Contents

ADDRESS BY DIRECTOR GENERAL
THE COMPANY TODAY
14 Events of 2009
GENERAL INFORMATION ON OJSC “SURGUTNEFTEGAS”
18 The Company and the oil and gas sector
26 Key risks related to the Company’s operations
30 Business priorities
KEY OPERATING AND FINANCIAL RESULTS OF OJSC “SURGUTNEFTEGAS”
OPERATING ACTIVITIES
34 Resource policy
40 Oil and gas production
46 Power generation
48 Oil refining and gas processing
52 Sales of petroleum products
55 Introduction and use of new equipment and technologies
60 Environmental safety
SOCIAL POLICY
66 Personnel development
70 Social programs
74 Charity and sponsorship
COMPANY’S STOCK MARKET PERFORMANCE
FINANCIAL (ACCOUNTING) STATEMENTS
82 Independent auditor’s report
84 Balance sheet
85 Notes to the balance sheet
87 Profit and loss account
88 Notes to the profit and loss account
BOARD OF DIRECTORS
ADDITIONAL INFORMATION
92 Report on declared dividend payments for the Company’s shares
92 Information on remuneration paid to the Company’s executive board and members of the Board of Directors
92 Information on transactions carried out by the Company during the reporting year
92 Information on individual executive body
93 Information on the Company’s compliance with the Code of Corporate Behavior
93 Information on financial (accounting) statements
93 Information on the Company’s registrar
93 Investor relation service
93 Press-service of the Company
93 Public announcements
93 Information on the Company in Internet
94 Full Company name
Dear shareholders,

Reviewing the results of 2009, I can mention with satisfaction that despite complicated outward conditions we secured not only a steady position of the Company and solution of current tasks, but also undertook several steps to effect the Surgutneftegas long-term development strategy – to create an efficient energy company with a stake on innovations and advanced technologies throughout all areas of its activity.

We performed the planned works on new oil-and-gas provinces expansion, laid the groundwork for strengthening of the resource potential, continued to develop electric power industry and implement the environmental and social programs.

In the reporting year, five years turned since the Company began Eastern Siberia exploration. For the time we have been working in the region, we have created from the ground up the full-scale manufacturing complex able to perform any kind of task on oil and gas upstream activity. Two oilfields, the Talakanskye and the Alinskoye, were put into industrial operation. In 2009, there were produced 1.8 mn tons of oil, which is threefold bigger than in the previous year. The Company meets its regional demand in electricity due to its in-house generating capacity.

In 2010, we will complete the construction of bitumen plant which will produce petroleum products for the use of the Company in the region. Today, Surgutneftegas license portfolio in Eastern Siberia includes 20 subsoil licenses to use sites of subsurface resources in the Republic of Sakha (Yakutia), Irkutskaya Oblast, Krasnoyarsky Krai, and we can see the potential for future development.

In the reporting year, two more oilfields were added – the Yuzhno-Talakanskye and Peleduyskoye alongside with three oilfields that had been discovered earlier. The Company takes an active part in socio-economic development of Yakutia. Around 8 thousand of working places were created in the region.

We also continue to explore another prospective area in Nenetsky Autonomous Okrug – Timano-Pechora, where the Company owns 10 licensed sites. In 2009, two new oilfields were discovered there. In the nearest 2 or 3 years, we plan to start oil production in this region.

Considering natural depletion of basic oilfields, we take an active part in competitive tenders and auctions for the right to use subsurface resources in order to provide long-term development potential for the Company. In 2009,
Surgutneftegas purchased 10 subsoil licenses in Khanty-Mansiysky Okrug and Yamalo-Nenetsky Autonomous Okrug and in Yakutia with more than 86 mn tons of net effective pay of C1+C2 oil reserves. In the reporting year, according to the amount of purchased reserves Surgutneftegas was well ahead of other oil companies.

In the nearest future, the examination of purchased sites will be started. Surgutneftegas is the leader of the industry in terms of exploration works and new oilfields development.

In 2009, we became the only Russian oil company that did not lower the meterage drilled. When the drilling was cut by 45.5% countrywide, we increased this rate by 8%. At the year-end, Surgutneftegas share of overall exploration drilling in Russia was 39.4%.

We develop the new oil fields extensively and carry out a large amount of work there. The Company accounts for about 68% of development drilling and over 63% of production wells brought on stream at new Russian oil fields.

In the reporting year, we successfully continued to enhance in-house power generation. We put into operation 3 gas piston power stations, second stage of Talakanskaya gas turbine power station, and thereby completed the construction of the Surgutneftegas largest gas turbine power station with the capacity of 144 mW. As of 2009 year-end, the Company operated 17 gas turbine power stations and 7 gas piston power stations with total capacity of 605 mW, which provided 28% of total Company’s power consumption. Next year, we plan to increase it up to 30%.

Power stations which run on associated petroleum gas also help us solve the problem of its efficient use. The Company was ranked top among its peers for reaching the highest associated gas utilization ratio of 96.9%.

The results of Surgutneftegas activity in 2009 show that the strategy and main priorities of the Company, the basic principles of our work proved to be efficient. The Company is able to operate successfully and to develop not only under favorable conditions but also under crisis conditions, both with low economic activity and volatile external environment. Our main competitive advantages are stable financial condition, skilled personnel and advanced technologies development.

For many years Surgutneftegas has been gradually implementing the strategy of advanced scientific areas development. In its effort to reduce costs, develop upstream and midstream technology, secure key business strategic advantages and eliminate import dependency, the Company introduces new technology equipment and promotes innovation activities.

The analysis and systematization of the world experience of innovation and science activities in oil and gas industry allows the Company to increase production efficiency even in the context of constant complication and appreciation of production technologies associated with hard-to-recover reserves. Alongside with the adjustment of the world technologies to Eastern and Western Siberia oil production conditions, Surgutneftegas develops and implements its own technologies.

The Company uses around 40 different formation stimulation methods on the basis of unified oilfield development technological projects, which implement advanced technologies. In the reporting year, 58% of the Company’s total oil production was produced due to combined use of different enhanced oil recovery technologies.

3D geological hydrodynamic modeling is used to carry out geological exploration and field development projects, select the most efficient technologies and to plan interventions. These models make it possible to include the most efficient technologies as early as developing project documentation, planning of field development and cutting edge stimulation methods for hard-to-recover reserves use.

Another top priority area of advanced technologies implementation is environmental safety. The Company has at its disposal all necessary equipment for efficient environment monitoring, waste products neutralization, prevention and management of accidents. In its activity
Surgutneftegas is committed to highest environmental standards which allow it to ensure reliable and environmentally safe production facilities operation. Annually, the Company spends RUB 20 bn on environmental security.

In 2009, we continued to upgrade the Company’s oil refinery plant which has the largest refinery output in Russia. The completion of deep oil conversion plant, which will allow increasing the processing depth and improving the product quality, is one of the main plant development targets.

Marketing units of the Company are striving to meet the consumers’ requirements. They update and reconstruct gas filling stations, improve the quality of goods and services provided. In the year under review, the Company reconstructed 12 gas filling stations, acquired and built 6 new stations.

In 2009, financial performance of Surgutneftegas has been influenced by demand decline and price reduction on oil and oil products caused by world economic crisis. Net income of the Company amounted to RUB 114 bn, which is by 21% lower compared to the last year. The Board of Directors adopted a resolution to recommend to the General Shareholders’ Meeting to pay dividends of RUB 1.0488 per preferred share and RUB 0.45 per ordinary share. In the reporting year, the total amount of dividend payout was RUB 24.2 bn, or 21% of the Company’s net income.

Financial performance of the Company could have been worse considering the economic environment in which it had to operate in 2009. Due to timely changes in tax legislation, the Government gave support to oil companies, which enabled them to allocate released funds to capital investments. In the reporting year, Surgutneftegas increased capital investment by 19% up to RUB 124.5 bn.

For our part, we also worked on financial performance improvement including the efficiency enhancement and costs control.

The Company personnel plays the important part in this process, and we consider it the key factor of Surgutneftegas successful development. Every year the Company carries out a set of actions focused on training and professional development, re-training and skill improvement of the employees, staff social protection. The employees as well take part in rationalization and inventive activities, which enable us to arrive at efficient solutions for broad spectrum of production and technological problems, and boost the innovation potential of the Company. Annually more than 3 thousand people make their suggestions, and most of them are implemented in the production process and bring sufficient economic benefit.

In 2009, within the framework of social programs for the employees, the collective agreement in force was extended to 2010–2012, and it provides the maintenance of achieved level of social benefits and security.

In conclusion, I would like to say that in spite of adverse external conditions 2009 became a successful year for Surgutneftegas. 2010 requires fresh efforts and launches new challenges, but the Company’s strategic position allows us to demonstrate steady results and contribute to welfare gain of the Country, shareholders and employees.

Director General
of OJSC “Surgutneftegas”
Vladimir L. Bogdanov
The Company today
The Company's core operations include:

- exploration and production of hydrocarbons: prospecting, exploration and development of oil and gas fields.
- oil products and petrochemicals manufacturing and marketing: crude refining, oil products and petrochemicals manufacturing, wholesale and retail sale of fuel and related products and services.
- gas processing and power generation: associated petroleum gas processing, sale of commercial gas and liquid hydrocarbons, construction and operation of gas turbine power plants fueled by associated gas.

As a vertically integrated oil company, Surgutneftegas dramatically expanded its production capacity and increased its assets which translated in strong market position.

From 1994 to 2009:

- oil output grew by 74% with 35 new oil fields put onstream;
- gas production grew by 68% with the Company’s gas processing complex established with capacity of 7.2 bcm of gas per year;
- oil refining grew by 76% with production of new types of refined products and petrochemicals launched;
- prospecting works increased fourfold with 37 new fields and 123 oil and gas deposits discovered;
- gas turbine and gas piston power plants construction contributed to the success of small-scale power generation program. At present, Surgutneftegases ranks first among oil companies in terms of power generation in Western and Eastern Siberia;
- the Republic of Sakha (Yakutia) witnessed creation of an impressive oil and gas production industrial complex which allowed launching a commercial oil production in a new oil and gas province.

The Company expanded its business far beyond Khanty-Mansiysky Autonomous Okrug, its traditional region of operation, and today is present in three oil and gas bearing provinces of Russia including Timano-Pechora, Western and Eastern Siberia. The Company is operating in 16 constituent territories of the Russian Federation from the Republic of Sakha (Yakutia) to Kaliningradskaya Oblast.
Today Surgutneftegas is one of the oil companies leading the sector in terms of:
- exploration and development drilling;
- utilization of associated petroleum gas;
- electricity generation by in-house power plants;
- scope of work at new fields;
- and ranks fourth in terms of domestic oil output.

To gain a competitive edge the Company sets its sights on applying the state-of-the-art science-intensive technologies, developing its innovation potential and is focused on higher efficiency across all spheres of business.

In-house scientific and research center with up-to-date laboratory equipment, hardware and software allows the Company to get advanced world class technologies with higher price/performance ratio taken into account. High scientific and technical potential and wide experience of scientists and experts from the Company’s scientific centers contributes to viable solution to complex scientific and engineering problems in comprehensive development of oil fields with variety of mining and geological conditions.

With the absence of efficient competitive service market, the Company counts on developing its own service segment. Today, service units of the Company assist in increasing performance of production process through applying advance equipment and technologies.

With sustainable development high on its agenda, the Company is trying to balance out production targets and environmental safety. The Company meets its strategic challenge of continuous and systematic mitigation of negative impact on the environment through active application of environment-friendly and resource-saving technologies. For a number of years Surgutneftegas has been leading the sector in terms of innovative ecological programs development and implementation.

To increase output with high added value Surgutneftegas invests heavily in upgrade of refining facilities. The Company carries out a long-term program of development and modernization of processing facilities at its refinery aimed at
higher efficiency of oil refining, better quality and ecological compatibility of refined products. Some items produced by the refinery have no parallel in Russia.

The Company’s marketing units enjoy strong presence at the fuel market in the North-West of Russia, successfully develop complex of services and expand marketing outlets. The Company’s subsidiaries systematically supply oil products to the orders of Ministry of Defense of RF, Ministry of Internal Affairs of RF and Ministry of Emergencies.

The Company implements a number of social programs developed to engage promising employees, advance professional skills, improve qualification, create optimum social and living conditions and offer social guarantees to the work collective. From year to year Surgutneftegas invests in human capital assets.

Surgutneftegas defines its tasks and objectives in line with development potential of the regions of the Company’s operations. The Company creates new jobs, promotes higher living conditions, and actively participates in social and economic development of the regions, render financial support to regional social, educational and cultural programs.
Eastern Siberia: fave years gone

Quite symbolically that the Surgut oilmen first set foot on Vitim land just 40 years after the first team of oilmen landed in Surgut in March 1964 to start the development of the West Siberian oil and gas-bearing region. They arrived to give life to a new oil and gas-bearing area – the East Siberian province. And as though the time was turned back they met the same impassability, lack of communication, power supply, and housing, same seasonal oil production, and as it was 40 years ago in Western Siberia, they had to transport oil by river.

The Talakanskoye oil-gas condensate field was the first East Siberian field to be developed by the Company.

As many as 100 kilometers of wild taiga forest stretched between the field and the village of Vitim where the nearest river port is located. The new region, different climatic, mining and geological conditions, complex reservoir structures, and complete lack of infrastructure, – all that triggered the search of optimal methods and techniques for road construction, power supply, field development, as well as engineering and environmental approaches to the major project implementation.

The first facility constructed in Vitim was the equipment and machinery base. And since that time the Company started to deliver cargoes, – almost 700 wagons were delivered from Surgut to Ust’-Kut and then shipped on barges to be further ferried to Vitim by the Lena River until the shipping season ended.

Construction and automotive equipment, portacabins, dining cars, diesel power plants and modular buildings, pipelines and oil tanks, lubricants and construction materials – all that and much more required further allocation, storage and preparation for operation.

Meanwhile, the Company launched the broad-scale exploration works, including 2D and 3D seismic operations, and started to drill exploration wells within three license areas: Peleduysky, Kedrov, Khoronokhsy, the licenses for which the Company purchased together with the license for the Talakanskoye field.

Drilling rigs deployed in Western Siberia were moved to Yakutia to carry out exploration works.

Surgutneftegas also observed its key operation strategy here, i.e. priority construction of transportation and field infrastructure, and support bases, which allows the Company to substantially accelerate field development.

Despite all the difficulties within just a few months the Company managed to construct a road connecting Vitim to the Talakanskoye field, drill 4 wells with horizontal wellbores, and operate as many as 33 wells by the year-end. Being a good corporate citizen, the Company financed the construction of Yakutia State Agricultural Academy, and significantly contributed to flood recovery efforts in Vitim.

Assuming full responsibility for any operation effects on pristine environment, since the first days of
operation in the Republic of Sakha (Yakutia) we gave special attention to environmental safety issues.

The Company carried out an overall environmental investigation, as well as baseline assessment survey of the license areas in Yakutia.

To avoid any field engineering and development inaccuracies, and scrupulously observe area specific features, Surgutneftegas invited local scientific and social environmental organizations to prepare the environment impact assessment (EIS).

On December 08, 2004 the city of Lensk hosted the visiting session of the Government of the Republic of Sakha (Yakutia), which resolved to take a series of measures to expedite the commercial operation of the Talakanskoye field, incrementally increase hydrocarbon resources, and introduce oil production and transportation facilities. The session culminated in the signing of cooperation agreements between the Government and OJSC “Surgutneftegas” for social and economic development of the Republic of Sakha (Yakutia), and between Municipality Unit “Lensky District” and OJSC “Surgutneftegas” for social and economic development of Municipality Unit “Lensky District”.

Thus the first year ended.

Over time the Company expanded its scope of operations in Eastern Siberia. The Talakanskoye field turned into the vast jobsite where the Company was constructing well clusters, intra-field roads, and oil treatment facilities outfitted with three-phase separators, the custody transfer meter, as well as social facilities and amenities.

As the area lacked any power generating capacities, the Company engineered and launched its own power supply project. In 2007, we commissioned the first gas piston power plant with a capacity of 12.7 mW.

As the river remains the key traffic artery in Vitim, the Company constructed and commissioned the loading berth able to moor two barges and handle up to 3,000 tons of cargoes per day.

In 2007, we opened the personnel training school, a branch of the Polytechnic Training Center in Eastern Siberia with its own training facilities.

By the beginning of 2008, at the Talakanskoye field and the Company’s license areas in Eastern Siberia we operated over 1,000 units of equipment and 18 drilling rigs, constructed 31 exploration wells, equipped 48 operating wells (with 70 wells equipped by the end of 2008), and laid the field pipeline.

