OJSC "SURGUTNEFTEGAS"

ENVIRONMENTAL REPORT

2007

CONTENTS

INTRODUCTION

Anatoly S. Nuryaev
First Deputy Director General, OJSC "Surgutneftegas"

One of the Russian oil majors, OJSC "Surgutneftegas" is fully aware of its responsibility for resources conservation and protecting nature in all regions in which it operates.

In our future consideration of the Company's development we focus on achieving a balance between demands of present and future generations for material and social welfare laying ground for sustainable and effective business performance.

Introduction of environmental management practices helps us mitigate environmental risks and cut costs on the back of governmental and international nature protection laws enforcement. As a result, ecological compatibility of production process becomes a serious competitive factor of our Company.

Furthermore, our engineering and conservation approach to solving production tasks contributes to latest scientific and technical developments. Particularly, in oil and gas producing sector which becomes a driving force behind new technological solutions development aimed at lower energy, nature and resources consumption.

By investing heavily in nature protection programs, we are investing in the future of our Company and improving living environment in the areas in which we operate. High environmental safety of our operations contributes to building positive image of Surgutneftegas in the society, business and governing institutions.

We value our reputation of a good corporate citizen and have always been open for a dialogue and discussion of major environmental issues with every party committed to sustainable development and sound environmental behavior.

FUNDAMENTALS OF OJSC "SURGUTNEFTEGAS" ENVIRONMENTAL POLICY

REGULATIONS AND STANDARDS OF THE RUSSIAN FEDERATION AND ITS ENTITIES, MAJOR INTERNATIONAL CONVENTIONS AND TREATIES ARE BEHIND THE COMPANY'S ENVIRONMENTAL EFFORTS AIMED AT SOUND DEVELOPMENT OF PRODUCTION AND SOCIAL SPHERE, SOCIAL PROGRESS AND NATURE PROTECTION.

FUNDAMENTAL PRINCIPLES OF THE COMPANY'S ENVIRONMENTAL POLICY INCLUDE:

- Progressive improvement of natural protection and environmental management at Surgutneftegas;
- Industrial safety in line with up-to-date international standards and requirements;
- Lower toxic waste and pollutants discharge against higher production output through the state-of-the-art technologies and scientific achievements;
- Sustainable utilization of natural resources based on nature and resource saving technologies;
- Constant control over compliance with industrial and environmental requirements;
- Continued monitoring of the environmental situation at the territory of the Company's operation;
- Lower industrial impact of new-built facilities achieved through comprehensive preparation of preliminary design and project documentation;
- Extensive personnel expertise in nature protection;
- Transparency of the Company's environmental efforts.

OJSC "SURGUTNEFTEGAS"

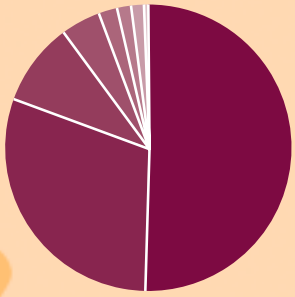
The Company's conservation activity is in accord with the corresponding laws of the Russian Federation and its constituent entities, and nature protection plans developed under comprehensive "Ecology" program.

With a view of systematic and planned mitigation of industrial impact on the environment, the Company is annually engaged in:

- Nature protection facilities construction;
- Land, water and air resources protection and conservation;
- Natural environment and production facilities monitoring;
- Pipeline accident prevention and management;
- Production waste processing and scientific research works.

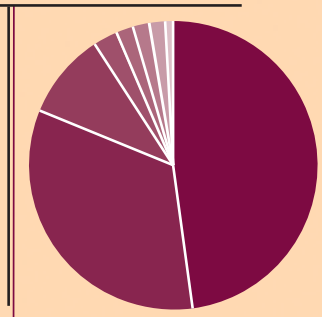
OIL PRODUCTION

FINANCING OF ENVIRONMENTAL ACTIVITY IN 2005 – RUR 10,011.3 MN



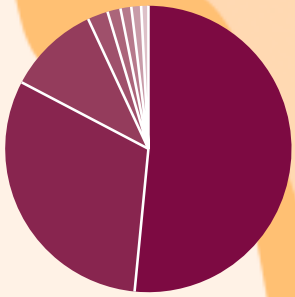
- 51.6% industrial waste recovery
- 32.3% nature protection facilities construction
- 10.9% pipeline accident prevention
- 2.5% accident management
- 1.5% contractual works
- 0.7% drilling mud storage pits recultivation
- 0.5% monitoring
- 0.1% air protection

FINANCING OF ENVIRONMENTAL ACTIVITY IN 2006 – RUR 11,413.8 MN



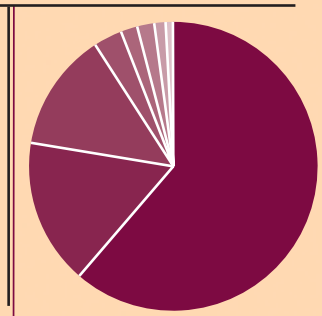
- 48.0% industrial waste recovery
- 35.4% nature protection facilities construction
- 11.8% pipeline accident prevention
- 2.7% accident management
- 0.8% drilling mud storage pits recultivation
- 0.7% monitoring
- 0.6% contractual works
- 0.1% air protection

FINANCING OF ENVIRONMENTAL ACTIVITY IN 2007 – RUR 16,136.8 MN



- 52.3% industrial waste recovery
- 31.7% nature protection facilities construction
- 12.0% pipeline accident prevention
- 2.6% accident management
- 0.6% drilling mud storage pits recultivation
- 0.5% monitoring
- 0.1% air protection
- 0.1% contractual works

EXPECTED FINANCING OF ENVIRONMENTAL ACTIVITY IN 2008 – RUR 14,419.9 MN



- 58.5% industrial waste recovery
- 20.5% nature protection facilities construction
- 16.5% pipeline accident prevention
- 2.8% accident management
- 0.8% drilling mud storage pits recultivation
- 0.7% monitoring
- 0.2% contractual works
- 0.1% air protection

"Ecology – 2007" program financing in the upstream sector grew by 41% to RUR 16.137 bn (in 2006 – RUR 11.414 bn).

