of the Russian soccer. The team is a nine-time Russian champion, the winner of the All-Russian Cup 2003 and silver medals of the Russian championships of 2005 and 2006.

LUKOIL-Spartak, Volgograd, water polo

The Volgograd water polo team has lasting traditions. In 1994, OA O LUKOIL helped create a professional sports club LUKOIL-Spartak based on the former Spartak team. This team won the Russian championship in 2004, won the Russian Cup several times and won the New York Good Will Games in 1998. 9 players became the bronze medal winners as members of the Russian Olympic team during the Athens Olympics in 2004.

LUKOIL-Dinamo, Astrakhan, handball

The handball club LUKOIL-Dinamo is one of the strongest teams of the Russian handball. It boasts of reach history with its many outstanding victories. The LUKOIL-Dinamo club is a gold winner of the Professional Handball League Championship of 2003, vice-champion of the Russian Championship of 2006, gold champion of the Professional Handball League of 2002, the silver medal winner of the 2003 European Handball Federation Cup, vice champion of the Russian 2006 Championship, champion of the Professional Handball League of 2006.





LUKOIL Racing Team, Moscow, auto racing

The LUKOIL Racing Team was founded in 1997. 9 seasons in automobile competitions brought over 60 Russian and European titles. No other racing team in the history of the USSR or Russia reached such successes.

Today, LUKOIL Racing Team is a leading Russian professional sports organisation dedicated to racing, that incorporates highly professional management, school and career-building of the racers, engineering complex that provides for development, design and trials of racing cars.

The racers of the team reach high results in international competitions. The brightest example are the second places of Mikhail Aleshin and Sergey Afanasyev in the German Championship and the Swiss Championship in the Formula Renault 2.0 class.

LUKOIL-Bashkiria, Oktyabrsky, speedway

Speedway is one of the most popular sports in Bashkiria. During 6 years, LUKOIL-Bashkiria has been the flagship of the Russian speedway. The high technical skills and leading technologies allow the team to win not only in the internal championships, but also succeed on the international arena.

The team's racers get the highest titles at the Russian and international championships. The team is the gold champion of Russia of 1999-2000 and 2003-2004, a silver medallist of 2001-2002 and 2005-2006.



SURA Sports Club, Penza, short track

The SURA Sports Club and master team were founded in Penza in 1996. Every year the team participates in over 40 competitions of different levels. The last years' results prove that it is in fact the best in the country. The team is a 5-time winner of gold medal (1997, 1999, 2001, 2003 and 2005) and 3-time winner of silver medal (1998, 2004 and 2006) of the Russian Super-league Masters Championship, the biggest motocross championship in Russia.

Children Soccer League

OA O LUKOIL supports the Children Soccer League, one of the largest children sports organisations. Nearly 250 teams participate in the League competitions and over 5 000 young soccer players from practically all regions of Russia. Starting in 2002 the Children Soccer League conducts the traditional LUKOIL Children Champion League.



Response to proposals 10 and 11, Dialogue 2005

Information Request: 1. Provide assistance to the veterans of the Great Patriotic War in connection with the 60th anniversary of the Victory. 2. Provide assistance to the organisations and officers of the Russian Defence Ministry.

Support of the Projects Dedicated to the 60th Anniversary of the Victory in the Great Patriotic War

In connection with the 60th Anniversary of the Victory in the Great Patriotic War (1941-1945) OAO LUKOIL and its subsidiaries provided support to the implementation of the following federal and regional projects:

Monument renovation and construction

- building the temple of All Saints on the Mamayev Mound and the reconstruction of the memorial cemetery (every year new-found remains of soldiers are buried there); this project evoked great interest both in Russia and abroad,
- renovation of the Memorial to the 28 heroes led by Panfilov in Nelidovo village in Moscow Oblast,
- participation in building a monument to the Soviet internationalist forces at the Poklonnaya Hill in Moscow,
- building monuments to the soldiers of the 3 generations in Usinsk,
- participation in building a monument to the Grey Urals monument to the war-time toilers in Yekaterinburg and the Honour Obelisk in the town of Nyda, Nadym district,
- renovation of the memorial complex in Kstovo, Eternal Flame monument in Perm and Motherland memorial in Budennovsk,
- renovation of the monuments to the soldiers in Zhirnovsk, Frolovo, Kotovo, the Red Yar town of the Volgograd Oblast and in Liman of the Astrakhan Oblast,
- reconstruction works at the Mass grave of the Red and Soviet Army soldiers who died in 1941-1945 (Astrakhan), as well as rehabilitation of the monument to the soldiers who died during the Second World War in the hospitals of the Red Yar town (Zhirnovskiy district, Volgograd Oblast),
- building of monuments in Perm, Yekaterinburg and Kirov.

Medical Institutions Support

- renovation of the 6th Central Military Hospital in Khimki of the Moscow Oblast,
- acquisition of 10 ambulances to the medical institutions of the Leningrad Oblast,
- rehabilitation of hospitals for veterans in Krasnodar and Stavropol,

- acquisition of medical equipment for the Volgograd Veteran Hospital and Arkhangelsk Military Hospital.

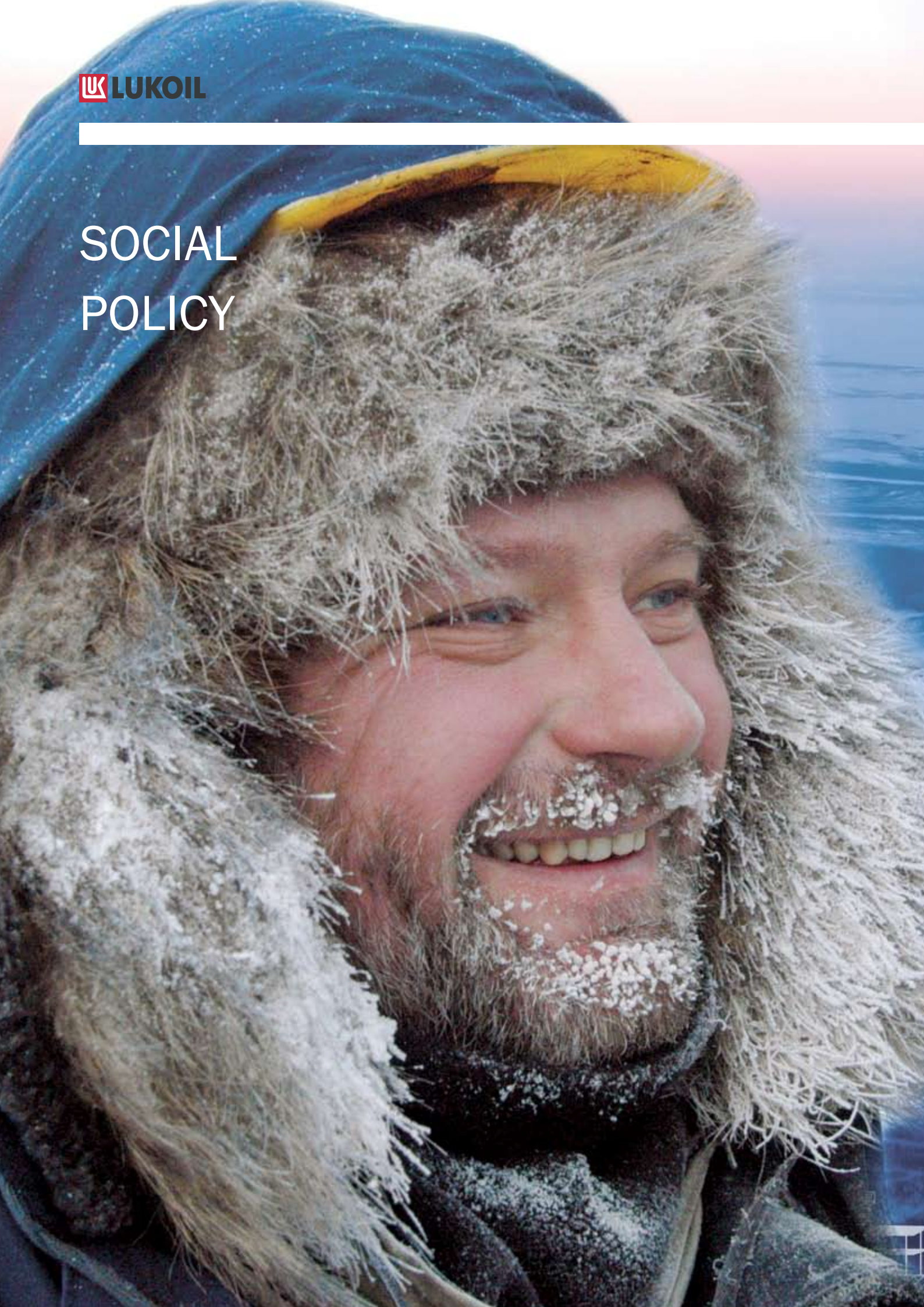
Culture, Enlightenment and Sports Projects

- support to the Patriotic Song Festival 'This is My Motherland' in Moscow,
- organisation of the Tchaikovsky Great Symphony Orchestra concert for the war-time military and civil veterans in Baku and Moscow,
- support of the Alexandrov's Russian Army Song and Dance Ensemble concert in London dedicated to the 60th anniversary of the Victory,
- publication of the fiction and political essay album 'The Holy War',
- donation of the circulation of the book 'The Marine Battles Chronicles of 1895-1945' to the Navy of the Russian Federation for libraries of navy colleges,
- conducting a children drawing pageant dedicated to the Victory Anniversary in Kogalym and Ukhta,
- conducting a war and patriotic song festival in Usinsk,
- conducting a veteran amateur talent festival 'Deep in Their Hearts Veterans Never Grow Old' in Uray,
- support of the Krasnodar mountain climbers' expedition to the Himalayas 'The 60 Years after the Victory'.

Financial Support to the Military and Civil Veterans

- financial support to the military and civil veterans who worked in the enterprises of the Company (nearly 8 000 people),
- donation of 35 apartments to the war veterans in Naryan Mar,
- renovation of flats of the veterans in Solikamsk,
- support to the Great Patriotic War Veteran Unions and pensioners of the LUKOIL regional subsidiaries.

SOCIAL POLICY





OAO LUKOIL recognises that it is their workers that determine further development and innovation potential of the Company. Trying to be a better social partner, LUKOIL conducts a social policy that is aimed at efficiency and providing social security for the employees.

In May 2003, the leadership of the Company approved OAO LUKOIL HR Policy. It is the main document that encircles recruitment, placement, development and motivation of personnel.

The Policy is deeply enrooted into the fundamental principles and missions of OAO LUKOIL, which is to become one of the leaders of the international energy industry acting in the interests of society, consumers, shareholders and workers.

HR Policy is a policy of a united integrated company that has a strong and sustainable corporate culture and a harmonically designed system of corporate values, that provide potential for maximising human potential, which is indeed one of the main competitive advantages.

The main goal of the Company in terms of personnel management is to get most of the investments into its people via building a system that:

- motivates workers in reaching goals determined by the business strategy of the Company;
- is capable to give an objective account of the goals reached;
- gives a just remuneration and bonus for reaching goals.

The Company strives that the career growth and promotion marks the professionalism, high and stable performance as well as adherence to the corporate values of every worker in the company.

Our goals

People are the main asset of the company. It is their professionalism and eagerness to work that are in the core of the Company's prosperity.

Personnel management system

Remuneration and motivation system

Secure production and safety system

Learning and development system

Company's Mission

Business Strategy (the LUKOIL Group Strategic Development Programme for 2005-2014)

OAo LUKOIL Social Code

OAo LUKOIL HR Policy

Agreement between Employer and Trade Union Association for 2003-2008

Collective agreements signed in the LUKOIL Group

Recruitment Strategy
(pilot programme)

Personnel Remuneration and
Development Concept
Corporate Training System Regulation

Targeted Programmes

Current programmes

- Long-term Motivation of the Employees of OAo LUKOIL and Subsidiaries for 2007-2009
- Complex programme of the Remuneration System
- OAo LUKOIL Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2006-2010
- Complex Targeted Programme on the Youth and Young Specialists for 2005-2010

Implemented programmes

- The programme of distributing shares among employees of OAo LUKOIL and its subsidiaries.
- The LUKOIL Group Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2001-2005



LUKOIL identified 5 interlinked tasks that the Company uses in order to reach its business goals:

- higher results on all levels;
- attracting 'best of the best', and providing maximum use of their skills and potential;
- professional learning and development, HR planning;
- effective common remuneration system;
- building and development of an effective and dynamic organisation, its constant development.

Increasing Results at All Levels

Creating a system that allows for an active and effective result management at all levels (from an individual employee to the Company as a whole) is a key to the Company's success.

LUKOIL is constantly raising standards of HR management, while paying extra attention to developing better management methods.

In 2005, the result management system was developed for reaching business goals of the Company in different areas of responsibility. This system establishes differentiated approach to stimulating workers while taking into account their role in the Company's results. The basis for methodology of the system is a remuneration grid and evaluation of the positions in regards to their contribution in the combined results of the Company.

Principles of Forming Remuneration Grid and Salaries for LUKOIL Group Employees and Procedure for Remuneration of LUKOIL Group Employees, Reference on Remuneration Grades of LUKOIL Group Employees were approved in accordance with the OAO LUKOIL HR Policy.

In 2006 the average income growth for an employee exceeded 17 per cent as compared to 2005. The Company regularly raises minimum salary for the 1st grade worker (the addition influences the entire remuneration grid), in most organisation this amount exceeded the subsistence level for

the corresponding region.

