LISTING PARTICULARS DATED 18 JANUARY 2011

LUKOIL INTERNATIONAL FINANCE B.V.
(*incorporated with limited liability under the laws of The Netherlands*)

U.S.$1,500,000,000
2.625 per cent. Senior Unsecured Convertible Bonds due June 2015

guaranteed by
OAO LUKOIL
(an open joint stock company organised under the laws of the Russian Federation)

The issue price of the U.S.$1,500,000,000 2.625 per cent. Senior Unsecured Convertible Bonds due June 2015 (the "**Bonds**") of LUKOIL International Finance B.V. (the "**Issuer**") is 100 per cent. of their principal amount.

The Bonds bear interest from 16 December 2010 (the "**Closing Date**") at the rate of 2.625 per cent. per annum payable semi-annually in arrear on 16 June and 16 December each year commencing on 16 June 2011. Payments on the Bonds will be made in U.S. dollars without deduction for or on account of taxes imposed or levied by The Netherlands or the Russian Federation to the extent described under "*Terms and Conditions of the Bonds—Taxation*". OAO LUKOIL (the "**Guarantor**") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Bonds; however, the Guarantor's liability in respect of such guarantee will not in any case exceed U.S.$ 3,100,000,000.

Unless previously redeemed or converted or purchased and cancelled, each Bond will be convertible, at the option of the holder, into American depositary receipts each representing ordinary shares of OAO LUKOIL (the "**ADRs**"), subject to the right of the Issuer to make a Cash Settlement Election (as defined in "*Terms and Conditions of the Bonds*") at any time on or after 26 January 2011 and until the close of business on (i) the date falling six dealing days prior to 16 June 2015, unless redemption arises earlier or (ii) if the Bonds are called for redemption prior to 16 June 2015, the date falling six dealing days prior to the date fixed for redemption. Each ADR currently represents one Share (as defined in "*Terms and Conditions of the Bonds*"). The initial conversion price is U.S.$ 73.7087 per ADR. The conversion price is subject to adjustment in certain circumstances as set out herein. See "*Terms and Conditions of the Bonds – Conversion*".

Unless previously redeemed or converted or purchased and cancelled, the Bonds will be redeemed at their principal amount on 16 June 2015. The Bonds are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in The Netherlands or the Russian Federation. However, in such circumstances, each holder of Bonds will have the right to elect that its Bond(s) shall not be redeemed, with the effect set out herein. The Bonds may also be redeemed at the option of the Issuer in whole at their principal amount in certain circumstances set out herein. In addition, the holder of a Bond may, by the exercise of the relevant option, require the Issuer to redeem such Bond at its principal amount upon the occurrence of certain events set out herein. See "*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation*".

Applications have been made to the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Bonds to be admitted to the official list of the UK Listing Authority and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Bonds to be admitted to trading on the London Stock Exchange's Professional Securities Market (the "**PSM**"). The PSM is not a regulated market under Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets in Financial Instruments.

The Bonds, the Guarantee (as defined herein), the ADRs and the Shares have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Bonds have been offered outside the United States in accordance with

Regulation S under the Securities Act ("**Regulation S**"), and the Bonds, the Guarantee, the ADRs and the Shares, may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bonds have been assigned a preliminary rating of BBB- by Standard & Poors, which is registered with the European Union in accordance with EU Regulation No 1060/2009 on credit rating agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the marketability of the Bonds or any market price. Any change in the credit ratings of the Bonds or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the Bonds.

The Bonds are in registered form in the denomination of U.S.$100,000. The Bonds may be held and transferred in the principal amount of U.S.$100,000 and integral multiples thereof. The Bonds are represented by a global registered bond certificate (the "**Global Bond Certificate**") registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream Luxembourg**"). Individual bond certificates ("**Individual Bond Certificates**") evidencing holdings of Bonds will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Bonds in Global Form*".

CONTENTS

Page

IMPORTANT NOTICES

These Listing Particulars comprise listing particulars as required by the Listing Rules made under Section 74 of the Financial Services and Markets Act 2000 (the "**Listing Rules**") by the UK Listing Authority for the purpose of giving information with regard to the Issuer, the Guarantor and its subsidiaries and affiliates taken as a whole (the "**Group**"), the Bonds and the ADRs. Each of the Issuer and the Guarantor accepts responsibility for the information contained in these Listing Particulars and declares that, having taken all reasonable care to ensure that such is the case, the information contained in these Listing Particulars to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Certain information in these Listing Particulars contained or incorporated by reference under the headings "*Risk Factors*" and "*Description of the Guarantor*" has been based on information obtained from third party sources that the Issuer and the Guarantor believe to be reliable. These sources, as identified herein, are Platts, InfoTEK and the Russian Ministry of Energy in "*Description of the Guarantor*" and Platts and the International Monetary Fund in "*Risk Factors*", and also include government agencies such as the Central Bank of Russia (CBR) and the Federal Statistics Service of Russia, market research and other research reports, press releases, securities filings and industry publications (including by publishers such as Platts, annual reports published by our competitors and other publicly available information). The Issuer and the Guarantor accept responsibility for accurately reproducing this information and, as far as the Issuer and the Guarantor are aware and are able to ascertain from information published by such sources, no facts have been omitted which would render this reproduced information inaccurate or misleading. See "*Risk Factors—Other Risks—We have not independently verified information we have sourced from third parties*".

These Listing Particulars are to be read and construed in conjunction with any documents which are deemed to be incorporated herein by reference. See "*Information Incorporated by Reference*". These Listing Particulars should be read and construed on the basis that such information is incorporated in and forms part of these Listing Particulars.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor, the Bonds or the ADRs other than as contained in these Listing Particulars or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Lead Managers named under "*Subscription and Sale*" below (the "**Lead Managers**").

Neither the Lead Managers nor any of their respective affiliates have authorised the whole or any part of these Listing Particulars and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in these Listing Particulars.

Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of these Listing Particulars.

These Listing Particulars do not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds.

The distribution of these Listing Particulars and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars come are required by the Issuer and the Guarantor to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of these Listing Particulars and other offering material relating to the Bonds, see "*Subscription and Sale*".

In particular, the Bonds, the Guarantee, the ADRs and the Shares have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Bonds, the Guarantee, the ADRs and the Shares may not be offered, sold or delivered within the United States or to U.S. persons.

In these Listing Particulars, unless otherwise specified, references to "**RUR**", "**RUB**", "**roubles**" or "**rubles**" are to Russian rubles and references to "**U.S.$** ", "**U.S. dollars**" or "**dollars**" are to United States dollars.

In connection with the issue of the Bonds, Barclays Bank PLC (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over allot Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

These Listing Particulars should be read and construed in conjunction with the sections listed below of the Prospectus relating to the Issuer's U.S.$ 1,000,000,000 6.125% Notes due 2020 guaranteed by OAO LUKOIL dated 8 November 2010 (the "**Eurobond Prospectus**"), which was previously approved and published by the Financial Services Authority:

(i) Information about the operations and management of the Guarantor set out on pages 57-108 ("*Management's Discussion and Analysis of Financial Condition and Results of Operations*"), pages 109-150 ("*Business*"), pages 151-156 ("*Management*") and pages 158-162 ("*Additional Information Regarding the Company*");

(ii) Information about the Issuer set out on page 157 ("*The Issuer*");

(iii) Financial Statements of the Guarantor:

a. Pages F-34 – F-84, Audited Consolidated Financial Statements of OAO LUKOIL and its subsidiaries prepared in accordance with U.S. GAAP as of December 31, 2009 and 2008 and for each of the years in the three year period ended December 31, 2009;

b. Pages F-2 – F-33, Interim Consolidated Financial Statements of OAO LUKOIL prepared in accordance with U.S. GAAP as of and for the three and six month periods ended June 30, 2010 (unaudited); and

(iv) Financial Statements of the Issuer:

a. Pages F-102 – F-112, Non-consolidated Financial Statements of LUKOIL International Finance B.V. for the year ended 31 December 2008;

b. Pages F-85 – F-101, Non-consolidated Financial Statements of LUKOIL International Finance B.V. for the year ended 31 December 2009.

The information set out above shall be deemed to be incorporated in, and to form part of, these Listing Particulars *provided however that* any statement contained in any document incorporated by reference in, and forming part of, these Listing Particulars shall be deemed to be modified or superseded for the purpose of these Listing Particulars to the extent that a statement contained herein modifies or supersedes such statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of these Listing Particulars.

The Eurobond Prospectus will be made available, free of charge, during usual business hours at the specified offices of the Principal Agent.

RISK FACTORS

Prospective investors should read the entire Listing Particulars. Words and expressions defined in the "Terms and Conditions of the Bonds" below or elsewhere in these Listing Particulars have the same meanings in this section. Investing in the Bonds is speculative and involves a high degree of risk. You should carefully consider the risks, and the other information contained in these Listing Particulars, before you decide to invest in the Bonds. The trading price of the Bonds could decline due to any of these risks and you could lose all or part of your investment. You should note that the risks described below are not the only risks we face. We have described only the risks that we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not presently aware. Prospective investors should consider, among other things, the following:

Risks Relating to Our Business

Global economic developments and market conditions may adversely affect our business, financial condition and results of operations.

Our results of operations are significantly influenced by the general economic conditions in the countries in which we operate and those in which we currently make, or may in the future make, sales. The economic situation in these markets has in various ways been adversely affected by weakening economic conditions and the turmoil in the global financial markets. In particular, some or all of the countries in which we operate have experienced declining GDP, reduced industrial production, increasing rates of unemployment and decreasing asset values. Adverse economic developments of the kind described above have affected and may continue to affect our business in a number of ways, including, among others, the financial condition of our customers, which could have an adverse impact on their access to capital which, in turn, could lower demand for our products and services.

The economic slowdown has resulted in a reduction in demand for certain of our products and services. The global economic climate in 2009 resulted in lower demand and lower prices for oil and natural gas, which reduced our drilling and gas production activity. Furthermore, recent volatility in the credit markets and the potential impact on the liquidity of major financial institutions may have an adverse effect on our cost of funding.

The general economic conditions in the markets in which we operate, and volatility in the credit markets, could have a material adverse effect on our business, financial condition and results of operations.

A substantial or extended decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations depend substantially upon the prevailing prices of crude oil, refined products, natural gas and petrochemical products. Historically, prices for crude oil, refined products, natural gas and petrochemical products have fluctuated widely in response to changes in many factors. We do not and will not have control over the factors affecting prices for crude oil, refined products, natural gas and petrochemical products. These factors include:

- global and regional supply and demand and expectations regarding future supply and demand for crude oil, refined products, natural gas and petrochemical products;
- the cost of exploring for, developing, producing, processing and marketing crude oil, refined products, natural gas and petrochemical products;
- the ability and willingness of the Organisation of Petroleum Exporting Countries (OPEC) and other producing nations to influence global production levels and prices;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism, including in the United States, the Middle East, the CIS or other resource-producing regions;
- prices and availability of alternative and competing fuels;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes;
- global and regional economic conditions;

- unexpected failure in the infrastructure;
- prices and availability of new technology; and
- weather and climate conditions and natural disasters.

Crude oil prices have been volatile in recent years, rising dramatically through July 2008 and then falling sharply over the second half of 2008. Crude oil prices began to level in the first quarter of 2009 and by the end of 2009 had increased to nearly $80 per barrel. Since the end of 2009, crude oil prices have stayed within the range of $70-$87 per barrel. According to Platts, the price of Brent crude, an international benchmark oil blend, as at 28 December 2007, 31 December 2008, 31 December 2009, 31 March 2010 and 30 June 2010 was $96.02, $36.55, $77.67, $80.30 and $74.97 per barrel, respectively.

International gas, refined products and petrochemical products prices, which typically follow changes in international oil prices, have also fluctuated considerably in recent years. Our revenues, operating results and future rate of growth are highly dependent on the prices we receive for our crude oil, refined products, natural gas and petrochemical products. In addition, lower prices may reduce the amount of crude oil that we can produce economically (thereby decreasing the size of our reserves) or reduce the economic viability of projects planned or in development.

It is impossible to predict future crude oil, refined products, natural gas and petrochemical price movements with certainty. Moreover, we engage in limited hedging transactions and other derivatives trading only in respect of our marketing and trading activity outside of our physical crude oil and refined products businesses.

The recent fluctuation in crude oil prices has contributed to an increase of our revenues. The Platts average price of Brent crude oil for the first six months of 2010 was $77.29 per barrel, an increase of approximately 50% from $51.68 per barrel for the first six months of 2009, which contributed to the 45% increase in our total crude oil sales revenues for the first six months of 2010, as compared to the first six months of 2009. A decline in crude oil, refined products, natural gas or petrochemical products prices for protracted periods could materially adversely affect our business, financial condition, results of operations, prospects and our ability to finance planned capital expenditures.

We face foreign exchange risks that could materially adversely affect our business, financial condition and results of operations.

Over the past ten years, the ruble has fluctuated dramatically against the U.S. dollar. The recent global economic crisis and general economic conditions in Russia caused the ruble to depreciate against the U.S. dollar by approximately 16% in the fourth quarter of 2008 and by approximately 16% in the first quarter of 2009 according to the CBR. Between 31 March 2009 and 1 October 2010, the ruble appreciated against the U.S. dollar by approximately 10%. The Russian government has used significant amounts of its international currency reserves to support the ruble, but has expressed that it may be unwilling or unable to continue such support in the future. While most of our revenues are either denominated in U.S. dollars or are correlated to U.S. dollar oil prices, most of our costs (other than debt service costs and costs that are linked to U.S. dollar oil prices, such as mineral extraction taxes, export duties, pipeline tariffs on exports and crude oil and refined product purchases) are denominated in rubles. Our results of operations are, therefore, significantly affected by the relative movements of ruble inflation and exchange rates. In particular, our operating margin is generally adversely affected by the appreciation of the ruble against the U.S. dollar because this will generally cause our costs to increase in real terms relative to our revenues. Conversely, our operating margin is generally positively affected by a depreciation of the ruble against the U.S. dollar because this will generally cause our costs to decrease in real terms relative to our revenues. We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign exchange rate exposures.

We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge.

Most of the crude oil that we produce is transported through the pipeline system of Transneft. Transneft is a state-owned oil pipeline monopoly. As with any such pipeline system, the Transneft pipeline system is subject to breakdowns and leakage. By using multiple pipelines, however, Transneft has generally avoided serious disruptions in the transport of crude oil and, to date, we have not suffered significant losses arising from a failure of the pipeline system. Despite ongoing efforts of Transneft to decommission

and replace obsolete segments of the pipeline, parts of the pipeline system may require reconstruction and replacement due to their age. Much of the system is located in regions with harsh climates where construction, maintenance and refurbishment are difficult and costly. In addition, the Transneft pipeline system has limited capacity. As a result, the system may experience outages or capacity constraints during required maintenance periods and it is likely that maintenance work will increase in the future. Transneft prepares a maintenance programme on an annual basis and unscheduled maintenance work is rare. During maintenance periods, we may experience delays in or be prevented from transporting crude oil. These delays, outages or capacity constraints could materially adversely affect our business, financial condition and results of operations.

The Russian government regulates access to Transneft's pipeline network and is required to provide access on a non-discriminatory basis. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft's pipeline network in the prior quarter. Generally, a Russian oil company is given an allocation for export that equals approximately 40% of its crude oil so produced and delivered.

We, along with all other Russian crude oil producers, must pay transportation fees to Transneft in order to transport crude oil through the Transneft network. The Federal Tariff Service (the FTS) is responsible for setting Transneft's fees, which have risen in recent years and may continue to rise. Failure to pay these fees could result in the termination or temporary suspension of our access to the Transneft network. Significant increases in Transneft's fees or the termination or suspension of our access to the Transneft network would materially adversely affect our business, financial conditions and results of operations.

In 2001, a Russian court ordered Transneft to stop accepting shipments of our crude oil in response to a lawsuit filed by one of our minority shareholders. This order was overturned quickly, without causing an adverse effect on our business. In 2002, on several occasions, Russian courts granted similar requests in lawsuits against other Russian companies, all of which were overturned quickly. However, we can give no assurance that similar lawsuits will not be filed against us in the future or that any such lawsuits will be resolved in our favour.

A major disruption in (or in our access to) the Transneft system could have a material adverse effect on our business, financial condition and results of operations.

We face similar risks in some of the other countries where we operate. For example, in early October 2009, the Ukrainian state pipeline operator, OAO Ukrtransnafta (Ukrtransnafta), reversed the direction of the Odessa-Kremenchug crude oil pipeline, causing us to suspend operations at our Odessa refinery due to a lack of crude oil supplies. In late October 2009, we agreed with Transneft on a new route for transportation of crude oil from Russia to our Odessa refinery through the Druzhba pipeline and we restarted operations at the Odessa refinery on 1 November 2009. However, we can give no assurance that we will continue to be able to supply crude oil to our Odessa refinery via this route or that operations at our Odessa refinery will reach levels obtained before the suspension when it reopens following the current maintenance works. We also can give no assurance that other state-owned oil pipeline monopolies transporting our crude oil or refined products will not cause similar disruptions in the future or that such disruptions will not have a material adverse effect on our business, financial condition and results of operations.

We transport most of our refined products through Russia's rail network. We also depend on railway transportation for the distribution of our crude oil. OAO Russian Railways (Russian Railways) is a state-owned monopoly provider of railway transportation services. Use of the railways exposes us to risks such as potential delivery disruptions due to the deteriorating physical condition of Russia's railway infrastructure. Russian Railways prepares a maintenance programme on an annual basis. The incompatibility of Russia's wider railway gauge with the railway gauge of most other countries imposes additional costs and logistical constraints on our ability to export our products using the railways. Furthermore, although Russian Railways' fees are subject to antimonopoly control, the fees tend to be increased annually. Significant increases in Russian Railways' fees would increase our transportation costs and could materially adversely affect our business, financial condition, results of operations and prospects.

The pipeline system of OAO AK Transnefteproduct (Transnefteproduct) transports an average of approximately 10% of refined products produced in Russia. Transnefteproduct is a state-owned refined product pipeline monopoly. Transnefteproduct has generally avoided serious disruptions in the transport

of refined products and, to date, we have not suffered significant losses arising from breakdowns or leakages in the pipeline system. Any significant disruption in the pipeline system could, however, materially adversely affect our business, financial condition and results of operations.

We, along with other Russian refined product producers, must pay transportation fees to Transnefteproduct in order to transport our refined products through the Transnefteproduct network. The FTS is responsible for setting Transnefteproduct's fees for the use of the network, which tend to increase periodically. Significant increases in Transneftproduct's fees would increase our costs and could materially adversely affect our business, financial condition and results of operations.

Any limitations on our access to the pipeline or railway network may negatively impact our ability to transport our crude oil and/or refined products within Russia and export our crude oil and/or refined products internationally and could materially adversely affect our business, financial condition and results of operations.

We face several risks in connection with the implementation of our strategy to develop our natural gas operations.

As at 31 December 2009, our gas reserves in Russia comprised approximately 70% of our total proved gas reserves. All material aspects of the Russian natural gas industry are subject to or materially affected by government regulation. Through its share ownership, representation on the board of directors and role as regulator, the government has strong influence over Gazprom, the dominant participant in Russia's natural gas industry. Gazprom is the primary buyer of the natural gas we produce in Russia. The significant participation in the Russian natural gas industry of independent gas producers is a relatively recent development. If the government were to determine, through legislation, administrative action or otherwise, that independent gas producers should have a less significant role in the Russian natural gas industry, it could take actions (including through Gazprom) that would have a material adverse effect on our ability to develop our natural gas assets, which could in turn have a material adverse effect on our business, financial condition and results of operations.

The Unified Gas Supply System (the UGSS) is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. Federal Law No. 117-F2 "On Gas Export" came into force on 31 July 2006 (the Gas Export Law) and granted Gazprom exclusive gas export rights. Under the existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis subject to spare capacity and other factors. In practice, however, Gazprom exercises considerable discretion over access to the UGSS because it is the sole owner of information relating to UGSS's capacity. We can give no assurance that the legislation requiring Gazprom to provide access on a non-discriminatory basis will remain in place or be enforced, or that Gazprom will continue to provide us with access to the UGSS, to the extent we require, or at all, or that the terms of access offered will be commercially reasonable. A change in the existing legislation, a failure by Gazprom to comply with the legislation or other action by Gazprom to decrease our access to transportation capacity may limit the effective use and value of our gas producing assets and adversely affect our ability to implement our strategy to develop our natural gas resources, which could have a material adverse effect on our business, financial condition and results of operations.

The UGSS includes an extensive network of pipelines and compressor installations that were developed during the Soviet era, with some parts having been developed more recently. Most of the pipelines in the UGSS are over ten years old with certain parts being over 30 years old. Large segments of the network are located in regions with harsh climates where construction, maintenance and refurbishment are difficult and costly. As a result, the UGSS may experience outages or capacity constraints during required maintenance periods and it is likely that maintenance work will increase in the future. During these maintenance periods, we may experience delays in or be prevented from supplying natural gas to our customers. A major disruption in the UGSS could impact our ability to implement our strategy to develop our gas producing assets, which could ultimately have a material adverse effect on our business, financial condition and results of operations.

In Russia, the FTS regulates natural gas transportation tariffs. Regulated natural gas transportation tariffs have risen in recent years and we expect them to continue to rise. If natural gas transportation tariffs continue to rise and we are unable to pass on these additional costs to our end customers, or the impact of increased transportation tariffs on our wholesale customers requires us to decrease the natural gas prices we charge on a non-delivered basis, our business, financial condition and results of operations.

Gazprom is the monopoly supplier of gas in Russia. The Russian government regulates the prices for the gas that Gazprom sells in Russia. Although the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is still significantly below levels that prevail in international markets. According to the official Social and Economic Development Forecast for 2010-2012 prepared by the Russian Ministry of Economic Development and approved by the Russian Government in September 2009, the regulated internal wholesale gas price is expected to rise by 15% per year from 2010 to 2012 for all categories of gas consumers. The regulated internal retail gas price for industrial consumers is expected to rise by 26.5% in 2010 and by 15% in 2011-2012, and for the general population by 20.8% in 2010-2011 and by 15% in 2012. The regulated price has affected, and is likely to continue to affect, the pricing of the gas we sell to Gazprom or any other customer. The limitations on our pricing flexibility due to Gazprom's dominant position in Russia and the Russian government's price regulations could have a material adverse effect on our business, financial condition and results of operations, particularly if the regulated prices are decreased or if we experience a significant increase in our operating costs related to the development of our gas producing assets.

Our Russian subsoil use licences may be suspended, terminated or revoked prior to their expiration and we may be unable to obtain or maintain various permits or authorisations.

We conduct our operations in Russia under numerous subsoil licences. The licensing regime in Russia for the exploration, development and production of crude oil and natural gas is governed primarily by Law of the Russian Federation No. 2395-1, "On Subsoil", dated 21 February 1992, as amended (the Subsoil Law) and related regulations. Most of our licences may be suspended, terminated or revoked if we fail to comply with licence requirements (including the obligation to reach a certain level of production), do not make timely payments of levies and taxes for the use of the subsoil, systematically fail to provide information, go bankrupt or fail to fulfil any capital expenditure and/or production obligations.

We may not comply with certain licence requirements for some or all of our licence areas. If we fail to fulfil the specific terms of any of our licences or if we operate in our licence areas in a manner that violates Russian law, government regulators may impose fines on us or suspend or terminate our licences, any of which could have a material adverse effect on our business, financial condition and results of operations.

For example, in January 2005, the Commission for Subsoil Use of the Ministry of Natural Resources investigated certain breaches of the terms of licensing agreements involving LUKOIL-Western Siberia, our principal production subsidiary, relating to six oil fields in the Khanty-Mansiysky Autonomous Region-Yugra. In addition, in October 2006, an official at the Russian Ministry of Natural Resources threatened to revoke 36 of our exploration licences in the Komi region of Timan-Pechora and in the Khanty-Mansiysky Autonomous Region-Yugra, alleging that we failed to explore or drill according to the timelines set out in the licences. We believe that we have addressed all of these alleged violations or we have agreed with the commission to amend the licensing agreements to enable our compliance with the terms of the licences. In June 2006, we acquired 100% of Khanty-Mansiysk Oil Corporation (KMOC) from Marathon Oil Corporation, which at the time owned approximately 95% of the share capital of OAO Khantymansiyskneftegazgeologia and 100% of the share capital of OAO Paitykh Oil and OAO Nazymgeodobycha (the KMOC companies), which operate oil and gas fields in Western Siberia. In September 2006, the Federal Agency for Subsoil Use issued notices of revocation of the licences of the KMOC companies unless the alleged violations were remedied by 29 December 2006. The Russian Ministry of Natural Resources conducted additional reviews of our activities conducted under these licences after 29 December 2006. As at the date of these Listing Particulars, we are not aware of any additional acts or documents issued by the Federal Agency for Subsoil Use or the Russian Ministry of Natural Resources that may lead to the revocation of these licences. We can give no assurance that similar regulatory claims will not arise in the future with respect to these or other fields or that we will be able to settle such claims without licence revocation by revising licence agreements or otherwise. Any such revocations could have a material adverse effect on our business, financial condition and results of operations.

In addition, because we did not own or control all of our subsidiaries when they obtained their initial subsoil licences, we cannot be certain that all of our subsidiaries' licences were issued, or the preceding and current licences were re-issued, in accordance with all applicable law and regulations at the time. If it is determined that any of these licences were issued and/or re-issued in violation of applicable laws, such

licences would be subject to revocation. A loss of any such licence could materially adversely affect our business, financial condition and results of operations.

Our production licences have generally been valid for 20 years, while our combined exploration and production licences are generally valid for 25 years. Many of our original licences, especially those relating to our Western Siberia operations, expire between 2013 and 2014. Recent legislation, passed after the issuance of many of our licences, provides that licences are now granted for a time equal to the economic viability of the relevant field. However, we can give no assurance that our original licences will be extended. The failure to extend any of our licences, upon expiration, for the economic life of the relevant fields could have a material adverse effect on our business, financial condition and results of operations.

To operate our business as currently contemplated, we must obtain permits and authorisations to conduct operations, such as land allotments, approvals of design and feasibility studies, pilot projects and development plans and for the construction of any facilities on site. We may not be able to obtain all required permits and authorisations. If we fail to receive any required permits and authorisations, we may have to delay our investment or development programmes, or both, which could materially adversely affect our business, financial condition and results of operations.

The amendments to the Subsoil Law that came into force in May 2008 provide that certain subsoil areas shall be considered as having federal importance. These subsoil areas include areas which, in particular, are located in the territory of Russia and contain recoverable oil reserves of at least 70 million tonnes or natural gas reserves of at least 50 bcm, or areas located in internal sea waters, territorial sea or the continental shelf of Russia. These amendments also state that if, during a geological survey conducted, *inter alia*, under a combined licence, a subsoil user which is a legal entity with foreign investment discovers a mineral deposit which has the characteristics of a field of federal importance, the Government of the Russian Federation may take a decision to deny the granting of the right to use the subsoil area for exploration and extraction of minerals on the given subsoil area of federal importance to such person or, in the event of geological exploration of subsoil under a combined licence, a decision to terminate the right to use the subsoil area for exploration and extraction of minerals on the given subsoil area of federal importance, in either case if it considers that it poses a threat to the country's defence or state security.

Furthermore, pursuant to the Subsoil Law, rights to develop oil fields designated as having federal importance situated on the continental shelf, or on the territory of Russia but extending to the continental shelf, may be granted only to Russian entities having at least five years of experience in the development of the continental shelf of the Russian Federation, with state (federal) equity participation exceeding 50% or in relation to which the Russian Federation has a right to either directly or indirectly control over 50% of the voting shares. Accordingly, there is a risk that if we wish to acquire any such rights, we would be required to participate in a joint venture with state participation, over which we may not have control or the terms of which may not be favourable to us.

The abovementioned amendments to the Subsoil Law are open to varying interpretations. As these provisions of the Subsoil Law have not yet been tested in practice, it is unclear how these amendments may affect the activity of the Group.

Our international subsoil use rights may be suspended, terminated or revoked prior to their expiration.

We conduct our operations outside of Russia under numerous production sharing and concession agreements. The licensing regime for the exploration, development and production of crude oil and natural gas is governed primarily by the relevant local laws. Such subsoil use rights may be suspended, terminated or revoked if we fail to comply with relevant agreements' requirements, do not make timely payments to foreign governments or state owned operators, go bankrupt or fail to fulfil any substantial production obligations. We may not comply with certain contractual obligations for some or all of our production areas abroad. If we fail to fulfil the specific terms which may lead to unilateral termination of a production sharing or concession agreement, this could have an adverse effect on our business, financial condition and results of operations.

Our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses.

Our development and exploration projects may be delayed or unsuccessful for many reasons, including cost overruns, lower oil and gas prices, equipment shortages, power shortages and mechanical difficulties.

These projects will also often require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and may not function as expected. In addition, some of our development and exploration projects are or will be located in deep water or frozen or other hostile environments, or involve or will involve production from challenging reservoirs, which can exacerbate such problems. The climate and topography of some of the regions where our fields are located limit access to certain fields and facilities during certain times of the year. During the summer and early fall, some fields are partially flooded and operating capacity is limited. If warmer weather starts earlier or ends later in the year than usual, then our operating capacity is more limited than normal. In winter, extreme cold or snowstorms could limit access to certain wells, and extreme cold could cause the temporary suspension of operations of wells with a high watercut. Such weather conditions could also limit our exploration operations.

We conduct exploration activities in areas, including Western Siberia, the Timan-Pechora region and areas in and around the Caspian Sea, where environmental conditions are challenging and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, dry holes, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, our overall drilling activity or drilling activity within a particular project area may be unsuccessful in that we may not find commercially productive reservoirs.

Cost overruns, lower oil and gas prices, equipment shortages, power shortages, mechanical difficulties and unusually warm or severe weather conditions could impede our development or exploration plans for our fields and facilities and otherwise materially adversely affect our business, financial condition and results of operations.

We may not be able to produce economically some of our oil due to a lack of necessary transportation infrastructure when a field is in a remote location.

Our ability to exploit economically any reserves discovered will be dependent upon, among other things, the availability of the necessary infrastructure to transport oil and gas to potential buyers at a competitive price. Oil is usually transported by pipelines, tankers and rail to refineries. Natural gas is usually transported by pipelines to processing plants and end users. We face a number of significant obstacles related to the transportation of crude oil and natural gas from our holdings in the north Caspian region and the CIS which could prevent sales to international markets. Other obstacles in those regions include capacity constraints, general political and economic instability and the necessity of obtaining approvals for pipelines from several governments that may not share a common development strategy.

If we fail to acquire or find and develop additional reserves or fail to develop our production processes, our reserves and production will decline materially from their current levels.

If we fail to conduct successful exploration and development activities or acquire properties with proved reserves, or both, our proved reserves will decline as we extract oil and natural gas. In addition, the volume of production from crude oil and natural gas properties generally declines as reserves are depleted.

Western Siberia, our main oil producing region, is maturing. Our future production is highly dependent upon our success in finding or acquiring and developing additional reserves. If we are unsuccessful, we may not meet our production targets and our total proved reserves and production will decline, which could materially adversely affect our business, financial condition and results of operations.

We encounter competition from other oil and gas companies in all areas of our operations, including the acquisition of licences, exploratory prospects and producing properties and we may encounter competition from suppliers of alternative forms of energy sources.

The oil and gas industry is intensely competitive. We compete with other major Russian and international oil and gas companies. Many of our international competitors have substantially greater resources and have been operating in a market-based, competitive economic environment for much longer than we have. The key activities in which we face competition are:

- acquisition of subsoil licences at auctions or tenders run by governmental authorities;
- acquisition of other companies that may already own licences or existing hydrocarbon-producing assets;
- engagement of third-party service providers whose capacity to provide key services may be limited;
- purchase of capital equipment that may be scarce;
- employment of qualified and experienced personnel;
- access to critical transportation infrastructure;
- acquisition of existing retail outlets or of sites for new retail outlets; and
- acquisition of or access to refining capacity.

Russia signed the Energy Charter Treaty, an international treaty for establishing and improving the legal framework for corporate international co-operation in energy matters. However, on 30 July 2009, the Government of the Russian Federation issued Resolution No. 1055-r in which Russia officially announced that it does not intend to become a contracting party to the Energy Charter Treaty and the Protocol on Energy Efficiency and Related Environmental Aspects. In accordance with Article 45(3(a)) of the Energy Charter Treaty, such notification results in the termination of Russia's provisional application of the Energy Charter Treaty and the Protocol on Energy Efficiency and Related Environmental Aspects. However, ratification of the Energy Charter Treaty in its current form or in a modified form could provide foreign investors and oil companies with greater access to the energy markets in Russia and provide third parties with greater access to oil and gas trunk pipelines, including for the transportation of oil and natural gas to international markets. Accordingly, the ratification of the Energy Charter Treaty could also lead to substantially increased competition.

Additionally, we may encounter competition from suppliers of alternative forms of energy sources, including environmentally friendly renewable energy sources such as solar power or wind generated power, as a result of continuing high hydrocarbon prices or potential depletion of hydrocarbon reserves in the future.

In addition, Russian antimonopoly legislation is sometimes vague and subject to varying interpretations. This may fail to protect us from unfair competitive practices, and adversely affect our ability to compete.

Our failure to compete effectively could materially adversely affect our business, financial condition and results of operations.

As at 30 September 2010, ConocoPhillips beneficially owned 5.91% of LUKOIL's shares, and ConocoPhillips's nominee continues to hold a seat on our Board of Directors, which may afford it some influence over LUKOIL and over Board and shareholders decisions.

On 24 March 2010, ConocoPhillips announced plans to dispose of half of its stake in LUKOIL, which at the time constituted approximately 20% of LUKOIL's authorised and issued shares, during 2010 and 2011. On 28 July 2010, LUKOIL Finance signed a stock purchase agreement with Springtime Holdings Ltd., an affiliate of ConocoPhillips (Springtime), under which LUKOIL Finance agreed to purchase 64,638,729 LUKOIL ordinary shares, which constituted approximately 7.599% of LUKOIL's authorised and issued shares, at $53.25 per share for approximately $3.44 billion. The transaction was completed on 16 August 2010.

On 26 September 2010, LUKOIL exercised its option to acquire additional shares from ConocoPhillips by sending a notice of exercise in respect of 42,500,000 LUKOIL ADRs and entered into a share purchase agreement with UniCredit Bank AG as the purchaser of those ADRs. This transaction was completed on 29 September 2010, when 42,500,000 LUKOIL ADRs were directly transferred by Springtime to UniCredit Bank AG, and UniCredit Bank AG paid the purchase price of $2.38 billion to Springtime. Simultaneously, UniCredit Bank AG issued a series of equity-linked notes to LUKOIL Finance exchangeable for 17,500,000 LUKOIL ADRs on or before 29 September 2011 and an option to purchase from UniCredit Bank AG an additional 25,000,000 LUKOIL ADRs on or before 29 September 2011. These arrangements give LUKOIL Finance the opportunity to increase significantly its holding of LUKOIL's authorized and issued shares before the end of September 2011.

ConocoPhillips may sell the rest of the LUKOIL shares it owns on the market at the price that is no less than $53.25 per share if such shares are sold in 2010 and without pricing restrictions thereafter, subject, in each case, to LUKOIL Finance's right of first offer.

As at 30 September 2010, ConocoPhillips beneficially owned 5.91% of LUKOIL's shares. Pursuant to the Shareholder Agreement of 29 September 2004 between ConocoPhillips and LUKOIL, all of ConocoPhillips's corporate governance rights and LUKOIL's corresponding obligations under the Shareholder Agreement ceased to be effective upon ConocoPhillips's stake falling below 7.599% of LUKOIL's share capital. Therefore, currently ConocoPhillips is treated like any other LUKOIL shareholder and its shareholder rights are governed only by Russian legislation and LUKOIL's charter.

During such time as ConocoPhillips's nominee continues to occupy a position on our Board of Directors, ConocoPhillips may have the power to cause our business to be conducted for its own benefit rather than for the benefit of all of our shareholders. LUKOIL's Board of Directors is responsible for important decisions including the determination of the business priorities of LUKOIL, approval of internal documents of our company (except those requiring approval of the general shareholders meeting and executive bodies), approval of interested party transactions, formation of the Management Committee, early termination of the powers of the Management Committee members, establishing key terms of contracts with the President and the Management Committee members and approving certain significant transactions consummated by OAO LUKOIL and its subsidiaries, as provided in LUKOIL's charter. Therefore, there is a risk that ConocoPhillips's nominee to LUKOIL's Board of Directors could use his position to block certain Board decisions.

Depending on the size of ConocoPhillips's stake in our share capital, ConocoPhillips in certain situations may exert similar influence in decisions requiring a vote at a general shareholder meeting, including proposed amendments to LUKOIL's charter, reorganisation proposals, proposed sales of assets for an amount in excess of 50% of the book value of LUKOIL's assets (calculated according to Russian Accounting Standards) or other major corporate transactions in a manner that may not be in LUKOIL's best interests or the best interests of our shareholders or holders of our other securities, including the Bonds and the ADRs.

Certain insiders own significant amounts of shares in LUKOIL, giving them a substantial amount of management control.

As at 30 September 2010, several members of LUKOIL's Board of Directors and Management Committee, together with their affiliates, collectively beneficially own approximately 31.5% of LUKOIL and thereby can exercise significant influence over LUKOIL's management and affairs, including:

- the composition of the Board of Directors and, through it, any determination with respect to LUKOIL's business direction and policies, including the appointment and removal of officers;
- the determination and allocation of business opportunities that may be suitable for us;
- any determinations with respect to mergers, acquisitions or other business combinations;
- acquisition or disposition of assets;
- financing arrangements; and
- the incurrence of debt, the pledging of our assets and the use of proceeds from any debt financing.

The influence that they have may not always benefit LUKOIL or be in the best interests of other shareholders or holders of our other securities, including the Bonds.

We may not be able to finance our planned capital expenditures.

Our business requires significant capital expenditures, including in exploration and development, production, transportation and refining, and to meet our obligations under environmental laws and regulations. We rely on our cash flows from our operating activities or on external sources, including bank borrowings and offerings of debt or equity securities in the international capital markets to finance our capital expenditures. Our cash flows generated from crude oil, refined product, natural gas and petrochemical product sales may decrease because of the recent decline in crude oil prices and the decreased demand in these products as a result of the global financial crisis. In addition, the global banking and capital markets have experienced a significant disruption since August 2008, which has been

characterised by severe reductions in liquidity, greater volatility and general widening of credit spreads. As a result, many lenders have reduced or ceased providing funding to borrowers, particularly in emerging markets, and there has been a general increase in the cost of borrowing for private-sector borrowers. If our cash flows decrease or we are unable to raise the necessary financing, we will have to reduce our planned capital expenditures. Any such reduction could materially adversely affect our ability to expand our business and, if the reductions are severe enough, could materially adversely affect our ability to maintain our operations at current levels. If any of these risks were to materialise, it could have a material adverse effect on our business, financial condition and results of operations.

Substantial leverage and debt-service obligations may adversely affect our cash flow.

We will have substantial amounts of outstanding indebtedness upon the completion of the issuance, primarily under the Bonds, other previously issued notes and our obligations under existing credit arrangements. As a result of the issuance, our total long-term debt will increase to approximately $9.2 billion from approximately $7.3 billion as of 30 September 2010, and our principal and interest payment obligations will increase substantially. In addition, various other sources of financing are available to us, including international and Russian capital markets, bank loans and credit facilities, vendor financing and capital lease arrangements. We may not be able to generate enough cash to pay the principal, interest and other amounts due under all of our indebtedness.

Our substantial leverage could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing or to refinance existing indebtedness;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, including capital expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- placing us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

There can be no assurance that we will be able to meet such obligations, including our obligations under the Bonds. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we would be in default under the terms of our indebtedness, which would permit the holders of such indebtedness to accelerate the maturity of such indebtedness and could cause defaults under our various indebtedness, including the Bonds. Such defaults could delay or preclude payments of interest or principal on our indebtedness, including the Bonds.

We may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations.

We incur and expect to continue to incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. These include costs to reduce certain types of air emissions and discharges to the land and sea and to remediate contamination at various owned and previously owned facilities and at third-party sites where our products or waste have been handled or disposed. There are additional costs associated with the handling, use, storage, transportation, disposal and clean up of hazardous materials and non-hazardous wastes and the dismantlement or abandonment of our properties at the end of their useful lives. Our shipping and other transportation operations are also subject to extensive environmental and other regulations.

In 2009, our management committee approved the LUKOIL Group Environmental Safety Programme for 2009-2013, which expands on the former Environmental Safety Programme for 2004-2008 and is aimed at improving our environmental monitoring system and minimising any negative environmental impacts caused by our operations. The programme contemplates 483 measures to protect the environment and ensure higher safety standards, with an expected total cost of approximately $1.8 billion. However, there can be no assurance that the programme or the measures taken under the programme will protect us from negative environmental impacts caused by our operations.

PETROTEL LUKOIL S.A., our refinery in Romania, LUKOIL Neftochim Bourgas AD, and our refinery in Bulgaria require the remediation of a substantial amount of environmental pollution that pre-dated our acquisition of these facilities. At the time of our acquisition of the Petrotel refinery, there was an understanding that the Romanian government would retain liability for existing environmental pollution at the site, which we estimate to be an immaterial amount. In connection with our acquisition of the Bourgas refinery, we understand that the Bulgarian government retains liability for remediation of existing environmental pollution at the site, estimated at approximately $40 million. There can be no assurance that the Romanian and Bulgarian governments will comply with their obligations in connection with remediation of the environmental pollution at these facilities in the way we expect. Accordingly, we could be exposed to additional remediation costs at these sites in excess of our planned expenditures.

Managed nuclear explosions were carried out within the Osinskoye oil field in 1969. This field is currently operated by OOO LUKOIL-PERM (LUKOIL-PERM). Subsequent drilling allowed radioactively contaminated water to enter the oil reservoir, which eventually led to a ground-level radioactive contamination problem being identified in 1976. Between 1996 and 2001, we undertook a project at a cost of $6 million to manage and contain associated radiological risks and we believe that no further material liability exists for LUKOIL-PERM. Management procedures are in place to maintain a buffer zone around the location of the nuclear explosions. However, we can give no assurance that further ground water contamination of the surface soil will not occur and will not have a material adverse effect on our business, financial condition and results of operations.

New laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement or new interpretations of existing laws, regulations and licences or the discovery of previously unknown contamination may require us to modify our operations or require further expenditures. These expenditures may include expenditures to install pollution-control equipment, perform site clean-ups and pay fines or make other payments for discharges or other breaches of environmental standards. Our operations could also expose us to civil claims by third parties for alleged liability resulting from contamination of the environment or personal injuries caused by release of hazardous substances. The expenditures associated with environmental pollution can be substantial. For example, at the Varandey site, operated by OOO Narianmarneftegaz (NMNG), our joint venture with ConocoPhillips, we reinject well produced water into the water producing formation at the oil field. As a result of an attempt by the Federal Natural Utilisation Control Service (Rosprirodnadzor) to reinterpret existing laws, we may face the risk of this activity being qualified as contamination of the site with waste water, which may lead to increased environmental fees in the future. In addition, we may be required to modify, curtail or cease certain activities which could materially adversely affect our business, financial condition and results of operations.

Increasingly strict environmental requirements, including those relating to gasoline sulphur levels, diesel quality and the aromatic content of gasoline (including certain requirements that became effective in 2005 in the European Union), affect product specifications and operational practices. Our refineries will not, without significant modification and capital expenditures, be able to produce significant quantities of refined products that meet certain strict refined product specifications in some of our export markets, particularly those currently in effect or expected to take effect in the future in the European Union or the United States. In addition, with the admission of Bulgaria and Romania to the European Union on 1 January 2007, our refineries in these countries have become subject to stricter regulations relating to the quality of refined product production environmental protection. As a result, we have had to make substantial investments to upgrade our refineries to comply with such regulations, including those that relate to asbestos, which was present at both such refineries. Although our plans call for significant expenditures to continue to upgrade our refineries, we can give no assurance that we will have adequate resources to fulfil these plans. Failure to meet certain international standards at our refineries could have a material adverse effect on our business, financial condition and results of operations.

In 1994, the 1992 United Nations' Framework Convention on Climate Change came into force in Russia and three years later led to the Kyoto Protocol, which requires nations to reduce their emissions of carbon dioxide and other greenhouse gases. In late 2004, Russia ratified the Kyoto Protocol and the protocol entered into force in February 2005 for all countries that had ratified it. The Ministry of Economic Development has developed a plan of action for the Russian government to implement the provisions of the Kyoto Protocol. The Ministry of Economic Development has issued certain regulations relating to the implementation of the provisions of the Kyoto Protocol within Russia. These regulations, among other things, include a target reduction in the total amount of greenhouse gas emissions of 300 million tonnes of

CO2 equivalent for the period from 2008 to 2012 (including 205 million tonnes allocated to the energy sector). Other countries in which we operate have also ratified the Kyoto Protocol. Any changes in environmental legislation under the Kyoto Protocol or otherwise may require, among other things, reductions in emissions to the air from our operations and could result in increased capital expenditures which could materially adversely affect our business, financial condition and results of operations.

Although the costs of the measures taken to comply with environmental regulations have not had a material adverse effect on our business, financial condition or results of operations to date, in the future, the costs of such measures and liabilities related to environmental damage that we cause may increase. Any such increased costs, or any requirements to modify our operations, could materially adversely affect our business, financial condition and results of operations.

We are exposed to potential losses and could be seriously harmed by natural disasters, operational catastrophes or security breaches.

Exploration for, the production of, and the transportation of oil and natural gas is hazardous, and natural disasters, operator error or other occurrences can result in oil spills, gas leaks, loss of containment of hazardous materials, cratering, fires, equipment failure and loss of well control. Failure to manage these risks could result in injury or loss of life, damage or destruction of wells and production facilities pipelines and other property and damage to the environment. For example, in 2010, a major oil spill occurred offshore in the Gulf of Mexico at a site operated by BP.

All modes of transportation of hydrocarbons contain inherent risks. A loss of containment of hydrocarbons and other hazardous materials could occur during transportation by road, rail, sea or pipeline. Given the high volumes involved, this is a significant risk due to the potential impact of a release on the environment and people.

Offshore operations are subject to marine perils, including severe storms and other adverse weather conditions, vessel collisions, as well as interruptions or termination by governmental authorities based on environmental and other considerations. Losses and liabilities arising from such events could significantly reduce our revenues or increase our costs and have a material adverse effect on our operations or financial condition. Offshore operations may be subject to stringent governmental regulations, particularly in light of the recent offshore oil spill in the Gulf of Mexico.

We are exposed to risks regarding the safety and security of our operations. Inability to provide safe environments for our workforce and the public could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to our reputation. Security threats require continuous oversight and control. A breach of security, such as an act of terrorism, against our plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people.

Any such disasters, catastrophes or breaches could result in significant losses, which could materially adversely affect our business, financial condition, results of operations.

The crude oil and natural gas reserves data in these Listing Particulars are only estimates and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

The information concerning the crude oil and gas reserves estimated by LUKOIL as of 31 December 2009 included in these Listing Particulars has been prepared in accordance with the definitions contained in SEC Regulation S-X Rule 4-10(a) at that time and has been derived or extracted from the 31 December 2009 report of Miller and Lents.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of the value and quantity of economically recoverable oil and gas reserves, rates of production, future net revenues and the timing of development expenditures are based on existing economic and operating conditions using prices and costs as at the date the estimate is made. In addition, estimates necessarily depend upon a number of variable factors and assumptions, including the following:

- historical production from the area compared with production from other comparable producing areas;

- interpretation of geological and geophysical data; and
- the assumed effects of regulations by governmental agencies.

Because all reserves estimates are subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the production and operating costs incurred;
- the amount and timing of future development expenditures; and
- oil and gas prices.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. This is especially true in relation to countries with political and economic uncertainty and instability, such as Russia and the other regions where we operate, including the CIS, the Middle East, West Africa and South America. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserves data. Furthermore, different reservoir engineers may make different estimates of reserves and cash flows based on the same available data. Actual production, revenues and expenditures with respect to reserves will vary from estimates and the variances may be material. Any downward adjustment could lead to lower future production and, thus, materially adversely affect our business, financial condition and results

of operations.

The discounted and undiscounted pre-tax future net revenues included in these Listing Particulars should not be considered as the market value of the reserves attributable to our properties. Our actual pre-tax future net revenues will be affected by factors such as:

- the amount, timing and cost of actual production;
- supply, demand and price for oil and gas;
- cost and availability of transportation; and
- changes in governmental regulations (including taxation).

Additionally, in estimating our proved oil and gas reserves we have assumed that the production licences for our Russian fields would be renewed and the fields would be produced until the economic limit of production is reached. If any production licences for our Russian fields are not renewed, our estimated oil and gas reserves may materially decrease.

We may have conflicts of interest in transactions with related parties that may result in the conclusion of transactions on terms less favourable than could be obtained in arm's-length transactions.

We and our principal shareholders have engaged in transactions with affiliated parties and may continue to do so. For example, we have engaged in transactions with certain of our directors and executive officers and companies that they control, including equity purchases and sales, supply contracts, insurance services (prior to 2009) and loan and financing arrangements. We may have conflicts of interest in transactions between us and our affiliates that may result in the conclusion of transactions on terms not determined by market forces.

If we fail to integrate our acquisitions successfully, our rate of expansion could decline and our business, results of operations, financial condition and prospects could suffer.

We have expanded our operations significantly through acquisitions since being privatised in 1993, both in Russia and internationally, and we expect to continue to do so in the future. The integration of these recently acquired businesses, and of businesses we may acquire in the future, requires significant time and effort of our senior management, who are also responsible for managing our existing operations. Integration of new businesses can be difficult, as our culture may differ from the cultures of the businesses we acquire, unpopular cost cutting measures may be required and control over cash flows and expenditures may be difficult to establish. While we have generally been satisfied with the progress we have made in integrating the businesses we have acquired thus far, we can give no assurance that ongoing or future integrations of acquired businesses will be successful.

We may not be able to realise opportunities in Iraq.

In 1997, we signed a contract for a 68.5% interest in a production sharing agreement (PSA) relating to the development of the second stage of the West Qurna-2 oil field in Iraq (West Qurna-2). The PSA required the parties to make a total investment of at least $6 billion on a *pro rata* basis. As a result of the political situation in Iraq, we delayed our performance of certain obligations under the agreement. In December 2002, the former government of Iraq purported to terminate the PSA. Following the military campaign in Iraq in 2003, the provisional Iraqi administration expressed a desire to honour its obligations under the PSA. However, statements to the media made by Iraqi officials in 2008 indicated that the current Iraqi administration viewed the PSA as having been terminated. In December 2009, we won the tender to develop the West Qurna-2 field as part of a consortium with Statoil. In January 2010, we entered into a development and production agreement with two of Iraq's state-owned companies (North Oil Company and South Oil Company) and Statoil, which was ratified by the Iraqi Cabinet of Ministers. The agreement has a term of 20 years with the possibility of extension for another 5 years. Although we were successful in our bid for rights to develop the West Qurna-2 field, we cannot be sure that government intervention or other factors will not keep us from successfully pursuing the development of the West Qurna-2 field.

We depend on our senior managers and other key personnel.

Our growth and future success depend in significant part upon the continued contributions of a number of our key senior management and personnel, in particular our President and a member of our Board of Directors, Vagit Yusufovich Alekperov. We can give no assurance that his services or the services of other key persons will continue to be available to us, and the loss of any one of them could have a material adverse effect on our business, financial condition and results of operations.

We face the risk of a shortage of qualified personnel.

There is a growing global shortage of workers in the oil and gas industry which has caused foreign companies to look to the Russian labour market for employees. A shortage in the supply of labourers in Russia could cause an increase in salaries which could result in an increase in our labour costs. We may also be forced to modernise production in order to reduce our dependence on our labour force. These and other risks associated with labour shortages in the oil and gas industry could have a material adverse effect on our business, financial condition and results of operations and, therefore, would affect the Issuer's ability to meet its obligations under the Bonds and LUKOIL's ability to meet its obligations under the guarantee.

If the Russian Federal Antimonopoly Service (the FAS) were to conclude that we had conducted our business in contravention of antimonopoly legislation, it could impose administrative sanctions on us.

Russian antimonopoly legislation prohibits anti-competitive behaviour, including abuse of a dominant position. This legislation is sometimes vague and subject to varying interpretations. Developments in the Russian antimonopoly law are trending towards stronger state control over the market participants.

In July 2009, the Federal Law "On Protection of Competition" was amended to grant the FAS additional powers to regulate the commercial activities of market participants, simplify the procedure of proving a breach of the antimonopoly legislation, increase the penalties for anticompetitive activities and introduce new elements to the relevant offences. In particular, the FAS' powers were expanded with respect to the right to issue an order to sell a certain amount of products at the commodity exchange, the requirements to obtain prior approval by the FAS of the starting price for the products and the procedure for calculation of such price when the products are sold on the commodity exchange. These new powers may adversely affect the volume of supplies to our own refineries and impair our relationship with our customers. In particular, there is a possibility that while approving the starting prices, the relevant authorities will decrease the prices for our products. Administrative sanctions may be imposed on us if the FAS concludes that our business was conducted in contravention of antimonopoly legislation. Any use by the FAS of such powers on our Group could materially adversely affect our business, financial condition and results of operations.

Court practice relating to contesting decisions of the FAS, in particular in cases regarding abuse of dominant position by setting excessively high prices and taking concerted actions with other market participants, lacks consistency. Because of the absence of explicit criteria for valuation of entities'

financial and commercial operations and the lack of consistency in court practice, it is difficult to predict the outcome of cases contesting decisions adopted by the FAS and the penalties it imposes.

In October 2009, an amendment to Article 178 of the Criminal Code of the Russian Federation entered into force which clarified and expanded the elements of offence for economic crimes, and increased sanctions for misconduct in the form of larger financial penalties, a prohibition on holding certain offices or conducting certain activities and imprisonment. The application of such penalties for breach of antimonopoly legislation could impair our officers and managers ability to manage our operations and, as a result, have a material adverse effect on our business, financial condition and results of operations.

In 2009, pursuant to a request of the Chairman of the Government of the Russian Federation and in accordance with the Decree of the Government of the Russian Federation establishing the Key Focus Areas for the Government of the Russian Federation to 2012, the programme entitled Competition Promotion Programme for the Russian Federation (the Programme) was developed. The first section of the Programme describes the key directions for promoting competition in the market for oil products. The Programme contains a list of steps to promote competition, one of which is to split up different types of operations within vertically integrated oil companies (VIOC) between different legal entities within one and the same VIOC to create, based on the competitive relations between the supplier and the buyer (including between VIOCs), additional turnover of oil products within the wholesale and retail markets. Based on the Programme, in May 2010, the Russian Ministry of Economic Development approved a plan for the promotion of competition in the oil products markets, pursuant to which it is proposed to split-up the wholesale and retail operations within a VIOC to ensure non-discriminatory access to oil and oil products transportation and storage infrastructure.

We believe that orders to split up the operations within a VIOC may be used against companies which are found to have violated antimonopoly legislation and which have a dominant position. In such case, the courts would be authorised either to decide to split up the operations of such companies or spin-off one or several companies which may not be part of the same group of persons according to the law. Any application by the FAS of any such measures to our Group could materially adversely affect our acquisition strategy and, more generally, our business, financial condition and results of operations.

If the FAS were to conclude that we created a subsidiary or acquired any shares (equity interests) or assets in contravention of antimonopoly legislation, it could impose administrative sanctions on us and may file a claim seeking liquidation or reorganisation by spin-off or separation of any such subsidiary or invalidation of the transactions related to such shares (equity interests) or assets.

Our business has grown substantially through the acquisition of shares (equity interests) or assets or creation of companies, many of which required the prior consent or subsequent notification of the FAS or any of its predecessor agencies. Russian antimonopoly legislation restricts the acquisition or creation of companies by groups of companies or individuals acting in concert without this approval or notification. The legislation is sometimes vague and subject to varying interpretations. If the FAS was to conclude that our acquisition of shares or assets or creation of a new company contravened applicable legislation, they could impose administrative sanctions on us and they could file a claim seeking liquidation or reorganisation by spin-off or separation of any such subsidiary or invalidation of the transactions related to such shares (equity interests) or assets, materially adversely affecting our acquisition strategy and, more generally, our business, financial condition and results of operations.

Any increase in the disparity between Russian and international market crude oil or refined product prices may have a material adverse effect on our business, financial condition and results of operations.

As is the case with all Russian oil companies, we sell a portion of our crude oil and refined products in the Russian market, where prices have historically been lower than in the international market. Our domestic crude oil sales are small compared to our international crude oil sales. In the past, domestic Russian crude oil prices were set by the Russian government at levels substantially below those of world market prices. The Russian government ceased to regulate domestic prices for crude oil in early 1995. Domestic prices have remained below world levels due in part to export duties and transportation costs, although developments in export channels of the Transneft pipeline system and other export infrastructure have had the effect of exerting upward pressure on domestic prices, in part because they reduce the supply available to the Russian market. In recent years, the prices we achieved for our domestic crude oil sales were close to, or sometimes even higher than, our export netback prices, which are the prices we achieved for exports, minus export duties and transportation costs.

While prices in Russia for refined products are generally determined by the market, occasionally they may still be subject to government control. Furthermore, Russian oil companies may, from time to time, be subject to political pressure to reduce domestic refined product prices. Accordingly, we can give no assurance that governmental price controls will not be implemented or increased for political or other reasons. Any resulting increase in the disparity between Russian and international market prices for refined products could have a material adverse effect on our business, financial condition and results of operations.

A change in the blend of the oil transported through the Transneft pipeline network could affect the price we receive for our oil.

The crude oil that we transport through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. Our sales of crude oil that we transport through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as "Urals blend" crude oil. Therefore, the price we get for our oil may be lower than the price that we could get for oil of the same quality if we could transport our oil independently of Transneft. Any decrease in the quality of the crude oil blend transported through Transneft could reduce the marketability of the oil we produce and, thereby, materially adversely affect our business, financial conditions and results of operations.

Our business operations could be disrupted if our existing and new management information systems fail to perform adequately.

We depend upon our management information systems, including our Industrial Safety Management System and our Environmental Safety Management System, to conduct our operations. We are also in the process of introducing new solutions to support our exploration and development activities and standardising and rationalising the accounting systems used at our subsidiaries. Implementation of any major new systems and enhancements to existing systems could cause disruptions in our operations. If the implementation of our new management information systems is delayed or the systems fail to perform as anticipated, we could experience difficulties in conducting our operations or generating necessary financial and accounting information. Any of these or other systems-related problems could, in turn, adversely affect our financial condition and results of operations.

Notwithstanding the risk described above, in the event that we experience difficulties in generating financial and accounting information using our management information systems, we believe that we have alternative information technology and personnel capabilities to meet our obligations as a listed company. As a result, we believe that our financial systems are sufficient to ensure compliance with the requirements of the UK Listing Authority's Disclosure and Transparency Rules as a listed entity.

We are involved in various legal proceedings that may result in material losses.

We are involved in a number of legal proceedings. Although we do not currently expect a material adverse effect on our financial condition and results of operations because of any proceedings currently known to us, we can give no assurance that we will not incur material losses in connection with any such legal proceedings. Such losses are difficult to predict because of: (i) uncertainty regarding the outcome of the various proceedings; (ii) the occurrence of new developments that we could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as at the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) errors in the estimate of probable future losses. Losses associated with legal proceedings could materially adversely affect our business, financial condition and results of operations.

A material change in the tax legislation in any of the jurisdictions in which we operate could have a material adverse effect on our business, financial condition and results of operations.

As a result of general economic conditions in the countries in which we operate and those in which we currently make, or may in the future make, sales, and in particular as a result of the economic slowdown, the tax legislation in these countries may be changed in order to increase tax revenues. A material change in the tax legislation in any of the jurisdictions in which we operate or those in which we currently make, or may in the future make, sales could have a material adverse effect on our business, financial condition and results of operations.

The introduction of new specifications for fuel quality standards in Russia may force us to incur further capital expenditures to upgrade our domestic refineries.

Fuel produced at our refineries currently meets Russian domestic quality standards. Investment plans for our refineries anticipate progressive tightening of domestic fuel standards, ultimately bringing them in line with European standards. However, a risk remains that the Russian government may accelerate the introduction of standards for cleaner fuels or that the changes, when introduced, may vary from our current expectations. We intend to work closely with the relevant federal and local authorities to understand the timing for the changes in fuel quality standards. If these changes, when introduced, vary significantly from our current expectations, they could force us to incur further capital expenditures to upgrade our refineries and could limit our fuel supply to the domestic market until refinery technical upgrades are completed.

We do not carry insurance against all potential risks and losses and our insurance might be inadequate to cover all of our losses or liabilities.

We only have limited, and potentially an insufficient level of, insurance coverage for potential losses or liabilities that may arise in connection with our business, including property damage, work-related accidents and occupational disease, natural disasters and environmental contamination. Accordingly, losses or liabilities arising from such events could increase our costs, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Business Operations in Emerging Markets

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal, financial and tax advisors before making an investment in the Bonds.

Emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant political, legal and economic risks.

Investors in emerging markets, such as Russia, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, legal and economic risks. Emerging economies such as the Russian economy are subject to rapid change and the information set out in these Listing Particulars may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt and equity markets of other emerging market countries, as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Adverse economic developments of the kind described above may affect our business in a number of ways. As a result, demand for our products may decline, which would materially adversely affect our business, financial condition and results of operations.

Most of our international reserves, production and refining interests are located in politically, economically and legally unstable areas.

As at 31 December 2009, approximately 5% of our proved crude oil reserves were located outside Russia. Currently, our principal international upstream interests are in two countries bordering the Caspian Sea: Kazakhstan and Uzbekistan. We also have upstream interests in Azerbaijan, Colombia, Egypt, Saudi Arabia, Venezuela, Ghana and Cote d'lvoire. As at 31 December 2009, approximately 30% of our proved gas reserves were located outside of Russia, in Kazakhstan, Uzbekistan and Azerbaijan. In addition, we have refining operations in Ukraine, Bulgaria and Romania.

We are exposed to significant political, economic and legal risks in some of these countries. There has been war and civil strife in and around the Middle East, the Caspian region and in Colombia and Cote d'lvoire for much of the past two decades. Moreover, since the dissolution of the Soviet Union, the international legal status of the Caspian Sea has remained uncertain and is currently the subject of international negotiations that could have a material adverse effect on our interests there. In addition, changes in subsoil use legislation, as well as in legislation affecting production sharing agreements in

these regions, in particular in the event of its retroactive application, may affect the way we conduct our business in these areas.

The military conflict in August 2008 between Russia and Georgia, involving South Ossetia and Abkhazia, temporarily obstructed our ability to transport natural gas we produced in Azerbaijan through the Southern Caucasus Pipeline and resulted in criticism of Russia by a number of Western European countries and countries in North America, which were considering political and economic sanctions and other actions against Russia. Any additional tensions in the region could negatively affect the Russian economy, which could have a material adverse effect on our business and therefore, on the Issuer's ability to meet its obligations under the Bonds and LUKOIL's ability to meet its obligations under the guarantee.

We have assets and operations in countries that have recently or may in the future become members of the European Union.

The process of transition into the European Union by countries in which we operate carries significant risks associated with changes in legislation and changes in trade relations between Russia and these countries. There is a risk that our operating expenses will increase due to higher minimum wages, stricter environmental standards and other European Union requirements. If any of these risks were to materialise it could have a material adverse effect on our business, financial condition and results of operations and, therefore, on the Issuer's ability to meet its obligations under the Bonds and LUKOIL's ability to meet its obligations under the guarantee.

Credit risks of our customers in emerging markets are higher than those of our customers in developed countries.

We focus on the selection of reliable partners for our business in terms of their ability to pay in a timely manner for the products purchased from us and perform their obligations in strict compliance with our existing agreements. However, our business is exposed to the risk that the amounts owed by our customers for products sold or services rendered will not be paid when due, and that some of them may not be able to perform timely and fully their obligations. In such cases we seek to resolve any disputes and recover amounts owed to us in conformity with the laws of the jurisdictions where we operate and with established business practices. We note, however, that in the markets of developed countries it is less cumbersome to settle such disputes as compared to emerging markets, due to better developed laws and the financial services market. In developed markets corporate debts are a financial asset which may be used as security, pledged, sold and purchased; therefore, such debts have high liquidity. In emerging markets this practice is not as developed and the recovery of overdue debts is a lengthy process. As a result of longer periods which we may need to recover overdue debts from our customers in emerging markets we may need substantial financial resources to maintain the financial stability of a number of our subsidiaries, which may adversely affect our business, financial condition and results of operations.

Risks Relating to the Russian Federation

We are a Russian company and substantially all of our fixed assets are located in, and a significant portion of our revenues are derived from, Russia. There are certain risks associated with an investment in Russia.

The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty.

We are subject to a broad range of taxes imposed at the federal, regional and local levels, which include, among others, corporate income tax, mineral extraction tax, value added tax, excise duty, export duty, compulsory insurance payments and corporate assets tax, and we are one of the largest sources of tax revenue to the federal authorities and to the regional and local authorities in those regions and localities in which we operate.

The taxation system in Russia is subject to frequent changes and inconsistent enforcement at the federal, regional and local levels. Until the adoption of the Tax Code of the Russian Federation (the Tax Code) the system of tax collection in Russia was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. The existing Russian tax laws, such as the Tax Code, have been in force for a short period of time as compared to tax laws in more developed market economies, and the implementation of these tax laws is often unclear or inconsistent. In practice, Russian tax

authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. During the past several years, the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the oil industry. In some instances the Russian tax authorities have applied new interpretations of tax laws retroactively. In addition, the Russian Federation may introduce changes into tax legislation that may adversely affect our business, including certain changes aimed at maximising state budget income received from the raw materials sector of our industry.

Generally, tax declarations are subject to inspection by tax and/or customs authorities for three calendar years immediately preceding the year in which the decision to conduct an audit is taken. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year period by a superior tax authority. The Tax Code provides for the possible extension of the three-year limitation period if the taxpayer has actively obstructed the performance of the tax audit and this has become an insurmountable obstacle for the tax audit. As the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian tax legislation, the tax authorities may attempt to interpret them broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer, and use that as a basis to seek tax adjustments and penalties beyond the three-year period. The statute of limitation is not therefore entirely effective with respect to liability for tax in Russia. Such inspection, if it concluded that we had significant tax underpayments relating to such periods, may have a material adverse effect on our business, financial condition, results of operations and our ability to meet our obligations under the Guarantee.

The Group implemented tax planning and management strategies based on existing legislation at the time of implementation.

We are subject to periodic tax audits that may result in tax assessments and additional amounts owed by us for prior tax periods. At times, tax authorities have attempted to impose additional significant taxes on the Group. In 2009, Group companies which were subject to tax inspections faced tax claims for an aggregate amount in excess of RUR4 billion, 99% of which were disputed and 98% of which were resolved in our favour through pre-judicial and judicial challenges. We do not believe that any further claims from Russian tax authorities resulting from investigations of our activities could materially adversely affect our business, financial condition or results of operations. However, we can give no assurance that such authorities will not bring any substantial claims as a result of their investigations.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 formulating the concept of "unjustified tax benefit", which is described in the Ruling by reference to circumstances, such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterisation of the status of the transactions for tax purposes. Although the intention of this Ruling was to combat abuse of tax law, in practice the tax authorities may seek broad application of the Supreme Arbitration Court's principles to contest the correctness of a taxpayer's tax assessment. Based on cases brought to courts to date relating to this ruling, the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been intended by the Supreme Arbitration Court. To date, in the majority of cases where this concept has been applied, the courts have ruled in favour of taxpayers, but it is too early to determine whether the courts will follow these precedents in the future.

Russian transfer pricing legislation allows Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), provided that the transaction price differs from the market price upwards or downwards by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices of similar transactions by more than 20% within a short period of time). Special transfer pricing rules apply to securities transactions and derivatives.

It is not always possible to determine market prices for crude oil in Russia, mainly due to the significant intragroup turnover of the vertically integrated oil companies that dominate the market. Substantially all crude oil produced in Russia is produced by vertically integrated oil companies, such as ours. As a result,

most transactions are conducted between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil in Russia. The price of crude oil that is produced, but not refined or exported by one of the vertically integrated oil companies, is generally determined on a transaction-by-transaction basis against the background of world market prices, but with no direct reference or correlation. At any time, there may be significant price differences between regions for similar quality crude oil as a result of the competitive and economic conditions in those regions. Due to the uncertainties in the interpretation of transfer pricing legislation, the tax authorities may take a view as to what constitutes an appropriate market price that differs from LUKOIL's view. As a result, the tax authorities may challenge LUKOIL's prices in such transactions and propose adjustments. If such price adjustments are implemented, our business, financial condition or results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of prior underpaid tax and related interest and penalties, which could have a material adverse effect on our business, financial condition, results of operations and our ability to meet our obligations under the Guarantee.

A new draft law radically amending the transfer pricing legislation was approved by the Russian parliament in the first reading on 19 February 2010 with the second and third readings scheduled for the spring session of 2011 by the State Duma of the Russian Federation. At this point it cannot be predicted with absolute certainty when these amendments will be enacted and what effect they may have on taxpayers, including the Group.

It should also be noted that Russian tax law does not provide for a possibility of group relief or fiscal unity. Consequently, tax losses of a Russian legal entity within the Group may not be surrendered to reduce the tax liability of any other Russian legal entity within the Group.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax law does not provide for detailed rules on taxation of foreign companies in Russia. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities to their interpretation and application, the Group might be subject to additional taxation in Russia.

Russian tax legislation in effect as of the date of these Listing Particulars does not contain a concept of the corporate tax residency. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on a Russian source income. The Russian Government in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction to the domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on our Group. We may not rule out that, as a result of the introduction of these changes to the Russian tax legislation, certain companies of the Group might be deemed to be Russian tax residents, subject to all applicable Russian taxes.

All of the factors described above create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems. It imposes additional burden and costs on our operations, including management resources, and complicates our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance with tax legislation.

The occurrence of any of the events set out above could have a material adverse effect on our business, financial condition, results of operations and our ability to meet obligations under the Guarantee.

Initiatives of the Russian government to level export duties for dark and light petroleum products may adversely affect our performance.

The Russian government has made statements suggesting it may pursue policies aimed at leveling export duties for dark and light petroleum products. Government officials have indicated that such policies, if adopted, will seek to boost the modernization of the national oil refining sector and to increase the refining depth in Russia. The government proposes to level the duties gradually and start the process in 2011. Up to now, no final decision has been made, and the initiative's chances for success are unclear. We have prioritized the modernisation of our refineries, and we have undertaken large-scale operations to raise the complexity and refinery depth at other refineries. However, even in light of the unclear

perspective of this governmental action and the absence of tools to implement it, given the current product mix of our refineries, this proposed legislative initiative may, if approved, adversely affect our business, financial performance and results of operations.

Instability in the Russian economy could materially adversely affect our business.

Since the dissolution of the Soviet Union, the Russian economy has been subject to abrupt downturns and has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- unstable credit conditions;
- a weakly diversified economy which depends significantly on global prices for raw materials;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been adversely affected by the global financial turmoil, which began in the third quarter of 2008. The Russian economy has recently been characterised by extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP. In late 2008, the Russian government announced plans to make available more than $200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending.

In the year ended 31 December 2009, according to Rosstat, the Russian Federation's real GDP contracted by 7.9% as compared to growth of 5.6% and 8.1% in 2008 and 2007, respectively. According to the CBR, Russian Federation's foreign currency reserves fell from a peak of $598.10 billion in August 2008 to $383.7 billion in May 2009, although they recovered to $475.3 billion by August 2010. Rosstat's figures for 2009 also show industrial production and exports declining by 9.3% and 35.7%, respectively, and unemployment increasing by 48.9%.

During the first quarter of 2010, according to Rosstat, industrial production grew by 5.8% as compared to the same period in 2009. According to Rosstat, exports in the first quarter of 2010 increased by 61.6%, compared to the same period in 2009. The Russian Ministry of Economic Development estimates that the Russian Federation's real GDP will grow by not less than 4% in 2010.

In February 2009, in large part due to the impact of the global financial and economic crisis on the Russian economy, Fitch downgraded its long term sovereign rating for the Russian Federation from "BBB+" to "BBB" and downgraded Russia's country ceiling rating to "BBB+" from "A". In January 2010, Fitch raised the Russian Federation's ratings outlook to "stable" from "negative". In September 2010, Fitch raised the Russian Federation's ratings outlook to "positive" from "stable". In December 2008, Standard & Poor's Rating Services, a division of McGraw Hill Companies Inc. (Standard & Poor's) downgraded its foreign currency sovereign credit rating on the Russian Federation from "BBB+/A 2" to "BBB/A 3", stating that the downgrade of the ratings of the Russian Federation reflects risks associated with the sharp reversal in external portfolio and other investment flows, which increased the cost and difficulty of meeting the country's external financing needs. Any further deterioration or the continuation

of the current economic situation in Russia and the markets in which we operate could have a material adverse effect on our business, financial condition and results of operations and, therefore, our ability to meet our obligations under the Bonds and LUKOIL's ability to meet its obligations under the guarantee.

As Russia produces and exports large quantities of crude oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil and natural gas on the world market, which reached record high levels in the first six months of 2008 and significantly decreased during the last six months of 2008. Since then the prices have stabilised. During the global financial and economic crisis, there were periodic suspensions of trading on the Russian stock market, extreme volatility in the Russian securities markets and sharp fluctuations in the share prices of Russian financial institutions. As of October 2008, the RTS stock index had declined by over 70% from its highest levels reached in May 2008 and the IFX-Cbonds bond index had declined by approximately 13.8% from its highest levels reached in June 2008. However, by the end of July 2010, the RTS stock index and the IFX-Cbonds bond index had recovered by 200.4% and 47.0%, respectively, from their lowest levels. Deterioration of, or the continued instability in, the Russian economy could adversely affect our revenues derived in Russia and inhibit our ability to obtain financing and could materially adversely affect our business, financial condition and results of operations.

Political and governmental instability could materially adversely affect our business, financial condition and results of operations.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. The Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, and to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government, including the prime minister and the other heads of federal ministries, has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000.

Vladimir Putin was elected President of Russia in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. On 2 March 2008, Dmitry Medvedev was elected President of Russia and appointed Mr. Putin as Prime Minister shortly thereafter.

Future presidential elections, changes in government, the creation, abolishment or reform of government bodies regulating the oil and gas industry, major policy shifts or a lack of consensus between the president, the government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investment in Russia generally and the Bonds in particular.

Domestic political conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could materially adversely affect the value of investments in Russia.

Russia is a federation comprising various sub-federal political units, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. In practice, the division of authority between federal and regional governmental authorities remains uncertain and contested. This uncertainty could hinder our long-term planning efforts and may create uncertainties in our operating environment, which may prevent us from effectively carrying out our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya. The military conflict in Chechnya has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighbouring regions. Various armed groups in Chechnya have engaged in attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow, most recently in March 2010. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business, financial condition, results of operations and the value of investments in Russia, such as the Bonds.

We are only able to conduct banking transactions with a limited number of creditworthy Russian banks because the Russian banking system remains underdeveloped, and another banking crisis in Russia could place severe liquidity constraints on our business, materially adversely affecting our business, financial condition and results of operations.

Russia's banking and other financial systems are less well developed or regulated compared to those in developed countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

The CBR's supervisory/control mechanisms may be in certain cases insufficient to timely identify non-compliance with banking legislation.

The deficiencies in the Russian banking sector, combined with the deterioration of Russian banks' credit portfolios' condition, may result in the banking sector being more susceptible to the current worldwide macroeconomic situation. The credit crisis that began in the United States in the autumn of 2008 resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Starting from the fourth quarter of 2008, a majority of the Russian banks experienced difficulties with funding on domestic and international markets and interest rates increased significantly. Credit ratings of several banks were lowered. The lack of liquidity and economic slowdown raised the possibility of Russian corporate defaults. Since then much of the liquidity has been restored to the Russian credit market. However, a prolonged or serious banking crisis or the bankruptcy of a number of banks, including banks in which we receive or hold our funds, could materially adversely affect our business and our ability to complete banking transactions in Russia.

We face inflation risks that could materially adversely affect our business, financial condition and results of operations.

The Russian economy has been characterised by high rates of inflation. Inflation in Russia was 9.0% in 2006, increased to 11.9% in 2007 and 13.3% in 2008, declined to 8.8% in 2009, and was 4.4% as of 30 June 2010. In the beginning of 2010, it was forecasted by the International Monetary Fund to be 9.9% by the end of 2010. The forecast was further adjusted in August 2010 to be 6.0% by the end of 2010. Certain of our costs, such as salaries, are sensitive to increases in the general price level in Russia. Most of our revenues are either denominated in U.S. dollars or are linked to the U.S. dollar and are affected primarily by the international price of oil. Our operating margins could be materially adversely affected if the inflation of our ruble costs in Russia is not balanced by a corresponding devaluation of the ruble against the U.S. dollar or an increase in oil prices.

Limitations on our ability to convert rubles into other currencies may materially adversely affect our business, financial condition and results of operations.

Because of the limited development of the foreign currency market in Russia, we may experience difficulty converting rubles into other currencies. Furthermore, the Russian government and the CBR may impose burdensome requirements governing currency operations, as it has done in the past. Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults. There are also only a limited number of available ruble-denominated instruments in which we may invest our excess cash. Any balances maintained in rubles will give rise to losses if the ruble devalues against major foreign currencies. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that we might wish to pursue.

In addition, restrictive currency regulations in foreign countries where we have assets could have a material adverse effect on our business, financial condition and results of operations.

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. The relatively recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability of laws in doubt

and result in ambiguities and inconsistencies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- inconsistencies between and among the Constitution, federal and regional laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges in interpreting Russian legislation;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as the suspension or termination of our licences; and
- poorly developed bankruptcy procedures that are subject to abuse.

All of these weaknesses could affect our ability to enforce our rights under contracts, or to defend ourselves against claims by others. We can give no assurance that regulators, judicial authorities or third parties will not challenge our internal procedures and by-laws or our compliance with applicable laws, decrees and regulations.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available and are subject to different and changing interpretations and administrative applications. Russian laws often provide general statements of principles rather than a specific guide to implementation and government officials may be delegated or exercise broad authority in determining matters of significance. Such authority may be exercised in an unpredictable way, and effective appeal processes may not be available. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

In addition, amendments to several Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis and ultimately in investment risks that do not exist in countries with more developed legal systems. For example, although Russian bankruptcy laws establish a procedure for declaring an entity bankrupt and liquidating its assets, relatively few entities have been declared bankrupt in Russia, and many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors. All of these weaknesses could affect our ability to enforce our rights, or to defend ourselves against claims by others in respect of our Russian subsidiaries, and could affect enforcement of any rights of holders of the Bonds against the Issuer or LUKOIL. Furthermore, we can give no assurance that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not adversely affect foreign investors (or private investors generally).

The judiciary's lack of independence and relative inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts generally lack sufficient experience in the area of business and corporate law. Under Russian legislation, judicial precedents generally have no binding effect on subsequent decisions and are not recognised as a source of law. However, in practice, courts usually consider judicial precedents in their decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. Additionally, court claims are often used in furtherance of political and commercial aims. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these factors make judicial decisions in Russia difficult to predict and make effective redress uncertain.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the members of the Group or their assets, potentially with little or no compensation, could have a material adverse effect on our business, financial condition and results of operations.

Russia is not a party to multilateral or bilateral treaties for the mutual enforcement of court judgments with most Western countries. Consequently, if a judgment is obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, Russia (as a successor to the Soviet Union) is a party to the New York Convention. A foreign arbitral award obtained in a state which is a party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and in compliance with Russian civil and arbitration procedures and other procedures and requirements established by Russian legislation). The Arbitration Procedure Code of the Russian Federation is in conformity with the New York Convention and thus has not introduced any substantial changes relating to the grounds for refusing to recognise and enforce foreign arbitral awards and court judgments. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

Selective or arbitrary government action could materially adversely affect our business, financial condition and results of operations.

Governmental authorities in Russia have a high degree of discretion and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often for political purposes.

In October 2006, an official at the Russian Ministry of Natural Resources threatened to revoke 36 of our licences for exploration in the Komi region of Timan-Pechora and in the Khanty-Mansiysky Autonomous Region-Yugra, alleging that we failed to explore or drill according to the timelines set out in the licences. We believe that we have addressed all of these alleged violations or we have agreed with the commission to amend the licensing agreements to enable our compliance with the terms of the licences. The same ministry official was responsible, in September 2006, for cancelling the ministry's 2003 environmental approval of Sakhalin-II, an LNG project in Russia's Far East run by a consortium including Royal Dutch Shell, Mitsui & Co. and Mitsubishi Corporation, due to alleged environmental breaches. In December 2006, each of the consortium members signed an agreement diluting their stakes in Sakhalin-II by 50% in order to accommodate a sale of a 50% plus one share controlling stake in the project to Gazprom for a purchase price of $7.45 billion. Selective or arbitrary government action directed at us or preferential treatment by the Russian government of any of our competitors could have a material adverse effect on our business, financial condition and results of operations.

Laws restricting foreign investment could materially adversely affect our business, financial condition and results of operations.

We could be materially adversely affected by the adoption of new laws or regulations restricting foreign participation in, or increasing state regulation of, the oil and gas industry in Russia. On 7 May 2008, a new law restricting the level of foreign investment in the form of acquisition of shares (interests) in the charter capital of entities having strategic importance for ensuring the defence and security of the state, and other transactions as a result of which foreign investors or a group of persons, of which a foreign investor is a member, gain control over such entities, came into force. Federal Law No. 57-FZ "On procedure for carrying out foreign investments into enterprises which have strategic importance for ensuring defence and security of the State", dated 29 April 2008 (the Law on Strategic Enterprises), places restrictions on foreign investors and/or groups of persons of which a foreign investor is a member,

in connection with their participation in charter capitals of entities having strategic importance for ensuring defence and security of the state, and/or the transactions made by them resulting in the establishment of control over such entities. Such transactions may only be made having received prior approval in accordance with the Law on Strategic Enterprises. The activities having strategic importance for ensuring defence and security of the state, include, without limitation, geological exploration of subsoil and/or exploration and extraction of natural resources from subsoil areas of federal significance. Pursuant to the Law on Strategic Enterprises, any transaction involving acquisition by foreign investors of shares (interests) in an entity having strategic importance for ensuring defence and security of the state and operating at a subsoil area of federal significance, if such investors have the right to directly or indirectly dispose of ten or more percent of the total number of votes attaching to the voting shares (interests) in the charter capital of such entity, is subject to the prior approval of a governmental commission. The above-mentioned restriction on foreign investment may limit our ability to raise equity financing in foreign capital markets, consummate strategic transactions in the future and, therefore, may have a material adverse effect on our business, financial condition and results of operations and may affect the Issuer's ability to meet its obligations under the Bonds and LUKOIL's ability to meet its obligations under the guarantee.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past two decades. Particularly affected are the road networks, power generation and transmission systems, communication systems and building stock. For example, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major outage in a large section of Moscow and some surrounding regions, which resulted in a suspension of half of the Moscow metro lines, leaving thousands of people blocked underground for a long time. The blackout also hit the ground electric transport, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted.

In addition, road conditions throughout Russia are poor. The further deterioration of Russia's physical infrastructure could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and may interrupt business operations. The government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs. These factors could have a material adverse effect on our business, financial condition and results of operations.

Salary increases in Russia may reduce our profit margins.

Salaries in Russia have historically been significantly lower than salaries in the more economically developed countries of North America and Europe for similarly skilled employees, although they have increased significantly in recent years. If, after the Russian economy recovers, salaries in Russia begin to increase as rapidly as they were increasing in the years preceding the recent financial and economic crisis, our margins could be reduced. Unless we are able to continue to increase the efficiency and productivity of our employees in line with, or at a faster rate than, the rate of salary increases, salary increases could have a material adverse effect on our business, results of operations, financial condition and prospects.

Crime and corruption could disrupt our ability to conduct our business and could materially adversely affect our business, financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Organised criminal activity has increased significantly since the dissolution of the Soviet Union, particularly in large metropolitan centres. Property crime in large cities has also increased substantially. In addition, the Russian and international press have reported high levels of official corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. There have been instances in which government officials have engaged in selective investigations and prosecutions to further interests of the government officials and certain individuals. The effects of organised or other crime, demands of corrupt officials or claims that we have been involved in corruption could result in negative publicity, could disrupt our ability to conduct our business effectively and could, thus, have a material adverse effect on our business, financial condition and results of operations.

Social instability could materially adversely affect our business, financial condition and results of operations.

Increased unemployment resulting from weakening economic conditions in Russia, the failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could continue to lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism (with restrictions on foreign involvement in the economy of Russia) and increased violence. Any of these consequences could restrict our operations and lead to the loss of revenue, materially adversely affecting our business, financial condition and results of operations.

Our ownership in our privatised companies may be challenged and, if these challenges are successful, we could lose our ownership interests in these companies or their assets.

Our business includes a number of privatised companies and our business strategy will likely involve the acquisition of additional privatised companies. Many privatisations are arguably deficient and, therefore, vulnerable to challenge because the relevant privatisation legislation is vague, inconsistent or in conflict with other legislation. In the event that the privatisation of any of our companies is successfully challenged, we could risk losing our ownership interest in that company or its assets, which could materially adversely affect our business, financial condition and results of operations.