Significant investments growth in nature conservation is driven by larger scale of environmental facilities construction mostly at new oilfields and higher operational expenses incurred at industrial water and waste disposal.

PIPELINE ACCIDENT PREVENTION

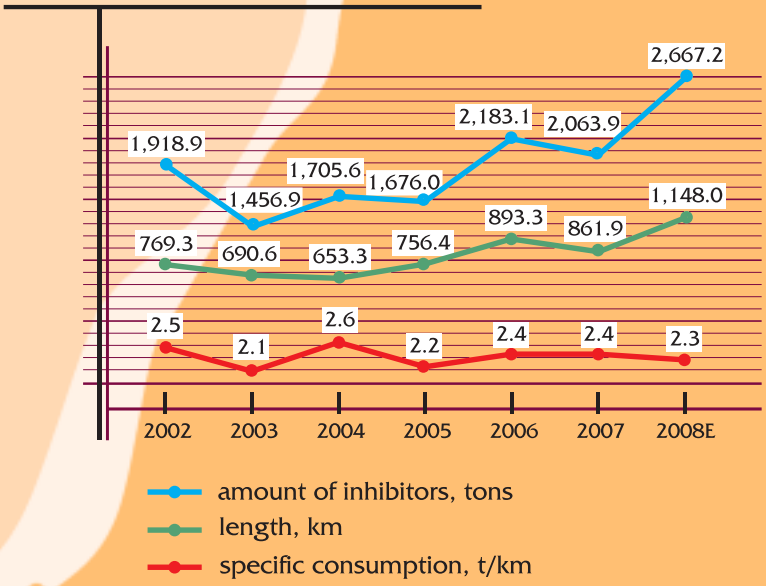
Accidents and oil spills at pipelines are the major reasons for oil contamination. As a result, maintaining reliability of equipment and installations, anticorrosion monitoring and pipeline protection is high on the Company's agenda.

Surgutneftegas is systematically carrying on environmental activity aimed at accident prevention.

Corrosion monitoring is performed at over 70% of field pipelines at 429 control points. Based on monitoring results, the Company's experts evaluate aggressive action of the fluids pumped, determine and apply protection methods stipulated by environmental protection standards and regulatory documents. Corrosion inhibitors applied for protecting field equipment contribute heavily to reduced number of equipment failures and lower corrosion intensity.

To cover 875.7 km of water and oil pipelines with inhibitors protection in the reporting year there were 2,071 tons of corrosion inhibitors used with efficiency of 90%-98%. Specific consumption of corrosion inhibitors amounted to 2.4 t/km in 2007. Less number of accidents and oil spills allowed the Company's environmental specialists to prevent potential environmental damage amounting to RUR 404.5 mn.

INHIBITOR PROTECTION DYNAMICS



OIL PRODUCTION

We apply home-produced and foreign-madeagents as corrosion inhibitors. Agents produced abroad account for 30% of the total volume.
As a part of import substitution program in 2007 we carried out industrial tests of 4 new and modified corrosion inhibitors with high coefficient of partitioning into the water phase at the Fedorovskoye, Zapadno-Surgutskoye and Russkinskoye oil fields.

In the year under review, the Company replaced 533 km of accident-prone pipeline sections. To this end we spent RUR 1.835 bn against RUR 1.234 bn in 2006.

Construction and operation of initial water separation units (IWSU) help significantly mitigate risk of accidents at pressure pipelines. IWSU enable us to transport oil with average residual water content of about 3.37% and prevent oil pipeline "rill corrosion" risk.
At the same time, IWSUs helped us reduce energy consumption and steel intensity of Surgutneftegas pipeline system which is of high importance taking into consideration high water cut of our oil.

In 2007, Surgutneftegas commissioned 5 IWSUs. Three more units are under construction. IWSU construction costs amounted to RUR 331.2 mn.

Altogether, we have 93 IWSUs in operation, including 84 units installed on three-phase Heater-Treater separators enabling us to operate almost all types of pressure pipelines in dewatered oil transportation mode.

OIL CONTAMINATION CLEANUP

With a view of prompt management of potential oil spills and their aftereffects, we equip our environmental protection services with top-of-the-line technologies for oil gathering and further remediation of disturbed soils, organize scheduled exercises on accident localization and post-accident clean-up.