In order to attract highly qualified experts and motivate them to stay in the Company, LUKOIL applies a compatible compensation policy. In order to maintain adequate level of remuneration, the Company monitors job market in what refers to similar jobs and positions.

Different bonuses and benefits stemming from the collective bargaining agreements make up a large lump of the worker's income. Besides the adequate salary the Company motivates its employees using a wide range of social programmes and events, including:

- safety and health care, including medical insurance;
- creating conditions for recreation and health improvement for employees and their families, organisation of sports events;
- help in acquiring own apartments;
- social assistance to women and families with children;
- social assistance to young specialists;
- private pensions.

Moral recognition of the work is necessary part of the benefit system, as Company gives away state and industry signs of distinction to its best employees. In 2005-2006 a competition was held for the title 'Best Employees and Best Organisations of the LUKOIL Group'. The winners get corporate awards.



Types of signs of distinction	2005	2006
State awards	28	108
Industry signs of distinction	1 533	803
Corporate awards	404	784

Source: Company data



Trade Union Activities

International community recognises OAO LUKOIL as a “Company with the Most Trade Union Activities” in Russia, to a large degree owing to the multilateral activities of the Council of OAO LUKOIL International Trade Union Association (MOPO).

Today, MOPO gathers 28 integrated, 22 primary trade unions at the organisations located in 38 different regions of Russia, as well as 6 trade unions in the CIS and other foreign countries. There are 165,398 people in trade unions, which corresponds to 90 per cent of the total number of the LUKOIL Group workers.

Agreement between Management and Trade Union Association

One of the main aspects of the Association’s activities was summarising the outcomes of the Agreement between the Employee and the Trade Union Association of OAO LUKOIL and the group agreements in the reporting period, and also participation of the trade unions in forming the budget of social programmes.

After signing of the Federal Law No. 122-FZ of August 22, 2004 the following clauses were included in the group agreements:

- increased compensation for the first two days of temporary disability,
- regional (geographical) benefits and interests for the work in the Far North and surrounding areas.


In accordance with the Agreement, the Company developed (having advice with MOPO) and approved the unified principles of remuneration of the LUKOIL Group’s employees. Their embedding and implementing were conducted with the

participation of the professional community. The Trade Union Council have also provided its advice in amending Principles of Forming Remuneration Grid and Salaries for LUKOIL Group Employees and Procedure for Remuneration of LUKOIL Group Employees. As proposed by the trade union, the Youth Activities section was further developed in the Agreement between the Employer and Trade Union Association. With the MOPO participation, the Company’s management approved on October 28, 2005 the Complex Targeted Youth and Young Specialists Programme for 2005-2010.

Trade Union Activities in 2005-2006

During 2005-2006 the Company has made significant steps in solving social and economic issues that are relevant for the working groups. The MOPO Council and trade union committees have made a full-fledged contribution into this work. 75 per cent of the issues discussed within the agenda were dedicated to the social and economic topics, as well as the issues of safety and health of the workers, including:

- on social and labour rights and norms for working women set by the Agreement, collective bargaining agreements and other local regulations in the LUKOIL Group’s organisations;
- on labour accidents in the LUKOIL Group’s organisations;
- on rotational team method control practices;
- on medical inspections of the workers of the Company;
- on the outcomes of the health-promotion campaign of 2006 and the work of the trade unions and administration of the LUKOIL Group’s



companies in as far as the health and medical care services provided within the contracts of voluntary health insurance are concerned.

Each year, the MOPO Council discusses issues of common work of trade union committees and administration of the organisations of the LUKOIL Group in terms of health care including medical insurance, mandatory health inspections, modernisation of the on-site emergency medical care and sanitary monitoring.

Social services and trade union committees are put in charge of the established practice of organising health resort trips and holidays for employees and their families, children holidays, etc., while union committees and administration during the combined meetings assess the results of the health-promotion campaign and plan for the next year. The expenditures for health resort trips and recreation of the employees and their children, financial aid to employees who take vacation increase every year. In 2006 they increased by 12 per cent compared to 2005.

In order to improve efficiency of insurance protection, the trade unions together with the rating service of the Russian State Social University conducted a sociological survey in the area of health care and medical service provided for the personnel in accordance with the contracts of non-compulsory health insurance. About 8,000 employees from 22 organisations from all business segments of LUKOIL took part in the survey. The results of the survey were discussed in the MOPO Council's meeting with a large additional representation. As a result of the meeting, the Unified Regulations for Organising the Voluntary Medical Insurance of the LUKOIL

Group Employees were suggested.

The trade unions and trade committees of the subsidiaries together with the administration cooperate in planning activities aimed at creating a healthy psychological environment, boosting morale and result-orientation, further professional development and shaping new traditions of the Group. A number of corporate events were conducted, including the 3rd Professional Knowledge Competition "Best in Profession", the competition "Best Employees and Organisations of the LUKOIL Group", a number of scientific and technical conferences of young specialists, the 2nd Festival of Art, Corporate Song Competition, OAO LUKOIL Olympics, the "Father, Mother and Me – We Are an Athletic Family" competition, and many others. Practically all the events were international with the employees of the foreign subsidiaries participating.

These efforts were commended during the International Scientific and Practical Conference of OAO LUKOIL "Social Policy, Labour Relations and Trade Unions' strategy in the Multinational Companies" aimed at recognising and promoting social innovations in large companies and defining the modern role of trade unions. Among the participants of the conference are leaders of FNPR, Neftegazstroyprofsoyuz of the Russian Federation, ICEM, representatives of large industrial organisations, representatives of the legislative and executive bodies of the country, international trade unions and other social organisations, scientists and journalists. At the closing, the



participants signed the Resolution and Address of the Conference Participants to the Trade Unions and International Community.

Co-operation with Primary Organisations

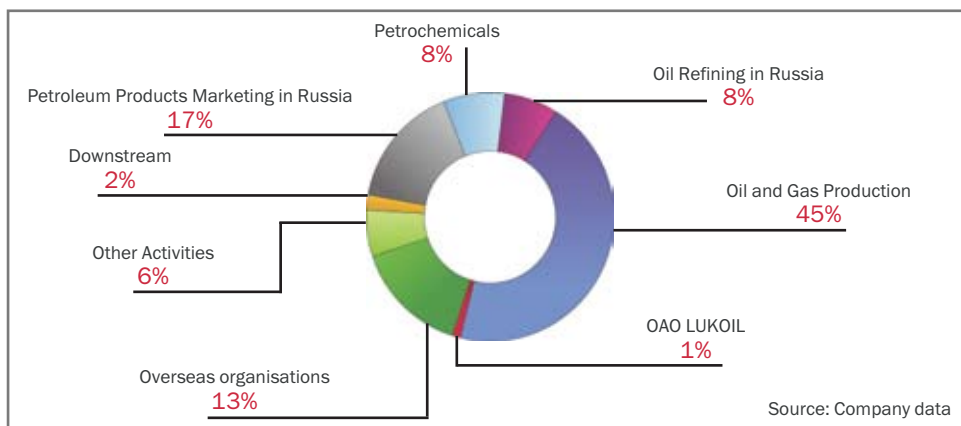
The MOPO Council assists trade union leaders increase their skills through seminars, publishes recommendations, handbooks and compilations of documents related to trade union activities, as well as social and economy work, promotes hand-on experience exchange between different trade unions.

Another valuable and speedy way of interaction with primary unions and workers is the Social Partnership magazine published and distributed by the MOPO all around Russia since 1998 (also published in Internet at <http://mopo.lukoil.ru>). The magazine analyses labour relations, summarises the social and economic experience in the modern conditions, including the experience of trade union activities. It is highly popular among different audiences. In 2005, the Russian Association of Corporate Media awarded this publication with a special prize-diploma "For the Best Corporate Culture Coverage". The last two years the magazine supported

a number of international and Russian conferences dedicated to social and economic situation and labour relations with trade unions participating and exchanging their experience, by providing advertisement space. The magazine conducted the creative competition "I Believe, I Act" dedicated to the 15-year anniversary of LUKOIL (2006).



Number of Employees by Business Segments Breakdown



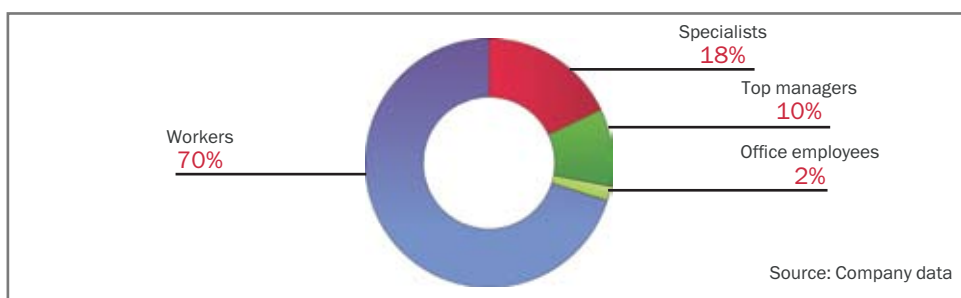
The Company strives to have a stable status of the 'preferred employer' in regards to the people who are able and capable of bringing maximum value to the Company including those that are working in the Company and those whom the Company is trying to attract.

OAO LUKOIL HR Policy

Attracting 'Best of the Best' and Efficient Use of Their Potential

The total number of employees of the LUKOIL Group was 148,600 people (incl. 129,400 in Russia) as of January 1, 2007.

Categories of Personnel Breakdown



The Company attracts the most qualified employees. Their high educational level most vividly proves the efficiency of HR management. By January 1, 2007 the share of employees with higher and special professional education reached 56 per cent:

Education Level Breakdown

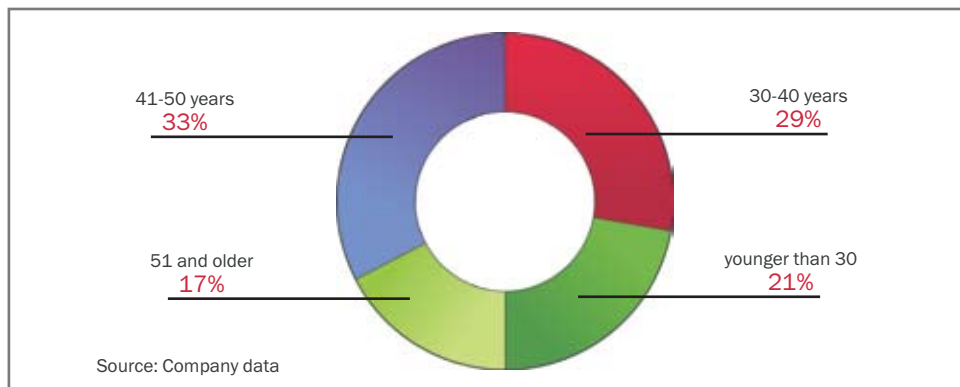


As the diagrams demonstrate, the number of employees with higher and special professional education grew compared with 2005 by 2 per cent*. The share of employees who have higher education increased from 28 to 30 per cent as compared with 2005**.

* This happens thanks to workers' learning within the Company, and thanks to targeted human recruitment policy.

** See the previous footnote.

Age of Employees



The Company strives to become a 'preferred employer' on the labour market as the LUKOIL Group organisations win different corporate competitions (Organisation of High Social Efficiency, Best Collective Agreement, Best Russian Enterprise, 1000 Best Enterprises of Russia, etc.).

Personnel Learning and Development System

OA LUKOIL's transformation into a global energy company and eagerness to reach the international level of competitiveness makes it more difficult to do business and pose new demands to the employees on all levels. The need for cost cuts and increasing operational efficiency require from LUKOIL people more effort.

The personnel qualification level is an important factor for increasing business quality and efficiency, therefore learning investments are just as important and necessary for the Company as for all other areas of HR management. The learning and development expenditures are growing from year to year.

Management Approach

An effective training and development system is in place in the Company. The main regulating document is the Procedure for Corporate Training System in the LUKOIL Group.

Before the introduction of this centralized system, each of the LUKOIL Group organisations was individually in charge of personnel training and development. Today, as the centralised corporate system of training and development is enacted and strategy is in place, the Company coordinates the interaction between the corporate headquarters and structural divisions. It is to this end that the heads of divisions of personnel development meet every year for conferences. The programmes for training and development are uniform and for all the Group's organisations and are integrated into a corresponding business segment.

The corporate headquarters make a plan of professional education based on the requests from its subsidiaries. The Company uses a set system for estimating the demand of personnel learning based on the yearly analysis of the gaps between the requirements to the employees and the existing competence level.

Organisation of Training and Development Processes

The employees are provided a large spectrum of training and development opportunities. The Company uses range of modern learning techniques: seminars, coaching, trainings, Internet learning, MBA education, etc. Employees get education in the leading technical schools and



universities of the country. Short seminars and trainings are organised with educational institutions that are selected on a tender basis. Besides, the Company itself has 27 educational centres where the employees get professional education and improve their skill and qualification.

The total of 24,570 LUKOIL Group employees attended skill enhancement programmes in 2006, including 287 people who got their second higher education, 16 oil refinery personnel passed their traineeship in the United States UOP company, 12 people got practice in ConocoPhillips, 18 oil refinery people studied in Moscow under the UOP's Oil Refinery Technologies programme.

Under the Strategic Partnership Programme between OAO LUKOIL and ConocoPhillips, the Programme of Personnel Exchange is underway: employees were on traineeship in the company's American sites (14 people in 2005 – 2006, 16 people in 2006 – 2007). About 15 ConocoPhillips advisors are currently working in OAO LUKOIL as personnel exchange participants.