Surgutneftegas discovered 3 new fields which proved the presence of commercial hydrocarbon reserves in Eastern Siberia.
The Company built the production infrastructure required for commercial oil production, and, in fact, established a foothold for development of oil and gas production in the newly introduced oil-and-gas province.

The Company’s expansion into the region gave a new impetus to progress in local industries, forest industry, building industry, agricultural industries, and almost revived and brought dynamic development to transport business, as well as considerably increased the level of river fleet capacity utilization.

Surgutneftegas commissioned sites for solid industrial and household waste treatment with a capacity of 182,000 tons, and sewage treatment facilities. The Company purchased oil sludge and oil-contaminated soil disposal plant in Canada.

In the year of 2008, which crowned the Company’s first “five rush years” in Eastern Siberia, the Talakanskoye field was fully prepared to start commercial production.

The Company launched the start-up complex of the gas turbine power plant designed to supply energy to Surgutneftegas facilities, and Transneft pump stations. We prepared for commercial production our central gathering station, custody transfer and delivery and acceptance station.

Along with that, to sustain further development of road construction, the Company put into operation the coating plant, and started to lay new coating on the way from Vitim to Talakan. The construction of social facilities and amenities was also under way.

OJSC “Surgutneftegas” together with the Government of the Republic of Sakha (Yakutia) on a parity basis started the construction of a 700-seat school and a 240-seat kindergarten in the village of Vitim.

On October 04, 2008, the Company launched a 1,100 km section “Talakan – Ust’-Kut – Taishet” of the East Siberia – Pacific Ocean (ESPO) pipeline in a reverse mode. In fact, this event marked the birth of a new East Siberian oil-and-gas province.
Events of 2009

JANUARY

Oil from the Company’s Talakanskoye field reaches Taishet, “zero point” of “Eastern Siberia – Pacific Ocean” pipeline.

The Company produces the first one million tons of oil at the Rogozhnikovskoye field.

FEBRUARY

Vladimir Putin, Chairman of the Government of RF, holds a meeting in the city of Kirishi at the Company’s refinery devoted to development of oil producing and oil refining sectors.

X All-Russian Conference on geomatics is held in Surgut by Surgutneftegas and GIS Association under support of Ministry of Natural Resources and Ecology of RF, Ministry of Economic Development, Rosnedvizhimost and Roskartografiya.

MARCH

Surgutneftegas buys 21.2% interest in Magyar Olaj-es Garipari Nyilvanosan Mukodo Reszventarsasag (MOL). MOL is one of the leading vertically integrated oil-and-gas companies in Europe engaged in exploration, production, refining and transportation of hydrocarbons with three refineries and over 1,000 fuel stations in operation.

APRIL

Based on the results of IX Young Professionals Conference for subsoil users in Khanty-Mansiysky Autonomous Okrug – Yugra, representatives from Surgutneftegas are awarded with seven prizes.

Territorial agency of subsoil use of Tyumenskaya Oblast “Tyumennedra” declares Surgutneftegas to be the most responsible and law-abiding subsoil user.

MAY

The Company acquires license for subsoil use in Vostochno-Talakansky area in the Republic of Sakha (Yakutia).
Surgutneftegas puts Alinskoye, second oil and gas field, in commercial operation in the Republic of Sakha (Yakutia).

Oil pipeline “Eastern Siberia – Pacific Ocean” is supplied with one million tons of oil since its start up.

Oil sludge disposal unit is commissioned at the Lukyavinskoye field.

Surgutneftegas wins International Vitus Bering Prize in the nomination “The Best Industrial Company of 2008”.

Oil sludge disposal unit is commissioned at the Talakanskoye field.

The final stage of corporate contest “The Best Professional” is attended by 900 employees representing 47 structural units of Surgutneftegas.

Gas-piston power plant with capacity of 2.74 mW is commissioned at the Severo-Saliyarovskoye field.

The Company’s human resources division wins V All-Russian Contest “The Best Russian HR Service of 2009”.

The Company discovers the Ozernoye-1 and Yuzhno-Lyaminskoye fields in Khanty-Mansiysky Autonomous Okrug – Yugra.

The second phase of gas turbine power plant is commissioned at the Talakanskoye field in the Republic of Sakha (Yakutia). Total capacity of GTTP, the biggest power plant of the Company, is 144 mW.

Gas-piston power plants with capacity of 6.16 mW each are commissioned at the Yaun-Lorskoye and Vatlorskoye fields.

Oil sludge disposal unit is commissioned at the Rogozhnikovskoye field. First team out of 56 drilling crews hits the meterage record of 100 thousand meters drilled.
686 Surgutneftegas employees are honored with corporate and industry awards on the eve of professional holiday “Day of Oil and Gas Industry Workers”.

The Company discovers the Zapadno-Saratayuskoye field in Nenetsky Autonomous Okrug.

OCTOBER

The Company acquires license for subsoil use in Chanatoysky area in Khanty-Mansiysky Autonomous Okrug – Yugra.

The Company discovers the Samayuskoye and the Vostochno-Rogozhnikovskoye fields in Nenetsky Autonomous Okrug and in Khanty-Mansiysky Autonomous Okrug, respectively.

NOVEMBER


The company discovers the Yuzhno-Talakanskoye field in the Republic of Sakha (Yakutia), Vysotnoye and Vostochno-Lyaminskoye fields in Khanty-Mansiysky Autonomous Okrug – Yugra.

The resolution to renew Surgutneftegas collective agreement from January 01, 2010 to December 31, 2012 is signed.

DECEMBER


The Company discovers the Peleduyskoye gas condensate field in the Republic of Sakha (Yakutia).

Solemn ceremony of naming modern high-tech heavy-tonnage oil tanker “SKF Surgut” is held. The tanker is named after one of the oldest Siberian towns being the center of the biggest oil province also known as non-official oil capital of Russia.

By the year end, the number of drilling crews hitting the meterage record of 100 thousand meters reaches 23.
General information on OJSC "Surgutneftegas"
THE SECTOR DEVELOPMENT
TRENDS IN THE REPORTING YEAR

The global financial crisis followed by economic recession significantly influenced oil and gas industry trends in Russia and around the world. The reporting year was marked by lower oil production and consumption, reduced capital investments in oil and gas exploration and production by some countries and international oil companies, as well as by hydrocarbon prices recovery following the landslide in the end of 2008.

The year of 2009 witnessed the decline in the global gross domestic product (GDP), manufacturing, and world trade accompanied by higher unemployment. The above circumstances affected the global oil consumption: in the end of the reporting year the global oil consumption decreased by 1.5% to 85 mn bbl/day demonstrating the most substantial cut in demand since 1982. The global consumption downtrend continued during the last two years.

The main crude consumers including USA, Europe and Japan cut their consumption by 2 mn bbl/day at year-end. In 2009, USA, the world’s leading energy consumer, decreased its oil consumption by 3.7% to 18.8 mn bbl/day, the lowest rate in recent years. The most drastic cut in oil demand was demonstrated by Japan and Europe – by 8.8% and 5.4%, respectively.

Even more dramatic decline in global demand was avoided due to higher consumption in India, China, Brazil and Middle East. Against the global recession, China boasted the world’s highest GDP growth rate – by 8.7%, which triggered growth in consumption by 7.8%. In 2009, China
started resource expansion, and Chinese companies strengthened their presence in the global energy market by purchasing assets cheapened during recession all around the world, including Russia, Iraq, Great Britain, Kazakhstan, Uzbekistan, Singapore, Africa and South America.

Passing through the critical phase of the global recession pushed oil prices up for the rest of 2009. Thus, during the year Brent oil price more than doubled – from 36.5 $/bbl at 2008 year-end to 77.7 $/bbl at 2009 year-end. At the same time the average oil prices significantly dropped as compared with the previous year: the average Brent oil price amounted to 61.5 $/bbl, down by 36.6% against 2008, the average Urals oil price amounted to 61 $/bbl, down by 35.5%.

The existing macroeconomic situation caused the major drop in the world oil production in the recent decade – by 3.1% to 3.5 bn tons. The most remarkable decline in oil production was demonstrated by Mexico, Canada, in the North Sea, and OPEC countries, which due to the existing world hydrocarbon prices had to decrease allowable production rates. At 2009 year-end the cartel producing over 40% of world oil reduced their production rate by 8.4% to 1.465 bn tons.

Alternatively, non-OPEC countries increased their production by 20.4 mn tons with USA, Brazil and CIS countries dominating. Russia reached its peak production rate since the USSR collapse.
The reporting year indicated a 19% drop in hydrocarbon exploration and production capex. At 2009 year-end, despite the reduced exploration investments the world proven oil reserves grew by 0.9% to over 200 bn tons.

Showing a 1.4% drop in resources compared to 2008, Saudi Arabia still remained a leader in the world’s proven oil reserves. As in 2008, Russia ranked second with proven oil reserves amounting to 24.2 bn tons at the reporting year-end. It should be noted that the top 10 countries with largest proven oil reserves reduced their volume by 0.4 bn tons with their aggregate share in global resources being down by 0.9% to 84.6% in 2009. The global increment was gained by the countries outside the top 10, primarily by Qatar, China and Ecuador with resource growth of 2.1 bn tons.

In 2009, the world’s proven incremental gas reserves accounted for 5.7%, amounting to 187.2 trillion cubic meters at the year-end. Almost half of 2009 incremental reserves (4.8 trillion cubic meters) belong to Turkmenistan, which proved the potential reserves of the giant oil and gas field, Yuzhny Iolatan. As a result, the country not only entered the top 10 countries with largest proven gas reserves, but also ranked forth with USA and Saudi Arabia left behind. As in the previous year, Russia leads the world with 47.8 trillion cubic meters of proven gas reserves.

Gas industry suffered even more dramatic cut in demand than oil industry together with deteriorating selling price terms. Against worsening recession and lower demand, the global gas production fell by 8% (up to 2.8 trillion cubic meters) in the reporting year, with Russia accounting for almost 30% of decline.

In the year under review, oil and gas condensate production in Russia grew by 1.2% to 494.2 mn tons.

<table>
<thead>
<tr>
<th>IDLE WELLS IN TOTAL WELL STOCK OF OIL COMPANIES IN 2009</th>
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<tbody>
<tr>
<td>TNK-BP</td>
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<td>Rosneft</td>
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<tr>
<td>LUKOIL</td>
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<tr>
<td>RussNeft</td>
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<tr>
<td>Tatneft</td>
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<tr>
<td>Gazprom neft</td>
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<tr>
<td>Slavneft</td>
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<tr>
<td>Bashneft</td>
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<tr>
<td>Surgutneftegas</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>29</td>
</tr>
<tr>
<td>21</td>
</tr>
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<td>15</td>
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<td>12</td>
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<tr>
<td>12</td>
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<tr>
<td>7</td>
</tr>
<tr>
<td>Sector average – 16 %</td>
</tr>
</tbody>
</table>

The graph above shows the percentage of idle wells in the total well stock of oil companies in 2009.
Following more than one year of decreasing oil production, an upward trend was reestablished, and since March 2009 we could observe a monthly increase approaching the results of the same period in 2008.

Oil production growth in 2009 was primarily caused by the following:
- the launch of several major projects including those in new areas of operation such as the Vankorskoye and Yuzhno-Khylchuyuskoye fields, as well as further development of earlier commissioned fields such as the Uvatskoye, Kamennoye, Verkhnechonskoye and Talakanskoye fields;
- the completion of oil pipeline infrastructure, and the start of the year-round production at Sakhalin II in December 2008;
- the continuing production growth by independent companies;
- lightened tax burden due to introduced tax benefits and differentiated mineral extraction tax.

The acknowledged oil and gas areas such as Western Siberia, Ural and Volga region are the key Russian oil producers accounting for over 80%. However the natural depletion of the key fields observed for the last few years resulted in gradual reduction of oil produced in these regions.

Vertically integrated oil companies (VIOC) are the major players in the industry, however, independent producers also strengthened their positions: in 2009, their share in the national oil production increased from 10.5% to 11.3%.

The reporting year was also marked by further development of transport infrastructure. On December 28, 2009, the first phase of the Eastern Siberia – Pacific Ocean oil pipeline (ESPO) was launched, which started to run from Taishet to Skovorodino, and the first oil was shipped ex Kozmino, the specialized marine oil port.

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**UTILIZATION OF ASSOCIATED OIL GAS IN 2009**

<table>
<thead>
<tr>
<th>Company</th>
<th>Utilization (%)</th>
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<tbody>
<tr>
<td>Gazprom neft</td>
<td>49</td>
</tr>
<tr>
<td>RussNeft</td>
<td>67</td>
</tr>
<tr>
<td>Rosneft</td>
<td>67</td>
</tr>
<tr>
<td>LUKOIL</td>
<td>71</td>
</tr>
<tr>
<td>Sibur</td>
<td>72</td>
</tr>
<tr>
<td>Bashneft</td>
<td>84</td>
</tr>
<tr>
<td>TNK-BP</td>
<td>84</td>
</tr>
<tr>
<td>Tatneft</td>
<td>91</td>
</tr>
<tr>
<td>Surgutneftegaz</td>
<td>97</td>
</tr>
</tbody>
</table>

Sector average – 77 %
In June 2009, the construction of the Baltic Pipeline System II running from Unecha to Ust'-Luga was launched with a capacity of up to 50 mn tons per year. Other milestones included continued negotiations on implementation of the Burgas-Alexandroupolis pipeline project, and approved resolution and required documents for enhancing the capacities of the Caspian Pipeline Consortium system (CPC) from 33 mn tons to 67 mn tons per year.

Hence, one of the main objectives of the Russian energy policy includes the creation of the diversified hydrocarbons transportation system.

As part of 2009 disturbing trend, the oil production sector experienced lower corporate investment activity, reduced exploration expenditures, and rescheduling of fields commissioning and other projects.

At year-end the total drilling reduced by 5.8%, including production drilling – by 3.5%, and exploration drilling – by 45.5%. Exploration and production drilling volumes reached 0.5 mn meters and 14.1 mn meters, correspondingly. As a result, new oil wells put onstream decreased by 6.5% in the reporting year, with production well stock amounting to 158.8 thousand oil wells.

The year of 2009 demonstrated the gradual increase of water injection to maintain reservoir pressure resulting from higher fields depletion rate.

Higher oil output and incremental oil prices provided for increase in Russian oil export which reached 246 mn tons at year-end. Meanwhile, oil exported to non-CIS countries grew by 4%, and to CIS countries slightly declined.
In 2009, Russian refineries processed 235.7 mn tons of oil, which was slightly less than in 2008. In the reporting year, oil refining rate slightly decreased against 2008 from 48.4 to 47.7% of total oil output.

In the reporting year, oil products output remained the same as in the previous year. Meanwhile, mogas and mazut output rose by 0.5% and 0.8% correspondingly, whereas diesel fuel production fell by 2.2%.

Refineries enhanced the quality of produced fuel. During the last five years, high-octane gasoline output grew by 26.4%, and in 2009 accounted to 82.5% of the total gasoline produced. During the same period, low-sulfur diesel fuel output with sulfur content of less than 0.05% increased from 15.6% to 34% of the total diesel fuel produced.

Less effective domestic demand resulted in higher export of oil products (4.5% increase) coupled by lower domestic consumption. Mazut still accounted for one of the highest export ratios.

In the reporting year, diesel fuel and fuel oil supplied by refineries to the domestic market shrank by 9.7% and 20%, respectively. Gasoline supplies slightly rose by 0.2% to 31.2 mn tons. Declining diesel fuel consumption was primarily due to reduced cargo and passenger traffic. Lower mazut demand was caused mainly by abnormally warm winter and spring weather conditions in 2009.

At 2009 year-end, gas production in Russia went down by 12.4% to 582.4 bcm. Gas produced by vertically integrated oil companies reduced by 2.2% with their total gas production share increasing from 8.6% to 9.6%.

Lower gas production rates as compared to 2008 were provoked by
cuts in domestic and mainly external demand, as well as by high gas prices in the first half of 2009, and as a result Russia experienced gas shortfalls under the intergovernmental agreements.

The year of 2009 was also marked by the commissioning of the first in Russia liquefied natural gas (LNG) plant, which, in fact, gave rise to the new industry with its own market and economic laws.

On the whole, in the reporting year the Russian oil and gas industry faced the following development trends:

- launch of the full-scale development of Eastern Siberia;
- lower exploration and production drilling;
- lower gas production;
- weakening investment activity;
- dynamic development of transport infrastructure;
- early development of the LNG market.
THE COMPANY AMONG ITS PEERS

Surgutneftegas is among the leaders of the Russian oil and gas industry. The Company accounts for 12.1% of oil output and about 24.4% of gas produced by Russian vertically integrated oil companies.