The Company operates the following machinery and equipment:

- 106 oil-skimmers of different skimming modes, designed to recover oil ranging in viscosity and operate under various weather or climatic conditions (including 7 skimmers purchased in 2007);
- 3 oil spill recovery boats for skimming oil off shallow waters including the Ob', Pim, and Tromyegan rivers;
- self-contained high-pressure pumps and easy-to-assemble aluminum pipes to pump over skimmed oil from hard-to-access areas;
- over 6,300 meters of portable and quickly deployable booms equipped with air blowers, lightweight and reinforced, frost-resistant, for onshore and offshore protection (including 300 m purchased in 2007);
- mobile self-elevating "Vaicotank" reservoirs for temporary oil storage;
- absorbent boom-forming equipment and absorbent boom squeezers, absorbent materials used to manufacture multi-use booms;
- sprinkler irrigation systems of different flow rates for biological reagents and bacteria treatment;
- 4 units (U-STRG) for producing thermally exfoliated graphite absorbent (STRG) with capacity of 30 kg/h, and 12 backpack sprayers to apply absorbent to inaccessible areas;
- 6 multifunctional amphibic machines "Truxor DM 4700B" with attached implements for integrated treatment of water basins and near shore area.

OIL PRODUCTION

Besides, the Company has Kenworth vacuum dump trucks, vacuum tank cars "KAS-11" (Tatra based), and all-terrain vehicles "Haska" and "Chieftein" equipped with mechanical shovel and attachments.

For post-accident clean-up and rehabilitation of hard-to-reach swampy areas and wetlands, the Company successfully used multifunctional amphibic vehicles "Truxor DM 4700B" with attached implements for integrated treatment of water basins and near-shore areas. Thus, in 2007 "Truxor DM 4700B" restored 18.9 ha of hard-to-get swamps and wetlands contaminated with oil against 3.7 ha in 2006. This equipment allowed us to save from RUR 3 mn to RUR 5 mn per unit of equipment per season.

The year under review witnessed no accidents at the Company's fields. Thanks to prompt and sufficient measures taken by the Company to identify, localize and clean-up oil spills, there were no major environmental contaminations as a result of incidents whose number had grown.

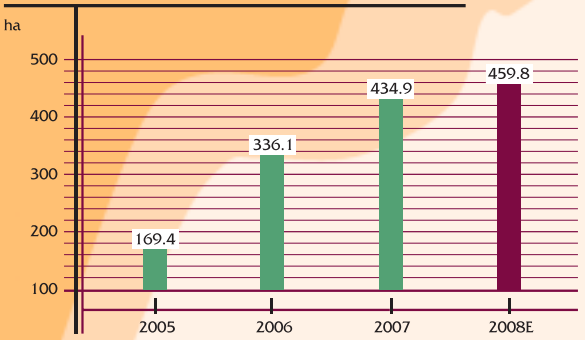
As a result of 75 accidents, there were 102 tons of oil spilled with 98 tons gathered within 48 hours. The amount of residual oil spilled was 4 tons with contaminated square of 33 ha. The amount of oil left in the environment after localization and liquidation reduced by 2.4 times in 2007 against 2006.

LAND REHABILITATION

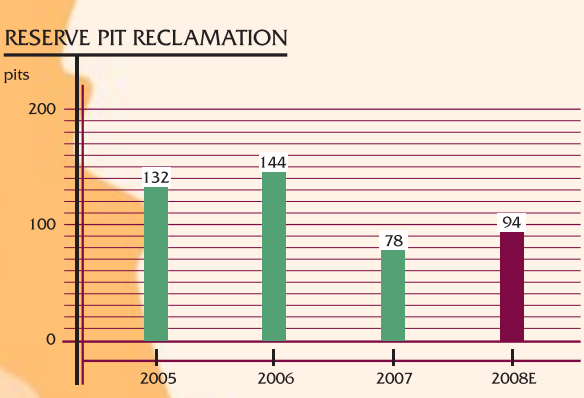
According to accident rate and resoiled land evaluation as of January 1, 2008, contaminated land of Surgutneftegas covered 382 ha against 395 ha in early 2007.

All in all, in the reporting year, the Company rehabilitated 435 ha of oil-contaminated land, where 74.5 ha of land were inspected and deregistered by Surgut Interdistrict Department of Rosprirodnadzor (The Federal Service for Supervision of Natural Resource Usage) for Khanty-Mansiysky Autonomous Okrug – Yugra against 54 ha in 2006. In 2007, we pioneered in applying low-temperature bacteriological agent with high concentration of living cells "Biooil-Yugra" specially developed for land rehabilitation.

OIL-CONTAMINATED LAND REHABILITATION



OIL PRODUCTION



In 2007, the Company spent RUR 353 mn on land rehabilitation efforts.

To reclaim reserve pits on our exploratory and production drilling sites within Khanty-Mansiysky Autonomous Okrug – Yugra, we apply forest restoration technology which allows us to exclude burial disposal in favor of revegetation and reforestation technique. This technology proved to be the most ecologically and economically sound solution. In the reporting year, the Company reclaimed 225 sections of 78 reserve pits. Altogether, the Company reclaimed 384 sections of reserve pits and drilling waste water tanks at 139 drilling sites.

In 2007, we spent RUR 103.5 mn for reserve pit reclamation.

