

Lukoil OAO

Russian Trading System Stock Exchange: LKOH

Industry: Crude Oil and Natural Gas Producers

Meeting Date: June 25, 2009

Record Date: May 8, 2009

Lead Analyst

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2009 ANNUAL MEETING

Proposal	Issue	Board	GL&Co.
1.00	Accounts and Reports; Allocation of Profits/Dividends	For	For
2.00	Election of Directors	For	For
2.01	Elect Vagit Alekperov	For	Abstain
2.02	Elect Igor Belikov	For	For
2.03	Elect Victor Blazheev	For	For
2.04	Elect Donald Walette, Jr.	For	For
2.05	Elect Valery Grayfer	For	Abstain
2.06	Elect Herman Gref	For	Abstain
2.07	Elect Igor Ivanov	For	Abstain
2.08	Elect Ravil Maganov	For	Abstain
2.09	Elect Richard Matzke	For	For
2.10	Elect Sergei Mikhailov	For	For
2.11	Elect Nikolai Tsvetkov	For	Abstain
2.12	Elect Aleksander Shokhin	For	For
3.00	Election of Audit Commission	For	For
3.01	Elect Lyubov Ivanova	For	For
3.02	Elect Pavel Kondratiev	For	For
3.03	Elect Vladimir Nikitenko	For	For
4.00	Directors' and Audit Commission's Fees	For	For
4.01	Directors' Fees	For	For
4.02	Audit Commission Fees	For	For
5.00	Appointment of Auditor	For	For
6.00	Revised Regulations on Shareholders' Meeting	For	For
7.00	Related Party Transactions	For	For

NOTE

Except as noted, RUB 1.00 = \$0.0327 (exchange rate as of December 31, 2008)

Company Profile

ADDRESS / STOCK

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Quote Symbol: LKOH
Exchange: Russian Trading System Stock Exchange
SEDOL: 4560588
ISIN: RU0009024277
Benchmark Index: RSF EE MT (RUR) INDEX

Industry: Crude Oil and Natural Gas Producers
Employees: N/A

Auditor: Not disclosed

COMPANY DESCRIPTION

LUKOIL is an integrated oil and gas company. The Company is engaged in the exploration and production of oil and gas, production of petroleum products and petrochemicals, and marketing of these outputs. It has three main business segments: The Exploration and Production segment includes its exploration, development and production operations of crude oil and natural gas. These activities are primarily located in Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Colombia, and Northern and Western Africa. The Refining, Marketing and Distribution segment includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products. The Chemicals segment includes processing and trading of petrochemical products. Other businesses include banking, finance and other activities. In January 2009, it acquired Energoaktiv ZAO. In Addition, in March 2009, LUKoil OAO increased its stake in TGK-8 OAO up to 60.21% from 31.38%. Source: Google Finance

MARKET INFORMATION / STATISTICS

Currency:	RUB
Price Close (as of 06/05/09):	55.30
52 Week High:	105.80
52 Week Low:	24.90
No. of Shares Outstanding:	851m
Market Capitalization:	1,442,321m
Enterprise Value:	262,761m

INCOME STATEMENT (LTM)

<i>As of Dec 2008</i>	(millions - RUB except per share data)
Revenue:	2,100,767
Net Income:	173,354
EPS:	261.31

MARKET PERFORMANCE

1 Year Stock Performance:	-46.26%
3 Year Stock Performance:	-32.89%
5 Year Stock Performance:	102.19%

BALANCE SHEET

<i>As of Dec 2008</i>	(millions - RUB)
Total Assets:	2,166,106.79
Total Liabilities:	608,549.60
Total Common Equity:	1,537,099.18

Source: Thomson Financial and Glass, Lewis & Co., LLC

Proposal 1.00: Accounts and Reports; Allocation of Profits/Dividends

FOR

This proposal seeks shareholder approval of the Company's financial statements and directors' report for the fiscal year ended December 31, 2008.

As a routine matter, Russian company law requires that shareholders approve the financial statements in order for them to be valid.

This proposal also seeks approval of the allocation of profits. If approved, the Company will distribute a dividend of RUB 50 (\$1.64) per share, representing a dividend payout ratio of approximately 15%.

Glass Lewis' Analysis

We believe that all of the necessary financial statements and reports are present in the Company's annual report. We note that in the opinion of KPMG, the Company's independent auditor, the financial statements have been properly prepared in accordance with the generally accepted accounting principles in Russia.