In addition, under Russian law, transactions with shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party or major transaction rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions with shares in our subsidiaries (where such shares were acquired from third parties) may raise questions as to the validity of our title to such shares.

Russia's lack of developed corporate and securities laws and regulations may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate and securities laws, including those relating to corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new to Russia and are unfamiliar to most Russian companies and managers. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other, including the Federal Service for the Financial Markets, the Ministry of Finance, the FAS, the CBR and various professional self-regulatory organisations. The regulations of these various authorities are not always co-ordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations can change rapidly, which may adversely affect the Issuer's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether, or how, regulations, decisions and letters issued by various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures, including delisting of our shares in Russia, despite our best efforts at compliance, which could cause our financial results to suffer and which could materially adversely affect our business, financial condition and results of operations.

The Russian government can mandate deliveries of crude oil and refined products, including at less than market prices, which could materially adversely affect our relationships with other customers and, more generally, our business, financial condition and results of operations.

The Russian government has the authority to direct us to deliver crude oil or refined products to certain government-designated customers, which may take precedence over market sales. In addition, the Russian government has used, and may continue to use, various administrative and fiscal measures to ensure sufficient supplies of crude oil and refined products are made available to domestic customers. Government-directed deliveries may take several forms. We may be directed to make deliveries to government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in general. Requirements for the delivery of domestic crude oil and refined products, with or without a corresponding limitation or ban of export sales, could be used or

extended if the domestic market starts experiencing a shortage of crude oil or refined products. In addition, some of our oil production licences require us to sell crude oil that we produce to local government agencies. We have in the past and may in the future be directed to make such deliveries. Our deliveries of refined products under government-directed programmes in 2007, 2008, 2009 and the first six months of 2010 were made at domestic market prices. However, no assurance can be given that the government will not require that we deliver our products to government-designated customers at below market prices.

Depending on the level of such required supplies, any government-directed deliveries may force us to curtail our export of crude oil or refined products, which have been generally made at higher prices than domestic sales. In addition, any government-directed deliveries may disrupt our relations with our customers and lead to delays in payments for crude oil and refined products. In addition, any failure to make government-directed deliveries may affect our ability to export our crude oil. For example, the Russian government has previously threatened to limit the access of Russian oil companies to export pipelines for failing to provide domestic refineries with steady supplies of oil. An increase in the levels of government-directed deliveries, or a revocation of export rights, could materially adversely affect our business, financial condition and results of operations.

Any reintroduction of export quotas or an export licensing regime could materially adversely affect our business, financial condition and results of operations.

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on exports may be imposed only if required to comply with Russia's obligations under international treaties or for national security purposes. No such restrictions currently apply to the export of crude oil, natural gas or refined products, although for the first six months of 2002, the Russian government implemented limits on allowable export volumes in response to increasing pressure from OPEC to reduce the world's crude oil supply and maintain high commodity prices. However, the legislation may change, and quantitative restrictions on the existing or extended legal grounds may be reintroduced, if the current liberalisation policy of the Russian Government is reversed. Any such reintroduction of export quotas or an export licensing regime could materially adversely affect our business, financial condition and results of operations.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation and the Federal Law No. 208-FZ "On Joint Stock Companies", dated 26 December 1995, as amended (the JSC Law) generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of operating loss to the extent of the value of their shareholding. This may not be the case, however, when one legal entity is capable of determining decisions made by another legal entity. The entity capable of determining such decisions is deemed a "parent". The person whose decisions are capable of being so determined is deemed a "subsidiary". Under the JSC Law, the parent bears joint and several responsibility for transactions concluded by the subsidiary in carrying out the parent's instructions if the right to issue binding instructions to the subsidiary is provided for in the charter of the subsidiary or in a contract with the subsidiary. In addition, a parent is secondarily liable for a subsidiary's debts if a subsidiary becomes insolvent or bankrupt due to the fault of a parent. This is the case no matter how the parent's ability to determine decisions of the subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the subsidiary may claim compensation by the parent of the loss caused to the subsidiary due to the fault of the parent, provided that the parent exercised its right and/or capability to cause the subsidiary to take action knowing that such action would result in losses to the subsidiary. Accordingly, we could be liable in some cases for the debts of our consolidated subsidiaries. This liability could have a material adverse effect on our business, financial condition and results of operations.

Shareholder rights provisions under Russian law may impose significant additional obligations on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to require us to repurchase their shares at a price not less than the market value, as determined in accordance with Russian law. Decisions that trigger this put right include:

- a reorganisation;

- the approval by shareholders of a "major transaction", which involves property worth more than 50% of the book value of a company's assets determined according to Russian accounting standards; and
- the amendment or restatement of our charter in a manner that limits shareholder rights.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition and results of operations.

Some transactions between us and interested parties or affiliated companies require the approval of disinterested directors or shareholders, and our failure to obtain approvals would prevent us from entering into such transactions.

We are required by Russian law and our charter to obtain the approval of disinterested directors or shareholders for certain transactions with "interested parties". Under Russian law, the definition of an "interested party" includes members of the board of directors and members of any management body of a company, the chief executive officer of the company, the managing company of the company (if any) and any shareholder that owns, together with that person's close relatives and affiliates, at least 20% of the company's voting shares or a person who has the right to give binding instructions to the company if any of the above listed persons, or a close relative or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary to the transaction;
- the owner (individually or collectively) of at least 20% of the shares in the company that is a party to or beneficiary, intermediary or representative in a transaction; or
- a member of the board of directors or any management body of the company or the managing company of such company that is a party to or beneficiary, intermediary or representative in a transaction.

Due to the technical requirements of Russian law, entities within our Group may be deemed to be "interested parties" with respect to certain transactions between them. The failure to obtain necessary approvals for transactions within our Group would prevent us from entering into such transactions, which could materially adversely affect our business, financial condition and results of operations.

In addition, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons" under Russian law, which are subject to many different interpretations. Moreover, the provisions of Russian law defining the transactions which must be approved as "interested party" transactions are subject to different interpretations. Although we have generally taken a reasonably conservative approach in applying these concepts, our application of these concepts may be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to our business, which could materially adversely affect our business, financial condition and results of operations.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of the United States and the United Kingdom, which could have a material adverse effect on the value of the Bonds in the event of our insolvency.

Russian bankruptcy law differs considerably from comparable law in the United States and the United Kingdom and is subject to varying interpretations. The Federal Law No. 127-FZ "On Bankruptcy (insolvency)" came into effect in late 2002. There is little precedent to predict how claims of Holders against a Russian guarantor would be resolved in a bankruptcy of the guarantor. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Bonds.

In addition, under Russian bankruptcy law, in case of LUKOIL's bankruptcy, its obligations as guarantor of the Bonds could be subordinated to the following obligations:

- certain payment obligations that arise after an application for bankruptcy has been duly accepted by a Russian court;
- personal injury and "moral harm" obligations;

- severance pay and employment-related and copyright royalty obligations; and
- secured obligations.

In the event of LUKOIL's bankruptcy, this legislation may materially adversely affect the Issuer's ability to meet its obligations under the Bonds and LUKOIL's ability to meet its obligations under the guarantee.

One or more of our subsidiaries may be forced into liquidation due to formal non- compliance with certain requirements of Russian law, which could have a material adverse effect on our business, financial condition and results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent financial year of a company's operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities (if no decision is taken to decrease the charter capital or liquidate the company). Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets. However, their solvency (i.e., their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets.

Some of the companies in our Group currently have negative net assets. We are taking action to rectify this situation. In addition, although some of our subsidiaries may have failed from time to time to fully comply with all the applicable legal requirements, we believe that neither we, nor any of our subsidiaries, should be subject to liquidation on such grounds, and none of the possible violations has caused any damage to anyone or has had any other negative consequences. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganise the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations.

Risks Relating to the Offering, the Bonds and the ADRs

The Bonds may not have an active trading market, which may have an impact on the value of the Bonds.

The Bonds have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although it is expected that the Bonds will be admitted to trading on the London Stock Exchange on or after the Closing Date, there may be little or no secondary market for the Bonds. Even if a secondary market for the Bonds develops, it may not provide significant liquidity and it is expected that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for the Bonds in any secondary market could be substantial and the value of the Bonds could be affected.

The price of emerging market debt is subject to substantial volatility.

The markets for emerging market debt have been subject to disruptions on account of the global financial crisis that have caused substantial volatility in the prices of securities similar to the Bonds. There can be no assurance that the market for the Bonds will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Bonds.

Bondholders will bear the risk of fluctuation in the price of the ADRs

The market price of the Bonds is expected to be affected by fluctuations in the market price of the ADRs, and it is impossible to predict whether the price of the ADRs will rise or fall. Trading prices of the ADRs will be influenced by, among other things, the financial position of LUKOIL, the results of operations and political, economic, financial and other factors. Any decline in the price of the ADRs may have an adverse effect on the market price of the Bonds.

Future issues or sales of the ADRs may significantly affect the trading price of the Bonds or the ADRs. The future issue of ADRs or ordinary shares by LUKOIL or the disposal of ADRs or ordinary shares by any of the major shareholders of LUKOIL, or the perception that such issues or sales may occur, may significantly affect the trading price of the Bonds and the ADRs. There can be no assurance that LUKOIL will not issue ADRs or ordinary shares or that any of its major shareholders will not dispose of, encumber, or pledge their ADRs, ordinary shares or related securities.

The Bonds may only be transferred in accordance with the procedures of the depositaries in which the Bonds are deposited.

Except in limited circumstances, the Bonds will be issued only in global form with interests therein held through the facilities of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Bonds. Because Euroclear and Clearstream, Luxembourg can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear and/or Clearstream, Luxembourg systems may be impaired.

The Bonds are subject to restrictions on transfer.

The Bonds are being offered and sold in reliance on Regulation S. Each purchaser of the Bonds will be deemed to have re presented to the Issuer that it is not a U.S. person within the meaning of Regulation S and is not acquiring Bonds for the account or benefit of any U.S. person.

The Issuer can redeem the Bonds at its option, which may affect the value of the Bonds.

The Issuer has the option to redeem the Bonds prior to their scheduled maturity dates in certain circumstances as described in Condition 9 of the Terms and Conditions of the Bonds. Even if the Issuer does not exercise its option to redeem the Bonds, its ability to do so may adversely affect the value of the Bonds.

There are restrictions on conversion rights

The Terms and Conditions of the Bonds provide in Condition 7(B)(i) that converting Holders must give certain certifications as to Regulation S under the Securities Act in order to receive ADRs. Bondholders who are in the United States or who are U.S. persons (within the meaning of Regulation S) may not be able to give such confirmations and may not be eligible to receive ADRs on the exercise of their conversion rights.

The protection afforded by the negative pledge contained in the Terms and Conditions of the Bonds is limited, which may adversely affect the value of investments in the Bonds.

We have agreed in Condition 3 of the Terms and Conditions of the Bonds not to, and to procure that no Subsidiary (as defined in the Terms and Conditions of the Bonds) will, create or permit to subsist any Security Interest (as defined in the Terms and Conditions of the Bonds) other than a Permitted Security Interest (as defined in the Terms and Conditions of the Bonds) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined in the Terms and Conditions of the Bonds) any payment in respect of or relating to any Relevant Indebtedness without procuring that the Bonds are secured equally and rateably with such Relevant Indebtedness to the satisfaction of the Trustee. The application of this negative pledge and the protection that it affords to holders of the Bonds, however, is limited. For example, the definition of Relevant Indebtedness is limited to our present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other securities (but, for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market. In addition, pursuant to an exemption from the negative pledge, we will be permitted to secure an aggregate

amount of Relevant Indebtedness not exceeding 20% of the value of Consolidated Assets (as defined in the Terms and Conditions of the Bonds), without any obligation to afford any equal and ratable security to holders of the Bonds. As a result, we will be permitted to secure a range of other forms of Indebtedness (as defined in the Terms and Conditions of the Bonds) and may also create security in respect of a significant amount of Relevant Indebtedness without, at the same time, being obliged to grant equal and ratable security in respect of the Bonds or the guarantee, as the case may be, which may adversely affect the value of your investment in the Bonds and/or cause you to rank in terms of priority behind such secured creditors.

The Issuer has limited net assets with which to meet its obligations under the Bonds.

The Issuer is an indirect wholly owned subsidiary of LUKOIL and will use the net proceeds from the issue of the Bonds for general corporate purposes, including the repayment of our indebtedness. For example, the Issuer has obligations under the $500,000,000 6.356% notes due in 2017 and the $500,000,000 6.656% notes due in 2022, which were both issued in June 2007, the $900,000,000 6.375% notes due in 2014 and the $600,000,000 7.250% notes due in 2019, which were both issued in November 2009, and the $1,000,000,000 6.125% notes due in 2020, which were issued in November 2010. The Issuer has insufficient net assets, other than amounts due to it from LUKOIL in respect of any inter-company loans, to meet its obligations to pay interest and other amounts payable in respect of the Bonds. The Issuer would, therefore, in the absence of other funding sources, have to rely on LUKOIL or another Group company putting it in funds to meet such obligations.

Russian law does not have a concept of beneficial ownership and may consider the Depositary the ultimate owner of the ordinary shares underlying the ADRs, and a Russian court could order the seizure of such ordinary shares in legal proceedings against the Depositary

Most jurisdictions would recognise ADR holders as the beneficial owners of the ordinary shares underlying their ADRs. For example, in the United States, although shares may be held in a depositary's name, making the depositary the legal owner of the shares, ADR holders are the beneficial, or real, owners. Therefore, in U.S. or U.K. courts, any action against the Depositary, as the legal owner of the underlying ordinary shares, would not result in the ADR holders, as the beneficial owners of the underlying ordinary shares, losing their rights in such underlying ordinary shares.

Russian law, however, does not have a concept of beneficial ownership and may not recognise ADR holders as beneficial owners of the ordinary shares underlying the ADRs and may instead consider the Depositary the only and ultimate owner of such ordinary shares. Thus, in proceedings against the Depositary, Russian courts might treat the underlying ordinary shares as assets of the Depositary open to seizure or attachment.

In one past lawsuit against a depositary bank, a claimant sought the attachment of various Russian companies' shares evidenced by depositary receipts issued by that depositary. If, in a similar lawsuit, a Russian court ordered the seizure or attachment of the Depositary's assets in Russia, ADR holders could lose all of their rights to the ordinary shares underlying their ADRs.

Because the rights of depositaries are not well developed in Russia, ADR holders may be unable to exercise their voting rights and may not be able to obtain some of the benefits due to them as holders of ADRs.

The Russian Federal Law on the Securities Market provides that shares may be held only by owners, nominees or trust managers. Under Russian law, foreign depositary banks that provide nominee services in Russia without the appropriate depositary licences are deemed to be owners of the shares that they hold that underlie the ADRs. Russian law does not provide for the ability of an owner of shares to split its vote on matters subject to a vote of the shareholders. Therefore, a foreign depositary bank may be unable to vote the shares it holds on behalf of ADR holders other than as a block. This could result in a holder of our ADRs effectively being unable to exercise voting rights if their vote does not correspond to the block vote submitted by the foreign depositary bank.

Voting rights with respect to ADRs are further limited by the terms of the relevant depositary agreement, which may prevent or delay the ability of ADR holders to exercise their rights.

ADR holders may exercise such voting rights as they may have with respect to the Shares represented by ADRs only in accordance with the provisions of the relevant depositary agreement. However, there

are practical limitations with respect to their ability to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, our charter requires us to notify shareholders at least 30 days in advance of any general meeting. Holders of our Shares receive notice directly from us and are able to exercise their voting rights either by attending the meeting in person or voting by proxy.

ADR holders by comparison do not receive notice directly from us. Rather, in accordance with the Depositary Agreement, we provide the notice to the depositary. In turn, the depositary mails to ADR holders the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by ADR holders. To exercise their voting rights, ADR holders must then instruct the Depositary how to vote the shares underlying the ADRs. Because of this extra procedural step involving the depositary, the process for exercising voting rights may take longer for ADR holders than for holders of ordinary shares. If this occurs, ADR holders generally will not be able to exercise any voting rights attaching to the ADRs with respect to the Shares that underlie them.

ADR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary

Under Russian tax law, dividends paid to a non-resident holder of the ordinary shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organisations and individuals. Russian tax rules applicable to the holders of the ADRs are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005-2007, the Russian Ministry of Finance expressed an opinion that holders of depositary receipts should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares subject to compliance with the treaty clearance procedures. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, there can be no assurance how the Russian tax authorities will ultimately treat the ADR holders in this regard in practice.

Payments under the guarantee may be subject to Russian withholding tax.

In general, payments under a guarantee made by a Russian entity to a Non-resident Holder-legal entity or organisation should not be subject to Russian withholding tax to the extent such payments do not represent Russian source income. Payments under the guarantee related to interest or any premium on the Bonds are likely to be characterised as Russian source income. Such payments should be subject to withholding tax in Russia at a rate of 20%, or such other rate as may be in force at the time of payment, in the event that a payment under the guarantee on the Bonds is made to a Non-resident Holder (as defined in "*Taxation – The Russian Federation*") that is a legal entity or organisation, in each case not organised under Russian laws and which holds the Bonds and receives payments under the guarantee otherwise than through a permanent establishment in Russia. There can be no assurance that such withholding tax would not be imposed on the full payment under the guarantee, including with respect to the principal amount of the Bonds. This tax may be reduced or eliminated pursuant to the terms of an applicable double tax treaty subject to compliance with the treaty clearance formalities. However, since the Holders are not the immediate recipients of payments under the guarantee, it could be difficult to apply tax treaty benefits in practice.

Payments under the guarantee to a Non-resident Holder that is an individual made by the guarantor may be subject to Russian tax as Russian-source income. In this case, depending on how these payments would be effected, either the full amount of payment, or a part of such payments covering the interest on the Bonds, would be subject to tax at a rate of 30%, or such other rate as may be in force at the time of payment, which may be withheld at the source or payable on a self-assessed basis. This tax may be subject to relief or reduced tax rate under the terms of an applicable double tax treaty. See "*Taxation – The Russian Federation*". However, given the uncertainties regarding the form and procedures for providing the documentary support, it is unlikely that Non-resident Holders that are individuals in practice would be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If any payment required under the guarantee is subject to withholding tax, we will be obliged to increase the amount payable under the guarantee by the amount of withholding tax (except in circumstances specified in Condition 9(C) of the Terms and Conditions of the Bonds (*Redemption for tax reasons*). As a

result, we could incur expenses well in excess of the amount due to the Holders. We cannot be certain that we would have sufficient funds to pay the additional amounts associated with withholding tax. Further, we can give no assurance that our obligation to pay the additional amounts associated with withholding tax is enforceable under Russian law.

Withholding of tax on disposals of the Bonds in Russia may reduce their value.

If a Non-resident Holder that is a legal entity or organisation, in each case not organised under Russian laws which holds and disposes the Bonds otherwise than through a permanent establishment in Russia, sells Bonds and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to 20%, or such other rate as may be in force at the time of payment, Russian withholding tax (even if a disposal is made at a loss) unless relief is available under an applicable double tax treaty subject to compliance with the treaty clearance formalities.

Where income resulting from sale, redemption or disposal of the Bonds is received from a source within Russia by an individual who is a Non-resident Holder, personal income tax maybe charged at a rate of 30%, or such other rate as may be in force at the time of payment, on the gross proceeds from such disposal of the Bonds less any available cost deduction (including the original purchase price). Although this tax rate may be reduced or eliminated under an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice, individuals would not be able to obtain advance treaty relief in relation to proceeds received from a source within Russia, whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible.

Furthermore, even though the Tax Code is typically interpreted such as only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia) acting in a similar capacity is required to withhold the tax from payments associated with disposition of securities made to a non-Russian individual, there is no guarantee that other Russian companies or foreign companies with a registered presence in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax under these circumstances. The imposition or possibility of imposition of withholding tax could adversely affect the value of the Bonds. See "*Taxation – The Russian Federation*".

In addition, while some Holders might be eligible for an exemption from or a reduction in Russian withholding tax rate under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under these circumstances.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Bonds. See "*Taxation – The Russian Federation*".

You may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the Bonds do not contain provisions that would afford you protection in the event of a decline in our credit quality resulting from highly leveraged or other similar transactions in which we may engage. We are also not limited in the amount of other indebtedness or other liabilities that we may incur or securities that we may issue. You do not have the right to require us to repurchase or redeem the Bonds in the event of many types of highly leveraged transactions.

We operate through our subsidiaries, which effectively subordinates your claims under our guarantee of the Bonds to the claims of creditors of our subsidiaries.

LUKOIL will guarantee the Bonds, but the Bonds will not be guaranteed by LUKOIL's subsidiaries. Our operations are, to a significant extent, conducted through our subsidiaries. Accordingly, LUKOIL is and will be dependent on its subsidiaries' operations to service its indebtedness, including its guarantee of the Bonds. The guarantee is effectively subordinated to the claims of all of the creditors, including trade creditors, of LUKOIL's subsidiaries. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of LUKOIL, creditors of such subsidiary generally will have the right to be paid in full before any distribution will be made to LUKOIL or the holders of the Bonds.

You may face difficulties in enforcing your rights under LUKOIL's guarantee or the Bonds.

LUKOIL and most of its subsidiaries are incorporated outside of the United States and the United Kingdom, primarily in Russia. Further, the enforceability of the guarantee issued in connection with the Bonds may be subject to numerous legal defences, some of which could be based upon the structure utilised in this offering.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in these Listing Particulars from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in these Listing Particulars must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

TERMS AND CONDITIONS OF THE BONDS

The following, other than words in italics, is the text of the Terms and Conditions (subject to amendment) of the Bonds which will appear on the reverse of the definitive certificates evidencing the Bonds.

The issue of the U.S.$1,500,000,000 2.625 per cent. bonds due June 2015 (the "**Bonds**", which expression shall, except where otherwise indicated, include any further bonds issued in accordance with Condition 20 (*Further Issues*) and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of LUKOIL International Finance B.V. (the "**Issuer**") dated 9 December 2010. The Bonds are convertible into ADRs (as defined in Condition 7(A)(vi) (*Conversion – Definition of "Shares" and "ADRs"*) below) representing ordinary Shares (as defined in Condition 7(A)(vi) (*Conversion – Definition of "Shares" and "ADRs"*) below) of the Guarantor. The payment obligations of the Issuer under the Bonds and the Trust Deed are guaranteed by the Guarantor pursuant to the terms of the Trust Deed (the "**Guarantee**"). The Bonds are constituted and secured by a Trust Deed (the "**Trust Deed**") dated 16 December 2010 made between the Issuer, the Guarantor and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the "**Bondholders**"). The Issuer and the Guarantor have entered into an Agency Agreement (the "**Agency Agreement**") dated 16 December 2010 with the Trustee, Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**", which expression shall include any successors as such under the Agency Agreement), Citibank, N.A. as principal paying, conversion and transfer agent (the "**Principal Agent**"), the other paying, conversion and transfer agents and the other agents appointed thereunder (together with the Principal Agent, the "**Agents**") in relation to the Bonds. The statements in these terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement. The ADRs have been or will be issued pursuant to the Deposit Agreement amended and restated as of 11 March 1998 (the "**Deposit Agreement**") among the Guarantor, The Bank of New York as depositary (the "**Depositary**") and owners and beneficial owners of ADRs. Copies of the Trust Deed, the Agency Agreement and the Deposit Agreement are available for inspection by Bondholders at the registered office of the Trustee being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office(s) of each of the Agents. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement and are deemed to have notice of all the provisions of the Deposit Agreement applicable to them.

In these Conditions, unless the context requires otherwise, words and expressions have the meanings given to them in Condition 24 (*Definitions*).

1. **Status and Guarantee**

(A) ***Status***

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 (*Negative Pledge*) below) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Subject to Condition 3 (*Negative Pledge*) below, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Bondholders against them under the Bonds and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors save those whose claims are preferred by any mandatory operation of law.

(B) ***Guarantee***

(i) The Guarantor has in the Trust Deed unconditionally (subject as described in paragraph (ii) below) and irrevocably guaranteed the payment when due of all sums payable by the Issuer under the Trust Deed and the Bonds (the "**Guarantee**"). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed.

(ii) The total amount of the Guarantor's liability for any and all obligations assumed by it in respect of or in connection with the Guarantee will not in any case exceed U.S.$ 3,100,000,000 in aggregate.

(iii) The Guarantor has undertaken in the Trust Deed that so long as any of the Bonds remain outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or winding-up of the Issuer.

2. **Form, Denomination and Title**

*Subject as provided below, the Bonds will be represented initially by a global certificate in registered form (the "**Global Certificate**"). The Global Certificate will be registered in the name of a common nominee for Euroclear Bank S.A./N.V ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Global Certificate will be held by Citibank Europe plc as depositary for Euroclear and Clearstream Luxembourg. Interests of participants in Euroclear and Clearstream Luxembourg in the Bonds will be represented by book entries in the records of Euroclear and Clearstream Luxembourg.*

(A) ***Form and denomination***

The Bonds are issued in registered form, serially numbered, in principal amounts of U.S.$100,000 or integral multiples thereof. A bond certificate (a "**Certificate**") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will have an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar.

Individual Certificates in respect of book-entry interests in any Bonds will not be issued in exchange for an interest in the Global Certificate, except in the very limited circumstances described in the Trust Deed.

The Bonds will not be issued in bearer form.

(B) ***Title***

Title to the Bonds passes by registration in the register (the "**Register**") which the Issuer will cause to be kept at the specified office of the Registrar and upon which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related Certificates as appropriate) or anything written on it or on the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Bondholder**" and (in relation to a Bond) "**holder**" mean the person in whose name a Bond is registered. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Issuer or its Agents.

Title to book-entry interests in the Bonds passes by book-entry registration of the transfer in the records of Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream Luxembourg and between Euroclear and Clearstream, Luxembourg in accordance with procedures established for these purposes by Euroclear and Clearstream, Luxembourg..

3. **Negative Pledge**

So long as any of the Bonds remain outstanding (as defined in the Trust Deed):

(A) neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a "**Security Interest**") other than a Permitted Security Interest upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined below):

(i) payment of any sum due in respect of any such Relevant Indebtedness;

(ii) any payment under any guarantee of any such Relevant Indebtedness; or

(iii) payment under any indemnity or other like obligation relating to any such Relevant Indebtedness;

(B) each of the Issuer and the Guarantor will procure that no Person (other than the Guarantor) gives any guarantee of, or indemnity in respect of, any of the Issuer's or the Guarantor's Relevant Indebtedness to the holders thereof,

without in any such case at the same time or prior thereto procuring that the Bonds or, as the case may be, the Guarantor's obligations under the Guarantee are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or procuring that the Bonds have the benefit of such other guarantee, indemnity or other like obligations or such other security as the Trustee in its discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

4. **Transfers of Bonds; Issue of Certificates**

(A) ***Transfers***

Subject to the terms of the Agency Agreement and to Conditions 4(C) and 4(D), a Bond may be transferred by depositing the Certificate issued in respect of that Bond (with the form of transfer in respect thereof duly completed, executed and duly stamped where applicable) at the specified office of the Registrar or any transfer agent. No transfer of a Bond will be valid unless and until registered on the Register. A Bond may only be registered in the name of, and transferred only to, one named person.

(B) ***Delivery of new Certificates***

Each new Certificate to be issued upon a transfer of Bonds will, within three business days of receipt by the Registrar or the relevant Agent, as the case may be, of the original Certificate and a duly completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds to the address outside the Russian Federation specified in the form of transfer. For the purposes of this Condition 4, "**business day**" shall mean a day on which banks are open for general business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer) or the Agent with whom a Certificate is deposited in connection with a transfer is located.

Where only some of the Bonds in respect of which a Certificate is issued are to be transferred, converted or redeemed, a new Certificate in respect of the Bonds not so transferred, converted or redeemed will, within three business days of deposit or surrender of the original Certificate with or to the Registrar or the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted or redeemed to the address outside the Russian Federation of such holder appearing on the register of Bondholders.

(C) ***Formalities free of charge***

Registration of a transfer of Bonds will be effected without charge by or on behalf of the Issuer, any of the Agents or the Registrar subject to (i) payment (or the giving of such indemnity as the Issuer or any of the Agents or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application.

(D) ***Closed periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal on the Bonds; (ii) after the Certificate in respect of such Bond has been deposited for conversion pursuant to Condition 7 (*Conversion*); or (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 8(A)) (*Payments – Principal*).

(E) ***Regulations***

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds set forth in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

Covenants

(A) ***Mergers***

The Guarantor shall not enter into or become subject to, and shall not permit the Issuer or any Principal Subsidiary to enter into or become subject to, any reorganisation (including, without limitation, any amalgamation, demerger, merger or corporate reconstruction) or to change its corporate structure if such a reorganisation or change would have a Material Adverse Effect. In these Conditions, "**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of the Guarantor or the Group, or (b) the Issuer's or the Guarantor's ability to perform its obligations under the Bonds and the Guarantee, respectively or (c) the validity, legality or enforceability of the Bonds or the Guarantee or the rights or remedies of the Bondholders under the Bonds or the Guarantee.

(B) ***Payment of Taxes***

So long as any amount remains outstanding hereunder, the Guarantor shall, and shall ensure that its Subsidiaries shall, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Guarantor or any Subsidiary, *provided, however, that* none of the Guarantor nor any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with U.S. GAAP or other appropriate provision has been made or (y) if such failure to pay or discharge shall not have a Material Adverse Effect.

5. **Interest**

The Bonds bear interest from the Closing Date at the rate of 2.625 per cent, per annum payable semi-annually in arrear in equal instalments on 16 June and 16 December in each year (each an "**Interest Payment Date**").

Each Bond will cease to bear interest (a) where the Conversion Right (as defined in Condition 7(A)(i) (*Conversion – Conversion Period*)) shall have been exercised in respect of that Bond by the relevant Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date (as defined in Condition 7(B)(i) (*Conversion – Conversion Notice*)) or, if the Conversion Date falls on or prior to the first Interest Payment Date, the Closing Date (subject in any such case as provided in Condition 7(B)(iv) (*Conversion – Interest*)) or (b) from the due date for redemption thereof unless, upon due presentation, payment of the principal is improperly withheld or refused or unless default is otherwise made in respect of any such payment. In the event of such withholding, refusal or default under (b) above, interest will continue to accrue (after as well as before any judgement) up to but excluding the earlier of (x) the date on which, upon further presentation, payment in full of the principal thereof is made and (y) the day after notice is duly given to the holder of such Bond (in accordance with Condition 18 (*Notices*)) that upon further presentation of such Bond being duly made such payment will be made, *provided that* upon further presentation thereof being duly made such payment is in fact made.

The amount of interest payable in respect of each Bond for any period which is not an Interest Period shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, where "**Interest Period**" means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

6. **Conversion**

(A) ***Conversion Right***

(i) *Conversion Period*

Each Bondholder shall have the right (the "**Conversion Right**") to convert any Bond into ADRs representing Shares (both as defined in Condition 7(A)(vi)) (*Conversion – Definition of "Shares" and "ADRs"*) subject to the right of the Issuer to make a Cash Settlement Election under Condition 7(A) (v) (*Conversion - Cash Settlement Election*). Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 26 January 2011 up to the close of business (at the place where the Certificate representing the Bond is deposited for conversion) on the date six dealing days prior to 16 June 2015 or if such Bond shall have been called for redemption prior to 16 June 2015, then up to the close of business (at the place aforesaid) on the date six dealing days prior to the date fixed for redemption thereof (the "**Conversion Period**"). On exercise of the Conversion Right, the number of ADRs to be transferred to the converting Bondholder will be determined by dividing the principal amount of the Bond to be converted by the Conversion Price in effect at the Conversion Date (both as hereinafter defined).

(ii) *Fractions of ADRs*

If a Certificate or Certificates in respect of more than one Bond shall he deposited for conversion at any one time by the same holder and the ADRs to be transferred on such conversion are to be transferred to the same person, the number of ADRs to be transferred upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds to be converted. Fractions of ADRs will not be transferred on conversion (fractions being rounded down to the nearest whole number of ADRs) and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or re-classification of the Shares by operation of law or otherwise occurring after the Closing Date that reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash in U.S. dollars by means of a U.S. dollar cheque drawn on a bank in New York City a sum equal to such portion of the principal amount of the Bond or Bonds represented by the Certificate(s) deposited for conversion as corresponds to any number of ADRs not issued as aforesaid if such sum exceeds U.S.$10.00.

(iii) *Conversion Price*

The price at which ADRs will be transferred upon conversion (the "**Conversion Price**") will initially be U.S.$73.7087 per ADR but will be subject to adjustment in the manner provided in Condition 7(C) (*Conversion – Adjustments to Conversion Price*).

(iv) *Revival after Default*

Notwithstanding the provisions of sub-paragraph (i) of this Condition 7(A) if the Issuer, failing whom the Guarantor, shall default in making payment in full in respect of any Bond which shall have been called for redemption prior to 16 June 2015 on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the Certificate representing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders or, if earlier, 16 June 2015.

(v) *Cash Settlement Election*

Upon exercise of a Conversion Right, the Issuer may make an election (a "**Cash Settlement Election**") by giving notice (a "**Cash Settlement Election Notice**") to the relevant Bondholder and the Trustee as soon as reasonably practicable and in any event

no later than three dealing days following the relevant Conversion Date to the address (or, if a fax number or email address is provided in the relevant Conversion Notice, that fax number or email address) specified for that purpose in the relevant Conversion Notice (with a copy to the Trustee and the Principal Agent) that the relevant Conversion Right will be satisfied by payment to the relevant Bondholder of a sum in cash equal to the Cash Settlement Amount in respect of the ADRs (including, for this purpose, any fractions of ADRs) which, in the absence of any such Cash Settlement Election, would have fallen to be delivered to the relevant Bondholder, or a combination of ADRs and the Cash Settlement Amount, together in each case with any other amount payable by the Issuer to such Bondholder in respect of or relating to the relevant exercise, and such notice shall specify if any ADRs are to be delivered, and if so, the number of ADRs to be delivered.

In order to make a Cash Settlement Election, the Issuer must give a Cash Settlement Election Notice to the relevant Bondholder on or prior to the date falling three dealing days after the relevant Conversion Date. Such notice shall be given in accordance with the directions specified in the relevant Conversion Notice.

The Issuer shall pay the Cash Settlement Amount by not later than the fifth dealing day following the end of the Cash Settlement Calculation Period by transfer to the registered U.S. dollar account of the payee or by U.S. dollar cheque drawn on a bank in New York City and mailed to the address outside Russia of the payee if it does not have such a registered account in accordance with instructions contained in the relevant Conversion Notice.

(vi) *Definition of "Shares" and "ADRs"*

As used in these Conditions, "**Shares**" means (i) shares of the class of share capital of the Guarantor which, at the Closing Date, is designated as ordinary shares of the Guarantor, together with shares of any class or classes resulting from any sub-division, consolidation or re-classification thereof, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Guarantor; and (ii) fully-paid and non-assessable shares of any class or classes of the share capital of the Guarantor issued after the Closing Date which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Guarantor.

As used in these Conditions, the expression "**ADRs**" means American depositary receipts representing Shares and issued pursuant to the Deposit Agreement, each such ADR representing as at the Closing Date one Share.

(B) ***Conversion Procedure***

(i) *Conversion Notice*

To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Agent at which the Certificate representing the Bond is deposited for conversion a notice of conversion (a "**Conversion Notice**") in duplicate in the form (for the time being current) obtainable from the specified office of any Agent, together with the relevant Certificate and any amounts required to be paid by the Bondholders as described below.

A Bondholder exercising Conversion Rights shall, as a pre-condition to receiving ADRs, also be required to certify to the Guarantor and the Depository that it:

(i) is located outside the United States (within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"));

(ii) acknowledges that the ADRs and the Shares represented thereby have not been and will not be registered under the Securities Act; and

(iii) to the extent relevant to an exercise of Conversion Rights, it has acquired, or has agreed to acquire and will have acquired the Shares represented by the relevant ADRs outside the United States (within the meaning of Regulation S) and it has purchased such Bond in a transaction made in accordance with Rule 903 or Rule 904 of Regulation S.

If a converting Bondholder shall fail to provide such certification, the purported exercise of Conversion Rights shall be invalid.

Where Conversion Rights are exercised in the circumstances specified in Condition 7(A)(iv) (*Conversion – Revival after Default*) it shall not be necessary to deposit the relevant Certificate with an Agent as, aforesaid if such Certificate shall have been deposited, and remain deposited, with an Agent for the purposes of the relevant redemption.

A Certificate and Conversion Notice deposited with an Agent outside normal business hours or on a day which is not a business day at the place of the specified office of the relevant Agent shall for all purposes be deemed to have been deposited with such Agent during normal business hours on the next following such business day.

As conditions precedent to conversion, the Bondholder must pay to the Issuer all stamp, issue, registration or similar taxes and duties (if any) arising on conversion in the country in which the Certificate in respect of such Bond is deposited for conversion or payable in any other jurisdiction (other than any such stamp, issue, registration or other similar taxes or duties payable in the Russian Federation, the United Kingdom or The Netherlands on the exercise of Conversion Rights and the issue and allotment or transfer of ADRs on conversion and all charges of the Agents in connection therewith, which will be paid by the Issuer). The date on which any Certificate representing the Bond and the Conversion Notice (in duplicate) relating thereto are deposited with an Agent or, if later, on which all conditions precedent to the conversion thereof are fulfilled is hereinafter referred to as the "**Deposit Date**" applicable to such Bond and must fall at a time when the Conversion Right attaching to such Bond is expressed in these Conditions to be exercisable. The request for conversion shall be deemed to have been made at 23.59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Moscow on which such time in London falls, is herein referred to as the "**Conversion Date**" applicable to such Bond), A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Issuer.

(ii) *Share delivery and ADR issues*

Immediately after each Conversion Date the Issuer will ensure that all necessary steps are taken for the due transfer to the Bondholders of the ADRs to which the Bondholder is entitled on conversion of the relevant Bonds. ADRs to be transferred on conversion will be deemed to be registered as of the relevant Conversion Date in the name of the holder of the Bonds completing the Conversion Notice or its nominee.

Where there is any change to the number of Shares represented by each ADR, such modification shall be made to the operation of the adjustment provisions as is advised by an independent investment bank of international reputation in Moscow acting as an expert selected by the Guarantor and approved in writing by the Trustee to be in their opinion appropriate to give the intended result.

If the Conversion Date in relation to any Bond is on or after a date on which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 7(C) (*Conversion – Adjustments to Conversion Price*) and the relevant Conversion Date falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Price, the Issuer will ensure that all

necessary steps are taken for the due transfer to the Bondholders of such number of ADRs as is equal to the excess of the number of ADRs which would have been required to be transferred on conversion of such Bond if the relevant retroactive adjustment had been given effect as at the said Conversion Date over the number of ADRs to be transferred pursuant to such conversion, and in such event and in respect of such Additional ADRs references in this Condition 7(B)(ii) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively and notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period). If the Issuer makes a Cash Settlement Election in respect of any relevant Bond, there shall be paid to the relevant Bondholder an additional amount (the "**Additional Cash Amount**") equal to the product of (1) the additional number of ADRs (including for this purpose any fractions) that would have been delivered to the relevant Bondholder in the absence of a Cash Settlement Election and (2) the Volume Weighted Average Price of an ADR on the date on which relevant adjustment becomes effective (or if that is not an dealing day, on the next dealing day). Any such Additional Cash Amount will be paid not later than seven days following the date on which the relevant adjustment becomes effective by transfer to the registered U.S. dollar account of the payee or by U.S. dollar cheque drawn on a bank in New York City and mailed to the address outside Russia of the payee if it does not have such a registered account in accordance with instructions contained in the relevant Conversion Notice.

(iii) *Share ranking and entitlement*

Shares represented by ADRs transferred to the Bondholders upon conversion of the Bonds are fully paid and non-assessable and in all respects rank *pari passu* with all other Shares in issue on the relevant Conversion Date (except for any right excluded by mandatory provisions of applicable law) and such Shares are entitled to all rights to the same extent as all other fully-paid and non-assessable Shares of the Guarantor. Bondholders shall not be entitled to any rights relating to the Shares in respect of which the relevant record date precedes the relevant Conversion Date. For the purposes of this Condition 7(B) and Condition 7(C) (*Conversion – Adjustments to Conversion Price*), "**record date**" means a date fixed by the charter of the Guarantor or otherwise specified for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares.

(iv) *Interest*

Except as provided below, no payment or adjustment will be made on conversion of Bonds of any interest otherwise accruing on converted Bonds from the Interest Payment Date immediately preceding the relevant Conversion Date, or if the relevant Conversion Date falls on or prior to the first Interest Payment Date, the Closing Date.

If any notice of redemption of any Bond is given pursuant to Condition 9(B) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) or 9(C) (*Redemption, Purchase and Cancellation – Redemption for taxation reasons*) on or after the fifteenth business day in Moscow prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first interest period, since the Closing Date) (whether such notice is given before, on or after such record date) in respect of any dividend or distribution in respect of the Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue on Bonds which shall have been delivered for conversion by Bondholders pursuant to this Condition 7(B) and in any such case where the relevant Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date, in each case, from the preceding Interest Payment Date (or, if such Conversion Date falls on or prior to the first Interest Payment Date, from the Closing Date) to such Conversion Date Any such interest shall be paid by the Issuer not later than 14 days after the relevant Conversion Date by transfer to the registered U.S. dollar account of the payee or by U.S. dollar cheque drawn on a bank in New York City and mailed to the address outside

Russia of the payee if it does not have such a registered account in accordance with instructions given by the relevant Bondholder.

(C) ***Adjustments to Conversion Price***

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

(i) *Consolidation, reclassification or subdivision*

If and whenever there shall be a consolidation, reclassification or subdivision in respect of the Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B} \times \frac{C}{D}$$

where:

A is the aggregate number of Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and

B is the aggregate number of Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be;

C is the number of Shares represented by an ADR following or as a result or consequence of such consolidation, reclassification or subdivision in respect of the Shares; and

D is the number of Shares represented by an ADR immediately prior to such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

(ii) *Capitalisation of profits or reserves*

If and whenever the Guarantor shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves, including any share premium account or capital redemption reserve, (other than (1) where any such Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive or (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B} \times \frac{C}{D}$$

where:

A is the aggregate number of Shares in issue immediately before such issue of Shares;

B is the aggregate number of Shares in issue immediately after such issue of Shares;

C is the number of Shares represented by an ADR following or as a result or consequence of such issue of Shares; and

D is the number of Shares represented by an ADR immediately prior to such issue of Shares.

Such adjustment shall become effective on the date of issue of such Shares.