Building Up Professional Potential

Enhancing the qualification of the leadership of the company and boosting human potential is one of the priorities of the Company. The enterprise management attend Days of Professional Training that are held every year simultaneously with the meetings of the Board of the Directors, as well as outdoor seminars and training programmes.

In order to maximise the employees' potential and enhance their motivation the Company has developed an integrated system of career planning coordinating it with the remuneration, training and development systems. When filling vacancies the Company prioritises internal candidates, thus enhancing the employees' career opportunities. In between the organisations of the LUKOIL Group 'vertical' and 'horizontal' rotations are widely used.

Instant search for the most skilled and initiative-driven employees with the high

leadership potential allows to pool expertise and ensure continuity of leadership. Employees that partake in the 'career pooling' programme undergo individual programmes of development, that include structural learning, trainings, rotations, special projects, dedicated coaching from acting managers, courses boosting skills for replacing the Company management, programmes for leadership potential development and managerial skills development. 506 people studied under such programmes in 2005–2006, including 37 employees from the 'career pool' completed MBA programmes.





Attracting the Young. School-Higher Education Institutes-Company Concept

Management Approach

LUKOIL is particularly interested in attracting the young. Today, one fourth of the Company are people younger than 30. The rapidly developing LUKOIL, a corporation that implements large-scale projects in Russia and abroad, needs an influx of young and qualified employees. So, in the end of 2005 the OAO LUKOIL Board approved and filed for implementing the Complex Targeted Youth and Young Specialists Programme for 2005-2010. The Programme aims at organising a system of recruiting, positioning and learning young specialists in order to meet the LUKOIL Group's demand in competitive, mobile and young personnel.

The necessity of a comprehensive approach to recruiting is predetermined by a number of internal and external factors. The external factors are:

- absence of state regulation in distributing graduates;
- a more dramatic situation in the job market and in education caused by social differentiation of the society;
- a growing competition among oil companies in terms of attracting the youth;
- embedding two-degree higher education system (bachelor, master), whereas 4-year graduates in need of further education under a special programme will come to work at the LUKOIL enterprises;

The internal factors include first and foremost the growing demand of the LUKOIL Group in the influx of young qualified workers caused by both aging of personnel and growing number of new projects in Russia and abroad.

The Programme is implemented based of the following documents:

- Guideline for Work with the Young Specialists in the LUKOIL Group;
- Guideline for Young Specialists Unions;
- Guideline for Organisation of Traineeship of Students of the Higher, Intermediate and Ground Professional Institutions in the LUKOIL Group;
- Guideline for 'The LUKOIL Group's Best of the Year' Young Specialist Competition;
- Guideline for Unions for Work with Young Specialists of the LUKOIL Group.
- Activities Concerning the Young and Young Specialists

The system of Activities Concerning the Young and Young Specialists has several levels and includes the following:

- activities with secondary and high school pupils, students of professional schools and undergraduate students;
- work with the young and young specialists and career counselling;
- scientific and research activities, cultural events implemented by the employer together with the trade unions and youth organisations.

The first level includes co-operation with secondary schools. The Company conducts career counselling among pupils, opens preparatory courses for those who want to enter oil-gas and technical institutes and universities, runs school Olympics. At this stage, the Company sees its task in helping high-graders fully apprehend their abilities and consider on what profession they want to choose.



LUKOIL strives to make the level of education compatible with the modern demands by financing the equipment of specialised chemical classes and laboratories. The high-graders study in accordance with the studying plans customized to the urgent needs of the modern industry. Advanced classes of chemistry in schools is a vital means that helps the policy of attracting youngsters in the Petrochemicals enterprises of the LUKOIL Group. The School-Higher Education Institutes-Company Concept bears fruits: today over 40 winners of the regional school Olympics study in the Russian Chemistry and Polytechnics University named after Mendeleyev.

The second level includes the co-operation with the intermediate and professional schools. As an industrial company the LUKOIL Group considers professional schools its important partners. Their students become the core of the workforce of the production, refining and trade enterprises. The rapid progress of the technical equipment of oil and gas industry drives the constant improvement of skills of the employees. Currently the Company cooperates with 75 different professional schools and technical colleges.

The third level is co-operation with the higher education institution. It is their graduates in particular that the Company relies upon when pooling its professional potential. Today LUKOIL signed agreements with 16 higher education institutions that specialise not only in polytechnics, but also in economics.

Co-operation with Higher Education Institutions

The co-operation with the specialised higher education institutions include:

- preparation to higher schooling,
- career counselling,
- training of specialists with higher education in oil and gas major, economics and finance with regard to the modern trends in oil industry,
- conducting scientific and technical conferences, student society activities,
- studying process modernisation,
- grants to students and teachers,
- professional training and professional adjustment of the Company's employees, creating a system of constant learning, including remote form of learning,
- research, development, design and testing in energy sector.

In the future the Company plans to develop a new scheme of co-operation with higher education institutions that will imply that the Company requests beforehand not only the occupation, but also certain competencies that the future employees will have to master. The second task within this co-operation programme is teaching Russian employees who will later on work for foreign enterprises of the Company. Finally, the Company facilitates the development and realisation of the innovative educational programmes within the framework of the national project "Education" and assists the higher education institutions with new and more professional personnel.





LUKOIL Cooperates with Higher Education Institutions:

- Russian State University of Oil and Gas named after Gubkin,
- St. Petersburg State Mining Institute,
- Perm State Polytechnics University,
- Ukhta State Polytechnics University,
- Tyumen State Oil and Gas University,
- Ufa State Oil Polytechnics University,
- Volgograd State Polytechnics University,
- Volgograd State University,
- Arkhangelsk State Polytechnics University,
- Astrakhan State Polytechnics University,
- Azerbaijani State Oil Academy,
- State University -Higher School of Economics,
- Finance Academy under the Government of the Russian Federation,
- Russian Academy of the Government Service under the President of the Russian Federation,
- Moscow Physics and Technical Institute,
- Russian Chemistry and Technology University named after D.I. Mendeleev,
- Military Academy of the Rear and Transport named after A.V. Khrulev.

The Company focuses on co-operation aimed at preparing specialists with higher education:

1. Targeted education.

The student enters the school based on a contract “enterprise-student”; during the studying special courses with dedicated professors are organised based on special requests by the enterprises, corrections to the studying plans are made based on the requests of the enterprises. In 2006, 663 students studied based on contracts, about 26 million roubles were allocated to this end.

2. Tours, industrial traineeship and diploma (thesis) internship.

Nearly 1000 students and teachers complete their traineeship and internship programmes at industrial sites of the Company every year. It is one of the events organised with a view to implement the OAO LUKOIL HR Policy. The Company spent 10 million roubles on those objectives in 2006.

3. Open seminars by the Company management and the LUKOIL Group organisations with students and teachers.

Every year OAO LUKOIL President Vagit Y. Alekperov gives lectures to students of different universities that specialise in oil and gas in Moscow, Tyumen and Baku. The main purpose of such education is to explain the modern realities of the oil and gas industry set out by the experts.

4. Special personal allowances to students and teachers

Since 2000, LUKOIL has paid special dedicated personal allowances to the most gifted students of oil and technical higher education institutions. At present, 170 students get allowances by LUKOIL. They equal 1,500 roubles a month for students who just started to get the allowance, and 2,000 roubles for those who already received the allowance.

Commending gifted students is an effective means of attracting talented youth into the Company. The OAO LUKOIL grant recipients



have preferences when getting job in the Company. The Company databank includes the most promising students for their further education and additional special programmes, in particular.

Grant programmes for teachers

One of the most difficult problems of many schools is aging of educators and lack of young teachers. In order to help talented educators continue teaching in the schools, the Company provides grants to teachers. The Company defines recipients mostly based on their teaching experience, motivation and striving for perfection and active involvement into development of the content and methodology of the studying process. The grants are provided for the period of two years or one year. The grant contract includes a list of works that the grant recipient plans to make: it can be teaching, methodology development or research, preparation of new lecture courses, laboratory practice, new textbooks, finalising experimental and theoretical research in regards to dissertations, preparation to thesis defence, embedding new information technologies into the learning process. After the objective is reached, the educator files a report.

68 young educators from 7 institutes have received grants as large as 7,000-10,000 roubles each since the start of the programme, the sum totalling 12,448,000 roubles

5. Graduate employment

HR officers participate in the Vacancy Fairs where they interview students and postgraduates on issues of career and industrial traineeship. In 2005, 51 people out of 135 students who had been receiving LUKOIL grants came to work for LUKOIL.

6. Methodological and technical support of learning process

When co-operating with schools, the Company does not only provide means for modernisation of the equipment and materials equipping classes and laboratories

but also publishes textbooks. In 2006, the Company financed and together with the Russian State University of Oil and Gas named after I.M. Gubkin and the Tyumen State Oil and Gas University published seven new textbooks on oil and gas industry. The total budget of the publishing programme amounted to 6,797,000 roubles.

Coordination council

Close co-operation with the administrations of the associate schools helps make investments in education more efficient. The Coordination Council has been created in order to address burning issues of professional education, probable changes on the job market in the oil and gas industry, demand in graduates from different schools with different skills and professions, modernising educational programmes etc. The main functions of the Council include preparing and defining policy and strategy of the Company in relations to its co-operation with the schools, developing plans, programmes and events for day-to-day operations.

Long-term relations bind LUKOIL with the two main sources for new employees: the Perm State Polytechnics University and the Russian State University of Oil and Gas named after I.M. Gubkin.

The Perm State Polytechnics University (PGTU)

The Perm State Polytechnics University (PGTU) is one of the leading technical universities in Russia. The agreement on co-operation between OAO LUKOIL and the University was signed in November 2002. Nearly 3,000 graduates are working at the LUKOIL Group's enterprises. More than 500 students from Perm complete their traineeship programmes at LUKOIL's enterprises every year. The Perm Krai is particularly important for the Company: the Company needs specialists in every line of work, from production to trade, so getting qualified personnel for the enterprises appears to be a burning issue. Therefore, OAO LUKOIL provided support in establishing the Institute of Oil and Gas



We regard the Perm Institute of Oil and Gas as a centre for developing specialists in the sphere of production and refining of natural gas. That means that the knowledge that the Perm people get will be in demand everywhere where our Company runs its projects – it's not just Kama river region, but also Yamal Peninsula, the Caspian Sea, Egypt and Saudi Arabia.

V.Y. Alekperov,
OAO LUKOIL President

We consider LUKOIL's support of our university not an act of charity, but rather a real partnership. Our relations are built upon mutual respect and understanding of each other's needs. The Agreement of Co-operation allows us to plan our activities, develop learning equipment and facilities and improve the quality of education.

I.A. Stolbtsov,
Director of the Institute of Oil and Gas

within the structure of the University. The Institute's main goal is preparing qualified personnel for OAO LUKOIL and other oil and gas companies. The Institute uses material base of the mining and oil faculty and the chemical and technological faculty of the PGU.

The Institute is determined to expand its R&D work and conduct fundamental and applied scientific research in regards to production, refining, transporting and storage of oil and gas. The implementation of contract-based R&D works requested by the Company is a substantial support for the schools and a great opportunity for students and teachers to be involved in practical work in addition to pure science. In 2005, the budget of R&D requests exceeded 30 million roubles. 8 to 12 projects take part in the corporate research competitions every year.

The school is particularly interested in co-operation with the Company in the sphere of equipment and facilities provision. In 2005, the Company provided 5 million roubles, in 2006 – 10 million roubles. The financing was spent on laboratory equipment, drilling simulator, facilities repair, and special literature.

Russian State University of Oil and Gas named after I.M. Gubkin

Russian State University of Oil and Gas named after I.M. Gubkin has co-operated with LUKOIL for many years already supplying oil and gas experts to the Company.

Aside from the traditional ways of co-operation including student traineeship, providing practical material for writing theses and diploma papers, the University and the Company develop new ways of co-operation. The University, in particular, has assumed obligations to organise regional affiliates, preparatory work with the institute applicants, graduate training and professional education and R&D works requested by LUKOIL or one of

its subsidiaries. The Company partakes in developing additional study plans and programmes of expert training and contributes to the teacher trainings in the University.

A considerable part of the Company employees undergo skill enhancement courses in the Russian State University's Study and Research Centre of Qualification Enhancement, Management, Experts and Educators Training of the Oil and Gas Industry. Together with LUKOIL, the Study and Research Centre has successfully developed and implemented such programmes as Current Situation and Prospects of Oil Refining Processes, Modern and Promising Methods of Gas and Gas Condensate Deposit Development. The University organises English terminology courses for employees that go on tours of duty to its foreign subsidiaries.

Thanks to the co-operation, the University has started new qualification enhancement programmes: the students have an opportunity to study such subjects as Drilling Supervisor, Process Modelling Management, Management and Development of Deposits, Increasing Oil Yield etc. At the humanitarian faculty a new specialisation area has been introduced: the lectures are held by the representatives of the PR services of the Company, the students have the opportunity to complete internship programmes in LUKOIL.

The Company takes an active part in the cultural and social life of the University. It supports the Pushkin festival that welcomes nearly 100 Russian and foreign higher education institution. Every year, the University celebrates its anniversary, runs student pageants and graduation parties. OAO LUKOIL specialists provide their expertise at the yearly interschool conference of the student scientific society Oil and Gas.



Corporate Social Programmes

Corporate social programmes are implemented within the framework of the social partnership of the LUKOIL Group organisations and their trade unions, which provides for a three-step system of relationship.

The first part of this system is the OAO LUKOIL Social Code that was developed in the open discussion with the trade unions, the LUKOIL Group organisations, all interested parties and approved by the Board of Directors in 2002. The Code defines the social principles of the Company, its subsidiaries and the non-commercial organisations it controls.