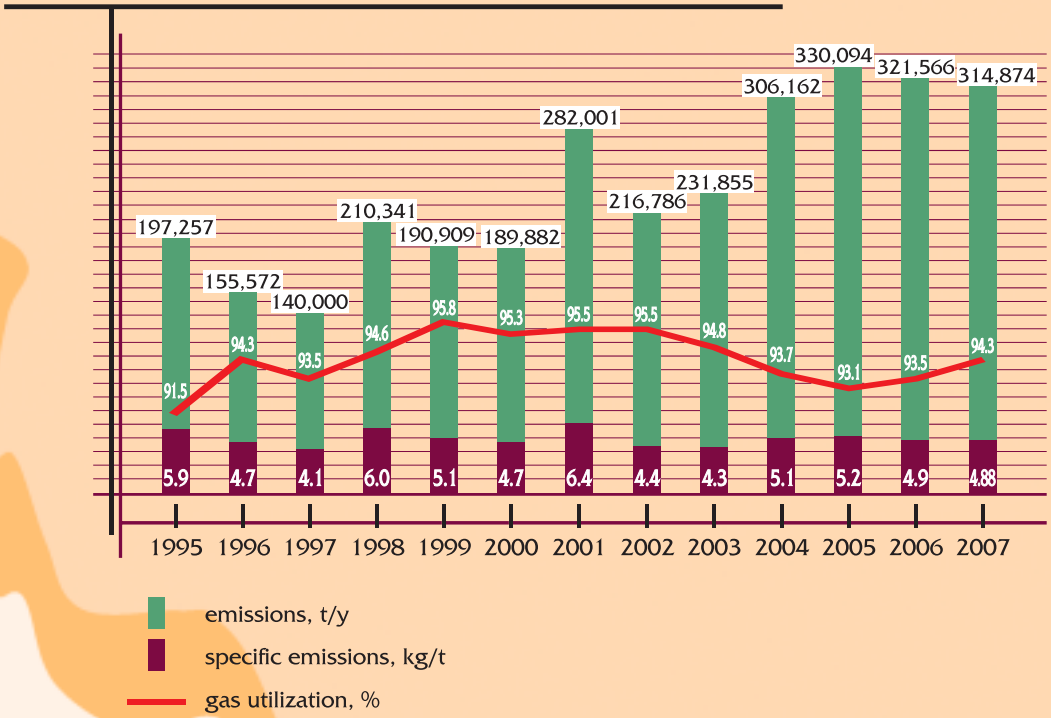
AIR PROTECTION

As part of comprehensive air protection programs, Surgutneftegas is systematically reducing air pollutant emissions, constructing air cleaning facilities, and improving utilization efficiency of such invaluable resource as associated petroleum gas (APG).

Over the last nine years, the Company has been carrying out a project to construct gas turbine and gas piston power plants (GTP and GPP plants) to increase the utilization ratio of associated petroleum gas, generate additional power with no spending for gas pipelines, compressor stations, high-voltage lines and substations, and cut down air pollutant emissions and APG flaring, which is 20.3% down from 2006. While the APG utilization ratio in 2006 was at 93.5% (93.7% in Khanty-Mansiysky Autonomous Okrug – Yugra), in 2007 Surgutneftegas reached a ratio of 94.3%, including 94.6% in the Okrug.

In 2007, we put into operation gas turbine power plants at the Zapadno-Chigorinskoye and Verkhne-Nadymskoye fields and a gas piston power plant at

AIR POLLUTANT EMISSIONS AND ASSOCIATED PETROLEUM GAS UTILIZATION IN OJSC "SURGUTNEFTEGAS"



the Vostochno-Surgutskoye field. The Company's power generation facilities include 15 gas turbine and 3 gas piston plants. The 2007 budget for GTP and GPP plant construction was RUR 3.851 bn, a 35.6% increase compared to 2006.

To further increase the APG utilization ratio, the Company added other facilities such as compressor stations, heated parking lots, and air heating lines for motor vehicles, and installed gas infrared heaters (radiant heating systems).

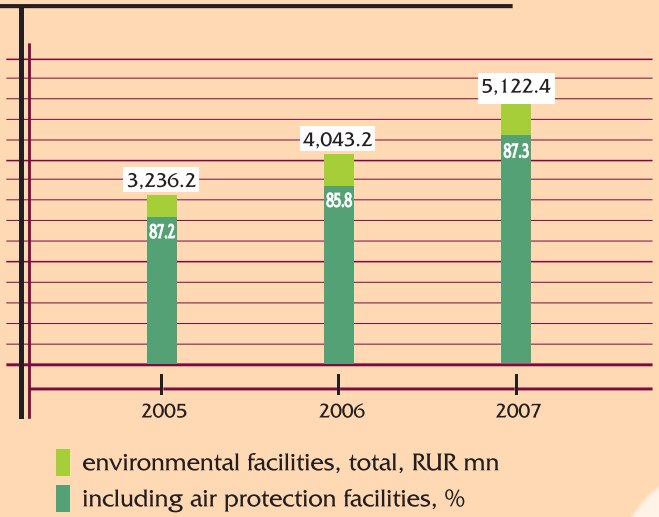
Gas was also used in-house for boilers, furnaces, initial water separation and oil treatment units. In 2007, in-house gas consumption grew by 10% to 2.428 bcm.

The Company' Gas Processing Division increased gas processing by 31% in 2007.

In order to comply with air emission regulations, furnaces, boilers and other fuel combustion equipment undergo regular modification. To this end, the Company spent RUR 15.4 mn in 2007.

Dust and gas collectors installed at processing equipment reduce solid emissions into the atmosphere.

SPENDING FOR ENVIRONMENTAL FACILITIES CONSTRUCTION BY OJSC "SURGUTNEFTEGAS"



In the year under review, we commissioned 12 dust and gas collectors with the total capacity of 15,000 cub m/h. Environmental experts monitor the level of purification at existing dust and gas units on a regular basis. In 2007, dust and gas units collected 9,200 tons of pollutants.

Another factor reducing air pollutant emissions is 100% control of the toxic and exhaust smoking levels in motor vehicles.