With limited exceptions, Glass Lewis will generally support the dividend policy proposed by the company. Here, we find that the dividend payout is reasonable and we do not see any cause for concern in terms of the board's process in making this determination.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

BOARD OF DIRECTORS

Name	Up	Age	GLC Classification	Committees			Term Start	Term End	Years on Board
				Audit	Comp	Nom			
Vagit Y. Alekperov	✓	59	Insider ¹				1993	2009	16
Igor V. Belikov	✓	53	Independent		✓	✓	2008	2009	1
Victor V. Blazheev	✓	48	Independent				-	-	-
Valery I. Grayfer	✓	80	Affiliated ²				1996	2009	13
Herman O. Gref	✓	45	Affiliated ³				-	-	-
Igor S. Ivanov	✓	63	Affiliated ⁴				-	-	-
Ravil U. Maganov	✓	55	Insider ⁵				1993	2009	16
Richard H. Matzke	✓	72	Independent				2008	2009	1
Sergei A. Mikhailov	✓	52	Independent	C	✓	✓	2008	2009	1
Aleksander N. Shokhin	✓	58	Independent	✓	C	C	2008	2009	1
Nikolai A. Tsvetkov	✓	49	Affiliated ⁶		✓	✓	2008	2009	1
Donald E. Walette, Jr.	✓	51	Independent				2008	2009	1

C = Chair

1. Chairman of the management committee. Beneficially owns approximately 20% of the Company's issued share capital.
2. Chairman of the Company and general director of OAO RITEK, a subsidiary.
3. Executive board chairman of Sberbank, which has a banking relationship with the Company.
4. Former secretary of the security council of the Russian Federation (until July 2007). Several state-controlled entities have business relationships with the Company.
5. First executive vice president.
6. President of a company that is affiliated with Lukoil.

Twelve candidates are up for election as directors to serve a one-year term each. If elected, their terms would expire at the Company's 2010 annual meeting of shareholders.

Under the Company's articles of association, the board of directors consists of 11 members and is elected by cumulative voting. The number of voting shares owned by each shareholder is multiplied by the number of persons to be elected and a shareholder may cast all resulting votes in favor of one candidate or distribute them among two or several candidates. The 11 candidates who receive the most votes will be elected.

Regarding the board table above, directors have been designated as independent by the Company pursuant to the definition of independence provided by the Corporate Governance Code issued by the Federal Securities Commission for the Securities Market. This definition emphasizes the absence of any employment or business relationships with the Company, as well as the absence of any affiliations with the Company's executive directors. As indicated in the table, we have designated non-executive directors who are not independent according to the Company as "affiliated."

In accordance with the Corporate Governance Code, we normally recommend that at least three directors be independent. We find that the composition of the board meets this threshold.

We note that Vagit Alekperov, the Company's president, beneficially owns approximately 20% of the Company's outstanding share capital; Leonid Fedun, a vice president, owns approximately 9%;

and ConocoPhillips, with whom the Company has partnered, beneficially owns approximately 20%. We suspect that most, if not all, shareholders both understand and accept the nature and the extent of these shareholders' control over the Company and the composition of its board. Based on their significant ownership stake and the cumulative voting structure in Russia, most of the candidates representing their interests will be elected without requiring support from other shareholders.

We believe that shareholders should be mindful of the following issues:

Lawsuit with Archangel Diamond Corporation

In April 2009, the Archangel Diamond Corporation ("ADC") resumed its lawsuit against the Company in the state of Colorado, seeking damages after attempting to acquire a 49.99% stake in a subsidiary of the Company, Arkhangelskgeoldobycha (AGD). AGD holds the license to the Verkhotina diamond field and its ownership of the field has been contested which was being considered by an international panel in Sweden and in Colorado, making it impossible for ADC to acquire stake in the company. The case was first brought before the Colorado court in 2005, when ADC claimed \$4.8 billion in penalties. ("ADC resuming litigation with Lukoil subsidiary over Verkhotina." *Russia Precious Metals & Gems Weekly*. April 3, 2009).

As this case is still pending, we refrain from making any final judgements based on this issue. However, we will continue to monitor this issue going forward.

Anti-Competitive Fines and Investigation

At the end of December 2008, the four large Russian oil firms were fined a record RUB 7 billion (\$228.9 million)--of which the Company paid RUB 1.5 billion (\$49.1 million)--by the Russian anti-monopoly service, FAS, for allegedly engaging in anti-competitive behavior on the oil products market. According to the complaint, the firms colluded to sell gasoline, diesel and jet fuel at artificially high prices (Anna Shirayevskaya. "Rosneft, Lukoil Hit With Record Fines On Oil Pricing." *Platts Oilgram News*. December 29, 2008). The companies have filed an appeal with the courts, which, as of the writing of this report, is still pending.