The second part is the Agreement between the employer and the Company's trade union (hereinafter – Agreement) that stipulates the implementation of the OAO LUKOIL Social Code. As of today, the fifth Agreement was developed based on the General Agreement between the Russian Trade Union Associations, Russian Employer Associations and Government of the Russian Federation for 2005-2007, as well as the Sectoral Agreement between Organisations of Oil and Gas Industries on Building Facilities of Oil and Gas Industry of the Russian Federation for 2005-2007.

The third part includes collective bargaining agreements of the LUKOIL Group that are concluded specifically with each organisation based on the above mentioned documents.

Feedback is provided via yearly conferences, where the employees of the organisations review results of the fulfilled commitments, quarterly meetings of the Trade Union Council with the participation of the management of the Company and its subsidiaries, as well as meeting of the management with the employees.

In 2006, the Company used the Agreement between the Administration and OAO LUKOIL Trade Union Association for 2003–2008, signed on December 5, 2002 and prolonged on November 23, 2005 – with all necessary

amendments and alterations – until December 5, 2008.

The Agreement is called upon to provide equal remuneration rules, labour guarantees and benefits to all employees, protection of labour, social, economic and professional rights, protection of rightful interests of employees and adequate living standards. The Agreement complements the current legislation with regards to labour conditions, remuneration, social services, guarantees, compensations and benefits provided to the employees by the employer.

The present developing system of social protection helps attract highly qualified experts, holds back employee turnover, boosts corporate morale and serves a basis for successful industrial activity. The main components of this system include regulation of remuneration, health care; fitness, sports, physical culture and recreation; housing policy; corporate pensions.

The Company applies a comprehensive and systematic approach to improving corporate social programmes:

- unification of requirements to the organisation of first medical help in the LUKOIL Group concerning the material and equipment supply, medical personnel, types and volumes of medical services provided in the health centres of subsidiaries based on the Typical Regulation for Providing Primary Medical Help in the LUKOIL Group Organisation approved in November 2005;
- unification of voluntary medical insurance, creating a predictable and integral legislative field based on well-defined principles and methods based on the Common Rules of Voluntary Medical Insurance for the employees of the LUKOIL Group Organisations approved in July 2006.
- unification of common principles of creating and using living facilities for commercial use of the LUKOIL Group



Organisations, as well as solution of the housing problem of the employees based on the Essentials for Housing Policy of the LUKOIL Group approved in December 2006.

In accordance with the LUKOIL Group Basic Housing Policy, housing is provided to employees for two main reasons:

- specialist needs when apartment is provided out of the organisations' reserve in order to solve expert shortage,
- social demand when employees who are proved to be in need of better living conditions are provided assistance in acquiring their own apartments on the market.

Basically, the assistance is provided via hypothec crediting that the Russian Federation currently develops as the main market economy mechanism on the housing market. Taking into consideration the economic inefficiency of being fully responsible for solving housing problems of employees, the Company seeks way to gradually step down while the employee in a greater scale becomes responsible for buying his or her own apartment.

Pension Programme

Importantly, the social policy of the Company includes the programme of additional corporate pensions for employees. The expected long-term effect of the corporate pension within the framework of the corporate pension system is the increasing level of compensation for the lost salary. In accordance with the OAO LUKOIL Social Code, it is efficient to stick to the following principles when trying to reach this goal:

- preservation and development of an integrated system of corporate pension for the employees of the LUKOL Group organisations at the employer's expense;
- creating favourable conditions for the development of employee's participation in forming his own pension savings;
- gradual transformation from the integrated system of corporate pension with predetermined premiums to the contributory system that will cohere the premium amount and the total sum of the employee's contributions;
- guaranteed safety and growth of pension savings.

The system of corporate pension was established in 1994. The first premiums paid within this system started three years later. Until 2003, the corporate pensions were entirely financed by the Company. In 2004 the corporate pension system was transformed into a contributory one with employer and employee sharing their contributions.

Pension Plan

The new plan includes a system with fixed contributions paid by the employees out of their salaries into the pension fund. The Company adds an equal share. The amount the employee pays is not limited, the Company's contribution covers the employee's share but doesn't exceed 7 per cent of his salary.

Response to Proposals 1-2, 4, 2005 Dialogue, and Proposal 8, 2007 Dialogue

Information Request: 1. Analyse social activities of the Company in relations to the current social and economic reforms. 2. Provide a list of indicators of the social stability and sustainable development, assess social risks. 3. Conduct explanatory work among the citizens in regards to the corporate pension fund activities. 4. Provide detailed information on ecological security policy.



At the retirement the employees get a one-off severance pay. They also retain the right to get the amount accumulated during the previous pension plan.

The Company uses joint accounts in trust management of the non-governmental pension fund (NPF) LUKOIL-GARANT for financing the pension plans of the Group. NPF LUKOIL-GARANT separately identifies assets while it doesn't share them between the Group and other clients. All means from the pension plan and other individual pension accounts are managed as a common investment fund.

The money invested by the employee to form his future corporate pension grows by the investment interest, as it gets collected, and remains the employee's property. The investment strategy of NPF LUKOIL-GARANT seeks maximum investment profitability conditional to guarantees of the main sum of investment. The strategy aims at mid-term investing while keeping the necessary level of liquidity by prudent disposition of assets. The investment policy incorporates rules and limitations that prevent investment concentration.

The investment portfolio includes two types of investments – securities with fixed profitability and shares. The securities with fixed profitability are mainly highly profitable corporate obligations and bank bills with low or middle risk level. Their maturity vary from one to three years.

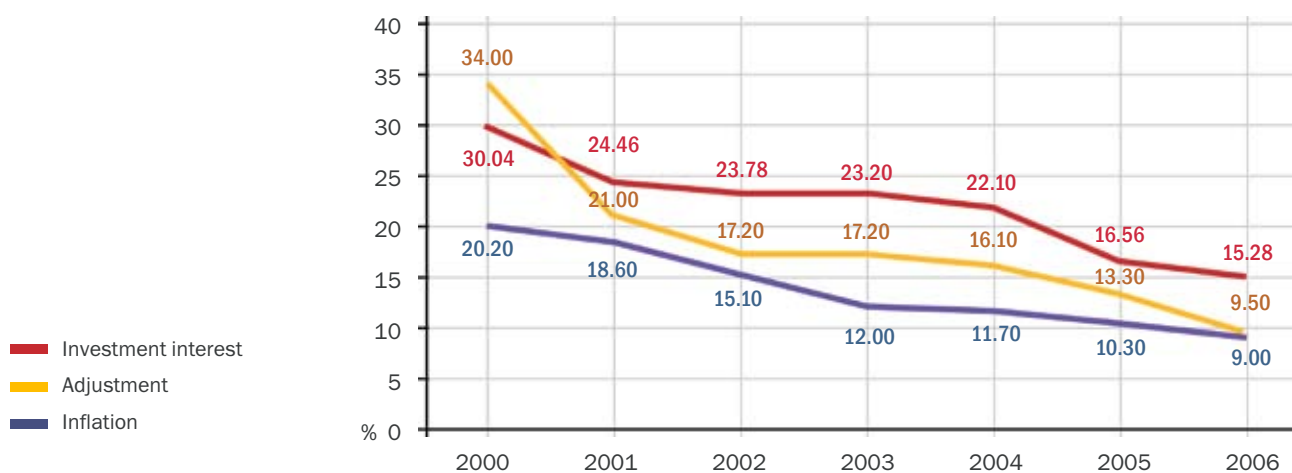
Under the combined corporate pension system the employee's pension is formed out of three components:

- employee contributions paid in accordance with an individual pension agreement,
- investment interest from the amount provided by the employee,
- employer contributions paid at the time when the employee starts to get his pension.



The corporate pensions given to the former employees of the Company are adjusted every year in order to prevent them from devaluation caused by inflation and also ensure their significant growth.

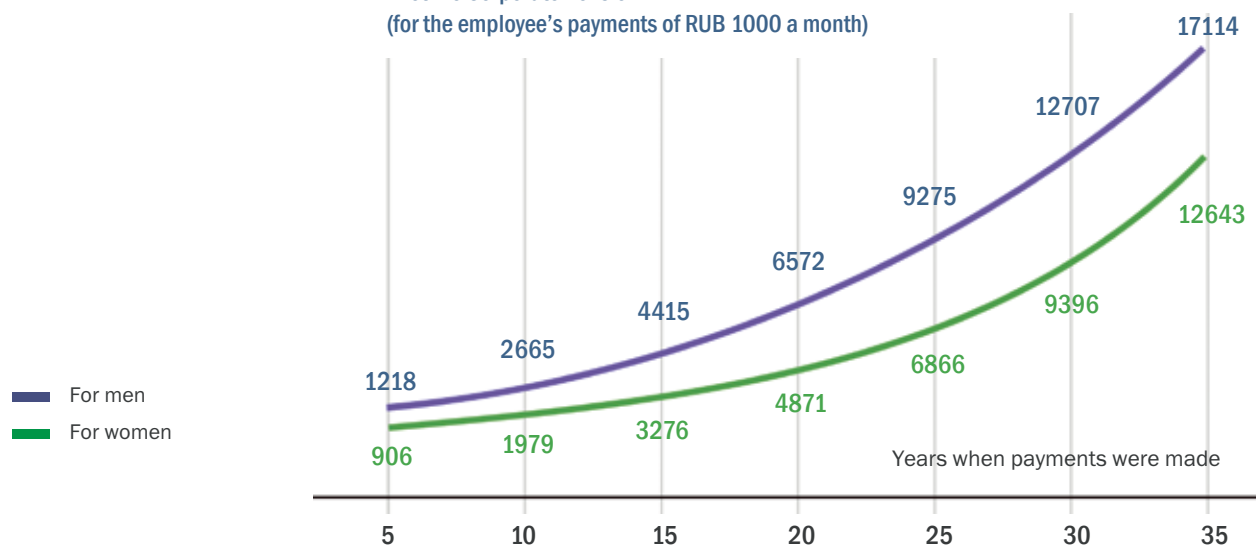
Dynamics of Investment Interest and Adjustment of Pensions



Source: www.lukoil.ru

The following curves represent the amount paid every month as the future lifetime corporate pension (for the employee's contribution of 1000 roubles a month); in case the monthly payments are larger, the pension is proportionately larger.

Lifetime Corporate Pension (for the employee's payments of RUB 1000 a month)



Source: www.lukoil.ru

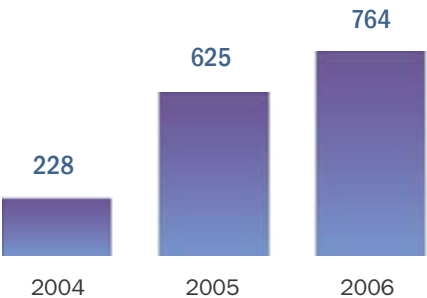


The combined corporate pension system will increase the pensions up to 60-80 per cent of the salaries for the employee with 25-30 years in service. Over 63,000 employees were in the combined corporate pension system by 2006 year-end, which accounts for half of the total number of the Company's employees.

The further development of the combined corporate pension system depends greatly on the efficiency of explanatory work in the workgroups.

Personal savings of the participants of the combined corporate pension system amounted to over 764 million roubles. The average contributions are approximately 2 per cent of the salary.

Pension savings of the programme participants, m roubles



Source: Company data

Mechanisms of Corporate Pension Expenditures Control

The control over expenditures within the corporate pension system is implemented on three levels:

- pension programme participants (employees and pensioners): as they check their pension accounts or as they take part in the Observer Council of the Pension Fund and the Commission for Corporate Pension Supply Organisation;
- shareholders based on the financial reporting and auditors' conclusions;

- state control system based on financial and special reports of the Company and the Pension fund, auditor inspections and inspections by specialised state bodies, and also based on the results of actuary assessment of the pension fund and the Company's pension programme.

Report on Explanatory Work Conducted among the Employees of the LUKOIL Group Organisations Regarding the Corporate Pension System and the Federal Pension System

During 2005-2006, the Company fulfilled its obligations within the framework of the Social Code and the Agreement between Employer and Trade Union Association for 2003-2008 in regards to the corporate pensions and social support of retired pensioners.

During 2006, OAO LUKOIL Main HR Department and NPF LUKOIL-GARANT continued working to further promote the combined corporate pension among employees of the LUKOIL Group organisations. First of all, the Company holds seminars in the main regions of the Company's presence. In addition to the seminars, it uses such forms of informative and explanatory work as meetings with workgroups, Q&A sessions, coaching meetings with the HR officers and social workers of those organisations. Besides, they use individual education. The events are held first of all in the organisations of the smallest share of employees who take advantage of the pension system in order to increase their number.

In 2006, thanks to the explanatory work in the LUKOIL Group organisations over 17,000 workers transferred the accumulative part of their Federal pension to NPF LUKOIL-GARANT.

In general, since the start of the pension reform in the Russian Federation in 2002 over 81,000 employees of the LUKOIL Group



organisations transferred the accumulative part of their federal pensions to NPF LUKOIL-GARANT.

Safety at Work and Hazard Prevention

Since 1999, the Company has got in place a system of industrial security and safety. The system has been certified for compliance with OHSAS 18001:1999 specification requirements. Every year the Company confirms the compliance of its system of industrial security and safety with the OHSAS 18001:1999 requirements.

The faultless operation of the system has given an opportunity to decrease the injury rate and work-related fatalities in the LUKOIL Group organisations.

Fulfilment of the Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination

The driver of the strategic goals of OAO LUKOIL in the area of industrial security and safety is the Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination in OAO LUKOIL and other LUKOIL Group Organisations.