SurgutNIPIneft, the Company's R&D institute, developed and updated 23 Maximum Permissible Emissions (MPE) projects in 2007. In line with the projects, the Company's divisions duly received permissions for air pollutant emissions.

Despite ever-expanding production and a growing number of stationary emission sources (240 sources more), air protection efforts allowed us to reduce the total air pollution emissions to 314,800 tons, which is 6,700 tons less than in 2006. Specific emissions to the atmosphere decreased accordingly from 4.9 kg/t to 4.88 kg/t.

In 2007, air protection costs reached RUR 4.490 bn, including RUR 4.473 bn to construct and put APG utilization facilities into operation. Construction costs for air protection facilities in the reporting year, 28.6% up from the previous year, accounted for 87.3% of the Company's total costs for environmental facilities construction.

OIL PRODUCTION

WATER PROTECTION AND WATER MANAGEMENT

The primary environmental objectives of the Company in protection and restoration of water resources are to prevent water pollution by process wastewater and liquid effluents and use water resources in an efficient way.

Surgutneftegas finances development and creation of water protection zones across the entire area of its activity. As of the beginning of 2008, the Company operated 933 facilities located in water protection zones.

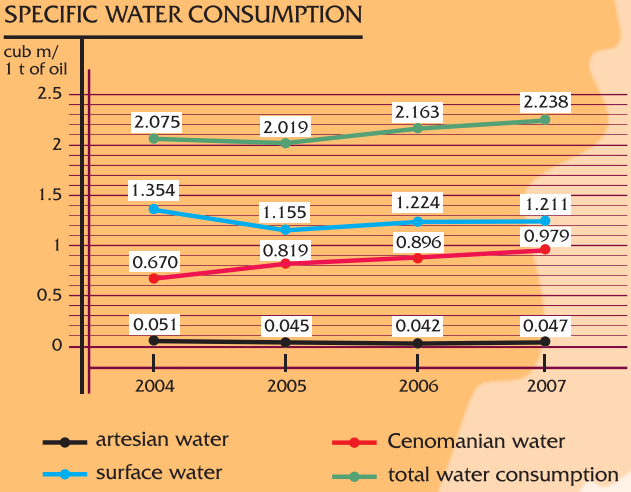
Throughout the reporting period, we were working hard to bring oil production facilities built in the 1980s and located in water protection zones up to current environmental standards. According to new standards and requirements set forth in the Company's design and operating procedures, we replaced flare pits with drain tanks on 79 well sites, restored bunds and ramps on 247 and 114 well sites, respectively, in water protection zones.

The Company stopped discharging wastewater into water bodies more than 8 years ago. Treated wastewater is either pumped through a pipeline or transported by road to the reservoir pressure maintenance system. Wastewater used to maintain reservoir pressure (1,563.2 thousand cub m in 2007) reduces fresh water intake from surface water bodies. The Company is planning to apply the same wastewater disposal solution at new oil fields, including production sites in the Republic of Sakha (Yakutia).

In 2007, we did major construction work on treatment facilities for processing wastewater, rainfall runoffs and sewage effluents at the Talakanskoye field with a biological treatment plant (KOS-400) and 4 pump stations. We also completed treatment facilities for processing wastewater, rainfall runoffs and sewage effluents with a biological treatment plant (KOS-150) in the village of Vitim.

Capital investments in construction of water protection facilities in the production sector (initial water separation units, sewage treatment plants for wastewater, sewage and storm runoffs, pump stations for treated effluents, and sewage systems) totaled RUR 507.9 mn in 2007.

OIL PRODUCTION



Although our production sites are not located in water deficit areas, we put special emphasis on efficient use of water resources.

Surgutneftegas has 69 licenses for water consumption. Water is produced:

- from surface water bodies (the Ob', Lyamin, and Pim rivers), 0.04% of their average annual flow;
- from underground water bodies with artesian and Cenomanian water intake at 3.8% and 21.9% of approved reserves for relevant horizons.

Despite a significant increase in water consumption at new fields and use of water for domestic and household needs under social obligations in the village of Vitim, the Republic of Sakha (Yakutia), specific water consumption by the Company over the last 4 years has been about 2 cub m of water per 1 ton of produced oil.

Throughout 2007, Surgutneftegas was conducting hydrogeological surveys under license agreements. In the year under review, we assessed commercial reserves of underground fresh water at the following fields: Savuyskoye, Russkinskoye, Rodnikovoye, Konitlorskoye, Severo-Seliyarovskoye, Verkhne-Nadymskoye (the southern part), Rogozhnikovskoye, Severo-Labatyuganskoye, Ai-Pimskoye, Zapadno-Ai-Pimskoye, and Alekhinskoye, as well as the Krasnoleninskaya pump station in Oktyabrsky District. We continue appraisal of underground fresh water reserves in artesian wells located in the city of Surgut, Zapadno-Surgutsky, Vostochno-Surgutsky, Yaunlorsky, and Sakhalinsky license areas.

PRODUCTION AND CONSUMPTION WASTE MANAGEMENT

The Company believes that waste management requires serious consideration and focuses its efforts on collection, neutralization and utilization of production and consumption wastes.

Within the reporting period, we neutralized and re-utilized 68% of wastes (311.9 thousand tons out of 459.9 thousand tons), including 100% of such waste materials as oil (2.233 thousand tons) and electrolyte and battery acid (almost 85 tons). We also re-utilized 84.8% of drill cuttings (288.3 thousand tons) in 2007.

