

# **Opinion of the Audit Commission of OAO “LUKOIL” based on a review of the financial and business activity of OAO “LUKOIL” in 2007**

Moscow

13 May 2008

In accordance with the legislation of the Russian Federation, the Charter of OAO “LUKOIL” (hereinafter the “Company”), the regulations on the Audit Commission, and on the basis of the audit opinion of the audit firm ZAO KPMG, the Audit Commission performed a review of the Company’s financial and business activity in 2007.

No requests for extraordinary reviews and audits were received by the Audit Commission during the year from shareholders and the Board of Directors.

In accordance with the Work Plan (Appendix No. 1 to the Minutes of the Audit Commission meeting of 3 July 2007) the Audit Commission performed a review of:

1. The compliance of the procedure for keeping accounts of business operations with the accounting policy of OAO “LUKOIL” and the regulatory legal acts of the Russian Federation;
2. Compliance with the procedure for performing a stocktake of assets and financial liabilities and documenting its results for the preparation of the annual financial statements.
3. Timeliness of preparation and provision of financial statements to interested users.
4. Reliability of the data contained in the annual financial statements and Annual Report of OAO “LUKOIL” for 2007.

In addition, the main indicators characterising the financial and business activity of OAO “LUKOIL” in 2007 were assessed.

During the review it was established that:

1. The accounts of OAO “LUKOIL” (the “Company”) are kept on the basis of the Regulations on the Accounting Policy of the Company for 2007, approved by Company Order No. 238 of 28 December 2006 and prepared in accordance with Federal Law No. 129-FZ *On Accounting*, the accounting regulations and other regulatory acts governing accounting issues.

2. In order to ensure the reliability of the accounting data, a stocktake of assets and liabilities was performed pursuant to order of OAO “LUKOIL” No. 156 of 25 September 2007 prior to the preparation of the financial statements.

The procedure for the performance of the stocktake of the assets and financial obligations is determined by the Methodological Guidelines on Stocktakes of Assets and Financial Obligations, approved by RF Ministry of Finance Order No. 49 of 13 June 1995, and also by an in-house document, the Methodological Recommendations on Stocktakes of Assets and Financial Obligations at OAO “LUKOIL”, approved by Order No. 167/1 of 13 September 2006.

Documentation of the stocktake procedures and reflection of its results in accounts was performed using the standard primary accounting forms approved by Resolution of the RF State Statistics Committee No. 88 of 18 August 1998 and the forms approved by the in-house regulatory act of the Company.

The stocktake of assets was performed by working committees subordinate to the accountable officers of the Company, with the preparation of inventory sheets. All inventory sheets were signed by the members of the stocktake committees and the accountable officers.

The stocktake of all settlements, (undocumented) financial investments, provisions, etc. was performed based on source and supporting documents, with the drafting of Stocktake Reports.

All Reports on the stocktake of assets and obligations were signed by the members of the working audit commissions.

The results of the stocktake of assets and financial obligations were documented in minutes of the working stocktake commissions, which were sent to the Company’s Main Stocktake Commission.

The results of the stocktake were documented in Minutes No. 1 of the Main Stocktake Commission of 15 January 2008, approved by Order No. 4 of OAO “LUKOIL” of 15 January 2008, and recorded in accounts according to the procedure prescribed by regulatory documents.

3. The Audit Commission confirms that the financial statements were prepared by the deadlines set by the Company’s document-flow regulations and were provided on time to interested users.

4. The data contained in the forms of the annual financial statements correspond to the data presented in the accounting registers. The Company’s financial statements include data on assets, liabilities, income, and expenses provided by trustees. The explanatory notes contain information subject to disclosure in accordance with the requirements of accounting regulations.

**The Company’s 2007 operations are characterised by the following indicators:**

From 1 January 2007 the Company switched to new business arrangements for conducting upstream and downstream activities. According to the new business arrangements, the Company supplies purchased oil and gas for export and to the domestic market, and supplies oil, oil products and products of gas processing for export under commission contracts.

**Sales revenue** in 2007 equaled RUB 609,821,837 thousand, which is 12% lower than in 2006. The reasons for the drop in revenues year on year are a 20% reduction in sales, coupled with an 8% growth in prices for oil, gas and products of gas processing.

Over the reporting period, lower sales volumes also led to a lower **cost of production** of goods, products, work and services sold. In 2007 it was RUB 489,837,720 thousand, or RUB 76,305,339 thousand (13.5%) less than in 2006.

The Company's **selling expenses** were RUB 42,410,038 thousand, a drop of RUB 19,670,543 thousand, or 31.7%, from 2006.

The fall in selling expenses was caused by the reduction of transportation and forwarding expenses in connection with the Company's transition to new business arrangements. Transportation expenses account for the majority of selling expenses – 86%. The share of selling expenses in sales revenue fell from 9 to 7%.

**Management expenses** increased by RUB 1,251,608 thousand, or 13.4%, in 2007 year on year, and equaled RUB 10,626,021 thousand. The increase in management expenses was caused by the growth in expenses on lease, voluntary insurance, payment of the services of outside organizations, and an increase in provisions for the future payment of leave.

**Profits on sales** increased by 20.8%, to RUB 66,948,058 thousand.

**Net profit** of the reporting year equaled RUB 65,127,177 thousand, or 18.1% more than the preceding period. This was mainly due to the increase in profits on sales and the receipt of profit from operations, other income and expenses.

**Net assets** rose by RUB 32,805,773 thousand, or 12.4%, against the 2006 figure, and as at 31 December 2007 equaled RUB 296,713,355 thousand.

### **Annual report of OAO “LUKOIL”**

The OAO “LUKOIL” annual report contains reliable information on the Company's operations, as well as its priority areas of activity and growth prospects.

The annual report of OAO “LUKOIL” was signed by V.Yu. Alekperov, President of OAO “LUKOIL”, and also I.A. Kozyrev, Acting Chief Accountant.

The OAO “LUKOIL” annual report was prepared in accordance with the requirements of RF FCSM Resolution No. 17/ps of 21 May 2002 (point 3.6).

### **Conclusions**

The Audit Commission did not disclose any instances of violations of the accounting and reporting procedure established by the legislative acts of the Russian Federation and the Company's accounting policy that would be capable of materially affecting the reliability of the financial statements of OAO “LUKOIL”.

The Audit Commission confirms the reliability of the data contained in the Annual Report of OAO “LUKOIL” and the annual financial statements for 2007.

Chairman of the Audit  
Commission

V.N. Nikitenko

Members of the Audit Commission

L.M. Bulavina

P.G. Kondratiev