(iii) *Distributions*

(a) If and whenever the Guarantor shall pay or make any Capital Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Capital Distribution attributable to one Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution attributable to the Shares by the number of Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase, redemption or buy back of Shares, ADRs or any depositary or other receipts or certificates representing Shares by or on behalf of the Guarantor or any Subsidiary of the Guarantor, by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Shares in issue immediately prior to such purchase, redemption or buy back, and treating as not being in issue any Shares, or any Shares represented by ADRs or other depositary receipts or certificates representing Shares, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Capital Distribution is capable of being determined as provided herein.

"**Effective Date**" means, in respect of this paragraph (C)(iii), the first date on which the ADRs are traded on the Relevant Stock Exchange ex-the entitlement corresponding to the relevant Capital Distribution or Extraordinary Dividends relating to the Shares or, in the case of a purchase, redemption or buy back of Shares, ADRs or any depositary or other receipts or certificates representing Shares, the date on which such purchase, redemption or buy back is made or in the case of a Spin-Off, the first date on which the ADRs are traded ex- the relevant Spin-Off on the Relevant Stock Exchange.

"**Capital Distribution**" means any Non-Cash Dividend.

"**Non-Cash Dividend**" means any Dividend which is not a Cash Dividend (as defined below) and shall include a Spin-Off.

(b) If and whenever the Guarantor shall pay any Extraordinary Dividends to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A-B}{A-C}$$

where:

A is the Current Market Price of one Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Share, with such portion being determined by

dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Shares entitled to receive the Relevant Dividend; and

C is the amount (if any) by which the Threshold Amount determined in respect of the Relevant Dividend exceeds an amount equal to the aggregate of the Fair Market Values of any previous Cash Dividends per Share the ex- date of which falls during the Relevant Calendar Year (where C shall be zero if such previous Cash Dividends per Share are equal to, or exceed, the Threshold Amount). For the avoidance of doubt "C" shall equal the Threshold Amount determined in respect of the Relevant Dividend where no previous Cash Dividends per Share have an ex- date which falls during such Relevant Calendar Year.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

"**Extraordinary Dividend**" means any Cash Dividend (the "**Relevant Dividend**") the ex- date of which falls during a 12-month period (commencing with the 12-month period beginning on 16 December 2010 and ending on 16 December 2011) (with each 12-month period ending on an anniversary of 16 December 2011 and the 6-month period ending on 16 June 2015 being a "**Relevant Calendar Year**"), if (a) the Fair Market Value of the Relevant Dividend per Share or (b) the sum of (i) the Fair Market Value of the Relevant Dividend per Share and (ii) an amount equal to the aggregate of the Fair Market Value or Values of any other Cash Dividend or Cash Dividends per Share the ex- date of which falls during the Relevant Calendar Year, exceeds the Threshold Amount, and in that case the Extraordinary Dividend shall be the Relevant Dividend.

"**Threshold Amount**" means in respect of any Relevant Calendar Year, the gross amount per Share of U.S.$1.75 equivalent to U.S.$1.75 per ADR (assuming one ADR represents one Share) (adjusted pro rata for any adjustments made before payment of the Relevant Dividend to (i) the number of Shares represented by one ADR (ii) the Conversion Price made pursuant to the provisions of this Condition 7(C)).

"**Cash Dividend**" means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of "**Spin-Off**" and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of "**Dividend**", and for the avoidance of doubt, a Dividend falling within paragraph (c) or (d) of the definition of "**Dividend**" shall be treated as being a Non-Cash Dividend.

(c) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.

(d) In making any calculations for the purposes of this Condition 7(C)(iii), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (i) any consolidation or sub-division of any Shares or the issue of Shares by way of capitalisation of profits or reserves (or any like or similar event) or any increase in the number of Shares in issue in relation to the calendar year in question.

(iv) *Rights issues*

If and whenever the Guarantor shall issue Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing

Securities so issued), in each case at a price per Share which is less than 95 per cent. of the Current Market Price per Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue on the Effective Date;

B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights plus the additional consideration (if any) receivable upon (and assuming) the exercise of such options, warrants or rights at the initial subscription, purchase or acquisition price, would purchase at such Current Market Price per Share on the Effective Date; and

C is the number of Shares to be issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this paragraph (C)(iv), the first date on which the ADRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant rights, options or warrants relating to the Shares.

(v) *Issue of Securities to Shareholders*

If and whenever the Guarantor shall issue any Securities (other than Shares or options, warrants or other rights to subscribe for or purchase any Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this paragraph (C)(v), the first date on which the ADRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant Securities, option or warrants relating to the Shares.

(vi) *Issue of Shares below Current Market Price*

If and whenever the Guarantor shall issue (otherwise than as mentioned in paragraph (C)(iv) above) wholly for cash or for no consideration any Shares (other than Shares

issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Shares) or issue or grant (otherwise than as mentioned in paragraph (C)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Shares (other than the Bonds, which term shall for this purpose include any Optional Bonds and any further bonds issued pursuant to Condition 20 and forming a single series with the Bonds), in each case at a price per Share which is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before the issue of such Shares or the grant of such options, warrants or rights;

B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such Shares or, as the case may be, for the Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and

C is the number of Shares to be issued pursuant to such issue of such Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this paragraph (C)(vi), the date of issue of such Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) *Other issues*

If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity (otherwise than as mentioned in paragraphs (C)(iv), (C)(v) or (C)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 20 (*Further Issues*) and forming a single series with the Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Shares, and the consideration per Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such issue or grant;

B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares which may be issued or arise from any such redesignation;

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph (b)(vii), the "**Specified Date**") such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this paragraph (C)(vii), "**C**" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this paragraph (C)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) *Modification of rights*

If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any further bonds issued pursuant to Condition 20 (*Further Issues*) and forming a single series with the Bonds) as are mentioned in paragraph (C)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the proposals for such modification the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue on the dealing day immediately before such modification;

B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Share on the date of the first public announcement of the proposals for the relevant modification or, if lower, the existing conversion, exchange or subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of

subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser shall in good faith consider appropriate for any previous adjustment under this paragraph (C)(viii) or paragraph (C)(vii) above;

provided that if at the time of such modification (as used in this paragraph (C)(viii) the "**Specified Date**") such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this paragraph (b)(viii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date

"**Effective Date**" means, in respect of this paragraph (C)(viii), the date of modification of the rights of conversion, exchange or subscription, purchase or acquisition attaching to such Securities.

(ix) *Certain arrangements*

If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (C)(ii), (C)(iii), (C)(iv), (C)(vi) or (C)(vii) above or (C)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Share on the relevant dealing day) or under sub-paragraph (C)(v) above) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this paragraph (C)(ix), the first date on which the ADRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant rights relating to the Shares.

(x) *Relevant Event*

If a Relevant Event shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Relevant Event Period the Conversion Price (the "**Relevant Event Conversion Price**") shall be determined as set out below:

$$\text{RECP} = \frac{OCP}{1+(CP\times c/t)}$$

Where:

RECP	=	Relevant Event Conversion Price
OCP	=	Conversion Price in effect on the relevant Conversion Date
CP	=	Conversion Premium (30%; expressed as a fraction)
c	=	The number of days from and including the date the Relevant Event occurs to but excluding 16 June 2015; and
t	=	The number of days from and including the Closing Date to but excluding 16 June 2015.

(xi) *Other adjustments*

If the Guarantor (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 7(C) (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (C)(i) to (x) above), the Guarantor shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions:

(a) where the events or circumstances giving rise to any adjustment pursuant to this Condition 7(C) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Guarantor, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be appropriate to give the intended result;

(b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once; and

(c) for the avoidance of doubt, the issue of Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Conversion Price.

For the purpose of any calculation of the consideration receivable or pursuant to sub-paragraphs (C) (iv), (vi), (vii) and (viii), the following provisions shall apply:

(v) the aggregate consideration receivable or price for Shares issued for cash shall be the amount of such cash;

(w) (I) the aggregate consideration receivable or price for Shares to be issued or otherwise made available upon the conversion or exchange of any Securities

shall be deemed to be the consideration or price received or receivable for any such Securities and (II) the aggregate consideration receivable or price for Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Guarantor to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement as referred to in sub-paragraphs (C)(vi), (vii) or (viii), as the case may be, plus in the case of each of (I) and (II) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (III) the consideration receivable or price per Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (I) or (II) above (as the case may be) divided by the number of Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

(x) if the consideration or price determined pursuant to (v) or (w) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (v) above) or the relevant date of the first public announcement (in the case of (w) above);

(y) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Shares or Securities or options, warrants or rights, or otherwise in connection therewith and

(z) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Guarantor or another entity.

(xii) *Minor Adjustments*

No adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease in such price of at least one per cent.; *provided that* any adjustment which by reason of this Condition 7(C)(xii) is not required to be made shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for this Condition 7(C)(xii)) in any subsequent adjustment. On any adjustment, the resultant Conversion Price, if not an integral multiple of one U.S cent, will be rounded down to the nearest integral multiple of one U.S cent.

(xiii) *More, than one Adjustment*

If an event falls within more than one of the provisions set out in Conditions 6(C)(i) to 6(C)(vii) (inclusive), the Conversion Price shall be adjusted in accordance with the provisions that result in the smallest adjustment to the Conversion Price.

(xiv) *Reference to "fixed"*

Any references herein to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xv) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7(C) and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

(xvi) *Share Schemes*

No adjustment will be made to the Conversion Price where Shares or other securities are issued, offered, exercised, allotted, appropriated, modified or granted to or for the benefit of employees (including directors holding executive office) of the Guarantor or any Subsidiary pursuant to any employees' share scheme save to the extent that any such Shares or other securities are so offered, exercised, allotted, appropriated, modified or granted (the "**Relevant Employee Grant**") and thereby the number of such Shares plus the maximum number of Shares which may fall to be issued pursuant to the terms of such other securities (together, "**Relevant Employee Shares**") when aggregated with all other Relevant Employee Shares arising during the one-year period ending on the date of the Relevant Employee Grant exceeds 10 per cent, of the Shares outstanding as at the date immediately prior to the date of such Relevant Employee Grant.

(D) ***Mergers, etc.***

In the case of any consolidation, amalgamation or merger of the Guarantor with any other corporation (other than a consolidation, amalgamation or merger in which the Guarantor is the continuing corporation), or any analogous procedure under the laws of the Russian Federation, or in the case of any sale or transfer of all or substantially all of the assets of the Guarantor, the Issuer or the Guarantor will forthwith notify the Bondholders of such event and (so far as legally possible) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute a trust deed supplemental to the Trust Deed and an agreement supplemental to or amending or replacing the Deposit Agreement to ensure that the holder of each Bond then outstanding will have the right (during the period in which such Bond shall be convertible) to convert such Bond into the class and amount of shares to be represented by American depositary receipts and/or other securities, property and cash receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of ADRs representing Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer. Such supplemental trust deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions of this Condition. The above provisions of this Condition 7(D) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

(E) ***Relevant Event or De-listing Event***

(i) Within five London business days following the occurrence of a Relevant Event, the Issuer and/or the Guarantor shall give notice thereof (a "**Relevant Event Notice**") to the Trustee and to the Bondholders in accordance with Condition 18 (*Notices*). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and of their entitlement to exercise their rights of redemption under Condition 9(D) (*Redemption, Purchase and Cancellation - Redemption at the Option of the Bondholders*).

The Relevant Event Notice shall also specify:

(a) all information material to Bondholders concerning the Relevant Event;

(b) the Conversion Price immediately prior to the occurrence of the Relevant Event and the Conversion Price applicable pursuant to Condition 7(C)(x) during the

Relevant Event Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Relevant Event;

(c) the closing price of the ADRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;

(d) the last day of the Relevant Event Period; and

(e) such other information relating to the Relevant Event as the Trustee may require.

(ii) Upon the occurrence of a De-listing Event, the Issuer and/or the Guarantor shall give notice (a "**De-listing Event Notice**") thereof to the Trustee and to the Bondholders in accordance with Condition 18 (*Notices*). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights of redemption under Condition 9(D) (*Redemption, Purchase and Cancellation - Redemption at the Option of the Bondholders*).

The De-listing Event Notice shall also specify:

(a) all information material to Bondholders concerning the De-listing Event;

(b) the Conversion Price immediately prior to the occurrence of the De-Listing Event;

(c) the closing price of the ADRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the occurrence of the De-listing Event; and

(d) such other information relating to the De-listing Event as the Trustee may require.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or, as the case may be, a De-listing Event or any event which could lead to a Relevant Event or, as the case may be, De-listing Event has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so..

7. **Payments**

(A) ***Principal***

Payments of principal and any accrued interest upon redemption in respect of Bonds will be made by transfer to the registered U.S. dollar account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City and mailed to the registered address outside Russia of the Bondholder if it does not have such a registered account. Payments of principal and such accrued interest will be made to those persons shown in the Register at the close of business on the fifteenth day before the due-date for the relevant payment (the "**Record Date**") and will be subject to surrender of the relevant Certificate at the specified office of any of the Agents.

For so long as the Bonds are represented by a Global Certificate each payment made in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where "Clearing System Business Day" means a day on which each clearing system for which the Global Certificate is being held is open for business.

(B) ***Interest***

Interest on Bonds payable on an Interest Payment Date will be paid to the persons shown on the Register at the close of business on the Record Date. Payments of such interest on each Bond will be made by transfer to the registered U.S. dollar account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City and mailed to the registered address outside Russia of the Bondholder if it does not have such a registered account.

(C) ***Registered accounts***

For the purposes of this Condition 8, a Bondholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the open of business on the Record Date, and a Bondholder's registered address means its address appearing on the Register at that time.

(D) ***Fiscal laws***

All payments are subject in all cases to any applicable fiscal or other laws or regulations, but without prejudice to the provisions of Condition 10. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(E) ***Payment initiation***

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a payment business day (as defined below), for value the first following day which is a payment business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed on the payment business day preceding the due date for payment or, in the case of a payment of principal and interest due other than on an Interest Payment Date, if later, on the payment business day on which the relevant Certificate is surrendered at the specified office of an Agent.

(F) ***Delay in payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a payment business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(G) ***Business day***

In this Condition, "**payment business day**" means a day on which commercial banks are open for business in New York City and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

(H) ***Annotation of register***

If the amount of principal or interest, if any, which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal or interest, if any, in fact paid.

8. **Redemption, Purchase and Cancellation**

(A) ***Redemption at maturity***

Unless previously redeemed or converted or purchased and cancelled as herein provided, the Issuer will redeem the Bonds at their principal amount on 16 June 2015 and may not redeem them in whole or in part prior to that date except as provided in paragraphs (B) or (C) below (but without prejudice to Condition 11 (*Events of Default*)).

(B) ***Redemption at the option of the Issuer***

On having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 18 (*Notices*) and to the Trustee (which notice will be irrevocable) the Issuer may:

(i) at any time on or after 31 December 2013 and prior to maturity, redeem all, but not some only, of the Bonds at their principal amount together with accrued interest to the date fixed for redemption *provided, however, that* no such redemption may be made unless on each of not less than 20 dealing days in any period of 30 consecutive dealing days ending not earlier than six days prior to the date on which the relevant notice of redemption is given by the Issuer to the Bondholders the Aggregate Value of the ADRs

to which a Bondholder would be entitled upon exercise of the Conversion Right attaching to a Bond in the principal amount of U.S.$100,000 on such dealing day shall have exceeded 140 per cent. of the principal amount of such Bond; or

(ii) at any time redeem all but not some only of the Bonds for the time being outstanding at their principal amount together with accrued interest to the date fixed for redemption if, prior to the date of such notice, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) have been effected in respect of 85 per cent, or more in principal amount of the Bonds originally issued, together with interest accrued to the date fixed for redemption.

Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds to which such notice relates in accordance with this Condition 9(B).

For the purposes of this Condition 9(B), "**Aggregate Value**" means in respect of any dealing day, the U.S. dollar amount calculated as follows:

Aggregate Value = ADR x VWAP

Where:

ADR = the number of ADRs that would fall to be issued or delivered on the exercise of Conversion Rights in respect of a Bond in the principal amount of U.S.$100,000 assuming the Conversion Date to be such dealing day

VWAP = the Volume Weighted Average Price of an ADR on such dealing day (provided that if on any such dealing day the ADRs shall have been quoted cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of an ADR on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per ADR as at the date of first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day).

(C) ***Redemption for taxation reasons***

Bonds may be redeemed at the option of the Issuer, subject to the next following paragraph, in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption (the "**Tax Redemption Date**") if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) it (or, if the Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the Russian Federation or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 December 2010 and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; *provided that* no Tax Redemption Notice shall be given earlier than 60 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. Prior to the publication of any Tax Redemption Notice pursuant to this paragraph, the Issuer shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment. All Bonds in respect of which any Tax Redemption Notice

is given under and in accordance with this Condition shall, subject to the next following paragraph, be redeemed on the date specified in such notice in accordance with this Condition.

If the Issuer gives a Tax Redemption Notice pursuant to this Condition 9(C), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 10 (*Taxation*) shall not apply in respect of any payment of interest to be made on such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 10 (*Taxation*) in respect of payments of interest falling due on Interest Payment Dates falling after the Tax Redemption Date and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by The Netherlands or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(D) ***Redemption at the option of Bondholders***

The Issuer will, at the option of the holder of any Bond, redeem such Bond following the occurrence of a Relevant Event or a De-listing Event on the relevant Put Date (as defined below) at its principal amount, together with interest accrued to but excluding the Put Date. To exercise such option the holder must deposit such Bond with any Agent together with a duly completed put notice (a "**Put Exercise Notice**") in the form obtainable from any of the Agents, not later than (and excluding) the last day of the Relevant Event Period or the De-listing Event Period, as the case may be. No Bond so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. The "**Put Date**" shall be the fourteenth day after (and excluding) the last day of the Relevant Event Period or the fourteenth day after (and excluding) the date of the De-listing Event Notice, as appropriate.

(E) ***Purchases***

The Issuer, the Guarantor or any Subsidiary may, subject to compliance with applicable law at any time and from time to time purchase Bonds at any price in the open market or otherwise. Such Bonds must be surrendered to any Agent for cancellation.

(F) ***Cancellation***

All Bonds which are redeemed or converted or purchased and surrendered to any Agent for cancellation as provided in Condition 9(E) above will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Agent and such Bonds may not be reissued or resold.

(G) ***Redemption notice***

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at the latest practicable date prior to the despatch of the notice, the applicable redemption price of the Bonds, the last day on which Conversion Rights may be exercised and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the despatch of the notice.

9. **Taxation**

All payments of principal, interest and Cash Settlement Amount in respect of the Bonds or under the Guarantee will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of The Netherlands or the Russian Federation or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In that event the Issuer or the Guarantor (as the case may be) will, subject to Condition 9(C) (*Redemption, Purchase and Cancellation – Redemption for taxation reasons*), increase the payment by way of principal, interest or Cash Settlement Amount, as the case may be, to such

amount as will result in the receipt by the Bondholders of the amounts which would have been received by them had no such deduction or withholding been required, except that no such increased amount shall be payable in respect of any Bond presented for payment:

(A) by or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with The Netherlands or, in the case of payments made by the Guarantor, the Russian Federation otherwise than merely by holding the Bond or by the receipt of principal, interest or Cash Settlement Amount in respect of any Bond; or

(B) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such increased amount on surrendering the relevant Certificate for payment on the last day of such 30 day period; or

(C) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(D) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Agent in a Member State of the European Union.

For this purpose the "**Relevant Date**" in relation to any Bond means (i) the due date for payment in respect thereof or (ii) (if the full amount of the moneys payable on such due date has not been received in New York City by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such moneys have been so received.

References in these Conditions to principal, interest or Cash Settlement Amount in respect of any Bond shall be deemed also to refer to any increased amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. **Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter of the principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to its rights under the Trust Deed to be indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are immediately due and repayable if any of the following events occurs and is continuing (each an "**Event of Default**"):

(a) payment of principal or interest in respect of any of the Bonds is not made within seven Business Days (in the case of principal) or fourteen Business Days (in the case of interest) of when the same ought to have been paid in accordance with these Conditions; or

(b) a default is made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision contained in the Trust Deed, in the Bonds or on its part to be performed or observed (other than the covenant to pay the principal and interest in respect of any of the Bonds) and (except where the Trustee certifies in writing that, in its opinion, such default is not capable of remedy when no such notice as mentioned below shall be required) such default continues for the period of 45 days next following the service by the Trustee on the Issuer or the Guarantor of notice requiring such default to be remedied; or

(c) any other present or future Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor, the relevant Principal Subsidiary (as the case may be) or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness, taking into account any applicable grace periods; *provided that,* either, (i) the individual amount of the relevant Indebtedness, guarantee or indemnity in respect of which the event mentioned above in this paragraph (c) has occurred and is continuing equals or exceeds U.S.$50,000,000 or (ii) the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred and is continuing equals or exceeds U.S.$150,000,000 or, in the case of an amount specified in (i) or (ii) above, its

equivalent (as reasonably determined by the Trustee) (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which such calculation is made); or

(d) an effective resolution is passed or an order of a court of competent jurisdiction is made that the Issuer or the Guarantor be wound-up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Bondholders; or

(e) an effective resolution is passed or an order of a court of competent jurisdiction is made for the winding-up or dissolution of any Principal Subsidiary except (i) for the purposes of or pursuant to and followed by a consolidation or amalgamation with or merger into the Issuer, the Guarantor or any other Subsidiary (provided such Subsidiary will be a Principal Subsidiary following such consolidation, amalgamation or merger), (ii) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than as described in (i) above) the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Bondholders or (iii) by way of a voluntary winding-up or dissolution and there are surplus assets in any Principal Subsidiary and such surplus assets attributable to the Issuer and/or the Guarantor and/or any Principal Subsidiary are distributed to the Issuer and/or the Guarantor and/or any other Subsidiary (provided such Subsidiary will be a Principal Subsidiary following such consolidation, amalgamation or merger); or

(f) an encumbrancer takes possession or a receiver is appointed of the whole or (in the opinion of the Trustee) a material part of the assets or undertaking of the Issuer, the Guarantor or any Principal Subsidiary and such possession or appointment is not discharged or rescinded within 120 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) provided that at all times during such period the Issuer, the Guarantor or such Principal Subsidiary, as the case may be, is contesting such possession or appointment in good faith; or

(g) a distress, execution or seizure before judgment is levied or enforced upon or sued upon or sued out against a part of the property of the Issuer, the Guarantor or any Principal Subsidiary which is (in the opinion of the Trustee) material in its effect upon the operations of the Issuer, the Guarantor or such Principal Subsidiary (as the case may be) and is not stayed or discharged within 120 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned); or

(h) the Issuer, the Guarantor or any Principal Subsidiary (i) through an official action of the board of directors of the Issuer, the Guarantor or such Principal Subsidiary (as the case may be) announces its intention not or (ii) is unable to pay all or (in the opinion of the Trustee) any material part of its debts as and when they fall due; or

(i) proceedings shall have been initiated against the Issuer, the Guarantor or any Principal Subsidiary for its liquidation, insolvency, bankruptcy or dissolution under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 120 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) unless, and for so long as, the Trustee is satisfied that it is being contested in good faith and diligently; or

(j) the Issuer, the Guarantor or any Principal Subsidiary shall initiate or consent to proceedings for its liquidation, insolvency, bankruptcy or dissolution relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into any general composition with, its creditors; or

(k) a moratorium is agreed or declared in respect of any Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or (in the opinion of the Trustee) a material part of the assets, licences or shares of the Issuer, the Guarantor or any Principal Subsidiary; or

(l) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect to at least the same extent as at the date of issue of the Bonds; or

(m) any event occurs which under the laws of The Netherlands, the Russian Federation or, in the case of a Principal Subsidiary, the jurisdiction of its incorporation (if different), has an analogous effect to any of the events referred to in paragraphs (d) to (k) above,

and, except in the case of (a) above, the Trustee shall have certified in writing to the Issuer that the event is, in its opinion, materially prejudicial to the interests of the Bondholders.

Upon any such notice being given to the Issuer, the Bonds will immediately become due and repayable at their principal amount together with interest incurred to such date.

Upon any such notice being given to the Issuer, the Bonds will immediately become due and repayable at the Accreted Principal Amount as at their due date together with interest incurred to such date.

11. **Undertakings**

Whilst any Conversion Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

(a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:

(i) by the issue of fully paid Shares to Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Shares or other shares or securities on a capitalisation of profits or reserves; or

(ii) by the issue of Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash Dividend; or

(iii) by the issue of fully paid equity share capital (other than Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Guarantor which by their terms entitle the holders thereof to receive equity share capital (other than Shares); or

(iv) by the issue of Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Guarantor or any of its Subsidiaries or any associated company or any personal service company of any such person or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or is otherwise taken into account for the purposes of determining whether an adjustment should be made to the Conversion Price; or

(b) not modify the rights attaching to the Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Shares but so that nothing in this Condition 12(b) shall prevent:

(i) any consolidation, reclassification or subdivision of the Shares; or

(ii) any modification of such rights which is not, in the opinion of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or

(iii) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 7(C)(xii) relating to the roundings and minimum adjustments or the carry forward of adjustments or, where comprising Shares, the fact that the consideration per Share receivable therefore is at least 95 per cent. of the

Current Market Price per Share, otherwise result, in an adjustment to the Conversion Price; or

(iv) any issue of equity share capital or modification of rights attaching to the Shares, where prior thereto the Guarantor shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in a decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);

(c) procure that no Securities (whether issued by the Issuer, the Guarantor or any Subsidiary of the Guarantor or procured by the Issuer or the Guarantor or any Subsidiary of the Guarantor to be issued or issued by any other person pursuant to any arrangement with the Issuer or the Guarantor or any Subsidiary of the Guarantor) issued without rights to convert into, or exchange or subscribe for, Shares shall subsequently be granted such rights exercisable at a consideration per Share which is less than 95 per cent. of the Current Market Price per Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 7(C)(xii) relating to the roundings or carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Shares of differing nominal values, save where such Shares have the same economic rights;

(d) not make any issue, grant or distribution or take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below any minimum level permitted by applicable laws or regulations or that would otherwise result in the Shares to be issued and represented by ADRs to be delivered on exercise of Conversion Rights not being able to be lawfully issued and fully paid;

(e) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:

(i) pursuant to the terms of issue of the relevant share capital; or

(ii) by means of a purchase or redemption of share capital of the Guarantor to the extent permitted by applicable law; or

(iii) by way of transfer to reserves or share premium as permitted under applicable law; or

(iv) where the reduction does not involve any distribution of assets; or

(v) solely in relation to a change in currency in which the nominal value of the Shares is expressed; or

(vi) to create distributable reserves; or

(vii) as may be required pursuant to U.S. GAAP; or

(viii) where the reduction is permitted by applicable law and the Trustee is advised in writing by an Independent Financial Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or

(ix) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 7(C)(xii) relating to the rounding or carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made, provided that, without prejudice to the other provisions of these Conditions, the Guarantor may exercise such rights as they may from time to time enjoy pursuant to applicable law to purchase, redeem or buy back its Shares and any depositary or other receipts or certificates representing Shares without the consent of Bondholders;

(f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates of the offeror) to acquire the whole or any part of the issued Shares or the ADRs, or if any person proposes a scheme with regard to such acquisition, give notice of such offer or scheme to the Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Agents and, where such an offer or scheme has been recommended by the board of directors of the Guarantor, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use its reasonable endeavours to procure that a like or substantially like offer or scheme is extended to the holders of any ADRs issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders and that an appropriate and fair offer is made in respect of the Bonds;

(g) in the event of a Newco Scheme, the Guarantor shall take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the scheme of arrangement, at its option, either (a) Newco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Guarantor providing a guarantee) subject to and as provided in the Trust Deed; or (b) Newco becomes a guarantor under the Bonds and the Trust Deed (jointly and severally with the Guarantor) and, in either case, that (i) such amendments are made to these Conditions and the Trust Deed as are necessary to ensure that the Bonds may be converted into or exchanged for ordinary shares in Newco or depositary receipts representing such ordinary shares mutatis mutandis in accordance with and subject to these Conditions and the Trust Deed and (ii) reasonable endeavours are taken to procure that the ordinary shares of Newco and such depositary receipts are:

(i) admitted to the Relevant Stock Exchange; or

(ii) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market;

(h) use all reasonable endeavours to ensure that the ADRs continue to be admitted to listing on the Official List of the UK Listing Authority and to trading on the regulated market of the London Stock Exchange, or on another regulated market as determined by the Guarantor;

(i) use all reasonable endeavours to maintain the ADR facility in accordance with the Deposit Agreement such that ADRs can be delivered as and when required to satisfy Conversion Rights;

(j) use all reasonable endeavours to maintain at all times for so long as any of the Bonds remains outstanding, a "block listing" on the London Stock Exchange of a sufficient number of ADRs to enable all ADRs that may be issued on conversion of the Bonds and on the exercise of all other rights of subscription, conversion or exchange, to be admitted, on issue, to listing on the London Stock Exchange without any other formality or requirement (other than of a purely administrative nature), including the obligation to publish a prospectus pursuant to the Listing Rules of the UK Listing Authority.

Each of the Issuer and the Guarantor has undertaken in the Trust Deed to deliver to the Trustee annually and at other times at the request of the Trustee a certificate that there has not occurred an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to monitor compliance by the Issuer or the Guarantors with the undertakings set forth in this Condition 12, nor be liable to any person for not so doing.

12. **Prescription**

Claims against the Issuer for payment of principal and interest in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the relevant date for payment in respect thereof.

13. **Enforcement**

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to

enforce the terms of the Trust Deed and the Bonds (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. **Meetings of Bondholders, Modification and Waiver; Substitution**

(A) ***Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) if requested in writing by Bondholders holding not less than 10 per cent. in nominal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, and to vote on a resolution other than an Extraordinary Resolution will be two or more persons holding or representing not less than 10 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the nominal amount, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds, (iii) to modify or cancel the Conversion Rights, other than pursuant to or as a result of any amendments to these Conditions and the Trust Deed made pursuant to the provision of Condition 12(g) ("**Newco Scheme Modification**"), (iv) to increase the Conversion Price other than in accordance with these Conditions or pursuant is a Newco Scheme Modification, (v) to change the currency of any payment in respect of the Bonds, (vi) to change the governing law of the Bonds, the Trust Deed, a Deed of Guarantee, or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 15(C)), (vii) to modify or cancel the Guarantee or (viii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

No consent or approval of Bondholders shall be required in connection with any Newco Scheme Modification..

(B) ***Modification***

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions which in the Trustee's opinion is of a formal, minor or technical nature or to comply with mandatory provisions of law or is made to correct a manifest error, and (ii) any other modification to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bond or these Conditions which is, in the opinion of the Trustee, not

materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 18 (*Notices*).

(C) ***Substitution***

The Trustee may, without the consent of the Bondholders, agree with the Issuer and the Guarantor as provided in, and for the purposes of, Condition 12(g) to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Guarantor subject to (a) the Bonds continuing to be unconditionally and irrevocably guaranteed by the Guarantor, and (b) the Bonds continuing to be convertible or exchangeable into ADRs as provided in these Conditions mutatis mutandis as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case certain conditions set out in the Trust Deed have been complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders. By subscribing to, acquiring or otherwise purchasing the Bonds, the holders of the Bonds are expressly deemed to have consented to the substitution of the Issuer by a new issuer and to the release of the Issuer from any and all obligations in respect of the Bonds and all relevant agreements and are expressly deemed to have accepted such substitution and the consequences thereof.

(D) ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15. **Replacement of Certificates**

If any certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and/or the Guarantor may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16. **Agents**

The names of the initial Agents and Registrar and their specified offices are set out below. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or Registrars *provided that* it will maintain (i) a Principal Agent, (ii) a Registrar and (iii) Agents having specified offices in at least two major financial centres in Europe approved by the Trustee which, so long as the Bonds are listed on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**Official List**") and admitted to trading on the professional securities market of the London Stock Exchange and the rules so require, shall be London and (iv) an Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment and of any change in the specified offices of the Principal Agent, the Registrar or any Agent will be given promptly by the Issuer to Bondholders.

17. **Notices**

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar. Any such notice shall be deemed to have been given on the seventh day after being so mailed.

So long as the Bonds are represented by a Global Certificate which is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to holders of Bonds represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

18. **Indemnification**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any advice of the Auditors, the Chief Accountant of the Guarantor, or any expert considered by the Trustee to be of good repute, whether or not addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise.

19. **Further Issues**

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

20. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21. **Arbitration**

(A) ***LCIA Rules***

Subject to Condition 22(c), any dispute or difference of whatever nature howsoever arising between the Issuer or, as the case may be, the Guarantor and any Bondholder (subject to Condition 14 (*Enforcement*)) under, out of or in connection with the Bonds or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Bonds or the Trust Deed or the Guarantee and any non-contractual obligations arising out of or in connection with any of them) (each a Dispute) shall (regardless of the nature of the Dispute) be referred to and finally settled by arbitration in accordance with the LCIA Rules (the "**Rules**") as at present in force (which Rules are deemed to be incorporated by reference into this Condition 22(a)) by a panel of three arbitrators appointed in accordance with the Rules. However, to the extent that any nationality provisions of the Rules are applicable to the appointment of arbitrators, they should not be applied.

(B) ***Seat of Arbitration***

The seat of arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of the arbitration shall be English. The appointing authority for the purposes set forth in the Rules shall be the LCIA Court. Any award given by the arbitrator shall be final and binding on the parties to the Dispute and shall be in lieu of any other remedy.

(C) **Litigation**

The Issuer and the Guarantor each hereby irrevocably agrees for the benefit of each of the Trustee and the Bondholders that (i) before the giving of the notice of arbitration pursuant to the Rules or (ii) if the Trustee or the Bondholders (as the case may be) receive a notice of arbitration from the Issuer or, as the case may be, the Guarantor, within 14 days of receipt of such notice of arbitration, the Trustee or the relevant Bondholder(s) (as the case may be and, in the case of the Bondholders, subject to Condition 14 (*Enforcement*)) may elect, by notice in writing to the Issuer or, as the case may be, the Guarantor, that the Dispute be resolved by litigation and not by arbitration.

22. **Governing Law, Jurisdiction, Consent to Enforcement and Waiver of Immunity**

(A) ***Governing law***

The Bonds (including for the avoidance of doubt Condition 22 (*Arbitration*)), the Trust Deed and any non-contractual obligations arising out of or in connection with any one of them are governed by, and shall be construed in accordance with, English law.

(B) ***Jurisdiction***

Subject to Condition 22 (*Arbitration*), the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Trust Deed ("**Proceedings**") may be brought in such courts and any final and conclusive judgment in any Proceedings brought in the courts of England shall be conclusive and binding and may be enforced in the courts of any other jurisdiction. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(B) ***Agent for Service of Process***

Each of the Issuer and the Guarantor has appointed LUKOIL Accounting & Finance Limited at its registered office (being, at the date hereof, Rotunda Point, 11 Hartfield Crescent, London SW19 3RL, England) as its agent in England to receive service of process in any Proceedings in England in connection with the Bonds or the Trust Deed.

(D) ***Consent to enforcement etc.***

The Issuer and the Guarantor consent generally in respect of any Proceedings or Disputes to the giving of any relief or the issue of any process in connection with such Proceedings or Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Proceedings or Disputes.

(E) ***Waiver of immunity***

To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, the Issuer and the Guarantor agree not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

23. **Definitions**

In these Conditions, the following terms shall have the following meanings:

"**business day**" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are generally open for business in that place.

"**Cash Settlement Amount**" means, in respect of any particular exercise of a Conversion Right by a Bondholder, an amount calculated in accordance with the following formula:

$$\text{CSA} = \sum_{n=1}^{N} \frac{1}{N} \times S \times Pn$$

where:

CSA = The Cash Settlement Amount

S = The number of ADRs determined by dividing the aggregate principal amount of the Bonds to be converted by the Conversion Price in effect on the relevant Conversion Date, or if the Issuer shall have elected to deliver a combination of ADRs and the Cash Settlement Amount, such number of ADRs determined as foresaid minus the number of ADRs to be delivered in respect of the relevant conversion (and, if necessary, rounding the resulting number to five decimal places, with 0.000005 being rounded up);

Pn = The Volume Weighted Average Price of an ADR on the nth dealing day of the Cash Settlement Calculation Period;

N = 20, being the number of dealing days in the Cash Settlement Calculation Period,

provided that if any Dividend or other entitlement in respect of the Shares is announced on or prior to the relevant Conversion Date in circumstances where the record date in respect of the ADRs for, or other due date for the establishment of entitlement of holders of ADRs to, such Dividend or other entitlement shall be on or after the relevant Conversion Date and if on such dealing day in the Cash Settlement Calculation Period the price determined as provided above is based on a price per ADR ex-Dividend or ex-any other entitlement, then such price shall be increased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per ADR as at the date of the first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day) , where the Fair Market Value of any such Dividend or entitlement is translated into the Relevant Currency at the Prevailing Rate on such dealing day.

"**Capital Stock**" means, with respect to any person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or nonvoting) of such person's equity, including any preferred stock of such person and depositary receipts representing such equity, whether now outstanding or issued after the Closing Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

"**Cash Settlement Calculation Period**" means the period of 20 consecutive dealing days commencing on the dealing day following the date of the Cash Settlement Election Notice.

"**Closing Date**" means 16 December 2010.

"**Current Market Price**" means, in respect of a Share at a particular date, the average of the daily Volume Weighted Average Price of an ADR on each of the ten consecutive dealing days (in the case of calculations relating to Dividends pursuant to Condition 7(C)(iii) (*Conversion – Distributions*)) or five consecutive dealing days (in each other case) ending on the dealing day immediately preceding such date (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate for each such dealing day and divided by the number of Shares represented by an ADR on the relevant dealing date); provided that if at any time during the said five or ten-dealing-day period, as the case may be, the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

(a) if the Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dealing days on which the

Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share as at the date of first public announcement of such Dividend (or entitlement) in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit; or

(b) if the Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dealing days on which the Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share as at the date of first public announcement of such Dividend (or entitlement) in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit,

and provided further that if on each of the said five or ten dealing days, as the case may be, the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share as at the date of the first public announcement of such Dividend or entitlement in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit, and provided further that, if the Volume Weighted Average Price of a Share is not available on one or more of the said five or ten dealing days, as the case may be, (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five or ten-dealing-day period, as the case may be, shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

"**dealing day**" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which the Bonds, ADRs, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

"**De-Listing Event** " means the occurrence of either of the following:

(i) the ADRs at any time cease to be admitted to listing on the Official List of the UK Listing Authority and to trading on the regulated market of the London Stock Exchange (or if the ADRs have been admitted to listing and trading on another EEA regulated market in place of (and not in addition to) the London Stock Exchange, have ceased to be admitted to listing and trading on such EEA regulated market), save that the movement of listing from the Official List of the UK Listing Authority and to trading on the EEA regulated market of the London Stock Exchange to another EEA regulated market in accordance with the Trust Deed and Condition 12 (*Undertakings*) shall not constitute a De-listing Event; or

(ii) trading of the ADRs on the EEA regulated market of the London Stock Exchange (or any such other EEA regulated market on which the ADRs are at the relevant time listed and admitted to trading in place of (and not in addition to) the London Stock Exchange) is suspended for a period of 10 consecutive dealing days or more or, in circumstances where such suspension is requested by the Guarantor in connection with a corporate reorganisation, a period of 60 consecutive dealing days.

"**De-listing Event Period"** means the period commencing on the date on which a De-listing Event occurs and ending 60 calendar days following such date or, if later, 60 days following the date on which a De-

listing Event Notice is given as required by Condition 7(E) or, in any such case, if that is not a dealing day, the next following dealing day.

"**Domestic Relevant Indebtedness**" means any Relevant Indebtedness which is denominated and payable in roubles, is not quoted, listed or ordinarily dealt in or traded on any stock exchange, over the counter or other recognised securities market outside the Russian Federation and which on issue was placed only with investors within the Russian Federation.

"**Dividend**" means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Shares, ADRs or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

(a) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of the greater of an amount equal to (i) such cash amount and (ii) the Current Market Price of such Shares or, as the case may be, Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or if later, the date on which the number of Shares (or Securities or amount of property or assets, as the case may be) which may be issued or transferred and delivered is determined);

(b) any issue of Shares falling within Condition 7(C)(ii) shall be disregarded;

(c) a purchase or redemption or buy back of Shares or ADRs by the Guarantor or any Subsidiary of the Guarantor shall not constitute a Dividend unless the weighted average price per Share or ADR (before expenses) on any one day (a "Specified Share Day") in respect of such purchases or redemptions or buy backs (translate, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate) on such day exceeds by more than 5 per cent. the average of the closing prices of the Shares or the ADRs, as the case may be, on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the ten dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Shares or ADRs at some future date at a specified price, on the ten dealing days immediately preceding the date of such announcement, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Shares or ADRs, as the case may be, purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Shares or ADRs, as the case may be, determined as aforesaid and (ii) the number of Shares or ADRs, as the case may be, so purchased, redeemed or bought back (and for the purpose of this paragraph (c), the closing price of a Share on any day shall be the closing price of an ADR on such day on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange), divided by the number of Shares represented by an ADR on such day and translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate); and

(d) if the Guarantor or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Shares (other than ADRs), the provisions of paragraph (c) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined by an Independent Financial Adviser.

"**equity share capital**" means, in relation to any entity, its issued share capital excluding any part of that capital which, does not carry any right (other than Voting Rights in accordance with applicable law) to

participate beyond a specific preferential dividend right and/or a specific preferential amount in the capital of such entity on redemption or on a liquidation.

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that (i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per ADR, the dividend yield of a Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall in the case of (i), be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii), the Fair Market Value shall be determined on a gross basis and any withholding or deduction required to be made on account of tax and any associated tax credit shall be disregarded.

"**Group**" means the companies which are consolidated in the most recent accounts of the Guarantor prepared in accordance with US GAAP.

"**Indebtedness**" means, in respect of any Person, any indebtedness for, or in respect of, moneys borrowed; any amount raised by acceptance under any credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount of money raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; the amount of any liability in respect of a capital lease that would at that time be required to be capitalised on a balance sheet in accordance with U.S. GAAP and (without double counting) the amount of any liability in respect of any guarantee or indemnity (whether on or off balance sheet) for any of the items referred to above; provided that, for the avoidance of doubt, Indebtedness shall not include moneys raised by way of the issue of share capital (whether or not for cash consideration and excluding shares which are expressed to be redeemable) and any premium on such share capital; and provided further that Indebtedness shall not include Indebtedness among the Issuer, Guarantor and Subsidiaries; and provided further that Indebtedness shall not include any trade credit extended to such Person in connection with the acquisition of goods and/or services on arm's length terms and in the ordinary course of trading of that Person;

"**Independent Financial Adviser**" means an independent investment bank, financial institution or accounting firm of international repute appointed by the Guarantor and approved in writing by the Trustee or, if the Guarantor fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee following notification to the Guarantor.