In 2009, the Company produced over 59.6 mn tons including about 1.8 mn tons produced in Eastern Siberia which saw almost a threefold increase in oil output in the reporting year.

With 13.6 bcm of gas produced by Surgutneftegas, we head the list of Russian vertically integrated oil companies. The Company ranks first in terms of associated petroleum gas utilization. In the year under review, we utilized 96.9% of gas against 95.4% utilized last year.

With its 8% growth in meterage against 2008, Surgutneftegas was the only Russian vertically integrated company to increase the number of meters drilled against the backdrop of sharp decline in exploratory drilling witnessed in Russia in the reporting year. Surgutneftegas is leading the sector in exploratory drilling. The Company accounts for 39.4% of all exploratory meters drilled in Russia.

Surgutneftegas heads the list in terms of development drilling. In the year under review, meterage grew by 17% to 3.7 mn meters which puts Surgutneftegas ahead of other companies in the industry. We account for 26% of total development drilling in Russia.

Substantial drilling operations enable the Company to lead the sector in terms of new oil wells put onstream. The Company increased the number of new wells put on stream by over 16% to account for over 21.6% of all oil wells commissioned in Russia in 2009.

As in previous years, the Company maintains the lowest level of idle well stock which decreased in 2009 from 7.5% to 6.7% against overall growth of 2.8% witnessed in Russia.

Surgutneftegas is leading the sector in developing new fields (with field life less than five years). The year under review saw 67.7% of development drilling and 63.4% of producing wells put onstream by the Company at new fields in Russia. In this terms, Surgutneftegas ranks first among other Russian oil companies.

In 2009, Surgutneftegas slightly cut its crude processing to 20.4 mn tons. The Company accounts for 8.7% of total crude processing in Russia. The Company’s refinery KINEF Ltd. heads the list in terms of primary oil processing. The quality of refined products contributes to the competitive edge of the Company in the domestic and global markets.

Surgutneftegas marketing units enjoy over 300 fuel stations and hold strong positions at oil products market in the North-West of Russia. In the reporting year fuel sales amounted to 1 mn tons.
Key risks related to the Company’s operations

The Russian hydrocarbon prices are subject to:
- the global hydrocarbon price environment
- taxation and export regulations
- development of transport infrastructure.

At end of 2009, the global economic recession and its consequences increased the risk of crude oil and petroleum product prices dropping at domestic and international markets, which may reduce oil producers’ profits. Although factors which determine energy prices are beyond the Company’s control, the Company is in a position to redirect commodity flows, reassess its investment projects, and reduce costs if the price trends change.

The Company is competing with other oil companies to obtain field development and production licenses, acquire assets, and gain access to the pipeline system, product markets, and refining capacities.

As a major player in the oil and gas industry, the Company incurs exploration risks related to uncertainty and probabilistic
assessments of quantitative and qualitative characteristics of oil reserves, reservoir structure and properties, and production potential. Field development, oil and gas transportation and processing are complex production processes fraught with technological and environmental risks. The Company minimizes these risks by strictly adhering to industry requirements and standards, applying modern research methods, and introducing new technology and equipment at all stages of the production process.

The Company uses different types of services, stock and raw materials purchased at domestic and global markets. Any increase in prices for purchased products pushes up the Company’s operational costs. To mitigate these risks, Surgutneftegas holds tenders for equipment procurement, concludes direct contracts with manufacturers and long-term contracts with suppliers, cooperates with domestic plants producing similar equipment, and implements in-house production.

The major part of the Company’s operational costs is delivery and transportation of crude oil and petroleum products and power supply. Any increase in prices set by natural monopolies has a considerable impact on the Company’s financial performance. The tariff rates are determined by relevant government authorities; therefore, the pricing policy is beyond the Company’s control.

COUNTRY AND REGIONAL RISKS

The Company does its business and is registered as a taxpayer in the Russian Federation; therefore, the Company’s country risks are political, economic, and social risks existing in Russia.

Political risks in Russia are linked to the foreign and domestic policy of the country and the government’s impact on the sector including subsoil licenses, energy strategy, tariff formation, asset nationalization, or economic liberalization.

Russia where oil and gas producers account for the bulk of budget revenues remains highly dependent on global crude prices, and therefore exposed to economic risks. If hydrocarbon prices continue to slump over a long period of time, it may have a negative effect on the country’s financial system, its balance of payments, and key macroeconomic indicators.

The global recession battered the Russian economy in 2009 bringing GDP and industrial production down by 7.9% and 10.8%, respectively, and raising unemployment levels.

Surgutneftegas operates in Western and Eastern Siberia, the central and northwestern parts of the country. Although these territories are not prone to earthquakes or natural disasters, the Company’s oil production operations are concentrated in harsh climate areas, which may affect operational performance.
Some areas where the Company operates experience labor shortages, which is particularly true for highly skilled workers and industry specific jobs in new oil and gas provinces. To minimize this risk, the Company carries out an action plan for professional development and training and cooperates with the leading educational establishments in Russia.

Political risks in the regions of the Company's operations are shaped by possible changes in the regional legislation and tariff formation.

The regions where the Company does business are socially and politically stable. Probability of war conflicts, strikes, or a state of emergency is very low. However, regional risks are aggravated by the deterioration of regional economies due to shrinking budget revenues and higher unemployment rates.

**FINANCIAL RISKS**

Surgutneftegas is engaged in foreign economic activity by selling crude oil and refined products to CIS and non-CIS countries. The Company earns a significant part of its income from exports denominated in foreign currency. Therefore, any fluctuations in the exchange rate of the ruble to main settlement currencies directly influence the Company's financial results.

A stronger US dollar in relation to the Russian ruble helps drive up not only products export revenues but also the cost of materials, supplies, machinery and equipment imported to Russia. The Company purchases field development and production equipment which is not manufactured at the domestic oil and gas equipment market. The cost of such equipment depends on fluctuations in the currency rate and customs duties.

Inflation produces a negative effect on the Company’s operations as it puts upward pressure on prices for materials, supplies, components, and equipment and raising the Company’s costs. The inflation rate in Russia was at 8.8% at the end of the reporting year. Surgutneftegas mitigates this risk by developing its own auxiliary production, diversifying procurements, and establishing long term relations with its contractors.

Surgutneftegas does not have any heavy debts, which minimizes interest rate risks. At the same time, the Company deposits most of its free cash, and therefore any changes in interest rates lead to changes in the rate of return. The deposit interest rate risk is mitigated by investment portfolio diversification.

The Company does not hedge financial risks but takes into account their impact on operating and financial activities when developing investment projects, financial plans, and budgets.

The Company’s conservative investment portfolio allows it to keep general investment risks to a minimum while increasing and accumulating capital funds.

**LEGAL RISKS**

The Company's major legal risks include changes in the following:

- tax law
- customs law
- currency regulation
- forestry legislation
- land legislation
- subsoil management legislation and conditions
- licensing codes and standards
- environmental norms and rules.
Any changes in regulation of the Company’s activities and existing standards and rules may lead to extra costs to bring the current business principles, practices and accounting systems of the Company in line with new requirements.

In the context of economic volatility due to the global financial crisis, there is an increased risk of changes in legislation in response to volatile external factors and efforts to reduce an adverse impact on the domestic economy.

The Company is exposed to the risk of increasingly stringent competition law. Limitation of the share of oil producers at regional petroleum products markets and stricter price control at the products market may affect the Company’s profits, limit the Company’s possibilities to expand its sales network in the regions where the Company dominates.

Financial performance of the Company is also considerably affected by changes in the tax law and customs and licensing regulations.

In the course of its operations, Surgutneftegas strictly complies with the requirements of the applicable law, fulfills its obligations to partners, and seeks to minimize legal risks.
SURGUTNEFTegas STRIVES TO STRENGTHEN ITS LEADERSHIP IN THE RUSSIAN OIL AND GAS INDUSTRY AND EVOLVE INTO A GLOBAL ENERGY COMPANY. TO ACHIEVE THIS GOAL, THE COMPANY IS COMMITTED TO THE FOLLOWING PRIORITY AREAS OF DEVELOPMENT.

**OIL AND GAS PRODUCTION:**
- to replace mineral reserves through extensive exploration and acquisitions of new prospective areas to provide a basis for future operational stability
- to apply innovative solutions and advanced technology and equipment in field development and production to enhance efficiency of oil and gas exploration and production
- to maintain the potential of the traditional area of operations (Western Siberia) and develop new regions such as Eastern Siberia and Timano-Pechora
- to develop the gas sector and gas fields for natural gas production, gathering and maximum utilization of associated petroleum gas (APG)
- to minimize environmental impact
- to control costs.

**OIL REFINING / GAS PROCESSING:**
- to expand refining capacity to balance crude oil output
- to produce high-quality products in line with international standards
- to increase oil conversion ratio via upgrading and revamping production capacity
- to launch a wider range of products.
ENERGY SECTOR:
- to develop small-scale power generation by expanding in-house generation capacity for energy security of our production and to address a variety of challenges related to facilities construction at new fields and environmental safety of production.

MARKETING:
- to diversify product supplies by entering new markets and developing Russian transportation infrastructure
- to expand the petroleum products market through construction and modernization of gas stations network
- to increase sales of associated goods and services.
**Key operating and financial results of OJSC “Surgutneftegas”**

**CONSOLIDATED OPERATING RESULTS**

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil production</td>
<td>mn tons</td>
<td>59.6</td>
</tr>
<tr>
<td>Gas production</td>
<td>bcm</td>
<td>13.6</td>
</tr>
<tr>
<td>Primary hydrocarbon processing</td>
<td>mn tons</td>
<td>20.4</td>
</tr>
<tr>
<td>Output of main types of refined products:</td>
<td>mn tons</td>
<td>19.5</td>
</tr>
<tr>
<td>– motor petrol</td>
<td></td>
<td>2.4</td>
</tr>
<tr>
<td>– diesel fuel</td>
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<td>5.0</td>
</tr>
<tr>
<td>– jet kero</td>
<td></td>
<td>0.7</td>
</tr>
<tr>
<td>– mazut</td>
<td></td>
<td>10.3</td>
</tr>
<tr>
<td>– other</td>
<td></td>
<td>1.1</td>
</tr>
<tr>
<td>Power generation</td>
<td>mn kWh</td>
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</tr>
<tr>
<td>Gas processing</td>
<td>bcm</td>
<td>7.2</td>
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<tr>
<td>Total capital investments:</td>
<td>RUB mn</td>
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<tr>
<td>– oil production</td>
<td></td>
<td>111,540</td>
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<tr>
<td>– oil refining</td>
<td></td>
<td>12,262</td>
</tr>
<tr>
<td>– marketing</td>
<td></td>
<td>693</td>
</tr>
<tr>
<td>New oil wells brought onstream</td>
<td>wells</td>
<td>1,131</td>
</tr>
<tr>
<td>Number of gas stations put in operation and upgraded</td>
<td>stations</td>
<td>18</td>
</tr>
<tr>
<td>Average number of production wells onstream</td>
<td>wells</td>
<td>17,262</td>
</tr>
<tr>
<td>Number of gas stations in operation</td>
<td>stations</td>
<td>301</td>
</tr>
<tr>
<td>Average number of personnel:</td>
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<tr>
<td>– oil production</td>
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<tr>
<td>– oil refining</td>
<td></td>
<td>7,232</td>
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<tr>
<td>– marketing</td>
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<td>4,102</td>
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**FINANCIAL RESULTS**

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<thead>
<tr>
<th>Item</th>
<th>Unit</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales of goods, works, and services</td>
<td>RUB mn</td>
<td>503,306</td>
</tr>
<tr>
<td>Cost of goods, works, and services sold</td>
<td>RUB mn</td>
<td>336,002</td>
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<tr>
<td>Retained profit (net profit)</td>
<td>RUB mn</td>
<td>113,874</td>
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<tr>
<td>Average annual value of assets</td>
<td>RUB mn</td>
<td>1,215,189</td>
</tr>
<tr>
<td>Sales margin</td>
<td>%</td>
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<tr>
<td>Dividend per share*:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– ordinary</td>
<td>kopecks</td>
<td>45</td>
</tr>
<tr>
<td>– preferred</td>
<td>kopecks</td>
<td>104.88</td>
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</tbody>
</table>

* As recommended by the Board of Directors
Operating activities
As of the end of the reporting year, the Company’s license portfolio comprises 149 licenses for subsoil use, including 51 licenses for oil and gas exploration and production, 56 licenses for geological survey, and 42 licenses for hydrocarbon research and evaluation.

Throughout 2009, the Company carried out geological exploration in 97 license areas in three oil and gas provinces (Western Siberia, Eastern Siberia and Timano-Pechora).

In 2009, the Company obtained licenses for 10 subsoil areas at tenders and auctions, including 5 areas in Khanty-Mansiysky Autonomous Okrug – Yugra, Eastern Siberia, 4 areas in Yamalo-Nenetsky Autonomous Okrug, and 1 area in the Republic of Sakha (Yakutia).

Total recoverable C1+C2 reserves in acquired license areas amount to 86.5 mn tons of oil and 30 bcm of gas. In addition, the Company acquired 7 licenses for the fields discovered by the Company earlier in Nenetsky and Khanty-Mansiysky Autonomous Okrugs and in the Republic of Sakha (Yakutia).

The Company deploys advanced seismic exploration methods to obtain additional data on reservoir structure and improve exploration efficiency, and mitigate risks during prospecting and exploration drilling.

In 2009, 2D seismic surveys increased by 37% and covered 11,500 linear km; 3D surveys, by 10% to 1,100 sq. km. Electrical survey totaled 1,000 shots. Based on seismic surveys, 178 sites in 34 structures with almost 160 mn tons of recoverable oil reserves were prepared for deep exploration drilling.

Prospecting and exploration drilling in the year under review grew by 8% to 182,600 m, with 72 exploratory wells completed. The Company discovered 9 fields in Khanty-Mansiysky and Yamalo-Nenetsky Autonomous Okrugs and the Republic of Sakha (Yakutia), and 15 new oil deposits.

The Company puts particular emphasis on research and
development activities to improve prospecting and exploration efficiency. In the year under review, the Company carried out more than 80 projects, including appraisal of oil and gas reserves, geological projects in license areas, prospect evaluation surveys and forecasts for new promising areas, field trials to study pre-Jurassic deposits, core analysis, determination of composition and properties of formation fluids.

High quality of seismic surveys and scientific potential allowed the Company to achieve exploration efficiency of 75% in the reporting year.

As a result of these activities, replacement of C1+C2 oil reserves in the year under review exceeded 118 mn tons.
WESTERN SIBERIA

Western Siberia is the key area of the Company’s oil and gas production operations. Despite the high level of reserve depletion in the region, the Company’s extensive experience and significant resource potential make it possible to succeed in exploration.

In the year under review, more than 73% of exploratory activities and almost 64% of 2D seismic operations were carried out in Western Siberia. They resulted in discovery of 5 oil fields and 6 new deposits within existing fields.

Prospecting and exploration in Khanty-Mansiysky Autonomous Okrug – Yugra in 2009 covered 62 license areas and amounted to 105,100 m, with 40 wells completed. The Company discovered five fields: Yuzhno-Lyaminskoye, Vostochno-Lyaminskoye, Ozernoye-1, Vysotnoye, and Vostochno-Rogozhnikovskoye. We have launched a program for additional exploration of underlying beds by sidetracking from wells at fields under development. As part of the program, we were able to produce commercial oil in 8 license areas in the reporting year and are currently preparing and finalizing production documents. We have also completed reserves assessment for the Fedorovskoye field, which is second to none in terms of hydrocarbon reserves.

In addition, the Company conducted seismic studies in Yamalo-Nenetsky Autonomous Okrug in the year under review where more than 3,900 linear km of 2D profiles were acquired. Throughout 2009, exploratory drilling was performed within Terrasny and Motylkovy license areas, two prospecting wells were drilled (the total meterage drilled exceeded 7,100 m). We have drawn up and submitted an oil and gas reserves assessment report for the Verkhnenadymskoye field for expert review by the State Reserves Committee (Rosnedra). The Company continued its efforts to strengthen its resource base in Yamalo-Nenetsky Autonomous Okrug. We acquired 4 licenses for hydrocarbon areas in the Okrug in the year under review.

The Company completed construction of one well in the...
south of Tyumenskaya Oblast where prospecting drilling amounted to 5,900 m.