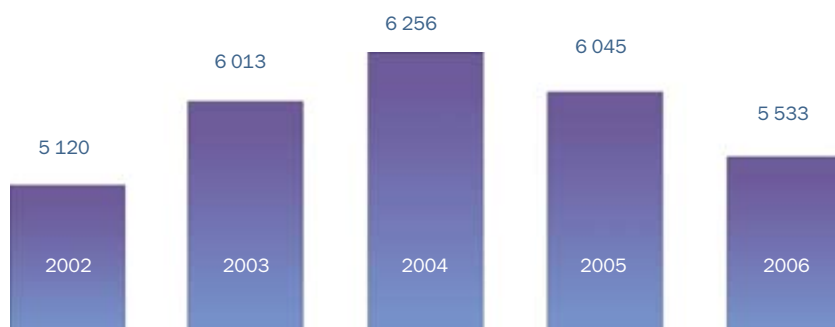
In 2005, the LUKOIL Group Organisations completed the five-year Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2001-2005. The initial estimation of the cost of the programme was over 18.5 billion roubles. During its implementation the financing had to increase to 28 billion roubles, including 6 billion roubles in 2005. The Programme was aimed to temper risks of industrial accidents, life and health care of the employees of the LUKOIL Group during their work.

Since 2006, the Company implements the Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2006–2010 in the LUKOIL Group Organisations. Its main strategic goal is to ensure and maintain the industrial security and safety at dangerous industrial objects of the LUKOIL Group on a level expected from a leader of the Russian oil and gas sector. The main objectives of the Programme are to temper injury rate and occupational diseases and to develop a system of life and health care of the employees of the Company in accordance with the Russian legislation and corporate standards. The Company pays particular attention to providing to the employees means of individual protection, modernisation of the learning systems and evaluation of the knowledge of the employees in the area of industrial security and safety using the modern information technologies. The expected budget of the Programme for 2006–2010 will amount to 26.7 billion roubles.

Results

The total number of injuries in 2006 decreased by nearly 10 per cent compared to 2005. The lost time accident frequency rate (LTAFR) decreased by 17 per cent. During the last years there is a steady downtrend in work-related fatalities. The rates of injury and average number of disability days to one accident is significantly lower than in other industries of the Russian

The expenditures on the Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination in OAO LUKOIL and other LUKOIL Group Organisations in million roubles.



Source: Company data

Federation. The results of the investigation of circumstances and causes that lead to accidents with the LUKOIL Group employees testify that the reasons for lost time in 2005-2006 are mainly road accidents, falling from heights, effect of moving, exploding, rotating articles and objects, and gang assaults and hooliganism (listed in the order of significance).

Number of disability days due to one insured accident in the LUKOIL Group organisations as compared to the average numbers for other industries of the Russian Federation

Area of activity	Number of disability days	
	Average for the Russian Federation	LUKOIL Group organisations
	2006	2006
Oil production	54,04	51,0
Oil refining	44,98	35,29
Petrochemicals	49,66	19,0
Oil product supply	64.62	42.19

Rate of injury in the LUKOIL Group organisations compared with the average numbers for other industries of the Russian Federation

Area of activity	Rate of injury	
	Average for the Russian Federation	LUKOIL Group organisations
	2006	2006
Oil production	1,04	0,36
Oil refining	0,88	0,33
Petrochemicals	1,78	0,14
Oil product supply	0.53	0.61

Changes in number of accidents and injury rate in the LUKOIL Group organisations

Indicators\years	2002	2003	2004	2005	2006
Number of accidents	143	102	77	58	52
inc. fatalities	9	11	16	11	8
Rate of injury	1,08	0,78	0,73	0,52	0,43

Source: Company data



Modernisation of the Safety and Industrial Security Management System

The Company takes serious measures to modernise the safety and industrial security management system. These measures include further integration of the Group's systems based on the international ISO 14001 and OHSAS 18001 standards, increasing the responsibility of the leadership and employees of the Company in those areas, as well as creating a system of corporate control and creating a 'safety culture' among employees.

As the Company aligns the working conditions with the legislation of the Russian Federation, the LUKOIL Group organisations conduct systematic checks and alignment of the workplaces with the sanitary norms. In 2006, 3,868 workplaces were aligned with the requirements of working conditions (compared with 1,823 workplaces in 2005).

Certified means of individual and group protection are provided to employees of the LUKOIL Group organisations in accordance with the legislative and corporate requirements. In 2006, the expenditures for uniform exceeded 522.4 million roubles, and in 2005 the Company spent nearly 475.8 million roubles for the same purpose.

In accordance with the legislative list of precautionary measures aimed at hampering rate of injury and occupational diseases partially financed by the mandatory industrial accident and occupational diseases insurance, in 2006, the Social Insurance Fund of the Russian Federation agreed upon the precautionary measures in 22 organisations of the LUKOIL Group.

Funds provided by the Social Insurance Fund of the Russian Federation in 2006 were used to attest 1,398 workplaces, provide health resort tours to employees, acquire means of personal safety. The total

amount spent for those purposes reached 22.3 million roubles.

The industrial risk control and management in the LUKOIL Group organisations are regulated by procedures, stipulated in the current legislation. The procedures include the registration of hazardous objects in the state registrar, development of industrial security declaration and investigation of emergencies and accidents at the Company's facilities.

As the LUKOIL Group completed its corporate supervision in the LUKOIL Group organisations in 2006, it achieved significant results in the area of industrial security. For instance, introduction of corporate supervision has increased the number of both detected and eliminated violations in the sphere of industrial security and safety by two, it also prompted a major improvement in terms of quality and comprehensiveness on the part of the supervisory divisions of the Company.

In 2005 and 2006, there were no incidence of fires, emergencies, radiation disasters or oil spills qualified as emergencies in the LUKOIL Group organisations. In 2006, the number of incidents at the subsidiaries decreased by 33 per cent.

21 scheduled exercises were conducted in order to check and assess emergency brigades and personnel actions aimed at protection of people and facilities from undesired consequences of possible emergencies. Organisations' own and invited emergency units took part in the trainings. Over 2,000 people participated.

Co-operation with Trade Union Association on Issues of Safety and Industrial Security

The Trade Union Association carries out constant control over and participates in the implementation of the OAO LUKOIL Social Code regarding safety and labour conditions. The Association pays particular attention to the effective work of the special controllers of labour safety. During the last two years their number grew by 15 per cent, that has greatly improved the effectiveness of the multilevel system of control over industrial security and safety at the enterprises. As of 2006 yearend, 2,619 controllers worked in the LUKOIL Group organisations, 18 of them were named the winners of the competition 'Trade Union's Best Labour Safety Controller'.

In 2005-2006, the Trade Union Association taught labour industrial security and safety rules, first aid help and actions in cases of emergency to all categories of employees. During the reported period they held regional seminars with trade union activists in OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi, OOO LUKOIL-Nizhegorodnefteorgsintez and OOO LUKOIL-Volganefteproduct.

Several times the MOPO Council discussed the improvement and modernisation of social and living conditions of the employees, their medical care, the provision of certified uniform and means of individual protection as it aligned with the strategic goal of decreasing occupational injury rate. Particular attention was paid to the issues of prevention of occupational accidents

Within the framework of the Global Agreement on co-operation between OAO LUKOIL, International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) and Neftegazstroyprofsoyuz, the trade union

together with the administration of the Company conducted an international round table 'Dignified Labour is Safe Labour' in LUKOIL-Western Siberia. Representatives of the International Labour Organisation, federal, regional and local authorities, business, leading scientific centres, largest trade union activists, international experts and other trade union people participated in the event. The sensitive issues of safety in the Fuel and Energy Complex, clarification of the recent Russian and international experience and its practical application at enterprises of different companies, most importantly in the Company's subsidiaries, were in the centre of discussion. As the outcome of the forum, the participants filed recommendations aimed at improving operation and creating dignified and safe conditions for employees, including those based on the experience of OAO LUKOIL.



Comprehensive inspections of the industrial security and safety requirements at the LUKOIL Group enterprises in 2004-2006

	2004	2005	2006
Number of comprehensive inspections of industrial security and safety requirements	8	9	10
Number of detected violations of industrial security	170	162	187
Number of detected violations of labour safety	49	54	65

Source: Company data



ENVIRONMENTAL RESPONSIBILITY



Policy and Management

As a global energy company LUKOIL pays great attention to the environmental issues, efficient use of resources and energy, industrial security and safety.

The priorities in this area are defined in the 5-year Policy of Industrial Security, Safety and Environment (full text at www.lukoil.ru) approved by the Company management in October 2002. Programmes in the area of environmental protection, industrial security and labour protection are aimed to realise the principles and objectives of the Policy.

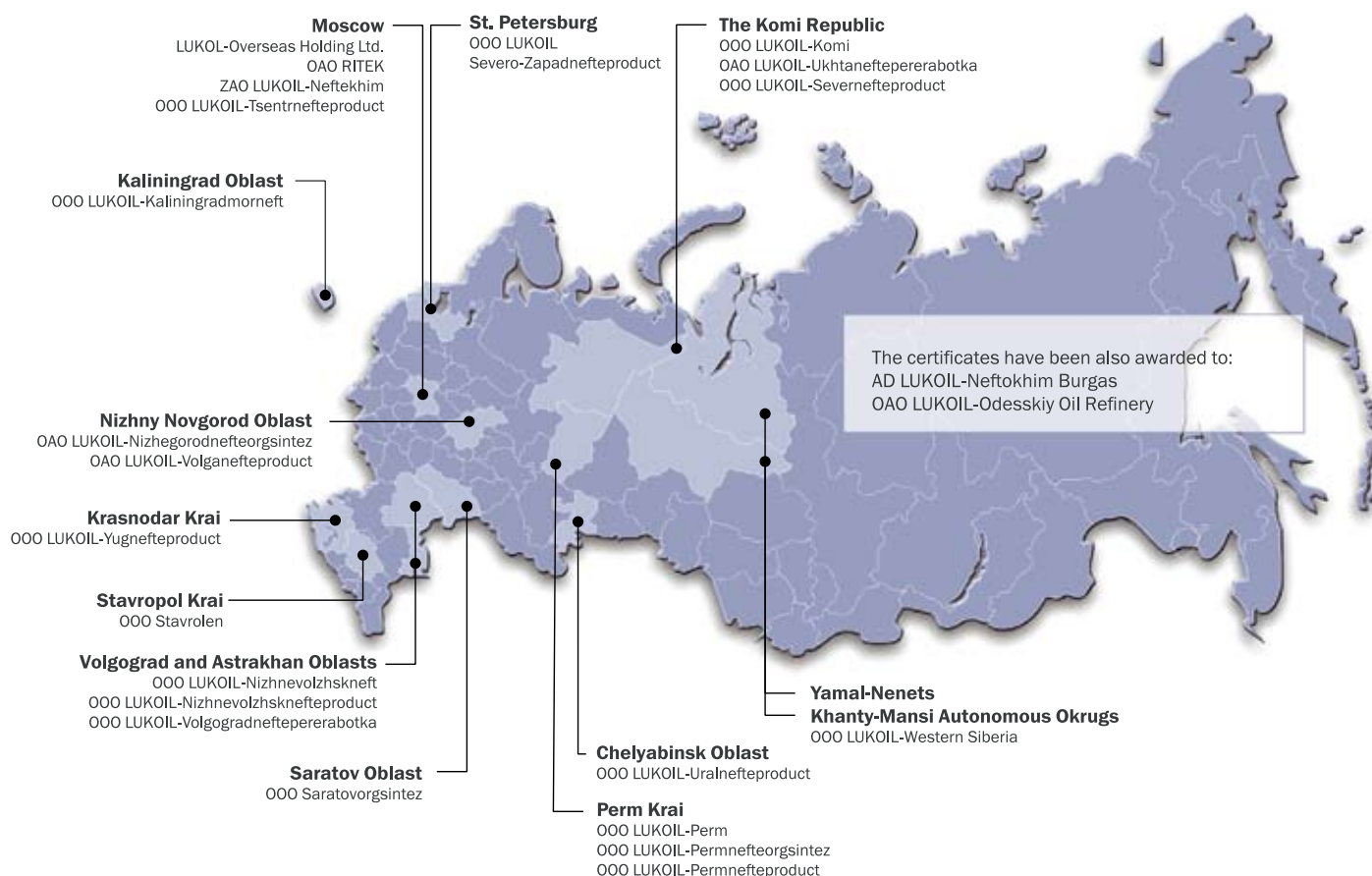
At present, the Company implements the Environmental Safety Programme for 2004-2008 and OAO LUKOIL Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2006-2010 (See section 'Safety at Work and Hazard Prevention'). The main objectives of the Environmental Safety Programme are reduction of hazardous emissions into the atmosphere, wastewater spills and water use, oil product losses as well as increasing the level of the associated gas utilisation, waste disposal (including previously collected waste), rehabilitation of the deteriorated and polluted lands and elimination of slurry ponds. The Programme includes about 400 different activities with the total forecasted budget of 34.5 billion roubles.