"**Newco Scheme**" means a scheme of arrangement which effects the interposition of a limited liability company ("**Newco**") between the Shareholders of the Guarantor immediately prior to the scheme of arrangement (the "**Existing Shareholders**") and the Guarantor; *provided that* only ordinary shares of Newco are issued to Existing Shareholders and that immediately after completion of the scheme of arrangement the only shareholders of Newco are the Existing Shareholders and that all Subsidiaries of the

Guarantor immediately prior to the scheme of arrangement (other than Newco, if Newco is then a Subsidiary of the Guarantor) are Subsidiaries of the Guarantor (or of Newco) immediately after the scheme of arrangement.

"**Permitted Security Interest**" means:

(a) any Security Interest existing on the Closing Date;

(b) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;

(c) any Security Interest existing on any property, income or assets of any company at the time such company becomes a Subsidiary of the Guarantor or such property, income or assets are acquired by the Guarantor or any Subsidiary provided that such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other property, income or assets of such company or the Group;

(d) any Security Interest created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of a Security Interest or Security Interests) does not exceed 20 per cent. of Consolidated Assets, as determined by reference to the most recently available consolidated financial statements prepared in accordance with U.S. GAAP of the Group; or

(e) any Security Interest created or existing in respect of any Indebtedness that is not Relevant Indebtedness;

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

"**Prevailing Rate**" means, in respect of any currencies on any day, the official exchange rate of exchange between the relevant currencies of the Central Bank of the Russian Federation at the close of business on that date or if such a rate cannot be determined at such time, the rate prevailing at the close of business on the immediately preceding day on which such rate can be so determined.

"**Principal Subsidiary**" means:

(A) any Subsidiary of the Guarantor (other than the Issuer):

(i) whose gross revenues equal or exceed 10 per cent, of the gross revenues of the Group; or

(ii) whose net income equals or exceeds 10 per cent, of the net income of the Group; or

(iii) whose net assets equal or exceed 10 per cent, of the net assets of the Group,

all as shown in the most recent audited accounts (consolidated or aggregated if available) of the Subsidiary and the Group; and

(B) any Subsidiary to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary of the Guarantor.

The Trustee shall be entitled to rely on a certificate of an Authorised Officer (as defined in the Trust Deed) as to whether a Subsidiary constitutes a Principal Subsidiary.

"**Relevant Currency**" means US dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, the regulated market of the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Shares or the ADRs, as the case may be, are quoted or dealt in on the Relevant Stock Exchange at such time.

a "**Relevant Event**" shall occur if any person acquires, or persons acting together acquire, Control of the Guarantor, where "**Control**" means (a) the holding, ownership, acquisition or control of, or the right to acquire, hold, own or control, more than 50 per cent. of the voting stock of the Guarantor or (b) control over the right to appoint and/or remove all or the majority of the members of the Guarantor's board of

directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

"**Relevant Event Period**" means the period commencing on the date on which a Relevant Event occurs and ending 60 calendar days following such date or, if later, 60 days following the date on which a Relevant Event Notice is given as required by Condition 7(E) or, in any such case, if that is not a dealing day, the next following dealing day.

"**Relevant Indebtedness**" means any present or future Indebtedness in the form of, or represented by notes, debentures, bonds or other securities (but for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements) which either are by their terms payable, or confer a right to receive payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market.

"**Relevant Stock Exchange**" means (i) in relation to the ADRs, the regulated market of the London Stock Exchange or if at the relevant time the ADRs are not at that time listed and admitted to trading on the regulated market of the London Stock Exchange, the principal stock exchange or securities market on which the ADRs are then listed or quoted or dealt in and (ii) in relation to the Shares, the regulated market of the London Stock Exchange or if at the relevant time the Shares are not at that time listed and admitted to trading on the regulated market of the London Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in. and (ii) in relation to the Bonds, the regulated market of the London Stock Exchange or if at the relevant time the Bonds are not at that time listed and admitted to trading on the regulated market of the London Stock Exchange, the principal stock exchange or securities market on which the Bonds are then listed or quoted or dealt in.

"**Securities**" means any securities including, without limitation, Shares, ADRs, or options, warrants or other rights to subscribe for or purchase or acquire Shares or ADRs.

"**Shareholders**" means the holders of Shares or ADRs

"**Spin-Off**" means:

(a) a distribution of Spin-Off Securities by the Guarantor to Shareholders as a class; or

(b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than the Guarantor) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Guarantor or any of its Subsidiaries.

"**Spin-Off Securities**" means equity share capital of an entity other than the Guarantor or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Guarantor.

"**Subsidiary**" means any corporation or other business entity of which the Issuer or the Guarantor owns or controls (either directly or through one or more Subsidiaries) 50 per cent, or more of the issued share capital or other ownership interest having ordinary voting power to elect a majority of the directors, managers or trustees of such corporation or other business entity.

"**Volume Weighted Average Price**" means, in respect of an ADR, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an ADR, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an ADR) from Bloomberg page VAP or (in the case of a Security (other than the ADRs) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an ADR, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined,

"**Voting Rights**" means, with respect to any entity, the right generally to vote at a general meeting of shareholders of such entity (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

References to any provision of any statute or the like shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders "as a class" or "by way of rights" shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers in good faith appropriate to reflect any change in the number of Shares represented by an ADR or any consolidation or sub-division of the Shares or any issue of Shares by way of capitalisation of profits or reserves, or any like or similar event.

References to the "issue" of Shares shall include the transfer and/or delivery of Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Guarantor or any of its Subsidiaries, and (b) Shares held by or on behalf of the Guarantor or any of its Subsidiaries (and which, in the case of Condition 7(C)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as "in issue" or as being part of the "issued share capital" of the Guarantor.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds are represented by a Global Bond Certificate that will registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depositary for Euroclear and Clearstream, Luxembourg.

The Global Bond Certificate will become exchangeable in whole, but not in part, for Individual Bond Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11 (*Events of Default*) occurs.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Bond Certificate will contain provisions that modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Bond Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Bond Certificate "**business day**" means any day which is a day on which dealings in foreign currencies may be carried on in New York City.

Payment Record Date: Each payment in respect of the Global Bond Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Bond Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 9(c) (*Redemption, Purchase and Cancellation - Redemption at the option of Bondholders*) the Holder of the Global Bond Certificate must, within the period specified in the Conditions for the deposit of the relevant Bond Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Conversion Rights: The conversion rights in respect of the Bonds will be exercisable by presentation of this Global Bond Certificate to or to the order of any Agent for notation of exercise of the relevant conversion rights together with one or more duly completed Conversion Notices.

Notices: Notwithstanding Condition 18 (*Notices*), so long as the Global Bond Certificate is held on behalf of for Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Bonds represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, expected to amount to U.S.$1,493,700,000 after deduction of commissions and other expenses incurred in connection with the issue of the Bonds (including expenses related to the listing and admission to trading of the Bonds), will be used for general corporate purposes.

DESCRIPTION OF THE ISSUER

This information on page 157 of the Eurobond Prospectus is incorporated herein by reference. See "*Information Incorporated by Reference*".

DESCRIPTION OF THE GUARANTOR

This information on pages 57-156 and 158-162 of the Eurobond Prospectus is incorporated herein by reference. See "*Information Incorporated by Reference*".

Key Financial and Operational Results

During the nine months ended 30 September 2010, our net income was $6,820 million (including $2,818 million in the third quarter), which is an increase of 29.0% from the same period in 2009. EBITDA increased by 17.1% in the first nine months of 2010 and amounted to $11,985 million. Revenues from sales were $76,272 million.

Capital expenditures, including non-cash transactions, in the nine months of 2010 remained flat in comparison with the same period of 2009 and amounted to $4.7 billion. Strong financial discipline enabled us to generate free cash flow of $6,964 million in the first nine months of 2010, compared to $1,442 million in the first nine months of 2009.

Tax expenses, including excise and export tariffs, totalled $22.3 billion in the nine months of 2010, including an income tax expense of $1.7 billion.

Lifting costs per boe of production in the first nine months of 2010 were $4.04, which is a 19.2% increase from the same period in 2009. The growth was mainly due to the real rouble appreciation, which reached 14%.

The Group's total hydrocarbon production available for sale reached 2,249 mboe per day in the first nine months of 2010, which is a 1.6% increase from the same period in 2009.

Crude oil production of the Group in the first nine months of 2010 totalled 72.27 mln tons. Natural and petroleum gas output available for sale increased by 26.1%, to 13.79 bcm.

Production at own and affiliated refineries of the Group (including the share in oil and petroleum product throughputs at the ISAB and TRN complexes) increased by 7.6% in the first nine months of 2010 as compared to the same period of 2009 and reached 47.79 mln tons. In comparison to the same period of 2009, production at our refineries in Russia increased by 1.3%; and production at our international refineries grew by 23.9%.

Measures aimed at higher efficiency and cost control have allowed the Company to generate higher free cash flow and increase net income.

CONSOLIDATED STATEMENT OF INCOME

(Millions of US dollars, unless otherwise noted)

	9 months of	
	2010	**2009**
Revenues		
Sales (including excise and export tariffs)	76,272	56,802
Costs and other deductions		
Operating expenses	(5,994)	(5,015)
Cost of purchased crude oil, gas and products	(31,173)	(21,475)
Transportation expenses	(4,169)	(3,594)
Selling, general and administrative expenses	(2,557)	(2,398)
Depreciation, depletion and amortization	(3,114)	(3,001)

Taxes other than income taxes	(6,522)	(4,569)
Excise and export tariffs	(14,072)	(9,176)
Exploration expense	(175)	(188)
Gain on disposals and impairments of assets	29	15
Income from operating activities	**8,525**	**7,401**
Interest expense	(535)	(503)
Interest and dividend income	144	105
Equity share in income of affiliates	335	270
Currency translation loss	(101)	(337)
Other non-operating income	225	37
Income before income taxes	**8,593**	**6,973**
Current income taxes	(1,678)	(1,430)
Deferred income taxes	18	(123)
Total income tax expense	**(1,660)**	**(1,553)**
Net income	**6,933**	**5,420**
Less: net income attributable to noncontrolling interests	(113)	(135)
Net income attributable to OAO LUKOIL	**6,820**	**5,285**
Basic and diluted earnings per share of common stock attributable to OAO LUKOIL (in US dollars)	8.16	6.24

Recent Developments

Financial Developments

On 16 November 2010, we made a partial prepayment in the amount of $1 billion on a $1.5 billion loan facility which we raised in August 2010 through Lukoil Finance Ltd. The loan is an unsecured club facility with a one year maturity and it was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Citibank, N.A., London branch; ING Bank N.V., London branch; Natixis; The Royal Bank of Scotland N.V. and WestLB AG, London branch. Citibank International PLC acted as the agent for the transaction. The proceeds under this loan are used for general corporate purposes. The prepayment was made from proceeds generated from the issue of bonds (described in the next paragraph) earlier in November 2010.

On 9 November 2010, we issued $1.0 billion of non-convertible bonds with a maturity of 10 years and a coupon rate of 6.125%. The notes were issued in two tranches at the same time, have the same terms and conditions in all respects other than their respective issue prices and were consolidated to form a single series. The first tranche totalling $800 million was placed at a price of 99.081% of the bond's face value. The resulting yield to maturity for the first tranche is 6.250%. The second tranche totalling $200 million was placed at a price of 102.44% of the bond's face value. The resulting yield to maturity for the second tranche is 5.800%. These tranches have a half year coupon period.

On 8 November 2010, we made the final pre-term repayment of our remaining debt in the amount of $567 million on a $1.2 billion three-years syndicated term loan facility, arranged in August 2009 by ABN AMRO Bank N.V. / The Royal Bank of Scotland plc, The Bank of Tokyo-Mitsubishi UFJ, Barclays Capital, BNP Paribas S.A., Calyon, Citigroup Global Markets, Ltd., Deutsche Bank AG, Amsterdam Branch, ING Bank N.V., Natixis, JSB "Orgresbank", Société Générale and WestLB AG. The final settlement was made from internal funds generated by the Company during the nine months of 2010.

Business Developments

In November 2010, our subsidiary LUKOIL-Volgogradneftegaz was merged into our subsidiary OAO RITEK.

Petrochemicals

On 11 November 2010, a chlorine and caustic soda production unit was commissioned at our Karpatnaftochim petrochemicals plant in Ukraine which will facilitate production of approximately 200,000 tonnes of commercial caustic soda and 180,000 tonnes of gaseous chlorine annually compliant with global quality standards. Production of gaseous chlorine will fully secure Karpatnaftochim Ltd. demand for this product used to produce suspended polyvinyl chloride the production of which is scheduled for December 2010. Investments in the construction of chlorine and caustic soda production unit exceeded $150 million over a period of two years.

Power Generation

We are developing our power generation facilities as part of our other business sectors. On 25 October 2010, our wholly owned subsidiary LUKOIL-Western Siberia entered into a long-term cooperation agreement with one of the leading engineering entities of Rosoboronprom OAO Aviadvigatel. The cooperation agreement contemplates service maintenance of the main power-plant facilities (ten power generating units EGES-12C) from our own generation objects in the next 10 years. We also expect that three new gas-turbine power plants with total capacity of 144 MW will be constructed in West Siberia. The execution of the plan contemplated by the cooperation agreement is in line with our business strategies and will allow us to achieve our energy efficiency and associated gas utilisation goals.

Litigation Developments

On 27 November 2001, Archangel Diamond Corporation (ADC), a Canadian diamond development company, filed a lawsuit in the District Court of Denver, Colorado against OAO Arkhangelskgeoldobycha (AGD), a company in our Group, and LUKOIL (together the Defendants). ADC alleged that the Defendants interfered with the transfer of a diamond exploration licence to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed total damages of approximately $4.8 billion, including compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On 15 October 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. The Colorado Court of Appeals upheld this ruling on 25 March 2004. On 21 November 2005, the Colorado Supreme Court affirmed the lower courts' ruling that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration licence) was dismissed from the lawsuit. The Colorado Supreme Court found, however, that the trial court made a procedural error by not holding an evidentiary hearing before making its ruling concerning general jurisdiction regarding LUKOIL, which is whether LUKOIL had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. In a modified opinion dated 19 December 2005, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals (instead of the District Court) to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). On 29 June 2006, the Colorado Court of Appeals declined to dismiss the case based on forum non conveniens. We filed a petition for certiorari on 28 August 2006 asking the Colorado Supreme Court to review this decision. This petition was denied. On 5 March 2007, the Colorado Supreme Court remanded the case to the District Court. On 11 June 2007, the District Court ruled that it would conduct an evidentiary hearing on the issue of whether LUKOIL is subject to general jurisdiction in Colorado. Discovery regarding jurisdiction was commenced. On 26 June 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy. On 25 November 2009, after adding a claim based on the Racketeer Influence and Corrupt Organization Act (RICO), ADC removed the case from the Colorado state court to the United States Bankruptcy Court. On 22 December 2009, LUKOIL filed a motion seeking to have the case remanded to the Colorado state court. On 31 December 2009, before there was a ruling on the motion seeking remand, ADC filed a motion seeking withdrawal of the reference to the Bankruptcy Court and requesting the case be heard by United States District Court. On 3 February 2010, the United States Bankruptcy Court ordered the Motion For Withdrawal Of The Reference be transferred to the United States District Court for further action. All pending motions as well as discovery were stayed pending further order of the Court. On 7 July 2010, the District Court denied ADC's Motion for Withdrawal of reference and returned the case to the Bankruptcy Court for the determination of LUKOIL's Motion for Remand and Abstention seeking return of the case to Colorado state court. On 28 October 2010 the

Bankruptcy Court granted LUKOIL's Motion for Remand and Abstention and remanded the case to the Denver District Court (Colorado state court) where it is now pending. ADC is expected to commence discovery regarding general jurisdiction shortly. Management intends to contest jurisdiction and denies all material allegations against LUKOIL.

In 2008 and 2009, FAS issued two decisions recognising the major Russian oil companies, including LUKOIL and the refineries forming part of the Group, to be in breach of the antimonopoly laws due to abuse of a dominant position in the Russian refined products wholesale market.

The first decision of FAS, issued on 27 October 2008, was challenged by the refineries in the Arbitration Court of the City of Moscow. The aggregate amount of fines assessed is approximately $47.4 million (at the exchange rate of 31 December 2010). On 1 June 2010, the Arbitration Court of the City of Moscow issued a decision which was upheld by the Ninth Arbitration Court of Appeals on 27 September 2010, dismissing the claims of the refineries. On 13 December 2010 the Federal Arbitration Court of the Moscow District terminated proceedings in the case due to withdrawal of the cassation appeals by the appellants. On 14 December 2010 the Arbitration Court of the Perm Region resumed the proceedings to review a claim by OOO LUKOIL-Permnefteorgsintez seeking invalidation of the FAS order imposing the fines; the proceedings were terminated due to withdrawal of the claim. The proceedings involving challenging of fines by other refineries in their local courts are expected to resume.

The second decision of FAS, issued on 10 September 2009, and the order regarding fines were challenged by the refineries before their local courts. The aggregate amount of fines assessed is approximately $214.7 million (at the exchange rate of 31 December 2010). On 4 October 2010 the First Arbitration Court of Appeals confirmed a settlement agreement between OOO LUKOIL-Nizhegorodnefteorgsintez and FAS whereunder the fines were reduced to 1% of the annual revenues of OOO LUKOIL-Nizhegorodnefteorgsintez in 2009, or approximately $21.6 million (at the exchange rate of 31 December 2010); the proceedings were terminated due to withdrawal of the claim. On 15 December 2010 the fine was paid to FAS. On 14 December 2010 the Arbitration Court of the Perm Region confirmed a similar agreement between OOO LUKOIL-Permnefteorgsintez and FAS; the proceedings were terminated due to withdrawal of the claim. The review of a claim by OOO LUKOIL-Volgogradneftepererabotka seeking invalidation of the FAS decision and order has been resumed; the hearing is set for 21 January 2011. OOO LUKOIL-Volgogradneftepererabotka and OOO LUKOIL-Ukhtaneftepererabotka are expected to sign similar settlement agreements with FAS in connection with the case.

During the second half of 2009 and the first six months of 2010, over 100 cases were initiated against certain Group companies, including in Ukraine and Cyprus, on the grounds of alleged breach of antimonopoly laws. The alleged offences by the Group companies mainly relate to abuse of a dominant position and consorted actions in retail markets. The acts of the antimonopoly authorities with regard to the Group companies are being judicially contested.

The total fines accrued to date and challenged in all cases involving the Group amount to approximately $200.2 million (at the exchange rate of 31 December 2010).

The Group is involved in a cost recovery dispute with the Republic of Kazakhstan in which the latter has alleged that participants in the Karachaganak project recovered excessive costs. The Group's share of the initial claim is approximately $244 million. Management is of the view that substantially all of the amounts subject to dispute were in fact recoverable under the Final Production Sharing Agreement.

Other than as mentioned above, the Company is not aware of any pending or threatened claims or proceedings which might have a material adverse impact on our operating results or financial condition. There are no and have been no governmental, legal or arbitration proceedings against the Issuer (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this prospectus, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

Additional Information

Principal Interests in LUKOIL

The following table sets out details, in so far as is known to LUKOIL, as at 30 November 2010 (being the latest practicable date prior to the date of these Listing Particulars), unless otherwise indicated, of all

shareholders (other than directors and members of the Management Committee of LUKOIL but including nominee shareholders) that hold 5% or more of the share capital of LUKOIL.

Name of Shareholder[(1)(2)]	**Percent of issued ordinary share capital**
ZAO ING Bank Eurasia (nominee)	75.98%
ZAO Depositary and Clearing Company (nominee).....	8.10%
ZAO National Depositary Centre (nominee)	6.14%

Notes:

(1) As of 30 September 2010 ConocoPhillips owned approximately 5.91% of our approximately 851 million authorised and issued shares, which is equivalent to approximately 6.43% based on estimated shares outstanding (excluding treasury shares and shares held by Company subsidiaries) as at 30 September 2010. As of 30 November 2010 ConocoPhillips owned approximately 3.8% of our authorised and issued shares. ConocoPhillips's shareholding in LUKOIL is held through ZAO ING Bank Eurasia (nominee).

(2) For information on the beneficial ownership interests of our directors in the Company, please see "*Management – Additional Information About Our Directors – Interests of the Directors in Our Share Capital*" on pages 154-155 of the Eurobond Prospectus.

DESCRIPTION OF THE ADRS

General

The ADRs evidenced by a certificate are each issued in respect of one American depositary share (the "ADS") representing one ordinary share of par value RUR 0.025 each (the "Shares") in Company pursuant to and subject to a deposit agreement, amended and restated as of March 11, 1998 (the "Deposit Agreement"), and made between the Company and The Bank of New York Mellon as depositary (the "Depositary"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) as custodian and agent of the Depositary for the purposes of the Deposit Agreement (the "Custodian") to receive and hold on its behalf certificates evidencing title to Shares or extracts from the register of shareholders of the Company in respect of certain Shares (the "Deposited Securities") and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Securities. In this Description of the ADRs, references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to ING Bank Eurasia, or any other custodian from time to time appointed under the Deposit Agreement, references to the "Office" mean, in relation to the Custodian, its office in Moscow, the Russian Federation or such other office as from time to time may be designated by the Custodian, references to the "Holder" of any ADRs shall mean the person registered as the holder on the books of the Depositary maintained for such purpose and references to "paragraph" are to a paragraph contained in this Description of the ADRs.

Upon conversion, holders of Bonds (as defined below) evidenced by the Global Bond Certificate will receive an interest in ADRs evidenced by a certificate in definitive registered form substantially in the form of Exhibit A to the Deposit Agreement.

This Description of the ADRs includes summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the form of the certificate in respect of the ADRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement. Terms used in this Description of the ADRs and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement applicable to them.**

1 Deposit of Shares and other Securities

1.1 To the extent permitted by applicable law and subject to the terms and conditions of the Deposit Agreement, Shares or evidence of rights to receive Shares may be deposited by delivery thereof to any Custodian accompanied by any appropriate instrument or instruments of transfer.

No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that:

(i) all conditions to such deposit have been satisfied by the person depositing such Shares under Russian laws and regulations;

(ii) any necessary approval has been granted by any governmental body in the Russian Federation which is then performing the function of the regulation of currency exchange (if applicable); and

(iii) all applicable taxes and governmental charges and the fees and expenses of the Depositary, as provided in the Deposit Agreement, have been paid.

Every person depositing Shares under the Deposit Agreement shall be deemed to represent and warrant that such Shares and each certificate representing such Shares are validly issued, fully paid, nonassessable and free of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorised so to do. Every such person shall also be deemed to represent that such Shares and the ADRs representing such Shares would not be acquired directly or indirectly from the Company or its affiliates (as defined in Rule 144 to the United States Securities Act of 1933, as amended (the "Securities Act"), are not held by an

officer, director (or persons performing similar functions) or other affiliate of the Company, would not require registration under the Securities Act in connection with the offer and sale thereof in the United States, or are not subject to other restrictions on sale or deposit under the laws of the United States or the Russian Federation, or under a shareholder agreement or the Charter of the Company (the "Restricted Securities").

References in this Description of the ADRs to "Deposited Securities" shall Shares at such time deposited or deemed to be deposited under the Deposit Agreement and any and all other securities, property and cash received by the Depositary or the Custodian in respect thereof and at such time held under the Deposit Agreement, subject as to cash to the provisions of the Deposit Agreement .

1.2 In accordance with the terms of the Deposit Agreement and upon receipt by any Custodian of any deposit of Shares or evidence of rights to receive Shares and upon receipt in form satisfactory to the Depositary of a proper acknowledgment or other evidence from the Company or the Russian Share Registrar (including extracts from the Share Register) that any Deposited Securities have been recorded on the Share Register maintained by the Russian Share Registrar in the name of the Depositary or its nominee or such Custodian or its nominee, together with the other documents required as above specified, such Custodian shall notify the Depositary of such deposit and the person or persons to whom or upon whose written order an ADR or ADRs are deliverable in respect thereof and the number of ADSs to be evidenced thereby. Such notification shall be made by letter or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. Upon receiving such notice from such Custodian, the Depositary, subject to the terms and conditions of the Deposit Agreement, shall execute and deliver at its Corporate Trust Office, to or upon the order of the person or persons entitled thereto, an ADR or ADRs, registered in the name or names and evidencing any authorised number of ADSs requested by such person or persons, but only upon payment to the Depositary of the fees and expenses of the Depositary for the execution and delivery of such ADR or ADRs as provided in the Deposit Agreement, and of all taxes and governmental charges and fees payable in connection with such deposit and the transfer of the Deposited Securities.

2 Withdrawal of Deposited Securities

2.1 Upon surrender to the Depositary of an ADR for the purpose of withdrawal of the Deposited Securities represented by the ADSs evidenced by such ADR, accompanied by such documents as the Depositary may require (including a purchase/sale contract relating to the transfer of the Shares) and upon payment of the fees and expenses of the Depositary for the surrender of ADRs as provided in the Deposit Agreement and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of the Deposit Agreement, the Holder of such Receipt shall be entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the ADSs evidenced by such ADR. Delivery of such Deposited Securities may be made by the delivery of (a) certificates or other documents evidencing title (including extracts from the Share Register) in the name of such Holder or as ordered by him or properly endorsed or accompanied by proper instruments of transfer to such Holder or as ordered by him and (b) any other securities, property and cash to which such Holder is then entitled in respect of such ADRs to such Holder or as ordered by him. Such delivery shall be made without unreasonable delay.

2.2 An ADR surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depositary so requires, the Holder thereof shall execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall direct the Custodian or its agents to cause the transfer and recordation by the Russian Share Registrar on the Share Register of the Shares being withdrawn in the name of such Holder or as directed by him as above provided, and the Company shall ensure that such transfer and recordation is effected within 72 hours from the time it is requested to do so by the Depositary or the Custodian or any of their respective agents; provided that all required documents have been completed and submitted in accordance with applicable Russian law and

regulations. Upon such transfer and recordation, the Custodian shall deliver at the Moscow, Russian Federation, office of such Custodian, subject to the terms and conditions of the Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, documents evidencing title (including extracts from the Share Register) for the amount of Deposited Securities represented by the ADSs evidenced by such ADR, except that, if and to the extent practicable, the Depositary may make delivery to such person or persons at the Corporate Trust Office of the Depositary of any dividends or distributions with respect to the Deposited Securities represented by the ADS evidenced by such ADR, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

2.3 Notwithstanding anything to the contrary in the Deposit Agreement or the ADRs, the surrender of outstanding ADRs and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of the Deposited Securities.

3 Ownership and transfer

3.1 ADRs are in registered form, each issued in respect of one ADS representing one Share. Title to an ADR (and to the ADSs evidenced thereby), when properly endorsed or accompanied by proper instruments of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument under the laws of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Holder thereof as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement and for all other purposes and neither the Depositary nor the Company will have any obligation to or be subject to any liability under the Deposit Agreement to any holder of an ADR, unless such holder is the Holder thereof.

3.2 The registration of transfer of outstanding ADRs generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement, or for any other reason.

3.3 The Depositary, subject to the terms and conditions of the Deposit Agreement, shall register transfers of ADRs on its transfer books from time to time, upon any surrender of an ADR, by the Holder in person or by a duly authorised attorney, properly endorsed or accompanied by proper instruments of transfer, and duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall execute a new ADR or ADRs and deliver the same to or upon the order of the person entitled thereto.

4 Cash distributions

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, subject to the provisions of the Deposit Agreement, convert such dividend or distribution into US Dollars and shall distribute the amount thus received (net of the fees and expenses of the Depositary) to the Holders entitled thereto, in proportion to the number of ADSs representing such Deposited Securities held by them respectively; provided, however, that in the event that the Company or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution an amount on account of taxes, the amount distributed to the Holder of the ADRs evidencing ADSs representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Holder a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Holders entitled thereto. The Company or its agent will remit to the appropriate governmental agency in the Russian Federation all amounts withheld and owing to

such agency. The Depositary will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agent to file necessary reports with governmental agencies, and the Depositary or the Company or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Holders of ADRs.

5 Distributions in Shares

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may distribute to the Holders of outstanding ADRs entitled thereto, in proportion to the number of ADSs representing such Deposited Securities held by them respectively, additional ADRs evidencing an aggregate number of ADSs representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of ADSs evidenced by ADRs, including the withholding of any tax or other governmental charge if such is applicable and the payment of the fees and expenses of the Depositary as provided in the Deposit Agreement. The Depositary may withhold any such distribution of ADRs if it has not received satisfactory assurances from the Company that such distribution does not require registration under the Securities Act or is exempt from registration under the provisions of the Securities Act. In lieu of delivering ADRs for fractional ADSs in any such case, the Depositary shall sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in paragraph 4 (*Cash distributions*). If additional ADRs are not so distributed, each ADS shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

6 Distributions other than in cash or Shares

Whenever the Depositary shall receive any distribution other than a distribution described in paragraphs 4 (*Cash distributions*), 5 (*Distributions in Shares*) or 7 (*Rights issues*), the Depositary shall cause the securities or property received by it to be distributed to the Holders entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to the number of ADSs representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Holders entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed to Holders or Beneficial Owners) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in the Deposit Agreement) shall be distributed by the Depositary to the Holders entitled thereto, all as described in paragraph 4 (*Cash distributions*).

7 Rights issues

7.1 In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Holders or in disposing of such rights on behalf of any Holders and making the net proceeds available to such Holders or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Holders or dispose of such rights and make the net proceeds available to such Holders, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Holders but not to other Holders, the Depositary may distribute to any Holder to whom it determines the distribution to be lawful and feasible, in proportion to the number of ADSs held by such Holder, warrants or other instruments therefor in such form as it deems appropriate.

7.2 In circumstances in which rights would otherwise not be distributed, if a Holder of ADRs requests the distribution of warrants or other instruments in order to exercise the rights allocable to the ADSs of such Holder under the Deposit Agreement, the Depositary will make such rights available to such Holder upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Holder has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

7.3 If the Depositary has distributed warrants or other instruments for rights to all or certain Holders, then upon instruction from such a Holder pursuant to such warrants or other instruments to the Depositary from such Holder to exercise such rights, upon payment by such Holder to the Depositary for the account of such Holder of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Holder, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Holder. As agent for such Holder, the Depositary will cause the Shares so purchased to be deposited pursuant to the Deposit Agreement, and shall execute and deliver ADRs to such Holder. In the case of a distribution described to paragraph 7.2, such ADRs shall be legended in accordance with applicable U.S. laws, and shall be subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under such laws.

7.4 If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Holders, it may sell the rights, warrants or other instruments in proportion to the number of ADSs held by the Holders to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as described in paragraph 16 (*Depositary's fees, costs and expenses*) and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Holders otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Holders because of exchange restrictions or the date of delivery of any ADR or otherwise.

7.5 The Depositary will not offer rights to Holders unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to all Holders or are registered under the provisions of such Act; provided, that nothing in the Deposit Agreement shall create, any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavour to have such a registration statement declared effective. If a Holder of ADRs requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act, the Depositary shall not effect such distribution unless it has received an opinion from recognised counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Holder is exempt from such registration.

7.6 The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders in general or any Holder in particular.

8 Conversion of foreign currency

8.1 Whenever the Depositary receives foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, into the Depositary's foreign investment account in the Russian Federation, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into US Dollars and the resulting US Dollars transferred to the United States, the Depositary shall convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into US Dollars, and such US Dollars shall be distributed to the Holders entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such US Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an

averaged or other practicable basis without regard to any distinctions among Holders on account of exchange restrictions, the date of delivery of any ADR or otherwise and shall be net of any expenses of conversion into US Dollars incurred by the Depositary as described in paragraph 16 (*Depositary's fees, costs and expenses*).

8.2 If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall file such application for approval or licence, if any, as it may, in its sole discretion, deem desirable.

8.3 If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into US Dollars transferable to the United States, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Holders entitled to receive the same.

8.4 If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Holders entitled thereto, the Depositary may in its discretion make such conversion and distribution in US Dollars to the extent permissible to the Holders entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Holders entitled thereto.

9 Fixing of record date and distribution of any payments

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each ADS, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date (a) for the determination of the Holders who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to give instructions for the exercise of voting rights at any such meeting, (b) on or after which each ADS will represent the changed number of Shares or (c) for the determination of the Holders who shall be responsible for the fee assessed by the Depositary described in paragraph 16 (*Depositary's fees, costs and expenses*) hereof for inspection of the Share Register maintained by the Russian Share Registrar. Subject to the terms described in paragraph 4 (*Cash distributions*) through paragraph 8 (*Conversion of foreign currency*) and to the other terms and conditions of the Deposit Agreement, the Holders on such record date shall be entitled, as the case may be, to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of ADS held by them respectively and to give voting instructions and to act in respect of any other such matter.

10 Capital reorganisation

In circumstances where the provisions described in paragraph 5 (*Distributions in Shares*) do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities, shall be treated as new Deposited Securities, and ADSs shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional ADRs are delivered pursuant to the following sentence. In any such case the Depositary may execute and deliver additional ADRs as in the case of a dividend in Shares, or call for the

surrender of outstanding ADRs to be exchanged for new ADRs specifically describing such new Deposited Securities.

11 Withholding taxes and applicable laws

For a description of current Russian withholding taxes with respect to dividends on Deposited Securities and capital gains realised on sales of Deposited Securities and ADRs, see "Taxation – The Russian Federation."

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) or any deposit of Shares, transfer of ADRs or withdrawal of Deposited Securities under the Deposit Agreement is subject to any tax or other governmental charge which the Depositary determines, in its absolute discretion, it is, or may be, obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Holders entitled thereto in proportion to the number of ADSs held by them respectively.

12 Voting rights

12.1 Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, if requested in writing by the Company, the Depositary shall, as soon as practicable thereafter, mail to the Holders a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Holders as of the close of business on a specified record date will be entitled, subject to any applicable provision of the law of the Russian Federation and of the Charter of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective ADSs and (c) a statement as to the manner in which such instructions may be given, including an express indication that such instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy in conformity with Russian law to the Company or to a person designated by the Company. Upon the written request of a Holder on such record date, received on or before the date established by the Depositary for such purpose, the Depositary shall endeavour, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the ADSs evidenced by such ADR in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions. If no instructions are received by the Depositary from any Holder with respect to any of the Deposited Securities represented by the ADSs evidenced by such Holder's ADRs on or before the date established by the Depositary for such purpose, the Depositary shall deem such Holder to have instructed the Depositary to give a discretionary proxy in conformity with Russian law to the Company or to a person designated by the Company with respect to such Deposited Securities and the Depositary shall give a discretionary proxy in conformity with Russian law to the Company or to a person designated by the Company to vote such Deposited Securities, provided that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing) that (x) the Company does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

12.2 The Depositary shall, if requested by the Company, deliver, at least five Business Days prior to the date of such meeting, to the Company, to the attention of its Vice President, Head of the Main Division for Strategic Development and Investment Analysis or such other person as the Company may direct, copies of all instructions received from Holders in accordance with which the Depositary will vote, or cause to be voted, the Deposited Securities represented by the ADSs

evidenced by such ADRs at such meeting. Delivery of instructions will be made at the expense of the Company.

13 Documents to be furnished, recovery of taxes, duties and other charges

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any ADR or any Deposited Securities represented by any ADR, such tax or other governmental charge shall be payable by the Holder or Beneficial Owner of such ADR to the Depositary, and such Holder or Beneficial Owner shall be deemed liable therefor. In addition to any other remedies available to it, the Depositary may refuse to effect any transfer of such ADR or any withdrawal of Deposited Securities represented by ADSs evidenced by such ADR until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Holder or Beneficial Owner thereof any part or all of the Deposited Securities represented by the ADSs evidenced by such ADR, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Holder or Beneficial Owner of such ADR shall remain liable for any deficiency. The obligations of Holders and Beneficial Owners described in this paragraph 13 shall survive any transfer of ADRs described in paragraph 3 (*Ownership and transfer*), any surrender of ADRs and withdrawal of Deposited Securities described in paragraph 2 (*Withdrawal of Deposited Securities*), or the termination of the Deposit Agreement as described in paragraph 20 (*Termination of the Deposit Agreement*).

14 Liability

14.1 The Company assumes no obligation nor shall it be subject to any liability under the Deposit Agreement to Holders or Beneficial Owners, except that it agrees to perform its obligations specifically set forth in the Deposit Agreement.

14.2 The Depositary assumes no obligation nor shall it be subject to any liability under the Deposit Agreement to any Holder or Beneficial Owner (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that it agrees to perform its obligations specifically set forth in the Deposit Agreement without negligence or bad faith.

14.3 Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the ADRs, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability shall be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.

14.4 Neither the Depositary nor the Company shall be liable for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder or any other person believed by it in good faith to be competent to give such advice or information; provided, however, that in the case of the Company, advice of or information from legal counsel is from recognised U.S. counsel for U.S. legal issues, recognised Russian counsel for Russian legal issues and recognised counsel of any other jurisdiction for legal issues with respect to that jurisdiction.

14.5 The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

14.6 The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or inaction is in good faith.

14.7 The Depositary shall not be liable to the Company, any Holder or Beneficial Owner or any other person for the unavailability of Deposited Securities or for the failure to make any distribution of

cash or property with respect thereto as a result of (i) any act or failure to act of the Company or its agents, including the Russian Share Registrar, or their respective directors, employees, agents or affiliates, (ii) any provision of any present or future law or regulation of the United States, the Russian Federation or any other country, (iii) any provision of any present or future regulation of any governmental or regulatory authority or stock exchange, (iv) any provision of any present or future Charter of the Company or any other instrument of the Company governing the Deposited Securities, (v) any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or (vi) any act of God or war or other circumstance beyond its control.

14.8 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15 Issue and delivery of replacement ADRs and exchange of ADRs

In case any ADR shall be mutilated, destroyed, lost or stolen, the Depositary shall execute and deliver a new ADR of like tenor in exchange and substitution for such mutilated ADR upon cancellation thereof, or in lieu of and in substitution for such destroyed, lost or stolen ADR. Before the Depositary shall execute and deliver a new ADR in substitution for a destroyed, lost or stolen ADR, the Holder thereof shall have (a) filed with the Depositary (i) a request for such execution and delivery before the Depositary has notice that the ADR has been acquired by a bona fide purchaser and (ii) a sufficient indemnity bond and (b) satisfied any other reasonable requirements imposed by the Depositary.

16 Depositary's fees, costs and expenses

16.1 The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. The Depositary shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

16.2 The following charges shall be incurred by any party depositing or withdrawing Shares or by any Holder of ADRs or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the ADRs or Deposited Securities or a distribution of ADRs described in paragraph 5 (*Distributions in Shares*)), whichever applicable:

(i) taxes and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share Register of the Company maintained by the Russian Share Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the Deposit Agreement;

(iii) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement;

(iv) such expenses as are incurred by the Depositary in the conversion of foreign currency as described in paragraph 8 (*Conversion of foreign currency*);

(v) a fee of US$5.00 or less per 100 ADSs (or portion thereof) for the execution and delivery of ADRs, and the surrender of the ADRs in the circumstances provided for in the Deposit Agreement;

(vi) a fee of US$0.02 or less per ADS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement;

(vii) a fee of US$0.01 or less per ADS (or portion thereof) per year to cover such expenses as are incurred for inspections by the Depositary, the Custodian or their respective agents of the Share Register maintained by the Russian Share Registrar (which fee shall be assessed against Holders of record as of the date or dates set by the Depositary as described in paragraph Condition 9 (*Fixing of record date and distribution of any payments*) and shall be collected at the sole discretion of the Depositary by billing such Holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions);

(viii) a fee for the distribution of securities as described in paragraph 6 (*Distributions other than in cash or Shares*), such fee being in an amount equal to the fee for the execution and delivery of ADS referred to above which would have been charged as a result of the deposit of such securities (for the purposes described in this paragraph 16 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Holders; and

(ix) a fee not in excess of US$1.50 per certificate for an ADR or ADRs for transfers made pursuant to the terms of the Deposit Agreement.

16.3 The Depositary, subject to provisions of the Deposit Agreement, may own and deal in any class of securities of the Company and its affiliates and in ADRs.

17 Listing

If any ADRs or the ADSs evidenced thereby are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or appoint a Registrar or one or more co registrars for registry of such ADRs in accordance with any requirements of such exchange or exchanges.

18 The Custodian

The Custodian shall be subject at all times and in all respects to the directions of the Depositary and shall be responsible solely to it. The Custodian may resign and be discharged from its duties under the Deposit Agreement by notice of such resignation delivered to the Depositary at least 30 days prior to the date on which such resignation is to become effective. If upon such resignation there shall be no Custodian acting under the Deposit Agreement, the Depositary shall, promptly after receiving such notice, appoint a substitute custodian or custodians, each of which shall thereafter be a Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may appoint a substitute or additional custodian or custodians, each of which shall thereafter be one of the Custodians under the Deposit Agreement. Upon demand of the Depositary the Custodian shall deliver such of the Deposited Securities held by it as are requested of it to any other Custodian or such substitute or additional custodian or custodians. Each such substitute or additional custodian shall deliver to the Depositary, forthwith upon its appointment, an acceptance of such appointment satisfactory in form and substance to the Depositary. Upon the appointment of any successor depositary under the Deposit Agreement, each Custodian then acting under the Deposit Agreement shall forthwith become, without any further act or writing, the agent of such successor depositary and the appointment of such successor depositary shall in no way impair the authority of each Custodian under the Deposit Agreement; but the successor depositary so appointed shall, nevertheless, on the written request of any Custodian, execute and deliver to such Custodian all such instruments as may be proper to give to such Custodian full and complete power and authority as agent of such successor depositary.

19 Resignation and termination of appointment of the Depositary

19.1 The Depositary may at any time resign as Depositary by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided. The Depositary may at any time be removed by the Company by written notice of such removal effective upon the

appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

19.2 In case at any time the Depositary acting under the Deposit Agreement shall resign or be removed, the Company shall use its best efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York. Every successor depositary shall execute and deliver to its predecessor and to the Company an instrument in writing accepting its appointment under the Deposit Agreement, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Company shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor under the Deposit Agreement, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor, and shall deliver to such successor a list of the Holders of all outstanding ADRs. Any such successor depositary shall promptly mail notice of its appointment to the Holders.

20 Termination of the Deposit Agreement

20.1 The Depositary shall, at any time at the direction of the Company, terminate the Deposit Agreement by mailing notice of such termination to the Holders of all ADRs then outstanding at least 90 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to the Company and the Holders of all ADRs then outstanding, if at any time 90 days shall have expired after the Depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as described in paragraph 19 (*Resignation and termination of appointment of the Depositary*).