We also performed 2D seismic operations in other regions in Western Siberia which totaled almost 3,000 linear km and prepared 22 structures with recoverable oil reserves of 85.9 mn tons. Five assessment wells were completed and meterage drilled exceeded 15,000 m.

EASTERN SIBERIA

Eastern Siberia is one of the most promising regions for development of the Company’s production sector and the Russian oil and gas industry in general. In the reporting year, the Company increased exploratory drilling in the region by 2% while 2D seismic surveys rose by 47%. The Company continued construction of field facilities and acquired one subsurface site, Vostochno-Talakansky, in Eastern Siberia.

In the year under review, geological exploration in the Republic of Sakha (Yakutia) covered 11 license areas. Drilling started on two new structures within Khoronokhsky license area.

Exploratory drilling totaled 26,100 m; 19 wells were completed. 2D seismic surveys in the Republic covered 870 linear km. We started preparations for 3D seismic surveys and completed 650 electrical surveys. Based on our survey findings, we discovered two new fields in the region, Yuzhno-Talakanskoje and Peleduyskoje.

The Company added almost 10 mn tons of oil and over 31 bcm of gas to C1+C2 hydrocarbon reserves in the Republic of Sakha (Yakutia) in 2009.

On the basis of seismic data acquisitions, we prepared three structures within Studeny license area with recoverable reserves of more than 6.3 mn tons of oil and 21.9 bcm of gas in Krasnoyarsky Krai in 2009.

In the year under review, 2D seismic operations in Irkutskaya Oblast exceeded 2,800 linear km, with 350 electrical surveys and two prospecting wells completed; 5,300 km was drilled by exploratory drilling.

TIMANO-PECHORA

Timano-Pechora oil and gas province is another promising
Surgutneftegas has 10 license areas in Nenetsky Autonomous Okrug, a region of high geological uncertainty and low depletion. In 2009, geological exploration in the region was carried out in 9 license areas. 2D seismic surveys covered 470 linear km, five prospecting wells were completed, and the total meterage drilled was at 17,900 m.

Geological exploration carried out in the oil and gas province led to two discoveries, the Zapadno-Saratayuskoye and Syamayuskoe fields. Additions to C1+C2 reserves exceeded 12.6 mn tons of oil.

**INTERNATIONAL PROJECTS**

OJSC “Surgutneftegas” is a member of OOO “National Oil Consortium” formed to develop oil fields in Venezuela under an intergovernmental agreement between the Russian Federation and the Bolivarian Republic of Venezuela. The Consortium will be part of a joint venture with a subsidiary of Petroleos de Venezuela S.A. (PDVSA), the state-owned oil and gas producer in Venezuela. It will carry out geological exploration, evaluation and
reservoir engineering for the Junin-6 project in the Orinoco oil belt.

PDVSA and the Consortium will have a 60% share and a 40% share in JV, respectively. The area of Junin-6 is 447.85 sq. km. According to geological surveys, potential Junin-6 resources may total 52 bn bbl of oil and daily crude output may reach 450,000 bbl.

**PLANS AND PROSPECTS**

In 2010, the Company will continue to follow its exploration program at existing license areas and will acquire new reserves in promising regions to add to its license portfolio. Prospecting and exploratory drilling is expected to reach 206,000 m, of which approximately 74% will be carried out in Western Siberia and 18% in Eastern Siberia. The Company is planning to construct 75 prospecting and exploration wells, including 19 wells in Eastern Siberia and 4 wells in Timano-Pechora.

2D seismic surveys will cover almost 4,500 linear km; 71% of 2D seismic surveys will be in Eastern Siberia. The Company will acquire 701 sq. km of 3D seismic profiles: 38% in Eastern Siberia in 62% in Timano-Pechora.
In the upstream sector, the Company is striving to effectively use resource base, apply advanced technologies and EOR methods to sustain oil output, and optimize recovery efficiency. As part of our strategy, we are focused on developing new oil and gas provinces of Eastern Siberia and Timano-Pechora.

In 2009, Surgutneftegas produced 59.6 mn tons of oil and 13.6 bcm of gas.

To ensure oil and gas production, we raised our investments by 19% to RUB 111.5 bn including about 22% accounting for operations in Eastern Siberia.

The Company continued to enhance exploitation of the existing oil fields, commission new oil fields and improve associated gas gathering, treatment and transportation system.

### OIL PRODUCTION

In the reporting year, Surgutneftegas commercially exploited 54 oil fields including 52 fields in Western Siberia and 2 fields in Eastern Siberia.

The Company significantly enlarged the number of new wells under construction, widely applied advanced oil production technologies and enhanced well stock efficiency.

At the same time, natural depletion of the existing oil fields, unfavorable geological and mining
conditions and increase of hard-to-recover reserves affect build up of oil production. To this end, we are striving to ensure drilling efficiency, sustain new wells commissioning rate and constantly implement cutting edge field development technologies.

In 2009, Surgutneftegas put on stream three new fields including the Vostochno-Mytayakhinskoye field and the Zhumazhanovskoye field in Western Siberia, and the Alinskoye field in Eastern Siberia. The Company raised its production drilling by 17% to 3,657 thousand meters and commissioned 1,131 new oil wells.

Compared with the previous year, in 2009, the average active well count grew by 3.2% and amounted to 17,262 wells. The Company is committed to use effectively its operating well stock, find the best operating conditions and methods. Over the last years, Surgutneftegas has witnessed growth of its operating well stock utilization ratio, which in 2009, reached 0.929. Meanwhile, at the end of 2009, we decreased our inactive well count minimal level of 6.7% of the operating well stock.

Due to its service units and EOR technology-based experience, Surgutneftegas actively applies advanced oil production methods including sidetracking, physicochemical treatment operations and horizontal well construction.

In 2009, the number of horizontal wells put on stream rose by 2.6% vs. last year’s, and totaled 159 wells. The operating well stock underwent over 7,000 well-operations including 639 sidetracking operations, 541 hydrofracs and about 3,000 physicochemical treatment operations that allowed to produce additional 8.3 mn tons of oil.
On the whole, in the year under review, Surgutneftegas additionally produced over 12 mn tons of oil due to optimization of mechanized well stock operations, new wells commissioned, and other geotechnical measures.

Development of the Eastern Siberia oil fields contributed greatly to the growth of our portfolio. The start up of the first stage of the Eastern Siberia – Pacific Ocean (ESPO) pipeline allowed the Company to launch the entire oil production process flow – from well construction to oil treatment and transfer to the main pipeline of OJSC “AK “Transneft”.

In Eastern Siberia Surgutneftegas dynamically increases exploitation drilling, which, in 2009, rose by 32.4% to 86.5 thousand meters. The Company put on stream 49 new wells including 19 horizontal ones. As of the end of 2009, the operating well stock included 119 wells.

At the Alinskoye field Surgutneftegas put into operation 6 wells and completed construction of a pipeline connecting it with an oil acceptance and delivery point.

In 2009, at the Talakanskoye field we commissioned 2 booster pump stations, 3 preliminary water discharge units with three-phase Heater-Treater separators, over 75 km of power lines, and a jet fuel tank farm in the village of Vitim, as well as continued construction of the bitumen unit. Infrastructure of the field and the first stage of the ESPO pipeline functioning all year round allow the Company to steadily build up production in new oil province.

In the reporting year, in Eastern Siberia Surgutneftegas produced 1,761 thousand tons of oil including 416 thousand tons from new wells. Actual production output in the region almost tripled against the previous year.

**GAS PRODUCTION**

On the gas production side, Surgutneftegas is committed to achieve one-hundred percent utilization. Every year, the Company increases its gas utilization ratio due to improved gas gathering and treatment infrastructure and enhanced transportation capacities.

### AVERAGE OPERATING WELL STOCK

<table>
<thead>
<tr>
<th>wells</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>15,813</td>
<td>16,308</td>
<td>16,727</td>
<td>17,262</td>
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### GAS PROCESSING OUTPUT

<table>
<thead>
<tr>
<th>%</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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</thead>
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<td>93.5</td>
<td>94.3</td>
<td>95.4</td>
<td>96.9</td>
</tr>
</tbody>
</table>
Thus, in 2009, gas utilization ratio reached 96.9%.

In the reporting year, associated gas production amounted to 13.6 bcm, and natural gas extraction reached 6.9 mn cub. meters.

Surgutneftegas employs and develops various gas utilization approaches allowing it to supply energy to remote fields, maintain reservoir pressure, use as fuel for production facilities and furnish gas processing products.

In 2009, the Company ran 9 transport compressor stations including one compressor station to inject gas into a reservoir at the Talakanskoye field, 10 compressor stations of low-stage separation, 2.9 thousand km of gas gathering and transportation pipelines, 17 gas turbine power plants and 7 gas piston power plants, and 3 gas processing units with the capacity of 7.2 bcm.

In the year under review, 51% of gas was processed by the Company’s gas processing plant, 9% was used by gas turbine power plants and gas piston power plants, and over 10% accounted for fuel utilized by the production facilities.

In 2009, we put into operation gas piston power plants at the Severo-Seliyarovskoye, Yaunlorskoye and Vatlorskoye fields, a compressor station to inject gas into a reservoir at the Talakanskoye field, a compressor station of low-stage separation at the Bystrinskoye field, over 157 km of gas pipelines. The Company maintained 8 transportation compressor stations and 10 compressor stations of low-stage separation. Moreover, we finished overhauling fuel gas preparation unit of the Russkinskaya gas turbine power plant and at the Severo-Labatyuganskoye field enabling the compressor stations to work in transport mode.
The Company also launched overhauling a compressor station at the Fedorovsky field.

**COST CONTROL PROGRAM**

As part of its economic policy, OJSC “Surgutneftegas” is striving to develop and implement cost-saving programs to reduce and control all operations expenses, and consequently maximize the production efficiency.

For many years, the Company has been developing and carrying out a comprehensive cost-saving program aimed at expenses reduction through enhanced key assets productivity and low materials ratio, re-use of the existing equipment and replacement of the foreign equipment by domestic one. Thus, in 2009, the Company saved RUB 4.8 bn.

In the year under review, the cost-saving program undertaken by our structural units provided the economic effect resulting in RUB 2.9 bn savings or RUB 48 per ton of produced oil. The greatest economic effect of over 30% was reached in auxiliary production, 29% – in construction, 21% – in drilling, and 18% – in core production.

Surgutneftegas actively develops and runs energy saving programs and equipment at all stages of its production process, as well as optimizes electric system performance and regulates power consumption. In 2009, in the gas transportation sector, the Company replaced electromotors with gasturbine engines at 5 compressor stations and improved gas gathering system. In gas processing sector, we replaced pumping fleet and retrofitted an automated control system of gas processing plants. In the electricity sector, the Company
reduced power loss in distribution networks, automated electric heating system, implemented energy-efficient light sources and up-to-date energy meters. In the capital construction, we used gas and radiant heating systems and constructed Class A energy-efficient buildings. As a result, Surgutneftegas manages to save over 6,000 mW and 5 bn kWh of energy consumption annually.

Material input reduction is achieved by re-use of materials, introduction of new equipment and technologies enabling to reduce material consumption and save time when performing certain operations.

Since 2005, Surgutneftegas has been carrying out the equipment and material re-use program. In 2009, its economic effect reached RUB 1.1 bn.

The Company’s service units fully engaged into field development play an important role in cost-saving program delivery. Advanced technologies and solutions allow us to tackle complex issues and enhance production, as well as control expenses.

As part of its import substitution program, Surgutneftegas actively cooperated with domestic equipment manufacturers. The program is primarily applied to the most capital intensive activities including horizontal drilling, side-tracking well maintenance and workover, and mechanical repair. In the reporting year, under the program, we assimilated 670 items of the component list with RUB 829 mn of the economic benefit. Cooperation with the Russian plants both brings significant economic effect to the Company and contributes to the scientific and technical development of the Russian economy.

PLANS AND PROSPECTS

In 2010, Surgutneftegas will continue developing new oil provinces in Eastern Siberia and Timano-Pechora. As for Western Siberia, the Company is to sustain oil production volumes.

The Company plans to produce 59.5 mn tons of oil and 13.4 bcm of gas, and reach a 2.6 mn ton output in Eastern Siberia.

In 2010, four oil fields are scheduled for development in Western Siberia: the Losevoye, Ovlikhorskoje, Yavinlorskoje and Zapadno-Sukuryaunskoe fields. Exploitation drilling is expected to reach 4 mn m allowing commissioning 1,176 new production wells including 75 in Eastern Siberia.

In its effort to sustain oil output, the Company intends to launch a workover program comprising 6,400 well-operations of physicochemical effect on an oil reservoir to enhance oil recovery enhancement, and a targeted program to improve marginal well stock efficiency.

Surgutneftegas is to carry on developing its gas gathering and transportation system, and construct seven terminal separation stage stations and 77 km of gas pipelines.
Due to construction of gas turbine power plants (GTPP) and gas piston power plants (GPPP) we are able to tackle a variety of complex issues, i.e. reliable power supply to production facilities, effective utilization of associated oil gas, and cost reduction when constructing production infrastructure and purchasing power.

Gas turbine power plants and gas piston power plants using associated oil gas allow the Company not to construct both pipelines for its transportation and power lines, reduce the amount of purchased power considering growing power tariffs and prices in the free market. Rational power use is becoming a burning issue of today due to depleted raw material base and water cut production growth resulting in increased power consumption for oil production and reservoir pressure maintenance.

In 2009, total power output grew by 15.7%, compared to 2008, to 3.2 bn kWh. Meanwhile, overall power consumption share of in-house power generation reached 28%.

At year-end 2009, Surgutneftegas operated 17 gas turbine power plants and 7 gas piston power plants with total capacity of 605 mW.

In-house power generating facilities are of significant importance when developing new fields remotely situated from production infrastructure and oil and gas production centers. Thus, all power delivered to the fields in Eastern Siberia is produced by the Company’s power plants.

In the year under review, Surgutneftegas commissioned the second phase of GTPP at the Talakanskoye field, and as a result finished construction of the Company’s largest GTPP with 144 mW of capacity. The plant serves not only our fields in Eastern Siberia but also Eastern Siberia-Pacific Ocean pipeline.

At the Talakanskoye field, the Company converted oil fuel boiler-houses to gas ones. The centralized power supply was provided instead of diesel power plants at the Alinskoye field.

Within 2009, the Company put into operation 3 gas piston power plants at the Yaunlorskoye, Severo-Seliyarovskoye and Vatlorskoye fields with aggregate capacity of 15 mW.

Gas turbine power plants and gas piston power plants allow the Company to respond to such...
issue as associated gas utilization, lower hazardous air emissions and reduce technological environmental impact. In 2009, due to GTP, GPP plants and gas-turbine compressor stations, hazardous air pollutants were eliminated by 568 thousand tons, or 73%, including 85 thousand tons of methane (a green house gas).

PLANS AND PROSPECTS

Surgutneftegas is striving to further develop small-scale power generation.

In 2010, total generating capacity of GTP and GPP plants is projected to reach 680 mW. At the same time, an overall power consumption share of in-house power generation is to reach 30%.

Next year, the Company plans to commission two gas-turbine power plants with a 72 mW capacity at the Rogozhnikovskoye and Severo-Labatyuganskoye fields and expand a gas piston power plant at the Vostochno-Surgutskoye field.
OIL REFINING

KINEF Ltd., the Company’s refinery, is the largest Russian plant in terms of refining output. With its location in Leningradskaya Oblast close to the Baltic ports, the refinery brings additional benefits, like oil products delivery to both adjacent north-western regions of Russia and European countries. KINEF Ltd. manufactures 17 types or 85 marks of products, i.e. motor gasoline, diesel and jet fuel, fuel oil, oil bitumen, liquefied hydrocarbon gas, aromatics, diluents and others.

Over the past years, the Company has been maintaining the refinery output at full capacity. In 2009, oil refining output totaled 20.4 mn tons that is comparable to last year’s.

In general, light oils output (gasoline, kerosene and diesel fuel) reached 40.2%.

Surgutneftegas continued producing low sulfur diesel fuel. Its output for the first time exceeded 3 mn tons/year, including 0.3 mn tons of fuel with lubricity additive. Besides, in the year under review, the refinery produced diesel fuel of less than 0.5 % of sulfur content. Today, KINEF Ltd. is able to produce EURO-4 standard gasoline and diesel fuel.

One of the refinery’s key initiatives includes commissioning of the deeper refining complex enabling the Company to raise the conversion ratio and enhance production quality. The complex is to be equipped with hydrocracking and visbreaking units, a vacuum unit, and a diesel fuel hydrodewaxing unit. In 2009, the Company invested RUB 9.2 bn in the deeper refining complex project.
Focusing its strategy on high-quality products, low energy costs and production safety, Surgutneftegas implemented a variety of projects including operating facilities upgrading, overhauling and preventive maintenance.