Surgutneftegas ensures full neutralization of oily wastes (oil sludge, oily rags, etc.) with maximum oil recovery to reduce fire hazard and ecotoxicity. Hazardous production waste is not buried at disposal sites.

Each of the six oil and gas production divisions of the Company has a center for oil-contaminated soil and oil sludge treatment. In 2007, the centers neutralized and recycled 9.127 thousand tons of oil sludge, drill cuttings and oil-contaminated soil.

Surgutnefteprom khim (Surgut Production Process Chemicalization Division), one of the Company's structural units, operates 3 mobile tank washing and cleaning units, where oil sludge is partially washed and dewatered, and 2 Szhigatel incinerators for high temperature decontamination and full neutralization of oil sludge.

In 2007, incinerators neutralized:

- 7.368 thousand tons of oily sludge and sand, as well as slurries from associated petroleum gas purification;
- 296.4 tons of solid oily wastes: oily wood waste, cleaning cloth contaminated by oil products, oil and air filters.

OIL PRODUCTION

Twenty-five independent sludge pumps and eighteen vacuum trucks are used to collect and transport oily waste, oil-contaminated soil and water.

To reduce and dispose of drill cuttings resulting from well construction, we use four-phase systems for treatment of drilling mud and cuttings.

In 2007, we operated 68 sets of such equipment in development drilling and 17 sets in exploratory drilling. These systems equipped with high-performance shale shakers, hydrocyclones and worm conveyors allow us to halve drill cuttings buried in sludge pits and use them as inert soil. We also received 13 Hygiene Certificates from the Federal Supervision Agency for Customer Protection and Human Welfare for various mud compositions based on relevant studies. Background pollutant concentrations in soil and water are within limits at well pads where drill cuttings are treated and re-utilized. Thus, the utilization technology employed by Surgutneftegas does not contaminate ground water and soil.

In the year under review, 84% of the total drill cuttings treated by the four-phase systems were used for foundation pads at well sites.

End-of-life tires are recycled into rubber crumbs and re-used to prepare asphalt mix for road construction and repair. For this purpose, in 2007 we put into operation a 15 t/d facility for treating almost all used tires in the Company.

A larger scale of operations and the Company's expansion into new regions go hand in hand with increased waste generation: in 2007, the total waste production grew by 7.1% to 32.8 thousand tons compared to 2006. This is the reason why Surgutneftegas constructs facilities for production and consumption waste disposal as part of general infrastructure at newly developed fields.

In 2007, we completed construction and put into operation a landfill for domestic solid waste and process waste from the Talakanskoye field in the Republic of Sakha (Yakutia) with the capacity of 9.075 thousand cub m/year and a disposal site for production and consumption waste from the Rogozhnikovskoye field with the capacity of 3.375 thousand t/year.

The overall capital expenditures for landfill construction in 2007 totaled RUR 127.9 mn.

In order to protect reindeer feeding grounds and comply with the terms and conditions of social partnership with the indigenous people, the Company spent RUR 13.3 mn for metal fences (corrals) in 2007.

Surgutneftegas shares its ten years' experience in waste management with its peers and non-governmental organizations. Journalists are regular visitors to waste treatment facilities.

ENVIRONMENTAL MONITORING

The Environmental Security and Management Division of OJSC "Surgutneftegas" and environmental departments in oil and gas production divisions, the drilling divisions and the Exploration Division are responsible for continuous environmental monitoring in the area of the Company's operations, which includes the following:

- environmental monitoring of industrial facilities: control of emission and discharge sources, well sites and sludge pits, landfills for domestic and process wastes;
- quality monitoring of environmental components such as surface and ground waters, bottom silts, ambient air, and soil.

Environmental monitoring is carried out around 168 well sites where wells are drilled and drill cuttings utilized, and 5 landfills for process and domestic waste disposal. The Company's environmental experts monitor the quality of ground and surface waters and soil twice during every no-snow season.