In May 2009, the four large companies were informed by the FAS that it was initiating further investigations into their market practices during the last quarter of fiscal year 2008. According to the FAS, aside from not having paid the fines, the companies continue to engage in collusive behavior to sell oil products at artificially high prices. If found guilty again, the fines could total between 1% and 15% of the companies' earnings ("Russian Firms Face New Probes." *International Oil Daily*. May 22, 2009). While this investigation is still pending, we believe that recurring probes into the Company's behavior should concern shareholders. In our view, they may be a troubling indication that the Company is unaware or has little regard for antitrust laws. We consider violations of antitrust laws to be a serious matter, as they result in severe financial penalties that can adversely impact shareholder value.

We believe the board is responsible for ensuring that the Company does not breach applicable laws, including ones that guard against anti-competitive behavior. Because the initial fine is still under appeal and the latest investigation is pending, we will not make any voting recommendations based on this issue at this time. However, we reserve the right to recommend voting against certain directors in the event the board or management are implicated in these cases.

Acquisitions/Expansion

The volatile economic environment during the past year led to a precipitous drop in the price of oil and has had an adverse effect on the Company's share price. Despite this, the Company has continued its ambitious plan to expand its interests into continental Europe and elsewhere. In early 2008, the Company acquired about 300 filling stations in the EU member countries Belgium, Belgium, the Czech Republic and Slovakia. The Company also declared its intention to increase its current market share in Slovakia and Croatia. In December 2008, the Company signed an agreement with Italian energy group ERG for a 49% stake in a joint venture to operate an oil refining complex on the island of Sicily, for which the Company spent €1.35 billion* (\$1.9 billion). Outside of Europe, the Company has joined with other Russian oil firms to develop oil fields in Venezuela ("Lukoil Embarking on a Vast Expansion Program Despite Financial Crisis." *Eurasia Daily Monitor*. December 2, 2008).

The Company was also in negotiations in 2008 for a 29% stake in Spanish oil and gas company, Repsol. The Company reportedly was prepared to offer between \$6 billion and \$13 billion for the interest, but a potential deal fell through in January 2009 when Spanish owners Sacyr Vallehermoso and banks La Caixa and Caixa Catalunya walked away from the bargaining table ("Lukoil Remains Interested in Repsol, Other Assets." *Russia and CIS Business & Financial Daily*. June 5, 2009).

Despite its seemingly bold expansion plan, the Company did also request \$2 billion in credit from Russia's Vnesheconombank during the past year to repay the Company's arrears. These debts, estimated to be \$6 billion, relate to acquisitions the Company made in 2007 (*Eurasia*). Although the Company seems willing to incur additional debt via acquisitions, there does not appear, as of now, to be any concern regarding its ability to access credit. We note that the Company has a relatively strong balance sheet; in fiscal year 2008, the Company reported cash and cash equivalents of approximately \$2.2 billion and a longterm debt-to-equity ratio of 13%. However, we will continue to monitor this issue going forward.

Board Related Issues

Following the resignation of Igor Sherkunov at this year's annual meeting, there will only be two directors on the audit committee. We believe that a committee with responsibilities as crucial as those of the audit committee should have a minimum of three members to perform its function to shareholder satisfaction. In addition, given the amount and importance of the work to be done by this committee, we do not feel the duties can be properly fulfilled by fewer than three directors. We believe it would be in shareholders' best interests for the board to appoint an additional director to the audit committee as soon as practicable following the annual meeting. We will monitor this issue going forward.

Having reviewed the nominees, we do not believe there are substantial issues for shareholder concern. However, to ensure that minority shareholders continue to have representation on the board, we recommend shareholders cumulate their votes for the independent nominees.

(For shareholders electing directors individually)

FOR: Belikov; Blazheev; Matzke; Mikhailov; Shokhin; Walette.

ABSTAIN: All other nominees

(For shareholders electing directors at a slate)

Accordingly, we recommend shareholders vote **FOR** all nominees

*€1.00 = \$1.392 (exchange rate as of December 31, 2008)

AUDIT COMMISSION

Name	Up	Age	GLC Classification
Lyubov G. Ivanova	✓	47	Insider ¹
Pavel G. Kondratiev	✓	45	Insider ²
Vladimir N. Nikitenko	✓	51	Affiliated ³

C = Chair

1. Chief accountant of a subsidiary.

2. Chief accountant of a subsidiary.

3. President of a company that is engaged in several business transactions with the Company.

Three candidates are up for election as audit commission members. If elected, their terms would expire at the Company's 2010 annual meeting of shareholders.