During 2009, after a three-year interrepair maintenance, the Company performed scheduled repair of processing units in 4 shops and 14 reservoirs, and replaced 35 process pipelines. However, shutdown of the individual units did not affect production output. As part of re-equipment program, we replaced waste-heat boilers of the LCh-35-11/1000 catalytic reforming unit, and thus enhanced its productivity. The Company performed upgrade of a vacuum unit of the ELOU-AVT-2 crude oil distillation plant resulted in significant energy saving. Surgutneftegas started construction of an extractive distillation unit allowing eliminating gasoline benzene content as per EURO-4 standards. Some facilities were included into integrated control system which enables direct management of quality and includes “virtual analyzers” to predict quality of produced products by considering the technological parameters. Thus, the Company’s total investment amounted to RUB 2.8 bn.

The refinery houses, IzoFlex, the first Russian plant of hydro insulating and roofing materials, which in 2009, celebrated its 15th anniversary.
The plant is the first among Russian manufacturers which started mass-production of high-quality bitumen-polymer roll roofing and hydro insulation membranes. Presently, IzoFlex is the only leading producer of bitumen-polymer coating. Due to its high-quality and highly demanded products, the plant supplies materials to over 5 thousand facilities. The most valuable projects include delivery of roofing materials to the Olympic facilities in Sochi.

In Eastern Siberia, to satisfy its demand for bitumen and diesel fuel, the Company started construction of a bitumen unit with capacity of 84 thousand tons/year.

PLANS AND PROSPECTS

In 2010, KINEF Ltd. is expected to refine 21.1 mn tons of hydrocarbons. Surgutneftegas will continue construction of the deeper refining complex.

To this end, total capital expenditures are to amount to over RUB 25 bn.

According to the Company’s technical development plan, in 2010, it is planned to enhance production processes efficiency and improve production safety. Surgutneftegas will proceed with construction of an extractive distillation block of the SK-2 sulfuric acid unit and a warehouse for the LAB-LABS petrochemical complex laboratory. In March 2010, Surgutneftegas is to start upgrading the central flotation air compressor unit, TsvK-1, pumping compressed air into the plant’s processing units. To this end, the Company intends to spend RUB 4.4 bn that is 55.4% higher against the previous year.

In the future, Surgutneftegas is planning to produce motor fuels meeting EURO-5 standards.

As for Eastern Siberia, we are to finish constructing a bitumen unit and start manufacturing products to serve region’s needs for bitumen, oil fuel and diesel fuel.

GAS PROCESSING

The Company’s gas processing plant is outfitted with state-of-the-art high-tech equipment and represents the significant part within the integrated system of associated oil gas production, gathering and utilization. Three gas compression and processing units are employed to treat and process gas, as well as produce liquid hydrocarbons used as end product and material for chemical industry.

In the year under review, Surgutneftegas processed 7.2 bcm of gas, produced 6.8 bcm of dry stripping gas and over 595 thousand tons of liquid hydrocarbons. Technically feasible equipment makes it possible to change promptly commercial yield structure according to market demand and during shutdown when overhauling units.

In 2009, liquid hydrocarbons were represented by natural gas liquids (NGL) – 73.9%, and gas condensate distillate – 17.2%.

Today, in gas processing sector, the Company is focused on upgrading and overhauling of the operating equipment to enhance production efficiency and safety, eliminate power consumption and improve operating process control.

In 2009, we spent RUB 987 mn on the above activities. Within the year, Surgutneftegas was engaged in upgrading a gas metering unit, designing and constructing new blocks of an air-fractionating unit and technical propane-butane unit. The Company also reconstructed
the plant’s driveways and production and support facilities, and constructed an administrative and production building, as well as commissioned communication, security and fire alarm facilities.

PLANS AND PROSPECTS

In 2010, Surgutneftegas is to finish construction of the technical propane-butane unit allowing expanding product line and enhancing gasoline fractional distillation. The Company plans to put into operation the air-fractionating unit.

The administrative building with an auxiliary housing is expected to be commissioned next year. We will proceed with overhauling and upgrading of the security and fire alarm facilities, an air contamination monitoring system and computer system. The Company’s capital investment is to amount to RUB 1 bn.

Surgutneftegas intends to follow the gas processing volume of 2009 and increase liquid hydrocarbons output by 10%, up to 650 thousand tons.
The Company’s marketing subsidiaries are located in the northwest part of Russia and are engaged in wholesale, retail, petroleum products storage and additional gas station services.

The northwest region boasts a variety of advantages such as highly developed economy, vehicle accumulation and traffic routes. Besides, the regions’ appeal intensifies competition on petroleum product market. In the effort to meet client’s needs in full, our marketing subsidiaries upgrade and overhaul gas stations, as well as enhance quality and range of the products produced. Thus, in 2009, the Company overhauled 12 gas stations, acquired and constructed 6 new gas stations. Extensive work was performed to make our petroleum depots facilities, such as pipelines, reservoirs and racks, satisfy modern requirements. In 2009, the total capital investments reached RUB 693.5 mn.

The Company’s new gas stations fulfill the highest technical standards, as well as fire safety and industrial safety standards. In the year under review, LLC “Kaliningradnefteproduct” started-up the Company’s first automated gas station. Surgutneftegas stations offer a wide range of additional customer-oriented services including related goods sale and payment terminals. At the end of 2009, the Company had 177 shops, 29 cafes, 2 parkings, a hotel and other social service facilities. In the city of Tver we opened the first automatic (portal) car wash.

The Company’s related goods revenue grew by over 15% compared to 2008.

Due to improvement of production and organizational structure of its marketing subsidiaries, Surgutneftegas gained the economic benefit of RUB 91 mn. In 2009, the Company continued consolidating OJSC “Lennefteprodukt” and LTD “Kirishiautoservis” operating in Leningradskaya Oblast and the city of Saint-Petersburg.

In 2009, the Company’s marketing activities were significantly affected by the financial crisis. Thus, business slowdown reduced international
goods traffic by over 30% resulting in a sensible decrease of marketing volumes at our gas stations along the routes.

In the reporting year, Surgutneftegas marketing network sold 1 mn tons of petroleum products including 685 thousand tons, or 69%, were retailed through its gas stations. The average daily sales per a gas station reached 6.2 tons. At the end of 2009, the Company ran 301 gas stations.

Surgutneftegas strictly follows legislative regulations including new technical regulations on quality of the petroleum products. The Company’s marketing subsidiaries have its own nationally accredited oil product testing laboratories to ensure painstaking quality control at every stage of the fuel flow process.

Regardless of the crisis, the marketing subsidiaries demonstrated adherence to social responsibility principals, i.e. helped greatly agrarians of the northwest region of Russia in supplying reduced-price petroleum products to over 450 agricultural enterprises.

**SALES VOLUME BREAKDOWN IN 2009**

- **57 %** Gasoline
- **33 %** Diesel oil
- **1 %** Fuel oil
- **9 %** Other petroleum products
PLANS AND PROSPECTS

In 2010, Surgutneftegas intends to continue boosting marketing subsidiaries production infrastructure. We will finish consolidation of the marketing subsidiaries in Leningradskaya Oblast and the city of Saint-Petersburg to be resulted in enhanced management efficiency and lower costs due to elimination of duplicated management and production processes.

The Company is planning to automate its gas stations, renew car fleet, and create an integrated processing centre and authorization server to process and consolidate fuel cards transactions of all marketing subsidiaries.

In 2010, the total capital investments will amount to RUB 953 mn. The Company is to overhaul 16 gas stations and construct 4 gas stations, including one automatic gas station which will be commissioned as late as in 2010, as well as start up another automatic (portal) car wash in the city of Tver.
NEW EQUIPMENT AND TECHNOLOGY

One of the Company’s key drivers is the innovation policy aimed at implementing state-of-the-industry technology solutions across its operations and employing new equipment and technologies of the Russian and best international developers.

In the upstream sector, innovations are mostly applied to maintain oil production volumes of the main fields, explore new reserves, enhance oil recovery through hard-to-recover reserves development, lower costs and improve operations in terms of ecological safety.

Surgutneftegas actively uses 3D geologic and hydrodynamic modeling to perform geologic exploration and reservoir engineering, select the most effective technologies and plan geological and engineering operations.

We employ 40 advanced recovery methods based on integrated field development process plans. Due to considerable experience in implementation and exploitation of the methods considering geologic factor and climatic conditions of Western Siberia, Surgutneftegas takes lead among its peers and, in some cases, well-known western service companies as well.

The most efficient recovery methods are hydrofracturing, sidetracking, multilateral wells construction and underbalanced well completion. Today, the Company’s most advanced solutions include coiled tubing drilling, underbalanced well deepening equipment, and gasification complex used for well development.

In 2009, Surgutneftegas performed over 7 thousand EOR operations including 541 hydrofracturing and 639 sidetracking operations allowing reaching 1.1 mn and 2.2 mn tons of incremental oil recovery, correspondingly.

In the year under review, the incremental oil production amounted to 34.4 mn tons, or 58% of the Company’s total production due to comprehensive use of EOR technologies and the benefit gained from last years’ activities.

The innovations applied in downstream are targeted to enhance...
high-quality production output, boost production efficiency and furnish environmental safety. Timely re-equipment enabled us to comply with Requirements for Motor and Aviation Fuels, Diesel and Marine Fuels, Jet Fuel and Residual Fuel Oil, and produce EURO-4 motor and diesel fuels. New technologies introduced in our marketing subsidiaries ensure continuous quality improvement and increase of services provided, as well as production enhancement.

High-tech equipment, skilled and experienced personnel, and existing training programs allow the Company to employ successfully state-of-the-art technologies owned by both Russian and foreign companies.

INFORMATION TECHNOLOGIES

Surgutneftegas is striving to develop information technologies and is considered one of the leaders among its peers in terms of large-scale production implementation. To this end, the Company is targeted to improve management decision-making system, automate management accounting and provide reliable and safe equipment.

On the upstream side, the Company’s objectives include production process automation and maximum on-line control of the main production facilities. The information obtained enables us to use equipment in reliable and safe manner, select its best operational mode, and accordingly derive substantial economic benefit and reduce costs.

The Company’s oil-field facilities are equipped with the technological process on-line control and monitoring system. At year-end 2009, the number of monitoring and control systems installed at field process facilities amounted to 617, up by 25% compared to 2008. In the reporting year, operating well stock equipped with production rate telemetry systems accounted for 99.9%, artificial-lift well stock controlled remotely reached 99.7%, and operating injection well stock equipped with water injection flow meters accounted for 99.83%.

We are highly committed to development of information technologies not only in production, but also in human resources systems. Today, the Company runs and further develops an integrated SAP/R3-based system which covers the areas of financial, taxation and management accounting, HR management, inventory flows and asset management, as well as provide extensive analytical capabilities for the Company’s management team.

In the year under review, Surgutneftegas upgraded its central computing complex utilities and computer equipment, and migrated
two SAP systems (BW and R/3) to the new HP-UX/Oracle platform.

The Company implemented the LanDocs documentary flow system in 52 business units to provide comprehensive support of back-office business processes considering personnel experience and existing communication and network infrastructure.

In 2009, Surgutneftegas introduced production Service Desk system in all business units allowing computing facilities support and prompt response to possible challenges.

As part of Geographic Information System (GIS) project, the Company proceeds with a large-scale aerosurvey of its territory of operation. We upgraded the geo-information system, implemented an aerosurvey technology based on our IGI complex. The aerial photographic coverage totaled 443 sq. km as per requests of the business units.

On the transportation side, to improve management and exploitation of vehicles, the Company introduced and actively runs a satellite system to monitor routes and fuel consumption.

In the downstream sector, Surgutneftegas upgraded operating automation systems applied in marketing, oil products shipping, end products planning and accounting, as well as human resources management. The Company developed and commissioned the automation systems intended for cost-planning, liabilities accounting and work calculation.

The solutions based on the PARUS information system make it possible to automate both standard and activity-specific accounting and management functions and business processes through specialized program modules designed to ensure operation of petroleum depots and gas stations. In 2009, the Company was engaged in updating and implementing new modules of the PARUS system, as well as creating SAP BI-based consolidated reporting of its marketing subsidiaries.

**MASTERING NEW PROCESSES, OPERATIONS AND EQUIPMENT**

The Company’s efforts to master new processes, operations and equipment, result in reduced costs and higher operation quality, and create competitive advantages among its peers.

On the upstream side, we adopted and implemented 294 new types of equipment and technologies including underbalanced well deepening equipment, new models of bore bits, cement log stations, thermomanometric system to monitor ESP units, “small-scale booster pump stations” technologies etc.

In 2009, due to the above activities, economic benefit amounted to RUB 11.9 bn, where 26% accounted for construction, 24% – for EOR operations, and 19% – for well service and workover.

In the reporting year, Surgutneftegas conducted 54 tests of new equipment and technologies, including 40 tests, which yielded positive results.

In 2009, on the downstream side, the Company changed process route for pumping diesel fuel with additives out of tanks allowing producing fuel of sustained quality. Surgutneftegas performed deep oil desalting on blocks of the oil desalting and dehydration unit,
and upgraded some individual equipment parts, that in turn, will eliminate a need to purchase high-priced components from international manufacturers.

Every year, the Company supports International Exposition “Surgut Oil and Gas”. In 2009, the exposition hosted 136 companies from over 25 regions of Russia, as well as Germany and Finland, and presented the latest achievements in oil and gas production and state-of-the-art oil and gas equipment.

**R&D AND INNOVATION**

In its effort to enhance productivity, Surgutneftegas is striving to develop the R&D base, build capacity and involve its personnel in decision-making process regarding production and technological issues.

To improve efficiency and lower costs, the Company invests heavily in R&D activities. Our scientists and experts boast a number of unique innovations, projects and program solutions including new process designs and drill-mud and cement slurry compositions for well construction, improvement of initial field development plan, and enhancement of EOR effectiveness.

Surgutneftegas is an owner of over 360 innovation patents.

The Company’s R&D portfolio is represented by two largest institutes – the SurgutNIPIneft Research and Development Institute in Surgut and its branch in Tyumen, and Lengiproneftekhim Institute for Engineering of Petrochemical and Oil Refining Facilities (Saint-Petersburg).

Today, SurgutNIPIneft is the major project organization in the industry missioned by the Company to provide R&D activities for oil and gas production sector. In 2009, the Institute carried out 81 researches which are expected to bring RUB 8 bn of economic benefit.

In the reporting year, Surgutneftegas spent over RUB 1 bn on R&D activities.

The employees actively involved in research and development activities help find effective wide-range business solutions and significantly contribute to the Company’s innovative potential. In 2009, over 3,000 employees offered their projects, 2,453 innovative solutions were implemented providing the economic benefit of RUB 627 mn. The economic effect resulted in 63% of inventory savings, 15% of operating costs reduction and 5% of fuel and energy savings.

The Company enables its employees to qualify for various financial incentives for innovation proposals made, as well as puts much effort to obtain patents and Rospatent certificates (the Russian Federal Service for Intellectual Property, Patents and Trademarks).
to protect innovative solutions developed by them. To this end, in 2009, we asserted 23 intellectual property patents and received 24 documents of title. The Company’s upstream intangible assets increased by RUB 88 mn, and economic effect produced by use of intellectual property totaled RUB 305 mn.

Surgutneftegas closely interacts with Lengiproneftekhim Institute together with experts from other institutes to develop R&D projects for its oil refining segment aimed to better quality and variety of products, enhance equipment performance, design corrosion resistance solutions, develop information systems and new technologies, improve laboratory-control methods and catalyst performance prediction analysis.

In 2009, the Company implemented R&D projects on technical and economic assessment of influence the heteroatomic and aromatic compounds make on hydrotreating and hydrocracking processes. Thus, due to accurate data gained on the organic compounds content, it will be possible to use catalysts with optimal characteristics. Some measures were taken to produce roofing bitumen with a low resin asphaltene ratio based on the customers’ need, i.e. asphaltic concrete plants.