The Department of Industrial Security, Ecology, Research and Development was in charge of the Company's activities in this sphere in 2005-2006. All the LUKOIL Group organisations currently have dedicated divisions or persons responsible for environmental protection, industrial security and safety. Also, compliance of the management of ecological activities, industrial security and safety with the corresponding management systems of ISO 14001 (environmental management) and OHSAS 18001 (health care and industrial security management) are firmly integrated into all areas of activities of the LUKOIL Group subsidiaries. Providing industrial security and ecological safety in accordance with the international standards and conventions encircles all stages of project design from the investment idea, environmental assessment of possible environmental impact of the design,

¹⁵ Текст Политики опубликован на интернет-сайте Компании www.lukoil.ru

public relations and interaction with other stakeholders, to the initial use of the facility, or even, if necessary, removal of the facilities and equipment. In 2006, the LUKOIL Group has successfully completed the certification implemented within the framework of the 2003–2007 Programme of Certification of OAO LUKOIL Subsidiaries for compliance

with the ISO 14001 and OHSAS 18001 Requirements. As the result, the following LUKOIL Group organisation have received ISO 14001 and OHSAS 18001 certifications proving their compliance with corporate industrial security, safety and environment protection management system:





The completion of the Programme of Certification of OAO LUKOIL Subsidiaries gives the opportunity for the company to schedule certification of the integrated corporate industrial security, safety and environment protection management system of OAO LUKOIL and the LUKOIL Group in 2007 for compliance with international ISO 14001 standard and OHSAS 18001 specification.

At present, works are implemented to strengthen the integration of industrial security, safety and environmental protection systems following the Programme for Standardisation of the LUKOIL Group in 2006-2010 and auditor recommendations.

In order to improve the efficiency of industrial security, safety and environmental protection system, the Company introduces new systems of performance measurement in this area, such as corporate supervision and personnel evaluation based on key results in this area.

Implementation of Programmes

Basic Results for 2005-2006 Activities

In 2005-2006, most important facilities of the Company were launched and began to run at their design capacity that apply most modern and strict environmental and industrial safety methods. The facilities include the Kravtsovskoye offshore field in the Baltic Sea, the Nakhodkinskoye gas deposit, the distribution and storage complex in Vysotsk (Leningrad Oblast), the advanced refining complex in OOO LUKOIL-Permnefteorgsintez and the isomerisation unit in OAO LUKOIL-Nizhegorodnefteorgsintez.

Substantial modernisation of gas conversion facilities in Western Siberia will give the Company an opportunity to increase the level of associated gas utilization and reduce emissions. Besides, the Company conducts active exploration and preparations of offshore reserves of oil and gas in the Caspian Sea, minimising the negative environmental impact and mitigating hazard threats.

During the same period the Company ac-

quired a number of new assets that secure lower industrial and environmental safety as compared to the rest of the Group. That can impair the Company's performance in terms of impact on environment, health of employees and local population. For instance, the recently acquired sites have a lower level of associated gas utilization compared to the average level at the old OAO LUKOIL sites. Therefore, the Company has an urgent task to levelling the efficiency of the industrial security management, safety and environmental protection of the newly acquired assets with the general requirements of the LUKOIL Group, which will reduce negative impact on environment, the health of the personnel and the population.

Most indicators characterising LUKOIL's work in 2006 remained the same or improved as compared to the previous year. LUKOIL holds leading positions among other Russian oil and gas companies as far as decreasing the negative environmental impact is concerned: LUKOIL's specific numbers are 1.5 times lower than those of other Russian companies. The increase of some indicators in 2006 is due to the acquisition of new assets and relentless growth of the LUKOIL Group's production.

In the area of prudent use of water resources, the Company ensured the same level or decrease of technical water consumption in the key sectors of the Company – Oil and Gas Production, Oil Refining, Petroleum Products Marketing. The amount of wastewater spills decreased by 5.3 per cent. The LUKOIL Group oil refineries do not discharge polluted wastewaters into waterways.

The Oil Refining, Petrochemicals and Petroleum Products factories managed to decrease the specific amount of emissions. Considerable success was reached in terms of hazardous wastes elimination: the amount of collected wastes continued to decrease. Substantial re-cultivation works helped reduce the oil polluted areas by 26.5 per cent.

During the reported period, the Company has contributed industrial security and safe-





ty, modernisation of management systems and personnel development decreasing the number of emergencies with environmental consequences, accidents and casualties.

Environmental Protection Activities

During the implementation of the Environmental Safety Programme, the Company aims to minimise the specific (as to a unit of produced or processed hydrocarbons) and total impact on all components of environment. While the volume of the Company's activities grows, it becomes particularly difficult and more important to level and mitigate total negative impact on environment in all possible areas. Reaching those results requires serious investments into the main operational capacities, introduction of the most recent technologies, while it will still be a big time lag before the measure have a real impact. Therefore, the Company increases investments into environmental protection. From 2007 to 2010, LUKOIL plans to invest nearly 1.7 billion US dollars

The tasks that the Company is tackling in the area of industrial security, safety and environment are of great scale and level and its employees' qualification in this area is high. Therefore, the LUKOIL Group experts are invited participate in the preparation and discussion of the legislative initiatives, drafts of federal laws connected with the state regulation of activities in the area

of environment protection and ensuring industrial security, insurance of possible losses. They participate in the parliamentary hearings, round tables and other events organised by the State Duma and the Federation Council of the Federal Assembly of the Russian Federation, devoted, in particular, to the Kyoto protocol to the United Nations Framework Convention on Climate Change, as well as other urgent issues of modernising international mechanisms of environmental protection, wildlife management and subsurface management, regulating offshore oil and gas complexes, etc.

LUKOIL furthers its co-operation with other companies. For instance, co-operation with ConocoPhillips includes communication of experience in the area of environmental protection, industrial security and safety. In 2005, OAO LUKOIL and OAO Gazprom signed General Agreement on Strategic Partnership for 2005-2014. It focuses on common realisation of projects connected with the exploration and development of the oil and gas deposits on the territory of the Yamal-Nenets Autonomous Okrug, Russian sector of the Caspian Sea, the Republic of Uzbekistan and other regions. The co-operation also encompasses issues of associated gas utilization and access to gas and transport infrastructure.

LUKOIL Group's environment protection expenditures dynamics

		2002	2003	2004	2005	2006
LUKOIL Group's environment protection expenditures, total	RUB, bn.	5,39	6,80	8,20	9,00	10,42
Capex investments for assets with environmental import	RUB, bn.	1,30	2,77	4,53	3,26	4,20

Source: Company data



Careful Use of Natural Resources and Combating Climate Change

Oil and Gas Use and Atmospheric Emissions

The Company's Environmental Safety Programme aims to minimise the negative impact on the atmosphere by decreasing by the end of 2008 the amount of emissions by 148,000 tons compared with the 2002 level and by decreasing specific emissions levels for Oil and Gas Production enterprises by 31 per cent, for oil refineries by 19 per cent, and for Petroleum Products Marketing enterprises by 57 per cent. The Programme also seeks to increase the level of associated gas utilisation up to 87 per cent.

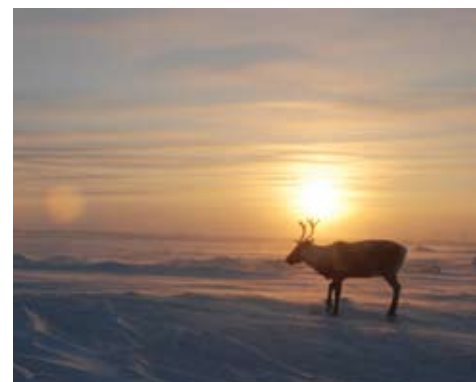
The declining trend in total pollutant emissions into the atmosphere in 2002-2004 reversed in 2005-2006. It was mainly caused by the growth of production and processing as well as acquisition of new assets with low level of associated gas utilisation. The biggest share (85%) in total emissions of the LUKOIL Group belongs to the Oil and Gas Production business sector. The volume of emissions of this sector directly depends upon the level of associated gas utilisation. It is mainly gas burning at the flare gas and heat-exchangers that contributes to greenhouse gas emissions of the LUKOIL Group.

The Company takes active steps to increase the level of associated gas utilisation, but the options are limited due to the low prices for this material set by the government, limited access to the gas transporting infrastructure and gas conversion capacities. Those are the reasons why in 2006 the Company decreased the level of associated gas utilisation to 75.1 per cent.

Therefore, LUKOIL robustly develops its own infrastructure for concentration, conversion and transporting of associated gas. In 2005-2006, the Company reconstructed,

modernised and launched Lokosovskiy Gas Conversion Complex (Langepas, Khanty-Mansi Autonomous Okrug), whose capacity increased almost twice. Systems of gas traps and compressor stations flowing plant, oil loading rack for railroad, pipelines leading to the main gas pipelines and gas-measuring stations. These capacities will give an opportunity to significantly increase the level of associated gas utilisation, reaching the target levels. All this will contribute to significant decrease in pollutant and greenhouse gases emissions into the atmosphere and will make a major contribution to satisfying Russian economy's demand in natural gas.

In accordance with the Programme of Associated Gas Utilisation for 2007-2016 over the 10 years the Company's organisations will increase the level of associated gas utilisation from 75 to 95 per cent. During implementation of the new projects the level will make 100 per cent. Additional gas production will exceed 5.6 bn m³ per year.



Atmospheric Pollution, thou. tons

	2002	2003	2004	2005	2006
Pollutants emitted by the Russian enterprises of the LUKOIL Group, total (excluding CO ₂)	435	380	429	435,5	520,2
Solid emissions	18,55	14,15	17,89	19,9	27,9
SO ₂ emissions	22,07	21,68	24,42	19,5	19,9
CO emissions	167,08	136,64	165,52	181,3	248,7
NO _x emissions	9,38	8,03	9,93	10	11,6
Hydrocarbons emissions	227,52	196,26	207,3	200	207,3
Including CH ₄ emissions	n/a	n/a	27,7	26,40	40,4

Source: Company data



While taking part in the global events dedicated to mitigation of anthropogenic impact of the Earth's climate, the Company actively develops and implements projects on greenhouse gas emissions reduction. The OAO LUKOIL Department of Industrial Security, Ecology, Research and Development estimated the yearly volume of greenhouse gas emissions (CO₂-equivalent) for the LUKOIL Group. Preliminary results show that the reduction of greenhouse gas emissions by simply increasing the associated gas utilisation level could bring significant economic effect. In 2007, the Company plans an inventory of greenhouse gas emissions in accordance with the recommendations of the Intergovernmental Panel on Climate Change (IPCC).

It is expected that the implementations of the ecological and economic mechanisms of the Kyoto protocol, particularly Joint Implementation Projects (JIP), will help attract additional investments into modernisation of the LUKOIL Group capacities. In order to develop this area the Company has developed the Corporate Concept of Operation Planning Based on the Kyoto Protocol Mechanisms as well as the Comprehensive Action Plan for 2007-2008, that include greenhouse gas inven-

tory activities and evaluating and singling out the possible JIPs.

Vigorous and sizable activities in the area of reconstruction and modernisation of oil refineries resulted in a significant contraction of negative influence on the environment, increased the oil refining level and light-oil product output, reduce unrecoverable production losses and increase output of petroleum products with improved ecological characteristics. During the reported period the Company put into operation a fine oil cleaning complex in OOO LUKOIL-Permnefteorgsintez and installed a catalytic reforming unit in OOO LUKOIL-Nizhegorodnefteorgsintez. Those and other activities improved trends of the main production figures of the Company's oil refineries and improved the ecological situation around the facilities. For instance, the launch of the fine oil cleaning complex in Perm will cut the sulphur dioxide emissions by 1,200 tons a year. OOO LUKOIL-Permnefteorgsintez emissions don't exceed 1 kg of pollutants per ton of refined oil; the depth of refining at the refinery is 88 per cent. In this regard this oil refinery is best in the Russian Federation.

OAO LUKOIL seeks to minimise the negative impact on environment in the Petrochemicals and Petroleum Products

**Sector breakdown of specific emissions of the LUKOIL Group organisations
(Oil Production, Oil Refining, Petrochemicals, Petroleum Products Marketing), kg/ton hydrocarbons**

	2002	2003	2004	2005	2006
Specific emissions of the LUKOIL Group – Oil Production	4,65	3,79	4,17	4,11	4,56
Specific emissions of the LUKOIL Group – Oil Refining	2,17	1,94	1,64	1,49	1,33
Specific emissions of the LUKOIL Group – Petrochemicals	4,90	4,78	4,86	4,51	4,37
Specific emissions of the LUKOIL Group – Petroleum Products Marketing	0,44	0,32	0,53	0,58	0,47

Source: Company data

Marketing business sectors. The reconstruction and modernisation of capacities in Petrochemicals sector allowed for a further decrease of the specific atmospheric emission indicators.

During recent years, OAO LUKOIL restructured its entire retail network on the territory of the Russian Federation in order to optimise management and increase sales. Currently, 8 head oil product supply offices cover more than 50 regions of Russia. Cleaning facilities and industrial storm water treatment systems were built and reconstructed at 200 petrol stations and 20 oil bays as part of the Environmental Safety Programme. All new petrol stations of the Company are built based on the industrial and ecological security, equipped with the systems ensuring returning of petrol vapours from the station tank to the truck tank during unloading of petrol products; double-sided reservoirs with overspill prevention systems; stainless pipelines; means of secondary isolation that exclude oil products' spills on the land; automatic pump breaks equipment; fuel-dispensing units, that stop pumping fuel automatically when tank is full; wastewater cleaning facilities etc.

Energy Use and Efficiency

OAO LUKOIL is a major energy resources consumer. The total industrial use of energy resources by Russian gas extracting and oil production enterprises in 2006 exceeded 10 m tons of oil equivalent including over 12 bn kWh of energy (nearly 40 per cent).

The main way to increase economic efficiency when supplying energy to the Company's subsidiaries is to conserve energy. The OAO LUKOIL efforts to improve energy efficiency and conserve energy in all areas of activities are among the strategic ones and stem from the main clauses of the Federal Law on Energy Saving No. 28-FZ of April 3, 1996, and the Ruling of the Government of the Russian Federation 'On Additional Measures Stimulating Energy Saving in Russia' No. 588 of June 15, 1998.