20.2 On and after the date of termination, the Holder of an ADR will, upon (a) surrender of such ADR to the Depositary and (b) payment of any applicable taxes or governmental charges and the fees and expenses of the Depositary, including the fees of the Depositary for the surrender of ADRs referred to in the Deposit Agreement, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the ADSs evidenced by such ADR in the manner provided in the Deposit Agreement for surrender of the ADRs and withdrawal of the Shares. If any ADRs shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of ADRs, shall suspend the distribution of dividends to the Holders thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for the ADRs surrendered to the Depositary (after deducting, in each case, the fees of the Depositary for the surrender of an ADR, any expenses for the account of the Holder of such ADR in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges).

20.3 At any time after the expiration of one year from the date of termination of the Deposit Agreement, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, unsegregated and without liability for interest, for the pro rata benefit of the Holders of the ADRs which have not theretofore been surrendered, such Holders thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of an ADR, any expenses for the account of the Holder of such ADR in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary described in paragraph

16 (*Depositary's fees, costs and expenses*) and indemnification provisions set out in the Deposit Agreement.

21 Amendment of Deposit Agreement

Except for amendments to Section 5.13(a) of the Deposit Agreement pursuant to which the Russian Share Registrar is appointed, the form of the ADRs and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Holders or Beneficial Owners of ADRs in any respect which they may deem necessary or desirable. Section 5.13(a) of the Deposit Agreement may be amended by the Company without the consent of the Depositary upon thirty days' prior written notice to Holders of outstanding ADRs as specified below. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Holders, shall, however, not become effective as to outstanding ADRs until the expiration of thirty days after notice of such amendment shall have been given to the Holders of outstanding ADRs. Every Holder, at the time any amendment so becomes effective, shall be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Holder of any ADR to surrender such ADR and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

22 Notices

22.1 Any and all notices to be given to any Holder shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Holder at the address of such Holder as it appears on the transfer books for ADRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address designated in such request.

22.2 Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depositary or the Company may, however, act upon any cable, telex or facsimile transmission received by it, notwithstanding that such cable, telex or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

23 Severability

In case any one or more of the provisions contained in the Deposit Agreement or in the ADRs should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in the Deposit Agreement or in the ADRs shall in no way be affected, prejudiced or disturbed thereby.

24 Governing Law

24.1 The Deposit Agreement and the ADRs shall be interpreted and all rights under the Deposit Agreement and the ADRs and provisions thereof shall be governed by the laws of the State of New York, except with respect to its authorisation and execution by the Company, which shall be governed by the laws of the Russian Federation.

24.2 Any controversy, claim or cause of action brought by any party hereto against the Company arising out of or relating to the Shares or other Deposited Securities, the ADSs, the ADRs or the Deposit Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof; provided, that in the event of any third-party litigation to which the Depositary is a party and to which the Company may properly be joined, the Company may be so joined in any court in

which such litigation is proceeding; and provided further that any such controversy, claim or cause of action relating to or based upon the provisions of the Federal securities laws of the United States or the rules and regulations promulgated thereunder may, but need not, be submitted to arbitration as described in this paragraph 24.2. The place of the arbitration shall be The City of New York, State of New York, United States of America, and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto, and shall be an attorney experienced in international securities transactions. If a dispute, controversy or cause of action shall involve more than two parties, the parties shall attempt to align themselves in two sides (i.e., claimant and respondent), each of which shall appoint one arbitrator as if there were only two parties to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand, the American Arbitration Association shall appoint the three arbitrators. The parties and the American Arbitration Association may appoint from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other damages not measured by the prevailing party's actual damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of the Deposit Agreement.

24.3 Any controversy, claim or cause of action arising out of or relating to the Shares or other Deposited Securities, the ADSs, the ADRs or the Deposit Agreement not subject to arbitration shall be litigated in the Federal and state courts in the Borough of Manhattan.

24.4 The Company (i) irrevocably designated and appointed Corporate Service Company, in the United States of America, as the Company's authorised agent upon which process may be served in any suit or proceeding (including, but not limited to, any arbitral proceeding as described in paragraph 24.2 above) arising out of or relating to the Shares or Deposited Securities, the ADSs, the ADRs or the Deposit Agreement, (ii) consents and submits to the jurisdiction of any court in which any such suit or proceeding may be instituted, and (iii) agrees that service of process upon said authorised agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company further agreed to take any and all action, including the filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment in full force and effect for so long as any ADSs or ADRs remain outstanding or the Deposit Agreement remains in force.

ADR PRICE HISTORY

The table below sets out, for the periods indicated, the reported high and low closing sales prices per ADR on the London Stock Exchange, the principal market for the ADRs. As at 12 January 2011, the closing price in U.S. dollars per ADR on the London Stock Exchange was U.S.$61.90.

	Price per ADR in U.S.$	
Quarter Ending	**High**	**Low**
2010		
31 December	59.65	53.40
30 September	58.60	50.70
30 June	60.80	44.70
31 March	59.40	50.50
2009		
31 December	66.40	52.70
30 September	55.30	39.80
30 June	57.40	38.24
31 March	42.75	29.60
2008		
31 December	58.70	24.07
30 September	98.00	53.00
30 June	113.00	82.90
31 March	86.20	65.20
2007		
31 December	94.70	83.00
30 September	85.70	71.60
30 June	85.70	72.90
31 March	89.80	75.40

Source: The website of the London Stock exchange www.londonstockexchange.com

Information about the past and further performance of the ADRs and their volatility can be obtained from the website of the London Stock Exchange.

In relation to the years ended 31 December 2007, 2008 and 2009, LUKOIL declared final dividends of approximately U.S.$1.80, U.S.$1.50 and U.S.$1.72 per ADR, respectively, calculated based on the respective ruble value of the dividend declared per share and the exchange rate on the respective dividend record date.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286, United States of America. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286, United States of America, and at The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom.

DESCRIPTION OF THE SHARES AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered ordinary shares, the material provisions of our Charter and certain requirements of Russian legislation applicable to us and our shares.

General

Our share capital consists of 850,563,255 issued, fully paid ordinary registered shares with a par value of 0.025 ruble each, issued in accordance with the laws of the Russian Federation. The shares are in book-entry form. The register of shareholders is held by Registrar NIKoil Company (JSC) with registered office at bldg. 1, 5 Posledniy pereulok, 107045, Moscow, Russia. In addition to issued shares, our Charter contains provisions on 85 million authorised but unissued ordinary registered shares with a par value of 0.025 ruble each. No preferred shares are authorised or outstanding.

Rights of the holders of the Company's ordinary shares

As required by the Federal Law No. 208-FZ on Joint Stock Companies dated 26 December 1995, as amended, (the Federal Law on Joint Stock Companies) and pursuant to our Charter, all of our ordinary shares have the same nominal value and grant identical rights to their holders. Fully paid ordinary shares, except for treasury shares (which may only include shares held directly by the Company), give their holder the right to:

- participate in the management of the Company as provided by the Federal Law on Joint Stock Companies and our Charter;
- participate in general shareholders meetings and vote on all matters within shareholders meeting competence;
- purchase shares and other securities of the Company convertible into shares, including by exercising its preemptive rights as provided by the Federal Law on Joint Stock Companies and our Charter;
- freely transfer the shares without the consent of other shareholders and the Company;
- receive information about the Company's activities, including on all matters included on the agenda of the general shareholders meetings, review minutes of the general shareholders meetings;
- participate in distribution of the Company's assets in the event of its liquidation;
- exercise its shareholders' rights directly or through representatives;
- receive a portion of the Company's net profits (dividends) provided that each share of the same category (type) shall grant its holders the same scope of rights with respect to dividends, in the amount, form of payment and within the period established by the general shareholders meeting;
- if holding, solely or with other holders, 2% or more of our issued voting shares, within 30 days after the end of our fiscal year, make proposals to the annual shareholders meeting's agenda and nominate candidates to serve as our President or as members of the Board of Directors, the Audit Commission and the Counting Commission whose number shall not exceed the established number of members in the relevant body;
- if holding, solely or with other holders, 10% or more of our issued voting shares, demand from the Board of Directors the calling of an extraordinary shareholders meeting or an unscheduled audit of financial and business operations by the Audit Commission;

- if holding, solely or with other holders, 1% or more of our issued voting shares, bring a claim against the members of our Board of Directors, the Management Committee or the President as provided by Russian law and our Charter;

- demand the repurchase by us of all or some of the shares owned by the holder of voting shares, as long as the holder voted against or did not participate in the voting on the following issues:

    - a reorganisation;

    - entry into a major transaction relating to assets with value exceeding 50% of the balance sheet value of the Company's assets which is to be approved by the general shareholders meeting; and

    - the amendment of our Charter in a manner that limits shareholders' rights;

- acquire pro-rata to its shareholding additional shares issued by us by way of open subscription as well as additional shares issued by way of closed subscription if such shareholder voted against the issuance or did not participate in voting on issuance by way of closed subscription;

- have access to certain Company' documents listed by the Federal Law On Joint Stock Companies, receive copies and, if holding solely or with other holders, 25% or more of our issued voting shares, have access to accounting documents and minutes of the meetings of the Management Committee; and

- exercise any other rights granted to a holder of our ordinary shares in our Charter or under Russian law.

Dividends

Our Board of Directors recommends the amount of dividend on shares and the procedure for payment of such dividend to our shareholders, who approve such dividends by a majority vote of the holders of voting stock participating in the general shareholders meeting. The amount of dividend approved at the general shareholders meeting may not exceed the amount recommended by the Board of Directors. Pursuant to our Charter the annual dividends are distributed not later than on the last day of the fiscal year during which the decision to pay dividends was adopted. The list of persons entitled to receive dividends is compiled as at the date of compilation of the list of persons entitled to participate in the general shareholders meeting at which the decision on payment of dividends is adopted. In order to prepare the list of persons entitled to receive dividends, nominal shareholders shall provide information on the persons on whose behalf they hold such shares. Dividends are not paid on treasury shares (which only include shares held directly by the Company). According to the Federal Law on Joint Stock Companies dividends may be declared by the Company upon the end of the first quarter, semi-annually, as of the end of three quarters or annually. The Federal Law on Joint Stock Companies allows us to resolve on (declare) payment of dividends to our shareholders only out of net profits calculated under Russian accounting principles and as long as the following conditions are met:

- the share capital has been paid in full;

- as of the date of such resolution the value of our net assets is not less and would not become less as a result of the proposed dividend payment than our share capital and reserve fund and the excess of the liquidation value over par value of issued and outstanding preferred shares, if any;

- we have repurchased all shares from shareholders who have exercised their right to demand repurchase in instances provided in the legislation;

- as of the date of such resolution we are not, and would not become as a result of the payment of dividends, insolvent; and

- in other cases provided by law.

Preemptive rights

The Federal Law on Joint Stock Companies grants existing shareholders a preemptive right to purchase shares or issuable securities convertible into our shares that we propose to sell in a public offering proportionate to their existing shareholding. Also, shareholders who voted against or did not participate in voting on the private (closed) placement of shares or issuable securities convertible into our shares are entitled to acquire an amount of such shares or convertible securities proportionate to their existing holdings of the shares. This rule does not apply when the shares or other issuable securities convertible into our shares are placed in a closed placement solely among existing shareholders if all such existing shareholders are entitled to acquire whole numbers of shares and other issuable securities convertible into our shares of an amount that is proportionate to their existing holdings. We must inform shareholders by way of publication of the relevant notice in the press media in which notice of the meeting is published, of the proposed placement of shares and issuable securities convertible into shares at least 45 calendar days prior to the offering, during which time shareholders may exercise their preemptive rights. If the price of offered shares and issuable securities convertible into our shares is to be determined after the expiration of the preemptive rights, the shareholders shall have at least 20 days after publication of the notice during which the shareholders may exercise their preemptive rights.

Share Acquisition and Anti-takeover protection

Russian legislation provides that any person intending to acquire more than 30% of the ordinary shares, including shares already held by such a shareholder, either solely or with affiliates, of an open joint stock company has a right to make a public offer to the target company addressed to the holders of shares of the relevant categories (types) of its intention to acquire the shares held by them under a voluntary tender offer which must be accepted not earlier than 70 days and not more than 90 days after receipt of the voluntary offer by a company. Additionally the shareholder must, within 35 days of acquisition of more than 30% of the ordinary shares or from the moment when such person becomes or should have become aware of the fact that he individually or together with his affiliates owns such number of shares, make a public offer to all other shareholders holding ordinary shares and the holders of issuable securities convertible into such shares to buy such securities (mandatory offer) at their market price, which should not be less than the weighted average acquisition market price of the securities over the six months before the date of filing the mandatory offer with the FSFM of Russia. The same requirement applies to acquisitions of more than 50% and 75% of shares of an open joint stock company. The acquirer's payment obligations arising from both voluntary and mandatory offers must be secured in each case by an irrevocable bank guarantee valid for at least six months after the expiration date of the period for payment of the securities acquired. The voluntary and mandatory offers will be made to the relevant holders of securities through an open joint stock company. An open joint stock company's board of directors must consider the offer and make recommendations to the shareholders regarding the offer received which should be addressed to the shareholders together with the offer within 15 days from the day of receipt of the offer by an open joint stock company in the manner set forth in the Federal Law On Joint Stock Companies for notification of shareholders meetings. After the voluntary or mandatory offer through an open joint stock company has been made, the acquirer may additionally notify the shareholders of the offer by other means, however reflecting all the terms and conditions of the relevant offer. At any time after an open joint stock company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the acceptance period in respect of the last offer received by the open joint stock company, any person has the right to make a competing voluntary offer (that satisfies the requirements for voluntary or mandatory offers as the case may be) to purchase that number of shares at a price not less than the price of the securities specified in the voluntary or mandatory offer previously made. Concurrently with this a company must send the competing offer to the holders of securities with a copy to the person who made the respective voluntary or mandatory offer. In addition, from the date of receipt by a company of the voluntary or mandatory offer until 20 days after the expiration of the period for acceptance of such voluntary or mandatory offer, decisions on share capital increases through an additional share issuance, approval of interested party transactions and certain other issues set forth by the Federal Law On Joint Stock Companies may only be made at a general shareholders meeting.

If, as a result of either a voluntary or a mandatory offer, the acquirer purchases more than 95 percent of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to demand repurchase of their shares and other securities convertible into shares; and

- purchase their shares and/or convertible securities upon request of each such minority shareholder.

In addition, within six months from expiration of the term for acceptance of a voluntary or mandatory offers and if as a result of the offers not less than 10 percent of the total number of shares have been acquired and the total number of shares held by the acquirer exceeds 95% of the voting shares, the acquirer has the right to deliver a buy-out request requiring the minority shareholders to sell their shares at a price not lower than the market price determined by an independent appraiser.

A voluntary or mandatory offer to buy the Company's shares traded by the trade arrangers in the securities market, the notice of the right to demand repurchase of the Company shares and the buy-out request must be filed with the FSFM of Russia (prior notification). The FSFM may require revisions to be made to the terms of the offer, notice or buy-out request in order to bring them into compliance with the Federal Law On Joint Stock Companies. The Company has not been subject to any of the above described procedures in the last and current financial years.

Approval of the Russian Federal Antimonopoly Service

The Antimonopoly Law requires that certain acquisitions of shares in a joint stock company must be notified to or submitted for prior approval by the FAS, in particular these rules apply for acquisitions of more than 25%, 50% or 75% of the voting shares of a joint stock-company if the total assets of the acquirer and its group and of the target and its group exceed a certain threshold as provided in the Antimonopoly Law.

Moreover, Federal Law No. 57-FZ on Procedure for Carrying out Foreign Investments into Enterprises which have Strategic Importance for Ensuring Defence and Security of the State dated 29 April 2008 provides that transactions involving acquisition by a foreign investor or a group of entities of shares (interests) comprising the charter capital of an entity of strategic importance which uses a subsoil area of federal significance, if as a result of such transactions the foreign investor or the group of entities acquires the right to exercise, directly or indirectly, ten percent or more of the total number of votes attaching to the voting shares (interests) comprising the charter capital of such entity, require a prior approval of the Governmental Commission for Control of Foreign Investments in the Russian Federation, and transactions involving acquisition of five or more percent of shares (interests) comprising charter capitals of entities of strategic importance, require a post-transaction notification to the relevant authority. The Company currently does not hold any licences to develop subsoil areas of federal significance, but some of its subsidiaries hold such licences.

Liability of shareholders

The Civil Code, the Federal Law on Joint Stock Companies and the Federal Law on Limited Liability Companies generally provide that shareholders in a Russian joint stock company and members in a Russian limited liability company are not liable for the obligations of the company and bear only the risk of the company's operating loss to the extent of the value of the shares (interests) held by them. This may not be the case, however, when one company is capable of determining the decisions made by another company. The company or partnership capable of determining such decisions is called an effective parent. The company whose decisions are capable of being so determined is called an effective subsidiary.

If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for a transaction concluded by an effective subsidiary if (i) the effective parent issued a binding instruction to the effective subsidiary to conclude the transaction and (ii) the right of the effective parent to issue binding instructions to the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract between the companies. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent issued a binding instruction to the effective subsidiary to conclude the transaction (the ability of the effective parent to determine decisions made by the effective subsidiary is recognized by virtue of the predominant participation on its authorized capital, or in a contract between the companies, or in any other way, when the effective parent is able to determine decisions to be adopted by the effective subsidiary).

In addition, an effective parent, a shareholder, member, or other person that is capable of issuing binding instructions to the effective subsidiary or determining its decisions otherwise may be secondarily liable

for such company's obligations in the case of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, then the effective parent will be secondarily liable if (i) the effective subsidiary becomes insolvent or bankrupt due to the fault of the effective parent; and (ii) the effective parent knew that such actions would result in the insolvency or bankruptcy of the effective subsidiary. If insolvency of an open joint stock company is caused by actions of its shareholders or other persons that are capable of issuing binding instructions or determining its decisions otherwise these persons may be secondarily liable in the event of the assets being insufficient only if they used such rights or possibility to determine a company's decision knowing that such actions would result in insolvency or bankruptcy of a company. If the effective subsidiary is a limited liability company, then the effective parent, member or other person capable of issuing binding instructions or determining decisions will be secondarily liable if the effective subsidiary's insolvency or bankruptcy is due to the fault of such effective parent, member or other person in case if the subsidiary's property is insufficient.

Shareholders (other than the effective parent) of an effective subsidiary that is a joint stock company may claim compensation from the effective parent caused through the fault of the effective parent if the effective parent used its rights and/or ability to cause the subsidiary to take any action and the effective parent knew that such action would result in a loss. Members (other than the effective parent) of an effective subsidiary that is a limited liability company may claim compensation for the subsidiary's losses from the effective parent caused through the fault of the effective parent. In both cases, it is not relevant how the effective parent's ability to make decisions for the effective subsidiary arises.

Distributions to shareholders on liquidation

Under Russian legislation the liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. Our Charter allows us to be liquidated:

- by a 75% vote of our shareholders at a general shareholders meeting; or
- by court order in instances provided for in the Civil Code.

Following a decision to liquidate us, the rights to manage our affairs would pass to a liquidation commission. In the case of a voluntary liquidation, shareholders appoint the members of the liquidation commission at a general shareholders meeting. The court appoints members of the liquidation commission in the case of an involuntary liquidation. Creditors may file claims within a period to be determined by the liquidation commission, but which must be at least two months from the date of publication of the notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- claims of individuals to whom the liquidated entity is liable for injuries or deaths, by way of capitalization of the corresponding installment payments, and for moral harm compensation;
- payments to employees (former employees) and payments of royalties;
- federal, regional and local authorities and state non-budget funds; and
- other creditors in accordance with Russian law.

The assets of a company remaining after settlements with creditors are distributed by the liquidation commission among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of accrued but unpaid dividends on preferred stock and the liquidation value of the preferred stock set forth in the charter, if any; and
- payments to holders of ordinary and preferred shares.

Redemption of shares

The Federal Law on Joint Stock Companies does not allow a company to reduce its share capital below the minimum share capital required by law. As of 31 December 2010, the minimum share capital for an open joint stock company was 100,000 rubles or approximately $3,300 (at the exchange rate as of 31 December 2010). Reduction in our share capital through the repurchase and cancellation of part of shares requires a majority vote at a general shareholders meeting, whereas reduction in the nominal value of the shares requires a three-fourths majority vote of the shareholders only on the proposal of our Board of Directors. Additionally, within 3 business days of a decision to reduce our share capital we must notify the authority in charge of state registration of legal entities of the above decision and publish twice with a one month periodicity the notice of charter capital reduction in a publication with the information of the legal entities' registration. Our creditors would then have the right to demand within 30 days from the date of the latest publication of such notice, the early exercise of the corresponding obligations by the Company and if such early exercise is not possible, termination of the obligations and compensation for any associated damage. Period of limitation on such claims is six months from the date of the latest publication of the notice.

The Federal Law on Joint Stock Companies and our Charter allow our Board of Directors to authorise repurchase of not more than 10% of our shares in exchange for cash, except for repurchase of shares for the purpose of decreasing the charter capital which should be adopted at a general shareholders meeting. However, we either must resell the repurchased shares at not less than their market price within one year of their acquisition or our shareholders must decide to reduce the charter capital by cancelling such shares. A decrease in our charter capital would trigger the creditors rights discussed above.

The Federal Law on Joint Stock Companies allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital has been paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the proposed acquisition) than the sum of our charter capital, the reserve fund and the excess of the liquidation value over par value of our issued and outstanding preferred shares, if any;
- we have repurchased all shares tendered by shareholders having the right to demand repurchase of their shares, as described below.

Russian law provides that our shareholders may demand the repurchase by us of all or some of their shares so long as the shareholder demanding such repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- a reorganisation;
- entering into a major transaction the subject matter of which is the property having value in excess of 50% of the balance sheet value of our assets, where the approval of the transaction is to be made by the general shareholders meeting; and
- amending our Charter in a manner that limits shareholders' rights.

Pursuant to the Federal Law on Joint Stock Companies, the board of directors must approve the report on the results of repurchase of the shares within 50 days of the date of the relevant decision of the general shareholders meeting, on the basis of which the relevant title transfer entries must be made in the shareholders' register. A company may not repurchase shares in such circumstances for an amount which exceeds 10% of the Company's net assets calculated according to Russian accounting standards as of the adoption date of one of the decisions described above. If the aggregate number of shares in respect of which shareholders have exercised their right to demand repurchase exceeds the number of shares which the Company can redeem subject to the above limitation, the shares will be repurchased from the shareholders on a *pro rata* basis.

Share registration, transfers and settlement

Our shares are ordinary registered shares entered in our share register. Any of our shareholders may obtain an extract from the share register certifying the number of shares that the shareholder holds. Russian law requires that the register of shareholders of a joint stock company with more than 50 shareholders be maintained by an independent registrar. Registrar NIKoil Company (JSC) maintains our register of shareholders.

A shareholder may conclude an agreement with a licensed depositary, under which a depositary will be responsible for keeping records of transfers of rights over the deposited shares. Under Russian legislation, the conclusion of a depositary agreement does not entail transfer of the right of ownership over the deposited shares to a depositary, and a depositary may not carry out any operations with the deposited shares except under instruction of the shareholder in the situations identified in the deposit agreement (as a nominee shareholder).

A purchase, sale or other transfer of shares are accomplished through the making of a title transfer entry in the shareholder register, or the registration of the transfer with a licensed Russian depositary if shares are held by such depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, may be challenged in court.

Reserve fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. According to our Charter, our reserve fund shall constitute 15% of our charter capital and shall be formed by way of remitting annually of 5% of our net revenues to the reserve fund until it reaches the prescribed amount. As of the date of these Listing Particulars our reserve fund was paid in full.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing with the FSFM and publishing on our website of quarterly reports containing information about us, our shareholders, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, material facts in the reporting quarter, and other information about our financial and business activity;

- publishing in newswire, as well as on our website and, in certain cases, in press, any information concerning material facts and changes in our financial condition or business activities, including, but not limited to, among other things:

    - any reorganisation of the Company, our subsidiary and affiliated entities;

    - certain changes in the composition of our assets (increase or decrease of the value of our assets by more than 10 percent, as well as increase or decrease of our net income or net losses by more than 10 percent);

    - various stages of share issuance;

    - resolutions of the general shareholders meetings;

    - accrued and paid income on issued securities;

    - on acquisition by a person or persons of Company's shares where the state registration of securities issuance (additional issuance) was accomplished with the registration of the

prospectus of such securities, or the acquisition of rights under an agreement with a shareholder to manage the voting by such securities at the general shareholders meeting if as a result of such acquisition the relevant person obtains a direct or indirect ability to manage independently or together with its affiliates, more than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of votes granted by the outstanding ordinary shares of the Company;

- information on any of the following documents received by us: (i) a voluntary offer (including any competing offer); a mandatory offer (including any competing offer); (ii) a notice to the shareholders regarding their right to request purchase of their shares by the person that has acquired more than 95% of the total of the ordinary shares and voting preferred shares, including the shares held by such person and its affiliates; or (iii) a request that minority shareholders sell their shares to the person that has acquired more than 95% of total amount of ordinary and voting preferred shares, including shares belonging to affiliates of the acquirer;

- disclosing our charter and internal regulations;

- disclosing our annual report and annual accounting statements prepared in accordance with Russian accounting standards;

- disclosing on our website a list of our affiliated persons on a quarterly basis; and

- other information as required by Russian securities legislation.

General Shareholders Meetings

Procedure

The competence of a shareholders meeting are set forth in the Federal Law on Joint Stock Companies and in our Charter. According to our Charter, among the issues which the shareholders have the exclusive power to decide are:

- amendments to our Charter or approval of any new versions of our Charter;

- reorganization of the Company;

- liquidation of the Company, appointment of the liquidation commission and approval of interim and final liquidation balance sheets;

- determination of the number of members of the Board of Directors, election of its members, early termination of their powers, determination of remuneration and compensation payable to the members of the Board of Directors;

- determination of the number, par value and class (type) of authorised shares and rights granted by such shares;

- increase of the Company's charter capital through (i) an increase in the par value of the shares; (ii) placement of additional shares by private subscription; and (iii) placement of additional shares representing more than 25 percent of outstanding shares, by open subscription;

- decrease of the Company's charter capital through: (i) a decrease in the par value of the shares; (ii) acquisition by the Company of part of the shares in order to reduce the total number thereof; and (iii) the cancellation of shares acquired or repurchased by the Company in accordance with the Russian law;

- election of the President and early termination of the powers of the President;

- election of the members of the Audit Commission and early termination of their powers, determination of remuneration and compensation payable to the members of the Audit Commission;

- approval of the Company's auditor;

- approval of annual reports and annual financial statements, including the income statement of the Company; distribution of profits, including payment (declaring) of dividends, and losses of the Company based on the results of the financial year;

- determination of the rules for the conduct of a general shareholders meeting;

- election of members of the Counting Commission and early termination of their powers, in cases stipulated by effective legislation;

- split and consolidation of the Company's shares;

- approval of interested-party transactions in cases stipulated by effective legislation;

- approval of major transactions involving acquisition, disposal or the possibility of disposal by the Company of assets with the value exceeding 50 percent of the book value of the Company's assets according to its financial statements as of the latest reporting date, with the exception of transactions completed in the ordinary course of the Company's business, transactions related to placement by the Company of ordinary shares by means of subscription (sale) and transactions related to placement of securities convertible into Company's ordinary shares;

- approval in accordance with the procedure provided for by the Federal Law on Joint Stock Companies for approval of major transactions of a transaction or a series of related transactions with a value exceeding 50 percent of the book value of the Company's assets according to the Company's financial statements as of the latest reporting date involving acquisition, disposal or the possibility of disposal of capital assets in the sphere of production or processing of oil, gas and gas condensate, refined products marketing facilities, hydrocarbon transportation facilities and shares (participatory shares) in business entities holding such assets and/or rights for exploration or production of hydrocarbon resources unless such transaction or a series of related transactions required approval under a different procedure contemplated by our Charter;

- approval of a major transaction or a series of related transactions requiring approval of the Board of Directors in accordance with our Charter, if the Board of Directors has not reached unanimity on the issue;

- acquisition by the Company of outstanding shares in order to reduce the total number thereof;

- decisions on participation in financial-industrial groups, associations and other unions of commercial organisations;

- approval of internal regulations governing activities of the Company's management bodies;

- placement of convertible securities through private subscription, and placement through open subscription of securities convertible into ordinary shares which can be converted into more than 25 percent of the Company's outstanding ordinary shares;

- other matters provided for by the Federal Law on Joint Stock Companies.

Voting at a general shareholders meeting is generally on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is carried out through cumulative vote. Decisions are generally passed by a majority vote of the holders of voting shares present at a general shareholders meeting. However, Russian law and our Charter requires a three-quarters majority vote of the holders of voting shares present at a general shareholders meeting to approve certain matters, as well as in some instances it requires a prior recommendation of the Board of Directors.

The quorum requirement for our shareholders meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual general shareholders meeting must be convened between 1 March and 30 June of each year, and the agenda must include the following items:

- election of members of the Board of Directors;
- approval of the annual report and annual financial statements, including the Company's income statement;
- approval of distribution of the profits and losses of the Company based on the results of the financial year, including payment (declaration) of dividends;
- approval of an auditor of the Company;
- election of members of the Audit Commission; and
- other matters within its competence.

A general shareholders meeting may be held in a form of a meeting or by absentee ballot. The following issues cannot be decided by a shareholders meeting by absentee ballot:

- election of members of the Board of Directors;
- election of the Audit Commission;
- approval of the Company's auditor; and
- approval of the annual report, annual accounting statements including profit and loss statement, distribution of profits, including payment (declaration) of dividends, and losses based on the fiscal year results.

Notice and participation

In accordance with the Federal Law on Joint Stock Companies and our Charter, all shareholders entitled to participate in a general shareholders meeting must be notified of the meeting not less than 30 days prior to the date of the meeting. According to our Charter, the notice on any general shareholders meeting shall be published in the newspapers *Rossiyskaya Gazeta* or *Izvestia*, as well as in Russian regional printed media, which should specify, without limitation, the agenda for the meeting. In relation to an extraordinary general shareholders meeting to elect the board of directors or a general shareholders meeting to approve any reorganisation in the form of merger, spin-off or demerger (division) and to elect the board of directors of the company established as a result of any reorganisation in the form of merger, spin-off or demerger (division), shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda may be voted upon at a general shareholders meeting. In accordance with our Charter, the Company shall send voting ballots to the shareholders not later than 30 days prior to the date of the annual shareholders meeting and no later than 25 days before the date of the extraordinary shareholders meeting.

The list of persons entitled to participate in a general shareholders meeting is compiled on the basis of data in our shareholders register on the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders meeting to elect the Board of Directors by cumulative vote, not more than 85 days before the date of the meeting).

In the event of a general shareholders meeting where ballot papers are circulated prior to the general shareholders meeting, the date for compiling the list of shareholders entitled to participate in the general shareholders meeting shall be set not less than 35 days prior to the general shareholders meeting.

The right to participate in general shareholders meetings may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- through an authorised representative;
- by absentee ballot.

Board of Directors

Our Board of Directors shall exercise the general management of the Company's activities, with the exception of issues within jurisdiction of a general shareholders meeting. The procedure for convocation and conduct of meetings of the Board of Directors is set forth in the Regulations of Board of Directors of OAO LUKOIL approved by the General Shareholders Meeting of the Company on 27 June 2002, as subsequently amended.

The Federal Law on Joint Stock Companies requires at least five members to form a board of directors as a general rule, at least seven members to form a board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least nine members to form a board of directors for joint stock companies with more than 10,000 holders of voting shares. Our Charter provides that Board of Directors should be formed by eleven members.

According to our Charter, members of our Board of Directors shall be elected at shareholders meeting through cumulative voting, for a term until next annual shareholders meeting. Shareholders shall make every effort to nominate and elect at least three independent directors to the Board of Directors. Pursuant to a decision of a shareholders meeting, the authority of all members of the Board of Directors may be terminated before the expiry of their term.

Pursuant to the Federal Law on Joint Stock Companies and our Charter the following issues shall be referred to the authority of the Board of Directors, with the exception of cases where decisions on the issues listed below may only be taken by the general shareholders meeting in accordance with effective legislation:

- definition of the Company's priority activities;
- convocation of annual and extraordinary shareholders meeting except for cases provided for by the laws of the Russian Federation;
- approval of the agenda of the shareholders meeting;
- setting the date for compiling the list of person entitled to participate in a shareholders meeting, as well as other matters related to preparation and holding of a shareholders meeting provided for by the laws of the Russian Federation;
- deciding on the matters relating to an increase of our charter capital as provided in our Charter;
- placement of our bonds and other issuable securities including securities convertible into our Shares, except when the decision on placement of such securities is referred to the authority of the general shareholders meeting (see description in *General Shareholders Meetings* above);
- determination of the value (monetary evaluation) of assets, placement price and price at redemption of issuable securities in accordance with the laws of the Russian Federation;
- approval of a decision on securities issue, a prospectus of securities issue and a report on the results of securities issue;
- acquisition of our shares, bonds and other issuable securities with exceptions provided in our Charter, except when the decision on acquisition of shares is referred to the authority of the general shareholders meeting (see description in *General Shareholders Meetings* above);

- formation of the Management Committee, our collegial executive body, pre-term termination of powers of its members, determination of the principal terms of agreements entered into with the President and members of the Management Committee;
- recommendation on the amount of dividend on shares and the procedure for its payment;
- recommendations to the shareholders at the initiative of the Board of Directors regarding voting on matters included in the agenda of the shareholders meeting;
- use of our reserve and other funds;
- approval of the internal corporate documents other than those the approval of which falls within the authority of the general shareholders meeting and the Company's executive bodies;
- establishment of our branches and representative offices and their liquidation, and amending our Charter accordingly;
- approval of major, interested party transactions, and other transactions in cases provided for by the Federal Law on Joint Stock Companies and our Charter;
- approval of our Registrar and the terms of the agreement with the Registrar, termination of such agreement;
- other issues as provided for by the Federal Law on Joint Stock Companies and our Charter.

According to our Charter, the meeting of our Board of Directors has a quorum if at least half of the elected members of the Board of Directors are present. In addition, the presence of at least one independent director (if there are any on the Board of Directors) is mandatory. The Board of Director makes decisions by a majority vote of those participating in the meeting, unless otherwise provided for in our Charter. Certain decisions require a unanimous vote of all members of the Board of Directors as provided for by our Charter.

President

The President, being our sole executive body, manages the current operations and heads the Management Committee. According to our Charter, the President is appointed by the general shareholders meeting for a term of five years. Pursuant to the laws of the Russian Federation, the President is vested with all powers he may need to manage the Company. The President acts without the power of attorney on behalf of the Company within his competence set out by our Charter and applicable laws.

Mr. Vagit Yusufovich Alekperov has served as our President and as the Chairman of our Management Committee since 1993.

Management Committee

The Management Committee is our collegial executive body. Its members are appointed annually by the Board of Directors. Together with the President, our Management Committee is responsible for our day-to-day management and administration. The time and procedure for convocation and holding meetings and the procedure for approval of decisions are determined by the Regulations on the Management Committee of OAO LUKOIL approved by the annual General Shareholders Meeting of the Company on 27 June 2002.

Audit Commission

Our Audit Commission exercises control over the financial and economic activity of the Company. The rules of the Audit Commission are set forth in the Regulations on the Audit Commission of OAO LUKOIL approved by the annual General Shareholders Meeting of the Company on 27 June 2002, as subsequently amended. Our Audit Commission currently consists of three members who are elected by the annual shareholders meeting in accordance with the procedure established by our Charter. The term of office of the Audit Commission is reckoned from the time of its election by the annual shareholders meeting to the time of the election of a new Audit Commission by the next annual shareholders meeting.

The authority of individual members of the Audit Commission may be terminated by decision of the general shareholders meeting. Any shareholder or any person nominated by a shareholder may be a

member of the Audit Commission. Members of the Audit Commission may not concurrently be members of the Board of Directors or hold other positions in our management bodies.

According to the Federal Law on Joint Stock Companies and our Charter, our Audit Commission performs audit (review) of the Company's financial and economic activities at the end of each operating year of the Company and at any time on its own initiative, by decision of the general shareholders meeting or Board of Directors, or at the request of our shareholder (shareholders) holding in aggregate at least 10 percent of the voting shares of the Company.

Interested Party Transactions

Under the Federal Law on Joint Stock Companies, certain transactions defined as "interested party transactions" require approval by "disinterested" directors or shareholders of the Company. "Interested party transactions" include transactions in the consummation of which either a member of the board of directors, or a person acting as the sole executive body including a management company or a manger, or a member of any collegial executive body of a company, or a shareholder that owns together with any affiliates 20% or more of company's voting shares, or any person who is able to give binding instructions to the company, is interested, provided such persons, or their spouses, parents, children, adoptive or adopted parents or children, brothers or sisters of the half blood or the full blood, and/or their affiliates:

- are a party to, or a beneficiary of, or a representative or intermediary in, a transaction;
- own, individually or collectively, at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, or a representative or intermediary in, a transaction;
- hold positions in a management body of the entity which is a party to, or a beneficiary of, or a representative or intermediary in, a transaction, or positions in the management bodies of the managing company of such entity;
- in other cases set forth in the entity's charter.

The Federal Law on Joint Stock Companies requires that the above mentioned persons disclose to a company that they may be considered "interested" for the purposes of the Federal Law on Joint Stock Company. An "interested party transaction" of a company with more than 1,000 holders of voting shares should be approved by a majority vote of the independent directors of a company who are "not interested" in the transaction. An "independent director" is a board member who is not, and within the year preceding the decision was not, the general director, a member of any collegial executive body, a member of a managing body of the management company, or an affiliate of the company, excluding board members. Additionally, such person's spouse, parents, children, adoptive or adopted parents or children, brothers or sisters of the half blood or the full blood of such person may not occupy positions in the executive bodies of a company or its management company, or be the managers of the company. For companies with 1,000 or fewer holders of voting shares, an interested party transaction must be approved by a majority vote of the directors who are "not interested" in the transaction if the number of these directors is sufficient to constitute a quorum for the board meeting as set forth in the charter.

Resolution on approval of the interested-party transaction is made at the general shareholders meeting by majority vote of all holders of voting shares who are not interested in the transaction if:

- the transaction or a number of inter-related transactions involves assets the value of which, according to the accounting statements (the acquisition price of the acquired assets) is 2% or more of the balance sheet value of the company's assets determined in accordance with its accounting statements as of the last accounting date;
- the transaction or a number of inter-related transactions is placement through subscription or sale of shares in an amount exceeding 2% of the company's previously issued ordinary shares and ordinary shares into which previously issued securities convertible into shares may be converted;
- the transaction or a number of inter-related transactions involves placement through subscription of issuable securities convertible into shares that may be converted into ordinary shares

constituting more than 2% of the company's previously issued ordinary shares and ordinary shares into which previously issued securities convertible into shares may be converted;

- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum, as defined in the charter, for holding a meeting of the board of directors; or

- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. Such exemption applies only to "interested party" transactions made during a period when such party has become an "interested party" until the next annual general shareholders meeting.

The approval of interested party transactions is not required in the following instances:

- a company has only one shareholder that simultaneously performs the functions of the sole executive body of the company;

- all shareholders of a company are deemed interested in such transactions;

- the transactions arise from the shareholders executing their preemptive rights to purchase a company's newly issued shares or issuable securities convertible into shares;

- a company is acquiring or repurchasing its issued shares;

- reorganisation of a company by merging with or into another company; or

- the company is required by the federal legislation and/or other normative acts of the Russian Federation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by the authorities responsible for state regulation of prices and tariffs.

Any interested party transaction must be approved prior to its execution. Upon a claim by a company or any of its shareholders, a court may invalidate any interested party transaction entered into in breach of the requirements established by the Federal Law on Joint Stock Companies.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction (including loan, credit, pledge, or guarantee), or a series of transactions, involving the acquisition or disposal, or a possibility of disposal by a company, directly or indirectly, of property having a value of 25% or more of the balance sheet value of the assets of a company as determined in accordance with its accounting statements as of the last accounting date with the exception of transactions completed in the ordinary course of business or transactions involving the placement of ordinary shares or issuable securities convertible into ordinary shares.

Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of holders of the voting shares participating in the general shareholders meeting. Major transactions involving property in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of holders of the voting shares participating in the general shareholders meeting.

Any major transaction entered into in breach of the requirements established by the Federal Law Joint Stock Companies may be invalidated by a court pursuant to a claim made by a company or any of its shareholders.

Our Charter also provides for approval by the Boards of Directors by a majority of votes of a transaction or a series of related transactions involving the acquisition or disposal, or a possibility of disposal, of property having a value of 10% to 25% of the balance sheet value of the assets of a company as of the last accounting date, except for transactions completed in the ordinary course of business.

Exchange Control and Withholding of Taxes

Dividends to foreign shareholders may be paid in foreign currency or converted into foreign currency. The tax on dividends shall be withheld by the Company as tax agent pursuant to applicable legislation. For more information on taxation of dividends please also refer to "*Taxation – Russian Federation*".

Notification of Foreign Ownership to Tax Authorities

Pursuant to Part I of the Tax Code of the Russian Federation dated 31 July 1998, as amended (the Tax Code), foreign persons registered as individual entrepreneurs in Russia and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of acquisition of shares is unclear.

Notification of Acquisition of Certain Thresholds

Pursuant to Russian securities legislation, each holder of ordinary shares of a joint stock company must notify a company and the FSFM of the acquisition of 5% or more of such ordinary shares and any change in the number of the total issued ordinary shares above or below a threshold of 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the issued ordinary shares no later than five days following the date when the relevant credit entry with respect to the personal account (custody account) is made. Each notification must contain the name of the shareholder, the name of the company, state registration number of the issuance (additional issuance) of shares, and the number of the ordinary shares acquired.

TAXATION

The following is a general description of certain Dutch and Russian tax considerations relating to the Bonds and the ADRs. It does not purport to be a complete analysis of all tax considerations relating to the Bonds or ADRs whether in those countries or elsewhere. Prospective purchasers of the Bonds should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Netherlands and the Russian Federation of acquiring, holding, converting and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds as well as receiving, holding and disposing of the ADRs and receiving dividends on the ADRs. This summary is based upon the law as in effect on the date of these Listing Particulars and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in the Bonds, or any person through which an investor holds the Bonds, of a custodian, collection agent or similar person in relation to such Bonds in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

The Netherlands

The following is a summary of certain material Dutch tax consequences of purchasing, owning and disposing of the Bonds and/or ADRs received upon conversion of the Bonds. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or dispose of the Bonds and/or ADRs. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular purchaser. Holders should consult with their own tax advisers with regard to the tax consequences of investing in the Bonds and/or ADRs in their particular circumstances. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. This summary is based on the laws of The Netherlands currently in force and as applied on the date of these Listing Particulars, which are subject to change, possibly with retroactive of retrospective effect.