In 2009, KINEF Ltd. offered 23 innovations and employed 18 author’s inventions with RUB 38.7 mn of the total economic effect. The Company received favorable decision from the Federal Institute of Industrial Property on issuing an industrial patent for Catalysts Reactivation Method used for Dehydration of the S10-S13 Paraffins.
Environmental safety

Annually, the Company implements integrated ecological program covering such main aspects as construction of nature conservation facilities, protection and rehabilitation of land and water resources, ambient air control, constant monitoring of environmental components, prevention and response to pipeline accidents, production residuals neutralization, research activity, and staff environmental training. In the reporting year, the Company’s environmental costs exceeded RUB 22.5 bn, including RUB 21.1 bn spent on ecological activities in the upstream sector. On the upstream side, more than 30% of environmental costs referred to capital investments in fixed assets of nature conservation facilities with more than 80% facilities relating to APG utilization, such as gas turbine power plants, gas piston power plants, compressor stations, and gas pipelines. In the year under review, the construction of such utilities helped the Company achieve 96.9% ratio of APG utilization which is the highest sector level against extension of the Company’s business geography and a number of oil fields put into production. In this regard, the amount of APG flared totaled 36%, or 248 bcm, in comparison with 2008.

In 2009, the Company’s power plants utilized about 1.2 bcm of gas, which makes over 45% of the total in-house gas consumption.

To reduce pollutant emissions Surgutneftegas, business units regularly perform operational optimization of boilers, furnaces and other fuel-combustion facilities. Such frequent arrangements help the Company meet the prescribed emission standards.

The employment of process equipment with dust and gas catchers also contributes to emissions reduction, mostly of solid pollutants. In 2009, we put into operation eight catchers with the total capacity of 9.6 thousand cub m/h. Moreover, the Company exercises total control of the toxicity and smoke opacity of exhaust emissions produced by its vehicles.

In the reporting year, the Company’s air protection actions resulted in lower pollutant emissions,
from 4.66 kg/t in 2008 to 3.65 kg/t in 2009, which demonstrates a 22% decrease.

On the water protection side, the Company is striving to prevent water bodies pollution by industrial wastewater and liquid effluents, and reduce water consumption from surface and ground sources.

In 2009, the Company replaced flare pits with drain tanks at 29 well sites, restored bunds at 240 well sites, and ramps at 160 well sites. In the year under review, Surgutneftegaz also monitored soils, surface and ground waters around well clusters drilled in water protection areas.

Since 2000, we haven’t discharged wastewaters in water bodies of Khanty-Mansiysky Autonomous Okrug – Yugra. After being treated, wastewaters are used to maintain reservoir pressure which allows us to reduce fresh water withdrawal from surface-water bodies. Since 2008, Surgutneftegaz has employed treatment units of industrial and domestic effluents at the Talakanskoje field and in the village of Vitim (the Republic of Sakha (Yakutia)).

More than half of all environmental costs refer to the utilization of residuals, industrial and domestic effluents. Surgutneftegaz pursues its waste management strategy to collect, neutralize and recycle industrial and consumption wastes.

Within its waste management strategy the Company solves the problem of complete neutralization of oil-contaminated wastes due to their flammability and toxicity, excluding hazardous wastes burial at disposal sites. For these purposes OJSC “Surgutneftegaz” possesses all the necessary equipment: 6 oily soil and sludge decontamination facilities with solid and liquid phase treatment technology, 3 liquid phase treatment units, 4 mobile tank washing and cleaning facilities, 6 thermal oily soil and sludge decontamination facilities, 7 combustion oil-contaminated solid wastes facilities. In the year under review, we treated more than 25.7 thousand tons of wastes using the above-mentioned facilities.

Annually, the Company lowers the waste burial rate, and in 2009, it amounted to nearly 16% of the total number of the wastes produced. We managed to achieve such results due to employment of a four-stage drilling mud treatment system, which enables the recycle of these drill cuttings for further construction of embankment at cluster sites and exploratory well sites. In 2009, the Company utilized 91.1% of drilling wastes.

Our waste tire recycling plant operated provides for a comprehensive approach to the solution of a number of tasks, such as wastes decrease, recycling of rubber crumbs used to produce road concrete mix utilized in road construction, and cutting costs on transportation of end-of-life tires to be recycled at customized
business units. In the reporting year, the Company recycled over 2.7 thousand tons of end-of-life tires.

In 2009, Surgutneftegas neutralized and recycled 86% of produced wastes, including almost 70% of those utilized in-house.

The Company places special emphasis on pipeline safety enhancement practices defining ecological well-being in the regions of its upstream activity. Annually, we take measures to monitor corrosion and provide pipeline inhibitor protection, construct and operate initial water separation units (IWSU) to mitigate the piped fluid aggressiveness.

Corrosion monitoring enables us to detect the main corrosion activity factors and promptly respond to diagnosed deviations. In 2009, we monitored 3,442 km of pipelines inspecting 525 points under control, assessed piped fluid aggressiveness footprint, and took measures for pipeline protection. We performed inhibitor protection of 1,842 km of pipes and oil pipelines, and replaced over 463 km of accident-prone pipeline sections.

The use of initial water separation units (IWSU) contributes heavily to minimization of pipeline corrosion failure risk and a 2–4% decrease of pipeline oil water cut. Surgutneftegas operates 101 IWSU units, including 93 ones equipped with three-phase Heater-Treater separators, which allows us to transport dewatered oil via over 3,000 km of delivery pipelines. In 2009, we put into operation 5 initial water separation units.

In 2009, to perform post-accident clean-up and land recultivation activities at remote boggy and lacustrine areas, the Company purchased, implemented and started the employment of 8 multifunctional floating platforms and 2 advanced platforms equipped with attached system for water bodies and inshore zone integrated treatment. In the reporting period, Surgutneftegas recultivated 18.5 hectares of oil-contaminated soils in remote boggy areas.

In 2009, we totally remediated 523.6 hectares of lands, including over 91.4 hectares inspected and struck off the register by the Department of RosPrirodNadzor (the Federal Service for Supervision of Natural Resource Usage) for Khanty-Mansiysky Autonomous Okrug – Yugra. To reclaim sludge pits, we use a technology based on tree and grassland vegetation restoration (forest recultivation) without soil backfilling. After more than ten-year use such technology proved to be environmentally and economically sound one enabling rational nature management. In the reporting year, the Company recultivated 83 sludge pits.

In the upstream sector, the Company’s 11 laboratories...
perform ecological quality monitoring of environmental components, emission control, and inspection of disposal sites for domestic and industrial wastes in the area of Surgutneftegas operation. Centralized environmental monitoring is conducted by the Central Base Laboratory for Environmental Analysis and Operations Research of Surgutneftegas Engineering and Economic Innovation Center accredited by the Standardization, Metrology and Certification Committee (GosStandart) of Russia for 365 environmental parameters. Further to environmental monitoring carried out with the application of geo-information technologies and remote Earth sensing techniques, the Company develops local environmental monitoring projects, sampling procedure, and obtains a complete assessment of the current ecological situation within license areas. In 2009, environmental monitoring was performed in 98 license areas on the territory of all regions of the Company’s operation, including environmental components monitored at 1,644 locations.

As a part of remote monitoring, we took aerial visual survey of long-term exploited oil fields on the territory of KhMAO – Yugra, interpreted aerial photographs and high-resolution space ones.

In its new areas of operation Surgutneftegas also pursues environmentally responsible policy. In Eastern Siberia, the Company constructs environmental facilities at advance rates and implements the best resource saving techniques.

At the Talakanskoye field, the Company commissioned the second line of gas turbine power plants and a compressor station for gas injection to maintain formation pressure. We commissioned an oil sludge thermal treatment unit and the second start-up complex of sludge-storage pits. Since 2008, Surgutneftegas has been employing treatment units for industrial and domestic effluents at the Talakanskoye field and in the village of Vitim.

In 2009, Production and Research Laboratory of Oil and Gas Production Division “Talakanneft” obtained accreditation for 283 parameters (including 24 radiological ones), and conducted environmental monitoring in the Republic of Sakha (Yakutia) and Irkutskaya Oblast which enabled us to exclude costs on samples transportation to Surgut for analysis purposes.

In oil refining and gas processing sector, Surgutneftegas annually takes measures to reduce environmental pollutant emissions, improve production technologies, enhance the quality of products and bring them in compliance with European environmental standards. In the reporting year, the Company’s refinery reconstructed sewage biological treatment facilities and control systems of the city of Kirishi, normalized the operation of storage ponds, and cleaned up sludge tanks. The Company took actions on ensuring effective rate of reclaimed water comprehensive reactant treatment to protect equipment and pipelines against corrosion, scaling, and biofouling of water recycling system.

The Company’s refinery operates 13 dust and gas catchers with high degree of atmosphere pollutant emissions decontamination. In 2009, specific pollutant emissions remained on the level of 2008, and amounted to 1.4 kg/ton of charge stock.
Due to improved performance efficiency of process furnaces and more complete fuel combustion, carbon oxide emission rate of KINEF Ltd. reduced by 51.8 tones, and gross emission rate of production pollutants in 2009 was down by 97 tons compared to last year.

In 2009, KINEF Ltd. conducted sanitary-hygienic monitoring of key atmosphere parameters within authorized border of sanitary protection zone around the refinery, and sanitary and bacteriological analysis of Kirishi treated sewages to assess the performance of ultraviolet disinfection facilities.

In 2009, the environmental costs of KINEF Ltd. amounted to RUB 1.4 bn.

On the marketing side, the Company took best safety efforts on receipt, shipment, and storing of petroleum products. In the year under review, Surgutneftegas environmental measures included tanks and pipeline repair and maintenance at oil tank farms and fuel stations, emissions sources control, enhancement of oil-products quality and environmental safety.

In accordance with composite rating of Independent Ecological Rating Agency (ANO NERA) Surgutneftegas was included in top five Russian companies as the most environmentally and socially responsible one. The Company ranks among the leaders demonstrating environmental efficiency growth as per NERAX-Eco Stock Index.

**PLANS AND PROSPECTS**

In 2010, within the Company’s environmental program we will further realize our environmental initiatives referred to accident prevention, production wastes reduction, and environmental monitoring in existing and new areas of our operation.

In 2010, following monitoring and technical state prevention surveys, Surgutneftegas is planning to protect 2,076 km of pipelines with corrosion inhibitors application, perform forest recultivation at 45 sludge pits.

The Company is planning to construct associated petroleum gas utilization facilities including 2 gas turbine power plants, 1 gas piston power plants (extension) at KhMAO – Yugra oil fields, low-stage compressor stations at oil fields of KhMAO – Yugra and the Republic of Sakha (Yakutia), as well as heated parkings and transport heating systems.

Following 2010 plan, the Company will construct water-protective facilities, a sludge tank, two wastes disposal sites, and two initial water separation units.

In 2010, the Company’s refinery will pursue its air and water resources control and protection policy. KINEF Ltd. will continue to normalize storage ponds operation.

Surgutneftegas marketing subsidiaries are planning to enhance monitoring of tanks and pipelines technical state to provide accident prevention, carry out maintenance and major repairs of existing networks, manholes and treatment facilities at its gas stations and petroleum depots.
Social policy
The Company pays much attention to its staff professional development. Employees take training and refresher courses at the Company’s training facilities, and in Russian and foreign leading educational institutions.

Surgutneftegas main training facility is represented by the Polytechnic Training Center (PTC) which provides unique opportunities to study modern methods and technologies of oil production, modeling of different situations occurred in production process, and obtain skills and techniques in real-life conditions. The Center boasts its own training ground with specialized facilities relating to the most complicated processes of the Company’s drilling activity, well servicing, oil and gas production.

The Company regularly implements new equipment, therefore, employees should constantly master new production processes. The Polytechnic Training Center runs customized courses enabling the personnel to train at workplaces, thus we maintain non-stop professional education.

In 2009, over 24 thousand people participated in educational programs run on the basis of the Company’s training centers – the Polytechnic Training Center and the Training Center of SurgutASUneft Operating Division.

In the reporting year, total number of employees who took training and refresher courses amounted to 31.4 thousand people, which makes 32% of aggregate number of staff involved in oil and gas production activity. In 2009, Surgutneftegas spent RUB 456 mn on professional training and personnel development.

Pursuant to the activity directed at oil and gas profession promotion Surgutneftegas signed programs of cooperation with municipal education institutions of the city of Surgut. To perform schoolchildren occupational guidance, we conduct topical classes on the Company profile and organize excursions to demonstrate our production sites.

To engage skilled professionals, Surgutneftegas implements

**SURGUTNEFTEGAS KEY PERFORMANCE FACTOR**

IS TO KEEP AND INCREASE HUMAN CAPACITY UNDER ANY EXTERNAL CIRCUMSTANCES. ANNUALLY, THE COMPANY TAKES MEASURES DIRECTED AT STAFF TRAINING AND PROFESSIONAL DEVELOPMENT, RETRAINING, AND RUNNING REFRESHER COURSES. SURGUTNEFTEGAS IS STRIVING TO IMPROVE INNER COMMUNICATION, FINANCIAL AND MORAL INCENTIVES, AND CONDUCT ACTIVE YOUTH POLICY.
professionally-oriented staff training programs in institutions of higher, secondary and primary education. The Company cooperates with leading higher education institutions, such as The G.V.Plekhanov Saint Petersburg State Mining Institute, Tyumen State Oil and Gas University, Surgut Oil Technical School, and Yakutsk State Agricultural Academy.

Surgutneftegas employees are mainly the graduates of Tyumen State Oil and Gas University. The Company takes active part in developing the University training facilities by providing state-of-the-art equipment and its own production technology, which in perspective will bring the organization of practical training in the University on a new quality level, and practical training will in most part meet production requirements.

In the reporting year, 1,842 persons participated in the Company’s oriented staff training programs, 78% of whom study in universities. There are 64 four students among them who study under the Treaty on Cooperation in Economic Development of Leninsky District Municipal Unit, the Republic of Sakha (Yakutiya). Surgutneftegas runs all kinds of internships and employs the students for this period of time to acquaint them with job specific character, requirements, and enable them to initiate projects meeting the Company’s needs. Surgutneftegas measures on work environment adaptation, internship participation, and professional development of young specialists stipulate their effective holding of vacant positions, adaptation to production conditions, successful job mastering, involvement in research and technical activity, skills improvement, professional and career development.

In the production sector, almost 42% employees have higher and secondary education, 116 persons have academic degree. In 2009, average number of the Company’s staff totaled 106 thousand people.

To effect timely staffing, Surgutneftegas generated electronic employment database of applicants. Using this database HR departments of the Company’s business units can select the required personnel.

In the reporting year, Surgutneftegas employed 506 young professionals, 191 of them graduated from professionally-oriented

| DYNAMICS OF PERSONNEL TRAINING IN THE COMPANY’S TRAINING CENTERS people |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 2005                     | 19,812          | 20,796          | 21,939          | 23,369          | 24,157          |
| 2006                     |                 |                 |                 |                 |                 |
| 2007                     |                 |                 |                 |                 |                 |
| 2008                     |                 |                 |                 |                 |                 |
| 2009                     |                 |                 |                 |                 |                 |
university. The Company offers material support to employees arrived from other regions of the Russian Federation. The Russian Federation proclaimed 2009 to be the Year of the Youth and primary goals concerned the development of creative, scientific and professional capacities of young people, their active involvement in social and economic changes in the country. Surgutneftegas took active part to achieve these goals. In the year under review, Surgutneftegas held The XXIX Scientific and Technical Conference for young professionals and scientists; 255 people participated in the Conference’s final session. Fifteen winners of the Conference were sent abroad for practical training. Annually, young professionals whose projects at the conference are recognized as the most valuable and cost effective for the Company receive the Viktor Sergeevich Deshura Award. In 2009, innovations and developments presented at the conference and later introduced into the production process saved over RUB 270 mn.

Various contests and conferences help identify the most creative and initiative employees who are awarded and encouraged for future activity, and such events enable the Company to implement developed innovative solutions.

Young people working in the Company are eager to participate in scientific conferences, forums, and creative youth contests, such as The Golden Future of Yugra and The Black Gold of Yugra, and annually win prizes for the Company.

Surgutneftegas young professionals traditionally participate in regional scientific conference. Seven of twenty employees of the Company won awards of The IX Young Professionals Conference for subsoil users in Khanty-Mansiysky Autonomous

<table>
<thead>
<tr>
<th>COSTS OF PERSONNEL DEVELOPMENT IN THE UPSTREAM SECTOR RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
</tr>
<tr>
<td>250</td>
</tr>
</tbody>
</table>
Okrug – Yugra, and three of them took the first prizes.

Forty-eight employees of the Company took part in The X Annual National Contest “Engineer of the Year 2009”, including the Youth Engineering nomination and the Professional Engineers nomination; twelve of them became prize winners.

Surgutneftegas Youth Association plays an important role in the Company’s communication with young professionals; it contributes to their training and professional growth, helps new employees adapt to the work environment, develops their activity and initiative skills, and spots future leaders.