Glass Lewis' Analysis

The audit commission is the corporate body in charge of supervising the financial and economic activities of the Company.

We note that two of the three nominees are insiders. We consider independent candidates as better able to discharge the duties of this corporate body. However, it is customary for Russian companies to appoint employees of subsidiaries or candidates affiliated with the company or its major shareholders as audit commission members. Furthermore, under Russian law, members of the audit commission cannot be members of the board of directors or hold offices in the management of the company. We believe that this requirement protects the interests of shareholders by requiring nominees to meet a minimum level of independence.

Accordingly, we recommend that shareholders vote **FOR** all nominees.

This proposal seeks shareholder approval to keep the compensation to be paid to the current members of the Company's board and audit commission at the level set in 2008.

Under the current program, directors are compensated as follows:

- a fee of RUB 4.47 million (\$146,169) for serving as a director;
- additional fee of RUB 1.04 million (\$42,328) serving as board chairman;
- additional fees of RUB 520,000 (\$21,164) for serving as a committee chairman;
- additional fee of RUB 104,000 (\$4,233) for attendance of a committee meeting;
- additional fee of RUB 260,000 (\$10,582) for attendance of a meeting that involves a transcontinental flight; and

Under the current program, new members of the audit commission will receive RUB 2.6 million (\$105,820) each.

Finally, the proposal seeks approval to pay RUB 1,966,500 (\$64,304) to the widow of Oleg Emelyanovich Kutafin, who died on December 4, 2008 as remuneration for his performing board member functions and attendance at meetings of the board's audit committee.

Glass Lewis' Analysis

Glass Lewis believes that fees paid to the directors and audit commission members should be substantial enough to attract and retain qualified individuals. At the same time, these fees should not impose a high financial cost to the company or threaten to compromise the objectivity and independence of non-executive directors.

We believe that the proposed fees are appropriate given the time commitment involved in serving as a director of this Company.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

Proposal 5.00: Appointment of Auditor

FOR

This proposal seeks shareholder approval to ratify the appointment of KPMG as the Company's independent auditor, and to set the auditor's fees for the next fiscal year.

The fees paid to KPMG, during the last fiscal year, were not disclosed by the Company.

Glass Lewis' Analysis

We will generally support management's recommendation regarding the selection of the Company's auditor, except in cases where we believe the independence of the returning auditor or the integrity of the audit is compromised. We have found no evidence that either has been compromised.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

Proposal 6.00: Revised Regulations on Shareholders' Meeting

FOR

This proposal seeks shareholder approval of revised regulations on shareholder meetings. The following is a summary of the significant changes:

- when it is necessary to convene a special meeting to elect new members of the Board, it can be conducted within 90 days of the decision to hold the meeting, rather than 70 as before;
- in cases stipulated by Article 53.2, the list of parties entitled to participate in a Meeting will be prepared no earlier than 85 days prior to the meeting, as opposed to 65 days previously;
- in cases stipulated by Article 53.2 and 53.8, extending the earliest date on which shareholders shall be notified by the media about the meeting to 70 days from 50 before the meeting.

These changes are made to comply with the federal law *On Joint Stock Companies* and the other proposed change corrects a typographical error.

Glass Lewis' Analysis

Glass Lewis generally supports changes made to regulations that do not act contrary to shareholders' interest. In this case, we believe that most of the proposed changes will not have a negative effect on the Company's shareholders.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

This proposal seeks shareholder approval of the purchase of a corporate insurance policy from Kapital Strakhovanie for the Company's directors and officers, and the Company itself.

Under the proposal, the amount of the transaction is less than RUB 13.17 billion (\$430 million), which is two percent of the book value of the Company's assets as of December 31, 2008. The aggregate limit of the coverage for Board members and other executives and the Company itself is at least \$50 million; the insurance premium for Board members and other executives is up to \$10,000 and for the Company it is \$1.29 million.

The Federal Law on Joint Stock Companies requires that these transactions be approved by a majority of shareholders who are not interested parties.

Glass Lewis' Analysis

Glass Lewis believes that the management of businesses and the decisions associated with business operations, such as interested party transactions, are best left to management and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. We believe that board members can be held accountable on these issues when they face reelection. It is our opinion that management and the board are in the best position to determine what operational decisions are the best in the context of the business.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

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