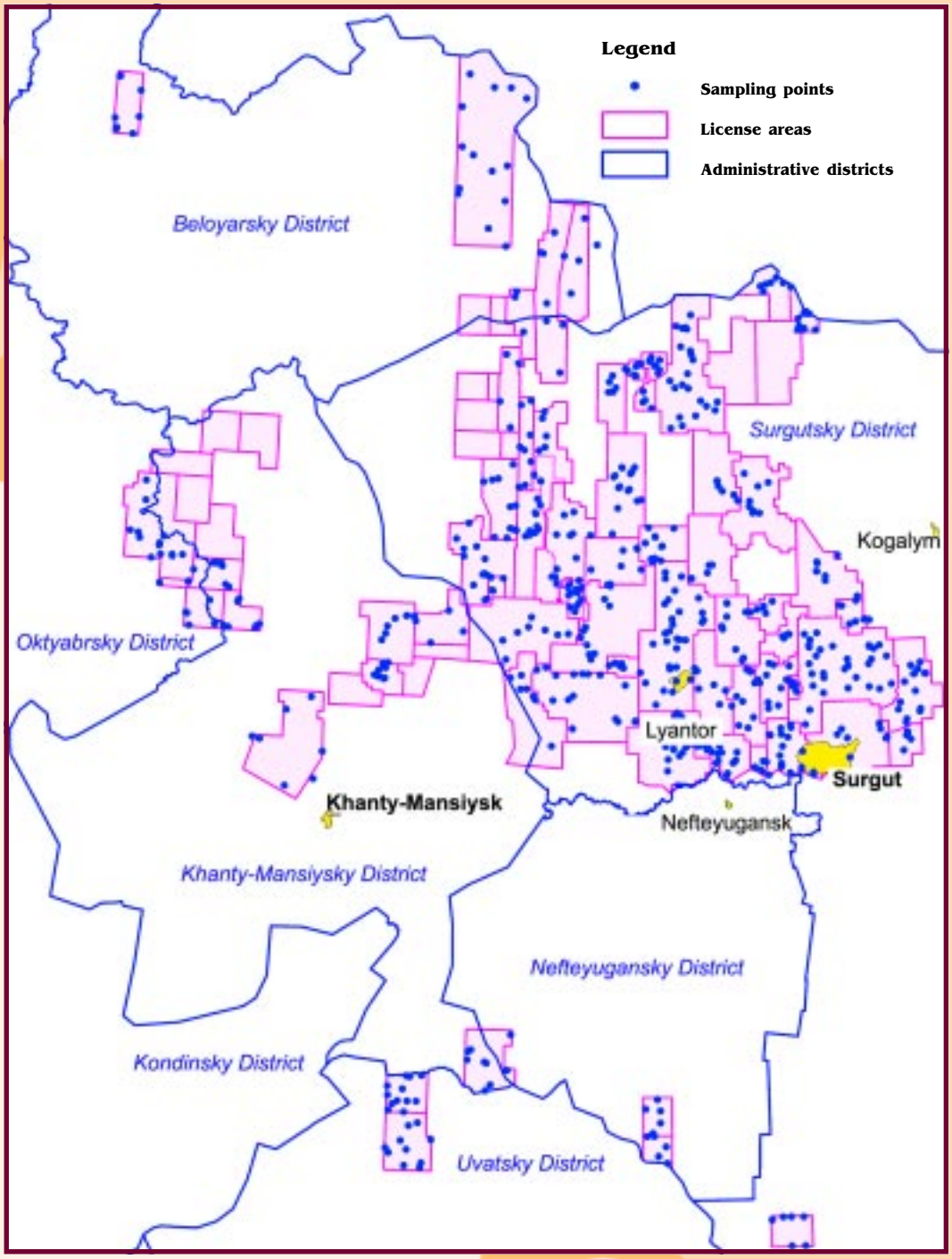
In 2007, water samples were biotested for 32 components, soil and sludge samples, for 21 components, including toxicity index and level. The tests involved 891 samples of ground and surface waters (28,116 analyses) and 1,136 samples of soil and sludge (23,758 analyses). No background pollutant concentrations were found to be beyond normal limits in water and soil of the monitored areas.

Air pollution emissions are monitored at 873 sources to ensure compliance with maximum allowable emission limits. Snow cover is monitored at 67 locations under the flares at Surgutneftegas' fields. Air quality is assessed as acceptable across all applicable parameters at 283 locations in sanitary protection zones of production facilities.

In 2007, environmental components were monitored at 1,819 locations in 60 license areas in Khanty-Mansiysky Autonomous Okrug – Yugra and 20 license areas in the Republic of Sakha (Yakutia), Yamalo-Nenetsky and Nenetsky Autonomous Okrugs, Tyumenskaya, Omskaya, Tomskaya, Irkutskaya and Novosibirskaya Oblasts, and Krasnoyarsky Krai.

Environmental monitoring in Khanty-Mansiysky Autonomous Okrug – Yugra conforms to the Okrug laws and regulations. In the reporting year, the Company developed and got approval for 15 projects to study initial pollution of environmental components and 43 projects for local environmental monitoring in 58 license areas. The Company took and analyzed samples of all environmental components: surface waters at 375 locations, bottom silts

**Environmental monitoring network
in license areas of OJSC "Surgutneftegas"
in Khanty-Mansiysky Autonomous Okrug – Yugra**



at 333 locations, soil at 211 locations, ground waters at 16 locations, ambient air at 150 locations, and snow cover at 146 locations.

In 2007, according to license agreements, the Company prepared and got approval for schedules and location maps to assess the background pollution level, tookand analyzed samples of natural environments in 20 license areas located in the Republic of Sakha (Yakutia), Yamalo-Nenetsky and Nenetsky Autonomous Okrugs, Tyumenskaya, Omskaya, Tomskaya, Irkutskaya and Novosibirskaya Oblasts, and Krasnoyarsky Krai.
Samples of surface water were taken at 185 locations, bottom silts, at 167 locations, soil, at 127 locations, ground water, at 94 locations, ambient air, at 11 locations, and snow cover, at 4 locations.

Since new license areas are situated in undeveloped territories and all survey locations are at a considerable distance from the existing road network, the Company used helicopters to take the samples.

As many as 860 helicopter hours were spent for environmental monitoring.

The samples were studied by 10 laboratories, including the Central Base Laboratory of Ecoanalytical and Processing Studies of the Company's Engineering and Economic Center accredited by the Standardization, Metrology and Certification Committee (GosStandart) of Russia

to perform analysis of 324 parameters, including 13 radiological parameters.

In order to create a reliable and informative monitoring database and update it accordingly, SurgutNIPIneft established the Environmental Monitoring Department. Geoinformation technology coupled with remote sensing techniques allows us to fully assess the environmental conditions and conduct detailed studies of environmental actions.

In 2007, we took inventory of 1,368 waterway facilities. The inventory data help us plan corrective measures to improve the hydrologic regime.

A new Web module, Chemical and Ecological Monitoring, was developed to analyze the existing environmental conditions in license areas.