It is assumed that the Bonds and/or ADRs and income received or capital gains derived therefrom, are not attributable to employment activities of the holder of the Bonds and/or ADRs and that a holder of Bonds and/or ADRs will not hold directly or indirectly a substantial interest (*aanmerkelijk belang*) in the Issuer.

Withholding tax

All payments made by the Issuer under the Bonds and/or ADRs may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Individuals

A holder of Bonds and/or ADRs who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from Bonds and/or ADRs, including any payment under the Bonds and/or ADRs and any gain realised on the disposal of the Bonds and/or ADRs, except if:

(a) he is either resident or deemed to be resident in The Netherlands for Dutch tax purposes or has elected to be treated as a resident of The Netherlands for Dutch income tax purposes; or

(b) he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, such enterprise is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands and his Bonds and/or ADRs are attributable to such enterprise.

Furthermore, a holder of Bonds and/or ADRs who is an individual and who does not come under exception (a) nor under exception (b) above will not be subject to Dutch taxes on income or on capital gains in respect of any payment under the Bonds and/or ADRs or any gain realised on the disposal or deemed disposal of the Bonds and/or ADRs, provided that such holder does not carry out any activities in

The Netherlands with respect to the Bonds and/or ADRs that exceed ordinary active asset management (*normaal vermogensbeheer*) and such holder of Bonds and/or ADRs does not derive, or is deemed to derive, benefits from the Bonds and/or ADRs that are (otherwise) taxable as benefits from other activities in The Netherlands (*resultaat uit overige werkzaamheden*).

Entities

A holder of Bonds and/or ADRs other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from Bonds and/or ADRs, including any payment under Bonds and/or ADRs and any gain realised on the disposal of Bonds and/or ADRs, except if:

(a) it is resident or deemed to be resident in The Netherlands for Dutch tax purposes; or

(b) it derives profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, such enterprise is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and its Bonds and/or ADRs are attributable to such enterprise.

A holder of Bonds and/or ADRs will not become subject to Dutch taxation on income or capital gains by reason only of the issue of the Bonds and/or ADRs or the performance by the Issuer of its obligations thereunder.

Dutch Gift, Estate or Inheritance Taxes

Gift and inheritance tax will arise in The Netherlands with respect to a transfer of the Bonds and/or ADRs by way of a gift by, or on the death of, a holder of Bonds and/or ADRs who is resident or deemed to be resident in The Netherlands at the time of the gift or his/her death.

For purposes of Dutch gift and inheritance taxes, amongst others, a person that holds the Netherlands nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the 10 years preceding the date of the gift or the death of this person. Additionally, for purposes of Dutch gift tax, a person not holding the Dutch nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the 12 months preceding the date of the gift. Applicable tax treaties may override deemed residency.

No Dutch gift or inheritance taxes will arise on the transfer of the Bonds and/or ADRs by way of a gift by, or on the death of, a holder of Bonds and/or ADRs who is neither resident nor deemed to be resident in The Netherlands, unless in the case of a gift of the Bonds and/or ADRs by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

Registration Tax, Transfer Tax and Capital tax

There is no Dutch registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty, other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable in The Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the Bonds and/or ADRs or the performance of the Issuer's obligations under the Bonds and/or ADRs.

Value Added Tax

There is no Dutch value added tax payable in respect of payments in consideration for the issue of the Bonds and/or ADRs or in respect of the payment of interest or principal under the Bonds and/or ADRs or the transfer of the Bonds and/or ADRs, other than the value added tax which may be due with respect to advisory fees incurred in relation to such payments.

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership, and disposal of the Bonds and ADRs as well as conversion of the Bonds to ADRs by the Non-Resident Holders (as defined below). The summary is based on the laws of Russia in effect on the date of these Listing Particulars and is subject to any change in law that may take effect after such date. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Bonds or ADRs, and no representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Furthermore, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems.

For the purposes of this summary, a **"Non-Resident Holder"** means:

- an individual Holder **("Non-Resident Holder — Individual")** who does not satisfy the criteria for being a Russian tax resident. By inference this means an individual who is not actually present in Russia for an aggregate period of 183 days or more in any period comprised of 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education. The Russian Tax Code is generally interpreted by both tax authorities and taxpayers such that days of arrival do not count and that days of departure do count when calculating the total number of days of presence in Russia, although there have been several incidents of the Russian Ministry of Finance and Federal Tax Service suggesting a different methodology; or

- a legal entity or an organisation in each case not organised under Russian law that holds and disposes of the Bonds and/or the ADRs otherwise than through a permanent establishment in Russia, **("Non-Resident Holder — Legal Entity");** or

For the purposes of this summary, the term **"Russian Resident Holder"** means any Holder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, the definitions of **"Russian Resident Holder"** and **"Non-Resident Holder"** in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way implying that an individual may be tax resident in Russia for a part of a calendar year. However, both the Russian Ministry of Finance and the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full calendar year and consequently even where the travel pattern dictates differing residency status for a part of the year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to articles of the Russian Tax Code dealing with taxation of individuals which may be enacted in the future, a change in the position of the authorities or by outcomes of tax controversy through the courts.

For the purposes of this summary, a **"Tax Agent"** means a Russian legal entity or a legal person or organisation, organised under a foreign law and having a registered presence in the Russian Federation, which pays out taxable income on the Bonds, or the ADRs to Non-Resident Holders – Legal Entities or pays out taxable income on the Bonds, or the ADRs to Non-Resident Holders – Individuals and is required to withhold Russian personal income tax from that income.

Taxation of the Bonds

Non-Resident Holders

Non-Resident Holders of the Bonds should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Bonds received from the Issuer.

Non-Resident Holders also generally should not be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposition of the Bonds, including but not limited to the conversion of the Bonds to the ADRs, outside Russia, provided that proceeds from such disposition are not received from a source within Russia. However, in absence of a clear definition of what constitutes income from sources within Russia in case of disposal of securities, there is a risk that income from disposition of the Bonds may be considered as received from Russian sources.

Taxation of Non-Resident Holders – Legal Entities

Acquisition of the Bonds

Acquisition of the Bonds by Non-Resident Holders – Legal Entities should not constitute a taxable event under Russian tax law. Consequently, acquisition of the Bonds should not trigger any Russian tax implications for the Non-Resident Holders – Legal Entities.

Disposition of the Bonds

In the event that proceeds from redemption, sale or other disposal of the Bonds, including but not limited to the conversion of the Bonds to the ADRs, are received from a source within Russia, a Non-Resident Holder - Legal Entity should not be subject to Russian withholding tax on any gain on sale or other disposal of the Bonds, except for the portion of the proceeds, if any, from disposal of the Bonds that is attributable to accrued interest on the Bonds. Subject to reduction or relief under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 20%, or such other rate as may be in force at the time of payment, even if the disposal results in a capital loss.

There is a residual uncertainty regarding the treatment of capital gains on the Bonds. Specifically, there is a risk that Russian source income might be viewed as arising on sale, redemption, conversion or other disposal of the Bonds owing to the fact that the Bonds are convertible into ADRs (see "— *Taxation of the ADRs: Capital Gains")* and hence income thereon might be viewed as income from a financial instrument derivative where the underlying asset are the Ordinary Shares or as other similar income.

The provisions of the Russian Tax Code can be interpreted as requiring the Russian withholding tax at a rate of 20%, or such other rate as may be in force at the time of payment, on proceeds from the redemption, conversion, sale or other disposal of the convertible Bonds by a Non-Resident Holder-Legal Entity (or on the disposal gain), if

(i) the Bonds are classified as derivatives of the Ordinary Shares, and

(ii) more than 50% of the Company's assets consist of immovable property located in the Russian Federation, and

(iii) the Bonds are disposed otherwise than through a foreign stock exchange (or another similar foreign stock trading institution).

Consequently, subject to reduction or relief under provisions of an applicable double tax treaty that are related to capital gains from sale, redemption, conversion or other disposal of the Bonds (capital gain being the difference between the sales price and any available cost deductions (including the original purchase value of the Bonds)) may be taxed at a rate of 20%, or such other rate as may be in force at the time of disposal. Where no information on the acquisition costs of the Bonds (subject to Russian tax deductibility rules) is available to the payer of income before the date of payment of income to the Non-Resident Holder – Legal Entity tax could be assessed on gross proceeds received on sale, conversion or other disposal of the Bonds.

Taxation of Non-Resident Holders – Individuals

Subject to available tax treaty relief, the receipt of proceeds by a Non-Resident Holder — Individual from a source within Russia in respect of the gain from a disposal of the Bonds is likely to be treated as Russian source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30%, or such other rate as may be in force at the time of payment, on the gross proceeds received less any available cost deduction (including the original purchase value). In certain circumstances if the disposal proceeds are paid (subject to applicable Russian securities legislation) by a licensed Russian broker, asset manager, management company, which performs asset management of a unit investment fund property, or another person that meets the definition of a tax agent under Russian tax laws (including a foreign company with a registered presence in Russia and an individual entrepreneur located in Russia), the applicable individual income tax at a rate of 30%, or such other rate as may be in force at the time of payment, should be withheld at source. The amount of tax withheld would be calculated after taking into account deductions for the purchase value and related expenses to the extent such deductions and expenses can be determined by the entity making the payment of income. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the Non-Resident Holder Individual would be liable to file a tax return, report his or her income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. The applicable tax would then have to be paid by the individual on the basis of the tax return. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposal of the Bonds that is attributable to accrued interest on the Bonds. Subject to reduction or elimination of tax under the provision of an applicable tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal results in a capital loss.

Under certain circumstances gains received and losses incurred by a Non-Resident Holder-Individual as a result of disposition of the Bonds and other securities occurring within the same year may be aggregated which would affect the tax on income realised from the disposition of the Bonds.

There is also a risk that the amount of taxable gain of the Non-Resident Holder may be affected by changes in the exchange rate between the currency of acquisition of the Bonds, the currency of disposal of the Bonds and roubles.

Resident Holders

A Resident Holder of the Bonds will be subject to all applicable Russian taxes in respect of gains from redemption, conversion, sale or other disposal of the Bonds and interest received on the Bonds. Resident Holders should consult their own tax advisers with respect to the effect that redemption, conversion, sale or other disposal of the Bonds may have on their tax position.

Taxation of the ADRs: Dividends

Non-Resident Holders

Dividends paid to a Non-Resident Holder of ADRs generally should be subject to Russian withholding income tax, which should be withheld by us acting as a Tax Agent. Dividends paid to a Non-Resident Holder-Legal Entity and Non-Resident Holder-Individual would generally be subject to Russian withholding tax at a rate of 15%, or such other rate as may be in force at the time of payment.

Russian withholding tax on dividends may generally be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holder subject to tax treaty clearance requirements being met, as described below in "— *Tax Treaty Relief*". However, because the beneficial ownership concept is not developed in Russian tax law, treaty relief may not be available to Non-Resident Holders of the ADRs in practice. It is not entirely clear whether the Depositary (the legal holder of the shares) or an ADR holder should be treated for the purposes of such treaties as the beneficial owner of the Ordinary Shares underlying the ADRs. The Russian Ministry of Finance expressed an opinion that ADR holders (rather than the relevant Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residence of the ADR holders is duly confirmed. However, this position was expressed in private responses to inquiries by taxpayers with respect to particular situations and, as such, does not represent a statement of tax law. It is not obligatory

for taxpayers to follow this position, although it represents the most recent view taken by the authorities. Moreover, from a practical perspective, it may not be possible for the Depositary to collect confirmations of tax residence from all ADR holders and submit them to us and, in addition, we may be unaware of the exact amount of income payable to each holder.

In the absence of any specific provisions in Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts would ultimately treat the ADR holders in this regard.

Therefore, since the Depositary rather than the Holder of the ADRs will be viewed as the legal owner of the dividends, if the information on the beneficial owners of such dividends or any other information necessary to calculate the amount of withholding tax due is not available or incomplete, we may be obliged to withhold tax at a rate of 15%, or such other rate as may be in force at the time of payment, from dividend payments on Ordinary Shares represented by ADRs and consequently intends to take such an approach.

Although Non-Resident Holders of ADRs may apply for a refund under the relevant double tax treaty of a portion of the amount of tax withheld by us, we cannot make any assurances that the Russian tax authorities will grant any refunds. See "— *Tax Treaty Relief*' for details.

With respect to Non-Resident Holders-Individuals, it is unlikely that advance treaty relief will be available, and a refund can only be obtained by submitting a tax return and supporting documentation in accordance with the procedures described in "— *Tax Treaty Relief*".

Taxation of the ADRs: Capital Gains

Non-Resident Holders-Legal Entities

Under current Russian tax law, capital gains arising from the sale, exchange or other disposal of the ADRs that are circulated (i.e. listed and traded) on foreign stock exchanges on such stock exchanges by Non-Resident Holders- Legal Entities, otherwise than through their permanent establishment in Russia, are exempt from Russian taxes. Therefore, so long as the ADRs remain listed and traded on the London Stock Exchange, gains arising from the sale, exchange or other disposal of ADRs on the London Stock Exchange by Non-Resident Holders-Legal Entities that have no permanent establishment in Russia to which such a sale, exchange or disposal could be connected, should not be subject to Russian withholding tax and, hence, to taxation in Russia.

The remainder of this sub-section applies only to transactions with ADRs entered and executed other than through foreign stock exchanges.

Capital gains arising from the sale, exchange or other disposal of the ADRs by Non-Resident Holders Legal Entities should not be subject to tax in Russia if LUKOIL's immovable property located in Russia constitutes 50% or less of its assets on the nearest Russian statutory accounting reporting date before the disposal. We believe that our immovable property located in Russia does not currently, and will not in the future, constitute more than 50% of its assets. However, because the determination of whether 50% or less of our assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50% of our assets. There is a risk that the Tax Agents which are obliged to withhold tax on capital gains may not have sufficient information regarding our assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the Non-Resident Holders - Legal Entities selling the ADRs.

If a Russian withholding tax applies it is assessed at a rate of 20%, or such other rate as may be in force at the time of payment, either (i) on the amount of capital gain realised from the sale, being the difference between the sales price and the sum of the acquisition value and the disposal costs (which need to be evidenced by proper supporting documents) of the ADRs, or (ii) on the gross proceeds from the sale of the ADRs.

Where the ADRs are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably,

with any registered presence in Russia) and the resulting capital gain is considered taxable Russian source income, no procedural mechanism currently exists to withhold and remit this tax.

Some double tax treaties entered into by Russia provide for a reduction of or relief from taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits. If there is an applicable double tax treaty, Non-Resident Holders-Legal Entities of ADRs may apply for a refund of a portion of the Russian withholding tax, but there is no assurance that such refund will be obtained. See "*— Tax Treaty Relief*".

Non-Resident Holders-Individuals

According to Russian personal income tax law, taxation of capital gains realised on a sale, exchange or other disposal of the ADRs of Non-Resident Holders-Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. The Russian tax law gives no clear indication as to how the sale of the ADRs should be treated in this regard, other than the sale of securities "in Russia" should be considered as Russian-source income. However, in the absence of a clear definition of what should be considered to be a "sale in Russia," in respect of securities, the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside Russia. The sale, exchange or other disposal of the ADRs by the Non-Resident Holder-Individual in Russia will be considered Russian source income and will be subject to tax at a rate of 30% of the sales price less the acquisition cost of the ADRs and other documented expenses, such as depositary expenses and broker fees, among others. There is a risk that, in respect of ADRs acquired by Non-Resident Holders-Individuals as a result of conversion, the tax authorities would not allow the acquisition value of Bonds as an expense reducing the taxable base at sale, or would require from Non-Resident Holders-Individuals detailed explanation of the nature of the underlying transaction to support the transfer of the cost basis from the Bonds to the ADRs.

Under certain circumstances gains received and losses incurred by a Non-Resident Holder-Individual as a result of disposition of the ADRs and other securities occurring within the same year may be aggregated which would affect the tax on income realised from the disposition of the ADRs.

There is also a risk that any gain derived from a disposition of the ADRs may be affected by changes in the exchange rate between the currency of acquisition of the ADRs, the currency of disposition of the ADRs and rubles.

If the sale is made by a Non-Resident Holder-Individual through a Russian broker, asset manager or management company, which performs asset management of a unit investment fund property, or another person that meets the definition of a tax agent under Russian tax laws, such a Tax Agent should withhold the applicable tax. The Tax Agent is required to report to the Russian tax authorities on the income realised by the Non-Resident Holder-Individual and the tax withheld upon the sale, exchange or other disposal of the ADRs. Where the sale, exchange or other disposal of the ADRs is made in Russia (subject to applicable securities legislation) but not through a Tax Agent, or if no withholding is made for any reason, the Non-Resident Holder-Individual has an obligation to file a tax return with the Russian tax authorities and to pay Russian income tax as appropriate.

Some tax treaties entered into by Russia provide for a reduction or elimination of taxation of capital gains in Russia arising from the sale, exchange or other disposal of the ADRs by Non-Resident Holder-Individuals qualifying for the relevant treaty benefits. Please see "*—Tax Treaty Relief*" regarding the order of application of the tax treaty relief.

Russian Resident Holders

Russian Resident Holders will be subject to all applicable Russian taxes in respect of gains arising from the sale, exchange or other disposal of the ADRs and dividends received on the ADRs. Resident Holders of the ADRs should consult their own tax advisers with respect to the effect that sale, exchange or other disposal of the ADRs may have on their tax position.

Tax Treaty Relief

Advance Treaty Relief

Non-Resident Holders – Legal Entities

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian withholding tax due with respect to income received from a source within Russia by a Non-Resident Holder in connection with the Bonds or the ADRs. To obtain the benefit of such tax treaty provisions, the Holder must comply with the certification, information, and reporting requirements in force in Russia.

Currently a Non-Resident Holder-Legal Entity would need to provide the payer of income with the original or a notarised copy of a duly legalised (apostilled) and translated certificate of tax residence issued by the competent tax authority of the relevant treaty country. The certificate should confirm that the respective Non-Resident Holder-Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year. However, the payer of income in practice may request additional documents confirming the eligibility of the Non-Resident Holder that is a legal entity to the benefit of the double tax treaty. There can be no assurance that advance treaty relief will be available, whilst obtaining a refund of the tax withheld can be difficult and extremely time- consuming.

Non-Resident Holders-Individuals

A Non-Resident Holder-Individual must provide to the Russian tax authorities a tax residency certificate issued by the competent authority of his or her country of residence for tax purposes, a confirmation from the foreign tax authorities of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Individuals in practice would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, whilst obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

Refund of Tax Withheld

Non-Resident Holders-Legal Entities and Individuals

If the Russian withholding tax on income was withheld by a payer of income from payment to a Non-Resident Holder-Legal Entity for which double tax treaty relief is available, a claim for refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld. If Russian tax on income was withheld by the payer of income from payment to a Non-Resident Holder-Individual for which double tax treaty relief is available, a claim and supporting documentation for treaty relief should be filed within one year after the end of the year to which the treaty benefit relates.

In order to obtain a refund, a Non-Resident Holder would need to file with the Russian tax authorities a certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country, as well as documents confirming receipt of income and withholding of Russian tax. Non-Resident Holders that are not individuals should confirm that they are the beneficial owners of income received. In addition, a Non-Resident Holder who is an individual would need to provide appropriate documentary proof of tax payments made outside of Russia on income with respect to which tax refund is claimed. The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian Tax Code. Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties for legal entities and organisations, and can be extremely difficult, if not impossible, for individuals.

The procedures described above may be more complicated with respect to ADRs due to the separation of legal and beneficial ownership of the Russian shares underlying the ADRs. Russian tax legislation does not provide clear guidance regarding availability of double tax treaty relief or reduction for ADR Holders. See *"—Taxation of the ADRs: Dividends"*. Non-Resident Holders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received upon disposal of the Bonds or the ADRs.

Taxation of Payments under the Guarantee

In general, payments under a Guarantee by a Russian entity to a Non-Resident Holder-Legal Entity should not be subject to Russian withholding tax to the extent such payments do not represent Russian source income regardless of whether the payment is made in monetary form or in kind, if any. Payments under the Trust Deed or the Guarantee related to interest and premium on the Bonds are likely to be characterised as Russian source income. Accordingly such payments should be subject to withholding tax in Russia at a rate of 20%, or such other rate as may be in force at the time of payment., in the event that a payment under the Trust Deed or the Guarantee is made to a Non-resident Holder that is a legal entity or organisation, in each case not organised under Russian laws and which holds and disposes of the Bonds otherwise than through a permanent establishment in Russia. There is some residual uncertainty regarding the treatment of the payment under the Trust Deed or the Guarantee related to the principal amounts due under the Bonds. There is a potential risk, albeit small, that such payments may be characterised as Russian source income taxed at a rate of 20%. Russian withholding tax may be reduced or eliminated under the terms of the applicable double tax treaty. However, there can be no assurance that such relief will be available. The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from disposal of the Bonds.

Payments under the Trust Deed or the Guarantee, as the case may be, to a Non-Resident Holder-Individual performed by the Guarantors may be subject to Russian tax as Russian-source income regardless of whether payment is made in monetary form or in kind. Because of uncertainties regarding the form of such payments and procedures on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Bonds, would be subject to a 30% tax, or such other rate as may be in force at the time of payment, and the tax may be withheld at the source or payable on a self-assessed basis. This tax may be subject to relief under the terms of an applicable double tax treaty. However, Non-Resident Holder-Individuals in practice would be unlikely to be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If payments under the Trust Deed or the Guarantee, as the case may be, that relate to interest, principal and any premium on the Bonds, are paid to the Trustee pursuant to the Trust Deed, it is not expected that the Trustee would be able to benefit from a double tax treaty between Russia and the country of residency of the Trustee, and payments under the Trust Deed or the Guarantee, as the case may be, (whether of interest or any premium or, less likely, of principal) may be subject to Russian withholding tax at a rate of 20% (or, potentially, at a rate of 30% with respect to Non-Resident Holders-Individuals). In such cases, there can be no assurance that Non-Resident Holders will be able to obtain reduction of or relief from Russian withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. See "*Risk Factors — Risks Relating to the Offering, the Bonds and the ADRs — Payments under the Guarantee may be subject to Russian withholding tax*".

If payments under the Guarantee become subject to the Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the Bonds by the amount of tax withheld), LUKOIL will be obliged (subject to certain conditions) to increase payments under the Guarantee as may be necessary so that the net payments received by the Non-resident Holders will be equal to the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging LUKOIL to gross up interest payments under the Guarantee will be enforceable under the Russian law. There is a risk that gross up for withholding tax will not take place and that the payments made by LUKOIL under the relevant Guarantee will be reduced by the amount of the Russian income tax withheld by LUKOIL at the rate of 20%, or such other rate as may be in force at the time of payment.

No value added tax should be payable in Russia in respect of payments under the Guarantee.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC, as amended on 24 April 2009, on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. This

transitional provision formerly applied to Belgium, but on 1 January 2010 Belgium ceased to apply the transitional regime. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

These Listing Particulars have been prepared in connection with the listing of the Bonds following their offering and issue. Notwithstanding any other disclosure contained herein, no offers of Bonds are being made in connection with the publication of these Listing Particulars.

Barclays Bank PLC, Citigroup Global Markets Limited and Deutsche Bank AG, London Branch (the "**Lead Managers**") have, in a subscription agreement dated 9 December 2010 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Lead Managers agreed, upon the terms and subject to the conditions contained therein, severally but not jointly to each use its best efforts to procure subscribers for the Bonds that are outside the United States in reliance on, and within the meaning of, Regulation S failing which, to subscribe and pay for the Bonds at their issue price of 100 per cent. of their principal amount plus any accrued interest in respect thereof and less commissions and concessions of 0.39 per cent. of their principal amount. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Lead Managers for certain expenses incurred in connection with the management of the issue of the Bonds.

The Issuer and the Guarantor have undertaken to the Lead Managers that for a period of 90 days after the date of the Subscription Agreement, they shall not, and each of the Issuer and the Guarantor have undertaken to procure that none of its respective subsidiaries or affiliates over which it exercises management or voting control, will (i) issue, offer, sell, transfer, pledge or otherwise dispose of any Shares or ADRs, whether directly or indirectly, or enter into any agreement to do so; (ii) issue or offer any other securities which confer a right to Shares or ADRs (or any interest therein), or which represent the Shares or ADRs (or any interest therein), or enter into any agreement to do so; (iii) enter into any agreement that transfers or might transfer any of the economic consequences of ownership of the Shares or ADRs (including, but not limited to, stock lending, derivative or hedging transactions) or (iv) publicly announce any intention to do any one or more things described in (i) to (iii) above. The forgoing restrictions are subject to certain customary exemptions in relation to, *inter alia*, employee stock option plans, the issue and conversion of the Bonds and payment of dividends in the form of Shares or ADRs at the election of shareholders.

United Kingdom

Each Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

United States of America

The Bonds, the Guarantee, the ADRs and the Shares (the "**Securities**") have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

Each Lead Manager has represented and agreed that it has not offered or sold the Securities constituting part of its allotment within the United States, except in accordance with Rule 903 of Regulation S.

In addition, until 40 days after the commencement of any offering, an offer or sale of Bonds within the United States by any person (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Russian Federation

Each Lead Manager has further represented, warranted and agreed that the Bonds have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Singapore

These Listing Particulars have not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Lead Manager represents, warrants and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Materials or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to an offer referred to in Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Hong Kong

Each Lead Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the

Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Republic of Italy

The offering of the Bonds has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Lead Manager has represented and agreed that any offer, sale or delivery of the Bonds or distribution of copies of offering materials or any other documents relating to the Bonds in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Bonds or distribution of copies of offering materials or any other document relating to the Bonds in the Republic of Italy must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and

(ii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Any investor purchasing the Bonds in the offering is solely responsible for ensuring that any offer or resale of the Bonds it purchases in the offering of the Bonds occurs in compliance with applicable Italian laws and regulations.

Each Lead Manager has agreed that it will, to the best of its knowledge having made due enquiries, comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses or distributes any other offering material relating to the Bonds.

Persons into whose hands these Listing Particulars come are required by the Issuer and the Guarantor to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or possess, distribute or publish these Listing Particulars or any other offering material relating to the Bonds, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 9 December 2010.

Legal and Arbitration Proceedings

2. Save as disclosed in "*Description of the Guarantor – Recent Developments – Litigation Developments*" of these Listing Particulars, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Guarantor is aware), which may have, or have had during the 12 months prior to the date of these Listing Particulars, a significant effect on the financial position or profitability of the Guarantor and its subsidiaries. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of these Listing Particulars, a significant effect on the financial position or profitability of the Issuer.

Significant/Material Change

3. Since 31 December 2009 there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer. Since 31 December 2009 there has been no material adverse change in the prospects of the Guarantor or the Guarantor and its Subsidiaries. Since 30 September 2010 there has been no significant change in the financial or trading position of the Guarantor or the Guarantor and its Subsidiaries.

Auditors

4. ZAO KPMG, located at 10 Presnenskaya Naberezhnaya, Block C, 123317 Moscow, Russia, is the independent auditor of the LUKOIL. ZAO KPMG is a member of the Institute of Professional Accountants and Auditors of Russia, which is a full member of the International Federation of Accountants. ZAO KPMG audited the financial statements of our consolidated Group in accordance with U.S. GAAP for the years ended 31 December 2007, 2008 and 2009.

5. KPMG Accountants N.V., of Laan van Langerhuize 1, 1186 DS Amstelveen, The Netherlands are the auditors of the Issuer and have rendered an unqualified audit report on the financial statements of the Issuer as of 31 December 2008 and 31 December 2009 and for the years then ended. KPMG Accountants N.V. is a member of the Royal Netherlands Institute of Registered Accountants.

Documents on Display

6. Copies of the following documents (together with English translations thereof where the document in question is not in English) may be inspected during normal business hours at the offices of Akin Gump LLP, Eighth Floor, Ten Bishops Square, London E1 6EG, United Kingdom for the life of these Listing Particulars:

   (a) the Articles of Association of the Issuer;

   (b) Charter of LUKOIL;

   (c) the Agency Agreement, the Trust Deed and the Deposit Agreement;

   (d) the audited annual consolidated accounts of the Group prepared in accordance with U.S. GAAP for the years ended 31 December 2007, 2008 and 2009;

   (e) the audited annual accounts of the Issuer prepared in accordance with Book 2, Part 9 of the Dutch Civil Code as of 31 December 2008 and 31 December 2009 and for the years then ended, in each case together with the audit reports thereon;

   (f) the Eurobond Prospectus; and

(g) the reserves reports prepared by Miller and Lents referred to in these Listing Particulars.

Material Contracts

7. Other than as disclosed "*Description of the Guarantor*" of these Listing Particulars, there are no material contracts not entered into in the ordinary course of LUKOIL's business which could result in any member of the Group being under an obligation or entitlement that is material to LUKOIL's ability to meet its obligations to Bondholders in respect of the Bonds being issued. There are no material contracts not entered into in the ordinary course of the Issuer's business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Bondholders in respect of the Bonds being issued.

Yield

8. The issue price of the Bonds was 100 per cent., and interest on the bonds will be payable semi-annually in arrear on 16 December and 16 June in each year, beginning on 16 June 2011, at a rate of 2.625% per annum.

ISIN and Common Code

9. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0563898062 and the common code is 056389806.

10. The ISIN for the underlying shares is RU00090242777.

FINANCIAL STATEMENTS AND AUDITORS' REPORT

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Accountants' Report

The Board of Directors OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and subsidiaries as of September 30, 2010, the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2010 and 2009 and the related consolidated statements of stockholders' equity and comprehensive income and the related consolidated statements of cash flows for the nine-month periods ended September 30, 2010 and 2009. This interim financial information is the responsibility of OAO LUKOIL's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

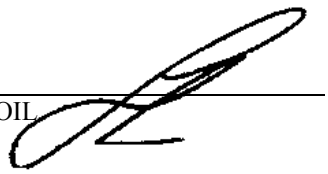
Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG

ZAO KPMG
Moscow, Russian Federation
November 29, 2010

OAO LUKOIL
Consolidated Balance Sheets
(Millions of US dollars, unless otherwise noted)

	Note	As of September 30, 2010 (unaudited)	As of December 31, 2009
Assets			
Current assets			
Cash and cash equivalents	4	3,117	2,274
Short-term investments		168	75
Accounts and notes receivable, net	5	7,187	5,935
Inventories		5,739	5,432
Prepaid taxes and other expenses		2,420	3,549
Other current assets		616	574
Total current assets		**19,247**	**17,839**
Investments	6	5,528	5,944
Property, plant and equipment	7	53,769	52,228
Deferred income tax assets		656	549
Goodwill and other intangible assets	8	1,560	1,653
Other non-current assets		1,079	806
Total assets		**81,839**	**79,019**
Liabilities and Equity			
Current liabilities			
Accounts payable		6,338	4,906
Short-term borrowings and current portion of long-term debt	9	3,285	2,058
Taxes payable		1,922	1,828
Other current liabilities		1,550	902
Total current liabilities		**13,095**	**9,694**
Long-term debt	10, 13	7,338	9,265
Deferred income tax liabilities		2,172	2,080
Asset retirement obligations	7	1,546	1,189
Other long-term liabilities		371	412
Total liabilities		**24,522**	**22,640**
Equity	12		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(3,683)	(282)
Equity-linked notes		(980)	-
Additional paid-in capital		4,565	4,699
Retained earnings		57,026	51,634
Accumulated other comprehensive loss		(68)	(75)
Total OAO LUKOIL stockholders' equity		**56,875**	**55,991**
Noncontrolling interests		442	388
Total equity		**57,317**	**56,379**
Total liabilities and equity		**81,839**	**79,019**



President of OAO LUKOIL
Alekperov V.Y.

Chief accountant of OAO LUKOIL
Kozyrev I.A.

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Income
(Millions of US dollars, unless otherwise noted)

	Note	For the three months ended September 30, 2010 (unaudited)	For the three months ended Septemder 30, 2009 (unaudited)	For the nine months ended September 30, 2010 (unaudited)	For the nine months ended September 30, 2009 (unaudited)
Revenues					
Sales (including excise and export tariffs)	19	26,517	21,941	76,272	56,802
Costs and other deductions					
Operating expenses		(2,192)	(1,907)	(5,994)	(5,015)
Cost of purchased crude oil, gas and products		(10,898)	(8,203)	(31,173)	(21,475)
Transportation expenses		(1,389)	(1,238)	(4,169)	(3,594)
Selling, general and administrative expenses		(902)	(878)	(2,557)	(2,398)
Depreciation, depletion and amortization		(1,054)	(998)	(3,114)	(3,001)
Taxes other than income taxes		(2,173)	(1,976)	(6,522)	(4,569)
Excise and export tariffs		(4,732)	(3,769)	(14,072)	(9,176)
Exploration expenses		(29)	(119)	(175)	(188)
Gain on disposals and impairments of assets		19	3	29	15
Income from operating activities		**3,167**	**2,856**	**8,525**	**7,401**
Interest expense		(162)	(169)	(535)	(503)
Interest and dividend income		46	40	144	105
Equity share in income of affiliates	6	99	88	335	270
Currency translation loss		(59)	(213)	(101)	(337)
Other non-operating income (expense)		300	(24)	225	37
Income before income taxes		**3,391**	**2,578**	**8,593**	**6,973**
Current income taxes		(538)	(593)	(1,678)	(1,430)
Deferred income taxes		(26)	73	18	(123)
Total income tax expense	3	**(564)**	**(520)**	**(1,660)**	**(1,553)**
Net income		**2,827**	**2,058**	**6,933**	**5,420**
Less: net income attributable to noncontrolling interests		(9)	(2)	(113)	(135)
Net income attributable to OAO LUKOIL		**2,818**	**2,056**	**6,820**	**5,285**
Basic and diluted earnings per share of common stock (US dollars) attributable to OAO LUKOIL:	12	3.46	2.43	8.16	6.24

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Stockholders' Equity and Comprehensive Income (unaudited)
(Millions of US dollars, unless otherwise noted)

	Common stock	Treasury stock and equity-linked notes	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total OAO LUKOIL stockholders' equity	Noncontrol-ling interests	Total equity
Nine months ended September 30, 2010								
Balance as of December 31, 2009	15	(282)	4,699	51,634	(75)	**55,991**	388	**56,379**
Net income	-	-	-	6,820	-	**6,820**	113	**6,933**
Prior service cost	-	-	-	-	6	**6**	-	**6**
Unrecognized gain on available for sale securities	-	-	-	-	1	**1**	-	**1**
Comprehensive income						**6,827**	113	**6,940**
Dividends on common stock	-	-	-	(1,428)	-	**(1,428)**	-	**(1,428)**
Effect of stock compensation plan	-	-	74	-	-	**74**	-	**74**
New shares issued	-	-	1	-	-	**1**	-	**1**
Stock and equity-linked notes purchased	-	(4,644)	-	-	-	**(4,644)**	-	**(4,644)**
Stock disposed	-	263	(70)	-	-	**193**	-	**193**
Changes in the noncontrolling interests	-	-	(139)	-	-	**(139)**	(59)	**(198)**
Balance as of September 30, 2010	**15**	**(4,663)**	**4,565**	**57,026**	**(68)**	**56,875**	**442**	**57,317**
Nine months ended September 30, 2009								
Balance as of December 31, 2008	15	(282)	4,694	45,983	(70)	**50,340**	670	**51,010**
Net income	-	-	-	5,285	-	**5,285**	135	**5,420**
Prior service cost	-	-	-	-	9	**9**	-	**9**
Unrecognized loss on available for sale securities	-	-	-	-	(2)	**(2)**	-	**(2)**
Comprehensive income						**5,292**	135	**5,427**
Dividends on common stock	-	-	-	(1,360)	-	**(1,360)**	-	**(1,360)**
Effect of stock compensation plan	-	-	77	-	-	**77**	-	**77**
Changes in the noncontrolling interests	-	-	-	-	-	**-**	(316)	**(316)**
Balance as of September 30, 2009	**15**	**(282)**	**4,771**	**49,908**	**(63)**	**54,349**	**489**	**54,838**

	Share activity (thousands of shares)	
	Common stock	Treasury stock
Nine months ended September 30, 2010		
Balance as of December 31, 2009	850,563	(3,836)
Purchase of treasury stock	-	(68,912)
Disposal of treasury stock	-	3,540
Balance as of September 30, 2010	**850,563**	**(69,208)**
Nine months ended September 30, 2009		
Balance as of December 31, 2008	850,563	(3,836)
Balance as of September 30, 2009	**850,563**	**(3,836)**

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Cash Flows
(Millions of US dollars)

	Note	For the nine months ended September 30, 2010 (unaudited)	For the nine months ended September 30, 2009 (unaudited)
Cash flows from operating activities			
Net income attributable to OAO LUKOIL		**6,820**	**5,285**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		3,114	3,001
Equity share in income of affiliates, net of dividends received		387	(205)
Dry hole write-offs		97	114
Gain on disposals and impairments of assets		(29)	(15)
Deferred income taxes		(18)	123
Non-cash currency translation gain		(24)	(77)
Non-cash investing activities		(28)	(10)
All other items – net		290	112
Changes in operating assets and liabilities:			
Accounts and notes receivable		(1,252)	(1,964)
Inventories		(308)	(1,306)
Accounts payable		1,438	128
Taxes payable		97	428
Other current assets and liabilities		1,048	459
Net cash provided by operating activities		**11,632**	**6,073**
Cash flows from investing activities			
Acquisition of licenses		(12)	-
Capital expenditures		(4,656)	(4,631)
Proceeds from sale of property, plant and equipment		100	97
Purchases of investments		(212)	(177)
Proceeds from sale of investments		88	370
Sale of subsidiaries, net of cash disposed		123	5
Acquisitions of subsidiaries (including advances related to acquisitions), net of cash acquired		(56)	(2,031)
Net cash used in investing activities		**(4,625)**	**(6,367)**
Cash flows from financing activities			
Net movements of short-term borrowings		725	(1,101)
Proceeds from issuance of long-term debt		18	5,070
Principal repayments of long-term debt		(1,400)	(3,387)
Dividends paid on Company common stock		(817)	(661)
Dividends paid to noncontrolling interest stockholders		(59)	(50)
Financing received from related and third party noncontrolling interest stockholders		16	14
Purchase of Company's stock and equity-linked notes		(4,644)	-
Sale of Company's stock		193	-
Purchases of noncontrolling interests		(190)	(353)
Net cash used in financing activities		**(6,158)**	**(468)**
Effect of exchange rate changes on cash and cash equivalents		(6)	(24)
Net increase (decrease) in cash and cash equivalents		**843**	**(786)**
Cash and cash equivalents at beginning of year		2,274	2,239
Cash and cash equivalents at end of period	4	**3,117**	**1,453**
Supplemental disclosures of cash flow information			
Interest paid		504	1,209
Income taxes paid		1,487	987

The accompanying notes are an integral part of these interim consolidated financial statements.

Note 1. Organization and environment

The primary activities of OAO LUKOIL (the "Company") and its subsidiaries (together, the "Group") are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The Russian Federation has been experiencing political and economic change, that has affected and will continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The accompanying interim consolidated financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

Basis of preparation

The accompanying interim consolidated financial statements and notes thereto have not been audited by independent accountants, except for the balance sheet as of December 31, 2009. In the opinion of the Company's management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as applicable to interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Group's December 31, 2009 annual consolidated financial statements.

The results for the nine-month period ended September 30, 2010 are not necessarily indicative of the results expected for the full year.

Note 2. Summary of significant accounting policies

Principles of consolidation

These interim consolidated financial statements include the financial position and results of the Company, controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless minority stockholders have substantive participating rights, and variable interest entities where the Group is determined to be the primary beneficiary. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in companies of which the Company directly or indirectly owns more than 50% of the voting interest but where minority stockholders have substantive participating rights are accounted for using the equity method of accounting. Undivided interests in oil and gas joint ventures are accounted for using the proportionate consolidation method. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in "Investments" in the consolidated balance sheet.

Note 2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties and other property, plant and equipment, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Revenue

Revenues from the production and sale of crude oil and petroleum products are recognized when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products sales and duties on export sales of crude oil and petroleum products.

Revenues from non-cash sales are recognized at the fair market value of the crude oil and petroleum products sold.

Foreign currency translation

The Company maintains its accounting records in Russian rubles. The Company's functional currency is the US dollar and the Group's reporting currency is the US dollar.

For the majority of operations in the Russian Federation and outside the Russian Federation, the US dollar is the functional currency. Where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates, which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in the consolidated statement of income.

For certain other operations, where the US dollar is not the functional currency and the economy is not hyperinflationary, assets and liabilities are translated into US dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a separate component of comprehensive income.

In all cases, foreign currency transaction gains and losses are included in the consolidated statement of income.

As of September 30, 2010 and December 31, 2009, exchange rates of 30.40 and 30.24 Russian rubles to the US dollar, respectively, have been used for translation purposes.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Note 2. Summary of significant accounting policies (continued)

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

Accounts and notes receivable

Accounts and notes receivable are recorded at their transaction amounts less provisions for doubtful debts. Provisions for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be obtained. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

Inventories

The cost of finished goods and purchased products is determined using the FIFO cost method. The cost of all other inventory categories is determined using an "average cost" method.

Investments

Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity.

Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities in which a Group company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividends and interest income are recognized in the consolidated statement of income when earned.

A permanent decline in the market value of any available-for-sale or held-to-maturity security below cost is accounted for as a reduction in the carrying amount to fair value. The impairment is charged to the consolidated statement of income and a new cost base for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method and such amortization and accretion is recorded in the consolidated statement of income.

Property, plant and equipment

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs, and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

Note 2. Summary of significant accounting policies (continued)

The Group continues to capitalize costs of exploratory wells and exploratory-type stratigraphic wells for more than one year after the completion of drilling if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. If these conditions are not met or if information that raises substantial doubt about the economic or operational viability of the project is obtained, the well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense.

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Production and related overhead costs are expensed as incurred.

Depreciation of assets not directly associated with oil production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40	Years
Machinery and equipment	5 – 20	Years

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalized only to the extent that they are expected to result in future economic benefits to the Group. If capitalized, they are depreciated over their estimated economic lives.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

Asset retirement obligations

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the unit-of-production method.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquired entity over the net of the fair value amounts assigned to assets acquired and liabilities assumed. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Note 2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets, such as oil and gas properties (other than unproved properties), other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Income taxes

Deferred income tax assets and liabilities are recognized in respect of future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of income in the reporting period which includes the enactment date. The estimated effective income tax rate expected to be applicable for the full fiscal year is used in providing for income taxes on a current year-to-date basis.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to income tax in income tax expense in the consolidated statement of income.

Interest-bearing borrowings

Interest-bearing borrowings are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in the consolidated statement of income each period and the carrying amounts are adjusted as amortization accumulates.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in the consolidated statement of income in the period in which the repurchase or settlement occurs.