Since 1997, the Company has developed and realised targeted energy saving programmes. Energy saving has become a meaningful reserve and an important component of the general task of decreasing the costs and increasing the competitiveness of the product. In compliance with its strategic concept, OAO LUKOIL developed and approved targeted energy saving programmes for 2006-2010 that seek 2.3 billion roubles worth of energy



sources savings including 1.7 billion roubles - in the Exploration and Production sector and 0.6 billion roubles in the Downstream sector.

In the situation of constant growth of electricity tariffs, the Company is considering creating autonomous energy sources in the Company. The Company plans to build gas-reciprocating and gas turbine power plants with the total capacity of over 400 MW in the remote and energy deficient areas. The biggest projects will be implemented in the Tevlinsko-Russinskoye and Vatyeganskoye fields in the Khanty-Mansi Autonomous Okrug, and also in the South Khylochuy field in the Nenets Autonomous Okrug.

First, in December 2007, a 72 MW gas turbine power plant near the Vatyeganskoye field will be launched. It will become the biggest power plant of this kind in the Khanty-Mansi Autonomous Okrug. The Company also plans to build a 70 MW unit in Perm at the OOO LUKOIL-Permnefteorgsintez oil refinery.

Economical Water Usage

The LUKOIL Group Environmental Safety Programme for 2004-2008 aims at the reduction of yearly volume of water use for

auxiliary demands of the organisations by 10.2 million m³ from the 2002 level; and reduction of specific indicator of water use of the Oil and Gas Production enterprises by 2 per cent compared to 2002 level, and oil refining enterprises - by 16 per cent. Specific indicator of water disposal must reach 69 per cent (up to 5 l/ton) for Oil and Gas Development enterprises, and 25 per cent (up to 15 l/ton) for Petroleum Products Marketing enterprises. The oil refining enterprises have already managed to reach full compliance of wastewater disposal with the regulations.

During the implementation of the Programme and within the reported period, the Company steadily has decreased the specific indicators of water use despite the considerable production growth. It is reached via a system of measures that includes tightening control of water use and activities aimed at reconstruction of water supply and water disposal networks, as well as modernisation of technological processes. Nearly 90 per cent of the LUKOIL Group facilities are equipped with recycled and re-used water supply (including facilities where installation of such technology is

Water consumption at the Russian enterprises of the LUKOIL Group, million m³

	2002	2003	2004	2005	2006
Water consumption for own demands of the LUKOIL Group enterprises, total	128,3	134,6	132,9	128,3	129,7
Water consumption for production (exclusive of water used for formation pressure maintenance)	47,5	52,0	49,5	48,2	51,1
Water consumption for formation pressure maintenance	75,3	70,7	74,2	67,9	68,1

Source: Company data

Specific water consumption at the Russian enterprises of the LUKOIL Group

		2002	2003	2004	2005	2006
Specific water consumption for auxiliary demand of the LUKOIL Group enterprises – Oil Production	m ³ /ton produced hydrocarbons	1,15	1,12	1,02	0,94	0,84
Specific water consumption for auxiliary demand of the LUKOIL Group enterprises – Oil Refining	m ³ /ton refined oil	0,51	0,55	0,57	0,51	0,52

Source: Company data

not feasible); that helped reach low water consumption.

The Company's efforts to modernise its industrial facilities, reduce water use, build and re-construct cleaning facilities, and sewerage systems give an opportunity to decrease the volume of discharged wastewaters, including polluted water (without prior cleaning and insufficiently cleaned). In 2006, the specific wastewater spills of Oil Production enterprises reached 0.011 m³/ton of extracted hydrocarbons. It is 8.3 per cent lower than in 2005. The Oil Refining enterprises have already stopped discharging insufficiently cleaned or polluted water into surface-water bodies.

Volumes of recycled and re-used water at the Russian enterprises of the LUKOIL Group, million m³



Source: Company data

Dynamics of wastewater discharges by the Russian enterprises of the LUKOIL Group, million m³

	2004	2005	2006
Wastewater dumping into surface-water bodies and on land	37,3	32,8	31,8
Incl. standard pure (w/o treatment)	0,5	1,8	1,8
standard treated	20,5	15,6	15,3
substandard treated	14,4	14,8	14,2
polluted (w/o treatment)	1,9	0,63	0,47

Source: Company data

Specific wastewater discharges of the Russian enterprises of the LUKOIL Group

		2002	2003	2004	2005	2006
Specific spills of the LUKOIL Group – Oil Production	m ³ /ton produced hydrocarbons	0,011	0,011	0,011	0,012	0,011
Specific spills of the LUKOIL Group – Oil Refining	m ³ /ton refined oil	0,39	0,28	0,00	0,00	0,00
Specific spills of the LUKOIL Group – Petrochemicals	m ³ /ton processed raw material	13,0	11,4	11,8	10,14	10,4
Specific spills of the LUKOIL Group – Petroleum Products Marketing	m ³ /ton sold oil product	0,017	0,011	0,005	0,009	0,009

Source: Company data

Waste Management

One of the most important ecological aspects of OAO LUKOIL's activity is efficient waste management. The Environmental Safety Programme for 2004-2008 has set goals to decrease the number of collected hazardous wastes by 750,000 tons and ensure disposal of 1.3 m tons of new and previously collected hazardous wastes. The capacity growth, development of own waste disposal facilities, building of new facilities for safe storage of waste, as well as the active interaction with contractors allowed to reach set goals already by 2006: during 2004-2006 the Company disposed of at its own capacities and transferred to specialised enterprises 1.4 million tons of hazardous wastes.

Thanks to the disposal, the volume of collected wastes in the LUKOIL Group organisation constantly declines. The largest part of the remaining wastes are the 3rd class wastes (moderate hazard) and the 4th class wastes (low hazard). Mostly they are wrought oozes of biological cleaning facilities, oil and drill solids.

Recognising its social responsibility, the Company actively tackles the issues of disposal of wastes collected before,

although there are no mechanisms of damage compensation regarding old wastes (before 1991).

During the reported period the Company managed to reach very low specific level of hazardous waste during oil production. So, after a significant decrease in 2002-2003 this indicator holds on the 3.8 kg/ton level. The Oil Refining enterprises keep the level at 1.8 kg/ton. At the same time, there is a certain growth of construction wastes and wastes at the oil refineries mainly caused by dismantling the old equipment, buildings and constructions in order to clear sites for building new facilities.

Rehabilitation of Deteriorated and Polluted Territories and Prevention of Spills

During 2004-2008, the Company expects to rehabilitate 10,650 hectares of deteriorated and polluted lands and eliminate 143 slurry ponds. The re-cultivation plans were almost implemented by 2006 year end. Only in 2005-2006 the Company eliminated 161 oil ponds, out of those that were left from the period preceding the time when the



Waste management at the Russian enterprises of the LUKOIL Group

		2002	2003	2004	2005	2006
Hazardous wastes occurred at the LUKOIL Group enterprises	thou.tons	378,3	519,5	567,1	504,9	500,8
Hazardous wastes disposed of by own means (used or neutralised)	thou.tons	236,8	260,4	253,6	221,3	178,7
Hazardous wastes transferred to specialised works for disposal (to be used or neutralised)	thou.tons	222,3	2033,4	202,4	258	298,4
Remaining wastes as of yearend	thou.tons	3 757,4	1 795,8	1 792,6	1 663	1 638
Specific hazardous wastes occurred at the LUKOIL Group enterprises – Oil Production	kg/ton extracted hydrocarbons	5,1	3,9	3,9	3,8	3,8
Specific hazardous wastes occurred at the LUKOIL Group enterprises – Oil Refining	kg/ton refined oil	1,6	1,1	1,6	1,8	1,8 3,5*

Company took over the territories, including 122 - in Western Siberia, 19 - in the Republic of Tatarstan, 11 - in the Kaliningrad Oblast and 9 - in Timano-Pechora. During the same period 6,361 hectares of deteriorated lands (including 322 hectares of oil-polluted lands) were re-cultivated.

In November 2005, OAO LUKOIL completed the Corporate Programme for Ecological Rehabilitation of the Polluted Territories and Prevention of Hazardous Spills in the Republic of Komi in 2000–2005. Although the Company started working in the Republic of Komi 5 years after the accident at the Vozey-Golovnye Sooruzheniya pipeline in 1994, it voluntarily accepted obligations to remove the consequences of the hazard. Taking into consideration the experience of the leading foreign countries the Company's

experts helped choose optimal technology of biological re-cultivation of the soils in the natural and climatic conditions of Timano-Pechora oil and gas bearing region. 1,600 hectares of polluted and deteriorated land have been rehabilitated. 891 hectares have been biologically re-cultivated, including 383 hectares where reforestation works have been conducted. 719 hectares of oil-polluted lands have been re-cultivated and over 230,000 tons of waste containing oil have been discarded.

In order to prevent spills in the future, the Company has replaced 879 km of pipeline. Besides, two new hydraulic seals were erected at the river and three underwent reconstruction. As the result not a single spill of oil or liquid containing oil into the waterways took place during the thaw.

Source: Company data

Re-cultivation of deteriorated and oil-polluted lands

	2002	2003	2004	2005	2006
Re-cultivated deteriorated and oil-polluted lands, hectares	3 660,6	4 212,6	4 232,3	2 890,0	3 471,0
Including oil-polluted, hectares	291,8	297,8	287,0	192,0	130,0
Eliminated slurry pond (No.)	419	240	17	91	70

* including construction waste

Source: Company data

Official Report on the Verification Results of the OAO LUKOIL's Sustainability Report

Attention: OAO LUKOIL management.

Introduction

The OAO LUKOIL 2005-2006 Sustainability Report (hereinafter referred to as the Report) has been prepared by OAO LUKOIL (hereinafter referred to as the Company), that is responsible for collecting and providing information in the Report. The responsibility of Bureau Veritas is to execute at the Company's request a limited verification of the Report and present our conclusion regarding the compliance of the Report with the criteria of Materiality, Completeness and Responsiveness; we don't assume responsibility for any other assessments and before any third parties, as well as for the use of our conclusion for other purpose.

Verification criteria

Criteria and principles of the Report verification were following:

(1) To provide verification of the Social Report based on the AA1000 Standard (AA1000 Assurance Standard 2003 verification):

- Materiality of the information provided,
- Completeness of the information provided,
- Responsiveness to the requests of the concerned parties.

(2) To verify the compliance of the Report with the C+ level (self-assessment of the Company) of the recommendations of the Global Reporting Initiative Sustainability Reporting Guidelines (GRI).

(3) To apply in verification principles and procedures of the International Standard on Assurance Engagement ISAE-3000.

During the verification process, we have taken into consideration the information published on the Company's corporate

sites www.lukoil.ru (Russian language) and www.lukoil.com (English language) and in the corporate publications Report of Activities in 2005, Report of Activities in 2006, Analyst Databook 2005, Analyst Databook 2006, Basic Facts 2006.

Scope of Work

Report verification activities included the following:

- We have interviewed the Top Team and management of OAO LUKOIL in order to review the Company leadership's approach to reporting regarding the economic, environmental and social performance of the Company, to see if changes took place since the publication of the first Report, and also to assess the Company's adherence to corporate social responsibility in the industrial sphere, environment protection and interaction with the society, local population and employees.
- We have assessed of the Company's approach to engaging stakeholders, considered their opinions and expectations, as we attended the second session of the dialogue with the representatives of the regional executive and legislative authorities in Kaliningrad organised within the framework of the current social reporting process, studied the documentation submitted by the workgroup of OAO LUKOIL in preparation of the second Report to substantiate other engagements in 2005-2006.



- We have analysed selected documents that characterise the status of the Company in the area of social responsibility and corporate sustainability: The LUKOIL Group Strategic Development Programme for 2005-2014, Our Goals, OAO LUKOIL HR Policy, OAO LUKOIL Social Code, Policy in the Area of Industrial Security, Safety and Environment Protection in the 21st Century, the LUKOIL Group Environmental Safety Programme for 2004-2008, the LUKOIL Group Energy Saving Programme for 2005-2010, Programme of Industrial Security, Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2006-2010, HR targeted programmes.
- We have visited the OOO LUKOIL-Perm in Perm and its Oil and Gas Production Centre (CDNG-5) in the town of Osa, where we have interviewed managers of key functions to confirm some of assertions, statements and data included in the Report concerning essential aspects of corporate sustainability on the level of an enterprise. Also, we have checked how data collection management functions at the lowest level.
- We have interviewed representatives of the external stakeholders in the area of OOO LUKOIL-Perm activities to find out their attitude to the Company in a number of key issues of social responsibility. We conducted interviews with management of the Perm Interregional Rostekhnadzor Administration, Oil and Gas Institute Director, Deputy Head of the Department of the Perm State Technical University, administration of the Perm Theatre of Opera and Ballet, mayor of the town of Kungur, school directors of the town of Osa, managers of different social and cultural projects who won in corporate contests in 2005-2006. We have also inspected results of the Company's social investment programmes in Perm, Kungur, Osa and in the village of Yelovo.
- We have assessed the Company's processes for collection, processing, documentation, transfer, analysis, selection and consolidation of information subject to inclusion into the Report. During the assessment we used information from the supervision and certification audits of the corporate management system and management systems of environmental protection, safety and industrial security of the LUKOIL Group subsidiaries to verify their compliance with the provisions of ISO 14001 and OHSAS 18001 International Standards.
- We have examined the selection of statements and data on industrial activity, HR management, industrial security, environmental protection and labour safety, social investments included in the Report.
- We have analysed selected media publications and published third-party statements regarding the Company's commitment to its mission and values in the area of social responsibility as a reference aimed at checking the substantiation of the statements of the Report.
- We have compared the Report with the social reports of the renowned leaders in oil and gas sector: BP Sustainability Report 2006, Shell Sustainability Report 2006 in order to identify areas for improvement of social reporting.
- We have analysed the Report and the information about economic, environmental and social activities of the Company published on the corporate website, corporate publications and in the annual

corporate reports for 2005 and 2006 in terms of their compliance with the AA1000 standard principles and GRI recommendations.