Sample environmental monitoring in the area of Surgutneftegas' operations is carried out by the branch office of the Federal State Agency "Laboratory Analysis and Engineering Measurements Center for the Urals Federal District" for Khanty-Mansiysky Autonomous Okrug – Yugra. The monitoring shows that the general environmental situation in the area of the Company's operations is satisfactory, and the impact of Surgutneftegas' production facilities is assessed as acceptable, i.e. able to maintain the quality of the environment.

In 2007, the Company spent RUR 78.5 mn for environmental monitoring activities (compared to RUR 67.7 mn in 2006).

ENVIRONMENTAL INSURANCE

Every year, OJSC "Surgutneftegas" maintains liability insurance for the whole range of dangerous production facilities against both accidental damage to environment, life and health, and harm to various objects of flora and fauna.

KINEF LTD.

In the reporting year, at the refinery, the Company performed a number of actions aimed at reducing environmental impact. The effect gained due to the implementation of the integrated ecological program was as follows:

- a 2.2% reduction of total air pollutant emissions; air emissions did not excess maximum permissible;
- emissions of saturated hydrocarbons, benzene, xylol, toluene, and ethylbenzene reduced by 1.7 times;
- the specific indices of pollutants amounted to 1.43 kg/t of the refined stock against 1.5 kg/t in the previous year.

As part of water protection program, Surgutneftegas continued enhancing the quality of treated water in the sewage ponds of the 1st and 2nd industry sewage systems in 2007. The Company carried out cleansing of water surface and rivage from aquatic vegetation, as well as monitored the condition of implemented macrophytes and herbivorous fishes.

Surgutneftegas developed a project on nitro-denitrification and dephosphorization treatment systems to be implemented into aerotanks of the sewage facilities, made all necessary arrangements for the tender on purchasing equipment for the 2nd sewage system.

To provide both the efficient use of water resources (water circulation at the refinery is 99.7%) and better equipment performance, we continued technical upgrade of the recirculating water supply block No. 3.

OIL REFINING

In the year under review, the Company cleaned out the emergency pits and improved sites of pump stations at 45 water supply and sewage shops. We sanitized 3,216 m and replaced 2,455 m of water supply network and sewage system.

The scheduled measures were taken to protect equipment and pipelines of the water circulation system from corrosion, scaling and fouling.

To improve quality factors of stabilized sewages in the city of Kirishi, where KINEF Ltd. operates as the local economic mainstay, the Company introduced a project on denitrification and dephosphorization treatment systems to be installed in aerotanks of the residential sewage facilities.

In 2007, the environmental activities cost totaled RUR 1.191 bn.

The average annual cost of key productive facilities used for environmental protection amounted to RUR 1.952 bn.

Seeking to increase standards on environmental effect, Surgutneftegas designed draft resolutions on the following:

- maximum permissible air discharge for the transport column of workshop No. 21, KINEF Ltd, for 2007-2011;
- maximum permissible pollutants release into the River Ingor for the treatment works of the health complex, KINEF Ltd;
- waste generation and restrictions on waste disposal for the main site and social objects (sport complex "Neftyanik", hotel complex, recreation center, hospital, commerce and catering department, transport column of workshop No. 21, garages and residential properties).

Besides, the Company developed safety declarations and obtained permits from Rostechnadzor to operate hydrotechnical structures of sludge reservoirs under the Federal Law "On industrial safety of gas-turbine stations" and other regulatory documents. We also continued environmental monitoring.

Together with the Federal State Institution of Health Care "Center of Hygiene and Epidemiology in Leningradskaya Oblast, Kirishi District" the Company performed sampling of effluents taken from the 2nd system sewage ponds and a buffered pond. Thus, the interlaboratory reproducibility test results do not exceed the specified values.

Surgutneftegas performed sanitary monitoring of the priority air parameters on the boundary of the agreed sanitary protection zone adjacent to KINEF Ltd.

To evaluate the ultraviolet decontamination unit performance, we carried out sanitary and bacteriologic studies of the treated domestic sewage in the city of Kirishi.

THE COMPANY'S SALES BRANCHES

In the reporting year, the Company's sales branches spent RUR 26.6 mn to cover environmental activities cost.

The average annual cost of fixed productive assets aimed at environmental protection amounted to RUR 69.7 mn in 2007.

The reporting year witnessed no emergency situations with environmental impact caused by the Company's sales branches. The sales branches are not in arrears with environmental payments as well.

Seeking to eliminate ecological impact, the sales branches were engaged in a number of activities as follows:

- repairing and overhauling of the existing networks, manholes and sewage facilities at gas stations and tank farms;
- replacing the filter material with volatile organic components (VOCs);
- mopping up of manholes and oil separators at gas stations and tank farms;

OIL PRODUCTS SUPPLY

- internal cap controlling;
- monitoring of reservoirs and pipelines at gas stations and tank farms;
- cleaning-up and recultivation of oil-contaminated soils;
- improvement of production and consumption waste management.

Close cooperation with other organizations dealing with processing and utilization of production wastes allowed Surgutneftegas to utilize 100% of used oil products.

The Company designed draft resolutions on maximum permissible air discharge and maximum permissible pollutants release within organized and non-organized industrial non-point runoff, as well as defined restrictions in terms of waste disposal for all tank farms and gas stations of the Company's sales branches.

"OJSC "Surgutneftegas", "the Company", "Surgutneftegas", "we", "our", "us" and "joint-stock company" used in the text of the Brochure are interchangeable terms relating to the entire Surgutneftegas Group, OJSC "Surgutneftegas" and/or its subsidiaries subject to the context.