Note 2. Summary of significant accounting policies (continued)

Pension benefits

The expected costs in respect of pension obligations of Group companies are determined by an independent actuary. Obligations in respect of each employee are accrued over the reporting periods during which the employee renders service in the Group.

Treasury stock

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Shares shown as Authorized and Issued include treasury stock. Shares shown as Outstanding do not include treasury stock.

Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders of the Company by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share is presented.

Contingencies

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

If a Group company's assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to the consolidated statement of income. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote or related to unasserted claims are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

Use of derivative instruments

The Group's derivative activity is limited to certain petroleum products marketing and trading outside of its physical crude oil and petroleum products businesses and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in the consolidated statement of income on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

Note 2. Summary of significant accounting policies (continued)

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the date of grant and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the date of grant and expensed over the vesting period.

Comparative amounts

Certain prior period amounts have been reclassified to conform with the current period's presentation.

Recent accounting pronouncements

In July 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-20, *"Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,"* which amends Accounting Standards Codification ("ASC") No. 310, *"Receivables."* This ASU provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables and requires entities provide disclosures that facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. The ASU No. 2010-20 is effective for the Group for the reporting periods ending after December 15, 2010. This ASU encourages, but does not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Group is currently assessing the effect of adoption of ASU No. 2010-20.

In February 2010, the FASB issued ASU No. 2010-09, *"Subsequent events"* which amends ASC No. 855 (former SFAS No. 165, *"Subsequent events"*), issued in May 2009. The Group adopted ASC No. 855 starting from the second quarter of 2009. These standards address accounting and disclosure requirements related to subsequent events and require management of an entity which is an SEC filer or is a conduit bond obligator for conduit securities that are traded in a public market to evaluate subsequent events through the date that the financial statements are issued. Entities that do not meet these criteria should evaluate subsequent events through the date the financial statements are available to be issued and are required to disclose the date through which subsequent events have been evaluated. The Group determined that it should evaluate subsequent events through the date the financial statements are available to be issued and applied the requirements of ASU No. 2010-09 starting from the financial statements for 2009.

In January 2010, the FASB issued ASU No. 2010-06, *"Improving Disclosures about Fair Value Measurements,"* which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the detailed Level 3 roll forward disclosures (which are effective for the annual reporting periods starting after December 15, 2010 and for interim periods within those annual reporting periods). The Group adopted the requirements of ASU No. 2010-06 (except for the detailed Level 3 roll forward disclosures) starting from the first quarter of 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 2. Summary of significant accounting policies (continued)

In January 2010, the FASB issued ASU No. 2010-03, *"Extractive activities — Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures."* The main provisions of ASU No. 2010-03 are the following: (1) expanding the definition of oil- and gas-producing activities to include the extraction of saleable hydrocarbons, in solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable resources that are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction; (2) entities should use first-day-of-the-month price during the 12-month period (the 12-months average price) in calculating proved oil and gas reserves and estimating related standardized measure of discounted net cash flows; (3) requiring entities to disclose separately information about reserves quantities and financial statement amounts for geographic areas that represent 15 percent or more of proved reserves; (4) separate disclosure for consolidated entities and equity method investments. ASU No. 2010-03 is effective for annual reporting periods ending on or after December 31, 2009. The Group adopted ASU No. 2010-03 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's reported reserves evaluation, results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-02, *"Accounting and Reporting for Decreases in Ownership of a Subsidiary - A Scope Clarification"* to clarify the scope of ASC Subtopic No. 810-10, *"Consolidation – Overall."* This ASU specifies that the guidance in ASC Subtopic No. 810-10 on accounting for decreases in ownership of a subsidiary applies to: (1) a subsidiary or group of assets that constitutes a business or nonprofit activity; (2) a subsidiary that is a business or a nonprofit activity that is transferred to an equity method investee or a joint venture; and (3) an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in an entity. If a company's ownership interest in a subsidiary that is not a business or nonprofit activity decreases, then other accounting guidance generally would be applied based on the nature of the transaction. The new pronouncement also clarifies that the recent guidance on accounting for decreases in ownership of a subsidiary does not apply if the transaction is a sale of in-substance real estate or a conveyance of oil and gas properties. This ASU is effective for interim and annual periods ending after December 15, 2009 and the guidance should be applied on a retrospective basis to the first period in which the company adopted ASC No. 810. The Group adopted ASU No. 2010-02 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-01, *"Accounting for Distributions to Shareholders with Components of Stock and Cash,"* which addresses how an entity should account for the stock portion of a dividend in certain arrangements when a shareholder makes an election to receive cash or stock, subject to limitations on the amount of the dividend to be issued in cash. The stock portion of the dividend should be accounted for as a stock issuance upon distribution, resulting in basic earnings per share being adjusted prospectively. Prior to distribution, the entity's obligation to issue shares would be reflected in diluted earnings-per-share based on the guidance in ASC No. 260, which addresses contracts that may be settled in shares. This ASU is effective for interim and annual periods ending after December 15, 2009. The Group adopted ASU No. 2010-01 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, *"Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* which amends the guidance on variable interest entities ("VIE") in ASC No. 810. This ASU changes the approach to determining VIE primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. ASU No. 2009-17 also clarifies, but does not significantly change, the characteristics that identify a VIE. ASU No. 2009-17 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009, and for subsequent interim and annual reporting periods. The Group adopted the requirements of ASU No. 2009-17 starting from the first quarter of 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 2. Summary of significant accounting policies (continued)

In August 2009, the FASB issued ASU No. 2009-05, *"Measuring Liabilities at Fair Value,"* which amends Subtopic No. 820-10, *"Fair Value Measurements and Disclosures–Overall"* for the fair value measurements of liabilities. ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: valuation based on the quoted price of the identical liability when traded as an asset; valuation based on quoted prices for similar liabilities or similar liabilities when traded as an asset, or another valuation technique that is consistent with the principles of Topic 820 (such as present value technique or price for the identical liability). This ASU also clarifies that an entity is not required to include a separate input relating to the existence of a restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for the first interim or annual reporting periods after its publication. The Group adopted the requirements of ASU No. 2009-05 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In March 2008, the FASB issued ASC No. 815 (former SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*). This ASC improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on an entity's financial position, financial performance and cash flows. The Group adopted the provisions of ASC No. 815 starting from the first quarter of 2009. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

In December 2007, the FASB issued ASC No. 810 (former SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51"*). This ASC applies to all entities that prepare consolidated financial statements (except not-for-profit organizations) and affects those which have an outstanding noncontrolling interest (or minority interest) in their subsidiaries or which have to deconsolidate a subsidiary. This ASC changes the classification of a noncontrolling interest; establishing a single method of accounting for changes in the parent company's ownership interest that does not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. The Group prospectively adopted the provisions of ASC No. 810 in the first quarter of 2009, except for the presentation and disclosure requirements which were applied retrospectively. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

Note 3. Income taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to domestic and foreign rate differences and the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

Note 4. Cash and cash equivalents

	As of September 30, 2010	As of December 31, 2009
Cash held in Russian rubles	920	557
Cash held in other currencies	1,902	1,384
Cash of a banking subsidiary in other currencies	70	131
Cash held in related party banks in Russian rubles	206	174
Cash held in related party banks in other currencies	19	28
Total cash and cash equivalents	**3,117**	**2,274**

Note 5. Accounts and notes receivable, net

	As of September 30, 2010	As of December 31, 2009
Trade accounts and notes receivable (net of provisions of $224 million and $191 million as of September 30, 2010 and December 31, 2009, respectively)	5,797	4,389
Current VAT and excise recoverable	1,021	1,205
Other current accounts receivable (net of provisions of $54 million and $41 million as of September 30, 2010 and December 31, 2009, respectively)	369	341
Total accounts and notes receivable, net	**7,187**	**5,935**

Note 6. Investments

	As of September 30, 2010	As of December 31, 2009
Investments in equity method affiliates and joint ventures	4,310	4,754
Long-term loans given by non-banking subsidiaries	1,197	1,176
Other long-term investments	21	14
Total long-term investments	**5,528**	**5,944**

Investments in "equity method" affiliates and joint ventures

The summarized financial information below is in respect of equity method affiliates and corporate joint ventures. The companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan, and refining operations in Europe.

	For the three months ended September 30, 2010		For the three months ended September 30, 2009	
	Total	Group's share	Total	Group's share
Revenues	5,603	895	1,363	663
Income before income taxes	2,099	137	236	121
Less income taxes	(517)	(38)	(68)	(33)
Net income	**1,582**	**99**	**168**	**88**

	For the nine months ended September 30, 2010		For the nine months ended September 30, 2009	
	Total	Group's share	Total	Group's share
Revenues	17,261	2,638	3,314	1,600
Income before income taxes	6,498	478	694	367
Less income taxes	(1,817)	(143)	(195)	(97)
Net income	**4,681**	**335**	**499**	**270**

	As of September 30, 2010		As of December 31, 2009	
	Total	Group's share	Total	Group's share
Current assets	6,534	1,263	6,796	1,524
Property, plant and equipment	18,483	4,956	18,877	5,284
Other non-current assets	783	300	607	240
Total assets	25,800	6,519	26,280	7,048
Short-term debt	1,278	175	442	274
Other current liabilities	2,878	565	3,982	817
Long-term debt	8,004	962	7,769	732
Other non-current liabilities	1,938	507	1,633	471
Net assets	**11,702**	**4,310**	**12,454**	**4,754**

Note 6. Investments (continued)

In June 2009, a Group company entered into an agreement with Total S.A. to acquire a 45% interest in the TRN refinery in the Netherlands. The transaction was finalized in September 2009 in the amount of approximately $688 million (after completion adjustment). The Group supplies crude oil and market refined products in line with its equity stake in the refinery. The refinery has the flexibility to process Urals blend crude oil as well as significant volumes of straight-run fuel oil and vacuum gasoil, which allowed the Group to integrate the plant into its crude oil supply and refined products marketing operations. This plant with a Nelson complexity index of 9.8 has an annual topping capacity of 7.9 million tonnes and an annual capacity of a hydro-cracking unit of approximately 3.4 million tonnes. This acquisition was made in accordance with the Group's plans to develop its refining capacity in Europe.

Note 7. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of September 30, 2010	**As of December 31, 2009**	**As of September 30, 2010**	**As of December 31, 2009**
Exploration and Production:				
Western Siberia	24,752	23,465	14,585	13,878
European Russia	25,883	24,908	17,796	17,761
International	7,029	6,371	5,572	5,170
Total	57,664	54,744	37,953	36,809
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	5	6	3	5
European Russia	10,794	10,009	7,052	6,717
International	7,064	6,849	4,751	4,783
Total	17,863	16,864	11,806	11,505
Other:				
Western Siberia	186	186	94	94
European Russia	4,309	4,170	3,809	3,697
International	178	189	107	123
Total	4,673	4,545	4,010	3,914
Total property, plant and equipment	**80,200**	**76,153**	**53,769**	**52,228**

As of September 30, 2010 and December 31, 2009, the asset retirement obligation amounted to $1,556 million and $1,199 million, respectively, of which $10 million was included in "Other current liabilities" in the consolidated balance sheets as of each balance sheet date. During the nine-month periods ended September 30, 2010 and 2009, asset retirement obligations changed as follows:

	For the nine months ended September 30, 2010	**For the nine months ended September 30, 2009**
Asset retirement obligations as of January 1	1,199	728
Accretion expense	91	44
New obligations	117	45
Changes in estimates of existing obligations	170	258
Spending on existing obligations	(4)	(5)
Property dispositions	(1)	(8)
Foreign currency translation and other adjustments	(16)	(23)
Asset retirement obligations as of September 30	**1,556**	**1,039**

Note 8. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of September 30, 2010 and December 31, 2009 was as follows:

	As of September 30, 2010	As of December 31, 2009
Amortized intangible assets		
Software	380	419
Licenses and other assets	420	465
Goodwill	760	769
Total goodwill and other intangible assets	**1,560**	**1,653**

All goodwill amounts relate to the refining, marketing and distribution segment. During the nine-month period ended September 30, 2010, there were no significant changes in goodwill.

Note 9. Short-term borrowings and current portion of long-term debt

	As of September 30, 2010	As of December 31, 2009
Short-term borrowings from third parties	1,677	442
Short-term borrowings from affiliated companies	60	77
13.50% Russian ruble bonds	-	496
Current portion of long-term debt	1,548	1,043
Total short-term borrowings and current portion of long-term debt	**3,285**	**2,058**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $1,616 million and $282 million, amounts repayable in Euro of $26 million and $76 million, amounts repayable in Russian rubles of nil and $18 million and amounts repayable in other currencies of $35 million and $66 million as of September 30, 2010 and December 31, 2009, respectively. The weighted-average interest rate on short-term borrowings from third parties was 1.78% and 2.02% per annum as of September 30, 2010 and December 31, 2009, respectively.

Russian ruble bonds

In June 2009, the Company issued 15 million short-term stock exchange bonds with a face value of 1,000 Russian rubles each. Bonds were placed at the face value with a maturity of 364 days. The coupon yield is 13.50% per annum and is paid at the maturity date. In June 2010, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

Note 10. Long-term debt

	As of September 30, 2010	As of December 31, 2009
Long-term loans and borrowings from third parties	4,602	4,043
Long-term loans and borrowings from related parties	-	1,939
6.375% US dollar bonds, maturing 2014	896	895
6.356% US dollar bonds, maturing 2017	500	500
7.250% US dollar bonds, maturing 2019	595	595
6.656% US dollar bonds, maturing 2022	500	500
7.10% Russian ruble bonds, maturing 2011	263	265
13.35% Russian ruble bonds, maturing 2012	822	827
9.20% Russian ruble bonds, maturing 2012	329	331
7.40% Russian ruble bonds, maturing 2013	197	198
Capital lease obligations	182	215
Total long-term debt	8,886	10,308
Current portion of long-term debt	(1,548)	(1,043)
Total non-current portion of long-term debt	**7,338**	**9,265**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $2,445 million and $3,493 million, amounts repayable in Euro of $431 million and $487 million, amounts repayable in Russian rubles of $1,704 million (including loans from ConocoPhillips) and $42 million, and amounts repayable in other currencies of $22 million and $21 million as of September 30, 2010 and December 31, 2009, respectively. This debt has maturity dates from 2010 through 2038. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.42% and 2.77% per annum as of September 30, 2010 and December 31, 2009, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 10% of total long-term debt is secured by export sales and property, plant and equipment.

Group companies have a number of loan agreements nominated in Russian rubles with ConocoPhillips with an outstanding amount of $1,700 million as of September 30, 2010. This amount includes $1,458 million loaned by ConocoPhillips to our joint venture OOO Narianmarneftegaz ("NMNG") (refer to Note 15. Consolidation of Variable Interest Entity). Borrowings under these agreements bear interest at fixed rates ranging from 6.8% to 8.0% per annum and have maturity dates up to 2038. Financing under these agreements is used to develop oil production and distribution infrastructure in the Timan-Pechora region of the Russian Federation.

US dollar bonds

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion. The first tranche totaling $900 million with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value. The resulting yield to maturity for the first tranche is 6.500%. The second tranche totaling $600 million with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value. The resulting yield to maturity for the second tranche is 7.375%. These tranches have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling $1 billion. $500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

Note 10. Long-term debt (continued)

Russian ruble bonds

In December 2009, the Company issued 10 million stock exchange bonds with a face value of 1,000 Russian rubles each. Bonds were placed at face value with a maturity of 1,092 days. The bonds have a 182 days' coupon period and bear interest at 9.20% per annum.

In August 2009, the Company issued 25 million stock exchange bonds with a face value of 1,000 Russian rubles each. Bonds were placed at face value with a maturity of 1,092 days. The bonds have a 182 days' coupon period and bear interest at 13.35% per annum.

In December 2006, the Company issued 14 million non-convertible bonds with a face value of 1,000 Russian rubles each. Eight million bonds were placed with a maturity of 5 years and a coupon yield of 7.10% per annum and six million bonds were placed with a maturity of 7 years and a coupon yield of 7.40% per annum. All bonds were placed at face value and have a half year coupon period.

Note 11. Pension benefits

The Company sponsors a post employment and post retirement benefits program that covers the majority of the Group's employees. The plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee. This lump sum amount could be up to 2% of employee's annual salary for the period before October 1, 2010 and up to 4% in further periods. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

Components of net periodic benefit cost were as follows:

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Service cost	4	4	12	12
Interest cost	6	5	19	16
Less expected return on plan assets	(3)	(2)	(8)	(7)
Amortization of prior service cost	3	2	10	8
Total net periodic benefit cost	**10**	**9**	**33**	**29**

Note 12. Stockholders' equity

Common stock

	As of September 30, 2010 (thousands of shares)	As of December 31, 2009 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Common stock held by subsidiaries, not considered as outstanding	-	(82)
Treasury stock	(69,208)	(3,836)
Outstanding common stock	**781,355**	**846,645**

Note 12. Stockholders' equity (continued)

Earnings per share

The weighted average number of outstanding common shares was 814,427 thousand shares, 846,645 thousand shares, 836,177 thousand shares and 846,645 thousand shares for the three months ended September 30, 2010 and 2009 and for the nine months ended September 30, 2010 and 2009, respectively. There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Dividends

At the annual stockholders' meeting on June 24, 2010, dividends were declared for 2009 in the amount of 52.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.68. Dividends payable of $656 million and $13 million are included in "Other current liabilities" in the consolidated balance sheets as of September 30, 2010 and December 31, 2009, respectively.

At the annual stockholders' meeting on June 25, 2009, dividends were declared for 2008 in the amount of 50.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.61.

Treasury shares

On July 28, 2010, the Group company signed a stock purchase agreement with ConocoPhillips' subsidiary to purchase 64.6 million of the Company's ordinary shares at $53.25 per share for the total amount of $3,442 million. This transaction was finalized in August 2010. Additionally, under this agreement the Group had a 60-day option to purchase any or all of the remaining 98.7 million of the Company's ordinary shares held by ConocoPhillips' subsidiary for the price of $56 per share.

On September 26, 2010, the Group company exercised its option to acquire shares from ConocoPhillips by sending a notice of exercise in respect of 42,500,000 LUKOIL ADRs (each representing one ordinary share of the Company). The Group company sold these ADRs to UniCredit Bank AG. These transactions were completed on September 29, 2010 when 42,500,000 LUKOIL ADRs were directly transferred to UniCredit Bank AG, and UniCredit Bank AG paid the purchase price of $2.38 billion to ConocoPhillips' subsidiary.

Simultaneously, UniCredit Bank AG issued a series of equity-linked notes to a Group company that are redeemable for 17,500,000 LUKOIL ADRs on or before September 29, 2011. These equity-linked notes have been classified within OAO LUKOIL stockholders' equity.

UniCredit Bank AG also issued an option to the Group company to purchase from UniCredit Bank AG an additional 25,000,000 LUKOIL ADRs on or before September 29, 2011. The option provides for the purchase of LUKOIL ADRs at market price with a floor of $56 per ADR and is not valid if the market price per ADR is $50 or below. This option currently has a fair value of zero.

A related party of the Group has equity-linked notes that are redeemable for 25,000,000 ADRs on or before September 29, 2011 should the Group company not exercise its option or the option becomes invalid. If the Group company exercises the option the related party will receive from UniCredit Bank AG the cash value of ADRs equivalent to that paid by the Group company.

Note 13. Financial and derivative instruments

Fair value

The fair values of cash and cash equivalents, current accounts and notes receivable, long-term receivables and liquid securities are approximately equal to their value as disclosed in the consolidated financial statements. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements.

Note 13. Financial and derivative instruments (continued)

The fair value of long-term debt differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of September 30, 2010 and December 31, 2009 was $8,941 million and $9,976 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. During the nine months ended September 30, 2010, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Derivative instruments

The Group uses financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices, or to exploit market opportunities. Since the Group is not currently using ASC Nos. 220, 310, 440 and 815 (former SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activity"*) hedge accounting, all gains and losses, realized or unrealized, from derivative contracts have been recognized in the consolidated income statement.

ASC No. 815 requires purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) to be recorded on the balance sheet as derivatives unless the contracts are for quantities the Group expects to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). The Group does apply the normal purchases and normal sales exception to certain long-term contracts to sell oil products. This normal purchases and normal sales exception is applied to eligible crude oil and refined product commodity purchase and sales contracts; however, the Group may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of the purchase or sale contract but hedge accounting will not be applied, in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

The fair value hierarchy for the Group's derivative assets and liabilities accounted for at fair value on a recurring basis was:

	As of September 30, 2010				As of December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity derivatives	-	1,375	-	**1,375**	-	1,065	-	**1,065**
Total assets	-	**1,375**	-	**1,375**	-	**1,065**	-	**1,065**
Liabilities								
Commodity derivatives	-	(1,553)	-	**(1,553)**	-	(1,110)	-	**(1,110)**
Total liabilities	-	**(1,553)**	-	**(1,553)**	-	**(1,110)**	-	**(1,110)**
Net liabilities	-	**(178)**	-	**(178)**	-	**(45)**	-	**(45)**

The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by ASC No. 820; therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

Note 13. Financial and derivative instruments (continued)

Commodity derivative contracts

The Group operates in the worldwide crude oil, refined product, natural gas and natural gas liquids markets and is exposed to fluctuations in the prices for these commodities. These fluctuations can affect the Group's revenues as well as the cost of operating, investing and financing activities. Generally, the Group's policy is to remain exposed to the market prices of commodities. However, the Group uses futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do a limited, immaterial amount of trading not directly related to the Group's physical business. These activities may move the Group's profile away from market average prices.

The fair value of commodity derivative assets and liabilities as of September 30, 2010 was:

	As of September 30, 2010
Assets	
Accounts receivable	1,375
Liabilities	
Accounts payable	1,553

Hedge accounting has not been used for items in the table.

As required under ASC No. 815 the amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist). Derivative assets and liabilities resulting from eligible commodity contracts have been netted in the consolidated balance sheet and are recorded as accounts receivable in the amount of $24 million and accounts payable in the amount of $202 million.

The gains and losses from commodity derivatives were included in the consolidated statements of income in "Cost of purchased crude oil, gas and products" and for the three and nine months ended September 30, 2010 were in the total amount of net loss of $187 million (of which realized gain was $15 million and unrealized loss was $202 million) and net gain of $60 million (of which realized gain was $192 million and unrealized loss was $132 million), respectively.

As of September 30, 2010, the net position of outstanding commodity derivative contracts, primarily to manage price exposure on underlying operations, was not significant.

Currency exchange rate derivative contracts

The Group has foreign currency exchange rate risk resulting from its international operations. The Group does not comprehensively hedge the exposure to currency rate changes, although the Group selectively hedges certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivatives assets and liabilities open at September 30, 2010 was not significant.

The impact from foreign currency derivatives during the three and nine months ended September 30, 2010 on the consolidated income statement was not significant. The net position of outstanding foreign currency swap contracts as of September 30, 2010 also was not significant.

Credit risk

The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter derivative contracts and trade receivables. Cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

Note 13. Financial and derivative instruments (continued)

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the ICE Futures.

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group falls below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit the Group to post letters of credit as collateral.

There were no derivative instruments with such credit-risk-related contingent features that were in a liability position on September 30, 2010. The Group posted $10 million in collateral in the normal course of business for the over-the-counter derivatives. If the Group's credit rating were lowered one level from its "BBB-" rating (per Standard and Poors) on September 30, 2010, and it would be below investment grade, the Group would be required to post additional collateral of $5 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be $16 million in total.

Note 14. Business combinations

In the first quarter of 2009, the Group acquired a 100% interest in OOO Smolenskneftesnab, OOO IRT Investment, OOO PM Invest and OOO Retaier House for $238 million. These are holding companies, which between them own 96 petrol stations and plots of land in Moscow, the Moscow region and other regions of central European Russia. This acquisition was made in order to expand the Group's presence on the most advantageous retail market in the Russian Federation. The Group allocated $165 million to goodwill, $113 million to property, plant and equipment, $15 million to other assets, $8 million to deferred tax liability and $47 million to other liabilities. The value of property, plant and equipment was determined by an independent appraiser.

This business combination did not have a material impact on the Group's consolidated operations for the nine-month period ended September 30, 2009. Therefore, no pro-forma income statement information has been provided.

Note 15. Consolidation of Variable Interest Entity

The Group and ConocoPhillips have a joint venture NMNG which develops oil reserves in the Timan-Pechora region of the Russian Federation. The Group and ConocoPhillips have equal voting rights over the joint venture's activity and effective ownership interests of 70% and 30%, respectively.

The Group originally determined that NMNG is a variable interest entity as the Group's voting rights are not proportionate to its ownership rights and all of NMNG's activities are conducted on behalf of the Group and ConocoPhillips, its former related party. Based on the requirements of ASC No. 810 the Group performs a qualitative analysis as to whether it is the primary beneficiary of this VIE. As a result the Group is still considered to be the primary beneficiary of NMNG and consolidated it.

NMNG's total assets were approximately $5.6 billion and $5.9 billion as of September 30, 2010 and December 31, 2009, respectively.

Note 15. Consolidation of Variable Interest Entity (continued)

The Group and ConocoPhillips agreed to provide financing to NMNG by means of long-term loans in proportion to their effective ownership interests. These loans mature from 2035 to 2038, with the option to be extended for a further 35 years with the agreement of both parties. As of September 30, 2010, borrowings under these agreements bear fixed interest in the range of 6.8% to 8.0% per annum.

As of September 30, 2010, the amount outstanding to ConocoPhillips from NMNG was $1,458 million, which consists of a number of loans with a weighted-average interest rate of 7.75% per annum. This amount is presented within "Long-term loans and borrowings from third parties."

Note 16. Commitments and contingencies

Capital expenditure, exploration and investment programs

The Group owns and operates a number of assets under which it has commitments for capital expenditure in relation to its exploration and investment programs. They mainly relate to existing license agreements in the Russian Federation, production sharing agreements and long-term service contracts. The Group has a commitment to execute the capital construction program of its power generation segment. In addition to these, the Group has commitments to comply with the requirements of European Union legislation in relation to the quality of produced petroleum products and environmental protection which require it to upgrade its Bulgarian and Romanian refineries.

During the three-month period ended September 30, 2010, there were no significant changes in these commitments from those disclosed in the Group's consolidated financial statements for the period ended June 30, 2010.

Operating lease obligations

Group companies have commitments of $904 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $43 million, $37 million, $113 million and $103 million for the three months ended September 30, 2010 and 2009 and for the nine months ended September 30, 2010 and 2009, respectively. Commitments for minimum rentals under these leases as of September 30, 2010 are as follows:

	As of September 30, 2010
For the three-months ending December 31, 2010	67
2011 fiscal year	215
2012 fiscal year	170
2013 fiscal year	127
2014 fiscal year	110
beyond	215

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Note 16. Commitments and contingencies (continued)

Environmental liabilities

Group companies and their predecessor entities have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalized or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create taxation risks in the Russian Federation and other emerging markets where Group companies operate substantially more significant than those in other countries where taxation regimes have been subject to development and clarification over long periods.

The tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 16. Commitments and contingencies (continued)

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the District Court of Denver, Colorado against OAO Archangelskgeoldobycha ("AGD"), a Group company, and the Company (together the "Defendants"). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed total damages of approximately $4.8 billion, including compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. On November 21, 2005, the Colorado Supreme Court affirmed the lower courts' ruling that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration license) was dismissed from the lawsuit. The Supreme Court found, however, that the trial court made a procedural error by failing to hold an evidentiary hearing before making its ruling concerning general jurisdiction regarding the Company, which is whether the Company had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. In a modified opinion dated December 19, 2005, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals (instead of the District Court) to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). On June 29, 2006, the Colorado Court of Appeals declined to dismiss the case based on forum non conveniens. The Company filed a petition for certiorari on August 28, 2006, asking the Colorado Supreme Court to review this decision. On March 5, 2007, the Colorado Supreme Court remanded the case to the District Court. On June 11, 2007, the District Court ruled it would conduct an evidentiary hearing on the issue of whether the Company is subject to general personal jurisdiction in the State of Colorado. Discovery regarding jurisdiction was commenced. On June 26, 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy. ADC ultimately confirmed entry of an Order For Relief and the matter was converted to a Chapter 11 Case by order dated September 29, 2009. On November 25, 2009, after adding a claim, ADC removed the case from the Colorado District Court to the US Bankruptcy Court. On December 22, 2009, the Company filed a motion seeking to have the case remanded to the Colorado District Court. On December 31, 2009, before there was a ruling on the motion seeking remand ADC filed a motion seeking withdrawal of the reference to the Bankruptcy Court and requesting the case be heard by US District Court. On February 3, 2010, the US Bankruptcy Court ordered the Motion For Withdrawal Of The Reference be transferred to the US District Court for further action. All pending motions as well as discovery were stayed pending further order of the Court. On July 7, 2010, the District Court denied ADC's Motion for Withdrawal of reference and returned the case to the Bankruptcy Court for the determination of the Company's Motion for Remand and Abstention seeking return of the case to the Colorado state court. On October 28, 2010, the Bankruptcy Court granted the Company's Motion for Remand and Abstention and remanded the case to the Denver District Court (Colorado state court) where it is now pending. ADC is expected to commence discovery regarding general jurisdiction shortly. Management intends to contest Jurisdiction and denies all material allegations against the Company. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

During the period from the second half of 2008 until date the financial statements were available to be issued more than 100 claims in relation to a violation of the anti-monopoly regulation were initiated against several Group companies in Russia and abroad. The Group companies were accused of violations primarily involving abuse of their dominant market position and execution of coordinated actions in oil products retail markets.

In 2008 and 2009, the Federal Anti-monopoly Service of the Russian Federation ("FAS of Russia") considered two cases which resulted in decisions being issued against a number of major Russian oil companies, including the Company and the Group refinery plants, alleging abuse of their dominant position in the oil products wholesale market of the Russian Federation.

Note 16. Commitments and contingencies (continued)

The Moscow Arbitration Court combined all the Group refinery plants' appeals against the first decision. The decision of the Moscow Arbitration Court dated June 1, 2010 was to refuse the appeals. This decision was confirmed by a decision of the court of appeal dated September 27, 2010. The court's decisions have been appealed to the court of review. The hearing is scheduled for December 13, 2010.

The second decision of FAS of Russia was appealed by the Group refinery plants in their local courts. On October 4, 2010, an agreement was signed between FAS of Russia and OOO LUKOIL-Nizhegorodnefteorgsintez in the First Arbitration Court of Appeal. Based on this agreement appeals on FAS's decisions and orders were withdrawn and simultaneously the assessed penalties were significantly reduced. Other Group refinery plants are assuming to sign similar agreements.

The total amount of administrative penalties which are possible to be claimed to the Group is $224 million (including $94 million which probably will be removed after signing the agreement between FAS of Russia and the Group refinery plants). The Group expects that the most probable penalties to be paid to the budget will be $111 million out of $224 million. Therefore the provision on this amount was accrued in the Group's consolidated financial statements for the nine-months period ended September 30, 2010. These expenses were included in "Other non-operating expense" of the consolidated statements of income.

The Group is involved in cost recovery disputes with the Republic of Kazakhstan. The Group's share of the initial claim is approximately $244 million. Management is of the view that substantially all of the amounts subject to dispute are in fact recoverable under the Final Production Sharing Agreement. Management believes that the ultimate resolution of the claim will not have a material adverse impact on the Group's operating results or financial condition.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Note 17. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from affiliated companies and the Company's shareholder ConocoPhillips. Related party processing services were provided by affiliated refineries. As a result of the purchase of the Company's shares by a Group company from ConocoPhillips in September 2010 (refer to Note 12. Stockholders' equity), ConocoPhillips ceased to be a related party of the Group as at the reporting date.

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 4, 6, 9, 10, 11, 12, 15 and 18 for other transactions with related parties.

Sales of oil and oil products to related parties were $1,527 million, $253 million, $2,106 million and $778 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Other sales to related parties were $57 million, $20 million, $93 million and $49 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Note 17. Related party transactions (continued)

Purchases of oil and oil products from related parties were $173 million, $137 million, $461 million and $536 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Purchases of processing services from related parties were $181 million, $142 million, $529 million and $359 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Other purchases from related parties were $13 million, $7 million, $36 million and $18 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Amounts receivable from related parties, including loans and advances, were $520 million and $591 million as of September 30, 2010 and December 31, 2009, respectively. Amounts payable to related parties were $48 million and $97 million as of September 30, 2010 and December 31, 2009, respectively.

Note 18. Compensation plan

In December 2009, the Company introduced a new compensation plan to certain members of management for the period from 2010 to 2012, which is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and the amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company's common stock appreciation from 2010 to 2012, with rights vesting after the date of the compensation plan's termination. The number of assigned shares is approximately 17.3 million shares.

For the first part of the share plan the Group recognizes a liability based on expected dividends and the number of assigned shares.

The second part of the share plan is classified as equity settled. The grant date fair value of the plan is estimated at $295 million. The fair value was estimated using the Black-Scholes-Merton option-pricing model, assuming a risk-free interest rate of 8.0% per annum, an expected dividend yield 3.09% per annum, expected term of three years and a volatility factor of 34.86%. The expected volatility factor was estimated based on the historical volatility of the Company's shares for the previous five year period up to January 2010.

As of September 30, 2010, there was $221 million of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2012.

During the period from 2007 to 2009, the Company had a compensation plan available to certain members of management. Its conditions were similar to the conditions of the new compensation plan introduced in December 2009. The number of assigned shares was approximately 15.5 million shares. Because of an unfavorable market situation the conditions for exercising the second part of this share plan were not met and therefore no payments or share transfers to employees took place by the end of the compensation plan.

Related to these plans the Group recorded $32 million, $32 million, $97 million and $99 million of compensation expenses during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively, of which $25 million, $25 million, $74 million and $77 million, respectively, are recognized as an increase in additional paid-in capital. As of September 30, 2010 and December 31, 2009, $25 million and $29 million related to these plans are included in "Other current liabilities" of the consolidated balance sheets, respectively. The total recognized tax benefit related to these accruals during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, is $6 million, $7 million, $19 million and $20 million, respectively.

Note 19. Segment information

Presented below is information about the Group's operating and geographical segments for the three and nine months ended September 30, 2010 and 2009, in accordance with ASC No. 280 (former SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information"*).

The Group has the following operating segments – exploration and production; refining, marketing and distribution; chemicals; power generation and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products and purchases, sells and transports crude oil and refined petroleum products. The chemicals segment refines and sells chemical products. The power generation segment produces steam and electricity, distributes them and provides related services. The activities of the other business operating segment include businesses beyond the Group's traditional operations.

Geographical segments have been determined based on the area of operations and include three segments. They are Western Siberia, European Russia and International.

Operating segments

For the three months ended September 30, 2010

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	854	25,067	288	295	13	-	26,517
Inter-segment	8,319	200	50	327	115	(9,011)	-
Total sales	9,173	25,267	338	622	128	(9,011)	26,517
Operating expenses	1,001	921	90	490	85	(395)	2,192
Depreciation, depletion and amortization	727	242	9	46	30	-	1,054
Interest expense	206	244	11	10	87	(396)	162
Income tax expense	309	244	15	(5)	1	-	564
Net income (net loss)	1,895	641	65	(61)	308	(30)	2,818
Total assets	56,304	60,415	1,602	4,249	14,244	(54,975)	81,839
Capital expenditures	1,084	311	16	98	20	-	1,529

For the three months ended September 30, 2009

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	671	20,701	292	258	19	-	21,941
Inter-segment	6,367	234	55	236	205	(7,097)	-
Total sales	7,038	20,935	347	494	224	(7,097)	21,941
Operating expenses	865	951	81	351	156	(497)	1,907
Depreciation, depletion and amortization	652	254	10	52	30	-	998
Interest expense	224	359	3	9	94	(520)	169
Income tax expense	269	220	3	3	40	(15)	520
Net income (net loss)	1,260	716	26	(83)	41	96	2,056
Total assets	52,083	54,366	1,109	4,041	13,177	(48,425)	76,351
Capital expenditures	1,227	295	28	67	26	-	1,643

Note 19. Segment information (continued)

For the nine months ended September 30, 2010

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	2,287	72,023	895	1,025	42	-	76,272
Inter-segment	24,409	623	176	936	385	(26,529)	-
Total sales	26,696	72,646	1,071	1,961	427	(26,529)	76,272
Operating expenses	2,853	2,362	301	1,398	240	(1,160)	5,994
Depreciation, depletion and amortization	2,126	728	28	139	93	-	3,114
Interest expense	680	885	24	25	306	(1,385)	535
Income tax expense	908	727	27	(11)	-	9	1,660
Net income (net loss)	4,623	2,173	115	(101)	81	(71)	6,820
Total assets	56,304	60,415	1,602	4,249	14,244	(54,975)	81,839
Capital expenditures	3,474	843	59	298	45	-	4,719

For the nine months ended September 30, 2009

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	1,635	53,663	692	754	58	-	56,802
Inter-segment	15,697	614	92	776	563	(17,742)	-
Total sales	17,332	54,277	784	1,530	621	(17,742)	56,802
Operating expenses	2,486	1,979	282	1,015	380	(1,127)	5,015
Depreciation, depletion and amortization	1,949	762	31	146	113	-	3,001
Interest expense	642	859	9	42	269	(1,318)	503
Income tax expense	950	602	3	4	9	(15)	1,553
Net income (net loss)	4,412	1,340	(34)	(155)	(77)	(201)	5,285
Total assets	52,083	54,366	1,109	4,041	13,177	(48,425)	76,351
Capital expenditures	3,468	902	89	178	46	-	4,683

Note 19. Segment information (continued)

Geographical segments

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Sales of crude oil within Russia	225	429	706	472
Export of crude oil and sales of oil of foreign subsidiaries	6,663	5,332	19,351	14,388
Sales of refined products within Russia	2,971	2,279	7,944	5,679
Export of refined products and sales of refined products of foreign subsidiaries	14,985	12,503	43,399	32,401
Sales of chemicals within Russia	170	162	520	338
Export of chemicals and sales of chemicals of foreign subsidiaries	128	158	398	432
Other sales within Russia	661	525	2,112	1,535
Other export sales and other sales of foreign subsidiaries	714	553	1,842	1,557
Total sales	**26,517**	**21,941**	**76,272**	**56,802**

For the three months ended September 30, 2010

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	90	4,518	21,909	-	26,517
Inter-segment	4,170	6,822	5	(10,997)	-
Total sales	4,260	11,340	21,914	(10,997)	26,517
Operating expenses	566	1,141	715	(230)	2,192
Depletion, depreciation and amortization	262	591	201	-	1,054
Interest expense	9	97	88	(32)	162
Income tax expense	175	342	47	-	564
Net income	750	1,461	597	10	2,818
Total assets	19,146	47,141	29,326	(13,774)	81,839
Capital expenditures	442	774	313	-	1,529

For the three months ended September 30, 2009

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	30	3,963	17,948	-	21,941
Inter-segment	3,069	7,388	4	(10,461)	-
Total sales	3,099	11,351	17,952	(10,461)	21,941
Operating expenses	499	1,292	428	(312)	1,907
Depletion, depreciation and amortization	244	559	195	-	998
Interest expense	11	201	93	(136)	169
Income tax expense	176	260	50	34	520
Net income (net loss)	907	1,110	(44)	83	2,056
Total assets	19,874	43,600	24,792	(11,915)	76,351
Capital expenditures	470	849	324	-	1,643

Note 19. Segment information (continued)

For the nine months ended September 30, 2010

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	293	12,599	63,380	-	76,272
Inter-segment	12,360	20,079	18	(32,457)	-
Total sales	12,653	32,678	63,398	(32,457)	76,272
Operating expenses	1,697	3,277	1,701	(681)	5,994
Depletion, depreciation and amortization	771	1,755	588	-	3,114
Interest expense	29	421	327	(242)	535
Income tax expense	436	1,037	178	9	1,660
Net income	1,912	4,085	839	(16)	6,820
Total assets	19,146	47,141	29,326	(13,774)	81,839
Capital expenditures	1,416	2,222	1,081	-	4,719

For the nine months ended September 30, 2009

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	95	9,502	47,205	-	56,802
Inter-segment	8,072	19,043	15	(27,130)	-
Total sales	8,167	28,545	47,220	(27,130)	56,802
Operating expenses	1,402	2,906	1,069	(362)	5,015
Depletion, depreciation and amortization	716	1,711	574	-	3,001
Interest expense	35	469	295	(296)	503
Income tax expense	486	896	171	-	1,553
Net income	2,292	3,136	76	(219)	5,285
Total assets	19,874	43,600	24,792	(11,915)	76,351
Capital expenditures	1,401	2,265	1,017	-	4,683

The Group's international sales to third parties include sales in Switzerland of $12,976 million, $10,325 million, $38,710 million and $26,208 million for the three months ended September 30, 2010 and 2009 and for the nine months ended September 30, 2010 and 2009, respectively. The Group's international sales to third parties include sales in the USA of $1,963 million, $1,949 million, $6,043 million and $5,697 million for the three months ended September 30, 2010 and 2009 and for the nine months ended September 30, 2010 and 2009, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 20. Subsequent events

In accordance with the requirements of ASC No. 855, *"Subsequent events,"* the Group evaluated subsequent events through the date the financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to November 29, 2010.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1.0 billion with a coupon yield of 6.125% and maturity in 2020. The first tranche totaling $800 million was placed at a price of 99.081% of the bond's face value with the resulting yield to maturity of 6.25%. The second tranche totaling $200 million was placed at a price of 102.44% of the bond's face value with the resulting yield to maturity of 5.80%. These tranches have a half year coupon period.

REGISTERED AND HEAD OFFICE OF THE ISSUER

LUKOIL International Finance B.V.
Atrium
Strawinskylaan 3105
1077 ZX Amsterdam
The Netherlands

REGISTERED AND HEAD OFFICE OF THE COMPANY

OAO LUKOIL
11 Sretensky Boulevard
Moscow 101000
Russia

AUDITORS

To the Company

ZAO KPMG
10 Presnenskaya Naberezhnaya
Block C
Moscow 123317
Russia

To the Issuer

KPMG Accountants N.V.
Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

PRINCIPAL AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Deutschland AG
Frankfurter Welle, Reuterweg 16
60323 Frankfurt am Main
Germany

LAWYERS

To the Company as to English, Russian and United States law:

Akin Gump LLP
Eighth Floor, Ten Bishops Square
London E1 6EG
United Kingdom

Akin Gump Strauss Hauer & Feld LLP
Ducat Place II
7 Gasheka Street, P.B. 20
Moscow 123056
Russia

To the Issuer as to Netherlands law:

Van Doorne N.V.
Jachthavenweg 121
P.O. Box 75265
1070 AG Amsterdam
The Netherlands

TAX ADVISORS

Ernst & Young
77/1 Sadovnicheskaya Nab.
115035 Moscow
Russia