- We have checked how the Company ensures availability of the first report and feedback of all stakeholders in order to assess responsiveness of the Company to the requests of the stakeholders and to analyse GRI performance indicators.
- We have checked how OAO LUKOIL abides by procedures of identification, engagement and considering opinions and expectations of stakeholders during the preparation of the Report.
- We have studied documents and data on performance of OAO LUKOIL's current economic, environmental, social systems in order to develop and give recommendations for their improvement.
- We have examined OAO LUKOIL's procedures for the internal audit of sustainability reporting process.

Verification Limitations

- Verification is constricted to the timeframe of the current reporting cycle: 2005-2006.
- Verification doesn't refer to statements expressing opinions, beliefs or intentions of the Company to perform certain activities in the future.
- Verification doesn't include assessment of the compliance of the Company activities with the principles of the Social Charter of the Russian Business Community
- Verification is limited to the visit of the head office of the Company in Moscow, one industrial enterprise (OOO LUKOIL-Perm) and one region where the Company conducts its activities (Perm Region).
- We did not verify data and information

that refer to other LUKOIL Group organisations.

- Verification is limited to the attending of the dialogue session with stakeholders in Kaliningrad.
- Verification of collection methods, processing, documenting, transmission analysis, selection and consolidation of data included in the Report are based solely on the following categories of information: safety and human resources development policy, environment protection, social and economic partnership of the Company in the regions where the Company operates with regards to sustainability.

Level of Assurance

We realise that the assurance of selected information in the Report provides lower overall level of assurance than the full assurance of all data. The use of such level of assurance is provided for in the International Standard on Assurance Engagements (ISAE) 3000. In the process of verification, we have relied on supporting information provided to us upon our request, data from available sources and analytical methods of assurance. We suppose that the data collected during the verification process is a sufficient ground for our conclusions referring to the AA1000 principles (in the assurance part we used the AA1000AS standard, that includes Materiality, Completeness and Responsiveness criteria).



Our opinion

Based on the limited verification we conclude the following:

- Generally, the Report adequately reflects the Company's performance data concerning social reporting and corporate sustainability.
- The Report is presented in a clear and understandable form; it is objective and informative.
- OAO LUKOIL has the management instruments, allowing for identification of current economic, environmental and social aspects of activity, control of related processes, identification of parties in regards to these aspects and appropriate reaction.
- The social reporting process systems are sufficiently supported by the organisational policy and resources and serve as instruments of further development of social reporting and corporate sustainability of the Company.

Compliance of the Report with the AA1000 Principles

In accordance with the limited verification, we state the following:

Materiality

- We are unaware of any relevant aspects of the Company's activities that were not included in the Report.
- The Report presents a balanced account of economic, environmental and social aspects of the Company's performance critical for sustainability within the framework of the LUKOIL Group Strategic Development Programme for 2005-2014.
- The Report reflects the corporate approach to solving issues of social responsibility and stable socio-economic development of the regions of the Company's presence along the lines of OAO LUKOIL HR Policy, OAO

LUKOIL Social Code and development of partnership between the state and private sector.

- We consider information presented at the corporate site relevant for stakeholders that may influence their decisions and attitude towards the Company in the future.

Completeness

- We have not discovered any facts that could show that the primary data on key indicators were incorrectly collected or presented in the Report.
- The Report doesn't contain data on greenhouse gas emissions (G3-EN16). Estimation of relevance of these aspects is a part of the work aimed at embedding the LUKOIL Group Environmental Safety Programme for 2004-2008 within the framework of the LUKOIL Group Corporate Concept of Operation Planning Based on the Kyoto Protocol Mechanisms
- The Report doesn't contain data on energy consumption with specified primary sources (G3-EN3).
- The Report doesn't contain data on rate of injury and occupational diseases and total number of work-related fatalities with a regional breakdown (G3-LA7).
- The Report doesn't contain data on average number of hours of training of one employee per one year (G3-LA10).
- Aside from the above mentioned data, we have not discovered any omissions that could influence the completeness of the Report with regards to the relevant economic, environmental and social aspects of the Company's activities.

Responsiveness

- We are unaware of any issues that could but were not mentioned in the Report with regards to which Company were unable to react to reasonable requests of the interested parties.
- Responsiveness to the expectations of the 2005-2006 dialogue participants is provided by specifying the Company's position in the Report and installing interactive feedback channel (socotch@lukoil.com).
- Responsiveness to the regions of industrial activities is carried out through the realisation of social projects as part of the development of partnership between the state and private sector, signing bilateral and multilateral agreements on co-operation between state bodies, local administration and businesses that conduct industrial activity in the region.
- Responsiveness to the interests and expectations of the employees of the Company is carried out through the signature of the Agreement between Employer and Trade Union Association for 2003-2008, collective bargaining agreements in the LUKOIL Group organisations and through the development of a number of targeted programmes in the sphere of personnel development.
- The rights of the population for the favourable environmental conditions are taken into account through non-exceedance of the specified norms of environmental impact and continuous decrease of such impact, realisation of environmental protection activities, decrease of the norms for fuel and material use during the implementation of the Policy in the Area of Industrial Security, Safety and Environment Protection in the 21st Century, Programme of Industrial Security,

Labour Condition Improvement, Safety and Hazard Prevention and Elimination for 2006-2010, the LUKOIL Group Environmental Safety Programme for 2004-2008. The Company has prepared drafts of joint implementation projects aimed at decrease of greenhouse gas emissions.

- Responsiveness to the interests of shareholders is carried out via realisation of corporate governance principles of the Company, including holding annual general meetings of shareholders.
- Responsiveness to the expectations of consumers is carried out by supplying product with improved ecological characteristics (diesel fuel Euro-4 and Euro-5, high octane petrol EKTO-92 and EKTO-95) offering a wide range of services at the Company's petrol stations as part of the Programme for Development of Retail of Non-fuel Goods and Services at the Russian Petrol Stations of the Company by 2014.

Compliance with the GRI Recommendations

The reporting is done using the Global Reporting Initiative Sustainability Reporting Guidelines (GRI-G3 version) and includes data on most GRI-G3 standard disclosures applicable to the Russian reporting practices including performance data. The adherence level of the reporting is C+.

Recommendations for development of corporate responsibility

- Development and embedding of a structural stakeholder engagement management system in accordance with AA1000 Stakeholder Engagement Standard (SES).
- Inclusion of management approach



and specific goals of LUKOIL against every element of corporate reporting.

- Publication in the current reporting cycle of the intended goals for the next reporting period and the analysis of the performance indicators regarding the goals set in the previous reporting cycle.
- Inclusion of the Company position on high industrial costs in the sector as a reason for high prices for energy resources (BP and Shell practice).
- Internal audit of the social reporting process in the Company with the publication of the results in the current cycle report.
- Publication of stakeholder comments regarding the previous reports in the reports of the next cycles.

Bureau Veritas Certification Statement of Independence, Impartiality and Competence

Bureau Veritas Certification is an independent professional international company that specializes in accredited certification of different management systems (namely, Quality, Health, Safety, Social and Environmental and Social Responsibility management, etc.).

Bureau Veritas Certification has implemented the Code of Ethics throughout the organization. All its employees maintain high ethical standards in their day-to-day business activities and apply all efforts to prevent conflict of interest.

The auditor team of Bureau Veritas Certification have an extensive experience and continue to render assurance services with respect to information, systems and processes in the area of quality, labour safety, industrial security, environment and social responsibility. All of them are well aware of the international best practice in the sphere of verification and compliance assurance of the corporate social responsibility process.

Bureau Veritas Certification testifies that this Report on the Verification Results contains an independent evaluation and verification of the Report (third-party verification). Bureau Veritas Certification has no commercial or other significant interest in the operation of the Company aside from assurance services.

On behalf of the assessor:

CJSC Bureau Veritas Certification Rus

July 23, 2007



Senior auditor,
Doctor of Chemistry

Vera Skitina



Senior auditor,
Doctor of Engineering

Leonid Yaskin

GRI Indicators Used in the Report

	GRI indicator	Use in the Report	Notes
1.1	Statement from the CEO	2	
1.2	Assessment of key factors, risks and opportunities	13, 14-16, 22-24, 51, 59	
2.1	Name of reporting organisation		
2.2	Primary brands, products and/or services	17-19	Main types of products presented in the first Report
2.3	Operational structure of the organisation including description of major divisions		A list of organisations whose activities are described as stipulated by the reporting framework is presented in the Report
2.4	Location of organisation's headquarters	96	
2.5	Number of countries where the organization operates	9	
2.6	Nature of ownership; legal and organisational form		Has not changed as compared to the first Report
2.7	Markets served	9-10	The element is partly used, because the organisation reports only on its activities on the territory of the Russian Federation
2.8	Scale of the reporting organisation	9-11, 57	
2.9	Significant changes regarding size, structure, or ownership	9-11	Detailed information on the changes in structure is provided in the annual report of the Company, therefore, this information is not repeated in the Sustainability Report. Changes primarily refer to the Company's share in projects and companies
2.10	Awards received in the reporting period	29,36	
3.1	Reporting period	5	
3.2	Date of most recent previous report	4	
3.3	Reporting cycle	5	
3.4	Contact information	96	
3.5	Process for defining report content	5-7	The report content has been defined according to recommendations of stakeholders expressed over 2005 dialogue.

	GRI indicator	Use in the Report	Notes
3.6	Boundary of the report	5	The Company conducts most of its activities in Russia
3.7	Specific limitations on the scope or boundary of the reports	5-6	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.		The report includes data on subsidiaries that operate in the regions where all LUKOIL's business segments are represented (production, processing, petrochemicals, marketing), and also in Moscow.
3.10	Explanation of the effect of any re-statements of information provided in earlier reports		No re-statements were used since the first sustainability report
3.11	Significant changes from previous reporting periods		No significant changes took place
3.12	Table identifying the location of the Standard Disclosures in the report	92	
3.13	Policy and current practice	11, 21, 52-53, 58, 70-72, 75	
4.1	Governance structure of the organisation		Information was provided in the first sustainability report. During the reported period no significant changes took place
4.3	Number of independent members of the Board of Directors		Information was provided in the first sustainability report. During the reported period no significant changes took place
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	54-56	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance		Information was provided in the first sustainability report. During the reported period no significant changes took place
4.12	External initiatives to which the organisation subscribes or endorses	16	
4.13	Memberships in associations		Information was provided in the first sustainability report
4.14	List of stakeholders engaged by the organization	6-7	Information was provided in the first sustainability report. During the reported period no significant changes took place
4.16	Approaches to stakeholder engagement	6	

GRI indicator		Use in the Report	Notes
4.17	Key topics and concerns that have been raised or identified through stakeholder engagement	6-7	Key topics were included into first report
EC1	Direct economic value generated and distributed	13	Indicator is only partly reflected. This information refers to the whole Company, because there is no separate data collection for Russia regarding this.
EC3	Coverage of the organization's defined pension plan obligations	66-68	
EC4	Significant financial assistance received from government		The EC4 indicator is not present, since it is irrelevant for the Company's activities
EC8	Development and impact of infrastructure investments and services provided for public benefit	28-39	
EC9	Understanding and describing significant indirect economic impacts	28-39	
EN1	Materials used	10	
EN8	Total water withdrawal by source	82	
EN10	Percentage and total volume of water recycled and reused	83	
EN20	NOx, SOx and other emissions	80-81	
EN21	Total volume of discharges	83	
EN22	Total weight of waste	85	
EN26	Initiatives to mitigate environmental impacts of products and services	17-19, 24-27	
LA1	Total workforce	57	
LA4	Percentage of employees covered by collective bargaining agreements		Information was provided in the first sustainability report. During the reported period no significant changes took place

GRI indicator		Use in the Report	Notes
LA5	Minimum notice period regarding operational changes		The Company uses approach that fully relate to labour legislation of the Russian Federation
LA6	Percentage of total workforce represented in formal joint worker health and safety committees	73	
LA7	Rates of occupational injury	71	
LA9	Health and safety topics covered in formal agreements with trade unions	73	
LA11	Programs for skills management and learning	58-59	
HR1	Percentage or total number of significant investment agreements	31, 37	
HR6- HR7	Human rights		The Company executes all requirements of the Russian legislation prohibiting the use of child labour and forced labour
S01	Nature, scope, and effectiveness of programs that assess and manage the impacts of operations on communities	28-29	
PR1	Lifecycle stages in which health and safety impacts of products and services are assessed for improvement	17-19	
PR5	Practices related to customer satisfaction	18-19	

REFERENCE INFORMATION

The Report is published at the Company's website www.lukoil.ru (Rus. ver.) and www.lukoil.com (Eng. Ver.).

You are welcome to address your questions or discuss one of the issues. Please, write to us at socotchet@lukoil.com.

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TERMS AND DEFINITIONS

Names and words OAO LUKOIL, the LUKOIL Group, LUKOIL, the Company, the LUKOIL Company, NK LUKOIL, 'we,' 'our' used in this Report are synonymous and refer to the organisations of the LUKOIL Group, OAO LUKOIL, and/or to its subsidiaries, depending on the context.