To enhance personal involvement of the staff in the Company’s achievement of production targets and better results, Surgutneftegas employs the system of financial and moral incentives.

Financial incentives system is based on close correlation of remuneration with work results, and aims to ensure proper payment of wages and salaries, their regular indexation, and payment of bonuses and premiums with regard to professional skills, complexity and quality of task execution.

For the purpose of moral incentives, Surgutneftegas holds various professional competitions and recommends the most prominent employees for state awards and corporate badges of honor for service, as well as regional, city, and district awards and Surgutneftegas awards.

In the reporting year, we identified the best crews from Drilling Divisions and Exploration Division. Three crews won the first prizes, and for the first time were given the Alexander Usoltsev Award.

In the year under review, 246 employees were awarded corporate badges of honor for prominent contribution to labour activity; 1 person got State award; 1,611 people were presented Surgutneftegas awards, including 26 employees who received badges of honor “For Distinguished Service”.

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### DYNAMICS OF THE AVERAGE NUMBER OF EMPLOYEES IN SURGUTNEFTEGAS people

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>92,867</td>
<td>96,558</td>
<td>101,835</td>
<td>104,043</td>
<td>106,197</td>
</tr>
</tbody>
</table>

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The Collective Agreement concluded by the management and the trade union of the Company specifies the level of social benefits, guarantees, and compensations for the employees. Provided that the specified production objectives have been accomplished the employees may get more than thirty kinds of social benefits and guarantees.

Annually, Surgutneftegases operates four own health resorts, three of them located on the Black Sea shore in Krasnodarsky Krai, and one recreational center in Surgut – Kedrovy Log health center.

Kedrovy Log health center is licensed for 37 kinds of diagnostic and treatment medical services. High level of the center’s up-to-date equipment and medical services corresponds to the level of the best national and foreign clinics.

In the reporting year, Kedrovy Log rendered health maintenance and resumption medical services, as well as rehabilitation services to 7,000 Surgutneftegases employees and members of their families.

In 2009, the Company’s southern health resorts (including a children resort) offered recreation and treatment to more than 18,000 people.

**HEALTHCARE**

In line with the Company’s many-year Healthcare program we arrange employees’ standard medical examinations, health-resort treatment, preferential leave, improvement of housing conditions, non-governmental retirement insurance, support of young people and pensioners.

In 2009, about 27,000 employees, members of their families and retired employees of the Company received sound treatment in Russian and foreign health centers. On the whole, the Company spent almost RUB 1.2 bn for these purposes.
Surgutneftegas offers an opportunity to the employees' children to visit Yuny Neftyanik health resort and receive treatment, develop their creativity and interest in sports, foster physical and intellectual development. In 2009, about 5,000 employees' children visited Yuny Neftyanik health resort. Along with the staff rehabilitation in its own recreational centers, the Company interacts with a number of Russian and foreign medical and preventative organizations located in favorable climate zones.

Surgutneftegas conducts annual and preliminary (prior to employment) medical examinations. The purpose of such annual medical examinations is to trace the dynamics of personnel health status, prevent and timely identify incipient disease, and take measures against accidents. In the reporting year, more than 70,000 employees attended medical examination, which makes 70% of the number of staff involved in the upstream sector.

In 2009, Surgutneftegas totally spent RUB 1.4 bn on the Healthcare program.

PRODUCTION STANDARDS

The Production Standards program of the Company is focused on systematic improvement of working environment and production daily round.

All the Company's field facilities operate powerful engineering and IT- equipment, advanced automation solutions, and meet the highest sanitary and amenities standards.

In the reporting year, the Company commissioned nine buildings with 620 beds for rest between shifts and all necessary conveniences, including rest rooms, satellite television, canteens serving meals three and four times a day.

The Company pays close attention to catering. The chain of catering facilities provides all the staff (working at production bases and fields, at drilling sites and in trace conditions) with balanced meal made with regard to physical labour and climatic factors. In 2009, Surgutneftegas commissioned 8 permanent canteens and 21 mobile ones with hot meals serving.

Annually, the Company renovates its social amenities. In the year under review, capital construction costs amounted to RUB 328 mn.

Comfortable living conditions assure high working efficiency and favourable working atmosphere.

HOUSING

One of the goals of Surgutneftegas social policy is to contribute to the improvement of employees living conditions and housing construction.

Within the Company’s Housing program we build residential property, which is then transferred to the employees under purchase and sale or exchange contracts with payment by installments.
In the year under review, Surgutneftegas commissioned over 27,000 sq. m of living space; 469 apartments were transferred into ownership of the Company’s employees.

REGIONAL DEVELOPMENT PROMOTION

Surgutneftegas takes an active part in social and economic developing of all the regions of its presence. We follow the principles of social partnership, mutually beneficial cooperation, and strive to valid membership in economic life of the regions.

Along with production program execution, full and timely tax payment, preservation of work places and creation of new ones, Surgutneftegas promotes the development of small and medium businesses in the regions, makes a significant contribution to city and district infrastructure development, lends support to educational, cultural, and medical institutions.

Carrying out its activities, Surgutneftegas maintains continuous work of about 2,000 linked companies from various Russian industry sectors. For many years, Surgutneftegas has been lending support to Khanty and Mansi indigenous minorities who live in the area of its operations.

The Company takes an active part in organization and running of ethnic celebrations and art festivals, as well as cultural events; we sponsor children study in institutions of higher and vocational secondary education, finance the arrangement of their living conditions and their treatment in health resorts and oriented institutions.

The Company runs the construction of a few socially important facilities on the territory of the Republic of Sakha (Yakutia), particularly in the village of Vitim, Lensky District, which makes it the Company’s primary center of East Siberian oil and gas province.

In the reporting year, we arranged summer ecological camp for the schoolchildren of Lensky District.

SPORTS FOR EVERYONE

Surgutneftegas promotes sport activity and supports the employees healthy lifestyle.

The city of Surgut and Surgutsky District employ 21 sports facilities constructed by the Company including gyms, swimming-pools, sport and recreation centers, ski tracks, and recreation centers.

In 2009, more than 13,500 employees, or 14% of the total number of employees from the upstream sector, regularly attended gyms and swimming pools. We arranged and conducted 535 sporting events, including 5 Surgutneftegas sports contests on 27 kinds of sports.

In 2009, Surgutneftegas employees won three gold medals at international competitions. The Company’s selected team took the first prize among all Russian Energy Companies participated in National Sporting Competition run by the Ministry of Energy of the Russian Federation.

The Company’s refinery also attaches much importance to fitness and health activities. Exceptional opportunities for physical skills development and health promotion are provided by the refinery’s Neftyanik Sports Center and the Center for Water Sports being the training ground for the national men’s and women’s water polo teams.
KINEF women’s water polo team took the first prize of The XVII Russian Championship and won the Russian Cup.

Surgutneftegas promotes the Olympic Games development in the country. The Company has Children Sports School of Olympic Reserve with the following branches: futsal, hockey, swimming, skiing, boxing, and water polo.

For the last three years, we prepared 17 masters of sports and 47 candidates for masters of sports.

**VETERAN**

Surgutneftegas appreciates the significant labour contribution of its employees, and provides extended benefits and guarantees to retired employees ensuring their decent standard of living. The Company lends support in solving burning problems of not only its former employees, but cooperates with regional Councils of War and Labour Veterans in the areas of its operation.

The Company has organized a system of private pension plan based on lifetime retirement benefit scheme providing payment security.

In 2009, the number of retired employees exceeded 16,000 people, including 377 Great Patriotic War veterans. By the end of 2009, the Company set up 17,000 pension savings accounts with payouts reaching RUB 125 mn (a 17% increase).

In 2009, Surgutneftegas arranged a number of trips for retired employees to the cities of Ekaterinburg, Tobolsk, Moscow, and St. Petersburg. Annually, we organize various celebrations in honour of the retired employees and related to The Day of the Elderly and Day of the Disabled People.

Surgutneftegas traditionally sponsors the participation of the Great Patriotic War veterans in the Remembrance meeting at the Glory memorial on the Victory Day, the Company also lends financial support on the occasion of memorable events.

Over many years, Surgutneftegas has been in close cooperation with the Association of Retired Employees Board and the City Charity Public Organization “Zabota” for socially vulnerable people contributing to work scheduling and holding of various activities. In the reporting year, we carried out collaboration with the V.I.Muravlenko Tyumen Regional Fund which conducts social and cultural arrangements, performs charity and patronage activity to support veterans of oil and gas industry, and pursues publishing activity.
Charity and sponsorship

For years of its operation, Surgutneftegas generated stable traditions in the sphere of charity and sponsorship specifying the following main principles: rendering addressed and practical support to the people in need, creating and preserving social and spiritual values, establishing long-term relationships with support-addressees. Surgutneftegas contributes to such significant life areas, as culture, education, social sphere, and sport activity.

In 2009, in regard to cultural charity projects of social importance, we sponsored the Surgut Art Museum exhibitions and regional professional contests of journalistic skills, books and photo albums publishing.

Being a member of the Friends of the Russian Museum International Society, the Company’s refinery regularly helps this unique depository of national art masterpieces realize its projects.

KINEF Ltd. also maintains long-term relations with Tovstonogov Bolshoi Drama Theater Tovstonogov, The Maly Drama Theater – the Theatre of Europe, Saint-Petersburg State Theatre of Musical Comedy, Komissarzhevskaya Academic Drama Theatre, and the St. Petersburg Academic Philharmonic named after D.D. Shostakovich.

Surgutneftegas is in constant partnership with different religious confessions. In 2009, the Company
furnished assistance to Tobolsk-Tyumen Eparchy, Regional Religious Department of Muslims in KhMAO-Yurga, Alexander Nevsky Religious Organizations Fund, and Surgut Classical Orthodox Gymnasium. In the reporting year, we contributed to the construction of the Virgin Mary Cathedral in St. Petersburg.

In 2009, Surgutneftegas traditionally lent active support to children and educational institutions. The Company provided charity help to orphan asylums, schools, children-juvenile sport organizations, and social organizations running work with kids and adolescents, such as: Municipal Educational Institution Orphan Asylum No. 66 (the city of Tyumen), Dobry Volshebnik (Kind-Hearted Wizard) Rehabilitation Center for children and adolescents with disabilities (the city of Surgut), Cadet boarding school (the Republic of Sakha (Yakutia)).

The Company makes vital contribution in pursuit of certified oil and gas specialists training and regularly finances the enhancement
and development of educational institutions training facilities.

We lay particular emphasis to support the younger generation, as well as elderly people, war and labour veterans, and industry honored employees. In the reporting year, the Company made charitable contribution in favour of Great Patriotic War veterans living in the village of Vitim (the Republic of Sakha (Yakutia)), Surgut Public Fund of Victory, Novovasyuganskoye settlement (Kargasoksky Region, Tomskaya Oblast), and financed the construction of the Honored Dead memorial in Surgutsky District.

As a part of the Company’s social policy, we render help to disadvantaged people, sponsor the purchase of specialized equipment for people with disabilities.

Another essential aspect of the Company’s charitable activities is sports promotion. In 2009, Surgutneftegas sponsored the Northern Cup Annual International Children Tennis Tournament, supported Russian Olympic Athletes Fund, participated in Student Sports Development Project set up by Student Basketball Association, and helped Russian Martial Arts Association. Surgutneftegas renders traditional support to municipal entities activities directed at promotion of sports and healthy lifestyle, fosters national kinds of sport. For instance, we contributed heavily to organization of annual ethnic celebrations, such as Reindeer Herdsman Day (YaNAO), Fishermen, Hunters and Reindeer Herdsmen Meeting, and sports contests of the North minorities.
Company stock market performance
In 2009, the Company’s ordinary and preferred shares were traded on:
- Open Joint Stock Company “Russian Trading System” Stock Exchange (OJSC RTS) and
- Closed Joint Stock Company “Moscow Interbank Currency Exchange” (MICEX).

### MICEX QUOTATIONS FOR SURGUTNEFTEGAS SHARES

<table>
<thead>
<tr>
<th>Price, RUB</th>
<th>1Q2009</th>
<th>2Q2009</th>
<th>3Q2009</th>
<th>4Q2009</th>
<th>1Q2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary (max)</td>
<td>25.97</td>
<td>26.95</td>
<td>28.63</td>
<td>29.47</td>
<td>29.56</td>
</tr>
<tr>
<td>Ordinary (min)</td>
<td>12.90</td>
<td>20.60</td>
<td>13.53</td>
<td>15.48</td>
<td>23.40</td>
</tr>
<tr>
<td>Preferred (max)</td>
<td>9.13</td>
<td>11.95</td>
<td>12.12</td>
<td>14.70</td>
<td>17.49</td>
</tr>
<tr>
<td>Preferred (min)</td>
<td>5.55</td>
<td>8.29</td>
<td>7.50</td>
<td>11.00</td>
<td>13.62</td>
</tr>
</tbody>
</table>

### SNG SHARE PERFORMANCE VS. MICEX INDEX

Based on MICEX data

- MICEX Index
- Ordinary shares
- Preferred shares
Throughout 2009, American Depositary Receipts (ADR) program for ordinary and preferred shares continued to have effect. The program involved OJSC “Surgutneftegas”, the Bank of New York Mellon as a depositary, owners and beneficiaries.


ADS for Surgutneftegas preferred shares were traded in 2009 on Berlin Stock Exchange, Frankfurt Stock Exchange, Munich Stock Exchange, Stuttgart Stock Exchange, and Pink OTC Markets Inc.

### QUOTATIONS FOR SURGUTNEFTEGAS ADS ON PINK OTC MARKETS INC

<table>
<thead>
<tr>
<th>Price, USD</th>
<th>1Q2009</th>
<th>2Q2009</th>
<th>3Q2009</th>
<th>4Q2009</th>
<th>1Q2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADS for ords (max)</td>
<td>7.50</td>
<td>8.88</td>
<td>9.30</td>
<td>10.06</td>
<td>9.95</td>
</tr>
<tr>
<td>ADS for ords (min)</td>
<td>3.96</td>
<td>6.29</td>
<td>5.90</td>
<td>8.30</td>
<td>7.88</td>
</tr>
<tr>
<td>ADS for prefs (max)</td>
<td>2.60</td>
<td>3.56</td>
<td>3.95</td>
<td>5.00</td>
<td>5.55</td>
</tr>
<tr>
<td>ADS for prefs (min)</td>
<td>1.75</td>
<td>2.21</td>
<td>2.50</td>
<td>3.77</td>
<td>4.55</td>
</tr>
</tbody>
</table>

In 2009, one depositary receipt represents 10 ordinary and preferred registered shares of OJSC “Surgutneftegas”.

In 2009, one depositary receipt represents 10 ordinary and preferred registered shares of OJSC “Surgutneftegas”.
OJSC “SURGUTNEFTEGAS” TRANSACTIONS VOLUME ON RUSSIAN STOCK MARKET IN 2009

RUB mn

<table>
<thead>
<tr>
<th>Class of shares</th>
<th>RTS</th>
<th>MICEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares</td>
<td>19,301.79</td>
<td>216,325.21</td>
</tr>
<tr>
<td>Preferred share</td>
<td>3,174.84</td>
<td>100,829.15</td>
</tr>
</tbody>
</table>

PROSPECTS FOR FURTHER DEVELOPMENT OF SURGUTNEFTEGAS STOCK MARKET

The Company is planning to further maintain RTS listing and ADR program for ordinary and preferred shares of OJSC “Surgutneftegaz”, as well as facilitate trading of the Company’s securities on stock exchanges and OTC markets.
Financial (accounting) statements
INDEPENDENT AUDITOR’S REPORT

Auditor:
Name: “Rosexpertiza” Limited Liability Company

- Certificate of state registration of “Rosexpertiza” LLC. No. 183142 issued on September 23, 1993 by Moscow Registration Chamber.
- Certificate of Record of Legal Entity registered prior to July 01, 2002 entered into the Uniform State Register under main state registration number 1027739273946 on September 27, 2002.
- Legal Address: ul. Mashi Poryvaevoy, 11, Moscow, Russian Federation, 107078
- Mailing Address: Tikhvinsky per., 7, building 3, Moscow, Russian Federation, 127055
- Main registration number in the Auditors and Auditing Firms Register is 10205006556.

We have audited the accompanying financial (accounting) statements of OJSC “Surgutneftegas” for the period from January 01 to December 31, 2009 (inclusive). The financial (accounting) statements include:
- balance sheet;
- profit and loss account;
- supplements to balance sheet and profit and loss account;
- explanatory note.


The preparation of the present statements is the responsibility of the executive body of OJSC “Surgutneftegas”. It is our responsibility to express, based on our audit, an opinion on the fairness of these financial statements in all material respects and compliance of accounting and reporting procedures to the law of the Russian Federation.

The audit was planned and performed so as to obtain reasonable assurance about whether the financial (accounting) statements are free of material misstatement. The audit included examining, on a test basis, evidence supporting the amounts and disclosures of information on financial and business activity presented in financial (accounting) statements, assessing accounting rules and principles used to prepare financial (accounting) statements, and significant estimates made by the management of the audited body, and evaluating the overall financial (accounting) statement presentation. We believe that our audits provide a reasonable basis for the opinions on the fairness of these financial (accounting) statements and compliance of accounting and reporting procedures to the law of the Russian Federation.

In our opinion, the financial (accounting) statements of OJSC “Surgutneftegas” give a true and fair view of the state of the Company’s affairs as of December 31, 2009 and results of financial and business activity for the period from January 01 to December 31, 2009 inclusive in accordance with requirements of the law of the Russian Federation referring to preparation of financial (accounting) statements.

March 29, 2010

Director General
“Rosexpertiza” LLC  
A.V.Kozlov
(Qualification Certificate No. K 008734 of October 24, 1994 for General Audit, issued for unlimited period)  
RCA Membership Certificate No. 758 of June 29, 2000  
Main registration number in the Auditors and Auditing Firms Register 29405012883

Deputy Director General
“Rosexpertiza” LLC  
D.P.Zhitsov
(under Power of Attorney No. 4 of December 31, 2009, Qualification Certificate No. K 008659 of November 19, 2003 for General Audit, issued for an unlimited period)  
RCA Membership Certificate No. 3013 of August 14, 2009  
Main registration number in the Auditors and Auditing Firms Register 29405010521
## BALANCE SHEET

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>January 01, 2009</th>
<th>December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>202.4</td>
<td>259.1</td>
</tr>
<tr>
<td>Fixed assets, construction in progress</td>
<td>467,357.9</td>
<td>468,518.3</td>
</tr>
<tr>
<td>Income yielding investments into tangible assets</td>
<td>17.5</td>
<td>55.7</td>
</tr>
<tr>
<td>Long-term financial investments</td>
<td>189,393.0</td>
<td>255,140.0</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>698.8</td>
<td>1,079.4</td>
</tr>
<tr>
<td>Other non-current asset</td>
<td>9,190.4</td>
<td>13,031.4</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>37,162.3</td>
<td>44,878.9</td>
</tr>
<tr>
<td>Value added tax on acquired assets</td>
<td>5,010.0</td>
<td>3,486.0</td>
</tr>
<tr>
<td>Accounts receivable (due in more than 12 months after balance sheet date)</td>
<td>1,807.0</td>
<td>1,714.8</td>
</tr>
<tr>
<td>Accounts receivable (due within 12 months after balance sheet date)</td>
<td>59,127.6</td>
<td>74,816.1</td>
</tr>
<tr>
<td>Short-term financial investments</td>
<td>376,587.9</td>
<td>384,381.2</td>
</tr>
<tr>
<td>Cash</td>
<td>17,646.7</td>
<td>15,809.0</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,966.2</td>
<td>1,040.9</td>
</tr>
<tr>
<td><strong>BALANCE</strong></td>
<td><strong>1,166,167.7</strong></td>
<td><strong>1,264,210.8</strong></td>
</tr>
</tbody>
</table>

| LIABILITIES | | |
| **Capital and reserves** | | |
| Charter capital | 43,428.0 | 43,428.0 |
| Additional capital | 588,966.6 | 586,115.7 |
| Reserve capital | 6,514.2 | 6,514.2 |
| Retained earning (uncovered loss) | 473,938.7 | 559,015.1 |
| **Long-term liabilities** | | |
| Deferred tax liabilities | 12,594.6 | 16,691.7 |
| **Current liabilities** | | |
| Borrowings and loans | 38.6 | 43,076.4 |
| Accounts payable | 31,802.5 | 526.6 |
| Amounts due per revenues payments to participants (founder members) | 2,075.9 | 1,746.7 |
| Deferred revenues | 6,282.0 | 7,074.2 |
| **BALANCE** | **1,166,167.7** | **1,264,210.8** |

Condensed financial statements are prepared in accordance with Order No.101 of the Ministry of Finance of the Russian Federation as of November 28, 1996.
NOTES TO THE BALANCE SHEET

The financial statements of OJSC “Surgutneftegas” have been prepared in accordance with the current accounting standards of the Russian Federation. The amendments were introduced to the grand total as of January 01, 2009.

<table>
<thead>
<tr>
<th>RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>According to approved balance sheet as of December 31, 2008</td>
</tr>
<tr>
<td><strong>Grand total alteration:</strong></td>
</tr>
<tr>
<td>Total increase</td>
</tr>
<tr>
<td>including</td>
</tr>
<tr>
<td>Amount after revaluation of fixed assets</td>
</tr>
<tr>
<td>Total decrease</td>
</tr>
<tr>
<td>including</td>
</tr>
<tr>
<td>Amount after revaluation of deferred tax assets</td>
</tr>
<tr>
<td>As per balance sheet as amended dated January 01, 2009</td>
</tr>
</tbody>
</table>

Intangible assets

Intangible assets include rights of disposal of intellectual property arising from copyright and other agreements for products of scientific research, works of literature, art and objects covered by associated rights, software, databases; patents for inventions and production samples; certificates or license agreements for usable models, trade and service marks.

Fixed assets and construction in progress

Based on actual purchase costs, item “Fixed assets” shows residual value of operating fixed assets and those being reconstructed, upgraded, recovered, laid-up or in stock.

Total (replacement) value of fixed assets was assessed as of January 01, 2009.

Item “Construction in progress” includes the cost of construction and assembly work being performed on in-house and contractual basis.

Financial investments

Financial investments include long-term and short-term investments in subsidiaries, charter capitals of other companies, deposits, loans extended to other companies, securities of other organizations at book value net of impairment provision.

Non-current assets

Item “Non-current assets” includes expenditures for scientific researches, development activities, engineering works and licenses for the right to use subsurface mineral resources.

Stocks

Item “Stocks” includes the value of residue stock of raw materials, materials and other equivalent assets, work-in-progress expenditures, finished goods,
dispatched goods and deferred expenses. The expenses are written off to cost of production based on average cost in accordance with the Company’s accounting policy.

**Value added tax on acquired assets**

This line shows the amount of value added tax on acquired inventories, intangible assets, capital investments made, works and services, etc., duly subject to allocation in the next reporting periods to reduction of tax amounts transferable to the budget and corresponding sources of its absorbing.

**Accounts receivable**

The accounts receivable lines show amounts currently due to the Company from buyers and customers for dispatched goods, completed works and rendered services, including amounts due per contractual issued advances for future settlements, settlements of claims, as well as taxes and duties settlements.

**Cash**

Item “Cash” includes balances on ruble and foreign currency accounts, petty cash and other monetary resources: letters of credit, cheque books, and post stamps.

**Other current assets**

Item “Other current assets” includes amounts related to execution of trust property management contracts.

**Charter capital**

The charter capital of the Company as of December 31, 2009 is RUB 43,428.0 mn divided into 35,725,994,705 ordinary shares and 7,701,998,235 preferred shares with a par value of RUB 1 each.

**Additional capital**

Item “Additional capital” includes amounts resulting from additional valuation of fixed assets, share premiums (received amounts in excess of the par value of placed shares), income retained and used to cover capital production expenditures.

**Reserve capital**

This item includes the reserve fund created in accordance with the legislation of the Russian Federation and charter documents of the Company.

**Accounts payable**

Item “Accounts payable” shows the balances currently due from the Company to suppliers and contractors for delivered inventories, completed work and
rendered services, wage arrears, amounts due to the budget and non-budget funds, due to contractual advances received from other entities.

**Deferred revenues**
This item reflects amounts of special-purpose financing directed to fixed assets put into operation with subsequent posting of accumulated depreciation as other revenues.

**Reserves for future expenses**
This item shows reserves for forthcoming vacation allowance payments.

**PROFIT AND LOSS ACCOUNT**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Net) revenue from sales of goods, products, works and services</td>
<td>503,305.5</td>
<td>546,695.2</td>
</tr>
<tr>
<td>(less VAT, excise duties and similar obligatory payments)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods, products, works, services sold</td>
<td>(336,002.0)</td>
<td>(397,298.9)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>167,303.5</td>
<td>149,396.3</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>(39,121.4)</td>
<td>(36,281.4)</td>
</tr>
<tr>
<td>Sales profit (loss)</td>
<td>128,182.1</td>
<td>113,114.9</td>
</tr>
<tr>
<td><strong>Other revenues and expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receivable</td>
<td>37,007.2</td>
<td>31,685.4</td>
</tr>
<tr>
<td>Interest payable</td>
<td>(311.0)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Minority interest</td>
<td>86.1</td>
<td>720.9</td>
</tr>
<tr>
<td>Other revenues</td>
<td>549,100.1</td>
<td>961,010.2</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(572,251.5)</td>
<td>(914,935.3)</td>
</tr>
<tr>
<td><strong>Pre-tax profit</strong></td>
<td>141,813.0</td>
<td>191,596.0</td>
</tr>
</tbody>
</table>

**Distribution of profit for 2009**

<table>
<thead>
<tr>
<th>№</th>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Pre-tax current year profit</td>
<td>141,813.0</td>
</tr>
<tr>
<td>2.</td>
<td>Deferred tax assets</td>
<td>380.6</td>
</tr>
<tr>
<td>3.</td>
<td>Deferred tax liabilities</td>
<td>(4,097.1)</td>
</tr>
<tr>
<td>4.</td>
<td>Current profit tax and obligatory payments through profit</td>
<td>(24,222.6)</td>
</tr>
<tr>
<td>5.</td>
<td>Retained profit (net profit) including profit allocated for dividend payments</td>
<td><strong>113,873.9</strong></td>
</tr>
</tbody>
</table>
NOTES TO THE PROFIT AND LOSS ACCOUNT

Current year revenue from the sale of goods, products, works and services amounted to RUB 503,305.5 mn, down by 7.9 % compared with 2008.

In 2009, the cost of goods, products, works and services sold decreased by 15.4 % to RUB 336,002.0 mn compared with the previous year.

In the reporting period, selling expenses amounted to RUB 39,121.4 mn, up by 7.8 % growth compared with the previous year.

Sales profit of the Company increased by 13.3 % compared with the past year as a result of cost reduction of goods, products, works, services sold along with less significant reduction of sales revenue from goods, products, works, services.

In 2009, interest receivables rose by 16.8 % to RUB 37,007.2 compared with 2008.

In the reporting year, other expenses exceeded over other revenues by RUB 23,151.4 mn mostly due to foreign exchange losses.

Pre-tax profit reported in 2009 amounted to RUB 141,813.0 mn, an increase of 26.0 % over 2008 results.
Board of Directors
In 2009, the Company’s fraction of ordinary registered shares owned by the member of the Board of Directors Vladislav E. Druchinin has changed from 0.0259% to 0.0253%, and his share in charter capital has changed from 0.0286% to 0.0282%. Two hundred thousand shares of the Company were sold in accordance with the purchase and sale agreement of October 07, 2009.
Additional information
REPORT ON DECLARED DIVIDEND PAYMENTS
FOR THE COMPANY’S SHARES

Dividend rates for 2008
- Dividends accrued for an ordinary share of the Company (RUB): 0.60;
- Dividends accrued for a preferred share of the Company (RUB): 1.326;
- Dividends accrued for all ordinary shares of the Company (RUB thous.): 21,435,597;
- Dividends accrued for all preferred shares of the Company (RUB thous.): 10,212,850;

The management body that has adopted a resolution to pay dividends: Annual General Shareholders’ Meeting.
Date of the Annual General Shareholders’ Meeting: June 27, 2009.
Date and number of the Minutes of the Annual General Shareholders’ Meeting:
June 29, 2009, No. 20.
The due period for declared dividend payment: from July 01, 2009 till August 26, 2009.
Form and other conditions of declared dividend payment: cash in compliance with the established and approved dividend payment procedure.
Reasons for non-payment (partial payment): no reasons.
As of December 31, 2009, monetary funds for 2006–2008 amounting to RUB 548,787 thous. were placed on deposit due to reasons beyond control of the Company such as incorrect, incomplete or outdated bank account details and/or shareholders postal address specified in the registered persons questionnaires for receipt of dividends.

INFORMATION ON REMUNERATION PAID TO THE COMPANY’S EXECUTIVE BOARD AND MEMBERS OF THE BOARD OF DIRECTORS

Remuneration is paid to the members of the Board of Directors in compliance with OJSC “Surgutneftegas” Charter.
Remuneration and expenses reimbursement paid to the members of the Board of Directors of OJSC “Surgutneftegas” in 2009 totaled RUB 14,789.7 thous.

INFORMATION ON TRANSACTIONS CARRIED OUT BY THE COMPANY DURING THE REPORTING YEAR

Large-scale transactions carried out by the Company
The Company did not carry out any large-scale transactions.
Interested party transactions carried out by the Company
The Company did not carry out any interested party transactions.

INFORMATION ON INDIVIDUAL EXECUTIVE BODY

Vladimir L. Bogdanov
Mr. Bogdanov was born in 1951 and has been the Director General of OJSC “Surgutneftegas” and a member of the Company’s Board of Directors since 1993.
INFORMATION ON THE COMPANY’S COMPLIANCE WITH THE CODE OF CORPORATE BEHAVIOR


INFORMATION ON FINANCIAL (ACCOUNTING) STATEMENTS

Annual financial (accounting) statements of OJSC “Surgutneftegas” for 2009 were signed by Vladislav G. Barankov, First Deputy Director General on Finance and Taxation, and Andrey V. Druchinin, Chief Accountant.

Financial (accounting) statements were submitted to the Interregional Inspectorate of the Federal Tax Service of Russia for Major Taxpayers No. 1 located at pr. Mira, All-Russia Exhibition Center, bld. 194, Moscow, Russian Federation, 129223, and to Surgut City State Statistics Directorate, Khanty-Mansiyskstat, located at ul. Moskovskaya 34b, Surgut, Tyumenskaya Oblast, Russian Federation, 628400.

INFORMATION ON THE COMPANY’S REGISTRAR

Registrar:
Name: Closed Joint Stock Company “Surgutinvestneft”
Location: the city of Surgut, Tyumenskaya Oblast, Russian Federation
Mailing address: ul. Entuziastov, 52/1, Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast, Russian Federation, 628415
Tel.: (3462) 42 11 74
Fax: (3462) 42 11 93
E-mail: info@sineft.ru

INVESTOR RELATIONS SERVICE

Mailing address: ul. Myasnitskaya 34, Moscow, Russian Federation, 101000
Tel. (495) 980 15 58
E-mail: Kuzovov_VS@surgutneftegas.ru

PRESS-SERVICE OF THE COMPANY

Tel.: (3462) 40 10 07, 40 10 08
E-mail: Raya@stocks.surgutneftegas.ru

PUBLIC ANNOUNCEMENTS

The Company publishes information for shareholders
- in the Neft Prioby weekly electronic and printed corporate publication

INFORMATION ON THE COMPANY IN INTERNET

The Company’s web address: www.surgutneftegas.ru
FULL COMPANY NAME
Open Joint Stock Company “Surgutneftegas”
Address: ul. Kukuyevitskogo 1, Surgut, Tyumenskaya Oblast, Russian Federation, 628415

Representative office
Moscow Office of OJSC “Surgutneftegas”
Address: ul. Myasnitskaya 34, Moscow, Russian Federation

Representative office
St. Petersburg Office of OJSC “Surgutneftegas”
Address: ul. Podkovyrova 37, St. Petersburg, Russian Federation

Representative office
Yakutsk Office of OJSC “Surgutneftegas”
Address: ul. Ordzhonikidze 36, Yakutsk, Republic of Sakha (Yakutia), Russian Federation

This Brochure includes main parts of the annual report and annual financial (accounting) statements of OJSC “Surgutneftegas” for 2009. OJSC “Surgutneftegas”, “Company”, “we”, “our”, “us” and “joint-stock company” used in the text of the Brochure are interchangeable terms that relate to Surgutneftegas group of companies as a whole, OJSC “Surgutneftegas” and/or its subsidiaries subject to the context. Brent and Urals quotations are calculated by the Company on the basis of data provided by Interfax – Petroleum Information Agency. Industry-wide key figures: source – the periodicals Info TEK and Oil & Gas Vertical.